CHAPTER 1

# Change

## *The Process and the Practice*



*The mind has exactly the same power as the hands; not merely to grasp the world, but to change it.*
—Colin Wilson

You are reading this book because you want to coach yourself to greater success in the financial markets. But what is coaching? At the root of all coaching efforts is change. When you are your own trading coach, you are trying to effect changes in your thoughts, your feelings, and your behavior. Most of all, you are trying to change how you trade: how you identify and act upon patterns of risk and reward, supply and demand.

There is a rich literature regarding change, grounded in extensive psychological research and practice. If you understand how change occurs, you are better positioned to act as your own change agent. In this chapter, we will explore the research and practice of change and how you can best make use of its sometimes-surprising conclusions. *Coaching is about making change happen, not just letting it happen.* It's about making the commitment to being a change agent in your own life, your own trading.

First, however, let's learn about the process and practice of change.

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## LESSON 1: DRAW ON EMOTION TO BECOME A CHANGE AGENT

For some of us, the status quo is not enough. We experience glimpses into the person we're capable of being; we yearn to be more than we are in life's mundane moments.

That yearning starts with the notion of *change*. We desire changes in our lives. We adapt—we grow—by making the right kinds of changes. All too often, however, we feel stuck. We're doing the same things, making the same mistakes again and again. Do we wait for life to change us, or do we become agents of our own life changes?

The easy part is initiating a change process. The real challenge is *sustaining* change. How many times does an alcoholic take the initial steps toward sobriety, only to relapse? How often do we start diets and exercise programs, only to return to our slothful ways? If we focus on starting a change process, we leave ourselves unprepared for the next crucial steps: keeping the flame of change burning bright.

The flaw with most popular writings and practices in psychology and coaching is that they are designed to initiate change. These writings and practices leave people feeling good—until it becomes apparent that different efforts are needed to sustain change. Successful coaching doesn't just catalyze change: it turns change efforts into habit patterns that become second nature. The key to successful coaching is turning change into routine; making new behaviors become second nature.

That's where emotion comes in.

For years I had attempted—unsuccessfully—to sustain a weight loss program. Then, in the year 2000, I was diagnosed with Type II diabetes. My diet *had* to change; I needed to lose weight. If I didn't, I realized with crystal clarity, I could lose my health and let my wife and children down. Literally that same day I began a dietary regimen that continues to this day. My weight dropped 40 pounds (I shed the pounds so quickly that friends were concerned that I had a wasting illness) and I regained control of my blood sugar.

What was the catalyst for the change? Years of telling myself to eat differently, exercise more, and lose weight produced absolutely no results. A single emotional experience of the necessity for change, however, made all the difference. I didn't just *think* I needed to change: I *knew* it with every fiber of my being. I *felt* it.

So it is with traders.

Perhaps you've told yourself that you need to follow your rules, that you need to trade smaller, or that you should avoid trading during certain market conditions or times of day. Still you make the same mistakes, lose money, and build frustration. Like my initial efforts at weight loss, your attempts at change fail *because they lack emotional force.*

Research into the process of successful versus unsuccessful therapy finds that emotional experience—not talk—powers change. No one ever felt valuable and lovable by standing in front of a mirror and reciting self-enhancing statements. The experience of a meaningful romantic relationship, however, yields the deepest of affirmations. Yes, you can tell yourself you're competent, but experiencing success in the face of challenge provides a lasting sense of efficacy. Pleasure, pain: nature hardwires us to internalize emotional experience so that we can pursue what enhances life and avoid what harms us. That ability to internalize our most powerful emotional experiences helps us to sustain the changes we initiate.

> The enemy of change is relapse: falling back into old, unproductive ways of thinking and behaving. Without the momentum of emotion, relapse is the norm.

Are you going to work on yourself as a trader today? Are you going to use today as an opportunity to learn and develop yourself, regardless of the day's profitability? If so, you'll need a goal for the day. What are you going to work on: Building a strength? Correcting a weakness? Repeating something you did well yesterday? Avoiding one of yesterday's mistakes?

An important first step is to set the goal. We cannot succeed as change agents if we don't perceive a clear path from the person we are to the person we wish to become. A valuable second step is to write down the goal or talk out loud into a recorder. This step helps cement desired changes in your mind. But will the pursuit of your goal truly possess emotional force? Will it transform you from one who thinks about change to one who truly becomes a change agent?

*The secret to goal setting is providing your goals with emotional force*. If your goal is a want, you'll pursue it until the feeling of desire subsides. If your goal is a must-have—a burning need, like my dietary change—it becomes an organizing principle, a life focus. You won't become a better trader because you want to be. You will only coach yourself to success when self-improvement becomes your organizing principle: a must-have need.

Try this exercise. Before you start trading, seat yourself comfortably and enter into a nice slow rhythm of deep breathing. Imagine yourself—as vividly as you can—starting your trading day. Watch the market move on

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the screen; watch yourself tracking the market, your day's trading ideas at your side. Then turn your goal for the day into part of your visualization: imagine yourself performing the actions that concretely put that goal into practice. If your goal is to control your position sizing, vividly imagine yourself entering orders at the proper size; if your goal is to enter long positions only after a pullback, imagine yourself patiently waiting for the pullback and then executing the trade. As you visualize yourself realizing your goal, recall the feeling of pride that comes from realizing one of your objectives. Bask in the glow of living up to one of your ideals. Let yourself feel proud of what you've accomplished.

*It's important not just to have goals, but also to directly experience yourself as capable of reaching those goals*. Psychologists call that self-efficacy. You are most likely to experience yourself as a success if you *see* yourself as successful and *feel* the joys of success. You don't need to imagine yourself making oodles of money; that's not realistic as a daily goal. But you can immerse yourself in images of reaching the goals of good trading and experience the feelings of self-control, mastery, and pride that come from enacting the best within you.

> We are most likely to make and sustain changes when we perceive ourselves as efficacious: capable of making those changes.

Many traders only get to the point of self-coaching after they have experienced harrowing losses. The reason is similar to my experience with my diagnosis: it was the vivid fear of consequences—the intense *feeling* of not wanting to ruin my life—that drove my dietary change. Similarly, after traders lost a good deal of their capital, they never want to experience that again. They trade well, not because they talk themselves into discipline, but because they feel the emotional force of discipline's absence.

Contrary to the teachings of proponents of positive thinking, fear has its uses. Many an alcoholic maintains sobriety because of the fear of returning to the pain of drinking's consequences. Emotion sustains the change.

With guided imagery that you feel as well as see, you can create powerful emotional experiences—and catalyze change—every single day. That's when you become a change agent: one who sustains a process of transformation. The key is adding emotional force to your goals. Your assignment is to take those lifeless goals off the piece of paper in your journal and turn them into vivid, powerful movies that fill your mind. Try it with one goal, one movie in your head, before you start trading. It is not enough to set goals; *you must feel them to live them*.

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**COACHING CUE**

To each of your goals, add an *or else* scenario. Vividly imagine the consequences of *not* sustaining your change. Relive in detail specific failure experiences that resulted from the faulty behavior you want to change. When you add an *or else* condition to your goal setting, you turn fear into motivation. The brain is wired to respond first and foremost to danger; you will not gravitate toward the wrong behaviors if you're emotionally connected to their danger. To this day, my diet is firmly in place. Fear has become my friend.

## LESSON 2: PSYCHOLOGICAL VISIBILITY AND YOUR RELATIONSHIP WITH YOUR TRADING COACH

If you are to be your own trading coach and guide your trading development, we have to make you the best coach you can possibly be. That means understanding what makes coaching work—and what will make it work for you.

*Research informs us that the most important ingredient in psychological change is the quality of the relationship between the helper and the person receiving help*. Techniques are important, but ultimately those techniques are channeled through a human relationship. Studies find that in successful counseling, helpers are experienced as warm, caring, and supportive. When helpers are seen as hostile or disinterested, change processes go nowhere. There's a good reason for this: relationships possess magic.

The magic of relationships is that they provide us with our most immediate experiences of visibility. I recently took a phone call from a reader of the *TraderFeed* blog. Many readers have provided valuable feedback about the blog, but this caller went far beyond that. He read every single post and then explained to me why he was drawn to the site. He put into words the very values that have led me to publish some 1,800 posts in the space of less than three years: *the vision that, in cultivating our trading, we develop ourselves in ways that ripple throughout our lives*.

At the end of that conversation, I felt understood: I was visible to another human being. When my mother died, I kept my composure until I approached her gravesite; then I lost it. My two children instinctively reached out to comfort me. It's something I would have done for another person in that situation. At that moment, I saw a bit of myself in my children. Once again, I was visible.

An unfulfilling relationship is one in which we feel invisible. We can feel invisible because we're misunderstood or mistreated. We feel invisible when the things that matter most to us find no recognition among others. I recall one particularly unfulfilling relationship with a woman. We were on the dance floor at a club and I suddenly stopped dancing altogether. She didn't notice at all. She was in her own world. It was a perfect metaphor for everything I was experiencing at the time: I was there as a kind of prop, a rationale for being on the dance floor. No one was really dancing with me. The profound, wrenching emptiness that I felt at that time was a turning point; never again would I settle for invisibility.

In Iggy Pop's classic song, invisibility is a kind of "Isolation." But if there's anything worse than being isolated—crying for love—when you're with someone, it's being isolated from yourself. We are truly lost when we're invisible to ourselves.

> Many traders don't really know what they do best; they're invisible to themselves.

All of us have values, dreams, and ideals. How often, however, are these explicitly on our minds? To live mired in routine, day in and day out, estranged from the things that matter most to us: *that's a form of invisibility*. To compromise the things you love in the name of practicality, to settle for second best out of fear or convenience: those, too, leave us in isolation—from ourselves. Strange as it may seem, we spend much of our time invisible to ourselves. The day-to-day part of us dances away, oblivious to the other self, the one that thrives on purpose and meaning.

It's a real dilemma: How can we possibly coach ourselves to success if the very strengths that would bring us success are invisible to us? After all, the single best predictor of change is the quality of the helping relationship. What, then, is our relationship to ourselves? If we are to be our own trading coaches, the success of our efforts rests on our ability to sustain visibility and draw on the magic of a fulfilling relationship with ourselves.

To coach ourselves successfully, we must be visible to ourselves and sustain the vision of who we are and what we value. But how can we do that? There's a simple strategy that can build a positive, visible relationship with your inner trading coach: identify a single trading strength to express as a goal for the coming day's trading.

One way I do that when I coach others (and when I work on my own trading) is to ask traders to identify what they did best in yesterday's trading that they want to continue today. *Set a positive goal, based on strengths, to keep you in touch with the best within you.* It affirms your competencies and keeps these visible, even during challenging market times. Too many of our goals are negative: we declare that we won't do

X or that we'll do less of Y. Instead, frame a goal for today that says: "Here is what I'm good at, here's what I did best yesterday, and here's how I'm going to make use of that strength today."

> Trading goals should reflect trading strengths.

In the relationship between you the trader and you the coach, the quality of the relationship will play an important role in your development. *The best relationship is achieved when goals are linked to values and express distinctive strengths.* Relentlessly identify, repeat, and expand what you do best—even (and especially) after the worst of trading days. Only through repetition can we turn positive behaviors into habit patterns. When you are in the habit of identifying and building strengths, you will then be truly visible to you. The magic of that relationship—and the confidence it brings—will sustain you through the most challenging times.

**COACHING CUE**

Review the last week's entries in your trading journal. Count the number of positive, encouraging phrases in your writings and the number of negative, critical ones. If the ratio of positive to negative messages is less than one, you know you aren't sustaining a healthy relationship with your inner coach. And if you're not keeping a journal, your coach is silent. What sort of relationship is that?

## LESSON 3: MAKE FRIENDS WITH YOUR WEAKNESS

The notion of change is a challenge and a trap. It challenges us to aspire to more than who we are, but it can also trap us in self-division. When we entertain the notion of change, we divide ourselves into qualities we like and those we don't. We parcel ourselves into strengths and weaknesses, good and bad, acceptable and unacceptable.

Once we make such a division, it is only natural to embrace the good and avoid the bad. We dismiss our shortcomings as mistakes, bad luck, or exceptions. That helps us identify with a partial image of ourselves and keep our frailties from our conscious awareness. Thus banished from the front of our minds, those frailties cannot guide our learning. *We do not sustain the motivation to grow, because we only contact the parts of ourselves that are relatively whole.*

Suppose I manage a position poorly because of frustration and I exceed my loss limit on the trade, leaving me in the red for the day. I finish flat for the week, however, and instead focus on that fact. The loss is soon forgotten. It doesn't bother me, but I also don't learn from it. The next time frustration hits, I repeat my earlier behavior and lose even more money. Disgusted, I decide to take a break from the markets and come back with a positive mindset. In reality, however, I merely return in denial, once again banishing the losses from my mind. Eventually those trading shortcomings catch up to us, forcing us to face them squarely.

Such self-division is often maintained with the fiction of positive thinking. By focusing on positive thoughts, we don't have to think about what we've done wrong; we don't have to achieve contact with the parts of ourselves we don't like. We become like rooms where the clutter is increasingly swept under the rug. Eventually our rooms bulge with mental clutter, making them uninhabitable.

> The motivation for much positive thinking is a denial of weakness.

Our daughter Devon was born with a "strawberry" beside her nose: a hemangioma that was a bright red bump on her skin. We were told that it would eventually recede on its own, that no surgery was needed. During her early years, however, baby Devon had a large red mark on her face. We could have put a patch over the mark or insisted on surgery, but we didn't. It was *her* mark, and it was part of what made her who she was. When you love someone, even her personal blemishes become endearing. Before I was a parent, I used to wonder how I'd tolerate changing dirty diapers. When the time came, I actually enjoyed it. It was something I was doing with and for my child. The changing of the diaper became an opportunity for bonding.

So it should be when we deal with our own dirty diapers. Your weaknesses are part of you; someone who loves you will love the whole package, frailties and all. *And if you love yourself, you can reach that point of acceptance in which you are fully aware of your shortcomings and appreciate your very humanness*. Indeed, as with the diapers, those shortcomings become opportunities—to reach out to yourself and guide your own development. For the longest time, I was unsure of myself in social situations and avoided most of them. Then, in a college dorm party I pushed myself to organize, I noticed a few people standing around not talking with others. In a flash, I saw myself in them. I made a beeline for the stragglers, included them in the gathering, and introduced them around. Ever since, I've been able to reach out to that reticence in myself and use it as a prod to engage others. My development occurred not through positive thinking, but through an embrace of my vulnerability.

Have you lost money recently? Have your trading weaknesses cost you money and opportunity? Consider embracing your flaws: every losing trade is there to teach you something. At the close of today's trading, create a chart with three columns. The first column is a description of the losing trade you made; the second column will be what you can learn from the losing trade; and the third column will be how you will improve your trading the next day based on what you learned. What you learned from the losing trade might be an insight into the market—perhaps it was range-bound when you assumed it was trending. That insight could help you frame subsequent trades. Alternatively, what you learn from the losing trade might be something about yourself; perhaps an insight into how you can manage risk more effectively. *Either way, your losing trade is never a total loss as long as you embrace it and learn from it.*

> Much of self-coaching success is finding the opportunity in adversity.

When you create a trading diary, you bring yourself face to face with your worst trading and turn it into opportunity. It doesn't matter if blemishes mar your account statement. It's your account, red marks and all. You make yourself stronger when you reach out to your flaws. Embrace who you are and you take the first step to becoming the person you are capable of being.

**COACHING CUE**

As we'll see in the next chapter, the research of James Pennebaker suggests that giving voice to stressful events—in a journal or out loud—for at least a half hour a day is instrumental in our putting those events into perspective and moving beyond them. When you experience a horrific trading day, give it voice. Talk it through and sear its lessons in your mind. If you're in touch with how badly your trading makes you feel, you're least likely to repeat your errors. There can be gain in embracing pain.

## LESSON 4: CHANGE YOUR ENVIRONMENT, CHANGE YOURSELF

Human beings adapt to their environments. We draw on a range of skills and personality traits to fit into various settings. That is why we can behave one way in a social setting and then seem like a totally different human being at work. One of the enduring attractions of travel is that it takes us out of our native environments and forces us to adapt to new people, new cultures, and new ways. *When we make those adaptations, we discover* *new facets of ourselves*. As we'll see shortly, discrepancy is the mother of all change: when we are in the same environments, we tend to draw upon the same, routine modes of thought and behavior.

A few months ago I had an attack of acute appendicitis while staying in a LaGuardia airport hotel awaiting a return flight to Chicago. When I went to the nearest emergency room at Elmhurst Hospital outside Jackson Heights, Queens, I found that I was seemingly the only native English speaker in a sea of people awaiting medical care. After some difficulty attracting attention, I was admitted to the hospital and spent the next several days of recuperation navigating my way through patients and staff of every conceivable nationality. By the end of the experience, I felt at home there. I've since stayed at the same airport hotel and routinely make visits into the surrounding neighborhoods—areas I would have never in my wildest dreams ventured into previously. In adapting to that environment, I discovered hidden strengths. I also overcame more than a few hidden prejudices and fears.

*The greatest enemy of change is routine*. When we lapse into routine and operate on autopilot, we are no longer fully and actively conscious of what we're doing and why. That is why some of the most fertile situations for personal growth—those that occur within new environments—are those that force us to exit our routines and actively master unfamiliar challenges.

> In familiar environments and routines, we operate on autopilot. Nothing changes.

*When you act as your own trading coach, your challenge is to stay fully conscious, alert to risk and opportunity*. One of your greatest threats will be the autopilot mode in which you act without thinking, without full awareness of your situation. If you shift your trading environment, you push yourself to adapt to new situations: you break routines. If your environment is always the same, you will find yourself gravitating to the same thoughts, feelings, and behaviors. We are mired in repetitive patterns of thought and behavior because we are mired in routines: the same emotional and physical environments. Indeed, we repeat the same patterns—for better or for worse—precisely because those patterns are adaptations to our current settings.

So how can we change our trading environments? The key is recognizing that our physical settings are only a part of our surroundings. Here are a few routine-busting activities that can alert us to risks and possibilities:

1. **Seek Out Divergent Views.** Conversations with traders who trade differently from you—different time frames, markets, or styles—can often help cement your views or question them. Similarly, reading

materials from fresh perspectives puts your ideas in a different light and pushes you to question your assumptions. I remained relatively bullish on the stock market's longer-term picture into the final quarter of 2007. Only when I pushed myself to read informed views that clashed with my own—and consulting data that did not fit my framework—did I modify my perspectives and avoid significant losses.

2. **Examine the Big Picture.** It's easy to get lost in the market's short-term picture; how it is trading that minute, that day. I find it important to periodically zoom out to longer-term charts and place the current action into context. Indeed, some of the best trading ideas start with a big picture view and then proceed to shorter-term execution. I especially find this to be the case when looking at longer-term support/resistance, trading ranges, and Market Profile value areas. Often, shifting my field of vision will help me avoid an ill-informed, reactive trade based on the market's last few ticks. If something seems obvious in the market, switch time frames and generate an entirely new perspective. What looks obvious from one view may well be obviously wrong from another.
3. **Examine Related Views.** Sometimes the action of a single stock or sector will illuminate what's happening in the broader market; one currency cross will break out ahead of others. Are we seeing a broad fixed income rally, or is the yield curve steepening or flattening? Looking across instruments and asset classes keeps us from getting locked into ways of thinking. I find myself tracking sector ETFs during the trading day to see if stocks are moving in a single direction (trending) or are taking different paths within a range. If I see bond traders fleeing to safety or assuming risk, I can anticipate selling or buying stocks. Seeing the entire financial playing field helps keep us from becoming wedded to preconceived ideas.
4. **Take the Break.** Just as we take vacations to return to work refreshed, a break from the screen can help us generate fresh market views. It is easy to become focused on what is most dramatic and salient in markets. Pull back and clear out the head to help you see what's not obvious and then profit by the time it's recognized by others. I find breaks especially helpful following losing trades, enabling us to reflect on the losses and what can be learned from them.

> If your environment is comfortable, it probably isn't conducive to change.

*In short, it's the mental routines—the mental environment—that we most need to change to break unwanted and unprofitable patterns of thought and behavior.* When you're your own trading coach, you learn to

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think, but also to think about your thinking. Incorporate a fresh look at self and markets each day to inspire new ideas, challenge stale ones, and tap sources of energy and inspiration that otherwise remain hidden in routine. As with my adventure in Queens, you may find that the most exotic changes bring out your finest adaptations.

**COACHING CUE**

Many times it's the market views we most scorn that we need to take most seriously, because at some level we're finding them threatening. Seek out commentary from those you most disagree with and ask yourself what you would be seeing in the markets if that commentary proves to be correct. If you're quick to dismiss a market view, give it a second look. You wouldn't need to be so defensive if you didn't sense something plausible—and dangerous—in the views you're dismissing.

## LESSON 5: TRANSFORM EMOTION BY TRACE-FORMATION

When traders seek coaching, they are usually troubled by a particular emotional state that affects their decision-making: anger, frustration, anxiety, or doubt. Their goal is to change how they feel, but they don't know how to accomplish that. Sometimes traders even view their emotions as fixed and unchanging aspects of personality: "It's just the way I am."

It is true that our traits and temperaments affect how we experience the world. They also play an important role in defining the range of our emotions. Some people feel things—good and bad—very strongly; others are quite even-keeled. Neuroticism, the tendency to experience negative emotions, is one of the big five personality traits identified by researchers. Like all such traits, it has a strong hereditary component. Though we like to think of ourselves as masters of our fates, the sobering reality is that much of our emotional experience is hardwired.

Does that mean we can't change how we feel in particular situations? Not at all. If psychological methods can help people overcome post-traumatic stresses and anxiety disorders, they certainly can help us master our feelings in normal life situations. For the most part, we cannot change personality, but *we can change how our personalities are expressed*.

The trap many traders fall into is trying to control feelings with thoughts. We attempt to talk ourselves into feeling better or differently. Rarely does that work. When people are grieving over losses, telling them they'll be okay doesn't really touch what they're experiencing. The feelings express a psychological reality; asserting a logical reality ignores the personal meaning and significance of the situation. Feelings are surprisingly refractory to willpower: if wanting to feel different—and talking ourselves into feeling different—were possible, there would be many fewer psychologists in the world.

If you serve as your own trading coach, *a great place to start is with the perspective that feelings contain information*. Research in cognitive neuroscience finds that emotion is an essential component of rational decision-making. When the brain is damaged and becomes unable to engage in emotional processing, the result is profoundly distorted behavior. Your coaching goal is not to banish the feelings associated with difficult trading—a strategy that only prevents resolution—or to blindly act upon them. Rather, the most constructive step you can take to change a feeling is to give it full acknowledgment and extract its vital information.

> Feelings inform us about our appraisals of self, others, and world.

The research of James Pennebaker, a professor at the University of Texas, is quite relevant here. He and his colleagues found that writing in a journal or talking aloud for a half hour a day had a powerful effect on enabling people to cope effectively with challenging emotional circumstances, including traumas and crises. When we make implicit feelings explicit, we view them from different angles and place them into a different context. For example, someone who has been angry and frustrated with himself over poor trading performance might journal about these thoughts and feelings at length. As he is writing—and reading over his writings—he suddenly realizes, "Whoa; I'm being awfully hard on myself. I'm not that bad!" With that, he is able to throttle back his negative self-talk and turn his attention back to markets.

When we fail to acknowledge emotions, we lose their information and thus the opportunity to shift perspectives. The frustrated, angry trader who brushes aside his tensions and forges blindly ahead finds them easily triggered the next day. This is particularly the case when the frustrations are triggered initially by trading mistakes. I recently met with a trader who fought a market trend all morning, built frustration through the day, and then blew up in the late afternoon. Had the trader used the frustration to examine his trading, he could have ridden the trend and made significant money. Brushing emotions aside doesn't change them. Ironically, acknowledging and accepting them, giving them free expression, sets the stage for transformation.

Does that mean that we should give full vent to whatever we're experiencing? No, psychological research also suggests that unbridled expression

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of emotion interferes with concentration and performance. Simply yelling when we're angry or pouting when we're discouraged does nothing to alter the feelings—and certainly does not place us closer to resolving the situations responsible for the upset in the first place. The trader from my example, for instance, spent much of his afternoon fuming, but never resolving his anger. Reflexive acting on such emotions only reinforces them; you can't overcome frustration by behaving in frustrated ways.

> Blindly venting or acting on emotion is as unproductive as blinding ourselves to emotion; both prevent learning from the information in our feelings.

*The idea, then, is to transform feeling, not ignore it and not revel in it.* One way to do this is to replace one emotional state with another: to substitute feeling for feeling, not thought for feeling.

In my *Psychology of Trading* book, I explained how I used the early music of Philip Glass to enter a meditative state and trance-form experience. Actually any stimulus that evokes calm, focused attention can be effective as a tool for shifting emotions. The key is to evoke and sustain the Yoda state—the calm focus—during periods of high frustration or discouragement. Biofeedback can be especially useful in this regard, as computer-based applications provide real-time feedback about your success in sustaining the altered state. It is virtually impossible to sustain a worked-up state—anger, anxiety, and stress—when keeping yourself calm and focused. Even better, in the relaxed state, you'll arrive at perspectives and insights that remain unavailable while you're immersed in the flight-or-fight mode.

One exercise I recommend to traders is to draw two thermometers side by side on a sheet of paper and then run off a number of copies of the paper. One thermometer records your emotional temperature with respect to frustration; the other records your temperature with respect to confidence. The sheet stays by your trade station; all you need to do is make a mark on each thermometer to indicate how frustrated and confident you're feeling at the time.

When we're most frustrated, but also most overconfident, we're likely to make our worst decisions and violate our trading principles. If you require yourself to "take your emotional temperature" during each trading session, you create a mechanism for catching your state of mind before it can disrupt trading performance.

Once you identify an elevated frustration temperature, a valuable, automatic rule is to take a few minutes away from the screen and enter into a trance-formation. This can be done by regulating your breathing—making

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it particularly deep and slow—and fixing your attention on something that captures your attention: music, imagery, or a picture in front of you. If you slow your body and take your attention away from the situations that may be elevating your emotional temperature, you shift your state and make it easier to act calmly, in a planned fashion. With practice, this can be accomplished in a matter of minutes, short-circuiting many disruptive patterns before they lead to poor trading decisions.

The key is to keep yourself aware of your emotional state throughout the day. The thermometers are an easy, visually arresting way of becoming your own observer—and coach.

**COACHING CUE**

Check out the insights about breathing in Chapter 9. Mike Bellafiore of SMB Capital explains how he and partner Steve Spencer teach the traders at their prop firm how to breathe as part of training them to trade. As practitioners of meditative disciplines understand, emotional self-control begins with physical control.

## LESSON 6: FIND THE RIGHT MIRRORS

A mirror is an object that shows us our own image. Thanks to mirrors, we know what we look like. Far more goes into our self-image, however, than our physical reflection. *That is because virtually all of our experience serves as a psychological mirror*. We see ourselves reflected in the impacts we have upon the world around us. As a result, much of self-esteem—our sense of worth and competence—follows from finding the right mirrors in life.

Let's start with romantic relationships. When we select the right partner, we choose someone who knows and values the person we are. That love and support is ongoing; consistently reflected to us, it is a deep affirmation of self. In a similar fashion, parents constantly mirror a child's identity: "You're such a good boy!" and "What a smart girl!" *Our self-talk is born of just such early life conversations: we internalize the voices from significant relationships*.

This is why abusive relationships are so damaging. To share life with a spouse who attacks or demeans us—or who just doesn't care—or to endure parents who are neglectful is to continually face a distorting mirror. Over time, children absorb the distorted images and no longer feel lovable, secure, and important. Out of such twisted self-images, they select future partners that validate their identities, sadly finding others who repeat the messages and experiences of the past. That is how abused children find themselves in abusive relationships; how insecure people land in insecure marriages.

While relationships may be our most powerful psychological mirrors, given their emotional intensity and ongoing influence, they are far from the only determinants of self-image. The Devon Principle that I wrote about in the *TraderFeed* blog captures the understanding that *everything* we do is a psychological mirror. When my daughter Devon tackled work that she didn't like, she found the work frustrating and felt inadequate as a result. When she pursued work that she loved so much that it didn't feel like work, she felt fulfilled and gained confidence. The best work speaks to our interests and values, matching our abilities with challenges. Day after day, performing efficaciously at work that is important to us generates mirror-experiences of competence and worth. Conversely, when we're performing meaningless work that doesn't challenge our skills, it is difficult to feel anything other than boredom and meaninglessness. *A large portion of career success consists of finding the right mirrors*; it's much easier to get to the top when you're climbing the right ladders.

For more on the Devon Principle, check out my blog: http://traderfeed.blogspot.com/2006/12/devon-principle.html

For my work as a psychologist, nothing is a more powerful mirror than having a meaningful, positive impact upon people's lives, particularly when I get to know those people well and care about them. I enjoy giving a talk for a large audience or writing an article that's widely read, but the real joy is hearing back from someone who thought the ideas were of genuine value. And, to be honest, I find far more reward in helping a single person in counseling or coaching than in giving a keynote address for a large conference. When a person transforms her life via coaching or counseling, a mirror is created that validates and enhances both participants in the helping relationship. I have been most successful when I've immersed myself in these positive mirroring experiences, least successful when I have pursued activities that, ultimately, offer a limited sense of self.

When you serve as your own coach, your challenge is to structure your learning and development so that trading itself becomes an experience that mirrors your growing confidence and competence. Many traders limit their self-coaching to keeping a journal, and then limit their journaling to recounting all the things they've done wrong. As a result, self-coaching becomes little more than self-criticism. What is mirrored to a trader when the journal focus is so negative? What would be mirrored if we hired a teacher or coach who only offered criticism? Over time, such coaching would fail, reinforcing a sense of incompetence and failure.

One of the best means for creating positive mirrors is the structured pursuit of goals. When we create challenging, meaningful, and doable goals, we generate potential experiences of mastery and success. *When we make goal setting an ongoing feature of our self-coaching means, we continually construct opportunities for powerful, self-affirming emotional experiences.* We know from psychological research that such emotional episodes are processed more deeply and enduringly than normal, daily experience. A good therapist creates vivid experiences that challenge clients' old patterns; similarly, a good coach generates emotionally powerful and positive mirroring experiences for traders.

> Your goals should set yourself up for success and a building of confidence.

So here is your assignment: Each day this week your trading journal should include a specific goal for work that particular trading session, concrete actions that you will take to achieve that goal, and a self-evaluation at the end of trading to gauge your success in reaching that goal. *The goal should be a trading process that you wish to improve (i.e., something you have control over), not a profit target (which you ultimately don't control).* For example, your goal might be to increase your trading size incrementally, to implement a strategy for exiting trades in stages, or to limit trades to setups that align with the larger market trend. At the end of the day, you will give yourself a report card based solely on how well you achieved the goals you set for the day. These report cards can be displayed beside your monitor to reinforce your performance and progress. If you fail to achieve a good grade, improvement on that activity becomes your goal for the next day. If you receive a fine report card, you generate fresh goals for the next session. The idea is to never trade without consciously working on some aspect of your trading.

> It is not enough to set goals; you need ways of tracking your progress toward those goals and feeding that information into future goals.

Many traders only engage in such goal setting when they're trading poorly or losing money. The idea, however, is to make self-coaching and self-improvement an ongoing part of your trading career. Why? Because it's not just about making money, it's about creating the experiences that will sustain your sense of competence and confidence. Think of a young child: you don't offer positive feedback only when the child is hurting. Rather, your support and love are continuous, enabling the child to sustain a consistent self-image. As a developing trader, you are like that young child. Your ability to create powerful mirroring experiences will make a difference in your ability to sustain the optimism and courage to weather drawdowns and aggressively pursue opportunity.

Please take note of the following principle: If you limit your losses, pursue your strengths, and take concrete steps toward mastery, every single trading day can be a positive experience, even when you're not making money. You cannot eliminate losing days, but there should never be days that leave you feeling like a loser.

**COACHING CUE**

When you construct your report cards, grade yourself based on your improvement, not based on an abstract (or perfectionist) standard of success. If you manage your trades better today than yesterday, that merits a good grade. Your goal is to improve; by focusing on improvement, you create powerful mirrors of self-development. Relative, not absolute, goals will get you to your desired endpoint, and they will ensure an enjoyable and empowering journey.

## LESSON 7: CHANGE OUR FOCUS

A valuable psychological rule is that if you wish to change the doing, you must change the viewing. How we see the world colors how we respond to life events. We don't just react to markets, but also to how we process those markets. Our thoughts are the filters between trading and trader.

Many times we respond in exaggerated ways to markets, not because there's anything unusual going on in the instruments we're trading, but because a set of negative thoughts have intruded into our performance. Let's say, for instance, that I notice that the ES futures are unable to surmount their overnight highs during the opening minutes of trade despite a few flurries of buying. I then observe that large traders are coming into the market hitting bids. I hypothesize that we cannot sustain strength and that the overnight highs will not be breached. I further infer that we will trade back into yesterday's price range and hit the average trading price from that session. I wait for a bounce higher in the NYSE TICK that cannot make a fresh price high and use the occasion to sell the futures. As the position moves my way, however, the thought enters my mind that I should take quick profits because I've had a losing week thus far. A buy program then hits the market and my position ticks higher, eroding some paper profit. Now especially concerned, I take a small profit—only to see the market weaken notably and eventually hit my initial price target.

What has happened in this scenario? Anxiety has interfered with my performance, turning a good trading plan into bad trading. But the anxiety has nothing to do with the behavior of the market: the market did absolutely nothing to disconfirm my idea. Indeed, when the buy program lifted the index futures briefly, the market was giving me a perfect opportunity to add a second unit to my trade! Not only did I miss an opportunity to profit from a good idea, I also missed an opportunity to hit a home run. Often, keeping losing trades small and hitting those few home runs generates profitability over the long run.

> Many traders' problems show up in how they handle opportunity, not loss.

Sometimes anxiety is a legitimate and appropriate response to a market that behaves in violent and unexpected ways. After all, as I note in the blog, anxiety is our body's adaptive response to perceived danger. But danger can be a function of perception, not objective reality. I begin my trade immersed in market activity, framing hypotheses and executing an idea well. At some point, however, my thoughts veer from the present market and instead focus on how much money I've lost during the week thus far. That focus on loss creates a sense of danger and threat. Instead of responding to the market, I'm now reacting to my own concerns regarding profitability. My thought process has taken me out of the market immersion—and ultimately takes me out of my game.

In a cool, calm moment, I can see clearly that the validity of my trade idea/plan has absolutely nothing to do with how I've traded the past several days. If I introduce worries over profitability into my trading, however, I've now allowed the viewing to affect the doing. I'm no longer absorbed in the market; my focus is gone. I'm responding to my own uncertainties and insecurities.

How can we change our focus and stay grounded in our plans and in objective market activity? The first step is to recognize our triggers. These are the performance thoughts and worries that typically intrude during trading. Concerns over profitability are one trigger; excitement over anticipated profits could be another. Anything that gets you thinking about how well or poorly you're doing while you're doing it is a trigger that can nudge you out of your zone. When you know your triggers, you're in a much better position to intercept them when they occur and treat them the same way you would treat any ordinary distraction, such as road noise outside your window.

In other words, *it's not the thoughts of performance that take you away from your focus, but your identification with those thoughts*. This is an important distinction. Everyone experiences distracting thoughts at times. When we identify with those thoughts, however, they—not our markets, not our plans—become our focus.

> Negative thoughts are inevitable; the question is whether you buy into them.

Meditation can be a very helpful exercise. One purpose of meditation is to help people create a quiet mind by sustaining a single point of concentration and brushing aside all distracting internal dialogue and impulse. A simple adaptation of meditation for you to try is to take 15 minutes before the start of trading and seat yourself in a comfortable position, breathing slowly and rhythmically from the diaphragm. While in that position, focus your attention on quiet instrumental music played through headphones. You want to be as absorbed as possible in the music: as soon as your mind wanders, bring it back to the music and the sounds of the different instruments.

Once you've been able to sustain that focus for a few minutes, you then purposely bring to mind your greatest performance concerns—*while you stay seated, focused, and breathing rhythmically and deeply*. You evoke one concern at a time (for example, thoughts or fears about your recent profitability) and then dismiss the thoughts and bring yourself back to the music. Instead of having the thoughts intrude on you unexpectedly, you intentionally call them to mind and practice and then put them away, as you stay calm and focused. You might even guide yourself through imagery as you're breathing deeply and slowly, imagining your negative thoughts as trash that you decide to put in a garbage pail. Instead of avoiding your negative thoughts, bring them to mind as your own, inner trash-talking—and then visualize yourself taking out the garbage.

Do this every day for a few minutes and you can train yourself to gain control over negative thought patterns. Most importantly, you develop the capacity to become an observer to those thoughts, rather than to identify

**COACHING CUE**

Whenever you catch yourself thinking about your P/L during trading—how much you're making or losing—call a brief time-out; take a few deep, rhythmical breaths and talk out what you're seeing in the markets at the time. Your goal is to be market-focused, not self-focused. By repeatedly pairing a calm, relaxed state with an intense market focus, you can develop a positive habit pattern and ensure that the body keeps the mind in check.

with them. If you can observe something about yourself, you immediately introduce an element of psychological distance. Even the most negative thoughts and feelings cannot trigger unwanted behaviors if you don't identify with them. Daily meditation is a powerful strategy for building your own Internal Observer and sustaining a change process.

## LESSON 8: CREATE SCRIPTS FOR LIFE CHANGE

There is a bit of a chicken-and-egg challenge associated with making changes in our lives. To change a behavior pattern, you have to be able to exit that pattern. If, however, you had the ability to avoid enacting those patterns, you wouldn't need to change in the first place.

This dilemma is a common barrier for traders who would like to be their own trading coaches, but don't know how to stand apart from the problem patterns that they repeat week after week, month after month.

To appreciate how we can shift ourselves out of old, problem patterns and into new, positive ones, we need to understand something about drama. Specifically, it's helpful to *start thinking about life in terms of the different roles that we enact during our life's performances*. "All the world's a stage," Shakespeare observed, and we are the sum of the roles that we play on that stage.

Some of our life roles have an automatic, scripted quality to them. Typically we learned these roles early in life and, for years, they may have worked well for us. As a result, these roles have become *overlearned*. For instance, we may have learned to gain attention from parents by complaining or by acting up and breaking rules. Over time, those behaviors can crystallize into fixed roles: we automatically find ourselves whining or acting out of frustration during times of personal conflict. What worked in childhood by bringing us attention now works against us, interfering with careers and romantic relationships.

Many trading problems have just such a scripted quality: We enact the same patterns repeatedly. We start by trading carefully and conscientiously. Then we lose money and become frustrated. Out of frustration we break trading rules, ignore stop-loss points, and undergo serious losses. Then we feel tremendous relief at exiting the losing positions and redouble our determination to trade carefully and conscientiously—until the next frustration comes around. Is this really so different from couples that are determined to get along with each other, then encounter frustrations, argue and fight to the point of being ready to break up, only to experience relief as they make up and vow ever stronger to stop hurting each other? Or the person who swears that he will stop gambling, only to make a few exceptions, lose money, and then out of relief step away from the casino once again, insisting that he won't go back?

> Trading requires a mind free to process data and select appropriate action. But we no longer have a free will if we are mechanically reliving scripts from the past.

A dramaturgic perspective suggests that these repetitive patterns are enactments—cyclical reenactments—of *roles* that we have learned in the course of life: the role of the down-and-out person who presses for success, the role of the aggrieved spouse, the role of the independent person who refuses to be bound by rules, and so forth. One trader I worked with grew up in an overprotective and controlling home. He rebelled as a teenager and subsequently found himself chafing at any constraints on his behavior. His violation of rules in relationships (monogamy) and trading (the risk-management rules of the firm) led to one failure after another. He was living out a script that could only provide unhappy endings.

But if we can acquire scripts through our relationship experiences, then surely we can cultivate new ones by placing ourselves in different roles. One trader I worked with experienced himself as sloppy and undisciplined. It showed not only in his trading, but also in his physical condition and the state of his apartment. His breakthrough occurred when he joined a fitness club and engaged a personal trainer. The regular series of classes and exercise sessions got him into shape and imposed a structure on his efforts at self-improvement. As he experienced more energy—and felt better about himself for getting in shape—he spontaneously took the initiative in cleaning his apartment and honing his trading rules. The sessions with a trainer provided him with a new script and positive experiences that mirrored a fresh identity. *By enacting a new role, he experienced himself in a new manner—and this infiltrated a variety of areas of his life.*

Here's another example: For years I tended to be impatient—with myself, with others, with trading, and even with the pace of change among people I met in therapy. When Margie and I had two children, however, I found myself in a new role that did not allow me to be impatient if I were going to be a good parent. Because it was clear that both our children had personalities very different from mine, I had to figure out ways to communicate with them on their terms. The new role as a patient parent provided me with a discrepant set of experiences; I subsequently found myself more patient in a variety of situations, whether it was behind the wheel of a car or during counseling work with a client who felt stuck. The new role generated novel, positive scripts. With the favorable mirroring over years of parenting, I've actually changed how I see myself. I now experience myself

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as a relatively calm, patient person: it has become an integral part of my identity.

> For more on how new experiences generate new roles and scripts, check out my blog: http://traderfeed.blogspot.com/2006/11/cross-cultural-journey.html.

So here's your challenge and your assignment: Identify the person you would like to be and then throw yourself into a structured social activity—a role—that requires you to enact those ideals. If you want to be more disciplined, take on a discipline: martial arts, work with a personal trainer, etc. If you want to be more patient and focused, undergo meditation training or work with young children that you care about; if you want to become more socially confident, immerse yourself in public speaking; if you want to trade more aggressively, join a trading room that mirrors the style you want to adopt and actively participate in its discussions. *Create the roles that mirror your desired identity; live scripts of your choosing.* If you can place yourself in situations where you routinely practice being the person you want to be, you'll rapidly make that person your own. Change begins with novel experience, but is sustained through repetition.

**COACHING CUE**

To be the trader you want to be, consider taking on a student/trainee. When someone is observing you and learning from you, you'll be on your best behavior. With the teaching script, you'll access behavior patterns that you would never enact in isolation. Alternatively, take on a peer mentorship role. The social motivation to live up to your best for your trading buddies will enable you to access your best behavior patterns.

## LESSON 9: HOW TO BUILD YOUR SELF-CONFIDENCE

Trading is one of the most challenging occupations, because traders routinely face working conditions that they cannot control. Psychological research suggests that one important basis for self-confidence is self-efficacy: the perception that we can control outcomes that are important to us. But how can we sustain self-confidence as traders if we cannot control whether we make money from day to day?

A trader recently called and expressed frustration with his performance. Markets were moving well and, for the most part, he was catching the direction correctly. He entered positions aggressively, but then was stopped out at the worst times when the market made sharp, short countertrend moves. When we reviewed his trading statistics, we found that his average win size exceeded his average loser, but that he had many more losing trades than winners. The steady drumbeat of losing trades was eroding his self-confidence.

So what was the problem?

Our trader was waiting for markets to begin moving in the anticipated direction and then entering with full size. By the time he lifted an offer or hit a bid, the market had already made a short-term move and was ripe for profit taking by scalpers. His full size made these countertrend moves intolerable, and his risk management rules ensured that he had no staying power with his ideas. The market was controlling him; he was not in control of his trading. The loss of self-confidence was inevitable.

*The key to regaining self-confidence in such a situation is to turn the focus from making (or losing) money to the actual* process *of trading.* We initiated a simple unit-sizing rule in which the trader could only enter positions with one unit (his maximum size was three units). If the position went his way, but then experienced a normal retracement, he added a second unit. If the position did not go his way, he maintained a defined stop-loss point and ensured a minimal loss, given that his size was one-third his maximum. The trader could not control the market's movement, but he *could* control his position sizing. This process focus promoted a sense of self-efficacy, which was essential to recapturing his confidence.

> You control how you trade; the market controls how and when you'll get paid.

This is one reason that trading with rules is so important. You can't control your P/L statement, but you *can* control whether you adhere to trading rules. Your focus becomes one of trading well, not one of making money. Every rule followed—every market traded well—is a success experience in the process sense. Over time, profits result (as long as the rules are sound!), but the confidence comes from self-mastery.

Another powerful source of self-efficacy is preparation. When you prepare your trading ideas for the day or week, you generate a sense of mental mastery. This is particularly the case when your preparation includes what-if scenarios that guide your decision-making under a variety of market possibilities. Successful experience is a powerful source of mastery, and the mental rehearsal of trading plans under various contingencies generates a form of experience. As a psychologist, I am impressed by the degree to which traders who prepare rigorously feel as though they *deserve* to win. That same sense is missing among those who casually scan newspapers, charts, or web sites and then plunk themselves down at the trade station to place their orders.

Many traders confuse self-confidence and positive thinking. *Self-confidence is not expecting the best; it's knowing, deep inside, that you can handle the worst.* The self-confident trader can look a stop-loss level in the eye and know that he will be okay if it is triggered. The self-confident trader knows that loss is part of the game—and that some of our best market information comes from good trade ideas that don't work out. Self-confidence is not cockiness, nor is it viewing the world through rose-colored glasses. It's the quiet sense of, "I've been here; I can handle this."

> Confidence doesn't come from being right all the time; it comes from surviving the many occasions of being wrong.

Nothing is so important in building self-confidence as successful experience in the face of adversity. When you serve as your own trading coach, a major task you face is generating your own positive trading experience. Just this morning I read an e-mail from a trader who had experienced harrowing losses in the markets over the past two years. Now he was having difficulty sustaining the optimism needed to weather normal losses. His failure was not as a trader, but as his own trading coach. When we traumatize ourselves, we generate negative experience. We create a sense of helplessness, rather than mastery. We create deep emotional connections between trading and loss, rather than between trading and self-efficacy. We undercut self-confidence.

A great way to build self-confidence is to focus on how you trade when you're in the hole. If confidence comes from successfully navigating adversity, you can build your confidence by working on how you trade when trades go against you. The idea is to focus on trading well by giving yourself a chance to dig out of the hole by not exiting a losing trade prematurely, but also to not allow the losing trade to move so far against you that it creates trauma. Every planned loss that you take provides you with an experience of control; every drawdown that you battle back from is an experience of mastery. When you come back from losses, you reinforce your emotional resilience. You can't control whether you win or lose on a particular trade, but you can control how much you lose and how you lose it.

Every trader needs a plan for losing. *Your stop-loss is your plan for a losing trade.* Cut your size after a series of losing days and focus your efforts on your highest probability trades as your plan for a drawdown period. In Ranger school, the Army exposes recruits to the most harrowing physical conditions possible. Once recruits have completed their training, they have the deep conviction that they can handle any and all battle conditions. You want to view your losing trades and your losing periods in markets as your Ranger School, your trial by fire.

> Your losing trades and losing periods are your trials by fire that build resilience and confidence.

How will you handle a significant losing trade? How will you handle a significant losing day? Week? Month? How will you ensure that you can draw upon your strengths and come back from these losses and build your resilience? Your assignment is to develop your plans for losing, to always know—and mentally rehearse—what will get you out of trades and out of markets, so that you can retool your efforts.

In psychology, crisis does offer opportunity: it shakes up our assumptions and forces us to make changes in how we think and act. Your challenge as your own coach is to find the opportunity in your crises by generating and rehearsing plans for anything and everything that can go wrong. To prepare for hurricanes and tornadoes, communities not only draw up disaster plans, but also conduct drills to put these into practice. Change is a function of preparation and training: drilling the right responses, so that they are second nature when market disaster looms.

### COACHING CUE

Just before I wrote this section of the book, a savvy trader contacted me and explained that he broke some of his rules and lost the profits from the prior week. He was very upset and wrote a memo to himself to ensure that he learned from the experience. He sent the memo to me and insisted that we talk in a few days to ensure that he followed up on the memo. It's a great example of how a trader takes a losing situation and turns it into an opportunity for self-improvement. He won't let the issue go until he's rectified his errors.

That's how traders turn losing experiences into confidence builders. Next time you blow up in your trading, write yourself a detailed memo that explains what went wrong, why it went wrong, and what you will do to avoid the problem going forward. Then send the memo to a valued trading buddy for follow up to hold yourself accountable. That way, every big mistake becomes a catalyst for meaningful change.

## LESSON 10: FIVE BEST PRACTICES FOR EFFECTING AND SUSTAINING CHANGE

The first two years of my career as a psychologist, I worked in a community mental health center, helping individuals, couples, and families with the full array of emotional disorders, from depression to drug abuse. The following year I shifted my practice to student counseling at Cornell University, which afforded my first opportunity to work with a relatively healthy population dealing with normal, developmental issues. I then took the community and student experiences to Upstate Medical University in Syracuse, New York, where I coordinated the counseling and therapy for medical, nursing, and other health sciences students and professionals for 19 years. It was in this latter setting that I learned to apply brief therapy methods to the challenges of young people who were in high-stress, high-achievement occupations. That experience would prove invaluable to my work with traders in the financial markets.

During my time in Syracuse, I met on average about 150 students a year for about eight sessions each. Multiply that times 19 and you have a sense for the changes I've seen happen and not happen. The shining successes, the disappointing failures: all stand out in my mind as if they occurred last week.

When you've worked with that many people over the course of a career, you develop a good sense for change processes and what makes them click or stall. It doesn't matter if you're working with a victim of abuse in the community, a student with test anxiety at an Ivy League school, or a medical student dealing with the first loss of a patient. Change has a particular structure and sequence; there are factors that speed it up and those that impede it. Below I share five of the most important change elements that affect my work as a trading coach. When you harness those elements, you will be well positioned to succeed in your self-coaching:

1. **Timing and Readiness.** Timing is everything, in psychology as in trading. The research of Prochaska and DiClemente suggests that people are most likely to make changes when they're *ready* to make changes. Many times we're conflicted about change; we're not really sure that we want to abandon old ways. I talked with a trader recently who lost much more money than he should have (and than his plan called for) because he simultaneously traded three positions with full size when those positions were highly correlated. He was wrong and he blew out. But when we reviewed the unit sizing by trade idea rather than simply by position, it was clear that he wasn't sure he wanted to make smaller bets. He was upset because he was wrong on the

idea, not because he had violated risk-management discipline. My job was then to help him become more ready for the change he needed to make, just as an alcohol counselor must help an alcoholic become more ready to commit to sobriety. *You will change when you're ready to change, and you'll be ready to change when you recognize that you* need *to change.* As we saw earlier, by becoming more emotionally connected to the consequences of our behavior, we cultivate that need to change.

2. **Ready, Steady, Go.** One of the traps that eager traders fall into when they start coaching is that they want to make many changes all at once. As a result, traders overload themselves with too many goals, water down their focus, and never adequately follow through with any of them. If you have a list of five changes to make, select the one that you're most ready to make (as noted above): the one that you're most committed to taking action on. *Work on that one goal intensively and daily until you make and sustain significant progress; then move to the next change.* The momentum from your success with the first effort will carry over and help your work with the others. If you begin with a goal that you should work on, but aren't fully committed to, you'll stall out on your entire coaching effort. Keep your work doable, but keep it steady. Build momentum and success, and that will help with your later change efforts

> When you coach yourself, focus your efforts and let one success fuel others.

3. **Double Down.** When you first make a desired change, don't let up. Rather, focus on what you did to make that change and redouble your efforts. Make your goal to sustain that change. All too often, traders let up once they make an initial improvement. That's like hurting your opponent in a boxing ring and then not moving in to finish him off. You want progress to double your motivation, not let your bad habits off the hook. W*e've seen that the enemy of change is relapse*: all of us too easily fall back into old patterns if we're not making conscious and sustained efforts to build new ones. The key to change is relapse prevention: repeating new patterns so often that they become natural to us. Any change worthy of pursuit is worth repeating 30 times in 30 days. In Alcoholics Anonymous, a committed new member will attend 90 meetings in 90 days; "bring the body in and the mind will follow" is the slogan. Make the change consistently enough and it will be your change.

Successful coaching means working as hard at maintaining changes as initiating them.

4. **Stay Active.** The research literature in psychology finds that change is most likely to occur when we are active in its pursuit. That is, we change by enacting new patterns—by *doing* new things—not simply by talking about change or thinking about it. I often joke that traders approach coaching like many people treat church: they go once a week to feel virtuous and forget about it for the next six days. A truly religious person wants to live their beliefs every day; if you're going to get the religion of virtuous trading, it's no different. That is why each goal should be accompanied by specific daily activities that help you make progress. If your goal is better risk management, then you want to work on managing the risk of every trade. If your goal is a better mindset, then you want to perform specific exercises each day to keep calm and focused. You won't change your behavior by changing your mind; you'll start thinking differently once you enact new behavior patterns.
5. **Stay Positive.** "If it ain't broke, don't fix it," is the philosophy of those who fail to work on trading until they're broke. *If you're trading well, that's one of the best times to coach yourself*. Your goal isn't to change what's working; it's to become even more consistent in your efforts. Doing more of what works is a valuable goal that helps you press your advantage when you're doing well. The alternative, sitting back on your laurels when you're making money, will bring comfort, but not elite levels of success. I recently met with a prop trader who was trading very well on relatively small size. A quick look at his Sharpe Ratio and trading results suggested that he could be making much more money simply by running more risk in his portfolio and sticking to his bread-and-butter setups and markets. We developed a plan for doing that and he turned good success into outstanding success. By formulating positive goals—focusing on changes that involve doing more of the right things—he made the most of his strengths. It's for that reason that I often tell people that the best time for coaching is when you're doing really well and really poorly.

The best traders, I find, are those who have made self-improvement a way of life. Such traders are driven in their work lives, their physical fitness, and their recreations. They derive great meaning and satisfaction from being the best they can be. The same is true of great athletes: they love working out; they constantly challenge themselves. It's when change is a lifestyle that we see exemplary performance. At that point, self-coaching becomes a life philosophy—an organizing principle—not just a discrete activity among many during the day or week.

**COACHING CUE**

What is the one change you most want to make *outside of trading*? Develop a daily plan for action on the goal that will help your trading efforts. It's all about strengthening the coach within you, whether you're working on your finances, your relationships, your physical conditioning, or your chess game. The goal is to become a change agent, a master of change across all spheres of life. Working on your nontrading life is a way of building your self-coaching as a trader.

## RESOURCES

The *Become Your Own Trading Coach* blog is the primary supplemental resource for this book. You can find links and additional posts on the topic of change at the home page on the blog for Chapter 1:
http://becomeyourowntradingcoach.blogspot.com/2008/08/daily-trading-coach-chapter-one-links.html

Some changes—particularly of problems that have been longstanding and that interfere with relationships and/or work in a significant way—may require more than self-coaching. Here is a referral list for cognitive therapists that I've found helpful:
http://www.academyofct.org/Library/CertifiedMembers/Index.asp?FolderID=1137

For a detailed, research-based summary of the literature on change, check out *Bergin and Garfield's Handbook of Psychotherapy and Behavior Change*, published by Wiley and in its fifth edition (2003). Of particular relevance are the chapters in Section 2, dealing with "Evaluating the Ingredients of Therapeutic Efficacy."

For an overview of short-term approaches to change, check out my chapter on "Brief Therapy" in the *Handbook of Clinical Psychology*, Volume 1 edited by Michel Hersen and Alan M. Gross, also published by Wiley (2008).

A worthwhile collection of creative approaches to change can be found in *Clinical Strategies for Becoming a Master Psychotherapist* edited by William O'Donohue, Nicholas A. Cummings, and Janet L. Cummings (Academic Press, 2006), including my chapter on "The Importance of Novelty in Psychotherapy."