Trading Psychology

Trading Psychology – Why it’s So Important

Why Do I Need To Think About Trading Psychology

The way we think and behave as traders is what separates good traders from bad traders. Trading Psychology is a hard nut to crack and it is human nature to initially ignore just how important it is. To make matters a little more complicated no two traders are exactly the same and yet initially a great deal of effort is placed upon trying to trade just like someone else, someone who appears to be successful turning a profit on most trades taken.

Trading Psychology Needs An Investment Of Your Time

We sadly invest most of our time and effort initially into trying to make money, ignoring our own shortcomings when confronted with the markets and all the emotions which surface as soon as we enter a trade. Poor trading and bad outcomes can send us into a spiral of self-destruction.

It is not uncommon to be in a state best described, as completely out of control. Our trading psychology goes unchecked and we are gripped by fear and greed and we do stupid foolish things as a result. It makes us feel totally frustrated, desperate and at times like throwing in the towel.

Consider This

When Tiger Woods decided he wanted to play golf he had probably expressed no more than a passing interest in the sport. He certainly did not go onto a golf course and play off scratch and get a hole in one. He may have shown some early promise but he had a great deal to learn and his psychology also had to develop so that he acquired a winning mind set and one that could cope with the pressure that the competitive sport entails.

So why do some people who express an interest in financial trading expect overnight success and immediate financial satisfaction. It is an unrealistic expectation. You need to invest time into the learning phase and tackle the big issue that is trading psychology. You are far from ready to trade until you are ready to learn to trade.

Like Tiger Woods, you are going to have to go through a process of learning, acquiring new skills, overcoming weaknesses, exploiting strengths, perhaps needing a coach and developing a solid plan for your success that is achievable and realistic based upon your personal circumstances.

Additionally, you are going to have to cope with setbacks, obstacles, failures, successes, inconsistencies, hard and fast rules and have time to perform analysis and correction techniques. This all takes time and is absolutely necessary if you are going to move forward.

Tackle Trading Psychology First

So, in much the same way as you need iron clad discipline and need to make some sacrifices to reach the pinnacle of a competitive sport.........you need this in equal measure to become a successful, profitable trader. You need to recognize that success can ONLY be achieved with dedication and complete transformation of your trading psychology since no one is born ready to trade consistently well. It is a skill that has to be learned and developed over a period of time. And like any other activity your mistakes are the biggest clues as to what is going wrong and your psychology must allow you to embrace the mistakes and correct them. They will not improve nor go away if you ignore them. They are likely to become more prevalent and get much worse.
Trading Psychology – The Million Dollar Question

It is always difficult to provide a hard and fast answer to anyone who asks how long will it take me to become a consistent profitable trader...it will take as long as it takes is the honest answer because it will depend on you and your ability to adapt thinking and change the way you think to get the most out of your trading activity.

Most trading courses pay little or no attention to trading psychology BUT it is possibly the most important aspect of learning how to trade assuming of course that you have a trading strategy and personal trading plan that is effective and achievable. I am aware of many people cheated of trading success due to the sabotaging of their poorly trained subconscious minds BUT still they just plough on hoping to stumble upon some magic bullet.

Any successful trader will tell you that if they could start over they would give the psychological aspects of trading much more attention than they did first time out since it was the aspect of the learning process that posed most difficulty and more problems than any other bar none. Reading books helps considerably as you can pick up on things you know deep down affect you even if you don’t care to admit it out loud.

Traders are generally highly motivated individuals but largely unfocused, or unsure of how to work through the problems they are experiencing to achieve success. They may never have experienced failure before so find themselves in unfamiliar territory. In almost all cases of trading failure it is the traders own mind that is pulling the rug from under him/her. The mind has to be harnessed and brought under some control.

How Do You Know Whether You Have Mastered the Psychological Aspects of Trading

You should consider each of the following statements in order to assess whether your brain functions correctly when trading the markets. If can relate to these statements then you have yet to develop the emotional maturity required to become a profitable trader. All of the following is deep routed in trading psychology.

- You have traded in a demo, simulator or on paper for a while and been profitable but you lose money when you trade for real
- You do not have a solid set of rules you follow and your trading plan is fluid
- You find it difficult to pull the trigger when your trade presents as you fear losing money
- You get emotional when confronted with the markets and lose sight of the rules and your trading plan
- You allow losing trades to run on and may even move your original stop loss to avoid the market closing you out
- You take inappropriate entries contrary to your rules for fear the market may take off without you
- You allow a winning trade to run on beyond your target for profit as you want to make more money than originally planned
- You take profits before your profit target as you fear things may move against you
- You forget about your strategy and plan when trading win or lose
- You bail out of a trade minutes after you have entered it as you become unsure and fearful of failure
- You get angry and upset if you have a losing trade
- You get elated and over excited when you have a winning trade
- You spend time during trading sessions in trading forums or seeking opinions from others as to what to do
- You are glued to your trading station and cannot leave a trade to develop or mature without watching every pip of movement
- After a losing trade you revenge trade and lose again
- Your relationships suffer if you are not doing well with your trading
- You lie to your nearest and dearest (friends or family) about your trading progress and outcomes
- You think it sounds cool to describe yourself as a financial trader
- You are always full of regret after a trading session
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- After a winning streak you give back all your profits quickly in subsequent sessions
- You always think tomorrow is another day and hope for the best
- You celebrate winning trades at the expense of brushing losing trades under the carpet
- You cannot describe your entry, exit and money management strategy in a succinct manner
- You do not fully understand and accept your trading strategy and personal trading plan

Spend Time Addressing Trading Psychology

As a new or a long standing poorly performing trader you will relate to many of the above statements. In doing so you need to better manage your time as you push towards trading success. Instead of spending MOST of your time trying to take positions in your chosen market (s) make a sea change and spend MOST of your time considering how to correct your shortcomings and get your brain in gear.

It is well known and documented that there is no place for emotion in trading, fear and greed has to be conquered as most of the emotion that surfaces is linked to these two aspects. Left unchecked you will be on a fast path to the poor house.

If your trading strategy and Trading Psychology plan is solid then your task is to control yourself. If your strategy is thrown together, inconsistent or too complicated then it may not suit you and you need to address this, as you do not have a solid foundation upon which you can move forward.

All successful traders concentrate on Trading Psychology and what they can lose/their exposure to risk rather than what they can win. Whereas unsuccessful traders concentrate on what they can win and leave themselves exposed to unacceptable risks. It is a simple task to change this around.

Hopefully, you can now appreciate how important trading psychology is and you should never underestimate the time and energy you need to devote to learning how to get your own head straight.

Trading is a battle with your self..........NOT the markets.

Trading Psychology – The Man In The Mirror

Who is the man in the mirror? It can remain a pretty distorted view until you have come to terms with who you are.

Also bear in mind that even the most competent traders have losing trades and bad runs and if any trader tells you any different then he/she is telling lies. The difference between competent traders and those who are seriously failing is usually just about emotional maturity and honesty about one’s own strengths and weaknesses. You can only blame yourself for a losing trade it has nothing to do with the market or anything else. The blame game can waste a great deal of energy and signals that emotion is surfacing. Emotion can bring with it irrational thinking and can lead to more problems to your Trading Psychology.

As a trader of many years, I can fess up to the fact that I have bad days and suffer losing trades now and again. I do not love my losses but I am emotionally mature enough to know that they happen so I take them on the chin and cut them short quickly. My trading strategy and plan are solid, tried and thoroughly tested and it has enabled me to be a profitable trader overall for many years. My trading plan is not the problem if things go wrong now and then. I am.

I found my trading niche with pure price action trading after a rough couple of years grappling with other trading approaches. Since then I have shared my price action trading strategy privately with many people over the last few years becoming a mentor to guide them through the learning curve. Not surprisingly the single biggest obstacle during the learning phase is the lack of a trading mind set. Emotions run a mock in new traders and longstanding poorly performing traders. Until traders start addressing these emotions then trading successfully remains out of reach.
One of the most effective ways of reducing emotion is to spend less time at the trading platform and significantly reduce time spent pouring over charts. Give yourself a chance of conquering trading psychology and draw comfort from knowing every trader has been a bad trader at some point in their trading career. If you fail to address trading psychology you will end up in a battle with yourself for a very long time.

You need to spend the majority of the learning phase concentrating on how your head and emotions react to trading the markets. Then address these problems. Trading Psychology becomes a far simpler task provided you have control over yourself and expose the problems that you have.

**Trading Psychology – Show Me The Money**

Trading Psychology is an old chestnut. It is the hardest old chestnut to crack completely. As traders we have to evolve over time and have to build a solid mental and psychological fortress around ourselves to be able to cope with the rigors of trading. We all underestimate what impact our own emotions are going to have on us and the consequences they will have on our trading efforts. It can be bad and I think it is true to say that at the outset of our trading journey’s we inflict a great deal of damage on our attempts from the very start.

I have lots of evidence to strongly suggest there are various stages that we go through as traders, the initial stages are very much the obstacle stages and it can be a struggle to break free of what can become a merry-go-round of pain and frustration with the odd pop of pleasure thrown in for good measure. We tend to be over encouraged by the pops of pleasure but do little to address and reduce the pain and frustration.

**Trading Psychology Show Me The Money**

You know what this feels like so you have got your hands on a bit of good information and are champing at the bit to get going. You have gleaned that the markets just go up and down and you just need to pick the right direction and bingo money will fall into your lap everyday. You can quit the boring rat race and buy that new car, perhaps even move house. Best of all you can start living the good life, be the envy of all your friends and family and never look back. Your own trading psychology may have something to say about this.

Financial freedom is what all of our dreams are made of and we get very carried away just thinking about the prospect of no mortgage, no debts, money to splash and several holidays every year. Everyone around you feeds the dream and the desire escalates.

OK, so what do you think happens as we attempt to go for it. Having mentored several hundred people in the past and on an ongoing basis to this day I would say that a good 95% of new traders actually do make money at first and trading just seems quite easy. The dream therefore edges a bit closer. Our trading psychology is now getting ready to pounce and mix things up a little.

And then we get cocky, greed and fear arrives with a big bang and the wheels start to fall off. Our trading psychology is getting into full swing. We now start losing money and doing things we cannot account for and before we know it we are feeling quite depressed and angry. The dream moves a bit further away. It is early days so we think everything will be fine.

We know we can make money but we also know now that we can lose it too. We have lost money and it did not feel good at all. We did know about losing money when we set off but parked that thought somewhere out of the way. The dream moves even further away. Our trading psychology now ramps up a few levels.

We now move forward feeling frightened of losing and this causes us to not enter good trades when we see them. We hold onto losing positions and may even add to them. We get into positions we know we should not be in and rationale goes out of the window. This is when we damage our trading psychology the most.

We are trading purely based on our emotions and mood and very often are fully gripped by fear and greed. We now think trading is a risky business to be in. The risks can completely paralyze us or unleash us into more madness. The dream is fading fast. Our trading psychology starts to spiral.
We change as people, it can be ugly and we start the blame game. If we have a mentor we blame them, if we don’t, we blame someone or something else. It is not my fault is what we tell ourselves.

As we experience this first stage of trading psychology there is little that can be done about it really. It is a stage that everyone goes through to some extent and it can last several months and longer if not addressed. Self destruction, blowing the trading account and being unaccountable for your own actions is unfortunately normal. Trading psychology is an old chestnut for good reason. It is always lurking and it invades every trader initially.

**Trading Psychology Damage Limitation**

A good mentor will have perhaps already highlighted this stage to you before you got underway and should be able to bring you out of this stage far sooner than you can yourself but be prepared for some blunt exchanges. The truth hurts. Rest assured that the mentor will have had first hand experience of everything you are doing and feeling because he/she will have been there, done that and got the T-Shirt. Or more likely will have several T-shirts. Back in the day I blew up more than one trading account, several in fact. It proved very character building.

Trade in a demo account environment or if that feels like too much of a playground then trade at the lowest stakes possible. You must accept that you will lose money and you will need more as you recover your composure to tackle the next stage of Trading Psychology. Don’t crash and burn during the first stage, you have a number of stages to go through to tackle Trading Psychology and before the fortress is fully fortified.

I call the next stage of Trading Psychology: “The Shopping Spree” so let’s move on.

**Trading Psychology** is the enemy but you can win the war.

**Trading Psychology The Shopping Spree Stage**

Now we need to explore how our trading psychology is now taking hold of us in a negative way. We have experienced some initial joy and pain in stage one and now we get more out of control. We have not really picked through the wreckage of our early trading history and performance but now we know trading the markets is not as easy as we thought so ergo we must need more stuff.

**The Shopping Spree**

It is common to start surfing for trading systems, trading books, courses, manuals, and DVDs. We start looking into buying trading signals, we join free trials of alert services and we start what I describe as the butterfly stage of our learning. We concentrate on nothing and flit from one trading method to next. We become pretty blind to how we are behaving and trading psychology is not something we pay any attention too. Our emotions and trading psychology is forcing us down this route and we grab it with both hands. We of course don’t stick with any one method long enough to even know whether it works or not but we are losing more money probably and further denting and damaging our trading psychology.

**Our Psychology Forces us to Shop Around**

We venture into trading forums and hear about how good adding technical indicators to our charts is, heck we may even invest in a trading robot and pick up a couple of Expert Advisors. We have convinced ourselves that trading is going to make us rich (trading is the stuff that our dreams are now built upon) and now it is just a matter of finding that Holy Grail method and we will have cracked it. Just for good measure better buy a new computer and perhaps we need a few monitors too. Let’s get them now.
Our Psychology Has Us Spent

OK armed with possibly several hundred dollars worth of purchases and possibly more (I have seen it happen and run into thousands) you try out some new stuff. You have forgotten about your trading plan and your initial system, after all you lost money with that so let’s see what we can do with all this new stuff. The answer must be in there somewhere. Fast forward a few weeks and you are feeling a bit more beaten up and you are chasing trades, trying out different entry points playing around with your stop loss or not using one at all, you have an expert advisor churning away on your trading platform and that is not going so well and all these signals and alert services are just not hitting the mark either. Still it is early days so let’s just make matters worse by pushing on. You still have 60 hours of DVDs to watch so perhaps that will be key. Let’s see. You are now a regular visitor to forums and you are posing lots of questions and more than likely getting 101 different answers. The questions you are asking are not even the right questions. You may get encouraged that other traders are doing well. They may even give away some useful snippets of trading information but you are not really in a position to know what they say is right or wrong. You are just gripped by your emotions and trading psychology is not on your current agenda. Basically, you are just ignoring what is happening to you. So how long does all this madness continue for. Well for some it can be up to a year, and then ends in throwing in the towel due to lack of funds and total frustration. For others it can endure for a few months. For me it lasted around 8 months and the madness cost me around £20k, as I don’t do anything on a small scale. Ouch and ouch again, but I did end up with a really flash computer and a big monitor just so I could see the red pips better, bigger and still staring at me!!!

You will already appreciate from reading everything provided at my site that until I stopped everything I was doing and embraced Price Action Trading I really did not have a chance of making it as a trader. It was not until I took control of myself that I could come to terms with what I was doing wrong. My best advice is to try and really cut out this stage altogether. Knowing that it can and does happen when you are left to your own devices should help you stop it and nip it in the bud when it starts to happen to you. There is nothing wrong with buying a few books about trading psychology etc., but the shopping spree is a complete waste of money. A trading mentor can help lessen the impact of this stage of trading psychology as long as you listen to what he/she is saying. If you don’t have a trading mentor then you need to find some help, the trick is to be accountable to someone. It is hard to be accountable to yourself as you are extending blind leniency to all of your actions and often you are not the best person to seek help from at this stage of your trading journey. You are just locked into the negative side of trading psychology, the ugly stuff. The sad and unfortunate outcome of this stage is that those with a weaker constitution and now lack of further funds give up completely. It is sad because if you can retain some restraint during this stage then very often you are about to start turning the corner and seeing the light in the next stage. I refer to the next stage of trading psychology as The Light Bulb Stage. When you start to see the light.

My best advice is don’t look for the best indicators or the latest trading craze. Just look for the best way of trading. You know I strongly believe that this is price action trading. Be very aware that the shopping spree stage can be very damaging to our finances and can completely truncate any confidence that remains.

Trading Psychology – The Light Bulb Stage

OK we have drawn a line in the sand and the ducks need to start lining up for our sanity and bank balance if nothing else.

So moving on with trading psychology now and as long as you have not given up you are evolving as a trader and starting to turn that elusive corner even if you don’t know it yet. The light bulbs are flashing and you are beginning to smell the coffee. The only thing that has really got you to this stage is your passion for the markets and your belief deep down inside that you can make trading work for you. If you have a mentor you may need to repair your relationship that has become a bit fraught during stage one and two. You do not need to worry too much; mentors tend to be thick-skinned and not too delicate.
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OK so you are not exactly out of the woods yet but you are starting to see the woods for the trees so to speak. It’s a good sign that your very dented and battered trading psychology will start to get a few repairs.

Trading Psychology Repair Work

You have dusted yourself off again and now you really are so fed up with all the beatings that the fear and greed element of trading psychology no longer seems important. You still love trading and you have fathomed that the one thing that has stood in your way with all of the effort so far is YOU. If you have a mentor you also begin to appreciate that he/she was right and doing their best to help you through the trading psychology dark days. So you push on and trade paying little attention to your winners or losers. This is a bit of a defining moment and the light bulbs start flashing. You have relaxed on the basis that you have got used to losing and winning. This is when I personally felt so stupid that I made a pact with myself to never repeat the past but to keep it firmly in my memory forever.

George Santayana is attributed as saying something along the following lines: “those who cannot remember the past are condemned to repeat it”

Suffice it to say remember all the heartache you have endured, all those foolish mistakes and you can commence the repair work that now needs to be done.

OK the penny has dropped and you now appreciate that your trading system is solid but your own emotions, lack of discipline and foolishness is what has been standing in your way. If you just followed your strategy and trading plan (just like your mentor told you) and took your emotions out of the equation you can see clearly how much easier and profitable your trading outcomes would have been. As a result you have come on leaps and bounds just by reaching this stage..............better late than not at all.

Trading Psychology Getting A Grip Of Yourself

Shout it out loud..........it is me and the markets and I am not interested in anyone else. I talk to myself a lot and hearing what you are saying really helps even if you just keep repeating follow the rules, follow the trading plan. Make sure you remain rational, walk away from the markets when they are confusing you and not presenting entries as per your strategy and trading plan. If you cannot understand what the market is telling you how on earth can you expect trade correctly. If you have learnt nothing else you have come to appreciate this more. It is what gets you into trouble.

You can return to that trading psychology book that you skimmed in earlier stages and identify with the characters and types of traders talked about. You will find yourself saying: That’s me to a tee. Every trader should read: Trading in the Zone by Mark Douglas.

The time you have been spending in trading forums seems less attractive and you can label it a waste of time, as it did not really help you out. You are no longer chasing headlines and endless data as you are at the stage when the light bulbs are flashing and at long last you know none of your past activities will help but instead you can learn from them.

Trading Psychology Developing The Edge

The trader’s edge is much talked about but it is nothing more than your own experience and your ability to follow a set of rules, take care of money management and stay unemotional to avoid foolishness. You finally have an understanding of the markets, how they move and you accept that trading involves risk and you just have to control that risk. The trader’s edge is a crucial piece of the trading psychology puzzle and it will get stronger as you move forward as it will still need practice and solid determination and patience. Getting into the right mind set, thinking the right way allows you to tackle the markets and your improved control naturally reduces the number of trades you take on. You have now become more discerning and picky about
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which set ups you like and don’t like. What time of day you prefer to trade, what days of the week you prefer and so on. You can evolve from this position and take your trading to wherever you want to take it.

You are now married to your strategy, until death do you part and really understand how it works. Your trading plan has taken a front seat in your decision-making and at long last everything is falling into place. The light bulbs are at last flashing and profitable trades are possible. Your losing trades are examined and don’t send you into a death spiral anymore. As a trader you know you will have losers. You can have meaningful, useful, insightful contact with your mentor and things are considerably less harsh.

Trading Psychology Is Maturing

Don’t beat yourself up too much that you did not listen sooner just tell yourself you were not able to take on board the powerful information that you were either given or read about. The thing that matters most is that you have stopped the rot, you are developing the trader’s edge and you feel more in control. There is enough control for you to trade the markets and start being successful. Trading is very much a “learn as you go experience”, you cannot learn everything at once because you cannot process it all at once, allow yourself time and allow yourself to develop with experience.

You might think that this is it and everything is settled. There is more.

The next stage in Trading Psychology is: “I need to tell everyone else how good I am"

Look At Me I Am A Trader ...You Need To Listen To Me

I am not going to say too much about this stage other than to say others will not necessarily believe you, they may still be in a death spiral themselves and at a much earlier stage in their development than you. Plus, by working your way through the earlier stages yourself then why do you need to tell others, you should be feeling good and positive and should just get on with it now. Build upon the foundations you have laid and mature as a trader some more.

Showing off could make you sound arrogant or dismissive of others still trying to see the light and you cannot really help others unless you know what their shortcomings are, whether their own trading plan suits them. In fact you could get so tied up with trying to help others that you take your eye off the ball. Never lose sight of what you have been through to get yourself to where you are now and appreciate that others have to undertake the same journey but may be slower, take detours and are yet to reach their destination. Their destination may also be very different to your own in terms of what they want out of their trading.

You may never have heard of Jay Sidhu, he is the CEO of Customers Bank in the US but is also a speaker on leadership and emotional intelligence. He is attributed as saying: If you are aware of your weaknesses and are constantly learning, your potential is virtually limitless.

So concentrate now on refining the trading plan, stay focused and watch out for those bad ugly habits creeping back in. Don’t get greedy, complacent and too gung ho.

I am going to leave you with what Julie Hatch says: No trader ever failed due to a lack of information and traders MUST draw a line under their “information gluttony” if they are ever to see the wood for the trees. Fix yourself first and trading success will follow.