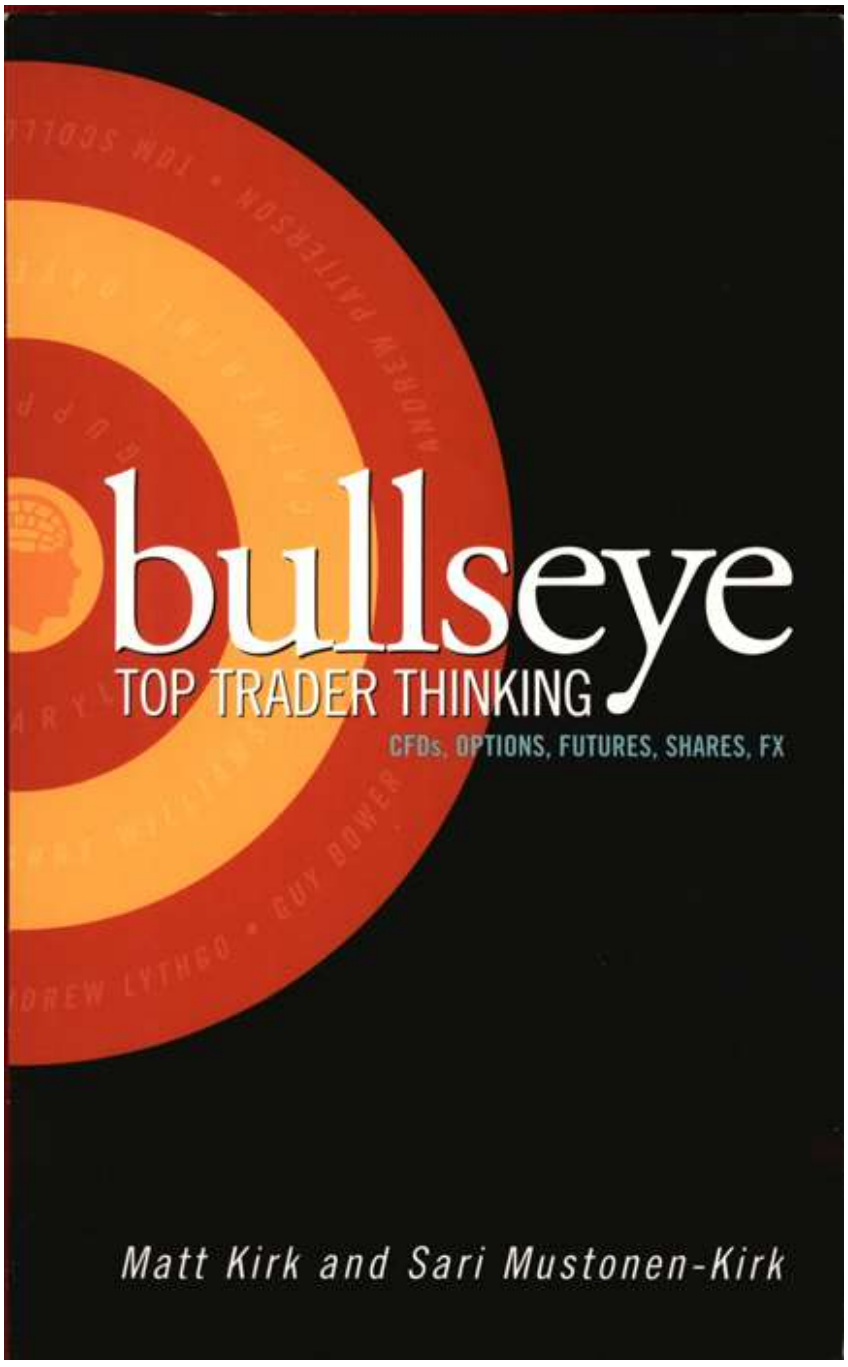
bullseye
TOP TRADER THINKING
CFDs, OPTIONS, FUTURES, SHARES, FX
Matt Kirk and Sari Mustonen-Kirk

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

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bullseye

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Matt Kirk and Sari Mustonen-Kirk

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The dynamics of change

The road of success is like running up an escalator going down, you need to keep running, if you walk, you stand still, if you stop you are going down!

Anneloes Zuiderveen

In every journey there are twists and turns, and that's what makes life interesting. The previous chapter was not in any way designed to turn you off trading, merely to illustrate how many emotions are flushed to the surface as a result of trading.

There are two ways to look at the world: your glass is either half full or half empty. If you see the glass as half empty, you'll have a negative take on life (and trading), seeing it as a struggle, a succession of problems, and generally a process that is unfair and oppressive. You probably don't expect much and you don't get it either. When things go wrong, you shrug your shoulders and passively accept that this is the way life is and there's nothing you can do to make it better. On the other hand, if you see the glass as half full, you'll see life (and trading) as filled with opportunities and possibilities, believing that everything happens as part of a great process conspiring to make you successful and happy. You'll approach your life, trading and relationships with optimism, cheerfulness and a general attitude of positive expectations.

Managing change

Everyone makes mistakes. On average 70 per cent of all decisions you make will be wrong! Some people fail more and some less, but you can almost guarantee that the busier you are, the more mistakes you'll make. The primary question you need to answer is, 'How effectively do I deal with the inevitable ups and downs of life?' It's not what happens to you that counts, it's how you deal with things that matters.

There are two skills anyone would be well advised to learn, and they are an absolute must for traders: the ability to learn from your mistakes; and the guts to cut your losses.

Intelligent people cut their losses and minimise their mistakes. It's only when you refuse to accept you've made a bad choice — and then add insult to injury by stretching it out and standing by the bad choice — that your mistakes become expensive and painful. Use your mistakes to improve yourself and the quality of your mind and thinking. Learning from your mistakes is an essential top trader thinking skill that enables you to develop resilience and become a master of change rather than victim of change. Those who recognise their mistakes and change direction the fastest will be the winners in this age of ever-increasing information, technology and competition. By remaining quick on your feet you can become a creator of circumstances rather than a creature of circumstances. Don't hang on to those losing trades with fingers crossed. Cut your losses and learn from the mistakes.

Change is as inevitable as the proverbial death and taxes and many people waste valuable time fighting the illusion they are able to control anything in an absolute sense. Making friends with change and learning to roll with the punches (seeing only your highest good coming out of everything you encounter) can help you immeasurably as you progress along your trader's journey. Be kind to yourself during the transitional phase and nurture your commitment to top trader thinking. Our experience in corporate and personal change and growth has shown time and again that major commitment and true passion are required to keep up momentum. Otherwise, you can expect to go through a series of forward/backward movements — which is okay too, as long as the overall direction is positive. Think of yourself as a chart; so long as the overall trend is going upwards, the occasional emotional drawdown, if managed well, is simply part of the process. It's your thoughts, feelings and beliefs that will be presented back to you in the form of your trading results.

Often new traders are heard lamenting about not being able to stick with their trading plan, wondering long and hard about the real reason for their failures. They come up with explanations such as self-sabotage and, 'Maybe I don't really deserve success.' But we don't believe this to be the case for the vast majority. More likely, new traders are simply experiencing the stress that often goes hand in hand with change and growth. Trading is stressful, and coping with stress requires psychological energy. Getting angry, frustrated, or disappointed saps your precious energy reserves. It's hard not to want to stop when you're tired, and the market seems to be moving against you. A tired, worn-out feeling has already crept in below the surface of your consciousness. You think you're adequately rested and alert, but you're not. This is not, however, the time to stop trading altogether. Take a break and you'll be amazed at how much easier you will find you can focus. Trading and sticking to a plan takes practice. You're learning to concentrate for extended periods, you're building much needed experience, and you're attempting to control your emotions all at the same time. What's more, your money (and often your ego) are on the line. Remaining calm, alert, and focused takes practice. Take it easy. Relaxed is the peak state for decision-making.

Everybody comes to their own 'aha' moments through different channels. Rarely is there an individual who is completely amenable to change, gliding effortlessly through life. Most people resist change in a multitude of circumstances and at various points in time. It's at these points of resistance that you need to question whether intuition is telling you to slow down, or whether you might be falling foul of old negative patterns or fears. Unfortunately,

many people have difficulty listening to their intuition and only at the point of personal crisis do they stop long enough to hear their own guidance. Add to that the nay-saying voices in their heads (and lounge rooms) telling them all the reasons to be careful and why it won't work, and it's easy understand why so many people stay in a rut to the point of mental meltdown.

Traders first have to find the courage to believe they can make money from the markets and then to believe they can perfect a way for the longer term. Whether you're new to trading or not, think back to what directed you to the markets in the first place and the courage it took to take those first steps. Here, our panel tell how they came to add trader to their list of skills and abilities.

Sari: Was there a turning point for you?

Larry: Not that I recall.

Andrew L: Not really — from early on I was a very consistent trader.

Guy: A bad ending to what I thought was a good business relationship forced me to be more focused on business issues rather than just trading or just the market. It also gave me a greater level of independence.

Catherine: I got a trading coach. I was interviewing a guy for a story on business doctors for a women's business magazine and spoke to a business coach. He specialised in design businesses but it got me thinking about how great it would be to have a trading coach. I was then researching a story I was writing about trading psychology and read an article by a trading coach, Chris Shea, in Your Trading Edge magazine. I contacted him for an interview and ended up hiring him to be my coach.

Andrew P: The turning point came when I realised that getting up each day and going to a regular job didn't interest me any more. I wanted to control the way I worked rather than be directed by someone else. I've always been my own person so it was a natural evolution really.

Tom: Yes, when I left the corporate merry-go-round 15 years ago I was on my Pat Malone — free but with some sense of 'being alone' and 'can I really pull this off?'

Daryl: Understanding that the market is about return on capital and not about a gamble on the future of an investment. Investors are the gamblers. They back an idea or belief no matter what price does, or whatever the financial pain.

Understanding that the market is a reflection of crowd behaviour and not a reflection of the business or economic activity of the companies that are listed.

Understanding that money management is the key to success rather than any indicator or trading system.

Understanding that a 50 per cent return is quite acceptable even if the original trading plan was shooting for a 100 per cent return. That is, trading success is built on many smaller returns rather than a big bang return from a single trade.

Understanding that getting it right is not what trading is about. Trading is about being profitable, so we must learn how to deal with the 30 per cent or so of failed trades.

[I brought] many of my thoughts and understandings together in Share Trading. The publication of this book changed the way I conducted my personal trading, and opened up new areas of activity.

A simple way to encourage yourself to change in positive ways and maintain the momentum of your decisions is to consider each move from the perspective of a natural driver of human behaviour: comfort zones. At each level, most people come up against their supposed limitations and comfortable behavioural patterns. Even though they think they'd like to experience a new level of success, they feel comforted by the known level in which they're operating. Whenever your trading falters, it helps to look at what comfort zones you've established for yourself, and whether the perceived comfort source is actually a hindrance to bigger and better things.

We have looked at several examples of how traders need to incorporate an acceptance of the dynamics of change into their trading style. Chapter 1, markets and products, clearly showed how markets can and do change in unpredictable ways. Through discussions with the panel you've seen that, as traders grow and change, this sometimes has a profound impact on their trading style and investment philosophy. Confidence in a system is a wonderful thing, especially when you're starting out, but the next challenge is how to grow through your trading experiences and incorporate your learning into a more reliable and refined style. Below are the panel's views on how a trader's style develops over time.

Sari: Has your style changed from when you started to now? If so, what was the catalyst for change?

Larry: Not really.

Andrew L: It did not change and I was brought back to the field due to this.

Guy: I was leaning more towards the technical camp when I first started. These days, I try to factor in information from different sources. So I will still look at technical analysis, but I also consider fundamentals, seasonal data, market sentiment and flow of funds. Then when it comes to options, I will also analyse volatility.

Catherine: I use my intuition a lot more and use less textbook knowledge. I think the natural evolution of a trader is to get an intuitive feel. It can be deadly when you're new to the game, but can be an amazing advantage when you have your discipline under control.

Andrew P: I'm a much more disciplined trader these days and I don't lose money nearly as often as I did previously. The catalyst was being introduced to technical analysis and charting and realising that you could understand the likely future performance of a stock by looking at its trading history. It's all about buying further down the risk curve ... not buying at the very top, something I was more prone to do previously. I also

research my trades much more thoroughly [now] whereas I used to be much more of a punter ... and paid the price!

Tom: My style today is much more disciplined — totally disciplined in fact — driven by the need to win/succeed and not to allow a loss or an asset to waste in any way. I simply enjoy the sport.

Daryl: I was more aggressive when I started trading because I believed the myth that the best returns came from catching the trend change or reversal. An objective analysis of the charts shows that trends deliver superior consistent returns, so I no longer stress out trying to catch rebounds.

I am aggressive in trading high probability chart patterns. I aggressively seek flags, triangles, stirrups and a handful of other rigorously defined patterns. These offer high probability and high reward trades with well-defined risk points.

My focus is now more rigorously on the high probability trades that offer the best risk/reward ratio. I have come to understand how to use money management so that the high-return high-risk correlation is broken. This is achieved through better chart analysis and by better money management. Most people do not understand how the 2 per cent risk rule operates. Of those who do, there are even fewer who understand the relationship between this financial stop loss, the use of support levels based on chart analysis, and the way this impacts on position sizing.

Understanding that this is where the trading solution rests is the most important step towards long-term success. The key understanding is that the trading methods and risk management methods used by large investors do not scale downwards. Small accounts need different risk management approaches. Risk management is scaleable upwards above $ 1 million. It is not readily scaleable downwards for those with small accounts of fifty thousand or less. And for most people, this is the size that they start their trading with. They start trading with spare capital, not with their savings. We all start small, but few people talk about effective ways to manage the risks of trading at this size.

As you experience more you can choose to learn, or to suffer, from your mistakes; to be humble or to boast about your victories. You can use bad experiences as fuel for negative and self-limiting thinking, or you can use them as stepping-stones of learning to becoming a better, more consistent trader.

The trader's diary

The most common tool used by traders to improve trading results through a study of change is a trading diary. Building on the recordkeeping suggestions in chapter 6, you can add several columns alongside the recording of the actual trade data. Table 9.1 shows a simple idea you can adopt.

Table 9.1 Trading diary

System used	Rules followed	Rules broken	Rationale for trade	How I felt at order placement	How I felt upon confirmation	Lessons learned	Future actions

Keeping this diary for as few as 33 days of trading will radically improve your performance as you begin to recognise the patterns of thinking and behaving that lead to you winning and those that constitute your own private success thieves. The whole chapter on universal blocks was a study of change in itself: transforming negative and limiting behaviours into positive habits to propel you more smoothly toward your desired end results.

Managing other people's expectations

Before leaving the subject of change, there is one more point to cover — managing other peoples expectations. A funny thing happens when you decide to make a personal change: everything you are linked to has to change in some shape or fashion also, to accommodate your shift in behaviour or attitude. This can cause ripples of anxiety in those close to you. Consider this — you want to become a full-time trader and you currently have a steady job. Your decision to change your personal circumstances will have a direct impact on your family and other dependants. Your partner may not like it; he or she may present you with all of the reasons why it won't work, why you should wait or why it's too much of a risk. On the other hand, you may be supported in your initial decision and feel encouraged to make the change, and may not be presented with the challenge of dealing with others' expectations until your first few losing trades. At which point your number one fan may suddenly turn into your meanest critic and cause you to let go of the last shreds of confidence you were clinging on to.

Managing others' expectations is a much easier task when you are clear in and committed to your intentions. When people are questioning you, don't buy into their doubts and fears, especially if you know you've put the work in and are committed to seeing it through. You may be surprised how quickly you can diffuse someone else's worries when you can show them you:

- Know what you're talking about.
- Know where you're going with it all.

By studying the earlier chapters on markets and systems you can well and truly illustrate that you know what you're talking about and now, with the benefit of the following chapters, you'll be able to show you know where you're going with it by developing your overall plan and setting appropriate goals.

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