“Face the Trader Within”

By Chris Lori
CTA

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Background

Chris has competed in four Olympic Winter Games and was crowned Overall World Cup Champion in the sport of bobsleigh. He totaled nine Crystal Globes for Overall World Cup final standings and accumulated twenty-two World Cup Medals in an outstanding bobsledding career.

Chris feels his greatest sport achievement was not one particular event, rather fourteen years of leading the Canadian Bobsleigh Team from a low world ranking and relative obscurity to becoming a world power in the sport.

In 2000, Mr. Lori passionately centered his interest in the capital markets with a primary focus on Forex trading, which he now trades on behalf of exclusive private investors and institutions. It is clear that Mr. Lori successfully applies to his trading exploits the necessary psychological skills of discipline, focus and planning, which he developed in his lengthy and outstanding athletic career.

Chris also runs a website for retail traders appropriately named www.allstarfx.com

The Holy Grail System !

If you are searching for The Holy Grail, look no further, because it is contained right here in the following few lines!

This is the Holy Grail used by only the most successful fund managers and private traders. Most amazingly, The Holy Grail is available to every trader in the market. There is a pattern among successful fund managers and private traders. The ones, who use this Holy Grail System, succeed.

I can't believe I'm telling you this, but here is the three part, Holy Grail System…

1. **Have a thorough understanding of the market** you are trading and keep up with the fundamental and technical market aspects daily.

2. **Risk a maximum of 1.5%** of equity on total open positions. In other words; if you get stopped out of all open positions, you should not take a total loss in excess of 1.5% of the account value prior to the trade(s). Go to www.allstarfx.com for more details and a risk calculator.

3. **Common Sense**. I am amazed at how the novice and experience alike lack common sense when managing their trades and trading business. If you got it, use it!

If you are disappointed by this truthful Holy Grail, I can assure you that you would be even more disappointed if someone was to mislead you into thinking that trading in any financial market is easy. Proper facilities, resources, strategies and mentorship are absolutely necessary for success in this business.

Equity Management

Equity management is the most critical discipline in all of trading. Understanding equity management is fairly straight forward, but the application of your equity management parameters, with consistency and discipline is a much greater challenge. It is simple, if you do not employ strict equity management discipline, you will be closing your account with less funds than what you had in your original deposit.

Leverage is very dangerous and it is used by brokerage firms to feed the greed appetite of get-rich-quick mentality traders. Leverage, if used at all, should be applied with prudence and experience under a clear trading plan and disciplined equity management parameters.

With my managed clients I will typically risk 0.5% to 1.5% of total equity, depending on the trade. We typically trade our Forex Managed Accounts in a range of 0.25:1 to 3:1 gearing. This means that if we have 1M in total equity that our position size will range anywhere from 250K to 3M, depending on the trade variations.

If you are winning on 50% of your trades using disciplined equity management you should be profitable in a moderate to good market environment, but most importantly, you will survive a string of losing trades in a very poor market environment.

If you are a retail trader and you deposit 5K into a trading account and trade 100K lot sizes, it will only be a matter of time before you lose. You must be willing to accept and calculate that you will experience the maximum drawdown at the early stages. You should start your live trading assuming you will take ten consecutive losses. This means the risk should be small, as mentioned above. The problem people have with small risk is that on the opposite side of the trade, their will also be small profits, relative to expectations. Most people want to make large profits fast, but end up taking large losses fast. The nice profit typically results through disciplined trading for an extended period of time when the compounding factor begins to take effect. A good program will see nice compounding effects in about 18 to 24 months of consistent profitable trading.

Don’t Average Down

Suppose you have put on a trade and the market has taken it against you. It moves about half way to your equity management stop level and you say to yourself; “I’m sure the market is going to move in my desired direction, so if I place another trade the same size as the original order, then it only has to move half way back to my original entry to be even, then I can get out without a loss.” Let me ask you some questions:

- Does the addition of the new position remain within your equity management?
- Are you facing the evidence that the original position may be moving against you?
- Has probability shifted favorably or unfavorably since original entry?
- Have you evaluated the current market condition with a fresh view and is the decision to place another trade rational, and potentially profitable in its own right?

Adding to Winning Positions

Adding to winning positions must be done skillfully within a specifically structured equity management plan to suit the strategy of your trade and to prevent exposing yourself to giving away profits you have accumulated on any open trades.

When you have accumulated some profits on an existing trade, a *Common Sense* strategy should be employed if you wish to add to your open trade, by separately considering the probability of potential for additional profit without risking equity growth on the current trade.

In simple terms, is the price point at which you are considering to add to the trade, a logical time and price to take risk on a new trade? Because that is what you are doing!

Chasing the Market Movements

I do not make many guarantees, but I assure you this; when you chase the market movements trading a highly leveraged instrument, like retail spot forex, there is no faster way to donate money to the market! I can also say with a level of certainty that you will try it.

A novice forex trader will analyze the market and assess a level of probability in their evaluation of whether the market will go up, down or sideways hoping the market will invite you in at any time. You may be anxious to get into a trade for the "thrill" (more on this later), because you just can't wait to make money, and decide to jump in when the market appears to have decided on a direction. Now that you have committed to a position, the market immediately moves against you.

When analyzing the market with a desire to get in a trade right now, you will seriously consider the possibility of taking a long position or a short position and try to take a shot at what you think the market will do and decide to place a trade. When your trade is on, and the market appears to be moving against your position, you will recall that you seriously considered the opposite direction at one point and that you would have been correct if you placed your trade to go in that direction. Now that the market is currently moving in the opposite direction and you've convinced yourself that you were right the first time, you decide to dump the existing position at a loss and place a new order in what you now believe to be your original and wise insight as to the profitable direction of the market. Then, the market will continue its typical behavior by moving up, down and sideways, causing you pain and confusion. Baffled by this, you lose any connection with rational thought and decide that you do not want to take too much of a loss and end up dumping the second position and incur a double loss.

This is only one such scenario when you take on this manner of trading. It is unlikely that you considered your equity management at any time before or during this experience.

If you regularly review the Trade Watch and video reviews on www.allstarfx.com, you will see that our approach to entering trades is a professional method that aims to enter at a specific price.

The Probability Continuum

As a technical analyst, I closely watch the market price action on charts of multiple time frames. Using a variety of charting tools I have a specific method that I apply to identify where an ideal entry and exit point may occur.

The market will often move in very identifiable and predictable patterns over the course of time, which may offer excellent trading opportunities. On the opposite end of the continuum, the market may take on a very erratic and indecisive behavior that does not offer good trading possibilities. The market probabilities are continually sliding from one end of the probability continuum to the other offering very good trading opportunities at one end, while moving to a poor trading environment on the opposite end of the continuum. The idea in trading is to wait until the market invites you in at the high probability end of the continuum and to accept the invitation at precisely the correct time, based on your method of analysis.

That sounds pretty obvious, but here is the problem. The market is often <u>very</u> discrete! The market can move from one end of the probability continuum to the opposite end in a very smooth and subtle fashion. The market will move from a level of high probability to a level of low probability very rapidly without notice. As you gain experience in trading, it is critical that you have the ability to identify the subtlety of these movements or it will trap you.

For example, you may be watching market price action and decide that it has reached an optimal entry point for a trade you have been waiting for. Then you sit and wait and try to decide whether or not you should enter the trade. In the meantime, the market begins to move in the direction that your analysis suggested it might go. After the market rallies by 40 pips, you decide that you are pretty smart and it is a good trade. The market has now moved from a level of high probability to a level of lesser probability, but the psyche' of your mind still views the trade as high probability, while the price level has shifted to a level of lesser probability when you decide to place a trade. It is after you have placed the trade when you realize that the ideal entry price has passed, but you think you may be able to still profit from the trade, "if only the market will continue."

You have now entered a trade at a level where you could have already taken some profit from the market had you entered at the high probability level. Further, you have now entered a trade that requires a larger protective stop loss and creating more risk, while offering less profit potential on your trade.

For ideal entries, you are required to be sensitive to the subtle movement along the probability continuum.

A Fresh View

I have often seen traders experience a nice winning streak that resulted from skillful analysis and well-planned trades. Then, the same mind decides that, because they have now made a nice profit from a series of winning trades, they are quite a good trader and arrive at a decision to now enter a trade into a low probability environment. This is not entirely objectionable under the right circumstances, but it would be wise to use an adjusted equity management parameter based on the profitable period and the probability of the current trade.

Whether a trader has experienced an extensive winning streak, losing streak, or has taken a single win or loss on recent trades, you must always take a fresh, objective and unbiased view of the current market condition. Remember, the shift in probabilities can move very discretely, so do not allow an emotional attachment to recent trade success/failure cloud your view to what the market is really saying.

A trader can become emotionally charged following a string of successful trades. I find it very helpful to stand aside for a while to allow my charged emotional state of mind to settle down, so it does not alter my view on the next trade. This does not only refer to a fresh view directed specifically to the market, but also the most critical component of trading… equity management. A fresh view will reel back into reality your overall equity status, as well as current market environment and price action.

This emotional charge can also generate a subconscious bias. If you bring to the market a strong bias or specific expectation, whether consciously or subconsciously, rather than taking an objective view, you will be exposed to a potentially dangerous experience.

Discipline

Discipline is an absolute requirement for successful trading. Trading has a multitude of components that have to be managed when identifying opportunities and assessing risk, for example; technical analysis, fundamental outlook and economic reports, geopolitical environment, equity management, emotions, probability, etc. Each of these components requires its own discipline and you must comprehend the weight of its value in any given circumstance and how it may have influence on a possible trade.

Discipline is not a human characteristic that can be adapted overnight. Discipline is a quality characteristic that must be developed over a period of time and refined through experiences, hard lessons and a determined focus on a specific objective.

Discipline is a battle between the human flesh and knowing in your mind what is right and good. Let’s take the everyday life of a human being, for example; it is a known fact that refined sugar is very harmful to ones health. We know that refined sugar consumed over a lengthy period of time can cause a long list of physical health problems. Most human beings will consume large amounts of sugar in a lifetime, because it satisfies the flesh here and now! People will not even consider the long-term health effects when they are sloshing back that banana split. Yet, after 30 years, the lack of discipline begins to take its toll and a host of health problems begin to show themselves, as they get older.

When human beings come face to face with a life or death health concern, the first thing they will do is ask why this is happening to them. People will look in all directions for a solution and deny or discount that their personal eating habits are the root of the problem. Then the doctor will tell them they have to change their habits and employ some discipline where the problem is concerned. This is a major, almost unacceptable, adjustment for most people if they are not accustomed to a discipline of this manner.

Successful traders know this process very well, because they have taken hold of the ability to discipline themselves accordingly. However, every successful trader has been through the process of being disciplined by the market and has learned from it. Every successful trader has been slapped, beaten, bruised and had their butt handed to them before becoming consistently profitable as a result of learning how to be disciplined.

I believe that my personal adjustment period to trading profitably may have been somewhat shorter than other traders. I was raised in a family environment that required and practiced discipline, as well as lessons on the value of money. In addition, I competed on two national sport teams, participated in four Olympic Games and carried a team from being one of the worst teams in the world to becoming Overall World Cup Champions. To endure and succeed, this process forcibly requires the development and consistent employment of discipline. Any alternative approach would result in defeat.

Denial = Debit

Many traders enter the market like a gunslinger trying to pick off every empty beer can in sight. The majority of novice traders are undisciplined, without a clear plan and under the emotional influence of greed while looking for a home run trade. When a novice trader decides to enter the “game,” they will be confronted with the realities of trading and likely experience some loss of equity at onset. At this point, when their grandiose plans of getting rich quick begins to appear faint; the novice trader has to make a decision. The fact that they realize they have to make a decision is the first step. It’s kind of like admitting, “I am an alcoholic.” The trader has to admit they have not fully equipped themselves to participate in the market and take a step back to evaluate what needs to be done to participate profitably. Alternatively, a trader will deny that they do not have the necessary skills to trade profitably in the market. This will result in a continuation of erratic, undisciplined placement of orders and consistent losses to compound the problem they deny they have.

This denial behavior will result in the balance of your account being sucked into the vacuum bag of a savvy trader, while leaving a host of debit transactions in the account summary.

Who Are You?

Many people take time away from the real world to go off to "find out who they are." People believe that traveling the world, going to Whistler and becoming a ski bum, or leaving their girl/boyfriends, spouses and families will help them on their journey to discovering "who they are."

Personally, I believe if you ask God, He will be happy to show you who you really are. If that does not interest you, then have a go at trading in the financial markets. If you are in a hurry, intraday trading in the spot forex market with high leverage will even accelerate the process and you will have to look no further.

Trading the financial markets will expose many truthful characteristics about you, for example:

- Are you disciplined?
- Do you deny truths about yourself?
- Can you follow rules?
- Are you submissive and admissive when you should be?
- Do you easily become emotionally charged and irrational?
- Do you react without thinking?
- Are you a planner?
- Are you flexible, or rigid in your thinking?
- Are you prideful or humble?
- Are you objective, or opinionated?
- Do you hold a bias, or can you consider facts in an unbiased manner?
- Are you stubborn and have to be right all the time?
- Are you greedy?
- Do you do things beyond your means?
- Are you willing to change?
- Do you buy things in hope of what you would like to be, rather what is. I.e. exercise equipment that does not get used.

  And the list continues…

There is a saying:

"If you know the market and know yourself, you will consistently profit. If you know the market but not yourself, your success will be random. If you do not know the market or yourself, you will consistently lose money."

Success in the market is not just about the market; it is also about knowing how you react to fear and greed.

A trader will continue to struggle if they are unwilling to identify true characteristics about themselves, regardless of how undesirable they may seem. Further, the process of knowing yourself as a trader and a person will never end, so do not delay.

Patience Pays

Our young friend, the gunslinger, goes hunting with his dad who has 30 years experience carefully stalking his prey and hunting them down. As the two of them head out toward the forest, gunslinger says to his dad; "Hey dad! Let's run into the forest and shoot us a deer"!

Dad replies; "No, gunslinger; lets quietly walk into the forest, wait for the deer to come out, and shoot them all".

Patience is a key discipline of trading. It is ideal to wait for the market to move to a level of high probability to enter a trade, but waiting for the market to arrive at your prospective entry point can be no fun.

The human mind view's making money as an enjoyable experience, because it inspires dreams of all the things one can have and do if they make a lot of money. For some reason, trading is considered an easy, or convenient, way to make a lot of money, but people do not resolve themselves to the fact that it is neither convenient, nor easy. In fact, people may find it so inconvenient, combined with their greedy desires to make money; they will frequently put on a trade without premise, because they are unwilling to wait for the proper time to enter a trade. They want to run into the bush and shoot at the first deer, regardless of what the probability is of hitting it.

I can assure you that this approach to trading will cause great pain, suffering and financial loss. Although the wait may seem agonizing at the time, I would prefer to endure a lengthy period of stalking a decisively good trade, rather than taking a shot in the dark and have to suffer through the pain of a poor decision. An irrational shot in the dark trade typically results from focusing on greed and the thrill of making money, rather than possibility of loss and pain.

The markets will often go through a long period of consolidation or confused price action, which does not lend to good trading opportunities. If you do not have the ability to recognize and admit to the reality that the conditions for trading are undesirable, you will probably lose. If the market does not make sense to you, then stay out! On the contrary, the ability to wait through market indecision can pay very well when one side of the market begins to take control. You will end up with a twofold benefit; you will save from losing money in the choppy conditions, and you may reap considerable benefit when the market breaks out.

If you run into the market like a gunslinger and begin to shoot at anything that moves, you will probably have run out of bullets when a prime target walks right in front of you.

Overtrade Underpaid

Over-trading relates to the fact that you are unwilling to wait.

At the end of each day/week/month, go through your trading account summary and evaluate whether you have made good or bad decisions. The following are some signs and considerations to help determine if an account is overtraded.

- Frequent trades relative to the time period
- Frequent trades on the same instrument taking the opposite direction on subsequent trades
- Re-entering a position after taking profit on a completed trade, because you think you got out too soon and the market will continue in your direction and you will miss out on the rest of the move
- Take a look at the number of trades you have made in a day or week. If you have a long list of losers, than you are probably overtrading and chasing the market.
- See “Chasing the Market Movements” above

Remember, this is a numbers game. Most novice traders have the tendency to take small profits and large losses for the reasons stated in this document. Therefore, the more trades you make, the more you will lose.

Use a Filter

I have a spectrum of resources in my overall trading regime that I use to acquaint myself with the current foreign exchange trading environment. I access price quotes from multiple sources, charts, news feed, and bank reports from highly trained research teams, periodicals, and financial news broadcasts.

I am a technical analyst and rely most heavily on my analysis of the price patterns identified in the charts. I also watch the micro and macro fundamental developments in the larger global regions as an aide to understanding what is transpiring with price patterns. Charts do not lie. Although the additional resources are important to maintain a pulse on the market, be very careful what you allow to influence or block your analysis and view of any opportunities to trade. I see many developing traders move from strategy to strategy driven by their insecurities and belief that someone else holds the golden wand! Developing traders will move from strategy to strategy with no clear plan. If you do this, I can guarantee that you will lose. This advice is worth a minimum of 10K to 1M to you!

Some years ago, countless authorities were predicting the GBP/USD to hit 2.000 when the currency pair rallied 3,500 pips to 1.9100 between Aug 2003 and Feb 2004. I specifically recall watching a string of currency strategists on Bloomberg unanimously calling for the GBP/USD rally to continue to 2.000 that year.

Technically, I observed on the charts that the currency had just completed a distinct top formation suggesting it may experience some pullback, at least for the time being. While all other strategists were bullish GBP/USD, one lonely sole sat in a chair at the Bloomberg studio and plainly said, “The Pound is done.” Within 5 days, the GBP/USD dropped 650 pips. If I had listened to the majority of “talking head” professionals on Bloomberg, who had their own reason for believing the rally would continue, I would not have taken the short position for a modest gain of a few hundred pips for the week.

You will miss some very good trades listening to others opinions. Furthermore, others opinions can keep you out of good trades. The more comprehensive your knowledge of the market the more you can trust in your own methods, which you have tested, understand and have a clear knowledge of the rules that guide your decisions.

Do not consider any other traders commentary when you are already in a position with a defined exit plan.

There is no other person in the world that knows your mind, emotion and will. How can a separate mind possibly tell you how and when to enter and exit a trade if they have no understanding of the foundation your trade is based on?

The market environment is constantly changing, so an opinion or insight one hour can completely change course in the next hour. In this case, “all bets are off!”

If you do not filter the opinions of other analysts and traders, you may end up very confused and never make a trade, because every opinion will be pointing in different directions for different reasons with different plans. Listening to others will keep you out of good trades, put you into bad trades and talk you out of a good position you are in. It is likely that your trading results will improve when you become an independent thinker.

You must believe and trust in yourself and your own methods.

Dear God, Please Help Me!

As you develop as a trader, there will likely come a day when you will cry out; "Dear God, please help me! If you are there, I will never do this again." That day will be when you have not enforced proper equity management discipline and allowed the position to move to a point of considerable loss and you don't know what to do. You cannot have the trade back. There is not a "do-over" option. Your position is in a loss and there is nothing you can do, right now, to get the money back. This scenario is likely to happen if you do not practice strict equity management.

Allow me to be so bold as to tell you that if you are unwilling to cry out to God on this occasion, then ego has likely placed itself between you and God, or you and the market. If you are unwilling to submit to what is actually happening in the market, because of your ego and your need to be right, and careless enough to dismiss good equity management, then cut your losses and close your trading account, now!

Traders vs. Academics

Academics are an interesting breed. A true academic is commonly a person that is very well researched and has acquired a plethora of knowledge in many areas. An academic has the ability to understand and retain volumes of information and use that information to engage in deep discussions on a large range of topics.

An academic who is introduced to trading will embark on unforeseen challenges. Sure, an academic can understand the concepts and methods of trading with relative ease. However, there is a characteristic required in trading that stands as a great obstacle before them.

Allow me to classify a common characteristic you will find when trying to understand an academic. On a large range of subjects, an academic often becomes accustom to engaging in conversation/discussion/arguments and has the distinguished ability to firmly make their point to the other (often less knowledgeable) participant in the discussion. Over time, the academic begins to consider themselves as superior when dealing in intellectual encounters, if I may, and this results in a prominent development of ones ego. Now, you can have a large ego and be a good trader, but do not allow the two to interfere with one another when a disciplined decision must be made.

A more profound challenge the academic will face when taking on the skill of trading is the element of psychology. Sure, an academic may fully understand many principals and theories of psychology, but have great difficulty when consumed in the experience of a force (the market) beyond their personal control (academics like to be in control of their environment) and adjusting to the conditions they have been confronted with.

What does this mean in plain trader English? Based on what I've learned from text-book academics whom I have taught theory and tried to teach the psychology of trading; an academic has difficulty adapting the defined text book methods and rules of trading to the live, flexible, ever-changing, uncontrollable financial market. The academic may be able to tell you what the market "should do," or "why it did such a thing," after the fact, but often lacks the psychological ability to adapt to an ever-changing, uncontrollable, competition that taunts your emotional tenacity.

For example, I will teach an academic specifically how to use a technical analytical tool. I will describe how the tool will reflect movements in the market and what they may suggest about a possible future direction of the market. According to the textbook definition, the tool may offer a strong indication that the market "will" take on a certain direction, or the tool may offer information suggesting the market "will not" take on a specific direction. This is clear; the market either "will", or "will not" take on a direction. A problem faced by the academic is the enormous gap in between "will" and "will not" and how to base a decision on this constant shift in probabilities. The market is not absolute and will actively move up, down and sideways every tick in-between "will" and "will not." Seemingly, the markets intention is to test your psychological tenacity and shake out those who are weak.

In simple terms, an academic insists that the market behave exactly as it is outlined in the book and they become flustered and confused when it does not, because it doesn't make sense to them. In addition, if the market does not behave in the manner described in the textbook and they believe it should, the academic will alternatively <u>have to admit being wrong</u>. Admitting to being wrong is considered a <u>good quality</u> of a trader, but it is a forceful opponent to the ego of an academic. The academic will typically have to undergo a significant psychological learning curve to transfer their intelligence into practical trading skills.

On the other hand, my esteemed colleague and mentor, whom I hold in the highest regard, is a true trader. He is a brilliant and exceptionally gifted trader, very logical, rational, patient, methodical, charismatic and has a great sense of humor. He is thorough, diligent and disciplined. He believes in getting rich slowly, even though he got rich quickly, only because he is exceptional at the art of trading.

Trading is a Game – Focus on the Execution of the Task

Canada had one of the worst teams in the world when I first stepped onto a bobsled track. I quickly realized the difference between the best athletes in the world and myself and believed that I could develop to a level that would compete with them.

I spent years refining my skills, building teams and acquiring the proper resources that would position my team to compete with the best. As time passed, we worked our way up the ladder in World Cup competition, eventually, we were placing in the top 10, then top 5 and soon found ourselves in a race where we could win Canada's first World Cup medal.

We were in 3rd position following the first heat of a two-heat race. What do you think was going through my mind following the first heat of the race, knowing that we could win a medal after the completion of the second heat? What may go through your mind is how wonderful it would be to win a medal! One could think about all the newspapers and TV stations that will publicize the story! The prize money will certainly be nice! The medal sure will look great when it is hanging on the wall! Perhaps a lot of girls will be impressed with our medal winning performance! These are certainly thoughts of doom and failure! The only possibility of winning a medal in that race is absolute focus on perfect execution of the task of driving the bobsled down the track as fast as possible. The task is defined by the perfect use of the physical and psychological skills that have been developed specifically for the discipline at hand.

The primary objective of trading is to make money, as the primary objective of Olympic sport is to win medals. Thinking about how much money can be made on a trade will interfere with enabling the psychological resources required to put on a good trade and manage it effectively. Thinking about the end result (the money) will inspire emotional, subjective, irrational thoughts that will cloud your view of the market and may drive a poor decision and ill management of a trade.

The "making money" part of trading is simply a byproduct (end result) of a focused and precise utilization of our trained psychological and mechanical resources to successfully find and manage trades. Under the most intense circumstances, the best results will be produced only with a deep concentration and focus on the task at hand.

When managing trades in forex, it is wise to target profit-taking and stop-loss levels based on pips rather than equity. I do not watch equity on my trading platform, only +/- pips.

If I were to name one attribute to achieving success, "Focus on the Task" would be it. Focusing on the task will utilize all your developed resources to achieve the best result within your capabilities. As a result of every experience, you will move to a higher level of consciousness and have developed even more resources to draw from when you embark on your next experience. In time, you will challenge both ends of your psychological spectrum and learn the best response under new conditions. That is how you develop as a trader!

The Candlestick Watcher

Intra-day trading in the foreign exchange market will make you a candlestick watcher. That is the nature of the game. The more you are in front of a chart; the more trading opportunities will present themselves. The amount of time spent on candlestick watching will also depend on which chart timeframe you primarily base your trading decisions from. This is a personal preference.

Let’s say you have identified a high probability trade and you enter a “parent and contingent” order (market order with preset stop and limit) according to your plan. Once a position has been taken it will have to be managed in order to maximize profits and control losses under an ever-changing market environment. Most forex traders will manage positions live in front of the computer (as I do) and closely watch the candlestick and chart patterns develop.

You should have an intimate knowledge of all resistance and support levels where you expect the market to vacillate, or possibly change direction, and you should also know exactly where your stop and profit taking levels are relative to the current market price.

The true test of your emotions will come when the market takes your position above and below your entry level. As you closely watch the candlesticks, expect the market to take the position through your entry level any given number of times before it decides on a direction. The market passing through your entry level will be a true test of whether or not you are focusing on the game/task and may entice unwanted behaviors if you allow it.

If you are focusing on the equity, then the market movement above and below your entry will drive you crazy and probably force you to take small profits, to avoid a loss, on what would have been a perfectly well executed trade. If you are focused on the task, then the market passing through your entry will only be a test of mettle while trying to capitalize on the opportunity the trade has presented to you.

Training Fear

Fear is rooted in one primary source. Your bank account! When we decide to engage in speculation in the financial markets, we are also deciding to risk funds that, for most of us, have been acquired through investment of time, energy, knowledge and experience in some other area of expertise that we posses. The decision is primarily based on the potential for an increase in personal capital for what appears to require less "effort" than our other alternatives. Aspiring traders typically don't spend the required amount of thought and time to understand the risk involved in what they are about to endeavor.

Incidentally, the risks become apparent the moment a trade is placed and becomes live in the market as the equity value of hard earned funds begins to change in a manner that is effectively out of our control.

Because fear is rooted in our equity, would it make sense to weigh the risks of our decisions and place an amount of equity into a trade that is somewhat inconsequential in value? Sure it makes sense! However, the desire to increase our capital overrides our ability to rationalize the larger picture, which feels fine at the time, but has a strong potential to inflict pain as a result of losing funds due to an oversight of what is real.

As we discussed, the first call to reduce or eliminate fear from our trading is to trade within reasonable equity management guidelines. Once fear is reduced or eliminated from our psyche, we can then begin proper execution of our trades, because the consequences of our equity value will have a small affect on our overall financial picture.

As traders, we know that the market moves up and down. We have all seen hundreds and thousands of price charts containing a multitude of shapes for candlesticks and bars. When the market begins to rally, <u>as we knew it would</u>, there is an impulse to buy right at the top of a bold faced upward growing candlestick with no wick above, as price makes a new high for the period. Most traders have no fear about buying into such a short term impulse, since it is in agreement with their analysis, only to watch price fall back towards, or directly to, their protective stop loss, which is when the fear begins to set in. After time has passed, the fear of being stopped out when the market is doing what it has always done, moving up and down, <u>as we knew it would,</u> should not be a surprise. As odd as it seems, this scenario was not a consideration at the time the market appeared to be getting away from us and leaving our account empty while others were being satisfied. "After all," you say to yourself, "I knew it was going to go up, so I should get paid, too!"

The concept of buying dips and selling rallies is not just some concept found in every book ever written on trading. It is a concept that must be exercised with discipline. The inherent challenge of most traders is to understand that buying into price action that is falling away from the desired direction is in opposition to what the human mind understands about what the market should do in order to get paid, which is for price to go up.

For some reason, when a decision has been made to "buy," but price action is moving against the desired direction, traders have a tendency to forget about the lengthy analysis, chart patterns and fundamental information that has strongly supported the decision to buy in the first place. As a result, fear immediately steps forward and tells you that you would be crazy to buy now, because price is moving down and you want it to go up!

In such a scenario, fear has produced a profound psychological impairment that has almost completely inhibited the traders' ability to rationalize. The fact is, buying should always be done while price action is moving in opposition to the direction of the desired position. Effectively, you are trading when you are most fearful. Your mind should be clear concerning the evaluation that has been made, which inspired the decision in the fist place. Always attempt to trade during a period, or movement, when price action is moving against the direction you want the market to go for you to get paid.

When trading FX for example, this could occur within minutes of price confirming your decision, or it may happen hours or days afterward. Simply identify your levels where you trust the market would touch before taking on a move that will pay. Rather than chase the market up buying on a boldfaced candlestick, buy into a boldfaced bearish candlestick. Most often, this will put you on the positive side of the dealing spread very shortly after making the trade. If the level you selected as support holds and you traded as close to that level as possible, then you will have very little drawdown on the trade and it will pay sooner. In addition, the entry will be closer to the stop level and the first profit target can be closer.

To become successful at good order executions as described above, traders must train themselves to trust in their analysis and train their psyche to become comfortable with a market characteristic that previously induced considerable fear and impairment of mental clarity and rationale.

All this goes with saying, that fear is ultimately rooted in loss of money. Fear for loss of money for which one is unwilling to calculate the consequences and risks involved in the discipline. Coming to terms with the risks and applying proper equity management will open the door to becoming comfortable with trusting your tools and buying when price action is moving against the direction the trader believes the market should go in accordance with your analysis.

Fight For Every Dollar

When I retired from bobsledding, a contingent of the US Olympic Bobsled Team purchased all of materials; 2 and 4man bobsleds, runner blades, proprietary CAD/CAM designs, research material, training programs, etc. As well, I did some occasional consulting. One year prior to the 2002 Olympic Winter Games in Salt Lake City they phoned me and asked if I would consider spending more time with the team through to the Olympic Games. I agreed to do so and drew up a plan of action for the team.

In one of my first lectures to the group, ten months prior to the race of the 2002 Olympic Games, I offered a detailed expectation of what was required to win an Olympic medal. Bobsled races are won and lost by hundredths of a second calculated by accumulated total time over four runs.

To win an Olympic medal you must fight for every hundredth of a second in every aspect of the sport during the off-season and in-season. Hundredths of a second will be found in what you eat, what hours of the day you keep, when you wake up, when you go to sleep, who you hang out with, what you do in your spare time, equipment preparation, physical training sessions, careful study of the tracks, the start gradient, your personal habits and the list is endless.

I distinctly recall the first lecture to the team when I ranted about personal eating habits, specifically sugar, and its affect on physical performance and injury. I ranted about how important the change of one habit would translate to one or two hundredths of a second when it came time to race at the games. I challenged them to look at the detrimental aspects of their character and discipline themselves to change the things that were preventing them from performing better. Each change would improve overall performance. I also recall one individual who was particularly aloof about the suggestion. He was a very talented athlete, but lazy by nature and it was doubtful he would make any sacrifices to change his way of doing things. Does this sound like any traders you know?

I went on to tell them that if they simply did not make the necessary changes to personal habits that they would probably not win an Olympic medal. Further, I said that if/when they lose a medal by a couple hundredths of a second that they would likely blame it on something that happened on the day of the race, rather than look back ten months to the habit they should have changed and the commitment-to-change that they should have made.

As it turned out, the aloof individual that I referred to earlier ended up getting the call to be the brakeman in the 2man race as a substitute for the top brakeman who could not race. They ended up losing a medal by 4/100ths of a second. That is 1/100th of a second per run. The fault was given to specifics that occurred in the race on that day, rather than what should have been prepared in the months leading up to the race.

In the end, the team won 10 World Cup medals and 2 Olympic medals for the season, which was unprecedented for the US Olympic bobsled team ☺

How does this relate to trading? I think it is clear that if you want to take on trading as a means to make money, then you have to treat it like a business. You must study and account for every detail that is required to become successful. There is no reason to think that you can take a short cut and earn money, while competing against professional traders who are very intelligent and disciplined.

Winners and Losers

Traders possess a plethora of methods to analyze the financial markets with a well-defined protocol to discern a winning trade opportunity. Traders will bend, mould and shape the use of their tools to help them assess high probability opportunities that will become profitable trades.

A challenge arises when the trader will employ a specific protocol and method that results in a nicely executed, managed and winning trade. On the following trade, in a market environment that appears very similar to that of the winning trade, the trader executes in exactly the same manner only to take a loss. This experience repeats itself on the following two occasions, which result in three consecutive losing trades. The trader is then baffled by the fact that the same method that made a nicely paying trade, also resulted in three losers. Consequently, the trader decides to pass on the next trade that displayed almost identical characteristics to the winner and three losers. Naturally, the trade ended up following the rules consistent with the traders' methods and netted a winning trade. Still fearful of taking another loss, the trader again passes on what looked identical to the series of losers and winners of the past. Of course, it was another winner!

What the trader must be aware of, assuming disciplined trading, is that every winner will look like the last loser at some point in the process.

The Cost of Education

You can expect to pay a price if you decide to trade in the financial markets.

Most retail traders/investors of stocks have no clue what they are doing when deciding to buy or sell a stock. They may read a few articles, or go out and buy a textbook to try to enhance their market knowledge. You don't know what you don't know, and what you don't know and what you don't know can protect you from losing a significant amount of money.

I am always amazed at the answer I am given when I ask; "why did you invest in that stock at that time with that amount of money?" Or, based on what specific criteria have you placed a trade at that price? The greed driven motive is clear; to make money, but there is typically no logical foundation on which the decision was made.

If you decide to trade in the financial markets you can expect to pay a price. The fees will either be paid for a good education before risking your hard earned money, or the fees will be paid directly to the market, due to lack of understanding the market and a specific strategy, (usually amounting to considerably more than if you pay for education to get you started). If you pay your fees to the market, it will leave you with two things;

1) an experience that you will not know what to do with in future events, and 2) less money to go out and pay for an education, because you probably just lost more than you would have paid for education in the first place. But remember, in addition to education on the fundamental and technical aspects of trading, an investment of time will be required to develop your psychological profile to be suitable for this industry.

I am amazed at how much "dumb money" there is in the hands of very intelligent people. Intelligent people that do not use the gift of logic (common sense) that is present in their minds. What do you think creates "dumb money"? The powerful emotion of greed completely overrides a perfectly intelligent person's ability to see things objectively.

I also find that people are also too busy making money in their profession and do not have the time to acquire sufficient understanding of their investment/trading options.

The next time you want to dump $10,000 into a "hot tip," or start trading forex without understanding of the market, contact me about personal one-on-one consultation, or educational options. You can end up with excellent education and probably save yourself the additional balance of what you would have lost on your trade.

Alternatively, I occasionally teach a class on technical analysis with a primary focus on forex. This may be of interest to some of you. Visit www.allstarfx.com

Chris

Managed Accounts:

Please contact me at www.seaviewfx@gmail.com if you would like more information on professionally Managed Forex Account's. I am not currently accepting new clients below $5M, but our company does offer the services of other good fund managers. Forex Trading is High Risk!

Poem

I am your constant companion,
I am your greatest helper or your heaviest burden.
I will push you onward or drag you down to failure.
I am at your command.

Half of the tasks that you do you might just as well
Turn over to me and I will do them quickly and correctly.

I am easily managed. You must merely be firm with me.
Show me exactly how you want something done.
After a few lessons, I will do it automatically.

I am the servant of all great people
And the regret of all failures as well.
Those who are great, I have made great.
Those who are failures, I have made failures.

I am not a machine but I will work with all its precision
Plus the intelligence of a person.

Now you may run me for profit or you may run me for ruin.
It makes no difference to me.

Take me, train me, be firm with me and
I will lay the world at your feet.
Be easy with me and I will destroy you.

I am called Habit
Author Unknown