Tina Logan's

Trader Psychology

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TRADER PSYCHOLOGY

Traders do a lot of analysis, including fundamental, technical and intermarket analysis; but few traders embark upon another very important type of analysis—mental analysis. Before you can become a master at trading, you must become a master of yourself. Many traders spend a significant amount of time, often several years, learning how to analyze charts, interpret technical indicators, and so on; but they spend very little time analyzing themselves.

Trading successfully is about 20% attributable to the mechanics. That is, the use of fundamental and technical analysis. The rest is psychological. Since about 80% of the battle is psychological, to neglect putting adequate focus on managing your psyche is setting yourself up for failure in this business. Many traders keep studying information, thinking that more and more knowledge will solve their trading challenges. While a strong knowledge base is crucial, continuing to learn more "stuff" will not lead to the consistency they seek if their problems are primarily related to their psychology. Through understanding how self-control, or lack of it, impacts your trading activities and decisions, and injecting discipline, you'll be less susceptible to trading emotionally.

There is no escaping it—the psychological aspect will affect every facet of your trading activities. Traders' success or failure usually comes down to their ability to direct and control themselves. As you progress through your studies of the markets, you'll hear a lot of reference to "emotions." Emotions are part of a person's psychological make-up, but there's more to it. In my opinion, it encompasses the following areas:

- Attitude
- Behaviors
- Beliefs
- Emotions
- Habits
- Thoughts

I may use the term "emotions" generically in this and other lessons to refer to a trader's "psychology." However, be aware that some of the discussion refers to a specific attitude, belief, habit, thought or behavior rather than an emotion. They are separate concepts, but they are closely related or intertwined. A certain belief a person has may stir up an emotion. For example, say a trader doesn't believe he deserves to make so much money on one transaction. That *belief* may evoke a *feeling* of anxiety causing him to sabotage a trade so he does not receive the profits accrued. If you were to analyze a behavior a person exhibits, you'd likely see some belief or thought process driving it; and in some cases, it has just become a habit that needs to be altered, broken or replaced with a more productive habit.

Newcomers to trading will often find that their trading activities and subsequent results reflect their persona. Trading is a mirror—it will reflect back to you all your good and bad attributes. For instance, if a newcomer brings with him a gambling problem (e.g., you'd have to drag him kicking and screaming out of a casino) it will show up in his trading. If he is disorganized with paying bills, filing paperwork, etc. in his home life, that disorganization will likely also be present in his trading activities. If laziness is a problem, it will likely show up as neglecting to do one's research, not maintaining a trading log and journal, and so on. In order to become a master trader, you'll have to conquer those demons that can be disastrous to your trading results. In doing so, you may just find other areas of your life benefit from the infusion of structure and discipline needed for trade mastery.

Tangible versus Intangible

Many newcomers to trading don't focus on their psychology because it is not something they can *see*. They spend countless hours reading books on charting and experimenting with technical indicators; reading news releases; looking up a company's fundamental information; and so on. They can see when price approaches an area of support or resistance on a chart, or when an indicator crosses a certain level or line; they can read the news bits; and they can read numbers and tables to determine if a company has a low or high P/E ratio, or Beta. In a sense, all this information is "tangible."

Beliefs, thoughts, behaviors and emotions can't be seen. So in a sense they are "intangible." I think that is one of the primary reasons traders tend to focus on fundamental and technical analysis, but neglect to study about, and work on, their psychology. It isn't tangible for them, and it is much harder for many people to learn to manage their psyche than to learn how an indicator works, for example. It is easier to look at a chart on a monitor than to look within ourselves. Thus, it is much more elusive and more difficult to change and control our "self."

What can be seen, though, are the *results* of neglecting to develop the needed self-control to become a consistently successful trader. A trader's bottom line will reflect his mindset. For instance, if a trader freezes when it comes time to enter a trade, it is usually because he is either fearful (an emotion), or he does not trust his trading plan (or doesn't have one). The absence of a well-defined plan is likely to make a trader uneasy or uncertain when it comes time to select and execute trades.

The difference between those who win consistently month after month, and year after year, and those who lose money trading, usually comes down to emotional control and discipline. With these things in place, along with prudent risk and money management techniques and adjusting one's methods to the market environment, a trader could take any number of strategies and make them profitable. Unfortunately, the concepts of emotional control and discipline are "intangible." They are abstract and sound good in a sentence, but developing those attributes is a more complex endeavor.

How Can Tina Logan Help You?

I am not a Psychologist, and by no means do I claim to possess mastery of the topic of psychology. I have little formal training in this area—about 20 college credits. Most of my knowledge comes from several years of self-study through books and audio/video courses; and through my own self discoveries, and experiences trading stocks. I will share with you what I have learned through those experiences.

What I do happen to be quite skilled at is organizing things and tasks. Many of my clients have told me I'm one of the most organized persons they've ever known. One even called me "crazy organized" (I hope that is a good thing!). I strongly believe that some of the keys to self-control in trading are found in the following activities:

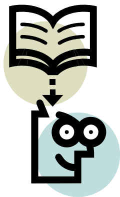
- Implementing efficient trading routines.
- Using effective trading tools, such as a trading log and a trading journal.
- Developing and adhering to a trading plan; which includes a written set of rules and guidelines, and one or more trading strategies.

The above primarily falls under the areas of habits and behaviors, which I referred to previously in regard to evaluating and directing yourself. In my opinion, exerting discipline and control over such habits and behaviors can significantly impact your attitude, thoughts and emotions. The more a trader is able to implement structure, discipline, consistency, and rules, the more likely it is that he will be able gain control of his emotions. Don't just take my word on this. In his book *The Disciplined Trader* (New York Institute of Finance, 1990), Mark Douglas states, "Getting organized and creating structure is one obvious solution to the many psychological problems the typical trader heaps on himself."

My Course 2 e-books on Organizing Your Trading Activities will help you implement trading routines and tools; as will the e-book on Sectors & Industry Groups in Course 5 on Top Down Analysis. By taking my other courses, you will also build up your knowledge base of charting, including trend analysis and pattern recognition. That will help you to position yourself on the right side of the market trend, and to select good trading candidates. You'll learn how to implement prudent risk and money management principles and manage trades. This will all go a long way toward boosting your confidence and increasing the likelihood of positive outcomes from your trades.

I do the best I can to give you tangible tasks to work on so you can make major progress toward becoming a trader who is disciplined and exercises self control. This does not happen instantaneously, and it will take considerable effort on your part, but it can be done.

Other Resources



I also suggest you study the works of experts in the field of psychology and human development, especially those who understand the unique concerns of traders. Mark Douglas is a well-respected author in the area of trading psychology. I strongly recommend that all traders read his books, *The Disciplined Trader* and *Trading in the Zone.* Other authors with valuable contributions in this area include Dr. Alexander Elder, Dr. Van Tharp and Adrienne Toghraie.

ATTITUDE AND BELIEFS

We've all heard phrases touting the importance of a positive *attitude*, such as "your attitude determines your altitude." There are books dedicated solely to the pursuit of a positive attitude. And, of course, I'd agree that attitude is important when it comes to trading. I often tell attendees who participate in my webinars and private tutoring course that they must "think like, and have the attitude of, a 10-percenter." That is, about 90% of those who attempt to trade successfully fail to do so; which leaves only about 10% who succeed. If you wish to become a master trader, you must *believe* that you can and will become one of the 10% who succeed. You must believe you can and will prosper, and that you *deserve* to receive the riches and rewards that can be obtained through becoming a successful trader.

A positive attitude alone, though, will not make you a successful trader. You can beam light and sunshine from your mind and body all day long, but just wishing to be, and believing you can be, a great trader will not make it so. It is ultimately your *actions* that will lead to controlling emotions and developing confidence. If you wish to manage your emotions, I suggest focusing on your habits, behaviors and routines. Work on *action-oriented* tasks that will improve your trading knowledge and abilities. Certainly I encourage you to maintain a positive attitude, but also work very hard to develop the following skills:

- Proficiency in Chart Analysis and Pattern Recognition
- Selecting Good Trading Candidates
- Employing Trading Capital in a Safe Manner (Risk and Money Management)
- Effective Trade Execution
- Efficient Use of your Time and Trading Tools

While emotions are something you *feel*, developing the needed knowledge and skills, taking prudent actions, and developing efficient routines are things you can *do*. Doing those things will help you to manage the emotions you experience.

Limiting Beliefs

Many traders struggle with beliefs that hinder their success. In some cases, a trader is aware of a limiting belief; but there may be some beliefs he is not conscious of. For example, one trader may have learned at an early age that wanting to make a lot of money meant he was greedy. Another trader may have never made big money in his life; so when he is faced with some big winning trades in the market, he doesn't believe he earned it. Such beliefs may lead a trader to subconsciously sabotage himself and give those gains back to the market. Traders must challenge their limiting beliefs and work on changing them.

If you have beliefs that are in conflict with being a successful trader, you'll have to work at overcoming them. For instance, say a trader makes relatively huge profits on a single trade, or on a string of successful trades. If he has a belief that "making money should not be so easy," he may tell himself that he did not deserve to make so much on the trade(s). I would argue that, if he has spent a significant amount of time and energy (often years) studying and developing his trading skills, he does deserve to receive that much money. If he were to tally up the hours spent learning, practicing, rooting out bad habits, and so on, the number of hours would likely be significant. Thus, think of being paid now on successful trades as *retroactive pay* for all the times you did not get paid for your time and energy; not to mention making up for losing trades, which are an inevitable part of trading.

CONFIDENCE

Many aspiring traders start out with a good amount of confidence. Often that is because they have had one or more successful careers prior to entering this business. Many assume that because they've had past success, they'll have success trading the markets as well. And that may very well be, but they still need to take the time to learn how to maneuver the markets, implement effective techniques and control their emotions.

Confidence is a good thing, but it must be coupled with an appropriate amount of learning, practice and risk control. Instead, many newcomers dive into trades without adequate training and planning and get punished severely by the markets. Their confidence gets shaken, or lost altogether, often leading to the trader being fearful of the markets. It can be very difficult to regain confidence once that occurs.

"The beginning is the most important part of the work."

~ Plato

CONTROLLING EMOTIONS

Negative emotions put up road blocks to success for traders. The three dominant emotions that tend to negatively impact trading activities and returns are greed, fear and uncertainty. However, traders are not limited to only those emotions. They may experience many different emotions, and certain thoughts and behaviors, which negatively impact their trading including those listed in Table 1.1. For example, I'd suggest that laziness is a behavior rather than an emotion; but getting lazy with your trading routines and tools (e.g., not maintaining a trading log) can lead to poor results, which can stir up a host of negative thoughts and emotions.

TABLE 1.1: NEGATIVE IMPACT ON TRADING	
Agitated	Impatience
Anger	Inadequacy
Anxiety	Indulgence
Boredom	Justification
Conflicted	Laziness
Confusion	Overwhelmed
Defeated	Panic
Denial	Pride
Despair	Rationalization
Desperation	Recklessness
Despondency	Regret
Disappointment	Revenge
Disillusioned	Self-Doubt
Embarrassment	Self-Sabotage
Euphoria	Shame
Exasperation	Shock
Fear	Stress
Frustration	Temptation
Greed	Tension
Guilt	Uncertainty
Hopelessness	Worry

Looking at the list above, newcomers might get depressed just thinking about the myriad of negative emotions they might experience!

You'll constantly hear warnings about negative emotions, but rarely will you find discussion of the positive emotions traders may also experience, many of which are listed in Table 1.2. Once again, I've also included some positive thoughts and behaviors along with the feelings. For instance, to me discipline is more descriptive of behavior than an emotion. But again, keep in mind that behaviors, thoughts, habits and emotions are often closely intertwined.

TABLE 1.2
POSITIVE IMPACT ON TRADING

Acceptance	Happiness
Anticipation	Patience
Awareness	Perseverance
Confidence	Satisfaction
Consistency	Self-Reflection
Discipline	Planning
Enlightenment	Optimism
Enthusiasm	Tenacity

I've seen some highly intelligent people get very frustrated because they underestimated the impact of their psychology on their trading success. Trading is like no other profession. Just because a person is smart, and may have had one or more very successful careers, that in no way assures that person will become a great trader.

A case in point: Before I provided training in the self-study format (e-books), for years I have conducted a multi-day, private boot camp style workshop. One of the graduates of that course had no college education. However, he was a retired military officer. Another of my clients was a former Vice President of a large company who held a graduate degree in business. The retired military officer traded much more successfully than the executive. Why? Perhaps it is because, in his first career as a Marine, he developed mastery over his emotions and a strong level of discipline; the need to implement strategy; and the ability to maneuver on the battlefield in order to survive. I believe those skills and experiences helped him tremendously with his trading.

Cycle of Emotions

Many traders experience a feeling of euphoria when the market is going their way and a sinking feeling when it is not. A cycle of fear and greed often accompanies the market waves up and down (see Table 1.3).

TABLE 1.3: CYCLE OF EMOTIONS		
Trader is Making Money	***Trader is Losing Money***	***Trader is Making Money Again***
Optimism Excitement Thrill Euphoria	Anxiety Denial Fear Desperation Panic Despondency	Hope Relief Optimism

Become a Problem Solver

The key to trading successfully is to maintain control of the emotions that can have a negative impact on your trades. Removing those barriers to success is not easy, but it can be done if a trader will do the following:

1. Identify the Problem – Determine which emotions are plaguing you and causing problems with your trading.

2. Develop a Solution – Take steps to combat that emotion. The more well-defined the steps, the more likely you will be successful (e.g., develop written rules and guidelines and follow them).

This is applicable not only to trading, but to other areas of one's life. We have all experienced times of runaway emotions in our lives. If you'll spend the time and effort to identify the emotions that are plaguing your trading, and work hard to root them out or at least control them, you may just find you reap the rewards not only in your trading but in other areas of your life as well.

Many years ago I worked for Anthony Robbins, a well-known self-development coach. He often asked the question, "Where else does this show up in your life?" Trading provides a window into your psychology. Problems that pop up in your trading probably pop up in other areas of your life. For instance, if a person is impatient with his trades he may also get impatient with his spouse and/or children. Thus, learning to be more patient can help with his trades and bring more harmony to his personal relationships.

It takes a *desire* to change, and the subsequent *effort* needed to make the change happen. Become a problem solver—rather than just giving in to those emotions, work on identifying them and developing methods of dealing with them. Don't just gloss over this suggestion, it is extremely important. Really investigate your emotions. Maintain a trading journal and write down the emotions you are feeling at certain points in your trade management activities (e.g., when it comes time to enter, take partial profits or exit). This activity does take time and effort, but the results are well worth it.

Remember, *most of success in trading comes down to managing your emotions, controlling behaviors, and developing productive habits.* Thus, if you wish to make consistent profits through trading, make sure to give this adequate time, effort and attention as you are developing your trading knowledge and skills.

In the following pages are some suggestions on ways to tackle psychological issues that are having a negative impact on your trading activities and returns. You may use some of my suggestions, or come up with effective techniques of your own. Whatever you decide, I suggest breaking them down to bullet points and hanging them on a wall near your trading desk for quick reference.

If you find the suggestions I've provided, or techniques you devise, are not enough, I strongly advise you seek additional help in this area. Start by reading books by Mark Douglas, Dr. Elder, Dr. Tharp and Adrienne Toghraie; or for some traders, it may be necessary to pay for some one-on-one sessions with such individuals.

"Knowing others is wisdom; knowing the self is enlightenment. Mastering others requires force; mastering self needs strength."

~ Lao Tsu

COMBATING NEGATIVE EMOTIONS

It is not enough to just acknowledge that strong emotions can derail ones trades, it is important to learn to manage the situation. Otherwise, a trader is *likely to repeat the same mistakes over and over again*. It takes some time and practice, but it can be accomplished. The key is to think through some solutions to the most common trading challenges and then practice implementing those solutions. You'll inevitably experience tense situations and surprises as a trader, so having a plan can help you respond appropriately versus responding emotionally with knee-jerk reactions. Responding inappropriately can result in costly mistakes. For instance, one poor decision can wipe out the gains from several previously well-managed trades.

I'd argue that most of the emotions that creep into trading can be controlled by focusing on the following areas:

1. Trading Rules and Guidelines – Develop a well though out, written set of trading rules and guidelines. Devise general rules and guidelines, as well as ones that are geared toward executing one or more specific trading strategies.

2. Risk and Money Management Practices – Make sure your general rules and guidelines address how to put your trading funds to work, with preservation of capital being the top priority.

3. Trading Routines and Tools – Do your homework and utilize your trading tools (e.g., trading log and trading journal) and implement activities (e.g., sector analysis and screening for trading candidates) with discipline.

4. Reaction Techniques – Develop techniques for how to respond when quick action is required. For example, devise "damage control" techniques for managing a trade that moved against you; or exiting half of a position to clear your mind enough to manage the remainder of the shares.

Following are some tips for combating negative emotions. Again, some of this discussion refers to attitudes, behaviors, beliefs, habits and thoughts. But remember, those areas are closely linked to and/or elicit emotions.

In Tables 1.4 through 1.6, there are some examples of how certain emotions negatively impact trading, referred to as "problems"; and some suggestions on how to combat those emotions, referred to as "solutions." Note that the problems are *feeling oriented* and the solutions tend to be *action oriented*.

Combating Fear

FEAR = False Evidence Appearing Real

The earlier in his career a trader can get control of his emotions, the better off he'll be. It is common for newcomers to have some painful and costly experiences. The memory of those events plagues the trader, and it is difficult to recover from them. Such experiences tend to instill fear. In order to stop trading from a place of fear, he'll have to do the hard work of learning to overcome those fears in order to ultimately achieve success. Fear is probably the most destructive emotion for traders. Just learning what you need to know to become a successful trader is difficult enough; having to recover from emotional trauma (e.g., breaking the hold fear has on you) can make it much more difficult.

Certain events occur that can cause us to experience the feeling of "fight or flight" just like we do when we encounter danger in the outside world. Most of the events that bring on fearfulness have to do with suffering financial losses. Table 1.4 lists some examples and some potential solutions to implement.

Many traders can find good trades but are scared to get in them. Others fear taking losses, so they fail to get out while losses are still tolerable. They turn small losses into large losses. Once traders become more disciplined and learn to manage their fears, they usually experience a big, positive change in their trading.

TABLE 1.4: COMBATING FEAR	
Problem:	After a string of losses, a trader doesn't take the next trade because he fears it will be another loser.
Possible Solutions:	Evaluate your past losing trades. Make sure the trade selection was good (high probability setups) and the broad market environment was conducive to those types of trades. If you are uncertain about this, you probably need more study and practice in technical analysis (charting). Repeated study is required to gain proficiency.
	A trader must learn to accept that losing trades are a cost of doing business. By keeping those losses as small as possible, it eases the pain of having to take a loss.
	Focus on selecting good trade setups, clipping losses when the trade moves against you, and allowing the profits to run on successful trades so the winners are significantly larger than the losers.
Problem:	A trader ignores the signal to exit a losing trade because he fears taking the loss. Oftentimes, this inaction results in him ultimately taking a larger loss.
Possible Solutions:	Use hard stops (Stop Loss Orders)!
	Implement a rule that no single loss can exceed a certain percentage of the total account equity (e.g., 2% maximum for a swing or core trade).

TABLE 1.4: COMBATING FEAR (CONCLUDED)	
Problem:	After suffering one or more large losses, the trader begins placing his Stop Loss Orders too tight for fear of taking another large loss. In doing so, he "chokes off the trade" rather than allowing it the wiggle room it needs and gets stopped out unnecessarily.
Possible Solutions:	Set initial protective stops based on the failure point of the trade. Do not place them tighter just to have them be closer to the entry price.
	Focus on getting precision entries if you insist on having very tight stops; but still base those stops on a logical level rather than a random number.
Problem:	Having watched his profits disappear on one or more past trades, he starts exiting too soon. His need to take the profits that are building up in the trade keep him from enjoying more profits (often substantially more) by allowing the trade to run its course.
Possible Solution:	If you are itching to take profits even though the trade is not at its target and/or there are no warnings that the trade should be exited, take only partial profits. For instance, close half of the position and allow the remaining shares a chance to run.
Problem:	A trade begins to move against the trader and rather than reacting in a logical manner, he freezes (becomes immobilized) like a deer in the headlights.
Possible Solution:	This is what stop orders, warnings to exit and targets are for. By exiting (or at least taking partial profits) at targets, or when a warning occurs, a trader will be out of the trade or have fewer shares if the trade does move against him. And if it does, his stop order is there to do its job. That's why it is so important to set the initial stop order appropriately, and not get lazy in adjusting the stop when the trade moves in your favor.

When we are fearful of something, we tend to focus on it. Thus, a trader tends to narrow his focus to things he fears, and in doing so misses many good opportunities to profit. For instance, after taking one or more losses, he may place stop orders too tight setting the trade up to be stopped out unnecessarily. Ironically, *by trying to avoid losses the trader actually generates losses*. Granted, many of his losses will be small, but they may be numerous and often unnecessary, and the few winners he gets may not be able to make up for the losses.

Combating Greed

In many cases, what a person refers to as greed is actually just fear in disguise. Greed may actually be fear that we will miss out on something; or fear that we will give something back. For instance, taking profits too early may seem like greed—you want to take the profits even though the trade has more room to run. However, in many cases it is actually fear of giving the gains back rather than greed. Table 1.5 provides some examples I'd classify as greed and some suggestions for combating this emotion.

TABLE 1.5: COMBATING GREED	
Problem:	A trader, having experienced some winning trades, begins taking larger than normal position size (often larger than is prudent from a risk management standpoint). It may work in his favor for a period of time, but eventually he'll get beaten badly (e.g., carrying too much size in a volatile stock; or having the trade turn against him due to news).
Possible Solution:	Stick to a strict position sizing model and determine a maximum percentage of account equity that can be invested in any single trade. Using such a maximum allows a trader to periodically over-allocate funds in certain situations, but still caps the amount he can invest in any single position.
Problem:	A stock makes a strong move in the anticipated direction resulting in quite a lot of profits building up in the position. The trader ignores his rule of taking some profits believing this time he has caught a ride on a vertical move. Price then breaks hard against the trade causing much of the profits to be lost.
Possible Solutions:	Adhere to a technique of scaling out of a trade. As price moves as anticipated, I often exit in thirds; especially if the market environment favors the trade continuing the move. That is, close one-third of the position at a target or if a minor warning appears on a chart (or simply because you want to lock in some profits); close another third at the next target or after more profits have built up; allow the final third to run its course either exiting at an ultimate target or being stopped out.
	Once profits have built up in a trade, close part of the position to lock in the profits (e.g., half of the shares) and carefully monitor the stop on the remainder of the position or place a trailing stop. If the stock is fairly volatile, or has made a significant move without resting, a trader may elect to shift to a lower time frame (e.g., 15-minute chart) to adjust the stop in order to exit quickly when price changes direction.

Oftentimes traders build up gains in a position but don't take any of the profits, and then watch much, and sometimes all, of those gains disappear when price reverses direction. That memory stays with them. They fear losing gains again, so they start prematurely grabbing what profits they have built up in a trade. So you see, greed and fear are closely related in such cases. As Table 1.5 suggests, true greed typically has more to do with the sense that "it is not enough." Rather than taking profits when called for, the trader holds out for more and then gives the gains back anyway.

Combating Uncertainty and Anxiety

Much of uncertainty comes from not having a trading plan. Taking losses, especially large ones where the trader did not exit when he should have, can cause pain. But not participating in opportunities can also cause pain. Often an entry opportunity is missed because a trader simply doesn't know what to do. He freezes rather than executing a trade, even though it looks like a good opportunity.

Such a feeling of uncertainty or anxiety may occur because he is trading from a place of fear due to past mistakes and is hesitant to act thinking it may result in another painful situation. Or, he may not have enough knowledge yet and/or no strategy for trading the setup he has come across. Lack of knowledge, and/or having no rules and guidelines, should rightfully instill a sense of uncertainty or anxiety.

There may also be situations where a trader has an open position and is presented with evidence that it is time to exit the trade. However, he freezes because he is uncertain whether he should exit the trade or let the profits run. Again, this is uncertainty, but may be related to fears he has from past situations (e.g., exiting a trade just to watch it continue on for several points). Table 1.6 provides some possible solutions to combat uncertainty and anxiety.

TABLE 1.6: COMBATING UNCERTAINTY AND ANXIETY	
Problem:	A trader fails to execute an entry or exit because he is feeling a sense of uncertainty or anxiety.
Possible Solutions	Make a decision! For example, if not sure whether a trade should be exited, close half of the position and make sure a protective Stop Loss Order is in place on the remainder of the shares. Sometimes just making a decision can provide relief and empowerment. The trader can now learn from this lesson and move on. Making a decision terminates uncertainty.
	Planning eases anxiety. Determining, in advance of taking trades, how to react in certain situations can be very helpful. For instance, say a trader holds a long position in a stock that gaps down the next morning at the open. Rather than selling at/near the low of day, if he has developed a "damage control" strategy for managing such a scenario he can move to action instead of freezing or panicking.
	Develop a written set of general rules and guidelines (including risk and money management rules), and specific strategies for the setups you trade. Doing so forces you to think through needed actions prior to taking trades.

Tina's Terminators

As I meandered down the path of becoming a trader, I recognized several negative psychological issues within myself. I set out to terminate those debilitating emotions, behaviors and thoughts. The ones I found most troublesome are included in Table 1.7. The point of the behaviors or tasks in Table 1.7 is to terminate (or at least control) behaviors and emotions that can be detrimental to trading. Hence, I call them "Tina's Terminators."

TABLE 1.7: TINA'S TERMINATORS	
Behavior or Task	***Change it Invokes***
Taking Action	Terminates Worry
Planning	Terminates Anxiety and Uncertainty
Prioritizing	Terminates Overwhelm
Making a Decision	Terminates Panic and Uncertainty
Developing Discipline	Terminates Indulgence and Procrastination

Remember, in order to control your emotions, the key is to *do something*. Note that each of my terminators is *action oriented*. For instance, I tend to be a worry wart. So when I find myself in such a state, I take some type of action. It may vary depending on the degree of the feeling, or the cause of it. For instance, sometimes just taking a walk breaks the worry cycle; other times I have to take more action, like getting on my computer and outlining a plan to tackle whatever it is that is worrying me. But there is one thing I have discovered—the quicker I recognize that I'm caught in a "worry loop" and take some immediate action, the quicker I get relief from that state of mind.

Being a trader, trainer and author, along with other personal roles in my life, it should not be surprising that at times I get overwhelmed. I have learned the best way to get past that feeling is to pull out my "to do" list (which is really a matrix of several projects) and evaluate my progress and prioritize the tasks. It gets me back on track.

As mentioned previously, sometimes just making a decision (quickly without belaboring it and causing more emotional issues!) can relieve a sense of uncertainty or a panicky feeling. For instance, say you find yourself in a position where you have a lot of profit built up in a trade and price starts to move against your position, but has not yet triggered the protective stop. If you find yourself becoming agitated because you're just not sure what to do, try exiting part of the position (e.g., sell half of your shares on a long position). By making that decision, you'll lock in some profits; reduce exposure of your remaining profits to an adverse move; and break through the emotion of uncertainty by moving to action. With a clearer head, you can determine the next step to take for managing the remainder of the shares.

It is also important to note that if you often find yourself in such a state—that of not knowing what to do in certain scenarios—it suggests to me that you have not taken the time to do the following tasks:

1. Develop a set of general rules and guidelines to direct your trading decisions. These should include your risk and money management rules.

2. Develop specific strategies for the setups or scenarios that elicit a trade. The strategy should address all the components of trade selection and trade management (e.g., entry, stop management and exiting).

3. Develop some damage control techniques to deal with surprise events (e.g., price gapping against your position) and to get back on track during times when you have gone against your rules (e.g., you held a long position into a downtrend when you should have exited).

Doing the above takes effort and planning, something most novices will not spend the time on; or are not yet aware they should do; or how to do such planning. If you carefully study my course materials, you'll find tips and tools for completing these tasks. It is up to you to carefully study that instruction and spend the time devising a trading plan that works for you.

Focus on Managing Losses

Taking losses is an inevitable part of trading, and it is also what contributes most to the negative emotions traders encounter. In order to avoid large losses, use protective stops or audible alerts. Alerts and "mental stops" are only for disciplined traders who can close a position when the situation merits. Otherwise, hard Stop Loss Orders take away the choice and force an immediate exit if price turns against the trade.

Continuous Effort

You may think you've got a certain emotion or behavior under control, just to find that you slip backward falling prey to that emotion again. This is not uncommon. The mind retains a memory of it and your body is accustomed to going through the motions your mind demands of it. It takes time and continuous effort to make a lasting change.

Trade a Mechanical System

Some traders may find that the only way they can keep their emotions from impacting their trading is to utilize a purely mechanical trading system. That is, one that has been back-tested using historical data that is quantifiable (e.g., using TradeStation, MetaStock or another such program). Rather than the trader executing the trades in a discretionary manner, they are automatically executed by the computerized trading system.

Even a mechanical system may not remove all the emotion from trading. Let's look at an example. Say a tested system experiences a period of fairly significant drawdown of the total account equity (e.g., 20% or more). Even though the back-testing may show that the system can recover from such drawdown and go on to make a significant profit, the trader must be able to emotionally endure such drawdown—in real-time with real money at risk.

It is one thing to see results of a test during a period in which you had none of your money invested, and quite another to keep a level head when your actual account equity is spiraling downward. In spite of the drawdown, the trader must continue to take the trades dictated by the mechanical system. Otherwise, he may find that after a string of losses he overrides the system and fails to take the next entry signal; and that trade which he did not take turns out to be a big winner that could have pulled the account equity back up. Thus, if trading a mechanical system, I strongly suggest thoroughly testing the system and following the signals as generated to avoid short-circuiting the system.

You may wish to "forward trade" a back-tested system through simulated trading (paper trading) for a period of time to get a sense of how you may respond to periods of drawdown, back-to-back losing trades, and so on. But be aware that simulated trading, while it may provide some insights, cannot reveal to you the extent to which emotions will come into play when you have real money at risk.

Another challenge with a mechanical system is that it may perform well in certain market environments and poorly in other conditions. For instance, in a trending market, the system may perform quite well. However, during choppy periods, it may perform poorly. If utilizing a strictly mechanical system, a trader must learn to tolerate those periods when the system does not perform well in order to benefit during the market phases when it does. Alternatively, he may utilize different mechanical systems in different market environments.

"Continue to think what you've always thought
and you'll continue to get what you've always got."

~ Author Unknown

CHANGING A BAD HABIT OR NEGATIVE BEHAVIOR

Bad habits are hard to break. A trader who has accumulated bad habits must break them; and a newcomer that hasn't developed such habits yet should not rush blindly into the markets or he may quickly develop them. Instead, with appropriate training, he can avoid getting caught in that trap.

It is not easy to retrain yourself—that is, to break a bad habit or change a negative behavior—but it can be done. The following steps are applicable to changing most any negative habit or behavior, whether it is trading-related or linked to some other area of a person's life:

1. Awareness – Recognize that there is a problem. In some cases, a person recognizes the problem; in other cases, he is not even aware of his behavior until someone else, or some event or incident, brings it to his attention.

2. Acknowledgement and Accountability – Acknowledge that it is indeed a problem. Just because a person becomes aware of a problem does not mean he is ready to acknowledge it and hold himself accountable. For instance, a person may become aware of a problem but choose to blame it on someone, or something else (e.g., the market), rather than take responsibility for it.

3. Desire to Change – Determine whether or not you wish to change the behavior. Just because a person becomes aware of, and acknowledges, a negative behavior does not mean he wishes to change it.

4. Catch yourself in the Act – Closely monitor your behavior in order to catch yourself while you are doing it.

5. Make the Change – As you catch yourself exhibiting the behavior, stop and make a more productive choice.

6. Reward Yourself – Praise yourself for the work you are doing; it is not an easy thing to do and you receive credit for it.

Repeat steps 4 through 6 over and over again. Soon you'll catch yourself quickly and adjust; and eventually you'll stop yourself even before you choose the negative behavior because you'll have become very aware of it and wish to avoid the negative consequences of such action. With continued focus, you can root out the negative behavior completely.

Nobody can make another person want to change. They may give a person an ultimatum and force a change, but it is unlikely to be a permanent change if that person does not embrace doing so. Likewise, nobody can make a person take the steps necessary to make the change.

A person can stubbornly cling to his way of doing things; but if he desires a better result, he must be willing to admit that what he is doing is not working to get him to that end. A person has to want to change, and work hard at it, or it won't happen. It has been said that the definition of insanity is "doing the same thing over and over again but expecting a different result."

DEVELOPING STRUCTURE, RULES AND DISCIPLINE

I cannot delve into your mind and help you adjust your thinking and give you control over your emotions, or alter your behaviors, in order to make you a successful trader. However, I can assist you with the following, which will help you gain a lot of control over your emotions:

- Building a strong foundation of knowledge.
- Developing strong pattern recognition, trade selection and trade execution skills.
- Implementing efficient organizational techniques and tools to help bring structure and discipline to your trading.
- Developing a written set of rules and guidelines designed for effective trading and capital preservation.

Oftentimes runaway emotions result from lack of structure in your trading activities. This comes down to a trader's routines and trading tasks/activities. By developing organized, methodical routines, you'll be amazed at how much you can bring your emotions under control. The more traders are able to use structure, discipline, consistency, and rules, the more likely they will be to maintain self control and combat the emotions that can negatively impact their trading.

Over time, you will learn to trade with *technique rather than emotion*. Excellent traders continually strive to increase profits through technique, not greed. They manage and minimize losses through technique, not fear. You cannot control the markets, so you must learn to control yourself.

The more you can learn to trade like a robot and not get sidetracked by emotional highs and lows, the more you'll see consistency in your trading. Trade like a robot and get your thrills doing other things, like skydiving for example, if that happens to appeal to you. In order to control emotions, learn to master your chart reading skills; organize your trading activities; and implement prudent risk and money management techniques.

"It's not that some people have willpower and some don't.
It's that some people are ready to change and others are not."

~ James Gordon, Medical Director

Maintain a Trading Journal

It is imperative that you keep a very detailed trading journal, especially in your early years of learning how to trade. That journal should include copious notes about your psychology. For instance, if you hesitated to pull the trigger on an entry, you may be uncertain about your ability to select a good trade setup; or perhaps you don't yet trust your strategy (or worse, you don't have a strategy!). If you then watched the trade move away from you so you panicked and chased after it, you experienced greed and allowed that to override the fact that it was no longer a good entry.

Emotions, beliefs and behaviors will inevitably be at the root of most, if not all, of the problems you'll experience. When evaluating their closed positions, novices tend to focus on the concrete concepts. Examples: the price setup that can be seen on the chart; the risk to reward ratio which can be tallied; the entry price; and so on. They focus on those because they are tangible. However, their emotions are not tangible; so people tend to ignore them in their trade evaluation, and yet most of the challenges related to trading actually stem from those intangible forces from within us.

Remember, although emotions are not tangible, the result of us acting on them usually is—like losing the income from a trade that turned out to be a very successful one because the trader feared pulling the trigger and passed on the trade. He could not see that emotion (fear), but he can pull out a calculator and tally up the money he could have made. Emotions we feel are expressed outwardly, so they show up in tangible ways. Thus, *we must link up the two—learn that a certain emotion is what led to a certain outcome* (e.g., loss of money or missed opportunity). For instance, boredom may lead a trader to leave his desk and miss an alert being triggered; or laziness may keep a trader from finding good trading setups and making profits on them.

Evaluate Closed Positions and Track your Returns

In addition to capturing your state of mind using a trading journal, it is important to evaluate all of your closed positions. This is especially important for novices. By analyzing your closed positions, you'll learn so much from your mistakes and your successes.

All responsible traders track their returns and evaluate their trades. They do not just throw caution to the wind and take one trade after another with no regard for how well they are performing. Tracking your returns helps to determine if your risk and money management and trade execution methods are working, or if you may need to adjust your trading techniques.

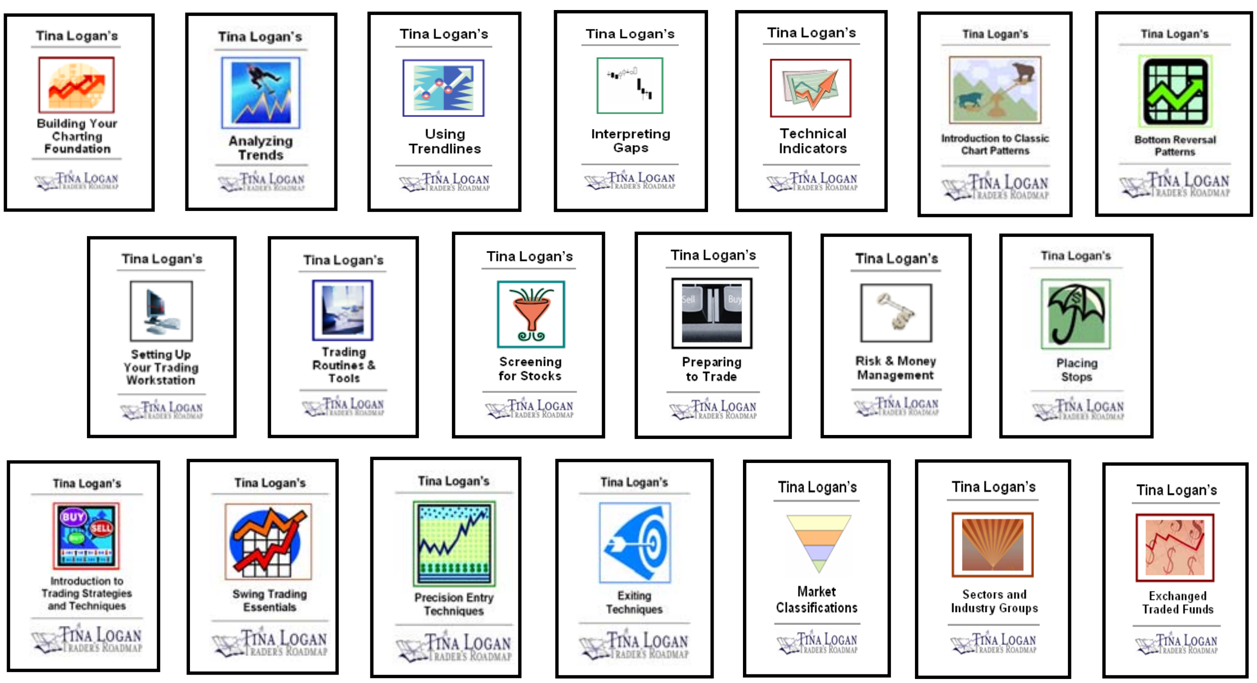
"Not in time, place or circumstances, but in the man lies success."

~ Charles B. Rouss

Dear Valued Customer:

I truly hope you have found this lesson to be helpful in developing your trading and organizational skills. Feedback from customers is valued and helps me to improve the products and services I offer. If you have any questions or comments regarding this lesson, please e-mail me directly at: tina@tinalogan.com.

If you enjoyed this product, you won't want to miss out on the additional training I offer. In my private, boot-camp style trading workshop, I provide in-depth instruction on technical analysis, organizational techniques, trade management methods, specific trading strategies, stock selection and advanced techniques. I am in the process of converting all of that training to individual, detailed courses you can study at your own pace from the comfort of your home. Most of that training is now available on the Training & Products page on my web site at http://www.tinalogan.com/tandp1.html via e-Books, with more products to be released in the future. I have your e-mail address on file, so you will be notified as new products and services become available. I also periodically add free content to the "Free Stuff" page on the web site. Additionally, you may also find some helpful tips and tools on the FAQs page.



I wish you the best of luck with your trading and am pleased to help you achieve your trading and investment goals.

Sincerely,

Tina Logan
www.tinalogan.com