Identify The Blocks Of Winning Psychology

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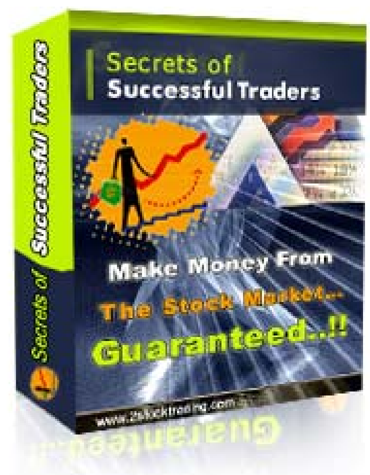

Entering the stock trading industry can be described as entering **a war zone.** Without the **proper tools, scouting devices, ammunition and strategy**, your chances of success are small.

In fact, **90% of the traders FAIL** to make money from the stock market.

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IDENTIFY THE BLOCKS TO WINNING PSYCHOLOGY

The most destructive emotions leading to poor trading decisions are:

- ✓ Greed
- ✓ Fear
- ✓ Pride.

Let's talk about them one-by-one:

GREED

Greed tends to keep a trader from closing out a position when a reasonable profit has already been made, in the hope that the stock price will go even higher.

It's very easy to be greedy in this business. You always want more. If you have made 100 points profit in a trade, you want 200. And the moment you have 200 points profit, you start looking for 300. This lack of satisfaction is one reason why some people get themselves in trouble.

So how would you avoid this feeling of greediness?

To avoid being greedy with your trading, you may want to know the reason behind that- why is it so easy to be greedy with the trading?

Greed stems from a belief that there's never enough and there won't be enough. A greedy person will never be satisfied; he will always look for more no matter how much he already has.

It seems that the reason people are greedy when trading is because they take non-market factors (like how badly they want money, why they want it, can they afford to risk etc.) and apply them to the market and their trades.

But it makes no sense because your non-market factors will **NEVER** decide that which way market should move. So your non-market decision like I want to buy a fancy watch from this trade is not at all going to change the market direction.

Market will move the way it wants to move.

So when you cannot change the direction of the market, don't let your non-market decisions make you greedy. Your greed makes you want more than the market may be offering and it certainly influences you into not acting in your own best interest.

ALWAYS REMEMBER

Wishing and hoping is never going to take you anywhere. Be practical. Do what market is telling you to do…

Staying in the market for too long (hoping for a huge windfall) is a strategy that backfires more often than not. Greed also tends to result in rash or impulsive trades.

FEAR

Fear will have traders selling existing positions too soon or avoid buying a stock that should be bought. In other word, fear leads to trading decisions becoming "paralyzed".

Mark Douglas's four fears are:

- ✓ Fear of Loss
- ✓ Fear of being wrong
- ✓ Fear of missing out
- ✓ Fear of leaving money on the table

I was once sitting in a room and trading futures. There I met a guy. I noticed that he was very unhappy and distressed. I asked him the reason. He had bet the farm shorting a strong bull market. He said-

"I don't know why I just didn't cut the position earlier; anyone would have seen the strength- why didn't I?"

I never saw him again.

That is the effect of fear - it drives out knowledge; it leads to shortsightedness, it immobilizes us and leads to inaction.

Let me share an example offered in **"The Discipline Trader"**.

A child bitten by a dog would quite often associate all dogs with the threat of pain, and consequently generate an intense fear or even terror whenever he encounters any dog in the future.

The child's fear of all other dogs other than the one that bit him is real. He has no way of making a distinction between a friendly and a dangerous dog because his personal experience leads him to believe that all dogs are dangerous.

However, the truth is something else…not every dog is dangerous. In fact, some of the dogs are quite friendly and wants to play with the child.

But the child has no idea about that and his fear continues to grow even further whenever he encounters any other dog. He thinks that the source of his fear lies in the outside world.

But that's not the case here. His fear actually lies within himself. He has a wrong perception that **ALL DOGS ARE DANGEROUS.**

The same goes to stock market. We could experience the similar fear during trade. When we focus on our losing trades, mistakes, etc. we give our subconscious mind powerful direction. We could then end up with those same loses that we are trying so hard to avoid.

Winning and losing are the part of the game. If you fail to make money once, it doesn't mean that you not make money from any stock you trade in the future.

This type of feeling makes no sense and you can get yourself in trouble while trading.

PRIDE

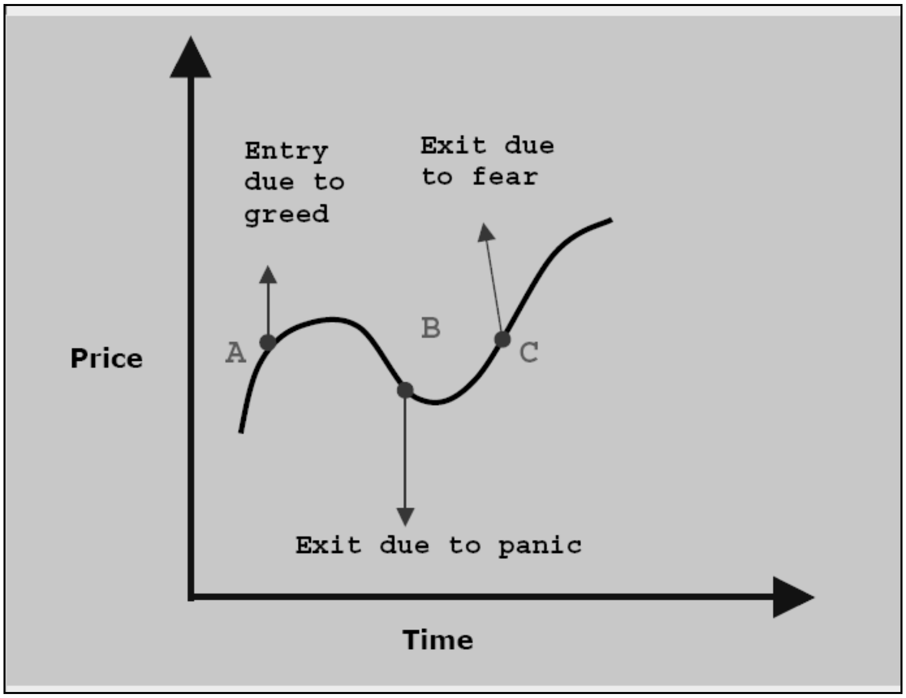
Pride tends to keep a trader in a losing position for too long because of unwillingness to admit that the original trading decision may not have been the right one.

Let's take an example to have a better understanding of Greed, Fear and Pride.

Our Trader **Harry** is an inexperienced trader like most of the traders in the stock market. He is a kind of trader who wants to earn money from the stock market but he doesn't have **proper knowledge, equipments, tools and strategies.**

The figure given below illustrates the way our trader Harry follows while trading in the stock market

BEHAVIOR OF AN INEXPERIENCED TRADER



The typical inexperienced member of trading Harry enters the market at **point A.** At the point A, the price of the stock is increasing and due to this increase in the price; he buys it and wants to earn some money out of an ongoing rally.

Once a trade is entered, stock immediately moves strongly in his favor. Harry will suddenly start seeing a villa in the sun or a new sports car flashing before his eyes.

"This trade is going to the moon so he removes his price target and decides to let it go."

Greed has now completely taken over his trading decisions and the previous plan (if any) is ignored.

Of course, markets rarely move in one direction for long so trade starts moving against him because **experienced traders start to cash in** (Profit booking) on their profits and the rally quickly starts running out of steam.

When the market turns, **the greed turns to fear** as the dream slips away and Harry tries to hold on until the price gets back to where it was. The daytrade becomes a position trade...

Now Harry will fear that he has made a mistake. He fears making loss so he waits and hopes that the market moves back in his favor.

The fear of taking loss now controls his trading decision. He is expecting that market will bounce back and he refuses to get out of the trade

- ***the day trade becomes a position trade of a few days and then it becomes a long term 'buy and hold' strategy.***

When the stock declines to the point where Harry cannot take any more pain **he gets out at point B**, just before the stock finally hits its bottom. If for some reason he didn't exit at point B, he will most **likely exit at point C** being happy to recover some of his losses.

Our trader Harry is exactly the kind of "herd" trader that successful traders prey upon.

On the other hand,

- ✓ The successful trader will have tested their strategy extensively and will be aware that a losing is also a part of the game. They will also measure their success on whether they place the trade according to their system rather than whether it is purely a winner or a loser. The fear is removed from the trade because they know that several losers in a row is to be expected.

- ✓ The successful trader has set a target, either a certain price or a timed exit and will stick to it. If the trade only takes 5 minutes then that's just great, there's plenty that won't.

To trade successfully you need to remove all emotional influences. ***Here's a little exercise for you and believe me it can do wonders. So read it carefully.***

At the start of each trading day, before the market opens, take a few minutes for yourself. Close your eyes. Start visualizing the market. See the real time chart on your computer screen.

Watch as the price goes up and down.

See yourself entering the trade. Notice you feel relaxed. You are alert but calm. Completely non emotional. Observe how the price moves after you enter.

How it comes close to your stop loss.

Mentally place a number of trades. Follow them through. You get a losing trade. Notice you see the big picture. You are unemotional. Completely calm

You put on another trade. Again, another smaller loss. You are still calm. Next a winning trade. Again, you are relaxed. It's all part of the job.

This takes practice. And you must do it regularly to get the maximum benefit. Try it every morning, and any time you even begin feel stressed or you lose you focus.

The advantage of this technique is it's FREE. And payoff is excellent.