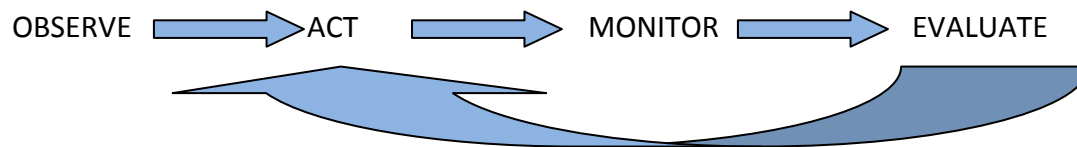


## Best Professional Practice: Part2

### A model to create your success

Knowing that your journey is doable because others have done it, do you have to go on it blindfolded? Certainly not! I would like to share with you a model that I use to help individual traders become professional and to reach for success.

Here it is in its basic form:



This feedback model is not only useful for traders but also is applicable to many life situations. You already use it consistently and diligently when you drive your car. It enables you to continuously drive safely and precisely so that you to get to your destination despite complex changing conditions relating to the road and traffic. When you drive you are continuously engage the feedback model instant by instant.

Notice something really important here: you trust yourself to flawlessly and instantaneously do what the model suggests when you are in command of your car. You take complete responsibility to engage and adhere to the process when you drive. Because you have practiced the skills in many situations you implicitly trust your capacity to implement the actions the model mandates. Denial of information flowing to you via the model could be so disastrous that you could endanger others and even lose your life.

When you drive your use of the model is unconsciously competent. You are in the zone. Since you learn to use this model successfully when you drive doesn't it stand to reason that you can learn to engage and adhere to the model in the trading environment? It's a must and this is where I start to create best professional practice in clients. This is what the market heroes do.

Now let's have a closer look at the model as it applies to trading.

A key point I want you to note is that it is a complete feedback loop. Each stage is important. Furthermore the model is applied consistently and continuously time and again without fail.



Once one feedback loop is over another is ready to commence. Each individual trade is conducted on its own merits independently of the previous one within the context of the model. The success or failure of your next trade is physically and psychologically independent of the past under this model. Too often beginning traders err by acting as if this current trade is a rerun of the previous one or two. Now this model requires you to focus on what is happening at this moment just as you do when you drive your car.

One of the biggest ways traders come to grief is that they trade their selves: they narcissistically trade what they think and feel and what they want rather than the reality of what the market is presenting to them now. The feedback model allows you to trade the market so that you can be detached and free to act in line with your objective observations and evaluations. You don't have to guess the future; you just have to act appropriately now if your observations and monitoring tell you to do so. Keep working the model and you will achieve your desired outcome.

Now let's turn to the key elements of the model.

Unfortunately there is a misbelief out there that if you dwell on getting the best observations you will surely win. In other words it is easy to become over reliant on analysis. This is encouraged I think by non traders who pedal analytical software. However it's what you **do** with your observations that are important to trading success.

The role of observation is to identify points at which risk is worth taking. Unfortunately many try to analyse risk out of the trade entry. Remember the risk reward relationship: higher risk equals higher reward. We are looking for quality set ups in the current trend and volatility conditions that will give the biggest bang for our buck. We are not looking for certainty because the reward would be inconsequential. We are instead observing those conditions that when traded upon create a return that covers losing trades together with making the business very worthwhile. Since 20% of your trades will give 80 % of your profit, the observational task is to identify for execution that premium 20%.

Some spend so much time on observation that when it's time to act they can't do it. They become immobilised by fear that the trade won't work or hesitate waiting for more confirmation. Of course hesitation can only reduce the reward if the trade does go on to be a winner. On the other hand some are so eager to pull the trigger that they act impulsively rather



than wait patiently for a premium set up to occur. Both hesitation and impulsiveness are the by-product of that neurotic denial of market reality I mentioned earlier.

The next stage is to act on the observation.

This is where work for the successful trader begins. Unfortunately for many this is where it ends. Of course you have to believe your observation has presented a quality entry for you to act. But there can only be two outcomes. Either the trade will work or it won't and the model prepares us for that.

If you observe and act and don't employ the full model you are gambling. At the track you select the race horse you like and put your money down. Then there is nothing you have to do. You just have to accept the result at the conclusion of the race. The full model is not available to the race track or casino gambler. But a professional trader cannot gamble because the race is never over in markets. He or she is a risk manager and monitors and evaluates in preparation for the next action which will inevitably be called for. This is imperative in leveraged markets whereby unlike the track gambler you could lose much more than your original stake by not monitoring, evaluating and acting.

Monitoring, that is observing whether your position is advancing or retreating as the market moves on, and evaluating for your next action, whether it be attacking or defensive, are crucial elements of the model. When you are in a trade you need to remain responsible for the outcome. You must maintain vigilance and be prepared to act. You cannot afford to go to sleep at the wheel.

If the trade begins to fail it will be cut (remember the stop loss idea) and you go on to a fresh cycle of the model. On the other hand if the trade goes well then the action of holding onto it and possibly adding to it will be called for (remember the work your winners idea) as long as your continuous monitoring of the market calls for this. Monitoring and evaluation continues until the market indicates the move is over. Action: take the profit. And then what happens: the model kicks in for a new beginning as part of an ongoing process.

So by now you will have concluded the model I have presented here is a Stimulus- Response model as a basis for successful trading. Observation and monitoring gather the stimulus from the market for the response which is to act according to what is happening in the market. You



have to learn to trust the model by applying it at first consciously and deliberately in controlled conditions, just like when you learned to drive a car.

Ultimately it is a question of your personal choice to take responsibility, the ability to perform a correct response (act) in accord with the truth the market is presenting to you now.

### **Personality and Aptitude**

It goes without saying that each trader has differing perceptions, motivation, personality and aptitude. This must be the case because when you enter a trade you have to be convinced that the outcome will be very worthwhile for you. However your counterparty, the person who takes the opposite side to your trade, will be equally convinced that his or her position is correct. This is what makes a market: people who so vehemently disagree with other that they are prepared to back their observation with money.

Now I want to turn to personality and aptitude. I administer Personality and Behavioural Profiles for traders to identify their strengths and weaknesses so that they can be exploited and overcome as the case may be. I must warn you however that in the face of the market reality a strength over used can become a weakness.

I test for the attributes of the four personality need types which the Personality Profile identifies: Recognition, Social, Security and Achievement. It pins down your Personality strengths and weaknesses.

Are you overly competitive, impulsive, or timid? Does the long term suit you best, or should you be a short term trader? Are you independent of or vulnerable to the crowd? If you know yourself better then we can start you off at the right place and adjust for your vulnerabilities.

While you can't really change your personality you can certainly change the way you behave. This is why the Behavioural Profile is most important. We can pin down your current behavioural responses in trading the market and compare them to the successful market operators, the market heroes we mentioned previously.

There are a number of ways we can respond to a particular environment. Furthermore we respond differently in different environments. Certain behaviours are appropriate in the sphere of market reality. In the market environment these personal tendencies are favoured:



- getting immediate results
- causing action
- accepting challenges
- making quick decisions
- questioning the status quo
- taking authority
- managing trouble
- solving problems

In the face of market reality these qualities are favoured over being nice, great communication skills, fitting in, maintenance, and rigidity in following rules and so on.

The Behavioural Profile goes much deeper than assessing your aptitude i.e. in the market environment how close you are to the dot points above. It shows what needs to be changed and even how to go about integrating more desirable and effective behaviours.

Certainly before I take a client into my Best Professional Practice program I need to have a Profile of their Personality and Aptitude to establish the base line to plan progress. In the next instalment of the article we will turn to what it means to be professional and review some case history material.