

What would happen if you could just pay attention to what the market is doing right now? You'd be totally in the present with no preconceived ideas or biases to influence you. If you did that, your trading probably would accelerate to a new level. You can trade that way if you practice "mindfulness."

For example, in October 2008 a friend of mine had lost a lot of money in the markets. I told him to get out. I said that we were in a major bear market and he should just get out until it ended. He followed my advice.

The next week the Federal Reserve lowered the discount rate. The market moved up on the news, and he called me, wanting to get back in the market. I said that when the market starts going up again, it will be obvious.

Short-term reactions to news tend to be large in bear markets; however, if you just watch what is going on, it is obvious. Most people have trouble with this. They can't watch what is going on because their heads are so full of chatter. The solution is to trade through mindfulness.

Mindfulness first came to my attention as a form of meditation in which you simply quiet your mind and then "watch your thoughts" as they come up. When a thought pops into your mind, you notice that it is there and then release it. That's all there is to the meditation, but it can have a profound impact on your life if you do it regularly.

Mindfulness is also a state of being. The Harvard psychologist Ellen Langer has popularized the term through two books: *Mindfulness* and *The Power of Mindful Learning*. She defines mindfulness as a state of being in which one is likely to be (1) creating new categories, (2) welcoming new information, (3) looking at things from multiple perspectives, (4) controlling the context, and (5) putting the process before the outcome.

1. Creating New Categories

Mindfulness is the opposite of mindlessness. Mindlessness means living by your conditioning. It means assuming that all your beliefs are fixed and true so that all you can do is find evidence to support that truth. Mindfulness, in contrast, is the continual creation of new concepts and categories with no real attachment to their truth.

For example, think about your last day of trading. What was it like? You might say, "I put on some long trades and some short ones. I also closed out some trades — some at a profit and some at a loss. In between, I watched the market."

Even if I offered you money for everything you could list that you did yesterday with respect to trading, you still probably couldn't come up with much more than what I just listed. Yet you did so much more. You probably experienced a thousand different emotions, which you've forgotten. You probably read 100 news items. You probably talked on the phone to some people. But unless I mention those things to you, you probably wouldn't think of them. Most strong opinions rest on global categorization:

The market went up yesterday.
We are in a C wave of an ABC correction.
I lost money yesterday, but I followed my system.
We are in an up move in a secular bear market.

I should pay attention to what is going on now in the market.

All those statements reflect global categories that you probably use to form your opinions. What would happen if you formed new categories of thought about the market? Think about the market in great detail. Who are the different players? What do you think each of them is doing with respect to the market? Call people you know, and notice their reactions and their perspectives. Break old thinking patterns by creating new categories, and you'll step up your trading.

2. Welcoming New Information

New information continually impinges on all living creatures, and their ability to survive depends on their openness to that information. Research has shown that people undergo temporary psychological damage if they are deprived of new information for any length of time. If they are deprived of sensory input, young animals become severely impaired later in life. You need sensory information to stimulate you.

Most people are exposed to new information continually, and so the lack of it is not a problem. However, most of us tend to filter, generalize, distort, or delete most of that information. Becoming more receptive to the information that is coming in to you is a major step toward improving your performance as a trader.

3. Looking at Things from Multiple Perspectives

There are at least three general positions or perspectives from which information can be viewed. The first perspective, position 1, is the "I" position: "How does this information affect me?"

The second perspective, position 2, is how it affects another person directly: "What is that person's perspective?" The second position might be that of the person who takes the opposite side of your trade or perhaps the person who is making the market for you. Looking at new information from that person's perspective may be a valuable thing to do.

The third perspective, position 3, is that of the neutral observer who is watching all the other participants. This is like someone out in space who can see what everyone else is doing and then view it all from a global perspective.

These three perspectives were crucial in Einstein's thinking processes. This was part of how he formed his great ideas about relativity. Those perspectives are also the basis for some of the most powerful change work I know about. Try them on. Of course, there are many possible players for positions 1 and 2. You can try on numerous possibilities and gain tremendous insights as a result. You'll gain choice in terms of how to respond, empathy for other people, and the ability to change your behavior much more easily. One of our instructors actually developed a trading system by determining his strongest beliefs, then taking the exact opposite viewpoint. It turned out to be one of his best systems.

Remember that most people have "good" reasons for behavior that you might consider negative. The intentions behind those behaviors are good. If you close out a trade early, are you "nervous" or are you "cautious"? If you fail to take a trade, is it because you are "afraid" or because you haven't totally developed and tested your plan for trading? Typically, the behaviors you most want to change are the mirror images of the qualities you value most.

Thus, if you are having trouble "pulling the trigger," you probably value a thoroughly tested plan and don't have one.

4. Controlling the Context

Much of your behavior is context dependent. For example, many professional traders know it is possible to lose \$20,000 in a trade, perhaps paying \$1,500 in trade costs in the process. However, the same traders are much less likely to pay \$1,500 to attend a course that could reshape their trading and help them avoid many of those losses. The thinking behind such logic is that the loss is a cost of doing business whereas the course is an unnecessary expense. Notice what happens to the logic if the trader switches it around and starts to think of instructional learning as being essential to doing business well. It becomes much more significant than the losing trades, especially since it may save the trader many thousands of dollars in a single year. Of course, that depends on the course the trader selects.

People who practice mindfulness are aware of the context in which they are interpreting events. They are also willing to shift contexts to determine the impact on their behavior and their thinking. As a result, they give themselves much more choice and are much more likely to make money.

Ask yourself the following questions:

How am I interpreting my losses?
What is the context in which I am viewing all my trading?
How does trading fit into the scheme of things in my life?
What if I shifted the context on just one of these questions?

5. Putting the Process before the Outcome

People can imagine themselves taking gradual steps, but great heights seem totally forbidding. Yet when you take enough gradual steps, you'll reach great heights. If you are concerned with the final result-the outcome-you probably will have problems attaining the outcome. However, if you concentrate on the process of getting to the outcome, you are much more likely to arrive at your destination.

Every outcome is preceded by a process. You will not make money trading unless you follow a predetermined plan and stick to that plan. That's why you should pat yourself on the back every day if you can honestly say that you totally followed your rules throughout the day. Every Super Trader arrives at that stature by taking one trade at a time. The primary difference between that person and the average trader is that the Super Trader probably continued to follow his or her plan every single day. The Super Trader probably made very few mistakes.

What can you do to practice mindfulness in your trading?

Do a 20-minute mindfulness meditation each day for at least a week. If you practice watching your thoughts (and releasing them as soon as you notice them), you can be satisfied that you are doing the exercise appropriately.

Keep a regular diary of what is going on in your life. Do it for a few days before you start the mindfulness meditation and then keep it up. When you've completed a week of mindfulness meditation, look at your diary and notice how your life is different. Bring mindfulness into your trading and investing by doing the following:

Imagine yourself taking the other side of every trade that you actually take. What does that position feel like? Also imagine yourself being a neutral observer who watches as you and the other person both take a position in the market. What do you think that person would think?

Look for new information about each new trade. What information are you normally accepting and what information are you normally rejecting?

When you do something you don't like in your trading, notice the context in which you are interpreting not liking it. How else might you interpret that behavior? What other intention might cause that behavior? Perhaps those other intentions are something you value highly. Concentrate on the process of trading-following your rules. In fact, at the end of each day, ask yourself a simple question: "Did I follow my rules?" If you did, pat yourself on the back. If you don't have any rules, you obviously didn't follow them. Think about it.

These exercises are powerful if you do them. If you don't do them, they are meaningless. Are you going to do them? If the answer is no, ask yourself why not. It is probably because you don't believe they will help you. If that's the case, put that belief through the Belief Examination Paradigm I showed you earlier. Perhaps you are not committed to trading success. If that's the case, what are you committed to? What do you love to do?