



HOW TO 'Pull The Trigger' Without Hesitation *Every Time*

Special Report #1



Most of us have been there. You've done the research and everything points to a "sure thing". Of course, it might not happen exactly like you thought but you know in your heart that it's going to happen—a winning trade. You set your stop-loss just in case but that is just a formality. Maybe you did set it a little too tight but you don't expect the price to move down far enough to stop you out. You are ready to make some money (and demonstrate your astuteness).

Everything starts out OK. The price ticks up as you expected but then without explanation, the price starts to turn and you feel yourself holding your breath as the price starts a rapid and relentless downward march toward your stop-loss. You know there is no reason for this to happen. Your confidence starts to fade. You actually get weak in the knees. Frantically, you try to figure out what has gone wrong with your analysis. To give yourself some time to find out the reasons for this unexpected turn of events, you decide to loosen

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up your stop-loss so you call your broker in a panic and ask to move it down to accommodate further downward movement. You think you hear your broker chuckling but you don't have time and you hang up and start looking for the reason for the slippage. After about half an hour, you reassure yourself that there is nothing out there and the stock should be correcting soon. But as you check the current price, you suck in a like somebody punched you in the stomach. You've been stopped-out. Your shoulders slump and you gently pound the desk top. How could this happen? It's not fair! You did everything right and followed your system. You were wrong and deep down inside—on a subconscious level, you—like almost all of us—don't like to think of yourself as being wrong...as being...incompetent.

A few days later, you review the trade to see what happened. You feel a little better because the stock has indeed gone up as you had prognosticated but your micro second of pride turns sour as you accept the fact that you lost the trade. You had panicked and you'd lost money. You think about why you violated the rules you had established in regards to "pulling the trigger". Why did you move your stop instead of taking the hit?

You sit back and analyze yourself. Was it the fear of losing money because you place too much emotional value on money? Was it because you were protecting your ego from the fact that you just aren't that smart? That you're just fodder for the able traders; that you are the weak one.

Not being able to pull the trigger and get out of a trade is a clear signal of problems either with the trader or the trading system. Consider the typical problems which involve the trader. As with most of us in a modern society, you are raised with the idea that losing is bad. It reflects directly on you. Los-

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ing equals shame, which equals pain. A natural response to pain is to avoid the situation that causes it and losing trades and the pain that causes is probably the main reason that most novice traders return to the safe haven of passive investing like mutual funds and long investment horizons. The fact is, to some, losing motivates and triggers a reaction to fight back and conquer. But for most, it is just plain easier to deny responsibility and avoid the situation and the risk of pain. To most of us frail human beings, mental and psychological pain is worse than physical pain.

Another form of not pulling the trigger is when a trader has a problem entering into a trade. This happens mainly because traders don't feel confident enough in their analysis. Maybe the trade doesn't exactly fit the system criteria and there is a subtle push to just jump in, which is offset by the emotional fear of not being fully informed and this causes an emotional gridlock and stifles decisive action. In the world of the “random walk”, X doesn't necessarily equal Y. As the trade nears the planned entry point, the trader feels the pull of the subconscious emotional fears of being wrong and losing money. The usual decision is to follow the anecdotal wisdom: *“If it doesn't feel right, don't do it”* and the trader holds off on the entry. No problem. Live to fight another day, right? But when the trade takes-off and becomes a stellar winner, the trader is left standing at the station as the train pulls out. It's not as painful as actually losing money, but this being left at the station syndrome may force the trader to plunge into the next trade with reckless abandon and get hammered, which multiplies the frustration of missing the opportunity on the first trade. If this whipsaw effect happens several times, it can bring a novice

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trader to their knees. Several back-to-back losses can indeed force the novice trader to throw in the towel. Consider the “fact” that only about 10-20% of stock options and futures traders become successful traders. The rest usually drop out of the trading arena altogether.

These scenarios are probably the major causes for new trader disillusionment and abandonment of the exciting potential of a successful trading career. But it doesn't need to be like that. You see, most traders are not attuned to the fact that these mental and emotional aspects of trading are just as important as having a good trading system. Maybe, even more important. A lot of advertising dollars and promotions are focused on trading systems and software to make trading appear to be easy. But no matter how good a system is, there will always be losing trades. If a trader doesn't have a good grasp of the nature of trading and the psychology needed to sustain oneself through the tough times—which will happen—trading can be a surprising and often disappointing experience.

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Being able to deal with the losing trades is what separates successful traders from ex-traders. As a matter of fact, it has been shown many times that it's not so much the system as it is the trader's ability to maintain the proper mental discipline and emotional understanding that gives the seasoned trader the ability to take the higher ground. One of the intangible benefits of learning to become a successful trader is the fact that you usually become a much more honest and introspective person. You learn to honestly appraise your performance and probe your weaknesses. You learn to stay humble, focused and accepting of things you can't control. All of these things do more than make just successful traders; they can make for success in life.

For instance, when a trader can't pull the trigger to get out of a position, it is a symptom of not fully understanding the principle philosophy behind successful trading. The objective of trading is that the trader will win more trades than they lose and that the profit margins on the winning trades will be larger than the losers. The *cumulative affects—over time—are* net profits. To make

that happen, most trading systems require that losses be cut quickly and margins on losing trades be at least half the target profits for winning trades. So, conceivably a trading system might only produce winning trades 50% of the time but the margin of the winners would be twice as large as the losers. In which case, the trading system would be a net winner even at a chance level of winning (50/50 flip of the coin). This is why it is essential that a trading system must stick to the cut losses quickly rule. Successful trading is a game of probability and an effective system is one where the win-loss ratio is over 65% and the losing margins at least half the margin of winning trades. If your system's calls for a loss policy that sets an 8% maximum loss on any trade, all stop losses should be set at 8% and only moved to protect gains-never loosened up to give "breathing room" to avoid being stopped out. Take the hit and move on. It's just part of the game.

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On a deeper level, failure to cut losses can signify the arrogant or insecure attitude that the trader can't be wrong. To be wrong is to be flawed. So, a losing trade not only causes financial pain but also psychological damage to the tender ego. Fragile egos, once they lose, begin to doubt themselves and the trader can become defensive, negative and take on a self-fulfilling losing attitude. Aggressive anticipation and hope turn into little joy and much fear. It happens to everyone. But it is at this point that makes or breaks a trading career. If the internal drive to succeed can overcome the fear of being wrong and losing something of value, then good things can come of it. If not, most intelligent people will indeed cut their losses and leave the trading arena.

The inability to enter into a trade also demonstrates a lack of discipline in sticking to the trading system. Either it's a "go" for the trade or its not. If a trader's system has too many poorly defined areas, it should be changed. Trading should be mechanical; either the squares are filled-in or its no trade. Simple. But ego wants to shine and show that it is special and better than some mechanical system; that the trader is better than that.

Also, many traders may be trading money they can't afford to lose. This puts even more pressure on being right (not being wrong) and that is why trading

capital should be assets—that if lost—won't affect the lifestyle of the trader. Not only that, a good system establishes a minimum account drawdown limit; it's like setting a stop-loss on your trading account. If you hit a predetermined drawdown level, trading comes to a stop until real changes are made—either in the system or the trader's mental-emotional outlook.

But just talking about these things is not enough. Most of us aren't very good at giving ourselves a valid self-appraisal. What we need to do is establish a framework of not only how to trade our system but also how to manage emotions and mental discipline. A trader needs to establish procedural constraints and then learn how to match feelings and thoughts to the trading process. But how does a trader not only train themselves in the discipline of trading but also how to validate that they are indeed being honest in self-evaluation of what they are doing right or wrong?

One way to start placing emphasis on the mental-emotional aspects of successful trading is to keep a detailed trading journal, which, among other technical things, also employs a column called "Psyche". After each trade is completed, successful traders review and grade the trading process. Some ideas of the questions to ask in this regard might be: was the trade analyzed in accordance with the system? If not, why not? How did the trader feel about the trade before entering? After. What did the trader do during the trade that was not consistent with the system? If so, why? What would the trader do differently with a similar trade? How would the trader rate confidence in the trade? At what point did that confidence weaken? Analyzing these questions will help the trader focus on areas that need to be examined and to develop a strategy to deal with these weaknesses. Once identified, they can be overcome. But without the awareness that there is a problem, emotions will run the show.

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Depending on a trader's level of financial and educational commitment to becoming a successful trader, a mentor program is highly recommended. Although this can be a bit expensive, having an experienced and insightful mentor to help teach, guide and debrief trading activity can be very effective in

providing the objectivity to help mold the trading process and way of thinking. Trading can be an isolated and lonely undertaking and having communications with other more experienced traders is probably a wise investment. Consider it the cost of doing business.

There is, however, a segment of the trading education industry that provides a middle ground for developing the important aspects of the trading psyche. These vendors are usually experienced traders and psychologists working together to help develop and maintain the proper “attitude” for traders to succeed at a cost effective price.

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In conclusion, having trouble pulling the trigger on either the buy or sell side of a trade can just be symptomatic of the lack of confidence in the system and oneself. Learning to handle the stresses of revealing ourselves against a cold, measurable standard is not easy for most intelligent and competitive persons. But to become a successful trader there needs to be particular attention paid to the “head” part of the game. Talk to any successful trader and they will readily admit that at least 50% of trading is mental-emotional. So the question is: what are you doing to develop this important factor in your trading skill set? If your gut response is: “*I don't need it*”, then you probably really need it.