CHAPTER 1

A Reality Check

Trading's only real secret is . . .

The best loser is the long-term winner.

—Phantom of the Pits

Believe it or not, this is probably the only real secret behind successful trading. Although it may seem to you to be a cliché, I hope by the end of this book you'll understand why it's a core truth behind a sustainable career in trading.

In my opinion, Phantom of the Pits' quote encapsulates what is required to succeed. Most traders are bad losers. They hate taking losses, moving stops and looking for any excuse to keep a trade alive, finding all sorts of reasons to rationalize their actions. While they have money left in their accounts, poor traders will ignore a losing position until it becomes so large they can no longer ignore it and are forced to stop themselves out at a catastrophic loss. They delay the inevitable while there is still hope that the trade will turn around. While the trade remains open, there is still a chance they can be proved right. While the trade remains open they do not have to acknowledge they're wrong because they haven't taken the loss. People hate to acknowledge they're wrong. Most people are only bad traders because they are bad losers. Learn to take losses as an integral part of trading and you will have taken your first concrete step towards success. Continue as a bad loser and you'll be off to the poor house. Successful long-term trading will require you to be a good loser.

In my own trading, losing seems to be what I spend most of my time doing. In my short-term trading I only average about 50 percent winners, while my medium-term trend trading sits about 30 percent. So since I don't win very often, I have to be a good loser to survive in trading, otherwise my account would be empty and I wouldn't be able to trade. I hope you can become a good loser.

As an exercise, it's certainly worth going back over all your trades and seeing what your results would have been if you had followed a simple stop rule. A simple stop rule for long trades (and the reverse for short trades) could be to exit on a break of the lowest low within the last three bars. Alternatively, you could use a break of the previous week's low to stop yourself out. It doesn't matter which stop you use as long as it's consistent with the time frame you trade. Now, you may find that it doesn't turn your losses into profits, but I'm sure it will show that your account would have looked healthier than what it was. Believe me, it pays to be a good loser.

If you're currently profitable in your trading, you can skip this little discussion. If you're not, heads up, pens down, and eyes off the market! This discussion is for your immediate benefit. Please cease all trading.

If you're currently trading without profits and are attempting to battle your way out of a drawdown—that is, attempting to come back from a loss in your trading capital—the best thing you can do right now is to walk away from your trading account. I know it's hard—especially when walking away feels like an admission of failure. Don't worry about it. It's not failure. You'll only be suspending your trading until you can introduce positive expectancy. Don't be despondent. Be thrilled that real help is here. There is no shame in losing—it happens to everyone. I've been there many times and pride myself on being good at it (remember, the best loser is the long-term winner!).

If you're a loser I'd like you to listen carefully to what I'm about to say. A huge reason you're losing is that your trading methodology doesn't work. It's not what's in your head that is holding you back. Despite the overwhelming message many trading educators would have you believe, its not psychology that is your nemesis. It can certainly be a challenge, but it's not your nemesis.

It's your methodology. It doesn't work. Although your trading account is telling you it's poor, you're ignoring its message. And I can understand why. You've no doubt read numerous books and attended many trading seminars that say your method or ideas can be used for trading but unfortunately they can't. Take it from your trading account—your method is letting you down. The reason may not be that it's totally without merit; however, as a whole, the reason your method doesn't work is that it doesn't have an edge and its expectancy has not been validated.

You need to validate your methodology's expectancy. I'm sure what you will find will mirror your trading account. You will find it's negative. Furthermore, if you had independently validated your methodology before placing a trade, you would have never traded with it. You would have thrown it out and recommenced your search for a trading methodology with an edge that can be correctly validated to offer a positive expectancy.

So take a deep breath and walk away from trading for the time being. You're about to embark on a quest for real trading knowledge, which, among other things, will show you how to validate a trading idea correctly.

And I should have said not to worry if you are currently losing, because you're actually in good company. Let me share an unfortunate truth with you. *Over 90 percent of all traders lose!* Let me share with you my understanding on why this is.

WHY DO 90 PERCENT OF TRADERS LOSE?

The simple answer to why 90 percent of traders lose is ignorance.

While many analysts argue that psychology is the main reason, I maintain that the deeper answers are gullibility and laziness. It's human laziness that causes traders to look for the line of least resistance. Why work harder when you can work smarter, right? Unfortunately, this can make traders gullible, and they start to believe what they read, what they hear, and what they install on their computers. This is because traders desperately want to believe there is a simple path to trading riches. And it's this line of least resistance that prevents them from correctly validating what they think may work in the markets.

Even though traders may have read a great many books and attended a lot of seminars, they're still ignorant. It may come as a surprise, but not many books or seminars reveal what actually works in trading. This is because many authors and educators are ignorant themselves about what actually works; they're usually failed traders. If you look at the vast bulk of financial literature and various products, most rely on the ''greater fool'' theory. That is, the customers or purchasers are the ''greater fools'' but they don't know it! Remember, just because a trading idea is either written down, or delivered by a PowerPoint presentation, does not make it true.

However, if you have the correct knowledge, and the patience to validate a trading idea, you will not be ignorant—I intend to provide you with this knowledge. While you may not be making money in the early stages, at least you'll be knowledgeable enough to realize that it's because you don't yet know enough to succeed.

Psychology

Psychology is often provided as an excuse for the traders' failure to succeed. However, while it can be a contributing factor, psychology is not the sole reason, as many commentators suggest. To succeed in trading, you need to cover three important areas:

- methodology
- money management
- psychology.

They're (almost) equally important and I'll cover each in greater depth later. At this point, you just need to be aware there are three components to successful trading.

Whenever I make presentations I usually ask the audience which part of trading they believe is the most important:

- methodology—the analysis and trading plan behind why you buy and sell
- money management—the amount of money you commit to trades
- psychology—having the discipline to follow your trading plan.

Interestingly, most people raise their hands at psychology. I'm not surprised by this response because the overriding message from most trading material available is that psychology is the hardest part of trading and the key to success.

The usual message is along the lines of ''the only thing that separates the winners from the losers is psychology, nothing else'' . . . ''the winners have no special trading skills, no special trading secrets, no secret formulas to win in trading'' . . . ''what sets winners apart from losers is their psychology'' . . . ''winners think differently than losers.''

I disagree with this. What holds the losers back is their ignorance of knowing and validating what works in their hands. Although psychology is important, I believe money management and methodology rank higher.

I mentioned earlier that ignorance, gullibility, and laziness are the main reasons 90 percent of traders lose. To show you how these three evils manifest themselves in trading behavior, I'll explore in some depth the common mistakes many traders make during their first three years of trading. I'll group the common mistakes under the three main building blocks of successful trading: methodology, money management, and trader's psychology.

As an aside, you already know I don't claim to be an expert on trading, but I'm certainly well qualified to discuss these common mistakes because I've been guilty of making all of them at some point!

COMMON MISTAKES—YEAR ONE

Welcome to your first year of trading. If you ever had any doubt at all about your level of ignorance then rest assured that during your first year of trading you are ''King Ignorant!''

Methodology

- Listening to others and following tips
- Reacting to the nightly news

- Asking others for their opinions
- Averaging entry levels
- Failing to use stops
- Failing to have a trade plan

Money management

- What is money management?

Psychology

- Trading for excitement
- Trading for revenge or to get even

Methodology

Listening to others and following tips

When most people start trading, they will invariably listen to others and follow tips. This is a recipe for disappointment. Sometimes the tip may be successful, but over the longer term, it's a loser's game. You should only ever trade because of what you think, not because of what others say in the corridor or over a dinner table.

Reacting to the nightly news

Often, inexperienced traders will hear some news, such as that most companies are reporting good earnings or the quarterly GDP growth numbers were ahead of forecast, and the next day they'll go long only to be stopped out at a loss. It takes a long time to understand that once the news arrives in our living rooms in the evening, the information is already old. The market has already anticipated and reacted to the news and new traders don't realize this.

Asking others for their opinions

New traders often seek out the opinions of others. If they have no idea where the market is heading, they'll usually ask their brokers, friends and family for their opinion. Unfortunately, unless they're full-time traders, the views of others on the market may not be much better than those of new traders.

Averaging entry levels

New traders are usually the world's worst losers. They hate losing and will try to avoid it at all costs. The usual response is to ''average'' out their entry levels. For example, say you buy a share at $6.60, and straight away it falls to $6.00. New traders often convince themselves there were good reasons the share went down to $6.00. They also convince themselves there are even better reasons it should rebound. They then purchase additional shares at $6.00, averaging down their entry level to $6.30, and hoping to benefit from the expected rebound. But in this circumstance, it's unlikely the share will rebound, and all those traders have done is compounded their losses. While being long at $6.30 may sound better than being long at $6.60, it doesn't when you've laid out twice as much money. ''Averaging'' entry levels goes against being the '''best loser''—it makes the new trader the ''worst loser.''

Failing to use stops

Unless they've had the benefit of some trading experience, new traders rarely trade with stops or preplanned exit points. It doesn't occur to them that they could lose until it's too late and too costly.

Failing to have a trade plan

All of that can be summarized under this most common mistake. Listening to tips, reacting to the nightly news, asking others for their opinions, averaging entry levels and failing to use stops are clear signs that traders are trading without a trade plan. Remember, trading without a trade plan will catch up with you sooner or later.

Money Management

What is money management?

Usually, the only concern for first-time traders is that they have enough money to initiate a trade. The idea of money management is given little thought. New traders usually have no concept of their ''risk of ruin'' (which I will explain later) brought about by risking too large a slice of their account balance on any one trade.

Recalling where I place the importance of money management, you can understand how making this common mistake can be, and usually is, fatal for new traders.

Psychology

Trading for excitement

One of the reasons many people trade is that it provides an exciting distraction from what may be a relatively orderly and conservative life.

Trading gets the heart racing and adrenalin flowing. Even if they're losing, traders often keep at it because the next trade is always an exciting mystery—will they win or will they lose?

Trading for revenge or to get even

When they lose, traders often get angry and want to get ''even'' with the market. Losing is like receiving two blows: one to your pride and one to your wallet. And when new traders get pushed they want to push right back! Revenge rather than logic motivates their trading. Being emotional is a common behavior for new traders; however, it's also a shortcut to the poorhouse!

COMMON MISTAKES—YEAR TWO

If traders manage to survive their first year of trading without losing all their money, most will enter their second year with ignorant resolve and unwarranted optimism. During the first year, most were no more than accidental traders; however, it's during the second year that they become a genuine danger to themselves. As they start to gain a little knowledge, or so they think, second-year traders embark upon a determined campaign of self-destruction.

Methodology

- Believing what is read and heard
- Believing technical analysis is the only answer
- Falling into the prediction trap
- Believing more is best
- Picking tops and bottoms
- Believing ''paper trading'' will help
- Failing to see the trend or respect stops
- Taking profits too early
- Failing to use a trade plan
- ''Coat tailing'' other traders
- Switching methodologies
- Switching gurus
- Switching markets
- Switching time frames
- Switching client advisers

Money management

- Overtrading

Psychology

- Becoming addicted to the market
- Being impatient
- Having unrealistic expectations
- Being a rationalist

Methodology

Believing what is read and heard

A common mistake traders make is to believe what they read or hear about trading. If it's written or said, most traders believe it must be true, only to find out later, when they lose money, that it's not. Traders want to believe it's true because it offers the line of least resistance to easy money. Remember—the only thing that makes any trading idea true is your own validation, no one else's.

Believing technical analysis is the only answer

Technical analysis broadly refers to the study of past prices to gain insight into future price movements. During the second year of trading, however, many people make the common mistake of believing technical analysis is all they need to make money, ignoring money management and psychology.

Believing more is best

As relatively new traders embrace technical analysis, they fall into the common mistake of believing complexity will provide the answers. Instead of realizing technical analysis is not enough by itself, they believe adding more technical indicators is the answer.

When purchasing charting software, traders invariably fall into the trap of lighting up their screens with as many indicators as possible. However, attempting to explain every move in the market is a recipe for disaster. The story is familiar—if the indicator didn't predict a strong gap up, they'll search for one that would have. This is known as the first stage of ''curve fitting,'' in which novice traders will attempt to mould their collection of indicators to fit past data.

Believing ''paper trading'' will help

Many inexperienced traders make the common mistake of believing ''paper trading'' will help. Paper trading is the process of recording trades (on paper) according to your own trading rules. Once you're happy with the ''paper'' results, you can start with real cash. However, although the intention is good, I believe it is a foolhardy exercise.

The problem with paper trading is that it does not reflect the real world of trading. It doesn't provide an arm's length, neutral but fair ''policing'' element to observe and independently check your paper trades. It's open to fiddling. When paper trading, you can always erase a losing trade and revise your past actions because you suddenly notice some filter you hadn't seen before. It's amazing what people will do to protect their sensitive egos, and I can tell you that in my 27 years of trading experience I have never met a losing ''paper'' trader!

Falling into the prediction trap

My first influence in trading was Elliott wave and then geometry. This lasted for 15 years until I changed to simple pattern trading. However, during my 15-year preoccupation with Elliott wave and geometry, I reckon I'm almost at the head of this class based on this fault! What do I mean by ''prediction trap''? Simply, trying to determine where the market is heading, or having a view of where it's going, how far it's going, and when it's going. Any theory on market behavior that suggests markets move to a preordained pattern is a predictive theory. Two of the highest-profile predictive theories are Elliott wave and W.D. Gann.

Predictive theories maintain that traders can predetermine market direction and turning points. Novice traders are seduced into believing it's possible to consistently know where the markets will head. This is appealing because it holds out the possibility of certainty in trading by knowing when to buy low and when to sell high. Once again it provides a line of least resistance to easy trading success, which is very appealing to new traders.

Unfortunately, many traders don't realize these predictive theories may not be the most effective way to trade until it's too late. It's not until they're poorer for the experience that they begin to question the ideas presented by these theories. Once they do, and begin validating the theories according to their own interpretation, they soon discover that the theories, in their own hands, have a negative expectancy.

Picking tops and bottoms

Most traders make the common mistake of looking to sell tops and buy bottoms. When a market makes a new all-time high, inexperienced traders generally look to sell it. Selling what are perceived to be overvalued prices (picking tops) seems logical and smart, and to consider the opposite is unthinkable. Unfortunately, traders can't help themselves and commonly make the mistake of buying extreme weakness and selling extreme strength.

Failing to see the trend

Failing to see the trend is usually compounded by the previous common mistake. The end result is the same as traders attempt to swim against the tide by trading against the underlying market trend. However, it's not that easy to define the trend, because it can vary depending on the time frames used to identify setups (such as monthly, weekly, or daily) and trade plans (such as weekly, daily, or hourly).

Failing to respect stops

If traders are lucky enough to trade with stops during the second year, a common mistake many make is occasionally to move stops to avoid being taken out of trades. This tendency is part of the fear of being proved wrong. The consequence is that traders end up losing more money than if they had left the stop in its original position. Moving your stops makes you a bad loser and, therefore, a long-term loser!

Taking profits too early

On the one hand, traders can fail to respect their stops by moving them further away. On the other hand, traders are also fearful that what profit they do have will be snatched away. This anxiety makes traders take their profits too early. Traders are not only bad losers, but they are also bad winners! Is it any wonder that most people fail at trading when they are so bad at executing the two key engagement points with the markets, their stops and exits?

Being slow to takes losses and quick to take profits is a recipe for disaster. It takes many years of failure before traders come to realise successful and profitable trading lies in being quick to take losses and slow to bank profits!

Failing to use a trade plan

Many traders make the common mistake of not trading with a clearly defined trade plan. They rarely trade with clearly defined and unambiguous rules to determine their entry level, stop level, and exit level.

"Coat tailing" other traders

Even though most traders have the resolve and determination to continue trading into their second year, there comes a time when continual losing will wear them down. This insistent chipping away at their confidence leads them toward another common mistake of ''coat tailing''—that is, blindly following—other traders.

Switching methodologies

I'm reluctant to call this a common mistake because, on occasion, it can be the right thing to do—how else can you find out what works in trading if you don't go searching? However, I've included it here because many prematurely switch methodologies before they've given a particular one enough investigation. Traders can become too impatient during their search and don't take the time to delve deep enough to determine correctly whether a methodology has value.

Switching gurus

I define gurus as those people who are placed upon the pedestal of trading wisdom by the popular press, various institutions or internet chat sites. Typically, if traders fail by following one guru, they'll replace him or her with another, rather than working out what works for themselves.

Switching markets

If traders have failed to make money by switching methodologies and gurus, many then conclude that it is the market that is holding them back, rather than their approach to it.

Switching time frames

Many traders believe a switch in time frames will improve their results. They feel trading a lower time frame will reduce their risk and hence their losses. This usually leads them to try their hand at day trading. However, reducing the time frame does not reduce the risk. What traders usually do when they switch to a lower time frame like day trading, is inadvertently to improve their risk and money management by closing losing positions at the close of business. Once again, it's not the time frame that is holding them back but their money management and methodology.

Switching client advisers

Many traders have been known to blame poor results on client advisers, blaming them for bad fills, even if these were created by the market. By fills I mean the execution of orders into and out of the market. If they're losing, further bad fills will lead them to change client advisers, believing that their client adviser, not their trading, is responsible for their poor results.

Money Management

Overtrading

By the second year of trading, most traders will have come across the concept of money management. Although many might believe they understand money management, the reality is that they don't really. Novice traders will still overtrade, given their account size. That is, they'll risk too much of their trading account on any individual trade.

Psychology

Becoming addicted to the market

The excitement of trading gives traders a natural high. The adrenalin rush produces an unhealthy addiction to trading. Craving the next trade can cause traders to push marginal trades that don't exist, and they suffer the usual poor results.

Being impatient

Most traders lose patience with the market. If this happens, when patience is required, they'll instead ignore their previous conviction to trade only validated setups. In a rush, traders will start executing any marginal opportunity and continue to lose.

Having unrealistic expectations

New traders make the common mistake of believing the marketing hype surrounding trading, which creates unrealistic expectations. Expecting to earn a 100 percent or more return places traders under enormous pressure and feeds their downward spiral into financial (and emotional) self-destruction.

Being a rationalist

Often, traders seek to explain away their losses. They always find a reason the market took their money—''If the Dow Jones hadn't fallen last night I would have been able to take my profits this morning!'' or ''Oh no, I miscounted my waves. How did I do that?'' or ''The 20-bar cycle must have inverted!'

In the minds of novice traders, it's never their fault.

COMMON MISTAKES—YEAR THREE

Having muddled through the first year of trading and survived the second year, those who get to the third year should be applauded for making it through! These traders usually step into their third year of trading with a determined resolve and battle-weary cautiousness.

Although adopting the posturing of a veteran campaigner, traders in their third year still have the potential to be dangerous. They have more knowledge, or so they think, and believe that the markets owe them big time—both financially for the money it has ''borrowed'' and for their time ''invested'' in unraveling its mystery. To cap it off, their egos have taken a huge battering. This is an explosive cocktail to carry around. Welcome to the third year of trading!

Methodology

- Failing to let go of what has been learned
- Forgetting it's all about simple support and resistance
- Confusing technical analysis with trading and failing to separate trade plans from setups
- Failing to develop trade plans that support setups
- Failing to understand positive expectancy
- Failing to validate methodologies

Money management

- Continuing to overtrade

Psychology

- Focusing on the profits and not the process
- Having poor discipline
- Believing markets are impossible
- Believing there are trading secrets
- Believing the greatest risk is losing money
- Believing the hardest thing is psychology

Methodology

Failing to let go of what has been learned

Failing to let go of what has been learned is a major mistake that nearly every trader makes and there is almost no way to avoid it. This is due to that important ingredient to success—determination. On the one hand, it's the only way to succeed, because trading throws so many obstacles in your path that without it you'll never progress. Yet determination can make you so pigheaded that you won't walk away from a losing methodology, even though your trading account, your partner, and your accountant are telling you to. Believe me, I know—it took me 15 years to walk away from Elliott wave!

Forgetting it's all about simple support and resistance

In the pursuit of the ultimate trading strategy, many traders will be seduced into believing that complexity is the trick to win in the markets. They believe that if everyone loses in the market, trading can't be simple—if it were, wouldn't everyone be winning? They begin studying intricate and esoteric methodologies, looking to the stars and peeking under pyramids to find the ''secret key'' to unlock the markets. They lose sight of the simple truth that trading is all about identifying potential support and resistance levels.

Why would traders buy unless they believed the market may have found support? Why would traders sell unless they believed the market may have hit resistance? Unfortunately, in pursuit of ''clever'' trading, traders lose sight of the fact that trading is all about simple support and resistance levels.

Confusing technical analysis with trading and failing to separate trade plans from setups

In the initial part of their trading career, many traders confuse technical analysis with trading. They make the common mistake of not having a separate setup and trade plan. They're so focused on working out where the market is heading that once they believe they've worked it out, they immediately enter the market.

Say for example your setup may use a 40-day moving average to identify the trend. It may use a sentiment indicator to tell you when the market is oversold, identifying a safe place to buy on a pullback in an uptrend. It may even use a key reversal pattern to confirm a price reversal and resumption of a trend. What will happen is that you'll see three green lights (trend up, retracement down with sentiment oversold, trend continuation up with reversal pattern) and get excited. Off you'll go to buy the market either on the day's close or the next day's open, because your analysis or methodology had identified a possible resumption of the uptrend.

In this case, you've made the common mistake of failing to develop a separate trade plan from your setup. Automatically entering the market based on the setup alone is wrong. Successful traders know it should be a two-step process.

The first step is to complete your analysis and identify a setup. The second step is to work out how to take advantage of the setup correctly by following a separate trade plan.

Failing to develop trade plans that support setups

If you have developed a separate setup and trade plan, you would complete your analysis and find your setups the night before to establish a preference to either buy or sell the next day. During the next day, your only focus would be your trade plan, not your setup. You would trade according to it, not your setup. What many traders fail to do is design their trade plans to support and confirm their setups. Instead, their trade plans only incorporate an entry, stop, and exit technique.

A good trade plan will require the setup to deliver positive market action before committing a trader to a position. For a sell setup, a good trade plan will demand lower prices before committing to a trade. For a buy setup, a good trade plan will demand higher prices before committing to a trade. Unfortunately, most fail to incorporate this ''supporting'' role into their trade plans.

Failing to understand positive expectancy

Another common mistake is being ignorant of ''positive expectancy.'' Although people trade to make money—and subconsciously want to make a great deal of it—they have no practical knowledge of their actual ''expectancy.'' They don't know what they are likely to earn over the longer term for every dollar they risk in trading. I will talk much more about expectancy later.

Failing to validate methodologies

Most traders, whether new or experienced, make the mistake of not correctly validating their methodologies. Some believe that a simulated equity curve and calculated expectancy, combined with paper trading, will validate their system. Unfortunately, this is not the case.

Most traders will only validate their methodologies by trading real money in the markets. If they make money, their methodologies are validated; if they lose, their systems are no good. However, the only way to validate your methodology correctly without risking money is to trade the market according to your rules, at arm's length from your ego, by following my TEST procedure. You will hear more about TEST later.

Money Management

Continuing to overtrade

This is one area that most people struggle with early on in their trading career. Although many traders believe they understand money management, they still risk too much of their risk capital on each trade. They're not patient enough to take smaller bets to reduce their risk of ruin and sensibly build their account balance over time. Trading conservatively is just not exciting enough!

Psychology

Focusing on the profits and not the process

Focusing on profits does not make money. Traders should be focusing on the process of trading, not the profits—that is, focus on money management, identifying setups, and executing trade plans. If you learn to focus on the process of trading, the profits will follow.

Having poor discipline

Poor discipline is another common mistake. Traders can get easily distracted when they play with their setups and trade plans, entering and placing stops in an almost random fashion.

Believing that markets are impossible

If you're lucky enough to still be trading by the third year and you're still losing, you'll be close to the end of your tether. If so, you'll probably make the common mistake of believing that markets are impossible to trade.

Believing there are ''trading secrets''

Once you start thinking that markets are impossible to trade, you remember that a small group of traders do succeed. This leads traders to believe this select group of winning traders must know ''trading secrets.'' It can be the only way they win. It's the only logical conclusion inexperienced traders can come to.

Believing the greatest risk is losing money

Another common mistake traders make is to believe the greatest risk in trading is losing money. However, the greatest risk you're exposed to in trading is tampering with a methodology that works! When faced with boredom, you'll need to ignore the temptation to modify your system to squeeze out extra profits.

Believing the hardest thing is psychology

By the end of their third year, struggling traders make the common mistake of believing that psychology is the hardest part of trading. After purchasing so many books and software programs and attending so many seminars and workshops, they believe they must have the knowledge to trade successfully. They know they are not stupid so they believe it mustn't be their trading ''knowledge'' that is letting them down but the ''application'' of it. They believe their psychology is their biggest hurdle. And this belief is reinforced when most trading books support the notion that psychology is a person's single greatest challenge to becoming a successful trader.

Now, although psychology is important, I personally believe it isn't the greatest challenge to successful trading.

HOW TO JOIN THE 10 PERCENT WINNERS' CIRCLE

The simple answer is to avoid the common mistakes made by private traders and learn from the winners—the professional commodity trading advisers (CTAs), who manage billions of dollars through active trading. They can teach you to become process oriented in your trading.

Adopting a process orientation toward your trading, like that of the CTAs, will define boundaries within which you can explore and experience trading. If done properly, you may never trade, and by not trading you won't lose, which will put you ahead of 90 percent of all traders. While you may not join the 10 percent winners' circle, at least you won't be contributing to their pockets!

Let's look at a new trader's typical journey, as shown in figure 1.1.

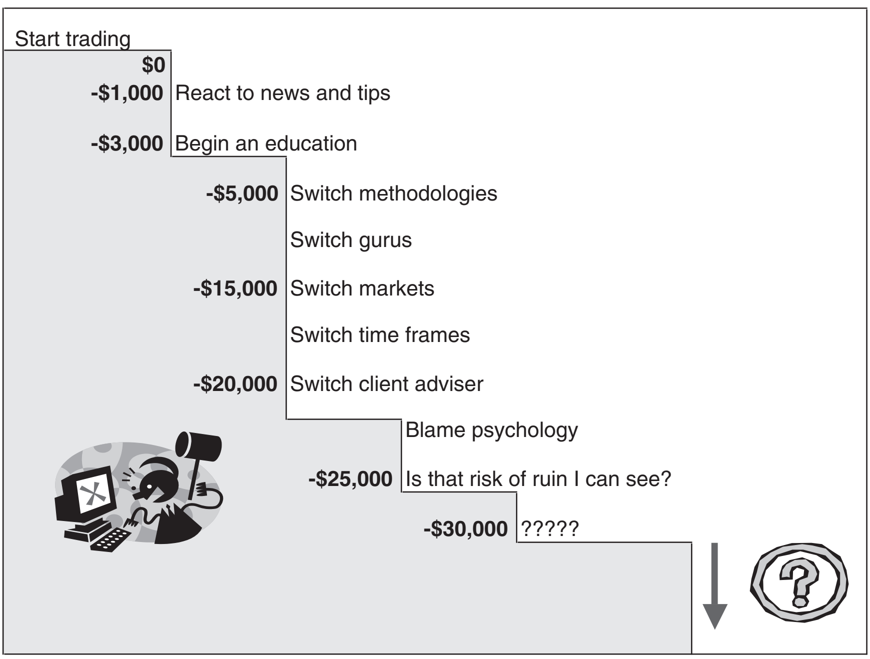

FIGURE 1.1 A trader's typical journey

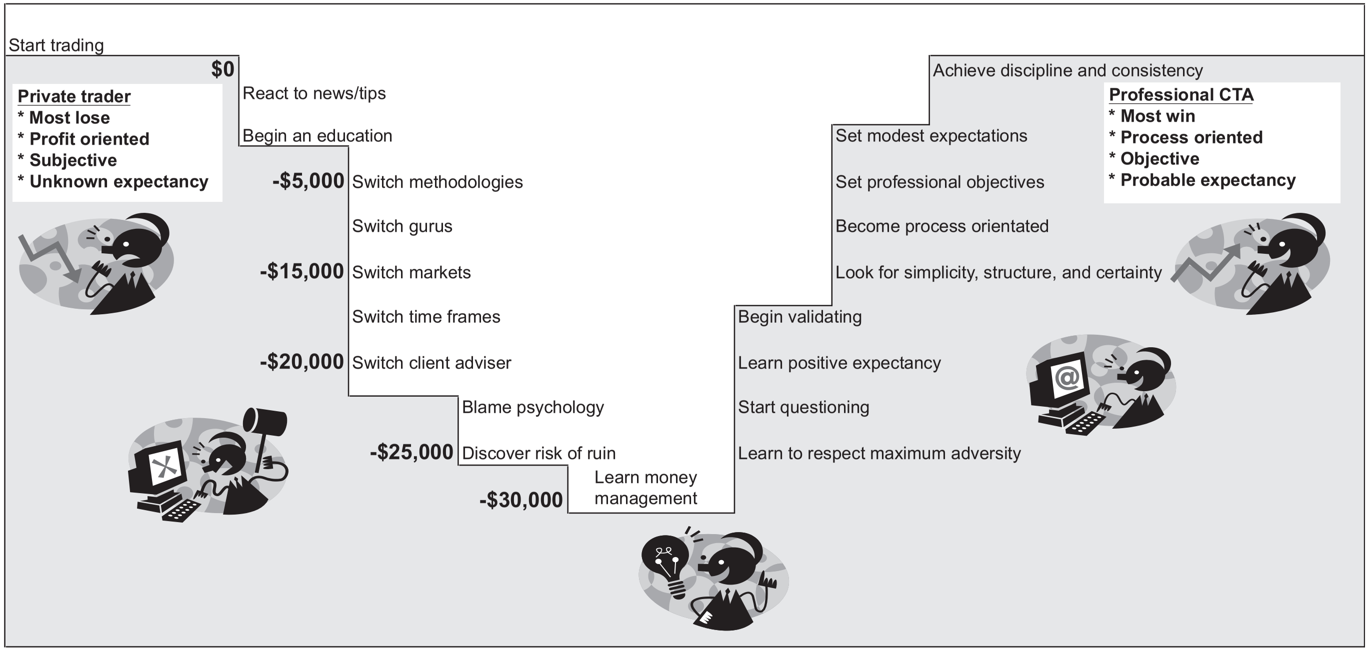

FIGURE 1.2 A winner's climb

As you know from the common mistakes traders make, there is a high probability you'll have an unhappy experience when you begin trading. As you search for what works, you'll get beaten from pillar to post, completely clueless in your endeavors to make money.

For those traders who are fortunate enough to pick themselves off the floor, there is usually a clear pattern of behavior.

For the few traders who win, not only do they learn about money management, they also come to the realization that its correct application is required for their financial survival, as shown in figure 1.2.

Most long-term winning traders have learned:

- the market's number one rule of maximum adversity
- to give the market the respect it deserves
- to question everything they read and hear
- that just because an author writes it, or a presenter says it, it isn't necessarily true
- about positive expectancy
- to validate all ideas
- to look for simplicity, structure, and certainty
- to be process-orientated in their research, design, and validation
- to establish professional objectives and modest expectations
- to achieve discipline and consistency in their trading.

Most of these few winners are the professional CTAs. Most losers are you and me, the small private trader.

IN SUMMARY

When people begin their trading experience, they usually do so with little structure and little certainty. During the process, they damage both their wallets and souls. If they're lucky enough, they will begin moving toward simplicity, structure, and certainty. They'll begin adopting a process-oriented focus. The glue that builds the structure is discovering the importance of positive expectancy and correct validation. If you do this, you'll begin to think and behave like a professional CTA.

By the end of this book, through teaching you the universal principles of successful trading, I hope to have you thinking and behaving like the professional traders, regardless whether your preference is for discretionary or mechanical trading.