



# DEVELOPING FOCUS

## –Essential to Your

### *Trading Success–*

Special Report #3



**W**hy do you trade? Is it to make a steady income? Or, is it for long term growth of your investment capital, IRA or 401K, etc.? Do you trade because you like to take intellectual risks? For whatever your reasons might be, you are probably like all the rest of us who sometimes forget the basic pretext for our eccentric interest.

Often, we get so wrapped up in just winning that we forget what we are really trying to accomplish. For example, if your goal is to have an annual return on investment of at least 35%, do you know what your monthly trading activities must produce to keep you on track? For investor-traders, knowing what you want to accomplish can have a lot to do with the type of trading strategies you choose.

For example, if you need 35% average annual return on your trading capital to retire in ten years, you would need an average monthly ROI of at least 3%. There are some conservative strategies that can produce that type of return with fair regularity and little risk. For instance, writing covered calls or other premium collection strategies are some good examples.

If your goal is to just win as much as you can, that nebulous goal is not a measurable goal at all; indeed it is the goal of a gambler. Or, you may take on the brutal job of becoming a day trader. Slumped in your chair, eyes glued to the screen looking for any movement, you live to spring like a starving predator on any target that you sense has some potential of moving your way. You measure your progress inch by inch.

If your strategy is to have a diversified portfolio of stocks, bonds, mutual funds and other long term hold positions, you may choose to trade a portion of your portfolio to provide some high risk-reward opportunities and some hedging for the long term portion of your portfolio. This strategy combines the conservative wisdom of letting the majority of your portfolio flatten the volatility of time but also allowing you to participate in using volatility to make higher, yet less consistent gains.

Of course, if you find you are good at trading the short term portion of your portfolio you can always slide some assets from the long term hold portion

over to the trading portion of the portfolio. This strategy of mixing long term investing and short term trading requires totally different goals for each section of the portfolio and a broad range of investment knowledge.

*“For goals to work their magic, you need measurable objectives.”*

For goals to work their magic, you need measurable objectives. Ask yourself what exactly it is you want to accomplish with your trading and find a metric to measure progress. Be specific.

Clarifying your goals so you can measure them is the essential first step in developing an overall strategy. Not only that, your goals will greatly affect the style and vehicles in which you trade. I would venture to say that the vast majority of investors and traders have goals, but no metrics in place.

Just to get your dendrites firing, take a look at the goals below and see where your interests in trading might be:

- *Make enough to take a nice vacation or buy a new toy every year.* Then the question must be asked: *“How much would that actually cost?”* If you don’t have a specific number in mind, figure out where you want to go and find out how much a “nice” vacation will cost. By doing the research, it makes the goal become more real. Just talking about it keeps your goal in the realm of dreams; it needs action to become a reality. So, do the research.

Once you find out the real costs of the vacation or toy, figure out how much you would need to produce each month to reach your monetary goal. Now you have a real idea of what it will take to realize your goal. Now that you know how much you must produce on a monthly basis, does it look realistic? If you don’t take this essential step in defining your goals and developing a monthly metric to measure it by, you probably don’t have much confidence in being able to achieve your goal. It’s just another case of: *“Money talks and B.S. walks”*.

If you don’t have much capital, you will probably need to do some ag-

gressive trading. Not only that, when you use gains from your long term investment portfolio for a vacation, you might be defeating your real long term goals by losing the power of compounding your gains. In other words, taking a nice vacation from the gains of your long term positions of your portfolio is a clear-cut case of sacrificing long term wealth potential for short term gratification.

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You can see where this is going. Perhaps it’s a good idea to set up different trading and investing accounts for different goals. By doing that, you help “wall off” your different goals and allow for the ability to focus on each specific style of investing and each different metric for measuring progress.

- ***Make enough money to leave your job and become independent.*** First, ask yourself why you want to leave the job. Are you just bored, hate the boss or need to prove something to yourself? Before you spend the time and energy to get prepared to make trading your primary means of income, you absolutely need to examine your deep motivations for making a change from the security of a paycheck to the uncertainties of an uneven income stream. Also, consider the business alternatives you would have with the same amount of capital you would need for trading. Make a matrix with each alternative weighing in on pros and cons. Take the time to write it down.

Many day traders who have actually made the break, have been surprised at the impact that being isolated from the work-social environment can have. Consider what your daily life style will be like if you become an independent trader. Will you be sitting in your pajamas all day in front of your computer? How will your spouse react to you being underfoot and lurking about the house? Will your dog truly become your best friend?

- ***Optimize excess available cash.*** Many successful businesses hold their profits in the form of excess cash sitting in low yielding bank accounts. These company assets sitting idle should be doing some work. The low yields offered by safe yet liquid investments are a losing proposition.

Real inflation is way beyond what is spun-out of the financial media and having all your company assets in safe and liquid investments is a poor default choice.

As a manager of assets, you can justify using part of the free cash in more aggressive types of investing to pump up the low to non-existent real yields from “safe” funds. Some companies actually make more money in their trading activities than in some of their production departments. A good example is Southwest Airline. They were the only Airline that was hedging fuel prices by buying futures. Currently, they are the only airline making money despite the skyrocketing price of fuel.

Unless you are the owner of the business, the Board of Directors will need some education on how you plan to trade and how you will control risk. But it’s worth a try because it shows you are innovative and proactive. And of course, it doesn’t mean you have to do the trading.

- *You just want a hobby that combines learning and the possibility of being rewarded.* Trading has the real-world appeal of being a game where something valuable and tangible is at stake. You don’t need to call up friends to play cards or take a trip to Las Vegas. For those who like to constantly be learning new things and involved in a super dynamic atmosphere, trading can be just the thing. It can be played anywhere and at anytime. Besides, “playing” the financials is playing in an essential theatre of our modern world. Without investment capital, capitalism can’t function. But even playing at a hobby needs a focus. What are you trying to accomplish that can be measured? Is it win-loss ratio? Is it account balance increase? How will you keep score?

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Learning how to trade as part your hobby of interest can accomplish many things, and often times can turn into a serious avocation or even into a vocation. But if trading starts to creep into a place of importance, you need to pull back and re-consider your goals. Trading can become an addiction and tap into that dark emotion of greed—if you are good at it.

- *You like your job but need to develop another income stream.* The investing world makes it very realistic to participate in the markets 24/7. For example, one of the best times to trade currencies is after 5pm eastern time. That's when the currency markets close in New York and there is about a five hour hiatus in the currency markets until the London markets open. It's a perfect time for some one in the U.S. to take positions. Not only that, if you are properly trained, you will know how to enter positions which can pretty much take care of themselves and requires only occasional checking. However, to be trading on the side requires the ability to wall off your focus so that there will be no conflicts.

Some jobs allow you to trade while doing your real job. Cell phones and other portable devices even allow trading while on the move. However, one must be careful not to let personal trading get into conflict with your primary job. Again, with proper training, it can be done. But just like all of the other types of trading we are discussing, you need to set up goals and measurable objectives.

No matter what your motivations are for getting involved in trading, you must first define your goals and ways to measure performance. Without metrics that define your goals in quantitative terms, being able to focus on achievement becomes nearly impossible. You need the ability to track and measure because trading is a work-in-progress and needs constant adjustment in order to reach your goals.

Most successful traders say that having the proper mentality for trading is as essential as having a good system. What does that mean? It means understanding that to trade successfully requires an extraordinary amount of self-control and self-understanding. It requires the ability to quiet the mind when fear and emotions start to creep into the decision making process. It requires the discipline to step back and not trade when the situation goes against your "feelings". It takes the desire to delve into your psyche and find out what makes you think and act the way you do. It requires complete honesty and objectivity. You see, trading is also an act of self-discovery.

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I can see your eyes glazing over and that cynical sneer but I am talking from my years of experience here; trading is much more than you think it is and this fact can either make trading a life altering experience or just another distraction. As in everything else, what you put in usually defines what you take out. Indeed, trading is the *Glass Bead Game*<sup>1</sup> of our time.

### GETTING STARTED

If you are going to become a trader, your first step should be to develop a checklist like this one.

- Define goals
- Define what is needed to reach the goal
- Define how to measure progress.
- Establish what amount of funding can be dedicated to trading.
- Decide if the amount of available funding is realistic for the goals
- Analyze what type of trading is best for the goal and funding.
- Learn everything you can about the type of trading you will need.
- Consider hiring a mentor or hooking up with a professional trading and education online company
- Begin by paper trading to develop your trading system
- Set up money management rules regarding maximum trade risk amount and account drawdown limits
- Journal all trades
- Have a regular time to regularly review all trades.
- Consider trading as a continuous work-in-progress.
- Learn how to develop and maintain a trader's mentality.

Of course just making a list is a small first step. The next step would be to fill out, in detail, everything on your list. In other words, you will be producing

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<sup>1</sup> *The Glass Bead Game* also Known as *Magister Ludi* by Hermann Hesse

a business plan. Before you start your journey, you need a map that will lead you to your destination. If you are serious about trading, skip this important step at your peril.

Trading has the ability to be your own cornucopia. Nothing out there but winning the Lottery or being able to hit a baseball over 600 feet can present such possibilities. Consider the fact that most professionals require years of costly study and decades of experience to “make it to the top”. But few professions have the unlimited financial potential and independence that trading offers. Do you think this kind of opportunity doesn’t come with costs?

In summary, one of the important qualities for success in trading is being able to keep focus. To have focus, we need to keep our attention on specific signposts that help us to achieve our goals. Being able to focus on one number lets us know exactly where we are in the process of reaching our goal. Keeping it simple helps avoid the numerous distractions that a complex endeavor can throw at you. As a matter of fact, being able to simplify complex things is the mark of genius in a world of complexities.

But there is another component to keeping focus: the ability to keep our constantly wandering minds under control. The inability to keep focused becomes the inability to accomplish. At the deepest level, our brains are set up to constantly scan for danger and look for changes in patterns. This subconscious behavior can work against us unless we can consciously learn to control our thoughts from the tendency to wander.

*“...to become a successful trader is not so much your trading system but your ability to get outside of yourself...”*

Learning how to control our focus and understanding that attitude can affect performance is another important skill set that all traders must develop. You don’t learn these skills in books on investing or in Finance class. You need to look outside the boundaries of the technical-economic milieu. Books on self-improvement and spirituality usually cover the subject of mind over matter. And this is where the cold, cruel reality of trading in the Darwinian marketplace gives way to the poetic and spiritual. My friends, to become a successful trader is not so much your trading system but



your ability to get outside of yourself and look down dispassionately at the action.

To have focus in trading requires a clear definition of what you want to accomplish, developing a way to measure progress and the ability to not become distracted. The technical aspects of defining goals and metrics are academic; the psychological power to focus and not become distracted is much more a matter of learning techniques involved with spirituality and self-improvement. Both fields of study sound a bit contradictory but, indeed, they are the yin and yang of success in just about everything and trading is no exception.

