

MENTAL FITNESS FOR TRADERS



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Foreword by Bill Poulos

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Foreword by Bill Poulos

In this compelling report, Norman Hallett has exposed the missing link to true trading success; that is, training the mind to a level of mental fitness (and toughness) to the point where the trader is able to keep his emotional tendencies in check while trading. This is no small task, but it can and is being done by all successful traders. In fact, it is virtually impossible to be a successful trader without it. Why then do most traders (losing traders) only pay lip service, if that, to this important subject?

As Norman points out, they are so focused on finding the “holy grail” of trading they completely ignore the most important variable; that is, the trader himself and his ability to trade with discipline, no matter what. You see, the losing trader embarks on an endless cycle of going from system to method to guru only to meet with frustration over and over again. And never looks at himself as the source of the difficulty.

Norman takes the trader on an odyssey of the many ways that the mind, in the absence of the proper training, will conspire to work against the very success that the trader is trying to achieve. He then gently leads the reader to consider facing up to this challenge as the number one priority on the road to becoming a successful trader. If you sincerely want to become a successful trader and are willing to act on that desire, I believe this report has the potential to change your life.

Good Trading,



www.instantprofitstoday.com

1. You've Got a Great Trading System... So Why Are You Losing?

You've done your homework.

Countless hours of seeking out the right guru (or piecing together your own system). Weeks of monitoring your guru's daily trade picks (or paper-trading and back-testing your homemade system). You've done it by the book.

No seat of the pants trading for you!

OK, now you're confident. It's time to put your money where your homework is.

You've had your coffee and your first trade signal is before you.

Confidence high. Trade made. First loss. Not a problem.

You understood before you started that successful traders both win and lose and "losing is part of the overall winning". You've also heard more than once that "successful traders don't win on every trade."

Moving on, still confident. Next trade made. Another loss, but...

This one hurt your pride a little because you got stopped out early in the trade, and then the market rebounded and would have hit your profit target if you weren't stopped out.

You double check.

Yep, you placed the stop where your trading system told you to place it.

You kind of had a feeling that the early weakness in the market was just profit-taking from the previous day's trading, but you're trading a system and you must stick to it. Wounded, but resilient.

After a good night's sleep and a few mouse clicks, your new daily trades are in front of you.

Hey, this one looks good! It's a little bit more risk than yesterday's trades had, but look at that profit potential!

With a smiling face, the trade is executed. With a nice start to the trade, you're feeling good and you've moved your stop to breakeven, just like your system said.



Surprise piece of news! Market reverses – blows through your stop – an “unexpected” loss.

Is something wrong with the system?

Has the overall market “personality” changed, affecting your system to the core, rendering all your back-testing irrelevant?

Your confidence turns to doubt.

You decide to “watch” the next trade... I mean, isn't it wise to make sure the system gets back on track before you “throw good money after bad?”

Isn't that what a conservative trader does?

Trade watched. It wins!

In your head, you beat yourself up a little because you know that when you started your “live” trading, you made an agreement with yourself to take the first 10 trades “no matter what”... and here you wimped-out and missed a big winner that would have gotten you even.

What's happening?!!

What's happening is that you are out of control. Your emotions are ruling your trading.

The above scenario plays out in every trader from time to time... newbie and veteran alike.

The winning trader senses what is happening and nips it in the bud. The winning trader spend time EVERY DAY, working on “the discipline of trading”.

He/she reads a chapter in his/her favorite psychological trading book, scans the “ten commandments of trading” that hangs on the wall over his/her desk, listens to his/her mental training software for traders...

Something... Every Day... before trading begins.

There are many more losing traders than winning traders... and it's seldom about the trading system.

In my career, I've come across at least 50 systems that I consider A+, yet I know for a fact that MOST traders that have traded these systems have lost.

Why?

They were not in control of their emotions.

Are you?

2. Limiting Your Winners and Letting Your Losers Run?

It occupies a chapter in just about every trading book ever written.

It's been preached by every lecturing market guru since the Aden Sisters danced to the music of the gold market.

Go ahead and hire a personal trading coach and likely the second thing he or she will utter will be these chosen words (right after "Trading is speculative and only risk capital should be used.")...

And those words are...

"Limit your losses and let your winners run".

OK. We've been told.

But you didn't have to tell us. It makes perfect sense.

"On a roll"... "Go with the flow"... "Ride the wave"... "Get out while the getting's good"... we've heard both sides of those golden words massaged in numerous different phrases. We get it.

During my trading and coaching days, I would re-visit students that I trained weeks or months previously and, low and behold, I would discover that many of them were actually doing the opposite...

Letting their losses run and limiting their gains!

After a while I wasn't surprised... I would go into a refresher visit EXPECTING to see "limit/run rule" repeatedly ignored.

I would ask the students "Why?"... There were many different stories but one main theme...

All the traders, in some way, had gotten out of emotional control.



During their trainings, I had made sure that they did extensive back-testing on their systems and I did that because... I knew that the more they tested and saw that their system would have been successful, the more they would TRUST in the system and have the strength to follow its signals, especially through rough periods.

Apparently, simply back-testing and seeing “would-have-been” results wasn’t enough to keep these traders in emotional control.

What I had been missing was that these traders were taking the losing PERSONALLY!

These new traders had been seeing losing trades as reasons to let negative thoughts into their heads. A loss would mean that all the articles they read about “gambling” market traders may be true.

All the family accusations that they were crazy traders ... well, that could have some merit!

This kind of negative thinking (as well as other forms of trading-related negative thinking) makes it so you don’t want to take a loss. If you take a loss, maybe you’re that much closer to that idiot trader that you’ve been accused of being.

So you enter a trade (after, say, coming off a losing trade) and it starts to go south.

As the market heads for your stop, you start looking around at the news, or a chart of a “sister” market or share that’s showing strength, searching for an excuse to make it OK to lift your stop.

Found it.

“Hello... Cancel Bean Ticket 4154.” ... Stop Canceled.

If the market comes back, you’ll be the smart guy or gal that made the right move and turned a loser into a winner.

What you REALLY just did, however, was turn a potential winner into a potential loser... YOU. You may have had a winning trade, but you will lose in the end.

It’s not about YOU. It’s about THE MARKET. If you don’t take your emotions out of it, you don’t have a shot.

You must see yourself as a trader not someone who is becoming a trader.

There’s very little room for mistakes in your trading.

Leverage makes sure of that.

If you are going to play in the Big Leagues, you have to do act and do what Big Leaguers do... right from the beginning.

Do all your practicing on the paper-trading playing field. Once you put your money up, you either do what your tested system tells you to do or pick a different profession.

If you're not training mentally, you're not giving yourself the best chance to laughing in the face of your relatives!

3. Could This Be The “Huge Winning Trade” You’ve Been Dreaming Of?

It's why we all signed up for the battle against the markets.

In the beginning, we read an article or saw a sales leaflet about a guy who took his last few dollars and parlayed it into millions in the markets.



It usually involved a simple secret that when revealed to you (for a few hundred dollars), you could have the same success.

Most of the time, we would chuck the article/leaflet into the trash as garbage, but at some low ebb in our psyche, the article read like the answer to our prayers.

Most of us joined the fray for the “big hit”.

Whether we 1-2-3-counted with Ken Roberts, waved with Prechter, seasoned with Bernstein, or banded with Bollinger, we all soon realized that if we were going to stay in the game, we needed something more than desire and a dream...

We needed a back-tested system that we could have confidence in.

We realized that we needed to take our emotions out of trading and look at trading like a professional... like a job.

Now, that doesn't mean we can't have fun, because winning traders enjoy their jobs like no others.

So, we either adopted a guru, inspected his archives of trades (that's back-testing, right?) and watched him/her live for a while before jumping in, or we bought software to test a system we thought could work.

Our system in hand, we saddle up to the computer.

We have stops to defend against losing too much in one trade and we have limits to make sure we take our profits when our system tells us to.

After a mix of trades over the first few weeks, we hit on a big one.

The news confirms that we are geniuses and we are quickly heading to our profit target.

In fact, we're just ticks away. Hey, this heat wave is bigger than anyone expected. There's no way beans (or that stock or currency) are NOT going to the teens!

"I'll lift my limit and keep my eye on it."

Market closes 5 cents above the (former) profit target.

"I'm getting good at this. I'm really developing a market 'sense'."

You decide you'll put a stop right at your (former) profit target, so that if the market backs off, you'll take your profit where you were going to anyway.

(OK, reader, you know what's coming).

Rain in the plains overnight.

Soybeans open 26 lower. Stopped out.

Your genius turned a nice winner into a nice loser.

What happened?

The same thing that happened when you read that original ad that got you involved in all of this... You let your emotions take over.

If you're still trading after a few years, it either means you have very deep pockets or you've learned to control your emotions and take the profit your system tells you to.

You're going to need them to overcome all the losses ...and become the winner you know you can be.

4. Coping With Losses: A Major Key to Successful Trading.

Be warned.

“Part of overall winning is taking losses along the way.”

“If you have 55% winning trades, you’ll win in the long run.”

We’ve heard it said a million times in a hundred different ways.

In any trading system, we will experience losing trades as well as winning trades. We know this.



So why is it that as we moved forward from trade to trade, we become frozen with doubt when the losing trades appear in bunches?

If you think about it, when winning trades appear in bunches, we get motivated and we look for reasons to find the next trade. We’re on a roll and we love it. We’re on top of the world.

The words “genius” and “professional trader” seem to fit us perfectly.

Conversely, when losing trades appear in bunches, we become fearful of the next trade and look for reasons to shy away from following our system.

We become filled with doubt and the words “gambler” and “loser” seem to describe us best.

OK, so why?

It’s because you are viewing your trading outcomes as reflections of you as a person.

This leads to the destruction of virtually all failing traders.

Negative personal evaluation leads to your being emotionally out of control, which leads to straying from your tested trading system ... and the result...you’re trading by the seat of your pants (which should be pulled down and you spanked!).

You see, you must develop the mindset (and the true understanding) that you are a winning trader whether you are experiencing a run of losing trades or winning trades.

Your self-image of a winning trader allows you to glide through losing streaks so you can be there for the winning streaks.

Most new and “intermediate” traders do NOTHING about their mental trading fitness. They are willing to spend thousands of dollars on “holy grail” systems and out-of-town seminars, but are totally neglecting mental conditioning.

You should be training as hard on your mental fitness as you do on preparing your trading signals.

As a broker/trader/CTA for 21 years, I have probably seen 50+ trading systems that were money makers, IF you had the mental/emotional strength to follow them!

You need to find a system that suits your personality (more on this next week), back-test the system, appropriate the money to trade the system, and then GO FOR IT.

The “go for it” part won’t actualize without the mental strength to take the good with the bad.

5. Are You The Turtle Or The Hare?

What would you rather have the perfect trading system or the perfect soul-mate?

Don't answer that out loud!

I would venture to say that most traders are so "into" their trading that they would hesitate and ponder that question.

By the way, the answer is the perfect soul-mate. That's because there is no perfect trading system.



The perfect trading system is the right system for YOU.

Let's assess.

Are you the Impatient Type?

Let me stress here that by impatient, I mean that you don't like the notion of waiting more than, say, a day, to see your trade results.

You use logic like "I don't like to stay in a trade overnight, because that's where the risk is...anything can happen in these crazy times." Or...

"My signals are just as valid with a 60 second chart as they are with a weekly chart and I'd rather be able to keep adjusting."

These things that you say to yourself (valid or not) come from your inner-self trying to move you to comfort.

Are you the Position-Trade Type?

You say, "The market can be controlled short-term, but eventually the fundamentals come home to roost." Or...

"I'm not looking to eat up my capital in transactional costs. As far as I'm concerned, the trend is your friend and I'll stick with a trade."

Are you the Where The Action Is Type?

You tend to think, “A signal is a signal, whether it’s on a 2-minute chart or a monthly. When my signal sets up, I GO!” You add, “Sometimes I don’t even know which (stock/commodity/currency) I’m looking at.”

“That really doesn’t matter to me. I just care about the technical pattern.”

I won’t bore you with more types, because they are unlimited. In my coaching of traders for years, these above types were the predominant ones.

There is no right and wrong type.

There is only assessing which type you are comfortable with perceiving yourself as and then committing to a trading system that reflects that type.

There are plenty of winning trading systems, of all types, that can be very successful. The best way to have a good system work for you is if you can follow its signals without hesitation.

You are more likely to follow your trading signals if the system “agrees with you.” Now look inside yourself. Then commit to following what your tested system tells you to do!

You must win the **BATTLE WITHIN YOURSELF** first, before you can win in the markets.

6. I See The Future And The Successful Trader Is Me!

Believe it or not, it's true what they say ...

Visualizing your future the way you want it, is much more likely to make that future a reality.

I'm a "doubter" by nature and this notion of visualizing didn't really make much sense to me when I heard about it the first hundred times.

I mean, come on!

Sit in a quiet place and wish and hope and pray and all your dreams will come true? I think not. That's what my mathematician brain told me (University of Cincinnati, 1973, BA Mathematics).



Then I met a subconscious trainer (whom I later married), who sat me down and stated, "Thoughts are things."

OK, what kind of things?

I've seen Kreskin and other guys bending spoons with their thoughts...it that what she means?

Rather than give you the entire exchange of words (I don't know that I remember all of them, as I was falling in love while I was listening), I'll give you the capsule.

According to her, there is this stream of consciousness somewhere up there that you can plug into, and then, by directing your thoughts, you can harness this consciousness somehow to get what you want (as long as what you want is positive... you can't wish someone a losing trade!).

This, combined with the notion that time, as we know it, is not linear; we can affect the future from the present through this universal consciousness!

That's all I'll say about that.

Excuse me while I hug a tree...

I'm back.

I don't know that I understand all of this, let alone believe it, but I'll tell you one thing I DO KNOW...

If you get your brain into an alpha brain wave state and you tell yourself (of have someone else suggest to you) what you'd like to happen in the future, say, the picture of you as a successful trader...you WILL head in the direction of that picture you've created in your head.

At least that's what happened to me, and just about every successful trader I know.

There are different ways to visualize. During a quiet time (I know you can't imagine any quiet time... so start while seated in the bathroom) ...

Now, just see yourself living the "Life of Riley" (am I showing my age... for those of you that don't recognize that phase, it means "the good life") and having people around you recognize you as that successful trader whom everybody is talking about.

You can move up the effectiveness ladder (get off the pot?) as you get used to the notion of visualization and get more and more affective with your thinking, but the idea is to get started.

Once you start creating pictures of the money-bulging-pocketed-successful-trader-you, you will actually become less likely to allow your emotions to lead you to trading mistakes... because...

"Doing the wrong thing", like pulling your stops when the market comes close to them, or not taking your profit when your system tells you to, becomes inconsistent with your picture of who you are.

Eventually, if you keep up your visualizations, you become that picture.

Now THAT makes sense!

7. Yum! The Seasoned Trader Feeds on the New Trader.

If you're a new trader, you've got to pay your dues.

Seasoned traders know this and that's why we love you so much. Look at your charts, mimic the experts, and buy those expensive trade-recommendation newsletters.

Dream your dreams.

But PLEASE just keep trading, because as you trade, we'll be on the other side, putting YOUR cash into OUR pockets.

I'm not kidding.

So the thing is, you don't want to stay a "new trader" for long?

What is a "new trader"?

A new trader, the way I refer to it here, is either someone who has just begun trading and has yet to make the mistakes of a beginner, OR someone who keep making the beginner's mistakes over and over again and never learns.

Most traders that I've come across over my 22 years as a trader and CTA (three years as a "new trader" and 19 years as a "seasoned trader") have never gotten out of the "new trader" category.

It's hard to transcend.

To some, it's impossible and they wind up walking away blaming the "volatility" or the "institutional traders" for their failures.

OK, here's the key to taking the leap from newbie to successful trader: Your mental discipline.

The fact is, the beginner who's done his/her homework before trading is (largely) using the same indicators and techniques that the successful trader is using.

The difference is that the successful trader is IN CONTROL.

The "new trader" is not.



The beginner is controlled by emotions and fears and has not learned... I mean REALLY learned... that trading the market is a math game.

It's an exercise in probability and statistics and you must keep the odds on your side, even if, from time to time, it hurts.

If you've back-tested your system properly... if you've followed your guru's past recommendations carefully... and you're ready to start trading...then you have one job and that is to follow your system like the IceMan.

If, over your chosen period of time, the system is not working, then change the system. Never change your commitment to following your system to the letter once you've decided to trade it.

All this is MUCH easier said than done.

Fears and emotions can easily overtake you. We're humans, not machines.

You must TRAIN your mind to be disciplined. That's what seasoned traders do.

They train their minds because they know that habit patterns are simply neuro-pathways that are etched into your brain... AND...

When one identifies a poor trading habit (and you know who you are) all that needs be done is to train your mind to create a new neuro-pathway to replace the old one.

It's science, man, just science.

A good trading system and the mental strength to commit to and execute the signals that system gives you is the way of the seasoned trader.

Most seasoned traders won't actually tell you that.

Why?

Yum, yum!

8. Risk Capital? At Least You Thought It Was.

It's on the bottom of every piece of commodity trading literature, every commodity investment advertisement, as demanded by the New York Stock Exchange, the National Futures Association, etc...

WARNING: Only risk capital should be used for this kind of trading. CFTC rule 4.41, the official name of another set of warnings to the investor, might as well be Area 51 when it comes to investors caring the warning!



Over my CTA/trading career, I've talked to many traders just beginning their quests for riches and too many of them approach the market with "money they've saved up" for the purpose of speculation.

That may be all well and good, but before you start on your journey of pain and joy, get one thing straight.

You're going to get emotional... just HOW emotional will be largely a function of whether your risk capital is "comfortably losable," when you are faced with a step back on your road to profit.

The more mental and emotional investment you have in not wanting to lose your stake, the more you are likely to lose it.

OK. You've got a trading system you like.

You've back-tested it.

You like.

You do some "worst case" math. "Let's see, with the stake I'm going in with, if I keep my losses to a maximum of X dollars, then to lose my stake, I'd have to have 20 losers in a row."

"Never happen."

Seasoned traders are laughing to themselves reading this because they know that if you have to do this kind of math, then your chances of surviving and prospering are slim to none.

It's like the guy who counts his chips at the blackjack table...

Those that are too concerned about every chip are usually playing scared. And you know what happens to scared money.

Yes, it flows into the pockets of the confident. And that is the point of this text exercise.

If you don't REALLY have an "If it's gone it's gone, and it won't affect my lifestyle in the least" attitude, you are not creating the best chance to win.

I'm not saying that you should take a flippant attitude toward losing or winning. I'm saying that the more losing your money has emotional meaning the less chance you have of succeeding.

Stock (Forex, Futures and options...) trading should ideally be part of a mix of diversified investments.

Who am I kidding?!

Most of the newbie traders I come across barely have their bills covered and are looking for a way to break out of the financial doldrums.

Enter Ken Roberts, and all the gurus telling you your dream is possible for a stake of \$3,000. And maybe it is for the Few, the Proud and the Lucky.

But not for most. Why?

Scared money.

To win, your attention should be focused on the process of trading, not on each win and each loss. If you don't treat trading like a business, and make sure it's well funded, you'll wind up the way of the Edsel (ask an older friend if you don't know that word).

In the end, it's all about attitude and your mental strength of conviction to follow your tested trading plan.

If you're under-capitalized, your conviction will waiver as fear creeps in.

You'll hesitate when your system gives you the green light and you'll take your profit too early. Your light will dim and in the end, after blaming market conditions, your light will go out.

Whether you're going to "fake it till you make it", or you have adequate capital to begin with, you better have your emotional wits about you.

9. The Force is Within You, Luke. It's Not the Trading System.

There are only a handful of people who give a darn about supplying traders with a way to be more disciplined and focused in their trading.

I'm one of them, so I think I know why there are so few of us.

Heck, I'm in the business of supplying traders with a tool to help improve the mental side of the trading equation... the "human" element.

With (what I think) is such an important service, why am I out here virtually alone?

For a couple of reasons.

First, although most traders will admit that the mental part of trading is key to winning in the long-term, most believe they can "gut it up" and just "shake it off" when negative emotions and behaviors rear their ugly heads.

They don't need a shrink!

They know what they need to do and by-cracky, they'll do what needs to be done without any help!

I call this the Macho Syndrome.

And what's funny is... I get most resistance to the notion of mental discipline (as formal training) from those that need it most... the emotionally out-of-control trader.

Second, a common mindset is that the primary key to being a successful trader to hook your wagon to a guru or trading system and then following that system to riches.

The problem is that all (even great) trading systems experience draw-downs and you wind up blaming the system for losing rather than doing what is painful for some... blaming yourself (for not having the courage to trade through adversity)!

So here I am, preaching pain.

"It's not your system, it's you!"



To the trader with low self-confidence, those words can cut like a knife.

“How about paying more attention to the mental/emotional part of trading?” To the trader with low self-esteem, I’d be accusing him/her of having something wrong with them.

Being the Shepard of the mental/emotional aspect of trading is not an easy job.

But it’s rewarding.

For those who start paying REAL ATTENTION to the mental part of trading, results can improve rapidly.

They start saying,

“How can I improve as a trader?”

“How can I make sure that the only variable to losing and winning is my system and not me?”

When was the last time you asked yourself these important questions?

It’s not all about changing your system; tweak, tweak, tweak.

My guess is that it’s about changing YOU.

So, for me, I love what I do.

But are you ready to hear what I’m saying?

10. Manage Your Workspace Correctly and Good Things Happen.

Any experienced trader will tell you that being successful is, in large part, a matter of overcoming all the hurdles that get in your way.

Now there are two basic types of hurdles:

The physical ones and the mental ones... and actually, sometimes they get intertwined.

Let's look at a few of them:

- A big thunderstorm causes an electrical surge or outage.

You're in the middle of a trade, and you're scrambling around groping for your cell phone so that you can call the trading floor directly and have them be your eyes and ears.

That's stress, man.

- You've got your eyes peeled on the charts, waiting for the signal so you can pull the trigger.

A phone call comes in about something other than the trade you are concentrating on.

You know you can't talk, but you don't want to be rude. Well, being polite just may cost you.

Trade missed. You've waited all morning for everything to fall into place and you missed it.

You're angry.

- Today's a good day. Your primary trade is going well.

You're getting close to your target but the RSI seems nowhere near a peak. You don't want to take the profit quite yet even though you're right on top of your price target.

Hey, let's let it ride a little and we'll just trail it with a stop. Surprise news! "El dropo" and the market blows through your stop.



You feel like a jerk.

As you know, I could go on forever.

So, what's my point?

Distractions for following your system come from outside (lightning and phone calls) and inside (your "feelings" about what could happen).

It's your job to MAKE THE COMMITMENT to follow your tested trading system. You've got to be deadly serious about it.

Get caller ID so that you take only the calls that you HAVE TO take.

Have a contingency plan when the lights go out.

Note: I knew a trader that held to the concept of "mental stops". He was lucky for a while, but when a power outage hit in his part of New York City, he couldn't get through to the floor.

The lights went back on in about 15 minutes but by that time he had lost a bundle. His "mental stop" turned to "mental anguish".

After that, he put his stops in... but just for a week and he was back to his old habits.

He doesn't trade anymore. And the sad part is that the guy had talent.

Trading is a business. Treat it like one.

You've worked hard to arrive at a system that you can trust...well then, do everything in your power to stay focused on the ONE TASK of following that system to the tee.

To do otherwise is to be out of control.

Maintain your Focus.

Maintain your Discipline.

At all times.

11. Need Help With Your Trading? Talk to Yourself!

Traders love to talk about their trading.

It's much more comfortable for most traders to talk about what **COULD BE** rather than **WHAT IS**.

They love to talk about some chart setting up, their view of the political situation surrounding the stock or market...whatever.

We all know that talk is cheap.

Intellectually, we know that the chart says everything we need to know, but as emotional beings, we are always looking for the "insight" or the "intuition" to put us a step ahead of everybody else who are all looking at the same charts we are.



If we don't have the "eye to the future", maybe a trading friend has it.

Sometimes all you have to do is call up a trading buddy and say, "Hi, how are you today?" What you'll get in return will be, "Boy, have you seen the 'so-and-so' chart today?"

If that breaks the XY level, it's going to really take off!" He continues, "And with that unstable political situation, this could really be a big trade."

Why should we care?

We shouldn't.

I guess we could take a look at the suggested chart and apply our trading parameters to it... and if it passes scrutiny, well, that would be alright to trade, right? Yeah, OK.

You have to watch yourself, though. You see, you can have a tendency to want to **MAKE** a trade fit.

After hearing all about the great fundamentals, you can (subconsciously) view the chart with "I wanna buy" eyes, meaning that you can tell yourself that an almost-confirmation is close enough (with all those fundamentals going for it!).

That's the danger.

It's always best, I think, to come across a trade yourself. You see a price falling... and falling... gosh, when will it bottom? Your system says, "Don't guess, be patient".

Here's one of my favorite expressions:

"I'd rather be out of a market (or stock) wishing I was in, than in a market wishing I was out."

So, the market has a nice reversal day...new low during the day with a higher close. Getting close to a buy, but not yet. The price goes higher for a few days and then starts to come back down.

It's looking good.

The low holds, the market breaks the rally high and BOOM, we pull the trigger and we are in.

The system rules.

THAT'S the way to take a trade.

Every trader (you, included) has his or her own agenda. Only you know what works for you, system-wise and emotion-wise.

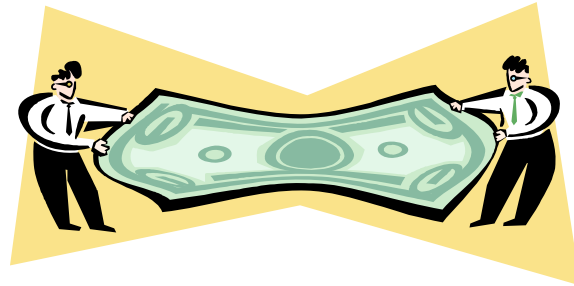
Trust in your tested trading system. It will serve you if you stick to it.

People think I'm crazy when they hear me talking to myself.

My close friends know that I'm just getting good trading advice!

12. Heavyweight Bout: You vs. The Market... Take Notes!

Michael Buffer swings the microphone up to his mouth and spurts, "In the blue corner, from Cleveland, Ohio, standing 5 feet 11 inches tall, weighing 215 pounds... the challenger... "Tryon 'The-Best' Ican'!"



Buffer continues, "And in the red corner, with a record of 90 wins, all by knockout, with only 10 losses, and heavyweight champion of the world..." Marcus 'All-Ways' Wright!"

Now see yourself as Tryon.. cause that's what you're doing, tryin', and of course, the Market is Marcus, because the market's always right.

Now you have a shot to win. Not a great shot. But A shot.

A hundred fighters have faced Marcus and 90% of them have lost. But 10 have won. What did they do to win?

I didn't see all the fights, but I know I'm accurate when I say that 9 out of 10 of the fighters (if not all) that beat "All-Ways" Wright, kept a journal between rounds so that they could improve after every round.

They all knew Wright was tough, so they had to make sure of two things. They had to make sure they didn't get knocked out in the early rounds, and they had to learn from all their mistakes.

Keep a journal between rounds?!

They had to!

They were getting beaten up so badly each round, they had to make sure they made notes so they didn't forget what they had learned about "All-Ways" weaknesses.

They also had to inspect their own vulnerabilities.

They all knew they had to be brutally honest with their assessments of themselves. Kidding yourself meant a right hand across the chin from the champ.

You had to correct what was wrong with your style every round so that you could adjust and move forward.

The few that beat Wright had another thing in common.

They didn't lie to themselves about their performance, because by taking their self-assessment seriously, they could stay alive early and then get aggressive in the later rounds.

So, it was back to the corner for every Ican, to honestly self-assess, adjust, and perform better the next round because of what each was taught by reviewing the journal notes from the previous rounds, while adding that round's blow-by-blow.

Now back to the fight.

It's the fifth round and "The Best" Ican is bloodied and is starting to look tired.

The Champ has won every round but the second and hasn't got a mark on his face.

A pawing jab by "The Best". The Champ takes advantage with a big chopping right hand!"

And "The Best" is DOWN!

And Out.

Dr. Ferdy Pacheco, jumps into the ring to see if quivering Challenger is OK. Flashlight in the eye.

Doesn't look like a concussion.

Ferdy asks, "How many fingers?"

Ican replies, "3"

Ferdy: "Do you know where you are?"

Ican: "Madison Square Garden"

Ferdy: "Can I take a look at your Journal"?"

Ican: "What Journal?"

Ferdy, (to himself), "Too bad. He could have been a contender!"

Keep a journal.

13. Forget Gurus... Your Experiences Are The ONLY Ones That Count.

You read about the Gurus of trading.

There's a group of them that started with their last few dollars and ran it up to millions because of a simple strategy they can teach you.

There's another group of Gurus that claim hard work, long study and signing up for their newsletter will lead you to where you want to go.

All Gurus want you to "learn from their mistakes."

They ask, "Why should you make all the mistakes I've made, when you can benefit from my experiences?"



Now being somewhat of a Guru myself, I think there IS a certain truth to this query, but not the way you probably think.

Other trader's experiences can make you aware of what to expect as you embark upon your trading.

Knowing what to expect should translate into having less "blindside" occurrences.

However, when you come across the forewarned learning experience, emotions will come up. These emotional situations (fear, overconfidence, freezing) are up to YOU to handle.

Here, if you're going to be a successful trader, is where the learning takes place... in dealing with your emotions so that you can follow your trading plan.

If you blow the situation, your supposed learn from it and go on.

And learn from it, you must... or even the best trading system won't save you from doom.

Your Mental Toughness is going to be the key to whether you make it or break it as a trader. I know of two MAJOR things that you can do to develop your Mental Toughness for trading.

The first is to keep a journal.

I know that sounds like work, and who wants more paperwork at the end of the trading day?

However, soon after you force yourself to start writing down your day's trading experiences; you will see the power of the technique.

It becomes the place where you will be honest with yourself.

You'll find after just a week or so of keeping a journal of your trading experiences, mistakes and all... especially mistakes... that when you are confronted with a trading situation that you blew before... in the back of your head you'll know that if you do the same stupid thing again you're going to have to report it to yourself...in your journal... and... THAT will give you the strength to "do the right thing."

That's the power of keeping a journal.

Whether you just buy a spiral notebook (like I do) and start writing, or you make it a religious experience and buy something leather-bound...

You will find that the discipline of keeping a journal, is a practice that will flat-out make you a better trader.

The other way to get Mentally Tough is to train your mind with as much intention as exhibit when you test and run your trading system.

There are a few psychologists I've bumped into over the years that seem to have enough of a handle on what training is ... so they may be qualified to help a trader.

But I prefer the process of literally programming the mind for discipline and focus, via putting the mind in an alpha brainwave state and then submitting the right suggestions to it.

If you were to learn the simple rudiments of self-hypnosis, that, in my opinion, would be a great way to go.

This way you could tell yourself exactly what you wanted!

This is what Tiger Woods does for his golf game. Why not do something similar with your trading?

Mental Toughness is my business.

Make it part of yours.

Keep a journal. Feed your mind.

14. Trading Is a Thinking Man's Game: WRONG!

Most traders move from trading system to trading system, and over time, until they find one that suits them... one that is comfortable to run and tests well over (back-tested, then real) time.

Some traders never stop looking for the "right" system.

THAT is a problem.

There are many systems that can generate nice profits over time. To settle on a trading system that's right for you:

First, you have to believe in the process by which the system generates trades.

Who was Fibonacci, and how did he arrive at his methodology?

Does it make SENSE to YOU?

Maybe you're a visual sort of person and you are drawn to Candlestick charting. Take the time to understand why the patterns mean "reversal" and not just accept the "picture".

Go deep.

Choose a guru that you will need to trust 100%.

If you choose to take your trades from a guru, understand where his or her godliness is coming from.

This can be a dangerous choice in that you are giving up control to another. Choose wisely.

Second, whatever system you decide to go with, Back-test it.

In today's modern world of software, there's no excuse not to run all the back data you can through your system and see what the results would have been.

Although back-testing is no proof of future performance, at least you can see the logic of your system at work.

Third, test your system in the real time.



Take a VERY small amount of risk capital and trade live.

This could be the most valuable phase. Although you won't have "fully-invested" emotions tugging at you, you will feel something, and you can learn to control your emotions as you allow your system to do its' work.

The bottom line to all of this is that if you don't have TOTAL CONFIDENCE in your system before you start trading it, you will doubt your system's ability to perform with every losing streak.

Thinking about your system and its' validity while you are trading it will spell doom.

Do all your thinking in the "pick a system" stage.

Now, when the trading day is over, you should be reviewing your trades... but not your system.

Did I follow my system correctly?

Did I weaken in my resolve to follow my system?

How can I (not my system) improve?

Nobody is saying that you should be sticking to a system that is losing in real time.

What I'm saying is you should only judge your system over the long term...not on a daily or even a weekly basis.

THINK long and hard about what stock or futures or forex speculation is and whether it fits your investment objectives.

THINK about the system you are choosing and why it's right for you.

THINK about the results you get from your back-testing and your real-time testing of your system.

BE A MACHINE (DON'T THINK) when you are trading your system.

This is why I dedicate myself to the mental training of traders.

Unless you can control yourself, you can never control your system.

And in order to control yourself and your emotions, you have to believe totally in your trading system.

Do the work.

Think.

Then don't think.

15. Trader's Expo Report... Zombies Among Us

A while ago, I helped Traders World Magazine at their booth at the 2003 Trader's Expo in Chicago.

It was an experience that confirmed many of my thoughts and feelings about the "state of the trading environment".

Why did it not surprise me that the vast majority of those that walk the aisles are looking for one thing...the Holy Grail?

It's so easy to think that if you surround yourself with experts in the field (and there were plenty of them in attendance), you're bound to come across someone you can trust and relate to... not just from words on a page, but by getting a sense of who they are in person.



Some of these experts made themselves VERY accessible.

I walked up to Steve Nison, the Japanese Candlestick guru and had a 15 minute conversation with him about our mutual love for candlestick analysis... AND our common appreciation for the mental and emotional part of successful trading.

The very personable Larry Williams walked up to the Traders World booth to say hello to Larry Jacobs, but instead his eye caught my display about The Mental Side of Trading.

We spoke for about 10 minutes on a small range of subjects from the markets to internet marketing to the importance of mental toughness for traders.

After wishing Larry well, it occurred to me that one thing all the gurus seem to have in common was their appreciation for the mental part of trading.

Now, most traders in general will give lip service to the importance of the mental aspects, but do absolutely nothing about it.

A few lines of “Today I’m not going to make the same mistakes as I made yesterday” self-talk is about all the mental training they will muster.

Gurus and successful traders do more than give lip service.

They train.

They train their minds to do the right things during the trading day. What are the “right things”?

To follow their tested and trusted trading system... without wavering...without flinching.

Of the 113 booths (that I counted) at the Traders Expo, 111 ½ had to do with trading systems, trading information sources, data feeds, and the like, while 1 ½ booths dealt with the mental part of trading.

Why is that?

Well, many traders(wrongly) feel that committing to training their minds means that something must be wrong with them.

It’s an admission that one is out of control and that’s just not something that most want to face.

They’d rather find a system that works more of the time... one that gives you better signals that they can follow.

No admissions necessary.

The truth is that if you train yourself to be disciplined and focused in your trading, you don’t even need last year’s best performing system to be successful in your trading.

All you need is a “decent” system.

I’ll likely be many other Trading Expos and my guess is that I’ll see a lot of the same trading faces, zombie-ing down the isles, continuing their searches for the Holy Grail...

...and not ever looking inward for the answers.

“Here’s Why Winning Traders Keep Winning... And Losers Keep Losing...”

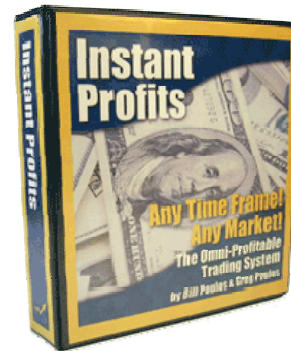


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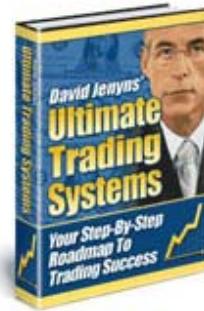


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