

LESSON SEVEN: PSYCHOLOGY OF TRADING

Many traders face the challenge of removing all emotions from stock trading. Here are some strategies that can help. Remember, it's about creating a disciplined approach to trading that minimizes the influence of emotions on your decisions.

Set Clear and Realistic Trading Goals

Establish what you want to achieve with your trading activities and ensure these goals are attainable. If you wish additional monthly or quarterly income, make that your goal. If you're going to build up money for a downpayment on a new home, document that. It is essential to focus on your goal. Consider writing the goal down and placing it near your trading area (computer, etc.). So that you can focus on the goal and only set one goal at a time. Two goals will give you cause to be ambivalent. You want to be laser-focused on your trading goal.

Develop a Solid Trading Plan

A well-thought-out plan will guide your trading decisions and help prevent impulsive actions driven by emotions. This is the first of many references to disciplined trading. Set down a daily or weekly routine. When will you prepare for trading? You will learn that trading requires preparation, and then you can smoothly execute. We do not want the impulse to be a part of trading. If you become disciplined and have a routine, there will not be a place for emotions.

Keep a Trading Journal/Notebook

Documenting your trades and emotional responses can provide insights into patterns affecting your trading decisions. Women call it journaling, guys notetaking. Whatever you call it, the notes you take while trading and after trades close will become your best friend. If a trade is disappointing, you will have ideas of why when you close it. These notes should not be facts; instead, they should be your beliefs or feelings. If you felt rushed when opening the trade, note that and figure out how to eliminate the rush. What caused it? What is a good thing to change?

Practice Mindfulness and Relaxation Techniques

These can help maintain emotional equilibrium and reduce stress that might lead to emotional trading. It is challenging to be at your best when your head is stuck thinking about something else. Make sure that your head is “in the game.” Often, it is good to set aside some time after arriving home from work. Clear your head, have some wine or tea, and “just chill.” After you are rejuvenated, your planning for a trade will always be better.

Think in Probabilities

Focus on the expected outcomes of your trading system over time rather than the result of any single trade. This is something that most of us never think to do. Remember that in the big scheme of things, we all know there will be times when we lose at a trade. But if you look at the trading system, you will prevail if you are calm and diligent. Probabilities control all trading. We all understand that if you flip a coin, there is a 50-50 chance you will get ahead. But if you trade many small trades, your chances of success (your probability) are very high. Getting your head

wrapped around the probability issue may take some time. But I promise that probabilities control all this and that realization will give you solace.

Continuous Education

Keep learning about the market and your trading strategy to build confidence in your decision-making process. Study trading using information gleaned from the internet. Watch videos on occasion from YouTube. Read books from experts who have been trading for decades. This will give you a better understanding of how it all works. You will learn that the frustration you occasionally feel is familiar and, at one time or another, has been felt by all traders. You can learn how they dealt with it and how they overcame it.

Diversification

Spread your investments across different assets to reduce the emotional impact of any trade's outcome. This is the other side of the probability discussion we just had. When you spread your trades over several trades, you increase the odds of success by probability. Another side of diversification is ensuring you understand how the stocks you trade will react differently to market changes. If you have too many trades with companies offering similar items (like Coke and Pepsi), your diversification may differ from what you intended.

Automate Your Trading

It uses algorithms or trading bots to execute trades based on predefined criteria. This can help eliminate emotional interference. This is a truth that most traders either cannot understand or do not have access to the tools they can use to do this. It is at the core of the Modern Trading System. During the remainder of this course, we will explain how you can do this. Later, you will see the step-by-step process of it, and you will greatly appreciate how motivating and helpful it can be.