Letter from the Editor

Technical analysts depict price action as charts. You can argue that at their core, charts actually depict the emotional struggles within investors and traders. The psychology of the marketplace is seen in the ebb and flow of prices, as greed and fear alternate as the primary emotion drive price changes.

This aspect of technical analysis was briefly mentioned in The New York Times when psychiatrist Ari Kiev passed away in November. His obituary noted:

After meeting several Olympic athletes at a gym where his sons worked out in the 1970s, he became interested in the psychology of sports performance and was appointed to the United States Olympic Committee’s sports medicine committee. His work with basketball players, bobsleders, archers and scullers and his articles on the subject caught the attention of Mr. [Steven] Cohen, who saw parallels between the challenges faced by top athletes and Wall Street traders and hired Mr. Kiev in 1992 to coach his employees. [Cohen is founder of the hedge fund SAC Capital Advisors.]

Dr. Kiev helped traders develop techniques to shift abruptly from moments of extreme exertion to relaxation, as he had done with athletes, and to manage the stress that comes with uncertainty — or, rather the certainty that even good traders can expect to be right only a little more than half the time.

He also zeroed in on behavior patterns and subconscious fears that limited or even subverted investment goals. Part of his work, he often said, was to force traders to see their tendency toward denial and rationalization.

"An athlete who wants to run a four-minute mile can work backward and establish a regimen to attain that,” said Matt Grossman, who worked with Mr. Kiev at SAC and now runs his own hedge fund, Plural Investments. “Ari applied this concept to investing: set a target, then design an approach that gives you a high probability of achieving that target.”

Kiev was among the pioneers in studying how to improve trading performance through psychology. He wrote several books on the subject, including “Trading to Win,” “Trading in the Zone,” and “Hedge Fund Masters.” His last book, "The Mental Strategies of Top Traders," was released in December.

In this issue of Technically Speaking, we look at the work of other noted experts and offer several articles on the psychology of trading. We hope this will help you become a better trader.

Sincerely,

Mike Carr, CMT
The path toward becoming a better trader is usually a path toward wholeness, and no two paths are identical. Each of us has to begin where we are in our own life situation. No matter what your path, you must first determine where you are. What are the patterns in your life that block you in your trading, your relationships, etc.? Those patterns can be available to you right now because they show up in your trading and in every other aspect of your life as well. Unfortunately, in most cases, people are not aware of them. Thus, the transformation journey often begins with a crisis. For it is only when an obvious crisis begins that we wake up to the fact that something is wrong in our lives.

This article, the first in a series, on individual differences or personalities is to help people determine where they are. Jack Schwagger has suggested from his experience interviewing "market wizards" that the most important element of successful trading is having a trading system that fits your personality. As a result, I'm going to base this article on the fact that knowing your personality type is important to finding out where you are in your journey toward wholeness.

The importance of personality traits comes into play because they provide a quick mirror of where we are and the neglected parts of yourself that you must nourish. For example, all of the personality traits that we are going to examine in this series come in pairs. If your personality tends to be extraverted, it simply means that you tend to focus your energy more externally than internally. Wholeness for you may mean moving more toward an internal focus (e.g., determining how you produce your results by your thinking) until you achieve a balance between focusing on the internal and the external.

Understanding Your Personality

If you've taken the Investment Psychology Inventory, you probably received a much more comprehensive personality profile based on the four dimensions of personality developed by Carl Jung. These include introversion/extraversion, intuition/sensing, thinking/feeling, and perceiver/judger. When you evaluate someone along four dimensions, you arrive at 16 personality types instead of four. This is similar to the well-known Myers-Briggs profile.

If you haven't taken the Investment Psychology Inventory, you have two choices. Take the profile and find your personality type and determine your strengths and weaknesses for trading. Or, as a second solution, you can go to the following web site to get a basic Myer-Briggs type test for free: http://www.humanmetrics.com/cgi-win/JTypes2.asp. When you get your type, look it up on www.google.com. The sites you find will tell you a lot about yourself. And in this eight part series, we'll tell you how your type relates to trading.

Three personality types—the ENTJ (known for their ability to develop strategies), the INTJ (known for their scientific reasoning), and the ISTJ (the trustee type person)—combined should constitute about 12% of the population. However, at this time these three groups represent 50.1% of our current sample. The NTs constitute 45.6% of our sample, probably because these people are always attempting to improve themselves.

Given these interesting developments, we can discuss the four Jungian elements of personality, and how they combine to form cognitive processing modes and temperaments. We can also discuss how these modes and temperaments are related to trading success.

Most of us give little thought to how we process and perceive information in order to make sense out of what is happening. Yet dramatic differences occur in how people perceive and interpret what goes on around them. And these differences lead to dramatic contrasts in behavior and personality.

The next step in this series on personality type and trading we will examine the four dimensions of personality developed by Carl Jung and how each of them might influence you as a trader.

Sources:


Personality Type and Trading: (Part 2)

The next few parts of this series on personality type and trading will examine the four dimensions of personality developed by Carl Jung and how each of them might influence you as a trader:

1. Introversion/Extraversion
2. Sensation/Intuition
3. Thinking/Feeling
4. Judgment/Perception

First we will look at Introversion/Extraversion.

Introversion/Extraversion (I vs. E). Jung believed that human beings have a preferred attitude, being either introverted or extraverted. Although we think of these two terms as describing whether someone is socially oriented or not, that was not Jung's original focus. Instead, the extravert has a focus on the outer, physical world, while the introvert has a focus on the inner, psychological world. However, very few people are purely "introverted" or "extraverted." Instead, they apply an inward directed focus in some situations and an outward directed focus in others. (This will become more understandable later when I discuss cognitive styles and trading.)

An introverted trader, for example, would focus on his own subjective world primarily on concepts and ideas. His inner thoughts would predominate. This type of trader would tend to focus on how they produce their own results. That does not mean that they cannot be very social and likeable. It just means that their attention is directed toward the inner world. Only about 25% of the population is thought to have primarily an introverted focus, but 57.9% of our sample has such a focus. In contrast, 75% of the population is thought to have an extraverted focus, but extraverts only represent about 42.1% of our sample.

Extraverted individuals tend to focus on the outer, physical world—actions, objects and persons. People, things, the environment, their career, the market and their achievement are their primary focus. The extraverted trader, for example, would search for solutions outside of himself to become more successful. Since 75% of all people have an extraverted focus, most traders—especially those with an extraverted focus—tend to be concerned with what system they can develop to become more successful or with how they can change their system to become more successful.

Extraverted people tend to be energized by other people, by a party, or by crowds in the big city. If their extraversion runs to an extreme they may risk losing their own sense of identity. For example, if an extraverted trader loses all his capital, and he has identified himself as a trader, then that loss could result in a total mental collapse.

The internal/external focus has little to do with trading success—at least in our sample. About 7% of the introverts had outstanding trading records as compared with 8% of the extraverts.

Introversion and extraversion both exist in each individual. Most people can move flexibly between both orientations. However, Jung proposed that when the individual is unaware, the non-dominant orientation would tend to emerge from the unconscious.

Personality Type and Trading: (Part 3)

We have already learned about Introversion/Extraversion (I vs. E). Continuing with our series, we will explore the other three dimensions:

- Sensation/Intuition,
- Thinking/Feeling and
- Judgment/Perception.

Sensation/Intuition (S vs. N). The two perceptual functions are sensation and intuition. The sensation orientation involves using the five senses—seeing, hearing, touching, tasting and smelling—to convey a concrete reality. It is the function that receives information, from the inner, subjective world and/or the outer, physical world. Sensation is very connected to the present moment. While 75% of the population is thought to be sensation dominant, only 39% of our sample is sensation dominant.

In contrast, intuition is what Jung called "perception by the unconscious mind." The key characteristic of intuition is imagination. It involves "seeing the big picture" and "imagining what is possible." It also involves moving out of the present and encompassing both the past and the future to determine what is possible. Although 25% of the population is thought to be intuition dominant, 61% of our sample is intuition dominant.

The intuition function seems to contribute more to success than any other Jungian function or quality. We had 31 traders in our sample with outstanding trading records. Among this group, 26 of them were intuition dominant, while only five of them were sensation dominant. Thus, awareness of the big picture may be very important to successful trading.

Thinking/Feeling (T vs. F). The two judgmental functions are thinking and feeling. Thinking involves logical thought processes entails cause-and-effect reasoning. It facilitates cognition and judgment. In this particular style, people are concerned with facts, reality, experience, specifics, and the "here and now." Everything is concrete and sequential. When people make decisions by thinking, they tend to weigh all the pros and cons in a sequential way and then make a decision. However, when trading decisions involve pure "thinking," the trade is usually gone before the decision is made. Interestingly enough, people generally make decisions based upon thinking, but they act based on feelings.
Feeling involves making decisions by means of value judgments. It allows us to determine if a thing is important or not. It involves subjective, personal values. Does the person like or dislike it? What is the impact on a person? Is it strong enough to act upon?

If thinking is highly developed in an individual then feeling would be much less developed and vice versa. And you can probably guess that it takes a lot of "thinking" to develop a trading system, but it takes "feeling" to execute the system. Thus, you must be well-balanced in order to trade well. About 50% of the population tends to be thinking dominant while the other half tends to be feeling dominant. In our sample, 57% was thinking dominant, while 43% was feeling dominant.

Top traders in our sample were much more likely to be thinking dominant (by a 6 to 1 ratio) than feeling dominant. However, thinking dominant traders as a whole were more likely to be losing traders than were feeling dominant traders. My guess is that the top traders show a good balance between thinking and feeling, yet are thinking dominant.

Judgment/Perception (J vs. P). The last dichotomy is very deceptive, in that the names used, judge and perceiver, do not adequately describe the two processes involved. This dichotomy refers to the amount of closure a person needs in handling their affairs. Judgers, the first category, want closure, wanting everything organized and in its place. In contrast, perceivers prefer fluidity by keeping their options open.

The Judger is apt to feel a sense of urgency until a decision is made. They establish deadlines and take them seriously. Judgers tend to believe that work comes before all else—rest or play. Thus, judges will do all sorts of preparation, maintenance, and cleaning up afterward with respect to their work. About half the population tends to have a bent toward closure and thus be judgers. However, about 72% of our sample showed this type of dominance.

Perceivers tend to be "go with the flow" type people. They resist making a decision, always wanting, and waiting for, more information. Thus, when they finally do make a decision, there is always a sense of uneasiness and restlessness. Perceivers tend to be more playful and easy-going than their counterpart. They want their work to be enjoyable. However, they can also become so caught up in a work project that they totally forget about time and everything else. About half the population is this way. I would expect that people who have trouble making a decision would stay away from trading. And, indeed, only 28% of our sample were perceivers.

These four dichotomies can be used to describe 16 different personality types, as described by Isabel Myers and her mother, Katheryn Briggs. The so-called Myers-Briggs test divides people into 16 different types, ISTJ, ISTP, ESTP, ESTJ, ISFJ, ISFP, ESFP, ESFJ, INFJ, INFP, ENFP, ENFJ, INTJ, INTP, ENTP, and ENTJ. In some ways, I dislike this test because it does tend to put people into psychological boxes. So rather than going into each of the 16 types, we will begin to look at eight cognitive styles and four temperaments. I will describe each type and give you my opinions about how it functions in the process of trading or trading system development.

**Personality Type and Trading: (Part 4)**

The Cognitive Modes

The eight cognitive styles are combinations of what Carl Jung thought of as the four mental functions (sensing, intuiting, thinking, feeling) combined with either an internal (introverted) or external (extraverted) orientation. The relative strength of these eight modes within your personality determines how you process information and make sense out of your life.

Some of these modes of functioning will be very familiar and comfortable. Yet, when I explain other styles, you may wonder how anyone could function that way. These unfamiliar cognitive modes are the ones you have failed to develop because they do not align with the core beliefs you developed about yourself (and your relationship to the world) as a young child. At the end of each description you’ll see a rating scale going from one (it’s very strange) to seven (it’s very comfortable). Think of the number that you believe best describes your comfort level with that mode of functioning.

Most people only develop a few of the eight modes and are unaware of their full potential as human beings. Of course, we all use all eight modes, but the less developed, more rudimentary ones reside only in the unconscious mind. None of these modes showed a strong correlation with trading success, suggesting that each may be important in some way. This week we begin with the first two of the eight modes: Sensation, introverted and extroverted.

Introverted Sensation (IS). IS is the cognitive mode that allows us to be in touch with our bodies. Through IS people are able to sense the rhythms of their bodies. You become aware of how alert you are, how much energy you have, and if any particular part of your body needs attention. For example, the ideal diet for you simply amounts to paying attention to your body. Eat whatever you seem to crave, and then notice what your body's reaction is to that food. If you have reasonable introverted sensation, then you will know your body's response to each food after you've eaten it. Once you know your body's response, then it will teach you exactly what you need to eat to attain the ideal nutrition for your body. Unfortunately, this only works when you have fairly well developed IS.

One of the market wizards, when he first attended our Peak Performance 101 workshop, told me that he was
very attuned to stress in his body. He said that whenever it seemed to develop, it always started in his
fingertips and then worked its way up his arms and into his body. I suggested that since he was so attuned to
the inner sensations of his body, he should simply use the sensations as a signal to back off and relax.
Subsequently, he reports that he just does not experience stress any more. This, to me, is IS at its best as
utilized by a market wizard.

I believe that IS is critical to the trading task of self analysis. If you tend to be lax doing self-analysis, then it may
be because you have not developed this particular cognitive mode.

Please record how comfortable you feel with Introverted Sensation. A rating of one means it seems very
strange, and you have trouble imagining anyone could do it. Four means you know you do it sometimes, but it
is probably just an average skill for you. Seven means it seems very comfortable for you, and it is something
you do all the time.

1 2 3 4 5 6 7

If you are weak in IS, start some exercises in which you pay attention to your body. Spend half an hour each
day, lying down with your eyes closed. Explore your whole body for feelings and notice what is there that
you’ve missed. Also while you are at your computer or observing the market, notice any tensions or unusual
feelings you have in your body. Whatever you notice in either exercise, do something about it. If you’re tense,
stretch it out or practice relaxing or meditating.

Extraverted Sensation (ES). People who use a finely developed ES find it easy to note details and be in tune
with their environment. ES processing connects people to the physical aspects of life—the sights, sounds,
touches, aromas, and tastes of the physical world. It allows one to appreciate sexual contact, the beauty of a
symphony, or the art in a fine painting. People with a highly developed ES typically have good memories, since
they record details accurately and have no difficulty remembering them accurately.

Everyone uses ES, but there is a big difference between discerning the difference between a red and a green
traffic light (a basic survival skill) and noticing subtle shades of differences in a family of colors. People with
highly developed ES skills can match the exact shade of red and grey in the couch in a room from memory and
come home with a paint color that works perfectly. Those with average skills would probably have to take a
swatch of the fabric with them, while some of you may have trouble matching the colors even with the swatch in
front of you because “all those reds look the same.”

ES skills extend to all of the senses. For example, can you identify a wine just by tasting it? Or can you
recognize people when they enter the room just by their smell? Or can you recognize someone you haven’t
been with for years just by hearing their voice?

Good ES skills are essential for anyone who must be accurate with details or concrete facts. It is essential for a
craftsman or a CPA. ES skills help us keep our feet on the ground and our mind in the present moment.

You can probably imagine how important ES skills are for any sort of pattern recognition in the market. If you
expect to be able to react to certain market conditions, because you’ve experienced them before, then you
need well-developed ES skills. However, ES skills showed a slight negative correlation to trading success.

Once again record how comfortable you feel with this particular mode of interaction.

1 2 3 4 5 6 7

To improve your ES skills, you must ground yourself in the present moment. When you are talking with
someone, notice all of the specifics of what they say. Practice repeating what they say back to them, repeating
as many details as possible. They’ll usually be very flattered that you have listened to them so closely.

Learn to identify the aromas and tastes of various herbs and spices. Memorize different shades of colors until
you can verbalize them on sight. Listen to a band play and pick out how different the music is from instrument
to instrument. Or look at daily bar charts, bar by bar until you can recognize every market just by looking at a
small sample of bar charts and can say, “Oh, that’s a chart of soybeans in April 1997.”

Next we will cover Intuition, both introverted and extroverted modes.

Personality Type and Trading: (Part 5)

The Cognitive Modes Continued

As I pointed out, some of these modes of functioning will be very familiar and comfortable to you, while others
may leave you wondering how anyone could function that way. At the end of each description you’ll see a
rating scale going from one (it’s very strange) to seven (it’s very comfortable). Think of the number that you
believe best describes your comfort level with that mode of functioning.

Most people only develop a few of the eight modes and are unaware of their full potential as human beings. Of
course, we all use all eight modes, but the less developed, more rudimentary ones reside only in the
unconscious mind. None of these modes showed a strong correlation with trading success, suggesting that
each may be important in some way. Previously, we covered the first two of the eight modes: sensation introverted and sensation extroverted. Now, we will cover the two modes of intuition.

Introverted Intuition (IN). According to Jung, IN provides us with a variety of perspectives for viewing life. When this skill is highly developed, a person can use these multiple perspectives almost simultaneously. It allows people to connect with the endless images of the unconscious and to make inductive leaps, revealing creative connections between ideas and symbols. It is one of the required modes of operation for anyone who is involved in developing a theory, philosophers, theoretical physicists, and those few people who are good at developing new ideas about how the market works.

Introverted intuition is especially valuable in allowing problems or situations to be viewed from multiple perspectives. For example, when you are having difficulties in trading, IN will allow you to view it from your own perspective, from a dissociated (watching yourself) perspective, from the perspective of a trader who has the opposite side of a position from you, from the perspective of a hypothetical Super Trader—anything you want. It is a very valuable mode of operation. IN skills showed a slight positive correlation with trading success.

Record how comfortable you feel with this particular mode of interaction.

1 2 3 4 5 6 7

To develop IN skills, I would suggest you practice role playing. For example, relive an argument or discussion from the other person's point of view. Take a perspective that is entirely different from the one you usually hold.

Extraverted Intuition (EN). The EN processing skill helps people see the possibilities in a situation. For example, when you look at a chart pattern and suddenly become aware of something else going on in the market, you are using EN skills. When you think about a particular day in the market and can recall generally what was going on, without remembering any specific details, you are using EN. In other words, when you have an overall impression of something, yet are hard-pressed to give details, then you are using EN. It is this cognitive mode of processing information that gives us our hunches.

People with highly developed EN can easily come up with speculative or imaginative solutions to a problem. They can jump from the present condition to the outcome without considering a step by step process. They are great at brainstorming and continually come up with new ideas. More of our top traders showed EN dominance than any other processing mode.

Once again record how comfortable you feel with this particular mode of interaction.

1 2 3 4 5 6 7

To develop EN skills, I would suggest that you start following your hunches. Practice "guessing" what will happen in the market tomorrow. Imagine at least three scenarios that could dramatically change prices in a particular market tomorrow. Or try an exercise that we use in the Winning Systems Seminar: come up with at least ten new ways that you could represent market behavior (e.g., time versus price).

We have covered a lot of information thus far in this series. We will continue with this topic, picking up with the analysis of the other four remaining modes, thinking and feeling in both introverted and extroverted forms.

Personality Type and Trading: (Part 6)

The Cognitive Modes Continued

We have now covered four of the eight cognitive style combinations which Carl Jung categorized as the four mental functions (sensing, intuiting, thinking, feeling) combined with either an internal [introverted] or external [extraverted] orientation. The relative strength of these eight modes within your personality determines how you process information and make sense out of your life.

We have covered sensation introverted and sensation extroverted, and two modes of intuition. And we will continue with thinking and feeling in both introverted and extroverted forms.

Introverted Thinking (IT). IT is a skill that helps people solve problems involving in concepts, ideas, or symbols. IT is the process involved in the logical manipulation of ideas, as in philosophical reasoning or mathematics. If you are good in mathematics, you probably have highly developed IT skills.

This skill is important in hypothesis testing. Thus, you might use EN to come up with a new concept about the market. However, IT skills would be important to test out that hypothesis to determine whether or not it would be profitable.

People for whom IT is highly developed usually begin problem solving with a strong conviction. For example, in developing a new market theory, you would probably begin with a strong conviction that such a theory exists.

Traders who rely strongly on IT also tend to work best by themselves. They can remain highly focused and carry an idea through to completion. These individuals are strongly concerned with expanding their knowledge
and understanding of markets (and the world). They want to explain their reasoning and justify their conclusions.

More traders in our sample showed IT dominance than any other cognitive style and this skill was important to the top traders. However, if you exclude the top group, it showed a negative correlation with trading success—probably because IT skills are useless without the ability to develop a useful hypothesis for trading.

Record how comfortable you feel with the IT mode of interaction by picking the most appropriate number below.

1 2 3 4 5 6 7

To develop IT skills, I would suggest that you take a math class (especially higher math) or a course in logic. Or find an area that interests you, such as a particular aspect of the market, and memorize the definitions of the concepts and terms. Once you’ve done that, compare and contrast the concepts so that you know how they are similar and how they differ.

Extraverted Thinking (ET). When logical problem solving is connected to the external world, it is called extraverted thinking (ET). This mode of thinking allows one to take a problem and break it down into component parts. An extraordinary example of the ET mode is provided by Chuck LeBeau and David Lucas in their book, Computer Analysis of the Futures Market.1 The authors break down the task of system design and development into component parts and then solve each part of the puzzle separately.

The ET mode is also used when one finds a goal to attain and then breaks down the attainment of that goal into distinct, sequential tasks, determined in part by their cause and effect relationships. For example, the task of becoming a proficient trader involves the tasks of self-assessment, self-transformation, system development, system testing, and then following the ten tasks of trading. I also used ET to develop that sequence.

Since personal problems can affect the type of system one uses to trade, I recommend that people do a complete psychological assessment, followed by a psychological clearing, prior to beginning the task of developing a system. Why? Because the system one might develop after clearing out any strong issues will probably be much more profitable than anything developed prior to the clearing. And, of course, one must develop and test a system before one can actually trade.

Generally, people with highly developed ET will determine a series of priorities through logic and reasoning. They will weigh the pros and cons of each possible solution before deciding what to do. ET is usually a methodical, step-by-step process in which each component is carefully considered. People with a strong ET cognitive process will usually have a strong code of conduct or system of rules about how to lead their lives. They tend to be focused and very efficient in getting the job done. Fairly well developed ET is probably essential for good trading if you are starting from the beginning. ET is also a cognitive skill that is highly developed in our top traders.

Record how comfortable you feel with the ET mode of interaction by picking the most appropriate number below.

1 2 3 4 5 6 7

To develop ET skills, I would suggest that you make a list at the end of the day of what you would like to accomplish the next day. Determine the pros and cons of each task and then determine what order the tasks must be accomplished in order to make the most efficient use of your time.

Introverted Feeling (IF). When one uses the IF mode of cognitive processing, one connects with the values and feelings deep within. Your inner values tend to rule your life. They may be personal, abstract (e.g., independence), spiritual, or even mystical. These values tend to strongly connect the person who uses them to what he or she likes and/or dislikes. For example, a person following the IF mode will tend to honor what is within more than what is outside of themselves. Thus, it usually takes IF processing to ignore the crowd and go with a “gut feel” about a trade.

A person for whom IF is highly developed will probably be a very poor systems trader, always preferring to go with internal feelings over external signals. This type of trading would probably only work if the person was so highly trained as to have very accurate internal feelings. In our sample, IF processing showed a negative correlation with trading success and it was seldom dominant among top traders probably because these people are not tuned into what is going on in the market.

Record how comfortable you feel with the IF mode of interaction by picking the most appropriate number below.

1 2 3 4 5 6 7

To develop IF skills, I would suggest that you take on a new project and complete it by only doing what you like to do. Consult only your own inner feelings for whether or not you like it. And thus proceed by only doing what you like to do. Avoid any other reasons for doing the project except to say, "I like it." Do not give in to group pressure and do not change your schedule or what you are doing to accommodate others.

Extraverted Feeling (EF). EF processing helps us connect to other human beings. Through it we are able to
share their experiences and recognize their intrinsic value. It is a very important ingredient to developing significant human relationships.

EF processing always brings the "human" factor into the decision-making process. For example, EF dominant people tend to strongly adhere to the standards and values of the group to which they belong. Most institutional traders are selected because they have this quality. However, it probably has a negative correlation with successful trading. EF traders tend to be crowd followers. EF people tend to suppress their own needs and desires in order to promote harmony because relationships tend to be of primary importance for them.

I would expect someone with dominant EF processing to be a poor trader. However, it showed a positive correlation with trading success in our sample. EF processing might be useful if other modes of processing were also highly developed (e.g., ET, IT, EN) because it could help a trader understand what other traders are doing without necessarily influencing how he trades. For example, a trader with highly developed EN skills might come up with some important insights about what is happening in the market. And if those skills are combined with strong ET or IF skills, it could result in excellent trading decisions.

Record how comfortable you feel with the EF mode of interaction by picking the most appropriate number below.

1 2 3 4 5 6 7

To develop EF skills, I would suggest taking on a project in which you continually place the needs and wants of others before your own. Change your plans to accommodate what others want. Take time to "be" with other people and show genuine concern for what is happening in their lives. Also, find ways to give sincere compliments and express your appreciation to others for what they do for you.


Personality Type and Trading: (Part 7)

So far in our continuing series on Personality Type and Trading we have covered a lot of ground. We have examined all of the various aspects of the Myers-Briggs personality profile and elements of these profiles related to trading.

In our last leg of the discussion we will begin with the Four Temperaments.

Psychologists David Keirsey and Marilyn Bates believe that an important basis of personality are four key temperaments. Looking from a mythological stand point, these correspond to the characteristics that Zeus told his gods to help man adopt. Dionysus was to teach man joy. Epimetheus was to give man a sense of duty, while Prometheus was to give man science. And, finally, Apollo was to give man the spirit of the gods.

Dionysian Temperament: The Dionysian Temperament occurs in those people for whom sensation (S) and Perception (P) are dominant. These SP people (ISTPs, ESTPs, ISFPs, and ESFPs) comprise about 38% of the population.

SPs tend to gravitate toward trading because they have a strong need for freedom and independence. They don't want obligations or to be tied down in any way. The ideal life is to do what he wants to do when he wants to do it. Action is the key for these people and they tend to be impulsive. Actually, they want to be impulsive because that gives them their free spirit and sense of aliveness.

People with this type of temperament work best in crises and they even will create a crisis just to make things more interesting. You can imagine what happens when this type of behavior is brought into the trading arena.

The Myers-Brigg's personality types for which we have little data include all four SP categories. In fact, although SPs constitute 38% of the population, they only represent about 8.3% of our sample. Why? First, I suspect that SPs do not last long as traders and those that have enough money to last for a while are not that interested in self-knowledge, just the action of being in the market. Thus, SPs will tend to gravitate toward very short-term systems in which the odds are definitely against them, but they are still willing to take their chances because that's where the action is. In fact, the SP probably could not do well with a longer term orientation, because that would just not fit his impulsive nature.

People with SP temperaments are good with tools. Thus, I would expect them to have the potential to work well with computers and thus do fairly well in that aspect of trading.

Record how comfortable you feel with the SP temperament by picking the most appropriate number below.

1 2 3 4 5 6 7

Although I do not recommend that one apply an SP temperament to trading, unless you want to forget about profits and just enjoy the action, the SP temperament is an excellent one to bring to many aspects of living. To develop more of this trait, I would suggest that you practice being much more spontaneous in what you do with
The Epimethean Temperament: The Epimethean Temperament occurs in people for whom the sensation (S) and judgement (J) qualities dominate. These SJs (ISFJs, ESFJs, ISTJs, and ESTJs) also constitute about 38% of the population. These people are dominated by a sense of duty. They exist primarily to be useful to the social units to which they belong.

Epimetheus was the husband of Pandora, who let all manner of ills escape onto mankind—old age, sickness, insanity, vice, and passion—when she opened her famous box. Yet Epimetheus, although forced to endure the result of his wife's actions, steadfastly stood by her and remained devoted to her.

The SJ personality has a strong need to belong. But he must be the giver, not the receiver. He must earn his belongingness. As a result, I would not expect SJs to be that happy in the lonely world of trading unless they had a major social system for support (i.e., strong family support). However, the SJ might be quite content in an institutional trading situation.

However, the SJ personality is constantly seeking out what he is "supposed to do" to belong. They typically do well in school, because the rules are quite obvious. However, in the trading arena the "supposed to do" rules are not that obvious. In fact, if you ask enough people they will probably give you advice that is the exact opposite of what will produce trading success. Indeed, our sample of SJ traders produced below-average trading results. Nevertheless, the SJ usually has a very strong work ethic, which could help him overcome a lot of difficulties.

The SJ will shine in one of the ten tasks of trading—mental rehearsal. Why? The SJ is likely to envision all sorts of disasters and constantly be trying to figure out how to overcome them. Indeed, his personal motto is usually to be prepared. Unfortunately, much of his idea of being prepared involves following traditions (e.g., the "I go by the book" motto) and this also may not breed success in the marketplace.

Record how comfortable you feel with the SJ temperament by picking the most appropriate number below.

1 2 3 4 5 6 7

To develop SJ skills, develop a total disaster control plan for your trading. Think of anything and everything that could go wrong in your trading. And, if your list does not include at least 100 items, then you need to continue until you have that many. Once you have your list, then come up with three ways to either circumvent each disaster or to overcome it if it does happen.

Personality Type and Trading: (Final, Part 8)

This is the final installment in the on-going series on Personality Type and Trading. We have examined all of the various aspects of the Myers-Briggs personality profile and elements of these profiles related to trading.

Psychologists David Keirsey and Marilyn Bates believe that an important basis of personality are four key temperaments. Looking from a mythological stand point, these correspond to the characteristics that Zeus told his gods to help man adopt. Dionysus was to teach man joy. Epimetheus was to give man science. And, finally, Apollo was to give man the spirit of the gods. We end this series with the final two.

The Prometheus Temperament: The Prometheus Temperament comes into being when the qualities of intuition (N) and thinking (T) are dominant. The NT temperament (INTP, ENTP, INTJ, ENTJ) is only found on average in about 2% of the population. As a result, NT people must grow up in an environment full of people who are usually quite different from them. For example, about one family in 16 would have both parents as Ns and only one in a thousand would have both parents as NTs.

The NT personality is looking for power over nature: to be able to predict, control and explain realities. Thus, the NT trader would be one who wants to predict, control and explain the markets, much of which is the antithesis of good trading. However, since his ultimate goal is to be a good/great trader, the issue is simply how to get there. He has a strong drive to continually improve (as opposed to the SPs drive to simply act). As a result, I would generally expect this group to produce more good traders than any other. Our data suggests this to be the case! First, we have a lot of data on the NT personality types. Although they only constitute about 2% of the population, NTs constitute 45.2% of our sample population—a truly amazing statistic. Among our NT traders, about 10% show outstanding trading records—a higher percentage than any of the other temperaments.

The NT is very self-critical. He badgers himself about his own errors. He taxes himself with the resolve to improve. If his pushing is used as a learning process, then he is bound to improve. However, the NT can easily get caught up in the perfectionist trap, which can prevent him from getting anywhere. For example, if the NT’s self-criticism is tied into his/her self esteem, then he can become frozen into inaction or into repeating the same task because he is not satisfied with the results. However, I have found that NTs show tremendous improvement when they go through my private consultation program.

The NT is likely to know that recreation is important to his health and overall well-being. However, his play has little spontaneity or fun. Instead, NT play is an exercise in conquest and being the best. He does not allow himself to make any mistakes, logical errors, and yet, paradoxically, requires that he have fun because that's...
what people are supposed to do when they're playing.

The trader who is an NT will live his work. If markets stay open 24 hours, he is likely to try to follow the market for 24-hours just because the market exists and missing something might be making a mistake. He wants to be the best possible trader, so he will do whatever he can to be successful. He is extremely vulnerable to the "all work, no play" syndrome and this kind of attitude can lead to a very out-of-balance lifestyle.

The NT wants to be the scientific trader. They are drawn to occupations that have a logical understanding, in which they can master some new concept about trading or design some great new trading system. He has an inquiring attitude and deals with others in a straightforward, albeit cold, approach.

The NT generally focuses on the future, trying to figure out what might happen next. And once he masters a challenge, he is very likely to move on to another one. Why? Because his goal is competency in every field. Thus, his goal might be to achieve greatness in trading, but as soon as he receives it or thinks he has it, he is likely to move on to something else.

Record how comfortable you feel with the NT temperament by picking the most appropriate number below.

1 2 3 4 5 6 7

To develop NT skills, spend at least one day a week reading everything you can about the markets. Make a list of 50 ways you can improve your trading and then work diligently to adopt each of those ways.

The Apollonian Temperament. The Apollonian temperament involves a combination of intuition (N) and feeling (F). Apollo was the messenger of the gods and as such provides a direct link between man and the gods. Thus, NFs are involved in a search for self-actualization—a search for "being" and their mission in life. The NF is just trying to be himself, nothing more and nothing less. He is constantly wondering, "How can I be the kind of person I really am?" as he hungers for self-actualization, meaning and a unique identity.

The NF person wants authenticity and integrity. There must be no facade, no mask, no role-playing, no pretense, etc.—just genuine harmony with the inner experiences of the self. The NFs tend to be great persuaders as they form the majority of the world's writers, therapists and clergy. They love to transmit ideas and attitudes to others as they strive toward a vision of perfection.

NFs place a strong role on developing relationships—usually giving much more than he expects in return. And he is always willing to give strongly to it as long as he can get some sort of response in return.

The NF also has an extraordinary ability to appear to others what the other person wants them to be. Thus, they make great actors, as they take on each role completely. And the NF person does not mind that others see him as something other than what he is as they would only communicate who they really are to those with whom they have a very deep relationship.

Approximately 16% of our sample of traders are of the NF temperament. This is quite similar to the one to two percent thought to exist in the population at large. I would expect that NFs would probably enjoy participation in the market as a chance to learn about themselves. Our results tend to suggest that ENFs (whose focus for meaning is directed outward) tend to have above average trading records, whereas INFs (an inward directed focus toward meaning) tend to have below average trading records.

The NF person is future oriented, as is the NT, but his focus is on the possibilities in people in contrast to the NT's focus on possibilities in principles.

Record how comfortable you feel with the NF temperament by picking the most appropriate number below.

1 2 3 4 5 6 7

To develop NF skills, spend some time thinking about your purpose in life. What is your mission? If you had six months left to live, what would you do with your life? If you had all the money you could possibly spend, how would you live your life? What do you find in common with your three answers? Does it involve trading? Now figure out how you can change your life and your trading to live congruently with your purpose and mission in life.

While the Myers-Briggs is a great tool and among the most well-known and widely used measure of personality traits, there are others. My March 2004 Market Mastery Newsletter featured an article about the Enneagram typology test. This issue also relates the Enneagram personality types to trading and offers areas of focus for developing helpful traits.

Trading Coach Dr. Van K Tharp, is widely recognized for his best-selling book "Trade Your Way to Financial Freedom" and his classic Peak Performance Home Study Course for traders and investors. Visit him at www.iitm.com for a free trading game or to sign up for his free weekly newsletter.
Investment Courses For Professionals

A sample of a growing list of fundamental and technical courses is shown below. The courses are associated with global destinations and dates, both for open and private client formats in 2008-9. They are produced by various knowledge vendors throughout the world (some listed below). Specific details can be provided by contacting them, or John Palicka (palicka@pipeline.com).

Taught by John Palicka CFA CMT

Read More..

**FUSION ANALYSIS**

This is a professional approach that blends fundamental, technical, behavioral and quant strategies. The approach attempts to exploit profitable opportunities in market investing by both investors and traders. Whilst the course focuses on US equities, other asset classes, such as, fixed income, commodities, FX, real estate, and GCC stocks will also be analyzed. Given the plethora of strategies, the workshop will help create focused approaches to meet specific investment objectives. Fusion Analysis can create: “The better approach to investing”

**EQUITY PORTFOLIO MANAGER**

Serious managers will utilize this course to analyze leading Wall Street valuation models and investment strategies for equities using fundamental, behavioral/technical and quant approaches, and then study how these are modified by the best performing equity portfolio managers to produce risk-adjusted excess returns. Also reviewed are: accounting and cash flow tricks that are sidestepped by professional investors, but punish many investors; various trading strategies, incorporating algorithms, hyper-trading, dark pools, and derivatives; new reporting requirements for regulatory considerations, consultants and clients as well as fund marketing techniques; and career advice to get the big bonus checks. An interactive investment workshop reinforces these skills when participants get to select stocks, choose a performance measurement method and then determine a marketing style and vehicle to create an investment approach producing excess returns. Case studies examining the investment approaches of leading versus average performing portfolio managers are also included. This intensive course goes beyond basics into the sophisticated and subtle strategies that can help achieve: “Top Quartile Manager”

**INVESTMENT FUND SELECTION**

This is a must attend course for all professionals involved in the selection and management of third-party investment managers. Investment Fund Selection offers an insiders perspective into the various challenges in determining the most appropriate fund structure, managerial style and fund value-added performance of third-party investment managers in order to achieve individual investment objectives. Portfolio theory considerations and statistical issues are discussed with behavioral considerations.

Reviewing different fund structures, such as mutual funds, private equity and hedge funds, participants explore regulatory, audit, established and recent portfolio performance measures and, learn about subtle tricks that some funds can use to “dress up” performance records and charge unwarranted fees.

An optional and practical one-day investment fund selection workshop will also include various fund case studies and exercises to reinforce the definitive selection techniques learnt. Participants get to perform an investment fund selection role-play in order to evaluate and screen funds for specific investment criteria and answer the question: “Is my fund manager giving me my money’s worth?”

**TECHNICAL ANALYSIS CMT 1**

A must attend 4-day course for investment professionals wishing to gain the CMT Level I professional qualification in Technical Analysis from the Market Technicians Association (MTA). Using real-life charts, participants learn traditional technical tools of charting and many specialized topics. Whilst the course focuses on US equities, other markets including GCC stocks, commodities, and real estate will also be explored. An optional 1-day session entirely dedicated to exploring trading opportunities for US and GCC equities, FX, commodities and bonds using technical analysis. Prior workshops correctly called the past rise of the US market, collapse of real estate, and the decline of the Saudi market by blending technical indicators. This course should help answer the question: “Buy or Sell and When?”
INTRODUCTION TO STEALTH TRADING USING FUSION, ALGORITHMS, AND DERIVATIVES FOR PROFESSIONALS-

Today, portfolio managers increasingly must use stealth trading in order to disguise their intentions and thus benefit from best execution. The old ways of staring at a Bloomberg to get bid/ask quotes and transacting an order is gradually being supplemented by more sophisticated strategies, such as, algorithmic models to meet various investment goals. The objective of this course is to give the student an introduction to the mathematical challenges of creating algos and, utilizing various trading strategies that can achieve best execution. This course should help achieve: “Best Execution.”

ADVANCED CAPITAL MARKETS ANALYSIS

Spot, forwards, futures, swaps, options, and statistical issues are discussed in dynamic capital market strategies. This course was first introduced to a top Ivy Business School. Solving the course problems and cases has brought angst to MBA and CFA candidates. Still, the topics are the food for advanced hedge fund techniques.

STRATEGIC GOLD INVESTING

Gold has been one of the very few assets to have created wealth in the past several years. Gold offers investment opportunities for investors, traders, and financial engineers. Errorneously, some feel that one must only speculate on rising or falling gold prices to make money. In fact, there are strategies other than pure directional ones that may also offer investment opportunities. Preconceived notions on gold may soon be giving in to today's global economic challenges. This course is for believers and non-believers in gold. Gold offers hedges against both inflation and fear. Portfolio strategies can also benefit from owning gold. Bull and bear traders can profit by using unique strategies to capitalize from gold's fluctuations. These strategies include the use of complex technical analysis, behavioral, economic, and algo models. Financial engineers may also be interested in replicating or enhancing traditional investment strategies with gold. This course should help answer: “Is gold the future global currency or the future paperweight”.

Instructor John Palicka CFA CMT is a top-ranked portfolio manager of Global Emerging Growth Capital (WWW.GLGEDEC.COM) with over 25 years experience of managing $ billions. He has doubled client money, on average, every four years since 1980*. His high course ratings from major investment firms reflect clear interpretations and practical applications of complex topics; knowledge applied to examples and cases found in the current worldwide and GCC marketplace; his experience with specific situations actually encountered in his career and consulting contracts that parallel the learning topics. John has an MBA from Columbia University and also teaches these courses for leading training institutions, including The New York Institute of Finance (WWW.NYIF.COM).

To find out more about these courses in GCC locations, please call Esam Hassanyeh + 9714 391 0234 or visit his website: www.enhance.ae. * Past performance is no guarantee of future results.

Having Forgotten To Doubt, "Modern Finance" Drove Us Insane

by Élise Payzan

This article was originally published on December 8, 2008 at The ReThink Group Inc. The original article may be found at http://www.traderpsyches.com/documents/Elise_Payzan_Whitepaper_120808.pdf and it is reprinted here with the permission of the author.

Portfolio selection: Let's exhume the buried man! In his milestone paper "Portfolio Selection" published in the Journal of Finance in 1952, Harry Markowitz, the pioneer of "modern finance," recommends to use the Expected return-Variance (E-V) rule, both as a working hypothesis to explain investment behavior and as a guide to "investment" – as distinguished from speculative behavior. This rule implies that an actor who considers yield to be good, risk to be bad, and speculation to be banned, should diversify in such a way that his portfolio lies in the "efficient frontier." The idea is very simple. When building your portfolio, combine the securities in such a way that for a given expected return (E) of your portfolio, its variance (V) is minimum. This denies all the efficient combinations (E,V). Then, according to your degree of risk aversion, pick one such combination - a risk averse person will prefer a low E - low V portfolio, whereas a risk lover will choose a high E - high V combination. The beauty of this rule lies in its apparent readiness. Given a probability distribution of yields of the various securities, computing the set of efficient (E,V) combinations is straightforward. But this is misleading, because it dodges the main issue: Where do the expected returns and variances estimates come from? In other terms, how do we set our probability beliefs? At the end of the paper, Markowitz himself recognizes that he has been silent about the origin of these beliefs throughout:

"To use the E-V rule in the selection of securities, we must have procedures for ending reasonable expected returns and variances [...] I will not pursue the subject here, for this is "another story." It is a story of which I have read only the first page of the first chapter. In this paper we have considered the second stage in the process of selecting a portfolio. This stage starts with the relevant beliefs about the securities involved. We have
Dodging the question of belief formation is murderous. It seems that fifty years from this paper, we are still stuck in "the first page of the first chapter." Quite ironically, after Markowitz's paper, such E-V rule has become ubiquitous in real-world finance, despite this inherent indeterminacy. Why does such belief indeterminacy matter? After all, is it so complicated to use a mix of statistical analysis and practical judgment, so that we derive sensible probability beliefs? In the first instance, one can use observed yields and volatilities from the past, to get statistical estimates of the true yields and variances. The problem is elsewhere. By emphasizing belief formation related to the expected returns and variances, we are missing the key point. Belief formation about world uncertainty is the issue, which is totally buried by Markowitz here. Markowitz implicitly assumes we live in a Gaussian world of "mild uncertainty," where price changes are characterized by stability around the average. In such a world, Markowitz's E and V are relevant objects. But what if randomness is not mild at all in our world? What is the correct model of uncertainty in finance then? There is no definite answer to that paramount question. Actually, two distinct routes are possible.

Nonstationarity: The first one assumes nonstationarity. For instance, the widespread use of GARCH models is to capture the foregoing phenomenon of persistence, while staying within the Gaussian boundaries. The idea is to introduce changes in volatility - that is, instead of considering one single Gaussian distribution for the returns, consider multiple ones, each characterized by its own level of volatility. When real world volatility soars (resp settles), make the Gaussian curve grow (resp shrink). This indeed enables to fit the data. Poissonian risk involves a small probability of a large change (jump).

The multifractal model: The second route is the one taken by Benoît Mandelbrot, the father of fractal geometry. It avoids to assume nonstationarity and rather, he proposes real world randomness to be best described as "slow." The Gaussian model entails a randomness that is too mild. Conversely, "wild randomness" is characterized by an extreme degree of unpredictability: tails are huge, "everything can happen," whereby there is no way to forecast the returns (both expectation and variance of price changes are infinite). Slow randomness is in between: there is no stability around the average, and tails are fatter than in the Gaussian world. Mandelbrot's model of real world uncertainty is remarkably elegant - and I'm not (only) saying that because Mandelbrot is French. Not only his framework generates the fat tails and persistence phenomena observed in real data, it also suggests using quantitative tools to rigorously measure (1) how fat the tails are, and (2) the degree of persistence in the returns.

α and H: Two parameters summarize these two dimensions, α for the size of the returns, and H for their sequences (dependence). The first parameter comes fr. For x large (we are at the tails), it sets the ratio of probability of a return larger than nx over the probability of a return larger than x to be n-α. Intuitively, the smaller α, the fatter the tails (i.e., the larger the instability: the realization of an outlier moves the average). With a Gaussian distribution, α equals 2; under mild randomness, it is 1. α in between points to a world of slow randomness, the one we presumably live in many instances. The second parameter is very intuitive too. It says something about the sequences of the price changes (runs) rather than their size. The question is how much the past shapes. In a Gaussian world, over a given period (say, 10 years), the range between the highest return and the lowest one is \sqrt{sqrt(5)} times the empirical standard deviation of the returns from one year to the next. However, when randomness is characterized by persistence, the high-to-low range widens not by a square-root law but as a H power, with H larger than 1/2. This means long term dependence, and captures the fact that turbulence clusters.

Blueprint: Assessing real uncertainty is like constructing "dikes" No model is universal. Plainly, interpreting properly the nature of the randomness we face in our investment decision is context-specific. So, how do we choose between the models? We don't have to be blind about uncertainty. Once we no longer take for granted the Gaussian assumption, all we have to do is appraising properly the world we live in. That is, we can track - and perhaps forecast - how turbulent the market is becoming, using fractal geometry and the α and H measures. In "The Prince," N. Machiavelli compares "Fortune" to a violent river, and suggests our constructing dikes to protect ourselves. What does it mean for finance to construct such dikes? Just that we need to assess α and H.

And in practice? If α is smaller than 2, then we should definitely think again about the E-V rule. (Same thing if H is different from 1/2.) If so, we should ignore E and V and merely focus on both α and H, with which to evaluate true risk. Sadly, things are not that simple, because measuring α and H is in practice very difficult. In 1991 Andrew Lo reported that Mandelbrot's tests for H can confound long-term memory with the effects of short-term memory. And the measures of H are not robust: there is no consensus as for the S&P 500 index for not considered the first stage: the formation of the relevant beliefs on the basis of information."
example: the estimates for $H$ vary from $0.53$ to $0.74$.

Furthermore, the degree of dependence varies a lot from one type of financial asset to another (gold prices, oil markets, foreign exchanges, might have long memory, whereas cotton, British government bonds, do not). So, overall, it is unrealistic to hail $\alpha$ and $H$ as new yardsticks for finance.

We'd better acknowledge our ignorance: Doubt is good To be honest, it is impossible to claim with certainty that one model is the correct one at a specific moment in time. Accounting for model uncertainty is the hallmark of modern econometrics and (truly) modern Finance. Is it a retreat into - at least lucid-blindness? I don't think so. The only relevant question is referred to by Nassim Taleb as "tinkering." How to make sound investment choices in a world we don't understand? Modern finance tackles this problem, by putting forward rules of behavior under "ambiguity." By "ambiguity," we academics precisely refer to these situations of missing information about "the rules" of financial investment, the one we model as a big game of betting under unknown odds. F. Nietzsche wrote in his "Ecce Homo:" "No doubt, certainty is what drives one insane." I think modern finance" drove us insane because it has forgotten to doubt.

Trader Psyches Research Advisor Elise Payzan Le Nestour, PhD, has studied at the Laboratory of Decision-Making Under Uncertainty at the EPFL and Swiss Finance Institute, Lausanne. Before Lausanne, she completed the first two years of her PhD in the Department of Finance of the London School of Economics and has also studied at Princeton. She hold a masters degree in economics from the Paris School of Economics and a diploma in statistics from the Paris Graduate School of Economics, Statistics and Finance.

Dr. Payzan studies financial decision-making under uncertainty, at the intersection of neuroscience, machine learning, psychology and finance — e.g., trading and investment behavior under various levels of uncertainty, the neural basis of different decision-making related uncertainty signals.

The Right Fix

by Adrienne Toghraie

Many traders begin looking for the wrong fix when something is amiss in their trading. The result is that they often try to fix things that are not broken while missing completely the one thing that is.

Recently, I worked with a trader who started our session by telling me all about his personal problems with his spouse, his family, his associates, and even his pets. One by one, we worked out solutions for these problems. Finally, he said, "Now, let's talk about the problems I'm having with my trading." To which I responded, "If you followed your rules, would you be making money?" "Of course," was his reply. As you can see, he was attempting to fix what was not broken.

At that point, I said, "You know, you are anchored to a very high level of peak performance in your trading which, in turn, is tied to your trading system. When you are not in a state of peak performance, your neurology will give you a message to stop trading. However, you are the most important part of your system. So, if you are not working properly, it is just as though your computer, or software, or any one of the trading tools you use is not working. In this case, the thing that is not working is you, not your system, which is doing just fine. What is happening to your trading is a result of all of the things that have pulled you down into a lower level of performance." This highly experienced trader was ready to fix the wrong thing, rather than face the real problem in his trading. But, why do so many traders want to fix their system when it is clearly the trader, himself, who is not operating well?

Many years ago now, my very first client also began by telling me all of the things that were wrong with him while informing me that his system was perfect although he could not follow it. Then, in a spectacular feat of Double Think, he proceeded to ask me, in so many words, to fix his system so that it would make him money.

I observed in this first trader what I have seen repeated over and over again - most people are looking for a magical, technical formula for success. Trading appeals to several different groups of individuals, probably the largest group is composed of people who like math, logic, and technical things. These traders feel very comfortable around technical things because they operate on the basis of rules. The idea of fixing a problem by fixing something technical is very familiar and comfortable for them. Although the technical fix might require a great deal of work, it is what they understand. What they do not understand and do not feel comfortable doing is fixing themselves when you tell them that the problem is in their own lives.

To make matters worse, fixing things in themselves and in their lives might require these techno-traders to make major life changes such as giving up non-supportive relationships, getting a divorce, moving, or quitting a job.
Sometimes people are so attached to the way things are that they would rather keep things the same and continue to fail rather than make those changes. Keeping things the way they are can also protect these traders from feelings of failure, inadequacy, insecurity, and loss. So, it becomes clear how fixing the wrong thing can look very right when so much is at stake! For this reason, it is important to ask yourself the next time you want to fix your trading problems by fixing your system, how well your system would work if you could actually follow it?

Adrienne Laris Toghraie, MNLP, MCH, is a Trader’s Coach, an internationally recognized authority in the field of human development and a master practitioner of Neuro-Linguistic Programming (NLP) for the financial and business communities. She is the founder and president of Trading on Target and Enriching Life Seminars, two companies dedicated to helping traders, sales people, and other high achievers to dramatically increase profits and success in all areas of life. She has authored 8 books including, “Get A life: Treasure Diary for Creating Wealth and Happiness, “four volumes of “The Winning Edge”: “Traders’ and Investors’ Psychological Coach in a Book,” “Dear Coach: Potty Training for Traders, “Brokers & Investors,” and co-authored “Traders’ Secrets” with Murray Ruggiero and “The Winning Edge 1, How to Use Your Personal Psychological Power in Trading and Investing” with Jake Bernstein.

More information can be found at http://www.tradingontarget.com.

Trading Psychology: Top Ten Trading Psychology Myths

By Gary Dayton, Psy.D.

Editor’s note: These short articles offer ideas that may be useful to traders and are reprinted from Trading Psychology Edge (http://www.tradingpsychologyedge.com/) with the permission of the author.

1. People are born traders. While it is true that certain personal characteristics make it easier to trade, no one is born a trader. One of the main themes of the Market Wizards books written by Jack Schwager is that almost none of the market wizards were successful from the start. They all worked hard at it.

2. You have to have a high IQ to trade. Just not true. In some ways, an above average IQ may be a hindrance. Trading is a human performance activity where strong intellectual abilities are unnecessary.

3. Top traders are successful because they have the “right trading personality.” There is no such thing as the—right trading personality. I Researches have been unable to find a strong correlation between personality type and trading success. It is important, however, to understand your personal characteristics and how they may help and hinder your trading.

4. Trading is easy. It sure looks that way, doesn’t it? Just draw a few lines on the chart, watch your indicators, and follow the price bars. The truth is that trading is a difficult business to master. It involves different skill sets and abilities than what are needed in most other professions and careers. The trader must understand his or her personal strengths and limitations and develop specific skills to deal with the mental and emotional demands of trading. The later skills are the most difficult to develop and the most overlooked.

5. You must be tough, hard charging, and fearless to be successful. That’s more media hype than anything else. It glorifies a strong ego, which is a detriment in trading. The most successful traders I know quietly do their research, study the charts, and patiently wait for the right moment. They strive to keep their ego out of their trading.

6. You must trade without emotions. If you are human, that’s impossible. More importantly, when you understand your emotions you will realize they are assets, not liabilities. The real keys are: 1) to be aware of how your emotions interact with and influence your trading, and 2) to develop the skills needed to trade with them.

7. Top traders are usually right about the market. Top traders have many, many scratch and losing trades. Top traders are at the top because they exercise good risk control, limit the amount of loss from any given trade, and have developed a psychological edge that allows them to be unfazed by small loosing trades. Most of their trading consists of modest profits and very small losses. When conditions are right, they step up size and let the profitable trades run.

8. Paper trading is useless—it’s not a real trade without money behind it. If you aren’t paper trading, you are doing yourself a disservice. You should always be paper trading your trading ideas. Why limit your education and experience by the amount of capital you have? Paper trading keeps you sharp; you learn the conditions under which your trading ideas work best. Where else can you get such vital education at so little cost?

9. Master the technical skills and you will be successful. This is where most traders spend the vast majority
of their time, but it’s only part of the picture. You also have to learn important performance skills. Traders should spend as much—if not more—time learning to develop their psychological edge as they do in developing their technical trading edge.

10. **Trading is stressful.** It certainly can be stressful, and it certainly is stressful for many. It doesn’t have to be. Successful traders have a certain mind-set. They put little importance on any given trade. Their focus is on the long haul. They know that if they attend to the aspects of trading that are within their control (i.e., trade selection, entry, risk control, and trade management) the profits will take care of themselves.

**Trading Psychology: Five Things to Avoid In Trading**

### What Not To Do

1. **Have an opinion.** One sure way to find yourself trading against the market is to have a market bias. Trading with an opinion about what the market will do next can limit your ability to see what the market is actually telling you.

2. **Have someone else’s opinion.** Adopting some market guru’s market bias is actually worse than having your own. Market gurus are notoriously inaccurate in their predictions. Embracing another’s market judgment prevents you from learning to read the market on your own. Besides, it’s doubtful the guru will be calling you to let you know when his or her opinion has changed.

3. **Make your opinion public.** Putting your bias into a chat room or forum thread makes it public. Making something public gives it a psychological life of its own. It’s hard to back off an opinion once you have announced it to others.

4. **Let your ego get involved.** Everyone wants to be right. In trading, you have to ask yourself, “Which is more important, being right or making money?”

5. **Ride a loser.** Still wanting to be right? Having a bias, making it public and getting your ego involved will cause you to hold losers far longer than you should.

### What to Do

1. **Anticipate.** Avoid having a bias. Identify areas where the market might turn or continue and think through what that would look like. Anticipate the alternative ways the market may trade.

2. **Keep your own counsel.** Avoid gurus. Learn to read the market and make your own decisions.

3. **Avoid the forums while trading.** Use the good ones as a source of education, but refrain from making your trades public.

4. **Check your ego.** Be aware of when you want to be right. Ask yourself, “What is more important, being right or making money?” Then, make the correct decision.

5. **Cut losses short.** Use hard stops. When the market turns against you, exit.

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An active trader since 1999, Dr. Gary Dayton has traded equities, commodity futures, the financial index e-mini futures, and options, e-mini S&P futures markets, applying Wyckoff, Volume Spread Analysis™ (VSA), and model-driven swing trading methodologies. He is considered an expert in Wyckoff analysis and an expert in the lost art of chart reading, in which the technical aspects of the market are read with price bars and volume. He also teaches traders to read these charts. To learn more about how your personal characteristics may be interacting with your trading and how to develop your trading performing edge, visit www.TradingPsychologyEdge.com. Dr. Gary works with traders at every level – from novice traders to experts. Email him at drgary@tradingpsychologyedge.com with questions or comments about this article or your personal trading performance questions.

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MTA Announcements

**MTA Board of Directors Nominations**

For the fiscal year commencing July 1, 2010, four (4) Officer positions are up for consideration for a 2-year term, and two (2) At-large Board positions are up for consideration for a 3-year term. Over the next two months, we are encouraging any Member, Honorary Member or Emeritus
Member in good standing to submit your name for consideration to nominations@mta.org. The nominating committee will then seek out your completion of a tailored questionnaire as part of its review process. In addition, if you do not wish to serve but have suggestions on who might be willing/able to do so, we would encourage you to write us on that as well. Nominations may also be made by petition signed by not fewer than ten (10) percent of the Members, Honorary Members and/or Emeritus Members in good standing. Affiliates, Academic Affiliates and Student Affiliates are not eligible to submit nominations. Any such petitions must be filed with the Secretary not less than thirty (30) days before the Annual Membership Meeting. For complete details on the Nominating Process, please visit section C5.04 of the MTA Constitution.

CMT Institute (CMTi) - Registration Now Open!

We are pleased to announce the opening of the Spring 2010 Session of the CMTi, to help you prepare and do your best for your respective exams. As we have done in previous administrations, upon registering for the CMTi, you are given instant access to recent, relevant, archived presentations. Sign up today to start viewing these archives and begin your study process now. To register for one of the CMTi courses, please click here, or call Cassandra Townes at 646-652-3300. Click here to read a letter from the CMTi Director, Carson Dahlberg, CMT.

MTA Educational Web Series - New Archive and Upcoming Schedule!

New Archive Available - Debra Stotler, CMT, CFP discusses “Cycles and Time: Using Cycles in a Trading Strategy” in another webcast as an ongoing part of the MTA Educational Web Series. View the archive of this webcast online!

Registration is now open for the following upcoming presentations of the FREE MTA Educational Web Series.

- **Sign Up Now** - Friday, January 8th, Aksel Kibar, CMT, Portfolio Manager, Abu Dhabi Investment Company PJSC, will present “Exploring the MENA Markets” at 12:00 PM EST. Register for this webcast.

- **Sign Up Now** - Wednesday, January 13th, John Palicka, CFA, CMT, President and Chief Portfolio Manager at Global Emerging Growth Capital (GEGC), will present “Investing With Fusion Analysis” at 12:00 PM EST. Register for this webcast.

View the entire schedule of upcoming webcasts...

MTA Podcast Series - Upcoming Schedule!

**Coming Soon**

- Tuesday, January 5th - Jason Goepfert, President and CEO of Sundial Capital Research.

- Tuesday, January 12th - Walter Murphy, CFA, Managing Partner of Walter Murphy Global Advisors, LLC.

Visit the MTA Podcast Series page to listen to this podcast and subscribe to our RSS feed, where you'll receive updates automatically every week.

Advertising on MTA.org

The MTA is pleased to announce that we have initiated a reciprocal marketing agreement for those members that are interested in advertising a banner ad on the mta.org website. If you are interested in seeing your advertisement on our website, and would also like to help expand the awareness of the MTA, please contact Tim Licitra at tim@mta.org or 646-652-3300.