

# **7 Steps to Stop Impulsive Trading From Killing Your Profits! The Psychology of You**



**Active Trend Trading  
Dennis W. Wilborn**

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***“Most trading errors come from a lack of patience and a compulsion 'to do something' - even when nothing really needs to be done!”***

***~ Active Trend Trader***

# Impulsive & Compulsive Trading

## What does an Impulsive & Compulsive Trader Look Like?

1. Driven By Emotions – May have a Winning System but doesn't use it because of:

*Fear, Greed, Ego, Lust, etc.*

2. Holding onto false beliefs like:

*I don't deserve to win!*

3. Self-Sabotaging Subconscious Conditioning

*Has Success and then Self-Destructs*

***To Avoid: Become a Mechanical Trader. Switch from a Trader to a Wealth Builder. Admit that there may be issues***

# The Psychology of You

How we think determines how we trade!

What we think about ourselves effects the way we trade!

George Carlin said, *“No mater where I go—There I am!”*

Learning to become a master trader means learning about and how to master ourselves.

Knowing ourselves is critical to successful trading!

Knowing ourselves helps us to recognize our biases and make critical adjustments to how we trade!

# The Psychology of You

There is a saying:

“If you know the market and know yourself, you will consistently profit.

If you know the market but not yourself, ***your success will be random.***

If you do not know the market or yourself, ***you will consistently lose money.***”

- Success in the market is not just about the market; it is also about knowing how you react to fear and greed.
- A trader will continue to struggle if they are unwilling to identify true characteristics about themselves, regardless of how undesirable they may seem.
- Further, the process of knowing yourself as a trader and a person will never end, so start now.
- Recognize that becoming a Master Trader is a never-ending Journey

# Biggest Trading Challenge & Opportunity – ME!

Am I up for the challenge and opportunity of me?



# Our Biggest Trading Challenge & Opportunity

- **Setting a new course is about taking inventory of ourselves and taking a *Fresh View* of what needs to be done**

**I must know about:**

- **My Current Skill Level**
- **How I handle Discipline**
- **What role does denial play in my trading**
- **Who Am I**
- **Patience Pays & Over Trading Underpays**
- **Wearing myself out by constantly chasing the vapor of the Holy Grail**
- **Trading Fear & Habits**
- **Managing my expectations**



# Food For Thought

I am your constant companion,

I am your greatest helper or your heaviest burden.

I will push you onward or drag you down to failure.

I am at your command.

Half of the tasks that you do you might just as well turn over to me and I will do them quickly and correctly.

I am easily managed. You must merely be firm with me.

Show me exactly how you want something done.

After a few lessons, I will do it automatically.

I am the servant of all great people and the regret of all failures as well.

Those who are great, I have made great.

Those who are failures, I have made failures.

I am not a machine but I will work with all its precision plus the intelligence of a person.

Now you may run me for profit or you may run me for ruin.

It makes no difference to me.

Take me, train me, be firm with me and I will lay the world at your feet.

**Be easy with me and I will destroy you.**

*I am called Habit*

~~Author Unknown



# The Psychology of You

Review Questions—What are my **HABITS**

- Am I disciplined? *In What areas of my life am I more disciplined?*
- Do I deny truths about myself?
- Can I follow rules? *How well do I follow rules?*
- Am I submissive and admissive when I should be?
- Do I easily become emotionally charged and irrational?
- How do I react when I am emotionally charged?
- Do I react without thinking?
- Do I listen without hearing?
- Do I learn without becoming wiser?



# The Psychology of You

Year In Review Questions—What are my **HABITS--cont**

- Am I a planner?
- Am I flexible, or rigid in my thinking?
- Am I prideful or humble?
- Am I objective, or opinionated?
- Do I hold a bias, or can I consider facts in an unbiased manner?
- Am I sabotaged by subconscious biases
- Am I stubborn and have to be right all the time?
- Am I greedy?
- Do I act/do things beyond my means?
- **Am I willing to change?**

**I want to write down the answers—in my Trade Journal**



# Our Biggest Trading Challenge & Opportunity

- **A Wise, Disciplined, Consistently Successful Trader has discovered that to the “Holy Grail” of trading is actually within themselves—and has been there all the time!**

**Learning a System is crucial**—if a trader does not take the necessary action here—the journey is doomed!

**Learning About Themselves is perhaps more Crucial**—a trader who is unwilling to discover who they truly are is not just doomed but will never untie from the dock!

Applying What we’ve Learned is where we start becoming Wise, Disciplined, Consistent & Profitable



# Our Biggest Trading Challenge & Opportunity

- A Wise, Disciplined, Consistently Profitable Trader has discovered that to the “Holy Grail” of trading is actually within themselves—and has been there all the time!

Grade yourself on the following between 1-10 with 10 being strongest:

1. Persistence with my goals
2. Patience
3. Determination to do what it takes to achieve my goals
4. Resilience
5. On Purpose—Stay the course
6. Accountable to myself

***Modern Life seems to be haphazard, which effects our ability to master the characteristics above!***



# Looking for Answers in non-obvious places

Asking the question—is it me?

Most often the answer is that yes it's me but it is also my lack of understanding of the system and other distractions

- ❖ Improving Our Trading Personality may require a multiple pronged approach of starting new habits
  - ❖ Physical
  - ❖ Mental
  - ❖ Psychological



# Physical

What am I doing consistently to stay healthy?

- Fitness—how many times a week do I exercise?
- Diet—do I eat healthy?
- Sleep—I can't hoot with the owls and soar with the eagles!



# Mental

What am I doing to keep my mental edge?

- Listen to my “self” talk (do I ever call myself “stupid”, or say “you can’t do anything right!”)
- If I find that I demean myself when I talk to myself—I might be getting in the way of success
- Use affirmations to speak out who I really am!
- My choice—out of the mouth come either words that curse or words that bless!
- Change the way you see yourself!



# Mental Exercises

“I am a Wise, Disciplined, Consistently Successful Trader!”

say this out loud in front of your mirror 3 times twice a day for a month!

Then add: “and a Darn Good Looking One Too!”

This is at least guaranteed to make you smile! I won't get into the importance of smiling but it does good things for you!!

Others: “I am a Profitable Trader and I apply the skills of a Profitable Trader every single day!



# Mental Exercises 2

**I am a Wise, Disciplined, Consistent, Profitable Trader because:**

I identify trend, support & resistance and momentum on every trade

I know the intermediate and short-term trend on every trade

I know if I am trading the intermediate or short-term trend on every trade

I buy where I'm supposed to buy, and I sell where I'm supposed to sell

I have a stop and target on every trade

I have written rules that follow my system on every trade

Like a master chess player I think several moves in advance—but only trade based on price action

I trade the Market not my thoughts

I follow and trade my rules and the profits take care of themselves

I take consistent action and I am consistently profitable



# Mental Exercises 3

## Develop a Probabilistic Mind-Set (Mark Douglass—Trading in the Zone)

**Admit:** Anything can happen

- I don't have to know what's going to happen next to make money
- There is a random distribution between wins and losses
- An Edge is nothing more than an indication of higher probability of one thing happening over another
- EVERY MOMENT IN THE MARKET IS UNIQUE!

I Am A CONSISTENT TRADER BECAUSE: I objectively identify my edges

- I Predefine risk on every trade
- I completely accept the risk, or I will let go of the trade
- I act on my edges without reservation or hesitation
- I pay myself as the market makes money available to me
- I continually monitor my susceptibility for making errors!
- I understand the absolute necessity of these principles of Consistent Success

and, therefore ***I NEVER VIOLATE THEM!***

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# **7 Steps to Stop Impulsive Trading From Killing Your Profits! The Psychology of You – Part 2**



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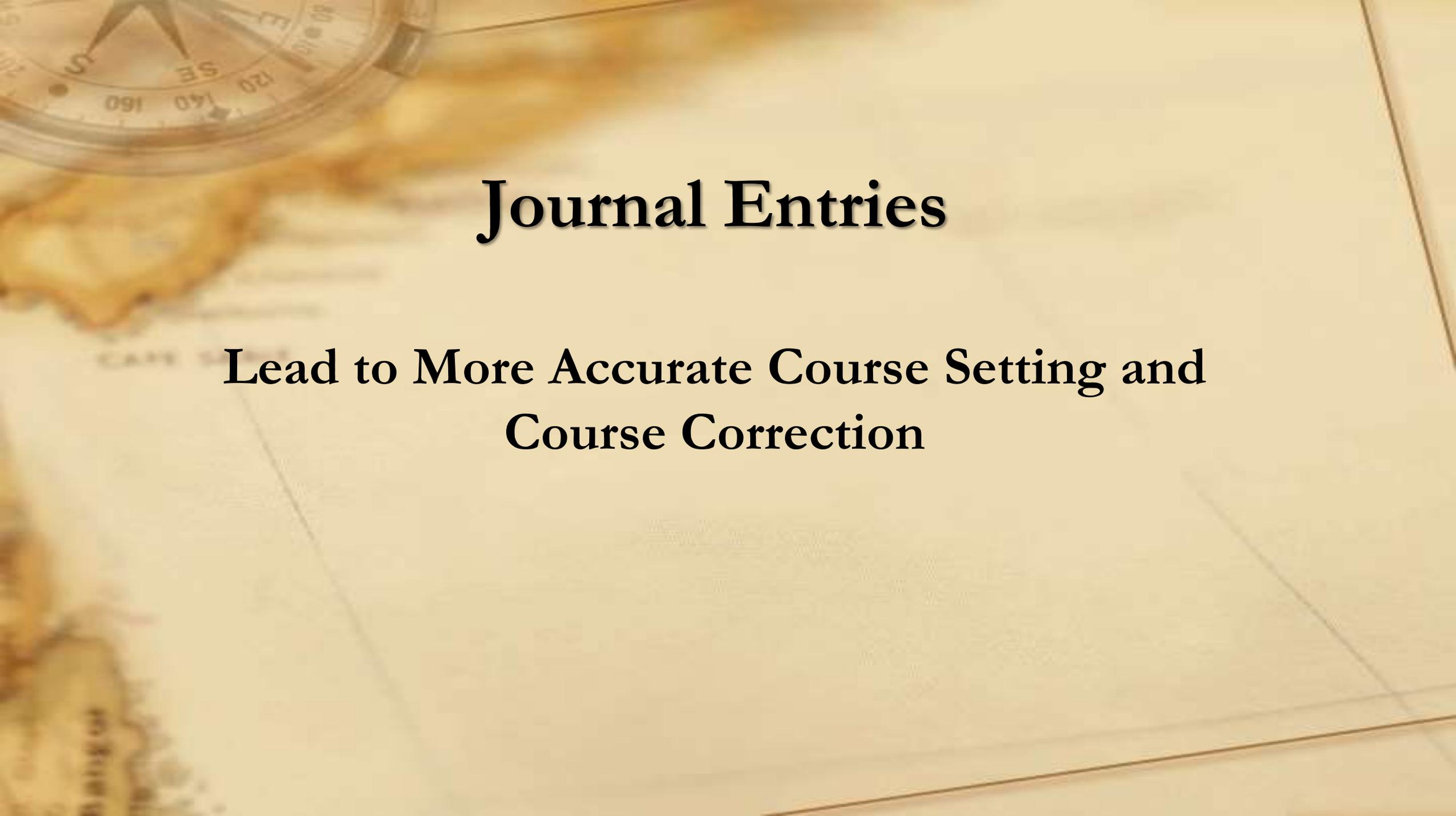
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# **Journal Entries**

**Lead to More Accurate Course Setting and  
Course Correction**

# What Went Right

- Summarize in quick bullet points specific things that worked well
  - Use specific examples: *“this week I didn’t violate my trade rules!”*
  - *“I learned how to use the 8 period EMA Entry Rule”*



# What Went Wrong

- Summarize in quick bullet points specific things that caused problems
  - *“A trade exceeded my max loss”*
- Try to isolate specific attitudes, procedures, methods, timing issues, etc. which caused problems
  - *“I properly placed my stop loss, but market action (the gap) was the cause. I traded properly and did not violate my rules!”*



# Setting a New Course

- **A Wise, Disciplined, Consistent, Profitable Trader has discovered that to the “Holy Grail” of trading is actually within themselves—and has been there all the time!**
- 1. Determine where I’ve been—own both successes and failures**
  - 2. Determine where I am**
  - 3. Determine where I want to be at the end of 2021**
  - 4. Determine the waypoints along the way to measure progress**
  - 5. What do I need to do more of**
  - 6. What do I need to do less of or stop all together**
  - 7. What are the unknown dangers**



# Setting the Course for 2021 Here's Mine

## 1. Determine where I've been

**Success:** Traded Less with more profit

**Failure:** I didn't manage distractions well and missed some great opportunities

## 2. Determine where I am

**I have an absolute solid trading system for short and long term positions**

## 3. Determine where I want to be at the end of 2021

**I have an absolute solid trading system for short and long term positions. Refinements will be slight**

## 4. Determine the waypoints along the way to measure progress

**Measure Monthly & Quarterly**

## 5. What do I need to do more of

**Trade Internally strong stocks & ETFs; Be Ready!**

## 6. What do I need to do less of or stop all together

**Letting failing trades run to full stop loss levels; stop letting distraction impact my priorities**

## 7. What are the unknown dangers

**Earning My Size Limits**



# The Psychology of You

What Progress did I make?

We can all stumble down the Rabbit Hole of just thinking about what **We THINK needs to be fixed** & Never Applaud our Successes

Take a moment: Write down at least one thing you improved since the beginning of 2021



# Some Tools to Help

1. **Trading in the Zone by Mark Douglas**
  2. **Disciplined Trader by Mark Douglas**
  3. **Trader Test: <http://www.onlineinvestingai.com/blog/van-tharps-trader-test/>**
3. **Spiral bound notebook**





# Questions & Comments



# **7 Steps to Stop Impulsive & Compulsive Trading**

# 7 Steps to Stop Impulsive & Compulsive Trading

## Step One: Staying Focused on What You Need to Learn

First and foremost, you may need to change your perspective or the focus of your trading. Until now your focus may have been to make money. If this is so, you will need to change your perspective to "What do I need to learn or how will I have to adapt myself to interact more successfully?"

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# 7 Steps to Stop Impulsive & Compulsive Trading

## Step Two: Dealing with Losses

Trading Rule #1: Predefine what a loss is in every potential trade. By "predefine," I mean determine what the market has to look like or do, to tell you that the trade no longer represents an opportunity, at least not an opportunity in the time frame in which you trade.

Trading Rule #2: 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.



# 7 Steps to Stop Impulsive & Compulsive Trading

## Step Three: Becoming an Expert at Just One Market Behavior

Generally, most of us grow up believing that when we have to make a decision, the more relevant information we can gather, the better our decisions will be. This isn't necessarily true with trading, especially in the beginning stages of one's career.



# 7 Steps to Stop Impulsive & Compulsive Trading

## Step Four: Learning How to Execute a Trading System Flawlessly

The proper execution of your trades is one of the most fundamental components of becoming a successful trader and probably the most difficult to learn.



# 7 Steps to Stop Impulsive & Compulsive Trading

## Step Five: Learning To Think In Probabilities

After you have mastered the more fundamental skills, in other words, once you have acquired the discipline necessary to interact with the trading environment effectively, you can start to use your reasoning skills and intuitive powers to determine what the market is likely to do next.

Ask yourself this question: For this trade to be valid or continue to be valid, the market shouldn't trade to what point? If it trades within that point, then the trade still has potential for working. Beyond that point, it is no longer valid in the direction that I started.



# 7 Steps to Stop Impulsive & Compulsive Trading

## **Step Six: Learning to be objective**

To achieve a state of objectivity you need to operate out of beliefs that allow for anything to happen, as opposed to beliefs that allow only for the market to express itself in a limited fashion. If you operate out of a belief that anything can happen, then whatever does happen won't be threatening to you in any way, thereby causing you to avoid or distort certain categories of market information.



# 7 Steps to Stop Impulsive & Compulsive Trading

## Step Seven: Learning to Monitor Yourself

Trading Rules When you are in a trade constantly ask yourself if anything "has to happen." Obviously, you want the market to go in your direction; however, what I want you to do is monitor how you feel, your level of commitment to what has to happen.

A question to ask yourself is - ***Are you prepared to give yourself money today?***

When you find yourself focused on the monetary value of a trade instead of the structure of the market (i.e., what the trade is worth to you in dollar terms, dreams, goals, and so forth instead of what the market is telling you about its potential to move in any given direction) then assume you are distorting or avoiding certain information and either don't put the trade on or take what you have off until you become more objective.



# 3 Stages of Becoming a Successful Trader



# 3 Stages of Becoming a Successful Trader

Your trading results will be a function of the degree of skills you develop in three primary areas:

***perception, or your ability to perceive opportunity; execution, or your ability to execute a trade; and accumulation, or your ability to allow your account balance to grow over a period of time or series of trades.***

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# 3 Stages of Becoming a Successful Trader

## Perceiving Opportunity

1. Your perception of opportunity is a function of the depth of insight into the market's behavior.

To be effective, you will need to learn how to make several types of distinctions that will provide you with an indication of a high-probability opportunity from an objective perspective. In other words, what I call making an uncommitted assessment of the probabilities.

You can then believe that each trade has a potential to make profit – not a guarantee of making profit based on what you want.

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# 3 Stages of Becoming a Successful Trader

There are several components to this process, but the two most important are:

1. instituting a completely effectual trading approach
2. learning how to release yourself from the negative emotional energy stored in your memories of past trading experiences

## **These help develop self-trust**

Consequently, without the self-trust that develops from the effectual approach, you will constantly fear the unpredictability of your own behavior, even if only at a subconscious level. At the same time, you will likely project this fear into the markets as being erratic and seemingly unpredictable, when it is your own behavior you fear the most, and have not addressed or learned to manage.

The market can't do anything to you if you trust yourself to act appropriately under any market condition! Learning this is the key to gaining the level of confidence every trader needs to be successful.

# 3 Stages of Becoming a Successful Trader

And with trading – you can convince yourself that if you simply avoid losing trades, if you do everything in your power to “make sure” your trades are winners, then you will never have to address the negatively-charged and limiting beliefs you have about having a losing trade, losing money, being a loser – and all the baggage that goes along with feeling like a loser.

And you end up with a static, downward-moving mindset like the illustration in the chart above – never moving onward and upward – but rather, gradually moving into a more negative position (losing more and more in the markets) because of your fear.”

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# 3 Stages of Becoming a Successful Trader

## Executing Your Trades

2. Your ability, or inability, to execute your trades, is a function of the amount of fear you generate – or the lack of it.

Fear is always the result of your beliefs about what you perceive as the threatening nature of the [market] environment.

Think about this – what could be threatening about the market? Nothing, if you had the confidence and complete self-trust in yourself to act appropriately under any given set of market conditions.

***Essentially, what you fear is not the markets, but rather your inability to do what you need to do, when you need to do it, without hesitation.***

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# 3 Stages of Becoming a Successful Trader

## Self-Acceptance

Your intent of learning a new skill or way of expressing yourself is in essence an attempt to create a new dimension of yourself.

The market will quite naturally make you face what is inside of you on a moment-to-moment basis. What is inside of you could be confidence or fear, a perception of opportunity or loss, restraint or uncontrollable greed, objectivity or illusion.

The market just reflects these mental conditions, it does not create them.

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# **7 Steps to Successful, Fearless Trading Thoughts**

# 7 Steps to Successful, Fearless Trading

1. Do you really believe that trading is a “mental” game?
2. If so, in what ways? And to what degree? If not, why not?
3. What do you believe you are worth, right now, today, to be able to take profit out of the market? Meaning, how much do you believe you can effectively take in profit right now?
4. Based on your answer to #3, how many times have you been able to take that amount out of the markets in profit in the past? Be honest.
5. What is your definition of a “pre-defined” loss? Be specific.
6. What does it mean to you to “cut your losses?” Be specific.
7. What does it mean to you to “execute” your trading system without fail? Be specific.
8. What does it mean to you to “follow your rules?” Be specific.
9. What is your definition of a “valid” trade? Be specific.
10. What is your definition of being “objective?” Be specific.
11. Are you objective? If so, explain why and how. If not, explain why not.

# 7 Steps to Successful, Fearless Trading

Because you always attract to yourself what you are most afraid of.

If your primary fear is losing trades – then you will create losing trades because your perception of the market environment will only allow you to see market movement in ways that will create more loss.

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# 7 Steps to Successful, Fearless Trading

The difference is that the traders who can make money consistently on a weekly, monthly, and yearly basis, approach trading from the perspective of a mental discipline. When asked for their secrets of success, they categorically state that they didn't achieve any measure of consistency in accumulating wealth from trading until they learned:

- self-mastery
- emotional control
- the ability to change their minds without a second thought, to flow with the markets.

First, we want to point out that self-mastery, emotional control, and learning to change one's mind after making a commitment, are all psychological issues that have nothing to do with news services, advisory services, new exchanges, technical or fundamental trading systems, live commentators or chat room hosts notwithstanding.

# 7 Steps to Successful, Fearless Trading

“What also became very apparent to me was the extent to which all of my fears had effectively blocked me from understanding why it was so absolutely necessary to have some clearly defined trading- and money-management rules, that must be followed without fail.” ~ Mark Douglas, The Disciplined Trader

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# 7 Steps to Successful, Fearless Trading

The irony is, of course that on the surface, trading looks so simple, when in fact most traders will find it to be the most difficult endeavor they ever undertake. Success will always seem so close, and yet in actuality be elusive. And this frustration will continue until the trader adapts to the conditions that exist in the trading environment – by learning a new thinking methodology, a methodology that works most effectively in that unique environment – and not what the trader thinks will work, based on his cultural, social, educational, and demographic upbringing.

The achievements of people who do things very well and excel beyond what other members of the same culture of society would consider possible – do so as the result of a specific way they think – in other words, a thinking methodology in which their beliefs are in some way different from everyone else's.

- And, that this methodology can be broken down into a system that can be learned and subsequently taught to others. In other words, the only difference between those who excel and those of mediocre achievement is that one group has learned a thinking methodology that has not occurred (or been taught or learned) to the other.

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# 7 Steps to Successful, Fearless Trading

Have the discipline to abide by these rules, even though the market moves in ways that will constantly tempt you into believing you don't need to follow your rules this time. This market movement allows you to indulge in any illusion or distortion that suits your frame of mind (wishing and hoping, revenge trading, TZL, and so forth) in any given moment.

Also because the event never ends and is in constant motion, there is always the possibility of “getting back” what you are losing in any trade. You won't need to actively participate to get back what you are losing; you just have to stay in your trade and let the market give it to you.

As a result, there is the constant temptation not to cut your losses which is very difficult to resist. Why choose pain over the possibility of being made whole, when all you need do is ignore the risk.

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# 7 Steps to Successful, Fearless Trading

Whether you perceived the current market condition as an opportunity and didn't act on your perception, or didn't realize it was an opportunity until after the move occurred is, again, a direct reflection of your unique psychological makeup. You and your beliefs are what attach the meaning – good, bad or indifferent – to any particular move.

From an objective perspective the next up-tick can be described as the price just moved one tick up from the previous price. That is a reality about that one-tick price change we all share. However, to one trader that one up-tick could be the final defeat in a short position he had been carrying. To another trader, it could mean a perfect selling opportunity because the market just can't go higher. To a third trader it could mean a buying opportunity because the market broke out of a resistance area, based on the way he defines resistance.

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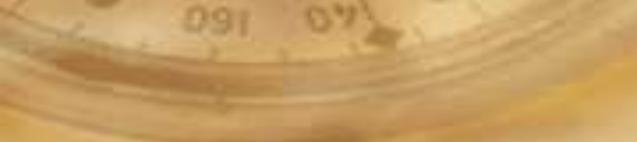
# 7 Steps to Successful, Fearless Trading

The unique way you define a loss (your beliefs about being wrong) and what it means to you about losing, is a component part of your psychological makeup. Your beliefs will interact with your perception of environmental information to form the particular way you pick and choose whatever information you happen to focus your attention on. The market has nothing to do with this process, even though that is where the information is coming from.

“That information, all information, is getting filtered through your core beliefs about money, success, being right or wrong, feeling stupid or smart and so forth – and those beliefs, instilled years ago usually by others outside of you when you were younger; beliefs you may or may not be aware of today – will create the type of markets and trading results.”

In the trading environment the outcome of your decisions is immediate, and you are powerless to change anything – except your mind. The power you have to create more fulfilling outcomes from your trading resides in your degree of mental flexibility.

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