



The Psychology of Winning

Many traders, including myself, have experienced periods of loss that create the wrong mental state necessary to stay on a consistent path of success. As a trader, you must learn to balance all of the emotions and issues that influence success. A self-aware trader must ask and answer each of the following questions: When I win, how do I respond? What is my psychological state?

When I lose, how do I respond? What is my psychological state?

How can I avoid extreme psychological highs?

How can I avoid extreme psychological lows? How can I achieve balance?

The first issue, and perhaps the most difficult for both beginners and experienced traders to deal with, is winning. Since winning is our ultimate goal, we must have a clear plan in mind for dealing with success. Often times, the elation of winning cause traders to become careless. As a result, they will “shoot from the hip,” ignoring relevant market indicators, over-trading and thriving on over-confidence. These golden-touch trading habits will ultimately to lead to losses, and if the “easy streak” continues, the potential for big losses increases exponentially. Therefore, when I have successful days I try to reward myself with something tangible. For example, I reward myself with a steak dinner. By rewarding myself, I am building a foundation for success that acts as a support for confidence and self-reliance.

While winning is our ultimate goal, learning to effectively handle losses is equally important. The successful trader not only creates a plan for winning, but also has procedures in place to review, learn, and benefit from losing trades. For example, when I lose, I will read an article on trading and try to learn something new. In other words, instead of dwelling on losses, I use these experiences to further educate myself so that I can avoid these mistakes in the future. Therefore, I am substituting my losses with positive mental reinforcement.

Dealing with success requires one to be prepared in advance for when trading success happens. There are many times when trading wins are too easy. Sometimes it seems that no matter how I trade, it works. After trading for over twenty years, I have found that these periods are toxic. They lead to a psychological high that can be very dangerous. I have learned that when trading reaches this level, I need to pull out. My twenty-plus years of experience save me from toxic overload.

As with toxic highs, traders also experience periods of psychological lows. I find dealing with these periods the toughest. The healthiest way for a trader to deal with these difficult times is to have pre-determined rules in place to alert you to this condition. For example, after a set number of losses, you should quit trading for a specific amount of time. When everything you do leads to loss, successful traders are cognizant of these tendencies and step to the sidelines. I recommend planning an activity that it is stress free and can completely separate your mind from trading. Personally, I use golf because it is an outside activity that allows me to open my eyes and think. Golf separates me from the market, temporarily puts me out of communication, and allows me to erase the day’s biases.

One way to avoid extreme psychological highs as well as lows is to create and implement a game plan that protects a trader at both ends of the spectrum. For example, when traders experience heavy losses they put discipline aside and try to recoup losses all at once. The disciplined trader is going to follow a plan that not only avoids putting himself in such a position, but also combats his losses in a different manner. Setting conservative goals and letting father time be your friend, not a burden, is an effective way to not only recoup losses, but accumulate profits as well. While small profits are not as glorifying as catching a bounce in the market, if implemented over time they can lead to substantial gains.

The key to having a winning psychological attitude is to achieve balance. Remember, you can only do your best, don't go to the ground on the losses or fly too close to the sun on the wins. When the day is over, review your activity, go to bed, hit your mental erase button and begin the next day with a fresh start.

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