

What's your job as a trader?

It may seem strange that I am writing about the task of trading, and that I need to remind you what the purpose of this activity is. Given the fact that 90% of people who 'trade' lose, then it is imperative that I relate to you what the job requires.

Here is the task: it is to make PROFITS. And for those who are good at the task, to make very substantial profits.

Certainly trading involves the buying and selling of financial instruments but the focus of the process, the outcome of the buying and selling is PROFIT.

I think many who intend to trade lose sight of this fact. They must because they don't make profits. Anybody can buy and sell financial instruments. However, only 10% achieve consistent profit.

Of course, as a social activity people can be rewarded psychologically by 'trading' even though they do not profit.

What rewards could there be in trading yet losing?

In its own right the buying and selling is fun. Many approach trading to overcome emptiness or boredom in their life rather than profit. Markets are in a never ending state of flux, watching a market is better than watching sport. To some it even takes on the proportions of an addiction.

Financial markets are completely democratic: anybody can participate. Even for the dabbler there is reward of participation. In fact some never expect to win, just participate.

In a perverse way for some, losses are the actual reward. At least they can give the impression to others that they are a big time risk taker or to confirm their case is hopeless: negative market outcomes stroking negative self perception.

In addition people are driven by the fantasy of the freedom and power that they believe can be derived from the market by just turning up.

Most come into markets with the idea that they need to predict the future to make profits. So they develop a view of the future through analysis and take a bet that their view will prevail. Another word for this is gambling. Most people in effect gamble by the way they participate in financial markets. Although it is possible to gamble and win, the probability of gambling in financial markets for consistent and reliable profits is very small, certainly much less than 10%.

Think about it. Gambling is all about **taking** risk. At the race track the punter analyses the form, places the bet and then that's it. The outcome is out of his hands. Many people 'trade' like this. They analyse, make a bet and then that's it. Hang on with white knuckles and hope! If the market happens to agree with their punt they get paid, if they weren't shaken out of their position earlier.

Here is the big difference between a gambler and a successful trader.

Yes the successful trader takes the risk like the punter, but then the work starts. She then **manages** the risk. It's at the entry of the trade is where most leave off. To the professional trader this is just the beginning of the process.

The risk management process entails getting rid of the trades that don't succeed and sticking with the ones that do win.

'Cut losers and ride winners' is the traditional edict. Unfortunately people seem to be hard wired to let their losers run. It saves them having to face the reality that their view is wrong with the consequent loss of money. Another name for this is denial.

Actually cutting losers is the easiest aspect of the professional trader's task. The market is saying: don't spend more time and capital on this one. Release it and find a profitable one. Cutting losers is a transitional step from non profitable to profitable trading. It allows the trader to break even but not actually profit.

This leads us on the identifying the next essential part of the task. Profits are derived from working the winners, especially the relatively infrequent really big ones.

It's when you are in a winning trade that work really starts. The market is saying to you: spend more time and capital on this one as long as the profits are increasing.

Unfortunately people are hard wired to cut their profitable trades to release the anxiety of success as well as to collect the win while it's there. It might evaporate!

To become a successful trader requires you to manage your position moment by moment according to what the market is actually doing. In other words the task for good profits is to get and stay in agreement with the direction of the market.

If you learn the skills of profit management, detach from what you would like to happen or what might happen, and engage the skills in harmony with what is actually happening in the market, then you WILL profit if you have the will to do so.