



Towards an understanding of the psychology of risk and success.

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Nearly 80% of traders who undertake the act of trading in the Australian Share Market do not make effective returns on their investments, nor do they make money over the long term. Understanding the reasons why this figure is so high will allow you to do one of two things. The first is to stop considering trading as potentially an easy way to make money. The second is to start thinking about effective learning in terms of, skill development, trading methodologies, personal awareness, and the psychology of successful trading. If you don't, and you enter the market, you will join the 80% of people who consistently swap their hard earned money for a trading experience.

There are two other groups that undertake trading activity on the Australian Share Market. You may recognise about 2% of them because they are the public faces and household names of successful trading. The other group, which consists of about 18% are those who you may never hear about and you may never meet. They have chosen the pathway of effective earning and now employ the strategies and wisdom they have learned to effectively harvest consistent annualised returns of between 25% and 60% from the market despite the prevailing market conditions. These are the people who can create profits in markets that are rising, in markets that are falling or in markets that are consolidating and trending sideways. These are the people with truly flexible tool kits and can respond to any market conditions and only ever use the appropriate tool for the job. They do not try to beat the market they just respond to it. Of the three groups which would you like to locate yourself in?

As a person who is either trading, or thinking about trading, the first question you *must* ask yourself is why you want to trade in the first place? Is it for lifestyle, is it for money to help with cash flow, is it for income to live off, is it because you want to control the way you earn your living and who you are responsible to for earning that living? Do you have a higher purpose than existence and survival in mind when you think of trading? For example do you intend that successful trading will provide you with the means to engage in, and design a living, rather than continuing to follow the teachings of conventional wisdom which suggests that making a living is all about survival from one year to the next without ever really getting ahead and achieving freedom?

When you work out your answer to this question, you must then never allow the reason why you wish to trade to put pressure on you to succeed. If you do allow it to put pressure on you, your chances of success are minimal because all the pressures you place on yourself will be based on emotions, which will cause your trading decisions to be based on emotions. As soon as you allow your emotions to guide you, you will lose!

As you read on you will begin to understand that successful trading is not so much about making money as it is about making clear and effective clinical decisions that lead to taking advantage of opportunities when they arise, exiting these opportunities when necessary and protecting the downside through disciplined money management strategies.

The single biggest mistake that novice traders make is to think that trading is all about making money and it's no wonder. It's not hard to find ad after ad that says something like, "you can earn a living through trading", or "earn all the income you want" or "leave your job forever and live off all the money you've ever wanted." As your eyes scan these ads they catch words like 'freedom', 'luxury', 'lifestyle', 'succeed', 'security', 'choice' and 'wealth' that are typed in bold and liberally peppered throughout. They've got you hooked now haven't they? The strength of their emotional pull is extremely powerful.

Making money will only ever be a by-product...

Successful trading has absolutely nothing to do with making money and everything to do with trading successfully. Making money will only ever be a by-product of successful trading. Successful trading is not a by-product of making money. When you attach trading to money and money to emotions and emotions to money you'll have taken your first loss but you won't know it yet.

Then you'll enter the market and start trading. In most cases your first trade will be a loss and you'll

convince yourself that it had something to do with timing or rushing things or changing market conditions or the broker. So you're going to be more decisive next time and respond more effectively. Perhaps the results of your first trade may even be worse than taking a loss, you could actually be successful. You might even be successful on the second trade, then the third, then and the fourth. The market's really trending and it's just so easy. By now you'll be feeling confident and you'll have just taken your second big loss but you won't know it yet.

The processes of trading now consume you emotionally. You won't be losing money so much as you'll be losing what money means to you psychologically. The minute you start using money psychologically you're banging nails into your trading coffin. You'll start losing big time because you won't be losing money so much as losing what money psychologically means to you. In other words you will be losing the representation of the things that are important to you. When you start losing the psychological representation of what's important to you, you'll freeze, start acting emotionally and try all sorts of scrambling, compensatory behaviours. You'll panic and you'll go to pieces. The only time relief will come is when you've wiped out your account. You're on the mat and you're shell-shocked. You're down for the count and you're angry. How could that happen to you?

It happens to you the same way it happens to most all novice traders who are sold the dream of instant wealth. "You can earn a living through trading", or "earn all the income you want" or "leave your job forever and live off all the money you've ever wanted." Hang on you were promised 'freedom', 'luxury', 'lifestyle', 'succeed', 'security', 'choice' and 'wealth' weren't you?

In terms of instant wealth, never before in history has there been so many people willing to tell so many people exactly what they want to hear. In the words of John Rothchild, author of, 'A Fool and His Money', "... the investors' need to believe somebody is matched by the advisor's need to make a nice living. If one of them has to be disappointed, it's bound to be the former."

Trading is a game between your emotions and your psychology. It's a game between amateurs and professionals. It's a game between your account size and time. If you have what it takes and you get a really good coach and you put in all the work, discipline, personal sacrifice and training that's needed, then there is a high probability you will succeed. However if you don't do these things the odds are stacked against you. Approximately 80% of all would-be traders lose their trading accounts in a very short time and never recover. This means that nearly 80% of all those who attempt to trade are not disciplined, don't have the right psychology, don't have the right coach, don't trade to a well defined and worked out system or simply run out of money, time and commitment before becoming sufficiently skilful traders.

... successful trading ... can only be learned

It's my view that successful trading cannot be taught. However it can be learned. This is not mere semantics here. Just like someone can be taught to swim or kick a football I don't believe they can be taught to be a champion swimmer or footballer. For that you need a burning desire, passion, dedication, focus and belief. These can only come from you. Many dream of becoming champions but few succeed. Why do you suppose this so?

Trading has everything to do with personal psychology, rules, systems, discipline, focus and skill. Like anything else that's skill based, once you start it takes time and practice to become skilful. Ultimately trading is about making decisions between two choices, to buy or sell. As simple as these two choices are the variables that effect the decisions surrounding them can be as complex as the human mind can make them.

As a trader your central focus should be on your system. You should know your system inside out, its strengths and weaknesses. Your system should be comprised of a set of rules that ultimately guide you in making either of two decisions, to buy or sell. You should be able to read your system with respect to market conditions and base your trading choices on what your system is telling you.

As a trader you must understand that you're the weakest link in the system because the complexity will reside with you. Good systems are simple. They are nothing more than a series of instructions called trading rules. The primary thought that should be central in your mind is that it's the system that makes the money, not you. The more skilled you become at reading market conditions and marrying these conditions to your system the better a trader you'll be.

Only you can beat you

Successful trading is 80% psychology and 20% methodology. Only you can beat you. I can't beat you and the market can't beat you. You are the one that you have to beat and you'll be the hardest player to beat. In order to achieve victory over yourself you must understand the psychology of money, the psychology of trading, your own personal psychology and a thorough understanding of what 'risk' means to you. In addition you must have a strategy in place to minimise the risks of loss in any trading position you enter.

Successful trading is not about how much you achieve or lose, it's about how well you trade. One of the funny things about trading is that to be a good trader you must lose well because if you are going to trade you are going to lose money. It's a must part of trading. To win you must be in the market and to be in the market means you are open to the probabilities of loss.

Understanding your own investment psychology and risk tolerance is crucially important if you want to be a successful trader. Yet this very understanding is the central thing that's lacking in most traders' tool kits. If you are going to trade you must only do so after a thorough examination of your attitude to risk and loss. Take your time here because there's no need to rush things. Understand yourself first and then understand why you are considering trading. If you are serious about it then you must seriously peruse learning, not gimmickry.

Before you start trading some useful questions you might ask include what's your long-term plan for becoming a good trader? How long are you going to give yourself in order to learn what you need to learn to become a good trader? In fact, have you got a long-term plan at all? What size is your trading account and how much are you prepared to lose during your educative process? What markets are you going to trade and what are you going to trade in them? As a wealth creation vehicle where is trading going to sit within your overall wealth creation tool kit? Who are you going to get to teach you their trading system? Who is your coach going to be? How often are you going to get them to coach you until you succeed?

To be successful at trading you need, in the first instance, to be aware of a bigger picture and make observations about what you see. Some questions you must continually ask yourself include, "why is only a small group of people ever successful? Why does only 1% of the population ever achieve wealth?" Why do the majority of traders who start on their trading journeys never succeed? Look around and observe. Ponder such things and your position with regards to your observations.

While the answers may be many ultimately they must revolve around the concept, "that only a small percentage of any given population are willing to do whatever is necessary to achieve wealth. Few people are willing to do what most are unwilling to do. Those who succeed are the ones willing to go beyond their comfort zones and challenge their beliefs. They are the ones prepared to understand themselves, their conditioning and their psychology." Which group do you want to be in?

If you zoom out of the detail and look at the big picture you'll discover that at any one time in any one generation only a small percent of the population were willing to do whatever was necessary to achieve wealth. Today it still holds true that only a few are willing to do what the majority does not. They are the ones willing to go beyond their comfort zones and challenge their old beliefs.

In spite of the greatest economic decade of all time in Australia, in spite of all the knowledge and information that's currently available on trading and wealth creation, in spite of all the books, all the seminars, all the tapes, all the videos and all the courses, history continues to demonstrate that only one percent of any given generation will achieve financial freedom.

People seldom ever take the next step

Deep down in side almost everybody I speak to knows they need to do something about their finances if they wish to live a lifestyle of choice. Intellectually they know it and emotionally they know it. But they seldom ever take the next step and seriously learn what they need to do in order for their desires to come true. So what stops them?

Why do so few achieve? Why? Why? Why? Despite the majority of people saying they want financial freedom and a lifestyle of choice. Despite them saying they wish for more financial security in their lives. Despite them saying they'd like to be living a more comfortable lifestyle rather than continue to

work the hard and long hours they do. Despite wishing things could be better for them, why do so few people actually make wealth happen?

Our emotional and psychological conditioning has been so successful that it continues to allow the system to extract enormous profits at our expense. We lose thousands, if not tens of thousands, of dollars every year and we hardly even notice it. If we do we just ignore it as a normal part of life. Conventional wisdom does its teaching so well that most don't recognise any cognitive dissonance at all.

We have been so conditioned to believe that it's okay to buy a brand new car for \$40,000 and as soon as we drive it out of the car yard it drops in value by up to \$10,000. That's nearly a 30% loss but that's okay because we feel good, we're in our nice new car and we don't give it another thought. We're encouraged to go on holidays, pay up to \$5,000 or more on airfares and accommodation. Somewhere along the way we're encouraged to swipe another \$5,000 or so on the plastic fantastic. At the end of our holiday all we have left is a memory and a debt and we're supposed to feel good about it. We've just dropped another \$10,000 but we feel good and we talk about our holiday in glowing terms as we get out the holiday snap shots.

For \$1,000 we could have stayed home, drank French Champagne every day, bought \$500 dollars worth of trading books, propped ourselves up in a comfortable position and made ourselves a hell of a lot smarter.

Nearly everything that you buy drops in value as soon as you make the purchase and get it into your hands. If nothing changes, throughout your lifetime you'll keep making financial decisions that lose you tens of thousands of dollars and you've been conditioned to feel good about it.

But potentially lose some money in the market place and every negative emotion you can muster suddenly springs into action. Try and improve your financial position by doing a course on wealth creation and every sceptical and cynical voice you can find will scream at you both from inside and outside your head.

Fear of failure is the single biggest factor in why people don't succeed. Because they fear failure they never move out of their comfort zones. Fear of moving outside comfort zones is so strong that rather than learn things for themselves, rather than put themselves in a position where they can control their own financial destinies, many would be investors give their life savings over to complete strangers who, for the most part, they know nothing about. Remember, "... the investors' need to believe somebody is matched by the advisor's need to make a nice living. If one of them has to be disappointed, it's bound to be the former."

Wealth creation is an uncertain activity for most people and, to do something without certainty of outcome, takes courage. It takes courage to do what the majority is not doing. It takes courage to overcome scepticism and cynicism. It takes courage to deal with fear and overcome fear barriers.

Courage is involved in every aspect of investing, trading and the wealth creation process. It takes courage to learn to trade successfully as opposed to finding some 'quick fix' offered by a machine and a smooth talker. It takes courage to concentrate on being a good trader when the attraction of 'making money' is so much more seductive. It takes courage to stop using excuses and start taking 100% responsibility for your financial destiny.

It's easy to say what should be done but it takes courage to act on what should be done. It takes courage to have an entrepreneurial spirit while those around you feel threatened. It takes courage to follow beliefs and convictions that are different from the herd. It takes courage to employ doingness when those around you are not. It takes courage to stop thinking like a victim and start thinking like a winner.

In order to be successful as a trader you have to view risk through different eyes. If you do nothing then the risks of achieving nothing are extremely high. With a good trading plan, some solid learning, a good coach and some discipline your chances of success are extremely high because you'll be competing against people in the market place who have not done the learning and who do not have a sophisticated trading plan. However if you're not going to take total responsibility for all the financial decisions you make, you're going to find it very difficult to be financially successful.

The way I view risk has to do with 'the probabilities of making ineffective financial choices' be they trading or otherwise. I believe a more accurate, and ultimately more empowering, description of risk should include, 'the lower one's knowledge base the higher the probabilities are of making ineffective financial choices'. You can think of leaving your money in a bank account earning .001% as low risk and

safe. The truth of the matter is, if inflation is running at 3% you're losing 2.999% of the value of your money because of a low risk strategy. Before you begin your journey you must be convinced that the benefits of financial freedom far outweigh the risks associated with accumulating wealth. You must have a personal vision that includes wealth in your life, that way you will develop the courage that it takes to defeat the negative 'what if' voices that rattle around inside your head. The courage that it takes to begin to remove the barriers you place between yourself and financial freedom. The courage that it takes to understand that the extent of your financial achievement will rarely, if ever, exceed the development of your own personal psychology.

Everything in this world involves risk but by far the greatest risk is staying in your comfort zone because this involves the risks of lost opportunities. The secret to risk lies in knowing how to minimise its impacts on you. If you want to be a successful trader you must become passionate about the learning process. You must become totally focused on trading well as opposed to making money. You must learn from someone who can show you how to trade successfully rather than rely on machines and promises of 'golden eggs'. You must become absolutely disciplined in the activity of trading.

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