

Psychology



Trading Psychology: Inside the Mind of a Successful Trader

Trading Psychology is the way you approach, think about, and feel about the stock market and your trades. Your stock market psychology affects your behavior in the market, which in turn affects your trades' performance. Apart from the technical aspects (entries, risk management, etc.), what REALLY matters is your psychology of trading. You might be an experienced trader with good knowledge and trading skills in taking profitable positions in the stock market. Still, if you let your emotions cloud your decision making, you end up

facing losses. To be a successful trader, you need to recognize your emotional biases like greed, fear, hope, euphoria, panic, and keep them in check.

The majority of the traders spend a lot of time and energy worrying about which way the market will go, whether they'll make a profit or loss, leading to a lot of stress and wrong buy and sell decisions as a consequence. A successful trader, on the other hand, understands that once he has entered a trade, he does not have any control over its outcome. Instead of worrying about gain or loss, he works hard on fine-tuning his trading strategy.

Here are a few ways to have the right psychology of trading like a successful trader, that will increase the probability of your success in the stock market:

Avoid Overconfidence

Overconfidence in your trading knowledge may give you false belief that your views and decisions are always right. A successful trader is careful not to fall into the trap of his own biases, opinions, and market views. Instead, he keeps a trading journal to record his trading activities. He writes everything about his trades – loss, profits, trends, decisions – buy, sell or hold, etc. in his journal. This helps him analyze his decisions after a trade is closed and examine what worked and what didn't. It allows him to assess his trading decisions and helps to trade mindfully in the future and improve the performance and profitability of his trades

Learn from Mistakes

A trader may work as per his own psychology of trading, but the stock market can prove him right or wrong in a matter of minutes. A successful trader is successful because of his ability to accept defeat as graciously as he accepts victory. Contrary to the traders who give up after suffering losses a couple of times, a successful trader uses his losses to his advantage. He analyses his trading activities to understand his mistakes and apply his learning to his future trades. This stock market psychology does not guarantee him wins all the time. But it does help him let go worrying and stressing about the outcome of his trades.

Balance Trading Risks

It is a common psychology of trading to take positions in the stock market even when there is no meaningful opportunity. Such traders can't resist the temptation to play in the market and end up losing money. A successful trader, however, understands that capital protection is a more important objective of trading than profit maximization. Profit maximization can be achieved only after the capital is protected. A successful trader knows when and what to trade as well as he knows when not to trade. He trades mindfully using safety measures like stop loss to protect his capital and following a disciplined trading plan to balance his risks while minimizing losses.

Have a Trading Process and Follow It

Most people enter the stock market as investors but end up trading on an intra-day basis. They do not have a process, trade on random advice, feel tempted by others who are making intra-day profits, and end up following them mindlessly. The result? A few of their trades may earn them profit, which soon gets washed away by losses.

The difference between such traders and a successful trader is their stock market psychology. A successful trader is the one who equipped himself with research, practice, and trading knowledge before starting out as a trader. He invested time and effort to study other veteran traders who have been consistently successful and learn from their winning psychology of trading to his advantage.

He also does his own research on facts and latest market trends to decide what he should trade in, instead of asking others or believing random predictions and rumors.

He develops his own trading process based on his findings and sticks to it religiously, despite the market conditions. This stock market psychology makes trading more systematic and disciplined rather than gambling.

Follow Effective Trading Habits

A successful trader's psychology of trading is the result of inculcating effective trading habits like:

- a. Develop a trading plan and follow it religiously. It will not guarantee profit all the time, but it can surely minimize your risks.
- b. Do not make a shortcut from your trading plan. This will help develop self-discipline in trading, which is profitable in the long run.
- c. Do not chase for profits. Often, it is very tempting to enter a high-value trade anticipating a high profit. But it can also work against you incurring heavy losses.
- d. Trade only what you can afford the risk of losing money.
- e. Accept the risk of loss on every trade you enter in and ensure that the potential reward is worth the risk of loss.
- f. Be ready to exit the trade if it is proven wrong, no matter how strong your opinion or how much you believe in your own analysis.
- g. Focus on the overall performance of your trades, rather than on their losses. This will strengthen your belief in your trading strategies and their winning probabilities.