



Best Professional Practice: Part 1

Introduction

Why don't most win at trading when they know what's required: cut losses and let profits run? It seems simple but only relatively few who commence the trading project go on to become consistently profitable. Why is that the case?

There can be reasons for the lack of success which can be rationalised. The 'trader' could approach the market as a hobby, as fun and as a diversion from other life issues. Watching a market is inherently interesting and an occasional dabble seems ok. Winning is not as important as involvement.

However, although few traders do consciously set out to lose, most do lose or fail to win consistently. There is a real discrepancy here. This occurs despite the huge industry in trader education, trading software, and cheap brokerage in internet trading platforms and so on.

What's missing? Why can't people cut losers and work winners? The statement of this simple proposition belies the psychological, intellectual and activity demands required for success. The answer is that to be successful the trader must engage with the imperative and processes of best professional practice. In this chapter we will cover the psychological foundation of and elaborate on best professional practice for trading success.

The market is reality

Markets tell the truth. If you are dealing on a public exchange then each trade, each and every deal between buyer and seller is recorded and won't be changed. You always know the score in one of the most open and transparent of businesses. Real and precise information is at your fingertips so that you can assess risk and the efficacy of your current position. (This is not necessarily true for Over The Counter products as we have witnessed in the sub prime crisis).

Agree with the market and it will pay you. Disagree, you pay. If you are not winning then must be disagreeing with or ignoring reality: to win you have to learn how to respond to and deal with reality. Sounds simple and it is. But it is not nearly as easy as it sounds. Knowing the reality that a jumbo jet will lift when the speed of the air over the wing reaches a threshold does not make you a pilot.



In life we have to face another huge existential reality that our animal bodies are going to die one day, and furthermore that life can present terrible arbitrariness and calamity. As our consciousness develops in early childhood this reality is dealt with by repressing it. We develop character attributes that reflect a refuge of denial from harsh reality. These attributes are essentially personal illusions or lies that help us cope. This is an essential coping strategy for a child. But in adult life we can easily become embedded in our general culture that reflects our immature yet comfortable illusions that are predicated on the limitations of fear and denial. Yet this response both personally and culturally is essentially neurotic although appears to be 'normal'.

When perturbed by life's issues we have two choices. New information can either be incorporated enabling us to change and grow from our former limiting beliefs (i.e. accept the challenge) or be denied to consolidate our prejudices (i.e. stay as we are). The choice is stark. The cultural norm is one of hopeless defeat by the fact that we are indeed limited by bodies that will wind down and die. The alternative and better choice is to accept the limitations that our bodies and life imposes upon us and to experience the challenge and liberation of extending ourselves and really going for it.

If we choose to trade then we are choosing to interface with one form of reality, market reality, which is much bigger and more powerful than ourselves. This form of reality is always in a state of flux; it's dynamic. Yet its acceptance is a must. Our culturally programmed default life coping mechanism of denials and prejudiced illusions simply won't suffice. You may be able to live in your sheltered comfort zone but neurotic fear and denial makes market success impossible. Narcissistic views that irrespective of the market truth we should automatically win or that we are entitled to a positive outcome won't suffice either. In addition, acceptance of market reality means that we have to relinquish the idea that the market will conform to our own ideas and views for it.

Again we can convert this into a positive. The fact that markets tell the truth makes the trading task easier than many other life projects. The market always lets you know the success or failure of your current trading position each moment in time. Rather than deny this reality the rational response is to assume responsibility for taking advantage of the truth. In other words the market tells you when to cut and when to hold irrespective of what you may happen to think or feel at the time.



We have to overcome our neurotic tendencies and grow if we are to accept and then harness the market reality. If we don't accept the reality of the market then we are doomed to failure. Denial in the market can be catastrophic.

Heroes

A common feature of the human trapped in the cultural norm of denial and mediocrity is the search for a hero who has been able to shine. It may be a movie star, sports person, a politician, or someone outstanding in one's area of interest. The idea is that the individual can transfer their own need for liberation and achievement onto the hero so that he or she can remain comfortable without threatening their own illusions. Of course if the hero falls then there is someone to blame and more evidence that indeed becoming outstanding is not worthwhile.

In trading there are plenty of gurus that can conveniently fulfil the role of hero for you.

Nevertheless we have the capacity and power for creativity and self actualisation not only so that we can deal better with life's realities but also have successful and purposeful lives. This is the process of growth or self actualisation that is a requirement for a healthy and a more satisfying life.

Rather than just going through life we need to engage with our 'super conscious' selves. This is the place in our psyches where we acknowledge and use our latent courage, resourcefulness, creativity, decisiveness, clarity, and inner wisdom as well the sense of gratitude, love and altruism. Some psychologists call this the hero's journey. Without your personal hero's journey you are prone just exist, to cave in to ordinariness, to be unfulfilled so that you will realise on your death bed that you never extended beyond your comfort zone; that you have essentially blown it. Tragic!

In essence the legitimate task of growth and success is to become your own hero: to have the courage and self belief to initiate, enjoy and learn from the ups and downs of your own hero's journey.

This is what we need to tap into for trading success. To become successful in trading you need to embark on your own hero's journey. Of course many people have successfully undertaken the hero's journey in the markets. There are plenty of really successful traders around. Some like to take their success public and even perhaps create courses based on their approach and understandings.



One thing you have to guard against is that you don't project onto a market guru in order to replace your own hero's journey. It's a common trap.

When you read books by and pieces about successful market traders a couple of key points should emerge. Firstly success is doable by ordinary men and women like yourself because they have chosen to be different from the norm. They exhibit dedication, resilience and disciplined focus on cutting losers and working winners. Secondly each market wizard has achieved success in an individual way. They all are indeed different from each other. The pathway to success is different for each individual. The hero's journey is unique to each.

Indeed the courses and insights of market gurus are worthwhile. They are very useful success models to commence your practice. They show you the journey can be done but you have to derive and apply your own uniqueness. Unfortunately following a guru does not guarantee the success they achieve as your own. Only you can do that when you employ the template of cutting losers and working winners and chose to risk the venture of you own journey.