The Artful Trader

SELWYN MICHAEL GISHEN

> "It is literally true that millions come easier to a trader after he knows how to trade, than hundreds did in the days of his ignorance."
>
> *JESSE LIVERMORE*

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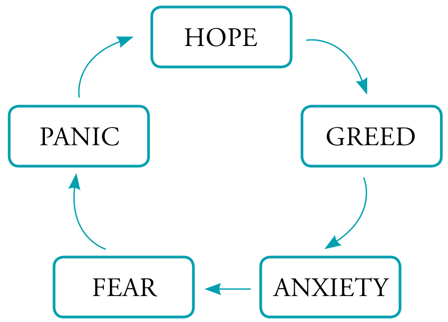
Preface

As with all new undertakings, one has to have a proper foundation. It is impossible to start a new trading business without proper preparation or without grasping how the markets work, or of knowing who the various market participants are and why they trade, or how to find the highest probability trades.

Without such a foundation most people will flounder. Above all though, a new trader has to understand and manage his or her own thoughts and emotions if he or she is to succeed in one of the most exciting and stimulating financial opportunities available today.

It is the objective of this small book to highlight the important skills that every trader will need in order to master the art of trading. The emphasis of this book is not on fundamental or technical analysis, nor how to use your trading platform, but rather on how to prepare yourself mentally to be a successful trader.

All humans are hard wired to feel certain emotions. These emotions can be an overwhelming force when one is taking a position in any market and investing one's time, energy and funds. Understanding this cycle is the first step in being able to manage it. If you are hard wired with these emotional responses then you cannot eradicate them, but you can transmute them to serve you in a constructive way rather than allow them to control or dominate your thoughts.



Hope

Everyone starts off being hopeful that they will be able to select a profitable trade. This kind of hope is necessary as a motivational force. Hope keeps you going. However, there is a difference between rational hope and blind hope, which is based on wishful thinking. Once again, if you are equipped with the necessary skill sets, you will be able to make rational decisions that include risk management without being led astray by unrealistic hopefulness.

Greed

If you take a position based on proper planning, then you have put hope into its right perspective. You stand to be tested by the second of the dominating emotions, which is greed. Greed usually follows as a result of our being right with a trade. We start out with the hope that our trade will be profitable and then once it is we start to believe that we are invincible. We then feel the desire to take more and more out of the market. This is a natural

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response and every good trader will want to add to his position or leverage up his position size. At this point in the trade we can either follow our plan or succumb to the emotion of greed. Greed will drive a trader to ignore his plans and to take positions that ignore proper risk management, or ignore the probabilities.

Anxiety

Once a trader succumbs to greed and has too much at stake, which is the result of improper planning, then the trader's level of anxiety increases. The anxiety is driven by a fear of losing profits or of making losses. Unless the trader can manage this anxiety level, by being aware of the cause of the anxiety and reverting back to a rational, rather than an emotional management style, the dangerous emotions of fear and panic can set in.

Fear

Fear is a much stronger force than greed once it becomes entrenched. Once a trader starts losing money then he has to act quickly to stop the bleeding. If many traders are in the same position, as is often the case in bubble environments, then the results are a drastic collapse in prices causing the fear factor to magnify exponentially. This leads to more cuts and ultimately a state of panic.

Panic

When panic floods into the market, the traders who have poor or no planning, find themselves forced to capitulate taking heavy losses. This cycle is typical of a herd mentality where everybody has jumped onto the band wagon in a desperate attempt to make money, usually in a situation where they have inadequate or no rational planning.

By managing your own emotions and by being disciplined, patient, objective and realistic, you can avoid the boom and bust cycle. The proper way to ensure that you do not succumb to your emotions is by conditioning yourself to have a trader's mind set, one that will set you apart and prevent you from being caught in the herd.

About the Author

Selwyn Gishen is an author and trader with more than fifteen years of experience trading Forex and equities for a private equity fund. For the past thirty five years, he has also been a student of metaphysics, and has written a book called "Mind: How Changing Your Mind Can Change Your Life!" (2007).

Selwyn is also the founder of ForexNewsandViews.Com and the author of a Forex trading course entitled "Trading the Forex Markets: A Foundation Course for Online Traders". The course is designed to provide the trader with all the necessary information to start trading in the Forex markets by learning and applying his Fusion Trading Model.

Selwyn writes articles for Investopedia.com and Trading Markets.com and has appeared as a guest speaker regarding Forex trading for TradeStation.

The Artful Trader

The Ten Critical Skill Sets Required for Successful Trading

Trading the various financial markets is both an art and a science. In other words, trading is a craft. It takes talent and practice to be accomplished at any craft. Talent is developed through proper practice and proper practice is only possible if you love what you are doing, and you are driven to become the best that you can be at your craft.

Hopefully, with the help of the information in this little book, you will be stimulated to develop your talent by developing the ten skill sets that every "Artful Trader" must accomplish to successfully trade the financial markets.

In addition, as with any craft, the proper selection of the appropriate tools plays a very important role in determining the quality of the outcome. Trading is no different. It requires that the online trader be able to understand and efficiently use his or her online trading platform.

The Artful Trader has...

1. Passion
2. A Trader's Mind-Set
3. A Clearly Defined Mission/Goal
4. Sufficient Money to Trade
5. A Grasp of the Market
6. A Well Tested Methodology
7. Proper Risk Management Skills
8. A Comprehensive Trading Plan
9. Lots of Practice Executing Trades
10. The Perseverance to Succeed

> "Opportunity comes often. It knocks as often as you have a trained ear to hear it, an eye trained to see it, a hand trained to grasp it, and a head trained to use it."
>
> *ANONYMOUS*

Introduction

There is no such thing as a trader who has only profitable trades. At some point all traders have losing trades. The real challenge for a trader is to win more than he loses. If he can do this, he will be successful. To be a successful trader it is important to understand not only the art of winning but also the art of losing.

A successful trader applies both science and creativity to his profession. He is scientific in the sense that his approach to trading is objective and rational. He is confident that his methodology is able to replicate positive results over and over again. He is artful in the sense that he has an intuitive understanding of the market in which he trades so, at a gut level, he feels when it is right to take a trade and when it is better to let the trade pass him by. These qualities are developed through careful preparation, practice, persistence and a lot of passion. The practice of combining both the art and science of trading is what hones one's skill to become an accomplished trader. To be a craftsman, you have to be inspired and passionate. You cannot be afraid to take a risk, yet you need to have enough respect for the markets to know the necessity for good risk management. Trading requires the ability to take a risk. But good trading is more than that; it is the ability to manage risk.

Life is full of risks. Almost always, it is the person who takes risks who is most likely to succeed. What is important about risk is that it is only acceptable when it is measurable. If risk can be measured, it can be managed. Thus, out of the acceptance of risk and its proper management, success is born.

Nearly all traders, both amateurs and professional traders alike or, if you prefer, newbies and experienced traders, rationalize their decisions to make a trade by gathering, deciphering and judging the data coming in from all over the world. All this outside information is collected and disseminated by data providers, the news media, the pundits and the insiders. All these sources are engaged to report the information and, in some cases, express their opinions. People tend to accept this information as factual. Often though, their opinions are subjective and can be conflicting. To add to the possible confusion, everyone has their own opinions. These opinions are always formed through their own set of filters. Nevertheless, people always believe they are making rational decisions until they actually have to 'pull the trigger'. The response is almost always emotional. To find some kind of emotional stability in a sea of constant change, you need to find some form of an anchor. For most traders, this anchor is the price time chart. The chart becomes the radar screen, the instrument of divination or a recording of how price and volume have moved over time. This provides an accurate historical perspective. The chart is a recording of how the market actually traded and is not subject to the opinions of the pundits.

However, charts have their own problems. They look backwards! The most recent or current price that is recorded on a chart is at the right edge of the page and no one knows for sure what the next price is going to be.

The patterns that can be found on the chart, together with the hundreds of technical mathematical indicators, are derived from price and volume information. This is where some traders get into trouble. Instead of developing an understanding of the market they wish to trade, they focus on the patterns and indicators in the hope that they will be able to tell, with a one hundred percent certainty, what the next trade price or direction might be. This search for the perfect pattern or indicator is akin to the search for the elusive Holy Grail or crystal ball that will allow them to peer into the future.

Truth be told, there is definitely a place for market information, chart patterns and indicators as long as a trader can realize that none of these techniques are infallible. They will be right much of the time but they will also be wrong some of the time.

Most traders persist in the belief that all they need to trade successfully is to find the magic formula. This combination of specific technical indicators and chart patterns, once discovered, will provide the ability for them to outwit the market and outfox their counterpart traders. To compound this matter, what does a trader do when confronted with the reality that he is trading the same market as is some MIT graduate mathematician, a quant fund, or a large institution whose funding and access to the most sophisticated tools completely outweighs the resources and ability of an individual trader? How can any individual sitting in a home office possibly gain access to the same level of information as the so called professional competing traders?

Such is the challenge of trading. Yet, it can be done. To boost your confidence, you have to recognize how many of the world's most professional and sought after traders also make losses. They are also subject to the same required skill sets that you and I have to have as individual traders.

For a trader to be successful he must employ a proper and rational approach or methodology. This methodology will form the basis of a solid foundation on which he can develop his craft. Without it he must expect there will be many roadside casualties and fatalities. That foundation begins in the mind of the trader himself.

With all the thousands of different styles of trading or the endless number of methodologies, many of which work at some point in time, it is the trader with the proper trading mind-set that rises to the top. In short, success begins and ends in the mind of the trader.

I am not suggesting that a good trader does not need good tools. How would a carpenter fashion a chair if not for the availability of good tools? However, no matter how good the tools are, of what use would they be if they were in the hands of an unskilled craftsman?

In the following pages, I am going to outline the ten critical skill sets that are needed to build a strong trading business. Take comfort in the fact that successful trading is an acquired skill that is easier for some than others, but nevertheless achievable by all with proper application and effort. That effort requires you to look inwards, to observe yourself in action and to rely on yourself to respond to the markets by objectively trading your own plan. There are both mental and practical skills to learn.

It is very important as a trader to realize that a) you set your goals, b) you define your plan, c) you execute your trade and above all d) you manage your risk. This responsibility, when completely accepted, leads to successful trading and profits, irrespective of what conditions exist in the market place.

Many traders are guilty of not being properly prepared or not paying enough attention to the importance of each of the critical skill sets. These skill sets do not exist in isolation of each other. They form a comprehensive approach to trading.

I have presented these skills in a specific order, which I recommend you follow, because each skill set leads to the next. Some of these skills may seem completely obvious. Some traders will be more prepared in one area than in another.

Be completely honest in your self assessment of where you find a skill to be lacking. Have the discipline to practice or to develop that skill set. The skill set that you lack will usually be the one that needs the most practice and the one that you will hesitate to practice the most.
If you are new to trading, or even if you have much trading experience, these ten skill sets, possessed by every "artful trader," form the basis of a strong trading foundation on which you will be able to build a rewarding trading career.

Skill Set 1: FIND YOUR PASSION

You may be surprised that I have described passion as a skill set. Passion is an intense emotion, a compelling feeling, an enthusiastic or strong desire for something. It is the necessary ingredient to motivate and inspire you to become excellent at whatever you choose to do. Just as yeast in a loaf of bread causes it to rise, so passion is the power within that keeps you focused on your goals long enough for you to realize success.

Passion is the first of the "Artful Trader's" ten skill sets that you will need to develop. Without it, it will be very hard to make progress in your trading career. I am sure you have heard many times that it is critical to love what you are doing. In this way, work becomes play. Therefore, each day when you wake up you can look forward to another opportunity to do what you love doing best.

Why do I consider passion as a skill set? It is a skill set because it is possible for you to develop passion from within. You can learn to love what you are doing.

Crosby, Stills and Nash wrote a song with the words, "if you can't be with the one you love, then love the one you're with." This is a profound lesson for all of life because it leads to personal satisfaction and a peace of mind. This in turn allows all of us to be our best and to do our best.

When it comes to trading, there are so many different styles, methodologies and markets that each trader has the opportunity to find the particular style best suited to his or her personality. This is the skill required. You must match the style of trading and the markets you want to trade with your own personality.

For some people, it is exciting to sit all day at a computer and to go in and out of positions as different opportunities set up on a five minute chart. For others, it is more interesting to buy or sell a commodity or a stock and hold the position until they get an exit signal, which may be in days or weeks into the future.

Since the word "trading" implies buying and selling, usually for the purpose of making a speculative profit, it seems logical that to be a good buyer or seller you need to love the process enough to want to repeat it over and over again.

Each trade you make should be in your area of interest; an area you find fascinating. For example, if you love studying companies, like to know about management and how they run their business, and feel you understand the business model and the market in which that company operates, then clearly you will have an advantage when buying or selling the shares

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of that company. If this is your passion, if this is what you love to study and analyze, then this is the area in which you should focus your trading skills.

On the other hand, you may like to listen to the news and react to the way it affects a particular commodity, stock or currency. This interest is what you should translate into your trading style and methodology. For some traders, buying and selling according to signals generated by chart patterns and indicators is what they find interesting. Therefore, they are prepared to apply much of their energy to that style of trading.

It is critical to understand at this point that it is not the methodology, but the fascination, the enthusiasm, and the desire to want to occupy yourself doing what you love to do.

Many traders come to trading because they feel that it is a way to generate extra cash. Others come to trading because they are attracted to the lifestyle that it offers, such as working from home, or connecting to the markets via the Internet. These are valid reasons for wanting to consider trading as an occupation. However, trading must also be your vocation - your calling. You must find in the trading, whether it is in stocks, bonds, commodities or currencies, a deep resonance that will cause you to want to spend many hours at the task.

Trading requires preparation, planning and practice. It requires study and analysis in order to gain a deeper understanding of the markets. In order to do the required preparation and planning, you have to be inspired to want to do it. Without that inspiration, it is hard to stay focused and persistent. I suggest you consider those areas in which you are interested and begin there.

Once you have discovered where you fit naturally, you will find that it is easier to prepare your trading plan and easier to execute it, too.

> "It's not whether you're right or wrong that's important, but how much money you make when you're right and how much you lose when you're wrong."
>
> *GEORGE SOROS*

> "Follow your passion, and success will follow you."
>
> *ARTHUR BUDDHOLD*

> "Without passion man is a mere latent force and possibility, like the flint which awaits the shock of the iron before it can give forth its spark."
>
> *AMIEL*
> *JOURNAL, 17 DECEMBER 1856*

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Skill Set 2: DEVELOP A TRADER'S MIND SET

Mind set — A definition.
The American Heritage Dictionary offers the following two definitions:

- *A fixed mental attitude or disposition that predetermines a person's responses to and interpretations of situations.*
- *An inclination or a habit.*

From this definition, I deduce that an attitude is a habit. Since we can change our attitudes we can therefore, change our habits.

Think of habits as being like little grooves that we can make in a cold Jell-O® with a hot knife. The more we think the same thoughts, or perform the same actions, the deeper we groove patterns in our memory banks. The arrangement of these grooves form patterns of behavior. The deeper the grooves, the more fixed are our behavior patterns.

Dr. Ivan Pavlov did an experiment where he would feed dogs meat. Every time they were brought within smelling distance of the meat they would salivate. At the same time Pavlov would have his assistant ring a bell. Eventually, just by ringing the bell the dogs would salivate in anticipation of getting the meat even if they could not smell it. In psychology, this type of response is known as a "conditioned response".

Every trader must have the following four patterns of behavior ingrained in his psyche.

1. Discipline
2. Patience
3. Objectivity
4. Realistic Expectations

Let us discuss each one in turn.

Discipline

The importance of discipline cannot be over estimated. Discipline is the ability of a trader to follow a plan. Once you prepare your trading plan, you will be faced with the daunting task of executing your plan in accordance with the rules you set when preparing that plan. Since trading requires certain disciplined actions, such as honoring stop losses, it is imperative that you condition your mind to respond to signals when they occur. So many times, a trader will have a stop loss signal but fail to act on it because he will second guess what the market is going to do. Many new traders simply cannot bear taking a loss, and therefore, would rather believe that the market will turn around in the hope that their positions will turn profitable.

Many times the market will deviate from what you have planned and you will have to decide whether to follow your plan or adjust your plan according to the new conditions. Rationally, you know that you need to execute your trades in accordance with your plan. Emotionally something else takes over and you resort to your predisposed habit patterns. Cutting your losses quickly but letting your profits run is, for most unconditioned traders, counter intuitive. Many inexperienced traders will do exactly the opposite. They will let their losses run but cut their profits short.

The reasons for this type of behavior are rooted in the mental patterns, or mind set of the trader. Traders have been told that they cannot go bankrupt by taking a profit. Therefore, they argue, it is better to take many small profits when they occur. The problem with this logic is that it takes just one large loss to wipe out all those small profits.

On the other hand, many traders argue that they simply cannot cut their losses quickly because it is necessary to give their trade an opportunity to work out in accordance with what they have planned. They come to this conclusion because they have experienced cutting a losing position short only to watch it turn around and become a very profitable trade, leaving the trader with a loss. Such a circumstance, if it happens more than once, causes the trader to become conditioned to believe that it is better to let the losses run.

Discipline is not a process of positive thinking. On a rational level, everyone believes they must follow their plans. Why else would you bother to make plans in the first place if you did not intend to follow them? Rather, discipline is a result of conditioning, and as you saw in Pavlov's experiment, conditioning is a result of repetition.

The problem with repetition is that the mind accepts wrong repetition in exactly the same way as it accepts correct repetition. If you keep repeating the wrong actions your memory becomes conditioned to respond to the wrong input. "Garbage in - Garbage out".

Discipline is developed by creating a plan and sticking to it irrespective of any variances in the market's behavior. Discipline breeds discipline. In the beginning it is difficult to overcome the predisposed habit patterns established in one's mind, but after several well executed trades that are executed in accordance with your plans, the mind begins to form new habit patterns that will reinforce proper trading skills.

Another very interesting fact is that the subconscious mind cannot differentiate between an actual experience and a visualized one. The actual or visualized impressions gathered by the senses are stored in the memory. By practicing the correct actions in a simulated trade, you can create the same habit patterns as if you were executing a real trade. Once again, if you practice the wrong steps, you will program or condition the wrong patterning into your mind.

It is not just a question of thinking about being disciplined when you trade, but rather knowing how to condition discipline into your mind so that you will trade in a disciplined way.

Patience

The next important attribute is "patience". It is said that everything comes to those who know how to wait. But patience is another of those attributes that you cannot merely think into existence. Patience is a feature of a person's personality. Some people are naturally more patient than others. However, trading requires one to be patient; to have the sitting power to wait for the correct, high odds, opportunity before you enter into a trade.

For many traders, the angst of missing an opportunity will lead them into the market before the odds of a successful trade are sufficient to warrant making the entry. What many traders do not realize is that the market will always offer an opportunity. If you miss one opportunity, there will always be another. You just have to be patient enough to wait for the market to set up in accordance with your plan. If the market does not set up as you had hoped, you do not take the trade. It is as simple as that.

So how do you learn to be patient? Patience is a matter of conditioning. Conditioning is a matter of repetition. Preparing a plan, as proposed in Skill Set 8, is a crucial step in the conditioning process. If you try to trade on the fly you will find yourself without any anchor or direction. Then your predisposed patterns will kick in automatically, contrary to what you may be thinking you should be doing, and your trades will take on a life of their own, often at the expense and demise of your trading account.

Remember, not only does your plan provide direction in terms of the steps you need to take in order to enter and exit a trade, but it also acts as a mind map that provides the steps needed to condition your mind so you may become an "artful trader."

Objectivity

The third important attribute to program into your mind set is that of "objectivity." To be objective when you are trading is a very difficult process. After all it is your money involved in the trade and you become emotionally attached to your positions because you were the one to decide what to trade, when to trade and how to trade.

Nobody enjoys being wrong. However, being objective means setting aside one's ego to simply watch what the market is doing. If you can learn not to care whether you are right or whether you are wrong, or that you have nothing to prove to anybody, then you stand a chance of making the appropriate decisions required to manage your trades. All you need to focus on is what the market is actually doing and then respond in accordance with the scenarios you outlined when you planned your trades.

You are the one responsible for hitting the switch. No one else can be blamed. Nor can you blame the market. It is like surfing in the ocean. Can you blame the ocean if you get dumped by a wave?

I suppose you can say that the ocean was so rough that it dumped you, but the reality is more likely that you either did not have the skill set nor the discretion to decide whether you should try to surf in the first place.

By the way, getting dumped by a wave is part of the learning process. Even the world's best surfer falls off his board or is tumbled by a wave.

Being objective means disconnecting from your usual hard wired emotional responses of fear and greed. If you feel fear when you trade, either the fear of making a loss or the fear of losing your profits, then you are not acting in accordance with your plan, nor have you conditioned yourself properly in terms of patience or discipline.

Realistic Expectations

The final of the four attributes that you need to program into your mind set is "realistic expectations." So many new traders think that they can start with a few hundred dollars in their account and turn that into thousands of dollars each month.

The point of realistic expectations is to be clear about what is possible and what is likely. It is true that the occasional trade will be hugely profitable and that the market sometimes acts exuberantly, beyond the wildest expectations of the trader. It is also true that most of the time the market adjusts to the norm or reverts to the mean, at least in terms of volatility. This adjusting process can eliminate profits or create large losses if the trade is not being managed or if the trader has unrealistic expectations.

If you are realistic you will be aware of the limitations of your trade and act to protect profits and stop losses based on your risk management techniques that we will discuss in Skill Set 7. Even though you may learn to increase the odds in your favor, there is always the risk that the market can turn against you. Sometimes a trade will be in profit but because you are expecting too much from your trade, you will allow the trade to "get away," or even watch it turn into a loss. While all good traders want to let their profits run, you must acquire the ability to listen and see just what the market is doing.

Trading is all about anticipating the future. You, as a trader, will calculate the odds of that future coming to pass and then take a bet. Since the future can at best only be a speculation, it is important to learn how to manage your bet should the future not come to pass as you expect. This is a realistic expectation.

Skill Set 3: A CLEARLY DEFINED MISSION

> "If you don't know where you are going then any road will get you there!"
>
> *ALICE IN WONDERLAND*

Before you start your trading business you should consider where you are and where you want to go. This can help you define what you want to achieve and how much risk you are prepared to accept. Each category has a different risk profile.

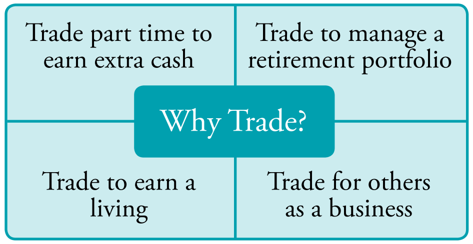
Just as a builder needs proper blue prints before he can build the house, so it is with trading. You have to be the architect of your own destiny. The only way to do that is to sit down and prepare a plan, in writing, of what you would like to achieve.

Without a clearly defined goal or mission of what you want to accomplish, you will not be able to define which markets or what trades are appropriate. Defining your long term goals is your first mission.

Depending on the reasons you want to trade the markets, your plans will be different. So will your risk profile. I suggest contemplating the reasons you want to trade before you try to put together the numbers and how you intend to achieve them.

Once you know why you want to trade, it is important to draw up your blue print to answer the following questions:

- *How much trading money do I have?*
- *How much money do I expect to make as a % return and in absolute dollars?*
- *How will I achieve the desired results?*



Let us do an example analysis. Suppose you have decided that the reason you want to trade is outlined in the category — Trade Part Time to Earn Extra Cash.

The first thing to decide is how much money you have available to fund your trading account. We will go into much more detail about having sufficient funding in the next section, but for now let us suppose the amount that you have is $5000.

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The next question is to determine how much you expect to make by trading with your $5000. Trading should provide better results than just putting your money into a money market account in a bank, so it is fair to expect that you will achieve better than 5% per annum.

But how much better should you expect? Let us say that you want to make $250 per week in extra cash. What kind of annual return would that be?

If you made $250 per week for fifty weeks, assuming that you take two weeks for vacation, then you would earn 50 X $250 = $12,500 or about $1000 per month. In absolute dollars this seems reasonable. As a percentage return on your investment though, your return would be $12,500 / $5,000 X 100 = 250%. Hmmm! How good is that? Remember great money managers can earn 25% - 30% per annum, so 250% would be outstanding.

Now, let us try to determine how you could actually achieve this. First of all, you will need to decide what style of trading interests you. Are you going to day trade? Or would you rather swing trade? That is, trade in and out of positions every few days? Or will you hold some positions to take advantage of a trend?

Remember in Skill Set 1, you identified your passion. Let us assume your passion is to swing trade in the stock market. Perhaps you want to leverage your account and arrange a 2:1 margin which means that for your $5000 you can trade up to $10,000. However, you cannot trade more than three times a week. Check with your broker about day trading rules.

In order to make $250 per week, you will have to consider your methodology and, in particular, you will have to know the "expectancy" or trading performance that you can expect to achieve.

I believe that it is safer to be conservative in your estimates of how well you will perform. If you make a consistent 20% return on your money, year in and year out, you will be beating 95% of the professionals in the market.

When writing down your long term goals you will need to take into account your available capital, your methodology's expectancy or performance reliability, and your risk appetite in order to determine what you will need to do to achieve your desired results.

In Skill Set 2, you learned to have realistic expectations, especially if you are just beginning your trading career and don't have much experience.

I was once asked by a prospective trader, who had $1000 to trade, if she could expect to make $500 per week. Clearly, this trader was setting herself up for disappointment, especially since she had no trading experience.

Once you have set realistic expectations for your trading results then it is necessary to figure out how you will actually achieve these results. Ask yourself the following questions;

- *What market should I trade?*
- *How much leverage should I use?*
- *What time frame can I trade?*
- *How big should my positions be?*
- *How much risk can I tolerate?*

All these questions will need some experience in order to formulate an answer. If you don't yet have the knowledge to answer these questions then try to find someone who can go through the process with you. It will be a very constructive way to start your trading career.

Skill Set 4: SUFFICIENT MONEY TO TRADE

Having insufficient money in a trading account is one of the biggest factors contributing to the trader's failure. Unfortunately, it is usually true that "the rich get richer while the poor get poorer." Money is the fuel that empowers a trading business.

If you only have a small amount to trade then you should have expectations that match the size of your budget. You cannot expect to have $250 in your trading account and hope to turn that into $25,000 in a few months. The usual result of such an expectation is the total loss of your original capital!

Why this is the case and how to deal with it is the subject matter of this Skill Set.
I am sure that you can accept the fact that you will have losing trades. It is important to understand that your trading capital is both the fuel for your trades and a cushion that protects against severe damage to your account when you do have a trading loss.

If you have $50,000 in your trading account and you lose $500, a 1% loss, you can withstand such a loss and still be able to continue trading. If you make 2% on your profitable trades and lose 1% on your losing trades, you only have to be right 33% of the time to break even. If your trading methodology is right only 40% of the time and your profitable trades are twice the average of your losing trades, you will actually make money.

However, if you only have $5000 in your account and you lose $500, you will have a 10% loss. Clearly it is much easier to make up a 1% loss than it is to make up a 10% loss.

What if you only have $5000 to start a trading account? Then it is even more important that you implement a conservative risk policy. By employing a conservative risk policy, such as one that limits any one loss to a maximum of 2% of your capital means that you will only allow a loss of $100 on any trade.

You will then have to be sure that your stop loss orders are not further away than $100 from your point of entry. If the natural place to put your stop is further away than $100, you will have to either move to a lower time frame on which to trade or increase your trading capital or pass on the trade altogether.

Since the futures market is leveraged on average 20:1 and the Forex market is typically leveraged 100:1, traders are hopeful that with only $5000 as a deposit or margin, they can make a substantial return on their investment.

Let us take a closer look at this situation.

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The issue to understand is the impact of leverage on your account and why it is even more important to have a larger cushion if you are using leverage.

Leverage magnifies your profits and your losses. For example, if you are trading in the forex markets and you have access to a 100:1 leverage, then you could buy or sell $100,000 with a deposit or margin of only $1000. If you adhere to your 2% maximum loss rule, you can only lose $20 in a trade since $20 is 2% of your $1000 trading capital.

In the case of a $100,000 position, a move of only two pips is equal to $20 in value. Therefore, as you enter the trade, assuming a two pip spread between the bid and the offer, you will already be at your maximum allowable loss.

What can you do to overcome this problem? Here are your options:

- *Increase your risk tolerance from 2% to a higher percentage.*
- *Reduce your leverage from 100:1 by buying a smaller lot, perhaps only $10,000, in which case the value of a pip move is only $1 and you can then place your loss as far away as 20 pips (in this forex example).*
- *Increase your trading capital.*

If you cannot increase your capital, you must decrease your leverage. You should not increase your maximum loss percentage.

You can see that the amount of your trading capital is dependent on how much risk is inherent in a trade. Here is a rule of thumb:

> *Calculate where your stop loss is in relation to your point of entry, in dollars, and divide that number by 2%. The answer will be the minimum amount of money you should have in your account.*

Suppose you enter a stock position at $15.00 per share and you want to buy 100 shares, you will need $1500 to pay for the shares.

If you place a stop loss at $12.00, for example, you are prepared to lose $300 before you cut your position. Divide $300 by 2% = $15,000. So you should have $15,000 in your account, if it is to be properly funded and provide a sufficient cushion.

Undercapitalized accounts are often the cause of a trader's demise. If you only had $1500 to start out and you spent all $1500 on a trade of 100 shares and you are stopped out at $12, the value of your trading account drops down to $1200.

If you are leveraged 2:1 and you bought 200 shares, you would lose $600 of your $1500 and your account value would drop down to $900. This would represent a loss of 40%. To make back this loss would require a gain of 66%.

It becomes clear that there is a relationship between the size of potential losses and the amount of capital in one's trading account. It is the irrational exuberance of the trader who tries to make unrealistic gains which are out of proportion to his trading capital that very often results in a trader blowing up his trading account.

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When it comes to your trading capital, it is very important that such capital be considered as risk capital. Risk capital means that these funds are available for trading without affecting other aspects of your lifestyle. Trading capital should never be your grocery or mortgage money or for that matter your kid's college fund savings.

To be psychologically prepared for trading, you should view your trading funds as "vacation money". Vacation money is money that you know you will spend on hotels, food and other travel-related expenses and when you return from the vacation those funds will have been spent. Usually a vacation does not impair one's lifestyle because those funds are usually available specifically for the purpose of taking a vacation.

This is not to say that you should not be dead serious about trading or that you should consider trading as recreation. Trading is a serious business especially if you want to make serious money. However, trading under the pressure of having to make money to pay the mortgage is not conducive to artful trading. No "artful trader" would ever trade in that way.

To sum up, it is important that you have freely available trading money and you have a sufficient amount based on the expectations you may have from your trading. An undercapitalized trading account will put you under pressure to perform better than what you may be capable of doing or than what can be reasonably expected in a chosen market.

To quote GEORGE SOROS again

> "It's not whether you're right or wrong that's important, but how much money you make when you're right and how much money you lose when you're wrong."

Skill Set 5: A GRASP OF YOUR MARKET

It is surprising how so many people are prepared to trade their hard-earned capital in situations in which they have very little knowledge. Some traders are prepared to buy or sell shares, commodities or currencies without any knowledge of why they are making the trade.

If trading is buying low and selling high in order to make a profit, how will you determine what is a low price and what is a high price without knowledge of your market?

Many traders merely rely on charts to identify support and resistance levels, or to find potential break out levels to make a trade. They use charting as their sole source of information to select price points, based on indicators or patterns, to reach a trading decision.

Making predictions about the future is a tricky business. Understanding the market you trade can help you to speculate about future price movements.

If you take advantage of the latest technology and set up your software to trade automatically using rule-based systems, you will gain an advantage in building those systems if you have a firm grasp of your market's fundamentals.

To determine a long term trend and then trade in its direction, you need to know some fundamentals about the security or contract you are trading.

No single person can know everything there is to know about everything. To sharpen your intuition you have to gather and interpret relevant information and be able to correlate that information with the price patterns on your chart. This is the best of both worlds because you will have both a rational and a technical reason to help you make a decision.

Some traders are prepared to spend more time researching a new washing machine than they are willing to spend researching a stock or a commodity before they make a trade. The "Artful Trader" always does the necessary due diligence.

In general, as a trader in the financial markets, you should know something about the economy, the particular segment or industry, and the specifics regarding the instrument you are trading.

It is useful to have an understanding of who the players are in your specific market and what motivates them to make trades. All traders need to watch the news, the economic reports, even the weather if it is relevant to your market. It is also important to understand the interconnected relationship between different asset classes.

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We live in a global economy and therefore we cannot ignore what other economies are experiencing. I know all this is obvious, but the tendency for a trader to be lazy and to just rely on his charts is a disadvantage to the trader who is up against a well informed specialist in that particular trading arena.

This raises the question of whether a trader should be a generalist or a specialist. Is it better to scan the entire market looking for technical reasons to make a trade, having little or no knowledge of the instrument you may discover? Or, is it better to focus in a specific area and become expert in a particular area of interest?

In Skill Set 1, we discussed the value of finding your passion. If you have found a specific area in which you find a certain fascination you will be able to spend the necessary time to focus on it. At the same time you will also enjoy the time you spend researching, analyzing and trading. I believe your trading results will validate what I am saying.

Mastering this skill set is what makes you expert enough to trade your chosen instrument. However, something else happens on a psychological level. You will gain confidence. Confidence is the key factor in facilitating your execution in making trades. A lack of confidence is what causes most traders to over analyze and therefore paralyze themselves. Just like a deer caught in the headlights, not knowing whether to run or stand still, he becomes frozen.

Successful trading is all about conditioning your mind set or behavior patterns so that you can repeat actions over and over again.

This requires confidence, and confidence is developed by building positive feedback loops. A positive feedback loop results when a plan is well thought out and well executed resulting in a profitable trade. The more times you can repeat this cycle, the more confidence you will gain.

Knowledge is a powerful thing but it is only empowering when it is accompanied by wisdom and understanding. The combined forces of knowledge, wisdom and understanding create a powerful intellect. When you combine your powerful intellect with purposeful action, your results can only be successful. I define success as achieving whatever you set out to achieve, whether this is in relationships, personal growth, social participation or making money.

Is there something called luck? Depending on how you define luck, there is a factor in life over which, it appears, you have no control. When such an uncontrollable factor works in your favor, you may call it "good luck." If it works against what you set out to achieve, you may refer to it as "bad luck."

I believe your so called luck is governed by your own actions. You always have to take responsibility for what you do and this is particularly true in trading. You cannot blame the markets for what happens to you.

The markets do not know you, so they can't have anything personal against you. If you lose in a trade and then seek revenge in the markets, remember that revenge is your own behavior pattern and one that you do not need if you are to be an "Artful Trader."

Skill Set 6: A WELL TESTED METHODOLOGY

By now you are probably sensing that each of the "Artful Trader's" skill sets is interrelated. The entire set of ten skill sets are designed to prepare you, or to condition your mind to approach trading in a positive and self fulfilling way.

For example, you can set up trading software to give you signals or, if you prefer, even place the orders for you when certain conditions occur. These conditions can be almost limitless. You can tell the system to monitor the volume of a particular share being traded, and if the volume increases at the same time as there is a MACD crossover from negative to positive, and if the Dow Industrials are also trading up, then buy a thousand shares.

This example illustrates the power of rule-based trading and one of its big advantages is that it removes the emotion from trading.

The power of disciplined rule-based trading also presents a challenge. The challenge is not to become a slave to creating rules so that you become a software junkie instead of a trader. Your purpose is to trade and make profits by buying low and selling high (or selling high and buying back low).

Nevertheless, you must invest the time to create and test a methodology for trading. There are as many methodologies as there are traders. Every trader will nuance his own methodology. My advice, at least initially, is to keep your methodology simple.

Professional traders in banks and on exchange floors often trade using the simplest of methods. Since they know their particular method and understand its "expectancy" or reliability, these traders have the confidence to trade almost automatically. The key factor again is confidence. The purpose of having a well tested methodology is to become confident taking a trade.

Will every trade be profitable? Never! But if you can build a methodology that allows you to make more profitable trades than losing trades, and if you make more money on your winning trades than you lose on your losing trades, you will become very successful. In simple terms that is the goal of every trader and his methodology.

How do you go about building and testing your methodology? The first thing to do is to recall the lessons of Skill Set 3. You must have a clearly defined mission or goal that you want to achieve.

Here is an example, but please be advised that the purpose of this book is not to give you advice on what or how to trade but rather to help you become an "Artful Trader."

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Therefore, any suggestions of a methodology are purely for illustrative purposes and are not to be considered trading advice.

For example, suppose you want to take a swing trade. You should choose a time frame to watch as your so called 'compass.'

For example, I might watch a weekly chart to give me a "big picture" sense. Then I would switch down to a lower time frame, such as daily or hourly chart, to time my trade. If I get a buy signal on the weekly chart, I will wait for the daily to confirm the buy signal.

I like to trade off support and resistance lines. Therefore, if I see that the price of the instrument I am watching is bumping up against a specific support line of the weekly chart, I will switch down to my lower time frame. This is done to check if a certain candlestick pattern, such as a Doji or Hammer, is forming.

At the same time I might use an indicator like the RSI to determine if the stock is oversold. If all my pre-planned conditions are present, I will take the trade and immediately place the appropriate stop-loss order, just in case the trade doesn't work out.

I would also practice trading these conditions using a trade simulator. I would make as many as fifty practice trades, so I can measure how many trades will be winners and how many trades will be losers, using those same conditions.

If the results are positive, meaning the amount of my average winning trades is at least twice the average amount of my losing trades, and my winning trades are greater than 60% of all the trades I take, I know I have a very good trading system to use when trading real money.

I can then decide whether to trade manually or mechanically. You must choose the style that suits your personality. Calculate a separate "expectancy" for each different method you use. Expectancy is the formula you use to determine how reliable your system is.

You should go back in time and measure all your trades that were winners, versus all your trades that were losers. Then determine how profitable your winning trades were versus how much your losing trades lost.

Take a look at your last ten or twenty trades. If you haven't made actual trades yet, go back on your chart to where your system would have signaled you to enter and exit a trade. Determine if you would have made a profit or a loss. Write these results down. Total all your winning trades and divide the answer by the number of winning trades you made. Here is the formula:

You want to find out how reliable your system's trading signals are. (If you mix different methods, you won't know which method is the most reliable.)

E= [1+ (W/L)] x P – 1, where:

W = Avg Winning Trade
L = Avg Losing Trade
P = Percentage Win Ratio

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Example:

If you made 10 trades and six of them were winning trades and four losing trades, your percentage win ratio would be 6/10 or 60%. If your six trades made $2,400, then your average win would be $2,400/6 = $400. If your losses were $1,200, then your average loss would be $1,200/4 = $300.

Apply these results to the formula and you get;

E= [1+ (400/300)] x 0.6 - 1 = 0.40 or 40%

A positive 40% expectancy means that your system will return you 40 cents per dollar over the long term.

Remember, expectancy is a useful tool to help you determine how reliable your trading system really is. The object of the exercise is to give you knowledge and confidence about a trading system.

However, many traders, when they discover that their system only provides a 10% or 20% or even 30% expectancy, immediately abandon their system and go in search of a better one.

It is better to try and improve your existing system by learning to let profits run and cutting losses short. The mere practice of taking quick losses is in itself a very useful skill to learn.

LEARN TO LOVE SMALL LOSSES!

Print out this five word instruction and stick it on to your computer.

Since this little book is more about trading psychology than it is about technique, I will focus on the mental aspects of the need for a properly tested trading system.

In trading, confidence plays a very vital role. When a trader lacks confidence, he usually finds that it is hard to pull the trigger, either to get into a trade or to get out of one.

Since a trading loss can cause a trader's confidence to tank, it is very important for the trader, especially a new trader, to learn to take small losses.

By learning to take a small loss, you will start to feel that it is okay to accept a loss because it won't excessively damage your account. Many new traders feel that they are failing if they take losses, or they feel that their pride is being hurt, or they feel that they are incompetent and feel a sense of despair.

These are precisely the feelings that you have to overcome. Imagine a boxer feeling that he is a failure because he takes a punch or many punches. Wouldn't that be ridiculous?

Part of the process of becoming an "artful trader" is to learn to stand aside from your trade emotionally, as if you are a witness.

It is very important, but for some people very difficult, to adhere to the rules you set when you created your plan. If you second guess your own methodology then all the planning in the world will be a waste of time.

Once you plan your trade, you must trade your plan. To do this successfully, you need to have a methodology that you trust. The only way to trust your methodology is to first back test it to see how it would have performed on each occasion that it generated a signal according to your rules.

Then you should practice your methodology using a simulator in real time but with practice money. Finally do some real time trading with real money but in small amounts.
Once your methodology passes the test and produces a high expectancy over, say, twenty trades, then you will be able to trust it going forward.

If you miss out on this step, you will never know what to do once you are trading real time. Most traders will try to adjust their position on the fly. This is like flying an airplane without instruments and relying on your instincts to get to your destination.

It is very helpful for a trader to be well prepared. Well prepared means knowing what you will do under certain circumstances. If the circumstances do not unfold as you anticipate they should, you can always cut your trade and re-assess the situation.

Perhaps you will have to pay an extra commission, but so what? It is better to fine tune and tweak your timing rather than move your stops out of the way in the hope that the market will come back.

> “A loss never bothers me after I take it. I forget it overnight. But being wrong—not taking a loss—that is what does damage to the pocketbook and to the soul.”
>
> *JESSE L. LIVERMORE*

Skill Set 7: PROPER RISK MANAGEMENT

The difference between gambling and speculating is in how risk can be managed. Managing risk is what separates a trade from a gamble. To speculate comes from the Latin word “speculari” meaning to contemplate, to look at, or to observe.

That’s what traders do; they examine the opportunity, contemplate its outcome and then act on their intuition and instincts. If they are wrong they cancel their position and then re-examine the opportunity.

The great benefit in trading is the ability to measure risk. If you can measure risk then you can manage risk.

The measurement of risk is not just calculating the odds of something occurring, but rather in having a precise point where your trade can be terminated and knowing precisely how much money you will lose.

If you can know this information before you take the trade, you can make a rational decision whether or not you even want to assume the risk.

There is no reward without risk. As we discussed in the introduction to this booklet, it is usually those who are prepared to take risks who are most likely to be successful in life.

If you are a fisherman, you risk your bait. If you are a businessman, you risk your investment. If you are a trader you put your capital at risk, but with trading you have the ability to stop at anytime you feel uncomfortable.

Trading offers much more control of your risk than even certain investments. What happens if you buy real estate and the market changes thus preventing you from even finding a buyer? How easy is it to stop your loss?

Trading in liquid markets offers real risk control, as long as you are capable of using those controls. The ability to manage risk requires that you have a plan and that you have the ability to manage that plan.

Traders collapse their accounts, not because they speculate incorrectly but because they don’t follow their risk management rules.

The reason that traders do not follow their risk management rules is due to a trader’s mind set, or habit patterns, not being properly suited for trading. That is why an “artful trader” is one who has conditioned his mind to the requirements of trading.

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I can tell you all day long that you must manage your risk by placing stop loss orders in the market, or at least having a mental cut off point where you will execute the trade in order to stop a loss. What I cannot do for you is to pull the trigger.

No one can do it for you. You have to take responsibility for your own trades. If you cannot overcome the emotional attachment to the trade, then you should set up an automatic rule-based system where the software will follow the rules without any second guessing as to where to place the stop-loss orders.

You already know that good trading depends on good risk management. It is just a question of deciding how much risk is acceptable risk.

Over the years, many books and articles have been written about the best way to manage risk.

There are many discussions about systems like "Martingale," a system that says that every time you lose a bet you must double up on the next. Eventually when you win, you will make up all your losses and be profitable. Since this only works if you have unlimited money in your trading account, the advice is don't use a "Martingale" system. By the way, casinos love you to use a Martingale system because they know that you will run out of money before you can win the bet.

The best approach for you as a trader is to use a percent of your capital as a rule to determine how much risk to take on any trade. While there are many variations to this rule, it is quite simple to implement.

I like the 2% rule, which says that you can only risk as much as 2% of your trading capital on any one trade. This means that if you have $5000 in your trading account, you can only lose as much as $100 per trade.

If you think about this rule carefully, you will see that it is possible to lose fifty times in a row and still not lose all your money. The reason is that as your capital decreases, so does the amount of risk per trade.

Your first loss might be $100, leaving you with $4900. Your second loss can only be $98, leaving you with $4802. Your third loss will be only $96 and so on.

Even if you lose less and less as your capital decreases, the real point is that you would have to have so many losing trades in a row that it is quite against the odds of doing so.

If you have built a positive expectancy methodology, as discussed in the previous skill set, then you will never be faced with continuous losing trades. In fact, as long as you adhere to the requirement of making more money on your winning trades than what you lose on your losing trades, you can never lose your capital. You will actually be a profitable trader.

Adopting the 2% rule has another very important benefit. It helps you to calculate how much trading capital you will need, based on the market in which you trade, and the type and style of trading you undertake.

How this works is as follows:

1. Select the instrument that you wish to trade.

2. Plot a daily chart so you can see how the instrument has traded over a period of time.

3. Look where you would have entered a trade based on your system. For example, if you take a trade based on moving average crossovers, then you would note at what price you would enter your trade.

4. Determine where you will place your stop loss. You should select a point where the market gyrations will not cause your stop to be hit for no reason other than the back and fill of the market.

5. Calculate how far away that stop is from your entry point and how much that distance represents in money.

6. If the potential loss is greater than 2% of your trading capital, you must either a) select a lower time frame or b) increase your trading capital or c) pass on the trade.

By dividing the potential loss by 2%, you will be able to calculate how much money should be in your trading account.

If you want to trade daily charts, but on average your natural stops are further away than 2% of your capital, then you are undercapitalized for that particular set of circumstances.

Suppose you have decided that you would like to be a swing trader and that you will time your trades using a daily chart. You design a methodology that is based on entering a trade after a bounce and a successful retest of the support.

Each time this set up occurs you notice that the stop, just below the support line, is about an average of $300 away from your entry point. Therefore $300 divided by 2% equals $6000. This is the amount of money you should have in your account.

If this is not possible then choose a different methodology, one that gets you into a trade much closer to your stop-loss point, or trade shorter time frames or even different markets.

Using USDJPY, if your entry is at 1.1500 and your stop is at a previous low of 1.1400, a difference of 100 pips, and if a pip is worth approximately $1, then the risk is $100. Now using the 2% rule to calculate your trading capital requirement, you will need $5000 in your account.

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Skill Set 8: A COMPREHENSIVE TRADING PLAN

While it is true that a map won't take you anywhere, without one you will probably get lost. Pre-planning is the essence of good trading. It forces us to think. It removes the impulse to jump into a situation and then have to scramble to get out again.

I recommend that all planning is done in writing. A good method is to figure out what you want to trade and why (based on your original mission or goals) and then print out a price chart of a symbol and time frame you want to start trading.

On chart you can make all the notations necessary. You can show where you would enter the trade, and where you would exit. You can also calculate the size of your position based on the amount of loss you could incur if the stop is hit. Check your math to be sure you are complying with your 2% risk management rule, or whatever rule you have adopted.

Make a note of where you intend to take a profit and, if necessary, how you will slide your stop once your trade is profitable.

In a separate section of the chart, you will list why you are entering the trade and the circumstances or conditions that you will be looking for as the trade unfolds.

For example, you may enter a comment that you will reevaluate the trade if the Federal Reserve changes its policy on interest rates. This action may affect the demand for the stock, commodity or currency you are trading. By highlighting the event you will be prepared for it. When you prepare a trading plan, you may need to plot other charts for other time frames and other instruments. If you are taking a stock position or swing trade on a stock, you may want to show the chart for the particular sector in which your stock trades.

You should also note what industry or company news you are following that is likely to affect the stock. By going through this process, you build up a case for making the trade. You may be right or you may be wrong. What matters is that you will have rehearsed in your mind the situations that will cause you to act.

If circumstances other than what you anticipated should occur, then you can abandon your trade or go back to the drawing board to fine tune your approach.

There is no perfect science in trading. Trading is a craft. This means it is a blend of both science and art. By doing the necessary actions repeatedly, you start to develop a process that eventually becomes a habit. A habit is a channel of least resistance in your mind. The more you do something the easier it gets.

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The formation of habits takes place whether you practice good habits or bad habits. So it is up to you to have the discipline and the patience to implement a program built on habits that an "Artful Trader" would repeat.

A good solution for developing a trading plan is to design a ritual for regular and repeatable preparation.

For example, each weekend when the market is closed you could read a newspaper that specializes in the markets, such as *Barron's*. Look over the activity of the previous week and read what the pundits have to say.

Then prepare weekly charts of the markets in which you are interested. Do the charts correlate with what you have read? Are the prices responding to the news in a way that is logical?

What are the factors that are likely to increase demand? What are the factors that would increase supply? Remember a chart is a picture of the supply and demand for a particular market instrument.

If you find an opportunity that you think has merit, then you could print out charts of the segment or industry leaders to determine if there is a pattern taking place or if you have found an anomaly.

Print out a weekly chart of the stock or commodity you wish to trade. Plot your indicators and support and resistance lines, your trend channels or whatever else you use as part of your methodology.

Highlight the trade you are looking to make. Do the calculations. Perhaps you have a few different ideas that you could trade in the upcoming week. Prepare all the charts for each idea.

Keep these in a trading journal. Each week's preparation becomes your journal entry for that week. On each chart, besides noting the actual trading information, you should also provide space to record what you are feeling.

When the actual trade is implemented, return to your chart page and note how you are feeling during the trade. Note your anxiety levels, your emotions, your thoughts. Do this as a religion. Be honest with yourself. After a few weeks you will find that you are making many valuable discoveries about yourself as a trader.

Keep in mind that the above thoughts are merely a suggestion. There are many ways to prepare for a trade. You must prepare and make a ritual out of your preparation. By repeating the same ritual over and over again, you are setting your mind into a habit mode that will allow you to accomplish the steps necessary to plan and manage a trade.

The mind can be wild and jump all over the place. A good pre-trade routine and proper preparation for each trade will make it much more likely that you will have the confidence to execute your trades successfully.

Skill Set 9: PRACTICE MAKES PERFECT

As with anything in life, good luck comes from hard work. The harder you practice the luckier you will get. Why is this true?

Each time you practice, you are telling your subconscious mind that an action is taking place. The subconscious mind then records the action as an impression or seed. The more impressions you make, the deeper the seeds are planted.

A seed will eventually sprout, given the right conditions. An acorn carries all the information within itself to become an oak tree. The acorn will become the tree if it is given the right set of circumstance, such as water, soil, sunshine and time.

So it is with our thought processes. We put into our minds certain thoughts or impressions and these will manifest according to their own quality.

Here is a beautiful proverb that is helpful not only for trading but for all of life.

> *Sow a thought, reap an act,*
> *Sow an act reap a habit,*
> *Sow a habit reap a character,*
> *Sow a character, reap a destiny.*

If you want to become an "artful trader," you must be prepared to do the things that an "artful trader" does.

This requires discipline. It also requires patience. The best way to inculcate these qualities into your mind is through experience. There is no substitute for experience.

So how does a new trader build or gather experience. Actual trading is the best teacher of all. It is direct experience. No amount of discussion can equal direct experience.

However, there is a way (one of the advantages available to traders) that can help. That way is to create a simulated account and pretend that the account is real money.

By setting up your simulated account as if it was your real trading account, namely with the same amount of money as you will fund your real account, you can simulate the conditions under which you will trade.

It is no use putting $100,000 into your simulated account and then taking trades of $20,000 at a time just to see how much you can make or lose in one trade.

The idea of a simulated account is for training purposes. It is not a video game. Just as pilots learn all about flying in a simulator before they take a real flight, so should you apply the same principles in using a trading simulator.

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You must use a simulator in as real a way as possible. You must still plan your trades and then execute them as if you were using real money. If you play when you practice, you will pay when you trade.

Practice is the art of speeding up the learning curve. The more you do something the better at it you will become.

Remember your goal is to make the process as automatic as possible.

When you first started driving a car, especially those of you who have driven a stick shift car, you know that there is a certain amount of skill and coordination required in releasing the handbrake, adjusting the clutch, applying the gas pedal and steering the car without jerking down the road.

Yet after a bit of practice the process becomes easier and easier. After a while, the process becomes so automatic that you can have a conversation with your passengers while weaving in and out of the traffic — and operate all the controls of the car, all at the same time.

By implication, practice means repeating the same process over and over again until you become adept at it. It does not mean sitting at the computer, experimenting with hundreds of different indicators and patterns, back testing each one in turn to find the best results. That process is called research and is different from the practice needed to condition your mind set so that you are confident in your trading.

It is better to become an expert in just one methodology than it is to know something about a hundred different techniques. Become the best you can at the one thing you love and are good at doing. It will stand you in very good stead in your trading profitability.

We live in an age of specialization. Once upon a time there was just a general surgeon who would work on all parts of the body when necessary. Today there is a specialist for each of the smallest of body parts. In order to extract profits from the markets you need to become a specialist.

When it comes to practice, you will have come full circle, back to the need for finding your passion. Only when you have the passion can your practice become a labor of love.

Trading the markets is one of the few endeavors in which, if you have the flexibility, the opportunities are so varied and vast that you can find your own space in which you are comfortable to trade.

You can choose to trade stocks, stock indices, ETFs, bonds, commodities, options, options on futures and more.

You can decide to trade in exchange-regulated markets or in the over-the-counter cash currency market, the biggest of them all.

What is significant is that the basic principles and skill sets are virtually the same for all of them. Of course, there are technical differences and volume and liquidity variances. But, in principle, all trading is based on the premise that you must buy low and sell high so you can pocket the difference.

Each trader will find his own rhythm. Some will naturally flow in one area better than another. However, it remains true that there are fundamental skills that a trader must have and most of these skills lie within the trader himself. It is in the mind of the trader that most difficulties arise.

Too many traders lose money only because they fail to adhere to the rules.

In summary, it is very important that you know your trading platform well enough so that you do not make mistakes in executing your trades. It is important that you learn to stand aside from your emotions so you can trade the markets, and not your ego. Most of all it is important that you condition yourself with the correct habits that all good traders have mastered.

When you have accomplished all of this you will be able to stand back in awe at your own personal growth as a trader and as a person who succeeded because you were not afraid to take a risk.

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Skill Set 10: **PERSEVERE**

The easiest thing in the world is to give up. Anybody can do that. Perseverance is what separates the winners from the losers. There is an old Japanese saying — "fall down seven times but stand up eight." That advice is applicable to new traders.

There is a difference between taking a trading loss and failing to execute properly. Taking a loss is part of the life of a trader. Failing to execute is a result of not mastering your craft. Taking a loss is not failing — it is how positions are managed until they become profitable. Baiting a hook is not failing because the bait is lost, it is the way to catch your fish.

However, not mastering your craft is a failure of effort. Since you have complete control over the effort you make to learn your craft, only you can decide if you will succeed or not.

Perseverance is the ability to hang in when the going gets tough. It is the discipline, the patience, and the objectivity to pursue an elusive pot of gold at the end of the rainbow. No one can ever control or dominate the markets, just as no surfer can ever control or dominate the ocean.

However, it is the endless practice and love for the waves that turn good surfers into inspired surfers and inspired surfers into champions.

In trading there is no competition. You are your own competition and you will be the hardest person to beat. To do so takes real perseverance.

The best way to persist until you become a champion is to start simple. Create a structure that is easy to employ and, most of all, set reasonable expectations.

Perhaps you can now agree that preparation requires practice and practice requires perseverance and perseverance requires passion.

When you set out on a path you always start with an idea. To manifest that idea you have to conceptualize it until it can be written down or documented. Then you have to break your concept into small steps that you can manage.

These steps are defined as tasks. You allocate monetary and human resources to the tasks. Managing these resources along the way is a process of your creativity. Yet the success of the process depends on your being able to keep your original idea in mind.

Perseverance is being able to form a picture or target in our minds and then do whatever is legally and morally necessary to reach that target. It is the ability to keep the picture within us alive and bright. That is why it is important to define our mission or goals and to write

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down what we want to achieve and also how we will go about achieving them. How we do that is the strategy that we must pursue in the long run. Creating trading plans each week are the tactical steps that we must take and execute in order to reach our long term goals.

Sometimes we will make a misstep and it is then that we have to stand up, shake ourselves off and hold on to the light of our chosen goal. Holding on is perseverance.

> “A hero is an ordinary individual who finds the strength to persevere and endure in spite of overwhelming obstacles.
>
> *CHRISTOPHER REEVE* ”

Finally, the most important idea of all is to have fun. Life is for laughing. Laughter is the highest form of spirit. So even if trading is an important business, having fun while you are doing so is even more important.

When you are having fun how hard is it to persevere? But if you are not having fun, remember the following words of Anne Stortz.

When all the world is looming dark And things seem not so clear,
When shadows seem to hover ‘round Lord, may I persevere.

When it seems everything's been tried And there's no way to go,
Just let me keep remembering Sometimes the journey's slow.

I may just need to stop and rest Along the path I trod, A time to try to understand And have my talk with God.

As I gain new strength to carry on Without a doubt or fear,
Somehow I know things will be right, And so, I persevere.

“Chicken Soup for the Unsinkable Soul” By Anne Stortz

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The Epilogue

We have taken a short journey in what will hopefully prove to be a long and rewarding career for you. We have discussed ten essential skill sets that you will need to master as a trader.

From the moment you made the decision to trade in the markets, you indicated that you are prepared to rise above the crowd of life's passengers to take a position in the driver's seat of your own financial destiny.

If it were so simple that everybody could do what you are doing, perhaps many more would try. Trading is not complicated though — But human nature is and it is our challenge to uncomplicate ourselves so that we can simply succeed.

As humans we are the creators of our own destinies, although there are events and circumstances over which we have no control. Life deals us the cards but it is how we play them that counts.

Not everybody is cut out for or attracted to trading. That's okay. But if you are, you need to recognize that learning to trade the markets is a very valuable skill set and one that will stand you in good stead for a life time, if you make the effort.

The process of learning to trade is what is exciting because it is the process of learning about yourself — How you manage your thoughts and how you manage your emotions will make all the difference in how you trade. It is a process that will make you grow exponentially if you open yourself to its lessons. You will not only find that there are opportunities for financial rewards but also for personal rewards. When you start to make good trades and feel that you have gained confidence, then that new found confidence will move with you wherever you go.

The reason is simple. The effort that you make to master your new craft is all about the effort you make. When you become a master of your craft you can look back at the journey and the experiences along the way and say proudly, I didn't just master a new craft, I mastered an aspect of my own being.

Congratulations!

SELWYN MICHAEL GISHEN

Selwyn Gishen is an author and trader with more than fifteen years of experience trading forex and equities for a private equity fund. For the past thirty five years, he has also been a student of metaphysics, and has written a book called *Mind: How Changing Your Mind Can Change Your Life!* (2007).

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Selwyn writes articles for Investopedia.com and Trading Markets.com and has appeared as a guest speaker regarding forex trading for TradeStation.