TraderTom

Best Loser **Wins**

Part 1

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FREEDOM ROAD

What you become in life is dependent on the decisions you make and how you react to decisions made on your behalf.

At Stanford University, Steve Jobs, standing at the podium in front of the class of 2005, gave the new graduates their commencement speech — advice on how to live life.

It went something like this:

"Remembering that you're going to die is the best way I know to avoid the trap of thinking you have something to lose. You are already naked. There is no reason not to follow your heart."

Few can walk the walk when money is on the line. The main contributor to not having the life you want is fear. Most play this game, called life, safely within the boundaries they set while growing up, boundaries built by avoiding pain and anxiety.

They come up with excuses for why they made one choice over another — the voice inside keeping them on the safe side of the fence.

The average seeks average lives, but the world is not built by average people — it is built by the unreasonable who dare to elevate themselves, who reject the average and go all-in for success.

I am often asked how I made it to the top of the trading pyramid, so I decided to put it down on paper. I am not here because of IQ; I tell you that immediately.

I am here because of my relationship with pain.

Our brains so hate the idea of losing something that is valuable to us that we abandon all rational thought and make some really poor decisions.

The success you desire is closer than you think on the other side of this door, but if I hand you the key, will you open the lock?

It's your choice. Nobody can do it for you. Unlocking the door is only the beginning. You have to walk through it.

It requires attention, focus, dedication, and sacrifice. It takes courage.

I am giving you the key, and the only question now is will you use it?

My name is Tom Hougaard.

I'm a financial trader — an inspiration to many, and, no doubt, the envy of some.

I don't work for anyone, I work when I want to, I own more than one expensive car, I live in a big house, and I have no debt.

For many, that is living the dream. The definition of success is subjective, yet for me, personally, it is not about the money.

It's about one word.

Freedom. The freedom to spend time with my family and live life on my terms.

Many desire the lifestyle I lead, seeing only the outward symbols of success, but few are prepared to acknowledge the dualistic and interconnected opposites that are required to build it.

The markets never sleep, so my sleep suffers regularly. I don't work for anyone, and I rely 100% on what I make from trading. If I don't feel well and I'm forced to stay in bed, there is no sick pay.

Every day, I have the opportunity to make or lose a fortune, but to do so means I have to live with and accept risk — risk like an unexpected news event that will violently move the market against my position.

I am constantly battling the odds.

95% who attempt to do what I do fail. Probably even more.

THE INCONVENIENT TRUTH

In financial markets, the traders that win, the 5%, make all their money from the 95% that lose.

Every year, I'm contacted by thousands and thousands of people who want to know my secret.

Why?

Because I make money trading.

Do you know why I win consistently over time?

Is it because I'm an expert at technical analysis? No.

Is it because I've purchased an expensive, exclusive piece of software that gives me great trading signals?

No.

Is it because I have friends in high places who feed me insider information?

No.

Is it because I have discovered a secret charting method? No.

Do you want to know why I am so good at trading, and why I make the big bucks?

Lean in now, because, right here, you're going to learn the number one secret of success in trading.

Ready?

I am exceptionally good at losing.

When speculating in financial markets — The Best Loser Wins.

Don't underestimate these four words.

Going against the conditioning that life, in our modern world, has programmed you with, success in financial market speculation is not about being the best, coming first, and winning.

Instead, it's about losing.

And that's why I win.

I win because I'm really good at losing.

In trading, unlike life, it's the best loser that wins.

MANY ARE CALLED FEW ARE CHOSEN

Trading attracts many people who shouldn't be there.

They are led to believe that trading is easy. Maybe the broker is tempting them; I'm sure you've seen the broker advertisements where a calm, confident actor, knowingly pressing buttons in front of a bedazzling array of screens, walks away victorious with a confident smirk.

If you look at the trading industry, we are led to believe it's built on trader tools, hundreds of built-in indicators, and more recently even programming languages to enable you to code your own.

And, with the ability to back test, traders can look back and see how much they'd make or lose, giving them the confidence to take action.

It's an illusion.

How do I know?

Because, for years, I was an insider working at one of the largest financial market brokers in the City of London.

During my 10 years in London, the stock market rallied, nose-dived, rallied again and then crashed.

Gold went from $250 to almost $2000 an ounce, a spectacular bull market.

After the fact it looked like child's play to make money. But here's the thing...

Almost everyone lost.

Out of the thousands and thousands of people who opened an account, only around four percent managed to keep their money, let alone make enough to replace their day job.

Did you know that Harvard University received a total of 43,500 applications for their courses in 2020?

Out of all of those applications, Harvard will only accept 1,950 students. The success rate is just 4.5%.

The success rate in trading is about the same.

The success ratio isn't broker specific. It's systemic, happening everywhere inside all brokerages — not because the broker is cheating in any way, in fact, the broking industry is highly regulated, and it's not because they take the other side of your trade and run your stops, the exit position you advertise to them when you take a position.

So, if the reason is not the broker, then what is the problem?

Why do so many people lose?

Statistically speaking, it should be impossible for so many people to lose. If the market is random, and market movement is, most of the time, random, why do 95% of clients consistently lose a 50:50 bet?

The answer is as simple as it is complex.

It isn't the market-beating them.

They are beating themselves.

I wasn't always a successful trader. To become successful, I had to break down the barrier that separates the many from the few, in a business where there is no instruction manual, and where the lesson comes after the test.

In 1997, with a master's degree in Economics, I got my start at Chase Manhattan Bank as an analyst. In my late twenties, and driven to succeed, after three years at Chase, I handed in my notice, having saved enough to start the business of my dreams.

Excited and full of hope, I began my new career as a day trader. It took thirteen months to lose it all. Reality's bite is worse than its bark. Needing a job, I began work at a CFD broker based in London.

My official title was market analyst, but a large part of my responsibilities was to be the educational bridge between the company and its customers. While working with trading clients, it didn't take long for their behavioral patterns to get my attention.

I was headhunted to another brokerage in 2002, where, for the next seven years, I continued my role working with trading clients.

Almost immediately, even though I was working for another broker with an entirely different group of traders, I noticed the same patterns of behaviour.

My observations converged into insight.

As a group, traders are predictable.

Or, more accurately, their outcome is predictable, because everyone is doing the same thing.

Over a decade working as an insider in London brokerage houses, working with the public, watching markets from 7am - 9pm, I witnessed first-hand the misfortunes of others.

I saw what trading with the wrong mindset could do — the damage some clients had inflicted on themselves, the unleashing of raw emotions from people completely unable to accept responsibility for the consequences of their actions.

It was upsetting and very unpleasant, and there was nothing I could do. Clients would beg us to reverse their positions, breaking down and in tears, or shouting and abusing us, unable to come to terms with the amount they had racked up in losses.

It was as if the light had gone out of their eyes.

I saw thousands of clients, many of them highly intelligent people, who, outside of trading and speculation held down positions of great responsibility, yet, engulfed by the market, they were completely unable to manage themselves while their trades were losing money.

After observing over 100,000 people, and close to 100 million trades, over a decade on the trading floor, predictable patterns of human behaviour came into the light.

Watching thousands of traders execute millions of trades, their behaviour, almost as if they were connected together in one hive mind was predictable in that, week after week, and month after month, year in, year out, when they were making a loss, they hoped the market would give them back their losses, yet, when they were making a profit, they feared the market would take it away.

They were fearful when they should have been hopeful.

They were hopeful, when, in fact, they should have been fearful.

These human experiences helped make me the trader I am today. Watching them struggle, I realised they were searching in the wrong place.

The answer they were so desperate to find is not found in the external.

It's not found in the software, or in any of the tools; instead, I realised, the answer, if not found in the objective, must be internal inside the self.

GLADIATOR

In the silence of the early morning, I'm in my office, preparing for the day's trading. Minimal and uncluttered, with four screens, you won't find water-cooled computers with flashing lights, no systems with monitors arranged like a drum-kit running news feeds and indicators.

Instead, apart from my screens, the keyboard and a mouse, there is a PowerPoint presentation on a screen. It is the key to my success. I should say it is MY key to success.

The PowerPoint file is my cue. At game time, before I begin to trade, it's time to become someone else.

In the movie Gladiator, why does Maximus Decimus Meridius engage in the ritual of rubbing dirt in his hands before combat?

It's a ritual.

He must immunise himself before battle, to feel nothing, to become an instrument of death, indestructible, so that he can survive another day.

Rubbing dirt on his hands is his ritual of leaving his old self behind.

Every day from 5am until 9pm, even late into the night, I am battling myself.

Trading is a battle of the self.

The PowerPoint file contains old trades, mistakes, triumphs, inspirations, and warnings visually arranged to prepare me for the day ahead.

I need to become something else; otherwise, I will not make money. This is why trading, when looked at from the outside looks simple, but it's not easy because trading successfully goes counter to virtually every piece of DNA stored in your body.

THE REPTILE MIND — WHO'S REALLY IN CHARGE?

In the 1960s, neuroscientist, Paul Maclean, proposed the human brain has evolved with three areas of function: The reptile brain, the limbic brain, and the neocortex.

The neocortex is the area that deals with logic, the part of your mind you can hear, the part you think is in charge.

It's not.

So, who's really in charge?

It's not the limbic brain. The limbic mind deals with belonging and status.

If you're driving a car with a BMW or Mercedes badge, it signals to everyone you have a higher status in life.

It's tribal.

Brokers target the limbic brain in their advertising, flashing images of success, using perfectly dressed, good-looking models, to entice you to join their tribe, implying that by doing so you'll belong to a high-status group.

It's your reptile brain, your base-self that's really in charge.

When you are startled, and you react, perhaps you detect a wobble in your stomach, a vibration in the lower back — that's your reptile mind preparing you for survival, triggering a fight or flight response.

Will you run, or will you fight?

Your subconscious reptile mind has only one function, and that is to protect you.

It does this whether you want it to or not.

And this is a problem because to be successful as a trader, you need to be very good at losing, and this means constant conflict with your built-in subconscious protection system.

A system that protected you from death as a caveman guarantees you'll not survive as a trader — unless you can learn to overcome it.

And overcoming it begins with accepting pain.

RUN TOWARDS THE DANGER

The perfect speculator is made, not born.

Neurobiology has shown we experience a financial loss 250% more intensely than a financial gain.

Lean in, because here's the kicker — the loss does not have to be real. It can be in your mind, yet just as powerful.

And this causes behaviour patterns to show up, and be exploited, in any liquid market.

Just before you pull the trigger, have you ever asked yourself if anyone else feels this way? When you can't take it anymore, do you ever wonder if there's anyone else on the same emotional rollercoaster as you?

The intensity spike of a loss, real or otherwise, is an emotional cocktail that causes an otherwise intelligent person to act impulsively.

People will do anything to end the pain. Like a crack addict looking for an axe, their brain short circuits and they react.

Pain is inevitable to some degree in life. Someone lets you down, you feel pain. Someone hurt you emotionally or physically, you feel pain.

In life, outside of trading, one way to deal with the pain is to talk to someone, as the saying goes — a problem shared is a problem halved.

Why a painful experience feels less potent after we have shared it with a friend I don't know. Maybe the act of verbalising the disappointment puts the problem into a healthier perspective.

Either way, you feel better, and the pain subsides.

But, when I'm trading, while the majority look to run away and rid themselves of pain, I do the opposite. I run towards it. I embrace it.

Whether you are new to trading and speculation, or you have years of experience, you should give this question some serious thought:

If you want to be a success in a field where 95% or more fail, how do you think you should approach this task?

Trading looks easy on the outside, but, in reality, it's much more challenging than people expect because we are hard-wired to do the opposite of what we should be doing, and this is why ninety-five out of every one hundred people end up losing.

The road to consistency, success, and enlightenment in trading begins in the last place you'd ever think to look.

Inside yourself.

THE KEY

So, here it is. What follows is the key to unlock the door to your success, the key to breaking down the barrier between the life you want and the life you are leading now.

If you want to succeed in an endeavour where 95% are failing, you have two choices.

You can study the large 95% losing group and do the opposite of what they do, or you can replicate what the 5% do.

If you are not as successful as you want to be, at some point, sooner or later, you need to change your behaviour.

It doesn't matter if you've been trading unsuccessfully for three months or thirty years, you are much closer to success than you realise.

The 95% fail because they interpret the pain messages received automatically from our hard-wired reptile brain without any modification.

You need to learn to recode your brain's messages when pain comes knocking.

Instead of reacting and running away, a small group of consistent traders, the 5%, hold fast and run towards the danger — not away from it.

The 5% succeed because they have learned to flip the switch.

Flip the switch!

This will feel very uncomfortable, but it is a discomfort you must accept and embrace if you want to succeed in the game of financial speculation.

It is the reason why trading looks simple but is not easy.

The paradox of trading is this: By doing what the 95% cannot do, you will become successful.

RECODE

Now you know what you must do, how do you go about doing it? Let me get specific!

A master trader from the Chicago Mercantile Exchange trading pits gave a talk to his trading colleagues.

Everyone knew he was the best trader, and packed into a tiny auditorium they hung on every word, hoping they could extract the key to success.

They didn't leave disappointed.

He gave them three commands that dictated his trading life — Commands that I use as the backbone of my trading philosophy — commands that you should use too.

1: I assume I am wrong – until proven otherwise. 2: I expect to be uncomfortable.

3: I add when you subtract, and I subtract when you add.

The commands are the difference between winning and losing, between consistency and success, between the large group that fail and the 5% that don't.

Here's how the 95% losing group behave when they trade, compared and contrasted against the mindset and the actions of the 5%.

COMMAND 1: ASSUME YOU ARE WRONG

Remember, I've watched thousands of traders execute millions of trades, and I noticed when most traders enter into a position, they assume they are right.

In a business where 95% of people fail, your recoding process begins by flipping the switch.

Flip the switch!

It starts with this: Assume you are wrong.

You should assume you are wrong – until proven right.

Through years of observation, here's how the typical member of the 95% group trades.

TRADE ENTRY: 95% BEHAVIOUR

The 95% enter a trade.

The trade moves in their favour, and they're happy. But their happiness doesn't last long.

Almost immediately, after their position goes into profit, they wonder how far the market will move, and they begin to worry where the move will stop, causing them to feel pain.

Wanting the pain to stop, they close the position, and, removing their pain, they're happy again.

But, by exiting the trade based on the need to end their pain, 95% behaviour now bifurcates into two equally destructive pathways depending on what the market they've just exited does next.

PATHWAY ONE

The market continues moving in the same direction in what would have been in their favour, and they begin to feel anxiety because they're no longer in the market.

With their pain increasing, they regret closing the trade, and they contemplate going back in. They are no longer trading the market. They are trading with their emotions.

PATHWAY TWO

The market reverses, and they feel elation having got out in time. They saved their open profits by closing the trade, telling themselves how good they are at timing the market.

They acknowledge their pain command centre. It was right, but they are now ruled by their pain threshold.

Now it's only a question of time before their emotionally driven pain threshold centre sends them a false signal, causing them to lose.

Welcome to the 95% group — a rollercoaster ride of disappointment, losing money, and pain.

Instead of assuming they are right, here's the mindset of the 5% when they enter a trade.

TRADE ENTRY: 5% BEHAVIOUR

They enter a trade, and the trade moves in their favour.

They're not trading their account size or the available profit — they are trading the market because they understand the size of their profit is irrelevant to the market.

Knowing their profit and loss has no influence on the market, and recognising the fear in their mind as the move continues, they too worry the move will stop, and just like the 95%, they feel their brain's automatic pain receptor kick in causing an in-built safety reflex to register pain.

The 5% are subject to the same built-in automatic pain receptor as everyone else, but the difference lies in how they handle the pain. Instead of giving in to it, instead of being ruled by their emotional responses, they have flipped the switch, they have trained themselves to expect the pain.

Flip the switch!

They're aware of the pain. They don't ignore it, they accept it.

They remind themselves that their actions, if based on the need to end the pain, will dictate which group they will end up in, either the 95% or the 5%.

Maybe the market continues higher. Perhaps it doesn't. It doesn't matter because the 5% are not shaped by the outcome, they are shaped by their continuous process.

They understand if they focus on the process, the outcome will take care of itself.

The big difference between the few and the many is how they deal with emotional pain.

COMMAND 2: EXPECT TO BE UNCOMFORTABLE

First, here's how the majority of traders deal with being fearful in a trade.

HOW THE 95% NEGOTIATE WITH PAIN

Some day traders and swing traders attempt to negotiate with their mind's inability to handle discomfort and pain by using logic to trade.

It's a flawed process. Yes, of course, it makes sense to risk ten to make twenty, but the 95% never let the market get to twenty, having closed the profitable position long before it gets there.

Others take half profits along the way, compromising, giving in to the pain, they close half their position, telling themselves it's part of the plan.

They're still in the market but have a smaller position; their pain subsides, and they feel better.

As the market moves further in their favour, the pain builds up again, and, with the voice in their head telling them the move is surely over, they exit the trade, closing the other half of the position.

Justifying their actions, they repeat the mantra, 'you can't go broke taking a profit' to ward off the encroachment of pain as the market continues moving further and further in their favour — without them.

Their pain becomes ever more intense as they count the potential paper profits they would have made — if only they had stayed in — but they didn't.

Remember the pain receptor kicks in whether the loss is real or virtual.

They didn't exit the position because of a signal from the market. They exited because of a signal from their emotional brain.

They traded on emotion, assuring their permanent membership of the 95% club.

In contrast, this is how the 5% deal with their trading emotions.

HOW THE 5% NEGOTIATE WITH PAIN

The market moves in their favour, and just like the 95%, they feel pain. The difference is the 5% expect the pain and embrace it.

What if the market takes some of the profits away?

They understand the feeling of pain is a built-in instinct, part of the mind that's there to ensure their survival.

Again, the 5% flip the switch. They don't trade their pain; they use the pain as a guide.

As the market moves in their favour, the 5% aren't impervious to their in-built emotional safety switch, but they don't snatch their profit by exiting all, or a percentage of their position like the 95% do.

Instead, they add to their position.

If the market is going up and they're long, they buy more. If the market is going down and they're short, they sell short more.

As the market is proving them right, they focus on the process.

The pain builds up as the market moves further and further in their favour, their protective mind telling them to take profits, but, aware of the pain and the consequences of making decisions based on it, they flip the switch.

Instead of exiting all or part of the position, they add more.

While the 95% justify their actions, telling themselves they'd go broke by not taking a profit, the 5%, flip the switch.

Repeat after me: You can go broke taking a profit.

As you've just seen, the 5% add to their positions when the market moves in their favour, juxtaposed to the 95% who react to their emotional safety switch and exit or reduce their position size when they are showing a profit.

What happens when a trade doesn't go your way — what happens when you're losing?

Let's talk about command number three.

COMMAND 3: I ADD WHEN YOU SUBTRACT AND SUBTRACT WHEN YOU ADD

First, here's how the 95% react when they're losing. And, remember, I'm not repeating factoids from a book, what I'm showing you comes from years of empirical observations from my time working in the brokerage business.

HOW THE 95% REACT TO A LOSING TRADE

They buy. The market falls, and their mind tells them to buy again.

Outside of trading, in ordinary everyday life, your mind looks for bargains. Marketers know it, enticing you with special offers. You love saving 25%. It might work in the supermarket. Thinking this way, the 95% decide to buy more. But, the "supermarket effect" does not work in the trading business.

The market falls again, locking the 95% into a single emotionally driven thought: Where is the low?

Flip the switch! It can go lower.

With their thoughts controlled by the fear of the pain caused by taking a loss, all they can think about is how they'll feel if they get out now just when the market is about to make a low and turn higher.

Adding when the market goes against them, they are locked into inaction, their brains short-circuiting, as they are unable to flip the switch to counter their in-built safety mechanism.

Focusing on the low, their capital at risk, and the need to be right, is why they lose — sometimes everything — I've seen it happen.

Instead of this inner conflict, how do the 5% deal with losing?

HOW THE 5% REACT TO A LOSING TRADE

They buy. The market falls. Their mind tells them to buy again — but they don't.

Aware of the supermarket effect, aware of the pain receptors, aware of their endocrine system pumping adrenaline and cortisol preparing them to fight and combat stress, they expect this reaction and have learned to live with it.

The 5% understand the financial markets are not like a supermarket and have no memory of past prices; instead, the 5% know supply and demand dictate the price.

Just because something has fallen in price does not make it cheap.

The 5% start by assuming they are wrong when they enter a trade.

And, if the position is losing, it has proven their initial assumption right.

With conflict neutralised, they take the loss.

This is the key to successful market speculation — it's what the 5% know.

HOPE IS NOT A STRATEGY

At any given point in time, you have three options as a trader.

You can buy.

You can sell.

You can do nothing.

For nearly a decade, I observed tens of thousands of people execute millions of trades. Their behaviour falling into three broad categories:

1: The market was falling significantly, so it appeared cheap. The clients were buying. They LOVED trying to find the low of a move.

2: The market was rising significantly, so it appeared expensive. The clients were selling short. They couldn't conceive the idea they should be buying.

3: The clients were entering into an existing trend, but their entry was a reaction to watching prices move without them. Entering at any price was the only way they could end their pain.

Trading like this kills client accounts.

If you've been around long enough, you'll know the market has many aphorisms that have become axioms.

Probably the two most common are 'trade with the trend', and 'keep your losses small and let your profits run'.

If this advice is easy to follow, how can you explain why 95% of traders end up losing money.

When the loss is small, there is no urgency. There is just complacency.

As the losses rise, the sense of urgency rises with it, but still, 95% of traders don't act; instead, another emotion kicks in.

Hope.

But, hope is not a strategy.

When losing, initially, the 95% hope the loss will become a profit. They are not afraid yet and hoping they are right, they have no fear that their loss will become much bigger.

Only when the pain of being in a losing position becomes unbearable, do they act. As a group, you can see the footprint of their collective panic and emotionally driven action as price reverses on huge volume.

Emotions kill trading accounts. It isn't the lack of knowledge that's stopping you from winning big. It's the way you handle yourself when you are in a trade.

I spent a decade observing traders lose money. They were intelligent people who often had great hit-ratios, but they couldn't lose.

After reading this far, if you remember only one thing, remember this: In trading, unlike life, the best loser wins.

THE £100,000 DAY

Like most people, I assumed by studying I would become a successful trader — and I've studied technical analysis.

They say you become an expert once you have done something for 10,000 hours. By the time my first decade in trading was over, I had spent 25,000 hours watching live charts, yet I was still nowhere near making the money I knew I could make.

The next decade was spent working with charts and my mental make-up in equal parts — Equal parts, with emphasis on mental preparation.

I remember my first £100,000 day.

To make that kind of money you need the right type of day — a day where the market trends in one direction all day from the open to the close.

I was short that day. The market kept falling and falling. I remember thinking only one thing: Where can I add to my short positions?

Just before the close, I closed out all my open positions and, when the day was over, it occurred to me I had not felt fear — not once.

I had stayed so focused in the present moment, so completely in line with the rhythm of the market, that when the market moved counter to my position, I used it as an opportunity to enter a new short position.

Not once did I think about buying the low. After spending years observing people trade, the most common mistake is trying to pick the low, so you can buy in cheap.

As a private trader, trading from home, £100,000 days like this don't just happen.

You need to be ready on so many levels. When I look back over my trading diaries, I can identify five barriers, or road blocks that adversely affected my trading performance, and I didn't begin to make good money until I understood their influence over me and how each one affected my decision making.

ROAD BLOCKS

Let's talk about fear.

FEAR

Fear is unavoidable in trading and in life. Accept it.

Accepting a certain level of anxiety is to be expected, as long as it doesn't paralyse you.

Some years ago, while on holiday with my family, my young son fell into the swimming pool at the deep end.

There were four adults in very close proximity to him, as well as the lifeguard. I was fully clothed from a business meeting: suit, tie, the works. I was 20 meters away.

Time stopped. Before anyone could react or move, I had jumped over four sun loungers and dived feet first into the pool. My son was not in there for more than a few seconds before I had him safely back in my arms.

Like the adults who froze when my son fell into the pool, when I was trading, I had to learn to recognise the situation, realise the fear and react to it, much more quickly.

In trading, fear comes when you're losing.

I had to learn to lose before the market gave a reason to be fearful.

This meant taking lots of small losses before any of them had the chance to manifest in a large paralysing loss.

Over time, I became an expert at taking losses, and once I did, counter-intuitively, my trading results improved dramatically.

Next, the main reason the majority fail.

HOPE

Hope is the main reason why the 95% never make money trading. They hope their small loss will turn into a winner, never entertaining the idea their small loss will

become a big loss, overwhelming and paralysing them with fear, leading to, more often than not, complete account destruction.

Hope and fear are two dancing partners that I had to learn to keep in balance.

In trading, it's easy to be fearful and hopeful at the same time. I've spent countless hours visualising trading situations, running large profitable positions and managing my emotions in my mind, readying me for optimal personal performance when I trade for real — a technique I learned from Formula One drivers who also use this technique to enhance their performance.

Another trait you'll need to overcome is what some call boredom, but if you go deeper, it's nearly always this.

GUILT

Outside of trading, Western societal norms adhere to the Protestant work ethic.

We are programmed from birth that nothing is free, and you must work hard and be a productive member of society.

In short, when they do nothing, a lot of people feel guilty. And, when the market opens, they think they have to be productive and do something.

This is something I struggled with at first, and I had to really fight my desire to do something just because the market was open.

The mind doesn't like to be idle, and to learn to still the mind is a lifelong endeavour.

At the beginning of my trading career, like a young over excited child, I threw myself into all sorts of trades without much thought of the outcome. I wasn't trading to make money. I was trading to be productive.

Going over my old trades made me realise this flaw.

Some people might say they trade out of boredom, but that's only the excuse, dig a little deeper, and you'll find it's nearly always guilt.

The market does not pay by the hour. A large part of trading success comes from doing nothing. My trading performance improved once I was aware of this trait.

The trading business attracts a lot of Alpha personality types who have been very successful in other areas of their lives, yet, Alpha, or not, one thing that needs to be kept in check is self-confidence.

CONFIDENCE

Over the years, I've observed myself and other trading friends go through transformations. Some of us have experienced great success. Some haven't. Some gave up for a while. Some persisted. Some had great results for a time, only to lose it all again.

You need to have faith that your process and your trade plan can generate consistent results. To trade well, you need to be confident.

You'll need all your confidence when one trade after another ends in losses. Remember though, by starting right, by assuming you're wrong, you are going to avoid the constant conflict, the confidence-sapping grind that 95% of traders are going through.

However, what I learned the hard way, the times I was most vulnerable was not when I was at my lowest.

I was most at risk when I was feeling overconfident, usually right after a big winning trade.

My biggest losing days always came after big winning days. Confidence is good. Overconfidence leads to ignoring your vital brain signals.

Put simply, when you're overconfident, you'll forget to flip the switch.

MARKET LOGIC

The financial markets operate perfectly, but the reasoning behind the movement is much more difficult to interpret when engaging with the market in real-time — so don't try.

Even after two decades of trading, I am still surprised by what can happen.

On Christmas Eve 2018, I had one of my biggest trading profits ever, as the Dow Jones Industrial Average fell almost 800 points — even though the market closed early for the holidays.

I remember closing my positions via my mobile phone, as I tucked into my Christmas dinner, smiling.

It felt good.

Two days later, on the 26th December, the Dow staged the biggest one-day rally ever. I caught half of it, and then I turned to shorting again.

I remember thinking that logic had to prevail at some point, as the rally just couldn't continue higher, but it did.

I lost because I expected the market to be logical. It isn't.

And, as the old saying goes, the market can remain illogical longer than you can stay solvent.

FINAL THOUGHTS

One last thing, a word to the wise.

As a consistent, successful trader, you will continuously be at war with your in-built defense mechanisms.

You'll have personal flaws, and trading is where you'll find out what they are.

Accept them and work to neutralise them. I work on mine every day before I trade — even after decades in the market.

It's impossible to completely remove all your flaws, so think of it as a continuous never-ending process. Don’t think you can “dabble” in improvement.

And don't worry if you find out you're not perfect because no one is. Certainly not me.

Always remember, the perfect trade does not exist. So don't try and fill a hole you can't fill.

I've made many mistakes along the way; my success certainly wasn't overnight.

I took years to break through the market dogma and my own personal biases to realise the elegant simplicity of successful trading.

Don't underestimate what it takes to become a successful trader. It's simple, but not easy.

Success is not found spending 25,000 hours staring at charts, it's not found in software — no matter how expensive, in newsletters, indicators, or seminars.

It's found by accepting we all feel pain when putting capital at risk and in giving up control and trying to be right.

By flipping the switch and assuming you are wrong and not right when you enter a position, you can neutralise the combative emotions that rob success from so many.

Fear, hope, boredom, overconfidence, and logical thinking are always there, waiting for the unwary.

Instead, success is found by flipping the switch. I wish you the best.

Tom Hougaard.