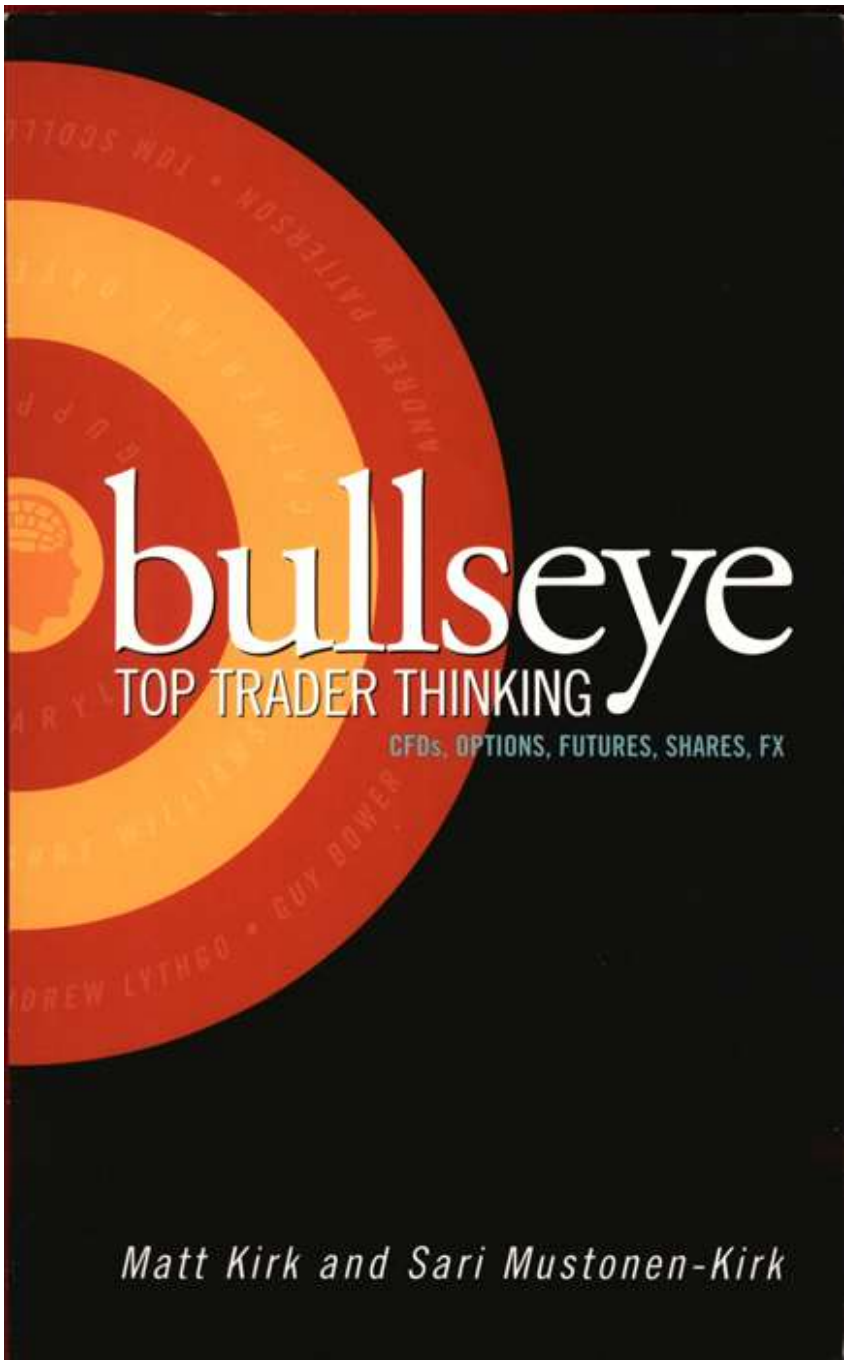
bullseye
TOP TRADER THINKING
CFDs, OPTIONS, FUTURES, SHARES, FX
Matt Kirk and Sari Mustonen-Kirk

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

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bullseye

TOP TRADER THINKING

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Matt Kirk and Sari Mustonen-Kirk

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Contents

Introduction
Meet the panel
1. Markets and products in the noughties
2. I wanna be a trader! — The power of purpose
3. Trader's inventory — realistic beginnings
4. The importance of fit
5. Systems — create or buy?
6. A world of resources
7. Psychology versus emotion
8. Universal blocks — the success thieves
9. The dynamics of change
10. Big picture thinking
11. Setting and achieving goals
12. Final thoughts
13. Index

Chapter 8

Universal blocks — the success thieves

When you make a mistake, don't look back at it long. Take the reason of the thing into your mind and then look forward. Mistakes are lessons of wisdom. The past cannot be changed. The future is yet in your power.

Hugh White — US politician

Universal blocks can point to areas where you need to build more mental muscle. Don't waste time fixing these perceived weaknesses; just learn to effectively manage them so you can get on with the job of being a top trader. All of the following descriptions of universal blocks have come from the mouths of traders — through our personal experiences with them either as clients, or at trading seminars. They appear in no specific order of importance.

1. Universal block — analysis paralysis

I thought the idea was to do as much research as possible, both technical and fundamental. Then armed with a great deal of knowledge I could trade profitably. The problem is when I pour over news and charts I don't know whether to buy or sell or hold. Invariably I end up doing nothing.

Analysis paralysis is a well-worn cliché in the markets for a reason — so many traders bump up against this universal block at some point in their trading careers. Often this condition is most acute in the novice trader, but it's one of those success thieves that can jump up and bite you at any time.

Price will reflect fundamental information well before you've figured out what it all means for the ongoing price of a share, futures contract or currency. While it is important to be aware of fundamentals such as report dates and announcement releases, dividend payments, seasonal tendencies and other big picture information such as holidays and expiry

dates, you can never be privy to every driver of market behaviour, so the most you can aim for is an educated guess. Have a good search around on the internet and try to stick to just a couple of sites you use regularly, rather than saving everything you come across in your favourites list. A small amount of great information can be a lot better, and less confusing, than masses of information that may lead you into information overload.

Top trader thinking — K.I.S.S.

'Keep It Simple Simon.' The problem with poring over a mountain of reports is you can find a mountain of facts at any one time to support the likelihood of a market or company's stock price falling or rising. The questions you need to be asking are: how much will the market move? When will the move commence? When will the move end? These are timing issues as opposed to directional issues. Simple technical analysis can help to refine your fundamental views and provide you with actual entry and exit signals to get you trading instead of analysing. Choose a couple of simple methods that fit with you, are easy to understand and have the least chance of giving you all at once reasons to buy, sell, hold or do nothing at all.

2. Universal block — procrastination

I have every good intention of doing my charts and placing trades but I find I can always find something else to do instead that's more fun or interesting.

The condition of procrastination is slightly different from analysis paralysis in that in the first scenario you're too close to the market, and in this one you're too busy (lazy?) to get close to the market.

Do you really have a keen interest and a passion to trade or are you just wanting to trade because you think it's a good way of making money on the side? To do anything well you have to love doing it — it has to be a part of you. You'd remember this from school. The subjects you liked tended to be the ones you excelled at and vice versa. When it comes to some subjects you have to study reorganising your pencil case may seem to be much more fun than getting on with the job. Perhaps you feel as if you should trade to validate the money you've spent on trading books and seminars and that's perfectly natural. However, if you're honest and admit you're not really interested after all then stop beating yourself up for not getting into it boots and all. Find another way to make money that really does interest you.

On the other hand, if you are truly interested and passionate about trading then it may be you're trying to follow or trade too many companies or markets. Just as you can't be all things to all people, only a rare few can successfully trade a wide range of different products, time zones and markets all at once. Top traders generally focus their energies on a small selection of markets or companies where they tend to make consistent profits.

Top trader thinking — regime

Add some regimentation to your trading by setting an alarm to go off at a set time each day. Choose a time when you won't be disturbed for an hour or so and get into it. This level of regimentation can really help in drawing the most out of your trading without it being a chore. Over time you'll program yourself to do your analysis at a certain time each day with the minimum of fuss and stress. Reduce the number of markets, sectors, companies or products you trade — better to specialise and do one or two things well than several things poorly. Become an expert in the areas that truly interest you.

3. Universal block — trigger shy

I do my charts and I know what I should do. However, at the point of actually placing the trade, 1 freeze and then convince myself I should just wait and see what happens as opposed to risking any of my capital.

This frequently occurring and frustrating universal block amongst traders is colloquially referred to as a fear of pulling the trigger. It is often brought on by a string of losing trades: you become trigger shy, fearing every trade will be a loser. It is different again from the previous two universal blocks: this time you know what to do but just can't bring yourself to do it. This debilitating condition means that when you do re-enter the markets even a small loss can act as a catalyst to further batter your already fragile confidence. Anyone who's had a car accident will know what we're talking about - getting back behind the wheel can be very tough indeed.

Top trader thinking — take a breather

Paper trade the next five signals your system generates to assist in getting your trading confidence back. In your mind, actually visualise trading well, with ease and with detachment. Feel and see yourself closing out trades with small losses and at nice profits as you trade your system in your mind. Practise these visualisation techniques for three minutes, two or three times a day.

Ask yourself, can you really afford to lose any of the funds in your account at this particular time? If you can't, then stop trading until you can afford to lose. Do you have any other situations in your life taking up either financial or emotional headspace? If so, then stop trading until you've sorted them out so your trader's brain is clear and focused on trading as a top trader. These situations can include moving house or office, your child's wedding, relationship problems, having the flu or just not feeling on top of everything else in your life at this time. To carry on regardless will invariably mean you won't do anything well, creating a double dose of stress and frustration to cope with when you (and your trading) can least afford it. Go easy on yourself and your trading account — the markets will always be there when you're ready to return to them.

4. Universal block — being obsessive

Trading dumps me square in the front seat of an emotional roller-coaster. When I'm in a trade I can't stop thinking about it and hoping I'll make money and, at the same time, hoping I won't lose money. This churns my brain and I know it reduces my ability to make sensible decisions in the markets. I heard someone say 'a loss is not a loss until you take it' and that has cost me dearly. I just hate losing in anything I do.

This time you've managed to get into the trade but you are still consumed with the possibility of losing. It begs the question — are you sure you're trading with purely surplus funds? If not, it's impossible to be unemotional. If, however, you are trading with surplus funds, and you can afford to risk your predetermined amount of capital without compromising your lifestyle, then there may be other points to address. Perhaps you're not confident in your trading system? Maybe you've taken huge losses in the past that are now coming back to bite you emotionally? Or maybe you're just not cut out for being a trader as you can't truly accept the concept of losing? Trading is not supposed to be exciting and it's certainly not supposed to be mind-bending to the point of distraction either.

Top trader thinking — prepare to relax

At our seminars we refer to 'the emotion stick'. On one end of the stick there's the deep, dark depression you can fall into when you're losing. At the other end is euphoria — that is, the excitement of winning. Both ends can be as dangerous as each other because at either end you won't be making sensible and prudent decisions in the market on a consistent and uniform basis. Depression brings with it anger and frustration, which can manifest itself either in taking big risks or not being able to trade at all and subsequently missing a string of winners. On the flip side, euphoria can usher in feelings of being able to walk on water or a superman complex, which can express itself in taking risks that are too big for your account size, or punting and gambling. As you can see, neither is good for you or your account.

The place where you need to position your trader's brain is in the middle of the emotion stick. What's that we hear you say, 'booooring'? This may sound boring, but trading is not supposed to be a constant rush of adrenalin. Yes, it can be enjoyable, rewarding, challenging and fulfilling but if it's surrounding you with waves of excessive positivity or negativity, then beware of the traps at either end of the stick. Do your best to stay on an emotionally even keel, so trading decisions are made in a uniform fashion and are based on your written down and disciplined trading mandate and system. Try to remember, it's a collection of trades that makes a trader not a single trade.

Another strategy to combat obsessing, is to place your trade and your stop loss and then do something else to occupy your mind so you can't think about the markets. This is what top traders do — they take steps to ensure they have a life apart from trading. It's hard to hit a golf ball and think of something else at the same time. Of course, if golf isn't your chosen pastime there are hundreds of other activities requiring your undivided attention, so find one that works for you and do it. Take the time to prepare well for your trading activities and then you can relax and just do it.

5. Universal block — Murphy's Law

I talk to other traders and ask them what they're trading and I also have a broker who recommends trades to me. However, whenever I jump on a trend my friend is on, the trend ends. When I don't get on board, it keeps going. As well as this, I occasionally take recommendations from my broker — the problem is I only ever seem to choose the losers and never the winners. This leaves me very frustrated and confused and it makes me feel like I'm jinxed or something.

For some reason Murphy's Law works perfectly when it comes to picking and choosing between trades as you'll see from Matt's personal experience over the course of his recommendation programs.

Matt: 'In 1997 I started making trade recommendations. I had no fear as it was a new process and the clients who were taking my trades hadn't churned themselves to death in their own trading, which meant they were emotionally and financially intact. Basically, we were all green, not in knowledge and ability, but green as far as fear was concerned.

The rules were simple. I'd recommend an outright trade in, say, cocoa and I'd be aiming for a risk/reward ratio of around 1:2.5 which meant our stops were around AS500 and our winning trades were around 2.5 times the losses or approximately A$1250. I'd call each client and advise them how many contracts they could take based on their account size. I'd place the orders — sometimes market orders, sometimes limit orders, and sometimes buying or selling on a break of support or resistance levels, that is, stop entries. My analysis was done on daily charts and 1 also used simple seasonal analysis, which meant I'd be very keen on buying a commodity if the seasonal tendency was bullish and vice versa. As a confirmation tool I used the average directional index or ADX (a strength of trend indicator). To protect the downside risk all the orders were placed as 'if done stops'. If we got stopped out it was a loss of around A$400 per contract which was palatable to our clients. And away we went. Right off the bat we had eight winning trades in a row (between 26 February and 10 April 1997) which meant a standard A$20000 account soared to AS32 129, a 61 per cent return in just six weeks. We traded outright futures contracts in gold, cocoa, sugar, wheat, orange juice, live cattle and feeder cattle.

Most clients had taken every trade; a few, however, had picked the ones they thought were going to be winners and they were also ahead, but not as much as the clients who took every trade. Word spread and more clients came on board. The next recommendation on copper was a small loss, the one after that a tiny profit in soybean oil, then a good profit in cocoa, then two losses in gold and orange juice. This is how trading goes; small losses, small profits, big profits in whatever order. The problem was that many clients were now picking and choosing which ones to take and which ones to leave alone. This made me start to pick and choose between what I would recommend — I got cold feet in a way and realised pretty quickly that not only clients could pick the losers and not the winners but I too could fade (not take) one of my own signals. I was witnessing some of the clients choose only the losing trades as well as starting to listen to other sources of input.

The interesting thing and my saving grace was that, if all 25 trades were taken between 26 February and 30 October 1997 (a period of just eight months), the return would have been a staggering 110 per cent! (Based on a A$20000 account turning into A$41910.) Anyone who had started at the beginning still made money overall but it wasn't 110 per cent as in the end everyone started choosing, or if they weren't available to take the trade, they missed out. Often the recommendations they missed out on were the big winners and the ones they chose or were available for were small winners or losers.

I stopped the recommendation process soon after global sharemarkets took a nosedive on 20 October 1997.1 was simply too busy with the fallout from the crash and I couldn't focus on a range of other markets at the same time. In conjunction with the crash of 1 9 9 7 ,1 decided I didn't want to continue unless everyone was going to take every trade. Some clients thought I was a guru, some thought I was pretty good and some had uncannily picked only the losers so you can guess what they thought of me! It would have been wonderful if I could have told participants ahead of time which recommendations would be losers but then, of course, if I thought I was going to generate a losing trade I wouldn't have recommended it!'

Top trader thinking — trust your analysis

If you've put the work in to develop a winning trading system then please do not pick and choose at random between the trades your system generates. Often the ones that look the least likely to succeed will be winners and vice versa. Allocate a certain amount of capital to the system you're trading or to the recommended trades you're taking and if you get to the point of, say, a drawdown of 20 per cent (or whatever fits with your risk/reward profile), then stop and review the entries and exits to determine if any of them ever really had a chance of being winners in the first place. As your knowledge increases you'll become more skilled at identifying whether certain trading systems have merit or not. When you are convinced that your system truly is a winner, then take every signal and get into the trade. Conversely, get out when your system tells you to — don't try to second-guess at the last minute.

6. Universal block — all hail the guru!

Sometimes I question my own analysis when I hear another trader who I think is 'bigger and smarter' than me doing or saying the opposite to the direction of my trade in the market. On many occasions this has forced me to exit my trade at either a small profit or a small loss. Then I find that if I'd hung on I would have done really well.

Under this scenario you've got a much better handle on your top trader thinking than under the previous universal block scenarios. However, just as Matt was able to be swayed in the previous story, you are still able to be spooked at the last minute. Especially by someone (you perceived to be) more experienced taking an opposing view.

This is a common problem for new traders, as many feel they haven't paid their dues yet. Surely those already in the market must know more than they do? Larry Williams tells a great story in relation to listening to others. A big trader finds out what side of the market Larry's on in the US 30-year Treasury bonds (T-Bonds) and calls Larry to ask him why he would have that position in the first place (a highly irregular and annoying thing to do). In any case, Larry feels a little unsettled by the call; however, as a top trader he has a plan and a methodology, so he sticks to his trade and keeps his stop loss exactly where he'd originally placed it. He's short the T-Bonds and the stop is placed at 17. He watches the market trade higher— 15, 15.5, 15.5, 15.5, 16, 16, 16.5, 16.5, 17 offered! Then 16, 15.5 and then lower to see him ultimately make a profit on the trade. Had he listened to the other 'Mr Big' he might have panicked at 15 or 16 and ended up with a loser. The moral of the story - who cares what others are doing and who cares what others are saying.

Top trader thinking — march to the beat of your own drum

You have your system, you know where you'll enter and you know what to do as the market goes in your favour. You've also placed your stop loss as soon as you open the trade and this stop order is only ever trailed with your position, not moved further away or taken off completely if the price gets near it. Simply sit back with detachment and allow the trade to unfold.

Never ask someone's opinion or advice when you're in a trade and never let someone find out what position you have in the market in case they decide to offer some kind assistance. If someone does find out what side you're on and calls you to question you about it hang up before they get a word in and then take the phone off the hook!

7. Universal block — easy come, easy 90 ...

Whenever I make money really quickly in the markets, I get slack with my stop losses and I start executing trades that are not within my system rules. I feel I can afford to take some punts and often I just lose money anyway and this tends to kick-start a losing streak as I try to play catchup.

Always keep in mind that a trade done outside your system is not a trade, it's a punt. Suppose your account has gone from $50000 to $100000 in the space of a few months. While this is great, it can be a lot more difficult to hang on to profits as opposed to making them and this is because many traders in this situation become complacent and say things like, 'I've had a great run so I'm happy to take additional risks. It's just profit and not really my money anyway. In fact, some of what I've made is now play money.'

Would you do this in any other business or would you seek to build on your success? For some traders easy come, easy go is exactly what happens, yet it doesn't and shouldn't have to be that way. In some instances it is a good idea to take a break for a period of time (a

day, a week or a month) to allow your trader's brain to come back to reality and equilibrium so when you recommence trading you're nice and fresh.

There's no sense in throwing any part of your account down the drain simply because the profits came quickly. Making money is not necessarily the hardest part of the equation; it's keeping it and building on it that sorts the top traders from the poor traders. You want to be a successful trader for years not another flash in the pan statistic.

Trading discipline is the mandatory requirement to force yourself to execute a trade generated by your system, as soon as you get the signal, whether you think the trade is going to be a winner or not, whether you've read or heard rumours to the contrary or not.

Top trader thinking — all profits are sacred!

Regardless of how much you've made and how fast you've done it, stick to your system. As a part of your trading methodology, include a rule that if you make, say, 10 per cent in one month, you'll pull it out of your trading account and invest it in something else like real estate or some other income-producing asset, or else donate a percentage of the gains to a charity. This helps you to hang on to profits as opposed to seeing a big account balance dwindle as you gamble a portion of it away.

6. Universal block — got a hot tip?

Sometimes I hear about a hot tip but I'm not sure if I should take the trade or not. I've arbitrarily chosen between them, which has meant I have left some really good ones alone and, of course, lost on the ones I did take.

This is a particularly seductive case as it comes cloaked in the guise of a secret opportunity and we all love being first to get in on something new. Let's face it though — some tips are hot and some are not. The problem is you never know which one is a real one before you act on the tip. 'Will the real hot tip please stand up?' Unfortunately it doesn't work that way. The other issues with hot tips are:

- Where do I take profit if it's right?
- Where do I take the loss if it's wrong?
- What price do I initially buy or sell at?
- Do I wait for a new high or low before doing anything?

Top trader thinking — easy does it

If you want to get on board a hot tip (just in case it turns out to be the trade of the century) make sure you go small to begin with. If it's going to be a big winner then a small investment will reap huge percentage returns anyway and you can always add to your

position when the tip is confirmed by some real fundamental or technical data. Focus on the percentage returns and not the dollar returns. Don't be greedy or mortgage your house to do it. That way if it turns out to be a dud you haven't lost much. For example, if you have a $50000 account then you could buy $2500 worth (five per cent of your capital) of 'Hot Tip Mining' at, say, 50 cents a share. Then place your stop. For example, if 'Hot Tip Mining' falls through the natural support level sitting at 35 cents, then get out with a loss of only 2.5 per cent of capital. If it shoots to $1.00 then sell half and you have the remaining half for free. If you don't agree with these numbers that's fine — we wouldn't suggest any higher risk than this but it's up to you if you wish to risk more or less. In your trading career you probably won't be able to resist at least one or two potential hot ones, after all you're only human. Just have some game rules and stick to them, as getting caught up in the euphoria is very easy.

Admit you're punting and not trading. Don't kid yourself; many hot tips can have as little to do with trading as buying a scratch lotto ticket. If you win it's probably more luck than good management. It's like playing lotto for a bit of fun when there's $20 million up for grabs or betting on the horses once a year at the Melbourne Cup. Taking these longs shots should not become a part of what you do in your trading business. Everyone's different so this one is hard to put a limit on but, as a guide, if hot tips account for more than five per cent of your overall trades or you're taking more than about four a year, then it may mean you're a gambler and not a trader.

If you want to be a prudent hot tip taker then look at a chart of the last year or so and only buy or sell on a break of resistance or support. Don't just buy or sell with your eyes closed without at least some confirmation that prices are likely to go higher or lower. This may mean you miss out on the start of a move if a share goes into a trading halt. For example, if what's being rumoured is true, then the exchange may stop trading pending a company announcement confirming the rumour to be fact. If this happens a share trading at, say, 35 cents may reopen after the halt at 50 cents so you've missed buying cheaply. Depending on the news you may wish to pay up for the share at 50 cents or more but that's up to you. Sometimes it can pay to chase a share and sometimes chasing a share means you'll be paying top dollar for it only to find a week later that the price has halved.

Even top traders have admitted to the occasional flutter but when they do they risk only 1 per cent, or less, of their capital. It's a bit like a racing car driver pushing hard in a practice lap before the tyres are hot and sticky — they know they shouldn't but they do every now and then for a second or two and not the whole way around a track that is filled with other cars.

If you do take a hot tip then immediately place a stop loss that if hit won't be a loss of more than a couple of per cent of your capital.

Top trader thinking — imagine you have shareholders

Top traders see themselves as and act as chief dealers of their own fund — they are known for a particular trading style and for the particular products and markets they trade.

They don't just punt randomly and trade the bio techs one month only to become bored and jump to the next 'exciting' sector. They stick to their strategy and know at any point in time how they'll conduct the next trade and how they'll employ the techniques they know work best for them. They don't care what others do; they care only about what they do. As a fund manager your investors have signed off on what they'll allow you to trade (called a trading mandate) and that you'll trade only within certain mutually agreed parameters.

This is what top traders do — they don't deviate from their mandate. Ask a top trader about a market or methodology they've never traded and invariably they'll say something humble like, 'Oh, sounds too hard for me, I'm happy with my simple system in the euro.'

9. Universal block — no discipline

I actually have a system I devised a couple of years ago. Funnily enough, it works well but I only use it occasionally as I 'forget' to stick to it.

Always keep in mind, a trade done outside your system is not a trade, it's a punt. Like the got a hot tip? universal block, if you suffer from a lack of discipline you'll be taking trades with no rationale behind any of them. If there are Ten Commandments of trading, then number one is stick to your system. Now we know everyone tells you to do this, and you'll still forget to at times, but one of the best ways to manage it is to have your trading mandate and trading system (your big picture and specific trading rules) written down in big, bold print, framed and stuck on the wall right in front of your face.

Top trader thinking — I win because I trade my winning system

Write out a copy of your trading system rules and stick them up in front of you at your computer as well as on the bathroom mirror so you can't forget to follow them. Try chanting your rules when you go for a walk or exercise. Sing them in the shower, in the car, when you're going to sleep at night or upon waking in the morning.

Sure, you may feel strange and even a bit daggy doing this, but you'd have to agree, it's better than being a poor trader. You're simply programming your trader's brain to stick to what you have said you are going to do.

10. Universal block — overload

If I let trading take over my life I feel out of balance. When I get too close to it I imagine things are happening when they're not. This leads me to losing the passion for trading.

Do you remember the old black and white movies where a couple of parched explorers are lost in the desert? Invariably, as one reaches the top of yet another sand hill he sees a bunch of lush palm trees surrounding an oasis of crystal clear water. The oasis in the desert phenomenon can happen when you try so hard to find a trade that your brain starts to

become a little fuzzy and you begin to see patterns and opportunities that are not there in reality.

Top trader thinking — be systematic

A great way to keep on track and to prove whether or not you're actually following your system is to use your trading diary for every trade you make. This is where you note the reasons why you entered a trade as well as other standard information like entry and exit price, time you placed the order and who you placed it with if you deal with a phone broker.

If some of the trades you take are not in your system they'll stick out like a sore thumb and you'll probably also find that the ones you take after seeing an oasis in the desert are not profitable anyway and cause the most confusion and frustration.

Top trader thinking — get a life

Pursue other interests in your life to allow your trader's brain to take a rest. Something that makes you forget you even trade at all. Activities such as cycling, running, gardening and golf can all assist in taking you away for a while.

Have other sources of income totally unrelated to trading so you don't have to rely on trading profits to pay your everyday living expenses. Plan a regular social meeting with a friend or family member at least once a week where you just shoot the breeze. This means no talk of the markets, profits or losses, or blabbing about a new Holy Grail sure-fire system you dreamt up last night.

11. Universal block — gimme, gimme, gimme!'

When I enter a trade I immediately calculate in my head how much I'm up, how much I'm down and how much I'd make if it went to a certain level. But often I take the profits too early. I see the profit in front of me and can't help closing out the trade only to see the market move even more in my favour. It takes my focus away from my system and my plan, which is what I should be following.

As with so many of the other universal blocks we are again faced with an underlying fear of loss. Sometimes losses are due to taking trades that are not part of your system but just as often those losing trades are simply part of the process.

Many top traders don't count their wins or losses in terms of dollars — they count them in terms of points. It's a mental trick to divorce the brain from the tangible and spendable outcome. Traders focus on putting up points on their scoreboard as opposed to thinking or talking in terms of what they could buy with their gains. How much you make or lose on one particular trade is essentially beside the point. Your scorecard is based on a number of trades over a period of time (generally six months minimum).

Top trader thinking — back to basics

If you're trend trading then the only way you should exit the trade with a profit is when your trailing stop is hit or if you get an opposing signal from your system. To set a profit target in a trend or to arbitrarily take the money and run means you'll never enjoy a big win. The idea is to pull out around 70 per cent of a trend. Some traders say, 'a profit is a profit', but only realising 10 per cent of a move is leaving too much on the table. Traders need some really big profits occasionally to make up for the losers and the break-even trades. You'll never get rich taking small profits unless your success rate is about 90 per cent.

Being scared to lose any amount of profit already in a trade will force you to place your trade exit far too close to the current market price. You'll find in doing this that you might equally well have got out with a bigger profit than when you gave it what you thought was room to move. When placing a trailing stop, make sure it's at least a few points or cents above or below the most recent support or resistance level in the market (depending on whether you're long or short). In this way, you're only taking profit when a certain price point has been reached as opposed to just getting out because you feel scared of giving up any of the profit you've already made. Exits should always be placed at a given price in the market not because of an emotion you are feeling at the time. Your emotions are not uniform or real to the market — price is the only determinant of whether a market is continuing to go in your favour or not.

12. Universal block — 'but I love the company...'

I often trade particular shares because I feel some affinity with them. This doesn't necessarily translate into profits, though, as I get stuck in a trade and sometimes don't want to sell my position due to my feelings for the company. In fact, some of my biggest losing trades have been due to some weird love affair with a stock that kept turning more and more sour as I sat and watched over the course of several months.

Falling in love with a stock or marrying a position is a very dangerous thing to do. Your task as a top trader is to make a higher return in the markets than you could achieve if you employed your capital in some other role. You put your funds to work and you are their boss. Don't get so wrapped up in a good story about a trade that you fail to see the wood for the trees. If the story is good yet the price of what you've bought is falling then exit and look to employ your money elsewhere — some place where the story is good and the price is advancing.

Companies themselves, the media, brokers and newsletter writers can weave magic with words; however, the proof's in the pudding. If it doesn't taste nice then it's not worth eating no matter what marketing departments or advertisers try to lead you to believe. Of course, the reverse is true if you're bearish on a market or company. If the gloom and doom you heard about hasn't caused the price to tumble then maybe it's not going to at all. Perhaps the real players in the know have used some rumours of gloom simply to accumulate more at a lower price before the price advances.

A special word of caution here for those short selling in the sharemarket. If rumours about a company are bearish — that is, negative — and the suggestion is that its price will fall and it doesn't, then look out. You may find yourself at the mercy of what's called a short-squeeze, meaning just what it says. Even if there's no trading halt buyers may force the price up so rapidly that all the short sellers are squeezed into a corner to a point where they all become buyers as they scramble to cover their shorts, further fuelling the rally.

To set and forget or bottom-drawer a trade most often occurs when you've taken a position and the price has subsequently moved against you. You either have no stop loss in place or, if you have placed one, it's now miles away from that level. You tell yourself, your friends, your broker and your partner, 'It's OK, it's a long-term investment.' You've got yourself into a silly situation of denial and you've redefined the meaning of the word trade to mean, 'I don't know what to do, it's gone too low, I can't close it now as the loss is too much, it'll come back ... *blah, blah.'* You wouldn't be in this situation if you'd followed your system and placed a stop loss as soon as you'd entered the trade.

Top trader thinking — love people not markets

If you place a stop loss every time you enter a trade then you won't fall victim to falling in love with a trade. People are for loving — markets, companies and trades are there to make you a profit, not seduce you.

13. Universal block — revenge

I've felt angry at a market or share when I've taken a loss trading it. I have the strange desire to get back at it and to teach it a lesson. I know this is quite bizarre but it happens to me occasionally. Furthermore, I've never succeeded in whipping a market or share any of the times I have done this, which makes me even angrier at the time. Maybe I should just call it quits and come back to reality.

Have you ever felt like this? Don't worry if you have because you're not alone, but here's a news flash ... the markets or shares you trade don't know you from a bar of soap. They don't see you coming, take your money and then run away laughing while calling you funny names. Conversely, if you have had a string of winning trades in the one share or market, it doesn't mean you'll always win in that market or share. Sometimes even the family dog can turn around and give you a bit of a nip on the leg.

Top trader thinking — don't take it personally

If you aren't controlling your emotions then take a break from trading that market or share. If it's really bad then don't trade that market or share again. There's plenty of fish in the sea you know.

All of these set up a love-hate relationship with the markets, exactly the opposite of the unemotional state you want for trading effectiveness.

14. Universal block — 'I'm sooo bored I need a trade, any trade!'

When I was at work I was used to a bit of noise but now I'm at home trading full-time it's so quiet. Sometimes I sit there for hours and I don't get a signal based on my system at all. At this point I occasionally take a trade just to break the boredom and so that I feel I'm actually doing something. I thought being a trader would turn my life around in a whole lot of ways.

Trading is a lonely business — being alone in a room for hours on end can be boring and potentially soul-destroying for some people. This can lead to punting and inventing trades just to provide some excitement and adrenaline.

As we've said before, if trading was easy we'd all be lying by the pool with a Singapore sling in our hands. It takes time to learn anything and something as potentially fraught with emotional and financial danger as trading can take a lot longer to learn than you initially anticipate. Hang in there, stick to your system and plan. There are no overnight successes; remember, 'the harder you work, the luckier you get.'

Top trader thinking — get the fit right

Ensure your system fits with your personality and life, allowing you to actually have a life and not be stuck in front of the computer for hours, leading you to gambling and seeking excitement.

Find a trading partner to keep you honest in your trading, or keep a trading diary and you'll soon see when and in what environment you start to gamble and seek excitement. Are they trades you tend to win? If not, stick to trading only within the parameters of your system and plan. This is also where a trading partner can assist. Practise the choice of discipline and not the weakness of gambling.

Take regular breaks — don't watch every tick as if you were an X-ray machine operator at the airport. Do something unrelated to trading for 20 or 30 minutes. Go for a walk, wash the car, whatever — just restore your brain with some oxygen.

Are you sure you're disciplined enough to stay at home and trade every day? Is the coffee pot, the fridge or the big screen TV going to keep distracting you from running your business as a fund manager? Is your partner going to ask you to unpack the dishwasher, or pick up the kids right in the middle of your research and charting analysis? Or, worse still, right in the middle of trading the Nikkei intra-day?

Top trader thinking — persistence

Former US president, Calvin Coolidge had this to say with regard to persistence:

Nothing in the world can take the place of persistence. Talent will not; nothing is more common than unsuccessful men with talent. Genius will not; unrewarded genius is almost a proverb. Education will not; the world is full of educated derelicts. Persistence and determination alone are omnipotent.

If you've tested your system and it makes money then don't give up trading it just because you've had three or four losing trades in a row. If you know the maximum number of losing trades in the past, and the maximum drawdown, then there's certainly no reason to stop trading or fade a trade signal if it's within the limits of your back-tested results. If, however, your testing showed a maximum number of consecutive losing trades of, say, four, and you've just sat through five losers in a row, you may have to determine whether or not your system is still robust. Can your trading system withstand a trading environment that has significantly changed due to something catastrophic like September 11? Persistence is one thing, flogging a dead horse is another; you need to be aware of the difference.

Top trader thinking — commitment

There are traders who continue to bash their heads (and accounts) against a wall and all the while wonder why they're not a top trader. In almost 100 per cent of cases it boils down to a lack of commitment or not fulfilling one or more of the five basic fundamentals of trading:

1. learn about the markets
2. learn about yourself
3. write a plan in the form of a trading mandate
4. develop a trading system
5. test and trade your system.

Table 8.1: signs you might have a universal block and what to do about it

Universal block	Emotions/ feelings	Behaviours/actions	Top trader thinking
1. ANALYSIS PARALYSIS	Confusion Apathy	Overwhelmed by information Unable to take a trade	**KISS** You can never know everything Keep your analysis simple
2. PROCRAS-TINATION	Lacking focus Passionless Unmotivated	Finding other things that need to be done Trying to do too much	**Regime** Allocate specific trading times Become an expert
3. TRIGGER SHY	Fear Inertia Confusion	Unable to take a trade on a valid signal Picking and choosing	**Take a breather** Paper trade Visualise success De-clutter your life 'I can handle it'
4. BEING OBSESSIVE	Worrying Nervousness	Constantly thinking and checking on positions Losing sight of overall strategy	**Prepare to relax** Keep it 'boring' Trade appropriate to account size Use stop losses
5. MURPHY'S LAW	Lacking confidence Needing validation	Picking and choosing Listening to others Fading signals	**Trust your analysis** Set limits Take every trade
6. ALL HAIL THE GURU!	Lacking confidence Feeling inferior Changing mind	Questioning own abilities and analysis Listening to other people's noise	**March to the beat of your own drum** Trade your system Place stops Seek your own counsel

Table 8.1 (cont'd): signs you might have a universal block and what to do about it

Universal block	Emotions/ feelings	Behaviours/actions	Top trader thinking
7. EASY COME, EASY GO ...	Over-confidence Too relaxed	Gambling Getting slack Forgetting the big picture	**All profits are sacred** Stick to the system Put profits to work in other areas
8. GOT A HOT TIP?	Excitement Greed	Going in blind Having no answers to basic trade entry/exit questions	**Easy does it** Be conservative Admit it's a punt **Imagine you have shareholders** Stick to your trading mandate
9. NO DISCIPLINE	Scattered Forgetfulness	Not taking trades on valid signals Gambling Inconsistent efforts	**I win because I trade my winning system** Develop rules and display them Rehearse and refine
10. OVERLOAD	Loss of passion Demotivated	Trading too much Getting out of balance	**Be systematic** Use a trading diary **Get a life** Pursue other interests See trading as part of a bigger picture
11. GIMME, GIMME, GIMME!	Excited Nervous	Closing profitable trades too early	**Back to basics** Trade the trend Trade appropriate to account size

Table 8.1 (cont'd): signs you might have a universal block and what to do about it

Universal block	Emotions/ feelings	Behaviours/actions	Top trader thinking
12. BUT I LOVE THE COMPANY...	False sense of security Loyalty Ego	Lying to yourself Bottom-drawering	**Love people not markets** Remember the bigger picture Trade to make profits not friends
13. REVENGE	Angry Hurt Disappointed Emotional	Taking losses personally Wanting to 'get back' at a market or stock	**Dont take it personally** Take a break Revisit your strategy for good fit
14. I'M SOOO BORED I NEED A TRADE. ANY TRADE!	Boredom Loneliness	Seeing things Gambling	**Get the fit right** Fit trading to your personality and lifestyle goals **Persistence** **Commitment**

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

www.MasterClassTrader.com

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