Introducing 'Innerworth ' Mind over markets'.

Most people start trading the markets lured by the prospect of making easy money. But anyone with experience will agree that the stock markets are probably the toughest place to make easy money. You need to have a decent strategy, and it needs to keep evolving over time to stay profitable over hundreds of trades. Each trade is a test of your emotions. You need to keep your greed, fear, and pride in check to ensure you make more on winning trades and lose less when you're wrong, accommodate the very high trading & impact costs, and so on.

As you'd imagine, only very few who start trading, succeed, just like people starting any other new business venture. To illustrate, for every successful restaurant around you, there are probably a hundred others who end up shutting down. Similarly, for every consistently profitable trader, there are hundreds who go bust. What makes trading riskier is that it has a very low entry barrier. Anyone can get started trading, unlike setting up a business, a process that requires a lot of effort.

Traders mostly focus on technicals, fundamentals, and other such metrics, or rely on advisors for the best buy/sell signals. But nothing can be called the -best- in this business. All strategies and advisors can lose money. The most important aspect of trading isn't really when you buy or sell, but it is what you do before, during, and after. What happens to the price of the scrip you are trading, isn't in your control, but how you react is! Very few people talk about this important aspect of trading ' Psychology. The study of human mindset and how it functions in terms of identity, beliefs, and behaviors while actively trading the markets is as important as the fundamental and technical analysis, choice of advisor, etc.

Back when I traded actively, Marketwise, a brokerage firm based in the US ran a daily newsletter called -Innerworth ' Mind over markets-; short articles written by the best in the industry focusing on trading psychology. Marketwise was sold in 2007 and with that, the Innerworth newsletter which started in 2002 also stopped. All the great content they created for the trading community was lost. These articles have personally helped me get through my drawdowns by helping me remain rational and not fearful, control my greed when I was doing well, and become a better trader. These articles are probably the best that I have read on trading psychology. Concise, easy-to-read, funny yet insightful, and driving home the point of the importance of having a mental edge when trading the markets.

I've always wanted to make this content available to the Indian trader community. After several years of digging, we found David Nassar, Marketwise's promoter, and were able to convince him to sell us the publishing rights for all the Innerworth content.

After having waited for so many years, we are super thrilled to once again introduce Innerworth ' Mind over Markets, a series of articles on trading psychology. We are starting off by publishing 50 articles under various categories in the Innerworth module on Varsity. We will keep adding to this.

Special Credits to Prateek from LearnApp (our learning partner) for helping us reach out to David and convincing him.

Start reading now!
Happy Trading,
Nithin Kamath

Accurate Perceptions of Loss and Risk Aversion.

Emotions often drive investment decisions. Trading lore is replete with examples of how fear and greed influence the masses to buy and sell at the wrong time. Similarly, behavioral economists have focused on how avoidance of regret powerfully compels many traders to make poor investment decisions. To avoid painful feelings of regret, for example, traders hold on to losing positions, hoping they will turn around, or they sell off a position prematurely to lock in quick gains.

The interplay between emotions and risk-taking keeps many traders second-guessing their decisions. When we think our next trade will be a winner, we can't wait to execute it, but when we are uncertain, we put off making a decision, and more often than not, miss a significant market move. The challenge of trading is to accurately perceive risk, control our emotions, and execute a trade calmly and rationally. Overconfident traders, however, may have an inability to accurately gauge their emotionsKarin Tochkov and Edelgard Wulfert, at the University at Albany, SUNY, examined people's ability to accurately anticipate their emotions after a financial loss. The study happened in two phases. In the first phase, university students were asked to imagine making a gamble and asked to rate how they would feel if they were to realize a loss. For example, they were asked to consider, -How would you feel if you lost $150?- They rated the extent to which they would feel disappointed.

A week later, in the second phase, they were brought back to the laboratory for a follow-up visit. Instead of merely imagining they had made a losing gamble, however, they actually made the gamble and felt the real consequences of losing money. Frequent gamblers misjudged their emotional experiences. They underestimated how disappointed they would feel after a loss compared to non-gamblers. The ability to accurately anticipate how they felt after an actual gambling loss was associated with risk aversion.

These findings suggest that over-confidence and over-trading may be a function of an inability to accurately anticipate future emotional consequences of financial losses. The overconfident trader is likely to think, -it won't be so bad when I lose.- If you don't anticipate feeling badly after a loss, you'll have no problem taking a risk. Indeed, traders who have trouble executing a trade often anticipate the consequences of a loss as more unpleasant than they actually will be. An avoidance of regret has a protective function. As you imagine feeling badly after a loss, you will be reluctant to execute a trade.

If you are making too many risky trades and are paying a price for it, you might try focusing on how it feels to lose. Perhaps you are not thinking of potential negative consequences of loss. If you focus on how badly you'll feel after a loss, however, you'll stop and think through your trading decisions. And you'll be more likely to manage risk and wait for high probability setups before impulsively making a bad trade. There are times when our emotions interfere with our ability to execute trades calmly and rationally, but if you are prone to seek out risk, you might want to focus on the potential consequences of loss. It will stop you from making trades that may decimate your account balance.

Accepting Criticism.

Novice traders are infamous for needing to be right. This natural, human tendency is so powerful that novice traders engage in unproductive trading behaviors to avoid admitting that they are wrong. They might hold on to a losing trade, for example, to keep losses on paper. They may procrastinate or put off making a trade in an effort to avoid facing the consequences of a bad trading idea. In many ways, a need to be right can be stifling. Rather than feel free and creative, a trader who consciously or unconsciously needs to be right may hold back at critical moments in the midst of a trade. When you are inhibited and afraid, you avoid making trades. And unless you make trade after trade, you'll never hone your trading skills and master the markets. Accepting feedback and criticism is vital for trading success.

Why is it so hard to accept criticism, whether it is from another person or the markets? One of the main reasons is that we associate criticism with feelings of inadequacy. We tend to place great psychological significance on a critical comment or negative feedback of any kind. It is as if parents or teachers are criticizing us for doing something morally wrong. But this is a false assumption. Criticism doesn't need to have any emotional meaning. It's vital to take criticism and feedback in stride. It isn't personal; it's just feedback. If you can learn to downplay its emotional significance and view it as cold, hard data, you'll be able to use this information to hone your trading skills.
Another reason it's hard to accept criticism is that we have an irrational need to be perfect. We often assume that unless we are always right, we will not be successful. We learn this assumption from school. In school, we were usually allowed only one chance to turn in a term paper or take a test. In most school settings, you can't retake a test or rewrite a term paper, and thus, you can't learn to hone your skills. Many people carry over this mindset into trading. But it doesn't need to apply. If you make small practice trades, for example, you can make a trade, learn from your mistakes, and make a new trade. Over time, you'll hone your trading skills. Since risk is managed, you can make mistakes and learn from them. There's nothing to fear.
There's no reason to avoid accepting criticism. Indeed, if you want to be successful at trading, you should seek it out, either by making trades and seeing what happens or consulting a trading coach. The more information you get about yourself, the more likely you'll be able to hone your skills. So seek out criticism. Don't be afraid to accept your limitations. If you can stand there and take all the criticism you can find, you'll hone your skills to the point that you will trade the markets skillfully and profitably.

Trading Capital: Size Matters.

How much capital does one need to start trading? Every person who is new to trading asks this question. It's often the first question that pops up at trade shows and in trading-school classes. But is it the right question to ask? The answer may not be as obvious as it seems. Viewed from a conventional standpoint, one might think that all you need is the minimum amount required to open an account by your brokerage firm.

The regulators set minimums that vary according to whether one will be trading stocks, options, futures contracts or perhaps a combination of these vehicles, but in practice, the various brokerage firms can, and frequently do, require customers to open accounts with a greater amount than the statutory minimum. It is important to realize, however, that merely meeting the account-size minimum does not necessarily put one in good stead to begin a trading career. A more important question should be asked up front: How much money do I need, not in my trading account, but in my bank account?

Of course, this is very different from asking how much one needs to merely start trading, and answering the question may require a degree of personal reflection that goes much deeper than calculating how much to put in a trading account. In fact, if trading the S&P E-mini contract, it is theoretically possible to make $300 to $500 or more in profits per day with just $7,500 in an account (currently the minimum to open an account for trading E-minis through Terra Nova Trading, for example). But does this mean that someone who can meet the minimum requirement is in excellent shape to trade? Not necessarily.

Suppose a novice trader has $7,500 to open an account, but not a dime more to put into it if he or she should lose it all by trading poorly? Under such circumstances, the loss of such a sum ' hardly impossible, even for someone employing conservative trading strategies ' could end that person's trading career. Could one expect to trade well under such a threat? Probably not, since confidence is crucial to anyone who would seek success at trading, and few things undermine a trader's confidence so thoroughly as a nagging fear of losing one's stake. It's like trading with a gun to one's head, and it metaphorically describes the trader who is barely able to cover monthly household and business expenses while honing his or her skills.

It is a problem that has tripped up many a beginner, and it makes success far more difficult to achieve when steady profits are needed just to pay one's bills. It's far better for the new trader to be financially secure from the start ' secure enough so that an entire year spent without profit on the learning curve would not impact one's lifestyle or threaten one's financial security.

So we should not fool ourselves into believing that merely meeting minimum account-size requirements will suffice. In fact, if it costs you $80,000 per year on average to meet all household expenses, then you should have at least $80,000 in liquid savings to see you through your first year of trading. This, of course, is in addition to the sum you will use to fund your trading account. Having a sufficient sum in the bank to meet a year's worth of living expenses will provide a cushion against adversity, as well as a psychological bulwark against the ups and downs that are a normal part of every trader's learning experience.

Action Oriented and Winning.

Trading isn't easy. Indeed, the odds are against you. But if you succumb to hopelessness, you'll never become a winning trader. You have two choices: You can wallow in self-pity or you can take action and do whatever it takes to win.

Depending on your personal background, a host of obstacles can prevent you from trading the markets successfully. Unless you are extremely wealthy, for example, you need to find a way to build up capital to really make enough profits to support yourself and survive the ever-changing markets. No one is a natural-born trader; like all professions, you have to learn to trade. You need to find good training and take the time to learn how to trade. But knowledge by itself doesn't ensure success. You have to hone your skills to trade profitably. There's also a psychological aspect of trading that can't be ignored. You have to learn to accept the risk, take losses in stride, and pick yourself up fast when you feel beaten down.

Do you think the list of obstacles is too long? It may be long, but the action-oriented positive thinker doesn't care how long the list is, he or she spends every waking moment trying to figure out a wait to shorten it. In his book, -A Strategy for Daily Living,- trading expert Dr. Ari Kiev notes, -A successful life does not result from chance, fate, or good fortune, but from a succession of successful days lived in pursuit of a worthy pursuit.- Dr. Kiev points out that you can work toward your goal every day, day after day, and eventually even the most elusive goal can be achieved. Perhaps you will make more progress on some days than others, but what is most important is that you never give up and spend every day working toward your goal.

Many traders make the mistake by thinking they need to be an overnight success. When they trade week after week, month after month, and don't achieve the profit goals they set, they start to become disappointed. Instead, they should remember that not everyone can learn to trade overnight. It takes time and the right set of circumstances. For instance, it is much easier to learn to trade in a bull market rather than a bear market. If you want to make it in the end, you have to work at it every day.

Do whatever you can to make steady progress toward your goal. Learn about trading strategies. Paper trade to get a feel for the markets. Work every day and take positive steps. Whatever you do, however, don't give up. Don't stagnate. Take positive action and find solutions to problems. If you stick with it, you can learn to master the markets and end up a winner.

Focus on the Action, Not the Prize.

It's easy to falter while trading. Suddenly, you get distracted, panic, and make a trading error. When trading with an optimal mindset, in contrast, the winning trader is focused on his or her immediate experience, the market action here and now. The best rule a trader can follow is to focus on the action, not the prize. Many are attracted to trading for the rewarding profits that can be made. Profits can often buy possessions that produce feelings of self-worth or admiration from family and friends. Just like the lyrics of a popular country hit, by gaining success, one can tell all his or her skeptics from the past, -How do you like me now?- Many are attracted to trading for the prizes, the status, and the glory.

These can all be strong motivators, but the irony is that if you focus on the prizes too much, you can't trade profitability or consistently. Just like the athlete who is the favorite to win a competition, when the pressure is on, one usually chokes. Expectations run high and it's hard to just focus on what needs to get done. When you get your hopes up, you've already decided that you've earned the prize, and the mere thought that you may lose it is devastating. Losing no longer is a possibility. The only option is to win, and when one works under that assumption, one is usually easily distracted to the point of making a myriad of mistakes that produce losses rather than profits. It is vital that you learn to focus all your attention on your immediate experience, not on the potential rewards.

The famous psychotherapist Fritz Perls once said that fear and anxiety happens when we mull over the past and worry about what might happen in the future. If we can focus on the hear-and-now, instead, we'll enjoy our ongoing experience and live in the moment. The minute we start worrying about what might happen in the future, our focus shifts away from what we're doing. We lose concentration, and at critical moments of a trade, a lack of focus can spell disaster.

The most common reason for losing focus is thinking about the big prize at the end. If you start thinking, -I can't wait to make a profit and bask in the glory of success,- you'll lose focus. You may even start thinking, -I must win on this trade.- That kind of thinking is unproductive in the end. In all likelihood, you'll start to panic and make a trading error. The more you can focus on the intellectual challenge of trading as you make a trade, the more likely you'll execute your trading plan effortlessly and trade profitably and consistently.

That said, it is fun to think of the big prize occasionally, but not during trading hours, and not very often. It may be motivating during off-hours to think about the potential long term rewards trading may bring, the big picture. But there is a difference between feeling you -must- have the prize and merely thinking, -it would be nice- to have the prize. The thought may even cross your mind during the trading day, but it is essential not to dwell on it. If you are only motivated by the potential rewards, it is important to acknowledge that your primary motivation for trading may be the prizes you may win.

If you truly believe this and try to block out of your consciousness, it will creep in and influence you, usually negatively. If you study this assumption closely, however, and truly convince yourself that it isn't a good reason to pursue trading, you'll neutralize the belief. Traders who are motivated by prizes don't end up trading very long. In the end, you must trade for the love of the endeavor. Trading offers it's own reward, regardless of whether you win or lose. In the end, if you can focus on the ongoing experience of trading, you will feel more fulfilled as a trader, you will trade more effortlessly, and you will trade more profitably.

Detailed Action Plans: A Precursor For Trading Success.

In our everyday lives, we are used to doing things reflexively, on the spur of the moment. For example, we don't consciously think about making a turn as we drive; we just do it automatically without thinking. But it wasn't always that way. When we first learned how to drive, we deliberately planned every move. It's also true when playing sports. At first, you needed to consciously and deliberately perform each action. Over time, with practice, you were able to perform each action skillfully, hardly thinking at all. Despite their experience learning various skills throughout their lives, novice traders, however, think they can trade on the spur of the moment. They don't carefully plan a trade and follow the trading plan when it is time to execute it. But detailed trading plans are an essential ingredient for success.

When you first start out trading, it is difficult to trade on the spur of the moment. There are too many issues to attend to, and without a wealth of experience, you are bound to make mistakes. Making a specific action plan while trading has clear benefits. Scientific research illustrates how action plans help people achieve their goals. Dr. Peter Gollwitzer, Professor of Psychology at New York University, has conducted several studies that demonstrate the benefits of making specific plans that outline when, where, and how to perform an action.

For example, it's useful to determine beforehand that when Market Condition X happens, and Pattern Y appears, then you should enter at a prescribed moment, set a protective stop, and monitor the trade until Z occurs. Knowing when, where, and how to help you perform effortlessly and gracefully. Specific plans help us respond quickly and automatically when it is necessary. When we make a plan beforehand, we can follow it, acting swiftly and efficiently.

What does research on making plans reveal? In a review of relevant studies on making specific action plans, Dr. Gollwitzer argues that plans allow people to more easily remember what to do specifically. They don't waste time trying to recall what it is they are going to do. They have decided what to do, and when, beforehand and have little trouble doing what they had planned. Second, research has shown that people respond quickly when they have a plan to follow.

If you have a clearly defined plan, you are ready to respond more efficiently when optimal market conditions arise. Third, when people have a plan, they can more easily ignore interruptions and distractions. They are able to more easily focus on the task at hand, maintaining self-control. Action plans are especially useful when trying to respond during high-stress situations, such as during a day when the market action is hard to pin down. Trading the markets on an especially chaotic day can be stressful. A series of decisions need to be made on the spot. But the human mind has limitations.

We can only attend to a limited amount of information at a time. A detailed trading plan, however, allows us to focus our limited psychological energy more efficiently. We respond swiftly and confidently when we have a plan. So if you want to trade like a winner, make a detailed trading plan and follow it. You'll be glad you did in the long run.

A Trading Fable.

Did your parents read you fables as a child? Fables are often fanciful and improbable tales that have a lesson to teach. Here's a thought-provoking trading fable.
Once upon a time, there was a novice trader named Bert who tried to aggressively trade a $30,000 account in order to make big returns each week. In one of his biggest trades, he meticulously followed the stock price of a company called Secure, Inc. He diligently studied the price movement in an attempt to discern its unique price cycle. For the past six months, the stock traded at around $30 with a 52-week low of $29.50. Bert noticed that new product announcements usually produced a $1 bump. He purchased 1,000 shares at $30 in an attempt to take advantage of a product announcement at the end of the week.
He figured that he could quickly cash out for a nice $1,000 profit. -What is the most I could lose?- he thought. Assuming that the price was to fall to $29.50, the most Bert could lose in theory was $500. Unfortunately, disaster struck. He thought he had accounted for everything, but he had a run of bad luck. He thought he had put in a protective stop, but due to a software glitch, he wasn't actually protected. Next, the CEO of The Secure, Inc. was indicted for embezzlement, and the product announcement was postponed due to a shortage of essential raw materials. In addition, an interest rate hike deterred many investors. Unexpectedly, the price fell hard to $25. Bert lost $5,000.

So what's the moral of the story? First, it's hard to predict every possible adverse event. As much as we want to anticipate and account for everything that can go wrong, we can't. What may seem like a good idea when we execute a trade may seem like a bad idea in hindsight. But the wise trader doesn't get overly upset when this happens. He or she tries to control as much as he or she can, but at the same time, he or she accepts the things that cannot be controlled. Second, it's useful to be skeptical. You can't become overly obsessed with every possible adverse event, no matter how unlikely, but you must be ready for the worst. You should be psychologically prepared for big setbacks and be ready to take them in stride should they occur.
Disasters do happen, but they are only truly awful if you interpret them as such. If you go into trading expecting unpleasant things to happen occasionally, you'll be able to snap back quickly and be ready to take advantage of the next market opportunity. Bert has two options. He could either beat himself up for not accounting for every possible adverse event, or he could chalk up the losing trade to experience and immediately figure out how he can make up the loss. In this case, the ideal tack for Bert to take is to stay calm and to actively figure out ways to make new, more profitable trades. Third, he might want to be a little more realistic in his goals. Considering the size of his account, he may have been taking a little too much risk for a novice trader.
Chaos and uncertainty are commonplace in trading. No matter how much we want to account for every possibility, we can't. Winning traders accept what happens and actively and enthusiastically forge ahead.

It's Easier to Face Fear than Avoid It.

Jack fantasizes about becoming a profitable trader. He dreams of big wins and of amassing a great deal of wealth. In the back of his mind, he imagines that if he were wealthy, he could have a life full of luxury and status. Sound familiar? Many newbie traders are drawn to trading to fulfill fantasies of wealth. It's natural to desire wealth. The quest for wealth and greatness has consumed mankind for generations. It is a strong motivator, but there is a time and place for fantasies and dreams. And conventional wisdom among experienced traders is that, in the end, the prizes go to the humble that seek out nothing more than the joy of trading: the inherent rewards trading offers is fulfilling in its own right.

That said, trading is often quite tedious at times. Traders must make trade after trade, day after day, month after month. Even the most pleasurable activity loses some of its appeals when it must be done over and over again. In addition, one must make a living. If you don't make enough profits to balance out your losses, you won't survive. There's a real fear lurking in the back of most traders' minds; it is quite probable that you'll lose your edge and blow out or the stress will get to you and you'll burn out. In the end, you won't be able to trade. These possibilities are difficult to accept, and the most common way of dealing with them is often to just pretend it isn't going to happen. Although it's easy to avoid unpleasant possibilities in the short run, it is necessary to face them eventually. So you might as well do it sooner than later.

A common irrational belief is that it is easier to avoid acknowledging the unpleasant than dealing with it head-on. But we are most anxious and fearful when we anticipate an impending disaster than when we face an unpleasant fact decisively and with courage. It is better to make active plans than waiting for a disaster to happen. And that is what you're doing if you avoid considering the possibility that unless preventative steps are taken you can easily blow out or burn out. In both cases, facing the problem decisively will save you time and effort.

As a novice trader, it is quite possible that until you develop reliable trading strategies and gain experience with the markets to know when they will work and when they will not, you will wipe out your account balance. Pretending it can't happen will make things worse. It is essential to take two steps: Limit your risk on any single trade and have an alternative plan should you blow out your account. Limiting your risk will increase your odds of surviving the learning curve. And if you cannot survive the learning curve, you should have a realistic recovery plan. Perhaps, you have a part-time job lined up to make extra capital, or you may want to stop trading immediately and get more training before you continue.

The main point is that it is essential to have active plans to prevent a disaster than passively wait for it. For example, many traders trade day after day without getting the proper amount of rest and relaxation. Some people believe that it is necessary to trade day after day to stay ahead of the competition. The problem is that everyone has limited energy. It is necessary to take frequent rests, and even take a long break when needed. Pretending that you can trade as if you are a superhero isn't going to prevent burn out. To prevent, burn out, you must take breaks from trading, even if the break lasts months or years. Pretending that you can beat the natural limits of the human mind or body isn't going to change matters. Again, it is worse to pretend you can do the impossible than face the possibility of a disaster and take decisive action to prevent it.

There is a natural desire to avoid looking at potential problems. Trading is demanding and stressful. Unless you take preventative steps, it is quite possible that you will make matters worse. Rather than avoid thinking about it by taking no action, it is better to take active, decisive steps. Face problems head-on before they get the better of you. In the long run, you'll find that you will trade more profitably.

Regret: A Powerful Emotion You Must Face.

When trading the markets, one often faces actual harm: If you bet a lot of capital on a single trade, and it goes against you, you lose it. The harm isn't imagined; the actual loss of money is painful. It hurts, and you may often regret having made the trade. There's a very human instinct to avoid pain at all costs. Not only is the actual loss of money painful, but also the mere feeling of regret from making a bad trade. Regret is so incredibly painful at times that many traders avoid even putting on a trade for fear of having to face the regret of loss later. It's as if the subsequent regret after making a loss is more disturbing to the psyche than the actual loss itself.

We feel regret once we realize we have made the wrong decision, such as making a losing trade. And if we put a lot of ego on the line with that decision, the hurt intensifies. For example, if we do an extremely careful analysis, and start to think that the analysis was so good that it validates our talent as a skilled trader, we've put a lot of self-identity on the line with our money. Whether we are conscious of it or not, we tend to think, -I've put a lot of effort into this trade, and I think I'm right. But if I'm wrong, it suggests that I'm not as great of a trader as I had thought.-

If we were to make a trade on a whim, in contrast, we may still feel the regret of the loss, but it won't hurt as much. We didn't put our ego on the line, so we can easily write off the losing trade psychologically: -It's not my fault that I lost money on that trade. I just made the trade on a whim.-

Feelings of regret are painful, and some people will do anything to avoid feeling such unpleasant and disturbing emotions. And, at first glance, it often seems as if the easiest way to avoid feelings of regret is to just avoid making decisions. If you don't make decisions, you can't be wrong or feel regret. Although this seems like an obvious solution to avoiding the unpleasant feelings of regret, you may see that if you avoid making trades (or make poorly planned trades on a whim to protect your ego), you cannot pile on profits, which is the ultimate goal of trading. A more practical solution is to learn to face regret head-on.

There are a few simple ways to cope with regret. The most important way to cope with regret is to accept the fact that regret is an emotion that you'll be likely to experience as a trader. You're going to make losing trades, and if you don't take proper precautions, you will feel regret. It's not useful to delude yourself into thinking that you can avoid regret completely. That said, you can feel relief in knowing that you can take steps to minimize its powerful influence. For example, you can remind yourself that regret is not nearly as bad as you are making it out to be.

Many times, all humans tend to overstate the adverse effects of a dreaded outcome. We tend to think that a losing trade would be awful, terrible, or catastrophic. In fact, if we control our risk on the trade, and plan it out carefully, the risk will be minimized and not catastrophic at all. Under such conditions, one's potential demise is greatly exaggerated. A useful thinking strategy is to remind yourself, -I'm making more out of the potential loss than it deserves; it is not going to be as unpleasant as I'm thinking it will be.- Another way to minimize regret is to try to impersonalize the trade.

Think in terms of probabilities, -This is just one of many trades. The outcome of this single trade means nothing. The big picture is all that counts.- By reminding yourself of the relative insignificance of a single trade, you'll minimize the potential regret should you lose. Similarly, it's also important to remember that a single losing trade (or even a few losing trades) doesn't mean that you have poor trading skills; it may just be a run of bad luck. There's no point in making the outcome of a trade symbolic of your skills as a trader. And, most importantly, never put your self-worth on the line with your money. You're a professional. The outcome of the trade should not influence the positive view you have of yourself as a person.

Don't let the tendency to avoid regret influence your trading decisions. Regret can be a powerful emotion. It can be so painful at times that one avoids making decisions, and it may lead to putting on trades on a whim to protect one's ego. But it's not necessary to let the fear of regret influence you. Keep in mind that if you make a losing trade, you may feel a little regret, but you can handle it. Don't try to avoid regret. Face it head-on. You'll feel more free and powerful.

The Unconscious Drive to Fail.

Ask traders about their reasons for trading, and most will tell you, -I want to make huge profits.- Although most traders get into the business to make a significant return on their money, the vast majority blow out their accounts. Why do so many traders fail? The obvious reason for many is that they just don't know how to trade. They don't use proper risk controls. They don't have enough financial resources. They don't have proper instruction or an efficient trading platform. They don't have solid, reliable trading strategies. And for many, they don't have good reference points; they don't have a clear understanding of how the markets work.

Any or all of these factors can spell disaster for the novice trader. One doesn't need to explore the depths of one's psyche to find other reasons for failure. That said, there's an interest among many would-be traders as to the extent of unconscious processes thwart their trading efforts. Perhaps, unconsciously, there is a hidden motive for self-sabotage. Seasoned traders are especially interested in this topic. Many prominent, highly successful traders end up losing most of their capital in the end, and many never come back. Some have speculated that a hidden motive for self-sabotage is the reason for such failures. It's worth considering in a little detail, either just for fun or as a serious line of inquiry, depending on your preferences and worldview.

Years ago, Freud wrote about people who fail after achieving great success in -Those Wrecked by Success.- According to Freud, some people feel guilty and physically ill upon attaining a lifelong dream. Upon experiencing success, they aren't comfortable with it, and unconsciously take steps to punish themselves for being successful.

Most contemporary research psychologists, in contrast, do not think people seek out failure, consciously or unconsciously. People experience failure because they cannot master difficult situations. In other words, traders don't repeatedly fail because they have an unconscious wish to spoil their efforts, but trading is just plain hard. Traders repeatedly fail because they don't have proper financial resources, solid trading strategies, or the proper mindset.

Psychoanalyst Roy Shafer argues, however, that some people view -success- as a type of failure, and in a twisted way, they avoid -success- because unconsciously they view it as a failure. For example, in one case study, a young man avoided success because he was afraid of doing better in life than his father, who was a failed all through his life. Veteran traders have made similar observations. Some novice traders don't trade merely to make profits. They have a hidden agenda. They want to show their family and friends that they could be a success.

The problem with finding oneself in this circumstance is that while one may consciously strive for success, one has been given a powerful psychological message that he or she cannot succeed, and is not worthy of success. Unconsciously, it's hard (but not impossible) to prove these significant others wrong. Whether good or bad, what your friends and family think of you is important. They define who you are, and unconsciously, you may not want to prove them wrong. It's best not to let such psychological issues impact your trading, however. Always trade for yourself. Trade because you want to, not because you are out to prove anything to yourself or someone else. Doing so raises the stakes so high that you'll put a lot of pressure on yourself to succeed, and that usually leads to failure.

As we've often said in this column, unconscious processes may not play a role for everyone who pursues trading. It's an issue for some people, however. If you think your reasons for trading may reflect a need to satisfy past unconscious conflicts, it's wise to work through some of these issues with a trading coach or other professional. Don't let unconscious motives get the better of you. Identify them, work through them, and trade freely, effortlessly, and profitably.

False Consensus Effects.

Suppose you decided to go long on Sears. How many other investors would agree with your decision? When people are asked such a question, they tend to over-estimate the number of people who will make a similar decision. This decision-making bias is called the -false consensus effect.-

No matter what decision you ask people to make, no matter how important the issue, and no matter what choice is made, social psychologists have demonstrated that people over-estimate the number of others who will agree with them. There is a natural tendency to believe that our decisions are relatively normal and appropriate and similar to what our colleagues and peers would do in a similar situation. We use our decisions as an -anchor- and evaluate what others would do based on what we would do. This decision-making bias can contribute to feelings of over-confidence. Once we make a decision, we tend to be confident that we are correct and that others will agree with us. But, they may not.

One explanation for the false consensus effect concerns how people make a decision. When making a decision regarding a position, people try to piece together evidence to arrive at a decision. At some point, they organize all the information that supports one alternative over another while discounting contradictory information. After a decision is made, evidence supporting one's decision is -available- in memory and is easy to remember. When asked to decide how many people would make a similar decision, people still have these various pieces of confirming evidence in mind, can easily recall them, and believe that others will behave as they do based on the information they recall. Estimates of what others will do are based on inaccurate memories, rather than objective facts.

There is some evidence, however, that the tendency to make a false consensus estimate depends on how certain one is regarding a decision. Drs. Gary Marks and Norman Miller, for example, manipulated the extent to which participants were certain about a decision they made. The more confidence in one's decision, the less accurate the estimate of how many others would commit to the same course of action. Thus, the more certain we are about a decision, the more we believe others will behave like us. These false consensus estimates, in turn, make us feel even more over-confident.

How do you counteract the false consensus effect? It is probably best to always be skeptical of your decisions. Consider the human tendency to seek out confirming the information and make decisions based on information available in memory. Making a decision is so difficult that it takes all of our psychological energy to piece information together that supports our decision, but we must also look for information that refutes our decision. So, after you have gathered your information, and before you draw a final conclusion, step back, and ask yourself -Am I giving into a decision-making bias?- -Did I review my facts objectively or am I trying to confirm a pre-existing belief.- Always remember that your perceptions may be influenced by many common decision-making biases, such as the false consensus effect.

Making Sense of it All.

Social psychologists are often fond of saying that people are -lay scientists.- Like formal scientists, they try to understand their world. They make hypotheses and test them. Rather than conducting formal experiments, however, they use their everyday experience to test out theories they have about people. We do the same thing when we learn how to trade. We study the markets and try to develop our own personal theories about how the markets work. Because we don't conduct formal experiments, though, we may fall prey to psychological biases. One of these psychological biases is the false consensus effect: we tend to wrongly think that others believe what we believe and do what we will do, but that's only our perspective and it can mislead us.

Short term trading is often about anticipating what the masses will do. Will they buy or will they sell? It can be hard to do. Take the past two weeks, for example. With the war, the hurricane, and high oil prices, one might think that the masses would bail out of the markets. But they didn't. It goes to show that you can't always anticipate precisely how people will react to world events. It's all a matter of having the right perspective, and it can be hard to find that perspective at times. Perhaps it can't be done easily, but it's essential that we try.

Why is it difficult to anticipate what people will do? Part of the problems lies in the fact that we are mere mortals. Humans have a limited capacity for understanding complex information. In some ways, people can process information better than a computer, but in other ways, they cannot. Many times, we use heuristics or rules of thumb to make decisions.

The false consensus effect is one of those rules of thumb that may bias our decisions. No matter what decision you ask people to make, no matter how important the issue, and no matter what choice is made, social psychologists have demonstrated that people over-estimate the number of others who agree with them. There is a natural tendency to believe that our decisions are relatively normal, appropriate and similar to what our colleagues and peers would do in a similar situation. We use our decisions as an -anchor- and evaluate what others would do based on what we would do. This decision-making bias can contribute to feelings of over-confidence. Once we make a decision, we tend to be confident that we are correct and that others will agree with us, but had we seen the situations from their perspective, we may see that they would behave quite differently.

One explanation for the false consensus effect concerns how people make a decision. When making a decision regarding a position, people try to piece together evidence to arrive at a decision. At some point, they organize all the information that supports one alternative over another while discounting contradictory information. After a decision is made, evidence supporting one's decision is readily -available- in memory and is easy to remember. When asked to decide how many people would make a similar decision, people still have these various pieces of confirming evidence in mind, can easily recall them, and believe that others will behave as they do based on the information they recall. Estimates of what others will do are based on inaccurate memories, rather than objective facts.

This bias often operates in the trading realm. As a trader, you are constantly trying to anticipate how the masses will behave. You look at and interpret the data in front of you and draw a conclusion. The only perspective you have to go on, however, is your own. And that perspective may be off.

How can we defeat the false consensus effect? The best defense is to gain awareness of it. Remind yourself that you are acting on imperfect information. You must accept this fact of trading, but you can work around it. Always be a little skeptical. Manage risk and be ready to accept the fact that you may be wrong. You're human, after all, and you are prone to make biased decisions occasionally. Rather than beat yourself up, it's better to take it in stride and move on.

Fear of a Sudden Turn of Events.

You have several positions open and things have been going well for the past few months. Suddenly, there is yet another interest rate hike right on the heels of a month of bad weather and natural disasters. As might be expected, the markets take a dive and many of your positions lose value. What do you do? If you are a seasoned trader, you wait it out. You realize that the slight downturn is temporary and wait for the market to return to its previous trend. But many traders are not so sure of how to react. When they watch their portfolio lose money, they panic and start thinking it's the start of a major bull market. What's your usual reaction? For many, it's fear. But fear at critical moments of investing can spell doom.

The tendency to experience fear has a biological and genetic basis. Fear is related to the fight-or-flee response. Fear is a very basic response that animals use to survive in the wilderness and it's controlled by very primitive parts of the brain. The fight-or-flee instinct can be very adaptive. When harm is perceived, a wild animal must mobilize resources and make a quick decision to either fight the opponent or flee to safety. When trading the markets, however, the fear instinct can throw you off course. You don't want to panic and sell off positions impulsively because you irrationally fear that a temporary downturn is the sign of impending doom. Instead, you want to evaluate your options calmly and rationally and make a prudent decision.

It's vital to manage your fear and not allow it to make you respond irrationally. When your money is on the line, however, it can be hard to think clearly. How can you control fear? In his book, -Trading to win,- Ari Kiev offers a quick and effective way of controlling fear: Acknowledge you are afraid and the feeling will pass through your consciousness and lose all power. Refusal to acknowledge fear allows the feeling to perpetuate while admitting that you are afraid will allow the feeling to diminish. The first step in conquering fear is to merely admit that you are afraid. A second way to manage fear is to trade small positions. The less money on the line, the less risk you are taking, and the less fear you are likely to experience. Third, manage risk. By using protective stops and by risking only a small percentage of capital on a single trade, you will feel more at ease and can more easily manage fear. Fourth, you can trade more cautiously by making sure that your trading plan is consistent with a broader trend.

For example, suppose you have a day trade where you are forecasting the market to be bullish. If the longer-term trend of the market is also bullish, you will be taking less risk. Even if the market moves against you during the day, you know that in a worst-case scenario, you can wait it out and minimize your losses, or even make a profit. Finally, if things get too rough emotionally, you can stand aside for a while and paper trade. If you are especially prone to fear, it is probably because you have recently had several losing trades, and because of these losses, fear is -associated- or -classically conditioned- with trade execution. When you enter a trade, you automatically and instantly become fearful. The feeling may be overwhelming and seem impossible to control. Effective procedure psychologists have used to combat excessive fear is called -systematic desensitization- or -counter-conditioning.- In essence, this procedure capitalizes on the fact that it is impossible to experience both the fear response and the relaxation response simultaneously. By preventing the fear response from occurring by feeling relaxed, a previously fearful event will lose its potency and no longer illicit fear. Pretend that you are putting on a trade, but since you are not risking any money, you will feel little fear. Once you are able to control your fear while trading on paper, you are ready to up the ante.

Put on a small trade with minimal risk. Again, try to relax and prevent the fear response from occurring. If you become fearful, go back to trading on paper until you can prevent the fear response from occurring by using a relaxation procedure. Gradually execute trades that require greater risk and work your way up until you can put on a relatively risky trade without experiencing fear. Whatever you do, don't let fear interfere with your trading. Learn to control your fear. If you can trade freely and calmly, you can trade profitably.

Refuting Core Beliefs: A Remedy for the Fear of Failure.

Our outlook and expectations dictate how we approach trading. For example, if we are extremely fearful, we will be reluctant to take risks, and at an extreme, we may even be afraid to even put on a trade. Our expectations, whether conscious or unconscious, have a powerful influence on our trading performance.

Traders face many common fears, and underlying each fear are core beliefs and assumptions that should be identified and refuted. For example, in his book, -Trading in the Zone,- Mark Douglas identifies trading fears that are responsible for many trading errors: being wrong, losing money, missing out, and leaving money on the table. Many of these fears reflect a fear of failure.

The best way to neutralize fear of failure is to identify the core assumptions that underlie this fear and refute them. Albert Ellis, a prominent psychologist, claims that behind the experience of all emotions, such as fear, is a set of core assumptions and beliefs. Many times these core assumptions are -maladaptive- in that they restrict our actions. Rather than face problems head-on, we avoid dealing with them, trying to deny their existence. Oftentimes, however, it is useful to merely identify our false underlying assumptions and change them.

The core assumption underlying the fear of failure, for example, is the belief that one must be thoroughly competent, adequate, and achieving. Ellis claims that holding such a belief produces fear and anxiety, which for traders often produces hesitation and self-doubt. The development of this belief is understandable. As we grow up, whether it is at home, school or work, we often face adverse consequences for not being scrupulously proficient, and we begin to believe that we must be thoroughly competent, adequate, and achieving in everything that we do. We pay a price for this belief, however.

If we believe that we must always be competent, we will expend all our precious psychological energy mulling over the negative consequences of failing, rather than focusing on what we are doing in the here-and-now to implement our current trading plan. Traders who believe they must be thoroughly competent spend all their time worrying about what they did wrong, what may go wrong, and how they will recover should they fail. These thoughts are distracting and obscure the flow of immediate experience, and the ability to read current market activity with unfailing accuracy.

Don't let a fear of failure interfere with your trading success. You don't have to be perfect. As any seasoned trader will tell you, one is bound to make mistakes occasionally, and if you are consumed with avoiding them, you'll be so anxious and fearful that you will make even more mistakes. To refute the core belief that underlies the fear of failure: Remind yourself that it is not useful to believe that you must be thoroughly competent, adequate, and achieving. No trader can live up to that standard, and ironically, trying to will actually lead to incompetence and failure.

Paralyzed by a Fear of Failure.

Jack has just made five losing trades in a row. His confidence is shaken, and now he is reluctant to make another trade. He thinks, -Why should I try again. I'll just lose again. If I lose one more time, I don't think I can take it.- Our outlook and expectations influence how we approach trading. Jack has experienced so much failure recently that it has changed his outlook. He is stunned, and rather than anticipating a win, he expects failure. He is now paralyzed by a fear of failure. He's having trouble putting on another trade. When it comes to trading, however, it is necessary to get the law of averages to work in your favor. And that often means making trade after trade to discern if the trading strategy is faulty or that market conditions have changed. Being paralyzed doesn't help. It is necessary to counteract the fear of failure and to motivate oneself to press on in the face of unending setbacks.

The best way to neutralize fear of failure is to identify the core assumptions that underlie this fear and refute them. Many times a fear of failure concerns one's tendency to avoid facing problems head-on. Rather than face our fears, we tend to believe that it is easier to avoid dealing with them by denying their existence. Fortunately, we can often beat this fear by realizing that facing our fears isn't as difficult as we expect them to be.

Another core assumption that underlies the fear of failure is the belief that one must be thoroughly competent, adequate, and achieving. Holding such a belief produces fear and anxiety, which for traders often produces hesitation and self-doubt. It's easy to see how we developed this belief, although it is often maladaptive. While growing up, whether it was at home, school or work, we often faced adverse consequences for not being scrupulously proficient. Thus, over time, we learned to believe that we must be thoroughly competent, adequate and achieving in everything that we do. We pay a price for holding this belief, however.

If we believe that we must always be competent, we will waste all our limited psychological energy mulling over the negative consequences of failing, rather than focusing on what we are doing in the here-and-now to implement our current trading plan. Traders who believe that they must be thoroughly competent tend to spend all their time worrying about what they did wrong, what may go wrong, and how they will recover should they fail. These thoughts are distracting and obscure the flow of immediate experience, and the ability to read current market activity with unfailing accuracy. It is vital to acknowledge the emotional consequences of holding these beliefs and realize that holding them lies behind your fear of failure. By refusing them, you'll be able to neutralize your fears and get past them.

Don't let a fear of failure interfere with your trading success. You don't have to be perfect. As any seasoned trader will tell you, one is bound to make mistakes occasionally, and if you are consumed with avoiding them, you'll be so anxious and fearful that you will make even more mistakes. So remind yourself that it is not useful to believe that you must be thoroughly competent, adequate, and achieving. No trader can live up to that standard, and ironically, if you try to, you'll have difficulty trading profitably and consistently.

Getting Worked Up For Nothing.

Jack's been trading for the past five years, and he has put in a heroic effort. He worked two jobs to build up enough capital to trade and have a realistic chance of success. He spent nights and weekends learning new, innovative trading methods. Has it paid off in terms of profits? No! Jack is starting to get fed up. He has sacrificed and he has put in a heroic effort, and can't help but think his trading goals are merely pipedreams. Ever felt this way? If you've been trading the markets for the past few years, you know exactly what I mean. It's at times like these, however, that you need to think strategically rather than emotionally. It's times like these where you have to start working even harder to achieve financial success.

We've interviewed over one hundred traders in our studies at Innerworth, and we've found that the traders at the top of the field have had some serious setbacks. They've lost thousands, even millions, of dollars before making it big. That doesn't mean that you should plan on needing to make and lose thousands of dollars to master the market, but this observation illustrates the magnitude of the setbacks that a master trader must face before reaching the top. When you face a setback, you have two choices: You can find a new profession or you can pick yourself up by your bootstraps and work persistently to turn things around.

A can-do attitude is essential for success, but it can be difficult to maintain optimism when faced with constant setbacks. It's natural to get fed up. Your emotions take over. Your thoughts become consumed with frustration. You start thinking, -It's not fair. I've tried so hard and I SHOULD get a big payoff for it.- It would be nice if the markets would behave in a manner consistent with our expectations, but we have to go where the markets take us. We have to accept whatever the markets want to give us and accept what we can take out of the markets. If you give in to pessimism and frustration, you'll never take any profits out of the markets. Rather than allow your emotions to take over, it is vital to regaining your optimistic, mental edge.

How do you do it? First, acknowledge that trading is a challenge. Don't take a Pollyanna approach to trade. Don't fool yourself into thinking it's easy. You'll just set yourself up for failure and be especially disappointed when you face a setback. -Hard- doesn't mean -impossible.- If you acknowledge the challenges inherent in mastering the markets, you'll develop a realistic, methodical plan to overcome obstacles. Second, admit your frustration. Trading expert Dr. Ari Kiev suggests that if you acknowledge your feelings, they will dissipate. If you admit your frustrations as they happen, they will pass, and you can then get ready to overcome the setback. Third, you must be ready to cultivate an optimistic attitude. Think positively.

Trading is something that you can learn. If you put in the effort, you will eventually succeed. You may not be an overnight success. You may not be a natural-born trader, but you will succeed. Finally, always think strategically rather than emotionally. It's important to focus on solving problems rather than reacting to setbacks emotionally. Don't get fed up. When you face a setback, pick yourself up. You'll find that with enough work, you'll make the profits you want.

Loss is Feedback, Not Failure.

Like any challenging endeavor, trading requires a -thick skin.- One cannot be easily hurt by criticism. One must be completely open to criticism of any kind so that changes to one's trading approach can be made immediately before losses mount. The ability to look at criticism (which usually comes in the form of losses) from the proper perspective takes the right kind of mindset. One must look at criticism as objective feedback, rather than as a personal failure.
The way most people learn to look at criticism develops at an early age. Sigmund Freud suggested that it may develop when children are toilet trained, a time when children are first required to limit their needs and impulses. Other psychoanalysts suggest, however, that one's way of dealing with criticism is greatly influenced by how children learn to handle the challenges they encounter when they enter school. Children develop either a sense of mastery or inferiority. Regardless of when it happens, there are vast differences in how people react to criticism. Some are especially vulnerable to criticism, while others welcome it.
Some people are very thin-skinned. Throughout their lives, they have been consumed with developing ways of protecting themselves from punishment and feelings of hurt. When they were growing up, they were often harshly punished, so as adults, they tend to expect punishment for doing something wrong. They are on the lookout for what is -right- and what is -wrong,- and they try to avoid doing something wrong at all costs. This inclination has disadvantages, however.
One learns to look at events in black-and-white terms, as either right or wrong. One expects to receive either praise or punishment. An over-emphasis on discerning whether one's actions are right or wrong leads one to avoid taking chances. One tends to hold back. Since chances aren't taken, one doesn't learn to make big mistakes, or how to recover from them. When one faces a setback, it is viewed as a dreaded event, rather than as an opportunity to grow and develop new ways of doing things. Events, such as trading losses, are viewed as personal failures rather than as merely objective pieces of feedback that should be analyzed quickly so that changes can be made expediently.
If you're the type of person who has trouble viewing a setback as nothing more than objective feedback, it's essential that you learn to look at it more objectively. Remind yourself that no one is looking over your shoulder. You can feel free to do whatever you want to do. View your trading as objectively and unemotionally as you do everyday tasks, such as driving a car. For the most part, most people focus on the process of driving a car in a very unemotional and objective way. When you drive, you don't worry about how well you make a turn (in good weather on your typical route). You merely focus on what to do next ' the next thing. There is no self-reproach. You are calm. You're ready to see what happens next.
Taking a similar objective approach can be applied to trading. Look at it in the same way that one looks at learning to drive. Believe that you'll eventually develop the necessary skills you need to master the task and focus on learning the skill. You will eventually become a profitable trader if you put in enough time and effort to build up your trading skills. But as you do that, you must stay objective. Focus on the process. Get as much feedback as possible, and look at it as objective information that you can use to build up your trading skills.
Trading profitably is a rare skill. To master it, you are going to have to learn to put setbacks in the proper perspective. Don't look at setbacks as personal failures. Don't take them personally at all. They are merely objective pieces of information that give you valuable feedback on how well you are doing. Welcome the feedback. Learn from it, and build up your skills until you can trade profitably and consistently.

First in Line and Ready for Action.

There's security in numbers. Have you ever looked at a school of fish in an aquarium? They stay in a big clump because if a bigger fish is nearby and ready to eat one of them, a single fish is less likely to be captured while swimming in the middle of a pack than alone. We humans also -school- in our everyday lives. When speeding along a barren highway, for example, it's easier to do so when in the middle of a clump of cars. As the logic goes, -the highway patrolperson can't pull us all over, and give a ticket to the whole bunch.- It's sometimes easier to follow the crowd, especially when trading. -The trend is your friend- as they say. Well...it isn't always.

It feels natural for many to follow the crowd. Many times, it's to our advantage. If none of our well-to-do friends live on the west side of town, it's in our best interest to find out why, or simply live on the east side with everyone else. But this kind of thinking must be abandoned when it comes to trading. You must learn to anticipate what the crowd will do next, and be the first in line to act alone, rather than wait to follow them. In trading, the primary activity is buying and selling stocks in the short term to make a profit. It's hard to do that if you are following the crowd.

For example, if you have purchased a large block of stock with the goal of selling it when the price increases a couple of points, you can't wait for the masses to confirm your expectations. Prices move in cycles. If you wait too long for the price to reach a zenith, and for the masses to buy a large amount of stock, and validate your forecast, you may be trying to sell as the cycle moves the price back downward. And at that point, you've missed the buying frenzy, and are likely to be trying to sell your stock at a time when -fear- sets in, and much of the masses are ready to sell their stocks. Ideally, you must anticipate when the masses are ready to buy, have purchased stock at a lower price than they will gratefully pay, and sell them that stock during the mass buying spree. You need to be the first in line ready to sell, while everyone else is in an entirely different line, ready to join the masses as they buy. You need to anticipate the upcoming trend and do the opposite of what the masses are doing. In terms of the practical methods for doing so, that's easier said than done. You've got to have accurate momentum indicators, for example, to anticipate the pivot points. But from the psychological point of view, one must also be ready to cast off what we have learned throughout our lives about seeking protection by following others. In this case, there isn't safety in numbers. When it comes to trading, you've got to view the crowd as the opponent, not the ally. You've got to anticipate what they are going to do and think of a way to capitalize on their fear and greed.

Keep in mind, the mansions in San Francisco after the California Gold Rush were not built from the mining of precious metals, but from selling food and services to the masses of amateur miners seeking out their fortunes to satisfy their greed. As a trader, you must similarly take advantage of the masses, and capitalize on their -herd mentality.- You need to be the first in line to think of a way to build up your riches from their fear and greed.

The Flexible Trader.

The winning trader is flexible. Flexible traders have a carefree attitude when it comes to executing a trade. They don't over-think their strategy. They do their homework, develop a reasonable trading plan, and when the opportunities present themselves, they freely execute the trade. They don't question it. They don't feel any self-reproach. They just do it. If the trade is profitable, they take their winnings and move on. Indeed, they move on to the next trade even when they lose. They know that to be a successful trader, it's vital to be able to make trade after trade with confidence and flexibility. The more flexible you can be, the more likely you'll be able to achieve and maintain profitability.

There are both situational and personality factors that relate to a trader's flexibility. Cultivating a carefree mindset is essential, but it is hard to do under some circumstances. For example, if you are under-capitalized and have sound reasons to fear to lose the money you are trading, you will never feel at ease. You will know deep down that you can't afford to lose. It is essential that you trade with money you can afford to lose and use proper risk management. If you know that on anyone trade, you have relatively little to lose and that in the worst-case scenario you can still recover, you'll also know that you can rest assured that everything will be all right in the long run. You can then cultivate the carefree mindset that is the foundation of a flexible approach to trading.

That said, some people are rigid and inflexible when it comes to their personality. Much of it is rooted in early childhood experiences. Parents may have been harsh critics who sent the message, -If you make a mistake, dire consequences will follow.- As adults, some people over-think every decision to avoid the ominous punishment that may follow should they make a mistake. Now, it is certainly necessary to take precautions in life, such as making sure you monitor your speed while driving to avoid getting a traffic ticket or getting into an accident, but when it comes to trading, there isn't much you can do most of the time.

Certainly, you should anticipate adverse events such as earnings reports, interest rate hikes, or national events, but most of the time, the markets are unpredictable. You must accept what the markets have to offer. You can't impose your will on the markets. You must have a more carefree attitude. It is impossible to account for every single possible factor that can go against a trade. It's necessary to merely do the best you can, put on the trade, and see what happens. The inflexible trader, however, has trouble doing that. Inflexible traders think they can completely control their destiny.

They falsely believe that it is possible to account for every possibility. In the context of trading, such beliefs are unproductive. They cause unnecessary anxiety and tend to produce hesitation and self-doubt. In the end, no one can predict the markets, so there is no point in trying, and no point in feeling bad about yourself because you can't. So give yourself a break. Don't try to do the impossible. Trade like a flexible trader. By cultivating a carefree attitude, you can trade profitably and consistently.

Flexible and Open to Possibilities.

Winning traders are flexible. They look at a trade from different angles and they are not afraid to explore every possibility. They know they may be wrong, but being wrong doesn't bother them. Indeed, they often expect to be wrong. It's vital to be flexible when examining your options. If you rigidly adhere to one course of action, you may pay the price for it in terms of losses. Try to be as flexible as possible, and you'll see more profits.

The greatest obstacle to flexibility is fear. The fear response is often adaptive. When we perceive we are about to experience harm, it's vital for survival that we mobilize our resources and focus all our energy on the source of harm. We tend to act the same way when we experience fear as we plan, execute, or monitor a trade. When we unconsciously perceive something is amiss, we instinctively focus our attention on the harmful agent. What usually follows, however, is rigidity. Rather than scanning and considering a variety of options, we restrict our attention.

Fear can sometimes play a role as we devise a trading plan. The rigid trader may secretly fear that his or her plan is unlikely to succeed. Rather than carefully consider all possible adverse conditions, the fearful, and rigid, trader focuses on only one possibility and develops no alternative plan of attack should an unwanted, or unanticipated, event thwart his or her trading plan.

For example, one may anticipate a stock rising during the following week, yet secretly doubt whether the move will pan out. Out of fear, the rigid trader may be afraid to consider and account for possible adverse events, such as earnings reports, a possible interest rate hike, or a sudden change in general market sentiment. The flexible trader, in contrast, has no fear of looking at all these possibilities and determining which are likely. Openness to all possibilities allows the flexible trader to change his or her plans if required, and recover from a potential setback.

People are the most inflexible when they are afraid, so the best antidote to rigidity is to reduce fear. To the extent one can trade in a relaxed emotional state, one can think openly and flexibly. Fear can be reduced by managing risk. If you know that you can survive the worst-case scenario, then you'll feel calm and relaxed. Similarly, if you trade with money you can afford to lose, you'll have little to fear and you can more easily examine all possible alternative factors that may impact your trading plan. By cultivating a relaxed mindset, you'll be less fearful and more open to looking at all the possibilities. And the more flexible you are, the more profitable you'll trade.

The Flexible and Disciplined Trader.

Flexibility and discipline go hand and hand. In their book, -Electronic Day Traders' Secrets,- Friedfertig, West, and Burton argue, -Discipline is saying I'm wrong. I'm getting out of the stock and actually doing it. Sometimes you'll be long on a stock and all of a sudden it's falling. Undisciplined people get stubborn and say, It's going to go up' or It's going down, I'll buy more and eventually it will go back up.' The discipline to admit when you are wrong, get out, and not take a big loss is what makes a great trader.-Winning traders are flexible. They look at a trade from different angles and they are not afraid to explore every possibility. They know they may be wrong, but being wrong doesn't bother them. Indeed, they often expect to be wrong. The willingness to admit you are wrong gives you power and freedom. When you are willing to admit you are wrong, you won't be defensive. You'll feel relaxed and will effortlessly close out a position when you need to. You won't fruitlessly hold on to a losing position and hope that it will turn around. You won't let your emotions of fear and greed take you on a roller coaster ride of emotions as your accounts balance dramatically rises and falls.

Fear is a trader's worst enemy. When you are afraid, you become rigid, and rigidity is related to undisciplined trading. The fear response is usually adaptive. When we perceive we are about to experience harm, it's vital for survival that we mobilize our resources and focus all our energy on the opponent that threatens us, and fight if we can win or run away if we can't possibly win. In the wild, working on instinct can be adaptive, but traders must be more flexible and open to possibilities. When we become fearful during a trade, we are often stuck and paralyzed. When we unconsciously perceive our trading plan is amiss, we instinctively focus our attention on the harmful agent and become fixed on it. Rather than scanning and considering a variety of options, we restrict our attention, and erroneously consider one option at a time, which usually is selling a winner prematurely or holding onto a losing trade too long.

Fear can also play a role as we devise a trading plan. The rigid trader may secretly fear that his or her plan is unlikely to succeed. Rather than carefully consider all possible adverse conditions, the fearful and rigid trader focuses on only one possibility and develops no alternative plan of attack should an unwanted or unanticipated event thwart his or her trading plan. For example, one may anticipate a stock rising during the following week, yet secretly doubt whether the move will pan out. Out of fear, the rigid trader may be afraid to consider and account for possible adverse events, such as earnings reports, a possible interest rate hike, or a sudden change in general market sentiment. The flexible trader, in contrast, has no fear of looking at all these possibilities and determining which are likely. Openness to all possibilities allows the flexible trader to change his or her plans if required, and recover quickly from a potential setback.

When you are flexible, you'll trade more effortlessly. You'll stay objective and be able to astutely read the markets more accurately. And in the long run, you will trade more profitably.

Be Flexible Enough to Stand Aside.

It is vital for one's survival to know when to stay out of the markets. There are times whey you should stand aside and wait for the right moment. Not only can market conditions change, but also your psychological outlook. When market conditions aren't conducive to profitable tradition, it is a good idea to stay away. Even seasoned professionals must frequently step back and reevaluate their methods. Don't be afraid to acknowledge your limitations, take a rest, and enter the markets when you're ready. There are many practical reasons for standing aside.

There are psychological reasons for staying out of the markets. Some days you feel tired, down, or just not feeling at your best. It's at these times that you may not be able to maintain the positive, objective mindset you need for trading. You may act emotionally or impulsively because your psychological resources are depleted. Some may be tempted to work through such a down spell and put on trades even though one is not in the right mental state, but that could mean putting on bad trade after bad trade.

Not only will your account balance take hits, but your ego as well. The next day, when you are feeling up to par, you may feel the residue of the slump when you look at your account balance. And that can create feelings of stress on a day when you would have otherwise felt carefree, optimistic, and ready to take on the markets in earnest. For the most part, it's better to stand aside when your spirits are down, and start new and refreshed when you are once again feeling at your best.

Another good reason to stay out of the markets is when your method seems to lose it's winning edge. No trading method works indefinitely. When market conditions change, even a -foolproof- method can stop working. Many novice traders make this situation even worse by continuing to trade. When a method stops working, it can really stop working. Your account balance will decline with each trade. Another mistake is to lose your cool when your method stops working. Rather than view such events as a time for worry and self-doubt, it's wise to view them as an intellectual challenge.

Seasoned professionals often say that they are at their best when their old method starts to falter and they have to devise a new one. They view the situation as a puzzle they must solve. They step away from the markets and take a close look at their methods. They try to identify what went wrong with the method and look forward to tweaking it until it works again. They search for market factors that may have changed, and when they think they have found the solution, they put on a few small trades to test out their new, revised method. So when your method stops working, don't continue trading at the same level of activity. Step back, look things over, and wait until conditions are just right before entering.

Trading profitably requires that you monitor the market moods and your psychological moods. When either one is not conducive to trading, it's best to stand aside and wait for the situation to change. Don't make the mistake of thinking you should trade even in these potentially debilitating conditions. By staying out of the markets, you can survive to trade another day, when you're in a peak performance mental state and the market conditions are optimal.

Peak Performance Trading.

Seasoned traders frequently describe moments when they trade in a peak performance state. There are various names for it: -trading in the zone- or -flowing with the markets.- But the defining characteristics are focused and concerted attention on the markets and a carefree, unemotional approach. Traders in this ideal mental state almost completely lose themselves in what they are doing. They are focused only on the ongoing process of the moment. They are not self-conscious, concerned with how well they are doing, or worried about doing poorly. Everything just seems to -click- as they move effortlessly with the ebb and flow of the market. Most traders agree that a peak performance mental state is a necessary condition for trading profitably. It's worth reviewing some of the ways that you can enter and maintain this optimal level of consciousness.

Resolve personal conflicts. Not everyone who trades has personal conflicts that need resolution. But if you are prone to carry -unfinished business- with you, it will always be there in the back of your mind, haunting you, interfering, and inhibiting you from entering a peak performance mental state. Examples of some common psychological conflicts include the need for self-worth, the need to prove one's value, the need to be right, or the desire to feel superior to others.

Many traders discount these issues, thinking they are just a lot of psychobabble. They think, -That doesn't apply to me.- Well, it may not apply, but it is people with these kinds of issues who tend to be drawn to trading. Ironically, these conflicts are what drives them to pursue a challenging trading career that requires them to beat overwhelming odds to become one of the select few who make a high salary relative to the vast majority. Before you disregard these issues, make sure that you really don't have psychological conflicts that interfere with your ability to enter a peak performance state.

Think in terms of probabilities. In his book -Trading In the Zone,- Mark Douglas discusses a -thinking strategy- called -thinking in terms of probabilities.- In a nutshell, a trader should not focus on the outcome of a single trade. Instead, he or she should focus only on the big picture, the overall outcome across a series of traders. When it comes to trading, you should go in expecting to lose more trades than you win, but mathematically, with the use of proper risk management, it's possible to achieve a profit across a series of trades, even when many are losers. It's wise not to make such a big issue of losses. Put them in a proper perspective.

It's useful to view trading in the same way that a profitable professional gambler approaches gambling, according to Douglas. Professional gamblers look at gambling objectively; they place bet after bet with the assumption that the law of large numbers will work in their favor if they make enough trades. Traders should use a similar -thinking strategy.- An essential prerequisite is a trading strategy that has a proven track record. But once you have it, you must execute it many times to take advantage of this winning track record. The trading strategy may fail a few times, but your goal is to replicate the past odds of success by giving it an opportunity to work across a series of trades. Once you understand and accept the idea that your overall success is all that matters, it will ease your mind, and allow you to approach trading with a more carefree attitude.

Use proper risk management. Careful risk management is a key component of trading in a peak performance state. If there is a real danger that you will lose large amounts of capital, or money that you just can't afford to lose, you'll feel the stress, whether you are conscious of it or not. But if you limit your risk on any single trade, you will know deep down that you have little to lose. And when you know that even a worst-case scenario is of little threat, you will feel less emotional, and be able to enter a peak performance mental state more easily. So follow the advice of seasoned traders who risk only a small percentage of their trading capital on a single trade, and use protective stops to further limit your risk.

Trade an extremely detailed trading plan. Perhaps the most essential key to entering a peak performance state is to have a scrupulously detailed trading plan. Outline the plan completely from the necessary market conditions for its use to the specific entry and exit points. Unless you have every aspect of the plan outlined, there will always be an opportunity for indecision, and that will take you out of the peak performance mental state. Do your preparation before you enter the markets, not during. It's too hard to remain objective when you are trying to make unnecessary last-minute decisions. Plan out your strategy as much as possible and it will allow you to stay

focused and trading in a peak performance state.
Many traders believe trading in a peak performance mental state is a key factor for trading profitably. Not everyone has a natural affinity for entering this ideal mental state, but it's possible to do with the right preparation and practice. It's worth the effort to learn how to do it.

The Fly and the Tree.

Flexibility is key when you're a trader. One must be able to look at a trading problem from multiple perspectives in a calm, rational, and insightful way. Have you ever noticed that when you are under extreme pressure that you can't think clearly? Your attention may become fixed and narrow, making it difficult to see alternative perspectives. It's useful to gauge your flexibility, and if you find you are inflexible, be aware of it and change your environment to create a more flexible approach to problem-solving.

What is flexibility? A fascinating way to demonstrate intellectual flexibility is to consider an item from the WAIS IQ test. Let's see how well you do. In what way are a FLY and a TREE alike? The answer to this question may surprise you if you don't know it already. When psychologists ask most people this question, they seem to struggle. You can see their mind spinning, wrestling with various alternatives, and trying to discover the key similarity. They make the item complex and look for a very sophisticated answer. They tend to get stuck doing so, however. They tend to get themselves a little too upset and think that if they get the item wrong, the psychologist may infer that they are less than extremely intelligent. But it's a hard question and few get it right. The answer? They are both living things. It's obvious in hindsight, but it may have been difficult to figure out if you didn't already know the answer. It's actually a very discriminating question, with only the most intelligent persons getting it right.

Answering the question about the fly and the tree requires intellectual flexibility. It's interesting to watch highly intelligent, flexible people to answer the question. It's as if they could care less. They are extremely confident, and seem to just think back and forth, -What could it be?- Then they kind of just shrug their shoulders and seem to guess, -They are both living things.- They are surprised when they are told they arrived at the correct answer.

Flexible people take a very casual and relaxed approach to finding a solution to the puzzle. They don't put their esteem on the line or put unnecessary pressure on themselves. They merely examine as many angles as possible, relax, and come up with an answer, any answer as long as it is somewhat reasonable. They know how to simplify when it is necessary, and know when to look for complex answers when required.

As traders, it's vital that you solve trading problems in a flexible manner. You can cultivate the proper environment that is conducive to a flexible thinking style. For example, don't put too much pressure on yourself. If a difficult decision needs to be made, put it off until you can look at the situation in a calm and open manner. (If that means closing out the position, by all means, do it!) You'll be the most inflexible when you are under pressure or stressed, so find a calm and relaxing environment to do your thinking. (This may mean a lot of pre-planning before the start of the trading day since, after the opening bell, the markets can be quite stressful.) Also, don't put extra pressure on yourself. Don't put your self-esteem on the line, and tell yourself that you've got to get the answer right or it will prove you are a poor trader. That kind of pressure is not conducive to flexibility.

Flexibility is the key to trading success. By finding the proper environment and using the right mindset, you can be more flexible and solve significant trading problems.

Focused on the Trade.

When you have put on a trade, it's essential to stay focused on monitoring it. You must be able to accurately perceive the signals that indicate the market is going against you, and you must act expediently to protect yourself. Psychological issues, such as self-doubt, wavering confidence, or a lack of commitment, can distract you, however. They may impact your ability to effortlessly execute your trading plan and manage a trade. Although it's essentially impossible to drive out all psychological conflicts from your psyche, it's useful to try to resolve as many psychological conflicts as possible, so that they don't intrude into your consciousness, and interfere with your ability to focus on the trade.

When you have a psychological conflict, it's in your best interest to resolve it as soon as possible; otherwise, it just lies there in the back of your mind, taking up precious, limited psychological energy. By identifying psychological issues before the trading day, you can decrease the possibility of these issues entering your consciousness when you least expect them to surface. Do you have unresolved conflicts that lie in the back of your mind? It's hard to just push these conflicts completely out of your consciousness and pretend they don't exist. Ironically, the more you try to deny the existence of these conflicts, the more psychological energy you will waste. Rather than trying to ignore conflicts, it's better to acknowledge and face them head-on. Most of the time, the mere acknowledgment of your conflicts will produce a quick resolution. (As Dr. Ari Kiev suggests, if you acknowledge the issue, you can easily let it go.)

Even if you are not the kind of person who has a lot of past conflicts to resolve, there are some conflicts that all traders must face at one time or another. There are many beliefs about trading that hold some validity but are hard to accept. For example, novice traders must acknowledge and address the possibility that a series of winning trades may have been the result of a run of good luck, rather than trading skill. Although it satisfies our ego to think we are brilliant traders, it's better to acknowledge the possibility that we may not be as talented as we want to be, than pretend we are something that we are not. Since it takes more psychological energy to pretend that you have trading skills that you don't actually have, it's better to just admit it and take action to remedy the situation. For example, one can get additional instruction and trading experience, refine his or her skills, and become a top-notch trader.

There are similar beliefs that some traders may be afraid to acknowledge but should. For example, a trader may think, -Perhaps I was a good trader at one time, but the market conditions have changed and I may not be able to live up to my expectations of trading profitably.- All traders face this possibility at one time or another. It may be true or it may be false, but regardless of the validity, allowing such a belief to remain in the back of one's mind takes up psychological energy. It's better to acknowledge the possibility, and if it is false, remind yourself that it is absurd, or if it is true, take the necessary steps (such as learning new trading strategies) to prove it wrong.

Many psychological conflicts remain in the back of your mind. They are there lurking below your awareness, and when you are in a vulnerable mood, such as when you are fearful or disappointed, these beliefs can move from the back of your mind to the forefront. It's not useful to ignore these potentially distracting psychological issues. It's better to acknowledge them up front. Once you do, you are more likely to be able to say to yourself, -that may be true, but it is of no consequence right now.- Then, you better spend some time during your -off hours- dealing with it. Conflicts in the back of your mind can have a powerful impact on your ability to focus on your trading. Make sure that you face your conflicts, spend time examining them, and try to resolve them. If you can do so effectively, you'll be able to achieve the mindset of a winning trader.

Concentrate On the Trade.

When you're trading the markets it's necessary to concentrate on the trade. You cannot let your attention sway. You can't impulsively make a mistake. We are often distracted, however, and when we are distracted, we act impulsively and make mistakes.

Research studies have shown that when people's psychological resources are taxed to the limit, they have trouble resisting temptation. For example, when they play games of chance, they are likely to take an immediate smaller reward rather than wait for a larger reward. It's like your mind tells you unconsciously to avoid waiting and to just get it over with and take what you can get. But winning trades are hard to come by and if you sell prematurely too often, you'll never accumulate enough profits to end up profitable overall.

Rather than allow yourself to get distracted, it's vital to focus on the moment. Focus on the process of trading in the here-and-now. When you are fully engaged in trading and concentrating on your ongoing experience, you increase your odds of entering -the zone,- a peak performance mental state where everything seems to naturally come together. In this peak performance mental state, you are not worried about past mistakes or future profits. All your attention and energy are focused on the current trade. You are more in touch with your instincts. You see the markets more clearly and are intensely aware of your feelings, sensibilities, and judgments. You can review a multitude of details, and can effortlessly identify the key factors that are likely to drive market action. Moving into this higher level of awareness during a trade can greatly increase your chances of success.

You may not need to be focused on your trades at every moment during the trading day, but there are specific times when full concentration is vital. At these times, it's essential to trade at your best and take decisive action. You can't flinch. You can't hesitate, and you can't make a mistake. At the moment you enter or exit a trade, for example, you must be ready to devote all your psychological energy to the trade. Don't take it lightly. It's easy to become distracted and make a trading error.

How can you increase your chances of trading in a focused, peak performance mindset? First, maximize your chances that you will be alert and ready to concentrate. Don't trade while hungry or tired. It may not show, but when you are tired or hungry, you may be a little on edge, and you may have difficulty concentrating. No one has an endless supply of psychological resources; the mind has limits. When you are tired or hungry, you have few resources to concentrate fully.

Second, don't underestimate the influence of background stress. Family hassles, chores you have to complete, and similar stresses and strains that take up space in the back of your mind may deplete psychological resources without you knowing it. Get rid of as much stress as possible. Third, it's also useful to trade modestly. The more you risk, the easier it is to lose concentration as you secretly worry about what you will do should you lose money that you just can't afford to lose. Risk management frees up psychological resources in ways that are not always apparent. It's just one more way to reduce the strain on your mind and allow you to trade more freely and creatively.

When you have put on a trade, it's essential to stay focused on monitoring it. You must be able to accurately perceive the signals that indicate the market is going against you, and you must act expediently to protect yourself. When you are tired or stressed, however, you may lose focus. You may have trouble effortlessly executing your trading plan, managing your trade, or exiting at the best time. Take precautions to make sure that your mind is in top mental shape. When you are rested, free, and ready for the market action, you increase your chances of trading like a winner.

Focusing on the Positive.

When trying to meet the challenges of trading, it is often easy to obsess about what you are doing wrong until you start to feel that you'll never master the markets. Rather than focus on what you are doing wrong, however, it's often much more productive to emphasize what you are doing right. Once you've acknowledged where your assets lie, only then should you identify the specific areas where you need improvement, and make a few minor adjustments. Focusing on what you're doing wrong first is bound to make you feel a little frustrated, and perhaps, disappointed. But focusing on what you are doing right initially will help you feel optimistic. And when you feel optimistic, you'll be more likely to carefully scrutinize what you're doing wrong, and you will be ready to focus your efforts on building up your skills to offset your limitations.

As children, we are often taught to look for our limitations and feel bad about them. We are taught to expect punishment for our mistakes. Soon, we start to avoid punishment, even if it means denying our limitations. And when limitations lie hidden, decisive steps to remedy the problem are not taken until a disaster happens. An alternative approach, however, is to welcome failure. It's like saying, -I believe in my overall skills. I'm going to try and see what can go wrong, so I can trade even better.- Rather than looking at a failure as a dreaded event, you can take a more active, problem-solving approach. You can look at failure as an opportunity for growth and development.

A positive outlook can provide the motivation to avoid denial and focus on evaluating your trading performance. Trading consists of a set of relatively complex tasks in which many different skills and subtasks must be mastered and integrated. You can't expect to get it all down faultlessly the first few times around. You'll never meet this grand expectation, and you'll just get overly stressed in the end. You must break the trading task down, develop each skill separately, and then try to put it all together after you have a few of the sub-tasks mastered. Consider a trader who has a few things going right, and a few things going wrong.

Suppose he or she is a disciplined trader but is unprofitable because he or she has used flawed, unreliable trading strategies. If a person has adequate trading capital, knows how to map out every aspect of a trading plan (such as entry, exit, and risk control strategies), and can stick to the plan, he or she has a lot of things going right. It's important to recognize these assets immediately. This makes you feel optimistic and ready to closely focus on the few things going wrong. With this energy and enthusiasm, you can more easily build the skills you need to trade profitably (In this particular case, you can focus on learning and executing winning trading strategies, while feeling assured that other sub-skills have been mastered).

Different traders have different assets and limitations. Some may use sound trading strategies but do not know how to stick with their trading plan. Many may know how to specify part of their trading plan (such as risk management), but may not know how to specify other parts (such as entry and exit strategies). Whatever you're doing -wrong,- it's vital to identify these issues and correct them. But by focusing too much on the negative, you will feel disappointed. Focus on the positives first. You'll feel more optimistic and be ready to look at your limitations more objectively.

Knowing when to Fold.

The most challenging aspect of trading is finding a trading strategy that will work reliably. The possible strategies are endless. Some traders carefully backtest historical data and try to find a strategy that worked in the past, and bet that it will work in the future. Other traders intuitively feel that there are some points during the trading day that the markets are overbought and try to capitalize on a reversal. Regardless of the strategy, one uses, though, one must have faith in the strategy when it comes time to execute the trade. There's only so much that can be done before a trade is executed, but once you've done all the preparation you can do, you must decisively put on the trade and trade your plan.
This is often easier said than done. When a strategy comes up winning over and over again, it is quite easy to trust it. But there are times when a strategy may seem to work more sporadically. At these times, one's belief in the strategy may waver. What do you do then? It is tempting to just abandon the strategy and move on to a new approach. But if one moves from one approach to the next, and back again, one cannot trading consistently. In order for the law of averages to work in one's favor, it is necessary to stick with a strategy long enough to see if it works. In the end, knowing when to stick with a strategy or to abandon it is a perpetual conflict that all traders must learn to resolve.
When you come across a strategy that works, make sure you capitalize on it. There are times when you hit upon a string of good luck. The odds are truly in your favor and you need to push yourself to make a trade after trade to capitalize on chance. To the scientific-minded investor, such a maneuver may seem arbitrary and haphazard, but studies of probability illustrate that there are times in a hypothetical coin toss that heads comes up repeatedly in a long string. Similarly, a string of wins can occur in the markets as well. If you hit upon a winning streak, you would be wise to take advantage of it. You can't capitalize on it, however, if you make trading errors or your confidence is shaky. This is where well-honed trading skills are an asset. The more skills you have, the more easily you can execute trades flawlessly and take advantage of market conditions that are conducive to your strategy producing a winning streak.
Just as there are winning streaks when a strategy works over and over, there are other times when there is a run of bad luck. A strategy that seems sound just doesn't work. At these times, there is little you can do. The markets are so complex, and so many factors impact the market action, that it is impossible to know why a strategy may not work, and thus, there is no way to work around it. The psychological problem, however, is how to decide when to abandon a strategy and when to stick with it. There isn't a simple solution. You don't want to abandon it prematurely, but on the other hand, you don't want to stick with it and blow out your account. One solution is to decide beforehand how much of your account you will devote to a particular strategy.
For example, suppose you have a strategy that is expected to produce a win 80% of the time, according to the analysis of historical data. You may decide to make a dozen trades and risk about 25% of your account on the strategy. That is, in a worst-case scenario, you will be willing to lose 25% of your capital. If your strategy is right, you won't lose 25%. But if you encounter a run of bad luck, then your losses will be limited. This is a good compromise between abandoning your strategy prematurely and sticking with a losing strategy too long.
Unfortunately, there's no safe, foolproof way to decide to stick with a strategy or to abandon it. You must decide in the end what to do, and it may just be a matter of a hunch or an educated guess based on your past experiences. That's what makes trading largely about psychology. Ultimately, being a winning trader is about your ability to make the right decision at the right time.

Following your Passion.

Successful people are passionate about what they do. They aren't concerned with the outcome, but with the process of achieving the outcome. That said, it would be nice to avoid worrying about outcomes, but few of us have that luxury. It's a little too idealistic, isn't it? Unfortunately, most of us have to earn a living, so the potential to lose a great deal of money from trading is always on our minds. Whether we trade full time or part-time, unless one is independently wealthy, making money, or losing it, is always in the back of our minds, and has some influence on our actions. This concern uses up psychological energy. We worry about it just a little bit with each trade we execute. But if we could just forget about the money for a moment, even just occasionally, we would be free and creative. We would enjoy what we were doing for its own sake. It may be hard to do, but it is worth trying to cultivate such a perspective. The more you can focus on the process of trading, the more you can trade in an optimal, peak performance mindset.

Top-notch traders say they view trading as playing a game or competing in a sporting event. As with any game, when you focus on the outcome instead of the process, you choke under the pressure. It's the same with trading. If you can just focus on the fun, enjoyable aspects of trading, you'll feel a greater sense of gratification, and you'll trade more profitably. So when you feel bored or frustrated about trading, remind yourself about what you think is fun about trading. Some traders enjoy developing trading strategies, for example.

They view developing a trading strategy as an intellectual challenge. For these traders, the outcome of a trade is merely an indicator of how well the strategy is working. They don't feel frustrated or bothered when things aren't going quite their way. It doesn't matter whether a trade is going well or poorly. Indeed, when a trade is going poorly, these traders are happy to close out the position and study their method in more detail. They work especially hard at discerning what is going wrong and how to tweak their strategies to make them profitable. It's the intellectual challenge that matters, not the prize.

Other traders enjoy the thrill and excitement trading offers. Although there are virtues to trading in an objective, unemotional mindset, some traders relish the thrill of putting on a trade. They have the temperament of an explorer. They can't wait to see what happens once a trade is executed. It's thrilling and it gives them a rush. They aren't necessarily pathological gamblers in that they seek out thrills merely to get their adrenalin pumping, but they do enjoy this stimulating aspect of trading. Knowing the mere process of trading itself will soon reward them motivates them to strive for mastery.

Whether you are a long-term investor or a short-term trader, investing is fun and inherently enjoyable. The more you can focus on the process, and its inherent rewards, the more satisfied you will be in the long run. So try to focus on what you find the most fun about trading. You will find trading to be rewarding and enjoyable, regardless of the outcome.

Forward Thinking.

The famous psychotherapist Fritz Perls once noted that people feel anxious and fearful when they worry about, and mull over, their past mistakes or worry about the future. A peak performance mindset is where a person focuses on the ongoing action, the here-and-now experience. The more you can stay in the moment, rather than worry about the past or the future, the more you'll be able to trade profitably.
The wise person learns from his or her mistakes. We've heard this sage advice over and over. There's some truth in it. It would be foolish to touch a hot stove more than once or fail to prepare for your driver's test and end up failing. When it comes to trading, it is similarly wise to plan your trades carefully and manage your risk. There are general pieces of advice that it would be wise to follow, and if you need to learn it for yourself, do so only a few times and then follow conventional wisdom. Indeed, there are some events in life where it is useful to learn from a mistake or to learn from others' mistakes. But there are times where there is no lesson to learn, yet we over-analyze the event, and mull over it incessantly, trying to interpret what it all means.

If every event we faced were exactly the same, then it would be wise to dissect all past events in detail and find out what went wrong, so as to avoid making the same mistake the next time. But one event is rarely like another event. For instance, when asking a potential romantic partner out on a date, there isn't one right way to do it. People are different and what works on one person doesn't work on another. It doesn't make sense to search for the perfect method because there isn't one.
It is the same for trading. Market conditions are never the same. The best you can do is approximate what you think is happening, implement a trading strategy and see if it works. If the right conditions just happen to be there, you'll profit. If the conditions weren't there, then there was nothing you could have done about it. You just need to accept the fact that nothing is certain, accept the outcome, and move on. If you mull over it, however, you'll gain little. You'll just feel bad about yourself and may start building up inhibitions and self-doubt, which will subvert your efforts in the end.
When it comes to trading, it is better to look toward the future. Think positively, gain as much experience as possible, and move forward. Don't mull over the past, looking for past errors. You will just waste your time worrying when you could be trading and building up the skills you need to trade profitably and consistently.

The Right Frame of Reference.

Many novice traders are frustrated when they start trading. It's common to hear a novice trader complain, -I don't know what's going wrong. I study the markets every chance I get. I put on trades under ideal market conditions, but I just can't make a profit overall.- One may wonder if enough time and effort are devoted to trading, however. How much time is actually put in? How many trades are actually made? Answers to these questions are quite subjective. For some novice traders, a couple of hours a day may be all they have available.
At that time, they must monitor the markets, look for ideal stocks to trade, and actually execute trades under optimal conditions. Is this enough time? It depends. If you have a large enough account and don't need to make very much profit, it will be sufficient. But what if you have a small account, not much time to trade it, and want to make a huge profit? Well, in that case, you may be unrealistic. Successful traders work with a realistic frame of reference. They don't try to do the impossible.

As with any challenging endeavor, putting in the necessary time and effort to become successful is vital. Most of the time, the main difference between the winners and losers is the time and effort winners put in. Studies have documented that unsuccessful people show two major flaws: they are afraid to accurately monitor how much time and effort they devote to a goal, and they do not have an accurate frame of reference. In other words, they think it's easier to achieve a goal than it actually is, but they don't know it. They wrongly think they are putting in enough time and energy even though it is far from adequate.
Trading coaches describe a similar phenomenon among novice traders. Many novice traders treat trading as a hobby rather than a serious business. That's fine if you view trading as merely recreational gambling, but if you expect to make reasonable profits from your efforts, it is necessary to take things a little more seriously. Trading is a skill, just like a skill that professionals, such as doctors or lawyers, develop. Developing a high level of skill takes time and a heroic effort. It often takes several years to develop the skills of a seasoned professional, and that is also true of trading. To make profits in a variety of market conditions, you must gain experience with all those conditions. In addition, no trading strategy is foolproof. You must continually develop new strategies and methods and test them out under new conditions. It takes the experience to trade skillfully, flexibly and effortlessly. A hobbyist approach isn't going to be sufficient to hone such skills.
If you want to move from the status of an amateur hobbyist to that of a master trader, you must have a realistic frame of reference. You must be willing to view the development of your trading skills the same as other professionals go about developing their skills. If you have to work a regular job to pay your expenses, then you need to view your life as working your way through college and graduate school. It means shifting priorities and making a solid commitment to developing your skills. It will require hours of study and training from reputable venues. And it is also essential to be realistic. The -graduation rate- from novice to a seasoned trader is low, and if you want to be one of the rare few who make it, then you must gain as much experience as possible, and make any necessary sacrifices.
So don't prevent yourself from reaching the status of a master trader. Put in the necessary time and effort. You'll be rewarded in the end with lasting trading success.

Trading offers Freedom.

When trading the markets, there's a constant need to make profits. You can easily start feeling that there's too much to do and not enough time to do it. If you're like most traders, you're afraid of missing out on opportunities. You know that it's hard to take money out of the markets, and you know that to stay on top, you have to keep working on it. Why do people work so hard in such a profession? Most people would say it's for the money. It is for the money, isn't it? Many traders say that there are other reasons. One of the main reasons is feeling that you have mastered a career in which few survive. But perhaps the best reason to stay in the trading profession is the freedom traders have. Traders work for themselves and on their own terms.
A sense of freedom can be a powerful motivator. In an interview with Innerworth staff, for example, Don said, -When I made the decision to trade full time, I did so for a couple of reasons. One was for the freedom and independence...trading offered some financial upside, but I didn't go into trading for the money. I did it for the freedom.-
Many traders take the freedom trading offers for granted. In a competitive world where most people define their self-worth based on how they compare to others, there's a powerful need to keep up with the guy next door. Out of sheer habit, one incessantly asks, -How well am I doing?- and that question usually leads to asking, -How well should' I be doing?- It's hard to escape the need to succeed. The media provides a continuous barrage of images of success: -Buy a sleek, new sports car and impress the neighbors. Wear the latest designer fashions and watch heads turn as you walk by.- Implicit in all these messages is the idea that in order to have value as a person, you must have more, or do more, than your friends and neighbors. The need to succeed can make you feel trapped, however. If you feel the pressure to make huge profits, you'll feel the strain and it may undermine the freedom you could be experiencing. Instead, it's much more useful to strive for modest goals. It helps you cope with the stresses and stains of trading.
We asked Don how he copes with the pressure to succeed: -I think that doing some simple math helps. Let's say you want to earn a certain amount over the course of a month. If you divide that amount (monthly financial goals) by the number of trading days, it doesn't come to a whole lot. Suppose somebody wants to make $60,000 a year. If you divide that by 12 months, it is $5,000 a month. If you divide that by the number of days in a month, let's say 20 trading days, that's $250 a day. That's not a whole lot of money if one is skilled in this business.
Looking at it like that, by the simple fact that you recognize that you don't need to make it all in one day or in one trade, really put things in perspective.- When you break down what you need to do on any given day, it will seem reasonable and you will feel free. So don't stress yourself out by trying to achieve goals that seem impossible. By thinking modestly, you will be able to make realistic plans for achieving them, and in the end, you'll see that you can trade profitably and enjoy the freedom trading offers.

Free and Easy Trading.

Throughout the day you make everyday decisions that mean little to you. You drive your kids to school and along the way, you make a host of decisions about which route to take, where to turn, or when to stop off for gas. Each decision is made with little thought. Later in the day, you may decide to stop off at the grocery store. You decide what to buy for dinner and how much you will spend. Do you obsess over these everyday decisions? You probably don't. Why should you? What's the big deal? The implications of the decisions are almost nil. But tell that to someone with obsessive-compulsive disorder.

They have a different perspective regarding the significance of such decisions. Even minor insignificant everyday decisions are a big deal to individuals with such an ailment. Aren't you glad that you don't have obsessive-compulsive disorder? If you are a novice trader that has trouble making trading decisions, though, a seasoned trader may think you have a kind of obsessive-compulsive disorder. Whereas you sell early or abandon your trading plan because you are impatient or frustrated, seasoned traders have no problem making what they see as everyday decisions. To them, it's no big deal; it's just a decision that must be made. Wouldn't it be nice to trade with such a free and easy trading style?

Traders can often take the decisions they make during the trading day too seriously. It's natural. When your money is on the line, you can't help but worry about losing it, and you want to protect it, even if it means obsessing over minor details or reacting with extreme emotions. Some people even personify the markets by viewing a trading decision with the same emotional intensity as they do with their interpersonal relationships. In -Trading In the Zone,- for example, Mark Douglas points out that traders often equate losses in the markets with their parents punishing them for breaking rules. When the markets are viewed in this way, losses take on a great personal significance. But it doesn't help to make such a big deal of things.

It's much better to take a more detached, objective approach. How can you do it? First, don't think about, or obsess about, the outcome of a single trade. Think of the bigger picture. You may lose on a single trade, but across a series of trades you will come out ahead if you have a trading strategy that has a high probability of success. Successful traders plan on executing many trades, rather than just a few key significant ones. As they trade, they know that not all trades need to be winners in order to increase the equity in their accounts. It's your success overall that counts. Keeping this fact in mind takes some of the pressure off. Second, it is vital to use proper risk management. Successful traders risk only a small percentage of their trading capital on a single trade. Limiting the risk on a single trade further relieves some of the pressure to feel that every trade needs to be a winner, and thus, some of the personal significance is reduced.

There's no need to imbue a trade with great personal significance. By limiting the amount of capital you risk on a trade, the actual consequences of the trade are limited, so what's there to worry about? You might as well trade free and easy.

Free Up Psychological Energy by Relieving Stress.

There are limits to the psychological energy you have available to devote to trading. And this limited energy is diminished when you let too many issues remain unresolved, lingering in the back of your mind. The more issues you leave unresolved, the more they build up and the less psychological energy you will have to address them, and also devote to trading. When built up and left unresolved, there's a high probability that these conflicts will creep out when you least expect it. Some conflicts are conscious and may enter your mind during some point during the day. Other conflicts are unconscious; you may rarely think of them. But whether they are conscious or unconscious, psychological issues are always there lurking to some extent. It's in your best interest to bring them into awareness, resolve them, and prevent them from taking up psychological space and energy.
To free up psychological energy and resources, it's important to identify stressors and conflicts and work tirelessly to resolve them. You can free up psychological energy by practicing stress prevention. Stressful emotions can build up, and if not released occasionally, one can be overloaded by stress. You can't completely remove stress from the trading environment, but you can prevent the stressful aspects of trading from making you feel overly anxious and fearful by developing a stress management plan and following it. Some useful ways to manage stress include (a) avoiding caffeine, (b) exercising regularly, (c) minimizing daily hassles, and (d) seeking out social support. Caffeine helps many people wake up in the morning, but it may often elevate your nervous system to the point of making you hyper-alert to the slightest form of stress. Trading is stressful enough; it's not useful to pre-elevate your nervous system and feel a heightened sense of anxiety. Tension can also be reduced through regular exercise. Tension builds up during the trading day, and a regular exercise program ensures that pent-up frustration and tension are released, and do not build up to influence subsequent trading decisions unexpectedly. It's also important to reduce stressors in your environment.
Daily hassles, such as time pressure, traffic congestion, or feeling over-extended can build up psychological tension and loiter in the back of your mind. Try to minimize these hassles and relieve the pent-up tension. But however you cope with daily hassles, don't ignore them; don't try to pretend they aren't important enough to deal with immediately. They can accrue and cause you great strain in the long run.
Seeking social support from friends and loved ones is an effective way to cope with stress. When extremely stressed people have a person, or persons, with which to vent their frustration, they are able to better cope with the stressors. Oftentimes, merely expressing stressful emotions of anger, fear, and frustration can make one feel optimistic, empowered, and ready to tackle new stressors with renewed vigor. That said, it's important to remember that relationships can be a double-edged sword.
They can help relieve stress under the right conditions, but they can also be a substantial source of stress. Not just anyone can serve as a vital member of one's social support network. Ideally, people in one's social support network should be good listeners; they should actually want to hear about your unique problems, support your feelings, and help you alleviate stress. Some relationships are uplifting, but other relationships provoke frustration and anxiety. This may be especially true for traders since not everyone in a trader's social support network understands trading or is supportive of it.
For example, suppose a loved one is not supportive of trading, and frequently provokes anxiety by saying things like, -How much did you lose today?- or -When are you going to give up trading and go back to your regular job.- Similarly, a conservative, risk-averse friend may not want to hear about relatively risky trading activities. In these cases, such relationships are unsupportive at best or extreme stressors at worst. Thus, it is vital for your psychological health to seek out the right kind of social support.
It's essential to trade with the proper mindset. If your mind is frantically consumed with conflict and stress, you'll find that a large supply of your psychological energy is depleted, and when you shift your attention to trading, you will be unable to focus and concentrate. But when you relieve stress, you free up psychological resources and can purge the conflicts and stressors lurking in the back of

your mind. Your trading will benefit from the peak performance mindset.

Organize your Workspace and Relieve Stress.

Trading the markets is a stressful occupation. The markets are unpredictable and chaotic. No outcome is a certainty, and many times, when it seems as if you know where the market is going, you discover you're wrong. It can be extremely confusing and disorienting. And this confusion and disorientation can produce stress. Winning traders must do whatever they can to remove some of the confusion and reduce stress. One of the best ways to relieve some of the stress, and put order into a face-paced unpredictable environment, is to organize your workspace.

With a new year starting next week, it's a good time to clean up your workspace. Throw out the old and make room for the new. Clutter and stacks of old paperwork can be distracting. Piles of newspapers you'll never read can make you feel as if the clutter is closing in on you, and cramping your style. Removing some of the clutter and opening up some space often symbolically gives you increased psychological space and renewed creative vigor. You feel you have more room to breathe. Some traders may be the Oscar Madisons of trading; they may prefer a messy workspace and feel that it is more stressful to organize it than to succumb to the disarray. But most people associate untidiness with confusion, chaos, and ultimately, stress.

An organized workspace, in contrast, is less distracting. When one is trading, it's essential to focus on your screens. Too much clutter in the same room, or on one's desk, can grab one's attention and shift it away from monitoring the trade of the moment. A clean, sparse and organized workspace makes many people feel that they have greater control. They may not be able to control the markets, but at least they've mastered their environment and minimized any possible psychological influence that it may have on their awareness and ability to objectively assess market conditions.

Organizing one's workspace does indeed take some effort, but it is well worth the price when one considers the piece of mind you'll gain. The first step in an organization is to throw out old, worthless information. This is the hardest part. We collect books and papers because we think we will need them. Yet many times we accumulate so much stuff that its actual contribution is minimal. We'll never find the time to read all of it, and it will just take up valuable workspace. But it's hard to throw it away. It took time and energy to assemble these items, and throwing it out subtly suggests that you wasted your time collecting the stuff. But most of it can be tossed out. Make tough decisions and commit yourself to throw out at least 25% of it. If you still can't throw it away, box it up, put it away, and sift through it when you find the time. But get it out of your workspace so that it no longer impinges on your consciousness.

Developing an informal filing system can be helpful. It doesn't have to be formal with folders for each topic and precise categories typed on labels for each folder. Sometimes you can merely place documents for a particular task or project in a large attractive looking box. You can then pile the boxes in a corner of your office, or if it is still a distraction, you can stack the boxes in the garage. But it's important to get it off your desk and prevent it from encroaching on your workspace, and more importantly, on your mind.

Relieving clutter and working in a sparse workspace can greatly relieve stress. The markets are impossible to control, but your workspace is something you can master by keeping it organized. So as the new year begins, throw out all the old stuff taking up precious space. You'll feel energized and ready to tackle the challenges that the new year has to offer.

Market Frustration: Stay Calm; It's not Personal.

Tom had been going long on a stock trade for two months. He expected a product announcement to boost the price a few points, but nothing happened. Despite rave reviews of the product and high demand, the masses didn't buy the stock. There was strong support, but the price had changed little. Rather than wait another day, Tom decided to just give up, sell, and move on. The day after he sold, though, the price jumped four points. Tom is now frustrated. He's angry with himself for becoming impatient and selling too soon, and he is angry at the markets for going against his trading plan. Ever feel like Tom? You traded a sound trading plan, but the markets just didn't cooperate. How you handle frustration may have a lot to do with your perspective. It's vital to make sure that you have thinking strategies that will allow you to take setbacks in stride.Some traders personalize the markets. Rather than see the markets abstractly, they unconsciously view the markets as a person. They start to think they have a personal relationship with the markets. And since the markets are usually uncooperative with their trading plans, they frequently believe that they have a hostile relationship with the markets. Some people are particularly prone to frustration in that they have a frustration bias. In actual personal relationships, people with a frustration bias tend to view people as out to get them. As if they are in a fit of paranoia, they jump to the conclusion that people are out to wrong them. They extend this bias toward the markets. When anything goes wrong, they jump to the conclusion that people are out to get them. They imbue significance onto the markets that just isn't really there.

If you have frustration bias, it's important to neutralize it. The first step is to acknowledge the fact that you tend to see personal slights where they just don't exist. The markets may be comprised of groups of people, but the people don't know you. When they fail to buy when you want them to, for example, they aren't engaging in behavior to purposely harm you. It's important to remember that it isn't personal. The second important step to take is to anticipate adverse events and setbacks. People become especially upset when they are caught off guard. Tom, for example, was particularly upset because he didn't expect the stock price to increase the day after he sold his position. Had he fully considered all possibilities and expected that the unthinkable may actually happen, he would have been less bothered. Another strategy is to allow yourself to make mistakes. Tom was upset because he put pressure on himself to trade with perfection. But had he accepted the fact that he, and everyone else makes mistakes, he would have felt much better. It's the difference between thinking, -I was stupid to sell too early- and thinking, -I sold too early but I reasonably decided that I had waited long enough. Sometimes you're right. Sometimes you're wrong. I was wrong. It wasn't the first time and it won't be the last. I'm just going to forget it and move on.-

You are human. The markets aren't. Don't personalize the markets. Look at them objectively. The market action won't always match your expectations. That's all right. Take setbacks in stride. If you dwell on them, view them as mistakes, and mull them over, you'll feel frustrated. But if you expect them, and accept that no one is perfect, you'll feel relaxed, free and creative. And trading in a cool and logical state of mind will help you trade profitably.

Building Up Frustration Tolerance.

Setbacks are the rule rather than the exception when it comes to trading. Discovering reliable trading strategies is a challenge, and frequently, a promising strategy produces a loss. Losses and other setbacks can be frustrating and anxiety-provoking. The winning trader isn't fazed by these setbacks, however. Winning traders welcome challenges rather than hide from them.
Your ability to tolerate frustration is essential. It is vital to have a specific and active plan for coping with setbacks, otherwise, they can build up psychologically and produce chronic stress problems. Your mind and body have limited resources, and unless you cope with frustration and anxiety effectively, you'll eventually become exhausted. You'll lose your ability to focus and process information objectively. By taking a few specific preventative measures, though, you can build up your frustration tolerance so that you can handle a torrent of trading setbacks.

People with low frustration tolerance tend to believe that they should experience absolutely no setbacks. But setbacks are a natural part of life. Indeed, if you are trying to succeed in a challenging profession, such as trading, you should expect setbacks. Instead of dreaded events, challenges and setbacks can be viewed as part of the excitement and stimulation of living. When you face a setback while trading, you should view it as an opportunity to learn and develop your trading skills rather than a discouraging impediment. Merely changing your viewpoint regarding potentially frustrating events can change your ability to tolerate them. If you expect them and accept them as natural and not as a disaster, you'll feel less frustrated. And rather than passively feeling paralyzed by them, you'll try to creatively think of ways you can use the setbacks as a new starting point than can lead to a higher level of trading skills. View setbacks as ways for you to gain more experience with the markets and hone your trading skills.
In addition to a general attitude change, it is also essential to take additional preventative measures to tolerate frustration. The most important step concern building up physiological defences. It is difficult to cope with frustration when we are tired and worn out. By getting plenty of rest, and especially sleep, we can cope with frustration more easily. Regular exercise and proper nutrition can help your body create a natural defence against frustration.
Once you are properly rested and nourished, you can also make a specific plan for coping with setbacks when they occur. In addition to accepting uncertainty and setbacks as part of your life, you should think in terms of the big picture. -Rome wasn't built in a day- and you shouldn't expect to hone your trading skills without extensive practice and experience. That can take time. Traders are frustrated when they set unrealistic expectations for themselves and fail to meet them. By realizing that it will take time to trade profitably, you'll feel more relieved, and you will anticipate setbacks. You won't be caught off guard, and you will be ready to deal with them. It may be discouraging at times to continually face setbacks.
To cope with them, you may want to make a list of successful trades and recall them when you are feeling especially beaten. The key to frustration tolerance is to realize that although external circumstances can interfere with your plans, you have the freedom to decide whether they will impact your mood. You can choose to feel beaten, angry and frustrated, or you can anticipate setbacks, view them as challenges and growing experiences, and as exciting ways to hone your trading skills. The more you can acknowledge that setbacks are a necessary part of trading, the more easily you'll cope with them, and be able to use them as stepping stones to higher levels of trading success.

Fear of Success: Is it relevant for Traders?.

Psychologists studied -fear of success- in the 1970s and this topic received a great deal of attention in the popular media. Today, some trading websites have had discussions as to whether traders secretly fear success. Do some traders fear success? There are no published studies on fear of success and trading, and we don't have a definitive answer to this question, but we can look at this issue with information from our Innerworth archive.

What is the scientific basis of fear of success? Where did the idea come from? In a classic study, researchers presented a group of women with a scenario in which a young woman student ranked at the top of her class in professional school. Interestingly, women participants predicted that young women would face unpleasant consequences as a result of their success. -Pop- psychologists in the 1970s said that these women participants had a -fear of success- in that they expected adverse consequences to follow success. Perhaps this research finding was restricted to a particular cohort of people who lived at a particular time. Maybe women would feel differently today.

Nevertheless, the research continues. In subsequent years, research psychologists have studied fear of success in many different groups of people. Fear of success is correlated with low self-esteem and unpleasant emotions. Women and minorities seem to experience fear of success more often than Caucasian men. The general idea is that some groups of people in our society may receive the message that they -should not go where they do not belong,- and by doing so, they will experience adverse consequences: they may need to make new friends and that could be difficult, or they may be afraid to discover that they cannot accept the burdens of a new role. Or they may feel that some people may not accept their success and may spite them because of it. Whatever the reasons, some people may believe that adverse consequences tend to follow success.

Some traders may believe that disaster may follow their success as traders. If they are wealthy, they may want to move to a new upper-class neighborhood or make new friends that are more fitting with their higher wealth and status. These changes may be hard to make. It's much easier to stay where you are and feel comfortable. Others may be afraid that if they make huge profits, they will become accustomed to the luxuries of financial success, only to lose their fortune and have to go back to a modest lifestyle. As the old saying goes, -It's better to have never been wealthy at all than to become wealthy and then lose it all.- In other words, once you've been rich, it's hard to be poor. Other people may feel they don't deserve to be successful. This deep-seated feeling of unworthiness may unconsciously lead one to secretly fear success.

We asked a group of our subscribers their opinions. Here's what we found. Many people in our sample, 90%, felt they deserved the profits they make as a trader. It seems that relatively few traders had a fear of success. It may be as little as 15%. For example, only 12% thought that if they made huge profits that others would try to take advantage of them. Only 10% indicated that they thought that if they were successful traders, their lives would change in adverse ways. Only 12% thought that other people would envy or spite them for having increased wealth. We asked several other questions about fear of success, and our estimate is that over 80% of our subscribers don't fear success.

As you can imagine, fear of success can be a problem for trading. Investment success requires a relentless desire to succeed. Secretly believing that unforeseen disasters will occur if one succeeds, however, is bound to interfere with cultivating and maintaining a peak performance mindset. Fortunately, few of you seem to have a fear of success. But for those who do, it's worth gaining awareness of this issue. If you believe that profitability is the precursor to catastrophe, you'll hold back. You won't put in your best effort, and you will probably fail in the end. Don't let the fear of success get the better of you. Identify your fears, and conquer them. You'll be more profitable in the long run.

Take Responsibility and Take Control.

The prominent psychologist Dr. Julian Rotter noted that there are basically two ways to understand and interpret events in one's life: One can attribute the cause of events to internal forces, such as hard work, talent, or ability, or one can attribute the cause to external forces, such as luck or fate. When one looks for internal forces, one tends to take full and complete responsibility for an outcome. For example, one may say, -I made a profit on the trade because I prepared properly, waited for the right signals, and traded my plan.- That's an explanation based on internal forces. For a winning trade, it's easy to explain the outcome with internal forces. We have a natural tendency to build ourselves up and enhance our ego when we win, so it makes us feel good when we do well and believe it is due to our talents and skills. But what about a losing trade? When we lose, it's also due to our talents and skills, but in this case, it may be a lack of talent and skills. Such a possibility is harder to accept. When faced with a defeat, most people suddenly switch from looking for internal forces to looking for external forces: -The market conditions changed too quickly. The market makers are manipulating the price again. I shouldn't have taken the advice offered by that uninformed analyst. I was unlucky.- It's easier to find an excuse than take full responsibility when faced with a loss. It's at these times when most of us tend to look at the world in a self-serving way, attributing our success to internal personal characteristics, but our failures to external situational causes. However, there are advantages to bucking our natural instincts and always taking full responsibility for both our triumphs and defeats: One gains a sense of power and complete control.

In a study of self-help instruction, such as the kind of psychological advice we offer in these Innerworth daily columns, it was found that participants who tended to attribute life outcomes to internal forces were more satisfied and able to use the self-help information to change their lives than people who tended to look for external explanations. They were able to more easily apply the self-help advice to their lives and felt a sense of power and mastery. Taking responsibility for one's action allows one to gain full control of one's life, and make significant changes.

Rather than always looking for excuses and trying to place blame on situational factors, all energy is focused on increasing performance and developing new skills. Traders who don't take full responsibility, in contrast, tend to devote the bulk of their psychological energy to defending themselves against their mistakes. Rather than cultivating an accurate, objective view of the markets, they are easily biased because of an incessant need to protect their egos. Emphasis on external causes for setbacks makes one feel good in the short term, but it hinders performance in the long term. Over time, skills aren't developed, and limited psychological energy is wasted on protecting one's ego. It takes time and energy to find an external reason for failure. This time is better spent identifying one's flaws and developing new skills to compensate for these deficits.

Taking full responsibility is difficult, especially after a losing trade. It's hard to look at one's faults and limitations. But in the long run, the payoff is greater than the temporary uneasiness one experiences while reviewing one's limitations. In the end, if you look at your faults, acknowledge them, and take full responsibility, you'll be gaining power and control. So take full responsibility and take control.

The Mindset of a Professional Gambler.

Many members of the -established- investment community are quick to point out that investing is not gambling. To the general public, gambling has many negative connotations. When professional gambling is mentioned, most people immediately think of compulsive gamblers who seek out high levels of unpredictable risk and impulsively lose their paychecks, and money that is crucial to their basic survival. But gambling is not necessarily -bad- or -evil.- Indeed, professional traders are essentially professional gamblers. It's all a matter of cultivating the right mindset, the cold and focused mindset of a professional gambler.

Although trading is a form of gambling, it's vital to make a clear distinction among compulsive, amateur, and professional gamblers. Compulsive gamblers are addicted to gambling. They gamble to get a rush and a feeling of euphoria. They have absolutely no discipline. Obviously, trading is no place for the compulsive gambler or compulsive trader. But many confuse compulsive gambling with professional gambling, yet these two types of gamblers are polar opposites. Professional gamblers, as well as professional traders, may take risks, but they manage them carefully. They look for high probability trade setups and only then do they place a bet.

Amateur gamblers, or social gamblers, are interested solely in enjoyment and entertainment. They budget a fixed amount of money for gambling entertainment, and then, spend it as they would for a movie, concert, sporting event or some other fun activity. Fun is fun, so it doesn't make sense for a social gambler to develop a detailed strategy for beating the casino, or carefully limiting risk at the blackjack tables, for example. Part of the fun of social gambling is getting a thrill and the hope of finding Lady Luck on one's side and winning a big jackpot.

Many novice traders, however, make the mistake of applying the amateur, social gambling mindset to trading. They view trading as entertainment. If you've got money to burn, there's no harm in taking this attitude toward trading, but most of us want to make profits. And a social gambling mindset can quickly wipe out your trading account. If you are serious about trading professionally, changing this mindset is vital. You may find trading enjoyable, but the main objective of professional trading is making profits. Not only does that mean building winning trading skills, but careful risk management, discipline, emotion control, and executing trading strategies in a peak performance mental state.

Don't put on trades just to get a rush of excitement. Seek out high probability trade setups, and stand aside until you find a setup where you can win. In gambler's parlance, -you've got to know when to fold 'em.- You must also act as a professional gambler when it comes to risk management. Just like a professional gambler, trading is a matter of patiently waiting for the odds to move in your favor. On each roll of the dice, a professional gambler risks very little, so as to anticipate and recover from a losing streak. Professional traders also face losing streaks, and it's vital to minimize risk to survive those times when your game is a little off, and you need to wait for the odds to return to your favor.

It's useful to view trading as professional gambling. It puts it in proper perspective. However, rather than an amateur player, you are the casino who carefully discerns the odds, makes sure they are in your favor and takes advantage of the -law of averages- to ensure that over a large number of trades, you make a big profit. By abandoning an amateur mindset and cultivating a professional mindset, you will trade profitably and consistently.

Closing the Gap.

Do you ever start the trading day feeling that there's little chance of making a profit? You just stare at your screens, stuck and disappointed. It's at times like these that an optimistic attitude can reenergize you. Rather than pessimistically thinking there are no opportunities, you'll be ready to search for new ways to make a profit when you approach trading with an optimistic mindset. Trading expert Mark Douglas argues that traders should try to close what he calls the -reality gap.- According to Douglas, -there is a huge gap between what is possible from the market's perspective, which is virtually anything, and what is possible from the trader's personal perspective.- Traders' expectations are limited in terms of what they think is possible to take out of the markets. The opportunities, however, are abundant.

Winning traders persist in the face of seemingly endless setbacks. It takes a rare person to be able to quickly pick oneself up after a hard fall and enthusiastically face another potential setback. Dr. Martin Seligman has studied how an optimistic mindset helps people persist when beaten. He has studied several occupational groups from top-notch winning athletes to traders on the floor of the exchange. Optimism is a powerful determinant of success. Optimists do better in school, win more elections, make more sales, and succeed more at work than pessimists.

Optimism is related to the way people look at events in their life. When people fail, they try to understand why they failed. Pessimistic people believe that they fail because of an enduring defect in their personality. They think that their failure reflects a pervasive and stable deficit with their abilities. For example, on a particularly rough trading day, they take things personally. They may think, -Other people can trade on a day like today, but I'm so untalented that I'm stuck. It's hopeless. I'll never be able to make it as a trader.- But when you feel beaten down, it's vital that you raise your spirits.

In -The Mentally Tough Online Trader,- Robert Koppel suggests cultivating an optimistic state of mind by repeating specific positive beliefs. When you are feeling down, it's useful to think, -I believe I will be a successful trader. I believe I can achieve excellent results in my trading. I believe each day's performance is fresh.- Thinking these positive, uplifting thoughts can help you tackle the markets, and sift through potential market opportunities until you find a viable way to make a profit.

If you want to succeed as a trader, cultivating an optimistic thinking style is crucial. You'll face a lot more losers than winners as a trader, and it will take persistence in the face of defeat to keep going until you hit upon a series of winning trades. It's easy to get discouraged and feel your opportunities are limited. An optimistic attitude, however, can help you close the gap between your limited expectations and abundant market opportunities.

Developing New Trading Ideas.

As any seasoned trader will tell you, the key to long-term profitability is a flair for devising innovative, new trading ideas. Winning strategies are hard to find. And after one goes through all the trouble of developing a lucrative trading strategy, it suddenly stops working. To stay ahead of the pack, it is necessary to find new strategies and opportunities; otherwise, you'll see a noticeable decline in your overall profits. Here is a basic three-stage framework for generating and critiquing new ideas: (1) Brainstorming, (2), Planning, and (3) Playing devil's advocate.

In the brainstorming stage, the goal is to create as many new ideas for trading strategies as possible. Be open and allow yourself to think freely. Don't hold back. Let the motto, -There is no such thing as a stupid idea,- guide you. Think about what you would want to do if anything were possible. You may come up with some unrealistic ideas, but at this stage, the goal is to generate as many ideas as you can. You don't want to limit yourself. If you inhibit your creative juices, you may block an innovative idea from entering your consciousness.

In the planning stage, the goal is to refine your potentially innovative idea. It's time to move your idea from a vague impression to a concrete and practical plan. Try to work out every detail and think about how you will implement the plan. Think creatively, but think like a realist. What can you realistically do to implement your idea? What signs and signals suggest that market conditions are just right to implement your idea? What is a realistic profit objective for your idea? How will you limit your risk? What is your exit strategy? The more detailed the plan, the more easily it will be to follow. You will be able to evaluate its potential profitability more easily as well.

The final stage requires you to play devil's advocate. Now that you have outlined a reasonable plan, it is time to consider what is wrong with it. This is a key stage. It has been said that brilliant trendsetters are those who can distinguish a truly creative idea from a pipedream. It's vital to be a harsh critic. In this stage, it's useful to assume that most trading ideas are -bad ideas- and that you must entertain every possible problem with your plan. Even the most logically consistent idea may fail under actual market conditions. What basis do you have for believing that your strategy will work? What assumptions did you make when devising your plan? Are they reasonable? What is the worst-case scenario? A skeptical approach can prevent losses, so it is essential to find every possible flaw, and either fix the plan or ditch it.

By following this three-stage method of brainstorming, planning, and critiquing, you can devise innovative trading strategies that will keep you profitable under continually changing market conditions.

Back On the Right Course.

Have you ever found yourself frustrated or angry, but didn't know why? Perhaps you were innocently monitoring a position and the market suddenly turned, and when it did, you watched half of your potential profit evaporate. You would have thought a commonplace event such as this would be taken in stride, but it was not. For some reason, you felt threatened, upset, and scared. It was as if a centrifuge of emotions took over, and there was no warning. It just overtook you. You didn't expect it. You were not sure why you were so incredibly upset, but all you knew was that you lost concentration and could no longer focus on following your trading plan. You couldn't think clearly. You were in a daze. Once you lose control, it's hard to regain your concentration and focus, but unless you do, you can't trade profitably.

Why do we over-react at the wrong time? Our expectations often control our emotions. When our expectations don't match what actually happens in the markets, we react emotionally and impulsively. We have a natural human desire to win, but the markets don't always cooperate with us. When we are caught off guard, our knee jerk reaction is to think that the markets have treated us unfairly. We start thinking that things should go our way, and when they don't, we get angry. But trading is a profession where you should work under the assumption that things are not always going to go your way.

Trading events may not go your way, but you don't need to let this fact of trading overwhelm you. If you are caught off-guard, a losing trade or unexpected setback will disappoint you. If you anticipate such events, however, you'll stay calmer and more relaxed, ready to take decisive action to remedy the situation.

It's vital to anticipate adverse events rather than react impulsively and emotionally. Don't expect everything to go your way. If you believe that such adverse events should never happen, you will react with frustration and anger. And if you are too angry and frustrated, you will not be able to act decisively. You will not be able to respond quickly to potential problems. Rather than get angry, frustrated, and become distracted, you need to think calmly about how to take evasive action to protect yourself. If you anticipate the problem, you will calmly think of an alternative plan, and put it into practice.

When trading the markets, setbacks and adverse events are the rule, and without the proper mindset, such setbacks can be paralyzing. As a trader, it's vital to have the right mindset. If you realistically anticipate setbacks and adverse events, you won't be caught off guard psychologically. Instead, you'll be able to bounce back quickly, make new profitable trades, and come out ahead in the long run.

Take Credit for Your Efforts.

Winning traders make profits. In the end, the bottom line as a trader is the extent to which you are profitable. If your efforts don't produce a profit, it is easy to feel as if you have accomplished nothing, as if you have failed. But focusing solely on the outcomes of a trade can be distracting, especially if you feel that you aren't making any progress. Although profits are important, you accomplish a lot as a trader, even if some of your efforts don't directly lead to a profit. It is essential for your self-esteem and well being to pat yourself on the back for everything you do as a trader, regardless of whether it produces a profit.

In a typical job, you put in your 40 hours a week and get a paycheck. It can be a tedious life at times, but there's a sense of security. As a trader, you're not sure precisely how much you'll receive from your trading efforts. It's tempting to measure your progress solely by your account balance. If you're doing so well that your equity is up, you'll feel pretty good. But if you are in a little slump, you'll feel frustrated and a little disappointed. You may feel as if you've let yourself or loved ones down. You can feel stuck as if you are going nowhere. You may feel guilty and disappointed, and these negative emotions can put you in a bad mood, which itself can interfere with your ability to trade with a calm, objective mindset. Trading is stressful enough. There's no need to worsen your mood by adding worries and other stressors.

One way to keep your spirits up is to mentally reward yourself for all your efforts. You might even make a list. As you accomplish a task, write it down, so that at the end of the day, you can review the list and feel a sense of accomplishment for your progress. For example, if you scan 20 charts, make a note of it. If you read a newsletter article, add it to the list. This process of listing completed tasks and rewarding yourself may not take the place of actually making profitable trades, but it will help give you a sense of achievement. You'll feel you are making some progress, especially during those times when you just can't seem to make a profit. So pat yourself on the back for a job well done. You'll feel better overall, and when you feel good, you'll increase your chances of making a profit.

Getting Ready to Trade.

Trading is challenging. It pushes your skills to the limits. And unless you manage your risk carefully, the consequences of a wrong move can be fatal. It's vital for your survival that you make sure you're ready to trade before you put your ego or capital on the line. You wouldn't try to climb Mount Everest without the proper mindset or equipment, so why trade when you're not ready? Unless you are rested, relaxed, and well equipped, it's better to stay out of the markets until you are properly geared up. Here are some basic issues to consider before trading in earnest.

It's important to do a little homework before the markets open, and limit your trading alternatives. Although some seasoned traders say they don't need to prepare for the markets (since they have traded the same vehicles for years), it's essential that novice traders appreciate the importance of preparation. Good preparation means knowing which specific trading vehicles you will trade before you enter the markets. It's useful to decide specifically what you will trade since the vast number of choices can be overpowering.

You'll find you will make more profits if you restrict your focus to a few specific trades (You don't need to trade every possible opportunity to be profitable, and trying to do so will often overwhelm you to the point that you won't make any profitable trades). And don't forget about outlining a detailed trading plan and sticking to it. Make sure that you account for every single detail (for example, entry strategy, exit strategy, and risk control). Don't wait until the last minute to completely flesh out your trading plan. Prepare early.

It's also important to anticipate all possible adverse influences that may go against your trading plan. Just as the mountain climber must anticipate bad weather, traders must anticipate events that may unduly influence market action. For example, make sure you've accounted for significant market events, such as interest rate changes, earnings reports, mergers, and acquisitions, or the current standing of legal proceedings. The masses are easily swayed by these events, and your trading plan can be spoiled almost instantly should these events occur. So beware of them, and be ready to change your plans should you see them on the horizon.

Make sure you are mentally prepared. Trading is chaotic, stressful, and emotional. Your mind must be working at full speed in order to vigilantly attend to the various sources of incoming information required to take quick and decisive action. It's vital that you cultivate the right mindset. Make sure that major sources of stress don't intrude into your consciousness. Spend your off-hours coping with stressors and resolving past conflicts. Don't minimize the potential influence of these psychological factors on your mindset. Unless you take care of them beforehand, they can interfere with your immediate experience as you put on trades.

It's also essential to be physically prepared. Although you may sit in front of a computer screen most of the day, it's important to remember that this relatively sedentary activity still requires physical endurance. If you don't have the physical energy to carefully monitor your trades, you'll tend to act impulsively because you're tired and unable to keep up with the fast-paced activity. Make sure you get the proper exercise and nutrition. Not only will you build up physical stamina to meet the demands of trading, but you'll also blow off steam. Trading is stressful. A regular exercise program ensures that stressful emotions are not pent up. By releasing stressful emotions, you'll feel re-energized and ready to face the new challenges and stressors that the markets produce every day. Don't be caught off-guard. Prepare yourself physically and mentally, and reap the benefits.

Realistic Optimism Keeps You Grounded.

Jack and John have just started a small trading business. Jack says, -I can feel it. We're going to make a fortune. By this time next year, we'll be rolling in money.- John counters, -I doubt it. That would take a miracle.- Jack says, -You're such a pessimist. Why are you so bleak?- John argues, -I think we'll be successful. But I don't think it's going to happen overnight. It's going to take some time and a lot of hard work!- John is a realist. He knows they will make huge profits eventually, but he does not falsely believe that a miracle will happen. Becoming a winning trader will require that you overcome endless setbacks. It's important to be optimistic, but it is more important to be realistic. If you are overly optimistic, like Jack, you are setting yourself up for failure. You may take unnecessary risks, or be especially disappointed when you encounter the endless setbacks that are commonplace in trading.

If you want to beat the odds and become a winning trader, then you must doggedly make trade after trade, even when you face endless setbacks. It takes a rare person to be able to pick oneself up after a fall and be ready to face each setback with enthusiasm. Dr. Martin Seligman has studied how an optimistic mindset helps people persist in the face of setbacks. Optimists, for example, do better in school, win more elections, and succeed more at work than pessimists. He's studied several occupational groups from top-notch winning athletes to traders on the floor of the exchange, and in all these studies, he's found that optimists do better.

What's their secret? It is in how they explain setbacks or failures. They don't blame themselves. They don't believe that success or failure is a matter of enduring personality traits. Instead, they explain setbacks as the result of minor, controllable, situations that have nothing to do with them personally. They believe that with enough persistence, they can overcome a setback. If you want to succeed as a trader, you must cultivate an optimistic thinking style. You'll face a lot more losers than winners as a trader, and it will take persistence in the face of defeat to keep going until you hit upon a series of winning trades. Whatever you do, though, don't blame yourself. Don't think, -I'm a loser.- Instead, focus on how you can take decisive action to change external events and how you react to them. You'll go much further.

That said, pessimism has its virtues. Pessimists may feel badly most of the time but research studies have shown that they more accurately judge how much control they have over situational circumstances. Pessimists are more realistic in their judgments, and thus, it may be beneficial to think pessimistically occasionally. Optimism may make you feel good, but pessimism helps you evaluate the feasibility of your plans, goals, or ideas. Traders, especially novices, are notoriously overly confident. According to behavioral economist Terrance Odean, novice traders tend to over-trade and are unrealistically optimistic.

It's vital for survival to have realistic expectations when it comes to trading. Optimism helps you persist in the face of a setback, but a healthy sense of skepticism will keep you based in reality. It's useful to question your trading plan before you implement it, for example. Ask yourself, -Have I accounted for every possible adverse event that may go against my plan? Have I managed my risk appropriately? Do I have enough capital to reach my financial objectives? Do I have enough time to devote to learning how to trade profitably?-

Asking such questions and making sure you have the answers will help you survive in the long run. There are real setbacks and obstacles to becoming a profitable trader. Sugarcoating reality will only make you feel better in the short run. In the long run, you'll see the bleak realities. Rather than set yourself up for disappointment, it's better to face the obstacles head-on. It may seem overwhelming at first, but making a realistic action plan, with sub-plans to overcome the endless roadblocks, will keep you grounded. You'll have an optimistic, yet realistic, plan for becoming a winning trader, and in the long run, you'll be one of the few who make it.

Don't Forget to Take a Break.

Reality is subjective. There are different states of reality in the same way that there are different states of mind or different states of emotion. After a series of setbacks, for example, the world can look bleak. Yet after a series of big wins, in contrast, you can feel euphoric, even omnipotent. So which is the true reality? This is a hard question to answer. Perhaps it is best to consider that there are multiple realities and that some are more conducive to optimal trading than others.

One reality is that you must make profits. If you don't make enough winning trades, you will blow out your account. As true as this fact of trading is, however, forcing yourself to make a trade after winning trade can actually make you choke under the pressure. While trading the markets, it is best to put this reality out of your mind. The more you can stay focused on your ongoing experience, rather than dwelling on your performance, the better. The more you just don't care, the better you will trade.

Psychologists call this phenomenon the paradox of control: You have to give up control to actually gain control. If you feel that you can lose money and survive, you'll actually make more money. It sounds strange, but it's true. That said, it is hard to forget about your financial needs, aspirations, and expectations. If you are serious about the trading profession, you are probably the type of person who has high aspirations. You seek out success and you are ready to do whatever it takes to make your mark. But again, it can be difficult at times to forget about your expectations. It can be difficult to avoid putting pressure on yourself.

If you want to trade in a peak performance mindset, however, it is vital to get away from it all, psychologically, that is. You need to let your mind relax. You need to let your thoughts slow down. You must occasionally get away from the competitive world of trading. Everyone has his or her approach. Some use meditation. Others work out at the gym until they let off pent up energy and are fully relaxed. And many people get a massage to relieve physical tension. The key is to shake your mind out of one reality and put it into another.

Here's one method that can really give your mind the shock it needs. You can immerse your body in warm water (hot but not scalding and preferably at a professionally operated spa) for two minutes and then jump into a pool of cold water. When you immerse your body in a pool of hot water, all you can think about is coping with the heat. It's a little painful and so you must maintain concentration to avoid jumping out. It's a great way to focus on it. Your mind can't actually think of anything else but concentrating on how you will cope with the intense heat surrounding your body. You soon enter a meditative state. You aren't thinking at all about how well you are doing in the markets! Next, you immerse your body in a pool of cold water. The rapid change in body temperature allows your mind to slow down. You feel relaxed, and somewhat in a daze. By repeating the process a few times, you will be able to fully relax. You will be in a new reality.

From a psychological standpoint, getting into this new reality can have rejuvenating effects. You will put things in perspective. You will see that trading activities, and the high standards you try to attain, are only one aspect of your life. This realization can provide solace during a stressful trading day. You'll remember that there are other realities in the midst of chaos. But more importantly, you will feel relaxed and ready to tackle the stresses and strains of the markets with renewed vigor.

Trading is inherently stressful. As much as we try to avoid it, our ego is often on the line with our money. It's essential to psychologically get away from it all. Whether it is meditation, exercise or a vacation on a tropical island, it's vital to shake up your reality, rest, and rejuvenate.

They Say it Couldn't be Done.

Jim has been trading for six months. He started at $5,000, but he only has $1,500 left. He is starting to get worried. He's frustrated and upset. He tells his friend Jason, -I think it is impossible to trade and make a living. I've worked at it for six months and I've lost money. I haven't made a dime. I don't believe it is possible to be a profitable trader.-

Does any of this sound familiar? Jim is facing an ailment of many novice traders. He had high hopes for achieving early success, but the downside of trading is more than he bargained for, and more than he can handle. Success has eluded him, and he is understandably upset. Indeed, trading profitably is difficult. Many people try to trade every year, and conventional wisdom among experts is that less than 20% realize long-term success.

If you want to believe that it is impossible to trade profitably, you'll be able to find a lot of people who agree with you. Trading isn't easy. As they say, -If trading were easy, everyone would be millionaires.- Trading is a profession where a relatively small group of persistent, dedicated people hone their skills until they achieve a level of mastery that sustains success. If you want to join the chosen few, then you can't give up so easily. You can't become discouraged by what others say. If you do, then it will be difficult for you to achieve success. Similarly, if you are the kind of person who can't face the fact that trading requires special skills and dedication, you'll just end up quitting before you achieve success. You need to be the kind of person who is willing to beat the odds and achieve success.

To be a successful trader, you must be optimistic. You must truly believe that if you put in the effort, you will eventually achieve success. That doesn't mean that you should have a Pollyanna attitude. It doesn't mean that you should be afraid to face the challenges of trading or try to deny that trading is difficult and requires you to overcome many obstacles. Instead, you must be ready to face the challenges and welcome them. You must identify them and tackle them with resolution. This is hard to do.

For example, you must make sure your capital matches your goals. The more capital you have available, the more likely you will be able to achieve lasting success. You must also put in long hours initially to learn how to trade and gain the experience you need to hone your trading skills. Pretending that you don't need to meet these prerequisites isn't going to allow you to reach your goals. You can't become discouraged easily. You must be able to persist in the face of seemingly insurmountable obstacles. And you must not care what anyone says. If they say it can't be done, you must reply, -Maybe it can't be done, but I'm going to do whatever I can to see if I'm one of the few who can do it.-

Waiting for the Payoff.

Are you ready to work all day and make absolutely no money at all? If you ask most people that are accustomed to working a 9-to-5 job, they would say, -No way, are you kidding?- But if you are a serious, active trader, there are many days that you must accept the fact that you aren't going to take home any money.

There are various reasons that you may decide to work for no immediate payoff. For example, market conditions may not be optimal, and should you try to trade under such conditions, you may actually end up losing money. On another day, you may be tired, overly anxious, or just feel awful. If you were to trade with less than an optimal mindset, you could make trading errors that have lasting repercussions. Sometimes you need to merely study the markets and figure out what's going on, the mode the markets are in. And at other times, you may just want to read up on new trading methods to stay ahead of the crowd.

There are still other times when you need to intensely focus on learning new methods and building new skills rather than trying to gain an immediate profit. Seasoned, active traders look at their profession quite differently than many people view their typical blue- or white-collar jobs. It's a creative job where part of the skill is the ability to intuitively get a feel for the markets, and understand when they should push themselves and when they should stand aside, and wait for better times.

Spending time that doesn't directly lead to an immediate payoff is hard for many people to accept. Many people are used to making an hourly, weekly, or monthly wage. But in the trading business, you have to think about things differently. You can't focus on taking home a steady paycheck. Consider what would happen if you inflexibly thought you had to take home a target profit of $200 day. It's quite likely that on many days you would work for a solid eight hours without realizing a profit.

If you work under the assumption that it is critically necessary to reach the $200 goal each and every single day, it's likely that you may start wondering how you'd meet your expectations in the last 30 minutes of the session, and feel a need to get there no matter what. While under pressure, you might take low probability setups or impulsively make trading errors. The end result may be substantial losses that you would need to make up the next day. Rather than making the $200 profit, you could be down $200. You would have been better off standing aside that day.

Trading is a profession where you have to think freely and creatively. Sure, you can push yourself to your limits while studying the markets off-hours, but during the trading day, you have to stay calm and open to your intuition. You have to work with current market conditions, and use your talents to take out profits. Sometimes those profits are huge. At other times, you won't make anything. But it's all right. Your overall profits are all that matters, not what happens on any given day. So when you have those days when things don't seem to be going your way, don't get upset or disappointed.

If you patiently wait for the markets to move in your favor, you can apply your specific talents to making a profit. It's just a matter of going where the markets take you.

Modest and Realistic Goals.

Stan is disappointed with his life. He views his life as a consolation prize, a series of concessions that fail to meet his desires in the end. He wishes he had more money. He fantasizes, -If I can make huge profits trading, maybe all my worries would be solved. I'll gain the respect and recognition I've always wanted. Perhaps I'll find an exciting, new romantic partner who will satisfy all my needs for love and contentment. If only I could make enough profits to solve all my problems.-
Have you ever felt like Stan? Have you ever dreamed of making a series of huge wins and having all your problems solved? It may be enjoyable to occasionally dream of how you'll solve all life's problems by making a few million dollars trading the markets, but it's unlikely to happen. It's hard to make that kind of money under most market conditions and without sufficient investment capital. In the end, that kind of thinking will just get you discouraged. It is vital that you identify such flawed plans and develop more modest and realistic goals.

In setting goals, it's important to have realistic expectations. Trying to make huge profits quickly is unrealistic; modest goals are more realistic, and thus, more satisfying. Yet most novice traders reject modest, achievable goals for ones they can't possibly achieve. Since their expectations are often unrealistic, they fail quickly, feel disappointed, and just give up. Examples of unrealistic goals are trading with an insufficiently funded account that can't possibly cover drawdowns or fees and commissions. They may also trade with unreliable trading strategies and expect to make a profit even as new market conditions make their methods obsolete. It's not only impossible to achieve unrealistic goals, it creates a great deal of stress, which itself can produce trading errors. Setting more realistic expectations eases some of the pressure and helps you build up sound trading skills. Many novice traders also underestimate how long it takes to achieve sustained profitability. For example, they assume they can trade profitably in a matter of months, whereas seasoned traders emphasize that such consistently profitable trading may take several years. And it's hard to achieve. It requires a heroic effort, yet many novice traders think only minimal effort is needed. For example, they may think they can trade profitably by treating trading as a hobby rather than as a serious business. They over-estimate their ability level. They overconfidently think that they have the skills and abilities that they do not yet have. Don't ever underestimate the tendency to be overconfident. Conquer the tendency to trade beyond your skills by cultivating a sense of healthy skepticism regarding your trading skills and your trading strategies. Be realistic about what you can actually achieve.
In the end, it's important not to get your hopes up too high. Just like Stan who wants to achieve bliss through trading, novice traders think they'll make more profits than they can realistically see, or they believe that when they achieve huge profits, all of their life problems will be solved. They may believe their spouses will love them more (or they will find the ideal romantic partner). They believe they'll achieve the recognition and respect they've been searching for their whole lives. But these expectations rarely materialize. And even when they do, they fail to meet one's expectations. Motivating yourself by fantasizing about these potential rewards will likely fail in the end. The only way you'll achieve profitability is by setting realistic goals. You must accept the fact that trading is just plain hard work. You'll have to put in a heroic effort to achieve success. With enough persistence, hard work, and determination, however, you will build up the skills you need to become a consistently profitable trader.

Clear and Specific Goals.

Trading can be tedious at times. Day in and day out you have to look for market opportunities, and once you find them, you have to put your money and a little bit of ego on the line, and suffer the consequences, good or bad. If your heart isn't in it, you'll eventually join the disillusioned minions who have left the trading profession. To make it as a trader in the long run, you must love the process of trading. You must think it's so exhilarating that you would do it for minimum wage if that were the only way you could trade. It's not about the prize. It's a calling, a noble mission.

Who would not want to be a winning trader? With complete financial freedom, you could do anything you wanted. It's necessary, however, to turn the abstract goal of becoming a winning trader into a specific, concrete plan. In their book, -The Inner Game of Trading,- Robert Koppel and Howard Abell argue that your trading goals should be clear, precise, and well defined. You must also try to complete your goals within a reasonable time. You should state your goals in an empowering way, and your goals should be realistic. And it's also necessary to set a goal that is easy to quantify. There are a variety of ways to define trading goals, according to Koppel and Abell. First, you can set performance goals in which you focus on how well you are doing in terms of your own personal standards. When trying to achieve a performance goal, you try to increase your physical and psychological skills related to trading. Second, you can set outcome goals. Outcome goals help determine what's important to you. They allow you to develop trading techniques and strategies that match your personality. Third, a motivation goal helps increase your effort you to focus your attention on honing your trading skills. Motivation goals allow you to maintain a high level of enthusiasm and confidence.
Koppel and Abell list some important goals that novice traders should set. It's important, for example, to learn to control your emotions. Many traders act emotionally rather than rationally. They also have difficulty taking losses. It's necessary to take losses quickly and easily, rather than dwell on them. It's also important to develop a trading system that is consistent with your personality. All traders should also limit their risk. These are just some examples, but with each of them, it's essential to strive to achieve specific goals every day. On some days, you might just try to set a performance goal. You might practice a trading skill you're trying to hone based on a standard you personally define as adequate. On other days, you might try to achieve a specific outcome, and see how well you do. It's vital, however, to set clearly defined goals, and enthusiastically pursue them. Log your advancement, and reward yourself when you make significant progress.
Many traders make the mistake of trading aimlessly every day without trying to achieve specific goals. As Koppel and Abell put it, it's like trying to saw down a tree without making sure that your blade is sharp enough to cut wood. Goals direct and motivate. Without clear and specific goals, you're making a journey without a map.

Setting Goals for the New Year.

With the New Year upon us, it's time to make plans for the future, and set exciting new goals. Goals can be motivating. When we think of where we want to go next in our lives, and when we formulate specific goals, the goals suddenly seem possible. We start thinking of various possibilities. The more we think, the more plans we make, and the more the possibilities seem realistic. We suddenly feel energized and ready to take on the world. But it's important to not get too carried away. Whether you are making plans for your personal life or setting new trading goals, you must set goals carefully. It's vital that you set realistic goals, goals that are challenging enough to take you to new heights, yet humble enough to match your actual available resources.

At the start of the new year, it's tempting to be extremely optimistic. Why not shoot for the stars? Although high aspirations are necessary for one to achieve ambitious goals, -shooting for the stars- usually leads to unrealistic goals, and that usually leads to failure. For example, about 90% of the people who set New Year's resolutions fail. Most of these failures occur because people were too optimistic when setting their goals. They started to think, -anything is possible- if one -dares to dream.- As inspiring as the -anything is possible- attitude is, it rarely proves true. You can't merely think your way into success. It takes hard work and planning. And all the hoping in the world can't make one achieve the impossible. You must have the proper resources.

Most people set unrealistic goals when making a New Year's resolution. They think they can lose more weight than they really can lose. They tend to want to achieve personal projects that can't possibly be completed with the resources they have available. And when it comes to trading, many novice traders plan on making more money than they can possibly make. (For example, one can't hope to make a living with a $10,000 trading account.) Instead of setting goals that are difficult to achieve, it's essential to set realistic goals. Don't think you can trade profitably if you are just starting out, for example. Give yourself some time to hone your trading skills. (Many seasoned traders say that if you've been trading for less than five years, you are still a newbie. Keep that in mind when you plan your trading goals.)

When setting goals, it's useful to make them specific, but not unrealistic. It is useful to distinguish learning goals from performance goals and set both kinds of goals. A novice trader, for example, doesn't have the skills and resources to trade consistently or make big profits. Setting the goal of making a 40% profit in six months, for example, is difficult if one doesn't have the requisite skills. That's an example of setting an impossibly high -performance goal.- Unrealistic performance goals usually lead to failure and extreme disappointment.

This is when hopes are dashed, and most want to just give up. Instead of setting a high-performance goal, novice traders should set high learning goals. A learning goal, such as spending 20 hours a week learning new strategies and putting on 10 practice trades (whether profitable or not), is easier to achieve. One will be likely to achieve success and meet the goal. Rather than feeling a sense of disappointment, one will feel accomplished, as if he or she has beaten the odds and triumphed. One will be energized and ready to move on to achieve even higher goals.

The start of the new year is a great time to set new and exciting goals. But be careful. Set realistic goals that you know you can achieve. For the New Year, many people set their sights too high, fail, and experience extreme disappointment. By setting realistic goals, however, you'll be more likely to achieve success, feel energized, and maximize your potential.

Goal Setting Enhances Motivation.

The goals we set often dictate our motivation level. In his book, -The Mentally Tough Online Trader,- Robert Koppel (2000) argues, -Setting goals is imperative for the trader to enhance motivation and optimize performance. Goals should be realistic and measurable, within one's control, and realized within a specific time frame.- Setting high-level goals are the hallmark of success, but on the other hand, if you set your sights too high, you will often end up failing. And repeated failure can damage your ego to the point that you just want to give up. The trick to setting goals is to find the right balance between being unrealistically ambitious and being too modest.

In setting goals, it's important for your emotional well being to hold realistic expectations. For example, many novice traders try to turn a small stake into a huge fortune and end up feeling frustrated. Trading an insufficiently funded account can't possibly cover drawdowns or fees and commissions. Novice traders also trade beyond their skill level. They may use unreliable trading strategies and expect to make a profit even as new market conditions make their methods obsolete. It's difficult to achieve unrealistic goals. It creates a great deal of stress, which itself can produce trading errors. Setting more realistic expectations eases some of the pressure and helps you build up sound trading skills. As you achieve each goal, you feel a sense of satisfaction. You feel empowered and ready to achieve your next goal.

Many novice traders also underestimate how long it takes to achieve sustained profitability. For example, they assume they can trade profitably in a matter of months, whereas seasoned traders emphasize that such consistently profitable trading may take several years. And it's hard to achieve. It requires a heroic effort, yet many novice traders think the only minimal effort is needed. For example, they may think they can trade profitably by treating trading as a hobby rather than as a serious business. They over-estimate their ability level. They overconfidently think that they have the skills and abilities that they do not yet have. Don't ever underestimate the tendency to be overconfident. It is crucial to conquering the tendency to trade beyond your skill level by cultivating a sense of healthy skepticism regarding your trading skills and your trading strategies. Be realistic about what you can actually achieve.

In addition to setting realistic goals, it's also important to set specific goals. Many people make the mistake of setting vague, non-specific goals. It is useful to set specific goals and reward yourself as you make progress. Goals don't necessarily need to focus on profits. You may want to initially set goals regarding the development of skills. You can decide to study charts for three hours a day or read one new trading book a week. As you complete each goal, you'll naturally feel a sense of satisfaction for your progress.

As you develop your skills, you can gradually reach for higher and higher goals. Your progress may be slow at first, but over time, you'll make significant progress. The key is to avoid trying to do too much. Take it slow. Work at your own speed and according to your own timeline. Don't make it a race. The only person you need to please is you. If you set goals realistically and strive to achieve them with a resolution, you'll master the markets, and achieve enduring financial success.

Go For It.

When your money is on the line, you can't help but act cautiously. You don't want to impulsively gamble with your account, dig yourself into a financial hole, and need to work twice as hard just to break even. On the other hand, you don't want to stagnate. Winning traders are carefree when making trades. They don't strive for an unrealistic level of perfection. They take action, solve problems as they come, and most importantly, make trades.

In many professions, striving for perfectionism is rewarded. Studies of ambitious, successful people, for example, have illustrated that they will persistent at completing a task until their relatively high standards are met, but they don't overdo it to the point of procrastination. They set a specific standard, and once they reach it, they complete the task and move on. Many people, however, are afraid to put their ego on the line and possibly feel humiliated by failure.

In his book, -Trading in the zone,- Mark Douglas notes that novice traders find reasons to avoid executing trades. They may convince themselves that they may need to learn new trading strategies, for example. But these excuses are often just ways to avoid taking responsibility for putting on a trade. They would rather mull over a trading decision than executing a trade and facing their limitations. It is vital for traders to take action, though. Shrinking back from a challenge can never lead to success. That said, it's quite natural to want to make sure everything is just right before executing a trade. How many times have you failed to account for a potential adverse event and paid the price? Through hard knocks, you've learned the virtues of extreme caution. But, in the end, you also know you must take action. You must accept responsibility, and make a trade.

How can you ease the pressure of taking risks? First, the obvious solution is to minimize potential losses through risk management. If you limit the amount of risk to only a small percentage of your account, you will really feel that you have little to lose. Second, don't imbue a trade with more emotional significance than it's worth. It isn't your baby; it's just your job. If you look at it from an objective, businesslike perspective, you'll feel more relaxed and will be able to make the trade more easily. Third, from a purely psychological standpoint, you must be willing to accept the fact that trading outcomes are uncertain.

You'll never truly know how a trade will turn out unless you execute it and find out what happens. It's hard to face the consequences at the time, but it's all part of the learning experience. It may be unpleasant to find out just how hard trading can be, but you'll find that in the long run, if you take personal risks, minimize the real financial consequences, and learn from your mistakes, you'll master the markets. And all the psychological pain you had to endure in the process of learning was well worth it. So don't be afraid to take the plunge. As long as you're not risking money you cannot afford to lose, you'll be building up a repertoire of trading experiences that will ensure you are on the path to success.

The Golden Mean: Real Trading Phenomenon or Just Wishful Thinking?.

If you've spent any time around trading, you've probably run into the Golden Mean. You may have seen it represented as Fibonacci lines on a price chart. The Fibonacci sequence is a string of numbers in which two consecutive numbers are added together to produce the third, for example, 1, 1, 2, 3, 5, 8, 13, 21, 34, 55, and so on. Some traders use ratios derived from the Fibonacci number series to define key support and resistance levels, often with the belief that such estimates are more -natural- because they are based on the Fibonacci sequence. Fibonacci claimed that consistent patterns could be found in what appeared to be random numbers. Subsequent followers of Fibonacci extended his theory to the trading of futures and stocks as they attempted to find patterns in random price activity. But are there -natural and pristine- patterns in the seemingly random movements of prices, or is it just wishful thinking?

One way of calculating the Golden Mean Ratio is to add two random numbers together. That result is then added to the sum. After eight reverberations, one can divide the former number into the latter and find a definable pattern, which is represented mathematically as 0.618 or its reciprocal, 1.618. This Golden Mean is thought to reside in the most beautiful architecture, music, and art. It is commonly found in nature in the structure of many of the most beautiful flowers, animals, and seashells. Greek philosophers and mathematicians saw the Golden Mean as significant because it illustrated balance in nature, the arts, and even the human body. It was the epitome of balance'the perfect shape ... the most pleasing vision.

In the natural world, it is amazing how consistent patterns abound, but when it comes to human behavior, social scientists have long known that such consistencies are rare and almost non-existent. And what is trading? It is human behavior. It's not a natural phenomenon but made up by humans. It's not perfect. It's not pristine. It is in disarray and unpredictable. To be a successful trader, one must accept the uncertainty of human behavior and engage in the daunting task of finding consistency where there is little.

Nevertheless, many traders find ideas, such as the Fibonacci number sequence, fascinating, almost mystical. But not all traders appreciate the beauty of the Fibonacci number sequence. Indeed, the Editor of a popular trading magazine noted that there might be nothing mystical about the sequence. It may seem to work merely by coincidence (the market is likely to correct somewhere between one-third and two-thirds of the previous trend, which is similar to the commonly used Fibonacci ratios of .382 and .618.) Where you stand on such issues may reveal a lot about your trading personality.

Many traders are drawn to the superstitious aspects of trading. They don't have confidence in themselves, so they start searching for methods based on the -laws of nature- that can give them a solid, yet false, sense of reassurance. They seek out universal and general rules, all in an attempt to seek out certainty and the security it provides. Concepts, such as the Fibonacci number sequence, do just that. They offer promise. One has the luxury of not believing in oneself but in the greater omnipotent laws of nature. It's like believing in luck, fate, or destiny.

One can choose to live one's life passively believing in external forces, waiting for the proverbial stars to line up in one's favor. But the most successful members of society don't have time to wait for fate or to depend on luck. And if you want to be a profitable trader, or stay that way, it would be wise to abandon any forms of superstition. The surest way to succeed is to build up your trading skills. Build them up to the point that you can't wait for so-called -luck- to move against you so that you can demonstrate your actual fortitude. With solid trading skills, and the rock-solid confidence it will give you, you'll find that you can accept the uncertainty involved in trading the market, and depend on you, your skills, and nothing else.

Putting Up a Good Fight.

The outcome of a trade is never a sure thing. There's always an element of chance. When going long, for example, all indicators may suggest a strong and solid trend, but it's possible that an unanticipated, adverse event could ruin it all. You can never know for sure what will happen. But that's all right. You don't need to have everything fall into place every time you make a trade. It's not the outcome of any single trade that matters, it's the big picture. The bottom line is the total profits you make across a series of trades.

Thinking of the big picture helps relieve pressure. You can calmly think, -What's there to worry about? It's just one trade among many.- Thinking of the bigger picture is a great thinking strategy that you can use to calm down. Here's another one: Fight like you deserve to win, but don't focus on the outcome.

In his book -1776,- author David McCullough described how the Founding Fathers of the United States didn't focus on whether or not they would win the Revolutionary War. In their minds, the final outcome of the war was not in their control. In the end, victory was in the control of a higher power, destiny, or fate. All they could do was gallantly fight the war to the point that they deserved to win. That isn't to say that they just thought they should give up and assume they couldn't win. Indeed, it was far from that. They believed in fighting persistently and gracefully so that regardless of the outcome, they could feel at peace knowing that they fought as bravely as they could.

Ever heard the phrase, -Winning is the only thing-? Winning is important, but ironically, it can't be -the only thing.- A more apt saying for success is, -It's not whether you win or lose, but how you play the game.- If you trade with resolution and discipline, you'll be more likely to achieve success. You must respect trading and the markets. You can't impose your will on the markets. The markets will do whatever they want. You must be ready to accept what the markets have to offer you. It's vital to enjoy the process of trading. It's intellectually challenging.

You can use your creative abilities to identify trading opportunities and feel a sense of accomplishment by solving difficult problems. Sometimes you'll win, but many times you will lose. But each trading opportunity has a little something to teach you about yourself, the markets, and trading. It may be just a little thing, like how you can accept taking a loss after a fluke ruined a perfectly good trade. Or maybe you will merely learn something about your current limitations. There's always something to learn. Whatever you do, though, don't get caught up focusing entirely on winning. You can't completely control whether you win or lose and when you think about winning, you just get distracted.

Enjoy the process of trading. Fight hard; try to overcome every obstacle. But do it because you love it, not because you need to win. If you can step away from the idea that winning is all that matters, you'll be able to control your emotions. When you encounter a setback, you won't experience self-doubt or inadequacy. Instead, you will actively and creatively think about what you can do next. What is the next step you can take to bring you closer to your goals? It's hard to do.

In modern society, we are driven to win, but ironically, the people who actually win in the long run aren't consumed with winning. They are consumed with the process of trading, honing their skills, and gaining a sense of peace knowing that they have worked to the best of their abilities. They feel satisfied just knowing that they have put in a noble effort.

A Good Mood Is More Important Than You Think.

Have you felt under extreme pressure while putting on a trade, and found that you just couldn't think straight? You questioned your trading plan, and suddenly, you hesitated at a critical moment during the trade, a time when decisive action was needed. When you get like this, it may be hard to snap out of it. A bad mood has a lot to do with it. When you're in a bad mood, you'll be stuck and paralyzed. Your mood impacts your decisiveness. The better your mood, the more earnestly you'll trade.

In an innovative experiment, psychologists Benie MacDonald and Graham Davey (2005) showed that seeking extreme perfection is a function of two factors: a bad mood and a belief that mistakes have dire consequences. College students were asked to complete a task that consisted of identifying 100 spelling and punctuation errors. Participants were randomly assigned to one of four experimental groups. Some participants were told that if they made a mistake on the task, they would receive a slight form of punishment, while for others, making a mistake had no consequences. Some people did the task while in a good mood, while others did the task in a bad mood, which was induced experimentally by the researchers.

The participants who were in a bad mood, and thought that they would be punished for making a mistake, tended to unnecessarily check and recheck their work. In other words, they tried to achieve an unrealistic level of perfectionism. Why did this group of participants obsessively strive for extreme perfection? According to MacDonald and Davey, these participants allowed their mood to dictate their behavior. They thought, -I'm going to look for mistakes until I feel satisfied.- When you're in a bad mood, however, this isn't a very useful strategy. A bad mood doesn't dissipate very quickly, and so if you check and recheck your work until you are satisfied, you'll check and recheck longer than necessary. Since you're in a bad mood, you'll never feel satisfied, no matter how much checking and rechecking you do.

This experiment explains why people seek out extreme perfectionism while in a bad mood. If you are prone to experience self-doubt, your confidence will be especially shaken when you are in a bad mood. As you try to execute your trading plan, you'll question whether it is viable or whether current market conditions are optimal. You'll never be satisfied and think, -Something doesn't feel quite right.- At these times, it is vital to do one of two things. Either avoid trading while in a bad mood or don't let your mood guide your actions.

Remind yourself that when you are in a bad mood, you will be especially prone to question your actions, and may act irrationally or impulsively. If you are aware of the psychological mechanisms that influence your decision-making, it's possible to work around them. If you think, -I'm in a bad mood, and thus, I'm irrationally questioning my trading plan or my abilities,- you can try to ignore your mood, and persistently and logically try to follow your trading plan with discipline. But whatever strategy you take, don't underestimate the powerful influence your mood has on your thoughts and decisions.

The Dynamics of Greed.

In the movie -Wall Street,- Gordon Geckko argues, -Greed is good.- Greed can motivate you to strive for perfection and keep you persisting in the face of adversity, but greed has its downside. It is often said that the markets are driven by fear and greed. The masses have a natural desire for wealth and all the advantages that money can buy. In their zeal, the masses invest in stocks and believe that their investments will allow them to achieve their financial goals. When the price starts going down, though, they fear losing their investment and they sell, often too prematurely and at a loss. The dynamics of greed drive the dynamics of the market.

As individual trader greed may drive you. Trading is a challenging profession. Not everyone makes it. You have to study the markets and learn how to take out profits from the market action. How to do this is not obvious. Finding profitable trading strategies is an unending search. You may find a strategy that works for a while, but market conditions change and the strategy no longer works. The challenge is to make profits in the market aftermarket. Why bother? If you aren't driven to achieve success, you won't make it. You won't persist. You won't try to overcome setback after setback. Greed is a powerful motivator. It is natural to seek out happiness. If you are similar to most people, you dream of eternal bliss.

For centuries people have fantasized that if they had immense wealth, they could solve all their problems, but this fantasy is often unrealistic. The human mind is capable of fooling itself into falsely believing that unrealistic fantasies can come true. It may be nice to have enough wealth to make your life more pleasant, but money does not buy happiness. Nonetheless, dreaming of wealth and how we can achieve great wealth through trading is a powerful motivator. Sometimes it is useful to indulge in fantasy and enjoy feeling the passion for success. It keeps us going when we are beaten down. It gives us something to strive for. That said, greed does have its downside.

Money is a powerful motivator, but many people know deep down that money can't solve all our problems. And those thoughts and feelings that lie deep down in our psyche can often influence us when we don't want them to. Since we know that money isn't going to solve our problems, we can lose hope when everything seems to be going against us. It's vital that we acknowledge how greed can be a motivator but also a barrier. It can distract us from focusing on our trading plan.

We can become so consumed with the pursuit of money that we fail to appreciate the inherent rewards of trading. Trading offers an intellectual challenge. You can build up your trading skills through practice and experience and feel good knowing that you have mastered a skill that few have developed. Don't focus all your energy on money and the accumulation of it. Instead, focus on developing your skills and enjoying the process of trading. In the long run, you'll find that you will enjoy the game, and ironically, when you don't worry about the profits, you will actually trade more profitably in the long run.

Don't Be a Grinch: Relax and Seek Out Balance.

-How the Grinch Stole Christmas- by Dr. Seuss is a parable of modern life. The Grinch sneaked into town and tried to ruin everyone's Christmas by stealing the presents and materialistic symbols of Christmas, but he couldn't steal the spirit of Christmas from the hearts of the people. The townspeople felt connected to each other and they celebrated what they did have. The story should remind us that in our hectic lives, it is vital to seek out psychological balance. It is essential that you make sure that you connect with other people and feel a personal bond with others. Trading may be important, but it isn't the only thing. It's just one of the many things that you do. The more you can remember that fact, the more successful you'll be as a trader in the long run.

Trading is a demanding profession. It requires overcoming repeated setbacks and focusing a great deal of energy on staying at the top of your game. But a single-minded focus on success usually fails in the long run. Those traders who maintain a peak performance mindset have long-lasting success. And cultivating a peak performance mindset requires one to seek psychological balance: Make sure that your life is multi-faceted, rather than focusing solely on trading. Make sure that you have fun in areas outside of trading. Enjoy spending time in fulfilling relationships, and enjoy life to the fullest. Don't be all business and single-mindedly in pursuit of profits.
Many seasoned traders warn: -Don't forget to appreciate the advantages of working as a trader.- Trading offers freedom, freedom to spend time with your family, friends, and loved ones. Trading provides the means to enjoy life. So regardless of whether you have had a profitable year or not, reward yourself by taking a nice, well-deserved break. One of the reasons you're trading is to enrich your life. It's important to remember that. It's important to celebrate what life has to offer. If you are not enjoying your life to the fullest, it will gnaw at you. In the back of your mind, you'll think, -Why am I spending my life trading?- Use this time to remember why you trade. Use this time to remind yourself about what really matters to you.
Make sure that you have a balance between working as a trader and the things that give your life a deeper meaning. If you ensure that you lead a balanced life, you'll be able to cultivate the peak performance mindset that is a key element to consistently profitable trading.

Grounded and Objective.

On Thursday, tech stocks took a dive. Mark lost $5000 on his AAPL position alone. It's Friday morning, but he still feels guilty. He can't get the losses out of his mind. He has been trying to scan through a series of charts, but his heart isn't in it. He has seen a few possible setups, but when he tried to execute a trade, he flinched. All he can think about is the losses he mounted yesterday. He feels afraid as he thinks about the money he could lose today if he isn't careful. When you trade the markets, however, you can't be fazed by setbacks. You have to trade calmly, objectively, and decisively.

It's difficult to be objective when you have lost a significant amount of capital. It's human nature to feel disappointed after a loss. But if you want to trade profitably, you can't let it bother you. Somehow you have to truly believe it doesn't matter. Several steps can be taken to trade more objectively. You can trade with money you can afford to lose so that losing won't hurt as much. You can also make smaller trades with tight stops to minimize the amount of money you will lose.

In the end, however, you must find a way to make the whole trading experience impersonal. When it isn't personal and just business, you trade more freely, creatively, and decisively. The best way to stay free and objective is to ground your identity in an alternative reality. Trading should not be viewed as your reason for living. It is merely a profession. If you make it your reason for living, you will have your ego on the line along with your money, and the extra psychological pressure placed on you can make you buckle. If you ground your identity in another source, though, you will be able to take trading setbacks in stride. You won't be stressed by trading. You will feel free and be able to analyze the markets objectively and act decisively.

Trading, in the end, should just be business. Don't let it define your identity. Your identity should be grounded in other areas: your family, your friends, or the leisurely pursuits you find most important. If you have a solid foundation outside of the trading realm, the events that occur during the trading day will have little impact on your identity. You'll feel calmer, and take stresses and setbacks in stride. Why should you take it seriously? If you ground your identity in other areas, losses, setbacks, and the uncertainty of the markets can't hurt you. You'll be free to trade the markets with a creative spirit that will eventually ensure long-term profitability.

A Guidebook for Work Productivity.

Trading is a demanding profession. If you are a novice trader seeking consistent profitability, you have your work cut out for you. Many people are attracted to trading, but few actually become profitable traders. It takes a special kind of person to pursue trading, the kind of person who takes setbacks in stride and can persist even when all seems hopeless. There are three key strategies the novice traders can use to persist in the face of adversity: (1) Cultivate a fighting spirit, (2) set up an alternative reward system, and (3) focus on the process, not the prize.

Traders often walk a tightrope between arrogant and unrealistic overconfidence and feelings of incompetence and inadequacy. Trading is a profession where it is realistic to work under the assumption that you'll see many more losses than wins. It's hard to work under such conditions. We are used to getting paid for a job well done, but novice traders are likely to put in long hours and the only reward they get is losses. Trading requires persistence, especially during times of disappointment and seemingly endless failures. Most people's confidence is severely shaken upon meeting such circumstances, and they often react with arrogant overconfidence. They build themselves up to the point where they are unrealistically optimistic. But it is vital to remain realistic, ready to face setbacks head-on and unafraid to look at one's limitations. By cultivating a fighting spirit, one can look at setbacks as minor, commonplace events and take them in stride.

Although profits are an obvious and natural reward for trading efforts, they are not always tied to the amount of work we put in. If you focus on the profits, it is likely that your mood will rise and fall with your account balance. Setting up an alternative reward schedule will provide more consistent rewards and allow you to persist even when faced with a losing streak. Reward yourself after putting in a fixed amount of time (the end of each day, for example). Buy yourself a nice dinner or do something you find enjoyable. By patting yourself on the back for your efforts, you'll consistently feel satisfied with your profession and stick with it.

Finally, it is essential to focus on the process, not the prize. Trading is about making money, but the irony is that if you focus on the outcomes of your trades, you'll put excessive pressure on yourself and choke under it. By focusing on intrinsic, rather than extrinsic, rewards, you'll feel more comfortable and creative, and trade more profitably in the long run. It may seem counterintuitive, but by focusing on the process of trading, rather than profits, rewarding yourself for effort rather than outcome, and cultivating a fighting spirit, you'll trade profitably and consistently.

Conquering Guilt and Moving Forward.

In the trading profession, profits are hardly a sure thing. Even the most seasoned trader makes a big mistake occasionally and pays the price. Professional traders at large financial institutions, for example, can mount huge losses, as well as independent short-term traders. If you are experiencing a severe drawdown, don't feel bad about it. You're not the first person and you won't be the last. Psychologically, however, it is difficult to avoid feeling uneasy. And depending on how severe it is, you may feel afraid, and ready to panic.
Facing losses is one of the most difficult issues to deal with emotionally. If you are an active professional trader, your identity and livelihood are on the line. If you are a part-time trader, it's frustrating to feed your account from your day job and wonder if you'll ever make back the money you've lost. Depending on your personality and experience with the market, you may have trouble handling feelings of loss, guilt, and fear. But unless you get your emotions under control, you'll never be able to get back on track.
When some traders face a severe drawdown, they become especially guilty. We feel guilty when we break a personal moral rule. Losing money can make almost anyone feel guilty. We want to live by the rules our parents and teachers taught us, and many of them taught us to work hard and save our money. Short-term trading requires us to risk money, and to many, risking money seems to go against how we were brought up. For example, when many novice traders announce to their family and friends that they are going to become an active, short-term trader, the first reaction is -You're going to lose your money.-
They say it as if novice traders are making a big mistake. Well, if you want to make huge profits in the end, you're going to have to risk money, and in all likelihood, you're going to lose a lot of it before you develop the skills you need to trade profitably across a variety of market conditions.

Are you going to lose money? Yes. Is it morally wrong? Not from the perspective of a trader. It's vital that you identify the beliefs underlying your guilt and change them. The first question you must ask, though, is whether your guilt is warranted. Guilt can protect us. It isn't a good idea to rack up so many losses that you can't pay it back easily. If you trade money that you just can't afford to lose or will have great difficulty paying back, you will naturally feel guilty. It is important to make sure that your losses are reasonable, and actually a temporary setback. Or, if the losses reflect a lack of skills, make sure that you can easily cover your losses from another source of income, such as a second job. It will be hard to control guilt if it really reflects losses that will permanently harm your financial security.
If you determine that you can actually afford trading losses, and still feel guilty, it is useful to look at possible assumptions that may underlie your guilt. One reason is that you may have been taught that money is sacred and that it is morally wrong to risk it and lose it for any reason. Many people hold this belief, but if you want to trade actively, you have to change the way you look at money. From the perspective of the serious trader, money is merely a vehicle to make more money. It is just part of the tools you need to trade successfully. Don't think of it as -money- but as -points- you use to keep score of how well you are doing. A second assumption that underlies guilt is the need to be perfect. You may feel guilty because you believe that you must not make trading errors or rack up losses. You may believe that if you do, you are a -bad- person or inadequate. It is essential to avoid taking losses personally.
Losses are a natural part of trading. If you are a novice trader, you may mount losses, but it doesn't mean that you are a -bad- person. If you have not yet developed requisite trading skills, you may be an unskilled trader, but you aren't a bad person or inadequate. And if you are a skilled trader in a severe drawdown, you may feel guilty about something that isn't your fault. It's possible that you are merely experiencing a temporary change in market conditions. You may need to change your approach, but it doesn't mean that you are inadequate. It just means that you need to explore more options. Guilt isn't productive. When you feel guilty, then you ruminate about how bad things are. There's no time to ruminate while actively trading, however. It gets you nowhere. If you want to stay ahead of the crowd, you must actively solve the problem. You must find new trading solutions, and

guilt distracts you from freely searching for creative, fresh solutions.
Guilt can protect us at times, but while trading, we often feel guilty about losses that are just commonplace in the trading business. If you are experiencing unproductive guilt, it is essential that you learn to control it. The more you can trade calmly and freely, the more profits you'll make.

Working Through Guilt and Moving On.

Last night, it all seemed so simple. You had a trading plan all worked out. The stock should dip to $50 around noon. You would patiently wait, buy it, and sell when it hit 52 later in the trading day. Things didn't work the way you had planned, though. When it came to executing the plan, you got a crazy idea in your head. The price didn't dip. The stock opened at 51 and kept climbing. You decided to buy it before it went even higher. -It's just a modification of the original plan,- you thought. Buy at 52 and wait for it to hit 54. It made sense. At the time, that is. It turned out that your initial hunch was right: 52 was the high of the day. When it hit 52, the price fell hard.
Before things got worse, you closed the position. Right now, you feel a centrifuge of emotions. You are angry at yourself for making a mistake and disappointed for losing valuable capital, but the most intense emotion you are feeling is guilt. You are guilty of abandoning your trading plan. You feel guilty about the amount of money you've lost and can't stop thinking about how many groceries you could have bought with the money you just lost or how you could have bought your kids a few new videogames. In addition, you have abandoned your trading plan for the fifth time in two months. In the back of your mind, you are wondering if you are trying to unconsciously sabotage your efforts. You're not only feeling guilty because you have let your discipline waver once again, but you can't help but worry that if you continue to lose money for a lack of discipline, you will eventually blow out your account.

Feelings of guilt are normal. Guilt is a very adaptive emotion. When we do something that we believe is wrong, and will hurt us in the long run, we feel guilty. For example, you cannot continue to make losing trade after losing trade and continue trading. Eventually, you will blow out your account, or get into so much debt that you can't climb your way out of it. Indeed, guilt is often adaptive, but while trading, guilt can often be distracting. When you feel guilty, you can't concentrate. You become absorbed with guilt. It is useful to understand your guilt and work through it.
Working through guilt is not the same for everyone. If you are a novice trader making too many big losing trades, guilt is protecting you from disaster. It's sending you a clear message to make smaller trades. You may want to do something safer, such as making a series of practice trades to develop your trading skills (a form of paper trading) instead of trying to make significant profits. You'll immediately feel less guilty when you start trading with money that you can truly afford to lose. If you are a more skilled trader, guilt may be less adaptive. Traders who are no longer novices, but are still not masters, tend to set high standards that are difficult to reach. For example, abandoning trading plans five times in two months may not be so bad. It's a matter of how many trades one makes overall. Abandoning a trading plan five times may result in significant losses, but in comparison to over 100 trades, five trades where you abandoned your plan isn't very many.
If guilt is preventing you from picking yourself up after a loss and trading the markets with a renewed sense of vigor, it's vital to control your guilt. First, don't be so much of a perfectionist. Remember that any type of behavior is hard to change. It is difficult to maintain discipline. It takes practice. Allow yourself time to learn to stick with your trading plan. Second, learn to reframe guilt. You feel guilty when you feel that you have broken a rule. Rather than focusing on the number of times you have abandoned a trading plan (that is, broken a rule), focus on the number of times you have adhered to your plan.
Some may think that this thinking strategy may be a way of fooling yourself, but it is not. If you followed your trading plan more often than you abandoned it, you are showing self-control. Focusing on the positive, the number of times you successfully followed your plan, reminds you that you are capable of discipline and encourages you to continue developing your self-control skills. Third, tell yourself encouraging thoughts. Forgive yourself for making a mistake. Maybe today you had a bad day; you failed. So what? You're human, and humans fail. Forgive yourself and move on. Don't let guilt paralyze you. Work through your guilt. Let it pass, and move on to the next trade.

Guilt: Protection Or Distraction.

Jack just abandoned his trading plan and ended up making a losing trade. He thinks, -Why did I do it again? Why can't I stick with my plan?- He feels guilty. He's kicking himself for making a mistake. Guilt is a common emotion in trading. We may feel guilty for a variety of reasons. Guilt protects us from repeatedly making dumb mistakes, but is it always productive? Just like many unpleasant emotions, guilt can interfere with carefree, effortless trading.

Guilt is a protective emotion. Throughout childhood, our parents taught us right from wrong, and these rules were learned and stored in what Freud called the -superego.- When we break a rule, we naturally feel anxiety and guilt. Guilt keeps us in line. It prevents us from breaking a moral rule that we hold dear. Some traders report feeling guilty whenever they make a trade. They may have been brought up in a family where trading is viewed as a form of gambling and may have been taught that gambling was immoral. If you were brought up with these values, then you may be especially prone to feeling guilty. Most traders, however, feel guilty when they abandon their trading plan. They break their trading rules, and understandably, feel guilty.

When you abandon your trading plan, is it useful to feel guilty? Most of the time it is not. Sure, guilt prevents us from risking a huge stake on a half-baked plan. It isn't a good idea to risk too much on any given trade. If you trade with money you can't afford to lose, you will understandably feel guilty. In that case, guilty feelings are protecting you from potential financial destruction. But when you make a trading error, it may not be useful to feel guilty. You may want to try to alleviate feelings of guilt in these circumstances. Unless you get your emotions under control, you won't trade calmly and rationally.

Guilt isn't always productive while trading. When you feel guilty, you ruminate about how bad things are. You also tend to think you are a -bad- person and deserving of punishment. There's no time to ruminate while actively trading, however. It gets you nowhere. If you want to stay ahead of the crowd, you must continually try to solve problems rather than ruminate about what you did wrong and feel down about it. You must find creative solutions to tough problems, but guilt distracts you from freely searching for innovative, fresh solutions. So when you feel guilty, think positively, -So I made a mistake. That doesn't mean I'm worthless or prone to make the mistake over and over again. Mistakes are a part of life. I'll try to follow my plan next time, and develop the confidence I need to stay disciplined.- Why beat yourself up? Take setbacks in stride and move on.

Guilt can protect us at times, but while trading, we often feel guilty about losses that are just commonplace in the trading business. If you are experiencing unproductive guilt, learn to control it. The more you can trade calmly and freely, the more profitably you will trade in the long run.

Going With Your Gut.

Seasoned traders aren't afraid to go with their gut instinct. After years of experience, an astute trader's gut is the unconscious integration of all essential market information, the minimum amount of information required to make a sound action plan. All inputs are filtered through the seasoned trader's mental working models, analyzed, and reflected as a hunch, a feeling nonetheless, but a valid, comprehensive feeling. Top-notch traders learn how to develop gut instincts and use them properly. But before a novice trader tries to use gut instinct, it is necessary to learn just what a gut instinct is and how it should be developed.

At first glance, going with a gut instinct while trading seems counterintuitive. A popular conception of trading is that market information is painstakingly analyzed and a logical conclusion is drawn. When one first starts out trading, it is essential to carefully understand the processes of how a decision is made. One should clearly specify the indicators, market conditions, and assumptions that are used to arrive at a decision. A novice trader is bound to make bad decisions at first. He or she is unaware of the various market conditions that may exist, or how to use market indicators efficiently and realistically. After years of experience, though, what was once deliberate and conscious becomes automatic and unconscious.

Similar to learning any skill, trading requires that one behave deliberately and carefully at first, but over time and after various experiences, one can act more naturally. It's similar to how you learned how to drive a car or play a sport. Initially, you purposefully thought about each step and made sure you didn't miss an important step, but now, you can act flawlessly and with little mental effort. It is the same for trading. Initially, you have to look at a variety of indicators carefully and think about the usefulness and meaning of each one, but over time and with practice, you can act decisively. That said, it is vital to realize that it is only after years of experience that a trader can make accurate, intuitive judgments. Just as you wouldn't want to make misinformed, impulsive judgments, you don't want to assume that you can make experienced decisions without actually having enough experience to rely on.

It is useful to practice making intuitive decisions. Early decisions may be inaccurate, but by gaining as much experience with the markets as possible and making as many trades as possible, the novice can build up an expert level of trading knowledge and trading perceptions that can be used later to make quick and accurate decisions. And after you develop the ability to make intuitive decisions, you can more easily go with the flow and trade in the zone. You can react quickly to ever-changing market conditions and capitalize on rare market moves. You'll trade more efficiently, and the more efficiently you can trade, the more profits you'll realize.

Cold, Hard Facts: Look Honestly and Make Adjustments.

When it comes to evaluating your performance, there are times when there is no substitute for studying the cold, hard facts. In the end, the bottom line is unavoidable: If you are not profitable across a series of trades, you are out of business. It's vital to realistically gauge your performance. If you are like many traders, however, your unbridled need to win takes over. You see only what you want to see, but an outsider would see that you are about to fall into the abyss yet don't know it. It's a more common ailment among traders than most people realize. Looking at the cold, hard facts can ding your ego, and that's why it is so hard to look at our performance honestly. It's often easier to put on blinders to avoid seeing how poorly you are actually doing. The winning trader, however, isn't afraid to coldly and objectively look at performance statistics.

From a purely psychological view, it isn't always useful to focus only on performance outcomes. If you are a novice trader, for example, it takes time to build up your trading skills. Expecting too much, too quickly in terms of performance outcomes will frustrate you. That said, if you lose a great deal of money trading, you might end up in so much debt that it would be virtually impossible to break even. Looking at the cold, hard facts realistically is a necessity, not an option. Let's consider a few popular statistics that indicate how well you are doing.

First, what is your hit rate? How often do you make money? Is it 20%, 10% or less? It's necessary to look at your past record and calculate a rough estimate with regard to the percentage of trades you make that are winners. This isn't the only statistic you should look at, but it does suggest how well you are doing. The downside of relying on just this one indicator is that subconsciously, or in the back of your mind, you may want to increase your hit rate by making a few small profitable trades. For example, if out of 10 trades, you make eight losing trades, you might be tempted to make two winning trades, even if it is just $20 per trade, to make yourself feel good about having a 20% hit rate. Obviously, the 20% estimate is off. It means essentially nothing if you lost $10,000 on the eight losing trades! That's why you must also compare the amount of money you lose on your losing trades to the amount of money you gain on your winning trades, what some traders call the dollar-based win-loss ratio. Psychologically, this is a much harder statistic to calculate than your hit rate. It's hard to look at just how much you are losing compared to how much you are winning. Many traders prefer to deceive themselves. They focus on their winning trades, but ignore their losing trades. You can feel like a super-trader if you focus solely on the winning trades where you made huge profits while ignoring losses. All you are doing, though, is fooling yourself. For example, who cares if you made $30,000 on your winning trades if you lost $35,000 on your losing trades and had to feed your account $5,000 last year to make up the difference? It may be hard to put your pride and ego aside, but unless you take an honest look at your dollar-based win-loss ratio, you will not have an accurate gauge of your performance.

Finally, it's also important to look at commission costs and the size of your account. If your account is small, commissions will put a dent in your overall profits. Account size does matter, but many newbie traders like to hold on to the dream of striking it rich even though they have a relatively small account, and thus, they avoid taking an honest look at account size and commission costs. Don't set yourself up for failure. You need money to make money. It's wise to look at how much it costs you to trade and adjust your goals accordingly. You may have to get a second job to build up investment capital, for example, if your account size is too small for your objectives. Again, it may be hard to admit that you have limited financial resources, but it's better to look at it now and make plans for the future than unrealistically and fruitlessly waste your time working toward a pipedream.

Humans are prone to eternal optimism. Optimism is good, but it must be tempered by realism. Don't be afraid to take a good hard look at your trading performance. By looking at your performance honestly and frequently, you'll be able to make midcourse corrections so that over the long run, you will end up profitable.

A Good Hard Look at the Facts.

Have you ever made a small losing trade and thought, -It's all right. I'll win on the next one.- The next trade comes along, and you lose. And then the next one is a loser, and so on, and so on...until finally, you are in a severe drawdown. Before you dig yourself into a hole that is virtually impossible to climb out of, it is vital for survival to constantly monitor your progress. Take a good hard look at the facts and make adjustments.

Humans are notorious for their eternal optimism. Who wouldn't want to think they were making a killing in the markets. When you aren't profitable, though, it's easy to fall into a state of denial. In order to build up our ego, we ignore how poorly things are going and tend to look at the world through rose-colored glasses. There are times when it is useful to look on the bright side. To win in the markets, you have to truly believe that you can succeed. Focusing on your limitations or the inherent challenges the markets often pose may get you down. And when that happens, you may think it's impossible to master the markets.

On the other hand, too much denial may prevent you from taking the steps you need to improve your trading performance. Denial can go too far. If you feed your account every month, you may not face the fact that your trading strategies just aren't working. Successful traders carefully monitor the process of trading. They keep a trade diary in order to identify those strategies that work from those that don't. They identify the specific market conditions that are optimal to their methods. They also report their moods in an attempt to isolate psychological factors from market factors. Some strategies just do not work under particular market conditions. And if you are bogged down with psychological factors, no trading method is going to produce a profit. It may be hard to face the facts, but unless you do, you'll never be able to identify your weaknesses, make midcourse corrections, and hone your trading skills.

Don't be afraid to keep a trade diary. Identify what works and what does not. Don't let denial prevent you from taking a good honest look at what you're doing. You may be surprised to find that you are doing a lot right, and that by making a few minor changes, you can greatly improve your trading. The aware trader is the winning trader. By taking an honest look at your limitations, you'll be able to hone your trading skills, reach ever-higher levels of performance, and take home huge profits.

Commitment to Trading: Why It's So Difficult.

You've been told time and again that a strong commitment is vital to long term trading success. We've all seen the adverse consequences of people who are not committed to their goals, in other fields as well as trading. When one is not committed, he or she waxes and wanes, procrastinates, gives up easily, and never seems to achieve one's goals. Accomplishing significant life goals requires a strong commitment, whether it is graduating from college, starting a business, or getting a significant promotion. But trading seems a little different; many people have a difficult time making a strong commitment. There are several good reasons why. It is useful to gain awareness and come to terms with them.

Trading is different from many professions in that the effort one puts in is not directly related to a clear and immediate payoff. With most professions, it is a certainty that the number of hours you spend learning a craft and applying it has a direct payoff. For example, if one were a mason building a wall, he or she knows with certainty that placing brick upon brick, hour after hour, will lead to the completion of the wall (The wall may look unattractive if the mason is poorly skilled, but the wall will get finished, nevertheless). There is a direct one-to-one correspondence between effort and final outcome.

When it comes to trading, in contrast, traders can put in hours of effort, but success can elude them. With trading, a threshold of skill must be achieved before rewards, or profits, are consistent. (This may be true of other professions, but whether one has the talent to learn the skills is immediately apparent to teachers and gatekeepers, and one is prevented from even trying to master the profession.) Unless one achieves a high level of trading proficiency, one may never make a dime trading. The possibility that one's time and effort may not pay off immediately, or at all, makes a strong commitment to trading difficult to nurture. It is reasonable to question whether one will become a successful trader. A Pollyanna -can do- attitude is not going to alleviate these doubts, if deep down you know that the doubts have some truth to them.

How can one cope with this issue? There are several ways. First, accept the possibility that it may take you some time to build the skills you need to become a profitable trader. Don't think that you MUST be profitable immediately. Second, follow the old adage, -Practice makes perfect.- Give yourself time to build the skills you need. Just as with any activity that requires skill-building, such as playing music or sports, it's vital that you practice, enjoy the process of learning, and patiently wait to build up the necessary skills. Third, put your goals in perspective. You may need to initially set modest goals, such as learning how to -paper- trade or successfully trade small positions, before deciding to trade full time to make your entire income. Perhaps you will make it as a professional trader, perhaps you will have to settle for being a proficient amateur, but if trading is your passion, and you enjoy it, the idea that you need to spend time developing these skills should not deter you. Becoming a trader who is consistently profitable is rare, and this fact hinders one from making a firm commitment. Many professional traders warn novices that trying to gain success overnight is daunting, unrealistic, and quite discouraging. It's best to take it one step at a time. Gain knowledge, develop skills, and then gradually increase your position size. Even seasoned traders point out that trading is so difficult in the long term that they just take it -one day at a time,- or one trade at a time. It's easier to develop commitment by first committing to smaller goals before striving for larger goals. Following this wisdom will help you strengthen your long-term commitment to trading.

Head-and-Shoulders Pattern is a Psychological Map.

While charts show a financial instrument's price history accompanied by volume, they are also exciting reflections of human behavior. And because they reflect basic human nature, they can be used as a psychological map if you learn to read them correctly.

As technical analysts, we know that stocks, indices, and futures markets often form patterns that appear with similarity, over and over again. While no two patterns resemble each other precisely, recognizable features duplicate each other frequently enough that we can identify and name these patterns and use them to predict price movement. Since these patterns reflect people's beliefs and emotions, an important aspect of pattern recognition is the ability to understand the underlying human behavior and trade it accordingly.

Many indices and stocks are currently forming'or have already formed'the reversal pattern known as the head-and-shoulders on their daily charts. A head-and-shoulders takes place on a chart (on any time frame), when a stock (for example) rises in an uptrend to a new high. Strong volume lifts the price action to the peak of what results in the top of the left shoulder.

Next, the pullback takes place. The pullback is a reflection of mass psychology; this is when latecomers to the soaring uptrend jump into the game. The moment the pullback reverts, they leap in, pushing the price up to another new high. Soon, though, the exhausted latecomers stop -paying up- for the overbought stock. Fear creeps in, hand-in-hand with the sudden reality that they are perched perilously on a crumbling mountaintop (head). Short sellers start attacking and frightened bulls exit at the market's mercy. The stock tumbles down to the prior support area formed by the completion of the left shoulder. Now the head is completely formed.

At this area, known as the neckline (of the finished pattern), a small group of hopeful buyers pushes the price up again. This time, however, the lukewarm optimism moves the price up only to the top of the left shoulder, if that high. Volume dissipates and the price rolls over, forming the top of the right shoulder.

Short-sellers drool and sharpen their claws. When the price falls back to touch the neckline, it completes the head-and-shoulders pattern. By now, some short sellers have entered early (high-risk), waiting for the impending fall below the neckline. Many times the stock will gap down (on a daily chart) the day after the head-and-shoulders is completed, as short-sellers and panicked investors race to flee the unhappy equity.

Every price pattern has its underlying psychological blueprint, which reflects the emotions and behavior of the masses. Learning to anticipate and trade these emotions is an important tool in every trader's toolbox.

A Healthy Approach to Trading Success.

Successful traders follow their passion. One often hears traders say, -I love trading so much that I would do it for free if I could.- Indeed, when one looks into the backgrounds of top traders, the story seems to be the same: They all tried to get a job in the trading industry as soon as possible, any job as long as it involved trading in some way. They were fascinated by the markets and the challenges it offered; the money was either secondary or not an issue at all. However, ask a typical non-trader of what he or she thinks of traders, and the impression is quite different.
Many think that traders are out to make big bucks, achieve high status, and show it all off with luxury cars and nice homes. These may be the side benefits of trading, but they aren't the primary motivators. Successful traders love the challenges the markets offer and view their work as meaningful. In other words, they take a healthy approach to trading success.

In a recent study, psychologists Say Lim and Donnah Canavan showed the advantages of taking a healthy, versus a conventional, approach to success. Taking a healthy approach to success entails pursuing goals that are intrinsically interesting and personally meaningful. A conventional approach to success, in contrast, is a preference for work that emphasizes competition, financial reward, and high status (which is similar to the inaccurate stereotypical view that non-traders hold of professional traders).
The advantages of taking a healthy approach to success are notable. Individuals who took a healthy approach to success were better adjusted and more satisfied with life, compared to those taking a conventional approach to success. They were also better able to control their ego; that is, they were able to accept their limitations, rather than have the tendency to exaggerate their abilities and deny their faults. They also put more effort into their work and achieved higher levels of performance.
These findings illustrate the advantages of a healthy approach to trading success. Those who find trading intrinsically satisfying, enjoyable, and meaningful will put in the necessary hard work and achieve high-performance levels. So cultivate a healthy approach to success. Don't focus on the money and status that successful trading may bring. Enjoy the process of trading. Seek out challenges and the satisfaction of meeting them.

Having, Doing, and Being: Which State of Mind Drives You?.

Making profits as a trader is often a matter of trading in the proper state of mind. Trading expert Dr. Van K. Tharp, author of several best-selling books on trading psychology and head of the Van Tharp Institute, describes three states of mind that may dictate how you approach trading. As traders gain experience with trading the markets, they move from a -having- state of mind to a -doing- state of mind. They achieve profitability when they reach a -being- state of mind, though. Which state of mind best characterizes your trading?

Many traders start out using a state of mind that focuses on -having.- Rather than focus on how to trade in concert with the markets, they are obsessed with profits, and what they can purchase with those profits. The main goal is to make money, money that can be used to purchase objects of desire, such as a shiny red sports car, a spacious, luxurious home, or a large wardrobe of fine clothes. They believe that great financial success will be the solution to all their problems. Trading isn't just a job; it's their salvation. Although many traders are motivated by money, there's a downside to focusing on what you can have as a result of your profits. When traders focus solely on accumulating wealth, on -having,- they tend to act greedy and may take risks in an effort to win. There is a blind and unrealistic focus on trading at a high level of performance. Unless they trade at a high level of performance, they can't possibly -have- what they desire.

But a novice trader can't achieve a high level of performance, and so, there is a mismatch between skills and goals. Traders in a -having- state of mind often feel frustrated that their trading efforts fall short of their expectations. And when they feel frustrated, they have difficulty concentrating on their ongoing experience. They tend to make trading errors, which intensify their feelings of anger and frustration. In addition, they are tempted to give up easily and avoid putting in their best effort. They tend to think, -Why should I even try? I'll never achieve the level of success I desire.-

At some point, a trader's state of mind moves from -having- to -doing.- In a -doing- state of mind, a trader focuses on learning trading methods, and on when these methods work and when they don't. According to Dr. Tharp, however, traders in the -doing- state of mind still tend to focus on performance issues. They ask the question, -What can this trading method do for me?- They are concerned with how the method can make them rich. Rather than becoming engaged with the markets, trading in the -doing- state of mind is about evaluating the method, wondering if it is -working.-

Trading, however, is not a simple matter of choosing a particular method and arbitrarily applying it. Becoming a winning trader requires honing your trading skills. It is vital that you develop your intuition by trading with a variety of methods under a wide range of market conditions and finding ways that the proper method dovetails with optimal market conditions. Although it doesn't tend to lead to enduring profitability, trading in a -doing- state of mind is a vital step on the way to mastery of the markets. During this stage, you gain the experience you need to trade intuitively and in a peak performance mindset.

The ultimate state of mind for profitable trading is the -being- state of mind. Rather than focusing on outcomes, a trader in the -being- state of mind is fully in tune with the markets. He or she trades in synchrony with the market action. A firm commitment is made to trading the market and accepting it on its own terms. When a trader works to trade at the moment, he or she intuitively sees profitable setups and effortlessly trades them. It may not happen overnight, but with enough practice and experience, you can trade with a -being- state of mind.

The Conscious Member of the Herd.

Do you ever just feel as if you are going through the motions, acting without thinking? Are you surprised that you react emotionally, selling prematurely when you meant to hold out a little longer? Or do you jump into a trade too soon before you have systematically thought out your trading plan? You may be giving into a natural inclination to follow the crowd. It may seem routine, but if you aren't fully conscious of your actions, you may find yourself giving back profits.

The trading masses often act like a herd of cattle. This is a popular trading analogy, but humans are quite different from a herd. Have you ever closely studied a herd of cattle? Cows aren't the brightest animals. They can be contained easily with a fence of thin barbed wire, and it's easy to sneak up on them and tip them over. When one cow decides the grass is greener at the other side of the pasture, the herd just follows for no good reason. It's instinctive. Cows are -programmed- by nature to follow each other. They don't seem to think at all. By banding together, though, they can feel safe. There is safety in numbers.

The masses that invest in the markets also seem to act without thinking at times. Again, there is safety in numbers and the masses feel most comfortable when following the crowd. They search for confirmation and try to do whatever is most popular. For example, it is common to see the masses react too quickly to media reports. When a commentator reports that a company has missed an analyst's estimate, masses of traders start selling as soon as possible, regardless of the underlying dynamics behind the overall trend. When a stock is talked up, even if it is merely based on unfounded rumors, the masses start buying. Fear and greed drive many traders to execute trades on a whim, but if you want to be a winning trader, it is vital that to base your trades on a detailed trading plan.

Unless you are a scalper, trading quickly and automatically isn't a very good strategy. It's much better to develop a sound trading plan and execute it consciously and deliberately. It's vital that you have a reasonable hypothesis as to how the market should move according to your plan, and also some hunch as to why the market is moving, or going to move, in a particular way. You should spend some time making sure when to enter, when to exit, and you should have a clear sense of what should happen and when. When you go to execute a trade, you may not need to be scrupulously deliberate, but it depends on your experience. If you have a vast amount of experience, you can quickly process a host of information and work from an -intuitive- feel you have about the markets, but if you are a novice trader, it's usually necessary to be a little more careful. Pay close attention to what the markets are doing and follow your trading plan.

The conscious trader has a detailed trading plan and follows it. Impulsive traders make it all up as they go along and trade by the seat of their pants. If you are an extremely seasoned trader, trading on the automatic pilot can work, but if you are a novice trader, you can make trading errors. You may give into emotions of fear, greed, hope or regret. When you let your emotions guide you, however, you'll tend to act like the masses, and when you trade like an unconscious member of a herd, you'll end up with losses.

The Herd Mentality.

Have you ever watched a herd of cattle as they graze in an open field? It's quite remarkable. The cows seem content as they eat the grass and stand in a scattered formation. Then, suddenly, for no apparent reason, one cow decides it has eaten enough, turns toward the barn and starts walking. All of the rest of the cows seem to follow, one by one until the entire herd is moving in a straight line toward the barn. It is as if the cows are thinking, -Where's that guy going? What's he going after? I want to get in on this action. I'm going to follow him.- They follow the leader even though the leader does not seem to know what it is doing.

That's an extreme example of the herd mentality that some market observers see as analogous to the markets. One person starts buying, then another person, and so on, and so on, until a group of traders are all buying, for no apparent reason. Although humans have more intelligence than cattle, there is an inherent instinct to follow the crowd. It's as if everyone is thinking, -All of these people can't be wrong.-

It makes sense to follow the crowd sometimes. In a bull market, prices continue to rise, so it makes sense to buy and hold. But, when market conditions change, you better be careful to not let the traders in the back of the herd trample you when you try to stop to avoid hitting a brick wall. The crowd is usually right until a turning point occurs. Why? When virtually everyone has taken the position that the market is headed in a particular direction, there are few traders left to push the trend further.

At that point, a countertrend initiates and moves the market in the opposite direction. The trick is predicting when that turning point will occur, anticipating it, and developing a trading plan to capitalize on it. In the Art of Contrary Thinking, Humphrey Neill discusses how to take a contrary opinion. Taking a contrary opinion is not merely doing the opposite of what everyone else is doing. A true contrarian creatively studies the markets and tries to devise an innovative trading plan. It takes a great deal of experience and thought. One must train his or her mind to think in directions that are opposite to prevailing opinions. It's sort of like thinking in reverse. Think of reasons why the crowd may be wrong. Try to discover factors that may predict a change in market conditions, or identify new sectors that may prosper from the change.

For example, during the Great Depression, consumers tended to stay home and listen to the radio, rather than go out to see movies or shows. Thus, radio companies made profits in a time of economic scarcity. A contrarian identifies such opportunities and capitalizes on them.

Taking a contrarian approach is useful, but it's often hard to fight the herd instinct. While trading, people have a natural inclination to see what everyone else is doing and to follow. It feels safe and comfortable. But, if one is not careful, following the crowd can lead to disaster. The crowd can be wrong. So, always think like a contrarian. Study the markets carefully. Consider why the crowd may be wrong. Search for evidence that supports the contrarian position. If you are right, you can capitalize on it, and make a big win.

Pulling the Trigger Decisively.

Do you have trouble pulling the trigger? How many profitable trades have you missed because of this affliction? Why do you hesitate? If every trading idea that popped into your head turned out to be profitable, you would never hesitate. Unfortunately, you've probably learned the hard way that not every trading idea is a good one. There's a good chance that a fantastic trading idea may not turn into a profit, and this fact alone can shake your confidence. And when you are not completely sure of yourself, you will hesitate.

Many traders, especially novice traders, yearn for infallible trading information. Their hard-earned money is on the line, and they demand certainty. But they can never know for certain that a planned trading strategy will work when it is actually tried. In the end, you have to be willing to take a risk and lose money. You have to accept the fact that no trading plan is foolproof and trading always involves some risk. Uncertainty and the fear of losing lie behind most traders' tendency to hesitate. Sometimes there's a good reason to feel afraid and hesitation is justified. Other times, however, hesitation is a reflection of inexperience or an irrational need to avoid risk and losses, even if it means standing aside unnecessarily and missing a significant market move.

In his book, -Trading to Win,- Ari Kiev suggests that novice traders don't trust their instincts. They think they don't have enough experience to take action on ideas based on sheer intuition. It takes experience to feel at ease with your intuition, and many novice traders understandingly question their instincts. But not all first hunches are inaccurate. Many times, they are right on target. Your first hunch may be astute, and little is to be gained by further deliberation. It is often wise to just act on a first hunch, but many traders don't want to take the chance.

They want perfect, infallible information and confirmation. According to Dr. Kiev, however, the need for confirmation can distract you from taking decisive action. Self-doubt is understandable, but it can prevent you from tackling the markets and building up your trading skills. Dr. Kiev points out that over time you will learn to trust your instincts and act on them. In the meantime, many traders will waste time unnecessarily deliberating. But mulling over ideas too much can prevent you from learning to trust yourself. It's natural to question your trading plan, but when you do so too much, you end up stagnating rather than making trades.

When your money is on the line, you naturally want to protect it. You have a strong tendency to feel that you must be thoroughly competent, the perfect trader. But when you strive for too much perfection, you will expend most of your limited psychological energy mulling over the negative consequences of failing. Instead, it is vital to focus on your immediate experience, what you are doing in the here-and-now to implement our current trading plan. The quest for perfection and guaranteed wins, however, are distracting and obscure the flow of immediate experience. Dr. Kiev points out that when you are distracted, you will have difficulty sticking with your trading plan. You'll tend to make mistakes, and mistakes usually produce huge losses.

If you want to stop hesitating at critical moments of investing, it is vital that you learn to ease up. You don't have to be perfect. You are bound to make mistakes occasionally, and if you are consumed with avoiding them, you'll be so anxious and fearful that you will avoid taking action. Sure, you don't want to make too many mistakes, but you can make a few, occasionally with little repercussions. All you can do in the end is to do your best and keep building up your trading skills. You might as well work hard and think positively. With enough time and effort, you'll eventually achieve enduring success.

Hesitation: A Plethora of Reasons.

Humans have a tenacious need to protect their assets and avoid risk. This is especially true for novice traders. It took a long time to build up sufficient capital to trade seriously, and it's understandable to fear losing some of it. Novices tend to seek absolute certainty before taking a risk, and gaining such certainty can take time. But when it comes to short term trading, there isn't very much time for long deliberations. Market conditions are in continuous flux. Decisions need to be made relatively quickly, and if one waits too long to execute a trade, he or she may miss a significant opportunity. The reasons for hesitation are many, and it's useful to be aware of them and make a plan to thwart them.

The complex charting software available these days can often increase the tendency toward hesitation more than reduce it. It's tempting to look at as many indicators and signals as possible. Doing so, however, can be very time-consuming. That's why seasoned traders advise looking at only a few key indicators.

Hesitation is usually related to a lack of confidence in one's trading strategy or trading ability. There may be several reasons for this lack of confidence, with some more deep-seated than others. One may not believe that his or her trading plan is adequately developed. Some traders may question their trading plan because they know that they did not spend enough time preparing it. Sometimes hesitation can be an intuitive warning sign, a way of telling oneself not to be too overconfident. In this case, hesitation can act as a motivator. If you feel you are hesitating because you have not prepared adequately, then spend more time preparing for your trades. Learn about new higher probability setups, reduce your doubt and indecision, and in turn your hesitation through more adequate preparation.

Hesitation can also reflect a deep desire to be right and a fear of being wrong. We are often afraid to face our inadequacies. By putting off a decision, we don't have to face our limitations and can pretend that we are better traders than we really are. Extreme perfectionists are especially prone to this type of indecision. They continuously second guess and doubt themselves. They believe that if they are wrong, they cannot handle it. This occurs in trading decisions as well as other life decisions. Extreme perfectionists may fatalistically think that once they make a bad trade, it will be the start of a downward spiral and a complete blowout of one's trading account.

Finally, hesitation may relate to low self-esteem or other deep-rooted psychological issues. Individuals with low self-esteem tend to lack confidence in many different life domains. Doubting one's ability to trade, and thus, hesitating to make a trade may reflect a more pervasive, deep-seated self-doubt. People who hesitate may have a conflict regarding their success. They may have a -fear of success- where at one level they strive for success, but at another level, they secretly believe they cannot attain it, or do not deserve it.

Identifying and eliminating a problem with hesitation is useful. Chronic hesitation can erode one's trading confidence. One may put on trades, continue to hesitate, miss important market moves, and see his or her equity begin to dwindle. As one's confidence is further eroded, hesitation may worsen. So, if you're prone to hesitation, it's vital that you address this problem early. Identify the reasons for it, and make changes as soon as possible. By eliminating this common and pervasive ailment, you can trade profitably and consistently.

Trading in a Higher Psychological Sphere.

Top-notch traders trade in a higher psychological sphere. Trading is a peak experience where everything seems to click. Winning traders trade in the zone. They reach a psychological state that is inherently rewarding. The more you can reach this higher psychological sphere, the more profitable you will trade in the long run.
How does one trade in a higher psychological sphere? It's vital that you satisfy lower-order needs, such as a need for self-esteem or recognition, so that you can focus on satisfying higher-order psychological needs, such as self-actualization and self-fulfillment. For example, when trying to satisfy a need for self-esteem or recognition, one may think that becoming a success will help him or her feel safe, secure, and loved. This belief can cause major problems when trading, for a variety of reasons.
First, placing too much emphasis on the outcome is bound to be distracting. Second, believing all your needs will be satisfied through trading will likely increase your fear, anxiety, and tension. Third, these unpleasant and distracting emotions will tend to interfere with your accurate assessment of market conditions and disrupt any clear-headed decision making, hurting your performance and creating a vicious circle of defeat.

What motivates your trading? Do you trade to satisfy social and emotional needs? Do you trade primarily to increase your feelings of safety and security? How do you remedy the situation if you are trying to satisfy these lower-order needs? To remedy this, consider satisfying your safety and security needs in other ways. For example, you could set lower standards for your lifestyle. Trying to maintain a rich, luxurious lifestyle will almost certainly interfere with your trading success. Most successful traders report they have settled into a lifestyle that does not depend very much, if at all, on their trading success.
Other social needs that may interfere with your trading performance, and should be addressed outside of trading, including the desire for friendship, affection, and love. Some individuals believe that trading is going to improve their ability to form satisfying relationships. For example, many people believe that if they had enough money, their relationships would be far more satisfying. Although this seems reasonable, it is a fallacy. Wealthy people are no better at gaining love and affection than poor people. If you are hoping that your relationships will improve when you make more money through trading, you are mistaken. It's a far better approach to limit your trading activity and take other steps to develop more satisfying relationships.
You may also trade because you desire recognition, appreciation, prestige, and status. It's true that some individuals may give additional respect to those who have a lot of money, but not everyone cares. In addition, needing others' respect can be very difficult and disappointing. In the end, the road to happiness and success involves having respect for yourself. If you are hoping that you will somehow gain respect through making a bunch of winning trades, you will almost certainly be disappointed, and this drive for respect and continuing disappointment will interfere with a higher sphere of existence.
Transforming the trading experience into an optimal experience may not be easy, but it's something that the most profitable traders have achieved and sustain. Make sure that your social and emotional needs are satisfied outside of trading, and that you are able to focus intensely on the trading experience itself. If you can do so, you'll find trading interesting, enjoyable and engaging, and trade in a higher psychological sphere.

The Highly Motivated Trader.

Jim is a novice trader who is deeply frustrated and ready to give up. He's read all the trading books, followed all the trading -gurus,- and worked tirelessly day after day. Despite all his efforts, however, his account is almost completely wiped out. Jim's experience is common. When they start out, novice traders are extremely excited. They dream of success and the recognition that huge profits will bring. Some achieve early success, but many soon discover that achieving consistent profitability is elusive. Many are drawn to trading, but few can trade profitability. The winning trader is a special breed, a person who is highly motivated, but at the same time, he or she is realistic and able to persist in the face of adversity.

It's easy to get yourself -psyched up- when you first start out trading: One can merely convince himself or herself, -All I have to do is apply myself and I'll achieve profitability.- This can often be a useful positive attitude, but the -power of positive thinking- doesn't usually go very far in terms of achieving trading success. It makes you feel good in the short term, but then you find that mere hard work and persistence doesn't pay off. It is necessary to use sound trading strategies, expose yourself to a variety of market conditions, and hone your trading skills. Successful trading requires talent, and there's no way to develop one's talents without extensive practice.

Although a positive attitude is useful, a healthy skepticism is paramount. When it comes to trading, you can't believe anything you read or hear. Even when a trusted mentor teaches you the -conventional wisdom,- it is essential to remember that so-called conventional wisdom is true only when it is true; it is false the rest of the time. History in the markets only repeats itself when it does. And the only time you actually know that you've stumbled upon a profitable trading strategy is when it, indeed, produces a profit.

Convincing yourself you can master the markets with sheer determination and willpower isn't going to get you very far. You must accept the fact that, in the end, trading is like a game. You've got to take it seriously on the one hand, but learn to enjoy the process on the other. Traders take the game seriously in that they acknowledge that real money is on the line and it is likely that real losses can wipe out one's trading account. They address this issue through risk management.

On the other hand, they know that no trading strategy is foolproof. They realize that despite all their efforts, it is quite possible that some unforeseen adverse event can go against their trade, or that market conditions may just not be conducive to one's trading plan. That's where a happy-go-lucky attitude is useful. It is vital to view trading as a sport. If you score the winning point, fine. But if you miss it, don't get too bogged down. Just pick yourself up and try again.

Eventually, with enough practice and experience, many novices will move into the realm of the seasoned professional. It is not going to happen overnight, however. It will take time and practice. That's where the motivation comes in. It is easy to stay motivated for a short time if you think the payoff will be large and relatively immediate. But trading is a profession where years can go by with little progress. Some seasoned traders warn that it may take several years to achieve consistent profitability.

Over the years, a great deal of money will be spent on commissions, losses, apparatus, and instructional materials. The would-be professional trader isn't fazed by it all, though. He or she views the money spent on trading as similar to what any professional spends on college tuition. He or she believes that eventually, his or her time and effort will pay off. The winning trader is highly motivated. He or she admits that trading is a challenge and that success is far from assured. Despite this harsh reality, the winning trader persists until he or she achieve consistent profitability.

Everything Seems Obvious In Hindsight.

Do you remember your first impressions of trading? Perhaps you were young and had a strong desire to achieve early success, but if you were like most people, you had unrealistic expectations about the financial resources and skill level that were needed to trade profitably. You probably figured that you could just open a typical online brokerage account and turn $1,500 into a fortune. You probably didn't hold this misconception very long, though. Soon, you learned that you needed a lot more capital than $1,500 to make profits as a trader, and you probably found a brokerage that allowed you to make trades in real-time.

As you gained knowledge and experience with the markets, you started learning how your original ideas were naïve. Sure, in hindsight, it seemed obvious that your ideas about trading were off base, but at the time, your perceptions seemed quite valid. Everything seems obvious in hindsight, but at the time, you don't see it that way. In the midst of it all, everything makes perfect sense.

The human mind is capable of extreme optimism. We have a strong desire for success, and it can be so strong that we see things that just aren't there. Our thinking can be biased and self-serving. We can convince ourselves that making money in the markets is easier than it really is. We can believe that good quality setups are easy to spot, and we can convince ourselves that we will have rock-solid confidence and unwavering discipline when the time comes. But our expectations don't always match reality.

Acknowledging the ability of the mind to create a fantasy world that builds up our ego is crucial. When we want to win so badly, we start to distort reality. We can't see things clearly. In hindsight, though, we look back and think, -How could I have been so stupid?- It's useful to cultivate a healthy sense of skepticism. Skepticism isn't the same thing as pessimism. A pessimist falsely distorts reality to the point that he or she believes that even a reasonable plan is doomed. A skeptic is optimistic yet is also realistic. No trading plan is foolproof. The markets don't always cooperate with you.

The winning trader is the person who questions a trading plan before executing it. He or she tries to anticipate what could go wrong and thinks of ways to work around these potential setbacks. Being a healthy skeptic can be difficult at times. Again, most humans are naturally unrealistic. They want to believe in miracles. They tend to wrongly believe that if they can imagine it, then it will happen. But it isn't that easy.

It is necessary to plan ahead. Consider what can go wrong and make a plan for what you are going to do to come out unscathed should a trading plan fail. It's useful to remember the basics: Manage risk and follow a detailed trading plan. If you manage risk, you'll ease some of the psychological pressure you feel. Psychological pressure can produce denial, and when your vision is clouded with denial, you'll be prone to feel overconfident, and take risks that don't make sense in the long run. When you risk little on a trade or minimize risks through protective stops, then you will feel free and relaxed. You'll be open to new experiences and you will be likely to see problems with your trading plan before it is too late. You can make some quick revisions that will prevent you from making big losses. Similarly, if you think through trade, you'll increase the odds of anticipating adverse events. As you mull things over, you'll see how you may have given in to self-serving biases and distorted reality.

Don't live your life fighting off feelings of regret. Things always look better in hindsight. But if you plan ahead, skeptically anticipate what may go wrong, and take precautions, you will increase your chances of winning.

The Benefits of Hindsight.

Have you ever planned a trade that seemed a sure winner, yet we're surprised to find it had failed? A plan could look great when you think of it, but after it fails, and you had time to think about it a little more, it becomes obvious that it was a bad idea.

A host of information must be considered in order to trade profitably. For example, conventional wisdom suggests avoiding the open. It may also be wise to stand aside when a rate hike is looming, and make sure the company in which you are planning to invest isn't about to report earnings. But there are times when conventional wisdom is wrong, and the astute trader has learned that there are times when he or she must break the rules, and go against conventional wisdom. That's what makes trading a challenge: Essentially, conventional wisdom is only right some of the time, and at other times, it's just wrong. In the end, you must find a solution on your own, and there are times when you may be wrong. You have to trust your instincts and go with your gut, wrong or right, whether you like it or not.

The human mind has limits. There are times when a fast decision is essential when we have to think quickly. We must use whatever information is available to make these decisions. Behavioral economists, however, have shown that when thinking under pressure, many traders are prone to decision-making biases. For example, we may narrow our focus to what we think is obvious, but upon further consideration, we may wonder why we didn't see the flaws in our thinking.

For example, we may wrongly think a stock price is impervious to a prevailing trend. Suppose you were trading a company that was about to report earnings, for example, and you had good reason to believe that it would beat analysts' expectations. Based on your own analysis of the situation, you may decide to go long. Why not? All indications from your point of view suggest an increase in price. However, you may find that a variety of factors ended up decreasing the price of the stock. Consumer confidence may have been lower than you had expected or an adverse world event may have lowered stock prices across the board. In hindsight, you may think, -How could I have missed that? I should have known better.-

It's impossible to have a God's eye view when it comes to the market. You can't know everything. All you can do is use infallible knowledge to make the best judgment you can possibly make. That said, you are bound to make mistakes. All you can do is manage risk and try your best. If you manage risk, you won't get in much trouble by allowing a judgment bias to cloud your vision.

People have a natural tendency to think the best, but there are times that an optimistic attitude can bias our views. And when that happens, we end up making mistakes. It's vital to stay a little skeptical. Don't get stuck in analysis paralysis, but on the other hand, don't act too impulsively; think through your decisions. Make sure you look at your trading plan from multiple perspectives. Remember that what might look like a great idea at first glance may look like an obviously flawed idea when it fails. Think things through beforehand. Don't wait for hindsight to inform you of your mistakes.

The Future Is Never Certain.

When trading the markets, uncertainty is often a fact of life. Consider the plight of Jack who tried to add as much certainty into his trading as possible. He decided to invest in a solid retailer. Consumer confidence was high and sales had been high at the retail stores for the past two years. He looked closely at the five-year chart and noticed a clear, upward trend. When the price did temporarily drop, the most it had ever fallen in the past five years was about $3. It was currently trading at $40. He decided to buy 2000 shares and protected himself by placing a stop at $37. He reasoned that the past five years would be a good indicator of what might happen in the next year: the stock price should continue to rise and should only fall by $3 at the most. There was something psychologically pleasing about studying the fundamentals of the company and its past stock performance. He felt assured. Even though his risk was almost 8% of his trading capital, he decided the risk was worth taking.

Unfortunately, history only repeats itself when it does. A month after entering the trade, the stock price fell to $35. Jack couldn't believe what happened. He thought, -How could I have been so wrong? I had considered all the possibilities.- Many novice traders think like Jack. They seek out a level of consistency in the financial markets that just do not exist. They believe that the markets follow natural laws and falsely believe that there are some magical mathematical principles that underlie it all. Big time institutional investors may be able to forecast the market action in the long term, but they have mountains of capital and can attempt to hedge risk, and even they have great difficulty merely matching the yearly increases of the indexes. For the smaller investor or trader, there are no secret mathematical formulae. The past is the past, and what happened in the past may not forecast the future.

Don't falsely think that you can forecast market action with the same precision a physicist can program a satellite to reach Mars. The markets don't follow natural laws. There are many unknown factors that underlie the price action. The best you can do is study all the available information and make an educated guess. As long as you manage risk, you can make trade after trade and get the odds to work in your favor. You won't be right all the time, but you'll be right enough of the time to make a profit. It may be pleasing to think that you can add certainty to trading, but you can't. You'll feel better in the long run and trade more profitably if you accept the fact that the future is uncertain.

Using the Success History Search To Cultivate a Winning Attitude.

Making profits is often a matter of thinking and feeling like a winner. In their book, -The Mental Edge,- Kenneth Baum and Richard Trubo (1999) argue that tapping into your history of success can put you in a winning mindset.

When trying to maximize your performance, it's useful to set your sights high. -The more you expect from yourself, the more you will achieve. Modest expectations produce modest results,- according to Baum and Trubo. The images that come into your mind dictate your expectations. A baseball player who tries for a home run is more likely to do better than a player hoping to merely hit the ball to first base.

Similarly, if you don't expect to see a profitable opportunity during the trading day, you won't. On the other hand, if you think optimistically, you'll reach your potential: -If I study the markets carefully enough, I'll find at least one way to make a profit today.- As a trader, your goal should always be to reach your potential. That isn't the same thing as unrealistically thinking you'll make a 500% return on your money on any given day if you are a novice trader, but achieving your peak performance, whatever it is, each and every day.

Not everyone has the same abilities. It doesn't make sense for an amateur golfer to think that he or she can play like Tiger Woods. And it isn't realistic to think that an average trader can approach the success of a -Market Wizard.- But whatever your skill level is, you should try to maximize it. For some, that may just mean putting on a few small trades a day to develop an intuitive feel for the markets. For others, it may mean making $1,000 a day. The main point is to maximize your performance. Try to achieve a level of performance that exemplifies the best that you can be.

When you strive to be your best, your confidence increases. Suddenly, you're enthusiastic and ready to achieve success. Baum and Trubo suggest using positive mental imagery to put you in the proper, optimal mood. They call this mental imagery task the -Success History Search.- Here's how it works: Close your eyes. Let yourself relax. Now think of a recent time when you've accomplished something important, a task you're proud of. It could be a recent winning trade. Or it could be an athletic event you won recently.

Perhaps it's a big business deal you closed, or even an A+ you received on a test in college. It could have happened yesterday or 10 years ago. The main issue, however, is that the event you remember should provide a clear image that inspires you, an event that makes you feel good about yourself, and makes you feel that you can do anything. Focus on the image. Try to remember the positive, optimistic thoughts that were running through your mind. Allow yourself to feel good about the experience. Remember how it felt like to win. Soon, you'll find that you become optimistic, focused, and ready for action.

Use the Success History Search before you start the trading day or when you are about to execute a trade. If you find that replaying just one winning accomplishment isn't enough, replay two or three until you cultivate a winning attitude. Images are powerful. By remembering vivid images of past successes, you'll feel optimistic and ready to master the markets.

Don't Dig the Hole Deeper.

Bill has had a bad day. He's down $1,000. He thinks, -I can't end the day down $1,000. I've just got to make that money back by the end of the day.- He continues to trade even though his performance is off, and he feels the pressure to make back what he's lost. He makes a few trading mistakes and loses another $5,000. His account balance has taken a big hit. In hindsight, Bill realizes that he would have been better off if he had just stood aside, rested, and regained his composure before continuing to trade. Instead, he has dug a deeper hole than necessary, and it will be even harder to get out of it. Sound familiar?
Many traders are afraid to accept their limitations. Rather than face facts, they continue to trade and pay the price in terms of severe losses. Winning traders, in contrast, monitor their mood, mindset, and skill level every minute of the day. If any of these factors are off, they take a break. It's vital for long-term success to develop a self-monitoring plan. Monitor your general mood and your specific emotions. When you aren't feeling up to par, stop trading.

Systematically monitoring your mood is essential. Some traders suggest rating one's mood before the markets open on a 1-10 point scale, ranging from out of sorts, pessimistic (1) to full of energy, optimistic (10). Unless they rate themselves at an 8 or above, they take the day off. They rest, relax and re-energize before returning to the markets.
In addition to rating your general mood, it's also important to identify feelings of regret and revenge. When we've made a series of losing trades, we regret it. Regret is a powerful emotion; it's often more powerful than fear and greed. Traders have a strong need to avoid regret. Feeling regret forces us to admit that we were wrong. It makes us feel guilty. We entertain -if-only- scenarios: -If only I had done X or Y, I would not have lost.- Regret makes us feel inadequate and uncomfortable. The easiest way to avoid regret is to deny you've made a mistake, to believe that one can still make back what one has lost. The problem with avoiding regret is that you shift your attention away from the problem. You don't notice that something is wrong. You fail to see that a fundamental factor has changed, either you have changed psychologically or the market conditions have changed. In either case, it's better to stand aside than continue trading. Look for signs that you are avoiding regret. Focus on feelings of anger, frustration, or revenge. When you've made a series of losses that you view as unfair, you will feel angry; you'll want to take your revenge out on the markets. When you feel these emotions, it's probably a way of avoiding subsequent feelings of regret upon admitting a loss.
It's vital for your survival to stop trading at that point. You've lost your objectivity and it's likely that you will trade impulsively because your full attention is not on your immediate experience. A related emotion is a fear. When you are afraid of the consequences of losing money, you are also avoiding regret. It's better to stop trading, regain your composure, and start up again when you are refreshed, which may be the next day.
You should also take active steps to minimize feelings of regret. Neutralize these emotions by monitoring your self-talk. When one feels regret, he or she usually thinks, -I should have done X, and I'm an unworthy person for not doing X.- The truth, however, is that the markets are unpredictable. You can't blame yourself for not anticipating every possible influence that may go against your trading strategy.
And if you lost money because you didn't clearly specify a trading plan or stick with it, feeling regret isn't going to help you very much. It may be useful in this case to kick yourself a little, but it's much more useful to take a more positive outlook, and think, -Trading takes practice; the more I practice, the more I'll develop the discipline I need to be a profitable trader.- By acknowledging that you've made a little mistake and reminding yourself that you will do everything possible to minimize its significance, you'll feel less regret. You can acknowledge your limitations more easily. But, whatever you do, don't dig the hole deeper. Face your limitations, regain your composure, and go back in when your mindset and market conditions are just right. You'll find that you will make more profits in the long run.

Trading From Home: Avoiding the Traps.

Jim was tired of commuting to work in two hours of rush hour traffic every day. He thought, -If I could only work from home and avoid the stress and monotony of driving day in and day out, I'd be much happier.- Trading from home offered him a solution. No more commuting. No more worrying about his boss's performance evaluations. Finally, the freedom to do what he wanted and when he wanted.

Many are lured to trading for the sense of independence it offers, but working from home isn't always as advantageous as one had planned. It requires discipline, self-control, and in many cases, the ability to protect one's time assertively. Let's review some of the pitfalls to watch out for. Make sure you've identified them and have a plan for dealing with them.

These days, most couples have two family incomes. Both partners work. When children are involved, however, the trader who works at home may be expected to pitch in more than he or she had done when commuting to work. This is a reasonable expectation, but as a novice trader, one may not have enough free time to devote to extra child-rearing duties.

Indeed, one may end up devoting so much time to taking care of the kids that insufficient time is devoted to trading. Similarly, when one partner is at home, it may be expected that he or she put in extra time to do the needed chores around the house. Again, it's a reasonable expectation, but it's important to realize that a novice trader may not have the time to devote to these errands. One must assertively protect his or her time.

Another problem is self-motivation. It may be stressful to work in a structured office environment, but structure and routine have its advantages. One knows what he or she is supposed to do and when to do it. When one works at home, in contrast, the rules are often left to one's discretion, and that can mean no structure or no clear reward systems.

One must motivate oneself to get work done, and since trading is a demanding profession requiring an enormous amount of self-restraint and discipline, one is prone to procrastination. Time may slip away with little accomplished. It's easy to get distracted. Your wife or children may expect more time now that you're at home. There may be endless interruptions and distractions, such as trips to the kitchen for a snack, or flipping on the television for a quick break. These distractions can sap up precious time.

If one is not careful, he or she may waste more time working at home than it would take to commute to the office. But there's a lot you can do to remedy the situation. First, separate your office space from your workspace. Second, set clearly defined times for work and make a clear distinction between work hours and leisure/family hours. And finally, perhaps the most important issue is to communicate clearly and assertively with your family.

Make it clear that you have specific hours in which you plan to work, and that just because you are at home, it doesn't mean that all hours are available for leisure activities, family discussions or chores. By establishing firm agreements between you and your family, you can prevent them from distracting you from your trading tasks. So, learn how to work at home efficiently. You'll be more productive and profitable in the long run.

High Hopes.

Can an ant move a rubber tree plant? Perhaps it can if it has -high hopes.- This image exemplifies the eternal optimist. The power of positive thinking, if only we could muster enough of it, we could move mountains. You must have high hopes to trade successfully. Many people attempt to master the markets, but few achieve enduring success. If you don't push yourself, you'll never make it. But optimism has its time and place. There's optimism on the one hand and set yourself up for failure on the other. It's vital for your long term well being that you are optimistic yet realistic. In other words, hope for the best but don't expect miracles. Cultivating the proper amount of optimism is essential for maintaining a peak performance mindset.

What's the harm in being overly optimistic? Nothing, as long as you don't create false hope or set overly high expectations for yourself. A common malady for novice and expert traders alike is the belief that they can take out more profits from the market than is possible. Trading is not a solitary profession, like being a writer or an artist. It requires creativity, but traders must interact with the markets. Writers or artists work by themselves, and completely on their own terms. They can keep at it day in and day out, and the more effort they put in, the more success they achieve. It isn't quite the same for a trader.

The markets don't always provide opportunities. There must be a match between current market conditions and a given trader's specific talents and trading style. When the two don't match, it's impossible to make a profit. A trader must continually monitor current market conditions and decide if he or she can trade under such conditions and make a profit. If the market conditions are not optimal, it is wise to stand aside and wait for conditions to change. When market conditions are ideal, however, it is vital for a trader to push himself or herself to take advantage of those conditions. An overly optimistic trader, though, may not recognize his or her limitations. Unless you are one of the rare super-traders who can trade in almost any market, you can't expect yourself to trade in every possible market condition and make the same amount of profits. Depending on your skills, the amount of profits you can realistically make depends on the market conditions on that day. But if you believe you can make large profits daily, regardless of the time of day, the day of the week, or the time of the year, you'll likely fail to reach your expectations, and you'll feel disappointed. And when you are disappointed and frustrated, you will make the most trading errors. You start thinking in terms of -shoulds- and -musts.- You think, -I should make $2,000 a day and I must do it or else I'm letting myself down.- Such thinking often does more harm than good. At that point, you're just setting yourself up for a letdown. You become your own worst enemy.

One of the greatest obstacles that traders face is their own unrealistic expectations. If you set expectations too high, you'll fail to meet them, and you'll feel disappointed. It's unfortunate. There is no reason to set high expectations, fail to reach them and then beat yourself up for it. It's better to live by the old adage, -I accept what the markets give me.- You don't control the markets. You have to accept what you can get, and feel good that you got anything. If you adjust your expectations to market conditions, you'll feel better. And in the long run, this can do wonders for your overall mood. If you continually feel that you are missing the mark day after day, though, you'll become especially discouraged, and in all likelihood, you'll think about giving up trading and looking for a new job. Although a positive mindset can do wonders, it's essential that you be flexible. It's necessary to be realistic when setting goals. Research studies have shown time and time again that when we set goals that are too high, we fail, and give up. That's why people can't lose weight or keep New Year's resolutions. They set goals that are impossible to achieve. So set realistic goals. You don't have to take home huge profits every day. Just accept what you can get. You'll be happier, and ironically, you'll trade more profitably.

Next Time You Get a Hot Tip...Beware.

Few things appeal more to our sense of greed than a hot stock-tip. Sometimes it comes in the form of a phone call: -I've got a buddy who works for Ajax Widgets,- the tipster will tell you, -and he says the company's going to announce a huge deal with China next week.- Or you might be playing golf and someone in the foursome mentions that she has just bought 10,000 shares of XYZ Corp. because her broker says some -big news- is due out on the company -any day.- Or a friend of your friend's lawyer confides that the -ink is dry- on a deal that will seal the acquisition of one corporate biggie by another.

The temptation to act on such tips can be hard to resist, notwithstanding the fact that you could be breaking the law by doing so. Indeed, any tip that proves -hot- enough to act upon is probably illegal, coming from corporate insiders and revealing facts that public investors know nothing about. As we know, acting on such information is insider trading, a felony for which some violators have received large fines or even jail time.

That's one reason why it's a good idea to tell the would-be tipster -thanks, but no thanks- when he or she calls. But if the temptation seems too great to resist, there are two other reasons to consider before you take the plunge. First, relatively few hot tips pan out; and second, even when they do, it's often impossible to accurately predict how the stock will react.

Of course, no one keeps statistics on the percentage of hot tips that worked or didn't. But if you're the sort of investor who talks about stocks at cocktail parties, chances are you've heard a few hot tips yourself. But ask yourself, how many of them panned out? And how often did the supposed insider news become public within the predicted time span? If your answer to either question was -most of the time,- then you're probably getting your information from sources that even the CIA would envy.

But for each person who has gotten rich acting on a hot tip, there are probably fifty who have been burned when it failed to materialize. And there are twenty-five more losers who acted on the tip, only to see the stock react in an unexpected way. We've all seen stocks fall on ostensibly good earnings news, and rise when the news seemed outright bearish. Take note of these occasions, for they are not so uncommon as you might think. And to be sure, tally up the tips that turned out to be winners, for that's the best way to build up resistance to the gambling fever that sometimes possesses us when some alleged insider has a secret to share.

It's How You Play the Game That Matters.

The old saying, -It's not whether you win or lose but how you play the game- is especially relevant to trading. Many novice traders work under the assumption that winning is all that matters. But winning over the long term eludes many traders. Sure, you might win over the short term, but it's difficult to continue winning. Winning requires discipline. It is vital to have a clearly defined trading plan and to trade it. If you trade by the seat of your pants, you won't trade consistently and you won't accumulate profits.

How do you approach trades? Do you try to follow a detailed trading plan or do you rely on luck and hope that all your trades work out the way you want? If you rely on fate, you may pay a psychological price when it comes to your discipline. Making a quick profit without a trading plan may provide a short-term pleasure, but these kinds of winning trades can adversely influence discipline in the long term.

Rather than developing a well-defined trading plan, following it, and getting rewarded by trading it, an undisciplined trader puts on a trade haphazardly and is coincidently rewarded. In this case, a lack of discipline is rewarded, and this unjustified reward may increase a trader's tendency to abandon trading plans in the future because he or she has been rewarded for doing so in the past. However, the positive outcomes are usually short-lived, and a lack of discipline ultimately produces trading losses.

It's useful to distinguish justified wins from unjustified wins. A justified win is when a trader makes a very detailed trading plan and follows the plan. A win that results from following a trading plan is justified and reinforces discipline. An unjustified win occurs when a trader doesn't make a plan or drifts from the plan. He or she may be rewarded, but the outcome occurred by chance. The win is unjustified and can reinforce undisciplined trading.

Cultivating discipline is vital for profitable trading. Trading is basically capitalizing on chance. One implements proven trading strategies, over and over, so that across a series of trades, the strategies work enough to produce an overall profit. It's like making shot after shot on the basketball court so as to accumulate a winning number of points. The more shots you take, the more likely you will amass points. But the winning player is the person who first develops the skill to make the shot consistently so that at every possible opportunity, the ball is likely to go through the basket.

To a great extent, consistency is key. It's the same for trading. One must trade consistently, following a specific trading plan on each and every single trade (the plans are different, but some sort of plan is used each time). This allows the law of averages to work in your favor so that across the series of trades, you will make an overall profit. Don't let unjustified wins interfere with your ability to maintain discipline. Follow your trading plan, and reinforce the idea that if you follow your plan, you will end up with profits in the long run. If you abandon your trading plan and get an unjustified win, you may feel good in the short term, but you'll pay a long term price when it comes to your ability to maintain discipline.

A Humble and Modest Approach.

It's exciting to win. Trading is challenging. It requires well-honed skills and rock-solid confidence. After a winning streak, it's easy to get a -swelled head- or a big ego. Why not? When you've just accomplished a feat seldom achieved, it's hard not to think one is special. Most seasoned traders will tell you, however, that when you start thinking you have superior abilities as a trader, you may arrogantly think you can do the impossible. And when that happens, it usually spells doom and despair. To maintain long-term success, it's vital to stay humble and modest.

It's healthy to occasionally pat yourself on the back for a job well done, but be careful not to go to extremes. Don't get too full of yourself. Just when everything seems to be going well, market conditions change, and your foolproof methods will stop working. Suddenly you start seeing losses rather than profits. By taking a humble and modest approach, though, you'll always be prepared for this eventuality. But when you start thinking, -I'm a natural-born trader- or -I'm the king of the world,- you may be caught off guard. You may start to think you can take riskier trades, let your discipline falter, or fail to adequately control your risk.

It's important to always remain focused on trading. You must stay calm, objective, and unemotional. Getting a swelled head often interferes with maintaining such a mindset. Basking in the glory of success can be intoxicating. You may start to think you are invincible and can do no wrong. You may then start bragging to your friends about how well you're doing, or start spending money extravagantly. When that happens, it may be the start of a downward spiral. In a subtle way, you will start to put extra pressure on yourself to perform up to these especially high standards. You will feel a need to maintain your high opinion of yourself.

You may dread failure because should you fail, you will have to admit to yourself and friends that you were not as invincible as you had claimed. At that point, you may engage in denial. Because you can't face your limitations, you may deny you have any. And once you start distorting reality, it's bound to impact your trading. The added pressure to perform, along with the psychological need to save face, will take a toll on your limited psychological resources. You'll have less energy to focus on your trading, and you will likely make trading mistakes that will lead to your downfall.

In the final analysis, the best way to ensure long-term trading success is to stay humble and modest. The more you can stay humble, the more you can stay impartial, relaxed, and alert. You won't feel you have to prove anything to anyone. You'll be able to stay detached and objective, even in the most uncertain and chaotic market conditions. So stay humble and modest and you'll stay consistently profitable.

Winning Traders Are Humble.

It is important to reward yourself for a job well done. We feel pride after making a significant achievement and are especially proud when the achievement has increased our social status. Pride can be a powerful motivator. If you are one of the rare few who have achieved consistent profitability, you should feel proud. Trading is difficult. Few people master it, so when one is doing well, it's natural to feel a sense of accomplishment and pride. That said, it is vital that you rein in your pride and stay humble. Don't become arrogant and overly proud. Winning traders are humble.

Too much pride often leads to disaster. Pride can be a competitive emotion. Those who are especially proud have a burning desire to brag about their accomplishments and feel superior to others. This can go too far. When people speak of their successes too often, others often resent them, and can't wait for them to fail. The overly proud trader is likely to cave into strong social pressure to continue making large financial gains to save face. There's also a risk of becoming stubbornly proud. Stubborn pride occurs when people have spent so much of their life feeling proud of their accomplishments, and trying to feel superior to others, that they have difficulty admitting when they have made mistakes. At an extreme, the overly proud become afraid to face mistakes and may even deny that they have faults.

Extreme pride can be a danger for trading and is the downfall for many. Trading is hard enough without introducing additional psychological pressures to feel superior to others, maintain social status, or save face. When pride drives trading decisions, one is likely to take unnecessary risks in order to make big wins to keep up appearances.

Controlling pride is vital. It is important to develop internal standards of self-worth. Don't compete with other people. Learn to compete with yourself. Develop your own rules and standards related to your skill as a trader. When you reach your standard, you can feel a little pride, but don't feel the need to tell others about it. If you can feel proud of your accomplishments, without feeling the need to brag about how well you have done or exaggerate how well you are doing, then you will have learned to feel a true sense of pride and self-worth.

Successful trading requires that one knows how to experience the proper amount of pride. When one achieves a goal, it's natural to feel a sense of accomplishment. But it's vital to maintain an objective, non-emotional approach. Pride usually prevents one from cultivating this approach. The more you can keep your pride under control, the more successful you will be at making rational, unbiased decisions.

The Humble Trader is the Winning Trader.

Trading can be frustrating at times. You put in a heroic effort, but it doesn't always pay off in the way that you had hoped. When you finally do win big, you naturally want to celebrate. You may even get a -swelled head,- and feel invincible as if you are on top of the world. Why not celebrate? You deserve it. It's healthy to occasionally pat yourself on the back for a job well done, but don't get too full of yourself.

There are many tales of expert, skilled traders who were at the top of the field and the idol of many, but due to changes in the markets, they ended up busted. Just when everything seems to be going well, market conditions change, and methods that once brought in steady profits suddenly stop working. That's why seasoned traders suggest staying humble. You must stay humble, and focused on continually honing your trading skills in anticipation of the next major change in the markets. A humble approach to trading will help you stay calm and focused.

Getting a swelled head often interferes with maintaining a calm, objective, and unemotional mindset. Basking in the glory of success can be intoxicating. You may start to think you are invincible as if you can't lose. You may then start bragging to your friends about how well you're doing, or start spending money extravagantly. When that happens, it may be the start of your demise. In a subtle way, you will start to put extra pressure on yourself to perform up to especially high standards that are almost impossible to maintain.

You'll try to keep up your reputation. You may dread failure because should you fail, you will have to admit to yourself and friends that you were not as invincible as you had claimed. At that point, you'll have trouble staying objective. And once that happens, it's bound to impact your trading. The added pressure to perform, along with the psychological need to save face, will take a toll on your limited psychological resources. You'll have less energy to focus on your trading, and you will likely make trading mistakes that will lead to your downfall.

It's important to keep your ego out of trading. Don't build yourself up, but don't overly criticize or condemn yourself either. Stay realistically upbeat and focus on developing your skills as a trader. Work toward excellence, not perfection. You have to be good, but not perfect. You must have top-notch trading skills, but you don't need to be the best trader in history. When you take your ego out of the picture and stay modest, you'll find it easier to concentrate. And when you focus on the process of trading, rather than the prize, you'll trade more profitably.

Humility.

Why are folks initially attracted to trading? For many, it's the money, especially the prestige and status that money can bring. But seasoned traders warn that when money, riches, respect, or any other human needs enter the picture, failure is not far off. It's common lore among those who have been in this business a long time that humility is associated with success, while pride, ego, and avarice lead to failure. Popular anecdotes recount stories of how a successful trader buys a big new house or luxury car and soon fails. The lesson: control your pride.

Pride can be a powerful motivator. We feel pride after making a significant achievement and are especially proud when the achievement has increased our social status. Trading is difficult. Few people master it, so when one is doing well, it's natural to feel a sense of accomplishment and pride. But too much pride often leads to disaster. Pride can be a competitive emotion. Those who are especially proud have a burning desire to brag about their accomplishments and feel superior to others. This can go too far.

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Striving for an Ideal: Art or Science?.

Many trading books describe the ideal trader as disciplined, a rule follower who devises a trading plan and sticks with it. Trading requires a certain kind of discipline, however. Not just any kind of discipline will do. Most disciplined people tend to seek out security and certainty. They prefer facts to abstract theories and ideas. This isn't always ideal for trading, though. There is an intuitive side to trading that is equally important.

The market only follows the rules when it does; the rest of the time it goes another way. There is an endless number of inputs and it takes an intuitive mind to piece them all together to come up with a reasonable plan of action. A common and simple way to classify people is to focus on the extent to which they approach life as an artist or as a scientist. This is also a useful way to look at trading types. The artsy person thinks in abstract rather than concrete terms. He or she knows how to use intuition to look at the world.

The artist sees reality as a subjective illusion, with each person creating his or her own reality. The scientist, in contrast, believes that there is a single true, objective reality. -If you can't measure it, it isn't there- is a credo most scientists live by. -There are cold hard facts out there and it is possible to find them.- Perhaps few artists are steadfastly so abstract, and few scientists believe in a universal reality. But as fuzzy categories, these are useful stereotypes, and ones that are apt to trading.

Which type describes you? Are you more of the scientist or the artist? Are you a blend of these two types?

Some traders are 90-10 in favor of science. They are usually interested in developing computerized trading systems that generate automatic buy and sell signals with as little discretion as possible. This type of trader may fall into the trap known as paralysis-by-analysis, an ailment in which far too much time is spent tinkering with the computer program than trading. One may spend more time backtesting and mining historical data than decisively putting on a trade. It is useful for these traders to work at bringing the blend into more of a balance by injecting more art or human intuition into the trading process. And for these people, it's useful for them to practice trusting their intuition and taking action rather than being stunned by indecision.

The opposite end of this spectrum is the all-art, no-theory type traders. Their perception of the market is based entirely on abstract feelings and spontaneous emotional response to stimuli. Naturally, this rarely works. Although an intuitive feel for the markets is useful, it's essential to also look at some -objective- inputs, consider them carefully, and make a sound decision based on the data.

What type of trader are you? Where do you fit in the spectrum between art and science? Take some time to find out and adjust your trading personality accordingly. You'll find that the right blend will help you trade profitably and consistently.

Idealism: Dare to Dream.

Dreamers are often exalted because they dared to achieve the seemingly impossible, but unless one's dreams match specific and realistic actions, little becomes of them. Without well-defined plans, aspirations can merely turn out to be pipedreams. That said, it is often useful to break away from real-world constraints and to daydream. Rather than bound our thoughts by the realistic restrictions that stop us dead in our tracks, one can dream about the perfect set of circumstances that will ensure success. Lifting all restrictions, such as cost, internal/external politics, or technology can produce creative solutions to even the most difficult problems.

In your mind consider what characteristics describe an ideal trader. What attributes would you list? This exercise can be useful. It will allow you to consider the characteristics that define the ideal trader and compare yourself to the ideal. A comparison may create awareness of realms that you've never considered, areas that may be impeding your ability to reach the level of success you desire or expect.

For example, perhaps the single most important characteristic for someone to thrive in any field is a pure, unadulterated passion to succeed. Unadulterated means that the primary motivation is to become the best'not the richest, most famous, or the most often seen on CNBC. The very best traders are people that would be trading even if they were not making big money. It is a passion for trading that gives them the focus to concentrate on their objective, to spend the time and energy to learn this business thoroughly and to endure the inevitable setbacks indigenous to trading.

However, most traders' motives are mixed. Their motivation is often adulterated with dreams of unlimited financial success and la dolce vita. But just because your motivation is weakened by self-serving needs of fame and fortune, that doesn't mean that you can't become a successful trader. By airing these feelings and questioning one's motives, a trader can develop the proper kind of motivation. It's better to acknowledge how your motives may be influenced by base human needs than to pretend these powerful desires have no influence.

There are other characteristics that the ideal trader should possess, yet many traders lack. The ideal trader is fearless. He or she can put on a trade with unfailing objectivity. You may know of some traders who are fearless and lose big because they don't take proper risk controls. So although complete objectivity is a desirable characteristic, it must be tempered with a healthy skepticism of the markets. There are instances when the ideals are hard to pin down, and the right balance between risk-seeking and risk aversion is one of those areas.

Besides the psychological characteristics, one can dream of other areas where working under ideal circumstances can ensure success. An arsenal of tried and true winning trading strategies and virtually unlimited trading capital exemplify the ideal, for example. These circumstances are certainly a fantasy, but thinking of them is a useful exercise. One is able to consider all possibilities, both achievable and unrealistic, and identity how close he or she is to the ideal. Such self-exploration allows you to identify what you can and cannot change, and in the end, it's informative to know where you stand.

Striving for Ideals.

When you look at the best and the brightest, it's often necessary to merely admire them rather than actually become them. Not everyone can be the best and the brightest, but it's nice to know that ideals are possible, at least one person made it. It's tempting to elevate them to the status of an idol, hoping that if we emulate them, we can be like them. Trading is a field where few reach the status of an elite trader. The closest most traders ever get to such greatness is reading about Jesse Livermore or the -Market Wizards.- Although we may never join this elite group of super-traders, it's inspiring to study them. It's motivating to emulate them and believe that someday if we work hard enough, we'll achieve just some of their greatness.

It is motivating at times to forget about how you are doing right now as a trader and dream about what you can be. Rather than limit our thoughts, we can dream about the perfect set of circumstances that will ensure success. What would you need in terms of equipment and resources? How much money would you need? What kind of time commitment is necessary? You might not meet the ideals, but it is useful to think about how close you can get.

Perhaps the single most important asset you can have as a trader is a pure passion to succeed. That doesn't mean focusing on becoming the richest, most famous, or the best trader in the history of the profession. It means loving what you do and not caring about the outcome. Upon reading the interviews with the -Market Wizards,- one can't help but notice that they all had a long love affair with trading. Many took any job they could find in this business, just to get the exposure.

It is apparent that they would trade even if they merely made a living wage. The irony is that they have such a passion for trading that they voluntarily work tirelessly and achieve profitability as a consequence of their efforts. It is a passion for trading that gives them the focus to concentrate on studying the markets, learning the nuances of the game, and working hour after hour to build up their repertoire of skills to the point where they can handle anything the market throws at them.

The ideal trader is fearless but knows how to control risk. He or she can put on a trade with unfailing objectivity. You may know of some traders who are fearless, yet give it all back because they don't take proper risk controls. So although the ability to take risks in an ideal characteristic, it must be tempered with a healthy skepticism of the markets. The ideal trader finds the proper balance between risk-seeking and risk aversion.

Besides psychological characteristics, the ideal trader has a wealth of experience with the markets. They have an arsenal of tried and true winning trading strategies and virtually unlimited trading capital. If only we could be the ideal trader? We could conquer the world of trading. Some will make it, some won't. But it's fun to dream, and it is often useful to think about what you need to do to become a market wizard.

How Much Are You Making?.

Tim asks, -So how much money are you making?- His friend James timidly replies, -I'm doing all right.- Tim boasts, -Wow, I'm making so much money today. This market is so easy, right?- Tim is not only bragging about how well he is doing, but he is taunting James. He's trying to intimidate him, and get him off of his game. Some traders are not only interested in trading for the money, but for the competition, and the enjoyment of basking in the glory of success. The competitive spirit can bring out the best in some traders, but for those who are not rugged individualists with rock-solid self-confidence, such taunting can shake one's confidence.

One may feel a need to compare oneself to others, and beat them at their own game, which often distracts rather than motivates. It's more useful to compare your current performance to your past performance. When you hear that someone is doing better than you, it's natural to wonder whether you are doing something wrong. But, in fact, you may be doing nothing wrong. Another trader's apparent success may be an exaggeration, an outright lie, or just a run of good luck. So it's wise to look only at your own personal internal standards, and not be thrown off by goading comments meant as subtle digs.

Traders, new or experienced, who have not yet developed a sturdy sense of self-confidence or control over their emotions, are easily dissuaded by subtle put-downs. They may question and abandon their trading plans, or trade impulsively to make some big wins to build up ammunition to fire back at the instigator. Seasoned traders, in contrast, filter out goading comments. They expect them, and since they deeply trust their skills and abilities, they don't care what others think or say. But novice traders, or experienced traders with wavering self-confidence, can't ignore these jabs so easily.

Isolating oneself from other traders is a possible line of defense but it is not without flaws. It's difficult to trade by oneself, especially when you're a novice. A social support network can be crucial. Members of the social support network can provide advice, serve as mentors, or provide emotional support. Ideally, everyone should provide support and want nothing more than success for all. But some people just don't know how to be supportive, and can even be exploitive, using you to fulfill their own personal needs to feel superior.

For example, they may relish in your losses, making them feel like winners. Or they may need you to share their frustration and pain. They may try to taunt you and disrupt you from winning so that you'll feel as poorly about your trading as they do about theirs. Others are just plain overly competitive, and feel pleasure in taunting their competition, like when a football team scores a touchdown and tries to secure their winning momentum by psyching out the opposition. On a trading desk, or when talking with fellow traders, such goading is more subtle. Nonetheless, it is still imperative to decipher the underlying motive and see the put-down for what it is.

It's difficult to cope with subtle attacks on your self-confidence, and perhaps the only way you can fully cope is to develop a strong sense of self-confidence so that no matter what anyone says, you will not falter. But until then, be on the lookout for those traders who are trying to build themselves up by putting you down. It's often hard to escape them. They are usually loud, obnoxious, and very matter-of-fact in their outlook on the market. Could these traders actually be making the thousands upon thousands they claim? Some may, but it's unlikely. What they aren't telling you is how much they have lost. Indeed, they veil their losses by bragging about their wins.

Slowly but surely, however, they stop showing up altogether as their trading account all but evaporates. It's poetic justice. Nevertheless, don't let these blowhards stop you from succeeding. When you hear others trying to put you down, and trying to throw you off, realize it's not about you. It's about them trying to deal with their own personal conflicts. Ignore it. Pay attention to what you are doing. Look inward for a sense of validation, and you will be one of the select few who trades profitably and consistently.

Intuition: It May Be Illogical But It's A Trader's Most Valuable Asset.

If only humans were more like machines. In theory, the ultimate trader would act like a robot, analyzing market data with unfailing accuracy, devising a trading plan, and executing it without flaw. But does trading work that way? Trading is more art than science. Without an intuitive grasp of the markets, it's difficult to successfully trade the markets using short-term trading strategies.

As Captain Kirk would constantly remind Mr. Spock on -Star Trek,- humans have the potential to intuitively grasp situations that evade pure logic. There are times when the world doesn't operate in terms of logic. The physical world is the exception. The universe surely operates according to the laws of physics. If it didn't, we could never travel through space or reach the moon. The human world, however, rarely operates with precise accuracy. Sure, there are those traders with fancy algorithms and mathematical equations to forecast the market action, but ultimately, the markets are really just humans making decisions and acting on their beliefs and emotions.

Psychologists learned long ago that people's actually real-life behavior could not be broken down and predicted with mathematical equations. The most famous individual in the history of psychology was Professor Clark Hull. In his day, he was the leading figure in the science of psychology. He tried to illustrate how mathematical concepts can be used to forecast human behavior, but it didn't work. Today, Professor Hull is merely a footnote in the history of psychology.

It's vital to remember the fact that people are not machines, and because they aren't, their behavior cannot be reduced down to simple formulae. As much as we want to believe science can do anything, it's hard to fully account for human motives. You may ask, -Can't we put multiple streams of information together in a multiple regression equation and forecast what the masses will do?- The answer is no, not in the short term. The best you can do is use past data to forecast the future. But history only repeats itself when it does. The -weighting- of a variable in the equation is not fixed, as it is in the physical sciences.

One day the weight maybe 1 while on another day, it maybe 0. We don't know what the precise weighting of the variable is until it's too late. What can you do instead? You must trust your intuition. Again, trading is more art than science. You have to look at patterns and try to anticipate where the market will go next. Is it perfect? No. Is it uncertain and chaotic? Yes. You must accept uncertainty in your life. You must work under the assumption that you will be wrong more often than right. Over time, and with enough practice, you'll see patterns emerge. You'll see how market conditions change, and how trading is a matter of knowing what to do under specific conditions. There are consistencies when it comes to the market, but they are not always obvious. You must look for them. The more practice you have at studying the markets, the more you will trust your intuition and trade like a master trader.

The Power of Positive Imagery.

Have you ever had those days, or weeks, where you just couldn't get on a winning streak? Perhaps you are a novice trader trying to break into the field, and wondering if you'll ever become a full-time, active trader. Sometimes, it feels like you're just spinning your wheels. It's easy to feel like throwing in the towel. Whether you are feeling down and beaten or in a little bit of a slump, positive imagery can restore your optimism.

You can use a variety of positive images as a source of inspiration, and depending on your background and resources, some positive, motivating images are more realistic than others. If you are from a well-to-do and well-connected background, it may be motivating and realistic to imagine yourself becoming the next Warren Buffet. But if you're like most people, you would settle for becoming a skilled, profitable trader. Think of how great it would be.

Imagine yourself having a wealth of market experience and being able to recognize a pattern intuitively and being able to react just as instantly. Every week, you have no problem identifying profitable setups and you have enough money in your account to take advantage of them in a major way. And then there are times when you hit upon a good run, and really make huge profits. Life is good. You enjoy the process of trading and don't need to care about meeting your financial goals anymore. You just know you are having fun all day and sleep soundly at night.

Isn't the image pleasing? Doesn't it motivate you to work harder to reach your goals? Anyone can dream, but what is the difference between a realistic dream and a pipedream? That's a hard question to answer. Only you know your abilities and what is realistic based on your background. It doesn't make sense to imagine the impossible, however. It may feel euphoric in the short term, but you'll know that your motivating image is just a fantasy. If your dream is unrealistic, you'll end up frustrated. You'll set yourself up for failure because you can never attain the goals you've set. It's important to have a positive image that is motivating but also realistic.

How do you create a realistic, motivating image? Look for role models. There are numerous trading books with interviews with seasoned traders. Find traders who have similar backgrounds to yours. Learn how they made it. What were the market conditions? What did they do to prepare? Use their career as a roadmap for your career. Having a real person in mind as a role model can transform vague, quixotic images into a tangible, attainable reality.

Once you have a positive image in mind, it can only be motivated if you believe it is possible to attain it. It is essential to develop a clear plan for how you will reach your goals. If you don't have enough money to trade, for example, consider getting a second job. If you feel that you need more instruction, figure out how you will be able to find the time to get that instruction. If you are taking active steps each and every day to reach your goals, you will think of your positive, motivating image and feel inspired. You'll take minor setbacks in stride and work tirelessly to reach your goal of becoming a profitable, master trader.

It's Not Personal.

Have you ever lost big on a few trades and thought, -I need to win it all back right now-? When this happens, your emotions start to take hold. You may even start thinking about seeking -revenge on the markets,- but such overly emotional responses have no place in trading. It is useful to cultivate a more objective, unemotional approach when trading the markets.

Emotions and money often go hand in hand, and our feelings toward money often bleed into our trading lives. For example, have you ever compared how it feels to spend cash to pay all expenses rather than credit cards? When you pay expenses with credit cards, it's easy to forget you are spending real money. The money can start to lose some of its meaning. It sort seems like spending play money. Doling out the actual cash with each purchase, in contrast, makes you see exactly how much money is being spent.

You feel differently about it. Spending actual money raises your awareness. The money is less abstract and tangible. It's easier to spend. Although treating money so cavalierly can lead to problems with spending in everyday life, such an attitude toward money can be useful when trading. It allows you to look at the money as objectively and abstractly as possible, just as percentage points or ticks. It eases some of the pressure and helps you get up quickly after a setback knocks you down.

There are a few simple things you can do to maintain an objective view of trading capital. Many say that when money is committed to trade and the risk and potential loss is experienced, -objectivity goes out the window.- Thus, anything you can do to minimize the feeling of risk and potential loss will help you look at the markets more objectively. First, it's helpful to trade with money you can afford to lose. Trading is a profession where you should go in expecting to lose. If you can't afford to lose the money you trade, it will be difficult to maintain objectivity.

Deep down, you will know that you just can't afford to lose in a worst-case scenario. Feelings of uncertainty and fear will gnaw at you. Second, it is also crucial to managing your risk. By carefully managing risk on any single trade, you call tell yourself, -I've got little to worry about. I can afford to take the loss.- At first, you may have to consciously remind yourself of this fact (again, make sure it is a fact), but over time it will automatically be in the back of your mind. You will be calmer, and can more easily cultivate an objective mindset.

Finally, view profits and losses in an abstract framework. Rather than focusing on concrete dollar amounts, try to focus on percentages, or just abstract, theoretical numbers. Don't think of the dollar amounts in terms of what can be purchased. Equating dollar amounts in terms of tangible terms, such as car payments or sought-after luxury items, will weaken your objective mindset. You'll be more prone to experience elation from big wins and disappointment from losses. So don't let emotions get the better of you. Cultivate an objective mindset. You'll trade more calmly, creatively, and profitably.

Acting On Impulse.

Why do so many traders abandon their trading plan? Is it their personality, an inherent pitfall of the trading profession, or temporary insanity? A host of factors may contribute to a lack of discipline. Depending on your personality, background, training, and experience with the markets, you may have trouble reigning in your tendency to act on impulse.

For some people, impulsivity is in their nature. They have trouble focusing their attention. They are easily bored. Seeking out quick thrills relieves the tedium of life. For others, impulsivity is related to emotionality. Some people have so much trouble controlling their emotions that they react impulsively out of frustration. Minor setbacks are inevitable in the trading arena. When the extremely emotional trader encounters one of these setbacks, he or she becomes overly agitated and may close a position early, or in a fit of confusion, make a major trading blunder that can only be remedied by closing the position.

That said, any trader can act impulsively at times. There are many situational factors that contribute to impulsivity. Research has shown, for example, that when people are tired, they have difficulty focusing their attention. As much as part of your conscious mind cares about sticking with your trading plan, your unconscious mind thinks, -Who cares? I want to take a break.- Psychological resources are limited. When you push yourself to the limits, you will have trouble focusing on your ongoing experience, concentrating on your trading plan, and sticking to it.

Other people may be impulsive because they lack experience with the markets. You can't expect to stick with a trading plan when you are uncertain. If you lack experience with the markets, you'll feel a lack of confidence and uneasiness. If you don't trust your intuition and if you have wavering trading skills, you'll have difficulty risking money and truly believing that your trading plan will produce a profit.

Trading plans must be clearly defined and easy to follow. When you have an incomplete trading plan in which important aspects are left unclear, you will have trouble following it. A trading plan should consist of clearly defined entrance and exit strategies. Signals that indicate how the trade is going are also important. Don't underestimate the importance of clearly mapping out a trading plan. You can't stick with a trading plan that you can't follow.

The winning trader is a disciplined trader. Disciplined traders stick with trading plans. They don't act on impulse. It is essential that you identify the reasons you are trading impulsivity. It could be your personality or it may just be situational, but whatever it is, you must gain awareness of these factors and work around them. If you can control the urge to act on impulse, you'll trade more profitably.

Controlling Your Impulses.

Winning traders have learned to control their impulses. They are calm and relaxed. They are not riddled with self-doubt or self-reproach. They can make trades intuitively and effortlessly. And they show extreme self-control. Rather than give in to their urges, they formulate a trading plan and they stick with it. Depending on your personality, you may have difficulty controlling your impulses. But whether you find discipline easy to control or difficult, there is a lot you can gain more control.

The most common way traders act impulsively is by abandoning their trading plan. Once you have outlined a specific plan in terms of when to enter and exit a trade, it is vital to follow it. But it is difficult to do. It seems easy when you devise the plan, but while in the midst of a trade, it can be hard to stay with it. At any given point, you may look at the market action and think, -there's no way my plan can work.- If you are an extremely seasoned trader, you may have the experience and judgment to abandon your plan when you see it isn't going to work. Novice traders, in contrast, tend to abandon their plan prematurely, and regret it later when they find that had they been able to stick it out a little longer, they would have made a greater profit. It may be hard, but novice traders must fight the impulse to close out a trade prematurely.

The first step to gaining impulse control is to identify the reasons you want to control your impulses, in other words, the downside of abandoning your trading plan. The most common reason traders desire to stay with their trading plans is to maximize profits. The profits on winning trades must compensate for losses on losing trades. Following a well-defined trading plan usually insures profitability overall. You will have an easier time sticking with your plan if you frequently remind yourself that in the big picture, following your trading plan will allow you to trade more profitably. You may even want to write it down on a post-it note and stick it on your screen, so that while you are struggling to fight an impulse while trading, you'll remember why you are doing it: The more discipline and self-control you achieve, the more profitable you'll trade in the long run.

Many times impulses are difficult to control because of emotional states. When you are guilty, frustrated, or afraid is when you may have the most trouble controlling your impulses. By identifying the emotions that precipitate an impulsive move, you can gain more control. By self-monitoring your emotions, you can identify how they lead to impulsive decisions. You may feel guilty because you feel that you should not risk the money you are trading. By refuting this belief, you can alleviate guilt and be able to stick with your plan. You can similarly identify how fear and frustration precede impulsive decisions, and practice controlling these emotions in order to increase your overall ability to remain calm and disciplined.

Building up self-control skills takes practice. Don't be disappointed if it doesn't happen overnight. It is much like losing weight. What happens when you eat an extra piece of pie at dinner and do it again and again? Once you lose control, you have to work to get it back. You must do it little by little. It takes time and you may slip, but if you keep at it, with time and practice you will build up your self-control skills.

Impulsive Trading: Possible Causes and Cures.

A common complaint of novice and master traders alike concerns the ability to maintain discipline and self-control. Whether it is prematurely abandoning a trading plan or putting on a trade just to get a thrill, there are times when traders act on impulse. They act without thinking, and often, make a trading error in the process. The more you can take control of your emotions and trading decisions, the more profitable you'll trade in the long run.

There are both personal and situational reasons for why traders make impulsive trades. Some people are impulsive by temperament. They are overly self-indulgent and have trouble maintaining discipline in a variety of situations. That said, even conscientious people are impulsive under certain circumstances, and trading is replete with times where it is hard to maintain self-control. For example, oftentimes, trading can be boring. If you are making a swing or longer-term trade, you must wait patiently for the price to move to your exit point. For some, waiting is excruciating, and there's a strong temptation to do something to reduce the boredom.

Some traders overtrade to kill some time or to get a quick thrill. What's the harm? Nothing, if the trade is small and you are ready to take the loss and think nothing of it. But some traders may get overly consumed with the money they have lost, either because it was more than they had anticipated, or because they are overly concerned with how their ego was unexpectedly dinged. Even though they didn't intend to make a spur-of-moment, -time killer- trade a big deal, it turned out to be a greater burden than they had anticipated. The trade may have started as a way to fight a little boredom, but suddenly, it became an issue that shifted attention away from more significant trades. It is better, in the long run, to restrict trading to high probability setups in which you have a clearly defined trading plan to guide you.

Other traders may work under the false belief that by merely making a bunch of trades, they can increase their odds of success. They wrongly believe that they can make any trade for any reason and that the more trades they make, the more profits they will realize. Even though you have to risk money to make money, and similarly, you must execute trades to make profits, it doesn't mean that merely putting on trades guarantees success.

Obviously, you must use trading methods that are viable and robust and use them under those market conditions where they have proven effective in the past. It's important to remember that you must carefully monitor market conditions, and apply a trading method when it is likely to produce a profit. If a high probability setup doesn't present itself, it is vital to stand aside until matters change. Remembering this fact can help you remind yourself to show self-control and to stand aside until market conditions are optimal.

A common reason that traders may abandon a trading plan is that they are tired and worn out. Self-control requires psychological energy and when you are tired, it is difficult to devote the proper level of psychological energy to maintaining self-control. You are easily distracted and even the slightest amount of stress can upset you. During these times, you may be prone to impulsive decisions. The best antidote is to get plenty of rest. The more rested you are, the more easily you can control your impulses.

If you can control your impulses, you'll trade more effectively. Don't trade by the seat of your pants. If you develop a clearly defined trading plan, you'll have an easier time following it. It is also vital to view trading as a business. Don't put on trades just to get a thrill. And most importantly, stay rested. Don't trade while you are hungry, tired, overly emotional, or under extreme stress. You have a limited amount of psychological energy, and when it is depleted, you'll have difficulty controlling your impulses. There may be times when it is hard to control your impulses, but if you gain awareness of the potential causes and possible ways to gain control, you will stay disciplined and profitable.

Impulse Control Strategies.

The most serious malady facing many novice traders is a lack of discipline. Rather than sticking with a trading plan, many novices lose control. They impulsively abandon their plan and often pay the consequences with inconsistent profits, or usually, severe losses. Psychologists tend to refer to discipline as -impulse control.- There are a series of classic research studies that illustrate how people can increase their ability to control impulses. As a trader, you may find these self-control strategies interesting.

In a seminal study on impulse control, Dr. Walter Mischel and colleagues studied children's ability to delay gratification. Typical of many children, the participants were a little hungry and they were offered pretzels for a snack. To get a pretzel, all they had to do was ring a bell and a lab assistant brought one over. But there was a catch: If they could wait long enough, and avoid ringing the bell, they could receive a bunch of pretzels, a delayed but more desirable reward. What's interesting about this study are the situational and psychological factors related to how long a child could delay gratification.

The first factor was the visibility of the reward, whether it was right in front of the child or hidden. As you might expect, it's hard to delay gratification if the pretzels are right in front of you. Children couldn't wait. When the pretzels were right in front of them, they would rather eat a single pretzel immediately than wait for a bowl of pretzels later. This finding is particularly apt for trading. When making a swing trade, for example, it may not be a good idea to constantly monitor the trade on your screen.

Some traders say it's a lot like looking at a slot machine. It tempts you to play it, to take action when you really just need to wait for the exit signal. If you have a problem with impulse control, you may want to avoid looking at your screen when there is no pressing reason to monitor the trade. Or you may want to use the automatic settings on your trading platform to fight the urge to act on impulse. Whatever you do, it's useful to remember the natural human tendency to want to sell off trade to avoid risk, rather than waiting patiently for the signals to line up and exit according to your trading plan.

People can also use thinking strategies to increase impulse control. For example, Dr. Mischel found that children could refrain from eating the pretzels by looking at them from a different perspective. If they thought of the pretzels as food, they wanted to eat them. But if they thought of the pretzels as looking a lot like a pile of logs, it was easier to hold off. Similarly, if they pretended there was a frame around the pretzel, and convinced themselves that they were merely looking at a picture of a pretzel, they could more easily delay gratification. This finding is also pertinent to trading.

One of the main reasons novice traders abandon their trading plan is that they view the capital they invest in the trade as actual money, and the pleasing, nurturing images that go with it. They think of what they can buy with the money, and how pleasurable it would be to spend the money. Of course, there is actual money on the line, but it doesn't help to think of it that way. It's more useful to look at trading capital as abstractly as possible. Rather than actual money, it should be viewed as percentage points or just numbers that don't relate to anything tangible. If one is able to objectify capital, one can more easily maintain discipline. Just as children can avoid eating pretzels if they could just not see them as food, traders could avoid acting out of fear and greed if they could just not see trading capital as car payments, luxury items, or house payments. It may be an intellectual exercise, but it works. The more you can objectify the money you put on the line with each trade, the more you can act logically and unemotionally.

If impulse control is a problem for you, don't give up hope. There are strategies you can use to increase your ability to maintain discipline: avoid looking at your screen unnecessarily and objectify the trade as much as possible. (And always remember to follow a detailed trading plan; don't leave any aspect unspecified, or you'll be tempted to abandon your plan prematurely.) By controlling your impulses, you'll be able to trade more consistently and profitably and achieve the long-term success of a winning trader.

Impulse Buys.

Have you ever had a hard day and had to stop off at the grocery store to buy a loaf of bread and a gallon of milk? As you stand in the line that never seems to end, you glance at magazines, look at the candy stacked neatly in the back of you, and suddenly, while caught off guard, you load your cart up with candy, batteries, tabloids, and junk that you really don't need. Merchants place those products at the checkout line on purpose. They know that many shoppers will make an impulse buy. Do you ever make an impulse buy when it comes to your stocks? Perhaps you see a provocative commercial for a product on television and unconsciously feel so good about the company that made the product that you buy its stock. Maybe while at your children's school, you notice that all the kids are wearing a particular brand of shoes. Whatever it is, you may intuitively sense that a particular product is about to become the next big fad and that a rising stock price may soon follow. Your hunch may be right, but it's vital that you maintain discipline and don't make an impulse buy.

In his book, -Mind Over Money,- Harvard Medical School psychiatrist Dr. John Schott describes what he calls -The Impulsive Investor.- Impulsive investors are easily swayed by the image of a company. When they feel good about a company, they buy stock in it. For instance, they may like the stylish clothes they see at a retail chain and invest. Although their hunch may be right, they buy too quickly. Rather than carefully outline a trading plan, they go with their immediate first impression.

Sometimes these feelings are accurate, but in the long run, they tend to be wrong. According to Dr. Schott, the impulsive investor not only buys too quickly but sells too prematurely as well. It's similar to -love at first sight.- An impulsive investor falls in love with a company, buys the stock, but sells when the initial infatuation ends. Dr. Schott argues, -because impulsiveness view stock personally and give themselves to the stock, they expect, in return, that the stock will reward them with quick gains. The underlying fantasy is I've loved the stock, the stock must show that it loves me back by showering me with wealth.'- When the stock doesn't fulfill the fantasy, the stock is sold.
Perhaps not all traders and investors show such an extreme unconscious dynamic process when trading their favorite stocks, but many traders and investors can form an unrealistic personal attachment to a stock. You may feel that traditional companies, like IBM or GM, are safe because you've followed these companies since you were a youngster. But from a purely logical standpoint, you know that the fundamentals of GM, for example, have not been strong recently. It is vital to separate your feelings toward a company from the objective facts about the company, whether they are fundamentals or current market sentiment that will ultimately drive the price.
Even if you aren't an -impulsive investor,- as Dr. Schott describes, it's useful to monitor those occasions when you are making a trade completely on impulse. Your feelings and intuition may be valuable guides for planning a trade, but they should be only one factor that influences your decision. Map out a clearly defined trading plan. Identify the factors that you expect to come into play in deciding whether to go long or short, and where to enter and exit. Dr. Schott suggests, -your goal is to restrain that impulsiveness by allowing for a period of investigation and reflection between your feelings and your actions.- Don't impulse buy. Take a few moments to think things through. What seemed like a good idea at first glance may seem like a bad idea upon further consideration.

Facing Temptation With Discipline.

Looking at your screen can be much like looking at a slot machine, and stopping yourself from dropping a dollar in the slot and pulling the handle. You must restrain yourself from making an impulsive trade, but there's a very human tendency to seek out excitement and receive a quick reward. You must fight temptation and maintain self-control, however.
Electronic trading platforms have made trades easier to execute, but at the same time, they've made trade execution so fast and easy that many novice traders overtrade, and even when traders don't overtrade, they may be tempted to constantly monitor their trades and abandon trading plans prematurely, a common ailment of novice and seasoned traders alike. Practicing patience can help you stick with your trading plan until it comes to fruition.

Impulsive trading doesn't happen in a vacuum. Many factors contribute to prematurely abandoning a trading plan. A significant precursor, though, is a feeling of boredom. When we are bored, we may want to spice things up, and what better way to put a little excitement into life than looking at a position to see how well things are going. What's the problem? The more you look at how a trade is going, the more you think about it, and if your plan is to patiently wait for a week or longer, looking can only make you feel like you want to take action. It's necessary to remove temptation.
Don't think you are a hero. The biggest mistake traders make is thinking that they have superhuman self-discipline. Do you remember the -Got Milk?- commercial from a couple of years ago? Imagine eating a frosted cupcake and trying to stop yourself from drinking a glass of milk. You could try it, but it wouldn't be easy. Rather than put yourself in such a situation, it's easier to avoid eating the cupcake altogether. It's the same with trading: Avoid looking at the market action unless it is a necessary part of your trading plan.
How else can you maintain discipline? First, admit your limitations. Self-control is like a muscle. You need to practice self-control. Don't try to be superhuman. You can't run a marathon tomorrow if the farthest you had to run in the past year was between your front door and your car when you were late for an appointment. You need to work up to it. Don't expect to be able to maintain self-control without extensive practice. Give yourself time to build up your self-control skills. Second, make a strong commitment to building up your self-control skills. Take the matter seriously.
Until you commit to change, you cannot improve your ability to maintain discipline. It's similar to losing weight or quitting smoking. A person must first acknowledge that he or she has difficulty with self-control before a change can happen. Admitting that you need to improve your self-control skills goes a long way. Third, you must use psychological techniques to learn to maintain discipline.
It is essential to monitor your self-talk. The kind of self-talk that most people have when they lose control is, -I need a little excitement. Let's see how my positions are doing.- When you look, however, you'll bring the emotions regarding your trade into your consciousness. You'll start thinking of how well or poorly the trade is going, and when you start thinking about it, you will be putting a strain on your self-control -muscles.- It's useful to remind yourself that you can maintain control: -I can wait if I try. I just need to concentrate.-
Fourth, when you start thinking about making an impulsive move, immediately run away from your screen until you -cool off- and allow your emotions to dissipate. In the old days, brokers helped prevent traders from acting too impulsively. Having to call a broker provided a cooling-off period. A trader may have wanted to change his or her trading strategy prematurely, but it wasn't as simple as clicking a mouse to execute a trade. A trader had to call up the broker and deal with the interpersonal issues of what he or she might think.
A trader was likely to stop and think, -I don't want my broker to think that I'm wishy-washy, impulsive, or timid, let me think about this a little more.- But these days, you can go to your computer and buy, sell, and re-buy a position in a matter of minutes. An obvious remedy to impulsive overtrading is to use a broker to place your trades. Another solution is to acknowledge that looking at your screen too soon is a temptation, and avoid looking at it as much as possible.
And if you do catch yourself looking, leave the room as soon as possible before you take an action you don't want to take. Don't trade impulsively. The winning trader is a disciplined trader. The more

you can stay calm, rational, and in control, the more profits you'll take home.

Increasing the Odds of Success.

Trading is one profession where you often find yourself working against the odds. Not just anyone can walk in off the street and start making consistent profits. It takes practice, skill, and proper mindset. Unless you take evasive action against adverse market forces, you may fall victim to overwhelming odds. But skilled traders know how to put the odds in their favor, and you can too. Here are some steps you can take to increase the odds of success.

One skill you must learn is to carefully walk a tightrope between self-doubt and overconfidence. Trading brings out both feelings, and it is often difficult to find the right balance between these two extremes. You may be optimistic at first, but you'll soon find out that trading can be difficult. The markets are unpredictable and a winning streak can turn into a losing streak in the blink of an eye. It is easy to become disappointed and consumed with doubt. But it is vital to not become too pessimistic, otherwise, you'll never be able to pick yourself up and try again. What usually happens, though, is that you become overly arrogant to protect your ego.

You may try to psych yourself up and try to beat the odds. Thinking optimistically can be useful at times, but you must use your optimism effectively. Don't arrogantly think you know how to trade before you've built up the necessary skills. Don't take unnecessary risks and think that you can beat the markets with sheer will. Persistence without the proper amount of skill will get you nowhere. You must study, practice, and learn in order to build up the necessary level of skill to trade consistently. Set learning goals, rather than performance goals. In other words, reward yourself for learning techniques at first, and when you're ready, you can set an overall profit goal.

It's vital that you acknowledge your risks upfront. Trading involves risk and you better learn to admit it. Traders try for the big profits, and they are ready to take the risk and responsibility. However, the difference between the professionals and the amateurs is that risk is carefully managed. Since you're trying to capitalize on winning odds, it's vital for your survival to anticipate a string of losing trades. That means looking at the risk to reward ratio before entering a trade, making sure that you have a large enough account to take the risk, and if you don't, stand aside and wait for a trade you can take. Risk management is a trader's secret weapon, and you must use is to survive over the long haul.

Finally, you must use reliable trading strategies. This is so much easier said than done. Obviously, you can't expect to profit if your trading strategy is flawed. But it is hard to know when it's flawed or just not working because of less than optimal market conditions for that strategy. All the trading books and experts warn, -Don't abandon a trading strategy prematurely.- It's not wise to jump from strategy to strategy, but what's -prematurely-? Based on probability theory, even a winning strategy can produce a string of losers and a severe drawdown, so sticking with a sound strategy too long when it's not working is going to wipe out your trading account.

So again, we're all walking a fine line. Perhaps the best you can do is decide how much of your trading capital you will risk on the strategy upfront, and if you lose that predetermined stake, just move on. Trading is challenging and unless you are prepared, there are forces that put the odds against you. With the right mindset and proper risk control, however, you can move the odds in your favor, and achieve consistent profitability.

The Independent Minded Trader.

Market action is driven by fear and greed. Masses of market participants follow each other to their doom. It's a fact. If it weren't true, winning traders couldn't take advantage of herd instincts and take home huge profits. As a trader, you must make a key decision: Do you follow the crowd or do you go your own way?

Following the crowd isn't always bad. In the strong bull market of the late 1990s, the market went virtually straight up, as if resistance were a hypothetical construct of a bygone era. But these days, we aren't so lucky. One month the market is bullish; the next month it is bearish. If you followed the crowd, you would end up selling when there were no buyers and mounting big losses. It's vital to anticipate what the crowd will do, and sell relatively early, on strength, when there are plenty of buyers. It's counterintuitive but necessary.

Going against the crowd isn't easy. We have a human, adaptive tendency to follow the crowd. Following the crowd usually keeps us safe, like fish that swim in schools for protection. The old adage, there's safety in numbers, is true most of the time. But traders would do better to act like rugged individualists.

Rugged individualists aren't always popular, though, and may get into trouble. Consider the plight of Hayden Roark, the protagonist in Ayn Rand's novel, -The Fountainhead.- Howard Roark is a creative, innovative architect who shuns the classical style that is popular among his colleagues so he could design modern structures that fully reflect his creativity. Ignored by the mainstream, he can find no clients and must support his craft by working as a laborer in a quarry or designing modest projects, such as family homes, gas stations, and small office buildings. But he doesn't mind. He isn't driven by money, fame, or recognition.

He is motivated solely by a powerful need to express his artistic vision. He works his craft to satisfy himself and no one else. For him, designing buildings has nothing to do with raising his status in the eyes of his peers. He does it solely for artistic expression. It's either his own way, on his own terms, or nothing. He would rather turn down a job than let a client change his design. Indeed, Hayden Roark takes individualism a bit too far. When a change is made to his design of a public works housing project by the city government, he bombs it and suffers the consequences. But, generally, following your own instincts gets you far.

Rugged individualists are resilient and persistent. At their core, their self-esteem is true and unwavering. As Dr. Nathaniel Branden observes, -When we appreciate the true nature of self-esteem, we see that it is not competitive or comparative. It is not about making myself higher by making you lower. It has nothing to do with you. It is the joy of my own being.-

Winning traders are extreme individualists. They see trading as an art form. They aren't concerned with the status and prestige that riches may bring. They love what they do and enjoy the benefits of working for themselves and being accountable to no one. They go their own way and know deep down that they are meant to be traders. It's not just a job; it's a calling. The more you can think like an individualist, the more you'll be able to anticipate the behaviors of the masses and capitalize on their tendency to follow the crowd.

The Independent and Confident Trader.

Trading isn't a profession where the top performers follow the crowd. In some professions, it's vital to be able to astutely identify what everyone else is doing and follow them. But traders must often anticipate what the masses are doing, and they often need to do the opposite. Going against the status quo isn't easy, however. It takes guts, courage, and confidence. It's hard to take a risk when there's a good chance that the path one chooses may lead to a devastating blow. Winning traders are independent and confident, however, and it's vital to cultivate these core personality traits. Confidence and independence often go together. Confident people aren't afraid to go their own way regardless of what others think, while independent people tend to do things their way because they have rock-solid confidence. But some people are confident merely because they have lived their entire lives in a secure, stable environment. It's like living in the proverbial small town, like Mayberry, N. C., and feeling comfortable in safe and familiar surroundings, but not knowing how to survive in a big city where uncertainly lies around every corner. Similarly, some independent people are folks who like to buck the trend just for the sake of breaking rules. They don't have genuine self-confidence; they just impulsively go against the prevailing trend no matter what it is. When it comes to trading, neither of these approaches is satisfactory.

It's necessary to have the ability to follow the crowd when it is appropriate and to go against them when it is called for. For example, when the market is trending strongly, it is useful to follow the crowd for a while. At the start of a major market move, the crowd tends to be right, so one might as well follow them. But at a turning point, the crowd is wrong. The winning trader must be able to anticipate the turning point and be ready to sell while everyone is buying before the market changes direction. If one hesitates or waits too long, it will be necessary to sell toward the end of the market move as the momentum starts to dissipate. By then it's too late to make a profit.

Having the flexibility to follow the crowd when it is advantageous and to go against them with it is not is difficult. One can neither be a conformist who feels safety in numbers nor a deviant who likes to go against prevailing opinion. The winning trader truly thinks independently and trusts his or her own instincts. Cultivating these talents is necessary to achieve lasting profitability. How can it be done? The first step is to assess your own personality. Are you a conformist, rule follower or a deviant, rule breaker? Neither extreme is very adaptive.

It's useful to know where you stand on the continuum and to realize that you must develop skills characteristic of the other end. Rule followers must learn to deal with uncertainty and risk, for example. Rule breakers, in contrast, must learn discipline and self-restraint. In other words, they must learn how to follow conventional wisdom, when it's actually right, that is. Second, one must gain a wealth of experience, and over time learn to trade in different market climates, and at different points during the ebb and flow of market prices.

Many traders know how to trade the trend, and that's a good start. But seasoned traders know how to also anticipate a turning point and capitalize on the masses' herd mentality, which compels them to stay with the trend even when it is about to change. By gaining self-awareness and extensive trading experience, you can achieve the lasting profitability of a winning trader.

Independent Minded and Carefree.

Novice traders are often puzzled by their inability to put on winning trades. Everything seems plausible in the planning stages of a trade, but when it comes time to execute the trading plan, they choke. Why? Many times it is because of performance anxiety. When their money is on the line, they worry about how well they will do, and they can't get the idea of losing out of their mind. What's the solution? If you can think like an independent-minded trader, you will trade freely, creatively, and profitably.

Going against the crowd isn't easy. We have a natural human, adaptive tendency to follow the crowd. Following the crowd usually keeps us safe, like fish that swim in schools for protection. The old adage, there's safety in numbers, is true most of the time. As for adaptive as conformity is, however, it prevents us from looking inward for guidance. We have a habit of looking outward and thinking of what we -should- do rather than what we want to do.

It's amazing how conformist humans can be. Have you ever been at a party and done something you would never think of doing just because everyone else was doing it? It's hard to break away from the crowd. It is difficult to look completely inward for direction. But, ideally, we should be able to look inward and not care what anyone thinks. For example, imagine going to the financial district during lunch hour, taking off all your clothes, and walking around nonchalantly (believe or not, you can actually see this happen in San Francisco occasionally). It would be difficult to do, but if one were completely independent-minded, he or she would have no trouble doing so. He or she wouldn't care what anyone thought. If only we could always be so secure that we naturally traded like rugged individualists.

Rugged individualists are not driven by money, fame, or recognition. They are resilient and persistent. At their core, their self-esteem is genuine and unwavering. As Dr. Nathaniel Branden observes, -When we appreciate the true nature of self-esteem, we see that it is not competitive or comparative. It is not about making myself higher by making you lower. It has nothing to do with you. It is the joy of my own being.-

Winning traders are extreme individualists. They see trading as an art form. They aren't concerned with the status and prestige that riches may bring. They love what they do and enjoy the benefits of working for themselves and being accountable to no one. They go their own way and know deep down that they are meant to be traders. It's not just a job; it's a calling. The more you can think like an individualist, the more you'll be trading freely and creatively. The profits will soon follow.

Striving for Independence.

The entrepreneur, the corporate CEO, and the top-notch trader are all viewed as exemplars of independent thinkers. They go their own way, go against the status quo, and are unyielding individualists. Well, that's the perception. We've addressed this issue of conformity versus independence several times at Innerworth, in weekly assessments, daily columns, and trade doctor questions. To our surprise, this issue always seems to spark controversy. Folks don't like it when we imply that they are not completely independent, and even slightly conforming. Ironically, some have even contacted us, and argued that they are indeed independent, which seems contradictory, since truly independent people could care less what we think of them. Our reply? There is nothing wrong with being a little bit of a conformist, rather than a firm individualist.

Psychologists have conducted comprehensive research studies of business leaders, and guess what? They are conformists. They have to be. A skilled conformist has an astute sensitivity to social cues, can read social situations accurately, and can easily modify his or her behavior to react to the situation in a manner that puts him or her at an advantage. So there's nothing wrong with being a little bit of a conformist, so if you've been a successful businessperson or other professional, you are probably a conformist relative to the entire continuum of conformity versus independence.

It's the conformist in you that has made you successful and gotten you ahead, so extol yourself for being an effective and adaptive conformist. Perhaps some people strongly dislike being called conformists because they think that -conformity- means -thoughtless adherence to social norms.- That's ultra-extreme conformity, overly dependent and probably not very adaptive. Healthy conformity entails social sensitivity and adaptive rule-following. Extreme individualists, in contrast, tend to be loners who don't care about social rules. The unkempt eccentric artist comes to mind as one exemplar of the extreme individualist. They truly go their own way and don't care if they have no status, money, power, or friends for that matter. Although this exemplifies the kind of individualism that is conducive to trading, you can see that most successful business people don't fit into this category, and are more towards the conforming end of the continuum.

True independence is something one must strive to achieve. As a successful person, you have tendencies to look for subtle situational cues to guide you, and universal rules or unfailing signals may not exist in the markets. Looking inward toward your own personal rules and values is something that novice traders must learn to do, and seasoned traders do already. True independence is not the same thing as non-conformity. Just like the ultra-conformist, non-conforming rebels also allow societal norms to overly control their behavior; they merely automatically break the rules rather than automatically follow them.

True individualists, instead, are willing to go against the crowd in effective ways. They don't break a norm just to do it, but they break a rule because their own personal motives and values tell them that there is a valid, more compelling reason to go their own way. Complete independence means both the abandonment of conforming and non-conforming behavior. The individualist is free to confirm or not conform; they just do what they want. They strive for the optimal balance between complete self-reliance and identification with the broader group and societal norms.

In the end, you've got to develop an awareness of how independent and non-conforming you are. Again, your past success probably means that you are used to being a little bit of a conformist. So be on the lookout for when you are conforming and strive for true independence. Look inward to what you really want to do. When it comes to trading, don't pay any attention to societal norms or rules. By searching for what you truly want to do in any decision, you will be striving for independence.

Information Anxiety.

Do you ever have a nagging feeling that no matter how hard you try, there's no possible way that you can keep up with everything around you? If the answer is -yes,- you may be suffering from information anxiety. These days, there are more sources of information than ever. It's hard to process it all. This is especially true of trading. Compared to just 20 years ago, traders have more information available than ever.
There are multiple sources of information from the Internet, financial newspapers, and cable television. Market action is transmitted instantly, and not only that, numerous indicators are available at any trader's fingertips. It's easy to feel overloaded to the point of feeling information anxiety. But any form of anxiety can interfere with a trader's ability to perform with a peak performance mindset. It's essential that you control information anxiety and don't allow it to distract you from your trading. More doesn't always mean better, and that's especially true of information. We may be able to access large quantities of information, but it doesn't do us any good if we can't process it all and extract the vital specifics we need. Some seasoned traders point out that traders in the days of Jesse Livermore needed nothing more than the tape. Even today, there are many traders who can trade profitably by merely looking at price and volume. Today's trading software offers an array of indicators, but many show the same piece of information.
It's a waste of time to look at all of it. For one thing, knowing how the market is behaving at any one moment is not necessarily going to allow you to predict what it will do next. The markets are inherently chaotic. Even if one had perfect knowledge of past and current conditions, it doesn't necessary mean that you can use it all to accurately forecast the future. In the end, it is more useful to limit the amount of information you look at. Face it. You're human, and the human mind can only process a limited amount of information. If you try to process more than you can handle, you'll feel information overload, and your ability to process information will be compromised. So you might as well acknowledge your limitations, and focus on a limited amount of information that you can process.
In modern society, there's a strong urge to gain as much information as possible. Most traders believe that if they could just have -perfect- knowledge, they could trade profitably and consistently. However, this is a false belief. There's no such thing as perfect knowledge, and even if you had it, it may not help you. Indeed, the quest for perfect knowledge is often a distraction. If you search for perfect knowledge, you'll never find it; you'll feel upset that you cannot achieve it, and you'll always feel inadequate because you haven't met an objective you're trying to meet. It's much better to avoid information anxiety by sticking with a few key sources of information that you can easily master. You'll reduce information anxiety and trade with a more relaxed, decisive mindset.

In the Mood.

Jason is in a rut. He feels as if his trading performance is lacking, although he's relatively new to trading. He is easily upset. Even the slightest setback gets him down. He wonders, -Why can't I make huge profits? How am I ever going to get rich unless I can pile on the profits faster?- Jason has a lot of attitude problems. He's talked himself into a non-productive mindset. He can take decisive steps, however, to cultivate a more optimistic mindset that will allow him to more easily enter the zone.

The first step Jason can take is to change his reference point. Currently, he is comparing himself to an ideal that he just can't attain. It's as if he is thinking he is a -Market Wizard,- when in fact, he is a relative newbie. If you compare yourself to the most elite, you'll rarely match their performance levels. You'll feel frustrated and upset more than assured and satisfied. It's more productive to set goals that are a little lower. It takes many years of persistence and experience to develop the skills of a seasoned trader.

In the meantime, it's useful to restrict your comparisons to your own past performance, and only do that when the market conditions are similar at both reference points. Even an expert trader doesn't trade with the same level of success under different market conditions. Another way to feel that one is making progress is to set learning goals rather than performance goals. That is, don't judge your trading performance solely on the dollar amount or percentage return you achieve. Also, consider the amount of time and effort you expend learning how to trade, and do so productively. Learning to trade consistently and profitably is about skill-building.

To build a proper level of skills, it is essential to gain experience and practice. If one is trying to achieve unrealistic levels of performance, though, one is likely to experience such extreme stress and frustration that one backs away from gaining experience, stagnating rather than building reliable trading skills. By focusing on learning how to trade and gaining the requisite skills and experience, one will be more likely to become a profitable trader.

Similarly, it is vital to focus on the immediate experience of trading. Trading is an enjoyable endeavor, but if you are focused only on the profits, and on how much you're making or losing, you'll be distracted. You'll feel anxious and stressed out. At high levels, these feelings aren't conducive to trading. The more anxious one feels, the more trading mistakes one will make. If you focus on the ongoing process of trading, however, you'll feel more at ease and creative. By enjoying the process of trading, you'll continue to build up your trading skills and learn what it feels like to trade effortlessly and with confidence.

It's easy to get sidetracked when trading. Trading is difficult, and it is easy to get stuck in a rut. By cultivating the proper mindset, however, you can persist even under adverse conditions. By setting realistic goals and by focusing on the inherent rewards that trading offers, you'll be able to more effortlessly cultivate the mindset that will help you trade profitably.

Discovering Your Inner-worth.

John and Jay are both novice traders, but their approach to trading is markedly different. John is drawn to trading for profits. He fantasizes about achieving great wealth and imagines that when he amasses the riches he desires, he'll finally receive the respect and recognition from his family and friends that he's wanted his whole life. He doesn't dispassionately think that it would be pleasant, but unnecessary, to achieve wealth and respectability; he needs it. He thinks, -If I can only make it as a trader, I can show everyone that I deserve their respect.- In stark contrast, Jay doesn't care what anyone thinks of him.

He focuses all his attention on building up his trading skills. He thinks it would be nice to make consistent profits, but he doesn't feel that he absolutely must obtain great wealth. He enjoys trading for its own sake. It's fun. He would trade for minimum wage if he needed to. He doesn't want to do anything else. He feels confident that if he applies himself, and tirelessly works to succeed, he will eventually become a profitable trader. But until then, he enjoys what he's doing and finds it fulfilling.
John and Jay have very different approaches to trading. John is looking for external validation. He cares what others think of him. Jay, in contrast, looks inward for validation. The only opinion that matters to Jay is his own. Jay has a strong sense of inner-worth, and because he lets his own motives and values guide him, he is likely to reach his goal to become a winning trader.
Winning traders don't let their net worth define their self-worth. They have rock-solid self-confidence. Through a set of critical life experiences, they've learned to trust their instincts and let their personal values guide them. They have a clear sense of inner, rather than external, worth. Our website is called -Innerworth- because we know that the single most critical characteristic of winning traders is that they look inward for guidance, rather than outward to the external world for validation. If you want to be a winning trader, you must cultivate a peak performance mindset, and you can't do that if you're concerned with what others think of you, or if you're trying to consciously or unconsciously please anyone but yourself.
It may seem ironic, but the traders who end up as winners aren't concerned with wealth, glory, fame, or seeking the respect of others. It's not about the money in the end. In the final analysis, profitable trading is about developing a set of skills that allow the trader to move into a higher level of existence, an experience that is fulfilling in and of itself. An experience that is both engaging and challenging. An experience where one tries to reach greater levels of accomplishment, but at the same time, always looks inward to his or her own personal standards. It's only about the trader's personal viewpoint, the markets, and nothing else.
Do you look inward for your own validation, or are you concerned with impressing others, and proving to them that you are superior? When you allow other people to define what you should be doing, you pay a big price: You allow your personal worth, your self-esteem, to be defined by someone else, the external world. And when that happens, you'll eventually burn out as a trader and join the legions of others who have been drawn to trading but fail in the long run. So always remember, all that matters is what you think. Do what you want to do. If you can look inward for validation, you'll be a member of the elite group who is winning traders.

Looking Inward For Your Mental Edge.

Jim is a master trader. He manages a multimillion-dollar hedge fund and has made substantial profits for the past five years. He drives a Mercedes and lives in a beautiful home in the affluent part of town. Many of his friends and neighbors admire Jim and ask him how they could follow in his footsteps. Jim doesn't mind the attention, but frankly, he doesn't really care for it. He secretly knows that the only thing that matters is what he thinks and does. He has a true sense of confidence and inner worth. If you want to be a successful trader, it's not the markets you must master. It is your personal psychology that matters.

Why do most people trade? Obviously, it's the profits and what the profits can get you. The great irony, however, is that the single-minded pursuit of profits usually doesn't lead to success. It is vital to focus your energy looking inward. There are a few key steps you can take when it comes to looking inward and achieving success.

First, don't let your net worth define your self-worth. It's tempting to let your account balance dictate what you think of yourself. The winning trader, however, doesn't care about profits. When you focus on profits as a source of self-worth, you start putting contingencies on the value you place on yourself. When you are doing well, you feel good, but when you are doing poorly, you feel inadequate. It's wise to remember that you have value regardless of your account balance. You are a creative, intelligent, and worthy person no matter how much money you have in your account.

Second, focus on the process of trading rather than the prize. Winning traders truly enjoy trading. They would trade even if they earned only a living wage. Trading is inherently interesting. Doing it can provide its own reward. When you truly love what you are doing, you end up doing it well. The more you can truly appreciate how fun trading can be, the more successful you will be at it.

Finally, if you can truly feel a sense of self-worth, look inward for guidance, and truly enjoy what you are doing, then you will feel relaxed and creative. You'll be in tune with your inner self and you'll learn to trust your intuition. Your perceptions will be vivid and clear. If you can achieve this higher level of consciousness, you'll trade creatively, effortlessly, and profitably. You'll achieve lasting success.

Mastering the Inner-game.

If we had a crystal ball, trading would just be a matter of buying at a bottom, holding the stock as the price continued to rise, and selling near a top, right before the masses sell in a state of panic. But we don't have a crystal ball, and there is no foolproof way to forecast the markets. Sure, if you have enough capital, are willing to wait long enough for a stock price to increase, and will be satisfied with a small profit, you can identify a few key stocks that will pay off handsomely with a buy-and-hold strategy. But that isn't what you're looking for.

If you are like most short-term traders, you are trying to capitalize on short-term moves to make big gains over and over again, and in the long run, mount a series of impressive wins. To accomplish this goal, it is vital to control your impulses and emotions. You need to cultivate enough energy to study the markets and search for profitable setups. But the work doesn't end there. You also need to execute your trading plan with a cold, calculating mindset. You cannot be swayed by a need to act on impulse or become troubled by emotions. Because the markets are ultimately uncertain, it's essential that you master your psychology.

Inner worth is about mastering your psychology. It's about gaining a mental edge, and when you trade with a mental edge, you increase your odds of winning. This sentiment is expressed by the many trading experts we cite in our daily -Mind Over Markets- columns, but Robert Koppel and Howard Abell succinctly summarize what mastering investment psychology is all about in their book -The Inner Game of Trading.- They note, -By understanding our motives and setting goals, as well as consciously controlling our state, we can manage anxieties, focus concentration, and enhance our confidence as traders. In addition, by using specific psychological skills such as employing audio, visual, and feeling imagery, we can greatly improve our performance. Moreover, these skills will increase our level of personal enjoyment and fulfillment.-

This quote summarizes some of the main themes we try to cover at Innerworth. We may not cover these themes in the same way as Koppel and Abell, or in the same way as other trading experts do, but we try to bring you the latest scientific, anecdotal, and conventional knowledge on these subjects. We would like this opportunity to thank you for reading and allowing us to help you master the markets and be the best trader that you can be. If you set realistic goals, work hard to gain market experience, and manage your mental state, you will be one of the few traders who become a winning trader.

Appreciating Your Inner-worth.

Jake is attending a party at his brother's house. Old family friends are freely spreading gossip. Many are bragging about their recent accomplishments, and showing off their latest prizes. As a trader, Jake is the center of attention. Everyone is hoping he will reveal a hot stock tip or regale them with his latest winning trade. Everyone thinks Jake makes $1,000 a day, just like the traders they see on late-night infomercials. But Jake thinks quietly, -At least I can save face. I'm glad they don't know what my life is really like. I feel lucky when I make $1,000 a week.- When Jake gets home, he feels down. He wonders why he doesn't make more money as a trader. He thinks, -I wish I were more successful. I wanted to have wealth and fame like a Market Wizard, but I make less than an entry-level broker. I feel like a failure.-

Have you ever felt like Jake? Jake is beating himself up because he is not living up to his expectations. He is comparing himself to top-notch traders and is drowning in a sea of self-pity. When you feel down, it's necessary to pick up your spirits. There are two ways to regain your optimism: you can dream of achieving great wealth and recognition by thinking, -I'll get there if I keep at it,- or you can learn to accept your fate and appreciate your inner-worth.

If you dream about and hope for riches, you'll feel great in the short run, but in the long run, you'll end up chasing rainbows. If you actually trade like the one in 10,000 who become a Market Wizard, such a thinking strategy will work. But most novice traders don't make it that far. It's much more useful to appreciate your value as a trader; learn to appreciate your actual trading talents, whatever your skill level is. Value your inner-worth.

Relative to many traders, Jake is doing well. He makes a good living as a trader. He has nothing to be ashamed of. Rather than engaging in fantasies of what might have been or what could be, he would feel better if he just appreciated what he has. He makes a good living, works on his own terms, rather than punching a clock, and he works at a profession where he can express his creativity. Trading is a fulfilling profession. It is inherently rewarding. But when you start thinking of what should have been, you feel beaten.

It makes little sense to compare yourself to others. Don't beat yourself up for failing to live up to your fantasies. When you don't appreciate the positive aspects of your life, you are not acknowledging the fact that you have inner-worth. Don't let your account balance determine your inner-worth. When you question your inner-worth, you feel pessimistic, but pessimism is never conducive to financial success. Respect your talents and abilities. Appreciate your trading abilities and build on them. Work at your own pace and on your own terms. If you are not a Market Wizard, don't feel less than worthy. Who cares if you are not a Market Wizard? Be yourself. If you appreciate your inner-worth as a person and as a trader, you'll achieve the success you've been seeking.

Putting the Trade in the Right Perspective.

As a novice trader, Jack has just put on his tenth trade. He's still new to trading, but he is optimistic that he will be successful. He wants to succeed. He thinks, -I want to prove that I'm a good trader. I hope I do well on this trade. The outcome is critical to the rest of my trading career.-

Jack's thoughts and feelings are understandable. Whenever we start a major endeavor ' starting college, a new job, or whatever ' we want to succeed. And it's nice to have early success. The first few moments of a major life turning point seem especially significant. When we aren't successful immediately, the initial letdown often haunts us for a long time, interrupting our train of thought, and shaking our self-confidence. Despite the reasonable hope of an early triumph, however, it's vital to keep the proper perspective when approaching trading: one must always think of the big picture, the long run.

Any single trade is of little importance. Experienced traders know this fact and live by it as if it were doctrine. Even though they may focus all their energy on the current trade, they know it is of little real significance in the long run. You should also put each trade in a proper perspective. It is essential that you consider, at least in the back of your mind, that a single trade is just one among a series of trades, and that the bottom line is the overall outcome across the series, not any single outcome.

There are psychological advantages to taking this perspective. When you downplay the outcome of any single trade, it is less critical to your ego. When viewed as just one in a long line of trades, it's easier to tell yourself, -It doesn't matter. There will be many more trades and opportunities to come.- If there isn't much riding on the outcome of a trade, it will free up precious psychological energy. You won't waste your limited psychological resources needlessly worrying about the outcome. You will feel free and creative, ready for whatever happens next. All your attention will be focused on trading your plan, objectively analyzing how market moves fit into your plan and taking decisive action for a clean exit.

Putting a trade-in proper perspective is not only psychological, however; it also involves proper risk management. To survive the learning curve or a severe drawdown, you must limit your risk on any single trade. By limiting your stake to a small percentage of your trading capital, the trade will have minimal financial significance. In reality, it will be of little consequence compared to your overall account balance. Merely believing that trade is insignificant doesn't work very well unless, in reality, it is not significant. For example, it's hard to fool yourself into thinking that trade is insignificant if you have a month's salary on the line on a single trade, and you can't afford to lose it. The stress will be unbearable. It's important for your psychological and financial security that you limit the risk on any single trade. Again, think in terms of the big picture. You don't need to make money on a single trade; the overall results across a series of trades are all that really matter.

When starting a new endeavor, it's natural to want to do well on every single attempt. All of one's hopes and dreams may be placed on a few key trades, for example. But trading is much too difficult to think you can quickly make a few trades and be set for life, with all your aspirations met. The successful trader is in the game for the long haul. The trading lore is replete with stories of traders who made huge profits only to lose it all later. You may see some big trades in your career, which will provide numerous war stories that you can use to entertain your friends for hours, but when going into a trade, it's vital to keep the trade in proper perspective. It's still just one trade of the many you will make in your career.

Insufficient Justification.

A common problem among traders and investors is the tendency to sell profitable trades prematurely and hold losing trades unnecessarily. Once we have held a losing trade for a long time, we have a strong need to justify our actions. This need for justification is so powerful that we often change our opinions because of it. We start to believe that the losing trade will turn around, rather than admit we have spent money and psychological effort for no good reason. This is called the insufficient justification effect.

A classic study in social psychology illustrates the powerful impact insufficient justification has on opinions. Research participants were asked to complete a very boring 1-hour task in which they had to look at pictures and make decisions about them. After completing the task, all participants agreed it was boring. Participants were then persuaded to recruit other participants for the task. They were asked to give a -hard sell- in which they described how fun and interesting the boring task was.

Half of the participants were given $1 for making the sales pitch while half were given $200. After delivering the sales pitch, all participants were again asked to rate how interesting they thought the task was. People given $200 didn't change their minds. They still thought the task was boring. People given $1, in contrast, changed their minds; they thought the task was more interesting than they had previously thought. This finding shows the insufficient justification effect. People have a strong need to maintain consistency between their beliefs and actions. When there is a discrepancy, or cognitive dissonance, something must change for consonance to be restored. In this case, since participants had already made the sales pitch, they couldn't change their inconsistent actions, they had to change their opinions.

They thought, -I did the sales pitch in which I argued that a very boring task was interesting for only $1. Why did I do that? That doesn't make sense. I guess the task was not as boring as I had thought.- People are motivated to align their beliefs and actions. Participants who were paid $200 didn't have to justify their inconsistent actions. They argued that the boring task was interesting because they were paid sufficiently to do so.

The psychological processes of logical consistency and dissonance reduction influence trading decisions as well. If one holds a losing trade for a long time, for example, one may think, -I have held this trade for a long time yet it is losing money. Why am I doing that? Why have I expended so much money and psychological energy? I must truly believe it is going to turn around.- There is a strong need to justify our actions. It's especially difficult when we put our self-esteem on the line, such as when we also think, -If I admit I'm wrong, I'm a bad trader. I have to hold on to this trade.- To maintain logical consistency and reduce cognitive dissonance, you must hold on to the losing trade. One way to combat this tendency is to accept a set of beliefs that will allow you to sell your position, -A good trader cuts losses and I'm a good trader.- -Many times my trading strategy will fail and I must cut my losses before I make them worse.- It's also useful to realize that it is difficult to take action in the midst of a losing trade. Some trading coaches suggest having a clearly defined exit strategy such as a stop-loss point.

Once you engage in self-justification for holding onto a losing trade, it's hard to beat it. By taking a preventative measure, you can close out the losing trade before self-justification processes take hold. It's useful to consider the insufficient justification effect. There may be times you engage in poor decisions to justify your actions or to maintain your self-image. Try to identify these times and try to combat them.

Stay in the Moment.

Existential psychotherapists point out that people experience fear and anxiety when they think about, and regret, their past mistakes, or when they worry about an uncertain future. The antidote: Experience the moment. Focus on the process of living in the here-and-now. Seasoned traders describe a similar experience when they enter -the zone.- There's a point where a trader isn't worried about past mistakes or future profits.

All one's attention and energy are focused on the current trade. When they are in this optimal mental state, they achieve a higher level of existence. They are more in touch with their instincts. They see the markets and their trades more clearly and are intensely aware of their feelings, sensibilities, and judgments. They can review a multitude of details, and can effortlessly identify the key factors that are likely to drive market action. Moving into this higher level of awareness during a trade can greatly increase one's chances of success. It's useful to learn how to move into this peak performance state.

How does one live in the moment? Perhaps the first step is just intellectually considering the existentialists' proposition that anxiety is sometimes a matter of focusing on, and mulling over, the past, or worrying about the future. When you consider it, it seems reasonable to think that if one could just forget about the past and avoid thinking about the future, one will live in the present. It seems unrealistic and perhaps a little reckless, however, since it is often prudent to both learn from past mistakes and to make sure you avoid potential adverse events. But again, when you do so, it takes you out of the moment.

You start to analyze and remove yourself from the ongoing experience rather than enjoying it. In contrast, trying to stay in the moment will keep you focused on the trade. And by focusing all your energy on the trade of the moment, you will reach that higher level of awareness where you'll see the market more clearly and be able to run through all possibilities at lightning speed.

These concepts sound good in theory, but how does one put these ideas into practice? Well, first it may all depend on how many past conflicts you have in the back of your mind and your self-esteem. If you are unsure of your abilities, it's hard not to worry about the future, especially when you are facing extreme pressure in the midst of a trade. If you are easily shaken by uncertainty and stress, your mind will tend to wander toward your past mistakes and regrets and you'll tend to question your ability to control your destiny. But, if on the other hand, you are especially confident, you are not likely to be troubled by your past, and can more easily live in the moment.

That said, it may be extremely difficult for some people to live in the moment for very long, or to stay there and completely cast aside all past regrets or worries about the future. One can strive to reach this state of existence for a short time, however, at least long enough to evaluate a trade and take decisive action. The first step is to monitor one's thoughts and identify instances where one is mulling over the past. The second step is to actively try to push such thoughts out of one's awareness. For example, one may think, -I wish I didn't lose so much money on my last trade,- or -I'm frustrated that I've had so many losing trades.- One may think these thoughts throughout the day and it's difficult to just shut them out.

But it is definitely possible to put them aside for about an hour, while you monitor trade and decide what action to take next. One may similarly worry about the future: -I wonder if I will keep losing or will I finally make huge gains?- After one is aware of the kinds of thoughts that indicate one is mulling over the past or worrying about the future, such thoughts can be pushed aside temporarily. It may be necessary to yell -stop- or think, -Don't think about that right now; I can consider these issues later after I'm done evaluating my trade.- Now, using these strategies won't put you in that ideal mental state where you are completely in the moment, but it will help you get to a mental state that is close to the ideal. It may take some practice, but you can eventually reach this mental state (and if you have some difficulty, always consider the possibility of seeking out some professional help from a trading coach).

The best traders are not self-conscious about their mistakes. They don't regret past mistakes or worry about the future. They live in the moment. You can also live in the moment if you practice cultivating the proper mindset. When you reach this peak level of experience, you'll not only be more profitable, you will enjoy trading, and find it to be fulfilling in its own right.

Buy on Weakness, Sell on Strength: An Example of a Contrary Approach.

Many investment psychology books tout the virtues of thinking independently and acting like a rugged individualist: -Don't follow the crowd. Be a contrarian.- It's often useful to take such abstract ideas and make them more concrete with a specific example, even a basic, oversimplified example, as we'll do today. It's vital to act as a rugged individualist in today's markets since there are fewer amateurs trading the markets these days than in the late 1990s. In the -old days,- some investors made nice profits by merely picking a popular stock, waiting for new buyers to enter the markets, and selling when the price hit the profit objective.

Ironically, it was possible to be a conformist and just follow the crowd. When there are many amateur participants, there are strong trends. As prices rise, the media reports on the optimism. Next, the confidence of the masses rises, and more and more enthusiastic buyers enter the markets. In such markets, the uncertain investor can wait for confirmation from positive news or the observation of a sudden buying spree. This conformist strategy works sometimes, but it's not a strategy that works consistently, or very well today.

These days, you can't assume that when you -buy low,- there will be an excess of naïve amateur buyers ready to push the price up higher. If you wait too long, you'll likely hit resistance, and it will be too late to profit from the move. These days, there is less certainty. You must gauge the phase that the market is in, anticipate what will happen next, and enter and exit a trade at optimal times. These conditions require a trader to depend on one's instincts and rely on one's perceptions and opinions. Many times one must take a contrary position.

Trading as a contrarian is not merely doing the opposite of the masses. It's about thinking in reverse. Many traders, in contrast, only look at the obvious. For example, if one goes long on a stock, it's natural to think that all you have to do is identify a stock that is moving up, buy a few shares, wait for it to go up even more, and sell for a profit. But again, that only works when there are many buyers out there, which is less true today than in the late 1990s. It's more likely that one will encounter resistance. It's crucial to anticipate this turning point and make sure that you sell before the price goes down.

That is where thinking in reverse comes in. Instead of following the herd and buying when everyone else is buying, and selling when everyone else is selling, do the reverse. Buy when everyone else is selling, and sell when everyone else is buying. In other words, buy on weakness, and sell on strength. How does this work? Assume that prices move in cycles. For merely illustrative purposes, pretend that market cycles, or waves, go down on Mondays, up on Tuesdays, and down on Wednesdays. If history were to repeat itself, and unfortunately it never does, you could buy low on Monday, wait for Tuesday, and sell at a higher price.

Now if the cycle followed a reliable, consistent pattern, I guess you wouldn't need to be rugged individualist, a contrarian, or know how to use your intuition. You would know exactly what would happen and when, and trading would be easy. But in the markets -history only repeats itself- when it does; the rest of the time it does not, and no one knows for certain when it will or will not repeat. That's what makes trading a challenge. One doesn't know exactly where or when the cycle will repeat. In the end, it's just a matter of odds. You can't wait for unswerving confirmation from the herd and merely follow them.

Future prices are not certain, and so that's where thinking independently like a rugged individualist is relevant. In the final analysis, you only have some fallible trading strategies and your own intuition to rely on. You've got to rely on you and no one else, and that's why it helps if you are a natural, rugged individualist, a person who isn't used to looking toward others to see what to do next. A rugged individualist is used to taking chances and using gut instincts to make decisions, and that's all one is doing in the markets: Making a good guess, taking a chance, and patiently waiting to see if it works out. If you want to follow the crowd, wait for a sure thing, or wait for group validation, you are not going to find it in complex markets like the ones we see these days. So nurture your individualist instincts, develop your intuition through experience, and look at the markets from multiple, and often contrary, perspectives.

The Intuitive Mind.

Ever see a pattern emerge, and instinctively trust your gut instinct even though your logical mind told you otherwise? Sometimes it works, but other times your intuition may fail you. Scientists are fascinated by how people use intuition. There's something intriguing and mystical about it. Intuition helps us make quick and rapid decisions without full conscious awareness, but sometimes it's wrong.

Trading is a matter of probabilities. We find a method that has a statistical edge and use that method over and over so that the law of averages will work in our favor. But there are times when we forget about probabilities and go with our gut instinct. Our intuition is often influenced by emotions. There are times when we want to see something so badly that we see things that aren't there. A study by psychologists Drs. Denes-Raj and Epstein (1994) illustrates how people can throw logic out the window and make a poor decision when they believe their gut instinct is right.

Participants were asked to pick out a red jellybean from one of two jars of mostly white jellybeans. It was a simple game: If you pick out the red jellybean, you win. The first jar had 10 beans while the second jar had 100. The 10-bean jar had one red jellybean while the 100-bean jar had seven red jellybeans. From which jar would you choose to draw a red jellybean? If you're like most people, your first thought is to try your luck with the 100-bean jar. After all, there are seven red jellybeans in that jar and only one red jellybean in the other.

It intuitively feels right, but calculate the actual probabilities. The odds of winning are 10% for the 10-bean jar while the odds of winning are 7% for the 100-bean jar. The interesting part of this study is that participants knew that their odds of winning were better had they tried their luck with the 10-bean jar, but their intuition told them otherwise. In the end, they allowed their intuitive hunch to overpower their logic, and draw a bean from the 100-bean jar.

There's a lesson to learn from this study: Intuition is powerful, and it's vital to learn to overcome your intuition when you suspect that it may lead you astray. If you were a participant in the study, would you choose to try the 100-bean jar? Your intuition would drive you to go there, but you could train yourself to curb this tendency. You could tell yourself over and over, -Pick from the 10-bean jar,- and you would probably do it even if you had a nagging urge to pick from the 100-bean jar. You might try the same strategy while trading.

Seasoned traders rely on their intuition to make winning trades by quickly and efficiently capitalize on the market action, but if you're a novice trader, your intuitive skills are not yet developed. Whether you are trying to identify the emergence of a pattern with technical analysis or trying to read the tape using price and volume, your intuitive skills may lead you astray. Intuitively, you may think the price will move in a particular direction, and your emotions may want it to, but it doesn't happen. As you gather a wealth of experience, your intuitive skills will develop, but until then, it's wise to be a little skeptical.

Don't unnecessarily stand aside or lose confidence. Continue to make trades, but don't risk too much on a given trade. If you ignore your risk management rules as a novice trader, you'll take big hits to your account. Your skills are not yet developed, and until they are, managing risk allows you to survive the learning curve. Mastering the markets takes time and experience. Eventually, you'll develop the intuitive skills to trade quickly and decisively, but until then, stay cautious and disciplined.

Trusting Your Intuition.

Many people who begin trading think of it in purely mathematical terms: If the ultimate multiple regression equation could be devised, one could simply put in the inputs and get the outputs. And the outputs could be used to forecast the markets. The working assumption seems to be that the markets can be predicted in much the same way that engineers can use equations to construct a bridge. But the markets are far less consistent, and in some ways, they are more complex.

In contrast to what a novice trader may expect, seasoned traders tend to rely on abstract feelings rather than facts. They trade intuitively. How do you observe the world and gather information about it? Do you just want the facts and the specific details and none of that -touchy-feely- stuff? Or are you more intuitive? You don't believe in -facts.- You think the reality is subjective and prefer to think in theoretical and abstract terms. It is useful to identify whether you are intuitive or data-oriented. If you are data-oriented, it may be useful for you to learn to trust your intuition.

Philosophers have contrasted the -intuitive- to the -sensor.- The Sensor type prefers cold, hard facts and sees the world as rational, predictable, and orderly. Intuitive types are more fanciful, and see the world as random, theoretical, and conceptual. A trader who is a sensor may want to know the specific price level where resistance begins. He or she would prefer to follow a specific set of rules and may want to pin down exactly where an abstract value, such as resistance, begins and ends. An intuitive trader, in contrast, views the -rules- to identify resistance as mere guidelines, which may work at times but not always. For example, perhaps resistance will be a round number or a previous peak or trough, perhaps it will not. No one knows for sure; such guidelines are just possibilities, not hard and fast rules. Sensors look at market concepts literally, believing they are true-life entities, rather than just abstract concepts. An intuitive trader looks at the markets in a figurative sense. All signals and indicators are subjective in the end, maybe a little inaccurate, and are a mere approximation of reality. There's a good chance they will be wrong and that's all right.

When it comes to the markets, it's generally advantageous to be an intuitive trader. Reading charts and getting a feel for the markets is subjective in the end. Trading decisions are merely based on educated guesses. It isn't exact, but mushy, random, unpredictable, and conceptual. It's not linear, a matter of fact, and predictable. Because the markets are so complex and chaotic, it takes intuition, hunches, and a kind of creative and artful mastery to win consistently. The logical analysis of facts and figures can only go so far when you are trying to trade the markets, which have inaccurate figures and are largely inexact. So if you are a -natural- intuitive type, you've got a head start. And if you are a data-oriented, sensor, try to nurture your more intuitive side. Become an intuitive trader, and you'll see your profits grow.

Trusting Your Intuition Part 2.

Seasoned traders have learned to trust their intuition. Do you? How do you observe the world and gather information about it? Do you just want the facts and the specific details and none of that -touchy-feely- stuff? Or are you more intuitive? Are you skeptical about so-called facts? Do you think the reality is subjective, merely an artificial construction that differs from person to person? Many people haven't learned to trust their intuition. They prefer cold, hard facts and see the world as rational, predictable, and orderly. Intuitive types are more fanciful, and see the world as random, theoretical, and conceptual. The markets aren't always logical. It's useful to learn to trust your intuition.

Many novice traders are fact-oriented, and that can be a good thing. Since they have yet to accumulate a vast repository of experience, it is better to stay fact-oriented and concrete for a while. For example, they may want to know the specific price level where resistance begins. Or they may try to search for a specific set of rules to identify precisely where resistance begins. Over time, however, the seasoned trader learns to take a more intuitive approach to trade. An intuitive trader, in contrast, merely views the -rules- to identify resistance as mere guidelines, which may work sometimes but not always.

For example, perhaps resistance will be a round number or a previous peak or trough, perhaps it will not. No one knows for sure; such guidelines are just possibilities, not hard and fast rules. It is useful to avoid looking at market concepts literally, believing they are true-life entities. They are merely abstract concepts. An intuitive trader looks at the markets in a figurative sense. All signals and indicators are subjective in the end, maybe a little inaccurate, and are a mere approximation of reality.

Reading charts and getting a feel for the markets is subjective, and that's when you must learn to trust your intuition. Trading decisions are merely based on educated guesses. It isn't exact, but mushy, random, unpredictable, and conceptual. It's not linear, a matter of fact, and predictable. Novice traders often have difficulty trusting their intuition. They want to find all the specific facts and unfailing rules that can be used to forecast the markets. They tend to think that if the -right- set of signals can be discovered, they can make big profits.

It would be nice if it were that simple but it is not. The markets are so complex and chaotic that it takes intuition, hunches, and a kind of creative and artful mastery to win consistently. The logical analysis of facts and figures can only go so far when you are trying to trade the markets, which have inaccurate figures and are largely inexact.

The difference between the novice and seasoned trader is that the seasoned trader has a wealth of experience. Seasoned traders can scan many aspects of trade simultaneously and automatically. At first, they had to deliberately look for signals and carefully put it all together. But over time, they developed an intuitive feel for putting it all together to make a fast, intuitive judgment. It's much like driving a car. The student driver must carefully attend to various aspects of driving, but over the years, seasoned drivers can scan many inputs at once and make quick driving decisions. It's the same with trading.

By making as many trades as possible and in a variety of market conditions, you'll collect a wealth of experience and hone your intuitive skills. Over time, you'll be able to make quick, accurate assessments of the market and act decisively. It may not happen overnight, but over time, you'll develop this skill set. The more experience you gain, the more accurate your intuition, and eventually, you'll trade effortlessly and profitably.

Using Your Intuition.

Skillful traders know how to use their intuition to make quick, conclusive decisions. There are times when going with your -gut- instinct can be shrewdly accurate. There are also times, though, where your intuition can be dead wrong, and nothing more than wishful thinking. A seasoned, profitable trader knows the difference, and so should you.
The human mind is capable of making decisions without full, conscious awareness. An experienced driver, for example, doesn't need to pay close attention to every action. It's quite easy to automatically shift gears, hit the brakes, and avoid hitting an obstacle quickly and decisively without thinking. It takes practice, however. When we first learned how to drive, or when we bought a new car, it took a little time to process a vast array of information and act on it skillfully. It's the same with trading. When you first start trading, it is wise to look carefully and consciously at a variety of indicators and sources of information before taking action.
Ed Sekota warns, -It is very, very easy to confuse intuition with into-wishing.- An intuitive idea is unconscious and may arise from unconscious wishes. For example, novice traders are often uncertain of their decisions. In the back of their minds, they wonder if they can trade the markets profitably. To relieve uncertainty, they may dream of making brilliant, winning trades. In the midst of monitoring a trade, it is quite tempting to be overconfident, and want to believe you're about to make a huge win. If you aren't careful, your intuitive mind confirms your expectations. It's hard not to listen to it. You feel good. You feel omnipotent and in control, for a while at least. At some point, you are likely to find that your gut instinct wasn't based on accurate information and you end up losing. Your seemingly intuitive hunch was merely wishful thinking.
Decision-making requires that we look at both sides of an issue and arrive at a prudent decision. When we aren't sure which side is obviously right, we feel uneasy. A sense of psychological tension creates a strong disparity within your mind. Your unconscious mind has difficulty handling such ambiguity. It seeks out a quick resolution. If you aren't careful, an intuitive hunch creeps up that does nothing more than alleviate psychological tension. It's not based on a quick, decisive evaluation of facts, but on a psychological need for resolution between two opposing ideas. At other times, our unconscious mind seeks thrills and excitement. An intuition may reflect an urge to alleviate boredom. You must always question the validity of a gut level hunch.
Seasoned traders frequently report trading in the zone, a time when intuition allows the skilled trader to quickly seize rare market opportunities, act decisively, and make a financial killing. It is important to remember, however, that beginning traders have only rudimentary intuitive skills. These skills are not yet fully developed. It takes time, experience, and practice to develop them. Intuitions may not reflect facts. Any intuitive thought should be grounded in facts. In other words, if a seasoned trader were to think backward after making an intuitive decision, he or she should be able to map out the information and signals that went into making the decision. Like driving a car, it's possible to deliberately and thoughtfully act, if necessary.
Similarly, all intuitive thoughts and hunches should reflect the processing of specific pieces of information. If you're a novice trader, it's unlikely that an intuitive decision is based on such information, so rather than act on an intuition decisively, it is vital that you stop, and think backward. Write down and map out the information on which your intuitive thought is based. If you can then determine that the hunch is based on valid information, act on it. If it's unfounded, ignore it. Although seasoned traders know how to act on their hunches, novice traders are better off if they stay close to the facts. Over time, and with vast experience and practice, however, you'll be able to trade intuitively, decisively, and profitably.

The Intuitive Trader.

Stan and John have been following a stock and trying to anticipate the pivot point. Stan declares, -After looking at the troughs and moving averages over the past 30 periods, the facts indicate that the pivot will be exactly at 50. I'm positive; it must be right at 50.- John replies, -Exactly 50? Maybe around 50, but I wouldn't be that precise.- These two traders have very different personality styles when looking at information and drawing conclusions. Stan wants to just focus on objective facts. He is a -tough-minded- decision-maker. John, in contrast, is more intuitive. He sees so-called -facts- as merely subjective interpretations. Like many seasoned traders, John relies on an abstract feeling he has for the markets and trusts his intuition. He's an intuitive trader.

How do you observe the world and gather information about it? Do you just want the facts and the specific details and none of that -touchy-feely- stuff? Or are you more intuitive? You don't believe in facts. You think the reality is subjective, merely an artificial construction that differs from person to person. You prefer to think in theoretical and abstract terms. Perhaps you are a little of both.

Philosophers, such as William James and Carl Jung, have relished demarcating various -types- of people. -Types- are ideals that don't really exist in a pure form. They are merely loose categories we use to make sense of the world.

They reduce information overload but often distort. Despite the inaccuracy of placing people in categories, it does often seem that some people fit more into one -type- than another. Take, for example, what James called the -Rational- versus the -Empiricist,- or what Jung called the -Intuitive- versus the -Sensor.- Sensor types prefer cold hard facts and see the world as rational, predictable, and orderly. Intuitive types are more fanciful, and see the world as random, theoretical, and conceptual. This typology may also apply to the way people approach trading. Which type of trader are you?

A trader who is a sensor, for example, may want to know the specific price level where resistance begins. He or she would prefer to follow a specific set of rules to identify precisely where resistance begins. An intuitive trader, in contrast, merely views the -rules- to identify resistance as just guidelines, which may work sometimes but not always. For example, perhaps resistance will be a round number or a previous peak or trough, perhaps it will not. No one knows for sure; such guidelines are just possibilities, not hard and fast rules.

Sensors look at market concepts literally, believing they are true-life entities, rather than just abstract concepts. An intuitive trader looks at the markets in a figurative sense. All signals and indicators are subjective in the end, maybe a little inaccurate, and are a mere approximation of reality. There's a good chance they will be wrong and that's all right.

When it comes to the markets, it's generally advantageous to be an intuitive trader. Reading the charts and getting a feel for the markets is subjective. Trading decisions are merely based on educated guesses. It isn't exact, but mushy, random, unpredictable, and conceptual. It's not linear, the matter of fact, and predictable. Expert traders and trading coaches have long noted that sensors have difficulty learning to trade. They want to find all the specific facts and unfailing rules that can be used to forecast the markets. They tend to think that if the -right- set of signals can be discovered, they can make big profits. I

t would be nice if it were that simple, and if it were, there would be a bunch of smart people with Ph.D.s in economics and other fields who would be billionaires, but there aren't. Why? Because the markets are so complex and chaotic that it takes intuition, hunches, and a kind of creative and artful mastery to win consistently. The logical analysis of facts and figures can only go so far when you are trying to trade the markets, which have inaccurate figures and are largely inexact. So if you are a -natural- intuitive type, you've got a head start. And if you are a sensor, try to nurture your more intuitive side. Become an intuitive trader, and you'll see your profits grow.

When Intuition Fails.

Trading can be fast-paced. The astute trader knows how to make quick, intuitive decisions. Seasoned traders have learned to trust their hunches. They have extensive experience with the markets, and as seasoned professionals, they can interpret a wide array of information quickly and efficiently. But it isn't always a good idea to trust your intuition. If you're a novice trader, it may be useful to stay closer to the facts. Since novice traders have not yet accumulated a vast repository of experience, it is better to stay fact-oriented and concrete.

Dr. Tom Gilovich, a psychology professor at Cornell University, argues that intuition helps us understand the world most of the time, but it can be wrong. Humans are eager to find patterns and connections. Our desire to find these connections is so strong that we may see them when they aren't there. Dr. Gilovich suggests that people have -two minds,- which he calls System 1 and System 2. System 1 is intuitive and rooted in personal experience. It is emotion-driven and helps humans cope with environmental demands. For example, while walking in a dangerous neighborhood, it's useful to identify a potential attacker and take precautions. System 2, in contrast, is logical and deductive. It works slowly, churning through each option until the most logical one is selected.

System 1, the intuitive mind, is easily misled. Dramatic information can grab one's attention and throw off decisions. For example, when you suddenly and unexpectedly see a sell-off, you might panic and start to sell. There are times when reacting out of fear is to your advantage, but at other times, it is to your disadvantage when you act impulsively and your trading plan, which suggests that you wait for a larger move to happen, is actually right. The intuitive mind can also see connections that aren't there. Studies show that people try to find information to support a correlation between two events, even when there is strong evidence that negates the association. Quick, intuitive decisions are efficient when the signals on which they are based are consistent with conventional wisdom. But when the situation is an anomaly, the decisions are often biased.

Your mood may also bias your intuition. Dr. Nalini Ambady, a psychology professor at Tufts University, conducted a study showing that people make more accurate intuitive decisions when in a pleasant mood than when feeling discouraged. When we're feeling down, we may not have confidence in our intuitions and hunches and may use this information improperly.

Psychological studies suggest that there are times when our intuition fails us, but should we avoid using our intuition? Not necessarily. If you are a novice trader, you may want to be wary of your hunches. Novice traders may not have enough experience to trust their intuition. A seasoned trader, however, has a wealth of experience. Seasoned traders can scan many sources of information simultaneously and automatically. When people first learn to trade, they must deliberately look at information closely and carefully put it all together.

But over time, people develop an intuitive feel for putting signs and signals together to make fast, intuitive judgments. It's much like driving a car. The student driver must carefully attend to various aspects of driving, but over the years, seasoned drivers can scan many inputs at once and make quick driving decisions. It's the same with trading. By making as many trades as possible and in a variety of market conditions, you'll collect a wealth of experience and hone your intuitive skills. Over time, you'll be able to make quick, accurate assessments of the market and act decisively.

In the end, traders must use their intuition to understand the markets. But there's a big difference between impulsively trusting unfounded hunches because you have not yet developed a feel for the markets, and having well-honed trading skills that allow you to process multiple inputs quickly and logically to arrive at a sound decision. Seasoned professionals are less prone to bias. Until you hone your skills, it's useful to take the time to look at your trading options more carefully.

Investing in Yourself.

Are you putting time and money into honing your trading skills yet wondering how to justify it? As a novice trader, you may often wonder if it will be worth the time and effort in the end. Honing your trading skills can be frustrating at times. You can reach a plateau where you continue to execute trade after trade without making any headway. Not only may you feel that you are wasting precious time, but you may also feel you're throwing good money out the window. Trading isn't a cheap endeavor. Besides the books, courses, and computer equipment, money must be spent on drawdowns, commissions, and trading errors. It all seems so difficult at times that you may feel like giving up. But don't despair. No matter how much time and money you spend, you can feel a sense of relief by viewing it as a valuable investment in yourself.

If you are a novice trader, you tend to spend more money than you make. If you grew up in an atmosphere of limited means, you may find it difficult to justify the amount of money it takes to master the markets and become a seasoned trader. You may feel guilty or discouraged when you think about how much money you have been losing. You're not alone. Many seasoned traders have had to break away from traditional ideas about money. Family and friends may view trading as a form of gambling. If you trade impulsively just to get a quick thrill, then it's much like recreational gambling. But if you're serious about honing your skills, then you aren't wasting your money. You're learning a skilled profession that can help you earn a high salary, just like an engineer, a lawyer, or a doctor.

Many professionals had to borrow money to earn a marketable skill. Many law students, for example, owe over $100,000 by the time they are ready to practice law. Many trading coaches suggest looking at the money you spend learning to trade as tuition. It's just like other professions. But you say, -There's no guarantee that I'll be successful.- That's true of other professions as well. Professional school education doesn't guarantee a high salary. Not all lawyers make over $200,000. Public defenders make about $45,000 a year. Viewing money you spend to learn to trade is best viewed as a form of tuition.

Even though you may be losing money, it will definitely pay off in the end. You will learn more about yourself. You will gain experiences that you can carry with you into other areas of your life. You can build self-esteem as a trader and that will help you master other areas of your life. You can develop self-control as a trader and that will help you approach all your goals with courage and discipline. Be patient. If you stick with it, you'll eventually reach your financial goals. Either you'll gain mastery in a year or two, or if you wait long enough, you'll be able to capitalize on the -irrational exuberance- of the masses.

Many traders before the bubble of the late 90s practiced their trading for years without making significant profits. Their patience paid off, though, when the masses amateurishly started trading the markets in the 1990s. Merely having a Level II screen, for example, allowed many traders to make significant profits. For those traders with superior trading skills, money flowed from the pockets of the masses into theirs. If you keep practicing, gradually honing your trading skills over time, you'll be able to capitalize on a major market opportunity when it happens.

All traders go through a period when they feel they aren't going anywhere. They feel so stuck that they want to just give up. If you feel disappointed about the money you're spending on learning about the trading profession, stop! Don't view it as wasting money, but as a significant investment in yourself and your future.

Getting the Job Done.

Do you ever make big plans for the trading day, but fall short of your expectations? Maybe during the off-hours, you decide to make a dozen trades, but when you get down to actually doing the work, you end up making only one or two trades. Do you procrastinate, feel overwhelmed, and feel like you are ready to crack under the pressure? If you're feeling overloaded, perhaps you've taken on too much. There's a lot you can do to streamline your goals and get the job done when the time comes.

Striving for perfection is an important ideal for trading. It's vital that you thoroughly plan your trade. That may mean reading a stack of financial reports, scanning a slew of charts, or making a dozen phone calls to contacts that have the -inside- scoop. Preparing for the trade by methodically pursuing each of these avenues can mean the difference between winning big and losing. As important as these preparations are for success, however, you can't spend too much of your time trying to complete more than you can do. There's only so much time in a day, and only some much energy you can devote to a particular trade. In addition, if you spend too much time on a single trade, you may miss an important market move. If that were to happen, all your preparation would be in vain.

In the end, you must manage your time and energy wisely. It is vital to prioritize each activity and be realistic about what you can accomplish. For example, you may not be able to read 12 hours' worth of reports and make a dozen phone calls in two days. It may be necessary to lower your expectations. You may have to settle for reading a few hours' worths of reports and decide to call only three of your most informed contacts. When your expectations are too high, you may feel the pressure. And when you feel pressured because you are overloaded, you'll tend to procrastinate and feel high levels of stress and anxiety. When this happens, you won't get anything done. It's better to be as realistic as possible regarding how much you can get done. You will feel calm and in control, and this will ultimately lead to greater productivity.

How can you approach a trade with a realistic work schedule? First, it doesn't hurt to think big initially as long as you know that you are thinking in the abstract. If you think of 20 possible trading ideas, that's great. Once you list them down, however, you must realize that it may be impossible to pursue all of them. After you have a list of ideas, it's necessary to prioritize which trades are within your reach. This is easier said than done.

When it comes to deciding which trading ideas to pursue, you must weigh the probability of success with the time and energy it takes to prepare for the trade. A trade may have a high chance of success, but the preparation required may be insurmountable. Some trades are potentially more profitable than others but may take more time, the time you just don't have. On the other hand, trade with merely a relatively good chance of success may be easier to prepare for and implement. Whatever you do, though, you have to make a decision. Don't waste time deliberating. It is better to spend that time working on the trade-in order to execute it on time.

A reasonable plan is a workable plan. Learn to let go of unreasonably high expectations. You don't have to be such a perfectionist. You can be a profitable trader even when you scale back. In the end, you have to get the job done. Making priorities and diligently pursuing each step will ensure that you execute your trades in a timely manner and increase your odds of success.

An Action-Oriented Approach.

Jim is a novice trader who has had three straight losses. He thinks, -I'm such a failure. I can't stand losing. I'm disappointed. I just don't want to think about it. I think I'll go out for a beer.- All traders, especially novice traders, face losses. Losses, and other setbacks, aren't a problem. It's how you recover from a setback that is critical. If you say, -It's all right. I'll come up with a new plan, and press onward,- you're probably coping well and maybe on your way to success. But if you're like Jim, who seems to have difficulty facing a setback, you'll probably expend an enormous amount of energy mulling over your mistakes, trying to avoid taking responsibility for them, and passively hoping for a solution that is unlikely to come to you. It's vital that you face setbacks straight on, take active steps to overcome them, and then press on until you build the requisite trading skills to trade profitably and consistently.

There are two general ways to cope with setbacks: a passive denial of the problem or an active problem-solving approach. Most people work under the assumption that it is easier to deny or avoid a setback than to deal with it head-on. When you've mounted major trading losses, it's difficult to accept. A plethora of pessimistic thoughts run through your mind: -Maybe I'll never be a successful trader. Perhaps I'm just fooling myself. Maybe I just don't have the talent or natural ability to trade profitably.-

As with any challenging skill, these kinds of unproductive beliefs are bound to enter your mind occasionally. The problem with succumbing to these beliefs is that you will feel down, distressed, and beaten. And your psyche will naturally try to protect itself through denial. You may try to push these thoughts out of your consciousness, but when you do that it just makes matters worse. It takes more psychological energy to deny the significance of a setback than to just acknowledge it, accept that you may question your skills and abilities, and most importantly, take active steps to conquer your fears and limitations.

Rather than passively trying to avoid facing a setback, and the natural anxiety and fear that you may feel, it's more useful to take an active problem-solving approach. Consider Jim's situation. He's made a series of losing trades and he is questioning his abilities. Rather than mulling over the losses and feeling as if he wants to give up, it's more useful for Jim to consider taking active steps to remedy the situation. For example, if he has strong evidence that his methods are sound, he shouldn't take the losses personally; he should just mechanically execute trade after trade and let the law of averages take care of the rest.

On the other hand, if he feels that his methods are shaky, he should step back, find more solid methods and test them out by making a small set of practice trades. Or he might lower his standards temporarily. Perhaps he doesn't have the requisite knowledge and experience to expect such a high-performance standard. It may be more useful to set a learning goal rather than a performance goal. That is, he may want to make his goal to spend 20 hours a week gaining training and knowledge than making a 20% return, for example.

Whatever strategy he takes, he must take active steps rather than passively deny the problem. He must feel that he is addressing the setback with a decisive and effective game plan. By taking active steps, he will no longer feel fear and anxiety. He'll feel a sense of mastery and control. He'll feel optimistic and ready to tackle the problem.

All traders are bound to face setbacks, especially when first starting out. Most people, however, aren't used to facing the many and potentially devastating setbacks most traders face. Rather than give in to feelings of pessimism, self-doubt, and passivity, it's essential that you take an active problem-solving approach. You'll feel energized, empowered and ready to face the challenges encountered by anyone who strives to become a consistently profitable trader.

Be Adaptive.

It's often bantered about among short-term traders (traders that are flat the majority of nights), whether, one should -have an opinion-. Many traders will say that they don't have an opinion and that they approach each day with a blank slate that allows them to -read and react- to the markets better. They want no preconceived ideas to cloud their ability to simply listen to what the market tells them. Others will say that of course, they have an opinion. They follow the markets each and every day, it's their business, and it's somewhat subconscious for them, to always have certain ideas or scenarios about how the markets may act in the future. For this group of traders, their skill is in having an opinion, but not letting it interfere with their ability to make money.

What's common amongst the way these two groups approach trading is their willingness to be adaptive. Those traders who say they have -no opinion- say that because they know their skill is being flexible and adaptive to what the market tells them. The second group while -having an opinion- is able to divert what their initial gut or instincts may have first told them when they woke up and still be responsive to what the screens tell them about future direction.

Over the last 6 months or so we have seen some general weakness in the US dollar and generally, there has been little direct correlation with its action and US equities. Even on more pronounced days of intraday dollar weakness stocks have had little intraday swings in response to dollar swings. I and a group of traders I work with every day have been aware of this and we have logged this action in the back of our minds. Recently though, some dollar weakness has seemed to have more correlation with US equities. Many have been screaming for months that the falling US dollar will be bad for US stocks and on particular days when enough dollar weakness does seem to weigh on stocks they pronounce even louder - We told you so-.

The problem is, however, that for months their opinion of dollar weakness and its effect on stocks didn't matter and the opportunity cost lost by holding to -their opinion- probably outweighs their potential new opportunity. The point is that in the markets, in the short term, -it only matters when it matters- and being adaptive is critical. I often like to ask the question each day, -What is working TODAY in the markets?- It may be initiating trades from the long side only, it may be selling downticks in the mini's when bonds uptick, it may be buying strength in mid-cap stocks with big short interests when there up good even though the major indices are lower. By being adaptive I can simply look at what seems to be working each day on its own and I stand a much better chance of being successful.

So if you are a short term trader: enter each day with an open mind, or have an opinion but know how to tuck it away if needed, and most of all are adaptive.

Addicted to Trading.

Winning traders have a passion for trading. They love what they do. They may even get a little thrill when they put on a trade. But there's a huge difference between loving what you do and trading to get a big thrill. Some traders are addicted to trading. They take unnecessary risks, risks that are more about feeling high or getting an adrenalin rush than making profits. Ari Keiv (2002) describes the addictive trader as, -constantly seeking a sense of power and control; competitive, restless, and easily bored.- These traits make addiction-prone traders seek out greater and greater risks until they blow out their accounts.

Trading is fun, and there is nothing wrong with having a little fun. But addiction-prone traders have a gambler's mentality. They put on trades to get high. For example, some addictive traders actually enjoy severe drawdowns. Whereas most traders would do anything to avoid being down $100,000, trading addicts prefer to be down. Even though they pretty much need to make $200,000 to get out of the hole, they prefer this set of circumstances. They prefer to have their back against the wall. It's thrilling, exciting, and makes them feel they are living dangerously.

Another form of trading addiction is using trading to feel superior to others. Addiction-prone traders secretly feel inferior. To cope with this sense of inferiority, they want to believe that they are smarter than any trader around. Rather than accept what the markets have to offer, they try to outsmart the market. They think they can dominate the markets. For example, they may think of contrarian ways to trade the market even during a strong bullish trend, just because they like to feel different and special. Following the crowd doesn't give them a sense of superiority, so they would rather not do it, even when the crowd is right, which they sometimes are.

Addiction-prone traders allow their emotional needs to guide them, rather than their logic. Winning traders don't allow their emotional needs to over-power them, however. They look at the markets carefully and map out reasonable and detailed trading plans. Sometimes they go with the crowd; sometimes they go against the crowd. Whatever they do, though, they allow a rational state of mind to guide them. They suppress emotional needs to compete or seek out excitement.

If you have a problem with putting on overly risky trades in an effort to get a quick thrill, it's vital that you learn to trade more prudently. Avoid going against the crowd just to be different. Avoid impulsive trades. Make a detailed trading plan and follow it. Decide whether you are making a trade on a whim or are trading based on a sound analysis of the market. If you are trading by the seat of your pants, stand aside until you calm down, and can think carefully and deliberately. Addictive traders end up failing in the long run. If you have this problem, it's essential that you overcome this ailment before you completely wipe out your account.

Transformed Through Adversity.

You see your true self when you hit rock bottom. What do all newbie traders fear? Blowing out their account and having to start over, it is a fear that haunts them. But ask any seasoned, profitable trader about blowing out and they say the same thing: I've done it a few times and I'm stronger for it. It may sound like a cliché these days, but the only thing we have to fear is fear itself. That is not to say that losing hard-earned money is not difficult to handle. It is hard to accept huge losses.But if you can lose money and recover, you will gain a greater sense of confidence that will allow you to trade the markets with aplomb. Recovering from a major financial loss is similar to any challenge you have overcome in your life. It's scary at first, but once you recover gracefully, even the most difficult problem becomes commonplace. You develop a new perspective; everything looks different. Triumphing over adversity may transform your life, but it probably isn't a good idea to blow out your account just to get it over with. There is some risk involved. If you lose money that you really can't afford to lose, it could take some amount of time to recovery, if you recover at all. Some people never recover from huge losses in the markets. They just walk away and see trading the markets as something to avoid. And for some people, this may be an important lesson. There is definitely something to fear in losing money. It is hard to make money, and you definitely need money to make money.

These are the facts of life. The trick is to develop a new understanding of money. It's necessary to see it as merely a vehicle for making additional money, rather than its real value. It needs to be seen as merely abstract ticks on the tape, but at the same time, you need to also hold the belief that if you lose too much money, you may not recover. It is difficult to hold these two seemingly contradictory ideas in your mind, but if you live through the experience of losing money and making it back, you will have a sense of confidence that will allow you to trade in a more carefree manner. You will have a sense of freedom that will allow you to look at the markets more freely and creatively.

If you're like most people, you should be thinking, -How can I take a loss of thousands of dollars in stride?- It won't be easy. You need to learn to define your sense of self apart from your account balance. Expert traders learn to appreciate what they have. For example, they learn to appreciate that their friends and family don't leave them because they blew out their account (or if their family and friends would leave, they have a problem, and better find a new family and friends). They appreciate the fact that should they ever end up with little money, they can still find a way to support themselves in terms of basic living expenses.

They learn to see a nice car, flashy clothes, and a house in a fashionable neighborhood as not truly necessary for a satisfying life. Most people don't think this way, and that's why they can't take losses in stride, and instead, live in constant fear of losing. Their definition of who they are is based on possessions they cannot give up. But if you want to trade the markets with freedom, you have to learn that money, and the status symbols you can accumulate with money, are ultimate of little value.

It's tough and counterintuitive, but perhaps the only people who truly learn to develop a sense of security with trading the markets are people who realize that money and possessions don't buy you real security. You need to find such support elsewhere. And once you have it, you will find that you have rock-solid confidence that is hard to overthrow.

Affirm To Win.

Trading can be exhilarating. When you see a trading plan come to fruition, you cannot help but feel a little special. There are those times, however, when you feel frustrated and disappointed. You regret making a few bad decisions and may question your ability to return to profitability or achieve enduring financial success. Your confidence can become shaken, and you can lose yourself in feelings of doubt and despair. At times of uncertainty, making affirmations can help you recapture a winning state of mind.

Affirmations are positive statements that motivate you. They remind you of your goals, what's important to you. For example, suppose you have just made a series of losing trades and are feeling disappointed and stuck in a psychological rut. You can recover quickly by repeating a series of positive affirmations: -I'm human. I can make mistakes. Losing trades are just part of the business of trading. My goal is to achieve enduring profitability. The big picture is all that matters. A few losses here and there are of little consequence for the big picture. Through hard work and experience, I'll achieve my financial goals.- Affirmations remind you of who you are and where you're going. If you repeat the affirmations over and over again, you'll start to feel empowered. Even major setbacks suddenly seem unimportant.

You can make up a set of affirmations for any trading issue. For example, suppose you have trouble patiently waiting for a trading plan to pan out. Under these circumstances, you might say, -I have willpower. I am in control. Winning traders are disciplined. I've made my trading plan, and I can follow it and wait to see what happens. I can learn to trade with discipline. The more I practice discipline, the more disciplined I will become. With each trading plan I successfully follow, I'll gain more self-control. Over time, I will become stronger, decisive, and able to control my emotions.-

Affirmations can also address a more general issue, such as low self-esteem. Some traders manifest low self-esteem by defining their self-worth by their net worth. They may feel on top of the world when they make a winning trade, but worthless and inadequate when they lose. Affirmations can help matters. A trader with low self-esteem may affirm, -I am human, and as a human, I have self-worth no matter how much money I have or how many losing trades I make. My worth is not defined by whether I win or lose. Trading is not my entire life. Winning or losing doesn't define who I am.-

Affirmations are personal. What you write down and recite is up to you. Affirmations should inspire you, guide you, and motivate you. But whatever you write down and repeat to yourself, it should address your desires, goals, and reasons for trading. At first, glance, repeating an affirmation over and over seems like an inconsequential solution but try it. You'll find it does wonders for your motivation and your mindset. Soon, you'll find that you don't have to consciously repeat the affirmations; you'll think of the positive statements automatically. Over time, you'll train your mind to think positively. You'll approach trading with a winning mindset that will help you achieve enduring financial success.

What Is a Good Company?.

In choosing a stock to trade, many traders try to identify a -good- company, but what actually is a -good- company? Many times a -good- company is merely based on an -image- or -reputation,- which may or may not have a direct bearing on whether the stock in the company is worth an investment. A common mistake among traders is to base trading decisions on hype and image, rather than on factors that will actually produce trading profits, such as current price patterns, volume, or momentum indicators.

Consider Cisco Systems. Undoubtedly, CSCO was one of the public's sentimental favorites of the bull market. The CEO, John Chambers, was elevated to celebrity status as analysts and investors hung on his every word, waiting to hear how much money their favorite company was going to make. While the stock was going up, Mr. Chambers was the hero, but things changed.

Cisco, along with the rest of the market could not live up to the lofty expectations of its investors, and in late 2000, the stock showed clear signs of a downtrend. Once the stock was in a long-term downtrend, there was no valid reason for investing in the long term. But millions of investors were told by analysts that it was still a -good company- and that the lower price represented a -value.- The information that the analysts and media gave investors did more damage than good, as losses mounted for holders of the stock. But did a declining share price represent a change in the viability of the company going forward or was it just a case of an imbalance in supply and demand for shares of the company? Well, Cisco is still the world leader in their field and John Chambers is probably a nice guy, but that is of little consolation to those who are still long on the stock from $50 or $60 a share. Unfortunately, they remain victims of biased analysts' predictions, media hype and the unrealistic exuberance of the times.

So what is a -good- company? Cisco may be a -good- company in terms of its relative potential, but does that matter? The -true value- of a company is a matter of debate. And despite analysts' predictions, no one can know with certainty that Cisco's -potential- will be realized as future profits and future price increases.

As traders, however, it's crucial to consider that trading comes down to whether you're making money trading the stock in the short term, the actual dollars and cents. Media hype, image, or shareholders' sentimental attachment to their stocks do influence prices, but as traders, it's essential to put these factors in perspective. The masses may be easily swayed by these opinions and beliefs, but you must base your trading decisions on current signals and indicators in the short-term time frame you have chosen to trade, whether intraday or intraweek.

What is the basic price pattern, and how has it changed in subtle ways by media news? The price pattern and factors such as volume and momentum are primary; the media news is secondary. Don't make the mistake of using an image, sentimentality, and public opinion as primary information for making trading decisions. By all means, consider these factors, but base your primary trading strategy on more fundamental short-term indicators of momentum and trend.

All By Myself and Loving It.

As a trader, the bottom line is the amount of money you make on your trades and pocket. It doesn't matter how you go about doing it, and it doesn't matter how long it takes you, or how hard you work, for that matter. For the seasoned, talented trader, it may take as little as an hour to make a thousand dollars, but for the novice trader, it may take a month to take home a thousand dollar profit. That's the advantage of trading. You're completely free to do whatever you want, whenever you want. As a trader, you don't need to please anyone but yourself. You are on your own, and if you are like top-notch traders, you relish the independence.

Top traders are carefree and independent. They don't care what others think of them. The only opinion that matters is their own. Many people forget about the advantage of working for themselves, however. They can't shake the idea that they have to please others. They act as if someone is constantly looking over their shoulder, waiting to find a mistake, and quick to offer criticism. But the nagging feeling that you must please others isn't going to make you a profitable trader. It is vital for success to realize that when it comes to trading the markets, it is just you, the markets, and no one else. You should enjoy your freedom.
Trading is one of those rare professions where you can be socially incompetent, yet still, be successful. It's much like being an eccentric artist. Successful trading has nothing to do with getting along with people, trying to persuade them to do what you want, or assuaging them. As long as you can develop a winning trading strategy and implement it flawlessly, you will be profitable. This isn't the usual state of affairs, though. Throughout our lives, parents, teachers, and supervisors have told us that unless we obey the rules, we'll get in trouble.
When we break a rule, we feel guilty. Some people never learn to stop thinking that someone is looking over their shoulders, trying to find fault. Even when no one is looking, some people actually make up a type of pseudo-parent to guide them. They pretend that there is someone out there, an omnipresent overseer, ready to punish them if they don't follow the rules.
Why would anyone want to make up a pseudo-parent or supervisor? It provides solace. When people work a typical job, they feel security in believing if they perform their job duties well, then they will be paid well. Most people prefer structure and regularity. It is nice to believe that if we follow the rules, we will be rewarded. But the trading world doesn't work that way. It's not like a 9-to-5 job where you put in your 40 hours and get a paycheck.
As a trader, you could put in 10 hours and get a big bonus one week, and put in a grueling 80 hours the next week, and get nothing. If you like structure and certainty, you may feel uneasy about the uncertainty of it all. But if you enjoy your freedom, trading offers a way to express your creativity and reach your potential. Enjoy your freedom. As a trader, you can express your independent streak. You may be all by yourself, in the end, but you are also free to do whatever you want. You might as well enjoy it, work hard, and take advantage of unlimited market opportunities on your own terms.

You Don't Need To Be Perfect To Win.

If you're driven to succeed, in all likelihood, you are an overachiever. And as an overachiever, you strive for perfection. The need for perfection can go too far, however. I'm all for striving for success, but the need for perfection seems to hinder many traders. Some traders spend most of the day neurotically searching for the ultimate setups or the ideal market conditions.

Other traders compulsively look at redundant indicators as if seeing the same signal over and over provides new information and solace. Still, other traders feel they need to hit upon a winning streak to feel in tune with the markets, and if they don't, they feel as if they are missing the mark, and that they might as well just give up on the trading profession altogether. Ironically, the traders who seek out perfection may never get anywhere in the long run. Had they just lowered their standards and executed trades that weren't so -perfect,- or had only a moderate probability of success, they would have ended up more profitable.

Life would be wonderful if we were on a continual winning streak. Perhaps you traded during the bull market of the late 1990s and rode a steady wave of success, or you've had a hot streak that seemed like it would never end. It felt great, didn't it? When you have a Midas touch as a trader, striving for perfection can seem like a realistic objective. But most of the time, striving for perfection just leads to feelings of disappointment. You don't live up to your standards and you feel frustrated. Trying to live up to such high standards often sets you up for failure. It's better to strive for more modest goals.

You don't have to win all the time. Indeed, from a purely statistical vantage point, an extremely profitable trader can be more wrong than right as long as proper risk management is used. But many traders have difficulty taking losses in stride. From a purely psychological viewpoint, it's hard to accept losses. First, people imbue losses with personal significance. As youngsters, many people were taught that losing money was wrong, and so even in the trading realm, where losses are commonplace, many traders feel guilty when they lose, as if they broke a parental rule. Although natural and understandable, these feelings of guilt get in the way of thinking freely. If you beat yourself up for making a losing trade, it is vital that you forgive yourself. In the trading world, you need to lose money to make money, so don't feel bad about it.

A second issue many traders face is -all or none- thinking. They believe that unless they are on a winning streak, they are failing. It's nice to be on a winning streak, but just because you are not on one does not mean that you are doing poorly. Imperfection should be expected. Every successful person faces setbacks, and in the trading world, a winning trader faces many more setbacks than successes. Setbacks are not a problem, but fear of setbacks is a barrier for most traders. If you are afraid to make trade after trade because you believe that you must experience win after win to be successful, you'll avoid making trades. And if you avoid making trades, the law of averages will never work in your favor. You'll end up in the red. It may be difficult, but you have to take some risks. You have to put on trades to make profits in the markets. Sometimes you'll win, and many times you will lose, but your overall profit is all that matters.

Trading is a tough business. Few make it, and this fact can be daunting. If you give in to pessimism, however, you'll never make profits. Don't imbue losses with personal significance. Don't think that you must be absolutely perfect. Every trade will not be a win. You'll be wrong and you will lose. Losing isn't your fault, but letting it get to you is. If you take losses in stride, and radically accept and appreciate any profits the markets give you, you will end up profitable in the end. And that's the whole point, right?

Alternative Rewards: A Way to Keep Trading During Setbacks.

All animals, even humans, need a reward before they act. Why does something if you can't get something out of it? Our strongest motives are to satisfy physical needs, such as hunger. When an animal is hungry, for example, it is willing to go to great lengths to find food. Humans are a little more complicated, however. We can, and usually are required to, postpone the gratification of our needs. We don't need to eat immediately just because we are hungry. We can put it off until the appropriate time.

We can also replace a natural reward, such as food, with a symbolic reward, such as money to purchase a savory meal. Money is a powerful motivator, and that's why it is so strongly associated with emotions, such as fear and greed. We are afraid when we symbolically face starvation and have learned that it is wise to stockpile resources, and thus, we are euphoric when we realize that we have accumulated enough profits to rest easy for a while. Trading directly produces profits and happiness, and thus, it has an inherent and compelling reward system.

We persist when we think we are bound to make huge profits, but run for cover when we are about to take significant hits to our account. Although the profits from trading are powerful rewards, they are often linked to emotions. So if we are motivated solely by profits, we'll tend to experience a rollercoaster ride of emotions, feeling euphoric when we make profits and despair when we encounter losses.

One way to control your moods, as your account balance moves up and down, is to set up an alternative reward system. The idea is to reward yourself for making progress toward learning to become a seasoned trader, despite winning or losing on any particular day or week. The most powerful influence on your daily emotions comes from the outcomes of your trades, happy during wins and disappointed during losers. Although quite natural, these emotions can often interfere with your ability to cultivate a calm, rational approach to your trading.

Rather than sticking with your trading plan, for example, a sudden shift in emotion may cause you to abandon your plan on impulse. If you aren't careful, the profits you realize one minute can be wiped out the next. It's vital to stay calm, and the best way to do that is to divorce your emotional states from your profits and losses.

It is better to think of the big picture, -I know I'll be profitable in the long term, but I'm not going to look at a specific dollar amount right now.- You may look at abstract figures, such as your win-loss ratio, for example, but avoid looking at the specific amounts you are making. When you can do that, you'll be able to stay more calm and rational. The key behavior for profitable trading, in the long run, is to make justified wins. Justified wins happen when you carefully develop a trading plan and stick with it. However, if you make a win by trading by the seat of your pants, rather than by following your trading plan, the win isn't justified.

Whenever you follow your trading plan, learn to pat yourself on the back, regardless of whether you win or lose. If you can continue to stick with your trading plans for a week, for example, then give yourself a big reward; go out to dinner or buy yourself a gift. By paying attention to the alternative reward system, you'll be able to ignore whether you are winning or losing and focus on the process of trading. Eventually, you'll develop the discipline you need to trade consistently. You can also use an alternative reward system for behaviors that enhance your trading skills, such as learning about new trading strategies or studying the markets in off-hours.

Any activity that helps you become a better trader can be rewarded, regardless of whether it produces a profit in the short term. It's the long term that matters, and if you work to hone your trading skills and gain experience with the markets to master them, you'll eventually learn to become a consistently profitable trader. So don't focus on immediate rewards and punishments. If you do, your mood will go up and down as if you're riding a rollercoaster. Set up an alternative reward system. You'll focus exclusively on developing your trading skills and feel good about doing it.

Driving Ambition.

Winning traders are driven by a strong motivation to achieve. Trading coaches and seasoned traders have observed that the most profitable traders are those who decided early in life to chase success. They're the kind of people who persist until they reach an objective. They are not easily discouraged. They push themselves to the limits and build up their skills until they achieve high levels of mastery. And in the process, they develop rock-solid confidence. They do all of this as rapidly and as independently as possible. If your goal is to be a consistently profitable trader, it's in your best interest to approach it with zeal.

Psychologists have studied ambitious people for decades. They possess several common traits: They work tirelessly to achieve their goals. They are open to new experiences, and they are constantly thinking of innovative ways of reaching new heights. But perhaps the most interesting aspect of their personality is the way they go about achieving a goal. They are extremely organized and focused. When it comes to completing tasks, for example, they tend to pass quickly over easy tasks to complete more difficult ones. They set priorities and devote the bulk of their efforts to the tasks that really matter while ignoring tasks that may have relatively little impact.

When it comes to feedback about their performance, they prefer feedback that is as specific and concrete. They would rather have honest, accurate feedback that addresses their shortcomings in scrupulous detail than sugarcoated fluff. They aren't afraid to face their shortcomings head-on. They work independently. They are not concerned with the performance of others. Although they are extremely competitive, they don't compare themselves to others. The only reference point that matters is their own.

It's useful to use the ambitious trader as a model for success. Work tirelessly to achieve your goals. But be organized and spend your time wisely. For example, don't waste your time debilitating about which one of many equally profitable opportunities to take. Pick one and devote the rest of your time and energy to outlining a detailed trading plan. Map out strategies for entering, exiting, and controlling your risk. Once your plan is outlined, execute if effortlessly. Don't be afraid to face your limitations. Workaround them, and approach them with a realistic sense of optimism: If you work hard enough and put your effort in the right places, you'll be a profitable trader. Through repeated practice, you'll eventually build the skills you need to master the markets.

A Must Trade: Sometimes It's Better To Stand Aside.

A dream. Pure hope. A winning lottery ticket. These images capture what the masses think of trading. They don't take it seriously, and in the past couple of years, they think anyone who trades is wasting their time and money. Unfortunately, many would-be traders don't seem to take trading seriously either. For example, many traders fail to properly set realistic goals.

It's quite common to hear a trader proclaim, -My plan is to make $400 a day, so I can make $100,000 a year.- Where's the flaw in this kind of thinking? Setting a performance goal based on a specific objective per day compels one to think that he or she must trade every single day, to meet the $400 a day, $100K a year objective. But what if the markets don't move at all on a given day? Is it time to become the range trade specialist? What if the markets are quiet ahead of an important economic or earnings announcement? Is it still a good idea to trade? Sometimes it is better to stay out of the market completely, rather than fail at trading the low probability setups available on a given trading day.

Even if one has the skills to make $400 a day, when opportunities are available, it may not be a good idea to conceptualize your goals in this way. Consider the consequences of such a strategy. Suppose Monday's trading session comes to a close and one's Profit/Loss statement remains unchanged. On Tuesday there will be a strong need to make $800 so as to stay on track with the $400 per day, $100,000 a year goal. But if there are no trading opportunities, the objective again will not be achieved. Not only will you fail to make profitable trades, but you'll also spend a tremendous amount of your capital on commissions.

And your stress level will be elevated as well, potentially starting a never-ending cycle of frustration and disappointment. So after spending hundreds on commissions on Monday, and possibly losing a little capital on poor trading opportunities, what happens if Tuesday is also a poor trading day? At this point, it is quite likely that the majority of the move will take place overnight and a trader will be -forced- to evaluate the market at levels far beyond the previous day's settlement. Inevitably, the market will then move erratically for the first 30 minutes and then -fall asleep- for a number of hours, creating even more frustration, which is further intensified when one continues losing money and falling behind the goal of meeting the $400 a day objective.

Setting more appropriate goals will relieve frustration. It's useful to have a rough idea of how much money you want to make on a given day, but setting a specific dollar amount that you must achieve on any given day is often a hindrance for a novice trader. Research psychologists have found that pushing yourself to achieve a specific goal only works when one has the skills to back it up. In other words, if you have a strong track record in which you have proven that you can make $100,000 a year, then, by all means, go for it. However, if you are a novice trader and the most you have made is $15,000 a year, then setting a goal of $100,000 may be unrealistic. You may be setting yourself up for failure. When you fail to reach your goal, you'll feel frustration and disappointment, and may start trading based on your emotions.

Setting a daily goal is even worse. Seasoned professionals suggest taking it one day at a time. Overall, they may aspire to make $100,000 a year, but they know that on any given day, opportunities may be limited. They know how to patiently wait for the opportunities to come to them. They don't impose their will on the market. And that's what traders are doing when they set a performance goal in terms of a specific dollar value per day. They are implicitly thinking, -I must get $400 out of the market today and every single day.- But it doesn't matter what you wish for. There may not be enough opportunities to get $400 out of the market on any given day.

How can this potential pitfall be avoided? Remember that you don't have to trade every single day. Winning traders patiently wait for market conditions where they know they can excel. If the market is quiet, they wait for optimal market conditions. They understand that the same quiet market will handsomely reward traders who are patient. They understand that forcing the markets to move to their levels is not a blueprint for success. It's also useful to remember that all that really matters is performance across a series of trades. Many traders can lose 60% of the time, four days a week, but on that fifth day, a winner of many thousands quickly offsets nominal losses accrued across a series of trades.

When you are setting goals, it's vital that you keep them in perspective. Goals are useful when setting correctly. Set goals that match your skill level. Shooting for goals that are beyond your skills will frustrate you more than motivate you. Also, remember that you can't impose your will on the market. You don't know what market conditions will be until you see what they are. And if optimal conditions aren't there, you can't do much about it. You must accept what the market is willing to give you, which may mean patiently waiting for conditions to change. By doing so, you may not profit every single day, but in the long run, you'll be a consistently profitable trader.

Analysis Paralysis.

John has been looking at a profitable trade setup all day. He has tediously studied indicator after indicator, even though many are redundant and converge. He continues his search, nevertheless. He irrationally believes he has missed something, but he's not sure what it is. He is reluctant to put his money on the line until he is absolutely sure that his trading plan is foolproof. He thinks, -I've got to account for every possible factor that may go against my trade, or else, I'll lose money, and that would be a fatal blow.- John is afflicted with analysis-paralysis. He can't make a decision that needs to be made immediately, and he hesitates out of fear and uncertainty.

People differ regarding the extent to which they are afflicted with analysis-paralysis. For some people, it's relatively benign and may even work as a very adaptive approach to decision-making, but for others, -analysis paralysis- is a deep-seated psychological problem.

Normal versions of analysis-paralysis. Careful analysis of all possible alternatives and all possible consequences of one's decisions is the hallmark of good decision-making. It's important to avoid impulsive decisions where one takes unnecessary risks. For example, you wouldn't want to purchase an expensive house or car that doesn't fit into your budget. If you've saved enough money to have a trading account, you probably know that and have a strong desire to apply what you've learned from your personal financial life to your professional trading life.

When it comes to trading, it's vital to have a clearly defined trading plan. Make sure that a single trade doesn't have the potential to completely wipe out your trading account. In addition, clearly define the signs and signals that indicate your trading plan has gone awry, suggesting that you should close out the trade to protect your capital. It's useful to conduct a thorough analysis before making a decision, but it isn't useful to become completely paralyzed by it.

Pathological variants. A pathological variant of analysis-paralysis is quite different from sound decision-making. Traders with this pathological affliction have an insatiable need to seek out certainty and security. For these individuals, uncertainty represents insecurity. It's not merely that they have a pessimistic outlook, although they have one. They equate money with psychological security; losing money represents not only a loss of financial security but also a loss of basic emotional security and well being. How does such an affliction develop? For many, it is rooted in early childhood.

Parents often impose rules for their children to follow and punish them when the rules are broken. Young children are on the lookout for what rules to follow so as to avoid punishment and the unpleasant feelings associated with it. As adults, we make our own rules and decide to follow them or not; we no longer act as children searching for the -right- rules to follow in order to avoid punishment. People with analysis paralysis, in contrast, tend to search for the -right rules.- They continuously search for rules to follow, and when no clear rules exist, they simply make them up. It's as if their parents have followed them into adulthood.

They are always there next to them nagging and threatening punishment when the -right- rules are not identified and followed unconditionally. For traders with analysis-paralysis, this past childhood conflict manifests itself as searching for the -right- indicator or the -right- trade setup. And even when they see it, they have a strong need to want everything to be perfect. Because if they don't, they are certain that some form of unspecified punishment will follow.

Do you have an extreme form of analysis-paralysis? If you do, it's vital that you identify this affliction and develop a strategy to fight it.

Anticipating Outcomes.

Our emotions are closely tied to our expectations. If we expect to receive love and affection from our spouse after a long, stressful drive through an extra 60 minutes of rush hour traffic, we are upset when we are greeted with reproach for being late for dinner. When our expectations don't match what actually happens in our lives, we react emotionally and often impulsively. This is especially true of trading, where we have a natural human desire to win, but often face loss after loss.

Trading is a profession where you should work under the assumption that you should see more losing trades than winners, so expecting to win is likely to produce more disappointment than euphoria. To the novice trader, especially, this fact of life can be stress producing and somewhat disappointing. But trading isn't the only profession where one must face undesirable outcomes, and learn to cope with them. Many professionals must deal with everyday events that are distressing and hard to accept. Examining these various professionals and how they look at circumstances with the proper mindset may offer you a new perspective on handling losing trades.

How one copes is all a matter of the expectations one has, the outcomes one anticipates. Consider an everyday example. A pet peeve of many drivers in rush hour traffic is that fellow drivers are not very courteous. They often impatiently cut off other drivers, drive too fast, and change lanes too frequently. One may experience -road rage- if he or she steadfastly held the belief that -drivers should obey all traffic laws and make no driving errors.- The assumptions and expectations one holds can color how one thinks about things. Imagine a police officer, or a truck driver, who went through the workday assuming that -drivers should not make driving errors.-

The world would be a better place if that were so, but in reality, it just isn't going to happen. Assuming that this is a realistic expectation, however, is just going to make matters worse. Similarly, imagine a nurse or doctor in an emergency room of an urban hospital who expects to see a calm and peaceful workday with only a few patients with minor injuries. When the steady stream of patients suffering from severe gunshot wounds or fatal heart conditions start pouring in, they will feel especially stressed and frustrated. Or consider the firefighter who expects a firestorm fueled by Santa Ana winds to be put out with just a few shots of water from a fire hose.

He or she is going to be naturally upset as the fire crew works tirelessly day and night yet the fire intensifies and continues to spread. There are many professions where setbacks are the rule, and without the proper mindset, such setbacks can be paralyzing. As a trader, it's vital to have the right mindset. Rather than assume that one can make easy money by putting on a few half-baked trades, it's essential to be realistic. It will take a great deal of preparation to find good trading opportunities. They are out there, but one has to do the necessary work to find them. And when you find them and try to capitalize on them, they won't always produce a win. That doesn't necessarily mean you should be disappointed. If you realistically anticipate such setbacks, you won't be caught off guard psychologically. If you expect a loss, you'll be able to accept it more easily and you'll take precautions, such as proper risk control, so it won't wipe out your account balance. Don't let a series of losing trades take a toll on your psyche. If you enter trades with the assumption that you may lose many of them, you'll be able to bounce back quickly, make new profitable trades, and come out ahead in the long run.

Avoid a Potential Disaster: Anticipate Earnings Reports.

When you ask most short-term traders if fundamental analysis ever plays a role in their decision-making, they usually roll their eyes. For the most part, this indifference is justified, particularly for the pure daytrader, since it is widely believed that fundamentals act too slowly to have a major influence on prices in the short term. The longer you stretch your time in a trade, however, the greater the potential risk. Measures should be taken to minimize this risk. For any trader, with a time horizon of more than a day trade, the release of earnings reports is a fundamental event that must be anticipated.

Earnings reports are one of the biggest catalysts for volatility in an individual stock. It is absolutely necessary to know when a company is due to report earnings and be ready to deal with the possible adverse effects. Ignoring the potential influence of an earnings report is like gambling without controlling risk. Look at some of the recent earnings-related disasters as evidence: MSFT lost nearly 7% of its value overnight when earnings failed to meet estimates and the stock has not shown any tendency to bounce higher. Shares of IBM lost 4%, and two weeks later, it has not recovered. The former highflier JCOM is one of the biggest earnings-related disasters. The night before JCOM reported earnings, the stock closed at 43.84. The next morning the stock opened at 36.71, and today, it is trading under 30. NTES is currently down over 14 points or 21%. Earnings, although up 97% from the same quarter a year ago, missed analysts' estimates by two pennies.

The impact of these adverse events can be minimized. An obvious strategy is to stay away from trading stock until earnings reports are released. But there are other ways to deal with possible adverse news: Hedge some of the risk with options. When going long on a stock, for example, one can buy a protective put. (A put is a right, but not the obligation, to sell at a specified price for a specific time.) The protective put can be viewed as an insurance policy against an unforeseen earnings-related disaster. Should the price fall hard, you can sell at the specified price. As with insurance, if the price does not fall, you lose the premium you paid, but you also protected yourself against a potential adverse event. (You can similarly use a protective call with a short position.)

Another way to have exposure to stock before earnings are due is to forgo buying the stock altogether. Instead, buy a call option on the stock. Suppose you want to go long, but also want to reduce your risk should the reported earnings fail to meet expectations. Buy call options, and if the price goes up as you had anticipated, you could sell the options for a profit. But if the stock implodes after earnings are released, the worst you will do is lose the premium you paid; it can never get any worse. Because the premium for the option is a small fraction of the amount of capital you would be required to put up to control the stock outright, your risk is defined. There are other ways to lose your premium, however. Besides the risk of the stock going down, there is the risk of time value in an options position. If the underlying stock does not move higher, you could still lose the money you paid for the option as time decay eats into its value.

Essentially, the best way to deal with an upcoming earnings report is to avoid overnight exposure, but if you feel as though you must have a position ahead of an earnings report, be sure to minimize the risk. Whatever course you take, don't ignore this potential adverse event. Earnings reports usually have a significant impact on prices. Don't be caught off-guard. Develop a plan for controlling losses should the market go against your expectations.

Don't Be Caught Off-Guard: The Art of Anticipation.

How do you react to unanticipated events during the trading day? When you are trying to put on a position, are you upset when you can't get a complete fill? When your DSL line goes down, do you react with anger or frustration? When you make a trading error, do you react with self-reproach? When your money is on the line, it's natural to strive for perfectionism and seek out complete control. If only we could control the world to such a great extent that there was no uncertainty, a world where all is known. Unfortunately, we can't. In the end, we must accept uncertainty and work around it. It is vital to anticipate all possible outcomes, and avoid over-reacting.

Our expectations often control our emotions. When our expectations don't match what actually happens in our lives, we react emotionally and often impulsively. We have a natural human desire to win but often face many trading losses. Trading is a profession where you should work under the assumption that you should see more losing trades than winners, so expecting to win is likely to produce frustration or disappointment. To the novice trader, especially, this fact of life can be stress producing and somewhat disturbing. But it doesn't have to overwhelm you. If you are caught off-guard, a losing trade or unexpected setback will disappoint you. If you anticipate it, however, you'll stay calmer and more relaxed, ready to take decisive action to remedy the situation.

It's vital to anticipate adverse events rather than react impulsively and emotionally. Consider the ideal way of reacting to a common, everyday event. A pet peeve of many drivers in rush hour traffic is that fellow drivers are not very courteous. They often impatiently cut off other drivers, drive too fast, and change lanes too frequently. One may experience -road rage- if he or she steadfastly held the belief that -drivers should obey all traffic laws and make no driving errors.- Consider the various ways that you might react to such an event. If you believe that such events should never happen and that it should not happen to you, you will react with anger. And if you are too angry, you may not pay close enough attention and get into an accident.

If, on the other hand, you anticipate potential problems, you'll be able to focus on what to do next. Rather than get angry and become distracted, you will calmly think about how to take evasive action to protect yourself. Rather than accidentally running into the car as it cuts you off, you'll slow down and avoid an accident. It is much the same way with trading. You can't prevent your DSL from going down, but you can take action to prevent it from undermining your plans. If you anticipate the problem, you will calmly use a dial-up connection to see if you can remedy the situation. It is important to remember that your psychological energy is limited, and if you get caught off-guard, you will react emotionally rather than decisively, and with a focused concentration that can get you out of the unpleasant circumstances, you have encountered.

Adverse events in trading are the rule rather than the exception. If you realistically anticipate such setbacks, though, you won't be caught off-guard psychologically. You'll be able to bounce back quickly and come out ahead in the long run.

Keeping Up Appearances: A Dangerous Activity.

Have you ever been at a party and felt a need to impress others. Many see trading as an exciting profession. It's a glamorous job. Traders are seen as rich and powerful. People like to hear about how traders make huge profits, and they secretly hope that you can tell them how to make some easy money. It's often tempting to want to bask in the glory of success, to be the center of attention or the object of envy. But winning traders know how to stay humble. They don't seek out glory because they know that the profits they realize today can quickly evaporate tomorrow. Bragging about their success and then feeling the need to keep up appearances as a skilled, wealthy, and profitable trader has doomed many traders. Don't let your psychological needs for glory and recognition hamper your trading performance.

In the end, the profitable trader tries to conceal his or her trading success when talking to people who aren't in the business. Why? The more you present yourself socially as a -successful trader,- the more psychological effort you will spend defending this reputation. Several research studies have documented that one of the biggest obstacles to sound decision-making is the need to save face in social situations. When people make a mistake, they tend to dread admitting the mistake to others. They are so reluctant to face the adverse social consequences of having made a poor decision that they stay on a losing course of action, rather than admit they were wrong.

For example, a trader may be reluctant to sell off losing positions in order to avoid the possible social criticism that acknowledging a failure may bring. This phenomenon isn't restricted to trading. It happens in large corporations as well. When a large sum of money is dumped into a failing project, corporations don't cut off resources; they tend to increase funding because they just don't want to admit they have made a mistake. Remaining on a losing course of action, however, can spell disaster. Doing whatever you can do to minimize these psychological processes will enhance your trading performance. And in this case, that means keeping your trading performance to yourself.

Consider what may happen if you bragged to your friends about how you've been holding a potentially profitable position, and plan on making a big killing in the next week. What would you do if the price fell hard? What would you do the next time you saw your friends? Tell them about how you failed after bragging about how much money you planned to make? Not only would you dread telling them about how much you had lost, but you may also unconsciously avoid admitting to yourself that you made a big mistake. Secretly you may hope that the trade will turn around so that you can save face with your friends.

In the back of your mind, the powerful need to save face and protect your reputation can influence your trading decisions. Trading is hard enough. Why introduce additional social and psychological pressures that will adversely influence your trading results? Keep the specifics of your trading career to yourself. There is no sound reason to discuss the specifics of your trading career at social gatherings. It's often done just to build up your ego, and enjoy the attention of others. You'll pay a price for this short-term gratification in the long run, however. So follow the advice of seasoned traders: Be quiet and stay profitable.

Getting in Sync with the Market.

Professional athletes practice extensively in preparation for a game. It's critical to be well prepared, ready to perform at your best, and ready to take care of anything that may come your way. But at game time, even top athletes don't jump into action on impulse. They may be well prepared, but that doesn't mean they are warmed up and ready to play at their best. They must also develop an initial impression of how well things are going.

The best athletes -feel- out their opponent, their teammates, and their current ability level. Basketball players, for example, stick to 10- and 15-foot jumpers initially, and allow themselves to find their rhythm before stepping back behind the three-point line. Players try to get a sense of whether their teammates are supporting them by setting good picks and allowing them clean shots. After they sense that everything seems to -click- and that they have entered -the zone,- they build on their momentum and take their performance to a higher level. Starting out slowly and finding your rhythm before kicking it up a notch is also a key to profitable trading.

Early in the trading day, it's useful to -warm-up- and -feel out- the situation. Make a few small trades, for example, 10% of your normal lot size. (And by all means, limit your risk by trading a detailed trading plan.) Putting on a small position usually helps you focus and see the subtle impact of the market factors that may be helping or hurting you. After you've entered the market, see if the trades are working out. See how well your indicators and other trading tools are working, your -fellow teammates.- Did they identify a good trade setup? See if you can -feel- the rhythm of the market. Are you in synchrony with it? Are you moving with each ebb and flow? Make sure you've entered the zone.

Some days may not be as good as others. Even the star player of the team gets bumped if he or she is having a bad day on the court or playing field. There are times when even the best athletes get stuck in a slump. It doesn't make sense to keep trying when in all likelihood, your mindset will keep you from performing at your best. That's why it is useful to see how well you are doing at the start of the trading day. Are you in sync with the markets or is your -game- off? Many seasoned traders suggest standing completely aside when one isn't having a good day. Perhaps you have a good -feel- for a specific stock, but not the rest of the market.

You may feel that things are going against you. Perhaps, you keep scratching trades. Scratching trades is all right to a point, but if you scratch too many trades, you'll feel the losses eventually. Ultimately, it may be a good idea to take a long break, try again later, and see if you can find a time during the trading day when everything is going your way. And if you still can't get in sync, you may want to take the rest of the day off.

When it comes to developing the proper mindset for trading, it is sometimes useful to approach trading in the same way an athlete approaches playing a sport: Warm up first, and see if you can get in sync and play in the zone. Novice traders may need to gain extensive experience before they know if they are really playing in this peak performance state. But with time, they will learn to get a feel for when they can apply their skills and tools effortlessly to score big profits. Experienced traders know when they reach this optimal performance state.

If you haven't developed this ability yet, don't worry, with time and experience, you'll learn how to -warm-up, assess your teammates and opponents,- and get in sync with the market.

Don't Get Too Attached.

Jim has just purchased 500 shares of a hot new company he's liked for years. In a calm and rational manner, he notes that a set of momentum indicators suggests the price will keep moving upward. Despite what his logical mind tells him, he's afraid. He asks himself, -How can I be sure the stock will continue to move in the right direction? I don't want to be wrong; it will be devastating if I am.I'm often wrong and this may be one of those times.- Jim is experiencing self-doubt that is overpowering his rational mind. Logically, he knows his trading plan is sound, but emotionally, he can't help but think he is dead wrong. Sometimes, and for some people, one's emotional side may over-power one's rational and logical side. For some people, self-doubt, fear, and uncertainty may be the result of psychologically deep and early childhood experiences: it may go back to the early bond formed between parent and child.As we've often said in this column, not all of the psychological issues that traders face have roots in -depth- psychology, and even if some do, one may do fine as a trader by just looking at the surface rather than down into the depths of one's psyche. It's possible to merely monitor one's maladaptive behaviors, practice engaging in alternative thoughts and behaviors, and leaving it at that. But for those who may be interested in looking deeper, consider that the way you interact with the markets may be similar to the way you interact with significant others in your personal life: You may personify the markets.
Trading coaches, such as Mark Douglas and Dr. Richard Geist, have said they have worked with many traders who personify the markets: As they interact with the markets, they tend to believe they will face the same reactions they expect in interpersonal relationships, which in both cases may be a hindrance. In Trading In the Zone, for example, Mark Douglas points out that traders often equate losses in the markets with their parents punishing them for breaking parental rules.
When the markets are viewed in this way, losses take on a greater personal significance: they are a deeply felt threat to one's basic well being. Early parent-child relationships can shape people's expectations about how they respond to others as adults, and these expectations may influence how traders react to losses in the markets. Ideally, healthy children develop a secure attachment with their parents; these children learned that their parents were a -secure base- in that they were dependable, reliable, and would always be there. This allowed the child to explore the uncertain and terrifying outside world in a carefree manner.
They knew that if they encountered fear that they could quickly return to their -secure base- and gain comfort and safety. Other children formed an insecure attachment style: they were fearful of leaving their parents' side because they didn't believe their parents would be there when they returned. They didn't see their parents as dependable and as a source of comfort and safety. They thus were afraid to venture out, did not learn to cope with uncertainty, and in adult life tend to believe that they will face failure and rejection.
Having an -insecure- attachment style may apply to the way some traders face the markets. They may have not learned how to cope with uncertainty in general and be afraid of the uncertainty of the markets in particular. In their interpersonal lives, they may believe that loved ones are undependable and unreliable. They often expect rejection from others and long for relationships that provide the unflinching security that their parents could not provide. They may extend these expectations toward the markets.
They may unrealistically believe that all their efforts will result in failure and feel a strong need to seek out safety, security, and certainty. But the markets are not certain, and one must learn to cope with uncertainty. There is no such thing as a safe trade, and being afraid to venture out into the chaotic unpredictable market hinders performance severely. So it's important to determine if you have a -secure- or -insecure- attachment style when it comes to the markets. Not everyone may personify the markets in this way, but if you do, it useful to be aware of it, explore it further, and try to gain control of it.

The Automatic Trader.

The winning trader has an intuitive feel for the markets. To trade profitably one must execute a trading strategy under ideal market conditions. If market conditions don't match the strategy, the trade will likely fail. There's a lot of information to process and act upon, such as various signals, correlated indicators, underlying trends, unexpected media reports, or adverse events. Ideally, we would like to trade with infallible information, and it would be nice to be able to review all possible information in order to make an informed decision.

Unfortunately, the mind has limits (and information is far from perfect). It's possible to experience information overload. The mind can process only a fixed amount of information. Once this limit is met, any additional information is ignored. But it is possible to expand the capacity of the mind. One can over-learn a task, such as information processing, to the point that it can be done automatically, without conscious thought.

The best example of automatic processing is driving a car. When you first learned to drive a car, it was very deliberate. You carefully hit the brakes when you anticipated oncoming traffic and consciously refocused your attention on accelerating after the trouble had passed. As you gained driving experience, however, much of your driving behavior became -automatic- in that you no longer had to pay attention to it. Now, as an experienced driver, you can easily do many tasks simultaneously as you drive. Similar experiences occur in sports. When you practice a new golf swing, for example, you must be very deliberate initially; otherwise, you'll fall back into your old way of doing things. By deliberately practicing the swing over and over again, though, you'll eventually be able to execute the swing naturally, effortlessly, and at times, flawlessly.

The same process occurs with trading. It's possible through over-learning to read signals and execute trades so well that one can get an accurate, intuitive feel for the markets, and react to market conditions almost in an instinctive way. For example, you may no longer need to carefully evaluate certain trade setups closely. You now can act on your -hunch- or -intuition- and be right most of the time. This form of automatic processing allows you to trade efficiently. It is worth gaining as much experience as possible and practices trading under a variety of market conditions in order to trade automatically.

That said, it is also important, however, to look at the downside of trading on automatic pilot. There are times when it can lead to errors and losses. Market conditions are continually changing and a strategy that worked last week may not work today. When this happens, you must learn to use a new strategy. Trading automatically can produce losses when using outdated strategies or looking for setups that no longer suggest a profitable trade. The winning trader has the ability to recognize when methods and strategies must be revised. So even though it is useful to be able to trade automatically in order to maximize limited psychological resources, it is also essential to acknowledge its potential limitations.

Trading efficiently requires maximizing all available resources. Over-learning, in order to build up solid trading skills, is one way to maximize limited psychological resources. But it can be a drawback if one trades too automatically without realizing that market conditions may have changed. Be aware of the strong tendency to react without thinking. However, if you can trade automatically when appropriate and deliberately when it is necessary, you'll find that you can maximize your limited psychological energy and trade profitably and consistently.

Dare To Be Average.

When you put your money on the line, there's a strong need to seek out perfection. Many novice traders believe they can get everything just right. They believe that they can locate infallible information, find the perfect setup, and execute every trade flawlessly. In -Trading in the Zone,- Mark Douglas notes that many traders are so consumed with making the perfect trade that they never get around to executing enough trades to make a profit. It may be difficult to accept for the overly compulsive trader, but trading is not a profession where you can persistently demand perfection. There's no such thing as a sure profit. Information is often inaccurate. You can plan a trade methodically only to have it fail because an unanticipated adverse event thwarts your trading plan. It's natural to strive for perfectionism. You don't want to be a sloppy, impulsive trader. That said, you don't want to be an extreme perfectionist either.

-The harder you strive for perfectionism, the worse your disappointment will become,- according to Dr. David Burns (1980). Perfectionism has more disadvantages than advantages. When you strive for overly exacting standards, you feel so tight and nervous that you actually aren't very productive. You are unable to take risks because you fear failure. You tend to hold back rather than make new discoveries. Trading is a profession where you must take risks and explore new market opportunities. If you continuously strive for perfectionism, you'll never feel satisfied. You'll always think, -I could have done better.-

Is your perfectionism out of hand? Here's an exercise Dr. Burns suggests for learning about the impact of your perfectionism: Dare to be average. Feel what it is like to be average and see what happens. Rather than search for the ideal setup, why not just find a profitable setup? What happens when you just make an average trade? Sure you won't make as much profit, but you might feel better. You will probably feel relaxed. Compare what it feels like to strive for high standards, moderate standards, and low standards. You may find that merely going for moderate standards makes you feel better.

You may also find that you put on more trades, and achieve greater levels of profitability. Trading can be a matter of probabilities. To get the law of averages to work in your favor, you must make trade after trade. If you manage your risk and put in a moderate effort, you can make enough trades to come out ahead. As long as the setups are reasonable, and you are using sound trading strategies, you can get the losing trades -out of the way- and focus on the winning trades. But if you are an extreme perfectionist, you'll always be on edge and unable to make trades. And because you are so concerned with overly high standards, you may never discover and take advantage of new, profitable market opportunities.

By easing up, you'll feel more relaxed and creative. Ironically, you may end up more profitable by daring to be average, instead of striving for absolute perfection. So dare to be average and see what happens. You may be surprised at what you find.

Avoid Denial: Confront Unacceptable Ideas.

Many people think the best way to cope with unacceptable ideas is to pretend that they are irrelevant and just don't matter. It seems easier to deny the unpleasant or unacceptable than acknowledge it. But ironically, denial uses up precious psychological resources. Trading is difficult and it's essential that you mobilize every bit of limited psychological energy you have, and focus it all on trading. Consciously or unconsciously denying thoughts and ideas about trading that are hard to accept interferes with your ability to maintain concentration and freely look at the market from a carefree and objective perspective.

One of the best ways to free up psychological energy is to simply acknowledge all possible ideas you have trouble accepting. For some people, that's all it takes: Acknowledge the unpleasant idea, realize it may be true, accept it, and move on. For others, it is a little more difficult. They must write down the idea, write down instances where the idea may prove true, and the reasons to move on despite the veracity of the idea. But wherever you stand on your ability to acknowledge the unacceptable and move on, the process can start only after you review the ideas you find the most unacceptable. Let's study a few possible examples.

A novice trader may believe, -Maybe I'm not a very skilled trader. Perhaps, I've just had a run of good luck.- For novice traders, early success may actually reflect a run of good luck. In all likelihood, a novice trader runs -hot- for a while, but eventually, a lack of skills catches up with him or her. If you feel that this statement is true for you, even just a little bit, it is worth acknowledging it. Why not admit your limitations? By pretending that you can trade with skills you really don't have, you will waste your limited psychological energy denying your limitations. It's a very passive approach to coping with the stresses and strains of trading.

You'll tend to spend more psychological energy trying to deny an undesirable possibility, rather than using your limited energy efficiently. And if you trade without the requisite skills, you may also lose quite a bit of money. It would be better to use your time wisely by actually gaining more trading experience, and honing your trading skills so that you can trade consistently. A related idea is, -I can prepare for hours but I may still fail.- This is a hard fact to deal with. Many would-be traders put intense effort into learning to trade, yet they still fail. It's a hard idea to accept, since the next logical thought is, -If trading is so hard, then why am I doing this?- It is vital to acknowledge this idea and deal with it in your own way.

-Perhaps I was a good trader at one time, but the market conditions have changed and I may not be able to keep my reputation up.- This is an issue that all traders face at some point: keeping up their reputation. When one makes big profits trading, it's tempting to tell neighbors and friends how well you are doing. It's great when you're making the big profits, but keeping up appearances is often the downfall of even the most astute trader. Again, denying your need for fame and glory, or pretending that you can maintain an unrealistic reputation, will use up your psychological energy and interfere with your ability to concentrate. Huge profits tend to go to the humble, so try not to build up your reputation. Admit that you will have difficulty keeping up appearances and just quit doing it.

One fact that traders wrestle with continuously is the notion that, -Trading is not a legitimate job.- Many traders struggle with the legitimacy of trading. Some traders find that they can simply remind themselves, -Trading provides liquidity and helps control prices.- Other traders, however, think this isn't good enough and need to find more meaning in their daily trading activities. For example, they may focus on how trading helps them provide for their family, or may plan to donate some of their profits to charities they view as personally valuable. The point is, don't deny the possible truth to such ideas. You will be better off acknowledging and working through them and then just moving on. Denying they exist, on the other hand, will use up time and energy.

Unacceptable beliefs tend to lie in the back of your mind. They remain there, lurking, and when you are vulnerable, they can powerfully influence your outlook. So acknowledge unacceptable ideas, and once you admit the possible validity of such ideas, you will neutralize their potential influence. This will free up limited psychological resources, allowing you to focus all your energy on trading profitably and consistently.

The Background Factors That Throw Us Off.

Trading requires intense concentration. As easy as it sounds, it's psychologically difficult to monitor trade and to prevent yourself from acting on impulse. The reasons for impulsive behavior are numerous. For some people, it's just their temperament; they seek out risk and just can't hold back. But even the most disciplined trader has trouble maintaining control at times. It's useful to monitor the circumstances that precede a lapse in discipline and to minimize the impact of these factors as much as possible.

Have you ever been so tired that you just wanted to get in bed as soon as possible? You may have been so tired that you had thought of checking into a hotel, instead of going home, because you could not stay up any longer. Consider a few other examples. Perhaps you were so hungry that you would eat anything, even a greasy fast-food hamburger that you promised you would never eat. When you are too tired to wait for a bus, you will be tempted to spend double for a cab.

When you forgot to do the wash for a week, and are too tired to do even a small load, you are tempted to stop off at the department store on the way home to pick up some new underwear for the next day. These examples illustrate that when people feel tired or under pressure, they do things they would not do had they been in a calm, logical state of mind. When we are upset, our perspective changes. We do things we would not ordinarily do, and when our impulsive, stressed mind returns to a calmer, rational state, we regret our decisions. The same thing happens when trading the markets.

When we feel under pressure and abandon our trading plan, we may regret it later. For example, when we feel beaten because a position we are holding just isn't going the way we had planned, we are strongly motivated to close the position instead of patiently waiting to monitor the trade according to our trading plan and to exit as planned. Feelings of anxiety and unpleasantness break down our ability to maintain self-control. We forget the consequences of our actions and strive to reduce our feelings of uneasiness regardless of the consequences.

How can we maintain control? First, acknowledge that maintaining self-control requires psychological energy and stamina. Psychological processes are like physical processes in that we have limited resources. When we use up resources, we need to spend time resting in order to recover these depleted resources. If you have been spending a great deal of psychological energy holding back your impulses for a few weeks (for example, fighting the urge to sell off a position and to take profits early), you will be vulnerable to act on impulse. For weeks, you have used up the psychological resources you need to maintain control, and now it will be harder to maintain control. (It's just like a weary muscle after a strenuous workout).

At this point, you need to avoid making matters worse. Don't overtax your self-control resources. Don't think you can easily maintain your trading discipline while working on other self-control projects, such as maintaining a diet, working extra hours on weekends, or trying to cut back on leisure activities. It's essential to allow yourself to satisfy impulses in other areas of your life in order to be able to focus all your self-control energy on maintaining your trade. Second, build up your psychological resources indirectly by getting extra amounts of sleep and rest. You have limited psychological resources, and these resources are even more limited when you are tired. By sleeping extra time, you will be able to devote more of your energy to concentrating intensely, and when you can concentrate easily, you will increase the likelihood that you will be able to fight the urge to act on impulse.

Third, reduce background stress. When we are stressed out, we have fewer psychological resources available to devote to focusing on our trading plan. Don't underestimate the influence of background stress. Stressors lurk in the back of your mind and reduce your ability to stay focused. Don't let background factors unconsciously influence your ability to maintain self-control. By taking precautions to neutralize potential factors that may put you at risk for acting on impulse, you'll stay controlled at critical moments of trading.

One More Thing in the Back of Your Mind.

When you have a psychological conflict, it's in your best interest to resolve it as soon as possible. As an old saying goes, when you ignore a conflict, -it's just one more thing in the back of your mind, taking up space and time.- Freud said it 100 years ago and contemporary cognitive psychologists have proved it: there are limits to the psychological energy the mind can expand. The more issues you leave unresolved, the more these issues build-up -in the back of your mind- and the less psychological energy you have to address them. When built up and left unresolved, there's a high probability that these conflicts will creep out when you least expect it. Not everyone has unresolved conflicts that sneak out of the unconscious and influence his or her trading behavior, but it's wise to make sure that you are free of psychological conflicts.

Do you have unresolved conflicts that lie in the back of your mind? Studies have shown that it's difficult to push these conflicts out of consciousness and pretend that they do not exist. Ironically, the more you try to deny the existence of these conflicts, the more limited psychological energy you waste. Rather than trying to ignore conflicts, it's better to acknowledge and face them head-on. Most of the time, the mere acknowledgment of your conflicts will produce a quick resolution.

Even if you are not the kind of person who has a lot of past conflicts to resolve, there are some conflicts that all traders must face at one time or another. There are many beliefs about trading that hold some validity but are hard to accept. For example, novice traders must acknowledge and address the possibility that a series of winning trades may be due to a run of good luck, rather than trading skill. It's better to acknowledge this possibility than pretend it has no basis whatsoever. Remember, it takes more psychological energy to pretend that you have trading skills you don't have to admit that you need more practice and instruction. By admitting your potential limitations, you can spend your limited psychological energy more fruitfully by refining your skills to become a top-notch trader.

There are similar beliefs that some traders may be afraid to acknowledge but should. For example, a trader may think, -Perhaps I was a good trader at one time, but the market conditions have changed and I may not be able to keep up my reputation as a successful trader.- All traders face this possibility at one time or another. It may be valid or it may not. But regardless of the validity, allowing such a belief to lie in the back of one's mind takes up psychological energy. It's better to acknowledge the possibility, and if it is false, remind yourself that it is absurd, or if it is true, take the necessary steps (such as learning new trading strategies) to prove it wrong.

Many beliefs always lie at the back of your mind and when you feel in a dumpy, disappointed mood, these beliefs can move from the back of your mind to the forefront. It's not useful to ignore them. It's better to acknowledge them immediately. Once you do, you are more likely to be able to say to yourself, -that may be true, but it is of no consequence right now.- Then, you better spend some time later dealing with it. Conflicts in the back of your mind can have an impact. Make sure that you face your conflicts, spend time examining them, and try to resolve them. If you can do so effectively, you'll have at least removed one of many things from the back of your mind, and free up psychological energy.

When You Fall Off the Horse.

At first, if you don't succeed, try, try again. And when you fall off a horse, it's wise to get back on. Are these sayings appropriate for trading? In some ways they are, but in some ways, they aren't. Long ago psychologists mapped out something called the inverted U theory of stress and performance. The impact of stress depends on the difficulty of the task you are trying to perform. If a task is relatively easy, a little bit of stressful arousal can enhance performance. But if the task is difficult, even a little bit of stressful arousal can impede performance. When a task is difficult, the additional feeling of stress can lead to frustration, anger, or despair. Trading is hard.
It requires mental energy. When you first start out trading, you must concentrate and focus on what you're doing. It's a lot like learning to drive for the first time. When you first start out, you need all the psychological energy you can summon. With enough practice, however, you can drive almost without thinking. When a task is easy, it's wise to keep at it. You aren't tired, worn out, and if you keep at it, you'll eventually learn what to do and succeed. For many novice traders, however, the analogy doesn't hold. Trading isn't simply a matter of continuing to try harder when you are beaten. Trading is a psychological endeavor that requires analyzing complex information, honing your intuition, and putting your money and ego on the line. When you feel beaten by the markets, it is often wise to stand aside for a little while and return when you are rested, relaxed and ready for action.
People differ in terms of their mental stamina. Some people can take loss after loss and it doesn't faze them. Perhaps they have a lot of trading capital, or maybe they are used to failure and rejection, like a salesperson who makes 100 cold calls to get just one big sale. Everyone has his or her own psychological makeup. It's useful to know what yours is and work with it. Some novices get bogged down working under the false assumption, -Real traders trade all day, every day. They keep going, no matter what.- That kind of macho attitude can get you into trouble, though.
A common occurrence among novice traders, and even a few seasoned traders, is setting high standards for themselves to achieve, and feeling beat when they fail to meet their expectations. Suddenly, they are disappointed, stressed out, and prone to make trading errors. Losses start to mount, and their mood worsens. Soon, they find themselves in a deep psychological hole of despair. They are ready to give up. In many ways, it's like having a big psychological drawdown. You can't just snap out of it. It will take a lot of extra effort and psychological energy to get back up to par. But had the problem been identified early, specific steps could have been taken to prevent a transitory bad day from becoming a major career turning point.
Seasoned traders monitor their moods, and when they start feeling tired, worn out, and ready to give up, they stand aside. They acknowledge that trading the markets can be stressful, and they take care of themselves. Everyone's threshold is different. Some people can take a lot of stress; other people need to take breaks more frequently. But whatever your tolerance level, it is vital that you learn to identify it, and take a break when you reach it. You could just jump back on the horse and get ready to ride. If you do, though, you may do more harm than good.
If you want to trade the markets skillfully, you must be ready to face endless setbacks. But you don't need to let these setbacks get the better of you. How you get back up is more important than how many times you get knocked down. If you pretend you are invincible when you aren't, you will make things worse. But if you take a break, relax, and rebuild your psychological resources, you'll be ready to ride like a champion when you do get back on the horse.

Getting Back Up.

It's not the number of times you fail that matters. It is all about getting back up after you've been knocked down. Ask any successful person and you'll find that he or she has experienced a mountain of failure. Trading is a challenging profession. Few make it, and of those that do, many eventually blow out their accounts and give up the profession. What's the difference between the successful, winning trader and the disillusioned would-be trader who gives up: It's all about expectations, persistence, and a realistic, yet optimistic, attitude.

Positive thinking alone isn't going to make you a winning trader. You can believe that you are destined to be one of the next -Market Wizards,- but if you aren't ready to accurately assess your skill level, and put in a heroic effort to develop the skills you need to master the markets, looking at the markets through rose-colored glasses won't get you very far. The kind of optimism you need to succeed as a trader is a combination of enthusiasm and a willingness to do hard work. It's similar to the work of an athlete. An opponent might beat you, but you don't leave the field in despair if you want to be a winner. You stand up, try again, and over time, you hone your skills in a variety of contexts until you feel naturally confident that you can handle almost anything. Each setback represents a new challenge, a learning experience that will bring you closer to your goals.

From a psychological viewpoint, there is a lot you can do to help motivate you to continue. First, you can keep your eye on the big picture. Don't worry about the minor setbacks that you experience today, this week or this month. Remind yourself that if you continue to practice and hone your trading skills, you will eventually develop the skills you need to master the markets. Every trade you make, successful or not, takes you closer to your goal. You will see a new market condition, or you may learn how you mentally handle a specific challenge.

These experiences teach you and bring you closer and closer to mastery. Second, never stay down for very long. If the markets beat you down, stand back up and try again. Persistence and hard work is the only path to success. The difference between those who win and those who sit on the sidelines is an unrelenting ability to face their demons, overcome them, and try and try again until they make it.

Babe Ruth struck out many times in his career, but overall, we remember his winning averages. Winning traders also make many losing trades, but all that matters, in the end, is how many winning trades that are made and how much money one makes on those trades. You will never find out if you can master the markets if you don't make enough trades. Don't sit in the corner and mull over your failures. Take them in stride, move forward, and make the profits you've dreamed of taking home.

Emotional Baggage: How to Unload It.

Bob's been trading for the past year. He's still a novice, but he has made hundreds of trades. He's going long on Intel today. He has a plan. He has managed his risk. This trade is just like any trade he has put on before. There's no reason to feel different about this trade, but for some reason, it is different. He's not sure he can make the trade today. He has been wondering why he continues to trade. He thinks, -Is this still fun? What's the point? What am I trying to accomplish in the big picture?-

In this trade, right now, Bob is carrying around excess emotional baggage. He has taken an ordinary trade and made it symbolic of a bigger issue; it has a deeper meaning. Bob is contemplating what this trade means for him. Most traders advise taking the day off when one is feeling out of sorts. But in Bob's case, it may not work. Bob is questioning his reasons for trading. He isn't sure why he is doing it, and he is elevating the significance of his routine trading activities. He can try to put it out of his mind today, but next week it's likely to creep up again. In the back of his mind, he knows he doesn't have a plan for the big picture.

Many traders can achieve some short-term success; the challenge is maintaining enduring success over the long haul. Winning traders seek out new challenges. They further hone their skills and continue to enjoy the game. But Bob is ready to stagnate. He is almost ready to quit. He needs to find some answers, and fast. Do you see how trading fits in the big picture for your own life? If you don't, you may be heading for a downfall.

It's vital to know who you are, where you've been, and where you are going next. It may sound simple intellectually, but emotionally, it's difficult to have a clearly defined identity, to have integrated significant past experiences into that identity, and to know what you want to do in terms of the journey you're traveling on from now until the end of your life. If one doesn't know the answers to these fundamental questions, he or she is likely to let these unresolved issues interfere with his or her trading performance.

Finding answers to past and future psychological concerns isn't easy. It takes some amount of reflection and the realization that some issues can never be fully resolved. So what can the typical trader do? When we've discussed this issue in past columns, many readers have asked us how they can get rid of past emotional baggage. A couple of trading coaches said they thought that few people could actually resolve the emotional baggage themselves. Indeed, there's only so much that can be accomplished by reading self-help articles on a website. If a person has deep-seated unresolved psychological issues, some form of professional help is warranted.

But for many traders, the key to resolving emotional baggage is to practice self-awareness. Psychologist Carl Rogers believed that people's past conflicts tend to lie right below the surface of their awareness. If they merely looked hard enough, and let their minds think freely, they could identify psychological issues. Basically, one can contemplate what he or she wants to be and compare it to an honest look at who one really is. If there's a discrepancy, one feels tension and uneasiness. These feelings need to be resolved.

Changes in one's goals or life plans must be addressed. For example, if a man believes that he should be a good husband and father, yet thinks that the time he devotes to trading interferes with these needs, he will feel uneasy and ambivalent about trading. Something has to change. He may not need to give up trading, but he does need to explore the issue and devise a solution. Perhaps he can set up clearly defined times where he devotes quality time to his wife and children. The main point is that trying to push such issues out of awareness is just going to make things worse. Ongoing psychological conflicts must be brought into awareness and resolved.

A brutally honest look at one's aspirations, limitations, and realistic possibilities can go a long way in terms of helping you toss out past emotional baggage. If you work at it hard enough, you'll be able to focus on your trading and cultivate the peak performance mindset of a winning trader.

Happy Traders Seek Out Balance.

Trading is a challenging business. Only the most skilled traders can make a living as an active, full-time trader. Trading experts suggest that novice traders approach trading the same way that students pursue their vocation in professional school, which requires a resolute dedication to hone their skills in order to move to the top of their field. The seasoned, professional trader has rare and valuable skills, like those of a lawyer or a doctor. You have to limit your social life and focus on developing your skills if you want to be at the top of your class. Think of the interns and residents on -E.R.- or the law students on the -Paper Chase.- They focused all their efforts on learning about their profession, even if it meant sacrificing their social life. It required life with little balance between work and pleasure. Is it a good idea? It depends on how much happiness you want in your life.

In a recent interview in the -APS Observer,- Professor Laura King, a psychologist at the University of Missouri, Columbia, was asked how graduate students could make the most of the current lives. She said, -Enjoy the process as much as you can and try to maximize your positives by readily dedicating yourself to the goals that are likely to be rewarded.- This advice is true for trading as well as for students in graduate and professional schools. It's vital that you enjoy the process of trading, but should it be your raison d'être? Maybe not. Professor King suggests, -I am not one who thinks that graduate school is not a time to have a real life. You may have to keep it a secret, but have a life.-

Many novice traders work under the assumption that because they're putting their money on the line to pursue trading, they should give it they're all. Is it necessary? A study we conducted at Innerworth suggests that it is not. We asked a group of traders to fill out a questionnaire regarding their emotional mood. We divided the sample into happy and unhappy traders and compared them. Compared to unhappy traders, who reported a tendency to feel disappointed, frustrated, and discouraged, happy traders reported that they enjoyed the process of trading. They liked the intellectual challenge trading provided.

They enjoyed learning about how companies made a profit. They enjoyed learning about new investment strategies and enjoyed learning about how people made money in the markets. These responses are consistent with Professor King's suggestion to -enjoy the process.- When asked if they allowed their personal relationships to suffer as a result of devoting too much time and energy to trading, the answer was -No.- Happy traders were clearly dedicated to honing their trading skills and enjoyed doing so, but they didn't allow their relationships to suffer as a result of their dedication.

There is a valuable lesson to learn: Pursue trading earnestly, but also seek out psychological balance. Don't think that trading must be your whole life. Spend time with family and friends. That's what happy traders do.

Balanced Optimism.

A reality of trading is that a trader must doggedly make trade after trade, yet may often face loss after loss before realizing a win. Trading requires persistence in the face of seemingly constant setbacks. It takes a rare person to be able to pick oneself up after a fall and be ready to face another potential setback with enthusiasm. Dr. Martin Seligman has studied how an optimistic mindset helps people persist in the face of setbacks. Optimists, for example, do better in school, win more elections, and succeed more at work than pessimists.

He's studied several occupational groups from top-notch winning athletes to traders on the floor of the exchange. But he claims that one of the most ruthless professions is that of an insurance agent. The common lore among insurance agents is that it's often the rule that an agent makes nine calls, and receives nine brush-offs, before making a sale. Selling insurance requires optimism. But even relatively enthusiastic insurance agents fail in the end. For example, Met Life hires 5,000 enthusiastic, new agents a year. Half of these quit in the first year and 80% are gone by the end of four years. Dr. Seligman conducted studies to determine the extent to which optimism is correlated with persistence. Findings from these studies illustrate how you as a trader can learn to persist when faced with constant setbacks.

Optimism is related to explanatory style; that is, the reasons people tell themselves for why they failed. Pessimistic people explain their failures by attributing them to global, internal, and stable causes. For example, they tell themselves personal statements such as -I'm no good- or -No one wants to buy insurance from me.- These statements make the person feel pessimistic. They want to give up easily rather than persist. Dr. Seligman developed a measure of optimistic explanatory style. He administered the measure to salespersons at Met Life. Optimistic salespersons sold 37% more insurance than pessimists. Agents who scored in the top 10% on optimism sold 88% more insurance. Dr. Seligman also compared his measure of explanatory style to standard industry measures used for hiring salespersons. He found that his measure of explanatory style was a much better predictor of sales.

These findings suggest that if you want to succeed as a trader, you must cultivate an optimistic thinking style. You'll face a lot more losers than winners as a trader, and it will take persistence in the face of the defeat to keep going until you hit upon a series of winning trades. That said, Dr. Seligman warns that optimism may not always be a virtue. Although optimism often leads to superior performance, there may be sound reasons to be pessimistic occasionally. Pessimists, for example, maybe sadder, but they are also wiser.

Studies have shown that pessimists more accurately judge how much control they have over situational circumstances. Pessimists are more realistic in their judgments and thus, it may be beneficial to think pessimistically occasionally. Optimism may make you feel good, but pessimism helps you evaluate the feasibility of your plans, goals, or ideas. Traders, especially novices, are notoriously overly confident. It's vital for survival to cultivate a balanced sense of optimism. Optimism helps you persist in the face of a setback, but a healthy sense of skepticism will keep you based in reality.

It's useful to question your trading plan before you implement it, for example. Ask yourself, -Have I accounted for every possible adverse event that may go against my plan? Have I managed my risk appropriately?- Asking such questions and making sure you have the answers will help you survive in the long run. So use optimism wisely. It's essential to be optimistic as a trader. It will keep you going in a tough game like trading. But also be skeptical. Don't put blind faith in every trading idea that crosses your mind. Think it through. A balanced sense of optimism will ensure your survival and help you achieve the profits you seek in the long run.

Beaten But Still Hanging In There.

Carl has dreamed of being a winning trader since he was a teenager. He tracked the market in high school and started trading stocks in college. But he has blown out twice in the last five years. He works hard to save trading capital, but the most he has ever raised is $5,000. He read -Market Wizards- and dreams of being the next Tom Baldwin who turned a modest account into a fortune. Right now he feels beaten, though, and he is seriously wondering if his goal of becoming a winning trader is just a pipedream.

Carl is not alone. Thousands of novice traders seek out the glory and riches trading offers, only to fail within a year. Is it a pipedream? Yes, for many. Trading isn't easy money. Although there are a few exceptions, it is practically impossible to turn a small $5,000 account into a large trading account that can produce a livable wage. It's much more realistic to use a buy-and-hold strategy and hope for a relatively small return if even that. But does that mean one is out of the picture? Not exactly. The would-be Market Wizard can pursue many paths to success. It's just a matter of developing realistic goals and sticking with it.

An important prerequisite to trading is to have a relatively large trading account, such as $50,000. There are practical and purely mathematical reasons for needing adequate capital. On the practical side, regulations require a minimum balance to short stocks. Trading requires that one be able to go long or short depending on market conditions. On the mathematical side, it is impossible to both manage risk and cover commissions and fees with an account that is too small. On any given trade, the price can only move so far. If only a relatively small amount of capital is risked on a given trade, it is difficult to cover the costs of commissions and fees since the price is not likely to move far enough to make a profit and cover additional costs.

The bottom line is that one must save enough money to build up adequate trading capital. That may mean working an extra job and cutting down on expenses by reducing one's standard of living. That's hard to do. It's a matter of making extreme sacrifices now in the hopes of later benefits. And when it comes to trading, the later benefits may not be realized for several years. This is a significant psychological impediment to overcome. It means making some hard decisions.

That said, one doesn't have to completely stand aside as he or she builds up trading capital. There's still a lot you can do while you wait. You can paper trade. You can develop trading strategies and outline trading plans in order to get a rough idea of how you might do as a trader. Many seasoned traders warn, however, that a paper trade doesn't have the same psychological impact as an actual trade. When there is no money on the line, nothing is at stake psychologically.

You have relatively little motivation to focus all your energy and attention on the trade. One way to work around this issue is to make small practice trades: Put a little real money on the line, so that your senses are heightened, and you truly feel that you are risking something. You are going to lose money on the trade because of fees and commissions, but you'll learn about your trading personality through the experience. You can look at the expense as tuition paid for learning a valuable lesson.

Another way to learn about trading is to set learning goals. You can take courses from reputable trading schools, or do home study courses to learn the basics of trading. Seasoned traders warn to be wary of get-rich-quick schemes, so it's worth your time to sift through all the different methods and separate the methods that merely offer false hope from the methods that can be legitimately used to trade profitably.

So if you have blown out your account, don't lose hope. There's still a lot you can do to work toward your goals of becoming a winning trader. You can focus on building up trading capital and on building a knowledge base of trading methods. By focusing on your dreams, and showing unwavering persistence, you can beat the odds and become a consistently profitable trader.

Beat Stress Before It Beats You.

Did oil prices ruin your trading plans this week? Adverse events, such as foul weather in the Gulf, are just one of the many sources of stress an active trader must contend with. If you're not careful, you can feel overwhelmed. When you are -stressed out,- you may not be able to think clearly, and when your thinking is fuzzy, you won't read the markets objectively. As John Percival notes in The Way of the Dollar, -danger points in trading come when we're under stress.- It's essential to do whatever you can to stay calm while trading.It's useful to practice stress prevention. Scientists have shown that stressful emotions can build up, and if not released occasionally, a person can be overloaded by stress. Laboratory animals placed in stressful situations, for example, die if the stressful events are continuous and enduring. Thus, it's essential to have a routine to release stress and let your mind rejuvenate. You can't completely remove stress from the trading environment, but you can prevent the stressful aspects of trading from making you feel overly anxious and fearful.
Here are some tips on how to develop an effective stress reduction plan:
First, avoid caffeine. Many people feel that caffeine keeps them alert, but many times, caffeine will elevate your nervous system to the point that you feel on edge and ready to panic. It operates in the background and makes your nervous system hyper-alert to the slightest form of stress. Trading is stressful enough; you don't need to pre-elevate your nervous system, only to feel extra nervous when you face an unexpected adverse event, such as a dramatic jump in oil prices.
Second, exercise regularly. Many successful traders view exercise as a key component in creating a calm and relaxed mindset. It's vital that you regularly release tension that builds up during the trading day. Exercise ensures that pent-up frustration and tension are released, and do not build up to influence subsequent trading decisions unexpectedly.
Third, minimize background stressors. Daily hassles, such as minor arguments, traffic congestion, or feeling over-extended can add up to be as equally stressful as a major life event (such as the death of a loved one). Try to minimize these hassles, and don't ignore them by trying to pretend they aren't important enough to deal with immediately. They can accrue and cause you great strain in the long run.
Fourth, don't exceed your trading skills. If you are new to trading, don't put extra pressure on yourself by trying to achieve trading goals that you can't possibly achieve. For example, keep position sizes small and have clearly defined risk limits. If you push yourself beyond your skill level, you'll not only feel extreme anxiety and fear, but you will probably unnecessarily deplete your account balance more rapidly and end up experiencing even more debilitating feelings of stress.

Who's Behind the Curtain?.

If you haven't seen the -Wizard of Oz,- you are in for a treat. It is a great movie on multiple levels. The climax occurs when the heroine, Dorothy Gale, reveals that a great wizard is only a common man pretending to be something much more than he really is. Does this remind you of any recent newsmakers and shakers? Mary Meeker, George Blodgett, Bernie Ebbers, Kenneth Lay? At the moment, the list of pretenders is long. The risk of deceit goes beyond mere mortals. As a trader, you must question virtually everything, even what appears at first blush to be hard, cold facts. I even doubt if there are such things as -facts,- unfettered by personal interpretations or prejudices. All information is analyzed and interpreted. Interpretation gives information to its predictive power, which, in turn, usually results in action. Action for us means trading'and trading brings us winners and losers.

Tradable facts, even with absolutely correct interpretations, do not automatically generate successful trades and profitability. A key ingredient'timing'is missing. Just to be safe, you might want to add a pinch of luck as well. But it is the elements of analysis and interpretation that I want to emphasize. The fundamental skill is the ability to discern the core truth from your inputs. Think for a moment what Norman Mailer once said about metaphors: -They often have more truth in them than truth itself.- The reason is that metaphors are carefully contrived to make a specific point, usually morals or truths. Whereas what we call -facts- are actual occurrences; they are things that really happened. Since we know that they occurred, we give them high creditability, even to the point of accepting them without question.

Traders cannot be so naïve. The facts you deal with are the basis for your trades. If you blindly accept the facts that flow into your consciousness as truth, you will never become a successful trader or investor. As my grandfather used to say: -Liars figure and figures lie.- Meaning facts can be manipulated by just about everyone who touches them, particularly politicians, financial analysts and just about anyone trying to sell you something. And psychologically, even you can unconsciously manipulate so-called facts. Consider something that is supposed to be completely straightforward, such as technical analysis; even it can be prone to subjective interpretations.

Have you ever heard a gaggle of Elliot wave analysts argue about what wave a particular stock or commodity is trading in? -This is the third wave!- -No, that's still part of the second!- Nothing is black and red in trading other than the final results. That's why you see so many trading styles and theories. And why you can't simply mimic someone who is successful and be just as successful yourself. Trading is not a team sport nor is there any single way to become a superstar. You must forge your own way to the winner's circle. Part of that is finding out, for yourself, what is behind the curtain and how to analyze, interpret, and find the facts that are pertinent to your trading modus operandi.

Appreciating the Beauty of the Markets.

Have you ever had one of those days where you wished you had stayed in bed rather than executed your first trade of the day? Perhaps you excitedly put together a trading plan the night before only to get a poor fill when the markets opened the next morning. Maybe you were just in a bad mood and frustrated that nothing was going right. Some seasoned, trading experts warn against trading while upset or frustrated. You may be prone to making mistakes. Many times, it's better to just stand aside. But walking away can make you feel as if you have been defeated. And if you stand aside too often, you may feel as if you aren't giving trading your best shot.It can feel as if you are prematurely walking away from a challenge rather than gaining new experiences or learning how to overcome new obstacles. It may not be a good idea to stubbornly try to trade in market conditions that aren't conducive to your trading style, but there is a compromise: You can move from a -doing- mode to a -being- mode. Rather than force yourself to actively trade, you can just relax and appreciate the complexity and beauty of the markets.

During the trading day, and often during off-hours, we are consumed with doing whatever we can to make a profit. We plan, anticipate, and find solutions to trading problems. We search for a winning trading strategy, even if it means ineffectually coercing ourselves to find a way to profit from the market action. But trading is a creative endeavour. It's a combination of looking for historical patterns and using your intuition to decide whether history is actually going to repeat itself at this time and at this moment. When it comes to using your intuition and creative skills, you have to be free, open, and ready to accurately perceive what the markets are doing. It's an art. You can't force yourself to be creative. You have to let a creative idea come to you. But when you're upset, frustrated, and forcing yourself to find a winning strategy, you often choke under the pressure. You're closed off. You can't see what you need to see.

When you're having a bad trading day, you can't see clearly. You can be stuck in a -doing- mode, trying to take action, and frustrated because you can't figure out what do to next. You can get caught up trying to find solutions and taking decisive action, and get mentally overloaded with details. You're overly emotional. You're frustrated and overwhelmed. When things get that bad, you just can't think clearly enough to actually take action. The solutions to problems don't come easily, and it is quite possible that you'll make trading errors. Is it time to give up? Maybe. But an alternative is to move from a -doing- mode where you are trying to take action to a -being- mode.

Rather than trying to execute a trade, which is the main concern of the -doing- mode, you can try to merely observe and study the markets. Rather than try to take charge, you can be a mere observer. Rather than pushing yourself to figure out what trade to execute in the next few moments, you can settle for merely observing the markets. You can take a rest, relax, and just study the markets. When you fully commit to avoid making a trade in the next few moments and are content with merely being a student of the markets, you'll free up psychological energy. As you start to calm down, your creative juices will flow freely again. Suddenly, solutions that eluded you in the -doing- mode become obvious while in the -being- mode. You'll once again feel free and creative, and when your head is a little clearer, so are your perceptions and intuitions. Soon, you've moved from mental stagnation to trading in the zone.

So if you find yourself frustrated and stuck, and fruitlessly trying to push yourself to the limits, stop. Allow your mind to step aside. Breathe freely and relax. There are times when you have to just stop and appreciate the complexity and beauty of the markets. When you do, you'll naturally see new ways to trade freely, calmly, and profitably.

The Best Laid Plans.

A common complaint of novice traders is that they just can't seem to stick with their trading plans. Many novice traders develop a viable trading plan only to abandon it impulsively. What goes wrong? Part of the problem is making the plan too vague. Parts of the plan are missing, and when a plan is incomplete, it is hard to follow and execute. But that's only part of the problem. For many novice traders, an additional issue concerns the thoughts and emotions that are experienced when the plan is actually executed. The best-laid plans are developed with one is calm and clear-headed, usually long before the plan is to be executed. Entry and exit points can be clearly specified. When the plan is executed later on, however, a barrage of various emotions may be experienced, and these emotions, if left unchecked, can thwart your plans.Emotions can colour our perspective. For example, when you develop a trading plan during a quiet evening, it may seem to make logical sense. But then the market opens the next morning, and everything suddenly looks different. Your mood, and your perspective, can change for a variety of reasons. Perhaps you had a bad dream and are a little preoccupied. Perhaps you suddenly started worrying about money. Various thoughts and fears distract you. Your son's tuition is due next month.
Your car needs a major tune-up. Perhaps it's hot and stuffy in your office the next day, or you are just weary or groggy for no apparent reason. Or it could be that the markets are just behaving more erratically than you had anticipated. Whatever the feelings, or the reasons for them, they influence your thoughts and perceptions. What to do next varies from trader to trader. Some traders stand aside and wait for their mood to improve. Seasoned traders, who have seen it all and aren't easily fazed by much, may ignore their feelings and continue. But a novice trader with little experience may be easily shaken. It's at these times when trading errors are made or trading plans abandoned entirely.
Preventative measures can be taken, however. First, develop a clearly defined trading plan. Make sure that you know exactly when you will enter, and what signals indicate that you should exit. Second, focus all your energy on executing the plan. This is easier said than done. When you are emotionally distracted, your limited psychological resources are taxed to the limit. You have a few psychological resources left to execute your trade. You can't rethink your plan when you have limited ability to focus. The best solution to this problem is to limit your attention to executing your trading plan as you have outlined it.
Don't second-guess it. Don't think you can make a last-minute change. Just execute it the way you had planned it. It's like trading as if you were a warrior. When warriors are ready to fight, they don't question their skills. They don't worry about whether they are unprepared. They are ready to fight an opponent and need to focus only on winning, and just do it. That's what you should do when you execute your plan under stressful conditions. Don't second-guess your plan. Live in the moment. There's no reason not to. You should have factored in the risks upfront when you outlined the plan, and know deep down that you can't experience any real harm should the plan fail. You've prepared as much as possible.
In many ways, your fate is already determined. You just need to execute the trade flawlessly and effortlessly and find out what was meant to happen. But if you choke under the pressure, you may mess it all up. If it's a loser, there's nothing you can do. If it was meant to be a winner, however, and you let your emotions fowl up your plan, then you have lost one of the trades that may have been one of the winners across a series of trades. And from a purely statistical vantage point, you want to win on every possibility that you could have. That means executing your plan rather than abandoning it. The best-laid plans can be ruined if you don't execute them properly. But if you clearly define your plan and focus solely on executing it, you'll trade profitably in the long run.

Don't Be Afraid To Be Yourself.

There isn't one right way to trade the markets. It's tempting to emulate your favourite -Market Wizard,- but in the end, it's essential to match your trading style to your personality. Some traders, for example, carefully backtest a strategy before using it. They scrupulously estimate the probability of success for a trading strategy in an attempt to forecast how it will do under current market conditions. They are methodical and somewhat compulsive in their approach. But based on their personal psychology, they know that they are most comfortable when they have considered all possibilities and taken reasonable precautions to ensure success. Other traders are more easygoing.

They take risk and uncertainty in stride and aren't afraid to formulate their trading plans as they go along: -Backtesting is of little value. History only repeats itself occasionally. You've got to go out and find opportunities as they happen.- Which approach is best? Again, the approach you use to trade the markets depends on your unique personality.

That said, the single most important factor for trading successfully is self-confidence. You can have a foolproof method, but if you don't have confidence, you can't use the method effectively. Developing a sense of confidence takes hard work. You must accumulate a real-life experience. You must live through various market conditions, and see how you react. Once you have rock-solid confidence based on a wealth of experience, though, the way you approach trading is a matter of preference.

Some people are naturally optimistic. They tend to look at the world through rose-coloured glasses, believing that all turns out well in the end. If you have proven skills as a trader, an optimistic attitude can keep you at the top of your game. By pushing yourself to the limits, you will consistently perform at your best. (On the other hand, optimism can hurt you if you don't have well-honed trading skills. Many novice traders over-trade, abandon risk limits, and lose big when they are overly confident). But not all successful traders are extremely optimistic. Indeed, many successful traders are sceptical, cynical, and think, -If I'm not careful, I could lose capital.- They are confident in their ability to trade profitably, but they know themselves. They believe in preparing carefully for trade and prefer to over-prepare. Before they execute a trade, they must be fully satisfied that they've covered all their bases. They think and re-think their strategy. They even worry a little about whether it will work. But in the end, they trust their approach, and they are confident that all their preparation and worry will pay off.

Research studies have shown that you must be yourself in order to achieve a high level of performance. Trying to be someone you aren't just because you think it's the -right- way to trade often does more harm than good. For example, if you take optimistic people and make them question their skills unnecessarily, their performance suffers. Similarly, if methodical, pessimistic people try to avoid going through the motions of checking and re-checking for possible flaws, their performance suffers. It is vital to remember that there is no one right way to trade. In the end, you must find what works best for you. Through trial and error, you must discover what you need to do to make profits in the markets. The only standards that matter are your own. In the final analysis, it's just you, the markets, and no one else.

How Accurately Do You Track Your Performance?.

Jim and Sam, two part-time online investors, are discussing the performance of their stock portfolios at lunch. Jim inquires, -How well did you do last year?- Sam with assurance declares, -I made a return of 20%.- Jim replies sceptically, -That's a little hard to believe. Are you sure?- Sam says, -I can prove it. I've got the records on my laptop.- To Sam's dismay, a close examination reveals that he has overestimated his performance. He actually made only 15%. His estimate was off by about 5%, which is typical when investors are asked to recall their performance record from memory.
It's hard to defeat strong ego defences. We all want to believe that we are top performers, and unless our record is right in front of us, it's easy to let our ego bias and distort our recollections, all in an effort to bolster our self-worth. When asked to estimate how well we will do on a task, we tend to optimistically think we will do better than we actually do. And when asked to recall how well we have done in the past, we tend to remember only the good trades, while forgetting the bad.
Overall, our performance is seen through rose-coloured glasses, which may be a little inaccurate. This pervasive bias is nicely illustrated in a study by behavioural finance researchers Drs. William Goetzmann and Navav Peles of Yale University. They asked a sample of investors to recall their return on investment for the previous year. On average, investors recalled an investment performance that was about 6% higher than their actual returns. This study shows how with no information but one's memory, people tend to distort their estimates upward.
These overly optimistic estimates are easily explained by psychological dynamics. All people, including investors and traders, want to believe they made the right decisions. It's hard to admit that one has made a mistake. Rather than change the self-view of themselves as -good investors,- they unconsciously elevate their performance levels to be logically consistent with their positive view of themselves. This type of memory bias is something that all investors and traders should work to prevent. The solution is quite simple, and common among seasoned traders: Keep a scrupulously accurate record of all your trades, the amount you lost, the amount you won, and your overall balance. By regularly calculating objective measures of performance, you will be less likely to rely on your memory, which tends to be biased.
Seasoned traders aren't afraid to look at their objective performance records. They know that the key to survival is to quickly identify what is going wrong with one's trading plans and to fix it as soon as possible. Don't rely on your biased memory for an objective account. It's wise to keep careful records and have your actual record right in front of you so that you know where you stand at the end of each trading day. Don't let psychological defences get the better of you. Keep an objective record of your trades at the forefront.

Getting Ready for the One Big Moment.

Winning traders make consistent profits. One way to trade consistently is to minimize psychological pressure, and the best way to do that is to minimize risk to the point that the potential financial impact of any single trade means relatively little. Novice traders would be wise to heed the advice of seasoned traders and coaches: Take it slow and easy. Don't risk too much and remain calm. That said, there are times when seasoned traders try to take a big risk and put on a big trade. The old adage is true. You must risk money to make money. And it is often necessary for a seasoned trader to put on a big risky position in order to take advantage of rare market opportunities.

That may mean putting on a bigger trade than usual or pushing yourself to put on trade after trade to take advantage of optimal market conditions. Success under such circumstances comes down to performing at your peak at key moments. During those key moments, a lot of capital is on the line and it may be hard to stay calm. One is bound to naturally feel fearful and anxious, on edge and on the verge of panicking and making a trading error. Whether you are a seasoned trader or a novice trader who is merely trying to put on a -big trade- for you, there is a lot you can do to neutralize stressful emotions and trade in a peak performance mindset.

When making a big trade at a key market opportunity, you must be prepared and ready to take full advantage of it. Ideally, you should be fully rested, relaxed and ready for action. You should make sure that you get enough sleep, and possibly extra sleep if you have trouble sleeping soundly. Also, make sure that you eat properly and nutritiously. You'll need as much energy as possible to act at your peak at a key moment. You should also stay away from caffeine. Although it seems to give you energy, it puts you on edge and can interfere with thinking clearly at a key moment. It is vital that you have a wealth of energy but are also calm and relaxed.

Trading in a peak performance state is also a matter of maximizing your psychological energy for those key moments when you need it most. If you have a lot of psychological baggage in the back of your mind, you'll spend a significant part of your precious psychological energy devoted to thinking about past conflicts and trying to find a resolution, whether you are conscious of it or not. Identifying any psychological problems and resolving them is crucial. It will free up the psychological energy you need to trade in a peak performance state. You may not have to resolve every single conflict, but you must develop a practical strategy for working around these psychological issues. For example, you should use your off hours to identify conflicts and think about them a few hours a day. If you take some time to review potential past conflicts, they will stay out of your consciousness and be less likely to creep up when you least expect them.

To trade in a peak performance mindset at key moments, it is necessary to trade at your best. Part of trading at your peak is the acknowledgement of your limitations and putting together sensible ways to work around them. Don't set yourself up for failure by trying to live up to expectations that you personally just can't achieve. To trade at your peak, you must be rested, focused, and ready to put in extra-human energy to capitalize on those moments when ideal trading opportunities materialize.

The Big Picture.

Jim is focusing on a big trade that he's just put on. He has 25% of his trading capital on the line, and he feels it would be a disaster if he doesn't see a substantial profit. He can't afford to lose 25% of his capital. A jumble of thoughts race through his mind as he monitors the trade and anxiously awaits the outcome. He can barely think clearly as his emotions overpower his ability to focus his attention on the trade.

Jim's emotional reactions are understandable considering the amount of capital he has risked on a single trade. It's possible that he can pile on big profits from the trade, but he knows he can potentially lose a lot as well. He's paid both a financial and psychological price for risking such a large amount of capital. He is having trouble controlling his emotions, and he is not thinking clearly and rationally. A more desirable way to trade is to limit one's risk on a single trade. It eases some of the pressure and allows most traders to think more clearly.

Seasoned, professional traders do put on big trades, but it would be in your best interests to determine whether taking such risks is a good idea for you. Seasoned traders have established trading skills and rock-solid confidence. If they lose a large stake, it would certainly be a setback, but they know that they have the ability to make the money back, eventually. On the other hand, if you are a novice trader, you know deep down that it's quite possible that you can't make the money back. No matter how hard you try to ignore this possibility, you know in the back of your mind that it's a real threat, and it haunts you.

Novice traders would do better, in the long run, to limit their risk by placing relatively small trades (about 2%, for example). There are financial and psychological benefits for limiting risks. A hard reality of trading is that there are few foolproof trading strategies. Even the most reliable strategy is bound to fail eventually. Market conditions frequently change, and when they do, your strategies must be changed also. The trouble is that you don't know when a strategy will fail or when it will not beforehand.

Your best defence against the sporadic changes in market conditions is to limit your risk on a single trade. Think in terms of the big picture. Your ultimate goal is to achieve profitability across a series of trades. The outcome of a single trade is relatively insignificant. All that matters is the overall outcome. Limiting your risk on a single trade ensures that should you encounter a string of losing trades, you can survive and avoid completely blowing out your account.

There are also psychological benefits for thinking of the big picture and limiting your risk. When you put a relatively small amount of capital on a trade, you truly know that you have relatively little to lose. Less of your money is on the line, and less of your emotional well being is on the line. You can more easily reassure yourself that you can survive no matter what happens on a single trade (or even a few losing trades, should they occur).

Don't let your emotions overpower your rational decision-making abilities. Think of the big picture. All that really matters is winning over a series of trades. The outcome of a single trade has little financial and psychological significance when you view it from this perspective. Limit your risk on a single trade and you'll be able to cultivate the winning mindset of a consistently profitable trader.

Taking Big Risks.

Some people have taken risks in their whole lives. They have rock-solid confidence and often feel they have nothing to lose. Other people are afraid to take risks. A person's unwavering sense of confidence has a lot to do with past experiences, the successes achieved and the roadblocks overcome. Fear of risk-taking may reflect a lack of confidence but also a secret fear of success. Why would anyone want to avoid success? Obviously, most people dream of success. Who wouldn't want a beautiful spouse, loving children, and more money than you could possibly spend? Even if you are deeply spiritual, you must admit that if you found the proverbial genie in a bottle, one of your first wishes would be immense wealth. That's not to say that money is the most important thing in life, but let's just admit that most of us would ask for our wildest dreams to come true if given the opportunity. People do want success. However, there are dreams on the one hand, and what we believe we can have in reality on the other.

People may love to win and succeed, but they hate losing more than they enjoy winning. Regret can sometimes be more powerful than greed, according to behavioural economists. Humans can't stand the idea of mulling over a bad decision. The motive to avoid regret is a major reason trader unconsciously sabotage their efforts. People with wavering confidence need a way to save face. The best way to save face is to be able to have an excuse when you fail. You can always rationalize a failure away by thinking, -I could have done it if I had tried harder.- It's all quite understandable. Why take a risk, get hurt, and regret it later?

If you never take a risk, you will always be able to tell yourself that you could have made it if you had tried harder. This attitude, however, is a hindrance in the long run. Rather than search for high probability trading setups, traders who fear success often take the first setup that comes along. Again, if they don't put in their best effort, they will be able to fantasize about how things could have worked out wonderfully if they had just tried harder. Other ways to sabotage your efforts are to trade by the seat of your pants instead of carefully outlining a trading plan and following it. An excuse for failure is the best defence against regret.

How can you beat the motive for denial and self-sabotage? First, you can think more optimistically. Don't believe in the impossible, though. That's unrealistic and will eventually lead to disappointment. It is unlikely, for example, that you can turn $10,000 into a few million in a year. It isn't going to happen unless you find a genie in a bottle. But if you accept what you can do, you'll find you are on the right path. It's fun to dream about great riches, but you'll find achieving a successful reality, whatever reality you were meant to have, more satisfying. You don't need to be a virtuoso trader. You just need to be a winning trader, and if you put in the work and effort, you can make it.

So stop dreaming. Stop sabotaging your efforts. Accept what you can do, and when you achieve success, celebrate. Appreciate what you can do, and stop striving for the impossible. If you trade with realistic expectations and put in the required effort, you'll feel satisfied, and ironically, you will actually end up as one of the rare few who become profitable traders.

The Big Win.

Ask seasoned traders about their biggest winning trades, and they will recount those few times where luck was in their favour and they unexpectedly made a big win. Although no story is the same, many of these trades had something to do with the masses responding to media news. For example, a trader may hear of a shortage of a specific commodity before the masses hear about it. A large profit is made from buying low before the major networks reported the story and selling high as the masses respond to the news. And there are those times where a trader is lucky enough to hold a position of low-cost stock and make a huge profit when a television network financial analyst mistakenly reports the price as higher than it can ever be and forecasts that the price will move even higher.

By capitalizing on such news, traders can make huge profits. As fun and exciting as these stories are to hear, though, it's essential that you put them in proper perspective. In some ways, such stories are much like listening to how a friend bought a winning lottery ticket, or how a poor college student randomly put $10 in a slot machine in Las Vegas and made $45,000. Yes, it happens. But it isn't something you should count on. The most prudent way to make money trading is to work at it consistently, and through hard work and persistence, make steady profits.

Many novice traders dream of making -easy money.- Perhaps that's one of the main reasons many are drawn to trading. Unfortunately, trading profitably isn't easy. Although many novice traders dream of turning $1,500 into thousands, it almost never happens. One would be better off taking the $1,500 and spending it on trading instruction and practice trades than on trying to build it up into a large pot of capital. Profitable trading requires that you carefully plan your trades in terms of entrance strategies, exit strategies, and risk control.

It is also vital to have sufficient trading capital and to use trading strategies with a proven track record. These tactics aren't going to make you rich overnight, but they will help you make small steady profits over time. Some trades will be winners; many trades will be losers. But once you develop rock-solid trading skills, you'll make steady profits. And eventually, you'll see your profits grow exponentially. But none of this is going to happen if you continue to dream of making the big winning miracle trade.

It may be fun to daydream of how the markets will move in your favour and make you a millionaire from a single trade, but that's unlikely to happen. In addition, hoping for such a lucky event is bound to distract you from what you actually need to do to become a consistently profitable trader: You need to learn to trade systematically, objectively, and consciously. Only then will you make the profits you desire.

Paying Your Dues.

The great trader Jesse Livermore blew out his account more than once in his illustrious career. It's scary to think about, but if you want to become one of the few who reach the top in this business, it's necessary to face the possibility that you may blow out your account. Many seasoned traders have had to start over more than once. You may not be immune to this ailment. Just like all top-notch traders, you may need to pay your dues and learn what it's like to lose and come back.
In an interview with Innerworth, Tom, a long time market observer noted, -I have yet to meet a successful trader who hasn't paid his dues.- Tom observed that every successful trader has blown out his account and learned how to recover from it. -Take the best traders in the world...they've blown out. If trading was easy, everyone would be trading and everyone would be making money. You have to pay your dues. Some people are lucky and only pay those dues for a very short period of time, and others are going to pay their dues for a very long time.-
Another seasoned trader, Dan, described how he lost big before making a comeback: -One time I lost virtually everything in one or two days, and a good friend of mine came over to make sure that I wasn't going to do something stupid. ... I told him, It's only cash. It's not my life that I lost. I can get it back. It's not the end of the world. I'm not losing my house, my car, my credit cards, or my friends. I made a mistake. I'm angry that I made a mistake, but the cash has nothing to do with it.-
The trading lore is replete with similar stories. One young, promising trader, for example, lost so much money that his brokerage decided to fund him to make back what he had lost. Even the best traders blow out. Why? For some, it is merely mathematics. They are under-capitalized and end up spending what little earnings they make on a few wrong trades and on commissions. They never had a chance. Other traders are overly impulsive. In a sense, the old adage, -you have to risk money to make money,- is true.
To make big profits and turn a small account into a large one, it is necessary to take big risks when a once-in-a-lifetime trade comes along. That said, you may also be taking a big risk that has dire financial consequences. There's no one right way to trade. If you want to make it big in the trading business, you may need to take risks. But you should be ready to deal with the consequences. Other traders may want to play it safe by trading small and building up their trading skills and trading capital before scaling up to make those bigger, riskier trades. Whatever you decide, it's necessary to keep up your spirits on the one hand but be ready to pay your dues on the other. You can make it if you stick with it, but everyone has to put in the required time and effort and learn to pick yourself up after a setback

Fighting Boredom.

These days, few traders find it profitable to scalp or trade intraday anymore. Most traders prefer to make swing trades, but swing trading can be boring at times. Depending on your total capital, it is hard to make too many swing traders and also limit risk. You can make only a few trades, and you usually must wait at least a few days before you can take any action. Assuming that your trade setup isn't completely wrong, it takes a little time to find out what happens. All you can do is execute a trade, or a few swing trades, and wait. It takes a certain kind of trader to swing trade, a patient trader.

A scalper, for example, wants to get in and get out. Waiting patiently is hard. It's an uneasy feeling. Other traders may like to put on trades for excitement, and they just can't wait to see what happens. In the meantime, the waiting is agony. It can be tedious waiting to see the outcome. How can you fight the boredom? Depending on your personality, it is wise to have a plan to fight boredom, otherwise, you may try to seek out excitement, and that may mean making an impulsive decision instead of letting your trading plan reach fruition.

Some people are natural risk-takers and get bored easily. They may have difficulty making swing trades because there isn't enough excitement or action. If you fall into this category, you may be likely to close out a trade prematurely because you just can't wait to see the outcome. If this is the case, you may want to work around the problem. Unless you have a large account in which you can put on many trades and still manage risk (by risking a relatively small amount of capital on a single trade, for example), you can't make very many swing trades. It may be wise in this case to put in a stop-loss order and just commit yourself to wait a few days before taking any action. Once the stop loss is in place, you may have to just walk away for a while.

If you continue to watch the screen, it will be much like staring at a slot machine and trying to avoid pulling the handle. It's like dangling a piece of candy in front of a child. It is hard to resist temptation. You must walk away for a while and find something else to do. This may be a good time to pursue other ways of making income, or you may want to develop new trading strategies or read trading books. For some people, even this indirect way of trading may continue to be a temptation. It may be necessary for them to walk away from the trading arena entirely and pursue other activities.

Don't take boredom lightly. We are bored when we feel that the task we are doing is not interesting. Our minds require stimulation, and when we are not stimulated properly, we seek out stimulation. If you feel bored yet continue to trade, you are naturally going to want to find stimulation. That may compel you to overtrade just to get some action. The problem with putting on trades just for fun, though, is that you are likely to lose money in the long run. You'll take low probability setups just because you want to put on a trade. It may be hard to fight the temptation, but it doesn't make sense to put on trades that are unlikely to yield a profit. If your capital is tied up in a few key swing trades, it is wise to just leave it there and don't risk any more money. Find something else to do while you wait. Spend time with your family.

Get a part-time job. Run errands. Do chores around the house. Remember, the perk of trading is that it is possible to put on a few swing trades and spend the rest of your time doing something else while you wait. That's why many people pursue trading. Once you master it, you don't have to work exclusively as a trader. You can do other things while you wait for an outcome. So don't let boredom get the better of you. If you are bored waiting to see what happens in a swing trade or longer-term trade, walk away for a while (but don't forget to use the automatic settings on your trading platform). Take a break and relax. Don't let boredom drive you to make impulsive, spur-of-the-moment trades. Stick with the swing trades you have planned well. You'll be more profitable in the long run.

Don't Overwork: Take a Break.

Trading the markets can be a mix of excitement and stress. It's exciting to put on trades. It's a thrill. You feel energized and thrive on the action. But it's also stressful. You're constantly putting your ego and money on the line. If you are not careful, it can use up all your psychological energy. You end up worn out, and you'll have difficulty facing the constant challenges the markets put before you. It's vital for the long-term survival that you take time off. Don't overwork. Take a break when you need to.

Many traders don't like taking a few days off from trading for fear that they will miss a significant trading opportunity. They believe that unless they are ready to trade the markets every single day, they will miss a once in a lifetime trade, and regret it later. It's hard to break away from the markets. For example, in -Reminiscences of a Stock Operator,- Jesse Livermore had trouble staying away from the markets. While on vacation far from home, he couldn't resist going to the local brokerage to monitor the markets.

And once he was there, the markets seduced him into making a few trades. He just couldn't tear himself away from the action. To some, the excitement and exhilaration of the markets can be addictive. It becomes their raison d'etre. But continuous trading can also allow stressful emotions to accumulate and get pent up. With every winning trade comes a few losing trades, and the constant emotional ups and downs can take a psychological toll. It's useful to let off steam, and allow yourself to relax.

Taking days off as a trader can pose problems, however. What do you do about ongoing trades? Do you close out all your positions? If you're trading your own account, it's possible to close out your positions, but if you're a professional hedge fund manager, closing out positions can pose additional problems, such as substantial losses. It may be necessary to ask a trading partner to trade your account while you are on vacation. If you chose this option, however, you must be willing to accept the decisions of your trading partner. That can be hard for some people to do. If you don't close out positions, though, it would be difficult to fully relax. In the back of your mind, you'll wonder how your positions are doing. Ideally, while on vacation, it would be nice to close out your positions and feel that you have left your trading worries at home.

Although it may be psychologically difficult to take a vacation, taking one is essential for maintaining psychological health. It's possible if you just make a plan for taking one. If it means finding a trading partner to take over, planning trades so that they can be closed out before your planned vacation, or just closing out your positions and living with the consequences, it is essential that you take time off. By taking time off, you can relax, and allow yourself to feel refreshed, so you can take on the markets with renewed vigour.

Breaking Away From the Herd.

As evolved as we want to think humans are, there are times when people can act as mindless as a herd of cattle. It may not be all the time, but there are times when you wonder if people are thinking at all. Ever watch people board an aeroplane, for example? Everyone is just trying to push their way through the aisle, put their carryon bag in the overhead compartments, and get to their seats. No one is thinking originally. What about those drivers during the rush hour commute? Many aren't thinking about anyone but themselves.
They just try to get to work as fast as possible, cutting people off and doing whatever it takes to reach their objectives. Many people approach trading the same way: They look for the quickest way to make a profit and think it's as easy as boarding a plane or driving to work in the morning, but it isn't that easy, especially if you want to make huge profits
Some people argue that trading is easy. They argue, -All you have to do is find an analyst who has a good feel for the market and follow his or her advice.- And you can check with others too, right? If everyone else is buying, they can't be wrong. Sometimes trading can actually be that easy. There are times when you can buy a hot stock early and just wait for the profits to roll in. A simple buy-and-hold strategy would work just fine. You merely wait for the price to go higher and higher and sell. Sure, it will work, but it all depends on a host of market forces coming together. It will happen occasionally, but these days, if you count on it, you may realize profits once in a while, but you won't make nearly as much profit as by trading more creatively and independently.
The only way to make the buy-and-hold strategy actually work is to buy early enough to allow the price to rise high enough to make a profit. What usually happens, however, is that one waits too long for confirmation from the masses, and thus, misses most of the price increase. When one gets in too late, the price doesn't usually rise very far. Instead, one ends up selling while the masses are selling, missing profit objectives. Rather than follow the crowd, it's necessary to trade like an individualist.
Most people look for direction from the crowd when they trade. They mindlessly try to look for confirmation and feel safe when they follow what everyone else is doing. They try to make it easy, but you can't make many profits by trying to trade the easy way. You have to do a little more thinking. Why does a stock price go up? Sometimes, the media hypes up stock, the masses are persuaded, and they buy. The price rises, but not always. And why does the price go down? The media can be wrong, and wiser heads prevail. When they do, there is a big sell-off. It's like a stampede to sell.
If you don't sell before the stampede, you will get trampled. There's no sure way to sell early, though. Everyone wants to buy at a bottom and sell near the top, but there's no surefire way to predict these critical points (sure, technical analysts claim they have indicators and signals that will make such forecasts, but they are not foolproof). In the end, you have to go with your gut instinct. You have to look inward and make decisions on what you think is right. Don't expect certainty. You can never find a completely safe, foolproof strategy. There is always some risk involved. You may lose money, but to make money creatively, you must be willing to take some risk.
Sometimes you will be right, but other times you will be wrong. If you think things through, however, and think creatively and independently, you will find ways to trade like a profitable trader. Don't be a mindless follower of the crowd. Think independently, creatively, and profitably.

The Breakeven Point.

Once a trade is entered, there are two possible outcomes: on the light side it can make money; on the dark side, it can lose. Between the light side and the dark side is the breakeven point, and because it is in-between, it has psychological significance. It separates fear and hope on the dark side and greed on the light side. The side you are on determines how you see this fulcrum.

When on the dark side of a trade, the breakeven point is a spot of light that inspires hope. Humans have a natural tendency to avoid risk and loss. When in the midst of a losing trade, many tend to hold on and hope that the loser will turn around and return to the breakeven point, where there may be no profits, but at least there are no losses. But hoping often leads to losses in the end. Hope has no place in making trading decisions. When putting on a trade, the entry point and the protective stop should be calculated upfront. If this is done properly, there is no reason to let hope, or any other emotion, influence your trading decisions. You should trade almost mechanically. If the trade goes against you, simply exit once the stop price is hit. Don't let hope to play a role in your trading plan.

There are many good reasons to cut your losses, rather than hope for the loser to turn around. When you are in a losing trade, you are rarely alone. Many other traders are also long, for example, trying to exist without a loss. And there are shorts defending this area to protect profits. It's unlikely that you can be the victor of this contest, so the best choice is to just cut your losses, and move on to the next trade.

The vantage point from the light side is quite different. In the midst of a winning trade, traders tend to take profits too early, again because they are averse to risk and potential loss. By exiting early, however, they don't let their profits run. This limits the size of the winning trades so that across a series of trades, the overall profit is diminished. But there's a way to lock in profits, let the trade run a little longer, and pile on a little more profit. Once the profit exceeds the initial stake, a stop can be placed at the breakeven point. This strategy lets you lock in some initial profits while virtually eliminating risk. The most you can lose is commission costs. Besides reducing financial risk, emotional stress is also eliminated. And reduced stress means you can evaluate the bigger picture more objectively.

Unfortunately, many novice traders are so consumed with capturing a profit and showing a green profit/loss statement that they cannot follow through with moving the stop to the breakeven point. They feel the strategy inhibits them and may limit their potential profits. They wrestle with moving the stop back to its original point, where they entered, or simply cancel it altogether. This can be disastrous to a trading account. Stops should never be changed to a more harmful position or cancelled altogether. Such practices will stir up emotions that adversely sway trading decisions, and eventually lead to one's demise. Discipline is always the best strategy.

Whether on the dark side of the light side of the breakeven point, it's useful to realize its psychological significance. When on the light side, you'll be motivated by fear and hope. While on the light side, you'll be motivated by greed. It's vital to recognize these emotional tendencies and do everything possible to counteract them.

Out with the old and in with the new.

-Old habits are hard to break.- -It's hard to teach an old dog new tricks.- These sayings have a grain of truth to them. It's often difficult to abandon old ways of doing things for new ones. The successful trader, however, must be able to keep what is working and discard what isn't working. Why are old habits hard to break and how can we change them? Here are some suggestions.
Accurately self-monitor the behaviours you want to change. It's often hard to identify behaviours that should be changed, but one cannot change a behaviour unless he or she identifies precisely what that behaviour is. Sometimes, however, we resist looking at our behaviours because we don't want to admit how poorly we have been doing. Some traders are afraid to carefully look at win-loss ratios, for example, because they don't want to admit they have been losing money.
But, we probably don't fool ourselves as well as we think we do. When things are going against us, we secretly know it. Ironically, we probably also believe that we are doing more poorly than we really are. We are probably spending more effort and psychological energy denying the truth than looking at it objectively and taking specific action to remedy the situation. Self-examination can often be a relief, rather than a source of discomfort. We usually find that we are not doing as poorly as we had secretly envisioned, and when we look at ourselves objectively, we usually find that we can harness our resources and develop a creative solution.
Conquer Neophobia. People repeat behaviours when they are rewarded, and reduce behaviours when punished. But, sometimes the rewards are subtle and concern the avoidance of an unpleasant experience. Neophobia is the fear of new experiences. We associate our past experiences with safety while anticipating new experiences with fear and doubt. Animals instinctively fear new environments as a form of self-protection, and humans sometimes fall prey to this tendency.
For example, some traders believe they can only trade one market, but not another. Or, they may fear that new trading strategies may be too complicated to learn. These fears may be valid, but they are probably blown out of proportion. These fears prevent traders from learning new skills, which are vital for survival in ever-changing market conditions. Don't let the fear of the new prevent you from learning how to trade in new markets or with new methods. Trade small positions if you need to, but get out there and try something new.
Practice alternatives. Once you have conquered your neophobia, it's time to practice new alternatives. As you practice new methods, carefully monitor how well you are doing, and have realistic expectations. If your expectations are too high, you will tend to feel as if you are failing and punish yourself for trying. By holding realistic expectations, you will naturally reward yourself when making progress, and gain mastery through experience. It's possible to learn something new if you set your mind to it. Try it, and you will see it's worth the effort.

Looking on the Bright Side.

Winning traders approach trading scientifically. They develop hypotheses, devise sound trading plans, and test out their theories by executing a trade and seeing what happens. It's very systematic. Sometimes a hypothesis is supported, and a method is confirmed to produce a profit under specific market conditions, but at other times, a theory is not supported. Revisions are then required. It's vital to determine what went wrong, and what went right and make any necessary changes. That said, all these analyses must be done unemotionally and rationally, otherwise, one is bound to feel a little pessimistic tearing apart one's strategies.

It's easy to start thinking, -Things are not going very well. There's a lot wrong here. Things could have been better.- This kind of thinking can make even a happy-go-lucky trader feel like a pessimist. When pessimism sets in, denial may be used to cope with feelings of despair, and when denial sets in, one is likely to act emotionally and impulsively. Losses usually follow.

When things aren't going right, it's tempting to look on the bright side: Remember that things could be worse. When you lose $10,000 on a sure thing, for example, you might as well think, -At least I didn't lose $20,000.- It works to think positively. A study by Dr Chris Davis, a professor of psychology at Carleton University, and his colleagues illustrates the usefulness of looking on the bright side. Participants were asked to imagine they had just experienced a major setback. Some of the participants were instructed to look on the bright side in that they were asked to consider the fact that matters could have been a lot worse.

Other participants were asked to consider how the situation could have been much better. The mood of the participants was measured and compared. Research findings clearly favored looking on the bright side of things. People who focused on how matters could have turned out much worse felt happier after a major setback than people who focused on how events could have been more favourable. So if you want to be happy after you encounter a setback, look on the bright side.

How you look at a setback strongly influences how you recover from it. If you view a setback as a dreaded event and imbue it with strong personal significance, you'll feel so emotionally overwhelmed that you will be tempted to engage in avoidance and denial. Rather than taking decisive action, you will waste precious psychological resources denying the reality of the situation. It's better to take setbacks in stride, find solutions, and move forward. Don't mull over what went wrong. Instead, figure out what you can do next to improve your strategies and methods and take home huge profits.

When carefully analyzing how a trading plan went awry, it's easy to start beating yourself up for not having a trading plan that was foolproof. But if you mull over the possibilities too much and start thinking, -Why did things turn out so wrong?- then you will feel disappointed. It's vital that you stay focused on taking active steps to solve problems. Think like a scientist. Pretend you are merely solving a mundane problem, like finding the solution to a basic math problem. Figure out what you can do next. Don't question your abilities. Self-doubt is a complete waste of time and energy. Look on the bright side for a moment, optimistically search for ways to pick yourself up off the ground, and make a winning trade.

A Brutally Honest Look.

Trading is challenging. Many are drawn to trading, but few last very long. It's difficult to face the cold, hard fact that trading is difficult. Many novice traders need to win. They are hoping that the huge profits they make trading will solve many problems in their lives. And thus, the idea that one is more likely to continually face a series of losses is discouraging. To cope with such a displeasing idea, many novice traders avoid facing the facts. They engage in denial. They avoid looking closely at the facts for fear that they will see something that they don't want to see. But to become a seasoned, profitable trader, one must take an honest look at the facts.

There's no reason not to. The facts, no matter how unpleasant, are usually quite easy to overcome, if enough thought and persistence are devoted to overcoming obstacles. It's essential to be realistic when it comes to your expectations. Many novice traders are unrealistic in that they think trading is much easier than it actually is. They think that they can trade in their spare time as if it were a hobby. They think trading is easy money. But if you talk to profitable traders, they will tell you that trading isn't easy money. It seems as if the minute one stumbles upon a winning trading strategy, it stops working.

Perhaps market conditions change, or maybe so many other traders have discovered the method, and are using it that it no longer works. Whatever the reason, trading is so difficult that you can't make the mistake of assuming that you can master it overnight, or that once you've achieved early success, you can maintain it over the long haul. One has to be continually trying to gain more knowledge, gain more experience, and hone one's trading skills. Trading demands a substantial amount of time and effort. And unless you are willing to commit enough time and effort, you'll never become a consistently profitable trader.

Many of the best traders spend several hours a day just looking for new trading ideas or opportunities. It's also important to be aware of any media coverage that may impact the market action, and potential significant events, such as earnings reports or impending rate hikes that may also influence prices. It's not necessary to become a workaholic, but it is vital to take trading seriously enough that you put in the proper amount of effort to find opportunities and be able to take advantage of them when you get the chance. Many failed traders, however, aren't aware of how much time and effort a winning trader devotes to this business.

It is essential to face the cold, hard facts about how to become a successful trader. Don't underestimate the time and effort required to become a consistently profitable trader. Although it is often difficult to face unpleasant facts, doing so is always to one's advantage.

Easing the Burden of Decision.

Is there anyone who does not feel at least a twinge of nervousness when he or she initiates a trade? It's quite natural to feel butterflies when one's bid or offer is hit ' even for someone who has traded successfully a thousand times. Similarly, the pianist who has practised a Chopin scherzo for weeks might feel nervous in the moments before a recital. Experience teaches us that one can never be so polished or practised as to completely avoid feeling some amount of anxiety.

Accepting one's own fallibility is a crucial step for mastering the inner game of trading, and if you have a problem with anxiety, it's vital that you identify this issue and take steps to work around it. Some novice traders are so paralyzed by their extreme anxiety that they have trouble even putting on a trade. One way many traders attempt to avoid feelings of anxiety entirely is by employing a mechanical trading system. Allowing the system to make some decisions for you will alleviate some of the pain anxiety brings. You can get a feel for trading: when to enter, when to exit, how often a trade produces a profit. This experience may take some of the mystery out of trading and allow you to control your anxiety.

Alas, no system will completely free one from the nervous uncertainty of not knowing how a trade will turn out. And even if such a system did exist, over time it would affect the tempo of the marketplace just enough to critically impair the system's usefulness. Consider an S&P trading system that can generate a closing-bell -buy- signal. If you were to act on this signal every time it occurred, it would eventually create a pattern of buying that would be detectable by someone else's trading system.

That person would start to anticipate your buy order, buying just ahead of you. And yet another system trader might learn how to jump in ahead of you both. This is not to put the knock on trading systems in general. Many of them actually do work, and if you have a problem controlling your emotions, using a mechanical system will allow you to trade. But keep in mind that no system works so well that one can sit back and relax while the trading profits roll in, month after month, year after year.

No mechanical system is foolproof, and if it were, the creators probably would not want to release it to the public. (If you do choose a mechanical system based on strong historical results, make sure you follow it long enough to -replicate- prior results; don't abandon it prematurely.) A mechanical system, however, does allow the extremely nervous person to develop a feel for trading. So if you're a novice trader who has problems controlling anxiety, try using a mechanical trading system for a little while. It may help get you on the right path to mastering the markets.

Hustle and Bustle Trading.

Many people these days feel pressure to perform. We don't believe that we have the luxury of taking our time to patiently learn a profession, like trading. Instead, we must do things quickly. Novice traders, for example, hold themselves up to the impossible ideal of thinking they can develop astute intuition to read the markets overnight. They approach trading like recreational gambling. They believe that trading is simply a matter of placing a bet, throwing the dice, and seeing if you won.

Approaching trading in this manner, however, will usually produce the same results as recreational gambling; the recreational trader loses to the house, which are professional traders in this instance. If you want to trade like a winner, it is vital to take things slow. Take things a step at a time and approach trading methodically.

What is your ideal image of a trader? It is a person who instantly reads the markets, executes a trade, and makes a quick profit? Some traders may trade that way, but most people are better off taking things a little slower. Mark Douglas, in his book -Trading in the Zone,- argues that one of the greatest fears of many traders is missing out on a trading opportunity because they are taking too long to develop a trading plan. A consequence of this fear is that many traders don't want to approach trading methodically and with discipline. Discipline takes time, and many novice traders follow the old adage, -time is money.- It is vital that you avoid analysis-paralysis, but, on the other hand, if you don't trade methodically and with discipline, you won't have a winning edge and you will end up losing.

Trading methodically means making clearly defined trading plans. This process takes time. Rather than think of a trading plan on the spur of the moment, it is useful to carefully write down a trading plan. Study the markets and identify stocks that are likely to increase in price (if going long). Write down the reasons you think the price will increase along with factors that may thwart your plan. What adverse events may influence the stock price? You could try to do all this thinking in your head, but the human mind has limits. It can only process a limited amount of information. If you write it down and see it in black-and-white, you will transform the abstract into specific ideas and plans. When you make things concrete, you will find it relieves stress and frees up psychological, creative energy. When you write things down, you can examine your plan thoughtfully and see the potential flaws with a third eye, objective perspective. It may take a little time to write it all down, but the added perspective you buy with your effort is worth it. You can look at your plans from a different angle when you write it all down. Another advantage to writing a plan down is that it is easier to follow when you eventually execute it. It is easier to follow a concrete plan than an abstract one. You will know when to enter when to exit, and you will know how to look for signs that your plan has gone awry.

Writing down a trading plan and sticking to it is the winning trader's secret weapon. If you create detailed trading plans and manage risk, you will increase your chances of success. Don't think you need to trade by the seat of your pants. Take things slowly. Map out your trading plan and follow it. You will trade more calmly, creatively, and profitably.

Stranded But Profitable.

If you were lost and alone on a desert island, with only a satellite connection to monitor market activity and place your trades, you would probably trade more profitably. What about the emotional support from colleagues? What about the feel of the markets provided by the media? What about friends to show off to when you win? In the end, most people would be better off if they were alone on a desert island. Why? As much as humans are social beings, other people usually get in the way. When we are trying to trade -in the zone- with a calm and focused mindset, social issues often distract us: caring what others think, listening to the opinion of others, trying to make a good impression, comparing ourselves to others. If you could trade on your own terms and at your own pace, you would trade at the top of your game.

Social processes are powerful, more powerful than we care to admit. If you ever traded in a room full of traders, you know what I mean. If a young trader is on a good run, making a bunch of winning trades, and you are in a slump, you feel as if you should be doing better. You start thinking, -This is a little embarrassing. I better step up my efforts, and try to make more winning trades.- Suddenly, you may start trading impulsively. You may start putting a little pressure on yourself so you won't be so far behind. Social pressure can be strong at times, and compel you to trade impulsively. Think about what is happening, however.

You are taking unnecessary risks, and for what? To make a few winning trades, and when you do, temporarily think you are -just as good- like the guy on the roll? Is it worth it? It isn't. You may end up losing money and feeling worse. If you looked at matters logically, you would think, -Who cares what anyone else is doing but for me. I'm going to go my own way. I'm going to methodically and carefully follow my method, the method that I know earns profits.- But the social and psychological processes that make us want to compete and make a good impression often defy logic. We succumb to our psychological, social needs and end up less profitable in the end.

It's essential to go your own way when you trade. Don't look toward others for advice. Don't worry about what other people think. Don't try to impress others. It's harder than it looks, but if you acknowledge the power of these issues and prepare for how they might impact you, you can beat them. Get ready to put up a defence. Repeat over and over, -I'm not going to care what anyone else is doing or worry about what anyone thinks. I am going to think independently and do things my way, no matter what. I

t's only about me and no one else.- You might pretend you are alone on a desert island. Imagine you are by yourself, alone, and loving it. If you can devote all your psychological resources to your immediate experience, you will enter the zone. Don't be distracted by other people. Just do things your own way, and in the long run, you'll trade like a master.

Staying Calm Under Pressure.

Many trading days are full of chaos and stress. Sometimes we are in a bad mood, while at other times, the markets don't seem to cooperate with our trading plans. It's natural to crack under the pressure. But successful traders make trades in a carefree, relaxed, and focused manner. They don't put unnecessary pressure on themselves. They don't believe that they must succeed on any single trade but keep their eye on the big picture. They don't believe they need to be right. They don't impose their will on the market. And they don't try to predict the future behaviour of the market. Instead, they objectively observe market conditions, make a detailed plan of attack, and let the market take them where it wants them to go.

They stay calm and relaxed, and ready to anticipate what will happen next. Successful traders enter -the zone- as Mark Douglas and Ari Kiev describe this peak performance mental state. Seasoned traders do not doubt or second-guess decisions. They freely enter and exit trades. This carefree approach to trading allows them to see and take advantage of trading opportunities. Managing stressful emotions is essential for enduring financial success.

It may be desirable to stay calm and rational, but even seasoned traders have difficulty handling their emotions at times. Take Russ, for example. In his Innerworth Master Interview, he confessed that he isn't immune to emotional ups and downs: -It has been a little bit of a rocky road, to be honest. It's a constant struggle. I would say I'm pretty good at it, but I would be lying to you if I said that I didn't have my moments when I get upset.-

There are situations that are especially hard to manage. Russ describes a few of them: -I don't like to lose. There are situations that are worse than others. Slippage is one of them. Say I have a designated exit point, forty-nine. But I can't get out until forty-eight. You have an extra point of a flip. And you have a full lot. You're maxed out. I find those situations emotionally challenging, particularly when I've already been having somewhat of a damaging day. A big gap is also hard to handle. You hold a position overnight and you get up the next day, and because of some news, it's worth half of what it was.-

How does Russ cope with setbacks? He looks at his mood to see how well he's coping. -In those tough situations, I just stop trading until I can look in the mirror to see if I can still smile. If I can't look in the mirror and smile, I won't trade until I can.- Stress and emotions, indeed, have a powerful impact on trading performance. It's natural to feel you have to be perfect. It's natural to want to do your best. But when stressful situations make you overly emotional, you might consider standing aside until things improve.

Trading in the zone requires intense concentration and focus, but it's difficult to maintain this stance when you are overly emotional. It's vital to stay calm and in control. The better you can handle your emotions, the more profits you'll take home.

Maintaining a Carefree Attitude.

The proper mindset can go far to improve one's trading results. Successful traders have a carefree attitude when it comes to trading. They have little difficulty executing trades. They don't second-guess their decisions and they are not overly influenced by their emotions. How does one develop a carefree attitude? Let's review some of the necessary conditions.

Look at the bigger picture. Don't focus on the outcome of a single trade. Think of the bigger picture. You may lose on a single trade, but across a series of trades you will come out ahead if you have a trading strategy that works part of the time. Successful traders plan on executing many trades and know that not all trades need to be winners in order to increase the equity in their accounts. It's your success overall that counts. Keeping this in mind takes some of the pressure off.
Use proper risk management. Successful traders risk only a small percentage of their trading capital on a single trade. Limiting the risk on a single trade further relieves some of the pressure to feel that every trade needs to be a winner.
Don't be afraid to admit you are wrong. Maladaptive beliefs can be a trader's worst enemy. Many times one may think -I can't be wrong on this trade- or -I must capitalize on every opportunity to make a profit.- These expectations are so high that they can because of fear and anxiety. When you hold such high expectations for your performance, you place too much pressure on yourself, and cannot maintain a carefree attitude.
Gain awareness of personal conflicts and try to resolve them. The desire to resolve unmet psychological needs interferes with maintaining a carefree attitude. Examples of psychological needs include the need for self-worth, the need to prove one's value or the need for close personal relationships. These needs must be satisfied in a satisfactory manner in order to maintain a carefree attitude. If these needs are not met, one is likely to secretly wish that by winning big in the markets, conflicts arising from these unmet needs will be miraculously resolved. It doesn't work that way. Performance in the markets cannot help one satisfy these needs, and believing that they will, consciously or unconsciously, can be the greatest interference for maintaining a carefree attitude.
Following these guidelines will help put you on your way to developing the carefree attitude associated with trading success.

Carefree and Easy.

In the Mark Twain classic, Tom Sawyer convinced his friends that whitewashing a fence was fun, rather than tedious, hard labour. The moral of the story: What we see as work depends on our perspective. What is work for some is play to others. In school, did you ever read a novel during vacation and see it as fun, but when it was assigned reading the following term, it wasn't as fun to read? We naturally make a distinction between work and play, and when the same task becomes work, it becomes commonplace, and can even seem tedious and stress-provoking. Why? One reason is that we have more at stake when it is work.

If you were asked by a friend to speculate about how much consumers will spend this holiday season, for example, you might have fun making a guess. But if you were forced to decide which stocks would increase as a result of increased sales, the decision process would suddenly seem a challenge.

Some people thrive on competition. They love challenges, and when they see a chance for challenge and competition, they get psyched up. They can't want to see how far they can go and see what they can do. Others, however, feel they are putting their self-esteem on the line when they compete. Regardless of whether you love competition or are stressed by it, you may be putting a little bit of your ego on the line with every trade. And when you do, you are likely to feel the stress. Trading isn't fun anymore, but a challenge to your identity and well-being.

Some people are so wrapped up in trading outcomes and how it reflects on them that trade begins to reflect their value as a person; their true inner-worth. They may think consciously or unconsciously, -If I win, I'm great, omnipotent, and a champion. If I lose, I'm a sorry failure.- When you take this approach to trade, though, it can create a roller coaster ride when it comes to your self-esteem. You'll be up one minute and down the next. In addition, the need to feel greatness can be addictive.

You may enjoy the euphoric rush of winning so much that you seek it out, even if it means taking unnecessary risks or trading impulsively. You try to see how -high- you can be, and avoid feeling down. You may over-trade just to see if you can get a rush. Soon, it seems like gambling. And if you aren't careful, it is merely gambling.

It's better to trade in a relaxed and carefree manner. It may be difficult to completely view trade as a leisurely activity (unless you are so wealthy that it really is just for fun), but there is a lot that you can do to make it fun. You can limit risk so that you know that you can handle a worst-case scenario. When you know that you can't possibly lose too much, you will feel at ease. In addition, don't put your self-esteem on the line with your money. It's just a trade. Don't seek out glory. Just enjoy the intellectual challenge of trading. You win some; you lose some. Take losses in stride. If you take it easy, the paradox of control will work in your favour.

In other words, when you try too hard, you are bound to crack under the pressure. But when you let the markets take you where they want you to go, ironically, you'll feel carefree and trade more profitably. So don't put unnecessary pressure on yourself. Slow down, enjoy what you are doing, and when you feel carefree, the profits will come your way.

Cautious Optimism.

Dan's been tracking IBM for five months. He knows the price pattern by heart, its ups and downs, and the conditions that precede and follow each new trend. Now it's just a matter of psychology. He must execute each trade in a calm, relaxed, and focused manner. He must stay optimistic, but he must also be cautious, and anticipate adverse events that may go against his trades.

It's hard to develop a winning trading strategy. Even when historical data has supported the performance rate of a strategy, there is still a possibility that the strategy will fail in the future. So when you're fortunate enough to discover a winning strategy, you need to implement it while in a peak performance state. That means discipline and control, and following your plan with unflinching accuracy. Once you have a proven trading strategy, it's useful to be optimistic, not overly optimistic, however. One should be cautiously optimistic. Your strategy may work most of the time, but no strategy is likely to work all of the time.

For merely illustrative purposes, pretend that an unlikely trading strategy is actually a reasonable approach: After looking at the price patterns of IBM for five months, Dan discovers that 95% of the time, the stock price increases $1 on Tuesdays and Thursdays at 11:52 AM. Working under these assumptions, one can use probability theory to estimate the odds of success. If the strategy were used an infinite number of times, under identical market conditions, we would expect the strategy to work 95% of the time.

Note that testing this proposition means that one is optimistic about its performance. Although it's impossible to use the strategy an infinite number of times, one can use it 20 times and expect it to work about 9 times out of 10. If the approach is abandoned prematurely, however, it may not work with that frequency; thus, one needs to be optimistic enough to stick with it a fair number of times to see if it works.

That said, one must also be cautious. A central assumption of probability theory is that the trading strategy must be applied under identical market conditions, and we know that is a hard condition to meet. Therefore, even when a strategy has a past track record of 95%, we should expect it to work less than 95% of the time in the future because market conditions change frequently. (Also Note: Even if market conditions were identical at each execution of the strategy since 20 times is much less than infinity, it's quite possible that the strategy will not work even at a rate of 1 out of 20 times.)

And that's why risk management is crucial. It's vital that you calculate the risk to reward ratio and make sure you are risking a relatively small percentage of your trading capital. Also, set a stop loss point to protect yourself further. In the event that you encounter one of the few instances where there are unexpected anomalies in the markets, in which your strategy will fail, you will be protected from significant loss.

In the end, implementing a strategy requires cautious optimism: you've got to be optimistic enough to believe in your strategy to implement it in a calm and relaxed manner, but on the other hand, be realistic. Unexpected market conditions may temporarily work against your strategy, so you must also show extreme caution by limiting your risk, and protecting your trading capital.

The Centered Trader.

Profitable traders have full control over their emotions. They don't allow emotions to interfere with their concentration. They focus on the markets, and through focused concentration, they can react to subtle changes in the markets with aplomb. Trading expert, Dr Ari Kiev calls this state of mind -centred trading.-

In our exclusive interview with traders, we've heard master traders describe what it is like to cultivate a focused, centred mindset. Scott, a seasoned trader, describes how winning traders stay focused on the markets and on executing their trading plan even after a disappointing setback: -You can't let what just happened to ruin what's about to happen.- According to Scott, traders that do well are good at saying, -Okay, I made a mistake, what's next.- Mark, a well-known hedge fund manager notes that a trader must recover quickly from a setback and not see it as defeat. It's similar to playing sports: -As soon as you lose the ball, you've got to head the other direction.

You don't have time to think about it or cry about it. You've got to move. Your awareness of what's happening allows you to do that. You must look at what the markets are saying, position yourself, and don't think about the situation fully until the game is over.-

Centred traders are able to focus on the essential elements of the trade before them. They don't worry about the consequences of their actions during the trade. They disregard past mistakes and avoid worrying about future events. They distance themselves from their emotional responses. They let their thoughts pass through their consciousness. It's a meditative state where they can allow their mind to look at the market action from a creative, alternative perspective. The more centred you are as a trader, the less easily you will be distracted. Becoming a centred trader takes practice, though. Dr Kiev (1998) describes practical guidelines for how to develop this ability. First, he suggests gaining awareness of the automatic nature of negative thoughts.

Negative thinking tends to go through your mind without your awareness and impacts your trading. By gaining awareness of how you think negatively, you can turn away from negative, self-defeating thoughts. Second, he suggests abandoning adversarial metaphors of trading, such as fighting a battle. Rather than hostile imagery, you should see the trading arena as a serene environment. Third, it is necessary to remove your ego from the process of trading. As Dr Kiev puts it, -you need to stop focusing on your image and surrender to the Tao or the path before you.- Fourth, and most importantly, make an effort to practice some form of meditative exercise to learn to cultivate the proper centred state.

These exercises can be formal meditation or alternative methods, such as praying, reading a story, humming, or using dance or physical exercise. With practice, you can learn to move away from allowing automatic negative, emotional thoughts from taking over. You'll be able to focus on your ongoing trading experience and trade more profitably.

Motivated To Change.

Are you the kind of trader who makes mistake after mistake, yet can't figure out why you just can't change? Perhaps you don't follow your trading plan. Maybe you set your stops too close to your entry point and get stopped out too often, or perhaps you voluntarily exit trades too early. There are many ways to make an error as a trader, and some traders can't seem to stop making them. At some point, they may start to believe that they have an unconscious drive to sabotage their efforts. It's as if they can't learn from their mistakes. One would think that when faced with mistakes and the losses that follow, however, they would straighten up, but it's not that simple for some traders. Some traders are not motivated to change.

You may ask, doesn't losing money motivate a person to change? As obvious as the answer may seem, it depends on whether a person is resistant to change. Some people are good at fooling themselves into thinking that they don't need to change. They may feed their account every month to prevent themselves from seeing how much they are losing. They may pat themselves on the back after every win, but at the same time, pretend that losses don't bother them.

If you are making error after error, however, it will eventually catch up with you. It's necessary to change. Change happens when people perceive a discrepancy between what they want in terms of profits and what they are making. If you aren't living up to your ideals, you will be motivated to change. The hard part is facing up to the fact that you may not be reaching your ideals. Rather than ignore the discrepancy, you have to become aware of it. This may be difficult, however.

For example, if you are actually losing money on your trades, it may be hard to admit. Similarly, if you have been trading for several years and have yet to see a winning year, you may have difficulty owning up to how poorly you have been doing. Your ego may want to cover it up. As hard as it will be to face the discrepancy between your profit goals and your actual profits, you must face it. When you do, you will be motivated to change. The more you can face the discrepancy without flinching, the more motivated you will be to change. There is one more factor that will help you change, however. You must believe that with hard work and persistence, you can change. You must make the commitment to change and work incredibly hard in order to reach your goals.

That may mean admitting that you have to build up more capital. It may mean admitting that you need more training. Or it may mean lowering your standards, but once you look at the discrepancy between your ideals and your goals, you will be ready to change. And once you commit to change, and truly believe you can change, you will reach your potential as a trader.

What Do You Do When the Markets Change?.

Be a rugged individualist. Think independently. Take the contrary position occasionally. Anticipate changes in market conditions, and be ready with alternative plans.- These are common, yet somewhat abstract, themes in investment psychology; each can be illustrated with countless examples in the history of the markets. But let's try to simplify things for now, and consider a few simple, basic examples, even if they may seem a little oversimplified to some. In our first example, for today's newsletter, let's consider the impact of a basic difference in market conditions between that late 1990s and post-2000.

The difference between the way traders approached the markets before and after 2000 illustrates many concepts in investment psychology, but it is a classic example of how market conditions can change, and how with this change, it was even more necessary to think independently and act as a rugged individualist. In several of our Master Interviews, for example, we talked with traders and investors who made seemingly impressive profits before the markets changed in 2000. Back then in the late 1990s, a -profitable- trader didn't necessarily need to be much of an individualist or take a contrary position.

It seemed as if everyone was trading. You could walk into almost any office in those days and find nearly everyone talking about the huge profits they made in the markets. Optimism was high and the expectation was that the prices were going to go -up, up, up.- These were ideal market conditions, the kind of conditions that draw many into trading (who later find out that it's harder than they initially thought). In some ways, all one had to do was to pick a stock that the masses thought would go up (such as an Internet company back then) and wait for the price to move upward. And it did, back then, because there were so many new amateur participants entering the markets every day. They were ready to buy, put their money into the markets, and the prices went higher and higher. Simple adages applied in these ideal conditions: -buy high, sell low.

The trend is your friend.- You could actually -follow the crowd- in these conditions. In all likelihood, the price of a popular stock would go up because there were plenty of buyers behind you, ready to buy your stock as the price increased. It was a matter of getting in at a low price and just waiting for the price to go up. You found people, who knew relatively nothing about trading, making substantial profits. Ironically, the -herd instinct- was somewhat useful when so many amateur buyers were willing to invest in the markets. If you were unsure of yourself, you could just wait to see if masses agreed with your hunch, and join them as the price edged up.

Now it wasn't exactly that easy, but you see the main point: compared to today, all you had to do was find a good indicator that momentum was building, get in early and wait for additional buyers to raise the price, so you could sell at a profit. If only conditions were as ideal today. Today, the -waves- are much shorter, and there are fewer naïve amateurs ready to continue the buying spree once it starts. These days, you need to think more creatively and independently.

In several Master Interviews, our interview candidates tell a familiar story, -I learned to trade in a bull market, and I wrongly thought I knew how to trade.- What they usually say next is that market conditions changed and they quickly found they couldn't make a dime. When you look at those traders who reported big wins before 2000, you tend to find that many haven't consistently made very much since. So that's one common idea addressed: A trading approach may work impressively until the markets change. When they change, one can't simply follow the crowd or let the -trend be your friend.- It's not that easy. You've got to evaluate the markets from multiple perspectives, rely on your own instincts, and think independently.

Classic Chart Patterns: Know How to Use Them.

Technical analysis and short-term trading go hand in hand. The revelation that one can make huge profits by looking for reliable chart patterns that repeat with unfailing regularity has raised many traders' outlook from bleak desperation to euphoric optimism. Too many novice traders, chart patterns are the elusive Holy Grail. But the excitement soon fades as one discovers that identifying chart patterns is subjective and quite difficult and that history rarely repeats itself with infallible accuracy.

Besides a desperate search for winning strategies, it's easy to see why so many are drawn to the study of classic chart patterns. The numerous hardbound weighty texts lend credence to the entire enterprise. -If everybody is writing about them and talking about them, they must work- is a reasonable supposition held by many traders. Perhaps they do work to some extent, but it's vital to avoid trading chart patterns in a shallow and mechanical manner. It's important to fully understand how they work and how to trade them. For example, some novice traders place too much faith in the chart pattern: They believe that if A occurs, and B occurs, then C must occur. Consider the classic head-and-shoulders pattern, for example.

The typical head-and-shoulders pattern (which occurs in an advancing trend in this example) consists of a final rally of a stock (the head) separated by two smaller rallies (the right and left shoulders) that occur before and after the final rally. The line joining the lows of the two rallies is called the neckline. Most trading books suggest entering a short trade at the break of the neckline since it's at this point where the trend should start declining. If this trading pattern recurred with unfailing regularity, trading would be easy.

If A occurs (left shoulder), and B occurs (head), then C should occur (right shoulder). Right? If only it were that simple. Some traders make the mistake of entering prematurely. They enter after B on the assumption that C will indeed occur. That is, they forecast a bearish trend based on an incomplete head-and-shoulders pattern. They impose their expectations on the market before seeing what actually happens. The right shoulder, or C, may not happen, however. A better trading strategy is to wait for C to actually occur and possibly signal a declining trend. But it's still not that easy.

Martin Pring in -Technical Analysis Explained- warns, -the prevailing trend is assumed to be in force until the weight of the evidence proves otherwise. An incomplete head-and-shoulders is not evidence, just a possible scenario.- It's important to remember that a chart pattern may not always work in the way you expect. You must fully understand all the forces that contribute to its formation. For example, it is useful to also consider volume. Volume is critical for the verification of this chart pattern. Activity is usually heaviest during the formation of the left shoulder and also tends to be heavy as prices form the head. But the strongest confirmation comes if the formation of the left shoulder is accompanied by lower volume. So always remember to fully understand the dynamics of the market forces that underlie the pattern.

Developing trading strategies based on chart patterns is useful, but it's crucial to think critically and not oversimplify. Technical analysis still requires a mastery of one's personal psychology. John Murphy, in -Technical Analysis of Financial Markets,- reminds us that chart patterns merely describe past market behaviour. They summarize in a descriptive statistical sense only. There is no scientific or statistical reason to believe they forecast the markets with precision.

It's important to remember that it's more art than science (not science at all actually), and that, in turn, means you must develop an intuitive feel for the markets and learn to trust it. The development of intuition only comes with experience. You've got to build up your trading skills, experience a variety of market conditions, and learn the -conventional wisdom.- But at the same time, cultivate healthy scepticism. Remember to question -conventional wisdom.- The astute trader asks, -How is the chart pattern supposed to work,- yet also asks, -Is it working under the market conditions I'm seeing right now?- In the end, it's still about developing the proper mental edge, even when studying a seemingly objective method of trading, such as classic chart patterns.

Accepting the Chaos.

A butterfly flaps its wings ...a hurricane strikes miles away. According to Chaos Theory, a seemingly irrelevant action can precipitate, and contribute to, a major event. The right set of factors comes together and a major event takes place. It's easy to imagine a fanciful chain of events that may initiate a market move. A housewife attends to her crying child who has tripped over the newspaper, and in doing so, leaves the refrigerator open during an unseasonably warm day. It breaks down, and the family needs a new one.

To get funds for a new refrigerator, she sells off a large chunk of IBM stock that her parents gave her as a wedding present. By pure chance, at the moment that she sold the stock, a specialist monitoring the action gets it in his head that the sale of a large chunk of stock means something, so he sells off his positions in the tech sector. Next, a financial reporter sees the sale and tries to interpret it. He reports that it reflects a shortage of silicon and suggests investors unload their tech stocks immediately.

Many people follow his advice and a massive sell-off takes place. Perhaps it seems a little unlikely that all of this can happen, but you get the idea. Just like how scientists claim, according to Chaos Theory, that a butterfly can start a hurricane, you can imagine that a few key seemingly minor events can start a major market move.

Many investors view the markets from a traditional long-term buy-and-hold strategy. They look at the markets in terms of fundamental variables, such as consumer confidence, demand, and general economic factors that impact a stock price. If a company makes profits that are in high demand, the price goes up. Short-term investors, though, realize that many market moves are the result of psychological factors, such as opinions or emotions of fear and greed. In the short-term, anything can happen, and it's vital to keep this in mind.

Nothing is certain in the markets, but is this something to worry about? Not if you take precautions. Indeed, a potentially chaotic event can be a good thing. The initial event that set off a market move isn't important. Who cares why the masses buy or sell, for example, as long as you take advantage of the move? Some may view such moves as excellent opportunities to profit. On the other hand, if you have a swing trade that is ruined by an unexpected adverse event, the chaotic nature of the markets can be a hassle. But such events still aren't worth worrying about. All you have to do is anticipate them and take precautions. By using a protective stop, for example, you can avoid losing capital when an adverse event unexpectedly occurs.

In the end, it's necessary to accept the risky nature of trading. Anything can happen, but it doesn't need to be a source of worry. Through careful risk management, you can protect your capital. And occasionally, an unexpected event can turn a mundane trade into a big winner. Worry can be the doom of many traders, but if you accept the fact that uncertainty and chaos are part of the inherent nature of the markets, you can account for it in your trading plan, and neutralize its potentially negative impact.

Clear and Immediate Payoffs.

-As a trader, I face failure almost every day. It can be stressful, but at least the objectives are clear: make profits. And they are immediate. I don't have to make a sales pitch and wait to see if a potential customer is going to buy my product or wait to see if a business proposal I've written for six months is going to get funded in the end. I may have to face losing trades every day, but at least I know the outcome fairly quickly.-

Many seasoned traders share this viewpoint. One of the reasons people quit their high-status corporate jobs to trade the markets is that the payoffs are clear and relatively immediate: Master the markets and you'll make money and get it now. Throughout our lives, we strive for rewards that for the most part are arbitrary. Significant others constantly try to persuade us that the rewards are actually important, yet they are often transitory and of little real value. For example, we seek out approval from parents, teachers, or supervisors.
They've told us that if you follow their rules, it will lead to long-term payoffs. We usually receive immediate minimal rewards, such as approval, a good grade, or a paycheck, but the bigger rewards promised for later rarely materialize. In addition, the objectives are often contrived, and thus, we spend much of our time trying to meet expectations that probably won't lead to a meaningful reward in the end. The truth is that meeting parental expectations may be rewarded by their approval but may lead to nothing more. Similarly, following a teacher's expectations may earn you a good grade but may have little long-term consequence.
And satisfying the objectives demanded by a supervisor may lead to a nice sum in your next paycheck, but if the supervisor and corporate leaders are wrong, it could directly result in your unemployment. Not only are the payoffs temporary and deferred, the real payoffs usually are given to someone else, not you. It's different when it comes to trading. You are the only person who you must please in the end. You can have a different -relationship- with the markets. The market isn't a person you need to satisfy or please. It's an inanimate object with no motives, agendas, or expectations. If you understand it, can anticipate its moves, and trade it, you will be paid handsomely and immediately. There's no parents, teachers, or bosses to satisfy.
It's useful to remember this fact when trading. You don't need to -do the right thing- to satisfy the expectations of someone else. You don't have to be afraid that you've missed a subtle demand and will be reprimanded. The only expectations you need to satisfy are your own, and you can set those expectations based on your preferences. There's no bureaucracy, no office politics, and no rivalry among coworkers. It's just you, the markets, and no one else. You have complete freedom, and if you can develop winning trading strategies, you receive immediate rewards with no professional obligations. Almost no other profession offers such freedom.
So when you are scouring over charts, and spending long hours honing your trading skills, motivate yourself by keeping this advantage at the forefront: Trading offers clear and immediate payoffs.

At Least You Know What to Expect.

It's hard to become a consistently profitable trader. You've got to put in long hours, and many times, your hard work doesn't pay. But when you become a seasoned trader, the situation improves dramatically. Seasoned traders put in much less time and effort. And more importantly, they make huge profits, which are relatively immediate. You know exactly where you stand, and that's one of the biggest advantages of trading for a living. Keeping this advantage in mind will help motivate you to continue honing your trading skills until you master the markets.

Throughout their lives, most people try to earn rewards that are deferred, unclear, and relatively unimportant. People in power usually try to persuade their followers that the rewards they are trying to earn are actually important, but they are often transitory and of little real value. For example, many people spend their lives seeking out approval from parents, teachers, and supervisors. It is often assumed that if one follows the rules, it will lead to long-term payoffs. We usually receive immediate minimal rewards, such as approval, a good grade, or a paycheck, but the bigger prizes promised for later rarely materialize.

In addition, the objectives are often unclear and unimportant, and thus, we spend much of our time trying to meet expectations that probably won't lead to a meaningful reward in the end. The reality is that meeting parental expectations may be rewarded by their approval but may lead to nothing more. Similarly, following a teacher's expectations may earn a student a good grade but may have few long-term consequences. And satisfying the objectives demanded by a supervisor may lead to a nice sum in an employee's paycheck, but if the supervisor and corporate leaders are wrong, it could directly result in the loss of a steady job.

Not only are the payoffs temporary and deferred, but the real payoffs usually are given to someone else. It's different when it comes to trading. You are the only person who you must please in the end. You can have a different -relationship- with the markets. The market isn't a person you need to satisfy or please. It's an inanimate object with no motives, agendas, or expectations. If you understand it, can anticipate its moves, and trade it, you will be paid handsomely and immediately. It's useful to remember this fact when trading. You don't need to -do the right thing- to satisfy the expectations of someone else. You don't have to be afraid that you've missed a subtle demand and will be reprimanded.

The only expectations you need to satisfy are your own, and you can set those expectations to suit your needs. It's just you, the markets, and no one else. You have complete freedom, and if you can develop winning trading strategies, you will receive immediate rewards with no professional obligations. Almost no other profession offers such freedom. So when you are scouring over charts, and spending long hours honing your trading skills, motivate yourself by remembering that trading offers clear and immediate payoffs.

Facing the Cold, Hard Facts.

One of the greatest struggles novice traders face is monitoring their progress carefully. Beginning traders have not yet developed the skills to trade profitably in a variety of market conditions. Understandably, it is hard to develop a genuine sense of self-confidence when you aren't sure just how well you can actually trade. It's natural to wonder if you are doing well merely because of a chance set of market conditions, or whether you are truly building up some legitimate trading skills.

The bottom line, however, is that you must hone your trading skills to the point that you have rock-solid confidence and truly know that you can trade in a variety of market conditions. And the key to building up the requisite skills is to monitor your performance. In the end, you must face the cold, hard facts regarding your ability to trade. You must objectively evaluate how well you are trading and make midcourse corrections to trade profitably.

It can be emotionally difficult to see how well we are doing. We are usually afraid that if we look at our performance too closely, we'll discover that we are inadequate. But usually, we tend to think that matters are worse than they actually are. Ironically, we may spend more time and energy trying to ignore how poorly we are doing than actually looking at our performance and taking active, decisive steps to change matters.

Self-monitoring is the key to success. It is useful to keep a trade dairy. If you are afraid to look at your performance, you might want to file away trade information and decide to look at all the information at a later date. For example, on separate sheets of paper, you might record the market conditions for the trade, the trading strategy, your mood, the rationale for the trade, and its outcome. Record information before and after the trade and immediately file it away. If you know that you don't plan on looking at the information immediately, you'll feel less pressure and dread. And if it is just too emotionally hard to look at your performance, you can decide to put it off until you can muster enough confidence to look at it.

Looking at your performance can be difficult. It is useful to set up a time and place to study your performance objectively. Make sure you are rested and relaxed and free of stress. If you look at your performance when you are emotionally volatile or tired, you'll tend to get easily upset and have difficulty studying your performance records objectively. Pick a quiet place to review your records, a place where you feel safe and secure. Also, set up sometime after you study your performance to recover emotionally. You may need some time to regain your emotional composure should your performance record upset you.

Make sure that you have some time to digest the feedback and accept it. For example, you don't want to trade if you are emotionally upset about your performance. If you try to trade while you are still a little upset, you may take low probability setups or make trading errors. There may be an unconscious need to recoup losses even though you don't have a plan for doing so. It's better to regain a sense of confidence and develop a well-devised long-term plan for improving your performance.

There's no need to avoid facing the cold, hard facts regarding your trading performance. As with any challenging skill, trading requires that you objectively look at your performance and make necessary adjustments. It can be difficult at times, but the more you can analyze your trading performance objectively, the more profitably you will trade.

The Big Comeback.

Despite all our best efforts, it's hard to pick ourselves up after a fall. You've heard it time and again: Traders must learn to expect losses, take them in stride, and recover from them. Depending on your track record, however, this is often easier said than done. Sure, if you are a seasoned trader, and have rock-solid confidence, it is relatively easy to take a severe drawdown in stride, keep trading, and win back what you've lost. Novice traders don't have it as easy. A severe drawdown may actually reflect a lack of trading skills.

When a novice trader tells himself or herself, -I don't have the skills to trade profitably and I should just give up,- there's a grain of truth in it. It is hard to pick oneself up after such a severe fall because, in the back of your mind, you think your fears may be legitimate. In the end, however, such a cynical view is never going to allow you to achieve the financial success you dream about. The only way to become a serious, winning trader is to keep trading, gain extensive experience, and hone your trading skills. That isn't going to happen if you feel stagnated and paralyzed after a setback. Fortunately, there's a lot you can do to pick yourself up and press on.

After we've faced a severe setback, it's hard not to feel extremely disappointed. Most people feel insecure to some extent, and a major letdown brings out this sense of inadequacy. The mind is wired to make this happen. Our memories are linked such that when one bad memory is triggered, others are triggered as well. It's a vicious cycle; a failure occurs, then another failure is remembered, one's disappointment intensifies, another failure is recalled, and the cycle continues. It is important to break the cycle before it intensifies.

There are two ways to stop the vicious cycle from turning a minor setback into a major disappointment. First, make a list of triumphs you've made as a trader. When you face a setback, you can read through the list and remind yourself of the times you have succeeded. This list of memories of successes will counteract your tendency to recall past failures. When you recount your past triumphs, your mood will turn from pessimism to optimism. Second, you must address the possibility that you may truly believe that you lack trading skills and can never really become a profitable trader.

Obviously, such a belief isn't going to help you persist after a setback, but there may be some truth in it, and if you merely try to deny it and block it out of your consciousness, it may have a more powerful adverse influence on your motivation. The best way to neutralize this thought is to acknowledge it and refute it. Remember to think in terms of the big picture. You may not have adequate trading skills right now, but if you work long and hard enough, you can develop the skills you need to trade consistently and profitably. Remembering this fact will powerfully influence your ability to recover from a setback. By trading one day at a time, and making trade after trade, you can gain valuable experience with the markets, and hone your trading skills until you become a consistently profitable trader.

Don't let a minor setback turn into a major slump. Take proactive steps to stop the downward spiral of negative thinking. Think realistically yet positively. By accepting your limitations and fighting to develop your trading skills, you can make a dramatic comeback and achieve financial success.

Appreciating Your Comfort Zone.

Trading in a peak performance state of mind enhances performance. When you enter this state of consciousness, it is easy to become lost in the flow; your full attention is focused exclusively on the market action. It's sheer bliss. As optimal as this mindset is, though, you can get knocked out of it at a moment's notice. Distracting thoughts may creep into your mind. You may be a novice trader who starts worrying about whether he or she will make enough winning trades to meet basic living expenses.

You might be a hedge fund manager bugged that one of your most important clients continues to question your trading decisions or your current performance record. Or you might work for an institution and feel troubled as you think about how you had to convince your associates that you found a sound investment strategy, yet deep down, you wonder how things will turn out. As much as we want to stay in sync with the markets, external pressure often interferes with our ability to stay focused on our ongoing experience.

When the pressure is on, we can become uneasy and a little anxious. As much as you try to stay focused, it's hard if you suddenly become consumed with self-doubt. You must stay confident, but that's hard to do sometimes. There are times when we question our self-esteem. Rather than look for inner standards of worth, we look outward. We look toward loved ones, friends, and as a trader, our clients or supervisors. Indeed, there are times when you have to look outward. You have to pay your bills. You have to meet your clients' expectations. Or you have to meet expectations at your institution.

It may be difficult to avoid looking outward. You might reasonably argue, -If you trade your own money, and if you have a lot of money, it's easy to trade on your own terms. But if you are accountable to others, you must look outward for validation.- This is a good point, but consider the utility of looking outward for validation. If you try to live up to other people's standards, you'll feel the pressure. And when you feel pressured, you'll tend to make trading errors. If, on the other hand, you look inward and live by your own standards, you'll feel more relaxed.

It may be difficult to remove all external sources of pressure, but if you trade beyond your comfort zone, you'll make mistakes and you won't be able to live up to excessively high standards anyway. Ironically, if you strive for goals that fit your skill level, you'll meet these goals, and in all likelihood, you'll even be able to exceed your expectations.

In the end, it makes sense to look inward and set your expectations of performance based on your own beliefs. That's all you really can do. By respecting your comfort zone, you'll hone your skills over time, and eventually reach higher and higher levels of mastery.

Going All the Way.

So you've decided to become a trader. You've decided that you want to master the markets and take home huge profits. You're not the only one. Each day, hordes of would-be traders turn to the markets to relieve them of the tedium of working a boring, mundane job. Although they all decide to trade the markets, most fail to achieve enduring financial success. Why? They may have decided to trade but they haven't made the proper commitment. To master the markets, you have to put more than your money on the line. You have to incorporate trading into your life and do whatever it takes to hone your trading skills to the point where you can master the markets.

The philosopher Goethe makes a wise observation about the commitment that many novice traders would be wise to heed: -Until one is committed, there is hesitancy, the chance to drawback.- In his book, -The Mentally Tough Online Trader,- Robert Koppel observes, -Top-performing traders are committed to overcoming any hardship or roadblock to achieve their goals.- Trading requires a huge commitment. You must commit money. You can't expect to make a living from a $1,500 trading account. If you are under-capitalized, it's necessary to get an extra job to build up the capital you need. You also need to invest time and energy.
Unless you are a genius, it's impossible to digest the full range of trading knowledge overnight. Learning about the markets and developing an intuitive feel as to how they behave requires time and practice. In some cases, it can take many years before you can trade the markets profitably. But to the trader who is fully committed, these are minor setbacks. Once you make the commitment to master the markets, you'll do whatever it takes to attain financial success.
Trading is a serious business. You cannot treat it like a hobby. (Well, you could do it, but you won't make much money.) Without the proper commitment, you will approach treading lightly, and in the back of your mind, you'll think that outcomes don't matter and that you might as well have fun, trade on impulse, and seek out excitement. In the end, a casual, uncommitted attitude will prevent you from excelling. Such a mindset will eventually wipe out your account balance. Trading the markets requires you to passionately commit to becoming the best trader possible.
Profitable trading requires commitment and passion. In his Innerworth Master Interview, Brandon shows the kind of commitment you need: -I usually work at night finding good trading setups, and watch how they develop the next day. I think those people who come in and say that they merely want to make a million dollars and quit are the people who never make that much money. They have the wrong focus.
They are focused on the end result, so they'll tend to become more aggressive than they need to be. They'll take stupid trades because they feel rushed and don't really want to be spending all their time trading.- If you want to make huge profits, it's not enough to decide to become a winning trader. You must also make a strong commitment to do whatever it takes to achieve enduring financial success.

Matching Commitments To Expectations.

A prerequisite of successful trading is specifically defining your style of trading and the amount of effort you plan on devoting to the profession. How you address these two issues directly impacts your results. From a psychological standpoint, the more realistic you are about your potential results, the better you'll feel since you won't be continually disappointed when your results fall short of your expectations. Styles of trading usually refer to the amount of risk a trader takes on and the length of time a trade is held; for example, scalper, daytrader, swing trader, or long term investor are the usual ways that styles of trading are defined.

Each style has its advantages and disadvantages. A second issue, however, is the amount of commitment a trader devotes to the profession. Is trading merely a form of entertainment, a part-time career, or a full-time job? There isn't a -right- way to approach trading, but since the amount of effort and commitment you put into trading has a direct bearing on the results you should anticipate, it is useful to make sure your commitment to trading matches your expectations.

Many people approach trading as a hobby rather than a job. Instead of playing the lottery or gambling as a form of recreation, they trade a small account. There's nothing wrong with approaching trading from this point of view, as long as you are realistic about the potential profits you'll make. In reality, you may make relatively few profits by approaching trading as a hobby. Indeed, some trading experts warn that you'll lose money unless you put in adequate time and effort.

First, if you're like most recreational traders, your account size will be small. It will be hard to cover commissions with a small account. Second, because you approach trading as a hobby, it will be difficult to find profitable trading opportunities. It takes time and effort to find such opportunities, and it is unlikely that you'll put in the adequate time if you treat trading as a hobby. So if you approach trading as a hobby, your profits may be limited.

At a minimum, it is wise to treat trading as a part-time job, a job where you put in at least 30 hours a week. This is the optimal approach for most traders who use trading as a secondary source of income. By putting in a relatively large amount of effort, you can find profitable trading opportunities and hone your trading skills until you become consistently profitable. It is necessary, however, to also have a relatively large trading account to make sufficient profits, and cover commissions and drawdowns. It doesn't matter how much time and effort you put into trading if you just don't have enough capital to trade. It is important to realize that profitable trading requires both adequate commitment and money.

A very rare group of traders are full-time professionals. They devote a substantial amount of their time to trading and must continually search for new methods to stay profitable. Full-time professionals tend to trade institutional funds or have large personal accounts. It is essential to realize that full-time professionals, though, tend to devote over 40 hours a week to the profession. Not everyone is willing to make the personal sacrifices it takes to trade like a professional. But those who do put in the effort and achieve consistent profitability can reap large rewards from trading. So if you are seeking huge returns, you may want to get the proper training and backing to trade as a full-time, active professional.

It is useful to match your expectations to your commitments. The number of profits you can expect to make is directly related to the amount of commitment you devote to trading. If you have a small account and put in little commitment, you shouldn't expect to make large profits. But, on the other hand, if devote enough capital and commitment to trading, you'll achieve significant success.

Commit to Trading Success.

-Until one is committed, there is hesitancy, the chance to draw back, always ineffectiveness. Concerning all acts of initiative (and creation), there is one elementary truth, the ignorance of which kills countless ideas and splendid plans: that the moment one definitely commits oneself, then Providence moves too. All sorts of things occur to help one that would never otherwise have occurred. Whole steam of events issues from the decision, raising in one's favour all manner of unforeseen incidents and meetings and material assistance, which no man could have dreamed would come his way.- Goethe

The most important step one needs to take to become a successful trader is to make a firm commitment to trading. Further, commitment needs to travel the 18-inches from the head to the heart to make it real and enduring. Webster's defines the verb -commit,- as pledging oneself to a certain action. Those who pledge to commit a chunk of time and resources to their trading career, then commit to developing a plan and the discipline to follow it, have a much better chance of succeeding in this business than those who take a -potshot- and hope for the best.

Why can't you just -dabble- in this arena? Why can't you just saunter into the trading day at will, scan a few charts, and throw a trade-in if you feel like it? Because, when you trade half-heartedly, you are telling yourself, your account, and the world, that whatever the outcome'it doesn't matter. (If you have money to burn, and lackadaisical trading provides your entertainment, by all means, ignore this article and enjoy yourself.) Further, in many occupations or undertakings, a slapdash attitude will mean simply that you don't excel. In most situations, you can shrug that off. In your trading career, though, this mindset almost assuredly will devastate your account and take your self-esteem with it.

If you decide that trading is your part- or fulltime occupation, commit with the passion for becoming the best trader possible. Then, as Goethe says, situations will present themselves to you, -which no man could have dreamed would come his way.-

Comparisons Can Be Harmful To Your Ego.

Unless we keep up with our neighbours, we feel like a failure. Throughout our lives, we have been taught to compete. We habitually compare ourselves to others and try to beat out our peers. As children playing sports, we were advised to hone our skills to become a star player. In school, we were warned that higher grades would help us land a high paying position. And when we entered the working world, we learned that survival depended on beating out our competition. Ironically, however, extremely successful people don't compare themselves to others. They work at their own pace and do things their own way.

It can be useful to compare yourself to others at times. Knowing that a goal is attainable is often a powerful motivator, for example. Several scientific discoveries were slow to materialize because they were thought impossible. But once the goals were deemed feasible through comparisons to others in the scientific community, progress was accelerated.

That said, comparisons are often harmful to your ego, especially if you believe that you absolutely must do as well as a peer. If you try to meet an external standard, yet do not have the skills or resources, you'll end up feeling like a failure. You'll feel cheated by life and may not make the best of what resources and talents you do have. Many people spend their lives feeling bitter about what life -should- have given them.

Comparing yourself to others is likely to make you feel unpleasant emotions, such as jealously or envy. Upon seeing that you are doing relatively poorly compared to a fellow trader, you are likely to think distracting thoughts such as, -Why can't I do as well?- or -I must not be as good of a trader as I had thought,- Such thinking does nothing to keep you focused on honing your trading skills.

Successful people, in contrast, don't compare themselves to others. They don't care how others are doing. They follow their own timeline, follow their own passion, and look inward for where to go next.

It's crucial to approach trading by honing your skills on your own terms. Everyone has his or her own resources and background. You are unique. You are the one who must find a method that matches your aptitudes and personality.

Don't look at anyone else's record but your own. You may be tempted to compare your current performance to that of others. That's how it's been throughout your life, and it's not easy to change a lifelong pattern overnight. But it is useful to control this urge. Everyone has a different learning curve. Each trader has his or her own personal history or circumstances that he or she brings into trading. People differ in terms of personality, investment capital, life experiences, and the market conditions under which they trade. Any or all of these factors can influence one's trading performance.

It makes little sense to beat yourself up because you haven't achieved a level of performance equal to someone else who had advantages that you didn't have. In the end, the only person you need to compare yourself to is you. If you make any comparisons at all, it should be against your own past performance, not someone else's.

The Detrimental Comparison.

Jim has been trading for six months. His performance isn't spectacular, but it isn't too bad either. He's made a decent return. But Jim isn't satisfied. He's been reading -Market Wizards- and reading posts on trading websites, and he can't understand why his performance isn't better. -Why are my profits so small compared to everyone else? I must really be a loser,- he thinks. Jim has made an understandable, but a fundamental mistake.
He has compared himself to other traders, noted that he isn't doing as well, and has concluded that he is inadequate. Although comparing ourselves to others can help motivate us to do better, it is often so discouraging that it tends to be more detrimental than beneficial. It's useful to avoid making such comparisons.

Why do we compare ourselves to others? There are a variety of possible reasons. It could be out of sibling rivalry. It could be because our parents or teachers taught us that we should do better than our peers, and gauging the performance of others is the best way to do that. It could be that many times, we don't know what -good- performance is and it makes sense to see how others are doing so as to get an accurate picture of what is acceptable performance.
When it comes to trading, it makes sense to wonder about other traders' performance. Since most novice traders blow out within a year, many are curious as to whether it is even possible to achieve profitability. (It is possible, but it is extremely important to understand the conditions under which consistent profitability occurs.) It is useful to know that some traders are able to maintain a consistent level of profitability after years of hard work and skill-building. Knowing that trading consistently is feasible will motivate you.
By knowing that it is indeed possible to make a profit, you'll work hard because you know that there is a certain payoff in the end. But usually, comparing ourselves to others can do more harm than good. If we are doing more poorly, we'll feel inadequate. And it isn't always the case that we are performing below par. Each trader has his or her own personal history or circumstances that he or she brings into trading. People differ in terms of personality, investment capital, life experiences, and the market conditions under which they trade. Any or all of these factors can influence one's trading performance. It makes little sense to beat yourself up because you haven't achieved a level of performance equal to someone else who had advantages that you didn't have.
In the end, the only person you can compare yourself to is you. If you make any comparisons at all, it should be against your own past performance, not someone else's. In addition, you should only examine your past performance in relation to similar market conditions. If you made a 30% profit in the up-trending market of the past year, for example, you shouldn't berate yourself for performing less well in the markets of recent weeks. Again, comparisons must be made with caution, and in the end, they can do more harm than good.
Successful people in all fields avoid making comparisons to others. In the end, the only person's opinion that matters is your own. If you believe you are doing well, then that is all that matters. So when you find yourself comparing yourself to others, stop. Look inward. It is just you, the markets, and no one else. The more you can focus on your own standards, the more profitable you'll be.

Keep to Yourself and Trade Independently.

Have you ever been tempted to go into a chat room and brag about how well you did on a good trading day? Perhaps you called up a buddy under the guise of giving emotional support when what you really wanted to do was boast about how much you made that day. It may be fun to build yourself up occasionally, but you pay a price for it. The more you focus on maintaining an image of yourself as a winning trader, the more you make trading interpersonal. You start to care what other people think, and suddenly, a profession that is usually a solitary endeavour requires that you consider what others think.

Soon, you aren't an independent-minded trader but a slave to your reputation. In the long run, you probably will start cracking under the pressure to maintain an image of yourself that is hard to keep up. Trading is one of the few professions where the only person you are competing against is yourself. Although you often trade against other market participants, they aren't aware of what you are doing, and they have no personal connection to you. You don't know who they are. You merely see the consequences of their actions, but it isn't personal in the end. It's useful to remember that. The more you can trade independently, the more you can trade freely, creatively and profitably. Successful traders work independently and don't care how others are doing. They follow their own timeline, follow their own passion, and look inward for where to go next. As a trader, you are the one who needs to hone your trading skills. You are the one who must find a method that matches your aptitudes and personality. Your opinion is the only opinion that matters, and it isn't necessary to see how others are doing.

How you perform has nothing to do with how others perform. Indeed, comparing yourself to others is likely to make you feel jealous or envious of others. Upon seeing that you are doing relatively poorly compared to a fellow trader, you are likely to think distracting thoughts such as, -Why can't I do as well?- or -I must not be as good of a trader as I had thought,- Such thinking does nothing to keep you focused on honing your trading skills.

Don't look at anyone else's record but your own. You'll often be tempted to compare your current performance to that of others. That's how it's been throughout your life, and it's not easy to change a lifelong pattern overnight. But with trading, you must restrain this urge. Everyone has a different learning curve. To keep your spirits up, you'll do best as a trader to focus on improving your past performance record, rather than looking at those of other traders. You don't know what factors created their performance records, so comparisons can only mislead and hinder you. Other people's records do not have a direct bearing on your own record. By searching for factors that are going wrong with your method, however, you can identify the personal factors that have been specifically holding you back, those that are unique to you.

Avoid comparisons to others. Don't make trading about keeping up with your friends and maintaining your reputation. Trading independently requires that you go your own way, and you can't go your own way when you're preoccupied with what others think. So keep to yourself. You can trade freely and profitably if you do.

The Competitive Spirit: Learn to Tame It.

Throughout our lives, we are told to foster a competitive spirit. We compare ourselves to others, inspire ourselves to do better, and try to beat out our peers. As children playing sports, we are advised to hone our skills and become a star player. In school, we are warned that higher grades are the key to long-term success. And when we enter the working world, we learn that survival depends on beating out our competition. But when it comes to trading, you aren't actually competing with anyone but yourself. When it comes to trading, cultivating a competitive spirit can actually do more harm than good.

Comparing our performance with others does seem to have some advantages. Knowing that a goal is attainable is often a powerful motivator, for example. Several scientific discoveries were slow to materialize because they were thought impossible at first. But once the goals were deemed feasible through comparisons to others in the scientific community, progress was accelerated. But comparisons can also have adverse influences. Ironically, people who achieve great things usually work independently and could NOT care less about how others are doing. They follow their own timeline, follow their own passion, and look inward for where to go next. Trading is a similar creative process. You are the one who needs to hone your trading skills.

You are the one who must find a method that matches your aptitudes and personality. Comparisons to other traders can often prove problematic. How you perform has nothing to do with how others perform. It's likely to cause negative emotions, such as jealously or envy. Upon seeing that you are doing relatively poorly compared to a fellow trader, you are likely to think distracting thoughts such as, -Why can't I do as well?- or -I must not be as good of a trader as I had thought,- Such thinking does nothing to keep you focused on honing your trading skills.

Don't look at anyone else's record but your own. You'll often be tempted to compare your current performance to that of others. That's how it's been throughout your life, and it's not easy to change a lifelong pattern overnight. But with trading, you must restrain this urge. Everyone has a different learning curve.

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What factors distinguish your winning trades from your losing trades? Where can you improve? Once you identify these factors, the next step is making a plan for the future to maximize your strengths. For example, if you find your strength lies in trading at the open of an upward trending market, focus on honing skills to trade consistently under such conditions. Who cares if you make 50% less than other traders? Your energy should be focused on making yourself consistently profitable, not on beating others. Such comparisons will only disappoint and distract you. (And in the end, in all likelihood, you'll eventually end up making huge profits anyway, if you just focus on you.)

Although you may have achieved success in the past through comparison with others, it can be detrimental for trading. You'll be more successful by scrupulously examining your own past record, identifying factors that predict your own personal low performance, and modifying your approach. So curb your competitive spirit. Focus on you, the markets, and nothing else.

Drawn to Complexity: When Keeping it Simple is Better.

In the mid-1980s, Steve Wozniak, the creator of the Apple II computer, was asked about the future of computing. Interestingly, in hindsight, he said he thought people were making too much of the home, or personal, computer. He said that many simple tasks, such as organizing one's recipes, are better left to an old-fashioned card file, rather than using a complex computer program. He made his point by recalling an incident that happened when he returned to college to earn his BSEE degree.

He took along an Apple II, but he spent more time using it to do tasks that he could have done more easily with a less complex method. Now, Steve didn't anticipate the widespread popularity of the Internet, and computers these days can do tasks more easily than those of even a decade ago. But there's a solid lesson in this anecdote: Sometimes complexity is a distraction and it's much better to keep things simple.

In these modern times, we seem to be drawn to technology and to the complexity it may bring. But is technology and complexity always better? For example, do we really need to store our appointments and address book on a PDA? Is it really more efficient? When it comes to trading, technology has indeed helped. Real-time charts are useful for analysis, and it's vital to have summary data of current market conditions immediately available. But seasoned traders warn not to get too wrapped up in all the complexity. Many seasoned traders note that one can just look at price and volume and make huge profits in the markets, which is quite the opposite of what one might think after having read popular trading magazines touting overly complex indicators.

For anyone who aced introductory statistics in college, some of the -statistical- indicators presented in trading books and magazines seem unnecessarily complicated. It's as if someone went out and made up complicated formulae to impress people who equate complexity with innovation. There are numerous examples of common indicators that summarize basic market information, yet seem unnecessarily complex, but let's look at how even a seemingly simple indicator should be examined in even more basic terms.

Take the simple moving average, for example. What is an average, or mean? What does it do? It does nothing more than describe the -centre- of a distribution. The first lesson a statistics professor teaches is that the mean is only a good measure of central tendency when there are no outliers or extreme scores. An extreme score biases the mean. In other words, if there is a big price spike anywhere in the series of prices that go into the average, it will bias the estimate. The lesson: Remember what a mean is, and thus a moving average, and keep in mind that it is doing nothing more than summarizing a series of prices.

Also keep in mind that under certain conditions, the mean is a fallible measure of central tendency. Thus, when you look at a moving average, always look at the basic information that went into its calculation. Remember to move to the chart at a higher timeframe to see the actual time points that were used to calculate that average. Don't get overly wrapped up in all the complexity. The point is that when looking at any statistic, such as a simple moving average, it's important to remember that it is doing nothing more than summarizing basic price information. Don't think that a statistical indicator does something magical.

With all the complex indicators out there, it's easy to believe, however, that some indicators are magic. But all any indicator does is describe a series of numbers. It is useful to remember a basic data analytic principle: Look at the original values that went into calculating the summary statistic. Don't focus only on the summary statistic itself. And also remember that complex isn't always better. Many times it is useful to keep things simple.

Complex and Always in Flux.

Alan Greenspan, in his opening remarks at the August 29, 2003 symposium sponsored by the Federal Reserve of Kansas City, said, -Uncertainty is not just an important feature of the monetary policy landscape; it is the defining characteristic.- He went on to say that macroeconomic models are vastly oversimplified. Indeed, the economy is complex. There are so many forces and variables, known and unknown, that influence the economy, it's impossible to account for all of them.

The economy isn't the only complex system. Complex systems proliferate in nature. Ancient philosophers, such as Heraclitus of Ephesus, made this observation long ago. All the elements of the world, such as time, fire, water, earth, and air are constantly in flux and figuratively, it is impossible to -step into the same river twice.- Nature is constantly dividing and reuniting itself. And the market is no different. You will never enter a trade in the exact same river (market) you previously traded. It may look the same, but it will be different. The current will be faster or slower (volatility); it will be deeper or shallower (volume); the water will be clearer or muddier (visibility). There are thousands of variables, and almost none of them are comprehensible.

And what would you guess is the biggest variable of all'which you probably assume'is constant? As Pogo so aptly put it, -We have met the enemy and he is us!- Your personal psychology is also constantly in flux. You are happy one day and melancholy the next; you are continuously learning new things about the market and forgetting others; your confidence level twists and turns like the river's path. When you left the house for your trading floor, did anything go wrong or especially right? What about the trip? How was the mood of your fellow traders when you arrived? How did your first trade go off? Did you have clarity the minute you began trading or did you struggle for it?

Everything is moving, whether we see it or can measure it. This insight is particularly important to the system's developers or traders using black-box software. It helps explain why certain trading software programs work well for only a short time before they crash and burn. There are many other reasons for this phenomena but the ever-changing interplay among market forces is certainly a big part of it.

How can you deal with constant change? First, always be aware of it. Expect it. Accept it as normal. Second, protect your profits from the ravages of the unexpected. Risk management, such as protective stops, is vital. Constant vigilance can make a big difference; healthy skepticism can be a lifesaver. Third, become a full-time student of the particular market you trade. Develop a passion for trading and your primary trading entity. Work at becoming a Zen-trader, where you become one with the market and feel its moves as you would if you were swimming in the river. None of these approaches are easy, but neither is becoming a successful trader.

Full and Intense Concentration.

Your ability to concentrate fully and intensely can mean the difference between consistently taking home huge profits and barely staying above water. It's vital that you pay attention to multiple sources of information, sift through them, prioritize each separate piece, and make an astute decision once all information has been scrutinized. You can't be distracted and unfocused while formulating a trading plan or monitoring an ongoing trade. If you are sidetracked, you may make a mistake at a critical moment of investing.

For example, you may interpret a key piece of information incorrectly, fail to see a trading opportunity, or wrongly conclude that a trading plan is viable when, in fact, unforeseen adverse events are likely to thwart it. Your senses must be fixed on your ongoing experience. You must develop an intuitive feel for the market and be ready to act instinctively. You must do whatever you can to focus your attention.

People differ greatly on their ability to focus intensely on their ongoing experience. Some traders can look through reams of information quickly and efficiently, while others must tediously study and carefully digest each new piece of data. It's vital that you accurately determine your ability to process information and find a trading method that matches your abilities. You can't fight genetics or your learning history. You have to face the fact that some people's brains are wired like a supercomputer, while others are wired like an electronic calculator. If your brain is like a supercomputer, you can process information quickly, store a great variety of information, and recall it rapidly and instinctively.

Some people, for instance, can scan several company reports comprehensively while listening to the latest media coverage on television. Other people are slow learners who couldn't get through a single company report in a week. The trader with a high capacity for information processing may piece together multiple sources of information with relatively little awareness while concentrating on a completely different matter. Information can come together in creative ways that lead to brilliant insights that can be used to trade profitably at a moment's notice. Such individuals have extremely strong powers of concentration.

Why is it essential to know where you stand on your ability to process information? It allows you to develop realistic expectations. The trading lore is replete with stories of super-traders who party hard all night but wake up the next morning to make dizzying levels of profit. The typical trader, however, couldn't match this level of performance. The fact is that super-traders have a rare knack for trading. They can somehow sift through a wealth of information and come up with winning strategies than can be executed with success while they are in a daze. Most of us, though, are less talented.

We have to make sure that we are rested, relaxed, and ready to concentrate. Concentration takes physical and psychological energy. Just sitting at a desk reading a report burns up calories. Don't think that your energy level is unlimited. If you want to concentrate fully on your trading activities, it is vital that you eat balanced meals, get plenty of rest, and be ready to face the trading day with vigour.

How can you increase your ability to process a wealth of information? Again, you can't fight genetics or your learning history, but you can enhance your natural abilities. With experience, you can learn to review financial reports, a variety of financial newspapers and magazines, and a cache of trading strategies with ease. With practice, you can anticipate what may go wrong with a trade, or know how to look at key indicators instantly. Over time, you'll spend less time doing the mundane tasks of trading, such as determining risk limits and expend less effort. And when it takes less psychological effort to trade, you will have more psychological resources to devote to creatively search for trading opportunities and to monitor a trade after it is executed.

Trading takes your full concentration. Don't try to be superhuman. Realize your limitations. You can only do so much. It's vital to maximize your ability to concentrate. The trader who can concentrate brings home the most profits.

The Art of Concentration.

You can be highly motivated to trade, have limitless capital, and a foolproof trading strategy, but if you don't devote your full concentration to the trade that you have on at the moment, you'll rarely make profits. Dr Ari Kiev (2002) observes, -concentration links discipline, desire, motivation, and satisfaction to achievement.- It's essential that you learn to concentrate while executing a trade and scrupulously monitor the market action during a trade.

Why is concentration difficult? While in school did you have trouble studying in a crowded library or on a noisy bus? It's easy to concentrate when we are in a quiet room and when we are calm and at ease. But trading is often chaotic and full of stress. It's easy to become shaken and lose your ability to concentrate. When you aren't fully focused on your ongoing experience, it's easy for self-doubts to creep into your consciousness. You may start having second thoughts and may want to sabotage your trading efforts.

The more you can stay focused on your ongoing experience, the more you can trade effortlessly and skillfully. But how can you concentrate more easily? First, it's useful to remember that concentration takes psychological energy, and your supply of psychological energy has limits. If you want to maintain your focus, you must be rested and relaxed. Get proper sleep and nutrition. If you are tired or hungry, you won't be able to keep your mind focused on trading.

Second, it's important to control your stress levels. Stress depletes psychological energy. Even when you are excited rather than agitated by stress, your psychological energy is depleted a little bit each time you encounter an event that gets your adrenalin pumping. The best way to limit stress is through risk management. If you know that you are doing your best to keep potential losses to a minimum, you'll feel more comfortable and can focus most of your psychological attention on trading.

Concentration is essential for profitable trading. The more you concentrate, the more you feel you are in control. And when you feel your body and mind are in synchrony with the markets, you'll trade profitably.

Self-confidence: A Prerequisite for Financial Success.

Top-notch traders don't follow the crowd. They lead it. They anticipate what the masses are doing, and capitalize on how they are mindlessly swayed by the current mood of the markets. Seasoned traders, in contrast, make a careful assessment of the factors driving the price, and trust their instincts when devising and executing a trading plan. They look inward. They trust their intuition. They go their own way. Going your own way isn't easy, though. It takes guts, courage, and confidence. It's hard to take a risk when there's a good chance that the path you take may lead to a devastating blow.

To take such risks and rely solely on your intuition, you must have rock-solid confidence. It can't waver. Your confidence can't rise with your account balance and fall during a drawdown. It should be based on feelings that reside deep within your psyche. Self-confidence should be so ingrained within your being that nothing can shake it. The more genuine self-confidence you have, the more profitable you'll trade.

Not everyone has rock-solid confidence. Some people appear confident, and they are to some extent, but only as long as everything goes their way. It's all just an illusion. When you look more closely, their confidence wavers. It's super high to the point of arrogant overconfidence when they are riding the wave of success, but it can plunge to the depths of despair during a setback. It is a false sense of confidence. They appear confident on the surface, but it is merely because they have always been the king of the hill. They were born into the right set of circumstances and everything just seemed to go their way.

To those who feign self-confidence, it's much like living an entire life in a small town where everyone knows them. All are familiar, and they feel comfortable and secure. They may feel safe in familiar surroundings, but know that they can't survive in the big city where uncertainly lurks around every corner. Self-confidence, in the end, only comes from mastering various life experiences. Unless you've overcome life's barriers and successfully triumphed over hardship, you will never truly feel you can tackle anything. This is true in life and it is true in trading.

If you learned to trade in a strong bull market where prices go up and never hit resistance, you'll feel you can't lose. It's like those long-term investors during the 1990s that thought they could trade just because, through little more than luck, they picked a company that just happened to go up due to media hype. That's not trading. If you want to be a truly robust, winning trader, you have to look at the dynamics of a stock, study the factors that underlie the price move, and go with your instincts. The more you trade in such markets, and succeed, the more genuine self-confidence you will have, and the more profitably you will trade.

There is no substitute for experience. You can be lured into trading the markets during a bull market and feel like a natural-born trader, but then the markets change, and profits are suddenly elusive. At that point, you must look deep within yourself and decide to shrink away or do whatever it takes to master the markets. It isn't going to happen overnight, but if you gain as much experience as possible, you'll eventually gain mastery.

If you study the markets, accumulate valid knowledge, and trade under a variety of market conditions, you will hone your skills to the point where you will feel confident that you can make a profit when conditions are right. Just like an athlete training for the Olympics, you must work toward the one moment in time where you can trade at your peak. You'll know what you can do and what you cannot.

You don't need to trade like a superstar. You just need to know precisely when you can trade profitably and when you usually choke. Only when you achieve such self-knowledge will you have the confidence to trade in a peak performance mental state. And once you have developed that kind of rock-solid confidence, you'll achieve enduring financial success.

The Confident Trader.

Joe tells his friend, -I'm staying out of the markets for a few days.- -Why?- asks Tom. -I can't trade under these conditions. I'm going to wait for the markets to change,- answers Joe. -What a lack of confidence,- Tom taunts. -Maybe, but I'd rather be safe than sorry,- Joe retorts. Does Joe actually have a lack of confidence? Just because Joe doesn't want to trade under market conditions that are not suited to his method does not mean that he lacks confidence. He may be showing a sense of heightened self-awareness.

It is possible that he is acknowledging that he lacks the skill to trade under current conditions and that he would rather prudently stand aside than jump impulsively into market conditions that he can't trade. Sometimes, a high level of confidence can be defined as really knowing what you can and cannot do. According to this definition, how confident are you?

Many people confuse true self-confidence with false self-confidence. The confusion arises when high self-confidence is equated with high levels of ability, like the popular stereotype of a skilled, seasoned trader. A seasoned, master trader knows how to trade in a variety of market conditions, and thus, has a high trading ability. He or she may have both high levels of skill and confidence in that he or she has mastered a variety of market conditions and he or she is quite confident that should these conditions arise, there is a high probability of success.

Many people mistakenly think that there is only one way to be confident. They believe that it is essential to master every possibility and bask in the knowledge that they are omnipotent. Working under this assumption, some novice traders are afraid to acknowledge their limitations. They believe that admitting their limitations is like saying they have low self-confidence. They create a false sense of self-confidence to quell their inadequacy, believing that they can trade under market conditions that they can't possibly know how to trade.

The image of the accomplished master trader who is both confident and skilled is only one exemplar of self-confidence, however. An alternative definition is having the experience and awareness to know what you can and cannot do. In other words, confident traders know themselves so well that they know when and how to trade but also know when not to.

Consider the conversation between Joe and Tom further. What if we discovered that Joe had tried repeatedly to trade under current market conditions and failed time after time? He didn't sulk and run from the challenge. He tried to master it but found he could not. Let's also suppose that Joe discovered that there were many market conditions where he could trade profitably.

In Joe's case, he has learned when he can make a profit and when he can't. Confidence is often a matter of self-awareness of what you can and cannot do, and Joe has achieved this level of self-knowledge. Think of the advantages. He doesn't waste any time trading under market conditions where he can't make a profit. He doesn't waste psychological energy beating himself up for not being able to trade under all possible market conditions. He merely waits for his own personal ideal conditions and devotes all his time and energy to trading during those times.

While other traders are wasting time, energy, and resources unsuccessfully trying to trade markets where they just can't trade, Joe is trading profitably. He is trading in a peak performance mindset at optimal times. Many people may disagree with Joe's approach, believing that by standing aside, they may miss out on important market moves, or feel that they are stagnating. There may be some merit to those arguments. After all, you need to push yourself to the limits and trade in a variety of market conditions to become a master trader. However, there's a virtue in staying humble.

If you know your limits, stay within them, and do the best you can do with what you have, in all likelihood, you'll be a success. And considering that less than 5% of novice traders make it into the elite group of traders who achieve enduring financial success, trading at your own pace and during optimal times may put you with the champions rather than with the masses who find they must feed their accounts at the end of the month to prevent their closure.

The Self-Confident Trader.

The self-confident trader is decisive. He or she carefully plans a trade, patiently waits for the ideal market conditions, and executes the trade effortlessly and flawlessly. There is no self-reproach, no second-guessing, just a cool, calm execution. The trade may turn out to be a winner. It may be a loser. But at the moment of execution, the trader is sure, decisive, and confident. Cultivating the proper amount of confidence is much like walking a tightrope. That is, it is essential to not be too overconfident to the point of making impulsive, poorly devised trades, on the one hand, but not lack the confidence to the point of hesitating at critical moments of trading, on the other hand.

Overconfidence usually reflects fear. When traders are uncertain about their abilities, they hide these feelings by acting especially overconfident. One way the ego conquers fear is to deny it exists and to mask it by acting especially confident. But this is false confidence rather than true confidence. And when the pressure is on, one usually cracks under the strain unless he or she has a true sense of rock-solid confidence.

Although some people have a general sense of low self-confidence where they feel that they are generally incompetent (usually referred to as low self-esteem), most people have a generally positive view of themselves; they see themselves as able to master most situations. Trading, however, shakes this general sense of confidence because it is a new task that offers challenges and uncertainty that most people find unfamiliar and difficult to master. Understandably, they feel a sense of anxiety about their trading success. They may fear that they may blow out their account and have difficulty recovering.

Or they may worry that they could lose their confidence altogether. There's only one way to combat these fears, however. A novice trader must gain as much experience with the markets as possible. In addition, one must use reliable trading strategies and learn how to identify the market conditions in which they are likely to produce a profit. With time and practice, and a lot of persistence, one eventually develops solid trading skills. With each successful trade comes added confidence until one learns that he or she can trade under a variety of market conditions, and recover from setbacks unscathed.

After gaining extensive experience with the markets, a trader develops a true and lasting sense of confidence that isn't easily impacted by the daily vicissitudes of the markets. In the end, trading the markets successfully requires a sense of rock-solid confidence. Through experience and hard work, you can build the skills you need to trade profitably, consistently, and confidently.

Pleasant Moods Reduce Confirmation Bias.

Whether you are a long-term investor or a short-term trader, you must look through reams of information, such as charts, analyst commentaries, and financial statements, to arrive at an astute decision. You have to sift through it all, weigh it appropriately, and use your intuition to make the most informed decision possible. Usually, it's merely an educated guess in the end. Humans are hardly objective, logical processors of information.

They suffer from what decision-making theorists call confirmation bias. When devising a trading plan, there is strong pressure to reach a decision and implement a plan. The consequences of a wrong decision can be financially disastrous. The added pressure gets to us, though. Rather than look at each piece of information objectively, we tend to pay closer attention to information that confirms our initial decision while ignoring contrary information.

If you want to make sound trading decisions, you must fight the urge to seek out information that supports your initial expectations. As a basic rule of thumb, when trying to arrive at a sound decision, you should spend most of your time looking for information that goes against your initial hunches than information that confirms it.

How can confirmation bias be curbed? A recent experiment by Jonas, Graupmann, and Frey (2006) shows that maintaining a pleasant mood can lessen the tendency to seek out confirming information. University students were asked to make an initial decision and then study a series of informational statements that either supported or ran contrary to their initial decision. They were also told that there was a -right- decision and a -wrong- decision, and if they made the -right- decision, they would receive a reward.

After making an initial decision, participants watched movies that put them in either a bad mood, a pleasant mood or did not influence their mood. Participants were then allowed to look at various pieces of information that either supported or argued against their initial decision. All participants tended to look at the information that supported their initial decision, as might be expected since all humans are strongly prone to show confirmation bias. However, people who were in a pleasant mood were more likely to ignore confirming information and to consider information that was contrary to their initial decision.

These findings show the advantage of cultivating a winning attitude. When you are in a good mood, you are more likely to look at contrary information regarding a decision in an unbiased way. Don't let the confirmation bias influence your decisions. Cultivate a peak performance mindset. Your intuitive hunches will be more accurate if you do.

Don't Be Afraid to Go Your Own Way.

Jim asks his friend, Marty, -Where have you been? I've been waiting for 15 minutes. They are ready to give our lunch reservations away.- Marty nervously replies, -Sorry Jim. I was waiting in line at the ATM. Everyone thought one of the ATM machines was broken, so we waited in line at the single machine that we believed to be working. Luckily, there was a young man in a rush who tried the other machine. It was working all along. We just assumed it was broken.

We would have been waiting another 15 minutes if it weren't for that young man who couldn't wait.- Jim thinks, -No wonder this guy can't trade. He just follows the crowd.- Jim challenges Marty, -Why didn't you see if the other ATM machine was working yourself? Why did you wait?- Marty replies, -I didn't want to make a scene. It would be embarrassing if it turned out I were wrong. It was better to wait.- Marty is a conformist, and extreme conformity is a trader's worst enemy.

Marty typifies conformity at its worst. He cares what other people think. He is afraid to take a reasonable risk that has only minor potentially negative consequences. He doesn't take initiative. Am I making too much of a minor everyday situation? I don't think so. This act of conformity illustrates how the masses blindly react to the ups and downs of the markets. Why does the typical trader conform? First, the conformist is overly concerned with issues of self-presentation. He or she is interested in looking good.

This concern with making the -right- impression has been programmed into his or her psyche from childhood. It is so pervasive that the person is always worrying about making a good impression even when it is not necessary. He or she may hold on to a losing trade, for example, to save face. Or he or she may unconsciously think, -I don't want to do anything too innovative and feel like I need to explain it to my friends. I might come off as a fool.- In the end, who cares what anyone thinks? If you have trouble with conformity, it's vital to look inward for what you want to do. Don't let other people determine what you want to do.

Second, the typical trader is afraid of taking a risk. Again, there's a fear of shame that lies behind conformity. The conforming trader needs to be right. The worst thing he or she can do is take a risk, fail, and face the consequences. So what if you fail? Everyone fails. Ask any successful person and you'll find more failure than success. Babe Ruth struck out many times before setting world records. Matt Leinart's passes are sometimes intercepted, and Reggie Bush doesn't always break through the defence.

The Bee Gees have a host of records that no one even bothers listening to, and Thomas Edison had failed inventions before he stumbled upon a way to make the light bulb. Failure is inevitable if you are seeking success. The winning trader isn't afraid of failure, looking bad, or taking a risk.

You Can Go Your Own Way.

Sergeant Friday on the 1950s television drama -Dragnet- was fond of sticking to -just the facts.- Many police officers look at the world from a strict rule-oriented point of view. Rules are rules, and unless you follow them all the time, you are committing a crime. It is necessary, for example, to stop at a stop sign, even if you are in the middle of the desert and the nearest other car is 10 miles away. Perhaps a strict adherence to the rules is necessary to keep law and order, but the world is rarely that simple or clear cut.

Rules are arbitrary, and the only way that rules can influence people's behaviour is when all members of a group decide that they should follow the rules. Many novice traders make the mistake of thinking that trading can be broken down into clear-cut rules and universal laws, but market participants don't always follow a set of rules, so their behaviour is far from predictable. You have to settle for using your intuition and making an educated guess as to what they are going to do next. It may be useful to outline a specific trading plan in terms of entrance and exit strategies, but it's necessary to realize that rules are arbitrary in the end. They are nothing more than guidelines. It is important to stick to your trading plan as if they are rules to follow, but it's important to restrict rule-following to when you execute and monitor a trade. When you are devising a trading plan, it's useful to realize that the markets don't behave according to any universal laws. History only repeats itself in the markets when it does, so universal rules may not always apply. Don't be an ultra-conformist that tries to follow the rules too blindly. Trading requires that you learn to go your own way, allowing your personal intuition to guide you.

All humans have a natural tendency to pay attention to rules and to conform. There are safety and comfort in numbers. As the human race developed, it learned that its survival depended on banding together and working as a group. That meant looking toward others for guidance, and it also meant following the rules of the group. All humans inherited this legacy, and it is shown in the security we feel when we follow the crowd. It's adaptive most of the time. Although there may be vast individual differences on the extent to which people follow the crowd, with some conforming too much and others conforming too little, most successful members of society have seen the virtues in following the crowd. Blind obedience to authority may not be beneficial but compromise is.

To be successful, it is vital to protect one's self-interests yet also stay within the bounds of acceptable behaviour. It is also important, though, to develop a clear and solid sense of personal values and to develop a clearly defined personal identity. Such a clearly defined view of yourself allows you to be self-sufficient, and go your own way when necessary. Such flexibility and open-mindedness is vital for success as a trader. You can't be such a rigid rule-follower since universal rules to follow are rare.

If you are a short-term trader, you are trying to profit from volatility, and hoping to make a big profit. Most of the time that means going your own way. It requires that you occasionally think like a contrarian, guessing what the crowd will do next, and anticipating how the movement of the masses can benefit you as a trader. The challenge is to know when to follow the crowd and when to go against it. The crowd is usually right until the general market trend turns. When virtually everyone has taken the position that the market is headed in a particular direction, there are few traders left to push the trend further.

At that point, a countertrend initiates and moves the market in the opposite direction. The challenge is predicting when that turning point will occur, anticipating it, and developing a trading plan to capitalize on it. This is where intuition comes in. There are no clear-cut rules. You have to creatively and freely assess the situation and go your own way. It may take a strong sense of courage and unwavering confidence, but trusting your intuition and going your own way is the only path toward success as a short term trader.

The Consistent Trader.

The winning trader is a consistent trader. A winning trader puts on trade after trade in a free-flowing, carefree manner. Profits pile on with each trade. Trading consistently means approaching each trade in a logical, well-prepared, and decisive manner. Striving for consistency should be the main objective, especially for novice traders.

Trading profitably is a matter of probabilities. If you trade a sound trading method with a strong track record, success is merely a matter of odds: If you make enough trades, the odds should work in your favour, and you'll take home profits. It's like rolling dice or flipping a coin. For example, if a coin is flipped over and over again under identical conditions, it will tend to come up heads 50% of the time. But the key to getting heads 50% of the time is to repeat the flip of the coin -under identical conditions.- When one views trading is analogous to flipping a coin, the theoretical probability of getting heads is the best-case scenario.

However, finding -identical conditions- when trading the markets is difficult. Market conditions are hardly ever -identical,- and the adept trader is always looking out for subtle changes. You can't control the markets. You must take what the markets have to offer. Since you can't count on the markets for consistency, you must search for it by looking inward. The first step in cultivating a consistent trading style is identifying sources of inconsistency. Remember the analogy of flipping a coin. You must flip the coin under identical conditions, time after time, to maximize profits.

So how can you trade consistently time after time? One way is to limit your risk in a consistent manner. For example, only risk about 2% of your trading capital on each trade. Novice traders have a tendency to get a little excited when they have hit upon a winning streak and increase the amount they risk-on trade to take advantage of the streak. This approach produces a jagged equity curve, however, and an emotional rollercoaster ride of extreme ups and downs. By keeping your risk constant, you can introduce consistency into your trading.

Another source of inconsistency is the market conditions under which a trade is executed. Although top-notch traders have mastered a variety of market conditions, it's wise for novice traders to stick with what they know, at least initially. Some traders, for example, know they are most profitable when trading in a bull market two hours after the open. This may not be a very challenging set of conditions in which to hone one's skills, but trading under these ideal conditions builds confidence. Your initial goal as a novice trader should be establishing consistency. Once this criterion is met, the novice can build skills in a variety of market conditions. By striving for consistency initially, you'll build up the skills to trade profitably over the long haul. The profits will not only be monetary, but psychological as well.

The Quest for Consistency.

Two keywords you often hear in trading are consistency and discipline. A winning trader makes consistent profits. Here's what that means. In contrast to seasoned traders, novice traders' equity curves go up and down, but mostly down. The equity curves are jagged and show extreme peaks and valleys. A seasoned trader, in contrast, has a smooth, rising equity curve. That doesn't mean that a seasoned trader doesn't run -hot- and -cold.- But what they don't do is allow their emotions to guide their trading.

They don't impulsively abandon their trading plans, panic at the wrong moment, or make numerous trading errors. When they happen to hit upon ideal market conditions, they are able to take advantage of them, so that over the long run, they come out ahead. The more you can trade consistently and with discipline, the more profits you'll realize.

How do you trade more consistently? One of the first steps is to develop clearly defined trading plans and try to stick with them. Discipline means that you learn to follow a trading plan consistently. Seasoned traders may have extensive experience to know when to stick with a plan or when to dump it. But a novice trader doesn't know how to react so intuitively. He or she must have clearly defined strategies to enter and exit a trade and deliberately follow them. In the end, trading is a matter of taking advantage of the chance. To take advantage of the law of large numbers, you must make many trades, and do so consistently.

Ideally, your objective is to try to put on a trade with discipline, reacting effortlessly over and over again. By chance, your plan may work, or equally, by chance, it may not work. If you use a sound, reliable trading strategy, however, you will be right enough times to make a profit across a series of trades.

What happens to many novice traders, though, is that they allow their emotions to take over at critical moments of trading. They may jump into the markets before they are ready because they crave a little excitement, or they may close out a trade early because they are afraid of losing money. Even traders who have a well-devised trading plan may not follow it out of fear or greed. When this happens, a novice trader will lose money even when the market conditions favour their trading methods. They lose money when they should have been making money, and then, when the market conditions change and are not conducive to their methods, they lose even more money. They may occasionally hit upon those moments when everything -clicks- and make a profit, but it is usually short-lived. It is vital to control emotions when trading. Don't act impulsively. Identify when you are uneasy or fearful, and take steps to reduce the fear. For some people, emotion control may be as extreme as standing aside for the day. For other traders, it may mean working out regularly and using meditation or relaxation techniques to remain calm. Perhaps the best method of emotion control is to manage risk. If you know that the outcome of a single trade can have a relatively little real impact on your account balance, you won't be as worried and you'll trade more freely. Finally, don't trade beyond your skill level.

If you stick with what you know initially, you will be able to build up your trading skills and confidence level. Master traders know that they have a few foolproof weapons in their arsenal of trading methods that they can use to recoup major losses should they need to. Once you realize that you can make lost money back if you need to, you'll feel a sense of freedom. You'll know that should you experience a drawdown, you can get back in the game. And in the end, there is really nothing to worry about. Until then, however, you must practice trading conservatively until you build up the requisite skills. The best way of doing that is to develop a trading plan and follow it.

Trade with money you can afford to lose and manage risk carefully. By building up your trading skills and developing a strong sense of discipline, you will eventually develop the ability to trade profitably across a variety of market conditions, and remain profitable over the long run.

Don't Catch a Bad Mood.

Winning traders are eternal optimists. They must be to survive. Markets are constantly changing. What works in one market doesn't necessarily work in another. You can't complacently expect to perfect a trading strategy or method at a particular point in time and expect it to work forever. But many traders hold these unrealistic expectations. It's common to hear even a seasoned trader complain, -It's all a sham. There's no way to make money in trading anymore. The amateurs have left and there's no way to take profits from professionals.-

It can shake your confidence to hear such a bleak outlook. It can make you feel as if you might as well just throw in the towel and put your money in a mutual fund. But if you want to master the markets and take home huge profits, you can't let pessimists sway you. Don't catch their bad mood. Stay optimistic, hone your skills, and remain ahead of the crowd.
Seasoned traders have seen markets change over and over. They'll warn you that to stay profitable, it's necessary to continually search for new ways to trade profitably. This fact of trading can provide solace when you hear your friends complain about how -it's all changed- and there's no longer a viable way to make a profit. Sure, it's not going to be easy, but it's always possible. Acknowledging that trading is hard can actually soothe you.
If you know that it's not your fault that market conditions change, then there's no reason to feel pessimistic and beat yourself up. It's not your fault. You didn't do anything wrong. Change is merely the nature of the beast. Your job is to avoid giving in to pessimism. Instead, you must continually pick yourself up after being thrown down and courageously face market challenges with a fighting spirit.
An optimistic attitude alone isn't going to guarantee success, but it's an essential prerequisite for continuing to stay profitable. To stay on top, you're going to have to think creatively and you might have to change the way you've been doing things. Maybe you can't make as much profit as you were used to making on merely a few trades. Perhaps, you have to make more trades or just expect less per trade. Maybe you have to move into new sectors or into trading commodities or bonds. Again, it's not going to be simple, but with effort and practice, you can learn to adapt your trading style to new circumstances, instead of catching the pessimism that is rampant when the majority of traders are losing.
So when you hear a novice or old-timer complain, -it's impossible to make a profit,- don't let it shake your resolve. Don't catch a bad mood. Everyone is different. You're different from other traders. You have your own resources and your own style. Maybe your friend with a bad attitude is right. Maybe he or she can't trade the markets anymore. Maybe his or her account is too big or too small. Whatever the issue is, don't make it your problem. Just go your own merry way and keep searching for a new set of tools that will make you profitable. They are out there. All you have to do is persistently search until you find them.

Contagious Behavior of the Mass.

People have a natural affinity to follow others. It can be very adaptive at times. If you see someone slip on an icy sidewalk, for example, it would be wise of you to start walking slowly and carefully to protect yourself from getting hurt. People are so attuned to others that they mimic their behaviours without knowing it. Psychologists call this phenomenon contagious behaviour. Contagious behaviour is the unconscious transmission of actions or emotions from one person to another. When trading the markets, we often fall prey to contagious behaviour when we react to the opinion of the masses. There are both social and biological bases for contagious behaviour. It's a pervasive phenomenon. From a social standpoint, researchers have shown that people react automatically to well-learned scripts. When we see a set of behaviours happen over and over, we react to this pattern without thinking. Consider a common example while trading the markets: An analyst talks up a stock spurring a few online traders to buy. Next, a few other traders see the initial buying spree and decide to follow. Soon many people are following the crowd. Research has shown that people can follow the crowd without knowing it.

Negative emotions, such as fear and panic, are especially contagious. When people are studied in groups in a laboratory setting, they tend to -catch- unpleasant emotions from others more than pleasant emotions. When you see the masses sell, for example, you are naturally bound to become afraid yourself and start selling. Your natural human affinity to follow others can work against you, though. You may sell on irrational, unconscious gut instinct, even when it is not in your best interests.

There are also biological reasons that we follow each other. Humans are built to follow others. Research studies have shown that neurons in the brain fire merely by watching someone perform an action. We laugh when others laugh, and we run from a threat when we see others reacting in a panic. Humans are biological, social beings and these social and biological bases of contagious behaviour may it difficult to beat at times.

Contagious behaviour may be difficult to fight, but it is vital to find a way to break away from the crowd. Winning traders often need to go their own way. It is often useful to be a rebel, when necessary. The winning trader steps back from the crowd and tries to identify the optimal point to buy and sell. It is necessary to build up immunity to contagious market behaviour. How can you do it? First, anticipate the strong tendency to follow the crowd. If you are aware of the powerful influence of the crowd, you can go against them when you need to.

Second, know your personality. Some people are more prone to -catch- contagious behaviour than others. Emotions are especially catchy. If you are easily discouraged, you may be prone to catch other people's panic and fear. Third, try not to pay attention to the crowd. Obviously, you can't follow the crowd if you are oblivious to what they are doing. If you make a conscious attempt to try to look at circumstances from an objective, third eye, you can remove yourself from the situation and react more independently.

It may be difficult to build up immunity to contagious market behaviour, but if you increase your awareness of the potential problem, you learn to look inward and go your own way. The more you can think independently, the more you will be inoculated from the contagious opinions and emotions of the crowd.

Contagious Moods: Don't Catch a Bad Mood.

Traders who are independent-minded see the most profits. It is hard to go it alone at times. There are times when it is difficult to avoid following the crowd. Humans are risk-averse and they feel more comfortable getting confirmation from the crowd rather than going out on their own, and potentially feeling the pain of making a wrong decision. These two mechanisms place humans in a vulnerable position, however. They are prone to emotional and thought contagion. Emotions and thoughts can be contagious. It is vital that you take precautions to avoid catching a bad mood.

Consensual opinion and moods can be catchy. An analyst may talk up a tech stock, for example, spurring a few traders to buy. Next, a few other traders see the initial phase of buying. They buy in order to go along with the crowd. Soon more traders buy, and so on, and so on... If you are at the start of a buying spree, you can capitalize on the crowd pushing up the price. But usually, a typical trader isn't aware of the conformist nature of the trend. Rather than getting in at the start of the trend, most enter the market after the trend has initiated and right before a reversal. Their need to follow the crowd and experience the secure feeling of validation from the crowd usually means that they end up selling their positions at a point of weakness in which the majority of market participants are trying to also sell their positions.

In most social environments, it is useful to conform to popular mores. The socially skilled person is able to astutely identify social rules and follow them. This adaptive tendency may not be useful when trading the markets, however. The adaptive tendency to discern what the masses are doing, and the feeling of comfort that comes with following them, can be counterproductive. It is more useful to be a rebel, a person who goes his or her own way and looks inward for what to do.

The winning trader steps back from the crowd and tries to identify the optimal point to buy and sell. This usually requires buying right after a reversal and selling at the start of an uptrend. In other words, one must go against the crowd at times to profit from the behaviour of the masses. This requires putting conformist tendencies aside temporarily and making a gutsy move to go against what the masses are doing.

But the tendency to follow the crowd is strong, and you must take preventative steps to ensure that you don't naturally follow the masses. Two basic strategies can be taken. First, anticipate the strong tendency to follow the crowd. If you are aware of the powerful influence of the crowd, you can go against them when you need to. Second, know your personality. Are you pessimistic or optimistic? If you are overly optimistic or overly pessimistic, you'll be prone to follow the emotions of the crowd. If you are easily discouraged, you may want to sell like the rest of the crowd is selling.

If you are prone to irrational exuberance and are prone to becoming overly optimistic, you may unrealistically become enthusiastic as you see the masses buy. If left unchecked, you may allow your emotions to match what the masses are doing, rather than look inward in order to identify the most prudent investment decision. Rather than catch the thoughts and moods of the masses, you must anticipate their thoughts and feelings and trade against them rather than with them, which usually means selling when they are buying, waiting for a turning point, and then buying when the masses are selling.

So rather than follow the contagious moods of the crowd, learn to look inward and go your own way. Rather than being a slave to the whims of the crowd, you'll be able to benefit from the behaviour of the masses, capitalizing on the tendency for people to follow the herd rather than go their own way. The more you can think independently, the more you will be inoculated from the contagious opinions and emotions of the crowd.

Overcoming an Emotional Vulnerability to Losses.

It can be said over and over again, -Don't let your net worth determine your self-worth,- but it is little solace to those people who have spent their entire lives letting their successes and failures determine how they feel about themselves. Even if you have fairly high self-esteem, it's hard not to feel a little disappointed when you aren't making enough winning trades, or are experiencing a severe drawdown. From childhood to adulthood, we are told that unless we do well in society, we are not worthy.

It's important to do well, and if trading is your profession, a series of losses can be devastating to your self-esteem. Not all people link their self-esteem to how well they are performing at their job, but if you are one of the people who do make your feelings of self-esteem contingent on how well you are doing in the markets, coping with losses can be psychologically painful. However, a study in the December 2004 issue of -Psychological Science- offers a remedy (Niiya, Crocker, and Bartmess, 2004).

Dr Jennifer Crocker and her colleagues at the University of Michigan have been studying college students who base their self-esteem on how well they are doing in school. They have shown that the more college students' self-esteem is based on, or contingent on, their academic performance, the greater their drops in self-esteem on days when they receive worse-than-expected grades on exams and papers. The same phenomenon is seen among novice traders. Traders who let their self-esteem be dictated by the number of winning trades they make on a particular day experience a rollercoaster ride of emotions, ranging from omnipotence on winning days to feelings of despair and hopelessness on losing days.

In a recent experiment, Niiya, Crocker, and Bartmess (2004) showed how people who base their feelings of self-worth on performance can cope with failure more easily. Whether a person feels a sense of low self-esteem after a failure depends on how one views a particular talent or ability. If a person believes that talent or ability is trait-like and unchangeable, he or she will experience low self-esteem after a failure.

If on the other hand, a person believes that talent or skill can be improved and honed through experience, he or she will be less upset after a failure. Participants were randomly assigned to either fail or succeed after completing an academic task. Half of the participants were -primed- to think that intelligence was a fixed entity that could not be changed, while the other half were reminded that intelligence isn't permanent and trait-like, but can be modified with practice and experience.

People who allowed their self-esteem to be determined by performance and who believed that intelligence was fixed and unchangeable felt low self-esteem after a failure. In contrast, people who believed that intelligence was malleable didn't report lower levels of self-esteem after a failure. This finding has a direct bearing on how to cope with trading losses. Don't over-interpret losses. A series of losses doesn't mean that you'll never learn to trade profitably. With training, practice, and experience, you can hone your trading skills.

Sure, we can say over and over again, -Don't let your self-worth be determined by your wins and losses,- but for some people that just don't help. They've been basing their self-esteem on how well they perform their whole life. It's hard to change overnight. But these people aren't doomed to wavering self-esteem. If they merely remind themselves that trading can be learned and that you don't need to be a -natural born trader- to make it in this business, then you won't be as disappointed by your losses.

Don't expect to trade skillfully immediately. Some novice traders may catch on fast, but that shouldn't get you down. With training and practice, you can also hone your trading skills and learn to trade profitably. The more you remind yourself of this fact, the more you can bolster your self-esteem when you face losses. So don't give up. If you are the kind of person who sees your self-esteem rise and fall with your account balance, stay relaxed, and remember that traders are made not born. If you remember this fact, you'll eventually master the markets and achieve enduring success.

Don't Let Your Profits Define Your Self-Worth.

Winning traders cultivate feelings of inner-worth. It doesn't matter how poorly they do in the markets, they feel that their life has value; their mere existence in the world makes them feel fulfilled and valuable. For many people, however, this is easier said than done. Throughout our lives, we learn that our value as people depends on what we do, and often, how well we do it. Our parents may have implied that they would not fully love us unless we did what they wanted. Only when we were -good children- did our parents love us fully.

Our teachers may have often told us that if we didn't follow the rules, we weren't -good students- or -good citizens.- Eventually, we arrived at the conclusion that we were only as good as what we accomplished in life. Our job, the amount of money we make, the car we drive, the house we own, and the neighbourhood we live in are all indicators of -success.- We tend to believe that they are the ultimate measure of our worth and that if we were to -make it,- we would gain the respect of our friends and loved ones. Did you go to your high school reunion? Many people dread going because of the inevitable comparisons between our old friends and classmates.

You may want to see your own friends, but at the same time, you may also want to -show them- how well you've done. It's natural to seek status and financial success. The more of it you have, the more secure you'll be in society. There comes a point, however, where it is vital that you do not let a desire for status or wealth go too far. You do not want to let your accomplishments define your self-worth. And when it comes to trading, you don't want to allow your profits to define your value as a trader or as a person.

Ironically, many winning traders wanted to succeed at an early age. Many traders say that as youngsters they were willing to do whatever it took to achieve success. The psychoanalyst Alfred Adler called this dynamic -striving for superiority.- As children, many successful people felt a sense of inadequacy and uncertainty. In order to compensate for this sense of inferiority, they decided to achieve a sense of mastery and superiority. The need for mastery can be a very powerful motivator, but at the same time, it can be a curse.

Since at the core of one's drive for success is a need to overcome a sense of inferiority, a sense of inadequacy always lies at the back of one's mind. Most of the time, it doesn't matter, but at times when things are either going extremely well or extremely poorly, feelings of inferiority can creep out. When things are going well, one is bound to feel that something is amiss, and unconsciously one may secretly want to make a big mistake in order to put things right. When things are going especially poorly, one naturally feels a sense of inadequacy. It is useful to realize that even the person who seems to have a strong ego may secretly have feelings of inadequacy.

They may impact your success when you least expect it. Acknowledging these feelings and realizing that they may undermine your efforts can help you neutralize them. The best way to neutralize them is to not let your self worth be contingent on your accomplishments. It doesn't matter what you do. It doesn't matter how many profits you make. You are still a valuable person. It is also important to realize that trading is just one area of your life. You have other roles, such as parent, child, friend, spouse, or merely, member of society. These roles also give your life meaning. You can be rich in terms of self-worth even if you were flat broke.

It may seem ironic, but in the end, it is essential that you isolate your feeling of worth as a person from your performance as a trader. If you put your self-esteem on the line with your money, you'll choke in the end. If you can separate your self-worth from your net worth, you'll trade more profitably and consistently

Going Your Own Way.

In the past two weeks, the markets have been choppy. One moment it seems that prices are tumbling; the next moment, they seem to recover. And then some new earnings reports come out and prices decline again. It would be nice if the markets were a little more predictable. If you know how to anticipate what will happen next, though, you'll make a killing from the volatility. Doing so, however, means that you must go your own way rather than follow the masses.

It may make you feel better to trade with the masses, but many times it doesn't make sense. The crowd often seems to be acting impulsively out of fear and greed and losing money in the process. But there is a powerful motive to conform, even when it isn't to our advantage. All humans have a natural tendency to follow the crowd. There are safety and comfort in numbers. The masses offer confirmation, and it's nice to have the sense of reassurance that the confirmation of the masses offers. Following the crowd is comforting and adaptive most of the time, but there are times when the crowd is wrong. Sometimes, conforming to the crowd means that you are giving money to a select group that is controlling the flow of information. In order to make the most profits, you must try to be ahead of the crowd, but that can be difficult to do.

Most successful members of society have seen the virtues of following the crowd. They have learned to look for rules to follow and to decide which standards to strive for. In school, for example, it was to our advantage to follow the rules. Blind obedience to authority may not be beneficial but compromise is. To be successful, it is often necessary to stay within the bounds of acceptable behaviour. So although following the crowd has disadvantages, it's important to acknowledge that it is often adaptive. In the markets, it is sometimes useful to -follow the crowd- as well. For example, for long term investing, it is wise to put your money in stocks that don't have a great deal of volatility and by all indications, have solid fundamentals that will push the stock up consistently for several years. If a large enough -crowd- believes strongly that the company will produce profits for decades, it would be to your advantage to follow them, if you want a safe investment.

So following the crowd isn't bad all the time, especially for those who don't like risk. On the other hand, if you are a short-term trader, you aren't looking for safe investments. You are looking for volatility, necessary risk, and a good chance of making a big profit. Most of the time that means going your own way. It requires that you think outside the box, guessing what the crowd will do next, and anticipating how the movement of the masses can benefit you as a trader. The key is to know when to follow the crowd and when to go against it.

The crowd is usually right until a turning point occurs. When virtually everyone has taken the position that the market is headed in a particular direction, there are few traders left to push the trend further. At that point, a countertrend initiates and moves the market in the opposite direction. The challenge is predicting when that turning point will occur, anticipating it, and developing a trading plan to capitalize on it. Now, this all sounds easy in theory, but in practice, it is difficult to implement a trading strategy to capitalize on this cycle. How can one predict the turning point? Some say it is almost impossible.

All you can do is develop a sound method that works most of the time but also admit that it may fail. Whether you use technical indicators or you are lucky enough to use the media news to your advantage, you must temporarily have full confidence in your method, put money on the line, and act decisively. Sometimes thinking independently is lonesome and scary, but in order to be on the winning side, you have no other choice but to go your own way.

Breaking Away From the Masses.

Don't follow the crowd! You've been warned over and over. It seems easy, but it's harder than it looks. We are all familiar with the rebel, the person who breaks all the rules and is sceptical of the status quo. At the other extreme, the ultra-conformist seems to follow the rules too blindly. Neither extreme is optimal for trading. It's necessary to find the right balance between these two extremes. It takes a great deal of trading experience, self-searching, and a firm, concerted effort to act independently, but it is essential to develop this skill.

All humans have a natural tendency to follow the crowd. There are safety and comfort in numbers. As the human race developed, it learned that its survival depended on banding together and working as a group. All humans inherited this legacy, and it is shown in the security we feel when we follow the crowd. It's adaptive most of the time. Although there may be vast individual differences on the extent to which people follow the crowd, with some conforming too much and others conforming too little, most successful members of society have seen the virtues in following the crowd.

They have learned to look for rules to follow and to decide which standards to strive for. In school, for example, it was to our advantage to follow the rules. Blind obedience to authority may not be beneficial but compromise is. To be successful, it was vital to protect one's self-interests yet also stay within the bounds of acceptable behaviour. It was also important to develop a clear and solid sense of personal values and to develop a clearly defined personal identity. Such a clearly defined view of oneself allows one to be self-sufficient. One can follow the crowd when appropriate, but effortlessly go his or her own way when it's necessary to protect self-interests.

Although you've been frequently warned about the pitfalls of following the crowd, it's important to acknowledge that it is adaptive most of the time. We strive to minimize unnecessary risk in our everyday lives, for example. We prefer to raise our children in safe neighbourhoods, and many prefer to live in homes that are unlikely to be destroyed in a natural disaster. And in the markets, it is sometimes useful to -follow the crowd- as well. For example, for long term investing, it is wise to put your money in stocks that don't have a great deal of volatility and by all indications, have solid fundamentals that will push the stock up consistently for several years. If a large enough -crowd- believes strongly that the company will produce profits for decades, it would be to your advantage to follow them, if you want a safe investment.

So following the crowd isn't bad all the time, especially for those who don't like risk. On the other hand, if you are a trader, you aren't looking for safe investments. You are looking for volatility, necessary risk, and a good chance of making a big profit. Most of the time that means going your own way. It requires that one think like a contrarian, guessing what the crowd will do next, and anticipating how the movement of the masses can benefit you as a trader. The key is to know when to follow the crowd and when to go against it. The crowd is usually right until a turning point occurs. When virtually everyone has taken the position that the market is headed in a particular direction, there are few traders left to push the trend further.

At that point, a countertrend initiates and moves the market in the opposite direction. The challenge is predicting when that turning point will occur, anticipating it, and developing a trading plan to capitalize on it. Now, this all sounds easy in theory, but in practice, it is difficult to implement a trading strategy to capitalize on this cycle. How can one predict the turning point? Some say it is almost impossible. All you can do is develop a sound method that works most of the time but also admit that it may fail. Whether you use technical indicators or you are lucky enough to use the media news to your advantage, you must temporarily believe in your method, put money on the line, and work under the assumption that overall, luck will be in your favour should you make enough trades. (And by all means, control your risk; otherwise, you will be the victim of relatively risky trades, rather than the victor.)

Going against the crowd takes a special kind of person, a person who isn't afraid of risk but doesn't seek it out, a person who looks inward only, and doesn't need reassurance from others. One must creatively study the markets and try to devise an innovative trading plan. It takes a great deal of experience and thought, but by using the proper perspective, gaining extensive experience, and honing your trading skills, you can break away from the masses, and trade consistently and profitably.

The Courage to Follow Your Gut.

The most profitable trading strategies are innovative. You cannot merely follow the crowd or think conventionally if you plan to make profits in the market aftermarket. You have to sift through information personally, and in the end, you must trust your instincts and go your own way. It takes courage. It's not for the faint of heart. You have to take risks and go your own way. It isn't for everyone. Make sure it is right for you.

Market conditions are continually changing. You can't expect to simply follow the masses and hope that it will always work. Instead of following the herd and buying when everyone else is buying, and selling when everyone else is selling, you have to anticipate the crowd. You have to be a leader rather than a follower. That often means buying when everyone else is selling, and selling when everyone else is buying. In other words, buy on weakness, and sell on strength. How does this work? Assume that prices move in cycles.

For mere illustrative purposes, pretend that market cycles, or waves, go down at the open at the middle of the week, up at the close of the following day, and open down on the next day. If history was to repeat itself, and unfortunately it rarely does, you could buy low, wait for the price to go up, and sell for a sure profit. Now if the cycle followed a reliable, consistent pattern, you wouldn't need to be a rugged individualist, or know how to use your intuition. You would know exactly what would happen and when, and trading would be simply a matter of waiting for the right moment and buying or selling, depending on the specific point during the cycle.

But history only repeats itself when it does; the rest of the time it does not, and no one knows for certain when it will or will not repeat. That's what makes trading a challenge. One doesn't know exactly where or when the cycle will repeat. In the end, it's just a matter of odds. You can't wait for solid confirmation from the herd and merely follow them. The future is never certain, and so that's where thinking independently, like a rugged individualist is relevant. In the final analysis, you only have a cache of fallible trading strategies and your own intuition to rely on. It helps if you are a natural, rugged individualist, a person who isn't used to looking toward others to see what to do next. A rugged individualist is familiar with taking chances, and using gut instincts to make decisions, and that's all trading is: Making a good guess, taking a chance, and having the courage to follow your convictions.

Having the flexibility to follow the crowd when it is advantageous and to go against them with it is not is difficult. One can neither be a conformist who feels safety in numbers nor a deviant who likes to go against prevailing opinion. The winning trader truly thinks independently and trusts his or her own instincts. Cultivating these talents is necessary to achieve lasting profitability. How can it be done? The first step is to assess your own personality. Are you a conformist, rule follower or a deviant, rule breaker? Neither extreme is very adaptive.

It's useful to know where you stand on the continuum and to realize that you must develop skills characteristic of the other end. Rule followers must learn to deal with uncertainty and risk, for example. Rule breakers, in contrast, must learn discipline and self-restraint. In other words, they must learn how to follow conventional wisdom, when it's actually right, that is. Second, one must gain a wealth of experience, and over time learn to trade in different market climates, and at different points during the ebb and flow of market prices. Many traders know how to trade the trend, and that's a good start. But seasoned traders know how to also anticipate a turning point and capitalize on the masses' herd mentality, which compels them to stay with the trend even when it is about to change.

Some people are natural individualists. Other people have to work at it. But regardless of your natural inclination, it is vital that you find the courage to follow your own convictions. The winning trader is a rugged individualist. If you can find the strength to go your own way, you can join the league of winning traders.

Controlling Your Impulses.

When your money is on the line, it's difficult to remain calm, rational, and in complete control. What happens if you lose? How will you recover? It's natural to become consumed with self-doubt and abandon your trading plan or act irrationally in the midst of the chaotic market action. But winning traders control their impulses. They execute a trading strategy effortlessly and flawlessly, even under the most adverse market conditions. The winning trader is disciplined. Although discipline is a key ingredient to success, not everyone is capable of maintaining a high level of self-discipline. It's worth determining where you stand on this characteristic and, if you lack discipline and self-control, work to build it up.

Some people are highly disciplined and very self-controlled. They scrupulously follow rules and are careful to control their impulses. They pay off their credit cards every month, are never late for an appointment, and carefully plan every detail of their lives. Although these characteristics may seem ideal for trading, there's a potential downside. Overly disciplined people often have trouble taking risks. They prefer a sure thing and seek out consistency and safety. But trading outcomes are rarely sure things.

It is often necessary to live a little on the wild side. The astute trader may not recklessly seek out risk, but he or she doesn't mind it. In the final analysis, every trader has an issue with the discipline to some extent, whether it is a lack of discipline or too much of it. That said, regardless of whether discipline comes naturally to you, or you have to work at, it is essential to trade with discipline.

How do you rate your discipline and self-control? Do you have trouble sticking to your trading plan? Do you long for more discipline and self-control when it comes to your trading? How is your discipline in everyday life? Are you often late for appointments? Do you spend more money each month than your budget allows? Do you frequently find yourself breaking promises? It's not necessarily the case that a disciplined trader is disciplined in all aspects of his or her life but it helps.

The life strategies we use in everyday life may bleed over into our trading life. If you often overspend, overeat, or have an unrestrained need for pleasure, you may find maintaining self-control and discipline while trading a little more difficult than others. But don't despair. Even the most undisciplined person can learn to trade with discipline. It merely takes time and practice.

The markets are chaotic and unpredictable, and thus, it is understandable to feel unsure and unsettled at times. After a trade is executed, what happens next is anyone's guess, and this state of uncertainty can cause stress. The best way to gain control is by organizing your perceptions and activities. If you trade with a detailed trading plan, for example, you will impose structure onto an unstructured reality. You can reduce some of the feelings of uncertainty by clearly defining a target profit objective, and entrance and exit strategies. The more structure you impose and follow, the less uncertain and unorganized you'll feel. You will know what to do and when to do it. Your trading plan will be easy to follow, and you will be more in control.

It's also important to view your ability to maintain discipline as similar to a muscle. Like an actual muscle, it's necessary to build up stamina. Maintaining control takes psychological energy, and humans have a limited amount of psychological energy. When the limits are reached, maintaining discipline is a challenge. The best solution is to build up as much psychological energy as possible, which will in-turn allow you to maintain self-control. It is vital to get plenty of rest and relaxation. When you're tired, the available psychological energy you can devote to trading is restricted. You will have great difficulty controlling emotions and impulses. By getting the proper amount of rest, you'll have enough energy stored up to combat pessimism, stay focused, and maintain self-control.

Many traders have difficulty trading with discipline. It's tempting to trade by the seat of your pants and live with the consequences. But the winning trader is the disciplined trader. By taking steps to build your self-control skills, you'll increase your odds of success.

Self-Controlled and Profitable.

Self-control is often the key to trading success. Masters of the market are disciplined. They don't sporadically act on a whim. They develop specific trading plans and follow them. Trading is largely a matter of capitalizing on odds. If you assume that a given trading strategy has a past performance record of 50%, for example, it's a matter of odds as to whether that particular strategy will obtain that level of profitability in the future. This expectation is not assured, however.

Unanticipated factors, such as a change in market conditions, can go against the strategy, diminishing its expected performance record. A lack of emotional and impulse control further reduces the odds of success. The only way to take advantage of the law of large numbers, and thus, increase the odds of capitalizing on the expected performance record of the trading strategy, is to execute the strategy flawlessly on as many ideal occasions as possible. If you don't show the proper discipline, however, you throw off the odds. By chance alone, you will decrease the number of winning trades you will realize with the trading strategy.

Even though self-control is vital for trading success, many traders have problems maintaining self-control. It's a common ailment not restricted to trading. Whether it is losing weight or breaking bad habits, people have great difficulty maintaining self-control.

There are individual differences when it comes to self-control. We all know people who are extremely good at controlling their emotions, spending, and impulses. But most of the time, people who show such extreme control are not attracted to trading. Traders are often the kind of people who don't mind taking chances and thinking and doing outside the box. And people who don't mind taking risks usually have a little trouble controlling their impulses. That's just the way human nature tends to work. But if you are a natural-born risk taker, all is not lost.

According to psychologist Megan Oaten of Macquarie University, if you practice discipline, you can increase your ability to maintain self-control. Oaten has studied people who lack discipline compared to others. Initial differences in self-control between people disappear with practice. You can look at discipline like training for a marathon. At first, you have difficulty running. You can only run so far before you get tired. With practice, though, you build up stamina. It's the same with discipline. The more you practice it, the more self-control you can handle.

It's the same with trading. Many novice traders think they can trade by the seat of their pants, even though they don't have very much experience with the markets. They don't make a specific trading plan, and thus, put extra strain on themselves. They trade large positions and think they can make quick mid-course corrections on the spur of the moment. But trading under these circumstances is much like running a marathon without proper preparation. You don't have enough stamina; you get tired out fast and you choke under the strain.

Similarly, you may trade without proper preparation. You may trade without a clearly defined plan. You don't know when to enter, when to exit, or how to monitor the trade. Also, you may risk too much capital and feel the stress of taking a risk that you can't afford to take. Under these circumstances, you've increased your chances of failure. Just like training for a marathon, though, you should take it slow. With practice, you can build your ability to maintain self-control. First, manage risk. Take some of the stress off.

If you know you can survive the worst-case scenario, you'll feel calmer and it will be easier to maintain self-control. Second, trade with a detailed trading plan. If you have a specific plan, it will be easier to follow. Over time, you will be able to increase risk or make last-minute changes to your trading plan. But for now, take it easy. Don't try to do too much. You'll eventually be able to trade with discipline, but for now, don't trade beyond your abilities. Minimize the amount of self-control you must exert.

With practice and perseverance, you'll develop the ability to stay self-controlled even when the pressure is on. Until then, minimize the amount of self-control you are required to take. You'll increase the chances of profits coming your way if you do.

Self-Control: A Limited Resource.

Trading requires discipline. A trading plan is of little value if you abandon it prematurely. The disciplined trader executes a plan and controls his or her emotions until the plan comes to fruition. Although most traders intellectually understand the importance of discipline, many would-be traders have trouble staying controlled at critical moments of investing.

Drs. Baumeister, Muraven, and Tice (2000) argue that self-control is a limited resource. When we show self-control in one area, such as trying to control our diet, we don't have energy left to show self-control in other areas, such as concentrating on following our trading plan. Now, that's not to say that one should abandon dieting to be a disciplined trader, but it's useful to consider that humans have limits regarding their ability to show self-control. Self-control is like a muscle.

If you try to lift too much, you'll wear yourself out and you'll need to get some rest before you can try lifting a heavy object again. The same can be said of self-control. Contemporary life is full of demands requiring self-control. You try to control your diet, keep your house clean, manage your spending, and keep obligations to family and friends. Depending on the strength of your self-control -muscles,- you may not be able to handle it all. Something has to give.

A study by Megan Oaten and Ken Cheng (2005) illustrates how self-control is a limited resource. They randomly assigned participants to complete a task either under stress or under no stress. When participants were stressed out, they had difficulty completing the laboratory task. They also reported having difficulty keeping up with demands in their everyday lives, such as controlling their diet or keeping their house clean.

These findings suggest that self-control is like a muscle that can become worn out. If you try to trade while overly stressed out in your personal life, you'll have trouble sticking with your trading plan, especially if you are a novice trader who has relatively little experience maintaining discipline when your money is on the line. It's important to be aware of your ability to maintain discipline. Just like a muscle, if try to do too much, your self-control -muscle- will fail. Rather than over-taxing your limited self-control resource, you must start slow and work up to gaining more self-control.

How do you build up self-control -muscles-? First, minimize daily stressors, or if you have a lot of stress, cut back on your trading until you can alleviate stress and free up psychological energy in your personal life. Second, do self-control workouts. The more practice you have at self-control, the more likely you'll be able to stay disciplined while executing a trade. You might try a visualization exercise in which you imagine yourself executing a trading plan and maintaining self-control under a variety of scenarios.

The winning trader is disciplined. But discipline isn't easy to come by. You must acknowledge your limitations. Don't set yourself up for failure by thinking you can be disciplined all the time. Like everything else, discipline takes practice. The more you can build up your self-control -muscles,- the more easily you can execute your trading plans with grace and decisiveness.

Coping with Uncertainty.

The markets are often chaotic and uncertain. It is often unclear what will happen next. The astute trader is aware of this uncertainty and takes steps to prevent it from adversely influencing trading decisions. Some traders feel uneasy when they are uncertain. They are anxious and afraid. It's reasonable to feel these emotions; it's almost a form of protection away. Our psyche perceives the uncertainty and we want to do something specific to alleviate the uneasiness. There are a few key ways that you can acknowledge this uncertainty and

Manage Your Risk: It's very difficult to control fear when you have a great deal of money on the line. That's why most traders tend to risk relatively small amounts of capital on any single trade; they also use protective stops and have clearly defined exit strategies. Putting less money on the line with each trade is an effective way to decrease the fear of losing money. Similarly, it's important to trade with money you can afford to lose. If you trade with money that you badly need to pay basic living expenses, you will have a valid reason for fearing a loss. It will be difficult to fool yourself, so don't bother trying. If you can't afford to lose your stake, build up your account balance and stand aside until you can calmly put a bet down without concerning yourself with the adverse consequences of a possible loss.

Admit Your Fears: Some people were taught as children to hide their fear, to pretend that they were courageous in the face of adversity. But trying to hide your fear often makes it even more difficult to control. It's better to just admit that you are afraid, and admit that there is, indeed, a good chance that you will lose money on your trades. You'll find that once you admit the possibility of loss, you'll feel much better, and control fears more easily. In his book, -Trading to Win,- Dr Ari Kyiv offers a quick and sometimes effective way of controlling fear: Acknowledge you are afraid and the feeling will pass. Refuse to acknowledge the fear and it will perpetuate. So admit you are afraid and the fear will disperse.

Know Your Personality: Humans differ in their ability to control the fight-or-flee response. Some people are easily frightened. Their nervous systems are rapidly aroused and once energized, it's hard to calm down. Other people are fearless. They tend to stay calm across a wide range of situations, even those that would frighten most people. It takes a lot to get their nervous system aroused and energized. It's important to know where you stand on the fear-tolerance continuum. If your tolerance for fear is low, it's going to be harder to control your fear than others, and you'll do yourself a disservice by acting as if you do not have a problem with fear. It's essential to have a specific fear control plan.

Those with a low tolerance for fearful situations may need to paper trade until they master their fears. Others may need to seek professional help to learn structured techniques, such as systematic desensitization. For others, it may be necessary to adjust one's trading strategy. One may be so prone to experience fear that it may be necessary to make only long-term investments, where quick decisions are less urgent. Or when trading in the shorter term, it may be useful to use the automatic settings on trading software to exit or place specific orders with a broker over the phone. Regardless of the strategy one uses, it's vital to gauge one's fear of tolerance and take appropriate steps to compensate.

Learn the Rules Before You Decide to Break Them.

Seasoned traders warn, -Be sceptical of everything you hear as a trader.- It is advice worth listening to. There are many so-called trading experts who claim they are on your side, but they are often out to sell you a trading system or methods that may not work. We all have a natural inclination to seek out profits, and there are plenty of people out there ready to take advantage of this inclination with promises of the -Holy Grail- of trading or trading methods that can help you get rich quickly.

The mix of valid and invalid information about trading is what makes trading tough. If you stay around trading long enough, you'll hear the same stories of how, early in their careers, seasoned traders latched onto a so-called trading -guru- only to find that his or her methods were obsolete or just didn't produce a profit. In our Innerworth interviews with master traders, for example, we found many traders who were profitable before 2000 who haven't traded profitably since. This observation illustrates how a method that may have worked under certain market conditions may not work under others. That is why you must always be on the lookout for what works and what doesn't.

To a novice trader, this can be quite confusing. Trading is quite different from other occupations where you can just go to a few leading experts, learn their techniques and principles and achieve success. You can do that with trading, but it is difficult. For example, you can read books like -Market Wizards- or -Trading in the Zone- in order to learn some basic trading principles, but even these basic principles as described in these books may be restricted to a specific context and a specific set of circumstances. But you must start somewhere. It will be hard to learn to trade without any reference points at all.

Sometimes it is useful to learn information that is slight -wrong- in order to use it as a foundation. Consider how you learned basic subjects in schools, such as reading, writing, and math. A teacher initially tried to simplify information so that students could learn it. Young children don't immediately start reading Shakespeare. They start out with basic readers with simple words. Similarly, you can't start out doing calculus. You must first go through the steps of learning basic math and algebra. With these basic building blocks as a foundation, you can move up to calculus.

You can take a similar approach to trade. Much of what you read in trading books will be a little wrong and a little right. When you read a case study about market action, for example, it may be fixed in a specific time and context. In the markets, history only repeats itself when it does. The rest of the time, it does not. But you have to start someplace. You have to start somewhere and get an initial feel for the markets. Some newbie traders have found solace, for example, in using Elliot Wave Theory.

There are times when markets behave in repetitive cycles and times when they don't, but it is useful when you start trading to assume that they do and see how far you can go. Over time, you'll learn under what conditions a method works and when it does not. You've got to learn to walk before you can run, and there are times when it is useful to try out simple methods until you gain enough experience to trade with confidence. Once you learn the rules, you can learn when they are wrong, and when to break them. There are other rules that you would be smart to learn before you break them.

It is useful to limit your risk on a single trade, for example. But seasoned traders often break this rule. Similarly, the conventional wisdom followed by many is to stay out of the markets when an unexpected adverse event may occur, such as an interest rate hike, but some seasoned traders try to capitalize on the news of such events. Trading is a difficult, challenging business. Unlike many other professions, conventional trading wisdom is only right when it is. Over time, and after you accumulate a wealth of experience, you'll learn which -rules- to follow and which ones to break.

How Do You Talk Trading?.

If you are a part- or full-time trader, you may have enjoyed the attention this wild and woolly occupation brings at social gatherings and events. Many are interested in trading and find you interesting as a successful trader. At first, the attention may be enjoyable; but a need to maintain this reputation may impact your trading attitude and mindset, and thus, your bottom line.

The best strategy we can use to avoid letting our reputation influence our performance'especially when enduring a drawdown period'is to keep our conversation low-key about our trading careers. Why? The more you present yourself socially as a -successful trader,- the more psychological effort you will spend defending this reputation. Several research studies have documented that one of the biggest obstacles to sound decision-making is the need to save face in social situations. People are so reluctant to face the adverse social consequences of having made a poor decision that they stay on a losing course of action, rather than admit they were wrong. For example, some traders are reluctant to sell off losers in order to avoid the possible social criticism that acknowledging a failure may bring.

Suppose you have told your friends about a large position, and the next week, it tanked, hard and fast. Most folks can't wait for the next opportunity to ask you (even though they probably know the answer) how your -hot stock- is doing. If you sold it, at least you have the solace of managing the trade properly. . . even though you must tolerate a volley of smug -you-thought-it-would-go-up, but-it crashed-instead- comments. On the occasions when you ignored your protective stop, however, and held onto the bad trade, the -Boy, you-really-ARE-dumb- looks (and perhaps comments) can exacerbate the psychological devastation you've by now, surely, inflicted on yourself. And we all know the negative impact a negative attitude can have on our trading.

As another example, how many times has the market gapped up, then chopped through the rest of the day, handing you more losses than wins? Inevitably, those are the days when well-meaning friends call on the phone. -You must have made a fortune today!- they gush. -Not really,- you mumble with a sinking heart, remembering the frustrating trading environment. After you hang up the phone, the subsequent feelings can lead you to believe you must have been a dope that day; surely every trader in the world except you grabbed huge gains.

In social environments, once you announce and identify yourself as a trader, you will feel a need to defend your reputation. Trading is hard enough, why introduce additional social and psychological pressures that will adversely influence your trading results? Keep the specifics of your trading career to yourself. There is no sound reason to discuss the specifics of your career socially. It's often done just to build up your ego, and enjoy the attention of others. You'll pay a price for this short-term gratification in the long run. Avoid specific observations or trading choices. That way, you'll avoid embarrassing questions and comments that will interfere with your trading.

Coping Gracefully.

Whether you're a novice or seasoned trader, there are days when you face setback after setback: Adverse events go against you. You make a trading error. You misread the markets. The possible setbacks can be endless, and it hurts a little to watch your account balance take a hit when one of them catches you off guard. But whatever roadblocks get in your way, it is vital that you take them in stride.

How can you gracefully take setbacks in stride? You could be naturally cool and confident. Like a -surfer dude- who just rides the waves with little worry, you can go with the flow. Are there traders who are naturally laid back and easygoing? There may be some, but a person with such an easygoing personality type usually lacks the unwavering discipline needed for long-term financial success. If you are the kind of person who saved up enough money to have a decent trading account, it's unlikely that you are the kind of person who is so laid back that setbacks are completely unimportant.

If you are like many traders, you take life seriously. It took the effort to build up your assets and you are not willing to just throw your money away on a whim. Indeed, you are probably on the -anal- side in terms of your personality. You are likely to be a professional who was rewarded for working hard and showing self-restraint. And you probably showed self-restraint in more than your work life. In your personal life, you probably scrimped and saved until you had enough money to trade the markets.

This general approach to life may not be viewed as cool and laid back by most people, but these personality traits are conducive to the trading profession. Trading requires discipline, and -anal- types of people are often good at details and maintaining discipline. But, on the other hand, they also tend to worry too much about following the rules and fuss over minor details that are relatively unimportant in the big scheme of things.

In many ways, if you are a person who naturally shows self-control and discipline, you must learn new ways to behave when trading the markets. You must work around your tendency to show extreme self-control. What can you do? There are many thinking strategies you can use to take setbacks in stride.

The most important strategy is to anticipate everything that can go wrong. Live by Murphy's Law. Whatever can go wrong will go wrong. Now, not everything will go wrong, but if you live under the assumption that things are bound to go wrong, you won't be caught off-guard. You'll be ready to face a setback. A second strategy is to have realistic expectations. The adage, -Life can be unfair at times- is useful to consider. Remind yourself that -hard work does not always pay off,- and remember that the markets may not always cooperate with you. In many ways, you must respect the markets more than they will ever respect you.

-The markets are always right.- If you can accept these premises about trading, you'll be ready to cope gracefully. But if you demand that the markets conform to your preconceptions, you'll constantly feel slighted, beaten, and frustrated. Stay unemotional. Avoid imbuing commonplace trading events with emotional significance. Things go wrong. That's part of the game of trading. Don't take it personally. It's not about you. If you can stay focused on your ongoing experience as it naturally unfolds, and methodically do what you need to do next to trade skillfully, you'll cope with any trading setback gracefully.

Coping Skillfully To Achieve Success.

The markets are often unpredictable and uncertain. Some people collapse under the pressure, while others thrive on it. What's the difference between a trader who gallantly fights the stresses and strains of the markets and one who runs away in defeat? The specific approach you take to managing stress may be part of it. Traders who can weather the storm tend to make enormous profits, while those who succumb to the pressure end up losing. The market can be a mass of seemingly random movement, and vulnerable traders see chaos and uncertainty.

They panic and act impulsively. They ride a rollercoaster ride of emotions ranging from extreme disappointment after a loss to uncontrolled euphoria after a win. Winning traders, in contrast, see the order in what others see as chaos. They believe that the odds are in their favour and that if they make enough trades under ideal market conditions, they will come out ahead.

In -The Psychology of Trading,- Dr Brett Steenbarger describes a study he conducted with a group of 64 active traders. He discovered that the way traders coped with stress predicted profitability. He measured personality traits and the ways these traders coped with stress. Some traders were problem-focused copers in that they managed stress by developing specific plans for coping with stress. For example, they tried to find information to help them develop a specific plan to alleviate stress.

They focused on their ongoing experience and methodically took a step-by-step approach to overcome stress. Less successful traders spent all their energy experiencing and trying to control unpleasant emotions. They denied that stressors were a problem instead of devoting their effort to finding solutions. Also, they believed that the world should conform to their expectations rather than accept stressful events at face value. Their shortsighted focus on coping with unpleasant emotions distracted them from trading the markets skillfully. Dr Steenbarger's findings suggest that they tended to abandon their trading plans and traded less profitably than traders who were problem solvers.

It's tempting to succumb to the stresses and strains of the markets, but if you do, you will experience unpleasant emotions that will interfere with your ability to tackle the markets with a calm and focused mindset. Whether you are a novice or seasoned trader, however, you can learn to handle the uncertainty of the markets, and the stress it may produce. The first step is to acknowledge that stressful events can interfere with your ability to perform. You'll waste more time and effort trying to avoid the potentially debilitating effects of a stressful event than if you just admit you may have a problem and try to work around it.

Second, it is vital to take an active, problem-solving approach. Stay optimistic, yet realistic. If you put in the effort, you can overcome anything. Don't let the stresses and strains of the markets paralyze you. Think creatively and actively problem-solve. You'll feel better, trade better, and take home more profits.

The Courageous Trader.

Winning traders are courageous. They show courage when they risk their money, and face the possibility of losing it. They show courage when they follow their convictions, and possibly let their pride and ego get hurt. But courageous trading is a little more complicated than it appears at first glance. Courageous trading is not merely facing danger for the sake of getting a thrill.

Courageous traders are not reckless or impulsive. Courageous traders may persist and face danger head on, but they also protect themselves. They manage risk, trade with sound strategies, and do whatever they can to protect their survival. The courageous trader isn't a daredevil or an excitement seeker, but a prudent trader who eliminates as much potential harm as possible.

Trading requires putting money on the line and possibly feeling the psychological pain of a loss. It takes courage to execute a trade. There's a good chance that we may lose our money, and some of our pride as well. Although it's never a good idea to put your ego on the line with your money, it is often hard not to feel a little defeated when you make a losing trade. It's vital for trading success to continue when faced with potential loss, or after you've just made a series of losing trades. The more courage you can marshal, the more likely you'll be able to face potential harm and continue to persist.

But danger is hard to face. If the danger is too great, you may naturally want to avoid making the trade. Sometimes, it's impossible to build up enough courage. It's a better idea to reduce the amount of danger you put yourself in. The more dangerous the trade, the more fear you'll experience, and the more courage you'll need. There are many times that we put ourselves in danger financially and psychologically. We take risks that we shouldn't take, and understandably, we are afraid of the outcomes.

By minimizing the financial consequences of a trade, you will feel less fearful. If you minimize the amount of risk on a particular trade, you'll know deep down that you have little to lose. Estimate your potential risk before putting on a trade, and make sure it is minimal. Look for good trade setups that are likely to produce a profit. There's no point in putting on a trade that isn't going to pay off, or worse, a trade where you can lose a great deal of capital. By minimizing the potential financial loss, you'll also eliminate fear of a potential catastrophe, and that will help you execute a trade more calmly. You don't need to muster up as much courage if the fear is reduced.

A second way to reduce fear and act more courageously is to minimize potential psychological harm. Many traders unnecessarily increase psychological risks by making a big deal of nothing. They impose symbolic meaning onto a trading outcome that needn't have any personal, emotional meaning. For example, they may think, -If I lose, it will illustrate my inadequacy.-

There's also a powerful need to be right, to think you are the smartest kid on the block. Such a belief undermines your ability to trade effectively. When you trade in order to prove your worth or to feed your ego, you put a lot of extra pressure on yourself to perform. When you lose money on a trade, you aren't just losing your money, but a large part of your self-esteem as well. The best antidote is to make each trade as impersonal as possible. Don't put so much emphasis on winning. It's merely a trade.

It doesn't need to impact your life. Don't turn it into a significant life event. Don't let the outcome define you. The more you can take your ego and pride out of the picture, the more you will be able to trade with a calm and relaxed mindset. You'll feel free. There will be little to fear, and you'll find it easier to trade courageously.

There are times when courage is merely an illusion. Sometimes acting like a courageous trader requires that you minimize harm. When you view a trade as excessively dangerous, you recoil from the potential harm. By minimizing the potential harm, you'll stay calm, and easily muster the courage you need to execute trades freely and confidently.

Cracking Under Pressure.

Whether it is trading or playing sports, when the pressure is on, many of us crack under the strain. Consider the Olympic performances of Sarah Hughes and Michelle Kwan in the 2002 Winter Olympics. Michelle tried to meet high expectations of winning the Gold Medal and made several mistakes in her performance. Sarah, on the other hand, went into her performance with fewer expectations and a carefree attitude. She said, -I really thought there was no way in the world I would win.

Realistically, there was this little window, but I didn't think I would win. I went out and just skated.- By taking this carefree attitude, she skated freely and without worry. This stance allowed her to react to the moment, express her creativity, and win the Gold Medal. It's like saying, -I didn't worry about how much money I would make, I just traded.- It's also similar to something Andy Bushak, a trader with Advanced GET, said in his Innerworth Master Interview about successful traders on the floor of the Chicago Mercantile Exchange. -They don't have too many rules for themselves. They keep it simple, do a little bit of homework, and simply react to market conditions.- In other words, they just trade.

Successful traders make trades in a carefree manner. They don't put pressure on themselves to succeed. They don't believe they need to be right, and they don't need to predict the future behavior of the market. Instead, they objectively observe market conditions, react to them, and let the market take them where it wants them to go. Successful traders are -in the zone- as Mark Douglas claims. In his book, -Trading in the zone,- Douglas notes that seasoned traders do not doubt or second-guess themselves. They freely enter and exist trades without worrying about the consequences. This carefree approach to trading allows them to see trading opportunities more easily and allows them to take advantage of these opportunities when they arise. How does one enter the zone? It's takes intense concentration and focus, and it's difficult to maintain this stance when the pressure is on you to perform.

Mark Douglas suggests removing some of the pressure by thinking in terms of probabilities and carefully managing risk. You may not win on any single trade, but after a series of trades, you will have enough winners to make a profit in the long run. Remembering this and having confidence that your trading strategies, or edges, will ensure you make money in the long run will help you stay in the zone. It's also important to manage your risk. Specifically, determine your risk on a given trade before making it, and risk only a small amount of trading capital on a single trade.

Doing so will take some of the pressure off, allowing you to be more open to see the opportunities that the market offers. Be open-minded. Remember that the market is always right. It's your job as a trader to see what the market is doing, rather than imposing your will or expectations on to it. Flow with the market. Move with the market. React to the market. Let the market tell you where it wants you to go. By taking the pressure off of yourself, you will feel more free and open. You will be able to identify trading opportunities, quickly react, and take home the profits.

Your Creative Potential.

The creative trader stays ahead of the crowd. Many traders are conformists. They look toward the masses for confirmation of their decisions. If the crowd is buying, they buy. If the crowd is selling, they sell. But winning traders are more flexible. They can do the opposite of the crowd when they need to. They listen to their intuition and allow their own perceptions to guide them. The ability to create and devise new trading strategies is a related talent that separates winning traders from everyone else who trades the markets. It's useful to understand the creative process, and learn how to raise your creative potential.

Why are some people more creative than others? There are many theories, but psychologist Carl Rogers proposed one of the most influential. Rogers pointed out that many people grow up in a climate where they feel threatened. They feel so psychologically unsafe that they are afraid to express their own ideas. Their parents were extremely controlling, and believed that unless their children lived up to their expectations, they did not deserve their full respect. There was an implicit message that -unless you do what I say, I won't fully love you.-

Creative people, in contrast, feel so safe and free that they have no difficulty exploring new ideas and beliefs. They seek out new experiences freely and live by their own internal standards. Research studies back up Carl Rogers' claims. For example, in a seminal study by Drs. Harrington, Block, and Block, children's social environments were studied in childhood, and creative potential was assessed when the children reached adolescence. Creative adolescents grew up with parents who respected their child's opinions and encouraged them to express these opinions.

They let their children make decisions for themselves, and encouraged their children to be curious and to explore and challenge rules and conventional wisdom. Psychologists observed parents' actual child-rearing practices in laboratory tasks. Parents of creative children were encouraging and supportive. Less creative children had parents who didn't believe in letting their children explore their feelings and ideas. They didn't let their children question their decisions, and believed that -a child should be seen and not heard.- Observers described these parents' child-rearing practices as over-controlling and as extremely critical.

These findings illustrate that our past childhood experiences may influence our ability to think creatively. People who had controlling and overly critical parents are afraid to express their own feelings and ideas as adults. They are afraid to think flexibly, look inward, and go their own way. If you grew up in such an environment, you may have trouble thinking creatively. Do you have trouble following your own hunches? Are you secretly afraid that you will be punished if you make a mistake? Do you feel you must receive confirmation from others before making important decisions? If you answered, -yes- to any of these questions, you may have grown up in a childhood environment that didn't foster creative thinking.

It's important to think about ways you may prevent yourself from thinking freely or openly. It's vital to acknowledge how past childhood experiences with parents and other significant adults may still influence your ability to think freely and flexibly. You may have been taught that you must seek approval from authority figures (although no such authorities exist when it comes to trading), and that you can't trust your own perceptions of how you see the world. You may also be afraid that you may -do something wrong- and receive harsh punishment.

You may have developed such beliefs from the relationships you had with your parents as a child. As an adult, however, it's useful to remind yourself that your parents aren't next to you watching your every move. You can trust your own opinions. You can act independently and the only person's opinion that really matters is your own. You don't need to seek out the approval of others. Indeed, there is no one to seek approval from.

If you want to be an independent-minded, creative trader, it's essential that you identify beliefs and attitudes that hold you back. You may have learned to limit yourself because of childhood experiences. Identify the beliefs that prevent you from thinking creatively, and you'll find you can more easily think of new and profitable trading ideas. Once you release your creative potential, you will reach new heights as a profitable trader.

Creative, Winning Trading Plans.

There are times when your success depends on thinking outside the box. In a strong bull market, where the masses are ready to invest, it's easy to ride the wave and take advantage of the trend. But when the average investor stays out of the markets, a little more skill and ingenuity is needed. It is vital that you think creatively, and that means putting in extra effort and going with your gut and intuition.

Trading isn't exactly rocket science. It isn't like figuring out how to fly to the moon or a way to orbit Mars. You don't need to be a mathematical genius to be a brilliant trader. Indeed, you're probably better off if you don't make it all so complicated. It may be counterintuitive, but when trading in the short-term, it's better to look at trading in simple terms. Complex linear regression equations don't seem to work. If they did, scientists and mathematicians would be making millions trading the markets. They aren't. A winning trading strategy requires that you look at a variety of possibilities, consider each one, and in the end, make an educated guess as to what is likely to happen.

You can't expect the kind of certainty a rocket scientist expects and trusts. It doesn't exist in the markets. There are too many unknown and immeasurable factors to consider. In addition, it's impossible to know which factors will come into play at a particular moment in time and account for all of them. For example, world events are difficult to anticipate with any kind of certainty. No one has a crystal ball. In addition, market action is ultimately the result of people making decisions, and when the discretion of people are involved, it's impossible to anticipate precisely what will happen, especially during those times when the masses don't hold a strong prevailing opinion about the markets.

Trading is not easy money. You must be innovative and creative. The creative trader is the winning trader. The more you know about your creative processes, the better you'll be at trusting your intuitions. The first prerequisite for developing a creative idea, ironically, is to avoid trying to be creative. If you push yourself, you won't be relaxed. Creative ideas are most likely to surface when you are calm and allow your thoughts to flow freely. It's much like being in a meditative state, where you are thinking about the markets, but not forcing yourself to come up with a brilliant idea. A second prerequisite is to have a great deal of information to sift through. For example, if you are planning to trade a particular company, it's vital that you read about the company and other companies in that industry sector.

Again, don't force yourself to discover a brilliant idea, just read the information in order to get your creative juices flowing. Study the information. Memorize it. Let it churn over and over. Think about how various factors interact, relate, and may impact each other. Soon, when you least expect it, you'll develop a few good creative ideas. It may be as you take a shower in the morning or while you are picking up the kids from school in the afternoon. As long as you allow your mind to actively, yet leisurely, consider a variety of issues, you'll eventually think, -Eureka, I've got it.-

That said, you'll never know if you have a completely foolproof idea. You won't know until you execute a trade and see what happens. Again, it's impossible to know if your idea is right. There are just too many factors in the markets that are unknowns. Market participants may not react in ways that one would expect. They may not see what you see, even if you are right.

A market analyst may report news that sways them in ways you didn't expect. Just because you didn't anticipate these factors doesn't mean that you didn't have a creative idea. It just means that there is uncertainty in trading that no one can fully anticipate. All you can do is keep trying. The search for creative trading ideas is endless, but if you can continue to search, you'll greatly increase your odds of achieving enduring financial success.

A New Creative Idea.

The winning trader stays ahead of the crowd. In ever-changing market conditions, it's vital to think of new, innovative trading ideas. But it isn't always easy. There are times when you feel mentally stuck and unable to think creatively. When you are feeling a little stuck, there are specific steps you can take to get your creative juices flowing.

Creativity can't be forced. If you try to force yourself to be creative, you'll feel the pressure, and your mind will close down. The first step in thinking of a creative idea is to calm down. You must relax. Go to a quiet place and let your mind wander for a while. You might just stare at the wall or listen to soothing music. Don't try to immediately think of an innovative trading idea. Instead, just let your thoughts flow freely. Let all the problems of the day pass through your mind. Allow all pent up emotions to be expressed. Let your emotions and ideas flow in and out of consciousness until you feel calm and relaxed.

After you feel relaxed, you can start allowing your mind to start thinking of creative ideas. There are two conditions that must be present to think of a creative idea. First, your mind must be focused on. You must concentrate on your inner experience. Second, you must allow a variety of ideas to flow through your mind freely. The goal is to review a wide range of ideas, which can be combined and recombined in new ways.

How do you get a flow of ideas to actively run through your mind? You can take a variety of approaches. You might try an indirect approach initially. Pick up a trading book or magazine and start reading. Don't try to force yourself to see a new trading idea in what you're reading. Just read freely so that your thought processes start moving. Another strategy is to read through a list of your most profitable trades. The goal isn't to take old strategies and consciously rework them. The objective is to merely get your mind to start running through a variety of ideas. You may not get an idea immediately, but over time, if you feel relaxed and let your creative juices flow, you will soon combine and recombine ideas.

At some point in the process, an innovative, new idea will appear. Again, the key is to set your thinking processes in motion. As you scan various concepts and ideas unconsciously, your mind will work below your awareness. Suddenly, the information that runs through your mind will come together, and you will see something new. You must concentrate, however. If you are distracted, you may miss the creative idea that is about to emerge. You must stay calm and focused, and let the idea enter your mind.

Creative ideas are hard to come by. It's vital for trading success, however, to actively find new ideas. The key is to keep your mind active. The more your mind is active, the more likely you'll discover the creative new trading ideas that will make you profitable.

Behavioral Finance: A More Credible Field.

In this column, we often summarize research studies from the emerging field of behavioural finance. In contrast to traditional finance and economics, which tries to look only at concrete indicators in an attempt to make accurate economic forecasts, behavioural economists assume that forecasts are prone to inaccuracy. People make forecasts and people are fallible; they are -irrational- in that they don't base their decisions on a logical analysis of all available information. Instead, they use -rules of thumb- and shortcuts. The use of these shortcuts often produces inaccurate predictions.

According to behavioural economists, it's because people use these shortcuts that stock prices are more of a reflection of -investor psychology- than traditional fundamental indicators. The work of Daniel Kahneman has influenced many behavioural economists. In a number of illuminating experiments, Kahneman, and his late colleague Amos Tversky, demonstrated that humans are risk-averse and inefficient processors of information. They make quick and dirty decisions rather than ones based on careful logic. Some of the heuristics that have been applied to the understanding of the markets are the availability heuristic (believing a stock or sector will go up in price because it is easy to recall similar instances from memory) and the representativeness heuristic (if a stock has characteristics that are similar to a kind of stock that usually goes up, then it will go up).

From the vantage point of a psychologist, it is not surprising that economists have had difficultly making market forecasts: Investors' behaviour is hard to predict. Psychologists, such as Clark Hull, tried to predict behaviour in the 1940s and found they could not. Since then, they have known that it's difficult to predict people's behaviour, and thus, the financial markets. But what have economists been trying to do? It seems as if economists have been fruitlessly trying to develop complex mathematical models to predict the markets.

Many people believe it is possible to develop such models, and at the same time, view investment psychology as on the periphery, misguided, or a little -New Agey.- If you think that, consider this: Last week psychologist Daniel Kahneman won the Nobel Prize for Economics. Perhaps winning the award may not change the minds of some folks who just find psychology full of -psychobabble.- And winning a Nobel Prize doesn't prove the validity of a theory (Remember Scholes and Merton's involvement in LTCM). But perhaps more people will consider the findings from investment psychology and behavioural finance more seriously. We hope they will.

Maintaining a Crystal Clear Perspective.

There are times when our judgment is cloudy. Perhaps we want to win so badly that we optimistically see trading opportunities that aren't there. At other times we may be so stressed out, busy, and tired that we can't concentrate, and end up making an impulsive decision or a trading error out of a sense of frustration. As much as we search for a rational, Spock-like perspective on the markets, it is hard to come by. We are human, and our natural human tendencies can get in the way of trading calmly and rationally. How can you cultivate a more objective, rational approach to the markets? Here are some useful tips.

First, remember that self-control and discipline work like a muscle. You cannot over-tax your muscles. When you do, you feel tired and worn out. Your body needs to rest and rejuvenate before trying to exert more physical energy. Physical stamina isn't built up overnight. Similarly, your ability to maintain discipline for long hours, day after day, may also be limited at first. It's necessary to build up this ability over time. And after a few hours of extreme self-control, you must let loose. Take a rest, leave the trading arena for a little while, and do something wild.

Second, don't underestimate the need for rest. Not only does self-control take energy, but concentration takes energy as well. When you are hungry, tired, and frustrated, you'll have difficulty concentrating. You'll be easily distracted and thrown off course by even a minor setback.

Third, don't try to live up to standards that you can't reach. If you try to over-leverage your knowledge, you'll feel frustrated and crack under the added pressure. Set modest goals and trade with money that you can afford to lose. Don't pressure yourself. When you put a lot of money on the line, the money you can't afford to lose, you will bias your perspective. You'll hold on to losing trades too long, falsely hoping they will turn around, or you will see profitable setups that don't exist. If you trade smaller positions and manage risk, you'll feel more relaxed and you will minimize the need to perform miracles as a trader.

Fourth, don't personify the markets. Stay objective. If you take trading so personally that you act as if a trading setback is a personal affront against you, then you may become obsessed with perfection and feel down on yourself for making a mistake, or you may even become angry with the markets and seek revenge when things don't go your way. Don't think of the markets as a person. View the markets as nothing more than a nameless group of unknown market participants who don't know who you are and don't care about you. It's not personal. It is just business.

It's natural to want to seek out pleasure and avoid pain. But many times, you have to take a good hard look at the facts, no matter how much it bothers you and causes you to feel pain. Don't be afraid to try to look at the markets as objectively as possible. It isn't always easy, but if you feel stress-free, open, and creative, you'll increase your chances of maintaining a crystal-clear view of the markets.

The Cynic and the Realist.

In the trading business, it's prudent to take everything you hear with a grain of salt. Our field is full of false prophets who claim they can make you rich quickly and easily. Realistic scepticism is healthy. For example, many traders made huge profits in the late 90s, and now claim that they can help you live comfortably by trading a $10,000 account. How do you do it? It's easy, they claim. All you have to do is buy 200 shares of a $50 stock, wait for it to go up to $1 and make a $200 profit in as little as 30 minutes. That's $400 an hour, $800,000 a year. Is this realistic? It doesn't seem to be.

Sure, you can invest $10,000 on one trade, pick a stock that goes up to $1 and make a $400 profit, but can you do that over and over again? Won't there be times when it went down $2? What about those times where you try to sell off the position, but you can get the $1 increase for only part of your position? Can you make a winning trade hour upon hour, day after day, without fail? It's appealing.

Who wouldn't want to believe it was true? But anyone who has traded the markets knows that it's hard to make winning trades over and over without making a few losers, at a minimum. You can't pin all your hopes on one trade, and you can't believe that you'll be able to repeat the process over and over again without fail. You must manage risk and constantly entertain the idea that you'll hit upon a losing streak. It's better to take a more realistic, practical approach to trade. It's vital to be a realist.

What's a realist? Professor Joseph Badaracco of Harvard Business School draws an important distinction between realism and cynicism in his book, -Leading Quietly.- -Realists understand that unpleasant surprises come with the territory. Caution, due diligence, and step-by-step planning are valuable, sometimes indispensable, but they don't guarantee smooth sailing,- according to Badaracco. Realists don't look at the world through rose-coloured glasses, but they don't look at it through dark-tinted glasses either.

Both over-optimism and fatalistic pessimism are distortions of reality. Realists find a balance between the two extremes. They are open, flexible problem solvers. The cynic takes the attitude, -you can't fight city hall,- but the realist believes there are times where you can work hard and do the impossible. It won't work all the time, but many times it will.

When cynics put on a trade that is ruined by adverse events, they pessimistically think, -I got a raw deal.- Cynics aren't ready for the unexpected. They view setbacks as evidence that the world is corrupt. They secretly believe that it's impossible to make money in the markets and they are looking for evidence to throw in the towel. Realists know that unexpected adverse events are commonplace when trading the markets. Nothing is completely certain. It's a matter of probabilities.

While cynics view the challenges of trading the markets as a reason to find a new profession, realists are open to change. They expect things to go wrong occasionally, and they are ready to deal with them. The realist is ready to rise to the challenge and work around the problems. They manage risk. They are on the constant lookout for new trading methods, and they know that they can't passively wait for trading opportunities to come to them. They search for them and stay ahead of the masses.

So be a realist, not a cynic. Think positively, but don't distort reality. Don't fall for getting rich quick schemes. Get quality training and build up rock-solid trading skills. With enough persistence and effort, you can master the markets. There may be many setbacks, many losing trades, and endless dings to your ego, but if you are open to new experiences, and believe you can overcome any obstacle with hard work and persistence, then you will trade profitably and achieve enduring financial success.

For the Love of Data.

Some people like facts and figures; others prefer trusting their intuition and looking for artistic expression in the trading realm. But the profession is big enough for all kinds of traders. Each type of trader has advantages and disadvantages. The trick is to figure out what you, specifically, are like and to match your trading style to your personality. Take the data-driven trader, for example. At an extreme, the data-driven trader looks for consistency and attempts to find -rules- and conventional wisdom to guide trading decisions.

For some data-driven traders, a major preoccupation is to study historical data and backtest ideas until a good fit is discovered. Other data-driven traders enjoy spending their nights scouring reports for a valuable tidbit of information that will give them an edge. If you are the kind of trader that enjoys getting caught up with details, using this affinity to your advantage is the best way to profit from the markets.

Before wholeheartedly pursuing data-driven trading, it is useful to be aware of a few drawbacks of this approach. Even though data- and hypothesis-driven trading strategies can be useful, many data-driven traders fall prey to analysis-paralysis in that they assume that the datasets available to traders are similar to scientific data, which is relatively precise and replicable. Working under this false assumption, they wrongly believe that putting in extra time to examine all the details, and deliberate among all possible alternatives will be a sure payoff. Trading doesn't work that way. Market data reflects human judgment. It's not at all like physical science data; one can use all the complicated mathematics he or she wants, but it will never make market analysis akin to rocket science. It may be useful to be data-driven, but at the same time, it is essential to remember that trading is a matter of odds. Sometimes the odds work in your favour, but sometimes they don't. Similarly, history only repeats itself when it does, so if you are -model fitting- based on historical data, it's vital to be cognizant of the fact that you may be -over-fitting- your model, and it may be a fallible forecaster of the future. If trading were as straightforward as engineering, PhD scientists would be ruling the markets. They aren't.

Dr Richard Geist, in his book -Investor Therapy,- outlines common trading ailments of the data-driven trader. Although a detail-oriented trader may identify information in reports or data records that more impressionistic traders may miss, he or she often can't separate the forest from the trees. It's hard to see the big picture when you are focused on details.

It's important not to get too caught up in a small fact and forget about broader issues. For example, a company may be gearing up to manufacture a cutting edge product, but if few consumers have the money to buy it, or if there is little interest in using the product, sales will be in a slump. Discovering a -hidden- piece of information in an annual report may be a grand discovery, but depending on broader market factors, it may have relatively little impact on the market action.

Dr Geist also points out that detail-oriented traders are so focused on data and minor details that they start to believe that when all the variables in their data-driven trading plans line up, they should take huge risks. Again, nothing is certain in the markets. It is all a matter of probabilities; even the best-reasoned trading plan can fail if market conditions change for some unexpected reason. There are too many unknown variables to be extremely confident. After all, in the final analysis, market participants are people. They don't act logically all the time, and they are far more difficult to anticipate than physical objects. Newtonian-based trading just isn't going to work in the end.

Not everyone likes data, rules, and figuring out complex, concrete problems. But if you are this type of trader, it will be useful to develop a data-driven approach to trading. That said, it's also important to remember that approaching the markets like a scientist approaches solving problems in the natural world is merely an analogy. Market participants are human, and when people are involved, unpredictability and errors are the rules, not the exception. If you take a scientific approach to the markets, remember the inherent limitations of this approach. If you can account for these drawbacks, you'll be able to use your natural tendency as a data-driven trader to your advantage.

Matching Expectations To Skill Level.

Traders often walk a tightrope between overconfidence and a lack of confidence. On the one hand, the overconfident trader may take unnecessary risks and make trades on impulse. But at the other extreme, the trader with a lack of confidence may have trouble persisting in the face of adversity. Holding positive expectations can be motivating. As Norman Vincent Peale pointed out, -Things become better when you expect the best instead of the worst.- In other words, if you think negatively, you are bound to be pessimistic, underestimate what you can do, and just not try hard enough to reach an objective.

But poet Alexander Pope noted in the 1700s, -Blessed is he who expects nothing, for he shall never be disappointed.- In other words, don't get your hopes up; otherwise, you may be disappointed when you don't meet your expectations. How does one resolve these seemingly contradictory viewpoints? In the trading realm, novice traders learn rather quickly that high expectations are rarely confirmed. Trading is a challenge and many learn to realistically expect to lose money more often than make it. Perhaps a middle ground is most apt for trading: Be optimistic enough to press on in the face of adversity, but realistic enough to realize that one should expect to overcome seemingly insurmountable obstacles to trade profitably and consistently.

One resolution to this quandary is to match expectations with skill level. Positive expectations are only problematic when one doesn't have the skill level to meet the positive expectations. For example, if one is a seasoned trader with a solid track record, holding positive expectations can be motivating. Because a seasoned trader can meet optimistic estimates, he or she will try hard to meet the objectives and achieve them. It will work out for the best. A negative expectation is not realistic for the seasoned trader. A pessimistic view may cause the seasoned trader to unnecessarily question his or her skills, and may compel him or her to give up more easily, when, in fact, because he or she has the requisite skills, persisting would likely lead to success.

In contrast, the novice trader with an overly positive estimate is bound to experience a shocking disappointment. Because he or she does not yet have the skills to meet the overly optimistic expectation, he or she will likely fail, and because he or she was expecting easy success, he or she may be especially disappointed. Also, by holding an overly positive expectation, he or she may fail to take proper risk precautions or prepare properly for the trade. For the novice trader, a more realistic estimate, and somewhat pessimistic stance, is better. One will not be discouraged as easily when losses start to mount, but will anticipate adversity, and will not be fazed by it when it is encountered.

In the end, the more realistic expectations you hold, the better. If you are a seasoned trader, being a little on the optimistic side is warranted. With persistence and hard work, you are likely to realize profits. Novice traders, in contrast, might be better off showing a more sceptical stance. A novice trader should expect initial failure, yet be optimistic enough to believe that if sufficient hard work and practise is devoted to trading, success, in the long run, will be achieved. Whatever your skill level, the more your expectations of success match your track record and requisite skills, the more you can control your emotions and trade with a peak performance mindset.

Decisive and Responsible Trading.

To those who want to take home big profits, trading isn't a hobby. It's a serious business. If you want to make profits consistently, you must have respect for your trade. You must treat each trade as a business transaction. It should be well planned and deliberate. You should follow a business plan, which outlines a strong rationale for making the trade. You should have a realistic profit objective, and execute the trade with a strong resolution to make a profit.

Many novice traders don't approach trading seriously enough, however. They don't carefully delineate a trading plan, and when they do, they don't follow it. In the -The Disciplined Trader,- Mark Douglas observes, -The typical trader will do almost anything to avoid creating definition and rules because he does not want to take responsibility for the results of his trading.- According to Mark Douglas, traders have a strong motive to avoid responsibility. And one of the most effective ways to avoid responsibility is to pretend that trading is nothing more than a leisure activity.

By taking treading lightly, you can always say, -It wasn't important anyway; there's no reason to worry about it,- whenever things don't go your way. On the one hand, approaching trading as if it were just a hobby will allow you to minimize the psychological importance of a setback or a loss, but on the other hand, unless you take trading seriously, you'll never give trading your best shot, and you'll never make the huge profits you've been dreaming of. You'll always have a way out, and it will be too easy to make excuses for things going wrong. Making excuses may make you feel good in the short term, but eventually, you'll start to realize that you are taking the easy way out. And the more excuses you make, the less decisive you will feel.

If you want to make profits, you must feel you are in control of your actions. Taking a decisive approach to trading requires that you take responsibility for all your actions. That doesn't mean beating yourself up for making a mistake, but it does mean trying to gain as much control of your trading as possible. You can't control the markets, and you can't control what other market participants will do, but there's a great deal that you can control. You can manage your risk. You can carefully measure your trading performance, and discover what works and what does not. You can decide which setups to take and which setups to avoid, and you can decide to trade only under market conditions that are conducive to your methods and style. The astute trader distinguishes what he or she can control and what he or she cannot control.

Winning traders take responsibility for their actions. When you identify what you can control, and take responsibility for it, you feel empowered. You feel in control, and you are ready to act decisively. And when you feel in control, you'll enter a winning state of mind. You'll feel relaxed and alert, and ready to see opportunities and profit from them.

Taking Quick, Decisive Action.

When trading the markets, making a quick and decisive decision can be difficult. There are many sources of information to sift through, and many times, you don't actually know if you've made a good decision until you've closed out a position and taken home the profits. But timely decisions are imperative, and in the end, it is essential that you learn to just go with your gut, decide, and take action.

Determining where a stock price will go next is hardly rocket science. In many ways, however, it's more difficult. Rockets follow the laws of physics, and there are those times when a significant number of factors can be measured, analyzed, and integrated to the extent that the path of the rocket can be predicted with scrupulous accuracy. In the markets, there are numerous sources of information: Analyst forecasts, media hype, unexpected economic events, and sudden product announcements, just to name a few.

In the end, you don't know which information is the -true- or which information was fabricated to get the masses to react. Which information has an actual impact is anyone's guess. The masses can be unpredictable at times. They may not react to information in the way that we expect. In that sense, information is not perfect, and there is nothing you can do about it. You could try to gather as much information as possible, but how much of it will actually impact the market? In the end, you have to take the information you have available, weigh it, and just go with what you think you can do. In making trading decisions, you must accept that outcomes are ultimately uncertain and just make a decision. Don't think too much. Don't spend more time than it is worth, and don't dwell on mistakes. It's vital that you think through a potential trading opportunity and get ready to take action, but considering that information about trades is less than perfect, it doesn't make sense to think and re-think various pieces of information. It's natural to believe that if you could just think long and hard enough, you would come up with the ultimate decision. But since trading information is imperfect, rethinking imperfect information over and over again isn't going to get you anywhere. You'll simply waste a lot of time and energy, time and energy that you don't have. Once you've done a thorough study of the available information, you must accept that you've done all you can do and act on it. Part of this means accepting uncertainty. You can't know exactly what will happen, but as long as you have managed risk, a losing trade isn't fatal.

Risk management is the key to survival. If you make sure that the potential negative impact of trade is minimal, you'll allow yourself to relax. And when you are relaxed, you'll be able to take decisive action because you know that even if you are wrong, it won't mean much. Also, if you know that the impact is minimal, then you won't be afraid to sift through information and take quick, decisive action.

Decision-Making Biases: A Primer.

Our common-sense approach to decision making often works quite well, but there are times when we arrive at decisions that are just plain wrong. This has led some psychologists, such as Amos Tversky and Daniel Kahneman, to suggest that everyday thinking departs from -rationality.- That is, compared to an ideal rational decision-making machine that only uses hard data, humans extend their knowledge beyond the limits. They don't have the hard facts or actual data in front of them at all times, so under these circumstances, they rely on -heuristics- or -rules of thumb- to make decisions.

Let's look at some classic examples to understand how these everyday rules of thumb or heuristics work. Consider two questions that most people do not have real data as a basis for making judgments:
1. Which is more likely in the English language?
(A) Words beginning with the letter K (such as kind)
(B) Words with K as the third letter (such as make)
2. Upon visiting the Middle East, which situation are you more likely to encounter?
(A) Terrorist attack
(B) Traffic accident
When research participants are asked these two questions, they are more likely to choose selection (A) as the correct answer. Why? Tversky and Kahneman note that we do not have the actual data in front of us to make these decisions. Instead, we must rely on our memories. When it comes to words in the English language, we do not know offhand how many words begin with K versus how many have K as the third letter.
Thus, we try to think of examples. It's easy to think of words that begin with K, but it is much harder to think of words where K is the third letter. Most people believe that more words begin with K than have K in the third position based solely on the ability to recall instances. But this is not correct. Many more words have K in the third position. It's just hard to recall them. (It's even hard with a dictionary in front of you)
People answer the second question using a similar approach. We can vividly recall instances of terrorist attacks in the Middle East (especially these days), and so we believe there are more terrorist attacks than traffic accidents in the Middle East. But the hard data show that there are more traffic accidents. Again, our memory fools us. We rely on our memory to provide data, rather than knowing that we should not trust our memory and seek out the actual hard data for our judgments.
Tversky and Kahneman call this phenomenon the availability heuristic. Certain memories of events are more easily recalled and are thus more -available- for use in making decisions. In many everyday situations, using the available information is all we can do. It works as a decision-making strategy much of the time, but we have to remember that there are some situations where we don't have all the necessary hard data to make a decision. It's at these times that we need to tediously find the actual data and use it to make our decisions.
Behavioural economists have been very persuaded by the work of Tversky and Kahneman. Economists have had difficulty making accurate forecasts of the market, and behavioural economists are interested in finding examples of -irrational decisions- to explain why market prices are difficult to predict. It's useful to consider this perspective. Perhaps some of the decisions you make are -irrational- and should be avoided. Look out for them!

Decision Making Styles.

When it comes to trading decisions, everyone has their own style. Although styles change as one gains more experience, each trader has his or her own natural style. Some people are intuitive while others are more concrete and analytical. Many traders are risk-averse, while others are impulsive and seek out risk. Each style has its advantages and limitations. It's useful to know which style suits you, and it's important to know how your inherent style may influence your trading decisions.

There are at least three basic decision-making styles: Data-oriented, Intuitive, and Impulsive. The data-oriented trader focuses on concrete evidence and is extremely risk-averse. He or she tries to seek out as much supporting data for a trading decision as possible. The trader who prefers to do extensive backtesting of a trading idea exemplifies this decision-making style. It's useful to incorporate elements of this style into your overall trading style regardless of your natural inclinations.

It's vital to make sure that you have adequate information before executing a trade, and it's particularly important to trade a detailed trading plan in which risk is minimized and entry and exit strategies are clearly specified. But the data-oriented trader may take things a little too far. He or she may search for -perfect- knowledge that just doesn't exist in the trading world. Knowledge is always fallible and the markets only repeat themselves when they do. At some point, one must accept the fact that he or she is taking a chance and no amount of data analysis can change this fact.

The intuitive trader is the opposite of the data-oriented trader. He or she bases trading decisions on hunches and impressions rather than on clearly defined data. There's a difference between being an intuitive trader who develops this style over time and one who is naturally intuitive. Traders who are naturally intuitive discount data-driven decisions. They aren't used to making detailed analyses of problems and situations, and thus, tend to take unnecessary chances without sufficient justification. The experienced intuitive trader, in stark contrast, bases decisions on data and specific market information. But, since he or she is a seasoned trader, one analyzes the data quickly and efficiently. It happens so quickly that it seems like it occurs intuitively, but it is actually based on solid information. Ideally, all traders should gain extensive experience to the point where sound decisions are made with an intuitive feel.

Finally, the last decision-making style is the impulsive trader. This is the most dangerous style. The impulsive trader allows his or her decisions to adversely influence trading decisions. Rather than looking at information logically and analytically, information is discounted completely. The impulsive trader seeks out risk and enjoys taking risky, exciting trades. Impulsive traders can often make huge profits one day and see large drawdowns the next. Many traders may have this style to some extent, and it's something to rein in. Don't let a need to seek out excitement get the better of you.

Realistically on the Defensive.

When playing a formidable opponent, it's wise to take a defensive stance. An NFL quarterback uses shoulder pads and a helmet to make sure he has protection in case he gets sacked. The players on the line also protect him as much as possible. It would be dangerous to take unnecessary risks, for the overall game plan or for the physical safety of the players. Traders take similar precautions. While the amateur trader may put on a trade without a detailed trading plan, or without adequate risk controls, the seasoned, profitable trader accounts for every possible contingency. Each element of a trading plan is specified in scrupulous detail.

Whereas the amateur trader is often overly optimistic and overconfident, the seasoned trader is realistic. Trading is difficult. Many adverse events can go against a trading plan, and the survivors know they must take precautions to protect themselves from every possible contingency.
Sometimes it's useful to take a defensive and pessimistic strategy, rather than looking at the world through rose-coloured glasses. A study by Dr Nancy Cantor shows that for some people and under particular conditions, it's useful to be on the defence.
Dr Cantor and colleagues studied two groups of people she called the rosy glow optimists and the defensive pessimists. University of Michigan students were followed throughout the semester. At the start of the semester, participants were asked to predict their end-of-semester grades, and throughout the semester, they reported their emotions on a daily basis. Rosy glow optimists viewed academic tasks as challenging but not especially overwhelming. Defensive pessimists, in contrast, viewed academic tasks as difficult and a little stressful. They believed in taking precautions and putting in a heroic effort.
They underestimated their talents, setting defensively low expectations despite a past record of stellar performance. Holding a pessimistic outlook helped them maintain discipline and curb overconfidence. Throughout the semester, defensive pessimists felt greater stress and anxiety than rosy glow optimists. But this pessimistic outlook was not debilitating. In fact, among the pessimists, unpleasant emotions were correlated with higher grade point averages at the end of the semester. Pessimism did not have an adverse influence on performance. Indeed, it seemed to help rather than hurt.
Under the right circumstances, and for certain people, pessimism is beneficial. Considering that several studies in behavioural finance have shown that traders tend to be over-confident, it may be useful to question one's confidence occasionally (before putting on a trade, not during, however). Ask yourself, -Am I really certain that this trade is going to be successful, or am I taking an unnecessary risk?- -Have I put in enough time and preparation into this trading plan?- It couldn't hurt to use a little caution. When it comes to trading, it's often prudent to take a defensive position.

The Cautious and Deliberate Trader.

Even when you're a short-term trader, making one quick, astute decision after the next, it's necessary to plan carefully and act cautiously and deliberately. Consider the case of Andy, a novice trader who allows his impulses to guide him more than his logic. If he traded more deliberately and spent a little extra time fleshing out the rationale for his trading plan, he would trade more profitably.

Andy has been honing his trading skills by studying the price changes of a particular stock. He found that the stock trades between $20 and $25, depending on profits during a particular quarter. There are times, though, that the price hits $45 when a financial analyst talks it up, or after a major product announcement. The company has been shaky for years.
The management of the company frequently changes, with officers resigning or dismissed when they fail to turn the company around. In addition, sales are seasonal, with most sales during holidays and the Fall. But the price is far from predictable. Shortages of supplies and problems with distributors cut into profits. It would be wise to be a little cautious while trading this stock. It's steady most of the time, but it is prone to extremes for unknown reasons at other times.
Despite identifying specific factors that impact the price, though, Andy has lost over 75% of his account in the past year. He seems to buy at a high point believing it will go up higher because as he says, -the stock is gaining momentum and about to reach new highs.- Andy's approach to trading is perplexing. The stock price throughout a given year rarely hits the high of about $45. But Andy buys at the high and ends up selling when the price plummets. Andy has fallen prey to a common ailment. He makes impulsive decisions without thinking things through carefully, and in the end, sabotages his efforts.
He needs to trade more cautiously and deliberately. Rather than vaguely work on the hunch that the price is going to hit a new high, he should question his reasoning. Why might the stock go to a new high? The company has a troubled history with management unable to change its rocky course. There's no good reason to believe that the stock will hit a new high. His hunch is unfounded. It isn't based on any of the information he has gathered about the company.
In looking at the factors that influence the stock price, it's hard to believe that the stock would ever go past $45 to reach new highs. It would be a smarter move to trade it at around the $20 price range and anticipate that it would move up when seasonal factors that influence the price come into play, such as during the Fall or a new product announcement.
Andy has observed that the price moves in a cycle, so why doesn't he try to trade on this information? Andy's biggest problem is that he isn't thinking things through. He isn't trying to make educated guesses on the information he has gathered. Instead, he tries to trade based on his hunches and intuition, but he doesn't have enough experience to do that very well. In many ways, he is sabotaging himself. While some traders over-think a trading plan, Andy needs to do a little more thinking. He must try to make his trading approach more systematic.
By considering the factors that may correlate with price movements in the stock, he can more accurately anticipate the price movements. He may not be right all the time, but he would be correct more times than the current approach he has been using, which is not based on any reliable information. Winning traders use their intuitions to make trades, but they also think like an intuitive scientist developing educated guesses and seeing if they pan out. It is vital to study the markets, understand them, and develop your own personal theories as to how they operate. The more you can develop these theories and use them to guide your decisions and trading plans, the more profits you'll make.

Trying to Stay Detached.

Winning traders approach the markets with a detached, unemotional, and rational mindset. As much as you've heard us say it time and time again in this column, though, it probably doesn't help to merely remind you of this fact. Cultivating such a mindset is easier said than done. If you are a novice trader, you're bound to get emotional when you trade. Your money is on the line, and you want to win. As much as you think, -I need to take losses in stride,- you have probably found that when you are in a slump, sayings such as -losses are commonplace in trading,- seem trite. But don't despair. With preparation, awareness, and practice, you can trade with a winning mindset.

Have you had a string of losses and felt awful? Maybe you were not depressed and ready to find a new way to make a living, but you felt beaten down. You knew it was just a passing phase and that you would snap out of it, but at that moment, you didn't feel like this unpleasant feeling would be gone soon. It can be distracting. During the trading day, you might trade impulsively because you know that if you can just make a win, you'll feel high, euphoric, and powerful. It's a great feeling, but trading impulsively can have a major downside: You could lose big and transform mere disappointment into severe pessimism. There are a few things you can do, however.

First, as trite as it sounds, monitoring your self-talk and expectations helps. Sayings such as -losses are to be expected- can help matters. Just reminding yourself of this basic fact of trading the markets can be quite consoling. It reminds you that by expecting losses, you are being realistic. Everyone is in the same boat, so why beat yourself up over a loss? Our emotions can be overpowering when we are caught off guard. But if we go in fully expecting the possibility of failure, we can mobilize our psychological resources more quickly and fight back immediately before our mood worsens.

That doesn't mean going into a trade pessimistically expecting it to be a failure. What it does mean, however, is preparing to take a loss. Before the trading day begins, you should mentally rehearse how you'll deal with the loss. You might think, -I'm not going to be caught off guard. The trade may go wrong, and when it does, I'm going to just close it out and move on.- You might also try to visually imagine losing and bowing out gracefully. Imagine yourself watching the price go in the wrong direction, and then calmly and decisively closing the position. Through a combination of monitoring your internal dialogue and mentally visualizing what can go wrong, you can get ready to take a loss, so that when it happens, it won't hurt so bad and knock you off balance.

Finally, risk management is vital. If you risk more than you can afford to lose, you will naturally feel uneasy. When you aren't at ease, it's difficult to control your emotions, so when you face a loss, you are especially vulnerable and unable to regain composure. By controlling risk, you'll feel that you have little to lose, and you can feel consoled when you think, -It's not that bad; I can recover.- Don't let emotions control you. The winning trader is rational and detached. By preparing for a loss with mental rehearsal, visualization, and risk management, you can stay calm and take losses in stride.

Stay Detached and Impersonal: It's Not Always About You.

Stan's been in a long losing streak for the past three months. He has a severe drawdown. He's worried and a little scared. He's been trading for two years, and during the first six months of trading, he experienced his first major drawdown. That upset him, but he recovered to trade profitably until his latest drawdown. He tells his trading mentor, -I thought I had it beat. I thought I had mastered the markets and become a profitable trader, but I was wrong. I'm not as great of a trader as I had thought. I'm really disappointed with my performance.- Stan's experience is familiar to many novice traders.

He had some initial early success, but then a major drawdown. He now feels disappointment. But should he feel so poorly? Seasoned traders stay detached, and that's something a novice trader like Stan should consider. Expert traders know that it doesn't help to take trading losses so personally. To some extent, it's not personal; it may just be the nature of the markets.

Upon reading a scenario like Stan's, most novice traders can identify with his thoughts and feelings. -Of course he's upset,- they say, -He's lost a lot of money, and he's disappointed.- Certainty, it's natural for a person to feel upset and disappointed upon experiencing a severe drawdown. Financially, a great deal of money has been lost, and even if Stan were to return to consistent profitability, it will take some time to build his trading capital back up. Psychologically, Stan received a big hit to his ego. He had thought he had -mastered- the markets, only to learn that his skill may not have matched his expectations.

Perhaps Stan should feel disappointment. Oftentimes, disappointment spurs one to take action. If one doesn't have the skills to perform, one better builds up those skills in order to trade consistently and pile on the profits over time. That said, there's also a case to be made for staying more detached and objective. Disappointment is a natural emotion, but not very adaptive for trading. Trading requires that one do the unnatural, and control one's emotions.

How does one control emotions? Consider this. What is consistent trading about? A large part of it is using a trading strategy that is capable of producing a profit. Sometimes it takes ingenuity to find such a strategy; sometimes it is a serendipitous event. And sometimes it's a matter of learning of a profitable approach from others. But in the end, it's just a matter of odds.

It's just like rolling a die or flipping a coin (in some ways). One expects to make a profit over a large number of trades, but in the short term, even a winning strategy is bound to have a string of losers. That's just the nature of probability theory. A small number of flips is less than an infinite number, so it's quite likely to get a string of a 50 heads out of 50 tosses. So why make it so personal? Why put your ego on the line with each trade? Why gloat when you are lucky enough to have the odds work in your favour and sulk when the odds go against you?

When it comes to trading, you've got to unlearn what you've learned your whole life. It isn't all about you; it may just be the odds working against you. In other fields, probability plays little if any role. You put in the effort, make sure you meet the expectations of the folks who pay you, and you're a success. In the traditional work environment, it makes sense to put a little ego and pride in your work. Your effort and talent often have a direct payoff.

But with trading, the odds can still go against you, no matter how much work you put in. You need to consider that -success- can sometimes (but not completely) be a matter of odds. That's hard to accept for most people because it means that when you are a winning trader, to some extent, it may be a matter of the odds randomly working in your favour. That takes some of the glory out of it, doesn't it? But on the other hand, it helps you cope with a severe drawdown.

If you are a skilled trader who really has -mastered- the markets, you can feel assured that, if you are trading at peak performance, the odds will soon move back in your favour, and you will again see consistent profits. Taking a detached, unemotional approach may mean giving up feelings of supremacy, but on the other hand, it will help you stay unemotional, take precautions, such as careful risk management, and stay focused on the process of reading the markets, implementing winning trading strategies, and trading consistently.

Don't Take It Personally.

Seasoned traders stay detached, but novice traders often have trouble achieving this ideal, objective and rational mindset. For example, they take trading losses, and subsequent drawdowns, personally. They see it as a hit to their ego, attaching personal significance and symbolic meaning to just an everyday fact of trading. Losses should be expected, and it's vital that you don't take them personally.

Certainty, it's natural for a person to feel upset and disappointed upon experiencing a severe drawdown. Financially, a great deal of money has been lost, and even if one were to return to consistent profitability after a drawdown, from a purely mathematically standpoint, it will take some time to build one's trading capital back up. It's reasonable to feel a little disappointed, but it isn't useful to take it extremely personally or let it impact your self-worth.

That said, disappointment can be useful. Oftentimes, disappointment spurs one to take action. If one doesn't have the skills to perform, one better builds up those skills in order to trade consistently and pile on the profits over time. But there's also a case to be made for staying more detached and objective. Disappointment is a natural emotion, but not very adaptive for trading. Trading requires that one do the unnatural, and control one's emotions.

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Detached and Objective.

Winning traders are objective and detached from the ongoing market action. They don't stare at their screens and allow their emotions to move up and down with how well their trades are doing. But novice traders often have difficulty remaining objective and unemotional. There's a very human tendency to avoid risk and loss. In everyday life, our emotions protect us. When we anticipate harm, we become fearful. Fear is a powerful emotion. When we are afraid, we react quickly and instinctively. And when we act out of fear, it usually leads to impulsive decisions and trading errors. The more you can stay objective and detached, the easier it will be for you to control your emotions.

If humans didn't react to market events with strong emotions, there would be no volatility to take advantage of. Fear and greed are powerful emotions that sway the masses to buy and sell at the wrong time. The only difference between you and the masses, however, is that, as a successful short-term trader, you must control your emotions and not be influenced by fear and greed. Master traders know how to control their emotions. They remain detached and objective.

When the stock falls to the protective stop, the position is closed immediately. There is no sense of guilt, worry, or uneasiness. Small, controlled losses are expected, and there is no reason to be overly concerned about it. Similarly, when the stock price moves up to the profit target, the seasoned trader assesses the price movement and either close all or part of the position or even adds to it while raising the stop-loss. Either way, the seasoned trader has planned the trade and is trading the plan with controlled emotions and calm, detached confidence that generally produces consistency and success.

It may be hard to stay unemotional and detached. The more experience you gain as a trader, however, the easier it will be. People are most afraid when they encounter novel and unforeseen situations, and when newbie traders first start out trading, their initial experiences are new and unpredictable. Under these conditions, it makes sense to put things in your favour.

For example, limit your risk. If you make the outcome of a single trade relatively insignificant, you will be able to remain more detached. Similarly, trade with money you can afford to lose. If you know that a loss will really hurt you, it will be difficult to convince yourself that the outcome doesn't matter. The more you can believe that an outcome truly doesn't matter, the easier it will be to remain detached and objective. And if you can remain detached and objective, you'll trade more freely and effortlessly.

Diary of Your Thoughts.

Have you ever made a dumb mistake? Perhaps you knew you should have used a protective stop before leaving for two days to take your children on a road trip. You may have thought, -I'll stop off at an Internet café and monitor the trade.- But it didn't happen. You got wrapped up taking care of your children or worrying about traffic, and you didn't get around to looking at the stock price. It fell hard and you lost more than you had planned.

In hindsight, you probably thought, -I knew it would happen, but I just didn't care.- For some traders, it's the little things that knock them off balance: the argument they had with their spouse or staying up too late the night before a significant trading day visiting with friends. Whatever they are, these little things can make you feel tired and on edge. Suddenly, you make trading errors that would not have made sense in a more rational state of mind.

How do you prevent little things from getting the better of you? One way is to keep a diary of your thoughts and emotions during the trading day. For example, on the day of making a trade, you might write down the events in your personal life that happened before the trade and how you felt about these events: -I had dinner at my neighbour's house and we lost track of time. We talked about interest rates and how the markets were down for the second straight week. I was a little worried about what might happen the next day. I didn't sleep well. I woke up tired the next day. And then, my spouse forgot some important papers at home and I had to fax them.

It didn't seem like a big deal at the time, but I guess I was angry that I had to take time out of my busy schedule. I was tired and a little frustrated. In the back of my mind, I felt that I hadn't been performing at my best. I guess I really wasn't looking forward to putting on a trade that day. My heart wasn't in it. I tried to follow my plan. The price fell hard. I didn't expect that. I was caught off guard. I knew I should have waited to see if it was just a blip, but I was already fed up, so I closed out the position at a loss. If I had waited, though, I would have met my profit objective.-

In this diary entry, you can see that little things were the culprits of a losing trade. The trader was not in an optimal state of mind. That can happen to traders. They can just have a bad day. A bunch of little things come together to make a big problem, and trading plans are ruined. How does a diary entry help? By keeping a description of your trades, even if you don't log all of them, you can look for patterns that interfered with an optimal state of mind. In this case, staying up too late and feeling frustrated by having to do something the trader didn't want to do put the trader in the mindset that was not conducive to trading.

A trader may find that specific event predispose a bad mood or feelings of frustration. For this trader, it was not getting a sound night's sleep and dealing with interpersonal hassles. For other traders, it may be missing a day at the gym or hearing bad news about family and friends. Whatever these events are, it is useful to identify the specific events that get to you and wear down your mental edge. Once you identify these events, you can more easily identify those circumstances that predispose you to make trading errors.

Some seasoned traders and coaches suggest standing aside on those days when the little things that happen around you have thrown you off balance. It is also important to try to prevent some of these potentially disruptive events from happening. If you need a good night's sleep to concentrate the next day, for example, make sure you get to bed early. If you need to exercise strenuously every day, then, by all means, do so. As much as we think the little things don't matter, they do. If you prevent little things from getting to you, you will stay more focused and calmly make the decisions required to trade like a winner.

Stop Kicking Yourself For Making An Obvious Mistake.

John is kicking himself right now. He just made an unexpected losing trade and he feels especially down. He expected to make a killing, and he was looking forward to winning and celebrating big. He thought he had done everything to prepare for the trade. He had looked at the moving average to discern the trend. He looked at the highs and lows of the stock for the past two months and set his stop loss accordingly. But in his strong desire to believe that he was about to execute a winning trade, he made a fatal error: He forgot to account for an upcoming earnings report. The company failed to meet analysts' forecasts, and the stock fell hard and fast. John didn't lose too much. His protective stop saved him, but it still hurts. He had gotten his hopes up, and now, he is especially disappointed.

John's plight is common for both seasoned and novice traders alike. There is a strong human need for eternal optimism. John isn't naïve. He knows that earnings reports can unexpectedly impact a stock price, but he had wanted to make a big winning trade so desperately that his unconscious mind prevented him from seeing matters clearly. Sometimes, we want something so strongly that we see things that just are not there, or we shut out things that we don't want to see. That's what John did. He didn't look carefully at all possibilities and he missed the obvious.

Why does John feel so badly? It could be for a number of reasons. First, he got his hopes up, but his dreams were dashed. When we expect a big win and don't get it, we are especially hurt. Second, John may be trying to live up to his own unrealistic, perfectionistic standards. He may be beating himself up because he wrongly believes that he must trade to perfection; he must account for all possibilities. It is a fact that had he been able to see that an earnings report was scheduled, an obvious potentially adverse event, he would have saved precious trading capital. But mistakes do happen. We are human. We often let our emotions take over, and when that happens, our rational mind doesn't stand a chance.

How can John feel better? He needs to change his frame of reference. When many people make an obvious mistake, they let their superego rule. Our superego consists of the ideals we strive for and the moral rules that our parents taught us while we were youngsters. When many people make a mistake, they treat the situation as if a parent or teacher were scolding them for breaking a rule. They re-experience feelings from childhood, hurt, beaten feelings. In some cases, the feelings may be shame or guilt. This is the wrong frame of reference to use to understand trading setbacks, however.

When you lose money on a trade, it is not useful to allow your unconscious to equate the loss with being punished by your parents for breaking a rule. Instead, it is vital to look at matters from the perspective of a trader. Traders are human and they make mistakes. How many people actually make a living as a full-time, active trader? Hardly any. If you work under the assumption that anyone can trade, you will feel bad when you make a trading error. However, if you work under the assumption that few people can actually trade profitably, you'll quickly forgive yourself for making a mistake or a losing trade.

Every trader makes mistakes. There is a lot of information to sift through, and as we all know, our zealous pursuit of money often gets in the way of our ability to see the markets with crystal clear accuracy. When you change your frame of reference, your entire perspective changes. You stop getting your hopes up. When you remind yourself how challenging trading really is, you really start to recall that any given trade has little relevance in the context of a larger set of trades, and thus, it is unreasonable to expect success on a single trade. If you don't get your hopes up too high, you cannot be knocked down too far when a trade turns out to be a loser.

And when you realize that trading is so difficult that few people can trade the markets with perfection, you'll accept your limitations and appreciate the winning trades you do make, instead of beating yourself self up for making the losing trades that are commonplace in the trading world.

Winning Traders Are Disciplined.

The difference between a seasoned, winning trader and a novice, unprofitable trader is the ability to muster unwavering self-control in response to chaotic, ever-changing markets. Trading is a serious business. It's not a hobby, but many novice traders treat it that way. They don't develop a trading plan, and if they do, they tend to abandon it prematurely. Trading is fun and exciting, and the quickest way to get a thrill is to trade by the seat of your pants. But seasoned traders are methodical. They carefully develop a plan, execute it, and stick with their plan. They are disciplined and controlled. Discipline is a key factor in trading success, and it is crucial that you maintain discipline.

Why is discipline the key to success? Trading is largely a matter of capitalizing on odds. Assuming a given trading strategy has a past performance record of 85%, for example, it's a matter of odds that the particular strategy will obtain that level of profitability in the future. It may not. Unanticipated factors, such as a change in market conditions can go against the strategy, diminishing its performance record. A lack of discipline makes matters worse.

Assuming the trading strategy does have a high probability of future success (as roughly gauged through backtesting), the only way to take advantage of the law of large numbers is to execute the trading strategy flawlessly on as many occasions as possible, and as defined by the guidelines of a clearly specified trading plan. The disciplined trader decisively trusts the trading strategy enough to commit funds to it, allowing for a reasonable chance to capitalize on the odds. The undisciplined trader, in contrast, wavers. He or she follows the trading plan inconsistently, trading the plan occasionally while going a different way at other times.

Discipline and self-control are well-studied personality traits. Some people are highly disciplined and very self-controlled. They scrupulously follow rules and are careful to control their impulses. You know the type; they pay off their credit cards every month, are never late for an appointment, and carefully plan every detail of their lives. Although these characteristics may be ideal for trading, there's a downside: overly disciplined people may have trouble taking risks.

They prefer a sure thing, and trading outcomes are rarely sure things. Traders tend to prefer living a little on the wild side. They may not recklessly seek out risk, but they don't mind it. Relatively speaking, they tend to lack discipline and control. Perhaps that's why so many trading books and coaches find it necessary to preach the virtues of self-control. How are your discipline and self-control?

Do you have trouble sticking to your trading plan? Do you long for more discipline and self-control when it comes to your trading? If you have trouble with discipline, you may want to try to observe your level of self-control in your everyday life and try to gain more self-control. How much discipline and self-control do you practice in your everyday life? Are you late for appointments? Do you spend more money each month than your budget allows? Do you frequently find yourself breaking promises? It's not necessarily the case that a disciplined trader is disciplined in all aspects of one's life, but it helps.

The life strategies we use in everyday life may bleed over into our trading life. If you often overspend, overeat, or have an unrestrained need for pleasure, you may find maintaining self-control and discipline while trading a little more difficult than others. So try this exercise: spend a few weeks trying to control as much of your life as possible. Pick specific areas where you can gain more self-control. Control your caloric intake, the money you spend, and time spent in leisure activities. See how well you do.

It may change your reference point. You may soon discover that you rarely control your impulses, and can do much better. And this, in turn, may positively influence your ability to stick with your trading plan. It's worth trying. Discipline is the key to trading success, and it's vital that we do everything we can to increase it.

Dynamics of Discipline.

The winning trader is a disciplined trader. Basically, that means outlining a definite trading plan and following it. But people differ in terms of their ability to maintain extreme self-control and discipline. As you may have casually observed, some people are very disciplined while others are sloppy and undisciplined. Neil Simon's characters Felix Ungar and Oscar Madison, illustrate the stark contrast between the disciplined and undisciplined. Felix was a neat freak who wanted everything in its place, while Oscar was sloppy and more impulsive.

But there were times when Oscar was extremely disciplined. He was a well-known sportswriter, and he must have shown an acceptable amount of self-control in order to put out his column every day. Although he was a fictional character, Oscar shows how it's possible to be undisciplined in terms of personality traits, yet able to show discipline when completing a specific task, such as executing a trading plan. Let's consider a few ways that you can maintain self-control and discipline.

Keep in mind that you don't have to be disciplined all the time. You only need to be disciplined when you are putting on a trade. It sometimes helps to remember this fact. It eases some of the pressure to think that you only need to be focused when you make specific trades, rather than during all waking hours. A second strategy is to outline a very detailed trading plan. You should specify exactly what signals tell you to enter a trade, and what signals tell you to exit. Some traders make the mistake of leaving some of these factors unspecified, figuring they can just -wing it- when the time comes. But this approach presents problems for discipline. When you don't know what to do specifically, you will be sloppy and less likely to maintain self-control.

It's also important to make sure your energy level is high, yet your stress level is low. Psychological resources are required to maintain self-control and discipline. When you are tired and worn out, you have little energy left over to focus on managing your trade. To keep your peak performance edge, it's vital to make sure you are relaxed, rested, and energized. If you aren't, you'll tend to make careless mistakes.

Perhaps one of the best ways to maintain self-control is to feel confident as you execute and manage your trade. It's healthy to be sceptical and overly cautious while planning your trade, but once you have outlined your trading plan, you must execute it with unwavering confidence. You can't question it. You can't second-guess your decisions. You must execute your plan as if you are absolutely positive it will succeed. You can mull over its success later after the trade is through. So don't minimize the importance of self-control and discipline. The more disciplined you can trade, the more profits you'll realize.

Maintaining Discipline.

The winning trader is a disciplined trader. Discipline means controlling impulses and controlling emotions. As many novice traders can tell you, however, maintaining discipline is often easier said than done. Just as the vast majority of market participants are driven by fear and greed, many novice traders find it difficult to avoid succumbing to self-doubt and panic. Trading is challenging. Not anyone can just open a trading account and trade profitably and consistently. It takes practice, hard work, and determination. Discipline is key, and it is vital to take whatever steps are necessary to maintain discipline.

The markets are chaotic and unpredictable. When faced with an uncertain set of circumstances, it is easy to see why many traders feel unsure and unsettled. After a trade is executed, what happens next is anyone's guess. Some traders thrive on the excitement, but many find it disconcerting. The best way to combat feelings of uncertainty and chaos is through organizing perceptions and activities. If one trades with a detailed trading plan, for example, one will impose structure onto an unstructured reality.

The markets may be a mass of confusion, but you can address it by clearly defining a target profit objective, and entrance and exit strategies. The more structure you have to follow, the less uncertain and unorganized you'll feel. You will know what to do and when to do it. The more each element is defined, the easier it will be to follow your trading plan and maintain discipline.

One's mood and attitude is another factor that impacts one's ability to maintain discipline. An optimistic yet realistic attitude is vital to maintain trading success. Successful trading requires an intuitive feel of the markets and keeping this intuitive perception as objective as possible demands that one not be adversely influenced by unpleasant mood states. Trading is so challenging and unpredictable, however, that it is hard not to feel frustrated and disappointed at times.

Many traders struggle with trying to maintain a positive or neutral mood. It takes practice and attention. If one lets his or her guard down, a pessimistic mood may take over. Maintaining a positive mood requires that one monitor self-talk, what one tells oneself. It is vital that negative statements be screened, and refuted. But this all takes psychological energy, and humans have a limited amount of psychological energy. When the limits of the mind are reached, maintaining a positive mood is a challenge.

The best antidote is to build up as much psychological energy as possible. The most efficient approach is to get plenty of rest and relaxation. When you're tired, the available psychological energy you can devote to trading is restricted. When people are tired, they have great difficultly controlling emotions and may give in to a negative mood. By getting the proper amount of rest, you'll have enough energy ready to combat negative moods.

Maintaining discipline is vital for trading success, but it is difficult at times. The best ways to keep disciplined are to trade with a detailed trading plan and make sure you have enough psychological energy on reserve to keep your emotions and impulses under control. By maintaining discipline you can trade profitably and consistently.

Increasing Discipline and Self-Control.

Winning traders are disciplined. They control their impulses and feelings, and this allows them to execute a trading strategy effortlessly and flawlessly. The disciplined trader is decisive. The undisciplined trader, in contrast, wavers. He or she may stick with a trading plan occasionally while going a different way at other times. Discipline is indeed a key ingredient to success, but not everyone has a high level of self-discipline. It's worth determining where you stand on this trait and, if you lack discipline and self-control, work to build it up.

Discipline and self-control are well-studied personality traits. Some people are highly disciplined and very self-controlled. They scrupulously follow rules and are careful to control their impulses. You know the type; they pay off their credit cards every month, are never late for an appointment, and carefully plan every detail of their lives. Although these characteristics may be ideal for trading, there's a downside: Such people tend to have trouble taking risks. They prefer a sure thing, and trading outcomes are rarely sure things. Traders tend to prefer living a little on the wild side.
They may not recklessly seek out risk, but they don't mind it. Relatively speaking, they tend to lack discipline and control. Perhaps that's why so many trading books and coaches find it necessary to preach the virtues of self-control. How are your discipline and self-control? Do you have trouble sticking to your trading plan? Do you long for more discipline and self-control when it comes to your trading? If you have trouble with discipline, you may want to try a stimulating exercise to increase your awareness: Observe your level of self-control in your everyday life and try to gain more control. How much discipline and self-control do you practice in your everyday life? Are you late for appointments? Do you spend more money each month than your budget allows? Do you frequently find yourself breaking promises? It's not necessarily the case that a disciplined trader is disciplined in all aspects of one's life, but it helps. The life strategies we use in everyday life may bleed over into our trading life. If you often overspend, overeat, or have an unrestrained need for pleasure, you may find maintaining self-control and discipline while trading a little more difficult than others.
So try this exercise: spend a few weeks trying to control as much of your life as possible. Pick specific areas where you can gain more self-control. Control your caloric intake, the money you spend, and time spent in leisure activities. See how well you do. It may change your reference point. You may soon discover that you rarely control your impulses, and can do much better. And this, in turn, may positively influence your ability to stick with your trading plan. It's worth trying. Discipline is the key to trading success, and it's vital that we do everything we can to increase it.

Discipline Takes Practice.

Trading is a profession where you must make a plan and stick with it, but even seasoned professionals find it difficult to maintain discipline. They sell earlier than they had planned, ignore stop-loss points, or abandon risk limits. As much as many traders try, they have difficulty maintaining discipline, and they pay the price in the long run.

Some people are highly disciplined and very self-controlled. They scrupulously follow rules and are careful to control their impulses, even if it means they are a little rigid at times. Other traders take a more carefree approach to trading. They are usually very creative and profitable but may have trouble with discipline at critical moments of trading. Every trader has an issue with the discipline to some extent, whether it is a lack of discipline or too much of it. The markets are chaotic and unpredictable, and thus, it is understandable to feel unsure and unsettled at times. After a trade is executed, what happens next is anyone's guess, and this state of uncertainty can cause uneasiness, which may, in turn, lead to impulsive decisions.

How can you increase your ability to maintain discipline? First, it's important to view your ability to maintain discipline as similar to a muscle. Like an actual muscle, it's necessary to build up stamina. Maintaining control takes psychological energy, and humans have a limited amount of psychological energy. When the limits are reached, maintaining discipline is a challenge. The best solution is to build up as much psychological energy as possible, which will allow you to maintain discipline. Second, it is vital to get plenty of rest and relaxation. When you're tired, the available psychological energy that you can devote to trading is restricted. You will have great difficulty controlling impulses to stray from a trading plan. By getting the proper amount of rest, though, you'll have enough energy stored up to stay focused and maintain discipline. Don't underestimate the stamina you need to maintain discipline. If you have over-taxed your ability to maintain discipline, or if you are too tired, you will act impulsively. Third, control your emotions. When you are feeling stressed out or upset, you will be unable to maintain discipline.

Fourth, it's vital to have a clearly defined trading plan. Not only should you map it out, but you should also write it down and put it up next to your screen. If it is clearly outlined, it will be easier to follow, and if it is right in front of you as you trade, you will be able to remind yourself to follow it. Fifth, outline the reasons you want to stick with your plan and write these reasons down. By writing them down, you can read them over when you are tempted to abandon your plan. You might write down, -If I keep abandoning my plan, I'll regret it later. I can stick with this plan if I try hard enough. Right now, my only goal is going to be sticking to my plan. That's it.- When you feel like abandoning your plan, you may want to read these statements over and over again. Don't think about the consequences of losing or closing out the trade. Focus on the present. Concentrate on completing the next steps, not in the future. If you concentrate hard enough, you will be able to stick with your plan.

Many traders have difficulty trading with discipline. It's tempting to trade by the seat of your pants and just live with the consequences, no matter what they are. But the winning trader is the disciplined trader, and if you can maintain discipline, you will profit handsomely.

Discipline and Self Control: Monitor It and Increase It.

You've probably heard it countless times: -Discipline is a key factor in trading success.- Discipline is mentioned in almost every trading book and in the title of many. Why is discipline so crucial? Trading is largely a matter of capitalizing on odds. Assuming a given trading strategy has a past performance record of 85%, for example, it's a matter of odds that the particular strategy will obtain that record in the future.

It may not. Unanticipated factors, such as a change in market conditions can go against the strategy, diminishing its performance record. A lack of discipline makes matters worse. Assuming the strategy does have a high probability of future success, the only way to take advantage of the law of large numbers is to execute the trade flawlessly on as many occasions as possible and as defined by the guidelines of the trading plan. The disciplined trader decisively trusts the strategy enough to commit funds to the plan and gives the plan a reasonable chance to capitalize on the odds. The undisciplined trader, in contrast, wavers.

He or she follows the trading plan inconsistently, trading the plan occasionally while going a different way at other times. Discipline is indeed a key ingredient to success, but not everyone has a high level of self-discipline. It's worth determining where you stand on this trait and, if you lack discipline and self-control, work to build it up.

Discipline and self-control are well-studied personality traits. Some people are highly disciplined and very self-controlled. They scrupulously follow rules and are careful to control their impulses. You know the type; they pay off their credit cards every month, are never late for an appointment, and carefully plan every detail of their lives. Although these characteristics may be ideal for trading, there's a downside: Such people tend to have trouble taking risks. They prefer a sure thing, and trading outcomes are rarely sure things. Traders tend to prefer living a little on the wild side.

They may not recklessly seek out risk, but they don't mind it. Relatively speaking, they tend to lack discipline and control. Perhaps that's why so many trading books and coaches find it necessary to preach the virtues of self-control. How are your discipline and self-control? Do you have trouble sticking to your trading plan? Do you long for more discipline and self-control when it comes to your trading? If you have trouble with discipline, you may want to try a stimulating exercise to increase your awareness: Observe your level of self-control in your everyday life and try to gain more control. How much discipline and self-control do you practice in your everyday life? Are you late for appointments? Do you spend more money each month than your budget allows? Do you frequently find yourself breaking promises? It's not necessarily the case that a disciplined trader is disciplined in all aspects of one's life, but it helps. The life strategies we use in everyday life may bleed over into our trading life. If you often overspend, overeat, or have an unrestrained need for pleasure, you may find maintaining self-control and discipline while trading a little more difficult than others. So try this exercise: spend a few weeks trying to control as much of your life as possible.

Pick specific areas where you can gain more self-control. Control your caloric intake, the money you spend, and time spent in leisure activities. See how well you do. It may change your reference point. You may soon discover that you rarely control your impulses, and can do much better. And this, in turn, may positively influence your ability to stick with your trading plan. It's worth trying. Discipline is the key to trading success, and it's vital that we do everything we can to increase it.

The Quest for Discipline.

Trading with discipline is one of the greatest challenges for traders. It's common to hear novice traders say that they just can't help but abandon their trading plan. It's understandable. One may carefully devise a trading plan and have every intention of following it, but when it comes to actually put money on the line, they have trouble doing it. For some people, it may just be a matter of the stress of having to face a potential loss. But for others, discipline takes considerable effort. It's easy to understand why. Trading is a lot like playing sports. It's a good idea to have a plan, but it doesn't seem to make sense to follow it rigidly. It's often necessary to make midcourse corrections. That's why finding the proper level of discipline is a challenge. You don't want to trade too sporadically, but on the other hand, you don't want to be too inflexible and over-disciplined.

Some people have no trouble with discipline. They like rules and enjoy following them. Other people, in contrast, dislike rules and structure. They are independent-minded and live by their own rules. Traders tend to be in the latter group. They aren't afraid of taking a risk or going their own way. These traits are ideal for trading profitably, but on the other hand, they aren't particularly consistent with a disciplined trading style. At times, those attracted to trading may have trouble maintaining discipline.

If you have trouble with discipline and are a little impulsive, you can learn to develop more self-control and discipline. First, keep in mind that you don't have to be disciplined all the time. You only need to be disciplined when you are putting on a trade. It sometimes helps to remember this fact. It eases some of the pressure to think that you only need to be focused when you make specific trades, rather than during all waking hours. Second, it is essential to outline a very detailed trading plan. You should specify exactly what signals tell you to enter a trade, and what signals tell you to exit. Some traders make the mistake of leaving some of these factors unspecified, figuring they can just extemporize when the time comes.

But this approach presents problems for discipline. When you don't know what to do specifically, you will be sloppy and less likely to maintain self-control. Third, it is important to make sure your energy level is high, yet your stress level is low. Psychological resources are required to maintain self-control and discipline. When you are tired and worn out, you have little energy left over to focus on managing your trade. To keep your peak performance edge, it's vital to make sure you are relaxed, rested, and energized. If you aren't, you'll tend to make careless mistakes. Discipline is vital for trading success. It is essential that you develop a sense of discipline. The more disciplined you can trade, the more profits you'll realize.

Maintaining Discipline: When Past Choices Influence Future Decisions.

Traders and investors have difficulty -letting their profits run.- When you see your investment increase in value, it's hard to avoid selling early to lock in profits. But not every trade goes your way, so when you come upon a trade that does produce a profit, it's vital for your long-term success to maximize the profits for that particular trade. You must make more profits on your winning trades than you lose on your losing trades, but this is difficult to do if you consistently sell prematurely. Waiting for your price objective takes self-control. You must fight the urge to sell early. A study by Professor Kris Kirby at Williams College illustrates the usefulness of a thinking strategy that may help you increase your ability to maintain self-control when you need to (Kirby & Guastello, 2001). Dr Kirby suggests viewing economic decisions as -linked- in that the decisions you make on earlier economic choices influence the decisions you make on later economic choices.

How do you approach to discipline when you trade? Do you think, -I'll sell early on this trade, but on future trades, I'll let my profits run.- What's the harm? It may set a bad precedent. What you do early on may influence what you do later: If you sell early on some trades, you may tend to sell early on other trades. Dr Kirby experimented with a simple thinking strategy. Participants were told to think of a series of decisions as linked together. They were told that initial choices were good predictors of future choices.
The choices they made concerning deciding on a smaller reward upfront or waiting for a larger reward later. For example, a participant might decide between one piece of pizza now and two pieces of pizza in a week. It's quite similar to taking a smaller profit early rather than patiently waiting to take a larger profit later. Some participants were asked to consider the advantage of putting off taking a smaller reward upfront. By putting off taking the smaller reward immediately in early decisions, they would increase their ability to put off taking smaller rewards in later decisions, and overall, be able to patiently wait to take larger rewards across all the decisions they made.
Results of the study showed that this simple thinking strategy worked. When people were reminded of the recurring nature of choices, and that they should show self-control early on, they were able to actually show more discipline and self-control when asked to make later economic decisions. These findings suggest that if you want to trade with discipline, it is essential that you maintain discipline at all times. Don't sell early, and think, -I'll hold on next time.- The mind doesn't seem to work that way. You must show self-control early and on all decisions. So when you are about to sell early, stop! Remind yourself that the long term consequence of taking profits prematurely is that it will set a bad precedent. You won't be able to show self-control and restraint when you really need to. And in the long run, it will severely cut into your overall profits.

The Disconnected Self.

The winning trader looks at a trade objectively. One's self-esteem and identity are not on the line. All that is on the line is mere money, an abstract, meaningless stake. A common saying to heed is, -Don't let your net worth define your self-worth.- To the extent that one can trade with a Spock-like, logical and unemotional mindset, one can trade effortlessly and profitably, most of the time. But this is easier said than done. Although people's performance is best when the outcome truly does not matter, it is difficult to set up such circumstances. Many times, outcomes do indeed matter and it is hard to emotionally disconnect trading outcomes from one's sense of self.

In several research studies, it has been demonstrated that performance is hampered when outcomes are tied to one's sense of self, or one's ability to satisfy basic psychological or emotional needs. For example, if one's economic survival depends on achieving a fixed sales quota that is hard to obtain, achieving the goal is more difficult. It's like when a college student crams for an exam all night. It is much harder to do, and one is likely to choke under the pressure. Similarly, when the outcome of a trade impacts one's sense of security or identity, the pressure is on, and it may be hard to perform under the pressure.

Trying to relieve the pressure will improve one's ability to perform. The ideal situation, for example, is a multi-millionaire who can afford to make several losing trades and lose $5,000 a day with relatively few scars. Most of us, however, are not that fortunate. Perhaps the next best circumstance is the trader who has a relatively small trading account and uses the profits from it to pay monthly leisure expenses, such as gourmet dinners or a few extra luxury items. If the losses really don't matter, the pressure will be lessened. But most traders don't find themselves in such circumstances. Many traders are interested in trading for a living, and that's when trading becomes difficult, whether it is the lone trader trying to support a family or the professional hedge fund manager trading clients' money. In these cases, the outcomes of trades do matter. If too much money is lost, one does not survive economically. The psychological impact is also substantial. One's identify is usually closely linked to being a good provider for one's family, or as a successful member of society. When one loses a lot of money, one's sense of self and self-esteem may be diminished. In the back on one's mind, one always knows that should losses mount too drastically, one can actually be harmed financially and psychologically.

How can one disconnect one's sense of self from one's trading outcomes? Preventative measures can be taken. First, one can manage risk. If you know that it is unlikely that the outcomes of a series of losing trades can hurt you, you'll feel more at ease and be able to remain calm and objective. Second, it is vital to have a sense of self that is defined in many different ways. For example, don't just define yourself as -a trader.- View yourself from multiple perspectives: a good friend, a loving spouse, a caring parent, and an upstanding citizen. Multiple views of oneself will lessen the importance of maintaining the view of oneself as -the winning trader,- and will ease some of the psychological pressure. The more you can disconnect your trading performance from your sense of self, the more you can trade logically, effortlessly, and profitably.

False Hope.

In -The Disciplined Trader,- Mark Douglas suggests, -Execute your losing trades immediately upon the perception that they exist. When losses are predefined and executed without hesitation, there is nothing to consider, weigh, or judge and consequently nothing to tempt yourself with. There will be no threat of allowing yourself the possibility of ultimate disaster.- This is sound advice, but studies by behavioural economists suggest that many traders have difficulty following it. When they find themselves in the midst of a losing trade, they persist with a losing course of action, rather than cut their losses.

Why do traders falsely hope that a losing trade can turn around? There are many possible reasons. Research studies have shown that investors tend to believe a loss is merely temporary and that if they wait it out, a losing trade will turn around. In the markets trading outcomes are often uncertain, and this uncertainty allows people to hope for the best.

Holding losing trades may also reflect what behavioural economists call the sunk cost effect. Sunk costs refer to the original amount that is paid to acquire stock. Sunk costs increase when the losing position decreases in value. During a losing trade, some traders talk themselves into believing that the -true- value is higher than the market suggests. They convince themselves that the -true- value is closer to their initial cost, or entry point, rather than its current value, and can't see why they should sell at a loss.

Denial and unrealistic optimism may be another plausible explanation. Humans are naturally risk-averse; they are afraid to gamble with their wins but are very willing to gamble with their losses. While in a losing trade, traders are willing to believe that by taking a chance and holding on to a losing trade, the odds will work in their favour and the loser will turn into a winner. Other traders believe they are special and that their special talents or good fortune will turn a losing trade into a winner. Many traders, though, are afraid to admit they are wrong. They have a natural human tendency to believe that they made the right choice. After people make a decision, they tend to search for evidence to support their choice.

All of these explanations are viable, but we propose a few other possibilities. At Innerworth, we have conducted our own analysis of the situation. We asked a sample of traders if they tended to hold losing trades and falsely hope that the trade would turn around. About 50% of our sample admitted they suffered from this ailment. What were these traders like? They tended to show less discipline and self-control in their personal and trading life than traders who readily closed losing positions. In addition, they tended to base their trading decisions on their intuitions rather than specific facts, and they tended to experience unpleasant emotions, such as anger, fear, and disappointment more frequently. If you show these personality characteristics, you may be prone to hold on to a losing trade, but you can overcome this tendency if you try.

First, accept the fact that losses are commonplace. You should expect to lose. Don't take losses personally. Losses do not reflect on you or your personal worth. They are routine in the trading business and should be put in the proper perspective. If you take losses in stride, you'll feel better. Second, define your potential losses before you execute a trade. Third, practice exiting your losing trades with precision and accuracy. Visualize encountering a losing trade and exiting promptly. There's no point in falsely believing that a losing trade will turn around. Take losses in stride and move on.

Extreme Patience.

Did you invest in stocks during the rally earlier this year and now regret your decision? If you are a short-term trader, you may want to just accept the loss and close the position, but longer-term investors may want to wait to see if their original hunches about their positions were right. For the past few months, stock prices have generally fallen, and long-term investors may have been tempted to sell.

But long-term investors may need to wait a few months to see if some of their positions will eventually reach their profit objective. It may be hard to wait for the long term. As you wait, you may start obsessing about how your positions have lost value. It's easy to start thinking you are deluding yourself, hoping against hope that a losing position will make a profit. Only you can determine whether a long-term position will recover and make a profit, but many analysts view the economy as strong and so there is the tremendous potential this year if you can afford to wait it out.

If you are a buy-and-hold investor, patience is a virtue. But many investors have trouble waiting, and if you have trouble waiting, you may impulsively decide to close out your positions too early. Few people would think of selling their house just because of a slump in the real estate market, but most investors don't apply this thinking to holding long-term positions. One obvious reason is that the media doesn't cover the daily change in your personal home every day.

You can't go to the newspaper every day and look up the current daily value of your house, and thus, you can't worry about how much its value has decreased compared to last week.

Unfortunately, you can look at the value of your stock position every day, and every minute for that matter. And when you see the current value rise and fall, you'll watch your emotions vacillate from euphoria to disappointment. If you look frequently, you increase the odds that you'll take action, and if you act out of frustration, it is usually the wrong action. When you see it fall too far, you may feel frustration and close your position impulsively.

How can you wait patiently? You could simply stop looking at the stock price every day. If you could just avoid looking, you'll be able to stay away. This is easier said than done, though. The evening newscast covers the stock market and when you see the change in the indexes, you'll be tempted to see how your positions are doing. And if you read the daily newspaper, you'll be tempted to look up how well your positions did. If you don't have a problem with patience, there's no harm in watching the news or reading the newspaper, but if you do have a problem waiting patiently, it's worth taking extreme precautions.

Stop watching the news and never pick up a newspaper! Now, your first reaction to this advice may be that it sounds a little silly. But if you have a problem with patience, it's vital that you take precautions. If you are trying to patiently wait for the next six months for a trading plan to come to fruition, for example, you must wait patiently. And if waiting requires taking special precautions, it is worth it. Reading the newspaper or exposing yourself to any information about your positions is like sitting in front of a bowl of candy and trying to avoid eating a piece.

If you put the bowl in a cabinet, it's that much easier to show restraint. And it is the same with long-term investing. So if you are a long-term investor, try not to think about your positions so often. Don't think about how well they are doing. Realize that if you think about your positions too much, and check and recheck how well you are doing, you will have trouble patiently waiting for your long-term trading plan to come to fruition. When it comes to long-term investing, the longer you can wait, the more profits you will reap.

Building On What You Do Best.

A goal of every trader is to consistently earn substantial profits. It's hard to achieve this goal, however. The only way it can be done is through persistence and practice. Many are drawn to trading, but few can actually trade for a living. This is a discouraging fact of trading, but one need not dwell on it. When one first embarks on a trading career, it makes little sense to immediately rule out the possibility of making huge profits. You don't know whether or not you will be one of the few who will make the grade.

In the meantime, it's useful to focus on more short-term, immediate goals: you should focus on learning reliable trading strategies, building up trading skills, and identifying personal-psychological limitations that may impede your performance. And perhaps the best piece of advice a novice trader can follow is to focus on the few key things that one is doing right, use that as a foundation, and then build up your trading skills, and your self-confidence, from there.

Even the least profitable trader does something right. For example, a trader may know how to find a good trading opportunity, but may not have the proper capital to make it pay off. Other traders may leave too much of their trading plans unspecified, and thus, while under pressure to perform, they may have difficulty executing the plan in an effortless, mechanical fashion. Still, others may use reliable trading strategies and delineate clear trading plans, but they may allow their emotions to undermine their efforts. Regardless of the basic limitation, the key to turning an unprofitable technique into a profitable one is to focus first on the elements that are working. In other words, perfect what you do best.

Identify what you are doing right, and make sure that you continue to do it over and over again. For example, if you know how to pick, and use, a particular indicator that works under a specific set of market conditions, stick with it. Don't move back and forth until you are certain you've mastered the use of the indicator. Once you've mastered the technique, you can build on it. You can focus on other parts of your method that need fixing. Have you accounted for all possible adverse events that may go against your plan? Have you clearly specified an entry strategy, exit strategy, and risk control strategy?

Once you have a few key ingredients in place that work for you, you can look at what you're doing wrong. Perhaps you are a little too emotional and choke under the pressure of executing your plan. Once you have part of your technique mastered, such as a winning trading strategy, you can address a different aspect of your trading, such as gaining control over your emotions. You can then try out ways of gaining control over your emotions, such as reducing your position size to such a minuscule amount that it won't affect you emotionally.

You may want to use the automatic settings on your trading platform, or leave specific instructions with your broker. (Remember, at this stage, you're just trying to build up your skills; you don't have to be profitable yet.) Again, the key is to identify the parts of your trading methods that work and make sure you do what works consistently without alteration. Once you're absolutely sure that you have these key components mastered, you can then move on to fixing other parts of your technique. But don't make the mistake of trying to change too much at once. After you find something that works, stick with it.

Many seasoned traders, in recounting how they learned to trade, say they took the greatest hits to their trading account when they tried to trade in market conditions where they had not yet developed solid, reliable skills. For example, a trader may have mastered trading only during the first few hours after the markets open. Rather than sticking with what they did best, they moved on to other methods too quickly.

Even though they had made consistent profits during the opening hours of the markets, they decided to trade during the close, a time when they had no experience. When they tried to trade the close, however, they lost money. It's important that one tries to expand one's skills by trying out different strategies under various market conditions, but it is also important to take small steps. Wait until you are ready. Don't move ahead too fast.

Trading profitably requires self-evaluation and practice. It's necessary to identify which parts of your method are working and which parts are not. The key to improvement, however, is to identify what you are doing correctly and slowly building upon this foundation. By doing what you do best as much as possible, you'll soon develop a method that will produce consistently profitable results.

They Say It Couldn't Be Done.

At a family reunion, Jake meets his second cousin for the first time, Ron, an insurance agent. Ron asks Jake, -What do you do for a living?- -I'm a trader,- says Jake proudly. Ron smugly retorts, -There's no way to make a living as a trader. What do you really do?- The world is full of cynics like Ron. They've heard about trading, and perhaps they've tried it, but they didn't achieve financial success, and they don't know of anyone who has. Understandably, they believe it's impossible to make money in the markets. Cynics who are limited in their thinking aren't going to go far in this business. Indeed, trading isn't easy money. If it were, everyone would be making $1,000 a day. The winning trader doesn't wonder, -Can it be done?- No. The winning trader assumes it can be done and asks, -How can I learn how to do it?-

I'm not suggesting that an optimistic attitude by itself is going to turn you into a super-trader. But it is a prerequisite. You have to cultivate a can-do attitude in this business. You have to be willing to sift through the hype and the get-rich-quick trading schemes until you find something that works for you. In the five years that Innerworth has been studying traders, we've heard a multitude of stories from people who put all their faith in a trading guru and blew out their account.

The difference between winning traders and the ones who cynically gave up, though, is that the winning traders continued to refine their trading skills. They continued to study the markets with a passion. They continued to read about successful traders in an honest attempt to gain knowledge. They continued to search until they found a solid fit between their personality and a trading style that suited them. And most importantly, they remained open to possibilities. They didn't hold on to a preconceived notion of how to trade. They realized that markets change and that to be profitable, it's essential to continually find new trading opportunities, and ways to trade them, in the market to market.

You'll never know where the next super-trader will come from. A subject of one of our Innerworth case studies was a college student who traded his father's account. His passion was trading. He read two books about trading every week and worked late into the night trying to identify stocks that might produce a profit. He wrote up detailed trading plans, chatted with other young traders, anything to give him an edge. He taught himself accounting and read through financial reports as if they were thrilling mystery novels. After about two years, he documented a track record of over a 100% profit.

Cynics didn't believe him. On trading chat rooms, he was accused of exaggerating his performance. When he went to traditional firms on job interviews, he was politely turned down. But did he give up? No. He went to family and friends and asked them to invest in a hedge fund he started? Soon, a few private traders decided to give him a shot and invested too. In his first year of trading his hedge fund, he made a 300% profit. Maybe his success story is an anomaly, but here's the point: If you allow your beliefs to limit what you can do as a trader, you won't succeed. You'll stop searching for new opportunities.

You won't do the necessary work to become a successful trader. Trading expert Mark Douglas calls this state of affairs, existing in a -reality gap.- You'll create a gap between what you think you can do and what you actually can do. There are abundant opportunities to make a profit in the markets, but you need to work hard and diligently to find them. It can be done. There are traders out there who make profits day after day. The decision you have to make, however, is whether you want to sit on the sidelines and say, -It couldn't be done,- or jump in resolute and confident, and work tirelessly until you achieve enduring financial success.

The Drama of the Markets.

The number of psychological theories to explain human behaviour seems endless. It's as if every psychologist wants to propose his or her own theory, and convince the rest of the psychological community that it offers a new perspective. A few psychologists have extended psychological theory to the study of the markets, and have presented their theories in investment psychology books. But in a rare example, Dr Karl E. Scheibe, a psychology professor at Wesleyan University, has done the opposite; he uses investor behaviour in the stock market to support a general theory he has proposed about human motives.

In his book -The Drama of Everyday Life,- Dr Scheibe argues that everyday life is replete with numerous dramas that are played out over and over. As humans, we seek out drama. -Drama relieves human beings from the boredom and sameness of repetition,- according to Dr Scheibe. Throughout his book, Dr Scheibe describes several examples where people in their everyday lives seek out the drama as an antidote to boredom. In a chapter entitled, -Fear and Greed,- he discusses how people find drama in the stock market.

As you've probably heard countless times by now, market behaviour is motivated by fear and greed. Dr Schiebe tries to expand this position. He notes an asymmetry between fear and greed: a loss is more fearsome than again is pleasing. Tversky and Kahneman's studies on risk aversion provide the best scientific illustration of this principle. For example, when asked to make a choice, people accept a sure profit of $100 over a 50% chance of winning $200. People don't like risk and will always take the sure profit.

The consequence of risk aversion for investor behaviour is that, in general, people's losses exceed their gains. That is, most people will be primarily motivated to avoid the unpleasant feelings of a possible loss, and thus, liquidate their positions prematurely. And because of their insatiable greed, they will keep reinvesting in the markets. This cycle of selling prematurely and reentering the markets means that most investors will lose overall rather than profit.

So why do most investors continue to invest in the markets when they will continue to lose? It isn't merely greed since the greed motive is less powerful than the motive to avoid risk. If it isn't greed, then what is it? They need drama. To fight off tedium and boredom, they invest. They create a dramatic interplay. They become excited about winning but get scared about losing, and sell to protect what they have left. But then boredom sets in again. The desire to make big profits excites them, and they enter the markets again. And so the drama repeats over and over.

Dr Schiebe notes that the search for drama is not restricted to amateur investors, but extends to professional money managers as well. All professional money managers are aware that the vast majority does not outperform the indexes. They would be better off purchasing a representative set of securities and just leaving it alone for a year. They could go fishing, relax by the beach, or climb a mountain, do anything but touch the investments.

By doing so, their funds would at least match the annual growth of the index, which is better than what most fund managers achieve. So why don't they do so? It's the need for the drama. It's not very exciting to leave the investments alone. They sought out exciting professions as fund managers, and so they continue to go to work every day, try to beat the index, and add more drama to their lives, even though the majority would do better to just leave the funds alone.

Dr Schiebe's psychological analysis of stock trading may not provide very many new insights, but it is interesting, nevertheless. Behavioural economists and seasoned traders have long noted that market trends are a function of the fear and greed of the masses. But why people are drawn to the markets in the first place is a matter of debate. Dr Schiebe's explanation that people invest so as to satisfy a motive to seek out drama and ease boredom is a reasonable explanation.

What does this psychological account offer to the professional trader? It's useful to understand the motives of the masses and see how irrational they are behaving. By seeking out thrills and excitement, they will buy stocks but sell them prematurely for a loss, out of panic. As a trader, you can be right there, ready to take their money. While they buy and sell stocks to add drama to their lives, the professional trader can anticipate how they act on their fear and greed and make money from their predictable moves. But on the other hand, it's vital to acknowledge one's own powerful need for drama and excitement.

A professional trader is just as human as an amateur trader, and thus, has a need for drama and excitement in everyday life. Everyone needs drama and excitement, but it is vital to keep these needs out of your trading life. Trading can often be tedious, repetitious, and boring. One must systematically execute a trading strategy consistently, over and over. It's a mistake to fall prey to the need to seek out drama. The solution? Make sure you get your drama and excitement in a different arena, outside of trading. If you satisfy this need somewhere else, you can deal with the relatively boring and repetitious nature of methodically trading your plan.

The markets are exciting and offer drama, but make sure that you stay professional, and don't let the drama of the market undermine your trading plan.

The Drawdown Mentality.

It's hard to come back when you're down. Trading is easier when you are ahead of the game. There's no pressure to make up losses. You feel free and creative, ready to take a risk. But when you have to work hard for an entire month, or longer, just to break even, you can feel a wide range of emotions, which in turn can make you do things you just don't want to do. Returning to profitability, however, requires that you don't react emotionally. Instead, you must diligently control risk, and make trade after trade slowly and methodically until you make back what you have lost.

People react differently to a severe string of losses. Many seasoned traders take it all in stride and keep plugging away until they turn things around. But other traders may take the situation personally. They may feel that they have done something wrong. They may feel like a failure. At that point, pessimism and denial may set in. They may not want to face the trouble they are in. It's easier to just retreat and forget your troubles. These negative emotions, though, may stifle their creativity and deplete the needed psychological energy to fight back and win. Although it's tempting to fall prey to pessimism, it's vital that you maintain a winning attitude. You must trust your abilities and believe that if you make a heroic effort, you can recover from a drawdown.

Another reaction to a severe drawdown is to seek out revenge as if you are fighting an opponent. Although a revenge mentality can make you feel powerful, it can also make you feel that you are omnipotent. You may erroneously think that you have more control than you actually do and you may start taking unnecessary risks and trading impulsively. In most cases, fear resides at the core of a revenge mindset. It is difficult to accept a big loss that will take time and effort to recover from. To cope with the fear, you may start to fantasize about how you can make back losses: -If I make 10 big trades in the next week, I can make up for all my losses.- Soon, you start to believe that you can actually do it. But if you do, you may be taking unnecessary risks, which can make matters even worse in the long run.

There's only one way to recover from a drawdown safely. You must carefully manage risk and use the most reliable methods possible to make back losses. It's difficult emotionally to handle it, though. You can't feel down, but at the same time, you can't feel overly optimistic in an attempt to unrealistically overcome a major setback. Instead, you must stay calm, determined, and rational. You must work at a steady pace until you make enough profits to break even.

Don't Make a Drawdown Even Worse.

Stan's been in a slump. He's made very few winning trades in the past month. He's starting to question his skills as a trader and wondering if he will ever return to profitability. He has taken it hard. Usually, Stan is energetic and ready to face the trading day with enthusiasm and vigour. But recently, he has approached the start of the trading day with dread and skepticism. Stan usually gets up early, changes into a comfortable pair of jeans and a golf shirt, and goes to his favorite diner for a light breakfast.

But these days, he stays in his bathrobe and doesn't bother going out. He reasons, I might as well save the money on food and dry cleaning and just stay home. I'll need the extra cash to recover from this drawdown. There's a problem with Stan taking the drawdown so hard: He's just making matters worse. Slumps and drawdowns are a fact of trading. One should expect them. But Stan is over-interpreting the significance of a drawdown. He's letting it shake his confidence and he is changing his attitude and his behaviours to reflect a bleak, pessimistic outlook. However, it's vital to stay optimistic in such times. Don't make a drawdown even worse.

When events don't go our way, we are especially vulnerable. Everyone has the potential to feel a little uneasy and question one's skills and confidence when nothing seems to be going right. Suddenly, all the memories of our past glories may be forgotten and all our defeats brought to the forefront.

At that point, the availability heuristic may bias our outlook. When people make estimates of the probability of future events, they often use past memories as a basis for making these estimates. So if our past failures are at the forefront of our minds, we tend to predict poor outcomes for the future and have wavering confidence. On the other hand, if we only seem to remember our most brilliant successes, we tend to be overconfident. A little overconfidence when one is in a pit of despair may be more helpful than detrimental, however.

Stan has made the impact of the availability heuristic even worse. By changing his behaviours to be consistent with a pessimistic outlook, he has become even more discouraged. What he should have done was stay as consistent with his usual winning stance as possible. He should have done everything he usually did, such as changing into his work clothes and eating breakfast at his favourite diner as usual.

By sticking to his routine, he might have still felt a little uneasy and a little unsure of the future, but at least he would have not made the situation worse. In all likelihood, the slump would have passed and he would have soon returned to profitability. But in Stan's case, his pessimistic view and his corresponding pessimistic behaviours created extreme feelings of despair, and when this happens to a trader, it may impact trading decisions, which may produce even more losses.

Trading is a challenging business. It's essential that you maintain an objective, rational approach to trading. But there are times when slumps and drawdowns can shake the confidence of even the most astute trader. It's at these times that one must be especially careful to avoid falling prey to pessimism and despair. It's vital to keep a positive outlook, weather the storm, and persistently work to return to profitability.

Just Drop It and Move On.

It's wise to learn from your mistakes. There's no sense in making the same mistake twice. Despite the wisdom of this sage advice in everyday life, however, it may not work very well for trading. Sure, you shouldn't make bad decisions, like risking 80% of your capital on a single, losing trade. You only need to make that mistake once to know it isn't a good idea to do it again. There comes a point, however, when too much over-analysis and deliberation is fruitless. If you spend your life mulling over what you did wrong, or what you could have done, you'll waste a lot of time and energy on the past to no avail. When it comes to trading, it is often best to just drop it and move on.

Sound decision-makers examine all their options before making a commitment. But when it comes to trading, there are times when you must limit your deliberations. You can't overdo it. And in the end, once you've considered your options, there isn't much else you can do. It is vital that you quickly make a decision and execute the trade. You may desire perfect, comprehensive information about the markets, but you'll never find it. It would be nice to have infallible information and be able to sift through it carefully but that isn't the way short-term trading works. You have a limited window of opportunity and you must act in a timely manner.

Once you rule out all possible adverse events, such as interest rate hikes or earning reports, you must take action. If you were to refine your golf or tennis swing, you wouldn't mull over it. You would go out and practice. You would get as much experience as possible until you developed the skill you needed to execute your moves effortlessly and flawlessly. It is much the same way with trading. You need to execute as many trades as possible to get a feel for the markets. Ideally, you should trade under a variety of market conditions and hone your skills. There is a strong tendency, however, to hold back. Depending on your personality, you may be tempted to hesitate and worry about losing money.

Most of the time it is quite adaptive to worry about losing money. Humans are naturally averse to risk. We don't like to lose. We don't like to get hurt, and this tendency to avoid pain often gets in the way of making a swift decision. But winning traders are ready to take the risk. They are ready to put their money on the line, and they look forward to seeing what happens next. They know that there is no substitute for experience and you can't gain experience if you hold back and shy away from executing trades. You must make trade after trade to pay your dues and gain the experience of a seasoned trader. Sure, you may lose money, but if you limit your risk, you'll minimize your losses. And you can look at the money you lose as merely the -tuition- you must pay to learn how to trade.

Sometimes analogies are useful when learning how to trade. Trading is much like learning to master a skill. And mastering any skill requires practice. That means honing skills through gaining experience. And usually, it means viewing setbacks as opportunities to learn rather than as something to dread. So as you try to master the markets, keep in mind that when you encounter a setback, it is often wise to avoid mulling it over too long. Just drop it and move on.

Are You Preparing For a Crash?.

The market seems to be going down. Is it time to think about gloom and doom? Perhaps. At least some market analysts seem to think that the masses have lost confidence in the economy, and these perceptions contribute to the bleak outlook many traders hold of the future. High-interest rates have made many think of running. Many are ready to duck and cover. If the economy is ready for a downturn, it may be time to start thinking like a contrarian.

Is it time to stand aside until things improve? If you prefer to follow the masses, it may be time to stand aside. But if you are a rugged individualist who does not mind going your own way rather than following the masses, it may be time for you to step up to the plate and hit a few home runs.

There's no right or wrong way to trade. Some traders prefer safety. They prefer to trade only during a solid bull market where everyone is enthusiastic and the indexes go nowhere but up. But the markets don't always go up, and there are times when you have to think creatively and go your own way. To trade like a winner, you must think outside the box, guessing what the crowd will do next, and anticipating how the movement of the masses can benefit you. The astute trader knows when to follow the crowd and when to go against it.

The crowd is usually right until the market trend turns. Some analysts are saying that we are in a turning point right now. It may be that an overvalued market is correcting or it may be that the economy is going to head south. Whatever it is, many are planning for a crash, maybe not a big crash but a little one at least.

The challenge is deciding if we are in a turning point and if we are, developing a trading plan to capitalize on it. How do you do that? A contrarian thinks creatively. For example, during the Great Depression, radio became a big hit. People didn't have money to go out on the town, so they stayed home and enjoyed -free- entertainment on the radio. If you are a creative trader, you must anticipate which stocks will go up as a result of an economic downturn. Obviously, in 2006 the radio isn't going to be the hot, new industry that suddenly makes the big profits that bolster stock prices. But there will be some new industry that is going to be the next big thing. If you think outside the box, you can identify sectors that will move upward in the future.

This all sounds great in theory, but in practice, it is difficult to anticipate which stocks will move upward in the future. How can one predict the future without a crystal ball? It is almost impossible. All you can do is to make an educated guess, but at the same time, be ready to admit that you may be wrong. Whatever you decide, however, you must temporarily have full confidence in your method, put money on the line, and act decisively. Sometimes thinking independently is lonesome and scary, but in order to be on the winning side, you have no other choice but to go your own way.

So think optimistically. Do not run away like most people. Give it your best shot and think of ways to make a profit while the masses are fearfully and hopelessly getting ready for a crash.

Developing Your Psychological Edge.

At Innerworth, we focus on teaching traders to cultivate their psychological edge. But some have asked us whether or not we have been overstating the importance of psychological issues. They ask, aren't trading strategies more important? Surely, without sound, reliable methods, a trader can't hope to be profitable. But time and again, in our studies of hundreds of traders, we've found that a trader's mindset plays a pivotal role in achieving lasting success. Without a psychological edge, you'll end up among the minions of would-be traders who seek out success yet never realize it. There are key ways you can cultivate the proper mental edge.

The most significant prerequisite is to stay calm and relaxed. You can take both internal and external steps to cultivate this optimal mental state. Internally, you should get adequate rest and use stress management strategies to stay objective and attentive. Externally, you should manage risk on any single trade. If you truly know that a losing trade has relatively little impact on your account balance, you will be more easily able to remain calm.

Attitude also plays an important role. Many novice traders are afraid to face the worst-case scenario, which is that they can't trade profitably, or that they will never achieve lasting success. What often happens is that a great deal of psychological energy is spent arrogantly denying what can go wrong. Paradoxically, if potential problems are faced head-on, much less energy is spent dealing with them.

It is useful to cultivate a fighting spirit. Don't be afraid to face your limitations. Workaround them instead. With realistic optimism, you can beat even the most seemingly insurmountable problem. When it comes to trading, you may not master the markets overnight, but with enough work and effort, you'll eventually achieve lasting success.

Many novice traders get bogged down because they focus on making big profits, and the status and respect that may go with them. There's a disadvantage that comes with taking such an approach, however. You end up putting extra pressure on yourself to perform beyond your skill level, and when you do that, you usually choke under the pressure. It is better to focus on the process of trading. Focus on learning how to trade, rather than on the extrinsic, monetary rewards of trading. Another reason for focusing on the process rather than the prize is that you will not set yourself up for failure. Striving for profits is consistent with the -made it a myth.-

The made it a myth is the idea that should you gain the profits you desire that you will, in turn, receive the status, respect, and approval you want. But the truth is that money can't buy the status, respect or approval you desire. If you are hoping the profits you make from trading will make you feel deep down that you have -made it,- you are in for a disappointing shock. In the end, there's no good reason to focus on the profits you make. Doing so will do more harm than good.

Finally, it is useful to focus on meeting your own internal standards rather than looking toward other traders for how well you should be doing. Everybody has his or her own unique learning curve. Some people pick up trading relatively quickly while others need to spend a great deal of time honing their skills.

Don't make the mistake of thinking that just because you aren't doing as well as other traders that you have less talent or are doing poorly. You may be working on a different timeline than others. So ease up. Don't put a lot of unnecessary pressure on yourself. Accept what you can do, and keep practising. The more time you put in, the more your trading skills will develop. Eventually, you'll cultivate the proper mental edge you need to achieve lasting success.

The Efficient and Successful Trader.

How much time do you spend preparing for the trading day? Do you spend hours scouring the markets for a winning trading opportunity? Do you watch hours of commentary or read all the major financial newspapers? You don't need to spend hours and hours reading about the markets if it doesn't directly lead to a profit. For example, most media coverage of the markets is for entertainment value, so spending hours reading or viewing it is a waste of valuable time. You need to work efficiently and make sure that the time you spend learning about trading and the markets does indeed pay off.

Consider how Mark, a seasoned hedge fund manager, prepares. He shared his morning routine with our Innerworth staff: -I look at about 300 charts every day. That gives me a good feel for what the markets are doing overall. I try to see whether a lot of different markets are signalling the same thing and breaking out at approximately at the same time. I wait for that to happen before I take a position. When it happens, it's fairly clear, and I really don't have any problem with courage at that point.- The seasoned trader doesn't spend hours the night before preparing. Instead, the seasoned, winning trader can prepare right before the trading day begins. Rather than wasting time on tasks that don't pay off, the winning trader works efficiently.

Seasoned traders may work efficiently, but novice traders may need to spend a little extra time preparing. It's difficult to become a skilled and consistently profitable trader. Only an individual with rare talents can rise to the top 2% who make it as a top-notch trader. It does indeed take dedication and hard work. However, some make the mistake of thinking that trading is like a regular 40-hour a week job. The idea that an hour of work directly produces an hour of pay is not pertinent to trading. Trading is more about accomplishing a specific target and making a profitable trade, rather than putting in a specific number of hours. For instance, if it takes only 15 minutes for a skilled trader to make enough profit to have a year's worth of living expenses, then so be it. Seasoned traders don't have to spend 40 hours a week to make a living if they have the requisite skills (and novice traders may need to put in more time building up these requisite skills).

The point is that if you're a novice trader, you can't work under the belief that everything you do will have a payoff. You must also consider that there are a fixed number of hours in the day that you can work, so you must spend that time efficiently. Trading is a challenging profession, and you need to focus your psychological energy on what matters most. For example, don't be distracted by learning additional trading strategies that you will never use, or new indicators that are redundant with basic indicators of trend. And don't believe you must keep up with all the media hype. Focus, work efficiently, and in time you will build the skills you need to become a consistently profitable trader.

Taking It One Step at a Time.

Sam tells his best friend, -I want to be an expert trader. I want to be able to handle anything the markets throw at me.- This is a nice sentiment, wanting to be a trading virtuoso who can trade under a variety of market conditions with many different methods. It's also an ambitious goal, however. It takes time to gain the vast experience required to trade in a variety of market conditions, and the advanced skill set required takes a great deal of practice. Many novice traders would find the task daunting, and should they encounter setback upon setback, they may become extremely discouraged. A more useful approach for a novice trader is to pick a few key trading strategies, identify the market conditions where they perform optimally and trade under these ideal conditions to build up trading skills and confidence.

There's merit in taking it slow when it comes to learning how to trade. It's essential that a novice trader build up a sense of confidence with a few key strategies. Psychologists refer to this process as building up self-efficacy beliefs. Self-efficacy is different from self-esteem. A person can have low self-esteem yet believe that he or she can perform a specific task under a specific set of circumstances with a feeling of self-efficacy. Similarly, a novice trader may believe that he or she is an average trader but has specific abilities when trading a particular trading strategy under specific market conditions.

For example, suppose you know you can trade in a bull market using just a few key signals. It may be useful to trade this strategy at the start of the trading day. There's a good chance that you'll achieve success and feel good about your initial abilities. In other words, you'll feel a sense of self-efficacy. Now, you may also know that should market conditions change, you won't be all that competent. But at least the initial start will put you in the proper mindset. You'll feel an initial sense of confidence and that can go a long way in terms of trying out new trading strategies under novel market conditions, or it can help you cope with the daily stresses and strains of the chaotic market action.

Research on self-efficacy has shown that when people believe they have self-efficacy regarding a specific set of skills, they set challenging goals, show unfailing persistence, experience pleasant moods, and can easily handle stress. These characteristics are conducive to profitable trading. Anything you can do to increase self-efficacy will help you master the markets and achieve long term profitability.

The two most obvious ways to increase self-efficacy are to start off trading with methods you have mastered so that you meet with initial success and increase your feelings of efficacy, and to practice and gain experience as a trader. The more success you achieve, the greater your self-efficacy, and the more likely you'll be able to trade in a greater variety of market conditions and persist until you achieve consistent profitability.

So don't be overly ambitious. Set realistic goals, achieve initial success, and build up your sense of self-efficacy. The greater your self-efficacy, the more success you'll achieve, and the more profitable you'll be in the long run.

Slowing Building Up True Self-Confidence.

Overconfidence is a curse for the novice trader. When people first start trading, they want to do nothing more than win. And in their quest for profits, they may take unnecessary chances and pay the price for it. But you can't become a winning trader overnight. It takes time and practice. In his book, -The Way of the Dollar,- John Percival observes that inner confidence is -partly an inherent state of mind and partly the result of long experience of seeing the rules working.- Percival warns, however, -no one but a fool is convinced they can win just by playing. You win by doing your homework better, following the rules more closely, and acting more consistently than other players.- True confidence is the result of practice and experience. You must make trade after trade in a variety of market conditions until you genuinely know that you can handle anything the market throws at you.

Rather than take a fast-paced, rushed approach to learn to trade, there is a virtue in taking it slow when you first start out. Be patient. It may be necessary at first to build up a sense of confidence with a few key strategies. Psychologists refer to this process as building up self-efficacy beliefs. Self-efficacy is different from self-esteem. Self-esteem is a personality trait that develops over time and maybe the result of early childhood experiences. But low self-esteem can be conquered in the short term.

For example, a person can have low self-esteem yet believe that he or she can perform a specific task under a specific set of circumstances with a feeling of self-efficacy. A novice trader, for example, may believe that he or she is an average trader but when trading a particular trading strategy under specific market conditions, he or she may trade like a market wizard.

For example, suppose you know you can trade in a bull market using just a few key signals, and you know this strategy works best during the middle of the trading day. If you stick with this strategy and use it only under ideal conditions, there's a good chance that you'll achieve success and feel good about the progress you are making. The more winning trades you make, the more your self-efficacy beliefs will increase. Once you build up some basic skills and a sense of self-efficacy, you'll have the courage and confidence to try new trading strategies under novel market conditions, and your trading skills will continue to improve.

Research on self-efficacy has shown that when people believe they have self-efficacy regarding a specific set of skills, they set challenging goals, show unfailing persistence, experience pleasant moods, and can easily handle stress. These characteristics are conducive to profitable trading. Anything you can do to increase self-efficacy will help you master the markets and achieve long term profitability.

The two most obvious ways to increase self-efficacy are to start off trading with methods you have mastered so that you meet with initial success and increase your feelings of efficacy, and to practice and gain experience as a trader. The more success you achieve, the greater your self-efficacy, and the more likely you'll be able to trade in a greater variety of market conditions and persist until you achieve enduring profitability. So build up your sense of self-efficacy and you'll trade more profitably.

A Big Ego Boost.

Traders are notorious for their overconfidence. They trade beyond their skill level and comfort zone and pay for it. It's understandable, though. Who doesn't want to win, and win big? For many traders, overconfidence reflects a form of denial. The novice trader may have difficulty accepting his or her limited trading skills. It's hard to face losing, and the best way to deal with feelings of inadequacy is to mask them with an arrogant, unrealistic sense of overconfidence. But overconfidence can be harmful.

If you don't carefully manage risk and methodically outline your trading plan, you may execute a trade that has disastrous results. That said, you can't feel stuck and paralyzed when you are about to execute a trade. A profitable trader must find a balance between unrealistic overconfidence and extremely low confidence. If you've taken all precautions to develop a well-defined trading plan, yet lack the confidence to pull the trigger, you might want to give yourself an ego boost.

Some traders have trouble maintaining a valid sense of confidence. They've done all their homework, accounted for all possible adverse events, and have risk management in place, but they still have trouble feeling safe enough to execute the trade. If this happens to you, drastic measures may be required. You may need to boost your confidence. Here are some steps you can take.

If you suffer from low self-confidence, try a little boasting. Write down your biggest accomplishments and read them over. Maybe it's a business deal that brought you praise at work, or the A you received in the hardest course you studied in school. Or maybe, you have a big winning trade that reminds you of your skill and talent as a trader. Whatever it is, it's helpful to think of this winning experience when you feel down and beaten.

If you're having trouble pulling the trigger, it may also be all right to pretend that the trade you are about to execute will be a big winner. You must use this method carefully, however. You don't want to pretend the trade is a winner when you are first formulating your trading plan. But once you have thought it through completely, and are ready to execute, yet have irrational levels of low confidence, fantasizing about how the trade in front of you is a winner about to come to fruition can give you the confidence boost you need.

Other forms of fantasy can also be helpful. You might fantasize about winning the Indy 500 or throwing the winning touchdown pass in the final seconds of the Rose Bowl. The mind can get stuck in place when you have low confidence. Imagining yourself accomplishing your wildest dreams can quickly activate the part of your brain that makes you feel enthusiastic.

You can also get your mind to feel confident through physical activity. Physical exercise can activate the parts of the brain responsible for optimism and psychological energy. You might also listen to some inspirational music to get your mind active and moving forward. For example, the song -Far From Over- is up-tempo and has inspirational lyrics, such as -I am down, but I am far from over.- Other songs that inspire people are the theme from -Rocky- or -We Are the Champions.- Music and exercise can get your physiology moving. You'll feel relaxed, energized, and ready to take action.

So if you are intellectually sure that you've done all you could to make a winning trade, yet are emotionally stuck, give yourself an ego boost. It will give you the confidence you need to execute the trade.

The Big Ego: Knowing When To Control It.

A big ego reflects an exaggerated view of one's abilities. We've often said in this column that such a mindset can be fatal for trading, where accurate and realistic perceptions of one's skill level are crucial. A big ego often reflects low self-esteem. When people feel inadequate, they often tell themselves that they are superior so as to bolster their feelings of incompetence. It's hard to escape this dynamic process of -ego defence.- Everyone feels inadequate every now and then, and thinking, -I'm doing great- can soothe unpleasant feelings of incompetence. It's probably not a good idea to do this very often, but doing so from time to time is relatively harmless, and it may even be a useful strategy when used sparingly.

Just as with any pleasurable activity, telling yourself that you are a smart and brilliant trader has its time and place. It's fun occasionally, but if you do it too often, you may never look at your trading skills objectively, and take the necessary steps to build the skills you need to become a successful trader. It is best to restrict such self-enhancing strategies to off-hours rather than during the trading day.

A big ego isn't entirely bad. Once in a while, it can be used as an effective motivator, especially when you have a severe drawdown and feel like you just want to give up. Sometimes it's fun to dream of how success as a trader can make life wonderful. If you are motivated by having a nice car or a big house, you will work extra hard to get those things. For many people, it is quite motivating to dream of how the big money you will make trading can help you achieve important life goals.

But at the same time, you need to put these goals in the proper perspective: It's fun to dream, but it's dangerous to be solely motivated by big money and bragging rights. If you allow yourself to be motivated to seek out these goals to build yourself up, you will be putting too much of your identity and self-worth on the line with every trade. This approach will fail in the end. You will put too much pressure on yourself to succeed. You'll put yourself under extra stress and may -choke- at critical decision points while trading. So when you are trading, keep your big ego under control.

How do you control a big ego? It's not easy. It requires brutal honesty when assessing your trading skills. You've got to get an accurate assessment of your skills, identify your weaknesses, and build skills to compensate. Focus on performance rather than potential rewards to your ego and social status. Doing so will help you control your big ego and prevent it from marring your trading record.

Many traders have a big ego, and many traders have failed because of it. If you have a big ego, learn to control it. Your long term success depends on it.

Combating Ego Shock.

Sam has been monitoring a position for the past week. He bought at $50 and had a target of $52. For the past week, the price moved according to plan. Sam was feeling good about his progress. He had been working on the trade for the whole month, and he couldn't wait to see his hard work pay off. Suddenly, however, a few key companies missed analysts' projections and the entire sector took a hit. The price fell hard to 49. Sam was devastated. The loss was a significant letdown. Not only had he lost pride, but felt his ego was dinged. It was hard for Sam to pick himself up, but when trading the markets, you can't stay down for long. It's vital to take losses in stride.

How you react to losses can be a matter of how you look at matters. Do you take losses personally or merely view them as a commonplace event when you trade the markets. A study by Dr Keith Campbell and colleagues illustrates that a threat to self-esteem can produce a phenomenon called -ego shock- (Campbell, Baumeister, Dhavale, & Tice, 2003). When people experience a major threat to their self-esteem, they tend to react automatically with an overwhelming, immediate sense of shock. The greater the threat, the more they feel shocked. They are stunned and unable to recover.

Traders can experience ego shock when a loss is too great and unexpected. At the very moment when they need to take decisive action, they are stunned and unable to respond calmly and rationally. Although it's natural to react to major setbacks with shock, the winning trader can't be fazed. It's essential to regain composure and take action.

What can you do when you experience a significant threat to your ego? First, realize that when a major threat happens, you are naturally inclined to feel shocked and stunned. Once you admit that ego shock is a possibility, you can work around the problem. Second, minimize the potential for shock. You will experience a debilitating sense of shock when the threat to your ego is great. A commonsense solution is to reduce the threat. The more risk you take on, the more likely you will experience ego shock.

By reducing your position size, you will decrease the potential threat and reduce ego shock. On the one hand, reducing the amount of money you risk will also reduce your profit potential, but on the other hand, lowered risk will reduce the potential for ego threat, and increase your ability to stay calm and rational when you experience a loss. Third, it's important to avoid getting caught off guard. Anticipate adverse events and expect losses. A loss will have a less psychological impact if you expect it. It may be unpleasant to think of the potential for loss, but considering the possible consequences of losses will soften the blow to your ego when you do experience a loss.

Losses are commonplace when trading the markets, but they cannot overwhelm you. Rather than experience ego shock, it's vital to take precautions to ensure that you remain calm and rational when the markets catch you off guard.

Motivating Emotions.

The stereotype of the ultimate trader has many of the same traits as Mr Spock on -Star Trek.- Mr Spock looks at events logically and objectively and follows a rational plan when approaching the solution to a problem. In some ways, Mr Spock would appear to be the ideal trader. He would carefully formulate a detailed trading plan, find the market conditions that suggest his plan will produce a profit, and then and only then, would he execute it. But, in the end, it is important to realize that Mr Spock is a fictional character.

And even if he were real, he is a Vulcan; he isn't human. Traders are humans, however. In addition, market participants are humans, and they don't always behave rationally. Indeed, they tend to be driven by fear, hope, and greed, and thus, forecasting market behaviour has proven much more difficult than space travel. In the real world, humans are emotional. Emotions rule everything in the markets. The decision you must make, however, is whether you are going to control your emotions in order to trade decisively or let your emotions rule you.

The astute trader is realistic as well as logical. It doesn't do you any good to become overly disappointed when your strategy produces a loss or overly euphoric when you hit upon a winning streak. Extreme pleasant and unpleasant emotions can be very distracting. If you are angry, frustrated, or worried, you won't be able to focus on trading consistently. Your attention will be elsewhere, and those negative emotions will sap up the limited psychological energy you have to devote to trading. It is essential to keep negative, or unpleasant, emotions at bay. At the other extreme, it isn't wise to feel too elated or euphoric.

Extreme pleasant emotions are usually the flip side of extremely unpleasant emotions. That is, it is usually those traders who experience extremely unpleasant emotions when faced with setbacks who also experience extremely positive, euphoric emotions when suddenly faced with a string of wins. At moderate levels, pleasant emotions are motivating, but at the extreme, they may be associated with impulsive decisions, such as increasing one's position size for no good reason or abandoning risk control strategies.

That said, it is almost impossible to be emotionless. Humans are emotional by nature. It is difficult to experience absolutely no emotion. In all likelihood, the closest we could get to an emotionally neutral state is indifference or boredom. Some seasoned traders say that it may be useful to feel indifference or boredom if that is what it takes to stick with a trading plan and trade with discipline. But there is an obvious disadvantage: When you are bored, you don't want to keep going. You will get tired easily and just want to quit. So what is the best way to cultivate an optimal emotional state? We know that negative emotions, such as fear, anger, and disappointment can be distracting. And we know that euphoria often leads to overconfidence and trading errors, and we also know that indifference and boredom can often have drawbacks. One possibility is to cultivate emotions that are only moderately positive, emotions that aren't euphoric and prone toward overconfidence. One such strategy is to cultivate a fighting spirit.

Rather than react to setbacks with frustration or fear, one can act strategically. You can approach the setback with a sense of humour and cultivate a positive, fighting spirit. This is not the same as being arrogant or overconfident, but realistically optimistic. You can welcome a challenge and look at the setback as a growing experience. In the back of your mind, you can use positive, realistic self-talk by thinking, -It may be difficult to meet the challenge, but with enough persistence, I'll overcome it.- The key is to cultivate the proper amount of positive enthusiasm without overdoing it to the point of being so optimistic and that you are unrealistic and overconfident.

Never underestimate the power of emotions. Extreme optimism or pessimism can interfere with your goals, but by approaching problems strategically with a realistic sense of optimism, you'll trade consistently and profitably.

Emotion Control Isn't Emotional Suppression.

Jack suddenly slammed his mouse against the wall. He was angry. He had been monitoring a trade, ready to take a quick profit, when other traders' actions impacted the price and unexpectedly thwarted his plans. He calmed down in about 10 minutes. His officemate then asked, -Aren't you tired of breaking four mice a month just because a few trades don't go your way?- Jack replied, -What's the big deal. I like to let out my anger and I feel better.-

Jack could use a few lessons in emotion control. Although winning traders can often show extreme frustration and emotion, the ideal trader acts in a calm and objective manner. That said, many people misunderstand what good emotion control is all about. They think they should try to suppress their emotions. They try to bottle up their emotions and avoid expressing them.

This isn't emotion control and it isn't healthy. Research studies have shown that when people try to suppress their unpleasant emotions, such as anger or frustration, it is ineffective. They may remain physically aroused and agitated, and their emotions may stay pent up. So in a sense, it's better to throw something against the wall. At least the emotion is expressed. However, such expressions are not entirely effective either, and they put one at risk for further emotional outbursts.

Emotions are the result of events and the interpretation of events. When things don't go our way, we typically feel anger and frustration. We feel angry, for example, because we believe that events should, and must, go our way and when they don't, it contradicts our expectations. If you hold the expectation that events should go your way, you are bound to feel frequent, intense frustration and anger. You'll be destined at best to throw mice and keyboards against the wall and at worst, hold your anger in until you have ulcers or other health problems.

Emotional control is an active rather than a passive process. Rather than just allow your emotions to happen, you must actively look at the events that are precursors to emotions and the -self-talk- that often coincides with them. For example, Jack became angry because he assumed that other market participants should not engage in activities that interfere with his goal of making a winning trade. It's natural to desire such a circumstance, but it isn't realistic. Other market participants aren't aware or don't care about the existence of other traders and it doesn't make sense to expect them to.

The consequence of holding such a belief is that you'll feel frustrated and angry. A simple alternative is to expect that it is quite likely that some mishap will occur that will interfere with your plans. A variety of events can spoil your efforts, from a poor fill to a computer glitch to changes in market conditions. If you cannot philosophically accept that you're likely to face setbacks, you'll be at risk for feelings of anger and frustration. Over time it will wear you out. It's better to think optimistically: There will be setbacks but that doesn't mean that all is lost. Over the long haul, any setback can be overcome.

Things don't always go our way and we just have to accept it. If you actively rehearse such statements over and over, you'll be able to handle a setback when you face it. You won't be as upset and you'll more easily pick yourself up, and try again. Persistence is necessary for trading survival, and the less frustration and anger you feel, the more easily you can persist against seemingly endless obstacles. Soon you'll be on your way to trading profitably and consistently.

The Emotionally Controlled Trader.

Winning traders aren't influenced by their emotions. The nature of trading demands an objective, logical approach. If one experiences extreme elation after a win and extreme disappointment after a loss, he or she will live as if riding an emotional rollercoaster: up and down, up and down. And usually, one's account balance jumps up and down as well. Many novice traders understand intellectually what it means to control their emotions.
They can envision an emotionless being, such as the ultra-logical Mr Spock from -Star Trek.- But when it comes to putting the idea into practice, they find it isn't very easy. As one novice trader put it, -How can you not get excited when you make a win and disappointed when you lose? It's natural, and you can't beat nature.- That's a good point. It may not be easy. It may take a lot of practice, but it's possible to control your emotions and achieve the objective, logical mindset that is conducive to profitable trading.

The most effective way to control emotions is to focus on concrete external influences. A significant way to control emotions, for example, is to use proper risk management. If you risk money you can't afford to lose or risk too much of it, you'll feel the pressure. On the other hand, if you minimize the amount of money you risk on a trade, you'll be able to tell yourself that the actual downside is bearable; you'll know you can easily survive the worst-case scenario. It's also vital to have a detailed trading plan with clearly specified strategies for how you will enter and exit each trade. It's also useful to place a protective stop so that you can feel a strong sense of security should the markets move against you.
A similar external source of emotional pressure is stress. If you are overly concerned with stressful life events, such as a death of a parent, moving to a new home, or problems with your spouse, you'll use up precious psychological energy coping with these issues. And when you have limited energy for trading, you'll have difficulty controlling your emotions. Emotion control and discipline take energy, and you must do everything you can to preserve the limited energy you have available. Don't underestimate the powerful influence stressful events can have on your life. If you are under extreme stress, take a break from trading until you resolve long-term stressful events.
There are also internal events that cause emotions, the way you think about trading events. If you feel you must perform flawlessly on every trade, you'll feel extreme pressure. You'll tend to be easily fearful or disappointed by minor trading errors or routine trading losses. By accepting your limitations, on the other hand, you'll feel more at ease. You don't need to be perfect. You are allowed to make a few mistakes. As long as you limit your risk and trade a detailed trading plan, you will be on your way to success.
It's important to remember that you are human. You can't do more than humanly possible no matter how much you want to. Through patience and practise you'll build the skills you need to be a consistently profitable trader.

Emotional Influences on Trading Decisions.

Market decisions are often driven by fear and greed. When we are afraid of potential losses, we sell. When we are greedy, we buy. Behavioural economists argue that it's a little more complicated than that, however. Regret and hope are also in play. People may buy and sell to avoid feelings of regret and may hold on to losing positions out of denial and a fruitless hope that a loser will turn around.

Emotions play a powerful role in decision-making. Other emotions have a more indirect influence. When we are tired or frustrated, we may act hastily, or due to mere inattention, we may make a trading error. Similarly, during a serious drawdown, it's hard not to feel a little depressed and frustrated to the point that we just want to give up the whole business of trading altogether. These examples of the influence of emotions on trading decisions are relatively obvious, but recent research studies suggest that emotional states may also have extremely subtle effects on economic decisions.

Dr Jennifer Lerner of Carnegie Mellon University has conducted a series of fascinating studies on how emotional states may influence trading decisions. For example, in one study, it was shown that people who are prone to experience intense levels of anger tend to be willing to take greater risks. Anger is experienced when we feel slighted or when we believe that we were unfairly treated. If you take things a little too personally, it's easy to feel slighted by the markets when market events don't go your way. To gain a sense of control, we get angry. We tend to want to fight back and enact our revenge. At these times, we may act out of desperation and take risks that we shouldn't.

Emotions, such as disgust and sadness, may also have subtle influences on economic decisions. In a recent study reported in -Psychological Science,- Dr Lerner and her colleagues showed that emotional states that have nothing to do with a financial issue might have a subtle impact on a subsequent economic decision. Participants watched films that made them feel one of two emotions, sadness or disgust. The movies had absolutely nothing to do with business or decision-making. The first film was about a loved one passing away, while a second film was about a man using an unsanitary public toilet. Participants were subsequently asked to estimate the value of possession while in either a sad or disgusted emotional state. At the start of the experiment, participants were given a pen and asked to hold on to it. After the emotional states were elicited, participants were asked to estimate the value of the pen if they were to sell it. In some ways, you might see how this is analogous to holding a position and determining how much the price of the stock or commodity needs to move before you would be willing to sell.

In contrast to participants in a neutral mood, participants who were incidentally disgusted or sad greatly underestimated the value of the pen; neutral participants estimated its value as about $4.50, while sad and disgusted participants put its value at about $3.00. The interesting aspect of this study is that there was no obvious connection between the emotional state and the financial decision to sell. It would be as if you watched a sad television show right before the open, and for no good reason whatsoever, under-valued a position and immediately sold too early. One event should have nothing to do with the other, yet in Dr Lerner's study feeling sad or disgusted influenced a subsequent economic decision.

Ideally, it would be nice if we could trade in a Spock-like, purely logical mindset, but we are merely humans. We experience a variety of emotions before and during the trading day. The impact of common emotions of fear, greed, hope, and regret may seem obvious to many. But it's possible that incidental emotions elicited by events that have nothing to do with the markets may bias our decisions. It just goes to show that trading is a psychological endeavour. Keeping extreme emotions at bay is paramount. The more you can stay logical and objective, the more you'll trade profitably.

Building Up Your Emotional Resilience.

Many traders experience an emotional rollercoaster. They euphorically celebrate their wins, but soon face despair as their losses mount. Emotion control is one of the most complex issues a trader must face, but traders vastly different in how they control their emotions. Some of the differences are due to temperament while other differences are due to trading style. It's useful to identify your emotional type and gain control of your emotions. By doing so, you'll be able to cultivate the winning mindset you need to master the markets.

Research psychologists have identified the ability to control one's emotions as a fundamental personality trait with strong genetic components. Some people are easily excited, moody, anxious, and prone to despair. Others are so thick-skinned that nothing can influence their outlook. Most people know to which of these two types they belong. Are you overly emotional? Do you tend to get disappointed easily? Are your feelings easily hurt? Do you feel under pressure or stressed out compared to others? Do you question your self worth or self-esteem? If you answered, -yes- to any of these questions, then you are probably the type of person who has difficulty controlling his or her emotions. And it's likely that you'll have trouble controlling your emotions while trading.

One of the best ways to control emotions is to identify the problem of -personalization.- Many times, emotional persons take many issues too personally. They continually assume that every unpleasant event they encounter is their fault, and they ridicule themselves for not taking appropriate precautions to prevent its occurrence. Now, at some abstract level, it may be their fault, but it doesn't help their ability to control their emotions to constantly dwell on this issue.

When we take too much responsibility for our actions, we tend to blame and punish ourselves when things go wrong, the same way our parents may have punished us when we were children. When it comes to performing a task, such as entering or exiting a trade, it's vital to de-personalize or objectifies matters. Rather than consider the -meaning- or -personal significance- of an action or event, it's more useful to think strategically. One must concentrate on the ongoing process of trading, and think, -What should I do next.- Many times, people are overly emotional because they give an action more significance than is warranted.

For example, a trader may think, -I identify strongly with being a trader, and if I don't make winning trades, I'll feel like a failure.- Sometimes it's useful to cast aside your occupational identity, have a happy-go-lucky attitude, and think, -I'm going to enjoy making these trades; I'll think about the consequences later.- Some people have so much difficulty controlling their emotions, it may be useful to take extra steps to remind themselves to objectify and focus on the process of trading rather than emotional significance. One can write -Objectify- and -Focus on the process- down on paper and put it near the monitor while they trade.

One can then read the message, and think over and over again, -I'm going to focus on the process and ignore the meaning.- With practice, an overly emotional trader can control his or her tendency to overly personalize each trading action.

In addition to developing personal thinking strategies for controlling emotions, it's also vital to look at situational influences. Emotional reactions can be minimized through proper risk management, for example. Traders should only trade money they can afford to lose and risk a relatively small amount of trading capital on a given trade. When you know deep down that you don't have much to lose on a given trade, you can more easily control your emotions.

Don't continually ride an emotional rollercoaster. Get off the ride and take control. You'll find you enjoy trading more, and the objective mindset you cultivate will help you remain calm in even the most chaotic market conditions.

A Time and Place For Emotions.

Winning traders are extremely disciplined. They astutely study the markets, devise a trading plan, and follow it. They control their impulse to abandon their plans prematurely, and they don't allow emotions, such as fear and greed, to influence their trading decisions. In the trading profession, emotions often get a bad rap, however. There are critical moments of investing when it's vital to control your emotions, but there are also times when you can let your emotions run wild.

Trading can be broken down into two basic phases: Planning and Execution. In the planning phase, a trader creatively searches for trading ideas and develops a viable trading plan. During the planning phase, you can feel free to experience a variety of emotions. When you execute your trading plan, though, it's essential to control your emotions and impulses. Once you plan the trade, you must trade the plan in order to take home profits.

During the planning stage, your goal is to find new trading strategies. It's a creative process, and to find them, you cannot be closed off and rigid. Not only is it all right to allow your emotions to guide you, but it may also be necessary. It's all right to psych yourself up. Get excited and enthusiastic. You need the energy to do the homework to discover an innovative idea. Depending on your trading style, you need the energy to backtest, scan charts, or read financial reports. Go ahead and tell yourself encouraging thoughts, such as -I'm a creative person. If I let my imagination run freely, I'll think of a brilliant idea.- When you're in the creative planning stage, you can think emotionally.

As you search for ideas, feel free to impulsively switch from one idea to the next. Combine and recombine ideas. What's the harm? You're trying to find a new idea. At some point in the creative process, you might even want to show some self-reproach or even paranoia. You might want to play Devil's Advocate as you try to figure out what might go wrong. In the planning stage, it's useful to defensively think of every potential adverse event that may ruin your trading plan. A little scepticism can only help matters during the planning phase.

At some point during the planning phase, though, you must stop searching and deliberating and decide on a plan. You must specify when to enter and when to exit, and determine the indicators that will allow you to monitor the success of your trading plan. Once you have a plan devised, your emotions and impulses must be controlled. At some point, you must stop thinking emotionally, and move into a rational state of mind. You must carefully enter as planned, monitor the market action, and effortlessly exit should the markets go against you, or wait for your plan to come to fruition.

Emotions aren't always a distraction while trading. There is a time and place for everything, and emotions can motivate us to develop creative ideas. But once you move from the planning to the execution stage, it's essential to trade with discipline. The disciplined trader is the winning trader.

Emotions in Context.

When you put your money on the line, it's hard to avoid getting a little emotional. Novice traders may be especially prone to experience a roller-coaster ride of emotions, feeling euphoric after a winning streak, yet disappointed after a string of losses. How well do you handle emotions? Winning traders control their emotions. They don't let their emotions control them. But emotions don't happen in a vacuum. How emotional you feel depends on the context in which you experience emotions.
Market conditions matter, for example. When the markets seemed to go up in the late 1990s with no end on the horizon, it was easier to stay calm. But after the bubble burst in 2000, many traders learned how hard trading can become. Take the story of a young trader named Dustin. We interviewed him about once a year for three years in 2000, 2001, and 2002. His emotional life changed over time, depending on market conditions and his experience with the markets.

Before the markets changed in 2000, stock prices increased with little resistance. Back then, Dustin saw himself as a relatively unemotional trader. He said, -It takes a lot to shake me up. Even if I do have one of those bad days, it just doesn't hurt that bad because I know that I'll probably make it up.- It was easy to stay unemotional back then, but after 2000, things changed.
We asked Dustin about his emotional life a year later after the bubble burst: -The days that I lose a lot are the days that I am too greedy. Maybe I'll have one bad trade in the morning, then I'll be down, and it is frustrating. And then I'll just want to climb my way out. My worst days always start out like that. Then I'll just dig my hole a little deeper all day long. Those are my worst days. That will usually carry over until at least one more day. By then, though, I realize what I did wrong the day before.
I take smaller positions at first and just try to get myself a little bit in the positive. I'm fine if I just end up making four or five hundred bucks that day because I'm just slowly climbing my way out of the hole I dug the day before. I'm not out to recapture my losses in one day.- With regard to the previous year, Dustin observed, -I get more frustrated than I used to, obviously just because it didn't use to matter so much when I was making money because I knew that I could make it back.-
Dustin continued to be introspective about his emotions. One year later, in 2002, when the markets were relatively flat, we asked him what he observed. -To make me realize whether or not I was emotional, I had to go through hard times with trading. I think it's crazy how the market can take you from a high to a low, and back to a high and then back to a low. You think you've got it all worked out, and then six months later, you're thinking of finding a new job. What I realized is that when I'm doing okay, I'm totally unemotional when it comes to trading, like when a new trading strategy has been working.
I just sit there and have a good time. Even if I have a bad trade, it doesn't bother me. But when I was having trouble, like earlier this year and late last year, when I was only able to keep my head barely above water, it was really frustrating. I guess that's when you learn more about how emotional you are when it comes to the market. I'm not the kind of guy who is going to throw my keyboard around, but it definitely has a psychological impact on the rest of my day.-
Experienced traders say that trading the markets reveals your true nature. You learn how you react to stress and how you react to failure. Over time, Dustin learned more about his emotional life. He went from thinking he was unemotional to thinking that his emotional life was more complicated and depended on his experience and current market conditions.
When asked to summarize his emotional experience, Dustin said, -Obviously, when you're doing better, it's much easier to relax and trade. I now see that I can't say I'm always an unemotional trader. It all depends on how I'm doing. I've heard that if you were to see the most successful traders who have been trading for 20 years, you couldn't tell if they had a good day or a bad day. They are supposedly that unemotional. You read that all the time. But I have a hard time believing it. Let's see how they would feel after eight months of losses.-

Emotions and Trading.

It has often been said that the investing behaviour of the masses is driven by fear and greed. Emotions are powerful, and when people are a slave to their emotions, their actions are often irrational and impulsive. Other emotions, such as anger, frustration, disappointment and euphoria also have an impact on trading behaviour. Winning traders have an awareness of how emotions impact their trading decisions, however. It's useful to consider the different ways that emotions can influence you.

Negative emotions, such as frustration, guilt, anger, and disappointment are often used to cope with stress. Trading is stressful, and these emotions often reflect poor coping methods. Rather than taking an active, problem-focused approach to dealing with the markets, many traders are often stunned and uneasy. They passively respond to the stress rather than take decisive action to cope with it. This leads to unpleasant emotions and often a vicious circle where unpleasant emotions are experienced, coping is even more passive, and then, even more, unpleasant emotions are experienced. An ever-worsening spiral is set in motion. These processes sap up limited psychological resources. It's difficult to concentrate on trading, and it often produces trading errors.
On the other hand, euphoric, pleasant emotions can produce overconfidence. Emotions can often bias our estimates of success. When we are disappointed, we may view our odds of success as low, but when we are overly euphoric, we may feel that there is no way we can fail. One may feel a sense of omnipotence as if he or she can do no wrong. While in this state, many traders may abandon risk limits and trade by the seat of their pants. This can lead to trading errors and impulsive decisions. It's wise to try to remain as calm and humble as possible.
Anger can also bias our perceptions. When we are angry, we tend to be willing to take risks. When people are angry, they are less risk-averse. Angry people tend to believe that they have more control of situations than they actually do. In this emotional state, they see no problem with taking a risk, even an unnecessary one. Angry traders may tend to be less cautious and be willing to take unnecessary chances. Be aware that when you are angry, you may tend to be a little too sure about your ability to predict events and this will make you want to take unnecessary risks. It's better to stay as calm and relaxed as possible.
Emotions can be a powerful influence if left unchecked. Don't be overly influenced by your emotions. Be aware of them. Gain control of them. The more you can trade with a calm, rational mindset, the more profits you'll realize.

Do the Ends Justify the Means?.

In this cutthroat world we live in, we often follow the motto, -The ends justify the means.- Blind ambition, self-sacrifice, and extreme self-control are valued. If you can work tirelessly, wait long enough, and quickly recover from endless setbacks, you'll be one of the select few who survives and reap the rewards. It's true in many walks of life and it's true in the competitive world of trading. Trading is difficult. Of the many that try, few realize enduring success.

To be successful as a trader, you must be willing to do whatever it takes, no matter how exasperating. The risks and sacrifices are many. You may not be able to spend as much time with your family as you prefer. You might have to work extra jobs to build up capital and pay for trading expenses. It is often necessary to focus exclusively on trading. You can't be wishy-washy. Only the persistent and dedicated will survive. But in the final analysis, you must ask yourself if the ends justify the means.

It's possible to make huge profits in trading. The difficulty is surviving. Many of the -Market Wizards- from the 1980s, for example, aren't in the business today. You can be at the top of your game one year, and looking for a new profession the next. Survival is important. What's the sense of reaching the status of a master trader if you just burn out after a year? It's an unpleasant truth. Few achieve lasting success, and of those that do, many traders burn out. The stress is enormous.

Your money and ego are often on the line. When you aren't trying to learn new trading methods, you may spend your leisure time trying not to worry whether or not the market will go against you on the next trading day. Even while you relax with friends, you may worry about the markets in the back of your mind. It's hard to make it as a trader. It's vital that you find a way to avoid joining the club of burned-out traders.

How can you avoid burn out? First, minimize stress as much as possible, and try to effectively cope with significant stressful events. Don't pretend that you don't have stress. Trading is inherently stressful, but many deny stress rather than actively cope with it. But passively ignoring stress can accentuate the impact of stress rather than relieve it. It's better to acknowledge you are taking risks and that outcomes of your trades are uncertain. If you acknowledge the risk upfront and minimize it through risk management, you'll feel more relaxed. Second, it is essential to focus on the inherently rewarding aspects of trading.

If you don't love what you're doing, you won't last very long. Trading is inherently rewarding. It's intellectually challenging. It's fun to test personal hypotheses about the markets and see if your hypotheses are supported. Sometimes it's easy to forget this fact, especially during a drawdown, but trading is fun, and it's better to enjoy it than view it as a burden. Third, cultivate a sense of balance between work and personal life. It's necessary to focus all your available time to devising new trading methods. Becoming a master trader and staying there requires a large time commitment, and it may be difficult to balance work and leisure time. But it is important to spend time with friends and loved ones.

It may be difficult to divide your time equally between your work and personal life, but you must devote some time to feel connected to other people. Fourth, it's important to find personal meaning. Why do you spend so much of your time and energy trading? The answer to this question is significant. There's no right answer. Some traders view trading as a way to support their family and see their efforts as meaningful for that purpose. Other traders set aside part of their winnings for charity in order to feel they are making a greater societal contribution. However you answer this question, you must make sure that you find your efforts personally meaningful.

Trading is difficult. It takes time and effort. In the final analysis, though, you must feel that it has meaning. The ends don't always justify the means. It's vital that you feel it is all worth it in the end. Answers to these difficult personal questions will help you achieve and maintain lasting financial success.

Enjoying the Trading Experience.

Jim is a hard-working father with two children. He loves his wife and enjoys the time he spends with his children. But when it comes to his job, it's not the centre of his life. It's just a way to pay the bills, so he can spend quality time with his wife and family. Indeed, Jim hates his job. He can't stand going to work, and when he gets there, he can't wait to go home. Such an approach may be satisfactory for some occupations, but trading isn't one of them. Trading requires commitment and persistence. One must build up skills to the point that a trade can be executed effortlessly, with precision, over and over again. It is essential to enjoy trading and trade because it is your passion. The profits should be less important than the fulfilment that trading offers.

If you view trading as just a way to make huge profits, you'll never achieve profitability. It is ironic but true. You've got to want to trade with a passion. If you worry about profits, you'll never make them. You will want to leave the game before you've really started. Sure, you can make a few winning trades, but it's trading consistently, and over the long haul, that really matters. And that requires commitment, the kind of dedication that is rare. Trading must be a calling, a life's mission.

That doesn't mean it must be the centre of your life, but it has to rank up there as an important part of your life (It is vital that you maintain a balance between work and your personal life, for example). If it isn't, you'll get discouraged easy. Setbacks are the rule, not the exception when it comes to trading. Unless you are ready to put in a heroic effort, you'll never be satisfied. When you face the seemingly endless setbacks, you'll start to think, -I don't really like doing this. Why don't I just give up? I'd rather be doing something else right now.- And when that kind of thinking begins, you will not be able to continue trading with a peak performance mindset. You'll start making trading errors, and soon, your account balance will begin to suffer.

Another potential problem is that you'll start imposing your will onto the markets, instead of accepting the market action effortlessly and naturally. Since you have a strong desire to make profits, and secretly want to be doing something else besides trading, you will want to see the markets behave in ways that are consistent with your expectations. And when the markets don't conform to your expectations, you'll be upset and easily discouraged. That's why it is necessary to cultivate a passion for trading.

Rather than considering how trading profits can change your life, focus on how enjoyable the process of trading is. It's fun; it's challenging; and when you devote enough time and energy to it, it can be fulfilling.

Your Proper Trading Environment.

The markets are chaotic and unpredictable. If you're not careful, you can be unduly influenced by the sense of uncertainty. Depending on your personality, you may be easily swayed by the market action, becoming stressed out when the markets are particularly volatile. It's vital that you minimize feelings of stress and uncertainty so that you can trade in a calm, objective peak performance mindset. One source of anxiety for some people is the actual physical environment in which they trade. For some people, the disarray of their workspace can grate on their nerves and be a surreptitious source of stress. Make sure that your physical environment matches your personality. Doing so will enhance your trading performance.

People differ in terms of how orderly and tidy they prefer their workspace. Some people don't mind a workspace that is disorganized. They feel it has a casual and comfortable, homey feel. But others find it extremely bothersome. They feel stressed out when they have to work in an environment that is not organized. To them disorganization means chaos, and chaos is associated with stress. Which type of person are you? Do you prefer a neat and orderly workspace or do you care? If you do care, it is essential that you take steps to arrange your workspace. Make sure that it is clean and orderly. Remove all items from your desk and anything that interferes with you focusing exclusively on your screens. You'll find that by keeping the area neat and orderly, you'll feel less stressed out and in control. That said, other people find an orderly appearance equally distracting. They find such an environment sterile and uninspiring. They would rather have items around their workspace that inspire them. For example, placing pictures of their family and friends buy them reminds them why they are motivated to trade. Having a few of their favourite trading books by them also gives them a sense of security. Rather than being sources of distraction, such items make them feel comfortable. Whatever environment you prefer to work in, it is important to make sure that it matches your personality. If a disorganized workspace bothers you, then it is important to take active steps to clean it up as soon as possible. Unless you do, it may serve as a hidden source of stress. By taking steps to match your environment to your personality, you'll trade in a calm, objective mindset.

Genuine Self-Esteem: The Key to Independent Thinking.

Successful traders are independent-minded. They don't seek out the opinions of others. They don't question their skills. They trust their intuitions and live by their own standards. Such characteristics are essential for trading success. A winning trader stays ahead of the crowd. The masses tend to react emotionally to market news, and the winning trader enters the market ahead of them in order to take advantage of these emotionally based market moves. Having a genuine sense of self-esteem helps matters. Traders with rock-solid self-esteem can easily look inward for what to do next. They can quickly act on their intuitions and effortlessly capitalize on market opportunities. Trading success requires a genuine sense of self-esteem; it's something all traders should raise.

Self-esteem is a personality trait. It develops over time as a result of past interpersonal experiences and achievements. Ideally, traders should have developed a genuine sense of self-esteem before entering the trading realm, so that no matter what happens to them as a trader, they would continue to feel they have true value and worth as a person. But whatever experiences have fed your development of self-esteem, it's vital to maintain it. Traders with low self-esteem, or a false sense of self-esteem, are easily swayed by their emotions.

How does one develop or maintain genuine self-esteem? One way is to cultivate personal integrity. Personal integrity concerns the consistency between our values and actions. It's important to have clearly defined values and to make sure that our behaviour reflects these values. It's often easier to bow to social pressure or to do what is expected of us than to look inward to what our values dictate. But when we bow to social pressure or sell out our values, we pay a big price: We lose some of our self-esteem.

Another key attribute of people who have genuinely high self-esteem is that they live their lives as consciously as possible. They are in tune with their inner values and emotions and try to keep a strong grip on reality. They are astutely aware of their feelings, emotions, and aspirations. They don't limit their awareness or close off important aspects of themselves.

Expanding one's awareness requires complete self-acceptance. Everyone has faults, but many people are afraid to face them. They do whatever is possible to avoid facing parts of their experiences that they view as -unacceptable.- They distort or deny experiences that don't fall in line with their overly positive opinions of themselves. When people do this, however, they block out part of their consciousness. They isolate a vital part of their experience, and cannot develop a true and genuine sense of self-esteem.

It's useful to remember the old adage -I don't define my self-worth by my net worth.- Winning traders feel good about themselves no matter how much they win or lose. They feel good about themselves because they know deep down that they have value as people. They look inwardly for self-acceptance, and follow their personal values; they don't care what anyone else thinks. If you want to become a consistently profitable trader, you must develop a genuine sense of self-esteem. By making sure that you live by your own values, and fully accept your limitations, you'll develop a true sense of worth that won't be easily shaken by momentary setbacks or failures.

Win or Lose: You Are A Winner Every Day.

Have you ever spent the day making trade after trade and gotten nowhere? You may have wondered why you woke up that morning or even bothered trading that day. Perhaps there have been a few days where you've felt this way this week. It's been a hard week so far. If you aren't doing very well, it is understandable. Uncertainty abounds. On days when you are feeling unproductive, it's vital to have an upbeat attitude, though.

You need to lift your spirits. So what if a given trading day wasn't fruitful? Who cares if you lost money today? Take it all in stride. How can you be so carefree, you ask? Real money was lost, so how can anyone convince himself or herself to feel good? There are trading days when your rewards are tangible profits and you can bask in the glory of success, and then there are those days where you must chalk the day up to experience. You settle for saying, -Perhaps I learned something valuable today. Let's figure out what I learned and be grateful that I got something out of the day.- What did you learn today? What did you experience? Did you make it through the day relatively unscathed? That's worth something. Maybe you learned that you could stand aside when you wanted to and get out of harm's way. It is something worth learning. Maybe you jumped into the markets too soon and felt a little bit of regret from losses. Were the losses justified? Did you follow your plan, but the plan didn't work. If you lost because of a faulty plan, it's still valuable knowledge that you could follow a plan. Losses due to impulsive decisions are another matter, however. If you traded impulsively, perhaps you learned how you might prevent impulsive decisions in the future. No matter what happened, though, you learned a valuable lesson.

In the modern, competitive world, we are obsessed with winning races. We want to make more profits than the next trader, and when we fail to make profits, we feel beaten. But the only benchmark that should matter is your own. So what if you don't make profits every single day? Maybe you do not yet have the skills or financial resources to make a profit every day.

Even if you consider the metaphor of winning a race with other traders, would you try to run a marathon without the proper amount of practice? Would you feel disappointed if you couldn't reach an athletic goal that you knew would take more training than you had? You definitely would not, so why make such high and lofty trading goals? Give yourself a break. Sometimes it is wise to just do your best and accept what you've achieved. When you set high goals that exceed your skills, you will usually feel discouraged, and that may make you feel like giving up. Rather than kicking yourself for not performing up to par, consider the fact that you have learned a valuable lesson today and every day, win or lose.

You may not have achieved a high-performance goal, but you have achieved a learning goal. In other words, you have moved one step closer to fully mastering the markets. Every little experience counts. So rather than beat yourself up for failing to reach your standards, pat yourself on the back for making it through another trading day. Remind yourself that you are a winner. Don't set overly high-performance goals that you can't achieve. Focus on skill-building, rather than on making huge profits. When you focus on skill-building, you will feel better, and you will keep trying. And in the end, you will make the huge profits you desire.

Fighting the Boredom.

Trading can be an exciting profession. It's exciting to think of how much money you can make, and how that money can change your life. Some traders enjoy anticipating how a trade will turn out, while others enjoy the rush that trade offers. Still, other traders say they actually feel bored during the trading day. Sometimes trading isn't exciting. It is a matter of waiting for the right moment, and that can be boring at times. It is at these times when traders may overtrade, just to put a little excitement in their lives.

Market behaviour of the masses is motivated by fear and greed. There is an asymmetry between fear and greed, though, in that a loss is more fearsome than again is pleasing. But, nevertheless, these emotions can be exciting. Market participants may not enjoy the unpleasant feelings of a possible loss, but a fact of trading is that to make money, one has to risk money. Greed overcomes fear in the end. Market participants trade to make profits, but they often sell out of fear.

Trading is often an interplay between fear and greed, which in itself is a dramatic interplay. Market participants enjoy the drama. To fight off tedium and boredom, they trade, even when it is a very good idea. The drama can be intense. Market participants become excited about winning but get scared about losing, and sell to protect what they have left. But then boredom sets in again. The desire to make big profits excites them, and they enter the markets again. And so the drama repeats over and over.

It is useful to understand the motives of the masses and see the irrationality of their behaviour. By seeking out thrills and excitement, they will buy stocks but sell them prematurely for a loss, out of panic. When it comes to trading, you must decide which side of the drama you want to be on. Do you want to be one of the masses acting on fear and greed, or do you want to be one of the few winning traders who capitalize on the tendencies of the masses? As a trader, you can be right there, ready to take their money.

While they buy and sell stocks to add drama to their lives, the professional trader can anticipate how they act on their fear and greed and make money from their predictable moves. But on the other hand, it's vital to acknowledge one's own powerful need for drama and excitement. A professional trader is just as human as an amateur trader, and thus, has a need for drama and excitement in everyday life. Everyone needs drama and excitement, but it is vital to keep these needs out of your trading life. Trading can often be tedious, repetitious, and boring. One must systematically execute a trading strategy consistently, over and over.

It's a mistake to fall prey to the need to seek out drama. The solution? Make sure you get your drama and excitement in a different arena, outside of trading. If you satisfy this need somewhere else, you can deal with the relatively boring and repetitious nature of methodically trading your plan.

The markets are exciting and offer drama, but make sure that you stay professional, and don't let the drama of the market undermine your trading plan. The more you can trade with an objective mindset, the more profits you'll realize.

Expanding Your Psychological Limits.

Your mind has limits. You can only attend to and process a limited amount of information. Psychologists view the mind as analogous to a computer. Long-term memory is similar to a hard disk in that an almost unlimited amount of information is stored permanently, even when the computer is turned off. Your attention, or conscious thought, in contrast, is similar to computer RAM.

The amount of attention you can devote to a particular task is restricted. You can only attend to and process limited amounts of information, and when you move beyond the limit, the information is not processed. In this way, attention and -short-term- memory is similar to RAM in a computer. You can hold only a small amount of information in your mind for only a short time. Your mind is also limited in terms of -processing capacity.-

Like a CPU in a computer, not only is the amount of information you can process limited, but also the speed at which you can process, analyze, and understand information. The mind may be analogous to a computer, but it isn't exactly like a computer. You cannot do a -computer upgrade.- You can't simply increase the mind's processing power by merely putting in additional RAM or replacing the CPU with a faster processor. You are stuck with what you have, so you must make the most of it. That said, however, there's still a lot you can do to squeeze every bit of power out of your mind. You can expand your mind beyond its natural limits.

One way to increase the amount of information you can process as a trader is to -overlearn- some of the common tasks you do while trading. It is similar to how people learn to drive a car. At first, one must focus attention on each driving task separately in a deliberate, focused manner. But, over time, one can monitor speed, look for road hazards, and engage in several tasks automatically, and still have plenty of attention to talk with a friend or insert a CD into the car stereo.

You may have noticed that trading tasks can be -over-learned- in much the same way. For example, you probably have noticed that over time, you can identify signals that precede a pivot point almost automatically. With practice, a lot of steps that you once had to perform deliberately and methodically can now be completed will little effort. Many times, -intuitive- decisions merely seem as if they are a -gut instinct,- but may in fact be based on a several valid and reliable inputs and signals that were processed automatically.

A second way to increase processing power is to free up mental energy that is used up by other psychological processes. For example, handling stress, and mulling over interpersonal conflicts uses up precious psychological energy. This valuable energy is better spent on monitoring trades. By spending leisure time resolving interpersonal conflicts or effectively coping with daily hassles, you will have more psychological energy to devote to trading after the markets open.

Rest and relaxation are also important. When you are tired, you can't devote very much energy to planning your trades or monitoring their progress. You'll be more likely to act impulsively, entering a trade too early or too late because you didn't have the energy to patiently wait to make a prudent trading decision. So make sure you get extra sleep. Take naps during the day, if you have to, and ensure that you are alert when it counts during the trading day.

Don't forget that the mind has limits. You can only work with what you have. If you take the proper steps, however, you can free up some of your limited psychological resources. By over-learning common trading tasks, you can expand your attention. And by getting adequate rest and resolving interpersonal conflicts, you can further free up psychological energy that is wasted on tasks that don't involve trading. By taking concerted measures to free up energy, you can expand the limits of your mind, and trade more effectively.

Getting Even With the Markets.

Trading decisions are frequently influenced by fear, hope, greed, and regret. But, sometimes decisions are motivated by anger. After a losing trade, you've probably heard people say, -I'm going to get even with the markets.- Perhaps, you have said this yourself. The need to get even and seek revenge is a reflection of anger. People experience anger when they feel that they have been unfairly wronged. Traders become angry at the markets because they believe that the markets and the people involved in the markets should make their investment profitable. When the profits don't materialize, they implicitly or explicitly believe that the markets have wronged them.

Anger can be a dangerous emotion. When people are angry, they are ready to put up a fight. They focus all of their energies on fighting, seeking revenge, and looking for any sign of provocation. It's hard to think clearly when one is angry. Sound decision-making requires the avoidance of such emotions.

There's no reason to be angry at the markets. It's important to recognize the reasons for our anger. By doing so, we will feel less anger in the long run. Here's how you can be less angry at the markets.

Don't personify the markets. Anger is an interpersonal emotion. We are usually angry with someone because we believe that he or she has purposely tried to harm us. The markets may consist of people making trades, but it doesn't make sense to treat the markets as an interpersonal setting. The people participating in the markets may engage in actions that thwart your goals, but their actions are not directed toward you personally. It is best to look at the markets as an abstract impersonal entity, rather than a collection of people.

Eliminate Preconceptions. Anger is felt when our expectations have been shattered. One expects to profit from a trade, and when the profits are not realized, he or she may become angry, seek revenge, and want to get even. However, it isn't useful to have high expectations in the markets. Don't depend on the markets to fulfil your goals or meet your expectations. Assume that anything can happen. Indeed, in dealing with the markets, it's almost a given that you will lose money, so it is not useful to expect to make money on every trade. Just accept what you can get. Eliminate any preconceptions you have regarding the outcome of a trade.

Accept Losses. People have great difficulty accepting a loss. The old adage, -Cut your losses short and let your profits run- reflects traders' inability to accept a loss. However, if you cannot accept a loss, you will feel anger and want to get even. Expect to lose and be ready to accept losses.

Following these guidelines will help you manage your anger. If you can manage your anger, you will feel less stress, make more rational decisions, and enjoy trading.

Set Realistic Expectations.

Trading requires that you keep your emotions under control. You can't be extremely disappointed or fearful. Extreme emotions can be distracting. They not only drain precious psychological energy, but they distract you from the task at hand. You can't fully focus your attention on trading because, in the back of your mind, emotional issues gnaw at you. There are many possible reasons for experiencing unpleasant emotions, but one reason may involve the expectations you set for yourself regarding your trading goals. If your expectations are not in line with your current trading skills, you'll be prone to experience extreme disappointment or extreme fear.

Common sense tells us that if we want to achieve success in life, we must set high standards. Indeed, how could one hope to achieve any amount of success by setting low standards? Ironically, setting standards too high can undermine our efforts, however. If we set our standards too high, we tend to fail. And when we -try and try again- to no avail, we often quit in despair. In actuality, it's much more useful to set goals and expectations that match your particular skills. In a series of studies, psychologist Dr E. Tory Higgins has shown that when we fail to meet our expectations, we feel either fear or disappointment. People set expectations in two basic ways: in terms of what they want to achieve as an ideal, or in terms of what they think they -ought- to achieve. We continually judge our performance in terms of whether it meets our expectations. For example, we may feel that -ideally,- we should quit our jobs and work as full-time traders, a noteworthy goal.

Such a goal can be very powerful and motivating, but what happens when we don't seem to be achieving it? A trader who isn't trading well enough to trade for a living can use a form of -denial- in order to fool himself or herself into believing that the ideal goal is still within reach. Eventually, however, reality sets in. He or she may start to realize the goal is unrealistic. When this happens, the trader is prone to experience disappointment. He or she knows the goal is unrealistic and starts to feel unworthy and inadequate because his or her cherished ideal has not been met.

If, on the other hand, the trader had set lower expectations, such as making merely a few winning trades a year, he or she would have not experienced disappointment, an extremely distracting and debilitating emotion, and would have felt satisfaction (and would have probably traded more profitably as well, since he or she would not have been incapacitated by feelings of disappointment).

Traders may also feel they -ought- to achieve a particular standard, such as achieving a 20% return. When we fail to achieve what we think we -ought- to achieve, we tend to feel fear. And as you know, fear usually leads to illogical, impulsive trading decisions, so it's useful to do whatever it takes to avoid fear. Again, it's useful to set personal standards that closely match our current skill level.

All traders want to be consistently profitable, but it's essential to remember that success happens in stages. Few consistently profitable traders were an overnight success. They put in time and effort over the years to build the skills they needed to master the markets. If you set your aspirations too high, you'll likely experience fear and disappointment. And that will adversely influence your trading decisions. Don't let your emotions get the better of you, set realistic expectations and you'll be able to cultivate the cool and objective mindset required to trade consistently and profitably.

Accepting a Potential Loss: A Skill to Develop.

Tim tells his trading coach, -I've been trying to follow that old adage, Trading is a profession where you should go in expecting to lose,' but it just doesn't help. I don't like losing, and when I experience a loss, I just feel awful.- Tim isn't alone. Many novice traders ride a rollercoaster ride of emotions, feeling a combination of relief and euphoria when they win, yet hurt and disappointment when they lose. Ultimately, the more you can trade in a relatively calm, logical mindset, the more profits you'll realize. But learning to accept losses is often easier said than done. It can be hard for some traders to learn to accept losses and take them in stride. It may be necessary to view taking a loss as a skill that you must develop.

It is useful to anticipate losses as a trader. The odds are that you will see many losses, but it is vital to remember that overall, you'll come out as a profitable trader as long as the profits from your winning trades exceed the losses from your losing trades. So it's essential that you don't confuse a healthy sense of scepticism regarding trading outcomes with pessimism. There's no need to be pessimistic. You can trade profitably as long as you don't let your emotions get the better of you.
That said, losses are still hard to accept. They hurt. We can intellectually believe that losses are a fact of trading and that we should expect them and not let them bother us, but when it comes to actually accept a loss, this intellectual belief may provide little solace. It still hurts.
It is important to deal with the psychological pain of losses as soon as possible. Unless dealt with immediately, the psychological pain of a loss can set off a downward spiral of distressing moods. You experience a losing trade, feel poorly, and your unpleasant mood adversely influences your outlook. If you can stop a potentially vicious circle of negative mood, you'll remain calmer and persist in the face of upsetting losses.
One way to learn to combat the psychological distress of a loss is to visualize how to deal with a loss during off-hours. Imaging a trade not working out and how it feels to close out the position. Look at your thoughts. Are you exaggerating the significance of the loss? Are you thinking thoughts like, -I'll never be a winning trader? This loss shows how bad I am at this.- If you put more meaning on the loss than is warranted, it will worsen the psychological impact of the loss.
Instead, try to remain a little detached. As you imagine losing, practice alternative thoughts. You might try thinking, -The loss doesn't mean anything. It is just feedback.- Don't think of a losing trade as having personal meaning. It is merely feedback about how your strategies are working or the market conditions during a particular point in time. Don't over-interpret it and give it more significance than it deserves. It is still hard to remind yourself that it is just feedback that means nothing about you, but if you practice thinking these thoughts, you'll eventually be able to take some of the emotions out of the picture. You'll be able to look at the loss as mere feedback, just an objective piece of information.
There's no need to let yourself get bogged down by losses. It's often not nearly as bad as you've made it out to be. By practising to take losses, you'll learn to minimize them. You'll take them in stride and move on to achieve greater profits.

Learning By Doing: The Benefits of Gaining Real World Experience.

Many novice traders were successful in other professions before embarking on a trading career. Since they were successful in their previous occupational goals, they approach trading in much the same way, but trading is a little different. And it is useful to be aware of how it is different. With a few exceptions, most professions are taught with traditional methods.

One attends classes, reads books and learns about theoretical ideas through the examination of hypothetical case studies. But when it comes to trading, it isn't that easy. Case studies often fail to capture the complexity of the markets and their tenuous nature. In the end, mastering the markets requires a hands-on approach. You must learn on your own. You may learn a few techniques by attending classes or reading a few trading books, but in the final analysis, you must learn through experience. You must figure out on your own which techniques work for you and which ones do not. The possible list of trading techniques is endless. You may be tempted to study them all, hoping that if you had a comprehensive knowledge, you could profit from any set of market conditions. It is an impossible goal, however. There are just too many. It is more useful to pick a few, try them out and see if they work. But even this task is easier said than done. First, some people out there are trying to sell you on techniques that just don't work. In addition, techniques may become obsolete.

In many of our interviews with traders, for example, we found that traders who had made profits during the bull market that ended in 2000 could make no profits after the bubble burst. In other words, the techniques that once worked under bull market conditions no longer worked. For example, momentum indicators may have worked great during the bull market but may have less utility under subsequent market conditions. So there are two forces working against you; the trading knowledge out there is a mix of valid information and outright misinformation.

And even when you find valid information, it may be limited to specific market conditions. It is useful to remember familiar adages: So-called conventional wisdom is only right when it is and the markets behave according to a fixed set of principles only when it does. The rest of the time, conventional wisdom is wrong and the markets are completely chaotic. That's why you must gain your own experience and decide for yourself what works. It is useful to cultivate a sense of healthy scepticism. Don't believe anything you hear, but realize that some of what you hear may be valid. Unfortunately, it is up to you to decide which information has veracity and which information does not.

How do you go about testing methods? It isn't a good idea to conduct your informal -studies- without managing risk. It is vital for your survival to limit your risk so that a string of losing trades won't wipe out your account. It is also useful to remember that even a valid trading strategy with a high probability of success can fail. It is much like flipping a coin. If you flip a coin an infinite number of times, it should come up heads 50% of the time. There is a good chance, however, that if you flip it a mere 100 times, it will come up tails every time. Should you hit upon a run of -bad- luck, you could blow out your account if you don't control risk. What you can do is devote a fixed amount of capital to a method, such as 20% of your account. Once that amount is used up, with no success, you should just abandon the method and try another one.

On the one hand, you want to give the strategy a chance to work. If you move back and forth from one method to another, you won't put on enough trades to allow the law of averages to work in your favour. But on the other hand, you don't want to waste too much capital on a strategy that has no chance of working (either because it just doesn't work or because current market conditions are not conducive to the trading strategy). It is important to remember that markets change. Sometimes methods that worked in the past no longer work anymore. If you can figure out why a method isn't working and tweak it until it works, then that's great. But if you can't get it to work, it is best to just let it go, move on, and try something else.

Trading requires a curiosity about the markets. You have to have the temperament of an explorer, ready to take risks, and excited by the process of discovery. You must try out trading strategies on your own, and use your own judgment to determine what works and what does not. There is no substitute for experience. Through the process of trial and error, you can discover the strategies that will help you achieve lasting success.

Getting the Job Done.

Do you ever make big plans for the trading day, but fall short of your expectations? Maybe during the off-hours, you decide to make a dozen trades, but when you get down to actually doing the work, you end up making only one or two trades. Do you procrastinate, feel overwhelmed, and feel like you are ready to crack under the pressure? If you're feeling overloaded, perhaps you've taken on too much. There's a lot you can do to streamline your goals and get the job done when the time comes.

Striving for perfection is an important ideal for trading. It's vital that you thoroughly plan your trade. That may mean reading a stack of financial reports, scanning a slew of charts, or making a dozen phone calls to contacts that have the -inside- scoop. Preparing for the trade by methodically pursuing each of these avenues can mean the difference between winning big and losing.

As important as these preparations are for success, however, you can't spend too much of your time trying to complete more than you can do. There's only so much time in a day, and only some much energy you can devote to a particular trade. In addition, if you spend too much time on a single trade, you may miss an important market move. If that were to happen, all your preparation would be in vain.

In the end, you must manage your time and energy wisely. It is vital to prioritize each activity and be realistic about what you can accomplish. For example, you may not be able to read 12 hours worth of reports and make a dozen phone calls in two days. It may be necessary to lower your expectations. You may have to settle for reading a few hours worth of reports and decide to call only three of your most informed contacts.

When your expectations are too high, you may feel the pressure. And when you feel pressured because you are overloaded, you'll tend to procrastinate and feel high levels of stress and anxiety. When this happens, you won't get anything done. It's better to be as realistic as possible regarding how much you can get done. You will feel calm and in control, and this will ultimately lead to greater productivity.

How can you approach a trade with a realistic work schedule? First, it doesn't hurt to think big initially as long as you know that you are thinking in the abstract. If you think of 20 possible trading ideas, that's great. Once you list them down, however, you must realize that it may be impossible to pursue all of them. After you have a list of ideas, it's necessary to prioritize which trades are within your reach. This is easier said than done.

When it comes to deciding which trading ideas to pursue, you must weigh the probability of success with the time and energy it takes to prepare for the trade. A trade may have a high chance of success, but the preparation required may be insurmountable. Some trades are potentially more profitable than others but may take more time, the time you just don't have. On the other hand, trade with merely a relatively good chance of success may be easier to prepare for and implement.

Whatever you do, though, you have to make a decision. Don't waste time deliberating. It is better to spend that time working on the trade-in order to execute it on time.

A reasonable plan is a workable plan. Learn to let go of unreasonably high expectations. You don't have to be such a perfectionist. You can be a profitable trader even when you scale back. In the end, you have to get the job done. Making priorities and diligently pursuing each step will ensure that you execute your trades in a timely manner and increase your odds of success.

Don't Deliberate; Just Do It.

James is considering whether to implement one of two trading strategies. Both strategies offer good odds of success, but James doesn't want to make a rash decision. He wants to carefully consider both the upside and downside before he commits. James is in a deliberative state of mind; he's trying to consider all alternatives in a logical, impartial, and comprehensive manner.

Great thinkers, such as Benjamin Franklin advocated prudent decision-making in which the pros and cons are carefully compared. Similarly, contemporary decision researchers suggest that people can avoid making common decision-making biases through evenhanded consideration of all possible alternatives. Research has shown, for example, that cultivating such a deliberative mindset helps one be receptive to incoming information and decrease the influence of self-serving decision-making biases.

However, a recent study by psychologists Dr David Armor and Dr Shelly Taylor suggest that deliberating between two alternatives may not always be beneficial. In some cases, it may be wise to just quickly choose an alternative and focus all one's energy on achieving an objective; in other words, just do it.

In a well-controlled experiment, participants were randomly assigned to one of two conditions. In the deliberative condition, participants were asked to decide between two equally effective strategies to obtain a reward, before using one of the strategies to reach an objective. In a second condition, participants were not given a choice, so they would immediately focus all their energy on using a single strategy to achieve the desired goal. There were clear advantages to focusing on a specific strategy, rather than deciding between two options. Participants who did not deliberate showed greater determination, commitment, curiosity, and confidence than those who did. They also viewed the task as less difficult and performed better.

Trading often requires making a quick decision, but no one wants to make an uninformed or impulsive decision. Prudent decision-making is the hallmark of success. Drs. Armour and Taylor suggest, however, that there are some situations where a great deal of deliberation is actually an impediment. Some trading decisions may be such situations. Your psychological energy is limited and spending too much time and energy may exhaust your limited psychological resources and hamper performance. So sometimes it's useful to stop deliberating and just do it. Just implement the trading strategy and focus on the outcome. You may find that you'll achieve greater profitability in the end.

Trading With Discipline.

Top-notch traders have unwavering discipline. Expert trader John Hayden notes, -Without discipline, you will be unable to master your ego, create empowering beliefs, have faith, and develop confidence in your abilities. The lack of discipline will prevent your skill as a trader from progressing.- It may be tempting to trade by the seat of your pants, but if you don't develop clearly defined trading plans to follow, and follow them consistently, you'll have difficulty achieving enduring financial success.

What's the harm in abandoning a trading plan if you make a profit anyway? Making an occasional winning trade, even when you threw your trading plan out the window, may provide a short-term pleasure, but entering trades haphazardly can adversely influence your ability to maintain discipline in the long term. When you stop following your trading plans, you become rewarded for a lack of discipline and you may start believing that abandoning a trading plan is no big deal. An unjustified reward may increase your tendency to abandon trading plans in the future. You may be prone to think consciously or unconsciously, -I was rewarded once; maybe I will be rewarded again. I'll take a chance.- But the positive outcomes of undisciplined trading are usually short-lived, and a lack of discipline ultimately produces trading losses.

It's useful to distinguish justified wins from unjustified wins. A justified win is when a trader makes a very detailed trading plan and follows the plan. A win that results from following a trading plan is justified and reinforces discipline. An unjustified win occurs when a trader doesn't make a plan or drifts from the plan. He or she may be rewarded, but the outcome occurred by chance. The win is unjustified and can reinforce undisciplined trading.

Cultivating discipline is vital for consistent and profitable trading. Trading is a matter of getting the law of averages to work in your favour. One implements proven trading strategies, over and over, so that across a series of trades, the strategies work enough to produce an overall profit. It's like making shot after shot on the basketball court so as to accumulate a winning number of points. The more shots you take, the more likely you will amass points. But the winning player is the person who first develops the skill to make the shot consistently so that at every possible opportunity, the ball is likely to go through the basket.

To a great extent, consistency is key. If the player uses one approach one time, and a different approach at another time, performance is haphazard. It's the same for trading. One must trade consistently, following a specific trading plan on each and every single trade. This allows the law of averages to work in your favour so that across the series of trades, you will make an overall profit. If you follow the plan sometimes and abandon it at other times, you throw off the probabilities, and you are likely to end up losing overall.

With discipline comes profitability. Don't let unjustified wins interfere with your ability to maintain discipline. Follow your trading plan, and reinforce the idea that if you follow your plan, you will end up more profitable in the long run.

Justified versus Unjustified Wins.

Jack is a novice trader celebrating his latest win. -I've just made a big profit on trade by pure chance,- Jack says in an excited tone. -I went long on a stock, expecting it to go up about .90 points. I was wrong. It went down .50 points, but I figured I might as well just wait it out to see what happened next. At the end of the day, it was up .60 points past my entry and I sold for a profit.- His friend asks, -Did you have any idea that the stock would rebound?- -No,- Jack replied, -I was just lucky.-

Does this scenario sound familiar? Jack anticipated that the stock would go up, but when it went down, he didn't follow a trading plan. He was ready to accept whatever fate offered. But -all is well that ends well,- right? Well, maybe not. Jack did make a big profit, but at what psychological cost? He didn't have a clearly defined trading plan. He put on a trade, and as a result of pure luck, he made a profit. Such situations may provide a short-term pleasure, but they can adversely influence discipline in the long term.

Rather than developing a well-defined trading plan, following it, and getting rewarded by trading it, a trader puts on a trade haphazardly and is coincidently rewarded. In this case, a lack of discipline is rewarded, and this unjustified reward may increase a trader's tendency to abandon trading plans in the future because he or she has been rewarded for doing so in the past. However, the positive outcomes are usually short-lived, and a lack of discipline ultimately produces trading losses.

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To a great extent, consistency is key. If the player uses one approach one time, and a different approach at another time, performance is haphazard. It's the same for trading. One must trade consistently, following a specific trading plan on each and every single trade. This allows the law of averages to work in your favour so that across the series of trades, you will make an overall profit. If you follow the plan sometimes and abandon it at other times, you throw off the probabilities.

Suppose you used a strategy that had a track record of 80%. Under the best-case scenario, you could only expect to win 80% of the time. But since history doesn't always repeat itself, it's likely that you will win less than 80% of the time. If you don't execute the trading strategy the same way each time, you will decrease your winning odds. And fewer winning trades may mean an overall loss. That's why discipline is so important.

With discipline comes profitability. Don't let unjustified wins interfere with your ability to maintain discipline. Follow your trading plan, and reinforce the idea that if you follow your plan, you will end up with profits in the long run. If you abandon your trading plan and get an unjustified win, you may feel good in the short term, but you'll pay a long term price when it comes to your ability to maintain discipline. So clearly define your trades, and stick with your trading plan. The justified wins you receive from following your plan with the help you develop an unwavering pattern of disciplined trading.

Riding the Wave Works...Sometimes.

Hannibal Smith on the -A-Team- was fond of saying, -I like it when a plan comes together.- A couple of weeks ago in this column, we used Apple Computer's (AAPL) product announcements and earnings report to illustrate the psychology of the masses. It isn't often clear what the masses will do. Will they listen to the news? Will they ignore it? It's anyone's guess, and you don't really know what will happen until it happens.

But the price of AAPL seems to have corresponded with media hype and analysts' reports over the past few weeks while the rest of the stocks in the tech sector have been declining. If you guessed that the product announcements and earning report for AAPL would produce a price increase, you would have made a profit in the past few weeks. It's one of those times when simply riding the wave of mass opinion can make you a profit.

It's simple, easy, and straightforward. That said, however, it's still wise to remember that a plan that comes together this week may not come together next week. It's wise to always stay a little on-guard. Don't complacently think you can just ride the wave without taking precautions.

AAPL has been steadily increasing in the past 12 months, up from about $20 a share a year ago to close at over $70 on Monday. If you used a buy-and-hold strategy about a year ago, you would have made over a 300% return. If only we all had a crystal ball. Who knew iPods would sell so well? At Macworld Expo, analysts had expected Apple to report sales of 5 million iPods. In the week leading up to the announcement, the price increased from about $65 to $70 based on the media hype. Unfortunately, at Macworld Expo, APPL CEO Steve Jobs reported that iPod sales were 4,580,000, falling short of expectations. What happened? The price dropped as the masses sold. It's understandable. Expectations of the masses weren't met, and the price of the stock went down. This illustrates the psychological aspect of trading.

Without some inside information, you couldn't possibly know how many iPods were sold until Steve Jobs told us. So profiting from the news was a little bit of a gamble. Indeed, despite APPL announcing a slew of new products that many analysts thought would produce profits in the next quarter, the price continued to fall, perhaps because of news of poor performance of other stocks in the tech sector. It goes to show that you can never fully anticipate what will happen on any given day. Will the masses respond exactly how you had planned? What news will drive market participants to sell? What other related news has an impact? If you were betting on an increase at the close, you would have been wrong. The masses sold off when they heard the news of lower than expected iPod sales and other tech sector news.

But buying and selling happen in waves. The next day, the AAPL earnings report beat analysts' projections. What happened? As expected, the price rose. And despite fluctuations intra-day, AAPL has closed at near $70 most days in the past two weeks, the highest price it has been in several years. Will it continue? Who knows? There are many adverse events that could thwart trading plans. New products may not be delivered on time, for example. World events may strongly influence market decisions. Despite what happens in the future, it's interesting to see how trading can be simple at times. The price seems to rise and fall like waves, and if you buy and sell at the right time, you can make an easy, tidy profit.

There is an axiom of trading that is difficult to accept: Sometimes the markets work the way you would expect and sometimes they don't. Most people have a belief that the world works in a highly predictable way. It's hard to accept that, in reality, life outcomes are uncertain. We never know what really will happen next. What events impact the price of a stock, and how will the masses react? What events did we forget to consider? It's all just an educated guess in the end. That's hard for some people to accept. But if you can learn to accept that there is an element of risk in trading and that conventional wisdom is only true when it is, then you'll profit from the markets.

History only repeats itself when it does, and the masses behave in predictable ways only when they do. It's a fact. Sometimes you can just follow the masses, but at other times, you need to take a contrary approach. In the end, it's a matter of accepting uncertainty. You must try your best to make intuitive, educated guesses, take decisive action, and work under the assumption that if you make enough trades, you'll come out profitably in the long run. Sometimes a plan comes together, sometimes it doesn't. If you just remember it's no big deal when it doesn't, and move on, you'll be profitable in the long run.

Keep It to Yourself.

In the movie -Broadcast News,- Tom, the future star network anchor, asks Aaron, the under-appreciated correspondent, -What do you do when your life exceeds your dreams?- Aaron retorts, -Keep it to yourself.- This is a good piece of advice for winning traders. One of the issues that would-be traders often forget to consider is how their lives may change when their hard work pays off and they begin to trade profitably.
In one of our studies at Innerworth, we found that relatively few of our subscribers expected to encounter adverse effects when they finally make huge trading profits. In other words, it doesn't seem as if a lot of our subscribers harbour a -fear of success.- That said, it does seem, however, that many new successful traders claim that success isn't what they had expected.

There are many tales of how winning traders finally realized huge profits only to face unpleasant social consequences for their hard-earned success. For example, once your family and friends see that you have a little extra money, they may be envious or jealous. They may resent you for having more money and resources than they do. There's also the common misconception that trading is -easy money- and that you don't really deserve the profits you've worked so hard to earn.
At an extreme, winning traders may feel out of place with their new wealth or discouraged that their family and friends don't give them the respect or admiration they were expecting. Some successful traders may feel a strong urge to find new friends and new surroundings. Do you secretly believe that the more profits you make, the more difficult your life will be? If you do, this belief may lie in the back of your mind, powerfully influencing your motivation to trade. There's an easy way to neutralize this tendency, however. Just keep your success to yourself. There are many good reasons to do so. Many traders achieve success, but it is often transitory. It's hard to maintain success over time. One of the main reasons for a lack of lasting success is extreme stress. Stress, and the social pressures behind it, should be minimized. Social pressure is a significant source of stress. For example, if you decide to increase your standard of living or brag about your success as a trader to build up your reputation in your social network, you'll feel a strong need to maintain social status and protect your reputation.
These social dynamics are more powerful than traders realize. They shouldn't be underestimated. The best way to neutralize this influence is to just keep your success to yourself. Don't show off. Don't talk to your friends about trading, and certainly don't tell them how well you are doing. The more you stay humble and modest, and secretive to some extent, the easier it will be to stay focused on trading. Remember, winning traders don't trade for the profits anyway.
They find trading inherently rewarding. They trade for enjoyment, for the pleasure it brings them. Paradoxically, when traders forget about the profits, they achieve high levels of performance. When they focus on the profits, however, their performance usually starts to falter. So in the end, there's no reason to make drastic changes to your lifestyle just because you are making wins. In the long run, it's better to keep your success to yourself, save your profits for a drawdown or other rainy days, and enjoy the process of trading. By doing so, you'll achieve lasting profitability.

The Art of Knowing.

If you're an eternal optimist, you hate bad news. But the bad news is relative. What is bad news to some is mere information, and possibly good news, to others. (For example, if you were going long last Friday, the sell-off was bad news, but if you were short, you probably felt it was a bonanza.) Some novice traders hate bad news and do anything to avoid hearing it. It takes many forms.

Some traders keep losses on paper to avoid acknowledging them. Other traders avoid looking at performance statistics, such as a win-loss ratio, in order to keep up the illusion that they are making huge profits. Others fudge a little, making a bunch of low-profit trades to artificially boost their win-loss ratio, and still, others feed their accounts every month and hope that someday, they'll make the huge profits they've been hoping for.

In the end, these are all just ways of using psychological -denial,- futile attempts to passively solve problems instead of taking active, decisive steps to solve them. But knowledge is power, and the more you know about your trading performance, the more you will be able to improve your trading potential and take home more profits.

Denial can be useful at times. For example, if you have developed a thorough trading plan and there is very little that can go against it, it doesn't make sense to focus on the few unlikely events that may ruin your plan. If you focus on what can go wrong, you'll hesitate.

You may unnecessarily question your plan. At the moment you are ready to execute your trade, a little denial helps matters. You feel carefree and ready to see what will happen next. Over the long term, however, denial does more harm than good. If you are trying to avoid monitoring your trading performance, you will always feel uneasy. You will secretly dread taking an honest look because you are afraid of what you'll find.

It's hard to look at our performance when we think things aren't going well. But if we don't, we cannot find ways to improve. It's all a matter of attitude. Winning traders carefully look at their performance. They view it as a process that may need fixing. Just as an auto mechanic tries to fix a broken car, the winning trader identifies what works and what doesn't. Rather than passively ignoring the problem, winning traders actively identify what's going wrong and make changes. They stay detached and look at their performance objectively as if they are merely watching a television documentary.

If you haven't looked closely at your performance lately, think about doing it soon. Keep a positive attitude. Don't look at it as a dreaded event, but as an opportunity for improvement. Don't be afraid of what you may find. If you don't meet your expectations, don't look at it as a failure. Just look at it as a type of objective feedback that you can use to improve your trading approach. Stay calm and upbeat. If you look hard enough and think about it enough, you'll find creative ways to trade more profitably.

And if you don't immediately find new solutions, it is much better to stand aside until you do, rather than keep losing money on strategies that just don't work. If you take an active problem-solving approach to find ways to improve your performance, you'll eventually achieve profitability, and if you keep looking, studying, and changing, you'll stay profitable across a variety of market conditions.

Acknowledge Limitations But Think Positively.

Jimmy complains to his best friend, -It's impossible to trade the markets profitably. They are rigged. I don't have enough capital. The markets are so volatile that I can't get in and out to take home a profit. It all seems hopeless.- He paints a dismal picture, doesn't he? But there is a grain of truth in what Jimmy claims: The markets are hard to trade. If it were easy, then everyone would be making millions, right? If you want to find reasons to avoid trading the markets, you can find them, but if you want to be one of the select few who continues to take-home profits, it is vital that you develop a fighting spirit and be ready to overcome any possible obstacle that may be in your way.

Successful people truly believe that if they put in the time and effort, they will succeed. This approach to life isn't the same as a Pollyanna, unrealistic outlook. People have limitations. Some people are more intelligent than others. Some people use their intuition to guide them toward making astute decisions; others have strong concrete analytical skills. Although a strong will to succeed is a vital prerequisite for success, it isn't the only thing you need.

Talent is necessary as well. It's a fact that if you don't have the skills for trading, you'll never make it in this cutthroat business. That said, the fact that you must have talent and skill to trade profitably doesn't mean you should throw in the towel at the first sign of failure. How do you know that you don't have the required talent unless you persist at honing your skills and seeing how far you can go? You may be a natural-born trader, but you will never know until you put in the time and effort to fully realize your potential.

An optimistic attitude is essential for trading success, but you must also work with what you have. The winning trader acknowledges limitations. This means taking a good hard look at your financial and intellectual resources and figuring out a realistic plan for maximizing them. Few people can take a good, hard honest look at themselves, however. They may trade to satisfy strong needs for approval.

They may yearn for success and the status that comes with it. Don't get me wrong; the need for success can drive a person to reach dizzying heights, but it all must be put in the proper perspective. You have to think, -It would be nice to achieve success, but I don't need to be successful.- It's a great irony: if you need success too badly, you'll choke under the pressure as you try to achieve it. If you have a more carefree attitude, though, such as when you think, -I'll see what happens and accept my fate,- you will end up more successful.

Jimmy's problem is that he wants success too badly, and his mind rightly tells him that it isn't going to be easy. Naturally, he focuses on the obstacles, and in the trading arena, there are endless obstacles. If you don't have adequate capital, you will fail. If you don't have a method for identifying profitable setups, you can't possibly win enough times to end up profitable.

If you are impulsive and have discipline problems, you will make numerous trading errors or fail to stick with your trading plan. If you want to find reasons to leave the field, you won't have any trouble finding them. The key difference between the winner and the loser, however, is that the winner acknowledges limitations and obstacles, but never gives up when it comes to overcoming them. So you really don't have enough capital? Don't give up; earn it.

So you don't know how to identify profitable setups? You're not alone. Purchase a trading system or get some high-quality coaching and training to identify a trading method that works for you. Don't try to find a way out, a reason to give up, before you have exhausted all possibilities.

If you survey winners in any profession, you'll find that what is seen as -impossible- is just a matter of opinion. There are people who beat the odds and achieve the -impossible.- It can happen. It's all a matter of attitude. You decide. You can recoil as you ponder the seemingly endless obstacles that may block your path to success, or you can muster a fighting spirit. You can accept the challenges placed before you and overcome them.

Consider All Possibilities.

Trading is one of the most unpredictable and chaotic professions that one can pursue. This disarray and chaos produce stress. If you don't take appropriate precautions, for example, you can look at your computer screen and literally watch your net worth melt away, like a 1000-pound block of ice on a hot parking lot. It's difficult to avoid remembering that it is real money that you can spend on your basic needs'food, rent, mortgage payments, education for your children, gifts for your spouse, a new car, or vacations.

The list of what you can buy with that lost money is endless. If that isn't enough, there is the social side of loss. Explanations are -required- for your spouse. Your children must be told why they can't have the current indulgences that all the other neighbourhood kids have. It's embarrassing to explain to friends and relatives that you've lost. The emotional stress can be unbearable, resulting in physical infirmities, like ulcers or heart problems. Even making large sums of money can be stressful.

Once you pile up a huge profit, there is the risk of losing it, the need to guard it, and the desire to preserve the lifestyle to which you have become accustomed. It's tempting to cope with the stresses and strains brought on by trading by pretending that they don't exist, but when you do, you will find yourself unprepared for dealing with all possible contingencies. In the end, avoidance produces even more stress, and emotional driven trading, which in turn, results in huge losses and further elevated stress levels.

When it comes to trading, the outcomes are uncertain. That's a fact. It's how the game works. Thus, before you enter the game, it's essential to be aware of and accept all possible outcomes, and have a specific plan for knowing how to deal with each one. By doing so, you'll not only alleviate stress but trade more profitably and consistently in the long run. What steps are you going to take if you win big, win small, lose big, lose small, or just break even? These are the five possible outcomes of every trade you enter.

Do you know specifically what you would do under each of these outcomes? A fatal mistake of many novice traders is not considering all possible outcomes and making a well-detailed plan ahead of time before they even open a trade. By failing to anticipate unpleasant outcomes, such as losing money or breaking even, they panic upon facing these outcomes and act emotionally. It is one of the most common reasons novice traders go under the first time they attempt to trade actively.

But the fact is, you will tend to lose more often than win, especially when you are first starting out. That's why it is important to accept that you may implement a trading strategy that fails, and prepare for it by devising a specific exit strategy before you put on a trade. Make your exit strategy specific and write it down. What are you going to do if you win big? Will, you quit while you are ahead?

Take your initial grubstake off the table and trade with only house money? Or will you trade without giving any thought to the future? How will you handle winning small, breaking even, losing a little, or blowing out completely? Whatever you decide to do, it is wise to consider the various possibilities upfront. Don't put it off until later. It is your life, your money, and your destiny'put some serious thought into it. Consider both the upsides and the downsides before you get so involved that the game is playing you, instead of you playing the game.

Seeking Learning Goals.

Setting well-defined goals are essential for achieving high levels of performance. Specific goals are the best. They allow for direct feedback. You know exactly where you stand. It may not always be a good idea to set goals too high, however. If you have the requisite skills, setting high-performance goals and trying to reach them can be a powerful motivator. But if you don't have the requisite skills, and fail to achieve your goals, you may tend to feel disappointed and just want to give up. It may be useful to set a learning goal during initial stages of learning, and then move up to setting high-performance goals after you have achieved an adequate level of mastery.

Psychologists have discovered that performance goals, such as trying to achieve a 20% profit for the month, are not always the best goals. Here's why. One may not have the experience or skills to reach a goal that exceeds one's abilities. For example, would you try to run a 20-mile marathon if you can't even run a mile? Of course not. So why make such high and lofty trading goals until you have the requisite knowledge and skills? Many novices make the mistake of setting their goals too high. It's understandable in away. Ambitious people are taught to set high-performance goals. If one doesn't even consider achieving an ambitious goal, then one may not even try to achieve it. It is vital to set high standards and do whatever it takes to reach them. But goals must also set realistically. When novices set high goals that exceed their skills, they usually fail, feel discouraged, and give up. So if you are a novice trader, it may not be a good idea to immediately strive for specific performance goals, such as a 20% profit per month, at least not until one develops the skills to meet this expectation consistently. It's useful to distinguish performance goals from learning goals.
When we set goals, we usually think of setting performance goals; that is, we think about a specific percentage a month we should achieve. But for novice traders, it is more useful to consider setting learning goals rather than performance goals. A learning goal is more modest and can be achieved more easily. It involves breaking down the larger goal into specific steps that are doable, and rewarding oneself after each step is accomplished.
For example, a learning goal may be stating, -I'm going to study for 30 hours a week to learn a new trading technique.- The specific goal will not immediately lead to the larger goal of making a 20% profit per month, but it is easy to achieve, will lead to personal satisfaction upon completion, and in the long run, will contribute to the long term goal of becoming a seasoned trader.
So if you're a novice trader, set yourself up to win. Don't set overly high-performance goals. Set high and realistic learning goals instead. Break the larger goal down into specific steps, and reward yourself after you complete each one. When you become a seasoned trader with advanced skills, you can set out to achieve those high-performance goals. But initially, it's in your best interest to focus on skill-building, rather than high performance.

Goal Setting: Don't Set Performance Goals Too High.

Sam started trading almost three months ago. He's read that it's important to set specific goals and try to reach them. He thinks, -I've got to set my expectations high, otherwise I won't try hard enough. I think I'll try to shoot for a 20% profit per month. I've got big dreams, and if I don't strive to reach them, I'll never achieve them.- Big dreams can be a powerful motivator, but there's a huge difference between lofty unrealistic dreams and specific ambitious goals that one strives to achieve with a methodical and detailed plan.

Industrial psychologists have studied goal setting. They've found that high-performance goals are not always the best goals. Here's why. One may not have the experience or skills to reach a goal that exceeds one's abilities. For example, would you try to run a 20-mile marathon if you can't even run a mile? Of course not. So why make such high and lofty trading goals until you have the requisite knowledge and skills? Regardless of the job task, many novices make the mistake of setting their goals too high. It's understandable in away.

Ambitious people are taught to set high goals. If one doesn't even consider achieving an ambitious goal, then one may not even try to achieve it. It is vital that we set high standards for ourselves and go out and do whatever it takes to reach them. But psychological studies show that it is the way one goes about achieving a high-level goal that matters.

When novices set high goals that exceed their skills, they usually fail, feel discouraged, and give up. So if you are a novice trader, like Sam in our example, it may not be a good idea to immediately strive for a 20% profit per month, at least not yet. It's useful to distinguish performance goals from learning goals. When we set goals, we usually think of setting performance goals; that is, we think about a specific percentage a month we should achieve. But for novice traders, it is more useful to consider setting learning goals rather than performance goals. A learning goal is more modest and can be achieved more easily.

It involves breaking down the larger goal into specific steps that are doable, and rewarding oneself after each step is accomplished. For example, a learning goal may be stating, -I'm going to study for 30 hours a week to learn a new trading technique.- The specific goal will not immediately lead to the larger goal of making a 20% profit per month, but it is easy to achieve, will lead to personal satisfaction upon completion, and in the long run, will contribute to the long term goal of becoming a seasoned trader.

So if you're a novice trader, set yourself up to win. Don't set overly high-performance goals; set high and realistic learning goals. Break the bigger goal down into specific steps, and reward yourself after you complete each one. When you become a seasoned trader with advanced skills, you can set out to achieve those high-performance goals. But right now, it's in your best interest to focus on skill-building, rather than high performance.

Learning From Past Mistakes.

Losses and setbacks are a fact of life. It is necessary to experience setbacks and recover from them in order to achieve success. The trader who has never experienced a severe drawdown, or blown out his or her trading account, has never learned to realize the worst-case scenario and recover from it. Setbacks, even severe ones, can be important learning experiences and opportunities for growth. It is vital to extract a lesson from past mistakes and learn to turn a negative event into a positive event. That said, it is important not to become paralyzed by setbacks. Rather than mull over past defeats, or trading losses, winning traders use the setback as a motivator, an opportunity to hone their skills and improve. They examine what they did wrong, learn from their mistakes, and view the temporary setback as a new and refreshing starting point from which to achieve higher levels of future performance.

Winning traders don't get been bogged down with self-doubt, regret, and defeat. Instead, they use the -loss- as a motivator for change and improvement. They examine their past -losing- performance in scrupulous detail, discover the factors associated with poor performance, and correct these factors. They aren't afraid of taking a brutally honest look at themselves. Indeed, they welcome it. After closely examining the facts, they can't wait to experience new opportunities to hone their skills until they eventually achieve lasting success.

As traders, it's crucial that you keep accurate records of all factors that may impact the outcome of your trades so that you can learn from your losses, improve your performance, and do better next time. From a psychological viewpoint, document factors associated with the loss, such as whether you were in a bad mood or acting on impulse rather than with a calm and relaxed trading style. Other factors, such as market conditions, trading strategy, preparation for the trade (such as backtesting), or risk management strategy should also be noted. Armed with this knowledge, one can study a series of losing trades and identify the factors that led to the trades -going wrong.- One can then change these factors in subsequent trades and monitor improvement. The key is to take an upbeat psychological approach. Rather than mulling over one's failure, it's more useful to view past failure as an opportunity to grow and improve.

Viewing a loss as a growing experience changes your perspective immediately. You will now focus on what you can do to achieve the bigger goal of becoming a seasoned trader, rather than mulling over the loss from a few of the many trades you will make throughout your career. In the end, it is essential to keep the bigger picture at the forefront. You'll be a successful trader in the long run if you just keep honing your skills. By monitoring the factors associated with poor performance, and changing these factors in future trades, you can learn from your mistakes and trade profitably and consistently.

Accepting Inconsistency and Uncertainty.

Jack can't seem to force himself to make a trade. He is just too afraid. He is afraid to lose. He wants certainty but the kind of reassurance he is seeking just can't be found when trading the markets. He is searching for perfection, infallible knowledge, and insurance that he won't lose, but demanding these conditions does nothing more than stifle him. He is stuck and paralyzed.

Many traders, especially novices breaking into the field, have an insatiable need to seek out certainty and security. Uncertainty represents insecurity. It's not merely that they have a pessimistic outlook, although they have one, they equate money with psychological security. Losing money represents not only a loss of financial security but also a loss of basic emotional security and well being.

How does such an affliction develop? For many, it is rooted in early childhood. Parents often impose rules for their children to follow and punish them when the rules are broken. Young children are on the lookout for what rules to follow so as to avoid punishment and the unpleasant feelings associated with it. As adults, we make our own rules and decide to follow them or not. We no longer act as children searching for the -right- rules to follow in order to avoid punishment. Traders obsessed with perfection and certainty, in contrast, tend to search for the -right rules.-

They continuously search for rules to follow, and when no clear rules exist, they simply make them up. It's as if their parents have followed them into adulthood. They are always there next to them nagging and threatening punishment when the -right- rules are not identified and followed unconditionally. This past childhood conflict manifests itself as searching for the -right- indicator or the -right- trade setup. And even when they see it, they have a strong need to want everything to be perfect. Because if they don't, they are certain that some form of unspecified punishment will follow. When your money is on the line, it's natural to want to believe that if you just follow a specific set of rules, you'll be safe. It's not surprising that many people believe that life, and trading, is just a matter of following universal rules. We live in a rule-driven society.

In the typical work environment especially, we survive by following conditional statements. If I do job task X, Y, and Z, then I'll get a big reward. The more effort I put in and the harder I work, the greater the rewards. It's like an assembly line approach to work: I will make 100 widgets a day to earn my daily wage. Making more money is a matter of stamina and willpower. If you can force yourself to work longer hours, you'll make more money. Such a strategy often works in white-collar jobs, as well as blue-collar jobs, and it is natural to assume that merely following if-then reward contingencies when trading leads to sure profits.

It's tempting to think that if you just spend more time mulling over a trade, thinking long and hard enough, you'll account for every possibility and ensure success. Similarly, if you search over and over again, you'll find the ultimate trading opportunity. It makes sense, but it doesn't work that way. There isn't a direct one-to-one effort-to-payoff relation in trading. Sometimes you'll find that following some set of rules produces a profit, but sometimes it will not. Sometimes you will find that your effort pays off nicely, but sometimes it will not.

If you want to succeed as a trader, you can't take matters so seriously. You have to make prudent decisions, but you must also have a carefree attitude when it comes to trading. You can have high standards but don't expect perfection. Seasoned, profitable traders are not obsessed with details. They observe the markets openly and freely and allow trades to come to them. If you can relax and accept what the markets have to offer, instead of obsessing over it all, you'll creatively see ways of how you can profit from the market action.

Letting Go of the Past.

What are your worst losing trades? Do they haunt you? It may be difficult at times, but it is often necessary to forget about the past and think only of tomorrow. Sure, it is important to learn from your mistakes, and to the extent that you can do that objectively and unemotionally, you don't need to worry much about past losing trades influencing your current trading decisions in negative ways. But there are many traders who hold on to losing trades as emotional baggage. They place special significance on losing trades and view them as evidence for not being able to trade profitably. It is vital for your long-term success to neutralize the influence of these memories. Your past doesn't need to influence your future. It only has an impact if you let it.

During a stressful trading day when everything seems to be going wrong, it is hard not to panic, especially if you are a novice trader. Your emotions may start to take over. You may start to fear that you can't make profitable trades that day and that you just want to walk away. Your past emotional baggage can intensify these feelings to the point that you start making stupid mistakes and dig yourself even deeper into a hole.

Don't let past losing trades overpower you at the wrong moment. There is a lot you can do to put aside these past memories and start the trading day anew. Ironically, the first thing you need to do is acknowledge your past losing trades. Don't pretend that they didn't happen or that they have no meaning when you actually place a great deal of significance on them.

You don't have to over-analyze things in minute detail. You merely need to acknowledge that you had some past losing trades and that they bother you. You need to acknowledge that you may place losing trades in the future, but you aren't going to let that fact hinder you. Here's what you also need to do. You need to realize that your past need not dictate the future. Believing that the past and future are linked is a common irrational belief that you must refute. Realize that you can determine your future, regardless of your past. You don't need to let the fact that you made big losing trades in the past make you feel stunned and panicked. Instead, remind yourself that you can take steps to overcome a potentially losing trade.

For example, you can limit your risk so that you will know deep down that it is virtually impossible to have a losing trade in the future that can have any real great significance. You can also make a list of past winning trades that you can pull out and review while in the midst of a current loser to remind yourself that you can overcome your current circumstances by calming down, thinking positively, and taking decisive action. You can tell yourself encouraging thoughts, such as -It's no big deal. I can endure. I can get through this if I just calm down.- It is also important to monitor your current emotional states. If you feel that you are just too bogged down, it may be a good idea to close out positions and stand aside for the rest of the day.

Knowing that you have an action plan for dealing with an emotional setback can do wonders. If you know that you have a specific plan ready to put into action, you'll feel a sense of freedom. You'll know that you are ready for anything. So don't live life looking backwards. Make a conscious attempt to let go of the past. You don't need to let past mistakes stifle you. Let it go and focus on tomorrow.

Psychological Limits of the Mind.

Don't overestimate the amount of information your mind is capable of processing. Over the past 40 years, cognitive psychologists have shown that the mind has limits, and you should be aware of these limits while making trading decisions.

Cognitive psychologists view the mind as analogous to a computer. Long-term memory is similar to a hard disk in that information is stored permanently, even when the computer is turned off. Your attention or conscious thought, in contrast, is similar to computer RAM.
The amount of attention you can devote to a particular task is restricted. You can only attend to and process a limited amount of information and when you move beyond the limit, the information is not processed. In this way, attention and -short-term- memory is similar to RAM in a computer. Have you ever noticed that it is possible to read a telephone number and remember it for only a short time; when you are distracted the information is lost. That's how attention and short-term memory work. You can hold only a small amount of information in your mind for only a short time. Unless you memorize the information (that is, put it in long-term memory), it is lost.
How can we as humans increase the -processing capacity- of our minds? It isn't easy. You cannot merely add extra RAM or a faster CPU. What we can do instead is -overlearn- some of the tasks we do while trading. It is similar to how people learn to drive a car. At first, one must focus attention on each driving task separately in a deliberate focused manner.
But, over time, one can monitor speed, look for road hazards, and engage in several tasks automatically, and still have plenty of attention left to talk with a friend or insert a CD into the car stereo. You may have noticed that trading tasks can be -over-learned- in much the same way. For example, you probably have noticed that over time, you can identify signals that precede a breakout almost automatically. With practice, a lot of steps that you once had to perform in a deliberate and tedious manner can now be completed will little effort. Many times, -intuitive- decisions merely seem as if they are a -gut instinct,- but may in fact be based on several valid and reliable inputs and signals that were processed automatically.
Increasing your processing capacity in this way is a double-edged sword, however. Processing signals and other -inputs- automatically can allow one to process a greater amount of information, but the more automatic processing becomes, the more likely a person is prone to common decision making biases, such as the fundamental attribution error, false consensus effect, and confirmation bias. That is, a -gut instinct- may be based on valid and reliable inputs, but it may also be based on faulty memory processes, such as a reliance on inaccurate vivid examples of past market behaviour, which are no longer valid.
It is useful to gain awareness of your processing capacity. Develop a greater capacity by learning to process several inputs simultaneously, but at the same time, be on the lookout for decision-making biases.

The Little Things That Get In The Way.

A common complaint of novice traders is that they can't stick with their trading plan. They wonder why, and after they think about it long enough, they come up with fanciful explanations. For example, they start believing a motive to self-sabotage their efforts lies behind their failures. They may also start to think, -Maybe I secretly don't deserve success.- Most traders, though, underestimate the power of the little things that get in the way.
Specifically, they underestimate how much psychological and physical energy it takes to trade, or they don't appreciate how much practice it takes to follow a trading plan. And even though they think they are striving for modest goals, they stymie themselves by trying to reach unrealistic standards. For many novice traders, secret, unconscious motives are not at the root of the problem. They merely forget to appreciate how little things can get in the way.

When you can't seem to follow your plan, try looking at the little things that may interfere. Perhaps you didn't get enough sleep or maybe you are hungry. Don't believe me? Try sleeping extra time just for a week. Decide to miss part of the trading day for a week, and see what a difference it makes. Extra sleep can increase your ability to stay alert and will give you the extra energy you need to focus on your plan. You may need to change your life around and get to sleep earlier so that your biological clock is in a different time zone. Get the sleep you need, no matter what it takes.
Trading is stressful, and coping with stress requires psychological energy, and psychological energy is more limited than most people think. Getting angry, frustrated, or even disappointed, saps up precious psychological energy. Don't discount the impact of stress on the depletion of psychological energy.
After stress depletes psychological energy, you need to replenish it before you can once again concentrate fully. When you are tired, and the market seems to move against you, it's hard not to want to just take a break. A tired, worn-out feeling often lies below the surface of your awareness. You may think you are rested and alert, but you are not. Get rested, and you will be able to focus on sticking with your plan.
Sticking with a trading plan takes practice. Does this seem like an exaggeration? It isn't. Just like practising a tennis swing, you have to learn to concentrate. You must practice focusing on your ongoing experience and controlling your emotions, and this takes practice. It isn't easy. Your money is on the line and a little bit of your ego, so you can't expect to be able to stay calm, alert, and focused without a lot of practice.
So when you can't believe you've abandoned your plan once again, don't jump to the conclusion that a secret, unconscious motive for self-sabotage lies at the root of your problem. It may just be a matter of reducing stress levels, getting plenty of sleep, and allowing yourself to develop the ability to practice following a trading plan.

Living With Reality.

If you're like most traders, you expect to win. You put your time and energy into finding high probability setups, and after all the studying, searching, and theorizing, when you think you have come upon a good idea, you want it to work. Unfortunately, the markets don't always cooperate. You have to go where the markets take you. In the end the markets are always right. How do you react when things don't go your way? Do you feel upset? Are you angry? Do you want to get even?

When things don't go your way, it's very human and understandable to feel frustrated and angry. People experience anger when they feel that they have been unfairly wronged. It's easy to get angry while trading the markets. You expect to win. You were counting on winning. And when the markets don't cooperate, you feel a little hurt. Your ego is dinged and you are angry with someone: fate, yourself, imaginary institutional traders who are out to get you. The possibilities are endless. If you want to find someone to be angry with, you can find it, but it isn't very productive.

Anger can be a dangerous emotion when trading the markets. When you feel angry, you are ready to put up a fight. You have a powerful inclination to focus all of your energy and resources on fighting, seeking revenge, and looking for any sign of provocation. It's hard to think clearly when you are angry. Sound decision-making requires you to remain calm, focused, and flexible. There's no reason to be angry at the markets. Here's how you can be less angry at the markets.

First, don't personify the markets. Anger is an interpersonal emotion. We are usually angry with someone because we believe that he or she has purposely tried to harm us. The markets may consist of people making trades, but it doesn't make sense to make up imaginary relationships with the markets.

There is nothing that is personal going on. You are merely making it personal, and taking setbacks personally, as if someone were out to wrong you. The people participating in the markets may engage in actions that thwart your goals, but their actions are not directed toward you personally. It is best to look at the markets as an abstract impersonal entity. Pretend you are playing a videogame. The more impersonal you can make trading, the better you will feel, and the more profits you'll realize.

Second, don't expect anything to go your way. Practice radical acceptance. Whatever happens, happens, and there is little you could have done to change things. (All you can do is limit your risk.) Anger is felt when our expectations have been shattered. One expects to profit from a trade, and when the profits are not realized, he or she may become angry, seek revenge, and want to get even.

However, it isn't useful to have high expectations in the markets. Don't depend on the markets to fulfil your goals or meet your expectations. Assume that anything can happen. Indeed, in dealing with the markets, it's almost a given that you will lose money, so it is not useful to expect to make money on every trade. Just accept what you can get. Using this thinking strategy will make you feel calm.

The more you can stay calm while trading the markets, the more profitably you will be. Don't get frustrated, angry or upset. Take all setbacks in stride and enjoy the process of trading. You'll find you'll be calmer, focused, and more profitable.

Thinking of the Big Picture.

Many novice traders have difficulty facing a cold, hard fact about trading: You can't get rich overnight. You've got to just take it one day at a time, and make a relatively small amount of profit across a series of trades. Experienced traders know this fact. They may hope to make big profits in the long run, but on any given day, they just focus on making as many reasonable profits as possible, not on a single, life-changing trade.

Many traders may know this fact, but it is hard to accept. Many are initially drawn to trading with the hopes of making big profits, money that can be used to finance a luxurious, exciting lifestyle. Or money that can be used to show family and friends that one is deserving of envy or respect. It's dangerous to approach trading from this perspective, however. It directly contradicts the fact that it's going to take some time before one makes enough money to support a new lifestyle or to impress others.

What's the harm in dreaming of making big riches? Nothing, if you realize it is just a fantasy. If you don't, you may want to act on it. If you dream about how big wins can change your life, you'll start to want to make extremely huge profits, and then, it's likely that you'll start taking measures to make these big wins, even when low-risk opportunities are not available. You may take bigger, riskier trades with the hope of being lucky enough to triple your capital. Or you may be tempted to stray from your trading plan because you see the potential to make a big win. You may even abandon all risk controls because you may start to think, -Unless I can make some big money fast, trading isn't worth it anyway.-

It's important to stay modest. It is unlikely that you will be lucky enough to be set for life after only a few big trades. You will have to put in a long, hard effort just as all seasoned, successful traders have done. It's vital for survival that you take the proper perspective. Someday you may be wealthy and have an exciting lifestyle, but it isn't going to happen tomorrow, or probably in the next year. For now, just take it one day at a time. Focus on the process of learning how to trade. Trading is fun and you should enjoy yourself.

When you take this perspective, you'll be satisfied with your trading outcomes no matter how well you are doing. And when you trade a detailed trading plan, use proper risk control, and just aim for a reasonable, realistic profit, you will trade more calmly and objectively. You'll start piling on profits, and maybe over time, you'll make the kind of money that can fulfil your grandest dreams. But for now, hard work, realistic goals, and persistence are the only things that will help you become a consistently profitable trader.

Losing Your Money and Objectivity.

Has a close friend ever confided in you about a losing trade? Perhaps he or she risked a little too much capital on a bad trade. Maybe he or she forgot to use a stop-loss, and then fruitlessly hoped against hope that the trade would miraculously turn around. At this point, denial usually sets in. Suddenly, your friend, panicked and dazed, describes how he or she is trying to hide the potential losses from his or her spouse.

But you see things differently. Your money isn't on the line, and you see the futility of the whole situation. Somewhat incredulously, you can't understand why your friend is not merely accepting the loss and moving on to new trading opportunities. Novice and seasoned traders alike can become stressed out as losses mount. And when fear sets in, it's hard to think straight. There's a point where you aren't only losing your money, but also your objectivity. When you get to this point, it's vital to get out of the emotional hole you've dug, regain your composure, and take a good, hard look at your options.

Holding on to losing trades is so ubiquitous that behavioural economists have given it a name. They call the ailment the disposition effect. There's a natural human tendency to protect our assets, and an equally natural inclination to deny the trouble we are in when we've made a losing trade. If you're like most people who enter the trading profession, you want to win. You hate being wrong, and you hate losing.

The need to be right, however, is a trader's worst enemy. Traders sabotage themselves when they fail to admit their shortcomings and mistakes. Although it's easier said than done, flexibility and open-mindedness is the hallmark of success for a trader. If you can be flexible enough to admit your mistakes, which result from your humanness and vulnerability, you'll be able to take losses in stride. You'll be able to stay objective and read the markets intuitively and precisely.

That said, controlling your emotions while your money is in play isn't always easy. As you monitor your trade, you can't help but think about what you could lose. But it's vital to remember that you aren't powerless over your emotions. There are a number of things you can do to restore control. First, look at your assumptions about losses. Many novice traders strive for perfection in a field where losses and setbacks are commonplace. At every setback or loss, they think, -How could I have been so stupid, so incompetent?- This isn't a very adaptive mindset while trading chaotic and volatile markets. You should go into trading expecting to make many more losses than wins. But that's all right. You can end up profitable in the long run even when less than 50% of your trades are losers. Remembering this fact of trading can help you maintain your composure. Second, it's vital to limit your risk and trade with money that you can afford to lose. If you know deep down that you can survive a loss, you will stay calm even during the midst of a losing trade.

Never underestimate the value of risk management. Finally, if circumstances are so overwhelming that you cannot think clearly, you might want to think about closing out a trade even when it's going your way. These days, commissions are low enough that you can easily close out your positions, evaluate them, and contemplate your options. The relatively low commission costs are worth it when you consider the peace of mind it buys. You'll find that once your money is no longer at risk, you'll calm down and look at your trades more objectively.

Trading is indeed a stressful business. There's pressure to do well, and the need to do well can interfere with your ability to cultivate the calm, winning mindset needed for financial success. But by staying optimistic and managing your risk, you can remain objective, free, and creative. And when you reach this state of being, you'll increase your chances of mastering the markets.

Cutting Your Losses.

Winning traders cut their losses early. Indeed, they work under the assumption that they will see many more losing trades than winning trades. Knowing how to take a loss in stride and to just move on is a key skill that all traders must hone. It's often easier said than done, however. Behavioural economists have outlined many psychological processes that prevent most traders from accepting a loss and moving on. There are times when several factors combine to make it especially difficult to cut one's losses. By gaining awareness of these processes, you can neutralize them, so they will no longer influence your ability to take a loss.

Humans are naturally risk-averse. They don't like taking losses. They would rather gamble on taking a large loss, for example, than just accept a small loss upfront. For example, long term amateur investors will hold a losing position for weeks in the hope that the trade will turn around. Many times, the trade doesn't turn around; losses continue to mount and the need to hold onto the trade is intensified.

One reason for holding on to a losing trade is the sunk cost effect. The more financial and psychological costs we sink into a trade, the harder it is to take the loss and move on. It's like thinking, -I've waited so long and I've lost so much of the initial stake that I can't give up now.- There's a strong need to justify the effort and expense one has put into holding a losing position. The need to justify the loss is so great that it can be difficult to write off the loss.

There are also social processes that may prevent some traders from taking a loss. It's hard for some traders to keep their wins and losses to themselves. Trading can be a lonely profession, and it is often useful to set up a social support network.

The downside, however, is that some people in the network may compete with you, just waiting for you to have a setback so that they can feel superior. You may look forward to relishing your wins, but dread having to admit your losses. The need to save face can prevent some traders from taking a loss. The best antidote to this problem is to stay humble. Don't brag about your wins. If you avoid getting a swelled head, you'll be able to admit your mistakes and shortcomings more easily, and people in your social network will offer warmth and understanding rather than enjoy seeing you lose.

Cutting your losses is vital for success. You'll see many more losses than wins, and the only way to survive is to take a carefree attitude toward trading. Expect to lose. Don't overly personalize losses. All traders face losses. It says nothing about your self-worth. It's just a fact of trading. Realize that you have a natural human tendency to avoid losses, and minimize this impact by staying humble and open to the possibility that you have shortcomings, and that it is impossible to win on every trade. The more easily you can accept a loss and move on, the more profitable you'll be in the long run.

The Complex Emotions of Loss.

Jim has just taken a big risk and lost. He has been watching a stock for the past month and it's been going down. But today an earnings report was released. Yesterday, Jim had a strong hunch that actual earnings were going to beat analysts' estimates. In preparation for the possible price move, he bought 1,000 shares, expecting it to go up substantially after the earnings announcement.

He was so sure that the stock was going to move in his favour that he didn't use a stop-loss. Unfortunately, when the actual earnings were reported, it missed analysts' expectations by quite a bit, and the crowd was watching. The price fell hard and fast. Jim lost a large portion of his account, and he is understandably upset. He blames fate and he blames himself. He is now experiencing a variety of intense emotions: anger, guilt, fear, and disbelief. This mix of emotions is complex, but unless Jim learns to cope with them and move on, his financial loss may also have long-term emotional consequences.

Jim blames fate and himself. He asks, -Why couldn't events go my way? I should have been more sceptical. I shouldn't have trusted my intuition. I shouldn't have risked so much. I should have used a stop-loss.- Jim's reasoning makes some sense. He feels disappointed for trusting himself and angry at external events for not going his way. He feels guilty for losing as if he has let himself down.

He wonders what he could have done to prevent the losing trade. He tries to pretend that it just didn't happen. He thinks, -Maybe I could have risked less or prepared for the trade more. I should have studied every possible factor that was driving the price down, and accounted for them in my plan.- Jim's feelings are a natural response to the loss. The internal dialogue that underlies his emotions is also understandable. He wants to undo this event that he views as devastating and humiliating.

How should Jim cope with these emotions? First, he needs to stand back and look at things logically. Right now, his emotions are getting the better of him. Some positive self-talk would work well right now. Sure, he risked more than he should have, but that doesn't make him a bad person, and it wasn't necessarily a bad idea to do what he did. There are times when traders abandon their risk limits, so taking on extra risk in and of itself isn't a bad thing. Perhaps Jim should have thought of other factors that may influence the price or considered these factors when developing his rationale for believing that earnings would beat analysts' forecasts.

If he had objectively looked at the evidence rather than go with an unfounded hunch, he might have faired better. That said, seasoned traders go with hunches, so doing so isn't inappropriate. In addition, information isn't always accurate, so even if he had studied all the available information more closely, he might not have been able to anticipate what would happen with complete certainty. In the end, Jim should ease up. He tried his best, showed courage by putting on a risky trade, and should pat himself on the back for his efforts. He may have made a few mistakes, but he is only human.

Second, he needs to decide what he has learned from the experience and do things differently next time. What should he learn? It depends on his experience. There isn't just one right way to trade. For Jim, he may decide never to fully trust an unsubstantiated hunch again, to avoid risking more than he should consider the size of his account, or to consider the advantages of using a stop-loss. Other traders may draw opposite conclusions, depending on their market experience. He could accept that hunches are right most of the time, but wrong at others. He could decide that risk and loss are commonplace in trading and that he shouldn't get very upset about it. And he may decide that there is absolutely nothing he could have done and hope for the best next time. In the end, he has to decide for himself what, if anything, there is to learn. It is entirely his call. The main point is that when facing a loss, traders need to do two main things: Avoid extreme emotions through monitoring and changing self-talk and quickly decide what lessons are to be learned from the experience, if any, and just move on.

When facing a loss, it's hard not to become consumed with guilt and anxiety. But these emotions usually get you unnecessarily upset. Rather than focusing on the next trade, you end up mulling over something that you couldn't have changed. It's often better to take losses in stride and move on.

Taking a Loss: Getting Over It Isn't Always Easy.

To your surprise, you've just lost $1,000. Naturally, you feel guilty and angry. You wish it didn't happen. You try to justify it: -It's just the tuition you pay to become a master trader. You need to go in expecting to lose. It's the nature of the game.- As useful as these statements are, though, mulling them over isn't helping today.

Instead, you can't stop thinking about the car payment due next week, your son's birthday party tomorrow, or how you just bought a new car stereo. You think, -$1,000 is a lot of money. I can't just write it off, consider it a minor setback and move on.- As hard as it is, that's what you have to do. As a trader, you have to think of the big picture, and hope that if you work hard enough, and make enough trades under the right market conditions, you'll come out ahead. That said, it isn't always that easy. The dynamics of risk aversion and loss run deep.

Do you have trouble taking a loss? You are not alone. Large corporations have trouble taking losses too. Behavioural economists have shown that companies go bankrupt rather than admit that their corporate identity and business plan need reworking (Pan Am went under because executives couldn't admit their hotel business was doing better than the airline). Bankers refuse to write off bad loans because they don't want to admit to their superiors that they mistakenly lent it to people who were a bad risk. And institutional money managers leave losses on paper because they are afraid to own up. As a short-term trader, the losses you take maybe a fact of life, but that doesn't make them easy to handle.

Feeling guilty over taking a loss isn't irrational. Indeed, it's been adaptive throughout human history. There's a strong biological urge to protect yourself and your loved ones. For tribes of hunters and gatherers, it meant obtaining food and shelter and protecting those resources from loss. In modern times, it means having enough money to pay for food, clothes, and housing. So when you lose money, even as a professional, active trader, it hurts a little when you think of the resources the money can purchase.

It's adaptive to think in these terms. It was part of your upbringing. Your parents and teachers taught you to protect yourself and your family, and to do that, you needed to make money and save it. When you lose money on a trade, you naturally start to feel guilty and a little panicked. It is as if you are unnecessarily risking your safety and that of your family. It's quite understandable, but as an active, professional trader, you must change your thinking regarding this issue. You must fight against your natural inclinations and learn to take losses.

So how do you beat out years of upbringing? First, admit that you feel guilty and why. You're guilty because you are taking a risk that may inadvertently harm you or your family. Admitting the potential adverse consequences helps. It's hard to take these responsibilities lightly.

For example, it's going to be harder to accept a loss if you really need the money to pay for basic living expenses, rather than money that is set aside for trading. Ideally, you should only trade with money you can afford to lose. It eases some of the pressure. Taking active steps to manage risk can also help you relieve stress. If you know that you've done everything to minimize risk and you truly know that you can survive a worst-case scenario, you'll be able to take a loss more easily. These are also significant issues you must resolve before you can trade effortlessly and intuitively.

After you have taken care of practical issues, like managing risk and building up enough trading capital, you can then address the psychological side of accepting losses. First, put the money you spend for trading in a different -mental compartment- from the money you allot to your personal life. Second, identify and refute assumptions about risk and loss.

It may be useful to make a list of justifications that you can read after you have lost: -Losses are a business expense. It's like a personal investment in your trading business. It's like paying tuition in order to learn important trading lessons.- These sayings may not work at first. It's hard to change your expectations overnight. It takes practice. That's why you should actually write down these sayings about losses and read through the list when you feel guilty about a loss.

Learning How to Take a Loss.

Humans are risk-averse. We don't like losses, and we'll do almost anything to avoid taking them. Losses are painful, and there's a strong need to seek out pleasure and avoid pain. It is easier to avoid admitting a loss, and traders tend to come up with many ways of denying one has a loss, such as holding on to a losing trade and hoping it will turn around or keeping losses on paper to avoid acknowledging them.

But in the end, you will trade more efficiently and profitably if you can take losses as quickly as possible, move on and make a new trade. For example, in his book, -The Disciplined Trader,- Mark Douglas suggests that you close out losing trades immediately, the instant you perceive that trade is a loser. The best way to do this is to have a clearly defined trading plan where you predefine where you will enter and exit a trade. Once you have a clearly defined plan, you can execute the trade without hesitation. There is nothing to consider, weigh, or judge and consequently nothing to tempt you to hesitate and be consumed with self-doubt. You'll be able to focus on monitoring the trade, and if you can follow your plan, you will be able to trade effortlessly.

The best way to take a loss is to anticipate it. Don't be caught off guard. If you go into a trade expecting that it may be a loser, you won't be as bothered should the trade go against your expectations. If, on the other hand, you try to avoid considering the possibility, you'll become extremely frustrated when you are in the midst of a losing trade. It is much more useful to accept the fact that losses are the norm rather than the exception.

It is also vital to define your potential losses before you enter any trade. Define your possible loss, or risk, in comparison to your possible reward, or profit. It is also vital that you don't take losing personally. Traders who put their self-esteem on the line with their money are especially vulnerable to strong, unpleasant emotions when they lose. But if you take a more carefree approach, and think, -It is not personal; it isn't a big deal in the end,- then you will be able to accept a loss and take quick, decisive action.

Taking a loss is a fact of trading. If you trade to make profits, you will face many more losing trades than winners. But just because you lose more than you win, doesn't mean that you won't trade profitably over the long run. The fact that you lose trades is not an issue. The issue is how you cope with losses. If you view them as nothing more than a minor setback, you'll get back up and make trade after trade in order to come out of it. But if you are stunned and disappointed, you'll actually give the losing trade more significance than is warranted. And in the end, you may end up losing money over the long run. So practice taking losses effortlessly. You'll trade more profitably in the long run.

It's Just a Loss, Isn't It?.

Everyone likes to win, but is a need to win merely an attempt to avoid losses? Success requires facing setbacks nonchalantly, but there may be some traders who imbue losses with great psychological symbolism. In his book, -Investor Therapy,- Dr Richard Geist describes how some traders see losses, consciously or unconsciously, as reliving significant personal losses in their lives. What do losses mean to you? Is a trading loss just a loss, or does it mean something more?

According to Dr Geist, -Investors who have grown up experiencing unresolved losses often have specific difficulties selling their stocks.- Unresolved losses can make it difficult for traders to take a loss, and they may do irrational behaviours to avoid facing a loss, such as keeping losses on paper. Some people may sell stocks early in order to lock in profits, even though holding the position longer would have produced greater profits. Arbitrary sell rules, such as selling after a stock price dips 8%, may reflect a hidden need to avoid extreme loss. Loss is a part of life, but some people have great difficulty taking a loss, or any kind of a setback, in stride. Losses and setbacks mean too much to them personally.

As much as it may be difficult, traders must trade stocks impersonally and objectively. But that can be difficult if you tend to imbue a trade with symbolic meaning. If you think, for example, -This is just like when my best friend said I would never amount to anything,- you will make a stock trade a bigger deal than it is. Now, you might counter with, -It is a big deal. Money is on the line and I might lose it.- Well, that may be true, but if you constantly think of the potential negative consequences of trade, how much you could lose and how bad it will feel, then you will not be able to trade freely and creatively. You'll dread making a trade. You'll overly worry about what will happen, and you will eventually crack under the subtle strain you put on yourself.

If you are the kind of trader who just cannot see trade as anything more than a business transaction, it will be hard to completely rid yourself of your tendency to imbue a trade with great personal significance, but it is essential to try to trade in a carefree manner. Remind yourself that you have a choice: it is your decision to make a big deal over a commonplace event.

If you tell yourself it is not important, it will not be. But you can't wait until you make a trade before you practice convincing yourself that trading is just an impersonal work activity. If you are prone to overly personalize trading, you must repeat a mantra proclaiming ordinariness to yourself all day and every day: -It's just a work product and nothing more.- It may sound extreme, but that's the kind of mental reprogramming you need to practice. How can you undo years of wrongly believing that any loss or setback, no matter how minor, has significant meaning for your inner-worth? It's hard, but it is not hopeless.

Reminding yourself over and over again that accepting losses are a necessary part of life, and an essential part of winning will help you get ready for taking a loss. It will help you prepare for the losses that are an inevitable part of life. Don't let your aversion for losses impact your trading decisions. Losses are no big deal. It's not the number of losses you experience as a trader, but it's how you recover from them. And in the end, if you make more money on your winning trades than you lose on your losing trades, there's no reason to even think about how much you have lost. A loss is just a loss if you decide to see it that way.

Turning a Loss Into a Gain.

Jim has had five losing trades in a row for a total loss of 25% of his account balance. He could feel defeated, pout, or get angry, but instead, he's excited about his future prospects. That's because he has decided to turn his loss into again.

Professional athletes and seasoned traders know how to turn losses into gains. Rather than mull over past defeats, or trading losses, they use the setback as a motivator, an opportunity to hone their skills, grow, and improve. They examine what they did wrong, learn from their mistakes, and view the temporary setback as a launchpad from which to achieve higher future performance. Many successful athletes note that Babe Ruth struck out over 1000 times on his way to setting the home run record.

Seasoned traders similarly note that winning traders, with proper risk management, can win as few as four trades out of a dozen and still come out ahead. In both cases, these winners could have been bogged down with self-doubt, regret, and defeat. But instead, they decided to use the -loss- as a motivator for change and improvement. They examined their past -losing- performance in scrupulous detail, discovered the factors that led to poor performance, corrected these factors, performed the task again, and honed their skills further until they eventually achieved lasting success.

As traders, it's crucial that you keep accurate records of all factors that may impact the outcome of your trades so that you can learn from your losses, improve your performance, and do better next time. From a psychological viewpoint, document factors associated with the loss, such as whether you were in a bad mood or acting on impulse rather than with a calm and relaxed trading style. Other factors, such as market conditions, trading strategy, preparation for the trade (such as backtesting), or risk management strategy should also be noted.

Armed with this knowledge, one can study a series of losing trades and identify the factors that led to the trades -going wrong.- One can then change these factors in subsequent trades and monitor improvement. The key is to take an upbeat psychological approach. Rather than mulling over one's failure, it's more useful to view past failure as an opportunity to grow and improve. Viewing a loss as a growing experience changes your perspective immediately. You will now focus on what you can do to achieve the bigger goal of becoming a seasoned trader, rather than mulling over the loss from a few of the many trades you will make throughout your career.

So try changing your viewpoint when it comes to losses. You will see your mood and mindset change dramatically. It may not be pleasant to face failure and accept your limitations, but looking at these failures in a broader perspective can change your mood from hopeless depression to excitement and optimism. It's merely a matter of thinking of trading losses in terms of the broader perspective. You're human, and not perfect. You should expect to fail on a single trade more than succeed.

But the key is to keep the bigger picture at the forefront: You'll be a successful trader in the long run if you just keep honing your skills. In other words, you may strike out many times, but it is the sheer number of wins that actually matters. The more times at-bat, the more you will strikeout, but overall, if you can learn from your past failures, your performance record will be impressive. By monitoring the factors associated with poor performance, and changing these factors in future trades, you can turn a loss into a gain, and be on your way to becoming a winning trader.

Don't Let a Setback Get You Down.

If you want to become a winning trader, you must be willing to face loss after loss without letting it get you down. Upon facing a loss, our first inclination is to feel disappointed, but how you react emotionally is merely a matter of how you look at matters. If you go in with unrealistically high hopes, you'll feel devastated when you encounter a setback. If you expect a setback here and there, however, you'll feel at ease and ready to bounce back quickly when you're knocked down. Babe Ruth struck out over 1000 times on his way to setting the home run record.
A top-notch salesperson may make a sale on only one out of ten cold calls. And a winning trader can come out ahead even if the majority of trades executed are losers. It's daunting to think about it, but you may see many more failures than successes on your way to becoming a seasoned, master trader.

Seasoned traders know how to take losses and setbacks in stride. They don't mull over past defeats or trading losses. They see a setback as an opportunity to hone their skills, grow, and improve. They examine what they did wrong, learn from their mistakes, and view a temporary setback as a launchpad from which to achieve higher future performance. With proper risk management, you can win as few as four trades out of a dozen and still come out ahead. Rather than getting bogged down with self-doubt, regret, and defeat, winning traders use a -loss- as a motivator for change and improvement.
How can you afford to take loss after loss and be happy about it? It isn't easy. Obviously, if you are losing big over and over again, you'll blow out quickly, and every loss will make you feel even more discouraged and beaten. To feel safe and at ease, you must believe that you can survive the learning curve. Risk management is vital for your survival. Limit your risk on any single trade. In addition, trade selectively. Only take setups where you can potentially make a large profit with relatively little risk. That's still not enough, however. If you don't improve, you'll still end up in the red. You must feel that your skills are in constant flux in order to take losses in stride.
Market conditions and your mood can impact your trading performance. If you trade in market conditions where you have trouble making a profit, you'll feel stressed out and you will likely choke under the pressure. It's better to trade under conditions where you are comfortable most of the time. Your first priority should be on making enough winning trades to profit overall.
Even then, you'll still see more losing trades than winners. But once you feel secure that you can make profits, you'll be able to explore new territory with little fear. Once you know that you have a basic set of skills, you'll be able to take losses in stride. So when you feel beaten, focus on the big picture. As long as you manage risk and continue to improve your skills, you'll eventually master the markets. In the context of the big picture, the losses here and there are just part of the learning experience. As long as you achieve profitability in the end, occasional losses are nothing to worry about.

Rekindle Your Hidden Passion for Trading.

After months of trading in a slump, Jake tells his best friend, -I think I want to quit the trading business. Why am I doing it? There must be a better way to make a living.- Have you ever felt like Jake? Trading is stressful and demanding. It's understandable to feel like throwing in the towel at times. If you are ready to find a new job, or if you just don't seem to have the same passion for trading that you used to, there is a lot you can do to rekindle your desire to trade the markets with fervour.

Even the most exciting job can become boring at times. Think of the hobbies, activities, and things that you once found exciting but no longer find interesting. It may be a sports car that you couldn't wait to drive but now view as a daily driver, or a favourite, expensive designer outfit that today you see as commonplace as a pair of jeans you bought on sale at Wal-Mart.

What is viewed as exciting is all a matter of context? Remember on -Seinfeld- how George used to lie about being an architect? It sounds so glamorous, designing some of the landmarks that define part of the essence of New York City. But not all architects design such buildings, and so, it may not be what it is cracked up to be. And what about trading? When you get bored, watch -Wall Street.- If only we had so much wealth that we could change the course of a company.

Or what about the commodities brokers in -Trading Places- who tried to corner the frozen concentrated orange juice market? These are romantic images that can inspire you. The problem is that if you are like most traders, you no longer see these romantic images as accurate. They may have motivated you when you first started trading the markets, but now that you've had some experience with trading, familiar concerns creep up: What am I doing that's really productive? Am I really making a contribution? How long can I keep this up?

Trading is a tough business. If you lose your passion for trading, all it means is that you are human. Here's an obvious cure. Why not take the rest of the month off. It's the holiday season. Maybe you're just stressed out. A little rest will help put things all in perspective. Once you are rested, relaxed, and re-energized, you'll be ready to tackle the markets in 2006 with zeal.

Here's another strategy. Remind yourself of how great trading really is. You work for yourself (unless you are an institutional trader). You can work at your own pace, and feel that you have freedom. Remember what it was like to work a 9-to-5 job? Perhaps you don't. Well, that's an idea. -Absence makes the heart grow fonder.- Maybe you could arrange to visit a friend for a day at a regular 9-to-5 job.

Or since it is the holiday season, you could take time off and find a part-time holiday job. It's not forever. It's just a way to rebuild your passion. Sometimes we forget why we trade. Again, like a thrilling sports car, we start to see the thrilling job of trading as mundane. Drive a compact car for a week and you'll see how great your sports car drives. Work at a regular 9-to-5 job for a few weeks, and you will find your passion for trading quickly. It may sound extreme, but it works. Maybe even after the first day, you'll think, -Oh, now I remember why I became a trader.-

It's hard to trade successfully day in and day out. Some traders never lose their passion, but many forget just how exciting the markets can be. If you lose your passion, don't sit around sulking about how boring life can be. Go out and see how the other half lives. You'll remember why trading is a great profession. And you will trade with renewed vigour.

The Lottery Mindset.

Do you ever dream about winning the lottery? There are actually people who have such good luck that they repeatedly enter contests and win. They win so often that if they wanted, they could count on winning, even though they are essentially trying to capitalize on chance. They develop a -lottery mindset- in that they approach life by counting on rare chance events. The rest of us aren't so lucky, and we don't live our lives counting on a fluke like winning the lottery. We work hard, master a profession, and work steadily to make a living. In many ways, top-notch traders approach their profession in the same diligent way. They don't view trading as recreational gambling and count on a fluke to make a profit.

That said, many people do experience key life-changing events. We have all heard of people who needed a lucky break and got it. You often hear of actors who with their last 50 bucks went on an audition and landed a job and ended up as a star of a hit sit-com. You probably know of friends who were desperately searching for a job for months, and needed a job fast! With only a week's worth of resources left, they found a job.

It can also happen in sports. Olympic athletes may practice their entire life for -one moment in time- when they can perform at their best. But there is some luck involved. A family member may pass away or they may become ill, and it may throw them off their game. Sure, they have rare talents, but the Gold Medal winners are also lucky enough to have everything go their way. There are times when life can come down to a few key moments. It's a little like playing Lotto and hoping that you'll win.

Even though profitable traders don't approach trading as if they are playing the lottery, they all have at least one big winning trade in their careers. In a series of exclusive interviews, we asked traders to describe their biggest winning trades. Jesse described how he invested in Juno Online. -I bought about 3000 shares, and the stock went up 20 points in two days. It went up fast and there was really no reason for it. I had a feeling it was just hype and euphoria, so I sold out and made $60,000.- Andy described how he used to trade currencies. -One day I was trading Yen, and made around $18,000 in just a day.- Don's biggest trade was in the heyday of the dot-com boom. -A European auction company was upgraded one morning. It was touted as the next eBay. CNBC was playing it up. The stock had just split and they got the price target a little bit wrong. They quoted an ungodly high amount. This was merely a single-digit stock. That morning it had traded up over 100. I shorted it as it was opening. It opened at 80 or 90 and it ran up to 120. I ended up covering the next day at half of what I shorted it for.-

Do people make huge profits capitalizing on a once in a lifetime trade? Sure they do, but the question you need to ask yourself is, -Do I want to trade hoping to make all my profits on a fluke?- Do you want to approach trading with a lottery mindset? If you do, you'll always be on edge and you will have difficulty trading with discipline. You'll tend to take big chances, and you may end up losing big.

It's better to trade more prudently. That doesn't mean not taking a risk or pushing yourself to invest a little more capital when you hit upon a winning streak. What it does mean, though, is controlling over-confidence. Don't seek out those one or two trades a year that will make up for all you've lost. There's an advantage to using a more methodical approach: Continue to search for solid, high probability trade setups, outline detailed trading plans, and trade prudently with unwavering discipline.

Trading for the Pure Love of the Game.

Why do you trade? What motivates you? To many traders, the answer is obvious. We trade to make money. Many traders, however, say that they would trade even if they merely earned a livable wage. For example, many traders in -Market Wizards- said that they initially took any job in the financial markets just to be around the action. Money wasn't the only motivator. Trading provides intrinsic rewards.

We asked one seasoned trader, for example, if he would trade if he didn't earn much money at it. He said, -I'd probably still do it. It's so interesting. I think it's a lot better than punching a clock somewhere. I find the game itself interesting. I enjoy watching how stocks react to the news.

It's always amazing to me how you can see small movements snowball into large herd mentality sorts of movements. A minor piece of news starts some selling, and then all of a sudden, there's more selling and more selling, and then there's a huge avalanche of selling. And it all started with just a minor piece of news. But then at other times, it won't do that. I find that very interesting.-

Another seasoned trader says, - I like the freedom trading gives you, the ability to earn a living while not having to have employees, the mental challenge, and the constantly changing environment.-

There are many reasons to pursue trading, and money is usually not the only reason. Many seasoned, profitable traders truly enjoy trading; they have a passion for understanding and mastering the markets.

In systematic studies, psychologists have repeatedly discovered that peak performers have a true passion for what they do. Whether it's art, sports, or business, the folks at the top are not primarily motivated by fame, glory, respect, or status. They are driven by the pure love of the game. Winning traders, similarly, have strong interests in the markets, and this passion is the driving force that puts them at the top, year after year.

But many novice traders are drawn to the markets so as to meet deep-seated psychological deficits and needs. They yearn for respect and status. They hope that by earning huge profits, they will be able to solve all life's problems. But trading to satisfy these motives often leads to disaster. It is vital for long-turn survival to be motivated by more than the money. Trading should be viewed as fun and challenging. You should do it because you love it. If you can, you'll find you can trade more creatively, effortlessly, and profitably.

What motivates your trading? Do you see it as a challenge? Is it fun? Is it enjoyable? A key ingredient to trading success is the proper motivation: Be motivated by the intellectual challenge. Follow your passion for trading. Do it because you love it.

When Low Probability Setups Seem Attractive.

-I'll worry about it later.- When trying to deal with the fact that we must eventually cope with an onerous, unpleasant event, such statements help us get through life. We often put off things we don't want to do, hoping that we will muster enough energy and enthusiasm to deal with them in the future. Take your 2005 taxes, for instance. The last day of 2005 was last Saturday. Why not start working on your taxes today? Most people avoid gathering and organizing their financial records until they need to. We prefer to put off facing an unpleasant reality, such as doing our taxes, until the very last minute. We have until April 15th, right? The same thing seems to happen when we make investment decisions. A study by Dr. Michael Sagristano and colleagues suggests that people may be willing to invest in low probability setups as long as they don't have to deal with the consequences of the trade immediately (Sagristano, Trope, & Liberman, 2002).

Research participants were asked to imagine making various economic decisions and to indicate which economic decision they would prefer and under what conditions. In the first hypothetical economic decision, the payoff was high, but the chance of receiving the payoff was low. In the second economic decision, the payoff was low, but the chance of receiving the payoff was high. People's preferences depended on whether the payoff was to be received immediately or in the distant future.

People indicated that they would be willing to accept a low probability of success if the potential payoff was high and they didn't need to find out what happened until the distant future. People did not prefer an economic decision that had a low probability of success if they had to deal with the outcome of the decision in the near future. Indeed, if they had to make an economic decision that had consequences for the near future, they would take the option of receiving a low payoff as long as it had a high probability of success.

These research findings may explain how decisions about long-term investments are made. When it comes to long-term investments, people are willing to risk money on a low probability setup as long as they believe the potential profit is high. This is somewhat irrational, however. The probability of success is an important element when deciding whether to risk capital. It doesn't matter whether it is a long-term investment or a short-term trade, a trade setup should have a high probability of success. But people have a natural human tendency to accept a low probability setup as long as they don't have to face the outcome until the distant future, and they believe that the potential payoff is high.

When making investment decisions, however, it's necessary to consider all possible aspects of a trade. It is essential to always trade high probability setups. If you trade low probability setups, you are likely to lose money in the long run. But greed can bias our investment decisions. If we believe that the potential profits from an investment are high, we tend to irrationally invest capital even when the odds of success are low. In the end, however, it's more beneficial to look for setups that have a high probability of success, even if it means standing aside until we find them.

Enduring Success.

Becoming a winning trader isn't easy. Few make it, and of those who achieve profitability, few realize enduring success. There are numerous stories where traders put in a heroic effort and are rewarded with huge profits, but they have difficulty keeping up the pace. Over time, they burn out. They use up all their energy and end up leaving the profession. Psychological factors play a vital role in maintaining long-term success. In a recent article in the -Harvard Business Review,- Laura Nash and Howard Stevenson discuss factors that all people must address in order to maintain success over the long haul.

Many people believe they should devote all their energy to achieving one goal. Drs. Nash and Stevenson argue that this single-minded pursuit can lead to burning out, however. A single goal, such as putting all your psychological energy into becoming a winning trader, cannot satisfy all of a person's complex needs and desires. Many people see success as a tug-of-war between achievement and happiness, but it's necessary to address both aspects and a couple more.

Drs. Nash and Stevenson studied hundreds of high achievers who maintain lasting success. They share a set of common characteristics. They make a positive difference and enjoy the process of their endeavours. They also have a complex, in-depth understanding of success, and what success really means. By understanding the factors that produce lasting success among high achievers, you can apply this framework to trading, and strive to achieve long-lasting trading success.

Lasting success is emotionally renewing, not anxiety-provoking. It isn't about pursuing a goal for monetary rewards. Enduring success has four components. First, successful people feel their work is pleasurable; they feel content. Second, they believe that their efforts accomplish something; they feel as if they are mastering a set of challenging skills.

Third, they feel they have made a positive impact on people they care about, and fourth, they believe they are creating a legacy; their efforts will somehow help others also find success. Nash and Stevenson argue that unless all four components are addressed, one doesn't feel that their success is real. They will experience what Drs. Nash and Stevenson call the -wince factor.- That is, you may feel that you are going in the right direction, but you won't truly feel successful. You'll be preoccupied with trying to satisfy components of success you have ignored.

How can traders address each of the four components? Let's consider a few suggestions. First, you must view trading as pleasurable; you must enjoy the process of trading, and be motivated by the inherent satisfaction you receive from trading. You can't be overly consumed with the potential monetary rewards. Second, you must focus on how trading requires mastery of a challenging skill. You must feel that as you build up your trading skills, you are continuing to master even more difficult challenges. Many traders can easily address the first two components of enduring success. But the second two components, significance and legacy, can be a little more difficult to address. Although one can make the argument that trading is socially significant because traders provide liquidity, we've found in our studies of traders that many find this argument weak.

Many traders want something more. One solution to the problem is to donate some of their winnings to charities so that they feel that they are using their talents as traders to make significant contributions to society. Creating a legacy as a trader can also be difficult. Many traders, however, find that they can create a feeling of significance and legacy by becoming trading instructors or trading coaches. By helping novice traders learn the ropes, they feel they can significantly contribute to the benefit of others and feel they are building a legacy by helping train a new generation of traders.

Drs. Nash and Stevenson present an interesting framework for understanding the factors that contribute to maintaining long-term success. As a trader, it's in your best interest to make sure you feel your trading activities are pleasurable, challenging, significant, and help you create a legacy. If you address each of these issues, you'll be able to maintain the enduring success you deserve.

Don't Make the Odds Even Lower.

-How many novice traders succeed?- asks a would-be trader of a group of seasoned experts. -Of the 40% who last about a year, only one or two become consistently profitable,- answers the head of a major brokerage. -About five out of 100 is what I've found,- remarks a top trader at a leading hedge fund. At Innerworth, we've found that less than 25% last about six months. There seems to be a wide consensus: If your plan is to become a full-time trader, the odds are against you. So one thing that you don't want to do is make the odds even lower. Here are a few of the ways that newbie traders can avoid common mistakes and beat the odds.

Control Overconfidence: You've got to be optimistic. A pessimist could never face the dismal odds of success. But you must use your optimism effectively. Don't arrogantly think you know how to trade before you've built up the necessary skills. Study, practice, and learn. Set learning goals, rather than performance goals. In other words, reward yourself for learning techniques at first, and when you're ready, you can set an overall profit goal.

Admit You're Gambling and Limit Risk: Stockbrokers and other members of the investment community think they derogate traders by calling them -gamblers,- but seasoned traders just admit it: -We're gambling,- they freely say. Hey, there's risk involved and you better admit it. Traders are going for big profits, and they are ready to take responsibility. However, the difference between the professionals and the amateurs, whether trading or gambling, is that risk is carefully managed. Since you're trying to capitalize on winning odds, it's vital for your survival to anticipate a string of losing trades. That means looking at the risk to reward ratio before entering a trade, making sure that you've got a large enough account to take the risk, and if you don't, stand aside and wait for a trade you can take. Risk management is a trader's secret weapon.

Use Sound Trading Strategies, and Know When to Move On: This is so much easier said than done. Obviously, you can't expect to profit if your trading strategy is flawed. But the hard part is knowing when it's flawed or just not working because of less than optimal market conditions for that strategy. All the trading books and experts warn, -Don't abandon a trading strategy prematurely.-

It's not wise to jump from strategy to strategy, but what's -prematurely-? Based on probability theory, even a winning strategy can produce a string of losers and a severe drawdown, so sticking with a sound strategy too long when it's not working is going to wipe out your trading account. So we're all walking a fine line. Perhaps the best you can do is decide how much of your trading capital you will risk on the strategy upfront, and if you lose that predetermined stake, just move on.

Also, acknowledge the complexity of the markets. Know the market conditions that are necessary for the strategy to work, and make sure those conditions are present. But in the end, there's no substitute for trading experience in terms of knowing how long to stick with a trading strategy before abandoning it.

Money Management and the Big Picture.

Sometimes traders run hot, but sometimes they run cold. The factors that influence this fluctuation in performance are varied. As a trader, you may have a bad day or week. Or market conditions may not be optimal for your style of trading. It's also possible that your method needs to be re-thought, and it may take time to make minor modifications until you discover the fix. Because your performance is never assured, you must prepare for a worst-case scenario. Many people don't like thinking about the potential downturns, but it is vital to force yourself to look at what you don't want to see and take precautions in order to survive the unthinkable. Many seasoned traders argue that money management is vital for success. Here is what some of them told us when we asked them what they thought about money management.

Mark said, -You can have a crummy trading strategy, but if you have good money management, you can make money. If you have poor money management, it doesn't matter how good the trading strategy is, you're going to lose in the end.- Chris warns, -You must have a survivability element so that if you literally wished to select stocks by throwing darts at a board, you would continue to survive market to market.-
When asked how he determined the size of his trades, Alex said, -I base it upon the equity in my account, first of all. Also, I look at the volatility of the stock and how much money I want to put at risk on any one position. I won't risk more than a couple of percent on any position.-
Mike also agrees that money management is important. -You've got to consider the commitment size of your capital. What percentage do I commit? At the beginning of the year, I'll risk maybe two and a half, three per cent. I may have a slew of positions on, but I'll only risk two and a half to three per cent. I also have a reserve amount. I have war stories, so I keep a reserve as protection.-
Although the specifics of money management can differ across traders, many suggest limiting the amount of capital you risk on a given trade. Many traders simply suggest limiting one's risk to 1-3%, but there are no hard and fast rules regarding this percentage. But however, you do it, limiting risk helps you survive to changing market conditions or trading strategies that don't pan out. So follow the advice of seasoned traders: Manage risk. In the big picture, you'll end up more profitable if you do.

Staying Calm Through the Ups and Downs.

Many novice traders ride an emotional rollercoaster, feeling euphoric bliss after a win, but overwhelming disappointment after a loss. Experienced professional traders, however, stay calm and relaxed even after a series of losses. They don't let the natural ups and downs of trading impact their emotions.

Ideally, the winning trader stays rational and unemotional, but even a seasoned trader can fall prey to emotional ups and downs occasionally. It's natural to question your method at times. -It is easy to start doubting my approach and wonder about the validity of what I'm doing,- said Manuel, a hedge fund manager Innerworth interviewed a few years ago. At the other extreme, it's also natural to become euphoric and feel omnipotent. -During winning periods, it is easy to become overconfident, and that can lead to trouble.

While overconfident, I feel a false sense of security. I'm tempted to take unnecessary risks, and I start to think that I don't have to do any more research to find and figure out new ways to extract money from markets. It is easy to fall into a sense of complacency.-

Novice traders are especially prone to experiencing emotional rollercoaster. They may not use proper risk management. They are prone to risking too much capital on a single trade. And when they take big risks, they are likely to feel overly ecstatic when they win big but especially beaten when large amounts of trading capital are wiped out after a big loss.

Through proper risk management, however, relatively little is lost on a losing trade, and that helps minimize the sense of disappointment after a loss. It's easier to stay evenhanded in terms of your emotions when your equity curve is smooth, rather than jagged due to extreme losses. Trading is a business. It isn't recreational gambling. As a business professional, it's essential to maintain objectivity. The more objective you are, the easier it will be to creatively analyze market action and trade opportunities as they present themselves.

How does a seasoned trader like Manuel control his emotions? He realizes that his trading performance moves in cycles. Sometimes he is profitable and sometimes he is not. Gaining awareness of this fact helps him control his emotions. -I realize that if I have a big winning period that I shouldn't get overly excited because most likely, I'll have a flat or losing period just around the corner. That's the way the market works. No style of trading makes money all the time. The odds are that after you have a big winning period, you'll go through a period of losing money shortly thereafter. I try to make enough money to give myself a cushion to handle the losses when they come.-

Trading can wreak havoc on your emotions unless you take precautions. Through proper risk management, though, you can control the extreme ups and downs that are inherent when you have your hard-earned capital on the line. Winning traders, however, stay calm, objective, and rational. If you can trade in this optimal state of mind, you'll increase your chances of achieving enduring financial success.

The Dangers of Anthropomorphizing the Market.

Don't let creative journalists or analysts convince you into thinking about the market as a marathon runner: -Every bull market has to pause and get its breath once in a while before it sprints higher.- Or a wild animal: -The claws of this bear market ripped right through the last shred of resistance'nothing can stop it when it gets its blood boiling!-

All too often writers, including or especially financial writers, wax poetically as they attempt to make their stories more interesting for their readers. Instead of saying the market advanced 50 points today, they will attempt to give the market mystical powers. -The market saw a chance to bolt through some resistance today and dashed for 50 large ones.- The market has no eyes. It has no legs. It has no blood to boil. It can't -see- or -bolt- or -gorge- or -claw.- It just lies there like roadkill until an amateur taxidermist happens to pick it up and drag it home. Darn, now I'm doing it.

Once you start ascribing human or superhuman characteristics to Mr Market, it can really play havoc with your ability to make sound decisions. You begin to impose your thought process upon the market you are trading and project on to it a life of its own that does not exist. You begin asking yourself: What would I do if I were the market facing a truckload of negative news? If I had just battled my way past all kinds of downbeat pressure, I'd be ready to take a breather and I'd trade sideways for a few days. Please, the market never gets tired. It doesn't get depressing.

How many times have you heard some pretentious fool talk about the market like this: -The Dow sure looks like it wants to move higher.- -The Nasdaq is determined to go back to the 1650 level no matter what we do!- Hold it right there'the Dow does not want -to move higher- nor is the Nasdaq -determined- to go anywhere. They have as much to say or do about where they close on any given day as an avalanche has about when it starts and where it stops.

What moves the market? It's traders and investors making informed and uninformed decisions. They use sophisticated technical systems, complex fundamental approaches, tips, hunches, guesses, bad information and even astrological signs to make their decisions to buy, sell, or stand aside. All the educated and uneducated conjectures are tossed in the pits and the market is pushed or pulled to a higher or lower close.

It, meaning the market, has nothing to say about the daily results. That's why you must not anthropomorphize it. Take it for what it is'a dumb, inanimate blob. Do your very best to anticipate where it is headed, trade accordingly and keep a stop in place if you are wrong. The market is going to move'which way, for how long and at what speed'we don't know. For this reason, we take it for what it is and avoid empowering it with human or magical attributes.

Staying Ahead of Market Moods.

Markets go up; markets go down. It shouldn't matter much, but many novice traders find that their own personal mood fluctuates with the markets, moving from extreme euphoria as the markets soar to new heights to deep despair when the markets plunge to abysmal lows. Why do market trends have such power over emotions? They don't need to, but many novice traders have difficulty cultivating an objective mindset. They allow fear and greed to influence their trading decisions. They tend to follow the masses, and when they go with the crowd, they soon find that market trends not only influence their moods but their account balance as well.

There's a strong tendency to follow the crowd. There is a feeling of safety in numbers. When you see a steady upward trend, you feel secure. Everyone is buying. They are all doing the same thing. When other people offer confirmation of your decisions, you feel safe and assured. In a bull market, it isn't so bad to follow the crowd. When it's a strong bull market, the crowd is often right, and it makes sense to follow them. However, when the market turns around, feelings of safety and security can turn instantly into fear and panic.

Why? An obvious reason is that many novice traders don't have the ability or financial resources to sell short and take advantage of a bear market. But there's a psychological issue as well. It is difficult to know how to handle falling stock prices. For example, humans tend to be risk-averse. When one is going long and the markets suddenly turn, it's hard to accept losses and sell off a losing position before more damage is done. Denial and avoidance set in. At that point, a trader with a losing position panics hopes that things will turn around, and waits for events that are unlikely to happen. Usually, the price continues to fall, heavy losses are incurred, and as expected, disappointment and despair set in.

It's vital for your survival as a trader to stay calm and objective. Don't let your emotions interfere with your decision-making. How do you stay detached and relaxed? First, it's important to accept the fact that you'll likely see many losses as a trader and that you should expect to see the markets turn against you. When that happens, it's essential to sell off your losing position. Second, it's important to manage risk. Take precautions. Assume that the markets are likely to go against you occasionally and that you must protect yourself against such events should you encounter them. Only trade money you can afford to lose, and don't risk too much on a single trade.

Think of the big picture; the long-term profits across a series of trades are all that matters, not the result of a single trade. By risking little, you'll know you have little to lose and can accept market turns more easily. Third, trade a very detailed trading plan. Know when to enter, and more importantly, know when to exit. And stick with your plan. Fourth, acknowledge your limitations. If you can't sell short, for example, don't do it. Stand aside until market conditions are more conducive to your trading style.

Don't allow your moods to fluctuate with the ups and downs of the markets. By trading in a disciplined, methodical manner, you can cultivate an objective, logical mindset that isn't overly influenced by market moods. Armed with the right mindset, a disciplined trading approach, and a detailed trading plan, you will be able to realize the huge profits of winning traders.

Another Martha Story.

We've been bombarded with stories about Martha Stewart all weekend. The media can't seem to let up. If you haven't heard, Ms Stewart was found guilty of giving false statements to government officials. The analyses by the media are endless: Was she a convenient target? Could she have prevented her prosecution? How much of a crime is her deception relative to other corporate scandals? Perhaps the last thing you want to read is another column about Martha Stewart, but we just can't help ourselves.

Martha Stewart's predicament is fascinating. It illustrates some basic frailties of human nature, issues that traders face at some level every day. It may not be fair to sift through and speculate about what Ms Stewart could have done to avoid the trouble she is now in, but there are at least three things she could have done to avoid it: Write off a relatively small loss, admit one's mistakes, and don't let the powerful motive to protect one's reputation interfere with sound decision making. We've covered these three issues in previous columns. They are common human shortcomings, and most traders would be wise to gain awareness of them and prevent them from fowling their trading plans.

People are risk-averse. They don't like losses and they tend to do whatever they can to avoid a loss. But it's often better to just write off a loss, rather than hold on to it and let it compound. In discovering from her broker that ImClone CEO Sam Waksal was selling off his shares, Ms Stewart should have just written off the loss. Relative to her overall wealth, the loss Ms Stewart would have realized would have been minimal.

She would have saved herself a great deal of trouble if she would have just let ImClone announce that their experimental cancer drug would not receive federal approval, let the stock price drop as a result, and just sell off her remaining shares later at a relatively minimal loss. But again, it's hard for people, even Martha Stewart apparently, to face losing money. Humans will do whatever they can to avoid taking a loss.

Another human frailty is that people have a need to be right. They don't like admitting they made a mistake. For many, the first line of defence is to deny to themselves or others that they are in trouble. For example, when adverse conditions spoil your trading plan, it's better to just admit things have gone wrong, think strategically about what to do next, and do whatever it takes to remedy the situation.

Don't try to hide your mistakes. In Ms Stewart's case, we now know that she would have been better off just admitting she made an error in judgment to government officials and suffered the immediate consequences. Instead, she tried to cover up the mistake and in the end, was prosecuted for it. The same kind of thing can happen while trading. A simple mistake can compound. Short-term unpleasant effects, which weren't so bad, can turn into big problems that have long-term consequences.

Finally, there is a powerful need to protect one's reputation. This is true of independent traders and large corporations alike. To save face, one is willing to do almost anything. The independent trader may want to hide losses from his or her spouse, family, or friends. Protecting one's reputation is a powerful motive. Don't underestimate it. If you brag to your friends and tell them how you are a -natural born trader,- you'll be afraid to admit to them and yourself that you have limitations.

It's better to stay humble. No one is superhuman. By keeping your feet on the ground, you'll be able to weather a severe drawdown when you experience one. It's understandable that Ms Stewart would want to similarly protect her reputation. Her entertainment empire was built on her name and reputation. A sullied reputation would surely mean a sharp drop in share prices. But in hindsight, we now know that Ms Stewart would have been wise to just forget about her reputation and protect own self-interests, that is, avoid jail time. As it currently stands, there may be no reputation or company to protect any longer.

The Martha Stewart saga is just one of the many tragic stories that can teach traders about the limitations of human nature. Don't underestimate the influence of psychological motives and processes. Admit your limitations. Everyone has them, and so do you. Stay humble, honest, and ready to face your own shortcomings as a trader. If you can do so, you will stay consistently profitable over the long haul.

Media News and the Behavior of the Masses.

As a short-term trader, your goal is to stay ahead of the crowd and let their money flow from their pockets into yours. The better you can anticipate the behaviour of the masses, the better you'll be able to capitalize on their irrational decisions. The masses are notorious for over-reacting to media news. In an innovative study, behavioural economist Dr John Nofsinger studied how media coverage influences the masses. It's not as straightforward as you might think.

A popular theory in behavioural economics is that buying and selling by the masses is motivated by a powerful tendency to avoid regret and seek out pride. These emotional tendencies often lead to irrational investment decisions. Many investors, for example, hold on to a losing investment because they don't want to face feelings of failure and regret.

Keeping losses on paper postpones the inevitable. Good news raises stock prices, and when prices rise as a result of good news, most investors can't wait to sell, take profits, and bask in the glory of success. Dr Nofsinger's study, however, reveals that things may be a little more complicated. It may depend on the kind of news investors hear, rather than whether it is good or bad. He studied how investors reacted to two kinds of news, news about specific companies and news about the economy in general.

Good news, whether it is about a specific company or about the economy in general, increases stock prices. And one would think that regardless of what kind of news raises a stock price, the impact on the masses would be the same. But Dr Nofsinger found that the kind of news does matter. If the good news is about the specific company, the masses tend to sell, but if the good news is general economic news, they hold on to their positions. The bad news about the economy similarly has little effect on what the masses do according to Dr Nofsinger.

What are the psychological dynamics behind the behaviour of the masses? In their pursuit of pride and avoidance of regret, the masses continually monitor their positions and deliberate as to whether they have made a good or a bad investment. If the news is bad about a company, they tend to blame themselves for choosing the wrong company in which to invest. They tend to believe that they could have cherry-picked a better company had they done their homework.

When they hear good or bad economic news about a company, it bears on their original decision to invest in the company, and they react emotionally. On the other hand, it's hard to blame yourself for a poor economy. What could you have done? A poor economy impacts all stocks, so the only thing you could have done was to avoid investing in the market altogether. It wouldn't matter what company an investor decided to put their money in since all companies are affected by a poor economy. In this case, the masses forgive themselves and do nothing.

The influence of emotions on the masses is powerful. By seeking out pride and avoiding regret, they allow their emotions to overpower their logic. As an astute trader, however, it's vital that you stay objective. Don't let your feelings of pride or regret influence you. Let the masses over-react. And when they do, capitalize on their irrational behaviour and profit from it.

Sharpening Your Mental Edge.

The markets often present a barrage of information. Sometimes it is just too hard to attend to all of it. And you not only have to attend to it, but think about it, and make decisions based on it. Your psychological resources aren't endless, however. Your mind has limits. You can only attend to and process a limited amount of information. But you can take steps to sharpen your mental edge and expand the capacity of your mind beyond its natural limits.

The best way to expand your psychological resources is through practice and -over learning.- Practice common trading tasks to the point where you can respond intuitively. Over time and with enough experience, you can scan market information and interpret it instantly. It is similar to how people learn to drive a car. At first, one must focus attention on each driving task separately in a deliberate, focused manner. But, over time, one can monitor speed, look for road hazards, and engage in several tasks automatically, and still have plenty of attention to talk with a friend or insert a CD into the car stereo. You may have noticed that trading tasks can be -over-learned- in much the same way.

For example, you probably have noticed that over time, you can identify signals that precede a pivot point almost automatically. With practice, a lot of steps that you once had to perform deliberately and methodically can now be completed will little effort. Many times, -intuitive- decisions merely seem as if they are a -gut instinct,- but may, in fact, be based on a several valid and reliable inputs and signals that were processed automatically.

A second way to increase processing power is to free up mental energy that is used up by other psychological processes. For example, handling stress, and mulling over interpersonal conflicts uses up precious psychological energy. This valuable energy is better spent on monitoring trades or thinking up new trading strategies. By spending leisure time resolving interpersonal conflicts or effectively coping with daily hassles, you will have more psychological energy to devote to trading after the markets open.

Rest and relaxation are also important. When you are tired, you can't devote very much energy to planning your trades or monitoring their progress. You'll be more likely to act impulsively, entering a trade too early or too late because you didn't have the energy to patiently wait to make a prudent trading decision. So make sure you get extra sleep. Take naps during the day, if you have to, and ensure that you are alert when it counts during the trading day.

Don't forget that the mind has limits. You can only work with what you have. If you take the proper steps, however, you can free up poorly allocated psychological resources, allow more resources to be dedicated to trading. By over-learning common trading tasks, you can expand your attention. And by getting adequate rest and resolving interpersonal conflicts, you can further free up psychological energy that is wasted on tasks that don't involve trading. By taking concerted measures to free up energy, you can expand the limits of your mind, and trade more effectively.

Remember to Celebrate: You Deserve It.

The markets are closed on Monday. What are you going to do? Hopefully, you are taking the day off. Whether it is -A Wonderful Life,- -A Christmas Carol,- or -How the Grinch Stole Christmas,- a popular theme of the season is finding time to reflect about your life and making sure that you take time off from the demanding world of trading to spend time relaxing and celebrating with family and friends.

Each Christmas parable reminds us to appreciate the true meaning of our lives; we should decide what we find personally meaningful. On the surface, many people outside of the trading business would say that trading is merely about accumulating wealth, themes addressed in -A Wonderful Life- and -A Christmas Carol.- The irony is, however, if you focus only on the money, you won't last very long in the trading business. Seasoned traders don't merely focus on the money.

They make sure that they enjoy the inherent rewards of trading, such as working for themselves, and more importantly, feeling a sense of accomplishment when they master the intellectual challenges of the markets. At this time of year, it is useful to remember these themes. It's not about money. It's about using the money to do whatever it is that you find meaningful, whether it is providing for your family or giving to charity. In addition, you have a skill that few people do, and you should celebrate the fact that you can use your skills to master the markets. So don't be like Scrooge on Monday. Take the day off and have a good time.

At this time of year, it's vital to reflect on your life. Make sure that your life is multi-faceted, rather than focused solely on trading. Make sure that you have fun in areas outside of trading. Enjoy spending time in fulfilling relationships, and enjoy life to the fullest. Don't be all business and single-mindedly in pursuit of profits. If you do, you may lose sight of what is truly important to you, and end up like Scrooge or the Grinch, bitter but not sure why.

So regardless of whether you have had a profitable year or not, reward yourself by taking a nice, well-deserved break. That's why the markets are closed on Monday, right? One of the reasons you're trading is to enrich your life. It's important to remember that. It's important to celebrate what life has to offer. If you are not enjoying your life to the fullest, it will gnaw at you. In the back of your mind, you'll think, -Why am I spending my life trading?- Use this time to remember why you trade. Use this time to remind yourself about what really matters to you. And more importantly, rest up. Take a well-deserved break. You deserve it.

Mean Reversion: When Prices Fail to Meet Expectations.

In studying the genetic influences on height, Sir Francis Galton compared fathers and sons. He reasoned that fathers' height should predict sons' height. It didn't. Indeed, taller fathers had shorter songs and shorter fathers had taller sons. The relation wasn't perfect. Galton then made a logical error. He surmised that over the generations, taller people would get shorter, and shorter people would get taller and that a process would occur where height -regressed toward mediocrity.- In his analysis, he forgot to account for the fact that mothers' genetics play an equally important role in determining the height of their children.
Men with a tall gene may not marry a woman who also has a tall gene, and thus, the correspondence between parents' and children's height is a matter of chance. Despite Galton's logical error, we are stuck with the term -regression toward the mean,- a misnomer. The term is a statistical concept that refers to how points are spread around a linear regression line, specifically, how well -predicted values- based on the equation for the line match the actual values on which the line was derived.

How does this all relate to trading stocks? -Mean reversion- is a common term in the trading literature. It refers to the idea that when a stock is extremely high (or low), it will -revert- to the mean level of the stock. This is a fascinating concept, and we can't cover it completely here today, but mean reversion is an interesting mix of statistics and market psychology.
Another way to view mean reversion is as a -failure to meet expectations.- According to statistical theory, a regression line is used to make predictions, and thus, we can view the line as making a prediction about our expectations. Consider a simple equation that predicts total weekly sales from a number of cold sales calls made during the week. Because not all cold calls result in a sale, the relation between the predictor and criterion variables is imperfect, and thus, the number of sales calls made under-estimates the number of weekly sales.
In other words, if we relied on the line to predict how much income we would make, the estimate would fail to meet our expectations. Similarly, if we tried to theoretically use a regression line to forecast the price of a stock from a one-time point to the next, our forecast would be imprecise. The stock price from one-time point to the next does not correspond perfectly. Well...for the concept of mean reversion to be relevant here, it better not be consistent from one-time point to the next.
Three assumptions are made when using the concept of regression toward the mean to understand stock prices: (1) the -true- value of the stock is exactly the same at point A and point B, (2) the current posted price is not an accurate reflection of the -true- value of the stock, and (3) the discrepancy between the posted price at point A and point B is entirely due to random factors.
Some of these assumptions are met, most of the time. First, stock prices tend to be based on mass psychology, or opinion, which may fluctuate randomly. The opinion of the masses decides the value, rather than the fundamentals of the company, especially in the relatively short timeframe in which we trade. The actual value probably doesn't really change. So the first two assumptions seem to hold. But is the posted price discrepancy between point A and point B completely due to random factors? It seems to depend.
The prices of stocks are somewhat based on the fundamentals of the company, which may or may not change. It is also possible for popular opinion to change and remain stable over the long term. To the extent that either of these factors accounts for the change in price between point A and point B, mean reversion will not occur. For example, if a company starts making huge earnings and sustains them, both the fundamentals of the company and popular opinion of the company may change between point A and point B.
The change in the observed price is not purely random, and thus, one should not anticipate the price returning to previous -mean- levels. In other words, one shouldn't expect mean reversion to occur without fail. That said, however, it does appear that many times mean reversion is pertinent. For example, a stock price often rises artificially due to poor information, which is a -random- effect. Also, during a given time point, the masses may become -elated- and this may reflect a random

change in mood that may dissipate over time, and the -true- value of the stock will shine through and -revert back to normal.- Mean reversion is an intriguing concept. In the end, it is merely a mathematical theory, but it often applies to trade because market participants are human and because human decision-making is fraught with random errors, regression effects proliferate.

A Quiet and Meditative Place.

Do you ever feel the pressure to perform? If you are making a short-term trade during a hectic trading day, you may have trouble controlling your emotions. You may have a trading plan clearly spelt out, but when it comes to executing it during a rough trading day, you may abandon it. Here's how Bo, a seasoned trader, described his early trading experiences to our Innerworth staff. -When I first started to trade, I almost had a few panic attacks. My pulse quickened. My hands sweat and I could not breathe.

This mental state clouds your judgment and you tend to make a lot of wrong decisions, like getting out at the very, very bottom after a stock has fallen. You've sort of denied reality that it's falling and when you finally hit that level of pain, you get out and the stock then bounces. I was definitely in a negative emotional state and I had to break the emotional cycle and get back into reality and objectivity.-

When your emotions take over, it can be hard to think calmly and rationally. Your mind can be thrown completely off track. Bo described what happened when he lost control. -I'd come into a trade with a very clear, objective stop-loss strategy for exiting if things went wrong. But once I entered a trade, I started to second-guess myself. I would get a little bit of profit showing and want to take the sure bet right away, rather than letting profits run.-

It's essential to remember that your mind and body are closely related. When you are trading under stress, your body reacts physically with agitation. Your thoughts start racing and you cannot easily slow them down. You either must get up and leave the trading arena, or calm down before making a trading error. The best way to calm down is to use a form of meditation.

A simple form of meditation is to close your eyes, concentrate on your breathing, and repeat a favourite phrase that will calm you down, such as -Everything will be all right.- The main idea is to get your mind to slow down and allow your thoughts to move away from the market action that is shaking your focus. Once you regain your composure and can concentrate fully, you can return to monitoring your trade.

Bo had a novel way of getting his mind to move into a meditative state. -I play the drums. When you're playing the drums, you have all four appendages going at once and usually independently. You'll have both hands doing a different pattern on a cymbal and a snare drum and your feet are both going in different rhythms as well. Something about that touches something deep inside me and takes me to a meditative place where I feel a sense of flow.- Bo discovered he could quickly bring forth this meditative state during the trading day.

-One day, I started juggling and it brought me into that same state I felt like a drummer. So I started to use that as a tool to break away from the almost hysterical emotional response I felt while trading, and returned to a place of more objective, dispassionate observation.- So how does juggling work? -It requires so much focus. If you're going to throw those balls around and not drop them, you have to take your mind away from the stock and your fears, and focus on that moment, namely, where the balls are going and where your hands need to be. It's almost a meditative state when you get that flow going and are in the zone.-

Trading requires an optimal mental state, but many times the markets just don't cooperate. The stress wears down your ability to maintain self-control. When that happens, it's vital to calm down and return to a focused, meditative state.

Moving Beyond Mediocrity.

Working a typical 9-to-5 job can be monotonous. Many people just try to make it through the day. They can't wait for their shift to end. Some work settings are viewed as especially mundane. For example, comedians are fond of making fun of the workers at the Department of Motor Vehicles, portraying them as the exemplar of bureaucratic mediocrity. Many workers struggle to get through the day. They aren't passionate about their work. It's just a job. Some newbie traders think they can take a similar mediocre approach to trade, but they soon find that unless they go the distance and make more heroic efforts, they will never achieve enduring financial success.

The goal of the short-term trader is to take advantage of the masses. Some of the masses are amateur online traders, but some are professional institutional investors. Many part-time online traders view trading as a hobby. They don't put the necessary time and energy into developing trading plans that will produce a profit. Institutional investors take a long-term view and are not necessarily worried about short-term variations in price.

In both cases, these market participants don't put in extra effort to capitalize on short-term variations in price. The short-term trader, in contrast, searches for ways to capitalize on shorter-term fluctuations, where huge profits can be made. You can't hope to make huge profits with a simple buy-and-hold approach. You must look for innovative trading strategies. The search is endless. A strategy that worked one day may not work the next day. From the longer-term perspective, short-term variations are -error.-

A multitude of factors may cause a short-term variation from false beliefs of the masses to an influential analyst report. Factors such as this interact. Each factor goes together to produce a price change, making a stock price fluctuate in a particular pattern consistently for only a short time before a different set of market factors coalesce to produce a different pattern of price movement. In short term time windows, the markets are chaotic and complex. It takes time and energy to develop an intuitive feel for these patterns and develop trading strategies that can produce a profit.

When trading the markets, you must put in a great deal of effort to achieve profitability and maintain it. You can't be complacent. Many people try to trade the markets, but few achieve enduring financial success. It's not just a job. It's a lifestyle. If you don't put in enough time and effort, you won't succeed. But if you work hard and long hours, you'll trade like a winner.

It's About You and No One Else.

Throughout our lives, we look toward others to define ourselves. As children, parents and teachers tell us whether or not we are doing well. Significant others offered praise when we met their expectations and punished us when we broke the rules by going our own way. The broader society tends to reinforce looking outward for the standards that we should achieve.

The media bombards us with images of success: -Buy a sleek, new sports car and impress the neighbours. Wear the latest designer fashions and watch heads turn as you walk by.- Out of sheer habit, one continues to ask, -How well am I doing?- and that question usually leads to asking, -How well should' I will be doing?- When words like -should- and -must- enter the picture, however, one places a lot of unnecessary pressure on oneself to perform. And when the pressure is on, we usually choke under the strain.

There's a danger when you look outward. You start to judge yourself. You start to think that you are doing well or poorly based on how others may see you. But it is much better to look inward and follow your own personal standards for where you want to go next.

Comparing ourselves to others is useless, and at times, counterproductive. You'll make more profits if you learn to look inward for your own personal standards than outward in an effort to beat out the next guy. Each trader brings his or her own knowledge, personality, trading method, and tools to the trading arena. Through a coordinated integration of these various components, the trader builds up a set of individualized trading skills that produce lasting success.

Such integration doesn't happen overnight but through hard work and persistence. Over time, one makes trade after trade, gaining key experiences along the way, until it all comes together in the end. One needs to find one's own personal talents, accentuating one's strengths and working around one's limitations. Every trader is on his or her own path. For some people, the path is full of many curves and is quite long. For others, the path is straight and short. It is essential that you follow your own path and accept the amount of effort and time it will take to reach your goals.

Studies of successful and creative people have shown that such people tend to work by their own standards. Even in competitive situations, creative people don't compare themselves to others. They look inward and let their internal standards guide them. They know that through persistence and determination, they will achieve success. They don't force it. They know that if they allow themselves to follow their passion, success will come naturally. If you take a similar approach to trading, you'll achieve lasting success.

Increasing Mental Capacity.

Trading can be a complex activity. A broad range of information must be studied and integrated. Not only do you need to keep up on possible news and factors that may impact the market action, but you also have to look at indicators, such as price and volume, in order to anticipate where the market will move next. And it isn't easy to identify chart patterns. It can be a lot like putting structure onto an amorphous pattern of lines. If only we had more computing power...we could process all the information we needed to trade more efficiently. Unfortunately, the mind has limits. And you have to work around them.

The mind is like a computer. We store memories in the hard drive, while our ongoing experience is processed by the CPU and stored in RAM. The amount of attention you can devote to a particular task is restricted. You can only attend to and process a limited amount of information and when you move beyond the limit, the information is not processed. Have you ever noticed that it is possible to read a telephone number and remember it for only a short time? When you are distracted, the information is lost. Unless you memorize the information, it is lost.

How can mere humans increase the mental capacity of our minds? It isn't easy. You cannot just add extra RAM or a faster CPU. What we can do instead is -overlearn- some of the tasks we do while trading. It is similar to how people learn to drive a car. At first, one must focus attention on each driving task separately in a deliberate focused manner. But, over time, one can monitor speed, look for road hazards, and engage in several tasks automatically, and still be able to do other things, such as talk with a friend or insert a CD into the car stereo. You may have noticed that trading tasks can be -over-learned- in much the same way.

For example, you probably have noticed that over time, you can identify signals that precede a breakout almost automatically. With practice, a lot of steps that you once had to perform in a deliberate and tedious manner can now be completed will little effort. Many times, -intuitive- decisions merely seem as if they are a -gut instinct,- but may, in fact, be based on a several valid and reliable inputs and signals that were processed automatically. The more you spend time practising new skills, the easier it will be to do multiple tasks.

Active trading requires increased mental capacity. But your IQ doesn't need to break the bank. You can increase your mental capacity through practice. The more you study market conditions and develop an intuitive feel for the markets, the more you can do multiple tasks simultaneously. You'll find you will increase your mental capacity and trade more profitably.

The Disciplined Mindset.

You're in the midst of a perfect trade. You entered where you had planned, and you know when to exit. All you have to do now is wait for the price to reach 53 and sell. But it's not moving fast enough. It seems to be hovering around 51 and 50. You're starting to wonder whether or not it will ever move up. Panic sets in and you sell. About an hour later, the price hits 53 and it now seems obvious that you should have waited. Why didn't you wait? Why did you impulsively sell? If you have trouble maintaining discipline, you're not alone. It's a common ailment.

It's quite possible to have a trading plan all worked out but fail to follow it. When you plan out the trade-in in a logical state of mind, you have every intention of following it. You know exactly what you will do and when. At a critical moment of trading, however, something in your psyche goes awry. When you should be especially focused on sticking with your plan, you abandon it.

Why did you make such an impulsive decision that you may regret later? Some traders feel that everything happens so quickly that it is very little they can do. To some extent they are right. Your mind and body tend to react so instinctively that you can't slow things down and stop yourself from making an impulsive decision. However, you can practice slowing down the processes that precede an impulsive move. You may not realize it, but every action you take is preceded by thoughts. You have an internal dialogue with yourself as you trade; it's sort of like having a conversation with yourself. Sometimes it may happen so quickly that you are unaware of it, but it happens nonetheless.

What you say in this dialogue dictates how you feel and how you act. For example, if you tell yourself, -The price isn't moving the way I want. It never does, and I'm a fool for believing that it will,- you will obviously feel uncertain, frustrated, and ready to close out your position. In contrast, if you think, -The price isn't where I would like it to be, but it's too soon to tell what will happen in the end. I need to relax, trust my trading plan and see if it comes to fruition,- you will be more likely to stay disciplined and stick with your plan. It may seem obvious that what you say to yourself will dictate how you feel and act, but many people underestimate the power of the internal dialogue.

They don't realize that thoughts can pop into their head at the wrong moment and seriously impact what they do. If you are not keenly aware of what you are thinking as you trade, you are prone to fall victim to your unproductive thoughts. It is vital to monitor your thoughts, and when you engage in an unproductive dialogue, replace it with more productive dialogue. For example, when you find yourself thinking, -I know I should wait, but I'm not making any money and can't stand feeling uneasy and uncertain,- you may want to refute this unproductive dialogue by thinking, -It's not time to panic. I can wait if I try. I just need to wait and see what happens.-

It may seem simple to do in theory, but it's hard to do in practice. It may be necessary to write down a script to read in times of uncertainty and uneasiness. By reading the script you can transform an impulsive state of mind into a disciplined state of mind. It's easy to get thrown off balance by unexpected market events. As much as we need to go where the market takes us, we often want to force the markets to meet our expectations. It can be frustrating at times, but it is vital to take control of your feelings. By monitoring what you are thinking and feeling, and making sure that you stay calm and disciplined, you'll be able to follow your trading plans and increase your odds of financial success.

Minimizing the Impact.

Are you tired of facing setback after setback? Traders must be thick-skinned to keep trading over the long haul. It's common to get knocked down hard and have to quickly pick yourself up and tackle the next challenge. So how can you continue to persist after getting knocked down again and again? One of the best ways to persist in the face of defeat is to psychologically minimize the impact of a setback.

Setbacks can take a psychological toll. With each setback, you lose a little energy. It can all add up until you get to the point where you feel you can't take even another minor setback. At some point, past setbacks can produce future setbacks. Trading requires skill. When you've been worn out by experiencing repeated setbacks, it's hard to trade skillfully. By minimizing the impact of a setback, however, you can cope with repeated setbacks and recover quickly.

A setback can be psychologically damaging if you elevate its importance. If you work under the assumption that -a winning trader is thoroughly competent,- you'll be disappointed when you make even the slightest trading mistake. Actually, even a seasoned trader makes trading errors, so the idea that you must be thoroughly competent is unrealistic. That said, it's often hard to avoid feeling beaten when you've taken a few big hits to your account balance. There's a lot you can do both physically and psychologically to minimize the impact of repeated setbacks, however.

From a purely physical standpoint, it is essential to minimize the potential impact that a losing trade may have on your account balance. If you lose big on a single trade, it will sting. But if you limit the amount of capital you risk on a single trade, it won't hurt at all. You can pick yourself up easily and put on the next trade. It's much easier to take a loss in stride when the real impact on your account balance is minimal.

From a psychological standpoint, there are thinking strategies you can use to minimize the impact of a setback. First, minimize its symbolic importance. Many people over-interpret setbacks by imbuing them with more emotions than are warranted. They view setbacks as a form of punishment as if a teacher or parent is punishing them for doing something wrong. But trading mistakes are typically less important than breaking a moral imperative. It may feel natural to react as if you have been punished for a trading error, but it is vital to remember that you are merely punishing yourself unnecessarily.

Why beat yourself up when you can take the setback in stride and move on to the next winning trade? Second, don't confuse trading outcomes with personal significance. If you lose big, for example, the loss may have great financial significance but it doesn't need to have great personal significance. You can wipe out your entire account, but that doesn't mean you are diminished in the eyes of friends and family. You don't need to let a loss or setback make you feel less worthy as a person. Now, professional investors might say, -If the loss is too big, I'll get fired.- All right, you'll get fired. That's a big consequence for your mistake, but don't confuse a bad, unpleasant consequence with feelings of self-esteem and worth. The impact you put on a setback is arbitrary in the end. It only matters because you make it matter.

If you decide that it really doesn't matter, then it will not matter. If you decided that you didn't care about losing your job, then trading losses wouldn't matter to you. It's all in how you look at it. And if it is all in how you look at it, then why not always look at a loss or a setback in a positive light? Why not think, -I'm making too big of a deal over nothing.- Ironically, when you psychologically minimize the impact of a setback and treat it as if it isn't important, you'll trade better. You will feel relieved. And when the pressure is off, you can more easily think of creative ways of trading the markets with aplomb.

Profitable trading requires you to trade with a peak performance mindset, but this mindset is difficult to cultivate when riddled with doubt and frustration. It's vital that you calm down and think freely. Minimizing the psychological significance of a setback can help you stay calm, free, and objective. And when you feel this way, you'll trade profitably.

Matching Your Trading Goals To Your Skills.

Performing with a peak performance mindset requires a close match between your overall profit goals and your skill level. But many traders under- or over-estimate their trading abilities and pay a price for it. In his book -Trading to Win: The Psychology of Mastering the Markets,- Ari Kyiv describes how some traders fall prey to -impossibility thinking- in which a trader thinks, -I can't do it. I'll hurt myself.- A little voice inside ourselves doesn't give us an accurate picture of our abilities and it limits us.

Traders with -impossibility thoughts- hold back. They don't trade at their potential. Mark Douglas calls such a mismatch between skills and expectations the -reality gap.- Traders underestimate the number of trading opportunities available to them. Rather than use the skills they have at hand, they underestimate what they can achieve and end up missing opportunities. It's vital to close the gap between your skill level and expectations.

The reality gap works both ways. Some people under-estimate their abilities, while others over-estimate them. Studies of creative, productive people have shown that they accurately gauge their skill level and set goals appropriately. Less creative, unproductive people, in contrast, tend to set overly high expectations. They strive for goals they cannot possibly attain with the limited, but adequate, skills they have. They chase pipedreams and feel frustrated when they don't even come close to reaching them.

Rather than working with a carefree mindset, they feel bitter that they have not been able to achieve goals they view as within their reach. But productive people are realistic. They have rock-solid confidence because their confident beliefs are based on actual experience where they have tested their skills and have learned what they can and cannot do. Their accurate sense of what they can do allows them to think freely and experience creative insights.

Matching your profit expectations to your skills is often less difficult for a seasoned trader than a novice. Seasoned traders are prone to underestimating their skills and by merely cultivating a winning attitude, by overcoming -impossibility thoughts,- they can reach a realistic, higher level of performance. Behavioural economist Terrance Odean has shown that novice traders tend to overestimate their abilities.

They trade beyond their skill level. A novice trader does not have proven, reliable trading skills and must struggle with finding the right match between skill level and appropriate goals. It takes a wealth of trading experience to fully develop an accurate sense of how well one can trade, and thus, develop expectations commensurate with one's skills. Just like learning any new skill, it is a process of trial-and-error. Sometimes the novice trader is right, and sometimes he or she is wrong. The key is to manage risk to survive the learning curve and to keep making trades to build up the wealth of experience required to trade like a seasoned professional.

Whether you have been trading for years or are new to the field, success depends on your ability to find a close match between your skills and your expectations. If you are a seasoned trader, don't hold back. You can probably make more profits if you set your mind to it. And if you are a novice trader, be patient, you'll get there. For now, carefully manage risk, keep trading, and survive the learning curve.

Fear of Leaving Money on the Table.

During the trading day, there are often opportunities to make huge, profitable trades. The trouble is finding them! Some traders are so obsessed with looking for the ultimate opportunities that they spend most of their time looking for the most profitable opportunity, rather than actually trading. They don't want to miss a potential once-in-a-lifetime trade. There's nothing wrong with searching for a good setup, but constantly looking for the ultimate setup can be time-consuming. Why do some traders spend too much time searching for the ultimate trade? For many, it is a fear of leaving money on the table. They don't want to miss out on a rare opportunity.

The fear of leaving money on the table is natural. We desire profits, and we have a strong human need to strive for perfection. We want to believe that if we analyze the markets long enough, we'll find the perfect setups and take home huge profits. But these assumptions usually do us more harm than good. We may spend all our time looking for perfect setups that don't exist, and ironically, failing to trade available high probability setups. Many times striving for perfection can be -maladaptive- in that it restricts our actions, and often causes unwanted stress. And when we are overly stressed, we may stagnate rather than move forward. It is much more useful to aim for more modest goals. But many people work under the assumption that they must be thoroughly competent, adequate, and achieving in everything that they do.
Renowned psychologist, Dr Albert Ellis, claims that holding such a belief produces fear and anxiety, which for traders often produces hesitation and self-doubt. The development of this belief is understandable. As we grow up, whether it is at home, school or work, we often face adverse consequences for not being scrupulously proficient, and we begin to believe that we must be thoroughly competent, adequate, and achieving in everything that we do. And we believe that if we could just be perfect as a trader, we will make the most profits. Ironically, however, the opposite happens. If we believe that we must always be competent, we will expend all our precious psychological energy looking for perfection, rather than taking action, specific actions.
A more adaptive approach is to realize that it's impossible as a trader to be thoroughly competent, adequate, and achieving all the time. Certainly, you should develop an extremely detailed trading plan and try to account for all adverse events that may go against your plan, but there are limits to what you can do. You don't need to be perfect. You don't need to trade the ultimate setups. You just need to make profits, even if it is just from trading mediocre setups. Searching for perfection can lead to stagnation if you aren't careful. Don't be afraid of leaving money on the table. Relax, trade instead of search. You'll find you will take home more profits in the long run.

Appreciating the Moment.

Have you ever lost yourself in a trade? You focus intensely on your screen and wait for the ideal time to enter. You're fully attentive as you continue to watch your screen as the price creeps up to your profit objective. All your attention is channelled on your ongoing experience. Without even thinking, you exit according to your trading plan. It's as if you are in a meditative trance. There are times when everything just seems to click. Many trading experts, such as Mark Douglas and Dr Ari Kiev, call it -trading in the zone.-

Trading in the zone is a peak performance mental state. It happens when you engage in a task that requires your full attention and skill. The task isn't so hard that you feel anxious about it, but it also isn't so easy that you're bored. There are times when every trader enters this peak performance mindset. How do you get there? For one thing, you need to feel calm and relaxed.

Existential philosophers noted long ago that people experience fear and anxiety when they think about, and regret, past mistakes, or when they worry about an uncertain future. James Dines makes a similar observation about trading. In his book -Mass Psychology,- Dines observes, -anxiety results from spending too much time in the future.- -Spending too much time in the future is punished by anxiety while getting stuck in the past is punished with regrets,- according to Dines.

How do you stay in the moment? It's important to focus your attention on your current experience, rather than self-consciously mulling over the past or worrying about the future. Focus on the process of living in the here-and-now. Dines suggests, -taking it one day at a time.- Scott Shellady, a seasoned trader on the CME, similarly suggests compartmentalizing each trade. By taking each trade one trade at a time, you'll feel more relaxed, and are more likely to enter the zone. In other words, don't worry about past losing trades or future profits.

All your attention and energy should be focused on the current trade. When you're in this optimal state, you will trust your instincts. You will see the markets more clearly and objectively. You will be intensely aware of your feelings, sensibilities, and judgments. You'll be in tune with the market action. You'll be able to effortlessly review a multitude of details. Key factors that are driving the market action at the moment will come to mind with ease. When you enter the zone, you'll significantly increase your chances of success.

It isn't possible to always trade in the zone, but when you do, it is a peak experience. At that point, you'll reach a state of bliss. So, increase your odds of trading in the zone. Appreciate the process of trading. Don't focus on the prize. Don't worry about past mistakes, and avoid worrying about the future until it happens. By appreciating an ongoing trade moment by moment, you'll not only have more fun, you'll end up more profitable in the long run.

Building Mental Momentum.

When you're under a great deal of pressure, it is easy to choke. You feel the stress, and when you're on edge, it is difficult to make decisions or to look at your current trading predicament objectively. It's much nicer to feel you are ahead of the game than struggling hard to come back from behind. When you have a drawdown, you can feel a little disappointed, a little stunned, as if you have fallen, and you are having trouble getting up. After you've made a series of successful trades, however, you can feel much more powerful, as if you can relax a little bit. And when you feel relaxed, you also feel creative and can think of winning strategies.

Everything seems to click and you start trading effortlessly and profitably. Feeling ahead of the game usually puts you in an optimal mental state. But it is hard to feel such empowerment when you are feeling behind, or stuck in a rut, not making any headway. At these times, it is important to remember that there are two types of momentum in trading. There is profit momentum and mental momentum. Mental momentum can be just as powerful as profit momentum. and it is useful to build it up.

We're all familiar with profit momentum. That's when you are way ahead in terms of profits. Mental momentum is also useful, though. We feel mental momentum when we believe we have made our best effort when we feel that we have done everything we possibly could have done. At these times, it is useful to pat ourselves on the back for a job well done. While trading, we usually forget to give ourselves credit when we have put in a good effort. We are usually focused only on profits and those efforts that produce profits. In order words, we focus exclusively on performance goals, while completely forgetting about learning goals, which are equally important.

Instead of only focusing on a performance goal, such as striving for a 20% profit per month, for example, it is useful to think of other goals that are equally important, take effort, but may not always directly produce a profit. There are many modest goals that can be achieved more easily and deserve a reward upon completion. It is useful to break down the goal of making a huge profit from a few good trades into specific steps that are doable and should be rewarded after each step.

For example, studying for 30 hours a week or learning a new trading technique is important and worthy of reward, even if the reward is just a personal sense of accomplishment. The specific goal may not immediately lead to the larger goal of making a 20% profit per month, but it is easy to achieve, will lead to personal satisfaction upon completion, and in the long run, will contribute to the long term goal of becoming a seasoned, profitable trader. The more you complete these modest goals, the more mental momentum you achieve.

It is important to give yourself credit for all the effort you put into trading. It is tempting to feel good about your efforts only when they pay off, but you put in just as much effort putting on a losing trade as a winning trade. Regardless of whether you win or lose, you'll feel better if you reward yourself for all the work you do, regardless of the outcome. The more you reward yourself for all the work you do, the more mental momentum you will feel. This, in turn, will make you feel strong and empowered, allowing you to trade more effortlessly and profitably.

It's For the Money.

Have you ever picked up a magazine, like -GQ- or -Vanity Fair,- and glanced at the ads? Glossy, well-photographed pages show fast cars, fashionable clothes, and the latest electronic gadgets, all next to the most beautiful people on the planet. These are motivating images. They draw out passion and desire. It makes you want to go out and earn a fortune to buy it all. After all, that's why we trade. It's for the money, right?

Trading sounds exciting, but many people who pursue trading as a profession find it -boring.- That's their word for it, not mine. How can it be boring? It's exciting. You put your ego and money on the line, and the outcome is not a certainty. It's risky, and taking a risk can give you a thrill. Why do people trade? There probably isn't one reason. For some, it's the excitement of taking a risk; for others, it's about providing a particular lifestyle for their family, and for others, it's just the family business.

People's motives are complex. There are many possible reasons why people pursue trading. But the more important issue is the primary reason you trade. Why do you study the markets every day to find a new market opportunity? Why do you need to trade? There are other ways of making a good living. These aren't shallow questions.

You can trade for money, status, wealth, excitement, or out of obligation, but these must merely be secondary motives. The primary motive for trading must be a true love of the profession. Successful traders say that they would trade even if they made only a living wage. Trading is an art form. The markets are fascinating to study. Trading is a skill that few can master.

We've interviewed hundreds of traders at Innerworth in an effort to find what gives them a winning edge. And we've found that the most successful traders see trading as an intellectual challenge. They aren't in it for the money, but for the inherent pleasure, it gives them. In their study of traders, Robert Koppel and Howard Abell (1994) draw the same conclusion. In their book, -The Inner Game of Trading,- Koppel and Abell observe, -The top traders all love to trade...for them it is their true mission.- Winning traders don't feel they -should- trade, but see trading as a mission, something they were chosen to do.

When you have a strong passion for what you do, it's never really boring. Sure, there are those times when you're trying to do so much that you feel a little stressed, but to the winning trader, that's all part of the fun. They enjoy living up to the endless challenges and relish the fact that they are good at a profession where over 90% fail. They aren't motivated by money, fame, or glory, but by a true love of the game.

Their passion fuels their drive to hone their trading skills and reach the top of the field. It's quite a paradox. They don't seek out the money, but in the end, they develop such a high level of skill that they end up extremely profitable. So if you want to be a winning trader, don't focus on the profits. The profits will come. All you need to do right now is develop a passion for the profession and allow that passion to compel you to do your best.

Mood Repair: How To Do It and When It Works.

Winning traders are disciplined. Discipline means controlling impulses and fighting the urge to abandon your trading plan prematurely. Maintaining discipline is often easier said than done, especially when the market is moving in your favour. It's hard to avoid closing a trade out early in order to lock in profits.

Even winning traders face more losers than winners, and when you hit upon a winner, it's tempting to take profits as soon as possible. But since winning traders are relatively rare, it's vital to fight the impulse to sell prematurely and let the winning trade run for a while. In order to win big, it is necessary to delay gratification and patiently wait for the price to rise to your exit point according to your trading plan. Discipline is key, and it is vital to take whatever steps are necessary to maintain discipline.

Your mood can play a major role in determining your ability to stick with your trading plan. When you are in a bad mood, you may have trouble sticking with your trading plan. A study by Knapp and Clark (1991) illustrates how feelings of emotional distress can influence your ability to maintain discipline. Participants engaged in a laboratory simulation in which waiting patiently resulted in greater profits.

Specifically, participants were asked to pretend they were fishing in a lake, and that they would be given a monetary reward for each fish they caught. Taking too many fish out of the lake early in the game produced immediate profits, but when fish are taken out early, fewer fish are left in the lake to reproduce, and thus, few fish can be taken out for a profit in the long run. Thus, waiting patiently to take out fish later is the most profitable strategy. Participants' moods influenced their ability to wait patiently and fight the urge to take profits too early. People in a sad mood had difficulty waiting. They wanted immediate gratification and believed that immediate profits would make them feel better immediately.

You might see how this experiment has relevance for trading. When you are in an unpleasant mood, you may have a strong need to feel better. How can you feel better? Making money usually makes you feel better. You can either take profits out of a winning trade immediately or you can make an impulsive trade to get a quick thrill. Your mood can make all the difference. It is useful to make sure you are in a good mood while trading. When you are in a bad mood, you may act impulsively in order to make yourself feel better.

Maintaining discipline is vital for trading success but it is difficult at times. The best ways to keep disciplined are to trade with a detailed trading plan, but this may not be enough. You must also make sure you are in a good mood. A good mood can mean the difference between trading impulsively and maintaining discipline.

Mood Repair: How To Do It and When It Works.

If you want to be a winning trader, you must be optimistic, and truly believe that you can win if you set your mind to it. Trading is a tough business. You have to make trade after trade, and many times, take loss after loss before you take home profits across a series of trades. It is vital to remember, however, that what matters, in the end, is the big picture, the profits you make across a series of trades.

That is often easier said than done. There are those times when you desperately want to win on a particular trade or on a particular day, and it just doesn't happen. It's difficult to avoid falling prey to disappointment and despair. But when you start feeling disappointed and pessimistic, it is essential that you -repair- your mood, and cultivate a winning mindset. A recent study by psychologists Jutta Joormann and Matthias Siemer offer ways you can do it.

Drs. Joorman and Siemer studied different ways that people can recover from a pessimistic mood. Our moods and memories often go hand and hand. When a person feels discouraged, it's likely that he or she will conjure up memories of failure rather than success. For example, when you make a series of losing trades, you may tend to start feeling down. You may start to think, -I'm not as good as I thought I was.- At that point, you may start thinking of every losing trade you've made in the past while forgetting about all the times you have won. Our minds are -wired- that way. Our moods often dictate the memories that enter our consciousness.

When we are in a bad mood, we remember losing trades. There are a few ways to handle a bad mood. Sometimes it's useful to just try to think about something else, but this doesn't always work. Innerworth advisory board member Dr Ari Kiev, for example, suggests allowing a discouraging thought to enter one's consciousness briefly. Once you acknowledge the unpleasant idea, it will simply dissipate. Trying to ignore or push an unpleasant thought out of consciousness often takes more psychological resources than just acknowledging, -I've made a few bad trades. So what. I'm just going to move on.- Sometimes this works, sometimes it doesn't.

Another suggestion we've made at Innerworth is to make a list of your winning trades and to read it when you get discouraged. By reading over a list of triumphs, you'll buck yourself up and start to feel better. Although these methods can be effective, they don't always work.

In their study, Drs. Joorman and Siemer asked people in a depressed mood to either distract themselves or to write down pleasant events that happened to them in the past. In the distraction task, people tried to ignore their depressed mood by trying to imagine doing something else, such as walking through a shopping mall and browsing the merchandise in the store windows. When people are not depressed, either strategy produces an improvement in mood.

For people who are especially distressed, however, recalling pleasant experiences doesn't seem to help much. What seems to work better is to try to distract yourself by thinking about engaging in a pleasant activity, such as shopping or having a good time. This study shows that once you become especially disappointed, it is hard to recover. You might have to forget about what you are doing at the moment, and think about some other more pleasant activity that you could be doing. At the early stages of an unpleasant mood, however, you have more options. You can try to remember more pleasant events from your past or merely tell yourself that everything is going to turn out fine in the long run.

Monitoring your mood is vital. When you are especially discouraged, you may make trading errors. The more you can stay upbeat, yet calm and relaxed, the more you can focus on executing trades flawlessly. And in the long run, you'll achieve lasting success.

Getting Motivated and Ready to Go.

Ben runs a trading room with would-be traders. Some of his members can't wait to trade. They love the game. But other traders are rushed. They say, -All I want to do is learn how to trade, make a fortune and retire.- What's wrong with wanting to make it big fast? Trading doesn't work that way. If you're thinking about retiring before you even learn how to trade, you will never put in the commitment to learn how to read the markets and master them.

Trading is not easy. It is hard work. You must study the markets and try to find market opportunities. It can take extra effort. It can take so much effort in fact that you can feel so tired and worn out that you just can't keep going. Your energy level may be so depleted that you just want to crawl under your desk and take a nap until you are rested and ready to tackle the markets once more. It is at times like these that you need to cultivate a fighting spirit. There are both immediate and preventative strategies you can take.

Immediate strategies can be used to pick your mood up quickly so that you can get back on track fast. When you feel a little down, remind yourself that you can wait it out. You can think, -I'll endure. I'll feel better later.- Another short-term strategy is to think of the big picture. What is happening in the short-term is only temporary. A single losing trade among a series of trades is relatively unimportant as long as risk is managed.

By thinking of the broader context, you can more easily cope with shorter-term setbacks. It may also be useful to think about what motivates you to trade. You should love to trade. You should do it because it makes you feel challenged. You should appreciate the inherent rewards of trading. Trading is a calling. Remembering how you have a passion for the field can help you maintain a fighting spirit. You might remind yourself, -I'd trade for free if I had to.-

You might also need to take preventative steps to maintain a fighting spirit. It's vital that you know deep down that you are motivated to trade. You must truly be committed to trading. You can't secretly want to just do it for the money. If you really don't want to trade, you'll have difficulty convincing yourself that you can endure even a minor hardship. Make sure that trading is indeed how you want to spend your time.

Even a fun, exciting job can wear you out. At those times when you are tired during the trading day, it's vital to pick your spirits up and reenergize. Reminding yourself of why you trade and why you love it can make you feel that you can handle anything, and give you the extra strength you need to make winning trades.

Motivating Images.

In contemporary society, we are bombarded with media images. We see luxury cars, designer clothes, and exotic vacation spots and picture how blissful we would feel if we had these prizes. If we could just get rich quick, we could have it all: Wealth, possessions and happiness. Images are motivating. If we could make a series of sure wins, we couldn't wait until the markets opened.

Trading is not a sure thing, however. It's challenging. It takes skills, skills that aren't developed overnight, but after years of experience and hard work. Many traders are initially attracted to trading with images of wealth, but they soon find that trading isn't easy money. Images that were once motivating are now frustrating reminders of how elusive financial success could be. Winning traders carry images that motivate them to persist and overcome seemingly endless setbacks. What images do you hold while trading? Do they motivate you in the right way?

If you think only about the profits you'll make as a trader, you'll be distracted. Winning traders don't focus on profits as much as the process of trading. When you focus on profits, you suddenly start thinking that you -must- make profits, and when you feel that you are obligated to make profits, you put too much pressure on yourself, so much pressure that you crack under the strain. It's useful to find other less threatening images to motivate you.

Trading online can seem a little boring at times. Some traders make it a little more exciting by imagining they are on the floor of the exchange. They hear floor traders yelling outbids. The frenzy of activity is exciting. Who cares about profits when you see so many people enthralled by what they are doing? A winning trader isn't swayed by emotions, but during those times when trading seems like nothing more than staring at squiggles on a screen, it's useful to recall the image of an exciting trading floor to remind yourself that you are part of something big.

While the jazz and excitement of the markets may motivate some traders, other traders are motivated by the intellectual challenge. To many traders, the quest to capitalize on the market action is a game or a puzzle. Who will win out? Will it be the bears or the bulls? Just like a tennis match, it's fun to see what happens next. Can you anticipate what your opponent is going to do next?

Can you respond with the right winning strategy at the opportune moment? Other traders may imagine themselves as a detective looking for a clue to a mystery, or similarly, a scientist trying to discover the secrets of the universe. Rather than focusing on the profits, it's fun to enjoy the process of trading, the joy of discovery or sense of mastery over a challenge.

For other traders, the sense of competition is a motivator, the joy of winning the game. It can be fun to compete for fun and see if you can be the winner. As long as you don't put too much of your ego into winning, the thrill of competition can enhance your motivation. If you look at trading as a mere sport, you can trade more calmly and make winning trades. That said, focusing on competition isn't for everyone. It's more useful to look inward and follow your own standards for success, rather than feel you must beat out others. But to the extent you see trading as playful and fun, you'll be able to take setbacks in stride and persist in even the toughest of market conditions.

How we think about trading dictates how we react. The images we carry around with us can have a profound psychological impact. Different people have different images that motivate them. Sports and competition motivate some people; trying to master intellectual pursuits motivates others. Discover what motivates you? You can look at trading from a variety of perspectives. Choose a set of images that you find personally motivating. The more motivated you are, the more easily you'll be able to trade day in and day out, and achieve enduring financial success.

Trading in a Higher Psychological Sphere.

It seems so easy: Find a good setup, place a bet, close out the trade and take home the profits. It may seem simple, but trading profitably and consistently eludes most traders. Trading experts note that even those traders who achieve early success don't maintain it. It's easy to make a series of profitable trades early in one's career; the difficulty is trading profitably day after day, week after week, year after year.

When it comes to maintaining profitability over the long term, one must look deep into one's psychological makeup and ask and answer tough questions: Why am I trading? What do I get out of it? Why should I continue to trade? Seasoned traders know the answer to these questions: Trading is intrinsically rewarding; it's a fulfilling, enjoyable, and creative endeavour.

The experience of trading in and of itself provides its own reward. The most successful traders are so passionate about trading that they would trade regardless of how much money they made or how successful they were. For them, the intellectual and creative activities involved in the trading process constitute an optimal experience. They trade in a higher sphere, and maintaining this peak performance mindset ensures their lasting profitability.

Psychologists who study the motives behind people's life pursuits have discovered that optimal experiences are intrinsically motivating. They are so engaging and interesting that just doing them is enjoyable. The extrinsic rewards, such as money or profits, are not nearly as motivating. When people engage in an intrinsically motivating task, they effortlessly focus all their attention on that task and achieve a level of experience that is optimal.

They don't worry about success or a failure, and they don't expect to receive any reward or gain from the endeavour other than the experience itself. They may desire a reward but they don't need one. Emotions, such as fear, anxiety, and self-reproach, don't even enter their consciousness. The experience is so intense that they tend to be concerned less with the final outcome, and more with the process as they experience it.

How does one trade in a higher psychological sphere? It's vital that you satisfy lower-order needs, such as a need for self-esteem or recognition, so that you can focus on satisfying higher-order psychological needs, such as self-actualization and self-fulfilment. For example, when trying to satisfy a need for self-esteem or recognition, one may think becoming a success will help him or her feel safe, secure, and loved.

This belief can cause major problems when trading, for several reasons. First, placing too much emphasis on the outcome is bound to be distracting. Second, believing all your needs will be satisfied through trading will likely increase your fear, anxiety, and tension. Third, these unpleasant and distracting emotions will tend to interfere with your accurate assessment of market conditions and disrupt any clear-headed decision making, hurting your performance and creating a vicious circle of defeat.

What motivates your trading? Do you trade to satisfy social and emotional needs? Do you trade primarily to increase your feelings of safety and security? How do you remedy the situation if you are trying to satisfy these lower-order needs? To remedy this, consider satisfying your safety and security needs in other ways. For example, you could set lower standards for your lifestyle. Trying to maintain a rich, luxurious lifestyle will almost certainly interfere with your trading success. Most successful traders report they have settled into a lifestyle that does not depend very much, if at all, on their trading success.

Other social needs that may interfere with your trading performance, and should be addressed outside of trading, including the desire for friendship, affection, and love. Some individuals believe that trading is going to improve their ability to form satisfying relationships.

For example, many people believe that if they had enough money, their relationships would be far more satisfying. Although this seems reasonable, it is a fallacy. Wealthy people are no better at gaining love and affection than poor people. If you are hoping that your relationships will improve when you make more money through trading, you are mistaken. It's a far better approach to limit

your trading activity and take other steps to develop more satisfying relationships.
You may also trade because you desire recognition, appreciation, prestige, and status. It's true that some individuals may give additional respect to those with a lot of money, but not everyone. In addition, needing others' respect can be very difficult and disappointing. In the end, the road to happiness and success involves having respect for yourself. If you are hoping that you will somehow gain respect through making a bunch of winning trades, you will almost certainly be disappointed, and this drive for respect and continuing disappointment will interfere with cultivating a peak performance mindset.
Transforming the trading experience into an optimal experience may not be easy, but it's something that the most profitable traders have achieved and sustain. Make sure that your social and emotional needs are satisfied outside of trading, and that you are able to focus intensely on the trading experience itself. If you can do so, you'll find trading interesting, enjoyable and engaging, and be trading in a higher psychological sphere.

Take Time to Recover.

Jack has had a bad day. Nothing seemed to go right. Every decision he made seemed to lead to ruin. He bought at every top and sold at every bottom. At the end of the day, he just couldn't relax. In fact, he couldn't get to sleep that night, and a few days later still felt bothered. If only he could let it go and relax. But letting go of past mistakes and achieving an optimal, relaxed mental state is often more easily said than done.

By its very nature, trading is stressful, and when you make a series of bad mistakes, it all builds up. At that point, it's especially difficult to recover from such a dramatic setback. How do you recover? How do you let yourself off the hook, relax, and move on?

When you've faced a series of trading setbacks, it is natural to feel a little overwhelmed. It's emotionally and financially hard to lose money, and deep down, you know it. Your logical mind tells you that it's much more difficult to make money in the markets than lose it. From a purely mathematical perspective, it's going to take many more winning trades, compared to the number of trades it took to lose the initial stake, just to break even. And when you've just made a series of losses, it's hard to face the amount of work you'll need to do to make it all back.

The first question you must ask, however, is what are your options? Do you want to just give up? Of course not. When you are down, it's vital to get back up and fight with determination to overcome the setback. That said, feeling frustrated and beaten actually protects you at first. When you are frustrated, you use up much of your stored psychological energy. You need some time to allow your mind and body to recover. So for a little while at least, frustration allows you to rest. But there comes a point where it does no good to continue to wallow in self-pity. You must start trading again.

One of the solutions to calming down is to write a relaxation script. When we feel frustrated, we are usually thinking with a victim mentality: -Why me? What did I do to deserve this? Why can't things go my way? What can I do? I want to just give up.- When you're feeling overwhelmed, you might want to pull out a script to read to counteract your thoughts of feeling like a victim.

You might think, -These setbacks are temporary. Right now, all seems hopeless, but once I get a little rest and distance from the event, I'll be ready to pick myself up and face these setbacks with determination.- After you get some rest, you'll be ready to work again. And when you're ready, you might try reading another script: -I may be down, but I'm not out. If I work hard enough, I can get back on my feet. I just need to make a plan and work hard.- These motivating thoughts will set you on the right track. You'll feel a sense of energy and empowerment.

Picking yourself up after a setback is vital, but we can easily feel beaten after a series of setbacks. Don't despair, though. You may temporarily feel beaten, but if you work hard enough, you'll get back on your feet and return to profitability.

Don't Hesitate, Move On.

Trading demands decisive action. Executing a successful trading plan often requires that one make a quick decision when optimal market conditions present themselves. But it is often hard to make such decisions when your money is on the line. There's a natural inclination to avoid risk. Novice traders often deal with this fear of loss by over-thinking and over-analysis. They may tediously study indicator after indicator, even though many are redundant and converge. They may irrationally believe they have missed something. Although understandable, this kind of decision-making often leads to trading errors. It isn't necessary to over-think and over-analyze. It is more useful to decisively execute a trade and move on.

Careful analysis of all possible alternatives and all possible consequences of one's decisions is the hallmark of good decision-making. It is prudent in all financial decisions, and it's important for trading as well. It's important to avoid impulsive decisions where one takes unnecessary risks.

It's vital to have a clearly defined trading plan, for example. Clearly define the signs and signals that indicate your trading plan has gone awry, suggesting that you should close out the trade to protect your capital. It is also important to manage risk. Make sure that a single trade doesn't have the potential to completely wipe out your trading account. It may be useful to conduct a thorough analysis before making a decision, but it isn't useful to become completely paralyzed by it.

Traders who have trouble acting decisively have an ardent need to seek out certainty and security. Uncertainty often represents insecurity. It's not merely that they have a pessimistic outlook, although they have one. They equate money with psychological security; losing money represents not only a loss of financial security but also a loss of basic emotional security and well being.

These feelings are natural and understandable. Money does provide security, and so, if you are risking money you can't afford to lose on a trade, it will be hard to shake this feeling. The best remedy is to trade money you can afford to lose and to manage risk. The other remedy is to learn about and use reliable trading strategies. In the end, all you can do is to just try to do your best. You can't trade like a seasoned professional overnight.

Trading requires that you gain experience with different methods and trade under various market conditions. Over time, you'll develop the skills of a seasoned trader; you'll develop an intuitive feel for the markets. This will take time and effort, but it won't happen if you avoid making trades because you are afraid. Just like any skill, it takes practice. You must practice, make mistakes, face setbacks, and recover from them. Hesitating out of fear will not allow you to develop these necessary skills.

In the end, becoming a seasoned trader requires taking risks. Putting your money on the line is hard to do, especially for a novice trader who knows he or she is likely to lose it. That's why it is vital to control risk and trade with a detailed trading plan. It won't prevent losses, but it will minimize them. If you can continue to practice trading, you'll survive the learning curve and be one of the rare few who become winning traders.

Taking on Greater Levels of Risk.

Who doesn't want to be a brilliant trader? There are those elite -Market Wizards- who have a rare talent for making huge profits in a field where few can excel. It's understandable why anyone would want to succeed in such a field. Wealth, status, and respect are just some of the many possible rewards.

Unfortunately, very few novice traders reach the top of the field. For many, the best they can do is evaluate and accept their abilities, and do their best. Pushing themselves too far and too fast doesn't work. It leads to frustration, and possibly failure. They must work at their own pace. That's especially the case when attempting to take on greater levels of risk. Depending on your risk tolerance, taking on greater levels of risk can make you feel uneasy. But if you want to make huge profits as a trader, you eventually need to learn to effortlessly take on greater levels of risk.

Extending your comfort zone isn't easy. For some people, it is a gradual process. As a first step, novice traders, for example, must learn to put their hard-earned money on the line and accept what it feels like to lose it. At first, taking a loss is disconcerting and a little frightening. Losing a few dollars is easy, but as the amount increases substantially, so does the pressure. Many people crack under the strain. It takes a little practice to learn to risk ever-increasing amounts of money and take it in stride.

There are a few exceptions, though. Some people are natural-born risk-takers. They have no trouble taking a risk and putting their money or ego on the line. But, if you've accumulated enough capital to trade actively, in all likelihood, you have learned to manage your money wisely and are careful with it. The idea of taking larger and larger risks to move beyond your comfort zone can be difficult. You may have a natural inclination to protect what you've worked so hard to accumulate. It's tough to not be a little wary of taking bigger and bigger risks.

How do you learn to take on more risk? Again, it depends on your personality and the amount of trading capital in your account. But if you're like most novice traders, you may need to train yourself to take on greater levels of risk. It's useful to move up gradually. Many novice traders make the mistake of moving too fast. They feel that they should be able to take greater and greater financial risks quickly and easily, sort of like jumping into a pool of cold water and getting used to the temperature.

For some, this approach may work, but for others, it's a little too much to expect. It's more like blacking out from the freezing cold than quickly acclimating. Taking on greater and greater amounts of risk is fear-provoking. If you do it all at once, you move from relatively little fear and anxiety to terrifying amounts of fear and anxiety. It's too shocking for many. It's better to work up to it. You wouldn't try to run a 10-mile marathon tomorrow if you could barely run a mile today.

You would build up your stamina and gradually work up to your objective. It's wise to do the same thing with trading. Increase the amount you risk gradually. The rate at which you increase it depends on your personality. It's important to use your own judgement. If you can increase your stake a little each week, then keep up that pace. But if you find that after a month, you've surpassed your comfort zone, then reduce your risk. The key is to gradually increase your comfort zone, rather than force yourself to go beyond your limits.

Just because you can't increase your comfort zone in a matter of days is no reason to be upset or disappointed. Work at your own pace. If you try to do too much, too soon, you'll just feel overwhelmed and you may never reach your objective. But if you move up gradually, you will increase the likelihood that you will be able to increase the amount of risk you can handle.

Trading is emotional. Taking on greater and greater amounts of risk can be stressful. Rather than become overwhelmed, and possibly undermine your long-term financial goals, it's useful to take it easy and work at your own pace. You'll eventually be able to take on greater levels of risk, and trade more calmly, logically, and profitably.

Learning To Let Go.

If you're like most traders, you struggle with losses. Your emotions play tug of war in your mind. Losses are a fact of trading, however. Even the best setups and the most reliable methods are not foolproof. Market conditions change, and the method fails. Your mindset isn't just right, and you make a few trading mistakes. There are many reasons for trading losses.
In the ever-changing markets, one must learn to accept losses, and just move on. But that's much easier said than done. It's easy to say that one should be ruthlessly detached, trading the markets in a cold and calculating way. But the fact is that when you face a string of three consecutive losing trades, for example, it's hard to just put it completely out of your mind. Somewhere in the back of your mind, you're thinking, -I'm losing money here; can I really put up with a few more losing trades and still survive?-

Depending on your experience, the answer to this question can range from, -I know it's just a temporary setback- to -I have a strong suspicion I'm washed up.- If you're the type of person who has trouble truly believing that you can accept a drawdown with a happy-go-lucky attitude, you're not alone. There are actually many traders who do, indeed, have trouble just shrugging off a loss, especially novice traders.
They persistently mull over the loss, playing it over and over again in their heads until they find themselves in a bad mood, which intensifies as they continue to mull over their losses. Some people can't stop and because they can't, they are less satisfied and confident. They have trouble committing to trading plans compared to non-ruminators. They are so wrapped up in rumination that they can't think clearly or solve problems easily. Such an approach isn't conducive to skilful trading, however, were a calm, relaxed, and focused problem-solving approach is crucial.
People differ on the extent to which they ruminate. Some people don't ruminate at all; they avoid thinking about losses or failure, or they vent their disappointment and frustration to friends and confidants in order to feel better. Whatever strategy they use, they don't dwell on their failures very long. They just accept them and move on. Ruminators, in contrast, repeatedly focus on the meaning, causes, and consequences of their bad moods. But sometimes after a losing trade, there is no meaning to glean.
It doesn't help to feel paralyzed by over-analysis. It's imperative to learn to accept losses and just move on. If you are stuck mulling them over and over in your head, you can't move forward. If you're a ruminator, it's essential that you gain awareness of it, and make every effort to minimize its influence. Self-awareness is the key to the solution. Once you know you have a problem with rumination, self-monitor it, gain awareness of it, and develop a plan to manage it. It's not easy to change since you've probably developed the habit of ruminating over many years, but this tendency can be controlled.
Carefully monitor your thought processes, and when you find yourself ruminating, remind yourself that by doing so, you will intensify your bad mood and that in turn, will interfere with your concentration, and reduce your ability to think of creative solutions to trading problems. Some psychologists suggest that ruminative people should immediately yell, -stop- when they find themselves ruminating. This usually halts the repetitive and incessant need to over-analyze a problem or failure. In contrast to a non-ruminator, questioning one's decisions and over-analyzing them isn't productive, and it is necessary to remind oneself that he or she is making no progress by doing so.
Over time, and through practice, it's possible for a ruminator to take quick and decisive action, instead of being paralyzed by a recent trading loss. So if you are a ruminator, don't make trading losses worse by dwelling on them too much. Keep in mind that even the best traders must face losses, and oftentimes, there isn't much to learn from a trading loss. Don't overanalyze. Just accept the loss, control your risk, and keep moving forward. If you're using a reliable trading strategy, it will -kick in- eventually and the law of large numbers will work in your favour if you make enough trades.

All you have to do is keep moving forward, rather than needlessly worrying. If the method is unreliable, worrying about it isn't going to help matters. Find a new method if you need to, but whatever you do, stop ruminating.

The Multi-faceted Self Concept.

Kyle has just embarked on a new trading career. He's excited and he can't wait to master the markets and make the huge profits he's been dreaming of. He confides to a friend, -I'm going to live and breath trading. It's going to be at the centre of my life. If someone were to ask me who I am, I would say, I'm a trader.'- Although many would admire Kyle's spirited dedication to the trading profession, psychologists would warn against defining oneself in such narrow terms. Research studies have shown that the more multi-faceted one's self-concept, the better. Make sure that you don't solely define yourself as -a trader.- You'll pay a price for it in terms of trading performance.

As much as ambitious over-achievers like to define themselves by their work, it may not be wise. Professor Patricia W. Linville of the Fuqua School of Business at Duke University has conducted a set of studies that illustrate the disadvantage of -putting all your eggs in one basket- when it comes to your self-concept. We can define ourselves in many different ways. We are not just traders, but we are friends, spouses, parents, children, and community leaders. The number of roles is endless. Each role is part of our self-concept. Dr Linville points out that these different aspects of our self-concept can protect our self-esteem when faced with stressful events. In one study, for example, college students described their self-concept on a set of adjectives. Some participants had one-dimensional self-concepts whereas others had multi-faceted self-concepts. People with multi-faceted self-concepts were better able to cope with stress, depression, and illness. In addition, they were better able to control their emotions. When people have multi-faceted self-concepts, they are less prone to extreme variations in emotions.
Their emotions remain relatively stable, rather than rapidly rising and falling. Why? People with a multi-faceted self-concept have alternative views of themselves, so when failure is encountered in one aspect of their lives, they can find consolation in the fact that another aspect of their life is still going well. For example, a trader facing a severe drawdown may find solace in knowing that he or she is still a loving parent. If one defines oneself as -a full-blown trader,- however, then he or she is likely to feel deeply bothered when the one-dimensional view of oneself is challenged by a setback. When it comes to trading, emotional control is crucial. One of the best defences against stress and emotions is to have a multi-dimensional self-concept. Cultivate many different roles and views of yourself. Don't define yourself solely as a trader. If you do, you'll be prone to wildly uncontrollable emotions. And emotional trading usually means inconsistent profits, and eventually, huge losses.

Fighting Murphy's Law.

While trading the markets, there are times when Murphy's Law says it all: -Whatever can go wrong, will go wrong.- Does this sound a little too cynical? Perhaps, but only if you submit to pessimism. If you have a winning attitude, however, you're ready to tackle anything. You'll think, -Things go wrong all the time. So what, I'll take it in stride and move on.- If you cultivate a winning attitude, you can fight Murphy's Law with ease.

In their book, -The Inner Game of Trading,- Robert Koppel and Howard Abell argue that trading knowledge is not sufficient to trade successfully. Sure, it's essential to have extensive knowledge and a wealth of experience with the markets, but trading with a winning state of mind is also necessary. Traders with a winning state of mind are anxiety-free, confident, organized, and have high self-esteem. Many traders, though, unnecessarily limit themselves. They aren't confident, but uncertain and easily shaken. They are vengeful, rather than enthusiastic about vast market opportunities. They are easily disappointed and find it hard to get energized. And they face an adverse market event with frustration, instead of persistence and discipline.

Consider the difference between the limited trader with a pessimistic attitude and the resourceful trader with a winning attitude. The limited trader may think, -The markets are rigged, too risky, and don't let you win.- The resourceful trader, in contrast, thinks, -The markets provide opportunity, and can be mastered.- The resourceful trader realizes that he or she may not be perfectly skilled. Mistakes are bound to happen.

The limited trader thinks, -If I get stopped out, it illustrates that I'm a loser,- but the resourceful trader thinks, -If I get stopped out, then I have to reevaluate the trade.- While the limited trader thinks, -If the market doesn't do what I expect it to, then I don't know anything,- the resourceful trader thinks, -If the market doesn't do what I expect, then my analysis or timing has to be reconsidered.- While the limited trader allows his or her emotions and feeling of low self-esteem to take over, the resourceful trader takes an active, problem-solving approach and gets things done.

A winning attitude can do wonders. Rather than feel like a victim who has no control over the markets, a winning attitude allows you to gain real control of your thoughts and emotions. Rather than react emotionally to a setback, a winning state of mind allows you to cope with an adverse event effortlessly, and manage risk in order to protect your capital. When you have a winning attitude, setbacks aren't a threat. You don't pessimistically blame the markets or market participants for a setback.

Instead, you take responsibility for your actions. You think, -What can I do to make a winning trade? Maybe I can change my method. Perhaps I need to stand aside and study the current market action more closely. I'll learn from my mistakes and eventually master the markets.- By not putting pressure on yourself to trade with perfection, you feel more relaxed, creative and ready for action.

So when setback after setback starts making you feel like Murphy's Law is true, question its validity, cultivate a winning attitude, take control, and master the markets.

Don't Be So Grandiose.

A confident, optimistic attitude is required to achieve lasting success as a trader. Even solid, reliable trading strategies are fallible, and one is bound to face losses. And for the trader without the proper mindset, losses conjure up extreme feelings of disappointment. If you can't objectify the trading process and stay calm and rational, your emotions will fluctuate with your account balance.

The best way to deal with the ups and downs of the market is to build up your trading skills to the point that you can trade profitably in a variety of market conditions. Once you develop solid, robust trading skills through extensive practice and experience, you'll also gain the indisputable sense of self-confidence that comes with it. It will be hard to do. It will take time, effort, and persistence, but it's the only way you'll be a consistently profitable trader. Some people have rock-solid self-esteem and are able to meet the challenge.

But others have more wavering self-esteem. When they've tried a new activity, they have often failed. And they carry this failure and low self-worth with them throughout their lives, and into the trading arena. It's hard to cope with the double pressure of feeling personally inadequate and trying to master the chaotic and unpredictable markets, which even the most exceptional people have trouble doing. To cope with the uncertainty of success, powerful, dynamic psychological strategies are used to protect one's ego. For some people, it's just too difficult to face their limitations, so they conceal their inadequacies. They feign trading expertise and tell themselves statements like, -I'm a natural-born trader,- so as to bolster their self-esteem.

These grandiose images of themselves are used to defend their weak egos. It's like unconsciously thinking, -I'm not incompetent; look at how self-assured and naturally skilled I am.- But such people are not genuinely confident. Indeed, they are anything but confident. Since their grandiose thinking is merely a way of protecting their brittle, fragile ego, they are especially prone to feeling extreme emotions when they fail. Each failure dramatically contradicts their grandiose view of themselves, and they react defensively with anger and frustration.

Psychologists Rhodewalt and Morf (1998) illustrated this psychological process in an innovative study. Participants were diagnosed with regard to their grandiosity and placed into one of two groups: grandiose view of themselves or accurate view of themselves. They were then asked to complete two separate intelligence tests, one right after the other. Since the items on the tests were quite difficult, participants didn't know if they answered correctly.

This allowed the researchers to manipulate the feedback given to the participant. Researchers told some participants that they failed on the first test while they succeeded in the second test. Other participants were told they succeeded on the first test and failed on the second test. People who held a grandiose view of themselves responded with extreme anger, frustration, and disappointment when they failed compared to people with an accurate view of themselves. They were especially emotional when failure followed the success.

People with a grandiose view of themselves changed their self-view radically when a failure followed a success. Whereas they thought highly of themselves after success, they felt completely devastated after a failure. This study shows how individuals with chronically low self-esteem, who disguise their low self-esteem by puffing themselves up, are vulnerable to extreme changes in mood and feelings of self-worth. These dynamic, defensive coping processes can hamper trading, where failures often follow successes. Under these conditions, the person with chronically low self-esteem can rapidly shift from feeling invincible after a win to feeling extreme despair and hopelessness after a loss.

The best way to address a grandiose view of oneself is to first acknowledge that one is shoring up one's ego by exaggerating one's competence and abilities, and then, one must take steps to develop a view of oneself based on accurate assessments of competence. One of the most foolproof ways of evaluating your trading skills accurately and objectively is by keeping a trading diary. Record your trades, and keep accurate figures on your performance, such as a win-loss ratio. By taking an honest look at the record, you can see precisely how well you are doing.

There is no need to rely on subjective self-assessments, which are often biased, and may reflect the need to protect one's ego. It is essential to face your inadequacies and build up your trading skills to compensate for them. Trying to hide them, or trying to hide from them, will prevent you from identifying your limitations. It will also sap up precious psychological energy as you try to defensively protect your ego. By admitting your faults, and taking steps to correct them, you will free up psychological energy and build the skills you need to be a consistently profitable trader.

The Natural Born Trader.

If pushed to do so, most trading experts can delineate the characteristics of the ideal trader: intuitive, yet also logical and objective; spontaneous, yet disciplined; genuinely confident and open to criticism. It's possible that some people are natural-born traders in that they organically possess these characteristics. Do you believe traders are born? Or do you think trading is something that most people can learn if enough time and effort are devoted to learning how to trade skillfully? Regardless of whether natural-born traders do exist, your opinion on this matter can greatly influence how you go about learning how to trade and how resilient you are to trading setbacks.

Psychologist Carol Dweck has conducted several seminal studies demonstrating that the assumptions we hold about a specific ability, such as trading skills, powerfully influence how we interpret and react to events. Some people view abilities as fixed entities whereas others view abilities as malleable. A person who believes that traders are born and not made is showing an entity view of trading ability.

There is a significant consequence for holding such a belief. If one believes that one is a natural-born trader, he or she sets high-performance goals. Doing so is understandable. People who believe they have a natural-born ability to trade try to take advantage of these talents. If you are virtuoso, you might as well use your skills and achieve high levels of performance. This thinking strategy works well if one actually can put on trade after winning trade and realize huge profits (such as in the bull market of the 1990s).

One's expectations are confirmed, and it would take large losses before one gives up. Many traders in our Innerworth Master Interview series discussed how they were drawn to trading while realizing huge profits during a bull market. They seemed to be able to do no wrong and started to believe they had inherent trading abilities. But unfortunately, market conditions changed and they soon were unable to make consistent profits. When this happens, one's current losing performance doesn't match one's view of oneself as a -natural born trader.- One feels disappointed and somewhat disillusioned, and may think, -I guess I don't have any special trading talents; I might as well just give up.-

It's much more useful to view trading ability as malleable, as something that one can learn through repeated practice and effort. In other words, it's more adaptive to believe that traders are made not born. When one views trading as something that can be learned through practice and effort, setbacks are merely viewed as objective feedback, rather than as an evaluation of one's inherent ability to trade. People who viewability as malleable rather than fixed are mastery-oriented. They aren't concerned with meeting high-performance goals; they just focus on the process of developing their skills. No matter how severe the setbacks they encounter, they continue to persist. They believe they can eventually develop a high level of skill as long as they keep trying, focus on the process of learning the skill, and gain as much experience as possible.

Whether there are such people who are natural-born traders is a matter of debate. In the end, however, such issues are best deliberated in chat rooms or barroom discussions. It's not useful to believe that traders are born. Holding such a belief is likely to do more harm than good. It's much more adaptive to believe that one can learn to trade if enough effort is devoted to the endeavour. By believing that you can master trading through practice and experience, you'll persist even when faced with severe setbacks. And eventually, you'll develop the skills of a consistently profitable trader.

You Don't Always Need To Be Right.

A common belief among novice traders is that one always needs to be right. Many believe that a trading strategy must always produce a profit. Although it is true that a long losing streak can wipe out one's trading account, one can actually have a large proportion of losing trades to winning trades and still be profitable. It's merely a matter of using risk management. Let's consider a specific hypothetical example to illustrate this point.

Suppose John has $150,000 to invest. He decides to arbitrarily risk 3% of his capital on each of 10 trades. He figures it is a relatively small amount that he could afford to risk and lose. He also decides to use a simple stop-loss rule: if a stock price drops below 8% of the purchase price, then sell. He then uses an arbitrary sell rule for his winning trades: If a stock increases by 20% of the purchase price, then sell. (Please note that we aren't advocating the use of these rules, we are just trying to make a point).

Let's calculate the expected results. Approximately $4,500 is risked on each trade. If the trade loses $360, it is sold. If the trade produces a $900 profit, it is sold. If 3 out of 10 trades are winners, the overall profit (wins ' losses) is (3 X $900) ' (7 X $360) = $2700 ' 2,520 = $180. Now, $180 isn't very much of an overall return, but you can see the point. Even by winning only 3 out of 10 trades, there is still a profit. (It's necessary, however, to use a discount interactive broker who charges less than $5 for a round-trip trade).

This is quite a conservative strategy. One probably wouldn't want to follow it precisely. It demonstrates, however, that one doesn't always need to be right all the time to come out ahead. Nevertheless, you may see that a few modifications can make the general approach very profitable. For example, if one were to win 50% of the trades, the expected profit is (5 X $900) ' (5 X $360) = $4,500 ' $1,800 = $2,700. Similarly, one probably would not want to sell a winning trade merely because it reached a 20% profit. One can -let it ride a little longer- and perhaps make a 50% profit, for example. This would result in even more profits. The incorporation of risk management rules allows you to be wrong a lot of the time, and it is reassuring to remember this point.

So remember that you don't always have to be right to make a profit overall. Even by using a very simple set of risk management rules, and following them mechanically, you can come out ahead. The lesson is not to use such rules mechanically, but to consider how some simple planning and risk management can prevent emotions, such as anxiety and fear, from negatively impacting your trading decisions.

When you are first learning to trade, risk management can help you survive, stay in the game, and allow you to hone your trading skills. As you gain more skills, you can risk a little bit more on trades you have identified as -high probability setups- and fine-tune your stop-loss or exit rules. But in the meantime, consider keeping your goals modest, with the main goal of minimizing risks, building skills, raising self-confidence, and refining your method.

A Fresh Start.

Have you ever been stuck in a rut? All you can think about is how behind you are and how hard it will be to come back: -I haven't made enough winning trades. What am I going to do? I'll never make it back.- It's natural to panic a little when you're first starting out as a trader. The anxiety and worry can get to you, but winning traders have a trick that you may find helpful: They compartmentalize their trades. They take things one trade at a time and view each trade as a completely new opportunity. By focusing on their immediate experience, and staying fresh, they stay optimistic and full of energy.

There's a strong urge to mull over the past and worry about the future. It seems prudent to do so, but looking at your past often gets you nowhere, especially when it comes to trading. And excessive worry about the future often distracts you from what you need to do right now in order to ensure future success. While you're worrying, you aren't focusing on current market conditions. You aren't honing your trading skills in preparation for future market opportunities. Worrying about the future is a complete waste of time.

Seasoned traders compartmentalize. They put each trade into a different mental compartment. With each trade they make, they start fresh. They don't worry about where they have been or how bad they'll feel should the trade be a loser. Instead, they focus all their energy on their immediate experience, what they're doing at the moment, and what they need to do next to implement their trading plan. By focusing solely on the trade-in in front of them, they stay calm and relaxed. They are focused, and in the zone, the same way an athlete concentrates on making a play, or a rock climber cautiously takes the next step. There's no time or energy for worry. It is distracting and can lead to a downfall.

Obviously, it's hard not to worry about the future. Indeed, it's important to worry about losses and carefully manage risk. And if you are in a serious drawdown, and unsure of how to get out of it, it is vital to go out of your way to make plans for getting yourself out of trouble. But you don't have to worry about these issues while executing your trading plan. If you have to worry about the future (and you never have to worry if you're always planning and taking decisive action), do it off-hours, not while you're trying to execute your trading plan. In addition, don't psychologically string trades together.

Treat each trade as an emotionally independent event. If you tie a string of losses together, for example, you'll start to feel upset, and your past losses will impact your ability to make future wins. Even when you're on a roll, and relishing the glory of a winning streak, you will be thrown off track when an unexpected loss crops up. You'll let it interfere with what you need to do right now in order to continue winning.

There's no one right way to trade. Some mental strategies work for some traders, but not for others. That said, many seasoned, professional traders find it useful to start each new trade as if it were a new day. They think positively as if anything is possible. The next trade may be a winner or it may be a loser. Whatever the outcome, though, they celebrate a victory, or take a loss in stride, and just move on. And, in the end, they are profitable.

A Brand New Day.

Sometimes trading with a winning edge is a matter of being able to identify those key moments when you don't have it. As much as we would like to always trade with a peak performance mindset, it isn't possible. There are those times when our game is off, and we would be wise to stand aside until we are rested, relaxed, and re-energized.

Consider the plight of Dan, a novice trader who is having a bad day. He started the trading day optimistically, excited about meeting the challenges of a new day. But after the open, he made a few losing trades. Suddenly, his enthusiasm turned to disappointment. He decided to keep trading, but he just couldn't stay focused. He kept worrying about the errors he had made and the money he had lost. He soon felt tired and exhausted.

When your mood is down, it is wise to consider standing aside for the rest of the day. Many trading experts suggest monitoring your mood, and when you feel down, in a rut, or disappointed, you should close out your positions (that need immediate attention), and stand aside for the rest of the day. Some traders start every morning by monitoring their mood. Unless it is at peak levels, they don't trade that day. They don't trade until their mood returns to normal.

It is vital for long-term survival to monitor your moods frequently. When you are tired, for example, you may not have enough energy to monitor your trades carefully and make sound decisions. You may feel on edge and may act impulsively. Similarly, when you are feeling disappointed, you may allow even a minor setback to intensify your negative mood. Depending on your personality, and your ability to get up unscathed after a fall, it is often wise to just cut your losses, admit defeat, and retreat to trade another day. After you are rested, relaxed, and ready, you'll find that a brand new day looks more promising. The more you can learn to stand aside when necessary, and approach trading with a fresh outlook, the more profitably you will trade in the long run.

Giving Into the Markets.

When your money is on the line, you have a strong need to be in complete control. The desire for total control is so powerful that when we aren't in control, we start to delude ourselves into thinking that we are in control. People display what psychologists call an -illusion of control- even when they are dealing with a random event. The more control we have, the easier it is to take a risk.
So we want to believe that we have as much control as possible. It's a very psychologically adaptive way to cope with uncertainty and feel at ease, especially when we are waiting to see if a trading plan will produce a profit. But as much as we would like to have full control, we can't. In the markets, we must accept where the markets take us. We can't impose our will onto the markets. No matter how much we want to dominate the markets, and control prices, we can't.

In his book, -Trading to Win,- Dr Ari Kyiv advises, -It's important to distinguish between the tape and your interpretations of the tape. View as neutral both the events and your inclination to impose your interpretations on them. Enter the market without expectations, surrendering to it rather than struggling with it for personal gain.-
Staying objective is, indeed, a significant prerequisite for profitable trading. We aren't always objective, however. We all want to win, and even when things aren't going our way, we have a strong inclination to bias and distort things so as to see them in a positive light. But as Dr Kyiv warns, we must find a way to stay objective.
How can you stay objective? The first thing you must do is trade with money you can afford to lose and manage your risk. If your entire financial future is on the line on a single trade, you will be consumed with anxiety, self-doubt, and frustration. But if you risk relatively little on a single trade, you'll know deep down that you can live with the negative consequences should the trade be a loser. It's useful to follow the old trading adage, -Risk so little capital on a trade that you ask yourself, Why am I even bothering to put on this trade?'-
The second thing you must do to stay objective is to take your ego out of the trade. You cannot control the markets, so why put your ego on the line with your money? Sometimes it takes ingenuity to find a trading strategy that will produce a profit under a given set of market conditions, but other times it is a serendipitous event.
And at other times, it's a matter of learning of a profitable approach from others. But in the end, it's just a matter of odds. It's just like rolling a die or flipping a coin (in some ways). One expects to make a profit over a large number of trades, but in the short term, even a winning strategy is bound to have a string of losers. That's just the nature of probability theory. A small number of flips are less than an infinite number, so it's quite likely to get a string of a 50 heads out of 50 tosses just by luck.
So why make it so personal? Why put your ego on the line with each trade? Why gloat when you are lucky enough to have the odds work in your favour and sulk when the odds go against you?
When you look at it from the vantage point of probability, there's no reason to take things so personally. There's little you can do but stay calm, try your best, and accept where the markets take you. Ironically, if you can identify and control what you can (such as risk management and a sound trading strategy), and accept what you cannot (the outcome of a trade), you will feel calm and be able to trade in a peak performance mindset.

Seeing a Creative New Idea.

The creative process is somewhat of a mystery, even to scientists who study it. There are a few common characteristics that all creative persons possess (such as an openness to a variety of internal and external experiences and a driving need to express one's sense of individualism), but for the most part, exactly how the creative mind makes earthshaking discoveries is unknown.

A few prerequisites are necessary, though. The mind must be focused, for example. New ideas must flow through the mind freely, and there must be a wide range of ideas so that they can be combined and recombined in new ways. New and creative trading ideas are necessary to stay ahead of the crowd, so doing whatever you can to prepare your mind to brainstorm new ideas will help you develop creative trading strategies that are the foundation of profitable trading.

Many great scientific discoveries were made almost by accident, through a serendipitous observation. Had an untrained eye made the observation, it would have been missed. But because the scientist's mind was continuously running through a wealth of ideas, he or she saw a new discovery in a seemingly ordinary event. Discovering new trading ideas is also a creative, intellectual endeavour. You must get your creative juices flowing in order to see the next new idea. It's essential that you -prime- your thinking processes, get your mind ready to make a creative observation.

In some ways, your mind is like a well. You prime a well to get the water flowing, and once it's started, it flows continuously. You must similarly prime your mind to get ideas flowing. Various ideas in your mind are stored in a hierarchical structure. Information is stored together in a clump, depending on its meaning. When you aren't thinking of a particular topic, it's hard to bring information about that topic into consciousness; it lies their stagnant and hidden.

However, when you make a concerted effort to think carefully about a specific topic, or a closely related topic, and start running through a bunch of possibilities, all kinds of new possibilities become apparent. Your mind quickly scans various concepts and ideas, almost unconsciously. Suddenly this wealth of information combines and you see something new. For example, suppose you develop a vague trading idea about how a set of indicators may forecast the price of a particular stock.

Once you get the basic idea in your mind, you can prime your mind to get the creative juices flowing. For example, you can scan a set of charts to backtest and find support for your hypothesis. As you look through the charts, the information you see will prime other related information. Soon idea after idea will coalesce, and you'll make a new discovery that will serve as a basis for a new trading strategy. The main point is that you must set your thinking processes in motion to come up with a creative new idea.

Some traders even suggest putting on a small trade based on a hunch in order to set your creative processes in motion. When you put on a trade, your adrenalin starts to rush, your attention starts to focus, your senses are heightened, and you suddenly change your perspective until you see new ideas. The more your mind is active, the more likely you'll make creative new discoveries. Knowing about the creative process and how to set it in motion gives you power.

Some people are down on themselves because they can't seem to think creatively. But they can. They just need to know how to do it. It's vital to be relaxed and free of anxiety. But it's also essential to prime your mind in order to start the process. So when it's time to think of a new trading idea, think creatively. Set your creative processes in motion. You may come up with a big idea that will make you huge profits.

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Accepting the Uncertainty of the Markets.

Jack is an engineer turned trader. He was the valedictorian of his college graduating class and was a successful engineer for about a decade until his company was bought out. He decided to pursue trading and enjoys it most of the time, but today, he is angry and frustrated. Things just don't seem to be going his way, and he can't understand why. He thinks, -I was a successful engineer. If I merely apply the same approach to trading, I should make profits, but it doesn't seem to work. What am I doing wrong?-

Jack faces a problem familiar to most novice traders who move from a successful professional occupation to trading. He is trying to apply what he has learned as an engineer to trading, and it isn't paying off in quite the same way. Whether you admit it or not, trading is different from many other professions, and if you pretend it is not, rather than recognize how it is different, you'll feel disappointed and want to give up. You don't have to feel discouraged, however. With the right mindset, you'll feel empowered and ready to master the markets.

Scientists and engineers work in the physical world where everything is usually concrete, quantifiable and predictable. Traders, in contrast, work in the social world. Market participants are humans, and social scientists discovered long ago that people are not predictable. People are influenced by their moods, and their moods waver, easily swayed by events of the day. You never know what people are focusing on during any given moment. They may be distracted and thinking of what they are going to have for dinner rather than paying attention to what really matters.

They may make impulsive decisions rather than those based on logic. But by chance, at other times, they may behave precisely as expected. The social world is not like the physical world. Traders are part of the social world. They aren't predictable as ocean waves, which are controlled by gravity. They don't behave according to a magical set of proportions found in nature. They are inherently chaotic, mysterious, and ultimately, unpredictable. So if you try to control, predict, or completely understand people, you will fail. Not recognizing this fact is what leads many novice traders, like Jack, to fail.

In many walks of life, we are taught that responsible people try to anticipate every single event that may go wrong, and compensate for it. We are fortunate that in many occupations, responsible people are in charge. Pilots are careful to follow a flight plan. Surgeons are careful to follow medical procedures precisely to ensure success. And it is wise for traders to trade responsibly by managing risk, delineating a detailed trading plan, and trying to anticipate any adverse events that may thwart their trading plan.

There is a point, however, where what you can do is limited. Since you are not dealing with the physical world, but a human and unpredictable trading world, you cannot assume that you can have the same level of control to which you are accustomed. In the final analysis, you must realize what you can change realistically and what you can plan for, but at the same time, you must be wise enough to realize that you can't account for everything. There is no such thing as perfect knowledge in the markets or conventional wisdom that is always right. There is always an element of uncertainty and risk, and it is vital that you acknowledge it and accept it.

It is essential that you approach trading with an objective and realistic mindset. It is important to acknowledge that the markets are unpredictable and often chaotic. As much as we try to find meaning and consistency in the chaos, it is wise to remember that we may be wrong and that the markets behave consistently only when they do.

The rest of the time, there's nothing we can do. Accepting what you can and cannot control can do wonders for your outlook. There's a sense of freedom that comes with knowing one's limitations. The more you can accept what the markets can offer you, rather than you trying to unrealistically control the markets, the more profitably you will trade.

The Mindset of the Short Term Trader.

Have you ever talked to people who traded stocks in the 1970s? Many say, -I learned my lesson a long time ago. I put my money in the markets and lost it. Never again.- In the 1970s most investors used a buy-and-hold strategy. They searched for -undervalued- stocks, purchased shares, held them, and waited for them to increase in value. Sometimes it worked, but many times it didn't.

And even when it did work, profits weren't anything near what an active, short-term professional trader can make. The buy-and-hold strategy often misleads investors. The markets don't go in one direction forever, whether the trend is bullish or bearish. Only by anticipating the twists and turns of the market can you make significant profits. If you are striving to become a profitable short-term trader, it is vital that you cast aside the buy-and-hold mindset of the long-term investor, and learn to think like a short-term trader.

In many business schools, the buy-and-hold strategy is still viewed as a viable trading strategy. Many people worked under the assumptions of the buy-and-hold strategy in the 1990s, and as we are all aware, lost a bundle when the dot-com bubble burst.

Many seasoned investment professionals now admit that stock prices are based on the beliefs of the masses. Assets of a company may play a role in the stock price, but the bulk of the price is influenced by popular opinion. It's a hard fact of trading to accept, though. If stock prices are based on public opinion, especially in the short-term fluctuations where most profits are made, there's bound to be uncertainty. And uncertainty and risk are hard to accept.

It's hard for many novice traders to accept the idea that prices are based on beliefs of the masses and little more. It's often so hard to accept this belief that many novice traders continue to hold beliefs of amateur investors who use a buy-and-hold strategy.

They try to assess the potential of the company. Will it make profits in the future? Does the company have a lot of good, new ideas that will increase their profits? Although stock prices do reflect these fundamental-based issues, most of the time, we don't know what the future will hold for a company. This week, for example, the media reported that American car companies are doing poorly compared to Japanese car companies. Who would have known? It's hard to make these kinds of forecasts.

For example, right after the Daimler-Chrysler merger, the company made profits by selling Mercedes, but more recent profits are from Chrysler sales. It's hard to say what consumers will do. Again, the profits of many companies are based on the preferences of people, and people's preferences are far from certain. Without a crystal ball, you just can't know the future stock price with any amount of certainty, regardless of whether you use fundamental or technical analysis.

It may be hard to accept at first, but short-term trading requires you to accept risk and uncertainty. It may take time and experience to accept, and you may get hurt along the way, but after a little while, you'll be able to accept uncertainty and thrive on it.

The News of the Day.

What are the latest headlines? Do they impact the markets? Well, it depends. On Monday, October 17, 2005, here were some of the headlines that may have impacted you. GM reached a tentative agreement with the union. What's the impact? It seemed to satisfy long term investors. Company profits are bound to improve with lower labour costs, right? The Supreme Court refused to allow the government to pursue a $280 billion penalty against tobacco companies. That should help their profits.

Are you ready to invest? What about oil prices? There's a tropical storm in the Gulf Coast region that threatens to raise the price of light crude oil once again. And the Federal Reserve Board? What will they do next? The economy has been a little uncertain with tropical storms, oil prices, and possibly lower than expected earnings of major companies. Are they going to tighten interest rates? No one knows for sure, but if only we had a crystal ball.

In the movie -Broadcast News,- the news director tells a newbie anchor, you better prepare. His sarcastic reply, -How do you prepare for tomorrow's news?- As a short-term trader, however, you may aspire to prepare for tomorrow's news. Imagine if you had a magic newspaper, like on the television show, -Early Edition.- If you knew the headlines, think of what you could do. On second thought, what could you do? What you really need is the financial section of the magic newspaper. The notion that you could trade the markets more skillfully if you had tomorrow's newspaper the day before is a fallacy. It is based on the commonsensical, but erroneous, belief that market participants react to media news in predictable ways, but they don't always do so. Conventional wisdom about how market participants will behave is only a guess. Conventional wisdom is only correct when it happens to be correct, and thus, history in the markets only repeats itself when it does, and that may not be all the time.

It is not useful to view the markets as following natural scientific laws. Market participants don't behave like inanimate objects in the physical world. They are irrational. They allow their perceptions and emotions to guide them. Think about how you allowed today's headlines to influence you. Did you read the headlines? If you didn't read them, then how could they influence your trading decisions? Even if you did read them, what was your interpretation of them? An interpretation of the headlines is subjective.

How you interpret a headline depends on your past experience with the markets or whether or not you want to admit that a piece of news actually may impact your trading plan. You may unconsciously decide to deny its existence, and if you did that, then it could not have impacted your trading decisions. In addition, consider the different stories about the markets reported on any given day.

How do you weight the information? What stories do you pay attention to? How do you put it all together and draw a conclusion? It all depends on your personality and experience with the markets. If you are that complicated, and hard to predict, imagine how difficult it is to forecast a group of people's behaviour. They are individuals with their own histories, motives, and biases. People are hard to anticipate.

Because the markets are made up of people, it's virtually impossible to precisely anticipate what they will do. In the end, you'll have to accept the fact that no information is perfect. But you aren't helpless. The markets may be inherently chaotic and difficult to anticipate, but you can take precautions. First, admit that you don't have perfect knowledge and that you can't perfectly anticipate what the markets will do.

All you can do is look at all the available information as completely as possible, and make an educated guess as to what the market will do. Many times, you can, in fact, accurately anticipate the future market action. It's a matter of preparation and taking a risk. That said, the second thing you must do to survive is to manage risk. Because the markets are inherently chaotic, you must assume that you will be wrong more times than you would like. There's no point in risking more money than you can afford, losing it, and suffering dire consequences.

No one knows tomorrow's news, but more importantly, no one knows how market participants will react to the news. Don't make the mistake of thinking that you have special knowledge. Admit your limitations, study the markets thoroughly, make an educated guess, and manage risk so that you'll be protected in the event that you guess wrong. You can't make the market meet your expectations. You have to go where the markets take you.

Plans for the New Year.

Are you going to make any New Year's resolutions for 2006? Whether it is a personal or professional resolution, here are a few tips for making your New Year's resolutions a reality.
Not to put a damper on your plans for making a significant change in your life, but research studies have shown that people have great difficulty keeping New Year's resolutions. Here are a few ways you can increase your odds of success, however. First, set a realistic goal. Many people think they can do the impossible. They think they can radically lose weight, for example, without a heroic amount of commitment or effort. Any change, even a minor one is difficult, so it's vital to be realistic. If you are planning to improve your trading performance, don't plan on doing too much.

For example, if you are a novice trader, don't plan on making a 30% profit. Trying to achieve such a high-performance standard will usually lead to failure, and deep down, you know that achieving this goal is unlikely. Set your objectives lower. For instance, rather than aim for making a specific return, you might decide to learn about the trading field and settle for making a series of -practice trades- to learn about trading and develop your intuitive feel for the markets. Set learning goals, rather than performance goals, such as devoting a realistic amount of time each week to learning about the markets. Don't set unrealistic performance goals that will lead to failure and make you feel down and beaten.
It's also important to develop a specific plan for how you will achieve your New Year's resolution. Map out what you will do in a step-by-step fashion. Consider what you will specifically do and when, and anticipate any obstacles that may prevent you from reaching your goals.
For example, determine when and how you will develop trading strategies to achieve your goals, and consider the fact that you may not have enough time to develop these strategies if you have too many personal obligations. It may be necessary to decide specifically how you will free up personal time to work toward developing your trading strategies. That said, in addition to following a specific plan, it is also important to maintain a carefree attitude.
A recent study on how people achieve New Year's resolutions illustrates that a carefree attitude is useful for achieving your objectives (Powers, Koestner, & Topciu, 2005). In the study, all participants tried to achieve New Year's resolutions, but some people were overly perfectionistic while others were carefree and independent-minded. The participants in the study who were too exacting actually were less likely to achieve their resolutions, even if they had a detailed action plan. People who didn't even have a specific plan did better, as long as they were carefree and independent-minded.
Being carefree instead of being an extreme perfectionist made all the difference. When trying to achieve a New Year's resolution, major setbacks should be expected. The setbacks aren't important, but how you react to them is crucial. If you feel that you absolutely must achieve your resolution and that any setback is a sign that you will ultimately fail, then you will probably fail. But if you treat each setback as natural and expected, and if you let your own personal standards guide you, you'll feel more at ease. You will snap back quickly and keep working diligently toward your objectives.
The start of the New Year can be a time to make exciting new plans. But it is often difficult to turn plans into reality. You can do it, though. Set realistic goals, outline a detailed plan of action, and commit to it. At the same time, be open to setbacks and don't let them beat you down. If you follow these tips, you'll increase your chances of reaching new heights in 2006.

Trying Not to Care.

Trading is much like playing a sport. You've got to find the right moment, and when it happens to come along, you must act decisively. You can't choke; otherwise, you'll miss a major trading opportunity. Many times, the pressure is on you to perform when you trade. Your money is on the line. There's a good chance that you'll lose it, and if you do, you may feel a little hurt and defeated. As with any activity where the outcome matters, trading can provoke anxiety. The consequences of making a mistake can seem immense and it is hard to perform with grace under such extreme pressure. You can't let the pressure get to you, however. You must trade freely and effortlessly. It may be hard to do, but you can take a few specific steps to trade in a peak performance mindset.

It is one thing to say that you don't care about the outcome of a trade, but it is quite another thing to actually not care. The best way to minimize the significance is to actually change the conditions under which you trade. It's hard to pretend the outcome of a trade doesn't matter when you know in the back of your mind that the outcome does indeed matter.

If you are trading money that you can't afford to lose, then the outcome matters. If you are aggressively trading money you need to pay off bills, then it is hard to fool your psyche into thinking that the outcome just doesn't matter. The fact is that when you trade, you are taking a risk and the outcome is far from certain. Every time you make a trade, you may lose your stake. If you can afford to lose your stake, you won't feel much stress.

But if you cannot afford to lose the money you trade, then it is wise to build up your account balance before you trade actively. Take a hard look at your budget. Take active steps to save up money until you can afford to lose the money you trade. There's nothing wrong with staying out of the markets for a while until you are ready to trade actively. You can spend time paper trading, reading about the markets, or taking trading courses as you save up money to invest at a later time. In the end, you need to have adequate capital to trade profitably. You must cover commissions, drawdowns and other trading expenses. Don't underestimate the actual costs you must pay in order to trade.

If you do have a large trading account, then it is essential to manage risk. By risking very little on a trade, you'll feel more carefree. You may consider risking only a small percentage of your account on any single trade or using stop-loss orders to minimize the amount of money you can lose. Risk management can have tremendous psychological benefits. You'll feel protected and it will help you actually not care about trading outcomes.

It is also vital to put your psychological house in order. The biggest conflict traders face is struggling with their ego. Many people are thin-skinned. The markets can be brutal. When you trade and lose, it can hurt your self-esteem if you take things too personally. Trading is a game where many people lose. Winning traders know how to pick themselves up after a fall. They look at setbacks as a challenge, a way to hone their trading skills.

They don't wallow in self-pity or beat themselves up. Most people think that the worst-case scenario is unbearable. They believe it would be difficult to face the possibility that they can't trade profitably or that it will be harder than they ever imagined, for example. Winning traders aren't afraid to examine these possibilities and accept them. When people examine the worst-case scenario, they usually find that it may be unpleasant but it is far from unbearable.

By looking at your fears, acknowledging them, and taking active steps to overcome them, you'll find that you will neutralize your fears, and devise creative ways to move beyond them. There is no reason to minimize the hardships of trading. Trading is risky. Trading is challenging and many people who try trading just don't make it. Avoiding these facts isn't going to help you. Unless you face these unpleasant truths, they will lurk in the back of your mind and impact you.

Ultimately, you must trade as if you don't care about the outcomes. You can try to fool yourself into thinking that you don't care (and perhaps you are the kind of person who never cares about anything and you just really don't care; most people do care about outcomes, though), but if you trade with money you can't afford to lose, you'll feel the pressure. Face the facts. Trading is hard and risky. If you can truly accept the fact that you will often be wrong and lose, you will trade more freely and more profitably.

Nothing to Lose.

Jack has an optimistic attitude. He seems fearless. When asked why he is so optimistic, he says, -I have nothing to lose. I've acknowledged the risks upfront, accepted them, and now, I can trade with confidence knowing that I can survive the worst-case scenario.- Jack is a realistic optimist. He isn't looking at the world through rose-coloured glasses. Instead, he acknowledges that he can lose a great deal of trading capital should his methods stop working, and he is ready to deal with the possibility. In a way, he thinks negatively at first, mapping out all the adverse possibilities, and taking preventative steps to minimize their influence. Once he has faced all the possible drawbacks and taken all necessary precautions, he is ready to cultivate a positive attitude and trade with confidence.

Many novice traders make the mistake of building overly optimistic false confidence. Rather than admit their limitations, they try to cover them up. They pretend that they have trading skills that they have not yet honed. They live by the motto, -What you can't see can't hurt you.- When it comes to trading, however, it isn't useful to hide. It's vital to face the facts, as dire as they may be, develop a game plan to address them, and move on.

Perhaps one of the greatest producers of stress is the feeling that one must meet unrealistic expectations. Whether it is at the forefront or merely in the back of our minds, the need to meet an unrealistic goal gnaws at us. We don't feel at ease because we know that we must meet a goal that is either too difficult or impossible. This circumstance is especially true of trading. For example, many novice traders want to turn a $5000 account into a large return but this is unlikely. Others may believe that they can trade in their spare time and develop proficient skills to trade like a master trader. Such aspirations are merely pipedreams. And trying to achieve them is going to cause stress, since they are unlikely, and seasoned traders would say, impossible. Pretending it is possible, however, can strangle your energy and creativity.

It takes more energy to maintain the illusion than merely admit the possibility that such aspirations are unlikely, develop a new and realistic game plan and move on. A similar issue for the more advanced trader is not admitting that one may face losses at some time or another. Losses are inevitable and one should take precautions, such as firm risk controls, to prevent the possibility of having detrimental effects. By pretending that such an adverse or -unacceptable- event is unlikely, however, one is putting more emphasis on denying the existence of a possibility than just accepting it and finding a simple remedy.

Don't waste your limited psychological energy on hiding from the truth. Regardless of your level of expertise, trading has its drawbacks. And you would be better off admitting them and taking precautions to prevent them from getting the better of you. Once you face the worst-case scenario and take precautions against it, you'll feel relieved. You'll feel free and creative, and increase your ability to trade with a peak performance mindset.

What's Next?.

Have you been making plans for the coming year? Have you been trying to make sense of where you've been so far? It's useful to ask and answer a few key questions: Where have I been? Where am I going? Where am I going to go next? The answers to these questions aren't always obvious. But consider the plight of Sam and Jim, two novice traders with very different personalities and life circumstances who have been asking these questions. Maybe their answers will help you answer the question, What's next?

Sam is a novice trader in his mid-thirties. He is a computer programmer in Silicon Valley. Since he lives on the West Coast, he has a few good hours every morning to trade before leaving for work. Although he has a day job, he's committed to trading. He spends every night learning about new strategies and scanning charts. Sam is smart, dedicated, and has the requisite time to hone his trading skills, but in studying his past performance records, he's identified some issues that he can't easily reconcile.

He has trouble sticking with his trading plan. He often feels overly stressed out. The markets are uncertain and he has trouble accepting this fact of trading life. He has trouble sleeping at night and he can't seem to relax while making a trade. Sam has always been the kind of person who likes to play it safe. He doesn't like taking chances. In looking at Sam's life, we see a person who is a little anxious and uneasy with the lack of structure that is typical of most trading days. At first glance, one might think that he doesn't have the temperament to trade as a short-term trader.

Things don't seem to be going very well, so what should Sam do next? First, he could work around his personality. On the one hand, he is overly emotional and has difficulty feeling at ease. But on the other hand, he is a disciplined person who can show self-control when necessary. It is possible for him to develop stress management skills. He could examine his self-talk and identify the ways he subconsciously tells himself to worry and get upset.

He could then develop thinking strategies to counteract this problem. For example, he can limit his risk and trade smaller so that there is little chance that he'll lose a big chunk of his capital should his trades go sour. He could think of the big picture and remind himself that any single trade is merely one of a series of trades and that if he makes enough trades, he will come out ahead. It could work, but it really depends on how well Sam can change his personal psychology.

His past life experiences have moulded his current personality to some extent, so he's going to have to work hard to change it. Unless he can change his personality, he may never achieve his objective of mastering the markets as a short-term trader. Even if he can't change his personality, he doesn't have to give up trading altogether. He can just change his style of trading. Some people who are nervous prefer becoming long-term investors, which allows them time to see how their trading plan pans out. But whatever he decides, he must closely examine his past, his current performance, and either change his personality or change his style of trading.

Compare Sam's plight to Jim's. Jim works as a real estate agent in New Mexico. He is successful as an agent, and he only spends about 20 hours a week showing properties or closing deals. The rest of the time he devotes to trading. Jim isn't easily stressed out. As a salesman, he knows that you have to live by the motto, -try and try again- to make it. He carries over his enthusiasm for trading, making trade after trade. He finds the uncertainty of the markets exciting, and he can't wait for the markets to open.

He's not doing much better than Sam, however. He doesn't stick to his trading plan and often overtrades. But there's a big difference. He is calm when he trades. He is used to taking risks and finds trading thrilling and energizing. Sure, he will have to learn to develop more self-control and discipline, but with practice and exposure to the markets, Jim is likely to master the markets. Whatever he decides to do next, he won't have to make too many changes to his personality. He just needs to learn more about how to trade and he needs to combine knowledge with experience to master the markets.

In thinking of what you want to do next in this business, it's essential to take a good hard look where you have been and where you can go. A realistic plan will make you a winner. But that's only half of it. You also need training, practice, and experience. When you combine all these factors into a long-term strategy for success, you'll become one of the few traders who have mastered the markets.

Objectify the Trade.

When you've got a big trade on, it's hard to control your emotions. It is difficult to forget that real money is on the line and that losing your stake is quite possible. Humans naturally avoid risk. We don't like losing. People are even willing to gamble a large sum to avoid a potential loss than immediately accept a smaller but certain loss. Similarly, traders may hold on to a losing trade, and continue to watch it lose money, rather than face the loss. Why do we see money as so important? Money is associated with security, safety and happiness.

The media constantly bombards us with the idea that money is security. If we have money, we can buy a nice car and fancy clothes that will draw admiration from our friends and neighbours. The more money we have, the more security we will feel. It's hard to abandon these images. Many traders are attracted to trading because of these images. The more money they make, the more status and freedom they believe they will gain. Although it is natural to associate money and profits with security, doing so can create biases that adversely impact trading decisions. Profitable trading demands a logical, unbiased mindset. It's vital that you try to objectify your trades as much as possible.

Taking the emotions out of trading takes practice, but with a little preparation and planning, you can learn to trade objectively and effortlessly. Perhaps the most important strategy you can take is to limit your risk on a given trade and trade with money that you can afford to lose. By limiting your risk to a relatively small percentage of your trading capital, you will know that should the worst-case scenario occur, you can handle it easily. Similarly, if you feel that losing the stake on a given trade has little real personal significance, you will be able to treat the trade will little emotion. It's easier to control fear when there is truly little to fear.

It's also important to view profits and losses in terms of percentages. Rather than focus on concrete images of the actual dollars you are trading, which you will surely associate with what you can purchase with the money (such as car payments, groceries, or school tuition), you'll be able to more objectively focus on the trade if you view profits and losses as abstractly as possible, as merely points or abstract digits.

Cultivating a rational, objective mindset is essential for profitable trading. But when your money is on the line, it can be hard to remain objective. By limiting your risk, trading with money you can afford to lose, and viewing profits and losses in abstract terms, you can more easily stay objective and trade in a peak performance mindset.

Don't Take It Personally: Objectify.

Jim is a novice trader who is down $3,000 for the day. He thinks, -That's a lot of cash. I could pay my living expenses for the entire month with that. I need to win it back right now.- Jim has made a fatal mistake: He has started to look at his profits and losses personally, and now his emotions are playing a role in his decision-making. He is now seeking -revenge- and such emotions have no place in trading. It is useful to cultivate a more objective, unemotional approach when examining profits and losses.

When it comes to managing your personal expenses, financial planners suggest using cash to pay all expenses rather than credit cards. When using credit cards, it's easy to forget you are spending real money, and spending can get out of hand. Doling out the actual cash with each purchase, however, makes one see exactly how much money is being spent. It raises one's awareness. The money is less abstract. It's tangible. Watching dollars slip away provides a strong motivation to cut back. But when it comes to trading, it's useful to do just the opposite: Look at the money as objectively and abstractly as possible, just as percentage points or ticks.

Psychological studies have established the impact of taking an objective perspective. Research psychologists have studied this topic in a variety of contexts. There are times when taking an objective approach is dangerous. It is well documented, for example, that when a person views another person in a less human and objective manner, he or she can more easily harm that person. The other person is no longer seen as a fellow human being but as an abstract entity. Creating such psychological distance, however, can help one cope with upsetting events. When participants view distressing films, showing a surgical procedure, for example, it is easier to fully process the information by objectifying the ongoing action.

When it comes to trading, an objective approach is useful. There are a few simple things you can do to maintain an objective view. Many say that when money is committed to trade and the risk and potential loss is experienced, -objectivity goes out the window.- Thus, anything one can do to minimize the feeling of risk and potential loss will nurture an objective mindset. First, it's helpful to trade with money you can afford to lose. Trading is a profession where you should go in expecting to lose.

If you can't afford to lose the money you trade, it will be difficult to maintain objectivity. Deep down, you will know that you are risking money you just can't afford to lose in a worst-case scenario. Second, it is also crucial to managing your risk. By carefully managing risk on any single trade, you call tell yourself, -I've got little to worry about. I can afford to take the loss.- At first, you may have to consciously remind yourself of this fact (again, make sure it is a fact), but over time it will automatically be in the back of your mind. You will be calmer, and can more easily cultivate an objective mindset.

Finally, view profits and loses in an abstract framework. Rather than focusing on concrete dollar amounts, try to focus on percentages, or just abstract, theoretical numbers. Don't think of the dollar amounts in terms of what can be purchased. Equating dollar amounts in terms of tangible terms, such as car payments or sought-after luxury items, will weaken your objective mindset. You'll be more prone to experience elation from big wins and disappointment from losses. So cultivate an objective mindset. You'll trade more profitably and consistently.

Finding Objectivity in the Face of Uncertainty.

Profitable trading requires an objective view of the markets, but humans are easily biased. If prices were based solely on fundamentals, anticipating market prices would be a simple matter of measuring independent variables and constructing a multiple regression equation to forecast market prices with a minimal amount of error. But current prices are over-valued and based largely on opinions of the masses.

Anticipating what the markets will do is a matter of using your intuition to make an educated guess as to how a stock price will move. It isn't easy. Sometimes a piece of news influences the price, but sometimes it does not. Sometimes a product announcement can move the price, while other times prices are overpowered by stronger market forces. The astute trader is committed to a trading idea but is flexible enough to realize that he or she may be dead wrong. It's vital to look at the markets in an open-minded, objective way.

Humans prefer control, and the human race is good at achieving control. We are used to controlling nature, for the most part. We make our own energy, food, and move mountains when we need to, but we can't control everything. And these feelings of uncertainty make us feel uneasy. The immediate human reaction to uncertainty is to deny the fact that we ultimately have no control. When we start denying our reality, though, we lose our ability to think clearly. We become defensive and look at matters only from one side. For example, we look for evidence that confirms our expectations while ignoring information that negates it. (An everyday example of such denial is seen on American Idol when clearly untalented contestants believe they are the next pop star. They can't understand why Simon thinks they will never be superstars.) Humans are capable of convincing themselves of anything, and this human foible can be a trader's undoing.

It's possible as a trader to live in a delusional world where you think your take on the markets is infallible, yet you are completely off base. How can you return to an objective perspective? Acknowledging the very human tendency for bias is an important first step. It's vital to realize that as a human, you want to be right. You want to be a winner and you desperately need to feel in control. It's human to feel this way, but once you admit it, you can move past it. You can start to begin to take control and try to look at your trading ideas from an objective perspective.

Traders are the most biased when they have a lot riding on a position. The more you have to lose, the stronger your need to be right, and the more likely you will distort your view of the markets. The obvious solution to this problem is to reduce what you have to lose. The less risk you take on, the more comfortable you will feel, and the more willing you will be to look at your positions objectively. Sometimes you just can't become objective when your money is on the line. A simple solution is to close a position and reevaluate it.

Once your money is no longer in play, you will have a different perspective on the trade. After you look at the trading idea from a new vantage point, you can decide whether to open a new position or to walk away. Whatever you do, don't stay stuck and boxed in by your natural human tendency to look at the markets in a biased self-serving way. The markets are fickle and require an intuitive yet objective mindset to interpret them. If you want to rise above the masses, it's essential to find a way to look at the markets objectively.

Objective and Unemotional: The Ideal Mindset.

One of the biggest mistakes amateur traders frequently make is letting their emotions influence their trading decisions. For example, the typical novice puts on a trade that is too large, and may not delineate or follow an adequately detailed trading plan. The consequence of this trading approach is that one is overly emotional. Decisions may be impulsive and based on fear, rather than on a cold, objective analysis of available information.

Emotions often bias the perception of market action and often lead to major trading mistakes. Although many traders intellectually know they must maintain objectivity, this can be hard to do in reality. Prices are in constant flux, and taking advantage of this volatility is the way traders make profits. The greatest profits are made when the masses react emotionally, such as when markets reverse, trends change and the about-face in supply and demand imbalance provides price momentum and velocity.

It's understandable that as prices change rapidly, one's emotions jump up and down. Most people find this rollercoaster ride uncomfortable. A more optimal emotional state is one where a trader is focused on the process of trading. One is calm, relaxed, and able to analyze the flow of incoming information with ease.

How can you maintain an optimal level of emotional experience? It takes practice and experience with the markets. But there are a few precautions you can take. First, try to limit your risk. Trade small positions if you have to. A useful adage to follow is, -Trade money you can afford to lose.- If you are taking risks with money you can't afford to lose, you'll naturally feel a sense of insecurity and urgency.

The best way to control this well-founded fear is to trade smaller positions. It's also essential to use a protective stop. Although it takes some skill to place a stop in a way that you can account for volatility, a protective stop gives you an added level of security that is bound to help ease the fear and anxiety you experience as you monitor your trade.

Finally, always outline a very detailed trading plan. Don't leave any element unspecified. Fear and anxiety are most elevated under conditions of uncertainty. When you leave an element of your trading plan unclear, you'll not be sure of what to do under all possible conditions. By defining each element of a trading plan, in contrast, you'll know exactly what you are trying to accomplish and you'll know in your gut that you can tackle any event that should arise as you monitor your trade. So get off the rollercoaster.

Don't let your emotions get the better of you. Take precautions to control risk and trade a detailed plan with specific entrance and exit strategies. You'll achieve consistent profitability in the end.

It's Not Personal: Staying Detached and Objective.

The ultimate way to trade is with an objective, logical mindset. But when your money is on the line, it's hard not to allow your emotions to influence your decisions. When you are fearful and uncertain, it's easy to panic and makes a trading error. To deal with uncertainty, it's tempting to create illusory expectations and start believing that what you expect to occur -must- actually happen. When things don't turn out the way you expect, it's easy to feel frustrated and angry. You want to blame someone, but sometimes there is no one to blame. Rather than acting emotionally, it's wise to keep things objective. Try to stay calm and rational.

The markets are composed of people, lots of them with many different roles. Fellow market participants trade the same stocks you're trading. Market analysts make their predictions, and broadcasters report these predictions. There are many people trying to make money from the markets in their own way, whether it is reporting, forecasting, or trading. It's easy to make trading interpersonal and believe that unless the actions of people involved in the markets are out to help you, they are against you.

But as a trader, you must not look at the market in conventional, interpersonal terms. Don't think that people's motives and actions have anything to do with you. It is vital that you forget that you are dealing with people and just focus on the price of the stock and the factors that explain or correlate with it. It's often hard to do, however. For example, depending on what you expected to happen during the first week of 2005, last week may have been a rough week for many investors.

There was a lot of selling and the gains realized at the end of the year dissipated. If you were betting that gains at the end of 2004 would be sustained into the New Year and lost because of it, it may be tempting to blame the people who sold off their positions, focusing solely on how their actions hurt you. After all, it was people who sold and may have thwarted your trading plan. But no one is taking specific action against you. Everyone is merely trying to make money from the markets. They are just doing their jobs. Don't take it personally. It's just business.

Even when you consider a specific stock, it's useful to avoid thinking interpersonally. People may be involved, and their actions may impact stock prices, but again, no one is doing anything specifically to harm you, or at least it isn't worth thinking about it that way.

For example, while many stock prices went down last week, Apple Computer (AAPL) went up. Apple has been selling a lot of iPods, and on Wednesday, AAPL is expected to post earnings of 46 cents per share. In the past 12 months, APPL has increased by 200%. Today at Macworld Expo, CEO Steve Jobs is expected to introduce a new low-cost Macintosh computer in order to persuade Windows iPod users to -switch- to Apple computers to more easily organize their music files.

Who knows what the folks at Apple are going to do today or tomorrow? Will they introduce a low-cost computer to increase profits? Will their actual earnings reports match those of analysts? There are good reasons to go long or short. You could have known that the recent news about APPL is just a lot of hype and that you should have anticipated the behaviour of the masses by selling off the shares you bought a few months ago while everyone else was buying last week.

On the other hand, some traders may be going long, hoping that the trend of the past year will continue and possibly accelerate based on favourable earnings reports and product announcements that may lead to even more profits in the future. The point here is not to evaluate trading strategies, but to illustrate how you must keep things objective. Sure, people are involved in what happens, but it doesn't help to look at things that way.

Unless you have inside knowledge or a crystal ball, we don't really know what is going to happen today, tomorrow, next week or next year. In the end, you must make a decision based on the available information you have and make an educated guess. Some traders will be wrong, others will be right. What you must do is realize that there is an element of uncertainty in the end and that when an outcome is uncertain, you are taking a risk. Psychologically, you must accept risk and uncertainty.

It's part of trading. It may be ideal if we could eliminate risk, but we can't. It's vital that you take

things in stride and view events as somewhat unpredictable as to if you are flipping a coin and betting on the outcome. If you flip it enough times, the odds can work in your favour. But if you are stunned by the outcome, panic, and are afraid to trade, you won't make much progress. So stay objective, rational, and keep trading.
People may be involved with regard to how prices fluctuate, but if you look at it that way, you'll just get upset. Live by the motto, -Ultimately, it's impossible to know what will happen, and it's just business. It isn't personal.-

Remembering the Obvious.

Traders are notorious for making the same mistakes over and over again. They abandon their risk limits. They sell earlier than their trading plan dictates or hold on to losing trades too long. It's human to make mistakes, but long-term profitability in the challenging field of trading requires steadfast discipline. Discipline is often hard to maintain, however. Humans are prone to falter and act on impulse. How can you fight impulses? One straightforward method is to develop simple plans and remind yourself as to why you need to follow them.

There are times when we try to make things more complicated than they really are. Humans tend to over-think matters and seek out complexity. We may wonder why we make common trading mistakes, and as we wonder, we may search for a -hidden,- unconscious reason for it all. Perhaps we secretly feel we don't deserve the profits we make and want to give back what we've made to return everything to the status quo.

Maybe we secretly see money as the root of all evil and have trouble accumulating wealth. If you do hold these beliefs, they can severely hamper your trading performance, but not all traders are influenced by such unconscious motives. Sometimes a lack of discipline merely reflects a very human inability to make simple plans and follow them.

Psychologists have long noticed that people have trouble following simple plans. Whether it is managing their time, losing weight, or trying to stop smoking, people have difficulty controlling their behaviour. One effective strategy, though, is to take a few obvious steps: Make a simple plan, observe and write down the conditions that stop you from following your plan, and remind yourself of the benefits for following your plan.

For example, if you have trouble maintaining your risk limits, it could be for simple reasons. You may be tired during the trading day and allow your objective state of mind to waver. Or you may get bored during the trading day and want to seek out a little excitement. Whatever it is, it is necessary to outline the specific conditions under which you do the undesired behaviour that you are trying to change or control.

Once you know these conditions, it will help you anticipate when you are prone to fall prey to them. No one can know under what conditions you engage in undesired behaviour but you. Identifying the conditions under which you do an undesired behaviour is harder than it looks. It may take time to observe yourself making mistakes and identify when mistakes happen. The next step is obvious: Write down why changing your behaviour is important. If you want to avoid risky trades, for example, then you need to write down why it's important to avoid such trades.

You might write down on an index card, -I cannot afford to keep losing capital or else I will blow out my account.- Once you write this fact down, you will have to repeat it to yourself over and over again. Will repetition of this fact guarantee that you will change? Unfortunately, no! But it will go a long way toward making you change. There's something about human nature that is hard to change, but if you repeat the reasons you need to change over and over again, it may stick with you.

Sometimes self-control is just a matter of willpower and reminding yourself you can maintain control if you try. It's like standing in line at the grocery store. If the line is long and there is only one checker available in the whole store that is impossibly slow, you may be tempted to leave, but if you decide that you want your groceries no matter how long it takes, you can convince yourself to wait in line patiently.

You can repeat over and over again, -I'll eventually get out of here if I just wait my turn. I'm determined not to leave.- Repeating this mantra over and over again will help you stay in the line. But if you think, -I don't have time to wait. Maybe I can walk out the door and go to another store,- leaving will start to seem like a good idea and you will do it.

A similar strategy can be taken with trading. If you want to avoid selling a trade prematurely, it is useful to repeat to yourself over and over again, -Stick with the trading plan. Don't sell until the price reaches my profit objective.- Repetition is the key strategy. Repeat what you want to do and remind yourself over and over again why you want to do it. Focus only on the trade at hand, and repeat what you want to do over and over again. It may seem obvious, but it works.

Accentuate the Obvious.

In his book -All Too Human: A Political Education,- former political operative George Stephanopoulos describes the motivating forces in the -War Room- of the Clinton presidential campaign headquarters in Little Rock. A centrepiece of the room was a whiteboard reminding everyone, -Change vs. More of the Same. The economy, stupid. Don't forget health care.-

In the 1992 election, the stagnant economy was on everyone's mind, and obviously, focusing on change was a sure vote-getter. But humans have a tendency to forget the obvious. We often think that life is more complex than the issues right in front of us, and that obvious solutions offer little solace when trying to find solutions to seemingly insurmountable problems.

The markets are complex at times, but the psychology of the market is not. And the psychology of winning isn't all that complicated either. It is vital to accentuate the obvious. You may have heard it time and time again, but there are a few axioms of trading worth repeating: Trade with discipline, manage risk, and think of the big picture. Each of these seemingly obvious issues can powerfully influence your trading performance.

Trading with discipline means developing a detailed trading plan and following it. Obviously, if you don't have a plan, you'll trade by the seat of your pants and make errors. You'll enter too late or exit too early. You'll make impulsive moves that lose money.

The disciplined trader is the winning trader. It's obvious, but many traders forget this simple fact of trading profitably. Similarly, many traders refuse to admit that there is an element of probability involved in trading success. Sometimes the odds work in your favour and sometimes they don't. If you manage risk, you'll be able to account for those times when the odds just are not working in your favour. If you don't manage risk, though, you won't be able to ride out the bad times.

Again, it's obvious, but many traders wipe out their account balance because they risked too much on a few bad trades. Similarly, no single, isolated trade should be more important than any other trade. Don't elevate a single trade psychologically, by imbuing it with extra emotional significance, or financially, by increasing your bet size for no good reason. The single outcomes don't matter, but the big picture does. Always look at the big picture. The amount of profits you make across a series of trades is all that matters.

Don't under-emphasize the obvious. Accentuate it. Get a whiteboard and write down your favourite axioms of trading. Put the list in a prominent place to remind yourself throughout the day of what's important. It will keep you focused and make you a winner.

Overconfidence: Old Habits are Hard to Break.

Overconfidence is one of the most prevalent psychological problems traders face. We've covered many different ways that traders can be overconfident in past columns: Overconfidence may reflect deep psychological conflicts for some people or universal cognitive biases to which all humans are prone. Sometimes, however, overconfidence is simply a matter of having difficulty breaking old habits.

As the old saying goes, -practice makes perfect.- But sometimes, over-practised trading strategies may be executed too -automatically- even when the setup isn't quite right. Sometimes, it is necessary to learn alternative behaviours, or -relearn- how to trade.

It's vital to hone your trading skills so you can execute trades freely and intuitively. The mind has limited resources, and through practice, one can engage in multiple tasks simultaneously, and -expand- the mind's limited capacity. The best example of automatic processing is driving a car. When you first learned to drive a car, it was very deliberate: You carefully hit the brakes when you anticipated a potential road hazard and focused your attention on accelerating when the trouble had passed. As you gained driving experience, however, much of your driving behaviour became -automatic- in that you no longer needed to pay attention to it. Now, as experienced drivers, you can easily do many tasks while driving: adjusting the radio, glancing in your mirrors, keeping track of your speed.

A similar psychological process occurs as trading experience is gained: you no longer need to carefully evaluate certain trade setups closely. You now can act on a -hunch- or your -intuition- and be right most of the time. This form of automatic processing allows you to trade efficiently. You can do more with less psychological energy.

But what happens if trading on -automatic pilot- no longer works? Market conditions are continually changing and a strategy that worked last week may not work today. When this happens, you must learn to use a new strategy. This may be harder than it seems, however.

Have you ever tried to change your approach after you have developed a skill? Have you tried to improve your golf swing, or learned a new way of doing things after years of practice? In some ways, it is harder than starting over. You have to learn a competing method and try to stop using your old method. For example, consider a person who is learning to drive a -stick shift- or manual transmission after driving an automatic transmission for several years. In many ways, it's like learning to drive all over again.

You've got to hit the clutch pedal as you hit the brake pedal, shift into first gear, and carefully let your foot off the clutch as you move forward. But there is a big difference from when you first learned to drive: You've already driven for years and there is a strong tendency to forget about concentrating on a new skill and just do it the -old way.- That is, you may forget to hit the clutch when you brake or shift into a different gear without hitting the clutch.

This is a form of -overconfidence.- One forgets that he or she does not know how to drive a manual transmission and reverts to the -old- and automatic way of doing things. The same thing can happen when you try to learn a new approach to trading; you may trade -automatically,- if you are not careful. When learning a new skill, be focused and deliberate. Pay attention and focus more closely on each action, until you replace your old method with your new method.

Remember, old habits are hard to break, but if you pay attention and practice, you can replace an old approach with a new one.

Flexible and Open to Change.

The markets can be uncertain, and one of the best ways to cope with uncertainty is to remain flexible and open. How do you react to change? Does it frighten you? Do you fall back into old habits or do you seek out new experiences? How you answer these questions indicate how well you tend to cope with uncertainty and change.

When you first start out trading, it's useful to stick with what you know. For example, you might find that you like to wait for the middle of the trading day and hold a short trade that goes up or down a point. Others may prefer to find a stock moving with a lot of momentum, and use a simple buy-and-hold strategy to make a swing trade. It can be comforting to make a few simple trades. You can build the confidence that is essential for long-term trading success. That said, there comes a time when you have to expand your vision. Making huge profits consistently demands that you find new ways to trade the markets. Nothing stays the same in the markets, and if you assume that the markets don't change, you'll get caught off-guard.

You have two choices when it comes to approaching change: You can embrace the constant changes with enthusiasm or you can rigidly shrink back. Many people prefer rigidity. New challenges are scary, and the most natural reaction to fear is to stick with what is familiar. There's something safe and secure about routine. Our favourite pair of jeans can make us feel relaxed. Eating some comfort food at the local diner reminds us that not everything in life has to change.

But as much as familiarity allows us to feel safe and secure, it can also lead to stagnation. It's vital that you embrace change. Change is often hard to face, but ignoring it won't make it go away. If you try to pretend changes are irrelevant, you usually make things worse. You know deep down that something has changed, and that your survival depends on finding a way to adapt. For example, when market conditions change, don't waste time getting angry and frustrated and think, -I can't possibly trade these new markets.- Instead, think positively, -I may not know how to trade these markets right now, but I'm going to figure it out.-

Dr Bruce Eimer, a psychologist and an assistant clinical professor at Widener University, has outlined a guide for coping with uncertainty and change. He uses the acronym, AWARE, to describe his five-step approach: Accept uncertainty. Watch what is happening in your environment and ongoing experience. Act functionally and problem-solve even though you are afraid. Remove yourself from anxiety and conflict. Expect the best.

Rather than follow the five-stage AWARE plan, many traders react to uncertainty by hoping it would just go away. They fruitlessly try to deny the implications of change. But change is commonplace in trading, and it's vital that you accept change and think of creative ways to deal with it. Don't recoil in fear. You'll find that if you cultivate a fighting spirit, you'll calm down, assess the situation, and think of creative ways to trade new markets and take home huge profits.

Open to All Possibilities.

As with any challenging endeavour, the better you perform, the more will succeed, and as a trader, the more profits you'll realize. How do you increase your performance? How does one change? There's an important prerequisite: brutal honesty. Basically, there are two kinds of people. Some people are rigid, inflexible, defensive, and hard to change, while others are flexible, open to criticism, and easy to change. Which type describes you? It's useful to know. It may give you some insight into how you may want to go about improving your trading performance.

It may not be true of everyone, but there are some people who are overly defensive. This defensiveness often stems from deep-seated feelings of inadequacy and low self-esteem. Such people unconsciously question their abilities and are afraid to let themselves, or anyone else, know it. They feel so inadequate that they try to mask their inadequacies by exaggerating their abilities. It's like unprofitable traders who feed their trading accounts every year, pretend they are profitable, and take pleasure in bragging about their winning trades, when in fact they have had many more losers than winners. Rather than face their limitations, they tell themselves and others that their performance was superior. They take a defensive stance.

Rather than admit they have a few limitations, they deny them. They try to hide them. There's a big disadvantage to taking such a defensive approach: A person is rigid and closed off to new experiences. One is always on-edge and continuously afraid of getting caught in a lie. And because they are defensive, they baulk at criticism or feedback of any kind. All their psychological energy is devoted to defending a grandiose view of themselves, and thus, any form of feedback challenges this omnipotent self-view and causes anxiety, anger, and frustration. It's hard to change when one isn't open to feedback and views feedback as a challenge to his or her identify.

Does any of this sound familiar? Do you spurn criticism? Are you afraid to take a brutally honest look at your trading performance? Perhaps you are using a form of denial to mask your inadequacies. If you want to change your behaviour, you must be as honest as possible. It may be hard to face your limitations, but unless you do, you will remain rigid, inflexible, and closed to new experiences. You'll have difficulty identifying limitations in your trading style, and you won't be willing to take every possible effort to get the feedback you need to trade profitably.

Not everyone is inflexible, defensive, and closed to feedback. Some people seek out feedback. They may have a few limitations, but they want to know exactly where their faults lie so they can make whatever changes they need in order to be successful.

That doesn't mean they are so confident that they are not fazed by criticism (although some people are), but they are not closed off and defensive. They view criticism as essential information. They can't wait to discover their weaknesses so they can shore them up. They aren't afraid to be brutally honest. Because they truly believe they can overcome any obstacle or limitation, there's no reason for not getting as much feedback as possible.

So where do you fit in? Are you defensive and inflexible? Or are you brutally honest with yourself and open to new experiences? Wherever you fit, it's vital that you try to be as flexible, open, and honest as possible. Hiding out isn't going to help you stay profitable in the markets. You'll get caught eventually, and when you do, it will usually follow a financial disaster. It's more useful to let your defences down.

Be humble. It's hard to master the markets, so there's no shame in admitting that you'll see a lot of failures before you achieve success. The more you can face your limitations, and view feedback as objectively as possible, the more you'll be able to increase your performance levels. And increased performance usually leads to consistent profits. So be open to feedback. You'll be more profitable in the long run.

Winning Traders Are Flexible.

How flexible are you in your everyday life? When you are in a new city, do you worry about getting lost or do you just go your own way and assume that somehow and someway you'll eventually get back to your hotel? Do you get upset when you are told you are wrong or do you welcome criticism or an opposing opinion? The ability to be open and flexible often makes the difference between winning and losing in the trading business.

Trading is a scary business. When your money is on the line, you naturally feel defensive. The more uncertain you are, the more rigid and defensive you become. It's a natural, biological response. When humans are threatened, it is often in their best interests to choose a specific course of action and stick with it. Imagine that you are changing lanes in rush hour traffic. If you commit to a lane change, it's essential to stick with your course of action. If you waver, you'll confuse other drivers and may end up causing an accident.

When we are in potential danger, our mind focuses on executing a specific course of action; other alternatives are completely ignored. At times, this can be a good strategy when trading the markets. If you are executing a scalp trade, for example, you must commit to a specific course of action, get in and get out, and make a profit. It would do you little good to waver at a critical moment when you should take decisive action. That said, when it comes to longer-term trading, it's vital to be open-minded and flexible.

When making long term trades, market conditions can change, and you may need to make midcourse corrections. You have to look at a trade from different angles and willingly explore every possibility. Many traders are stubborn, however. They have their money on the line, and they are afraid their trading strategy may not pan out. Unfortunately, their stubbornness restricts them from freely examining their options. Eventually, they end up losing money when they miss a critical market change.

How can you increase the odds of becoming flexible? First, don't imbue a trading plan with extreme psychological significance. A trade is just a trade. It reveals nothing about your intelligence, talent, or true inner-worth. It's merely a business transaction, so treat it as nothing more. Second, minimize risk. Again, when you feel that your well being is at risk, you feel threatened and defend your ego by acting inflexibly.

If you limit the amount you risk on a trade, you will feel naturally relaxed, and thus, more open and flexible to possibilities. If you feel extreme stress, you might even want to close out a position and reevaluate it. If it is a longer-term trade, you have the luxury of exiting and reevaluating your trading plan while feeling safe, and thus, relaxed. Third, you can ask a trusted friend or coach to play devil's advocate and help you see alternative perspectives.

Don't be afraid to admit that you may be wrong. The willingness to admit you are wrong gives you power and freedom. When you are willing to admit you are wrong, you won't be defensive, but you'll feel so free that you will trade creatively and profitably.

Don't Self-Sabotage: Think Optimistically and Take Advantage of New Market Opportunities.

There was no January Effect in 2005. No steady increase in prices on the last days of the year. Things looked a little gloomy at the end of the year. The last day of trading for 2005 seemed to be a downer, but the first day of trading for 2006 seemed full of optimism.
Retail sales weren't so bad at the end of the year, and all indications suggest that the Fed will stop hiking interest rates. The economy seems to be growing. Good trading times may be just ahead. Are you ready? It's times like these when the right mental edge can make all the difference. If you want to take advantage of trading opportunities for the New Year, it's vital that you approach trading with the proper mindset. Be ready to work hard and do whatever it takes to come out a winner.

Unfortunately, many traders aren't up to the challenge. They don't have the proper mindset. They don't have rock-solid confidence, and when they see a high probability setup, they flinch, make a trading error and end up with a losing trade. When market conditions are ideal, though, you must be ready to take advantage of them. Self-reproach is the biggest culprit. Many traders are ready to criticize their actions.
Some traders take setbacks in stride. Nothing seems to faze them. Why? They know how to put any setback into the proper perspective; they readily think, -It's just business. It says nothing about me.- After years of experience, they've seen it all, lived through it all, and have learned that the markets are ultimately in control, and so there's no reason to get unnecessarily upset about the uncertainty of it all.
Other traders, however, secretly fear that the markets will expose their inadequacies. Deep down, they believe they will eventually fail. A little voice in the back of their mind tells them so. This little voice isn't correct, helpful, or accurate, but it has a subtle impact on the trader's every move.
These thoughts usually happen just below our awareness. Dr. David Burns in his book, -Feeling Good,- calls these thinking patterns -automatic thoughts.- An event happens, such as the market goes against you, and you -automatically- think, -The truth is out; I can't keep trading profitably.- The old saying, -I think, therefore I am,- is apt here. If you think you can't keep up your trading performance, you won't be able to. You'll start believing the little voice that tells you that you can't trade. And you will find that even a minor trading error will upset you.
How do you defeat the little voice? Dr Burns suggests writing down your automatic thoughts after they happen and analyzing them. Break them down, refute them, and convince yourself that they just aren't true. For example, if you face a trading setback and think, -This setback shows that I'm not a natural-born trader; I might as well give up,- you will actually feel like giving up. This automatic thought is inaccurate, however. When you look at it more closely, you can see that it is not true. First, setbacks happen to all traders. Setbacks should be expected. By thinking they are rare and significant, though, you are exaggerating their importance. You are -magnifying- the event into something bigger than it really is. A setback may reflect poor market conditions, and it may even reflect a lack of experience on your part to deal with a particular set of market conditions, but it is not so meaningful that it is a -sign- that you are not a -natural born trader.- Keep things in proper perspective. In addition, believing that there is such a thing as a -natural born trader- is another fallacy.
Maybe there is no such thing as a -natural born- anything. The philosopher John Locke argued that the mind is a blank slate. You can learn how to do anything if you set your mind to it. Granted, you may not ever be Paul Tudor Jones, but you don't need to be a -Market Wizard- to make profits in the markets. Believing that only a top-notch trader can make money in the markets and that you will never be one of them, just sets you up to feel bad about yourself. Forget about whether there are or are not -natural born traders.- Work under the assumption that you can go far if you work at your own pace to master the markets and work as hard as you possibly can.
No one really knows what the future will hold, but the start of the New Year looks promising. Don't sabotage your efforts through self-doubt and unreasonable self-criticism. You can trade profitably if you put in the time and effort. Think optimistically, work hard, and take home the profits.

Persistence In the Face of Uncertainty.

Trading is rough business for many reasons. First, success is not assured. Second, even when one attains success, it may be fleeting. The odds are against you as a trader, and only a select few can conquer seemingly insurmountable obstacles to achieve lasting success. That's where psychology can play an important role. The proper psychological attitude can help you achieve and maintain success.

There are many occupations that are hard to do. Imagine working as the president of a large corporation or a government official in hard economic times. Imagine trying to sell insurance when few people have enough money to buy it. Not anyone can succeed under such extreme pressure, but people do. What you need to decide is whether you want to persist in the face of uncertainty or shrink from the challenge.

In terms of making a profit, the hard part isn't trading profitably, but staying profitable. Trading can be tedious. You have to make trade after trade. Even when market conditions are in your favour, it can be tedious if you have to trade day after day, year after year. Even the most resilient trader is prone to burn out. It is easy to persist when you believe that your efforts will be rewarded. That's how people do hard things, like get through college. They believe the hard work will pay off and that long-term success will be assured. Trading is different, however.

There comes a point when you discover that success is not assured. You find out that you can make huge profits one year, and almost nothing the next. The future isn't certain, and that can make even the most astute trader feel uneasy. A trader may be prone to -learned helplessness.- When you experience a setback that seems insurmountable, you may start to believe that there is no way to get out of it. If you tried extremely hard to stay profitable and can't do it, you may start to think, -What is the point? Why should I continue with this, if I can't remain profitable?- It is natural to want to seek out a new profession, but don't despair.

Recovering from setbacks is vital for long-term success. Enduring trading success isn't guaranteed, but few things in this world are a certainty. When all seems hopeless, don't give up. Search for solutions, and take a specific action. Remind yourself that it's not the objective -hopeless- situation that causes one to give up, but the interpretation of the situation. How you explain the cause of the dire situation accounts for how you cope with it. If you think, -I've always been inept and this is just another instance of how ineffectual I've always been,- you will tend to view the situation as hopeless and want to just give up. But if you think, -this is merely a temporary setback and I'll be able to get past it,- you will search for solutions to change matters and overcome the dire situation.

Trading is a tough business in which one must often persist in the face of defeat. Your thinking style dictates your persistence level. It's unproductive to think pessimistically, and believe that all is hopeless. Instead, view seemingly hopeless failures as a temporary setback from which you can easily recover if you keep at it. By looking for specific aspects of your trading that you can actually change, and believing you can change them, you will face setbacks with optimism rather than despair and helplessness.

Unrealistic Optimism and Misperceptions of Risk.

An on-going controversy among psychologists concerns the benefits of optimism. Some psychologists argue that optimism is always beneficial, while other psychologists point out that extreme levels of optimism may be associated with biased and inaccurate estimates of negative outcomes. As highlighted in our Innerworth feature articles and Insights and Attitudes sections, there are clear advantages to holding an optimistic attitude. Rather than limit your success, it is useful to have a positive attitude, and believe that life offers one endless opportunity for success. Why limit yourself by thinking that you will experience unfavourable events? Well...it depends on the accuracy of your perceptions.

A crucial distinction can be made between realistically estimating the probability of favourable events and unrealistically believing that favourable events will occur when they are unlikely to occur. Realistic optimism is more useful than unrealistic optimism. For example, if you have a very poor trading strategy, it isn't realistic to believe that it will produce profits over a long series of trades.

Unless one carefully and objectively monitors the success of a trading strategy and determines it's an actual success, the equity in one's account can be rapidly depleted. A realistic estimate must be calculated and a new strategy must be developed should the estimate reveal the trading strategy is unprofitable. One may hold optimistic beliefs, but they must be accurate. Unrealistic optimism may lead to not only inaccurate estimates of failure but inaction regarding necessary precautions to prevent such failure.

A recent study by Radcliffe and Klein illustrates the disadvantages of unrealistic optimism. Participants were asked to estimate the probability that they would experience an unfavourable outcome, in which an -objective- estimate of the actual probability was known. Unrealistic optimists underestimated the probability of the unfavourable event compared to realistic optimists.

They also allowed their unrealistic optimism to influence their behaviour. When presented with information regarding how they could reduce the probability of the unfavourable event, they did not review it closely, compared to realistic optimists. In addition, unrealistic optimists did not show proper concern and did not take the necessary steps to move the probabilities in their favour.

These findings illustrate how optimism sometimes reflects a -defensive- motive to protect one's self-esteem. Rather than developing realistic expectations of an unfavourable event, and taking proper precautions to decrease the occurrence of the event, unrealistic optimists ignore important information that may signal a downfall.

Too much optimism is unrealistic, yet too little optimism can be very self-limiting. It's critical that you find the right balance between realistic self-motivating optimism and unrealistic biased optimism. Make sure that you are using optimistic beliefs to your advantage.

Cool and Organized.

Trading can be fast-paced. As an active trader, you must sift through a barrage of information, from media reports to earnings statements to unexpected national events. It's hard sometimes to make sense of it all and to see which pieces of information actually impact the stocks you are trading in significant ways. What will happen next is never certain. Trading plans that you developed during off-hours may not match current market action. When things don't click and fall into place in the way that you had planned, it can be stressful, confusing, and frustrating, but in all the confusion, it is vital that you keep cool and organized. Rather than try to do too much with the little time and energy you have, it's vital that you stay focused.

The pressure to get things done in a short time can be a significant source of stress. And when your plans don't seem to be working out, there's psychological pressure to make difficult decisions quickly. Should you stick with your current trading plans, or look for new opportunities? There's a need to be careful. You don't want to make the wrong decision and miss out on a rare market opportunity. When you feel that you have too much to do and not enough time to do it, it grates on your nerves. Suddenly, everything can seem unorganized, unstructured, and confusing.

One of the most effective ways to cope with the pressure to get more things done than you have time for is to change your time perception. Time perception is the degree to which people perceive their use of time as structured and as contributing to a specific goal or set of goals. When you're frustrated and unsure of what to do next, you can feel that you are moving aimlessly back and forth among alternatives and getting nowhere. It's as if you are out of control. At these times, it is necessary to return structure into your trading life. When you perceive that your time is structured and that you are working toward a specific purpose, you will feel calm and satisfied.

When frustrated by the markets, you can become an extreme perfectionist, afraid to make a mistake and unsure which path to take. To gain control, it is necessary to set clearly defined and realistic goals and make specific plans for how to reach these goals. When you feel especially confused, it makes sense to pick a few trading plans and focus on implementing them. Which should you pick? Pick the ones that seem to match the current market conditions, but don't get hung up on it. Many traders make the mistake of thinking that they must choose the one right plan or else they will miss out on an important trading opportunity.

That may be the case. You may indeed pick a trading plan that wasn't the best, but you could be wasting more time deliberating among plans and setups than taking decisive action, which can restore a feeling of control and direction. Once you implement at least one of the plans, you will naturally reward yourself, and feel that you have achieved a meaningful goal. You'll feel back in control, and once again, enjoy the process of trading. Everything will start to feel as if it is coming together into a whole. When you perceive your time is structured, you will feel less stress and feel more satisfied with your overall trading experience. You'll feel cool and organized, and trade more profitably.

The Origins of Self-Sabotage.

In formulating his psychoanalytic theory of personality, Sigmund Freud postulated two biologically deep-rooted instincts as the driving forces behind all human behaviour: life instincts and death instincts. The life instinct works on the pleasure principle. Humans are driven to seek out pleasure and avoid pain at all costs. The need for continual pleasure and gratification is a strong and pervasive motive that must be curtailed.

In Beyond the Pleasure Principle, Freud postulated the death instinct. The death instinct is less conspicuous and less powerful than the life instinct. Freud noted that all humans ultimately end up dead, and so it's logical to postulate, -the goal of life is death.- Well, maybe? Although we may all die in the end, do people secretly strive to kill themselves off? Is there a pervasive and basic human motive to seek out death and self-destruction? I doubt it. Towards the end of his life, Freud doubted it also.

Freud didn't have very much evidence to support his idea of the death instinct. All of his evidence was anecdotal. For example, he noted that his patients kept mulling over their past defeats in life rather than picking themselves up and moving forward. He also noted that many soldiers had a difficult time forgetting past trauma experienced during battle upon returning home from war. Although this -evidence- does not necessarily support the existence of a death instinct, it does show that it is often easier for people to stay put than move forward.

It may be reassuring to know that while you are putting on your trades, there is not a core biological motive secretly compelling you to naturally destroy yourself. So, what are the origins of self-sabotage? The origins are socially learned rather than inherited and biological. Self-sabotage is closely related to the concept of fear of success. Individuals with a fear of success have heard societal messages that they will not succeed in certain realms.

For example, women hear the message, you can't succeed in a -man's world.- Ethnic minorities are told they can't break through racial barriers, and children from a working-class neighbourhood are told that they would be better off pursuing work in a blue-collar job. In many ways, it's much easier to stick with one's familiar environment than break out into a new direction. It's ironic that at the heart of self-sabotage lies a strong desire to achieve success in an area that had previously been closed.

Although a person strives to break through a societal or psychological barrier to be more than their parents or society told them they could be, they may experience a psychological -tug-of-war- between striving for success and secretly believing the societal impositions against success one heard while growing up. In the end, overcoming a fear of success concerns identifying these societal impositions, recognizing that one secretly believes them, and convincing oneself that they are false. That's a lot easier said than done, but that's part of the struggle to maintain one's existence and defeat the -motive- for self-sabotage.

Coping with Uncertainty.

When your money is on the line, there's a natural inclination to desire complete control. You want perfect information and guarantees that every trade you execute will be a winner. Humans are risk-averse and most people want a sure profit. The masses would gladly take a small profit upfront than gamble on a bigger win in the future. But trading is not about playing it completely safe.
The short-term trader is willing to take a risk with the goal of making a big profit. How is it done? Trading requires that you work with imperfect data, and try to work around a market that is unpredictable. The markets are often chaotic. No one really knows what will happen next. The astute trader is aware of this uncertainty and takes steps to prevent it from adversely influencing trading decisions. The winning trader is the trader who knows how to cope with uncertainty.

Some traders feel uneasy when they are uncertain. Uncertainty is scary. It's reasonable to feel a little afraid when you aren't sure what will happen next. It is a form of protection. We instinctively want to maintain control. The more we can master our environment, the safer we will be. This natural inclination extends to trading. We often want to control the markets, but we know deep down that the best we can do is to work with them and accept what the markets offer us. We can't control the markets any more than we can control the weather.
Many people try to cope with uncertainty by pretending that they have more control than they actually have. They live under the illusion that they can control the markets. But it is vital that you admit that the markets are uncertain, and if it bothers you, it is essential that you admit it. Don't hide from your feelings of uneasiness. Some people were taught as children to hide their fear and other emotions, to put up a courageous front in the face of adversity. But trying to hide your emotions often makes them even more difficult to control. It's better to just admit that you are afraid, and admit that the markets are uncertain.
You don't know what the outcomes will be, and thus, there is a good chance that you will lose money on some of your trades. You'll find that once you admit the possibility of loss, you'll feel much better, and gain control more easily. Although the markets are uncertain, it doesn't mean that you won't profit if you control your risk, and trade with sound methods. Think of the big picture. You may not know the outcome on any one trade, but across a series of trades, you'll come out profitable if you use trading methods that put the odds in your favour.
Perhaps the most important way to cope with uncertainty is to know your personality. People differ in terms of how they can deal with uncertainty and the fear and uneasiness associated with it. Some people are easily frightened while others can stay calm under the most chaotic circumstances. It's important to know where you stand on the fear-tolerance continuum. If your tolerance for fear and chaos is low, it's going to be harder to gain control compared to others, and you'll do yourself a disservice by acting as if you do not have a problem with gaining mastery. For some, it may be necessary to adjust one's trading strategy.
If one has difficulty trading in a fast-paced chaotic environment, for example, it may be necessary to make only long-term investments, where quick decisions are less urgent. Or when trading in the shorter term, it may be useful to use the automatic settings on your trading software to exit or place specific orders with a broker over the phone. Regardless of the strategy you try, it's vital to gauge your tolerance for uncertainty and take appropriate steps to compensate. Coping with the uncertainty of the markets is vital for enduring success in the markets. The more you can accept uncertainty and find some way to deal with it, the more profits you'll realize.

Don't Overanalyze: Just Trade.

When your hard-earned money is on the line, there's a strong urge to be extremely careful. After all, if you should make a mistake, you could end up taking a huge loss, or worse yet, you could find yourself in a major drawdown. Novice traders, especially, may be reluctant to put their money on the line until they are absolutely sure that their trading plan is foolproof. It's tempting to think, -I've got to account for every possible factor that may go against my trade, or else I'll lose money, and that would be a fatal blow.

It may be a natural human tendency to be averse to risk, but if you're not careful, you may be afflicted with a severe form of analysis-paralysis. Analysis paralysis occurs when a trader over analyzes a trading decision to the point that either a decision is not made or a decision is put off so long that a major market move is missed. Although it is often the case that an analysis of all possible alternatives and all possible consequences of one's decisions is the hallmark of good decision-making, too much analysis can be a distraction.

Why are we consumed with making a mistake? Throughout our lives, we have been taught to make prudent decisions rather than acting on impulse. When making a major life decision, for example, it is useful to consider all alternatives in a logical, impartial, and comprehensive manner.

Great thinkers, such as Benjamin Franklin, advocated evaluating the pros and cons carefully before making a decision. Similarly, contemporary decision researchers suggest that people can avoid making common decision-making biases through evenhanded consideration of all possible alternatives. Research studies have shown, for example, that cultivating a deliberative mindset helps people focus on and consider incoming information and decrease the influence of self-serving decision-making biases.

Winning traders have learned to avoid impulsive decisions. It is vital to have a clearly defined trading plan. Make sure that a single trade doesn't have the potential to completely wipe out your trading account. In addition, clearly define the signs and signals that indicate that your trading plan has gone awry, suggesting that you should close out the trade to protect your capital. It's useful to conduct a thorough analysis before making a decision, but it isn't useful to become completely paralyzed by it.

Research studies suggest that it isn't always necessary to over analyze a decision. A study by psychologists Dr David Armor and Dr Shelly Taylor suggests that in some cases, it may be wise to just quickly choose an alternative and focus all your energy on achieving an objective. In a well-controlled experiment, participants were randomly assigned to one of two conditions.

In the deliberative condition, participants were asked to decide between two equally effective strategies to obtain a reward, before using one of the strategies to reach an objective. In a second condition, participants were not given a choice, so they would immediately focus all their energy on using a single strategy to achieve the desired goal. There were clear advantages to focusing on a specific strategy, rather than deciding between two options. Participants who did not have to choose, and did not deliberate, showed greater determination, commitment, curiosity, and confidence than those who did. They also viewed the task as less difficult and performed better.

Many trading decisions must be made quickly before market conditions change. Through experience with the markets, the winning trader can analyze information quickly and reach a decision. While trading, it isn't useful to deliberate too much. It just doesn't pay off. You may not always be right, and you may have a few losing trades, but that's the nature of the game.

Through a carefully devised trading plan and risk management, however, you can minimize the impact of a single losing trade, and make enough winning trades to come out ahead. So when you start to see yourself over-analyzing and becoming paralyzed, stop! Just put on the trade already. You'll trade more profitably in the long run.

Learning to Defeat Past Learning and Instincts.

Are you having trouble mastering the markets? Do you have trouble taking losses? Do you react to potential losses with fear or regret? Do you find that you can't seem to methodically execute trading plans and take-home profits? If you are having some difficulty accepting losses, and mastering the markets, you are not alone. For every one trader who becomes a Market Wizard, there are at least nine who don't. You can react to this knowledge in two ways: you can walk away in defeat or you can be determined to become one of the few who become a master.

There are two hurdles to overcome on the road to mastering the markets. You have to overcome your biological predispositions and override past learning experiences. Your biology and past learning in most cases protect you, but when it comes to trading, your natural biological urges and your past experiences may work against you. Biological reactions and past learning experiences work hand in hand to protect us, for example. Let's look at taking losses easily as one such example.

When we touch a hot stove, we recoil out of fear to minimize damage to ourselves. Similarly, we carefully avoid spending money in our personal lives to avoid mounting debt that will be difficult to pay off. These past experiences protect us for the most part, but mastering the markets requires that you control biological reactions and modify past learning experiences. Rather than fear, you must practice staying calm in the face of danger. In addition, you must modify the rules you've followed throughout your life, such as taking chances with money and learning to think that losses don't matter.

Intellectually, you know you have to risk money, control your impulses and emotions, and make logical decisions to trade profitably. But this is easier said than done. You naturally will get excited when you make a winning trade, naturally, feel disappointed when you lose money, and naturally, closeout trades when you perceive the market is about to move against you.

You are human, and it is hard to fight human nature. Depending on your past experiences, temperament and personality, you will want to seek out solace from others when you lose, and if you have been successful in life, you have assiduously followed the lead of others and tried to adhere to social norms. Master traders, however, tend to act differently than most humans. They look inward for direction. They are not afraid of taking risks, even if it means hurting themselves in the end. Throughout history, famous traders, investors and business leaders have had tremendous ups and downs in their lives.

Unlike most people, though, they bounce back and seem to take even the biggest setback in stride. You probably know this, but knowing this is often of little help. You are who you are. There is nothing wrong with that. Everyone has his or her own unique history and you have to appreciate yours. Unfortunately, that may mean that you won't be a winning trader tomorrow or even next year. But the good news is that if you work hard enough, you can overcome your biology and past learning experiences.

How do you do it? You must do it gradually and work hard at it. If you have trouble taking chances or recovering from losses, for example, minimize the chances that you do take. Accept your own personality. Don't make big trades where you risk twenty per cent of your capital on a single trade, for example. Risk only two per cent. Practice taking losses in stride; with every loss, practice telling yourself, -Losses should be expected. I'm not going to let it bother me.- If you are like most people, this isn't going to work very well. The loss will gnaw at you. Again, it is natural to be bothered by losses. Your past learning has taught you to be bothered.

If you were not bothered, you would have never been able to save enough capital to trade. These beliefs and biological reactions were adaptive throughout your life, so you can't expect to break free of them easily or quickly. It will take practice, and with enough practice, you will change. With each small losing trade, you will learn to accept the painful feelings of loss. You have to practice telling yourself that painful feelings of loss are a fact of trading life.

Practice looking at the loss with a third eye, as if you are looking at yourself as if you are a character in a movie. Pretend it isn't real money but Monopoly money you are losing. Over time, your perspective will change, and you will start to learn to accept losses more easily. You can't overcome your natural inclinations overnight, but with a commitment to change and with practice, you can make significant changes and become a master trader.

Overcoming Big Setbacks.

Ever make a slew of losing trades and just feel like giving up? Perhaps you were just panicking for no good reason. You may have merely fallen for a pessimistic attitude that was enough to put you in a slump. Thoughts are powerful. The reality of the situation may not matter. All that may matter in the end is your perceptions of the situation, right or wrong. How you look at a situation can dictate how you will react. If you react with pessimism and hopelessness, you may have difficulty recovering from a slump.

Consider how David reacted to a major setback. When our Innerworth staff asked him if he thought about giving up trading after a major slump he said. -No. I just said, All right, that's it. I've got to go back to the drawing board and really examine what the heck just happened.'

And I did. It turned out to be just another plateau, the next step of learning.- David didn't give up. He just looked at the setback as a new starting point. He looked closely at his trading methods and examined what he was doing wrong. In this case, he learned to manage risk so that he would no longer mount huge losses. The point is that when you face a slump, you should not let pessimism keep you down. Take setbacks in stride. Don't flinch.

Something may have gone wrong, but don't let the setback get you down. Take an active problem-solving approach. Try to instinctively search for a solution. Rather than panic, it is vital to take an active, problem-solving approach. Don't over-interpret the significance of a setback, no matter how big it seems. Instead, focus on the external factors that may underlie the market action. Don't take it personally. Don't blame yourself for making a few losing trades. Rather than stew in self-doubt, take decisive action and move forward.

Your attitude and perceptions powerfully influence how you react to events, such as a series of losing trades. When describing his mental edge, Curtis told Innerworth staff, -I don't fear a particular outcome. A set of losses to me is not necessarily bad, in isolation.- Curtis also takes a detached perspective when he trades. He isn't consumed with money. He said, -I don't think, I can buy this or I can buy that with this amount of money.' I don't get emotionally caught up in things. I have the type of personality that makes it easy for me to withstand long-term periods of losses.-

Don't focus on internal, personal reasons for a setback. When trying to pick yourself up after a setback, stayed focused on your ongoing experience, ignore any feelings of doubt, and continue to search for solutions. When you enter a low point, it isn't useful to mull over how you're in a slump. Instead, you must stand up and take action. The more focused you can trade and the more actively you can respond, the more likely you'll be one of the few who can rise above the masses and become a winning trader.

Walking the Tightrope Between Confidence and Overconfidence.

A winning trader is confident. It's essential to have the proper amount of confidence, however. If you are under-confident, you'll never be a winning trader, but if you are overconfident, you may overextend your trading knowledge and assume that you have skills that you don't actually have. Building genuine, rock-solid confidence in one's trading abilities takes time. It's necessary to experience a variety of market conditions and learn which trading strategies work best under which specific conditions.

It's not something that happens in just a few months, and some trading experts say it takes several years of trading before one moves from the status of a newbie to that of a seasoned trader. In the meantime, novice traders walk a tightrope between under- and overconfidence: sometimes they feel they don't have enough confidence while at other times they may have too much. It's often hard to find the right balance when first starting out, but it's an issue to cope with until consistent profitability is achieved.

Perhaps it's a given that a new trader's account balance will rise and fall with the ebb and flow of the markets, but it's possible to gain some control over extreme fluctuations. The most obvious way to gain control is to manage risk carefully, so a series of losing trades will not deplete your trading capital as rapidly. Just as with learning any new skill, it's also useful to start out slowly. One may want to stick with a few solid, basic trading strategies and execute them under ideal market conditions.

For example, conventional wisdom says, avoid the open. A novice trader might do that at first and as an added precaution, only trade in bull markets, and take small profits, just to get a feel for the markets. It may not be a very innovative strategy, but it will help build confidence. If you've been trading the markets in the past year, it's been relatively easy to use a simple buy-and-hold strategy. One could have bought the QQQ, for instance, and held it for a year and realized substantial gains. Again, it's not much of a trading strategy, but it helps build confidence.

Just as a young child must venture out into the unknown, a novice trader eventually must explore new trading strategies and trade under more chaotic market conditions. It's at these times where a typical novice trader becomes overconfident.

He or she may cope with feelings of vulnerability by building up a false sense of confidence. Perhaps it is out of inexperience or a need to bolster one's wavering confidence, but the novice trader may feel an unjustified sense of omnipotence when facing uncertain and potentially threatening market conditions. Telling yourself that you are powerful and infallible can help you feel that you can conquer the most difficult challenge, in the short run, that is. In the long run, it can spell disaster. One may trade low probability setups without a clearly defined plan or adequate risk controls.

Building a strong sense of trading skills is key to achieving consistent profitability. It's how you go about it that is most critical, however; one can do it in a reckless, haphazard approach or build up skills with a well-planned controlled approach. Keep in mind that when trading under new market conditions and with new trading strategies, you are taking greater chances, and it's at these times when you need to carefully manage your risk and steadfastly follow your trading plan. By taking such precautions, you will minimize potential harm and be able to master new domains.

The piece of mind you gain through a well-defined trading plan and adequate risk controls will allow you to tackle new challenges with enthusiasm and vigor. Over time you'll master new strategies and gain a strong, intuitive sense of new market conditions. With increased practice, you'll achieve long-term profitability. So don't fall off the tightrope without a safety net. Trade with the proper amount of confidence, and if you do need to take risks, acknowledge the tendency for overconfidence and take precautions to prevent it from interfering with your goals of achieving lasting profitability.

Handling Unexpected Success and Controlling Overconfidence.

You can't trade the markets unless you have self-confidence. Trading is a field where you'll see setback after setback, and the only way to pick yourself up quickly and fight back is to have rock-solid confidence. But building genuine, unwavering confidence in your trading abilities takes time. It's necessary to experience a variety of market conditions and learn which trading strategies work best under which specific conditions. It's not something that happens in just a few months. Many trading experts say it takes several years of trading before you will gain enough trading experience to build a genuine sense of confidence. In the meantime, novice traders must find a balance between under- and overconfidence.

It's hard to distinguish genuine confidence from arrogant overconfidence, particularly if you are a novice trader. Novice traders must look out for times when their overconfidence makes them take unnecessary risks. For example, Brad Barber and Terrance Odean (2000) have shown that when novice online traders face an unexpected windfall, they tend to over-trade. One of the traders in our Innerworth Master Interview series said, -If you're overconfident, you fall into traps.

When I have a string of ten days where I made money every day, I have to watch myself. I have to get more defensive after a string of good trading days because I am tempted to think that I'm invincible. In that mindset, I get stubborn and take bigger risks.- Taking big, unnecessary risks can produce large losses. When you're first starting out as a trader, it's vital to stick to your risk limits, but many traders find it hard to avoid taking greater risks when things are going well.

In their book, -Why Smart People Make Big Money Mistakes,- Gary Belsky and Thomas Gilovich (1999) aren't surprised by why people are overconfident. For them, the more interesting issue is why traders have trouble controlling their overconfidence. According to Belsky and Gilovich, -The problem is the inability to temper optimism as a result of prior experience. Frankly, we don't learn well enough from our mistakes.-

Indeed, many novice traders don't learn from their mistakes. They watch their account balance rise and fall with the ebb and flow of the markets. They don't pick and choose ideal, high probability setups and they trade in market conditions that are not conducive to their methods. They over-leverage their trading knowledge and end up making costly mistakes. It's wise to take precautions, especially after an unexpected winning streak, where you are likely to feel euphoric because of an unanticipated windfall. Under such circumstances, you'll be prone to take risks because you believe that you are now merely risking the -house's money.- But your winnings, no matter how you won them, are yours, and you should protect them.

The most obvious way to gain control over your overconfidence is to manage risk carefully, so a series of losing trades will not deplete your trading capital as rapidly. In addition, make sure that you trade with a well-defined trading plan. If you manage risk and follow a well-devised trading plan, you'll be able to minimize overconfidence. When you allow a trading plan to guide you, you'll trade more rationally and unemotionally. You'll focus on the plan, rather than impulsively allowing your feelings of invincibility to distract you. Overconfidence disrupts many novice traders. Don't let it control you. Manage risk and follow your trading plan. You'll stay grounded, unemotional, and profitable.

Confident But Not Over-Confident.

When it comes to trading the markets, nothing is certain. How do you cope with uncertainty? Many traders are overconfident. Rather than face the possibility of losses due to market uncertainty, they fool themselves into thinking they are omnipotent. Behavioural economists Brad Barber and Terrance Odean illustrated how novice traders are especially overconfident. They analyzed account records from a large sample of online investors.

Overconfident investors showed this ailment after a large windfall. They put on substantially more trades than other investors, yet achieved few rewards for their efforts. By putting on significantly more trades, they paid more in commissions, which in turn resulted in overall lower account balances. Clearly, overconfidence has a price. Are you willing to pay it?

Tom a seasoned trader told Innerworth staff, -Every time I have issues with confidence, I become overconfident. I try to be very humble when I trade. You're only as good as your last trade. It doesn't matter what you did last month, last year, or the last ten years, it's what are you doing today.- But Tom does not lack confidence. He may get beaten down, but he doesn't stay down for very long: -I get worried or depressed for a very short period of time. Rather than dwell on it, I immediately shift my focus and think, Okay, fine, let's see how we can get out of this?' What's done is done.-

Although overconfidence can lead to risky trades that may produce losses occasionally, a lack of confidence can be even more detrimental. It's probably not a good idea to be optimistic to the point of putting on trades without carefully managing risk, such as limiting the size of a position or using protective stops, but a moderate amount of optimism and confidence is useful.

Dr James Felton of Central Michigan University, and colleagues (2003), point out that pessimists often panic, become fearful, and tenaciously deny they are in a losing trade. A moderate amount of optimism keeps a trader calm and inquisitive. Even in the midst of a losing trade, an optimist may be more likely to seek out information and make an informed decision. Finding the proper level of confidence is key. It is a little like walking a tightrope between extreme unrealistic optimism and extreme debilitating pessimism. Finding the right balance will allow you to pick yourself up when you are beaten down, but stay grounded in reality even after a huge win.

The winning trader is both confident and realistic. If you want to trade like a winner, it's vital that you develop a true sense of self-confidence. By gaining a wealth of experience, your confidence will be based on your actual trading skills. When you know what you can do and what you can't, you'll feel calm and self-assured. You'll know what you can handle, and you will be able to trade with solid, realistic confidence.

Overconfidence, Risk, and Rewards.

A widely popular belief in the field of behavioural finance is that investors are -overconfident.- They put on risky trades that don't pay off, and in the long run, end up with a lower account balance than those who put on fewer trades. The evidence for this supposition comes from a seminal study by finance professors Brad Barber and Terrance Odean. They analyzed account records from a large sample of online investors.

A subgroup was identified as -overconfident- in that they had substantial initial success at the start of the observation period but ended up with lower account balances at the end of the observation period compared to less confident investors. The overconfident investors put on substantially more trades than other investors, yet achieved few rewards for their efforts. By putting on significantly more trades, they paid more in commissions, which in turn resulted in overall lower account balances. The overconfident investors were single men in their early thirties, and thus, it seems as if it is young single men who are the most overconfident and prone to overtrading.

Although this influential study suggests that some investors are -overconfident- compared to others, a psychological measure of overconfidence, or optimism, was not used to assess this trait. A kind of circular reasoning was used to identify those who were overconfident: those who put on more trades were thought to do so because they were -overconfident.- But overconfidence is a personality trait. To show that the tendency to be optimistic and overconfident impacts trading performance, it is necessary to measure it. Science moves forward and sets limits and restrictions on general conclusions. Additional studies are needed to address this issue further.

A study by Dr James Felton and colleagues, in the current issue of the -Journal of Behavioral Finance,- sheds light on this initial finding between overconfidence and trading performance. University students taking a finance class participated in a 13-week simulation. Each participant was given an imaginary $500,000 to invest. There were some real incentives for doing well in the simulation, however. Students could win $500 if ranked in the upper quartile of the simulation, and a portion of their grade was based on their performance. Optimism was measured with a reliable and valid psychological measure.

-Risky- investments were defined as investing in futures and options and as the number of transactions made across the 13 weeks. Men and women did not differ in their levels of optimism, but optimistic men made more risky trades (futures, options, number of transactions) than pessimistic men, pessimistic women, or optimistic women. In contrast to Barber and Odean's preliminary study, being more optimistic and making more risky trades didn't seem to have any negative consequences. The final values of the accounts did not differ between men and women, or between optimists and pessimists. Optimistic men, although making riskier trades, performed the same as everyone else.

So is being an optimistic trader such as a bad thing? The verdict is still out. Additional studies are needed. All the same, it's probably not a good idea to be optimistic to the point of putting on trades without carefully managing risk, such as limiting the size of a position or using protective stops. But perhaps a moderate amount of optimism and confidence is useful.

Dr. Felton and colleagues point out that pessimists often panic, become fearful, and tenaciously deny they are in a losing trade. A moderate amount of optimism, in contrast, ensures that even in the midst of a losing trade, an optimist may be more likely to seek out information and make an informed decision. So, in the final analysis, it is a little like walking a tightrope between extreme unrealistic optimism and extreme debilitating pessimism. Finding the right balance is the key to trading consistently and profitably.

Overconfidence: The Behavioral View.

You've been watching a stock for three hours and you tell yourself, -It seems to match perfectly to the first two waves of an Eliot Wave pattern. I've seen this before and I've made big profits every time. It's so close that it's got to be a match. I'm getting in. I think I'm right. How can I be wrong? I'm positive that I've got this one pinned down.- Sometimes it's hard to know if you are right or wrong when it comes to a trading decision. Are you overconfident? Are you not confident enough? Overconfidence is one of the biggest psychological issues for traders and depending on the school of thought, psychologists differ as to the reasons for overconfidence. We recently discussed how over-confidence is a result of a -big ego.- Today we look at overconfidence from the perspective of a behaviourist.

Overconfidence may consist of a set of thoughts, feelings and emotions, but that is irrelevant from the vantage-point of a behaviourist. All that matters is how behaviours are rewarded or -reinforced.- Overconfident traders are usually those traders who had a lot of wins in their early trades. Because past trading behaviour, regardless of skill level, was rewarded, it persists, even under circumstances of low reward or even punishment.
Psychologist B. F. Skinner introduced the idea that our current behaviour is the result of past -reinforcement contingencies.- Skinner studied laboratory animals, such as rats and pigeons, to determine how rewards can -shape- behaviour. For example, when a laboratory animal is given a food pellet every time a lever is pressed, the rate of lever pressing is high.
That is, when a trading behaviour is rewarded, it is likely to be repeated. Albert Bandura refined Skinner's theory by noting that humans tend to think before they act. They have expectations of reward. Thus, it may not matter what the actual reward contingencies were that originally influenced a trading behaviour, but the perception of specific trading behaviours are likely to be rewarded. Overconfidence is the expectation that trading behaviours will be positively rewarded. Skinner found that a -partial reinforcement- reward schedule produces behaviour that is hard to change. When the laboratory animal is reinforced for every third level press, for example, the animal persists, even when the behaviour is no longer rewarded. A slot machine works on a similar principle.
Jackpots are awarded sporadically, so people are not sure when they will be rewarded and when they will not. When it comes to trading, the less consistent a trading strategy makes profits, the more likely a trader will tend to use it. The most overconfident people are those individuals who are inconsistently rewarded. Their trading strategies are rewarded sporadically, so they never know exactly when the strategy will produce a profit and when it will not.
It's useful to be aware of the various different explanations for overconfidence. Each explanation has a grain of truth to it, and its useful to decide how your overconfidence may be based on it. From the behaviourist perspective, overconfidence is a matter of believing that you will receive rewards, just because you have received them in the past. But you may not receive rewards, so it's always worth questioning why you expect to receive a reward, or make a profit.

Overconfidence: Cognitive Information Processing.

Overconfidence is ubiquitous among traders. There are several explanations for overconfidence, depending on the psychological theory one uses to understand it. We've looked at overconfidence from the psychoanalytic and behavioural perspectives. Today, we look at the cognitive information processing perspective.

Humans process information in a way that is similar to how computers analyze, retain, store, and retrieve information. But people sometimes have limitations when it comes to information processing capacity. They can't process all possible available information, so they rely on -heuristics- or -rules of thumb,- which process information quickly and efficiently, but are often wrong. Overconfidence occurs when traders don't have enough time or resources to process information adequately. They act on inadequate information and make mistakes. Sometimes, they act on some form of popular opinion.

Let's consider a classic exercise that is used to demonstrate overconfidence in everyday decision-making. Answer the following questions: Are people more likely to die from asthma or tornadoes? Most people would say tornadoes and be very confident about their decision. It seems that we hear about fatalities from tornadoes all the time, but whoever dies from asthma?

We use the available knowledge to make our judgment. Actually, 1996 statistics show that out of 1 billion people, 920 people died of asthma compared to 41 who died in a tornado. Let's try one more. Are people more likely to be killed in a homicide or kill themselves in suicide? The media always covers homicides, but what about suicide? Statistics show that 12,000 people died of suicide compared to 9,200 who died in a homicide. This exercise demonstrates how we rely on heuristics to make judgments. We try to use all available information, but our information is often based on unsupported beliefs, rather than on hard data. In other words, we believe we have more knowledge than we actually do; we use what we have, and are confident that we are right.

Many times, heuristics or rules of thumb work quite well, but sometimes they are faulty. It's important to be aware that your knowledge, especially about the markets, may be limited. Groups of people may present you with information that a certain industry or sector is -hot- when, in fact, it's merely everyone erroneously believing the same misinformation. Be aware of this natural tendency to over-extend knowledge and feel overconfident about decisions based on it. Question your knowledge. Get as much additional information as possible. Doing so will help you gain mastery over the tendency to act in an overconfident way.

Controlling Overconfidence.

You've been watching a stock for three hours and you tell yourself, -It seems to match perfectly to the first two waves of an Eliot Wave pattern. I've seen this before and I've made big profits every time. It's so close that it's got to be a match. I'm getting in. I think I'm right. How can I be wrong? I'm positive that I've got this one pinned down.- Sometimes it's hard to know if you are right or wrong when it comes to a trading decision.

Are you overconfident? Are you not confident enough? Overconfidence is one of the biggest psychological issues for traders and depending on the school of thought, psychologists differ as to the explanations of overconfidence. We recently discussed how over-confidence is a result of a -big ego.- Today we look at overconfidence from the perspective of a behaviourist.

Overconfidence may consist of a set of thoughts, feelings and emotions, but that is irrelevant from the vantage-point of a radical behaviourist. All that matters is how behaviours are rewarded or -reinforced.- Overconfident traders are usually those traders who had a lot of wins in their early trades. Because past trading behaviour, regardless of skill level, was rewarded, it persists, even under circumstances of low reward.

Psychologist B. F. Skinner introduced the idea that our current behaviour is the result of past -reinforcement contingencies.- Skinner studied laboratory animals, such as rats and pigeons, to determine how rewards can -shape- behaviour. For example, when a laboratory animal is given a food pellet every time it presses a lever, the rate of lever pressing is high.

Translated in terms of trading, when a trading strategy produces a profit, it is likely to be repeated.

Albert Bandura refined Skinner's theory by noting that humans tend to -encode- and remember past reward contingencies. They develop expectations of reward and use these expectations to decide whether to repeat a behaviour or not. Thus, it may not matter what the actual reward contingencies were that originally influenced a trading behaviour, but the expectation of reward in the future.

Overconfidence is the expectation that trading behaviours will be positively rewarded. Skinner found that a -partial reinforcement- reward schedule produces behaviour that is hard to change. When the laboratory animal is reinforced for every third lever press, for example, the animal persists, even when the behaviour is no longer rewarded.

A slot machine works on a similar principle. Jackpots are awarded sporadically, so people are not sure when they will be rewarded and when they will not. When it comes to trading, trading methods that sporadically produced a profit are more likely to be used. The most overconfident people are those individuals who are inconsistently rewarded. Their trading strategies are rewarded sporadically, so they never know exactly when the strategy will produce a profit and when it will not. They continue to use these strategies, even though they are unlikely to produce rewards.

It's useful to be aware of the various explanations for overconfidence. Each explanation has a grain of truth to it, and it's useful to decide how your overconfidence may be explained by it. From the behaviourist perspective, overconfidence is a matter of believing that you will receive rewards, just because you have received them in the past. But you may not receive rewards. Your trading methods may no longer work. It's always worth questioning why you expect to receive a reward or make a profit.

The Benefits of Under-Trading.

Stan has been looking at his screen for the past 20 minutes. He is a little tired and bored. He wants some action. He figures, -I might as well buy a few shares of the QQQ. It is bound to go up eventually.- He puts in the order, even though he has no specific plan or rationale for the trade. It's just something to do. Have you ever put on a trade to combat boredom, or just because you think you should? You may be overtrading, and in the long run, the commissions and taxes that overtrading costs you can eat into your overall profits.

Overtrading is the tendency to put on trades unnecessarily, haphazardly, and without a specific trading plan. Behavioural economists and trading coaches have proposed various reasons for overtrading. Some traders may overtrade merely because they assume, -a real trader trades all day,- while other traders may crave the excitement that excessive trading brings. Still, others may overtrade to cope with a general frustration they feel in their lives. For them, putting on trades is like playing the lottery: every trade brings hope of success and fulfilment. Others are just plain greedy and hope to make as much profit as possible during the trading day. Overtrading doesn't usually pay off, however.

Behavioural economists Drs. Barber and Odean studied trading patterns at a large brokerage. They identified overtraders based on the number of trades they made and examined the number of profits each group realized over the course of a year.

They wanted to see whether overtraders could beat investors who used a simple buy-and-hold strategy. Average annual turnover was 250% for overtraders and 2.4% for buy-and-hold investors. It is quite interesting, however, that although both groups achieved an 18.7% gross return on their investments, the net return differed greatly. Due to commissions, the overtrading group had a net return of 11.4% while the buy-and-hold group had a return of 18.5%. Capital gains taxes from repeated, unnecessary trades further reduce account balances.

Barber and Odean's study was conducted with long-term investors, but what are the implications for traders? The reasons for overtrading are very similar regardless of the timeframe one trades: Some individuals put on trades for the thrill of making a big win, while others over-extend their trading knowledge or trading abilities. Regardless of the reasons, the net results are the same: unnecessary depletion of precious trading capital.

One of the best antidotes to overtrading is to develop and trade very detailed trading plans. It is to your advantage to develop a specific trading plan and stick with it. Before you put on a trade, make sure your trading plan is clear. Identify the signals or indicators you will use to monitor the trade. Anticipate which indicators will signal when a trade is going against you.

Justify your trading plan, and make sure that you have sound reasons for putting on a trade. Make sure you are taking advantage of a good setup, rather than impulsively acting on the urge to put on a trade. Through careful self-monitoring of your trading plan, you can reduce overtrading and the potential damage it can do to your trading account. Limiting your trades will not only increase your chances of making profits, but you'll feel a sense of psychological stability that comes with consistently profitable trading.

Overtrading and Bad Ideas.

Have you ever sat looking at your screen for an hour and had no idea what to do? In the back of your mind, you start to think, -I should be doing something.- As an active trader, you may be prone to put on a trade. That's what traders do, right? They trade. Many traders overtrade when they are bored. They are bored and impatient and put on trade even though they don't have a very good trading idea. They trade on impulse with no specific plan or rationale. It's just something to do. It may not seem like much of a problem but if you do it over and over again, little losses here and there and commission costs start to add up. In the long run, it is in your best interests to control this impulse.

Why do people overtrade? Ari Kyiv suggests a few possible explanations in his book -Trading to Win.- Some traders may overtrade merely to gain some sort of involvement. They can't sit still and do nothing. It's as if they think, -An active trader trades all day.- If you hold this belief, you will tend to feel you are missing out on something if you stand aside and do nothing.

Other traders try to reach high-performance goals and feel that unless they make trade after trade, they have no chance of reaching them. Professional institutional traders, for example, must make profits to stay employed. Sitting around doing nothing doesn't make them think they can make a profit. When you fail to reach your performance objectives, there's a powerful motive to make trades just to feel you are making some progress. What often happens, however, is that bad trades are made and losses are mounted. In addition, while one is engaged in these minor losing trades, he or she is not searching for solid, high probability setups. In the end, profits objectives are missed completely.

Personality may be an issue for some traders. Traders with an impulsive temperament may crave the excitement that excessive trading brings. Still, others may overtrade to cope with a general frustration they feel in their lives. For them, putting on trades is like playing the lottery: every trade brings hope of success and fulfilment.

Dr. Brett Steenbarger in his book -The Psychology of Trading- suggests that overtrading may be the result of daydreaming. Traders want to have a feeling of power and control, but the markets are difficult to control. Daydreams allow a fearful trader to feel powerful. Dreaming that you will make huge winning trades allows them to feel better. But many times, traders start believing their daydreams. And when daydreams start to seem plausible, they may wrongly believe that all they have to do is put on trades and they will be profitable in the end.

Even though commissions are relatively low these days, you can still end up paying unnecessary commission costs by overtrading. In addition, some of those small, seemingly insignificant trades can become significant if you lose perspective and invest too much money on a trade that is a bad idea. One of the best antidotes to overtrading is to be brutally honest with yourself. Evaluate your trading ideas. Constantly ask yourself whether your trading ideas have merit. If they don't, it's essential to give them up and search for a better trading idea. It's also useful to develop and trade very detailed trading plans.

Before you put on a trade, make sure your trading plan is clear. Identify the signals or indicators you will use to monitor the trade. Anticipate which indicators will signal when a trade is going against you. Justify your trading plan, and make sure that you have sound reasons for putting on a trade. If you trade good ideas, and avoid making trades on impulse to quell boredom, you'll increase your profits, and feel good about how you are productively using your time to make those profits.

Your Own Worst Enemy.

Do you ever wonder if you secretly want to fail? It's hard to believe, but some people do want to fail. They may not want to do better than their parents, and secretly, they set themselves up for failure. Others fear success. They associate success with added responsibility, and they want to avoid responsibility at all costs. But if you're like most people, you want to succeed. For whatever reason, however, you find you make trading mistakes that result in losses. There are times when you are your own worst enemy.

There are a number of ways that you may be your own worst enemy, but here are some common ones.

Many novice traders risk money they can't afford to lose, and understandably, feel on edge as they execute and monitor a trade. You can't concentrate very easily when you are agitated. In order to trade calmly and rationally, it is vital to trade only with money you can afford to lose. In addition, it is important to manage risk, so that you minimize the amount you can lose on any single trade. If you truly have nothing to fear by losing, you'll feel more relaxed. You will trade effortlessly, and you won't make as many trading errors.

Don't miss sleep. When you're tired, it's hard to concentrate. When you are worn out or tired, you are understandably ready to lash out, or feel extreme frustration, even when you face a minor setback. Concentration requires energy, and you don't have adequate energy to trade when you are tired. So get the sleep you need to stay alert and ready for action.

Don't trade by the seat of your pants. Many novice traders don't map out their trades in enough detail. They don't decide beforehand where to enter or where to exit. When they actually try to execute the trade, they find it difficult to stick with their trading plan because it is unclear and difficult to follow. They don't know exactly what to do and when. And so, they panic at critical moments of investing. Carefully outlining a plan and following it will help you avoid costly trading errors.

Trading is hard enough. You don't need to sabotage your own efforts. By trading with money you can afford to lose, staying calm and rested, and by following a well-defined trading plan, you can stay at the top of your game and take-home profits.

Finding Your Own Style.

Jake is worn out. He has made trade after trade all day. After a solid six hours of searching for opportunities and executing the trades he had developed before the open, he now can barely think straight. He is a little stressed out and frazzled. About a fourth of his trades were winners, but the rest were losers, and he's upset about it. Jake felt nervous most of the time, and he made numerous trading errors. And now, the stresses and strains have put him in a daze. Skip, in contrast, has had a similar day. He's made dozens of trades. Sure he made a few trading errors, but he took them in stride.

He had fun today and feels in a celebratory mood now that the day is over. If only the trading super-coach could turn Jake into Stan, they both could trade the chaotic and unpredictable markets with aplomb. Unfortunately, however, it's easier said than done. A more useful strategy is to find a trading style that suits your personality, rather than try to be someone you are not.

Is Jake cut out for trading? Perhaps he isn't the most comfortable being a short-term trader, but another style may suit him. All traders must work around their personality. Some people are laid back and have no trouble overcoming challenges.

They experience little stress because they take life on its own terms. If you don't have such an attitude toward life, it may be useful to change your mindset, but it's hard to cast aside your past life experiences and develop a -new- personality. Many times, you must work with what you have. It's necessary to look at your personality as it is and to find a trading style that suits you. For example, if you're like Jake, you may not want to be a -scalper- type of trader who looks for short-term intraday trades. People like Jake do better making a smaller number of swing trades or longer-term investments.

Some people are good at meeting challenge after challenge while others are not. If you are the kind of person who is overly exacting, you will feel a little stressed out dealing with the uncertainty of the markets. In addition, you may not be the kind of person who -thinks on your feet.- You may be a more contemplative kind of trader, a person who can sit back during the off-hours, read charts and annual reports, and then devise a longer-term trade. Why trade a strategy that doesn't suit you? It doesn't make sense.

Don't be someone that you are not. Be yourself. There is a trading strategy that can fit your personality. So think about your personal style. Are you a person who likes to jump in headfirst and take risks, or are you more on the conservative side, a kind of person who likes to take things slow and mull things over a little?

What kind of job have you been best at, working on jobs where you must complete task after task all day, like a sales clerk or assembly-line style of job, or a job where you prepare for a few key moments of excellence? Trading may be a challenging profession, but there is some flexibility. You can't be someone that you are not. Find the real you and then find a trading style that suits you. When you work with what you have, you'll end up making a lot more profits.

Working on Your Own Terms.

Traders have the freedom to work for themselves and on their own terms. Yet many traders have trouble remembering this fact. In a competitive world where most people define their self-worth based on how they compare to others, there's a powerful need to keep up with the guy next door. Out of sheer habit, one continues to ask, -How well am I doing?- and that question usually leads to asking, -How well should' I will be doing?-

When words like -should- and -must- enter the picture, however, one places a lot of unnecessary pressure on oneself to perform. And when the pressure is on, we usually choke under the strain. It's a hard lesson to learn, but usually, comparing ourselves to others is useless, and at times, counterproductive. You'll make more profits if you learn to look inward for your own personal standards than outward in an effort to beat out the next guy.

Modern society is replete with images of success: -Buy a sleek, new sports car and impress the neighbours. Wear the latest designer fashions and watch heads turn as you walk by.- Implicit in all these messages is the idea that in order to have value as a person, you must have more, or do more, than your friends and neighbours. But such comparisons are usually superficial, especially when it comes to trading.

Trading is a natural, integrated activity, in which each trader brings his or her own knowledge, personality, trading method, and tools to the trading arena. Through a coordinated integration of these various components, the trader builds up a set of individualized trading skills that produce lasting success. Such integration doesn't happen overnight but through hard work and persistence. Over time, one makes trade after trade, gaining key experiences along the way, until it all comes together in the end. One needs to find one's own personal talents, accentuating one's strengths and working around one's limitations.

Every trader is on his or her own path. It makes little sense to compare oneself to others. Trading isn't like grade school where all one has to do is do the homework, get passing grades and be branded a -success.- Trading requires skills that only a select few will master. Some will never make it, while others will see huge profits. Thus, it isn't necessary to judge yourself by comparing yourself to others. You need to find your own standards. You can do what you want to do without reference to anyone else.

Studies of successful and creative people have documented a rugged individualism, in which one works by his or her own standards. Even in competitive situations, creative people don't compare themselves to others. They look inward and let their internal standards guide them. They know that through persistence and determination, they will achieve success. They don't force it. They know that if they allow themselves to follow their passion, success will come naturally.

It's essential that you take a similar individualist approach when you are trading. Don't compare yourself to others. It may be hard to fight the urge, but when you find yourself doing so, stop. Instead, look inward. Compare your current performance to your past performance. Ask yourself, -How well am I doing these days compared to how I've done in the past?-

Even these kinds of comparisons must be made carefully, however. Make sure you are making meaningful comparisons, and consider factors that may hinder or enhance your current performance, such as market conditions. For example, don't feel bad because you're not making the kind of profits in a current sideways market that you've made in a past bull market. It's also important to focus on the process of learning to trade properly. Don't make it all about profits. If you are now clearly specifying a trading plan and sticking with it, for instance, that's making progress regardless of how much profit you made.

So remember, although it's often fun to compare yourself to others and build up your ego when you are doing well, it's often a waste of time in the long run. Each trader has his or her own talents when it comes to trading. It makes no sense to compare apples and oranges. Go your own way. Focus on your own personal goals. By trading on your own terms, you'll eventually achieve lasting success.

In Your Own Time and On Your Own Terms.

We're always in a rush these days. There's too much to do and not enough time to do it. That's the credo most people live by during these uncertain and stressful times. Many novice traders feel pressure to succeed in a relatively short time. It's common to hear of a trader who after only a few months turned a small trading account into a fortune. Although it's possible, such an accomplishment rarely happens.
Most novice traders take years to become consistently profitable. In the end, we all come into trading with our own life experiences, our own skills, and our own resources. You can only do so much with the resources you have available. If you try to do the impossible, you will feel disappointed, and you'll probably give up too early. It is vital to closely examine your resources, develop realistic objectives, and take the necessary steps to achieve your goals.

Trading is a business, and as with any business, success depends on the amount of startup capital you have available to invest. Consider a simple example, in the last two weeks, General Mills went up from $40 to $42 a share. If you had purchased only 50 shares, you would have not been able to profit from the price increase. It wouldn't cover commissions and expenses. But if you had purchased 1,000 shares, a simple buy-and-hold strategy would have yielded about $2,000. Adequate startup capital is essential. The more you have, the better. Yet people differ in how much they have available.
Some people may have inherited a sizable sum to invest; others may have sold a business for a hefty profit; while other traders may have to save up small amounts of capital from each paycheck. How one accumulates trading capital doesn't dictate who can and cannot become a profitable trader. But you can see that some people are going to be able to trade profitably more quickly than others based on their account size and the amount of risk they can take on with a larger trading account (assuming that risk is managed carefully).
In addition to capital, each person has different life experiences and personalities. Some people have experienced a great deal of success in life and they bring these experiences to trading. Similarly, some people can take risks in a carefree way, without worry and self-doubt. Having these personality characteristics will allow some people to master the markets more quickly than others. Trading is challenging. Several prerequisites must be met to trade profitably and consistently. People differ, however, in terms of how long it may take them to meet these prerequisites. Some people can meet them easily, while others may need to spend several years trying to amass the necessary psychological and financial resources.
That said, it doesn't make much sense to feel a need to master the markets quickly when you aren't ready. Novice traders who try to trade without meeting the prerequisites usually fail. Don't feel the need to succeed as a trader more quickly than your resources allow. Becoming a consistently profitable trader takes time. And the amount of time depends on your resources, so take it easy on yourself. Don't put unnecessary pressure on yourself. Master the markets on your own terms and at your own speed. Eventually, you'll achieve lasting success.

The Calm, Perceptive Trader.

When your money is on the line, it's hard to avoid feeling a tinge of fear with every minute you're in the trade. Some traders crack under the pressure. They panic and lose the ability to read the markets with unfailing accuracy.

A study by Ingmar Franken and Peter Muris (2005) suggests that your approach to making decisions can strongly impact your ability to read the markets accurately. In the first phase of the study, participants were asked to describe their style of decision-making. Some people described a panicked approach to decision-making.

They indicated that they tended to panic when they had to make a quick decision, felt they were under extreme pressure whenever they had to make a decision, could not think clearly when making a decision in a hurry, and tended to change their mind whenever there was a possibility that something might go wrong. Another group of participants described themselves as remaining calm while making decisions. These individuals not only made astute decisions while under pressure but also tended to feel upbeat and enthusiastic while making decisions. They enjoyed the thought of winning, and felt excited and energized by a win.

Participants' decision-making style influenced the way they played a game of chance. In the second phase of the study, participants were presented with two profitable and two losing gaming strategies (similar to a trading strategy) that varied on how much and how consistently they produced a win. The two losing strategies produced immediate, huge wins but over the long term, produced large losses. The two profitable strategies produced only modest wins initially but the wins were more consistent and the losses were smaller. Participants were allowed to use any of the four strategies they wished in order to make as much money as possible.

Just like trading the markets, a participant could use a strategy, see how well it did, and then decide to use it again or try a different strategy. Making the most money required a person to accurately perceive how well the strategy worked and choose the strategy that produced the greatest profit. The ability to make this decision accurately was related to decision-making style. People who were easily panicked while making a decision tended to choose less profitable strategies.

These findings suggest that if you are easily stressed while making decisions, you will be less likely to perceive market conditions accurately. You will tend to seek out immediate rewards even if it means you will end up losing overall. You may be at a disadvantage compared to other traders, but all is not lost. You can take preventative steps to work around your shortcomings.

First, admit you are at a disadvantage and that you must make an extra effort to overcome your weakness. Second, limit the amount of risk you take. If you are prone to panic while making trading decisions, your judgment will tend to be clouded. Reducing stress and psychological pressure will help matters. Trade smaller positions to ease the pressure. Use protective stops so that you feel you have an added sense of safety and security. In addition, increase your time frame.

Taking these precautions can help you stay calm, and when you are calmer, your perceptions of the markets will be more accurate. Finally, pay particular attention to your win-loss ratio. If you are easily frazzled, you will tend to seek out setups that provide immediate profits, but overall tend to put you in the red. By carefully monitoring your win-loss ratio, you will be able to see whether you are making more money on your winning trades than losing money on your losing trades. If you are losing too much money on losing trades, you will be aware of the situation, and be able to change your approach so that you make more consistent profits overall.

The calm trader is the winning trader. If you have trouble controlling your emotions while making trading decisions, you will tend to let panic, distress, and anxiety take over and cloud your perception. If you are vulnerable to panicked decision-making, don't ignore the problem. By limiting risk and doing whatever you can to ease the pressure, you'll increase your profitability.

Dealing With Panic.

Have you ever been caught off guard in the midst of a trade? In an instant, you may lose control of your emotions? It may not happen all the time, but it does happen. Consider the basic scenario. You may have thought you had a well-developed trading plan. You executed it, monitored the markets, and suddenly, it all went wrong. You became agitated. You could no longer think straight.

You were caught off guard, and thrown into a state of anxiety and panic. When things don't go your way, it's easy to feel frustrated and disoriented. In a sense, there is little you can do but acknowledge that you have lost control and that you better struggle to minimize the damage. Our brains are wired for primitive responses, and this faulty wiring can throw us off balance at times. Just like wild animals, when things don't go our way, our thinking gets cloudy, and we instinctively try to take physical action, such as fighting an opponent or running away. But when trading the markets, this is not an optimal strategy. What we need to do, and may have trouble doing in a panic state, is think clearly, rationally, and take appropriate action. In an extreme state of panic, though, you will not be able to think logically enough to think on your feet and make an astute midcourse correction. There are steps you can take, however, to deal with an unexpected, panic state with grace.

First, planning ahead, and working under the assumption that things go wrong, helps. Getting caught off guard is often the main precursor to a state of panic. If you are caught off guard and start to panic, you will have difficulty gaining your composure and acting rationally. The best protection is to assume that adverse events may happen. Don't fool yourself into thinking you are immune from things going wrong. Bad things do happen to good traders. How do you prepare for adverse events? Don't trade with a vague trading plan. Consider all possible adverse events, and consider how the price may move in ways that you had not anticipated. Specify the signals that will tell you at what point you should logically abandon your plan.

Outline the plan in as much detail as possible, when you will enter, when you will exit, and indicators you will look at to determine how well the markets are behaving according to plan. If you have a well-defined plan, you can react decisively even during a panic state. If a plan is well formulated, then it's easy to follow, even in times of extreme uncertainty and stress. By having a well-defined trading plan, you can follow it even when you are frustrated and agitated. And if you can follow your plan, you'll minimize the damage that a panic state can cause.

A second major precaution is risk management. If you risk money you can't afford to lose, the stakes will be too high and you'll know it. You'll feel on-edge as if something bad is about to happen. If you manage risk, though, you'll know deep down that you are safe even when the market moves against you. You'll feel more at ease, and be able to instinctively think, -I'm protected. Just calm down, and follow the plan. I'll survive.-

Trading can be stressful at times. An unexpected adverse event, or seemingly erratic market action, can throw you off balance. And once you are knocked off balance, it's hard to regain your composure. You won't know what to do. Don't wait to be caught off guard before taking action. When you are thrown off balance, you may not recover fast enough, but if you trade with a detailed trading plan that you can easily follow even in the midst of a state of panic, and if you have carefully managed risk, you will be able to gain some emotional control, and minimize the damage. Don't wait until it is too late. Take action before the markets catch you off guard.

In a State of Panic.

Jake thought that he had it all figured out. He would buy 500 shares of a stock when the price hit 50 and sell when it reached 51. Maybe it wasn't the most thorough trading plan but it was a plan. When Jake tried to execute the plan, however, the trouble started. The stock opened at 51. Jack waited for it to go down to 50, which it did around noon. He tried to buy it as he had planned, but he got a poor fill. He decided to go with what he had, but the stock price went up and down, between 49 and 50 until the close. Throughout the day, Jake felt frustrated. He couldn't think straight. He hadn't anticipated how the price might fluctuate as it did. He was caught off guard and thrown into a state of anxiety and panic.

If you're a trader, it's vital for your success to stay calm and rational, but it's hard to do when things aren't going as you had planned. Chances are that the trading arena isn't the only place where you have experienced frustration. When things don't go your way, it's easy to feel frustrated and disoriented. Have you ever made a wrong turn in an unfamiliar part of town? Perhaps you were late for a doctor's appointment and you didn't want to get lost. Suddenly, you couldn't think straight. You made another wrong turn and ended up even farther away than you had planned. Our brains are wired for primitive responses, and this faulty wiring can throw us off balance at times.

It's as if we are wild animals: things don't go our way, our thinking gets cloudy, and we instinctively want to take physical action, such as fighting an opponent or running away. But in modern life, the opponent isn't always another person. Or the person that you want to get angry at isn't around. For example, the civil engineer who designed the confusing off-ramp and signage isn't nearby for you to yell at. It's the same with trading. You can get thrown out of whack when things don't go your way, but you can't fight the markets and make them do what you want to do. You merely have to accept your fate and move on.

What is the best thing to do when you make a wrong turn and end up in the middle of nowhere? Most of us don't do it, but the smart thing is to pull out a map and make a new plan for reaching your destination. If you are really frustrated, though, even reading a map is hard to do. You may have to calm down before you can actually think clearly and plot a new course.

Similarly, you may get frustrated when trading a poorly devised trading plan, especially when something unexpected catches you off guard. You can suddenly feel dazed and confused. It may be hard for you to calm down. Just like getting lost in an unknown part of the city, you may feel lost when a trading plan goes awry. How can you avoid feeling panicked? Planning ahead helps. Don't trade a vague trading plan. Consider all possible adverse events, and consider how the price may move in ways that you had not anticipated. Specify the signals that will tell you that you should abandon your plan.

Outline the plan in as much detail as possible, when you will enter, when you will exit, and indicators you will look at to determine how well the markets are behaving according to plan. Novice traders often make the mistake of trading a plan that is unclear and hard to follow. When things get rough, they panic, feel frustrated and don't know what to do. But if a plan is well formulated, then it's easy to follow, even in times of extreme uncertainty and stress. Don't get thrown into a panic when market conditions don't go your way. Make a detailed trading plan. The extra work upfront will pay off in the long run.

Paradox of Control.

When your money is on the line, it's natural to feel uncertain and a little cautious. You don't want to lose it. You want to take every precaution possible to protect yourself. But there's taking realistic precautions, on the one hand, and overdoing it on the other. It's useful to know what you can and cannot control and devote your energies to where they can make the most difference.

The markets are uncertain. Indeed, it's not just the markets, but life in general. As much as we have a strong desire to control our destiny, sometimes we just can't. There are times when what is meant to happen is just meant to happen. All the anticipating and planning isn't going to change matters. Sometimes you'll just waste your time and energy trying to change and control events that you just can't change. That's what makes life difficult: learning what you can and cannot change. Most events are a matter of chance. There's some uncertainty that goes along with the trials and tribulations of everyday life. That said, there is still a desire to gain as much control as possible. When it comes to trading, however, it can be time poorly spent.

The more you try to control events, the more stress you feel. It's not prudent to think you are completely helpless, however. The markets are risky, and it's wise to take some precautions, such as controlling the amount of money you risk on a given trade, and specifying and following a well-defined trading plan. Your trading plan may include anticipating all possible adverse events that may go against your trade and developing clearly defined exit strategies should you encounter these adverse events.

Doing some amount of anticipating and planning will help you protect your account balance. But there comes a point when you can't do much more. In the end, you are taking a risk and that's just part of the game of trading. If you worry too much about what can go wrong or think you have more control than is realistically possible, you'll feel the stress and pressure.

You'll start to think you can control events that you cannot actually control, and you may start blaming yourself when the market action isn't consistent with what you had anticipated. The added pressure and stress will tax your limited psychological resources and unduly influence your mindset. You'll feel uneasy, and your judgment may become blurred. This is all unnecessary, however. You must accept that you don't have perfect knowledge. You can't possibly anticipate all possible adverse events. You can take precautions, but you can't control everything. It's better to just admit that you aren't omnipotent.

Once you admit that you may not have complete control over your destiny, you'll feel more calm and relaxed. This is all part of the paradox of control. We all want control, but when we try to gain complete control, we ironically lose control. Our emotions start to take over.

On the other hand, if we just accept that we are powerless at times, we can more easily control our emotions, think more clearly, and in the end, actually, exert more control over our destiny. Specifically, for trading, if we admit we can't control every possible future market event, we will be calmer, more focused, and able to trade more freely and logically. And that will lead to lasting profitability. So learn what you can and cannot control. You'll trade more freely and profitably in the long run.

The Paranoid Trader.

Jack confides to his trading coach, -I think I'm paranoid. When I put on a trade, I feel as if the market is out to get me. It's a problem. I'm always on edge. I feel as if I need to defend myself. And when the market goes against me, I get very angry. I want to get revenge.- Jack does indeed seem a little paranoid, but being paranoid when it comes to trading the market isn't always a symptom of deeper psychological trouble. A little paranoia may even be healthy when trading the markets.

A common definition of psychopathology is a mismatch between a person's character style and the context, or environment, in which he or she lives. For example, an extremely shy person is only viewed as having a psychological problem if he or she has a job that demands extraverted interactions with many people, such as a sales representative. If the shy individual never has to speak to another human being to survive, his or her shyness is not a problem.

When it comes to paranoia, extreme paranoia often poses a problem. For example, Dr Richard Geist, Innerworth advisory board member, argues in his book -Investor Therapy- that suspicious investors are out to expose a sham. They try to find a scandal that may impact the prices of a particular company's stock, such as unethical accounting practices. Suspicious investors are very rigid. They usually have a preconceived notion that something is amiss and tend to only focus on evidence for their supposition that something is definitely wrong. Such a rigid focus can mean that evidence contrary to one's position may be ignored, which often leads to biased judgment.

At an extreme, paranoia can pose a problem for traders. In Jack's case, he is personifying the market. Although the market is composed of people who are all trying to make a profit, even at the expense of other market participants, it isn't useful to look at trading this way.

Fellow market participants aren't usually against a particular trader (unless it is a rare event where a thinly traded stock is -manipulated- by a few key players). Believing that your fellow traders are out to get you personally is just going to make you anxious and upset. It is more useful to view the market as an abstract entity, such as gravity or the wind. It is something to navigate around, rather than treat as a person who is out to get you and deserving of blame.

That said, there are times when a moderate amount of paranoia is realistic. Seasoned traders warn to be wary of anything you hear. Trading is replete with get-rich-quick schemes and methods that may work today but fail next month. The astute trader sifts through all possibilities and uses the information and methods that work best for him or her. It is useful to be suspicious rather than naïve. The gullible trader will learn quickly that overconfidence will lead to huge losses in the long run. Healthy scepticism is warranted when trading the markets.

In the end, a paranoid trader is likely to feel unnecessarily upset. It is vital to trade with a carefree mindset. -Don't take is personally,- is the credo that all traders should follow. Objectify the market. Don't personify it. You'll be less prone to paranoia, and you'll trade more effortlessly, consistently, and profitably.

Holiday Parties: Stay Humble and Quiet.

It is the holiday season, a time to spend socializing with family and friends. It's tempting at those holiday parties to discuss how well your trading is going, but you may want to keep it quiet. Many people are interested in trading and may find you interesting as a successful trader. At first, the attention may be enjoyable, but a need to maintain this reputation may impact your trading attitude, and your ability to maintain an objective, emotion-free mindset.

It is essential that you avoid letting your reputation influence your performance. It is useful to keep your conversation at parties discreet when it comes to your trading career. The more you present yourself socially as a -successful trader,- the more psychological effort you will spend defending this reputation. Several research studies have documented that one of the biggest obstacles to sound decision-making is the need to save face in social situations.

People are so reluctant to face the adverse social consequences of having made a poor decision that they stay on a losing course of action, rather than admitting they were wrong. For example, some traders are reluctant to sell off losers in order to avoid the possible social criticism that acknowledging a failure may bring. This is such a powerful psychological process that it is worth trying to minimize it as much as possible, even if it means avoiding the topic of trading at holiday parties.

Most partygoers are looking for entertainment, and what can be more entertaining than hearing about how to make huge profits in the markets? It may be tempting to brag a little and tell everyone how you've bad a bundle or reveal a hot tip. In the short term, it may be fun, but in the long term, there may be a powerful desire to save face. While at a holiday party, suppose you told your friends about a large position you had been holding, but on the days leading up to Christmas, the trade went sour. At the New Year's Eve party the next week, many of your friends will look forward to asking you how your big trade is doing.

Their expectations may colour how you handle trading decisions. If you are afraid to face the facts that you made a bad trade, you may hold onto the position so that you can claim that the trade is still in play, knowing full well that you are merely postponing the inevitable. The added pressure to perform so as to save face may lurk at the back of your mind and impact your trading decisions. It's better to avoid getting into such a mess. Keep your trading activities to yourself. Find something else to talk about. You'll make your life easier.

In social settings, such as a holiday party, once you announce and identify yourself as a trader, you will feel a need to defend your reputation. Trading is hard enough, why introduce additional social and psychological pressures that will adversely influence your trading results? Stay humble and quiet. There is no logical reason to discuss the specifics of your trading career socially. It's often done just to build up your ego, and enjoy the attention of others. You'll pay a price for this short-term gratification in the long run. But if you can just stay quiet and keep the specifics to yourself, you'll avoid embarrassing questions and comments that will interfere with your trading.

Passion in Everyday Life.

In Mitch Albom's -The Five People You Meet In Heaven,- the main character, Eddie, spent his life as a maintenance worker at a seaside amusement park repairing the rides, and ensuring they ran reliably. He felt trapped, however, believing that he should have left long ago and done something more significant with his life. When he arrived in heaven, he tried to make sense of it all. In the end, Eddie saw that his job at the amusement park was extremely meaningful.

He kept people safe on the rides and that's an important contribution. Our happiness depends on whether or not we find our lives meaningful, or at the very least, inherently rewarding. We must do something significant with our lives. It doesn't necessarily have to be significant like the leader of a country or an inspirational guru, but in our own way, we must make some sort of contribution. We must believe that we have our own place in the world and that it is important. Over the years, many traders have said that they just don't feel as if they are making a significant contribution.

We've heard it from traders who trade from their home office, traders on the floor of the CME, to hedge fund managers. This isn't an issue that should be taken lightly. If you feel that you aren't making a contribution, you'll eventually question why you bother trading. And when you start asking that question, you'll lose your competitive edge. You'll feel like giving up. It is vital for your long-term survival that you see trading as inherently rewarding and personally meaningful.

Money isn't everything. It's the process that matters, not the prize. It is much more satisfying to pursue objectives for the pure joy of pursuing them, regardless of how much money you can make. Winning traders are motivated by the inherent rewards of trading rather than profits. It's common to hear traders say, -I love trading so much that I would do it for free if I had to.- They find trading personally meaningful.

The markets fascinate them. Market action is intrinsically interesting. It is a rewarding intellectual challenge to devise innovative new trading strategies, and seeing how well your ideas pan out is exciting and enjoyable, regardless of whether you win or lose. Viewing trading from this perspective can act as powerful motivators. Individuals who pursue trading in this way are more likely to feel satisfied and can more easily manage the extreme stress the market is infamous for producing. When you aren't focused on the profits, it's easier to stay calm and focused.

The money is either secondary or not an issue at all. Successful traders love the challenges the markets offer and view their work as meaningful. But many novice traders focus on competing with others, beating them out of profits, and winning bragging rights. Such an approach may satisfy a trader initially, but over time, it's unlikely to be sufficient. Pursuing trading as a passion is a healthier, more satisfying way to approach trading. It's more useful to focus on pursuing goals that are intrinsically interesting and personally meaningful.

Although trading is inherently rewarding, it can also be hard work. And that's why it is necessary that you feel your life overall has meaning. You must determine how trading fits into your life. Is it your primary means of fulfilment or just a way to make money? It is difficult to view trading as your primary means of fulfilment. For most people, it isn't important enough.

Many traders find it necessary to make additional societal contributions by donating some of their profits to charity. Regardless of how you do it, it is important to make sure that trading gives your life meaning, either directly by allowing you to provide for your family, or indirectly by giving you the opportunity to donate money to charity. Don't underestimate the need for meaning. Trading can be tedious over the long term, and unless you find it inherently interesting and meaningful, you'll eventually burn out, and never achieve lasting success.

Money Isn't Everything.

There are numerous examples of people who quit high-paying jobs to follow their passions. A lawyer may open a café to fulfil a dream. A CEO of a corporation may retire early to pursue a new career as a jazz musician. What many of these people know is that money is a poor motivator in the end. It's much more satisfying to pursue objectives for the pure joy of pursuing them, regardless of how much money you can make.

Many winning traders are more motivated by the process of trading than by the profits they are making. It's common to hear traders say, -I love trading so much that I would do it for free if I had to.- Indeed, when one looks into the backgrounds of top traders, the story seems to be the same: They all tried to get a job in the trading industry as soon as possible, any job as long as it involved trading in some way.

The markets fascinated them. The money was either secondary or not an issue at all. Successful traders love the challenges the market offers and view their work as meaningful. But many novice traders look at trading from a conventional view of success. They focus on competing with others, beating them out of profits, and winning bragging rights. Such an approach may satisfy a trader initially, but over time, it's unlikely to be sufficient. Pursuing trading as a passion is a healthier, more satisfying way to approach trading. It's more useful to focus on pursuing goals that are intrinsically interesting and personally meaningful. One should pursue trading because he or she enjoys the intellectual challenge.

Market action is intrinsically interesting. It is a rewarding intellectual challenge to devise innovative new trading strategies, and seeing how well your ideas pan out, just for the fun of it, is exciting and enjoyable, regardless of whether you win or lose. Viewing trading from this perspective can act as powerful motivators. Individuals who pursue trading in this way are more likely to feel satisfied and can more easily manage the extreme stress the market is infamous for producing. When you aren't focused on the profits, it's easier to stay calm and focused. You will be better able to accept your limitations. And in the end, you'll find your performance is heightened as a result of taking a more passionate approach to trading.

The way you approach trading dictates how you feel about it, and how well you will do overall. Those who find trading intrinsically satisfying, enjoyable, and meaningful will put in the necessary hard work and achieve high-performance levels. To cultivate a healthy approach to success. Don't focus on the money and status that successful trading may bring. Enjoy the process of trading. Seek out challenges and the satisfaction of meeting them. You'll end up more profitable by doing so.

Following a Passion for Trading.

Why do people trade? The obvious answer to this question is, -For the money.- It may be a no-brainer to some, but to the seasoned trader, the answer isn't always so obvious. When one is focused on the profits and the glory of making winning trades, he or she tends to put too much pressure on oneself to succeed. And when the pressure is high, it's easy to choke, making trading errors and ending up with a blown-out trading account. What seasoned traders know is that it is vital to loving trading for its own sake.

You should enjoy trading so much that you would do it for free if you could. The backgrounds of top traders seem to all be the same: They tried to get a job in the trading industry as soon as possible, any job as long as it involved trading in some way. The markets fascinated them; the money was either secondary or not an issue at all. But ask a typical non-trader or a would-be trader what he or she thinks inspires traders, and the impression is quite different.

Many think that traders are out to make big bucks, achieve high status, and show it all off with luxury cars and nice homes. These may be the side benefits of trading, but they aren't the primary motivators. Successful traders love the challenges the markets offer and view their work as meaningful.

Psychologists have long known the advantages of pursuing goals that are intrinsically interesting and personally meaningful. When trading is pursued these intrinsic rewards it can be especially fulfilling. It's more useful to follow one's passion than to be overly consumed with the competition, financial reward, and high-status Studies have demonstrated that people who pursue goals for intrinsic rewards are better adjusted and more satisfied with life, compared to those who seek out external rewards, such as profits and status. They are also better able to control their ego. They can easily accept their limitations; they don't mask their limitations by feigning superb trading ability. Instead, they make heroic efforts and achieve high levels of performance.

You have a choice when it comes to the reasons you pursue trading. You can focus on the glory, the profits, and status. You can be a big shot and show your friends and relatives that you have the upper hand. But you'll pay a big price for this approach in the end. It will overly tax your limited psychological resources, and in all likelihood, you won't be able to maintain profitability over the long term.

It's much more fulfilling to trade for intrinsic, passionate motives. When you follow your passion, you'll find trading intrinsically satisfying, enjoyable, and meaningful. You will gladly work tirelessly to achieve high-performance levels. So focus on intrinsic rewards. You'll enjoy the process of trading. And in the end, you'll stay consistently profitable.

It's Not the Money, But the Challenge.

Why do you trade? Most people would think it's obvious. It's for the money, right? What many winning traders know, however, is that money is a poor motivator in the end. It's much more satisfying to pursue trading for the pure joy of mastering the markets, regardless of how much money you make. Winning traders are motivated more by the process of trading than by the profits they are making. It's common to hear traders say, -I love trading so much that I would do it for free if I had to.-

Indeed, when one looks into the backgrounds of top traders, the story seems to be the same: They all tried to get a job in the trading industry as soon as possible, any job as long as it involved trading in some way. The markets fascinated them. The money was either secondary or not an issue at all. Successful traders love the challenges the market offers and view their work as meaningful. Consider what Alex, a successful trader, said about money to our Innerworth staff, -Money doesn't make a person happy. Trading is what I do and I enjoy doing it. The money aspect of it is obviously cool and everybody wants that, but I don't know how to do anything else.- Staying detached and apathetic towards money can help put you in the proper mindset. Curt, a successful winning trader interviewed by Innerworth says, -One of the reasons I was successful was because money wasn't the reason I wanted to trade.

Because the allure of money wasn't the reason I was trading, it was a lot easier for me to withstand the ups and downs of the market, and to execute without that affecting the way I was executing.- When you aren't worried about the money, you can take a more carefree approach to trade. You feel that you don't have to win, and knowing you can make a mistake here and there allows you to relax and trade more creatively.

In modern society, we are pushed to make money. We think we need money, and see trading as a way to make a lot of it. Ironically, if you are focused only on the money, you will become disappointed and eventually fail. Pursuing trading as a passion is a more satisfying way to trade. It's more useful to focus on pursuing goals that are intrinsically interesting and personally meaningful. One should pursue trading because he or she enjoys the intellectual challenge. Market action is intrinsically interesting. It is a rewarding intellectual challenge to devise innovative new trading strategies and to see how well your ideas pan out, just for the fun of it. Viewing trading from this perspective can powerfully motivate you.

Whether it's art, sports, or business, the folks at the top are not primarily motivated by fame, glory, respect, or status. They are driven by the pure love of the game. Winning traders, similarly, have strong interests in the markets, and this passion is the driving force that puts them at the top, year after year. Those who find trading intrinsically satisfying, enjoyable, and meaningful will put in the necessary hard work and achieve high performance levels. So don't focus on the money and status that successful trading may bring. Enjoy the process of trading. Seek out challenges and the satisfaction of meeting them. You'll end up more profitable by doing so.

Conquering Passivity.

Winning traders take decisive action. The decisions you have to make to put on winning trades are crucial to success. Where do you enter? When do you exit? How much risk will you take on? Each of these questions must be addressed quickly and with strong resolution. But not all traders can make the right decision at critical moments of investing. Passivity often sets in. It can take on many forms from failing to pull the trigger to holding onto a losing trade. Sometimes, actually taking action is a form of passivity.

For instance, rather than actively letting a winning trade fully come to fruition, a passive trader may close out a position early to lock in profits and avoid the unpleasant feeling of embracing and accepting uncertainty. In his book, -The Psychology of Risk: Mastering Market Uncertainty,- Dr Ari Kyiv (2002) defines three types of passive traders: Cautious, fearful, and insecure. If one of these types is descriptive of you, consider learning how to conquer passivity by gaining awareness of the psychological mechanisms that lie beneath it.

Cautious traders are passive in an attempt to avoid risk. They obsess over any possible flaw in their trading plan. They try to seek out perfect trading information in a fruitless attempt to control the inherent uncertainty of the markets. Many times, their thorough search for all pertinent sources of information is merely an excuse for not taking on risk. But information is never fully complete. When you are trading, you are taking a risk, and you must accept the fact that no amount of perfectionism or caution will guarantee success. All that cautious traders end up doing is failing to take action.

The second type of passive trader is a fearful trader. Fearful traders don't trade to win. They constantly try to avoid losing. It's not a very satisfying way to trade. As Dr Kyiv puts it, their need to avoid loss -leads to a sense of quiet desperation.- Rather than enthusiastically trading the markets, and expecting success, they passively wait for their doom, which they think is inevitable. Your destiny is never set, however. By taking an active approach to trading, you'll increase the odds of realizing huge payoffs.

Insecure traders are passive because they continually seek approval. Insecure traders seek out acceptance and reassurance. They can't make a decision independently and spend hours gathering the opinions of others, and hope that other people can make key decisions for them. Their primary intention is to avoid responsibility. If someone else were the impetus for their decision, then it's never their fault when the trade goes sour. It's always someone else's fault. By putting the blame on others, the insecure trader is able to avoid facing his or her limitations. A grandiose self-view can be maintained.

But looking toward others and avoiding an honest look at your abilities will lead to stagnation. Trading requires action, and fully engaging in trading activities requires a full awareness of what you're doing. You must actively look inward to your own intuitive sense of the market action and trust what your instinct tells you. Only when you are fully committed to looking at the market through your senses, and fully accepting your experience on its own terms can you trade freely, creatively and profitably.

In the end, there are no guarantees. You must take risks. The key is to find the proper balance. Risks can motivate you, but they can also overwhelm. By finding a level of risk that motivates you, but does not overwhelm you, you will stay energized and be ready to actively trade the markets rather than allow profits to pass by.

Overcoming the Past.

We are sometimes the victims of our past experiences, but it doesn't have to be that way. Mastering the markets requires one to make trade after trade. Many times traders are executed flawlessly, but there are times when we choke. It may be that we weren't paying enough attention or that market events didn't line up just right, but we ended up closing out a trade at a loss. If we aren't careful, we can let our past mistakes bias the way we see things, what we anticipate in the future.

We learn to avoid pain early. When we first touched a hot stovetop, we recoiled instinctively to avoid further pain, and similarly, when we entered a trade impulsively and took a big hit to our trading account, we may have hesitated out of self-doubt the next time we found ourselves in similar circumstances. Our past experiences colour our expectations, sometimes positively and sometimes negatively. When novice traders experience early success, they tend to seek out risks.

They overestimate their abilities and take unnecessary risks because they falsely believe they have skills and abilities that they just don't have. It's possible for the seasoned trader to feel the opposite. A more experienced trader, for example, may come across a bout of bad luck, and suddenly, he or she may unnecessarily question his or her abilities, sometimes paralyzed with self-doubt. In the end, it is vital to learn to recover quickly from setbacks. The past doesn't necessarily need to colour what you think about the future.

A wise person learns from his or her mistakes. There's no point in reinventing the wheel. This is true in life and it is often true of trading. If you make a risky trade without proper risk management, you can wipe out your trading account.

The traders who survive learn to manage risk or suffer the consequences. Similarly, if in past trades you failed to account for adverse events, such as an upcoming holiday, a scheduled rate hike, or earnings or product reports, you'll be careful next time to account for these events. It is useful to learn some basic rules of the game. But conventional wisdom is true only when it is true. That's what makes trading a challenge. There are times when one does everything -right- yet things just don't work out. The best-devised trading plan can fail because market conditions just weren't right. There's nothing you can really do about it, and over-analyzing the past isn't going to get you very far. There are times when the past tells you nothing about the future, so it is better to just press on. Over-analysis often leads to self-doubt and paralysis. In addition, focusing on the past tends to make you feel anxious and act impulsively, and it definitely distracts from a clear, concerted focus on one's immediate experience. And managing an ongoing trade under current market conditions is all that matters in the end.

The past can have a powerful impact on our future perceptions if you let it. It is essential that you gain awareness of how your past experiences may bias your view of the future. If you are a novice trader who has had a run of good luck, it may be essential that you don't get a swelled head and trade with overconfidence. If you are a seasoned trader with a solid track record who has merely encountered a run of bad luck, it is vital to pick yourself up, think optimistically and get back into the trading grove.

Although we can learn a great deal from our past, it is important to let go of it at times. Don't over-analyze it. Learn what you can and just move on. The more you can focus on your immediate experience, the current trade, rather than mull over the past, the more profits you'll realize.

Patience is a Virtue.

In trading, timing is everything. Winning traders are patient. They know how to control their impulses so as to act decisively at the opportune moment. Rather than acting on a whim, they carefully devise a detailed trading plan, in which precise entry and exit strategies are specified, and strictly follow it. Discipline is the key to successful trading. Although discipline can be learned, some people are more disciplined and self-controlled than others. It is useful to determine where you stand on this trait, and if you're impulsive, developing psychological strategies to compensate for it will allow you to trade profitably.

Research studies have demonstrated that some people have difficulty delaying gratification. In the jargon of behavioural economics, they -discount delayed rewards.- That is, they would rather take a small profit now, instead of waiting for a larger profit later. Depending on your style of trading, discounting a delayed reward can be a problem.

For a long-term investor, for example, it is necessary to buy-and-hold long enough for one's long term strategy to play out. There may be minor fluctuations during the waiting period, but seasoned investors have learned to wait it out. Most novice investors, in contrast, impulsively sell as the masses panic and buy the stock back at a top, which usually results in a losing trade.

If you are a long-term investor, it is necessary to be able to control your impulse to make a profit and allow the price to rise over time. Even shorter-term traders, such as a swing trader, must fight the urge to sell early. Although trades are held for much shorter windows, a swing trader must know how to wait patiently for the optimal time to sell. Selling a winner too early is not going to allow one's account balance to increase exponentially at an ideal rate.

The scalper is at the opposite end of the spectrum. Most scalpers feel an overpowering need to take a quick profit as soon as they can get it. To some extent, it may be wise for a person who has trouble patiently waiting for the price of an investment instrument to increase to become a scalper. The conventional wisdom these days, however, is that decimalization has made scalping less viable.

It is useful to take other steps to work around one's inclination to sell prematurely. For example, one can use the automatic settings on one's trading platform to specify an exit strategy. It has often been said that looking at one's screen during the trading day is like sitting in front of a slot machine and trying to resist gambling.

It's hard. Just as the one-armed bandit tempts recreational gamblers, charts and indicators on a computer screen tempt seasoned and novice traders alike to make hasty trading decisions. It may be useful to refrain from constantly looking at how a particular stock or commodity is doing while you're waiting for your trading plan to play out. If you have to walk away, while having the automatic settings on to manage risk, then, by all means, turn off your screens or walk away.

It is also useful to objectify the trade. The more you can learn to view the trade objectively, as if you just don't care what happens, the more you'll be able to resist the temptation to close out a trade prematurely. A cold, rational approach to trading, along with a detailed trading plan, is the best defence against impulsive trading decisions.

Patience is a virtue when attempting to trade profitably. It is useful to remember that humans have a strong, natural tendency to avoid risk and loss at all costs. This tendency often protects us from harm, but there are times when it can compel us to act impulsively. We are naturally inclined to avoid losses at all costs, even if it means selling a potentially winning trade before it reaches fruition. Unless one can let winners increase in price sufficiently, profits won't balance out losses. The ability to control one's impulses and wait for larger, delayed rewards is vital for long-term survival. It's worth developing this ability.

The Winning Trader is the Patient Trader.

Jack has just put on a $1,000 trade, which is 10% of his trading capital. He feels he needs this trade to be a winner. He needs to see a huge jump in his account balance. He's been trading for a year, and he just can't wait any longer. He has been working hard and he wants all his heroic efforts to pay off immediately.

Do you see any problems with Jack's overall approach to trading? One problem is that he has -put all his eggs in one basket.- He's put on a big trade, and he merely doesn't hope it's a winner; he needs it to be a winner. Such a mindset isn't ideal. Jack feels extreme pressure to succeed. He feels a sense of urgency; he feels rushed and desperate. In all likelihood, his need to win will interfere with his ability to maintain the calm, focused, and objective mindset that is a key prerequisite to successful trading. It's vital to stay focused and objective, and that means being able to remain patient, to be able to delay gratification and rewards for later.

A fundamental way to maintain patience is to examine one's underlying attitudes and beliefs. People who are impatient operate under the -new dimension.- They want rewards now, rather than later. It is imperative that they receive profits and rewards without delay. They think, -It's either now or never- or -If I can't get what I want right now, I never will.- There's a sense of desperation in this way of thinking. There's a belief that unless one is profitable immediately, it's disappointing, distressing and frustrating.

Traders may differ on the extent to which they operate under the -new dimension.- Some traders may never fall prey to such beliefs, but many traders operate in terms of the -new dimension- at one time or another. Trading is a challenge. A great deal of effort is expended, and it often seems as if the rewards should be greater and more immediate. For example, it's not uncommon for a novice trader to devote six months of hard work and see nothing for it. Indeed, after six months, most novice traders end up losing money. It's at these times that the beliefs and attitudes of the -new dimension- are the most powerful.

You may think, -I'm fed up. When am I going to see big profits? If I don't see profits immediately, I'm just going to quit.- It's reasonable to have such thoughts, but such beliefs often make matters even worse. When you believe that you -must- or -need- to be profitable immediately, you feel anger and frustration, and these emotions will distract you from trading. Just as Jack in the example above, you may feel a strong, impulsive need to abandon risk controls and put a large amount of your trading capital on the line for a single trade.

Don't give in to this temptation. Don't operate under the -new dimension.- How can you avoid this overpowering tendency? It's essential to identify beliefs you hold that relate to the -new dimension,- and refute them. These beliefs are often located in your self-talk, the dialogue you use to talk to yourself as you trade. If you find yourself thinking, -I must make a profit,- or -It will be unbearable unless I make a profit,- you are thinking in terms of the -new dimension.-

Similar beliefs are, -My hard work must pay off now- or -I can't wait any longer.- When you notice yourself thinking such statements, refute them. Remind yourself, -I don't need to make a profitable trade. Trading takes time; I shouldn't think that I must be profitable immediately, or on this particular trade. It isn't the end of the world if I lose this trade (and make sure that you managed your risk properly so that should you lose on a single trade, it isn't a financial disaster).

I can be patient; I'll reward myself by feeling satisfied that I executed my trading plan properly, and I will wait for the financial rewards to come later.- By refuting beliefs of the -new dimension,- you'll be able to stay patient, calm, and relaxed. So don't let impatience, which leads to frustration and anger, get the better of you. Stay calm. Remember, -Trading profitably takes time.- You may not receive profits immediately, but if you build up your skills, gain valuable trading experience, and keep at it, you'll eventually be a consistently profitable trader.

Waiting Patiently For Your Financial Dreams To Come True.

If you are like most people, you want to make a fortune, and you want to make it now. It is a reasonable wish. Who wouldn't want to make enough money to make all their dreams come true? But such a future-oriented focus is often the undoing of many traders. Making money in the markets takes time. You have to wait for ideal market conditions and you have to build up the requisite trading skills to take home huge profits. And if you are like many traders, it will also take time to save up enough capital to trade on a scale that can make you wealthy. If you are serious about making it in the trading business, you will have to learn to be patient.
Many people can't wait to be rewarded. Depending on your style of trading, being unable to wait patiently can be a problem. For a long-term investor, for example, it is necessary to buy-and-hold long enough for a long-term strategy to play out. There may be minor fluctuations during the waiting period, but seasoned investors have learned to wait it out.

Most novice investors, in contrast, impulsively sell as the masses panic and buy the stock back at a top, which usually results in a losing trade. If you are a long-term investor, it is necessary to be able to control your impulse to make a profit and allow the price to rise over time. Even shorter-term traders, such as a swing trader, must fight the urge to sell early. Although trades are held for much shorter windows, a swing trader must know how to wait patiently for the optimal time to sell.
Trading expert, Dr Van K. Tharp argues that impatient traders tend to show a future-oriented focus. They dream of the profits they will make in the future, but at the same time, they desperately need them right now. Getting rid of impatience requires the trader to curb this future-oriented perspective and focus on the near future. Traders can become more patient by following a set of specific steps. First, it's necessary to admit that you are impatient. This can be difficult to do. It's hard to admit our limitations. One of the best ways is to make it impersonal. Pretend you are watching a television show about yourself. Pretend the character on television isn't you. Watch how impatient you are. See yourself as an objective observer would see you, and then, think about how you might change. Second, imagine you have two -tuning- knobs in front of you. Pretend that one of the knobs controls your focus on the future. If you turn the knob to the right, you will focus years into the future. If you turn it to the left, your focus will move closer to the present. When you are impatient, you are looking deep into the future. If you are extremely future-focused, you need to make an adjustment. Turn the knob to the left until you are focusing on the present. The second knob is the speed of your thoughts and behaviour.
When you are impatient, you are thinking too quickly and impulsively. Imagine turning the speed control down until you think and react more slowly. Third, realize that your impatience may be a signal that you need protection from the consequences of a trade, or trading, that you are afraid to face. When you are afraid of facing a potential loss, you may impatiently close a trade for fear of experiencing a bigger loss. It's better to face consequences head-on.
Can you afford to lose capital on a series of trades? Or, are you making up dire consequences that don't exist? It's necessary to consider the consequences of your actions and decide if you can deal with them. Finally, remember times when you showed self-control and were patient. What did you do? How did it feel? Implement some of the thinking patterns and behaviours that helped you maintain self-control in the past.
Don't let impatience thwart your long-term economic plans. Impatience can dash traders' hopes for economic success. Without the proper discipline, you will make losing trades that will eat away at your account balance. By trading with patience, you can build up your account balance slowly and surely and eventually reach your economic goals.

Flow and the Peak Performance Mindset.

Many seasoned traders say that cultivating a peak performance mindset is the key to trading profitably. For example, there are moments when everything just seems to click. A trader is in tune with the ebb and flows the markets. He or she senses what will happen next, and with absolutely no self-doubt or hesitation, he or she can freely and effortlessly execute trade after trade.
At that point, the trader moves into a higher level of psychological existence, losing his or her sense of self in the process of trading. All attention is focused on trade. It's a pleasurable, rewarding mental state. It isn't the case that traders experience the peak performance mental state all the time, and maybe it isn't necessary. But it's a good idea to strive for. Whenever you can cultivate a peak performance mindset, you'll be trading at your best.

What is the peak performance mindset? There are many different names for it: -the zone- or -flow.- Peak performance states were originally studied by psychologist Abraham Maslow who studied self-actualized people who often reported peak experiences where they experienced a higher level of existence. Recently, psychologist Mihalyi Csikszentmihalyi has studied people who experience -flow.-
Flow is an optimal mental state. It's a pure joy a person experiences when he or she engages in a challenging activity for its own right. All attention is focused on the task at hand. It's so engaging that one's sense of self is lost in the task. One of the best examples of flow is mountain climbing. It requires focused attention and it's extremely challenging.
Research studies have shown that flow experiences tend to occur when eight conditions are met. The more you can meet each of these eight conditions while trading, the more trading will be an enjoyable flow experience for you. Let's consider the eight conditions and how they might be met. First, the task or goal must be possible to complete. In other words, immediate goals can't be too abstract or too high. When it comes to trading, for example, it is best to just execute a trade rather than being overly concerned with profits or achieving unrealistic performance standards. Second, a person must be able to intensely concentrate on what he or she is doing. While trading, it's vital that you have a detailed trading plan and control risk so that you can focus on monitoring the trade.
It's also essential that you maintain control over your psychological conflicts and life stressors so that they don't interfere with your concentration. Third and fourth, the task must have clear goals and immediate feedback. Perhaps trading tends to be a flow experience because the goals are often clear and the feedback immediate. Again, a detailed trading plan helps you keep the goals clear. Similarly, the proper signals specified beforehand allows for immediate feedback. Fifth, a flow experience involves deep and effortless involvement.
People are so involved that the everyday worries of life tend to be cast aside. Sixth, while in a flow experience, people have a decisive sense of control over all their actions. Seventh, one loses one's sense of self while in a flow experience. Some traders report that when they are engaged in trading, they are so focused on their experience that they are no longer self-conscious; there is no self-doubt or self-reproach. They just focus on trading. Finally, time seems to just slip away while in a flow experience. Hours can go by like minutes, for example.
Under the right conditions, trading can be a flow experience. In the end, you have the choice as to how you approach trading. Do you approach it as a flow, or peak performance, experience? Or are you approaching trading as a chore, a means to an end? If you approach trading for its own sake, as an intrinsically rewarding, enjoyable experience, you will trade more profitably in the long run. And more importantly, you'll enjoy the journey along the way.

You Don't Need to Be Perfect.

Every time you make a trade, you put money on the line. To the seasoned trader, money is just abstract -capital.- It loses some of its significance. But to a novice trader, money represents house payments, school tuition, and food on the table. When you think of your stake as actual money, there's a strong need to want to trade it perfectly. You don't want to make a mistake and lose your valuable assets.
However, a cold, hard fact of trading is that you'll see more losses than wins, especially when you are first starting out. It's a game where losses are the rule rather than the exception. Feeling that you need to be perfect, and make a profit on almost every single trade is not only unrealistic, but it can create so much psychological stress that you'll have difficultly focusing on the trades that actually will produce a big profit. It's wise to take a more adaptive approach to trade and acknowledge that many times things are not going to go your way.

There's a strong human need to want complete control over our destiny. We want to believe that if we analyze the markets long enough, we'll have perfect knowledge and we can trade to perfection. But these assumptions do us more harm than good. Many times core assumptions, such as these, are -maladaptive- in that they restrict our actions, and often cause unwanted stress. And when we are overly stressed, we have a strong desire to avoid dealing with problems, rather than facing them head-on. It is much more useful, though, to examine core assumptions, realize they may be faulty, and change them.
For example, many people work under the assumption that they must be thoroughly competent, adequate, and achieving in everything that they do. Dr Albert Ellis claims that holding such a belief produces fear and anxiety, which for traders often produces hesitation and self-doubt. The development of this belief is understandable. As we grow up, whether it is at home, school or work, we often face adverse consequences for not being scrupulously proficient, and we begin to believe that we must be thoroughly competent, adequate, and achieving in everything that we do. We pay a price for this belief, however.
If we believe that we must always be competent, we will expend all our precious psychological energy mulling over the negative consequences of failing, rather than focusing on what we are doing in the here-and-now to implement our current trading plan. Traders who believe they must be thoroughly competent spend all their time worrying about what they did wrong, what may go wrong, and how they will recover should they fail. These thoughts are distracting and obscure the flow of immediate experience, and the ability to read current market activity with unfailing accuracy.
A more adaptive approach is to realize that it's impossible as a trader to be thoroughly competent, adequate, and achieving all the time. Certainly, you should develop an extremely detailed trading plan and try to account for all adverse events that may go against your plan, but there are limits to what you can do. Your trading idea may just not pan out, and there's little you can do about it besides taking proactive steps, such as managing risk and having clearly defined exit strategies to protect your long term financial interests.
Holding yourself up to unrealistic standards is just going to make you feel frustrated, fearful, and unnecessarily uptight. By accepting your limitations, and trying to work around them, you'll feel more at ease, and ready to capitalize on a high probability setup when you come across it. So don't be such a perfectionist. Be realist in your goals and expectations, and you'll realize the profits you've been seeking.

Reach for the Sky, But Don't Overdo It.

If you're like most traders, you are in this business to make money, big money. In all probability, you are ambitious, independent-minded and ready to take on the world. With this ambition usually comes a need to be the best. Only the people at the top of the field achieve the highest level of success. Although striving for expertise is a prerequisite for success, it usually coincides with a need to be perfect, and a fear of failure. If you are too much of a perfectionist, you may fear being wrong, losing money, or missing an important trading opportunity. Ironically, if you strive for extreme perfectionism, you may choke under the strain.

In our status-oriented society, we often work under the assumption that we must be thoroughly competent, adequate, and achieving. We tend to believe that if we make a mistake that we will be punished. The development of this belief is understandable. As we grow up, whether it is at home, school or work, we often face adverse consequences for not being scrupulously proficient in everything that we do. But holding such a belief produces fear and anxiety, which for traders often produces hesitation and self-doubt.

In addition, if we believe that we must always be competent, we will expend all our precious psychological energy mulling over the negative consequences of failing, rather than focusing on what we are doing in the here-and-now to implement our current trading plan. Traders who believe they must be thoroughly competent spend all their time worrying about what they did wrong, what may go wrong, and how they will recover should they fail. These thoughts are distracting and obscure the flow of immediate experience, and the ability to read current market activity with unfailing accuracy.

For your long term enduring success, it is vital that you learn to ease up. You don't have to be perfect. You are bound to make mistakes occasionally, and if you are consumed with avoiding them, you'll be so anxious and fearful that you will make even more mistakes. In addition, trading isn't exactly a science. Even when you think a trading plan through carefully, you can't account for every possibility. An unexpected event may ruin your plan and there is nothing you could have done about it, but manage your risk and chalk up it to fate.

Sure, you don't want to make too many mistakes, but you can make a few occasions with little repercussions. Striving for perfectionism is an important ideal to hold, but don't forget that it is just an idea. You might try to reach for it, but don't beat yourself up when you don't get there. All you can do in the end is do your best and keep building up your trading skills. If you keep trying to excel but stay realistic, you'll eventually achieve enduring success.

Making a Change and Making It Stick.

The New Year is a time to renew commitments, make big changes, and live next year as if it is a new beginning. But changes are hard to make. Despite the best-laid plans, it is difficult to make permanent changes. If you want to make permanent changes to your life in general and your trading habits in particular, it's essential that you understand how most people fail and make sure you avoid common traps. Most people are unrealistic in terms of the changes they can make and the rewards they will receive. If you can be realistic, you will not only be able to make changes, but you'll be able to make them stick.

When going about making a permanent change, many people erroneously think they can make dramatic changes when modest changes are more realistic. People strive for goals that they can't possibly achieve. Since their expectations often exceed what is realistic, they fail quickly, feel disappointed, and just give up. Similarly, many people underestimate the time it takes to make a substantial change. An example in the trading arena is expecting to make huge profits without honing one's trading skills or gaining a wealth of experience with the markets. You can't merely will yourself into becoming a seasoned trader overnight.

Give yourself enough time. Set learning goals rather than performance goals. In other words, set aside a specific amount of time each day to hone your skills, and reward yourself for achieving the goal, despite how much profit you make. If you start out with this strategy, you'll feel that you are making progress and you'll find it easier to persist when the markets appear to be fighting you.

Many people give up trading prematurely because they think that mastering the markets is easier than it actually is. Many people spend years honing their trading skills. A hobbyist approach isn't going to work. You must make a solid commitment to master the market and work toward it.

Don't underestimate the difficulty and expertise needed to master the markets. When trying to master a challenging profession like trading, it's easy to react with overconfidence and unrealistic optimism. When one's hopes are dashed, however, it's hard to continue fighting. It may not be useful to be a pessimist, but it is essential to be a realist. By cultivating a sense of healthy scepticism regarding your trading skills and your trading strategies, you'll stay positive and focused. You'll tend to view setbacks as just a minor glitch, rather than a major tragedy, and you'll persist until you hone your trading skills.

Finally, it's not only necessary to stay realistic when it comes to how difficult it is to master the markets, but it is also essential to be realistic when it comes to your expectations regarding potential rewards. For example, novice traders envision extreme wealth and advantages they will reap from them.

Media images don't help matters. Expensive cars and luxurious homes are associated with happiness and bliss, and it's reasonable for people to think that making huge wins will produce ultimate contentment. But these expectations rarely materialize and one usually encounters disappointment. It's better to realize that even the most successful trader doesn't have a perfect life.

The potential rewards most people dream about are often unrealistic. It's wise to make sure that your expectations of reward are realistic. When it comes to trading, long-term enduring financial rewards may take a little while. And it may not bring the happiness you are searching for.

It is useful to enjoy the process of trading. Trading is a fun and rewarding endeavour in and of itself. If you remember that fact, you'll feel happy and rewarded every day. And that will help you continue trading. This year, make a new commitment to trading. Stay realistic and enjoy yourself. The more you can do so, the happier you'll be and the more successful you'll trade.

Staging A Comeback.

Life is often mundane. It can be drudgery, getting up early every morning, dealing with the hassles of everyday life. And when you are worn out and fatigued, facing the trading day can seem like climbing Mount Everest in shorts and a T-shirt. If you're in a slump, it is especially hard to pick yourself up and move forward. The whole world can seem like it's against you. Every little mistake from your past pops into your head, incessantly reminding you of your vulnerability and inadequacy. What can you do? Here's a list of ways you can pick yourself up and persist in the face of setbacks.

When you are feeling especially down, it may be useful to forget about your troubles and smile a little while. Allow yourself to engage in a little healthy denial. If you have a serious problem, denial is the last thing you want to do. For example, if you are deep in debt, you better find a new job, and fast, and build up your trading capital. Denying the problem will make matters worse. That said, a little, occasional denial couldn't hurt. If you feel stuck, just pretend that for one day nothing matters. Tell yourself, -I'll worry about my problems tomorrow, but today, I'm just going to enjoy myself and get something done.-

People who feel beaten are usually especially hard on themselves. They over-interpret a setback and imbue it with personal significance. They start thinking, -I've always been inadequate. This setback reflects my true nature. I'm a loser and I'm never going to change.- They attribute failures to a lack of innate talent. It is about them, and only about them, and it can't be changed.

This is a very pessimistic outlook. Sometimes, a setback is a just bad luck. It has little to do with you. If you want to pick yourself up, think more optimistically. Even if overly positive beliefs are not entirely true, they can help motivate you. Rather than believe that trading requires an innate skill, for example, tell yourself, -There is no such thing as a natural-born trader.

Anyone can learn how to trade profitably, and thus, I can too. The more I practice, the more skilful I'll become.- You might also remind yourself that just because you have traded poorly in the recent past, it doesn't mean that you will trade poorly in the future. The past only dictates the future if you let it. It's all right to build up your ego when you feel beaten down as long as you don't get carried away. As long as you don't trade beyond your skill level or trade recklessly, a little bit of extra confidence doesn't hurt.

If your confidence is especially low, try to build yourself up. Don't focus on all your past failures. Focus on every big accomplishment you have ever made. Put a positive spin on it. You might think, -Some people never make a single winning trade. The fact that I've traded profitably in the past proves that I can make it if I try hard enough.- Allow yourself to bask in the glory of past successes. Again, as long as you don't go too far and start thinking you are one of the -Market Wizards,- building up your ego isn't going to hurt you.

Another strategy you can use to feel better is to aim for modest goals. For example, if you lower your aspirations temporarily and just try to make a few small trades, you'll increase your chances of success, and when you make a few winning trades, it will immediately lift your spirits.

Even the most confident traders can feel inadequate at times. If you are like most traders, you are ambitious. You want to be the best. It's tempting to compare yourself to others and begin to dwell on how some of your life goals are still on your to-do list. Such comparisons don't help you, however. You'll tend to focus on what you don't have instead of what you do have.

When you feel stuck and beaten, do whatever you can to feel good about yourself. Even if it takes a little denial, it can help. Beating yourself up and feeling miserable is a complete waste of time. It's better to cultivate an optimistic, fighting spirit. Winning traders are persistent. If you can recover quickly from a setback, you'll increase your chances of mastering the markets.

The Anatomy of Persistence.

Trading is a profession where one must not give up in the face of adversity. -You've got to go into the trading day expecting to lose,- is what some seasoned traders warn. It's not the most optimistic outlook, is it? Trading in today's market isn't like trading in the steadily upward trending market of the late 1990s, where even the most inept online investor expected to strike it rich by just purchasing a few hundred shares of almost any company and using a buy-and-hold strategy.

Today's market requires more skill and persistence. And to make the huge profits, you've got to take some risks. And taking risks means you must be ready to face some losses. Even when you control your risk on a given trade (which we strongly advise), you are bound to face loss after loss and watch your account balance diminish. As much as you objectify the loss, and see it as merely percentage points, there's still part of you that experiences the loss and feels the pain.

At these times, it's hard to keep going; it's easy to fall victim to the -why bother- attitude. You may feel you might as well give up. It is at these times, though, when you must be the most persistent. You must believe that you can master the markets and recover from the slump. There's a right way to go about this and a wrong way to go about this, however. Persistence is a complex issue and an understanding of it will help you approach a setback with the proper mindset.

Motivational theorists argue that people's expectations of reward or punishment influence whether they will persist or give up. If you believe, for example, that there is no way you'll make a profit no matter how hard you try, you'll want to give up. On the other hand, if you believe that success is assured, you will not only persist, you'll enthusiastically charge ahead in anticipation of a reward. But it doesn't take much trading experience to realize that trading isn't an activity where success is assured.

Novice traders who open an online investing account are very enthusiastic. They tend to believe that trading is -easy money,- but they soon face the harsh reality that market conditions change, and what worked in one market fails in another. Losses are the rule rather than the exception, history only repeats itself when it does, so-called conventional wisdom is right only when it is right, and no trading strategy is foolproof.

From a purely motivational point of view, if one believes that trading is easy, that he or she is skilled at it, and that success is assured, he or she will persist. Such thinking exemplifies the overconfident investor. In some ways, it is easy to motivate yourself to get out of a slump. Just tell yourself you are the -greatest trader in the world,- convince yourself that your talents are boundless, and positively think, -If I just apply myself, I'll be a success.-

That strategy works for about three trades at best, if you are lucky. Then, reality sets in and you realize that shallow, unrealistic optimism is more detrimental than helpful in the long run.

It's more useful to study your reasoning more closely. When one is in a slump and feeling stuck and disappointed, he or she tends to think, -I'll never be profitable, and there is nothing I can do about it.- The consequences of such reasoning are that you'll never feel like putting on a trade ever again. It is better to think, -Profitable trading is almost impossible, but I can learn how the markets work, develop the requisite skills, and eventually achieve consistent profitability.-

Granted, this isn't the most optimistic way to look at trading, but it does hold some realism. It isn't overly optimistic. Profitable trading is -almost- impossible. The keyword here is -almost.- It is vital to acknowledge that trading is a challenge that few seem to master. By acknowledging the difficulty, you are looking at the world realistically and will be able to handle setbacks more easily. If you aren't expecting very much in the first place, your hopes won't be easily dashed when you face a setback.

The second key issue is the need to develop requisite trading skills. Here's where realistic optimism comes in. We know for a fact that there are traders who have developed trading skills and have realized success. It is realistic to hold this belief and it is realistic to believe that if you put in the time and effort, and get the proper amount of training, you can achieve profitability also.

Holding such an attitude is optimal. It addresses the limitations of trading, but it also offers hope. So when you are ready to throw in the towel and give up, cultivate an optimistic yet realistic attitude:

One can achieve success as a trader through hard work, extensive experience, and persistence. By keeping this in mind, you'll gladly work tirelessly until you achieve the consistent profitability you have been striving for.

The Ideal Trader Personality: Finding the Right Blend.

The ideal trader personality style consists of a combination of experience, skill, knowledge, discipline, and intuition. The problem with ideals, however, is that they sometimes exist only in our imagination, with few actual candidates who fit the bill. Consider, for example, the traits of discipline and intuition.

A profitable trader must trade the plan, and that means following rules. But most rule-followers live -by the book.- They tend to seek out security and certainty and prefer facts to abstract theories and ideas. Yet there is an intuitive side to trading that is equally important. The market only follows the rules when it does; the rest of the time it goes another way. There is an endless number of inputs and it takes an intuitive mind to piece them all together to come up with a reasonable plan of action.

Perhaps no person has the ideal trader personality. At best, all we can hope for is the right blend of core personality traits. And thus, it is useful to know where you stand in terms of your personality, so you can adapt and change, and bring your trader personality closer to the ideal. Appreciate the characteristics that accentuate your trading while recognizing the characteristics that don't. Once you identify your personal limitations, you can either develop the personality traits you need or devise trading methods to work around your limitations.

The typologies proposed by philosophers and psychologists are numerous and complicated. But a common and simple way many people classify people is to focus on the extent to which they approach life as an artist or as a scientist. The artsy person thinks in abstract rather than concrete terms. He or she knows how to use intuition to look at the world.

The artist sees reality as a subjective illusion, with each person creating his or her own reality. The scientist, in contrast, believes that there is a single true, objective reality. -If you can't measure it, it isn't there- is a credo most scientists live by. -There are cold hard facts out there and it is possible to find them.- Perhaps few artists are steadfastly so abstract, and few scientists believe in a universal reality. But as fuzzy categories, these are useful stereotypes, and ones that are apt to trading.

Which type describes you? Are you more of the scientist or the artist? Are you a blend of these two types? Some traders are 90-10 in favour of science. They are usually interested in developing computerized trading systems that generate automatic buy and sell signals with as little discretion as possible. This type of trader may fall into the trap known as paralysis-by-analysis, an ailment in which far too much time is spent tinkering with the computer program than trading.

One may spend more time backtesting and mining historical data than decisively putting on a trade. It is useful for these traders to work at bringing the blend into more of a balance by injecting more art or human intuition into the trading process. And for these people, it's useful for them to practice trusting their intuition and taking action rather than being stunned by indecision.

The opposite end of this spectrum is the all-art, no-theory type traders. Their perception of the market is based entirely on abstract feelings and spontaneous emotional response to stimuli. Naturally, this rarely works. Although an intuitive feel for the markets is useful, it's essential to also look at some -objective- inputs, consider them carefully, and make a sound decision based on the data.

What type of trader are you? Where do you fit in the spectrum between art and science? Take some time to find out and adjust your trading personality accordingly. You'll find that the right blend will help you trade profitably and consistently.

Viewing a Single Trade from the Right Perspective.

When trading the markets, it often easy to make a big deal about nothing. We believe in the -must trade,- a trade we think we have to make, and unless we do, we feel that we missed out on the action. Or we place all our hopes on a single market event, betting a lot more than we should on what we wrongly think is -a sure win.- Until the outcome is realized, however, you don't know beforehand that the outcome of a particular trade will be more significant than any other trade. Only in hindsight do we really know that a trade is more significant than any of the other hundreds of trades we've made in our career.

So as you plan, execute, and monitor a trade, you should give it no more significance than any other trade. In the big picture, any single trade is just one trade among a bunch of trades you'll make throughout your career. Looking at a single trade from the right perspective can do wonders to keep you calm and rational. If it is relatively minor, why worry about it? Thinking of the big picture helps you trade in a peak performance mindset.

Even though it is vital that we focus all our energy on the current trade, it is also necessary to remember that it is of little real significance in the long run. It is essential that you consider, at least in the back of your mind, that a single trade is just one among a series of trades, and that the bottom line is the overall outcome across the series, not any single outcome.

There are psychological advantages to downplaying the outcome of any single trade. It is less critical to your ego, for example. When viewed as just a single trade in a long line of trades, it's easier to think convincingly, -It doesn't matter. There will be many more trades and opportunities to come.- If there isn't much riding on the outcome of a trade, it will free up precious psychological energy.

You won't waste your limited psychological resources needlessly worrying about the outcome. You will feel free and creative, ready for whatever happens next. All your attention will be focused on trading your plan, objectively analyzing how market moves fit into your plan and taking decisive action for a clean exit.

But minimizing the significance of a trading outcome isn't about fooling yourself. Risk management is crucial. If you have 50% of your trading capital riding on the outcome, for example, it's not realistic to fool yourself into thinking that the outcome is relatively minor. In this case, the outcome is, in fact, a big deal. If you are going to view a single trade as merely a minor event among a series of events, you must limit your risk.

By limiting your stake to a small percentage of your trading capital, the trade will have minimal financial significance. It will be of little consequence compared to your overall account balance. If it is so unimportant that it doesn't really matter, you'll feel it, and trade more creatively. So don't get yourself hung up on the outcome of a single trade. Control your risk. Minimize a trade's significance. Feel free and creative, and make trade after trade until you make huge profits across a series of trades.

Pessimistic Biases.

Joe tells his trading coach, -I've been paper trading for six months, and I've been right 85% of the time, but I still have trouble pulling the trigger. It's the 15% of the time where I may lose that bothers me. I don't want to lose. Why do I hesitate? Why can't I be more decisive?- There are many possible explanations for why Joe is having trouble executing his trades confidently and decisively. But let's consider just a couple of possibilities.

It's impossible to come up with a single possible reason to explain a given trader's behaviour. There are many possible reasons. Each trader is different from his or her own personal set of circumstances. Any given explanation applies merely to some traders and only some of the time. In Joe's case, he knows at one level that he has a potentially profitable trading method, but at a conscious or unconscious level, he hesitates. The first issue we must consider is the extent to which Joe's hesitation reflects self-preservation.

Perhaps his psyche is warning him not to take unnecessary risks. An important maxim of trading is, don't risk money you can't afford to lose. A trader may have a method that works 85% of the time, but if he or she doesn't have adequate capital to make the method pay off, then the method is essentially useless. Although sound trading methods are important, adequate capital is more important. You've got to have enough capital to survive drawdowns, the occasional unexpected adverse event, and commissions.

ul. There's no easy solution to this problem. You must build up capital and put off trading actively until you have adequate capital. We've seen hundreds of would-be traders try to trade a $5,000 account, and with a few rare exceptions, they end up trading only a few months. If you can't afford to lose your stake, you'll be afraid to put on trades, no matter how foolproof your methods.

That said, a major reason some traders have difficulty executing trades with a cool, decisive and effortless mindset is that they are extreme perfectionists. As Joe says, -It's the 15% of the time where I may lose that bothers me.- Even the best traders are wrong occasionally. Indeed, most traders are wrong a lot more than 15% of the time. Seasoned traders aren't bothered by this fact, however.

They go into the markets expecting to lose occasionally. How can a novice trader deal with these feelings of uncertainty? First, it's essential that you convince yourself that losses are inevitable, especially when you are first starting out. You can't expect to win 100% of the time. Second, you must put losing trades in the proper perspective. You may lose part of the time, but you'll tend to win enough times that you will make a profit in the end.

This is often hard to accept, especially for a person who tends to be prone to experience pessimism. There's a pessimistic bias that some traders show: They mull over their trading errors and losses. They overly blame themselves for their mistakes. They try to think of ways the loss could have been avoided. This type of pessimism can be valuable and adaptive to the trader who is prone to experience overconfidence. A pessimistic view keeps the overly confident trader humble and grounded in reality. But for the true pessimist, focusing on past mistakes and losses can be extremely unproductive.

If you are prone to pessimistic biases, it's useful to remind yourself of your tendency to exaggerate your faults and overly concern yourself with your limitations. It's useful for the pessimist to try to ignore losses and relish wins. Pessimists would be wise to remind themselves, -A loss should be expected; it doesn't mean anything in the long run; I should just forget about it.- Because the pessimist is debilitated by the pessimistic bias, it's useful to use positive, uplifting self-talk (but if you're prone toward overconfidence, it's not a good idea. It's better to keep your optimism restrained).

Although we can't cover all the possible reasons for hesitation in a single column, you may want to consider the two main points we've covered. First, you may be under-capitalized, and your hesitation may protect you from taking unnecessary risks. And second, you may just be showing an unproductive pessimistic bias. Whatever the reasons, it's essential that you identify the possible causes of your fears and overcome them. If you can, you'll be able to cultivate the peak performance mindset of a winning trader.

Pick Yourself Up and Move On.

Are you having a bad day? Has media coverage spoiled your trading plan? Perhaps you are just feeling a little off? When you encounter an unexpected setback, you can feel beaten down. You might be tempted to just stay knocked down, stuck, and unable to get back up. -I'll never make enough winning trades to recoup my losses.- Ever have these thoughts, when you feel beaten? It's natural, but you can't stay down too long. You have to get back up and try again.

When a wild animal searches for water in the middle of a desert, it doesn't wallow in self-pity when all the watering holes are dry. It keeps on searching until it finds water. Continuing the search is a matter of survival. There's no time for worry and disappointment. When you encounter a setback, it's wise to similarly search for new market opportunities. Think optimistically. Don't retreat. Engage your primal instincts to survive.

Art Linkletter once said, -Things turn out best for people who make the best of the way things turn out.- You may have expected trade to turn out profitable yet lost. Some may see the loss as a sign of personal inadequacy, but the winning trader takes the loss in stride. He or she asks, was there something to learn here? Sometimes there is and sometimes there isn't. A good trading plan can often fail for no good reason. What winning traders don't do, though, is mull over a setback too long. They make the best of it and move on. That can mean executing the same trading plan under more favourable market conditions or it could mean searching for a new trading opportunity. Whatever is done next, stagnation is not an option.

We often feel trapped when the internal dialogue we have with ourselves is pessimistic. When we feel particularly stuck, we can talk ourselves into a rut. It starts out innocently enough. You may think, -I'm disappointed. I needed this trade to be a winner.- Your next thought, however, gets you into a bit of trouble.

You may start thinking, -I'll never get this right. I'm just fooling myself.- Then you start remembering how your best friend warned you that you'd never make it as a trader in the long run. You then remember the other failures you've had in your life and the financial obligations you have this month. Soon, you've talked yourself into a psychological rut. All seems hopeless. When you get this way, it's vital to get back your optimistic, fighting spirit.

How can you recapture your optimism? First, focus on the big picture. You might remind yourself, -I'll make the profits I want someday. It may not be today. It may not be tomorrow, but if I keep at it, I'll eventually reach my financial goals.- You might also daydream a little to improve your mood. Imagine a time in the future when market conditions are just right, and you are there enthusiastically ready to take advantage of them. And how can you get ready? Practice and experience.

The more trades you make, the more practice and experience you'll have, and when the time comes, you can easily make a killing in the markets. You might also want to make a list of past winning trades to help you pick your spirits up when you're down. If you read the list at the slightest sign of disappointment, you'll be able to pick your mood up before it starts on a downward spiral. Remember the times you've made big wins. If you did it in the past, you can do it again.

Merely getting yourself in a good mood may not guarantee that you will suddenly return to profitability, but it will increase the odds. There's no way you are going to find profitable market opportunities if you are pessimistic. When you are optimistic, you'll think more creatively and freely. And this optimal mindset will give you the mental edge you need to master the markets.

Don't Plan to Fail.

If you're like most traders, you've made trades that you have regretted. Perhaps you misjudged the markets or acted on impulse, but all you knew, in the end, was that you lost money, and you wished you hadn't. It may be hard to believe, but it is possible that you may have planned to fail. You may have covertly made a plan to sabotage your efforts.

Dr Alan Marlatt, a prominent psychologist at the University of Washington, has studied the reasons people fail to maintain self-control. Whether it is trying to quit smoking or losing weight, it's difficult for people to maintain discipline. Many times, people -relapse.- They are successful for a while but soon return to older patterns of behaviour. Trying to maintain control requires planning. People make a series of decisions when trying to maintain control. Many of these decisions are -apparently irrelevant,- but they end up influencing what happens to us.

Consider how Jack, who is trying to save money to build up trading capital, may have set himself up for failure. Jack was paid on Friday at 5 P.M. and made the -apparently irrelevant decision- to deposit his paycheck at the ATM located near his mother's house on Saturday morning, which happens to be located at the shopping mall.

Although these decisions may have seemed arbitrary to Jack when he made them, you may see that they may have increased the odds that he will spend more of his paycheck than he had planned. The decision to deposit his paycheck at the mall increases the odds that he will walk into a store and make an impulse buy. In addition, making the deposit in the morning gives him the rest of the day to spend money. It's possible that Jack may have -covertly- planned to spend money. Without thinking, he may have set himself up to fail.

Consider how he might have planned things differently so as to ensure that he didn't spend any of his paychecks. He could have deposited his paycheck after work at an ATM far from convenient shopping where he might impulsively spend money. The next day, he could leave his ATM card at home and ensure that he could control his spending. He may have had to drive a few miles out of his way, but this minor inconvenience would ensure that he did not spend his paycheck. The general idea is to plan your life in such a way that you increase the odds that you will maintain self-control. Why put yourself in situations that may thwart your plans?

This framework can be used to explain how a trader may put on a losing trade. Before you put on a trade, you make a set of apparently irrelevant decisions. You may think they have nothing to do with executing or monitoring a trade, but they do, whether you consciously know it or not. If you decide to party too hard the night before a trade, you may be too tired to concentrate.

If you decide to meet up with a friend who goads you into bragging about your trading plans, you may feel uneasy about losing the next day, and the added stress may adversely influence your ability to put on the trade while in an optimal state of mind. You may spend a little too much money on the night before the trade and feel that you have to make extra money the next day to make up for your lavish spending. Each of these decisions may seem irrelevant but they may impact your trading performance. Why do we make such decisions? For some people, such decisions are made without thinking.

Others, however, may -unconsciously- set themselves to fail. Regardless of one's motives, these decisions matter. Rather than put yourself in situations that may increase your odds of failure, it's wise to anticipate situations that may encourage you to trade on impulse and avoid those situations. Trading is difficult enough without you trying to sabotage yourself. The more you can set yourself for success, the better.

Taking the Plunge.

Many amateur, online investors can't wait to make trades and a lot of them. Most of the trades are unprofitable, though, generating commissions for the brokerage and providing sources of profits for active, seasoned traders. If you are just starting out in this business, it's wise to avoid jumping in too soon. It's useful to study the markets, get the right trading platform, computers, and other equipment, accumulate a solid knowledge base, and save up enough capital to give it your best shot. That said, there comes a point where you must move from the preparation and planning stage to the active trading stage.

The seasoned trader doesn't trade all day, every day. Market conditions change and it is wise to stand aside until your trading methods match market conditions. At other times you may be feeling off, and it may be better to watch the market than trade it.

Trading is a matter of moving from studying and observing to actively participating. For the novice trader, or the trader in a severe slump, jumping in can be scary. Trading outcomes aren't a certainty. If we knew we could just put on a trade and take home a sure profit, we couldn't wait to put on trade after trade. (Indeed, that's why most amateur, online investors overtrade. They are unrealistically optimistic and put on a trade even if it has a poor chance of making a profit.)

Getting actively involved in trading requires resolute implementation of a combination of cognitive and behavioral strategies. On the cognitive side, you must examine your thinking strategies and change them. It's just like jumping into a cold swimming pool. Why don't you just take the plunge? It's because you think you'll get hurt. If you are hesitant about putting on trades, it's because you are afraid. You're afraid to lose, to be wrong, and to face your limitations.

If you arm yourself with thinking strategies, however, you'll be able to muster enough gumption to take the plunge. It's time to follow the sage advice of seasoned traders: Expect to lose. Winning traders take losses in stride and that's what you are going to have to do. Look at your assumptions and change the internal dialog you have while getting ready to trade. You may think, -If I lose, it will mean I can't trade.- But what you should think is, -A loss is just feedback. It doesn't mean anything about me. I can still learn how to trade. I'm not going to set my expectations unrealistically high. I'm just going to see what happens, and no matter what happens, I'm not going to draw the conclusion that I'll never become a seasoned trader. Even if I blow out my account, it will be a learning experience. It will be money I spent on tuition to learn how to master the game.- Once you are armed with these cognitive strategies, you can face potential losses more easily. Some traders have even found it helpful to write down an upbeat passage, like the one above, and read it over and over before a trade and after a loss to restore a courageous, optimistic outlook.

On the behavioral side of things, it's vital for survival to control risk. Make small trades and wait for high probability setups. There's no such thing as a guaranteed trade. Unless you manage risk, you'll surely blow out (especially if you are a novice trader), so you must risk relatively little on a single trade or set of trades. That said, you must bite your lip and take the plunge.

If you are afraid to take the plunge, you might consider easing into it. Start out making extremely small practice trades. The trades can be so small that the commissions on them are more than any possible profit you can make. It's worth the costs. It will get your feet wet. It will take the mystery out of the whole process. People have a natural inclination to believe that a feared or dreaded event is more hurtful than it actually is. We tend to exaggerate the potential harm.

Once we jump into the activity, however, we see that it isn't so bad. Our worst fears are usually never realized. Once you make a series of small trades successfully, you can increase your position size until you reach a position size consistent with your account size. The trick is to take gradual steps. It's like building up physical stamina. Don't try to do too much all at once. Work up to it.

Taking the plunge into trading actively can be scary, but we often think it's easier to avoid fears than face them head on. If you examine the assumptions underlying your fear of losses, and then make actual trades to break out of your imposed psychological shell, you can master the markets and become a seasoned, winning trader.

Trader as Pollster.

To some extent, fundamentals drive prices, but in the end, the price of a stock or commodity is largely a matter of opinion. Opinions consist of -soft- data, data that is messy, flimsy, and difficult to get a handle on. That's where psychology comes in. At times, trading can be 100% psychology. It's a matter of measuring people's beliefs, and unfortunately, there are times where it is almost impossible to get an accurate measurement and to know exactly what is going to happen next. It's just like the presidential election. For weeks, pollsters were unable to get an accurate read, and they just didn't know what was going to happen.

Trading is a lot like working as a pollster. You are trying to gauge popular opinion and guess what people are going to do next. There are times when getting an accurate read on the markets is hard. When measuring human behavior, the error is substantial. At best, one can merely make a probabilistic statement based on a few key assumptions. It's hard to measure an opinion.

And even if someone holds a particular opinion, he or she may not act on it. For example, in an election, when one candidate is clearly the leader in an opinion poll, a pollster can make a good guess as to the winner. But in a close race, pollsters have no idea. They don't know who will show up on Election Day, for example. There's a lot of uncertainty that can't be pinned down. The outcome is too close to call. A similar comparison can be made to the bull market of the late 1990s. Prices were going up with little resistance. The opinion was clear and strong. In such a case, it was easy to measure and forecast the opinion of the masses. And many traders, professionals and amateurs, made huge profits. There are some market conditions where trading is straightforward. A clear trend emerges and you can trade it. There are other times when you just can't make a profit. A talent all traders must hone is the ability to intuitively assess what the masses are going to do, and when you have a strong feeling for what will happen next, you can capitalize on it.

It is useful to remember that it is difficult to measure human behavior. Social scientists have discovered that people do not respond consistently. And if social scientists can't measure people's behavior with relatively accurate, and if people don't seem to respond consistently, how can we expect to measure the behavior of market participants precisely? Why should we assume that people would react consistently to particular market conditions (and thus, form the price patterns outlined in classic technical analysis texts)? We probably can't make the assumption. Sure, there's some consistency.

But it is nothing like the consistency we are used to in the physical world. Our estimates are merely best guesses, and potentially inaccurate ones. So when you are trying to anticipate what the masses of market participants will do, remember that humans are not like rising and falling tides (Dow Theory may suggest that they behave with such regularity, but it is just a theory, not a law). They are not nearly as predictable as that. When studying human behavior, and that's what you're doing as a trader, there is no such thing as certainty. It's all just a matter of probabilities. And that means no one will ever know what will happen in the markets next.

Considering All Possibilities.

Jim has just made nine winning trades in a row. He feels as if he has his methods down and can trade profitably under any market condition. Some might say that Jim is a little overconfident. He's almost certain that his next few trades will be winners. He is so sure that he hasn't even considered the possibility that he may face a series of losing trades. This is when overconfidence can get the better of a trader. It's essential to map out all possibilities and take necessary precautions, both psychologically and financially.

Many novice traders let their discipline lapse after experiencing a series of winning trades. It is as if they are thinking, -What do I have to lose? I've made enough profit. I can take a little more risk.- The problem with this mindset is that your series of wins may have been just a matter of capitalizing on probability, and in all likelihood, the next series of trades may be losers. If you act impulsively or don't continue to manage your risk, you'll give back all your profits and more. It's vital for your long-term survival to continue to manage risk, even after a long string of successful trades.

Taking precautions by considering all possibilities also has a psychological advantage. After making a series of wins, it's natural to feel a little elated, high, and invincible. One may not fully consider the realistic possibility that a losing trade is on the horizon. An unexpected defeat is often more devastating than an expected setback. Many people react to unexpected losses with extreme emotion, which may cloud one's judgment, and produce trading errors. By considering all possibilities, on the other hand, one will be ready for the possibility. Such preparation will lessen the impact of a loss, should one experience it.

It is useful to take considering all possibilities to an extreme. Mentally rehearse what you will do for all possible market conditions and trade outcomes, regardless of whether you think they are likely or not. If you are overly prepared, you can more easily control your emotions should you encounter one of the possibilities. Map out all possible market conditions, all possible price patterns, and all possible adverse events. Carefully consider how you might react to each possibility. Indeed, it is useful to write down what you might do under each situation and event. Don't be caught off guard. Consider every possibility and have a detailed plan for how you will react. A little preparation can go a long way in helping one achieve profitability and maintain it.

It Makes Sense When You Think About It, Doesn't It?.

We have a strong need to make sense of our past. The thinking goes something like this: If we can make sense of our past, we could predict our future. This kind of thinking is especially true in trading. If we could merely see a pattern in market data from the past, we could use the past to forecast the future. It makes sense. Many disciplines do it. Insurance companies build regression models to estimate specific target groups that are likely to have an expensive auto accident.

In medicine, epidemiologists try to identify groups of people that are at risk of contracting a disease. Building regression models works in the long run if you have a large amount of data to use to build your models and there is relatively little -error- or small amounts of variation. Indeed, big time financial institutions often use economic data to forecast and trade long-term trends, and as long as they invest in the long term, and have huge amounts to invest, they can account for the variation in the markets and make a relatively profitable, lower-risk investment.

That said, many traders and investors, including smaller hedge fund managers, make the mistake of applying the -law of large numbers- to samples of -small numbers.- When we are trading smaller accounts, and over the short term, it's difficult to anticipate a market trend with historical data. But because of our psychological need to be right and feel mastery over the markets, we allow our beliefs to bias our judgments.

In the markets, history only repeats itself when it does. The rest of the time it doesn't. That's all right. The fact that there is variation in the markets does not mean that you can't trade them. It just means that you cannot trade them and erroneously think that you can do so with more certainty than is reasonable. Everything looks good in hindsight. It's possible when building a regression model to -over-fit- your available data, in other words, seeing things that aren't there.

Rather than acknowledge that the model has a wide margin of error, it's tempting to believe that it is more precise than it actually is, and will make a more accurate forecast than is possible. The reason that the model may not accurately forecast the market is that you may not be using a large enough sample of data to make a forecast. You are using a small sample of data to forecast something that requires a large amount of data. In addition, the sample of data you are using from the past may not be representative of what will happen in the future. Data can only be used to build valid statistical models if it can generalize from one span of time to the next, but that may not always be the case.

It is always useful to have a healthy sense of scepticism when it comes to forecasting the markets with historical data. Don't place so much confidence in your forecasts that you don't manage risk.

Our mind can play tricks on us. We can scour historical data and because we put in a great deal of time and effort into the building the model, we may wrongly think that we have found the Holy Grail of regression equations, but in reality, you may be placing your trust in an invalid model.

It's not impossible to forecast the markets but always keep in mind the potential limitations of your forecasts. You may have -unrepresentative data.- Or you may be psychologically based. There are times when everything may look rosy, but in reality, things are too good to be true.

Power and Control.

One way to cultivate a winning mental edge is to have an accurate perception of what you can and cannot control. There's a powerful human desire to believe that one can have complete control over one's destiny. We all want to believe that if we try hard enough, we can account for, and defeat, every possible adverse event that may foil our plans. But in reality, there's a lot we can't control, and it's useful to admit this fact.

As a trader, you make many independent decisions about which stocks or commodities to purchase, and because you put in a huge amount of concerted effort to make these decisions, you naturally want to believe that the hard work will pay off, that you've increased your odds of success. Psychologists call this phenomenon the -illusion of control.- Investment psychologist Dr Van K. Tharp calls it the -lotto bias.-

When many people play the lottery, they believe they have a pretty good chance of winning because they picked the winning numbers themselves. It's as if the mere act of selecting numbers makes people believe they have increased their odds. But when playing the lottery, winning is a matter of pure chance, and it doesn't really matter whether one made the effort to select the numbers themselves or whether the numbers were picked with a random number generator; the odds are relatively the same in both circumstances.

Although trading isn't exactly like playing the lottery, there are times when enough adverse events go against you that you virtually have no chance of seeing a profit. In other words, there are many times when luck must be in your favour to make a profitable trade, regardless of the quality of your trading plan. Yet because you put in a sizeable effort to devise a well-formulated trading plan, you naturally tend to believe you have more control than you actually do. You want your effort to pay off. You believe you've increased your odds of success.

In reality, it's impossible to know exactly how a trading plan will do once it is executed. Any trading plan is based on assumptions about market action at a particular point in time, and market participants may not act according to those assumptions. There's a good chance that your trading plan may be foiled by adverse events or a change in market conditions that you could not possibly have anticipated or controlled. It's useful to always keep this fact in mind. No matter how hard you try, no plan is foolproof. To survive, you must face the possibility that the market conditions at a given moment are just not conducive to your trading plan.

The fact that you can't account for every possible set of circumstances that may thwart your efforts can be disheartening. But you needn't focus on it too much. All you have to do is work around the issue. Be aware that no plan is foolproof and that you must take precautions to protect your interests. The best precautions are to have a clearly defined trading plan and to manage your risk.

Just because you can't actually conquer all possible adverse conditions doesn't mean that you shouldn't try. It's vital that you try to consider all possible events that may ruin your trading plan.

It's also essential to have clearly defined entry and exit strategies. Don't leave any aspect of your plan unspecified. For example, if you identify beforehand what signals indicate that market conditions have gone awry and that you should exit, you will be able to survive the trade relatively unscathed. Of course, that's only if you manage your risk. Since you can't account for times when market conditions are skewed, you must limit the amount of capital you risk on a single trade. Doing so will allow you to survive the chaotic unpredictability of the markets.

As much as we want to fully control our destiny, it's often impossible. Accepting what we can and cannot control is the best we can do. We can't control the market. We have to go where the market takes us. What we can do, however, is take the necessary precautions to protect ourselves when market action goes against our plans. That means careful planning and managing risk. By taking precautions, you can preserve capital, benefit from those times when market conditions move in your favour, and achieve consistent profitability.

The Difference Between What Should Happen and What Does Happen.

Two common sayings worth following are -Accept what the markets give you- and -Don't impose your will onto the markets.- As a dominant species, humans are used to controlling their environment. The strongest usually prevail, and the strong usually are able to completely control their physical and social environment and the people in it. In football, for example, an unbeatable team is able to control the line of scrimmage.
The opponent is stuck and forced to use a particular game plan, such as running the ball, even if they don't want to. It's all about power and control. It doesn't quite work that way in trading, however. A trader can't control what other market participants are doing or are going to do. Not only can't traders control them, but it's also often hard to predict what they are going to do. That's why it is more useful to accept that you can't control the market and figure out a way to work around it.

In the end, prices are based on the opinion of the masses, and opinions are difficult to gauge; they may fluctuate for no good reason. Consider stock prices of major U.S. retailers. Although they reported higher earnings for the third quarter this week, most stock prices are down. There are several fundamental forces that may be working, such as higher interest rates or the belief of some market analysts that higher profits are due to cost containment rather than an actual rise in sales. But despite analysis of these factors, in the end, short-term traders must make an educated guess as to how market participants are going to react to analysts' reports or the media coverage in general. You could look at a host of variables and plug them into a regression equation, but in the end, all that matters are people's opinions. And people are inherently unpredictable. That's why it is vital to understand that you can't control the markets, and why you should make a clear distinction between what -should happen- from what actually does happen. Some might say that if profits of U.S. retailers are up, market participants should invest in these stocks and raise the price. But you can't count on it.
First, who knows if market participants are listening to the news or if they even care? Second, who knows what will happen in the next two months during the Holiday season to change the outlook of U.S. retailers. Retailers have an optimistic outlook today, and they hope that consumers believe them, but no one knows what will actually happen. Just how confident is the average consumer these days? In the end, all you can do is make the best guess you can and stand behind it. You can never know for sure, and nothing is guaranteed. There's only so much you can do. It's best to limit your risk, make the trade, and see what happens next.
When trading, it is useful to realize that what -should happen- may not actually happen. If you believe you have more control than you actually do, you'll be frustrated and disappointed when your expectations don't pan out. It's more useful to be sceptical, and consider the possibility that you are merely working with imperfect data in an imperfect world. The more you can accept what the markets have to offer, the calmer you'll trade, and the more profits you'll realize.

Self-Control Takes Practice.

Maintaining self-control and discipline is one of the most essential skills required for financial success. There are many ways that traders, especially novice traders, can lose self-control. They may abandon a trading plan prematurely or take profits too early, for example. Trading takes patience, a trait that many traders don't have. The most disciplined people tend to avoid risk and are unlikely to get into the trading business. People who are attracted to trading, in contrast, are often independent-minded rule breakers. They are drawn to the potential thrills that trading can provide. They may like the action, but many have difficulty maintaining discipline. If you have trouble maintaining discipline, you might want to think about developing this skill.

Just as you would do physical conditioning to prepare for a marathon, one of the -muscles- a trader needs to tone is the ability to maintain discipline. It may seem easy to maintain discipline, but when it comes down to actually maintaining discipline during the tense moments of the trading day, some traders baulk. During a trade, they are under a tremendous amount of pressure. They often panic and abandon the plan or make trading errors.

One way to build your trading self-control is to practice self-control during off-hours. Here's a simple exercise you might try. It's called -Got Milk?- exercise. Have you ever seen the television commercial where a person eats a cupcake and doesn't have any milk to wash it down with? We all know the feeling of trying to hold back an urge. When you eat a sugary frosted cupcake, you need to drink a glass of milk. Your ability to refrain from drinking a glass of milk is a good indication of your self-control ability. The self-control exercise is based on the commercial. Get a cupcake and leave it wrapped in its plastic package. Pretend you are eating it.

Think of how it tastes. At that point, you will naturally start thinking about drinking a glass of milk. When that happens, you should stop yourself. Instead of imagining drinking a glass of milk, think of what it would be like to put it off for 15 minutes. It would be uncomfortable, but you could do it. Examine your self-talk as you imagine not drinking a glass of milk. If you are thinking, -It's unbearable; I can't stand it,- you won't be able to handle not drinking the milk. But if you think, -I can wait 15 minutes.

I can endure the pain. I just need to stay calm and think of something else,- you'll be able to resist temptation. The expectations you have about self-control dictate how you'll be able to maintain control. By thinking, -I can wait; I can control the urge,- you will be able to maintain control compared to when you focus on how unpleasant it is to avoid drinking a glass of milk. Now comes the more difficult part. Actually unwrap the cupcake, eat it, and see how well you do in terms of not drinking the glass of milk.

By using the same kind of self-talk as in the imagined situation, you can maintain self-control in the real situation. Remind yourself that you can resist temptation. Think of something else to shift your attention away from your urge to drink a glass of milk. By doing so, you can last 15 minutes. Once you have mastered 15 minutes, you can extend the time to 30 minutes or an hour. It may sound a little silly, but it's a way that you can build up your ability to maintain self-control in a situation that doesn't present the added stresses and strains that the trading realm provides. Eventually, you'll be able to apply the same methods to maintaining discipline as you monitor a trade. By changing your expectations and self-talk, you'll have the patience and discipline of a winning trader.

Preparing for Losses.

Whether you are a novice trader facing one of your first losses or a seasoned professional experiencing a severe drawdown, no one likes to lose. Losses hurt, psychologically and financially. Although losses are commonplace in the trading profession, it's often hard to take them in stride. Losses can take over our emotional life. Suddenly, we may feel beaten and ready to give up.
But winning traders are eternal optimists. They have to be. That said, don't think that accepting losses is a simple matter. In order to take losses nonchalantly, you must prepare for them. It is vital to develop the right mindset so that when you experience a loss, you won't be fazed by it. You'll accept it, view it as a minor setback, and just move on.

How we feel about losses is deeply rooted in childhood. Parents rewarded us when we met their expectations. Teachers gave us good grades when we performed better than the rest of the class. When we entered the world of work, supervisors gave out the best prizes to those who were the most productive. We may carry some of these early experiences into the trading arena, thinking that a loss is a form of punishment. It's natural to panic a little when experiencing a loss.
You may feel guilty for breaking a moral imperative to always do well, or embarrassed that the markets have beaten you. You may have a natural inclination to feel crushed, and this can lead to errors in judgment. Novice traders, for example, may start trying to undo the loss by making some quick wins. They may abandon their risk limits, make impulsive trades, or take low probability setups, all in an attempt to counter feelings of humiliation and hurt.
You can't let a loss set off an automatic panic response. By preparing for losses, you can react calmly and decisively. First, manage risk and make sure that from a purely financial viewpoint, you can survive a loss. If you have a million dollars in your account, a $10,000 loss isn't all that bad. But if you're trading a $100,000 account, then a $10,000 loss is hard to ignore. By making small trades, and trading with money you can afford to lose, you'll be able to handle losing trades more easily.
Don't be afraid to view the actual economic repercussions of your losses. If there's the little real long-term impact, you'll feel better. If the long-term impact is substantial, then make sure you have an escape plan (for example, make sure you have a part-time job lined up or a plan for getting a short-term loan). In the end, the best defence against losses is to feel secure in the fact that they have no real long-term impact.
The second set of strategies for preparing for loss is psychological. People who overreact to losses usually hold a set of assumptions and beliefs that make them upset. For example, they think that a loss illustrates inadequacy. Instead of instantly letting these assumptions take over, it's useful to list a set of beliefs that helps you deal with losses.
Make the list and rehearse each statement in preparation for a potential loss. There are positive ways to interpret losses, and you can add them to your list: -Losses are tuition I pay to learn how to trade skillfully. I should expect to lose; it's not personal. A loss is just a minor setback; I'm not going to let it take me out of the game.
Even a loss is valuable; it allows me to add to my wealth of knowledge.- After making your personal list, read the statements over and over. It will help you quickly remember them when you actually encounter a loss. By anticipating losses and planning to look at them in a positive light, you can take them in stride. It may still hurt, but it won't hurt as badly. And in all likelihood, you'll stay calm, energized, and ready to fight back.

Under Pressure.

It's an hour after lunch and you find yourself staring at your screens, frozen, unsure of what to do next. You feel the pressure to perform. You haven't made a winning trade all week. The bills are due. Your checking account could use a huge cash deposit. You're not sure what you are going to do. You desperately think, -I've got to push myself to make a profit.-
But when you think about pushing yourself, you become even more stressed, upset, and unable to think clearly. In such circumstances, it's natural to feel that you must push yourself to the limits to make a profit. Depending on your abilities and resources, you may not want to push yourself too hard, though. It can sometimes make matters worse.

Trading is a profession where you can convince yourself that your work is never done. There's always another chart to read, a forgotten financial report to digest, or a new trading strategy to develop. When you haven't made a winning trade for a while, you start to feel that you absolutely must make a profit. But unless you are a seasoned trader with vast expertise, pushing yourself to the limits adds to your frustration. Suddenly, you can't seem to get anything done. Putting added stress on yourself doesn't always increase performance levels. Stress and performance work according to what scientists call an inverted-U curve.
Put simply, when a task is easy, like running around the block, a high level of stress enhances performance, but when a task is difficult and intellectually challenging, such as devising a profitable trading strategy, a high level of stress impedes performance. Stress, even a small amount, saps up limited psychological energy. So when you put stress on yourself to trade more profitably, you'll find that you start to feel a little tired. And if you push yourself too far, and go way beyond your abilities, you'll eventually exhaust all your stored psychological energy.
When you feel stressed out because you are putting pressure on yourself, you might want to try easing some of the pressure. Tell yourself, -I'm not going to keep pushing myself. I'm just going to come up with a modest goal and work at it one minute at a time, and then maybe, one hour at a time. I'll just do my best.- See what happens when you try this thinking strategy. You'll find that you'll harness a little more energy just by simply taking some of the pressure off. Taking a break in the middle of a stressful day can also do wonders. Step outside and take a walk. It will release some pent up stressful, negative energy.
You might also try a simple form of meditation. Go to a quiet place, and simply repeat a mantra, such as -accept what I can get out of the markets.- Repeat it over and over again. Concentrate on the words and let your worries about the markets disappear from your consciousness. You'll feel a little better, and you will find your energy level rise.
If you are a seasoned trader, pushing yourself to reach higher and higher standards of excellence can produce higher levels of performance. But if you are a novice trader, pushing yourself beyond your limits usually leads to frustration, stress, and eventual exhaustion. When you have pushed yourself so far that you feel the pressure, stop! Take a break. Accept your limitations and relax. Ironically, you'll feel a little energy boost and will suddenly feel empowered. At that point, you'll be ready to tackle the markets again and take home the profits you need.

Too Proud to Think Clearly.

Pride has been the downfall of many traders. Pride is a powerful emotion. We feel pride after making a significant achievement, and we are especially proud when the achievement has increased our social status. Trading is difficult. Few people master it, so when one is doing well, it's natural to feel a sense of accomplishment and pride.

But there's a point where pride can be overpowering. When people are so proud that they are full of themselves, and feel invincible, they may not think clearly. They may have too much psychological investment in feeling superior, and when this happens, their vision is blurred.

Pride is most evident during competition. Some people have an -I'll show them attitude.- They secretly feel inferior and they are out to prove their worth to others. When these people make a significant accomplishment, they have a burning desire to brag about their achievements so as to feel superior to others. Gaining a sense of superiority is what motivates them, and the brass ring is the right to brag about one's prized accomplishment and to put down others.

It's adaptive to be a little proud occasionally, but at an extreme, too much pride can lead to inflexibility. When one is too proud, there's a strong need to maintain one's pride. When one tries to maintain pride, anything that contradicts one's feeling of omnipotence is threatening. A person may be afraid to look at his or her shortcomings objectively. Indeed, a person who is too proud may not be able to admit that he or she has any faults.

There are often social consequences for being too proud. Many people dislike those who are too proud. They watch and wait in anticipation for the person to fail. These psychological processes play a significant role in creating stress and indecision.

The overly proud trader is likely to feel strong social pressure to continue making large financial gains to save face. The added pressure is likely to sap up precious psychological resources and produce unpleasant emotions that are bound to interfere with rational decision-making.

The winning trader is not overly proud. He or she is humble and doesn't try to compete with others. The winning trader develops internal standards of self-worth and evaluates the performance by looking inward. Winning traders compete with themselves.

They look at their past performance and try to do better. They don't compare themselves to others. They don't feel pride or shame based on how well they are doing compared to other traders. They focus only on how well they think they are doing.

The only opinion that matters is their own. It may mean they don't have any bragging rights, but they know it's more important to stay focused on the trade, their immediate experience. Focusing on others takes them out of the zone, and when a trader is distracted, he or she will make mistakes that will have severe financial consequences. By remaining humble, the winning trader stays clear, focused, and objective. It's the mindset of success.

It's the Process that Matters, Not the Prize.

The focus on the Olympics should remind us that it isn't the prize that matters, but the process of how you won it. Olympic athletes practise most of their lives to perform at their best at that -one moment in time.- The outcome of that one moment has major significance.
The irony, however, is that if they focus too much on winning during that one moment, they'll probably choke. As one athlete put it, it is more important to know that he prepared as much as possible and that he was as ready as he could possibly be. By knowing that he had done everything possible, he felt self-assured, so self-assured that when he had to perform at the key moment, he felt a sense of accomplishment, regardless of whether he won the Gold. It's useful to bring that same attitude to trading. Don't focus on winning.

Focus on the process of trading. Make sure that you are well prepared, and that you have done everything you can possibly do. If you know you have tried to do your best, and put in a heroic effort worthy of feeling a sense of accomplishment, you'll feel like a success.
When trading the markets, it is impossible to know the outcome of a trade. There's an element of chance involved. The markets may be conducive to the trade, but on the other hand, they may not. You can't know for sure until you execute the trade and find out. The only thing you really can control is how you prepared for the trade, and how you execute and monitor the trade. The way the markets behave are out of your control, so all you can do is control what you can, and accept what you can't control.
Since no outcome is assured, it makes little sense to focus solely on the outcome, and allow whether you win or lose to dictate whether or not you feel successful. Besides, thinking about whether a trade will be a winner or a loser usually makes you feel anxious and uneasy. You may use up limited psychological energy worrying about something over which you have little control. Better use of your energy is to focus on the process of preparing for a trade. It's fun to think of new trading strategies or to scan for possible setups. Trading is a creative process. It's intellectually challenging and engaging. By focusing on the process of trading, you'll feel fulfilled. And if you know that you've put in a solid effort to prepare for the trading day, you'll feel a sense of accomplishment.
Although it is tempting to focus on the outcomes of our trades, doing so is usually distracting. It's much better to focus on the process of trading. That means preparing carefully for trades to the extent that you feel you've done everything you possibly can do.
If you feel you have prepared adequately, you'll also feel self-assured. And when it comes time to execute and monitor your trades, you'll feel at ease, confident, and ready to tackle the markets.

Your Mood May Bias Your Estimates of Success.

Winning traders look at their odds of success objectively. Decisions are best made in a cool, calm and rational manner, but research studies have demonstrated that probability estimates are often biased by our moods. For example, when research participants are asked to make a probability estimate about whether or not a disaster will happen, such as their untimely death, the estimates are higher in an unhappy mood than in a happy one. Basically, people match their probability estimates to their mood.

When we are happy, or euphoric, we think the odds of success are high. In this state, we are likely to be overconfident when it comes to trading. In contrast, when we are in a pessimistic mood, we are likely to underestimate our probability of success. Ideally, a neutral mood where one is neither happy nor sad would be ideal, but it is hard to cultivate such a mood. Even when we are calm, we are likely to be a little bit on the happy or unhappy side, rather than right in the middle. Perhaps the best we can do is monitor our mood and account for it.

A bad or unpleasant mood isn't conducive to trading. Although pessimists are often more realistic, when you are feeling down, it is difficult to meet the seemingly endless challenges and setbacks of trading. You feel like giving up when you often need to persist in the face of adversity. On the other hand, traders are infamous for over-confidence. They often over-trade because they over-value their skills. They may trade by the seat of their pants without a clearly defined trading plan. But all things considered, it is better to be an optimist than a pessimist.

Thinking optimistically can energize you and make you feel on top of the world. Trading takes energy and if you have a lot of it, you can trade more creatively and effortlessly. But, again, if you are too optimistic, you may take unnecessary risks and end up losing money on poorly devised trades. There's a simple solution, though, make sure you manage risk on an any given trade and trade a detailed trading plan. Before you execute a trade, make sure that you have carefully considered all possible downsides.

What adverse events may go against the trade? What possible factor did you miss? By taking precautions to protect yourself, you can be optimistic without letting it get you off track. Our moods can undermine our trading efforts if we are not careful. If we are pessimistic, we may want to give up prematurely, but if we are optimistic we may act impulsively. By taking precautions, you can be optimistic and have an overly enthusiastic view without letting it ruin your trading performance by over-trading or trading impulsively.

Thinking in Terms of Probabilities.

Successful traders think in terms of probabilities. Rather than looking at the outcome of a single trade by itself, they view it as merely one outcome among a set of outcomes. They believe that overall their trading strategy will give them an edge, and allow them to come out ahead if they make enough trades.

Probability theory is concerned with hypothetical outcomes of a process that can be repeated over and over again, forever. For example, suppose one were to toss a coin an infinite number of times. There are two possible outcomes: heads or tails. Thus, if a fair coin were tossed an infinite number of times, one would expect heads to occur 50% of the time and tails to occur 50% of the time. Since the outcome of one toss is independent of the outcome of any other toss, it is impossible to predict the outcome of any single toss. However, with a large enough number of tosses, one would expect about half will be heads and half will be tails.

Suppose that you received $2 each time the coin landed on heads and lost $1 each time the coin landed on tails. Assuming that you toss the coin a sufficient number of times, you will come out ahead. As an interesting exercise, toss a coin 10 times. You will find that sometimes, you will come out ahead, sometimes you will be behind, and sometimes you will break even. This happens because 10 tosses are not very many tosses compared to an infinite number of tosses. The 50/50 chance of obtaining heads is only based on the infinite number of tosses, but you will see the more tosses you make the closer the resulting distribution of outcomes will approach a 50/50 split.

Trading outcomes can be looked at the same way. If one were to view trading outcomes as tossing a coin, one cannot predict the outcome of a single trade, but across a long series of trades, one could expect a 50/50 split, assuming a trading strategy works at least 50% of the time it is used.

In a purely mathematical sense, it isn't possible to estimate the odds that a trading strategy is expected to produce a win, since the strategy cannot be repeated an infinite number of times. The best we can do is use historical data to see how well the trading strategy worked in the past, and assume it will work in the future when similar market conditions exist. Ideally, historical data should provide evidence that your strategy will give you enough of an -edge- to come out ahead.

Nevertheless, from a psychological sense, it is useful to view the outcomes of trading strategies as independent outcomes in the same way that a coin is tossed over and over again. It isn't useful to isolate the outcome of a single trade. Instead, think of outcomes as just one among a series. It will take some of the pressure off of you. You will not tend to think that every trade needs to be a winner, which can be very stressful, and you will be more relaxed if you look at the bigger picture.

The Unbridled Quest for Profits.

Trading is a tough business. Less than 5% of those who attempt trading realize enduring success. With those odds, it's not surprising that novice traders feel they must devote 100% of their time to trading. Learning to trade requires focus, dedication, and persistence. You aren't going to get very far if you view trading as a hobby that you can master in your spare time.
There comes a point where you need to treat it like a vacation, a calling where you have to hone your skills until profits come naturally and effortlessly. That said, the quest for profits must be tempered. Trading lore is replete with stories of traders who put in heroic efforts to amass great wealth only to give it all back out of quiet desperation. Make sure that you take psychological steps to ensure that once you achieve profitability, you'll be able to maintain it.

Trading consistently requires discipline. One must control his or her emotions, and learn to think logically. Trading plans must be clearly specified and one must stick to the plan. An impulse to abandon the plan must be subdued. An impulse to trade larger positions to make greater profits more quickly must be restrained. In addition, learning to trade takes time, and that may mean limiting social activities and other forms of pleasurable entertainment. Some people are naturally monastic.
They may also tend to be detailed oriented, logical and austere. Although this is the ideal personality style for a trader to some extent, most successful traders don't start out this way. Disciplined, over-controlled types tend to dread risk and have trouble pulling the trigger in the end. Most seasoned traders, in contrast, have a strong desire for success, and the pleasurable rewards that go with it. Eventually, the winning trader learns to rein in and control emotions and impulses. But it isn't natural. It takes practice, self-control and determination.
All traders must eventually learn self-control and discipline if they are to achieve lasting profitability, but it's vital for long-term survival to know the proper way to maintain discipline. Some novice traders overdo it. In a blind ambitious quest for profits, they devote all their time and effort to making money. Although this strategy can lead to initial success, eventually, it tends to also lead to failure. Many traders make the mistake of not thinking through their life decisions to pursue wealth.
They usually seek out wealth because they view it as a solution to all the problems of life. However, wealth rarely solves one's life problems. That's something that must be done beforehand. It's vital to think of the big picture. What are you going to do with the profits once you get them? Similarly, how long can you live a life of austerity and self-denial before you burst out in a binge of reckless pleasure-seeking? It's better to make plans right now. Don't put it off. Realize that you can only show self-restraint for a limited time.
Be prepared to take breaks; take off time to spend with your family and friends. Don't think that you must devote your entire life to trading. Cultivating balance between work and pleasure will produce rewards in terms of your overall morale. If you ignore this issue, you'll eventually start trading impulsively and emotionally. It's also essential to make plans for what you will do with your profits once you achieve them. Devise meaningful ways to spend your profits.
ou may want to spend your profits on your family and friends or donate some of your winnings to charities that you find personally meaningful. Whatever you do, make sure that you are fully aware of the reasons you are trading and have a clear idea of the big picture in terms of how your newly acquired wealth will benefit you, your family, your friends, or society as a whole. Cultivating balance and deciding how trading can add meaning to your life will not only help you achieve profitability; it will help you maintain it.

The Proper Mindset.

The winning trader is not beleaguered with anxiety, conflict, and indecision. The winning trader trades freely and effortlessly. Traders are similar to star athletes who perform at their best, or musicians who are virtuosos. What these people have in common is that they can focus their attention on the task at hand; inadequacies, conflicts, or current life stressors do not easily distract them.
The more you can remove stress and anxiety in your life, the more easily you can trade effortlessly with a focused, concerted manner. Some of the conditions you need to address are unconscious and involve a certain amount of reflection, but other conditions are just a matter of the right attitude. A winning approach to trading is often just a matter of approaching trading by following some basic guidelines.

A key guideline is to think in probabilities. Don't focus on the outcome of a single trade. Think of the bigger picture. You may lose on a single trade, but if you are trading with sound trading strategies, you will come out ahead across a series of trades. It's this long-term perspective you need to focus on, not the short-term transitory outcomes. Remember that your overall success is the bottom line. You must strategically execute trade after trade in a calm and logical manner to make the law of averages work in your favour.
It's also vital to control your risk. Successful traders risk only a small percentage of their trading capital on a single trade, for example. Limiting the risk on a single trade further relieves some of the pressure to feel that every trade needs to be a winner. Trading a detailed trading plan is equally important. When you know what you are going to do and when you are going to do it, you'll feel more in control. If you leave parts of your trading plan unspecified, you'll feel a sense of uneasiness.

And in all likelihood, you'll not be able to follow your plan easily. Your discipline will falter. It's essential that you plan out when to enter and when to exit. Once you have a clear idea of when you'll decide to enter a trade and what signals indicate you should exit, you will be able to focus more easily on monitoring the trade and taking decisive action.
There's also a psychological aspect to trading like a winner, and sometimes it's important to just remember some common human tendencies to think -irrationally.- For example, there's a human need to avoid loss and this need is often manifested in the need to be right. But don't be afraid to admit you are wrong. And don't think that you must capitalize on every opportunity to make a profit. These expectations are so high that they can because of fear and anxiety. When you hold such high expectations for your performance, you place too much pressure on yourself, and it interferes with your train of thought. By trading under the right mental conditions, you can trade profitability and consistently in the long term.

A Little Extra Protection Goes a Long Way.

It is a muggy day and Skips can't seem to do anything right. He has fumbled around all morning. He didn't sleep well last night. He's tired, and he is tempted to just quit for the day, drink a few tequilas, and sit in a hammock by the pool. But he still has enough willpower to fight temptation a little longer. He has been working on a trading plan for the past month and he wants to see it through.
Today's market conditions are just right. He wants to execute the trade today, a day he has patiently been waiting for the whole month. It's a day like today that Skip is glad that he has prepared beforehand for what could go wrong. He may not be at the top of his game at the moment, but he knows that he can survive a worst-case scenario should it happen. He has taken precautions and knows deep down that he can live through a major setback. So even though it is a tough day, he's decided to stick with his plan, execute it, and see if he can take home a profit.

When it comes to mastering your psychology, feeling safe and protected can do wonders. If you are truly afraid of making a mistake, you will not feel calm and relaxed. You'll be on the verge of making a trading error. And when you are under extreme pressure to perform flawlessly, you feel it. There's an old trading adage that is apt to trading in the calm, calculating the state of mind: Make the trade so insignificant in the big scheme of things that you wonder why you are even bothering executing it.

Managing your risk is the key to cultivating an unwavering, psychological sense of safety and security. If a trade requires you to risk only a relatively small percentage of your account balance, you'll feel at ease. You'll know that you can survive a setback, and you'll think, -What do I really have to lose? I can relax a little and see what happens.-
There are other obvious ways to feel protected and safe. For example, you can use a protective stop to make sure that you restrict the amount you can lose on any given trade. Look at the past performance of a stock and estimate an ideal stop-loss point that protects you, but does not allow you to get -stopped out- too early. Once you've determined an optimal stop-loss point, use the automatic settings on your trading platform to ensure that you are protected even when your self-discipline fails you. Perhaps the most important form of protection, though, comes in the form of a well-developed trading plan.
If you know specifically when to enter and when to exit, you can execute the plan even while feeling a little stressed out. You can mechanically follow your plan, focusing on your immediate experience rather than the long-term consequences of a trading loss. It's also important to anticipate adverse events as part of your trading plan. Make sure that earning reports or a Federal Reserve announcement isn't going to ruin your trading plan. Careful and precise planning is the best way to protect your account balance.
Just like engaging in a dangerous sport, you feel better when you know that you have some form of protection. Athletes protect themselves with helmets, and airbags and seatbelts protect us as we drive in rush hour traffic. Successful trading also requires adequate protection.
Protection not only ensures that you can survive to trade another day, but it also allows you to feel relaxed while you execute and monitor a trade. So protect yourself. If anything can go wrong, it usually does. You don't have to worry, however. If you take precautions, you'll survive the inherent setbacks in trading, and end up winning in the long run.

Psychic Income.

Are your profits down lately? Has the novelty and excitement of trading worn off? Are you looking for reasons to stay in the business? You might want to consider how much psychic income you make from trading. It can give you a new perspective and energize you when you're in a little bit of a rut. When it comes to feeling rewarded for our work, we usually only think of how much money we're taking home. But we get more income from work than just money: Psychic income is the intangible gratification or value that is derived from work. Sure, money is important, but so is the satisfaction you get from your job. When you start thinking that there are better ways to spend your time than monotonously staring at your screens, consider the advantages that trading provides compared to other jobs.

Trading has its pitfalls. It can require you to work long hours. It's inherently stressful, and unless you are careful, the stress can wear you out. But trading has many rewards that other professions don't offer, and depending on your preferences, these psychic rewards can keep you moving forward when the markets aren't offering the opportunities that you desire.

If you trade your own account, for example, you can relish the fact that you are your own boss. You don't have to please a supervisor or deal with office politics. If pointless meetings and petty squabbles get on your nerves, working by yourself at home provides significant amounts of psychic income, income that in many ways has greater value than a 50% increase in profits.

The psychic rewards are endless. For example, the control and freedom that traders enjoy make trading extremely rewarding. If you don't feel like trading for a week, there's no reason not to take some time off. If you want to work only a half-day to spend time with family and friends, you can do it. You don't have to submit a vacation request and wait for the approval.

Many winning traders are independent thinkers who would rather go their own way. The trading profession allows them to express their individuality in a way that few professions provide. On that basis alone, the psychic income trading provides is immeasurable. Similarly, trading is a profession where pure talent is rewarded. Not anyone can make profits as a short-term trader.

If you are one of the select few, you can feel a sense of accomplishment knowing that you are a member of an elite group. There is something rewarding knowing that you excel in a field that few people can master. Trading energizes some traders. They find it exhilarating and thrilling. If you find the typical 9-to-5 job mundane, you may gain large amounts of psychic income from trading.

Any job can become tedious and routine at times. And that's especially true when market conditions aren't conducive to your trading style. Our first inclination is to view trading as only about making money, but it's more than that. Trading offers rewards that are just as important as money. The more you consider the psychic income you take home along with your profits, the more you'll appreciate the work you do day in and day out.

The Extra Weight of Psychological Baggage.

In a deep discussion with his trading coach, Jack confides, -I win sometimes, but when I lose, I lose big.- His coach asks, -Why are you putting on big trades? Do you see a high probability setup that warrants increasing your position size?- Jack admits, -I don't have a good reason. I just want to put on a big trade to make huge profits.- Frustrated with Jack, his coach says, -But if you don't have a sound reason for the trade, why put it on and take such a big risk?- Confused and flustered, Jack says, -I just need to make big profits. I've got my dreams and ambitions. I want to be a success, so I'll finally get the respect I've always wanted.-

Jack is human. He has craved success and trading offers him a way of gaining success in life. But Jack carries around a lot of -psychological baggage.- In other words, he has unresolved past conflicts that use up his limited psychological resources, interferes with his concentration, and don't let him focus objectively on his trading. His motives to trade successfully are coloured by unmet psychological needs, and this baggage prevents him from trading calmly and without bias. Not all traders carry psychological baggage, but if you are one of them, it would be wise to acknowledge the problems you have in this area and work them out.

There are many kinds of psychological baggage (since it's not a precise scientific term in the fields of clinical psychology and psychiatry, but it suitably addresses a prevalent issue.) Carrying psychological baggage with you is not exactly the same thing as merely having disturbing memories of past trading losses; it's deeper than that. For example, many traders face severe drawdowns in which they have made trade after losing trade before finally hitting a winning streak.

During the times of severe drawdown, some traders, especially novices, may feel a little disappointed, and thus, they may be carrying around a little psychological baggage, but not necessarily a lot. Ideally, a trader with no psychological baggage views the drawdown as nothing more than one of the everyday vicissitudes of trading. Trading is based on odds, and the odds are such that even a top-notch trader may face a drawdown. So it's best to look at a drawdown as nothing more than a minor temporary setback and press on.

But for the trader with psychological baggage, the drawdown may take on greater significance: it may represent a -personal failure.- When a minor event starts to symbolize a -bigger issue,- it often reflects long-standing unresolved psychological conflicts. When a trader starts thinking, -I don't have the skills to get past this drawdown,- or -This drawdown exemplifies my ineptitude as a person,- he or she is carrying psychological baggage from the past into the current trading situation. Although psychological baggage is often deep-seated and reflects long-standing unresolved conflicts, it can be resolved over time through intense self-reflection and introspection.

Carrying around psychological baggage influences what you do. Regardless of how much actual financial capital you have on the line in a given trade, the trader with psychological baggage has personal emotional capital on the line as well. In addition to the money, such traders have their self-esteem and self-worth on the line.

The trade holds colossal psychological significance, and should the trade be a loser, its impact has even greater personal impact. When the pressure is on, even the best of us may wither under the strain. The weight of psychological baggage puts even more pressure on the trader. There's a hidden agenda in each trade. Not only must the trade be a winner, but it must also validate one's personal value.

Trading is hard enough without placing extra pressure on oneself. Don't carry extra dead weight by carrying heavy psychological baggage. Lighten your load. Identify your psychological baggage and cast it aside. You'll find you can think more clearly and decisively. You can focus your attention more easily, trade your plan, and watch the profits roll in.

The Masses Can Be Right...Sometimes.

There are times when trading profitably requires an accurate gauge of mass opinion. It can be useful to find out what the masses think and follow them. Well, sometimes it's useful. The dynamics of a trade can be 99% psychology. Take Apple Computer (AAPL), for example. In 2005, sales of iPods pushed the stock price so high that Apple decided to have a stock split. Many market observers were watching, and even astute observers weren't quite sure what would happen next. Many observers even thought that it might be a good time to go short. How far could it go up? One might have predicted that the price would stabilize in 2005, or even go down. In the past every time Apple developed an innovative product, another company stole it. Look at PDAs (personal digital assistants). Apple invented them. Remember the Newton? It failed miserably. Today, Apple doesn't even sell a PDA, while Palm and other companies do well selling a PDA to every businessperson.

So why would anyone think Apple could maintain their share of the sales market for digital music players? Some other company would sell a competitive product and cut into their sales, right? It looks like it didn't happen this time, though. But if the past predicted the future, it should have. And what about the iTunes music store? Other companies now sell music online, but it doesn't seem to matter. What about the computer market? The Macintosh CPUs were stuck at below 2 GHz last year. There was good reason to believe one year ago that Apple's stock price might go down. However, it seems that Apple Computer overcame a number of potential obstacles. Sales have continued to increase.

On Wednesday, January 11, 2006, AAPL closed at 84.80, over $50 more a share than the previous year, which was also significantly higher than the previous year. Why is the price rising? Psychology plays a huge role. Although sales and profits increase a stock price, in this case, people's opinions are a significant factor. Apple isn't the only producer of electronic products, but it seems that the buying public believes that they must have their products. No one actually needs their electronic products, but that doesn't matter. What matters is that people believe that they need them.

Some media analysts also seem to be fans of Apple. At MacWorld Expo, Apple CEO Steve Jobs announced that new, faster Intel-based Macintosh computers were on store shelves. Some industry writers have suggested that this could lead to an increase in Apple's market share in computer sales, which has been relatively minimal for years.

Most stock analysts also suggest buying Apple or holding it. So what will happen next? It isn't clear. Nothing is certain. Apple continues to sell iPods, but will it go on forever? Granted, the latest iPod seems impossibly small and it plays videos! Who wouldn't want one? The problem with anticipating the future price is that it comes down to people's opinions. It's just mass psychology.

What's the point of the story? It wasn't to analyze Apple computer. The point is mere to remind you that any trade is about psychology: what the masses think, what the media thinks, what market participants think. And if they think there is a good reason to believe that a stock price should go up, it will. An acquaintance recently asked, -I watched Apple for all of 2005, waiting to buy at a low, but it kept going up. Should I buy now before it hits $100?- Maybe there is someone with insider information who knows a better answer to the question, but frankly, it's largely a matter of mass opinion.

No one actually knows what it will be for certain. Will AAPL hit $100? Who knows? Interest rates have stopped rising, but credit card payments are going up and consumer confidence is still a little shaky. Maybe people won't buy any more iPods or new Macintosh computers. Does no one really know? Perhaps younger consumers love the iPod so much that it is the one single product they will buy even if it means curbing their cell phone usage or staying home and listening to music rather than eating out. No one has a crystal ball that will tell us what will happen next.

We can look at general trends, gather information from opinion polls, and try to make educated guesses about what will happen in the future. But in the end, there is nothing you can do but analyze all available information you can gather, look at it logically and carefully, try to anticipate where the markets will go, develop a trading plan, and execute it. What happens next is anyone's guess. The only thing you can do is risk money you can afford to lose, set a protective stop, and see what happens. Maybe your intuition will be right. It's all a matter of psychology, yours and the psychology of masses.

For the Pure Love of the Game.

In systematic studies, psychologists have discovered that peak performers have a true passion for what they do. Whether it's art, sports, or business, the folks at the top are not primarily motivated by fame, glory, respect, or status. They are driven by the pure love of the game.
Winning traders, similarly, have strong interests in the markets, and this passion is the driving force that puts them at the top, year after year. But many novice traders are drawn to the markets so as to meet deep-seated psychological deficits and needs. Trading with these motives often leads to disastrous consequences. A briefcase study of Ray, a novice part-time trader, illustrates the point. Read it, think about it, and consider whether or not you can relate to it.

Ray was a successful engineer who traded the markets for 10 years, but he never had a winning year. In his worst two years, he lost 95% of his yearly salary. When asked about his trading progress by friends and family, he enthusiastically told them about how thrilling the markets were, and how he liked to trade so as to feel that rush of excitement.
He also spoke of how the riches he planned to make trading were going to help him buy a big house in the hills overlooking the city, and gain the respect of his friends and family. As you might see, Ray had ulterior motives for trading: he was out to gain status, respect and approval. With each trade, he put his self-esteem and his worth as a person on the line.
He also tried to use the markets to ease his boredom. He didn't love trading in its own right but used trading as a means of satisfying powerful psychological deficits. Such an approach to trading can produce catastrophic results, as it did in Ray's case. It's vital that you evaluate the true motives that lie behind your trading and make sure you are doing it because you love it, like the intellectual challenge and feel fulfilled just because you trade.
Ray clearly had psychological needs that should have been addressed before embarking on a trading career, but it's interesting to note that in other areas of his life, Ray was a successful person. He was considered a top-notch engineer and a skilled athlete.
He loved playing sports, and unlike trading, he didn't care if he won or lost; he just loved to play. It was enjoyable, and in contrast to trading, he never talked about how he had to prove himself to others or how he hoped to earn bragging rights. If Ray could have just applied the carefree approach he used to succeed as an athlete to his trading, he would have been much more successful. If he would have just traded because he enjoyed it, rather than focusing on the respect and approval he wanted as a result of it, he would have probably had several profitable years.
Can you relate to Ray's predicament? What motivates your trading? Is there an enjoyable skill that you have honed in which you take a carefree and focused approach? Try applying this carefree and focused approach to your trading. A key ingredient to trading success is the proper motivation: Be motivated by the intellectual challenge. Follow your passion for trading. Do it because you love it.

A Little Extra Protection Goes a Long Way.

It is a muggy day and Skips can't seem to do anything right. He has fumbled around all morning. He didn't sleep well last night. He's tired, and he is tempted to just quit for the day, drink a few tequilas, and sit in a hammock by the pool. But he still has enough willpower to fight temptation a little longer. He has been working on a trading plan for the past month and he wants to see it through.
Today's market conditions are just right. He wants to execute the trade today, a day he has patiently been waiting for the whole month. It's a day like today that Skip is glad that he has prepared beforehand for what could go wrong. He may not be at the top of his game at the moment, but he knows that he can survive a worst-case scenario should it happen. He has taken precautions and knows deep down that he can live through a major setback. So even though it is a tough day, he's decided to stick with his plan, execute it, and see if he can take home a profit.

When it comes to mastering your psychology, feeling safe and protected can do wonders. If you are truly afraid of making a mistake, you will not feel calm and relaxed. You'll be on the verge of making a trading error. And when you are under extreme pressure to perform flawlessly, you feel it.
There's an old trading adage that is apt to trading in the calm, calculating the state of mind: Make the trade so insignificant in the big scheme of things that you wonder why you are even bothering executing it. Managing your risk is the key to cultivating an unwavering, psychological sense of safety and security. If a trade requires you to risk only a relatively small percentage of your account balance, you'll feel at ease. You'll know that you can survive a setback, and you'll think, -What do I really have to lose? I can relax a little and see what happens.-
There are other obvious ways to feel protected and safe. For example, you can use a protective stop to make sure that you restrict the amount you can lose on any given trade. Look at the past performance of a stock and estimate an ideal stop-loss point that protects you, but does not allow you to get -stopped out- too early.
Once you've determined an optimal stop-loss point, use the automatic settings on your trading platform to ensure that you are protected even when your self-discipline fails you. Perhaps the most important form of protection, though, comes in the form of a well-developed trading plan. If you know specifically when to enter and when to exit, you can execute the plan even while feeling a little stressed out.
You can mechanically follow your plan, focusing on your immediate experience rather than the long-term consequences of a trading loss. It's also important to anticipate adverse events as part of your trading plan. Make sure that earning reports or a Federal Reserve announcement isn't going to ruin your trading plan. Careful and precise planning is the best way to protect your account balance. Just like engaging in a dangerous sport, you feel better when you know that you have some form of protection. Athletes protect themselves with helmets, and airbags and seatbelts protect us as we drive in rush hour traffic. Successful trading also requires adequate protection. Protection not only ensures that you can survive to trade another day, but it also allows you to feel relaxed while you execute and monitor a trade. So protect yourself. If anything can go wrong, it usually does. You don't have to worry, however. If you take precautions, you'll survive the inherent setbacks in trading, and end up winning in the long run.

Trading With Purpose.

Have you ever fallen out of bed early in the morning and just wanted to crawl back under the covers to avoid facing the stresses and strains of the markets? Perhaps you've been making trade after trade, and after lunch, you just wanted to quit early and take a nap. Or after a string of losing trades...At those times, you may feel so down and beat that you want to stay down and wallow in self-pity. Trading profitably requires both physical and emotional stamina. It's essential to take precautions to make sure you can face the trading day with zeal.
When it comes to physical stamina, there's no substitute for sleep and relaxation. As hard as you may try to trade in a serene and relaxed state of mind, trading is an adrenalin-pumping experience. It takes psychological energy to concentrate on the trade and stick with your trading plan. Your psychological energy is limited, however. When it gets depleted, you will have trouble forcing yourself to concentrate and you may make trading errors. Do yourself a big favour: don't avoid sleep or skip meals. Be well-nourished and well-rested.

Psychological energy can be difficult to cultivate. One of the best ways to harness your psychological resources is to determine why you trade and remind yourself of these reasons all day. Why do traders engage in such a stress-producing activity? There's no single -right- reason. It depends. But one thing is certain. It's not for the money. Who does anything for money?
Money is merely a means to an end. Money is what is used to buy status, for example. Money can buy you a nice house, an exciting sports car, or a fashionable wardrobe. In our consumer-driven society, these symbols offer extreme, instant pleasure. They are highly motivating, and you may trade to obtain these objects. If you trade for these reasons, you will be highly motivated.
But there's a downside you should be aware of. Your sense of accomplishment will be short-lived. Driving up the coast in a red Porsche is fun for a while, but it becomes commonplace eventually. At some point in time, you'll want the turbo version, and later, a Ferrari. You'll continually seek out new thrills and new excitement. It can be an addictive lifestyle in which you are constantly seeking a new high. Again, it will motivate you, but it may not work for very long.
Seasoned traders advise living a modest lifestyle. When you devote too much of your profits to securing and keeping material possessions, you end up putting pressure on yourself to maintain a lifestyle that is difficult to afford. Eventually, you crack under the strain.
Many seasoned traders, in contrast, love the profession because it helps them feel a sense of accomplishment. They have a rare talent, and they are driven to increase their skills as a means of achieving self-actualization, which is peak performance, inherently fulfilling mental state. They truly love what they do, and feel rewarded at the end of the day knowing that they are fulfilling their destiny.
For others, though, money or the pursuit of self-actualization isn't enough. They need to believe they are fulfilling some higher purpose. Some people trade to provide their family with a good life, for example. If your priorities are to provide for your family, then it is vital that you remind yourself of this purpose throughout the trading day. Other people want to make a societal contribution.
If making such a difference motivates you, then consider donating some of your profits to charities. Still, others are interested in creating a legacy. They want to share their talents by training a new breed of traders. Teaching is a noble profession. If you want to help other traders, try sharing some of your experience with novice students of the markets.
The reasons people trade the markets are varied. There is not a single right reason. It depends on you. But whatever reason you trade the markets, it can do wonders for your motivation to keep these reasons in mind. Write them down on an index card and tape it to one of your monitors. Look at it throughout the day. The more you remind yourself of the reasons you trade, the easier it will be to overcome obstacles and enthusiastically persist in markets that aren't always cooperative.

Putting Up a Strong Defense.

When the defensive linemen go out onto the playing field, they make sure they have helmets, facemasks, shoulder pads and other protection. The opposition is often formidable and there's no reason to unnecessarily risk getting hurt. When it comes to trading, it's also vital to have proper protection. Adverse forces may go against your trading plan, and unless you protect yourself, you run the risk of getting hurt, and with trading, that often means substantial hits to your account balance.
There's also a psychological advantage to going out onto the playing field with the proper protection. Taking the football analogy one step further, consider the quarterback who doesn't have a wall of teammates on the line defending him. If they can't hold back the opposition, he has to make a play under pressure.

He may feel the need to throw the pass too soon to avoid getting sacked. Acting under pressure often leads to an error, such as throwing an interception or dropping the ball. Proper protection, in contrast, not only protects the quarterback from possible injury, but it gives him the time and opportunity to think more clearly, make a calm, thorough survey of all possibilities, and throw the ball to the player who has the best chance of making it to the goal line. It's also true with trading.
If you have money on the line that you are afraid to lose, you may feel like the quarterback who is afraid of getting sacked. It's hard to stay relaxed and focused. One feels the pressure to act quickly so as to avoid harm. This often results in impulsive decisions, and over the long haul, a significant loss of capital. Risk management provides not only protection from financial loss but also gives the trader a psychological advantage.
Just as when playing sports, there's an optimal level of energy that a trader should try to maintain. A tired and listless player can't even play the game, but on the other hand, too much energy is detrimental. When one is under too much pressure and totally stressed out, he or she can't think clearly. This is due to the fight-or-flee response. The body responds to threat by focusing all energy on impulsive reactions to neutralize the threat.
When the stress is on, there's a natural human tendency to narrow one's focus and react spontaneously. Such impulsive reactions usually fail to produce a desirable outcome. It's just like the quarterback who accidentally throws the ball into the hands of the opponent because he felt enormous pressure to act. For the trader, proper risk management allows the trader to control stress and trade at the optimal energy level.
There are many ways to manage risk. But one of the best ways is to develop a very detailed trading plan in which you estimate the potential risk upfront. For example, you may estimate how far the trade may move against you. When going long on a swing trade, you may reason that the most the price will go against you are the low of the previous week.
That will give you an estimate of risk upfront. Many trading experts also suggest making sure that the amount of risk you take on is only a small percentage of your trading capital, so that should you lose on the trade, the loss will be at a minimum. Whatever approach you take to managing risk, the point is that managing risk has both financial and psychological advantages.
Psychologically, you'll feel a sense of security. Deep down, you will know that should you lose on the trade, it can't hurt you very much. It's only a small part of your capital, and you know you will survive to move on to new opportunities. You will feel more relaxed. And when you feel calm, your mind will be open to all possibilities. You can gauge the market action more objectively than when under pressure. In all likelihood, your mind will move with the market, and you will be able to trade effortlessly and reach a peak performance state.
In both trading and athletics, a calm, focused approach is optimal. Extreme pressure and stress constrict one's attention to the point that few alternatives seem available. Decisions are impulsive and reckless rather than logical and decisive. Risk protection is a key factor that traders use to provide psychological protection against adverse forces that may knock them off balance. Put up a strong defence by using proper risk management, and you'll be able to trade in a peak performance

mental state.

Quick Decisions.

Trading is fast-paced. The markets can move rapidly, and it is sometimes necessary to react quickly and correctly. Depending on your experience and natural inclinations, however, making the right decisions quickly can be difficult. When decisions are made on the spot, they are often wrong, and wrong decisions produce losses. It is usually better to plan your trades carefully rather than make decisions on the spur of the moment.

Research studies have shown that when people are asked to make spontaneous judgments, they tend to rely on heuristics or rules of thumb. For example, people have a powerful inclination to avoid risk, and when asked to make decisions rapidly, they do whatever they can to reduce risk and potential loss.

That can mean holding on to a losing trade and hoping that it will turn into a win, or closing out a trade prematurely and missing out on an opportunity that would have produced a substantial profit. People also may base their decisions on the availability heuristic, the tendency to make judgments based on events held in memory. For example, when trading a tech stock while under pressure, we may incorrectly assume that it will increase because we have many vivid images of tech stocks increasing available in memory.

Yet in the particular trade, we are monitoring at the moment, the stock may not increase. Similarly, if we have made a series of winning trades in the recent past, we have fresh memories of these wins and tend to over-estimate the probability that our current trade will also be a winner. These heuristics are especially powerful when we are under pressure and we believe that our future is particularly uncertain. We deal with uncertainty by relying on what we are most comfortable with and tend to go with our hunches, but it is at these times where are hunches are usually wrong.

When people are uncertain, they tend to be a little anxious. Controlling the anxiety, no matter how slight, requires psychological energy. Since psychological energy is limited, coping with anxiety takes away energy from our decision-making processes. With limited psychological resources available for processing decisions, we are not able to consider all alternatives carefully and objectively. Instead, we act on impulse, and our impulses are usually wrong.

Rather than make decisions spontaneously, it is wise to carefully plan a trade before executing it. If you carefully determine an entry and exit point, you'll be able to implement your plan when faced with uncertainty and required to act decisively in the heat of the moment.

The more detailed your trading plan, the easier it will be to follow your plan. And the more you can trade your plan, the more you will trade profitably and consistently in the long run. Although some traders can trade by the seat of their pants, many traders do better by carefully planning their trades and by following their plan closely. By avoiding spontaneous decisions, you can realize the consistent profits of a winning trader.

Rambo Trader.

Did you ever watch those old Rambo movies where he was able to think quickly on his feet and perform remarkable feats? It was more cartoon than reality, but we often hold ourselves up to such fanciful ideas. We underestimate the difficulty of thinking on our feet during an emergency and believe that we could do it easily when necessary, but acting intuitively and spontaneously takes experience and practice. It's not for the novice.

It's hard to think under pressure. The human-animal isn't naturally wired to think calmly and rationally. In the end, just as all animals, humans have instinctive survival skills built into their primitive brains. When we see the danger, we instinctively react with a fight or flight response. We either fight the opponent or flee to safety. There isn't much time for thinking; the mind shuts out all irrelevant experience and blindly devotes all resources to either fighting or running away. If you live in the wild, these instincts may be useful, but they often get in the way in modern life. In the modern world, our survival depends on making thoughtful decisions.

Even when we are mundanely jogging around the block or driving our children to school, we must make careful decisions; when to cross the street, or where to park the car so our kids can unload safely should not be made on gut instinct alone. It may seem as if we make even these commonplace modern-day decisions instinctively, but actually, we honed our instincts over many years. We learned how and when to cross a street safely so that even when we are tired and pumped up while jogging, we still can do it safely.

Our parent's incessant warnings to look both ways before crossing the street helps us cross streets without thinking today. It's the same with the decisions we make as a trader, but unfortunately, few of us had parents who were able to warn us of some of the inherent dangers of trading; -I told you time and time again: Don't trade during a potential rate hike!- For most of us, we needed to gain our own experience with the markets or discover our own list of warning signs that alert us to impending danger.

Developing the astute ability to make fast trading decisions under pressure takes time. Just as learning any new skill, you need to deliberately practice the skill step by step until you can do it automatically. When we try to do a Rambo-like trading feat, we will usually fail. Such feats are much like magic tricks. When you see a magic trick, it's amazing because you only see things from your perspective. Little did you know, however, the amazing feat was practised over and over, and many times there were failures. In addition, there's a hidden trick, like a secret door, that you don't know about, and that's what makes it -magic.-

It's the same with trading. Sure, you may see or hear about a trader who saw a particular setup under ideal market conditions make a killing, but what you don't see is how many times that trader saw these conditions before or how many times it was a loser rather than a winner. Only through experience and practice can you -think on your feet- with unfailing accuracy. Until then, it's vital that you acknowledge your limitations. It is vital to outline a detailed trading plan. Determine where you will enter and where you will exit. Decide beforehand how you will monitor your trades and what potential adverse events may thwart your plans.

Only through preparation, proper risk management, and practice can you create the illusion of -thinking on your feet.- At some point, all traders reach the point where they can trade instinctively like a seasoned athlete, but it takes time. Until then, don't trade like you are Rambo. Take it slow, practise, and hone your skills. You'll find you will trade more profitably if you work at your own pace.

Beliefs About Randomness: Do They Impact Profits?.

As you trade, do you ever just think, -It's all just random, why even bother trying at all?- If you passively think you have no control, you may end up making less money according to a study by Dr. Timothy Steenbergh and colleagues at the University of Memphis (Steenbergh, May, Meyers, & Whelan, 2005).
Dr. Steenberg and colleagues studied a group of university students who played a computer game of roulette. All participants reported they had gambled recreationally in the past year. Researchers asked participants to describe the strategies they took toward playing computerized roulette. About 25% of the participants reported they had no strategy; they just saw outcomes as random and believed that their actions could in no way influence their outcomes. The remaining participants reported that they had developed a strategy or game plan.

Some of these strategies were based on the gambler's fallacy, the belief that after a string of losses, the odds should work in your favour or -even out.- Since each spin on a roulette wheel is independent of every other spin, behavioural economists view this belief as irrational. It's irrational in that actual chances of success are not taken into account. One believes that the chances of success are greater than they actually are.
Results of the study suggest that it is better to use some sort of strategy, even if it is -irrational.- Participants who came up with some sort of strategy, sound or not, believed that their actions had an impact on gambling outcomes. They made more bets than those who didn't have any strategy and made more money in the end. These findings suggest that a belief in complete randomness may be scientifically accurate, but it may prevent people from taking specific action. Rather than actively trying to win, they may passively think, -Why to bother, it doesn't matter.-
While trading, it's easy to think that no matter what you do, you won't make a profit. The markets can be brutal at times, and it's tempting to fall prey to a victim mentality. Such beliefs may paralyze you, however. It's more productive to believe that if you take control, you'll make a profit.
Even if you have no real control, it helps: You take action, you plan, and think of some sort of strategy. When you take action and make enough trades, the odds may work in your favour, and you'll end up with profits. So as you trade, take an action-oriented approach. As Mark Douglas suggests in -Trading in the Zone,- the more you find excuses to avoid making trades, the less likely you'll be at actually taking home profits.
But if you look for an edge, and use this edge to make numerous trades, you'll increase your chances of success. In trading, there are proven strategies that work under specific market conditions. If you look hard enough, you'll find them, and use them to your advantage. Don't passively let opportunities pass you by. Go out and look for many of the endless trading opportunities out there. The harder you try, the more profits you will make.

Psyched Up and Ready For Action.

Bill went to bed early last night, woke up early, and is excited about starting the trading day. It's a cool, sunny day, and Bill can't help but feel rejuvenated. After a quick run, he can't wait for the markets to open, so he can make a few winning trades. Bill thinks today is his lucky day, the day that he's going to make a month's worth of profits. Why not start the trading day with excitement and vigour? Drink some coffee to get yourself going. Work out to get your energy level up and your physiology moving. Think positively and believe that you can overcome any obstacle. Why not get psyched up?

Cultivating a positive attitude for the trading day may not be as simple as it looks. Traders must continually walk a tightrope between extreme overconfidence and self-doubt. The trick is to find a level of confidence where you can realistically evaluate the market action and accurately acknowledge your limitations, yet at the same time, avoid talking yourself into a state of cynicism and self-doubt.

Novice traders, especially, are infamous for overconfidence. Behavioural economists have shown, for example, that after a big win, young enthusiastic traders overtrade and take unnecessary risks. Enthusiasm can sometimes cloud your vision to the point where everything looks rosier than it really is. Humans tend to be efficient, but often poor decision-makers.

They are prone to self-serving decision-making biases that are ego-building but unrealistic. Humans have a natural tendency to see matters more positively than they really are. While trading, for example, novice traders may wrongly believe that other market participants will behave as they behave or that they have more control than they actually do.

Humans can indeed be self-serving in their decision-making, especially novice traders who are on a quest for early success. But that doesn't mean that you need to live your entire trading life blandly fighting boredom. Getting psyched up has a time and place. You obviously don't want to be so euphoric during a trade execution that you throw out your trading plan on a whim because you wrongly get a hunch that something bigger is on the horizon. When you are executing your trading plan, it's essential that you mechanically stick with it.

This can be done by carefully outlining a trading plan with clear entrance and exit strategies. You should also decide beforehand what signals you will look to monitor the trade and make minor midcourse corrections. Surely, during the execution process of the trade, you want to stay calm and rational.

But what about while you develop your trading plans, can you be optimistic at this stage? While you explore your options, it can be useful to build yourself up. Remind yourself that you are creative, intelligent, and resourceful. It can help to get really psyched up: -I have rare trading talents.

All I have to do is get my creative juices flowing and I'll be able to discover market opportunities that will pay off big.- While you're trying to come up with trading ideas, there's really no harm in thinking that you are omnipotent. You need to think creatively, and when you are excited, your brain physiology jumps into action. Ideas connect and reconnect, and suddenly new insights spring up. So there is a time and place for extreme optimism.

That said, during the idea generation stage, it's also vital to calm down and rationally tear apart your ideas. Before executing the trading plan, you must make sure that you've accounted for every possibility that could thwart your plans. You should pessimistically question the feasibility of the plan.

That's part of the creative process: Enthusiastically let your mind run wild but then come down to earth and make sure your ideas actually have merit.

Everything has a proper time and place. During the idea generation phase of trading, you can allow yourself to get psyched up and feel omnipotent, but it's also essential to question your ideas and evaluate their plausibility. And finally, it is vital that you curb your enthusiasm as you execute your trading plan. If you can control your emotions and impulses as you execute your trade, you'll show the discipline you need to trade like a winner.

Thinking Realistically, Even If It Hurts.

One of the biggest obstacles to achieving a goal is having an unrealistic plan, a plan that is unlikely to work even with luck on one's side. It may seem a little cynical, but trading is a profession where many novices hold unrealistic expectations. Trading success eludes many, and a half-baked plan is unlikely to work in the long run. To succeed as a trader, it is vital to have a plan that is clearly thought-out and realistic.

It is natural to think trading profitably is easier than it actually is. It takes relatively little capital to open a brokerage account, and once many novices have opened an account, they tend to let their mind make a giant leap and start to think that it is possible to turn profits from a small account into a livable wage. It is unlikely to happen. You'd have a better chance of winning the lottery.

A true, but distasteful, axiom of trading is that many are drawn to trading but few realize success. As most seasoned traders and coaches will tell you, many aspiring traders blow out their entire account in a few months. So you need to be honest with yourself. Trading maybe a little like learning a sport, but in the final analysis, it isn't like learning a sport.

Learning a sport or skill is much more doable. You've got to entertain the idea (but not necessarily truly believe it) that trading is a lot like winning the lottery. One buys a few tickets with the hope of winning a $10 million jackpot. It may not seem pleasant to think about your odds of success in that way, but you must at least entertain the idea that success may elude you unless you are willing to make the sacrifices and commitment to master the markets.

In the end, trading is a business. You need the right equipment, enough capital, and a serious business plan. Many businesses fail every year. Why? Businesses fail because they don't have a realistic plan. Whether it is a restaurant in the wrong location or an innovative new product that can't be manufactured profitably, if you don't have a well-designed business plan, you cannot succeed.

It is the same with trading. You must have adequate capital so that you can live through the learning curve and the occasional drawdowns. You must have enough time and energy to hone your trading skills. You must have proper training so that you don't make obvious, preventable mistakes. If you meet the prerequisites, you'll significantly raise your odds of success.

If you decide to stay in the business of trading, it is essential to have a realistic, long-term plan. That said, there are many paths to successful trading. Not everyone needs to trade for a living. It is possible to have a small account and make a little money as a sideline. Other traders can trade their own account and make a living. And there are the rare few who can scale up and trade professionally as a fund manager.

But whatever you decide to do, you must make sure that your plan is realistic. It may be hard to psychologically face, but you must truly and realistically discern what you can do with the financial and psychological resources you have. If you can develop realistic goals and a game plan to achieve them, you'll eventually realize financial success.

Realistic Levels of Commitment.

When you execute a trade, you can't let your confidence waver. It's just like when a professional athlete tries to make a winning play. He or she can't suddenly lose faith and back out. It is vital to have a clearly defined game plan and after you decide to execute it, you have to follow through. That said, you should take as many precautions as possible to make sure that you aren't putting blind faith in trading plans that are not likely to produce profits in the long run.

Enduring trading success eludes most traders. You can't be consumed with self-doubt. It's essential to have the proper amount of confidence. If you are under-confident, you'll never be able to overcome the seemingly endless setbacks novice traders face. But if you are overconfident, you may overextend your trading knowledge and assume that you have skills that you don't actually have. Building genuine, rock-solid confidence in one's trading abilities takes time.

It's necessary to experience a variety of market conditions and learn which trading strategies work best under which specific conditions. It's not something that happens in just a few months, and some trading experts say it takes several years of trading before one moves from the status of a newbie to that of a seasoned trader. In the meantime, novice traders vacillate between under- and overconfidence: sometimes they feel they don't have enough confidence while at other times they may have too much.

This wavering confidence makes a commitment to a trading plan difficult. It's natural for a novice trader to ask, -Should I really have a strong commitment to my plan, or is this a time when I should be cautious and stand aside.- It's much like a freshman quarterback throwing Hail Mary passes with a false sense of confidence that it will reach the intended receiver. A strong commitment is only a virtue when a trader has the skills to back up the plan. If a trader trades beyond his or her skills, however, it is likely to fail.

Caution is often a virtue, but if one is too cautious, he or she will never develop the necessary skills to trade effortlessly and profitably. If a freshman quarterback avoids making passes for fear of an interception or incomplete pass, he will never experience real-life pressures to succeed. Similarly, if novice traders fail to execute trades, they will never hone their trading skills.

So what can novice traders do? They can take precautions to minimize potential negative effects. For example, it is essential to manage risk carefully, so a series of losing trades will not deplete your trading capital as rapidly. Just as with learning any new skill, it's also useful to start out slowly. One may want to stick with a few solid, basic trading strategies and execute them under ideal market conditions. For example, conventional wisdom says, avoid the open.

A novice trader might do that at first and as an added precaution, only trade in bull markets, and take small profits, just to get a feel for the markets. It may not be a very innovative strategy, but it will help build confidence. Over time, novice traders will build up confidence based on real-world experiences. Eventually, they will know when to have strong, yet realistic, confidence in their trading plans.

Making a strong commitment to a trading plan may be necessary, but unrealistically telling yourself that you are powerful and infallible can spell disaster. One may trade low probability setups without a clearly defined plan or adequate risk controls. Misguided commitment will wipe out your trading account. Put off making such commitments until you gain extensive market experience and have honed your trading skills.

Until you gain adequate trading skills, take precautions. By taking such precautions, you will minimize potential harm and be able to master new domains. The piece of mind you gain through a well-defined trading plan and adequate risk controls will allow you to tackle new challenges with enthusiasm and vigour. Over time you'll master new strategies and gain a strong, intuitive sense of new market conditions.

With increased practice, you'll achieve long-term profitability. So don't unrealistically believe that you can do the impossible. Making a strong commitment to a trading plan is only reasonable if you have enough skills to back up your commitment. For now, be a little sceptical. It may be useful to be committed when you are about to execute a trade, but don't commit too soon or without taking precautions. If you make sure your commitments are realistic, you'll survive the learning curve and master the markets.

The Utility of an Optimistic Outlook.

Common sense tells us that prudent decision-makers are realists, rather than people who deceive themselves into believing that false perceptions are actually true. The markets are one place where the seasoned trader takes advantage of the masses that tend to fool themselves into thinking that they can haphazardly buy and sell stocks and make huge profits. The seasoned trader knows, however, that enduring success eludes many, and that the emotions of fear, greed, and regret compel the masses to buy and sell at inopportune moments.

The false hopes and dreams of the masses are often shattered. Indeed, when it comes to trading, cultivating an objective, realistic approach can make the difference between becoming a winning trader or joining the masses that give back any profits they have made. That said, the reality, in the end, is subjective. What is the true reality? Realists are often pessimists. When you truly examine the amount of control you have in the world, and in the markets, it can seem hopeless. In the trading world, it is vital to be falsely optimistic and realistically pessimistic at the same time.

Research studies have demonstrated that pessimists are realists. They are accurate when determining just how much control they have over life outcomes. People who are more psychologically healthy tend to be falsely optimistic. They tend to believe they have more control than they actually do. They believe that if they try hard enough, they can make all their dreams come true. So which is better, a naïve optimistic or a realistic pessimist? A realistic pessimist may judge the world accurately but will tend to give up in the face of adversity.

And trading is replete with setbacks. To become a winning trader you must learn to face setback after setback. A pessimist can never surmount such obstacles. An optimist may falsely believe that he or she can do anything, but at least, an optimist will keep trying. Many naïve optimists may never achieve financial success, but at least they will keep at it. There's no way you can achieve success if you don't even try. In the end, optimism may not be realistic, but it is a necessity.

Ideally, winning traders are optimistic and pessimistic at the same time. They are pessimistic in that they know that events are likely to go against them. They take precautions, such as limiting risk and not getting their hopes up. They realize that on any given day, market conditions may not be optimal and that they may have to stand aside until things improve. On the other hand, they are optimists. They know that if they keep at it, they will eventually come out of it successfully in the long run. They realize that it is a matter of endurance and that they can endure if they merely feel that all is hopeless and impossible.

How can two opposing views be held simultaneously? Don't think in extremes. The world is neither black nor white, but different shades of grey. You can hold both optimistic and pessimistic beliefs at the same time. Seemingly contradictory beliefs can be true. Pessimism keeps you grounded in the harsh realities of trading, while optimism compels you to keep going even when all hope is lost. The more you can switch back and forth between these two outlooks, the more success you'll experience as a trader.

Realistic Goals, Realistic Profits.

Earl just quit his job. He's going to trade full time. But his wife is sceptical. -How are we going to survive? We need to have $100,000 a year to maintain our standard of living,- she argues. Earl replies confidently, -I have it all worked out. I will make $400 a day, and that's how we will have $100,000 a year.- Where's the flaw in his thinking? Setting a high-performance goal based on a specific objective per day puts too much pressure on him to perform.
Sure, Earl may make $400 on some days, but can he realistically achieve his $400 a day, $100K a year objective. What if the markets don't move at all on a given day? What if the markets are quiet ahead of an important economic or earnings announcement (such as an interest rate hike, which seems inevitable these days)?
It is not a good idea to believe that you can trade every day or every week. Sometimes market conditions are not ideal. On some days it is better to stay out of the markets completely, rather than fail at trading the low probability setups available on a given trading day.

Even if one has the skills to make $400 a day, when opportunities are available, it may not be a good idea to conceptualize your goals in this way. Consider the consequences of requiring yourself to meet a $400 a day objective. What happens if the first two days of the week yielded only a $300 profit? By mid-week, there's strong psychological pressure to make up the money you have not made.
How might you react? You may overtrade and end up taking poor setups, which may lead to losses rather than gains. The added stress can make matters worse. As your stress level elevates, you will potentially enter a never-ending cycle of frustration, losses, and further disappointment.
Setting more appropriate goals will relieve frustration. It's useful to have a rough idea of how much money you want to make on a given day, but setting a specific dollar amount that you must achieve on any given day will often throw you off track. Psychologists have found that pushing yourself to achieve an unrealistic goal rarely works. Giving yourself some leeway relieves pressure and helps you keep your spirits up. And when your spirits are up, you are more likely to trade freely and creatively.
You may not make a specific dollar amount every single day, but over time, your good days will make up for your bad days, and overall, you will reach your objectives. Seasoned professionals suggest taking it one day at a time. They know that on any given day, opportunities may be limited. They know that it is vital to patiently wait for the opportunities to come to them.
They don't impose their will on the market. They understand that forcing the markets to respond to their expectations is not a blueprint for success. They know that all that really matters is performance across a series of trades. Many traders can lose 60% of the time, four days a week, but on that fifth day, a huge winner offsets nominal losses accrued across a series of trades.
Setting goals is vital for achieving success, but goals are useful only when set correctly. It is necessary to set goals that match your skill level. Shooting for goals that are beyond your skills will frustrate and stifle you, but realistic goals will motivate you to strive for higher levels of performance.
So don't despair, you may not profit on every single day, but over the long run, if you persist and trade with a positive attitude, you will trade like a winner.

Optimistic Yet Realistic.

Trading isn't easy. The winning trader must continually search for trading strategies that will produce a profit, and it seems that after one strategy is discovered, it stops working, and the search must start anew. Trading can be discouraging, but it is vital that one continue to persist in the face of adversity. It is essential to be optimistic. That said, one of the biggest problems that traders face is over-confidence. Traders are often too optimistic to the point that they take unnecessary risks. Winning traders are not only optimistic but also realistic.

Trading optimistically yet realistically is easier said than done. There are a number of psychological biases that prevent one from cultivating this ideal mindset. One psychological process is the dual curse of the incompetent. Research studies have demonstrated that there is a tendency for people to believe that they have more expertise than they really do. Most people don't get adequate information before engaging in a task, such as trading. They are blissfully unaware of their incompetence.

Not only do they lack skills to trade profitably, but they are unaware that they don't have the proper level of skills, and thus, they don't try to seek out proper instruction. They base their perceptions of performance, in part, on their preconceived notions about their skills. These notions often do not match objective performance, and they think they can trade better than they actually can. In other words, the reason losing traders are doubly cursed is that they are optimistic but not realistic.

There are dynamic psychological processes for not seeking out realistic information when it comes to developing trading skills. People tend to want to enhance their sense of self, a psychological mechanism called self-enhancement bias. They want to feel good about themselves, and when they feel threatened, they may be especially prone to deny their shortcomings and bias their perceptions so as to build up their sense of self.

When a trader is faced with a series of setbacks, he or she is particularly vulnerable. And this vulnerability compels one to deny one's shortcomings. Considering that people tend to avoid looking at the truth anyway when a trader is especially prone to feel incompetent and inadequate, he or she will tend to deny all shortcomings and build up one's ego to the point of becoming unrealistically optimistic.

In the end, it can be hard to take a brutally honest look at oneself. Trading is hard, and if you have a strong desire to trade profitably, it may be difficult to accept just how challenging trading really is. The best way to stay optimistic yet realistic is to keep the big picture in mind and reduce feelings of pressure and stress. The more stress you feel, the more trading errors you'll make.

And when you start losing money, you'll not only feel a little discouraged, but you may start holding unrealistic expectations as a defence against feeling poorly about yourself. To stay realistic, you should try to relieve as much fear and stress as possible. Manage risk so that you will feel calm and relaxed. And plan your trades. The more you can plan your trades carefully, the more relaxed you'll feel. You will trade calmly, logically and profitably. By remaining calm, you can cultivate a mindset that is both optimistic and realistic.

Calm, Relaxed, and Ready to Trade.

Winning traders are calm and relaxed. They don't put unnecessary pressure on themselves, stress themselves out, and then crack under the pressure. They don't believe that they must succeed on any single trade, but they see a single trade as just one trade among many. They don't need to be right. They don't impose their will on the market. And they don't try to predict the future behaviour of the market. Instead, they objectively observe market conditions, make a detailed plan of attack, and let the market take them where it wants them to go.

They stay calm and relaxed, and ready to anticipate what will happen next. They trade with a peak performance mental state in that they freely enter and exit trades without worrying about the consequences. This carefree approach to trading allows them to see trading opportunities more easily and allows them to take advantage of these opportunities when they arise. You can take concrete, specific steps to cultivate this peak performance mindset.

The first step is to make sure that you are rested. Many people think they can get away with a minimal amount of sleep or skip nutritious meals. But proper nutrition and adequate sleep are necessary to cultivate an optimal mindset. Trading saps up psychological energy, and psychological energy is limited, so it is vital that you take steps to maximize your energy through proper sleep and nutrition.

Trading in a peak performance mindset requires intense concentration and focus, but it's difficult to maintain this stance when the pressure is on you to perform. Thus, a second step you can do is to reduce any psychological pressure that may potentially use up additional psychological energy. The most obvious way to relieve such pressure is to think in terms of probabilities and carefully manage risk. It's useful to remember that you may not win on any single trade, but after a series of trades, you will have enough winners to make a profit in the long run. It's also important to manage your risk.

Determine your risk upfront and risk only a small amount of trading capital on a single trade. Doing so will ease a lot of the pressure, allowing you to be more open to seeing the opportunities that the market offers. By taking preventative steps to maximize both your physical and psychological energy, you can be relaxed, rested, and ready to tackle the markets.

Realistic and Ready to Trade.

The human mind is capable of vast abilities. When you are relaxed late at night, sitting in a hot tub, and dreaming of what your future might be like, it's easy to imagine that you are a super-trader with unlimited potential. -I'll be able to trade for hours. I can hone my skills until I'll see hidden opportunities that will make me a fortune.- As your mind runs wild, you will euphorically think of the ideal life. The human mind is, indeed, capable of fantastic things. And unfortunately, one of them is the ability to create a vivid fantasy world that seems almost real at times. But fantasy isn't reality. Your mind has limits, and it's vital for your survival to work within your limits.

You're not omnipotent. Your psychological resources are limited. Although you might be able to fantasize that you can trade for hours, it's difficult to keep up such a fast pace. Humans can only concentrate for so long before getting tired. Usually, people can concentrate for about 50 minutes before they become so worn out that their mind starts to wander. Give yourself a break. Don't stare at your screens for an entire 50 minutes. Besides losing your ability to concentrate after a while, you're putting a strain on your body.

It's important that you get up and move around. A popular trick is to have a bottle of water at your workstation. Drink the water to stay refreshed, but also drink it so that your body will work as a biological timer to remind you to get up, go to the restroom, and take a real break. When you take that break, remember to do some stretching, and walk around to loosen up your muscles and release tension.

Also, keep in mind that your ability to maintain self-control is limited. Self-control and discipline work like a muscle. Just as you can only do so much physical activity before your body needs to rest, you can only control your impulses for so long. Realize your limits.

If you haven't worked out your self-control -muscles- for a long time, you will have trouble controlling your impulses. Determine how much self-control -stamina- you have, and only trade within your current ability to stay controlled. Again, don't think you are a super-human. You have limited psychological resources.

Don't underestimate the amount of rest and sleep you need. In modern life, we are constantly trying to do more than we have time to do. Oftentimes, we think we can do without sleep. But we can't. You need to sleep. When you're tired, you will have difficulty concentrating and controlling your impulses. It is important to practice good sleep hygiene to ensure that you are thoroughly rested. For example, don't work in your bed. Restrict your sleep to specific times and a specific place. If you are on the West coast, try to make your sleep cycle coincide with East coast time. That may mean skipping West coast television programming that tempts you to go to stay up late. Sleep is the single most important factor in maintaining psychological stamina. Don't underestimate its significance.

There's nothing wrong with admitting your limitations. You are not a super-human and that's all right. Trying to trade beyond your current abilities or overly taxing your psychological resources is a straight path to disaster. In the end, you'll be your own worst enemy. Assess your limitations and work around them. The more aware you are of your psychological abilities, the more you will be able to make the most of what you have and trade like a winner.

The Need for Reassurance.

Trading is risky. There are times when you have almost no evidence to put on trade but your gut instinct. For some traders, gut instinct is enough validation to put on a trade. Others, however, need much more evidence and reassurance. It's useful to know how much reassurance you need before you feel comfortable taking a risk. You'll trade more calmly if you match your risk tolerance to your trading style.

Consider trading a typical head-and-shoulders pattern. Where you feel comfortable entering reveals a lot about how much risk you are willing to take, and how much reassurance and validation you need. The typical head-and-shoulders pattern (which occurs in an advancing trend in this example) consists of a final rally of a stock (the head) separated by two smaller rallies (the right and left shoulders) that occur before and after the final rally. The line joining the lows of the two rallies is called the neckline.

Many traders feel comfortable entering a short trade at the break of the neckline since it's at this point where the trend should start declining. But there's still some risk involved in executing this trade. Patterns do not recur with unfailing regularity. In other words, just because A (left shoulder) and B (head) happen doesn't mean that C (right shoulder) will definitely happen. It's possible that you entered prematurely, but that's the risk you take.

You may enter after B on the assumption that C will indeed occur, but some traders may not be willing to forecast a bearish trend based on an incomplete head-and-shoulders pattern. The right shoulder, or C, may not happen. More validation is needed before a more risk-averse trader is willing to put money on the line. Some traders wait for C to actually occur, and possibly signal a declining trend. The especially prudent trader may seek out even more validation.

Many traders argue that volume is critical for the verification of the head-and-shoulders pattern. Activity is usually heaviest during the formation of the left shoulder and also tends to be heavy as prices form the head. But the strongest confirmation comes if the formation of the left shoulder is accompanied by lower volume. So if you really need assurance, it's necessary to not only wait for the head-and-shoulders pattern to fully form, but to confirm it with changes in volume.

Traders differ in terms of risk tolerance. Some traders enjoy taking risks and are willing to put on a trade with almost no validation. Other traders, however, seek out as many sources of validation as possible. There are many ways to trade profitably. What all winning traders have in common, however, is that they match their trading style to their levels of risk tolerance. The closer the match, the more calmly you'll trade and the higher your chance of maintaining profitability.

Rebuilding Momentum.

It's inevitable. There's a point where even a seasoned, master trader faces a losing streak. The difference between a seasoned trader and a novice, however, is that master traders know how to get out of the rut more quickly. They take decisive action and rebuild momentum. A drawdown can be a lot like digging yourself into a hole, but the difference between the novice and the master is that the master trader gets out early while the novice keeps digging the hole deeper and deeper until it is almost impossible to climb out. It's vital that you learn to identify warning signs, and get out before the damage is difficult to repair.

Seasoned traders more quickly recognize the start of a losing streak, and more importantly, they aren't afraid to face their limitations and bring the downturn to a halt before matters get even worse. If you're a novice trader trying to bring a downturn to a halt, it's wise to follow a few simple guidelines: Don't be afraid to admit that you're in a losing streak. Stay calm, even when events look dire. Take an honest look at what you're doing, and make changes before it's too late.

Traders in the middle of a losing streak are often the last to know that they are in trouble. This usually happens because many traders fail to closely monitor their progress. Seasoned traders, in contrast, continually monitor their win-loss ratio or a similar indicator of performance. When their performance indicators seem awry, they start to examine their trading methods and decisions more carefully. They try to identify what they are doing right and what they are doing wrong in order to determine how they can fine-tune their approach and return to profitability.

Many times, when traders start to feel that they are in a downturn, they panic. They suddenly become emotionally volatile. Even minor hassles bother them. They are easily frustrated. At high-stress levels, it's difficult to spot high probability setups or execute trading plans effortlessly. But more experienced traders recognize that their emotions have risen to dangerous levels, and take appropriate measures. They may reduce their position size, for example, until the stressful emotions subside and they can once again trade more calmly.

Finally, master traders aren't afraid to look closely at their trading methods and make necessary changes. But novice traders tend to avoid taking a good, hard look at their methods. Instead, they falsely hope that somehow the odds will work in their favour and that a run of good luck will turn things around. Master traders, however, immediately start looking to break out of the losing streak. They look closely at their methods and trade smaller or stand aside temporarily until they determine how they can get back on track and return to profitability. Enduring success is a matter of staying profitable while the markets are continually changing. Sometimes market conditions aren't conducive to profits. Sometimes your psychological edge is temporarily blunted, but by looking closely at your methods, and making necessary changes, you'll be able to minimize the potential harm and rebuild momentum.

Reduce Stress During the Trading Day.

Stress is ubiquitous in modern life. Trading is especially stressful. How stressed out are you during the trading day? Do you have a short fuse? Do you find yourself getting a little more frustrated or angry than usual? Do you find yourself laughing less often? How about your sleep patterns? Do you have a hard time falling asleep? Do you wake up in the middle of the night and have trouble falling back asleep? Are you more forgetful? Do you have headaches or indigestion? If you feel any of these symptoms, you may be overstressed.

According to a recent article in -Men's Journal- (February 2004), trading is related to stress. They describe a small paramedic station at the Chicago Board of Trade, just off the main trading floor. Jim Thorpe, an EMT who mans the station says, -Quite a few of the guys here are on heart medications. Some of them are young too. They'll stop in a couple of times a day to check how their blood pressure is affected by trading. Then there are the ones who have already had heart attacks. We especially keep an eye on them. Fortunately, there's a firehouse with an ambulance just down the block.- This quotation highlights the stressful nature of trading.

Stress literally kills, and floor traders seem to be especially at risk for the health problems associated with stress. One's fate as a trader isn't doomed, however. There's a lot you can do to manage stress during the trading day. In addition to reducing your risk of health problems, stress management techniques can allow you to cultivate a peak performance mindset that will help you trade objectively and profitably.

First and foremost, it is vital to take preventative measures to reduce stress. Exercise regularly. A rigorous exercise schedule will allow your body to let off pent up stressful energy. It is also a good idea to sleep on schedule. Try to go to bed and wake up at the same time. It is hard to cope with stress when you are tired. You just won't have the psychological energy.

When you are rested and relaxed, you'll have the energy and stamina to cope with stress. Finally, give yourself credit for all the effort you put into trading. It is tempting to feel good about your efforts only when they pay off. But you put in just as much effort putting on a losing trade as a winning trade. Regardless of whether you win or lose, you'll feel better if you reward yourself for all the work you do, regardless of the outcome.

According to -Men's Journal,- there are four quick fixes you can use during the trading day to reduce stress. First, it is useful to practice breathing exercises. Take a deep breath and hold it for a while. Do it slowly allowing yourself to feel your body and muscles tighten when you hold your breath and loosen as you exhale. As you exhale, your body initiates a natural relaxation response. Repeating the process over and over in succession will help you relax and calm down.

Second, it is important to get up and walk around. It is tempting to sit in front of your screens all day, focused on the action. Your mind can only focus on a task for so long, however. It is necessary to walk around for five minutes every 90 minutes. A trick that can help you is to have a bottle of water next to your workstation. Drinking the water frequently throughout the day will ensure that you get up to use the restroom every so often.

Third, go out and do some physical activity, such as running or playing basketball. The activity gets your heart pumping and helps you think of something else besides trading. Finally, it is useful to imagine the worst. Many times we are afraid to look at the worst-case scenario, but it is often less stressful to consider the worst.

What we tend to do instead is think that a catastrophe is about to happen. It lurks in the back of our mind as a vague and amorphous threat. If instead, we face the potential setback head-on, it neutralizes it and we feel less stressed out. So don't let stress get the better of you. You can take steps to reduce stress, and if you do, you'll find you'll trade more calmly and profitably.

Conditioned Reflexes.

Novice traders describe a common ailment: -I don't know what it is, but I can't stick with my trading plan. I try to stay calm, but when I see the price fall, I panic. I close my position before it's too late.- There may be many reasons for the inability of a novice to stick with a trading plan, but one issue is coping with emotions. In some cases, it may just be a matter of fruitlessly trying to control a reflex.

Emotions are often knee-jerk reactions. When we perceive that harm is imminent, we naturally react with fear and take immediate action. It's a conditioned reflex, like Pavlov's dogs. When a dog sees a steak, its mouth waters in anticipation. If you ring a bell every time you show the dog a steak, it starts to salivate even when you ring the bell and leave the steak in the freezer. It's much the same way with trading. When you see the stock price drop, you naturally assume that you need to get out of harm's way.

Humans are more complex than lower animals, though. We think. When we react emotionally, we aren't reacting to events specifically, but our interpretation of events. The sell-off we perceive is not threatening, but our interpretation makes it feel like it is. We think, -There's a sell-off. Therefore, I'm going to lose on this position, and so, I better sell right now.- In our thoughts, we might rationally understand that it might be a better idea to wait a little while to see if the perceived sell-off is a temporary blip or a longer-term trend, but our emotions take over. We may react immediately, and spontaneously, with fear. Fear is a conditioned reflex. It happens fast and takes over before we can do much about it.

Conditioned emotional reflexes are powerful. Some people, for example, have major problems with conditioned emotional reactions, such as people who are afraid to go over a bridge out of fear. A less intense fear reaction happens when novice traders panic, but the same kind of psychological processes occur, and similar kinds of methods to control these emotions can be used.

When controlling a fear reaction, it's important to acknowledge the psychological power of the emotional reaction. When it happens, it can be intense and hard to control. If you have trouble dealing with an emotion, like fear, don't underestimate its power. There's a biological element that may be hard to control. One way to control the biological element is to use a technique called -counter-conditioning.-

Here's how it works. It's impossible for the body to feel two opposing biological tendencies. For example, you can't feel both afraid and relaxed. One feeling cancels out the other. When you are intensely afraid, it may not work to merely think, -Calm down, relax.- The biological arousal may be too strong. You may have to step back and do deep breathing exercises, or even try some physical exercise in order to create a strong relaxation response to counteract a reflexive fear response. Again, don't underestimate the power of a fear response. It may be hard to control at first, and you may have to patiently accept the fact that it will take some time and practice to gain mastery over it.

It doesn't help matters, though, if you have something to be truly afraid of. If you're risking money that you can't afford to lose, or if you are not carefully controlling risk, then you have good reason to feel fear. It's hard to fight biology and reality. Make sure that you take whatever precautions are necessary to reduce fear. Manage risk and only trade with money that you can afford to lose.

There are times when fear is a powerful, debilitating emotion. It can consume you to the point that you abandon a solid trading plan prematurely. It's both a biological and psychological response that you may need to work on overcoming. The more you can learn to control your emotions, the more likely you will trade in the calm, deliberate mindset of a winning trader.

Controlled and Relaxed.

Have you ever had a bad day when nothing seemed to go right, a day where it seemed as if every decision you made was wrong? Perhaps you bought at every top and went short at every bottom. Or you panicked and impulsively made a trading error. When things don't go your way, it is easy to talk yourself into a deeper hole. One little thing builds upon another little thing until, finally, it seems as if you are in a pit of despair that you can't climb out of. Some traders ride a rollercoaster of emotions, flying high after big wins and falling hard as the losses mount. The optimal way to trade lies between these two extremes, however; one is neither too euphoric nor too desperate, but right in the middle. The winning trader is calm and relaxed, ready to trade effortlessly.

Achieving an optimal mental state is often more easily said than done. By its very nature, trading is stressful. It is often difficult to counteract stress. So how do we achieve a state of relaxation conducive to profitable trading? A few specific steps can be taken to reduce the stress and uncertainty and help you cultivate a calm and winning mindset. For example, take partial profits on winning trades in order to create a -risk-free- trade. Once a trade makes enough profit to cover the initial stake, sell off part of the position to remove the initial stake you invested. Psychologically, you'll feel as if you have little to lose.

Ideally, this should be done early in the trade, so that the psychological benefits are available for as long as the remainder of the position is held. Even if you are shooting for big profits on a swing trade, it will work wonders for cultivating a calm and relaxed mental state if you take just a small partial profit early on. At that point, you'll be playing with the house's money, with better odds of exiting the trade with a profit, and knowing that the worst-case scenario is breaking even should events turn against you.

There are additional ways to take precautions to minimize emotional ups and downs. Managing risk is vital for your long-term survival, for example. By managing risk, you know that should you encounter the worst-case scenario, you can survive and continue trading. There are many ways to control risk, and thus, control your emotions. One may limit the amount of money that is risked on a single trade to a relatively small percentage of one's trading account. It is also useful to use a stop loss, either formally or informally.

One may set a formal stop loss with a broker or use the automatic settings of a trading platform. You can also use a mental stop loss to decide beforehand at what point to exit should the market go against the trade. Knowing deep down that potential loss is minimized can do wonders to reduce feelings of anxiety and doubt. Once you know you can survive a potential setback, you can feel free and relaxed knowing that you have a safety net.

Perhaps the most important way you can minimize stress is to outline a detailed trading plan. Humans feel the most intense fear and anxiety when they believe that an adverse event is likely and that they have no idea what to do. We anticipate the impending doom and we wonder how we will cope when it happens. By outlining a detailed trading plan, however, we have specified how we will deal with the potential adverse event. Knowing that we have a clear idea of what to do will provide peace of mind and allow us to feel calm and relaxed.

The winning trader is a calm and relaxed trader. But it isn't always easy to cultivate such a mindset when one is trading chaotic and unpredictable markets. By taking specific precautions, you can feel a sense of assurance and trade profitably and consistently.

Making A New Beginning.

At the end of the year, it's tempting to examine the events of the past year, learn what you can from them, and start the New Year feeling that you can tackle anything the New Year throws at you. But you don't want to take a scrupulous self-examination too far. Sometimes, we can waste a lot of time over-analyzing, and searching for lessons that just aren't there. A little bit of introspection can be informative, but only when it is viewed in proper perspective.

For some people, it's hard to put aside the past and devote full attention to capitalizing on the opportunities of the coming year. Casting aside the past can be difficult. There are many sound reasons for clinging to the past. First, we believe that we can learn important lessons by studying our past mistakes. Second, some people believe it's impossible to shrug off the past. A common belief is that our personality, habits, and current performance are a function of our past experiences.

Third, there's an emotional attachment to the past; if we cast our past history aside entirely, we fear we are also casting aside a vital part of ourselves. Despite these very good reasons, it's useful to put the past behind us, especially memories or beliefs that interfere with our current functioning or future performance. Upon close examination of the reasons for clinging to the past, we find there are also good reasons for putting the past behind us, and moving forward.

Despite what we might think, past performance doesn't necessarily dictate, or even influence, future performance. Psychologists who study optimal performance have discovered that individuals who achieve success tend to focus on the here-and-now, the immediate experience. Focusing on the past often causes anxiety. It precludes you from paying enough attention to your immediate experience, and the opportunities for success that are immediately ahead.

We may over-analyze and unnecessarily deliberate among equally plausible alternatives instead of just picking one and taking decisive action. There's a tendency to think that there are more lessons to learn from our past mistakes than there really are. It may be useful to study past mistakes, but agonizing over the past isn't useful. If a past mistake doesn't have a lesson that is immediately apparent, you probably aren't going to find it, or your psyche may not be ready to learn it.

That said, if you are willing to take an honest look at your past, there are a few lessons you can learn from it. If you keep a trading diary, for example, it's useful to see if your trading decisions were impulsive or emotion-driven. It is also useful to determine which trading strategies produced profits and which ones didn't, and make changes accordingly. The more you can take a close, hard look at what you are doing right and what you are doing wrong, the more you can adjust your trading methods and capitalize on new market conditions.

But taking an honest look is often difficult. Sometimes we just aren't ready to see what we need to see. You must try to take an honest look, however, and the end of the year is a good time to take an inventory of what you are doing right and what you are doing wrong. You may want to take the rest of the week off; go to a quiet place, and look at your past trading records and account statements. Go to a safe place, relax, and take an honest look at yourself. Digesting the cold, hard facts, and making a plan for working around them can spell the difference between staying in a trading rut and moving to a higher level of mastery. So use this time to take an honest but reasonable look at your past. You may find that the self-awareness you gain will help you trade more profitably in 2005.

Mean Reversion: Missing Expectations.

In his study of genetic influences on height, Sir Francis Galton compared the height of fathers to the height of their sons. He reasoned that if height did have a genetic basis, fathers' height should predict sons' height. It didn't. Indeed, taller fathers had shorter songs and shorter fathers had taller sons. The relation was far from perfect. Galton then made a gross logical error.
He concluded that over the generations, taller people would get shorter and shorter people would get taller and that a process would occur where height -regresses toward the mediocrity.- In his analysis, he forgot to account for the fact that mothers' play an equally important role in determining the height of their children. Men with a tall gene may not marry a woman who also has a tall gene, and thus, the correspondence between parents' and children's height is a matter of chance. Despite Galton's logical error, we are stuck with this term -regression toward the mean,- a misnomer.

The term is a statistical concept that refers to how points are spread around a linear regression line, specifically, how well predicted values based on the equation for the line match the actual values on which the line was derived. How does this all relate to trading stocks? You tell me. -Mean reversion- is a common term in the trading literature. It refers to the idea that when a stock is extremely high (or low), it will -revert- back to a lower value, which is closer to the mean level for the stock. This is a fascinating concept, and we can't cover it completely here today, but mean reversion is an interesting mix of statistics and market psychology.
Another way to view mean reversion is as a -failure to meet expectations.- According to statistical theory, a regression line is used to make predictions, and thus, we can view the line as making a prediction about our expectations. Consider a simple equation that predicts total weekly sales from the number of cold sales calls made during the week.
Because not all cold calls result in a sale, the relation between the predictor and criterion variables is imperfect, and thus, the number of sales calls made under-estimates the number of weekly sales. In other words, if we relied on the line to predict how much income we would make, we would fail to meet our expectations. Similarly, if we try to theoretically use a regression line to predict the price of a stock from a one-time point to the next, our prediction would be imprecise.
The stock price from one-time point to the next does not correspond perfectly. Well, for the concept of mean reversion to even be relevant here, it better not be consistent from one-time point to the next. Three assumptions are made when using regression toward the mean to understand stock prices: (1) the -true- value of the stock is exactly the same between point A and point B, (2) the current posted price is not an accurate reflection of the -true- value of the stock, and (3) the discrepancy between the posted price at point A and point B is entirely due to random factors.
Some of these assumptions are often met. First, stocks tend to be based on mass psychology, or opinion, which may fluctuate randomly. The masses decide the value, rather than the fundamentals of the company, especially in the relatively short timeframe in which we trade. The actual value probably doesn't' really change. So the first two assumptions seem to hold. But is the posted price discrepancy between point A and point B completely due to random factors? It seems to depend. The prices of stocks are somewhat based on the fundamentals of the company, which may not or may not change.
It is also possible for popular opinion to change over the long term. To the extent that either of these factors accounts for the change in price between point A and point B, mean reversion will not occur. For example, if a company starts making huge earnings and sustains it, both the fundamentals of the company and popular opinion of the company will change between point A and point B. The change in the observed price is not purely random, and thus, one should not anticipate the price falling back down to previous -mean- levels. So one shouldn't expect mean reversion to occur without fail.
That said, however, it does appear that many times mean reversion is pertinent. For example, a stock price often rises artificially due to poor information, which is a -random- effect. Also, during a given time point, the masses may become -elated- and this may reflect a random change in mood

that may dissipate over time, and the -true- value of the stock will shine through and -revert back to normal.- Mean reversion is a fascinating concept. In the end, it is merely a mathematical concept, but it applies because market participants are human, and human decision making is fraught with random errors, regression effects operate in the markets.

Regaining Poise, Focus, and Profitability.

Have you had one of those days where nothing went right? Perhaps you thought that Monday's malaise would drag into Tuesday but unexpectedly saw the markets surge. Perhaps you were a little unprepared and the sudden change in market conditions ruined a few trading plans. Maybe you lost a little more than you had planned. Throughout the day, you were frazzled, frustrated, and dazed. If only there was a magic pill that you could swallow and regain your composure. Unfortunately, there isn't.

Trading the markets requires a focused, calm mindset. You have to look at the markets objectively, and gauge the ebb and flow of the market action. It's hard to do when you are thrown off balance. Since there is no magic pill, what can you do? It may not happen instantly, but you can practice regaining your composure with thinking strategies. In some cases, it is easy to regain composure: You can just take a quick walk around the block to get away from it all, calm down, and you will snap back into the proper state of mind. At other times, however, it isn't that easy. Your mind is engulfed by self-doubt. You feel frustrated and unable to think clearly. At times like these, a simple walk around the block usually doesn't work. In these cases, you need to actively use thinking strategies to release you from the grip of distracting psychological issues.

Each person has his or her own psychological issues that surface during a frustrating day of trading. Some traders are undercapitalized and new to the business. When things don't go their way, they are consumed with self-doubt, unable to take decisive action. For other traders, it's a nagging feeling that they could always do better. They set high-performance standards, and they are constantly searching for new trading ideas. Others have unrealistic views of the markets. They don't want to go where the markets take them.

They want to dominate and control the markets. They look for the certainty that just isn't there. A related expectation is a belief in an American work ethic. They believe they put in a good day's work, and they should be rewarded in proportion to their time and effort. But time and effort alone don't always pay off. All these expectations are reasonable in everyday life, but not when trading the markets. It's easy to allow them to intrude into your consciousness and take over.

Combating psychological issues, no matter how small, takes effort. You must actively engage your mind to counteract them. When you are consumed with self-doubt, for example, you have to tell yourself over and over that you can trade profitably. And you must use your off hours to convince yourself that you can truly do it. If you can't because you don't have the skill to trade in the trading style you are trying to master, or you are clearly under-capitalized, you will know it, and you will waste your time trying to fool yourself into believing something that isn't true.

But if you truly believe you can make it and are merely thrown a little off balance because a few things did not go your way during the trading day, then you can get back on track if you change the internal dialogue you have with yourself and repeat over and over that, you can make it if you try harder. Similarly, if you strive for extreme perfection, it's useful to remind yourself over and over again to ease up. When you do, you will calm down a little and will regain your objective state of mind.

The markets won't live up to your expectations at times. They won't treat you fairly, and you are bound to face setbacks. It's important to remember these facts of trading and remind yourself over and over again of their validity. If you do, you'll stay calm. And when you are throw off your game, repeating these facts of trading will allow you to regain your objective state of mind. And once you are back in a focused, objective state of mind, you'll be ready to take advantage of the many market opportunities available to you.

The New Year: A Time for Psychological Renewal.

For many, New Year's Day is a time of psychological rebirth. It is time to forget our past defeats and get ready to focus on new challenges. But for some people, it's hard to put aside the past and devote full attention to capitalizing on the opportunities of the coming year. Casting aside the past can be difficult. There are many sound reasons for clinging to the past. First, we believe that we can learn important lessons by studying our past mistakes. Second, some people believe it's impossible to shrug off the past. A common belief is that our personality, habits, and current performance are a function of our past experiences.

Third, there's an emotional attachment to the past; if we cast our past history aside entirely, we fear we are also casting aside a vital part of ourselves, or a cherished memory. Despite these very good reasons, it's useful to put the past behind us, especially memories or beliefs that interfere with our current functioning or future performance. Upon close examination of the reasons for clinging to the past, we find there are also good reasons for putting the past behind us, and moving forward.

It is often productive to learn from our past mistakes. That's especially true of trading. If you keep a trading diary, it's useful to see if your trading decisions were impulsive or emotion-driven. It is also useful to determine which trading strategies are producing profits and which ones are not, and make changes accordingly. However, there's a tendency to think that there are more lessons to learn from our past mistakes than there really are.

Many people tend to mull over the past in excruciating detail, needlessly trying to find a lesson in every past mistake when there is none. It may be useful to study past mistakes, but agonizing over the past isn't useful. A sensible rule of thumb can help you overcome this quandary: If a past mistake doesn't have a lesson that is immediately apparent, you probably aren't going to find it, or your psyche may not be ready to learn it.

Many times it seems impossible to just shrug off the past. After all, aren't we the products of our past histories? Although this belief may be true to some extent, it can be limiting. If we believe we are a product of our past, it is tempting to further believe that our past dictates our future performance. But this is not necessarily true. Past performance need not dictate, or even influence, future performance.

Psychologists who study optimal performance have discovered that individuals who achieve success tend to focus on the here-and-now, the immediate experience. Focusing on the past often causes anxiety. It precludes you from paying enough attention to your immediate experience, and the opportunities for success that are immediately ahead. A strong focus on your immediate experience, the here and now, is vitally important for your trading success.

There is a deep emotional connection to the past, and this is why we are hesitant to just abandon it. But reliving the past is much like daydreaming; it's fun to daydream, but doing too much of it is a means of escape. One tends to focus too much on getting away from living life in the moment.

And that's what mulling over the past also seems to do. It takes us out of the immediate experience. In bad times, it helps us to remember the good. But it may be useful to just move forward, rather than find solace in the past. However grim one's current circumstances, it's always better to find a solution in the here-and-now and move forward.

With a new year upon us, it's wise to put the past behind us and move forward. Think optimistically. Look at the new year as full of opportunities. Through hard work and persistence you can overcome all adversities to trade consistently and profitably.

Disappointment and Regret: The Other Trading Emotions.

Market action is powerfully influenced by fear and greed. But fear and greed aren't the only emotions that influence market decisions. Other emotions, such as disappointment and regret, can also impact what traders do. We feel disappointed when our trades fail to meet our expectations. We feel regret when we think that we have made a poor decision that could have easily been avoided. There's an assumption that underlies both emotions: We may believe irrationally that as traders we must always be right and that trading outcomes must meet our expectations. Unless our expectations are met, we believe it's terrible, awful, and unacceptable. This core assumption, however, can be questioned. And by doing so, you will be able to cultivate a peak performance mindset more easily.

It may be unpleasant, or an inconvenience, when our expectations are not met, but it isn't so terrible, awful, or unacceptable. By merely changing our perspective on this issue, we can change how we respond emotionally to trading setbacks.

If we believe they are rare, for example, and that they are terrible awful events, then we are going to be prone to experience extreme feelings of disappointment and regret. However, if we assume that setbacks and losses are inevitable, we will be prepared to cope with them. We will come to expect them, and we are likely to think that they aren't as terrible or as awful as we had assumed they might be. By taking an anticipatory approach to trading, not only can we rein in our emotions, but put a trade in the proper perspective.

It is wise to remember, for example, that a single trade is just one trade among a series of trades and the only outcome that matters, in the end, is the overall profit across the series of trades. Across the series of trades there will be winners and losers, but usually, more losers than winners. Once we accept this fact of trading, we will be able to see that setbacks aren't as terrible and devastating as we had thought. They are just part of the game. There's no point in overreacting.

You can control unpleasant emotions by taking the proper perspective. Humans tend to overstate the adverse effects of a dreaded outcome. And there are a few simple strategies we can use to control these emotions. For example, if we control our risk on the trade, and plan it out carefully, the risk will be minimized and the actual potential loss will not be catastrophic at all.

Once the risk is truly minimized, a useful thinking strategy can be used; remind yourself, -I'm making more out of the potential loss than it deserves; it is not going to be as unpleasant as I'm thinking it will be.- Another way to minimize disappointment and regret is to try to impersonalize the trade. Think in terms of probabilities, -This is just one of many trades. The outcome of this single trade means nothing. The big picture is all that counts.- By reminding yourself of the relative insignificance of a single trade, you'll minimize the potential regret should you lose.

Similarly, it's also important to avoid over-interpreting the significance of trade; a single losing trade (or even a few losing trades) doesn't mean that you have poor trading skills; it may just be a run of bad luck. There's no point in making the outcome of a trade symbolic of your skills as a trader. And, most importantly, never put your self-worth on the line with your money. You're a professional. The outcome of the trade should not influence the positive view you have of yourself as a person.

Don't let regret and disappointment influence your trading decisions. Keep in mind that if you make a losing trade, you may feel a little disappointment or regret, but you can handle it. Control your emotions. You'll feel more free and powerful, and in the long run, you'll achieve the profitable results you've been seeking.

Seeking Pride and Avoiding Regret.

Jason has been holding a position in Dell Computer for the past month. It's been doing well so far, and earnings forecasts suggest profits, in part due to sales in new markets. On the other hand, economic figures seem grim. The business news is full of stories of company cutbacks, which can easily suggest lower sales for new computers. Jason is stuck in a quandary. He's proud of his decision to buy Dell, and he's hoping to make a profitable trade, but he wonders, -Am I trading on the news? Am I listening to the media and ignoring other more important economic indicators? Should I sell now or hold it a little longer?-

He wants to make a profit, but on the other hand, he doesn't want his winning position to turn into a loser. It's one thing to make a wrong guess upon opening a position, it's quite another to let a winning trade turn into a loser. Inaction is a major cause of regret. Rather than face that possible regret, why not just sell now, lock in the profits and feel pride?

The interplay between regret and pride influences many investment decisions. On the one hand, people prefer to experience the pride, and bask in the glory of a winning trade, but on the other hand, -they need to let their winning trades run.- Letting a winning trade run is hard to do. It's possible that it will turn around, and the inaction of holding the position may cause regret later.

According to behavioural economists, regret and pride are the two most pervasive and powerful emotions when it comes to investment decisions. Traders and investors seek out pride and avoid regret. Pride is experienced when we have accomplished an important goal. It results in a feeling of extreme pleasure. Regret occurs when we have made a poor decision.

According to behavioural economists, the need for pride and avoidance of regret work together to make traders and investors prematurely sell off winning positions and hold losers unnecessarily. Here's how it works. Selling a loser forces investors to acknowledge that their trading plan was flawed. Instead of feeling pride, they feel ashamed, which is an unpleasant emotion. It's hard to face regret from making a bad decision, so such a decision is put off.

By leaving the losses on paper, the feelings of shame and regret are avoided. On the other hand, selling a winning position allows for bragging rights. A person can feel the pride of making a big win and bask in the glory of a good trade. What's wrong with this strategy? A study by Dr Terrance Odean shows that winning positions are likely to remain winning positions. If a trader could hold onto the winning position, then it would have made additional profits.

By selling it early, to feel a sense of pride, the investor feels good at the expense of a greater profit. In addition, since the position is usually held less than one year, capital gains taxes must be paid. Selling losing positions would be a much wiser move. Losing positions tend to lose additional funds in the future, and there are tax advantages for doing so. Do let regret and pride get the best of you. Sell your losers and keep your winners.

Controlling Disappointment and Regret.

Jim is mulling over a bad trade he made yesterday. He thinks, -I wish I didn't make it. I've lost so much of my capital that I'll have to work extra hard to recover.- As a trader, making bad trades and facing regret is inevitable. And there's a very human tendency to be overtaken by emotions. There's a feeling of loss, usually a sense of denial, and a wish to -undo- the mistake. It's understandable. Over our lifetimes we've learned to use our emotions to protect ourselves.
Emotions protect us by providing quick and dirty information about potential harm. When we take an unnecessary risk, for example, our psyche warns us, -Beware, harm may be up ahead.- Unfortunately, when it comes to trading, these kinds of emotions can be more of a liability than an asset. The winning trader keeps emotions under control. Trades are executed with precision and discipline. Emotional or impulsive decisions usually lead to trading errors and losses. It's wise to do whatever you can to prevent your emotions from interfering with your ability to maintain a calm, logical, peak performance mindset.

Disappointment and regret are two key emotions that interfere with cultivating a peak performance mindset. We feel disappointed when our trades fail to meet our expectations. And we feel regret when we think we have made a poor decision that could have easily been avoided. There's an assumption that underlies both emotions: We may believe irrationally that as traders we must not make a bad decision and that trading outcomes must meet our expectations. Unless our expectations are met, it's terrible, awful, and unacceptable. This core assumption, however, can be questioned. It may be unpleasant, or an inconvenience, when our expectations are not met, but it isn't so terrible, awful, or unacceptable.
By merely changing our perspective on this issue, we can change how we respond emotionally to trading setbacks. If we believe they are rare, for example, and that they are terrible awful events, then we are going to be prone to experience extreme feelings of disappointment and regret. However, if we assume that setbacks and losses are inevitable, we will be prepared to cope with them. We will come to expect them, and we are likely to think that they aren't as terrible or as awful as we had assumed they might be.
By taking an anticipatory approach to trading, not only can we control our emotions, but put a trade in the proper perspective. A single trade is just one trade among a series of trades and the only outcome that matters, in the end, is the overall profit across the series of trades. Across the series of trades there will be winners and losers, but usually, more losers than winners. Once we accept this fact of trading, we will be able to see that setbacks aren't as terrible and devastating as we had thought. They are just part of the game. There's no point in overreacting.
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Don't let regret and disappointment influence your trading decisions. Keep in mind that if you make a

losing trade, you may feel a little disappointment or regret, but you can handle it. Control your emotions. You'll feel more free and powerful, and in the long run, you'll achieve the profitable results you've been seeking.

The Dynamics of Regret.

Consider a tale of two brothers, Allen and Jason, who decided to go long on Home Depot last January. Although they both made the same decision, they did so for very different reasons. Allen bought stock in Home Depot because his Grandpa Ed, an experienced investor and corporate executive, thought it would be a good investment. Allen tends to blindly follow his Grandfather's advice.

Jason, in contrast, is much more independent and industrious. He conducted a careful analysis of buying trends, sales, profit growth, and earnings per share. He based his decision solely on his own detailed analysis. Home Depot has been falling since March and fell 7% last week due to stiff competition and sluggish sales. Who do you think feels more regret, Allen or Jason?

When asked this question, most people say Jason will feel more regret. Here's why. We feel regret when we engage in the wrong course of action, and put a lot of our ego on the line when taking that course. We tend to believe that Allen will feel less regret because from his point of view he didn't have much of his ego at stake when making his decision. He just blindly followed his grandfather's advice. Rather than feel regret, he can easily accept his loss and think, -It's not my fault that I lost money on that trade, it's my grandfather's fault.-

Jason in contrast feels more regret. By putting his ego on the line, he must face the personal humiliation of having made an inaccurate forecast. He may now question his ability to conduct an accurate analysis or to develop a sound trading strategy. Feelings of regret are painful, and people avoid them at all costs. It often seems as if the easiest way to avoid feelings of regret is to avoid making decisions. If you don't make decisions, you can't be wrong or feel regret. Right? Well, that's what a lot of people think.

It's rarely true, however. Ironically, research studies have shown when people are asked to reconsider past life decisions, the most regretful are those who either didn't make their own life decisions or merely followed the opinions of others. So, it's better to take action now than regret inaction later. People's thinking tends to be faulty when it concerns regret. They think regret is painful, so they avoid making decisions to curb these feelings.

However, by doing so, they have merely traded short-term immediate feelings of regret for later long-term profound feelings of regret. People who make their own decisions, based on their own opinions or beliefs, may face some regret in the short-term but over the long-term, they are more satisfied with their decisions. The immediate experience of regret is much less painful than we think it will be. Long-term feelings of regret due to inaction are more enduring.

Don't let the tendency to avoid regret influence your trading decisions. Keep in mind that if a decision leads to an unpleasant consequence, you may feel a little regret, but you can handle it. It's better to make mistakes, and experience a little temporary regret now, than a lot of profound regret later.

When Regret Motivates.

Fear and greed drive market action. We enthusiastically put on trades when we think a huge profit is assured, but when we see the market shift dramatically, we get out as quickly as possible. We fear being trampled by the masses as they all rush to sell. Fear and greed are powerful emotions that underlie the actions of the masses, but behavioural economists argue that regret is equally powerful. Regret is so powerful, in fact, that we may avoid putting on trade because we do not want to beat ourselves up for making a bad mistake. We have our pride, after all. To preserve our feelings of worth, it is often easier to avoid taking a risk, than facing humiliation and self-reproach when we lose. But you'll never learn to trade profitably if you don't take risks. It's essential to learn to control your feelings of regret before you find yourself stuck.

We experience regret when we look at a decision and imagine it could have turned out differently. In the trading arena, it can be hard to escape regret, since we can feel regret by taking action or by doing nothing. When we open a position, for example, and end up losing, we can regret executing the trade. But we can also feel regret when we let a winning trading opportunity pass by because we were afraid to take a risk. In both cases, we let our mind imagine alternative realities, and when we start to think that one of those imagined realities are better than the way things actually turned out, we feel regret. We think, -If things had turned out differently, I would now be in paradise.-

Regret may be unpleasant, but it isn't always bad. Sometimes regret can actually motivate us to take action. Regret forces us to take action to fix matters. If you hate your neighbourhood and regret you moved there, you are likely to fix matters by searching for a new house. If you regret buying a gas-guzzler as gasoline prices hit $3 a gallon, you might decide to take the bus more often or buy a scooter to do daily errands.

And similarly, when you make a losing trade, you may feel regret for making a mistake, but this uneasiness can also force you on to make a new trade in order to earn back the capital you have lost. A study by Dr Keith Markman, a psychology professor at Ohio University, and his colleagues illustrates how regret can motivate people to take action when they believe that their efforts will result in positive change.

They observed participants who played a blackjack computer game. The researchers controlled whether a participant won or lost. As you might expect, regret was strongest after a loss than after a win. But regret was more intense when participants were allowed to make an additional bet in order to win back what they had lost, compared to when they were allowed to make only a single bet. It's hard to feel regret when you were allowed to make only one bet. What else could you do?

You made your bet, you lost, and now there is nothing you can do about it. The adaptive thing to do is to just forget about the loss and go home. If you are allowed to make a second bet, however, you are bound to feel a little regret. You start thinking, -It is too bad that I lost on the last bet. Maybe I can turn things around. If I do things differently next time, I can win.- When we believe that we can fix a problem, we may feel more regret, but we are motivated to take action.

If regret can motivate people, then why do behavioural economists view it as one of the biggest obstacles that traders must overcome? Many times, traders are consumed with regret even before they have something to regret. They have yet to make a trade but worry about feeling bad if they made a trade and lost. Once we make a losing trade, regret isn't as unpleasant as you think it will be. But if you are often consumed with regret, just thinking about the possibility of making a future regrettable mistake can prevent you from trading. You may ruminate about what you should have done.

If you suffer this ailment, it is useful to tell yourself encouraging thoughts. Remind yourself that if you do make a mistake, you can always fix matters. It isn't the end of the world, and it isn't the end of your trading career. You can work harder to develop a winning strategy to make back all the profits you have lost. Or you can tell yourself encouraging thoughts, such as -losses are the tuition you pay to learn to master the markets.- Don't let regret paralyze you. There's no reason to feel regret. You can't turn a past losing trade into a winner, but you can make new trades to make back everything you've lost.

Reprogramming Your Instincts.

Humans have basic instincts for survival. They need to protect themselves at all costs. Technically, an instinct is inborn, such as the drives for hunger and sex. But humans are complex creatures in that we also have learned -instincts,- habitual ways of behaving that are so automatic and unconscious that they seem as if they are innate. For example, as you drive in busy traffic, you -instinctively- slow down or change lanes when the car in front of you seems to be slowing down too quickly.

You may have noticed that many drivers will make a lane change to avoid slowing down, even when both lanes are about to come to a halt, and there is no logical reason for making the lane change. People react -instinctively.- They often act without thinking logically about their options and tend to make poor decisions. Behavioural economists have demonstrated that people also make automatic, unconscious decisions when trading the markets.

They are extremely risk-averse. They enjoy the pleasure of a sure win, even a small one, but try to avoid the pain of losses at all costs. Yet there is no logical reason to show such an asymmetry regarding their decision making. Investors also sell their winning trades prematurely so they can lock in their profits. These unconscious and automatic decisions reflect a strong human desire to avoid risk. As humans socially evolved, they learned to protect their survival by playing it safe. Playing it safe may be prudent for long-term investors, but for short-term investors who want to make huge profits, fear of risk and uncertainty is an impediment to success. It is necessary to identify this need for safety and security and -reprogram- yourself to work around it.

A common illustration of risk aversion happens when market participants follow the masses as if they are wild animals banding together as a herd for protection. They look toward others for direction, regardless of the consequences. In recent weeks, for example, NASDAQ stock prices have been falling. People following the herd have participated in a massive sell-off.

Profits were not what they expected, so the masses sold. As more and more people heard the news or saw the price drop, more and more participants sold. What else could they do? It's scary to see the price plummet. Is the news going to get worse? Will the prices reach even lower lows? Most people are afraid of pain. They are afraid that the price may go even lower, and they sell because they don't want to lose even more money. Of course, not all investors will sell.

Some will become so panicked that they will be afraid to acknowledge their losses and want to leave them on paper, hoping that the prices will return to previous levels in the coming weeks. The masses try to avoid risk and pain, and by doing so, they tend to behave automatically. Active, serious traders, in contrast, react more decisively. They carefully consider their options, good or bad, make a clear decision, and follow through. They know they may be wrong, but they realize that to trade profitably they must learn to trust their hunches and act on them.

For example, it may be a wrong move, but for illustrative purposes, suppose that a trader decides that this may be a good time to buy the QQQ, while it is low, and bet that it will increase in upcoming months. A trader can buy on weakness, while the price is low, and sell on strength as the prices rise. Most people would be afraid to try such a strategy. It seems too risky, since the price may go down further. The winning trader, however, is willing to trust his or her instincts, right or wrong, and see what happens. He or she doesn't have to be right. He or she doesn't have to win. It is a matter of making a thoughtful, logical analysis and acting on it.

If you want to be a winning trader, you must learn to identify your need to follow the masses and teach yourself to avoid doing what your need for security compels you to do. You must -reprogram- yourself to think outside the box. Rather than follow the masses, you must evaluate various options, which may be contrary to what most people would do, and act consciously and deliberately.

Over time, and with extensive experience, you will develop perceptions and skills that will allow you to trade creatively and decisively. Once you have -reprogrammed- your behaviours, you may be able to unconsciously respond with your new -instincts.- But rather than following the masses, you'll intuitively be able to act independently. And the more decisively and independently you can trade, the more profits you'll realize.

Resilient and Ready For Profits.

Traders face setback after setback, but they never feel beaten down. They recover from a setback quickly and are ready to tackle their next challenge with enthusiasm. Not all traders can take setbacks in stride, however. For some people, any loss regardless of how small can be upsetting. With proper preparation, though, you can be a resilient trader who can come back time and time again.

Resilient trading is often a matter of attitude. A resilient trader is realistic. He or she accepts reality and appreciates what the markets have to offer. On some days the markets offer many opportunities. On other days, there are just a few. But whatever are available, resilient traders accept the current state of affairs. They don't pressure themselves into trying to take out more money than the markets are willing to give.

Resilient traders are eternal optimists. They may expect setbacks, but they don't equate a setback with personal failure. They are confident that if they put in time and effort, they can overcome any obstacle. That said, they accept their limitations. They don't believe that they must be -perfect.- Non-resilient traders believe that they must be thoroughly competent to the point that every trade is a winner.

By holding this attitude, though, they tend to expend all available psychological energy mulling over the negative consequences of failing, rather than focusing on what they can do in the here-and-now to implement their trading plan. The quest for extreme perfectionism is distracting and obscures the flow of immediate experience, and thus, the ability to read current market activity with unfailing accuracy. Striving for perfectionism is an important ideal to hold, but don't forget that it is merely an idea. You might try to reach for it, but don't beat yourself up when you don't get there.

Besides the right attitude, the resilient trader uses risk control to minimize the impact of losses. Psychological resilience is a matter of reducing your level of stress, and nothing is more stressful than risking money that you can't afford to lose and living with the fear that should you fail, you cannot easily recover. If you risk little on each trade, though, you won't have anything to fear. You will feel more at ease, and when you face a setback, you'll be ready to jump back in and tackle the challenge of the next trade.

Trading is challenging enough. You don't have to make it even harder. Manage your risk, anticipate losses, and don't beat yourself up unnecessarily for not meeting unrealistic expectations. Enjoy the process of trading, and don't merely focus on the prize. With the right attitude, you can be a resilient trader and achieve enduring success.

Don't Seek Revenge.

Jim has lost a bundle in the last six weeks. He was riding high at the end of 2004, but when the New Year started, he couldn't get his act together. He hasn't been trading very long, but he has seen some success. The past two weeks, though, have been particularly devastating to his account balance and to his ego. It all seemed so simple a couple of months ago.

But recently, he has made a series of trades that have wiped out six months worth of profits. For the past week, he has been determined to get his revenge. Although seeking revenge is a natural response to losses, it rarely fixes things. As tempting as it is to work with an -I'll show them- attitude, it doesn't work well for trading the markets. It just puts you on edge, and there are not any real enemies to fight against when plotting revenge. Ultimately, the only enemy is you.

A vengeful spirit usually makes matters worse. It's better to trade calmly and logically, rather than in spite and on impulse. It's easier to lose money than it is to make it back. It's just a matter of the mathematics of trading. Lost money is difficult to make back because of margin requirements and risk management. Recovery will require skill, time, and effort. Seeking your revenge isn't going to help you accomplish the daunting task of recouping your losses.

We seek out revenge when we feel that we have been unnecessarily wronged. A need for revenge reflects a sense of overconfidence. Some overconfident traders are novices who made a bunch of wins, and they mistakenly believe that just because of a run of good luck, they now know how to trade like a seasoned pro. Because they believe they are now skilled traders, they expect to always make big wins. But they aren't skilled traders. And when market conditions change, and they always do, they lose and lose big. From their point of view, they are angry. The markets should have provided rewards, yet they are now beset with doubt and losses.

It's easy to understand why novice traders working under the assumption that they -should- have made wins are angry upon realizing a loss. When we feel that something is owed to us, we become angry when we don't get it. We feel we were entitled to win, and when we didn't, we see it as an affront. It would be nice if we could win across a variety of market conditions, but not every trader has such fortune or skill.

Losses are inevitable, and when you're a novice trader, you should expect to go in losing until you develop enough skills to trade more profitably. Although it's understandable, seeking revenge isn't going to help. When we seek revenge, we are agitated. All our energy is focused on fighting. It works for a wild animal ready to bring down an opponent, but trading is largely an intellectual endeavour. You need your wits. You need to be calm, focused, and objective.

Rather than seeking revenge, it's more useful to think in terms of making a strong commitment to success upon encountering a setback. Don't think in terms of -beating an opponent.- Think in terms of building up your trading skills. Tell yourself that you are committed to mastering the markets and that you will persist and overcome any obstacle. In the markets, it isn't useful to think of obstacles as other people. You can't dominate the market. Unless you are a billionaire who can actually manipulate the price action, you have to settle for going where the market takes you. You can't impose your will onto the market, and that's what you are trying to do when you try to seek out revenge.

Sometimes market conditions are not conducive to your trading style and there is nothing you can do about it. When the right market conditions aren't there, you have to stand aside and wait. If you go in there fighting, you'll probably just make more bad trades and lose even more. It's better to stand aside and use that pent up negative energy to study the markets or to learn new trading strategies, but whatever you do, calm down. If you can stay calm, even during a major setback, you can think creatively and figure out a way to trade profitably until you make back your losses. Plotting revenge only makes matters worse.

Don't Forget to Reward Yourself.

Trading isn't always rewarding, at least in the traditional way we view monetary rewards. When one works a traditional 9-to-5 job, for example, he or she puts in 40 hours and gets a paycheck. And depending on the job, that paycheck comes regularly, regardless of how well one performed during the 40-hour workweek. Trading, in contrast, isn't a traditional job. If you don't make enough winning trades, you don't take home any profits. Essentially, a trader can work a solid 40 hours and see nothing for it. But that doesn't mean you shouldn't receive any rewards. If you've done a good job of trading by managing your risk, outlining a scrupulously detailed trading plan, and flawlessly executing it, you should get something for your efforts, even if you didn't earn any profits.

When it comes to trading, the long-term objectives are the most important; the ultimate goal is to trade profitably and do so consistently. But it's often hard to keep this faraway aspiration in mind. If you are a novice trader, for example, you may put in a laudable amount of time and effort putting on trades, but because your skills are below par, you may not see much profit.

Even seasoned traders may face times when they end up losing money. So if you only feel rewarded when profits roll in, you'll often put in a superb effort and receive no rewards. As many motivational theorists will tell you, when people put in a lot of effort and receive no rewards, they eventually just give up.

If your goal is to become a consistently profitable trader, you can't give up prematurely. You must persist, build up your trading skills, and keep at it until you become a master trader. How do you persist in an endeavour where the rewards are inconsistent, or even non-existent? Set up a reward schedule in which you give yourself a reward after you have completed a well-defined and significant goal.

Rewards can be either tangible or intangible. For example, you can set up a schedule where you reward yourself with specific tangible items, such as a night out on the town, a bottle of your favourite wine, or a gourmet dinner. You can also reward yourself in intangible ways, such as thinking, -I've done a good job,- when you have reached a goal. A more tangible reward, however, will be more motivating and powerful.

How do you use a reward schedule? It's vital that you define a specific goal to achieve. The goals you set should match your level of expertise. If you are a novice trader, putting too much pressure on yourself will ultimately produce frustration. Rather than set relatively high-performance goals, such as achieving a 20% profit, you should set a reasonable learning goal, such as saying, -I'll devote 20 hours this week to learning about trading and putting on a few low-risk practice trades.-

A more skilled trader may set a different kind of objective, such as putting on 10 trades in which a clearly defined trading plan is outlined and followed. Once your objective is met, you can reward yourself intangibly by telling yourself that you did a good job, or by giving yourself a meaningful tangible reward.

It's important to reward your efforts. You put in a tremendous amount of effort learning how to trade, and there are times when it doesn't pay off in terms of big wins. But even when you don't make huge profits, you still deserve rewards for your efforts. You've accomplished a lot: you have moved closer to your long-term objective of becoming a master trader.

It's easy to lose sight of that fact, and that's why you should learn to reward yourself for a job well done. Keep yourself motivated. Put yourself on a reward schedule. It's a key way that you can motivate yourself to persist and master the challenging world of trading.

Everyone Needs R & R.

Responsibility and respect are the bricks of a successful foundation, yet practically no one ever talks about it. Still, they represent two critically important components in our trading careers and, ideally, fortify every one of our actions.

When our trades are going well, many of us proclaim it to the world by making comments such as, -I'm becoming an incredible trader. I made a fifty-per cent on my account in the last six months!- Conversely, when we're doing poorly and racking up the losses, we tend to blame it on anyone but ourselves: -I followed the advice in Sure-Profits Online Trading Room yesterday and took a big hit. The guy who gave the recommendation was nuts!-
It's human nature to want to be right . . . to take credit when things are rosy and blame results on others when our lives turn sour. To maintain trading success, however, we need to take 110% responsibility for each decision that affects our account's bottom line. Our wins, our losses . . . we are accountable for ourselves, to ourselves as relates to the outcome of each of our trades.
Respect for money, itself, is the second -R.- Do you treat your money carefully? Do you pay your bills on time? Do you spend thoughtfully? Do you throw crumpled $20 bills on your dresser, or wad them up in your pocket? Bills carefully organized in your wallet or money clip show that you respect money and the power it has. And, chances are, if you treat money carelessly in everyday situations, you may treat it without respect in your account.
Try consciously giving your money added respect. Don't risk losing it by chasing trades, overtrading, or maxing out your account on a high-risk trade. Ask yourself, when entering a trade, if you are respecting your capital. As long as the answer is -yes,- your respect for your money will enhance your trading techniques.
Even if you already do so, focus on taking full responsibility for all your trading actions, and increase the respect you have for money. It's an enjoyable exercise and one that may bolster your bottom line!

New Year's Resolutions: How to Keep Them.

Losing weight. Quitting smoking. These are just some of the common resolutions people make on New Year's Day. Did you make any New Year's resolutions? If you did, you're not alone. Most adults make New Year's resolutions. Unfortunately, few people keep them.
New Year's resolutions are particularly interesting to psychologists. They illustrate the psychological processes that many people go through to change important patterns of behaviour. (And as regular readers of Innerworth, you should be interested also, since our website is aimed at helping traders change their behaviours and perform in a peak performance mental state).

The same processes that people go through to make New Year's resolutions are the same processes that traders go through to improve their trading skills, so a review of why people fail, and how to prevent failure, may help you reach the peak level of trading performance you are seeking.
Psychologists Drs. Janet Polivy and C. Peter Herman suggest that there are four reasons people fail. Gaining awareness of these four reasons, and developing a plan to work around them can help you stick with your resolution to change.
First, people think they can make dramatic changes when modest change is more realistic. People reject more modest, achievable goals for ones they can't possibly achieve. Since their expectations often exceed what is feasible, they fail quickly, feel disappointed, and just give up. An obvious example in the trading arena is expecting to make huge profits with inadequate capital. It's essential to work with a trading coach or adviser to develop realistic goals.
A second reason people fail is that they underestimate the time it takes to make a substantial change. For example, novice traders assume they can trade profitably in a matter of months, whereas seasoned traders emphasize that such changes may take years. A third and related reason people fail is that they think change is easier than it actually is. It's hard to change. It requires a heroic effort, yet most people think the only minimal effort is required (It's like thinking you can trade profitably by treating trading as a hobby rather than as a business). And similarly, it's hard to master trading.
There's a powerful human tendency to over-estimate one's ability level, to overconfidently think that one has skills and abilities that one does not yet have. Don't ever underestimate the tendency to be overconfident. Conquer the tendency to trade beyond your skills by cultivating a sense of healthy scepticism regarding your trading skills and your trading strategies. And remember, behaviour change is harder than you think.
Finally, people fail in terms of changing behaviour because they overestimate the potential rewards they will receive through behaviour change. For example, they believe that if they can change their behaviour, their life will be ideal. For example, they may believe they will get a big promotion at work or an exciting, new romantic partner. But these expectations rarely materialize and one usually encounters disappointment, and a reluctance to continue on a given course of action. This is especially true of trading. Novice traders envision extreme wealth and the attention it brings. Media images don't help matters.
Expensive cars and luxurious homes are associated with happiness and bliss, and it's reasonable for people to think that making huge wins will produce ultimate contentment. But these potential rewards are often unrealistic. It's wise to make sure that your expectations of reward are realistic. When it comes to trading, long-term enduring financial rewards may take a little while. In the meantime, it is useful to enjoy the process of trading. Trading is a fun and rewarding endeavour in and of itself.
Whether you are trying to keep your New Year's resolution or trying to make significant changes to your trading approach, it's useful to accurately estimate the amount of change you can make, the speed at which you can make the change, the difficulty of behaviour change, and the actual rewards you'll get once you make the change.

Riding Through the Downers.

Despite what most people think, there are times when we just aren't at the top of our game. We try to put on a trade, but our heart just isn't in it. What do you do when this happens? Do you press on and hope for the best or stand aside and wait to feel better before you tackle the markets again? Depending on how upset you are, it's usually a good idea to stand aside.

In his classic book, -Riding Through the Downers, Hassles, Snags, and Funks,- Innerworth advisory board member Dr. Ari Kiev suggests that when you're in an emotional slump, it's wise to take a break; take it easy before getting back into the game. When you are in a slump and feeling especially bad about it, you may not recover as fast as you think. If you broke your leg, you wouldn't try to jog two miles a day.

You would stay off your feet until you recovered. If you had a high fever, you wouldn't jump in a cold pool and swim a few laps. When physically ill, your body can't take it. You would end up feeling worse when it was all over. It is vital that you rest and recover Similarly, when you aren't feeling up to par, and have wavering confidence, it's wise to say out of the markets until you are feeling better.

At first glance, this advice may seem counterintuitive. Throughout our lives, we've been told over and over, -At first if you don't succeed, try again.- It may be necessary to try again, but it may not be a good idea to try again when you aren't ready. Give yourself a break. Your body and mind have limits. When you are feeling low, a lot of your mental energy is spent trying to buck yourself up or feigning happiness so that no one will suspect you're in a slump. But avoidance of your feelings usually takes up a great deal of psychological energy.

It's necessary to admit that you feel a little beaten, frustrated, and need some time to recover. If you try to trade while still feeling down, you'll probably make several trading errors. You will end up giving back profits, and feeling guilty about it. At that point, you'll set up a vicious cycle of making mistakes, feeling guilty about it, making more mistakes, losing even more money, and feeling even worse. You will not only feel bad, but you will feel bad about feeling bad. A better solution is to stand aside. Take it easy and rest up.

A common mistake is to ignore your feelings and just push yourself to keep going. When you are a seasoned trader who is not feeling very badly, this may work. But if you are relatively new to the trading profession and are feeling down, you will find that the harder you push yourself, the more you'll feel let down and frustrated. Instead of pushing yourself beyond your limits, calm down, rest and cultivate a fighting spirit.

Dr. Kiev suggests that when you are fully rested and ready to get up again to tackle your goals, it's wise to hold back a little. Find a level of activity at which you can comfortably function. Don't be overly ambitious. Pick a modest goal and work dutifully to achieve it. Start slowly and work your way up to bigger achievements. If you try to immediately make big profits before you have fully recovered psychologically, you'll overly focus on trying to achieve unrealistic results and applause instead of focusing on the process of trading, which is the key to enduring success. The more you focus on honing your skills rather than merely making big profits, the more you will reach a higher level of skill.

It may seem counterintuitive to take a break when feeling in a slump. But it works. Don't fall for the conventional view of success as making huge profits even when you aren't psychologically fit. It's better to work at your own pace and focus on the process of trading. If you hone your skills in a calm yet deliberate manner and take breaks when your psychological energy or confidence is depleted, you come back with a tough, fighting spirit that in the end, will help you achieve lasting success.

Don't Stress Out: Rest Up During the Holidays.

Today marks the start of the holiday season. During this time of year, many people have extra responsibilities and hassles. There are holiday parties to attend, family obligations, and holiday shopping. With all of it comes added stress. There are two ways you can handle it, though. First, you can let it all get to you, and that, in turn, will influence your trading decisions. Or second, you can use the time to take it easy and get a well-deserved rest.

As you are well aware, the holiday season can impact the markets in a variety of ways. The market closes on holidays throughout December and that can impact how traders react. Consumer confidence influences holiday spending, which in turn impacts prices in some sectors. And it's the end of the year, a time when some investors may decide to close out positions for tax purposes. In some ways, it is not business as usual. These changes, along with the added stresses in your personal life, can make this time of year especially chaotic. You might want to consider standing aside more often than you usually do and getting a little rest in preparation for the next year.

The mind is similar to a muscle. When you go on a long run, for example, you soon run out of energy. You can't go any farther. Your muscles begin to ache and you need to take a rest and recuperate before you start moving again. After a year of fast-paced trading, it may be useful to take a rest. The mind has limited energy. When you take a rest and rejuvenate, you can face the market action with a renewed sense of vigour.

Trading often comes down to performing in a peak performance mindset at a few key moments. To take advantage of these key moments, you must be relaxed. If you have strained your mental -muscles,- you'll have difficulty taking advantage of these opportunities. Your mind will be elsewhere or you'll be too tired to act decisively. When you're tired, it's hard to gauge market action accurately. You'll be prone to decision-making biases and you may act impulsively because you are too tired to patiently wait for the proper signals to enter or exit a trade. By staying relaxed yet full of energy, you'll be able to trade in a logical and consistent manner. You can use the holiday season to take a break and get some needed relaxation and rejuvenation.

How you react to the holiday season is your decision. You can let the added stress get to you and feel overwhelmed. Or you can cut back your obligations, whether trading commitments or personal commitments and rest and relax. If you use this time to rest, though, you will be ready to tackle the markets energetically and enthusiastically at the start of the New Year.

Mad and Ready for Action.

There are times when everything goes wrong while trading the markets. If you aren't ready for a barrage of mishaps, however, you may feel frustrated, and if you are tired and worn out, you may even get angry. You may think, -It just isn't fair. Why is this happening to me?- You want to blame someone, but deep down, you know that there is no one to blame. Perhaps there is nothing left to do but accept your fate, and realize that it isn't much you can do.

When things go wrong, it's tempting to say, -I'm going to get even with the markets.- People seek out revenge when they feel that they have been unfairly wronged. Traders become angry at the markets because they believe that the markets and the people involved in the markets should make their investment profitable. When the profits don't materialize, however, they implicitly or explicitly believe that the markets have wronged them.

Anger can be a dangerous emotion. When people are angry, they are ready to put up a fight. They focus all their energies on fighting, seeking revenge, and looking for any sign of provocation. It's hard to think clearly when you feel angry. If you are not calm and rational, then you will make impulsive decisions. You'll make matters worse by making

There's no reason to be angry at the markets. It's important to recognize the reasons for our anger. By doing so, we will feel less anger in the long run. Here's how you can be less angry at the markets.

Don't personify the markets. Anger is an interpersonal emotion. We are usually angry with someone because we believe that he or she has purposely tried to harm us. The markets may consist of people making trades, but it doesn't make sense to treat the markets as an interpersonal setting. The people participating in the markets may engage in actions that thwart your goals, but their actions are not directed toward you personally. It is best to look at the markets as an abstract impersonal entity, rather than a collection of people.

Eliminate Preconceptions. Anger is felt when our expectations have been shattered. One expects to profit from a trade, and when the profits are not realized, he or she may become angry, seek revenge, and want to get even. However, it isn't useful to have high expectations in the markets. Don't depend on the markets to fulfil your goals or meet your expectations. Assume that anything can happen. Indeed, in dealing with the markets, it's almost a given that you will lose money, so it is not useful to expect to make money on every trade. Just accept what you can get. Eliminate any preconceptions you have regarding the outcome of a trade.

Accept Losses. People have great difficulty accepting a loss. The old adage, -Cut your losses short and let your profits run- reflects traders' inability to accept a loss. However, if you cannot accept a loss, you will feel anger and want to get even. Expect to lose and be ready to accept losses.

Following these guidelines will help you manage your anger. If you can manage your anger, you will feel less stress, make more rational decisions, and enjoy trading.

Rested, Relaxed, and Ready for the Market Action.

Sometimes success is a matter of making the most of a few key moments. Those hoping to gain acceptance to a prestigious college, for example, must perform well for a few key moments on a standardized test. Olympic athletes prepare their whole lives to perform at their best for a critical moment in order to win the Gold Medal. Trading can be much the same way.

Though there are many opportunities, you must identify those specific opportunities where you can succeed, and be ready to take advantage of these opportunities and perform optimally. It's crucial to be at your peak during these key moments. You must be prepared and ready to take full advantage of the opportunity. Ideally, you should be fully rested, relaxed and ready for action. But people's personal physiology differs as well as their psychology. It's vital to ascertain your physical and psychological limitations and work around them, so you can be ready to capitalize on critical trading opportunities.

You don't need to perform at a peak performance state every minute of your life. If you are one of the few who can give it your all 24 hours a day, seven days a week, then you are blessed. The rest of us have human limitations. We can only work for a limited number of hours a day, and if we try to work in marathon stretches, it eventually catches up with us and is shown by our weak performance. In the end, it's a matter of personally-identifying how many hours you can perform at your peak performance state, and developing a specific plan to make sure you have enough rest and relaxation to work in this optimal state when it is necessary.

So how does one operate at peak performance? How do you work -in the zone- and be ready to move in synchrony with the ebb and flow of the markets? Putting yourself into the right state of mind requires energy, both physical and psychological. From a physical standpoint, you must be rested. If that means that you need to get 12 hours of sleep a night, then, by all means, get it. If that means you can only trade for a few hours a day, for only three days a week, then, by all means, do it. The point is that you must know your own personal limitations and how to maximize your energy level. Don't view trading as a 9-to-5 job where you must put in the full 40-60 hour workweek.

If trying to uphold such a schedule wears you down to the point that you have little energy to trade at your best, then your effort will not be cost-effective. You'll put in more time than you will receive rewards. Indeed, you will likely put in a great deal of time only to fail in the long run. So figure out how much sleep, leisure time, relaxation, and to exercise you need to maintain a high level of energy, allocate that time carefully, and maximize your energy level for when you need it.

Trading in a peak performance state is also a matter of maximizing your psychological energy for those key moments when you need it the most. If you have a lot of psychological baggage in the back of your mind, you'll spend a significant part of your precious psychological energy devoted to thinking about past conflicts and trying to find a resolution, whether you are conscious of it or not. Identifying any psychological problems and resolving them is crucial. It will free up the psychological energy you need to trade in a peak performance state.

You may not have to resolve every single conflict, but again, you must develop a practical strategy for working around these psychological issues. For example, perhaps you find that you can concentrate for only three hours a day without your attention being compromised by thinking about personal psychological conflict or past upsetting events. If that is the case, plan on trading only for those three hours a day where you can trade optimally. Don't unrealistically think you can work longer than your personal limitations allow.

Part of trading profitably is the acknowledgement of your limitations and putting together sensible ways to work around them. Don't set yourself up for failure by trying to live up to expectations that you personally just can't achieve (such as putting in 60 hours a week or going without enough sleep). One major component in trading profitably is cultivating the proper mindset. And to do so, you must be rested, focused, and ready to put in extra-human energy to capitalize on those moments when ideal trading opportunities materialize.

Take a Break, Relax, and Rejuvenate.

The mind is similar to a muscle. When you go on a long run, for example, you soon run out of energy. You can't go any farther. Your muscles begin to ache and you need to take a rest and recuperate before you start moving again. It's the same when it comes to working as a trader. It's vital that you consider that the mind has limited energy and that after putting in a hard and tedious effort, you must take a rest and rejuvenate, so you can face the market action with a renewed sense of vigour.

Trading often comes down to performing in a peak performance state at a few key moments. To take advantage of these key moments, you must be relaxed. If you have strained your mental -muscles,- you'll have difficulty taking advantage of these opportunities. Your mind will be elsewhere or you'll be too tired to act decisively. When you're tired, it's hard to gauge market action accurately. You'll be prone to decision-making biases and you may act impulsively because you are too tired to patiently wait for the proper signals to enter or exit a trade. By staying relaxed yet full of energy, you'll be able to trade in a logical and consistent manner.

You don't need to perform at a peak performance state every minute of your life. Many people can work for only a limited number of hours a day, and if we try to work in marathon stretches, it eventually catches up with us and is shown by our weak performance. Just as a runner must rest when his or her muscles ache, it's vital to take breaks after a marathon work session. In the end, it's a matter of personally-identifying how many hours you can perform at your peak performance state, and developing a specific plan to make sure that you have enough rest and relaxation to work in this optimal state when it is necessary. If you work too many hours without taking a rest, you'll expend all available energy. It's vital that you take a rest and rejuvenate.

Part of trading profitably is the acknowledgement of your limitations and putting together sensible ways to work around them. Don't set yourself up for failure by trying to live up to expectations that you personally just can't achieve (such as putting in 60 hours a week or going without enough sleep). It is necessary to work only for a reasonable number of hours and to take frequent breaks to regain your mental composure and be ready to tackle the new challenges the market throws at you. If you know how to manage your energy so that it is always at an optimal level, you'll be able to trade profitably and consistently.

Curbing a Vengeful Spirit.

Jack has just lost $1000 on a trade that he thought was a sure winner. He's frustrated and angry. He thinks, -I want revenge.- In the back of his mind, he wants to get even with someone or something, but he's not sure with whom he should be angry. He believes he has been treated unfairly. He should have made a profit, but instead, his account balance has taken a hit. It's reasonable to experience frustration and anger after a loss.
Unfortunately, it is difficult to express your anger when it isn't always clear who is at fault. Who can you blame? Other market participants? A vague, amorphous sinister image that goes by the name, -The Market-? It may be tempting, but in the end, there isn't a clear target for your frustration and anger. It's much more useful to control your anger and frustration. It's in your best interest to control your vengeful spirit.

The best way to control a need to get even is to avoid thinking of the market as a person. Don't personify the market. Stay objective and detached. Anger is an interpersonal emotion. We usually feel angry when we believe that another person has intentionally tried to harm us. If you view the market in an objective and detached way, however, there are no people to be angry with.
Market participants may trade the market, but it doesn't make sense to view it as an interpersonal setting. The actions of market participants may occasionally interfere with your goals, but their actions are not directed toward you personally. It is more useful to look at the markets as an abstract, impersonal entity, rather than as a collection of people who are intentionally trying to harm you personally.
It's also important to avoid making inflexible assumptions about market action. You can't control how the market behaves. You must accept what the market has to offer and live with it, good or bad. Anger is felt when our expectations have been crushed. One expected to profit from a trade, but when the profits were not realized, he or she wanted to seek revenge and get even.
However, it isn't useful to hold such rigid expectations of the markets. Don't get your hopes up. Be aware that there is a good chance that the market may not act in ways that are consistent with your expectations. Don't assume that the market will satisfy your financial needs or meet your expectations. Instead, assume that anything can happen.
Indeed, in dealing with the market, it's almost a given that you will lose money, so it is not useful to expect to make money on every trade. Just accept what you can get. It's hard to admit at times, but the alert trader knows that in all likelihood, one is going to see a lot more losses than wins. If you can accept this fact, you'll be better able to control your need to seek out revenge.
Trading in a peak performance mindset requires that you control distracting emotions, such as frustration and anger. Anger is not only unpleasant. It eats away at your limited psychological energy and interferes with your ability to stay focused on trading. Don't let your emotions interfere with your trading decisions. Control feelings of anger and revenge, and you'll maintain a relaxed and focused perspective that will help you achieve and sustain long-term profitability.

Setting the Right Goals: It Makes All the Difference.

If we had a choice, we would all want to become an overnight success. But unless you win the lottery, it is unlikely that you will become wealthy that quickly. If you are like most traders, it will take much longer, and psychologically, you should be ready to put in the effort. Don't get your hopes up. Many traders set themselves up for disappointment by setting unrealistic goals. They assume they can trade profitably in a matter of months, but seasoned traders emphasize that mastering the markets may take several years. If you are realistic about what you can actually achieve, you'll stay optimistic and persist in a field where less than 5% survive the learning curve.

Success requires that you set specific goals. Many people make the mistake of setting vague, non-specific goals. It is useful to set modest and specific goals and reward yourself as you make progress. Goals don't necessarily need to focus on profits. It may be more useful to set goals regarding the development of skills. For example, break down the larger goal into specific steps, or sub-goals, that is within your ability to achieve.

For example, a learning goal may be stating, -I'm going to study for 30 hours a week to learn a new trading technique.- You may also decide to study charts for three hours a day or read one new trading book a week. The specific goal will not immediately lead to the larger goal of meeting a specific profit objective per month, but it is easy to achieve. As you complete each sub-goal, you'll naturally feel a sense of satisfaction after jumping each small hurdle.

As you develop your skills, you can gradually reach for higher and higher goals. Your progress may be slow at first, but over time, you'll make significant progress. The key is to avoid trying to do too much. Take it slow. Work at your own speed and according to your own timeline. Don't make it a race. The only person you need to please is you. If you set goals realistically and strive to achieve them with the resolution, you'll master the markets, and achieve enduring financial success.

To many, this approach may seem counterintuitive. Don't successful people think big? Big dreams can be a powerful motivator, but there's a huge difference between lofty unrealistic dreams and specific ambitious goals that one strives to achieve with a methodical and detailed plan.

Big dreams are not always the best goals to set. Here's why. You may not have the experience or skills to reach a goal that exceeds your abilities. For example, would you try to run a 20-mile marathon if you could not even run a mile? Of course not. So why make such high and lofty trading goals until you have the requisite knowledge and skills? Psychological studies show that it is the way one goes about achieving a high-level goal that matters.

When you set high goals that exceed your skills, you usually fail, feel discouraged, and feel like giving up. It's useful to distinguish performance goals from learning goals. Setting realistic goals can make all the difference. When you set goals that are within your grasp, you'll achieve them, feel good about your progress, and keep building up your trading skills. If you keep working, slowly but surely, you'll be one of the few who eventually become a master trader.

The Right Mindset.

Trading the markets requires cultivating the right mindset. You must be relaxed, logical, perceptive, and ready to tackle anything the market throws at you. Unfortunately, this sounds much easier than it actually is. Trading is a difficult profession with unique issues that other professionals don't deal with. If you can identify these issues, address them, and halt their influence, you can cultivate the mindset of a winning trader.

Why is trading more difficult than other occupations? There are many differences between trading and other occupations and these differences often impede one's ability to cultivate a peak performance mindset. For example, in many professions, a group of scholars have clearly defined foolproof ways to gain success. And the leaders of a particular profession argue that if one follows these well-proven pearls of wisdom, success will surely follow. In most professions, these claims are somewhat supported, but when it comes to trading, many trading gurus claim to have discovered the Holy Grail, but oftentimes these claims merely offer false hope to the desperate masses seeking easy money. Seasoned traders warn, for example, -Don't trust anything you read or anything you hear.-

The general consensus is that most of the information out there about how to trade is suspect and that the only way you'll ever separate the truth from the fiction is to try it all out and find out for yourself just what works and what does not. Seasoned traders also warn, -There are no universal rules for traders to follow. Conventional wisdom is only correct when it is correct (that is, it's correct only under specific market conditions and only occasionally).

History only repeats itself when it does (and other times past market performance does not repeat itself). This lack of consistency in the rules of the market and in how the market behaves can be disheartening. It implies that one can study all available trading books and yet still fail to trade profitably and consistently. Many seasoned traders warn, -Trading is a profession where you should go in assuming you'll lose more money than you'll make.- Considering this advice, it is no wonder that novice traders have difficulty cultivating the right mindset.

Trading consistently seems difficult if not impossible. But it is still possible to overcome these limitations. First, it's vital to remember that there are indeed actual traders who have studied the markets over years, made heroic efforts to build up trading skills, and eventually became profitable. You can't turn a $5,000 online investor account into a fortune, but with the proper amount of startup capital, a state-of-the-art trading platform, and the right online broker, you can learn how to trade profitably.

Again, it's just a matter of having realistic expectations, the proper training and mentorship, and the necessary experience to trade under a variety of market conditions. Second, the right attitude is also essential. Once you face the fact that trading isn't easy money, or that you won't become rich overnight, you'll be able to prepare yourself mentally for the long haul.

It is merely accepting a few disconcerting facts about trading. If you know that you need a sufficient amount of capital to survive the learning curve and severe drawdowns, you'll manage risk properly and live a frugal lifestyle in order to have as much trading capital as possible to invest. If you expect more losing trades than winners, you won't be disappointed when you face losing trade upon losing trade. When you know that your seemingly foolproof trading strategy is bound to fail when the market conditions change, you won't be very upset when it does indeed start to fail. By facing the cold, hard facts about the pitfalls of trading, you'll neutralize them. Scary ideas are no longer frightening after you've acknowledged them.

The more you can identify the displeasing aspects of trading, and prepare for every possibility, the more likely you'll be able to persist in the face of adversity. Trading is a challenging profession, but there are many traders who have met the challenge and have the winning track record to show for it. By meeting the challenge through hard work and dedication, you can also be a member of this small, elite group of winning traders.

Finding the Right Mindset.

Jack woke up later than usual this morning. He didn't sleep very well, worrying all night about two big losing trades he made yesterday and kicking himself for trading too impulsively. Today, he is worried about how he will make back the money he has lost. He really doesn't want to trade today and wishes he could just take the day off. Maybe he should stand aside until his outlook improves. In order to trade profitably, it is vital to trade with the proper mindset.

Ideally, all traders want to trade in the zone. While in the zone, trading is effortless. Setups are easy to spot. And when a trader sees them, he or she is confident that a profitable trade can be executed with relative ease. But you can't be in the proper mindset all the time. What do you do when you're feeling off the mark? Some seasoned traders gauge their mindset at the start of the trading day and if it isn't quite right, they stand aside, take the day off, and wait until they return to a peak performance mindset.

If you rarely have a day when your mindset isn't up to par, taking a day off occasionally can't hurt. But if you are chronically in the wrong state of mind, you'll see very few profits if you constantly take the day off. You may want to try to improve your mindset. There are a few goods ways of getting back your mental edge.

First, set modest goals. If you are in a poor mindset, it's dangerous to start making big trades. You might want to start out slow and small. Try making a few practice trades and don't expect too much. Once you start the ball rolling, you may suddenly find the grove and start feeling better. People usually feel in a rut when they are trying to achieve goals that seem impossible at the time. By lowering your standards, you will increase your odds of success, and when you encounter some initial success, you'll start to feel better.

Second, review a past winning trade. It will remind you of your potential. When you're in a rut, you tend to think, -I can't trade. I can't imagine making a profitable trade today.- The mind can play tricks on you when you are in a bad mood. Suddenly, you forget all the profitable trades you've made and erroneously think that you can't trade profitably in the future. If you carefully run through a winning trade that you've made in the past, though, you'll start remembering how talented you could be. It will distract you from the negative thoughts that incessantly run through your mind. You'll stop thinking about how down you feel and you'll start to pick yourself up.

Third, tell yourself empowering thoughts. By themselves, empowering thoughts may not work very well to get psyched up. For example, if you really don't have a sound trading strategy or if market conditions are terrible, an optimistic outlook won't do much to set an enduring peak performance mindset in motion. You'll feel optimistic for a few minutes, but a few losing trades will merely get you disappointed again.

However, if you start off slow, come up with a realistic trading plan that is consistent with current market conditions, and execute it with realistic expectations of success, you'll feel a sense of accomplishment even if you don't reach your goals. You'll think, -That's pretty good considering I didn't expect much from this trade.- Once you start building a little momentum, a few optimistic beliefs can put you on a roll. You will start thinking, -I'll take each setback in stride. I'll see how far I can go.

If I gradually expand my vision, I'll make more and more profits, and end up profitable in the end.- It may seem a little naïve to think that positive thinking can do wonders, but if you have reliable trading skills and are merely in a bad mood, positive thinking can set you on the right track and get you moving forward again. So when you're in a rut or a bad mood, don't let it keep you down. By taking specific psychological steps, you can move from self-doubt and stagnation to confidence and profitability.

Is Risk Management Really Important?.

Many traders view risk management as critical to long-term success. Consider what a couple seasoned traders told our Innerworth staff about risk management. Mark said, -You can have a crummy trading strategy, but if you have good money management, you can make money. If you have poor money management, it doesn't matter how good the trading strategy is. You're going to lose in the end.- Similarly, Chris observes, -You must have a survivability element so that if you literally wished to select stocks by throwing darts at a board, you would continue to survive market to market.-

Risk management is viewed by many as important, but what's the best way to manage risk? Some traders use very specific rules for managing risk, such as risking a small percentage of capital on each trade. Other traders don't seem to have any specific rules but may look at past performance as a key. (What is the volatility? What was the previous day's low?)

As important as risk management is, not all successful traders always manage risk. Some successful traders put on big positions when they believe they see a chance to make a huge, substantial win. When they believe they are right, they just take a chance. Doing so may lead to big losses when they are wrong, but they do it when they need to.

Is taking big risks a good idea? When it comes to trading, there is no one -right- way to trade. All you can do is consider the advantages and disadvantages of each approach and decide which approach you want to take. Whether you want to take big risks may depend on your experience and trading skills. If you are a novice trader, you have not yet learned how to use a set of methods consistently to make a profit in the long term.

For novice traders, it is often vital that they control their risk (for example, risking a small percentage on each trade) so that they could survive long enough to gain mastery as a trader. One reason trading coaches preach the virtues of careful risk management is that a common mistake among novice traders is wanting to -get rich quick- and putting on big trades to make big wins.

The methods and skills of a novice trader, however, do not warrant taking such huge risks. What often happens is that they lose all of their capital on a few big trades and need to rebuild their capital before trading again. Rather than gaining mastery as a trader, they fruitlessly go through cycles of risking a lot, losing it all, quitting trading to rebuild capital, and so on. These novice traders never give themselves a realistic chance of learning how to trade consistently. In contrast, the novice traders who manage their risk can trade longer, and hopefully, learn how to trade consistently before their capital runs out.

Once a trader becomes seasoned, he or she may want to -reach the next level- and make a lot more profit. Seasoned traders often reach an asymptote, at which point a self-imposed cap limits their profits. It's hard to break through this barrier, and no one really seems to know why. Very experienced traders who want to make greater profits need to start bending or breaking the rules a little to see if they can make greater profits and break through the barrier.

This is risky, but some seasoned traders are willing to take the risk in order to make huge yearly profits. That said, they also can afford to take more risks. As seasoned traders, they have the methods and experience to take risks, but a novice trader does not. So even though there is no right or wrong way to trade, if you are new to the trading field, risk management has the advantage of allowing you to -survive the learning curve- until you find the once-in-a-lifetime opportunities to make you wealthy beyond your wildest dreams.

To Risk or Not to Risk.

To risk or not to risk, that is the question. One has to risk money to make money. Is it better to survive losing streaks and risk small amounts of capital on each trade, or risk a lot of capital and really make a big win? There is not a single right answer to this question. (And, even though we sometimes take strong positions at Innerworth, we truly believe that there is never just one right answer to any question.) Whether to risk a lot of capital or a little capital on a given trade is a personal question that you must decide based on your capital, your lifestyle, and your personality.

A few weeks ago, we presented the case of Allen Brunet who had $50,000 in his trading account. Allen was thinking about trading full time, but to do so, he had to make $20,000 a year to meet his daily living expenses. We argued that it might not be a very good idea for Allen to quit his job just yet. A return of $20,000 on a $50,000 account would be a 40% return for the year.

It may be difficult to achieve such a return, considering that many professional fund managers seem to think that a 20% return is very impressive. As we said previously, it isn't impossible to make a 40% return. Indeed, we noted that Tom Baldwin started with an initial stake of $25,000 in 1982 and had personal expenses of $36,000. He obviously made quite a bit more than a 20% return on his money.

In the end, it comes down to personal preference. For Allen Brunet to make a 40% return, he would need to be willing to risk a great deal of his capital. Too those traders who have low-risk tolerance, risking such a large percentage might be unbearable. But, for those who have a high tolerance for risk, risking a great deal of capital on trade may seem worth it.

Some traders make the argument if you clearly know you are right on a trade, why not risk a lot of capital on it? That is not to say that traders should falsely believe that they are right, but rather, if after doing a substantial amount of research and preparation for a trade if they believe it is one of the best trades of the year, why not risk a lot on it? This is an argument worth considering. However, it is important to consider the downside. If you lose, can you afford to take the loss?

If you risk such a large amount of capital, do you have the personality that can continue to objectify the trade, look at it in a calm and unemotional way, and continue to make logical decisions after the trade is executed? If the answer to these questions is -yes,- that's great. But, if the answer is -no,- then you must adjust your trading style to suit your personality.

Trading small positions, and thus, risking little on any given trade, can take a lot of the pressure off. Even if you don't have much of a tolerance for risk, if a position is small enough, it is easier to manage one's emotions and stay calm and rational while entering, holding, and exiting a trade. To each his own, but whatever you decide, think of the consequences and make sure that you can live with your decision.

Cut Your Losses.

When it comes to trading, it's not whether you win or lose, but how much you make on a winning trade compared to how much you lose on a losing trade. If you can cut your losses and move on, you'll survive. It makes sense, logically, but psychologically, many traders have trouble cutting their losses. We hate to lose and we will do anything to avoid losing, even it means denying that we've lost.

Some are happy to keep losses on paper to avoid the inevitable feelings of regret that often come with a losing trade. People are risk-averse. They often sell off winners too prematurely and keep losers too long, hoping that somehow things will turn around. But it hardly ever works. Many people would be wise to follow the advice of Paul Tudor Jones, -I spend my day trying to make myself as happy and relaxed as I can be. If I have positions going against me, I get right out. If they are going for me, I keep them.- It's vital for your long-term survival that you admit that you have made a losing trade, and close it out.

Humans have a natural inclination to avoid losses, but seasoned, profitable traders cut their losses early. They work under the assumption that they will see many more losing trades than winning trades. Knowing how to take a loss in stride is a key skill that all traders must develop. It's often easier said than done, though. Behavioural economists have outlined many psychological processes that prevent most traders from accepting a loss and moving on.

First, humans are naturally risk-averse. They don't like taking losses. When it comes to sure win they take it immediately. But when it comes to a sure loss, they would rather take a chance, hope for no loss at all, and possibly take a huge loss, than just take a small loss upfront. Both professionals and amateurs can fall prey to this tendency. Trading lore is replete with tales of traders who just couldn't take a small loss immediately. They hold on to losses rather than admit they made a big mistake. The losses continue to mount and the hole gets deeper and deeper.

The human mind has a remarkable capacity to ignore what it doesn't want to see. And losses are hard to see. Second, a major psychological reason for holding on to a losing trade is the sunk cost effect. The more financial and psychological costs we sink into a trade, the harder it is to take the loss and move on. It's like thinking, -I've waited so long and I've lost so much of the initial stake that I can't give up now.- There's a strong need to justify the effort and expense you have put into holding a losing position. The psychological need to justify the loss is so great that it can be difficult to write it off.

Third, social processes prevent many traders from taking a loss. It's hard for some traders to keep their wins and losses to themselves. Trading can be a lonely profession, and it's useful to join a network of friends to share experiences and get support. The downside, however, is that some people in the network may compete with you, just waiting for you to have a setback so that they can feel superior. You may look forward to relishing your wins, but dread having to admit your losses. The need to save face can prevent some traders from taking a loss. The best antidote to this problem is to stay humble. Don't brag about your wins. If you avoid getting a swelled head, you'll be able to admit your mistakes and shortcomings more easily, and you won't worry about becoming embarrassed for losing.

Cutting your losses is vital for success, but it's hard to do. Be aware of the powerful psychological factors that prevent you from taking a loss and moving on. It may be hard to do, but if you work under the assumptions that losses are inevitable, and don't take losses personally, you'll be able to cut your losses, move on, and make huge profits.

Searching for a Winning Strategy.

Winning traders must identify profitable trading strategies. It's a creative process. Much like scientists find evidence to support a theory, traders must formulate hypotheses and determine whether their proposed strategy can produce a profit. You must sift through a wealth of information, mentally testing and retesting your hypothesis and trying to decide if it will work when the ideal market conditions are present.

In searching for a winning strategy, there comes a point when you start to believe that you're right. At some point, you must stop deliberating whether or not to go with a particular strategy, and make a final decision. But you don't want to jump in too early. On the other hand, you don't want to consider and reconsider your strategy so long that you miss a market move. The key is discerning when to stop deliberating and when to take action.

If you're like many traders, however, you've made your share of bad decisions. Psychologists have studied the thought processes that go into making decisions, such as determining whether a trading strategy will work or fail. It's a two-stage process, according to Dr Daniel Gilbert, a professor of psychology at Harvard University. When evaluating a strategy, there's a point where you start to believe that it is true; in other words, you believe that your view of the markets is accurate and you'll make a profit if you use the strategy. That is the first stage of the decision-making process, believing that you are right.

The second stage consists of determining whether or not you are actually right. The human mind seems to work in a peculiar way. In order to fully understand and mull over a hypothesis, we must first believe it is true, even if it is actually false. After we accept the hypothesis as true, we then go through a process of thinking and re-thinking the hypothesis before finally deciding if our initial acceptance of the hypothesis was a prudent decision.

For example, if you decided that a product announcement was going to produce a dramatic price increase in a company's stock next week, you first accept that you're right, Stage 1 of the thinking process. By accepting you are right, you build up the motivation to further study your hypothesis and decide if you are in fact right. It makes sense when you think about it.

If you thought that your hypothesis was wrong, you would just forget about it and move on. You might see how problems may arise in the way the mind works, though. What if you decided your strategy was right, but then stopped deliberating, instead of continuing to question whether or not you made a good decision? If you stop too soon and avoid Stage 2 of the thinking process, you'll continually jump to the wrong conclusion and erroneously implement unprofitable trading strategies.

It's vital that you think and rethink the strategy a little while longer. You must play Devil's Advocate and think about what might go wrong. For instance, a product announcement won't lead to a profit if media analysts report that the product will be a dismal failure. You must do a little extra research to decide if there is evidence of an unexpected event that may ruin your plan.

People often forget to fully evaluate their initial decisions. Why? Research studies have shown that when people are under time pressure, or tired and worn out, they do not fully deliberate their decisions. In other words, they engage in Stage 1 thinking, they accept that their hypothesis is true, but they avoid Stage 2 thinking; they assume their initial hunch is right without fully considering evidence that may refute its veracity.

When making a trading decision, fully deliberating your alternatives is essential. You don't want to over-deliberate, but you don't want to be impulsive. Don't rush the decision-making process. Slow down, and realize your limitations. When you are overloaded with too much information to sift through, or you are just too tired to think straight, you will make an impulsive judgment. Make sure you are rested and relaxed. By staying psychologically alert, you'll increase the odds of choosing winning trading strategies.

Protecting Your Interests.

It's impossible to make money as a trader without taking some risks. You've got to risk money to make money. But if you take unnecessary, or extreme, risks you may not survive to trade in the long term. For both financial and psychological reasons, it's vital to protect your financial resources.

Risk is a part of everyday life. We take risks even as we complete the most mundane tasks, such as when we drive our children to school. We take risks when we fly home to visit our family for Thanksgiving. We even take a risk just sitting at home watching television, since there is a possibility, although a slim one, that some harm will come to us. It's often wise to take reasonable precautions to protect our interests. When you drive down the street, for example, it's prudent to wear seatbelts and be careful to drive at a safe speed. When it comes to trading, it's also vital to have proper protection. Adverse forces may go against your trading plan, and unless you protect yourself, you run the risk of getting hurt, and with trading, that often means substantial hits to your account balance.

There's also a psychological advantage in protecting your interests. Taking precautions eases some of the pressure. If you know that the worst-case scenario is something you can deal with easily, you'll feel more at ease. You'll feel a sense of freedom. Acting under pressure often leads to an error, such as misinterpreting market conditions. Proper protection, gives you the time and opportunity to think more clearly, make a calm, thorough survey of all possibilities, and take appropriate action. Risk management provides not only protection from financial loss but also gives the trader a psychological piece of mind.

There are many ways to manage risk. But one of the best ways is to develop a very detailed trading plan in which you estimate the potential risk upfront. For example, you may estimate how far the trade may move against you. When going long on a swing trade, you may reason that the most the price will go against you are the low of the previous week. That will give you an estimate of risk upfront.

Many trading experts also suggest making sure that the amount of risk you take is only a small percentage of your trading capital, so that should you lose on the trade, the loss will be at a minimum. Whatever approach you take to managing risk, the point is that managing risk has both financial and psychological advantages. Psychologically, you'll feel a sense of security. Deep down, you will know that should you lose on the trade, it can't hurt you very much.

It's only a small part of your capital, and you know you can survive to move on to new opportunities. You will feel more relaxed. And when you feel calm, your mind will be open to all possibilities. You can gauge the market action more objectively than when under pressure. In all likelihood, your mind will move with the market, and you will be able to trade effortlessly and reach a peak performance mental state. And when you trade in a peak performance mental state, you will be able to realize the long-term profits you are seeking.

Taking the Risk and Living with the Consequences.

One of the few undisputed facts of trading is that you must risk money to make money. The risk would be easy if we were assured a successful outcome, or if we didn't care. (Gomez Adams, the patriarch of the -Adams Family,- for example, never seemed to care how much he lost in the markets because he had so much money that it didn't make a difference.) Most traders have trouble taking a risk. We are neither oblivious to the potential losses nor excessively rich. Losses matter and most of us can't stand to lose. It's easier to be safe, but we all know too well that we can never be profitable traders if we play it safe. We must take a risk. But how can we take a big risk and live with the consequences?

Whether you're a novice trader with a small account, a seasoned trader trying to trade larger positions, or a hedge fund manager merely trying to satisfy client expectations, you must increase your risk tolerance, put your money and ego on the line and move beyond your comfort zone. If you are good at fooling yourself, taking a risk isn't hard at all. The naïve optimist has it easy: -I'll just make a big bet, the markets will go my way, and I'll meet my profit objective.- We've all learned the hard way, though, that such a thinking strategy works for about two weeks at best. Sooner or later, we find that it is virtually impossible to trade profitably over the long term.

Some make it, but much more blow out their accounts long before that happens. Most traders avoid taking a risk because they perceptively realize that there's a pretty good chance they are going to lose more money than they make. The challenge is to both know that you are likely to take substantial losses, while at the same time, you continue to trade, take risks, and strive for consistent profitability.

We are the most risk-averse when we fear the outcome of taking a risk. When the worst-case scenario seems unbearable, we shrink back, paralyzed and defeated. On any given trade, we can alleviate some of the fear by risking a small percentage of our trading account on a single trade, and taking it -one trade at a time- instead of focusing immediately on the onerous goal of achieving a specific return across the entire series of trades.

If you can avoid ever thinking of the long-term goal, you could probably trade forever without hesitation (Indeed, some people merely add to their account every month to cover losses and never have to face the possibility that they can't trade.) Most of us, however, must eventually take stock of how well we're doing as a trader.

That's the hard part, looking at how profitable you really are, and being able to live with what you find out. The fear is discovering that we can't trade profitably, or even worse, that we've lost thousands of dollars with nothing to show for our time and effort. This potential worst-case scenario lurks at the back of our mind and can subtly impact our ability to take risks if we aren't careful.

It may not be simple, but it is worth facing the worst-case scenario and trying to come to terms with it. First, you might consider a variation of the old saying, -it is better to have loved and lost than to have never loved at all.- Similarly, if you yearn for wealth and financial security, it is better to have attempted trading and blown out a few times than to complacently wish you had tried and spent the rest of your life regretting that you never mustered enough courage to have taken a big risk and seen for yourself whether or not you could realize your dreams. This is a powerful statement.

Suppose you do indeed blow out your account to the point that it will take years to build up a stake and try again. At least you know that you had tried. Some people never have the courage to try something as challenging as trading. They play it safe and regret that they never took the chance, all because they fear that they will be unable to handle the disappointment should they fail. Others take the position that failure may be unpleasant, but stagnation and false complacency are worse.

If you take the position right now that it is valuable for you to take a risk and discover what your potential destiny is, you'll be much less averse to risk. You'll feel courageous and ready to meet the challenge. If you psychologically face and conquer the worst-case scenario and decide right now that even blowing out your account has a positive impact on the view you have of yourself, you'll be less averse to risk. (Again, even if you blow out your account, you can always relish the fact that you tried to achieve your dreams.) And paradoxically, the less averse to risk you are, the more risk you'll take, and as long as you use sound trading methods, you'll probably trade consistently and profitably.

Risk Aversion: The Trader's Fundamental Handicap.

Tom has often heard the sage advice, -Cut your losses early, but let your winners run.- He has trouble following it, however. Based on his experience, he thinks letting your winners run is easier said than done. Sure, it's not a good idea to let a losing trade mount losses to the point that the entire position is wiped out, but it's hard to hit upon a winning trade, and then, just sit back and let it ride. There's a strong temptation to take profits immediately. As they say, -Whoever got hurt taking a small win?-

Tom wonders, however, why he can't let his winning trades just run a little longer. An analysis of his trade diary entries shows that if he could have held out a little longer, he would have made substantially more profits. Many traders hate to lose, and when they see a winning trade materialize, they want to lock in the profits and ensure a win. Whatever you call it, it is still risk aversion. We are quite willing to gamble with losses, but when it comes to wins, we will take a sure thing over a gamble any day. Risk aversion is surely a fundamental weakness of many traders. If it can be beaten, traders can make significantly greater profits.
Why is risk aversion a problem? Why not just take small profits across a series of trades? It all depends on how successful one's methods are. If one has methods that work with 90% efficiency, then he or she can take small profits and come out profitably overall. Unfortunately, many traders have a track record that is much lower than 90%. Obviously, it is vital for economic survival to make larger profits on their winning trades than they lose overall on their losing trades. If they take only small profits on their winning trades, however, their wins won't balance out their losses. Thus, it is necessary to avoid selling a winning trade prematurely.
As Tom knows, it is hard to let your profits run. The sting of several losing trades can impact your pride and your ego. Losing even greater amounts of money by letting a winning trade turn into a losing trade is even harder to accept. Your conscience often tells you, -Sell now before it is too late.- There isn't a simple solution to this problem. Profits are hard to come by in the trading world; it's hard for many to risk losing a profit once they see they can lock it in by selling early. It may be hard to swallow, but winning traders tend to be those kinds of people who actually enjoy risk.
They are happy to see they have hit upon a winning set of circumstances and they can't wait to see what happens. They want to push the limits and see if they can squeeze out as much profit as possible. If you aren't a natural-born risk-taker, however, it will be difficult for you to hold out and avoid selling early. If you are the kind of person who feels uneasy while a position is in motion, you may have to make an extra effort to let your profits run. One strategy is to sell off increments of the position as it rises in value so that you can ease some of the psychological pressure gradually. By taking a few profits at a time, you can feel an ever-increasing sense of safety.

Other circumstances must be present, however. It is essential that you trade with money you can afford to lose. The reason most traders are risk-averse is that they are trading with money they need for basic living expenses. Thus, they are risking their safety and security, and this puts added pressure on them to perform. It isn't surprising that under these circumstances, one has trouble taking risks once a position starts to increase in value. You can come up with all the rationalizations you want, but if you trade with money you deeply care about, you'll have trouble risking it, and -to make money, you must risk money.-
It may sound like a cliché but it is true. You must also manage risk, and that's hard to do if you don't have a large trading account. An extremely large trading account allows the trader to risk as little as 1-2% on a single trade and still make a substantial profit. If your account balance is low, you can't afford to risk only 1-2%, and realistically make a profit. You must risk more and there is a real chance that you can easily wipe out your account after a dozen losing trades.
You can't beat the mathematics. You need money to make money. If you don't meet these conditions, then you'll have trouble trading freely and openly. You'll worry about losing and you can't

take the big risk when you hit upon a winning trade setup. Unless you are a natural-born risk-taker, you won't be able to let your winners run. Risk aversion is a handicap. It's hard to beat it, but some do. If you are one of the few lucky ones, you'll realize substantial profits and trade consistently and profitably.

Always Manage Risk.

There's nothing more thrilling than anticipating the markets and making a huge profit off of a trade. Not only do you feel on top of the world for getting it right, but the feeling of security from realizing a windfall is nice too. After a winning streak, it's tempting to let loose and start making some big trades. Although it is often useful to take advantage of a hot streak when you hit upon one, it doesn't mean that you should act recklessly. It's essential for long-term survival to maintain discipline and manage risk.

After making a series of winning trades, it's tempting to celebrate. You may start thinking, -What do I have to lose? I'm far ahead of the game. I can take a little more risk.- But it is essential that you fight the urge to trade impulsively and maintain discipline. What is the harm of taking big risks? You really don't know that your next set of trades will win, and when you take unnecessary chances, it's as if you are working under the assumption that you will tend to win in the future. No one has a crystal ball, though. Trading is about taking advantage of probabilities.

From the perspective of probability theory, it's possible that you will continue to win, and by making larger trades and lowering your limits, you'll reap big rewards. But in all likelihood, the next series of trades may be losers. If you act impulsively or don't continue to manage your risk, you'll tend to give back all your profits and more. It's vital for your long-term survival to continue to manage risk, even after a long string of successful trades.

After making a series of wins, it's natural to feel a little elated, high, and invincible. One may not fully consider the realistic possibility that a losing trade is on the horizon. It's vital that you are a little sceptical, though. It's nice to feel you are running hot, but it's important to remember that your hot streak may end as quickly as it started. Never let your guard down.

Always be prepared for your luck to change. An unexpected defeat is often more devastating than an expected setback, so it's wise to always be ready for a potential loss. Many people react to unexpected losses with extreme emotion, which may cloud one's judgment, and produce trading errors. By remembering that a loss is always possible and that it isn't a big deal, you'll be prepared, and won't be fazed when it happens.

Managing risk is a trader's secret weapon. Don't take unnecessary chances. Trading is a game of survival. Sure, you must make big profits while you are running hot, but you must avoid mounting huge losses when you are running cold. Don't be caught off guard. Consider every possibility. Continue to manage risk. It can go a long way in helping you stay profitable in the long run.

Accepting Uncertainty and Risk.

Trading is synonymous with risk. Shorter-term trading isn't about using a buy-and-hold strategy and minimizing risk by holding an investment over years. Short-term traders capitalize on volatility. Prices fluctuate rapidly. Trading is risky and what will happen in the short-term window a trader works with is uncertain. Humans have a natural and powerful aversion to risk, however.

People have no trouble taking a sure win, but when it comes to taking a loss, they hesitate. They don't like accepting losses and will do anything to avoid taking them. They will gamble in the hopes of avoiding a loss, such as when a trader holds on to a trade in which losses continue to mount. They will pretend that losses aren't really there, as illustrated by traders who like to keep losses on paper instead of realizing them. However, losses, risk, and uncertainty can't be avoided if one wants to trade like a professional. It's vital to come to grips with these issues, accept them and trade freely despite them.

Risk aversion is adaptive most of the time. Minimizing risk will help you survive. Risk is a part of everyday life. We take risks every day, such as when we drive to the grocery store or take our children to school. It's often wise to take reasonable precautions to protect our interests. When you drive down the street, for example, it's prudent to wear seatbelts and be careful to drive at a safe speed. When we trade, it is similarly prudent to take precautions, such as controlling risk on any given trade and trading with a detailed trading plan. Adverse forces may go against your trading plan, and unless you protect yourself, you run the risk of taking substantial hits to your account balance.

There's a psychological advantage to protecting your interests, and when you know that you have a safety net, you'll be able to deal with risk and uncertainty in the markets more easily. Taking precautions eases some of the pressure. If you know that the worst-case scenario is something you can deal with easily, you'll feel more at ease. You'll feel a sense of freedom. Acting under pressure often leads to trading errors, such as misinterpreting market conditions or making impulsive trading decisions. Proper protection gives you the time and opportunity to think more clearly. You can make a calm, thorough survey of all possibilities, and take appropriate action. Risk management provides not only protection from financial loss but also gives the trader a psychological piece of mind.

The possibility of losing money is difficult for most people to accept, but winning traders don't let this tendency interfere with their ability to make money. They protect their assets as much as possible, and once they know they have done everything possible, they trade freely and effortlessly. They decisively execute their trading plans, and should they fail, they just take the loss and move on. They don't get bogged down. By accepting risk and uncertainty, they are able to trade profitably and consistently.

Accepting and Reducing Risk.

Trading is risky. Depending on your personality, you may be extremely intolerant of risk. Most people avoid risks at all costs. Humans had to make prudent decisions in order to survive and evolve. Even though traders know they must risk money to make money, the natural inclination to avoid risk is powerful. How much risk are you willing to take? There's no right answer. It depends on you. If you are a risk seeker, you may not mind risk. You may actually embrace risk and uncertainty. But if you're like most people, the more risk you can eliminate, the better.

You could avoid risk entirely by putting your money in a savings account, but such an investment would bring relatively little profit. The lure of short-term trading is that you have the potential to make huge profits. The downside is the uncertainty and risk you must accept. The amount of risk you take is still up to you, however. For example, it is riskier to trade markets with excess volatility or very little liquidity, so avoiding them will help you stay calm if you have a low-risk tolerance.

Traditional approaches to risk control can also help, such as having a diverse portfolio. If you trade various stocks that have little correlation, you have some insurance that a drop in one stock may not automatically coincide with a drop in other stocks in your portfolio. But no matter how much you try, you must decide how much risk you are willing to take.

Perhaps the most unnerving aspect of risk in the markets is the fact that it is impossible to know all possible risks upfront. Who knows what will happen? There are many events that you just can't control. For example, a media analyst may talk up or talk down a stock you're trading and it may thwart your trading plan. An unexpected national event may influence the markets in ways that you hadn't anticipated. And when it comes to selling off a position, you may not get the price you want at the moment you're trying to sell. And then there are more basic problems that hamper your plans, like a computer crash or a DSL line going down. In the end, you must psychologically accept the fact that there are some risks that you can't control.

You may not be able to completely avoid all possible risks, but you can take steps to reduce risk. For example, by setting a stop loss you can determine how much loss you are willing to take. It may take some skill to know where to place the stop loss so you won't get prematurely -stopped out,- but in principle, you can reduce your risk by deciding a point where a loss is great enough that you would rather close the trade than continue. You can also reduce risk by avoiding thinly traded stocks.

Even the most brilliant trading plan will fail if there aren't enough buyers and sellers to make it work. Reducing risk can be a matter of choosing the right stock. And if you are especially risk-averse, you can stand aside until there is a strong bull market. But whatever you decide to do, always remember that you have choices. You can decide how much risk you want to take. By matching the amount of risk you take with your tolerance for risk, you can trade more calmly, and that usually means you'll trade more profitably.

Taking Risks and Reaping Rewards.

In -The Aviator,- Howard Hughes isn't afraid to take risks. As a young man, he produced innovative big-budget movies, made groundbreaking business deals, and set new aviation records. With the risks he took, he reaped enormous rewards, but he almost lost it all because he went a little too far. Although risks are a necessary part of trading, it is vital for your long-term survival that you never forget about potential harm, and whether or not you can survive should you lose.

Two interesting scenes in -The Aviator- portray an interesting aspect of risk. In the first scene, Hughes sets a new speed record. He takes his plane to the limit but crashes into a beet field after running out of fuel. He survives to fly again. In the second scene about risk, he tests a new spy plane and ends up crashing into a mansion in Beverly Hills. In this final crash, he ends up addicted to painkillers, which in turn led to his personal, psychological downfall. The crash scene is dramatic, and after watching it, you can't help but think that there are some disadvantages to taking risks that are a little too big.

Trading is risky. You often hear of famous traders who, today, are out of the business. In the end, you have to find the right balance between taking necessary risks and making adequate profits. You can take small risks and you'll be profitable. For example, you can carefully pick out stocks in companies that will always make a profit and use a buy-and-hold strategy to make steady returns. However, if you want to make the big profits of a short-term trader, you must be willing to take greater risks. And as a master trader will tell you, making greater profits often requires pushing yourself to the limits when you have the opportunity to really take home the profits. There are times when everything clicks. You read the markets clearly, and you see how you can make some very profitable trades. At these times, you need to take advantage of your run of good luck.

At these times, seasoned traders take bigger risks than usual. They may feel that it is worth taking a bigger risk than usual in order to take advantage of rare trading opportunities that will produce greater than usual profits. For example, if you hear some news that there will be a severe oil shortage tomorrow, and no else, even the media, has the information, it may make sense to capitalize on this information and risk a lot of your capital. The rewards are likely to pay off. But there are no guarantees. Whether you decide to take such a risk depends on your personal risk tolerance. People differ in their ability to tolerate risk. Some people are fearless; others like to play it safe. It is necessary that you discover the level of risk that you are willing to tolerate, and trade accordingly. Too much risk can lead to a hard fall, but if you are willing to take risks, even when danger lurks around the next corner, you'll make the big profits that only a select few ever realize.

Risk Seeking: A Lack of Discipline May Be Personal.

A trader must have discipline. One must develop a scrupulously detailed trading plan and strictly follow it. The more detailed the trading plan, the better. When every single detail is carefully spelt out, from when to enter to when to exit, it's easier to follow the plan and stick to it. One of the main reasons that traders lack discipline is that they try to follow a trading plan that is just not detailed enough. Too much of the plan is left unspecified, and usually, a trader enters or exits at the wrong time.

Most people can learn to be disciplined, however. Through training and practice, almost any trader can learn to carefully plan a trade and follow the plan. That said, there are some traders who are sensation seekers. They crave excitement. Trading gives them a thrill. Even with extensive practice, it may be hard for them to follow a plan, no matter how hard they try. It's useful to determine if you are one of these people. If you are a sensation seeker, it's important to identify this potential problem and work around it.

Sensation seeking is just one of many personality traits that may prevent some traders from following their trading plan. Sensation seeking is a term coined by psychologist Dr Marvin Zuckerman at the University of Delaware. According to Dr Zuckerman, sensation seeking is a powerful need for varied, novel, and complex sensations and experiences.

These needs are so strong that the sensation seeker is willing to take physical and social risks for the sake of such experiences. Sensation seeking is related to the fight-or-flee response, a very primitive biological response in which animals must either fight an aggressor or flee to safety. Most of the time, humans control the fight-or-flee response in order to follow social conventions.

People aren't lowering animals living in the wild. In order to get along and get ahead in society, they must learn to inhibit this base level fight-or-flee response. The ability to inhibit this response, according to Dr Zuckerman, has significant genetic components. Dr Zuckerman claims that specific areas in the brain are responsible for the inhibition of the fight-or-flee response, with some individuals able to inhibit this response more easily than others.

Sensation seeking consists of many different facets. People who are prone to sensation seeking tend to crave new and exciting experiences. These new and exciting experiences are often non-conventional and usually illegal; examples include spouse-swapping, illicit drug use, and heavy drinking. Sensation seekers get bored easily and seek out new and exciting experiences to combat boredom.

Sensation seeking is not necessarily a bad trait. Indeed, moderate levels of sensation seeking in specific contexts can be beneficial. Sensation seekers tend to be unconventional. They are not afraid to seek out new experiences and are usually original and creative. They are likely to make new discoveries or break new ground. This independent streak can be useful for trading, where independent decisions and the ability to break away from the masses are crucial.

Traders who tend to seek out interesting and novel experiences can more easily tolerate the stress associated with unknown market conditions or the uncertainty of a new trading method. It's adaptive to be a sensation seeker at a minimal level, but at an extreme, sensation seeking can be problematic. For example, when it comes to trading, extreme sensation seeking is often associated with a lack of discipline and impulsive decisions. But trades must be executed in a calm and rational manner.

The person who is high in sensation seeking may feel a need to put on trades for excitement or may get bored easily while monitoring trades, and make an impulsive decision to ease the boredom. Scientific studies have shown that individuals high in sensation seeking enjoy risky gambles; they place higher bets than individuals low in sensation seeking just to get a thrill. Unnecessary risks often spell disaster when trading.

It's important to identify whether you a sensation seeker. Do you seek out unnecessary risks? Are you a thrill-seeker? Do you crave excitement? Are you easily bored and see trading as a way to spice up your life? A moderate amount of sensation seeking can be useful for trading, but at an

extreme, it can hamper success.
You may need to take preventative measures if you are a sensation seeker, such as using the automatic settings on your trading platform to enter and exit a trade according to your trading plan or place an order with a broker. It's vital that you determine whether you are a sensation seeker. And if you are, find ways to work around this issue before you make too many risky trades that quickly wipe out your trading account.

Security or Excitement: Which Do You Prefer?.

Would you rather have a job that pays a low salary but provides a steady income or a high paying job that may not be around next year? The answer to this question reveals a lot about your preferred trading style. If you are like most short-term active traders, you don't mind exchanging a little bit of security for a higher salary. Compared to typical jobs, trading in the short-term is risky, and one of the main factors influencing your preference for risk is your overall feeling of confidence and security.

If your overall confidence is easily compromised, and if you strongly need to feel safe and secure, you'll have difficulty trading in the short term. You'll often feel anxious and uneasy. Can you build up risk tolerance? Yes, but it depends on your psychological makeup. The need for security is often based on early childhood experiences, and for some, can be difficult to change.

Money and security go hand in hand. The more money we have, the more easily we can acquire food and shelter. When our money is on the line, it's understandable to also think that our sense of safety and security is on the line. But what is a mere monetary loss to some can feel like a threat to safety and security to others. Losses take on a greater personal significance when your self-confidence is on shaky ground. For some traders, self-doubt, fear, and uncertainty may go back to the early bond formed between parent and child.

Early parent-child relationships can shape people's expectations, especially the extent to which a person feels safe and secure. Many people who feel confident and secure tended to have parents who provided what psychologists call a -secure base.- Parents and loved ones were dependable, reliable, and available. This allowed the child to explore the uncertain and terrifying outside world in a carefree manner.

They knew that if they encountered fear, they could quickly return to their -secure base- and gain comfort and safety. Other children felt less safe and secure. Their parents were less caring and reliable, and thus, they were fearful of leaving their parents' side because they didn't believe their parents would be there when they returned. They were afraid to venture out, did not learn to cope with uncertainty, and in adult life tend to unrealistically expect failure and rejection. Taking risks as adults is especially fearful.

People that are the most comfortable taking risks always felt safe, as children and as adults. It's as if they feel significant loved ones are always there with them to provide safety and support. That said, there are also risk-seeking gamblers. People who had parents who were psychologically absent also take risks. They tend to have a -who cares- approach to life. They may be able to take risks, but they don't have the discipline to develop specific plans and follow them. Many people fall somewhere in the middle. They can take a few risks, but they are often undisciplined. The lack of discipline usually reflects fear. They fear loss and hurt, and over-react to setbacks. A losing trade has a greater symbolic meaning: it is a loss of safety and security.

If you have low-risk tolerance, how do you beat it? First, you have to be realistic. If you are afraid to take risks because money represents safety and security, you'll have to make small trades and carefully manage them. Second, you may also have to adjust your trading style to match your personality. Some people with major risk tolerance issues prefer long term investing; when done properly, it can be less risky.

You can identify stocks that are relatively stable and increase in value over the long term. You won't make as much with this approach, but your emotions won't be as wobbly. You'll feel calmer, and enjoy trading the markets. Third, you may want to work a stable job on the side to pay basic living expenses. If you know that your basic living expenses are relatively secure, you'll feel more comfortable -moonlighting- as a trader.

Winning traders have high levels of risk tolerance. If you have trouble taking risks, you'll have trouble trading the choppy, volatile markets in the short term. You won't feel comfortable, calm, and secure. And you'll likely make trading errors. But that doesn't mean you have to stop trading. You just need to be aware of your personality and work around it. If you match your trading style to your personality, you'll make profits in the end.

Rock Solid Confidence.

The winning trader doesn't care what anyone thinks. Trading is about him or her, the markets and nothing else. The only opinion that counts is his or her own. There is freedom in holding such an attitude. Rather than living up to others' expectations, the winning trader looks inward, trying to satisfy personal standards instead of those imposed by the outside world. By only looking inward, rather than outward, the winning trader has rock-solid confidence. He or she doesn't waver when faced with seemingly impossible challenges. He or she is stable, calm, and objective, even under the most chaotic market conditions. By looking inward for direction, you can develop the sense of unshakable confidence of the winning trader.

Looking inward for guidance and direction is unnatural for many people, however. Throughout most people's lives, significant others have tried to place conditions on whether one will receive approval or disapproval. Parents imply, -I'll love you, but only if you do what I say.- Teachers warn, -I'll give you a good grade if you follow my instructions,- and supervisors control workers by saying, -I'll give you a good performance evaluation if you meet my expectations.- It is reasonable to start looking toward others for a sense of personal value. For some people, the need for recognition becomes extreme, though. Some people let others define their self-worth.

If others give them approval, they feel good. But if they meet with dissatisfaction, they feel poorly about themselves. Over time, one may get into the habit of looking toward others for approval. Some traders, for example, may even be motivated to trade in order to gain approval. They may think, -If I can make a fortune trading, I'll get the love and respect I've always wanted.- Although such thoughts may be motivating, they can be a hindrance to profitably consistent trading. First, one is often disappointed to find that money isn't usually associated with respect and approval.

And even when it is, most people find that they never get the level of respect that they had hoped to find. In the end, one usually becomes disappointed and loses the motivation to trade over the long term. Second, if you tie your winnings to your self-worth, you put an extreme amount of pressure on yourself to perform. And when the stakes are that high, one usually chokes under the strain. Trading is difficult enough as it is. Putting on extra pressure makes a challenging task almost impossible.

Rather than look outward toward others for a sense of self-worth, it is vital to look inward. The only opinion that should matter is your own. Trade because you find it personally rewarding, not because you think you'll eventually gain approval from others. Focus on the immediate experience of trading. You'll find it more enjoyable, and feeling a need to live up to societal expectations about what is -right- or -wrong- won't distract you. If you allow yourself to set your own personal standards, you'll feel a sense of freedom, and this sense of freedom will allow you to trade effortlessly and creatively.

So avoid looking toward others for approval and self-definition. The more you can look inward, and think independently, the more you'll trade consistently and profitably.

Rogue Trader: Hiding Out From Yourself and Others.

The movie -Rogue Trader- illustrates how psychological motives can be the downfall of any trader. Nick Leeson was a young trader out to prove himself. His trouble started when a young member of his trading team mistakenly bought contracts when she was supposed to sell them.
The mistake was obviously a small financial disaster. To save her job, Nick decided that he could make up the losses without his superiors knowing about the mistake. He succeeded, but his short-term financial triumph set a bad precedent. Nick erroneously thought he could repeatedly make a big financial loss, cover it up, and make up the losses later. But Nick's actions eventually led to the downfall of Barings Bank, an institution with a glorious past, including the financing of the Napoleonic Wars, the Louisiana Purchase, and the Erie Canal.

As general manager of Barings future trading operations in Singapore, Nick bet Japan's stock market would rise. But it slumped after the Kobe earthquake. During the slump, he doubled his bets hoping to recoup his losses. Every loss was hidden in a secret -error account- so his office would always appear profitable. As the losses grew Leeson acquired extra funds by various means, sometimes illegal, to continue trading. He hoped against hope that he could turn it all around.
In the end, he struggled with his own demons: He wanted to please his working-class parents, persuade his beautiful wife that he was successful, and please his superiors, allowing them to think he was a trading genius. The tale of Nick Leeson is dramatic enough for a movie plot, but it also exemplifies the very human need to win, even when it means fooling ourselves and others.
Many times, we are so desperate to win that we deny our shortcomings, and believe that we can do anything. But, in the end, we are merely hiding from ourselves and others. It's a common ailment, large corporations don't want to see how poorly things are going and stay on a failing course of action. And individual traders and investors similarly have difficulty seeing financial problems.
It's vital to stay brutally honest. Everyone makes losing trades, and when you make a losing trade, it's useful to remind yourself that if you identify the problem quickly, you can climb out of a seemingly bottomless pit. Nick Leeson should have followed this advice. At one point he was -merely- in millions of dollars in debt, but because of his denial, he ended up losing hundreds of millions. The same thing happens to everyday traders; a -mere- $10,000 loss could end up as $100,000, either from one trade or a series of trades over many years. It's vital to monitor your trades and face how much you are making or not making.
It may hurt at first, but it is important to remember that things could be worse, and if you take decisive action early, you can prevent them from getting worse. So don't hide from yourself or others. Go your own way. You have no one to please but yourself. So what if you don't live up to your expectations? Lower them, and feel good about yourself and what you have done, no matter what it is. And don't try to save face. Don't hide from yourself or others. Face the facts, take decisive action, and solve any problem that comes up as quickly as possible. In the long run, you'll end up profitable, and successful.

Don't Get Stuck in a Rut: Get Out Fast.

Trading demands rock-solid confidence. You'll tend to see many more losing trades than winning trades. And when you hit upon a short losing streak, it is vital that you don't get too bogged down. Consider the plight of Jim. He has made losing trade after losing trade. He has panicked and is starting to think negative, unproductive thoughts. -Why am I suddenly losing? What am I going to do? I don't think I can get out of this.- A bad mood after a string of losers can work as a vicious cycle. You feel a little upset, start thinking things are worse than they really are. You get a little more upset, picture your situation as even worse, and so on and so on until your future looks bleak and hopeless. Before you get stuck in a rut, it is essential that you get your self out of it, and do it fast.

A series of unexpected losing trades can make almost anyone's confidence waver, especially if it takes you by surprise. But there is a lot you can do to break the cycle of an ever-increasing sense of hopelessness. Just like having a specific trading plan, it is useful to have a plan for getting out of a bad mood. First, remember that your mood can often operate as a cycle, in which your memories of past failures can worsen your mood and that, in turn, can make you remember additional past failures, which in turn can worsen your mood.

You can break the cycle by remembering to take active steps to stop it. The second step to take is to actually intervene. Tell yourself positively, optimistic statements, such as, -This is just a minor setback. I can recover from it. It is no big deal.- Third, remember past successes. There are many times when you were in a slump and you came out of it quickly. It is useful to write these past triumphs on an index card. Take it out of your pocket after a set of losing trades and read it over. It will do wonders to restore your mood.

Don't let a minor slump turn into a major one. It is easy to let an insignificant setback turn into a major incident unless you anticipate it and have a specific plan for recovering from it. By preparing for possible wavering confidence by having a plan for restoring your mood, you can trade in an optimal mood state. And in the long run, you'll trade more profitably.

Self-Sabotage: Identify the Tendency Early.

Sometimes we are our own worst enemies. Many traders believe that there's a strong tendency to sabotage our own efforts. Consciously we want to succeed, but unconsciously our psyche wants to fail. Well, for a few people at least. If a person has a deep-seated need to fail, there's little that can be done without professional counselling. For most people, however, the tendency for self-sabotage isn't as fatal. It lies just below the surface of our consciousness and we can identify and reduce its impact if we look hard enough. It's vital that you identify whether or not you may be secretly trying to sabotage your efforts, and if you are, take steps to make sure it doesn't get the better of you.

The most common reason people sabotage their efforts is that they are secretly doing something that they don't actually want to do, or they are afraid to honestly face the realistic consequences of their actions. Some people may trade for the wrong reasons and they secretly know it. For example, many novice traders may have been attracted to trading in order to earn substantial profits quickly and achieve a higher standard of living. Unfortunately, trading isn't -easy money.- It takes a great deal of time and effort, and the big payoffs for all the hard work may not be realized for several years.

In addition, substantial investment capital is required to trade successfully. One cannot plan on making enough money to survive from a $5,000 account. Although some novice traders refuse to admit it, they know that it is unlikely that they will be able to achieve their objectives. They are secretly discouraged and want to quit trading. It's unfortunate. There's a good chance that they will sabotage their efforts by making trading mistakes because they secretly know they will likely fail, and they want to speed up the process and just get the worst of it over with as soon as possible. They will eventually lose their $5,000 and mistakenly believe that trading profitably was a pipedream. In contrast, if they had acknowledged that it was unlikely that they could have turned $5,000 into huge profits, they could have taken specific steps to gain the education and experience they needed to eventually become a consistently profitable trader.

They could have used their $5,000 to take trading classes or pay a trading coach for instruction on how to trade. They could have taken an extra job or could have budgeted their money carefully, in order to earn additional trading capital, so they could actually have enough money to cover drawdowns and commissions and survive the learning curve.

The point is that if one doesn't acknowledge that one may not actually believe he or she will be successful, it is likely that he or she will fall prey to self-sabotage. If, on the other hand, one faces the unpleasant reality that trading may be harder than he or she had thought and that success isn't likely to come easily or soon, specific action steps can be taken to develop a long term plan for achieving lasting profitability.

Make sure that you aren't sabotaging yourself. Acknowledge your limitations. Don't secretly hide from them. If you can be brutally honest about the actual chances of success, you can take active, decisive steps to achieve your long term objective of becoming a winning trader.

The Right Place at the Right Time.

Over the three-day weekend, Jim received a call from his friend Andy. -Hi Jimmy, did you take a look at Google last week?- Jim replied, -It was a rough week for my short positions. I didn't anticipate the buying surge and it hurt me a little. No, I didn't look at Google closely. I was caught up trading my own positions.- Excitedly, Andy says, -Well, on Monday I bought at 345 and sold at 370 on Friday. I made almost $4000 on that one trade alone.- Have you ever received a call from a friend in the trading business bragging about a great trade that he or she made? If you aren't doing as well, and can also bask in the glory of success, it's hard to avoid feeling a little resentful, envious, and somewhat disappointed in yourself. You may think, -It's just a matter of being at the right place at the right time, and unfortunately, I was at the wrong place at the wrong time.-

Trading can indeed be a matter of luck. When events aren't going your way, you can get thrown off, and become overly consumed with how poorly you are doing, that you can't think clearly. Trading the markets skillfully requires a clear, focused mindset, however. You can't get thrown off. But when your money is on the line, it's hard to think clearly. There's a powerful human need to trade with perfection. You want to be at the right place at the right time and make a huge win.

One of the worst fears of many traders is missing out on a significant trading opportunity. It's natural to want to search for a once in a lifetime trade and make a year's worth of profits in a day. But constantly searching for such trades can be distracting. You spend the majority of your time searching for the ultimate trade setup, and when you do that, you start placing demands on yourself that you just can't reach. You think illogically. You lose focus, and you can no longer think clearly and astutely.

Ironically, if you become overly consumed with being at the right place at the right time, you will probably be at the wrong place at the wrong time. You won't think freely and creatively, and you will miss the potentially profitable opportunities right in front of you. From a god's eye view, they may not be the absolute best opportunities out there, but they may be good enough to profit from. If you devote all your effort to trading them, you will make profits. Remind yourself that you don't have to be perfect.

You don't have to trade the best opportunities at all times. You just need to trade the best way your know-how with the resources and opportunities you have available to you. You need to trade freely, rather than stagnating under the pressure to trade to perfection. Trading can be a matter of probabilities. Sometimes you'll be at the right place at the right time; at other times you won't. That's all right. If you are consumed with perfection and finding the ultimate trading opportunities, though, you will tend to put off making trades. And when you don't trade, you can't make profits. So don't limit yourself. There are many opportunities out there for you to take advantage of. The more trades you make, the more likely you will increase the odds of success, and take-home profits.

Rosy Glow Optimists Versus Defensive Pessimists.

Is being a pessimist all so bad? Popular inspirational books, such as The Power of Positive Thinking imply that optimism is -good- and pessimism is -bad.- This view sometimes extends to professional psychology as well. For example, Dr Martin Seligman argues in his book Learned Optimism that success is associated with optimism. Optimists are more likely to persist when faced with severe setbacks, while pessimists tend to give up easily, after only a minor setback.

Dr Seligman originally studied clinical depression, a chronic form of pessimism. It's his life mission to teach chronic pessimists to be optimists, and that is a noble endeavour. However, optimism may be a problem for traders, rather than an asset. Indeed, Dr Terrance Odean, a behavioural finance researcher, argues that traders seem to be too optimistic and too overconfident.

They tend to take risks that they should not, ending up with lower amounts of capital than if they had been a little less optimistic. This controversy can't be resolved easily, but let's consider some scientific evidence that suggests that pessimism is not necessarily a bad thing.

Dr Nancy Cantor studied two groups of people she called the rosy glow optimists and the defensive pessimists. University of Michigan students were followed throughout the semester. At the start of the semester, participants were asked to predict their end-of-semester grades, and throughout the semester, they reported their emotions on a daily basis.

Rosy glow optimists viewed academic tasks as challenging but not especially overwhelming. Defensive pessimists, in contrast, viewed academic tasks as difficult and as the cause of unpleasant stressful emotions. They believed that they would not achieve good grades unless they put in a lot of effort. They underestimated their performance, setting defensively low expectations despite stellar academic performance in previous semesters. Holding a pessimistic outlook seemed to prevent them from becoming overly confident and straying from their disciplined study schedule.

Throughout the semester, defensive pessimists felt greater stress and anxiety than rosy glow optimists. Interestingly, this pessimistic outlook was not debilitating. In fact, among the pessimists, unpleasant emotions were correlated with higher grade point averages at the end of the semester.

But, overall, defensive pessimists did not differ from rosy glow optimists. That is, pessimism did not have an adverse influence on performance.

Under the right circumstances, and for certain people, pessimism is beneficial. Considering that several studies in behavioural finance have shown that traders tend to be over-confident, it may be useful to question one's confidence occasionally. Ask yourself, -Am I really certain that this trade is going to be successful, or am I taking an unnecessary risk?- -Have I put in enough time and preparation into this trading plan?- It couldn't hurt to use a little caution. Sometimes, a little pessimism is not such a bad thing.

Risk Tolerance: How Much Safety Do You Need?.

How would you prefer to spend your weekend? Would you like to go skydiving or visit the museum? If you fit the stereotype of a short-term trader, you would prefer to go skydiving to the museum. But stereotypes may be inaccurate. If you are disciplined and careful with your money, you may very well prefer the museum. It all depends on your personality. Some people seek out risk, while others prefer security and certainty. People with both kinds of personality styles can learn to trade. It's just a matter of finding the right fit between your personality style and your trading style.

How much safety have you preferred throughout your life? When you were in high school, were you nervous on dates? Were you afraid to take a risk? Did you try to keep a low profile? The extent to which you seek out risk or run from it may go back to your early childhood. Some parents provided such a safe and secure environment that their children had no fear of venturing out into an uncertain world. Other parents were absent emotionally, and their children were fearful and anxious about what they might have to cope with. These early experiences can continue to influence adult decisions.

This isn't to say that just because you were fearful as a child that you would be risk-averse as an adult. It's possible to overcome your early childhood experiences, but it isn't easy. It's possible that under enough stress, especially the extreme stress in the trading arena, you could revert to your childhood personality. You may have a deep-seated tendency to avoid the risk that is unexpectedly stifling you in the heat of battle.

In the end, the only way you can determine your tolerance for risk is to gain experience with the markets. Some people have little difficulty risking large amounts of money. They make big trades and take losses in stride. Other people have trouble taking even a minimum amount of risk and prefer long-term investments. No matter how they try to overcome their anxiety about risk, they cannot.

If you find financial risks difficult to handle, you'll feel calmer if you minimize risk. Some basic ways of managing risk are to have a well-formulated trading plan. Determine how much risk you are taking upfront and decide if you want to actually take that risk. For example, you could look at the fluctuation in price for the past two months (if you are a swing trader, for example) to estimate what the change in the next week or two might be. You could also make sure you use protective stops to minimize risk. And you could risk only a small portion of your account on a single trade.

If you truly feel that risk is at a minimum and bearable, you will feel safe and relaxed. If you still feel a little uneasy, you might have to restrict your trading to long term investing. Long term investing is less risky if you choose a stock that is likely to go up over the long term. As long as you don't look at it every day, and get bothered by the daily or weekly fluctuations, you'll forget about your investment and more calmly wait for the price to go up over the long haul. You will feel safe and secure since you can easily convince yourself that the price will eventual reach your target objective if you wait long enough.

Your trading personality may dictate how you trade, but it does not need to dictate whether you should trade. As long as you assess your personality, and match your trading style to your personality, you will feel calm and secure. And when you feel relaxed, you'll think rationally and decisively, increasing your chances of success.

Relatively Safe Trading.

Humans don't like taking chances with their money. If given the choice, they would take a sure thing rather than a gamble, even if it meant making relatively little profit. What do you think most people would do, take $100 right now or take a gamble in which they would either receive nothing or $200? Most people would take the $100 but would you? If you trade the markets as a short-term trader, you would be willing to take a risk, but there is still a voice deep down that yearns for a safe, sure bet. And the best way to make it safe is to anticipate all possible adverse events and create a trading plan to let you feel a little safer and a little more relaxed.

How can you cultivate feelings of safety? First, trade with money you can afford to lose. Second, trade positions that are so small that you may think, -What's the point of even putting on the trade.- If you can minimize the personal significance of a trade, you will feel safer and at ease. With a minimal psychological stake on the line, you have almost nothing to lose, and you'll feel less pressured. If you make sure that you limit your risk as much as possible, you'll know it and you will feel safer.

If you lose big on a single trade, it will take many more trades to build your capital back up to the previous level. You know this as a fact and it makes you feel uneasy. If you also know, however, that you've taken precautions, you feel better. It's also essential to learn to cut your losses short. Don't get stuck in a losing trade. Don't hope that it will turn around. Just sell the loser quickly. Controlling risk will not only make you feel safe and secure, but it will also ensure your longevity as well.

It's also important to trade with a detailed trading plan. Before you execute a trade, specify precisely how and when you will enter, the signals that indicate the market may be going against your trade, and how and when you will exit. Many traders feel anxious and uneasy because they don't carefully plan their trades. They impulsively execute a trade and then think they can develop the plan as they go along.

What usually happens, though, is that they panic easily because they don't know what to do and when to do it. It's hard to think on your feet, especially when you are taking risks. A safety net helps you feel better. And a detailed trading plan is one of the best safety nets you can have. The more clearly the plan is laid out, the easier it is to follow. And when the plan is easy to follow, it's likely that you'll stick with it. You'll be disciplined and in control of your emotions and thought processes.

It's impossible to find stocks that are guaranteed to increase in price, so when we trade, we always carry with us a feeling of uneasiness. We don't have to let these feelings of uneasiness overwhelm us. By taking precautions, we can feel a little safer, a little surer, and trade a little calmer. And these feelings can make all the difference between winning and losing.

Detailed Trading Plans: The Ultimate Safety Net.

Market decisions are often driven by fear and greed, especially for the novice trader. When your money is on the line, it's natural to feel fearful when the market goes against you. Anything you can do to prevent your initial worries from escalating into debilitating fright will help you stay objective and rational. Just as a tightrope walker feels a sense of security by using a safety net, you should take specific steps to protect your financial assets. The two best ways to protect your financial interests are with a detailed trading plan and risk controls.

When it comes to risk control, a few old adages seem particularly appropriate: -Trade with money you can afford to lose. Trade positions that are so small that you may think, What's the point of even putting on the trade.'- The basic message is that if you can somehow minimize the personal significance of a trade, you will be better able to control your emotions. Since you have a less psychological stake on the line, you have almost nothing to lose. You may not need to follow these old adages verbatim, but you can follow the basic message.

Make sure that you limit your risk as much as possible. If you lose big on a single trade, it will take many more trades to build your capital back up to the previous level. It's vital for survival to limit the amount of capital you risk on a single trade. It's also essential to learn to cut your losses short. Don't get stuck in a losing trade. Don't hope that it will turn around; just sell the loser quickly. Controlling risk will not only make you feel safe and secure, but it will also ensure your longevity as well.

It's also important to have a detailed trading plan. Before you execute a trade, specify precisely how and when you will enter, the signals that indicate the market may be going against your trade, and how and when you will exit. Many novice traders don't carefully plan their trades. They impulsively execute a trade and then think they can develop the plan as they go along.

What usually happens is that they panic easily because they don't know what to do and when to do it. It's hard to think on your feet, especially when you are first learning to trade. One needs a safety net, and that safety net is a detailed trading plan to follow. The more clearly the plan is laid out, the easier it is to follow. And when the plan is easy to follow, it's likely that you'll stick with it. You'll be disciplined and in control of your emotions and thought processes.

There's no need to be a daredevil. Don't be ashamed to use a safety net while trading. Control your risk and follow a detailed trading plan. If you follow these guidelines, you'll achieve the long-term profitability you deserve.

Running Hot and Cold.

Have you ever looked at the performance records of top hedge fund managers? It's interesting to see how much they fluctuate month to month. Sometimes they may be up 15% while at other times, they may be down 10%. I'm sure the investors in their funds are a little uneasy when they see these dramatic shifts in performance, but such fluctuations are a fact of trading. Part of this fluctuation depends on market psychology. If the market is moving in a clear direction, either bullish or bearish, a skilled trader knows how to make profits from these trends. That said, another part of the equation is psychological. And in the end, it's the psychological part that tends to be the death of most traders.

Trading can often be a matter of odds. Flip a coin 100 times, and half of the tosses will be headed. But there is the strong possibility that you'll encounter a long string of tails that far exceeds your expectations. From the vantage point of pure probability, you could end up with a drawdown just as a result of pure chance. It's at these times that the winning trader shows the proper mindset. Rather than panicking or over-interpreting the slump, a seasoned trader expects such runs of bad luck. Winning traders view such events as a challenge to master, not as something to worry about. It's a time for them to reevaluate their strategies.

They may close out trades to remove some of the psychological heat and try to look at the circumstances more objectively. Whatever they do, though, they don't panic. They look at the incident as a time to be creative and innovative. Ironically, when it comes to profits, a winning trader can run hot or cold. But psychologically, a winning trader is always running hot. Their minds are always churning. They have extensive knowledge and experience, and this gives them the rock-solid confidence to know that in the end, they will come out as winners.

Understandably, novice traders have wavering confidence. They don't have the experience to deal with adverse events easily. In the back of their mind, they wonder, -Is this setback really meaningful, or am I making too much out of nothing?- It's reasonable to second-guess one's abilities when you're a novice. Novice traders tend to make trading errors at the wrong time or misinterpret market events.

And there are times when they make matters worse by over-interpreting setbacks as disasters and panicking. In other words, they may run hot occasionally, but novice traders tend to react with less discipline than is needed. The lesson here: Accurately gauge your trading skills and trade accordingly. If you're a master trader, then it's important to trust your instincts. But if you are a novice trader, it's prudent to be a little more cautious.

Don't trade beyond your skill level. Realize that you may not have the experience to trust your instincts unconditionally. Trading takes experience and practice, and until you reach the status of a master trader, manage your risk, take it easy and hone your trading skills. Running hot or cold can be seen as a state of mind. If you are taking decisive action that is reasonable and will lead to enduring success in the end, then psychologically, you are running hot.

The Rush of the Pit.

The pits at the exchange are exciting. Traders frantically move about the floor, buying and selling. It's exciting to watch. You can feel the energy and it can psych you up just by watching. Well, that depends. Some people may find it noisy and anxiety-provoking rather than energizing. The frantic motions of the traders may put them on edge. The environment in which you trade does make a difference. Everyone has his or her own personality and preferences. Some may seek out hustle and bustle while others may prefer quiet serenity. It's important to decide which environment you prefer and create an environment conducive to your style.

There isn't just one right way to trade. Some people prefer constant action while others prefer a quiet, meditative approach to trading. Some traders prefer to do extensive backtesting in a serene atmosphere. They love to just quietly sit by themselves and study charts. When it comes to placing the trades, they may actually call a broker rather than place the trade themselves. Indeed, some professional traders who prefer concrete, data-driven approach to trading actually dislike placing trades. They prefer to call a broker to place the trade. To them, the enjoyment of trading is in developing a sound strategy, rather than taking the action to place the trade. Again, there's no one right way to trade. What is right for you may not be right for someone else. It's just a matter of knowing what you prefer and matching your trading style to your preference.

Other traders take a more action-oriented approach to trading. They prefer to think intuitively. Sitting around searching charts bores them. They like noise and excitement. They may actually turn on CNN to give them a sense of the trading pits.

The environment you decide to trade-in is critical to your success. Some prefer a quiet environment where they can think clearly. Others need action and excitement. Which do you prefer? Whatever environment you find helps you trade with an optimal mental edge is the one that you should cultivate.

Caught in a Psychological Slump.

Jack is stuck in a severe psychological slump. He has been making losing trades all week. He feels frustrated and he just doesn't want to make another trade. He thinks, -Why bother trying again? I'll just lose even more money. I want to give up.- Jack is developing a -psychological complex- about his trading. He is placing too much significance on the trades he is about to make. He is starting to make a big deal about trading events that should be routine. He is assuming that each trade has more meaning than it should; it is as if his self-esteem and identity are on the line with his money. It's making him especially anxious and emotional.

He can no longer think logically, and his confidence is severely shaken. He can't face trying to make it through another trading day. When one is in a severe psychological slump, it's hard to trade efficiently. One is likely to make trading errors and intensify trading problems. Sometimes the psychological slump will go away after a few days of standing aside, resting, and allowing one to rejuvenate naturally. But there are other times when the slump just doesn't go away. A trader's confidence wavers, and fear, self-reproach, and hesitation colour one's perceptions. At these times, it is vital to take proactive steps to break out of a debilitating psychological slump.

It is a mistake to underestimate the powerful influence of a profound psychological slump. When you are in such a slump, it may be difficult to break out of it. You may be vulnerable to disappointment to the extent that even the slightest setback can make you feel a sense of bleakness. If you passively hope that you'll recover, it may be a long time before you regain your optimistic composure.

It's wise to take an active, problem-solving approach. First, it is especially important to trade with a detailed trading plan. If you leave trading decisions up to your discretion while in a pessimistic mood, you'll be more likely to make trading errors and make impulsive decisions. If every aspect of your trading plan is clearly specified, however, you can follow it even when your mood is a little off. But it must be clearly defined. You must know when to enter and when to exit. And most important, control your risk. If you know that it is relatively little you can lose on a given trade, or a series of trades, then you can more easily feel calm as you try to regain your optimism.

Once you have a well defined, viable, and realistic plan, you can then work on your attitude. When you're in a psychological slump, it is important to acknowledge that you are especially vulnerable to setbacks and use positive self-talk to cultivate an optimistic mindset. Remind yourself that if you concentrate and just focus on trading your plan, you can more easily get through the trading day. But don't get your hopes up too much. It is still quite possible that you won't be successful at first. You will need to make many trades in order to get the law of averages to work in your favour. If you can keep making well-planned trades, however, you should be able to trade profitably again. The key is to take active, realistic steps rather than passively hope that things will turn around on their own. The more you feel you are making a positive effort, the more likely your mood will turn around. You'll feel empowered once again and the positive attitude will build until your confidence returns.

Trading is a challenging profession. All traders face a series of setbacks occasionally. There are also times when a series of setbacks can be so disheartening that it's hard to recover naturally. But by taking active steps to change your mood, you can work to rebuild your optimistic mindset and return to profitability.

Rumination: Don't Make Losses Even Worse.

Steve has just made a losing trade. Although he's only down 2%, he can't stop thinking about it: -What did I do wrong? How could I have prevented this loss? What am I missing here? What does this loss mean for me as a trader? What's going to happen next? Can I handle it?- Steve's a ruminator. He can't just let it go. He persistently mulls over the loss, playing it over and over again in his head. Ruminating about a past loss not only intensifies a bad mood, but a recent study by Dr Andrew Ward and colleagues demonstrates that ruminators are less satisfied, less confident and less committed to planned courses of action, compared to non-ruminators.

People differ on the extent to which they ruminate. Some people don't ruminate at all; they may deny or avoid thinking about their bad feelings, vent their feelings to friends and confidants, or take clear and specific action to change the circumstances that bring about the bad feelings. Whatever strategy they use, unnecessarily dwelling on the problem is not one of them. Ruminators, in contrast, repeatedly focus on the meaning, causes, and consequences of their bad moods. Engaging in these strategies usually intensifies the bad mood, adversely influencing problem-solving ability, attention and concentration. Such an approach isn't conducive to skilful trading, where a calm, relaxed, and focused problem-solving approach is crucial.

In their study, Dr Ward and colleagues diagnosed and classified university students as either ruminators or non-ruminators. Each participant was then asked individually to develop a specific plan to solve a pressing university-wide problem, such as how to solve a housing shortage. Participants were asked to present their plans to a member of a university planning committee.

In contrast to non-ruminators, during their presentations, ruminators were less satisfied, less confident, and less committed to their plans. In addition, they said in their presentation that they needed additional time in order to seek out new information and to revise their plans. In summary, those with a ruminative personality style were so debilitated by their rumination that they couldn't make a commitment to a specific course of action. Rather than moving forward, they were stuck and paralyzed.

As a trader, it's imperative that one quickly commits to a reasonable trading plan and takes decisive action. But some traders second guess their trading plan and hesitate, missing an important move in the market. The ruminative personality style may explain why some traders experience this malady.

Are you a ruminator? It's essential that you determine if you have this personality trait, and if you do, gain awareness of it, and make every effort to work around this problem. Self-awareness is key.

Once you know you have a problem with rumination, you can develop a plan to manage it. It's not easy to change a ruminative personality style; if you have one, you've probably developed the habit of ruminating about your emotions over many years. But this tendency can be controlled. Carefully monitor your thought processes, and when you find yourself ruminating, remind yourself that by doing so, you will intensify your bad mood and that in turn, will interfere with your concentration, and reduce your ability to think of creative solutions to trading problems.

Some psychologists suggest that a ruminative person immediately yell, -stop- when they find themselves ruminating. This usually halts the repetitive and incessant need to over-analyze one's mood. In contrast to a non-ruminator, questioning one's decisions and over-analyzing them isn't productive, and it is necessary to remind oneself that he or she is making no progress by doing so.

Over time, and through practice, it's possible for a ruminator to take quick and decisive action, instead of being paralyzed by a hard decision or a recent trading loss. So if you are a ruminator, don't make a trading loss worse by dwelling on it too much. Identify the problem, develop a method to control it, and don't let a ruminative style interfere with making confident, committed trading decisions.

Beliefs About Money: A Possible Source of Self-Sabotage.

Do you have trouble following your trading plan? Many novice traders do. They develop a plan with specific guidelines as to when to enter and when to exit. The night before it all seems so clear, what they are going to do and how they are going to do it. But when the markets open the next morning, they are persuaded by a little voice to throw the plan out the window.

It's a common ailment, and many times, people abandon their trading plans because they secretly don't want to make money as a trader. They don't know how trading fits into their lives. They question whether they should be trading, and they secretly believe that it is wrong to make money. If you have these beliefs, it is vital that you identify them, and change them, before they continue to sabotage your trading efforts.

Have you ever heard the saying, -Money is the root of all evil-? Writer and financial advisor Jerrold Mundis provides an interesting analysis of this belief and its veracity. Some people believe that money is corrupt and that anyone who has it is corrupt. Some people think that people with money are greedy, unprincipled, and insensitive and that it is cleaner, purer, and virtuous to live with only a minimum amount of money. Mundis argues that if you hold this belief, even if it in your subconscious, -you don't have a chance- to have money and live prosperously (Mundis, 1988; p. 43).-

Mundis notes that many people believe that the saying, -Money is the root of all evil- is a warning from the Bible, but the actual meaning of the Biblical passage is quite different. The Biblical phrase in the book of Timothy is, -The love of money is the root of all evil.- Mundis argues that it is the lust for and coveting of money for its own sake that is problematic. Money in and of itself isn't evil. Mundis points out that money isn't even real. It's a human abstraction. You can't eat money. You can't build a house with money. Money is just intangible currency we use to purchase concrete goods and services. What you do with money is up to you. If you want, you can build a homeless shelter or start a charity with the money you make. Money isn't evil. It's what you do with it that counts.

Some traders find it useful to set aside a portion of their profits for charity. It allows them to know deep down that should they do well as a trader, they can make a clearly defined social contribution. Other traders see trading as a way to take care of their family, a very noble motive. So if you are holding back because you believe that it is wrong to make money trading, it is important to explore this belief. Traders have many reasons to make profits in the markets. It isn't merely an aimless quest for money.

Professional traders have a rare talent and feel fulfilled because they express their talent by trading profitably. If you are trading merely to acquire money in order to gain fame and status, you probably won't last very long. But if you remind yourself of the more noble motives for trading, such as taking care of your family or making a social contribution with some of your winnings, you will feel more at ease as you trade. You won't think of yourself as -corrupt- or -indecent.-

It's vital that you look deep inside yourself and identify why you trade. If you truly believe it is what you are meant to do, you'll be more willing to put in the time and effort to hone your trading skills. The little voice in the back of your mind will be optimistic and upbeat. You'll think, -I'm doing the right thing.- Rather than sabotage your efforts, you'll cultivate discipline. You'll work hard, practice trading techniques, develop a solid knowledge base, and soon, you'll become a profitable, disciplined trader.

Discipline in Everyday Life.

The winning trader is a disciplined trader. Disciplined traders devise very detailed trading plans. And they use them. They don't prematurely abandon trading plans. Once a trade is executed, the disciplined trader patiently waits to see the outcome. The more you trade with discipline, the more profitably you will trade. How disciplined are you? If you have a problem with discipline, it is worth building up this skill.

Some people are highly disciplined and very self-controlled. Others are more impulsive. Extremely disciplined people scrupulously follow rules. They are careful to control their impulses, and may even have trouble letting loose. You know the type. They pay off their credit card bills every month and are never late for an appointment. They carefully plan every detail of their lives. Although these characteristics may be ideal for trading, there's a downside: Overly disciplined people tend to have trouble taking risks. They prefer a sure thing, but trading outcomes are rarely sure things. People who are overly disciplined don't make the best traders because they crave certainty, a kind of certainty that just doesn't exist when trading the markets in the short term.

Winning traders are the kind of people who tend to prefer living a little on the wild side. They may not recklessly seek out risk, but they don't mind it. Relatively speaking, they tend to lack discipline and self-control. Perhaps that's why so many trading books and coaches find it necessary to remind novice traders to practise discipline and self-control. How are your discipline and self-control? Do you have trouble sticking to your trading plan?

Do you long for more discipline and self-control when it comes to your trading? If you have trouble with discipline, you may want to try a stimulating exercise to increase your awareness: Observe your level of self-control in your everyday life and try to gain more control. How much discipline and self-control do you practice in your everyday life? Are you late for appointments? Do you spend more money each month than your budget allows? Do you frequently find yourself breaking promises?

It's not necessarily the case that a disciplined trader is disciplined in all aspects of his or her life, but it helps. The life strategies we use in everyday life may bleed over into our trading life. If you often overspend, overeat, or have an unrestrained need for pleasure, you may find maintaining self-control and discipline while trading a little more difficult than others. So try this exercise: spend a few weeks trying to control as much of your life as possible. Pick specific areas where you can gain more self-control.

Control your caloric intake, the money you spend, and time spent in leisure activities. See how well you do. It may change your reference point. You may soon discover that you rarely control your impulses, and can do much better. And this, in turn, may positively influence your ability to stick with your trading plan. It's worth trying. Discipline is the key to trading success. The disciplined trader is the winning trader. It's a skill worth honing.

The Doubting Trader.

It's almost impossible to have rock-solid confidence as a trader. Sure, some traders can't be thrown off track very easily, but it's natural to feel a little afraid occasionally. Let's look at some of the reasons that you might feel shaken. What the markets will do tomorrow or next week is far from certain, and you don't have a crystal ball. Your information is fallible. And without perfect information, you are bound to feel a little uneasy when your money is on the line. In addition, there's always a possibility that something may go wrong. A media analyst may hype a stock you are shorting. And what about trading strategies? You can perfect a trading strategy only to see it fail when market conditions change without warning. If you lose your confidence occasionally, it's understandable.

Even a seasoned hedge fund manager can lose confidence. Consider what Manny told us when we asked him about what underlies his self-doubt. -Fear of losing money and fear about the lack of validity of my research. It's perfectly natural. Just like in sports, the difference between the physical abilities of the top pros is virtually nil. But the mental difference is huge. The guys at the top in tennis, for example, are mentally consistent throughout the whole match. It's the same thing in trading.

The psychology of professional traders allows them to stick to their strategies. They don't stress out as much as rookie traders. I still make mistakes once in a while, but not as often as I used to. It's impossible to eliminate all doubt. I still fall victim to doubt and other psychological pitfalls. I still have major doubts, but now I know how to control them better.-

How did Manny conquer his feelings of doubt? Gaining a wealth of knowledge is key. -It requires a combination of research and experience. After a while, making or losing a lot just did not seem to bother me. It became second nature. The other thing is learning to handle profits and losses. With experience, you don't get as excited over them. After a while, you expect to experience the natural ups and downs.-

When you experience self-doubt, don't make matters worse by feeling bad about feeling bad. Everybody experiences doubt at times. It's natural when trading something as chaotic as the markets. If you are a novice trader, feel solace in the fact that your self-doubt will subside after you hone your trading skills and gain a wealth of experience. And if you are a seasoned trader, it may be useful to remind yourself that everyone gets in a slump occasionally. Don't worry. You'll regain your momentum if you keep trading. The key to success is to remember that self-doubt usually leads to stagnation. When in doubt, don't panic, calm down, and think rationally. You'll eventually work through your self-doubt and return to profitability.

Setting Goals.

Successful people set high goals and make specific plans to achieve them. Goals can be motivating. The more specific you set a goal, the better. Abstract goals often seem impossible to achieve and are weak motivators. By breaking down a larger goal into specific steps, or sub-goals, you will be more likely to achieve the goal. Rather than an amorphous, undefined fantasy, specific goals help you see how even a seemingly unattainable goal can be realized. When you see the specifics, you will be more able to develop plans for achieving your goals.

When specific goals help you see how your broader goals can be achieved, they can be highly motivating. But goal setting isn't straightforward when it comes to trading. Sure, you shouldn't set the nebulous goal of becoming a -winning trader- without a specific set of sub-goals, such as planning to learn specific trading strategies or planning to practice executing trades in a variety of market conditions over time. It is possible, however, to set a performance goal that is so specific that it interferes with your ability to trade in a peak performance mindset. Trying to reach a specific dollar amount per day, for example, can be motivating to some traders but self-defeating to others.

There are usually several advantages to setting specific goals, but setting a specific dollar amount when trading has disadvantages. For example, traders may make poor, impulsive decisions when trying to achieve a specific dollar amount. They may overtrade. They may take poor trading setups because they feel a sense of urgency to reach a specific dollar goal.

This approach usually fails. When poor setups are taken, traders often end up losing money. In addition, a daily or weekly dollar goal tends to make one think that he or she should trade every day, regardless of whether the market has opportunities, or regardless of whether one is in an optimal psychological state. It is often wise to let the market tell you how much it is willing to give you on a particular day or week.

You can't always dictate how much you can make. It's also wise to stand aside when you see conflicting market information or when you are in poor spirits. By setting a specific amount to make, though, you'll tend to feel guilty about staying out of the markets when you are either in poor spirits or when the markets are just not conducive to profitable trading.

Although it is necessary to trade profitably, it may not be wise to focus on trying to reach a specific dollar goal. This puts pressure on you to perform, and when the pressure is on, most buckle under the strain. It is better to trade in a more carefree way. Focus on the process of trading. It is a paradox, but when you focus on outcomes, you will have trouble reaching them.

When you focus on the process of trading and act as if you just don't care what happens, you'll end up making more profits. Rather than focus on dollars, focus on whether you follow your trading plan. Look at how many justified wins you achieve, rather than the dollars you make. If you trade consistently and according to plan, you'll end up profitable (assuming you use sound trading methods). In addition, you will feel more carefree and detached from the outcomes. When you focus on dollar amounts, you'll tend to think of the money in concrete terms; you'll think of what you can buy with the money, rather than think of it as just abstract points or ticks that you work with.

Goals can be motivating when used in the proper way. It may be nice to occasionally look at how much money we are making, such as once a month. If we focus on it too much, however, it can be a disadvantage. We will put extreme pressure on ourselves to perform. We may feel euphoric when we make big wins, but discouraged when we face losing trades. It's better for our emotions to keep things as objective as possible, and that usually means focusing on the process of trading consistently and decisively. The more you can focus on the process, the more profitably you'll trade in the long run.

The Drive To Succeed.

Few traders become consistently profitable. Some may achieve early success, but it is often short-lived. Others may hit upon a winning streak, but eventually, the streak ends. It is a hard fact to admit, but long-term success eludes many traders. It is the rare trader who has a strong drive to succeed who makes it in the end. There are common traits of people who succeed, and it is vital for survival as a trader that you make sure you possess these characteristics. By acting like a success-driven trader, you'll put yourself on the path to success. Make sure you possess the characteristics of the success driver trader.

What characteristics do success-driven traders possess? They persist until they reach an objective. They are not easily discouraged. They push themselves to the limits and build up their skills until they achieve high levels of mastery. And in the process, they develop rock-solid confidence. They do all of this as rapidly and as independently as possible, but they are also extremely organized and focused. When it comes to completing tasks, for example, they tend to pass quickly over easy tasks to complete more difficult ones. They set priorities and devote the bulk of their efforts to the tasks that really matter while ignoring tasks that may have relatively little impact.

They carefully monitor their performance and seek out feedback that is specific and concrete. They would rather have honest, accurate feedback that addresses their shortcomings in scrupulous detail than sugarcoated fluff that merely makes them feel good temporarily. They aren't afraid to face their shortcomings head-on. They work independently and focus on their own internal standards. They are not concerned with the performance of others. Although they are extremely competitive, they don't compare themselves to others. In the end, they are not consumed by doing better than others but enjoy the process of trading. They look inward rather than outward when determining how well they are doing.

If you want to achieve long-term success as a trader, it is essential to cultivate the mindset of a success-driven trader. Work tirelessly to achieve your goals, but also be organized and spend your time wisely. For example, don't waste your time debilitating about which one of many equally potential profitable opportunities to take. Pick one and devote the rest of your time and energy to outlining a detailed trading plan.

Map out strategies for entering, exiting, and controlling your risk. Once your plan is outlined, execute if effortlessly. Don't be afraid to face your limitations. Workaround them, and approach them with a realistic sense of optimism: If you work hard enough and put your effort in the right places, you'll be a profitable trader. Through repeated practice, you'll eventually build the skills you need to master the markets and achieve long-term, lasting success.

Sure and Steady Progress.

Learning to master the markets can sometimes seem like climbing a tall mountain: You know it can be done, but you don't know how to do it, or whether you could do it if you had to. The task may seem insurmountable, and as you think about it, daunting. Fully mastering the markets takes time; time is needed to gain the vast experience required to trade in a variety of market conditions, and the advanced skill set required takes a great deal of practice. Rather than tackle the experience all at once, however, it is more useful to pick a few key trading strategies, identify the market conditions where they perform optimally and trade under these ideal conditions to build up trading skills and confidence. Rather than strive for instant success, it's better to make sure and steady progress.

There's merit in taking it slow when it comes to learning how to trade. It's essential that a novice trader build up a sense of confidence with a few key strategies. Psychologists refer to this process as building up self-efficacy beliefs. Self-efficacy is different from self-esteem. A person can have low self-esteem yet believe that he or she can perform a specific task under a specific set of circumstances with a feeling of self-efficacy. Similarly, a novice trader may believe that he or she is an average trader but has specific abilities when trading a particular trading strategy under specific market conditions.

For example, suppose you know you can trade in a bull market using just a few key signals. It may be useful to trade this strategy at the start of the trading day. There's a good chance that you'll achieve success and feel good about your initial abilities. In other words, you'll feel a sense of self-efficacy. Now, you may also know that should market conditions change, you won't be all that competent. But at least the initial start will put you in the proper mindset. You'll feel an initial sense of confidence and that can go a long way in terms of trying out new trading strategies under novel market conditions, or it can help you cope with the daily stresses and strains of the chaotic market action.

Research on self-efficacy has shown that when people believe they have self-efficacy regarding a specific set of skills, they set challenging goals, show unfailing persistence, experience pleasant moods, and can easily handle stress. These characteristics are conducive to profitable trading. Anything you can do to increase self-efficacy will help you master the markets and achieve long term profitability.

The two most obvious ways to increase self-efficacy are to start off trading with methods you have mastered so that you meet with initial success and increase your feelings of efficacy, and to practice and gain experience as a trader. The more success you achieve, the greater your self-efficacy, and the more likely you'll be able to trade in a greater variety of market conditions and persist until you achieve consistent profitability.

So don't be overly ambitious. Set realistic goals, achieve initial success, and build up your sense of self-efficacy. The greater your self-efficacy, the more success you'll achieve, and the more profitable you'll be in the long run.

The Thoughtful and Aware Trader.

On the popular sitcom, -That '70s Show,- Eric asks his father, -Bad things always seem to happen to me. Why do I have such bad luck?- His father replies, -Son, you don't have bad luck. Bad things happen to you because you're a dumb-ass.- Novice traders often feel like Eric. They make trade after trade and watch their account balance dwindle with each trade. They may feel unintelligent and thoughtless and think, -Why am I making so many losing trades?- At times they may wonder if they are thoroughly incompetent. But it's all a matter of perspective. If you aren't trading profitably, it isn't because you can't. It isn't because you have bad luck. It is a matter of gaining experience with the markets and gathering rock-solid, reliable knowledge about them.

Awareness is the key to high performance. Top performers are thoughtful and completely aware of what it takes to perform skillfully. Dr David Dunning, a psychology professor at Cornell University, argues that poor performers are -blissfully unaware of their incompetence.- They overestimate their abilities. Their intuition tells them that their performance is superior, yet objective estimates show their actual performance is under par. For example, when people are asked to take a test measuring abilities, such as thinking logically, writing grammatically, and spotting funny jokes, they tend to overestimate their performance: they think they are performing well above average, yet their actual performance is in the bottom 25%. These biased estimates aren't restricted to taking tests.

People in a variety of settings and skill areas overestimate their abilities. Debate teams in college tournaments wrongly think they are eloquent debaters. Hunters who are bad shots think they are expert marksmen. And medical residents think they know how to diagnose patients more accurately than they really can. Studies have even shown that when people are offered money to estimate their performance accurately, they still can't do it. Behavioural economists have similarly demonstrated that novice traders and investors overconfidently trade beyond their skill level.

When traders are unaware of how low their skill level actually is, they are likely to think that they are victims of bad luck. In reality, however, they merely have the wrong perspective. They may think trading is easier than it is. They may trade a small account and expect miracles. They may trade by the seat of their pants instead of formulating sound trading plans and following them. They may think that profitable trading setups will just fall in their lap, rather than spending time searching for those rare moments when huge profits can be taken from the markets.

Trading isn't something people can learn in a short time. It takes years to fully understand the complexities of the markets. Market conditions change and the only way you can stay ahead of the game is to be a curious student of the markets who continually develop his or her trading skills until long-term profitability is realized.

Increasing Self-Control.

Jim is having trouble trading consistently. His account balance rises and falls sporadically, and he experiences a rollercoaster of emotions. He plans his trades, but he doesn't stick with his plan. Sometimes he follows his plan, but other times, he abandons it on a whim. Jim needs to practice discipline. As you've heard countless times, the winning trader is a disciplined trader. How disciplined are you? If you have a problem with discipline, it is worth building up this skill.

Some people are highly disciplined and very self-controlled, while others are more impulsive. The highly disciplined person scrupulously follows rules and is careful to control his or her impulses. You know the type; they pay off their credit cards bills every month, are never late for an appointment, and carefully plan every detail of their lives. Although these characteristics may be ideal for trading, there's a downside: Overly disciplined people tend to have trouble taking risks.

They prefer a sure thing, and trading outcomes are rarely sure things. Winning traders are the kind of people who tend to prefer living a little on the wild side. They may not recklessly seek out risk, but they don't mind it. Relatively speaking, they tend to lack discipline and control. Perhaps that's why so many trading books and coaches find it necessary to remind novice traders to practise discipline and self-control. How are your discipline and self-control? Do you have trouble sticking to your trading plan?

Do you long for more discipline and self-control when it comes to your trading? If you have trouble with discipline, you may want to try a stimulating exercise to increase your awareness: Observe your level of self-control in your everyday life and try to gain more control. How much discipline and self-control do you practice in your everyday life? Are you late for appointments? Do you spend more money each month than your budget allows? Do you frequently find yourself breaking promises?

It's not necessarily the case that a disciplined trader is disciplined in all aspects of his or her life, but it helps. The life strategies we use in everyday life may bleed over into our trading life. If you often overspend, overeat, or have an unrestrained need for pleasure, you may find maintaining self-control and discipline while trading a little more difficult than others. So try this exercise: spend a few weeks trying to control as much of your life as possible. Pick specific areas where you can gain more self-control.

Control your caloric intake, the money you spend, and time spent in leisure activities. See how well you do. It may change your reference point. You may soon discover that you rarely control your impulses, and can do much better. And this, in turn, may positively influence your ability to stick with your trading plan. It's worth trying. Discipline is the key to trading success, and it's vital that we do everything we can to increase it.

Cutting Emotional Strings That Bind Losses to Ego.

If you're like most traders, you've worked long and hard to build up trading capital. Putting it on the line, even small amounts at a time can be difficult. But losses are commonplace in trading, and to maintain your sanity, it's necessary to take losses in stride.

Many traders blow losses out of proportion. In -The Mind of the Markets,- F. J. Chu (1999) notes, -The very common phenomenon of personalizing profits and losses often proves disastrous. The linking of ego or self-worth with profitable and unprofitable decisions transforms what should be a dispassionate financial decision into an emotional decision.-

It may be difficult, but the professional trader learns how to take losses nonchalantly. In his Innerworth Master Interview, Dan described how he reacted to a big loss professionally and objectively: -One time I lost virtually everything in one or two days, and a good friend of mine came over. I think I lost four or five hundred thousand dollars or something like that. I told him, It's only cash. It's not my life that I lost. I can get it back. It's not the end of the world.' When I lose, I'm not losing my house, my car, my credit cards, or my friends. I made a mistake. I'm angry that I made a mistake, but the cash has nothing to do with it.- It's important for traders to put losses in perspective.

It's also important to avoid elevating the importance of money. In -Reminiscences of a Stock Operator,- Larry Livingstone observed that when he set his lifestyle standards too high, he often mounted big losses shortly thereafter. Seasoned traders at the CME have observed that when a trader buys a flashy new sports car, he or she usually ends up cracking under the strain of having to maintain a lifestyle of luxury.

In his Master Interview, Dan suggests taking a frugal approach to financial possessions: -I divorced myself from material items a good 20 years ago. By the time I was 25, I had no desires for material items. I've learned over the years that money is only a substitute for love. Material things, like cars and homes, are just substitutes as well. It just became clearer with self-exploration. In getting clearer, I divorced myself from the emotions of the stocks, the emotions associated with money and greed. Money just doesn't buy you happiness.-

When you make a trade, put your money on the line, not your ego. It's hard to fight against the natural human reaction to feel personally hurt when you lose money, but professional traders do it, and so can you. One way to take losses in stride is to trade only with money you can afford to lose, not money you need for basic living expenses. If the loss truly means little to you, you will know you can survive the loss, and this knowledge will allow you to stay calm. But if you just can't afford to lose, you'll have trouble convincing yourself that it doesn't matter.

It does, and you know it. Losses shouldn't hurt. If you control your risk, you can handle losses more easily. If you minimize the amount you risk on any single trade, it won't hurt your account balance very much. Finally, don't take losses personally. View a trade as a business transaction. It's not about you or your self-worth. You have self-worth no matter how much you win or lose in the markets. If you remember this fact, you'll be able to take losses in stride.

The Self-Fulfilling Prophecy.

Jack has been having a bad month. He can't seem to make a winning trade, and it is gnawing at him. He is starting to panic a little. As his account balance diminishes, he decides to take precautions. No more dinners out. No movies or entertainment. He figures that he had better live a monastic life until things turn around. To save on his cleaning bills, he even decides to wear the same clothes for a few days in a row. He also decides to never leave the house to save on gas bills. Even though it is a break in his daily routine, he decides the cost savings are essential. Over time, though, Jack is finding that his outlook is starting to get worse. He is starting to believe that he'll never get out of his slump.

Jack's approach to his current misfortunes may seem reasonable, but he pays a psychological price for his precautions. Although it isn't wise to spend extravagantly, it doesn't make sense to change your routine too much. When you do, you tell yourself a subtle message that something is wrong, and that it may be permanent. These subtle messages can change your outlook. Put simply, if you start thinking of yourself as a loser, you may start acting like one, and you may never get back up to par. Before you know it, you may be acting out a self-fulfilling prophecy where you expect to do poorly, you feel discouraged, and you indeed do poorly.

Trading is hard enough without making it even more difficult by thinking pessimistically. It's easy to have a pessimistic outlook in which you view yourself as inadequate, you view your opportunities as limited, and you believe that there is nothing you can do about it. It may be essential to have a realistic outlook when it comes to the markets, but a pessimistic one is going to stop you dead in your tracks.

It is important to stay positive. Don't break your winning routine. Don't' panic and start telling yourself that you are off your game and will never recover. Remind yourself that there are many temporary conditions that can go against you, but you don't need to over-interpret them. It may mean nothing. If you are tired or feel over stressed, take a little break.

But realize that once you are rested, relaxed and ready to return, you can eventually get out of a slump. The key is to keep trying and stay optimistic enough to explore new possibilities and make trade after trade until things turn around. Whether we are conscious of it or not, our pessimistic expectations can powerfully influence us. If you are overly pessimistic, you won't perform well. You won't put in the extra bit of energy you need to move from mediocrity to become a winning trader. So remember to treat yourself well, and stay optimistic. If you can cultivate a winning attitude, you can weather the storm and trade profitably over the long run.

Dynamics of Self-Control.

Successful traders are disciplined. They are calm and rational. They don't let emotions like fear or greed unduly bias their decisions. They formulate well-defined trading plans and are able to follow them. They avoid the urge to act on impulse. Trading in a systematic, disciplined fashion is preferred, but as we all know, traders aren't always disciplined. A psychological study by researchers at SUNY, Albany (Muraven, Slessareva, & Shmueli, 2003) on the dynamics of self-control may provide insights into what it takes to maintain discipline and self-control.

It takes physical and psychological energy to maintain self-control. For example, research studies have shown that for many people, there are limits to how much self-control one can exert. When people are asked in the laboratory to complete a series of tasks in which self-control must be maintained, they eventually become fatigued and have difficulty maintaining self-control on subsequent tasks. This phenomenon is commonly observed in scalpers who go in and out of the market repeatedly.

They report that making trade after trade produces fatigue to the point that it is difficult to continue trading. Self-control takes energy, and the more self-control you must exert, the more energy it takes to keep going. As with any strenuous activity, you eventually run out of energy, and it's hard to go on. Thus, the most obvious way to maintain self-control over the long run is to build up psychological energy.

How can you save or build up psychological energy? Specifically, you can limit the number of trades you make per day or per week, and thus, limit the amount of energy you expend. You can also make sure you sleep soundly, exercise regularly, and eat nutritious meals. This will also ensure that your physical and psychological energy is at peak levels.

A psychological study by Muraven and colleagues offers an interesting twist to the dynamics of self-control that is especially pertinent to trading. Motivational incentives, such as the profits traders receive from winning trades, can exert a powerful influence on the ability to maintain self-control. When incentives are low, people are less likely to maintain self-control. For example, in laboratory studies, if participants are given a little incentive, and feel tired and worn-out after completing various tasks that require self-control, they eventually get so fatigued that they become undisciplined on subsequent tasks. Participants who perceive a greater reward for sustaining discipline, in contrast, can more easily maintain self-control.

It's as if they are thinking, -I'm tired; I want to just take it easy and cut loose, but the incentives are high enough that I'm going to hold out a little longer.- You might see how this finding has implications for trading. If a trader makes trade after trade, scrupulously following a detailed trading plan, but has not seen much profit, he or she will have trouble maintaining discipline on subsequent trades. The trader may think, -What's the point. I've been following my plan to no avail, and I might as well just trade more freely.- When one is fatigued, trading plans are likely to be abandoned.

A second interesting finding concerns how fatigue influences the perception of rewards. When participants were fatigued as a result of completing a series of tasks requiring self-control, they had difficulty perceiving incentives accurately. They under-valued the rewards, and therefore, the incentives were less motivating.

These studies show how fatigue and motivational factors influence one's ability to maintain self-control. When traders are tired and worn out from making a series of trades, they will have difficulty maintaining self-control. In addition, the potential rewards that may be achieved by maintaining self-control will be minimized when one is fatigued. Thus, it's to your advantage to build up as much psychological energy as possible. If you have a great deal of energy, you will be able to be more in tune with the potential rewards you'll receive by maintaining discipline.

And if the potential rewards are at the forefront, they can act as powerful motivators. You'll continue to maintain discipline even if you start to become a little fatigued. Don't underestimate the impact of the psychological processes that can help you maintain discipline. Make sure that you are rested, relaxed, and full of energy before you start the trading day. The more energy you have available, the more easily you can maintain the self-control you need to stick with your trading plan and to achieve consistent profitability.

The Self Control Experiment.

Are you having trouble sticking with your trading plans? It's a common ailment among novice traders. There are a variety of reasons for abandoning a trading plan. Newbie traders, for example, may not trust their trading plans, and understandably, they may abandon them out of fear or because of a wavering sense of confidence. But for some traders, self-discipline may reflect a lack of mental, self-control stamina. Self-control is similar to a muscle. It's necessary to build up your self-control -muscles- so as to gain complete mastery over your thoughts. Here's a way to -work out- and build up your self-control stamina.

Have you ever been trapped in a situation where all you could do is wait patiently? Perhaps you were squeezed into the middle seat of a jet airliner, and all you could do was wait for the plane to land. Maybe you were in a hot, stuffy conference room and couldn't leave because your boss was sitting next to you as you were supposed to listen attentively. When you are forced to control your impulses, you often find that you can perform heroically. (And if you can't, even when social pressure dictates that you do, you may have major problems learning how to maintain discipline.)
One of the easiest ways to learn about controlling your impulses is to take a meditation class or to work out with a physical trainer. In a meditation class, the instructor will require you to repeat a mantra, or a word or phrase, to focus your attention. When you first try this exercise, you may have a strong tendency to want to stop, get up and walk around. Or you may want to let your mind think about more interesting thoughts instead of focusing on your mantra and your bodily sensations. But the atmosphere of the class will help you practice controlling your thought processes and focus on your present experience. Another way to practice discipline is with a personal trainer. As you exercise, the trainer will require you to concentrate on your ongoing experience; you'll be encouraged to stay focused on the task at hand and concentrate. Over time, you will see what it is like to concentrate intensely. You will use -muscles- in your mind that have atrophied. Soon, you will be able to concentrate and focus, and these mental skills will transfer into the trading arena.
Most of the time, no one is forcing us to stick with a trading plan. But it may be useful to hire a trading coach to help you. Perhaps you can ask a friend to sit with you and remind you to stick with your plan. At first glance, the idea may sound a little silly, but many novice traders have trouble following even a well-detailed training plan, even when a trading coach is sitting beside them. You might want to try it and see if it helps.
Don't underestimate the difficulty of maintaining discipline. It's a skill that few can master. Trading instructors have noted that some of the best traders are former athletes and pilots. Why? It's because people in these professions had to follow a game plan or a set of standard operating procedures to do their job. Following a plan takes discipline, and such discipline is not developed overnight. It takes time, effort, and practice. If you have trouble with discipline, don't beat yourself up, or label yourself as -hopelessly impulsive.- Self-discipline can be learned. If you put in the effort to learn how to control your impulses, you'll trade like a winner.

Shifting Gears.

The best traders are not self-conscious about their mistakes. They don't regret past mistakes or worry about the future. They live in the moment and are ready to take new chances to reach new heights. But many traders are stuck. It's as if they were driving their car up a steep hill and shifted into high gear too early. What happens? They go slower and slower, and their car eventually stalls. At times like these, you need to shift into a lower gear and start over.

Many people can get stuck in their own one-sided, single-minded frame of reference, and when they do, they stall. They badly want to win but can't climb over the psychological barriers they place in front of themselves. They make trades that are beyond their skills, or trade positions that are too large and require them to take too much risk. They buckle under the added strain and fall. Rather than back off and shift gears, however, they forge ahead, and often end up stuck. Some traders repeat the pattern over and over again until finally, they blow out their account. They are losing ground in high gear and can't downshift and start over.

Recurrent patterns, such as trading huge positions and losing big, can be the financial death of many traders. It's vital to change these patterns. In his book -The Psychology of Trading,- Dr Brett Steenbarger argues that these recurrent patterns may be deeply rooted in past childhood experiences. For example, if you put on big losing trades, it may reflect your need to try to gain attention from your spouse or friends. As a child, you may have longed for attention, but never received it. As an adult, you may unconsciously still yearn for attention. You may put on big trades so that you can make a big killing and get the attention you've always wanted. Life is rarely that simple, and putting such pressure on yourself as a trader is bound to lead to your demise. What do you do if you are stuck in a trap of self-destruction? Dr Steenbarger suggests, -Invoke old patterns, activate the Observer, shift the mind state, construct new endings.-

Making a change is difficult, but with enough self-insight, and by practising new behaviours, you can change. For example, if you are mounting losses, it's essential to acknowledge this pattern of self-destructive behaviour. How often are you making losing trades? Do you have good setups or are you trading impulsively just to feel you are doing something? Are you afraid to admit that you have a poor trading strategy? The possible explanations are endless, but whatever they are, it is vital to acknowledge them.

It's hard to acknowledge what you are doing wrong. If you have trouble, you may want to seek the advice of a third, objective party, such as a trading coach. By working with a coach, you can admit what you are doing wrong, relieve some psychological pressure, and invoke the Observer in you. While caught up in a psychological rut, it can be hard to see ourselves from a god's eye view. We are stuck and can't see that in reality, we are making a few dumb mistakes, such as trading beyond our skills or trying to accomplish impossible trading feats. Stepping away from the situation helps us see things from a new perspective. Once we see things from a new perspective, we can change our mental state, and construct new, successful endings.

Here's how it may work. Suppose you were making huge trades, stressing yourself out, and ending up panicking at critical moments during trades. There's a simple solution, but many people don't emotionally see it: trade smaller. Intellectually, they know they should trade smaller, but their ego and emotions won't let them admit the inadequacy of their actual level of skill, so they make big trade after big trade, and mount losses.

If they saw the consistent pattern of trading beyond their skill level, they would trade smaller positions, and take home modest profits. Why don't they do it? It is harder than it sounds. Traders want to make money, and making huge profits requires risk. Many traders can't allow themselves to write a new happy ending to their trading exploits. They see trading the markets prudently and steadily as boring.

It will take too long to get where they want to be, and can't see patiently working toward their goals. The rewards don't match the effort in their minds. This kind of thinking, however, will compel you to take large, destructive risks, and in the long run, you will end up losing big. But if you acknowledge the pattern of self-destruction, the negative consequences for you, and accept more modest goals, you will increase the odds of learning how to trade profitably. So if you are stuck in a losing rut, don't be afraid to identify what you are doing wrong. Figure out a way to trade differently, and work hard to make a change.

I Should Have Known....

Novice traders often hold an erroneous belief that traders are natural-born, and thus, by instinct, they can handle anything the market throws at them. Natural born traders see good trade setups instinctively and can close a trade like a virtuoso. But much of this is folklore. Traders are made, not born. It's necessary to hone your trading skills through practice and experience. You can't expect yourself to know everything right away. When you're caught off guard and you lose because of an unanticipated set of market conditions, don't berate yourself by thinking, -I'm a dummy. I should have known that.- How could you know? Do you have infinite, infallible knowledge? Do you have a lifetime of trading experience? You can't expect to trade like a seasoned trader without experience and practice.

Everyone has different talents. Some people can see patterns more quickly than others. They're artistic and see structure in a seemingly random array. Other people are math wizards who can process numbers with lightning speed. Still, others can stay cool under pressure, calmly surveying the landscape and making logical, astute decisions. Everyone has a different learning curve when it comes to trading, and it is necessary to remember that. Two people can trade side by side, with one person picking up techniques faster than the other, but that doesn't mean that in the end, one person will be a better, more profitable trader than the other. Even if one of the pair was more talented than the other initially, it is quite possible that both people will end up as seasoned, master traders.

Everyone has different talents and backgrounds. Sure, if a person grew up in and around the trading industry, he or she may know a little more than the average novice, but no background ensures success. Over the course of a career, it's quite possible that a late bloomer can outperform an early rising star. If you berate yourself for not being skilled enough, or not having enough trading experience, you will sabotage your efforts. Comparisons to others are worthless. If you think you must perform up to some external standard before you're ready, you'll never achieve what you're striving for. You will choke under the extreme pressure you are putting on yourself. Take your time. Give yourself an opportunity to gain the experience you need. You can't expect to trade like a master overnight.

When learning how to trade, it is vital to gain experience across a variety of market conditions. That takes time, considering that the knowledge base of many novice traders is essentially a blank slate. Most novice traders have relatively little real-world trading knowledge. Over time, however, they will accumulate the requisite knowledge they need to trade like a master. Until then, it is necessary to ease up a little, if you are new to the trading business. Give yourself time.

Instead of beating yourself up for having limited knowledge, begin each trading day by thinking, -Of course, I don't know what's going on. I have a lot to learn.- It's better to go in with an upbeat, optimistic attitude. Don't think, -How is the market going to show me up today?- Instead, it's more inspiring to think, -I wonder what new knowledge I'm going to acquire today?- By easing up on yourself, you'll be open to gaining valuable experience, and eventually, you'll hone your skills and trade like a master trader.

Sifting Through the News.

Have oil prices stabilized? What's the impact of the Federal Reserve's decision on interest rates going to have on stock prices? Will a slump in housing sales lead to a severe economic slowdown? These questions reflect important concerns of the day. The media spends countless hours covering them. Media reports impact stock prices. Indeed, market observer David Dreman notes that a large part of the market action is dictated by the opinion of the masses. And who is a major influence on mass opinion? The media is one of them, and it's wise to keep abreast of the latest developments. The coverage by the media can't be underestimated, but the astute trader knows how to quickly sift through the barrage of information and how to use this information to trade decisively.

It's hard to study, evaluate and synthesize a complex flow of information. The capacity of the mind is limited, and when you attempt to understand and digest a wealth of information while dealing with the uncertainty of the markets, it's easy to give into judgment biases. It's essential to eliminate these biases in order to make logical, prudent decisions. For example, Dr Donald MacGregor and colleagues at Decision Research showed that preconceptions tend to bias forecasts of stock performance. For example, if you think industry or sector is -hot,- you'll tend to believe that all stocks in the industry group will go up.

They may go up, but not all stocks in the industry or sector will go up, or if they do, they may not increase at the same rate. It's important to be aware of the powerful effect media images and memory biases may have on your forecasts. These days, media reports of oil prices and interest rates may stick in our mind and unconsciously impact our investment decisions. You cannot help but think that higher oil prices and steadily rising interest rates will make you believe that stock prices will decline. But the impact may not be as strong as you think, or it may not impact all stocks within a sector or an industry group in the same way.

In addition to memory biases, people also have a strong bias to believe that when they do make a decision, others would make a similar decision to theirs. They believe in a false consensus in that they think, -Upon sifting through the available information, anyone would draw the same conclusions I did.- But other people may not agree with you. You may be wrong. Your decision may have been biased, and if you assume that the masses would behave as you did, you may suffer the consequences of a poorly thought out decision.

When sifting through the barrage of information from the media and other sources, there is a strong urge to reduce the tension of uncertainty by following inaccurate judgment biases. Many times our hunches are accurate, but other times, they are the result of unconscious processes to alleviate anxiety. It's essential to conquer these biases. The more you can perceive the markets accurately, the more you can trade them profitably.

The Search for Significance.

In our everyday lives, there are some numbers that hold significance. When we turned 16 years old, for example, we could earn a license to drive. When we turned 18, we were allowed to vote. When we turned 21, we could purchase alcohol. The list goes on and on. When we finished 12 years of school successfully, we were granted a high school diploma. Although it is often treated as a guideline rather than a rule, the speed limit on most highways is 55 miles per hour, and if we are unlucky enough to be caught speeding, the fine of the ticket is based on the extent to which we broke the posted rule. We are used to locating key numbers in our everyday life. It is adaptive to identify consistency and rules, and it is often to our advantage to follow them.

We need to make enough money to meet our living expenses, and so each of us has a significant dollar amount that represents breaking even, versus accumulating debt. This is true for people as well as countries. For example, we are familiar with the idea of a -balanced budget.- In science, there's a notion of -statistical significance.- A study finding is statistically significant if it occurs less than 5%. Every few years, folks ask, -Why 5%? Why not 6% or 8%?- There is no logical reason; 5% sounds nice and even. Humans have a need to simplify things. The mind has a limited amount of psychological energy. We can only process a fixed amount of information before we become -overloaded.-

We search for regularities and seek out certainty because it reduces confusion. It makes information processing manageable so we could focus on meeting an objective rather than focusing our energy on trying to figure out what the actual objective is. Although it is useful to break things down into its most simple terms, it is important to remember that when it comes to reading the markets, we often somewhat arbitrarily impose a false structure onto an unstructured entity and that there are times when the imposed structure reflects a need for simplicity rather than a cold, objective account of reality.

When it comes to trading, there are key points, and numbers, that hold significance. For example, the price where you enter a trade is personally significant. It is the break-even point, the point where you know that should the price of the stock you are trading fall below it, you have a losing trade. Support and resistance levels are also significant points. A price level that was at one time a ceiling can later act as a floor.

These levels do indeed often seem to have both a personal significance and a structural significance. Certain price levels do seem to follow rules and show some regularity. Such regularities help us navigate the market. The markets are truly chaotic and it often helps us deal with the sense of uncertainty to impose some structure. At the same time, however, it is also vital to realize that the structure and regularities may not always hold up. It may not matter in the end. The market behaves consistently only when it does.

Sometimes it is useful to remember that our perceptions are just guidelines, rather than hard and fast rules. When we accept that our perceptions may be arbitrary, it can ease some of the pressure. In the end, we are merely trying to do our best to meet the challenge of trading. Sometimes our perceptions are right, other times they are wrong. But whether we are right or wrong, we shouldn't let it bother us too much. Our inaccurate perceptions tell us nothing about our self-worth. We aren't inadequate because we can't read the markets successfully all the time. It is better to take things in stride, and hope that we can build up the requisite trading skills to read the markets accurately enough to trade profitably and consistently.

Slips Can Be Expected.

Winning traders are disciplined. Does this mean that they never -slip- while trying to follow a trading plan? Not necessarily. It's hard to maintain discipline, and you're human. No human is perfect. You should expect to abandon your plan occasionally or make an impulsive trade based on a whim once in a while. In many ways, it isn't the slip that is the problem but how you recover from it.

Many people take an Alcoholics Anonymous approach to discipline. They assume that there are -disciplined traders- on the one hand and -gamblers- on the other. And if you are a -gambler,- then you will always be a gambler. The fact is, however, discipline is not an all-or-none characteristic. Everyone may have a proneness toward gambling, but on the other hand, everyone can learn to trade with discipline. When you put pressure on yourself to remain disciplined all the time, however, you end up feeling guilty.

You feel that you must trade with discipline all the time, and when you slip, you should punish yourself for -breaking the rules.- Guilt doesn't help. When you feel guilty, you are distracted. You no longer take an active, problem-solving approach to trade, but mull over what you did wrong. If you ease your standards and let yourself feel that you can make a mistake occasionally, you will feel less guilty. And approach the markets more calmly and creatively.

The other problem with the -all or none- approach to thinking about discipline is that you may start believing that you are a pathological gambler when you abandon your plan. You may stereotype yourself and start acting as if you are a gambler because you wrongly believe you that you are; it becomes a self-fulfilling prophecy. If you believe you are a gambler you'll start acting like one. Your thoughts will align with your view of yourself. You'll start thinking, -Of course I abandoned my plan, I have no self-control because I lack the inherent ability for self-control.- Self-views are powerful. If you start believing that you can't maintain discipline, then you won't be able to. That said, merely believing that you can easily maintain discipline won't allow you to have an unfailing ability to stick with your trading plan, but it will set you on the right path. At least you won't be underestimating your ability to maintain discipline.

Although some people are naturally impulsive, most people can learn to trade with discipline. It is just a matter of gaining experience following your plan. The more experience you have developing a trading plan and following it, the more you'll be able to actually follow it time and time again. But don't make matters harder on yourself by underestimating your skills. Sure, you'll make a few impulsive trades at first, but these slips don't mean that you can't be a disciplined trader with practice.

Taking Slow Easy Steps.

Trading is much like learning a risky sport, such as motocross, skateboarding, or skiing. In these sports, you play by yourself and try to stretch the limits. But if you try to perform beyond your skill level, you'll get hurt. If you try to make a jump before you even know how to manoeuvre around basic obstacles, in all likelihood, you'll fail when you make an attempt. It's better to take it slowly. Build up your skills through practice and preparation before trying something too difficult.
This is a commonsense approach, but when it comes to trading, few follow it. It's as if they are thinking, -That doesn't look very hard. What can go wrong?- A lot can go wrong, however. If you risk too much money without taking proper precautions, you can take a substantial hit to your account, and be unable to recover. As with many things in life, it is wise to take slow, easy steps before taking a big risk and falling hard.

Seasoned traders take risks. When they see a rare opportunity, they capitalize on it. They may take a big risk in order to make a big profit. There are two reasons they can use this approach. First, because of their vast experience, they are able to change their plan midway through the trade should an unexpected, adverse event occur. Second, in the event that they do lose a big part of their account, they have sufficient skills to work steadily to recover from a major setback. Novice traders, in contrast, don't have the experience or skills to take big risks. If they try something too risky, they won't be able to recover. It is wise to control risk, carefully plan a trade, and follow the plan.
Trading is stressful, and under stressful conditions, it is difficult to perform at one's peak. Novice traders, especially, have trouble managing the uncertainty of the markets and trading successfully. That is why it is vital to take precautions to make sure that one can make trade after trade without giving in to stress and emotion of the markets. And the best way to do that is to take small steps. Make small trades and gain experience with the markets. Don't overtrade or move out of your comfort zone until you are ready. Wait until you have the requisite skills. There's no reason to take unnecessary risks. If you trade small, work out a plan and follow it, over the long run, you will gain experience with the markets, hone your trading skills, and eventually achieve lasting profitability.

Are You Really In a Slump?.

Jake has just made three losing trades in a row? He decides he is in a slump and is now worried that he can't get out of it. But is he really in a slump? Perhaps he's just panicking for no good reason. He may just have a pessimistic attitude, but this might be enough to keep him stuck. Thoughts are powerful. The reality of the situation may not matter. All that matters, in the end, is your perception. How you look at a situation can dictate how you will react.

Simon is a seasoned trader. Like Jake, he has made three losing trades in a row. But is Simon worried? No. He just takes the setback in stride. He doesn't even flinch. He figures something has gone wrong, and instinctively searches for a quick correction. He actively studies the markets. He examines the market conditions and notices that the markets are more erratic than usual. He moves to a different sector and finds some stability. He decides to apply his same strategy in that sector, and it works.

Rather than panic, like Jake, Simon took an active, problem-solving approach. He didn't over-interpret the significance of the setback. He viewed the three consecutive losses as merely a symptom of a change in market conditions. He kept his focus on the external factors that may underlie the market action he observed. He didn't make it internal. He didn't blame himself for making a few losing trades. Rather than stew in self-doubt, he took decisive action and moved forward.

Your attitude and perceptions powerfully influence how you react to events, such as a series of losing trades. Jake focused on internal, personal reasons for the setback. He decided to explain the setback as reflecting his inadequacy as a trader. Simon took the opposite approach. He didn't look inward at all. Instead, he looked outward. He looked at the market action and took an active, problem-solving approach to recover from the setback. Why did Jake look inward? Out of inexperience, he reasonably focused on his lack of trading ability. Perhaps, he made a few losing trades because he lacked the wealth of experience of a seasoned trader.

Although it's a reasonable assumption, look at the consequences of jumping to the conclusion that he lacked the necessary skills to recover quickly. By assuming that he could not recover quickly, and thinking that he was limited in abilities, he took a passive course of action. He stopped looking for solutions and gave up too quickly. Had he just stayed focused on his ongoing experience, ignored his feelings of doubt, and continued to search for solutions, he might have found one, and moved forward rather than hitting a roadblock.

If you are a novice trader, it's reasonable to question your abilities occasionally. Don't forget about risk controls, and don't trade beyond your skill level. But, on the other hand, don't unnecessarily beat yourself up. When you get knocked down, it's essential that you pick yourself up and start searching for new ways to master the markets. The only way you are going to hone your trading skills and become a seasoned trader is by making trade after trade across a variety of market conditions. When you enter a low point, it isn't useful to mull over how you're in a slump. Instead, you must stand up and take action. The more focused you can trade and the more actively you can respond, the more likely you'll be one of the few who can rise above the masses and call themselves winning traders.

Surviving a Slump.

Despite what we might wish for, it's hard to make profits month after month. Even established hedge fund managers have months where they fail to make a profit. It's a fact of trading: There are times when profits elude even the most skilled, seasoned trader. There's little you can do but keep your hopes up, actively try to get back in tune with the markets, and patiently wait to return to profitability. Many traders, however, have trouble getting past a slump unscathed. They take it too personally. They start to believe it is entirely their fault and become upset. They are especially anxious and emotional.

They can no longer think straight. Their confidence is severely shaken. At that point, they find themselves in a severe psychological slump as well as an economic one. They can't trade efficiently and start making trading errors. Matters just seem to get worse and worse. It's vital for your psychological survival to prevent a lapse in your trading success from turning into a major psychological slump. Fortunately, you don't have to, though. You can take proactive steps to avoid a psychological slump.

How can you avoid a psychological slump? First, put matters in perspective. Many traders make matters worse by holding unrealistic expectations. They believe that a skilled trader makes profits month after month, regardless of market conditions. However, even the most seasoned professional trader experiences low profitability at times. It may mean nothing about you, and even if it does, it doesn't help matters to dwell on your perceived sense of inadequacy.

It is essential that you stay optimistic and don't take any of it personally. Second, it's necessary to take an active, problem-solving approach. Don't passively think you are a victim. You may not be able to turn a financial slump around as quickly as you would like, but with enough effort, you can put the odds back in your favour. Actively study the markets. Try to figure out if there is something wrong with your method or whether a slight change in market conditions is all you need. Whatever you do, though, keep your mind active. Stay upbeat. Don't give in to pessimism.

Finally, when you do decide to continue trading to recover from the slump, trade with a detailed trading plan. If you leave trading decisions up to your discretion while in a psychological slump, you'll be more likely to make trading errors and make impulsive decisions. If every aspect of your trading plan is clearly specified, however, you can follow it even when your mood is a little off. But it must be clearly defined. You must know when to enter and when to exit. And most important, control your risk. If you know that it is relatively little you can lose on a given trade, or a series of trades, then you can more easily feel calm as you try to regain profitability.

Don't let an economic slump impact your mindset. It may be hard not to feel a little disappointed that you are not profitable, but if you can remain calm and optimistic, you can work through the slump and return to profitability.

Small Things Matter Too.

Ask many seasoned traders to describe their most profitable trade, and you'll hear a fantastic story. It's usually purely serendipitous. For example, they may have been going long on a large position when suddenly a media reporter talked up the company for no good reason. The stock price shot up as the masses heard the news, and they made a killing. These stories are thrilling.
They inspire you to hone your trading skills and master the markets. Who doesn't want to be at the right place at the right time? But if you want to be a profitable, active trader, you can't merely wait for a rare trading opportunity to present itself. Most of the time, trading is about making trade after trade to the point that it seems mundane. Rather than seek out the big, thrilling trade, it's important to remember that small trades matter a lot.

Influential advertising executive, Bruce Barton once observed, -Sometimes when I consider what tremendous consequences come from little things ... I am tempted to think there are no little things.-
As stirring as big trades seem to be, it's the smaller trades that keep you in business. Many traders feel they reach a plateau when trading. They make trade after trade and little seems to happen. They don't suddenly find the trading Grail and achieve the great wealth and status of their dreams. Whether they realize it or not, however, they are still making progress. Each new observation of the market, each trade they execute, no matter how small, adds to their wealth of knowledge. They intuitively learn what to do and what not to do. They may see a slight variation of a classic chart pattern emerge and learn just how far the pattern can deviate from the prototype and still forecast the movement of the stock price. On another day, they may learn a new way to place a protective stop so that they protect their risk, yet don't get stopped out prematurely. This small everyday, seemingly insignificant experiences matter a lot.
Trading is challenging. Few survive to trade over many years. The traders who do survive, however, know how to stay focused and patient. They don't go for quick thrills and unrealistically huge profit objectives. They know that losing is easy and can happen in the blink of an eye, but building capital back up can require difficult work over many weeks. Instead of going for risky, exciting trades, they seek out high probability setups, take steps to protect capital, and execute the trade decisively, according to their trading plan. They may not have an exciting tale to brag about to their friends, but they take home a tidy profit. And when they make trade after trade, the small profits add up, and they end up with big profits in the end.
So when you feel that your earnings have reached a plateau, don't get discouraged. As long as you are making profits, and staying in the game, you're continuing to develop your trading skills. You're adding to your knowledge base. You're developing a more intuitive feel for how the markets operate. It may not seem like you're making the profits of a -Market Wizard,- but if you keep at it, you'll be one of the rare few that join the ranks of winning traders.

Self-Monitoring: Facing Facts and Taking Action.

Seasoned traders know how to turn losses into gains. They don't mull over past defeats or trading losses. Instead, they use the setback as a motivator, an opportunity to hone their skills, grow, and improve. They examine what they did wrong, learn from their mistakes, and view the temporary setback as a launchpad from which to achieve a higher level for future performance. Seasoned traders work under the assumption that with proper risk management, they can win as few as four trades out of a dozen and still come out ahead.

They have an optimistic attitude and are not afraid to face their limitations head-on. They look forward to examining their past -losing- performance in scrupulous detail and discovering the factors that led to poor performance. Once they identify the problem, they can correct these factors, perform the task again, and hone their skills further so as to enhance their performance. The more you can self-monitor your performance and take decisive action to make corrections, the more profitable you'll trade.

It is useful to keep accurate records of all factors that may impact the outcome of your trades so that you can learn from your losses, improve your performance, and do better next time. From a psychological frame of reference, document factors associated with the loss, such as whether you were in a bad mood or acting on impulse rather than with a calm and relaxed trading style. Other factors, such as market conditions, trading strategy, preparation for the trade (such as backtesting), or risk management strategy should also be noted.

Armed with this knowledge, one can study a series of losing trades and identify the factors that led to the trades -going wrong.- One can then change these factors in subsequent trades and monitor improvement. The key is to take an upbeat psychological approach. Rather than mulling over one's failure, it's more useful to view past failure as an opportunity to grow and improve. Viewing a loss as a growing experience changes your perspective immediately. You will now focus on what you can do to achieve the bigger goal of becoming a seasoned trader, rather than mulling over the loss from a few of the many trades you will make throughout your career.

So try changing your viewpoint when it comes to losses. Be willing to self-monitor your trades and make changes. You will see your mood and mindset change dramatically. It may not be pleasant to face failure and accept your limitations, but looking at these failures in a broader perspective can change your mood from hopeless, pessimism to excitement and optimism. By monitoring the factors associated with poor performance, and changing these factors in future trades, you can turn a loss into gain, and be on your way to becoming a winning trader.

Socially Responsible Investing.

This week, -Time- magazine published their list of the world's 100 most influential people. On the list is Amy Domini. She runs the $1.5 billion Domini Equity fund, one of the oldest mutual funds based on social responsibility. Inner worth interviewed Ms Domini a few years ago. In the cutthroat world of investing, she offers a thought-provoking, alternative perspective. Here are a few excerpts from our interview with her.

What is a socially responsible company? Ms Domini believes that many corporations operate under the assumption that profits are the first and only priority; many corporate leaders believe they should make money at any cost, but adhering to this standard has social consequences. Ms Domini argues that the company's -fiduciary responsibility will consist of meeting that standard, and they will feel justified to do that by any means. They may feel it is moral to bribe somebody at the accounting standards board to create new accounting standards that may make the company look more profitable. Under that standard, it will be their moral obligation to cheat, bribe, and steal. They will feel it is moral to do whatever they can to make money, regardless of the social costs.-

What role can investors play? Ms Domini pointed out that, -The way you invest builds the world your children and grandchildren will grow up in. You must ask, What kind of world do you want them to grow up in?' There are two issues to consider: universal human dignity and ecological sustainability. One should be comfortable as a human being; you would like to avoid needing an armed guard every time you left home or requiring your children to play behind a barbed-wire fence. There's also a health aspect as far as the planet goes. It's pretty simple and straightforward, but right now, the corporate culture works against these issues because the standard is to make a profit at all costs, and human dignity costs money. Environmental responsibility costs money.-

In our interview, Ms Domini pointed out that there are advantages to investing in socially responsible companies, in addition to the fact that they address issues of human dignity and ecological sustainability. It's harder to turn a profit and remain socially responsible. Innovative executives usually run companies that address social and ecological issues. They are on the ball and proactive. And because socially responsible companies are more innovative, they tend to be more profitable over the long run.

According to Ms Domini, it's possible for companies to be both profitable and socially responsible. As Ms Domini points out, -One wants to be mindful of the world you want your children to grow up in. One wants to be mindful when investing. The investor has the ultimate power. The investor is overweighted in power. He or she has more power than other players at the table and needs to take responsibility for his or her actions.-

Enhancing Performance Through Social Support.

Trading is a stressful business. When you are in a trade, your money is at risk, and you repeatedly face the possibility of losing substantial amounts of trading capital. If you are a novice trader, the stress is even greater, since you have not yet learned to trade consistently, and losing significant amounts of trading capital is the norm, not the exception. Managing stress is key to trading success, and maintaining a social support network is an important way of managing this stress.

Psychologists have studied social support critically. When extremely stressed people have a person, or persons, with which to vent their frustrations regarding stressors, they are able to better cope with the stressors. Oftentimes, merely expressing stressful emotions of anger, fear, and frustration can make one feel optimistic, empowered, and ready to tackle new stressors with renewed vigour.
But not just anyone will do as a member of a social support network. Ideally, people in one's social support network should be good listeners; they should want to hear about your problems, support your feelings, and make you feel you can neutralize your emotions and come up with new ways of coping. Some relationships are uplifting, while others provoke frustration or anxiety, and can be yet another hassle, rather than uplifting.
An interpersonal relationship is uplifting when you gain emotional support, but it's a hassle when the relationship actually causes stress. This may be especially true of trading since not everyone in a novice trader's social support network is supportive of trading activities. For example, suppose your spouse is not supportive of your trading plans, and frequently greets you at the end of the trading day with, -How much did you lose today?- or -I wish you would give this up and go back to your regular job.-
Such comments produce even more stress. Similarly, if you have conservative, risk-averse friends, they may not want to hear about your trading activities, or subtly express a sense of scepticism with every word. In these cases, such relationships are unsupportive at best or extreme stressors at worst. Thus, it is vital that you seek out the right kind of social support.
One of the best ways to build a social support network for your trading is to form a set of relationships with others who share your trading interests. Ideally, this should include senior members of the trading profession, or informal mentors, as well as traders at your own level of skill, especially if you are a novice. These individuals will have similar stressors and can help you cope more easily. They also need to form relationships with other traders who, like you, know the pitfalls of the trading field and support your motive to become a seasoned and consistently profitable trader.
Social support is a proven method for neutralizing stress and the unpleasant emotions associated with it. It's an essential key to trading success, so go out and add a few traders to your social support network; you'll find the journey to success a lot smoother.

The Sporting Life.

Professionals at the top of their fields maximize their psychological resources. Professional athletes have known this for decades, and top traders are learning that consistent performers are in top physical and mental shape. Winning is all about having the right mental edge. We've all observed how this works on the playing field. Football teams with the proper mindset can turn a 21-point loss in the first half into a win, even if it means scoring a winning two-point conversion in the last 20 seconds the game. Other teams can't recover if they don't build momentum in the first half. They drop the ball, throw an interception, and lose ground as the clock ticks away. Having the proper mindset can help you win the game of trading. This is true for playing sports as well as investing.

You've got to have the right mindset to trade profitably, day after day, and come out with a winning record, even when market conditions change. Many of the traders in the Innerworth Master Interview series are former college or professional athletes, who see a connection between trading and sports. For example, Scott Shellady, a Chicago-based trader and former University of Colorado Buffaloes football player says, -a lot of this relates to athletics.-
-You have to analyze what you're doing wrong- -Sometimes it can be the market and sometimes it can just be a little bit of bad luck, but at the end of the day, you have to take each day separately and try to steer clear of sticking them all together and saying, Boy, I've really stunk in the last 10 days.'- Andy Bushak, a former Cleveland Browns' linebacker equates trading to preparing for a football game: -The whole week you watch game films of the other team. You look for tendencies. You practice.
When it comes to game time, you don't have to think. You have to react. Trading works the same way.- Christopher Tate, a trader based in Australia, sees trading as analogous to surfing. -You don't know when the next wave will come, but you know one will come eventually. When the right wave comes along, you need to be ready to ride it, take advantage of it, and make a win.- What all of these traders know is that stock analysis alone will not make one a winning trader. One must be ready physically and mentally to be a winner.
Andy Bushak, who offers seminars to traders through Advanced GET, has noticed that former athletes tend to make good traders. It's probably because they are used to sticking to a game plan, recovering from setbacks easily, and are comfortable acting on their perceptions. They don't second-guess their decisions and actions. Instead, they get some key support and resistance levels, come up with a plan, and go into the markets to see what patterns and setups are consistent with that plan.
When they see a setup that will work with their plan, they act decisively, without hesitation or doubt. Since they have the protection of their capital through proper risk management, they are not worried if they make a mistake. They can recover quickly and take advantage of the next opportunity, or -ride the next good wave- to use Christopher Tate's surfing analogy. It's useful to think about how trading is similar to playing a sport. Considering these similarities and applying them to your trading style may help you improve your trading performance.

The Standard Error: Why the Opinion of the Masses Can Never Be Measured Precisely.

On classic episodes of -Star Trek,- Captain Kirk often asked Mr Spock, -How far away is the target?- In his typical reply, Spock gave the exact distance down to at least the fifth decimal place (such as 10.10321 meters). Although it sounds scientific, nothing is measured that precisely. Measurement instruments are rarely that accurate, and such accuracy has no practical purpose since the most measurement is merely a rough estimate at best.

This is especially true when studying the markets, since it's human behaviour that we are studying, and human behaviour is difficult to measure. I wonder if Mr Spock would make a good trader. He's cold, logical, and objective about things, so he wouldn't be swayed by fear, hope, or greed, but would his need for precision and accuracy get the better of him? Nevertheless, when it comes to forecasting market conditions, it makes absolutely no sense to strive for extreme accuracy.

Market prices are based essentially on people's opinion (and although a company's profits and assets play a role in the price of a stock, stock prices these days are far above their -true- value, and thus, to a large extent, prices are based primarily on psychological beliefs). Pollsters and other social scientists are the most qualified experts on measuring public opinion, so it may be useful to consider what they know about measuring people's beliefs and apply this practical knowledge to intuitively assessing the current opinions of market participants and anticipating what they will do next.

When measuring human behaviour, the error is substantial. Have you ever noticed that when a poll is taken, the results consist of two parts: the parameter estimate (for example, 80%) and the standard error (for example, plus or minus 5%)? An estimate of public opinion is merely an -estimate- because (a) not everyone has the exact same opinion and (b) it's hard to accurately measure an opinion. The variability from these two factors is reflected in the standard error.

At best, a social scientist makes a probabilistic statement based on a few key assumptions. One is that the -sample- represents an actual population. Another is that the measurement of the opinion is reliable. The first assumption is often met because very well developed sampling procedures are used. The second assumption is more suspect. It's hard to measure an opinion. And even if someone holds a particular opinion, he or she may not act on it. These issues have a direct bearing on trading.

As traders, we are basically trying to assess current opinion, and anticipate what the masses will do based on that opinion. The masses react to what they see and think others are doing, and traders base their decisions on the potential reaction of the masses. So at the core of trading is the notion that the opinion of the masses is measured accurately by the current prices, and that upon seeing the current prices or current market conditions, the masses react in predictable ways; that is, when prices fall, they become fearful and sell off their positions to protect their remaining capital, and buy again when they see prices rise so as to satisfy their greed. Indeed, a central tenet of Dow Theory is that the masses react to specific situations in a consistent and predictable fashion. But there is good reason to doubt whether observed prices do accurately reflect the true opinion of the masses, or whether people do, in fact, react to situations in a consistent manner.

Social scientists claim that there are regularities, or general laws when it comes to understanding human behaviour. Even though a goal of science is to delineate general laws, it is rarely achieved in the social sciences. People are much too complex. Human behaviour is too hard to measure and people don't always act on their attitudes and beliefs in consistent ways.

Although many social scientists work under the assumption that human behaviour is consistent and predictable, there's little evidence to support this claim. In an influential analysis, for example, Professors David Funder and Daniel Ozer examined the extent to which people responded consistently to structured situations. They analyzed findings from seminal studies in social psychology, such as studies on conformity, obedience to authority, and the -bystander effect.-

In general, structured situations accounted for only 16% of the variance (out of 100%) in people's behaviour, which suggests that situations do not account for 84% of the variance in human behaviour (this other 84% is mostly due to individual differences and unreliable measurement). In other words, it's hard to measure human behaviour, and people do not respond consistently to situations, even standardized well-controlled laboratory situations. So if social scientists can't measure people's behaviour with relatively accurate measures in well-controlled standardized situations, and people don't seem to respond consistently to these situations, how can we expect to measure the behaviour of market participants precisely?

Why should we assume that people would react consistently to particular market conditions (and thus, form the price patterns outlined in classic technical analysis texts)? We probably can't make the assumption. Sure, there's some consistency. But it is nothing like the consistency we are used to measuring in the physical world. Our estimates are merely best guesses and potentially inaccurate ones.

So when you are trying to anticipate what the masses of market participants will do, remember that humans are not like rising and falling tides. They are not nearly as predictable as that. When studying human behaviour, and that's what you're doing as a trader, there is no such thing as certainty. It's all just a matter of probabilities. And that means no one will ever know what will happen in the markets next.

High Standards: Can They Ever Be Too High?.

High personal standards are the hallmark of success. Unless one strives to move beyond one's comfort zone, he or she will never achieve greatness, and when it comes to trading, you aren't going to make huge profits unless you set your sights high. That said, it's imperative to consider what it means to set -high personal standards.- It's not as obvious as it seems, especially for trading aspirations.

Depending on the context, setting extremely high personal standards, and meeting them, is sacrosanct. When one has a demanding job where even the best effort may not be quite good enough, it is necessary to comply with extremely high standards. Examples of such occupations include teachers who must ensure their students reach a prescribed level of mastery, a surgeon who must act flawlessly to save a patient's life, or a pilot who must fly a jet airliner carefully to ensure passenger safety. (And of course, it is also useful to take a similar stance when trading.)

But there are times when one may set standards inappropriately, a little too high for a particular context. For example, some people are extreme perfectionists. They set standards higher than they can possibly achieve. A pathological example of this is found in people who experience frequent bouts of depression. These individuals set high standards they can't meet, and feel like failures when they can't reach them. This can happen to traders who set profit objectives beyond their skill level.

They may feel disappointed and helpless because they never meet their expectations. But usually, traders set unrealistically high standards in other ways. A common ailment is analysis-paralysis. Some traders have such high standards that they over-think and over-analyze market data before entering or exiting a trade. This often leads to hesitation and self-reproach and tends to undermine one's trading strategy. Timing is everything and if you cannot enter and exit trades at the right time, your trading account will take big hits.

Another common example of overly high standards is illustrated in the belief that one must not miss an important trading opportunity. Some traders think they must find every opportunity to make money in the markets, and they fear they may miss even one trading opportunity. They find this possibility hard to accept. But seasoned traders will warn you that setting your sights on finding every opportunity will produce undue stress. You'll be much more successful if you remind yourself that you just can't expect to trade every possible opportunity.

So how does a trader set appropriately high personal standards for trading? One way is to maintain a high level of discipline. For example, outline and follow a very detailed trading plan. Define specific entry and exit strategies, and use appropriate risk management. Once you outline your plan, it is important to follow it.

Don't let yourself stray from your plan. And don't focus your immediate attention on how much profit you are making on each trade. Instead, concentrate on whether or not your profits are -justified- in that they are a direct result of following your trading plan. Remember, it's better to have a -justified loss,- which results from showing proper discipline and following your plan, than an -unjustified win,- which happened because you abandoned your plan.

Setting high personal standards is a key prerequisite to success, but there are a right way and a wrong way to set these standards. Don't be an extreme perfectionist. Execute your trading plan effortlessly, and make sure you stick with it. High levels of discipline are one of the best ways to set high standards for your trading, and they will help ensure you trade profitably and consistently.

In a Trading State of Mind.

When navigating through the minefields of the trading day, it's vital to stay calm and optimistic. There can be days when you have to overcome setback after setback, and unless you're mentally resilient, you can get beaten down to the point where you don't feel like getting back up. It's necessary to trade with the proper mindset. You must be ready to act effortlessly and skillfully. You must be in the right state of mind.

We can involuntarily and unexpectedly move back and forth between different states of mind. Have you ever gotten into an emotional fight with a family member or friend? You may not know what came over you, but you may suddenly conjure up old memories. You may feel wronged, manipulated, or disrespected. The next thing you know, you're yelling at the top of your voice. In this angry and frustrated state of mind, you're likely to strike out in self-defence. There are positive states of mind too. For example, you may fall in love with someone you just met and believe that you've found the love of your life, a person who makes you feel safe and secure and can do no wrong. At that point, you are consumed with thoughts and feelings that take over.

States of mind consist of thoughts, emotions, and expectations. They are powerful. When we are in a particular state of mind, we can lose control and act on impulse. It's essential that you trade in the right state of mind. The proper state of mind for trading is that of a logical, calm, and objective thinker. But many times, we enter states of mind that aren't conducive to trading.

For example, it's easy to get yourself worked up by thoughts and images that create a sense of panic: -I'm losing too much money. If I keep making losing trade after losing trade, I'll wipe out my account. And worse yet, I won't be able to meet my future financial responsibilities. What will I do?- When you start thinking negatively, you'll be consumed with self-doubt, and even a minor setback can cause extreme feelings of frustration and panic.

If you let this negative state of mind take over, however, you'll start making trading errors. You'll stagnate and become blind to new market opportunities. You can also fall prey to positive states of mind. For example, when you let your fantasies of fame and glory take over, you may start to believe that you've found the perfect trade that will make all your dreams come true. Or you may think you are on an invincible winning streak. In this overconfident state of mind, you may take unnecessary risks and fail to look at the markets objectively.

Don't let overly positive or negative states of mind bias your ability to read the markets accurately. Be aware that your states of mind can change rapidly while under stress and uncertainty. And when you are in the grip of these thoughts and feelings, you can lose some of the psychological control you need to trade the markets objectively. If you find yourself in a state of mind that interferes with your ability to stay objective, you might want to stand aside until it passes.

In addition, it's also useful to identify which states of mind are likely to creep up while you trade, and script an -internal dialogue- to counter it. When you're overconfident, for example, you might think, -Don't get too excited. Stay objective and rational. Don't blow things out of proportion.- While frustrated with minor setbacks, you might think, -Look at the big picture. As long as I manage risk, I can get through this. I just need to keep my cool and concentrate.- States of mind will overpower you only if you let them. If you can identify them quickly and counter them, you can cultivate the peak performance mindset you need to trade profitably.

In a Trading State of Mind 2.

If you're like most people, your moods change throughout the day. There are times when you are extremely energetic and optimistic. You feel like you can do anything. You are in an optimal state of mind for trading. A state of mind consists of a constellation of moods, feelings, thoughts, and memories. In an optimistic state of mind, you feel powerful and ready for action; you feel enthusiastic and energized.
You have a can-do attitude. You remember past triumphs and you're inspired as you think of your past accomplishments. You are open to new ideas, and you can creatively think of new trading strategies. You can't wait to trade. At other times, though, you may feel down in the dumps and beaten, as if you are paralyzed by your emotions. You remember every failure, no matter how small, and you wrongly believe that these minor setbacks illustrate your inadequacy. As you might imagine, some states of mind are more conducive to trading than others.

Sometimes our moods, and corresponding states of mind, change for no apparent reason; it may just be the time of day or a biological mechanism. Other times, our moods reflect daily events, such as a string of unexpected losing trades. But regardless of how it happens, our current state of mind impacts how we approach trading.
When you are ready to execute a trade based on your meticulously defined trading plan, and you are also in an optimistic state of mind, you execute your plan flawlessly. Other times, in contrast, our states of mind are less than optimal. For instance, we may feel pessimistic when we are ready to execute a viable trading plan, and if we allow these feelings to dictate our actions, we may decide to abandon the plan for no good reason.
It would be nice if we were always in an optimal state of mind, but it isn't always the case. Some traders are naturally tired during the trading day, but in the evenings, after a little rest, they think clearly and creatively. These traders may find it useful to devise specific trading plans off-hours when they are in a creative, optimistic mindset. When they go to execute the plan the next day, though, they may feel dreary and unenthusiastic.
If they have a well-defined plan that is clear and easy to follow, however, they find they can ignore their current feelings, and focus all their energy on executing the plan. They may think, -I'm not going to let my low energy mood interfere. I can't think clearly when I'm like this, so I'm going to just focus on execution and live with what happens. As long as I follow my plan, I will have met my objective.-
Other traders may be overly optimistic during the trading day. Extreme optimism can be dangerous. Overly optimistic traders may feel invincible and get a swelled head. They may impulsively put on low probability trades, seeing positive signs when there aren't any. Later in the day, they may think, -How could I have been so impulsive?- During more calm and rational moments, they may see things more clearly. At these times, they would be wise to use these states of mind to clearly map out trading plans. Once the trades are mapped out and clearly specified, the trading plans can be more easily executed when market conditions are just right.
Because our moods may not be optimal at the moment of execution, a detailed trading plan can ensure that a trade is executed with discipline. Whether you are overly optimistic, dreary and pessimistic, fearful and anxious, or frustrated and scattered, if you have a well-defined trading plan, you can temporarily ignore your current state of mind, and focus all your available energy on executing the plan. A less than optimal state of mind doesn't have to hamper your trading. You can still trade profitably if you make a detailed plan and trade it.

Stay Detached from the Outcome of Your Trades.

How often have you stared at a Level II screen and/or a five-minute chart of the stock you are trading'and your heart leapt or sank with every tick up, or down? Maybe, in the midst of a winning trade, you slapped yourself on the back and shouted, -I'm a genius.- Or, perhaps as you watched a stock fall past your protective stop and tumble to depths unknown, you muttered, -I am so-ooo stupid.-

While fluctuating emotions are certainly human reactions'especially when tied to hard-earned money gained or lost'they can colour perception of market action and even serve as the impetus for major trading mistakes.

If you have committed to trading as a full-time, or even part-time, income source, you know that volatility is part of the game. Indeed, traders make much of their profits when markets reverse, trends change and the about-face in supply and demand imbalance provides price momentum and velocity.

But to the novice or inexperienced trader, it's during these chaotic market conditions that emotions are most volatile, rapidly moving between fear and greed, or elation and disappointment. Skilled traders know how to control these emotions. How do they do it? The skilled trader manages his or her trade with no attachment to the outcome. When the stock falls to the protective stop, the position is closed immediately, and with a shrug.

Small, controlled losses are expected. Or perhaps the stock moves neatly up to the profit target. The skilled trader assesses the price movement and either close all or part of the position or even adds to it while raising the stop-loss. Either way, the seasoned trader has planned the trade and is trading the plan with controlled emotions and calm, detached confidence that supports consistency and success.

Stay Objective.

Top traders are brutally honest about their performance. There's a powerful tendency to assess our trading performance in a self-serving way. We want to feel good about ourselves, so we tend to convince ourselves that we're doing better than we actually are. But long-term success as a trader requires that you know exactly where you stand. There are countless examples of traders who ignore their limitations, feed their trading accounts annually, and never actually achieve profitability. It's a shame. If they would have just objectively looked at their performance, kept track of which strategies and methods were working, and which ones were not, and repeated the winning strategies, they could have achieved profitability. It may be difficult emotionally, but facing up to our limitations is the only way long-term profitability can be achieved.

Facing limitations is difficult, especially if one is a poor performer. Psychologist Dr David Dunning argues that poor performers are -blissfully unaware of their incompetence.- They overestimate their abilities. Their intuition tells them that their performance is superior, yet objective estimates show their actual performance is under par.

For example, when people are asked to take a test measuring abilities, such as thinking logically, writing grammatically, and spotting funny jokes, they tend to overestimate their performance: they think they are performing well above average, yet their actual performance is in the bottom 25%. These biased estimates aren't restricted to taking tests. People in a variety of settings and skill areas overestimate their abilities. Debate teams in college tournaments wrongly think they are eloquent debaters.

Hunters who are bad shots think they are expert marksmen. And medical residents think they know how to diagnose patients more accurately than they really can. Studies have even shown that when people are offered money to estimate their performance accurately, they still can't do it. This phenomenon has also been documented in the trading realm. Behavioural economist Dr Terrance Odean, for example, has shown that online investors tend to trade beyond their skills.

They don't have an accurate picture of what they can and cannot do, so they overtrade, and in the long run, they reduce their overall profitability. It's vital for long-term success to keep an accurate, objective log of your performance. Don't allow yourself to think you have more skills than you actually do. Top performers don't overestimate their performance abilities. They try to gauge their performance as accurately as possible and tend to avoid worrying about whether they are -good performers- or not.

They live in the moment and just try to perform to the best of their ability, rather than try to convince themselves they are top performers. They see setbacks as just objective pieces of feedback, assess their implications, and take decisive action to improve matters. In the end, focusing on their immediate experience, rather than enhancing their view of themselves, helps them remain profitable.

So try to be as objective about your performance as possible. Keep in mind that your intuitive performance estimates may be extremely exaggerated. Try to ignore them. Create an objective log of your trading results, such as a trading diary. By keeping a trading diary, you will know exactly how well you are performing. And the more objective about your performance you can be, the more likely you'll take the steps you need to achieve profitability and maintain it.

Stay Calm, Relaxed, and Ready: Don't Crack Under Pressure.

Successful traders have learned how to make trades in a carefree, relaxed, and focused manner. They don't put unnecessary pressure on themselves, stress themselves out, and then crack under the pressure. They don't believe that they must succeed in any single trade; they keep their eye on the big picture. They don't believe they need to be right. They don't impose their will on the market. And they don't try to predict the future behaviour of the market. Instead, they objectively observe market conditions, make a detailed plan of attack, and let the market take them where it wants them to go.

They stay calm and relaxed, and ready to anticipate what will happen next. Successful traders enter -the zone- as Mark Douglas and others have described this peak performance mental state. Seasoned traders do not doubt or second-guess themselves. They freely enter and exit trades without worrying about the consequences. This carefree approach to trading allows them to see trading opportunities more easily and allows them to take advantage of these opportunities when they arise.

Trading is a lot like playing sports. Players must stay objective, calm, and not crack under the strain of wanting to be -the best- or -perfect.- Over the weekend, college football fans observed what happens when a team seems to be playing -so perfectly- that some say they are -unbeatable.-

All season long, the Oklahoma Sooners have been winning and winning big. They were the only undefeated college football team, until Saturday night when they lost by over three touchdowns to the Kansas State Wildcats. What's surprising about this loss is not that the Sooners lost, since even the best teams can lose occasionally. It was the way they lost and how they seemed to be defeated psychologically. After making their only touchdown in the early moments of the game, they seemed to be stunned and shaken for the rest of the game.

They couldn't make even a single touchdown. It was unexpected and hard to believe. One commentator said it was like the bully who had never been beaten down. They knew how to win, but when upset and knocked down, they didn't know how to get back up. Sooners' Quarterback Jason White said, -They put pressure on us and got to us a few times.- And as the clock ticked away, Kansas State made another touchdown, then another, and then another. As one announcer put it in the final minutes of the game, -They just want to lick their wounds and go home.-

From a purely psychological perspective, one can wonder what would have happened had the Sooners lost one of their first few games. Maybe they would have learned how to recover from a setback, and when they were down by a couple of touchdowns, they could have easily come back to take the win. It's like what some hedge fund managers say about good traders: -The best traders are those who have blown out their accounts a few times. They know what it feels like, know how to recover from it, and the possibility doesn't haunt them anymore.-

Although it's unpleasant to think about, it's worth considering the worst-case scenario, and making a detailed plan to recover should it happen. It's just one strategy for learning how to trade in a carefree manner so that should you face a severe financial setback, you can recover from it. Trading in the zone requires intense concentration and focus, and it's difficult to maintain this stance when the pressure is on you to perform. Thus, you must do whatever you can to reduce the perceived psychological pressure. The most obvious way to relieve such pressure is to think in terms of probabilities and carefully manage risk.

It's useful to remember that you may not win on any single trade, but after a series of trades, you will have enough winners to make a profit in the long run. It's also important to manage your risk. Determine your risk up-front and risk only a small amount of trading capital on a single trade. Doing so will ease a lot of the pressure, allowing you to be more open to seeing the opportunities that the market offers. Don't crack under the pressure of a potentially mortal financial defeat. Consider the possibility, and be ready to recover from it.

The Advertiser's Dream.

Image is everything. We are bombarded with advertising images on radio, television, and more recently, on our computer screens. These images work on both conscious and subconscious levels. We see an attractive model next to a racy new sports car and the message is that we too can have a desirable mate if we buy the new car. Sometimes we aren't entirely aware of how these powerful images may influence our behaviour.
In a classic psychology study, for example, Dr Robert Zajonc demonstrated that mere exposure to an image increased subjects' preference for it. The more we see an image, the more we like it. The image of a company or stock can also have an impact on our trading decisions. Whether it is seeing commercials touting how a company is changing the world on Sunday morning talk shows or just financial analysts talking up a stock, these images impact our preference for the stock. Upon seeing these advertising images, we may irrationally believe the stock has more growth potential than it actually does.

A study by Dr Donald MacGregor and colleagues illustrates how the image of a company can bias decision-making. The better the company image, the higher the perceived growth potential. In their study, a group of advanced business students was asked to make decisions regarding a set of industry groups on the New York Stock Exchange. Examples of the industry groups were computer software, pharmaceuticals, railroads, and managed care.
Unknown to the participants, half of the industry groups consisted of high performing stocks (greater than 20% return) while the other half consisted of low performing stocks. Participants rated each industry group on whether they had a positive (for example, value, activity, and strength) versus negative image.
They were also asked to estimate the rate of return for each industry group. The more highly an industry group was rated on value, activity, and strength, the higher the estimated return. However, a company's image had no relation to actual market performance, as measured by weighted average returns for the industry group. In other words, participants let the image of the company influence their forecasts.
This study shows how images can have a powerful influence on our decisions. We encounter many images in our everyday lives, and it's essential that we identify the potential influence of these images on our judgments. Don't let these images bias your price forecasts. Be aware that, sometimes, you may have a positive image of a company that may override your logic. Try to minimize the influence of these attitudes. Reevaluate your trading plan and make sure that you are basing your decisions on specific evidence, rather than hype or image.

Stereotyped Trading.

Jason has been following a company stock for the past year. It's a great company with solid management, high sales growth, and consistently high earnings. It is in a booming industry sector and a favourite of the media. After a year's worth of careful deliberation, Jason has decided to pull the trigger and buy a large position. He can't see what can go wrong. What can go wrong? It's a good company, right? Behavioural economists, however, point out that a good company may not be a good investment.

The human mind has limits. In order to sift through a variety of information, we take shortcuts. One of these shortcuts is called the representativeness heuristic. It works something like this. If it looks like a dog, acts like a dog, and barks like a dog, then the animal walking beside you must be a dog. Similarly, one might understandably think that if it looks like a good company, then it is a good investment. But it may not be a good investment.

We all want to invest our money in stocks that will continue to rise. Many investors are constantly searching for stocks that will continue to rise. When we see a company that makes profits and beats analysts' forecasts, we tend to think it will continue to build momentum. But this conclusion may be the result of a decision-making bias.

When we make this observation, we are assuming that what we see at the moment -represents- future performance. In other words, if it looks like a company that will make a profit in the future, in that it was profitable currently and in the past, then it is a company that will make profits in the future. But history only repeats itself when it does. There are many reasons, however, that the company will fail to make profits in the future.

First, it's difficult for any company to maintain high earnings. Second, a company can have significant management changes that may impact future earnings. A management team, for instance, can push itself to make tremendous profits in the short-term, but over time, they may become worn out and profits may wane. The company may be at a high point, and if it is, regression toward the mean eventually sets in, and the stock price declines along with profits.

Informed decisions are vital for financial success. Don't engage in stereotyped thinking. A company may seem like a good investment, but upon careful consideration, you may decide that a company's high performance may be short-lived. In that case, you may want to go short or sell off an existing position to the masses while there are still a group of enthusiastic buyers. What you don't want to do, however, is be caught off guard, buying as the masses are buying and selling when there is no one left to push the price higher.

The human mind has a tendency to gloss over details rather than carefully considering the long-term factors that may push the price of a stock higher and higher. Be aware of decision-making biases that may undermine your trading plans. If you can carefully think through all possibilities, you'll beat out the masses, and take home huge profits.

Sticking to the Plan.

Novice traders often report that they have difficulty sticking with their trading plan. There are many possible reasons. A common issue is not having a clearly defined plan. When a trading plan is not clearly defined, it is hard to follow and easy to abandon. When you trade by the seat of your pants, even just a little bit, you can panic at the wrong moment.
You may be prone to over-thinking your plan or you may become easily consumed with self-doubt. When you clearly define a plan, in contrast, you can implement it more automatically. You can enter and exit more effortlessly. Many novice traders say, however, that even when they painstakingly delineate a trading plan, they still have difficulty following it. Depending on your personality, you may or may not have difficulty maintaining control and discipline.

People who are controlled and disciplined in everyday life, ironically, tend to have trouble sticking with trading plans. Disciplined people are rule followers, and research studies have shown that rule-followers prefer certainty. However, anyone who has traded the markets for a few months soon realizes that the markets are not certain, and conventional wisdom is not consistently valid.
It is only true when it is, and the rest of the time it is wrong. As it turns out, people who are more impulsive in everyday life have less difficulty following a trading plan. They view trading as a -game- and they enjoy risk. These kinds of people truly don't care what happens. They have a natural, carefree attitude when it comes to trading. In a sense, they just don't care. They can easily think, -Why not follow a plan? It doesn't matter if it goes awry.- This kind of thinking is useful for a trader. Most traders, however, have trouble approaching trading with a carefree attitude. For example, they may see the price rise initially. But then it stalls before reaching the predefined exit point. They instinctively think, -How much longer can it go up? There aren't enough buyers. I can't wait. I've got to sell and lock in my profits right now.- When they get to that point, they start thinking, -Don't be greedy.
How can it be a bad thing to get out early and get a profit?- At that point, it's hard to stay in the trade. But it is vital for economic success to stick with the plan. It is a matter of simple mathematics. Although there may be several profitable trade setups out there, finding one is relatively rare. You'll see many more setups that don't pan out than actually do. When you hit upon one, you must capitalize on it, and maximize your profits, getting as much out of the trade as possible. Otherwise, over the long run, your winners won't balance out your losers.
If you are a natural-born risk taker, sticking with your plan is less difficult. Risk-takers get a rush from the trade and can't wait to see what happens. The psychological rush is more enjoyable, in some ways than the outcome. Most people, however, are naturally worried about the outcome of their trades and a little cautious voice nags them to get out of a trade before it comes to fruition. How do you quiet the voice of caution? It's hard. Some traders have suggested trading while tired or dazed, so that only a fixed amount of energy is left to both foci on the cautious voice and trading, so in the end, you just automatically trade the plan.
The idea is to lower one's inhibitions so that that he or she just follows the plan without thinking. It's the right idea, but it is hard to implement. Some people may be able to trade while tired and dazed, but it is more likely that such a strategy will produce impulsive decisions in most people. It is probably wiser to be rested so that you can concentrate and quiet the little voice that nags you to get out of a trade.
Perhaps the best thing you can do is to manage risk. If the outcome of the trade truly doesn't matter, then you won't worry as much and can stick with your trading plan. Once you are rested, can concentrate, and you have relatively little to lose, you can try to cultivate the proper mindset of the winning trader. Winning traders view trading as a game, much like how a person plays a videogame. They think, -I'm just trading for fun.- They look at a trade and think, -I want to see if it reaches the exit point or not.
It is more important to find out than anything else.- They enjoy the game. They are a student of the markets. The learning experience is more important than the outcome. Winning traders are not only

players of the game, but observers. They know how to look at the market action, even while in it, objectively, and it is more important to see what happens and gain experience than merely winning. If you can cultivate such an attitude, you'll be able to follow your trading plan and silence the voice of self-doubt that often thwarts your trading efforts.

Seeking Out Protection In a Risky World.

Making a profit in the trading world is hardly a sure thing. How you deal with this fact of trading, though, depends on your personality. Some people take risks in stride, while others obsess over them. Which type of person are you, a natural-born risk taker or an obsessive, fearful seeker of safety?

Life is a matter of taking risks, but some people embrace it while others superstitiously try to avoid it. For example, have you ever seen an extremely ineffective car theft device called -The Club?- One is fooled into believing that by putting a massive metal bar on your car steering wheel, you are protected. It seems like it would work until you realize it takes merely a few minutes to cut the steering wheel with a hacksaw and pull it off. Similarly, why do car stereos have removable faceplates?

Do you think thieves are actually unaware that there isn't an expensive stereo beneath a removed faceplate? These kinds of -protective- devices make us feel better, at least until we realize that they don't work. At that point, we think, -How could I have been so stupid?- That said, feeling protected helps take the edge off. Even if it is just superstitious behaviour, like wearing your lucky shirt on the day of a big trade, you feel better when you do it. There's a psychological benefit to it, even if it isn't foolproof.

We can alleviate some of the uneasiness of taking risks through risk control. By risking a small percentage of your trading capital on a single trade, and looking at the big picture, you will feel more at ease. From a psychological viewpoint, it is to your advantage to make a potential trading loss so insignificant that you may start thinking, -Why am I even bothering making this trade?- There is no universal rule for how to limit risk. Some experts suggest risking merely 2% of your capital, while others suggest 5%, and still, others suggest using past market action to determine the amount of loss you can afford to take (for example, if the market is bullish with many opportunities for profit, then you can take a little more risk.)

The best way to control risk is to set a protective stop, but whether or not you set a stop loss or how you do it depends on your personality and attitude toward risk. If you are a natural-born risk taker, you may not set a formal stop loss at all. You may keep an informal stop-loss point in mind and close your position when the stock price reaches that point. At the other extreme, the obsessive-compulsive, worrier trader may set the stop loss too close to the entry price and end up getting stopped out too early.

The middle ground seems to be reasonable for most traders. Again, it depends on your personality, but if you are afraid to take a loss, a stop loss can help. If you don't have a stop loss and hate taking a loss, you may not close out a position when the price falls hard. You may be prone to hope against hope that the trade will turn around, and watch your losses mount as you fail to take action. The stop-loss order, however, guarantees that you will be out of the trade should the price take a dive.

The trick is not to be overly rigid or rule-oriented when setting a stop loss. The obsessive-compulsive trader, though, tends to make up superstitious rules for setting a stop loss. For example, suppose that a trader has a $100,000 account and does not want to lose more than 2% or $2,000 on a single trade. Suppose that the trader buys 1000 shares at $50 a share, a potential loss of $50,000. An overly rule-oriented trader may mechanically decide that the price cannot fall below $48 and set a protective stop at that point to restrict the losses to about $2,000. But this is superstitious behaviour to some extent.

The stock may fluctuate between $47 and $51 as rising over time. The trader is likely to be stopped out. It is vital to be more flexible. It may be necessary to purchase less than 1,000 shares and set the stop loss lower in order to minimize risk to about $2,000, or just risk more than $2,000 if the potential profit warrants taking a slightly greater risk. Whatever you do, it's necessary to accept uncertainty and make a reasonable decision than a superstitious one. Taking losses is difficult, and we all want to seek out protection to ease the burden of making tough decisions, but it's essential to make reasonable decisions rather than superstitious ones. Protect yourself, but don't be afraid to take a little extra risk when you need to. Risk is a fact of life, and in order to live productively, you must accept it.

The Psychology of Stops.

Would you ever think of jumping out of an aeroplane without a parachute? Of course not, but that's what some people do when they trade the markets. They are very willing to put their money on the line, but they don't have much to protect them from a major disaster. Placing a stop, for example, can prevent you from allowing a small loss to turn into a big one, but many traders avoid placing stops. Why do some traders take risks by not placing stops? It can be difficult to know where to place a stop.

If you fail to account for volatility, you will get stopped out too soon. Other people are afraid to place stops. Placing a stop requires you to consider the worst-case scenario, and to many, it's difficult to consider failure. It's easier to deny the potential problem and to pretend it will not possibly happen. Many experts, however, suggest placing stops. They know that nothing is certain when trading the markets. They view protective stops as a kind of insurance policy that prevents them from losing money.

David, a seasoned trader interviewed by our staff, says -I never take a trade without knowing my stop. When I take a trade, I'm pretty convinced it's something worthwhile. I've already figured out my stop. I've accepted the (potential) loss before I ever clicked the button or made the call. So if it starts going against me, I don't feel a flood of emotions.- For David, stops not only protect him from losses, but they help him control his emotions. Stops give him a feeling of security and allow him to feel calm and relaxed.

Seasoned traders may use stops all the time, but even the most seasoned traders have difficulty following them. Shawn, for example, admits, -I've blown stops and it's painful. The weird thing is that money does not seem to be driving it. Afterwards, I sit and try to analyze the incident. I certainly knew better. I believe trading is something of a self-journey. It involves learning about your character, your self-control, and your ego.-

Dan also admits he blows his stops: -Sure. That happens all the time. There's nothing I can do about it. That's one of the challenges that continue to engross me. Do you hold them or do you fold them? If you fold them and the stock price goes up, you get angry because you made a mistake. If you hold them and they go down, you become angry again. Nevertheless, you have to stay focused on what's going on and learn from the experience and try to apply it to the future. You're going to take your lumps in the market.-

Even though stops are difficult to set and difficult to keep at times, they are an essential component of risk management. Losses are commonplace in trading. As hard as it is to focus on losses, they are impossible to avoid. Rather than avoid thinking of the worst-case scenario, face it head-on. Figure out what could go wrong and where you can place a stop to protect you from a huge financial loss. In the long run, you'll find you will limit losses and trade more profitably.

Stressed Out and Vulnerable.

Many traders underestimate the influence of stress. Stress is not only a psychological reaction but a biological response as well. When you are stressed, your body reacts instinctively. You are agitated, on edge, and ready to lash out. Your attention is restricted. Your mind is closed and inflexible. The stress response has a specific biological, adaptive function: Your energy is channelled into making the simple response of fighting an opponent or running away. Not only is your energy channelled, but your perceptions are limited. Trading requires a more complicated skill set, though, and when you feel stressed out, you are bound to make a trading error.

It's surprising how stress can impact your ability to trade effectively. What's there to impact? Trading isn't that complicated, is it? Actually, there's a great deal that can happen. You can have a very complete trading plan, where every aspect is spelt out clearly, and you may have a wealth of experience executing such plans, but when you are stressed out, even the most simple task can be difficult to complete. You may not see an obvious signal to take action. And even when you see the signal, you can make a small mistake when you're stressed.

Again, you are agitated and your psychological perceptions and intuition are restricted and closed off. You miss little things and have a tendency to respond quickly without thinking. While trading, we often do things automatically, without thinking, but stress can cause us to act so quickly that we miss something. We may forget to place an order according to plan or we may misread a signal and close out a position too early. These little errors can be frustrating.

How can you beat stress? The most effective stress control strategies prevent stress before it happens. It is useful to minimize potential stressors. Getting into an argument with your spouse, for example, can put you in a bad mood that can escalate into an intense, distracting mood later in the day. Minor hassles can build up. For example, you may get cut off on the way to work, or the police may wrongly give you a traffic ticket.

It can all add up and set the stage for an incapacitating stress response. It's vital to acknowledge the power of these stressors, and when you feel agitated by them, you may want to stand aside until you feel better. Your trading environment can also impact your ability to handle stress. In many ways, trading is an art. You wouldn't try to create art in a noisy, chaotic environment, and you may not want to trade in such an environment either.

Sure, the pit at the CME is full of action, but depending on your temperament, you may not want to bring this kind of confusion into your trading environment. A quieter environment is more conducive to staying calm and trading with a focused mindset. You can't remove all possible stressors, but when you start feeling agitated, you can try to take active steps to alleviate the uneasiness. You feel stress when you feel personally threatened.

When stressed, you feel that your security is compromised. When you feel a little shaken, it's vital to return to a calm, focused mindset. One of the most effective thinking strategies is to remove yourself from the situation; create a sense of psychological distance. Don't make a stressful event personal. Pretend you are an observer looking at your life as dispassionately as possible. Think unemotionally and strategically. Pretend nothing really matters and that you are merely trying to actively problem-solve to get ahead.

Trading requires an optimal mindset. When you are upset, tired, and emotionally distracted, you will have trouble following your trading plan. It's vital to return to a calm, focused mindset, a mindset where you are attentive and alert and can trade like a winner.

The Mentally Tough Trader.

Winning traders have learned to handle extreme levels of stress. The markets are chaotic and unpredictable; in other words, they are stressful. The mind has limited resources, and when you feel stressed, too much of your resources are devoted to managing the stress. Little energy is left to focus on trading. Did you ever -cram- for an exam in school? It takes twice as long to learn material when you cram.

Why? It's because you are more stressed when you are trying to learn in a pinch. When traders are struggling to cope with the chaos of the markets, they are similarly trying to perform in a pinch, under less than ideal circumstances. As they push themselves to the limits, they sap up psychological energy. As they use up resources, they have little psychological energy left to trade effortlessly. They are more prone to panic and may ride an emotional roller coaster as they face winning and losing trades. It's essential for survival to be able to cope with the ever-increasing demands of the markets.

Dr James Loehr in his book -Stress for Success- notes that if one can learn adequate coping skills, events that usually produce stress need not necessarily produce the stress response. One can develop -mental toughness- as Dr. Loehr calls it. The mentally tough person can endure high levels of stressful events, yet not feel it. Coping with stress is similar to weight lifting, according to Dr Loehr. If you lift more than your body can physically handle, your muscle tissue will be damaged. But, if on the other hand, you never push yourself to the limits, you'll never develop additional strength. One must build up muscles gradually. Stress management works in much the same way. You don't want to damage your psyche by trying to handle too much stress, but on the other hand, if you shy away from stress, you'll never be able to take the stresses and strains of the markets in stride and trade effortlessly, and in a peak performance mind state. The key is to learn how to handle greater levels of stress, but also find time to recover. When it comes to the markets, for example, it's tempting to trade all day and work late into the night backtesting or learning about new trading strategies. Working tirelessly at such a pace is bound to wear you out eventually, however. It is vital to rest and recovers. That doesn't mean shrinking back from the markets, but learning to deal with the pressures of the markets at a gradual, realistic pace.

By pushing yourself to greater levels of challenge, but at the same time, resting and recovering, you can build up mental toughness in the same way that a weight lifter can handle greater and greater loads. There are some basic steps that a person can take to prepare for stress and become inured to it. First, it is vital to get as much rest and relaxation as possible. People who do not get the proper amount of sleep have limited psychological resources to cope with daily stressful events. Getting extra rest is vital.

This may mean taking planned naps during the day to rejuvenate. Don't make the mistake of thinking that you'll be -missing out- on a trading opportunity by taking a break. Look at it this way: How much are you going to make if you are too tired and wiped out to focus on the market action and trade effortlessly? The proper amount of rest can increase your ability to cope with stress. Second, it is also important to exercise and eat nutritious meals. Emotions are physiological responses.

The more energy the body has to cope with stress, the more -tough- the body can be when extreme levels of stress are encountered. Regular exercise helps the body and mind release pent-up stressful emotions. By making sure you allow your stressful emotions to dissipate, your body and mind will recuperate and be ready to deal with extreme levels of stress.

Trading is stressful and demanding. It takes psychological energy to cope with the chaotic markets day in and day out. By taking preventative steps to prepare to cope with the stress, you can develop a sense of mental toughness that allows you to be more resilient during the trading day. The less impact stress has on your mind and body, the more energy you can devote to trading. You'll trade more effortlessly, logically, and profitably.

The Stress Free Trader.

Trading can be hectic. Your ability to generate profits depends on how well you navigate the markets, and the markets are often unpredictable and uncertain. Many traders find the sense of uncertainty stressful. If left unchecked, stress can build up and cause physical and psychological problems. The negative emotions associated with stress can, in turn, create a poor sense of morale and can contribute to trading errors. In addition, during the holiday season, there are added pressures of inconsistent market conditions, shopping, and meeting expectations of family and friends. It's vital to combat stress and try to become as stress-free as possible.

It is useful to practice stress prevention. That is, try to minimize the impact of stressors as much as possible. Stressful emotions can build up, and if not released occasionally, one can be overloaded by stress. You can't completely remove stress from the trading environment, but you can prevent the stressful aspects of trading from making you feel overly anxious and fearful by developing a stress management plan and following it.

Some useful ways to manage stress include (a) avoiding caffeine, (b) exercising regularly, (c) minimizing daily hassles, and (d) seeking out social support. Caffeine helps many people wake up in the morning, but it may often elevate your nervous system to the point of making you hyper-alert to the slightest form of stress. Trading is stressful enough; it's not useful to pre-elevate your nervous system and feel a heightened sense of anxiety. Tension can also be reduced through regular exercise.

Tension builds up during the trading day, and a regular exercise program ensures that pent-up frustration and tension are released, and do not build up to influence subsequent trading decisions unexpectedly. It's also important to reduce stressors in your environment. Daily hassles, such as time pressure, traffic congestion, or feeling over-extended can build up psychological tension and loiter in the back of your mind. Try to minimize these hassles and relieve the pent-up tension. But however you cope with daily hassles, don't ignore them; don't try to pretend they aren't important enough to deal with immediately. They can accrue and cause you great strain in the long run.

Seeking social support from friends and loved ones is an effective way to cope with stress. When extremely stressed people have a person, or persons, with which to vent their frustration, they are able to better cope with the stressors. Oftentimes, merely expressing stressful emotions of anger, fear, and frustration can make one feel optimistic, empowered, and ready to tackle new stressors with renewed vigour.

That said, it's important to remember that relationships can be a double-edged sword. They can help relieve stress under the right conditions, but they can also be a substantial source of stress, especially during the holiday season. Not just anyone can serve as a vital member of one's social support network. Ideally, people in one's social support network should be good listeners; they should actually want to hear about your unique problems, support your feelings, and help you alleviate stress. Some relationships are uplifting, but other relationships provoke frustration and anxiety.

This may be especially true for traders since not everyone in a trader's social support network understands trading or is supportive of it. For example, suppose a loved one is not supportive of trading, and frequently provokes anxiety by saying things like, -How much did you lose today?- or -When are you going to give up trading and go back to your regular job.- Similarly, a conservative, risk-averse friend may not want to hear about relatively risky trading activities. In these cases, such relationships are unsupportive at best or extreme stressors at worst. Thus, it is vital for your psychological health to seek out the right kind of social support.

This holiday season doesn't let stress get the better of you. Try to stay calm and relaxed. Enjoy yourself as much as possible, and you'll be rested, relaxed, and ready to tackle the challenges of a new year.

Controlling Stress Ensures Lasting Success.

Trading is stressful. There are times when you must make trade after trade in order to get the odds to work in your favour. When market conditions are in line with your methods, it can be pleasing to make win after win, but during less than optimal market conditions, it can be a strain to keep going as you face seemingly endless setbacks. Trading can often consist of cycling through feelings of excitement, frustration, and boredom. Even the most seasoned trader may find it difficult to cope with the emotional ups and downs.

It's not surprising that many traders burn out eventually. It's common to hear stories of master traders who were at the top of their game in the 1990s, but are out of the business today. Trading is one of those professions where you have to cultivate a fighting spirit to cope with new challenges and daily hassles that never seem to end. It is stress-provoking, and if you don't watch out, you may collapse under the strain. But you can take preventative steps. By controlling stress, you can build up your psychological resources, combat stressful events, and maintain lasting success.

It may sound like a cliché, but it is vital to maintain a balance between your work and personal life. Realistically, you may not be able to create a 50/50 split between work and family life, but it is vital that you devote a reasonable amount of time to family life, even if it is only 25% of your time. Trading should not be your whole life. Make efforts to form significant relationships with family and friends. These relationships are important. They not only allow you to feel connected to others but under some circumstances, they can provide much needed emotional support. Accepting help and support from those who care about you, and who also understand the pressures of trading, can help you ease stress.

It is also important to set goals that are in line with your experience and skills. Many novice traders set goals that they can't possibly achieve. It takes years to master the markets and achieve enduring success. In the meantime, it is important to set goals that you can achieve. Learning goals, such as reading about new trading strategies, are better than performance goals, such as making a 20% return on your investment.

Honing your trading skills over time by taking small concrete steps will not only help you cope with stress but will ensure that you make steady progress toward achieving a high level of trading skill. Don't overwhelm yourself with goals that are too far-reaching. Keep things in perspective. Your long-term goals are to develop skills that will make you profitable over the long haul. Try to consider stressful situations, and minor setbacks, in a broader context. Avoid blowing events out of proportion. Don't make a big deal about minor setbacks. Setbacks should be expected. Focus on the long-term perspective: With time and practice, you'll become a seasoned trader.

Stress can kill, especially in the markets. Winning traders try to execute trades calmly, logically, and effortlessly. They are in tune with the market action. Getting yourself into this ideal mental state requires you to deal with stress. So take care of yourself. Build up your psychological resistance to stress. Pay attention to your own needs and feelings and take active steps to cope. Engage in activities that you enjoy and find relaxing. By coping with stress, you'll sharpen your psychological edge and ensure lasting success.

Are You Stressed Out?.

Perhaps one of the reasons trading is so difficult is that it often requires one to look for trading opportunities during off-hours and make trade after trade during the trading day. It can be tedious and hard to keep at it. Even the most exciting, rewarding activity can become commonplace if one has to do it over and over without fail. Trading can feel that way at times.

One can spend hours developing a set of detailed trading plans only to spend even more time during the trading day looking for the right market conditions, and then having to implement the plans repeatedly. Even seasoned traders discuss how it takes mental stamina to trade continuously. But humans aren't machines. The human mind has limited mental energy, and there are times when psychological resources are taxed to the limit.

Long-term survival requires one to step aside, relax, and rejuvenate before going back in to tackle the market action. It is essential that you gauge where you stand in terms of your mental energy and keep trading when you can do it, but relax when you need to. Doing so will ensure that you don't make trading errors because you are stressed out and that you trade in a peak performance mind state.

There are times when our mental energy is taxed to the limit. There are telltale signs of mental fatigue. One can no longer concentrate easily. It's hard to maintain attention. The mind keeps wandering. One is easily distracted with irrelevant issues: -What am I going to have for dinner? When can I take a break?- Even the slightest sign of a setback makes one feel uneasy and agitated. One is easily frustrated or angered. Continuing to trade under these conditions can lead to impulsive decisions.

Implementing a trading plan, for example, requires that one maintain attention. If psychological energy is depleted, little energy is left to devote to monitoring the trade. At these times, it is vital that you take a rest. Take a break and go for a walk before continuing to trade (but make sure that you have used your automatic settings on your trading platform or that you don't have a critical trade on). In addition to taking a break occasionally, it's also essential to take preventative measure to ensure that you aren't over consumed with stress during the trading day.

Make sure you get plenty of sleep, avoid drinking caffeine, and exercise regularly. These steps will ensure that you have the mental stamina you need to survive the trading day. Make sure that stress doesn't interfere with your trading day. If you can have sufficient mental energy, you won't be overcome with stress and worry, but you'll trade in a peak performance mindset.

Controlling Fear through Stress Prevention.

After an extra-long commute in rush hour traffic, Jim arrives at his trading office an hour late. He's groggy and uneasy. He had an argument with his wife after dinner yesterday and had difficulty sleeping for the third night in a row. He drinks a cup of black coffee in an effort to increase his energy level and looks at the progress of a swing trade he's been watching for the past week. He sees that he has lost more than the 5% he had planned. He hits his fist on the table, and yells, -How did it go down so fast!- Angry and frustrated, he thinks, -I can't take it anymore.- He shuts off his computer in disgust and goes for a walk.

Sound familiar? Jim is -stressed out- and unable to think clearly, but there's a lot Jim could have done to prevent this -stress attack.- People experience stressful emotions when they unexpectedly face a barrage of obstacles that preclude them from reaching the desired goal. People vary on how stress influences them. Some people are extremely -stress-resilient- in that they can encounter many stressful events, yet still function in a relatively calm manner.

Others are more vulnerable to stress and experience extreme anger, fear, or frustration upon encountering just a few stressful events. Regardless of where you stand on this characteristic, there's a lot you can do to prevent stress from getting the better of you, especially if you are a novice trader who finds many aspects of trading stressful (for example, putting your money on the line, or dealing in an ultra fast-paced chaotic environment).

It's useful to practice stress prevention. Scientists have shown that stressful emotions can build up, and if not released occasionally, one can be overloaded by stress. Laboratory animals placed in stressful situations, for example, die if the stressful events are continuous and enduring. Thus, it's essential to have a routine to release stress and let your mind rejuvenate. You can't completely remove stress from the trading environment, but you can prevent the stressful aspects of trading from making you feel overly anxious and fearful. Here are some tips on how to develop an effective stress reduction plan:

(1) Avoid caffeine. Many people feel that caffeine helps them wake up in the morning, but many times, caffeine will elevate your nervous system too much. It operates in the background and makes your nervous system hyper-alert to the slightest form of stress. Trading is stressful enough; you don't need to pre-elevate your nervous system, only to feel extra nervous when you face a stressful trading event.

(2) Exercise regularly. Many successful traders view exercise as a key component to creating a calm and relaxed mindset. It's vital that you regularly release tension that builds up during the trading day. Exercise ensures that pent-up frustration and tension are released, and do not build up to influence subsequent trading decisions unexpectedly.

(3) Minimize background stressors. Daily hassles, such as minor arguments, traffic congestion, or feeling over-extended can work in the background and add up to be as equally stressful as a major life event (such as the death of a loved one). Try to minimize these hassles, and don't ignore them by trying to pretend they aren't important enough to deal with immediately. They can accrue and cause you great strain in the long run.

(4) Don't exceed your trading skills. If you are new to trading, don't put extra pressure on yourself by trying to achieve trading goals that you can't achieve. For example, keep position sizes small and have clearly defined risk limits. If you push yourself beyond your skill level, you'll not only feel extreme anxiety and fear, but you will probably unnecessarily deplete your account balance more rapidly and end up experiencing even more debilitating feelings of stress.

Striving for Consistency.

When it comes to trading, profitability is frequently equated with consistency. The novice trader is often inconsistent in terms of profits. This inconsistency is reflected in a jagged equity curve that may soar to the heights of profitability but frequently plunges deeply into the red. The consistently profitable trader, in contrast, has a smooth curve that grows exponentially upward. Trading consistently means approaching each trade in a logical, well-prepared, and decisive manner. Striving for consistency should be the main objective, especially for novice traders.
There's an old saying that applies to trading, -First learn the rules and then learn how to break them.- Experienced traders may not follow rules consistently, but they know what the so-called -rules- are and when to break them. Nevertheless, it's useful for the novice trader to try to follow conventional wisdom at first. It's wise to learn how to follow a method consistently and trade profitably before testing the limits.

The rationale for learning to trade consistently is based on the idea that trading profitably is a matter of probabilities. If you trade a sound trading method with a strong track record, success is merely a matter of odds: If you make enough trades, the odds should work in your favour, and you'll take home profits. It's like rolling dice or flipping a coin. For example, if a coin is flipped over and over again under identical conditions, it will tend to come up heads 50% of the time. But the key to getting heads 50% of the time is to repeat the flip of the coin -under identical conditions.-
When one views trading is analogous to flipping a coin, the theoretical probability of getting heads is the best-case scenario. One achieves the maximum wins by flipping the coin under identical conditions. However, finding -identical conditions- when trading the markets is difficult. Market conditions are hardly ever consistent, and the adept trader is always on the lookout for subtle changes. You cannot control the markets. One must take what the markets have to offer, and thus, one must look elsewhere when searching for consistency.
A source of inconsistency that you can control lies within yourself. You can strive for consistency and try to eliminate inconsistently by looking at the way you trade. The first step in cultivating a consistent trading style is identifying sources of inconsistency. Remember the analogy of flipping a coin. You must flip the coin under identical conditions, time after time to maximize profits.
So how can you trade consistently time after time? One way is to limit your risk in a consistent manner. For example, only risk about 2% of your trading capital on each trade. Novice traders have a tendency to get a little excited when they have hit upon a winning streak and increase the amount they risk-on trade to take advantage of the streak.
This approach produces the jagged equity curve, however, and a rollercoaster ride of extreme ups and downs in terms of profits. By keeping your risk constant, you can introduce consistency into your trading (Again, a seasoned trader may adjust risk depending on the quality of the trade setup. That's taking a big risk, but a seasoned trader usually has the skills to make up the losses should the trade be a loser. Novices, on the other hand, are better off, in the long run, taking precautions).
What other sources of inconsistency can traders eliminate? Another source of inconsistency is the market conditions under which a trade is executed. Although it is necessary for a top-notch trader to master a variety of market conditions, it's wise for novice traders to stick with what they know. Some traders, for example, know they are most profitable when trading in a bull market two hours after the open.
This may not be a very challenging set of conditions in which to hone one's skills, but it is worthwhile when starting out to trade under these ideal conditions, or trade-in whatever conditions where one consistently finds success. Your initial goal as a novice should be establishing consistency. Once this criterion is met, the novice can build skills in a variety of market conditions. But initially, it's useful to trade under conditions where success is assured.
There are other sources of inconsistency requiring standardization. For example, it's necessary to prepare for trades and develop a scrupulously detailed trading plan in which you know where to enter and when to exit. (And it's also important to stick with a trading plan, instead of following the

plan only when you feel like it.) Many novices fail to achieve consistent profits because they impulsively put on trades rather than following a detailed plan. Careful planning reduces impulsive over-trading and produces consistent trading.

All traders want to be profitable, but that's especially difficult when learning how to trade. One of the keys to success as a novice is to strive for consistency. Consistency not only gives you financial profits but psychological profits as well. Once you've achieved consistency, you'll develop a stronger sense of self-confidence, and then you will be ready to trade consistently with a variety of trading strategies across varying market conditions.

Stuck and Paralyzed.

Do you have trouble pulling the trigger? Do you doubt your decisions, or close out a trade before your trading plans come to fruition? Do you over-analyze data and end up missing a major market move? How many profitable trades have you missed because you have frozen at critical moments of investing? If you answered -yes- to any of these questions, you may have a problem with analysis-paralysis.
Putting your money on the line can be hard at times. It's understandable to want to avoid putting on a trade occasionally. There are many reasons that traders may have trouble taking the jump and risking capital to make a profit. Behavioural economists, for example, theorized that when one has many attractive alternatives, it is hard to choose among them. You can become paralyzed trying to decide which opportunity will provide the most profit.

Other traders try to avoid responsibility. They secretly doubt their talents. In an attempt to avoid seriously looking at their chances of success, they try to block it out of their minds. Rather than take the plunge, they look for reasons to avoid making a decision. They may procrastinate by analyzing and reanalyzing data. Sometimes, procrastination reflects a strong need for perfection. The rationale is that if you can trade with perfection, all uncertainty will be removed. But you can never know for certain that a planned trading strategy will produce a profit. In the end, you must be willing to take a risk and lose money. No trading plan is foolproof and trading always involves some risk.
How do you avoid analysis paralysis? Realize that you don't need to be perfect. Accept your limitations. You're not perfect. So what? No one can be perfect. You're human. Mistakes are part of being human. When you remember this fact, you'll stop procrastinating and start taking action. Also, keep in mind that you don't need to be in complete control. Ease up. You can't control the world. You can't control the markets. The more you can accept uncertainty, the more you'll feel free and active. Look for symptoms of analysis paralysis, and when you see them, work on changing them. When you see yourself over-analyzing, for example, stop! Although analysis is important, too much of it can prevent you from taking action.
There's a point where you have to stop deliberating about whether to make a trade and just do it. Again, accept the fact that you can't be perfect. You will be wrong sometimes, but that's all right. Don't get stuck. Do whatever you can to take action. Just like taking a shot of caffeine in the morning to get you moving, it's sometimes necessary to give yourself a punch in the arm to start trading. If you have trouble moving forward, trade with small positions and only risk money that you can afford to lose. If you make smaller trades and reduce the possible downside of losing, you'll feel calmer. And when you feel deep down that you have little to lose, you'll be able to get yourself moving again and take an active approach to trade. Winning traders are active. They know that their odds of success are increased by making more trades rather than less. When you are calm and free, you'll be enthusiastic about trading. Such enthusiasm will keep you moving forward.

Finding the Right Fit Between Your Personality and Trading Style.

The human mind has remarkable abilities of imagination. If we can think it, we can make it happen. Well, that's what we like to believe. There are a few lucky people in this world who can do anything they set their mind to, but there are others who must assess their financial and psychological resources and find a close match between their personality and trading style.

Perhaps the biggest decision a trader must make is deciding between long-term investing and short-term trading. In his book, -Trade Your Way to Financial Freedom,- Dr Van K. Tharp outlines the advantages and disadvantages of each approach. For example, short-term traders can take advantage of a variety of trading opportunities because they make many more trades than a long-term investor, but they may also pay more for transaction costs since they make so many more trades.

From a psychological point of view, short term trading has many additional costs. There is more psychological pressure when trading in the short term. Sure, you can realize more trading opportunities and make more money, but you also open yourself to losing more money. For some people, the psychological risks far outweigh the benefits. It's up to you to determine how well your personality and resources fit the short-term trading style. Indeed, if you have a personality style conducive to trading in the short term, you may prefer it. You may be the kind of person who is easily bored and craves excitement. Short-term trading is much more exciting than long-term investing.

Dr Tharp points out that craving for excitement isn't related to making more money; it is just a psychological need. But if you are the kind of person who needs stimulation, you will see the added stress of short-term investing as pleasurable and may prefer this style of trading. Some short-term traders also see risk differently in the short-term window. While some long-term investors see short-term variation as noise and prefer a longer-term trend, short-term traders like the idea of reducing their exposure to risk by getting in and out of the markets as quickly as possible. In the end, it's all a matter of preference. One trader's view of security is another trader's idea of risk.

Long term trading also has its disadvantages. The moves are smaller, and thus, you need more capital to make profits. There are fewer opportunities for profit, so you must make sure you see and trade an opportunity when it presents itself. It also requires patience to stay in the market for a longer duration. Many traders make the mistake of looking at their long-term investments too often, and end up selling early just because they see a momentary fluctuation and impulsively take action.

Regardless of the time frame you chose, it's important to look at your financial and psychological resources closely and find a style that fits you. It's up to you in the end. Don't try to be someone you are not. Just because you can imagine trading under all possible circumstances does not mean that you can. If you find the style that fits you best, you'll make more profits in the long run.

Does Your Personality Style Influence Your Trading Decisions?.

Winning traders have a mental edge compared to their peers. Part of developing your mental edge is becoming aware of your personality and working with it, or around it, depending on what it is. Personality traits are people's tendencies to behave consistently across time and across situations. It is useful to identify key traits in your personality and be aware of how they may influence your trading decisions.

There are many different characteristics that can be used to describe people's personality, such as friendly, creative, or argumentative. It is important to remember that when it comes to determining your own personality style that it is not a -black and white- issue; there are many shades of grey. In other words, it isn't always useful to think that people are either friendly or unfriendly.

Some people are friendly all the time, other people are unfriendly all of the time, but there are many people who are friendly some of the time, but not at other times. So when you examine your personality style as a trader, it is useful to consider that for some people, their everyday personality bleeds over into their trading life, but for other people, their trading personality is distinct from the personality they have in everyday life. So it is up to you to decide just how much your personality impacts your trading. That said, some generalizations can be made.

There are some personality traits that are especially pertinent to the profession of trading. Some traders are intuitive while others are more concrete and analytical. Many traders are risk-averse, while others are impulsive and seek out risk. Each style has its advantages and limitations. It's useful to know which style describes you, and how accurately it describes you. Your inherent personality style may influence your trading decisions.

Three popular trading personality types are data-oriented, intuitive, and impulsive. The data-oriented trader focuses on concrete evidence and is extremely risk-averse. He or she tries to seek out as much supporting data for a trading decision as possible. The trader who prefers to do extensive backtesting of a trading idea exemplifies data-oriented type. It's useful to incorporate elements of this trader personality type into your overall trading style regardless of your natural inclinations.

It's vital to make sure that you have adequate information before executing a trade, and it's particularly important to trade a detailed trading plan in which risk is minimized and entry and exit strategies are clearly specified. But the data-oriented trader may take things a little too far. He or she may search for -perfect- knowledge that just doesn't exist in the trading world. Knowledge is always fallible and the markets only repeat themselves when they do. At some point, one must accept the fact that he or she is taking a chance and no amount of data analysis can change this fact.

The intuitive trader is the opposite of the data-oriented trader. He or she bases trading decisions on hunches and impressions rather than on clearly defined data. There's a difference between being an intuitive trader who develops this style over time and one who is naturally intuitive. Traders who are naturally intuitive discount data-driven decisions. They aren't used to making detailed analyses of problems and situations, and thus, tend to take unnecessary chances without sufficient justification. The experienced intuitive trader, in stark contrast, bases decisions on data and specific market information. But, since he or she is a seasoned trader, one analyzes the data quickly and efficiently. It happens so quickly that it seems like it occurs intuitively, but it is actually based on solid information. Ideally, all traders should gain extensive experience to the point where sound decisions are made with an intuitive feel.

A third trader personality type is the impulsive trader. This is the most dangerous style. The impulsive trader allows his or her decisions to adversely influence trading decisions. Rather than looking at information logically and analytically, information is discounted completely. The impulsive trader seeks out risk and enjoys taking risky, exciting trades. Impulsive traders can often make huge profits one day and see large drawdowns the next. Your personality can have a huge influence on your trading performance. It's useful to identify your assets and liabilities and work around your personality when it is necessary. You'll trade more profitably in the long run.

Subconscious Influences on Trading Decisions.

In a classic study in psychology, Dr Robert Zajonc discovered that people are often influenced by subconscious thoughts outside their awareness. He showed people pictures and objects without their conscious knowledge. When he later asked them to report their preferences, they chose stimuli they had seen previously. Merely seeing an object in the recent past can impact your preferences. Why do you want to invest in a particular company? Is it because you have done a thorough analysis? Or perhaps it is merely because you saw a slew of television commercials touting its products as new and innovative while you were getting ready to go to bed. It does seem hard to believe at first glance, but many of your decisions may reflect irrational subconscious processes.

Dr Hans-Peter Erb of the University of Bonn has shown that people's economic decisions are often influenced by factors that are below their awareness (Erb, Bioy, & Hilton, 2002). In an experimental study, participants were asked to make a decision after completing an unrelated task. Feelings elicited from the first task impacted subsequent decisions about risk. These findings illustrate how people may be willing to take a risk as a result of subconscious feelings.

It's hard to not be impacted by images and feelings that enter our consciousness without knowing it. Humans have a natural affinity to attach emotional significance to inanimate objects, like stocks. It is helpful most of the time. When you hear about a product or services failing to perform at par, such as a new computer running too hot or an airline that tends to arrive late and misplace luggage, you instinctively try to avoid such companies in your personal life. You may similarly avoid the supermarket that fails to store its raw meat properly or the drug store that sells over-the-counter medications with expiration dates that end within a week. We feel uneasy when we experience such events in our everyday lives.

Avoiding products and businesses that don't meet our expectations is a useful rule of thumb. Unfortunately, the same processes also work for pleasant events. When we see an attractive model of a car that everyone is buying, we tend to want to get one for ourselves. We will even ignore poor gas mileage if it is in fashion, and -everyone- is buying one. We carry these subconscious processes into our trading life. We may -feel- good about a stock, and buy it because of these feelings. We may take unnecessary risks because we have a hunch that the stock will go up. Sometimes our hunches are based on a rapid, astute analysis of existing data, but at other times, they merely reflect irrational subconscious preferences.

How can you beat your subconscious? Don't underestimate its significance. You aren't a slave to influences below your awareness, but you aren't immune to them either. You may make a decision based on nothing more than an amorphous feeling that has no basis in fact. Working from your intuition is essential in the fast-paced world of trading, but always remember that a hunch should be based on specific pieces of evidence. Before jumping into a trade too quickly, it's worth being a little sceptical. Try to reconstruct the information that you used subconsciously to arrive at your trading decision. If nothing comes to mind, you might be better off rethinking your decision. Don't let your subconscious throw you off. If you acknowledge the power of your subconscious, you will go far in stopping it from basing your decisions.

Staying Successful.

Psychological factors play a vital role in maintaining long-term success. Many people believe they should devote all their energy to achieving one goal. Some traders, for example, believe that they should put all their energy into trading. Drs. Laura Nash and Howard Stevenson argue that this single-minded pursuit can lead to burn out, however.

The pursuit of a single goal cannot satisfy all of a person's complex needs and desires. It is necessary to address both aspects and a few more.

After studying hundreds of high achievers who maintain lasting success, Drs. Nash and Stevenson discovered that they share a set of common characteristics. They make a positive difference and enjoy the process of their endeavours. They also have a complex, in-depth understanding of success, and what success really means. By understanding the factors that produce lasting success among high achievers, you can apply this framework to trading, and strive to achieve long-lasting trading success.

Lasting success is emotionally renewing, not anxiety-provoking. It isn't about pursuing a goal for monetary rewards. Enduring success has four components. First, successful people feel their work is pleasurable; they feel content. Second, they believe that their efforts accomplish something; they feel as if they are mastering a set of challenging skills. Third, they feel they have made a positive impact on people they care about, and fourth, they believe they are creating a legacy; their efforts will somehow help others also find success.

Nash and Stevenson argue that unless all four components are addressed, one doesn't feel that their success is real. They will experience what Drs. Nash and Stevenson call the -wince factor.- That is, you may feel that you are going in the right direction, but you won't truly feel successful. You'll be preoccupied with trying to satisfy components of success you have ignored.

How can traders address each of the four components? Let's consider a few suggestions. First, you must view trading as pleasurable; you must enjoy the process of trading, and be motivated by the inherent satisfaction you receive from trading. You can't be overly consumed with the potential monetary rewards. Second, you must focus on how trading requires mastery of a challenging skill. You must feel that as you build up your trading skills, you are continuing to master even more difficult challenges. Many traders can easily address the first two components of enduring success. But the second two components, significance and legacy, can be a little more difficult to address. Although one can make the argument that trading is socially significant because traders provide liquidity, many traders find this argument weak. Many traders want to do something more in order to impact society.

One solution to the problem is to donate some of their winnings to charities so that they feel that they are using their talents as traders to make significant contributions to society. Creating a legacy as a trader can also be difficult. Many traders, however, find that they can create a feeling of significance and legacy by becoming trading instructors or trading coaches. By helping novice traders learn the ropes, they feel they can significantly contribute to the benefit of others and feel they are building a legacy by helping train a new generation of traders.

Drs. Nash and Stevenson present an interesting framework for understanding the factors that contribute to maintaining long-term success. As a trader, it's in your best interest to make sure you feel your trading activities are pleasurable, challenging, significant, and help you create a legacy. If you address each of these issues, you'll be able to maintain the enduring success you deserve.

Sunk Cost Effect.

Stan is holding a position that has lost 20% of its value in the last week. He can't believe how wrong things are going. He spent two weeks studying the fundamentals of the company. He monitored the price for an additional month. He was almost positive the price was going to go up at least by 10%, yet it's down. At this point, Stan is thinking, -What else do I have to lose; I've lost so much time and money already, I might as well just stick with it.- Although Stan's thinking seems reasonable, it's not rational. Stan has fallen for what behavioural economists call the sunk cost effect: A person increases one's commitment to a losing position because a great deal of time, effort, and/or money has been spent.

There are many ways to fall for the sunk cost effect. The most obvious way traders are influenced by sunk costs is when they invest a large amount of capital in a trade and the trade doesn't go as planned. At this point, a trader may feel disappointed and think, -Why did I invest so much money in a losing trade?- The obvious, but the irrational answer to this question is -because I really think it is going to come back.-

It's hard to admit one is wrong, so the easiest way to deal with the uneasy feeling that you've made a mistake is to deny it. One can simply hope that the trade will turn around and the loser will turn into a winner. But as we all know, that's unlikely to happen. The more logical approach is to just admit one has made a mistake and sell the loser before the loss compounds into an even bigger problem.

There are more subtle ways the sunk cost effect can influence your decisions. For example, when you spend a great deal of energy and time preparing for a trade, you may tend to seek justification for your efforts. Why did you expend such effort if you didn't think you could make a profit? There is a strong tendency to justify the time and effort you have expended.

This tendency to want to justify your behaviour will gnaw at you, and if you are not aware of it, and are not trying to control it, you will have a tendency to want to make a trade when one isn't warranted. It's vital for your survival that you remember that just because you've expended time and energy preparing for a trade, it doesn't mean a high probability opportunity is available. Remember that when it comes to trading, time and energy don't always pay off. Remind yourself that preparation is necessary, but that the true payoff only happens when you select a true high probability setup.

As you trade, be aware of the powerful influence of the sunk cost effect. Try to consider whether or not sunk costs are influencing your decisions. If you can rationally counteract them, you can prevent them from influencing your ability to trade rationally and profitably.

Sunk Costs in Everyday Life and in Trading.

Have you ever put your time and money into a project and received nothing for it. Perhaps it's a classic car you've been meaning to restore that's been sitting in the garage for 10 years or your grandparents' antique sofa that you put in a storage unit until you can find a way to fit it into the décor of your living room. It has sentimental value and you just don't want to part with it. It's worth the $80 a month to keep it in storage, right? Maybe you can give it to your children, but at $80 a month for 10 years? That's $9,600! Is the sentimental value worth it?
That's up to you, but for some people, $9,600 is a lot to pay for sentimental value. We can get overly attached to our possessions to the point that we do whatever we can to keep them, rather than just let go of them. This attitude can transfer to the trading realm as well. People can become so overly attached to a stock that they act emotionally as if the stock has sentimental value. But stocks aren't for owning and keeping. Stocks are for trading and making money.

Sunk cost effects are powerful. Our time and energy are precious, and when we devote valuable resources to an activity, in everyday life or trade, we want to believe we didn't squander the few assets we have available. When we make a trade, we want to believe that we made a good decision. A nagging voice in the back of our minds whispers, -Why did you risk resources if you did not think that you could make a decent profit?- Your first inclination is to shout, -I didn't.- But you may have, and it's all right if you did. When you make a trade that isn't working out, don't be afraid to admit it. Don't try to justify your decision.
Everyone makes mistakes, and winning traders make a lot of them on their way to enduring profitability. Don't place more meaning on a trade than necessary. It's just a business deal, and when you do make a poor trading decision, don't be afraid to admit it. Don't be riddled with guilt or regret. Many times, we avoid admitting that we made a poor decision because we are afraid of the emotional consequences.
We see ourselves as competent and astute, and when we make a mistake, it can make us feel inept and obtuse. It's easier to try and ignore it, and save face. For example, you can leave a losing trade on paper and hope that market conditions will improve and you'll recoup your losses. It's usually better to just face the loss, though. Just accept your limitations, and move on. It can be difficult, but you can make it easier by remembering the motto, -Don't feel bad about feeling bad.- So you made a mistake. Make light of it and move on.
Rather than react emotionally with guilt or anxiety, it's better to stay objective. When you objectively look at a trade, you'll be less afraid to study the consequences in meticulous detail. You'll monitor your trades, look honestly at how well you're doing and neutralize the sunk cost effect. The sunk cost effect is powerful. It's the demise of many traders who fruitlessly try to ignore what they did wrong, and in doing so remain stuck and uneasy. But if you find the courage to objectively acknowledge when you were wrong, you can take setbacks in stride, and move on to the trades that make you a winning trader.

Sunk Costs.

You've invested 25% of your capital in a stock that your analysis had predicted would increase. Your expectations haven't been supported, however. The price has been steadily declining. You think, -I did such a careful and detailed analysis. I've spent a lot of time studying the fundamentals of this company. I can't believe it's going down.- At this point, you may hope that the position will reverse, and refuse to close it out. It's easier to keep it open than face the regret of a bad decision and accept the loss. This is called the sunk cost effect: A person increases one's commitment to a losing position because a great deal of time, effort, and/or money has been spent.

The most obvious and blatant example of the sunk cost effect is when we have invested a large percentage of our capital in a losing position, and we don't want to admit that we have lost what we have invested. However, there are other, more subtle ways of experiencing the sunk cost effect. Most people don't consider them, but they may still influence investment decisions.

The adage -time is money- illustrates how there are other ways to -lose money- by just putting in time and effort into an investment. For example, let's say that you study a particular company closely. You read reports on the company's fundamentals, and you follow the stock price daily, noting price changes that correspond to company announcements and significant events in the industry. The more effort you expend on preparation and analysis, the greater the sunk costs you will experience. There is a strong tendency to justify the time and effort you have expended.

Why spend so much time and effort studying this company if you don't plan to invest in it? This tendency to want to justify your behaviour will gnaw at you. If you are not aware of it and are not trying to control it, you will tend to want to invest (long or short) in the stock, even when you know you should stay out, and wait for another opportunity. It's useful to be aware of this subtle effect. Ask yourself, -Do I want to invest because I see a real opportunity or am I merely trying to justify the amount of effort I've put in?- It's important to be aware of how this subtle yet powerful influence can lead you to make a decision you will regret later.

Overcoming this subtle influence is difficult. It's a good idea to study companies closely and capitalize on an opportunity when one arises, but don't overdo it. Remember that expending too much effort has a subtle impact. Try to overcome it. Remind yourself that you don't have to invest. Your study and preparation will pay off big someday, but learn to wait for the right opportunity.

Be aware of both the subtle and blatant ways that the sunk cost effect can influence your behaviour. Try to consider whether or not sunk costs are influencing your decisions. Try to counteract them rationally, and prevent them from getting the best of you.

The Influence of Sunk Costs.

Stan has been following Apple (AAPL) for the past two years. It's his most favourite stock in his portfolio. He loves the products and likes the company. He anticipates new product announcements with excitement and can't wait to see consumer reaction. He has read several books on the history of the company, and he admires CEO Steve Jobs. Stan has most of his trading capital in AAPL. Although he has a strong passion for the company, you might say that Stan is a little over-attached. He may have too much of his personal emotions wrapped up in the company, and it's possible that these emotional attachments may overly influence his trading decisions. He has not only invested a lot of his money in the company but a lot of his personal time and effort. These financial and personal costs may lower his objectivity. When it comes to making decisions about trading the stock, it's quite possible that he may be unduly influenced by what scholars call the -sunk cost effect.- It's useful to be aware of this bias, and make sure that it doesn't subconsciously influence your trading decisions.

The clearest examples of sunk cost effects are when we overpay for something, whether it is with money, effort, or time. The more you pay for something, the more you value it. For example, if you spend a year's salary on a new car, you believe it's worth what you paid for it. So when you try to trade it in a year later, and the trade-in value is a lot less than you think it should be, you feel a little upset. You may defiantly think, -How could it be worth less than what I owe? I think I'm getting ripped off.- You feel -cognitive dissonance.- That is, there is a logical inconsistency, or conflict, that requires resolution.

You paid a lot for the car, but now its value is less than you had thought. To resolve the uneasiness of the inconsistency, something in your psyche must change. You may think, -I'll keep the car longer and get more value out of it.- But, even if you decide to trade it in, it's hard to just write off the amount lost to depreciation. Humans have a natural aversion to loss of any kind, and that's especially true when it comes to the market.

People tend to believe that an investment is worth what they paid for it. They believe that the original purchase price endures, even when current market prices suggest that the value has decreased. Sunk costs tend to increase when the value of the stock or commodity decreases. It's hard to write off a loss, so when the value decreases substantially, it causes cognitive dissonance.

You think, -I paid $50 a share. I thought it would at least go up to $55, but now it's down by 40%.- That's logically inconsistent, so the easiest course of action is to believe, -I don't care what the current price is. It is worth at least $50, so I'm going to wait for the price to recover.- Such a belief returns logical consistency to your psyche. That is the easy thing to do but not the most prudent. A losing trade rarely turns around, and all the hoping in the world isn't going to make the price go back to the entry-level. One has to do the hard thing: Admit you were wrong, write off the loss, and close out the position. It's hard to do.

When sunk costs are high, some traders may take on a fatalistic outlook. They may believe that since they have lost a large amount of money anyway, they have very little to lose by waiting to see what happens next. It's like thinking, -I've lost so much already that I can't lose much more.- Although such thinking makes one feel better about a losing trade, it's dangerous psychologically. One could lose the entire investment and experience excessive stress unnecessarily. There are real financial and psychological costs for refusing to ignore sunk costs. It is better to evaluate the potential of a trade based on what you can realistically make in the future and assume that you will not be able to recoup what you have lost. If you cannot see how the trade can turn itself around, cut your losses. By doing so, you will reduce your psychological and financial costs in the long run.

It's useful to be aware of the ways the sunk cost effect may influence your trading decisions. Don't let it get the best of you. Now that you are aware of it, you can identify this decision making bias. Don't be afraid to cut your losses and move on.

Going Your Own Way.

In a strong bull market, like one of the late 1990s, you could buy a stock, wait a few weeks, and sell for a profit. During a strong bull market, trading can be relatively easy. You can erroneously think you are a super trader with little experience or talent. Indeed, many seasoned traders tend to admit that they were glad they learned to trade under such ideal conditions.
They concede, -I may have thought I knew how to trade, but I really didn't have a clue. At least I was able to see what it was like to win, and I got hooked on trading.- The markets eventually turn, and those traders who were riding the wave of a bull market soon learn their strategy was naïve and simplistic. It may work great when the masses, including rank amateurs, will buy almost anything the media touts, but a simple buy-and-hold strategy doesn't usually work very well when trading short-term choppy markets.

With a few exceptions (such as AAPL in the past 12 months), you cannot usually pick a popular stock, wait for new investors to take advantage of a seemingly linear increase with essentially no resistance, and sell when the profit objective is reached. Ultimately, you must learn to trade under a variety of market conditions, and that means thinking creatively and going your own way. It is just you, the markets, and no one else. So it is vital that you gain as much experience as possible, and learn to trust your intuition.
Trusting your intuition is the hard part. It requires you to look inward to decide what to do. You can't depend on mass opinion. They are usually right in a strong bull market, but dead wrong when the markets change. Following the crowd may work sometimes, but it's not a strategy that works consistently. You can't assume that when you -buy low,- there will be a large cache of naïve amateur buyers ready to keep pushing the price up higher. If you wait too long, you'll likely hit resistance, and it will be too late to profit from the move. It is nice when this strategy works, though. It is psychologically pleasing. You can buy, see other people buy, hear analysts rave about the stock, and feel a sense of security in that all agree that the mood is bullish and all you have to do is wait it out. Even when the trend is moving in your favour, it isn't always easy to capitalize on it, however.
What happens when you have to sell to make a profit? The precise time you sell dictates the profits you can take. If you sell right as the market starts to turn, you may not be able to close out your position. Everyone will be selling as if the herd is running for cover. If you aren't careful, you will get trampled. Well, metaphorically speaking. It is vital that you gauge the phase that the market is in, anticipate what will happen next, and enter and exit a trade at optimal times. Ideally, you have to sell when there are available buyers before the trend reverses. It is hard to know when to do that. In the end, you must rely on your experience and intuition.
For example, as we've mentioned in previous columns, AAPL has been steadily increasing for the past 12 months. One day last week, AAPL closed at over $80 a share. If you bought a few months ago at $60 and sold recently, you would have made quite a profit. You've probably heard, as we have, about some amateur online investors who cashed out their position and bought a new car or took a cruise. When a stock goes up so steadily, it doesn't take much skill to make a profit. But as active traders, we can't count on such a straightforward trend. At this moment, for example, some traders wonder when AAPL will reverse.
Will consumers stop buying iPods soon? Will new products sell poorly? Will delivery deadlines be missed? Perhaps some specialists know, but many do not. In the end, you have to rely on your own intuition, and accept the consequences. If you bought at $60 and sold at $70, you can't berate yourself for not waiting until AAPL hit $80. You have to go your own way and use your intuition. For all you knew, if you didn't sell at $70, and the tech sector went dramatically awry, AAPL may have decreased to the point where you couldn't sell for a profit. As an independent thinker, you have to go your own way and live with the consequences.
Trading is hard. That's why few realize big profits. To become a master trader you must gain a wealth of experience with the markets and learn to trust your intuition. If you can go your own way at

the right time, you'll make huge profits and become a winning trader.

Support and Resistance: More Solid than Ever.

The financial markets are in constant flux, and in the past few years, we've seen many changes. The reasons are numerous; the availability of online investing, new government regulations, and technological advances are merely a few. Despite these changes, the markets are still free, guided by the good old invisible hand that drives supply and demand.

But perhaps one of the most significant influences is the increased number of participants who have entered the markets. With more people trading and investing, the markets are more orderly, especially when it comes to identifying support and resistance levels. Support and resistance are key levels that estimate the probable duration of a trend. They are useful tools for trading effectively.

The bull market of the 1990s drove average daily volume to record levels as professionals and amateurs alike took part in a market that went virtually straight up. Years later, after the bubble burst and prices began to recover, trading volume, though lighter than the year 2000 levels, is still much stronger than it was. This increased participation is reflected in huge average daily volume, which in turn has made support and resistance more solid and easy to spot. Pullbacks in the recent uptrend, for example, turn higher at the bases of support, as expected, but the quality of these bases is second to none.

The bases of support and resistance are solid and clear, all because of the increased number of participants. And now that prices have turned higher, we have plenty of levels of resistance both above and below current prices in the equity and futures markets, such as the S&P, NASDAQ, and DOW. This will continue until the markets (NASDAQ and S&P) make new record highs. Traders often wonder why prices rose so high and so fast during the raging bull market. The answer is simple. There was relatively little resistance. There were no areas of sellers above, as there are today. This is yet another factor that makes the current markets more orderly, with more clearly defined areas of both support and resistance.

Consider looking at support and resistance more closely. Learn more about it. A solid understanding of supply and demand, and its underlying dynamics, is key. Develop the skills to properly identify quality support and resistance levels. And once you've mastered those areas, get the necessary tools and methods to take proper action when prices move into these levels. With study, practice, and determination, you can use support and resistance levels to trade consistently and profitably.

A Little Too Big Headed.

Jim is a novice trader who has hit upon a winning streak. He can't seem to lose. Every trade he makes is a winner. He naturally starts thinking, -I'm a natural-born trader. I'm omnipotent. I'm invincible.- Jim may have a problem. He's starting to get a big head, and when a trader becomes overconfident, especially a novice trader, it usually spells disaster. It is vital for long-term survival that you avoid becoming too overconfident.

Depending on the context, overconfidence can be a virtue or a vice. There are times when it doesn't hurt to be a little overconfident. There are those times when everything seems to click, times when they are running hot, making trade after winning trade. Getting yourself psyched up during these times can be helpful. It is essential that you take extra steps to capitalize on ideal market conditions. The extra bit of confidence helps.

There's a downside to overconfidence, however, especially for the novice trader. Overconfident novice traders tend to trade beyond their trading skills. They may hit upon a winning streak, but they may not have enough experience to trade with discipline through the streak. That's all right as long as risk is managed, and a detailed trading plan is used for each trade. But many novice traders start to think they can abandon risk limits and trade by the seat of their pants. The problem is that the streak eventually ends, and may set off a downward spiral. A losing trade happens, then another, and so on until one's account balance is almost wiped out. The overconfident trader is unlikely to see the end coming, and because the risk is not managed, losses may mount rapidly. In this case, overconfidence can lead to disaster.

There are many natural reasons for people to trade with an overconfident attitude. There's a human tendency to believe that all your success is due to your efforts and abilities. This tendency is so powerful that many times we believe that we have more control of our trades than we actually do. We like to feel good about our wins, but sometimes it goes too far. There are adverse influences that can go against our trades. Market conditions can change or unexpected world events can thwart our trading plans. It is vital to find a balance between real, genuine confidence and feelings of arrogant, omnipotence that merely enhances our self-esteem. Without proper precautions, you can easily end up blown out.

Don't let a swelled head get the better of you. Take proper precautions, stay humble, and trade calmly and realistically. If you can control your overconfidence, you'll trade more profitably in the long run.

Can't Pull the Trigger: There Are Alternatives.

Are you the kind of person who feels butterflies when you're about to execute a trade? Perhaps you're a little nervous because you don't have enough experience with trading, or maybe you are putting a little too much money on the line...you know it, and you feel the pressure. For some people, it may be a nervous temperament. But whatever the reasons, there may be times when you have difficulty executing a trade at the right moment. Accepting your limitations is a crucial step for mastering the inner game of trading, and if you have a problem with anxiety, it's vital that you identify this issue and take steps to work around it. There are many approaches you can take.

Sometimes, feelings of anxiety result from the real world, rather than purely psychological, concerns. You may be putting extreme pressure on yourself to perform. You may be expecting a 20% profit on each trade, for example, when you don't have the talent or market opportunities to guarantee such success. Or you may be risking money you can't afford to lose.

In the end, you can only trade with the skills and financial resources you have available. It's vital to gauge your resources and develop realistic expectations. A realistic approach to trading can do a lot to ease some of the pressure, feel carefree, and execute a trade more freely without self-reproach.

As a thinking strategy, it's always useful to tell yourself that you don't have to be perfect. Don't try to perform miracles. Do your best and accept what you can get. You'll find that ironically when you give up control, you will feel free, creative, and able to execute trades with ease.

That said, some traders are so temperamentally anxious that they are paralyzed. They can't pull the trigger no matter how good the market opportunity. They don't trust their instincts and they are afraid to make a mistake. For these traders, a mechanical trading system may offer a solution. No system will completely free a person from the nervous uncertainty of not knowing how a trade will turn out, but it offers a sense of solace.

Trading systems aren't perfect, and sometimes they are criticized since some systems are nothing more than get-rich-quick schemes. And even when a system is legitimate, no system works so well that you can just sit back and relax while profits roll in, month after month, year after year. No mechanical system is foolproof, and if it were, the creators probably would not want to release it to the public. But if you search carefully, you can find systems that actually do work, and if you have a problem controlling your emotions, and have trouble pulling the trigger, using a mechanical system will help you trade.

When your money is on the line, it can be difficult to execute a trade. Sometimes you can merely change the circumstances under which you trade, but other times you may need to change your approach entirely, such as by using a mechanical trading system, but there is no reason to let your initial anxiety about trading stop you from making trades. You can work around the problem, and eventually, make the profits you desire.

Taking Responsibility and Taking Control.

Trading involves coping with uncertainty. There are potentially endless factors that may go against your trading plan. For example, your DSL line may go down at a critical moment, an analyst may predict that a stock that you are trading will miss earnings expectations, or stock or commodity in a related sector may suddenly move against you. When one of these unexpected events ruins our plans, our first instinct is to find an excuse: -It's not my fault. Everything is just going against me.- It's easy to find excuses and many times there is, indeed, little we can do. Winning traders, however, take full responsibility for all aspects of a trade.

Taking full responsibility is crucial. Traders who don't take full responsibility will devote the bulk of their psychological energy to defending themselves against their mistakes. Rather than focusing exclusively on observing the markets, they tend to get sidetracked by a burning desire to avoid blame.

In addition, while one is finding an excuse for an adverse event, no time and energy are devoted to anticipating adverse events and thinking of preventative strategies to neutralize them. Taking full responsibility doesn't necessarily mean blaming yourself for -mistakes,- however. Taking full responsibility can merely mean sifting through all possible negative events and taking precautions to minimize their potential negative impact.

An awareness of all possible adverse events allows you to make specific plans. For example, if you know that your DSL line may go down unexpectedly, or that your computer may crash, you can make a backup plan. When all seems to go wrong, you won't panic, but you can effortlessly take decisive action. If you intuitively feel that an adverse event will likely thwart your plans, you can stand aside or cautiously manage risk should the market go against you. The more you consider all possible adverse events, the better you can plan, and the more easily you will come out of it unscathed.

It's useful to consider all possible adverse events. That said, it's important to remember your limitations. Some people go overboard when trying to figure out what can go wrong. It's possible to take things a little too far. If you become obsessed with every possible catastrophe, you may become an extreme perfectionist who has trouble pulling the trigger.

Other people may take so much responsibility for negative outcomes that they become excessively pessimistic. It's important to take a more balanced approach. Be realistic. There's only so much you can account for and only so many precautions you can take. But, if you consider what you can control, take all possible steps to control it, and at the same time, accept what you can't control, you'll trade more effectively. You'll remain calm and trade decisively.

Everyone tends to avoid responsibility to some extent. There's a very human tendency to build up our egos and feel good about ourselves, and when events don't go our way, we try to block it all out. This general tendency usually helps us cope with most of the adverse events we encounter in our everyday lives, but it usually interferes with our ability to take preventative measures to control potential adverse events. In the end, by becoming astutely aware of what can go wrong, and taking control, you can maintain your winning edge.

Looking Inward and Gaining Control.

How do you go about understanding your trading outcomes? Do you feel that it is all about you, that personal factors, such as hard work, talent, or ability are primarily the reason? Or do you tend to believe that much of your success is the result of external forces, such as luck or fate? Perhaps you think it is a little of both. How you look at this issue may strongly influence how you feel about trading, and what steps you will take to gain mastery.
When one looks for personal reasons for success and failure, one tends to take full and complete responsibility for an outcome. For example, one may say, -I made a profit on the trade because I prepared properly, waited for the right signals, and traded my plan.- That's an explanation based on internal, personal factors. After a winning trade, it's easy and desirable to explain the outcome with internal factors.

We have a natural tendency to build ourselves up and enhance our ego when we win, so it makes us feel good when we do well and believe that it is due to our talents and skills. But what about a losing trade? When we lose, it's also due to our talents and skills, but in this case, it may be a lack of talent and skills. Such a possibility is harder to accept. When faced with a defeat, most people suddenly switch from looking for internal forces to looking for external forces: -The market conditions changed too quickly. The market makers are manipulating the price again. I shouldn't have taken the advice offered by that uninformed analyst. I was unlucky.- It's easier to find an excuse than take full responsibility when faced with a loss.
It's at these times when most of us tend to look at the world in a self-serving way, attributing our success to internal personal characteristics, but our failures to external situational causes. However, there are advantages to bucking our natural instincts and always taking full responsibility for both our triumphs and defeats: One gains a sense of power and complete control.
When people attribute life outcomes to internal forces, they are more satisfied and ready to take action. They believe they can overcome any possible setback. Rather than always looking for excuses and trying to place blame on situational factors, all energy is focused on increasing performance and developing new skills. Traders who don't take full responsibility, in contrast, tend to devote the bulk of their psychological energy to defending themselves against their mistakes. Rather than cultivating an accurate, objective view of the markets, they are easily biased because of an incessant need to protect their egos. An emphasis on external causes for setbacks makes one feel good in the short term, but it hinders performance in the long term. Over time, skills aren't developed, and limited psychological energy is wasted on protecting one's ego. It takes time and energy to find an external reason for failure. This time is better spent identifying one's flaws and developing new skills to compensate for these deficits.
Taking full responsibility is difficult, especially after a losing trade. It's hard to look at one's faults and limitations. But in the long run, the payoff is greater than the temporary uneasiness one experiences while reviewing one's limitations. In the end, if you look at your faults, acknowledge them, and take full responsibility, you'll be gaining power and control. So take full responsibility and take control.

Take It Easy: Work Around Your Natural Inclinations.

When learning any new skill, one needs to find the right balance between pushing oneself to the limits and setting realistic expectations and goals. But whatever tact you take, you must work with what you've got. You must identify your natural inclinations and work around them.

This is especially a challenge for trading. There are two basic types of novice traders: the fearful and the overconfident. Neither type achieves long-term consistent success easily. The fearful are reluctant to put on trades. They are easily frightened. Upon encountering the slightest signal of the trade going against them, the bailout. They don't make money in the long run. The overconfident, in stark contrast, don't show enough caution.

They aren't afraid to put large sums of their trading capital on the line, even when their methods are questionable. They have a gung ho attitude. They may stumble upon early success but usually fail in the end. Fortunately, these are two extremes, with most traders finding themselves somewhere in the middle. At whatever extreme you find yourself, you'll make the most progress if you a workaround, rather than try to change, your basic personality style.

It's useful to be a little fearful, but not too fearful. At least the fearful are sufficiently risk-averse that they show enough scepticism to protect their interests. Some people are overly fearful, however. Their central nervous system is easily -activated- and when facing risk, it's unbearable. Traders with this kind of personality style are afraid to put on big trades, and while they are in a trade, they feel uneasy as they wait for the trade to reach the profit objective.

Because they panic a little too easily, they sometimes have trouble sticking with their trading plan. They hesitate upon entering a trade and may exit at the wrong time. Although it's hard for the extremely risk-averse to trade in a calm, objective, and effortless style, it doesn't mean that they need to give up trading. One just needs to come up with ways to work around one's limitations.

Even some professional traders are reluctant to enter a trade. To work around this personal limitation, some call the trade into a broker with specific instructions, such as where to buy, when to exit, and where to place a protective stop. Similarly, other traders use automatic settings on their trading software to enter and exit trades at optimal times. Clearly, there are disadvantages to these strategies. It's difficult to use these strategies when trading in an intraday timeframe, for example. It may be necessary to trade weekly swings or make long-term investments.

It would also be useful to make every effort to address outside influences that produce anxiety and fear, such as managing risk by trading small positions and using protective stops. (And through practice and the use of professionally administered relaxation training, one can control one's natural tendency to experience anxiety and fear.) But the main point is that one can trade profitably even though one's natural inclinations don't exactly match the ideal trader personality of the cold, rational, objective trader who isn't afraid of risk.

The overconfident, novice trader doesn't show enough risk aversion. Overconfident traders think they have more skills than they actually do, and tend to put on trades without adequate preparation. There are many kinds of overconfident traders. For some overconfident traders, their trading behaviour was improperly reinforced. For example, they may have learned to trade in a bull market where prices seemed to go essentially straight up.

Or their first few trades may have made big profits, purely by chance, and they gained a sense of reassurance and a false sense of confidence because of this run of early luck. Others, ironically, only appear overconfident, but actually, they lack confidence and just put on trade after trade to hide their feelings of inadequacy. Whatever the reasons, it's vital for survival to admit that as a novice trader, one does not yet have the requisite trading skills to trade with a solid sense of self-confidence.

One should be a little sceptical and take proper precautions to manage risk, again, by trading small positions, using protective stops and outlining a very detailed trading plan. It's also essential to set realistic goals. Rather than focusing on unrealistically huge profit goals, which don't match the trading skills of a novice, set moderate goals, which can be achieved. At the same time, it's useful to

set ambitious -learning goals.- That is, don't focus on the profits, but devote much of your time to learning how to trade. Novice traders make the mistake of overtrading. They think they -should- spend all their time putting on trades, even when the market conditions don't warrant it.
Instead, they would do better to spend that time taking classes, reading about new methods, and paper trading. Don't underestimate the importance of building up well-honed trading skills. When you have the skills to trade consistently and profitably, you will truly have rock-solid self-confidence. And if you are the kind of person who isn't afraid to take a big risk, you'll be especially ready to use your trading skills efficiently. But until then, don't over-leverage your knowledge. Don't be arrogant and overconfident. Be humble, modest, and build up your trading skills.
Whether you lean toward the fearful trader or the overconfident trader, it's useful to identify where you stand on this continuum and take active steps to work around your personality. Relax, take it easy, and give yourself the time you need to master the markets. You'll soon find you can trade profitably and consistently.

Develop Your Skill Set: Taking a Loss.

We are all proud of the skills we develop as traders. We work on execution skills with enthusiasm, practising speed and precision. We pour over charts for hours, study indicators and oscillators and possibly even alter standard defaults to see how it impacts the signals they give. Some of us happily work on complex systems, labour well into the evening hours calculating complicated formulas, then spend more time backtesting.

Others comb through reams of fundamental information to support our technical decisions. Few of us, though, spend quality time developing our skills at taking losses. Why? Because losses require us to admit that we are wrong. And we naturally associate being wrong with pain. But it is a healthy and profitable concept to reconsider our losses in an entirely new light. What if we declared a different truth to ourselves? -The more highly skilled I become at taking losses at appropriate times and according to my plan, the more profitable trader I will become.-

In The Disciplined Trader, Mark Douglas suggests, -Execute your losing trades immediately upon the perception that they exist. When losses are predefined and executed without hesitation, there is nothing to consider, weigh, or judge and consequently nothing to tempt yourself with. There will be no threat of allowing yourself the possibility of ultimate disaster.-

To shed new light on losses, try -re-circuiting- your brain and develop loss-taking into a skill, instead of an unhappy and painful event. First, accept the fact that losses are the norm rather than the exception in the trading game. You should expect to lose. Own that reality'that will help take the fear out of it. Second, make sure to define your losses (risk) before you enter any trade. Define your possible loss, or risk, in comparison to your possible reward, or profit.

The proper ratios of these two are what give you the statistical edge. Now you are in control of your trade, not the other way around! Third, practice exiting your losing trades with precision and accuracy. Finally, confirm, realize and internalize that without a doubt that your controlled losses do not reflect on you, or your personal worth. They are a compartmentalized component of your business.

With practice, you can add -highly proficient at taking losses- to your personal trading skill set. The more you develop this technique, the more profitable trader you will become.

Take Profits and Relax.

As traders, we've all experienced a memorably bad day when nothing seemed to go right. In fact, it may have seemed as though every decision we made could not have been more wrong, even if we had a crystal ball to help us screw up: buying every top, getting short at every bottom ' that kind of day. But we've also had days when everything seemed to go right ' when entries and exits were achieved with the precision and practised effortlessness of an Astaire-Rogers duet. What a world of difference!

What might account for the difference? One factor ' a very important one ' is a trader's state of mind, which at its most effective is attentive yet relaxed. Achieving this mental state is often more easily said than done. By its very nature, trading is stressful. So how do we achieve a state of relaxation conducive to profitable decision-making? One answer is to take advantage of opportunities when they arise.
For example, take partial profits on winning trades. Ideally, this should be done early in the trade, so that the psychological benefits are available for as long as the remainder of the position is held. Even if you are shooting for big profits on a swing trade, it will work wonders for cultivating a calm and relaxed mental state if you take just a small partial profit early on. At that point, you'll be playing with the house's money, with better odds of exiting the trade with a profit, or with no worse than a scratch, even if it should turn precipitously against you.

It's Not My Fault: Why It's So Hard to Take Responsibility.

A fundamental truth of trading is that one must take full and complete responsibility for both failures and successes. It's easy to take credit for a winning trade, but a losing trade? Our first instinct is to find an excuse: -The market conditions changed too quickly. The market makers are manipulating the price again. I shouldn't have taken the advice offered by that uninformed analyst.- It's easy to find excuses for losing trades, but in the end, a winning trader takes full responsibility for all aspects of a trade, what went right and what went wrong.

Taking full responsibility is crucial. Traders who don't take full responsibility will devote the bulk of their psychological energy to defending themselves against their mistakes. Rather than cultivating a pristine view of the markets, they will tend to hold a view distorted by their burning desire to avoid blame. In addition, while one is finding an excuse for an adverse event, no time and energy are devoted to anticipating adverse events and thinking of preventative strategies to neutralize them. Unfortunately, for many traders, it's difficult to take full and complete responsibility.

Why is it so hard to take full responsibility? A variety of psychological explanations exist, and they differ depending on the person and his or her psychological history. Everyone tends to avoid responsibility to some extent. There's a very human tendency to build up our egos and feel good about ourselves.

In explaining the outcomes of our lives, we often attribute success to our skill, intelligence, and talent, and attribute failure to external circumstances, over which we had no control. This general tendency usually helps us cope with most of the adverse events we encounter in our everyday lives, but this tendency is self-serving and impedes one from taking preventative measures to anticipate potential adverse events.

For some people, making excuses and avoiding responsibility is rooted in early childhood. Some people grew up with parents who spent all their effort pointing out and severely punishing every single mistake their children made. As children, they learned that to avoid punishment, they had to make an excuse and place the blame for the mistake on anyone but themselves.

The consequences of making even the most minor mistake were so dreadful that they felt a strong need to avoid responsibility at all costs. Perhaps most people experienced this type of parent-child transaction to some extent, but at an extreme, it can incapacitate. One becomes afraid to act out of a fear of failure. And when a trader fears failure, he or she will be unable to try out new trading ideas or will be afraid to accept full responsibility for the trade.

Taking full responsibility for losses is difficult. One has to be confident enough to realize that just because one makes a mistake, or misses a potential adverse event, it does not mean that one is inadequate or incompetent. It merely reflects the way things work. No one is perfect, and mistakes are certain to happen. But avoiding responsibility is even a bigger mistake.

Placing the blame on someone else or external events makes one less cautious. All psychological energy is focused on defending oneself, but all energy should be spent calmly identifying potential adverse events and finding creative solutions to counteract them. Taking full responsibility ensures that these preventative steps are taken.

The Need to Take Risks.

There are many ways to trade, and traders can have as many different kinds of personality traits as there are ways to trade profitably. But if you want to trade chaotic, fast-paced markets in the short term, some personality traits are more ideal than others. For example, it is not ideal to be fearful and easily knocked off balance by even the slightest ripple in market conditions. It is useful to be thick-skinned, and not easily distressed by even the most unexpected or dramatic trading losses. You can't be afraid to take a risk. That said, a person who is willing to take risks may also be at a disadvantage. The person who enjoys risk can take too many chances that can lead to significant setbacks or even a major disaster.

Consider what happened to Pittsburg Steelers quarterback Ben Roethlisberger recently. He ended up in the hospital after a horrible motorcycle accident in which his unprotected head shattered a car windshield. Many sports commentators criticized Mr Roethlisberger for not wearing a helmet. Others wondered why he would risk riding a motorcycle in the first place. In his daily commentary on KCBS radio in San Francisco, John Madden suggests that unnecessary risk-taking should be expected among young athletes.

He observes that football players routinely take risks every time they walk onto the playing field. It is necessary to have a little bit of psychological denial to take such risks nonchalantly. They must believe that even though they put themselves in harm's way, no harm will come to them. If they weren't willing to take such risks, they would not be able to perform at their peak.

It's the same situation with most traders. A trader who is afraid to take risks is a trader who will miss market moves or make trading mistakes. The trader who is willing to take risks, in contrast, may have nerves of steel, but such feelings of omnipotence can be their downfall at other times. There are times when fear can be adaptive. Fear can protect us from harm.

It's necessary to not feel so invincible that you feel you can do anything. You can't. It's vital to control risk. It is necessary to risk a small percentage of capital on a single trade. It's useful to stand aside until a high probability setup is identified. It's essential to trade with a well-developed trading plan and to stick with it. But traders who are fearless tend to have trouble in these areas.

Traders who are comfortable with risk are prone to take unnecessary risks or may lack discipline at times. The trait that makes them potentially great traders can also be their downfall if they are not careful. Their demise is not assured, however.

All they have to do is be aware of their tendency to take unnecessary risks and make sure they are constantly trying to fight this tendency. If you are a risk-taker, limit your risk, and always consider the worst-case scenario and whether or not you can survive it. Taking risks is necessary to trade profitably, but at the same time, managing risk is the only way to survive and stay profitable.

Staying On Target.

After carefully studying the fundamentals of a tech stock, Jack decided to buy 1,000 shares at $60 a share. After a recent product announcement, however, it traded at $64. Although it was higher than he had preferred, he felt it was still a good investment and figured he might as well buy at the higher price before it went even higher. As is often the case after a product announcement price jump, the price fell to $60 a share a few days later. Jack started to kick himself, -Why couldn't I wait.
I knew it would fall. I should have waited. I could have saved $4,000.- Jack plans to hold the position for six months and he still thinks the stock has the potential to hit $70, but he can't seem to stop berating himself for buying too soon and spending an extra $4,000. His feelings are understandable, but it's distractions like these that often throw traders off target. It's vital to continue to focus on your trading plan and not be stifled by self-reproach.

Depending on your personality, you may be prone to kick yourself for making trading mistakes. In Jack's case, he may have bought a stock at a higher price than he had hoped, but it isn't a disaster. According to his trading plan, he can reach his objective of selling at $70 in six months, and making $6,000 as he had anticipated. Many traders, though, are overly perfectionistic.
They can't stop obsessing about how they could have entered and exited a trade more skillfully. Striving for high ideals is noble, but when it distracts you from focusing on your ongoing experience, it can be detrimental. For example, if Jack continues to berate himself for buying too high on this trade, he may not be able to focus on researching the next trade and developing a sound, new trading plan. He may also feel less spontaneous and creative. His mind may become filled with self-doubt and his thinking may become clouded. Striving for perfection can be much more of a distraction than a benefit in the long run.
At times of self-reproach, it's essential to talk yourself out of it. It's necessary to move from a mental state that concerns obsessing about errors to a calm, focused mindset concerned with thinking creatively. Although they may sound trite, repeating a few common sayings about trading the markets may be quite helpful: -I'm going to trade my plan and stick with it. I'm going to go where the markets take me. I'm a mere mortal; I can't control the markets. I need to accept the fact that I'm human and may make mistakes.- You don't have to trade perfectly. You just have to trade profitably.
Put a single trade in perspective.
It's just one trade of the many trades you will make in your lifetime. You may lose or you may win, but the outcome of a single trade does not matter. What matters are your overall profits across a series of trades, not just a single trade. Rather than beat yourself up for minor mistakes, stay on target. You may make a mistake here and there, but it's all right. Take a mistake or a setback in stride and move on. If you look at the big picture and accept your human tendency to make mistakes now and then, you will increase the amount of time you spend trading with the peak performance mindset of a winning trader.

Testing Your Intuition.

There are times when going with your -gut- instinct can be shrewdly accurate, but at other times, your instincts can be dead wrong. The human mind is capable of making decisions without full, conscious awareness. An experienced driver, for example, doesn't need to pay close attention to every action. It's quite easy to automatically shift gears, hit the brakes, and avoid getting into an accident. With practice, you can act decisively without thinking.

These skills don't develop overnight, however. You must hone these skills over time. It's the same with learning to trade intuitively. Over time, you learn to trust your instincts. But should you trust your interests all the time? It may be necessary to question your intuition occasionally. To make sure that your intuition is still on target, it is wise to deconstruct past decisions and test your intuitive skills.

The mind is prone to fall for decision-making biases. Trading requires accepting uncertainty, but uncertainty is often difficult to accept. Biases help us quell feelings of uncertainty. We may be prone to feel overconfident. Rather than admit our fears, we may compensate by believing that we are omnipotent. Suddenly our mind sees things that aren't there. We start to see signals that confirm our expectations or we block out any information that does not conform to our expectations.

If you aren't careful, an intuitive hunch creeps up that does nothing more than alleviate psychological tension. It's not based on a quick, decisive evaluation of facts, but on a psychological need for resolution between two opposing ideas. Prudent decision-making requires that we look at both sides of an issue and arrive at an accurate assessment of reality, however.

It may be useful at times to test and study our intuitive processes. After making a decision, it is informative to occasionally look carefully and consciously at a variety of indicators and sources of information that went into making a decision.

Any intuitive thought should be grounded in facts. If you were to think backwards after making an intuitive decision, you should be able to map out the information and signals that went into making the decision. Intuitive thoughts and hunches should reflect the processing of specific pieces of information. To test and understand your intuitive skills, re-examine an intuitive decision you have made. Retrospectively try to remember how you made a decision a few minutes after making it. Think about what information you used to make the decision.

Write down and map out the information on which your intuitive thought was based. Was the hunch based on valid information, or was it just a whim? You may not be able to reconstruct every decision you made. Sometimes decisions just happen too fast. But you should be able to think of a few of them, reconstruct your thought processes and make sure you tend to make logical decisions based on some solid information when making intuitive decisions. Remember, it may seem as if you are not thinking and processing information when making a decision, but you are, or at least you should be.

You should be able to identify what you looked at to make an intuitive decision. If you can't, you may be making unfounded hunches. Don't be afraid to study and dissect your intuitive decisions.

Knowing that your decisions are actually based on solid pieces of evidence will increase your confidence when it comes to trusting them, and that will help you trade with a winning edge.

Happy Thanksgiving.

During Thanksgiving dinner, Jack tells his wife, -What do I have to be thankful for? I've made a bunch of bad trades all last month. My life could be going a lot better than it is.- What Jack doesn't realize is that his life could also be going a lot worse. When things don't go our way, it's natural to become frustrated and fall prey to a victim mentality. -Why me?- is the mantra of the losing trader. Winning traders, in contrast, take setbacks in stride; they look on the bright side and work hard to get back on top.

Thursday is Thanksgiving Day, a day where we look at our lives and appreciate what we have, rather than mull over what we don't have. If you are like Jack in that you haven't been doing very well and feel down, try lifting your spirits. The markets are closed, so you might as well take the day off and enjoy it. Appreciate what you have accomplished. Every trader has accomplished some sort of milestone, whether it is merely having the courage to make trades or having enough skill to realize steady profits. Trading is an inherently rewarding profession. It's a fun and intellectual challenge, and exciting. Be thankful that you are able to engage in such an activity.

Usually, people feel unappreciative of what they do have when they compare themselves to others. Don't compare yourself to others. It's tempting in the modern, competitive world to constantly ask, -How am I doing?- Comparisons are useless, however. Run your own race. Don't constantly think you are trying to beat others to an imaginary finish line. People who achieve great things work independently and on their own terms.

They don't care how others are doing. They follow their own timeline, follow their own passion, and look inward for where to go next. Trading is a creative activity. You alone are the one who needs to hone your trading skills. You are the one who must find a method that matches your aptitudes and personality. Comparisons to other traders just make you feel frustrated. How you perform has nothing to do with how others perform. All comparisons will do is torture you. You will feel jealous or envy.

When you see that you are doing relatively poorly compared to a fellow trader, you are likely to think of distracting thoughts such as, -Why can't I do as well?- or -I must not be as good of a trader as I had thought.- Don't look at anyone else's record but your own. Everyone has a different learning curve. To keep your spirits up, you'll do best as a trader to focus on improving your past performance record, rather than looking at how other traders are doing. You don't know what factors created their performance records, so comparisons can only mislead and hinder you. How well you are doing compared to others does not have a direct bearing on how you should feel about your inner-worth and feelings of success in life.

There are many good reasons to feel extremely thankful for what you have accomplished. Appreciate what makes you unique. Spend Thanksgiving Day celebrating your talents, whatever they are. Appreciate what you are able to do and give thanks that you are able to do it. Happy Thanksgiving.

A Long and Winding Road.

Trading requires getting in the zone; it's a flow experience. When seasoned traders place their trades, all their attention is focused on the trade. Their experiences are heightened and everything seems to click. Unless you are a seasoned trader who has experienced trading as a flow experience, getting a clear grasp of a flow experience is difficult. Fortunately, you've probably experienced many flow experiences in your everyday life, and you can use these prior experiences as a basis for understanding the unique aspects of trading as a flow experience.

Driving a car is an activity that commonly produces a flow experience. Well... Sometimes, it's a flow experience, but sometimes it isn't. A flow experience is an optimal experience in that it is a challenge that does not exceed one's skills or resources. For an experienced driver, the task of driving is far from a flow experience. For example, driving in bumper-to-bumper rush hour traffic for 30 minutes doesn't take much skill at all. It's quite boring. Indeed, it's possible to do other tasks while driving; many drivers can easily listen to a book on tape and increase their knowledge of a subject matter or learn a language as they drive. Although driving can be just plain boring at times, some driving experiences are very similar to trading in the zone.

Consider driving at high speed down a long and winding road, like the Pacific Coast Highway. It's exciting to drive on this road. One minute you are driving a few miles away from the coast along a relatively straight passage through fields and farmland, while the next, you are driving along a winding 200-foot precipice on the edge of the ocean. If you make a mistake, you literally can plunge to your death. If one were to drive the road at the suggested speed limit, one can move in and out of a flow experience. Driving along the relatively straight passage can be like driving in rush hour traffic; it doesn't take much skill and it isn't a challenge.

It can be quite boring and your mind can wander. On the other hand, driving too fast along the winding coastal passages is very dangerous. It's clearly a flow experience. All your attention must be focused on making each turn at a speed that keeps your car on the road. If you drive too fast, you may miss the turn and fall to your death. You've got to anticipate each curve: Is there a truck in front of me? Can I cross over into the other lane if I need to? Is there oncoming traffic? Just how good is the car I'm driving? Just as with trading the markets, one needs to anticipate what can go wrong and be ready to take decisive action. As you drive through dangerous curves, it would not be wise to lose confidence. You've got to decide quickly what to do without much contemplation.

When you are trying to make a turn at a high speed, you have to quickly make one of two choices: (a) decide that the turn exceeds your driving skills, hit the brakes, and take the curve at a slower speed or (b) decide the curve is within your skills, accelerate into the curve and make it. As you are making the decision, it would be a big mistake to second-guess yourself, hesitate, and avoid taking decisive action. Your attention needs to be focused on what you are doing. Second-guessing breaks your train of thought; it interferes with your concentration. You've got to stay focused. The same holds for trading.

There may be a tendency to become easily bored. At those times, you may fail to see the dangerous curves up ahead, or in trading, the potentially adverse conditions that may turn the trade against you. You may also want to -slow down- at times and take the trading setups that don't exceed your skills. Make trading a flow experience. Find a happy medium between boredom and extreme challenge. If you can create a flow experience, you will see your profits grow.

The Gambling Analogy: Consider the Advantages.

-Trading is like gambling.- Some say trading -is- gambling, but for now, let's just focus on the proposition that trading is analogous to gambling. An analogy is a comparison between two things that are similar in some respects. People use analogies to explain a complicated topic, or to understand a complicated topic. Trading must be complicated since it seems that 95% of those who attempt to trade end up failing. It's either complicated, and thus, we need to use an analogy to understand it, or it's an impossible task, like trying to survive jumping off of a high cliff. Some people survive the fall, but most do not. If it's impossible, an analogy isn't going to give us much help. But assuming that trading for a living is viable under the right conditions, most novice traders are willing to use analogies to understand complex trading issues.

In considering any analogy, it's essential to avoid confusing the analogy with the actual phenomenon that one is trying to understand: Trading is like gambling, but it's not exactly like gambling. A dictionary definition of gambling is -playing games of chance or betting in the hope of winning money.- At Innerworth, we sometimes get letters rebuking us for propagating the -myth- that -trading is gambling.- Now, look at that dictionary definition. Trading is indeed a -game of chance,- since it is not a 100% certainty that one can put on trade (or a long-term investment for that matter) and be guaranteed a profit. And why do you trade (or invest)? You do so with the -hope of winning money.- So from a purely semantic argument, trading is gambling.

-But casinos are the only officially permitted institutions that allow legal gambling and the institutions that oversee trading and investing are quite different,- is what critics of the gambling analogy shout with fervour. All right. We'll give you that one. Here's another debating point we will give you. In the -Diagnostic and Statistical Manual of Mental Disorders,- the -bible- used as a reference by all mental health professionals, there is a disorder called -pathological gambling.- It usually refers to the base aspects of gambling.

Gambling can be an addiction, like alcoholism, and no reference is made to -pathological trading.- So I guess that means that society as a whole has yet to recognize a pathological version of trading. If it's so important to you to argue to your friends and loved ones that you are not gambling by trading, there's some ammunition. But whatever you call it, it's just a form of denial, because like it or not, you are gambling. So now that we've temporarily kept the critics at bay, let's get down to business. How is trading like gambling? And how can using this analogy help you understand trading?

No one has developed the ultimate signal or indicator that allows a trader to anticipate the next market move with 100% certainty. There's some risk involved. And again, that's what makes it gambling. So the gambling analogy is useful. The fact that you can lose money should be at the forefront of your mind; you aren't putting your money in an FDIC insured savings account.

Once you acknowledge the risk, you can take precautions to protect yourself. Unless you want to act like a -pathological- addictive trader, it's wise to define your risk clearly before entering a trade, take measures to protect yourself, and set up an exit strategy, should fate move against you. Since trading is a matter of probabilities, it's to your advantage to limit your risk to a small percentage of your total trading capital on any single trade, for example. That will help you survive a severe drawdown and stay in the game. You'll be acting like a professional gambler rather than an amateur.

Perhaps the greatest value of the gambling analogy is the mindset it offers the trader. If you look at trading as a game of chance, it allows you to think in terms of probabilities: trading is a matter of capitalizing on chance across a series of trades. The outcome of a single trade is of little importance since if you make enough trades, you end up with an overall profit. Mark Douglas wrote one of the best expositions of this thinking strategy in -Trading in the Zone.- When you play some games of chance, the distribution of all possible outcomes can be represented by a probability distribution in which some outcomes are more likely than others.

For example, when you throw a pair of dice, there are 36 ways for the dice to fall, and about a 3% chance of getting a 2 or 12, and about a 20% chance of getting a 7. Traders try to find the high probability trades; it's like betting on getting a 7. You may try for a 7, but there's still a small chance of getting a 2 or a 12. But the more times you throw the dice, the more the law of averages works in your favour. That is, about 20% of the time you'll get a 7 if you throw the dice enough times (but theoretically, there's still a chance you will never get a 7).

Throwing dice is analogous to using a trading strategy with a proven track record. If you use a trading strategy with a historical track record of 80%, for example, you should expect it to work 80% of the time. It's all a matter of executing the strategy effortlessly and mechanically over and over so that the odds will work in your favour. (But unlike casino gambling, where someone knows the odds, and the -problem space- is essentially identical time after time, a trading strategy is rarely executed in an invariant problem space; history only repeats itself when it does. The gambling analogy in this instance doesn't hold. The professional gambler has better odds because theoretical laws of probability apply to traditional games of chance, but not to trading strategies.)

When you work under the assumption that you are doing nothing more than playing a game of chance, where the more trades you execute, the more the outcomes will follow a probability distribution where the outcomes are skewed in your favour, the more confident you will feel. As you execute the strategy over and over, you can remind yourself, -I'll trust my strategy, repeat it over and over, and the odds will work for me.- The gambling analogy in this case gives you an edge.

It puts trading in manageable terms. You'll feel more relaxed, confident, and trade effortlessly in a peak performance state. In the end, there are more advantages to viewing trading as gambling than not. By doing so, you will acknowledge the potential risk immediately, and take steps to minimize it. At the same time, you'll also be able to use the thinking strategy of looking at trading as a matter of probabilities. The relaxed, confident approach you will achieve from this mindset will give you a mental edge.

The Intrinsic Rewards of Trading.

It seems so easy: Find a good setup, place a bet, close out the trade and take home the profits. Enduring trading success is easier said than done, however. Trading experts note that even those traders who achieve early success don't maintain it. It's easy to make a series of profitable trades early in one's career; the difficulty is trading profitably day after day, week after week, year after year. When it comes to maintaining profitability over the long term, one must look deep into one's psychological makeup and ask and answer tough questions: Why am I trading?

What do I get out of it? Why should I continue to trade? Seasoned traders know the answer to these questions: Trading is intrinsically rewarding; it's fulfilling, enjoyable, and exciting. The experience of trading in and of itself provides its own reward. The most successful traders are so passionate about trading that they would trade regardless of how much money they made or how successful they were. For them, the intellectual and creative activities involved in the trading process constitute an optimal experience. They trade in a higher sphere, and maintaining this peak performance mindset ensures their lasting profitability.

Psychologists who study the motives behind people's life pursuits have discovered that optimal experiences are intrinsically motivating. They are so engaging and interesting that the mere act of doing them is enjoyable. The extrinsic rewards, such as money or profits, are not nearly as motivating. When people engage in an intrinsically motivating task, they effortlessly focus all their attention on that task and achieve a level of experience that is optimal.

They don't worry about success or failure, and they don't expect to receive any reward or gain from the endeavour other than the experience itself. They may desire a reward but they don't need one. Emotions, such as fear, anxiety, and self-reproach, don't even enter their consciousness. The experience is so intense that they tend to be concerned less with the final outcome, and more with the process as they experience it.

Top-notch traders report that they would work as a trader even if it were a typical 9-to-5 job. They are passionate about trading. They love the business and would do anything to be in it. It's fun, enjoyable, and an intellectual challenge. The more you can see the intrinsic rewards of trading, the more you'll trade calmly and rationally. And in the long run, the more profitably you will trade.

Thinking Optimistically.

In the 1970s, Dr Martin Seligman conducted an influential experiment in which he taught laboratory animals to become helpless upon encountering seemingly hopeless situations. Laboratory animals were placed in a chamber that had an electric grid on the floor that was used to deliver a shock. When an animal felt the shock, it jumped out of the shock chamber into a safe chamber.
Half of the animals, however, were physically restrained from escaping to safety. In subsequent exposures to shock in which all laboratory animals were unrestrained and free to jump into a safe chamber, the previously restrained animals did nothing. They did not try to escape; they just sat there, motionless and beaten. They experienced -learned helplessness.- The other half of the animals, as expected, jumped out of the shock chamber to safety upon feeling the electric shock.

Dr Seligman viewed his animal study as having parallels to humans. Initially, he surmised that when humans experienced dire situations that seemed to have no apparent solution, they acted in a helpless manner, as if there were no possible means of escape. Since all seems hopeless, one might as well give up instead of searching for solutions and taking specific action. The most obvious criticism by many was, -Humans are more sophisticated than laboratory animals; a human would come up with more possible solutions to a hopeless situation because humans can think.- Dr Seligman later amended his original theory to account for how humans think about the -hopeless- situations in which they find themselves.
It's not the objective -hopeless- situation that causes one to give up, but the interpretation of the situation. How one explains the cause of the dire situation accounts for how one copes. If one thinks, -I've always been incompetent and this is just another instance of how incompetent I've always been,- he or she will tend to view the situation as hopeless and want to just give up. But, if one thinks, -this is a temporary setback and I'll be able to get past it,- he or she will search for solutions to change matters and overcome the dire situation.
This kind of optimistic versus pessimistic thinking style has a direct bearing on how one copes with trading losses. For example, suppose one finds oneself in the midst of a serious drawdown. The helpless and pessimistic approach to viewing this situation is to attribute the cause to an enduring personality trait, such as -I'm incompetent in all that I do; trading is no different, and that's how I got myself into this mess.- When one interprets situations in this way, one is bound to feel extreme disappointment.
A more productive and optimistic approach would be to attribute the failure to a specific cause that is temporary and easily changeable. For example, one may think, -My trading strategy must be ineffective; I'll have to come up with a new method, and when I do, I can recover from this drawdown.- A trading strategy is specific and can be changed. By focusing on these changeable reasons for failure, one will feel more optimistic and feel he or she can find effective solutions.
Trading is a tough business in which one must often persist in the face of defeat. Your thinking style dictates your persistence level. It's unproductive to think pessimistically and attribute your failures to enduring personality traits, which are not easily changed. Instead, attribute failures to temporary specific causes, which you can change. By looking for specific aspects of your trading that you can actually change, and believing you can change them, you will face setbacks with optimism rather than despair and helplessness.

Third Eye View.

Have you ever driven in rush hour traffic in the rain or snow? During dry weather, people cut you off, assuming that you can stop in time. You can probably slow down safely in dry weather, so it isn't such a big deal. In the rain or snow, however, you have to be extra careful. Your car doesn't stop nearly as quickly, and unless you react coolly, calmly and decisively, you'll get into an accident. It's difficult to do. When you feel you've been slighted on the highway, it's tempting to honk your horn, start yelling and drive aggressively.

But as tempting as it is, it's useful to calm down and take decisive action to protect yourself. This metaphor works for the markets. Oftentimes, the market action does not go our way. The masses may not react to the news about a stock in the way we had hoped, or some major world crisis may nudge the market the wrong way. You have two choices: you can get angry and start thinking of a way to get even or you can calm down, figure out how to deal with it, and react decisively.

Winning traders don't succumb to their emotions. They aren't thrown off track by unexpected events. They approach the markets with a detached, unemotional, and rational mindset. Cultivating such a mindset is easier said than done, however. Just like battling inconsiderate drivers on the road, it can be difficult to contain your emotions at times. Your money is on the line, and it naturally puts a person on edge. You try to think, -What can happen? So what if I lose a little money. I can take the loss in stride,- but it's hard not to react emotionally.

Rather than react emotionally, you need to step out of your current mindset and look at yourself objectively with a third eye as if you are a character in a movie. How can you do it? Again, it's hard to see things from a third eye when too much is on the line. When you are on edge and a little afraid, your mind tends to shut out part of your perspective.

You focus on defending yourself and that usually means denying the trouble you are in and looking at events through rose coloured glasses. By reducing financial and personal risk, you will increase your ability to move out of your current mindset and see things from a new perspective. It's also important to always be ready to see things from a new perspective.

Always be ready to question your current reality and expect the unexpected. Our emotions can be overpowering when we are caught off guard. But if we go in fully expecting the possibility of an unexpected, adverse event, we can mobilize our psychological resources more quickly and fight back immediately before we become inflexible and stuck. That doesn't mean going into a trade pessimistically expecting it to be a failure. What it does mean, however, is being ready to react.

Before the trading day begins, for example, map out all possible adverse events (such as a rate hike or a product announcement) and mentally rehearse how you'll deal with them. You might think, -I'm not going to be caught off guard. The trade may go wrong, and when it does, I'm going to just close it out and move on.- You might also try to visually imagine losing and bowing out gracefully. Imagine yourself watching the price go in the wrong direction, and then calmly and decisively closing the position. The main idea is to be ready for anything and be ready to put an alternative plan in place.

Trading the markets can be difficult at times. You need to be flexible and be ready to see things from different perspectives; it's as if you have a third eye that you can use to look at things from the perspective of another person. The more flexible you are, the more you will be able to see things clearly and creatively.

A Tale of Three Traders.

The expectations you hold about where your trading career is going can have a powerful impact on what you do and how you do it. Consider three traders, Jake, Steve, and Paul. Each has a different outlook, and this outlook dictates how they approach the markets.
Jake is a pessimist. He wants to become a profitable trader, but his attitude gets in the way. He thinks, -I just don't have the talent to trade profitably.- Jake bases his assumptions on the fact that he traded for an entire year and ended up blowing out his account twice. He believes that his past performance -proves- that he has no future as a trader. But he's still not ready to give up. A voice deep down tells him to keep trying, but Jake has trouble listening. He pursues trading earnestly but in a closed, defensive way.

Rather than embracing the profession, he holds back. Rather than taking risks, he avoids risks at all costs. He is consumed with losing, and truly believes that it is just a matter of time before he blows out once again. He is complacently waiting to lose. What Jake needs to do is think creatively. He needs to look forward to honing his skills. He should be open and excited about what he is going to learn next. It may be true that he will face many more losing trades in the future, but it is all part of the process. He can't learn how to trade like a winner sitting still. He must go out and take risks.
Steve is an optimist. Unfortunately, though, he is an unrealistic optimist. He has a -can-do- attitude. He believes that he was meant to be a trader, but he mistakenly thinks that a positive attitude by itself can make his dreams come true. He expects winning trades in the future, and rarely believes he will face a setback. The problem is that his positive attitude isn't allowing him to fully realize his goals. He continues to lose money. Why? A positive attitude can keep you persisting in the face of setbacks, but it's unrealistic to think that trading offers a way of making easy money. Trading is hard work. You have to be thick-skinned and be willing to hone your trading skills. You must be willing to put in long hours and develop an intuitive feel for the markets. You must also be willing to face the fact that developing your skills is not going to happen over night.
Paul is optimistic but also a realist. He knows that profitable trading isn't something that is going to come easy. He expects to lose money and face setback after setback. He doesn't know when he will fully master the markets, but he knows that if he keeps at it, he will eventually become a profitable, seasoned trader. He is mentally prepared for any outcome. He knows he may blow out his account a few times, but he figures that it's just tuition he has to pay for learning how to trade profitably. For him, trading is something he can learn to do. He doesn't believe that he is a natural born trader, but he believes that with enough hard work and determination, he'll become a seasoned trader.
Of the three traders, Paul is likely to make it. Steve is an optimist, but he has a Pollyanna attitude. He will stay happy for a while, but eventually he will face so many setbacks that his optimistic attitude will turn into deep discouragement. He thinks trading is easier than it is, and is not prepared to put in the commitment he needs to gain mastery. Jake is so much of a pessimist that he doesn't even try, and because he doesn't try, he will never hone his trading skills. Paul has a positive attitude, but he knows how hard trading is.
He expects to see setbacks, but because he knows that trading is hard work, he is ready psychologically to accept that obstacles are commonplace, and he is willing to overcome any obstacle. The right attitude is essential for trading success. It's not impossible to master the markets, but it isn't easy either. By holding an optimistic yet realistic view, you'll be able to accept how tough trading is, but at the same time persist until you overcome every obstacle.

The Thrill Seekers.

Have you ever been on a diet and eyed a piece of chocolate cake? Or perhaps you had decided to cut back on expenses, but couldn't resist buying a new pair of shoes. We all have our addictions, whether it is gourmet food or fast cars. It's human to want to seek out fun and excitement. You work hard. Why shouldn't you play hard? The problem, though, is when a trader starts trading like an addict. Addictive traders seek out thrills, even if it means losing money they can't afford to lose. Your long-term survival depends on your ability to avoid seeking out thrills and remaining disciplined.

Psychologists have studied the dynamics of thrill seeking. Some people have a natural born affinity to seek out risk. They have difficulty controlling their impulses and are quick to act without thinking. That said, many people, especially traders, have trouble maintaining discipline. Research studies have shown that despite the claims of pop psychologists, people have trouble controlling their drinking, eating, and smoking. Sure, there are some people who have no problem with discipline in these areas. It's a matter of biology, but many people have trouble maintaining discipline. Is it hopeless? No. Psychologists suggest looking at your limitations regarding discipline, and taking active, preventative steps to maintain discipline.

When trying to maintain discipline, many people make the mistake of trying to do too much at too fast a pace. People think they have super-human strength when it comes to discipline. But, in reality, the ability to maintain discipline is a fixed resource. Just like physical strength, you can only maintain discipline for so long before your ability to stay controlled fails you.

For example, if you work all day long, and keep under control, you are bound to want to go wild at the end of the day. That's all right. It's natural to want to celebrate. The mistake, though, is thinking that there are no ramifications for maintaining strict discipline for long amounts of time. You can't keep strict discipline forever. At some point, you need a break. Obviously, just like building up muscles, practicing discipline allows you to get better at it. But it is vital to know your limits. You can only be disciplined for so long before you naturally want to break out and act on impulse.

What are a few ways to stay disciplined when you need to? First, always get plenty of rest. When you are tired, you are prone to impulsive decisions. Don't skip sleep. It's the key to maintaining discipline. Second, remove stress from your everyday life. This is easier said than done, but if you feel stressed out, you won't have enough psychological energy to maintain discipline. You'll be on the verge of seeking out a thrill to make yourself feel better. Third, don't try to be disciplined for too long. When you try to live a monastic life as a trader, you will eventually feel a need to alleviate the monotony and boredom. When you feel bored, you are likely to make an impulsive trade and lose money.

The best preventive step is to restrict the amount of time you trade. If you find it hard to maintain discipline for an entire week, for example, then don't try to trade with extreme discipline for two weeks. It will take all the psychological energy you can muster to make it for the week. Don't make matters worse by pushing yourself to go for two weeks. You'll increase the odds of making impulsive trading decisions. Instead, trade for a week, take some time off, and then return after you've had some time to recover. It's just like building up muscles. Work out, rest, and go back and work out a little more. If you -work out- your discipline muscles in moderation, you'll make more progress. So avoid seeking out thrills. Trade with discipline and you'll trade to win.

Fighting the Urge to Seek Out Excitement.

To the masses, trading sounds exciting. What can be more thrilling than taking a small stake and turning it into a fortune? When you start doing some basic math, and after you hear a few war stories from veteran traders, however, the profession starts to sound impossible at worst, and stressful and challenging at best. It's not for everyone, and the challenge for many is staying in the game long enough to reach the status of a master trader. Many novice traders blow out their account before getting that far, though. Trading can be tedious at times, and if you aren't careful, you may try to seek out thrills, which often leads to impulsive trading errors. If you want to stay in the business of trading, it is vital that you trade with discipline and self-control. Your success depends on your ability to maintain self-control, and execute a series of trades according to a specific trading plan in a calm, unemotional manner.

To some extent, trading is a matter of taking advantage of probabilities. And making the law of large numbers work for you requires you to make trade after trade, over and over again. Just like onerously bolting on wheels on an automobile assembly line, making a series of trades can be tedious, however. It may be hard to maintain self-control at times. It is understandable. You are human, and humans have a strong primal urge to seek out drama and intrigue. In addition, the kind of person who is attracted to trading isn't the kind of person who prefers tedium to excitement.

If you are a trader, you're probably the kind of person who has shunned a mundane 9-to-5 job for a more unconventional, adventurous profession. The excitement of working as a full time, active trader appeals to you. You thrive on the uncertainty and endless possibilities. What attracts you to trading, however, may also be your downfall, unless you are careful. You may be the kind of person who gets bored easily. It's possible that the long hours of self-control required to make a profit may be difficult to maintain. If you aren't careful, you may want to break out impulsively at critical moments of trading.

For some people, trading stocks is a means of finding thrills and excitement. The search for drama is a prevalent human need. We don't like boredom. It's unpleasant, and when we feel bored, we do whatever we can to find excitement. The masses look to the markets for drama. Many people invest in the markets for entertainment. They enjoy putting on a position just to see what happens. It's similar to playing a slot machine or buying a lottery ticket. Professional traders take it more seriously, though. They capitalize on the fact that a primary motivation of the masses is to seek out excitement and drama.

Whether they are fully conscious of it or not, the masses enjoy the drama of buying and selling stocks, even if it means losing in the end. What you need to decide as an active trader, however, is whether you want to be part of the group that gives into their need for drama and loses money in the long run, or the group of active, professional traders who maintain self control and watch money flow from the masses' trading accounts into their pockets. Professionals make big profits from the irrational and emotional reactions of the masses. The masses may want drama, but you want profits. And that means taking a cold, rational, planned approach to trading the markets.

It is vital for your survival that you leave your emotions at the door, and trade like a pro. Develop a well-defined trading plan and stick with it. Cultivate a sense of healthy skepticism. Don't believe that all setups are equal. Only trade the best setups. You may want to jump in and make a trade even though market conditions aren't optimal. When you get the urge, however, it is vital that you hold back. Don't jump in. Maintain self-control. The more you can fight the urge to seek out thrills and excitement, the more you'll cultivate the calm, rational mindset of a winning trader.

The Efficient Trader.

-Time is money.- These are words to live by when you're a trader. There's only so much time in a day to get everything done, and if you don't work efficiently, and spend your time wisely, you'll fall behind, which usually means you won't make enough profits to make a living. Becoming a top-notch trader takes dedication and hard work. There's a lot to do, especially when you are a novice trader. It's important to set realistic goals, manage your time and energy efficiently, and then work tirelessly to achieve your objectives with the limited time you have available. The efficient trader is careful to spend time wisely.

Some novice traders make the mistake of thinking that they can approach trading as if it were a regular 40-hour a week job: You put in 40 hours and you pick up a paycheck. Trading doesn't work that way, however. It actually doesn't matter how much time you put in. The bottom line is whether you make enough profitable trades to make a living.

You either can do it or you can't; it's merely a matter of skill and preparation. There isn't always a precise one to one correspondence between the amount of time a trader puts in and the number of profits one makes. For instance, if it takes only 15 minutes for a skilled, seasoned trader to make enough profit to meet a year's worth of living expenses, then so be it. Seasoned traders don't have to spend 40 hours a week to make a living if they have the requisite skills. Novice traders, on the other hand, can put in 80 hours a week and see nothing for the effort. If you're a novice trader, you can't work under the assumption that everything you do will have a direct payoff.

You must also consider the total number of hours you can work is limited. You must spend your available time efficiently. Many novices try to do too much of the wrong thing. For example, they may waste precious time and energy reading about the markets and world events that have no direct bearing on the intra-day or intra-week prices of the stocks they plan on trading. Similarly, sifting through stock charts that have no bearing on the stocks one trades is also wasted time. You can't be overloaded by information.

You need to maintain focus and efficiency. Trade a few key stocks, and know everything you can know about those key stocks. Become an amateur specialist. Memorize the chart patterns, how the prices change during the day, and the factors that coincide with the price changes. Knowing about stocks you don't plan to trade or about broader economic events that don't influence your key stocks will use up time that, realistically, you just don't have.

Trading is a challenging profession, and you need to focus your psychological energy on what matters most. You can't waste your time on distracting information, or activities that don't eventually produce a direct payoff. Don't be sidetracked by learning additional trading strategies that you will never use, or new indicators that are redundant with basic indicators of trend. And don't believe you must keep up with all the media hype. Focus, work efficiently, and in time you will build the skills you need to become a consistently profitable trader.

Time Flies: But It's Only Fun When You Get Work Done.

Cultivating a positive mindset requires stress management. The less stress you feel, the more energy you can devote to trading in a peak performance mental state. Time pressure is a significant source of stress. When you feel that you have too much to do and not enough time to do it, it will eat up precious psychological energy that you need to devote to trading. It's vital that you ease time pressure and free up wasted psychological energy.

One of the most effective ways to cope with time pressure is to change your time perception. Time perception is the degree to which people perceive their use of time as structured and as contributing to a specific goal or set of goals. The more people perceive their time as structured and their actions as aimed toward a specific purpose, the less stress they experience and the more satisfied they feel. As a trader, it is useful to gain awareness of how you perceive time and make sure that you see your actions as meeting specific trading goals.

Trading has advantages compared to most jobs. Traders are free to work on their own terms. They don't have to satisfy the expectations of supervisors or punch a time clock. As bothersome as these constraints may seem, however, they do have some advantages. In many traditional work environments, time is well structured, and the purpose of work tasks is relatively straightforward. A clear routine is set and it's easy to follow. Trading can also be structured and meaningful, but there is a danger of these important psychological elements being lost when one embarks on a trading career. Novice traders, especially, may not organize their trading activities in the same way as they would for a traditional job. They may not follow a strict routine, set clearly defined goals, or try to meet specific deadlines. For some traders, time may seem to slip away. When this happens, one may feel as if he or she has accomplished very little during the day, and eventually, this can produce uneasiness and stress.

Do you feel that your time is basically without structure? Do you feel as if you put in a lot of effort, yet are not making adequate progress toward your goals? When you look back at your daily activities, do you question what you are working toward? If you answered -yes- to any of these questions, you probably feel time pressure and may have a problem with time management. You may feel confused and unorganized, and this may produce unnecessary stress. If you have a problem with time management, you may want to try a few simple time management strategies to structure your time and relieve some of the time pressure.

An important step is setting clear priorities. Your priorities as a trader, however, should be based on whether you are a novice or advanced trader. A novice trader, for example, should devote a fixed amount of time to learning about new trading strategies, while a more seasoned trader may know which specific methods he or she will use and can devote less time to this activity. It is also important to set a specific amount of time aside for each goal; otherwise, you may spend all your time on one goal at the expense of others. For example, one cannot merely study trading strategies without testing them out in the markets, so it is important to set aside time for both learning about new strategies and actually trading them.

However you spend your time, it's essential that you set time limits for each goal, and that you monitor the amount of time you spend on each one. As you systematically complete each task, you will naturally reward yourself, and at the end of the day, you will feel that you have achieved a meaningful goal. And in turn, you will find that you will enjoy the process of trading. Rather than merely looking at the equity in your account as the all-important gauge of your performance, you will gain a feeling of mastery just by completing various tasks you deem as valuable for developing your skills as a trader. Everything will start to feel as if it is coming together into a whole.

It's important to view time as structured and as having a purpose. This perception can be maintained if one uses time management techniques, such as listing specific goals, ranking each goal in terms of your priorities, setting deadlines for each goal, and rewarding oneself when the goal is completed. When you perceive your time is structured, you will feel less stress and feel more satisfied with your overall trading experience. And this in turn will help you cultivate the positive mindset you need to trade profitably and consistently.

Be Receptive to Multiple Time Frames.

When you look at a chart, what time frame do you look at? Do you prefer a one-time frame to another? Many novice traders believe there is only one -right- time frame, and often ask, -What time frame should I look at?- It's intriguing how many novice traders ask this question. It's not so much the question. It's a reasonable question. A trade can be examined from multiple time frames, and it's not always obvious which one is optimal. But it's interesting how many traders think that there is only one universally -correct- time frame. There is not only one. While active traders tend to focus throughout the day on 5-15 minute time frames, it is also important to scan across a range of time frames, including 30- and 60-minute charts, as well as daily, weekly, and monthly charts.

Trading platforms make it very easy to move quickly across multiple time frames or to store certain charts of varying time frames for later viewing. Looking at multiple time frames can provide a feeling of psychological security. We can look across time frames for trend alignment. For good trades to follow through and present valid opportunities it's desirable to see traders from various disciplines and perspectives move in the same direction. For example, we ideally want to see a bullish trend at all levels from the monthly charts down to the minute to minute. Observing such consistency confirms our perceptions. We don't want to see mixed signals across different time frames; that's when traders of varying styles struggle with what to do next, going back and forth. We would like to see clear pictures, which suggests a unanimous opinion and that the majority are decisively going in one direction.

Timing is critical to trading. Short-term traders try to spot a breakout move or a condition setting up from a monthly or weekly chart, and then try to capitalize on the early stages of that larger potential move. They try to participate in the first few days of what may turn out to be a large monthly move or may try to participate in the first five hours of what may turn out to be a large weekly move. We want to trade the impulse move before the word gets out, and others come to the trade. The energy is in the early part of the move. It dissipates later. It's vital to get in at the start of the move before it ends. Looking at multiple time frames helps you identify this critical point in time.

So remember, there isn't one absolutely correct time frame to look at. It all depends on the context. Focusing on the larger picture that may be unfolding on charts may give you an edge in anticipating what is happening at a lower time frame. By being open to many different time frames, you'll be more likely to see potential moves. You will have a more comprehensive feel for the markets as a whole, and this will help you anticipate where the market will go next.

Manage Your Time.

There just isn't enough time in a day to get everything done. This is especially true when it comes to trading. There are numerous trading strategies, and you can easily run out of time if you try to learn them all. There are endless possible trading opportunities to look for, and when it comes to trying to look at all the available information about the market, it can be overwhelming. It's vital to set priorities, make hard decisions about what you want to do, and focus your energy on achieving those specific objectives.

In many occupations, the more work you put in, the more payoffs you'll realize. If you are in sales, the more cold calls you make, the higher your potential sales. If you are a construction worker, the more hours you put in on the job, the more money you take home each week. In many ways, trading is quite different. There isn't a one-to-one correspondence between the amount of work you put in and the profits you'll pile on. You must prioritize. For example, you don't need to spend several hours monitoring media coverage of the market if it doesn't directly lead to a profit. Most of it is for entertainment value only, so spending hours reading or viewing the latest media hype is a waste of valuable time. You need to work efficiently and make sure that the time you spend learning about trading and the market does indeed pay off.

Trading isn't a 40-hour a week job. It's not a matter of putting in 40 hours a week and getting a steady paycheck. It's about reaching a specific objective, no matter how much time it takes. For instance, if it takes only 15 minutes for a skilled trader to make enough profit to have a year's worth of living expenses, so be it. Seasoned traders don't have to spend 40 hours a week to make a living if they have the requisite skills (and novice traders may need to put in more time building up these requisite skills). The point is that if you're a novice trader, you can't work under the assumption that everything you do will have a direct payoff. There are only so many hours in the day, so you must spend your time efficiently. Don't waste your limited time in activities that won't have a direct payoff. For example, if you're an intraday or swing trader, it doesn't make sense to read about the markets and world events that have no direct bearing on the intra-day or intra-week prices of the stocks you want to trade. Similarly, sifting through stock charts that have no bearing on the stocks one trades is also time misspent. Avoid information overload. You need to maintain focus and efficiency. Trade a few key stocks, and know everything you can know about those key stocks. Become an amateur specialist. Memorize the chart patterns, how the prices fluctuate during the day, and the factors that coincide with the price changes. Knowing about stocks you don't plan to trade or about broader economic events that don't influence your key stocks will take the time that, realistically, you just don't have.

Trading is a challenge that requires hard work and persistence. It is essential to manage your time and energy wisely. Focus on what matters most. Don't be distracted by learning additional trading strategies that you will never use, or new indicators that are redundant with basic indicators of trend. And don't believe you must keep up with all the media hype. Working efficiently will ensure that you will build the skills you need to become a consistently profitable trader.

Timely and Decisive Action.

There are critical moments in trading where timing is everything. When all the signals are in line, you can't hesitate, second-guess your trading plan, or wait for further confirmation. If you wait too long, you'll miss a major market move. Unnecessary hesitation can turn a winning trading plan into a loser. Unfortunately, there's no fail-safe way to know when to take decisive action and when to prudently wait until market conditions are optimal. Nevertheless, traders who hesitate too frequently, and often suffer from analysis paralysis, show a few key symptoms. For example, they dwell on their mistakes and over-think their options. Make sure you don't show the signs of an indecisive trader with poor timing.

Perhaps the main reason traders don't take timely action is because they dwell too much on their mistakes. It's important to learn from one's mistakes, but many times there's only so much you can learn from a losing trade. If you failed to manage risk, had a poorly defined trading plan, or impulsively put on a trade, then, by all means, don't make these mistakes again. Fix the problem as soon as possible.

There are other times, however, that a trader does everything -right- and accounts for all possibilities, yet an unforeseen factor undermines one's trading plan. In those cases, there's no need to over-analyze such past losing trades. There's little you can learn, and you'll probably do nothing more than shake your confidence by repeatedly reviewing the trade. It's better to build up your confidence by fearlessly making trade after trade. Extreme self-reproach will just use up your limited psychological energy. Nobody's perfect, and even the most -perfect- of traders will face losses occasionally.

Throughout our lives, we are taught that prudent decision-making requires careful deliberation of all possible options. It's not a good idea to impulsively put on trades on a whim. On the other hand, too much deliberation uses up limited psychological energy. When you spend time and energy tediously reviewing your options over and over again, you don't have enough time and energy left to make a precise trading plan. It's sometimes better to decide which trading opportunity to take and then immediately focus your remaining energy on specifying every part of your trading plan, such as entry strategies, exit strategies, and risk control. Don't be wishy-washy. Decide which opportunity you want to take, specify a detailed trading plan, and put on the trade in a timely fashion.

It's vital for trading success to show discipline and self-control, but it's also essential to execute trades in a timely manner. When you spend too much of your energy mulling over past mistakes or unnecessarily pondering your options, you end up wasting time and energy that is better spent outlining a trading plan and executing it. Timely action will ensure you stay profitable, so don't hold back, take action.

Risk Tolerance: Knowing Your Limitations and Working Around Them.

Winning traders know how to tolerate risk. Trading outcomes are far from definite, but they don't mind. They have no problem putting on trade after trade and doing so with grace and nonchalance. Not everyone can live up to this standard, however. Many novice traders have trouble taking a risk, even a small one. They either avoid executing a trade or when they do, they find it excruciating to monitor the trade as they wait to see if their profit objective will be reached. Depending on your background and personality, you may have trouble tolerating risk. But don't let it dash your hopes of making profits. You can develop a way to work around a low tolerance for risk.

When you find risk-taking particularly fearful, it's hard to concentrate. You are continually on edge and tempted to close out a trade just to end the uneasiness. Part of risk tolerance is biological and part of it is socially learned. Some people are easily agitated and once they become anxious, they find it difficult to calm down. They continue to remain anxious and on edge, even when a threatening event has passed. If you are easily agitated, it's useful to take precautions to reduce your propensity for over-stimulation. The mind and body go together and there are many ways to reduce your overall level of agitation. For example, if you exercise, avoid caffeine, meditate, eat nutritiously and get plenty of rest, you will stay more relaxed. That said, it's hard to fight biology. If you've always been the kind of person who gets anxious easily, you'll have to find a way to work around this aspect of your personality.

If you find taking risks especially difficult and extremely anxiety-provoking, you may need to adapt your trading style to fit your physiology. There's no one right way to do this. It depends on your preferences. But one issue to consider is the length of time you stay exposed to risk. The longer a trade, the more risk involved. Scalpers, for example, take minimum risk. They get in and get out of the market as fast as possible. Some anxiety-prone people may find this kind of fast-paced trading especially stressful, but others may find it appealing. You don't have to wait very long to see how a trade turns out.

At the other extreme, long term investing can be another option. Some companies have relatively consistent long-term trends. By doing some simple homework, you can identify a few solid companies and use a buy-and-hold strategy. After you buy the stocks, make a conscious decision to restrict the number of times you look at the price. You might decide to look only a few times a year, for example. Looking at how the stocks are doing can be a lot like looking at a slot machine or roulette wheel.

When you look at it, you'll feel anxious as you anticipate what might happen. But if you avoid looking, you'll see the grain of truth in the saying, -out of sight, out of mind.- That's not all you need to do, however. You will also find it useful to put a stop loss in place to limit your risk. Defining the amount of risk you are taking upfront will help you tolerate risk. (Remember, though, that you must account for volatility over the course of the trade. It's impossible to completely eliminate all risk. You must find a happy medium between getting stopped out too early or allowing your investment to fall in value to an uncomfortable level.)

There's one last thing you can do: Accept the fact that should the market go against you, you will definitely lose the portion of capital that isn't protected by your stop-loss. In the end, you must accept that you may lose. One of the main reasons people have difficulty taking a risk is that they are afraid of the consequences of a potential loss.

They wonder what they would tell their spouse or their parents should they lose. They wonder what they would need to do to make back the lost money. It is vital that you trade with money you don't mind losing. If you can truly believe that losing the money is no big deal, you'll be able to tolerate the risk, even if you have an extremely low-risk tolerance. But if you can't afford to lose the portion of your capital you are risking on the trade, don't risk it. You will never be able to convince yourself that it is a good idea, and if you have low-risk tolerance, you will just be putting yourself in agonizing pain.

Extremely low-risk tolerance can severely hamper trading, but if you take the proper precautions, you can still trade profitably. By finding a trading style that suits your personality and only risking money you can afford to lose, you'll feel calm enough to trade freely and profitably.

Confident But Not Over-Confident.

When it comes to trading the markets, nothing is certain. How do you cope with uncertainty? Many traders are overconfident. Rather than face the possibility of losses due to market uncertainty, they fool themselves into thinking they are omnipotent. Behavioural economists Brad Barber and Terrance Odean illustrated how novice traders are especially overconfident. They analyzed account records from a large sample of online investors. Overconfident investors showed this ailment after a large windfall. They put on substantially more trades than other investors, yet achieved few rewards for their efforts. By putting on significantly more trades, they paid more in commissions, which in turn resulted in overall lower account balances. Clearly, overconfidence has a price. Are you willing to pay for it?

Tom a seasoned trader told Innerworth staff, -Every time I have issues with confidence, I become overconfident. I try to be very humble when I trade. You're only as good as your last trade. It doesn't matter what you did last month, last year, or the last ten years, it's what are you doing today.- But Tom does not lack confidence. He may get beaten down, but he doesn't stay down for very long: -I get worried or depressed for a very short period of time. Rather than dwell on it, I immediately shift my focus and think, Okay, fine, let's see how we can get out of this?' What's done is done.-
Although overconfidence can lead to risky trades that may produce losses occasionally, a lack of confidence can be even more detrimental. It's probably not a good idea to be optimistic to the point of putting on trades without carefully managing risk, such as limiting the size of a position or using protective stops, but a moderate amount of optimism and confidence is useful.
Dr James Felton of Central Michigan University, and colleagues (2003), point out that pessimists often panic, become fearful, and tenaciously deny they are in a losing trade. A moderate amount of optimism keeps a trader calm and inquisitive. Even in the midst of a losing trade, an optimist may be more likely to seek out information and make an informed decision. Finding the proper level of confidence is key. It is a little like walking a tightrope between extreme unrealistic optimism and extreme debilitating pessimism. Finding the right balance will allow you to pick yourself up when you are beaten down, but stay grounded in reality even after a huge win.
The winning trader is both confident and realistic. If you want to trade like a winner, it's vital that you develop a true sense of self-confidence. By gaining a wealth of experience, your confidence will be based on your actual trading skills. When you know what you can do and what you can't, you'll feel calm and self-assured. You'll know what you can handle, and you will be able to trade with solid, realistic confidence.

Top Down versus Bottom Up Stock Picking Strategies.

What's the optimal way to pick a stock? Should you use a top-down approach, where one evaluates the broader economic trend before considering an industry, and then, a specific stock? Or should you use a bottom-up approach, where one starts by looking at individual stock characteristics, before looking at the industry sector, and broader economic picture? Both strategies have their advantages, but the one you decide to use depends on your objectives.

In a top-down approach, the goal is to pick a stock that will outperform general economic trends. By looking at the general economic trend first, one can then determine which specific industries or sectors will outperform the general trend. Stocks that are attractive within that industry sector are then purchased. From a technical point of view, a top-down investor first analyzes the trend of the entire market, followed by the trend of the sector, and finally the trend of specific stocks.

A bottom-up approach is more like a treasure hunt. One looks at the stocks first, followed by the sector and then the market. A fundamental analyst might begin the hunt by sifting through hundreds, if not thousands of stocks, screening for candidates with a low P/E, high dividend rate or examine dozens of other available quantitative studies. A technical analyst will either scan an equally large number of charts for breakouts, breakdowns, pullbacks, snapback rallies, unusual volume activity, or hundreds of other technical studies.

So which approach is better, analyzing the macro picture first or taking a look at the individual stocks first? The answer isn't clear-cut. It depends on your objectives and anticipated time in a trade. For short-term trading, however, a bottom-up approach is preferred. Here's an example from the Philadelphia Semiconductor Index (SOX) to show the advantages of a bottom-up approach. The SOX is a price-weighted index composed of companies primarily involved in the design, distribution, manufacture, and sale of semiconductors.

The action of the semiconductor stocks often leads the Nasdaq, since activity in the semiconductor industry can have a relatively huge impact on Nasdaq companies. Since it leads the Nasdaq, it is more important to look at the SOX first in order to come up with trading ideas; that is, look from the bottom up. If you wait for confirmation of a strong Nasdaq, before buying a semiconductor stock, you will usually be late entering the trade, which increases risk and decreases profit potential.

Similarly, you should also look at individual component stocks of the SOX before looking for confirmation by a strong SOX. The semiconductor component stock in which you invest depends on its relative weighting in the SOX. For example, KLA-Tencor (KLAC) or Maxim Integrated Products (MXIM) are the heaviest weighted component stocks in the SOX (accounting for 21.3%) and tend to lead the index. Is it wise to wait for the SOX to confirm the strength of these individual stocks?

No. Since they lead the index, it doesn't make sense to wait. These leading stocks have already made a major move. It might be a good idea to look for stocks in the sector that have not yet moved. The stocks that typically move last in a sector are those that are less important in overall weightings, such as Advanced Micro Devices (AMD) or LSI Logic (LSI), which have a combined weighting of just 4.72%. In the case of AMD and LSI, which might lag the performance of the SOX, one is likely to find profitable trades after the index has moved.

When trading in the short term, it is crucial to remember that timing is important. And since certain component stocks tend to lead any particular index, the bottom-up approach will help you identify the best opportunities.

Building Emotional Toughness.

Psychologist James Loehr (1997) argues -emotions run the show.- They drive everything. -The stock market is not driven nearly as much by world events as by how people respond emotionally to those world events,- according to Dr Loehr. The most important factor in increasing performance is emotional. -Consumed by anger, fear, doubt or hopelessness, you lock up inside and fall short of the mark again. What is possible for you remains tragically out of reach.- Unless you experience a full range of emotions and become emotionally tough, you'll have trouble achieving a higher level of performance.

How do you become tougher emotionally? According to Dr Loehr, there are four indicators of emotional toughness: flexibility, responsiveness, strength, and resilience. By working on each of these areas, you can develop the emotional skills you need to improve your performance.

Emotional flexibility is the ability to be open, expansive, and non-defensive in the face of a crisis. There's a strong tendency to blow a minor setback out of proportion and respond inflexibly. For example, when our trading strategy goes awry, or we face a temporary drawdown, our first inclination is to avoid the problem, rather than experience a range of emotions, such as a fighting spirit, humour, or enthusiasm. It's important to experience a little bit of fear, but once you go there, it's even more vital to think creatively, problem-solve and get past it. If you are open to different emotions, you'll have an easier time moving forward, rather than remaining stuck and paralyzed.

It's also important to be emotionally responsive. When facing a crisis, many people want to shut out their emotional experience. They are withdrawn and distant, estranged from their ongoing experience. But it's essential to remain open to experience and ready to respond actively and creatively. If your trading method is failing, for example, it's important to energetically try to revise it. You must actively study the markets, be open to current market conditions and accept them. Once you connect emotionally with the markets, you can find new solutions that weren't obvious at first glance.

When facing a crisis, even a minor one, emotional strength and resiliency allow you to constantly exert a positive force to change matters. Rather than back down in defeat, it's vital to show unfailing persistence. You must be able to quickly bounce back from a setback. Rather than be deterred, you must keep your overall goal in mind and keep striving for it.

Winning traders are emotionally tough. They are open to a wide range of emotions, stay connected to their ongoing experience, stay positive, and bounce back from a setback quickly and easily. The more you can build emotional toughness, the more rapidly you can enhance your trading performance.

Knowing When to Walk Away.

Many traders work under the assumption that -a real trader always trades, no matter what.- But seasoned traders will tell you that it's vital for one's survival to know when to stay out of the markets. Not only can market conditions change, but also your psychological outlook. During these times, it may not be a good idea to continue trading. Even seasoned professionals must frequently step back and reevaluate their methods. Don't be afraid to acknowledge your limitations, take a rest, and enter the markets when you're ready. Let's consider a few reasons to stay out of the market.
There are psychological reasons for staying out of the markets. Some days you may be tired, feeling down, or just not feeling at your best. It's at these times that you may not be able to maintain the positive, objective mindset you need for trading. You may act emotionally or impulsively because your psychological resources are depleted.

Some may be tempted to work through such a slump and put on trades even though one is not in the right mental state, but that could mean putting on bad trade after bad trade. Not only will your account balance take hits, but your ego as well. The next day, when you are feeling up to par, you may feel the residue of the slump when you look at your account balance. And that can create feelings of stress on a day when you would have otherwise felt carefree, optimistic, and ready to take on the markets in earnest. For the most part, it's better to stand aside when your spirits are down, and start new and refreshed when you are once again feeling at your best.
Another good reason to stay out of the markets is when your method seems to lose its winning edge. No trading method works indefinitely. When market conditions change, even a -foolproof- method can stop working. Many novice traders make this situation even worse by continuing to trade. When a method stops working, it can really stop working. Your account balance will decline with each trade. Another mistake is to lose your cool when your method stops working. Rather than view such events as a time for worry and self-doubt, it's wise to view them as an intellectual challenge. Seasoned professionals often say that they are at their best when their old method starts to falter and they have to devise a new one. They view the situation as a puzzle they must solve. They step away from the markets and take a close look at their methods. They try to identify what went wrong with the method and look forward to tweaking it until it works again. They search for market factors that may have changed, and when they think they have found the solution, they put on a few small trades to test out their new, revised method. So when your method stops working, don't continue trading at the same level of activity. Step back, look things over, and wait until conditions are just right before entering.
Trading profitably requires that you monitor the market moods and your psychological moods. When either one is not conducive to trading, it's best to stand aside and wait for the situation to change. Don't make the mistake of thinking you should trade even in these potentially debilitating conditions. By staying out of the markets, you can survive to trade another day, when you're in a peak performance mental state and the market conditions are optimal.

Controlling Your Trading Emotions.

The winning trader is cold, calculating, and logical. It is vital to control your emotions, rather than let them interfere with your trading decisions. It has often been said that fear and greed are the true motives behind market behaviour, but other emotions, such as anger and disappointment are also powerful emotions that influence our decisions. Although emotions may interfere with discipline and sound decision-making, they are not all-powerful. Through awareness, one can master and control one's emotions.

Although all emotions have a physiological aspect, emotions don't arise in a social vacuum. They are a function of a person's relationship to his or her environment. Emotions have adaptive utility. In the wild, for example, humans had to decide whether to fight an opponent or flee to safety. Fear and anxiety happen when we perceive that we may be facing impending doom. We become energized. We focus on examining our options, and take quick, decisive action. When it comes to trading, however, fear isn't always useful. Many traders become fearful when they perceive that a loss is imminent. When a loss is clearly going to happen, it is useful to close out a trade as soon as possible. But many times, traders tend to follow the crowd. They see other traders selling, and just as members of the herd follow the leader, they sell as others are selling, and buy when others are buying. The masses are motivated by fear. The winning trader, however, capitalizes on fear. Winning traders learn to sell while others are buying and buy when others are selling (in general, that is; it's not quite that simple). The winning trader uses the fear of others to his or her advantage and doesn't act on his or her own fear. It is reasonable to be fearful when your money is on the line. That's why winning traders protect themselves by trading with a detailed trading plan and managing risk. By taking proactive steps to minimize risk, they trade more effortlessly and with less fear.
Anger and disappointment are two additional emotions that powerfully influence trading decisions. Both emotions concern expectations about our performance and how we expect the market to behave. We become angry when things don't go our way. Because we want to win, we hope that the market will behave in a manner consistent with our trading plan. When we feel that fate, or some unidentified external forces (such as other traders or market makers, for example), has created a situation that thwarts our plans, we become angry.
When we think we ruined our own plans because of our incompetence, we feel disappointed. Regardless, there's a natural inclination to want to control our destiny, and when it comes to trading, we want to control the market. We may want to impose our will onto the market. The market, however, can't be controlled. One must accept what the market has to offer. You cannot make the market do what you want it to do.
If you accept that you are powerless over market action, you'll be less angry or disappointed. If you anticipate and truly accept the fact that the market can, and often will, go against your trading plan, and that it isn't personal, you'll not be fazed by it. You'll just accept it, and move on. If, on the other hand, you expect the market to move in your favour, you'll feel angry and disappointed, which often leads to feelings of revenge or despair. These emotions can be paralyzing. It is better to accept the market for what it is, take precautions (again, control risk and trade a detailed trading plan), and be ready to accept the results you achieve, good or bad, and just move on to the next trade.
Emotions are a natural part of trading. As much as we painstakingly plan our trades, the market doesn't always meet our expectations. Indeed, it is more likely that the market will fail to meet our expectations than behave in accordance with our plans. If you accept this fact, however, and take proper precautions to work around it, you'll be able to minimize the influence of emotions. You'll trade more effortlessly, creatively, and profitably.