The Secrets To:

Emotion Free Trading

"How To Consistently Act In Your Own Best Interest With Your Off-The-Floor Trading!"

Written By Larry Levin

http://www.futureseducation.com

Published by:

Futures Education
7522 Campbell Rd. #113-165
Dallas, TX 75248
http://www.futureseducation.com
info@futureseducation.com

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<u>THE TALE OF TWO TRADERS</u>

Our first trader is Ned. Ned is an off-the-floor trader who day trades the S&P 500 Futures. He's been trying to be consistently successful for the last six months. Unfortunately, it hasn't worked out very well. But it's not because of his methods that he's having so much trouble. No, the main reason Ned is not making the kind of money he wants is because he cannot control his emotions and consistently act in his own best interest.

From the very beginning, Ned was confident he would be successful day trading the S&P's. He'd been very successful in his previous business. Ned owned a retail printing company and he'd learned to make good sound business decisions that helped him become very successful. He almost never made any major mistakes that were detrimental to the business. In fact, in over the nine years he owned the company, he really prided himself in always looking at the big picture and keeping his business moving forward. On the rare occasion when something did go wrong, Ned worked at lightening speed to fix the problem, and many times he turned the crisis into an opportunity.

Because of the smart decisions he'd often made, Ned was sure he could carry this into his new career of commodity trading. At least that's what he thought would happen. So, when Ned received a generous offer from a corporation to buy his printing company, he decided this might be the time to take the money and run.

It wasn't that difficult for him to decide to sell. He definitely loved having his own business and, of course, it was that much more rewarding because he was successful. But for the last two years, he'd been so busy that he was working about 65-70 hours a week. That left very little time for him to spend with his family. This made the decision to sell very easy for him.

Another thing that made Ned's decision easy was that he wanted to try a new business. He had learned as much as he could about commodity trading. He'd read as many books and magazines he could get his hands on. He definitely thought he could transfer his successful business practices to commodity trading. Thus, he could trade from home and be able to spend a lot more time with his family. He was quite confident he would be a success in this endeavor too. Boy, was he in for a surprise.

The second trader in our story is James. James also wanted to day trade the S&P 500 Futures. His background is a little different than Ned's. James has spent the last four years working at the Chicago Mercantile Exchange where the S&P 500 Futures are traded. But James was not a trader at the CME. He had basically worked his way up from a runner. He was working for a retail commodity firm as a phone clerk. His job was to put in buy and sell orders for customers using hand signals.

From the first day James had started working at the exchange, he had always wanted to be a trader. He knew he didn't have enough money to buy a seat on the exchange (which costs about $200,000). He thought his best chance to become a trader was to learn all he could from the various floor traders and other people on the trading floor, and then trade from off-the-floor where he wouldn't have to own a seat.

James spent as much time as possible trying to learn how people in the commodity business made money. He was sure there had to be some very specific techniques only the real successful people were using. He certainly knew, like everybody else, that 80-90% of the people lost money trading. He was determined to learn what he needed to know so he could be successful when he started trading from off-the-floor. He wanted to start trading as soon as possible.

James made a point of trying to meet as many successful traders (both on and off-the-floor) as he could. He was lucky enough to be exposed to all these successful people on the floor and in the various offices at the Chicago Mercantile Exchange. He thought if he could figure out exactly what the successful traders were doing, he could model his own trading off of them. He spent every free moment talking to the various traders that he'd met and tried to find out the secrets of their success.

He learned a lot. He learned all kinds of different technical methods that the various floor traders and off-the-floor traders used. James had never traded a futures contract in his life. But the more he talked to different traders, the more his confidence grew. He was sure with the experience he was getting he would surely be a successful off-the-floor trader. But he still needed one more important lesson.

Ned began trading. He started with $15,000 in his account and decided he would only trade one contract at a time until he was sure he had the hang of things. Things actually started off fairly well for Ned. His first trade made 320 points ($800 before commission charges). Obviously, Ned felt very good about his start. Unfortunately, things went downhill from there.

On his next four trades, he lost on all four. The problem was that Ned had good profits on two of those four trades, but he failed to take them because he would look for a lot more than the market was offering. So, in his first week, instead of making a small profit or breaking even with the four trades, he ended up losing the original $800 and even another $1,200 more. This was very frustrating and confusing to Ned. He obviously needed to do a lot better if he was going to be successful in this business. But not to worry, it was only the first week. He certainly didn't make a fortune his first week in the printing business.

The next week started basically the same as the first. His first trade (on Monday) was another nice winner of 280 points ($700), but the downhill slide started again. Ned did his next trade on Tuesday of that week. He got in and the market went his way about 120 points. Ned knew if he could make 200 points on this trade, he could get back to even. So that is what he decided to look for in this trade. He put an order to get him out of the market with a 200-point profit. The problem is the market only went 150 points his way and Ned did not trail his stop order to lock in a profit or at least move his stop to break-even. He really wanted to get that 200-point profit so he could be even, but the market came all the way back and not only took away the 150 points in profit it was offering, but also took away the amount he was originally risking when the market hit his stop order. Ned ended up losing $400 on this trade.

Now Ned was very frustrated. Sitting at his desk, he considered throwing his empty ceramic coffee cup across the room at the wall. Luckily he resisted doing this as the thought of getting the broom and dustpan to pick up broken glass didn't seem like it would fix his losing trades. Nevertheless, Ned was extremely frustrated and needed to come up with a way to fix things.

"One of the most important things you can do is to set a daily, weekly, and monthly goal for yourself." James was getting some advice from one of the most successful off-the-floor traders he knew. This particular off-the-floor trader had made over half a million dollars a year for the last four years, so James knew he was getting good advice.

"The way to be successful is to have measurable goals for yourself", the off-the-floor trader continued, "and then you have to continually visualize yourself reaching those goals." James understood about setting goals, but he really wasn't sure what the visualization part meant. He knew he would need to find out what that was all about.

James continued to talk to as many successful traders as he could. They all seemed to say the same things. Goal setting was extremely important. Just trying to make money each day (without a goal) was a road to failure. It seemed like almost every trader James talked with really stressed the daily goal setting idea. In fact, it seemed the more successful the trader the more they stressed goal setting. James made a strong mental note that if he were to be successful, he would need to have very specific goals as to how much he wanted to make each day, as well as how much he was willing to lose.

James found another fairly successful floor trader named Bob. Bob was nice enough to give James some advice. "Yes I agree with you, you do need to set specific goals", Bob said, "but I would say just as important, you must visualize your success each and every day. You must see yourself very clearly as a successful trader. If you can't see yourself in your mind's eye as a success, there is no chance you will become successful."

Bob told James about a book he should definitely read. "Get the book *Psycho-Cybernetics*, it will tell you everything you need to know about visualizing your success. It's the same method professional athletes use, but it's really no different in our business. To be a successful trader, you must see yourself as a successful trader, even if it's not true yet."

James did not hesitate following Bob's advice. He went out and bought a copy of *Psycho-Cybernetics*. He began studying immediately. James learned the different visualization techniques and began to use them on a daily basis. Even though he had yet to start trading, through his visualizations, he had already started to see himself (in his mind's eye) as a successful off-the-floor trader. This would play a big part of why James would become successful.

Ned thought about the difficult time he was having. He needed to come up with a way to get better results. He thought that maybe the indicators and methods he was using were the problem. Ned decided to find some new methods to trade with. He bought various books and courses on how to trade the S&P 500. Each time he went through these materials, he was sure he would start having better results. The ideas and examples seemed to make a lot of sense to *him.*

Ned decided to use some of these new methods in his trading and get rid of the old methods he was using. He was sure it was the techniques he was using that were causing him to lose money. Unfortunately, it was not his methods that were causing his losses.

Ned started using these new methods to trade and was actually doing quite well for a couple of days, but then he made a serious mistake. He had a losing trade and got very angry. He had gotten stopped out of a position that he was sure was going to be a big winner. As soon as he got stopped out, the market went his way almost 600 points in 15 minutes. Ned decided he wasn't going to let the market take his money. He proceeded to do three more trades. He let his emotions get the best of him and made the near fatal mistake of trading without stop orders.

At the end of the day, Ned had lost over $7,000. His broker had forced him to get out of a position that was over 1000 points against him. Ned wanted to stay in the position overnight to see if it would recover. Ned swore at his broker before he hung up on him. This time Ned did throw his coffee cup across the room. It shattered against the bookcase and made a deafening crash. His wife ran into his office to see what was wrong.

"What happened?" she asked, "What was that noise?" Ned didn't need to answer as she looked over at the bookcase and saw all the broken glass on the floor. She told Ned she would get the broom.

"JUST LEAVE IT!!!!" Ned snapped at his wife. He couldn't remember ever using a tone like that with the woman he planned on spending the rest of his life with. Without uttering another word, she walked out of his office. Ten minutes ago, Ned thought he couldn't ever feel worse than he felt at that time. Now he felt worse.

James gave his two-week notice to his employer and began to get set up for his off-the-floor trading career. He'd gotten his real-time quotes and charts set up. He had opened a trading account and, in about two weeks, he would be ready to give his endeavor a try. James continued to visualize himself reaching his daily, weekly, and monthly goals. In his mind's eye, he kept seeing himself finding opportunities in the market and taking advantage of them. He kept seeing himself trailing his stop orders to lock in profits and avoid having winning trades turn into losers. He kept seeing these images in his mind until they became crystal clear.

He visualized his equity continuing to rise in his account. Not at lightening speed, but more at a slow steady rate. He felt if he could just get himself to make $250 each day, it would be a great way to start. He realized that trying to make thousands of dollars each and every day was just not realistic for him.

James began trading on Monday. He had his goal in mind. He had spent a lot of time over the last couple of months visualizing what he would do and how he would react in as many possible situations as he could. In fact, he saw these things in his mind so often that he felt like they had actually happened for real. That really gave James a lot of confidence. Even though he'd not ever traded before, he felt like he had traded thousands of times.

It showed in his results. James' very first day was a success. He'd made only one trade and made $275. He considered trading more, but then remembered that his goal was to try and make $250 a day, and doing another trade could make him more money, but it could also cost him the money he'd already made. He decided to just paper trade the rest of the day and keep his attained goal intact.

One of the most important lessons James had learned from other traders he knew (both on and off-the-floor) was the reason people were successful in this business was because they were able to find the ability to act in their own best interest. He knew that hoping and praying the market would move in a certain direction certainly had no bearing on whether the market actually did move in that direction. No, the thing that made people successful at trading was when they did what was in their best interest to get winning trades and avoid losing trades (or at least to keep the losing trades small).

For instance, James may have wanted to make 250 points on his next trade, but if most the market is offering at the time is only 150 points, then it's obvious no matter how much you want 250 points in this trade, the most you can possibly attain is 150 points (and probably not even that much). You can 't force the market to do something. You can't control the market to do what you want. So you must control yourself to do what is in your best interest.

Because of James' exposure to so many traders who understood that idea, it wasn't very difficult for him to act that way too. It wasn't easy, but it was probably easier for him than it would be for most others. Because of that fact, James' trading did very well over the next several weeks. He consistently made between $600-$800 a week for his first month.

Sure, just like anybody, James had some losing trades and made some mistakes. When James did have a losing trade, he would visualize in his mind what he could have done differently to make the trade a success or to make the loss even less. He would see in his mind what he should do the next time the situation presents itself. He would do this with his winning trades also. He would think of ways he could have managed the trade better, and then see that picture in his mind over and over again.

Consistently doing these things helped James to make over $15,000 in his first six months of trading. He kept his goal clearly in mind and did what was in his best interest to keep moving towards the goal. Did it work perfectly? No, but it worked well enough to get him on pace to making the same amount of money he was making at his old job. But now he was doing it the way he wanted to do it, by trading for a living from home.

Ned was not as lucky as James. He was not exposed to people who could teach him the lessons that James had learned. Because of that, Ned decided that trading was not going to work out for him. He's now back at the printing business again. He still dreams of trading. He probably could be successful at it if he only learned to act in his own best interest. But he never did.

Introduction

ACTING IN YOUR OWN BEST INTEREST

You will see this theme throughout this book. It is the most important concept you can learn in order to be a successful trader. If you can master this skill, you can be very successful in this business. But without it, you are destined to fail. It really is that simple. If you can learn to act in your own best interest, you will make a lot of money trading. If you don't learn to act in your own best interest, you will lose a lot of money trading.

You see, the (futures) markets work in a very different way than almost everything else in life. There is more freedom in this business than probably any other business in the world. You can do what you want, when you want, pretty much any time the market is open. The only thing that will hold you back is running out of money. Other than that, you have all the freedom in the world to do whatever you want in the market.

Trading really is different from everything else we do in life. In the everyday environment, you can have control (at least somewhat) by taking actions that affect the environment. For example, if you wanted to listen to some music, you would have to turn on the radio. If you push the power button on the radio, music will come out of the radio. If you don't push the power button, the radio will not turn on.

Another example would be if you wanted to start your car. If you put the key in the ignition and turn it, the car will most likely start because you did something to affect that change. If you don't turn the key, the car will not start. You must change the environment (by turning the key) to get the car to start.

Everyday we all do things to affect changes on the environment. We put our bankcard in the money machine to get cash out. We push the button on the coffee maker to make coffee come out in the morning. These are all changes that we can consciously make happen. But here's the difference:

In trading, you can't control what the market will do. No matter how much you want the market to go in a certain direction, there is nothing you can do to make it go in that direction. There is no affect that you can cause on the market to make it do what you want it to do. We can't push a button, we can't turn a key, nothing we do will make the market do what we want it to. Nothing at all!

So, if we can't control the market and what it will do, <u>then the only thing that will make us successful is if we can control ourselves</u>. And that's easier said than done. But it is the reality of successful trading. Again, you can't control what the market will do, so you must control what you will do.

I've met hundreds and hundreds of traders and, unfortunately, many of them fail at trading. Most never learn the proper skills they need to be successful. Most of them focus so hard on finding the perfect technical method or mechanical system, and very few people realize that is much less than half the battle.

"A person with good self-discipline but a poor trading method will outperform a person with poor self-discipline but the best trading method currently available."

Being able to act in your own best interest is much more important than finding the perfect technical method. As I often say, "A person with good self-discipline but a poor trading method will outperform a person with poor self-discipline but the best trading method currently available." It will work like this every time.

Quite frequently, I talk to people who've had very large profits in certain trades. For example, I remember a time when a person called me and told me he had 800 points in a three lot trade in the S&P's (worth approximately $6,000). But even with that big profit, this particular trader still lost money on the trade. When I asked why he didn't trail his protective stop order to lock in some profit, he told me he was looking for the big home run. Right then I knew this person didn't have his best interest in mind.

Sure, we all want those huge winning trades. But one thing we must all remember is we can't control what the market will do, so we must be prepared for whatever it does do. Thus, a person who gets 800 points in an S&P trade (not an easy thing to do) must have his best interest in mind and not allow all of that profit to evaporate, even if that means missing out on the big winner.

This book is broken up into three sections. The first section is called "Skills You Do Need", and is made up of all the skills I believe you must have to be successful in the trading environment. These include ideas like setting and accomplishing goals, being an active winner and loser, flawless execution of your trades, etc.

The second section is called, "Skills You Don't Need." Included in this section are chapters on wishing, hoping, and praying. Also included is a chapter called "Revenge Trading." Another chapter is called "Emotions: Fear, Anger and Greed." This section will help you to know the things you must stay away from to become successful with your trading.

The third and final section is made up of ideas originally put together many, many years ago by the famed Dr. Maxwell Maltz, who coined the term "Psycho-Cybernetics." This section is called "How To Improve Yourself." The chapters in this section will give you background on how Psycho-Cybernetics works and how you can use it to greatly improve your trading results. This section contains the most important part of this book: step-by-step exercises to teach you how to act in your own best interest and deal best with the emotional side of trading. These exercises are all based on the works of Dr. Maxwell Maltz and Psycho-Cybernetics.

Section I

Skills You Do Need

Chapter 1

SETTING AND ACCOMPLISHING REALISTIC GOALS

I realized early on in my trading career that one of the most common characteristics in almost all successful traders I'd met was they are all very goal-oriented.

In fact, I'm not sure if you realize it or not, but that's when people are at their best. People perform at their best when they have a goal clearly in their mind. That is the way the human mind works. When we have a goal clearly in our minds, our subconscious works very hard at helping us to achieve that goal. It does it quite automatically without having to fight using willpower. (This is something you'll learn much more about when you start learning more about psycho-cybernetics.)

But there is one big catch. You may have a goal clearly in mind, but it must have three important characteristics:

1) Your goal must be realistic.
2) Your goal must be attainable.
3) Your goal must be measurable.

<u>Your goal must be realistic</u>. This means that your goal has to be something that is within your capabilities. Sure, it may be possible to make a million dollars your first year trading, but it's probably not very realistic because it isn't within your capabilities yet.

<u>Your goal must be attainable</u>. This is similar to a goal being realistic. Again, your goal must be within your capabilities. So, an example might be if you are trying to average $250-$500 a day with your trading from off-the-floor. You have a much better chance of being able to reach that goal versus the goal to make a million dollars this year. Don't get me wrong, if you are doing very well with your current goal, there's no reason you can't raise it somewhat. But you must <u>start</u> with a goal that is attainable and then you can build on it. I highly suggest starting with a small goal and moving up from there.

<u>Your goal must be measurable</u>. This is one I see people making a mistake about all the time. Everybody wants to get rich or make a fortune in the market. That seems to be everybody's goal. But you know what, that isn't really a goal. A goal must be measurable. You must be able to know when you're far away, close, and when you've achieved your particular goal. If it's not measurable, you won't know when you're there, and even worse, you won't know how close you are to reaching your goal.

When I first started working on the trading floor, I spent lots of time talking to different traders about how they were able to make money in the markets. It seemed liked the more I talked to different traders, the more their answers all sounded the same. Realistic, measurable goal-setting is extremely important to being successful in trading. In fact, just trying to make money each day (without a goal) is a road to failure.

The more successful the trader I talked to, the more they would stress how important setting goals was to their success. But you even need to take it a step further. Not only do you need realistic, measurable goals, but you need to visualize yourself reaching those goals on a daily basis.

> **“**Just as important as setting specific goals, you must visualize yourself successfully reaching those goals each and everyday. If you can’t see yourself in your mind’s eye as a success, there is no chance you will become successful. It just won’t happen!**”**

I remember some advice I’d gotten from a very successful off-the-floor trader who’s since past away, “Just as important as setting specific goals, you must visualize yourself successfully reaching those goals each and everyday. If you can’t see yourself in your mind’s eye as a success, there is no chance you will become successful. It just won’t happen!”

We will talk more about visualization techniques in a little while. But I hope you understand how important it is to have specific goals so you can see how your progress is going and quickly determine if things need to be changed.

I will tell you from first hand experience that when I’m trading well and making good money, it’s definitely because I’m totally focused on my specific goals. And, on the other hand, when I’m trading poorly, it’s because I’ve lost sight of my goal and I’m not seeing it clearly like I should be.

And you know what? It definitely shows up in my trading results every time. The more you practice realistic goal-setting, the easier it will get for you to do on a consistent basis.

As a side note, I happen to know someone who teaches people to day trade the S&P Futures. One of the lessons he teaches his students is to make $250 a day for 20 straight days in a row. You might say $250 is not a lot of money to make in a single day in the S&P futures, but the whole point is for these students to learn to have realistic, attainable goals that they can reach. Once they reach the attainable goal, they can strive to have a somewhat larger goal. Just like anything, you’ll want to start small and slowly make your goal larger.

By the way, most of his students are successful at getting through the 20 days of making $250 each day. Once they’ve gotten that goal, they are ready to move up to a slightly larger goal, of course, as long as it’s still measurable and realistic. Just like anything, it gets easier with repetition and practice.

Chapter 2

LEARNING TO LOVE TO TAKE A LOSS

This is something you'll hear successful floor traders say all the time. If you're going to be a successful trader, either on or off-the-floor, you will have to learn to love taking a loss.

Basically, what that means is it does not bother you to have a losing trade. Don't get me wrong, you're not going to be happy to have a losing trade, but you should be happy to be out of the market when the trade no longer represents a profitable opportunity.

Most people who learn this do it the hard way. They end up losing all their money before they realize how important it is to love taking a loss. Instead of ignoring the fact that they have a losing trade (like most people do), successful traders confront the possibility of being wrong, and thus, when the time comes to take a loss, they do it without hesitation.

"Your losing trades do not diminish you as a person. You are not your losing trades. You are also not winning your trades either. They are simply by-products of the business that you're in."

I think the reason that so many people have trouble getting out of their losing trades is because they think the losing trade is a reflection of themself. Nothing could be further from the truth. Your losing trades do not diminish you as a person. You are not your losing trades. You are also not your winning trades either. They are simply by-products of the business that you're in.

Losing trades are part of trading. The most successful traders in the world have losing trades each and every day. They do not get caught up in thinking that the losing trade is part of them. They realize it's just part of trading, and the sooner they get rid of the losing trade, the faster they can look for the next opportunity to find a winning trade. This is easier said than done, but nevertheless, it's still the reality of how to make money trading.

I have a friend who's been an S&P floor trader for over 15 years. He is probably one of the 5 best traders in the S&P pit. He's also probably one of the 25 best floor traders in the world. The house he lives in has 14 bedrooms and a 6-car garage. So, obviously, he does pretty well with his trading.

He has literally thousands and thousand of dollars in losing trades almost each day. He probably has more money in losing trades each day than most people make in a month. Obviously, he has many thousands of dollars in winning trades also. The point is he has learned to realize that having losing trades is part of the game, and he knows the quicker he can get rid of the losing trades, the sooner he can find some winning trades. It will be the same for you, but only on a smaller scale.

One thing you'll need to learn is why it's so important to confront the possibility of a losing trade. If you don't, you will generate fear and end of up with the very situation you are trying to avoid. When you can learn to understand this concept, only then can you prevent your losing trades from becoming unmanageable and, quite possibly, from wiping out your entire account.

Mark Douglas, author of *The Disciplined Trader* states, "Execute your losing trades immediately upon perception that they exist. When losses are predefined and executed without hesitation, there is nothing to consider, weigh, or judge and consequently nothing to tempt yourself with. There will be no threat of allowing yourself the possibility of ultimate disaster. If you find yourself considering, weighing, or judging, then you are either not predefining what a loss is or you are not executing them immediately upon perception, in which case, if you don't and it turns out to be profitable, you are reinforcing an inappropriate behavior that will inevitably lead to disaster. Or, if you don't and the loss worsens, you will create a negative cycle of pain, that once started will be difficult to stop."

He goes on to say, "Keep in mind that fear is really the only thing that keeps us from learning anything new. You can't learn anything new about the nature of the market's behavior if you are afraid of what you may do or can't do that is not in your best interests. By predefining and cutting your losses short, you are making yourself available to learn the best possible way to let your profits grow."

If you can change what these losses mean to you and realize that getting out of a losing trade as soon as you define it as such, you will be able to release yourself from the stress that those losing trades probably cause you now. This is why learning to love taking a loss is so important. It puts you in a much better position to take the winning trades.

Chapter 3

TIME HAS NO BEARING ON MONEY

Most of us have ideas about the amount of time it takes to make a certain amount of money. These ideas do not apply to trading the markets. A trader can literally make thousands of dollars in a matter of minutes or even seconds with very little effort expended at all. This is very different than what most people are brought up to believe is possible about making money.

Most people are raised to believe that to make money (especially large sums of money), it takes much time and effort. When I first started trading, my family and friends couldn't understand how, in just a matter of minutes, I could have the possibility of being up or down many thousands of dollars. People don't make thousands of dollars in minutes. It takes weeks. At least it does in most businesses.

To many people, the possibility to make or lose money that quickly is something they'll never experience. But to a trader, this is something we experience on a daily basis. To be a successful trader, you'll definitely need to get used to it.

The problem is many people have a mental conflict with that kind of situation. Because of our upbringing, we have certain beliefs about whether we deserve to make money that quickly. In many cases, we are so taken back that we made that much money so fast, that it doesn't seem to be right that we could have that much that quickly. This leads to two serious problems.

The first problem is the big one. If you subconsciously don't feel you deserve to make money so quickly, then when we do get that quick windfall, our subconscious will say, "Hey you can't make money that fast! We'd better find a way to give that money back!"

And believe it or not, you will most likely end up doing just that. That is how powerful your subconscious is. If you have a certain belief about yourself, your subconscious will strive to make that belief true. For instance, if you do make a large profit very quickly, you will find a way to give that money back because inside you it doesn't feel right. It might feel great and exciting to have made so much so quickly, but deep inside, in your subconscious, it is not right at all. And your super-powerful subconscious will override your conscious thoughts and find a way to give back that money you didn't feel you deserved in the first place.

In Section 3, we will talk about an exercise to become comfortable with large windfalls. You'll learn how to be deserving of those windfalls so your subconscious does not try and force you to give the money back.

The second problem with this mental conflict is it causes people to stay in trades way too long. Here's what happens:

A person gets into a trade and for whatever reason it goes their way right away. They make those thousands of dollars we just talked about in only a few minutes. This is great, but the problem comes up when they feel the trade must be worth much, much more. They feel this way because it moved their way so quickly that the market just has to keep moving in this direction.

Well, we all know the market doesn't have to do anything. It only does what the buy and sell orders cause it to do. I see this situation all the time. One of the most important things you must realize about trading is that the market can take away profits just as easily as it can give them and just as quickly. Because of this fact, you must protect your trading. Of course, that means you should be trailing your stop orders to lock in profits. But it also means you need to protect yourself mentally.

"Just because the market gave you $1000 in profit in 2 minutes, it has nothing whatsoever to do with whether the market is going to continue in the same direction. Nothing whatsoever!!!"

But a lot of people get caught up in thinking that it does. That is a big mistake. For instance, let's say you get short the S&P 500 Futures. Right after you get short, a huge sell order comes in to sell 2000 contracts at the market. This particular order drops the market like a rock. After that order is filled, you are sitting on a $2,500 profit in a matter of less than a minute. You are sure that after falling that much that quickly the market must be completely ready to fall apart. But this is not necessarily true. In fact, just the opposite happens, without more selling, the market starts to rally back up taking much of your profits with it.

The only way to deal with these situations is to be mentally prepared for them to happen, because they will happen. Instead of being so sure that the market must do what you think it should do (continuing in your direction), you must be prepared that it can do anything (like taking away your quick windfall just as fast you got it in the first place).

By being mentally prepared for this type of situation, you act in your own best interest by not letting the lion's share of your profits get away from you. Sure, in the above situation, the market hopefully will keep going in your direction, but the most important thing you need to be concerned with is what to do if the market doesn't keep moving in your direction (e.g. trailing your stop order, covering half your position if you're trading multiple contracts, etc.).

Remember, acting in your own best interest to protect yourself is much more important than finding winning trades. Don't get caught up in thinking the market must keep going if it moved this far, this fast. It doesn't have to do anything, no matter what it just did. Keep yourself prepared for whatever it does and you'll have a much better chance of holding onto your profits.

Chapter 4

REMAINING FLEXIBLE

Years ago, I got some advice from a fellow trader in the S&P pit. He told me to never get married to a trade. Michael Douglas told Charlie Sheen to never get emotional about a stock (in the movie Wall Street). Those statements are much more than just pieces of advice picked up along the way. If you don't remain flexible and stay detached from your trades, you will not become successful in this business.

Basically, what this means is very simple. No matter how strongly you feel about a trade, you need to be willing to give up on it in a moment's notice. A very common occurrence for a trader is to get caught up in the particular trade they are in and put much more weight in that trade than it deserves.

For instance, I've talked to a lot of traders who've experienced a common feeling when in a trade. I've even experienced it myself, occasionally. You feel as though you have to be right on this particular trade. This causes you to be inflexible about getting out of the trade. Even if the market is showing you signs that it isn't going to continue in your direction, many traders get so attached to their trades that they cannot be flexible enough to act in their own best interest. (Which is the only way to be successful.)

Many times when this happens, the trader feels as though this is the last trade they'll ever be in. Inflexibility will kill your trading in a hurry. You see, to be a successful trader you need to be willing to change your mind quickly and easily. You certainly can't be fighting with yourself back and forth when you've got an open position in the market. It will be a disaster.

In the real world, having a large ego can sometimes be helpful. Many people who've got large egos and think they are usually right also have the ability to also convince others that they are right. This works for many people. Those people with large egos don't need to be as flexible in the real world. At least they do not have to be flexible to the people they can convince they are right.

But in the trading environment, being inflexible and unwilling to admit you're wrong will do nothing but drain your trading account dry. Of course, nobody wants to admit that they are wrong. Who wants to be wrong???

"If I don't get out of this bad trade (that has very little potential), it will eat away at my past and future winning trades. And obviously, I don't want anything to eat away at my winning trades."

I try and think about it a different way. I don't think about it as being wrong in a losing trade. I decided to shift my thinking and instead of thinking of myself as wrong in a losing trade, I think about it this way: If I don't get out of this bad trade (that has very little potential), it will eat away at my past and future winning trades. And obviously, I don't want anything to eat away at my winning trades.

This helps me be more flexible and not afraid to cover my losing trades or trades where the profit is deteriorating. I've learned to be flexible in these situations because of how much I want to keep my winning trades intact. The less flexible I am about my bad trades, the more they'll eat away at my good trades. I'm always trying to protect those winning trades because those trades are the one's that pay my bills each month.

Always remember the more flexible you can be, the more successful your trading will be. In fact, the amount of money you make trading will be in direct proportion to how flexible you can be. If that is not a reason to learn to be more flexible, I don't know what one would be.

Chapter 5

DO YOU DESERVE TO MAKE MONEY?

Like we talked about in Chapter 3, many people have a certain idea of how long and how much effort it takes to make a certain amount of money. Most job situations offer an unchanging reward regardless of effort.

This is very different than trading the markets. Most of us are brought up with ideas like working a hard day's work is what it takes to make money. Very few of us are brought up with the idea that you can make literally thousands of dollars in a matter of minutes with very little expended effort other than picking up the phone and placing a timely trade. This is foreign to most people. And, more importantly, it doesn't fit the picture most people have of themselves.

For instance, if your father worked 11 hours a day, 6 days a week to put food on your family's table, then it's only natural that your idea of making money would include hard work and long hours. You spent much of your childhood seeing it done that way.

Because of that, the picture of yourself could most likely be one that is undeserving of money if you don't put in long, hard hours to make that money. If that is the case, then this picture of yourself is very, very important.

The picture you have of yourself is the basis of the psycho-cybernetics techniques, which we'll talk a lot about in Section 3 of this book. But let me just to give you some background of how it works.

> "The self-image controls everything we do in life. It is what we believe to be true about ourselves. It may not necessarily be true, but it is what we believe to be true."

We all have a picture of ourselves in our subconscious. This picture is called the self-image. The self-image controls everything we do in life. It is what we believe to be true about ourselves. It may not necessarily be true, but it is what we believe to be true.

Our self-image has a stronger hold on us than you could ever imagine. For instance, if we believe that people don't deserve to make money as fast as is possible trading the markets, then undoubtedly what will happen if we make money very quickly in the market is our self-image will say, "This is not right, people shouldn't make money this fast." And our powerful subconscious will find a way to give that money right back. It is inevitable that it will happen this way. It is very difficult to do something consistently that does not agree with your self-image. It's proven in hundreds of thousands of scientific cases.

A good example is someone trying to lose weight. Many times people have the picture of themselves as an overweight person. They attempt to try and lose weight using willpower. They go to the gym, try and eat healthier foods and avoid fatty foods. All that is great. But the reason most people can't lose weight (or they gain it right back) is because they have that powerful picture of themselves as an overweight person fighting against them.

The self-image is much stronger than any willpower you can come up with. So, until they change the picture they see of themselves, it will be next to impossible to lose weight and keep it off. But when they do change the picture of themselves, it won't be very difficult at all to lose weight and keep it off. In other words, when they can see themselves as a thin person, it's not very difficult to become a thin person.

The same is true about whether you deserve to make money as a trader. If you have a self-image that states it isn't right to be able to make money so quickly, then you will be fighting a losing battle against your powerful self-image. The self-image will always win.

Just like the person trying to lose weight, you will only become successful when you have the correct picture of yourself. The picture must be of a person who is deserving of making money in the trading environment. If that is not the picture you currently have of yourself, you'll need to change that picture. The Psycho-Cybernetics techniques in Section 3 will teach you how to change the picture you have of yourself so you will be deserving of making money with your trading.

Chapter 6

TRADING RULES

It's kind of strange in a world with no rules (like trading) that it's so important to have a specific set of rules that you follow religiously. I mean let's be honest, trading really doesn't have any rules. You can get in whenever you want. You can get out whenever you want. You can add and subtract to your existing position, and you can obviously decide simply not to trade. The only thing that could prevent you from participating is the lack of required money to trade. Other than that, you get to decide what you want to do and when you want to do it.

There are not to many other businesses that allow for that much freedom. Because there really aren't any set rules, you'll need to make your own. Otherwise, you'll most likely be overwhelmed with all the different possibilities in the market.

If you decide to trade without any rules, I promise you will not be successful. Freedom is good, but you need to have what I call a "structured freedom." Basically, that means you should be able to trade when you want to, but the trades you do need to fall under your set rules. Rules will help you be more consistent with your trading. They'll help you avoid mental mistakes that can drain your account.

About once every six months I write a new set of trading rules for myself. These rules help me to be structured with my trading. And you know, it's the strangest thing, when I have a bad day, it's because I didn't follow one or more of my rules. And, of course, the opposite is usually true. If I've had a good day trading, it's because I did follow my rules.

No matter what type of trading you're doing (swing trading, day trading, long-term trading), you'll need to come up with your own set of rules to keep your trading structured. The problem is most people don't want to make up their own rules, because if they did they would have to take responsibility for their results. And, as we all know, most people don't want to take responsibility for their action. But, as we all know, the only way to be successful in trading is to take 100% responsibility and act in our own best interest.

For those that don't know, I day trade the S&P 500 Futures almost exclusively. I updated my rules in July of 1998. I thought it might help you to see what my rules look like, and I'll try to give an explanation of each rule as it applies to my trading. These are exactly how my rules look taped up to the side of my computer in my office:

RULES FOR TRADING 7/6/98

1) **Always use a stop order.** *(I never put on a trade without a stop order.)*

2) **After 3 losing trades in one day, Stop Trading!** *(I want to avoid digging myself in a huge hole.)*

3) **If I get 100 points + profit in a trade, I will move my stop to break-even.** *(If I get decent money in a trade, I will not allow myself to lose money on that trade.)*

4) **Only use a signal to get into the market. Don't just take a shot.** *(I usually get myself in trouble if I have a feeling about the market and act on it. I'm much more successful when I use a chart formation or a technical reason to get into the market.)*

5) **Use The Secrets of Floor Traders Rules. They work!!!** *(This is the course I've putt together for day trading the S&P's. It includes all the techniques that I use to trade.)*

6) **Do not trade on holiday type volume. Too slow bad opportunities. Go outside, watch a movie, whatever!** *(In almost every case, when I trade in these types of markets, my winning trades are much smaller, and my losers are much bigger. It's not worth it.)*

7) **Always act with your best interest in mind.** *(This is something I try and do with each and every trade I put on. I realize that only I'm responsible for my results.)*

8) **Consistently trade on long side above value and the short side below value.** *(I use the Value Area to help stay on the right side of the market.)*

9) **Always look for single ticks to help you execute your trades.** *(This is a Market Profile technique that I use to help me find support and resistance areas.)*

10) **Relax with your trades. If it's not fun and enjoyable, it's not worth doing.** *(This is self-explanatory. If you don't enjoy it, you won't be successful.)*

11) **You don't have to trade everyday.** *(Sometimes I'll just leave the market alone and forget about it for a day. It usually refreshes me.)*

12) **Waiting till the market shows you whether it is one-time framing or not is an excellent way to be patient waiting to find an opportunity to trade.** *(One-Time Framing is a trend following technique that I watch for constantly.)*

Those are the exact rules that I use each and everyday, and it's almost automatic. After a bad day trading, I will look at my rules and see that I did not follow them like I should have. And again, the opposite is true. After a good day, I'll look at them and see that I followed them very well.

I really believe my ability to follow those exact rules is a direct reflection of how much money I will make with my trading. The more I follow them, the better I trade.

I'm quite sure the same thing will happen for you. Although I would say you'll want to come up with your own set of rules. You can certainly use mine as a guide, but the important thing is you must be comfortable with the rules you come up with. I know that I'm very comfortable with my rules. You'll need to do that with your rules. If you're not comfortable, they will be very difficult for you to follow and the odds of you being profitable will be very low.

One thing that is common in trading is the temptation to not follow your rules just this one time. This comes from the very real possibility of the exciting results that are possible. This is the trap that many new traders (and some experienced ones too) fall into. This trap is easy to fall into because many people have a terrible fear of missing out on a big move. A good example would be when you see the Dow Jones up 250 points and you feel as though you must find a way to get long the S&P market even if it breaks many of your rules to do so.

Avoid at all costs getting caught in that trap. Doing a trade because you're afraid of missing out on a big move is not acting in your best interest.

Avoid at all costs getting caught in that trap. Doing a trade because you're afraid of missing out on a big move is not acting in your best interest. I've got news for you, there are big moves almost everyday.

Besides, most people do not think about missing those big moves in a realistic way. When you've missed an opportunity, you have a tendency to think about it unrealistically. You see the bottom and the top of the big move and think to yourself that you would have been able to capture the entire move. I think we all know that isn't likely to happen. But our mind plays tricks on us and says we shouldn't have missed out.

Again, the market doesn't stop moving. If you weren't able to get into the previous opportunity, look for the next one. Don't let your mind play tricks on you.

The more you follow your rules, the more you'll trust yourself and the better your results will be. Remember, only you are responsible for your trading results, good or bad. Having a set of rules will help you get more good than bad.

Chapter 7

FLAWLESS EXECUTION

Many people get confused and think that flawless execution means always selling near the high and buying near the low. It doesn't mean that at all. No, in fact I think it will be very rare in almost all of your trades for you to buy near the low and sell near the high. You don't need to buy the low and sell the high to make money in this business.

What flawless execution means is acting on an opportunity (either getting in or out of a trade) the moment you see that it's an opportunity without hesitation. Unfortunately, this is a lot easier said than done. But that doesn't mean you can't learn to do it.

There are many good technical methods and mechanical systems out there. Even still, many people using these proven methods and systems still end up losing money. The reason is very simple, lack of flawless execution.

Again, flawless execution does not mean having the perfect trade. It means being able to act immediately on the opportunities that you see in the market. Most people think of themselves as risk takers, but what they really want is a guaranteed outcome. But there is a conflict. You can't be a risk taker and still get guaranteed outcomes. They just don't work together.

And that is just the reason that many people hesitate when it comes time to put on a trade or cover an open position. They want the guaranteed outcome, but they realize there isn't a guarantee, so they fail to be able to put the trade on and act in their own best interest.

In trading, there are no guaranteed outcomes. It just doesn't work like that. With every trade you do, you will be putting yourself, as well as your money, at risk. That is something you'll have to learn to live with to prosper in the trading environment. There are no other options. You must learn to feel comfortable with taking risks.

Mark Douglas, author of *The Disciplined Trader*, makes this comparison between gambling and trading: "As a comparison to trading, it is much easier to take risks and participate in a gambling event with a purely random outcome based on statistical probabilities simply because it's random. What I mean is, if you risk your money on a gambling event that you know has a random outcome, then there's no rational way you could have predicted what that outcome would be. Therefore, you don't have to take responsibility for the outcome if it isn't positive."

Trading is different. The future is not random. The movement of the market is determined by various traders acting on their beliefs about the future, and because traders create the future by acting on their beliefs, the result of their actions is not random.

Douglas goes on to say… "This adds an element of responsibility to trading that doesn't exist with a purely random event and that is difficult to avoid. This higher degree of responsibility means that more of your self-esteem is at stake making it much more difficult to participate. Trading gives you all kinds of ways to beat yourself up for all the of the things you should have or could have considered that would have resulted in a more satisfying outcome."

This "beating yourself up" for what you could have done differently strongly contributes to a lack of flawless execution of your trading methods or system. It's easy to tell yourself you should have done this or that differently no matter what the outcome was.

The problem is that's a fight you can't win. In the trading game, you will not be perfect. So beating yourself doesn't make a lot of sense because you're beating yourself up for something that you really can't change.

Now don't get me wrong, I'm not talking about being upset with yourself for making trading mistakes (such as chasing the market, not using a stop order, taking too much risk, etc.). I'm talking about covering a position and then having the market continue your way after you're already out of the market. It doesn't make sense to be upset with yourself for things like that. You don't have to be perfect to make money in this market. Please always remember that.

About the only way you can get good at flawless execution is practice, practice, practice. Just like any skill, it needs to become a habit. The only way for it to become a habit is to do it a lot.

This means you basically have two choices. The first is you can set aside a certain amount of money for your education. You must make a conscious decision to execute your trades without hesitation. Remember, this is an exercise. You really can't worry about losing the money. You must follow your rules flawlessly. The more you do, the easier it will be.

Since this is an educational exercise, I would suggest you would want to trade a smaller market (like the mini- S&P's). Thus, less of your capital will be at risk. Of course, everyone wants to make money, but you really shouldn't worry about that right now. You need to be thinking strictly about executing your trades immediately when you see an opportunity. That is the only result you are striving for, flawless execution. It doesn't really matter whether the trade is good or bad.

This exercise is not going to be easy, so you must be easy on yourself. The more accepting you are of your mistakes, the easier it will be for you to make the next attempt. If you make a mistake, don't beat yourself up. Encourage yourself to try again.

I really think that is one of the biggest problems with traders. They beat themselves up so much for their mistakes it's a wonder that most don't have bumps and bruises after each trading day. You must take it easy on yourself. Most people are harsher on themselves than they would be on their worst enemy. All this leads to is poor trading results.

Remember, the more you get upset with yourself for your past mistakes, the more you'll relive those mistakes and they'll show up in your trading results. The old saying about forgiving yourself (for your mistakes) and moving on is as important in learning to trade as anywhere.

I have one other suggestion on how to learn flawless execution that may be a little easier for some people to handle. This would be especially helpful for any new trader who's still somewhat nervous about risking their money in the market.

Like I said earlier, the only way to learn flawless execution is practice. One of the best ways I know to learning flawless execution without risking real money is to use one of the "simulated brokerages."

Basically, they all work the same way. You open a simulated account (without real money) and you place your trades just like you would with a real account. They have real brokers that will take your orders, give you simulated fills, (according to where the market is trading) and even keep track of your trades by sending your statements.

This is, by far, the best way to learn and practice flawless execution without risking real money. For a newer trader or someone who is having big problems with execution, a simulated brokerage account may be just what you need to practice flawless execution.

The simulated brokerage company that I'm most familiar with is called Auditrack. I've personally used them and was very satisfied that they are about as close to the real thing as you can get. Each order is time stamped, there is slippage on stop orders, and their computer system gives a realistic fill for each order placed.

Again, in my opinion, a person who doesn't want to put their money on the line, but needs to learn flawless execution, this is the way to go. For $150-$250 a month (depending if you want statements faxed daily, weekly, etc.), you can trade through Auditrack and practice, practice, practice. Because that's what it will take for you to be successful with your execution.

Chapter 8

THE USE OF STOP ORDERS

I think any trader, no matter how good their discipline is, should be using stop orders. In all my years, I've never met a successful off-the-floor trader who didn't use stop orders. It will definitely help you act in your own best interest more often than not.

Whenever I initiate a position from off-the-floor, I always make sure I have a stop order in to protect myself. I highly suggest all off-the-floor traders also use stop orders to protect themselves and their open positions. I can't tell you how many times I've spoken to off-the-floor traders who've failed to use a stop order and then lost 20-25% of their account in a single trade with only one contract (in the S&P 500 Futures).

The more you trade, the more you realize what a big part emotional discipline plays in your trading. Like I've said before, being successful really has more to do with acting in your own best interest than it does the technical method or system you're using, which is precisely the reason using stop orders will be so important to your trading.

It really surprises me when I hear people say, "I hate using stop orders!" <u>Stop orders are the off-the-floor trader's best friend</u>. As we talked about earlier, protecting yourself and acting in your own best interest is the only way to be profitable.

Using stop orders to protect your trades allows you to be a little less emotionally involved in your trades. And, as we know, the more you let your emotions get the best of you, the less likely you are to make money.

Some people don't want to use stop orders when trading. For some strange reason, they get caught up in thinking that the market will hit their stop order and then immediately start moving in their direction after they're stopped out. And you know what? This will happen sometimes.

For people who attempt to use mental stops (where they'll just call and get themselves out of the market instead of putting the stop order in the market), the problem comes up when the market does go through their mental stop order, then reverses and starts moving back in their direction. Usually, these people are at a loss of what to do next. And the unfortunate thing is it usually costs them a lot of money, as they do not act in their best interest. They let a losing trade turn into a huge losing trade.

The biggest reason people don't want to use stop orders is because they can't or won't admit they were wrong about which way they thought the market was going. This is about the worst trait you can have. There is nothing wrong with having a manageable losing trade. The difficulty comes in when your losing trades are unmanageable. This can easily happen because you take too much risk on a particular trade by not using a protective stop order.

I think these people are under the impression if they don't get out of the market (by not using a stop order), they can't take a loss because the market can always come back. That idea is attractive to some because it can actually happen like that. The market can come back, no matter how far it was once against you. But I'm telling you, you are asking for a disastrous situation. If you want to act in your own best interest, you will not let yourself get into a situation like that in the first place.

It happens all the time. I talk to people who only planned on risking 200 points on an S&P trade. They didn't use a stop order, and because they didn't have their best interest in mind, they have a trade that is 600-800 points against them, and they're hoping and praying the market comes back. Hoping and praying is not acting in your own best interest. I guarantee you that!

About the only way I know to be a successful off-the-floor trader is to have your stop order in place and let the floor broker get you out of the market if you're wrong. Again, small manageable losing trades are fine. They are part of every successful traders day. If you think you can avoid them, you're wrong. And if you think you can avoid them by not using stop orders, in my opinion, you should just save your money and not even trade. That is just my opinion, but I've been around for a while and I've seen a lot of traders try to trade without stops.

Trailing Stop Orders

Another way you should be acting in your own best interest is to trail your stop orders to lock in profits in your trades. There are thousands of different ways in which to trail your stop orders as the market moves in your direction, but we won't get into all those here. The main thing I'd like you to understand is why it's so important to trail your stop orders.

When you get some decent profit in your trades, you'll want to trail your stop order, first to break-even, and then to hopefully lock in some profit in the trade. This is a very important thing to do. Without doing this consistently (no matter what timeframe you're trading), you will not be successful.

As soon as I get decent profit in a trade, I want to move my stop to break-even. In other words, if I've got a few hundred dollars profit in a (S&P) trade, I'll move my stop to the same price where I got in the market. Thus, if the market starts to come back and take away my profits, about the worst that will happen is I'll scratch the trade, or only lose a few ticks. But, if I hadn't moved my stop to break-even, then not only would the market have taken away the small profit I had, but I could also end up with a loss in the trade.

One of the hardest things to deal with (emotionally) in trading is when you've had a decent profit in a trade and then end up losing money on that trade. This can be very frustrating for an off-the-floor trader. It causes you to make dumb decisions because it is emotionally draining.

This is why I think it's so important to avoid (as much as possible) getting yourself in these situations in the first place. If you can consistently trail your stops to break-even once you get some decent profit in them, you will be a lot better off. You will avoid turning winning trades into losing trades (which is the biggest reason off-the-floor traders fail to be successful).

Whenever I tell people about how important it is to move their stop to break-even, I always get some people telling me that if they left their stop alone, they wouldn't have gotten stopped out and the market would have gone their way. Basically, they are saying that by moving their stop to break-even, they got stopped out. But if they had left their stop in the original place, they wouldn't have gotten stopped out and the market would have gone their way.

Do you know what I say to that? So What!!! That will happen sometimes. But many more times you will end up scratching the trade instead of taking a loss. And that is how you protect yourself. In this business, protecting yourself and acting in your own best interest is so much more important than taking a chance. It's not even close. I can't stress that enough.

"In this business, protecting yourself and acting in your own best interest is so much more important than taking a chance. It's not even close. I can't stress that enough."

And remember, the same idea is true when the market continues to move in your direction. You'll want to continue to trail your stop order as the market continues to move your way. Again, people are afraid of getting stopped out and then having the market continue to go in their direction. That will happen sometimes. But that is what having yourself protected is all about. You must concentrate much more energy on keeping yourself out of trouble (in other words, out of losing trades that were winning trades at one time). If you keep yourself out of the bad losing trades, the winning trades will come.

Chapter 9

HOW TO DEAL WITH THE MARKET WHEN IT NEVER STOPS MOVING

The market is always moving. It never stops. It may slow down and pause for a little while, but it never stops moving. Even when the markets are closed, the prices are still moving, as they can certainly open up at a different price than where they closed the night before. (This is more true than ever before, as many markets now trade almost 24 hours straight.)

The three simple ideas of getting in, getting out, and not trading become even more difficult because there really is no end. Only you can decide when to end it.

In a profitable trade, you need to decide when you've made enough. Many people let greed get the best of them. These people get caught up in thinking that there is never enough, no matter how much they've made in the trade. If they've made a $500 profit, they get upset with themselves that they didn't make $1,000. If they've made $5,000, they want $6,000. A truly greedy person can never be satisfied. No matter how much they have in a trade, it will never be enough.

On the other hand, with a losing trade, a greedy person will not want a losing trade to exist because it represents failing. So this person may act as if it doesn't exist by convincing themselves the market will come back and reward them with a winning trade. It just hasn't happened yet. These are very dangerous characteristics for any trader to have. Without question, these traits will put you on the road to failure faster than you can imagine. A truly greedy person cannot succeed in the trading environment.

The question "how much is enough?" causes many people to deal with some issues that are very important to them. But these issues have nothing to do with the movement of the market or the potential of the market to move in a certain direction. These issues are:

1) What or why I need the money?
2) Can I really afford to lose this money?
3) How confident am I in my ability to trade?
4) How important is this money to me?

These issues are difficult to confront because they will contaminate your opinions and observations of the market. They are personal issues that you are concerned with and many times will have influence on your market decisions, but they shouldn't because they have nothing to do with how far the market will move.

Let's think about this for a second. For example, does you only having $4,200 left in your account have anything to do with whether or not the market will move in a certain direction? No, of course not. Does your wanting money to buy that painting you've had your eye on have anything to do with whether or not your current short position will make you enough money to buy that painting? Definitely not!

But the problem is many people take those factors into account when they trade. These issues become factors as to whether or not to get in and out of the market. And as you can see, that is a big mistake. The market doesn't know or care whether you need the money or not. It doesn't care or want to know about the reasons you are trying to make money.

This is why you'll see many successful traders say to only trade with money you can afford to lose. In other words, you will be in the best possible position if you aren't relying on the money. Thus, those issues that contaminate our outlook on the market will be much easier to deal with.

But, on the other hand, if you are trading with money that is meant to pay the mortgage and your kid's college tuition this month, these issues will be very apparent and will undoubtedly cloud your judgment and cause you to not see opportunities in the market as clearly.

The reason to put on a position in the market is because you feel it has the potential to move a certain direction and you think that you can capitalize on that move. That is really the only reason to get into and out of the market. Getting in the market because you need money to take a vacation is just not going to work out ever! Please remember that.

Making it even more difficult is the fact that the "game" only begins when you enter the market and only ends when you get out of the market. This is a lot of freedom for any individual to have. You are free to participate whenever you like.

You can get in for whatever reasons are good enough for you. You can get in the market because you see a reliable chart signal, or you could get in because it just started raining outside. No one will tell you not to participate if you want to for whatever reason you feel is right. Or like we just talked about a minute ago, you could get in because you think this trade will make you enough money to take your family to Disney World. Nobody will stop you from doing the trade.

It's obviously the same thing when getting out of a trade. The "game" only ends when you do decide to end it. Other than your broker getting you out of the position because you're out of money, you will have decide when enough is enough and it's time to exit. Again, that is a lot of freedom for anybody to have. In most cases, especially for new traders, we usually don't get to experience that kind of freedom in everyday life.

"The most important thing you can learn here is you'll need to be making your market decisions strictly on what the market is doing and showing you. This is the only way to be successful. If you are making your decisions on outside factors (like how badly you need the money, or what you need the money for), your judgment will be clouded and it will be much more difficult to see good opportunities to profit."

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Chapter 10

BEING OBJECTIVE

Do you believe anything can happen in the market at any time? This is what being objective is all about. You need to constantly be thinking that the market can do whatever it wants whenever it wants at any time. Many people get into trouble by thinking the market can't or won't do certain things.

Many people will put mental limits on where they think the market should go. These mental limits can have some very bad results. I remember a time a few years ago when I was in the S&P's, there were about 4-5 minutes left until the market closed. One trader told me he thought the market was going to break another 500 points in the S&P Futures. I said there was no way this was going to happen with only 4 minutes left until the market closed. He said that it didn't matter if there was only 1 minute left, for the S&P's (or any market) to move, all it has to do is be open. And you know what, he was right. In the next 4 minutes, the market dropped 500 points just as he predicted. If I hadn't limited my beliefs, I could have made money on that trade. But unfortunately, I was not objective enough to believe the market could really break that far in that short amount of time. My limited beliefs prevented me from making money in that trade.

But in the long run, that situation helped me to be more objective in the future. It was definitely one of the stepping stones for me to realize anything can happen at any time in the market. All it has to do is be open.

If you believe anything can happen at any time, then you release yourself from distorting market information. When you distort market information, you are obviously not acting in your own best interest. For example, let's say you usually look at a certain indicator to help you find profitable positions. Let's say this indicator got you into a short position a little while ago. You've been sitting with this position and the indicator is still telling you the market looks like it should go down. But the problem is the market is not going down.

And now some of the other tools you use are starting to look like the market is going to start to rally (go up). But your indicator still says down. So you ignore the things that are saying the market is going higher. Now you have conflicting signals. As I'm sure you know, most people will not be objective. They will hope that the indicator is right and the other stuff is wrong. In fact, they will probably try not to look at the stuff that says the market is going higher, or they will dismiss it as not having as much weight as the indicator because it doesn't conform to what their expectations are.

Normally, if they weren't in a trade, they wouldn't even put on a position with these conflicting signals. But since they are already in a trade, they distort the information right in front of them and hope and pray that the market does what they want it to.

But is that the objective thing to do? No, of course not. The objective thing to do is to get out of the position and reevaluate. (Or at the very least, move your stop order very close to where the market is trading to take less risk.) That would be acting in your own best interest. But instead, most people ignore the information and hope and pray that the position will work out the way they think it should.

This happens because most people get locked into their opinions of the market and have a lot of trouble facing the fact that they could be wrong. It's O.K. to be wrong about which way the market is going. But it's not O.K. to be wrong about the market direction and ignore signs that it's time to get out and start over. That lack of objectivity will kill your trading.

To be objective, you cannot put your demands and expectations on the market. First of all, you cut yourself off or distort vital information that the market offers to help you decide which way it's going. Second of all, you don't have enough power to control the market to make it live up to your demands and expectations. Thus, you must learn to be objective in your market observations.

This doesn't mean that you can't have an opinion about the market. It only means that your opinion can just as easily be wrong as it is right. And you need to be completely ready and comfortable for it to be wrong just as much as it could be right. You need to release yourself from having to be right. The more objective you are, the less you will distort the information that you receive.

Mark Douglas, author of *The Disciplined Trader* states there are seven characteristics of an objective person. Here they are so you can recognize it when you've achieved it:

1) You feel no pressure to do anything.

2) You have no feeling of fear.

3) You feel no sense of rejection.

4) There is no right or wrong.

5) You recognize that this is what the market is telling me, this is what I do.

6) You can observe the market from the perspective as if you were not in a position, even where you are.

7) You are not focused on money, but on the structure of the market.

If you can see any of the above qualities in yourself, you're on the right road. Again, you need to release yourself from the need to be right. If you constantly need to be right, you are unfortunately in the wrong business. To be a successful trader, you don't always need to be right, but you always need to be objective.

Chapter 11

BEING AN ACTIVE WINNER AND LOSER

Some people believe trading is like gambling. It's not. In a gambling game, you have to participate to lose and do absolutely nothing to stop losing. If, after one bet, you don't put another bet on the table, you will not lose. There is also no way you'll win. But, at that point (if you don't place another bet), there will be no risk.

Obviously, in trading it's very different. You must participate to get in a trade, and you must participate (in other words do something) to cut your losses. If you do nothing, the possibility exists that your entire account can be wiped out. And even that won't stop your losses if you still do nothing. (Although, at that point, your broker will most likely participate for you by getting you out of the market.)

In gambling, you know exactly what your risk is and the game always ends before the next one starts. But in trading, you don't know beforehand exactly what your risk is. (You may have an idea, but even with stop orders there is always the possibility of slippage.) But the real big difference between gambling and trading is the event never ends as the market keeps moving.

A good example of an active winner and loser might be a person playing blackjack at a casino. You must make a conscious choice to play and risk your money. And when the game is over, the rules force you to be an active loser. If you want to play and risk your money again, you must place another bet. Without another bet, you can't be a loser again. You must actively participate to lose and do nothing to stop losing, the exact opposite of trading.

This is why (in trading) being an active winner and an active loser is so important. But because the event never ends, it's easy not to be an active winner and loser. There is always the possibility (no matter how slim) of the market coming back in any trade you're in. You don't need to actively participate to get back your losses, you could simply stay with the trade and let the market come all the way and give you back your losses.

Because of this reality, there's always a constant temptation not to cut your losses. Cutting losses for many traders is painful. So many choose to avoid the pain and not be an active loser. They simply think they are in a winning trade that has yet to show profit yet. Or we will look at only the evidence that says our position is right and ignore the rest of the evidence against that notion. These are obviously traits of someone who is not an active winner and loser.

But being an active loser (as well as an active winner) is the only way to be successful. Again, the temptation to not cut your losses is always there. But it will do nothing but get you in trouble. Successful traders know that cutting your losses actively, before they get too large and unmanageable, is the only way!

Someone once told me, “To make money trading, you can’t sit on your hands!” Basically, what that means is you need to do things like getting yourself in and out of winning and losing trades to be successful. In other words, the way to make money trading is not only act in your best interest, but to actually act and do things to help your trading. That means when a trade is going against you, you really can’t sit on your hands and do nothing. You must cut your losses instead of hoping the market will come back.

And when a trade is going your way, you must act in your own best interest by being an active winner. Trail your stops to lock in profits, cover your position when it reaches your target instead of looking for a home run, etc. etc. etc. This is what being an active winner and loser is all about. Don’t sit on your hands.

Chapter 12

PAPER TRADING AFTER A LOSS

My good friend Alexander gave me this little tip a short time ago, and I think every trader can learn from it. You see, Alexander is a successful off-the-floor trader. One of the main reasons he is successful (when others are not) is because he uses some excellent techniques to keep him disciplined with his trading. I'm going to tell you about one of those excellent techniques that you can easily incorporate into your own trading.

Here's the problem I see with many off-the-floor traders: Whenever they have a losing trade (whether it's a $300 losing trade or a $3,000 losing trade), they tend to want to get the money back right away (preferably in the very next trade). But what this does is put you in a very poor frame of mind.

Think about it for a second, whenever we lose something (especially money), we want it back immediately. On a subconscious level, we are almost "desperate" to get the money back as soon as possible. As I'm sure you realize, this kind of thinking will usually prevent you from being successful on your next trade. And then if you end up making a poor decision on your next trade, you'll have two losing trades in a row, and the cycle will most likely continue until you can get yourself in the right frame of mind.

That is why I'm going to suggest you try something new. I think it may help you a lot. After your next losing trade, here's what you should do: PAPERTRADE! That's right, have your next trade be a paper trade. Do the trade as you normally would. The next opportunity that comes up, don't really do the trade, just do it on paper.

But you must make it as real as possible. Write it down like you would a normal trade. Even pick up the phone and pretend to put the order in with your broker. Then follow the trade as you normally would. Remember to put your stop order in and (hypothetically) trail your stop order if the market does move in your direction.

If you're going to do this, it's important that you take it seriously. If you're just going to look at the market and say I would have done this or that, you're just wasting your time.

If you're going to do this, it's important that you take it seriously. If you're just going to look at the market and say I would have done this or that, you're just wasting your time. It must be real, whether it takes five minutes and then you get out of the paper trade, or it takes two hours as you continue to trail your hypothetical stop as the market moves in your direction. You must take it seriously for it to help you.

This will do two positive things for your trading: 1) It will help your discipline as you learn you don't need to get back that losing trade immediately to be successful. 2) More importantly, this will give your subconscious some time to "let go" of the losing trade. In other words, you feel the most (emotional) pain right after the losing trade. But as time passes, the emotional pain goes away and then it's easier to find successful trades.

So doing this paper trade will give you some time to forget about the losing trade. And again, if you give yourself some time, you won't be as anxious to chase the market and have two bad trades in a row. It works. Give it a try!

Chapter 13

SELF-IMPROVEMENT

If you want to develop into a successful trader, you will need to engage in some self-improvement. If you don't already, you need to realize the market is always right and you can take money out of the market as long as you don't impose a rigid mental structure on its behavior. In other words, don't get locked in an opinion and refuse to admit that you could be wrong about the market direction. Every successful trader realizes that he could just as easily be wrong as being right.

You need to let go of the fear of being wrong so that you can watch and observe the market from an objective clear viewpoint. If you can't let go of that fear, it will cause you to make mistakes and poor trading decisions. This is because if you concentrate on your fear, it will cause your subconscious to act out that fear and give you the losses you're trying to avoid. It will happen this way every time. That is just the way our subconscious mind works. What you think about is what you get. (We will talk much more about this in Section 3.)

To improve as a trader, you will also need to set some defined trading rules to guide your trading behavior. You must learn how to adhere to these rules no matter how tempting it will be to break them. And trust me, it will be tempting to break them often. The fear of missing out will cause you to want to break your rules (especially in the beginning). But you must avoid breaking your rules no matter how tempting. Your rules are what will keep you acting in your own best interest. Certainly, breaking your rules will not be acting in your best interest.

The most important thing about self-improvement is to learn to be objective and avoid indulging in illusions. On the other hand, if you refuse to acknowledge your mistakes by blaming the market or some other factor, then you obviously are indulging in illusions. If that's the case, improving yourself will be very difficult if not impossible.

To improve yourself, you must be honest with yourself. Only you are responsible for your results. Blaming the market, the broker, the floor traders, whatever, is just going to delay your self-improvement. The less illusions we believe in, the clearer we can see what is really going on in the market and inside ourselves. The clearer things are the more we will learn and grow. It will then be much easier to make good market decisions regardless of the circumstances, as you get in the habit of acting in your own best interest. And just like bad habits, good habits can become just as strong and powerful. But it takes time and effort.

Nobody likes to admit their mistakes, but this is exactly what we need to do to improve ourselves. If we don't confront our mistakes, we will simply keep repeating them as they become a stronger and stronger habit. We obviously want to avoid that situation.

Taking responsibility for our actions is the first step to self-improvement. Realizing whatever results we get were because of the decisions we made. Nobody else is responsible. Blaming others just slows the learning process. If you trade poorly and lose money, it's your fault. But, on the other hand, if you trade well and make money, it's also your fault.

You will improve yourself a lot when you simply admit that you are the only one who's responsible for your results. You must confront the conditions that exist in reality (not the illusions). Identify what you need to learn or change to be more effective, and then get on the daily task of improving yourself. It's not as hard as you think, and learning to improve yourself is always acting in your own best interest.

<u>Section II</u>

Skills You Don't Need

Chapter 14

THE WORST MISTAKE YOU CAN MAKE

I've lost count on how many traders I've seen this happen to. To be honest, it's probably happened to almost every trader out there at some time or another. Unfortunately, for many it could be the beginning of the end.

As we all know, to be successful at trading we need to come up with a certain set of rules we will follow each and everyday. These rules are extremely important as they give our trading structure and help us to decide what to do and, just as importantly, what not to do.

If you have good solid trading rules and you follow them consistently, then making profits and avoiding large losses should be an attainable goal. But, on the other hand, if you don't follow your rules, you will receive many more losses than you would otherwise. And, here's where the big mistake comes in. I've seen it happen to many traders.

If you don't follow your rules and the trade ends up being a winner, you will most likely breathe a sigh of relief when it's over. But in reality, you shouldn't be relieved. You may have just made an error that will cause you to fail faster than any other trading mistake you could've made.

You see, if this trade (where you didn't follow your rules) works out, then you will be more likely not to follow your rules the next time. Again, this is the worst mistake you can make. This will cause more damage to your trading account than any other error you can make.

And the worst thing is it's so tempting not to follow your rules just this one time. But you must learn that there can't be a "just this one time." You must follow your rules every time, without exception.

Like I said before, I've seen this happen to many traders. For example, I remember one trader who usually averaged about $500-$1,000 a day in the S&P Futures. He was going along fine just trying to make his goal each and everyday, but he got greedy and said there had to be a way he could make more profits. (I'm not sure what was wrong with $500-$1,000 a day.) He decided his rules were too restricting and he was missing many opportunities. So he decided that since he was doing so well, he would relax his rules somewhat so he could get into more trades and hopefully make more profits.

Well, he ignored his rules for a couple of days. Because of that, he ended up taking a lot more risk than he was used to. But he thought it was no big deal because he was now averaging about $2,000 a day for a week. Not following his rules was making him more money for now. But I'm sure you realize what happened.

Within the next month, he lost everything he'd made for the last four months (almost $60,000), and was now down money for the year when he was on a pace to make about $200,000. This happened not because he didn't follow his rules. No, it happened because he didn't follow his rules and it worked out. So it gave him a false confidence that he didn't have to follow his rules.

I'm sure you will go through a time in your trading career (if you haven't already) where you will be tempted to not follow your rules just this one time. I can't caution you enough how big of a mistake this can be, especially if it works out and you make a profit. Making money on this "rule-breaking" trade could very well be the most expensive profit you ever make. It then can easily reinforce you to not follow your rules the next time.

It will always be tempting, but avoiding the temptation and resisting making the worst mistake you can make will be much more profitable.

Following your rules consistently is the only way to be a successful trader. If you decide to not follow your rules just this one time, it won't be long before you are part of the 80-90% of traders who lose money. Don't let yourself become a statistic. Always follow your rules. Don't let there be a "just this one time."

Chapter 15

REVENUE TRADING

Revenge trading comes from one thing and one thing only, blaming the market for your loss. But let's think about this realistically. Who is to blame when you have a loss? Actually I think blame is the wrong word. The question should be who is responsible when you have a loss?

Of course, the correct answer is you. The market didn't cause you to have a loss. So getting mad at the market and trying to seek revenge really doesn't make a whole lot of sense. And if you are responsible for your actions, then when you seek revenge for the loss you received, you are actually trying to get revenge against yourself. And that definitely doesn't make any sense. Why would you want to seek revenge against yourself?

But that is exactly what you are doing when you get mad at the market and try to get your losses back in almost a vengeful way. If you are frustrated and angry, you are just going to make trading mistakes that will most likely even cost you more money.

Many people are confused at why revenge even comes into play during trading. But it's really very simple. Think about gambling, for example. You can only lose what you decide to bet. When you bet the money, it's easy to take responsibility for your losses because most likely you had to actually physically place the bet on the table, and you can only lose what you decided to risk.

But obviously, in trading, it's much different. If you don't or can't get out of a losing trade, you can lose much more than what you originally planned to lose. Even with stop orders in the futures markets, there can be slippage involved that will cause you to lose more than what you planned. Then it's easy to blame the market for those losses. The markets took your money. This is definitely where the revenge factor comes into play.

Let's look an example: Let's say you lose 300 points in the last trade. Will 100 points profit be enough in the next trade? The market may be clearly telling an objective observer that's all there is in this trade (100 points). But to the person who just lost 300 points (especially if they intended to risk less than 300 points), many times 100 points won't be enough because you're not getting back everything you lost. You will need a lot closer to 300 points to feel right again.

But let's think about this realistically. Does one trade really have anything to do with the other? The market doesn't know or care how much you made or lost in the previous trade. It has no bearing whatsoever on your next trade or your next fifty trades. That is one thing you always need to keep in mind at all times.

One trade has nothing to do with the next trade. They are not related in any way. So attempting to get back in one trade what you lost in the last trade doesn't make any sense. You can only profit from what is available in the current trade. And again, it has nothing to do with the trade you were just in.

When you feel compelled to get back what you just lost, you try and take on the market, almost as if to challenge it to a fight. That is certainly the wrong attitude. You want to flow with the market, not fight it. You can't fight it, because you can't win that way. You can't change what the market will do. You can only change yourself.

Mark Douglas states it very clearly…. "The market can't take anything away from you that you don't allow; if you lost money or lost more than you intended to risk, you gave your money to other traders. Ultimately, however, revenge creates an adversary relationship with yourself. If you're the one who gives your money to the market, you are also the one who gives yourself money out of the market. If you are angry with yourself for letting the last trade get so out of hand, whatever the market is offering you "now" in terms of an opportunity, won't be enough. From a psychological perspective, you won't take the opportunity for a profit or otherwise because you haven't accepted the last trade as being all right. In effect, you will be denying yourself the current or next opportunity to punish yourself for the past mistake. In reality, you can't get back at the market, and a belief in revenge only allows you to get back at yourself."

I think it's probably obvious to most people that trying to take revenge on the market is bad. But I hope you now realize that when you are trying to get revenge on the market, you are really only taking revenge on yourself.

Chapter 16

WISHING, HOPING, AND PRAYING

Remember earlier we talked about how important it is to be an active winner and loser. In other words, you must act to take profits and act to get out of losing trades. You cannot be passive with the market, and that's exactly what wishing, hoping, and praying does. It makes us passive.

In general, there is nothing wrong with wishing, hoping, and praying. We all hope and wish certain things will happen in our lives and that's fine.

But there is no room for it in trading. The problem comes when we wish, hope, and pray that the market will do what we want it to. This puts us in a passive relationship with the market. Thus, we don't become an active winner and loser. When you wish, hope, and pray that the market will do a certain thing or move in a certain direction, you are shifting the responsibility to the markets.

But as you already know, the responsibility should not be with the market, but within ourselves. In other words, only we are responsible for the results we receive. Hoping, wishing, and praying that the market will do what we want is very harmful. Many times it paralyzes us and prevents us from doing what's in our best interest. This happens because what the market is doing doesn't agree with what we want it to do. And many times our wishing, hoping, and praying causes us to be locked into our opinion of the market.

The one thing you must remember is that our opinion isn't necessarily right about the market. To make it even more difficult, our opinion could be right, but we just might be too early. But that's O.K. You don't have to be right all the time to be successful. You just can't get so locked into an opinion that you are wishing and hoping the market moves a certain direction. The market will only move in whatever direction the buy and sell orders cause it to move. Unfortunately, your wishing and hoping will have no bearing on which direction the market moves.

If you find yourself wishing, hoping, and praying the market will do something, this is an excellent indication that you do not have a good grasp of the current situation, and it's definitely time to exit the position and re-evaluate.

It's very easy to get in the habit of wishing, hoping, and praying (especially for newer traders), but as you can see, it's a big mistake. Obviously, you'll want to avoid it at all costs because it will never be acting in your own best interest, and it will always be difficult to succeed in that passive relationship.

The one thing that makes all of this a little confusing is that intuition (that little voice in your head that tells you what to do) feels very much like wishing, hoping, and praying. In *The Disciplined Trader*, Mark Douglas explains it very clearly:

"However, there is another less obvious problem with avoidance, especially with respect to wishing and hoping. A true intuitive impulse – a deeper level of knowledge and wisdom that will indicate the next most appropriate step to take – that will always be in our best interest feels very much like wishing and hoping. In other words, it is very difficult to distinguish between the two, making it very easy to mix them up, which is one of the reasons why we find it so difficult to trust our intuition. The way you can know for sure that you are getting a true intuitive impulse is to clear out of your mental environment anything that would cause you to wish and hope that something will happen instead of confronting the issue head on to find out what needs to be done. You can wish and hope that the market will come back, or you can cut your loss and make yourself ready to take the next opportunity requires that you change anything in your mental environment that would cause you to avoid confrontation and consequently wish and hope. The less cause you have for wishing and hoping that something will happen, the more you will know that when you get that certain feeling, it is a true intuitive impulse, and the more confidence you will have to follow it. Intuition will always guide you in the most appropriate way to fulfill your needs."

"You can wish and hope that the market will come back, or you can cut your loss and make yourself ready to take the next opportunity."

Chapter 17

DOUBLING UP: ADDING TO A LOSING POSITION

As we've talked about so far, the most important thing you can do is keep your risk to an absolute minimum. I can't say it enough. Minimizing your risk is 100 times more important than finding winning trades. (And finding winning trades is important too, so I hope this shows you how important it is to limit the risk.)

Then there is the habit that some traders get into that can be very detrimental to your trading. There is nothing that can add more risk to your trading than adding to a losing position. But nevertheless, traders do it every single day. The main reason this happens is the same reason most other trading problems come up. Most traders do not want to admit they're wrong. By adding to their losing position, they give themselves another chance to not be wrong.

But if the key to successful trading is keeping the risk to an absolute minimum, then how can adding to a losing position help a trader? The answer is it can't! This is very similar to what we talked about in Chapter 14 (The Worst Mistake You Can Make). The real problem is when doubling up (adding to a losing position) works out and you end up taking a profit on a trade like this. This validates a very dangerous situation and could possibly tell you it's O.K. to do it again next time. But the next time could be the time it takes a big chunk out of your account.

"The only reason to get into a trade is if you see an opportunity and you feel the market has a good chance of moving in your direction. But the reason people usually add on to their losing positions is not because they see another opportunity, but because they don't want their first opinion to be wrong."

The only reason to get into a trade is if you see an opportunity and you feel the market has a good chance of moving in your direction. But the reason people usually add on to their losing positions is not because they see another opportunity, but because they don't want their first opinion to be wrong. They feel if they average out their price, they have a better chance of not being wrong. But, in my opinion, that's the wrong attitude to be successful. I really feel most people add to their losing positions to avoid having to take responsibility for being incorrect about the current market direction.

I don't want you to get the wrong idea. I don't think scaling into a position is the wrong thing to do. If you have a plan to put on more than one contract at different price levels, I think that's fine. But what I'm talking about is when a trader doesn't have that kind of plan. They simply decide to add to the position as it's going against them. This is a mistake.

And like I said a minute ago, it could turn out to be an even bigger mistake if it works out, because that situation tells you it might be O.K. to do it the next time. And I promise you it will hurt you much more than it will help you. I've seen it happen thousands of times. I've done it to myself enough times to know it will not work out in the long run.

Now, on the other hand, I don't have any problem at all adding to a winning position. In fact, I think in many cases adding to a winning position is an excellent idea. I guess the basic idea is it's O.K. to add to your position when things are going your way, but it's not O.K. to add to your position when things aren't going your way. That is a good rule to have.

Again, this just goes to the idea of acting in your own best interest. And, if adding to a losing position is a way to avoid admitting that we were wrong about market direction, then it would just go to show you that doing it (without a plan) is simply not acting in your own best interest. This is because if we want to act in our own best interest, we must be willing to admit that we are wrong, instead of avoiding it and making things worse.

Chapter 18

GREED

It's so easy to be greedy in this business. It's easy to think whatever you get, it's not enough. If you have 200 points profit in a trade, you want 300 points. If you have 300, you want 400. The lack of being satisfied is a big reason why many people have trouble succeeding in trading.

Maybe the way to avoid being greedy with your trading is to find out why it's so easy to be greedy with the markets. Greed stems from a belief that there is never enough or there won't be enough. When the market is continually moving, isn't it always possible to get more out of a trade? A greedy person will never be satisfied, they will always want more no matter how much they have. It seems the reason people are greedy when trading is because they take non-market factors (like how badly they need the money, what they need it for, can they afford to risk it, etc.) and apply them to the market and their trades.

But it doesn't really make sense to do this because those non-market factors have nothing whatsoever to do with which direction the market is going. So to take those factors like I want to use this money to buy a bigger house or I need this money to pay my bills. While those things may be true, they don't have anything to do with which direction the market is heading. So letting those things control your trading decisions makes you greedy. It makes you want more than the market may be offering, and it influences you into not acting in your own best interest.

Thus, you can easily be tempted into thinking there is a lot more in a particular trade just because you want more money and that pushes you into wishing and hoping. And, as we discussed a little while ago, that is also not acting in your own best interest. Wishing and hoping will not make you any money.

You may remember when Michael Douglas in the movie Wall Street said, "greed is good!" Well, you know what? He was way off. Maybe it sounds good in the movies, but it's definitely not good in trading. In my opinion, being greedy will shorten your trading career faster than any other mistake you can make.

Chapter 19

FEAR

Many times we can sabotage our own trading because of our fears. In many cases, fear is good and helpful in our lives. But in trading, it can really be harmful.

Fear helps us avoid things in the environment that we perceive as threatening. It's important to note that what we perceive as threatening may not necessarily be threatening. We just perceive it as threatening. And as far as our minds are concerned, it is a real threat.

A good example is offered in *The Disciplined Trader*. A child severely bitten by a dog will quite naturally associate all dogs with the threat of pain, and consequently generate an intense fear or even terror whenever he encounters any dog in the future. The child's fear of all other dogs other than the one that bit him is real. He has no way of making a distinction between a friendly and a dangerous dog because his personal experience leads him to believe that all dogs are dangerous. That is his truth about the nature of the environment. However, his truth is not all the environment has to offer in the way of experiences in relationship to dogs. Not every dog that exists is dangerous. Quite the contrary, very few would be considered threatening; most see a child and want to play.

Now, in every chance encounter the child has with a dog in the future, he will create an experience of terror, regardless of the disposition of any particular dog he happens to run into. If a dog makes any movement toward the child, the child will perceive that movement as an actual attack when all the dog wanted to do was play or be petted. In fact, the child could become so afraid of being attacked that he will devote most, if not all, of his attention to scanning the surrounding environment for dogs. Eventually, his senses will become attuned to picking up their sights and sounds, and every time he sees or hears one, he will create another terrifying experience that just reinforces his fears. His focus of attention will attract to his attention the object of his fears so that he can avoid what he has learned is threatening. The problem is that what he has learned is erroneous in relationship to the conditions that not all dogs are dangerous. Not knowing that, he will naturally believe that his terror is coming from outside instead of inside him. In effect, his fears are acting on his perception to create the very experiences he is trying to avoid by causing him to hone in on all the dogs in the environment.

Do you see how the fear of the young child could be similar to the fear that we could experience during trading? When we focus on our losing trades, mistakes, etc., we give our subconscious mind powerful directions. We could then easily end up with those same losses that we are trying so hard to avoid. What we focus our attention on is usually what we get.

It's not necessarily as easy as focusing our attention on winning trades and proper trading mechanics to get us to be successful. But it's not that far off either. You see, if you do continually focus (intensely) on your mistakes and poor trading decisions, you are more likely to end up with more of the same. Your subconscious sees the mental pictures you are giving it and acts out on the directions that it is receiving from you. That is how the subconscious works. It takes the mental pictures that you give it (like worrying about getting bit by a dog, or worrying about trading mistakes you've made in the past) and does its very best to act out these directions on your behalf.

As you'll learn in Section 3, your subconscious does not care if you are giving it directions that are not in your best interest. It simply attempts to follow the information it is given regardless of whether or not is really helpful or not. Just like in the dog-biting example, the child sent directions to his subconscious that all dogs are threatening to him. Two things are important here. The first one is that the information is not necessarily true, obviously not all dogs are threatening. In fact, most are fun to play with and would be very enjoyable for the child. And the second important thing is that this information is not helpful to the child (obviously the child would be happier if he were able to have a friendly relationship with most dogs than to be afraid), but nevertheless, as far as the child is concerned, the information (that <u>all dogs</u> are threatening) is very real and true.

There are still other ways our fears cause us problems in our trading. Remember our fears act as a warning mechanism to help us avoid what we believe to be threatening. One way many people do this is to avoid information that would be threatening or against our current opinion. Instead of clearly seeing all the different pieces of information that would help us make good trading decisions, we do just the opposite. We ignore important pieces of information that would be threatening to us. When trading, this can be very, very dangerous and it will never help us act in our own best interest.

When we trade with fear, we can easily block things out. For instance, if we are in a trade and the market is offering us information that would indicate we are right or information that would indicate we are wrong, what information do you think we will focus on? We obviously put a lot of weight in the information that will make us right and many times ignore the information that is telling us of other possibilities. This kind of thinking can be very dangerous for any trader because, after a while, the threatening information can become so overwhelming that can simply not ignore it any longer. The only way to relieve the stress and anxiety will be to get out of the trade.

A winning trade will be handled in the opposite way by a fearful trader. His fear of losing will cause him to focus on what the market can take away from him in his current winning trade. Remember, in a losing trade, the fearful trader will focus on only the information that supports his current position and ignore other factors that may not agree with his opinion.

But in a winning trade, the fearful trader will do the opposite. He will ignore any information that states the market has potential to continue in a profitable direction. He will be so focused on information that will confirm his fears of the market taking the profits away, that he will exit the trade early regardless of the profit potential left in the trade. And it gets even worse if the market does go his way after he exits the trade. He finds it very easy to agonize over why he couldn't stay in the trade a little longer. He certainly doesn't realize that it was his fear of losing that caused him to get out of the trade and leave that money on the table.

These are the main reasons why most traders cut their profits short and let their losses run. In a winning trade, a fearful trader will focus his attention on information that the market is going to take his profits away. And in a losing trade, a fearful trader will focus his attention on anything other than what would indicate this trade is a loser.

Obviously, this fear will sabotage your trading because it causes you not to act in your own best interest. To prevent it, we must learn to trade without fear. To trade without fear, we need to completely trust ourselves to know we will always act in our own best interest.

So to be successful, you need to focus on different things than the majority of traders do. Letting your losses run and cutting your profits is what most people do. You need to do the opposite, and to do it you need to change your thinking. In Section 3, we will learn to do just that.

Section III

How To Improve Yourself

Chapter 20

WHAT IS PSYCHO-CYBERNETICS AND HOW CAN IT HELP YOUR TRADING AND YOUR LIFE?

Introduction (From *Zero Resistance Living* by The Psycho-Cybernetics Foundation, Inc.)

A "science" can be defined as a tested, proven system of knowledge that can be used to produce predictable, accurate results. The science of navigation allows us to calculate exactly where we are anywhere on earth or in space and to accurately predict where our destination is, and when we will arrive at it. The science of chemistry makes possible new compounds and products that enhance our health, nutrition, safety – every area of our lives. With a single bone, the science of archaeology can reconstruct the world and life of an animal that died millions and millions of years ago. The sciences of aeronautics and computers make it possible to maneuver an unmanned space craft millions of miles away with pinpoint accuracy and to broadcast a detailed photographic record of its journey. So a science can be thought of as a system of information so dependable and true that it can be used to make life better.

Psycho-Cybernetics is the first science of human development – a system of knowledge that will allow you to make accurate, predictable changes in how you think, how you feel, what you do and the amount of success and enjoyment you get out of life. Psycho-Cybernetics moved human development out of the realm of wishing, hoping, and undependable techniques into the realm of predictable, positive results.

You'll find no wishing and no hoping in Psycho-Cybernetics. Psycho-Cybernetics is based on scientific knowledge of how the human brain and nervous system work together to produce thinking, attitude and behavior. The underlying principles have been tested and proven in countless experiments in laboratories and research institutions around the world. And the practice of Psycho-Cybernetics has been proven successful by the millions of people who have used it to change their lives in remarkable ways over the last thirty years.

Psycho-Cybernetics works at a fundamental level, and the changes it produces effects all areas of life. Some of the following items will be beyond the scope of this book, but Psycho-Cybernetics has many uses for improving life beyond the trading arena. The more you learn how to master Psycho-Cybernetics, the more you can expect to:

1) Build a strong, positive self-image that expresses the real you, the best you.

2) Set clear goals and achieve them predictably.

3) Stop seeing your mistakes as failures and actually learn to use your mistakes as valuable

feedback that guides you to your goals.

4) Be more productive and successful financially and in your career.

5) Forgive others and yourself and wash away resentment that take the joy out of living.

6) Learn how to relax and stay relaxed.

7) Learn how to deal with anger, even how to use it creatively.

8) Learn how think more clearly.

9) Feel good about your life and yourself all the time.

10) Learn how to improve your relationships with everyone in your life – your family, your friends, coworkers, and especially yourself.

11) Feel a sense of overall satisfaction, fulfillment, and peace as you are bringing out the best of yourself each day.

Psycho-Cybernetics will not produce these changes overnight. It takes time to learn the new ways of thinking and acting so that they become automatic in your life, but you'll begin to experience positive results almost immediately.

Psycho-Cybernetics is easy. You'll see that the techniques do not involve willpower or difficult effort. The exercises and methods of Psycho-Cybernetics utilize your creative imagination in a relaxed, playful way. They're simple to learn and fun to do, and like any skill, the skill of becoming your best self grows easier with practice.

The word "cybernetics" comes from a Greek word, which means "helmsman, a person who steers a ship to port." The science of cybernetics studies automatic guidance systems like those that enable a guided missile to find its target, a computer to solve complex problems, or robots to do complicated sequences of tasks automatically.

The science of cybernetics gives us a very effective way to look at the human brain and nervous system. Our subconscious mind is actually a goal-seeking servo-mechanism, in other words an automatic human guidance system. Psycho-Cybernetics is the science of this human guidance system.

This servo-mechanism has access to everything we have ever seen or done, tasted, smelled, felt and learned. It is all recorded in our brain. If you provide this servo-mechanism with a goal, it will automatically produce the means to achieve the goal. So human beings are naturally cybernetic, or goal-seeking beings. It's the way we are created. It is the servo-mechanism that allows you to tie your shoes, fix breakfast and pilot your car through a complicated journey to get to work, while all the time you are thinking of other things.

This servo-mechanism is completely impersonal. It works entirely with what is programmed into it. It's an incredibly powerful tool that is totally under the direction of the conscious mind. If you give it positive, successful goals it will produce positive, successful results. It will become a success mechanism. If you give it goals of failure, it will just as automatically function as a failure mechanism and produce failure.

The Importance of Mistakes

All automatic guidance systems reach their goals by constantly correcting mistakes. A guided missile on its way to its target has sensors that detect when it's off course. The guidance mechanism then makes the necessary adjustment and proceeds. This is done thousands of times on its journey. The guided missile relies on this negative feedback to guide it to its destination. Without this negative feedback, a guided missile would actually not know where it was going and would never reach its target. The same is true for the human servo-mechanism. It is unfortunate that so many of us interpret mistakes as a failure and suffer feelings of frustration and discouragement when actually the mistakes we make are exactly the information that our servo-mechanism needs to make the necessary corrections to take us to our goals. Your servo-mechanism has no opinion one way or the other about mistakes. It simply uses the information to guide it to its objective. What we call "mistakes" are actually valuable lessons for success. An important part of Psycho-Cybernetics is learning to use mistakes creatively and to remove the negative feelings that mistakes cause.

Self-Image

The destination or goal of a guided missile is a set of coordinates programmed into its computer. The goals that program our creative servo-mechanism are mental images, mental pictures, voices and feelings which we create by the use of imagination. The most basic and important mental image that we use to program our servo-mechanism is our self-image. Our self-image is our mental blueprint or mental picture of ourselves. We don't usually pay attention to it consciously, but it is there outside of our conscious awareness in great detail.

This self-image is our concept of "the kind of person I am." It is constructed of our beliefs about ourselves, beliefs that have been unconsciously formed from our past experiences, our triumphs and failures, our successes and disappointments, and also by our observations of the way other people reacted to us, especially early in childhood. From all this raw information we construct a "self," "who we are," our self-image. Once an idea or a belief about ourselves becomes part of this self-image, we accept it as being true. We don't think to question it so we act as if it were true. Our self-image determines our thinking, our feelings, our actions, even what we think our abilities are. It controls the amount of success, excitement, joy, and satisfaction we have. The kind of life we have, even the kind of world we appear to live in, are determined by our self-image.

Self-image explains why positive thinking is so undependable. It explains why willpower is so ineffective and difficult to maintain. Because all the willpower and positive thinking in the world cannot produce change and success if they don't match our self-image.

Our self-image is constantly programming our creative mechanism. If your self-image is that you are a failure, your servo-mechanism will find a way to deliver that result to you. If your self-image is that you are a victim of circumstance, that will be reflected in your life. If, on the other hand, your self-image is that you are capable and successful, your creative mechanism will produce those results. The science of Psycho-Cybernetics teaches you to change and to create a self-image that is strong, caring, productive and capable. A self-image that is realistic and reasonable, and expresses your best self, your true self.

Imagination – The Tool of Change

You built your current self-image from the vivid and detailed mental pictures and feelings you've experienced in connection with the events of your life, especially in childhood. And you'll use the same powerful tool, your creative imagination, to construct the kind of self-image that expresses the best of you. You will use your imagination to create images and feelings of success, satisfaction, accomplishment and strength, and with these new positive images you will re-program your servo-mechanism so that it begins to produce results in accordance with your new self-image. You'll learn to use your imagination in a relaxed, playful way, never straining, never trying too hard.

This process will take time – you didn't construct your current self-image overnight. But soon the new programming will begin to take.

You will feel yourself beginning to think, to feel, and to act in accordance with your new successful image of yourself. Eventually, this new self-image will become second nature, completely natural and spontaneous, and it will bring you success, satisfaction, enhanced relationships and happiness quite automatically for the rest of your life.

Chapter 21

SOME BACKGROUND TO GET YOU STARTED

I really feel for you to learn and really understand an idea or a set of ideas, it's important for you to know the background of where it comes from. If you understand where the ideas come from and the foundation of where they came from, it makes understanding the details much easier as well as making them being more meaningful.

Dr. Maxwell Maltz wrote a book called *Psycho-Cybernetics* and it was first published in 1960. This book became a huge best seller. It is often thought of as one of the best self-help books ever written. Dr. Maltz was one of the world's most widely known and highly regarded plastic surgeons. He was a Professor of Plastic Surgery at the University of Nicaragua and the University of El Salvador. Even today, Dr. Maltz's discoveries in the field of self-image psychology continue to influence thousands of people worldwide. Psycho-Cybernetics is still on the cutting edge of personal development technology. It remains as timely today as the personal computer. In fact, Psycho-Cybernetics has often been called the first and only true science of personal development, and many experts feel it is the only true way to alter your personality.

As a plastic surgeon, Dr. Maltz operated on thousands of people. The plastic surgery that he performed on people (usually facial surgery) brought not only a change in these people's physical appearance, but in many cases, an amazing change often occurred in their personality too. This dramatic change in personality occurred almost immediately after their face had been changed. Dr. Maltz realized when you change a man's face, you frequently change a man's psyche too. Dr. Maltz realized this was an awesome responsibility, so he knew he needed to learn as much about this phenomenon as possible. He figured he owed it to his patients and himself to know fully about what he is doing and the dramatic changes that he was bringing about in people's lives.

The strange thing was that some patients showed no personality change whatsoever to the dramatic changes in appearance. While, on the other hand, many other patients showed huge changes in attitude and personality less than a month after surgery. Dr. Maltz needed to find out why some people changed for the better and others simply acted as if there was no change at all, as if the surgery was not performed.

This told Dr. Maltz that the changes in appearance were not the key to the changes in personality. There was "something else" which was usually influenced by the facial surgery, but sometimes not. When this "something else" was reconstructed, the person himself changed. When this "something else" was not reconstructed, the person himself remained the same, although the physical features might be radically different.

It was as if personality itself had a "face." This non-physical "face of personality" seemed to be the real key to personality change. If it remained scarred, distorted, ugly, or inferior, the person himself acted out this role in his behavior regardless of the changes in physical appearance. If this "face of personality" could be reconstructed, if old emotional scars could be removed, then the person himself changed, even without facial plastic surgery. Once he began to explore this area, he found more and more phenomena, which confirmed the fact that the "self-image", the individual's mental picture of himself, was the real key to personality and behavior.

The picture you have of yourself will also determine whether or not you can be successful in trading. In other words, if you have a clear picture of yourself as a successful trader, that will go much farther than you can imagine in getting you to become and remain a successful, profitable trader. You will need to learn how to see that picture clearly in your mind. It is the only way to achieve success.

Chapter 22

MENTAL PICTURES

Successful men and women have, since the beginning of time, used "mental pictures" and "rehearsal practice", to achieve success. Napoleon, for example, "practiced" soldiering, in his imagination, for many years, before he ever actually went on the battlefield. He vividly imagined himself as commander, and drew up maps showing where he would place various defenses. He would make all his calculations with mathematical precision in his mind.

Conrad Hilton, the famous owner of the Hilton Hotel chain, saw himself owning and operating hotels in his imagination many years before he bought his first hotel. Mr. Hilton said he imagined himself to be a successful hotel man long before he became one.

A famous basketball coach once said, "There is no way to put the ball in the basket when the pressure is on, if you can't see the ball going in the hoop clearly in your imagination first."

I would say the same is true for trading. If you can't clearly see yourself in your imagination as a successful trader, there is no way you can be a successful trader. The best most successful traders have been vividly picturing themselves as successful for many years. (And, in many cases, these traders pictured themselves as a success long before they actually were successful.)

There is an automatic mechanism inside all of us. Dr. Maltz calls it the "servo-mechanism", and it is an automatic goal-seeking machine, which "steers" its way to a target or goal. We all have this inside of us and can use it to achieve goals that we want to reach. This servo-mechanism works very much like a guided missile. But just like a guided missile, it needs proper programming to hit its target. That programming comes in the form of mental pictures that we give the servo-mechanism.

If we continually give the servo-mechanism clear, vivid pictures of the goals we are trying to achieve, our subconscious will quite automatically do the necessary things to help us achieve our goals. On the other hand, if we continually think and picture the things we don't want to happen, our servo-mechanism will take those pictures as our goal, and attempt to make those bad pictures come true. You see the servo-mechanism works quite automatically. It simply takes the mental pictures we give it and tries to make them reality. It doesn't care if those mental pictures are in our best interest or not. It simply reacts to the mental pictures we give it.

For example, if we are worried about being able to give a speech in front of a large number of people. If we vividly picture in our minds the speech going very well and the audience receiving us in a positive way, this will go a long way in helping us to give the speech and have it come out the way we want. But, on the other hand, if we continually worry that we will be laughed at, the words will come out all wrong, and we will give a poor speech. Then this is what will most likely happen to us. Our servo-mechanism will most likely perform the type of speech we have vividly pictured in our minds. This is precisely how the success and failure mechanisms inside us work. (We will talk about the success and failure mechanisms a little more in a few minutes.)

But the goal or picture in your mind must be within your capabilities. For example, in trading, if you picture yourself making a few hundred dollars a day or a week, then you can probably achieve that goal as long as you can see it in your imagination clearly enough. On the other hand, if you picture yourself making $5,000 everyday, no matter how clearly you picture that goal, it will be next to impossible to make it reality because it is probably not within your capabilities.

You can imagine yourself any way you want in the future, success or failure. It's all up to you. But, all too often, people are not willing to exercise this control. They allow their imagination to destroy their potential by picturing situations in the past in which they have failed. We all carry mental scrapbooks, but instead of preserving the joyous occasions of life, the moments of accomplishments, some people save only their times of failure and frustration. But, it's so easy to take control over their imagination. All you have to remember is that your brain has a hard time distinguishing between real and imagined experiences, if they are vividly enough imagined.

If we picture ourselves functioning in specific situations clearly and vividly, it is the same as the actual performance. Mental practice can help you perform better in real life. You will learn specific mental exercises to help you improve your trading. These mental exercises, if imagined vividly enough, will be almost the same as the real situation. They will help you be ready for many different situations you'll come across while trading.

A psychologist demonstrated the power of mental pictures. He found mental practice could help people throw darts more accurately. (Don't get me wrong here, I'm not suggesting that throwing darts is the same as trading. I just want to give you an example to make the idea of mental pictures more clear.) He sat his subjects in front of the targets and told them to imagine that they were throwing darts at it. He did this for several days and tested them for actual performance and found that this mental practice had improved their aim as much as actually throwing the darts.

Golfers use this technique too. When you next watch golf on television, note how the pro rehearses his shot, imagining what is going to happen before he physically hits the ball. The all-time great golfer, Ben Hogan, once described for Time Magazine how he mentally rehearsed each shot before he attempted it, making the shot perfectly in his imagination, feeling his back swing and follow through, exactly as it needed to be.

Another example would be shadow boxing. Boxers regularly use this technique to improve their performance in the ring. You, too, can learn to apply this technique to improve your trading. You can shadow box in different areas of the trading arena that you are having trouble with.

You may be asking yourself whether it is actually true that you can exert real control over your behavior and even outside events using your imagination. Well, it’s certainly not quite as easy as “okay, I’ll imagine my way to success.” Like becoming good at anything, there are steps you’ll have to learn and regularly practice.

The picture you have of yourself will also determine whether or not you can be successful in trading. In other words, if you have a clear picture of yourself as a successful trader, that will go much farther than you can imagine in getting you to become and remain a successful, profitable trader. You will need to learn how to see that picture clearly in your mind. It is the only way to achieve success.

Chapter 23

THE SUCCESS MECHANISM AND THE FAILURE MECHANISM

We've previously discussed the servo-mechanism, the goal seeking mechanism that is inside of all us. We know the servo-mechanism works like an electronic computer to help us reach our goals. But the servo-mechanism can either be a success mechanism or a failure mechanism.

When it is working as a success mechanism, it is helping us to reach the goals we want to help us improve our lives. As you already know, we use our creative imagination to vividly picture these goals, and our success mechanism helps us to accomplish these goals.

On the other hand, if we vividly picture the things we are trying to avoid, the troubles we are having and, in general, our worries, then it only makes sense that we will receive more of the same negative things in our lives. Like we said a little while ago, our servo-mechanism is completely impartial. It takes what we vividly picture and works extremely hard in making those pictures reality.

If you picture positive goals, it will work like a success mechanism and help you to reach those goals. But if you picture negative things (like many people do most of the time), it will work just as hard at making those negative pictures come true, and that is the failure mechanism at work.

An example that Dr. Maltz uses to help you understand the success mechanism is the way a squirrel knows to look for nuts when winter is approaching. You see a squirrel or any animal for that matter has a success mechanism inside them to help with survival. The squirrel does not need to be taught to find nuts for the winter. It is an instinct that the squirrel has inside him to help him cope with the environment. Even a squirrel that is born in the summer (and has never seen winter) knows that he must gather nuts before winter comes for him to survive. This success mechanism inside the squirrel allows him to survive. The only difference in animals and people is that animals do not choose their goals.

But, obviously, man is different. He can and does choose his goals. Man can use his success mechanism in conjunction with his creative imagination to set and reach his goals.

But it is up to you whether you use the success mechanism or the failure mechanism. In regards to trading, if you are constantly making trading mistakes and not acting in your own best interest, then it seems obvious that the failure mechanism is at work. On the other hand, if you are acting in your own best interest and avoiding most trading mistakes, then it would seem as equally obvious that your success mechanism is hard at work.

In Psycho-Cybernetics, Dr. Maltz lists the basic principles by which your success mechanism operates:

1) Your built-in success mechanism must have a goal or "target." This goal or target must be conceived of as "already in existence now" either in actual or potential form. It operates by either (a) steering you to a goal already in existence, or by (b) "discovering" something already in existence.

2) The automatic mechanism is teleological, that is, operates or must be oriented to "end results" goals. Do not be discouraged because the "means whereby" may not be apparent. It is the function of the automatic mechanism to supply the "means whereby" when you supply the goal. Think in terms of the end results and the means whereby will often take care of themselves.

3) Do not be afraid of making mistakes or of temporary failures. All servo-mechanisms achieve a goal by negative feedback or by going forward, making mistakes, and immediately correcting course.

4) Skill learning of any kind is accomplished by trial and error, mentally correcting aim, after an error, until a "successful" motion, movement or performance has been achieved. After that, further learning and continued success is accomplished by forgetting the past errors and remembering the successful response so that is can be "imitated."

You must learn to trust your creative mechanism to do its work and not "jam it" by becoming too concerned or too anxious as to where it will work or not, or by attempting to force it by too much conscious effort. You must "let it" work rather than "make it" work. This trust is necessary because your creative mechanism operates below the level of consciousness and you cannot "know" what is going on beneath the surface. Moreover, its nature is to operate spontaneously according to present need. Therefore, you have no guarantees in advance. It comes into operation as you act and as you place a demand upon it by your actions. You must not wait to act until you have proof – you must act as if it is there, and it will come through.

Chapter 24

FORGIVENESS

One of the biggest problems I see with traders is that they refuse to forgive themselves for trading mistakes. This causes a much bigger problem than most people realize. You see, when you make a trading mistake, you need to forgive yourself for making that mistake.

But the thing is many people do not forgive themselves for their mistakes. In fact, they do quite the opposite. They beat themselves up and continually picture what they did wrong in vivid detail. This is the very worst thing you can do after making a mistake, trading or otherwise.

Forgiveness is a key concept in Psycho-Cybernetics. As we've just learned about how our subconscious works, we know that if we continually picture in vivid detail something, it causes that picture to come true for us. Or it at least makes it much more likely for it to come true. So it only makes sense that if we make a mistake, we must forget that mistake and forgive ourselves completely. If, on the other hand, we don't forgive ourselves and relive the mistake in our minds again and again, what do you think is going to happen?

It's obvious that we will repeat the mistake. This happens because our subconscious does not care whether we give it good or bad information, it simply sees the clear pictures we give it and tries to act it out in our lives. Obviously, it can only act this picture out if it's within our capabilities. And I think we all know that making trading mistakes is quite within our capabilities.

This is the reason it is so important to forgive ourselves when we make a mistake or an error. If we don't, we are likely to relive the mistake in our minds and then most likely project it onto our trading. This will cause big problems.

If you think back, I'm sure can you think of times where you made mistakes and beat yourself up for it. Not forgiving yourself, no matter what the mistake, will bring out the worst emotions. Remorse, regret, self-doubt, and guilt all come with not forgiving ourselves for a past mistake.

You've heard it all before. I'm sure you've been told to forget a past losing trade and move on to the next one. Emotions are used correctly and appropriately when it applies to something in the present time. Since we cannot live in the past, we can't appropriately react emotionally to the past.

As Dr. Maltz says, "The past can be simply written off, closed, forgotten, insofar as our emotional reactions are concerned. We do not need to take an emotional position one way or the other regarding detours that might have taken us off course in the past. The important thing is our present direction and our present goal. We need to recognize our own errors as mistakes.

Otherwise, we could not correct our course and steering or guidance would be impossible. But it is futile and fatal to hate or condemn ourselves for our mistakes."

One of the biggest reasons people get into losing streaks while trading is because they confuse their losing trades with themselves. In other words, we conclude that because we had a losing trade or a series of losing trades, we are a losing trader.

But the important thing to remember here is we are not our losing trades. Losing trades are part of trading. There isn't a single trader in the world who doesn't have losing trades. The only way to avoid them is not to trade in the first place. You cannot be a successful trader until you take mistakes and losing trades for what they really are. They are simply by-products in the trading game and need to be used to gain learning and understanding. But in no way do they define us as a person.

But that is where the big problem comes in. Many people let their losing trades and mistakes define them. If they're having trouble and have had a series of losing trades, they start to think of themselves as a loser. They continually think of themselves in that way. As we know from before, this kind of thinking will just bring on more of the same.

Forgiving yourself completely is the only way to avoid this trouble. You are not your mistakes and losing trades. You must put the past behind you and go forward. Holding a grudge against yourself only hurts yourself. Forgive yourself, it's the only way to be successful.

Chapter 25

FAMOUS PEOPLE USE PSYCHO-CYBERNETICS… AND FOR GOOD REASON

Visualization techniques and mental practice have been working for professional athletes for years. Dennis Rodman, known to many as the best rebounder in the National Basketball Association, has said that he uses visualization to prepare for each and every upcoming game.

Before the game starts, Rodman spends a solid hour right before each game, by himself. Everyone on the Chicago Bulls knows he is not to be disturbed. He vividly rehearses in his mind exactly what he will do in the game and how he will react to his opponent based on things he's seen in past games. He clearly sees the game unfolding in his mind. He's sees himself confidently pulling down rebounds and making accurate passes to his teammates.

He sees all this using as many details as he can. You see, the details are very important with visualization techniques. The clearer you see the picture in your mind, the better your subconscious (success mechanism) will work to get you to your goal. But remember, the details are extremely important. The reason is your mind cannot tell the difference between an imagined experience and a real experience as long as there is enough vivid detail.

For example, Dennis Rodman, when visualizing the upcoming game, will not only picture himself getting rebounds and diving for loose balls on the court, but for it to be really effective, he must feel the pressure of his feet hitting the court after getting that rebound. He must feel the opponent pushing him in the back as he fights for a loose ball. He must see the shine of the powerful lights reflecting on the court. He must visually feel the leather surface of the ball as he's holding it. These details are extremely important for Dennis Rodman (or anyone using visualization techniques) to see and feel.

Dave Stockton, the famous golfer, says much of his success has come from his reading and using Psycho-Cybernetics. Stockton was always a good golfer, but in 1970, for some unknown reason, his putting was terrible and getting worse with each tournament he played in. He hadn't finished in first place in over two years.

His father gave him the book *Psycho-Cybernetics* by Dr. Maxwell Maltz. His father (a former golf professional and the only teacher Dave Stockton ever had) said he didn't think the putting problems were physical – rather, they were mental.

Stockton didn't read the book until a week before the PGA tour championship, which is one of the biggest tournaments of the year. But when he did read it, he certainly got the message. He learned to use his past successes to visualize the way he would play at the tournament. He spent that week visualizing with incredible detail how he would approach each putt and he would see in his mind all the tough putts he'd made in the past.

And that is exactly how Stockton went into the tournament. From the very first shot, he had the confidence that the visualizing and mental practice had given him. As far as he was concerned, he had already won the tournament in his mind.

To really put him to the test, on the last day of the tournament, he was paired with arguably the greatest golfer of all time, Arnold Palmer. A pairing that would make any golfer nervous and could cause anyone to lose his concentration. But not Stockton, he credits Psycho-Cybernetics with helping him keep his concentration and thus winning the PGA Championship and $40,000 (a lot of money in 1970). Not bad for a book his father bought for 95¢!

When asked, “If all the golfers in the PGA began to use Psycho-Cybernetics how would it affect the various tournaments?” Stockton replied “The game might just become one big hole in one.”

Former NFL player, Jim Clack, says, “Psycho-Cybernetics made all the difference for me. I went from a free agent to the Super Bowl with it. I use the ideas today as a business and corporate sales trainer. Maxwell Maltz literally transformed my life.”

Psycho-Cybernetics: New "In" Thing With Packers

(Aug 5, 1967 Ft. Lauderdale Paper)

CHICAGO – The big thing with the Green Bay Packers now is psycho-cybernetics. That's like the power of positive thinking, only the name is fancier. Maxwell Maltz wrote the book on psycho-cybernetics. Not many people ever heard of Maxwell, but they know his readers. Bart Starr is one of them, and so is Zeke Bratkowski – both Green Bay quarterbacks. Even Coach Vince Lombardi reads what Maxwell has to say.

Don Chandler, the Packer punter, had the book opened in his room Friday afternoon, alternately making his thinking more positive and freezing his mind by watching a soap opera on television. He had borrowed the book from his roommate Jerry Kramer, a Packer for 10 years.

"It just makes you know what you can do, what you have inside yourself," said Chandler, wrapped in a sheet as if he were about to address the Roman Senate. "It has really caught on with the team this year."

Power of Pen Propels Dillard

(Toronto Daily Star, Nov 20, 1968 by Jim Proudfoot)

A fortnight ago, Jim Dillard was in the worst slump of his football career and had begun to think there was no way out. Then he was introduced to Psycho-Cybernetics, the philosophy of a man called Maxwell Maltz. Dillard was sold on the idea immediately, started to study a book on the subject, and in the two games he's played for the Argonauts since then, has averaged 7.9 yards each time he's carried the ball from scrimmage.

The improvements have been dramatic, to say the least, because during the 14 game Eastern Conference schedule, his average output was a meager 4.6 yards. Moreover, he was sluggish and out of tune with his fired-up colleagues. Now, since the playoffs began, he's been blocking and running decisively, like the Dillard of bygone years.

Before, he ran as if expecting to be stopped. Now he runs as though convinced he can't be stopped. Dillard's revitalization is an important reason the Argonauts now find themselves close to the eastern championship and entry to the Grey Cup final, owners of a 2-point lead over the Ottawa Roughriders in a playoff doubleheader, which is to be completed at Ottawa's Lansdowne Park Saturday.

Maltz Gets The Credit

And should the Argonauts' extravagant dream really come true, then they'll owe a vote of thanks to this Maxwell Maltz. His book is responsible for the change in Dillard, who made 146 yards in the semi-final conquest of the Hamilton Tiger-Cats, and another 100 last Sunday when the Argonauts got the jump on Ottawa. Consistent production by Dillard had been the missing ingredient in the Argonauts offense all season and the one thing they absolutely had to get in the playoffs.

"I got excited about Psycho-Cybernetics as soon as I read the first chapter," Dillard was saying yesterday.

"There are a lot of angles to it, but I think I can explain it in a simple way. It shows you how to emphasize your good points and stop fretting about your weaknesses. It gives you confidence in yourself and your abilities, and tells you the way to make the most of your assets and really find out what you're capable of. So much of all this, see, depends on how you think and that's what the book concentrates on."

"I guess you could call it the power of positive thinking. It's a way to hypnotize yourself, you might say."

None of this is new to professional sports. Quarterback Bart Starr and several of the other Green Bay Packers were disciples of Psycho-Cybernetics last season when they were world champions of football. Terry Evanshen, Calgary Stampeders' standout pass receiver, is a believer. Another is Bobby Rousseau, prolific right-winger with the Montreal Canadians.

Behind the scenes here is Ron Barbaro, a Toronto insurance executive who helped organize and operate the Argonauts Playback Club. He has many salesmen learning to function the psycho-cybernetics way and now is setting up classes to supplement what Maltz put in his book.

"I wasn't really worrying about myself, but I did recognize that I wasn't having a good season." Dillard said. "A few days before the playoff game against Hamilton, Ron took me to lunch and gave me this book. He suggested I take a look at it and said there might be some ideas in it I could use.

There's A Connection

"Well, I bought the thing right away. It's done a lot for me, showing me how to convince myself of what I'm capable of doing. I honestly believe there's a direct connection between psycho-cybernetics and the good games I've had the last two weekends."

"I could see it doing the same for people in any line of work because what job is there where it isn't important to believe in yourself? I'll tell you the truth, I can't hardly wait for the classes to start."

Dillard, you may recall, never signed a 1968 contract, gambling that his work would enable him to negotiate a raise during the winter. Thank you again, Maxwell Maltz.

Chapter 26

HOW TO USE VISUALIZATION TECHNIQUES TO IMPROVE YOUR TRADING

You may be tempted to think Psycho-Cybernetics and visualization techniques are some kind of voodoo magic or witchcraft. When doing these exercises for the first time, you may feel a little awkward. Do not let that deter you. Anything new usually feels a little awkward at first, but with time and practice, obviously it will get much easier. But make no mistake about it. Visualization techniques have been used by millions of hugely successful people all over the world. They've used techniques very much like ones you're going to learn about to achieve incredible success in their lives. The real key is they see themselves as successes long before they actually become successes. Another key is that they continue to see themselves as a success in their given field on a daily basis. They certainly don't just sit back and think success is theirs forever. They know they have to nurture it and continue to see themselves in their mind's eye as the success they want to be.

I had a mentor when I first started at the exchange. He was probably one of the 10 best floor traders in Chicago. He would consistently make a seven-figure salary trading in the pit. But he had one practice that always intrigued me. He would lay on his couch for 30 minutes before the market opened each day and visualize his trades. He would see himself in his mind's eye buying and selling from the different traders on the floor. He would picture in his mind the bright colors of the other traders' jackets. He would see the quote boards as they displayed the ever moving prices. He would get into winning trades and get out of them at a profit. He would get into losing trades and get out of them the second he thought they would not be profitable. All in his mind's eye he would remember the past winning trades he'd had, and feel the feelings that those trades produced. Every single day he would do this, and in my opinion, it had a lot to do with how successful he was.

<u>The mind's eye</u> is a key term in using visualization techniques. This is where you do your visualizing. It's very much like when you read a book or someone tells you a story. You don't just listen to the words, you see the pictures in your mind's eye using your imagination.

As children, we used our imagination on a daily basis. But as adults, most people use their creative imagination less and less, which is a shame because this is really when we need it most. When we were kids, we used to pretend things. We would imagine a tree we were climbing was actually a huge army fort. We would pretend a play fire truck at the park was a real working fire truck. We could actually drive it to fires (in our imagination) and put those fires out. Because as kids, we practiced using our imaginations on a daily basis, these things (fire truck, tree fort, etc.) seemed very real to us. We could see all the details very clearly.

But now as adults, most of us have let our imagining skills deteriorate. Thus, it takes time to re-learn these skills and get benefits from them. Most people, when they see things in their mind's eye, they don't see them as clearly as they probably could. Remember, we said earlier that the mind can't tell the difference between an imagined experience and an actual one as long as the images are vividly imagined. Well, the problem is most people don't see the pictures clearly enough. Through time, their imaginations haven't been used enough to stay sharp and focused. So you will have to strengthen your imagination so that you can see the mental pictures extremely clearly in your mind's eye.

Actually, there is a better term that Dr. Maltz uses instead of the mind's eye. He actually calls it "The Theater of Your Mind." It works well because everyone is familiar with a movie theater. The screen, the projector, the seats, everyone has seen them before and can easily picture them. This is an excellent place to do your visualizing. Dr. Maltz suggests you pick a very comfortable chair in "the theater of your mind." The idea is then to watch the big screen in front of you (in your imagination) and watch little movies starring yourself the way you want to be. This can help you with things like pulling the trigger without hesitation, getting out of losing trades, etc. We will talk about exercises using this kind of mental practice later.

But the key to using the theater of your mind is to change your self-image. As we talked about earlier, the self-image is the picture you have of yourself. The self-image is also the product of your past experiences, failures, successes, humiliations, and other programming. From these experiences, you create a picture of yourself.

So, for example, if you've had some bad experiences in trading, and after a while you lost confidence to pull the trigger when you see a trading opportunity. Most likely, your self-image is that of a person who can't pull the trigger. (Even if you don't consciously think about yourself that way.) Remember, your self-image is a subconscious thing, so you might be a person who can't pull the trigger even if you don't consciously think of yourself that way.

But the important thing to remember here is using visualization techniques on a daily basis can change your self-image to the kind of person you want to be. It doesn't matter how others see you, what is most important is how you see yourself. If your image is that of a failure, you will act as if you are a failure. But on the other hand, take comfort in the fact that the picture you have of yourself can be changed and you are the one who can change it.

Visualization techniques will work 100 times better than trying to use willpower to force yourself to change. For instance, saying to yourself, "I will pull the trigger the next time there is a trading opportunity", will not do any good if it doesn't agree with your self-image. This is why you need to change the image you have of yourself with your imagination. That is the only true way to change. Willpower will not work. Your self-image will always be stronger.

Just as an example, an overweight person trying to lose weight by using willpower will never be able to succeed because they most likely have a self-image of an overweight person. Now I'm not saying they like being overweight, but they are O.K. with themselves that way in their subconscious. In a case like this, a person will never be able to stay on a diet or go to the health club on a consistent basis using willpower to force themselves. The only way this person will be able to lose weight is if they first see themselves vividly as a thin person in the theater of their mind. They will need to do this on a daily basis until their self-image is changed. The self-image they have of themselves will always be stronger than their willpower. If they can change that picture, their behavior will change too.

You may be tempted to think this won't work or it's silly. All I can tell you is Michael Jordan, Dennis Rodman, Bart Star, Ben Hogan, as well as many successful traders believe and have used it to improve their performance. If those people can be so successful from it, the least you can do is give it a try to see if it can be successful for you too.

Children as young as eight years old, as well as senior citizens, have all benefited from the use of psycho-cybernetics and the visualization techniques that go along with it. Professional athletes, salesmen, traders and people in many other walks of life have successfully used it to improve their concentration and performance. There is no reason to think you can't do the same thing. We have a choice of either using our success mechanism (by seeing positive, helpful pictures) or using our failure mechanism (by seeing negative images of the past). The choice is up to us. If we start to trade with negative feelings, we will fail before we even start. On the other hand, if we start to trade with positive feelings, that will go a long way to us succeeding.

Here are some rules to remember when using visualization techniques to improve your self-image:

1) You must be in a relaxed state when going into the theater of your mind.
   Michael Jordan is obviously in a relaxed state when he is working his magic on the basketball court. Without being in a relaxed state of mind, it's next to impossible to succeed. At the end of this chapter, we will have a relaxation technique that will get you in the right frame of mind to visualize your success. It also helps to be very comfortable, like being in your favorite chair without any distractions (no music, TV, etc.)

2) You must pay close attention to the details of your mental pictures.
   Remember, in our mind's subconscious, we cannot tell the difference between an imagined experience and a real one if the details are vividly portrayed. This is not daydreaming. You must focus intensely on the details around you. The sights, sounds, smells, etc., are all very important for these exercises to benefit you in a positive way.

3) You must act as if you are already the kind of person you want to be.
   The real key to changing your self-image is to continually think of yourself as already being the kind of person you want to be. If you continually keep in your mind the picture of the way you want to be (for instance, a disciplined, consistent trader), than you need to continue to picture this in your mind, and even more so, you need to keep acting like you are already that way. After not too long, your powerful subconscious will begin to follow suit.

4) You should go into the theater of your mind at least once a day, and preferably, it should be the same time each day.
Scientific experiments have shown it takes about 21 days to change a habit or a thought process. In the simplest terms, that's exactly what we are trying to do. We are trying to change a bad or unhelpful habit into a good and helpful one. But doing this takes time. You did not form your bad habits in one day, so it's impossible to expect them to change in one day. But, if you consistently <u>use these exercises for 21 days in a row</u>, you will be pleasantly surprised at how your habits have changed. In fact, you can certainly use psycho-cybernetics to change more than just your trading. It can be used to change and improve almost any aspect of your life.

<u>Relaxation Technique Calm Body – Calm Mind</u>

It is very beneficial to be physically and mentally relaxed before doing the visualization exercises. Here is a simple technique to use in the theater of your mind to bring on relaxation.

1) Sit down in a comfortable chair or lie on a bed. There should be no other distractions. Turn off the TV, radio, and the lights. Go into the theater of your mind. See yourself in a comfortable theater getting ready to watch a movie about you.

2) Again, remember to pay attention to details. What is your theater like? How does the seat feel? Is the screen big or small? Are you sitting in the middle row or at the aisle? Are there arm rests on the chair? How do they feel on your arms? The details are very important.

3) Lie down and imagine your body's a series of rubber balloons. There are two valves in your feet. They open and air escapes from your legs. Your legs collapse until they are empty and lie flat against the bed. A valve now opens in your chest and your whole body begins to collapse limply against the bed. Continue this exercise with the arms, the neck, and the head. You don't have to do this in bed. If you're in the office, try to fix a picture of yourself in your mind's eye of yourself lying in bed doing the exercise. You will actually feel the relief from being relaxed. Physical relaxation leads to mental relaxation. When practiced daily, it gives us that relaxed attitude which allows us to better control our actions.

Each time you practice this technique, when your body and mind are feeling completely relaxed, be sure to say to yourself mentally, "Calm body, calm mind." This deepens the programming of your servo-mechanism. As you practice this technique, you will find the time it takes you to become relaxed will be shorter and shorter. Eventually, you will be able to relax totally at any time, and in any situation, simply by saying to yourself mentally, "Calm body, Calm Mind."

Chapter 27

GOAL SETTING EXERCISE

I can't stress enough how important goal setting is to being successful in your trading. If you don't have daily, weekly, monthly, and yearly goals for your trading, it will be very difficult for you to visualize your success. This is because you will not have something specific to aim for. To be at our best, we always need a clear, measurable goal to strive for. Remember, man (and woman) are at their best when they have a clear goal securely in mind.

This exercise will teach you how to visualize you reaching your set goal of making a certain amount of money each day. That does not mean you will reach that goal each and every day. But without having that clear set goal, you will probably not reach it most days.

EXERCISE

Get in a relaxed state with the relaxation technique "Calm Body, Calm Mind."

1) Go into the theater in your mind. Remember to make the theater as comfortable as possible. Have it be a nice soft, comfy chair that you are sitting in. Remember, details are very important. Pay attention to them. Is the screen big or small? How do the arm rests on the chair feel? Details, details, details. At this point, you are trying to strengthen your imagination and see the pictures in your mind's eye extremely clearly. If you can't see the pictures clearly yet, don't worry, it gets easier with time and practice.

2) With this exercise, we are going to visualize ourselves at the end of the trading day having reached our goal. Remember, it is very important that your goal be realistic and measurable. Having a measurable goal is easy, because an amount of money is always a measurable thing. But also remember your goal must be realistic. So, if we are a day trader and we visualize ourselves making $250 a day, that seems realistic. If we are a day trader and we try to visualize making $3,500 a day, that is probably not realistic. (Because making that kind of money is probably beyond most people's capabilities on a daily basis.)

3) The first thing we want to visualize (or picture in our minds) are days that we've been successful with our trading. We want to remember those days where we've been able to make our goal (for this exercise we will use the daily goal of $250). If you need to go back and look at your trading statements to find days that you made money, then do that. The idea here is you want to see those days in your mind and feel the feelings you got from being successful on those days. Play those days back to yourself in your mind. Remember to notice the details in those days. How does the phone feel in your hand when you were placing the orders? Can you see yourself moving the mouse on the computer to check the charts? Can you see yourself writing your orders down on a piece

of paper? How does the pen feel in your hand? Details, details, details.

4) For those people that have not had winning days trading, or if you can't remember them, that's O.K. Like we said earlier, you can simply make up an experience in your mind's eye when you were successful. See yourself getting out of your winning trades successfully. See yourself getting out of a losing trade as soon as you realize the profit potential is no longer there. Remember, your mind can't tell the difference between an imagined experience and a real one if there is enough detail. The imagined experience doesn't even need to be in trading. Just remember clearly a time when you were successful in anything and feel those winning feelings. That is the first step.

5) Now we want to move to the next scene in our theater of the mind. We want to see ourselves reaching our goal of $250 each day. One of the keys of successful visualization is to see the end results and let the success mechanism do the work for you. So, see yourself having made $250 (or whatever amount you choose) on the first day of the week (Monday). See yourself in theater of your mind after the trading day is over. Do whatever you do when the day is over. See yourself mark down that you made $250 on Monday and turn your computer off, turn off the light in the office, push in your chair, or whatever you do when the day is over.

6) Now, do the same thing on Tuesday. Remember the details you see. I know it's been said a hundred times, but if you don't pay attention to the details, it will not work. To see the details, this exercise will take longer than two minutes. If it's only taking two minutes to do this exercise, you're not doing it right. You must see the pen hitting the paper as you write down that you made $250. How does the pen feel in your hand? You must feel your hand turning off the computer and hear the sound it makes when you flip the switch. See the room go dark as you turn off the light and leave for the day.

7) After you've seen, in your mind's eye, reaching your goal each day for a week (Monday to Friday), then go back and see your successful trades again, or at least successful experiences from the past. This will build confidence and help you to get used to the visualization process.

8) This goal setting exercise is extremely important. First, without having clear-cut goals, it is impossible to succeed in trading. There isn't a successful trader alive who doesn't set clear goals for himself. Second, having these goals will help you program your success mechanism for the other visualization exercises.

9) Remember to do these exercises for at least 30 minutes a day. It is also helpful to try and do them at the same time each day. And finally, you must be relaxed for these exercises to be effective.

Chapter 28

VISUALIZING LARGE WINDFALLS

Most people, when asked if they are comfortable making a large amount of money, will quickly tell you, “absolutely, no question about it.” But you know what, very few people are really comfortable with it in their subconscious. This is because most people’s idea of how long it takes to make a certain amount of money is very ingrained in their minds.

Believe it or not, most people will unconsciously give back their large winnings because they really aren’t comfortable with making money as quickly as is possible in trading. The ideas behind time, effort, and profits are extremely different than what is usually thought of in a “normal job.” Most people are used to getting a salary or an hourly wage, and it doesn’t change a whole lot.

But a trader obviously has a very different situation. The amount of effort put forth and the amount of time it takes to make a certain amount of money is unlike almost any other business in the world. Since most people are not used to this situation, if a large windfall does occur for a trader, the trader’s self-image must agree with that situation. In other words, the person has to have a self-image that is deserving of large windfalls. And most traders (especially new traders) do not have a self-image that says making thousands of dollars in a matter of minutes (or even seconds) is O.K.

Making money that quickly is something most people (outside of trading) don’t ever experience. So when it happens, and the person is not mentally prepared for it, more often than not, he will give the money back by making trading mistakes, or trading wildly without concern for risk. In my opinion, this happens because inside the person feels guilty for making money so quickly without much effort.

With this being the case, we need a visualization exercise to get used to these large windfalls. In other words, we need to change our self-image to the kind of person who feels deserving of making profits (large or small) in the markets and then protect those profits.

It is important to note that most people do not really believe they feel this way. They think they do deserve to make a large amount of money and there is nothing wrong with it. But in reality, the programming (things they’ve learned as they grow up) they’ve received throughout their lives is so ingrained inside themselves they don’t consciously think they have this problem.

The only thing I can tell you is the results of your trading are the real key. If you are able to hold onto your large windfalls without giving most, if not all, of it back to the markets, then you are in good shape. In this case, your self-image does agree with the ideas of large windfalls.

But, on the other hand, when you have a big winning trade and very quickly afterwards you're giving that money back to the market by making poor decisions, then it's clear. Your self-image does not agree with your making big money. If it did, you would be better able to hold onto your profits. Again, most people don't admit this simply because they feel it so deeply they don't consciously think about it.

But you should rest assured that with some visualization techniques, this can be easily changed. You will learn to change your self-image to accept and protect large windfalls.

<u>EXERCISE</u>

1) Get in a relaxed state with the relaxation technique "Calm Body, Calm Mind."

2) Go into the theater in your mind. Remember, like before, make the theater as comfortable as possible. Have it be a nice soft, comfy chair that you are sitting in. Remember, details are very important. Pay attention to them. Is the screen big or small? Details, details, details. Again, you are trying to strengthen your imagination and see the pictures in your mind's eye extremely clearly. If you can't see the pictures clearly yet, don't worry, it gets easier with time and practice.

3) Like the last exercise, we are going to mostly look at the end results. With visualization techniques, they are most effective when vividly seeing yourself having achieved your goals. When you do that enough, your powerful subconscious will come up with the means to achieving your goals. But you must see the goal very clearly first.

4) That is exactly what we want to do. Our goal is to keep the large windfalls and not give them back to the market. So, go into the theater of your mind and see yourself clearly closing out a trade that is a nice size winner (for instance, maybe you've just made $1,500 on that trade). Now, after that happens, most people feel pretty good about themselves. And there should be nothing wrong with that. But it can many times give you too much confidence. You may feel like you're smarter than the market or you may think it's easy to make money trading.

5) So the next clear image you need to see is you instead of feeling overly confident, is to take a defensive posture. Obviously, when you've made that money, you need to hold onto it. So, see in your mind's eye the next trade you're going to do. See yourself taking less risk than you usually would, and also be willing to close out the trade if it doesn't give you profits very quickly. (This is really the opposite of what most traders do. After a big windfall, they take more risk than usual and are not as ready to get out of a bad opportunity because they have that big windfall to fall back on if things don't work out.) In this exercise, we want to be learning a new habit. We want to learn the habit of protecting our winning trades and get rid of the habit of giving them back to other traders. Remember, you can make these little movies any way you want them to be. By mentally visualizing yourself the way you want to be in the future, you are getting your mind used to the new habit.

6) In the theater of your the mind, see yourself doing the opposite of what most people do. After that windfall, see yourself take a defensive position on your next trades. See the

details of the next trade. See yourself picking up the phone to place the order. How does the phone feel in your hand? See yourself watching the charts, and if the trade doesn't feel right, see yourself hitting the speed dial button to your broker and get out of the trade to protect the profits that you've just made. See the details! Remember, you can make the movies in your mind's eye any way you want them to be. Make sure that in your movies, you do the right thing to protect yourself and act in your own best interest.

After seeing these movies in the theater of your mind enough times (at least once a day for a month), your programming in your subconscious will change as you've learned a new habit, and just like tying your shoes, it will become automatic. But you need to practice. Without mental practice, you can't change. Trying to use willpower to change your habits will not work. You need to see the pictures in your mind's eye. It's the only way to change your habits.

Chapter 29

STATEMENT EQUITY INCREASE

This is a visualization exercise I've been using for years. In my opinion, it is extremely effective. The idea here is to visualize the equity (money) in your account continually rising. This is a very simple exercise and should be done on a daily basis.

EXERCISE

1) Get in a relaxed state with the relaxation technique "Calm Body, Calm Mind."

2) You'll want to visualize how your trading statement looks in your mind's eye. The best way to do this is to actually look at your trading statement and then be able to see it in your mind's eye.

3) If you receive an actual hard copy (paper) statement, notice how the paper feels in your hand. See your name and account number at the top. See the brokerage company's name at the top. Notice the trades from the previous day on your statement. See all the details of your statement in your mind's eye. If you receive your trading statement through e-mail, then picture it on your computer screen. It's important that you see your statement (in the theater of your mind) exactly how you actually see it in real life.

4) Now I want you to take your daily goal. Let's say for this exercise our daily goal is to make $500 each day. We want to visualize our daily goal being added to the previous day's statement. So, for instance, let's say yesterday my account has $7,200 in it. Today I want to visualize my account statement after making my goal of $500. So I will see in the theater of my mind my account having $7,700 in it today.

5) But that's not enough just to see the increase in equity. We must see more details for it to feel real to us. We need to see the trades that made us the $500. So, while you're looking at your statement in your mind's eye, you must also see the trades that made you the $500 or whatever goal you have.

6) These trades can be made up or can be trades that you've had in the past. In fact, what will work best is if you have had actual days where you've made your goal. I would then use those days as your mental practice. Relive the feelings you've had after the day (where you made your goal) and feel those winning feelings again. See yourself looking at your statement and feel the satisfying feeling of a profitable trading day. Remember to try and feel those winning feelings that you had when you've had good trading days. That feeling will be very important to reprogramming your success mechanism.

7) If you haven't had any winning days, that's O.K. Just use a time in your life when you were successful at something and clearly remember that right before you change the scene to your trading statement. Then just make up the trades. Remember, your subconscious can't tell the difference between a real experience and a vividly imagined one. So it will be better if you can use a real experience, but a vividly imagined experience will work well too.

This exercise is best done in the morning before the market opens. You need to see yourself reaching your goal as clearly as possible. After doing this for a while, it will help your powerful subconscious to reach your goal. Believe it or not, doing this exercise will help you avoid making trading mistakes because your mind will be clearly focused on your goal. Thus, if you are about to make a trading mistake, your subconscious (if properly trained) will override your thought process and help you avoid the mistake in the first place. But this will only work if you practice it enough and can clearly see the pictures in your mind's eye. It won't happen overnight, but it will happen with daily practice.

Chapter 30

PULLING THE TRIGGER EXERCISE

The reason people can't pull the trigger when they sense an opportunity happens for one reason and one reason only. They are afraid! But they are not afraid of the market, they are afraid of themselves. Their fear comes from not having complete trust in themselves to act in their own best interest.

You fear your inability to do what you need to do, when you need to do it, without hesitation. Being afraid causes us to freeze up and makes us unable to pull the trigger (to execute our trades.) This causes missed opportunities. But the end result of these missed opportunities is the real problem of not being able to pull the trigger.

After we miss an opportunity (because we are afraid), we play the scenario in our minds in a very unrealistic way. For example, let's say we wanted to get long the market. The opportunity comes up for us to get in the market, but our fear prevents us from pulling the trigger, so we do nothing. Then the worst possible thing happens (in our minds).

The market then rallies and we start counting the money that we are missing out on because we didn't pull the trigger. If the market moves our way 500 points, we think that we should have had that 500 points. We do this whether it is realistic or not. This is the failure mechanism hard at work.

This kind of thinking is very harmful to our trading in the future. We mentally beat ourselves up for missing the trade, and we feel like we lost the money that we would have made if we'd gotten in on the trade. We get mad at ourselves. We call ourselves stupid or an idiot. We play the trade over and over in our minds thinking about the things we did wrong. This is just like the visualizing techniques we've been talking about. The only difference here is you are visualizing yourself doing the wrong thing. By continually thinking of yourself as a person who can't pull the trigger, you are reinforcing that idea in your subconscious. All of this is very destructive and makes things much worse.

So we need an exercise to help us pull the trigger when we see a trading opportunity. We need to get past the fear that is causing us to freeze up and not to pull the trigger. And we definitely want to avoid visualizing or continually thinking about the mistakes we've made and the opportunities we've missed. We can't change the past, only the future.

<u>EXERCISE</u>

1) Get in a relaxed state with the relaxation technique "Calm Body, Calm Mind."

2) In this exercise, we want to visualize ourselves being able to pull the trigger without

hesitation when we see an opportunity or when it's time to get out of a trade.

3) Go into the theater of your mind and first playback (with detail) times when you've pulled the trigger as soon as you've seen a trading opportunity. Remember to see the details. See yourself watching the charts and seeing the opportunity. You see the green light go off in your head and you don't hesitate. You pick up the phone, hit the speed dial button, and place your order. (Can you feel how the phone feels in your hand? Notice how you feel sitting in your chair watching the screen.)

4) See the trade going your way. Feel the feelings you have had when you've seen an opportunity and jumped on it. Feel how you felt when you did not hesitate and were able to pull the trigger without hesitation.

5) If you haven't had trades where you were comfortable pulling the trigger, than try this: Remember a time when you did something and you were comfortable with it when it's hard for others. For instance, maybe you are a good negotiator and you're not afraid to ask for a lower price when others wouldn't be confident. Remember that time vividly and feel those confident feelings. Or maybe you are a person who is good at fixing things and wouldn't hesitate tackling a big fix-it job. You would obviously feel very confident that you could get the job done correctly. Then switch the scene in your mind's eye back to the trading situation and see yourself pulling the trigger at the right time. It's O.K. to make up the situation as long as you have the confident feeling first and you are seeing the pictures in your mind vividly with detail. You must get those confident feelings first.

6) Also see yourself liquidating this trade when you feel the time is right. See the details clearly. See yourself clearly calling up and getting out of the trade. Or, if you trade through your computer, see yourself hitting the correct keys to liquidate the trade. Feel the confident feelings you get from having a successful trade.

7) Again, it's important that you do these exercises on a daily basis. They will not work after just one day. You didn't become afraid to pull the trigger in just one day, so you can't expect to fix that problem in just one day either. Also, these exercises work better if you do them at the same time each day.

8) This mental practice will reprogram your self-image. After several weeks of practice, if you feel the confident feelings, your inability to pull the trigger will be a thing of the past.

Important Note:

Attempting to do these exercises right after a losing trade or a bad day will not work. It's very unlikely you'll be able to get relaxed enough for the visualization process to work if you are upset or mad at yourself. I would suggest only doing these exercises when you are in a relaxed state. Trying to do them when you are aggravated will not get you anywhere and will simply turn you off from continuing to do them in the future.

If you've had a bad day, I would suggest giving yourself some time before you do the exercises. The term "time heals all wounds" is very true here. If you give yourself some time to calm down (a day, an hour, whatever), you will be in a much better position to relax and then really get some benefit from these exercises.

Chapter 31

LIMITING RISK EXERCISE

As we've learned throughout this book, limiting your risk whenever possible is really the key to successful trading. Most people don't realize this when they first start trading. They think that just finding winning trades will make them rich. But if you've been trading for any extended period of time, you know nothing could be further from the truth.

The key to thriving is to stay out of trouble and avoid big losses while protecting your winning trades from turning into losing trades. Without this skill, all the winning trades in the world aren't going to help you in the long run.

I guess the real problem comes because most people don't learn this until they've already learned bad habits that are difficult to change. For most people, they realize they must take a defensive position with their trading, but they don't realize soon enough. In fact, when they finally do learn that they need to be protecting themselves, they've usually acquired poor habits that conflict with the idea of protecting themselves.

I've come across thousands of traders. Unfortunately, many of them have the same problem. Because they've been beaten up so many times by the market, they get very, very, greedy when they do get a winning trade. In fact, they are so greedy they do very little to protect the winning trade they're in at the time. It's not as if they don't know they should be protecting themselves (by trailing a stop order to protect profits or locking in a break-even trade if the market goes your way). They know they should be taking a defensive posture (in other words, limiting their risk in every way they can), but their greed and bad habits override what they should be doing. And, of course, it's no surprise that these people turn large winning trades into large losing trades.

Without changing those bad habits, it will be impossible to succeed. The greed makes you not protect yourself. But being greedy is not in your own best interest. In fact, just the opposite, being greedy is in the best interest of other traders out there because if you are greedy, you will simply give your money to them. There is very little chance of holding onto it.

So we need an exercise to help us protect ourselves by limiting our risk. Thus, we will consistently act in our own best interest and not be greedy. My guess is if you are constantly turning your winning trades into losing trades, you aren't acting in your own best interest, and this exercise can help you change those bad habits.

EXERCISE

1) Get in a relaxed state with the relaxation technique "Calm Body, Calm Mind."

2) In this visualization exercise, we want to mentally practice trailing our stop orders to lock in break-even and profitable trades. It is very important to take a defensive posture when trading, and this exercise can help us learn to make that a habit. In other words, we want to learn to "Stay Out of Trouble." (This is a term used on the trading floor that means a trader is having a bad day, but he is still acting in his own best interest. In other words, even though he is having losing trades, he is not losing too much money.)

3) Just like in the previous exercises, we want to visualize some trades in the past where we were successful. Hopefully, you can remember some trades where you did trail your stop order to lock in a profit and you were successful in doing so. Remember the details (as much as possible) of those trades and relive the winning feelings you had. Play those trades back in your mind realizing that you were acting in your own best interest by protecting yourself and your profitable trade.

4) If you can't remember a trade where you trailed your stop order, or if you haven't had any trades like that, then you'll need to make them up. Remember to use as many details as possible and to feel how you would feel if you were acting in your own best interest and having successful trades. It will help if you can get some confident feeling first by remembering a time when you were confident (even if it's not related to trading).

5) The next scene you want to see in your mind's eye is you getting into a trade that you perceive as a good opportunity. Again, it's easier if you can remember a previous trade (thus, it's easier to remember and see the details if it was a real situation). But you can always use an imagined situation if you don't have a real one. See yourself getting into the trade by placing the order and your protective stop order (you should always be using stop orders in my opinion). Again, with details, see yourself watching the market. What does the computer look like? How does the mouse feel in your hand? What else is around you, a phone, keyboard, printer, hard-drive, etc. See the details.

6) The next thing we want to see in this little movie is the market starting to move in our direction somewhat. As that happens, we pick a point where the market should move and then we will trail our stop to break-even.

7) When you trail your stop to break-even, make sure you see in your mind's eye everything you would do to trail your stop. See yourself calling up and cancel-replacing your stop order. See yourself clearly scratching out the old price of your stop order and writing the new price down.

8) If you trade through your computer, then see yourself touching the keys to move your stop order to break-even. See yourself hitting the correct button to transmit the order. Do everything in your mind just like you would in real life.

9) Now switch to the next scene in the theater of your mind. Now we want to see the market continuing to move in our direction. Let's say for discussions sake that the market has now moved $800 in your favor. In your mind's eye, see the market having moved $800 your way on your chart. You don't want the market to come all the way back and take your profits away. So you need to trail your stop to lock in some profit.

10) See yourself trailing your stop to lock in half your profit. See yourself picking up the phone to cancel-replace the order again. See yourself scratching out the old price again and writing in the price. Was there a new order number? Mentally write that down too.

11) Now see the market coming back and hitting your stop order. See yourself taking a nice profit because you acted in your own best interest. Feel those winning feelings, and get ready to move onto the next trade.

One of the most important things you can think about (and get into the habit of thinking about) is the previous trade is now over. No matter what happens next, that trade is over and it's now time to forget it and move onto the next trade. Many people get caught up in the idea that they should have done this or that differently. At the end of this visualization exercise, you should see yourself effortlessly forgetting about the last trade (no matter what happened), and move onto the next trade. The next exercise will help you forget about your previous trades.

Chapter 32

CLEARING THE CALCULATOR

This exercise is based on what's called a "high voltage image." A "high voltage image" is a mental picture, symbol or quick mental movie that is vivid, memorable, and can have substantial impact on our thought process. High voltage images are pictures we see in our mind that everyone is familiar with and can relate to. This is a little different than the mental movies we've been talking about.

Everyone is familiar with what a calculator looks and feels like. In this case, we are going to use the "clearing the calculator" exercise to help us forget about our past trade and move confidently onto the next trade.

A problem many people have is forgetting about their previous trades. For instance, if someone has a losing trade, they take the results of that losing trade and it influences how they act in the next trade. But as I hope you know, one trade has nothing to do with the next. The market certainly does not take into account how you traded in your previous trade.

Even though most people realize this, they still let their previous trade influence what they will do next. For example, if you've just lost $500 on your last trade, does that have anything to do with how much potential the market has to move on your next trade? No, of course not. But many people will not be satisfied until they've made that $500 back. They don't consider that the market may not be offering $500 in the next trade, but because they can't forget about the last trade, they aren't satisfied with less than $500. This kind of attitude makes for some very bad trading decisions.

So we need an exercise to help us forget the past trades (no matter what happened) and move confidently onto the next trade. This "high voltage exercise" will help you to move onto your next trade without allowing your last trade to influence you negatively.

<u>EXERCISE</u>

1) Get in a relaxed state with the relaxation technique "Calm Body, Calm Mind."

2) Picture in your mind's eye a giant handheld calculator. Feel the calculator in your hand. See the screen and the various buttons on the calculator. Imagine that you see the buying and selling price as well as the result of your last trade on the screen of calculator.

3) Now we need to forget that trade. No matter if it was a winner, loser, or a break-even trade. We still need to forget that trade and move onto the next one. No matter what happened, we can't change the past. We can only keep our mind clear to be productive in the future. This is what clearing the calculator will do for you.

4) Now that you see your trade on the screen on our calculator, we will need to clear the calculator. See yourself in your mind's eye with your big finger pushing the clear button on the calculator. Take in a deep breath while pushing the clear button down. As your finger lifts up off the button, let out that deep breath and expel all your tensions out as you clear the screen on your calculator. By pushing the clear button, you are getting rid of this trade forever. You cannot change it, you can only move forward and forget about it.

5) Now you see the calculator screen completely blank after you've pushed the clear button. The decisions you've made on the previous trade are gone forever. Take a moment to feel how much more relaxed you are.

6) Only now are you mentally ready to look for the next trading opportunity. Now that the calculator is cleared, the next trade that you do can stand on it's own. In other words, the next trade has nothing to do with how the previous one worked out. And since the calculator screen is now blank, the previous trade will have no influence on the next one.

7) This exercise may be a bit cumbersome at first, but with practice, it will become easier and easier. After a short while, you'll be able to use the "clear the calculator" exercise in a matter of a few seconds.

Chapter 33

MAKE YOUR OWN VISUALIZATION EXERCISES

Now you've seen a number of visualization exercises you can use to help improve your trading. You've seen how visualization exercises work and how using either real or imagined experiences can benefit you tremendously.

You've seen how using as much detail as possible can make the visualizing techniques even more powerful. You've gotten some ideas on how to go into the theater of your mind and change your bad habits into good habits. You've seen how getting into a relaxed state is so important before using the visualization exercises.

With practice, you can now see the mental images clearly in your mind's eye. Now it is time for you to come up with some of your own visualization exercises. Now that you have the proper tools, it should be easy for you to come up with some exercises that will help your trading.

You simply need to find out what parts of your trading you are having trouble with or, in other words, what are some of your bad trading habits. Once you've done that, simply build some visualization techniques to break those bad habits. Here are some things to remember when making your own visualization exercises:

1) You must be relaxed when doing visualization techniques. Trying to do these exercises with a stressed or tense attitude will simply not work.

2) Use as much detail as possible. Always use your senses to help you visualize. Can you see, feel, smell, hear all the things in your visualization clearly. If you can't, you need to continue practicing until you do. Remember, as adults, we've most likely stopped using our imagination like when we were kids. We need to strengthen our imagination as if we were trying to get physically fit. It takes practice, exercise, and time to get good.

3) When you first start with visualization exercises, try to do them at the same time each day. This will reinforce the habit.

4) Remember to build a theater of your mind in which you will watch the visualization process. Dr. Maltz has found that using a theater (something everyone is familiar with) has much better results in helping people see the images clearly.

5) Remember your past success to give yourself that winning feeling before and after visualizing. This will help give you the confidence it takes to succeed in the future as you make that winning feeling a habit.

6) See yourself with kind eyes. In other words, do not beat yourself up for your mistakes.

Instead, you should forgive yourself completely and move on. By continually reliving your mistakes, you are actually practicing the mistake so that it can happen again in the future. Forgive and forget your mistakes.

Psycho-Cybernetic techniques can help you do much more than simply being a better trader. They can help you with relationships, athletic competition, confidence in sales, social activities, etc. The book *Psycho-Cybernetics* has helped hundreds of thousands of people improve their lives in many different ways. There is no reason it can't do the same for you.

Here Are Some More Visualization Techniques

I remember when I first learned about using visualization techniques quite a few years ago. Whenever I would have a problem with my trading, I would build a visualization technique to help me get rid of that problem. The following are visualization methods that I've used in the past. I put these in here to show you how easy it is to make up your own techniques to help you with any trading problem you may be having.

Trading Too Early In The Morning

For a while, when I first started trading off-the-floor, I would put on a trade right after the open. I was so used to trading on the floor where I would do between 150-200 trades a day. That's actually a small number of trades for a floor trader. Because of this, I would want to trade immediately after the open, even if there wasn't the best opportunity. I just wanted to be involved because I was so used to trading first thing after the open.

The problem was this was costing me a lot of money because I was usually having losing trades on the volatile openings in the S&P 500 futures. It would also put me in a negative frame of mind because many times my first trade of the day was a losing trade. So I made up this visualization technique to help me avoid trading until there was a clear opportunity:

1) Get in a relaxed state with the relaxation technique "Calm Body, Calm Mind."

2) Watch yourself in the theater of your mind. You want to see yourself sitting at your computer screen right after the market opens. See yourself with as much detail as possible watching the market. See the clock right after the open. What does the computer screen look like? How does the computer mouse feel in your hand? How do the keys on the keyboard feel?

3) I would see myself watching the market for the first half hour of the day. I would see myself being tempted to put on a trade. But then, in my visualizing, I would see myself resisting putting on the trade because of how much money I was losing just to be in the market instead of waiting for a clear trading signal.

4) I would see myself clearly waiting until at least 30 minutes after the open before putting on my first trade of the day. (I would actually watch the clock in the theater of my mind and avoid trading until 9:00 CST.)

5) I would then see myself perceiving a clear trading signal and, in my mind, I would take that signal. I would then see that signal working out because I was patient and didn't trade just to trade. I would then clearly see myself having a profitable day because I got off to a good start instead of the old habit I had of constantly having to dig myself out of a hole each morning.

6) Does this mean I didn't ever have losing trades in the morning anymore? Of course not! But what it did do is get me out of the habit of feeling like I had to be in the market as soon as it opened. And you know what, after watching this little movie in my mind, my trading really improved over the next several months.

<u>Are You Having Trouble Visualizing?</u>

This is really more of a way to do visualization exercises than it is actually an exercise. A friend of mine once told me about this when I was first learning about visualization techniques. It's really for people who are having trouble seeing themselves in their visualizations. Here's an idea that may make it a little easier:

Some people have a hard time seeing themselves in their mind's eye. This is a big problem because it's important to see yourself acting the way you want in your mind's eye first. Then, after that, your behavior will start to change.

So I would suggest instead of seeing yourself in your mind's eye, try and see someone you admire. Do the visualization exercises, but imagine how the person you admire would handle the situation.

The reason this works is unfortunately because we hold such a poor image of ourselves. Usually, the reason a person has trouble with visualization techniques is because they don't really believe they can change, even though they probably could change. So using somebody you admire can make the visualizing a little easier. Just remember, as it gets easier to see the pictures in your mind's eye, switch the person in your movie from the person you admire to yourself (who you should also admire!).

Chapter 34

MORE RELAXATION EXERCISES

The following relaxation exercises can be used instead of the "calm body, calm mind" exercise. (Taken from Psycho-Cybernetics):

1) In your mind's eye, see yourself lying stretched out upon the bed. Form a picture of your legs as they would look if made of concrete. See yourself lying there with two heavy concrete legs. See these very heavy concrete legs sinking far down into the mattress from their sheer weight. Now picture your arms and hands as made of concrete. They also are very heavy and are sinking down into the bed and exerting tremendous pressure against the bed. In your mind's eye, see a friend come into the room and attempt to lift your heavy concrete legs. He takes hold of your feet and attempts to lift them, but they are too heavy for him. He cannot do it. Repeat with arms, neck, etc.

2) Your body is a big marionette doll. Your hands are tied loosely to your wrists by strings. Your forearm is connected loosely by a string to your upper arm. Your upper arm is connected very loosely by a string to your shoulder. Your feet, calves, and thighs are also connected together with a single string. The strings which control your jaw and hold your lips together have slackened and stretched to such an extent that your chin has dropped down loosely against your chest. All the various strings which connect the various parts of your body are loose and limp and your body is just sprawled loosely across the bed.

Many people will find this the most relaxing of all. Just go back in memory to some relaxing and pleasant scene from your past. There is always some time in everyone's life when they felt relaxed, at ease, and at peace with the world. Pick out your own relaxing picture from your past and call up detailed memory images. Yours may be a peaceful scene at a mountain lake where you went fishing. If so, pay particular attention to the little incidental things in the environment. Remember the quiet ripples on the water. What sounds were present? Did you hear the quiet rustling of the leaves? Maybe you remember sitting perfectly relaxed and somewhat drowsy in front of a burning fireplace long ago. Did the logs crackle and spark? What other sights and sounds were present? Maybe you choose to remember relaxing in the sun on a beach. How did the sand feel against your body? Could you feel the warm relaxing sun touching your body, almost as a physical thing? Was there a breeze blowing? Were there gulls on the beach? The more of these incidental details you can remember and picture to yourself, the more successful you will be.

Daily practice will bring these mental pictures or memories clearer and clearer. The effect of learning will also be cumulative. Practice will strengthen the tie-in between mental image and physical sensation. You will become more and more proficient in relaxation and this itself will be "remembered" in future practice sessions.

Chapter 35

WHY VISUALIZATION TECHNIQUES WORKS!

The question often comes up of why visualization techniques work so well and why so many people use them on a daily basis. It's really very simple. Everyone has a self-image or, in other words, a picture of the way they see themselves. This picture may not necessarily be true, but nevertheless, that picture will influence your behavior in extreme ways.

For instance, let's say you think of yourself as a person who lacks coordination. That alone will cause you to drop things easily, possibly slip and fall, as well as other things that go along with a lack of coordination. Your self-image (picture you have of yourself) will always control your behavior. So, on the other hand, if you see yourself as a very coordinated person, that will go along way to helping you be sure-footed. The power your self-image has over you is remarkable.

So the key to acting the way you want is to first change your self-image. Once you change your self-image, your behavior will change quickly and almost automatically.

A good example that we mentioned before was a person trying to lose weight. A person will never be able to stick to a good diet and exercise unless they first see themselves as a thinner person. Once they see themselves (in their mind's eye) as a different person, it's easy to change their behavior. They can easily eat healthier foods and make it to the heath club several days a week. But they won't be able to do this until they see the new picture of themselves.

This is why using willpower to try and change a habit almost never works. Sure you may be able to force yourself to eat better foods and get to the health club for a few days, but if you don't change the picture you have of yourself, you won't be able to sustain it.

Your self-image will say, "what are you doing, you're not a person who goes to the health club and eats all these fruits and vegetables." And then you will go back to your old habits. But if you change your self-image using visualization techniques, then your new healthy habits can take over and changing your behavior will be almost effortless, where before changing those habits would have been a huge amount of fighting with your will. But willpower wouldn't work anyway, your self-image is always much stronger.

What Does This Have To Do With Trading?

The same is true for trading. If you have the self-image of a trader who's scared and afraid to pull the trigger, then being successful and making money will be next to impossible even before you start. On the other hand, if you have the self-image of a disciplined trader who acts in his own best interest, that alone will go along way to making money consistently.

But you can't just say O.K., I now will be a confident disciplined trader and then expect it to happen. That is like trying to use willpower to force yourself to go to the health club. Just saying it is not enough. You need to use visualization on a daily basis to change that picture of yourself.

The skills you've learned here will help you to change that picture so you can become the kind of trader you want to be. But make no mistake about it, if the self-image is not changed first, the behavior will not change! It's that simple.

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4) *The Secrets of Floor Traders*, by Larry Levin - Trading Advantage 1998

GLOSSARY

Calm Body, Calm Mind - This is a Psycho-Cybernetic imbedded command. Each time you completely relax physically, you are to program your mind with the statement, "Calm body, Calm Mind." By doing this repeatedly and frequently, you will arrive at a point where merely verbalizing this command will cause you to instantly relax, mentally and physically.

Clearing the Calculator - This is a creative Psycho-Cybernetic mental training technique to "clear" all competing thoughts and distractions, and focus entirely, 100% on one thought.

Failure Mechanism - The mechanism that produces negative results when you constantly picture your past failures.

Forgiveness - An important part of Psycho-Cybernetics, to live successfully, you must completely forgive yourself as well as others.

Mental Movies - The vividly detailed "moving picture" you project onto the screen in the theater of your mind for various purposes. When using a mental movie to fuel goal achievement, remember to make yourself the star of a movie presenting that goal as if you have already achieved it.

Mental Picture - A vividly detailed "still picture" or snapshot that summaries a mental movie.

Self-Image - The picture each of us has of ourselves. This picture has been created by our experiences and beliefs, and it controls our behavior.

Servo-Mechanism - A "servant mechanism" that automatically recalls, assembles and attracts the resources needed to respond to a particular command or goal. The human servo-mechanism is part of the subconscious mind. It can be a "Success Mechanism" or a "Failure Mechanism."

Success Mechanism - The mechanism that produces positive results when you constantly picture your past successes.

Synthetic Experience, Real Experience - Much of creative Psycho-Cybernetics is based on the simple, well-established premise that "synthetic experience" is as good as a "real experience" in imprinting the subconscious mind in order to pre-determine future results. "Synthetic Experience" is imagined in the theater of your mind.

Theater of Your Mind - This is a "place" you create in your mind, in considerable detail, so that you can "go to it" instantly, at any time, any place. Your theater should include a giant movie screen where you can create and play mental movies.