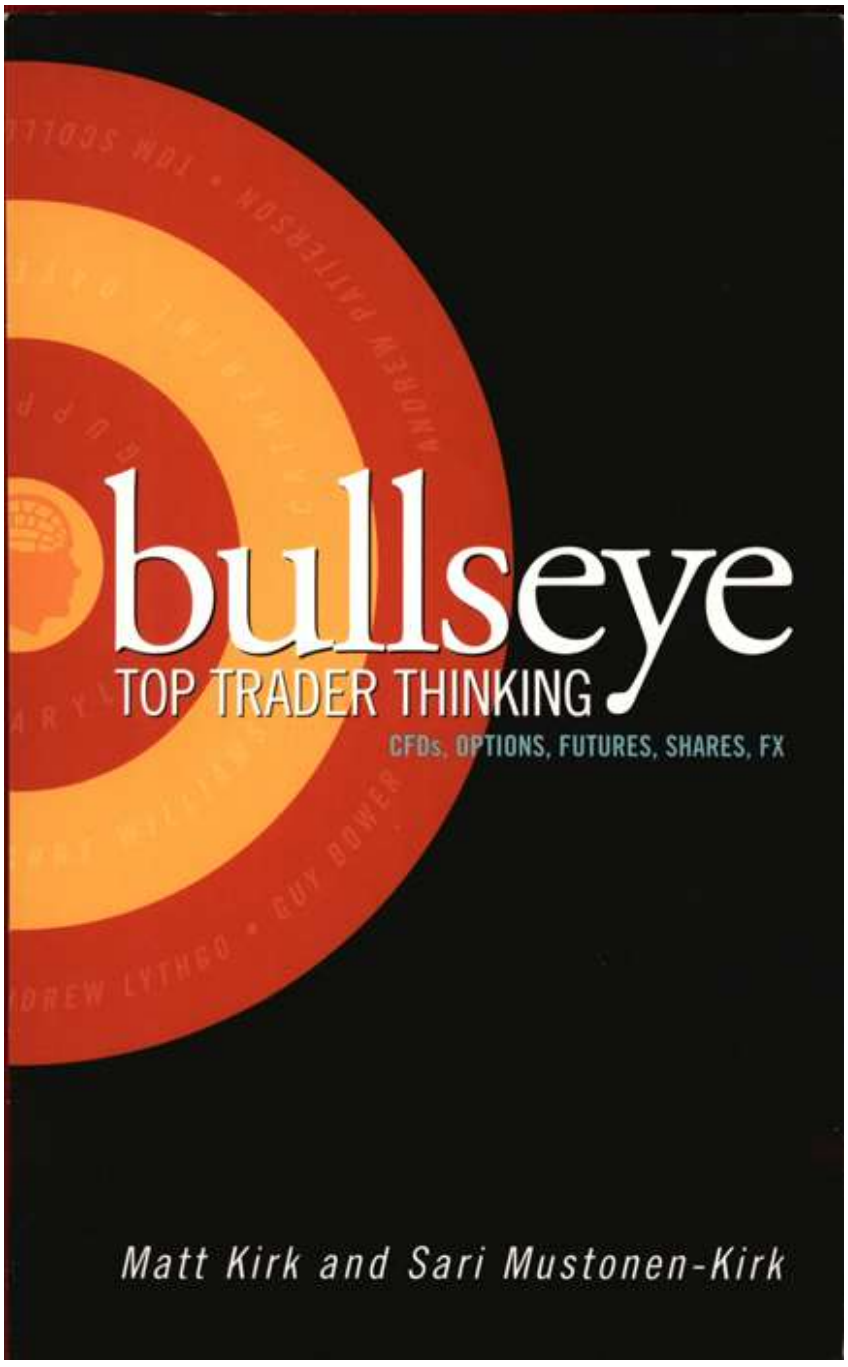
bullseye
TOP TRADER THINKING
CFDs, OPTIONS, FUTURES, SHARES, FX
Matt Kirk and Sari Mustonen-Kirk

This is an excerpt from the book Bullseye: Top Trading Thinking. For the complete book visit:

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Wrightbooks

First published 2006 by Wrightbooks an imprint of John Wiley & Sons Australia, Ltd

42 McDougall Street, Milton Qld 4064

Offices also in Sydney and Melbourne

Typeset in Berkeley LT 11/13.2 pt

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National Library of Australia

Cataloguing-in-Publication data:

Kirk, Matt.

Bullseye: top trader thinking.

Includes index.

ISBN 0 7314 0004 6.

1. Stocks. 2. Investment analysis. 3. Speculation. 4. Finance, Personal.

I. Mustonen-Kirk, Sari. II. Title.

332.6

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Cover design by Rob Cowpe

Author photos © Justine Townsend

Printed in Australia by Griffin Press

10 9 8 7 6 5 4 3 2 1

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Chapter 7

Psychology versus emotion

Fears are educated into us and can, if we wish, be educated out.

Karl Menninger — psychiatrist

We now turn to some of the key issues that stand in the way of traders becoming successful and, more importantly, remaining consistently successful over the course of their trading career regardless of the products or markets they trade. Some, or all, of these universal blocks (as we call them) can act as the thieves of your success time and time again. They are encountered by the novice, the experienced, the well-capitalised, the severely undercapitalised, male or female, the young and the old. Unfortunately no-one escapes without being affected by some, or all, of them at some point in their trading career.

At this juncture, however, let's define what psychology is versus what universal blocks are. Universal blocks will be dealt with in detail in the following chapter. The two concepts differ and it's the universal blocks that are in many cases the root cause of traders' lack of success, not psychology or psychological issues. Psychology is generally defined as being the science dealing with mental processes, human nature and the study of the mind of either individuals or groups.

So let's simplify the definition in relation to trading. Basically, psychology is the scientific or physiological basis for what people do, think or feel. While this is interesting, to study and understand psychology is not what will help you to become a profitable trader. So, if it's not psychology you need to spend time on, what is it? It's actually your emotions you must get a handle on. Generally speaking, emotion can be defined as: A state of consciousness where the feelings of joy, sorrow, hate, love or fear is experienced.

Ultimately, it's your emotions and how you deal with them that can create or help you avoid some of the universal blocks. It's also how you handle your emotions in general that may exacerbate fear, greed and ego in trading. Put bluntly, if you continually allow yourself to enter into states of mental agitation or disturbance then trading is not for you.

Investing your money in managed funds probably won't suit you either as they also have losing periods that may send you into a similar mental state. You may simply have to be content with bank interest, government bonds where the funds are more secure but the returns are low (compared with potential returns of a successful trading methodology), or making money through your job or business.

New traders need to know where and what the potential success thieves are; seasoned traders must never forget them, or become complacent as to how and where they can demolish their accounts. You must be aware of, but not waste time studying, the mistakes traders make. Divorce your trader's brain from the word psychology and replace it with the phrase, top trader thinking and, when it comes to the mistakes to avoid, think in terms of universal blocks or success thieves and, once again, not the word psychology.

It may sound like a small shift to make in your mind but it's an incredibly powerful start along the path of becoming a top trader as opposed to becoming or remaining a poor trader. So what is thinking? Thinking is the practice of thought. One who is capable of reflection. Put the words top trader in front of the word thinking and you arrive at — The definite act or practice of one who thinks successful trader or top trader thoughts. Obviously, it's the only way to think and it's the only place to be!

Successful trading is about developing the thinking and behaviours of the successful. Stack the odds in your favour, incorporate those elements that fit you personally. It's not about being a clone. As well as knowing what successful traders do, it's also about being acutely aware of what poor traders do and avoiding doing those things yourself. In a nutshell, you must do more than just know what top traders do; you must act and think the way top traders act and think. Conversely, there's no point just knowing what poor traders do, you must not act and think the way poor traders do.

Why traders win and why traders lose

Here are some of the reasons that may give rise to these behaviours — good, bad and ugly.

What's the one thing holding so many people back from trying new things? Fear of failure or a fear of success. If it's the fear of failing holding you back, let's put failure into perspective with this simple, yet revealing acronym:

Fear

Apachy

Indecision

Lack of purpose

See where this is heading in relation to trading? Purpose was touched on in chapter 2 but it will be looked at again more closely in coming chapters. Indecision can be overcome with a clear, thoroughly researched and robustly developed trading system. As for the fear and apathy — they're the ones that will keep cropping up unless you really get a grasp of top trader thinking.

Even top traders have weaknesses. It's the fact that they have identified and admitted them in conjunction with employing strategies to sidestep and manage them that makes all the difference.

> **Sari: What is your major personal weakness (or character flaw) and how do you compensate for this in your trading or investing?**
>
> *Larry: I'm not real smart so it takes a long time to learn things and I'm poorly organised — I have learnt to deal with it.*
>
> *Andrew L: Impatience; and I have never beaten it.*
>
> *Guy: I am easily distracted by other things. People have called me ADD, although that is such a 'in' term to use. I tend to have more than one project at any one time and at times, I find myself 'all over the place'. To stop this becoming a problem you just have to be honest with yourself and recognise when it is detrimental. I'm can also be hyperactive and anxious, but I wouldn't call them weaknesses. Others might, but I don't.*
>
> *Catherine: Impatience ... will always be a challenge for me in my trading. It helps to be a short-term trader when you are naturally impatient but there are times when it works against me.*
>
> *Andrew P: Impatience is my major weakness. I hate to think of the thousands of dollars of lost profits that I've missed out on from selling too early! I'm much better at buying than selling, which is a common fault of traders.*
>
> *Tom: A little sensitive — a little too introspective.*
>
> *Daryl: Ignoring bad news. I use automatic stop losses, trading planning and strict money management to defeat this tendency.*

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