CHAPTER 1

Where Expertise Begins

The Performance Niche

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I'm a big believer in starting with high standards and raising them. We make progress only when we push ourselves to the highest level.

—Dan Gable

He was cut from his team in his sophomore year of high school. Any hopes of obtaining a college scholarship were quickly receding. Most aspiring athletes would take their lumps, join a local league or intramural squad, and move on with their lives. Michael Jordan, however, was not like most young athletes. He responded to the cut by practicing day after day. When he felt too tired to continue, he forced himself to recall his cut from the team and drove himself harder. Two years later, he was a McDonald's All-American and the MVP of the McDonald's game. The year after that, he hit the game-winning shot for the University of North Carolina in the NCAA finals. By the time his NBA career ended, Jordan had made an astonishing 25 game-winning shots, perhaps none as memorable as the jumper he nailed against Utah on June 14, 1998. With 5.2 seconds left and no one in the house doubting who would take the last shot, he sealed his sixth championship for the Chicago Bulls.

Michael Jordan was an elite performer, one of many we will encounter in this book. Yet Michael Jordan was not always Michael Jordan. His rise from high school reject to college star was dramatic, but not stellar. He never averaged more than 20 points per game during his college career and was selected third in 1984's NBA draft. All signs pointed to stardom, but not superstardom. Nonetheless, Michael Jordan—along with a small handful of other athletes—stands today as a towering symbol of expert performance.

What makes expert performers tick? How are they different from average performers? Is expertise the result of natural, inborn talent, or can it be cultivated? And, most important of all, what can we learn about trading expertise by studying expert performance in other fields? In this book, we will find common factors that contribute to the success of chess experts, Olympic athletes, world-class performing artists, and successful traders. One of those factors is finding a performance niche: a specific activity that is most likely to capitalize on your talents and interests. Michael Jordan had a niche in basketball; he did not find one in baseball. Dan Gable started his athletic career as an undistinguished swimmer, later to discover his own world-class talent as a wrestler—and then as a wrestling coach. Discovering your trading niche may well make the difference between a hall-of-fame trading career and a disappointing one that never quite makes prime time. Sadly, most traders stumble into their markets and trading styles, never to discover where their opportunities might truly lie.

A TALE OF TWO TRADERS

Al and Mick were two short-term traders at a professional trading firm. Both traded the electronic Standard & Poor's (S&P) 500 (ES) E-mini futures contract, and both gave me carte blanche to stand by their screens during market hours so that I could help them with their trading.

I began the day watching Al. The market was trading in a narrow range early in the morning after an attempted rally fizzled. The average price from the day before was about three points below the market's current level, and I had a strong sense (based on my historical studies) that we would take out that average price. Al, Mick, and a handful of other traders had met with me before the trade, and we discussed using the likelihood of the market hitting that level as a potential trade idea. Nevertheless, Al was leaning to the long side. I was skeptical, but decided not to press the point.

As the market ground lower and Al's position went into the red, he shook his head in recognition of his error. Very soon afterward, however, he stopped himself out of the position and flipped to the short side. He was able to pick up a few ticks before the market reversed on him once again. The choppy action continued through the morning, with a mild downward drift. Al was patient, but not making much money for the day. He took a break at lunchtime and expressed to me his hope that the afternoon trade would pick up. Throughout the morning he maintained his composure and held his own in a difficult trade. He expressed optimism that taking a lunch break and clearing his head would help him focus through the afternoon and take advantage of opportunity. Never once did he lose his composure or his positive attitude.

When I moved over to Mick, however, it was a very different story. Mick also tried to play the market's upside and found his position underwater. Enraged, he held onto the position past his stop point, only to see his losses expand. My cautionary comment to Mick was "If your morning losses are small enough, you'll have a fighting shot to make them up in the afternoon." He eventually did exit the position, but refused to take a break at midday. He reviewed every piece of market data from the morning, replaying his bad decisions. All the while he shifted in his chair, pounded the table, raised his voice, and otherwise expressed his frustration. He became particularly agitated when he reviewed the morning trade on his videorecorder. "I can't believe I was so stupid," he fumed. He then proceeded to tell me five things he should have seen in the market to tell him we were going lower. Come hell or high water, he practically shouted, he was going to focus on those five things in the afternoon.

Al and Mick: two very different traders. One of them made a high five-figure sum during the afternoon; the other one struggled to break even all day.

One was an expert trader, the other was struggling.

Al kept himself emotionally balanced, taking liberal time away from the screen after setbacks. He honored his stops religiously and didn't become irate at losses. He consistently expressed optimism over his development and a love of trading.

Mick was anything but balanced, taking losses almost as personal affronts. He periodically violated his risk management guidelines and could not break from the markets until he had rehashed all his mistakes and fumed over each. At such times, he spoke of the market and himself with equal derision.

Most of the trading psychology books you'd read would give the trading edge to Al, the more disciplined, less emotional performer. But Al, the novice, never did succeed at trading. Mick was—and remains—a multimillion-dollar performer. The experience of working with many Micks and Als—and seeing common wisdom about trading success shot down time and again—convinced me to write this book.

THE CORNERSTONE OF EXPERTISE

No doubt, there's a bit of the young Michael Jordan in Mick. He doesn't accept defeat lightly, and he uses losses to drive himself forward. That is characteristic of elite performers, we shall learn, but there's something even more basic that distinguished Mick from Al. In fact, it's so basic that K. Anders Ericsson, perhaps the most prolific researcher in the field of performance, considers it the cornerstone of expertise.

Think of the difference between Al and Mick as something that occurs every day, for approximately 250 trading days a year. Both Al and Mick trade frequently enough that they have winning and losing trades each day. Al puts his losses behind him and clears his head, to focus on the upcoming trade. Mick fusses and fumes, but uses the losses to review his trading, figure out the market (and his mistakes), and get his money back.

Over the course of a year, Mick's reviews ensure that he has easily experienced twice as much market action as Al. Moreover, Mick has systematically reviewed his performance and made constant adjustments. Al, though more relaxed, has little basis for detecting and correcting his errors. Mick, for all his emotionality, has become a learning machine, using losses to improve his trading. Ericsson refers to this as *deliberative practice*, and it is a hallmark of expert performers. Through guided practice, experts open themselves to feedback and, as a result, become better decision makers.

We often hear the phrase "practice makes perfect," but performance experts in sports emphasize that it is *perfect practice that makes perfect.* How practice time is structured makes the difference between a performer with 10 years of experience and one who has a single year of experience repeated 10 times over.

All performers face a chicken-and-egg dilemma: They need confidence and motivation to win, but they need to win to develop such a winning mind-set. *This is why rehearsals are so important: They permit repeated experiences of mastery that provide the emotional fuel for formal competition and performance.* Mick would not allow himself to take a break until he had reviewed every one of his mistakes and figured out what he had done wrong. Al was much more concerned with keeping a level head. By the time the afternoon began, Al was feeling calm and Mick was feeling confident. Mick had figured things out and knew it. What's more, he knew that if he just spent enough time in review, he could figure out any market. His emotionality, which so many would consider a trading liability, was the intensity of a competitor. Vince Lombardi once commented that good losers usually lose. So it was with Mick and Al.

> Competence precedes confidence: Winning mind-sets result from mastery, not the reverse.

Dan Gable was not a good loser. He also knew that practice is the cornerstone of expertise. After a lengthy and exhausting practice, he would order his wrestlers to perform "buddy carries"—hauling other wrestlers up the gymnasium steps. Author Nolan Zavoral tells of Coach Gable's epic sessions with wrestlers, coaxing them to ride the exercise bike with layers of sweat clothes beneath plastic gear, the sweat pouring from them in buckets once the gear was removed. Every fiber of the wrestlers' being wanted to get off the bike and get a drink of water, yet they persisted. By the time they reached the tournament, they had faced every physical challenge imaginable. They could dig deep during the exhaustion of a close match in the third period because they had mastered similar physical adversity day after day in practice.

Practice is the cornerstone of expertise because it multiplies experience. It provides us with far more experience than we could ever gain during formal performance or competition. Gable's wrestlers executed and escaped many more moves than their competitors, thanks to the rigors of practice. Mick reviewed market after market when he was down money; Al did not. Guess who was prepared and confident the next time a similar frustrating market condition presented itself.

One of the expert traders we'll be meeting in this book is Scott Pulcini, a trader of S&P E-minis at a proprietary firm in Chicago—Kingstree Trading, LLC. I met Scott when I joined Kingstree as director of trader development, and I've been honored to be part of his professional development ever since. What initially impressed me about Scott was not the fact that he had made $10 million the year prior to my arrival. It was that he sat in front of the screen until the very close of the market every single day following every order that came and went from the order book. Note that I am not saying he followed every price tick; that went without saying. He tracked every order that traded and every one that did not. Every day. And, as markets changed, he followed that with a review of the day's trading on videotape.

How many years' worth of market data has Scott seen in his relatively few years of trading? How many years' worth of experience is lost by traders during their periods of emotional outbursts, breaks from the screen, and days off?

When I first came to Kingstree, I was impressed with its game room and well-stocked kitchen. I also was struck by who haunted those facilities and who, like Scott, didn't.

Slowly, it dawned on me: I never saw the really good traders hanging out. They were always in front of their screens. They were Mick, not Al.

LEARNING LOOPS: THE ENGINE OF PERFORMANCE

The first thing we notice about deliberative practice is that it invariably takes place apart from formal competition or performance. Think of the practices of a basketball team or a theater company. The goal of practice is to rehearse skills that will be utilized when the game buzzer sounds or when the curtain rises. Performers receive feedback about their actions during practice, so that they can make appropriate adjustments prior to actual performance events.

In relatively solitary performance activities, such as chess, performers obtain feedback on their own. They record their chess moves and then replay games, observing how different lines of play might have ended. They also spend countless hours studying the games of chess grandmasters. During such study they don't just read the moves, but actually replay games themselves so that they can anticipate the moves of experts. When the student's moves differ from those of the expert, the student can follow the expert's reasoning and see why the move is superior.

Most team performance activities rely on coaches or mentors to structure the development process. Basketball coaches watch the practice sessions of their teams and frequently interrupt the action to work on a player's movement or to coordinate teamwork. Similarly, a director will listen to actors deliver their lines and intervene when the intonation or action does not capture the playwright's meaning. Immediacy and accuracy of feedback is essential to the learning process.

The essence of deliberative practice is what I call the *learning loop*. A learning loop is an attempted performance, followed by specific feedback about the success/failure of the performance, followed by renewed efforts that incorporate the feedback (see Exhibit 1.1). Mick created a learning loop when he used his losing trades to review his trading, identify where he went wrong, and then make adjustments upon his return to the screen. Chess champions enter a learning loop each time they make errors during a practice game and force themselves to replay the game with other lines of attack. During team practices, basketball, football, wrestling, and swimming coaches initiate learning loops for their athletes. In no small measure, basic training in the military is a series of learning loops fueled by feedback from drill instructors.

Wendy Whelan is a prima ballerina for the New York City Ballet, considered by many to be the best in the United States. As described by Chip Brown in an intriguing article for the *New York Times Magazine*, Whelan describes the process that brought her from being a dance student with scoliosis to being among the world's elite: "I used to watch tapes if I wasn't sure of the image I was giving off, or if I needed to learn steps. When I dance, I can't see what I'm doing, I can only feel it. . . ." This is similar to active trading: When we're immersed in markets, we can't see what we're doing. We feel market action, but we can't see ourselves. The prima ballerinas of the world take conscious steps to stand outside themselves and watch their performances, correct mistakes, and jump-start a learning

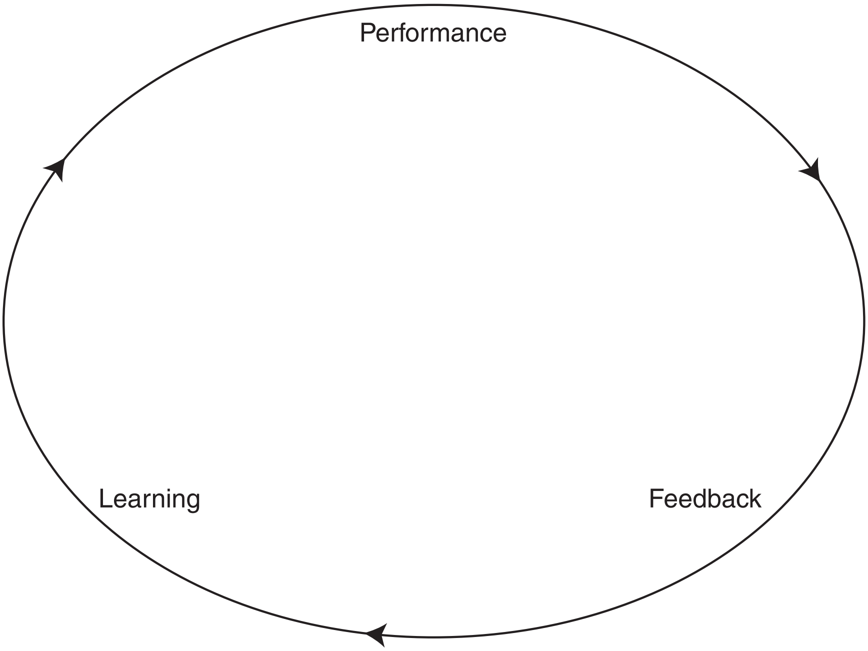

EXHIBIT 1.1 The Learning Loop

process. Think of Nolan Ryan watching tapes of batters, figuring out who will hit the high fastball and who will sit on a curve. Consider serious weight lifters and ask yourself why they always train in rooms with mirrored walls.

All of this seems straightforward. We observe learning loops in classrooms, recital halls, and gymnasiums. Wherever we encounter expertise, we find evidence of learning through deliberative practice.

Then why is such practice so rarely found among traders?

WHAT KEEPS TRADERS OUT OF LEARNING LOOPS?

Let's return to Dan Gable, one of the great competitors in the history of sport. To say that he's an expert performer is a considerable understatement. As a high school wrestler, he won his state championship three times and was undefeated in 64 consecutive matches. He proceeded to win 117 consecutive matches at Iowa State University and twice won the national championship. He was an Olympic gold medalist, outscoring his opponents 130–1 in his final 21 qualification and Olympic matches. As a wrestling coach for the University of Iowa, his teams went 355–21–5, yielding 45 national champions. In his book *A Season on the Mat*, Nolan Zavoral provides a simple assessment of Gable: "Nobody trained harder." Gable was known to practice so hard that he would literally have to crawl to exit the wrestling room. Often, while crawling, he would find a second wind and continue training.

The effort expended by elite performers may not always be as dramatic as that shown by Gable, but it is always significant. In 1869, Sir Francis Galton identified the essence of remarkable ability and achievement as a "laboring instinct," an inner urge to reach ever higher levels of performance.

Next to the leave-everything-on-the-mat work ethic of a Dan Gable, the effort of maintaining a trading journal hardly requires a laboring instinct. Yet the majority of traders won't sustain even this level of performance commitment. Why is that?

Ironically, part of the problem is that new traders themselves view trading as a kind of antiperformance activity. Because they see young people seemingly no different from themselves succeed in the markets, they assume they can do it, too. One trader I worked with was losing day after day and began to fear that his firm would fire him. "I don't want that to happen," he explained. "I want to be a trader. I don't want to have to work for someone else 9 to 5."

There it was.

This was not a trader who was drawn to markets the way Gable fiercely embraced wrestling or Jordan pursued basketball. He wanted to trade because he didn't like the alternatives. The alternatives meant eight hours a day of effort and the loss of the freedom to do what he wanted to do. *But elite performers* are *doing what they want to do when they labor far more than eight hours a day on their craft.* Wendy Whelan, the prima ballerina, loves vigorous rehearsals. "I'm like a Weimeraner," she told author Chip Brown. "I need to run in the park every day. It helps calm me down." Nothing my trader could have said could have so accurately predicted his eventual demise. Without an intrinsic love for the performance activity itself, no one can sustain Galton's laboring instinct to "fret and strive" and overcome barriers to success.

The reality is that expert performance requires an effortful commitment to learning. The perfect practice that makes perfect is sustained by a laboring instinct and a drive to reach perfection. But what sustains that laboring instinct? Why do some traders progress from learning loop to learning loop while others simply run in circles—or stop running altogether?

FROM ENJOYMENT TO EXPERTISE: ELITE PERFORMANCE AS A DEVELOPMENTAL PROCESS

Not all underperforming traders are looking for easy ways to riches. The majority, in fact, fail to sustain learning loops for a very different reason—one that is rarely if ever recognized.

We often talk about expertise as if it's a quality that one possesses. One person is an expert; another is not. Such talk makes it sound as though expertise is an all-or-none *thing*. Research tells us, however, that expertise is a *process*—one that unfolds over a considerable period of time. Moreover, it progresses in stages, with important differences from one stage to the next. The steps needed to advance from an early phase of expertise are very different from those required later in the process.

Benjamin Bloom, Ph.D., of the University of Chicago, coordinated the Development of Talent Research Project in the 1980s, tracking the development of 120 individuals acknowledged by professional peers as world-class talents. These included concert pianists, sculptors, mathematicians, Olympic swimmers, tennis players, and research neurologists. This extraordinary project featured interviews with the elite performers, their parents, and their teachers to better understand the development of their expertise. What the investigators found is that superior performance develops in three stages (Exhibit 1.2):

- *An early phase.* During these years of *initiation* into a performance field, the new performer is engaged in play and exploration. The performance activity is pursued largely for its enjoyment value and is sustained

EXHIBIT 1.2 Phases of Expertise Development (adapted from Bloom, 1985)

	Early Phase	Middle Phase	Late Phase
Primary motivation	Having fun	Developing competence	Building expertise
Primary activity	Play	Skills practice	Honing of technique
Role of the mentor	Supportive	Teaching core skills	Structuring intensive practice
Time commitment	Low	Moderate	High
Primary purpose	Initiation	Development	Mastery

by the ready availability of resources in the immediate environment. Much of the initiation into the performance activity occurs in a social context, with the encouragement of family members, instructors, and peers, who provide positive attention and support. Very often, early success provides a feeling of specialness that sustains the performer's motivation and interest. Teachers during this period are chosen less for their distinctive achievements than for their ability to structure learning in a supportive manner. Performance, at this stage, is pure fun: indulging in something that the performer likes and does well.

- *A middle phase.* At this point of *development*, the performer concentrates on one or more specific fields of performance for serious pursuit. For example, a young athlete who excelled in several sports in high school might focus on just one in college. The performer acquires a great deal of basic knowledge and skills during this period, as the fun side of performance is now joined with directed, effortful activity to learn techniques specific to the performance field. Teachers and coaches are very important in this phase, providing performance feedback and structuring the perfect practice that makes perfect. The development of competence—and the pride it brings—is an important motivation during the middle period as the talented performer begins to excel relative to peers. Family support is also crucial, requiring that significant others adapt to the rising demands of the training regimen.
- *A late phase.* For a limited number of individuals, *mastery* of the performance activity becomes a primary life focus. The goal is no longer competence, but the development of one's talents and skills to the fullest. There is a commitment to self-development, often in the context of working with a recognized mentor who specializes in work with elite performers. The performance field by this time has become a significant part of the talented person's identity: Intensive practice occupies a sizable part of each day. The aim of such practice is the internalization of complex skills, so that high levels of performance become routine. Although such focused and time-intensive effort requires substantial support from family and significant others, by this time the pursuit of excellence is an intrinsic motivation for the performer.

Indeed, Bloom's stages describe many of our lifetime endeavors. Consider, for example, how the stages capture the unfolding of romantic relationships. We start with a stage of dating, having fun, and becoming acquainted with another person. This process is fueled by novelty, excitement, and a feeling of specialness. If all proceeds positively, there follows an intermediate stage of more serious and exclusive dating, in which the couple cultivates an acknowledged relationship. Still later, this relationship becomes a primary life focus with a marriage commitment and the decision to raise a family. As with the development of expertise, what starts as fun becomes, over time, a serious and all-embracing commitment.

Whether in a career, relationship, or high-performance domain, Bloom's work suggests that *working our way through the earlier steps in the developmental process is necessary for moving on to the later phases*. Without a middle period of competence development, there is no readiness for the rigors of mastery. Absent the joys of an initial, exploratory phase, there will be no sustained commitment to skill development.

Most important of all, Bloom's work underscores that *the achievement of elite performance cannot begin with the hard-core pursuit of mastery.* It begins with the simple process of exploration: encountering a field, having fun with it, and seeing if it truly speaks to you.

This insight may seem commonsensical, but it is rarely acknowledged in the trading world.

When we think about developing trader expertise, we naturally focus on the final, mastery stage. We try to teach new traders the nuances of entries, exits, reading order flow, limiting losses, and mastering emotions. This seems quite reasonable at first blush, but is laughably backward from Bloom's perspective. Why would we start traders on the *final* steps of a developmental process?

Think of it this way: Would we recommend that a young couple on a first date accelerate the mastery of their relationship by announcing an engagement?

In fact, there would be no better way to sabotage a fledgling relationship than to artificially accelerate its progression toward marriage. A couple faced with such pressure would rightfully protest that they need more time to learn about each other; they're not ready for such a commitment.

But might that be true for traders as well? Might the premature focus on expertise development—including the intensive practice of a Dan Gable or a Wendy Whelan—sabotage traders' relationships with their craft? Could this be a reason why many traders, especially early in their careers, resist the rigors of keeping journals and imposing discipline? Early in dating, the "discipline" of an exclusive, monogamous commitment might be onerous; later, it is avidly sought. Perhaps traders regard discipline similarly over the course of their development.

Bloom's research supports such an analysis. He found that two factors were crucial to the earliest, initiation phase of performance development: (1) having fun and (2) obtaining support from the social environment. Without the initial fun factor, young persons never develop the interest to sustain them through the subsequent rigors of perfect practice. Part of the early enjoyment of the activity, no doubt, is the praise and attention received from family members, friends, and teachers. Another part is talent: It is difficult to imagine enjoying an activity for which one has little or no aptitude. The combination of early success and early encouragement provides the motivational impetus to continue the activity, which in turn fuels the drive for future development.

Even in the later phases of development, the fun factor remains an important motivational element. In a fascinating program of research, Dr. Janet Starkes and colleagues from McMaster University found that expert performers in sports rated the practice activities most relevant to their development as also the most enjoyable. This finding has been replicated among wrestlers and skaters, as well as soccer and field hockey players and students of the martial arts. In fact, expert athletes demonstrate strong positive correlations among activities that are most effortful, most relevant for development, and most enjoyable. Like Wendy Whelan, they love the runs in the park.

For most of us, the daily physical and mental demands of cultivating expertise at figure skating or the martial arts would be overwhelming. Elite performers in those disciplines, however, routinely report loving the training process. Bloom's insight is that *they didn't start out that way. This is because with performance, as with relationships, the developmental process is one in which extrinsic and hedonistic motivations are gradually transformed into intrinsic, effortful ones.* Building skills while having fun is transformed into an enjoyment of skill building for its own sake.

> Performance, like relationships, begins with a positive chemistry between performer and performance field.

The implications are profound: To develop expertise as a trader, the imposition of discipline and deliberative practice is *not* the first step to be taken. The first step—and the one so often forgotten by new traders—*is to simply have fun.* If Bloom and colleagues are correct, we need to date our performance field before we can marry it.

TIME: THE COMMON ELEMENT IN PERFORMANCE DEVELOPMENT

Another piece of common sense that is commonly lost on traders is that the development of expertise occurs over time. How much time does it take to develop expertise? Research tells us that a minimum of 10 years is required. Indeed, this "10-year rule" is one of the more durable findings in expertise research spanning sports, the arts and sciences, chess, and medicine. There is so much knowledge and skill required by most fields that elite performance necessitates years of development.

In an effort to create developmental shortcuts, traders attempt to jump-start their careers at the middle and later phases, only to encounter frustration. No doubt the young Eldrick Woods would have been discouraged as a child if he had prematurely entered the PGA tour. Given that frustration and its effect on motivation, he might not have gone on to become the Tiger of his field. Dan Gable's approach to college wrestling produced incredible success but would have overwhelmed middle-school students first encountering the sport. If there is a shortcut to producing elite levels of performance, research has not yet found it.

Very recently I had a long and most enlightening phone conversation with Linda Raschke, who has sustained a successful trading career over decades. Recognized as one of Jack Schwager's Market Wizards and long known for her live online trading room that mentors traders, Linda now also manages a fund that has performed admirably since its inception. When the conversation turned to longevity in the trading field, Linda remarked, "Experience counts for so much." It's not that she makes money every month—in fact, she mentioned that much of her profit may come from a couple of very good months out of the year. She says of her performance, however, "I know the cycles." She knows there will be lean times as well as good ones. Her experience provides her with perspective on these ups and downs so that she remains disciplined in the lean times and adds to her account in the good ones. Without time and experience, no performer could hope to internalize such perspective.

What makes an expert trader such as Linda? At the end of their research project, Bloom and his colleagues found that three factors distinguish high-level performance across the various fields they studied:

1. Strong interest and emotional commitment to a particular field
2. Desire to reach a high level of attainment in the field
3. Willingness to put in the significant time and effort required for this high-level achievement

To invest the great amounts of time and effort required for mastery, an individual must emotionally bond with the talent field, creating a long-term relationship. Our task, in the initial phase of development, is to forge an emotional bond so strong that it will survive the inevitable frustrations and opportunity costs of the learning curve.

> The greats do not become great by working hard; they work hard because they find a great niche: a field that captures their talents, interests, and imagination.

TRADING: A MULTITUDE OF NICHES

Your journey down the path of elite performance begins with self-discovery and the simple recognition that trading is not a single activity requiring a single set of skills and personality traits. There are many niches within the trading world, some of which might fit you well and others that will not. Some forms of trading will never be ones you could bond with. Others might fit your personality and talents beautifully. Consider four traders:

- *Sherry*, a graduate from a top MBA program, is a currency trader for a multinational banking organization. She takes long-term positions in the spot (cash) market based upon global/macro considerations. Much of her day is spent talking with knowledgeable bank and hedge fund traders and researching economic statistics from the major regions and countries of the world. Sherry can tell you shipping rates and volumes for most of the major world ports; equally readily, she can summarize each country's monetary policies, debt levels, and interest rates. Just a few good ideas per year account for much of her profit. Sherry trades infrequently, but takes large positions when she does, using day-to-day market movement to help her build positions at favorable prices. Over time, Sherry has built a network of colleagues who share information about large buyers and sellers in the marketplace. She considers this form of information gathering essential in a decentralized global market. Her network, she believes, is her edge. She would never consider making decisions from short-term price swings, and she doesn't view trading as a science. Markets, she believes, reflect capital outflows and inflows that result from decisions made by the largest banks, funds, and central governments. Her job is to track these in an environment with limited transparency. She sees herself as a jungle explorer on a continual safari, stalking for information.
- *David*, a former star athlete in college, works for a proprietary trading firm in Chicago, where he is the equivalent of a market maker in the S&P 500 (ES) electronics futures market. David is in the market at most times, generally working offers above the market and bids below. His goal is to profit from the bid-ask spread by buying bids and selling offers. Rarely does he hold a position more than a matter of seconds. Once in a while he gets "run over" when the market moves rapidly, but he can usually scalp ticks and earn a good living. David has no idea what is going on in the economy; nor does he care. He is an aggressive, action-oriented trader. His world is the moment-to-moment shifts of

bids and offers in the marketplace. David likens trading to playing poker: He watches what large traders are doing by monitoring volume on a trade-by-trade basis and tries to decide when they have strong or weak hands. His trading is punctuated by shouts of joy and frustration, and his cubicle—set near the trade stations of similar traders—seems more like a locker room environment than the office of a professional trader. Once he leaves his desk, his market day is done. He religiously avoids thinking about the market lest he become locked into opinions the next day. He thinks charts are a waste of time, and the only news he follows is economic reports released during trading hours. Markets move, he believes, because of the large locals and institutions that trade each day. His job is to read their actions and intentions the way a poker player reads the tells of opponents.

- *Pat*, a business development manager for a regional manufacturing company, is a moderately active, part-time trader of equities, relying on momentum patterns for trades that last three to four weeks on average. He reviews dozens of charts each weekend, scanning his microcap stock universe for relative strength information and volume trends. Few analysts cover the stocks he trades. This is fine by him; he doesn't want the opinions of analysts to interfere with his reading of supply and demand. Pat cannot give much of a description of what each of the companies does; he only knows their short-term trading patterns. He particularly gravitates toward stocks of companies with recent news events and price breakouts. His greatest success has come from capitalizing on the volume and volatility in individual small stocks following earnings reports and surprise developments. His stocks don't closely follow the major market averages, so Pat spends little time looking at economic reports. Instead, he tracks patterns of momentum with the Commodity Channel Index (CCI) using end-of-day data. He has developed a feel for the CCI's patterns and uses them to time entries and exits. During the day Pat focuses on his work in sales; at night he briefly reviews his charts and adjusts his portfolio as needed. Holding his positions for days or weeks at a time and limiting his screen time to evenings helps him separate his trading from his family and work obligations, but also provides him with supplemental income. He believes that charts capture the psychology of the marketplace and that small stocks avoid the noise created when large institutions trade in and out of the market. He views himself as a kind of psychologist: His job is to catch swings in market sentiment and profit from price trends.
- *Ellen* retired from her position as a software engineer following the buyout of her previous employer. Her cash-out from stock options

> allowed her to take up trading as a second career. She studied market patterns from historical data, testing these to determine whether it was profitable to trade them. Eventually she found a recurring pattern of trending price behavior in the fixed-income markets based upon early morning strength and weakness. Ellen developed automated programs to trade these patterns in the 10-year Treasury note and 30-year bond, freeing her from the screen as the trades unfolded over the day. Recently she hired a brokerage firm to trade the systems for her, providing her with more time to develop mechanical systems in other markets. Ellen's goal is to diversify her risk by trading a basket of commodities with her best-performing systems. Her research is filled with estimates of risk and evaluations of system parameters: drawdowns, profit/loss (P/L), and so on. She frequently tweaks existing systems and tries out new ones. She studies little of the fundamentals behind market movements and rarely interacts with others over their trading opinions. For Ellen, trading itself is an unemotional task best left to computers. System development is her first love, a source of continual challenge and fascination. She believes that markets are continually evolving, requiring constant evolution of her systems. Her job is to recognize when markets are changing and identify their new patterns as quickly as possible, before they become more widely known to traders. She views herself as a scientist, ferreting out patterns amid randomness.

These four traders are composite portraits of individuals I know personally and who are successful in the markets. As a psychologist, I find it interesting to see how each of them found a niche in the market that fits their personality and lifestyle. Pat is a consummate businessperson, with more than a bit of people skill. It is difficult to imagine him as a full-time trader; he enjoys the social process of business development far too much for that. It is also impossible to imagine Ellen haunting trading chat rooms. Truth, for her, is to be found in empirical research—not the randomness of people's impressions.

To look at him, David could be any kid off the street. He wears shorts to the office, with a baseball cap turned backward. When he is not trading, he is drinking with buddies over a poker game or playing basketball in a local league. He is clearly driven by the competitive element of trading and its nonstop pace. Over the course of any particular day, he may trade well over a hundred times. Sherry, on the other hand, is far more calculating. She divides the world into those people who have information and those who don't. Her skill, she believes, is the ability to assemble large amounts of information into a coherent picture. The upticks and downticks of the market, for her, are random noise hiding what is really going on among the market movers. She believes the real work of trading is extracting information from her network, just as Ellen believes the real work of trading is research and system development. For them, all the rest is merely placing orders. For David and Pat, reading the market is the essence of trading; everything else is extraneous.

We refer to Sherry, David, Pat, and Ellen as traders, *yet their careers barely overlap*. Each has found a niche, just as psychiatrists, surgeons, and radiologists find their niches within medicine. When my daughter Devon began modeling school, I always thought models were models. It turns out that very different talents and skills determine who will be successful as a runway model, a print model, or a hair model. Fortunately, trading—like medicine or modeling—is broad enough to encompass a variety of careers, each drawing on particular skill sets and interests. *This provides traders with the possibility of finding the kind of market and market activity that will prove personally as well as financially rewarding.*

> Success reflects the fit between the person and the performance environment.

Finding the right niche makes all the difference in the world when it comes to performance. A hall-of-fame baseball pitcher might well be a flop as a hitter; a punter in football rarely makes a good linebacker; commercial print models are not necessarily the ones who dominate the runway; the best medical researchers don't always make the best teachers: Over and over we see examples where the difference between success and failure is being in the right niche. Sherry and Ellen would fail miserably as scalpers; David would go crazy waiting months for his positions to work out. Pat actually did try trading full-time and lost his motivation as well as a fair amount of money; the experience was too isolating. Each of them, however, has found success through a meshing of who they are as people and how they approach markets.

All four traders work hard at what they do, but none of them really consider it work. Every single one has expressed a sense of wonder at getting paid for doing what they love doing. David is a gambler; Sherry is a huntress—they do what they do because it is who they are. The key step in their performance development was not the discovery of a great indicator or the exercise of some mystical knack for trading: It was simply finding, within the trading world, an activity that allowed them to express their talents and interests. For that reason, trading became intrinsically interesting and rewarding, sustaining their learning curves. One does not become a top gun without some click between personality, abilities, and the challenges of being a fighter pilot. That same click is found among trading's top guns.

HOW DO TRADERS FIND THEIR NICHES?

Oddly, this topic is almost never addressed in trading texts. In the medical world, niche finding is a paramount concern: Students participate in rotations covering each of the specialty fields to experience them firsthand. After six weeks of pediatrics, six weeks of general surgery, six weeks of radiology, and six weeks of psychiatry, students begin to gain a sense for the kinds of medical practice that speak to their strengths and interests. *Most of all, they learn which of the fields is fun.* Students destined for surgery and emergency medicine are a bit like David; they gravitate toward active practice fields. Research physicians are more like Ellen, finding their fulfillment in problem solving and the analytical process. Each group finds its own path through the developmental process, cultivating what comes naturally and most enjoyably to them.

Traders rarely have the opportunity to pursue fun and sample different specialties. How many of us have attempted position-trading volatile instruments like Sherry, and then scalped deep electronic markets like David? Imagine approaching trading as if it were medical education: trading baskets of stocks for 6 weeks like Pat, developing a trading system for precious metals futures over the next 6 weeks, and then spending 12 weeks building currency positions based on macro analyses. The odds are good that, like medical students, we would hate some of the experiences and love others. Those emotional responses would be informative, because they would start us on a track where we could then develop ourselves in our preferred areas.

This is precisely the first step to take on the performance path. Before committing to a market or style of trading, you need to experience what it is like to trade frequently and how that differs—cognitively and emotionally—from holding positions. You need to immerse yourself in different markets and feel the difference between trading such instruments as large-cap stock indices, microcap stocks, energy futures, Treasury notes, euro currency, and equity options. Such experience teaches you much about yourself—and about markets.

Without exposure to different trading activities, traders are a bit like partners in an arranged marriage. Maybe the arrangement will be a good fit; maybe it will be a disaster. It probably won't be fun. And, as Benjamin Bloom found out, it is difficult to sustain a commitment without that emotional bonding. *How many traders never progress through the stages of mastery not because they're lazy, but because they're simply in the wrong place?* If, even after a period of courtship and engagement, half of all marriages end in divorce, how can we expect to make better decisions about the markets we marry without so much as a few dates?

> It's not whether you can be a good trader; it's whether you can find the trading that's good for you.

We started by distinguishing experts from novices and found that experts are engaged in learning loops fueled by deliberative practice. The question then arose as to why more traders are not traversing these loops. Desire for an easy lifestyle and quick riches no doubt sabotages the pursuit of excellence for some traders, but Bloom's research suggests another possibility: Perhaps the initial focus on intensive practice is misplaced. Many traders have problems with their discipline for the same reason that young men have trouble committing to relationships: *They're just not ready*. If you're having performance problems in trading, instead of berating yourself with exhortations about discipline, perhaps we should figure out the answer to this question: What experiences will help you move through your developmental process, so that you'll eventually *want* to make—even crave making—a disciplined commitment to your work?

The famous American inventor Thomas Edison once noted, "Genius is one percent inspiration, ninety-nine percent perspiration." Many people missed opportunity, he said, because it dressed in overalls and looked like work. Yet he also claimed, "I never did a day's work in my life. It was all fun." That is the paradox of expertise: It is hard work—*and* it is fun. In fact, it is so much fun that we spend long hours at it and become highly skilled as a result. If you simply focus on the work part, you'll see nothing but overalls and miss life's opportunities. If you have nothing but fun, all the inspiration in the world won't make up for the absence of perspiration.

But to perspire at something that is all fun—*that* is possible only to those who have found their niche in life.

Does such a niche exist for you in the trading world? Let's find out.