

THE BLUEPRINT TO TRADING PSYCHOLOGY

“A GUIDE TO HELP TRADERS FIND
THEIR REAL EDGE IN THE MARKETS.”



moneiac

ALAN EDWARD

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INTRODUCTION

Welcome to The Blueprint to Trading Psychology

Thank you very much for purchasing this book as a resource for your learning in regard to trading mindset.

Before progressing, I want to make it very clear up front that this book is for those who are willing to put the work in. My aim is to give you a framework, a blueprint, and actionable methods to help solve psychological problems and everything else that can affect a trader's mindset.

But this will be useless unless you apply the methods presented in this book. So, make a conscious effort now that you will give this 100% of yourself and apply the methods. You must make the decision right now to be willing to be open-minded and take responsibility.

Take a few moments to prepare yourself before continuing.

*"For things to change, YOU have to change.
For things to get better, YOU have to get better. For things to improve, YOU have to improve. When YOU grow, EVERYTHING in your life grows with you." – Jim Rohn*

When I first started, I made all the mistakes and struggled with the psychological hurdles that many traders face. Through research and continuous

development, I managed to become a consistent trader.

In this book, I am going to share with you all the things I learned and applied to my trading which helped me personally succeed. I will be going into why you think the way you do, methods to break down the problems with exercise, and mental models to greatly improve how you view and overcome them.

My hope is that even if you come away with one thing that helps improve your trading mindset then I have done something worthwhile.

To your success,

Alan Edward aka The Divergent Trader



1.

WHY?

To start this book of I wanted to start with the most basic question and the most important...

Why do you want to trade?

If you don't know then take a few minutes alone and start writing down why. Is it for freedom, family or to be fulfilled? Eventually, something will hit home.

Some questions to get you started...

What do you want in life?

Moneywise?

What type of life do you want?

What type of people do you want to be around?

What type of person do you want to be?

Where you want to be in 1 year, or 5 years?

There is no right or wrong. It may seem simple, but the idea is to sit down and think about things you never thought about before

Knowing what you want will be what gives you the fire to trade better. And to keep with your system when the dark days inevitably arrive.

There are multiple ways to make money strategy wise but the system is useless unless you know what you want and why you want it.

Emotions cloud everything. If you don't know why you want to trade, then you will always be susceptible to emotional trading. That's why the 'why' is so important it will literally be the strongest emotion out of all emotions, therefore, beating all the other trading emotions like fear, greed, ego, etc. It will

be your driving emotion that will help you win the game of trading...

For me personally, this was my turning point. I took some time of trading and consciously asked myself every day. Why do I want this? Am I willing to do what's needed no matter what?

I was tired of losing money, tired of switching strategies and tired of constantly repeating the same old mistakes over and over. When I took some time off and really thought about 'why' I wanted to do this I had a paradigm shift in my thinking. If I wanted to be successful, provide for my family, and live the life I knew I deserved then I had to start trading the right way and I knew it all had to start from why I wanted this.

*"If you want something badly enough,
nothing can stop you."*

All you have to do is follow your rules, manage risk and execute. It seems so simple but why do 95% find this so difficult? Well mainly because they don't know 'why' they are doing it. Some people just don't want it bad enough, but if you are having a burning desire and why to keep you going then you will make it!

Really take some time and write down what is you want and look at it every day as a constant reminder.

Exercise

1. Write down as many reasons why you want to trade

2. Narrow down the most important that really resonate with you

3. Keep this list with you always, stick them on the wall as a constant reminder

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2.

YOUR BELIEFS TO MONEY

One of the biggest hurdles for myself and what I see now in many other traders I have encountered over the years is their view towards money. Many people go subconsciously through their life viewing money negatively and this can be what stops not just traders but anyone from becoming wealthy. In this section, I going to break it all down on how to stop the subconscious self-sabotage once and for all.

"Filthy rich"

"Money is evil"

Rich people are greedy"

"Money doesn't grow on trees "

"We can't afford this"

Sayings like these by your friends, family, and social network have all ingrained these self-limiting beliefs about money in your subconscious.

You can see how all this gives people hardly get off to a great start with trading or any other entrepreneurial ventures!

As most learn with trading, this in fact the opposite! We must accept losses and to make money we actually have to do less and thus we earn more... An absolute paradox to how we do life...

These predispositions and old beliefs are what stop so many people from realizing their dreams. They are instilled in us from an early age. It's only when you start going down the rabbit hole that you realize a lot of what you 'learned' is actually false

So the truth of the matter is this, If you want an actual 'shortcut' to trading then you must work on your mindset and beliefs (especially to money)
FIRST

This is where the problem lies, most people come into trading not really knowing themselves, or their self-sabotaging beliefs. But this is the beautiful thing with trading, it forces you to delve deep and find out who you are if you are willing...

Learning about money and reshaping your views & beliefs is paramount!

So many of us have been hardwired wrong for trading, we view money negatively and in turn, we reject it subconsciously. But an important paradigm shift especially in trading comes once you can see the benefits and importance of 'money.' From there you can then begin to start attracting money abundantly!

The key is to first learn to view money positively. This can first be firstly done by viewing how money benefits yourself and others. For example, money helps give you the freedom to do what you want in life, it can give you security. Life experiences. Help others less fortunate. Provide a better quality of life for your family.

All these things would be void if we did not have money. But a lot of negativity is surrounded by money but it should just be seen as a tool to expand our lives. But as we go through life, we are taught that money is evil, etc. You need to realize that this is just not true. You can be a good person and do good things with money, remind yourself of this daily...

Exercise

So that's the very first step, so what I would suggest is to spend 10 minutes just writing down why money is an important tool to yourself and other lives.

The next step is learning, and understanding where your beliefs about money come from...

Understanding Your Beliefs

Write Your Biography

A way I would recommend is to write the biography of your whole life and in doing this you will gain the insight on when these beliefs were instilled and how they affected your whole life...

You see your past dictates the future unless you become 'aware.' Try to think back to your childhood, what happened? What did your parents say to you regarding money? How were mistakes absorbed? These things carry on to later life subconsciously and can creep into your trading...

Even the word 'Money' is a trigger, think hard for a few minutes on what you think and feel when you hear this word.

For example, what did your parents say when this word was spoken?

Or what do you think when you see someone who's wealthy or when you see them getting out of a flashy car? If you think negatively, like 'Oh they must have f@uk'd someone over to make that money' Then you have negative beliefs about money. And you need to work/change your beliefs!

If you're ever struggling to figure out the reasoning behind these beliefs, I offer a simple exercise below you can try right now to get the ball rolling...

Simply Ask Why?

A classic psychological technique to delve deep into beliefs is simply to keep asking 'why?'

And repeat till you can't make any more answers or excuses.

Question?**Why?****Answer****Why?****Answer**

Why? and so on... A super simple exercise to help start you off and help find the root! Don't underestimate the power of asking why...

ACTIONABLE STEPS TO CHANGE BELIEFS

The Counter Method

Once you gain an understanding of your beliefs the next steps are now to simply to change the narrative and gain conscious control

What you need to do is counter any negative when it appears in conversation, or you're thinking and instantaneously counteract it with a positive.

So, for example "We can't afford it." becomes, "We can afford it by doing this..."

Or "I can become more valuable by learning this" and so on

When you're positive in a negative situation this is when you win!!

The Swap Method

Change your negative triggering word to more positive connotations

For example, the word 'Money' has many deep-rooted negative connotations for people, why not simply change it? How about Freedom units? Or Currency points.

It may seem strange to people when you start saying it but hey who cares. We are trying to help ourselves move forward. Forget what others think!

Affirmations

Affirmations are a great way to consciously and subconsciously reprogram positive vibes back into ourselves. And the great thing is. This can be whatever you want to improve.

Regarding money this can be 'I love money, money loves me'

There is an abundance of money everywhere and plenty for me"

"I am a money Magnet" "Money comes to me easily" and so on.

But be aware affirmations are happening all the time. Through your self-talk, or social situations. Every time you say 'I am' is an Affirmation going deep into your subconscious and creating future beliefs in yourself. Whether that be positively charged or negatively.

Be aware of what follows after these words...

Meditation

Meditation is my personal favourite; you learn to become aware of your thought and not have to identify with them. Like Eckhart Tolle said: "Rather than being your thoughts and emotions, be the awareness behind them."

You begin to learn and to simply notice and let go.

The key is to focus on your breathing and whenever you have a thought pop up to simply acknowledge but not judge it. Just accept it's happening and make a conscious decision to re-focus back to breathing.

I suggest just doing 2 minutes a day for a few a couple of months to create the habit and slowly increase your meditating time so this could be 2 min move up to 10 min and eventually to 20 min when you have created the habit and the tolerance.

Once you start going down the rabbit hole. You soon start to realize that everything you have ever 'learned' is actually false...

A lot of people are set in their ways and are chained to their beliefs, which will not allow them to move forward. The only way to break free of the chains is to consciously accept that to grow, YOU need to change!!

Conclusion

Old beliefs always stay with you but it's the realization of these beliefs that can set you free. Learning about oneself will bring equanimity and peace not just to your trading but also to your life.

What you have just discovered is the difference between successful and unsuccessful is simply the way they think. It really is that simple. To break through the threshold to consistency, you need to find out which beliefs are helping & which are self-sabotaging.

Take the time to self-reflect.



3.

GAIN UNDERSTANDING OF YOUR PSYCHOLOGY

What You Have:

- Fomo
- Greed
- Impatience
- Undisciplined

Why You Have Them?

>>Your Belief System <<

How To Fix Them?

- Awareness
- Journaling
- Meditation

It will be an ongoing learning experience. The only way to understand why you have these problems is by the above methods. These will be the foundational tools to get to the root. It will take time and experience to learn your emotional cues and to develop the awareness and implement the actions to prevent yourself from self-sabotaging.

This is why the failure rate is so high in trading purely because 95% are not willing to go through this process because it's a painful experience, accepting you have flaws and knowing why you have them is not nice. And as well as that most do not want to take responsibility. When you have to take responsibility there is nowhere to hide. We are in a society where we love to play the victim and shift the blame. We are taught we can't make mistakes. This is the opposite for trading.

Breaking The Belief System Down

- How you view Money
- How you view Yourself
- How you view Mistakes

Why You Have Them?

- Family
- Friends
- Social Culture
- Life Experiences

When you have an understanding of where they come from you have a great starting point. From here you have gained some awareness of why you think the way you do. This is a big realization

in which you can now take into your trading in real time.

The methods listed previously are the best tools to now create the initial awareness in real-time to firstly understand when they are most likely to happen and secondly what ways to counteract them.

Counter Acting Your Impulses

1. To be able to counteract your impulses you firstly need to have the awareness in the moment and choose not to act on them
2. The second is to have actionable counters to prevent them. This can be things like turning your laptop off after a trade and not looking at the trades for a set period.

The second way is probably the best to get started until you build up the mental resilience needed. When you start to see positive results from the second method it will become much easier to do the first as you have seen the benefits of why it works.

But you need to start using the methods shown previously, Meditation, Journaling, and Awareness.

Breakdown of Exercises

Meditation– Start by just doing 5-15minutes a day. Focus on the breath and let your thoughts come and go without judgment. This is a great way to learn to observe your thoughts and brings more awareness. With meditation, you will learn to be the observer of yourself and become far more aware of your thoughts and any emotions, effortlessly witnessing them coming and going.

Journaling – Doing this during, before, and after trading on how you were thinking and feeling will help massively to create awareness. Self-review is an essential part of the self-discovery process. This is one of the main ways to learn about oneself.

Awareness – Awareness, in general, can not only come from meditation, journaling but also by using practical exercises. For example, try setting alarms at random intervals and asking yourself what state am I in? What am I thinking? Just like meditation just observe but don't judge.

Another method I found helpful was to have a sticky note on your wall or laptop saying observe and when you notice it just takes a few moments to observe what you are thinking and feeling.

Doing all of these things together will help tremendously and will work in synergy together very nicely.

For things to change you have to change it really is that simple. You can't get different results with the same type of thinking you are currently employing. By trying these methods, you have nothing to lose so what are you waiting for?

4.

REPROGRAMME YOUR SUBCONSCIOUS/ VISUALISATIONS

The self-image is also the product of your past experiences, whether that be failures, successes, past humiliations, or other events.

From these past experiences, you have created a picture/self-image of yourself.

So, for example, if you've had some bad experiences in trading, for example having multiple losses, etc then after a while you lost confidence to pull the trigger when you see a trading opportunity.

Most likely, your self-image is that of a person who can't pull the trigger.

Remember, your self-image is subconscious so you might be a person who can't pull the trigger even if you don't really think this consciously, but your subconscious does.

But the important thing to remember is by using visualization techniques every day you can eventually change your self-image to the kind of person you want to be. This will work much better than trying to use willpower alone because if your subconscious image does not believe then no matter what you do it won't work.

Have measurable goals

The most important aspect of visualization is to set goals. So short-, medium- and long-term goals. Make sure they are **Realistic, Measurable and Attainable**

If you don't have daily, weekly, monthly, and yearly goals for your trading, it will be very difficult for you to visualize your success. So have a good think about this before starting.

EXERCISE

1. Get in a relaxed state.
2. The first thing we want to visualize (or picture in our minds) are days that we've been successful with our trading. We want to remember those days where we've been able to make our goals. We need to play those days back to ourselves in our minds.

3. Remember to notice the details in those days. Use your 5 senses Sight, Smell, Taste, Hearing, and Touch.
4. Make sure to see it from your point of view, through your eyes.
5. Do this every day for 10-20 minutes

Self-Servo Mechanism

What is at work here is the Self – Servo Mechanism. Your self-image works as an automatic mechanism. So, if you change your self-image to one that is a success then you will subconsciously bring yourself to your goal.

What is an amazing lesson I learned that really hit me was that your mind cannot tell the difference between a real experience or a vividly imagined one. This is how you can reprogramme your subconscious by just doing this little exercise every day.

This is the servo-mechanism at work. It works entirely with what is programmed into it. And under the direction of the conscious mind. If you give it positive, successful goals it will produce positive, successful results. And therefore, become a success mechanism instead of functioning as a failure mechanism and produce failure

Now this is just a short chapter on visualisations, but I highly recommend reading 'Psycho Cybernetics' by Maxwell Maltz. As he was the true pioneer of this method and goes into far more detail than I can in this book.

5.

HABITS AND TRIGGERS LOOP

Bad Loop vs Good Loop

Trigger > Reaction > Release > Repeat

Trigger > Reaction < > Counter > Repeat

When you get an emotional trigger to break your rules it's because you want to prevent pain. Whether that be the pain of being wrong or the pain of losing money. Whatever it is naturally as humans we are hardwired to prevent painful situations. But this is not the case for trading. What is uncomfortable is usually the right way.

So, it all comes down to your emotional triggers and the key is to become aware of the trigger beforehand to prevent the domino effect of self-sabotage.

You see the trigger is the itch and your reaction is the scratch. The longer you leave it the more you

cannot stop focusing on the itch until you succumb. So, you need to either psychically remove/hide the itch or rephrase why not itching is better for you.

"Until you make the unconscious conscious it will direct your life and you will call it fate."

-Carl Jung

The recording of your mistakes and emotional moments are the key, to begin with as this is what will create the initial awareness and creates the starting point of the rebuilding process...

The 3 things to begin journaling

1. When?
2. Why?
3. How?



Once you know When, Why, and How you break your rules you can then move to implementing a counter. You need to record everything you were doing and thinking before, during, and after the triggers. This way you create the awareness and then can implement the counter.

The two basic methods you can use are:

Prevention Method

The most basic counter is the prevention method where you literally take yourself away from the situation before you have a chance to sabotage. Out of sight and out of mind is what will be happening here.

Self-Talk Method

The second is to be able to mentally talk yourself out of it. This is the hardest out of the two but becomes easier once you begin to see positive results. In this method you basically have to reframe why reacting how you usually would do will not help you. You must remember all the past painful times and channel the pain.

Reward System

Having a reward system in place is the final and most vital step in preventing your emotional triggers. This is because if you reward yourself for following the above measures you will release positive dopamine and will be far more likely to stick to it especially in the early stages when you will not be seeing the results as quickly. What the reward system does is help create positive reinforcement for continuing. The more you reward yourself the more you repeat it and the more you repeat it the more it becomes a habit.

Conclusion

1. Learn the trigger
2. Create a counter
3. Reward yourself

If you want to change but can't it's not because you don't want to but it's because of the current habits and triggers that you are not aware of by understanding your strengths and weaknesses through journaling and observing, you can prevent self-sabotage

6.

THE 5 STEP METHOD FOR SOLVING ANY TRADING ISSUE

The five step process to fix trading problems.

1. Awareness
2. Understanding
3. Acceptance
4. Action
5. Maintenance

Awareness

The first step of breaking down a trading problem is first to become aware of the problem. In my

previous chapters, I showed you ways of gaining awareness through various tools to be able to observe your thought and thinking processes.

But awareness can simply be having the ability to spot the initial problems with your trading for example you know you are trading without proper risk management. With this awareness of the problem, you have the foundation to work on and you can then move to the second step.

Understanding

The next step once you are aware of the problem is to then understand why you have the problem. Going deep into the root cause of it and why it is making you act this way.

As explained previously this may be because of some deep-rooted belief that you don't want to make mistakes or to be wrong. Where did you get this belief? Maybe from family, maybe your family punished you for making mistakes? Or maybe its from your school days? Etc. This will all be individual to the trader and will take some introspection and reflection.

Acceptance

Once you understand why and where they come from the next step in the process is to accept them. What I mean is you have to accept that these beliefs, flaws or whatever you want to call them that they are a part of you and you can't necessarily get rid of them but with the newfound awareness and understanding of them allows you to be able to remove the energy from them. But by accepting them and coming to terms with them you can then

move to manage them. Which leads to the next step.

Action

Once the previous steps are complete you can now begin to move forward and implement actual steps to prevent them from sabotaging you. You will need to learn what your triggers are and when they happen so can then implement actionable steps and counters. This is where journaling will become your best ally in finding out.

Maintenance

The final step of this whole process is maintenance. You have to be constantly tracking and reviewing how you are doing and if you are sticking to it. Through journaling, goal setting, and constant reviewing you can stay on top.

Breakdown of the 5 Step Process

1. Am I aware of what the problem is?

2. Do I understand why I have this problem?

3. Do I accept that I have this problem?

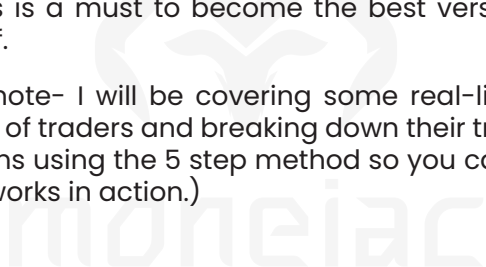
4. Create an actionable plan to prevent them

5. Review daily/weekly/monthly to make sure I am maintaining my plan

Conclusion

The 5-step process is all you need. It's not easy and can be hard work and most are not willing to confront their demons and accept responsibility but if you want to be the best trader you can be then this process is a must to become the best version of yourself.

(Sidenote- I will be covering some real-life examples of traders and breaking down their trading problems using the 5 step method so you can see how it works in action.)



7.

RE-INSTALLING YOUR SELF IMAGE



"The person we believe ourselves to be will always act in a manner consistent with our self-image." – Brian Tracy

In this chapter, we are going to really dial in on how you can create a new, positive, and empowering self-image of the trader and person you want to be. As you learned previously the self-image is a product of your past experiences, whether that be failures, successes, past humiliations, or other events and these past experiences create a picture/self-image of yourself.

In the earlier chapter, I taught you how to use visualizations to reprogramme your subconscious. In this section, you will learn another actionable method to change your self-image using a simple 3-step process. It works because you challenge the belief and prove it wrong. And then reinforce the new empowering belief by celebrating the

little wins that will eventually change how you view yourself.

(With this exercise, it can be used alongside the 5-step method learned previously as they both work in harmony with each other and will provide far more powerful results.)

So, let's get straight to it, the simple 3 step process to redesign your self-image goes like so:

EVIDENCE > REFRAME > REINSTALL

Evidence

The first step is to gather concrete evidence against why the current belief you are holding onto about yourself is NOT a fact. This is where you will have to do some research into other possibilities that your belief is false so you can then open your mind to installing a new more empowering belief.

An example of this:

To break this down, I will use a common trader problem as an example, ***"Cutting profits too early"***

When you have gained awareness that you are cutting your winners short and understood where this belief came from by doing some deep introspection on where it originated for example it might be:

You came from a poor family where money was always tight, and you would often hear sayings like, "We can't afford this." Etc...

This belief you have been carrying around has created a fear about the ***'lack of money in the***

world' and has become part of your self-image. As someone who lacks money.

And therefore, this has created the trading problem that you must **'grab profits before it disappears.'**

So, now with this knowledge, you have laid the foundation.

What we need to do now is to challenge this belief.

And by challenging this belief what I mean is we want to PROVE to ourselves that this belief is WRONG by gathering **EVIDENCE**.

Using the example of having a deep belief about the 'lack of money' we can instead challenge it by finding logical evidence to present to ourselves to prove this negative belief wrong.

So, for example, this evidence could be:

EVIDENCE: *"There are trillions of money exchanged every day in the markets"*

This is a FACT and evidence that the belief you are holding is actually FALSE.

Now you can proceed to the next step which is to reframe how you view it...

REFRAME:

Once you have now gained evidence that this belief you have is wrong it then lays the foundation to reframe it into something more positive. An example of how you could now reframe this belief is as follows:

"So, this means there IS plenty for me"

“Because there is money flowing in and out of the markets ALL THE TIME!”

“This is proof that my belief is indeed FALSE!”

“There IS money flowing in and out of the market and therefore I can have a piece of it and more importantly, I DESERVE it!”

Reinstalling A New Belief

Once you have proved the belief false and reframed how you view it then the next step is we need to re-install the new empowering belief/self-image with actionable steps.

To do this we have to find new evidence to solidify that we are the type of person who is disciplined and deserving and that “Let’s his/hers profit run.”

We do this by really celebrating the moments when this new positive belief happens in real-time, and you must do this with real exaggerated emotion.

This is because your subconscious hears what the conscious is reacting to. It downloads all the data and stores it, and this then creates your self-image.

So back to the example, “letting your profits run” a simple solution to build up the momentum to reinstall your self-image is you could simply be to reduce your risk dramatically or go to a demo account so that you are not bothered about the result at all and then use the reinforcement technique to gradually build confidence in this new belief whenever it happens and then gradually build your exposure.

“You must celebrate the little wins with BIG emotions.”

And then every single time you follow through and let your profits run you must celebrate the little wins with BIG emotions and literally yell out things like:

“YES, that’s just like me”

“I LOVE to let my profits run.”

“I am disciplined”

“Money comes to me easily”

The key to this is to celebrate this with real emotion every single time it happens with intensity, literally fist pump and yell instead of reacting emotionally when the negative happens, and you will then begin to eradicate the old belief and install a new one. Consistency is key here; you must keep at it!

Another is to build the little wins elsewhere before you implement it on whatever ever the problem is.

For example, in the case of the classic trader problem of “Having a lack of discipline.” To reinstall you are a disciplined person you could celebrate when you are disciplined in other areas and moments in your day-to-day life with the little wins to reinforce and reinstall a more positive belief about yourself.

My Personal Method of Gaining Evidence

An example of this that I personally use to reinforce that I am disciplined is a funny one, but it works for me so here it goes:

What I do is I turn my shower to the coldest setting for the last *20 seconds* and after that time is up, I literally celebrate and yell to myself how disciplined I am. It may seem silly, but it works I am gathering small wins and evidence that I am consistently disciplined.

And I find this analogous to trading, it's uncomfortable but I do it anyway just like taking a trade that conforms to my rules. It can be uncomfortable sometimes and I will have my thoughts screaming at me "Stop don't do it" in both scenarios the trade and the shower.

But by consistently celebrating these little 20-second wins in the shower I am stacking evidence in my favour and gaining evidence to myself that I am not only a disciplined person but also a person who is consistent and eventually all this evidence that's repeated daily, weekly, and monthly begins to create my self-image and then, in turn, has a positive effect on my trading.

What To Do When Negative Situations Happen?

When the negative does happen it's very simple. Do your best NOT to react. Instead, just laugh, and reframe how silly it is. The MOST important thing is to not react and don't make a big deal of it. Because when you do you are only reinforcing a negative sabotaging belief about yourself and thus making it stronger with every reaction.

Conclusion

This is a great and simple way to change your belief system positively. Using the 5-step method alongside this 3-stage process greatly improves your trading as well as yourself in general.

Make sure to commit to it by maintaining this through reviewing yourself daily, weekly, and monthly and eventually, you will begin to see positive changes in yourself.

And it doesn't have to stop there you can apply this to any other area of your life and change whatever negative beliefs that affect you. How empowering is that?

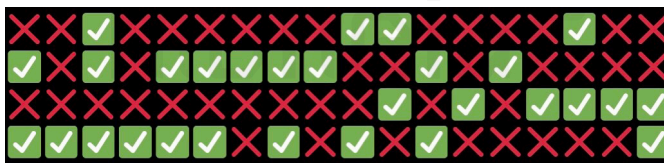


8.

THINKING PROBABILISTICALLY

In this chapter, I am going to show you how to look at the larger picture of trading and hopefully give you a paradigm shift in your thinking!

In the below image imagine this is a series of trades.



Now imagine if every ✓ was a +3R win And each ✗ was a -1R loss Total = +44% Return

But would you have stuck with the strategy after only 1 win in 9 trades or losing 10 in a row? Most wouldn't. Most would have given up and switched strategies by then. And this my friends are the exact reason why most fail!

But why is this exactly? Well, let's find out.

The Law of Large Numbers Explained

The reason is that either they don't believe in or even understand the Law of Large Numbers aka Probabilities.

Basically, put there is a random distribution between wins and losses in the **short term** but in **larger sample sizes** the probabilities aka LLN begin to work.

(The best example of LLN by using a fair coin toss)

When you toss up a coin and see how it lands, you either get heads or tails with equal probability of 50% each. However, if you toss it just one or a few times, the outcome is totally random.

But if you were to toss that coin 100 times thanks to the LLN, the closer the average outcome now becomes 50%. So can you imagine if every time it landed on heads you made £2 and every time you lost you lose -£1. Over time you would be profitable. And this is the exact same with trading if you have a strategy with a statistical positive edge then over a large sample size of trades it will begin to come to fruition just like the first example shown.

Position Sizing

This is an important part of math. You must make sure that you use the correct position size no matter what or the LLN will not work. If you keep using sporadic bet sizes, then you will destroy the magic of LLN and any edge you have. The only exception is there is when you hit a bad drawdown in which case you can reduce your risk but again you must stick to the same amount until you get back to where you were, or the math simply will not work. What position size you choose will be personal to

you. Choosing the amount, you are most comfortable with losing is the best advice I would give. A good indicator is an amount that allows you to sleep at night. I'd recommend 1-2% of your equity, and less if you are just starting out.

Gamblers Fallacy

What most traders get instead of thinking in LLN.

They will get a bias known as the gambler's fallacy.

The gambler's fallacy is the mistaken belief that if an event occurred more frequently than expected in the past then it's less likely to occur in the future (and vice versa), in a situation where these occurrences are independent of one another.

The gambler's fallacy can cause someone to mistakenly assume that if a coin that they tossed landed on heads twice in a row, then it's likely to land on tails next.

Nevertheless, if the coin is tossed enough times because the probability of either outcome is the same, it's only when a large sample size does the law of large numbers come into play and the number of heads and tails will be close to equal.

So, in trading say you get several losses in a row, that person might think that the next trade is more likely to be a winner than a loss because they expect frequencies of outcomes to become equal. But, because each trade is an independent and individual event, the true probabilities of the two outcomes are still equal for the next trade and any trade that might follow.

Therefore, it is important to think probabilistically aka Law of Large Numbers. Everything in the short

term is random but your positive expectancy will start work once you hit that larger sample size. Every single trade is just one single data point that's why you can't focus on just one single trade at a time. Think bigger picture...

Exercise

1. The first exercise I would like you to do is the coin exercise. Simply toss the coin 100 times and see how many heads and tails you get. After 100 tosses it should be very close to 50/50

2. The second exercise that will help you understand how the LLN works is simply by backtesting your strategy for at least 100 trades.


Really examine closely what you are seeing with the results. Notice how each trade/toss is completely random in small sample sizes and notice how as the sample size grows the probabilities/LLN begin to work

Conclusion

Learning to think in probabilities is crucial in your trading. This is a big part of your psychology because you must accept and begin to think in a different way than you would naturally. With these exercises and information, hopefully, you will now start thinking the correct way but more importantly, begin to believe in the math. If you do then you will be well on your way.

9.

COMMON TRADER BIASES



In this section, I going to give you a list of common trading biases that happen to a lot of traders. These biases are some of the most common biases I see in trading and without awareness of these, you may fall victim to them. By knowing how to think probabilistically as you learned in the previous chapter you will be far more well equipped to handle these and understand why they will sabotage your results if you give into them.

Recency Bias

It is a psychological phenomenon where an individual gives greater importance to recent events as compared to what had happened before. This is a very common cognitive bias.

Traders and investors tend to give more importance to short-term performance as opposed to long-term performance. For example, traders who experience a previous win or loss will expect the same to happen in the next trade.

But as you have learned each trade is random and has no relation to the one before or after it. Anything can happen in the short term. Being aware of this bias is vital in your trading.

Loss aversion bias

This is a tendency to feel the effects of these losses more than wins of equal magnitude, and it can often result in low performance. Traders and Investors that are focused only on avoiding losses will miss out on big opportunities for gains and kill their positive edge instead of letting the LLN and probabilities work out.

Remember each trade is just a single data point in a larger distribution. There will be losses. Don't avoid trades out of fear because you simply can't avoid them so embrace them as part of the process.

Don't let losses put doubt in your mind.

Remember the math: -

- You have a positive edge
- You win more when you win than when you lose
- The Law of Large Numbers is working in your favour

Focus on thinking probabilistically not emotionally.

Confirmation Bias

Taking in information only that confirms your beliefs. It's tempting because it is satisfying to see your previous conviction in a positive light – however, it

also makes it possible to miss important findings that may help to change your conviction.

When you have objective rules you know if your edge is present. Without proper rules, you will begin to only see what you want to. This is why having a positive statistical edge with strict rules to follow is so important to avoid this bias.

Bandwagon Bias

This is basically jumping on to trades that everyone is on and you don't want to miss out. The hottest trade of the minute also known as FOMO (Fear of missing out)

By doing this you are going of emotions and following the herd instead of following you a pre-defined and positive edge. You need to forget the others and focus purely on you and your edge. Everything else is just noise.

Conclusion

As you can see with these biases, they are short-term in nature. Which as we have learned is very dangerous to our trading as it is a long-term game where we let our edge play out over time. We know to win in trading we need to play the long game and let the probabilities work.

By giving in to these biases in the short term you will destroy your trading and your bank account. But by gaining the awareness of these you gain some control in being able to reframe your thinking in the actual moment and avoid these biases destroying your trading results.

10.

LEARNING TO TAKE A LOSS

Learning to love a loss may seem a weird idea but this is critical. So many traders hate losing because they see them as a reflection of themselves. Let's get this straight right now. Your losing trades are not a reflection of you, and neither are winning trades, they are just by-products of following a predefined trading plan. The key sentence there is 'Predefined Trading Plan' you need to have a plan with solid rules to act without hesitation.

Because if you don't act on the trade and it wins then you create a negative cycle

The next part is being able to accept a loss before it happens. By accepting it beforehand you prepare yourself mentally for the moment. I recommend telling yourself before every trade "I accept to lose." And then visualize yourself calmly reacting to it and following your plan. By already experiencing it before it happens will create a calmness 'if' it does happen. This is simple but effective.

If you act on a trade but don't accept the loss, then you create a negative cycle

What you must realize is this the only way you can trade stress-free and stop any negative cycles is by having a predefined plan and following it to the letter.

By being able to change what losses mean to you and realizing that cutting your losses is in your best interest then the stress will start to melt away, especially after a large sample size when you see your results begin to blossom from following your rules.

Cutting losses gives you an opportunity to find a winning trade

By cutting your losses you are preserving capital and giving yourself the opportunity to find better candidates. I personally love when a trade knocks me out quickly out of a trade because like I just said I can now find better opportunities.

I want to finish this chapter by Mark Douglas with pretty much sums up this section

Mark Douglas, author of *The Disciplined Trader* states, **"Execute your losing trades immediately upon perception that they exist. When losses are predefined and executed without hesitation, there is nothing to consider, weigh, or judge and consequently nothing to tempt yourself with. There will be no threat of allowing yourself the possibility of ultimate disaster. If you find yourself considering, weighing, or judging, then you are either not predefining what a loss is or you are not executing them immediately upon perception, in which case, if you don't and it turns out to be profitable, you are reinforcing an**

inappropriate behavior that will inevitably lead to disaster. Or, if you don't and the loss worsens, you will create a negative cycle of pain, that once started will be difficult to stop."



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11.

CONFIDENCE

Confidence is a key ingredient in trading success but eludes many. Why? This is what I will be covering in this section

(Confidence comes from a set of rules)

The very foundation of confidence is simply having a plan. If you don't know what to do then this creates fear and hesitation. It surprises me how many traders simply do not have a plan to follow. The first step should be to write out your trading plan.

It should be as easy as If A happens then I will do B if B doesn't happen then I will do C. You have to leave out all the guesswork. This is the power of pre-defined rules and once they are tested and verified, they will help you stay confident and disciplined going forward

(Confidence comes from knowing what to do)

Historical Testing and Optimization

If you haven't tested your strategy, proved it works historically, and optimized it to the best of your ability with the data then you will obviously have zero confidence going forward because you need to know what you are doing and what to expect.

The research, testing and optimization phases of a strategy are the foundation on which your confidence will be created. Skipping this process is showing a lack of commitment to your trading business and therefore you are not treating it like a business.

Using the business analogy for a second. Would you set up a business and release a random product that you have not invested your time and energy to prove it can actually work? Of course not.

And it should be no different from trading. If you don't put in the time to test you simply don't want it bad enough and I suggest you stop now. There is no shortcut to success, you must be willing to put in the hours to test, refine and understand all the variables of your system.

Confidence comes from results

Added confidence comes from results so you need to see your strategy working to give you the confidence to follow it. So, therefore, you need to be able to stay with your strategy until you have a large enough sample size to see the positives.

You need to take it slowly, and gradually increase exposure as your strategy proves itself. This is part

of how you can create confidence but how will you get there if you give up after seeing a couple of losses and big losses all because you jumped into live trading too big too soon?

(Starting small builds your confidence)

How to scale in gradually?

So, this is a big one, you have to let the strategy prove to you it works. Gradually scaling the exposure as the strategy works. You want to be going into live trading with the least amount possible my advice is to scale up in increments of 0.05% 0.10% 0.25% 0.5% 0.7% every time the strategy produces X- Amount e.g. 10% and so on until you find the risk that you are most comfortable with trading.

Remember the final amount should be an amount where if you lose you will still be ok losing. You should be able to sleep well at night.

Confidence is a gradual process of testing and letting the system show proof and gradually increasing exposure to your comfortable risk limit. Having the correct risk in which you will not be in emotional turmoil over losing is crucial to keeping your confidence intact. If you are losing 50% of your net worth on a single losing trade you're not going to be very confident and if you are jumping into trading with full risk then this is a sign of your lack of emotional control and you're trying to shortcut the process. You need to ask yourself why? And how much do you really want to be a trader? Because by not doing the work it's showing a lack of commitment.

(Evidence gives you confidence)

Going into trading with no historical data and live data is one of the big reasons most lack confidence if you go in with a well-researched and tested plan you have something which you can reference in your live trading. Going through a drawdown? Okay, what does my tested data say? Oh, it's perfectly normal. Okay, carry on. Instead of giving up on the strategy or changing the system like the 95% do. Instead, you are now moving forward with confidence because of you have the data and statistics to reference.

Once you have the data the confidence will come and when in moments of tough periods like a drawdown you will only have to ask yourself these 2 questions

1. Am I following the plan?

2. Am I managing risk?

If you can answer yes to both then you have nothing to worry about. Keep going.

12.

OPTIMIZATION

In this section, I wanted to go over the optimization process as I find this is a big part of where you gain confidence and really define your rules to trade. Also, I find a lot of traders want to put in the work but don't know what exactly to test which leads to having a bad trading process that is full of hesitation and doubts. So, in this section, I want to make sure you know how to fully prepare your strategy.

I will cover what exactly the best ways are to optimize your strategy in 5 simple steps.

What is Optimization?

Optimization is the process of testing and adding different elements to your strategy to create the optimal best version of your strategy. If you want to succeed in this game, you must be willing to put in the work and optimizing is a vital stage in the trading process.

The first step of my 5-step optimization process that I use in my trading are as follows:

1. BASELINE TEST

The basic baseline test, or the basic template of your strategy so this is when you have the basic strategy and rules which you test to get an idea of how it performs. From here when you're testing it you will begin to get a general idea of what the strategy performs like and start to get some ideas of how to improve it.

2. STOP LOSSES

Choose the best possible SL. You need to observe what happens with price in your baseline test, does the price keep stopping you out by a couple of pips? If so, you can then work on adjusting the SL by a few pips or maybe try using previous structure-based stops or based an ATR-based stop for a more mechanical version that goes of the volatility for example.

3. RISK/REWARDS

So again, from the baseline test did you notice the price went further than the original target, if so, maybe try testing a bigger risk-reward or trailing stop loss.

4. DIFFERENT MARKETS

This is self-explanatory but does it work better on certain pairs or markets? If so, then you know to only trade those specific markets that performed well. My advice would be to pick around 3 max and know them inside out and get to know them personally.

5. TREND FILTERS

Trend filters are where you make sure you only trade with the trend a good example of this is by

adding the 200 ema as a trend filter to make sure you are on the right side of the market. How this would work is you would only be able to take trades going long when the price is above the 200 ema and short setups when the price is below the 200 ema

RECAP

To recap here are the 5 stages of optimization

1. Basic Baseline Test
2. Test Different Stop Losses
3. Test Different Risk/Reward
4. Test Different Markets
5. Add Filters- Trend-HTF

Conclusion

Once you have done your tests you will find out what the best requirements are for your strategy. This is an important step in trading. For example, you won't end up trading your strategy on a market that doesn't perform well with your strategy, therefore, saving you money.

Or taking less optimal trades that are not aligned with the trend and again saving you precious money.

When you optimize you are essentially creating more high-quality trades and gaining more return in the long run.

The 5 steps of optimizing that I mention above are all you need to fully optimize.

13.

R-MULTIPLE AND PERCENTAGE BASED THINKING

In this, we are going to be covering R multiple or Percentage-based thinking.

This is going to change your mindset from thinking about money which as you have learned can create negative thought patterns and bring up all sorts of emotions like fear greed etc. Instead, now you are going to learn how to remove the emotion of money-based thinking and start learning to think process-based thinking.

So, one way of doing it that has really helped me in my trading is by thinking and recording my results in **R-multiple**.

Let's say we have a £1000 account so 1% of that is £10. So instead of saying you risked £10 of your account, you would instead say 1R or 1%

Example

For example, If your initial risk was **£100** and you made **£200**

Then you have just made **+2R**

This means you risked 1R to make +2R

If you had lost your initial **\$100** on the trade, then you would be down **-1R**

So the formula is (I risked 1R to make 2R) Result = +2R

And it's basically the same as saying if you risk **1%** to make to **2%** (I risked 1% to make 2%) Result = +2%

It's just using **R** or **%**

Working out your returns in R Multiple or % is a very good way of not focusing on monetary results. It's like keeping the score of a game and helps to focus more on the process.

Small Accounts And Big Accounts

This is especially good for those with small accounts as you will not link making a good return with the money value and being disheartened by small monetary results.

And this is also beneficial to larger accounts as now you are not thinking or focusing on losing too much or winning too big.

By using R- Multiple or % based results and re-viewing you begin to see a much bigger impact on your psychology as you are now thinking more process-based and not on monetary results.

Conclusion

Sticking to R Multiple or % returns will be much more psychologically better going forward. So as of today change your results to either R Multiple or % Returns. This will have a huge impact going forward and help with your emotions.



14.

HOW TO KNOW YOU HAVE AN EDGE OR WHETHER IT STILL WORKS?

In this chapter, I go over a simple method that can help you find out how to know if you have an edge or if it's stopped working and how to review your trades correctly.

Knowing if your edge has stopped working or even know you even have an edge can be explained simply by just using a **20-trade sample size**.

I first came across this method from the great Mark Douglas. He stated that you should always review your trades in batches of 20. This is because it's just large enough to know if your system

is working and just small enough not to destroy you if it's not working as it should.

So if after 20 trades you are seeing abnormal results to what you have tested historically, you can then begin to work out whether it's because of you, some missing component or the strategy itself is just obsolete.

Trading In 20 Helps Think Probabilistically

This is especially good for newer traders or when starting a new strategy because once you have your trading plan ready to go aiming to consistently execute your system for 20 trades no matter what the outcome will help keep you focused on the process and not the outcome.

As you have learned previously in the [“Thinking Probabilistically”](#) section you only know if your edge works in large sample sizes. And the 20-trade sample size is a great way to break down you're trading into manageable sizes without getting overwhelmed about getting to larger sample sizes.

Using this method, you will be able to stop major problems in their tracks before they get out of hand and be able to consistently assess where you are at.

Exercise

1. Take the next 20-trades no matter what the outcome
2. Focus just on taking every setup that presents
3. After 20 trades review the results

4. If it's positive and working as it should then continue for another 20 trades
5. If it is not, then find out what the problem is and make the necessary adjustments

Conclusion

A very simple and powerful method to help you stick to the process, be constantly aware and in control of your trading. As well as saving you from wasting any more of your precious time on something that simply does not work.

This simple method can be one of your most valuable tools in your trading so use it and abuse it!!



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15.

TREAT TRADING LIKE A BUSINESS.

The first step before starting your journey as a trader is to go in with a plan. When I first started trading, I had no plan. I would just go off what felt right or whatever new trading pattern I had just learned. As you can probably gather just like my trading had no structure or consistency neither did my PnL.

Trading just like in business involves having a structured plan in place to succeed. Without a plan, you are just guessing and doomed to fail. You need to know all the ins and outs.

The moment you start taking trading seriously is when you start seeing it as a business

- You create a business plan
- You track and assess your progress & adapt accordingly.

- You buy your goods at a low price to make a profit
- You fire employees that are not working (cutting losses)

By having a plan, you actually have a basis to improve upon. You can begin to perfect the process. This is why it's also important to have a process and track the results. Think about it, do you remember what you had for dinner 2 weeks at 5.00 pm? Probably not. The same with trading.

How can you improve if you don't know what to improve upon?

Therefore, having a plan and recording, reviewing, and adjusting is what will get you to that next level. Not the newest strategy with a 95% win rate.

When starting your trading plan some of the most important parts to know are:

Risk

- What are you going to risk per trade 1 % or 2%.

- What's your maximum exposure? 6% or maybe 10%?

Strategy

- How do you define a setup?

- What is your entry?

- How will you exit if wrong?

- How will you take profits?

Contingency Plans

- What if scenarios?

- Gaps your stop loss

- Outlier events

Having a plan in place is a mental framework for rapid-fire decision-making in the moment which helps you stay objective and calm in the chaos when you need it the most.

When you know what to do and when to do it the process becomes much easier. When it's not working you will be able to work out what specifics are causing the problems. When it's working well you will be able to find out what and build on it.

Conclusion

As the employer of your business, you will be able to fire or promote the employees that are helping or sabotaging your business.

As you gain more experience and with your system, you will find new elements to add to your plan. This could be new contingency plans that you have experienced and now can add. Or could be certain criteria like only trading certain timeframes or markets. The key is to learn and grow with it and not abandon it. Just like a good marriage stick with it through the good and the bad. In the end it will be worth it.

16.

ENVIRONMENT AND ROUTINE

The environment you trade-in and the routine you employ are all vital parts that will keep you in the optimal state to trade in. If you know when and what you're doing and fitting a routine to you then you're going to be so far ahead. It's an essential part of your trading mindset, everything is optimized for you to trade at your best. Let's break down some important steps...

Routine and Environment are very important in trading

- How do you start your trading day?

- Is it a relaxed environment?

○ Are you organized?

You need to have a solid routine in which is calm, organized, and gradually builds you up.

When you have a set of habits that are calm, relaxed, and organized leading up to trading it will make the process a lot easier.

Find a routine that helps you get into your optimal state. Some things could be:

- Exercise
- Visualise
- Meditate
- Read



Any or all the above are great ways to gradually get you into the zone. You don't want to just rush out of bed and get straight on to the charts. You need a calm environment that gradually gets you into the most optimal and focused state.

Make sure to:

- Wake up at the same time
- Trade at the same time
- Finish your trading day the same
- Do everything the same every day

It may sound boring, but this is how it is if you want to be successful in this game. If you want excitement go to the casino. Instead, you want to be

the casino. Have structure and a plan like a business. When you do this your trading will make leaps and bounds. When you have a plan aka structure not only will you be calmer, more alert but you will leave remove decision fatigue and save your mental energy for the trading. Just like I say about actual trading. You shouldn't have to think instead just react to your plan. The same applies to everything else.

This is one of the secrets to trading successfully that not many talk about. Trading is all about routine, do the same things before during, and after trading every day and let the power of good positive habits compound and over time your trading will gain momentum.

When you have structure all you have to do is follow it. Then just be patient and let the magic work!

If you have no trading routine let's breakdown what you need to know to create a solid routine

- When do you have time to trade?

- What Trading style fits you: Day Trading or Swing Trading?

- When will you review your trades?

When do you have time to trade?

When can you actually trade? If you can fit your trading around your lifestyle then this will help to make correct trading decisions. You need to be able to trade in the zone and this can only happen when you have zero distractions and are able to focus

What Trading style fits you?

Which style of trading leads on from the first, if you have to work during the day then a day trading approach is not going to work so a swing approach would be better suited. Or perhaps you work nights then day trading could definitely work.

When will you review your trades?

What sets up traders for success during the day is what has happened the previous night. A serious trader reviews his trades, analyses the markets he follows, writes and updates his trading plan, journals his trades in his trading journal and prepares himself for the next day. This is where the winning is done when you're out of the market. Choose a time that suits you.

17.

MANAGING STRESS

In trading, you must learn to manage stress if you don't you will not be able to sustain a career in trading. It's that simple...

If you cannot learn to accept losses, be at peace with missing trades, etc. then every time this happens you will be adding stress until you physically or mentally explode.

Finding ways to manage and release stress as well as finding ways to calm yourself is what will be the defining factor.

So how do we do this?

Some of the best methods I know are:

1. Exercise
2. Meditate
3. Deep Breathing
4. Exercise
5. Journal

6. Take a Break.
7. Make Time for Hobbies.

1. Exercise

Working out regularly is one of the best ways to relax your body and mind. Plus, exercise will improve your mood. But you must do it often for it to pay off.

Trading can be a stressful job so having a release and staying at your fittest is an important addition to trading well. Be sure to implement an exercise routine.

2. Meditate

1. Find a quiet place.
2. Get comfortable (sitting or lying down).
3. Focus your attention on a word, phrase, object, or even your breath.
4. Let your thoughts come and go and do not judge them.

3. Pause/ Deep Breathing

Stopping and taking a few deep breaths can take the pressure off you right away. Just pausing and taking a moment to just refocus and recentre yourself can really work wonders. whenever you're ever feeling stressed, just stop and focus on your breathing. Try setting a timer for 2 minutes every time you feel overwhelmed. A great exercise to use is the box exercise which the SAS use in their training to stay calm.

How to do Box Breathing

1. Step 1: Breath in counting to four slowly. Feel the air enter your lungs.
2. Step 2: Hold your breath for 4 seconds. Try to avoid inhaling or exhaling for 4 seconds.
3. Step 3: Slowly exhale through your mouth for 4 seconds.
4. Step 4: Repeat steps 1 to 3 until you feel re-centered

Journaling

Journaling helps control your symptoms and improve your mood by:

- Helping you visually prioritize problems, fears, and concerns
- Tracking day-to-day so that you can recognize triggers and learn ways to better control them
- Help provide an opportunity for positive self-talk and identifying negative thoughts and behaviours

How to Journal?

- **Try to write every day.** Set aside a few minutes every day to write.
- **Make it easy.** Always keep a pen and paper handy. You could also keep a journal on your smartphone to make it easier.
- **Don't overthink it.** Let the words and ideas flow freely. Don't worry about spelling mistakes or what other people might think.

5. Take A Break

Taking a moment to recharge alone gives you time to reflect on yourself and understand why you are feeling the way you are.

Stopping for a few moments really allows you time to come up with other ideas or solutions.

6. Make Time For Hobbies

Making time for something you enjoy is a great stress reliever. Whether that be a round of golf or reading a book. When things are getting on top you just step away and do something to release those positive dopamine's and come back refreshed!



18.

THE POWER OF MULTIPLE STREAMS OF INCOME

One thing I found that helped me and what I see a lot of other traders struggle with is thinking that trading is the be and end-all to making money. In my opinion, you should try not to disturb the compounding of trading account as much as possible as you lose some of the magic.

An important factor that I find that helps to trade in an optimal state is having other income streams this could be a job, part-time work, courses, or books, etc...

The importance of not living 100% of your trading profits can be a big help not only will it bring a lot more emotional control and help you make better trading decisions but will help your account truly

compound. When first starting out I think it's important to have at least one other income stream like a job to be able to keep emotionally balanced.

And as your account grows maybe go part-time for a while until you have a sizeable account and if you wish to go full-time. I'm not saying it cannot be done just trading full time what I am saying is you choose to create other income streams besides your trading then you can only benefit from it.

Alongside creating more money that you could also add some more funds into your trading account from it creating more wealth. If you're trading to pay bills and keep food on the table, it will bring up a lot of emotions. Ask yourself if you can seriously trade in that state? Some can and some won't. It's all individual.

A Safe Fund

Another important rule I would advise is if you are considering going full-time have at least a year's expenses saved up. So enough to pay bills and eat comfortably. And, for any emergencies. This again is an important part of keeping yourself emotionally stable and having peace of mind that you will be okay even if you underperform at some point in your trading which will inevitably happen.

What you must always remember is you can have losing day's weeks, months, and even the possibility of a losing year so with that in mind think how you feel if you had no backup? This is a contingency plan which is an essential requirement. Just like a trading plan where you know your 'what if' scenarios, the same should be for your emergency and safe funds.

19.

THE BENEFITS OF A MECHANICAL TRADING STRATEGY



A good first step to take in trading especially when first starting out is to use a mechanical strategy. One that has predefined rules that are literally impossible to mess up. One that has zero discretion or subjectiveness to it.

This is how I first became profitable I started out using a systematic trend following system on the daily timeframe all I had to do was wait for a break of the 200 ema and go either long or short depending on the signal and trail with a 3 ATR trailing stop loss over a diversified portfolio of markets.

Really simple stuff and again I couldn't mess this up either the signal was there, or it wasn't. This gave me more time to work on myself and gain the right mindset needed and just be able to focus on execution without second-guessing if I had done

it right. Your mind is not trained to deal with those kinds of thoughts and emotions in the beginning.

I no longer trade that system anymore and have moved on to other strategies that I have developed including a mechanical strategy, but I also trade a more discretionary system now because I learned the valuable importance of trading in a mechanical way, I was then able to apply that way of thinking to be able to trade a more discretionary system but in a mechanical and systematic way.

And I really put all this down to the very first mechanical way of trading. It gave me the foundation on which my trading is now built on. Therefore, starting out mechanically will set you up for success.

Think about it for a second, 90% of traders lose money and a big factor of that is they go in with a discretionary system which leads to lots of confusing emotions that they are not yet well equipped to handle and full of impulsive decisions and second-guessing leading to fomo, revenge trading, etc...

I really think a mechanical system takes out 'most' of the problem. Alongside psychology and risk management having a positive edge that you can follow is important too.

If you would like to know more about mechanical and systematic strategies, then I have my course Rule-Based Price Action which you will be able to learn my personal strategies.

Exercise

Sit down and try to create a systematic trading plan, go through every detail, and create non-subjective

rules that you can follow easily. Try narrowing the steps and create objective rules (And then test your ideas. Eventually, something will work)



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CLIENT 1 STORY

Started when I was 17yo, ruined like 10 accounts. I got kicked into ass and got rekt a lot of times. After like 2,5 years I finally got good at it. I found an edge on entering scalp trades on leverage with pretty high RR and I was able to turn them into swing trades.

I managed to turn 2k into 500k in less than 6 months of trading and was placed as top 50 ROE trader on binance leader board. Didn't know at the moment what to do with that much money so I set myself a goal to grind more to 1mil usd so I could withdraw to buy myself a house and let there be something to trade with.

That was the worst mistake I did. I chased that level and the mistakes that I made were really bad. Stopped following my rules, got bored, and from 500k was quickly 100k. Then my bad psychology came in and I just couldn't accept it.

A combination of not following my plan and ruined psychology took the rest of my portfolio in 2 months. I just could not stop it.. I ended up with nothing and \$100 in my bank account like an idiot. When I thought that things couldn't go worse, they always went much worse. Never thought that this

would ever happen to me. Like the demon that I had 2 years ago came back in. Ended up with nothing.

Then I realized how much it was. That I could have a better lifestyle. Hopefully spent some of that money during the good time on vacation with my gf but not much of it. Now I'm depressed and hopeless with destroyed dream and don't know if I should ever start over again from complete zero after all that trying.

Thanks for any answers. Sorry if I was bothering you with that but I had to tell someone that would understand my pain. I wrote u mostly because I wanted to release that pain and couldn't handle it for myself anymore.

Breakdown

Awareness

1. High Leverage = Risking too much,
2. Binance leaderboard = This screams ego.
3. No plan, No risk management = Not accepting responsibility, avoiding pain.
4. I set myself a goal to grind more to 1mil level = Focused on the money not the process.
5. Stopped following my rules = Undisciplined, not taking responsibility

Understanding

This trader has beliefs he needs to examine especially about being right and avoiding the pain of losing. This could be a deep-rooted belief instilled from previous experiences, By not following his plan and not accepting a loss he is trying to avoid the pain of losing/failing but paradoxically is doing just that.

Acceptance

Now, this trader needs to come to terms with these beliefs. He has to be honest and accept that these beliefs/problems are causing his bad trading

Action

Now he needs to implement actions to stop these from happening in the future.

He needs to dial down his overtrading and over-leveraging so what measures could he implement?

Some suggestions could be stripping everything and going back minimal

Only allowing himself to trade once a day.

(This way he will only pick the best trades while learning to become more patient and disciplined).

Revise his trading plan, create solid rules for before during, and after trading, and specifically have a solid risk management plan e.g. risk per trader, max exposure, etc.

Reduce Risk/Demo I'd also advise going on demo for a few months until confident or at the very least risk the smallest amount to help build his confidence again gradually

Focus on process He needs to focus on process and have a reward system in place

Backtest everyday- By backtesting every day he will gain the confidence of knowing the numbers behind his system.

Homework – Advise this trader to make sure he has a full understanding of how probabilities work

and how important it is to have the correct position size per trade

Maintenance

Now he needs to **track and review his progress**. He needs to set **daily, weekly** and **monthly** goals to make sure he is making progress.

This trader needs to learn that “ **Not following your rules must be more painful than not following them.**”

Sometimes the paradigm shift in thinking comes when you experience a major devastating experience. If this trader can use this experience as the final straw and implement the steps. He could be well on his way.

Conclusion

So as you can this trader had some deep-rooted beliefs that were sabotaging his trading. The first step was to take responsibility for his actions. Then deep dive into why he had them. Then he needs to accept they are part of him. Next, he has to create a plan both for trading and him. Then from there be constantly monitoring and reviewing himself and eventually increase confidence and performance slowly.

The five-step process to fix trading problems.

1. **Awareness**
2. **Understanding**
3. **Acceptance**
4. **Action**
5. **Maintenance**

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CLIENT STORY 2

"Up till mid-morning today, I've had a killer strong start to the year. Today I closed out slightly RED of FLAT.

My first trade on SPY was perfect, I caught the full ride up from open to the first pivot and closed out my contracts. Instead of re-assessing, I got back in long only to realize I let my first trade BIAS my mind.

Any thoughts on how to let go of that BIAS, after a great trade imprint it into my brain?

Awareness

The trader is sabotaging his results and is suffering from **recency bias** and not thinking **probabilistically**. He allowed himself to get overconfident because of a single winning trade.

Understanding

Is this due to a lack of knowledge? Or is it something deeper? This is something he will have to find out and come to terms with. But first and foremost he must make sure he understands how probabilities

work and how reacting to short-term biases and impulses will have a negative impact.

Acceptance

Once he has accepted, he has the problem and understands why he is sabotaging his trading we can then move to the next step.

Action

What measures can this trader implement to get them over this hump in the road? The actionable measures he could put in place are:

- Reduce risk after winning trades to protect himself from his biases
- Have a physical checklist at hand for every trade
- Limit his trading to 1 trade per day
- Implement reward and punishments
- If he makes windfall profits. Stop trading and take a week off and get used to the money being 'his'
- Awareness and reframe

(These are some ideas he could implement. What you must remember is the actionable stage will be unique to you. You will have to get creative with these methods as only you know what will work for you)

Maintenance

Review daily, weekly and monthly.

22.

THE BREAKEVEN TRADER

*"I can't seem to get past being breakeven,
what am I doing wrong?"*

Usually, when you are a breakeven trader it can usually be broken down into 2 things

1. Risk/Reward is off
2. It's you

Risk/Reward is off

The first is usually a matter of metrics. The trader needs to be recording his maximum excursion on trades which is a posh word for measuring how far the trade goes after they exited. With this knowledge he will be able to know if he holds a bit longer, he can go for a bigger reward and become profitable.

It can also be the other way if they know that say for example 60% of the time it hits a smaller risk-reward then they just need to reduce it. This is all down to tracking your trades and testing then optimizing the strategy.

It's Them

So again, this comes down to journaling and re-viewing. If it is psychological then they will know by going through the reviewing of their data and past trades. If this is the case, then they need to use the 5-step formula to resolve their deep-rooted issues and create a plan.

Some common pitfalls are maybe they are moving stops to breakeven too soon. Exiting too early. All this will be revealed with a deep looking into their past trades and some self-reflection

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EXERCISE: AWARENESS



"Awareness is the single biggest tool in your trading."

You must become aware of what you are thinking saying and doing then use this knowledge to become aware of any sabotaging thoughts and thus be able to differentiate between the thoughts that help and the thoughts that sabotage you.

With deliberate practice, you can then learn to stop acting on them when they arise in your trading. Exercises To Become Aware

This method I learned from the legendary trader Tom Basso and is a fantastic way of raising your levels of awareness

1. **Observe** - On your trading screen use a sticky note with the words "observe" on it. And every time you see it. Observe what you have just been thinking saying and doing then write

it down in your journal. Then review your patterns. With time you will begin to automatically become the observer of your thoughts without thinking.

2. **Meditate**– At least 15 mins a day, observe your thoughts without judgment, and then focus on your breathing. Again, learn to observe your thoughts with no judgment.
3. **Journal** – Everyday journal about all the situations you were in and how you were feeling at the time. Also, write down how you could have handled that situation better.
4. **Write your biography**– From start to present. You will learn about your beliefs and sabotaging thoughts you have acquired through childhood, parents, friends, and social culture. When you understand how you gained your beliefs you can then.

These are simple methods to gain awareness. See if they work for you...

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PROCESS FOCUSED EXERCISE (REWARD AND PUNISHMENT)

In this exercise, there are 2 ways to help you follow your rules. One is by rewarding yourself for following your rules the other is for punishing yourself for not following them. You can do one or both it is up to you. Choose the one that you think will fit you best.

The Reward Exercise

In your Trading Journal Type the numbers 1-100 and highlight every 10th trade. And highlight the 100th in another colour.

- Every 10 trades you follow your rules you must reward yourself. This can be anything from

treating yourself to your favorite food or going to your favorite place

- When you reach the 100th trade this is the big one. Treat yourself to something extra special. Really go all out. Maybe something like a little holiday away somewhere.

The Punishment Exercise

- Every time you don't follow your rules, you must give yourself a punishment. This must be something you really hate. Maybe donate to a scam. Or read a boring book. I had one client of mine resort to waxing whenever he broke his rules. This one would be very painful.

This is a simple exercise that can be very effective in making you more process-focused by implementing a reward/punishment. This will help start to change your thinking from outcome base to process.

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EXERCISE: ROUTINE

Create a routine that sets you up to be in the best optimal state to trade.

Things to consider:

- **When do you have time to trade?**

- **What Trading style fits you: Day Trading or Swing Trading?**

- **When will you review your trades?**

- **Premarket- (Exercise, Meditation, Food, Read, Visualization, Journal, Reviewing)**

- **Trading hours: What time do you start & finish trading**

Create a habitual routine that gets you into the zone and most optimal state for trading. How you plan this will be individual to you and may take some time to find the best routine but once you have a routine you are happy with it will help your trading tenfold.

What a great routine does is that it reduces mental decision-making and saves your energy and mental capital to be in the best state for your trading.

A routine that is calm and gradually wakes you up is the best in my opinion. You should be fully awake and focused once you hit the trading desk. You should never jump straight out of bed and straight to the charts. This will never lead to a positive outcome in the long term.

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EXERCISE: VOICE RECORDER

Use a voice recorder and while your trading speak out loud. From why your entering, what you're feeling and thinking, etc.

Then after the day is done go through the recordings and analyze what thoughts and actions were helping or sabotaging you.

This can be a great exercise to learn and gain the awareness about yourself and trading. You can pick apart what needs to be done and set goals accordingly.

- Do this for 30 days
- Set goals from a review into daily-weekly and monthly.

Rinse & repeat.

27.

PROBABILITIES EXERCISE

"Think of trading perhaps not as a job but as a game. Let yourself be playful, and take on the challenge with a smile." – Yvan Byeajee

Make sure you have optimized and have tested your system before continuing to this exercise

When going live with your strategy print off your historical data, make sure you have

- Win rate
- Max Drawdown
- Average Gain
- Average Loss

Before, During, and after a trade look at these results as a reference. If you are experiencing what has happened historically during your tested data,

then you have nothing to worry about. Keep reminding yourself of this during every loss, draw-down, or flat moments in your trading

Let this be your best friend during the process. This will help to keep reinforcing you are doing the right thing. Also constantly remind yourself of the law of large numbers. As long as you follow your plan the probabilities will work out.

All you must do is manage risk and execute. Everything else is noise.



28.

CLOSING CHAPTER'

Thank you again for purchasing my e-book. I hope you have enjoyed it and learned a few things along the way. Remember this is not a quick fix.

Like all great things, it will take time. So, keep moving forward and work hard on implementing what you have learned, and you will surely get there.

If you enjoyed the book, please let me know what helped you the most I would love to hear your feedback and if you have any questions then do not hesitate to ask.

Simply an email to alan@thedivergenttrader.com or send me a message through Twitter @TraderDivergent

My Gift To You

And if you would like to further your learning, I also have my course 'Rule-Based Price Action' which delves deeper into the technical side of trading and much more.

So as a special thank you for purchasing this book you have a special discounted price.

Simply use the code: **blueprint10** at the checkout to get 10% off.

Once again thank you so much for reading this book and I wish you the best of luck (not that you will need it) with your trading.

Alan Edward aka The Divergent Trader

