"Face the Trader Within"

Chris Lori, CTA

Chris Lori manages a large Singapore based FX fund for accredited investors and institutional clients worldwide. Chris is a Commodity Trading Advisor registered with the CFTC and member NFA.

Previous to his trading career, Chris has competed in four Olympic Winter Games and was crowned Overall World Cup Champion in the sport of bobsleigh. Mr. Lori totaled nine Crystal Globes for Overall World Cup final standings and accumulated twenty-two World Cup Medals in an outstanding bobsledding career.

Chris feels his greatest sport achievement was not one particular event, rather fourteen years of leading the Canadian Bobsleigh Team from low ranked relative obscurity to becoming a leading nation in the sport.

Mr. Lori has maintained a keen interest in the financial markets since he was a teenager. Later, he passionately turned his interest to trading in the foreign exchange market and now manages a large fund on behalf of HNW private investors and institutional clients. It is clear that Mr. Lori successfully applies to his trading exploits the necessary psychological skills of discipline, focus and planning, which he developed in his lengthy and outstanding athletic career.

Equity Management

Equity management is the most critical discipline in all of trading. Understanding equity management is fairly straight forward, but the application of your equity management parameters with consistency and discipline is a much greater challenge. It is simple, if you do not employ strict equity management discipline, you will be closing your account with less funds than what you had in your original deposit.

In forex, assuming 1% margin, or 100:1 leverage, one should place up to 7-10% (this is not risk, rather margin) of available equity on a given trade (margin) and risk only 0.5% to 1.5% of available equity, depending on the trade. The "risk" is the total realized capital loss if all open positions are stopped out (-0.05% to -1.5% max). We typically trade our managed funds in a range of 3:1 to 1:3 gearing. Using simple round numbers, this means that if we have 1M in base equity, the position size will range from three 100K lots per 100K of equity to one 100K lot per every 300K cash.

I find that if I am winning on 50% of my trades using disciplined equity management that I will be profitable in a moderate to good market environment, but most importantly, I will survive a string of losing trades in a very poor market environment.

If you are a retail trader and you deposit 5K into a trading account and trade 100K lot sizes, it will only be a matter of time before you lose. You must be willing to accept, and calculate, that you will experience the maximum drawdown at the early stages. This means the risk should be small, as mentioned above. The problem people have with small risk is that on the opposite side of the trade, there will also be small profits, relative to expectations. Most people want to make large profits fast, but end up taking large losses fast. The nice profit typically results through disciplined trading for an extended period of time when the compounding factor begins to take effect. A disciplined and effective trading plan will see nice compounding effects in about 18 to 24 months of consistent profitable trading.

Don't Average Down

Suppose you have put on a trade and the market has taken it against you. It moves about half way to your equity management stop level and you say to yourself; "I'm sure the market is going to move in my desired direction, so if I place another trade the same size as the original order, then it only has to move half way back to my original entry to be even, then I can get out without a loss." Let me ask you some questions:

- Does the addition of the new position remain within your equity management?
- Are you facing the evidence that the original position is moving against you?
- How much has probability shifted on your trade since original entry?
- Have you evaluated the current market condition with a fresh view and is the decision to place another trade rational?

Adding to Winning Positions

Adding to winning positions must be done skillfully within a specifically tailored equity management plan to suit the strategy of your trade and to prevent exposing yourself to giving away profits you have accumulated on the trade. Are you getting the idea that equity management is important, yet?

Chasing the Market Movements

I do not make many guarantees, but I assure you this; when you chase the market movements in a highly leveraged instrument, like spot forex, there is no faster way to donate money to the market! I can also say with a level of certainty that you <u>will</u> try it.

A novice forex trader will analyze the market and assess a level of probability in their evaluation of whether the market will go up, down or sideways <u>hoping</u> the market will invite you in at any time. You may be anxious to get into a trade for the "thrill" (more on this later), because you just can't wait to make money, and decide to jump in when the market appears to have decided on a direction. Now that you have committed to a position, the market immediately moves against you.

When analyzing the market with a desire to get in a trade right now, you will seriously consider the possibility of taking a long position or a short position and try to take a shot at what you think the market will do and decide to place a trade. When your trade is on, and the market appears to be moving against your position, you will recall that you seriously considered the opposite direction at one point and that you would have been correct if you placed your trade to go in that direction. Now that the market is currently moving in the opposite direction and you've convinced yourself that you were right the first time, you decide to dump the existing position at a loss and place a new order in what you now believe to be your original and wise insight as to the profitable direction of the market. Then, the market will continue its typical behavior by moving up, down and sideways, causing you pain and confusion. Baffled by this, you lose any connection with rational thought and decide that you do not want to take too much of a loss and end up dumping the second position and incur a double loss.

Due to the high cost of transactions through a retail broker, you will likely find that their may be a positive correlation between the number of trades you take and the equity in your account. Unless you have a firm proven method that takes frequent trades, you are likely to see your account equity fall if you are a gunslinger shooting at trades all day.

This is only one such scenario when you take on this manner of trading. If this profile describes you, it is unlikely that you considered your equity management at any time before or during this experience.

The Probability Continuum

As a technical analyst, I closely watch the market price action on charts of multiple time frames. Using a variety of charting tools I have a specific method that I apply to identify where an ideal entry and exit point may occur. I am a pattern trader. I trade patterns I have identified from years in the fx market.

The market will often move in very identifiable and predictable patterns over the course of time, which may offer excellent trading opportunities. On the opposite end of the continuum, the market may take on a very erratic and indecisive behavior that does not offer good trading possibilities. The market probabilities are continually sliding from one end of the probability continuum to the other, offering very good trading opportunities at one end, while moving to a poor trading environment on the opposite end of the continuum. The idea in trading is to wait until the market invites you in at the high probability end of the continuum and to accept the invitation at precisely the correct time, based on your method of analysis.

That sounds pretty obvious, but here is the problem. The market is often very discreet! The market can move from one end of the probability continuum to the opposite end in a very smooth and subtle fashion. The market will move from a level of high probability to a level of low probability very rapidly without notice. As you gain experience in trading, it is critical that you have the ability to identify the subtlety of these movements or it will trap you.

For example, you may be watching market price action and decide that it has reached an optimal entry point for a trade you have been waiting for if using the “Big Stones Entry Method”. Then you sit and wait and try to decide whether or not you should enter the trade. In the meantime, the market begins to move in the direction that your analysis suggested it might go. After the market rallies by 40 pips, you decide that you are pretty smart and it is a good trade. The market has now moved from a level of high probability to a level of lesser probability, but the psyche’ of your mind still views the trade as high probability, while the price level has shifted to a level of lesser probability when you decide to place a trade. It is after you have placed the trade when you realize that the ideal entry price has passed, but you think you may be able to still profit from the trade, “if only the market will continue.”

You have now entered a trade at a level where you could have already taken some profit from the market had you entered at the high probability level. Further, you have now entered a trade that requires a larger protective stop loss and creating more risk, while offering less profit potential on your trade.

For ideal entries, you are required to be sensitive to the subtle movement along the probability continuum.

A Fresh View

I have often seen traders experience a nice winning streak that resulted from skillful analysis and well-planned trades. Then, the same mind decides that, because they have now made a nice profit from a series of winning trades, they are quite a good trader and arrive at a decision to now enter a trade into a low probability environment. This is not entirely objectionable under the right circumstances, but it would be wise to use an adjusted equity management parameter based on the profitable period and the probability of the current trade.

Whether a trader has experienced an extensive winning streak, losing streak, or has taken a single win or loss on recent trades, you must always take a fresh, objective and unbiased view of the current market condition. Remember, the shift in probabilities can move very discreetly, so do not allow an emotional attachment to recent trade success/failure cloud your view to what the market is really saying.

A trader can become emotionally charged following a string of successful trades. I find it very helpful to stand aside for a while to allow my charged emotional state of mind to settle down, so it does not alter my view on the next trade. This does not only refer to a fresh view directed specifically to the market, but also the most critical component of trading… equity management. A fresh view will reel back into reality your overall equity status, as well as current market environment and price action.

This emotional charge can also generate a subconscious bias. If you bring to the market a strong bias or specific expectation, whether consciously or subconsciously, rather than taking an objective view, you will be exposed to a potentially dangerous experience.

Discipline

Discipline is an absolute requirement for successful trading. Trading has a multitude of components that have to be managed when identifying opportunities and assessing risk, for example; technical analysis, fundamental outlook and economic reports, geopolitical environment, equity management, emotions, probability, etc. Each of these components requires its own discipline and you must comprehend the weight of its value in any given circumstance and how it may have influence on a possible trade.

Discipline is not a human characteristic that can be adapted overnight. Discipline is a quality characteristic that must be developed over a period of time and refined through experiences, hard lessons and a determined focus on a specific objective.

Discipline is a battle between the human flesh and knowing in your mind what is right and good. Let’s take the everyday life of a human being, for example; it is a known fact that refined sugar is very harmful to ones health. We know that refined sugar consumed over a lengthy period of time can cause a long list of physical health problems. Most human beings will consume large amounts of sugar in a lifetime, because it satisfies the flesh here and now! People will not even consider the long-term health effects when they are sloshing back that banana split. Yet, after 30 years, the lack of discipline begins to take its toll and a host of health issues begin to express themselves, as they get older.
When human beings come face to face with a life or death health concern, the first thing they will do is ask why this is happening to them. People will look in all directions for a solution and deny or discount that their personal eating habits, or other, are the root of the problem. Then the doctor will tell them they have to change their habits and employ some discipline where the problem is concerned. This is a major, almost unacceptable, adjustment for most people if they are not accustomed to a discipline of this manner, because it requires a life/habit change, which is a stretch for most.

Successful traders know this process very well, because they have taken hold of the ability to discipline themselves accordingly. However, every successful trader has been through the process of being disciplined by the market and has learned from it. Every successful trader has been slapped, beaten, bruised and had their butt handed to them before becoming consistently profitable as a result of learning how to be disciplined.

Personally, I experienced an excruciatingly unwelcome, but healthy, grind while working to build my team from the lowest World Cup rank to the highest. As unpleasant as it was, at times, I am thankful for the experiences, which I now draw upon in my fund management, and the underlying psychological aspects that were developed in the process of achievement in sport.

Denial = Debit

Many traders enter the market like a gunslinger trying to pick off every empty beer can in sight. The majority of novice traders are undisciplined, without a clear plan and under the emotional influence of greed while looking for a home run trade. When a novice trader decides to enter the “game,” they will be confronted with the realities of trading and likely experience some loss of equity at onset. At this point, when their grandiose plans of getting rich quick begins to appear faint; the novice trader has to make a decision. The fact that they realize they have to make a decision is the first step. It's kind of like admitting, "I am an alcoholic." The trader has to admit they have not fully equipped themselves to participate in the market and take a step back to evaluate what needs to be done to participate profitably. Alternatively, a trader will deny that they do not have the necessary skills to trade profitably in the market. This will result in a continuation of erratic, undisciplined placement of orders and consistent losses to compound the problem they deny they have.

This denial behavior will result in the balance of your account being sucked into the vacuum bag of a savvy trader, while leaving a host of debit transactions in the account summary.

Who Are You?

Many people take time away from the real world to go off to "find out who they are." People believe that traveling the world, going to Whistler and becoming a ski bum, or leaving their girl/boyfriends, spouses and families will help them on their journey to discovering "who they are."

If you want to learn about yourself, have a go at trading in the financial markets. If you are in a hurry, intraday trading in the spot forex market with high leverage will even accelerate the process and you will have to look no further.

Trading the financial markets will expose many truthful characteristics about you, for example:

Are you disciplined?
Do you deny truths about yourself?
Can you follow rules?
Are you submissive and admissive when you should be?
Do you easily become emotionally charged and irrational?
How do you react when you are emotionally charged?
Do you react without thinking?
Are you a planner?
Are you flexible, or rigid in your thinking?
Are you prideful or humble?
Are you objective, or opinionated?
Do you hold a bias, or can you consider facts in an unbiased manner?
Are you stubborn and have to be right all the time?
Are you greedy?
Do you act/do things beyond your means?
Are you willing to change?
And the list continues…

There is a saying:

“If you know the market and know yourself, you will consistently profit. If you know the market but not yourself, your success will be random. If you do not know the market or yourself, you will consistently lose money.”

Success in the market is not just about the market; it is also about knowing how you react to fear and greed.

A trader will continue to struggle if they are unwilling to identify true characteristics about themselves, regardless of how undesirable they may seem. Further, the process of knowing yourself as a trader and a person will never end, so do not delay.

Patience Pays

Our young friend, the gunslinger, goes hunting with his dad who has 30 years experience carefully stalking his prey and hunting them down. As the two of them head out toward the forest, gunslinger says to his dad; “Hey dad! Let’s run into the forest and shoot us a deer”!
Dad replies; “No, gunslinger; let’s quietly walk into the forest, hide ourselves, and wait for the deer to come out, once they are in perfect position, we shoot them all”.

Patience is a key discipline of trading. It is ideal to wait for the market to move to a level of high probability to enter a trade, but waiting for the market to arrive at your prospective entry point can be no fun.

The human mind views making money as an enjoyable experience, because it inspires dreams of all the things one can have and do if they make a lot of money. For some reason, trading is considered an easy, or convenient, way to make a lot of money, but people do not resolve themselves to the fact that it is neither convenient, nor easy. In fact, people may find it so inconvenient, combined with their greedy desires to make money; they will frequently put on a trade without premise, because they are unwilling to wait for the proper time to enter a trade. They want to run into the bush and shoot at the first deer, regardless of what the probability is of hitting it.

I can assure you that this approach to trading will cause great pain, suffering and financial loss. Although the wait may seem agonizing at the time, I would prefer to endure a lengthy period of stalking a decisively good trade, rather than taking a shot in the dark and have to suffer through the pain of a poor decision. An irrational shot in the dark trade typically results from focusing on greed and the thrill of making money, rather than possibility of loss and pain.

The markets will often go through a long period of consolidation or confused price action, which does not lend to good trading opportunities. If you do not have the ability to recognize and admit to the reality that the conditions for trading are undesirable, you will probably lose. If the market does not make sense to you, then stay out! On the contrary, the ability to wait through market indecision can pay very well when one side of the market begins to take control. You will end up with a twofold benefit; you will save from losing money in the choppy conditions, and you may reap considerable benefit when the market breaks out.

If you run into the market like a gunslinger and begin to shoot at anything that moves, you will probably have run out of bullets when a prime target walks right in front of you.

Overtrade Underpaid

Over-trading relates to the fact that you are unwilling to wait.

At the end of each day/week/month, go through your trading account summary and evaluate whether you have made good or bad decisions. The following are some signs and considerations to help determine if an account is overtraded.

- Frequent trades relative to the time period
- Frequent trades on the same instrument taking the opposite direction on subsequent trades
- Re-entering a position after taking profit on a completed trade, because you think you got out too soon and the market will continue in your direction and you will miss out on the rest of the move
- Take a look at the number of trades you have made in a day or week. If you have a long list of losers, than you are probably overtrading and chasing the market.
- See “Chasing the Market Movements” above

Remember, this is a numbers game. Most novice traders have the tendency to take small profits and large losses for the reasons stated in this document. Therefore, the more trades you make, the more you will lose.

Use a Filter

I have a spectrum of resources in my overall trading regime that I use to acquaint myself with the current foreign exchange trading environment. I access price quotes from multiple sources, view charts, read news feeds, periodicals, and listen to financial news broadcasts.

I am a technical analyst and rely most heavily on my analysis of the price patterns identified in the charts. On a side note, while my trading is successful, I do not hold a holy grail, nor does anyone, so stop looking! Charts do not lie. Although the additional resources are important to have a pulse on the market, be very careful what you allow to influence your analysis and view of any opportunities to trade.

Some months ago, countless authorities were predicting the GBP/USD to hit certain milestone while the pair was experiencing a significant rally. I specifically recall watching a string of currency strategists on Bloomberg unanimously calling for the GBP/USD to continue to rally to a names figure.

Technically, I observed on the charts that the currency had just completed a distinct reversal pattern suggesting it may experience some pullback, at least for the time being. While all other strategists were bullish GBP/USD, one lonely sole sat in a chair at the

Bloomberg studio and plainly said, “The Pound is done.” Within 5 days, the GBP/USD dropped 800 pips. If I had listened to the majority of “talking head” professionals on Bloomberg, who had their own reason for believing the rally would continue, I would not have taken the short position for significant gain based on my own instinct and analysis.

You will miss some very good trades listening to other’s opinions. Trust in your own methods, which you have tested, understand and have a clear knowledge of the rules that guide your decisions. **Independent Thinking and market knowledge is key to success in any market!**

Do not consider any other trader’s commentary when you are already in a position with a defined exit plan.

There is no other person in the world that knows your mind, emotion and will. How can a separate mind possibly tell you how and when to enter and exit a trade if they have no understanding of the foundation your trade is based on?

The market environment is constantly changing, so an opinion or insight one hour can completely change course in the next hour. In this case, “all bets are off!”

If you do not filter the opinions of other analysts and traders, you may end up very confused and never make a trade, because every opinion will be pointing in different directions for different reasons with different plans and timeframe. Listening to others will keep you out of good trades, put you into bad trades and talk you out of a good position you are in. It is likely that your trading results will improve when you become an independent thinker.

You must believe and trust in yourself and your own methods.

The Foxhole Trade!

I call this the foxhole trade. When an army on the battlefield is losing and the enemy approaching, the soldier in the foxhole has nothing left to do but pray.

As you develop as a trader, there will likely come a day when you will cry out; “Dear God, please help me!” That day will be when you have not enforced proper equity management discipline and allowed a position to move to a point of considerable loss and you don’t know what to do. You cannot have the trade back. There is not a “do-over” option. Your position is in a loss and there is nothing you can do, right now, to get the money back. This scenario is likely to happen if you do not practice strict equity management.

In this scenario, a trader typically allows ego to stand between ones pride and reality. If you are unwilling to submit to what is actually happening in the market, because of your ego and your need to be right, and careless enough to dismiss good equity management, then cut your losses and close your trading account, now!

Traders vs. Academics

Academics are an interesting breed. A true academic is commonly a person that is very well researched and has acquired a plethora of knowledge in many areas. An academic has the ability to understand and retain volumes of information and use that information to engage in deep discussions on a large range of topics.

An academic who is introduced to trading will embark on unforeseen challenges. Sure, an academic can understand the concepts and methods of trading with relative ease. However, there is a characteristic required in trading that stands as a great obstacle before them.

Allow me to classify a common characteristic you will find when trying to understand an academic. On a large range of subjects, an academic often becomes accustomed to engaging in conversation/discussion/arguments and has the distinguished ability to firmly make their point to the other (often less knowledgeable) participant in the discussion. Over time, the academic begins to consider themselves as superiors when dealing in intellectual contests, and this may result in a prominent development of one's ego. Now, you can have a large ego and be a good trader, but do not allow the two to interfere with one another when a decision requiring discipline must be made.

A more profound challenge the academic will face when taking on the skill of trading is the element of psychology. Sure, an academic may fully understand many principles and theories of psychology, but have great difficulty when consumed in the experience of a force (the market) beyond their personal control (academics are more accustomed to being in control of their environment and experiencing positive outcome) and adjusting to the conditions they have been confronted with.

What does this mean in plain trader English? Based on what I've learned from text-book academics that I have taught theory and tried to teach the psychology of trading, an academic has difficulty adapting the defined text book methods and rules of trading to the live, flexible, ever-changing, uncontrollable financial market. The academic may be able to tell you what the market "should do," or "why it did such a thing," after the fact, but often lack the psychological ability to adapt to an ever-changing, uncontrollable, competition that taunts your emotional tenacity.

For example, I will teach an academic specifically how to use a technical analytical tool. I will describe how the tool will reflect movements in the market and what they may suggest about a possible future direction of the market. According to the textbook definition, the tool may offer a strong indication that the market "will" take on a certain direction, or the tool may offer information suggesting the market "will not" take on a specific direction. This is clear; the market either "will", or "will not" take on a direction. A problem faced by the academic is the enormous gap in between "will" and "will not" and how to base a decision on this constant shift in probabilities. The market is not absolute and will actively move up, down and sideways every tick in-between "will" and "will not." Seemingly, the market's intention is to test your psychological tenacity and shake out those who are weak.

In simple terms, an academic insists that the market behave exactly as it is outlined in the book and they become flustered and confused when it does not, because it doesn't make sense to them. In addition, if the market does not behave in the manner described in the textbook and they believe it should, the academic will alternatively have to admit being wrong. Admitting to being wrong is considered a good quality of a trader, but it is a forceful opponent to the ego of an academic. The academic will typically have to undergo a significant psychological learning curve to transfer their intelligence into practical trading skills.

On the other hand, my former trading partner and mentor, whom I hold in the highest regard as a trader has remarkable qualities. He is a brilliant and exceptionally gifted trader, very logical, rational, patient, methodical, and charismatic and has a great sense of humor. He is thorough, diligent and disciplined. He believes in getting rich slowly, even though he got rich quickly, because he is talented and discerning at the art of trading.

Trading is a Game – Focus on the Execution of the Task

Canada had one of the worst teams in the world when I first stepped onto a bobsled track. I quickly realized the difference between the best athletes in the world and myself and believed that I could develop to a level that would compete with them.

I spent years refining my skills, building teams and acquiring the proper resources that would position my team to compete with the best. In a few years, we worked our way up the ladder in World Cup competition. Eventually, we were placing in the top 10, then top 5 and soon found ourselves in a race where we could win Canada's first World Cup medal.

We were in 3rd position following the first heat of a two-heat race. What do you think was going through my mind following the first heat of the race, knowing that we could win a medal after the completion of the second heat? What may go through your mind is how wonderful it would be to win a medal! One could think about all the newspapers and TV stations that will publicize the story! The prize money will certainly be nice! The medal sure will look great when it is hanging on the wall! Perhaps a lot of girls will be impressed with our medal winning performance! These are certainly thoughts of doom and failure! The only possibility of winning a medal in that race is absolute focus on perfect execution of the task of driving the bobsled down the track as fast as possible. The task is defined by the perfect use of the physical and psychological skills that have been developed specifically for the discipline at hand.

The primary objective of trading is to make money, as the primary objective of Olympic sport is to win medals. Thinking about how much money can be made on a trade will interfere with enabling the psychological resources required to put on a good trade and manage it effectively. Thinking about the end result (the money) will inspire emotional, subjective, irrational thoughts that will cloud your view of the market and may drive a poor decision and ill management of a trade.

The "making money" part of trading is simply a byproduct (end result) of a focused and precise utilization of our trained psychological and mechanical resources to successfully find and manage trades. Under the most intense circumstances, the best results will be produced only with a deep concentration and focus on the task at hand.

When managing trades in forex, it is wise to target profit-taking and stop-loss levels based on pips rather than equity. I do not watch equity on my trading platform, only +/- pips.

If I were to name one attribute to overcoming emotional noise, “Focus on the Task” would be it. Focusing on the task will utilize all your developed resources to achieve the best result within your capabilities. As a result of every experience, you will move to a higher level of consciousness and have developed even more resources to draw from when you embark on your next experience. In time, you will challenge both ends of your psychological spectrum and learn the best response under new conditions. That is how you develop as a trader!

The Candlestick Watcher

Intra-day trading in the foreign exchange market will make you a candlestick watcher. That is the nature of the game. The more you are in front of a chart; the more trading opportunities will present themselves. The amount of time spent on candlestick watching will also depend on which chart timeframe you primarily base your trading decisions from. This is a personal preference.

Let’s say you have identified a high probability trade and you enter a “parent and contingent” order (market order with preset stop and limit) according to your plan. Once a position has been taken it will have to be managed in order to maximize profits and control losses under an ever-changing market environment. Most forex traders will manage positions live in front of the computer (as I do) and closely watch the candlestick and chart patterns develop.

You should have an intimate knowledge of all resistance and support levels where you expect the market to vacillate, or possibly change direction, and you should also know exactly where your stop and profit taking levels are relative to the current market price.

The true test of your emotions will come when the market takes your position above and below your entry level. As you closely watch the candlesticks, expect the market to take the position through your entry level any given number of times before it decides on a direction. The market passing through your entry level will be a true test of whether or not you are focusing on the game/task and may entice unwanted behaviors if you allow it.

If you are focusing on the equity, then the market movement above and below your entry will drive you crazy and probably force you to take small profits, to avoid a loss, on what would have been a perfectly well executed trade. If you are focused on the task, then the market passing through your entry will only be a test of mettle while trying to capitalize on the opportunity the trade has presented to you.

Training Fear

Fear is rooted in one primary source: your bank account! When we decide to engage in speculation in the financial markets, we are also deciding to risk funds that, for most of us, have been acquired through investment of time, energy, knowledge and experience in some other area of expertise that we posses. The decision is primarily based on the potential for an increase in personal capital for what appears to require less "effort" than our other alternatives. Aspiring traders typically don't spend the required amount of thought and time to understand the risk involved in what they are about to endeavor.
Incidentally, the risks become apparent the moment a trade is placed and becomes live in the market as the equity value of hard earned funds begins to change in a manner that is effectively out of our control.

Because fear is rooted in our equity, would it make sense to weigh the risks of our decisions and place an amount of equity into a trade that is somewhat inconsequential in value? Sure it makes sense! However, the desire to increase our capital overrides our ability to rationalize the larger picture, which feels fine at the time, but has a strong potential to inflict pain as a result of losing funds due to an oversight of what is real.

As we discussed, the first call to reduce or eliminate fear from our trading is to trade within reasonable equity management guidelines. Once fear is reduced or eliminated from our psyche, we can then begin proper execution of our trades, because the consequences of our equity value will have a small effect on our overall financial picture.

As traders, we know that the market moves up and down. We have all seen hundreds and thousands of price charts containing a multitude of shapes for candlesticks and bars. When the market begins to rally, as we knew it would, there is an impulse to buy right at the top of a bold faced upward growing candlestick with no wick above, as price makes a new high for the period. Most traders have no fear about buying into such a short term impulse, since it is in agreement with their analysis, only to watch price fall back towards, or directly to, their protective stop loss, which is when the fear begins to set in. After time has passed, the fear of being stopped out when the market is doing what it has always done, moving up and down, as we knew it would, should not be a surprise. As odd as it seems, this scenario was not a consideration at the time the market appeared to be getting away from us and leaving our account empty while others were being satisfied. "After all," you say to yourself, "I knew it was going to go up, so I should get paid, too!"

The concept of buying dips and selling rallies is not just some concept found in every book ever written on trading. It is a concept that must be exercised with discipline. The inherent challenge of most traders is to understand that buying into price action that is falling away from the desired direction is in opposition to what the human mind understands about what the market should do in order to get paid, which is for price to go up.

For some reason, when a decision has been made to "buy," but price action is moving against the desired direction, traders have a tendency to forget about the lengthy analysis, chart patterns and fundamental information that has strongly supported the decision to buy in the first place. As a result, fear immediately steps forward and tells you that you would be crazy to buy now, because price is moving down and you want it to go up!

In such a scenario, fear has produced a profound psychological impairment that has almost completely inhibited the trader's ability to rationalize. The fact is, buying should always be done while price action is moving in opposition to the direction of the desired position. Effectively, you are trading when you are most fearful. Your mind should be clear concerning the evaluation that has been made, which inspired the decision in the fist place. Always attempt to trade during a period, or movement, when price action is moving against the direction you want the market to go for you to get paid.

When trading FX for example, this could occur within minutes of price confirming your decision, or it may happen hours or days afterward. Simply identify your levels where you trust the market would touch before taking on a move that will pay. Rather than chase the market up buying on a boldfaced candlestick, buy into a boldfaced bearish candlestick. Most often, this will put you on the positive side of the dealing spread very shortly after making the trade. If the level you selected as support holds and you traded as close to that level as possible, then you will have very little drawdown on the trade and it will pay sooner. In addition, the entry will be closer to the stop level and the first profit target can be closer.

To become successful at good order executions as described above, traders must train themselves to trust in their analysis and train their psyche to become comfortable with a market characteristic that previously induced considerable fear and impairment of mental clarity and rationale.

All this goes with saying, that fear is ultimately rooted in loss of money. Fear for loss of money for which one is unwilling to calculate the consequences and risks involved in the discipline. Coming to terms with the risks and applying proper equity management will open the door to becoming comfortable with trusting your tools and buying when price action is moving against the direction the trader believes the market should go in accordance with your analysis.

Fight for Every Dollar

When I retired from bobsledding, a contingent of the US Olympic Bobsled Team purchased all of materials; 2 and 4man bobsleds, runner blades, proprietary CAD/CAM designs, research material, training programs, etc. As well, I did some occasional consulting. One year prior to the 2002 Olympic Winter Games in Salt Lake City they phoned me and asked if I would consider spending more time with the team through to the Olympic Games. I agreed to do so and drew up a plan of action for the team.

In one of my first lectures to the group, ten months prior to the race of the 2002 Olympic Games, I offered a detailed expectation of what was required to win an Olympic medal. Bobsled races are won and lost by hundredths of a second calculated by accumulated total time over four runs.

To win an Olympic medal you must fight for every hundredth of a second in every aspect of the sport during the off-season and in-season. Hundredths of a second will be found in what you eat, what hours of the day you keep, when you wake up, when you go to sleep, who you hang out with, what you do in your spare time, equipment preparation, physical training sessions, careful study of the tracks, the start gradient, your personal habits and the list is endless.

I distinctly recall the first lecture to the team when I ranted about personal eating habits, specifically sugar, and its effect on physical performance and injury. I ranted about how important the change of one habit would translate to one or two hundredths of a second when it came time to race at the games. I challenged them to look at the detrimental aspects of their character and discipline themselves to change the things that were preventing them from performing better. Each change would improve overall performance. I also recall one individual who was particularly aloof about the suggestion. He was a very talented athlete, but lazy by nature and it was doubtful he would make any sacrifices to change his way of doing things. Does this sound like any traders you know?

I went on to tell them that if they simply did not make the necessary changes to personal habits that they would probably not win an Olympic medal. Further, I said that if/when they lose a medal by a couple hundredths of a second that they would likely blame it on something that happened on the day of the race, rather than look back ten months to the habit they should have changed and the commitment-to-change that they should have made.

As it turned out, the aloof individual that I referred to earlier ended up getting the call to be the brakeman in the 2man race as a substitute for the top brakeman who could not race. They ended up losing a medal by 4/100ths of a second. That is $1/100^{th}$ of a second per run. The fault was given to specifics that occurred in the race on that day, rather than what should have been prepared in the months leading up to the race.

In the end, the team won 10 World Cup medals and 2 Olympic medals for the season, which was unprecedented for the US Olympic bobsled team☺

How does this relate to trading? I think it is clear that if you want to take on trading as a means to make money, then you have to treat it like a business. You must study and account for every detail that is required to become successful. There is no reason to think that you can take a short cut and earn money, while competing against professional traders who are very intelligent and disciplined.

Winners and Losers

Traders possess a plethora of methods to analyze the financial markets with a well-defined protocol to discern a winning trade opportunity. Traders will bend, mould and shape the use of their tools to help them assess high probability opportunities that will become profitable trades.

A challenge arises when the trader will employ a specific protocol and method that results in a nicely executed, managed and winning trade. On the following trade, in a market environment that appears very similar to that of the winning trade, the trader executes in exactly the same manner only to take a loss. This experience repeats itself on the following two occasions, which result in three consecutive losing trades. The trader is then baffled by the fact that the same method that made a nicely paying trade, also resulted in three losers. Consequently, the trader decides to pass on the next trade that displayed almost identical characteristics to the winner and three losers. Naturally, the trade ended up following the rules consistent with the traders' methods and netted a winning trade. Still fearful of taking another loss, the trader again passes on what looked identical to the series of losers and winners of the past. Of course, it was another winner!

What the trader must be aware of, assuming disciplined trading, is that every winner will look like the last loser at some point in the process.

Be Clear in Your Plan

Cervinia, Italy, at the base of the Matterhorn, a famous mountain peak in the Swiss Alps, was host to the most dangerous bobsled track in the world. The Cervinia track, a natural track carved into the mountainside, was name to the most dramatic and career ending crashes of any alpine sport. To endure and succeed in a high level competition on Cervinia was the true test of the physical and psychological prowess of any athlete. I finished second last place in my first World Championship, which was hosted in Cervinia.

To be a successful bobsled driver requires two essential physical skills. You must be a very powerful sprinter (90 kg/ 200lbs+) to push the 240kg/500 lb sled. Second, a driver develops the skill to maneuver the sled down the track at 140 km/h (95m/h) + by steering the sled on a very specific line through massive corners which can pull up to 6 G's. The superior driver's skill will emerge, or separate them from the competition, when faced with situations of great difficulty and danger.

When we arrive at a World Cup venue, after hours of travel and no break since the conclusion of the last event, the first order of business for the driver is to go to the track with your coach, walk up and down and study every meter of the track in detail before taking your first run. With only a limited number of runs before the competition, it is critical that you have a very specific plan before each run. Proper execution of the plan allows you to be more effective on each successive run as your times get faster and faster. Between practice runs, you may have to adjust your plan slightly as your feel for the timing, rhythm and other small details of the track improves while working to gain an advantage over your competitors. Sound like trading?

However, if you are having difficulty on a particular section of the track and you only have limited number of runs to perfect it before the race, the pressure is on and your team is counting on you to sort it out before the race.

Although there was a possibility of crashing anywhere on the Cervinia ice, the most dangerous section was a very tight corner combination at the bottom of the track named, Azzura – Bianca followed by a long straight-away at 135 km/h+ into a finish corner that was 10m high and 60m radius pulling 6G's. This was the site of many casualties and would attract a generous crowd to watch the action. You couldn't be off your "line" by more than 10-15 cm or the sled would crash.

We had a World Cup race in Cervinia exactly one year before the opening ceremonies of what could be my first Olympic Winter Games if I succeeded in making the team. That year, in second heat of the 4man World Cup race at Cervinia, we were burning a high speed into Azzura-Bianca. I felt we were on a good line into Bianca and had achieved perfect height and positioning of the sled in the middle of the corner. No sooner had that information been kinesthetically processed before I realized I was 40-60 cm late in moving the sled off the corner at 135 km/h/90 miles p/h+, which resulted in the sled and its four humans coming out of the corner on our heads as we rip toward the finish curve.

As a driver, my head is exposed while the crewmen are buried within the sled. When the sled dropped off the corner, my head careened off the opposing ice wall and I was knocked unconscious while half my body exposed and dragged outside the sled as it blistered down the track toward a massive and powerful finish corner. A finish corner all right… "Finish" me off! The sled approached the finish corner at a high speed, and on entry, the forces of the corner caused the overturned sled to surge 10m high tearing a chunk out of the "lip" of the corner, which serves the purpose of keeping sleds inside the track to prevent fatalities.

Gravity pulled the sled back down to the base of the corner ending in a dramatic crash and turning the sled another 360 degrees as the sled plowed through the finish line. I lay unconscious in a pool of blood. The accident completely split seven inches of flesh the length my chin to my mouth and across my cheek, broke my nose, clavicle and a rib, left a deep contusion on my femur and tore flesh from my hand and arm leaving my hand exposing its veins and bone. I was badly concussed and unconscious for over 30 minutes. Taking me for dead, the Italian track crew had pulled me from the sled and I came to on the cold snow staring at the sky and the Russian doctor who was attending to me. I was moved from a hospital in Italy to Innsbruck, Austria for reconstructive surgery, then to Toronto for recovery.

One year later I competed in my first Olympic Games. Two years later, we had built a strong team and put ourselves in contention to win the Overall World Cup Title. We held second place in Overall World Cup standings with two races remaining in the season. To remain in contention for the overall title, we had to win one of the remaining two races and could finish no worse than second in the other. The second to last race was in Cervinia, Italy at the base of the Matterhorn, which had torn my flesh, broke my bones and I was fortunate to survive the horrific crash a few years earlier.

The alarm rang for the first sled to make its decent down the world's most dangerous track, while the teams to follow had completed their warm up and were preparing in the stone cold start house where not a word was spoken and steely eyes focused on the task at hand.

The cold weather and sunshine created optimal conditions for a fast track on that February day. The Swiss sled, the fourth down the track had a dramatic crash intensifying the scene and stiffening the silence in the start house. Although blood remained in the track from the crash, the race continued as the top teams took to the start gate. While concentrating on the task at hand and execution of the plan without deviation, I would subconsciously observe the times and performance of the preceding teams to get a feel for the tempo of the race and feel for the speed of the track.

The top German team took to the start gate two sleds before our call. As the German Olympic champions attacked the track all I could hear were expressions of amazement at the speed of his decent, and in the background, the rumble of the sled making its way down into the Cervinia valley. There was an overwhelming cheer accompanied by clanging cowbells when the German set a new track record on the formidable track. The track record was confirmed over loudspeaker through the valley and up the mountainside.

My team was called into the gate two sleds after Germany 1 had set a new track record. At this moment, do you think I was questioning my ability to carve our way down the track to achieve optimal performance? Do you think that I or my team was so overrun with the fear of what harm the track could do to us if we made a mistake that we could not think clearly and had lost all perspective of where we are in time and space? Do you think I was reconsidering the various techniques and approach other coaches or athletes would take through specific corner combinations and questioning the effectiveness of my own unique approach and effectiveness? Do you hear me? Do you think that when the sled I am driving is entering into the Azzura – Bianca corner combination at 130km/h that I am unclear on what specific line and driving strategy I should take through the corners? In bobsledding, there is no stop loss or bail out option! Do you think we were flippant in our preparation for the race on that day?

Following a thorough preparation and warm up, my team and I stepped into the start gate with confidence. I was absolutely clear in my plan on every detail of how I would pick my way through the corners to achieve the highest speed possible, regardless of my previous failures on the track. Sure, there will be unforeseen situations that will arise in the situation at hand, but it will be effectively managed in the context of the overall goal and plan. Just like trading, where you will have a plan, but the unique circumstances will force you to have to discerningly adapt to the situation at present while remaining within the plan. When entrenched in an intense situation where the consequences are high, it is critical to “focus on the task.” As we approached the Azzura – Bianca corner combination I could feel the sled was moving faster than normal calling for an adjustment in my timing and rhythm in controlling and steering the sled to maintain its speed. I was also confident that my line through the combination was unique and better than that of my competitors.

As we moved through Azzura – Bianca I was aware of the mass of onlookers, at their favorite viewpoint, anticipating the potential for an incredible crash. As a driver of the sled, I have such an intimate knowledge of the feeling and speed of the track, it seems as though the sled is in slow motion and one second is an eternity. I had moved out of Bianca with perfection as the sled moved swiftly down a long straightaway into the finish corner, while the onlookers were addressed through the loudspeaker.

Attenzione Attenzione
Un nuovo record di velocita… (139.1 km/h) Cento trete ‘ nove chilometre all’ ora, la squadra Canada Uno ha appena raggiunto la velocita piu rapida mai ottenuta qui alla pista
di Cervinia

“Attention! Attention! The sled of Chris Lori and Canada-1 has just achieved the highest speed ever recorded on the Cervinia Track… 139.1 Km/h!!

… Moments later, after ripping through the finish corner pulling over 6 G’s, they would announce a new track record for Canada-1 at 1:01.09

We ended up winning the and next, and final World Cup race of the season, to secure the Overall World Cup title, the first non-European to ever win the title.

Be absolutely clear in your plan. When engaged in the intensity of a trading scenario, focus on the task at hand.

The Cost of Education

You can expect to pay a price if you decide to trade in the financial markets.

Most retail traders/investors of stocks have no clue what they are doing when deciding to buy or sell a stock. They may read a few articles, or go out and buy a textbook to try to enhance their market knowledge or take any other short-cut available to them. You don’t know what you don’t know, and what you don’t know can be profit to you and/or will also preserve you from losing a significant amount of money.

I am always amazed at the answer I am given when I ask; “why did you invest in that stock at that time with that amount of money?” The greed driven motive is clear; to make money, but there is typically no logical foundation on which the decision was made.

If you decide to trade in the financial markets you can expect to pay a price. The fees will either be paid for a good education before risking money, or the fees will be paid directly to the market (usually amounting to considerably more than if you pay for education to get you started). If you pay your fees to the market, it will leave you with two things; 1) an experience that you will not know what to do with in future events, and 2) less money to go out and pay for an education, because you probably just lost more than you would have paid for education in the first place. But remember, in addition to education, an investment of time will be required to develop your psychological profile that will enable you to maintain a solid trading career.

I am amazed at how much “dumb money” there is in the hands of very intelligent people. What do you think creates “dumb money”? The powerful emotion of greed completely overrides a perfectly intelligent person’s ability to see things objectively. People are also too busy making money in their profession and do not have the time to acquire sufficient understanding of their investment/trading options.

Wisely choose your path to developing as a trader. Do not take short cuts. Do not chase the Holy Grail. Do not jump from system to system. Find a method and test it to see if it meshes with your temperament.

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Good Luck with your trading and be careful out there!

Written by, Chris Lori CTA

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