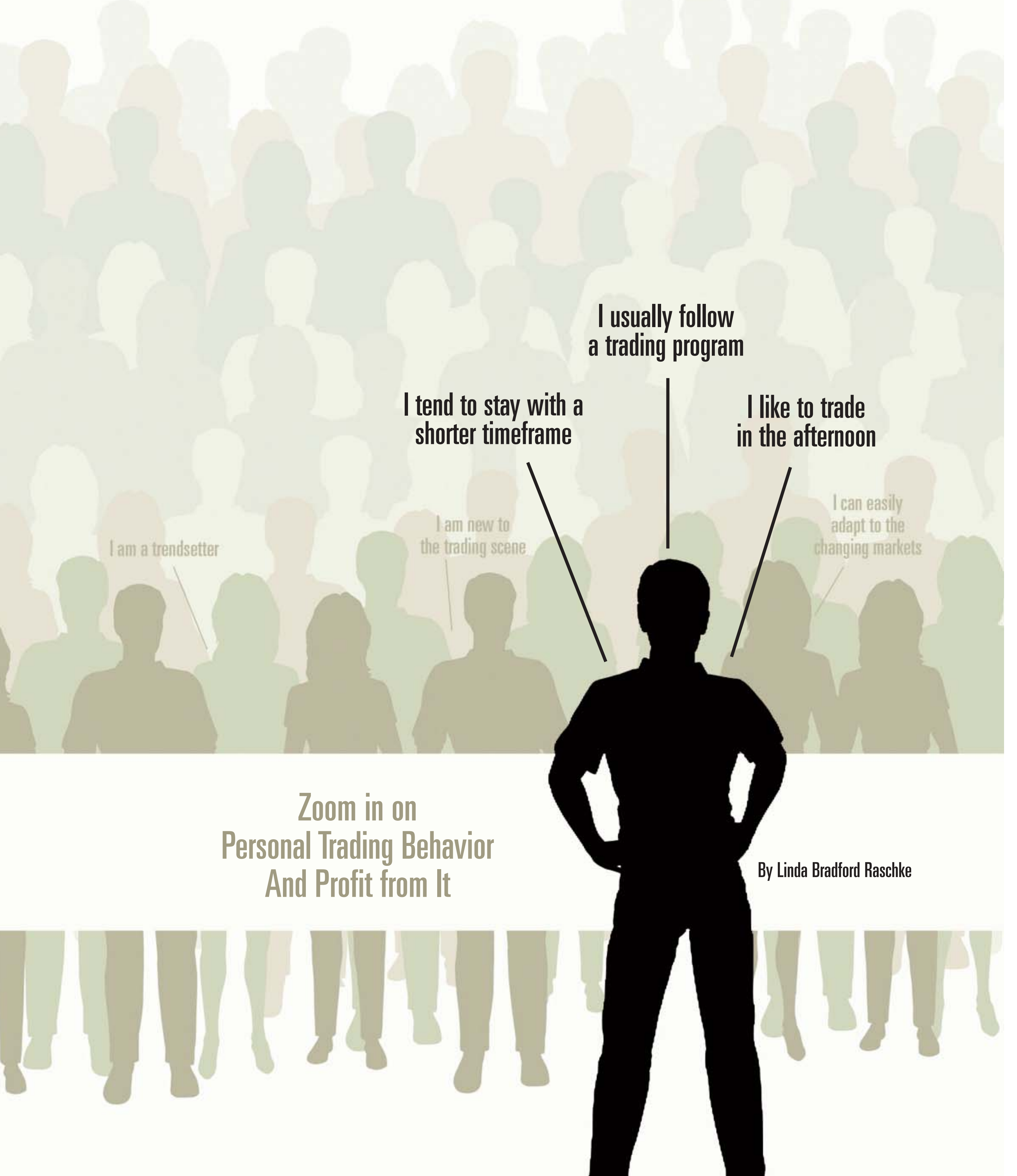
WHO ARE YOU?

Both experienced and aspiring traders spend a great deal of time trying to recognize patterns in the markets – charts and indicators on multiple time frames, seasonal tendencies around specific times of the month or year, sentiment and flow of funds data. Clearly, there are many different ways to skin a cat. By analyzing patterns, a trader is looking for a compelling reason to initiate a trade or to exit an existing one. Markets are monitored for subtle shifts in the basic supply-and-demand equation, and once an "initial condition" is detected that indicates a spot where there is a probable edge, the game simply becomes a matter of setting up an entry trigger, defining initial risk and then learning how to manage a trade properly in response to the market's actions. The trader manages the trade by watching for confirmation or non-confirmation.

But why is it that it never seems to play out so simply in real life? After all, it is just a numbers game, and it really doesn't take long to learn the basic rules.

Perhaps it is because trading normally is ten percent learning about the market and 90 percent learning about you. Unfortunately, if a trader doesn't know himself, the markets are a very expensive place to find out. If traders were to spend half as much time studying their own behavioral patterns as they did studying the markets, the benefit to the bottom line would be much greater than having unlimited access to every course, video, system or technical book ever written on the markets.



Zoom in on Personal Trading Behavior And Profit from It

By Linda Bradford Raschke

Bottom lines suffer when marginal trades are taken, game plans are not followed, and "unforced errors" are made. Luckily, traders *can* learn to recognize those personal behavioral patterns that lead to loss of focus and concentration, in addition to other bad habits.

No Runs, Some Hits, Unforced Errors?

Let's look at some common patterns that lead to unforced errors. Consider the trader who has been diligently monitoring a market for a particular setup and, for whatever reason, the initial trade is missed. He then makes a reactive spontaneous trade out of frustration for having missed the first one. The market has had a good run, and his account is at a new high. The trader then proudly marvels at the gains he's made and proceeds to get sloppy and complacent, leading to an extended draw down period. He misses an exit spot for a winning trade and lets a winner turn into a loser. Out of frustration, he then averages down in the hopes of at least trying to get back to even.

Many bad behaviors are the result of emotional reactions. However, some are simply the result of bad habits. The goal is to make trading as automatic as possible and, so, the ultimate goal should be to create winning habits. As Socrates put it, "We are what we repeatedly do. Excellence, then, is a habit."

Here are some tools that can help traders identify the behavioral patterns that hold them back and, further, how to eliminate them or *at the very least* get them back under control. Equally as important for traders is the ability to identify the behaviors that they are doing *right*, because this is the first step towards building confidence.

ID the Problem

Always become aware of the particular problem or challenge. Here is a list of questions to ask that help identify areas at which to take a closer look.

- Is there a time of day where more losing trades are made? Some traders do best in the morning, and some do best in the afternoon.

- What types of trades are leading to the most consistent results? Many traders have their best results staying on a shorter timeframe and not giving big-picture trades the benefit of the doubt. For others, trying to engage in short-term scalping can lead to overtrading and frequent whipsaws.

- Is there a game plan or trading program that is set in place before the day begins, and how closely is this plan being followed?

- Are extraneous factors outside of the trading environment, such as personal relationships, finances or illness interfering with a trader's judgment or becoming a distraction in general?

- Are occasional large one-day losses occurring from sloppiness or dropping of the guard, and is the trader more emotional or reactive on these types of days?

- Is general burnout leading to sloppy habits, lack of focus or reactive overtrading?

These are a few of the reasons that normal, intelligent people can get caught up in destructive behavioral patterns. So, is it possible to break the patterns that lead to the more emotional market draw downs? And, how can one take this to the next level, know when things are going right and, thus, increase leverage used on the better trades?

The Body Keeps in Touch

It is easy for most people to learn how to recognize how their body feels when in different states. An athlete who is in the groove may feel keenly aware, yet relaxed overall. On the other hand, an athlete who is "choking" will be tense, anxious and rushed. Learning to pay attention to bodily reactions can help a trader confirm when he is engaged in good behavioral patterns or transgressing his own rules. He also can learn to recognize how his body feels when a trade is working out and how it feels in a losing trade.

Here's a personal example. When I know a trade is working according to plan and the market is doing as expected – even if the trade has not yet kicked in – I find that I feel a level of confidence where I do not feel compelled to look at the screen. I do not feel bothered by anything and am relaxed with a feeling of "knowing" that my position is a good one. However, if I am in a trade and it does not "feel" right, even if it has not moved against me, I find myself gazing intently at the screen, my breathing is a bit more shallow, and I hardly blink. Five minutes can pass by, and I will still be sitting in exactly the same position in my chair.

I also am aware of certain patterns in which I engage when I am starting to get tired or burned out. I know from experience that I will be more likely to drop my guard at these points, and so I will do best if I stop trading when I feel this way.

The longer a trader has been trading, the greater his awareness that higher highs in the equity can still be foiled by lower lows; this is the one thing to forever be on guard against. Many winning sports teams have won championships strictly by playing fabulous defense. However, with trading the ultimate goal is to do more than just eke out a living, but instead to truly capitalize on the occasional gifts the market can offer. So, just as it is important to recognize how one feels when in a state that can lead to errors in judgment, it is equally important to identify with a "Green Light GO" condition. This is when it is time to pound the table and stay with a strong trend move. Confirmation of a winning trade comes not just from indicators, but also from our own bodily state, which will give the feeling of being in sync.

Ultimately, the traders who make it in this business will be the ones with the most perseverance. As time goes by, experience will become a trader's greatest asset. Each day, a trader gets more experience as to what the best trades feel like and which of his own behavioral patterns lead to trouble. Once he learns the patterns that lead to mistakes, it is easier to make those mistakes with less frequency. The fewer the unforced errors, the steadier the equity curve in the long run.

C'mon Baby, Let the Good Times Roll

Sometimes there can be frustrating periods in the market where it is easy to wonder if the "good times" will ever return again. Keep in mind that market movements are not steady. There can be long, flat periods in a particular market, or periods of erratic choppiness in both directions. The market seldom moves with consistent moderate swings. Traders who do not possess an even disposition or temperament will have greater emotional swings. Experienced traders know that there are always one to two dull times a year, and these are the times that require the most patience and self-restraint. If a trader is newer to the business, he must be on guard to not force trades or overtrade.

How is it possible to break the patterns that lead to the more emotional account draw downs? Is it possible to develop self-control? These are the areas that every trader will continually have to wrestle with. Even many professional traders end up having transgressions after years and years of very successful careers. It takes just one incident where something starts to get away from them, and they are distracted by outside events such as a divorce, illness in the family, or a soured business relationship. Outside distractions can easily break one's focus and concentration.

Tips to Deal with Personal Challenges

Traders who at times experience emotional challenges or frustrations in their trading careers are by no means alone. These challenges are part and parcel of the business. Listen to the body and its body signals – there are always signs the body will put out when engaging bad habits.

But there are certain steps that can be taken to protect against each trader's own personal Achilles heel.

- Beware of precisely what the particular problem or challenge is. For example, maybe a trader has the tendency to give back three weeks worth of profits in two days.

- Sometimes it's very helpful to identify the conditions that *precede* periods when a trader gets "sloppy." Was he feeling elated after having hit new equity highs? Or, was he distracted by events that were occurring outside of trading? A trader has to learn to acknowledge the sides of his personality that hold him back in trading, because these traits are never going to disappear. After all, we are not robots – we are human. But when he can recognize a pattern of feelings or emotions he feels *before* he starts to get into trouble, he is a lot less likely to take a trade that was not part of his game plan.

- Have a trading plan each day. This is insurance against making marginal, spontaneous trades. It also will protect the trader in that it *forces* him to take one day at a time and reminds him that the market alternates between trending periods and choppy periods. A trader that can identify ahead of time the type of period that he is in can be prepared with the appropriate type of strategy for that day.

- Routines and rituals are tools for staying grounded in the present and can aid in keeping the trader's behavior consistent with his trading plan. Everyone needs tools to create structure and order in an otherwise very abstract game. Record-keeping such as logging trades, statistics or market indicators, is an excellent discipline that helps one stay in the present and stay consistent.

- Set *small* goals every day. Such a goal might be to have three winning days in a row, or to follow a trading plan just for that day. It might be to make no more than three trades a day and to refrain from overtrading. Or, it could be to put a half position on every five-minute bull or bear flag that forms. A trader's small goals should reflect his own trading style, needs and weaknesses.

- A trader should learn to differentiate between challenging conditions that are caused by the market environment, versus unforced errors that he makes himself. He should avoid being hard on himself if the current environment is flat or his normal trading style is not suited to current conditions.

- A good way to correct behavior is to think at all times about a desired outcome. Post it next to the trading screen. Read it every morning. Every time a trader goes to take action, he should ask if it truly supports his desired goal. If he wants the outcome badly enough, he will find away to reach it. He should imagine the winning feeling upon achieving those short-term goals and replay that feeling over and over in the mind as motivation. It's important to be very clear about what his purpose and goals are in the market *each day*, not just over the long run.

- Traders should consider having a trader friend with whom they can share their daily account statements. Most traders will do better when they have to be accountable to an outside party with regard to their trading performance; they are less likely to let one large loser get out of hand. If his judgments are impaired, at least there is someone on the other end who can draw attention to the fact that the trader is deviating from his plan or might be in need of a break. A trading buddy is not there to offer advice on the market or on individual trades. In fact, if a trader finds himself having to ask for advice or opinions, it is a sure sign that he should *not* be in that trade. A buddy is there to serve as a coach – to offer a pep talk or motivational boost if needed, or to serve as an outside party to point out when a trader is engaged in destructive trading behavior that is resulting in an extended draw down.

Markets can change quickly. The more unbiased a trader is, the easier it is to change with the environment. If he starts to develop a bias that is not warranted by the technicals, but is instead caused by emotions or poor reasoning, his body signs and language more often than not will tell him. Most professionals *know* when they are in a bad trade and *know* when they are making a mistake. The more trades a trader makes and the more experience he gains, the more he will learn to recognize his own personal signs that indicate he is indeed in a bad trade, regardless if it has not hit his stop level yet. Until a trader is able to gain in this knowledge, it's yet another excellent reason for always have a resting stop in the market!

Of equal importance, again, he needs to remember how his body feels when he is in control and has a winning position on. The best traders learn to take this one step further and *add* to a winning position. GREEN LIGHT GO! Step on the gas! This concept is as crucial as learning to recognize when a trade does not feel right.

It Comes Down to Knowing What Lessons Need to Be Learned

A trader who goes through a losing period should ask, "What is the lesson I have to learn?" "What do I need to do to change?" He should never do himself the disservice of looking back at chart patterns with hindsight and saying "I should have seen this." It is not an issue of what he sees or doesn't see; it is always an issue of how a trader manages the trade *once he is in it*. Trade management is a process of defining an initial risk level and then trailing a stop from there or placing orders to exit the position, whether with a profit or a loss. A trader must rely on his best judgment at the time a trade is put on and managed. With experience, he can learn to recognize the behavioral patterns he exhibits when his judgment may not be 100 percent, the times he is prone to drop his guard and the market demons jump up and bite him. And then, over time, a trader's bottom line can improve as he makes fewer and fewer unforced errors!

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