Trading v/s. Making Money

the "big" difference

Andrew Cardwell

“Trading vs. Making Money”

So you want to be a trader? Well, now that you have made that decision there are (and will be) many more decisions that will have to be made. Are you ready? Prepared mentally, emotionally, and financially for what will lie ahead? You are about to embark upon an endeavor, which will offer you the potential for fulfilling your wildest dreams of riches and success, and at the same time test your nerves, perseverance, and fortitude. There will be days when you feel on top of the world, and others when you wish you could just go somewhere and hide for a while.

No two days will ever be the same. One day everything will seem crystal clear, and others where you stop and ask yourself, “Why did I do that?” or, “How could I have been so disciplined and focused one day, and so lost and confused another day?”

Trading is a Game

Being a trader is sometimes like being on a roller coaster at an amusement park. The ride can be, at times exciting and thrilling and yet, sometimes take your breath away and scare the hell out of you. Well, my friend, welcome to the world of trading – a world that some us as traders refer to as “the game.” In this arena the traders are the players, the markets are the playing field, and money is how the score is kept.

Just as every game or sport has rules setting the guidelines and standards by which the game is to be played, so does the trading environment. The sooner a player or trader learns the rules the better he or she can play the game and their score will reflect it. Unlike a port that has referees and umpires to make sure the game is played by the rules, trading operates under a set of guidelines, which are self-imposed. It is up to the individual to structure, define, and abide by rules and discipline which if he does not adhere to will have a major impact upon his/her ability to score effectively.

Let’s take a look at a port that is self-governing. Take for example the game of golf. Each swing of the club over the play of 18 holes is to be counted as a stroke adding up to a total score for the “round.” The fewest or lowest number of strokes played is the measure of how well the game or round was played. There are rules for penalty strokes should the ball be hit out of bounds or in the water, which are added to the total score. It is the responsibility of the player to be honest with himself, and add these penalties to his score. Otherwise, he can never really get a true assessment of his real score/abilities. By keeping track of the score a player can also monitor his progress and improvement in his ability to play the game.

Whereas golf is a game of sport and there is no money on the line (unless you have $50 dollars riding on a 10 foot putt), trading involves laying money on the line each time a trading decision is made. While your golf score is only a number on a scorecard, your trading decisions that make or lose money will have an impact not only on your bottom line but your life expectancy as a player or trader.

Another similarity is that both trading and golf are probably 80% mental and 20% mechanical. A golfer can be taught to swing a club (mechanical), but I is up to the individual to block out everything else in the mind and execute the swing properly (mental). The same is true for a trader that learns or develops a trading program or methodology (mechanical), and then must develop and maintain the necessary mindset to execute the trading program signals properly and without hesitation. With golf, it is the 3 or 4 inches behind and in front of the ball that makes the difference in the outcome of the swing. For a trader it is the four inches between the ears that will have a dramatic effect upon your ability to accumulate profits (score) in the trading arena.

A trader, to b really successful, needs to understand that both the mechanical and the mental sides of the equation are independent and yet coexist in a dynamic fashion. Each side is dependent upon the other and need to work together to achieve the desired goal of peak performance.

As you grow as a trader you will gain more insight and understanding of how important your mental state of mind is and how it can affect your decision making process. If you just take for example, how different you feel about life or yourself on a bright sunny day verses a dreary rainy one. You are probably more optimistic and energetic on a sunny day and maybe a little sluggish and less driven or motivated when it's overcast and rainy. The more sophisticated you become as a trader, the more you will realize how your state of mind and discipline are essential to the foundation of your trading program's success. You may have the most unbelievable and profitable trading program in the world but if you don't have your head on straight it cannot work. We as traders need to maintain the focus necessary to execute the signals generated by the trading program properly; otherwise the program will be useless.

If you need a catalyst to help you maintain your focus think of just a few key words – <u>bottom line and responsibility</u>. Your monthly account statement will reflect how well focused and disciplined you were. Like a yardstick, your statement adds up the winners, subtracts the losers and gives you your <u>bottom line</u> for the month (profit or loss). Did you make money or did you lose money? A better question to ask yourself might be – "Did I follow the rules of the trading program and execute the trading signals properly, or was my mind somewhere else?

This teaches us our second key work – <u>responsibility</u>. Your trading program (model) is designed to identify your trading opportunities {buy/sell signals). It is up to you to decide whether or not to act upon them. It is your responsibility to maintain the focus necessary to execute the trades as they develop. The ability to act upon a signal without hesitation is a trait which successful trader exemplify.

Some trading losses are not the fault of the trading program, but from what may be attributable to what could be called "pilot error". Sometimes we drift off course and don't take the signals that our model generates for us. You may have, on occasion, questioned a trading signal only to see it turn out to be a big winner. You may have thought this time would be different, or this signal might be a loser. We have all heard the fish stories of “the one that got away.” A missed trading opportunity, especially a big winner, will have a tendency to stay on your mind for a while. I t can also have an impact on future trading decisions.

A well-researched and tested trading program should identify strong reward/risk ration and higher probability trades. No trading program is right 100% of the time. In fact, some of the most profitable trading systems are only right 30-35% of the time, but they have very strong reward to risk rations of at least 3, 4, or 5 to 1.

Let’s take for example two individual traders and give both the same trading program like the one we just mentioned. Do you think the performance would be the same, similar or vastly different? If both traders followed and executed the signals to the letter, their results should be similar (allowing for price differentials due to time frame o purchase execution). Vastly different performance would probably be due to a few simple factors. Armed with a solid program, a trader who has the confidence and conviction to execute the signals should do pretty well. Yet another trader, lacking in self-confidence that has doubt, no focus (discipline) and hesitates cannot possibly achieve the same results.

Successful traders have mindsets that exude these traits of confidence and conviction. Not only do they have it in their personal abilities as traders, but also in their trading program’s ability to help identify the better trading opportunities. The have a purpose and intent behind their trading decisions which new traders need to develop to be successful.

Intent & Purpose

The next time you attend a sporting event take notice of the focus of the players. Those who came to play, all out 120% effort and the desire to be the best will have it written all over their faces (this is where the term “game face” comes from). The way they stand, walk and carry themselves will ring out with confidence and a burning desire to excel. Individually they are players; collectively they are a tame with a purpose, and on a mission. Their coaches have designed the game plan with offensive and defensive strategies. It is then the responsibility of the players to maintain the necessary focus to execute them.

Just as a winning team prepares and takes the field with a purpose and game plan, so to must we as traders. A trader with out a trade plan is like a team without a game plan. Both enter their respective arenas with hopes and dreams, but usually end up walking away with their tails between their legs. We all have aspirations of success, but to attempt to trade the markets based on hope is an exercise in futility.

The markets offer us an investment vehicle that because of the leverage and volatility presents us with opportunities for unlimited profits (as well as loss). It is this almost unlimited potential for profits, which can create a feeling of excitement, and draws some people into trading. For some it can reach a point where they may begin to experience delusions of grandeur and don't even consider the possibility of loss. For others who respect the leverage and define their strategies accordingly, it offers a medium through which they can realize the fulfillment of their dreams.

Your setting of goals and what you want from your trading will determined your overall trading plan. The risk/reward strategies that you incorporate will be directly related to what you expect and deem to be a reasonable rate of return. Identifying your purpose and goal behind trading will be a major step in implementing a trading strategy and plan to reach that goal. Developing the mindset and the discipline necessary to follow the plan is the most important step.

A major input in the development of your trading strategy should be the purpose and reason behind your decision to trade in the first place. What a team takes the field or court, unless it is a pickup game for fun, they have a well-defined purpose – play to win. If you are not going to play to win, then why are you playing at all? Ask yourself the following question: What is my <u>real</u> purpose in trading the markets? If you really think about it, you may be surprised at your answers.

For some, trading is purely and simply gambling. They use the markets to trade the risk capital portion of their overall investment portfolio. Most of their trading decisions are "shots in the dark" either based on hunches, or "tips" from friends, and other traders. Like a bull in a china shop, they trade with almost reckless abandon using no rules or consistent guidelines for making trading decisions. Even if they think they have a trade plan, the rules seem to change with each trade decision. Traders of this type usually can't tell you why they made the decision in the first place, because they're not even sure. They usually continue to trade with the "hope" that their trading will turn around and they will catch that big winner that will make it all worthwhile. Until they learn the difference between trading and making money, they will be fighting an up hill battle.

For the professional, trading is like running a business. Remember we mentioned two key words: bottom line and responsibility? These traders accept the responsibility for the actions they take and continually focus on the bottom line results of their trading. They have respect for the leverage and volatility of the markets and realize that they will probably be wrong more than right. The incorporate strong reward/risk ratios and probability in their decision making process. In an effort to maximize capital appreciation they recognize that it's the <u>quality</u> of the decisions and not the <u>quantity</u> of decisions that can help make the difference in the bottom line.

You also need to determine your tolerance for risk not only on a single trade, but also on the total amount of capital you have available for trading. (We will go over and suggest some guidelines when we get to money management.)

Successful traders, like winning teams, develop trading strategies, which place more emphasis on risk management (defense) than on profits (offense). Take for example a baseball game. The fewer runs you give up on defense, the fewer runs you need to score to come away with a win. If your reward/risk ratio parameters are good (3 or 4 to 1), and the probabilities are on your side (at least 60 – 70%), then you should have the confidence and discipline to execute the trades without any hesitation whatsoever.

You will get what you want from trading. The markets themselves cannot do anything for, or to you. In fact, the markets don't even know you exist. You are the one who decides to buy or sell, enter or exit, when to participate, and when to stand on the sideline. It's only after you accept the fat that you are solely responsible for the actions you take, will you start to realize there are differences between just trading and making money.

In the trading arena, it's not you against the markets. It's not even you competing with other traders. This is a game where you are in competition with yourself – how well you play is up to you. The better you learn how to play a game, the more fun the game is to play and the more you will enjoy it. It is my goal in writing this to help you as "coach" to play "the game" to the best of your abilities.

Factors Which Influence Trading Decisions

Analyzing and trading the markets requires complete concentration if you are serious about achieving your greatest potential as a trader. If your objective is to reach the goals of success and riches, it will mean a commitment on your part to better understand what will and does affect you as a person, individual and as a trader.

Just as there are many gyrations in the markets themselves (ups and downs), so too are there crosscurrents that take place in our personal lives. The volatility we see in the markets we can interpret, sometimes anticipate and usually explain or understand through technical analysis (trading program). When the markets start to become what we see as extremely volatile and not making sense (or at least not to us) we can usually step aside for a while and let them settle down. However, there are at times and situations which develop in our personal lives that may affect how we view not just the markets, but more importantly, how we see ourselves.

Your degree of self worth, valuation, and opinion of yourself go a long way toward helping you to reach the goals you set for yourself. You have probably heard the expression "attitude is everything." Well, you attitude is based upon and is the culmination of all your experiences in life up to this point. How you react to situations which develop in life and trading today can be almost directly related to a situation or experience that you did or did not learn from in the past.

As we experience and learn from life's lessons we grow. If we do not learn the lesson the first time we will probably experience the same situation in the future. In the world of trading some traders continue to make the same mistakes over and over and never learn from them. This is probably one of the major reasons that 80-90% of all traders lose money. Through life's lessons we grow as individuals. Our trading experiences help us grow as traders. When we learn to control and deal with outside influences and distractions the sooner we will realized that trading is totally mental.

You may be thinking this book is starting to sound like "Traders Psychology 101" but I fell that a trader's mindset is imperative – a vital and integral part of trading performance and success. As we proceed with the technical aspects of trading in the ensuing chapters, we will be making references to the mindset. You may even be surprised to find out what may enter (cross) your mind when you think you are in your "analysis mode."

The more open our minds are, the better we are able to perceive the potential trading opportunities that the markets offer us. A mind cluttered with non-relevant thoughts is like a clogged artery that inhibits blood flow. You r mental state of mind is just one factor that will influence your trading. Let's discuss some of the others, which you may or may not already realize.

<u>Emotions</u>

In any discussion on emotions as they relate to trading, the two that are usually the hottest topics are fear and greed. While we experience many other emotions in our daily lives such as happiness, or sadness, fear and greed seem to be the two that can have the largest impact on a trader's success. Once we can better understand what they are and how they affect us, we might be able to use them to enhance our trading performance.

At first glance fear and greed may appear to be at opposite ends of the spectrum, one good and one evil. Actually, there are positive and negative aspects that are present in both emotions. If we can draw what we need from each, we can develop a harmony where the two can work together.

Let's take a look at fear and greed separatedly and see how they can affect us as traders. We will take the negative aspect of fear first. Anything that has the ability to frighten, intimidate, create stress or worry might be considered as fearful. Indecision creates doubt, which can lead to increased levels of stress and anxiety and therefore also generate fear. When it comes to making a trading decision, this type of ear can cause a trader to freeze and do nothing. This inability to make a move or decision causes a trader to either miss a good trading signal, or more importantly, fail to cut the loss or exit a losing trade. As far as exiting a losing trader, that decision should have already been made with a stop loss order having been placed beforehand (Risk Management Rules).

The possibility of losing money on a trader for a new trader can create a lot of stress and have an impact on future trading decisions. This is especially true if the trading capital being used is capital, which he/she <u>cannot</u> afford to lose. Since only "risk capital" should be used for trading, if you <u>can't</u> afford to lose it, the loss of any portion of it will create stress. This is what we refer to as scared money. Trading with scared money is a moot point. You need to identify what portion of your total investment portfolio you determine or designate as risk capital for trading purposes. The more you see that you can afford to lose it without affecting your lifestyle, your fears of losing on a trade will begin to dissipate.

The fear of being wrong as it relates to your degree of self-worth is a very real fear for some people. Especially, if as a trader you have experienced two three or four losing trades in a row. You may start to think that you may not have what it takes to be a trader. You then become overly cautious and then may lack the confidence and conviction to "pull the trigger" on your next trade. By being too conservative, you miss what may be a really good trade which might recoup some (or all) of your previous losses and possibly more.

When we approach trading markets and the decision making process objectively, rather than subjectively, some things begin to change for the better. Remaining more objective, we can almost distance ourselves somewhat and see what the markets are offering with a difference perspective. Since we deal in a world of probabilities, risk and reward we realize that we should have both winners and losers. As we mentioned before, even some of the most profitable systems are only right 30-35% of the time, which also means that they lose about 65% of the time. One reason these systems are profitable is their reward/risk ratios and the probabilities assessed for each trade. Another reason is that the traders who use the system take or execute each and every signal, which develop without hesitation. By remaining objective and following the rules achieved by the system which are being tracked an tallied not the degree of self worth of the trader. Your trading program should identify your opportunities, your discipline and maintaining your focus will help you remain objective and execute the trades.

Being wrong or losing money on a trade is almost like on the job training. When you first start a new job or any endeavor, you are bound to make mistakes. It is the nature of the learning curve. The longer you work at something, the easier the job becomes and the fewer mistakes you will make. The same is true in the trading world. Almost all new traders will make mistakes when they first start trading. What professionals realized very early in their careers was to learn from their mistakes (Risk Management). More importantly how to manage their mindset (Discipline) in a way that losses did not affect future trading decisions.

If you strictly adhere to your money management rules (Stop Losses), and then you will start to see that losses are not personal insults, rather they are in actuality a cost of doing business. All businesses have costs to incur in operating them. The key to success in any business is to increase the revenue and control (reduce) expenses. Applying this same principle to trading – cut your losses and let your profits run. We have all heard these words of wisdom before but only the really successful traders have understood what they mean and apply them. Most traders take a long time to learn the lesson of cutting your losses. For some, they learn it too late. This is one rule that if more traders followed it they would see their trading experiences not only be less stressful, but also more profitable.

Many new traders when they first start trading try to let their profits run. However, sometimes because of fear of losing money they actually let their losses run and cut heir profits short. In their attempt to turn paper profits (unrealized) into real profits, they often exit winning trades prematurely. Afraid the market might take away the profits accumulating in the trade they act more decisively and offset the trade. Conversely, when they are holding a losing trade, their "hope" that the market will reverse keeps them in a position longer an usually accentuates the loss. When they reach their risk tolerance point (can't take it anymore), they will usually exit with a loss much bigger than they ever expected to take. More often than not, the market will reserve from this level, almost as if to add insult to injury for the traders who just took their losses.

To expect to trade the market without losing money is like sitting up all night Christmas Eve waiting for Santa to arrive – it is not going to happen. You will have losses, how you handle them, mentally, emotionally and fiscally will determine your ability to stay in and play the game. When you begin to realize that you can take a loss without it causing major stress or anxiety, you will then begin to alleviate your fear of losing or losses.

One of the greatest benefactors of your fears decreasing is that your confidence will begin to grow. As your personal confidence starts to grow, it will also increase the respect you will have for your trading program and your ability to follow the signals. High personal confidence coupled with a strong belief in a proven trading program help to create the conviction necessary to execute signals without hesitation.

Achieving and maintaining a high confidence level will help you in both your trading and in your personal life. You may or may not realize it, but your life as a trader and as a person are indirectly and directly related. What affects you as a trader will have an impact on you and can affect how you may react as a person. The reverse is also true. What affects you as a person can have a bearing on you as a trader. We will come back to this trader/person relationship, but we want to mention it here to point out how confidence can help you deal with fear.

Self-doubt is a feeling, which arises from indecision and a lack of trust and confidence in one's ability to execute a task. When you experience doubt you generate anxiety and fear and therefore may have trouble making a trading decision. In you personal life, you may have even missed a golden opportunity or two that because "you had your doubts" you missed out on it.

By maintaining your focus and following your trading rules (Discipline) you will as was mentioned before build confidence. As your confidence grows, you will notice how much more trust and less doubt you will have in yourself personally and as a trader.

Up to this point, we have discussed the negative aspects of fear and how it can affect your trading and trading decisions. You may not realize however that fear can have a positive side. There are certain aspects of some fears which can actually exert a positive influence on your trading performance. Let's discuss briefly some of the positives we can draw from our fears and how they can help us.

The fears of being wrong and losing money are two fears, which seem to be foremost in the minds of the majority of new traders. Even professionals who have been trading for years admit these fears are still with them everyday in their trading lives. Seasoned traders have learned through experience that losses and being wrong are part of the game. They accept them as the risk associated with trading. We touched on this previously but we wanted to come back to it to illustrate a few key points. Both losing and being wrong can actually have major positive influences on you becoming a better trader. You may think we are off our rockers saying losses and being wrong are positive, but before you make that assumption lets see how they can help.

Throughout your life you have had situations and experiences take place from which you have learned some of life's lessons. Some of these were positive and some of them were negative. This is how we learn right from wrong. Sometimes we even had to learn a few lessons the hard way. Even through some of the lessons may have been painful, they were probably for the best and really had an impact on our behavior and similar decisions in the future. (Remember, if you don't learn the first time, the situation will present itself again until you do.) The experience of losing money is painful enough financially, but also can be painful emotionally as it relates to your being wrong and your degree of self worth. For some people the blow to their ego and self-esteem hurt more than the financial loss. This is especially true for those traders who put ego and greed ahead of discipline and common sense. For the experienced traders, they have learned through the realities of trading, they must keep discipline ahead of ego and greed and make it a part of their trading program. We will come back and discuss later the effects of ego and greed from both their negative and positive perspectives.

Each lesson we learn in life has a price or cost associated with it. Depending on how important the lesson is to learn, the price to be paid could be fairly inexpensive or much more than you ever expected. Let's take a look at a few examples.

Do you remember when you were in school and did not study for exam? Or you did not do your homework? Your test results were not what they could or should have been and your grades suffered. You were probably better prepared for the next exam because you did not want to suffer those consequences again.

As you grew older here were difference lessons to be learned. Take for example after you received your drivers' license. If you were ever caught speeding ad you got your first speeding ticket how it make you feel. Not only did you have to pay the fine but also your car insurance rates went up. That little adventure hit you right in the wallet. The question is – "Did you learn your lesson? Or did it happen again?" If you did it a second or third time it was probably more expensive each time.

As a trader some of the lessons we need to learn quickly have to deal with losing money, risk management and being wrong. This is where the fears of losing and being wrong can actually be positive for us.

In the example of a speeding ticket, you hopefully learned to have respect for the speed limit. Your found out that the speed limit is like a rule and when you break a rule you have to pay, one way or another.

If you are trading for the sheer excitement of trading you probably will not really have a set of rules. Even if you do, they will always seem to change with each trading decision. Trading with rules and discipline may even seem to be boring for someone who is essentially trading for the rush. If you decide to trade with this approach you will have to pay. Those who trade this way need to have deep pockets and usually see their career as a trader come to an early demise.

A major factor in your success in trading is having rules and the discipline to stick to them. One of the first things a budding new trader realizes is what professionals already know - risk management and following your rules are more important than making money. They have seen through experience that if they follow their rules, the money will take care of itself. Their focus on managing risk takes precedence over capital appreciation.

The professional approach to investing and trading is based upon the respect they have for the leverage and volatility of the markets. New traders sometimes take a while to understand this concept of respect for the markets. Just as you may have learned to have respect for speed limits (hopefully not the hard way). you need to have respect for the market.

By acquiring respect for markets you will also approach your trading decisions with more confidence and a more conscientious attitude toward trading itself. Your fears of losing money should almost force you into developing the respect you need to have. As your respect for the markets increases your fears of losing money will start to decrease.

Since we deal in a world of probabilities there will be times when we will be right and others when we are going to be wrong. If you are truly honest with yourself you realize that we will all lose occasionally. To expect not to lose is almost ludicrous. It may sound hard to believe right now, but there will actually come a time when you will appreciate having your stop loss hit.

The generally accepted purpose of your stop loss order is to help you determine risk and protect your trading capital. Stops also tell you when you're wrong. It is far better to be out of a good trade wishing you were still in it than still in a bad one wishing you were out. It is our understanding and belief that they created the stop loss to protect us as traders from doing something crazy and stupid. By crazy we mean doing something like trying to sell short in a runaway bull market, especially when every technical indicator you have points north.

The markets offer us an almost unlimited potential for profit as well as loss. It is this almost unlimited potential for loss, which can subconsciously create the fear of losing money. However, we can overcome this fear by managing our risk or exposure as effectively as possible. Putting more emphasis on defense we can cut our losses and let the profit run.

Exercising caution and the patience to wait for a good reward/risk ratio high probability signal is a good first step. It should also be your first rule and one that is the basis for your overall trading program. The rub is that you have in your trading program are the guideposts along your path. As a trader, following these rules will help you maintain your focus and discipline. They will also help you define yourself as a trader and the type of trader you are, or will become. The rules you define should determine entry and exit points, risk per trade and assessed probability.

How you define risk per trade and assess the probability of success will determine whether you will be a gambler, prudent speculator or discerning investor. In any case, whatever category you fall into, following your trading rules (and money management) will be your roadmap to achieve your success. Your ability to follow the rules you set for yourself and your trading program to execute your signals will take a conscious and determined effort at first. After a while you will see the process evolve into an almost automatic and subconscious approach to trading. It is when you reach this level as a trader, (some of you already have) that you will have gained control of your fears of losing and being wrong which are two of the roadblocks to a traders success. Our fears are the emotions which can cause us sometimes to be too conservative in our trading and they often can keep us from following our own trading rules. Some of these fears can even cause us to freeze and not be able to make a critical decision or move as we pointed out earlier.

The Greed Factor

There is however another emotion common especially to new traders, which affects their trading performance. When this emotion surfaces a trader will usually throw caution to the wind. Trading rules and discipline in this case are usually perceived as limits being placed on a trader. A trader will begin to bend, if not break the rules completely. When traders start to act in this manner they are acting under and being motivated by the greed factor.

At the opposite end of the spectrum from fear we will find greed. Like fear, greed can have both a positive and negative influence on our performance as traders. We need to be aware of the negative aspects of its influence, accentuate the positive characteristics and use it to our benefit. Lees take a look and discuss the influence on our trading greed will have.

When you were young you may have had a jar, can, box or even the famous "piggy bank" in which you saved money. You may have even received an allowance for helping out doing little jobs around the house. As you grew older you may have even had a paper route or cut lawns. The idea behind each scenario was to make money and save it for the things that you wanted and thought you needed.

You worked hard for your money, especially cutting grass on hot sunny days or delivering newspapers in the cold of winter. After a while you started to think about how to make more money. Cutting new lawns, a second paper route or some other job were possibilities you may have considered. All you realized at the time was that you knew you wanted and needed more money. Your needs, wants and desires were changing. The more you had the more you wanted. Without you maybe not even seeing it, the first subtle seeds of greed were being sown. You probably had no concept or understanding of this emotion called greed, but you were unknowingly being motivated by it.

Our ambitions, motivations as well as desires to achieve and have more, are indirectly the byproducts of our initial seeds of greed. These seeds are like vitamins. Taken in the proper dosage they are positive, taken in excess (abused) they can almost do more damage than good. The key in your trading success is going to be being able to understand when you are influenced by greed in a positive way and when you are being adversely affected.

The positive effects of greed can be like a fuel additive for your ambitions. Greed can sometimes act as a motivating factor behind some of your trading, as well as personal decisions. However, being motivated by something and being driven or obsessed by it can produce two completely different outcomes. Whereas your fears as they relate to trading can keep you sometimes from doing something, greed can nudge you subconsciously into making a move.

You may have experienced a moment when as you were about to enter a new trade, you froze and could not pull the trigger. If you were hesitant it was probably one of your fears holding you back. That is unless however. your greed factor overrode your fear factor. Another way to look at it is the fact that your tear of missing out on a possible good trade was greater than your fear of losing. The fear of missing out could actually be considered as a as a seed of greed disguised as a fear.

Consider for a moment how many times that your own greed overrode your fear factor. You may be surprised how often if happened and the results of the trades. Some trades were profitable and some were unprofitable. On some trades the greed factor was helpful and on other trades harmful. On those profitable trades the input of greed was the nudge you needed to take the trade. It was also in all probability; the correct decision to make based upon your trading program.

If the trade was unprofitable then your greed factor in this case not only overrode your fears, but you were more than likely driven more by greed than by discipline. The greed factor with these trades not only overcompensated for your fears, but also probably caused you to violate some of your trading rules. You may have even entered some of these trades based on "tips or hunches" from others. If this were true, they you may have totally disregarded your trading program and exercised no discipline whatsoever. This is precisely why we emphasize having the discipline to follow your trading rules and to take total responsibility for your trading performance results.

The above discussion was with respect to initiating a new position or trade. Now let's consider how greed can affect us when we have an open trade on the market.

When you have an open trade that shows a profit you feel good, not only about your trading but also life in general. As more profit builds in the trade, the better you seem to feel. Even though the trade is still an open one, as the profit grows so does your confidence level. Each winning trade breeds more and more confidence (just as each losing trade detracts from it). When you reach this point, you must be alert to and aware of the possibility of the greed fuctor surfacing and affecting you as a trader.

Some traders, especially novices, when they see profits start to build in their still open positions; they become overly excited and emotionally involved. When you become emotionally caught up in the market moves you can begin to lose your perspective and objectivity. Your focus and discipline start to wane as your emotions start to take over.

If you were following your trading program rules when you initiated the trade, you defined your reward/risk ratio. Based upon that analysis, you had to at least have had some price target or objective at which to take a profit or offset the trade. However, becoming emotionally involved you may even feel as if you have hit "the big one". The one that will solve all your financial worries and put you on the road to riches. As the profit in your positions continues to grow you may even consider buying more. You may start to experience delusions of grandeur and feel that the sky's the limit. When you feel yourself starting to feel this way emotion and greed are driving you. If you do not recognize this state of mind quickly you can fall into a category where – the greed soon become the needy.

Markets go up, and although some traders find it hard to believe, they actually sometimes do go down. They do not however move in a straight line, nor is the sky the limit. The markets have a way of making us, as traders feel very humble at different times. Sometimes they move in ways, which make you believe it will continue higher (lower). Or you may think it is a breakout to the upside (downside) only to see it completely reverse direction and just as quickly take your profits away.

When you have a trade on that is showing a profit, your confidence will usually grow at a faster rate than the profit on the trade. This is exactly when you need the discipline of your trading rules, your mindset and your focus the most. It was your trading rules that got you into the trade and therefore should be what gets you out. Following your trading rules will help you to make the necessary decision at a particular moment in time. The trading rules that you will learn throughout this book will help you to stay focused and disciplined. You will also be able to determine what appropriate action should be warranted at the time.

Whenever we can remove subjectivity from our trading decisions or analysis, we can in essence try to remove the emotions of fear and greed. Though we cannot always remove them completely, we can al least minimize their effect upon us. Our trading rules, if we have the discipline to follow them, help us to minimize the emotional factor in our trading, give us distance, perspective and make our trading almost mechanical.

Let's take for example a trade where a profit has accrued and the current price is greater than our projected price level. The market is considered to be at overbought levels or a value that is viewed too high for an up trend or oversold levels and considered too low for a downtrend. These conditions are basically just overextensions in the current direction of the move and are covered in the detail in Chapters 2, 3 and 5.

When you first entered the trade your trading rules defined your stop loss point (risk). Your program should have determined also both your price objective point (reward) and probability of outcome. Now that the market has moved beyond your price objective point you will have a decision to make. Your choices will be to exit (offset) the trade, raise your stop loss point (risk) or do nothing. A trading rule could be exit (take profit), raise your stop loss (protect profit) or do nothing. Revising your position, selling your long and going short or buying your short and going long, is another possibility discussed more in detail in Chapter 6. In any case you will be making a decision.

What we are trying to point out is the tact that if your rules suggest offsetting or raising (lowering) your protective stops you should do so. Otherwise one of two scenarios develops. The market could reverse and take you out by hitting your stop or, the greed factor surfaces again. If your greed starts to take over, you start in your mind to expect even higher (or lower) prices from the markets action. You begin to lose perspective and the discipline to follow your trading rules. By being caught up in the excitement you will sometimes do things that afterward you realize were not in your own best interest. By not, for example, raising your protective stop and thereby locking in additional profit, what the market was offering to you, you let get away.

Greed can also on occasion make you too aggressive. whereby you hurry into a trade because you arc "convinced" that if you don't get in you will miss the opportunity altogether. You may enter this trade if you elect to and use a wider stop loss them your trading rules dictate. Being "convinced" (or at least you believe so) that it has to go up you are willing to accept and take a greater risk than usual. There are some traders who are so sure that the market can only go up (or down) from where it is that they enter the trade without any stop loss at all.

From the examples here a trader should always remember two things. First of all, a fool and his money are soon parted and secondly, hogs get fat and pigs get slaughtered. This is precisely why you need to maintain the focus necessary to follow your trading rules; because only by doing so can you keep your head on straight.

As you can see, both fear and greed can have a major impact on your trading and your abilities as a trader if you let them. By having a better understanding of their influence upon you and your trading you can be more aware and alert to them when they are surfacing. Remember also, that fear and greed comes with both positive and negative attributes. The key will be to draw the best from both and use them to create harmony and a positive input in your trading.

Physical Health

Fear and greed are emotions that you have to deal with as a trader. Another factor can influence how you feel, that being our physical health. How you feel physically can affect your trading day and your ability to perceive the opportunities that the markets offer.

Trading as we pointed out earlier, is for the most part a mental game. You need to keep your mind sharp and alert because trading requires complete concentration. Your mind is like the engine of a high performance racecar. To operate at peak efficiency levels a racecar needs to be well tuned and maintained properly with the best fuel. oil. tires, etc. For your mind to perform at its best. your body needs to be taken care of like the race car. You need to keep yourself in the best physical condition possible because how you feel physically will affect how you feel mentally.

You probably know already that when you don't feel well because of headache, a common cold, or the blahs, you don't feel as sharp or together as you should. It really would not matter much if you had all the money, success, fame and fortune in the world if you were not around to enjoy it all. Trading is not physically abusive to our bodies, unless you are being banged around all day in the trading pits. Where manual labor can wear you down physically, the mental activity required through focus and concentration can be just as laborious and draining on you mentally.

You may have already, or will sometime in your trading future, experienced what might be referred to as "brain drain". At the end of a wild trading day where markets seemed to go in every direction possible you may feel totally and mentally exhausted. Even though you really didn't exert yourself physically but you feel as if you did. You may have even as a long term position trader, had your had your winning positions lose equity and your losing positions get stopped out with losses. All in all not really what you had hoped for in your trading day and it drains you emotionally and mentally.

Just as an athlete keeps himself in the best physical condition to play his game, you also need to maintain yourself in your best condition physically to play your game. Just as racecars and athletes have certain requirements to perform at their best levels possible so do you as a trader. As the racecar needs the best fuel and oil, traders and athletes alike need the proper diets and rest. Eating the proper foods, possibly taking vitamins and getting plenty of rest are a good foundation. A good nights sleep after a hot shower will help you wake up refreshed and looking forward to the new trading day. You probably know already how you feel when you have not gotten enough sleep. The next day you are sluggish and are not as mentally sharp and focused. Being a little behind the eight ball you may be slow to react to a good opportunity and miss out on it completely. When you are not yourself: possibly a little under the weather or tired, you are most likely to make mistakes. Since you are not totally focused and in tune with market realities. you may even bend (or break) trading rules. You are asking yourself and your trading program to analyze markets and operate at less than their optimal or total potential. This is probably why so many traders rely and depend on computer models to generate entry and exit signals. Along with being unemotional trading programs (computer models) don't have sleepless nights, wake up tired, or get sick.

At the end of the trading day before you leave your office, you should make your entries in a trading diary or journal as to possible trade signals for the next day. If you at least have an idea of what you might do the following day, you will have a head star! on tomorrow. By planning your work and working your plan you will alleviate some of the stress associated with your workload. Successful traders always plan their trades and then trade their plan. If you do the same, it will help you develop and maintain the discipline and focus you need to be successful as a trader. These plans should also include any necessary changes or adjustments in stop placements and any contingency type orders. If your initial entry signals are not available you need to have a plan "B". This will include adjustments in your entry points such as, raising your price to buy, or lowering your price to sell, if market movement dictates and warrants such action.

After you have taken care of any unfinished phone calls, paperwork, and planned for your next days trading, it is then that you can call it a day. Just as your computer has a process by which to shut it down so should you as a trader. Your first step after you have closed down your computer systems is to start to clear your mind and begin to relax. While your computer can go twenty-four hours a day seven days a week you and your mind cannot.

Being a trader can at times as we pointed out before, wear you out mentally and indirectly physically, through the stress that sometimes comes with trading. This is exactly why you need to keep yourself in the best physical condition possible. A healthy body can help promote a healthy mind, a clear focus, and good overall perspective about trading and life itself.

Stress vs. Peace of Mind

Just as the markets have highs and lows so docs life. It is the personal highs we experience in life, which help us get through the lows. As traders, it is the profits we accumulate which help cover the cost of the losses which we know we will incur from our trading. While we may not have much control over the hands which life deals us to play, we do have some input on our trading decisions and experiences. Although we can not influence the market's directional movement or action, we can develop the mindset and create the trading environment, which would be most conducive for achieving our trading success.

When you think back over on the experience in your trading career those that stood out usually fall into two basic categories. The first group were the big winners and when you followed your trading rules. The second category included those trades that lost money and you broke one or more of your trading rules. With your winning trades you not only followed your rules, but you also made the trade decisions with more of a relaxed confidence approach to trading. You saw the trade based on rules and executed the trade without hesitation. You also did not probably feel any stress or pressure to make the trade. With your mind clear of any distractions you were able to completely focus on what needed to be done at the time. Since you felt no pressure to make the trade and no outside influence distracting you your mind was able to analyze and execute like a mechanical computer model. This feeling to a trader is almost like a state of nirvana. This is the same state of mind an athlete achieves when he plays his game to his greatest potential and is referred to as being "in the zone". When you are operating in the zone everything seems to go well and almost appears to be effortless.

Everything would be wonderful if we could be in the zone all the time. Unfortunately, however, this is not always possible. There will be times during which we experience these zone feelings in our trading, but not in our personal lives and vice versa. The "on top of the world" sensations you will sometimes fed is when your lives personally and as a trader come together. It is during these times you may even exclaim - "Life is good", or "It's good to be the King".

Many new traders are under the impression that their personal and trading lives are separate and distinct. Some are of the opinion that being a trader is a job they hold, work at from 9 to 5, and then leave it behind and go home. If only this was the way it were.

You will discover if you haven't already, that what happens in your trading day will carry with you until you are finished. If it was a really good day you can't wait to share it with family, friends and colleagues. Your excitement gives you a cause for celebration. On the other hand, if trading was difficult and you lost more than expected, you will look for comfort, consolation and encouragement from your personal support groups. In either case, you will usually carry the results of your trading day with you. They will impact in one form or another your interactions and how you deal with others in your personal life. Since trading has its ups and downs, one day you may come home and be the life of the party, and the next quiet, deep in thought and your own worst enemy.

Trading can at times create stress and anxiety, especially during a losing period. You must also be aware of the fact that if you are stressed in your personal life, that it can and will have a dramatic effect on your ability to trade the markets.

Personal stress and trading are not a good mix. When you are feeling stress in any form, it will affect your overall sense of well being. It will also inhibit your thought process, trading focus, mentality and your ability to make clear headed decisions. Stress and anxiety generate and lead to fear and doubt which are negative energies. Anything that causes or contributes to the creation of negative energy is not conducive for you as a trader. To succeed as a trader you need to have confidence in yourself and your ability to perform at your best levels. Associating yourself with others who are optimistic about life in general and focused on their achieving drCU01S and goals will be a positive influence on you. The positive energy that you will feel from these associates will help you to maintain your own personal confidences that you will need to achieve your dreams and goals.

We have all experienced stressful periods in our lives and we will have these periods come up from time to time in the future. How we deal with them will determine how much they will affect our trading having a situation develop in your personal life which weighs on your mind will inhibit your concentration and focus on trading. To be able to trade well you need to have your mind clear of any distractions so you can execute your trading rules and program.

A happy and well-balanced personal life, coupled with a positive and supportive home environment, helps to generate strong personal confidence and a higher degree of self worth. The environment referred to here is the world you live in which is outside your trading world. It is where you go at the end of your trading day to rest and regroup for the next days trading.

Your personal support groups that we spoke of earlier also reside in this world. When you arrive at home and see the love ofyour life and family you then realize the reasons why it is you do what you do. Since you believe the markets offer you the potential and opportunity to fulfill your dreams, you also want to help them to achieve theirs. The love and support you receive from those in this world will help you to maintain your focus and discipline in your trading world. The peace of mind you gain from their support and belief in you becomes almost like a motivational force and the fuel you need to strive toward your goals.

Fiscal Health

Many people believe that the best things in life are free. When you consider the sun, the moon, the stars and especially, the smile, love and innocence of a child, they are. However, trading the market is not. Trading requires trading capital and totally risk capital at that. To attempt to trade the markets with anything other than risk capital will cause excessive stress, tension and heartache.

Trading with scared money will create a feeling that you must be right on every single trade that you make. You will put pressure upon yourselfbec3use you will start to believe that you have no margin for error. Even if you are not trading for yourself and have it in a professionally managed fund, the normal swings in equity of the fund will be upsetting and of grave concern to you. In either case, since you cannot afford to lose it, you cannot afford to trade it and should probably consider not trading at all until you are in a position financially where you can.

A clear conscience makes for a soft pillow and good nights' rest. Knowing the bills are paid, there is food in the house and money in the bank will afford you certain luxuries. Capital that you can set aside (outside of long term savings) and denote as risk capital for trading will be your trading nest egg or seed capital.

When you can afford to play the game without worrying over how losses would affect your lifestyle, then you can afford to start trading. You will then be able to assess trading opportunities in terms of risk/reward (and probability), as opposed to must win situations.

Whether you decide to trade for yourself; or place your capital in a professionally managed fund, this capital should be considered as a long-term investment. Since it is a risk capital, it should not be needed, and therefore be given the opportunity to appreciate over time.

Since you worked hard and saved to accumulate the capital you will be trading, you need to have it work just as hard for you. You are the one who is ultimately responsible (directly and indirectly), and accountable for it's growth and appreciation.

If your nest egg is placed with a professional in a managed account, or some type of fund, then it is your responsibility to research and find one with a good long term proven performance record. By proven, we mean performance over the long term that has weathered the ups and downs of trading over time. Ideally growth without extreme swings in equity (down trends) and still has shown a reasonable rate of return per year. Remember here also, the higher the expected rate of return, the higher the risk usually associated with it to achieve that rate of return. An extremely high annual rate of return may be great, but if your heart and blood pressure cannot handle the volatility and draw downs, it's probably not the risk fund for you. If you decide to have your trading capital in a fund, you need to do your homework, find one that would be compatible with your personality, trading perspective and longer-term investment goals.

Balance in Your Life

Successful trading requires, and almost demands, complete concentration and focus. Your mind needs to be clear of any distractions and as stress free as possible. When you are relaxed, confident, self assured and feeling no stress you are able to see more clearly the trading opportunities the markets offer you.

Although trading at times can be mentally and emotionally draining, the support you receive from family and friends help to create a balance in your life. Your personal and family lives give you a positive distraction and usually a much needed respite from trading. We are not robots or computers and therefore, we need to get away from the trading world occasionally to clear our minds. Having interests and hobbies outside of trading will help keep us from becoming one dimensional and obsessed with trading. Outside activities, non-trading related, will also help keep us from running the risk of burnout. Activities, such as coaching a little league team or having dinner and attending a movie with friends are nice distractions. A relaxing evening at home with the family or a romantic dinner will help you relax and re-energize yourself for the next day of trading.

There are times when the markets can get very active and trading can be hectic. Trading signals and opportunities seem to appear in almost every market you are following. These are the times that traders live for and can thrive in if they arc prepared for them. By being prepared we are referring to employing your re-energized mind, heart and soul which the balance in your life gives you. In essence, the joys in your life, outside of trading, are what will fuel your passion for trading and your desire to be your best you can be.

What, Where, How Much (How Many) and When?

Do you recall the days when you were a child and you walked into a candy store? Everything looked so good. You wanted it all. It was almost a major decision to select just one candy bar. Your choices seemed to be almost endless. There was probably even a feeling of excitement running throughout your body as you tried to make a choice.

Many novice traders experience these same feelings of excitement when they first start to trade. With so many markets available to trade and so many possible opportunities for trading, they wish they could trade them all. However, as they soon learn, patience, focus, and trading rules must take precedence over emotion, trading and making money.

Most of us as traders have certain "favorite markets" that we feel we trade better than other markets. One reason we may believe this to be so is because we may have made a lot of money trading in a particular market. Another reason could be that the degree of volatility of a certain market correlates directly with our own temperament and personality. For example: a very conservative trader will usually trade in low volatility type markets. The higher risk, more aggressive trader may exhibit an appetite for the gambler type volatility of the wild price surges that some markets offer.

Every trader is different. Therefore, each has different reasons behind their respective trading decisions. What may be a golden trading opportunity for one may hold too much risk for another. A possible trade with a small profit potential may be a good opportunity for one trader, but another may consider it not worth the effort to make the trade.

Trade selection itself poses four possible and interesting choices: buy, sell, hold on or do nothing. The decision whether to buy or sell are active choices. Holding your current position may seem to he in a sense very passive, but it is still a possible choice. This leaves us with our last possible choice ~ do nothing at all. You might think that doing nothing at all is not a really a trading decision. Yet, in reality it is. You did make a decision. You chose not to trade. Professional traders understand that to decide not to make a trade is indeed a trading decision. They have learned through experience that there is a time to trade and a time not to trade. Patience and discipline have shown them that more often than not discretion is usually the better part of valor.

The discretion that they employ in their decision here is a direct function of their degree of discipline and ability to follow their trading rules. There arc erratic times when market volatility increases to a point where markets seem to just gyrate back and forth. These erratic movements appear as if a hyperactive child drew the charts. Out of chaos comes the opportunity for potential profit. While each trade has a risk associated with it, trading in a higher than normal risk environment is exactly that - just trading. It is during times like these that we need to have the patience to wait for a better trading opportunity. By exercising patience and waiting, we also preserve our trading capital. Just as a turtle must stick his neck out to make progress, we as traders must put our trading capital on the line to make money. We cannot make money sitting on the sideline waiting for the "perfect" trading opportunity and therefore need to take a chance. Columbus took a chance and discovered a whole New World.

We as traders operate in a world of probability and risk management. Since there is no absolute perfect trading opportunity, we need to try to focus on and identify only those trades which offer a good, low risk, high reward potential. First we have to narrow down our list of potential candidates. We can then assess and evaluate the respective probabilities of each possible trade. This process helps us to determine the "real" potential of the trade. In considering the "real" potential, the probability of a successful outcome of a trade is just as important as the risk/reward ratio, if not more. Often traders analyze the reward / risk ratios and make the trade without assessing the probabilities of their outcome. This usually happens because a trader is either in a rush to make the trade or is acting on a recommendation from someone else. If you are in a rush to make a trade then you need to learn patience. If you are acting on the recommendation of a "hot tip" form a friend then you most likely will not have any idea of its' probability of being a winning trade.

A more detailed explanation of money management guidelines and trade selection will be covered later. For now. the point discussed here of reward / risk and probability is made only in an attempt to answer the questions of *"What, Where, How Much (How Many) and When? "* The answers to these questions are - your trading program. If you have the discipline to follow the rules of your trading program, then it will be able to answer each and every question proposed. Your program can show you <u>*what*</u> to buy or sell, <u>*where*</u> to buy it or sell it, <u>*how much (how many)*</u> and <u>*when*</u>. If you allow your program to help you analyze the markets and identify the trades for consideration, then all you have to do then is to execute the trades. It sounds very simple to do. Doesn't it? In actuality, it can be if you follow the rule of your trading program.

<u>Money Management Guidelines</u>

To remain a player in any game you must learn to play by the rules. In every game or sport there are rules by which the game and its' players are governed. Not abiding by the rules leads to infractions, penalties or being dismissed from the game itself (ejection).

A major reason many players drop out of the trading game is their lack of discipline and respect for money management rules. Risk management needs to be foremost in the mind of any trader who wants to achieve his or her dreams of success. Without proper risk management a trader will be setting himself on course for a very rough road ahead.

Capital preservation is essential if a trader is to last through those times when a string of losses may take place. Very often during those "rough times" a trader may question whether or not the trading program or model is a good one. Some traders may even after a couple of losing (unprofitable) signals, question the validity of the next one and not take it at all. Once you start to question a trading signal, decide to ignore it completely, or do the opposite, you are no longer following your trading rules. You need to be alert and aware of the times you full into this type of behavior. If it happens, you could be starting to trade just to trade as opposed to following a trading program based upon risk/reward ratios and assessed probabilities.

If you focus on capital appreciation through risk management you will become a more sophisticated and discerning investor or trader. Rather than trading just to trade you will be making your trading decisions with the mindset and approach like that of a professional money manager.

The markets offer traders possible trading signals over a variety of markets each and every day. It is at a trader's discretion as to whether or not to take the trade that the trading program suggests. Your trading program should identify the signal (buy or sell), the reward/risk ration and probability of outcome. It then becomes the responsibility of the trader to execute the signal by placing the order to either buy or sell with the appropriate stop loss orders. The appropriate stop loss (risk per trade) for one trader can be vastly different for another. Not only may the risks per trade parameters be different for each trader, but their risk tolerance levels might also be different depending on the size of the trading account.

Since or goal is to make money and manage risk we need to try to identify the better trading opportunities in which to invest our trading capital. Many new traders in deciding upon the trade will look at the reward/risk ratio of potential trading signals without considering the probability of their outcome. Prudent trading and money management decisions are a combination of both risk/reward analysis probability assessments. The more you grow and develop as a trader, the more you will realize that trading itself is a function of assessing probabilities. Take for example the idea of planning a picnic over the weekend. One of the first things to consider is the weather outlook. You probably checked the weather forecast to see which day would be sunny and what the chances are for rain. If the forecast is for a 70 percent chance of rain throughout the weekend you might just postpone the picnic until the following weekend. If there were less than a 20 percent chance of rain you would most likely go ahead and pick a day to have your picnic. You need to approach you trading decisions with the same mindset. If you are no going to consider or assess probability, then you decisions may just as well be based on the flip of a coin. The information contained in this book will help you to better assess the probabilities in your trading decisions so that you can have the odds in your favor. Since you would not plan a picnic with a good chance of rain why make a trade without having the odds in your favor.

The RSI principles and guidelines presented in this book will help you to identify the trend and give you the ability to forecast future price objectives. After you have identified the trend, you can then attempt to establish a position in the direction of the trend. Being in tune with the trend will help you to increase the odds of being successful in you trading. Your actual entry point should be determined by your risk/reward ratios when your trading program generates either a buy or sell signal Chapter 6 will cover in detail how to establish entry points with reward and risk ratios based on the positive and negative reversal patterns in the RSI. Reversal patterns will suggest potential price targets as objectives, the respective stop loss points and therefore the reward/risk ratio of the trade.

Chapters 2 and 5 will help to identify when a market has moved too far in one direction or another and gets overbought (too high) or oversold (too low). When markets get overextended traders will usually take profits (offset) and markets will go through a short-term reversal which "corrects" the over-extension which had been present prior to the reversal. When you have a trade open which shows substantial profit, you need to be aware of the market becoming overextended. When you can recognize a market is over extended, you can raise your stop loss level to protect your profits. When you first initiated the trade you used a stop loss point to limit your downside risk and exposure (risk management). After the profits start to grow in a trade you need to exercise the same discipline to protect the gain (capital or profit management).

Solid risk and money management rules are a mainstay and one of the foundations upon which successful traders have built their careers. Another cornerstone is the emphasis they place upon the importance of assessing their probabilities of success on a trade. Remember the planning of the picnic? To analyze markets and potential trades in terms of probability first and reward/risk rations second will be like standing in a dark room and then turning on the lights. You will gain insights and understandings of markets that you may not have thought were possible.

We take risks everyday in our daily lives. We do so unknowingly by subconsciously assessing the probabilities of their outcomes. When we blend this type of subconscious assessment with our trading mindset we begin to develop a more relaxed confidence in our ability to identity trading opportunities.

Let's consider two possible trading signal scenarios. The first has a reward to risk ratio of 2 to 1 with a 50 percent probability and the second has a 4 to I with a 70 percent probability. Which do you think is the better trading opportunity? If you truly believe the first is the better choice then you don't need a trading program. You only need a coin in your pocket to flip because you are basically trading with gamblers' mentality. If on the other hand you believe the second is the better choice then you are starting to realize that there are differences between just trading and making money.

The quality of your trading decisions will far outweigh the quantity decisions. Put very simply, when it comes to trading, less can actually be more. Each time a position is taken, trade capital is put at risk. The more trades taken, the more trading capital is put at risk. No trading program or model will generate signals where every trade is a winner. Many programs will actually have more losing trades than winners. This is precisely why the quality of the trading decision is almost more important than the quality of decisions.

Focus Determines Reality

Our aspirations as traders arc different from those that we have personally. While they may be different, they are directly related and co-dependent. The levels of success we reach as traders will determine the extent to which we can achieve the personal goals and dreams we have as individuals.

Just as a laser beam has a concentrated stream of energy focused on a single point, we as traders need to focus our energy and concentration. You need to have a plan developed and the discipline to follow it if you are to reach your trading as well as your personal goals. It will be the level to which you are able to focus and keep your eyes on your goals that will determine your realities. Your attitude toward life in general and about yourself; will be a major influence on maintaining the proper perspective to achieve that which you want the most. A positive outlook will help keep you on track. A negative view of life or low self-esteem will undermine your efforts.

You are the deciding factor and your own catalyst in creating the realities in your world. What is foremost in your mind will cause you to take certain steps or actions. When you come to the "forks in the road", the choices and decisions you make will direct the future course of events in your life. Whether a trading decision or a personal decision, each will lead to other possible choices down the road. Your trading decisions will show you, (sometimes rather quickly) if it was the right choice. Personal choices or decisions may sometimes take longer to manifest themselves. As to whether or not it was the proper decision, only time and circumstances will tell.

The Keys to Success

In the original drafted outline of this book certain parts of Chapter I were initially considered to be included in the preface. However, since very few people read the preface and it has been considered too important to be missed these thoughts and ideas became the basis for Chapter 1.

By now you should begin to realize that there are differences between just trading and making money. Some of the differences are very subtle and you may not have noticed them before. Others might have been painstakingly obvious to you because as you read them you remembered experiencing them firsthand.

Life is an ever evolving, changing and growing process. With each lesson we learn, we grow and become a stronger and better person or player in the game. The information and philosophies presented in this chapter will help you to maintain a focus in determining the realities in your life. What will be covered in the ensuing chapters will help you to determine the realities in your trading world. By understanding these two worlds in which you live and trade you can blend them in harmony, thus making both a better place to be.

To be able to open and pass through the doors, which at first may appear to be closed, you will need certain "Keys to Success". The first and most important key on your ring is **you**. You alone must be the one to recognize the difference between when you are just trading and when your are trading to make money. The other keys on you ring will be your trading program, patience, discipline and a certain degree of luck.

Your trading program will be your game plan. It will help you to determine your trading signals for entry and exit as well as reward and risk. Solid programs followed to the letter will almost be like a roadmap to reading the markets with a light leading the way.

To be able to find the better trading opportunities you will need to exercise the patience necessary to wait for them to develop. Patience will help you decide whether it will be just a trade, or a really good investment opportunity.

Maintaining the discipline necessary to stay within the rules of your trading program and controlling yourself emotionally will help you to maintain your focus. To achieve that which you most desire you must realize that it will be a stepping stone process that takes time. Some traders believe it is only by having that last key on the ring that will determine whether or not they are successful. Those who are successful already, realize that they had to cut their own last key. Your degree of luck in your trading will manifest itself through your ability to create your own opportunities for success. You have probably heard the expression "practice makes perfect or '"the more you practice the luckier you get". Well they relate to trading as well. You can create your own luck by preparing yourself now for the opportunities that will lie ahead. LUCK is really just an acronym for: Labor Under Correct Knowledge.