Chapter 1

Find a System

Most people are intimidated about the markets. This is natural because the markets move in random patterns and most people haven't studies to become full time traders. Most people spend a lot of money in education and a lot of time to further their careers. They focus on the stuff they can control…namely, their paychecks and how to increase the size of their take home pay.

Yet most people also know they need to prepare for retirement. So they invest their money with people they think are expert traders like brokers, financial advisors who we tend to put on the same esteem pedestal as doctors who we trust will do anything they can to improve our chances at a long and healthy life.

But that's just not how they're paid…they're paid based on how much money they have under management, not by how well they produce on your behalf. Over the past 20 years, the average mutual fund has only returned about 4% after fees—certainly not enough to grow whatever you can save into an amazing retirement.

At some point in life, people wake up to the fact that they won't have as much as they expected when they retire and so they feel pressure to begin trading their own money hoping for a better result in a sort of "last-ditch" effort to change their unhappy economic reality.

So they begin to research alternatives. Yet this is also confusing because so many companies make such big promises about their "easy," "proven," "secret," or "highly-successful" trading systems.

Yet through his direct experience with tens of thousands of people who paid many thousands of dollars to learn such systems, this author has seen only a few actually have consistent market profits and trade their way to financial freedom.

Determined to find the underlying problem, the author spent seven years and a quarter of a million dollars working with over 5,000 people. What he found is that two ingredients are necessary for market success. These two ingredients are:

1. A trading system with a quantifiable trading edge
2. Understanding of and confidence in probabilities to avoid the emotional swings caused by trade outcomes

It’s easy to buy a system promising (or over promising) big returns. It’s less easy to actually follow that system. What the author discovered is that despite the purchase of expensive educational programs or a sincere desire to improve their results, most people tend to trade with a “buy; then hope, wish and pray for a profit” attitude.

Generally this haphazard approach is caused by the part-time nature of the effort. Most people who trade their own account also have full time jobs or careers where they spend much of their energy and focus.

What this means is that most people feel a little uncomfortable about the markets. This trepidation about the markets or trading their own money makes it even harder to trade a system confidently. This makes it harder to approach the markets with any sort of consistency. Inconsistent application of a trading system makes for inconsistent and unprofitable trades over time.

Even worse, inconsistent results makes it easy to turn to others (the so-called “experts”) for advice or trade ideas. The concern with this approach is that by turning to these other people who don’t care about your money or about your financial future as much as you do, a person gives up the ability to learn how to generate a Warren Buffett guaranteed 50% annual rate of return (on smaller accounts) and settles for the average mutual fund return of low single digits.

The difference between 50% a year and the 4% managed by mutual funds over the past 20 years amounts to millions of dollars of missed opportunity. It’s not too late to retire wealthy. $25,000 turns into over $3 million in just 10 years at 50% a year compounding which will never be achieved by placing your money with experts.

In a groundbreaking study published by Bloomberg Magazine in 2017, it was found that Americans lose at least $17 billion a a year to conflicts of interest between them and the experts they hire to manage and grow their money. We think of these financial advisors as a means to our retirement ends….but the sad truth is they think of us as simply a means to theirs.

Where does the conflict of interest come from? It comes from how we pay them. Financial advisors, brokers, IRA custodians, and other experts are paid a management fee on the money they have under management. The fastest way for them to grow their income is by increasing the amount of money they have under management.

For example, let’s say you choose to place $100,000 under management and that the financial advisor (for easy math) makes a 10% management fee. Let’s further say they work diligently and are able to double your account size to $200,000. So over the course of the year, they doubled their income from $10,000 to $20,000. This is great for you but not that great for them.

A better choice by far is to instead spend their time finding 100 more people just like you willing to put $100,000 under their management. This would increase their income from $10,000 to $1,000,000 during the same year!

Putting other people in control of your investments can be dangerous even as it is seductive. This is another version of the “Buy; then hope, wish, and pray for a profit” method of investing. You’ll always feel a level of financial stress because you won’t know how well they’ve prepared you for retirement until it’s almost too late to change the fate of your financial future.

Most of the people I’ve worked with over the years are older who one day woke up to the fact that unless they did something different, they would not be able to retire. The bottom line is that unless you develop your own ability to trade the markets profitably, you’ll never feel financially free and you’ll never know financial peace.

Be cautious as you think about experts you trust your future with. Trading experts come in many forms. They could be your friend, neighbor or family member. Experts can be the “talking heads” on TV telling you what they think the market is going to do. Maybe your expert is your broker or financial advisor. Each of these sources of expertise have one thing in common: they do NOT know what is going to happen tomorrow. In fact, no one knows with absolute certainty what is going to happen tomorrow. All of these experts are guessing or forecasting what they think is going to happen but none of them really know.

If you learn to take control of your financial future by gaining an education about the markets, you will be able to make forecasts about future stock movement and then track your success or failure as a forecaster. What this allows you to do is become a better forecaster over time as your skills improve. This is one way to become financially free; independent and filled with financial confidence.

By depending too heavily on an expert, you never really learn how to make your own forecasts and your financial future is in the hands of someone else. Is this something that inspires confidence? I once spoke with an individual in my office who had lost hundreds of thousands of dollars a few years earlier during the market crash of 2008 because his expert didn’t get him out in time.

During that meeting in my office, he related to me how difficult that time was. How filled with fear and hopelessness he’d been. He told me that he was so tired…and that as a retiree, he didn’t know how to start over and hated the thought of having to go back to work.

Then he responded to one of our advertisements about learning how to trade for yourself and he started going to class. At the time he came into my office, he simply wanted to express heartfelt joy and appreciation to me for the classes and the instructors he’d learned so much from. He had finally seen the bright hope of a new day after a dark night of hopelessness. He’d become confident in his ability to put his money to work and knew that his retirement would be as good as he'd imagined it even after the significant loss.

In addition to the confidence one feels once they master a consistently profitable market strategy is the ability to improve results over time as more experience is gained. Expertise cannot be grown and results cannot be improved if one depends on someone else for help.

Over time, as you learn to get better at focusing on (and exactly following) your successful method, you'll gain more confidence which reinforces your decisions and improves your annual results. An instructor of one of my classes was able to average 73% a year over two years just through his in-class trades. Continuous improvements in knowledge will lead to continual increases in annual returns which significantly impact your financial future for good.

Successful investors (like successful athletes) often hire an instructor. While expensive, good instructors improve performance which pays for itself. I often asked people who had traded for many years why they would spend their two most important assets (their time and money) to attend an Investools Seminar. The answer was always the same…in essence they said, "If you can help me learn one thing that will help me improve my annual ROI, it will be worth it."

Gaining the ability to think in terms of probabilities as you confidently and consistently follow a successful system give you a home base and clear expectations about outcomes over many trades. This home base is composed of a set of rules that you follow no matter what.

Finding a system requires knowing natural tendencies

Most people who put their money to work in the markets make the mistake of thinking that any system will work. But this is simply not true. Some systems work better for some temperaments, backgrounds, life experiences, mental filters, and patterned emotional responses than others. Identifying your risk profile and what kind of trading fits you best is key to helping you be more consistent in your approach and make more profits in the markets.

Trading causes stress. It's stressful to lose money. It's stressful to lose out on profits when getting out too soon. It's hard to consistently follow a system (and your trade plan) when individual trade outcomes frequently cause such radical emotional responses and confidence-destroying self talk.
We believe the best way to overcome the natural stress caused by trading is to align your strategies and market tactics with your natural risk profile where it becomes easier to make the right decisions under pressure.

Our research has identified three main risk profiles:

1. Win Big – Base win rate: 33%, many small losses, a few big winners.
2. Just Win – Base win rate: 50%, wins and losses about the same
3. Win Frequent – Base win rate: 67%, many small gains, a few big losses

We call these risk profiles your Natural Trading Style. Some people like big wins and are okay with a number of smaller losses in comparison. Others prefer winning as many times as possible and are okay with the occasional larger loss.

If you want to know your Natural Trading Style (and get a sense of your risk profile) click the link below and answer 9 simple questions to get your results:

Click HERE to discover your Natural Trading Style

Knowing your Natural Trading Style and understanding how to approach the markets from the strengths of your life experiences, habits of thinking, and natural emotional responses to stress is half the battle to becoming a successful investor.

The other half is the ability to think in probabilities and to remain confident in your approach and therefore consistent in your trading despite the fluctuations individual trades make to your account.

Developing your skills as a trader, similar to developing your skills in your profession takes time, effort, and a serious commitment to achieving the highest level of success you can so as to achieve the richest returns.

You are the architect of your future. Each choice you make shapes your path little by little as you walk through the journey of your life. If you want to achieve financial freedom and have true financial peace, you need to make choices that result in improved market performance.

This doesn't mean you have to work harder, sacrificing time away from the family and it doesn't mean you need to scrimp so hard just to save a few dollars more….all it takes to achieve real wealth is developing the skills to compound your money through better trading. As a smaller investor, you can do FAR better than any professional you hire to manage your money…if you want to.

During Marine Corps boot camp, our platoon was taken to the rifle range for two weeks to learn how to shoot the M-16A1 rifle. The first week consisted of sitting around in a circle with plastic guns learning proper bone support and breathing techniques and trigger control. Not a single shot was fired. It was only in the second week that we applied our knowledge with actual weapons, firing at actual targets. The best shooters applied their training better than anyone else.

Now that you know how important it is to find a good investment system that fits your risk profile, how do you find it? The first step is to sit down and really think about who you are. Here are some questions that might help you get started:

- Does your career choice lead you to think you're a Win Big style trader or a Win Frequent?
- Do you embrace structure in your life or do you struggle to define and then live by a set of rules?
- How much time do you want to spend on your computer trading?
- Are you able to tune out the noisy and conflicting signals and stay centered on your approach?
- Are you willing to go through a learning curve to get better?
- Can you put past failures behind you?
- Can you limit your emotional response by focusing on following your process more than on the outcome of individual trades?
- What is the statistically expected outcomes of the trading system you're contemplating?

Aligning your natural risk profile to the risk profile of your strategy takes more work upfront but helps you avoid situations where you have to fight against your natural inclinations which frequently show up as dumb mistakes that lead to losses when trading.

It helps us stick to our approach so we don't get confused by by conflicting signals or differing opinions from the experts or others we talk to. By knowing who we are, what our system's base winning percentage is, what our investment goals are, and what our investment time horizon is we are able to make more consistently profitable choices in the markets.

This alignment of risk profiles makes it so much easier to focus on the most important number of your financial life: Your annual ROI despite short term market swings or the inevitable losing trades.

Good investors know their limitations and operate within those limitations. They know they can't be good at every system, so they stay focused on trading systems that work for them. This is part of it takes to be consistently successful.

To illustrate this point, let's use the example of perhaps the most successful investor of all time, Warren Buffet.

Warren Buffet is a value investor. He finds companies with great fundamentals trading at a discount and he invests in those companies. He often says that he doesn't not buy the stock, he buys the business. For decades this approach was hugely successful for him. Yet during the last part of the 1990s his investing system seemed to stop working. This was during the phenomenon known as the “new economy” during the dot com bubble when lots of new, unprofitable tech company stock just kept going up and up and up.

During this heady time in the market, many people began to question the abilities of Mr. Buffet. The Oracle of Omaha (as he is known) seemed to have lost his golden touch because he refused to invest in technology where all the real money was being made. And yet, he had confidence in his approach and stuck to his system. He remained disciplined in the market and he operated within his limits. He stayed out of technology because he did not understand it and because these companies where neither profitable nor a value investment.

When the dot com crash happened, Warren Buffett didn’t suffer the same losses as others and he has consistently continued making money and doing well in the markets since.

Knowing who you are will allow you to select the type of investing you are most comfortable with. Using a system that allows you to invest within your natural tendencies allows you to act with power and confidence in the markets even when it seems like the clouds are darkest. Become one with your investing style by knowing what that style is and staying within the limits of that style.

Learn about the market—know what strategies are available

Ponder your life experience and how this experience might influence the type of trader you are and the type of trading you should do. In these early stages, avoid bringing judgement or bias to your desired investment approach. Learn about different systems and be open to what resonates best with you.

Learn about different investment strategies and time lines. Some investment approaches requires more time in the markets while others don’t. Some strategies focus on cash flow, some on gains, some on steady protection. As you spend time with your coach, learn about various methods of investing and choose one to to begin with.

Warren Buffet knew what type of person he was so he did some research and found that Benjamin Graham was a successful investor using the type of system that resonated with him. He then put himself in a position to learn how to invest as Benjamin Graham invested. You may not be able to go work with the individual who personifies your investment style, but you can attend your coaching sessions, practice with a paper trading account and continue to learn.

As you gain experience or as life continues to progress, you may decide to diversify into other strategies. For example, as you get closer to retirement, you may decide adopt a more cash flow generating strategy. You may also want to take a small part of your portfolio to experiment with different investment methods to keep learning about the markets and improving your investment skills.

Develop confidence in the outcome by focusing on the process

Most retail investors tend to judge their success by the outcome of their most recent trades. And what's worse, most people tend to judge their profitable trades negatively since they didn't capture as much profit as they could have.

In his article, Why Talent Is Overrated (published in Fortune magazine), Geoff Colvin wrote,

> *"In the research, the poorest performers don't set goals at all; they just slog through their work. Mediocre performers set goals that are general and are often focused on simply achieving a good outcome - win the order; get the new project proposal done. The best performers set goals that are not about the outcome but rather about the process of reaching the outcome."*

The power of following a successful system which is aligned to your Natural Trading Style is the confidence you gain by focusing only on the things you can control. You can't control whether any particular trade will be profitable…but you can control how well you follow a system. You can measure your results over time against the expectations you have for that system based on its statistical probabilities. And you can stay focused right where the top performers always focus: on the *process* of reaching the desired outcome not just fantasizing about how great your life will be once you reach that outcome.

We encourage you to keep a journal of your trades. As you see yourself get better over time, your confidence in the system and in your abilities to follow it will increase. The old saying that things can only be improved as they are measured is true. How can you know if your actual results measure up to the expected results if you don't measure? How can you discover those areas that continue to trip you up without measuring?

Journaling can be difficult for many. It seems like such a small and unimportant thing… but proper journaling is key to consistent success and will help you continue to improve so that you have more consistent profits and increase your annual ROI gains.

The important thing in this early stage is to carefully apply your system and market strategy. Among other things, this includes good portfolio and trade management. Practice strict adherence to the rules of your strategy. Practice setting stops and getting out with small losses.

Remember knowing what to do is only part of the process. The other part is actually doing it. You will never be successful sitting on the sidelines trading only paper money. We encourage you to virtual trade at first to remove any mistakes that might be caused by unfamiliarity with the tools required to trade.

Once you start trading real money, use only small amounts initially. Protect against loss. As you trade your real funds, examine your emotional state before the trade, during the trade and after the trade. Track your results over time and write down the emotions you experienced during the trade. This focus on your emotional response to real money trading is not often taught in books or investor workshops and isn't included on many of the trading journals available for download. Yet it is important and you should spend time to record, ponder, and improve your emotional reactions to your trading.

Another trap people fall into when they don't approach the markets with a knowledge of and confidence in the statistical probabilities of their system (and themselves) is to feel pressure to hit home runs right out of the gate. Most people feel like they're behind financially and feel a great need to catch up their retirement. Don't set yourself up to fail by trying to swing for the fences when you first begin trading.

Instead just try to focus on following your system with exactness. Confirm for yourself that you can achieve real world results that match the expectations your system should return over time. Focus on execution more than outcome and measure your results against expectations of your system to reinforce the correct ways of trading and to learn from and quickly fix the things that lead to mistakes. This approach will help you develop confidence in your ability to get consistent results. This trust will be critical to your investing success as will be shown in later parts of this book.

As you experience consistent success, be careful not to get too caught up in the "golden child" syndrome. Don't believe that these successes are the result of your skill and that you can do no wrong. It's tempting to use past success to forecast future results and to begin to put more and more money at risk on fewer and fewer trades. This is how greed pulls you away from following your system.

Strive to avoid overconfidence and don't be too tough on yourself with losses. Gains and losses are a natural part of trading. Remember it's not about the outcomes of individual trades, it's about whether or not all your trades perform up to expectations defined by your trading strategy. Seeing your real world results match your expected results develops confidence in your ability to create real wealth through trading. This helps you lift your vision and give you confidence to remain consistent in your market approach and not give in or give up during the investment slumps all investors experience.

It's human nature to simply give up on those things that don't come easy to us. Remember, the best things in life are the most difficult ones to achieve. Do today what others won't so you can live tomorrow like others can't. You can't become a world class pianist without first being a world class practicer.

Celebrate your success

Celebrating success is a crucial part of the process for all investors but especially for the beginning investor. Most investors and traders will think their success comes from making money…but the true measure of success is how well you followed your system.

So if you followed your system exactly celebrate that success regardless of whether or not you had a profit. Avoid looking at the profits or losses of each trade. Avoid pulling out the ugly stick to beat yourself beat yourself with just because you didn't extract every penny of profit.

It's so easy to give up when you meet a wall of resistance caused by the ebbs and flows of life. It's especially easy to give up when you place your focus on outcomes since a focus on outcomes makes it easy to only see your failures in the market since even success can be seen as a failure.

It can be challenging to stay motivated as you try to juggle both sides of the Wealth Creation Cycle: (1) Make money, and (2) Put your money to work. It's so easy to prioritize your career and making more money. But for most people a focus on career is a way to spend so much time and effort on earning a living that they can't make any money. Don't let this happen to you.

It can sometimes feel like a joyless grind especially when in the middle of an expected losing streak. When you get into this rut, ask yourself this question: Do you think it is possible for Olympic athletes to just wake up one morning and be ready to compete? No, they prepare for years and years far away from the lights, the glory, and the applause to have their one shining moment in the sun. What was it within them that propelled them to such a long-term investment of effort, time, money and energy?

All those who achieve greatness in anything have worked hard and invested considerable and consistent effort over time. They didn't achieve greatness just because they decided to roll out of bed one morning with a belief or an expectation or just a thought that they'd become the best in their field. Thomas Edison has said that invention is 1% inspiration and 99% perspiration. Your success in the markets will be a similar ratio. Celebrating your success as you follow your system helps you maintain your confidence and gives you a willingness to continue pressing forward through the resistance you'll face.

One of the walls of resistance you'll face and likely one of the biggest ones is maintaining a deep enough confidence in your system and in yourself that you're able to follow it religiously. Adjusting course based solely on actual results compared to expected results is a completely new way for most retail investors to think…but this mindset will help you maintain a high level of consistency in how you approach the markets.

A confident mindset is such a big part of remaining consistent and having profits over time. If you focus on the process of following your system and you get the results statistical math says you will, it's easier to feel confident and continue moving forward even when you hit those inevitable slumps.

Confidence helps you push through the series of steps that must be taken over time to achieve the success you've planned. Think back to your last set of New Year Resolutions. How long did you stick with these resolutions?

It's easy to lose motivation and stop progressing if focused on the outcome and the distance between where we are now and what we want to accomplish. Losing 20lbs is simple…but not easy. Focusing on the daily outcome of a diet can be quite depressing as progress doesn't seem to move quickly enough or all the hunger felt yesterday doesn't show up on the scale today. Sometimes this dissonance between dream and reality grows so large in our minds that we give up the goal rather than have to think about how far we are away from it.

Learning to think in probabilities, using statistics to provide an expectation, following a trade plan exactly, and measuring progress based on how real world results stack up against expectation is a large part of success. This is how highly successful traders and investors do so well.

This mindset and focus on the process more than the outcome allows you to remain confident through all the ups and downs of the market and to remain consistent in your approach and therefore in your results.

You will have losing trades…that's expected

Probably the hardest thing for investors to accept is a losing trade. Sometimes people are so afraid of losing money that they can't make any money. Other times the memory of a recent loss can be so compelling that it's hard to get back into a trade to make money.

And with every losing trade (and some winning ones) a little voice in the back of your mind whispers about your failure. This negative self talk and the compelling lure of a comfort zone is a constant pressure to give up, that you can't do it, that you'll never be able to change.

This is simply not true. Over the years I've personally worked with thousands of people who decided to make a change, who accepted the hard work required to make this change, and who continued pressing forward until they became consistently profitable traders.

Knowing the probabilities associated with your chosen strategy and trading with an expectation set by those probabilities is the best way to separate loss in the markets from your own, personal failure. A Win Big style trader expects to lose 7 out of 10 trades or so. These 7 losses are not a reflection of personal failure, but an expected and accepted part of that style of trading.

One way to avoid significant financial damage from a loss is to risk a similar amount on each trade. Many successful traders risk 1% - 2% of their entire portfolio on any one trade. Investing with unequal portfolio risk concentrates risk on fewer overall positions whose results will significantly impact the portfolio's results. This re-introduces the gambler's "Buy, then hope, wish, and pray for a profit" approach made by most uninformed and unsuccessful traders.

Assume your risk profile is Win Frequent (risk 2 to make 1) and that you have $10,000 to trade.

Proper portfolio management says you should only risk $200 per trade (2% of $10,000). If a stock traded for $40, a Win Frequent style trader would set a stop at $38 and a profit target at $41. A Win Frequent style trader would expect to lose about 30% of the time.

Adopting a mindset where a certain percentage of trades are expected to be losses changes the game and makes it so much easier to follow your system and be consistent in how you trade.

Now there will be times when you don't get out because you didn't follow your system. When this happens you have a choice. Will you focus on the loss and beat yourself with the ugly stick? Or will you renew your determination within yourself to get better at following your system?

Think of the difference between these two approaches. A focus on the process helps you remain committed and moving forward even when mistakes are made. A focus on outcomes destroys the motivation to act if outcomes are negative which makes it much easier to just give up.

Take some time right now to ponder your past experience as a trader. Did you allow a loss to become a bigger loss in the hopes that it would come back? How much richer would your portfolio be if you could have prevented the spiraling downward of one or two trades last year? Did memories of previous losses make it difficult to let your winning trades run?

There will be times (especially at the beginning) when you'll want to quit. You'll make mistakes, you'll get impatient, you'll get tired, others will not support you, and you'll feel like a failure. It's at these times that you must not quit!

Most great individuals in history are also well acquainted with failure. Walt Disney was told he could not draw, Barbara Streisand was told she could not sing and Sylvester Stallone has been told that he couldn't act. And yet each of these people and a host of others didn't let that initial negativity stop them from continue to press forward towards their dreams or making something amazing from their lives.

There will always be reasons to quit and it's hard to have confidence in yourself and trust in the system. Despite all your best intentions to make real change, your comfort zone will be hard to escape.

It is so easy to let past losses affect future trades. A focus on following your system you trust that is statistically likely to help you reach your annual ROI goals makes it easier to shake off the emotional affect of the most recent trade and stay positive and active in working towards your goals.

Every system produces losing trades

Similar to the understanding that losses are part of the game is the understanding that even with a proven trading system mistakes will be made or trades will go bad. No system works all the time.

When expected losses happen, work to contain the damage by getting out according to your system's rules and don't dwell on the loss. Focus on the next investment opportunity. It's easy to get so caught up mentally focused on our failures that we cannot be successful!

All successful investors have confidence in themselves to make accurate decisions and in the trading system they follow. This does not mean that every trade will be profitable nor that they won't make mistakes which seem so obvious in hindsight.

Let's be realistic. The reason there are so many approaches to the market is that no single system works every time. Yet many smart people over the years have worked diligently and invested carefully to find some market phenomenon that always guarantees a win. I call this the "silver bullet" approach. It's impossible to guarantee a profit on every trade…but it's totally possible to have consistent profits over the course of many trades and to have confidence in the statistical promise of your system's annual results despite the losses had along the way.

There has never been an investing system in the history of the world that has been right every time. Your system will not be right every time. You will make mistakes implementing it. It will give false signals.

Even the best traders are not the best traders with every trade. The best traders are measured over time and over many trades and not just from trade to trade. Take the long view of your own results and work to get better, protect against loss and nurture your profits.

As a trader, work to develop the same mental approach to the markets regardless of a recent trade's outcome. Remaining committed to following your system's rules on every trade will help you approach the next investment opportunity with every bit as much confidence and power as the best traders do. This will help you have more consistent profits from the markets because you are more consistent in your trading.

When losses come, stay confident

It's a given that in sports superstar athletes experience slumps in their usual world class performance. A slump is that time when greater things are expected but lesser things are performed. You will often hear a sports figure talk about the need to "get back to basics" to help them break out of the slump. They often talk about the need to maintain their confidence and continue performing until things start to fall their way again.

Slumps are periods of time when people are not as successful as they normally are. This is easy to see in sport when even the best players sometimes struggle to match previous performance levels. These slumps are a natural part of being human and should not be construed as indicative of a person's real abilities nor a system's expected results over many trades.

If you have been careful to find a system that matches your risk profile and if you understand that system's probabilities, you'll be able to trade more confidently even through [expected] slumps or losing streaks. Focusing on following the system helps you push through slumps without changing a system and is critical to long-term investing success.

Go back to the greatest sports figures of all time. What did they all have in common? They all had confidence to continue playing despite the occasional slump. Did Babe Ruth hit a home run every time he got to the plate? No! He "failed" a great number of times. In fact he struck out nearly twice as many times as he hit home runs.

There will be times in your investing life when you will strike out. How you handle these failures has a direct correlation to your investing success. Imagine if Babe Ruth had decided to quite baseball after his very first strike out! Obviously Babe Ruth decided to focus on his strengths and was able to understand that strike outs are part of the game. As an investor you too will have to focus on your strengths and understand that losses are a part of the game. Don't dwell on the losses (or even the profits) because they are simply expected results from following your system…not a reflection of your success or failure as a person.

Imagine how much different the world would be if people decided after the first failure that they were not good at something and decided to leave and do something else. How many famous authors had their first books refused by multiple publishers? How many musicians or artist have not been fully appreciated in their lifetimes let alone after their very first work?

Are you afraid of failure? Does this fear of failure make it hard for you to even begin the process? The best system in the world won't work unless you can work it. So be clear about expected probabilities, know the rules of your trading system, and then just work to follow the rules on every trade. As you continue this process, you'll eventually learn how to have more consistent market profits.

Stick to the system--Avoid "flavor of the month" investing

Flavor of the month investing is changing your strategy's rules because of something that you see or feel. Perhaps it's a marketing message that promises even better returns. Perhaps it's a recent loss. Perhaps it's not getting as much profit as possible. Perhaps it's a current trade's results. The danger is letting any of these (or other) outside influences affect your focus on following your system.

The stock market is so big and there are so many ways to make trading decisions or to find a trading edge.

It's easy to get confused by all the noise, conflicting signals, talking heads, and your own emotional responses to your trade outcomes.

The best way to avoid confusion is to have a clearly defined home base…a safe place you can always hold on to when you start to feel overwhelmed or out of your depth.

Your Natural Trading Style and the statistical probabilities associated with your style is your best home base. Your style gives you expectations about your trading that you can prove to yourself using the tool at www.chartgame.com.

Proving the statistical veracity of your style to yourself gives you confidence in the system and in your ability to follow this system.

Remember, almost everything you consume about the markets is some form of edge trading technique that will confuse you until you understand how it fits within your risk profile and Natural Trading Style.

Those who are consistently profitable in the markets have a consistent approach to the markets. They have a system they trust and they stick with their system.

How can you become good at something if each failure leads you to change your system? Imagine the number one golfer losing a tournament and deciding they weren't good at golf because of this loss….so they start trying to play baseball, basketball, bowling, football, or something else.

Don't give up too easily. Losses are to be expected. It's not the losses that hurt you… it's allowing the loss to pull you away from following your system.

As an investor you will need to develop the ability to stick to your system. You must have a well-defined system of investing and you must have the discipline to stick with it. Journaling will help you see where you don't stick to your system and help you course correct to improve your results.

I've taught thousands of students from around the world how important it is to develop discipline and to stick to their chosen system. I currently own a business that teaches various trading and investment strategies to students. The best students learn to trust their system and follow it as best they can.

In today's world, it's easy for investors to drown in data but starve for information. A proven system helps make sense of all the data and gives you a clear and present ability to act consistently and with confidence.

Unfortunately many investors don't fully understand this. They begin implementing ill-conceived and poorly documented changes to their system based on their emotional reaction (either fear or greed) resulting from the outcome of their most recent trades.

Humans have a tendency to get the most reward for the least amount of effort. Don't fall into this trap. World class success requires consistent, daily effort focused on the process that leads to success.

A doctor who would approve an exercise regime of 30 minutes a day, would not approve someone doing 3.5 hours of exercise just 1 day a week….even though it's the same amount of exercise!

Making money in the markets is a very simple process of using the exit strategies of your Risk Profile.

But what I have seen is that many people begin to get a little confused about exactly how to do this. There are hundreds of different different edge trading techniques for different investment time frames, strategies and profit targets. All of which are appealing and can easily cause confusion or tempt away from following the simple process we teach.

It can also be tempting to change your system with your first loss. Or to change it when you had a 25% win but could have had a 59% win had you held it a few more days…even though your system told you to get out.

So what often happens is that new and inexperienced investors tend to begin with one investment system but quickly move to another and another and another over time. They never get really good at any one system because they are always trying to find the shortcut or discover the magic tactic that is never wrong.

It's also easy to get pulled away from your home base by well-marketed promotions promising an easier, quicker, and safer way to stock market riches.
Don't believe it. Not one person in the world knows with absolute certainty what will happen tomorrow.

But as you stick with a system designed for your Risk Profile, you will improve as you gain experience trading that system. Any improvement grows your ability to have larger gains and more consistent profits.

Just like world class athletes don't jump from sport to sport with every real or imagined failure, you shouldn't jump from system to system just because something didn't work out. Just like anything else in life, success comes by remaining consistent and by sticking with what works.

In the Marine Corps we are issued a weapon. The weapon we are issued is the same one over and over and over. Despite the fact that there is no direct ownership (I did not buy my weapon) the Marines recognize the value of the individual being familiar with the weapon. In fact, this was such an important issue that we were constantly told that the weapon is to stay with us at all times during the day and night. It got to be so much a part of me that I felt naked without it.

This level of familiarity leads to greater success. I don't know if this is a true story or not, but I once heard that a concert pianist was asked how he could play the piano so well with such small hands. His response was simply, "What makes you think I play the piano with my hands?"

You must develop this level of expertise or familiarity if you are to become a successful investor and you cannot develop this level of expertise if you constantly change investment systems. You don't have to master everything in the market to do well, you only have to master a few things but do them consistently.

How money management affects investing emotion

This book is not a book about money management. But money management does affect how you invest and how you emotionally react to the market. So this book will spend some time discussing the importance of money management in controlling your emotions while investing.

There is a book called, “The Richest Man in Babylon” which basically states that in order to achieve financial freedom you have to learn that a part of all you earn is yours to keep.

Investing requires capital. Living below your means is a way to find capital which can be invested and begin to compound towards a wealthy future. The authors of the book, “Millionaire Next Door,” discovered that the financial strain of living paycheck to paycheck is felt by doctors earning hundreds of thousands of dollars a year.

It’s said that it’s not how much money you make…but how much you keep (and how well it is invested) which determines your wealth. The money you save is what you put to work in your trading.

It’s difficult to live below our means today. Americans used to be called “citizens” but now they’re called “consumers.” With credit so easily available in the form of credit cards and with so much marketing to buy different products or services it is hard to refrain from spending money we don’t have. A recent study found that the average college student carries over $3,000 of credit card debt in addition to their student loans!

This just shows that we do a poor job teaching our children the nature of interest. It has been said that those who really understand interest are paid it while those who don’t understand the principle of interest pay it. Living below your means helps you become one of those people who are in a position to compound their investments. Compounding is the only way to significantly increase your net worth over time which is a powerful reinforcement to continue saving.

Once you have a history of generating substantial gains in the markets, it becomes easier to avoid using money to buy things because you know how much you lose in opportunity cost by spending that money instead of investing it.

One of the reasons why it is important to live below our means is that by doing so you will always be able to put money into the market. Putting new money in the market makes it easier to keep trading through the losses one inevitably experiences. And any amount you regularly put into the markets (even small amounts) can grow to substantial investments over time as you continue generating consistent returns.

Traditionally one of the most conservative investment strategies is to dollar cost average. Dollar cost averaging is a strategy whereby the investor puts a set amount of money into the market every month. This is a straightforward and easy way to lower the risk of stock ownership over time. Perhaps a specific example will help you understand the power of this strategy. Let's illustrate by saying there are three types of investors:

1. Puts a large amount of money into the market 1 time
2. Buys a set amount of shares each month
3. Invests a set amount of money each month

Below are three tables:

Spent $9700 one time			
Date	**Price/ Share**	**Shares**	**Cost**
15-Jan	$35	277.14	$9,700
15-Feb	$20	0	
15-Mar	$15	0	
15-Apr	$27	0	
Total		**277.14**	**$9,700**
Avg. price per share			**$35**

Purchased a set amount of shares per month			
Date	**Price/ Share**	**Shares**	**Cost**
15-Jan	$35	100	$3,500
15-Feb	$20	100	$2,000
15-Mar	$15	100	$1,500
15-Apr	$27	100	$2,700
Total		**400**	**$9,700**
Avg. price per share			**$24.25**

Spent a set $ amount per month			
Date	**Price/ Share**	**Shares**	**Cost**
15-Jan	$35	69.288	$2,425
15-Feb	$20	121.25	$2,425
15-Mar	$15	161	$2,425
15-Apr	$27	89.815	$2,425
Total		**441.35**	**$9,700**
Avg. price per share			**$21.98**

Now take a close look at the tables above. As you can see, if you were to invest a set amount one time in the market, and if you happened to invest that one amount during a period where the stock was toward the high end of the range, you would be a lot worse off than if you can put a set amount of money into the market every month.

Now take a good look at the numbers where you buy a set amount of shares per month and when you pay a set amount of money per month. When you buy a set amount of shares every month you have a wide swing in the amount of money you spend every month. You also end up buying the same number of shares whether or not the stock is high or low.

Finally you can see that when you spend a set amount of money per month you end up buying more shares when the stock is cheaper and less shares when it is more expensive.   This gives you a much better cost basis over time. It also is much easier to invest the same budgeted amount of money every month. Think of it like a bill that comes due every month. Except this is a bill for your retirement!

The emotional side to all this has to do with confidence and perspective. If you can only invest $10,000 and you know you will never put more money into the market, your concentration and your emotional state on any movement in the overall value of that $10,000 will be extreme. Imagine how your emotions will paralyze you if you lose 10% of that investment. It may cause you to get out of the market entirely.

Losing money is never very enjoyable. But consistently adding more money into the markets gives you confidence to keep going when you experience loss. This is especially true if you dollar cost average. Then volatility works in your favor and your investments grow in profitability as your cost basis reduces over time.

Consistently putting more money in the market smoothes out the volatility curves and makes it easier for you to stay positive and confident. You will be able to take the long view, have patience and exercise discipline. Having the ability to add new money to the markets over time increases your returns and helps you develop a better emotional attitude about your investments.

Don't abdicate personal responsibility

To this point we have focused on the value of remaining focused on the process of trading instead of the outcome of individual trades through knowledge, education, and remembering the clear expectations set by your Risk Profile. We have also discussed the importance of sticking to that plan no matter what—of thinking of that plan as home base. The emphasis has been on doing the things you need to do to develop confidence in yourself, your system, and your results over a large number of trades.

This confidence is gained through education and through practice. We have talked about the need for setting up and using a virtual account to apply what you learn in class.

We have discussed the importance of knowing what to do and in being able to do what you know you should do. Remember, knowledge is power because it gives you a guideline for how you should act. But you must also be able to act; to apply that knowledge to achieve your desired goal. I was once told that good ideas only cost a dime a dozen because that's all they are worth unless that idea can be acted upon and brought to life.

You have begun a journey to wrest your financial future back into your own hands. You will do a far better job at it…once you make it through the initial learning curve. There is initial effort required to get out of a comfort zone, overcome the inertia of life, learn the language of trading, and stay focused on the process of trading your plan.

Many people start out with the best intentions along this course…but falter when the going gets tough. It won't be easy for you to work all day and then take the time and expend the energy necessary to trade. But know that as you gain experience, the process becomes easier and easier.

Peter Lynch once stated that most people spend more time planning their vacation than they do planning for their retirement. Don't let yourself go back to the status quo just because it's hard to overcome habits of thinking and habits of being that want to stop you in your tracks. Push through this initial resistance and you'll find a new world of financial confidence and empowerment.

You may already have accounts with financial planners, advisors, brokers or whatever. Remember these experts are really just highly trained salesmen. They work for their firm….and their firm's best interest may contrary to yours.

Also remember that when your money sits in their accounts, it's aggregated into billion dollar funds and that you have built in advantages which allows you to put your money to work at a far higher rate than that offered by the average mutual fund…and the difference can be millions of dollars.

Investing for yourself (however difficult it may initially be) gives you the benefit of being able to learn from mistakes and get better over time. You are the only one with full responsibility for your retirement. You have a duty to provide for your family's financial future. You have the responsibility to make sure that your money is growing to prepare for retirement. You should not abdicate this responsibility to anyone else. Remember, no one worries about your financial future as much as you do.

By taking control of your financial future you also take control of your investing. You will be able to make more informed decisions whether you work with an expert or not. I am not suggesting that you should never work with an expert once you have developed your investment strategies. Quite the contrary. Experts can be great helpers in finding potential investments and in providing additional insights and education. But if you do choose to work with an expert they must work for you.

I have taught thousands of students all over the world and find that many of them have the same things in common. Many of them have experienced great success during the bull market by listening to financial advisors and brokers and by following their advice. But bear markets cause most of these people to become frustrated with their expert who know longer seems to have a handle on the market.

Many of these students simply for the education to make better, more informed decisions in the market and to hold their expert more accountable to results. To make your investment advisor your partner, you must be confident enough with yourself to make your own decisions after gathering the input from the expert.

America's Retirement System Is Broken

The truth is the entire system of preparing for retirement is broken. There is a massive conflict of interest between these so called experts and your needs. They want to spend as little time with you as possible because their money making efforts are to sell more people into their funds. They get paid by assets under management and not for performance. They won't teach you how to maximize your gains. It takes too much time.

I once worked with a financial advisor to help me with my investing. I was pretty young and I did not really know anything about the market. I can remember sitting down with this advisor and being shown a large number of mutual fund choices in which I could invest.

There were international funds, growth funds, income funds, a whole range of choices. I just sat there so confused because I did not really understand the markets and had no idea what fund I should choose. I remember when the planner asked me which fund I wanted to invest in I responded by saying that I did not know—I just wanted to buy the fund that went up in value and that was what I was paying him to tell me.

He quickly responded by telling me that he was not responsible for future market direction because no one can predict the future. Not knowing what else to do I chose the mutual funds that had had the best historical performance. But is this a good idea? No! Usually a great performance leads to a mediocre (or worse) performance the following year.

Once the investments where made I started getting my quarterly statements. Every quarter some of the funds would have gained value while others had lost value. Because I did not really involve myself enough to educate myself about the market I never really knew why things were moving up or down. They just sort of magically did what they did.

Can you see how this might be a bad way to invest? I didn't know my risk profile. I didn't know the expectations I should have about my trade outcomes. I didn't understand how to improve performance through other asset classes.

Looking back now, I believe they wanted to keep me in the dark. My ignorance helped them retain my funds under their management so they could continue earning their paychecks.

Did my investing advisor did not teach me because he did not know or because he did not really care? I will never know, but I do know that no one worries about your future as much as you do. So take control of your future by learning about the markets and by investing in the markets for yourself.

Abdicating your responsibility to some expert is the worst thing you can do but I also know it is the easiest thing to do. I also know that paying others to tell us how to invest often leads to success. But if you don't educate yourself about investing and begin improving your annual rate of return, you will never really be financially free.

Yes you will make mistakes. Yes you will lose money. Yes you will have to grapple with your emotions. But if you trust an expert you will also find that they make mistakes, that they lose money. They will be an easy target to blame, but playing the blame game does not really help you become free does it. Do this for yourself and experience a new world of opportunity open up to you.

Learning the discipline to focus on the process and not be emotionally swayed by the outcome in your trading can have so many other benefits in your life. Think about it. Developing the proper emotional discipline necessary to be successful in the stock market will also help you be more successful in your interpersonal relationships, your current job, your education or whatever.

So do the research, develop your skills, learn proper emotional discipline, and develop your trading skills. Your entire life will benefit.

Chapter Summary

Before we move to the next chapter, take some time reviewing the concepts discussed in this chapter:

- Trust the probabilities of your risk profile.
- Remember that not all trades will win. You will have some losses. Follow the system anyway.
- You may have more than one investment goal and may therefore use more than one strategy at a time. Focus on the process of following the rules of each strategy and don't be whipsawed by emotions resulting from trade outcome.
- You must be consistent to have consistent results.
- Your base winning percentage is your home base.
- No one will make your money grow as fast as you can.
- Saving and investing your own money is how to be financially free.
- Investing with confidence (and without emotion) brings greater success.
- Putting new money in the markets is like paying a monthly retirement bill.

If you have not already done so, please put this book down and spend some time evaluating your reasons for taking over your own investing. Let's be clear. It's very difficult to shift habits of thinking and of being. Unless you really know your WHY, you will give up short of the goal of financial freedom.

We all work very hard to make money. And we know inside us that we should be diligent in saving that money. But saving money can be hard because…..*life.* What you have chosen to do by engaging with us is work a little harder now as you learn to put your money to work.

You don't have to save much money to have a great retirement…as long as you know how to make the money you do save really work hard. Your entire focus as you invest should be on your desired annual return. Warren Buffet guaranteed a 50% annual return on accounts less than a million dollars.

Developing your skills as a trader is the only way to achieve this kind of annual percentage return. Your broker, financial advisor, 401k, or lawyer will never be able to achieve such impressive returns. But you can. Embrace your Risk Profile, have confidence in the expected probabilities, and remain consistently focused on following the process of trading and you will succeed.