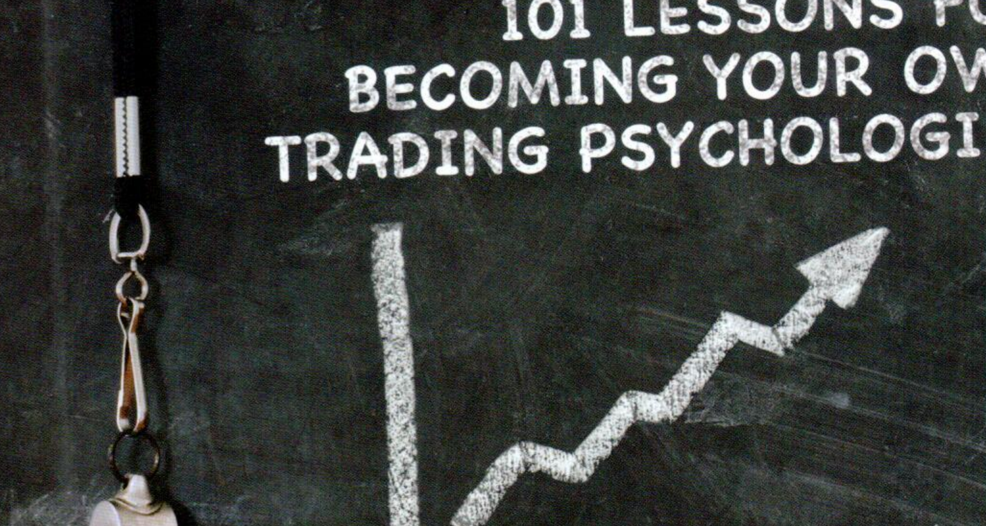
Wiley Trading

THE DAILY TRADING COACH

101 LESSONS FOR BECOMING YOUR OWN TRADING PSYCHOLOGIST



BRETT N. STEENBARGER

Praise for

THE DAILY TRADING COACH

"A great book! Simply written, motivational with unique content that leads any trader, novice or experienced, along the path of self-coaching. This is by far Dr. Steenbarger's best book and a must-have addition to any trader's bookshelf. I'll certainly be recommending it to all my friends."

—Ray Barros
CEO, Ray Barros Trading Group

"Dr. Steenbarger has been helping traders help themselves for many years. Simply put, this book is a must-read for anyone who desires to achieve great success in the market."

—Charles E. Kirk
The Kirk Report

"'Dr. Brett', as he is affectionately known by his blog readers, has assembled a practical guide to self coaching in this excellent book. The strategies he outlines are further enhanced with numerous resources and exercises for the reader to refer to and keep the principles fresh. I enthusiastically encourage anyone interested in bettering their trading and investing to read this book and keep it on their desk as a constant source of learning."

—Brian Shannon, www.alphatrends.net
author of *Technical Analysis Using Multiple Timeframes*

"Dr. Brett has distilled his years of experience, as both a trader and a psychologist/coach, into the 101 practical lessons found in *The Daily Trading Coach.* Those lessons provide effective strategies for coping with the stumbling blocks that traders often face. This book should be a cornerstone of any serious trader's library."

—Michael Seneadza
equities trader and blogger at TraderMike.net

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101 LESSONS FOR BECOMING YOUR OWN TRADING PSYCHOLOGIST

The idea is to make right thinking and right action a regular part of your experience, so that you become your ideals.

COACHING CUE

Check out Michael's insights into trading journals at http://tradermike.net/2005/08/on_trading_journals/ and http://tradermike.net/2005/08/thoughts_on_day_trading/#moving_stops. See also Charles Kirk's insights in this chapter.

LESSON 84: MENTOR YOURSELF FOR SUCCESS

Brian Shannon is a trader and an educator of traders. His *AlphaTrends* blog (www.alphatrends.blogspot.com) utilizes video to illustrate trading patterns each day, a unique resource for developing traders. He has captured many of the principles from these videos in his book *Technical Analysis Using Multiple Timeframes*. Brian's work is a great illustration of what I call contextual thinking: placing observed patterns into larger contexts to gauge their meaning and significance. I find that many short-term traders run into problems when they become so focused on the patterns over the past few minutes that they miss the larger picture of what the market is doing from hour to hour, day to day. By gauging patterns within larger contexts, we stand a greater chance of aligning ourselves with longer timeframe trends.

Corey Rosenbloom is a full-time trader who chronicles his work in his *Afraid to Trade* blog (www.afraidtotrade.com). What I like most about Corey's work is that he blends an awareness of trading psychology with an understanding of the psychology of markets. His site provides a number of trading insights, as well as insights into the minds of traders. I grouped Brian and Corey for this lesson because both described the ways in which they mentor themselves—guide their own learning processes—as part of coaching themselves for success.

Brian's response to my query about the three things that have been most valuable to his self-coaching reflects his trading as well as his teaching. Let's take a look.

Tuning Out Opinions

Brian stresses that he doesn't completely ignore what he hears from others, but he's learned to emphasize his own views from what he's learned over the years. "The edge in trading is so small and quite often elusive that it is imperative to understand market dynamics/structure and where my personal edge lies," he points out. This is very important: As Brian's videos illustrate, he is extremely open to information from the markets, but he filters out opinions. He has learned to rely on his own judgment and experience to maintain his advantage in the marketplace. This reliance is essential in building and maintaining confidence. It's difficult to imagine sustaining the resilience to weather drawdowns if you don't have a basic trust in how you process information and make decisions. It is better to make a mistake with your own judgment—and learn from that—than to make a lucky trade based on the tips of others.

Review

When you view markets and review them day after day, week after week, you develop an intimacy with market relationships and trading patterns. An internalization of this intimacy is what traders refer to as a feel for markets. It is not mystical inspiration; it's the result of repeated exposure to information under proper learning conditions. Brian explains, "I review hundreds of stocks using multiple timeframes in an attempt to find what I believe to be the lowest risk/highest potential trades according to my entry and exit parameters." This review provides him with good trade ideas, but it also feeds a learning curve. After so much review across multiple timeframes, he has learned what a good stock looks like. This internalized expertise helps him deploy his capital in the most efficient manner possible.

> We learn our patterns—and the patterns of markets— through intensive review. It is the intensity of the review that enables us to internalize those patterns and become sensitive to their occurrence.

Mental Checklist

Here I'll let Brian speak for himself: "This one is somewhat new and came about as a result of letting my guard down on a few occasions earlier in the year, which resulted in losses which were larger than what I would normally take. Each day before the market opens I go through a mental checklist of: how do I feel (tired, anxious, excited, etc.) to identify any possible weakness before I commit money. I also try to visualize how I will react to what I view as either normal or abnormal trading conditions. I am trying to spend more time on the mental preparation than I have in the past and it seems to be working well for me." *Time and again, I find that this is what winners do: they learn from their losses and adapt.* Trading requires an active mindset; it's a bit like patrolling enemy territory, where you have to be on the alert for surprises at all times. If you're not prepared—and haven't rehearsed that preparation—you won't be able to act on instinct when those surprises hit. Brian let down his guard, and he was surprised. He created a mental checklist and incorporated visualizations of what-if scenarios and sharpened his active focus, anticipated what could go wrong, and enhanced his results.

Corey's three best practices for self-coaching were: 1) find a trading partner/group; 2) think in terms of concepts; and 3) keep an idealized trade notebook. All three practices reflect the progression of his learning as a trader.

Find a Trading Partner/Group

"The first thing I learned when I began trading full-time," Corey recounts, "was that trading could be an extremely lonely, isolating experience. It can be difficult to sustain motivation when you're the only one who knows what you're doing, and friends and family may not understand what trading is all about. Trading can be quite difficult, and it is immensely helpful to have at least a handful of solid friends or colleagues who understand your strengths and weaknesses while supporting one another for mutual benefit, such that the whole is greater than its parts. I began writing the blog initially as a way to reach out to others who had similar experiences . . . That has made an ultimate difference in my trading, mostly from the interactions and idea-sharing with others, which has broadened my awareness . . . I also have one experienced trader locally with whom I meet almost every evening to discuss the day's events and share ideas and study markets. This interaction has challenged us both, and we bring a combination of skills that benefit us academically (combined research), emotionally (motivation), and financially (improved trading tactics)."

Form a team to make trading personally rewarding and stimulate ongoing learning.

Think in Terms of Concepts

"I think the largest shift in my performance came when I began to view markets and price behavior conceptually, rather than being driven by indicators or news reports," Corey explains. "This was a process that took time and was difficult for me. Previously, I viewed multiple indicators and believed those were the secret to trading success. However, too much conflicting information was not only frustrating, but unprofitable. Even when I decreased the number of indicators, I still struggled to find profitability. My results were often no better than random entries, which was endlessly disappointing. The shift came when I was able to view markets and price behavior conceptually . . . The shift happened slowly and was attributable in part to studying Market Profile information, such as the concepts of trend day, bracketing markets, auction dynamics, timeframe participation, etc. Other concepts were based in the teachings of the early founders of technical analysis, including momentum, price range (expansion/contraction), broader trend structure, dynamics of price behavior, and price patterns (with their underlying reasons: accumulation or distribution, reversal or continuation). Essentially the shift was one towards greater understanding of price behavior and participation by all sorts of market participants . . . To further the conceptualization switch, I also began researching the broader concepts of intermarket analysis, which compares markets to each other, and sector rotation, which details performance of equity sectors and expectations . . . I began to see markets as a grand chess game, which opened up a new method of perception. Markets clearly do not trade in isolation."

When you think in concepts, you understand why markets move, and that helps you formulate promising trade ideas.

Keeping an Idealized Trade Notebook

Corey explains, "In addition to keeping a simple spreadsheet that tracks trading performance (which is essential in knowing when you're making mistakes and correcting them), I use a different kind of trading journal that I call my idealized trade notebook. In this notebook, I print off the intraday chart (I use the five-minute chart most frequently) of the stock or index I traded for the day. Also, if there are particular charts I find interesting, I annotate by hand what I deem to be ideal (or best) trades based on my understanding of price behavior and opportunity. Through looking at the charts at the end of the day without the pressure of real-time trading, I am able to see new patterns that I had missed . . . I then overlay my fills to see how close I came to achieving the total potential move . . . This serves a dual purpose of deeper visualization of my performance, but more importantly, helps clarify the distinct patterns and trade setups I use for trade entry, management, and exit."

By tracking ideal trades, we internalize best practices.

Following Brian and Corey, your task for this lesson is to structure your process of review. One task should include a review of the market day, comparing your trades to the actual moves in the market, so that you are learning both about you and about the patterns you want to be trading. Mentoring yourself is not an occasional activity to be performed during losing periods. Rather, among the best traders, it is a regular process embedded into each trading day. Compare what you did with what you could have done as a great way to track your progress and bring yourself closer to your ideals.

COACHING CUE

When you coordinate your learning with a trading partner, compare your ideas of the best setups for the markets you are trading. If you see markets through the eyes of others, you can enrich your own pattern recognition.

LESSON 85: KEEP DETAILED RECORDS

Two of the respondents to my question—two whose work I've followed for years now—independently arrived at similar answers. This is not because they trade similarly. Instead, it's a reflection of the wisdom they've accumulated over years of tackling markets and honing their own performance.

Charles Kirk is a trader, portfolio manager, and author of *The Kirk Report* blog site (www.thekirkreport.com). He also maintains a portion of his site for members, who are treated to his stock picking tools and selections. Much writing focuses on when to trade; Charles's forte is selecting *what* to trade. His blog is among the few on the Web that comprehensively links to articles on key themes that deal with markets and the economy. This is a particularly valuable resource for those who want to stay on top of the market's larger picture. If you want to see how institutional money might move markets, it makes sense to focus on the themes tracked by institutional money managers. Charles seems to have a knack for identifying those themes.