

# **PSYCHOLOGY OF TRADING**

# Dangers of Trading

- Many of the typical reasons people are motivated to trade like the profits, the action, euphoria, the attention one can draw to themselves by winning or the self pity that comes from loosing.
- They all create problems that will ultimately detract from a traders performance and overall success.

# Dangers of Trading

- However, the real attraction to trading is far more fundamental and universal.
- Trading is an activity that offers unlimited freedom of creative expression.
- And that freedom lies in the fact that we can make all the rules.
- This means there are very few restrictions or boundaries on how we can choose to express ourselves.

# Dangers of Trading

- So why would having access to such unrestricted environment result in fairly consistent failure ?
- Because unlimited possibilities and freedom to take advantage of those possibilities, present us with a unique and specialized psychological challenges.

# Dangers of Trading

- Challengers that very few people are properly equipped to deal with.
- Or have any awareness of for that matter.
- People can't exactly work on overcoming something if they don't even know it's a problem !!!

# Dangers of Trading

- That's why to operate effectively in the trading environment
- And to be a successful trader,
- We need rules and boundaries to guide our behaviour.
- It is a simple fact of trading that the potential exists to do enormous damage to ourselves.

# Dangers of Trading

- Damage that can be way out of proportion to what we may think is possible.
- That is why we need to create specialized mental discipline to prevent the possibility of exposing ourselves to damage and that we act in our own best interests.

# Dangers of Trading

- Unlike society, where behaviour patterns are provided for us, the market doesn't provide that kind of structure that will tell us when to buy or sell.
- Defining the risk in advance would force you to confront the reality that each trade has a probable outcome.
- Meaning that each trade could be a loser.



# Dangers of Trading

- Consistent losers do almost anything to avoid accepting the reality that the trade could lose.
- No matter how good it looks.

# Dangers of Trading

- Without discipline a trader is open to any number of justifications, rationalizations, and all kinds of excuses that will allow him to get into a trade believing that he can't lose.
- Which makes determining the risk in advance irrelevant.

# Dangers of Trading

- In trading, prices are in constant motion, nothing begins until you decide it should.
- It lasts as long as you want.
- And it does not end until you want it to be over...

# Dangers of Trading

- When you are in a trade, numerous psychological factors can come into play, causing you to become distracted.
- You have changed your mind
- Become scared or overconfident
- Causing you to behave in ways that are unpredicted and unintended.

# Dangers of Trading

- The market will not take you out of a trade
- Unless you have the appropriate mental structure to end a trade in a manner that is always in your best interest you can lose your account very fast.

# Trading responsibly

- Although the words “Trading Responsibly” sounds simple, the concept is neither easy to grasp
- Or easy to put into practice in your trading.
- We have all heard the words and been confronted with the need to take responsibility so many time in our lives.
- It's easy to take for granted that we know exactly what the phrase means.

# Trading responsibly

- For most traders their ultimate goal is consistency.
- If you like most trades you probably don't realize the fullest potential of the opportunities available to you.
- To realize more and more of that potential
- To make it more and more of a reality in your life
- Your primary goal has to be to learn how to think like a successful trader.

# Trading responsibly

- Remember the best traders think in a number of unique ways
- They have acquired a mental structure that allows them to trade without fear
- But at the same time keeps them from becoming reckless
- And committing fear based errors.



# Trading responsibly

- This mind-set has a number of components
- But the bottom line is that successful traders have virtually eliminated the effects of fear and recklessness from their trading.
- These two fundamental characteristics allow them to achieve consistent results.

# Trading responsibly

- When you acquire this mind set you too will be able to trade without fear.
- You will no longer be exposed to the multitude of fear based errors that come from
  - Rationalizing...
  - Subconsciously distorting information
  - Hesitating or hoping

# Trading responsibly

- Those errors will virtually disappear from your trading once this fear has gone.
- However,
- Eliminating fear is only half the equation,
- The other half is the need to develop restraint.

# Trading responsibly

- Excellent traders have learned that it is essential to have internal discipline or a mental mechanism to counteract the negative effects of euphoria
- Or the overconfidence that comes from a string of winning trades.

# Trading responsibly

- For a trader
- Winning is extremely dangerous if you haven't learned how to monitor and control yourself.
- If we say that, to create consistency traders must focus on their efforts on developing a traders mind-set
- Then it is easy to see why so many traders don't succeed.

# Trading responsibly

- Instead of learning to think like traders,
- They think about how they can make more money by learning about the markets.
- It's almost impossible NOT to fall into this trap
- It's very easy to assume that it's what you don't know about the markets that causes your losses or lack of consistent results.

# Trading responsibly

- However that's not true...
- The consistency you seek is not in the markets,
- It's in your mind...
- It's not the technique or market knowledge that causes most losses

# Trading responsibly

- Its attitudes and beliefs about being wrong
- Losing money
- And the tendency to become reckless when your feeling good.
- When your feeling confident and you left your fears and worries behind you
- It isn't difficult to put a string of winning trades because its easy to get into a flow.



# Trading responsibly

- A kind of natural rhythm, where what you need to do seems obvious.
- Taking responsibility means acknowledging and accepting that at the deepest part of your identity
- That you and only you
- And not the markets
- Are completely responsible for your success or failure as a trader.

# Consistency

- What separates the small group of very successful traders from everyone else is not what they do...
- Or when they do it
- But it's their mindset and attitude.
- How they think about what they do
- And how they're thinking when they do it.

# Consistency

- If your goal is to trade like a professional and be a consistent winner,
- Then you must realize that...
- **THE SOLUTIONS ARE IN YOUR MIND AND NOT IN THE MARKETS !!!!!**

# Consistency

- Consistency is a state of mind that has certain fundamental thinking strategies that are unique to trading.
- After a few or more winning trades it's very easy to fall into the trap that trading is easy.
- Just remember your own experiences,
- Think back to those trades that earned you significant amount of money...

# Consistency

- When all you had to do was make a simple decision to buy or sell.
- Now combine the extremely positive feeling you get from winning and getting more money with no effort,
- It's almost impossible to not conclude that trading is easy!!!

# Consistency

- But if that's the case and trading is so easy,
- Then why is it so difficult for many people to master it ?
- Why are there so many unsuccessful traders ?

# Consistency

- If trading is really that easy...
- Then how can it also be possible that they can't make what they've learned about the markets work for them ?
- How can we explain the difference between what we believe about trading and our actual trading results over time ?

# Consistency

- The answers are all in you head
- Your attitude
- In the way you think about trading
- The irony is trading can be as much fun and effortless as your experience of it has been on occasion



# Consistency

- But experiencing these qualities consistently is a function of your perspective,
- Your beliefs,
- Your attitudes,
- Or your mindset.

# Consistency

- Winning and consistency are states of mind,
- Just like happiness,
- Having fun and satisfaction are a state of mind.
- Your state of mind is a by-product of your beliefs and attitudes.

# Consistency

- The best traders stay in the flow because they don't try to get anything from the markets.
- They simply make themselves available so they can take advantage of what ever the market is offering at any given moment...

# Consistency

- Following the rules of your system and not changing them after a loss or a series of losses is the best way to consistency.

# Thinking like a trader

- As traders we use market analysis to identify patterns,
- Define the risk,
- And determine when to take profits,
- The trade either works or it doesn't
- In any case we go to the next trade.
- It's that simple.

# Thinking like a trader

- But it's not always that easy...
- In fact trading will probably be the hardest thing you will ever attempt to be successful at.
- That's not because it requires intellect,

# Thinking like a trader

- Quite the contrary.
- But because the more you think you know,
- The less successful you'll be.

# Thinking like a trader

- There are three stages of development as a trader...



# Thinking like a trader

- The first stage is the mechanical stage

# Thinking like a trader

- In this stage you,
- Build the self-trust necessary to operate in an unlimited environment.
- Learn to flawlessly execute a trading system.
- Train your mind to think in probabilities.
- Create a strong, unshakeable belief in your consistency as a trader.

# Thinking like a trader

- The second stage is the subjective stage

# Thinking like a trader

- In this stage ,
- You use anything you have ever learned about the nature of market movement to do whatever it is you want to do
- You will have to learn how to monitor your fears to not make the kind of trading errors we have covered

# Thinking like a trader

- Stage three... the intuitive stage

# Thinking like a trader

- Trading intuitively is the most advanced stage of development.
- You can't try to be intuitive, because intuition is spontaneous.
- It doesn't come from what we know at a rational level.
- The rational part of our mind doesn't trust information received from a source that it doesn't understand.

# Thinking like a trader

- Sensing that something is about to happen is a form of knowing,
- that is very different from anything we know rationally
- How many times have you had a very strong sense of what was going to happen next,

# Thinking like a trader

- Only to be confronted with the rational part of themselves that consistently argued for another course of action.
- If they had followed their intuition they would have experienced a very satisfying outcome...
- Instead what they ended up with was very disappointing,
- Especially when they new it was the right course of action.



# Thinking like a trader

- 7 ways to become a consistent winner

# Thinking like a trader

- Be objective when identifying the targets and stop losses.

# Thinking like a trader

- Predefine the risk of every trade

# Thinking like a trader

- Completely accept risk or don't enter the trade

# Thinking like a trader

- Act without reservation or hesitation.

# Thinking like a trader

- Take profits without being greedy

# Thinking like a trader

- Continually monitor potential errors.

# Thinking like a trader

- Understand the absolute necessity of these principles of consistent success



# Thinking like a trader

- If you integrate those 7 principles into your mental system, you are on the path to becoming a successful trader !!!!

# Coping with losses

- Creativity and the desire to take risks increase exponentially during winning streaks in forex trading.
- Be careful not to get over confident after a string of winning trades.
- Your overconfidence could be your greatest weakness.

# Coping with losses

- There are numerous side effects after a string of losing trades.
- Like stress
- And the taking of unnecessary risks.

# Coping with losses

- Professional traders know losing is part of the game.
- No trade is a sure thing,
- However good the system is.
- If you know this and are aware of this,
- You won't hesitate to accept losses knowing that if you continue you will eventually be successful.

# Coping with losses

- The professional trader always questions there every move and precisely analyses the reason behind entering a trade.
- Beginners in trading very often do not realize that losses are a normal thing.
- After a loss they feel angry, frustrated or disappointed.
- Generally because of a lack of knowledge and experience.

# Coping with losses

- The beginner takes profit too early and cuts losses too late.
- They want to make up losses as quickly as possible by increasing lot sizes and the overall risk reward.

# Coping with losses

- Negative thinking and overconfidence distract the trader from the rigorous conduct necessary to successfully trade over the long term.

# Coping with losses

- A good practice is to use a trading diary to write down the reasons why you entered a trade.
- What were the market conditions when the trade went against you.
- How did you feel after the loss.
- Did it effect your thinking process for the next trade ?



# Coping with losses

- After the markets have closed or when you have finished trading for the day you can review your diary.
- But remember...

# Coping with losses

- No system has a 100% win ratio
- You are reviewing your diary
- not looking at how you can change your system after a string of losses.
- Even if you did everything by the rules of your system you will still get a few losing trades.
- This is normal...

# Coping with losses

- If you didn't follow the rules of your system you must re-think your approach and find out what went wrong.
- The problem might not be your system,
- The problem might in-fact be you...
- Since you didn't stick to your own strict rules and guidelines

# Coping with losses

- Try to identify your mistakes so that you don't repeat them.
- Be objective while doing this,
- The most common problem traders face are psychological ones.
- And don't like to be told they are wrong
- Even if it is by themselves....

# Coping with losses

- Revenge is a negative state of mind,
- Which often occurs after you've suffered a loss.
- Uncalculated risk taking, impulsive acts, are all the result in a vengeful mindset
- Instead of helping you get out of the problem it will only make things worse.

# Coping with losses

- Fear is often an impulse for revenge,
- Because of this you can end up taking unnecessary risks.
- During the recovery of financial loss it is important you take calculated risks and think realistically.
- It takes time to recover a large loss,
- Don't make large trades during a state of panic.

# Coping with losses

- Working at a steady pace and keeping your trading positions stable will allow you to prevent negative emotions from affecting your trading.
- Do not let your emotions dictate your actions.

# Coping with losses

- Analyse the reasoning that guides your decisions by keeping a trading diary.
- Its no good if you keep a trading diary if your not going to read it.
- For beginners the initial focus should not be on making money...
- But on not losing money !!!



**ENJOY YOUR TRADING AND BE  
HAPPY!!!**