PART ONE

What Is Mastery?

CHAPTER ONE

Defining Mastery

What is mastery? Webster defines *mastery* as the possession of a skill or technique that implies freedom from flaws or imperfections; or skill or knowledge in a subject that makes one a master in that subject. Mastery is having supreme proficiency in a particular activity. In this book, I expand the use of the term *mastery* to describe that degree of competence at which the individual is willing and able to take responsibility for the outcome of his or her efforts, even in environments where the individual does not control all of the forces, such as the markets.

THE PSYCHOLOGY OF MASTERY

I view mastery as a strategy for effective living as well as trading. It is a strategy that lets you tap your hidden potential by taking on challenges over and above the mundane or ordinary. By understanding the psychological underpinnings of mastery and the obstacles that you have to overcome in your efforts to obtain it, you are actually working toward your greater vision.

Ultimately mastery is about adaptation, not just about learning a specific set of skills. This kind of adaptation requires willingness to face and to conquer internal psychological issues, fears, and uncertainty. A master trader learns to adapt to changing requirements of the marketplace as well as to deal with the psychological factors underlying the development and maintenance of mastery.

Elements of adaptation include developing flexibility, learning new methodologies, creating support structures, encouraging the use of coaching, building teamwork, and finding new ways of doing things. While there are certain intellectual, genetic, and personality factors that contribute to the development of mastery, ultimately whether an individual develops mastery depends on his motivation, desire, and willingness to be coached. Mastery is a matter of attitude and, beyond that, the development of the power of your mental potential. Mastery is ultimately about creating a new world outside of your habitual or automatic responses, which are based on your past experiences, on what you learned as a child, or on how your culture has defined your existence. Mastery is about letting the future define your actions in the present and living out of a declared vision. It also involves a willingness to embrace the unknown.

One trader, who was beginning to embrace the principles of mastery, described this view of mastery to me: "It is useful not to get too distracted by the mind traps that others tell you about in helping you to line up your portfolio. The more critical thing to do is to decide what you are inclined to do, what you are going to do, and what it is that is interfering with the implementation of your plan."

Case Study on the Need for Mastery

Clearly, it is easier to maintain mastery if you do not put yourself in jeopardy and do not add pressure by having a negative performance. So, in an effort to adapt to new or changing markets, you must to realize that change itself can throw you off balance and stir up additional problems for yourself.

The principles in this book point to the fact that you develop mastery by action. The very act of focusing on the development of mastery as a psychological approach to performance moves the spotlight away from yourself and encourages you to focus on the steps needed to reach your goal. It also encourages you to see, for example, how you may be misreading or misinterpreting events. It prompts you to take responsibility for your results and to consider how you are currently (although unwittingly) inviting the results you are getting, even though they are not what you say you want.

An interesting example of this was illustrated by Derek, a new portfolio manager who wanted to switch strategies. He was attempting to adjust to working in a hedge fund that emphasized the short-term, catalyst-driven model of trading, rather than the long-term, fundamentalist, buy-and-hold approach that he had learned at a previous hedge fund. While no one had expressly encouraged the strategy change, he was caught up in the moment and in the pull of a faster-moving culture where people sought to produce short-term results and capitalize on the intraday volatility of the markets rather than ride out the volatility and suffer the pain of temporary drawdowns.

The following conversation from early 2002 illustrates the adjustments that a trader needs to make so that he can reduce distractions and stay true to the strategy that he had developed over the years—a strategy that would ultimately produce the greatest results for him. I include this conversation by way of emphasizing that mastery is a practice of excellence that requires honesty, consciousness, choice, and a willingness to take responsibility for what you produce.

Derek: This market has been so incredibly volatile ever since I started. You buy something, and the next day it's down twenty percent. Well, maybe I should be less short-term oriented. At my previous hedge fund, I spent seventy-five percent of the time trying to understand the story on the fundamentals and maybe twenty-five percent of my time trading. In the past several weeks I have spent seventy-five percent of my time trying to figure out the market and twenty to twenty-five percent of my time doing the fundamentals. I am down a little bit. So I have to get the P&L [profit and loss] in a positive direction to get the momentum behind me. Once I start doing better I will start feeling more confident and get back to playing my game.

Kiev: You are losing money in longer-term positions where the prices are going down, but you believe in the eventual recovery of your stocks? Have you reviewed your historical performance?

D: I just did this from February because I was very curious. I thought I did okay on some of my longer-term holdings, and I looked at where I lost money. So, I think these are the top ten losers where I lost money.

I was under pressure to perform, and I sort of took shots. You can afford to do that when you're up a lot. When you are up fifteen, twenty, and thirty million bucks, you can take shots with these things. But these weren't my ideas. I didn't spend a lot of time doing work on them.

D: So, you're losing more when you play other people's stuff.

D: Yes. I should be doing even fewer trades.

K: You should be making more money in your winners than you are losing in your losers.

D: Which isn't happening. I lost a million and a half bucks, which means I am doing too much trading.

K: Are you holding your losers too long and not holding your winners long enough?

D: It is possible, but this market is getting incredibly volatile.

K: What would mastery be for you?

D: Less trades and more conviction, like XYZ Corp. when I was shorting it. I only made six thousand dollars on it. If I held on to that short position, I would have made two hundred thousand.

K: You got out too fast?

D: I got out too fast. I think that is what happens when you start losing money. You feel pressure on yourself to cut your losses and to make money.

K: Is it possible that you are cutting the winners?

D: You never know what is a winner and what is a loser.

K: If you knew more about the company, wouldn't you know enough to stay in it?

D: I think that is right.

K: You don't have the confidence in your work or the conviction in your positions that would enable you to do it.

D: On the long side, I think that is right. So, on the long side I have to stick to it. One computer company I owned was a loser here and was down two and a half bucks the other day on some kind of rumor. I bought two hundred thousand shares. It was a seven percent position. It was twenty-one, and it could go to twenty. I mean anything could happen. It could go to nineteen. I felt like this was it. I mean I have to take my shots. I am here to buy these things when everyone else hates them. I knew the fundamentals. Then it bounced up two bucks, and I sold some stock, which is fine.

So I am trying to build more longs that I have the conviction in and then trying to get a little more conviction on the short side. For the moment, I'm covering shorts that go against me because I don't have conviction. I feel better, but I haven't made any money. Yet, it's good to feel better when I have stopped losing lots of money. I am only down about a million.

K: How much are you running?

D: A hundred million, but I haven't taken up the capacity yet. I am taking about forty of it because I have been taking baby steps. I wanted to get a P&L behind me so I can take some shots on stuff. I feel like I am getting there. I am not there yet, but I feel better about my process.

K: Do you have some longs you could be bigger in?

D: I have one seven-and-a-half-dollar stock, which is a long, and I am making it bigger.

K: What percentage?

D: At this point, it is a four or five percent position. I am going to take that to a seven or eight percent position. I think it's maybe a ten-dollar stock this month. You have to feel pretty good about it. It's eight. It's a twenty-five percent move.

I felt good about it last month. In a down Nasdaq tape, I made money in it. It was my number-one idea last month. To me it's a shame that I only made that much money on it. I should have owned more stock. In a year, I want to reduce these small losers where I just kind of get in and out, and I am not really sure what I am doing. I think I am getting there. I am being much more selective in what I am going to do.

K: It seems to me you have a lot more positions.

D: These are all my active positions now. These are from the month of February. My active positions right now are quite small. I want to have more conviction in my ideas.

K: So, about this seven-and-a-half-dollar stock. Do you really think it's a good one?

D: I want to step it up. It is so much easier when you have P&L behind you. At my last hedge fund, I always had a positive P&L. Even this year when I left, I had a positive P&L for January. I don't want to be negative. So, one of the differences for me has been the psychological effect of having a negative P&L. I have to get over that. I am not here to get back to breakeven. I am here to get up to twenty, thirty, forty million bucks. I understand that I need to be stepping up. I am trying to react to that. I think I am going to get there.

K: It sounds as if you are preoccupied and not playing your game. You are really concerned about your P&L. But I am saying, "Do what you do. The P&L will take care of itself."

With too much concern about P&L, you are going to start buying stuff you don't know. You're going to start playing like an amateur if you let the emotion get in the way and you get too tense. If you are really concerned with P&L, then the perfect thing for you to do is what you already know how to do.

D: That is my thing—to make money in a down market. I feel like I, more than anyone else, can find stocks that are off the beaten path, things where I can get involved in what I know better. I can react to my game. I am trying to do more with that.

K: That method that will produce results.

D: Absolutely. It's proven that it will. I feel like I am getting there.

Derek's trading is clearly being influenced by his belief that he must build a cushion before he can start taking more risk. This is good risk management; but from the angle I am pursuing, it is reflective of a cautious Life Principle that is keeping him from reaching his ultimate capability. (I'll talk in detail about Life Principles a bit later in the book.) By continuously challenging his views, I am trying to get him to think more proactively about what is possible, to gather confidence from his own prior performance, and to not be too distracted by concerns about making the right impression in a new shop.

Derek needs to rethink his current approach and to get back to basics. To handle his drawdown, he needs to get smaller in positions where he lacks catalysts or conviction based on fundamentals. He doesn't need to hold anything long term unless he has an edge; and he needs to balance his portfolio so that by being hedged, he will take out market risk. In this way he can reconcile his long-term approach with his preoccupation with P&L and the shorter-term trading approach of the new hedge fund environment.

Just like Derek, many traders need to realize that true mastery is about being totally present in the now and totally engaged in the current activity.

Mastery is a set of skills and exercises that enables you to become more fully absorbed in the processes of your life and work, not to obtain power or prestige but to maximize your performance. It involves asking the kinds of questions to produce a level of expertise that produces extraordinary results.

FORMULATING A VISION

One of the first ideas essential to the development of mastery is the creation of a concrete goal around which to frame your trading activities. Although this may not always seem to fit the particular trading styles of all traders, it is my firm belief that it is the essential first step to mastery; and even some of the most diehard buy-and-hold value investors (who tend to have long-term general objectives for the stocks that they hold) have, over time, come to recognize the power of setting specific goals.

Once you are focused on goal setting and the development of trading mastery, you will be able to get outside yourself and begin to draft a blueprint for greater success. By creating achievable goals, you can escape the trap of self-cycling trading errors that intensify losses rather than reduce them.

Case Study on Making Commitments

I like to meet periodically with traders in a group setting because I find that this kind of dynamic facilitates the conversation of mastery and provides an opportunity for traders to learn from each other. In the group setting, there is a greater chance of creating the momentum that comes from a shared vision and the inspiration of the leader. When traders get together to discuss what is expected from their groups, each trader talks about his goals and what the individual strategy will be. This dialogue is important since it creates a sense of group cohesiveness. The leader plays a role of catalyst, gadfly, and inspirational source.

I have this particular dialogue periodically with groups of traders. It shows through a psychologically driven conversation, how I prod traders to declare their goals publicly. I have been having these types of conversations for the past 12 years, and many of the traders know the "drill." They understand that the request for making a public declaration of goals for the year is not frivolous, it is a statement of intention to which they will be held.

The purpose of this discussion is to make the traders more aware of their need for flexibility and adaptability and for paying attention to the demands of the market. It keeps them conscious of the goals and of the need to keep digging deeper into themselves for the confidence and strength to produce outsized results. It is based on the view that each trader has the potential for greatness or excellence within himself. Therefore, I ask what each trader can promise to do in the long term and what he will do in the shorter term time frame to make this happen.

In order to reach mastery, traders are challenged to think deeply about what they want to accomplish during the coming year. They have to consider what actions they are willing to commit in order that they can make their goal really happen. They are asked not only about a number, but also about specific strategies:

- How are they going to control their losses?
- How are they going to maximize profitability by sizing their positions commensurate with their goals.
- What will they do this year that they didn't do last year?
- What new procedures will they put in place to ensure their results?

This excerpt illustrates this kind of dialogue, the kind that helps set the stage for performance goals and encourages traders and portfolio managers to think about developing a strategy to help them realize the vision:

Kiev: Give me an idea of what you are going to do differently this year to reach your goals?

Fred: The way we plan on getting to our goal is primarily to have ten ideas and make three million dollars in each idea over the next twelve months. We will supplement that with trading calls.

K: How are you going to find those ten ideas? What's going to change from what you did last year? What are you going to do to ensure that you are going to be able to produce these results?

F: We don't have a problem making the profits. Our problem has been managing risk on the losses. So, we are going to put a much shorter leash on those problems. We are going to watch our drawdown and monitor that much more closely than we have in the past: ten percent stop loss, that kind of thing.

K: I think it is good that you are recognizing your weaknesses. I would put in a bit more time thinking about your strengths, in particular learning to size your positions. You want to get in the habit of getting bigger in your winners. Ultimately, that is an important component of mastery.

F: Got it.

K: How about you Ric?

Ric: Last year we came close to our goal. So, we weren't too bad. This year, I am increasing the number. I expect to get the market share gains. We are going to use more capital.

K: How about you, Phil?

Phil: I am going to get to my goal by using more capital and getting a little bigger. I went through last year's numbers, and the batting average was good. I just have to do it more consistently and more often.

K: What was your batting average?

P: It was just the number of winners versus losers. I didn't have a lot of big losers, just a lot of winners where I could have made more money if I were bigger.

K: What is it going to take to get bigger in those? What mental adjustments do you have to make to do that?

P: Just do it.

K: Double the size or make them fifty percent bigger?

P: Thirty or forty percent bigger.

K: How about you, Jim?

Jim: Our goal was to use all of our capital. I think we came in above that. Our goal this year is to use almost twice as much capital.

K: Any change in your strategy?

J: I think I can size my positions better and scale into the positions more appropriately. I think I can be twice as big in any of the positions that I am in. They are more liquid. We can also use more discipline, more stop losses. We have a pretty solid team in place.

K: And you Dan?

Dan: We have to get outside of our comfort zone a little bit and take it up to the next level. In order to do that, I think we need to surround ourselves with the best people we can find. Right now, we are in the midst of hiring some first-rate, top-notch analysts who are going to help us deploy more capital. We are hoping to create more of a dialogue with other accounts in the firm so that there is greater information flow between accounts, thereby maximizing the leverage that we all get from information sharing. There is a tremendous amount of synergy that can be created by connecting the flow of information. One idea affects many derivatives.

K: Sean? What's your plan for the year?

Sean: I plan to do five million a month. I have given some responsibilities to a guy who is doing analytical work with us. He will manage the money a little bit. I also want to get out on the road a lot more. I am in the process of looking for an assistant research person. I am going to speak to the companies a lot more. All the incentive is there. It's just a question of whether it's the right guys or not. It will be sink or swim for us.

K: That's another thing. A lot of guys in the firm are hiring analysts. What are the expectations of these people? What are the expectations between the trader and the analyst? My experience is that there is tension in that relationship. Invariably, the analyst thinks he is the reason why the account is making the money. But the trader sees himself as the one who is managing the risk, which is the more difficult function and one which ultimately accounts for the results. Both roles are very important. So, communication and honesty between the analyst and the trader are critical to reaching your goals. There has to be some effort put into managing each other's expectations and being truthful. People need to know where they stand without holding back. What's your target, Stan?

Stan: I will shoot for ten million this year. I just have to get bigger.

K: That sounds reasonable. The importance of the goal is to create the stimulus for doing the kind of work that is necessary to produce that result, managing your downside risk so that you don't get into a hole and sizing your positions commensurate with your goals.

K: Jake?

J: Our goal is forty million. I am excited about the year. I have two analysts. I mean financials are a big part of the S&P [Standard & Poor's]. We have evened the bench a little bit. I think we are going to get very involved in deeper research. If we put real money to work instead of trying to trade and chase stories, we are going to be able to make a lot more money.

K: What do you need to do differently this year, Jake?

J: We are going to limit our losses and stop being stubborn.

K: There is a difference between being stubborn and being protective. It is subtle, but there is a difference.

J: I am trying to get bigger, and we are trying to push each other.

K: Tony?

Tony: I am on a good track from last year. I somehow have to figure out how to do a better job with my analyst, Don. We are going to segregate some of his longer-term ideas.

K: Is Don in charge of that?

T: Somewhat. We are going to try to start with a new structure, but there are a lot of things that fall through the cracks.

K: What does that mean, "fall through the cracks?"

T: I am having a hard time getting conviction. I think a lot of it is just lack of catalysts. There are a lot of movements in stocks if only we could size our positions in terms of our conviction.

K: This is a critical aspect of trading. To get bigger you need conviction, which you develop from confidence in the work—in particular, confidence in your variant view. A catalyst will help your timing and increase the probability that your variant view will be assimilated by the marketplace. With a variant view and a catalyst, you can make inferences about prices being too low.

If you recognize this early enough, you can bet bigger and profit as the stock price moves to a more reasonable one. The same holds true on the short side.

Mastery allows you to increase the concentration of your positions because of conviction and a catalyst that increases the probability of being correct. One caveat in all of this: Watch out for false conviction in believing that you have an edge because you have done the same work as someone else. Remember, mastery is ultimately dependent on original work.

It is hard to get conviction when there is no additional perspective or what Steinhardt called "the variant perception," something to give you some advantage over the rest of the world. To get this, you need to do more digging to find reasons to buy the stock for the short-term gain in profits. The smart trader looks to his analysts for these kinds of ideas. He is always weighing the reliability and the validity of these ideas based on the source, the assessment, the analysis, correlated analyses, and other indexes, in order to increase the likelihood of correct choices.

All that being said, it is useful for you to consider how you are going to develop conviction.

T: I don't know that yet. I don't know that it will change.

K: Don, how is that going?

Don: It's good. We are setting up a bunch of meetings with what we think are the best newspaper analysts and trying to get the specific data points that can work as catalysts. There is not a great market cap there either, but it's not bad. It's probably about fifteen billion dollars or so.

K: Marshall?

Marshall: We are going to reach our goal by minimizing some of our losses. I think we have a pretty good team in place. I spent the past six months just trying to make sure that everyone understands the role he plays. Now we have the infrastructure to achieve seventy-five-plus million.

Will: I think that one thing we are going to do this year is try and get two trades right that we didn't get right last year. What we have done is put two or three guys doing primary research, and we just focus on those people all year long.

K: Any ideas how you are going to use more capital?

W: I am putting a log together every day to make sure that I am focused on how much money I am using, how much each position is going to be.

K: Does that help? If so, how does it help?

W: When you write it down every day and visually look at it, and it's a three million dollar position that should be a five million dollar position, you have to do what you have to do to get it up to five million. I am going to review once a week, just to make sure they are not walking.

K: Do you find that you put it outside yourself?

W: Yeah.

Jerry: I guess I will use the same amount of money. You know, cutting the losers and not being as stubborn and learning the groups and learning how they trade best.

This is one of the more powerful discussions that I regularly have with traders. The objective is to get them to publicly share their objectives and their strategies for reaching them. It's to help them to tweak these in terms of their past experiences and greatest strengths.

Like them, you have to understand how you may be getting in your own way in the implementation of your plans. This discussion also underscores the power and the significance of individual trading styles because much of my inquiry moves in the direction of encouraging you to think of the individual steps you need to take in line with your talent and style.

There are several values inherent in a multitrader setting. It gives traders a chance to hear how other traders are struggling with the same psychological barriers, therefore giving them the very positive feeling that they are not alone in the face of uncertainties in the marketplace. It also provides a supportive setting in which people can gingerly step forward and promise extraordinary results without being ridiculed.

This conversation is continued throughout the year in order to keep traders conscious of their goals and their strategies and of how to adapt to the markets when those strategies aren't working. Such in-depth conferences are necessary to maintain an attitude toward mastery as a way of approaching work that requires continual self-examination and adjustment when things aren't working. It is not formulaic talk that you can adapt wholesale. Rather, it is intended to inspire any team to develop its own visions, remaining actively engaged in the process throughout a trading season.

ENHANCING THE PROCESS

Trading mastery is not a cookie-cutter type of profession where you can learn a few rules and then implement them. It is ultimately about taking a leap of faith and stepping into the abyss of uncertainty. You need to be ready to commit to an outsized goal and to then do what it takes by way of work, analysis, coaching, asking for help, and other things, to be able to stay on top of the goal in the face of difficulties that cannot be predicted at the time of the initial conversation. It is like taking a course in sailing and then being thrust immediately out to sea in the midst of a storm. You must be able to tack, come about, make minute course changes according to the circumstances that you encounter.

If you are going to attempt to reach the shores of mastery, you must be more focused on navigating the trade waters than on whether you'll be hailed as a hero afterward. You'll know you are approaching mastery when you:

- Are able to endure high levels of tension.
- Are able to monitor your anxiety and control it.
- Are comfortable about expressing aggression and being venturesome, bold, self-assured, and uninhibited.
- Are realistic about your abilities.

- Can overcome obstacles of fear, self-doubt, and lack of confidence when they interfere with accomplishment of the goal.
- Are able to tune out distractions and focus on one thing at a time.
- Can establish and stick to goals and set priorities, and have the capacity to mentally visualize the trade so as to formulate a game plan to respond to events.
- Feel in balance within yourself with immediate awareness or controlled spontaneity.
- Rely on a minimization of defensiveness, such as rationalization, concealment, blocking, and "passing the buck."

What are the techniques you can follow to help function in the world in the same way as the master traders have developed? You must identify lacking in your armamentarium of techniques and the bad habits on which you rely. Simply put, you'll need a self-awareness that allows you to change. The specific steps each person follows on this path to mastery are unique, depending on the ways in which he is already inclined to trade.

Case Study on Becoming a Master Trader

Staying focused isn't easy in a busy trading desk where there are multiple decisions to make, a lot of activity, and changing crosscurrents. Irwin is one trader who recognizes that he is easily distracted and addicted to the noise. He allows himself to get off his target when the activity around him interferes with his concentration.

While the ultimate algorithms on which a master trader relies are encoded in his own mental computer, there are things the trader does that others can imitate. That's why, as I tell Irwin, it is useful to think about modeling yourself after a master trader. I'm not suggesting that you copy his exact style, but that you try to understand what it is he is doing that contributes to his masterful component skills. In this conversation with Irwin, I talk about both what he needs to do and what he can learn by watching one of the master traders.

Irwin: I have to learn to let go when I make a decision. I have to conquer the fear that happens when I go for something, to keep my goal in mind and not let others influence me. The road to the destination doesn't necessarily go straight. Even when others are going crazy, the master trader stays focused on the target. He knows where he is looking to go and is not afraid of the noise in between. I have to learn to clear out the noise by doing a bit of what he is doing.

I want to have confidence in what I am doing. I can't be afraid. I have to let the noise not distract me. Like yesterday, I was short a large energy company. I knew it was going to zero. I covered the bonds. I was short 4.5 million of bonds. I was tired, and I was afraid they would pop. There was no upside. I said, "If they go up, I'll short more. There's no way it's going up. I have to find a place to short it." I had the conviction, but I covered some of it.

Kiev: What were you experiencing?

I: Boredom and the end of the year. So, I decided to close out the trade. I felt like stretching for another ten points; but for a half million dollars, it was a bit greedy. It wasn't a bad thing, but it wasn't the best decision.

K: The key to mastery is to identify what you are experiencing at the moment you are losing your focus and getting off your game. What made you do what you did? Did you stop being masterful? What is it that you need to focus on in order to reestablish mastery in the trading process? You have to learn to do it, not simply to understand it.

I: Sometimes people do things reflexively as opposed to thoughtfully. If I can analyze what went right and wrong in a situation, I see the points of light. That is what I need to be able to do to get bigger when it is happening. If I see a mistake, I need to contain it and not get scared by the noise. I have to take these trades when I see them and not wait so long that I miss them.

K: You have to trust your conviction based on your analysis and then recognize the movement of the price action and where you can get in on a trade rather than wait until it drops to your preferred price. If it drops, perhaps you can buy more of it.

I: If I take a mark because it drops after I buy it, I am sorry. I have to get into the trade based on what I know. I have to be there and not try to buy the bottom.

K: Listening to others allows you to rationalize your inaction.

I: It's an excuse. Most people like to talk about their obstacles.

K: Trade independently of the obstacles.

I: Learn to work around them?

K: You don't have to worry so much about the obstacles if you are focused on the target. Make a decision. If it's wrong, don't obsess. Act. There is a computer in your brain that can compute more than your rational mind can compute. Rationally, you decide on the target and then take in the data and allow the computer to compute. You have to take action. If it is wrong, you take another action. It is a series of actions. You get paid for taking action. Too many people blame the situation instead of recognizing that they can choose and can take action. They blame others or the market or the difficulties of the market. You only mess yourself up. You are the only obstacle. You are uncomfortable when you lose money. Before the big situation, you see it and don't react. Remember the feeling. It's uncertainty. Make a decision even if it is not as big as before. Mastery means replacing this lack of clarity with confidence. The interesting thing is that you cannot provide a formula for someone. This is intellectual.

I: You have to handle your emotions. If you want to play in this world, you have to understand that it will maximize craziness. You have to stay focused, and you can't second-guess what you should have done. You have to keep moving. A master sees something happening, and he starts buying and keeps buying as long as he has the conviction that it is appropriate to buy. He develops conviction in an idea and the belief that the stock is going to go a certain distance. Even if it does not appear to be rational at the time, he puts his head down and moves forward full speed ahead.

K: There is often no time to think. It is a question of being prepared, having a game plan, having an ability to react to market movements. It is like tennis. You have to know where your racquet is and keep your eye on the ball and then maximize your performance by playing intuitively.

I: It is reflexive. Whatever you do may not be right initially, but you are playing for a specific result. A master trader sees the V bottom, and he keeps buying even when it goes down because he has conviction it is turning up. With more data, his conviction level also increases, giving him more confidence about playing when others are beginning to get scared because the price may have dropped as they got into a position. You can't be hesitant. Yesterday, he said, "Sell." If it's wrong today, he'll say to buy it back. He is always moving.

K: We are talking about emotional intelligence. That is a critical component of mastery.

I: I can take pain if I think I am right. That gives me intellectual reward later on. Hopefully, I can minimize the pain. I am sometimes too early. I understand the master trader's philosophy. Why be in there if you can get it going the other way? You taught me to learn from that discomfort.

K: There's no reason to escape.

I: The feeling is not an obstacle. It is a built-in message that is giving you a direction of what to do. You are telling people to ride out their discomfort. Can you use pattern recognition? Can you use your feelings to give you some indication that something must be done? I want to be more objective. If one of my shorts goes down or one of my longs goes up, I have a tendency to want to take a profit.

K: Do you have a target?

I: I have to develop one.

K: It will make a big difference in how you trade.

I: The absolute number that I want is so big that I am reluctant to commit to it. I don't want to get screwed by setting too big a target.

K: That is a Life Principle or cultural myth about setting a goal. What I am hearing you say is that you believe that you will be taken advantage of. So, instead of stretching and playing better under pressure, you hold back. You erroneously think that you won't stretch or go for it until you have assurances from others. In fact, there is only the game, and the task is to play the game full out and let go of your own erroneous notions about what might happen to you. Holding back can only hurt you.

Play fully and discover the satisfaction that comes from doing so. You will learn what it takes to give all that you can. You will benefit and blossom, and eventually you will know that you have the capacity. If others know it as well and reward you, fine. But you are better off not playing for the rewards that you can get from others, because that tends to make you dependent on them.

You spend your entire life trying not to get screwed, and this avoidance in the end is what screws you because it takes you out of the game. This is only one of a number of Life Principles that keep you from being as fully engaged in your life and trading as you can be.

I: The absolute number is high. At the end of the day, if I have accumulated thirty to fifty million dollars, by the time I am forty, I can be running a billion-dollar fund. If I have a 40 percent year, I will become wealthy beyond my wildest dreams. It pays not to get too obsessive about the specific amounts each year. In an absolute sense, it is a terrific number.

Next year will be a better year. I have had a longer-term progression. If I can keep looking forward, I can keep pushing through. It is high performance. It is not a straight line. You have the joys of winning. You also have the emotional downside. This is what it takes to compete at this level.

K: Remember, the key is to look at what you have to do to get to the next level.

There are many lessons that can be extracted from the dialogue with Irwin. One is the importance of consciously avoiding distractions and staying focused on your own objectives and strategy for reaching them. This entails a willingness to pay attention to what is going on with you emotionally and what is getting you off track.

A second lesson is putting more credence in your own work product and beginning to build confidence in your own efforts and, if necessary, expanding your efforts to build greater confidence. It is also important to notice your emotional responses and to not get sidetracked by becoming overly emotional and self-critical. By using the goal as a roadmap to what to do, you won't become a prisoner of your own internal thought processes and interpretations. And, of course, as the conversation suggests, there is always value in modeling yourself after traders who have developed mastery after working on these themes for many years.

One bedrock tenet of mastery is that you create your world, that you are responsible for the results that you produce. To do this, you must understand goal setting and review the inhibitions that keep you from realizing your objectives. You must develop various skills that will help you to stay on target as you move toward your objectives and develop greater mastery.

When you recognize these skills, you, as an ordinary person, can begin to produce extraordinary results. To do this, you have to keep inventing yourself in line with your goals and results. You enter into a dynamic process where you learn from the efforts you make and keep moving forward toward the development of mastery.

STAYING TOTALLY PRESENT

To express your vision from within your creative self, you need to let go of your concerns moment by moment and to stop trying to manage the future. You should focus only on what you can do in the next moment. Having set the goal in the future, focus on the here and now in steps that have been defined by the target. Most of all, you should start from emptiness, without preconceptions or concerns about the future. Stay totally present to the moment before you, and, in time (much to your amazement), you will find yourself in the process of actualizing yourself—becoming what you have set out to become.

When you are practicing mastery, you are always seeking to bring more of yourself to the present moment by relinquishing or revising long-standing Life Principles and seeing reality through the framework of a newly invented prism or vision expressed in terms of specific, concrete goals that you choose to pursue. You are pushing the envelope, recreating yourself along the way, so as to be able to tap into more of yourself. You change your responses to events by reframing the events, seeing them from a new perspective and becoming more counterintuitive. In this way, you learn to respond to events in new ways, not automatically as in the past. This act of choosing to be totally present can require traders to reframe their thoughts and actions in a variety of ways.

For one trader, Dick, this meant learning to take his profits, to cut his losses, and to play a more proactive game, rather than watching his profits dwindle while holding on to positions for long-term reasons. For another portfolio manager, Derek, reframing required him to stop trying to become a day trader like the other guys in a new firm he had joined. He needed to turn off his daily P&L from his screen so that he could focus more attention on the longer-term game. Additionally, he consciously decided to stop talking to some of the other traders with whom he had been exchanging information in the past because they were leading him to do consensus trades in a market already crowded with hedge fund traders.

Still another trader, Mannie, was having a hard time in a difficult market and was anxiously chasing after trades trying to reconcile them with his technical chart patterns. By speculating on technical moves and general macro themes about sector rotations in an effort to catch the intraday volatility, he was tending to get in at high prices and out at low prices and was losing a lot of money. For him, reframing required that he slow down the rapidity of his trades, narrow his sector focus, and spend a bit more time getting a fundamental edge by talking to sector analysts who were trading the same stocks as he had been.

The value of trading fully in this present moment is that you, like these traders, can see how much of your trading is a reflection of your unconscious inclination to resist being as fully engaged in the opportunities available to you as is possible. Of course, when you do this you come face-to-face with your own resistance as well as with the resistance of others.

This pattern of drift and unconscious resistance was demonstrated repeatedly by one brilliant analyst who, after encountering a $10 million drawdown in the early months of 2002, was willing to confide that his "stock picking had been good" but that he had "gotten too confident about our positions and failed to change our high-water mark." He continued, "We need to use trailing stops so that we lock in profits as we progress in our positions and don't retain the original high-water mark so that we move back to a break-even position when the stocks turn. As hard as it is to admit that we need to do this, if we don't, we are going to continue to give back the profits we make. We have to respect the volatility of the marketplace."

True mastery functions in the realm of what you are doing now. You banish the word *impossible* from your vocabulary. As a trader, you must commit to producing results in a marketplace that is unpredictable. You must learn to make probable bets in line with the amount of work you have done. It is an endeavor that benefits very much from emotional maturity, self-knowledge, and self-control.

BEING AN INDIVIDUAL

While there is always knowledge to be gained from examining the success and failure of others, there is no ideal way to perform a specific trade, just as there is no ideal way to paint a picture or write a symphony. It is difficult to model yourself after other people because there is no ideal biomechanical form for making a successful trade. In the higher reaches of any pursuit, the biomechanics of performance are specific for each individual and each trade. Although there are a number of good strategies, the critical element is adhering to a strategy you've constructed to fit your personal style. One of the mistakes traders make is copying other styles whole hog and then not understanding why the copied strategies don't work for them. The problem generally is that they don't understand some of the subtle issues critical for the mastery of any strategy and often don't have a comprehensive view of their own strategy and what they have to do to adhere to it.

Of course, while there is no one formula for success, you will find there are a number of common denominators that master traders all share and that can be learned. One is the skill of self-observation—the ability to stand outside oneself and allow the "perfect trader" within to function naturally and freely. The more comfortable you are, the more subtle your own moves can be so that you can learn to respond and react to events with minimal efforts rather than with excessive or strained efforts that can easily tax your energy and strength. This requires careful monitoring of your mental state so that you can react and move calmly in the face of competition, failure, or stress. The more you can learn to control the direction of your attention, the more effective you will be in controlling your actions and your performance.

The master trader recognizes that when things aren't working, it is invariably because he has failed to follow his basic strategy. Mastery is about continuity, staying in touch with your discipline and adapting as well as you can to changes in the market when that is possible.

Review your positions. Slow down. Take a deep breath. Approach things more gently. Then the answers will appear. Stop trying to find the answer. It is already in place. You need to relax in order to see it.

Lane, an experienced trader at a successful hedge fund, compared his experiences in karate with achieving this relaxed and masterful mindset. "In karate, there is a concept of 'Take action and leave no trace behind.' The quicker you react, the better off you are. Then you can get into the next moment. You really have to be able to take action. If you're wrong, you are wrong and move on. I try to get myself in that same frame of mind in the morning. It helps me to relax and stay attentive. I like to come into the trade in that mental state—the way it was when it really was clicking rather than waiting until I get into that state.

"Everyone has some experience such as karate where they [*sic*] have learned to relax and get centered and be at one with an activity. Ideally, I want to be prepared by entering into this state of mind before I start trading so that while I am trading, I can focus on the tasks at hand and not be distracted by the incessant conversation in my head, which is a source of distraction."

Another trader described a conversation in which he compared master traders to Bill Gates. In his opinion, there are two key characteristics that make them better than their competition. The first is their intensity. No matter how much money they make, they never stop wanting to win. The second is their ego or the lack of it. They maintain complete objectivity. They refrain from emotional attachment to their actions.

Mastery is a process in a culture where excellence is encouraged, expected, and facilitated by having traders continually examine their own performances and set their own standards and then have them held to the standards and the results they have committed themselves to achieving. You have it within yourself to create significant results. With a little inspiration, encouragement, and support of the processes of mastery, it is possible to develop an organization that can also produce significant results.

In effect, the principles of mastery apply a template of efficiency and effectiveness to activities in which you are already engaged. The critical thing is to be able to focus more energy on the task at hand and to find ways in which you are not as fully engaged in the task because of other considerations.

The goal—the objective that you are pursuing—is setting up the frame of reference for your actions. It is not the end in and of itself. The objective is to bring more of yourself to bear on the task. To do this requires that you stop thinking about the goal once you have figured out what it is that you must do to accomplish the task.

This is what I mean by coming from nothingness. You focus on the size of positions necessary to create a portfolio that will enable you to reach your target numbers. You focus on the tasks before you in order to accomplish your goals. There is no other agenda. There is no explaining how to do something. There is only doing it. You have to empty yourself of ego, self-concerns, self-doubts, and other hindrances to performance in order to execute the tasks in terms of the blueprint or the design of the task. That is the essence of mastery.