SLIDE 1: The Ideal Trading Mindset

Welcome to the Ideal Trading Mindset.

I think the obvious question to ask would be, “what is the ideal trading mindset”. I am sure you have an idea of what the ideal trading mindset would be.

Perhaps you are thinking that the ideal trading mindset is one that is not scared. It is a mindset that knows everything there is to know about the markets, about technical analysis, about algorithms, about artificial intelligence, and the list goes on.

I can only speak for myself what the ideal trading mindset is. I have some experience that makes me well suited to discuss what the ideal mindset is, or perhaps better said, I have an idea of what is NOT the ideal mindset.

I have some ideas of what the right mindset is, based on what the wrong mindset is. I want to state up front though, that while mindset is important, very important in fact, I don’t think mindset is “be all end all”, just as I don’t think that there is one component of the human body that is more important than another. I think they are all important, in their proper proportions.

In other words, while I think “mindset” is the missing link for the majority of traders, I also think that mindset alone will fail to produce the outcomes you seek.

SLIDE 2: The Ideal Trading Mindset

I am the author of a book called Best Loser Wins. I had to fight hard to keep that title. The publisher wanted to call it “lessons from a trader master”, but I liked the irony of the title, and I felt its title was important for two reasons.

First, if I called it something like “master bla bla bla”, it would drown in the noise of other trading books.

Second, I wanted the title to allude to what book was about.

I wrote Best Loser Wins for several reasons:

1/ I spent many years thinking that technical analysis was all I needed to make money trading. However, no matter how good I became at technical analysis, I always found a way to sabotage myself. The sabotage had nothing to do with level of knowledge I had about technical analysis.

I wanted to write a book about my experiences as a broker and then as a self-funded, self-directed, self-driven home trader.

2/ I felt a sense of joy that I had made it in the trading world, and I wanted to share my knowledge, not because I wanted a pad on the shoulder, but because I felt inspired by the idea that knowledge should be shared.

The argument that drives the narrative in the book as well as during the speech today is that I don't believe that normal thinking leads to profitable trading. Now I believe there are two parts to that statement:

1/ what is normal thinking?

2/ why do I believe what I believe?

SLIDE 3: Photo of Racecourse

I started my career at JP Morgan. Explain.

Left to become a home trader. Explain.

Got hired as analyst at broker. Explain.

Exclusive trip to racecourse. Explain.

Client positions in Marconi. Explain.

SLIDE 4: Chart of Marconi

ANIMATION USED

Explain the story of Marconi.

It occurred to me very early on in my career that investors became emotionally attached to their positions. I have spoken about the supermarket mentality repeatedly in my speeches, because I think it represents a good metaphor for what investors are feeling when they are investing and trading, at least in part.

When we shop for our goods in a supermarket, we are drawn to special offers, and we are attracted to the idea that we are getting a good deal. It somehow pleases our minds to know that we have saved ourselves money.

Of course, the supermarkets know this all too well, and they are designing their offerings accordingly. I suspect there is a science to how a supermarket is designed and how “offers” are displayed. I can’t imagine it any other way.

Now I am trying to answer the question, why I believe that normal thinking doesn’t lead to successful trading. And it wasn’t just a single trip to the racecourse that led me to this conclusion. In fact, I don’t think I made that connection until much later.

Rather it was a puzzle, and little by little, it made up a complete story. But it wasn’t an instant revelation. It took a while before I got the message.

SLIDE 5/6: 43 Million Trades

Another piece of the story came from the research done by Rodriguez from FXCM.

EXPLAIN.

SLIDE 7: Evidence Over 20 Years

Read out the headlines.

Expand and explain where you see fit.

SLIDE 8: Documentation from Brokers

Explain briefly the failure rates.

SLIDE 9: Pyramid - Attitude

I think we can be inspired by people, even if we are nowhere near their physical or mental shape. We can draw inspiration from other traders, purely by being in their presence, hearing them speak, learning how they approach their profession.

One famous trader, Richard Dennis, once said that he was certain, that even if he posted his trading rules on the front page of the Wall Street Journal, the general public could not make money from speculation like he had.

Reading about Richard Dennis and his approach to trading compels me to agree with him. It was not his method alone that made him the trader he was. It was his confidence in his method as well. The method was merely mediocre, but the belief in it was unquestionable.

SLIDE 10: “So What Does”

I am making an argument that normal thinking does not lead to profitable trading. I base that on the landscape we are operating in, and the players that are in there. It has been factually proven that those who make money from trading are few and far between, according to brokerage announcements.

But is it because that trading attracts really stupid people of lesser intelligence? Is it because trading acts like a magnet for those who have little to offer between the ears?

I apologise if I am laying it on a little heavy. A London business school published a paper about the profile of traders in the United Kingdom.

It was interesting reading because it goes completely against the argument I just put forth. The profile was that of a male, aged 46-60, educated to at least pre-college, and who earned an above average income.

I will draw my own conclusion. You don’t become an above average wage earner unless you know the value of hard work, and you have something (brain power) to contribute as well.

And maybe in there lies the problem. The very thing that makes us succeed in society are the very things that are dragging us down in trading, unless of course we believe that people trading is generally stupid.

What are the qualities of the average man and woman, earning well and succeeding in life? I think there are qualities like: don’t give up, if at first you don’t succeed. Seek guidance. Learn.

Those are great qualities for any human being, but what if those who teach you are none the wiser either, and they themselves are pursuing a fruitless path?

SLIDE 11: “Get to know yourself”

I argue that trading is a profession like none other. Some have compared it to poker, and I can see the similarities, but with poker, you have things like “odds”. If you are dealt a royal flush, or 4 aces, you know you have a strong hand.

In trading, there is no such things as a strong hand. You must listen carefully to what I just said. There is no such thing as a “sure thing” in trading, because someone is on the other side of your trade, and they believe they are right.

It means that at any given point in time, you are likely to only have a 60% chance of success. Now how do you operate in an environment where you are only dancing on a thin line between profit and loss, and the margin for error is so small?

How do you do that?

1/ you learn to accept those odds.

Now how do you learn to accept something which is detrimental to you if you don’t learn it, but it is immensely good for your financial well-being, if you do learn it?

And while we are at it, how do you learn something, when it involves a degree of introspection, that you have never experienced before?

I mean, how often do people call you or come up to you and say “hey, I am really sorry, but I was wrong about our argument/your point of view/ etc etc.

You don’t. Mostly because our sense of self-worth is intrinsically derived from our social status, our societal status, our work status, and the list goes on.

In other words, getting to know yourself requires a degree of honesty that very few people (apparently) are willing to accept. It is also time consuming and all together perhaps not the most compelling past time.

SLIDE 12: Example - Personal

I believe that we have an opportunity to learn every day, but to live in a state of being receptive and to learn from our surroundings and our interactions with our milieu is intensely demanding. It requires energy, and as a foundation to our existence, we have gravitated towards preserving energy. Energy means life, and if your food resources 100,000 years ago was limited, you learned to preserve your energy for when it was needed.

When it comes to trading, I have long time ago come to the conclusion that the profits I make during my workday is the result of the work I have done on myself outside of the trading day.

I would like to give some examples of what I mean by that.

SLIDE 13: 1st Chart - FTSE – 10min

Here is chart of the FTSE index. Since the open at 8am, circled in red, the index has rallied. It has now traded for two hours.

The most recent bar is trading below the low of the prior bar, and the prior bar closed below the low of the highest bar of the day.

That means "sell signal" in my brain. So, I am selling short the FTSE index, with a stop loss above the high of the highest bar for the day.

Job done. Now all I have to do is to wait to collect my profits. If only.

SLIDE 14: 2nd Chart - FTSE – 10min

The next 10min is quiet. Then the index begins to trade higher. Over the course of those 10 minutes my brain oscillates between a state of hope and fear. When the market is ticking higher, the brain deals with the discomfort of being wrong and of losing money.

When the market ticks lower (because I am short), the brain experiences pleasure and hope. The position is losing, but the brain takes great pleasure in seeing a loss being minimised, or at least reduced.

At the close of the 10min bar – circled in red – the position is looking better again. I exhale a sigh of relief. I am telling myself that this is good news for my position.

At this point I need to make you aware of something important. We are not playing with a pittance. We are playing with a meaningful stake size, one which is big enough to be meaningful to you, but not so big that it causes you to make irrational decisions.

In other words, you "feel" it, both when the position is going with you, and especially when it is going against you.

SLIDE 15: Money Management

Money management is more than just an old worn cliché. It is a dialogue with your subconscious. Have we reconciled emotionally what we are going to risk on any given trade?

Have we imagined its impact on our minds through simple arithmetic? Have we quietly contemplated how we would handle say 6 winning trades and 4 losing trades? Have we felt what it is like to lose in a day what an average earner makes in a month?

Have we considered its opposite? Losing is tough. Yes, for sure it is tough to lose. But winning is tough too. I want to tell you a story about a friend of mine who sought my help.

TELL STORY OF YOUR FRIEND – who oscillated between making and losing – in a never-ending cycle. – NOT IN NOTES. FREEFLOW.

SLIDE 16: Solution Part 1 – Sweet Spot

There is an expression called the Sweet Spot. It is the point or area on a bat, club, or racket at which it makes most effective contact with the ball.

It is also used as an expression for the optimum point or combination of factors or qualities.

The Sweet Spot for me, and the first thing I needed to address in my trading, was the optimised trading size.

What should my trading size be so that I was not overly anxious, but I was not complacent either.

I found through analysis of my trades that I became complacent when I traded too small, and I became overly anxious when I traded too big.

I call it my RULES OF ENGAGEMENT SHEET. I know what size I am prepared to trade at any given moment in time. It creates a structure in my mind, which is an essential component of a “carefree” mind engaged in risk-taking.

What is the sweet spot on your stake size? What is that exact number where you are not “cruising”, but you are not “in over your head” either?

You want to feel pushed, but you don't want to feel emotions like fear and regret. You want to act with clarity – according to an emotional gameplan which you have outlined before you start trading.

SLIDE 17: Wimbledon Photo – The Imposters

What is the meaning behind the poem "IF" by Rudyard Kipling?

In this poem, he advises his son to move through life with composure, and to always exercise self-control, integrity, and humility. This means never letting "Triumph" nor "Disaster"—events either good or bad—go to one's head.

Now the context is romantic. We have two arch-rivals headed out for battle. That is what the photo tells us, but how does that apply to our daily trading life. What does it mean to treat the imposter of triumph and disaster just the same.

There is a line of thought in psychology that argues we should never meet our goals. The goal in itself is not important. It is the person we become as we journey towards our goal.

I don't think it does us much good to be told, "do not let victory – or defeat – go to your head". It is about as useful as to say "hey, let your profits run, and cut your losses short".

It is true, but what is meant by it, and how do I put it into practice?

SLIDE 18: The 3rd FTSE Chart

The following bar closes at its highs. Contrary to what our trader might have thought of the prior bar, the bar that rallied and came back down again, he is now faced with the same agony as before. The market is rallying again, and he is short.

When the bar closes, it is an inside bar, but it is a bullish bar, and the very next bar takes out the high of the bar, that supposedly was meant to test the highs.

Now what might one deduce from this situation, not from a technical point of view at first, but from a mental point of view?

His stop loss might be above the old high. So, there is still time for the market to turn. He will mentally be under pressure because his stop loss is not hit, so he is hoping.

There is nothing wrong with hoping, even while losing, as long as we have an exit strategy in place.

The problem that MANY traders experience is that when they execute a trade, and they put a stop loss in, they have not actually considered the loss they will experience, IF they are stopped out.

In this case FTSE traded at 7275 at the highs, and the short-signal trigger came at 7252. This will call for a 25 point stop loss. Now to my mind we can understand something rationally but not accept it emotionally. I believe we have a natural propensity to call ourselves risk-takers, without having understood the concept of being a risk-taker emotionally.

I trade the FTSE 100 index in 300 British Pounds per point, or on my Danish account in 3,000 Danish kroners per point. A 25 point stop loss will represent a loss of £7,500. If you do that every day of the year, you will have lost £1,875,000.

I have been informed by brokers that the average stake size in the FTSE is about £10 a point. Thus, a loss like this every day adds up to £62,500. This is twice the average salary of the typical wage earner in the UK.

9 of the 20 premier league football clubs in the UK have an average wage structure of less the £1,8m a year! Now that is financial context for you.

SLIDE 19: The 4th FTSE Chart

I suspect that many traders will try to forget a loss as quickly as possible and move on. Consider the argument that the things you want to forget – because they cause you pain – are the very things that stand between you and success.

Consider the argument that the very thing you want is being held back from you because you have a brain that doesn’t like pain.

Because it doesn’t like pain, it doesn't naturally encourage you to look at the flaws of your gameplan and learn from it.

Therefore, if you don’t learn from your mistakes, you are destined to repeat them for all eternity, or until you have busted your final trading account.

What you are seeing is a screen shot enlargement of the pattern that gave me an issue. It reminds me Kobe Bryant and his approach to his profession.

UTAH PLAY-OFFS – “airballs”….

SLIDE 20: Kobe Bryant

ANIMATION USED

When Kobe Bryant tragically lost his life, many articles were written about him, and many things I didn’t know about him came to light.

While most articles focused on the greatness of the man, and rightly so, a journalist from the Guardian Newspaper in London, Andy Bull, took a different approach. He dived into Kobe Bryant’s relationship with failure.

What if we adopted his approach to challenges?

SLIDE 21: Focusing on Lessons

I asked myself a simple question: Should I have seen this coming?

Is this a common occurrence?

Let us find out.

SLIDE 22: Patterns

Take them through the charts.

SLIDE 23: Patterns

Take them through the charts.

SLIDE 24: Patterns

Take them through the charts.

SLIDE 25: Solution Sheet Part 2

Do we review our trades? Do we know why we are failing? If you don't know why you keep losing, then you have no chance of improving your chances of improving.

What daily habits support your ambition of becoming a profitable trader, who can hold his own a world of highly motivated operators?

This is psychology in its essence. I am building my confidence in myself because I know I am leaving no stone unturned in my quest to become a better operator.

SLIDE 26: Solution Sheet Part 2

Do we review our performance? How do we even train as traders? Well, there are ways we can to it.

It is important that we acknowledge that practise does not make perfect. It makes permanent. This is why it is important to have a mentor but having a mentor in trading is not straightforward.

For example, I am a mentor of sort, but I am not the kind of mentor that can mentor people individually because my income is derived from trading – which pays much better than mentoring, unless of course you are prepared to pay me tens of thousands.

Nevertheless, we can take daily steps towards our goal of becoming profitable traders by going through some simple but laborious steps.

1/ we can daily review our performance. Perhaps you learn by visual orientation, in which case it is obvious to mark your trades on the chart and inspect the chart regularly.

2/ we can set goals – not "goal" goals, but "process" goals, such as "I will review all my trades before I go to bed".

The truth to success is nuanced and will depend on more than one factor. Nature vs nurture springs to me, but having stated that, I am a firm believer that we can far surpass our own "current" perceptions of what is possible, by creating a foundation that nurtures and encourages a daily routine for our reviews.

We can think about how we are going to get better at what we do.

Thinking about how to get better

For example, we can hire charting packages cheaply that has a "play-back function, which will enable us to play the price action one bar at a time.

Goal directed practise activities such as these will create change in your mental chemistry over time. At the heart of the matter is that there are many dedicated chartists and analysists who would like to trade well, but they can't because their training is one sided.

I was good at sports, and I probably could have made it professional, had I directed my attention towards betterment and had the proper support network been present, but it wasn't. As traders we have to create our own network, our own support group.

Just because you are good at something to begin with, to be successful you almost have to be a changed person. Famous researcher Anders Ericson talks about deliberate practice and the 10,000-hour rule.

It was Malcom Gladwell who brough this to the attention of the world through his book "Outliers". I am an outlier, and I know why I am an outlier. You can also be an outlier, if you do what I did.

In order to get better, you need to change how able you are to do something. True improvement doesn't come from idly going over old charts.

What does improve your performance is not quantity but quality of the problem. If I ask you to review the DAX for the entire week on a 15min chart, you might go to work, and perhaps apply your own perception of the chart.

However, if I ask you to review the entire week of the DAX, specifically homing in on the amount of time that the 15min chart closes below say a prior bar in the time frame 9am until 10am, and again from 15:30 until 16:30 (around EU and US open), then your training becomes much more specific. It becomes much more focused because your mind is trying to solve a problem.

In conclusion, the hours spent is less important, even though that is what Malcolm Gladwell argued. What will improve your performance is solving specific problems. This is what Ericson really meant in his work about deliberate practise.

You are completing a task rather than mindlessly going over an old routine.

So, 10,000 hours of just doing something is not correct. You have to operate outside your comfort zone. And you need to get feedback,

What can you change that will improve their performance? Many will not know what that is, and as a result their "trader training" is just the act of going over old charts.

That is a problem because "apophenia" sets in. This is the concept of seeing something which actually isn't there, or it is there only in your mind.

A teacher however can look at your performance and direct you. I argue you don't need that in trading, but you need to set tasks, which are stimulating and driven by your curiosity.

ENERGY

So the 10,000-hour rule is more purposefully used to describe the act of getting better if it is used solved problems of a specific nature. Now this is where we as traders can benefit from said knowledge, because we can let our imagination run riot and dream up ideas we want to test and work through.

I would like to take you through some of those "domains" that I have gone through, in the hope that it can inspire you to do the same. Ericsson said they didn't count the hours you were "going through the motions", but the hours you engage in a problem-solving act – a self-directed or mentor guided purposeful practise – deliberate practise.

Just doing something will not improve your performance. You have to work outside our comfort zone. you need expert giving you feedback. We don't have that, but we have the market. What can you change to improve your performance, but most people don't know what they can change because they never engage in the act of trying to figure it out. They just blame the market.

The best never stop being students of the market. What you do repeatedly becomes permanent, it doesn't improve your performance markedly, but specific tasks, task-specific problem solving will take your trading to an entire new level.

OK, so let's go through some of the specifics.

SLIDE 27: Beginning of Task Specific Exercises

From Slide 27 to 31 I am talking from "the gut".

SLIDE 32: FTSE 10min – New Highs on Day

How do you trade a market which is on a tear? The FTSE is making new highs on the day. How do you join? How do you combat the urge to sell short, just because "it is so high".

This is an example of a task specific exercise, which will require a cheap historical database. I recommend E-Signal "Delayed Version", which cost me about $120 a month. I am certain there are cheaper options available. Lennie says Trading View is a good one.

SLIDE 33 – 40: FTSE 10min – New Highs on Day

Point out the training elements from a chart like this – and what you have learned – and how you are finding it at times emotionally difficult to handle "runaway" charts, and how you "spread against" other charts by comparing say the FTSE to the DAX.

SLIDE 41: FOMC Training

Show them your "Rule of 4" but wait and see if they can find it themselves.

SLIDE 51: Technical Maintenance

Explain why you go through your Book of Horror. This will also be discussed in slide 56.

THE REST IS QUITE SELF EXPLANATORY