

## From Riches to Rags

In my job as a success coach for market participants I have noted a phenomena that is so frequent that it is worth reporting to you and analysing. It is this: many serious traders initially make a lot of money and then proceed to give their winnings back to the market, and then some. Now I'm not talking about those who dabble and have a lucky streak and then lose. I am talking about dedicated traders who over a period of months achieve superior returns. They make many many thousands of dollars and then watch as it disappears, and yet they seem to be doing nothing different.

Has this happened to you? If it hasn't then it is a real possibility that you must guard against. If it has happened to you then it is an experience that can sharpen your capacity to go on for consistent success in the future. Don't lose heart. Regard it as an initiation into the exclusive club of those who achieve consistent superior returns.

Knowing the cause can lead to the cure.

The causes are numerous but we can categorise them under two headings: personal factors on the one hand and market factors on the other.

### Personal factors.

It would be easy to blame complacency. This means that the trader has taken his or her eye off the ball. Money management has become slack because of the success already achieved. The cure for this is to realise that discipline and money management are the cornerstone of success and have to be applied assiduously and consistently every day of your trading life.

But applying discipline could be inherent in another personal factor. Market participation is intense and personal management of the pressure and stresses involved can lead to burnout, even after six months. The trader must ensure that balance is applied to his or her life that builds in relationship, recreation and renewal activities. If you feel stale or that your passion for the job is declining, take a break. Opportunities abound in markets: it will still be there churning away when you come back.

The next set of personal factors is more serious because they can be hidden in your subconscious psychology. As a counsellor I look for answers to questions such as these: Does the trader intrinsically believe that ongoing success in the markets is authentic, and if so does he or she deserve to be achieving a superior income in this way? Is self sabotage occurring? Are there other personality needs not being met that even superior returns do not make up for? Because the trader has already achieved success we know that the issue is not because of a lack of aptitude. Rather we have to look at needs satisfaction and other cognitive/ behavioural issues that arise from initial success.

### Market factors.

It doesn't matter if over a period you have been brilliantly successful (or for that matter an abject failure), the market still wants your money. In fact the market is

indifferent to your prior success: it just means that you now have more money that you can give back to it. How does the market achieve this? By transformation and deception in an attempt to render your edge obsolete.

The thinking and ideas that gave you the success will not endure as new market cycles develop. Many traders distill their thinking into technical analysis. But whether technical or fundamental, if your analysis gives you an edge now it doesn't imply that this analysis will continue to do so in the future. In fact it probably won't: the familiar mantra that the market discounts successful analysis does come into play here. The trader has three options. Retain the analysis in the new market cycle and lose; or stop trading until a future market cycle occurs in which the analysis is appropriate (unlikely); or evolve and adapt the analysis to suit the new market conditions very early. To do this the trader needs to anticipate that the current market pattern will change eventually and that a fresh analytical procedure will be necessary when the change occurs. It seems contradictory but nevertheless real that the time to be researching new analytical tools for the future is when the current tools are working at their best.

Another market factor involves the question of leverage. It is entirely rational that as the trader becomes more successful his or her level of leverage increases. This implies that when the edge that created your success is at its most vulnerable your leverage is also at its maximum. If your edge fails then your account going to be hit hard, despite tight discipline. The problem is that if you are experiencing a run of success you don't know precisely when the run will be over. But you will know it's over when the plot of your equity starts to tank. This is when you must reduce your leverage until you regain your edge. You (or anyone) will not force the market. Throwing more money at it when your edge begins to fail is a recipe for disaster.

Your edge will fail when the majority starts to use it too. This will stimulate the market footprint to change and your edge will no longer be optimal. Your hit rate and equity will decline. Is this the time to fade your analysis? Possibly, you know your market counterparty is successful because you are not anymore. But it would be better to quickly figure out how to succeed in this next market phase knowing that this is your ongoing task as long as you want to trade over various market cycles into the future.

You have an alternative, albeit a cynical one. Basically when you have a run of outstanding success quit when you are ahead. Now that you have a bundle of contract notes that demonstrate your acumen you could sell to the public your proven superior method of analysis and trading. However the public would be buying a black box that probably won't work in the future.

Let's not conclude on a negative note however. If you are new to trading you probably disbelieve that riches can rapidly turn into rags. But it is common and there is a good chance that it will happen to you in your trading career. What a wonderful learning experience for a market player. It is summed up thus: never take the market or your success for granted. Besides discipline and passion for the task the factor that will make you endure over a series of market cycles is a flexible personal approach responsive to market transformations. While it seems obvious that coaching is necessary to get you started on the road to riches in markets, personal coaching is



probably more important to enable your riches turn to more riches rather than allowing your riches turn into rags. Although difficult to achieve, so few do it, trading longevity is possible and extremely rewarding for you both personally and financially.