Master Your Trading Mindtraps

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The popularization of speculative trading activity in the financial markets, partly due to the development of retail trading solutions offered on the internet, has created a new population of traders in the market. Most of these traders are non-professionals that are attracted by the potential to generate revenue quickly.

Falsely Created Expectations
Many novice traders may believe that it is very easy to make money, especially when they are trying a broker service using a free practice account.

However, if these traders manage to generate a sudden substantial return, it can lead them to believe that trading is an easy occupation - and one in which revenue can be quickly generated with little work on the part of the trader. For the inexperienced, one good pick can make it seem like market speculation might become the key to success and wealth.

Unfortunately, when these inexperienced speculators overtake this virtual investing environment and decide to start trading live accounts and risking real money on the market, the activity becomes much more complex. In many cases, the days of outstanding day trading performance come to look suddenly and distressingly like old souvenirs - it is an abrupt initiation into the pitiless reality of the financial markets.

Real Life vs. Practice
When new traders take the leap from the their virtual trading accounts to trading with real money, they are entering into the most difficult step of their initiation to trading: trading psychology.

In other words, while it may be very easy to trade when the risk of loss does not exist, when the trader's hard-earned dollars are thrown into the mix, his or her focus and price objective can go out the window. Often, traders using virtual accounts will feel relatively comfortable even when the market moves against the positions they enter. This allows them to keep their focus on their price objective and wait for the market to get moving in the right direction. Because there is little consequence tied to "virtual money", personal emotion does not interfere. Unfortunately, when a trader's actions come to affect the gain or loss of his or her own personal assets, that trader is less likely to behave in such a methodical way.

Emotions Can Rule the Trade
Emotions can be seen as the trader's worse enemies; they often lead to misjudgment and loss.

Feelings generate what psychologist Roland Barach calls "mindtraps" in his book, "Mindtraps: Unlocking the Key to Investment Success" (1988). Roland Barach provides a collection of 88 lessons explaining the pitfalls, such as fear and greed, that hold many traders back. (For related reading, see *When Fear And Greed Take Over* and *Having A Plan: The Basis Of Success*.)

Greed
Greed can lead a trader to hold on to a position too long in hopes of a higher price, even as it falls. This emotion has been the main reason behind many trades that have gone from large gains to large losses. To thwart this emotion, try to take an objective look at the reasoning behind your positions. When one of your positions experiences a large run up, ask yourself whether the reasons behind your initial investment still remain; if not, it may be time to close or reduce the position.

Fear
Fear can prevent a trader from entering trades along with taking them out of positions far too early. If an investor is too concerned with potential loss and the risks that come with an investment, he or she can often be dissuaded from a good opportunity. Also, if a trader is more susceptible to fear, he or she may sell out of an investment far too early based on the fear of losing the gain they have made. In many cases, this can prevent a trader from cashing on a much bigger gain. (For more insight, see *A Look At Exit Strategies*.)

Paralyze by Analyze
Paralyze by analyze is an interesting phenomenon in which traders get so caught up in analyzing everything about a potential investment that they never actually pull the trigger on the trade. In this case, what often happens is that the investor will constantly question all of the little details found in the analysis in an attempt to perfectly analyze a situation. This is a truly unachievable task that can prevent a trader both from making monetary gains and from making experiential gains by getting into the trade.

There are a wide range of other emotions that can rule a trader but the important thing for any market participant is to recognize these emotions.

Acknowledge Your Emotions
All traders will experience at least one mind trap, but it is the very best traders that learn to recognize, understand and neutralize them. This process forms the foundation of any trader's training. Therefore, if you want to become a (successful) trader, you should first spend some time getting to know yourself and the particular mindtraps you tend to fall into. A skillful trader tends to have a strong desire to master his or her emotions and prevent them from affecting his or her performance.

Trading Nirvana
Traders are only human and, as such, perfection may not exist in trading. However, profitable trading can be achieved when a trader learns to manage his or her emotions. This will be easier for some than for others, but it is only through experience in the market that this skill can be developed. Therefore, before you can learn how to win, you have to take some risks (or at least get into the market) and learn to master the emotions that making (and sometimes losing) money stirs up.

For more insight, read *Trading Psychology And Discipline*.