Psychology in Trading

The Attraction of Trading

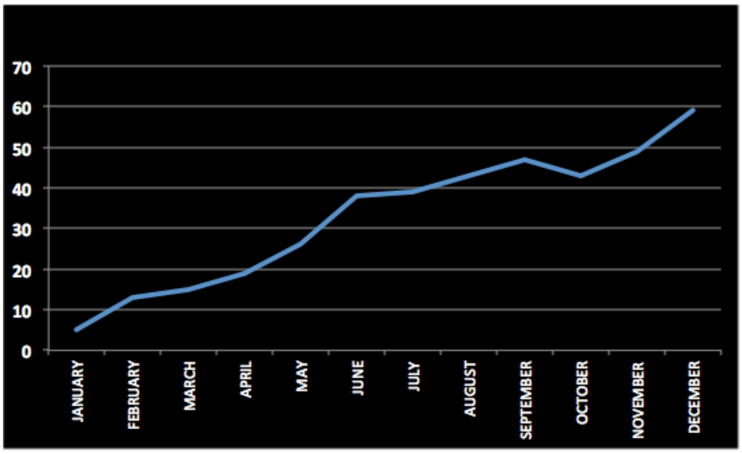
Trading can be extremely lucrative and can give you the sense of freedom that you may be seeking. The activity of trading offers the individual unlimited freedom of expression. The reason for this is that in a trading environment the individual makes their own rules. There is nobody to report to, nobody to limit your potential and nobody to tell you what to do. By trading its YOU vs YOU. However I feel this is one aspect that many traders fail to acknowledge because it can cause issues in an environment that has absolutely no boundaries. Without the day-to-day structure that a typical job offers, some people can become lazy, complacent and fail to excel to their full potential. In order to give you this internal mental structure to provide balance to your trading this lesson on psychology should be hugely eye opening and I hope that you can take away the principles discussed and incorporate them into your own trading style.

The Trader Category

In trading, I would say that generally there are three categories that traders fall into from my own personal experience and from traders that I have come across. The reason why I am pointing these categories out is that only the top 5-10% of traders fall into the category that the other 90-95% of traders want to be in. Of course by taking this course I am aiming to prepare as many of you as possible to get into the top category of traders, and therefore it's important that you recognise all the categories that you could fall into. So what are these categories?

1. The Consistent Trader

This is the category that everyone wants to be in. When you open that trading account and deposit your money I can guarantee one of your goals is to be in that top 10% of traders. The consistent traders are the ones that have a steady incline in their equity curve as they watch their accounts compound with no significant drawdown in their account size.

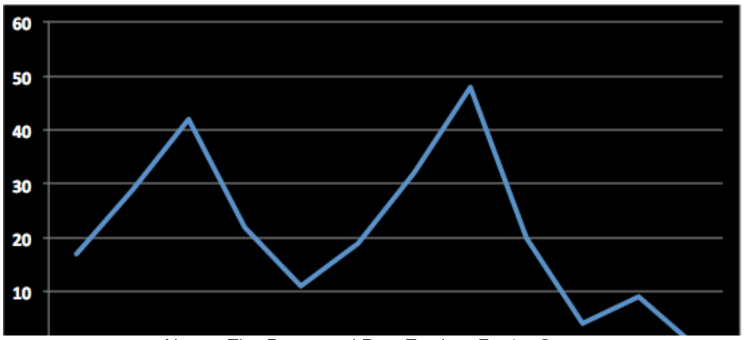


Above: The Consistent Traders Equity Curve

The consistent traders equity curve will look something like the above. This is the level that every trader wants to get too. Where you can visually see your equity growing with time, the longer more consistent performance you have the quicker your account balance will compound and accelerate your growth. The purpose of this whole course is to prepare you as much as I can to get into this top bracket of traders where you see consistent growth, however fundamentally it will be down to you as a trader to get into this small fraction of traders. To do this, you will need to adopt a winning mindset, a winning mentality by taking responsibility for your trades and having the internal discipline to develop restraint mechanisms where you prohibit to show signs of euphoria when you are winning and look to blame others such as the market when you are losing. Those with a consistent mindset will see consistent results.

2. The Boom Or Bust Trader

These types of traders are the ones that are usually a bit over leveraged, risking a little more than the risk management principles I have taught you, and we a little more emotionally erratic when it comes to making trading decisions. This makes the traders equity curve look a bit like a roller coaster ride, spiking up high, making huge drops in a period of drawdown and is generally a little bit all over the place.



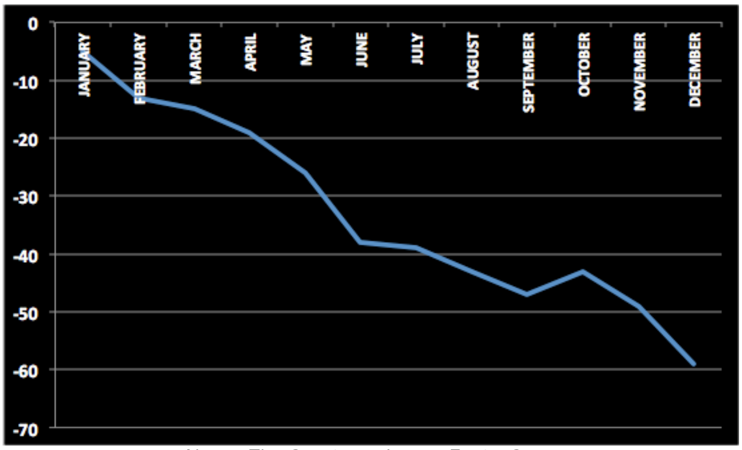
Above: The Boom and Bust Traders Equity Curve

Now whilst the spikes in account equity look appealing, the drawdowns on the other hand, not so much. The trader with this type of inconsistency in their results with huge spikes in both directions will inevitably be destined for a blown account unless they figure out a way to get into the bracket of consistency. I feel like this is very real for a large proportion of traders where they can't seem to just figure out the edge that they have in the market and as such can result in emotional decision making causing fundamental errors in their trading. They might be jumping the gun and entering too early, entering a position where the market hasn't given them a signal too, reacting to quick and sharp impulses in price as opposed to meticulously planning positions before hand. These erratic emotionally driven decisions will lead to erratic looking equity curves like the one above. For many traders this will be a process they will have to go through in order to breakthrough into the top bracket of traders. You know you can win you just might be seeing some mistakes but cant figure out what it is or how to change it.

One of the best descriptions I have heard was out of a book called 'Trading in the Zone' which I highly recommend (check the education library for more info), it states, think of a trader like a huge computer code. You have the most in-depth, complex computer code which looks perfectly correct, however there is one small misplaced letter, number, icon within that code which means the whole thing doesn't work. This is exactly how many traders are, they a lot of good things going for them, they may show signs of a technical edge, they may show signs of emotional discipline, however there is one small thing that continues to let them down which prevents them being in the top bracket of traders. Yet discovering where this small misplaced error lies is extremely difficult and will take hours, days even months to recognise through continuously reviewing the code. Think of this code as your own perfect formula for success, you will need to have the whole code working before you can become a consistently profitable trader. Your code might be a little bit broken at the moment, but if you continue to work hard and review your performance in depth, you will recognise errors and be able to remove them from your trading performance. The sooner you take responsibility for these actions the quicker you will reach your goal of being consistently profitable.

3. The Consistent Loser

Similar to the Boom and Bust trader, the consistent losers make up the bulk of FX traders. Now with traders are consistent losers this proposes more problems than the other two brackets of traders. Why? Because if a trader is struggling to even take a winning position, there are several fundamental problems with that individuals ability to trade, with a consistently declining equity curve, before long the trader will have a blown account which could be disastrous in terms of the individuals motivation to try again.



Above: The Consistent Losers Equity Curve

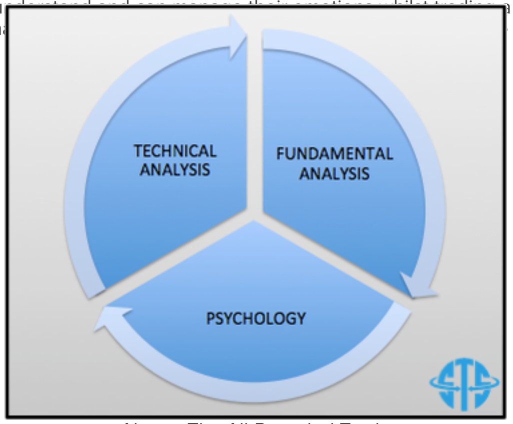
Now for those of you are experiencing a similar type of equity curve above, more than anyone reading any of these lessons you really need to tune in. The reason somebody has this type of equity curve could be due to a bundle of factors such as, they simply have no clue what they are doing with no strategy or understanding of having a technical edge in the market or they have no concept or understanding of risk management, or they are completely emotionally irrational and are yet to adopt a winning mentally, or it could be a bundle of all three which simply suggests one does not have enough knowledge about trading. If this is you, don't let this get you down, I assume everyone is here to learn and take some value from this course, right?

The consistent loser could however have a great strategy, and understand the concept and principles behind risk management, if you do fantastic. But you continue to ask yourself why do i keep losing? The likelihood is you are yet to discover what is making you lose. You could be making the same mistakes for every single trade but are complete unknown to the mistake because you haven't brought it to your conscious awareness. You may be blaming the market for your misfortune, or not taking responsibility for your actions. One of the typical things traders do is when they win a trade they are perfectly happy to get their journal out and write it down to show how fantastic they are as a trader. The second they lose a trade, the journalling process becomes a little bit more of a chore. However this is where you learn from your lessons and improve that winners mindset if you are prepared to gain a complete understanding of what you are doing right and what you are doing wrong. Those who neglect the process of self-reflection and fail to take responsibility will forever by in the consistent losers category.

Now, I'm assume you all fall into one of the brackets above, your either a consistent winner, a bit all over the place or a consistent loser. The principles I am going to bring to your awareness throughout this section I sincerely hope provide you with the foundations to adopt a winning mindset when it comes to trading.

The Complete Trader

The best traders in this industry are those who have a balance between an enhanced ability to technically analyse a chart, have a understanding of the macroeconomic environment which you may be more familiar with as fundamental analysis and vitally those who u... a highly challenging financial market. So here at M.S.FX we h... 'all-rounded' trader.



Above: The All-Rounded Trader

Acknowledging that you need aspects off all three of the items above in order to become a successful trader is extremely important. You cant just learn a bit of technical analysis and expect to master the markets, you need a complete mould of all three, technicals, fundamentals and psychological awareness. Many beginners under-estimate the importance of having a psychological awareness when trading this market, so let me try to provide a little bit of clarity and bring a little bit of past experience to the table for you to learn from.

The Emotional Cycle

Trading any financial markets will bring out emotional challenges that you have probably never experienced before. Us, as human beings are emotional and we have emotional intolerance to certain aspects of life that cause us to act irrationally. When trading our hard earned cash it can cause us to have huge emotional swings if we are not disciplined and grounded in our conscious mind. Due to this having an understanding and gaining control of the conscious mind is imperative to your long term trading success. Some people argue that trading is 90% psychological, now i am not sure whether i agree 100% with that statement but i sure can say that psychology is a huge aspect of trading. Many people think once they've learned how to analyse a chart using technicals and fundamentals that it will be a home run from there. The truth however is very different. Allow me to show you what i mean by using the emotional cycle of a trader...

Above: The Emotional Trading Cycle

This is the typical emotional oscillations many feel as a trader, especially in the early period of your trading career. The emotions highlighted above are the feelings I guarantee any individual who has traded in the financial markets will have felt at some point in the trading ventures. The point of absolute euphoria when you are 10 pips away from the largest take profit you've ever had, down to the desperation and panic you feel when you are 10 pips away from the market taking out your stop loss for the largest loss you've ever experienced. The point of this section is to help you acknowledge these emotions and prepare you in the best way possible to allow you to manage these emotional oscillations.

Let me bring the emotional trading cycle to life with a trading example:

Above: The Emotional Trade!

Now I don't want to focus too much on the technical setup for this trade but more about the emotional challenges this volatile trade could provide. Imagine you've entered long on GBP/USD after a break above daily resistance and the 1 hour 50EMA at 1.3052. Almost immediately within the first 3 hours of the trade you are in a loss and you've broken back below that key area of 1.3050 that you'd previously put some much emphasis on being a technical indication that this pair was good to go long. How do you feel? You've opened a trade and gone straight into a loss. I'll tell you how your going to be feeling if you have very little experience. It feels something like 's**t this is going to be a quick loss'. You may even then question yourself and your analysis and ask yourself did price fakeout from resistance? Shall I close it and just take a small loss as its more than likely this trade will run down to hit my stop loss? The answer.. NO! Your risk management is tight so let the trade play out...

Take a step back, you come away from the charts for a couple of hours to let the market breath. You come back and price has taken off! Price is now at 1.3150, 100 pips in profit and just 50 pips from target. You feel absolutely euphoric! Price begins to decelerate at around this level, however you still remain confident given you are 100 pips in profit and are expecting a small pullback to form a new higher low because thats how a bullish trend works...

Price then posts a significant bearish engulfing candle which engulfs the previous 10 hours of trading. You feel a little anxious but still in control, it's only a 20 pip drop in price, nothing too significant given we are expecting a pullback. However in the next 3 hours price decline 80 more pips and you are back at breakeven. You are in a phase of fear, price has broken back below key dynamic support. What do you do? Close out for breakeven to ensure you do not lose? Trust me, i have done this before and I'm sure you have too. The answer.. NO! Remember you are happy with your risk management, so allow the market to breath and allow the trade to play out...

You see a bullish reversal candle and price begins to push higher again, but slowly. You feel slightly relieved and hopeful that price will go back to where it was before the decline and push towards your profit target. Price explodes once again after a break above dynamic resistance. You feel massively optimistic and excited at the prospect this trade will finally run towards your target. However price hits the same level of the previous decline at 1.3150 and rejects the level to form a textbook double top formation. As price declines once again what do you do? Do you close the trade out as you become fearful that price isn't ready to push above 1.3150 and take your profit off the table? You could argue that this may be a time to take a portion of your position off the table, I cant argue with that. However, by doing so would inevitably not be the most profitable thing to do...

Price continues to decline until it rejects dynamic support and then explodes higher, breaking 1.3150 and hitting take profit target at 1.3200. At this point you feel fantastic, the trade has closed for +5% on your account and you feel pretty invincible which is how we all want to feel as traders. However the point I hope you've understood throughout this example is the huge emotional oscillations that one single trade can bring. How are you going to react through a 75 hour trade full of emotional challenges? Those of you who are grounded, disciplined and have strict trading rules in place will feel far more emotionless. The closer you get to mastery, the far less emotional oscillattions you will experience.

Random Distribution

In Lesson 3 you will have been made aware of the patterns that re-occur time and time again in the market. Market behaviour does repeat itself, however every single trade is unique. You may have a set criteria that you know the market reacts to and plays out your technical edge, however the outcome of this setup and the criteria you have is completely randomly distributed. Every single trade is unique, despite thinking the setup is the same, the way in which price reacts from a micro level is different. Every single PIP the market moves will not play out identically on any trade you ever take, ever! However what you do need to understand is that over a series of trades, if you are trading the same behavioural criteria, probabilities will be in your favour. From a psychological point of view you need to understand that due to results being randomly distributed you will take losses.

Peter Lynch - an American investor with an estimated net worth of over $350BN who averaged an 29.2% annual return between 1970 - 1990 turning an $18 million fund into a $14 BILLION even says 'in this business if you're good, you're right six times out of ten. You're never going to be right nine times out of ten'. Now for somebody of his success, if he is acknowledging that you'll never be right more than 90% of the time, understand that you WILL take losses. It's part of the process and nothing to be feared. Trade against the same criteria that you know defines your technical edge and play this criteria over the long term to see consistent results. Remember, if you're right 60% of the time, in the eyes of one of the greatest investors on the planet, you're good enough!

FOMO - Fear of Missing Out

A common downfall of traders is due to the fear that they have missed a run that they may have previously anticipated. The analysis didn't provide the trader with a valid setup but the bigger picture analysis pointed to a given direction. This becomes costly when traders jump into a move once price has already moved. The reason this can be so costly is that traders are then left vulnerable to any pullbacks in the market. They risk buying the high point of the market where traders are at the maximum point of financial risk as seen in the cycle of emotions above. A common piece of advice i've been given before is if you are not in the first 10% of the move leave it alone or wait for a pullback to get a valid entry. You need to have that emotional awareness that you don't need to be in every position. Be prepared to let go and move onto the next trade because when emotions become involved, if you are trading out of anger and frustration that you've missed a move you will lack clarity and could expose yourself to a loss. Remember, the opportunities in the markets are like buses, there's always another one coming! Take this mindset into your approach to trading and you'll be far less emotional to possible trades you've missed and money you've left on the table.

Rules

Having a pre-defined set of trading rules which you have prepared away from the charts with a clear mind will give you the maximum probability of not becoming emotional when it comes to trading. Now whilst these trading rules are open to interpretation, I use the following rules for guidance on when I shouldn't be trading the market. This stabilises any emotions of FOMO or any greed that may creep in when trading what can be hugely volatile markets.

1. Major News Events
I feel this would come across as blatantly obvious but the amount of traders I come across who just gamble on the basis of a given outcome of a major news event really is astonishing. Let alone those who don't have any risk management in place! So simply put, I avoid trading high impact new events that could have a potentially unfavourable effect on any given trade and effect any kind of technical edge that we have in the market.

2. Emotional Distress
We are all human, emotional distress can come into your life at any point in time. You may be stressed from work, your boss has annoyed you, you may have had a disagreement with a partner or family member causing you to feel slightly frustrated. Let's face it these are very real possibilities in our everyday life, as much as we wish to be super-human traders who are completely unemotional, whilst this may be realistic when we hit the charts, in our personal lives we may be more emotionally volatile. Due to this this anything that clouds clarity means I stay away from the charts until I have a clear, grounded and relaxed psychological state.

3. Missed Chart Time

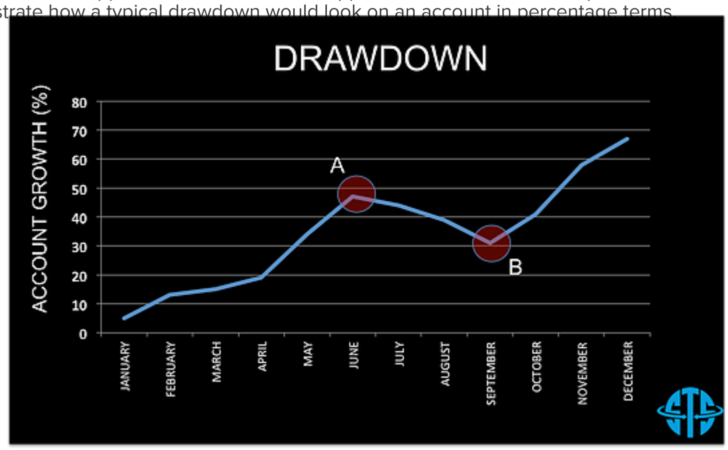
Unless your current lifestyle allows you to trade and analyse charts whenever and wherever you want, for the vast majority of people there may be times where you may not have analysed the charts as in depth as you may have liked too. In the instance that you haven't had sufficient time to analyse the charts then I highly recommend you take a step back and avoid entering a trade, despite the fact it may be highly tempting if a move occurs that you feel would be a valid setup. Don't let that fear of missing out creep back in. Let the trade fit your analysis that you have planned in depth prior to any move that occurs, as opposed to letting the analysis fit the trade.

4. When You Have Just Lost
Don't be the person that suffers from revenge trading. Revenge trading is a term used for a trader that jumps straight back into a straight back into a trade off the back of a losing position. This may mean jumping in a trade of a completely different currency pair or jumping directly back into the same trade without any technical setup being present! On the surface you may think this is mad, but trust me i think we've all done it at least once in our trading careers. Losing is part of the job description in trading, if you think you're going to have a 100% win rate you are living in a fantasy. Accept the loss, and move onto the next valid setup. Remember the market isn't going anywhere, there will be many more opportunities to come.

5. Missed Chart Time
Let's face it, we're all really busy people. We all have things to do and tasks throughout our day which could restrict us from putting in chart time. Unless you are living in an environment whereby you are completely free to 100% dedicate yourself to the charts then for the large majority of you, you may have other commitments such as work or family that may take priority on occasions. Due to this it may mean a loss in some chart time on given days - this however is not to be an excuse for a lack of work ethic. However, on days where you feel slightly less prepared, don't be tempted to jump into a position based on a snap decision from a strong movement in the market when you haven't adequately analysed the charts. Remember you should already have your technical setups planned and prepared with in-depth technical analysis, if you are taking a trade without having this in place then you need to take a step back and re-assess your psychological state because you are experiencing a FOMO. Let the trade fit the analysis, not the analysis fit the trade!

Drawdown

The dreaded reality of trading - drawdown! First of all, what is drawdown? A drawdown is a prolonged period of consecutive losses resulting in a net negative return during that period. Why is it the dreaded reality? Many traders don't think it will happen to them, but trust me, at some point it will. You may lose 10% of your account, you may lose 20%. To compare this to a real life example which may make this feel a little more normal, the S&P500 took a 60% loss between 2007-2009 due to the financial crisis. For reference the S&P500 is the largest 500 companies in the USA. This is an example of a drawdown. It happens in all markets and happens to all traders at some point in time. Let me show you a chart to better illustrate how a typical drawdown would look on an account in percentage terms.



Above: 20% Drawdown - The Reality of Trading

So, from the bigger picture, you're probably thinking well thats a pretty good account growth over the course of 12 months. If i could hit nearly 70% ROI in one year I would be pretty satisfied. Is it realistic? Yes. Is it achievable? Yes. However, how are you going to react between the months of June and September, a period of 4 months of consecutive losses which wipes nearly 20% off your account. This is where the best of traders understand the process and stick to their trading strategies and bounce back because they know that over time they have a technical edge in the markets. Whereas the traders who may be a little less experienced and a little more emotional could become irrational, over leverage positions and cause significant more harm to their account balance than the trader who sticks with the process.

In times of drawdown you need to be so focused on your risk management. You may feel like you can never catch a break, you may feel tempted to add a couple of extra lots to a position in the hope to make back some of the recent losses back quicker. Understand that in times of drawdown you need to minimise your risk to minimise your exposure, not maximise your risk with maximum exposure. Longevity is key, you will achieve that with sticking with the process, and the strategies that you know will give you a positive ROI over time. Drawdown is not something to be scared of, every financial market will go through times of drawdown. Remember, no financial market moves directly in a straight line to the moon, so neither will your account balance.

Get Rich Quick

The belief, want, and hope to 'Get Rich Quick' is all it should be. A 'belief' a 'want and a 'hope', because it's not reality. Unfortunately those who think trading FOREX is a 'Get Rich Quick' scheme, and those of you who have signed up to become a member in the anticipation you will read this course and become wealthy overnight, the reality is you won't. Nobody ever will. That's not a reflection of the quality of the course, or in fact any FX course out in the market today. It's a reflection of a false belief you have about the realities of trading. Unfortunately, the 'Get Rich Quick' doesn't exist, it really doesn't, not for the 99.99% of people anyway. If you ask any 'rich' trader, business person or individual how long it took them to achieve what they wanted, I can guarantee none of them became the person they are today in a short period of time.

I want to slightly move away from the monetary perspective of the 'get rich quick' scheme and talk about it in terms of success and achieving a goal you wish to achieve. Let's look at some hugely successful people and let's see how long it took them to achieve their goals. Lewis Hamilton - now a four-time Formula 1 World Champion, how long did it take him to achieve his goal of becoming World Champion for the first time? The answer: 15 years. Ray Kroc, owner of McDonalds, the largest franchised fast food restaurant on the globe. It took him until the age of 52 to purchase McDonalds, let alone grow it into the entity it is today. Henry Ford, famous for his automobile manufacturing didn't catch a break until he was 45 years old when he invented the Model T, by the time he passed away, in today's money his fortune would amount to $199 billion. What I am trying to highlight here is that success takes time in any field, whether thats being an athlete, a successful business person, a successful trader or whatever it is that you want to achieve
simply that, a fantasy.

Small but Consistent

This is probably one of the most annoying things you may be told as a aspiring trader, but it is however largely constructive and more than practical advice. Take things slow. Especially in the early days, why risk more capital when you are in the learning stages? Purposely keep your returns small, and in turn your losses smaller. Do this until you get to a level of consistency that you are happy with to slowly increase your lot sizes. If you chase money you'll lose it. If you chase the process and the best trading setups, small money compounded over time becomes big money. There is nothing wrong with making small humble gains. Start small, build your confidence, refine your capabilities as a trader and grow over time. Just remember consistency equals profitability - and thats what we are all here to do.

Once you begin to see a track record of consistent profitability over several months, it may be time to start investing a little more money into your trading account to grow your subsequent returns whilst using the same risk management protocols you did before. Avoid the mentality of 'I want to be making 6 figures a year off this in the next 12 months' as it's simply not realistic or practical. Yes its probably been done before but there is no shame in starting small and slowly growing your capital and trading account up to a 6 figure account in relatively short period of time with compounding and consistency. However consistency is the key, first you become consistent then you start to make money. Just make sure you do it in that order! The market will humble you quickly if you try to chase money first.

Infatuation

As defined on google 'an intense but short-lived passion or admiration for someone or something'. Infatuation is something that can absolutely ruin you as a trader. Let's break this down into more detail because I feel its important for you to understand. Firstly, why do people infatuate with someone else? Maybe it's someone you look up to, someone that you admire, it could be your partner, it could be a business icon, it could be a social media influencer. What's the problem with having this infatuation? Well it involves putting the other person on a pedestal, you put them above yourself, you admire their achievements more than you do your own. When you live in a state of infatuation of constantly putting other people ahead of you in your mind, how can you ever expect to become a better person? The person that's achieving everything that you want in life, if you don't think in your mind you are as worthy of them or that you can't achieve what they have, you never will. 'Stand on the shoulder of greatness' - take that person who you admire for their achievements, and up your game to your absolute capacity and strive for more greatness and achievement. Only by having that shift in mindset whereby you see yourself on a par with if not better than those that you 'look up' too, you will forever only be 'looking up' to those people and sitting in their shadows. Shift your mindset and results will follow.

A side from infatuating with people, when we talk about infatuation with something, let's bring this back around to infatuation with trading the Foreign Exchange market. Infatuation with FX trading could occur when you are on a winning streak. Let's say you've won the past 5 or 6 trades in a row. Ask yourself honestly how are you feeling? You probably feel a little euphoric, a little bit like you've mastered the markets and a touch over confident. When you project this over-confidence into trading the markets, you will find yourself looking for setups that aren't really there. Setups that may not completely meet your trading criteria and before you know it you will be humbled by the market and your infatuation will turn into resentment.

Resentment

As defined on google resentment is a 'bitter indignation at having been treated unfairly'. As a winning streak turns into a losing streak your infatuation turns into resentment. You get trapped in the mentality that the market is working against you. You fear loss and this is when your performance and future returns can be massively hurt. When you become resentful you are vulnerable to want to act in revenge and trade unnecessarily with higher levels of risk and leverage on the table. If you don't get out of the victim mentality and resentful attitude towards the market you will forever hit roadblocks in your performance and will continue to take two steps back every time you take one step forward. Every time you lose a trade you will see this as a failure, and consecutive failures will have a further adverse effect on the possibility of future profitability.

Balanced Mindset

Instead of having rapid emotional swings when you are trading you need to become centred and disciplined in your mind. One of the key practises I have engaged in to ensure I continually have a balanced mindset and don't get trapped by the emotional volatility in trading is to be objective at every possible point. When i execute a trade to when I exit a trade, despite whether it is a profit or a loss, I still remain objective on my long term performance. I journal my trades and critique my performance. This ensures I don't become infatuated with my winning trades but it also means I don't become resentful after a few trades because I can see past performance shows a positive return on investment. This grounded and objective approach that is managed internally allows me to perform consistently over a long period of time. If you can reduce and eliminate the emotional swings of the animal mind from infatuation to resentment and become more balanced in your approach and mindset you will be on your way to mastery and living in the higher state of mind before you know it.

Zero Sum Business

Trading isn't like a normal business of buying and selling goods. Traditional businesses are when both parties gain what they want. The business owner sells their product or service and in return the buyer of the good or service receives value. So both parties receive a net gain from the transaction, meaning both parties win. However trading is a zero sum game, this means that in order for one party to win, another party has to lose. This means that there is a wealth transfer between the individual who loses and the person who wins a trade.

The reason it is called a 'zero' sum game is because the value of all participants losses must equal the value of the participant wins. If you subtract the value of the losses form the wins then it should balance out at zero hence the name a zero sum game. Why does this matter? Well because you need to make sure that you exert an edge in the market which allows you to take more wealth off other people than they do to you. Psychology is a huge part of trading, especially given the nature of the market being a zero sum game. If your technical setups are better, your fundamental knolwedge is better and your psychological state his far more enhanced than other participants then your chance of receiving a positive return on your investment and taking wealth from other people in the market is more likely to occur.

Treat Trading Like A Business

I love this concept and i'm sure you'll love it too. It is a concept that if you don't take much away from this psychology section of the course, i hope you read this sub-section carefully and understand this powerful concept which with any adverse emotions that trading brings up when you are losing. Treat Trading Like A Business. What do i mean by this? Well, take a look at the graphic below:

Above: Treat Trading Like A Business

Take a look at the model above. Let's first look at the traditional business model, now whilst I understand this is a very basic interpretation of how a business makes money, it is fundamentally correct. As you can see, for a business to make money they firstly need to generate sales, they need to identify a demand in the market and provide a equal amount of supply to consumers who demand that good or service in fair exchange. This fair exchange between buyer and seller results in sales revenue for the company. However with all companies they have overheads, the cost of doing business. Let's say we have a small company that sells clothes to retailers. They have to pay their manufacturers for the products, they have to pay for storage in a warehouse, they have to pay for labour, they have to pay for the logistics and distribution of the goods and much, much more. The result is our running costs. Where any business who wants to be successful the pound (£) amount they generate in sales much be greater than the (£) amount they lose from costs. This then equals a net profit...

The trading concept is exactly the same. It acknowledges we are going to have wins in the market (in the form of sales as a traditional business). Similarly we are going to experience losses (known as a cost of running a business). The end result is that if our wins are greater than our losses, or our sales are greater than are costs we make a profit. Treat your losses as a cost of doing business to the market. You don't see a CEO get emotional when they pay their rent bill for storing their stock in a warehouse, therefore you don't need to be emotional when you take a loss from a trade.

Confidence

One of the most critical aspects when it comes to trading is complete and utter confidence in your own strategies and technical edge. Until you develop confidence in your own ability you will forever be in fear of the market because you will be hesitant and inconsistent in your approach instead of being strategically objective. I can almost guarantee that you have at some point entered a trade too early before the market gave you the signal to enter as per your strategy, similarly i can almost guarantee that you have missed your initial entry then got in too late. I can almost guarantee that at some point you have taken a trade, its ran into profit and close towards your take profit, however failed to recognise a reversal and let a winning position turn into a losing one.

The reason traders do this and what separates the small percentage of consistently profitable traders from everyone else is that they have the confidence in their own ability and do not fear the market. Due to not fearing the market and accepting the risk on the table they are able to act objectively in every possible scenario. They know that if the market hasn't yet given an execution signal they will not take a trade. Likewise if the market has moved and the position has already gone, they will not execute the trade as it is no longer strategically optimal to enter that position. Similarly you will also find the successful trader will also more than likely take a little bit of profit off the table on a position once price has moved into an acceptable amount of profit.

Above: Think Like A King

Take a look at the above picture because it is a reflection of what I am trying to tell you (no pun intended). You may feel like a Pawn in the big world of trading because you are only trading a small account in comparison to the $5.2 trillion pushed through the FX market on a daily basis. In reality, you are, me included, so are all retail traders in the grand scheme of things. However, you need to view yourself as the King, the absolute trading master. View yourself as the consistently profitable trader that you know you can be because you have a technical edge. Have confidence in yourself and your own strategies. Remember to always think objectively and remove any emotional impulses from your active trading and you will become a winner.

Think Like A Professional Trader!

Want to become a successful trader, perhaps you even want to consider yourself a professional trader. The question is, do you think like one and do you act like one? Before you enter any trade, ask yourself, would a professional trader execute a trade now? Interesting question right? I'm assuming you're probably thinking, well how on earth am I supposed to know if a professional trader would execute a trade now, well I want to introduce a trading technique that I hope you can use to help you to not only think like a professional trader, but act like one too.

Phase 1 - Confluence

Before you enter any trade, you need to stack your confluences together. This is a good framework to have, and something that you should always follow (you'll get a little more guidance on what confluences to look for in Lesson 9). Once you've stacked all your confluences, you may actually discover a trading setup, the majority of traders instantly take the trade. Why wouldn't they? Their confluences stack up, they see an entry, they think yes thats the one, the home run, let's take it! Then before they know it, the market has reversed and stopped them out. What went wrong?!

Phase 2 - Position of Value

Before each trade, ask yourself 'Am I entering at a position of value?' The reason you ne
is to get your in the mindset of a professional trader. Professional traders will never look

continuous bearish run, likewise they'll never look to buy after a 300PIP continuous bullish run. Ideally what you want to look for in your trades is a position of value. A price in the market which not only confirms a trade setup with your confluences, but also is at a price point that you would likely see institutional traders enter into the market to either buy or sell (depending on the direction of the trade) the same position. Likewise, if price action breaks structure, a breaks explosively for 50PIPs you don't want to get in at the close of the hour having to extend your stop loss by another 50PIPs which could massively reduce your R:R, likewise you're no longer entering at a position of value! Let me show you an example....

So above, you'll be able to see price action breaking structure to the downside, you may be thinking perfect, thats my entry validated, all my confluences point to downside, let's enter the trade. However, think to yourself, am I entering this trade at a position of value? The answer is NO! Price broke structure for 50PIPs in one hour. You need to allow price to come back up, to form a correction of some sort in order to enter at a position of value!! Ask yourself, would a professional investor enter a trade here? If the answer is NO, leave it alone!

Psychological Warfare

You and I both know that your success as a trader will be down to you being able to win the psychological warfare between your Chimp and your Computer. Now for those of you who are familiar with the 'Chimp Paradox' will know this concept very well! But instead of you guys having to read a couple of hundred page book, let me summarise:

Your Chimp is the animalistic, irrational side of your brain. It's the side of your brain that is driven on emotion, and it's the side of our brain that ALWAYS reacts first. Let's address an example that's not trading related first. Let's say you're driving your car, somebody cuts you up then brake tests you, your Chimp, will probably react something like 'you fucking asshole, what the hell are you doing?'. Sound familiar? This is your irrational Chimp that reacts based on emotion. Now let's think about this in a trading context, you're in a trade, you're running in profit, then the market suddenly reverses, your Chimp, is more than likely going to react with frustration, you will then question the trade, lose sight of the end goal and your strategy, this is the point at which where mistakes will happen and bad habits form. You know those voices that you get in your head that says 'oh maybe I should just cut my losses and close the trade now' - that's your Chimp speaking to you, not the logical, rationale mind! The Chimp is the side of your brain that will deliver the self-sabotage to your performance.

Because everyone has the Chimp, it's important that we try and shut that fucking thing up as often as we can. If we don't it can cause all kinds of issues with our performance. In order to do so, we need to take practical steps in order to minimise the emotional driven side of our brain and focus on more of the logical, strategic and rationale side of our brain. To do this we need to neutralise all the emotions involved in trading by re-wiring and re-coding our internal computer to hardwire ourselves to think and act like traders.

Or in order achieve this, we need to remain neutral at all times. When our trades are winning we need to refrain from the feeling of elation, likewise when our trade is losing, we need to refrain from the feeling of fear and self-doubt. One of the main issues as traders is usually the negative emotions associated with losses. It's the toughest pill to swallow and can be extremely difficult on our mental resilience when we are tested as traders. So in order to do remain logical, we need to neutralise the negative emotions with that loss so we are balanced and present at all times. Many of us get so annoyed with ourselves for taking a loss, we lose confidence, we get frustrated and its so important we neutralise these negative emotions with an equal balance of positivity, which brings me on nicely to our 'Trade Neutralisation Form'.

The 'Trade Neutralisation Form' will be a means whereby you can actively record all the trades you take that spark the emotional, Chimp side of our brain. It could be a winning trade, losing trade or breakeven trade. Whatever the outcome, if it sparked emotion that resulted in a deviation from your strategy, you need to neutralise your emotion, which is where this form comes perfectly into play! Watch the tutorial first and then get your own copy of the form, remember to 'File' and 'Make a Copy' to store it on your drive.

To finish off this section on Psychology, I just want to leave with you some quotes to summarise one of the most powerful and critical aspects of being a Foreign Exchange trader.

'When I get hurt in the market, I get the hell out. It doesn't matter at all where the market is trading. I just get out, because I believe that once you're hurt in the market, your decisions are going to be far less objective than they are when you're doing well... If you stick around when the market is severely against you, sooner or later they are going to carry you out' - Randy McKay

'The key to trading success is emotional discipline. If intelligence were the key, there would be a lot more people making money trading... I know this will sound like a cliche, but the single most important reason that people lose money in the financial markets is that they don't cut their losses short' - Victor Sperandeo

'I think investment psychology is by far the more important element, followed by risk control, with the least important consideration being the question of where you buy and sell' - Tom Basso

Let's Chat!

Swing Trader Society

Let's Chat!