

Markets Mastered

**How to win consistently on
the stock market**

The secrets you need to know to help you forge a new
career and say goodbye to the boss

If you do an internet search for 'Financial Trading Systems' you will see that there are numerous strategies for sale that promise untold riches for the purchaser – buy the system for a few hundred (or thousand) pounds and within a few short months retire to a Caribbean Island with just a laptop and work a few hours a day earning hundreds or indeed, thousands of pounds. Sold !! I want that lifestyle !!

Unfortunately, this is not reality. It takes more than a well thought trading system for you to succeed in the world's stock and money markets. . Most traders spend days, months and even years trying to find the right system. But having a system is just part of the game. Don't get me wrong, it is very important to have a system that perfectly suits you, but it is as important as having a money management plan, and to understand all *psychological barriers* that may affect your decisions and other issues.

Most Stock Market trading courses and training programs forget about these important aspects of trading. But the truth is that in order to succeed in this business, there must be a complete equilibrium between all important aspects of trading. In the trading environment, when you lose a trade, what is the first idea that pops up in your mind? It would probably be, "There must be something wrong with my system", or "I knew it, I shouldn't have taken this trade" (even when your system signaled it). But sometimes we need to dig a little deeper in order to see the nature of our mistake, and then work on it accordingly.

Most of us relate a trading mistake to the outcome (in terms of money) of any given trade. The truth is, a mistake has nothing to do with it, and mistakes are made when certain guidelines are not followed - when the rules you trade by are violated. I will cover this further on in greater detail.

I have trodden the path to financial freedom, and I achieved it without the help and advice that I am going to share with you in this book. It took me over 2 years to get to the stage where I was earning an acceptable weekly wage from trading, and I also lost my whole trading 'bank' twice in the process. I did not have the luxury of learning while still having a 'Day Job', I burnt all my bridges and took the plunge by giving up my job (actually, selling my business) in the hope that I could start earning a salary from trading from day one. I must admit – this did concentrate my mind somewhat! I had no mentor to guide me, although a friend, who was employed by a large City bank, did teach me how to design a trading system, but unfortunately did not show me how to trade it.

Having a successful, consistently profitable trading strategy is only 25% of what you need to earn your living in the markets – believe me, I know. The other 75% of what you need is contained in this book.

I had to learn the hard way, by losing over £5000 while trading a very profitable system. I am sure you can imagine my amazement; there I was trading a strategy that produced countless winning trades day after day while I was testing it, but as soon as I used my own money, I could not place a winning trade, I lost consistently, day after day!

The following chapters are my rambling (un-organised) thoughts on what I believe you should do in order to stack the odds in your favour – and so help yourself to trading success. The order of the sub chapters is a bit random, I have written it as thoughts have come into my head – I am foremost a trader rather than an author – but I am sure you will get this overall gist of what I am trying to put across.

As I've mentioned before – all this I have learnt by doing it the hard way. Hopefully you will have a smoother path.

I would like to recommend that you read this book through 3 or 4 times initially, as some of the concepts may take a while to sink in – after all, as I have mentioned before, most people think that you just need a fairly consistently successful system to bring you a life of untold riches and you do not need to engage your brain at all – just try to follow the system.....

The Holy Grail

I am sure you have seen on the various forums/blogs that have sprung up over the past few years, the term 'Holy Grail'. This refers, usually, as a system that is as near perfect as you are able to get, bearing in mind that the markets we trade are entirely random in nature. Many system vendors will promote their own strategy as the 'Ultimate Holy Grail System' meaning that they have a nearly 100% success rate when signalling trades. Unfortunately, even if you were able to trade every trade that the system kicks up, you would not be successful in the markets due to the extreme psychological factors that will dominate your thoughts and actions. My definition of 'Holy Grail' is where you have a system that has at least a 75% win/lose rate and you are able to trade it to the exact letter with no emotion whatsoever. This is my ambition in writing this short book – to get you to that position as quickly possible without any shortcuts.

Trade a System

Obviously, first of all you need a system to trade. Choose one that suits the time that you can actually trade – there is no point in purchasing a strategy that shows you how to trade the DAX between 8am and Midday when you are stuck in an office trying to concentrate on your day job.

If you do have a full time career at the moment, consider trading the late US session (after 5pm GMT) or perhaps Forex, which is a true 24hr market.

Secondly you need to see that the system has been profitable over a long period (at least 6 months) and that will give you confidence that it should continue to perform in the way that historical data has shown. When studying the past (historical) results make sure that the winning days far outnumber the losing ones – ideally you need to have a ratio of over 80% in your favour. This is important for a number of factors, and I will touch upon those later on.

Once you have chosen a system that you are happy with – paper or demo trade it for at least a month before you start investing your hard earned cash into a Spreadbetting account. Ensure that you are executing the trades exactly as the system is laid out. You will not do this to begin with, that is why it is important to demo trade initially – to iron out any mistakes.

Incidentally, at the time of writing IG Index run a beginner's course (Trade Sense) that will enable you to trade for real at only 50p per pip, so you taste the real world of trading with only £100 in your trading account. If you wish to it this way, paper trade first though.

Most of the larger Spreadbetting companies run training programmes, so get yourself on as many as you feel appropriate – so that you can really learn the ropes regarding reading charts/placing trades, orders and stops.

Daily Preparation

A lot of people totally disregard this facet of trading. You need a relatively quiet place to work – this is after all going to be your chosen career (hopefully) so you need a place where you can concentrate with no distractions. Ideally a study would be great, but many people do not have this luxury, but there is usually somewhere suitable in your house where you can set up your computer – spare bedroom, dining room, landing, garage.

Secondly, you need to mentally prepare your self for the trading session, whenever it maybe. I trade in a purpose built study/office with Bloomberg on the TV together with a few other news screens, but initially you need your environment to be silent and totally conducive to long periods of concentration. Make sure you are not disturbed by any other members of the family. Nobody comes near me when I am trading and the phones in the office are all on 'silent'.

With most trading systems there is a few things you need to do before you actually start trading – perhaps finding and noting the previous day's price data – or maybe writing down the times of important news releases during the forthcoming trading period. This all serves to enable you to get into what I call the 'trading mindset' ie. Total focus on the job in hand.

To give you an idea of how I work – I start trading at 7am (Mon- Fri) so I will be at my screen at 6am, having a look at the what's happened in Asia overnight, watching for relevant news stories on Bloomberg, preparing the charts I will be using during the day (support/resistance levels, pivot levels) and checking for major news announcements timings so I know when to *out of the market*, so when 7am comes around I am completely prepared to watch for signals for a trade entry.

Goals

It is absolutely imperative that you have daily, weekly and monthly goals. You also need to know where you want to be in a year's time as well.

The important thing about setting personal goals is that they have to be realistic, attainable and measurable – they have to be within your reach, so it is no good setting

yourself a target of 100 pips per day when the system you trade throws up an average of 2 trades per day with profit of 10 pips per time. You need the goal to be measurable because just stating that you want to be rich as a result of financial trading will give you absolutely nothing to aim for – you need a target, so when it is reached you know you are on target. You must also be able to visualise yourself reaching the goal successfully each day. If you cannot see yourself in your mind's eye as a success, there is NO CHANCE you will ever become successful – it just will not happen. There are many books on the subject - have a trawl through amazon.com and see if there is anything that catches your eye – Zig Ziglar is a very well thought of author on the subject.

The system that you are going to trade may well have the daily profit already worked out for you, but if it hasn't – you need to know what this is likely to be and then work forward from there – not forgetting to factor in the (say) 20% losing trades that are inevitable. Once you have something to work towards at the start of the trading day – stick to it religiously, do not be greedy just because you have had 3 winning trades on the row, the market has an amazing capacity to humble even the most experienced trader. Greed is one of the human traits that are the downfall of most (90%) of new traders. So if you have a target of 20 pips (points) for the day and you reach that target by 9:00am, stop trading and perhaps, if you are new to trading, just spend the time paper trading the rest of the day for the experience or reading some of the books that I can recommend to you. I will list these at the end of this book.

You are ready to trade !

Let us move on now to the moment you are ready to trade. You have a system that you are confident of (in terms of results) as you have paper/demo traded it – you have funded your account, and you are ready to place that first *real* trade.

You would think that be merely following the system to the letter, you cannot fail. You will quickly come to realise that after each trade, there are complex emotions at work in your head, sending you all types of messages, depending on the outcome of any particular trade. I will now list two scenarios that will occur. Firstly, we have a scenario where the system you are trading signals that a trade should be initiated.

- Signal taken and trade turns out to be a profitable trade. Outcome of the trade: Positive, made money. Experience gained: Its good to follow the system, if I do this consistently the odds will turn in my favour. Confidence is gained in both yourself and the system. Mistake made: None.
- Signal taken and trade turns out to be a losing trade. Outcome of the trade: Negative, lost money. Experience gained: It is impossible to win every single trade, a losing trade is just part of the business; our raw material, we know we

can't get them all right. Even with this lost trade, you are proud about yourself for following the system. Confidence in yourself is gained. Mistake made: None.

- Signal not taken and trade turns out to be a profitable trade. Outcome of the trade: Neutral. Experience gained: Frustration, you always seems to get in trades that turned out to be losing trades and let the profitable trades go away. Confidence is lost in yourself. Mistake made: Not taking a trade when the system signaled it.
- Signal not taken and trade turns out to be a losing trade. Outcome of the trade: Neutral. Experience gained: You will start to think "I am better than my system". Even if you don't think on it consciously, you will rationalize on every signal given by the system because deep in your mind, your "feeling" is more intelligent than the system itself. From this point on, you will try to outguess the system. *This mistake has catastrophic effects on our confidence to the system.* The confidence in yourself turns into overconfidence. Mistake made: Not taking a trade when system signaled it

Secondly we have a scenario where the system does not signal a trade

- No trade is taken. Outcome of the trade: Neutral Experience gained: Good discipline, we only need to take trades when the odds are in our favour, just when the system signals it. Confidence gained in both yourself and the system. Mistake made: None
- A trade is taken, turns out to be a profitable trade. Outcome of the trade: Positive, made money. Experience gained: This mistake has the most catastrophic effects on you, the system and most importantly on your trading career. You will start to think you need no system, you know better from them all. From this point on, you will start to trade based on what you think. Confidence in the system is totally lost. Confidence in yourself turns into overconfidence. Mistake made: Take a trade when there was no signal from the system.
- A trade is taken, turned out to be a losing trade. Outcome of the trade: negative, lost money. Experience gained: You will rethink your strategy. The next time, you will think it twice before getting in a trade when the system does not signal it. You will say "Ok, it is better to get in the market when my system signals it, only those trades which have a higher probability of success". Confidence is gained in the system. Mistake made: Take a trade when there was no signal from the system

As you can see, there is absolutely no correlation between the outcome of the trade and a mistake. The most catastrophic mistake still can have a positive trade outcome,

ie. It made money, but this could be the beginning of the end of the trader's career. Mistakes must only be related to the violation of rules you by.

So to reiterate - mistakes will be avoided by having a trading plan and sticking to it religiously. A trading plan includes the system: the criteria we use to get in and out the market, the money management plan: how much we will risk on any given trade, and many other points. Secondly, and most important, we need to have the discipline to follow strictly our plan. We created our plan when no trade was placed on, thus no psychological barriers were present. So, the only thing we are certain about is that if we follow our plan, the decision taken is on our best interests, and in the long run, these decisions will help us have better results. We don't have to worry about isolated events, or trades that could had give us better results – all these types of thoughts will have catastrophic results in our trading career as you can now see.

Learn to take a loss

This is a very important topic on its own. To become a successful trader, you must learn to accept that you will have losing trades, and you must learn to love them. If your system has (say) 75% win/lose ratio, once you have got rid of the losing trade, you know with a certain degree of expectation, that the next 3 trades will be winning ones, or if you have 2 or 3 losing trades in a row, your next 6 or so trades will be successful. Never believe that when your trade reaches your predefined stop loss it is actually going to reverse in a minute and suddenly put your losing trade into a profitable situation. Your stop is there for a reason – it ensures that your losses are contained and so that the overall performance of the system is profitable. It really comes back to executing your system to the letter, so that you can know exactly what the outcome of the strategy will be. Remember that your losing trades do not diminish you as a person. You are not your losing trades, and you are not your winning trades, all of your trades are an outcome of your business of being a financial trader. One thing I found difficult in my early days of trading was having 2 or 3 losing trades in a row – and then spotting another trade, but hesitating in taking it because the belief was that it would fail as a profit opportunity. But when you see these losing trades as merely an expense that has to be borne as a by-product of being in this business you can much easily accept them for what they really are. In a conventional enterprise – you will certain costs – staff wages, office/factory rent, advertising, tax to name but just a few, whereas in this business we have hardly any – maybe a subscription or two, broadband, and minimal computing expenses. Once you look at the whole scenario in that light, you can see that adding a few losing trades to your other very minimal expenses makes for a very profitable business.

Flawless execution of every trade

I mentioned above the fact that you need to execute your trading system plan exactly, whether the outcome is a loss or a profitable win. To be able to do this time after time, you have to flawlessly execute every single trade. Some people get confused about this subject and mistakenly assume that this means you should always sell at the top of the market and buy near the bottom. This is incorrect, and is something that even the most seasoned of traders will hardly ever manage.

What flawless execution means monitoring your charts with the appropriate degree of concentration, spotting the exact signal as laid out in the trading strategy manual, acting on your signal the moment you spot it, without hesitation (ie. Entering the trade with speed and precision) and finally, the management of the position through to the signal for exiting the trade. You must have no additional thoughts at the moment of each of those stages other than ensuring that you perform exactly as the system has described. An added thought for when you are exiting a trade – do not be tempted to hang on to see if you can earn a few extra points as the market is moving in your direction – that is pure greed, another emotion that can be stopped in its tracks by flawless execution.

Trade every signal

This probably comes into the previous paragraphs, and at first glance seems like I am stating the obvious - but I would like to highlight it. It is very important to trade every signal that comes along. Your system has verified results, so if you were to trade sporadically, you would not be replicating the past performance of the strategy. You need to be sure that your percentages are the same as the published ones, to give you the confidence to trade the system flawlessly.

Keep a trading diary

As well as manually recording your trades, your trading diary should be used to write up thoughts and observations from your trading day. When you start out, you will inevitably make small (or large) mistakes, and when this occurs, you need to work out what has happened, and correct your behaviour so that it does not occur again. As a side note – I do operate an entirely 'paper-less office' which is very easy to do nowadays, with help from internet banking, internet trading platforms and email but I do believe that a manually written diary is a must-do, and I have kept one for over 10 years – and have often referred back to it, especially in the early years.

Dealing with mistakes

As with any job/career/profession, you will inevitably make mistakes. There are many possible ways to properly manage mistakes. Below are a few thoughts on the subject.

Belief change. Every mistake is a learning experience. They all have something valuable to offer. Try to counteract the natural tendency of feeling frustrated and approach mistakes in a positive manner. Instead of yelling to everyone around and feeling disappointed, say to yourself "ok, I did something wrong, what happened? What is it?"

Identify the mistake made. Define the mistake, find out what caused the mistake, and try as hard as you can to effectively see the nature of that mistake. Refer back to the previous paragraphs on the various mistakes you will make when starting to trade. Defining the mistake will prevent you from making the same mistake again. More than often you will find the answer where you less expected. Take for instance a trader that doesn't follow the system. The reason behind this could be that the trader is afraid of losing. But then, why is he or she afraid? It could be that the trader is using a system that does not fit him or her, and finds difficult to follow every signal. In this case, as you can see, the nature of the mistake is not in the surface. You need to try as hard as you can to find the real reason of the given mistake.

Measure the consequences of the mistake. List the consequences of making that particular mistake, both good and bad. Good consequences are those that make us better traders after dealing with the mistake. Think on all possible reasons you can learn from what happened. For the same example above, what are the consequences of making that mistake? Well, if you don't follow the system, you will gradually lose confidence in it, and this at the end will put you into trades you don't really want to be, and out of trades you should be in.

Take action. Taking proper action is the last and most important step. In order to learn, you need to change your behaviour. Make sure that whatever you do, you become "mistake-proof". By taking action we turn every single mistake into a small part of success in our trading career. Continuing with the same example, redefining the system would be the trader's final step. The trader would put a system that perfectly fits him or her, so the trader doesn't find any trouble following it in future signals.

Understanding the fact that the outcome of any trade has nothing to do with a mistake will open your mind to other possibilities, where you will be able to understand the nature of every mistake made. This at the same time will open the doors for your trading career as you work and take proper action on every mistake made.

The process of success is slow in anything in life as I am sure you know by now – things do not change for the better overnight, and plenty of times success is attributed to repeated mistakes made and the constant struggle to get past these mistakes, so

you have to work on them accordingly. How you deal with them will shape your future as a trader, and most importantly as a person.

Some additional thoughts on other important topics

The first topic I would like to introduce is that of being 100% responsible for your actions. Just like in life, as a trader, you must be the only one responsible for your own decisions and actions. You're the only one who has to live with the consequences of the decisions that you made.

It doesn't matter whether you'll be right or wrong, you'll find out soon enough anyway. The trick is to understand and accept the consequence of the decision.

When I trade I know that there are two outcomes. A gain or a loss. And I'm mentally ready for both – as you will learn to be. If you can't accept the responsibility for your own actions then you should not be in the market to begin with.

Rely on your own choices and draw your own conclusions. There's nothing wrong with listening to other people's advice, but you and only you makes the final decision. Never let someone else make decisions for you.

Why do most traders instantly turn to someone else for help when their trades go bad? Because it is a human trait. Shift the blame on someone else. Let someone else make the decision for you. You must learn to make your own mistakes. Learn how to evaluate and learn from your own mistakes. Learn to make your own decisions and accept 100% responsibility for them. Only then will you become a real trader.

My next subject is related to setting goals – as previously mentioned. Most of you will have heard that popular saying *"Don't worry about winning the war, concentrate on winning each small battle"*

It's easy to get caught up in daily defeats. Your trading strategy isn't working and you're losing money hand over fist even though you know your system works and you're following all the rules. The trouble is if you aren't careful, you could get discouraged and feel like giving up. When you aren't making the profits you desire, you could end up feeling like a failure, thinking you'll never make it as a trader. When you are discouraged by everyday setbacks, it's crucial to keep your eye on the big picture. You could be losing a battle here and there, but you will end up winning the war if you are focused on your ultimate goal(s)

Many traders make the mistake of letting their feelings of worth be determined by everyday trading results. You think, "If I make profits today, and every day this week, I'm doing well. But if I end up losing most days, then I am not trading successfully ". Unfortunately this kind of thinking is based on how people view compensation for a

conventional 9-to-5 job. You put in your 40 hours, do a good job, and you get paid handsomely. You feel good for working diligently and productively for the week.

But when you trade, you may not always receive sufficient compensation for your efforts. When you don't reach the profit goals you set, you can feel as if you didn't get paid enough for your efforts.

It's going to be tough, but as a trader, you must avoid thinking in these conventional terms. An extremely productive week may produce ZERO profits. When you are trying to achieve a certain level of income in a given timeframe, you are setting "performance goals" that you may not be able to achieve. When you are starting out, a better kind of goal to set is a "learning goal."

You may not be able to achieve a particular performance goal during a given week early on in your trading career; that is, you may not always be able to achieve a particular financial amount, but you can achieve a particular learning goal. Every day you trade, you gain valuable experience regarding how you approach the markets. You see various setups and learn how they can or can't lead to a profitable trade. Don't undervalue these learning experiences.

Every day, you are achieving your learning goals. Your daily efforts may not directly lead to profits, but indirectly, they do add to your wealth of experiences. You may only win a battle here and there, but when you add up the battles you do win, over the long haul, you end up mastering the markets, and winning the war in the end.

In the big scheme of things, winning these minor battles will help you win the war. You'll master the markets and become a winning, profitable seasoned trader.

Acting on impulse is another problem area that you will doubt encounter. One example of this is when you have a small losing run of trades – which is inevitable and you decide, on a whim, to ditch your trading system. Another example is where you find yourself in a losing position in a trade, and on impulse decide that the market is going to go back in your direction, so you add to a losing trade hoping to make it all back in a moment.

Depending on your personality, background, training, and experience with the markets, you may have trouble controlling your tendency to act on impulse

For some, impulsivity is in their blood. They have trouble concentrating. They are easily bored. They look for quick thrills for relief. For others, impulsivity is related emotional weakness. Some people have so much trouble controlling their emotions that they react impulsively out of frustration.

A new trader can act impulsively. As you know, when people are tired, they have difficulty concentrating, so the daily preparation I mentioned earlier must also include

the need for you to be properly rested before a trading session, so you are alert and energized, ready to be in front of the screen, watching for those signals that alert you to profit opportunities. As much as your conscious mind cares about sticking to your trading plan, your unconscious mind thinks, "Who cares? I just want to get this over so I can chill out." Your psychological resources have been exhausted. When you push yourself to the limits, you'll have trouble concentrating on your trading plan and obeying it.

Other traders may be impulsive because they lack experience. You can't expect to stick with a trading plan when you don't know what the hell you're doing. If you're new to the stock market, you'll lack confidence and feel uneasy you'll start hesitating to pull the trigger. You won't want to risk your money because you don't have that strong belief that your plan will produce a profit like seasoned trader's display.

Trading plans must be clearly defined and easy to follow. When you have an incomplete trading plan where important parts are left unclear, you'll have trouble following it. A trading plan should consist of clearly defined entrance and exit strategies. Signals that indicate how the trade is going are also important. Don't underestimate the importance of clearly mapping out a trading plan. You can't stick with a trading plan that you can't follow.

The winning trader is the disciplined trader. Disciplined traders stick with trading plans. They don't act on impulse. It's essential that you identify the reasons you find yourself trading on impulse. It could be your personality or it may just be situational, but whatever it is, you must gain awareness of these factors and resolve them. Once you control the urge to act on impulse, you'll trade more profitably.

Recommended further reading

Trading in the Zone – Mark Douglas

The New Market Wizards – Jack Schwager

Come Into My Trading Room – Alexander Elder

Goals – Setting Them and Achieving Them... - Zig Ziglar

Reminiscences of a Stock Operator – Jesse Livermore

Trade Like Jesse Livermore – Richard Smitten

(I have the last 2 books mentioned as eBooks; I will gladly send them to you free of charge upon request)