

## Trading Psychology - Introduction

Emotions and behaviors must be owned and controlled by a disciplined trader. Otherwise, trading may very well take on a life of its own. Trading taking on a life of its own is not necessarily a good thing, primarily due to the highly likely outcomes of financial disaster for the trader. At its best, each trade should be methodical, systematic, organized, and strategic per the trader's carefully planned execution of the trade. In addition, the trader should know and be comfortable with the potential outcomes of each and every trade.

Successful trading requires the individual to have more than a certain amount of control over emotions and behaviors.

*Emotions* may include, but not be limited to, the following items:

1. Anger, anxiety, confusion, depression, disappointment, exhilaration, frustration, insecurity, passion, satisfaction, etc.

*Behaviors* may include, but not be limited to, the following items:

2. Arrogant, consistent, controlling, denial, following through, [im]patient, [ir]rational, letting go, perseverance, stubbornness, tenacity, etc.

Having control over these and other emotions and behaviors will allow for the trader to execute trades objectively, and more importantly, according to a strategic plan.

Sounds easy enough, does it not? *“Execute trades objectively, and more importantly, according to a strategic plan.”* Being that traders are human, it is not such an easy task to accomplish. It is not easy to be objective and diligent about sticking to a strategic plan day after day after day – especially with the constant volatility and

erratic dynamics of the market tempting and enticing you at every turn to take actions that are NOT necessarily objective and NOT necessarily part of the strategic plan.

In the coming weeks, the ways in which various emotions and behaviors may help or hinder your trading success will be discussed. While there is a plethora of information available to address this topic, Trading Everyday will address it from the perspective of basic, fundamental, human nature relevant to attitudes (emotions) and habits (behaviors).

The question to be mindful of throughout your trading days is,  
*“Do I own the trade or does the trade own me?”*



### Good vs. Bad Behaviors

Let's start with behaviors. Obviously, there are both good behaviors that add value and bad ones that don't.

Who among us has identified good habits that already exist in your life? For example, do you have the perseverance to finish everything you start (e.g., a book, a garden, a DIY home project, etc.), or do you start something and get bored after a few days or weeks and move on to something else?

It is important to recognize that you have good habits that are already in place, but it is just as important to know that you can always improve on them. Initially, Trading EveryDay will focus on bad habits that need to be identified and then addressed.

Who among us does not have bad habits that need changing? For example, do you focus on the past and/or hang on to things in your life for too long, things that you should let go of (e.g., bad relationship, an addiction, unsatisfying job, etc.) and impact your ability to move forward?

### **Analogy - Letting Go and Moving On**

A great tennis player doesn't become great without training and practicing to develop the technical skills and fitness (both physically and mentally) necessary to play at the world class level. Additionally, the player must make sure that his tools and equipment (rackets, strings, towels, extra shirts, water, tape, etc.) are available and in good working order to be in the best possible position to win.

As soon as the ball is in play, the player will focus and strategize on only that rally, *one point at a time*. Sometimes he will win the point, other times he will lose it. Whatever the case, as soon as the next rally is in play, the player has to let go and move on to focus on the next point. He cannot dwell on what just happened, good or bad, because that is in the past and the point at hand – the present - is what is important.

The opponent is hitting the balls back, moving the player all over the court. The player remains in the moment, strategizing each return shot. The tennis player is using all the experience, knowledge, and tools to hit it back or – even better – hit a winner and win the point, and perhaps the game, set, and match.

### **Applying Analogy to Trading**

The same is true in trading. The trader must train and practice to develop the technical skills and physical and mental

fitness to perform well. He will also need to make sure that the necessary tools and equipment are available and in proper working order to be in the best possible position to perform well and win.

No matter what the circumstances – good, bad, profit, loss, – a great trader will adopt the behavior of letting go and moving on to the next trade. A good trader will not allow himself to hold on to the lingering effects of any trade knowing that once it's done, it's done. The intention and desirable behavior should always be to move on and do better next time, even if it was a good, profitable trade because *the game is never really over for a trader*.

By establishing and sticking to a strategy, making the trade, letting it go, and moving on to the next trade, the trader remains in control of his behavior and owns the trade rather than the trade owning him.

