

RIDE THE MARKETS LIKE A PRO

By Lewis J. Borsellino

Every trader faces what I call the five “emotional stages” of trading. For novice traders, these stages will track their learning curve. For those of us who have been trading professionally for years, we will fall into these stages at various times – depending upon how well or poorly we’re trading.

But the important thing is to know you’ll face these stages, recognize them when they occur, and handle them to get back into balance. The stages are: confidence, euphoria, self-doubt, despair, and redemption.

Confidence

In the “Confidence” stage, you believe that you can become successful as a trader. As a novice, your rationale is “Other people do this. Why not me?” As an experienced trader, this confidence is based upon your own performance to date. You’ve proceeded along the learning curve, and you have been making well-executed trades that result in a profit.

Then comes “Euphoria.” Oh, what a dangerous place this is. For the novice, this is what happens when you have that first profitable trade – or maybe that string of profitable trades. “This is EASY,” you tell yourself, believing that you possess some special skill that allows you to master the market. You are, at this point, delusional. The same danger lurks for experienced traders who can be lulled into the same kind of euphoric feeling with “big” winners, or success that propels them to the next financial levels. They immediately invest in a fancy car, the flashy Rolex or some other noticeable material goods. Why? Because making money in this market is EASY, they tell themselves.

Euphoria

If this were a rollercoaster, then Euphoria would be the top before the inevitable ride downward. The next stop on that emotional trip is “Self-Doubt.” You trade too big for the market conditions, because Euphoria has clouded your judgment. You lose your discipline and don’t trade according to plan. Doubts creep in about your ability to trade. For the novice, this may be the “wake up call” that the early success had more to do with luck than with good execution. For the experienced trader, these doubts will yank you back into reality and the need to focus on well-executed trades and not the money.

Self-doubt

If Self-Doubt doesn’t shake you up enough to regain your confidence, then the slippery slope downward leads to despair. For the novice, the danger is throwing in the proverbial towel, but not by quitting. Rather, this is where the “all or nothing” trades occur. They risk it all on one trade, knowing that if they lose, they’re out of the game – for good. It’s as if they want someone to put

Despair

them out of their trading pain. Usually, they get that wish. Even the experienced trader can slip into despair, making wild trades that have no rhyme or reason. They aren't trading with a plan; this is "shoot from the hip time." But all too often, you're the one who gets shot.

Despair, of course, is the point at which you "hit bottom." If you're going to make it as a trader – novice or professional – you have to fight your way back. The only other choice is to quit. The road back is one that requires discipline above all else. You cut down your trading size and execute according to your trading plan – deliberately. At all times, you know where you will get out if the market turns against you. You rein in your emotions and trade methodically.

This leads to the next phase, which of course is "Redemption." Interestingly, Redemption is on the same "level" as the first phase, which is Confidence. But Redemption brings with it the experience you gained from going through all the other phases from Euphoria to Self-Doubt to Despair.

Redemption

The goal in trading, and in life for that matter, is to recognize these phases, learn from them and move on. And keep in mind you will keep going through these emotional phases throughout your life as a trader. In time, the peaks and valleys – marked by Euphoria and the top and Despair at the bottom – will become smoother, rounder. Then instead of scaling cliffs and descending into chasms, they'll be more like gentle, rolling hills.

But don't think that your emotional life as a trader will ever be a flat, plane at the Confidence level -- because that would be the biggest delusion of all.