

16.6 *Emotions & Money*

Some may be surprised to find the subject of emotions included in a money management discussion, but it is actually very appropriate, because if we don't control our emotions, it can send our money management program on an unscheduled detour. For this reason, it must be mentioned how important it is to control your emotions while trading. To demonstrate how important this can be consider the following example.

We have all seen how a sports figure will sometimes choke during an important point in his game due to pressure. Like a free throw during a basketball game that may make the difference between winning and losing. He misses a shot that he normally would make any other time. What happened? He lost his focus! Simply put, he became more concerned about the outcome and what was happening around him than the task at hand. The same thing can happen with trading.

If you become overly concerned with how much you are going to make (greed) or how much you are going to lose (fear), these emotions are going to have an effect on how you trade. This fact is inescapable. You must stay focused on the task at hand, that is, information management. How do I do this you ask? "I would be nuts to not care if I win or lose!" This is true, but the time to be concerned is not during the trade, it is at the time you decide to deploy your strategy. You evaluate a strategy. You test it. And then...you trust it! If you don't trust your plan, you should not be using it.

I climb cliffs for a hobby. In doing so I set up what is called a belay. This is a means of securing myself to the rock mass by using a harness, ropes, and other miscellaneous hardware. When I am in the middle of a climb, I don't worry what will happen if I slip! I know my belay will hold me. That is not to say that I haphazardly set up my belay, far from it. I set it up very carefully. I check it and then I recheck it. The same should occur with your trading.

The point here is simple, but it is so simple that if we are not careful, we may be inclined to not give it the credit it deserves. All forms of short term trading, except for day trading, can and should be implemented using end of day data. "You evaluate a strategy. You test it. And then...you trust it! If you don't trust your plan, you should not be using it." Your best strategy is to make your plans before battle, not on the battlefield. **MAKE YOUR BUYING AND SELLING DECISIONS WHEN THE MARKET IS CLOSED!** This is one of the easiest ways to ensure you emotions don't start to rule your trading decisions, to that end, don't succumb to the temptation of viewing intraday price charts for open positions you have. This is an easy way to implement "exceptions to the rule" that are rooted in emotion.

I'm sure you have heard it said thousands of times, "People don't plan to fail, they fail to plan". Well, if you have a plan, but don't follow it, it's the same thing. If you insist on evaluating possible buy or sell signals while the market is open, it will only be a question of time before you start to veer from your strategy, and at that point you will have no plan at all.