

Title:

Psychology Of The Winning Trader

Word Count:

538

Summary:

A look into the mind of the trader. What causes most people to loose money trading? How can we transform a loosing trader into a consistently profitable trader?

Keywords:

day trader, forex, foreign currency, profit, psychology, mind, thoughts, fear, greed, pain, pleasure

Article Body:

It is said that nine out of every ten traders loose money. It is also said that day trading is seventy five percent psychology and the other twenty five percent divided up between your trading system and proper money management. Now I do not know if those facts are true or false. I have never seen a survey published on the topic, maybe someone can help me with that information, but let us assume that if it's not absolutely true then it is nearly true. This would mean that most traders are lacking the proper psychology for trading.

Therefore we need to look very carefully at this business of our thought patterns, what we are thinking while we are trading. All our actions are governed by either pleasure or pain. Whatever we do, we do it to either to experience pleasure or escape pain. We have a need to avoid pain and a desire to gain pleasure. We need to do some introspection and decide what is it that drives us while we are trading, pleasure or pain. Do you jump into every trade even when the setups are not quite right because you just cannot stand missing the next big move, not having the pleasure of the winning trade. Fear will probably cause you to not enter trades when everything looks perfect because the chance of loosing money is just too much for you. So you sit there paralyzed, or you enter the trade but your stops are so tight you hardly ever make any money. Most traders I believe associate trading with pain. They are ruled by fear. The fact is that every trader looses money. It is part of the game. It's how you deal with it that matters.

If we associate pleasure with every winning trade and pain with every loosing trade then our trading career will be an emotion roller coaster ride of up and

down feelings. This is the very heart of the problem. Most of us are emotional traders. Our psychology has associated winning with pleasure and losing with pain. The problem with this is that in day trading we will experience a number of winners and losers everyday. If you start the day with a couple of losers you will begin to hurt, which causes fear and when the next setup comes along your fear level is too high and prevents you from entering the trade, That trade just happened to be a winner and you missed it. Now you are really going to pieces. What can we do to overcome our emotions?

We have to change our psychology, change the associations we have formed of pleasure equals winners and pain equals losers. The first thing is to set goals for our trading and our goal should be consistent profitability. What are our monthly and our yearly goals? Use points or pips instead of money. Secondly, we need to know what is preventing us from achieving our goals. Is it fear of losses, incorrect position sizing etc. Look at what you are doing and why it is not working. We now need to break that pattern of behavior and install a new pattern. How do we do that?