ZANER

Zaner is proud to present…

THE SUBTLE TRAP OF TRADING

By Brian McAboy

[re-printed by permission of the author]

Zaner Group LLC

150 S Wacker Dr, Ste 2350
Chicago, IL 60606
Phone: 312-277-0050
Email: info@zaner.com
Web: http://www.zaner.com

Important Notice and Disclaimer

Futures, options and forex trading is speculative in nature and involves substantial risk of loss. Trading is not suitable for all investors. You should carefully consider whether trading is suitable for you in light of your circumstances, knowledge and finances.

My desire for this book is that it saves people from the anguish that is all too often experienced in trading, and that it helps the many good people who enter trading to find the success they desire.

Acknowledgements

In this pursuit, I have had the good fortune to experience life in the trading world, to know many good people and to have been introduced to many wise authors and teachers.

I am grateful to Lisa Umbel for her consistent caring and persistence, to Bob Kozak for his wit, support and creative input, to Derek Frey for his encouragement, to Judy Crawford for her professionalism, humor and her efforts, and to Sandy Ciaramitaro for her incredible perseverence.

I am also grateful to Jeffrey Wilde for his active faith in me and this course, and to Mark McRae for his feedback and words of wisdom.

My wife, my children, my mother and my sister have all shown tremendous love, faith and support as I pursued the creation of this course. My appreciation for all my family goes beyond words.

I have been blessed to have had many good and bad experiences in my life, all of which led me to where I am now.

For my life, for all the blessings I have received and for those that I am receiving I thank God, from whom all blessings flow.

Comments on the course

"Brian McAboy has produced a true breakthrough work. It is brief, yet covers truly critical aspects of trading that many miss. He has managed to distill down into a very easy read, the core of what the developing trader needs to know and gives simple steps to follow to substantially improve one's trading. I highly recommend it!"

Matt Zaner
Owner and Principal, Zaner Group, LLC

"This is the first course in my 30 years in the business that seriously deals with the long standing statistic in trading - that 90% lose. It's right on the money for traders that truly want to be successful without struggling through years and thousands of dollars in losses. For any serious trader it is a must."

Judy Crawford
Broker, Zaner Group, LLC

Table of Contents

	Page
Introduction	1
The Trap	8
Step 1 – Get Real	22
Step 2 – Get Clear	27
Step 3 – Get Smart	48
Step 4 – Get Focused	62
Step 5 – Get Control	68
Step 6 – Get Organized	71
Step 7 – Get On With It!	88
About the Author	90

The Subtle Trap of Trading

Introduction

Intention drives everything.

If you intend to make something happen, it will. If you don't have an intention, then you'll get whatever happens your way. And in the markets, the probabilities are that you'll lose your money unless you set the specific intention to become successful.

You've got a choice to make:

Are you going to make yourself into a winner or let yourself become a loser?

There is a widely held belief, which I believe to be fairly accurate, is that 90% of the people that come into the markets lose their money in the first six months.

The primary reason: the markets welcome everyone with open arms, everyone with any money, and you can start trading as soon as you can get your money into an account, whether you're truly <u>ready or not</u>.

The government has established agencies to regulate the institutions in the industry, but there's nothing protecting people from their own ignorance or lack of self-control. The markets are ruthless, literally. The markets don't play by rules and they'll do as they will, with no master to answer to. Any trader who shows up unprepared will have their money extracted sooner or later, and the markets just don't care.

> **There is no place where the phrase "A fool and his money are soon parted" is more applicable than in trading.**

In trading, there are no pre-requisites like there are for driving a car, where you have to go through Driver's Ed and then take a test. On the road, ignorance or lack of minimum skill can hurt others. In the markets, however, the only person hurt by ignorance is the trader.

Just by the fact that you're here and have some money to trade with is an indicator that you're probably smarter than average. But just like any field of endeavor, if you're new to it, then you start off ignorant, unaware of the many details that make up that particular industry, and there are things you need to learn to establish yourself and be successful. When you opened your account, you were required to sign the disclosures that you understand there's risk in trading, but beyond that initial disclosure, there's no required learning or preparation.

There are many good brokers out there who will share their particular area of expertise with you and help you learn their methodology and systems. Unfortunately, what is needed to be a consistent, long-term and profitable trader goes way beyond the being able to read a chart and enter trades according to a specific system. If you've felt the desire to enjoy the tremendous benefits of trading, but right along side that felt the anxiety of the risk, you're seeing the tip of the iceberg.

Are You Sincere?

You're not alone, even though trading is a rather lonely activity. The statistic also says that 10% are making money. That's a lot of people. It's not lonely at the top. There are so many people that have consciously made the commitment to get there. Believe it or not, it's a good-sized group.

Let's look at some real numbers. As of November 28, 2011, there were 1,552 Introducing Brokers and Futures Commission Merchants holding memberships with the National Futures Association (source: NFA website; 11/28/11). Now the number of clients for each broker is something that they keep to themselves, as they should. But using a conservative estimate of

1,000 clients per IB and FCM, that gives us a total number of traders on that date of 1,552,000 traders. The losers total 1,396,800 and 155,200 peole making money on a consistent basis.

Seems disproportionate, doesn't it. Well, it is. The good news in that is that there are over 100,000 traders who are now where you want to be. More good news for you: most of them took the long and difficult path to getting there. In your hands, you hold what is in my opinion, a No-BS, fast-start guide that will save you years and thousands of dollars on your path getting there.

Do you <u>sincerely</u> want to be part of the 10% that make money year after year? Many people say they want it, but in reality aren't willing to put forth the sincere effort that it takes. Are you sincere?

I ask you for a reason. If you make the commitment to do what it takes to reach that 10% group, to reach that competence level and develop the skills that you need to, then you've taken the first step on the journey there.

If you don't make that commitment to yourself, then you're only kidding yourself with pipedreams and you might as well resign yourself to some large and painful losses in the markets. If you're not willing to do that for yourself, then you might be better off to take your money elsewhere. <u>The markets will take it otherwise.</u>

You're used to being one who excels. You're a trader because you're used to being above average, and getting above average results. You're smarter than average, enjoy a lifestyle well above the poverty line. You've got ambitions that exceed that of the average person.

You're used to being in the top 10%. Sincerely commit if your personal goal is to be in the top ten in trading as well.

I've got some good news and bad news for you.

The good news is that in your hands you hold in your hands what can be, in my opinion, a short cut to making the dreams you started with a reality. The bad news is that this is still going to take some dedication and work on your part. That's not really bad news, though. If you're willing to do some work, then this course may save you tens of thousands of dollars that you had to earn in the first place.

If you're willing to do what's given to you in this course, then you'll find a sense of calming reassurance that you are capable of being successful as a trader, and you'll enjoy the lifestyle that you're hoping for.

The markets offer returns not found in most arenas of investing, and for those who properly prepare and keep their head on straight along the way, life is very good.

This is no different from life itself. You'll get out of it what you put into it.

Who this course is for, what it will cover, and what it won't cover.

In a nutshell, this course was created for those who are not enjoying their trading. Trading can be a wonderful, fun, exciting, profitable, educational activity that done right, can provide a nice living for you.

If the above doesn't match up with your experience, then you're in the right place.

Many people come into the markets, having heard numerous rags-to-riches (almost overnight) stories, how easy it can be, how some average Joe with only a few thousand dollars of risk capital, and in 30 days parlayed it into $100,000 without breaking a sweat and only working at it 20 minutes a day.

The Subtle Trap of Trading

Good sales job selling the dream, better than the lottery and Publisher's Clearing House. Too bad they don't tell you about the emotional fire-breathing dragons that can turn you and your money into ashes.

While the fantasy sounds great, it is far from reality. You'd better come to the markets properly suited for battle, ready to take on the dragons of fear, doubt, anxiety, greed and others, or your chances of survival are slim.

The statistic of 90% of people coming to the markets, losing their money and leaving is a long-standing figure, and one that's there for a reason. The markets don't care about you and like it or not, you have absolute no control over the markets. They'll do as they please, whether it makes you rich or poor.

The 10% who are successful are largely comprised of people who started out just like you and I did: not knowing much about trading nor what it's like to deal with the incredibly strong emotions that come into play in trading. Even some who've come, lost and left, return somewhat tempered and start off better the second time around, only to experience some success over weeks or months, then fall back into their earlier patterns that bring ruin.

For most of the truly long-term and successful traders, their achievement of their current position has come at the price of years of struggle and going through the cycles, plus all the money lost in the process. Many prominent figures in the trading world have said that it took them 15-20 years to become an established and consistently successful trader.

For you and me, that is not a pleasant prospect – struggling for years before we get to the dream that we had when we came here. There is a way to shorten the tunnel and bring that light considerably closer. This course is intended to be a most-direct route to that point.

The Subtle Trap of Trading

In this course, we'll be talking about what you as a person, need to do to strive to become a successful trader so that you enjoy your trading, in all aspects. This is not for someone who thinks that I'm going to give you a 15-minute "how to" while you just sit there and do nothing, and then tomorrow morning you'll wake up and everything will be all roses.

This course will be enlightening, enjoyable, and some work. The exercises themselves are not that difficult, but they are challenging. I am going to challenge you and push you to challenge yourself. While some of the realizations may be uncomfortable, you're here to get results. The areas of change that you asked for by purchasing this course are changes in you. It is exactly in your skill sets, your perceptions, your understanding and your emotional control and clarity where we're going to make some changes, so that you see the results in your trading experience.

I'm here to share what I've learned from all my experiences and the studying I've done over the years, and how it will help you in your trading. I'll share with you, give you exercises to do, ask you questions and guide you along a process that will have you way better off than you are today. You have to decide right now, though, that you are going to do the exercises, that you'll be sincere in your effort and honest with yourself in answering the questions. If you can do that, you're halfway there just by making the decision to do so.

What this course will NOT cover.

I am NOT going to make any recommendations regarding which system you should use. There are dozens of different systems, indicators, and methods for trading. Which one you use is a personal choice that should be based on your emotional style (I'll help you figure that out) and what is the best fit for you. Every person is individual; you have your own personality and should choose the one that feels right. I don't know of any "one-size-fits-all" trading program that is the right one for everybody on the planet.

I am NOT going to recommend that you choose any particular markets, software programs, computers, trades, or anything else that is part of what I consider the "hard-side" of trading, the technical side. I'll help you figure out which is best for you.

Trading is a personal matter. You are who you are and you should play the game on whichever field you like, with whatever tools and equipment you want. What you use should be based on what "fits" best for you. Those are your choices, your decisions.

Let me ask you a quick question. If I knew what the price of gold, the British pound, crude oil and soybeans were going to be 30 days from now, would you care if I shared that with you in a 1,000 page novel or if it were written down on a matchbook cover? No, of course not. You'd probably prefer the matchbook. It's the information you want, not reading time.

I've made this course concise and complete. You want to be successful. You want to be able to treat trading like a business and keep your head on straight while you're trading. You want valuable and useful information that you can get through in a short period of time.

The primary purpose of this course is to help you dramatically shorten the time curve to getting you where you want to be as a trader and save you painful losses and money. You're going to be fitted with your own suit of armor, so that you and your money are well protected on the battlefield of the markets.

Time is money. Let's get started.

The Trap: Why So Many Smart People Don't Make Money Trading,...

While researching, I discovered a very subtle, almost hidden phenomenon that occurs that gave further insight to why hundreds of thousands of otherwise successful people with above average intelligence just can't seem to cut it as a trader. What I'm referring to is something that happens. It's not a character trait, and that's why I'm revealing it separately here.

I know several brokers who've been in the markets for years, and they all have dozens of stories of how they've had clients that were very astute individuals, and very successful outside of their trading. The clients seem to have all the right characteristics, but for some strange reason, they would do things in their trading that they wouldn't dream of in their business life. The brokers keep scratching their heads and wondering why so many people seem to lose their minds.

The reason why, the "Oh my gosh, what has happened to this person?" has been so elusive and it is frustrating not only for the brokers, but for the traders as well. The traders are the ones losing their money with the almost irrational behavior.

The reason is what I call the Subtle Trap of Trading, and you'll find it in both the Futures, Options and the retail, off-exchange Forex markets.

As you read this, you may have the same thought that came to me, that it sounds like a conspiracy, although I don't really think it is. But the "system" sure does seem to work in the favor of a few at the expense of many.

Everything involved is very upfront, but when you take a deeper look at how everything works together, you'll come to understand what no one else does and why so many people wind up frustrated, confused and losing money in the markets.

The Subtle Trap of Trading

I call it a trap for good reason. Most traders struggle and continue to lose money until their account is wiped out. Sometimes it even has them so trapped that it goes beyond their account into non-risk capital.

Here's how the whole thing starts.

Way back when, you heard about investing in stocks, the long term type investing, not day trading. You were cautioned to do research before investing your money and to learn the things that made for a good company to invest in. Perhaps you even joined an investment club, but most likely you at least had a mentor or parent that gave you some good sound advice.

You were also taught or figured it out on your own, that there's a lot to learn when investing in a company. The industry, market position, current management, their track record and competitive advantage, how to read the company's financial statements and annual reports, etc., etc. Lot's to learn.

Be safe and choose wisely, you're in it for the long term. Good advice.

Perhaps you did some long term investing, perhaps you did what many do and let your investing consist exclusively of mutual funds and your 401k. Much safer, simpler and easier to do, no doubt. Also well within the comfort zone for most.

Somewhere along the way, you heard about the wonderful world of the commodities markets. You hear how simple the whole concept is and the leverage (*) that's involved. The first impression is usually "Wow!"

Now here's where the trap is set. Pay attention, this is very subtle, but incredibly potent in its effect.

* The CFTC defines leverage as: "The ability to control large dollar amounts of a commodity or security with a comparatively small amount of capital.

The Subtle Trap of Trading

The commodities aren't companies that require research to understand. They're goods that you grew up with. Gold, silver, wheat, soybeans, cattle, corn, sugar, natural gas, oil, etc. Loads of familiarity here. Now you learn how the futures contracts are made, about the ability to control contracts with only a marginal investment. Again, simple enough to understand.

So you decide to find a broker and open an account.

First thing is to go through all the disclosure documents where you acknowledge the risk involved, that you're only trading with money that you can actually afford to lose, that it isn't borrowed, and that it's money that is truly risk capital, money that if lost, won't affect your livelihood or your ability to provide for your family. The NFA is just looking out for you.

Next, you send in your money to fund your account.

All this sounds familiar, right?

So here you are, money in hand with big dreams and high hopes. You've probably had your expectations of the possibilities raised considerably because now you've talked to your broker who shares their particular strategy or specialty and they've also sent you some charts to look at and some recommendations on markets that they're watching.

That's okay, that's their job and they're supposed to do that.

Side note: if you went straight to electronic trading, then you've had to educate yourself without broker assistance, and that often amplifies the effect of the trap. Read on.

You acknowledged the risk, you've digested as much information as you can in a short period of time and now you're ready to place your first trade.

The Subtle Trap of Trading

First good opportunity comes along and now you actually get your feet wet. You're excited and you watch that trade, the markets, the news with great anticipation. You're learning more and more as you go, including the fact that there's a whole lot more to this trading business than you first thought.

A lot more.

But it's too late. You're hooked

Now, it doesn't really matter what happens on your very first trade. You see the potential and you know the money's there for the taking.

It doesn't take long and you get to experience some of the events that will inevitably occur to new traders:

- you get stopped out, then watch the market run the direction you predicted. But you're out.
- you hesitate to enter a trade, and either miss out on the trade altogether or you just miss out on the profits.
- you hang onto a trade too long and watch your profits disappear
- you continue to hang onto a trade until it becomes a large loss
- you sit on the sidelines and see other markets running, knowing the huge money that's being made

During this time, you feel the torrent of emotions that come into play: anticipation, excitement, anxiety, greed (I remember my mouth actually watering the first time I saw my contracts doubling my "investment"!), fear, regret, anger, blame, elation, shame, so on and so on. The list is long, and the emotions are powerful, and they just pull you further into the trap.

The Subtle Trap of Trading

It doesn't take too long and you've had several trades lose money. You're getting frustrated because things aren't working out like you'd come to expect. The chart patterns are getting confusing and the indicators you've been using have let you down. You're looking for other indicators, and the urge to deviate from your system or method is now getting very strong. You want to find a system or strategy that will give you the edge and allow you to beat the markets. You've got a competitive nature, and you know you're smart enough. You want to win!

At this point, unless you are a robot or have ice in your veins, the trap has been set and you have been caught.

Okay, I've laid out the normal series of events that occur for new traders. Sound at all familiar?

Did you see the trap? Here it is.

There are several things that are working in combination that make up the trap. I'll cover the components of the trap and show you how they work together to empty the accounts of hundreds of thousands of very astute and highly intelligent people every year.

Here are the components of the subtle (mental) trap of trading.

1. Familiarity with what's being traded.
2. The risk disclosures and the tremendous focus of awareness on risk.
3. The implied simplicity of trading

   Note: Futures and options trading is not simple nor is it suitable for all investors

4. The implied notion that trading is investing.

5. You are allowed to begin trading without any required training. Very few traders are taught how to properly and thoroughly plan a trade *prior to entering their first* trade.

Now let's look at how these components turn very intelligent and successful people into traders that struggle, make un-wise decisions and lose inordinate amounts of money – *willingly*. Here's the trap.

<u>1. The Familiarity</u>.

We're not afraid of things we're familiar with. By the time we reach adulthood, we're very familiar with money (Forex and the currencies) and the goods traded in the commodities markets. These things aren't nearly as intimidating to our intellect as analyzing a financial statement of a company, or absorbing all the information that's involved in market position and competitive intelligence. Wheat, crude oil, gold. These kinds of things are intellect-friendly, and we're comfortable with them because we grew up with them.

The familiarity creates a built-in over-confidence regarding our knowledge of them. Since they are easily visualized in familiar images (corn, wheat, oil, gold), we feel familiar with them and have the notion that we already know a good bit about them. In our minds, we're thinking that we've already "got it", and the caution to challenge our limited knowledge of trading isn't there like it was the first time we thought about picking a company to buy stock in. That was intimidating because it was unfamiliar, so we were cautious. That usually doesn't happen here.

This is false over-confidence. Just because you've bought corn in the store, you know what corn is, how it taste, that it grows in fields and not trees, doesn't mean that you know squat about how to trade it in large quantities like thousands of bushels in the markets. The nature and the complexities involved in profitable trading go way beyond what virtually everyone has experienced in their lives before trading.

This false over-confidence, this fearlessness, results in a catastrophic action: starting off way too far up the learning curve. This represents a huge obstacle to learning.

The world of trading is an entire industry in and of itself and includes a huge body of knowledge. Most bodies of knowledge have gradient to them, a progressive learning curve. In math, for example, here's the progression: counting, addition, subtraction, multiplication, division, fractions, decimals, algebra, trigonometry, calculus, etc. If your starting point is fractions, and you never got taught the counting, addition, subtraction, multiplication and division, you're going to have a *very* difficult time. You *will* struggle.

<u>2. The risk disclosures and the focus of awareness to risk.</u>

I've read it several places and found one thing to be true: often, the most successful traders and investors have a <u>low</u> tolerance for risk. Take Warren Buffett's rules for investing: 1. Never lose money. 2. Never violate rule #1. I may be paraphrasing, but those are his rules.

The NFA makes it a requirement of all brokers to have all clients acknowledge the high risk involved in trading, and that's a good thing. Can't let people trade and risk money without acknowledging the risks that do exist. Can't say you weren't warned.

But there is an interesting affect of that risk acknowledgement. It subconsciously raises a person's risk tolerance. By actually putting your name to paper that you're accepting and acknowledging the risk, your tolerance for risk goes up. Even if you're nervous when reading the disclosures, your fears of risk are suppressed through your putting your name on paper that you accept the high risk.

Combined with the false over-confidence that comes from the familiarity, the conscious acceptance of the high level of risk has now both consciously and subconsciously prepped and primed the new trader to take large risks, to be "risky".

3. The implied simplicity of trading.

The basic premise of futures contracts, whether commodities or currencies, is very straightforward. My 10 year old son is able to understand it. Options are pretty easy to grasp as well.

The act of opening an account, having a broker provide a recommendation based on their strategy and in a market that they monitor, then placing the first trade, is easier than buying your first piece of real estate or assembling a stock portfolio.

For most people, the act of placing trades itself is so simple that it implies simplicity in the business of trading.

Combined with all the gurus out there marketing the heck out of their home-made systems and "Get rich quick" presentations, the whole process is made out to be simple, fast and easy.

This subconsciously reinforces the notion that "I can just jump right in and start making money", the false over-confidence. This notion usually precludes any inclinations that more is needed to be learned to be successful.

NOTE: Futures and options trading is not simple nor is suitable for all investors

4. The implied notion that trading is investing.

The Subtle Trap of Trading

Many people discover trading through the stock market or other traditional investing channels. Others hear about trading termed as "high-yield investing". Regardless, trading is usually associated with the investing world more so than anything else, especially in the mind of the newcomer.

Trading *can* be called investing in the light that *all* investments involve putting money in with the anticipation of return and they all involve a certain amount of risk.

But just because a person is involved in activity that includes putting money in with the anticipation of a return and there's risk involved, that doesn't make it investing.

For individual traders (not hedgers), trading futures and options is high-risk speculation and for good reason.

- There's lot of action and things move fast
- There are numerous uncertainties like the weather, governments, the news, related markets, etc
- The emotions involved in high risk trades require a high level of control
- Clouded thinking from emotions results in big losses
- Everyone wants to beat the markets
- There's unlimited risk involved and trading losses can be substantial

Trading is a battle of wits, you against the trader on the other end of every trade. It is competitive and involves people. It is more a game of emotional control and discipline than it is of placing trades. Placing trades is the easy part. Keeping your head on straight and sticking to a proven system are the hard parts.

The Subtle Trap of Trading

Where the Subtle Trap of Trading gets people is when the whole activity is presented as a form of investing (which carries the images and connotations of long-term investing), while the truth of the matter is that it is really a zero-sum event of high-risk speculation. There's a huge deflection of the realities of the nature of the activity.

Extremely few people are naïve enough to think that they are going to go to Vegas and make a living gambling, unless you were VERY prepared. Most know that they'll go, lose their money and have a good time. Too many people enter the markets though, thinking that they can just jump right in with virtually no preparation and make money. Doesn't work that way.

While there may be some comparisons occasionally made between gambling and trading, here are some truths: In Las Vegas there are gamblers and there are professionals. In trading there are traders and there are gamblers.

Just for clarification and in fairness to the true professionals in the industry, let's take a closer look at what ***differentiates*** gamblers from traders.

From the dictionary, the definition of gamble is

> *a. To bet on an uncertain outcome, as of a contest.*
> *b. To play a game of chance for stakes.*
> *2. To take a risk in the hope of gaining an advantage or a benefit.*

True traders engage in the following:

- have rules for their occupation,
- have a system,
- take *calculated* risks and manage that risk diligently,
- manage their money,
- play to their strengths,
- have purpose and the intent of being ahead at the end of the month.

Bottom line is true traders don't gamble. While they have to deal with the uncertainties of the markets just like everyone else, *their* outcomes are not uncertain. There are multiple possibilities on any given trade, but the outcome of each of those possibilities is NOT uncertain for the professional. They know how each possible market move will turn out for *them* – because they have a system they use and a plan for every trade. The pros know that they better go into each trade prepared, or the odds are against them.

Gamblers in either arena will often do most or all of the following:

- fail to practice and build skill,
- fail to plan (or at least do so inadequately),
- fail to manage money
- fail to calculate and manage their risk
- go outside their rules (if they have a complete set),
- deviate from their system,
- take impulsive risks,
- fail to focus on the process of what they are doing. They get caught up in the excitement and emotions.

Generally speaking, gamblers are *playing* a game of chance and behaving recklessly, largely for the thrill. Traders have specific intention integrated into all their actions and take *calculated risks* with the purpose of profit.

<u>5. No training requirement prior to trading.</u>

This aspect of trading is a great indicator of our free society, but at the same time, it leaves the people entering the arena open to ruin.

In combination with the other factors above, this is the big sinker of ships.

The Subtle Trap of Trading

People enter the markets with a false over-confidence, their risk tolerance stretched, a "Get rich quick" attitude, and a false notion of what the essence of the activity is itself.

They get busy placing trades with the sincere anticipation of actually making money at this, and then are caught in a storm of emotions that they're not ready for.

By the time things start to go wrong, they've become emotionally hooked, established habits and patterns, and since they've encountered the obstacle to learning of jumping ahead on the learning curve, now they're stuck. Their pride won't let them back up, identify the real skills they need to build, learn the things they truly need to know, and treat their trading like a business.

So they continue to trade at the point where they are, and try to operate at a level beyond their true competence and proficiency. Problem is, they are NOT proficient.

They've been converted from astute business people with a healthy sense of caution into risk-taking, gambling addicts in a very short period of time. That may sound harsh, but it's why many people lose so much money, willingly every year.

They didn't start that way, but they got caught in the subtle trap of trading and got converted.

Once the victim is caught in the trap, the intellectual desire to understand and the emotions that work on the person usually keep them in the trap until they suffer the financial death and leave trading, whether temporarily or permanently.

So why did I share all this with you?

The Subtle Trap of Trading

To raise your awareness to what really is at the root of your frustrations so that you can protect yourself, and direct your energies in the right directions.

Here are some of the challenges that face traders who've been caught in the trap.

1. You've jumped ahead on the learning curve, and your brain is going to continue to "short-circuit" until you either back up and master the basics, or until you intuitively "get it" through the painful losses.

2. You're emotionally involved in your trading, and involved to a fairly high degree. This will cloud your thinking and keep you from doing the right things.

3. You've already been conditioned to:

    a. See trading as investing, which it is NOT. It is speculation

    b. Accept an unhealthy level of risk in your pursuit of payoff.

    c. Think of what you're trading on as something familiar. Generally speaking, trading is trading regardless of what is being traded. It doesn't really matter if you're trading commodities, currencies or plants.

    d. Live with the discomfort of trying to plan your trades insufficiently.

    e. Accept the losses as an ordinary part of things.

4. You still have some learning to do, but you're used to operating in the mode you become accustomed to. You've already established your pattern of behavior, such as entering trades without properly and thoroughly planning them out.

5. You need to treat your trading as a business. , taking into consideration the parallels to high risk ventures.

6. Your expectations (intellectually and emotionally) are set - you're hooked.

What can you do about it though, if you're caught in the trap right now?

Here are the seven steps to follow, to get out of the trap and avoid financial death, without having to chew off your arm.

<u>What to do about it.....</u>

Step One – Get Real

<u>No one is forcing you to trade. This is by your choice.</u>

One of the most important things for you to acknowledge is that no one is forcing you to trade. If you're struggling to make money trading, or worse yet if you're losing significant amounts of money, and you feel that you have to stay in the game to recoup your losses, then you've got to step back and see that you have numerous other options to make money. No one is forcing you to continue to lose money.

If you are losing money, then you are doing so willingly. And you're not doing anyone any favors by continuing down this path.

You're doing this by choice. If you choose to continue to trade, then follow the steps in this course religiously, so that you can become the good trader that you are capable of becoming.

Decide right now that you'll do what is necessary to take this seriously and treat it like a business.

<u>You're not playing with Monopoly money.</u>

This is real money. Your real money.

There are all too many traders, though, who act like it's not real money. They get foolish with it when they get caught up in the emotions of trading. It's almost like they lose touch with reality to a degree. Now I'm not suggesting that they've gone psychotic, or that it has actually escaped their memory. They just get so lost in their head that things get way out of perspective. The rush from a big winner or the fears from a trade gone bad that come into play can truly distort the thinking process for many people.

They somehow have forgotten the work that went into earning that money in the first place.

Perhaps you've experienced this or something like it.

When things get out of hand, it is very common for people to think and feel that their fortunes are due to some elements, factors or forces beyond their control. The markets aren't behaving the way you'd like, the signals from your software aren't as clear as you'd like, God is out to get you. There are all sorts of things that get into your head when you're struggling.

But that's okay, because you can do something about it.

This is important. One of the first things you absolutely must do is take responsibility for every aspect of your trading.

You own it. The decisions are yours to make. The resources are there for you. The systems, the data, everything. You are here by your own choosing, and the results are yours.

Now here's some bad news. <u>It's not your fault.</u>

Bad news? Yes. Nobody told you what you were in for, just the riches that were waiting for you when you showed up. You came to the land of trading with your money in hand, and big dreams of making a fortune. They just let you stroll in all naïve, ready to have your money taken away, to be mugged and sent home. But nobody gave you a good reality check, and if you're like everyone else, you probably didn't even know to ask.

Now for the good news. If you're struggling or already taken some lumps…. are you ready? <u>It is your fault.</u>

Good news? Yes, indeed! When you can admit that something is your fault, you recognize that you had a part to play in things working out the way they did. You are taking ownership of the events and the results. Best of all, and this is why it's good news. This also means that you have the ability to do something about it.

If it wasn't your fault, then that would mean that it was due entirely to circumstances beyond your control. <u>When you acknowledge that it is your fault and take ownership, you take control.</u> Control is a high priority in trading, and definitely something you want. Not control over the markets and everyone in it. <u>Control over yourself.</u>

If you've found yourself blaming the markets, your broker, the guy you bought the trading system from, the weather, anything, then cut it out. Decide right now that you are taking control of your trading fortunes.

This is a good time for me to share with you one of the key mistakes traders make that I've identified, and I haven't seen it expressed just so, anywhere else. And this I put at the top of the list.

"Under-estimating what it takes to be a successful long-term trader."

The reason I put this at the top is because it is the root of so many other mistakes that are made. If you could enter the markets with a clear picture of what it really takes in the real world, not in the advertisements, then you'd properly prepare and avoid 90% of the pitfalls there are.

One of the shortest routes to getting a clear picture of what it takes is recognizing that this is a business. <u>Your business.</u>

You may have heard of Robert Kyosaki, one of my favorite authors. He wrote, "Rich Dad, Poor Dad. What the Rich Teach Their Children That The Poor and Middle Class Do Not". He has a chapter in his second book, "Cashflow Quadrant" entitled "Mind Your Own Business". The first time I ran across that, I laughed. What's he mean, buzz off? No. He means that you have assets that produce income and properly managing and attending to them is YOUR business, and that you should treat them as a business. It doesn't matter if you have a trading account, mutual funds, real estate or just CD's. That's *your business*.

Most people don't come to the markets with the idea that trading is their business. They come with a dream of phenomenally high returns on their money, that it's easy and they'll be on their way to riches in no time at all.

Many are sold on the idea that trading is easy. Unfortunately for most, that is extremely true. It is easy to trade. Buying or selling a contract is as easy picking up the phone or clicking your mouse a few times. It does happen every single day that money is being made by a significant number of people in the markets. There are nice long trends that quite a few people got in on, and market turns that many people timed just right and pocketed some tidy profits.

Every day in the markets, lots of people are making money, and on virtually every single trade, somebody makes money. Of course, the market makers and the brokers always make their money and some trades do wind up with both the seller and the buyer coming out at or just below breakeven due to commissions and the bid-ask spread, but generally speaking, every trade results in either the buyer or seller making money.

<u>This is a very encouraging thought.</u>

Now for the reality-check.

On every single trade, though, somebody is losing money. Generally who the loser is and how big they lose are determined solely by traders themselves. No one gets forced into a trade. Every trade is entered into willingly, and protecting your trading account is a willing action that you must take. If you're on the losing end of a trade, then it's up to you to keep the loss small. The winners that you enter require you to actually enter the trade at the right time and under circumstances that allow you to take a profit.

In many respects, trading has similarities to a competition sport. There's you and the person on the other end of the trade you enter, one buyer and one seller. You're betting against each other as to what the markets will do.

You have probabilities that will be against you or the other trader. You have related markets that will move in favor of you or your opponent. Weather, un-expected events, related markets, governments, innovations, crowd mentalities and reactions to news, etc are all factors which can change those probabilities in a matter of minutes. There are many factors involved in the market price that can work against you, and you need to know what to do when they influence the market and change the probabilities. In order to be the on the winning end of a trade, you have to first understand where it starts, where it may go, and what to do as things happen.

In other words, trading can be very complex and confusing.

It can also be simple taken one bite at a time, and be made understandable and profitable.

Becoming a consistently profitable trader presents a somewhat formidable, but reasonable and very worthwhile challenge. First you must decide that you are going to invest your time to learn the things you need to know, to train and develop the skills necessary to stay in the game, and most importantly, that you'll treat this endeavor with respect and not as simply an entertaining hobby.

This is, after-all, your business.

Step Two – Get Clear

Awareness is a critical attribute.

This chapter starts off somewhat negative, but stay encouraged. We're going to get clear on some critical things and then move on to the beginning of the solution. We're starting here because one of the key attributes of successful people is awareness. This is to raise your awareness to the perils in front of you. We'll then move on to how to armor and protect yourself on the journey to your fortunes.

Where to begin? Right here, right now.

Let's get a clear assessment of where you are right now. If you're going to make some changes, you need to clear the fog and raise your awareness to which weaknesses you need to armor and which strengths you need to build.

The most critical step in any developmental process is that of becoming aware. How can you avoid mistakes if you aren't even aware of them? How can you protect yourself if you're not aware of your own vulnerabilities? Let's start with the mistakes traders make, and the consequences of those mistakes.

On the next page is the list of mistakes that traders make. <u>You'll want to print this out and keep it close at hand when you make your trades</u>, so that you keep your awareness of them ready for review as you make decisions. You'll also want to have it in-hand when you're reviewing your trades, so that you can identify and make corrections when necessary.

After the short list, we'll go through it again with some analysis as to what is going on when those mistakes are made, what causes them and what to do to avoid them.

The Mistakes That Traders Make That Bring Ruin

1. Under-estimating what it takes to be successful in trading
2. Over-estimating your abilities as a trader
3. Over-estimating your emotional control
4. Starting off un-educated, and thinking that you can “learn as you go”
5. Ignorance of how trading and the markets actually work
6. Treating trading like a hobby or sport, rather than as a business
7. Starting off under-capitalized
8. Using money that isn’t truly risk-capital
9. Over-confidence
10. Being in a hurry to make money, to hit the home run
11. Thinking too short term
12. Guessing at what the charts and patterns mean, then acting on that guess
13. Trading without a plan
14. Having unrealistic expectations for trading
15. Over trading your account (both in size and frequency)
16. Not defining the trade your going to take
17. Not defining the risk / reward for each trade
18. Not using stops
19. Wanting to be right instead of making money
20. Listening to others (deviating from your methodology or system)
21. Trading the opinion of others (e.g. market direction)
22. Trading hunches
23. Trading markets that you don’t understand
24. Risking money on systems that you don’t fully understand
25. Trading only fundamental news without adequate analysis
26. Using too many oscillators or indicators
27. Not paying attention to previous market action, ignoring the history
28. Overspending on computers and software
29. Trading around the clock (another form of overtrading)
30. Having a fear of losing money
31. Lack of money management
32. Thinking that you can ‘beat the market’ if you just analyze it enough
33. Assuming that paper trading alone will successfully lead to profitable trading
34. Using the wrong methodology for your level of expertise or emotional style
35. Not understanding your own ‘emotional style’
36. Not asking questions to ask gain understanding when starting out.
37. Changing systems and markets frequently without ‘mastering’ any of them
38. Not documenting their trades, or at least inadequately so
39. Not reviewing trades after the fact to learn from one’s mistakes

Now, let's take a look at the 39 mistakes in-depth.

1. **Under-estimating what it takes to be successful in trading**

   This is what I consider the biggest mistake traders make. If you underestimate what it takes to be successful, then you have set the odds against you and set yourself up for learning the hard and costly way.

   The challenge for most new traders is not even knowing enough to know all the right questions to ask. Naïve is usually an understatement.

   This also leaves one open to being awakened the hard way. It isn't until some stress builds and losses occur before the newbie knows to dig deeper.

   This is a point that I refer to as being unconsciously incompetent. You don't even know what you don't know.

2. **Over-estimating your abilities as a trader**

   Even if you have a good understanding of what it takes, if you're not being realistic or you're in denial of your own abilities to trade, again, you're going to get the wake up call the painful way.

3. **Over-estimating your emotional control**

   On signing the initial disclosure documents, we're all required to acknowledge that there's risk in trading. Some even assume that because we've dealt well with other activities, that we've got it under control here.

   I got my lesson on this one as well. I have always been immune to the allure of casinos. I've been to them with friends who enjoy gambling, and I've never had any inclination at all to gamble. Going into trading however, I found myself quite susceptible to the emotional mistakes that are common to both gambling and trading.

   Now, the mistakes that I made in my emotional control stemmed from other things that I did that created emotional pressure. It was in these actions, that I had created my own problems.

   I also didn't have this resource in my hands as you do now. If I knew then what I know now, it would have saved me over $32,000.

4. Starting off un-educated, thinking that you can "learn as you go"

This mistake is similar to #1 in that the trader is being naïve, but in this case, the trader is aware of what's necessary. They simply choose to put off the learning that they know they need, assuming that they can pick up necessary learning along the way.

They dismiss the importance of education and preparation. Either that or they minimize the consequences of trading ignorantly. Their education will begin very soon, whether they initiate it on purpose or the markets begin the process through substantial losses.

5. Ignorance of how trading and the markets actually work.

In this case, the trader chooses to go ahead and make trades without asking any questions. They assume that they know all they need to know to follow their system, if they have one.

Hey, all they're doing is simple buying and selling, how tough can that be?

This one can be as simple as not taking the time to understand the math, even on simple position trades. If you can't even figure out how to convert fraction-based market scales to dollars, but you get into trades in those markets, how can you honestly expect to make smart business decisions.

If you can't determine the breakeven point on a trade, how will you know when you're profitable?

6. Treating trading like a hobby or entertainment, rather than as a business

Let me be blunt about something. If you treat trading like a hobby, you'll get results that most hobbies bring. Most hobbies are cost centers for people, not profit centers. If you treat your trading like a successful business, you'll get business results. Successful businesses bring profits to the owners on a consistent basis, year after year.

Most people start off treating trading like a hobby. Somewhere along the way, you got introduced to trading. Not just putting money in your IRA and 410k, in a balanced mutual fund portfolio. Real investing, with expectations of considerably better than average returns.

Somewhere along the way, something piqued your curiosity and interest. Maybe an article you read in a magazine, or more likely something you got in the mail.

If you only dabble here and there and devote only a passive interest in your trading, you're asking for trouble and a cost-center.

If you trade as a form of entertainment, then you're really not taking this seriously. Entertainment doesn't include much planning beyond when you're going to do it and at what cost. If this is your idea of trading, good luck. And make sure you keep trading in your expense column.

7. Starting off under-capitalized

There are several problems with starting under-capitalized.

This puts severe limitations on what you can do in your trading, unless you plan on violating good risk management practices.

It also will put severe limits on your ability to stick around. If you start off too small and encounter a series of losing trades, you may be out of the game, even with your entries and exits all done correctly. All traders experience a percentage of trades that don't go the right direction, and there's no even distribution of the proportions. Even with a 20 to 1 winners to losers system, that doesn't mean that you'll go 20 winners then 1 loser. You may start off with 4 or 5 losers in a row, even though the system would then produce 80 winners. If you're tapped out after 4, then you'll have to miss out on the winners.

The other big disadvantage is that if you start off with a few losers, then you're even more limited on trades that you can enter. Some trades require a certain amount of capital period. If you're starting off with only $5,000 and quickly you're down to $1,800, your choices become very limited. Plus, now you're at the point where only one or two losses and you're out of the game all together.

8. Using money that isn't truly risk-capital

<u>This is a cardinal sin</u> for anyone and you put yourself at a huge risk in several ways. First of all, if you're trading money that will affect your lifestyle and possibly your ability to provide for your family, then you are creating emotional pressures before you ever enter your first trade. You also are setting yourself up for other emotional traps that are very likely to sink your ship at some point.

If you're dependent on the capital you're trading, it will be almost impossible for you to remain objective and think clearly. You have to be able to be detached to a degree from your individual trades. If you're livelihood is riding each trade, then each losing trade will only amplify the pressures and further distort your thinking. The probability that you'll get wiped out and substantially hurt is high.

9. Over-confidence

One of my favorite movies is "The Rock" with Nicholas Cage and Sean Connery.

Nicholas Cage plays a chemical weapons expert with the FBI, Sean Connery is a field agent for the SAS. They're on Alcatraz to disarm some missiles with an incredibly poisonous chemical, which are aimed at San Francisco. When they get to the morgue, where several of the missiles are being guarded, they have to disarm the missiles by taking them apart and removing the guidance chips. Now the chemicals are in these small glass balls all strung together in a string of pearls configuration and if they're dropped, they'll wipe out everybody within miles. Nicholas takes out the string of glass balls and hands it to Sean Connery, then suddenly, almost half shouting at him, says: "Be careful with those! The minute you don't respect them, you're dead!"

The markets are like that. Financial lack of respect in the markets is punishable by financial death. Over-confidence will leave you a scorched corpse and your money turned into ashes blown in the wind.

Always maintain your respect and humility in your trading, or the markets will likely humble you in a very fast and cruel way.

10. Being in a hurry to make money, to hit the home run.

The markets answer to no one and if you try to rush your profits, you'll work with less than favorable probabilities. In other words, you'll start making trades where the odds are against you, not in your favor.

You'll start hanging on to trades and looking at them with wishful thinking, not realistically, and you'll wind up getting too attached and riding them too long. Keep it realistic, if it's a single, take the single. You can't force it into a home run. You'll be tagged out and losing the game.

11. Thinking too short term

Often times a person will feel pressure on a given trade because they are looking at too small of a time frame.

This creates attachment to the current trade, and keeps you from realizing that if this one's gone bad, to cut your losses. There will always be more opportunities.

Maybe time to let this one go.

Looking at too short a time frame can also distort a more proper perspective of where a market is going or can go. This is often the reason that many traders get out of winners too early, leaving substantial profits on the table.

Keep your mind open to the bigger time frame always. The other aspect of too short of a time perspective is that you have long-term goals. Rash or foolish trades made now may severely hinder your long-term progress.

12. Guessing at what the charts and patterns mean, then acting on that guess

This goes hand in hand with using indicators that you don't fully understand. You're using decision-making tools to make decisions with your money on. This goes back to trading in a state of ignorance, one of denial, and of over-estimating your trading abilities.

Make sure that you fully understand what you're working with.

13. Trading without a plan

This is the most common mistake made by losing traders. They are basically flying by the seat of their pants, and the odds are against anyone doing this. By not having a plan, you then create a tremendous amount of uncertainty, which adds to the emotional influences that cause bad decisions.

Trading without plan is trading without any decision guidelines in place once a trade commences. This guideline, the plan, is what allows you to minimize your losses and capitalize on winners.

The trading plan is also what let's you know if you've entered a trade with a reasonable probability of profiting.

I once entered a bull call spread on the Euro, a small trade, and it seemed conservative enough. I didn't bother to sit down and follow my normal practice of calculating breakeven and other important numbers before I entered the trade. I did it immediately afterwards. Stupid mistake. As soon as I sat down and did the simple math, it was instantly apparent that the price would have to be in a very tight range on the day of expiration in order for me to make a profit at all. All other scenarios resulted in a substantial loss, which is exactly what I got. $3,000 out the window.

14. Having unrealistic expectations for trading

This occurs when a person just gets a bit greedy. To trade a $10,000 account and expect to make $5,000 a month every month just isn't realistic and the trader who does this isn't taking a look at what the professional traders do. 50% per month would result in a return of 8,549% on the year. The pros generally make 100-200% per year. A net at the end of the year of 241% is considered pretty respectable. This works out to 11.8% per month, which is much more realistic to *plan on.*

Don't let greed or the phenomenal stories you've heard give you unrealistic expectations. Keep yourself reasonable. You're much more likely to get there. Besides, doubling your money every year is hardly anything to sneeze at.

It is the progressive gains that add up over the course of a year.

This goes back to looking at longer time frames. If you keep the longer timeframe in mind, you're more likely to be at ease in the moment.

15. Over trading your account (both in size and frequency)

Having the patience to only enter trades when the timing is right is critical. If you feel the need to make more money, or to make up for lost ground, it is tempting to get into too many trades, too large of trades (risk mismanagement) or just plain trading too often.

With the advents of online trading and 24-hour markets, some traders feel compelled to trade so much that it has their life way out of balance.

You're trading to have a life, not the other way around.

Besides, if you burn yourself out mentally or physically, it will take its toll on you and eventually on your trading success.

Keep a proper balance.

16. Not defining the trade your going to take

This goes hand in hand with planning out your trades. If you don't define the trade specifically, then you are leaving yourself open to limited exit points that will benefit your account.

17. Not defining the risk / reward for each trade

This is part of keeping the balance of losses and gains. Even for trades with a reasonable probability of success, if you're risking $2,000 to gain $400, then you have to have the ratio of winners to losers at what is probably an unreasonable point.

Always make sure that your risk to reward ratio is in your favor.

18. Not using stops

This is another very common mistake amongst losing traders.

It also goes hand in hand with having a plan.

While there are a few strategies that recommend against using stops, remember, protection against large losses is one of your primary aims.

Unless you have a very well thought-out reason to not use them, do use them.

This is part of the basics of trading.

NOTE: The use of a stop-loss or stop-limit order will not necessarily limit your losses to intended amounts or guarantee an execution at a specific price, since market conditions may make it impossible to execute such orders.

19. Wanting to be right instead of making money

There are some traders who have such an ego problem, that they cannot admit defeat. They just can't accept being wrong.

Other times this comes about from a trade that was held onto too long. It became a winner, then turned against the trader. Rather than swallow their pride, they simply knew, that the market would turn back in their favor. It became a case of salvaging one's pride. One that turns into a large loss.

This brings us back to being able to be detached from individual trades, keeping a longer time frame in mind, and remaining objective.

20. Listening to others (deviating from your methodology or system)

Do you remember those E.F. Hutton commercials that ran years ago? There'd be a noisy room full of people talking, and the camera would focus on two people having a conversation, when one of them says, "Well, my broker is E.F. Hutton, and he said…." Then the camera would pan around the now quiet room. Everyone else had stopped talking at this point and they're all leaning in to hear what the one guy had to say.

Good dramatics for the sake of the commercial.

While it makes for good commercials, be very wary of listening to the advice of others, even if they sound authoritative. Always filter the information through your own filters, and measure it's value against your own trading plan.

If it doesn't fit with what you've mastered, let it go. There will still be plenty of good opportunities coming your way. Whatever you do, be very hesitant to deviate from your own system and what you know.

21. Trading the opinion of others (e.g. market direction)

This one is analogous to the previous mistake, except that now we're talking about listening to the opinions of others with regards to the direction of the market.

Remember, everyone has their own perspective. Your indicators and information may be saying the market is bullish, when you hear someone else say that they think the market is bearish.

Again, stick to your own information and indicators. It's okay to listen to others, but filter the information before you act on it. Stick with what you know.

22. Trading hunches

This mistake is when you just have a feeling. While there are a few times that your gut will be right, don't violate the rules of your system, your decision guidelines, and the indicators you trust.

Most likely, it is the voice of an emotion inside you or something that you overheard somewhere, that is whispering in your ear.

If you choose to trade hunches, you're putting yourself at substantial risk. This runs parallel with thinking that you've got the markets out-smarted.

Stick to solid information. Remember, this is a game of probabilities and properly used good information is the best way to keep the odds in your favor.

23. Trading markets that you don't understand

Much like home-field advantage in sports, you'll do best in familiar surroundings. Getting into markets that you don't understand is asking for trouble.

Many times traders will enter new and unfamiliar markets out of greed. They hear and perhaps see, that there's a lot of activity going on (a lot of money being made) in a particular market.

If your not familiar with what makes that market tick, you aren't likely to collect the right fundamental information (if that's part of what you use) and you aren't likely to make the smartest decisions in that market with regards to timing and related factors that influence that market.

If you're wanting to look into markets other than those with which you're familiar and established, get yourself educated before entering trades.

24. Risking money on systems that you don't fully understand

This usually happens because of confusion with a current system, which results in undesirable results, or a greedy trader who is always looking for that 'perfect' system.

Before you go risking money on a system, learn it, and then test it without money. Make sure it works as it is supposed to. If it doesn't, why in the world would you put your money at risk with it?

Silly question, but many people do. They're just too impatient to make money.

Keep in mind, money lost through impatience only has to be made – or earned – back. Better to play it smart and keep your money first.

25. Trading only fundamental news without adequate analysis

While the fundamentals do have their place in trading, it is extremely risky to trade only on the fundamentals. The delay in the information usually causes poor timing on entries and exits. That's assuming that you even have the opportunity to make those entries or exits.

One thing that you have to keep in mind, the market factors in all that information as soon as it's in the public eye. By the time you've heard it, so has everyone else.

You really can't pull a sneak attack on the markets. It just doesn't happen.

26. Using too many oscillators or indicators

This happens when one's system is either too complex to start with or the trader just doesn't understand the system that they're working with in the first place.

They try combining systems and indicators out of fear and ignorance, hoping that more indicators will give them more security in their decisions.

These feelings should be listened to, though. The feeling of insecurity and lack of confidence are telling you that you've got some shoring up to do in the education and mastery departments.

27. Not paying attention to previous market action, ignoring the history

Certain markets will tend to go through predictable cycles and react in similar to past circumstances and influences.

If you pay attention to previous market action, it will give you good indicators of what to expect. At the very least, it will give you something to test for validity and a guide as things progress.

28. Overspending on computers and software

While it is both enjoyable and helpful to have good tools to use in your trading, keep in mind that every dollar that you spend on 'toys' is one that you don't have to put into your trading account. These items are outright expenses. Trading dollars have the possibility of putting money directly in your pocket. So get what you NEED, but protecting your resources starts at this point.

29. Trading around the clock (another form of overtrading)

With the recent technological advances, you can trade around the clock if you choose. This is risky for several reasons. You are setting yourself up for burnout, making decisions while fatigued, getting anxious to rush your profits.

This also takes a huge toll on you physically, as well as throwing you life out of balance. Neglecting yourself or loved ones in your life will not benefit you at all, nor will it make you a long-term profitable trader.

30. Having a fear of losing money

If you know that you have a real fear of losing money, then you are very likely in the wrong activity. Low tolerance for risk can be healthy, but outright fear is extremely dangerous and will take its toll on you and your account.

31. Lack of money management

Just as a regular business needs good money management, your trading business does too. You need to properly assess how much you're risking on individual trades, how much of your working capital you're putting at risk and in general, you need to keep a focus on your goals. By setting yearly, monthly and perhaps weekly goals, you'll push yourself into reasonable money management, at least part of the process.

32. Thinking that you can 'beat the market' if you just analyze it enough

Do you want to be a genius, the one who finally succeeds where thousands before you have failed? Or do you want to make money. If you waste your time and energy, trying to invent new systems or even worse, combine existing systems, you are spending your efforts in a poor manner. There are numerous, proven systems that do not require anything more than simply putting them into action.

You need to be aware, here too, that you may be doing this out of a lack of confidence in your own abilities. That's why you're frozen and thinking that you need more information. If you've proven your system to yourself, demonstrated it's worth, and practiced it to a level where you can have confidence, then you won't need to have an encyclopedia of information. Just that prescribed by your system.

33. Assuming that paper trading alone will successfully lead to profitable trading

Paper trading has considerable merits, but until one has their money on the line and experiences real risk, one cannot gauge their reactions to the emotions.

If you are aware of the mistakes that traders make, their causes and the emotions involved, you plan out your trades and put decision guides in place, you journal and review your trades, then you're putting yourself in the best position to be successful. Practicing your skills, especially emotional control, go a long way towards your success.

34. Using the wrong methodology / system for your level of expertise or emotional style

If you are trying to use a system that is too advanced for your level of expertise or one that just doesn't work well for your emotional style, then you're trying to force the situation. You're leaving yourself open to a whole den full of dragons to breath fire all over you and your money.

Your trading should match well with your personality, otherwise it's the square peg in the round hole routine. You can only try to force it for so long. Besides, why force anything? This should be enjoyable!

35. Not understanding your own 'emotional style'

This is a common mistake. Many people never bother to understand what their emotional style is, they just get busy trading with the first system that they come across. It is only when difficulty and losses occur that they begin to ask questions of themselves and look to make changes.

Others simply assume that if they mimic a successful trader, then they're on their way. They assume that they can be like the veteran without realizing that their personalities are completely different.

36. Not asking questions to gain understanding when starting out.

Continuing to struggle without asking questions or seeking help is what pride can do. There are many individuals that want to be Superman, and their pride just won't let their mind open to asking what are perceived to be stupid questions. Again, are you here to make money, or look good?

37. Changing systems and markets frequently without 'mastering' any of them

This goes back to patience. Patience with one's self and patience to make money. If someone is in a hurry to make money, but isn't willing to take the time to master the basics or the simple trading, then they face a continuous cycle of frustration and losses. This goes back to thinking long term.

38. Not documenting their trades, or at least inadequately so

If one measures a thing, then there is the likelihood that it can be improved. Mistakes made but not recorded are likely to repeat. Recognize the monetary and personal value in properly documenting your trades.

39. Not reviewing trades after the fact to learn from one's mistakes

The only way to consistently make improvements is to review mistakes and successes. Reviewing allows one to take positive action to build on strengths and improve weaknesses. This is feedback for yourself!

Why do you think professional athletes videotape themselves, both at practice and in games? So that they can come back later to GET BETTER.

This is worth repeating: Are you setting yourself up?

Is the money you're trading with truly risk capital? Like it asks you in the compliance documents that you signed when you opened your account, is the money truly risk capital and money that if lost, will not affect your ability to provide for your family?

If you weren't exactly forthcoming about that, then you're setting yourself up for disaster. If you're risking money that you actually need to live on, that's the first mistake you're making. You are truly setting yourself up for heartache and financial indigestion. You simply can't NEED to make money in the markets. If you do, then you're asking for an emotional beating that you really don't want. The fact that you need to make money creates pressure that will likely cause you to make mistakes that will create substantial losses.

If you're risking money that you truly cannot afford to lose without putting yourself at risk of hardship, then you need to stop right now and take a long hard look at whether you should be trading at all.

Some Questions for you…

This section is about getting clear. You've got to have a thorough understanding of yourself and where you are, in order to get where you want to be. I'll be asking you some questions that you really should answer on paper. You've got some work to do here, and it's worth writing down. When you've completed this course, you'll want to come back to your answers and see how you'd answer them differently. After all, the change that you're seeking in this course is a change in YOU.

First Exercise. Which mistakes are you making?

Of the mistakes listed above, which ones are you making or have you made?

Get out your pad of paper and start on a clean sheet. At the top, put the date and write across the top, "Mistakes I've made that I've learned from". Review the list again and note those mistakes. Also make a note of a time when you made the mistake, and what was going on with you at the time.

Remember, this exercise is solely for you. If you do it honestly and sincerely, you'll benefit from it. If you pass over it, you're denying yourself the opportunity to avoid repeating those costly mistakes.

Now you may also be in the situation where you find that you are making one or more of the mistakes listed above, and you're aware of it, but you find that you cannot seem to break the pattern of repeating it.

Einstein made the comment years ago that "We cannot solve problems from the same level of thinking at which those problems were created." What he was saying is that often it takes an outside perspective to shed light on our current difficultly. In trading, since such problems are at the emotional level, what is actually contributing to the problem will elude us until we get help from someone else in identifying the issue and following it through to a solution.

Now there are many books on the psychology of trading, but many were written by psychologists with no trading experience. Because of this, they operate from the assumption that the trader is having difficulties trading due to some inherent personal problem, not so much from the challenges of trading itself. This is why they can be of limited help.

Second Exercise. Strengths and weaknesses

Now start with another clean sheet of paper. Date this one as well and title it: "My strengths and weaknesses as a trader". Draw a line down the middle of the page. On the left side at the top, write "My Opportunities for Improvement". On the right side at the top, write "My Strengths to Build Upon". On the left, obviously, list the things you need to work on, the mistakes you've made, and on the right side, list your strengths. Keep listing things until you've exhausted both.

Now take this list and give it a reality check. Go through the list of mistakes that traders make, the long list. As you go through that list, keep your list of mistakes that you've made in hand. Does you list of weaknesses, your opportunities for improvement, really reflect all the weaknesses that you have? More than likely, there are some things to add. Don't feel bad at all about this exercise. The first step in getting past weaknesses and fears is to face them. Denial and avoidance net you nothing. Actually that's not true. They will cost you. Besides, you're doing this in private. No one is looking but you. You can be as candid and open as you like.

Just a side note, one that you probably already knew. When you confront a weakness or a fear, it is a truly liberating experience. You become free of the fear! Simply by acknowledging it, facing it and saying, "You're outta here!", gives you power, and freedom from the problem.

Third Exercise.

That brings us to the next big question: WHY are you trading?

This is worth you taking some time to really think this through. The simple answer of "I want to make lots of money" is superficial. There are numerous other reasons why you've chosen to become a trader.

Don't believe me?

If you had a choice between:

1. $1 million that would be locked away beyond your reach and you weren't allowed to spend or use any of it ever, and
2. $10,000 cash put in your hand that you *could* spend,

which would you rather have?

Realize that you have other motivations other than money. Ask yourself what are the real reasons that you're here.

- Are you wanting to replace the income from your job so that you can quit and trade for a living?
- Do you have kids that will be going to college, and you want trading to pay for their tuition?
- Are you wanting to build a really nice retirement nest-egg?
- Do you like to travel and see this as a means to afford it?
- Do you have dreams of a bigger or second house, a really fancy car or boat in mind?
- Are you wanting to add an additional income stream to what you already have, so that you can step up your lifestyle?
- What is it that you're truly here for?

Okay. Let's look at some other reasons why you may be choosing to be a trader. These questions are to make you more aware of the factors that your ego may have on your choosing to be a trader.

- Is it the image of being a rogue?
- Is it the ego-feed of being different?
- Are you a pretty smart person who likes the challenge of 'beating the market'?
- Is it the excitement of the action?
- Is it the awe and admiration that you get from being a "sophisticated investor" when you talk with people?
- Do enjoy the technical aspects of trading, really getting into the analysis, the indicators, do you like being a 'guru'?
- What exactly are the aspects of being a trader that appeal to you?

There are numerous reasons that people come to the markets to become traders. It is vital that you take the time to understand your motivations and give yourself a quick ego-check.

Take the time right now to get your pad of paper and pen and list out all the reasons why you chose trading rather than the literally hundreds of other ways to make money. Date and title this page: "My Why's".

Do it now.

What is your end-goal? Where do you want to get to?

This next exercise is simple. On a sheet of paper, write as clear a description as you can of what you want your trading to look and feel like a year from now, five years from now. Where is it that you want to wind up?

Trading as a business.

Now you can relax a bit. We've talked about treating trading like the business that it is. But what does a trading business look like? Let's start with a generic business, so that it will be more familiar, then transfer the similar functions to the trading business.

Core elements of a successful business

<u>Mission and Vision statements</u> – sounds a little corny, but having an idea of what you want to be when you grow up is important. If you can't see what you want to become and how you'll act, how will you ever make it a reality?

<u>Policies</u> – these are the over-riding decision guides for the business. You definitely need to have these too, they are critical in decision-making.

<u>Business plan</u> – the overall plan of how the company objectives will be met, what are the courses of action, the expectations, necessary resources (like capital), who will do what, etc.

<u>Budgets</u> – businesses put these in place to ensure good money management and most of all PROFIT.

<u>Accounting system</u> – you have to have a system for keeping track of your money, inflows, expenses, reserves, taxes, etc.

<u>Reporting and reviews</u> – in business, you have to have periodic reports and schedule dates for reviewing progress toward the company goals.

<u>Contingency plans</u> – there are bound to be some unexpected expenses and opportunities that come along throughout a fiscal period. Planning for these is essential, even though what those things might be, isn't known yet. Allow flexibility and a margin for surprises.

<u>Risk management</u> – all businesses have potential liabilities. Looking ahead to those risks and planning for protection of the company is vital. This also includes measuring risks and the consequences to best plan for avoidance or minimization of those consequences.

Research and development – all businesses need to grow, so does yours.

Training – the people in a business also need to grow. So do you. Planning time and money for training is essential. As proficiency of the people in a business goes up, so does efficiency and profitability.

Systems – businesses improve their profitability as the systems are made more efficient and more standardized. By implementing and refining systems, more is achieved with fewer resources, quality goes up, errors and costly mistakes go down.

Which elements of the above list is your trading business missing?

Step Three – Get Smart

Emotional Intelligence in trading – understanding your emotional style.

One good exercise for you to do at this point is to look at your personality traits. Rate yourself on the following traits.

Attention span:	short	long	1-10 rating ________
Assertiveness:	low	high	1-10 rating ________
Decision-making:	slow	quick	1-10 rating ________
Decision-making:	feeling	fact	1-10 rating ________
Needed information:	little	lot	1-10 rating ________
Uncertainty:	nervous	okay	1-10 rating ________
Multiple choice:	unsure	certain	1-10 rating ________
Involvement	sporadic	constant	1-10 rating ________
Detail oriented	not at all	anal	1-10 rating ________
Trust level	low	high	1-10 rating ________
Patience	low	high	1-10 rating ________
Self-security	low	high	1-10 rating ________
Tolerance for risk	low	high	1-10 rating ________
Journaling	never	daily	1-10 rating ________
Self-analysis	never	constant	1-10 rating ________
Self-awareness	low	high	1-10 rating ________
Self-confidence	low	high	1-10 rating ________
Emotional control	low	high	1-10 rating ________

Now take that list and take the time to review your trading style, the way you've been doing it.

Any system you're using or considering, compare the traits and requirements of that system with those of your personality.

Do they seem congruent?

If not, then determine whether you need to make changes in how you are in trading, or whether you should choose a different system / methodology.

The system you use will be most effective for you if it matches well with your personality.

Now, as you change in your competencies with trading, you'll need to come back and do this again. You will probably find that another system or methodology may be better suited for you at that time.

Other questions to ask yourself:

Why are you trading *the way* you're trading? Are you really trying to make a profit, or are you going about things and avoiding change (or taking a break) because your ego needs to be fed? Or is it the excitement?

If you've been trading and losing money for any kind of a substantial period of time, but without making any changes, then it may be that you've got a personal issue that is over-riding your logic and your supposed trading to make a profit. You're the only one that can evaluate this, but it is very worthwhile. If you're in denial, then it will only cost you money until you face the truth.

Why *are* you doing things the way you are?

Anxiety and fear often stem from a lack of understanding – the fear of uncertainty is one that can be overcome.

Anxiety in general comes from a lack of understanding. It generally comes from a lack of confidence. If you are feeling anxious about something, it is not so much the lack of knowing what may happen, it is the lack of confidence in your ability to handle the possibilities and your fear of the consequences of that inability to respond to the different possibilities.

Anxiety is also closely related to anticipation, another emotion to be aware of. Anticipation attaches you to a hoped-for outcome.

Uncertainty by itself is not too difficult to deal with. The main thing to get past is your emotional side wanting to deny that there is a possible, less-than-desirable outcome. This hope wants to deny that possibility. The best way to get past this is to lay out on paper what your possibilities are, and what you can do to minimize the negatives.

You probably need to get a clearer picture of your competencies. Again, it is lack of confidence that is playing part here too.

The best way to develop confidence is through learning, training, and practicing. More specifically, as my son's Karate instructor stated it:

"Observation and listening, experience, then successful experience. This brings confidence." You can do this for yourself on paper to build your competence, and subsequently your confidence.

Know how the system works and the terminology – if you were starting a real business, you'd make sure you knew the business / industry you were getting into and what it would take to survive in that business. Same applies here.

The best place to start when you have a new body of knowledge is with a glossary. This may sound silly, but if you're trying to learn something new, one of the most challenging aspects of it can be in the words that are part of it.

Several months ago, my wife had decided to get her Mortgage Originator's license, and she got confused in a hurry when the study book arrived. Most of what was getting her were the terms used in the book. They just threw a lot at her too fast.

To help her digest the most in the shortest period of time, I suggested that we grab the 17-page glossary and start working through it.

The truly interesting thing that happened was that in a matter of two days, she went from being rather confused, intimidated and overwhelmed, to being rather comfortable, confident and ready to go through the workbook.

All by getting familiar with the terminology.

I would highly recommend the same for you. Go through a glossary on the terminology with the intention of fully understanding the words, what they truly mean and how they affect your trading.

While it may seem a bit tedious, dry and boring. It is critical that you understand the words. If you don't you'll be operating at a disadvantage, and you may get into trades or markets that you can't plan for properly because of the weakened understanding.

Focusing on fully understanding the words is critical.

Don't just have a familiarity with your chosen system. Thoroughly understand it, how it works, why it's supposed to work, how it came to be, what the meanings are.

One of my favorite definitions of data:

> "Information used as the basis for decision making."

I love this definition because for a while the catchphrase going around was: "In God we trust, all others bring data."

Sounds good in the office political circles, but when it's your money on the line, you better know what the heck those numbers mean and what they're really telling you.

Many years ago, I was a Quality Engineer and I used to get extremely frustrated with some of my superiors. Quality in manufacturing was getting a lot of attention in the industry I was in, and a lot of buzzwords were flying around with different people attempting to sound smart using the latest terms they'd picked up.

"Capability study" was one of those terms. This is a term based on sampling and statistics, which very generally will give you a gauge on how confident you can be that the production line will produce parts that are in-spec. Sounds good. Capability index of 1.3 and you're good to go was the current thought. So my boss would ask for a capability study on each new line that we put in the plant. The point of frustration was that he had no clue what he was asking for. There are different ways to conduct a capability study, and depending on how you go about it, the numbers will give you a different index, and quite possibly be absolutely meaningless.

What made the difference was that I made sure that I thoroughly understood the concept, how to go about it, how the numbers were calculated, what the confidence interval (somewhat related to the margin of error), and what the numbers actually told us about the production process. While my boss had no real clue, I did. It made all the difference in the world.

Like the Quality terms and charts that I worked with then, the indicators in trading are based on mathematics and many on probabilities and statistics.

Most are well supported by theory and tested over time. Now I'm not saying that you have to try to find and comprehend every term and indicator out there.

If you're choosing to use a particular indicator as a decision tool, just make sure you really understand what its meaning is, what it's telling you and what it's not. The ones that you use to make decisions that affect your money should be crystal clear.

The point here is that if your system has indicators that you don't understand, how will you know what they're REALLY telling you. How will you know when they're applicable and when you should challenge what you're looking at? If you don't fully understand them, then you create a margin of error in your decision-making that could be very costly.

Right along with that, you should fully understand WHY your chosen system is supposed to work. There are dozens of systems out there, all with great claims. If you just take the claims at face value and start in using the system, without an understanding of why it is supposed to make you money, (besides the ideal scenario in which it was presented) how will it aid you in becoming a master trader? If the claims are over-inflated, then it will probably be disappointing at best, costly at worst. Make sure you can spot the BS from the truth when your money is on the line.

Dig into your system until you fully understand it inside and out. Test it on paper before you put your faith and your money into it.

Be a student of the system and the markets.

In order to be confident, you have to develop a certain level of mastery of what you're doing.

The notion that there are no bad traders, only bad trades. Phooey. There are bad traders: the ignorant ones, the naïve ones, the ones in denial. The good news is that everyone has the opportunity to transcend this and become a good trader.

How do you get to where you know the difference between a good trade and a bad one? You develop the knowledge and understanding through intentional learning and practice. Note that I said “develop”. That’s exactly what it takes. You start with the basics and build. Now, that may sound like an over-simplification, but it is a fact nonetheless.

If you’ve become confused with the tons of indicators, systems and everything else out there, then your emotions (including confusion) are telling you that you’ve jumped ahead on the learning curve. You need a different approach. Instead of banging your head on the wall, backup. Keep backing up and simplifying until you reach the level at which you can master. Understand that you need to master the basics and the meanings, then build your mastery.

If you need to, back clear up to the most basic of trades and put it on paper. Map out buying a long contract in a market of your choosing. Show the purchase amount, the tick size, your breakeven point, a reasonable stop loss, the current market volatility and your risk to reward. Can you do that? Yes? Great, then build from there. You can’t? Great! You’ve got a starting point.

Money and Trading involves math, and that’s a good thing. If you hate math or find it confusing, then what follows should be very helpful. If you like math, then you’ll definitely appreciate what follows.

Something very important that hopefully you were told in school, is that every form of math that exists was created by someone wanting to describe a phenomenon that they observed in the real world. If you can get the picture in your head of that phenomenon, then the math follows very naturally. Here's an example.

Most kids in school get the standard linear equation presented to them this way. "y = m x + b", where "y" is the dependent variable, "x" is the independent variable, "m" is the slope, and "b" is the y-offset. No wonder so many kids hate math. But….

If I hold a pencil above a ruler on the table and I tilt it slightly, the equation of a line describes what you're seeing.

"b" is how high off the table the pencil is over the zero mark on the ruler, "m" is the slope, or how 'tilted' the pencil is, "x" is whatever point on the ruler you choose, and "y" is how high the pencil is above the "x" you chose.

Simple. Like I said, I've seen literally hundreds of kids really struggle with the equation for a line, until they saw something in the real world that it was describing. Then it became very simple. Child's play.

This is true in the field of trading as well. But don't jump ahead to all the different indicators and signals just yet. There's an even more important concept that you need to know.

Math, as you know, is a body of knowledge that builds on the basics and then gets more complex. There's a gradient with a natural progression to the knowledge. You start with simple counting. Then you move on to addition, subtraction, multiplication, division. From there you get into Geometry and Algebra. Then you move into Calculus, Statistics and other higher mathematics.

Within each subject, it will begin with the definition of a concept and then progress along a series of more focused bodies of knowledge and concepts to the next subject.

The Subtle Trap of Trading

I had the great fortune to have one particular instructor when I was in my second year of college, by the name of Mr. Cunningham. He had a very simple, straight-forward and 100% successful method for helping students who would get "stuck" at a particular point in Calculus II.

In my Calculus class, my buddy Al had gotten stuck and was completely frustrated. He just wasn't getting it. He seemed to have everything down pretty well up to that point, let's call it point "D", but this just wasn't registering with him. Mr. Cunningham took him back to the very beginning of that topic, to the definition and made sure that he truly understood it. Got it. Then on to point "A" and made sure that he got it. Check. Point "B". Well, here's where Al struggled a little bit. He could work the problems, but he didn't really understand why things worked the way they did with this concept. Mr. Cunningham worked with Al here at point "B" until he had a thorough grasp, then moved onto "C". Al had struggled here too, but now that he had a good handle on "B", "C" came pretty easily. Same now for "D". Al got it. What he learned was that it wasn't at "D" where the real problem existed. It was back at "B". All he needed to do was back up and clarify the earlier concept.

Let's see where you are right now and if this applies to you.

Here's a simple example: how can certain Forex brokers charge zero commissions and still make money? Oh yeah, they tell you up front, they make their money on the bid-ask spread. But do you understand how the bid-ask spread actually works?

Unless you rely on luck, you have to know what you're doing in order to be successful at anything.

As the risk and the speed at which you can lose your money go up, the better an understanding you need to have.

Does it take a great deal of education to put your money in a CD?

No. You just deposit your money and in 6 months you'll have an additional 4 ½% in your account. Even a child can handle this.

How about the level of education and competence for mutual funds?

This takes a little bit more learning, but it can be taken care of in fairly short order. Most mutual funds are fairly predictable and divested well enough that the volatility just isn't there, barring a catastrophic event. You can be fairly ignorant and still make modest money in mutual funds.

How about the commodities, Forex and stock markets?

This brings us back to underestimating what it takes to be successful. Your money can just disappear too fast in this arena to be naïve.

So what is it that you need to know?

The words

First of all, you need to know the terminology, the words used, the nomenclature, the jargon. These are the concepts, the machine that will produce or take your money.

Whenever any person wishes to learn a new body of knowledge, one of the first building blocks is with the words used in that body of knowledge.

Don't think words are that big of a deal? There are entire industries that have flourished for decades, sometimes centuries, largely because of the power of the language used.

The legal profession has been a rather necessary and well-paid industry and has made tremendous use of the power of words. In law, the clarity of words and their intended meanings in both law and contracts is tantamount.

So much so, that many legal terms that are used are Latin, so that the accuracy is high in the meaning. Can most legal terms be translated into plain everyday language? Sure. The point is, most people don't speak Latin and an attorney's help is needed to use the right words so that the understanding isn't subject to the twenty different meanings that our everyday words can have. Could many agreements be drafted in everyday language? Yes, but the attorney's expertise in the language, the legal concepts, the necessary clauses, the structuring of documents is what makes their services worth paying for.

There's huge power in words.

The point is that there are levels of language that go with any particular body of knowledge.

Look at your own profession. You know what you do on a day-to-day basis. If you were training someone for what you do, someone who has no familiarity with what you do, you'd spend a lot of time just explaining the terminology related to the different things that are part of the everyday. What is that thing?

For virtually every job there is in the world, new people are often expected to need anywhere from 90 days for basic jobs to a whole year for more complex jobs, before that person is expected to be a fully functional and competent person.

For many professions, a four-year degree is needed, just to get prepared to open the door to the job. Many others require graduate schooling. Many middle and upper management positions require a Master's degree on top of the Bachelor's degree.

Even something as straightforward as learning a new language begins small, then builds.

Trading is no different. It is an entire industry in and of itself. There is a huge body of knowledge to be learned and digested for one who aspires to be established and successful.

Start with the terminology. Words are ideas, thoughts and concepts. To understand trading, you have to have a solid grasp of the words.

You'll find that as you work through the terminology, your interest and curiosity will lead you down certain paths. Follow these signals. You'll find that as you come to understand the words and the pictures get in your head, you gravitate towards what works for you. As you run across things that create a feeling of discomfort, pay attention to those signals as well. Your subconscious is telling you what you need to avoid and what you need more help with.

Remember, start with the basics, master them, then expand your knowledge base.

The math

Just like in math in school, practice results in competence and confidence. Practice the basic math of trading, the math of your system. Get yourself to the point that you can do it in your head (but still do it on paper in your trade planning!), and that you could teach it to others.

Here's a good test of your mastery in comprehension. When you can explain it to a child of 10 years old, and they actually understand it, then you've achieved a sufficient level of understanding. If you can't explain it at that level then you have some work to do.

When I was taking Physics III in Engineering school, I didn't have kids, but I used my mother as my litmus test. If I could explain such subjects as optics, electromagnetic theory, the theory of relativity, Quantum Physics, and wave-particle duality to her, you should be able to explain what you're doing in trading. By the way, I do this with my kids, and it is VERY effective.

How to plan your trades

The next basic skill is properly planning out your trades.

Using the Trade Planner form, you need to collect your information and fill in the blanks for each and every trade you consider entering.

So what are the critical aspects of planning trades and why should you go to the bother to do this?

"The best way to see your future is to make it happen."

You need to plan your trades, on paper, with all your information going into the trade with sufficient information to give yourself the best possible chances of making money. Putting things on paper brings clarity to your thinking. If you don't put things on paper, if you just do it in your head or just make scribble notes with a minimum of information, then you're not thinking all the way through. There specific considerations for entering a trade, and you want to make sure that you're including sufficient information to make an informed decision. Key word in that is "informed". You also want to put your general thoughts and feelings down on paper and anything else that would be useful for you to review later.

This includes the technical and fundamental information why you think this is worth pursuing, what your risk to reward ratio is, and most importantly putting your decision points in place BEFORE you enter the trade.

One of the most costly and common mistakes that losing traders make is trading without a plan. When you trade without thinking it through, then you leave yourself open to emotions clouding your thinking, plus you simply don't give yourself the guidelines you need to protect yourself. If you have your trade planned, when the market does it's thing (up, down or flat) you have already looked at these possibilities and decided what you'll do in each scenario. You've already done it – on paper.

Part of the reason that failing to plan out trades results in losses is that when you enter a trade without the plan, you're doing so expecting – and hoping – that the market will follow your desires, and that's the only path that you've thought through. When it doesn't happen or happen quickly, then you have attachment to that trade, and start dealing with disappointment, frustration, uncertainty and a host of other emotions that now can lead you to poor decisions.

Planning out your trades, with all the possible scenarios already played out, with your decisions in place, then it makes it tremendously easier to follow good judgment. You put these in place BEFORE you get emotionally involved and while you are detached from the trade and can keep things in perspective.

This also helps to keep the information complete and readily available when it comes time to review the trade for learning purposes. This is very valuable for reviewing both winning trades and losing ones.

Step Four – Get Focused

For every trade, you should have a plan on paper laying out your possible choices going into the trade, the possible outcomes and market moves, and your actions to take for each of the possibilities. Anxiety comes from uncertainty. You eliminate it by removing the uncertainties.

The different scenarios: market up, down, or flat. Your outcomes: big loss, small loss near breakeven, small gain, or big gain.

If you're feeling anxious, then you are missing something in your understanding, you lack the competence to have confidence, and/or you're letting your emotions cause your focus to be too tight.

By putting your trade down on paper, both with a spreadsheet and a graph / chart, the decision points become very clear.

Understanding the decision process

What many people don't understand is that ALL decisions are made at the emotional level first, and then justified logically in our mind.

Now as far as the decisions being made emotionally before the intellectual side kicks in is something that I heard years ago, and for a very long time, I disagreed with it. I have found over the years however through my own experience and in the observation of others, that it is a fact that we all live by.

The challenge comes in balancing our brain-halves so that we have a solid balance between our emotional side and our logical side. It is important to understand that not all decisions are the same.

Here are a few examples to illustrate.

The Subtle Trap of Trading

Some decisions are a dichotomy: A or B and that's it. These types of decisions are often laid out in company policies. Will the company require bachelors degrees for the management positions? yes or no.

Few day-to-day decisions are true dichotomies. There are probably options C, D, E and F. What to have for lunch? Which markets to trade?

Some decisions have rather certain possibilities while other have multiple choices where the outcome of each choice is uncertain.

Depending on the situation and what it is that we're trying to decide, we have different decision processes to go through, different blueprints.

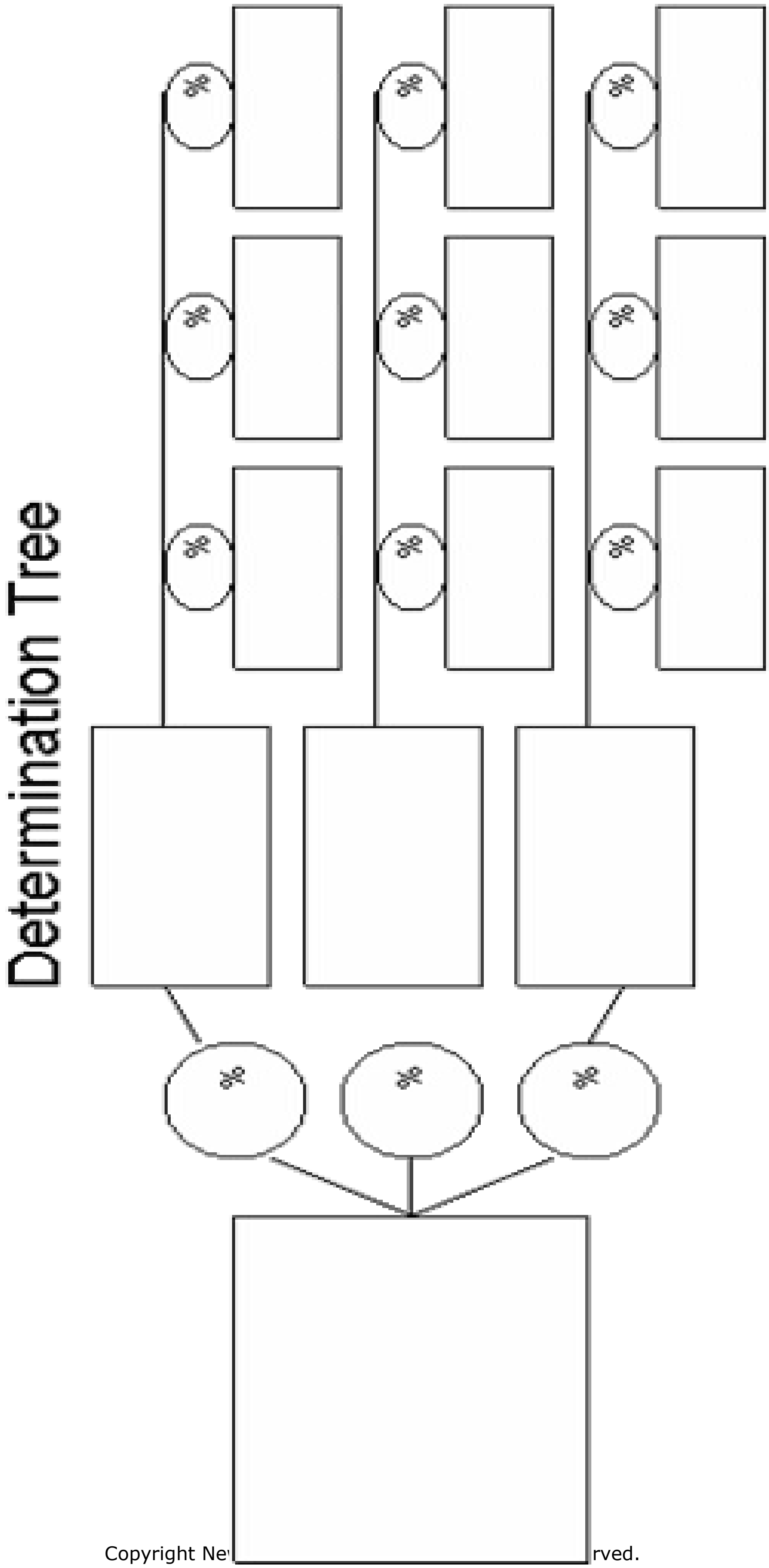
For trading, there are always multiple outcomes and there is a built-in level of uncertainty. So let's look at the determination tree.

In the first large box, you put your initial trade, the market position at that point in time.

Next, you put the probabilities of each market move (up, down or flat) in the circles, and you base this on your system, information and analysis. In the next set of rectangles, put the move and how it affects your trade (good, bad, neutral), and what is the best move for you to make in each scenario.

The next set of circles and rectangles are for the next time period. This diagram should be used with the view of time progressing to the right.

The Subtle Trap of Trading



Putting decision guidelines in place

When you place trades, use the determination tree above to help you visualize the market moves *ahead of time***.**

This also allows you to put in your decision guidelines – ahead of time.

You should, along with the decision tree, have your trade planner in hand so that you can put in your stop points and exit points, expected gains and losses in each scenario as well.

By using the trade planner and the determination tree together, you can easily play out all the possibilities for a given trade.

This eliminates the uncertainty for you in your trading.

It is the fear of unexpected surprises, that anxiety, that creates many emotional states that result in unwise and costly trading decisions.

Exercises for decision-making.

What you should do at this point is to draw up your determination tree for practice. Pick five markets or time points in markets with which you're familiar, backup in time, then practice these as if you were at that point in time.

Get the feel for doing this and note the results, both in the trade and how you feel in going through a trade planning it out this way.

You should plan on practicing planning and mapping out trades everyday for three weeks, five times a day, until it becomes second-nature. It is through practice that proficiency is developed, and along with the proficiency your confidence will grow.

One of the Greatest Confidence and Discipline Builders

The above discourse addresses decision-making in general, and speaks from the perspective of a largely discretionary trading strategy – where there are numerous judgment calls. Hopefully you have a system for your trading that is at the very least somewhat technical in nature, if not primarily technical.

In actuality, you have a system for your trading whether you've adopted a formal one or not, and here's what I mean. Your system is your set of practices, the things you do. It is not a set of indicators or signals, as those are simply tools for the system. As your practices, your system, become more well-defined and consistent, the more likely you are to have consistent results.

If you are looking to make a substantial improvement to your trading, you must measure it. While the profits at the end of the month are one measurement of the trading business as a whole and one that everyone looks at, it is certainly not the only important one. You would do well to analyze and track certain metrics about your system if you want to make significant improvements.

All mature businesses are run by owners & managers that have learned to watch not only the bottom line, but those aspect of the business that make the bottom line what it is. For some businesses, advertising costs may be critical while in others labor costs have the most significant impact on the profitability.

In trading, you can do what you can't do in other businesses: travel back in time and test your business system with <u>real data.</u> Hopefully you've heard of this before and even done it. If you haven't, this is good news as it is very often the turning point for many, many traders. With backtesting, you can verify your trading system and find out what to expect from it going forward. Keep in mind that this won't allow you to predict the future, but what it will do let you know the capabilities and limits of your trading system. Most importantly, if your system doesn't perform well under backtesting, it is HIGHLY UNLIKELY to make you money in the future.

Okay, back to what you should be measuring and monitoring. In trading there are certain measurables that are definitely worth paying attention to, such as

- profit-to-loss ratio
- winning percentage
- size of the average winner
- size of the average loser
- return-per-trade average
- number of trades placed per month (or week or day, up to you)
- total number of winners
- total number of losers
- total trades placed

Now, backtesting can be fairly simple or it can get rather complicated. There are a number of backtesting programs available on the Internet and most are very elaborate and expensive.

The second part of this critical practice is to track these key measurables over time. After all, you want to know that you're making progress in the right direction, don't you? Again, the Analyzer is a tool made just for this and will keep your key metrics for a rolling year whenever you choose to start, plus let you look at your trading results on an annualized basis to make sure that you are meeting your goals.

Step Five – Get Control

Developing the skills you need

Above all else, it is vitally important that you fully understand the activity you're in, and develop the skills necessary to be proficient.

The act of placing trades essentially consists of four activities, each with specific skill sets.

1. Identifying reasonable trade opportunities
2. Evaluating the opportunity to determine if it is worthwhile to act upon
3. Properly and thoroughly planning out the trade
4. Properly executing the trade

There is quite a bit that goes into each of the above four, but <u>all four</u> are necessary and must be done consistently to realize the end goal of profits at the end of each month, each year.

Understanding some realities

You have entered into trading for the reasons you noted in the previous steps.

Your long term goals should be written down and reviewed for feasibility. This review should include where you are now with:

- your trading skills,
- your competency with your system,
- your mastery of the knowledge you currently have,
- your current resources.
    i. Your money
    ii. Your time
    iii. Your learning tools

In any endeavor, there is planning and execution. Part of the execution phase however is training.

Your plan to become a successful trader is different from your trading plan. This is your personal and professional development plan. This must include training.

You wouldn't expect to be an Olympic athlete with out some serious training, no way. How about major league baseball or professional golf? You already know that in order to achieve certain levels, training is essential.

There are certain skills and practices that are critical to you *becoming* the successful trader you want to be. Make learning and practice part of your plan and your regular activities.

Identifying the areas to concentrate on

Emotional awareness

Competencies in the business of trading

- Planning – medium and long term
- Identifying opportunities
- Evaluating those opportunities
- Planning individual trades
- Execution of trades
- Back-testing
- Analyzing
- Reviewing
- Journaling

Tracking your progress

Reviewing your monthly reports and taking action for improvement

Root cause analysis

Journaling and reviewing your trades should become an integral part of your trading. In this reviewing process, note what could have been done better, what should have been avoided. Review the list of mistakes and determine what was at the root of what went wrong.

Plan of action to resolve

As you complete the root cause analysis, decide what you can do to avoid, or better yet block, the specific action or condition that caused the problem.

Self-observation and Kaisen (continuous self-improvement)

Just as your account is desired to grow over time, so are you. Rather than shooting for home runs all the time, focus on consistent and reasonable improvements. This will come from self-observation. Remember, back at the beginning of this course, where you decided that everything begins and ends with you? That's why *self*-observation is necessary.

Your journal should not only have notes about the trade results, but it is critically important that you makes notes about yourself. What you were thinking when you placed the trade. What other factors came into play: fatigue, stress, listening to others, etc. What did you do well? How can you make sure to repeat the good things? Put these in your plan of action, your routine.

Step Six – Get Organized

What you have in place now

- Your current trading system
- Your current method of planning trades (even if you aren't doing anything but watching certain markets and entering trades with nothing more than a phone call)
- Your filing and record system
- Your review process (even if it's nothing more than the account statements your broker sends you)

What you need

- An organized place to do your trading.
    - Sufficient workspace
    - Your personal trading policies posted in clear view
    - The list of mistakes posted in clear view
    - Your long-term goals and this month's goals posted
- Your checklist for trading
- Blank trading plan with which to plan your trades
- An organized filing system, both electronic and paper
- Ready access to your planning information sources
- Your journal
- Let's review the business function list again, with focus on those business functions that pertain to trading.

Core elements of a successful business for trading

Mission and Vision statements – sounds a little corny, but having an idea of what you want to be when you grow up is important. If you can't see what you want to become and how you'll act, how will you ever make it a reality?

A rather high percentage of businesses fail, same as in trading, because the people just get busy.

To be clear, I'm not talking about planning your individual trades, I'm talking about planning your trading business.

In business, most don't plan to fail. They fail to plan. That plan has to start with a vision of what your trading business will look like, and what you're trying to accomplish by getting into trading.

The most successful businesses on the planet got there because the owner of the business had a vision in mind of what that business would be like when it was mature.

At IBM, the founders had a vision of what the big company would be, and how it would act.

As they built it, they reviewed their daily activities to make sure that what they did was in alignment with that end goal, and that they were making progress along with what corrections they needed to make. And the reviews were conducted on an almost daily basis.

They truly wanted to make sure that they stayed on track to reaching their final objectives of having a very large, highly respected and very profitable company.

IBM achieved a global position, even though it started off small, because the founders had powerful vision and mission statements that gave them direction both in the long run and on a day-to-day basis.

What are your Vision and Mission in trading?

What will your trading business look like when you've "gotten there"?

Are you wanting an income-producing asset for your portfolio that provides an specific revenue each year?

Is this to replace your current occupation, or is it a part-time supplement?

Are you wanting to put your kids through college or build a retirement nest egg and source of income?

Will you eventually become a broker?

How about a market maker? Perhaps the developer of new trading systems?

Do you want to achieve a certain level of success and mastery that you can author books or provide coaching for others?

How will you 'act'?

Are you going to be a full-time trader, or do you want to be more hands-off and fill your time with other activities?

Do you want to build a skill level to possibly trade other people's money for them and be a 'managed account' trader?

Another question that many don't ask themselves, is when you get to a certain level in your trading, are you looking to build your account as high as it will go, or are you going to start taking profits home at a certain point, and how much?

The Subtle Trap of Trading

When you're trading is producing 200% annual returns and/or $500,000 a year, what are you going to do with that money?

Travel the world? Help those in need?

Are you looking to be a full-time trader, who eventually writes books on the topic? Are you wanting to become a broker or a major player?

What are you wanting to achieve in your trading? Don't just say money.

That would be like starting your own restaurant with the same limited view.

What WILL your trading business look like when it's built?

How WILL you act?

These are very worthwhile questions to answer, because you're building a business in your trading.

You can either put at least a basic plan in place for your business and where you're going or you can fly by the seat of your pants and leave yourself open to whatever comes your way, including all the mistakes that bring ruin to your trading business.

<u>Policies and Procedures</u> – these are what will guide your daily activities and decision points in your trading.

Policies are the general over-riding decision guides for the business. You definitely need to have these too, they are critical in decision making.

A few years back, I read that the Chrysler Corporation made more money in their trading of currencies than they did in their automotive division. I don't know about you, but while I wasn't surprised, I was impressed.

For them to be very profitable in managing the currencies as a global manufacturer, that was to be expected. They have to.

To make more than their entire automotive operation, now that's a pretty worthy accomplishment.

Ever wonder how the big players like Chrysler and the institutional investing companies manage to bring in consistent returns of 150-200% year in and year out?

Considering the potential money at risk, do you think the board of directors handles the daily trading decisions? Not likely. Do you think that they hire guru's to do their daily trading for them and just cut them loose? I don't think so.

Just like businesses that are franchised, the policies and procedures are laid out clearly for the people who are making the day-to-day decisions.

They're told what to do, when to do it, and how to respond to the market. What markets to trade, what system they'll use, what buy and sell signals to act on, where to place stops. Everything.

These companies have too much at stake to leave the decisions up to the personal discretion, the opinions, and the moods of the individuals placing the trades.

So do you.

And what do you think would happen to these people placing the trades if they broke the rules and placed a losing trade? Big trouble.

They'd probably be fired. It's that important to the profitability of the business.

What these companies have, and what you should have too, is a set of trading policies and procedures. Decision making guides that are set in stone, and are never to be violated.

And they make money.

The policies for a business are developed to ensure that the vision and the mission of the business will come into reality and stay there.

Does your trading business have a set of policies posted in plain view where you do your trading?

If you do, do you treat them with the same regard as if your job were on the line if you violated them?

You should.

Now, the policies should include both specific and general matters.

Some example items that might be on your policy statement:

> Never risk more than 5% of the available capital on one trade.
>
> All trades must be fully planned out on paper, with actions to be taken for all possible market moves determined prior to placing the trade.
>
> All trades placed must be in conformance and in accordance with the strategy and system already established.
>
> No trades shall be placed when I am operating on less than 5 hours sleep.
>
> All trades placed must meet the minimum risk/reward ratio.

The procedures will define and standardize your day-to-day activities. Remember, your trading business is an operation where activities take place and you want consistent results, so make sure that you have consistent practices in your operation.

Your business is NOT the "trading system", that is simply the machine that produces your trading opportunities. The business, the operation, is what you DO with that system, and you want your business ot be consistent and predictable, so make your operation consistent. This is accomplished by defining your standard operating procedures.

Some example procedures might be:

- Before trading, turn off the radio, TV, phone and email
- Review my rules and policies for trading
- On the last day of the month,
  - Back-test the system, review the metrics to ensure that forward progress is being made
  - review the trading journal, looking for opportunities for improvement in execution
  - plan specific actions to facilitate better time-efficiency in my trading

Now, these examples above are simply that, examples. You must make your own guidelines, preferably when you are taking a break from your trading and when you can think clearly.

Do not write them casually, or when you're in the middle of any situation where you'll be anything but strictly objective, with the purpose of the trading to protect the capital of the business and produce profits and minimize losses.

Write them as if you were writing them for someone else who was going to do your trading for you.

Post these in plain and obvious view wherever you do your trading.

Review them every time you're thinking about placing a trade – you wouldn't want to write yourself up or 'gulp!' have to fire your trader!

Business plan – the overall plan of how the company objectives will be met, what are the courses of action, the expectations, necessary resources (like capital), who will do what, etc. Here are some useful thoughts when assembling your trading business plan:

1. The list from this section is also a checklist for your business plan. It will need to incorporate all these elements – in the plan.
2. Are you going to trade as an individual or will you set up a business entity? What will be required for each, and what are the pros and cons?
3. What is your overall strategy to achieve your vision of your mature trading business?
4. What policies will you put in place to ensure that you stay on track and continue to make progress?
5. What resources will you need for each of the phases of your journey?
    a. Capital
    b. Support
    c. Time
6. What will the ‘personality of your business’ be? Will your trading business be a quiet, under-the-radar operation, or do you have big plans that will grow beyond just you?

7. What will be your exit strategy for the business? Retirement, a managed account, selling the business (you'll have to make sure it will run without you, and this will take some serious planning), etc.

   Use the other items from this business checklist, and make sure you have plans for each of these aspects of your business – in the plan.

<u>Budgets</u> – businesses put these in place to ensure good money management and most of all PROFIT.

Just like a business, plan for a growth / startup phase and budget accordingly. There is a curve to the maturing of a business, and one that occurs for a person as they go from being a novice to a fully functional and self-sufficient trader. One of the most critical aspects of budgeting, as an overall money management tool, is making sure that you review your financial report card regularly and particularly *that you stick to it*!

If you'll plan for a maturing curve, with investments in yourself to grow and develop the skill sets and competencies that you need, plus a planned period where you may or may not make a profit, then you'll give yourself better odds of surviving long enough to reach the true breakeven point in the business and then begin enjoying a regular income from it. Even the best of franchises, with proven business models and systems, have a predetermined period to grow the business before it is truly an income source, an asset for the owner.

<u>Accounting system</u> – you have to have a system for keeping track of your money, inflows, expenses, reserves, taxes, etc. If you already have an accountant or accounting software specific to trading, particularly for taxes, then good job! I used to do my own taxes and would get nervous about if I was being too aggressive in looking for write-offs, but I don't go it alone any more. Taxes can be seemingly simple for those losing money in their

trading: put it in the loss column and write it off. But the accounting laws regarding investments and securities can be confusing when you're making money and is subject to change every year, especially as the world becomes more aware of the commodity markets and the government wakes up to the number of traders. I'll be thrilled if I make it my whole life without being audited! This actually is part of the risk management – getting professional help in the areas where expert help is very worthwhile – particularly for dealing with the government!

<u>Reporting and reviews</u> – in business, you have to have periodic reports and schedule dates for reviewing progress toward the company goals.

This is critical to long term and sustainable success for any business endeavor.

You should look at your accounting at least monthly, of course.

But do you look at the other 'business' measurables?

Has your trading success rate met with your plan (40% winners)? If you're success rate isn't where it should be, why not? If it is as expected, how can it be improved? If it's better, why? and is it just really a phenomenon to be expected when looked at over a more substantial number of trades (have the averages just not caught up yet)?

Are you keeping to your budget?

Are you keeping with your training and skill-development schedule?

Is your plan overall coming to reality? If not, what obstacles need to be overcome? What changes need to be made?

Questions like these and others need to be asked on a scheduled, periodic basis so that they will be reviewed and corrections made. It is in the feedback that your reports give you that you'll find opportunities to make your trading better and continue to make progress to your goals.

<u>Contingency plans</u> – there are bound to be some unexpected expenses and opportunities that come along throughout a fiscal period. Planning for these is essential, even though what those things might be isn't known yet. Allow flexibility and a margin for surprises.

In trading, the unexpected events may be a change in the global environment or technology or politics that presents a trading environment where the conditions are not what you're used to, and it throws you for a curve in the markets that you're familiar with. Events like your markets becoming extremely volatile and numerous gap moves were occurring? What would you do if such an event happened? Jump into new markets that are new to you? Maybe, but could be questionable on the wisdom of that move. Would you move your money to the sideline until you could regroup?

How about if a hurricane came through Florida and shut down your broker or data provider for several days or weeks? What would you do in those cases?

How about if YOU lost power for two weeks, and did have access to your computer, or your computer just plain died on you, and took your records and software with it? What is your contingency plan?

If you think about it, there could be a number of things that could turn your world upside down rather quickly. By putting contingency plans in place, you can relax and focus knowing that you've got it covered.

<u>Risk management</u> – all businesses have potential liabilities. Looking ahead to those risks and planning for protection of the company is vital. This also includes measuring risks and the consequences to best plan for avoidance or minimization of those consequences.

The Subtle Trap of Trading

Risk management for a trader focuses on more than just the dollar amount you're willing to lose on a given trade to hit that home run.

Risk is the decision making tool you should use PRIOR to entering a trade and when to exit the trade. It is also the measure of which markets to trade, the strategy you'll employ overall, and part of your long term planning, especially during the learning months.

Your risk should be evaluated regarding the following:

- Amount risked in proportion to the *realistic* and maximum potential reward on any given trade. On many trades, it is compelling to enter the trade when looking only at the maximum reward, such as with spreads. But do the support and resistance levels indicate that you're looking at probable market moves or are they simply the maximum possible.

- Risk in proportion to your account as a whole. By establishing conservative policies on the maximum percentage of your total equity going into individual trades, you lessen the impact of individual trades, which helps keep the emotional pressure off and helps you stick to your discipline.

- As you grow your trading business, are you also putting asset protection into your plan? As you amass your six or seven digit wealth, are you protecting it from potential liabilities outside of trading?

- Also, as you grow your trading business, are you diversifying so that you can fare well in any economic climate?

<u>Research and development</u> – all businesses need to grow, so does yours. What innovations or technological changes can you foresee for your trading

business? Which might you think about incorporating into your trading as you develop your skills as a trader? Do you plan on upgrading your trading tools over time? Do you plan on learning other trading strategies and innovations as they are developed? Will you stay on top of advances as they occur so that you can continue to maximize your potential? Planning for time, money and sources each year and as part of your initial plan, at least having an allowance of money and allotting a certain amount of time is important, even if you don't know what's out there yet. Personally, I budget up to $1,500 every month for education materials: courses, books, DVD's, audios, reports, etc. I also love libraries and central locations for loads of information. I heard a long time ago that having an insatiable appetite to always learn is a characteristic of people who are both successful and live long lives.

<u>Training</u> – the people in a business also need to grow. So do you. Planning time and money for training is essential. As proficiency of the people in a business goes up, so does efficiency and profitability. Always keep in mind that you're a human and you are at the center of your trading. It is the computer sitting on your neck that is the control point for everything in your life and in your trading. One of the biggest challenges we all face is that we don't always behave according to our own logic. For years, I've made use of tools that work on my subconscious, like subliminal CD's. Continual development of your skills and emotional control are essential. All great achievers keep the urge for self-development throughout their careers, even after reaching very respectable status.

<u>Systems</u> – businesses improve their profitability as the systems are made more efficient and more standardized. By implementing and refining systems, more is achieved with less resources, quality goes up, errors and costly mistakes go down. Systems for you are important as well, particularly understanding your decision-making system. Understanding

your emotional style and makeup is important, but understanding the decision making process itself is of tremendous value, particularly to you as a trader. Several years ago, I bought a course on decision-making and it opened my eyes to aspects of decision-making that I didn't even know existed. It has helped me in numerous situations, in both my professional and personal life, but especially in trading. I even put it on the list of materials that I've designated as the "Rites of Passage" for my kids. You see, not all decisions are the same, like I noted above when talking about the decision making process earlier. Trading is all about making good decisions, and understanding the decision-making process that you work with is extremely helpful in your pursuit of profitable trading.

Your Trading Business.

Go through the list and make your list for your business. Where you have elements missing, it is time to create them.

- Back-testing, analyzing and tracking your trading performance
- Researching accounting and taxation software and services specifically for traders
- Create your personalized Trader Risk Management profile
- Build a library on trading: systems, strategies, courses, etc.

Putting your plan together

Next let's look at your long-term goals. If you haven't set any, now's the time. First you need to set some goals, some end objectives, starting with the big picture and working backwards.

Personally, I love the O.A.T.S. method.

Objectives, Activities, Tasks, Schedule.

<u>Let's start with your Objectives.</u>

For this, we need to look at your overall objective. Are you wanting to trade to provide an alternate income, replace your existing primary source of income, pay for your kids' college, provide for your nest egg, buy you an ocean-going cruiser? This is important because it is your over-riding decision point. Another important item to consider in goal setting: some goals are not events or occurring at finite points in time. Some goals are 'states' that you want to achieve, like a specific monthly income goal, a strength level, a weight range to maintain. This is similar. You're looking to achieve the 'state' of being a proficient and profitable trader.

This will decide your overall approach to trading, as well as help determine what it will take to get you there, in terms of resources, time

If you're wanting to accomplish a specific finite dollar amount within a set time frame, then you'll want to proceed along a course that nets you that. You'll also be able to determine your resources needed to get you there. This includes money and time.

The better you define your goals, the more likely you will be able to achieve them. A popular goal model is the S.M.A.R.T. model. Write goals that are S.M.A.R.T.:
S – specific
M – measurable
A – actionable
R – realistic
T - timely

What are the S.M.A.R.T. Goals you would like to achieve?

Activities

List out the general activities that are necessary to bring your objectives to realization. Don't get into the specific tasks just yet. Make sure to include any and all the activities that will be part of your objective.

Tasks

Now review each of the activities and for each one, list out the tasks that are involved for the activity. This is also the part where you look at time, energy and money involved.

Schedule

Putting the tasks in a logical order, now you need to schedule them. Put them on your calendar, with some flexibility and allowance for things to take a bit more than initially expected. In Engineering, we were always told that when we had a project laid out, to then take the money requirements and add 50% and the time requirements to double them. In school, I thought this was a bit of overkill, but in the real world, it proved to be a good practice. Also, it is better to OVER-estimate what something will need and have resources left over (coming in under-budget on costs) and to get things done ahead of schedule, than it is to be over-budget and behind schedule. Very true in personal and business matters as well.

It may be helpful to work backwards at this point. You have selected a date in the future to have these objectives completed. Now you need to fit these tasks into that timeframe. Work it backwards and then review it to see if the time, energy and money commitments are feasible for you. If not, then make adjustments until it is realistically achievable for you.

Take your scheduled tasks and put them in your planner, whatever you use.

Resources to keep readily available

The glossary of trading terms

Sample charts illustrating the different basic trades, with decision zones.

Links to the various exchanges for contract info.

The business of trading checklist

Putting things in perspective: the worksheet

The Successful Trader reminder sheet

Step Seven – Get on with it!

Your plan of action

First thing to understand is that you are embarking on a journey. Just like setting sail to a destination, you'll need to know where you are now and where you want to end up. That sounds pretty simple on the surface. But most people want to just get there now, and don't realize that it is a journey. Consciously or subconsciously, you know that you're not where you want to be, and you just want to get there now.

When you set sail, you have an initial course to follow, and as the winds and currents change direction, you'll need to make some corrections and adjustments to keep you on course.

The primary thing to keep in mind is that this is a process. A developmental process with steps and milestones along the way. Just like a college education, there is a progression to the process. It is not a single event.

Set your milestones according to the O.A.T.S. for your professional development. Review your developmental plan on a scheduled basis and make corrections and adjustments as you deem necessary.

Milestones and review dates

One of the best ways to get there is obviously to take the most direct route. There are things to keep in mind though, and you will need to keep your goals and your policies in the forefront of your mind. There will be distractions, detours and other obstacles. Your journey will require some devotion, time and energy.

As you embark on this journey, have dates scheduled to review your progress. Give yourself the report card, so that you can make corrections to your course.

Guiding your ship requires continual learning and improvement – with intention.

You've laid out a map. You've set a course for yourself.

The Trading Trap Exposed! is a personal development tool for you, and is intended as an empowerment vehicle. It is a way for you to protect yourself as you grow from being a lowly squire to a fully suited and learned knight.

One of the requirements is that you maintain the hunger for continual learning and improvement. Even the Hall-of-Famers in sports, the legends, all recognized that no matter how great they were, there was always room to get even better. They practiced their skills religiously, focusing always on maintaining their mastery of the basics, and developing their skills to new levels. And that comes from being open-minded, humble enough to accept learning, and pursuing excellence.

Humility ranks as one of the key attributes to the legends of any endeavor. They always recognized that there were people and events that helped them achieve it. A person must always recognize that there are forces greater than one's self. The markets, nature, the universe. When one holds respect and gratitude in their heart and their thoughts, many blessings follow.

Keep your pride and your ego in check at all times, and remember that no matter what happens, you will survive it, you will endure.

The most important thing all the great adventurers and discoverers of our past did though, was having the courage to set sail and pursue their dreams.

Now it is your time to get going!

About The Author

Brian McAboy is a trader, degreed Mechanical Engineer and Certified Quality Engineer.

His strengths in Mechanical Engineering were in processes and systems, and while a Quality Engineer, his strengths were in the Quality process, operations, documentation and training. All throughout his career, Brian has kept the focus that people are at the heart of every operation and specifically focused on supportive leadership that develops and empowers people.

Since becoming a trader back in 2000, his focus has been on the personal side of trading and in 2005 began creating resources for traders to help them deal with the personal challenges of trading and to accelerate their development into solid traders.

Whether you've never started up a business from scratch, run a profitable business or even if you have, trading is a unique business and getting your trading business in order gives you, in Brian's opinion, substantial advantages over the trader that simply trades.

Many traders struggle with confidence and the discipline to stick to your system. The turning point in the careers of many is when they discover system analysis and begin utilizing the trading system metrics.

Disclaimer

Trading futures, options and forex is speculative in nature and involves substantial risk of loss. Trading is not suitable for all investors. You should carefully consider whether is appropriate for you in light of your circumstances, knowledge and financial resources.

This information is presented only for informational and entertainment purposes, and should NOT be construed as financial advice. There are no guarantees expressed or implied, of profits or losses through your use of the information contained herein. You should seek the counsel of professionals for any financial, legal or health related matters. By your acquisition of this guide you acknowledge your full and sole responsibility for your trading results.

Zaner Group

The SUBTLE TRAP OF TRADING discussed the importance of having a personalized trading plan. Zaner Group invites you to download our Trading Plan template and use it as a starting guide to creating your own plan.

http://www.zaner.com/3.0/STPtradingplantemplate.asp

Brian McAboy listed his 39 MISTAKES THAT TRADERS MAKE. We suggest you look at our publication, The 50 Most Common Mistakes That Futures Traders Make. Following these rules will not necessarily lead to success. Breaking them could increase your chances of failure.

http://www.zaner.com/3.0/STP50Reasons.asp

To learn more about what is required to open a futures trading account, you are invited to download our report, "How to Open An Account," available at

http://www.zaner.com/3.0/how_to_open_an_account.asp

For more information, call:

312-277-0050

Or visit:

www.zaner.com

Zaner Group LLC

150 S Wacker Dr, Ste 2350
Chicago, IL 60606
Phone: 312-277-0050
Email: info@zaner.com
Web: http://www.zaner.com