



## The Biggest Mistakes Most Day Traders Make

### 1. Trading without a written business plan

Trading is a business and not a hobby. Those who attempt to day trade without a good plan will likely be giving their money to those traders who do have a good plan. A written business plan is essential for success in trading just like in any small business. In fact, due to the emotional nature of trading it is probably more important for traders.

A written plan is your personal guide to help you achieve your goals but it will include a detailed plan of how you will accomplish those goals, a good plan should include many elements of your trading including what you will trade, what markets you will trade, how you will enter and exit, and the specific contracts you plan to trade. Without a good written plan it is too easy to be swayed in the heat of battle and find yourself trading a position of something you do not normally trade and have no plan for how to manage.

Also, much of the battle in trading is mental and emotional. During the trading day it is easy to stray off course due to the emotional aspect of trading. This can be especially true for traders who operate alone and without contact with other traders. However, I have found that using a comprehensive written plan as a guideline to how trading will be structured helps to counter the emotional conflicts that arise. The best plans will cover all aspects of trading and how to handle different scenarios that arise. If you trade long enough, almost “everything” will arise at some point. You should make sure your plan covers how to deal with success and reaching your goals as well as with disappointments and now reaching your goals.

### 2. Trading too large for account size

One of the key tenants to be a successful trader is to realize that proper position sizing is a money management tool. Too many new and novice trader think the key to success is to trade large. Some even enjoy the thrill of watching their equity swing wildly. While it can be exciting to see those large gains of perhaps \$800 in a \$3,000 account, that is not a proper foundation upon which to build longer lasting success.

It is much better for a new trader to develop the required skills in terms of analyzing the market, entering trades at good spots and managing both winning and losing trades. You will make your worst mistakes early in your trading career so it is better to learn with smaller size. Ideally once you are having success trading 1-3 contracts, then you can ramp up size trading the same method and some contracts as you have been. Too many new accounts are completely blown up by trading too many shares or contracts before the trader is ready.

### 3. Unrealistic Expectations

Too many traders get into trading for the wrong reasons. They think this will be a lottery ticket where they can trade for an hour a day and make millions of dollars. Nothing could be further from the truth. Trading is an incredibly difficult endeavor. Many new traders go through a process of searching for the Holy Grail of trading... a system or secret indicator that will make trading easy and they will simply print and collect money. The trading educational industry tends to flame the fire of these unrealistic expectations with unrealistic and untruthful claims about the performance of any system method.

The only thing that will lead to lasting success in the trading industry is to be properly prepared and work hard. Of course the process of both of these areas is much more detailed and requires much time and commitment. It is important to invest the time and study that is required to be a good trader. System jumping will never lead to success.

It will be important that you also find a method and a timeframe that suits you individual personality. A favorite saying of mine that is good to keep in mind when it comes to evaluating different trading methods or systems is “The grass IS greener on the other side, but it still needs to be mowed.”

#### 4. Lack of Discipline

Successful trading or successful investing is nothing more than a good damage control. This was phrase we quoted often at the hedge fund I worked at for ten years. It really is true because the opportunities will always be there, but if you do not have the discipline to use proper stop loss orders (damage control) then you will probably not last long in the trading business. In poker going all in always works until it doesn't. This is like trading without stops. The market may continue to bail you out of bad trades that refuse to stop out of but eventually the on big one will come and wipe out your account equity.

Some individuals are naturally more disciplined than others. Understanding your own personality could be the difference in failure or success in trading. If you are not naturally disciplined, then you must structure your trading to make sure you have a plan to control risk. Many traders spend tons of time trying to determine the best place to put a stop loss, but fewer seem to understand the importance of always honoring their stop loss. As long as you have discipline to stop out of bad trades or manage a trade in the proper form then you have a chance to survive long term. If you are not disciplined, then trading will not serve you well.

#### 5. Lack of Focus

A mistake we often see with newer traders is lack of focus. This usually pertains to trying to monitor and trade too many different instruments. They are trying to trade stocks, options, futures and are always moving from one trade to the next. We have found what works best is to focus on only a few stocks and also be focused on fewer futures markets. Exactly how many will depend on your trading program and the time frames and style you wish to use. If you are trading off a 5 minute chart then you will have to be incredibly focused on managing each position. If you are a swing trader or trading of 60 minute charts, then by nature they will swing as fast and it may be possible to monitor more positions. The key is to be consistent with both what you trade and how you trade. Also, your business plan should include a section on how you grade your performance with each instrument. You may decide one of these evaluations that you simply cannot make money consistently trading bonds. There nothing wrong with this but you should stop trading bonds and this will few up time and energy to focus somewhere else.

#### 6. Lack of Education

Being a professional trader requires proper education combined with trading experience to be successful. I am fond of saying nothing can teach you better than a screen time. Screen time means when you are in front of your computer actually trading or analyzing real time markets. Over the course of many years and many market cycles a trader will naturally develop instincts that a newer trader simply cannot duplicate. This is why it is wise to invest time and capital to learn the right way to trade. The best way to do this is to study with and be mentored by a professional trader in font of live markets observing and trading. Again, nothing is better than time and repetition.

We too often observe traders trying to learn on their own how to trade. While this may seem like a thrifty idea it most likely will be very costly. It is penny wise and pound foolish to borrow an old expression. Of course it is also difficult in the internet age to know which educators can actually teach you how to trade. There are also many different styles and there are many ways to be successful. There is not one magical approach that is better than all others. The key is to find a solid method that works over time and can be understood, learned and duplicated.

#### 7. Over trading

One of the most common mistakes that prevent day traders from reaching their goals is over trading. People often seem amazed when they see me trade and realize that I only did one or two trades and may have a stop at break even within 45 minutes of the session open. This is typical for me and most days I do not trade again. There is a perception

that to really make big money in the markets that you have to trade numerous round trips over and over. While some days certainly offer multiple good setups, by definition most day do not. As a day trader you want to be selective and only target high probability setups. By definition there are not 24 high probability setups each day. This is where trading according to your plan is useful.

We often see traders that are beginning to achieve a certain level of success start to try to make more money by trading more frequently. This is the absolute wrong thing to do. The best way to increase productivity is to continue to do what is working on smaller lot sizes but start doing it with more size. For example if a trader is trading well using 300 shares of stock per trade then decides to move to another level they should not try to trade 300 shares more time per day. Instead they should start by trading 400 shares for a predetermined period of time. After that move to 500 then 600 etc. until they are doing the same types of trades and managing them the same as before only they are doing it with more size. Patience in trading is a very good thing.

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