Emotional Habits of the Successful Investor

How the focus on individual trade *outcomes* sabotages the success that could otherwise be enjoyed if the trader instead focused on the *process* of trading.

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Introduction

Successful investors Understand and Use Probabilities

Unsuccessful investors tend to let the outcome of their most recent trades negatively affect their trading. A focus on the most recent trade outcomes makes it more difficult to control the emotions of fear and greed which causes bad traders to cut their profits short while letting their losses run.

On the other hand, those traders who consistently generate market profits follow a pre-determined trade plan. They understand the mathematical probabilities of their trade plan and therefore approach the markets with clear expectations. This gives them confidence to make sound trading decisions on every trade despite the outcome of recent trades.

In his book, Why Talent Is Overrated, Geoff Colvin wrote, "*The best performers set goals that are not about the outcome but rather about the process of reaching the outcome.*"

So it is with traders. If you want to be a best performer and change your financial life through trading, you need to focus on the *process* of following your trade plan exactly and not be emotionally reactive to the most recent trade *outcomes*. This is especially true when you experience losses. All traders lose money…the successful ones remain focused on and confident in their system as they continue placing trades.

The author of this book has spent hundreds of thousands of dollars and talked to thousands of traders to figure out why so many struggle to be consistently profitable.

What he discovered is that most people don't know the 7 things they (and only they) control which provide specific expectations about results from which trading rules can be followed.

This book will outline and discuss common emotional traps people fall into because the don't understand or know how to control these 7 variables. As emotions often lead to failure in the market, this entire book is devoted to sharing a new view—the view that you can only be in control of your investments if you learn to be in control of your emotions and how the right process makes that shift more likely.

Chapter 1

Follow a Process

Most people are intimidated about the markets. This is natural because the markets move in random patterns and most people haven't studied 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 or financial advisors. Wall Street works hard to make us feel the same confidence in our financial advisor as we do for lawyers or doctors.

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. Think about this. Their primary money making activity is selling people into their money management, not providing the highest returns. 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 probabilities and the confidence to keep following the system despite the expected losses

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.

This part time effort combined with a sense of fear about putting money at risk, 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 more likely they will turn their savings over to financial advisors or brokers for help. By doing so, 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. Yet for most people it's still not too late to retire wealthy. All it takes is a predictable and consistent annual rate of return. For example, $25,000 becomes more than $3 million in just 10 years compounding at 50% a year.

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….but the sad truth is they think of us as simply a means to theirs.

Where does this 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 manage for us. The fastest way for them to grow their income is by increasing the amount of money they have under management. This puts them in a position to profit more as sales people than actual advisors helping you grow your money.

For example, let's say you choose to place $100,000 under management and that the financial advisor (for easy math) takes 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 for them by far is to find100 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. Worse, you'll always have sub-par returns and a massive opportunity cost.

Be cautious about the experts you choose to listen to. Trading experts come in many forms. They could be family or friends, talking heads, authors, social media influencers, or your financial advisor. Each of these experts have one thing in common: they do NOT know what is going to happen tomorrow…no one does.

Most part-time traders begin their trading journey feeling a pressure to catch up their accounts quickly. Many in the financial world prey on this desire by pitching sexy opportunities for turning small amounts of money into big profits quickly.

Yet this emphasis on perfect entries does nothing for the individual seeking to grow their accounts. Worse, it actually hurts their ability to become profitable traders. The truth is that entries are only one aspect of a systematic and repeatable trading process that provides consistent profits in a repeatable way.

The pressure to find perfect entries becomes an irrational focus on the outcome of individual trades.

It might seem logical that focusing on individual trade outcomes and working to keep each of these outcomes profitable is the best way to be a successful trader. But this isn't true.

Consistent Profits devoted several years and hundreds of thousands of dollars to discover why so many part time traders who tried to control their own investing had underwhelming success.

What we discovered is that part-time traders don't understand the 7 things they (and only they) control nor how these 7 things combine to provide specific expectations about trading results. They don't know how to refine these expectations into a set of clear trading rules. And they don't know how make the behavioral changes necessary to follow these rules on every trade.

The 7 things you control are:

1. Base win rate (Where profit target and stop loss is set relative to the entry)
2. Trading edge
3. How much is risked per trade
4. Annual trade frequency
5. Allocation
6. Assets class selection
7. Journaling

The first four bullets are trade specific. The next two are enhancers and Journaling is how to measure actual trade results against expected results. Journaling is critical to the process. First, if a trader doesn't measure their results, they can't expect to improve them. Second, journaling provides a clear window into any pre-programmed mental or emotional reactions to pressure that might be sabotaging the individual's trading efforts.

The first bullet, base win rate can be dialed to 5 different settings. These settings are determined by where the stop loss and profit targets are relative to the entry. Consistent Profits research has identified 5 specific trading profiles. These are:

1. **Win Big Extreme:** Risk 1 to make 3 or more. Prefers to win 75% of the time, willing to accept occasional very large losses.
2. **Win Big:** Risk 1 to make 2. Prefers to win 67% of the time, willing to accept a few very large losses.
3. **Just Win:** Risk 1 to make 1. Prefers to emphasize leveraged trading opportunities and willing to accept a 50% win rate.
4. **Win Frequent:** Risk 2 to make 1. Prefers larger sized wins about 33% of the time, willing to accept smaller losses on many trades.
5. **Win Frequent Extreme:** Risk 3 or more to make 1. Prefers larger sized wins about 25% of the time, willing to accept small losses on most trades.

The desired base win rate is achieved by simply dialing profit targets and stop losses relative to entries. It's possible to get the predicted win rate using random entries and random charts.

If you are interested in proving this to yourself, please go to: https://www.myconsistentprofits.com/chart-game/

A Win Big style trader sets profit targets that are twice as far away from the entry as the stop loss. This trading style will lose 67% of its trades *by design*.

Some may ask how it's possible to be a profitable trader when expecting to lose so many trades. The answer is found in the next three bullets…Trading edge, Amount risked per trade, and Trade frequency. Each of these controls can be adjusted by the trader to increase the expected annual rate of return.

Here is an image showing profitability with a sample adjustment of the next three bullets (trade edge, amount risked per trade, annual trade frequency):

Win Big Style Expectations	
Size of trade account	$25,000
Base Win Rate	**33%**
Edge	**5%**
Amount risked per trade	**1%**
Annual trade frequency	**250**
Each loss =	$[illegible]50
Each profit =	$[illegible]00
Expected amount gained	$47,[illegible]00
Expected amount lost	-$38,[illegible]50
Net estimated gain	$8[illegible]50
Expected Annual Return	**35%**

In the previous image, the Win Big trading style combined with a 5% trading edge, a 1% risk per trade, and 250 trades per year to generate an expected 35% annual rate of return. The following image shows the exact same numbers except for the addition of an extra 2% added to the trading edge. Notice the expected annual rate of return increased by 15% despite the small increase in trading edge.

Win Big Style Expectations	
Size of trade account	$25,000
Base Win Rate	**33%**
Edge	**7%**
Amount risked per trade	**1%**
Annual trade frequency	**250**
Each loss =	$[illegible]50
Each profit =	$[illegible]00
Expected amount gained	$50,[illegible]00
Expected amount lost	-$37,[illegible]00
Net estimated gain	$12,[illegible]00
Expected Annual Return	**50%**

In this author's experience, most people have no idea how to create realistic expectations about what their results should look like. Nor do they understand how to gain predictability in a random market through the use of statistical probabilities. They are surprised by the control they can exercise to get consistent and predictable returns using a process that is both measurable and repeatable.

Once they are exposed to these concepts they become excited about their trading and begin to feel more confident about their financial future; often for the very first time.

Once you learn what to do and make the behavioral shifts required to actually do it, you begin to take control of your financial future. This is important because individual traders with smaller accounts can get far higher annual returns independent of any financial advisor. Financial advisors combine money under management into such large fund sizes that it's impossible for them to beat the market and unlikely even to match it.

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 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.

He expressed 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 financial 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.

Over time, as you learn to get better at focusing on (and exactly following) your trading process, you'll gain more confidence and skill and be able to improve trading edge, increase the risk per trade, and achieve a higher annual trade frequency to improve your expected returns. One of my instructors averaged 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 impacts your financial future and sense of financial freedom.

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 buy trading education. The answer was always the same…"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 derived from a set of statistically realistic expectations becomes a home base of safety on which you can always depend. 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.

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, 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.

Aligning your natural risk profile to the strategies you trade 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.

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

This alignment of risk profile and strategy 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 traders 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 what it takes to be consistently successful.

Successful investor Michael Burry once said:

"If you are going to be a great investor, you have to fit the style to who you are. At one point I recognized that Warren Buffett, though he had every advantage in learning from Ben Graham, did not copy Ben Graham, but rather set out on his own path, and ran money his way, by his rules."

Learn about the market—know what strategies are available

If you are new to trading, you will need to learn about the markets. You'll need to learn about asset classes, business sector rotation, market sentiment, investing strategies, technical analysis, and options. This knowledge will help you make more informed decisions about which strategic approach works best for your natural trading style.

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.

Michael Burry knew what type of person he was so he did some research to learn about the markets and then he found which approach worked best for him.

This process of learning should never stop. For example, life’s circumstances may require a new approach in the markets. For example, as you enter retirement, you may need to shift from compounding at higher rates to focusing more on how to generate income from your account without cannibalizing it. 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 think of even their profitable trades in negative terms.

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 having a trading process you trust (and follow) which is also aligned to your natural appetite for risk cannot be overstated. All the education in the world will not help you become successful. Only by focusing only on the things you control and managing your risk, can you be consistently successful.

Charlie Munger, Warren Buffett’s right hand man and highly successful trader in his own right once said:

> *"A lot of people with high IQs are terrible investors because they've got terrible temperaments. And that is why we say that having a certain kind of temperament is more important than brains. You need to keep raw irrational emotion under control. You need patience and discipline and an ability to take losses and adversity without going crazy. You need an ability to not be driven crazy by extreme success."*

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 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.

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 track them? How can you discover those areas that continue to trip you up without journaling?

Journaling can be difficult for many. It often feels like an impediment to success…but proper journaling is key to consistent success and will help you continue to improve so that you can raise your expectations and improve your results as you learn new things.

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.

Understand that knowing what to do is only part of the process. The other and more difficult 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 gain confidence and become familiar with this who new approach. But switch to real money as quickly as you can…even if it makes you feel uncomfortable.

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 on every trade 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 of your system. Focus on execution more than individual trade outcome. Measure your results against the 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 and lead to consistent results. Consistent results are the only way to build trust…trust that is 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 euphoria it brings. Over-confidence triggers greed which often results the breaking of rules and unnecessary failure. Avoid the temptation to put more and more money at risk on each trade. This is how greed pulls you away from following your system.

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 the 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 inevitable losing streaks you'll face.

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.

Develop a trusted trading process for real success

Most investors and traders will think their success comes from making money… but the true measure of success is how well you followed your trading process.

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 trade outcomes. Focusing on trade outcomes instead of a trading process creates a negative inner dialogue which destroys confidence.

It can be challenging to stay motivated as a trader trying to juggle both sides of the Wealth Creation Cycle: (1) Earn money, and (2) Put your money to work. People know how to optimize their careers to generate more income…but the same is not true for the stock market. Therefore, many people turn over the most important aspect of wealth creation to others…who perform poorly.

Developing the skills to put your money to work can sometimes feel like a joyless grind. Trading itself can also be challenging especially during losing streaks. When you feel down (and you will) remember that all those who achieve greatness in anything have worked hard and invested considerable and consistent effort over time.

Having a trading process that provides expectations and rules that cover every aspect of trading is key to pushing through this initial wall of resistance.

Another wall 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 follow it religiously. Fear, greed, and FOMO will tempt you away from your system. This is why having a clear set of expectations and rules is so important. It's impossible to maintain a high level of consistency and profitability without a trading process.

Once you understand how to gain consistency in a random market, it's a simple matter to establish specific expectations and trading rules…which combined form a trading process. The more difficult process will be to follow it. We like to say that trading success is simple but not easy…It's not easy because it takes work to actually follow your trading rules on each trade.

Focusing on your trading process instead of the outcomes of individual trades helps you avoid the many temptations causing you to fail. It will also help you 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. Because no one can reliably predict which trades will be profitable, all traders must expect to lose some percentage of their trades…by design. For this with an understanding of the base winning percentage of their trading process, losses are simply part of the process.

For others, each loss undermines their confidence in themselves or their trading methodology. Each loss becomes an emotional powder keg which negatively impacts the next few trades.

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.

Smart traders who have a trading process they trust understand the percentage of losing trades they can expect and know how to manage the damage these losses (which often come in streaks) would otherwise have in an account.

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. Keeping the risk size similar on every trade is one way to insure predictability.

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 and are willing to risk 2% of your total account on each trade. This limits the maximum loss on any one trade to just $200. If a stock traded for $40, a Win Frequent style trader would set a stop at $38 and a profit target at $41 at the same time they entered the trade.

Adopting a mindset where each trade carries the same amount of risk changes the game and makes it so much easier to follow your system and get consistent results.

Experiencing losing trades is difficult and may cause you to lose confidence in yourself or your trading process. Despite the best intentions to make real change, comfort zones are hard to escape.

It is so easy to let past losses affect future trades. A focus on following your trading process instead of the outcome of individual trades makes it easier to shake off the emotional affect of the most recent trade and stay positive and active in working towards your goals.

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 sports 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 your process helps you push through slumps without making poorly considered changes. This is critical to long-term investing success.

Think of 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 will also 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 trading process…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 start let alone keep going? 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 is jumping into a new way of trading simply because it looks so easy and so profitable. There are many things that will tempt you to change your process. Sometimes it's greed hoping to squeeze more profit out of each trade. Other times it's FOMO caused by some shiny new thing. Or it can be fear caused by a recent market movement or individual trade loss. The danger is letting any of these (or other) outside influences affect your focus on following your system.

There are millions of people all making trading decisions, looking for a trading edge, and employing a favored strategy. Remember that for a market to work, some people need to be buying while others are selling.

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

Remember, almost everything you consume about the markets is some form self interest. Those wanting to sell will be telling you to buy because they need buyers to enter the market. Those wanting to buy will be telling you to sell because they want to get in at favorable prices.

Those who are consistently profitable in the markets have a consistent approach which they understand and follow. They have a trading process they trust and they follow it.

How can you become good at trading if each loss leads you to change your system? Imagine the number one golfer losing a tournament and deciding they weren't good at golf because they lost a game….so they start trying to play baseball, basketball, bowling, football, or something else. This is not a recipe for long-term success.

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 that cause the real damage.

As an investor you will need to develop the ability to follow your rules. This is easiest when you have a set of clearly defined trading rules that provide a clear expectation to which you can measure your actual results. Journaling will help you see where you break your rules 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 trade process 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 resulting from the outcome of their most recent trades.

My experience as an instructor has shown me that most find it difficult to follow their trading process consistently. 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.

New and even experienced traders too often begin a trade with one set of rules and then end it by breaking their rules….or to change their system without enough research simply in response to the outcome of a single trade. This makes it challenging get really good at any one style of trading as they look to discover the magic strategy that is never wrong.

It's also easy to get pulled away from your trading process by well-marketed promotions promising an easier, quicker, and safer way to stock market riches. Don't get suckered into these programs. Trust your trading process.

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 a few trades didn't work out. Just like anything else in life, success comes by remaining consistent in your approach and focus.

I once heard a story about a concert pianist who 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 with your trading process if you are to become reliably profitable. You cannot develop this level of expertise if you constantly change or break your trading rules. Profitability requires you to master a few things and do them consistently…you don't have to master every strategy or watch every news program.

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 traded and grown through compounding. Most people cannot ever save enough to enjoy real wealth. Compounding is the only way to real wealth. Even those making hundreds of thousands of dollars a year can feel the financial strain of living paycheck to paycheck unless they learn to save some portion of their income for trading.

It’s difficult to live below our means today with credit so easily available and with so promotions to “buy now, pay later” 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!

Learning to live the principle that a part of all you earn is yours to keep may require significant initial changes. However, once you have a history of generating consistent market profits, it becomes easier in part because you know how much opportunity cost each new purchase represents.

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					Purchased a set amount of shares per month					Spent a set $ amount per month			
Date	**Price/ Share**	**Shares**	**Cost**		**Date**	**Price/ Share**	**Shares**	**Cost**		**Date**	**Price/ Share**	**Shares**	**Cost**
15-Jan	$35	277.14	$9,700		15-Jan	$35	100	$3,500		15-Jan	$35	69.288	$2,425
15-Feb	$20	0			15-Feb	$20	100	$2,000		15-Feb	$20	121.25	$2,425
15-Mar	$15	0			15-Mar	$15	100	$1,500		15-Mar	$15	161	$2,425
15-Apr	$27	0			15-Apr	$27	100	$2,700		15-Apr	$27	89.815	$2,425
Total		**277.14**	**$9,700**		**Total**		**400**	**$9,700**		**Total**		**441.35**	**$9,700**
Avg. price per share			**$35**		**Avg. price per share**			**$24.25**		**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.

Choose between financial freedom or fear

Famous investor Peter Lynch once stated that most people spend more time planning their vacation than planning their retirement. These are also the people who live paycheck to paycheck and depend on a work 401k or social security for their retirement. These people live with some sort of financial fear throughout their lives.

They worry they aren't making enough or saving enough. They carry heavy financial stress. They may begin trading out of a sense of desperation and fear. As humans, they want to have their problem solved….right now.

Yet trading, like dropping a bad habit or a few pounds, requires enough patience to follow a process, trusting in the eventual outcome.

Financial freedom comes from compounding. The power of compounded is affected by (1) Annual rate of return, and (2) Length of time.

These two things are interrelated. A high enough annual rate of return can be enough to compound to a desired account size even in a relatively short amount of time. More time requires a smaller annual rate of return to accomplish the same thing. See the charts below:

Compounding at 20% a year for 30 years

Current value	$25,000
Annual rate of return	20%
Years it can compound	30
Compounding periods per year	12
Nest Egg	**$9,599,099**

Compounding at 125% a year for 5 years

Current value	$25,000
Annual rate of return	125%
Years it can compound	5
Compounding periods per year	12
Nest Egg	**$9,571,968**

Those who understand compounding tend to avoid debt. They save a portion of all they earn. They devote the time and energy needed to become good at trading.

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.

Many people start out with the best intentions…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.

Learning how markets work and developing your own trading process with specific expectations and trading rules (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 financial future. You may have financial advisors and others helping you invest. That's fine. But remember, they will not be able to get the returns you can (once you learn how) and they won't care about your financial future as much as you do.

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 those we pay to help us (fund managers, financial advisors, brokers, etc) and us. We think of them as a means to our retirement ends…but the truth is we are really the means to theirs.

A study published in Bloomberg Magazine titled, "Why You Still Can't Trust Your Financial Advisor" states that this massive conflict of interest costs Americans over $17 billion a year! Many financial advisers just don't care what's best for us…and unlike doctors or attorneys…they aren't required to care.

I once hired a financial advisor to help me grow my money. 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 each of which compared results over different periods of time. 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 past performance was no guarantee of future success and that I needed to make the ultimate decisions. So I chose the ones that seemed to have the best performance over the previous five years.

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 7 things I control to get predictable returns from the market. I didn't know how to get clear expectations and specific to my unique combination of base win rate, trading edge, risk per trade, and trade frequency. Worse, I did't know how to turn these expectations into a set of clearly defined trading rules.

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.

I often wonder if my advisor didn't take more interest in my results because he didn't know how…or because he didn't care. I will never know, but I do know that no one cares 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. Sometimes paying others to tell us how to invest often leads to some sort of success. But opportunity costs are high. If you don't figure out how to improve your annual rate of return, you will never really be financially free.

Yes, initially you will make mistakes….maybe even a lot of them. Yes you will lose money. Yes you will have to grapple with your emotions. But if you've ever worked with an expert you will find that they also make mistakes and that they lose money. They will be an easy target to blame, but playing the blame game does not really help you become financially free.

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:

- You control 7 things which combined, help you gain predictability from random market movement.
- There are 5 unique Natural Trading Styles.
- Each trading style will *by design* lose some percentage of trades.
- Developing a comprehensive trading process and learning to trust it is the only way to have long-term market success.
- 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.
- The base winning percentage of your Natural Trading Style 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 developed over a lifetime of working through pressure. Unless you really know your WHY, you will give up short of the goal of true financial freedom.

We all work very hard to make money. But putting that money to work can be hard because…..*life.* The good news is that a high enough annual rate of return can make up for nearly any shortfall in earnings, savings, or time.

You can dial in a desired rate of return through the variables that you (and only you) control. Once you've established your desired annual return and developed your trading rules, your focus should remain firmly fixed on trusting and following your process.

Chapter 2

Avoid "Squinting"

In this chapter we discuss the absolute necessity of maintaining a level head. Too many investors become cheerleaders of the stocks they "want" to invest in or have held profitably for years. They buy (or hold) for emotional reasons and not because they are following their proven system. Squinting is working to see what you want to see to justify your trade even though you know, deep down, that the trade is not within your system.

As I have emphasized before, if you are a buy—hope, wish and pray investor you have become a cheerleader. You must allow the facts to speak for themselves and not try to see only those things you want to see or try to talk yourself into something simply because you allowed an emotion to overcome you.

As an instructor, I have literally spoken to thousands of investors from all over the world and one of the biggest mistakes I have seen them make is squinting hard enough to buy or hold a stock even though their system tells them otherwise. Are you a squinter?

Squinting is the term I use to describe the common phenomenon of seeing what you want to see. We all see our world through the lens of our experience and expectations. When it comes to investing, we must learn to see through the lens of our system and not through the lens of our emotions.

People often label themselves realistic, pessimistic, optimistic, depressed, or whatever to describe their point of view—to describe the outlook they naturally tend to have. I don't point this out to discuss the pros and cons of any outlook or to pass judgment for which world view is the best or most appropriate. Instead the thrust of this book will be to discuss how each of these natural outlooks tends to affect our judgment and our forecasts and how you can take steps to protect yourself from…yourself.

I had a boss once that always talked about "blind sides" that everyone has. This boss believed that every person on earth possessed blind sides they should work to be aware of and guard against. He believed the first step of protection was to determine natural tendencies and then find others with strengths complimentary to us who are willing to help guard against our own worst natural tendencies.

As an investor you will have to understand your own natural tendencies and then embrace a system you can embrace and guard against those blind spots which will seek to pull you out of the system. Chapter 1 was written to help you understand the importance of following a proven system that fits your personality. This chapter will discuss in greater detail the importance of sticking to your system so you can be protected from your weaknesses as a trader.

Let the facts speak for themselves

Most people's biggest weakness in investing is having their emotions of fear and greed blind them to things as they really are. As an investor in control of your own financial future, you must approach the stock market in a more mechanical way. Imagine giving your best friend investment advice. Would you be comprehensive in explaining the risks as well the possible rewards in your explanation?

Below is a chart of price movement of MSFT's stock from 2013 to 2021. As you look at the chart imagine you bought MSFT for $30 and still own it.

Try to imagine that you bought $10,000 of MSFT. Your investment would now be worth over $110,000! How do you feel about this investment? How do you feel about MSFT?

I use this example to highlight how easy it is for our emotions to cloud our lens and cause us to hang on to something too long simply because it has treated us well in the past.

MSFT has since dropped 23% from its high reached in 2921. Imagine that you owned MSFT and that you still own MSFT, why do you still own it? What is it about MSFT that has caused you to hold onto the stock despite the heavy losses suffered in the past few months?

Since it went public, MSFT has developed a reputation among investors as a high performance and dependable stock holding. This reputation is just like a brand in that it gives MSFT top of mind awareness in the minds of investors. People know about MSFT and they trust MSFT enough to buy the stock because the company has performed so well and because the stock has performed so well. Most investors would think that MSFT stock is a good, safe investment because, well…because it is MSFT.

Going back to the question asked earlier, “Why do you still own MSFT”? What are some reasons you give yourself for still holding on a similar investment? Here are some of the common reasons people give me for still owning a stock like MSFT:

1. It will come back. (probably the most popular reason)
2. The broker told me to keep hold of it.
3. I didn’t know what else to buy.
4. Fear of the markets.
5. I can’t sell it now that it’s dropped, I have to wait until it gets back to its high. I don’t want to lose money in the markets.
6. I didn’t spend the time to really watch it that closely.

A lesson to learn is to take what the market gives you.Remember, this is a business. If this “client” no longer pays you…stop doing business with it! But it can be hard to act amidst the emotions and self-doubts that assail us as we trade. This is why it’s so important to have a trading process and to be confident enough in the system to cling to the rules even when your emotions try to sway you a different way.

It’s human nature to find patterns in the things we see. It’s literally how our brains are wired. As an investor, you may be tempted to “squint” until you see the pattern you want. But this approach won’t work over time. Squinting until you see what you want to see is another way to blind yourself to the way things are…and trading requires you to see things as they are, not as you hope, wish and pray for them to be.

We all have blind sides we have to guard against. If we are to become active investors, working to control our own financial future and get our money working harder for us, we have to develop the ability to see things as they really are.   call this learning how to invest like a scientist.

Scientists have developed a very disciplined thinking style. They make a forecast (create a hypothesis) and then they seek to prove or disprove that hypothesis. Scientists create experiments designed to control for a number of variables so they can prove or disprove their theory. Scientists have to be careful not to allow what they want to happen to color their results so their results will be accepted and able to be repeated by their peers.

Investors, truly successful investors, create a forecast for a stock. They then look at the facts through the "lens" of their investment system without being swayed by other considerations or abstractions. This allows them to invest in the same way every time making their success a repeatable process.

Don't try to force your will on a stock

Similar to "Squinting" it's important to take what the market gives you…don't try to force your will on it. Your hope and prayers and wishes will not move the markets. Successful investors protect against loss by employing cautious strategies diligently follow their proven system without letting emotions cloud their decision making.

The whole reason you have chosen to embrace the effort and expense required to master the markets in the first place is to put your money to work at ever higher rates of return. Whatever your approach, you expect consistent winners and impressive annual gains. You will be able to increase your annual percentage gains most effectively if you learn to take what the markets give you and follow your system assiduously.

As a new investor I followed a system pretty well and did okay. I made consistent money but not at the speed I wanted to earn it. So I began to adjust my system without really knowing how to define the additional risk I was putting myself into. At one point I decided that I wanted to earn at least 100% return every time I invested in the market.

Now this might seem like an astronomical return—and it is—but with an investment known as an option it's possible to get 100% returns if you forecast accurately and the stock moves a few points in the direction you forecast. But learning options is not the focus of this text—learning how to control your emotions is.

Just take a second right now to think about what I was trying to do. I was saying to myself that I wanted at least 100% returns! Does the market care what kind of return I wanted? Does the market even know that I have invested in that stock? No, of course not. So what was I doing? I was trying to dictate to the market the returns I wanted it to give me.

You have to learn to take what the market gives you. If you day trade, capture profits and roll into new positions with profits you've just made in the previous one. If you invest for the longer term, get out when the signals tell you to even if you end up losing money. Sometimes the best trade is the loss you take getting out quickly when things move against you.

As a teenager I decided to join the Marine Corps. So I attended boot camp at the Marine Corps Recruit Depot (MCRD) in San Diego where they train Marines who hail from west of the Mississippi. A few years later I also attended Officer Candidate School at Quantico, Virginia which is similar to boot camp but much more focused on the leadership aspect.

What I was taught there is that the battleground is a fluid and ever changing environment. As enlisted Marines we were taught to obey every order immediately to the best of our ability. We were taught to respond to the situation at hand keeping the objective firmly in mind. As an officer in training, I was taught to focus on the end result while responding as necessary to the new information streaming in from the battle. We were taught to be adaptable to new information but adaptable in a way that brought us closer to our objective.

Like we had to learn in the Marine Corps, you must also learn to become adaptable if you want to become a successful investor. The difficulty will be to balance the necessity of changing your plans while still being true to your objective or your plan. You have to be able to continually take stock of the situation and develop the ability to act on new information as that information impacts how well stocks in your portfolio still fit your plan. If you simply buy MSFT because it is MSFT and if you hold MSFT because it "will come back;" then you are not taking new information into account and you are not as adaptable as you need to be to remain successful in this market. You're also not following your system.

Why don't we get out when our system tells us to? Maybe ego gets in the way. Maybe fear. Maybe life is allowed to get in the way. Another reason it's difficult avoid the pitfall of forcing our will on a stock is that there are always two sides to a trade. Both buyers and sellers make their case and it's easy to listen and be swayed by this logic if we're not careful.

This is why it's so important to select a proven system to follow. This is why it's so important to journal your efforts and learn to be more strict as you follow the system. This system will give you signs for entry points and also exit points. Trust them and act based on the system and not on your desire to be right or the fear of losing money.

Let me provide a specific example. Look at the chart below. Assume that our investing system told us simply to buy when the trend line was point up and sell when the trend line pointed down. Notice the first half of the chart the trend line was basically pointing up but that during the second half, the trend line is basically pointing down.

It might be easy to give yourself reasons for staying in the stock when it hits 60 and the trend line starts to fall. But your system tells you to get out. So get out. You don't need an angel from heaven to come down and tell you to sell, you need discipline to get out when the stock no longer no longer fits your system.

This system works pretty good *if you follow it*. Your system also works pretty good if you follow it. Follow it!

Remember, learn to take what the market will give you. Don't try to impose your will, your prayers, your hope or faith onto them. Avoid squinting to see what you want to see. Learn confidence in your system and follow it carefully.

Learn to make quick decisions

There is a motivational sign that declares, "Lead, follow or get out of the way!" Many people who start the journey of investing for themselves have a hard time actually investing. We never have complete knowledge of everything that could possibly affect a stock's price. We have to act with incomplete information. Many people so keenly want to know everything that they literally apply the "ready, aim, aim, aim, aim, aim, aim, aim, aim aim"….and maybe eventually they get to the "fire" part of the equation.

The message is clear, we must be willing to act to get things done. As Teddy Roosevelt is quoted as saying:

> *"In any moment of decision, the best thing you can do is the right thing, the next best thing is the wrong thing, and the worst thing you can do is nothing."*

For the purposes of investing, the action must be in the form of understanding your system and applying that system in the markets consistently. That's it. If you want to significantly increase your financial net worth and remove the financial fear so many carry, you must be able to take action to buy and sell as you follow your system despite all the noise of talking heads, earnings releases, economic reports, losing investments or company promises.

The hardest thing most investors face is the ability to make quick decisions. A good, clear investment system will help you make faster decisions because it provides a set of lenses from which to view the market. And gives you specific buy and sell rules to follow. But even with a clearly defined and closely adhered to system you will still face situations where you will have a hard time making a quick decision.

Too often investors will sit and stare at a chart for too long. They second guess themselves, their system and the markets. This is especially true after someone has had a losing trade. After every trade regardless of the outcome, apply the "Next" philosophy. Don't let any previous trade affect your future trades.

Knowing what you should do does not help you unless you also know how to act. And in the stock market you often have to learn how to act fast. But at the same time you cannot be too reactive to the market or you will whipsaw in and out of stocks with nothing much to show for it. You never want to be a "ready, fire, aim" investor!

There is a delicate balance that must be kept between adapting to the market and remaining true to your trading process. This is not an easy balance to maintain. If you are long-term you will find that short-term signals or moves will happen that might shake your confidence. You will also never really know if this short-term signal is the first step in a new change in direction. You will find yourself constantly pulled into confusion and inaction.

The guiding principle that must be followed is your trading process. Great leaders have an ability to make decisions and take responsibility for those decisions. Like you, the great leaders of the world do not know the future. They do not know every possible fact that can be known about a subject. But they are able to take what they do know, decide on a course of action and then motivate others to move along that chosen path.

You have a proven system to follow…so trust that system and follow it. This is easier to do if your trading process includes clear and precise expectations to which you can measure you actual results. You must not lose your confidence and be whipsawed out too soon. You must not allow yourself to get greedy and buy stuff that you end up wishing you didn't own. You must be able to strike a balance of knowing how much information is enough to take action….and taking that action.

I've worked with thousands of investors and I know how hard it is for most people to take quick, decisive action as they follow their system. Most people second guess themselves, they second guess the system, they second guess the markets. They try to do less work to get the same results. Frankly they lack confidence. And success requires the confidence to trust a system to get in even during slumps and to get out even when your positions become hugely profitable.

Don't get paralyzed

Have you ever heard that saying, "paralysis by analysis"? This type of paralysis comes in two forms. The first is where we feel we can't act because we are getting or seeing conflicting signals. You'll get negative and positive information about a stock's prospects. Which one do you believe?

The second type of paralysis by analysis is where we feel we can't act until we know all the answers. Too often investors worry about getting into a stock because the one thing we don't know will be the thing that drops the value of the stock. So we wait and we wait and we wait for confirmation until it is too late to get in so we wait some more for the best time. If you find yourself wishing you could know the future movements of that stock then you are likely suffering the paralysis by analysis disease.

How many times have you heard a successful entrepreneur make the comment that if they knew how hard it was going to be before they started, they would never have started! I once watched an interview with Tom Hanks conducted on a show called "Inside the Actors Studio." As you know, Tom Hanks is arguably one of the most successful actors of our time. During this interview he talked about his early days of acting and the process he had to go through.

He described the many times he auditioned for parts and was turned down. He described the months and months of effort he put into acting and in bettering his craft. He talked about how hard it was to "break through" into the business. And then he ended it by encouraging the students in the audience to understand that this effort, this patience, this hard work was simply part of the process of becoming successful at their chosen vocation.

You must also understand that as investors, we also go through a similar process. This process is painful, it takes patience, it takes a rock hard center of confidence and stick-to-it-iveness to finally break through into consistent success. But one guarantee is that it will not happen if you become paralyzed at some point and stop moving.

Most times investors are able to start out with all the right intentions and they begin by doing all the right things. They might even be successful for a while. But at some point (it happens to everybody) they'll experience a loss. It is how people react at this point that causes them to experience success or failure over time.

Remember, you cannot experience success every time—this is impossible. In fact, depending on your Natural Trading style, your system might experience losses 75% of the time…by design!

So your success over a period of time is directly related to your ability to keep making trades according to the rules of your trading process. You will be tempted to give up or quit…don't. If you do, you miss all the future profits you could have made had you just kept going.

Probably the best way to avoid paralysis is by keeping yourself centered in your system. Make your trading process a home base—a place of safety from the swirling storms of information raging against you. If necessary stop watching news programs about the market or how the geopolitical uncertainty will affect the market. Just put on the blinders and avoid everything else but your process.

Control the things you can control

Seeing the whole picture means that you see everything your investing systems says you should see and not try to see everything that might affect the stock.

This might include such things as earnings, revenue growth, industry group strength, chart patterns or whatever. I have seen many investors who are just learning to use a system forget to look at some key aspect from their system and end up with bad trades because of it. To help you learn how to automatically see the whole picture, it might help to develop a simple checklist of rules your trading process tells you to follow. Then journal how well you followed the rules.

Different world views are called paradigms and these paradigms influence what we see and what we don't see. Paradigms are lenses through which the brain processes the information it receives from the world. When we view the world through one type of lens, we cannot see solutions that lay outside of this paradigm.

As an investor you will need to understand the lens through which you see the world. You should clarify your world view and write down your paradigm so you know where your blind sides might be. The most important part of any journey is knowing where you start. Aligning your strategic investing approach with your Natural Trading Style is one way to reduce the struggles you'll face.

Most people want to control the outcomes of their lives. They want to see their goal and every step it takes to achieve it. This very control gives people a sense of safety and security. It's a mechanism designed to protect us from pain.

Many new investors automatically apply this need to control outcomes to their investing. They desire to control their investments….and yet there is no control of the markets. We can't dictate the direction or the magnitude of a move. All we can do is anticipate it and react to it. This creates a high level of uncertainty and fear which could lead to selective blindness where we focus so much on the market that we literally can't see the signals our system gives us.

The result of selective blindness is investment loss. And these losses could cause us to second guess ourselves and our proven system and rethink our original desire to take control of our financial future through education and application. Don't let this happen!

There is a tendency for many people to rationalize behavior and poor outcomes. Maybe we play the blame game or maybe we hide from ourselves. Rationalizations lead to poorly conceived changes to our investing system and a focus on profits or losses and not on the system.

Stop grasping at straws looking for excuses. Focus instead on the actions necessary *right now* to protect investment capital (cut losses short) or to grow investing capital (let profits run).

The only way to gain control and predictability in trading is to focus on controlling those things that can be controlled. These things are:

1. Base win rate
2. Trading edge
3. Amount risked per trade
4. Trade frequency
5. Asset class
6. Allocation
7. Journaling

Controlling the things we can control means doing away with any rationalizations. It means learning to overcome the tendency we all have to justify our behavior. Be honest with yourself always.

It will be tempting look around looking for cause and effect in an effort to gain more and more control over individual trade outcomes. This might show up in the form of trying to know everything about the stock or the markets and to be completely plugged into the news, stories, "experts" and entertainment of the financial news markets. These things will not help you make good investment decisions. They are in effect "noise" designed to confuse you and paralyze you. Like we discussed in the previous chapter, all of this programming is biased to either the buy or sell side. With the system you've chosen, you don't need any of these things to make sound investment decisions. Stop confusing (and paralyzing) yourself and stop consuming this material.

Understand that the more you know how and why things work, the more confidence you will have as an investor and this confidence is something that translates directly to your level of success. Remember, it is not how you deal with success that determines your ultimate level of success, but how you deal with failure. Learn to see the whole picture so you can invest with more confidence and so you can have more confidence to help you "keep on keepin' on" despite the occasional roadblock or failure.

Controlling those things you can control means a willingness to spend consistent effort every day in the markets, getting better at following your trading process. Remember, this effort will reward you with more consistent returns over time and more success in your investing. It is hard to take control of your investing instead of paying someone else to do it for you. But only as you do take ownership, will you find true financial success in the markets.

Don't panic in the short run

It's all too easy to develop something called "deer in the headlights" syndrome. Deer often freeze at the exact worse time as the car speeds towards them. Don't allow yourself to freeze from panic or greed or FOMO. Don't make emotional decisions. Remain logical and unemotional and keep following your rules. Stay the course you've chosen.

Movement in the wrong direction often causes the individual investor to panic, or do the wrong thing at the exact wrong time. I was once told that I needed to learn how not to be ruled by fear. he person who told me this is a serial entrepreneur meaning he lives and loves to start new businesses. This person, one of my closest friends and greatest mentors, was able to see that I suffered from a malady that afflicts most people in the world today. I was ruled by fear.

Are you ruled by fear? Be honest with yourself. Part of your success as a trader is painful honesty when required. I believe we all go through periods of time where we no longer trust the markets or where we feel so beat up by the market that we want to just throw in the towel. To remember that successful investors are measured over a lifetime of investing, not on one or two trades.

In his book, "Learn to Earn" Peter Lynch writes about the depression. He says, "No event in American history has worried more people over a longer stretch of time than the Crash of 1929. People who weren't even born in 1929 were worried about it. The children of people who weren't born in 1929 have worried about it as well."

He also describes the Crash of 1929 as "the most pernicious collective phobia on record, and it has kept millions of people from buying stocks and making a profit they could have. The idea still lurks in the back of many brains that the stock market is headed for another crash that will wipe out everybody's life savings, and the suckers who put in their money will be roaming the streets…"

He goes on to say, "if you buy the argument that we're not likely to suffer a relapse into depression, then you can be a little more relaxed about drops in the stock market. As long as the economy is alive and kicking, companies can make money. If companies are making money their stocks won't go to zero. The majority will survive until the next period of prosperity, when stock prices will come back."

I have included all this here because I think Mr. Lynch does a masterful job describing the deep-rooted and perhaps unconscious fear we all have that our investments will head to zero any time stocks head lower. As an investor you must learn to stay the course.

Don't panic. Don't follow the crowd. Have a trading process and stick to the rules. Stay the course.

A story that I heard somewhere serves to illustrate this point. The story depicts an interview between a hard-bitten reporter and the very successful investor Sir

John Templeton. This reporter decided that while he was interviewing such a famous investor he should try to find out the secret to success in the market. You know, the reporter wanted what we all want: that magic, silver bullet that never misses, the perfect investing system that always made money. He wanted the easy solution to success. He wanted access to the crystal ball Mr. Templeton used to be successful.

The response to the reporter's question was a little unusual and caused some consternation in the mind of the reporter. You see, when the reporter asked Mr. Templeton for the secret to his success, the reply was that Mr. Templeton was successful in the stock market because he had learned how to help people. "Help people?" What does that mean?

The reporter did not know what to make of this answer. So John Templeton decided to expand on his answer and he told the reporter that when stocks went up Sir John Templeton helped people by selling them stock. And when stocks went down he helped them again by buying their stock from them. In this way he was able to buy low and sell high.

So, have you learned how to help people? Have you learned how to buy more stock when the stock is heading lower? Have you learned to sell your stock when it is going higher? Hopefully this book will help you learn how to act in the correct manner despite the emotional spell a strong move the stock might try to cast over you.

Panic is the same thing as fear and you must learn to overcome your fear of the markets and of short-term market down moves as you become a successful investor. But this is hard because we never know if this down move is the beginning of a long series of down moves that drops the stock to zero. So balance is once again required. You must invest for specific reasons and you must decide to get out only if the reasons why you invested changed.

Incident where companies commit fraud or lie about their potential only perpetuate this lurking fear most of us have that somehow, someway we are going to get cheated and lose our money in the markets. But when you feel this way, try to remember the words of Peter Lynch and take comfort in the fact that while the few failures of businesses are often spectacular flameouts, the vast majority of investments will do very well over time.

Limiting the risk you take on every trade and keeping this risk equal will help you learn to avoid panic which helps you be able to act with decisiveness to follow your rules avoiding the temptation to react to the wrong signals occurring in the short-term. Panic often causes you to stop using your mind to make rational decisions because you are too busy using your feelings to make emotional (and wrong) decisions. Remember that fear is the mind killer.

Opportunities will always come again

One of the things that will help you most as you become an investor controlling your own investments is a sense of perspective. You must remember that each day is a new day. ach new day brings new opportunities for profit. If you miss a play today, it's okay, tomorrow another one will come.

You don't have to spend time beating yourself up for not getting into a great trade. Instead spend your time and energy looking for new opportunities. Learn to focus your energy in positive ways finding new plays or new investments. Don't waste your energy remorsefully thinking about the money you might have made had you invested in something you were watching because this just makes it harder to act today.

Businesses often invest in new ideas or new marketing plans only to find later that they were wrong. In the accounting world they call these investments "sunk costs" meaning costs or investments made in the past that did not bring the desired return. These costs are written off and not allowed to continue draining the company's coffers. Remember the "Next!" attitude. If you miss a trade, don't let that miss blind you to the next trade on the horizon.

As investors we might have some sunk costs in our portfolios in the form of investments that did not pan out or lead to the desired return. You might even be tempted to allow these past investment to affect your future investing. Have you ever held onto a stock because you did not want to sell at a loss? If so, you are allowing a "sunk cost" to affect future investments. An old adage on Wall Street is that we must "live to trade another day." Sometimes retreat is the better part of valor. When you get into a stock that unexpectedly heads lower, learn to cut your losses quickly.

It takes a 100% return to recover from a 50% loss. And it takes a 300% return to recover from a 75% loss. But it only takes a 6% gain to recover from a 5% loss. Protect your investment capital.

By cutting losses quickly you will still have money to invest in the next opportunity that comes along. Don't be so afraid of losing money in the market that you forget to make money. The other old adage is that it takes money to make money. If you get into a stock and it moves the other way; and you decide to stay in that stock, you might have to wait for years before you get your money back out. Try to keep in mind that there will always be another stock, another play. Of course, this is only helpful if you have money to invest with! Learn to preserve your capital cut cutting your losses short.

The idea that each day is a new day is just my way of reminding you to learn how to let go of mistakes made in the past so these mistakes do not affect how you approach the market in the future. Develop a strong mental approach to the investing game by thinking of each investment on its own merits without being colored by results of recent trades.

Profitable trades can also cause us to make mistakes if it leads to over-confidence and a willingness to break our risk management rules in pursuit of bigger gains. If you allow yourself to dwell too much on your success, you will forget to do all the little things you did to become successful in the first place. If you are not careful success will be just as debilitating to your portfolio as failure.

If you ever start feeling over-confident, I suggest that you take a break from the markets. Remember, success is measured over a lifetime. Success is wonderful but if this success causes you to approach the market or make new investments outside of your investment system you will likely suffer a big loss. So take any success or failure with a grain of salt—don't let it become symbolic to your success or failure as a person—and remember that each day is a new day for you to prove yourself. Every investment must be evaluated on its own merits and not as a continuation of what went before.

Remain focused on your process—not the outcome of individual trades

We have spoken in great detail about fear. You must remain unemotional as you invest so you can more fully follow your system. Fear is a pervasive and sometimes hard to identify emotion that colors much of what we see. Greed also affects how we react to the stimuli of new market information. If you allow these emotions to control your investing, you will find that your investments control you.

Stimulus from outside of ourselves often causes an emotional reaction within us. It's human nature to feel some emotion in reaction to the outcome if individual trades. This is why having a trading process and learning to follow it exactly is so critical…it helps us avoid the inner dialogue we might otherwise have about poor outcomes.

A focus on individual trades also might put you under so much pressure to make perfect trades, that you'll either miss the move waiting for confirmation or you'll allow the results of past trades to affect your next trading decisions. This is also known as revenge trading.

Trading puts us under pressure. This pressure may cause us to react in pre-programmed ways. One of your challenges will be to learn that you can't control the stock market or guarantee trade outcomes. Stay focused on following your trading rules. Don't allow yourself to get too cocky when you succeed and don't allow yourself to feel like a failure if one of your investments goes the wrong way. Stick to the safe harbor of your trading process to avoid unnecessary mistakes.

Don't be an ostrich…sticking your head in the sand is not the answer

In children's literature the ostrich buries its head in the sand to hide from the bad stuff. It thinks that if it can't see the problem, the problem will simply go away.

Analyze how frequently you look at your portfolio. Most people have a tendency to review their accounts a lot more when they have significant profits and a lot less when they have losses. Have you fallen into this trap?

You will not achieve financial freedom from a few lucky trades. Real financial freedom is built from consistent returns that are compounded over time. Financial fear won't go away just because you had one great year…unless you can repeat those results year after year.

Yet it's hard to shake a sense of tension as a part-time trader. Many people avoid the stock market and simply pay someone else to manage their money. The problem is that those people will never be able to compound at a high enough rate to really provide us with financial freedom.

I've come to believe that the tension most people have when trading is because they don't have a systematic approach to the markets. They know they can't control the outcome of individual trades. They worry that if they don't know enough or follow the right expert, they'll lose all their money.

The challenge is that everything in the financial world points to the opportunity that can be (or has been) realized by previous investors. Greed is a powerful motivator and almost everyone looking to sell something in the financial world triggers greed by painting a rosy picture of easy, high returns if only you know the secret.

Consistent Profits has spent nearly 10 years researching and developing a systematic approach to the markets that anyone can follow. The markets are random and individual trade outcomes are unpredictable. But it's possible to get very predictable results across many trades once you understand the things you can control and how they inter-relate to provide statistically relevant and realistic expectations.

Your financial problems won't be solved by a few large winners. Closing your eyes and hoping for gains does not provide predictable outcomes nor give you a trading process that can be repeated for consistent results. Successful investors approach the markets and each individual trade the exact same way regardless of whether previous traders were profitable or not.

Emotional traders make mistakes and generally don't last very long. Having a trading process is key to long-term success. Knowing how to follow that process is even more important. We like to say that trading is simple but not easy. It's not easy because it's hard and takes time to make the behavioral changes required to trade successfully.

Behavioral changes are hard to measure. Change seems to come slowly with a great deal of false starts and stuttering steps. One benefit of having a holistic set of specific and realistic expectations and trading rules is how it can shift the inner dialogue from negative to positive. This is the lesson of the Ostrich. Don't hide from yourself, don't hide from your trades, don't hid from your failures. Face them, learn from them, and grow because of them. This is known as failing forward.

Invest like a scientist

A consistent approach to the market makes for consistent results from the market. If your trading approach is comprehensive with expectations and rules, it becomes a repeatable approach. This is the key to consistent results and better compounding.

Consistency is so critical to success in life. You cannot achieve the pinnacle of success in anything in life unless you first develop the ability to be consistent. If you consistently practice then you'll have more consistent performances. Consistency is a necessary ingredient to eventual success.

I think the lack of consistency is one of the biggest challenges we face in life. How many times have you set a New Year's Resolution only to find that a few weeks later you had gone back to your old method or fallen back into old habits? Have you ever punished a child for doing something because you were in a bad mood only to allow that activity when you were in a good mood?

Have you ever decided to begin an exercise program only to stop after a little while? What causes us to act this way? I don't know the full answer to this question, but I do know that you must be consistent in your approach to the market if you ever hope to achieve consistent results from the market.

Now think about your investing. How consistent are you in your approach to the market? How consistent are your results? Too many of us approach the markets with a shotgun…sending a scattershot of little pellets hoping something will succeed. We send out lots of bullets hoping that at least on of them will hit the target. Greater success can come if we learn how to focus. We called this approach "one shot, one kill" in the Marine Corps.

Warren Buffet is famous for saying, “diversification is protection against ignorance. It makes little sense if you know what you are doing.”

I often tell people that they must learn how to invest in the stock market like scientists conducting experiments. Scientists have a set process they follow as they set about proving or disproving hypotheses. This is called the scientific method. The steps of the scientific method are:

1. Observation: Be observant of things in the world.
2. Question: Ask a simple and concrete question that can be answered by an experiment.
3. Hypothesis: A testable and tentative answer to the question.
4. Prediction: A forecast of the likely outcome.
5. Testing: Controlled experiments to find the actual answer to the question.

All these steps add up to a repeatable process. In other words, if the experiment has been done correctly the outcome will be the same every time the experiment is run regardless of the person conducting the experiment.

As investors we must also learn to think more like a scientist. We must learn to separate fact from emotion so we can see things as they really are and not just as we want them to be. Here are the scientific steps an investor should live by. Remember, these can only be followed within the safe boundary your chosen trading process.

1. Observation: Have a watchlist and know what is happening in the markets.
2. Question: Think about how news can affect your company and other companies in its industry or in its circle of influence.
3. Hypothesis: Have a comprehensive set of statistically relevant expectations about your results.
4. Prediction: Use your edge technique to predict what the stock is likely to do.
5. Trading: Get into or out of positions according to the rules of your process.
6. Journaling: Carefully track your progress and review every 30 trades.
7. Repetition: Repeat steps 1-6 throughout your life.

As can be seen, good investors learn to think very similarly to scientists. You must remain unemotional about individual outcomes while remaining focused on following your process exactly. A sound trading process will help give you the steps to follow. But it will not force you to follow those steps. To follow the system you must learn to discipline yourself and keep your emotions in check.

Chapter 3

Know why you buy

I like to emphasize how necessary it is to follow a clearly defined trading process. I tell them that if they know why they are buying a stock they will know how and when to get out of it. Knowing why you buy helps you know when to get out. As investors we have so many different and conflicting signals and emotions or experts telling us what to do that it becomes easy to get confused.

Your investment process tells you to buy, but your emotions tell you to wait. What do you do? You have to trust your system and you have to be able to act despite your emotions. Once you own an investment your emotions will continue to factor into your decisions because the stock will continue to move up and down. The stock you buy at $24.50 will move up and down in value every day.

The real trick is knowing when to sell based on changes to the stock's internal or external environment. To explain more clearly what I mean, take a look at the chart of Forest Labs, Inc. below:

As you can see, the stock has had a strong up trend for the past couple of months preceded by a fairly obvious down trend that last from April to July or so. What I mean by a "trend" is that the stock basically moved in the same direction over a period of time. So from September to October this stock moved from about $70 to about $102. But even during this unusually strong period of directional movement the stock still had days when it went down or closed lower than the price the day before.

Now if you had purchased this stock when it first started moving up around $70 you would have had a great run. But would you have held it the entire time? It is easy for me to write that you invested $70 a share. But try to think about putting a sizable number of dollars at risk on a stock like Forest Labs, Inc.

Now take a closer look at the chart. The first move in the stock took it from about $70 to about $80 before it started dropping lower the third week of September. If you owned the stock at $70 would you be worried that this move down was the beginning of a large move down? Would you make the choice to sell your stock to protect your profits? If you are like most investors you tend to "cut your profits short and let your losses run." This means that the vast majority of people reading this book will have a tendency to get out too early at the first sign the stock might be heading lower.

But if you know why you decided to buy this stock in the first place you might have the courage to stick with the stock until your system gives you a sell signal. This sell signal might be in the form of technical analysis or it might be a slowing of earnings or revenue growth or it might be something else. But it will be something your system tells you to look for. And you must wait for that sell signal before you get out. Don't be a retail investor taking too little profit on your good decisions and your accurate forecasts!

Because we don't know the future or what the future holds, it is easy to get panicked in the present. Especially if we are inexperienced in the stock market. Like I have said before, sometimes we get so worried about losing money that we can't make any money. Let me suggest that following a system will be the best thing you could do to both for getting in and for getting out of a stock.

Control what you can control

Most people seek to control outcomes in their lives. They know how to control for things like education to get the kind of job they want. They like the idea of a clearly defined job because they can understand and control the variables that drive pay increases.

I think many of us are like Robert Kiyosaki. In his books he describes how his real father taught him to get a good education and work for a large and stable company. But Mr. Kiyosaki was lucky enough to have a rich dad mentor who showed him how to build wealth like an entrepreneur would build wealth. If you have not read these books I recommend them to you.

I have had the good fortune to be raised by parents who taught me how to work hard for my money. I had parents who loved me and wanted the best for me. They thought that the best thing for me would be to get a good education and then go to work for a large, stable company making a secure paycheck. Like Robert Kiyosaki, I had parents who urged me to gain marketable skills so I could be employed more securely at a bigger company.

So I praise my parents for helping learn how to work hard. But I wish they could have also taught me that financial freedom comes when we start making our money work for us. Approaching the markets like an entrepreneur means approaching them like Robert Kiyosaki learned from his rich dad.

This means you begin to think in probabilities. The markets move in random ways. There is no way to reliably predict, let alone control, the outcome of any individual trade. But with the right understanding and market approach, it's possible to predict the outcome of many trades with reliable accuracy. Just like flipping a coin. Individual flips are hard to predict, but everyone knows that if a coin is flipped enough times, it will result in a 50/50 distribution between heads and tails.

Consistent Profits has figured out a way to help individual investors understand more clearly and comprehensively the 7 things they can control to dial in the annual returns they'd like to see.

We do not have control over individual trade outcomes because of the randomness of the markets. If we try to control the outcome of individual trades, we end up just buying, the hoping and wishing and praying the market gods will be happy with us.

On the other hand, if we understand probabilities and develop a system of rules derived from the statistical expectations we dial in for ourselves, then we can gain predictability and reliability over many trades. Our money will grow but it will not grow in a strait line because random individual results show up as streaks. Sometimes our account size will go up and sometimes it will go down. The actual return is what happens over time as you capture and protect your profits. And hopefully you get better and better at this business and see your return percentages grow accordingly.

I often ask the students in my class to raise their hands if they own their own business. In most cases about half the class actually raises their hands. I then ask them to keep their hands raised if every customer they have ever done work for has paid them in full. For the vast majority of business owners across the world there are some customers for whom they have done work without getting paid.

Now think about that for a second. Business people are used to doing work for certain customers expecting to be paid but not actually being paid. Like business owners, investors will also enter into a trade expecting to be paid (the move is profitable) but then not get paid when the investment turns sour and loses.

But business owners have learned something important that we must also learn….if a customer refuses to pay you, stop doing work for that customer! If an investment does not do what you expect it to do, get out of it and move on to something else! Remember that though some customers don't pay, the vast majority do and businesses will survive. Be cautious in your selection of your "customers" in the stock market and you will be handsomely rewarded.

Another thing to remember about successful business people is that they are able to size up the risk/reward of each opportunity and they are able to move toward the reward despite the possible risks. Investors must also learn to do this. I once heard a man tell me that as an employee he had been so busy earning a living that he could not make any money. Be careful as investors that you don't become so busy obsessing over unimportant things that you can't make any real money.

Stay focused on those things that matter

One of my all time favorite people told me that to be successful in life required the ability to focus on the "thick of thick things" and avoid the "thick of thin things." Think about that for a minute. What he taught me was that some things are urgent and important and some things are nothing more than rabbit trails leading to dead ends. To be successful in life we must learn to find the leverage points (thick of thick things) and apply our efforts in these areas.

If we want to become successful investors we must also be able to focus on these leverage points. Let me put it another way to further explain. Think about how you currently invest in the stock market. Are you taking a scattershot approach with a little bit of frantic effort scattered about? I call this the shotgun approach, meaning that the investor pulls the trigger without much effort on their part and hope for something good to happen.

Remember, the people you see on TV or in the news talking about the stock market have their own agendas. There are those who want to pump up a stock so they can dump the shares and those who want to crater a stock so they can profit from a short. Stay focused on what your system tells you and stop listening to all this noise which causes you to second guess your system and yourself at every opportunity. Don't be shaken by the normal ups and downs of the market. Have a plan and focus on that plan. If necessary for you to keep your peace of mind, don't let anyone else know what you are doing so you don't have to spend time developing excuses for what happened. Learn to move on after failure with the idea that you will never make the same mistake again.

Also learn to leverage yourself. We only have so much time and energy in a day. You can't expect great results from the market unless you are also willing to approach the market consistently. Expect consistent results *from* the market only if you bring a consistent approach *to* the market. Stay focused and avoid the scattershot method of investing.

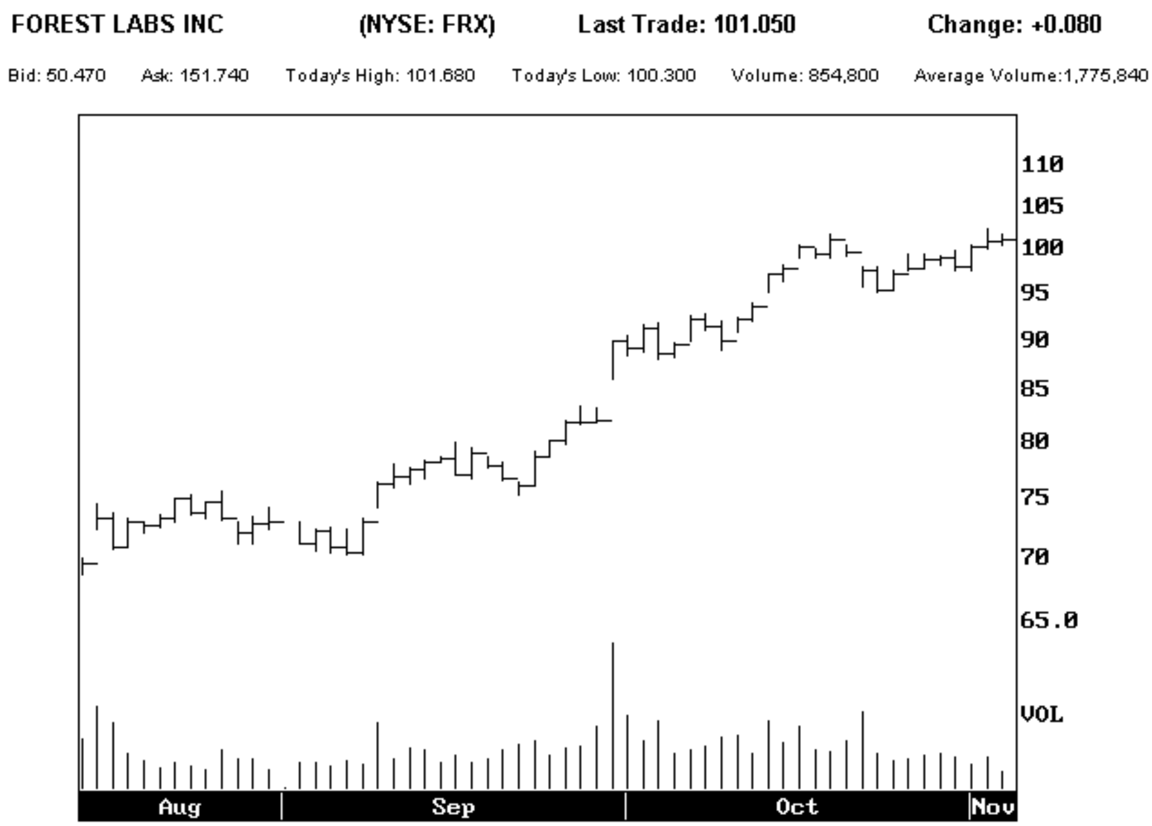
You've chosen a proven investment process. This system will tell you what types of stocks to look for, when to buy them and when to sell them. It tells you how much to risk per trade and how many trades you plan to make each year. Successful investors trust their process and follow it carefully. Being focused means knowing where your efforts can provide the best possible return right now.

This area of effort might be in prospecting as you look to find new investments or upgrade current investments. It might mean education as you learn more about the stock market and the different investing vehicles you can use to increase your returns. Your effort might be most needed in examining current holdings to be sure they still fall within your system. And maybe you need to spend some time in self-analysis as you tally your journaled results and learn from your recent trading history.

All of these endeavors are worthy and appropriate. But if you try to do them all at the same time, you will find that none of them get done very well. Focusing means to limit your effort to one thing at a time until that thing is accomplished. Learning how to focus your energy in the markets mean that you learn to concentrate on those things your investing system tells you to do without spending too much time worrying about things that can't be helped.

Don't get too caught up in day to day movement

Earlier in this chapter I showed you a picture of Forest Labs, Inc. (FRX). Let's go back to that picture now but only show the most recent two months or so to make it easier to explain what I mean by not getting too caught up in the day-to-day movement of the stock. Here is the chart:



As you can see, over the past three months the stock has run from about $70 to about $101. This is a move of over 44% in only three months! This is a HUGE move in the markets. But by looking at this chart you can see that the stock did NOT go up every day. There were days the stock actually fell in value. For example you can see that from middle of September the stock fell for three days in a row. You can also see the same thing at the middle to end of October.

If you allowed yourself to be a "nervous Nellie" you might have chosen to get out of the stock because of the fear that these downward movements were the beginning of a long set of downward moves sure to erase your equity. Don't allow this fear to shake your confidence or get you out too soon.

Your trading process will tell you when to get out and it will tell you when to stay in. Trust your process. Don't allow fear to make your decisions for you. There is a whole industry on Wall Street measuring fear and greed so the professionals can profit. Consistency is simply following your process exactly.

Remember to breathe

I like to remind students that it is important to breathe as they learn how to take control of their own financial future. This is not a sprint but a marathon. The first few trades are scary because it's new and you're not that confident in the system or in your ability to follow the system yet. I was once told that it is always hardest to pull the trigger on the very first trade and it is. Yet the holistic process as taught by Consistent Profits make is much easier to simply trade. It takes off the pressure of needing to find the perfect entry. It ensures a standardized loss on every trade so that one trade won't wipe out your account.

Each trade you place will try to dominate your thoughts and your emotions. Each trade you make will get under your skin. If the trade is successful you will feel elated, excited and on top of the world. If it is not successful you will feel saddened, perhaps depressed and you will feel like a failure.

Whenever emotions creep into your investing remember to breathe. Maybe you should take a break from the markets for a while and do something else. Perhaps you should get involved in a hobby or something else to take your mind off what is going on in the market. Whatever it is you do to relax you must do it if you find yourself beginning to panic or beginning to obsess over the markets. Learn to relax.

It's impossible to be successful in anything if one overthinks things. One benefit of having a trading process based on statistical reality is one can simply focus on following the system…and not overthink the entry signal or feel too much pressure from the outcome of any individual trade. Remember my story about learning how to shoot a weapon in the Marines.

Marines are taught very specific methods of breathing and bone support to gain a higher accuracy when taking the shot. We were taught to avoid the temptation to "muscle" the weapon on target because our muscles would get tired and our bullets would go off target. Success in the world of investing depends on "bone support" (your investing process). It doesn't come because you got lucky or because you hoped, wished, or prayed diligently enough.

Success and failure are part of the process—they are not personal

Like we have talked about throughout this chapter, some customers will pay you and some will not. The successful business owners have learned how to screen their customers so they stop working for those who don't pay. This means successful business people *stay in business!*

How successful would any company be if that company stopped doing business simply because one customer didn't pay? As an investor you will also have customers (trades) that do not pay you. You will make trades that lose money for you. This is to be expected and the rate at which you lose trades is designed into the base winning percentage of your trading style.

Losses are part of the game and are part of your trading process *by design*.

A great way to lower the risk to reward ratio is to invest in a number of uncorrelated assets. Ray Dalio, founder of the world's largest hedge fund suggests diversifying into 15-20 uncorrelated assets. Because these assets are uncorrelated, some will be profitable while others aren't. Think about that. The most successful investors on the planet design their system such that some trades are expected to lose while others do well.

Another great way to protect yourself if to cap the amount you risk on every trade to some percentage of your overall account. Conservative investors may opt to cap their risk per trade at 1%. Others may choose up to 3%.

The amount you risk per trade is directly correlated to the maximum drawdown you might experience. The nature of randomness is that results show up as streaks. If your process expects to lose a high percentage of trades, then it will also have longer and more frequent losing streaks. An aggressive trader risking 3% per trade may see a maximum drawdown of 40% over 200 trades.

One temptation you'll face comes with winners. Winning trades will tempt you to risk more money per trade. This temptation is sneaky and starts with asking, "What if you'd put more money into this trade…think how much money you could have right now!" Don't listen! The best trading offense is a good defense. Compounding works best with consistency…follow your process no matter what!

The market does not know you

The last word of advice of knowing why you buy is simply that the market does not know you. The market does not care if you buy or sell stock. And despite appearances to the contrary the market does not have a personal vendetta against you. So the market isn't trying to hurt you when you experience a loss and it's not doing you a favor when you have profits.

So buy only when your process says to and only sell when your process tells you to. Don't look at the results of individual trades. Monitor your results every 30 trades. Look to see if your real world results matched your expectations. If they did, keep doing. If not, stop trading to figure out why.

Monitoring your trades requires careful journaling and complete honesty with yourself. This honesty might be easier if you are the only one who knows about it. One of the nice things about the market is that it does not know you! What this means is that you can fail spectacularly in the markets and no one will need to know about it. This anonymity is a powerful thing as we try to become experts in the markets. We can allow ourselves to take chances. We can invest without fear of belittlement from colleagues and friends or family members.

Chapter 4

Read the chart like a pro

Up to this point we have spent our time discussing the importance of having a trading process and in following that process as you invest. We have discussed the importance of remaining unemotional and refraining from allowing your investments to control you. You must remain in control through confidence in your system and through strict discipline in following your system.

While this book is not a book about a specific system in the market it is important to understand some technical analysis to better understand how emotions are so often affected in subtle ways by stock movement. Chart reading is that process of using past stock price movement to predict future price movement. We look to past price action to predict future price action. This process is called technical analysis.

There are literally hundreds of technical indicators all of which have been developed to give a trader a trading edge. These indicators can be applied to any time frame. What makes this all confusing to new investors is that indictors will give conflicting signals if used improperly. And any indictor will give conflicting signals when used on different time frames. For example, a 1 year chart may show a sell signal while a 5 year chart may show a buy signal even when looking at the same indicator.

There are no hard and fast "if, then" rules that say if the stock chart looks like this, then the resulting move will be that. This type of certainty doesn't exist. This is why so many mutual funds are so quick to say, "Past performance does not indicate future results."

Whatever approach you've chosen as your trading edge it's likely to use technical analysis. If so, use only the indicators and time frames it suggests.

Some chart reading basics

With chart reading, it is important for you to remember an earlier lesson—take what the market gives you and avoid squinting until you see what you want to see. Please remember that these indicators from your investing system are the only tools you should use for chart reading even if another indicator gives you a conflicting signal.

Use only the technical indicators and chart time frames suggested by your approach. Don't get into a trade because of your system and get out of it using a signal which is not part of your process. Of the hundreds of technical analysis signals, we'll show only 3 simple indicators on a day chart to show how your emotions can be swayed by these signals. Don't overcomplicate things as you look at charts to determine your entries or exits.

The three simple charting techniques to be described in this book are, (1) Trends, (2) Support & Resistance, and (3) Volume. The first element of technical analysis we will discuss is something known as the trend.

Trend using the Moving Average

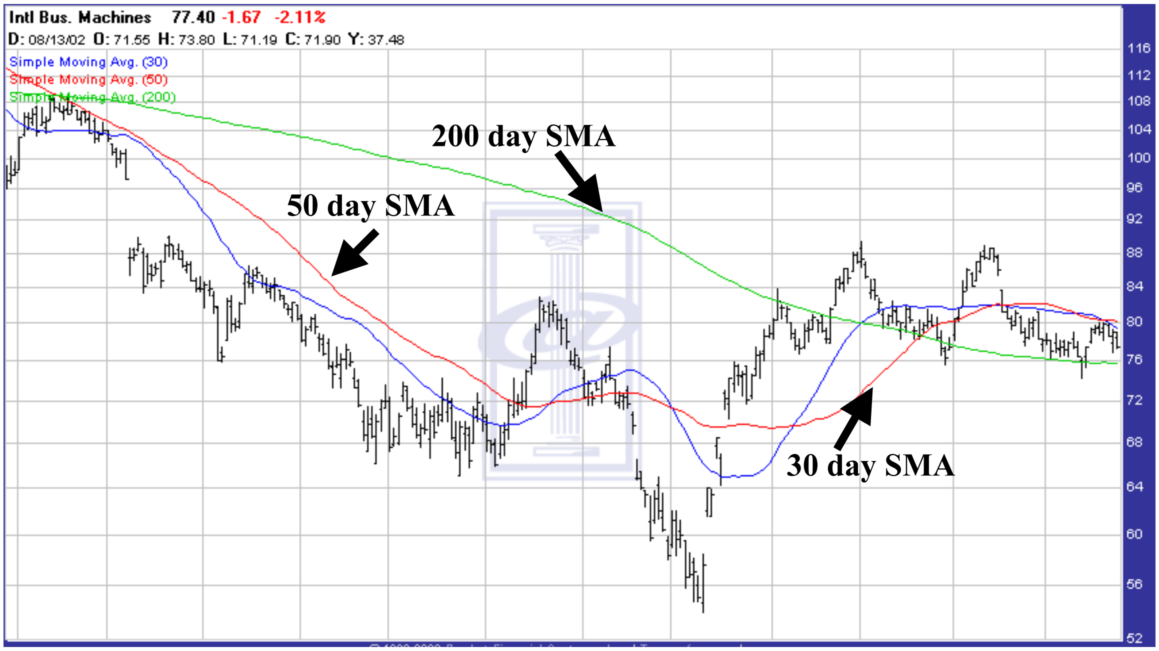
A common statement on Wall Street is "the trend is your friend." The term "a trend" is used to describe the general direction the stock is moving at any point in time. The trend does not describe the direction the stock will be moving every day, just the overall direction the stock will move over many days. In fact you could say that stocks tend to follow their trend…until they don't! Trends can be seen on individual stock charts as well as on broad market indices like the Dow Jones Industrials or the NASDAQ.

Trend lines are used by every technical trader. Trend lines can be drawn on any chart time frame though we'll show examples on a year chart showing daily price action. Trends can be horizontal (channel) and they can be diagonal (directional). You can draw trend lines on the chart or moving averages can be used to determine the trend. We'll show a 30 day moving average on a year chart for the purposes of this book.

A 30-day moving average (a standard term on Wall Street) is created by taking the most recent 30 days' closing prices, adding up all these prices and then dividing by 30 to get an average closing price for the stock over the past 30 days. This number is then plotted on the chart. The next day the 1st day drops off and the 31st day is added. We still take an average closing price of the past (most recent) 30 days, determine the average and plot the point. This process is repeated every day with each new number plotted on the graph until all the points create a line—a 30-day moving average line. This line smoothes out the volatility of daily price swings in the stock, making it easier to forecast a stock's general direction over time.

Your system will give you the length of time desired for the moving average. We'll show 30 day (shorter term), 50 day (intermediate term) and 200 day (long-term) moving averages on each chart example below.

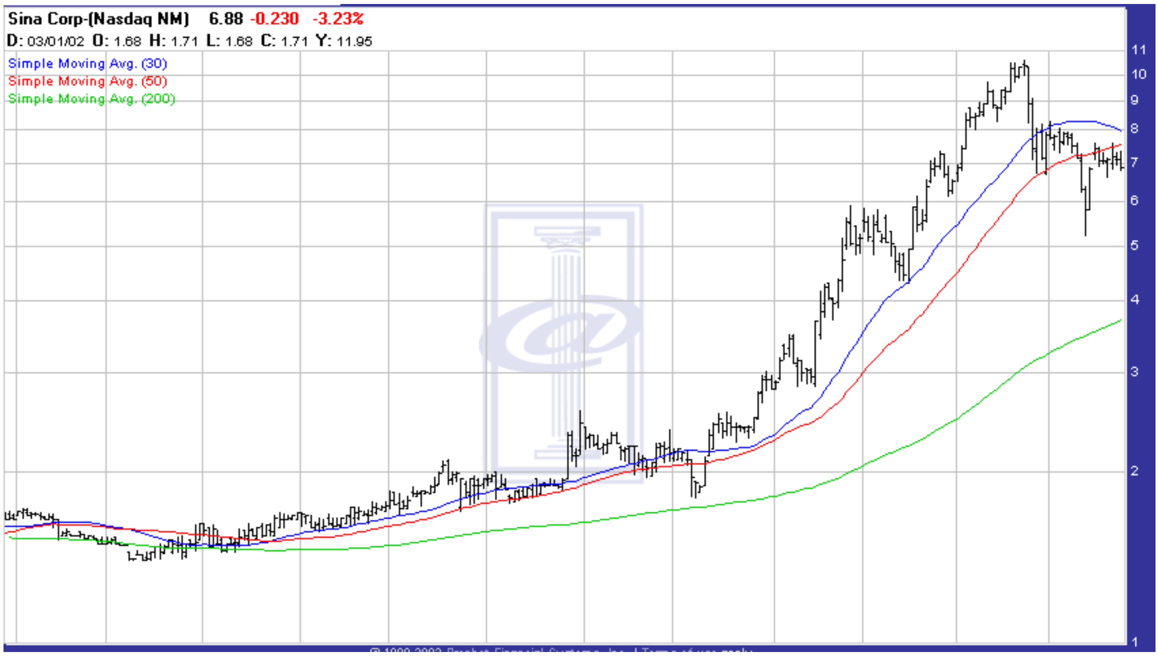
For our examples we will use a combination of all three so you can see the effect longer time frames have on a moving average. Each of these charts will be one year charts for easier reading. The first chart to be shown will be IBM. I'll use the letters "SMA" instead of the full, "simple moving average." A 30 SMA means a 30-day moving average.



As you can see, the 30 sma follows the movement of the stock more closely than the 50 sma, while the 200 sma moves the slowest of all. This chart shows an example of how volatility in the stock can and does affect the shorter moving averages more quickly and more violently than the longer moving average. Notice how the stock makes a huge move to the downside at about the midpoint of the chart. Notice also that the 30 sma was affected most by this volatility in the stock while the 200 sma hardly moves at all. The shorter the time frame of the moving average the more closely it will follow the actual price movement of the stock.

Notice also that the 30 sma and the 50 sma are both bullish (heading up) even as the 200 sma continues heading down. This is a conflicting signal which can be confusing and paralyzing. If your system says only use 200 sma, then avoid confusion by only using it.

Next is a chart of Sina Corp. As you can see, this stock has been in a strong year long uptrend. Yet even during this strong uptrend, the stock hasn't gone up every day. There are periods of rest or "dips" where the stock drifts lower. But all three moving averages continue a smooth upward trajectory.



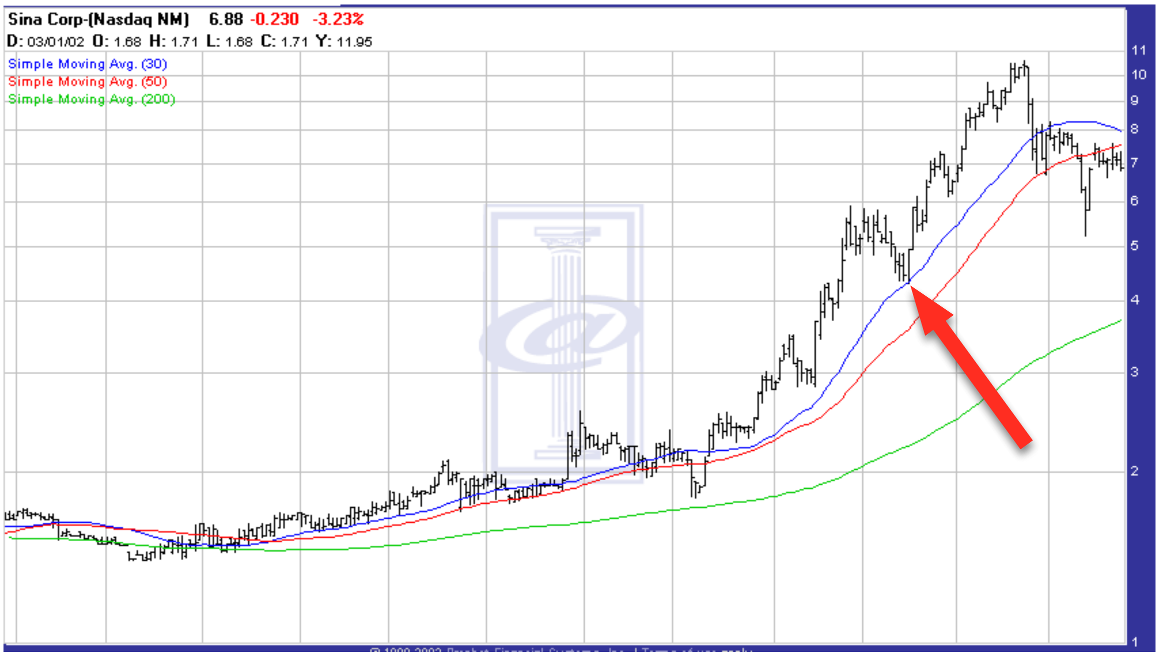
Now look at the last month of the chart. The stock has dropped from just under $11 to around $7. Notice the blue moving average (the shortest 30 sma) has begun trending down while the other two are still trending up. If your system is to buy the stock when the 30 sma is pointing up and sell when it points down…you should sell the stock. If you look at other data points outside of your system (the 50 and 200 sma), you could confuse yourself and end up doing nothing. Stick with your chose edge technique and your trading process and don't let anything else confuse you!

As these two charts show, the moving average is used to help the investor smooth out the daily price fluctuations to show a smoother line. The idea is that the trend is your friend. If your system is to follow the 30 sma, then you need to get in that stock only when the 30 sma is trending up and get out of it only when it is trending down.

Even with this very simple system, two things should immediately be clear. Moving averages are a lagging indicator. All thee of these trends moves slower than the stock does. Which leads to the second thing. This system will not get you in at the bottom and it will not get you out at the top. I think most people will conceptually be okay with this…until they invest their own money and aren't buying the stock at the lowest price nor getting out at the highest price.

Usually what happens in practice is fear and greed begin to pull people out of a system even as simple as this one. They start trying to anticipate the lows or highs. Maybe they shorten their 30 sma to a 14 sma or even shorter to try to capture more of the move. Or maybe they get out at the first sign of a drop and miss the rest of the move. Look at the chart where the stock prices comes down to touch the blue, 30 day sma line. It could be very easy to get out during this drop and miss the rest of the significant move from $5 to $11.

One of the biggest mistakes rookie investors make is that they they get so focused on individual trades and trade outcomes, that their emotions begin to tempt them away from their trading process. Take another look at the Sina chart.



Look at the bounce up off the 30-day moving average around $4.50. In this case the trend was decidedly upward moving, though the stock itself had dropped from $6 to around $4.50. This $1.50 drop represented a 25% loss of value!

Imagine a 25% loss of value over the course of a couple of weeks. How fearful would you be? In my experience a drop such as this one would lead to one of two different investor responses. The first one is to panic and sell quickly before it can fall any lower. The second one is to panic and then try to forget about it. In both cases the investor was wrong. What would you do?

If a professional trader used a 30 day sma as their only data point, they'd trust it. They would trust their system to protect against severe loss while letting them capture most of the move. They would have an understanding of the statistical probabilities and not worry about the outcome of individual trades. They wouldn't get caught up in price movement (not part of their process), or other moving averages (not part of their process). They would't worry about getting perfect entry or exit not part of their process). All they'd care about was following their process with exactness.

Have you ever been so caught up on not losing money that it feels like you'll never be able to make money? Learning to follow a proven process with exactness will help you begin making money in a reliably consistent way. Just don't get distracted by other data points or signals.

Support & Resistance

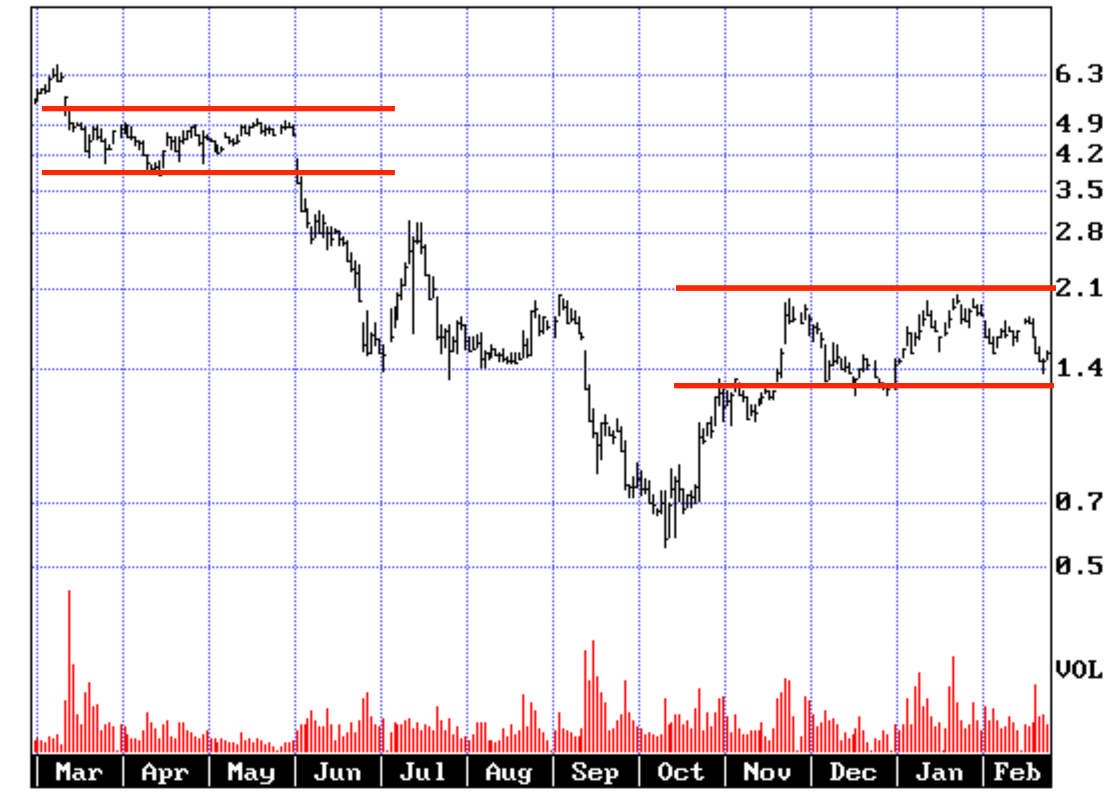
The next technical analysis tool we will discuss is something known as support and resistance. Support and resistance can be drawn in many ways but we will only discuss two of them. The first method is to draw a horizontal line along the tops or bottoms of the stock movement over the course of some period of time. We will use one year charts in our examples.

As you will see from the examples below, horizontal trends often form channels or boxes.

Below is a chart of Tenet Healthcare (THC) during a period of time. I have added horizontal trend lines. This particular chart is an extreme example of how well trend lines can work. As you can see, the trend lines are drawn along the tops and bottoms of the previous stock movement. I will include three additional charts with trend lines as well so you can get a feel for support and resistance.

As can be seen in the THC chart, the stock tends to stay in a very tight trading range. At least over this year the stock rarely moved out of the boxes as drawn on the chart. Below are some additional charts. Once again the stock tends to bounce up and down in a definite horizontal trend between two fairly obvious points.

Look at these charts with the idea that the only criteria for your system is to define clear support and resistance patterns and trade between the high and low points.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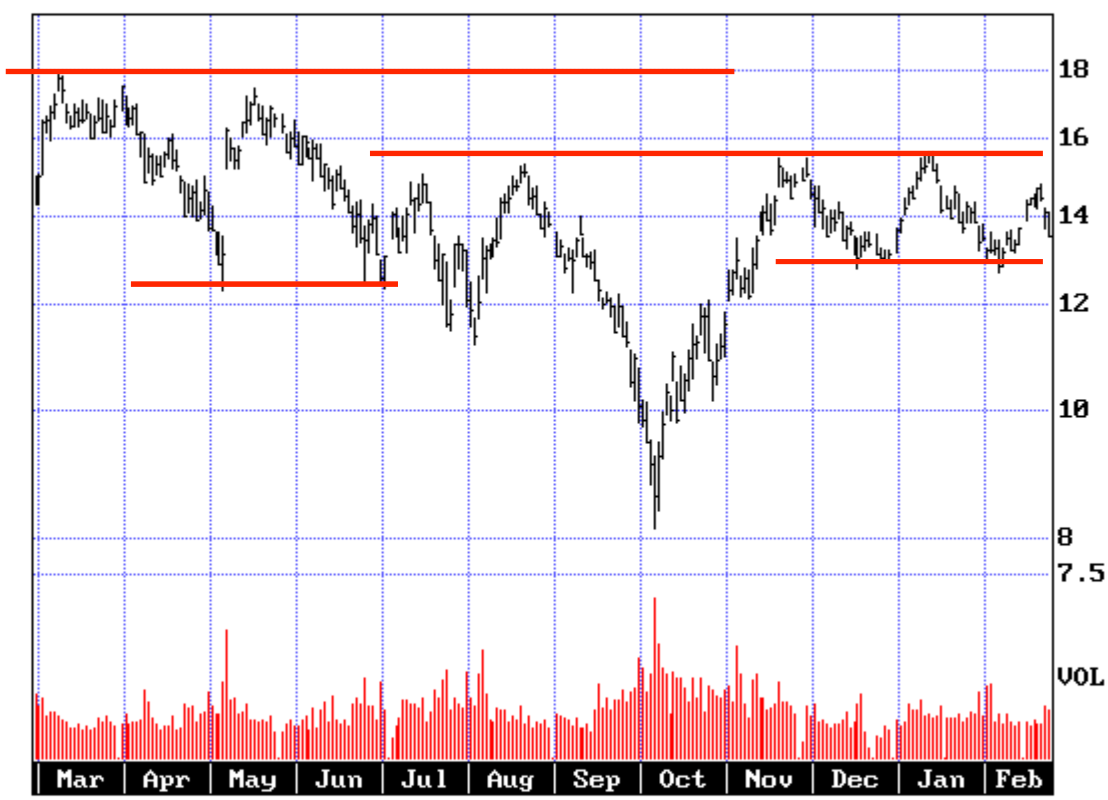
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Moving averages also act as support and resistance. If the moving average is downward trending and the stock is below it, the moving average will act as resistance pushing the stock back down when it comes up to or near it. On the other hand an upward trending moving average will act as support for the stock and push it back up when the stock drops down to it.

In theory, it seems easy to identify support and resistance lines and simple to trade them. But look at these charts again paying special attention to the price move from resistance to the support. Would it be easy for you to get in at the bottom support line after the stock has dropped from its highs?

Your emotions might cause you to think this is the time the stock will drop to zero. You may second guess your rules. Or you may end up paralyzed on the sidelines waiting for some sort of confirmation. Even with such a simple set of rules, it's very possible for your emotions of fear and greed to play tricks on you.

The key to success in the stock market is disciplining your emotions enough to follow your trading process exactly. The only way to do so is if you trust it. And you can only build trust in it provides expectations you can measure real world results against. As you see it working, you'll begin to trust it enough to follow it.

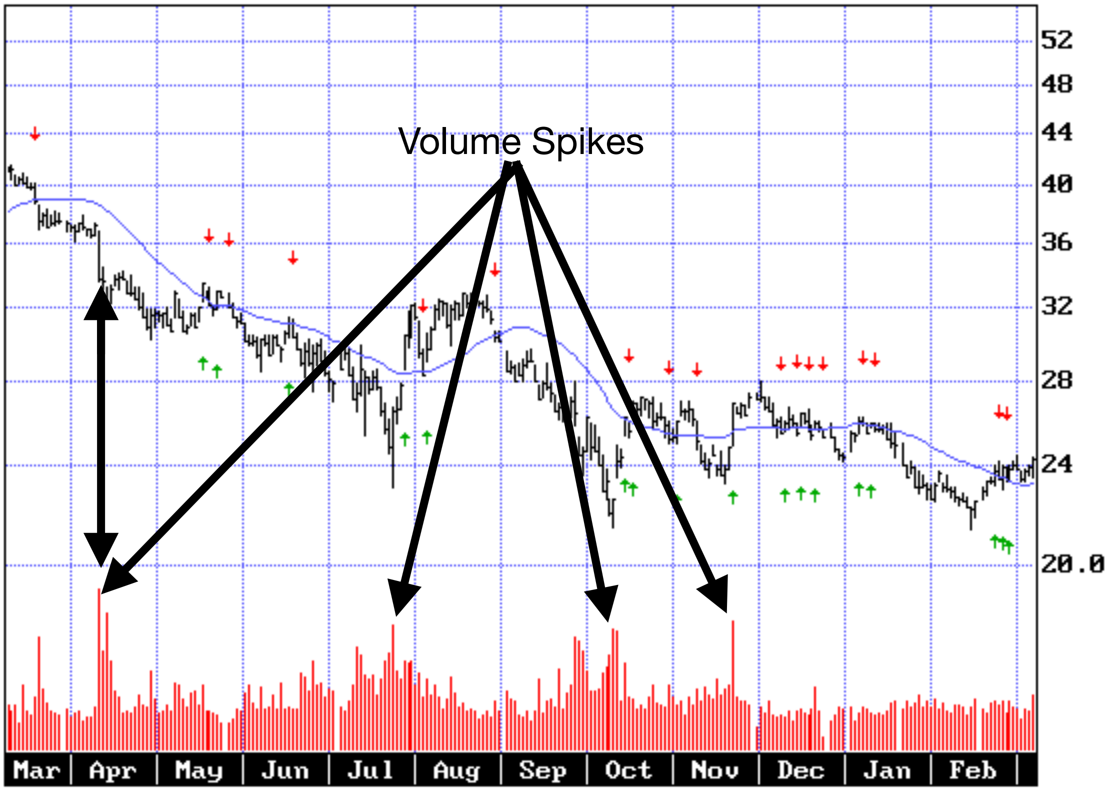
This whole book is written from the stand point of helping you understand and process the real and challenging ingrained emotional responses that may sabotage your efforts to be a consistently successful trader. Trading is simple but not easy. It's not easy because these behavioral responses will cause you to break your rules. But despite this initial difficulty, keep going! The reward is well worth the effort.

Volume

Volume is the last technical analysis indicator we'll discuss in this book. Like moving averages and support and resistance, volume is a basic but widely used tool that investors use to confirm a move in the stock. Volume by itself would not be a good indicator to provide buy or sell signals but it can confirm a move and also confuse you about a move.

Volume shows up as the vertical lines at the bottom of the chart just above the names of the months as below. The higher the vertical volume bar the more interest in the stock that day. Very high volume bars compared to the rest of the volume are called spikes. Some charting packages will also chart a line through the volume bars showing average volume.

Take a look at the chart below to see examples of huge volume spikes. Spikes often (though not always) indicate interest in pushing a stock in a new direction.

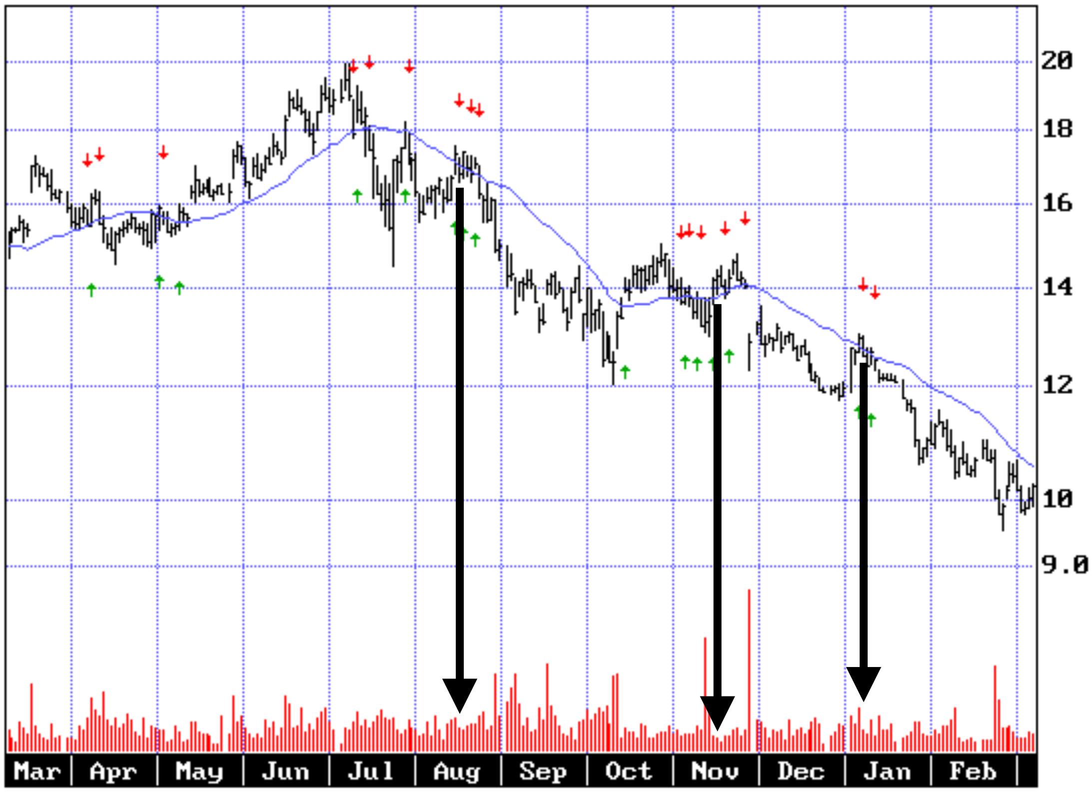


As you can see, in the early part of April this stock was in a flat trend. We can't see the support and resistance lines (they happened too far in the past) but we can see the moving average pointing in a flat direction. But by mid April, the stock took a decidedly downward move on extremely high volume. This is an indication that the stock had changed direction.

The volume spike as the stock broke through a support line is a great indicator that the stock is starting a new, downward trend. Yet it might be easy to give yourself other data points to "squint" at until you do what you wanted to do anyway and stop following your system.

While changes in the direction of a stock are pretty obvious in hindsight they are difficult to identify in the moment. One of the techniques you can use to help you spot the breakout from the fake out is volume. If a stock breaks above a resistance point on very little volume, that stock will most likely turn and continue following its former trend.

Below is a chart that shows a stock breaking out of a resistance point in August, November, and January on weak volume. As you can see, in each case the stock actually dropped and continued its former direction because there was no interest in the breakout and not enough buyers to create a real breakout. In other words, each of these moves above the resistance point (the moving average) was a fake out and not a breakout and lack of volume was an indication of that.



Take a look at the movement in the first part of January. The stock quickly went from $12 to $13 or so. This quick movement to the upside might have made an inexperienced investor believe that they must hurry and get in before they miss any further move up.

A more consistently successful investor would have patiently waited for their system to give them a signal for entry and exit points. If the system was to buy on volume spikes in an uptrend, then the successful investor would not have gotten in despite the volume spikes and run up in stock price because the trend was still negative and the volume was low.

Patience with the process

We've shown some basic chart reading and technical analysis in an effort to show you how easy it is for fear and greed to affect how exactly you follow your trading process. Controlling emotions is often the single hardest aspect of investing. It takes effort to control emotional reactions to price movement but this effort pays dividends over time.

We’ve taught the need for having a trading process based on realistic and statistically driven expectations so you can trust it enough to protect you from yourself.

Focusing on individual trade outcomes will trigger your fear and greed. Fear and greed are compelling emotions which will tempt you to break your rules. This is why it’s so important to have trading rules and a comprehensive trading process.

I believe that for many of us putting our money at risk in the market is a scary thing because markets move in random ways. We can’t impose control on individual trade outcomes and that makes us uncomfortable.

As trades develop it may be tempting become impatient with the pace of the process. It’s human nature to want things right away. We get impatient if we can’t reach our goal quickly and easily. Think about losing weight. We want to lose our desired weight in just a few days or weeks…not make the painful decision to patiently lose it over the course of months or years.

A good trading process gives you a statistically realistic annual rate of return given the inputs that feel comfortable to you. In absolute dollar terms this may not seem like very much…especially when starting out with a small account. However, compounding works best with consistency. Even a small account can grow into a huge size if compounded at a high enough rate for enough time.

Avoid the temptation to make an ill-considered jump into the next shiny new thing promising outsized returns. Stick to your process. Trust the results will come as your system predicts. Remember consistency is the hallmark of great compounding.

Learn how to wait for the right opportunity

The right opportunity happens when your process triggers a buy or a sell signal. Not before and not after. It’s nice to make money in the markets and you may feel pressure to catch up your retirement by not missing any opportunity. But the best way to get ahead is to patiently wait until your rules trigger the action.

Learning how to wait for the right opportunity can be challenging. Think about your investing life. Have you been able to wait for the right entry signal, or did you buy as soon as you identified a stock you wanted to own? What caused you to want to own it? Did this stock pass through your system or did it come from a hot tip?

I believe that most people have a natural human tendency to want to experience immediate gratification. What I mean by this is that most of us want to make a sacrifice of time, talent, or money and then experience immediate rewards from this effort. It's tempting to get into something that seems like a great opportunity immediately. But the opportunity may not be right for you and *right now* may not be the best time to invest.

Keep in mind the market will always give you a second chance so you don't have to jump in to something just because you happened to see it the day you did some investigation and you don't have to buy something the day someone gives you a hot tip. You should make the time to put the stock through its paces. Does it pass muster by meeting all the elements of your process? If it does then buy it. Following your system to get into the opportunity makes it easier to follow your system to get out of it too.

Just like we showed in the trend line section, sometimes stocks dip lower even in an uptrend. Don't break your rules because of fear. Avoid the temptation to get out too soon and miss out on the rest of the move. Don't allow panic or greed to shape your trading or affect your results. Invest by focusing only on your process and don't allow yourself to second guess the system or your ability to follow it.

If your process no longer provides acceptable results, carefully test new rules before making real changes. Be patient with your process. Don't change it too quickly and without doing proper research. Too much money is lost by people who jump in before testing a new rule. Don't let the market dictate your actions. Stay focused on following your system exactly.

Maintain perspective

The best investors understand their trading Why. They know investing can be a lonely and sometimes challenging business. They feel the pressure caused by putting money at risk in an environment where they can't control the outcome of individual trades.

Losses, especially a string of losses in a row, can deeply affect in negative ways the emotional state and inner dialogue. Imagine or remember going through a losing streak. How hard was it to take the next trade exactly the same way you too previous trades? Will this losing streak cause you to stop following your system? Will it cause you to quit trading altogether? Will it cause you to get angry at yourself or others? May you'll be tempted to second guess your trading process.

It's easy to lose perspective in our trading and in life when we experience failure. Remember, every base win rate has a certain percentage of losses built into the process! Losing trades is part of the package. No investor wins on every trade.

Sometimes our process gives us bad trades. Other times we don't follow our rules and get into bad trades.

The most talented traders in the world have losing trades. They have bad days, they experience slumps, they struggle with self confidence. As an investor, you'll also experience bad days, slumps and struggles with self-confidence. This means that when you experience any of these things in your trading, you're in great company! Learning how to keep perspective is a great way to keep going anyway. Maintaining perspective will help you look at the general trend of your account and not the day to day swings in value.

Stay the course with confidence and power

Having a statistically relevant, holistic and trusted trading process helps you act with power in the market. This power comes because you know exactly what you control and you know how to control it to get the desired result. Acting with power is a way of approaching a thing with confidence and inner peace. It's a way of staying centered and focused on the execution of your trading strategy and proven system regardless of the emotional swings fear and greed may try to impose on you because of the outcome of individual trades.

A confident investor trusts their system and keeps going despite losing trades or even losing streaks. They think of losses as part of the process, not as an excuse to throw in the towel. Confidence is so key to success. Cultivate confidence in your system and in your ability to follow your system.

Think back over your life. How much better are your decisions when you act with confidence? How does fear or lack of confidence negatively affect decision making? The most successful people in any endeavor have developed an attitude of confidence which allows them to be more aggressive. They shrug off past failure and don't let it affect their future performance. They know failure is part of the game so they don't get tentative.

It might be easy to get scared out of your trades too quickly, or to be scared out of the next trade. Learning to act with power and trade with confidence is a way to stay on course through the blinding squalls you might have to sail through in this sea called investing. You will be tempted to get in too soon, to invest too speculatively, get out too soon, or to not get in at all if you lose confidence.

So learn to stay the course. Learn to be confident (in your system and yourself) despite losing trades. Learn to act with power. You or your system are not failures because of a few losing trades. They are to be expected. Learn to live in the moment and not let gains or losses affect your future trading decisions.

It may take some time to get past pre-programmed emotional responses to pressure. It may take time to shift a negative inner dialogue into a positive one focused on how well a system was followed. This is the real struggle successful traders have.

It may take effort to change open your mind to opportunity that might be caused by past failure. It may take some time to permanently put away your "ugly stick" and learn from bad trades instead of being stopped by them.

Whatever it might take to learn the proper emotional "bone support" to be successful in the markets is worth the price in the long run. A few percentage points of compounding a year has a massive impact on your retirement over time. And great traders with smaller accounts can get amazing, nearly unbelievable results. Imagine if you could generate a Warren Buffett guaranteed 50% a year on your trading year after year. How would that affect your life? How would that affect your financial future? How would that affect your financial confidence?

Chapter 5

Keep it simple

Confused people do nothing. One way to avoid confusion is to keep things simple. It's tempting to add more and more rules into your trading system to capture more of a move or avoid an expected loss. This desire for perfect results can result in paralysis or a return to previous trading methods that haven't really worked.

It is a relatively simple thing to get sidetracked in our trading. I have a close friend who describes these sidetracks as "rabbit trails" leading us away from our proven process into unproven regions which often lead to losses. In investing, these rabbit trails are anything that pull you away from your process, make you confused, or cause you to second guess your process (or yourself), or pause for confirmation before taking action.

An investing system is the blueprint that you should follow despite the many voices both internal and external that push you to do things differently. A blueprint is used by a builder to keep the building process organized and efficient. A blueprint provides clear direction to all the sub-contractors everything they need to do.

The challenge of a blue print is that during the building process the owner may decide to make changes based solely on how something looks in real life compared to what they thought it would look like in the planning stages. These changes to the blueprint can be accommodated but always at significant cost both in money and in time.

Your trading blueprint is your trading process. In the planning stages you made decisions and accepted the tradeoffs between a lower or higher base winning percentage, edge technique, risk per trade, and trade frequency. Combined, these decisions provided a comprehensive and clear expectation about what you results should look like.

You accepted these results in the planning stages. But as time passes and you begin implementing your process, you may experience unexpected emotional reactions to trade outcomes which may cause you to second guess your rules and may even cause you to second guess your ability to follow your rules.

You may be tempted to change your blueprint. Just remember that while changes can be made, there is always an additional cost of time or money when they are.

We suggest you keep things as simple as possible initially. Choose simple trading edge strategies you can follow. Don't confuse yourself looking for additional confirmation before following your rules. Don't allow your focus to dissipate down the rabbit trail. Or your confidence to erode through unacceptable losses. Focus on the thick of thick things and avoid those things that don't really matter.

Stephen R. Covey described four quadrants for how we can organize our time and our efforts to be more effective. These four quadrants include the quadrants of urgent/unimportant and urgent/important. The urgent/unimportant quadrant is filled with activities that we feel are urgent and must be accomplished but really don't lead us anywhere.

Successful investors don't let themselves get pulled down rabbit trails. Perhaps you find that you are "addicted" to certain financial news stations—that you can't seem to get enough news about the markets. Perhaps you allow yourself to be constantly inundated with up-to-the-minute news announcements because you are so worried about missing out of the one thing that will help you get in before anyone else.

There is no way to know everything in this market. And there is no way to know for sure which direction the stock will move tomorrow. We can be in control of our investments decisions but we can't control the outcome of individual trades or price movement.

Keeping it simple means just doing exactly what your system tells you to do when it tells you to do it. Act on what it tells you even if there are lots of reasons you can give yourself to do the opposite or do nothing at all.

I have spoken with students who admit that they have been so consumed with watching the markets that they literally don't move from their chair all day long. In fact, these people have told me that if they could make arrangements to use the bathroom right at their desk they would just so they wouldn't have to stop watching the computer screen and playing in the market. They became this obsessed in part because of their fear of losing out on potential movement coupled with the fear of losing money in their investments on some market move that happened while they "took care of business."

This is too complicated and consuming for most people. Don't become a person who allows themselves to be led down one rabbit trail after another until they are completely lost. Keep things simple. Stick to your system and shut everything else out. Measure your success based on how well you followed your process.

In the software world, programs often experience “feature creep,” meaning they continue to add more and more features which fewer and fewer people actually use. This feature creep adds to the size and complexity of the program leading directly to increased bugginess and susceptibility to viruses.

Learn to keep it simple. This isn’t to say you don’t want to adapt your system over time to new market conditions…but you want to do so carefully and logically and by making changes to one element of your process at a time to exactly measure the results. Don’t add too much complexity or you’ll end up with conflicting signals. Don’t allow feature creep in to your trading rules.

Think of your investment process as a boundary of sorts that allows you to get on with the rest of your life. By developing a process and by following it, you will draw very clear lines of how much time you will need to spend and still approach the market consistently. Remember, a consistent approach to the market creates consistent results from the market.

You don’t have to let your entire life be overtaken with your investment process unless that is how you want to trade. If you feel overwhelmed, you are probably not following a system at all but using what I call the shotgun approach to investing. The shotgun approach is where an investor spends an inordinate amount of time zig-zagging from idea to idea hoping that the enormous but scattered effort will lead to consistent results. It just doesn’t happen.

Keep your investment system simple to avoid unnecessary stress in your investing caused by a vague need to be constantly aware of everything in the markets. If you are not careful this vague need to know will grow like a cancer into a debilitating need to spend as much free time as possible plugged into the market. Don’t go down this rabbit trail. Know what you need to do and do just these things. Keep in mind that no one knows everything and yet there are still wildly successful investors in the market. Be one of these successful investors.

Stay focused on your system- Don’t become a ‘jack of all trades’

It is not necessary for you to be an expert in every type of trading system or philosophy. Each of the five Natural Trading Styles have their unique risk/reward ratio and constraints. All investors should know what their risk/reward ratio is and should know how much time they can put into their investing. This will help them select the appropriate asset class, strategic approach, and annual trade frequency. Each investor should then pick a system that matches their risk/reward level with the amount of time they can use working this system.

Once you’ve chosen your system, stay focused on it and don’t let any other system or ways of doing things confuse you. Don’t get sidetracked by the “next big thing" that comes along or by the popular fad or investing philosophy of the day. Stick to your knitting, stay with what works and don't get pulled into anything else.

Before the actual investment of hard-earned cash, human nature tends to focus on the upside potential while minimizing the downside risk. This innate optimism is actually quite helpful as we live our lives. But this same optimism can lead to what I call, "flavor of the month investing." This is the process of selecting your system only to quickly change it for another strategy that seems more likely to provide better results quicker. Remember, you don't need to catch every trade… just the obvious ones that your system will serve up to you on a silver platter. But if you spend time trying to find the next big thing, you'll have less time to work your system and you'll miss out on these moves.

The temptation to change systems often comes as a result emotional reactions to trade outcomes. Fear and greed are both going to tempt you to change your trading approach. If you find that you always seem to be chasing stocks, then you are probably moving from one shiny new trading strategy or asset class to another without actually following your trading process. This is a losing strategy.

When I first started investing, I played only stocks. Then after a few months I decided that I wanted to do covered calls. Covered calls is a strategy safe enough it can be done inside an IRA. A covered call obligates me to sell my stock at the agreed upon price within the specified timeframe in exchange for being paid a premium.

The goal of this strategy is more about generating consistent cash flow and less about appreciation or depreciation in the underlying asset. As I started doing covered calls I was highly successful. I made a set 8% a month on average. Great right?! Then one day I saw that the stock I had sold the call against had risen more than 20%. It hit me that if I had not sold the call, the stock I owned would be worth more than I received for the covered call I sold.

Notice the progression. I started with a great system consistently making me 8% a month. But then my eyes shifted to missed opportunity of one trade and my emotions pulled me out of my system of steady cash flow and into a different system hoping for returns from appreciation. I had allowed a "failure" in the market to affect how exactly I followed my system. All this happened very quickly and without much conscious thought. It's partly why I decided to write this book. To help others avoid the emotionally driven mistakes I'd made.

Is it a "process" to shift direction mid stream? Or change approaches on the fly? Or is this a manifestation of the "buy; hope, wish and pray" market approach so many investors fall into?

There is a bewildering amount of market information available for consumption and almost as many ways to trade on that information. Your success is ultimately not dependent on consuming all of it. Your success is simply learning to trust your system enough to follow it exactly without drifting into different strategies or second guesses.

The entire purpose of this book is to help you learn the emotional habits necessary to actually follow your system despite the sneaky way fear and greed will cause you to rationalize other choices and actions. Most people will learn their chosen system relatively quickly but will struggle with the momentum of emotional habits and patterned responses which will lead to loss if allowed freedom.

Successful investing is comprised of two things. First is design a well-understood trading process that provide statistically relevant expectations from which trading rules are derived. Second is to follow that process exactly. This takes effort and discipline and mental toughness. Don't be one of those who starts this path only to stop at the first sign of resistance before full success is achieved.

Why is it so hard to follow a trading process? There are two main reasons:

First, how many times have you gone to an ice cream store knowing exactly what you wanted to order but when you got there you couldn't make up your mind? We often know what we want…until we are actually faced with the several possibilities now presented to us. It's like our mind "glitches" and struggles to remember the initial flavor that drew us to the ice cream store in the first place. We knew what we wanted before we got to the store but now that the choices are right there in front of us we suddenly can't make up our minds.

The investing world is very similar to this ice cream store example. Our system tells us which stock to buy and sell and exactly when to buy or sell them. But we get tempted by a slick marketing story, a hot tip, or some other chance at making a lot of money quickly.

Second, designing an investing process is an exercise in mental creation. But following that process is an exercise of creation in tangible reality. Our emotions are not triggered when engaging in mental creation the way they are when we actually place trades. We'll be tempted to break our rules by successful trades and by losses.

Once the trade is actually made, how are your emotions affected? Now, try to project that investment out in time. Let's just say that over the next period of time, the stock dropped a little bit but not enough to trigger a stop loss order. How do you feel about this trade now? Your system told you to get into the stock but now but now the general market dynamics might cause you to lose faith and break your trading rules. Don't let this happen!

I have seen inexperienced investors change their system mid stream or try to find a shortcut to capture more of a move in future trades. The ability to stick with a system even in the face of loss is a critical part of the makeup of any successful self-directed investor.

Developing the right mental approach to the markets is a process. You can't make a leap from being focused on individual trade outcomes to being focused on your trading process overnight. That's okay. Be patient with yourself as you work to make the behavioral changes required.

Don't allow changes in strategy as you try to milk every last penny of profit from your trades creep into your trading. Don't allow shiny new information cause you to break your rules at the last second. Don't try to adapt or change your trading process without using careful evaluation of the change first. Don't let the natural human emotion of wanting full control of the outcome push you into new systems or strategies.

Avoid FOMO affect your trading decision. Don't let the promise quicker or larger returns cause you to shift gears or jump to a new system. You will do far better if you stop trying to be a "jack of all trades" investor and simply master one.

Let me suggest that you work to forget about all the other stuff out there in the marketplace once you have developed your process and series of trading rules. Try to remember that there is always a buyer and a seller and the news you see, the signals you receive, and even the emotions you feel might be coming from the other side of your trade. It can be hard to stay so single-minded. But if you try to limit the time you spend in the markets strictly to the time you need to work your process, you'll be less tempted to get confused by conflicting data points.

If you get caught on this treadmill of always looking for the "magic" system were you only finds stocks which go up in value, you will be standing on a shifting surface trying to hit a moving target. Investors are those who have a concrete method of stock selection which they trust enough to continue following even in the face of loss and losing streaks. Think of your process as home base—the one place you are safe. You may decide to adjust the process in some way, but you know exactly what you are changing and exactly how to get back to home base if the change does not work as expected. In this way you are constantly in control of your investing.

To really become good at anything in life requires that we follow a process and work that process over time, pushing through walls of resistance. To become a pilot requires a dedication to the process of learning how to fly and embracing the time, effort and focus learning to fly requires. Just because I decide I want to fly a plane does not mean I can just hop into the plane and begin flying it without any prior preparation.

Investing for yourself is just like anything else. To really master the intricacies of investing so that you become a successful self-directed investor requires more than simply making the decision to trade. You must first say to yourself that you are committed to doing what it takes to become a successful investor. Then you must determine the best market approach for you. And then you must be willing to pay the price to fully and successfully implement this system.

Let me tell a short story from my personal life which illustrates this point. Not long ago my daughter and I were once again going the rounds over how important it is to practice the piano. In the middle of this discussion I suddenly had an epiphany where I realized that it is not important to practice the piano today if you don't want to play the piano later in life. In fact, the only reason practicing the piano today is important is because you want to become a person who can play the piano "in the future."

In this conversation I asked her if she wanted to be able to play the piano at some future point in her life. She told me that yes, she did want to be able to play it. Once I knew that she did want to play the piano at some point (she had committed to the goal) I tried to help her understand that this goal for the future requires some potentially unpleasant effort today. This "unpleasant effort" involves those things about learning how to play the piano that she does not like to do. In her case, those were playing scales, practicing for the allotted time, playing songs she did not like and learning music theory.

To help her understand, I used the example of a garden. Every spring I plant a garden of tomatoes and cucumbers. I do this work in the spring because I like the idea of harvesting home grown tomatoes and cucumbers in the late summer and fall. We all know that for me to harvest sometime in the future, I need to plant today.

But planting alone is not enough. Planting and harvesting are a process. I go through the expense and effort of planting as the first step of the process. Then I have to nurture these plants by watering them, fertilizing them, and weeding the garden around them. I don't find any of these things pleasant, but I am willing to put forth the effort because these things lead me directly to the goal of harvesting delicious tomatoes and cucumbers at some point later that summer.

So just because the goal is something you want does not mean that every step necessary to achieve this goal is something you want to do. Think of a goal as a destination. To get there first requires the decision or desire for the goal. Next, a clear path of how to achieve that goal must be mapped. This is mental creation. Finally, every step required to achieve that goal must be taken. Each step may or may not be pleasant, but if the end goal is something you really want, you will deal with the unpleasantness and still move towards your goal.

It is the same in the investing world. We all have a goal in our minds for what we want our money to accomplish. Perhaps you really want to have your money grow so you can enjoy a comfortable lifestyle in retirement. Perhaps you are trying to generate huge cash flow in the market so you can enjoy a comfortable lifestyle now. It doesn't matter what your goal is, what matters is that you have one and that you recognize that achieving that goal is critically important to you. Achieving that goal must become so important to you that you are willing to put in all the effort necessary every day far away from all the music and the lights to achieve this goal.

Likely the biggest challenge you will ever face in investing is to put in the work, consistently following your rules. Like I have said throughout this book, a consistent approach to the market is the only way to get consistent results from it. If you approach the markets consistently—day in and day out—you will find that you achieve consistent results from the market.

One other challenge that I should mention here regarding consistency is found in the sports world. In the sports world an individual or a team will occasionally enjoy a long winning streak. These winning streaks are difficult to maintain because of the unique pressures we put on ourselves to keep winning.

You will sometimes have a long series of successes in the markets and this is wonderful. But these streaks might cause you to put so much pressure on yourself that you end up losing just to stop the streak! Just try to play every day the same. Try to think only of the next "game" or investment in the market and forget about all the other stuff swirling around. Don't psych yourself out.

The final thought for this chapter is this: Don't complicate the system trying to avoid loss. Don't worry so much about failure that you become defensive in the markets while developing a complicated procedure for how to avoid losses. Losses and risk are an unavoidable part of the market. Be willing to take chances, trust your simple system and stick to the basics. And above all, be willing to take action when your system says to get in or to get out.

Chapter 6

Leave the ugly stick in your pocket

This chapter will spend a little time talking about the things you can do to begin overcoming the emotions that cause you to make mistakes in the market. Keep in mind that emotional investors make poor investors. To really be successful you will have to discipline yourself and keep following your process despite what your emotions are telling you to do.

The vast majority of investors in the market are people who invest part-time after a hard day's work on their main job. These investors might just be people participating in a company sponsored 401k or some other retirement plan. It might be people have chosen to trade for themselves as a way to build wealth or through frustration with the poor performance they've seen from their broker. The vast majority of people investing in the markets do not consider themselves proficient investors and therefore lack experience and are therefore less confident and more susceptible to mistakes.

I believe this lack of confidence in their investing ability causes them to be intimidated and unsure about what to do or where to go for guidance. A result of this trepidation is an over reaction to the various news articles, conflicting technical indicators or hype that come out on a company. As we have mentioned before, retail investors (the inexperienced ones) tend to cut their profits short and let their losses run. This general tendency is a direct result of the emotional reactions these inexperienced traders have to the outcome of individual trades.

One way to overcome this tendency is to have a comprehensive and statistically relevant expectation about the results you should see based on your Natural Trading Style. The ability to compare actual results to expected results is powerful. Knowing when to take losses and profits is powerful. Knowing that losses are built into the process is powerful. Knowing that these losses will not destroy an account is also powerful.

Having a trading process which is trusted to provide expected results so long as it is followed is the best way to leave your ugly stick in your pocket. What is an ugly stick? An ugly stick is the tendency to beat ourselves up for not being perfect. It's the thing that caused emotional over-reactions which lead to mistakes in the market.

Thomas Edison—the famous inventor of the lightbulb was once asked about the 1,000 times he'd failed to get it right. He responded, "I have not failed. I have just succeeded in proving that these 1,000 won't work." He spent thousands of man hours trying new things in his attempt to find the best materials for use in his electric light bulb. As he described it, he kept finding the ones that didn't work until he finally found one that did.

Too often we identify our failures (or losses in the market) as some failing in us which seduces us to quit trying because "we are not good enough."

This temptation to think we are the failure is often a result of an over-focus on trying to find the perfect trading opportunity. This focus on the perfect entry or the perfect trade is unhelpful and incomplete. The most successful traders are so because they have a process which they follow. They understand the probabilities of their holistic trading process and trust that the random price movement of the markets will provide predictable results so long as they follow their rules.

This is much easier said than done. It is very hard to think rationally after a loss…especially if that loss was a result of our mistake. When mistakes happen refocus on your rules. These rules actually help you learn from mistakes because they show you exactly what you did wrong.

It's human nature to be embarrassed by our mistakes or try to forget about them. We don't want to experience the pain of the mistake all over again. Yet mistakes are part of growth and development of expertise. Remember Thomas Edison. Failures are a necessary part of success. Learn from them but don't carry the emotional baggage of them into your next trades. Just keep following your trading process.

So avoid this need to internalize a loss in the market as a failure in yourself. Learn to develop a more rational approach to your process. Learn to analyze your behavior and your motivations and your results as if you were a scientist looking at an interesting, but not personal experiment. It may not be easy to develop such a mindset. But if you try to remember that losses in the markets are normal and expected, it might be easier. Also, avoid playing the blame game with the loss. Learn from it. Move on.

Any loss but especially a losing streak can be very depressing. It can be traumatizing. It can be paralyzing. But it can also be empowering if you see how your rules are protecting your account and that losses remain within the expected parameters.

This is why you must try to remember that each loss is not a personal failure, but rather an expected part of your process. This shift in focus will help you make better trading decisions on future trades.

Sometimes we are so afraid of losing money that we can't make money. We hold on to losses too long. We cut our profits short worried about turning that profit into a loss. This is especially problematic for those who don't have a real idea of the probabilities associated with their plan or have rules that help the implement this holistic trading process. Sometimes your best trade is the one where you took a small loss and saved your investing capital for the next, better trade.

The best measure of success is whether or not you followed your trading process…not whether or not you had a profit on a trade. Your financial freedom is not built on a few lucky trades. Rather, it is built on a trading process that provides consistent and predictable results through a repeatable process.

A study was once done to compare the different investing outcomes between men and women. It found that female investors tended to be better investors. The statisticians were amazed and explained this result by saying that women tend to be more ready to admit failure and to take steps to both learn from that failure and to prevent more such failures. Men don't like to admit mistakes or be proven wrong; so they tend to stay in the market too long. Men *will* be right, which causes problems for them in their trading.

So, in a nutshell you must remember that when you make an investment in a stock and that stock falls, YOU are not the failure. Don't take losses in the market personal. Don't let your ego keep you in too long. You are a business doing work for a client that has chosen not to pay you. Analyze that client relationship to find anything you can that will help you avoid future clients like that one and then move on.

Remember that even the best players in the game have bad days. It is how you deal with failure that determines how successful you will ultimately be in the stock market. You should never fall in love with a stock you own. Instead remember to treat this as a business. If a stock performs well for you then that stock is a great customer and keep doing business with it. But don't get too confident or dependent on this great customer. Be humble and be thankful, but also be watchful. If the stock starts to move against you and your system says to sell, pull the trigger! You should only own stocks while they treat you well. As soon as they stop treating you well, pull the plug!

Avoid the "ostrich" mentality

I like to tell the students in my class that they need to avoid the ostrich mentality that most investors adopt. The ostrich mentality is where you constantly look at your portfolio when it's doing well and avoid looking at it when it's not doing so well.

It is human nature to spend more time with those things that make us feel good and avoid those things that make us feel bad. When your portfolio goes up it feels good to look at it and imagine your wealthy future. When the markets move against you, it's harder to be as excited.

Your approach to the market should be consistent. Remember, you should be focused on executing your system with exactness more than on the results. If you have selected a proven system (and you have), then trust the results will come as you learn what you need to learn to remain consistent in your application of your system. Don't fall into the trap of looking at your investments only when they are profitable.

Active management of your portfolio is how you consistently apply your strategy for consistently positive results. Active management does not mean active trading (though it could). It means constant vigilance and attention as you learn the emotional habits required to implement your trading process successfully on every trade (both the winners and the losers).

My advice to you is not to bury your head in the sand whenever you experience a loss. I understand that there will be times when the going gets tough…but that is the time when you should get going. Don't try to hide from or ignore the pain of a loss. Instead look at that mistake as a learning experience and be excited that you have found a new thing NOT to do in the markets!

The nice thing about investing nowadays is that it can be totally anonymous. You can do all of your trading online without talking to a single person. You don't have to win or lose in front of an audience. It might be easier for you to make decisions and execute your trading system if you know you don't have to do it in front of others. You don't have to share your successes or your failures with anyone meaning nobody has to know if you suffer a loss or make a mistake.

Get better by continuing to hone your skills

Kaizen is the idea that businesses should strive for constant small improvements. Apple has embraced the idea of small, iterative improvements to their products year by year until all of a sudden, no one else can compete with them. Nobody starts out as an MVP or champion. Everyone starts out the same…nervous, uncomfortable and inexperienced. But over time, as we consistently play the game, we get more comfortable, less nervous and more experienced. And if we keep mastery of ourselves, we eventually become MVP traders.

Initially it won't feel comfortable to make your own investment decisions. You'll be nervous to take control of your own financial future and you may be worried that you can't do it. But as you push through this initial wall of resistance, you'll develop skills and learn to trade like a champion. You'll get much better results than your advisor or broker would ever get for you. Just start where you are and practice "kaizen" to make small improvements over time which add up to big advancements in your approach.

I once interviewed a candidate for a job position who told me that he had over 10 years of experience in that job. Later as I spoke with colleagues about this person the question was asked whether this job applicant had 10 years of experience or 1 year of experience repeated 10 times. As an investor you must learn to stretch yourself, to become more capable and more knowledgeable. This is best done when following a well defined trading process and journaling your trades to see where mistakes are made or improvements can be added.

Increasing your capacity will give you 10 years of experience instead of one year repeated 10 times. It takes effort to implement your strategy with exactness, but it must be done. It's tempting to expend the minimum possible effort for the maximum possible gain (or the gain we "can live with"). It's tempting to allow any immediate loss to impact future gains because we stop our efforts to control our own financial destiny.

When things get tough, try to remember that investing is a journey and not a destination. You will always be on this journey called investing. This is exciting! These adventures in investing are just that—adventures. Attack this adventure with passion, courage and discipline. It will give you a bigger rush (and a bigger retirement) than scaling Mt. Everest - I promise.

I suggest that you decide to keep learning about the markets. Perhaps you should set a goal to read one investing book a month or a quarter or something. By reading these books, you will do two things. First, you will train your instincts. Second you will learn a confidence to keep going. I have been through many peaks and valleys in my investing—many that have threatened to scare me away from the markets. But reading about investing or successful investors helps me get re-energized and find the passion and confidence re-awaken, helping me to stay in and keep trading.

This time spent in additional educational pursuits will lead to big payoffs. Remember that more accurate forecasts and better investment decisions will drop profits right to the bottom line as your account grows dramatically. It is not a waste in time or money to get additional information and understanding about the markets.

The Ugly Stick on winning trades? No!

One final thought about the ugly stick and how quickly individuals seem to beat themselves with it. To illustrate this, I want you to imagine you have just come out of a winning trade. That over the past two months, your investment gained 100%. How do you feel?

Now, imagine that the day after you close your trade for a 100% gain, the stock suddenly moves and you could have made 150% had you held it one day longer. What's running through your head? Are you excited about your 100% gain like you were yesterday? Or are you pulling the ugly stick out of your pocket as a failure because you missed out on 50%?

For reasons previously discussed it's natural for us to feel failure even when we're right. This need to beat ourselves up seems so universal and so constant that it must be part of the human condition. Guard against this natural human tendency. Let your wins stand on their own and don't look back at how much you could have made had you just done this or that.

Remember, it's not really about the wins or losses. It's about how effectively you followed your trading process. If you keep your focus on how well you followed your process and not on the results of individual trades, you will respond in correct ways as a trader.

Leave the ugly stick in your pocket…or better yet, throw it away!

Chapter 7

Stay the course, maintain discipline

The final chapter of this book will talk about some specific things you can do to develop emotional discipline. Throughout this book we have discussed different strategies to overcome emotions and we have outlined the different emotional traps investors tend to fall into. While it is not easy to become less emotional when you win or lose money, learning to focus only on how well you implemented your trading process is critical to your long-term success in the market.

Becoming a little less emotional every day will help you over the long-term as you become a more active and more confident manager of your own portfolio. This chapter will simply add some common sense ideas to help you help yourself in your pursuit of increasing returns and safer investments.

One of the best ways to begin controlling your emotions in the market is to begin to watch stocks you don't yet own but which fall within your system.

It's human nature to begin to feel comfortable with things we have long interaction with.How many of you have stayed in a bad investment because you did not know what else to buy?

As I have told thousands of students, sometimes the unknown pain is much scarier than the known pain. We sometimes don't get out of bad stocks because we are worried that by selling the loser at a loss we have less to invest with and that the new stock we buy might treat us worse.

Have you ever felt this way? I know that as an investor I have stayed in bad investments too long because I did not know what else to buy. The devil I knew was still better than the unknown. Isn't this a horrible reason for staying in a position? I believe a watchlist of potential candidates will give you the ability to get out of losing trades quicker because you'll want to put your money into these other trades.

So develop a watch list of stocks and keep track of them every bit as carefully as you keep track of your actual investments. You should only put stocks into this watch list if they meet your investment system's criteria and they should only stay in this watch list as long as they meet the criteria. If things change and the stock no longer passes muster you should get it out of your watch list portfolio and replace it with something else.

Another reason to keep a list of potential investments is that a diverse list of possible investments can help you maintain a better feel for the overall markets. Having a list of stocks you watch but don't own will help keep your head in the game. In today's market the Dow Jones Industrial Average (DJIA) is often used as a gauge of the overall market health and strength.

But the DJIA is only a listing of some 30 of the largest companies in America so it's not a good indicator of what the overall markets are going to do. "False facing" is a term used to describe the affect of the DJIA.

False facing is a term used in the grocery business to describe stacking the cans nice and neat from the front of the shelf to the back. This makes it easier for the customer to grab the can even though it's harder to see if the shelves are fully stocked. In much the same way, the DJIA can sometimes put a false face on the market. The DJIA might be up but this only means that the stock prices of some of the largest companies in America increased that day. Thousands of other stocks could have fallen.

If you have a portfolio of stocks you own, you might be looking at as many as 50 stocks from different industry groups and sectors on a daily basis. You'll have a great idea about what sectors are doing well and which ones are not. You'll get comfortable with these companies which will help you pull the plug on bad trades quicker. Finally this broader market view will help you avoid tunnel vision and an over focus on correlated asset classes.

Too many of my students thought they were diversified they had stocks in computer manufacturers, chip makers, internet companies, and other technology based companies. When the markets turned, they were unprepared and ended up holding on too long, losing large percentages of their portfolio because they didn't have anything else they knew or were comfortable with to get into.

If they had maintained the discipline of watching stocks they did not yet own and of building a pool of stocks they could get more comfortable with, they might have been able to survive the sharp downturn by getting into stocks in rising sectors.

Be Focused

Another suggestion is to be focused. Don't waste time looking at things that aren't part of your trading process. Get into a daily routine. Try to arrange it so that you do the same thing at the same time in the same place. This routine is helpful and reduces the introduction of human error.

Another area of focus should be on your trading process. Don't try to capture all the potential moves. Simply capture the ones your trading rules allow you to catch. Despite the FOMO you might feel at missing out on exciting potential returns, the best traders all stay centered on their process first.

Don't allow the overwhelming amount of market data and slick marketing materials about new trading opportunities confuse you and paralyze you. You should spend your time looking for the obvious play in the finite number of stocks in your portfolio and your watch list instead of looking for every play. I always tell my students to just play the obvious play, not every play. You should too. You don't have to be in the market if your system is telling you to stay out. If your portfolio of stocks you own says you should get out—get out!

If you can't find new opportunities in your watch list of stocks—that list of stocks that you have painstakingly tracked over the weeks, months, and years—then you should simply stay out of the market. Don't waste time trying to find the one or two stocks moving up in a down market. Simply stay out of the market if necessary. Don't try to force your will on the market just because you want to get in. Remember, staying out is a valid strategy that protects your investment capital until it makes sense to get back into the markets.

The other thing I think investors spend way too much time and energy on is in trying to find the "perfect play" in the markets. If you are spending your time trying to find the stocks at the perfect time you are likely to miss most of the moves the markets will give you. If you buy a stock and put pressure on yourself to have a profit within a small number of days you are likely suffering the malady of looking for the perfect play.

Instead of trying to find the perfect play focus on following your system with exactness. Keep your eyes on how well you followed your rules and less on your gains or losses. Find the right kind of company whose fundamentals or charts fit your system and then buy and sell that stock at appropriate times.

Stay the course—maintain discipline!

Perhaps the hardest thing in life is to stay the course. How many times have you made the decision to start exercising, lose weight, quit smoking or get healthier only to break after a few short days or weeks? It is natural to get discouraged at the seemingly slow progress we make towards our goals. But we mustn't get discouraged. We must instead realize that the work and effort we put into our investing and investing research is part of the process of becoming a successful investor. All things of value in life take time, energy and commitment.

Be committed to your retirement lifestyle by investing both time and money now to prepare for that lifestyle. Another reason many people become discouraged is failure. I know many investors who are scared to get back into the markets because they are afraid of failure. In fact, studies have been done to show that the average investor tends to get in towards the market highs because their greed finally overcomes their fear. This emotional trap is seductive. Don't give into it. Stay focused on your system and applying it carefully and exactly.

These emotional investors who get in at the high often end up holding all the way down to nearly the lows before their fear is so great that they get out right before the markets turn up. These investors allow the emotions of fear and greed to affect when they get into and out of the market. But fear and greed get it wrong nearly every time! Don't get discouraged with failure. Don't let fear keep you out.

Remember that we all have an ugly stick that we use to beat ourselves up with. Instead of using this ugly stick, try to throw it away. Work to remain upbeat, positive and confident. Try to keep in mind the heroes of your life who continued to struggle in the face of initial obstacles. These heroes only became heroes because they overcame their own doubts, fears and worries; and reached for their goal with real grit.

You have a goal. The goal is financial freedom to live your life as you would like without money worries or concerns. The market has historically been the best place to put your money to work at the highest rates of return, but to make money successfully over a lifetime requires discipline and confidence.

There are basically two different kinds of people in the world - those who are internally motivated, forcing themselves to stretch and grow, and those who are externally motivated, who must be pushed by others or by circumstance to learn new things. Make your goal so real and your commitment to that goal so pervasive that you become internally motivated. This will help you do the little things your system requires you to do on a regular basis.

Now that you have started overcoming the negative emotions within yourself, you must also contend with the negative commentary coming from others. You will have people in your life who will second guess you, belittle you, and generally do things to take away your confidence. Even the talking heads on the TV will sometimes take away from your confidence because they will take the exact opposite position you have on a stock, making you a little unsure of your decision.

It might be easier as you begin this journey of learning the emotional habits of the successful investor to imagine yourself a toddler. Toddlers just learning to walk are easily knocked off their feet by little things, including their own inexperience of walking. But each time these toddlers fall down, they get up and keep trying. They have a goal (or maybe a burning need) to walk and they don't let the bullies, the lack of experience or the ugly stick stop them from learning how.

The biggest danger to you as you begin this journey is that you'll forget the lesson of the toddler. You'll get knocked off your feet so many times that you'll be tempted to give up and stop trying. Don't let the bullies of skeptical friends or family, brokers, talking heads, your own losses or headlines push you down to keep you down. Find the burning desire of a toddler to walk and allow this burning desire to propel you back on your feet and walking towards your financial goals!

There are so many conflicting signals to confuse and paralyze you. Don't "fall down" by listening to these signals (even your own emotional ones) or allow them to stop your forward momentum. Focus on and follow your trading process carefully. Don't let market noise noise pull you away from your rules.

Remember the mantra, "control your investments, don't be controlled by them." If you allow your investments to control you then you will not succeed in the market. What do I mean by having your investments control you? If a stock you bought goes down and you panic and get out, then you have allowed yourself to be controlled by your investments. On the other hand, if you wake up and see that the markets are having a really good day and your greed causes you to get in despite what your system is saying, then you are being controlled by your investments.

If you allow outside opinion to sway you as you make investment decisions, then you are not in control of your investments. You must remain confident in your system, remain confident in yourself. As you do this you will find that successfully controlling your investments will help you in other aspects of your life. You will begin to think differently because you'll stop the self sabotaging habits of thinking and of being that have limited you in your pursuit of success.

Conclusion

Being in control of your life is a worthy goal and something that everyone can achieve. Learning how to discipline yourself as you approach the markets will help you gain control of your emotions at work, at home and at play.

I guess the last thing I can leave with you as a word of encouragement is that every great journey begins one step at a time. You should never put pressure on yourself to walk this journey faster than you have strength. In fact it is unnatural to think that you could begin a trip by taking one step and arrive at the destination without taking all the other steps between the beginning and the end.

You cannot be an expert overnight. As you know, it is impossible to become great at anything regardless of talent level without practicing, without working that talent, without making sacrifices in the moment to develop that talent over time.

I hope that each of you will apply the lessons you have learned in this book to take control of your life and your lifestyle. Only you can take control of your investing. Only you can take control of yourself. And only you can decide what investment system will be the best one for you to follow. Get started now. Good luck!