CHAPTER ONE

THE SECRETS OF SUCCESS

We often read books as passive observers, letting the narrative wash over us without actively engaging in the experience. This is not that kind of book – you must join me as a *participant* if you wish to gain ground and move forward toward the pinnacle of expert trading.

Even as a willing participant, however, it can be difficult to orient yourself unless you know where you are, as a trader, right now. To respond to this challenge, it's necessary to conduct an honest self-assessment. The following guidelines are designed to assist you in this endeavor.

The majority of successful traders I've known are far more productive when engaging in *go with* trades; they often execute trades in the direction of the salient trend. If they're day traders, "go with" means following the daily trend, or "developing value" (an important pattern we'll address later in the book). Swing traders, on the other hand, tend to execute based on the intermediate, or longer-term trend.

Most short-term, non-professional traders have taken courses that preach "reversion to the mean." They're also taught to wait for signals that confirm a trade. In my experience, successful traders actually *shun* reversion-to-the-mean trades!

In today's fast markets, waiting for confirmation often results in missing profitable trend days (we will discuss trend days in Chapter 14).

SUCCESS REQUIRES CONSTANT PLANNING AND REHEARSAL

In my educational seminars and programs, we frequently refer to "homework," as in, "If you haven't done your homework, you haven't earned the right to trade."

All traders have great intentions, but family, friends, news items, and myriad other commitments and interruptions can transform these intentions into regrets. In order to make progress on the road to becoming a successful trader, you'll have to take a close look at your intentions and tendencies and accept some potentially difficult truths about how you process and act on information. But that's the game. And you either play it with an open, focused mind, or you get played and join the more than 90% of short-term traders who lose money in the markets.

Do you double down on losing trades? This is one of the most dangerous habits inexperienced traders suffer. A wise person once said, "When you're in a hole, stop digging." The use of the word "habit" here, is deliberate. In Chapter 6, we'll review actionable approaches to changing the habits that decrease our odds of success.

Which brings to mind a metaphor that might prove useful as you assess your own inclinations. Neuroscience makes it clear that our standard modes of thought become *physically ingrained*; when we think the same thoughts over and over, we forge neural pathways – superhighways of brain activity that become increasingly easy to traverse.

Changing mental habits is tantamount to scratching out a path through tangled undergrowth away from the highway. The going can be rough.

> Imagine how time-consuming it would be to use a machete to cut your way through thick foliage. A few miles could take days. Once the path is cleared, however, you could move quickly through the clearing. If you were to make a road and ride a bike or other vehicle, the transportation would get faster still.
>
> —**Josh Waitzkin,** *The Art of Learning*

This metaphor is handy because it reminds us that only by *continuing* to beat a new path – through daily practice – are we able to establish new, more productive avenues for thought. As we've established, the superhighway of trader habits does not lead to financial success, so you must ask yourself: *Am I willing to forge a new path through focused, repeated effort?*

Here's a (partial) list of the types of mental tendencies that cause traders to lose focus/time/money:

- Doubling down on iffy trades
- Good old-fashioned FOMO (fear of missing out)
- Unceasing eagerness to take profits
- Fading trend days
- Failure to let profits run
- Reading every bit of news/analysis (almost guarantees cognitive dissonance – addressed in Chapter 6)
- Trusting a "gut feeling" (which is more likely a temporary emotional urge)

The popular writer/psychologist Malcolm Gladwell developed the Diffusion Model as a way to judge where you are most active. The scale also comes in handy when assessing competitor behavior – and your own:

- Innovator
- Early Adopter
- Early Majority
- Late Majority
- Laggard

SELF-ASSESSMENT: WHERE ARE YOU MOST ACTIVE ON THIS SCALE?

Self-awareness is key to being able to combine your skill, experience, and knowledge – the trifecta that gives you slightly better odds of trading with less risk. Few traders process this fact, and fewer still have even thought about it.

But I guarantee: *Self-assessment is the starting point for achieving success.*

In Appendix B, I've listed a number of books that helped me better understand the way I process information, emotions, and the endless noise that courses through our screens. I highly recommend you read them – perhaps even before you continue with this book – to improve your capacity for self-assessment. At least begin reading them in conjunction with this book, as they are an integral part of the experience.

> You cannot change your destination overnight, but you can change your direction overnight. Success is nothing more than a few simple disciplines, practiced every day.
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> —**Jim Rohn,** Entrepreneur, author, and motivational speaker