

Title:

First Of All, Know Thyself

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Summary:

One of the most important elements of success in trading (and life in general) is knowing yourself. If you do not understand how you tick, you will never be truly prepared for the demands of trading, and likely your performance will suffer as a result.

Let me use myself as an example.

I am what might be considered project oriented. By that I mean I like to move from one thing to the next - always have something upon which to focus my attention. As my friends and colleag...

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Article Body:

One of the most important elements of success in trading (and life in general) is knowing yourself. If you do not understand how you tick, you will never be truly prepared for the demands of trading, and likely your performance will suffer as a result.

Let me use myself as an example.

I am what might be considered project oriented. By that I mean I like to move from one thing to the next - always have something upon which to focus my attention. As my friends and colleagues can attest, once I complete a project - and sometimes even before I do - my thoughts shift to the next one. I actually get antsy if I have nothing lined-up. Predictably, this is reflected in my trading.

We can actually think of trading as a series of projects. Each position one takes on is a new project which incorporates analysis of some sort (automated or otherwise) and trade decision-making. When a position is closed out, it is like wrapping up a project. It's over and done - time to move on to the next thing.

There's a little problem with that, though. This kind of "project" approach, in

the case of someone like me, can lead to overtrading. This isn't the kind of overtrading which is referred to when one speaks of taking on positions which are too large, though. Rather, I am speaking of trading too frequently. In my case, when I close a trade I find myself immediately eager to open a new one. It doesn't matter whether I made or lost money on that first trade. Because of my "need" to have a project going, my psychological pull is toward finding a new trade to make. (Note: I do not consider this in my case to be like the "fix" trading provides as an intermittent feedback mechanism, like gambling.)

This little personality trait of mine is something I figured out a while back when I realized that I am most comfortable when I have an active position in the market.. It doesn't matter how large or small that trade is as long as I can check on it periodically and feel like I'm involved. Knowing this, I take two approaches to avoid the overtrading problem.

The first thing I do is trade longer-term. By doing so, I give myself the opportunity to take on long "projects". I often have trades with durations of weeks or even months. These aren't all my trades, mind you. I do trade short-term at times, but my schedule is such that longer-term position trading tends to fit best most of the year.

When trading shorter-term, I use a second approach to combat the "project" itch. Specifically, I try to step away from the market for a while following the completion of a trade. It lets me clear out the emotional residue of finishing a project and come back at it fresh. That can quite often make the difference between taking impulsive trades and being properly selective based on my analytic methods.

Of course, this is just one example of the sort of psychological hurdles which come up in trading. We all have patterns of behavior which are based in our personal lives that can quite easily carry in to trading, positively or negatively. Brett Steenbarger's outstanding book *The Psychology of Trading* provides an excellent discussion of how this can happen, and ways we can overcome the problematic ones. The primary point is that we need to be able to look at ourselves like an outside observer. In that way we can get to know ourselves, and that's at least half the battle.