

Misbeliefs that hold traders back

Whether it be in life in general or in trading it is true that *you can't consistently behave in ways that are inconsistent with your beliefs.*

Assuming that most come to trading with the conscious expectation that they will profit handsomely through their activity, why is it that most don't achieve this expectation? Why is it that some who do achieve success don't then go on with it?

To answer the question why most don't achieve or sustain success despite their best efforts we have to delve into the psyche and psychology of the potential trader. (In my work I have come across individuals who come to trading to satisfy rampant gambling desires or self-sabotage motivations, but these are rare.) Now there are many burdens that prevent people achieving their desires. In my last article I spoke about fear and its debilitating effects. Then there is the question of needs satisfaction: is the trader going about the task in the way that will satisfy his or her unique personality needs? See YTE Jan 2004. Does the aptitude of the potential trader match the requirements of the task? In this article we will focus on a critical barrier to success: this is the arena of misbeliefs.

Logically you can see the problem. A rational trader expects and intends to win. He or she translates the intention into effort and action to win. But if he or she doesn't win then there is a very strong chance that the trader doesn't really believe deep down that winning is possible, or if it is, then it is not legitimate for him or herself. The conscious desire to win is subverted by the subconscious and very powerful misbeliefs about how to obtain and sustain success. In essence what the trader consciously strives for and what he or she really believes are incongruent. The misbeliefs win out.

What are some of the misbeliefs that hold traders back from their success? What is the **truth that must replace misbeliefs** to overcome their pernicious effects? Let's now take a look at some specific misbeliefs as they pertain to markets, analysis and the trader him or herself.

Market misbeliefs

One key subconscious misbelief I have noted relates to the way traders perceive their market operations. Fundamentally the trader holds and acts on the misbelief that speculation is essentially gambling. The outcome depends on luck or a fluke. No, the truth is that speculation in markets is a business: a special business of handling risk in the light of uncertainty about the future which can not be controlled. Because of the uncertainty it may seem like gambling but a business orientation to uncertainty means that the risk must be and is managed to advantage. A gambler takes a position about the future and that's it. A speculator takes a position and keeps realigning it with the market as it unfolds. A speculator with a business orientation will cut losing positions and when his or her position agrees with the market direction he or she will not only stay with it but also add to it.

A second misbelief about markets follows on from the first. Many potential traders are beaten before they start because they falsely believe that winning in the face of

uncertainty is not possible. Or even that because they can't win, nobody does win. Realise the truth that it is possible to win and win well with a detached, disciplined and responsive business-like approach. Some of my clients do extremely well with 6 or 7 figure annual returns. The challenge for these supertraders, as it is for traders at any level, is to keep stretching and growing.

Successful market speculators get very well paid. This leads to further misbeliefs that trading is parasitic or that speculators gain their money too easily. Nothing could be further from the truth. Yet if you subconsciously think like this then you will probably sabotage your outcomes. Speculation is essential for the orderly risk transfer operation of markets. The proficient speculator buys low when the risk of buying is unacceptable for most and sells high when the risk for most seems to have abated. Or conversely sells high and buys low. For example when a market is plummeting, short sellers will be willing bidders as they cover positions to bank their profits. The efficient operation of capital markets requires speculation to distribute the risks for less risk averse investors. Relatively few speculators work hard managing risk to make sure that all the Mums and Dads will receive a sound and fairly even 8% return in their superfund. Of course the speculator deserves to be well rewarded for this essential social function.

Analysis misbeliefs

When I put the word analysis here many of you will automatically read the subtext as technical analysis. Herein lays one of the misbeliefs about analysis: because technical analysis involves complex computer derived quantitative algorithms there must be an associated superiority if not infallibility about it. This is a naïve view. All analysis you conduct is subjective in the sense that you select and apply the analytical criteria to pump into the algorithm. The same applies to quantitative fundamental analysis: it is arbitrary too. I have clients who are successful with technical analysis, fundamental analysis and an amalgam of both. What I try to do is to have my clients accept the subjectivity and work with it to analyse the uncertainty by an intuitive process that uses the information about what the market is doing now to create tradable probability scenarios in the future. Some of my most successful clients are entirely intuitive traders.

There is only one piece of truth and that is what the market actually does. If your analysis agrees with the market then it is successful on this occasion. Of course this is no guarantee that it will be successful next time. Another misbelief is that there is an analytical 'holy grail' or big secret that explains everything and is a universal predictor. Analysts spend hours, some a life time in trying to elicit such a formula. There isn't one and can never be one. If there was one the market would soon respond to it by discounting it. It just isn't true that in markets the future is always an extrapolation of the past. Markets are ever changing in the way they go up, down and sideways. A successful speculator works out, i.e. analyses, early and with limited information what the change probably is and goes for it. If your analysis isn't appropriate for this particular market phase, don't become defensive about it: change it quick smart.

Analysis is one tool in the box for success. What I am saying here is that it is further misbelief that trading is just applied analysis. Many think this is true and search for

the guru or system that will never fail them. I am not saying that analysis is not important. It is. But it is only a small if necessary part of the winning story. I know many potential traders whose analysis is excellent but never make a buck because they can't implement it. What is required is to amalgamate analysis with trading skills that allow you to enter, exit, reenter and add. In my book it's the mental edge that accomplished traders build that allows them to win and extend their winnings.

Personal misbeliefs

Here we are really penetrating the specific misbeliefs that prevent you from achieving your desires. Each trader brings his or her own unique misbeliefs to bear on his or her trading outcomes. These derive from the formative life experiences, value structure and subpersonalities that lurk well below the surface of conscious thought but subliminally direct behaviour.

Here's an example: "I'm a Smith and Smith's have always been badly burned by markets in the past. Look what happened to Granddad in 1929. He lost everything." This person's subconscious expectation and self talk will be set up for failure because it embodies a personal misbelief that family history automatically repeats.

In my work I have come across many different personal misbeliefs. One common one is that "every time I trade I put myself on the line." Now this may reflect insecurity about money but the intrinsic problem here is one of ego. It's very important for this trader to be right and right all the time. When not right, and you can be wrong more than half the time and still do very well, this trader feels disappointed, hurt and even betrayed. These factors are not conducive to taking your next trade and doing the job properly. When you are entering a trade you are only risking a predetermined amount of money that you are willing to back your judgment with. It is part of the series that your business plan calls for. I certainly steer my clients from personal ego attachment with individual trades as well as with the growth in their equity curve overall because successful trading is a business like any other, rather than an outlet for ego gratification.

There is a misbelief that prevents traders who become successful to really go on with it. This misbelief is that there is a ceiling for success which can't be penetrated. I have a client who for several years had made \$3million each year as a proprietary trader. He would rapidly reach this figure and bump against it but could not exceed it. Of course we have linked the fact that he could do this well with the appropriate belief structure to enable him to go on with it substantially.

There are plenty of other personal misbeliefs. In fact there are as many as there are traders. Here are a few more and of course you can add your own.

A catastrophe is imminent

I'm a victim of market makers and manipulators

When I'm successful at trading I'll earn more love and respect

Small accounts are forced to dabble

Only the 'big boys' win

The market is wrong, I'm right

The market is against me

I can only enter a position when it feels good



Markets are unfathomable

What to do about misbeliefs

At the beginning of the article I made this claim: *you can't consistently behave in ways that are inconsistent with your beliefs*. On the surface the answer to misbeliefs is to replace them with true beliefs to facilitate your success. You can be sure that successful traders whom you are operating against have come to terms with and have overcome their misbeliefs. That's why they are successful.

But dealing with your misbeliefs it isn't so straightforward.

When not successful most people, if they don't give up, turn to external remedies to look for improvement. Some of these remedies are to find another guru, work harder on the analysis, or tinker with the trading system. While some gains can be made here, the truth is that for real and lasting improvement, change has to be internal: within the cognitive set and psyche of the trader. This is why coaching from a qualified professional is so important. Don't let yourself be conned into expensive superficial solutions when the answers are already within you. Furthermore don't subject yourself to the misbelief that you are unworthy of receiving personal help or that it is a sign of insecurity or weakness. It is a sign that you do want to do well and are prepared to undertake the necessary personal growth to secure your desires from trading in the future.

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