

*This is a summary of Mark Douglas's book Trading in the Zone. This summary represents about 45 pages of a 200 page book. Obviously there is a lot of information, discussion, and examples that are not present here. I strongly encourage you to buy the book and read it!*

*This exercise was an attempt for me to embed this information into my psych. It changed my perspective of the meaning of the phrase "trading is primarily a psychological struggle". Originally I perceived this statement as a personal reflection of my psychological make up. I discovered in reading this book that it is really about the psychology of taking responsibility, accepting risk, and believing in probabilities. This is a big shift.*

*Instead of wondering about the effects of my upbringing and other environmental factors, I now realize the battle is not about that. Although your past does create your current beliefs, the struggle is not about understanding your personal history. It is about accepting what it means and what is required to be a consistently profitable trader.*

*I sent this summary to Todd so that those that are interested could quickly read about and maybe begin to understand Mr. Douglas's presentation. I tried to relay the primary message as succinctly as possible while retaining the "meat" of this important book.*

*Once again this is Mark Douglas's message. I am simply shortening it. Again, I encourage everyone to buy, study it, and read Trading in the Zone.*

*This book and Mr. Douglas's presentation dovetails neatly into everything that Todd is trying to teach. It is the crux of any successful trading business.*

*Finally I have spent all the time I want on this project. Please forgive any errors that are sure to be present.*

*Brian*

## Summary of "Trading in the Zone" By Mark Douglas

Trading is full of paradoxes and contradictions in thinking, thus making it extremely difficult to learn how to be consistently successful.

Financial and emotional disaster is common among traders because many of the perspectives, beliefs, attitudes and principles that we have learned and adopted in our daily lives have the opposite effect in the trading environment. Not realizing this most traders start their careers with a fundamental lack of understanding of what it means to be a trader, the skills that are required and the depth to which those skills need to be developed.

Trading is inherently risky; no trade has a guaranteed outcome. Most traders would agree with this statement. If you engage in an activity that is inherently risky then you must be risk takers, and in fact many traders take pride in the fact that they are risk takers.

Of course any trader is taking a risk by putting on a trade but that does not mean that they are correspondingly accepting the risk. All trades are risky because the outcomes are probable not guaranteed. But do most traders really believe they are taking a risk when putting on a trade? Have they really accepted that the trade has a non-guaranteed probably outcome, have they fully accepted the consequences?

The answer is no. Most traders have no concept of what it means to be a risk-taker in the way the successful traders think about risk. The best traders not only accept the risk they have learned to embrace it. There is a huge psychological gap between assuming you're a risk taker because you put on trades and fully embracing the risks inherent in each trade. When you fully accept the risk, it will have profound implications on your bottom line performance.

The best traders can put on a trade without the slightest hesitation or conflict, and just as freely and without hesitation or conflict admit it is not working. They can get out of the trade even if it is a loss and it doesn't create the slightest bit of emotional discomfort. In other words the risks inherent in trading do not cause the best traders to lose their discipline, focus, or sense of confidence. On the other hand if you are not able to put on a trade without the least bit of emotional discomfort (specifically, fear), then you have not learned how to accept the risks inherent in trading. This creates a major paradox because to whatever degree you have not accepted the risk is the same degree to which you will avoid risk. Trying to avoid something that is unavoidable will have disastrous effects on your ability to trade successfully.

Trading presents a fundamental paradox: How do we remain focused, disciplined, and confident in the face of constant uncertainty? Learning how to redefine your trading activities is such a way that allows you to completely accept the risk is the key to thinking like a successful trader.

When you have learned the skill of risk acceptance, the market will not be able to generate information that you define or interpret as painful. Learning to accept risk is a trading skill, the most important skill you can learn.

What trader hasn't gotten into trades too soon before the market has generated a signal. Who hasn't entered a trade too late, or has convinced themselves not to take a loss only to end up with a bigger loss; or gotten out of trades too soon; or found themselves in winning trades but didn't take the profits and let the trade turn to a loss; or moved stop losses closer only to get stopped out and have the trade move back in your direction? These are some of the many errors that traders perpetuate on themselves over and over. These are not market-generated errors, the markets are neutral. The markets are always in motion providing information and opportunity, that's all. The markets do not have any power over the unique ways in which we perceive and interpret this information. Nor does it control our actions and decisions that we make based on the market information.

The best traders are not afraid. They have developed attitudes that give them the most mental flexibility to participate in the opportunity flow of the markets, based on what the market is telling them, based on its structure.

Most of the trading errors you are likely to make will stem from your attitudes about being wrong, losing money, missing out, and leaving money on the table. These are called the four fears.

When you are fearful your awareness narrows. You cannot perceive other possibilities or act on them properly even if you did perceive them because fear is immobilizing. Physically it causes you to freeze or run, mentally it causes you to narrow your focus of attention to the object of your fear. This means that thoughts about your options, as well as most of the information available from the market will be blocked. You will no longer think of all of the rational things you have learned about the market until you are no longer afraid... the event is over. Once the trade is over you often reflect on it. This is where the "should of, could of, would of" comes in, exacerbating your emotional pain.

It is very difficult to perceive that the source of these problems is our inappropriate attitudes. Many of these thinking patterns that adversely affect our trading are a function of the natural ways we have been brought up to think about the world. These thinking patterns are so deeply ingrained that it rarely occurs to use that the source of our difficulties is internal, derived from our state of mind. It seems much more natural to see the source of our problems as external, in the market, because it feels like the market is causing our pain.

Understanding the relationship between beliefs, attitudes, and perceptions, are as fundamental to trading as learning to serve in tennis.

Of course most traders believe that the best way to avoid losses and emotional pain is to learn more about the markets. This bit of logic is a trap and presents another paradox. The more you learn about the markets the more you realize there are too many variables, often conflicting. In addition there are no limits to the market's behavior. It can do anything at any moment. This means that no matter how much you learn about the market's behavior, no matter how brilliant an analyst you become, you will never anticipate every possible way the market can make you wrong or cause you to lose money. If you are afraid of being wrong or losing money you will never learn enough to compensate for the negative effects these fears will have on your ability to trade objectively and without hesitation.

The hard cold fact of trading is that every trade has an uncertain outcome. Unless you learn to completely accept the possibility of an uncertain outcome you will try consciously or unconsciously to avoid any possibility you define as painful.

Confidence and fear are contradictory states of mind that stem from our beliefs and attitudes. To be confident functioning in an environment of uncertainty requires absolute trust in yourself. To gain this trust you must train your mind to override your natural inclination to think in ways that are counterproductive to being a consistently successful trader. Only learning to analyze the market's behavior is simply not the appropriate training.

You can try to eliminate risk by learning about as many market variables as possible, or you can learn how to redefine your trading activities in such a way that you truly accept the risk and are no longer afraid. When you have truly accepted the risk you won't have the potential to define and interpret market information in painful ways. When you have accomplished this you will no longer have a tendency to rationalize, jump the gun, hesitate, or hope that the market will give you money, or save you from your inability to cut your losses.

If you are still susceptible to the kinds of errors resulting from hesitating, rationalizing, justifying, hoping, you will not be able to trust yourself. If you can't trust yourself to be objective and always act in your own best interests, achieving consistent results will be impossible.

As you move towards your goal of being a consistent successful trader keep in mind that this is a future projection of yourself that you have to grow into. Growth implies expansion, learning, creating a new way of expressing yourself. Many of the ideas presented here will be in direct conflict with ideas and beliefs you presently hold about trading. This is part of the challenge.

## *THE LURE OF TRADING*

Trading offers the individual unlimited freedom of creative expression, a freedom of expression that has been denied us most of our lives. In the trading environment we make up all of the rules. There are very few restrictions or boundaries on how we choose to express ourselves. The possibilities that exist for how you go about trading are virtually limitless.

However to operate effectively in the trading environment, we need rules and boundaries to guide our behavior. To prevent the possibility of exposing ourselves to damaging trades we need to create an internal structure in the form of specialized mental discipline and a perspective that guides our behavior so that we always act in our own self-interest. This structure must exist within us, because unlike society, the market does not provide it.

The markets do provide structure in the form of behavior patterns that indicate when an opportunity exists to buy or sell, but that is where the structure ends. From the individuals perspective there are no formalized rules to guide behavior. There aren't even any beginnings, middles or endings as there are in virtually every other activity we participate in.

In trading nothing begins until you decide it should, it lasts as long as you want, and it doesn't end until you want it to be over.

One of the many paradoxes of trading is that it offers the gift and a curse at the same time. The gift is that, perhaps for the first time in our life we are in complete control of everything we do. The curse is that there are no external rules or boundaries to guide or structure our behavior. This structure to guide our behavior must originate in our mind as a conscious act of free will. This is where many problems begin.

### *The Unwillingness to Create Rules*

Most traders would agree that creating trading rules makes sense on the one hand yet resist doing so on the other. This resistance is not always overt in fact it is often quite subtle, is often intense and has a logical source.

Most of the structure in our minds was given to us as a result of our social upbringing and is based on choices made by other people. It was instilled in our minds but did not originate in our minds. This distinction is very important. During the process of instilling this mental structure many of our natural impulses to move, express and learn about the nature of our existence through our own direct experience were denied (consider how many times a day a child is told not to do something even if it is for their own good). Many of these denied impulses were never reconciled and they still exist inside us as frustration, anger, disappointment, guilt, for instance. These accumulated negative feelings act as a force inside our mental environment causing us to resist anything that denies us the freedom to do and be whatever we want when we want.

Thus the very reason we are attracted to trading, the unlimited freedom of creative expression, is the same reason we feel resistance to creating the rules and boundaries that can appropriately guide our behavior.

Creating and abiding by your trading rules requires a lot of effort and focus to build the mental structure necessary to compensate for the negative denied impulses. Often this motivation will come at the expense of your trading account and after a great deal of pain and suffering to break down any resistance to creating and following a set of trading rules.

### *Failure to Take Responsibility*

Trading could be characterized as pure, unencumbered personal choice with immediate outcome. Nothing happens until we decide to start, it lasts as long as we want and it doesn't end until we decide to stop. We may relish the freedom to make all of these choices but that does not mean we are ready to accept responsibility for the outcomes. This presents a dilemma: how does one participate in an activity that allows complete freedom of choice, and at the same time avoid taking responsibility for the outcome of those choices particularly if the outcomes are unexpected and not to ones liking?

To participate in trading but not take full responsibility requires that you adopt a trading style that is to all intents and purposes is random. These means poorly planned trades. It is an unorganized approach that takes into consideration an unlimited set of variable which does not allow you to find out what works and what doesn't on a consistent basis.

Randomness could be defined as unstructured freedom without responsibility. When trading without a well defined plan and with unlimited set of variables it is easy to take credit for winning trades as we do have "some" methodology, yet it is easy to avoid taking responsibility for losses because there is always some variable we did not know about or didn't take into consideration beforehand.

It would be difficult if not impossible to create consistency trading the markets if its behavior was truly random. If it is impossible to be consistent, then we don't have to take responsibility. We know however through our experience and knowledge that the markets are not random. The same behavior patterns present themselves over and over. Even though the outcome of each individual pattern is random the outcome of a series of patterns is statistically reliable. This is a paradox yet it can be easily resolved with a disciplined, organized, and consistent approach.

## *Taking Responsibility*

The words "taking responsibility" sounds simple enough yet the concept is neither easy to grasp nor put into practice. We have heard the phrase so many times that it is easy to take for granted that we know exactly what the phrase means.

Taking responsibility in trading and learning the appropriate principles of success are inextricably connected. You must understand with every fiber of your being, that ways in which you are and are not responsible for your trading success.

To express yourself as a consistently successful trader you must deactivate limiting beliefs, create new empowering beliefs and work on your mental and emotional attitude. To realize your potential your goal must be to learn how to think like a consistently successful trader.

The best traders think in a number of unique ways. They have created a mental structure that allows them to trade without fear and at the same time keeps them from becoming reckless or overconfident.

If we work from a premise that to create consistency trading you must focus your efforts on developing a traders mind-set, it is easy to see why most traders are not successful. Instead of learning to think like traders, they expend most of their efforts in thinking about how they can make more money by learning about the markets. It is nearly impossible not to fall into this trap, it is easy to assume that it is what you don't know about the markets that causes your losses and lack of consistent results.

However this is simply not the case. The consistency you seek is in your mind not the markets. It is your attitudes and beliefs about losing money, being wrong, and the tendency to become reckless when feeling good that causes losses, not technique or market knowledge.

It takes time to develop this winning attitude and mental structure. A definition of a positive winning attitude is expecting a positive result from your efforts, with an acceptance that whatever results you get are a direct reflection of your level of development and what you need to learn to

do better. This winning attitude helps you move beyond your mistakes and keep learning. Instead of getting bogged down in negative self-criticism.

Most traders had the common experience of losing one or more fortunes before they realized how they needed to think in order to be consistently successful. It is a fundamental shift in attitude that accounts for their success, not some brilliant realization about the market, as most people erroneously assume.

Taking responsibility means believing that all of your outcomes are self-generated; that your results are based on your interpretations of the market information and the decisions you make and actions you take as a result. Not taking complete responsibility sets up two major psychological obstacles that will block your success. The first is that you will establish an adversarial relationship with the markets thus taking you out of the constant flow of opportunity. Second you will mislead yourself into believing that your lack of success and trading problems can be rectified through market analysis.

From the markets perspective, each moment is neutral; to the observer or trader, every moment and price change can have meaning. These meanings are based on what you have learned and exist in your mind not the market. The market does not attach meanings or interpret the information it generates about itself. In addition the market doesn't know how to define an opportunity or a loss. The market does not know or care if you perceive it as an endless stream of opportunities to enter and exit trades for both profits and losses at each and every moment, or as a greedy monster ready and willing to devour your money at any given moment.

If you perceive the market information as painful in some way, you will naturally try to avoid that pain by either consciously or subconsciously blocking that information from your awareness. In blocking this information you systematically cut yourself off from any number of opportunities that exist to enrich yourself. In other words you cut yourself off from the opportunity flow.

Finally learning more and more about the markets only to avoid pain compounds your problems, because the more you know naturally the more you will expect from the markets, making it all the more painful when the markets do not do their part. This can create a vicious cycle where the more you learn the more debilitated you become; the more debilitated you become the more compelled you are to learn. This cycle will continue until either you get fed up and quit trading in disgust or you recognize that the root cause of your trading problems is your perspective, not your lack of knowledge.

"Taking responsibility is the cornerstone of a winning attitude".

### *Consistency is a State of Mind*

Winning and consistency are states of mind in the same way that having fun, happiness and satisfaction are states of mind. Your state of mind is a direct by product of your perspective, beliefs and attitudes.

Traders who are consistently successful are consistent as a natural expression of who they are, as within so without. They do not have to try to be consistent; they are consistent.

Think back to your very best trades, they were easy and effortless. You did not have to try to make them easy and effortless they were easy and effortless. You were in the moment available

and open to the opportunity flow of the market. When you are in the flow you don't have to try because everything you know about the market is available to you.

To be consistent you have to learn to think about trading in such a way that you are no longer susceptible to conscious and subconscious mental processes that obscure or block information on the basis of what will make you happy, or to avoid pain.

The threat of pain produces fear, and fear is the source of most errors you are likely to make. If you are consistently making errors you will no longer be consistent in your actions or experience the opportunity flow. Furthermore everything you try to do as a trader will be a struggle and it will feel like you are struggling against the market. The struggle however is taking place inside of your mind. If you feel like you are struggling, it is you who are struggling against your own internal, conflict, and fears.

How you may ask do you think about trading in such a way that you no longer are afraid, therefore you are not susceptible to the mental processes that cause you to block, obscure or pick and choose information. The answer is you must learn to accept risk.

### *Understanding Risk*

Other than the many issues surrounding responsibility there is nothing about trading that is more central to your success and more misunderstood than the concept of accepting risk. Most traders erroneously assume that because they are engaged in the inherently risky activity of trading that they are accepting the risk. This assumption cannot be further from the truth.

Accepting risk means accepting the consequences of your trades without emotional discomfort or fear. This requires that you must learn how to think about your trading and your relationship with the markets in such a way that the possibility of being wrong, missing out, losing, or leaving money on the table won't cause your mental defense mechanisms to kick in thus taking you out of the opportunity flow.

By accepting the risk you make yourself available to take advantage of an opportunity, you do not impose any limitations or expectations on the market's behavior. You are perfectly satisfied to let the market do whatever it is going to do. As the market moves it will create certain conditions you define and perceive as opportunities. You act on these opportunities to the best of your ability, yet your state of mind is not dependent upon or affected by the market's behavior.

Once you learn to create a state of mind that is not affected by the market's behavior, the struggle will cease to exist. When the internal struggle ends, trading becomes easy. At that point you can take full advantage of all of your skills, analytical or otherwise to eventually realize your full potential as a trader.

How then do you accept the risks of trading without emotional discomfort and fear, when at the moment you perceive risk, you simultaneously feel discomfort and fear? How do you remain confident and pain-free when you are absolutely certain you can be proved wrong, lose money, miss out, or leave money on the table. Thus these feelings of fear and discomfort are completely justified and rational. Each of these possibilities becomes real the moment you interact with the market.

As true as all these possibilities are for every trader, what is not the same for every trader is what it means to be wrong, lose money, miss out, or leave money on the table. Not everyone shares the same beliefs and attitudes about these possibilities, and thus, we do not share the same emotional sensitivities. In other words not everyone is afraid of the same things.

Many traders assume that the best traders somehow neutralize their fears with an inordinate amount of courage, nerves of steel, and self-control. As with many attributes of trading this seems to make sense, however most of the time this is not the case. Any of these characteristics may be present in any top trader. But what is not true is that these characteristics play a major role in their superior abilities. Needing courage, self-control, nerves of steel would imply an internal conflict where one force is being used to counteract the effects of another. Any degree of internal struggle, trying, or fear associated with trading takes you out of the moment and flow, thus diminishing your results.

The ability to accept risk the way the pros do, therefore not perceiving anything the markets do as threatening, is where professionals separate themselves from the crowd. No threat, no fear, no fear no need for courage. If you are not stressed why would you need nerves of steel? Very few people start their trading careers with the appropriate beliefs and attitudes about responsibility and risk. Most traders go through the cycle of the novice trader: We start carefree, then become scared, and our fears continually diminish our potential.

Traders who finally break through the cycle and ultimately make it are the ones who learn to stop avoiding and start embracing the responsibility and risk. However most of the traders who successfully break this cycle make the shift in thinking after experiencing so much pain from large losses that it has the positive effect of stripping away their illusions about the nature of trading.

## *Aligning your Mental Environment*

The key to trading in a calm manner with the flow of the market is to have a firm belief in probabilities and edges. Once you have acquire this belief you can create a new relationship with the market, one that disassociates your trading from what it typically means to be wrong or lose, and that precludes you from perceiving anything in the market as threatening.

In many ways, a state of mind, or perspective is like software code. You may have several thousands of lines of perfectly written code with only one flawed line or character. This one flaw in relation to the rest of the code could ruin or alter the performance of an otherwise perfectly written system. The solution appears simple: Fix the misplaced character and everything runs smoothly. However, finding the error or even knowing it exists can take considerable time and expertise.

When it comes to the ideal trading mentality everyone is a certain psychological distance away. Virtually everybody starts out with flawed software. As your perspective shifts and/or you integrate new beliefs regarding responsibility and risk, this shift would be the equivalent of finding the flawed line or character in your mental software and replacing it with something that works.

This internal shift is often described as the "ah ha" experience, or the moment the light goes on. We have all had these types of experiences, and they have certain qualities associated with them. Often you feel different. Typically you might think "It was right in front of me the whole time, I

just didn't see it", or "it was so simple why couldn't I see it?" Often once the new information is integrated we feel this new part of our identity has always been a part of who we are. It then becomes difficult to believe that we were ever the way we were before we had the experience.

You may already have an awareness of much of what you need to know to be a consistently successful trader. However awareness is not necessarily belief. You must not assume that learning something new agreeing with it is the same as believing it at the level where you can act on it. For example many phobias are fears where we may rationally know that there is nothing to be afraid of. However our awareness that the fear is not rational does not necessarily remove the fear or phobia. These types of contradictory beliefs are prevalent in trading and represent flawed mental software. For instance believing we are accepting risk when in fact we do everything we can to avoid it. Discovering and debugging these contradictions is key to moving towards your eventual success.

### *Dynamics of Perception*

If your goal is consistent profitability you must be able to see the market from an objective perspective without distortion. Top traders do not perceive anything about the markets as painful; therefore no threat exists for them. No threat means nothing to defend against. Nothing to defend against means there is no reason for your conscious and subconscious defense mechanism to be activated. Thus you can be in the opportunity flow perceiving the endless stream of opportunities.

To obtain this mind set you have to redefine your relationship to market information so that there is little or no potential to perceive anything as threatening. This new mind set will allow you to remain focused on the opportunities available instead of tapping into emotional pain.

In an effort to debug our mental software we must have an understanding of nature of mental energy, and how you can use that energy to change your perspective.

The process of trading starts with perceiving an opportunity in the market. Thus it is important to examine mental energy by breaking down the process of perception.

One way to understand the dynamics of perception is to think of everything that exists in, on and around the planet as a collection of forces. These forces generate information about the properties, characteristics, and traits that make them uniquely what they are.

Everything that exist outside our bodies- all plants, all categories of life, all planetary phenomena in the form of weather conditions, hurricanes, earthquakes, all active and inert physical matter; and all non-corporeal phenomena such as light, sound waves, radiation- generates information about the nature of existence. This information has the potential to act as a force on our five physical senses.

Consider a rock for example. It expresses itself on our senses thus causing us to experience and make distinctions about the nature of its existence. It has a texture, size, shape, odor etc.

When we encounter something in our environment that expresses its properties, an exchange of energy takes place. Energy from outside, in the form of the expressing object, gets transformed by our nervous system into electrical impulses, which get stored in our inner mental environment.

This creates cause and effect relationship between ourselves and everything that exists in the external environment. As a result our encounters with external forces create “energy structures” inside our minds. The memories, distinctions, and ultimately our beliefs we acquire throughout our lives exist in our mental environment in the form of structured energy.

If memories, beliefs, and distinctions don't exist as physical matter then they must exist as some form of energy. If this is so, can this energy take on a specific shape? Can it be structured in such a way that it reflects the external forces that caused it to come into existence? Are there examples of anything in the environment that is analogous to energy having shape or structure? Yes.

For example; thoughts are energy. Since you think in a language, your thoughts are structured by the limitations and rules that govern the language in which you think. When you express those thought aloud, you create sound waves, which are a form of energy. These sound waves created by your vocal cords and tongue are structured by the content of your message. Microwaves are energy, and many phone calls are relayed by microwave, which means the microwaves must be structured in a way that reflects the message it is carrying.

Anything that is energy has the potential to act as a force expressing its form, and that is exactly what our memories, distinctions and beliefs do. They act as a force on our senses from the inside, expressing their form and content, and in doing so they have a profound limiting effect on the information we perceive in any given moment. Thus making much of the information that is available from the environment's perspective, and the possibilities inherent within that information, literally invisible.

At any given moment the environment is generating enormous amounts of information about its properties, characteristics and traits. Do we hear, taste, see, smell, or feel every possible distinction, characteristic or trait being expressed by everything that is within the physiological range of our senses? Absolutely not! The energy that is inside us will categorically limit and block our awareness of much of this information. For example, there are many ways that the external environment can express itself that we don't perceive simply because we have not learned about them yet. Consider the first time you look at a price chart. What did you see, and perceive? With no previous exposure the information presented in the chart was very limited. Now after much learning and exposure you see characteristics, traits, and behavior patterns that represent the collective actions of all traders who participated in those particular trades. Initially the chart represented undifferentiated information. Over time you have learned to make distinctions about that information, such as trends, areas of congestion, support, resistance to name a few. These distinctions now have meaning and significance.

Now consider the first time you looked at a chart and compare that to your current experience. Everything you can see now existed then, and was available to be perceived. The difference is the structured energy that is inside you now, the knowledge you have gained, acts as a force on your eyes and nervous system causing you to recognize the various distinctions that you have learned about. Since that energy was not there the first time you saw the chart all the opportunities that you now see were present but they were invisible to you.

“People see what they have learned to see, and everything else is invisible until they learn to counteract the energy that blocks their awareness of whatever is unlearned and waiting to be discovered”. (Douglas)

Consider the perspective of a successful trader observing a nervous beginner. Say a trader experiences a series of losing trades, thus he is hesitant to take the next signal. The professional trader would consider the novice traders fear as irrational as the “now moment” opportunity has nothing to do with the last few trades. Each trade is simply an edge with a probable outcome and is independent of every other trade.

### *The Power of Association*

Although risk is relative, the perception of risk by emotional traders appears absolute. Although this emotional response seems irrational from the seasoned traders point of view, it is nearly impossible to change the perception of the emotional trader without proper training and understanding. It is the power of association that facilitates this emotional response. Our minds have an inherent design characteristic that causes us to link and associate anything that exists in the external environment that is similar in quality, characteristics, properties or traits to something that already exists in our mental environment as a distinction or memory. Many traders associate trading with pain as they have experienced many frustrating, emotional monetary losses.

The tendency for our minds to associate is an unconscious mental function that occurs automatically. It is not something we have to think about, unless we are making a conscious link. This unconscious mental function is analogous to an involuntary physical function like a heartbeat. Thus we don't have to think about linking experiences and our feelings about them, it is simply a function of the way our minds work. Of course this has a profound effect on the way we experience our lives.

For traders that are struggling this has important implications. The internal negative energy of the association of trading being painful, is difficult to override. When we see an external form of positive structured energy in the form of “the perfect setup” there is a conflict. Both forms of energy have the potential to express themselves. The strongest force wins.

The external energy has the potential to act as a force on the trader in a positive manner, however his experience and association of trading being painful creates an internal conflict before and during the trade. This internal conflict is charged with energy. The amount of discomfort is unique to each individual and is related to the degree of emotional duress that the trader has suffered.

The experience of pain during a new trading experienced is what psychologist called a projection. You are instantaneously projecting past experience onto the current situation. The trader is projecting their pain onto the market and it is reflected back to him and is perceived as painful even though we know the market is neutral.

The emotional pain causes us to lose focus, makes it difficult to perceive new possibilities, and inhibits our ability to learn something new.

Although the market is presenting a new opportunity the trader's automatic involuntary mental process inhibits his potential to act consistently. This association is a self-generated experience

One basic objective of traders is to perceive opportunity not the threat of pain. This makes it imperative that you understand the source of the threat. It is not the market. Again the market generates information about its potential from a neutral perspective. At the same time it presents an unending stream of opportunities to the observer. Thus you must ask is the information inherently threatening or is the potential to feel pain simply the traders own state of mind reflected back to himself?

For untrained traders their minds will automatically and unconsciously associate the "now moment" opportunity based on their most recent trading experience. Thus if you experienced a series of losses you feel threatened, if you are coming of a series of winners you may be overly optimistic.

Understanding and becoming consciously aware of this process of association allows you to circumvent, and direct this process. Taking conscious control of the association process is a power tool and will increase your consistency and reduce your anxiety.

The best traders have evolved to the point where they believe without a shred of doubt or conflict that anything can happen. Their belief in uncertainty is so strong that it prevents their minds from associating the "now moment" opportunity with the outcomes of their most recent trades.

By preventing this association they make themselves available to take advantage of whatever opportunities the market may offer at any given moment. This perspective allows you to consider both the known and unknown. Your definition of an opportunity or edge is known, however you do not know the pattern or outcome of this edge. This edge places the odds in your favor yet you completely accept the fact that you do not know the outcome of any particular trade. Your mind is open to any possibility, it is open to learn something new, and it is conducive to creating the mental conditions necessary to "enter the zone".

When you are in "the zone" your mind and the market are in sync. To get in sync with the markets you must completely accept the psychological realities of trading.

Most traders believe that being a good market analyst is the key to trading. Although market analysis is important it is not the most important tool in a successful traders repertoire.

Your awareness about the psychological characteristics of a successful trader does not necessarily translate into acceptance and belief. When something is truly accepted there is not conflict with any other component of our mental environment. When we believe something we operate out of that belief as a natural function of who we are without struggle or effort. To whatever degree there is conflict in our mental environment is the same degree there is a lack of acceptance.

Knowing this it is easy to understand why so few people make it as trader. They simply are not aware of or don't do the mental work necessary to reconcile the many conflicts that exist between what they have already learned and believe, and how that learning contradicts and acts as a source of resistance to implementing the principles of successful trading. To get into a free-flowing carefree state of mind that is ideal for trading requires that these conflicts be thoroughly resolved.

The market's fundamental characteristic is that it can express itself in nearly an infinite combination of ways.

As the number of people participating in the market at any given time and their opinions about the market at that time present a nearly infinite number of combinations. Particularly if many of the participants are experiencing emotional duress thus altering their opinions based on the markets every movement. In addition there are traders on the sidelines waiting for their definition of opportunity and they can tip the balance for buyers and sellers at any time. This is a hard, cold reality of trading that only the best traders have embraced. Anything can happen, and it only takes one trader to negate your position or belief about the future direction of the market.

By always accounting for the unknown the best traders always predefine their risk, cut their losses, and systematically take profits. The fundamental belief that anything can happen creates a foundation for building every other belief and attitude that is necessary to be consistently successful. By establishing this belief you can begin training your mind to think in probabilities.

How does one produce consistent results from an uncertain probabilistic outcome? This is another paradox of trading, random outcome consistent results.

The best traders treat trading like a numbers game, similar to the way in which casinos approach gambling. As in a casino events that have a probable outcome can produce consistent results if you get the odds in your favor and have a large enough sample size.

What makes thinking in probabilities so difficult? It requires two layers of beliefs that on the surface seem to contradict each other. First you have to believe in the uncertainty and unpredictability of the outcome of each individual trade. Second you have to believe that the outcome over a series of trades is relatively certain and predictable. This degree of certainty is a function of how good the edge is.

You must learn and completely accept the fact that you don't know what will happen next, and in fact don't need to know, in order to be consistently profitable. Since you don't have to know the outcome of each trade you do not place any significance, emotional or otherwise, on each individual trade. You will not be encumbered by unrealistic expectations, and as a result it is easier to stay focused on keeping the odds in your favor and to execute your plan.

Your personal edge and "rules of engagement" are the known variable that puts the statistical edge in your favor. The unknown variable is all of the other traders in the market. The collective behavior of participating traders form recognizable patterns in the market and will produce opportunities based on your definition of an edge. Although the current pattern looks the same as past opportunities, the participants, their behaviors, and the timing of their decisions are different for every edge. Thus the outcome is uncertain.

Being aware of uncertainty the nature of probabilities does not equate with the ability to function effectively from a probabilistic perspective. Our minds cause us to perceive what we know, and what we know is a function of our past, yet every moment in the market is unique even though there may be similarities to something that occurred in the past.

Therefore you must train your mind to perceive the uniqueness of each moment in the market.

Many traders believe they are accepting the risk by placing the trade and establishing a stop loss. However this is not necessarily the case. They may act in a responsible manner but not actually believe they will be stopped out or that they trade will move against them. Therefore they have not truly accepted the risk and are not able to face the possibility that their analysis is wrong.

When you train your mind to think in probabilities, it means you have fully accepted all possibilities with no internal conflict, and you always take action, and always take the unknown forces into account. Thinking this way is nearly impossible unless you have done the mental work required to let go of the need to know what is going to happen next.

Successful traders who have learned to think in probabilities are confident in their overall success because they commit themselves to take every trade that conforms to their definition of an edge. They do not try to pick and choose the edges they think, assume or believe are going to work, nor do they avoid edges that they believe won't. If they did they would be contradicting their belief that the "now" moment is always unique, thus creating a random distribution between wins and losses on any given string of edges. By taking every edge you increase your sample size of trades, which in turn gives whatever edge you have ample opportunity to play itself out in your favor. Successful traders have learned that trading has nothing to do with being right or wrong on any given trade.

The best traders may have just as much negative emotional baggage as unsuccessful traders. But as long as they legitimately define trading as a probabilities game, their emotional response to any outcome of an individual trade is equivalent to how a typical trader feels about flipping a coin, calling heads, and seeing the coin come up tails. A wrong call for most people would not tap into their accumulated pain of every other time they were wrong in their lives. Most people realize that the outcome of a coin toss is random thus they expect a random outcome. Randomness implies some degree of uncertainty. If you believe in a random outcome, there is an implied acceptance that you do not know what the outcome will be. When you accept in advance of an event that you don't know the outcome, that acceptance has the effect of keeping our expectations neutral.

### **A probabilistic mindset pertaining to trading consists of five fundamental truths.**

- 1. Anything can happen.*
- 2. You don't need to know what is going to happen next in order to make money.*
- 3. There is a random distribution between wins and losses for any given set of variables that define an edge.*
- 4. An edge is nothing more than an indication of a higher probability of one thing happening over another.*
- 5. Every moment in the market is unique.*

This makes relevant the paradox: In what way does a trader have to learn to be both flexible and rigid at the same time? Traders must have rigid rules and flexible expectations.

Once a trader has accepted the five truths your expectations will always be in line with the psychological realities of the market environment. With the appropriate expectations you will eliminate your potential to define and perceive market information as painful or threatening thus neutralizing the emotional risk of trading

## *Working with Beliefs*

The next step is to properly integrate the five fundamental truths into your mental environment at a functional level.

At the most fundamental level the market is simply a series of up and down ticks that form patterns. Using technical analysis you can begin to define these patterns as edges. Any pattern defined as an edge is simply an indication that there is a high probability that the market will move in one direction or another. As discussed earlier this can create a mental paradox. The repeating patterns imply consistency but the reality is that each pattern is unique. The underlying force behind each pattern is traders, and traders that contribute to the current pattern are different from the traders that formed any previous pattern. Thus the outcome for each pattern is random relative to one another. Our mental association mechanism makes this paradox difficult to deal with.

As discussed earlier it is not the market that causes us to experience a negatively charged state of mind, it is our personal perceptions and interpretations of market information that create emotional duress. If this is the case then what determines what we perceive and how we define and interpret information?

Our beliefs working in conjunction with the association and pain-avoidance mechanisms act as a force on our five senses, causing us to define, perceive, and interpret market information in ways that are consistent with our expectations. Expectations are based on our beliefs or what we assume to be true. Expectations are beliefs projected into some future moment.

Each moment in the market is unique yet the information being generated is similar in quality to something that already exists out in minds, the two sets of information (inside and outside) automatically become linked. This connection triggers a state of mind (confidence, euphoria, fear, frustration, etc.) that corresponds to whatever belief, assumption or memory the outside information was linked to. This makes it seem like what is outside is exactly the same as whatever is already inside us.

Our state of mind makes whatever we perceive outside of us seem indisputable. Our state of mind is always the absolute truth. If you feel confident you are confident. If you feel afraid, then you are afraid. You can't dispute the quality of energy that is flowing through your mind and body at any given moment. Since you know as an undisputable fact how you feel you can conclude that you can know the truth of what you are perceiving outside of yourself in the same moment. The problem is that how we feel is always absolute truth, however, the beliefs that triggered the state of mind or feeling may or may not be true relative to the possibilities that exist in the market at any given moment.

This association process can cause us to believe we "know" what to expect from the market, when in reality there are always unknown forces operating at every moment. The moment we think we know what to expect we stop taking into consideration all of the unknown forces and possibilities created by those forces into consideration. As traders we cannot afford to indulge ourselves in any form of knowing what to expect from the market.

We can "know" what our edge looks like, and we can "know" exactly how much we will risk to find out if that edge is going to work. We can "know" that we have "rules of engagement" to manage the trade and take profits. That is all we can know.

Making money consistently is a by-product of acquiring and mastering certain mental skills. The degree to which you understand this is the same degree to which you will stop focusing on the money and start focusing on how you can use your trading to master these skills.

Consistency results from a carefree, objective state of mind, where we make ourselves available to perceive and act upon whatever the market is offering us (from its perspective) in any given "now moment".

To be carefree means to be confident but not euphoric with a complete acceptance of risk. You must reconcile anything in your mental environment that conflicts with the five fundamental truths and integrate these truths into your mental system as core beliefs.

#### How the Fundamental Truths Relate to the Skills

1. **Anything can happen.** As discussed there are always unknown forces working on the market. Any exceptions that exist in your mind will be a source of conflict and may cause you to perceive market information as threatening.
2. **You do not need to know what is going to happen next in order to make money.** Based on your historical testing you know the percentage of winners and losing trades you will have in any give sample size. However there is a random distribution between wins and losses. This truth makes trading a probability and numbers game. When you truly believe that trading is a numbers game your expectations will be in harmony with the possibilities. Market information is only threatening if you are expecting the market to do something for you.

However if you believe that all you need to know is: The odds are in your favor before you put on the trade, how much it is going to cost to find out if the trade is going to work, you don't need to know what is going to happen to make money on the trade, and anything can happen. Then the market cannot make you wrong! Your expectations will always be in harmony with the conditions, as they exist from the markets perspective, neutralizing your potential to experience emotional pain. If you truly believe that trading is a probability game then a losing trade or series of trades should not have an effect on you. If your edge truly puts the odds in your favor, then every loss makes you that much closer to a win.

3. **There is a random distribution between wins and losses for any given set of variables that define an edge.** If every loss puts you that much closer to a win, you will be waiting ready and willing to take the next trade "set up". If you lack this conviction you may anticipate the next edge with trepidation. You may start gathering evidence for or against the trade. If the fear of missing out is stronger, you will gather information in favor of the trade; if you fear another loss you will gather information against it. In either case you will not be in a carefree mind-set.
4. **An edge is nothing more than an indication of a higher probability of one thing happening over another.**

Creating consistency requires that you completely accept that trading is not about hoping, wondering, or gathering evidence one way or the other to determine if the next trade will work. The only evidence you need to gather is whether the variables you use to define your edge are

present at any given moment. If the market is offering you a legitimate edge, determine the risk and take the trade.

5. **Every moment in the market is unique.** If each moment is like no other then there is nothing at the rational level of your experience that can tell you for sure that you “know” what will happen next. Training your mind to believe in the uniqueness of each moment this belief will act as a counteracting force neutralizing the automatic association process. The stronger your belief in the uniqueness of each moment the lower your potential to associate. The less you’re potential to associate, the more open your mind is to perceive what the market is offering from its perspective.

If you are at peace with not knowing what is going to happen next you can operate and interact with the market from perspective where you will be making yourself available to let the market tell you from its perspective what is likely to happen next.

### The Nature of Beliefs

The task now is to learn how to properly integrate the five fundamental truths into your mental system as core beliefs that are not in conflict with any other beliefs you hold.

Understanding a concept is only a first step in the process of integrating that concept at a functional level. This is particularly true of concepts that deal with thinking in probabilities. Our minds are not naturally wired to be “objective” or in the moment. This means you have to actively train your mind to think from these perspectives.

In addition to training there may be a number of conflicting beliefs to work through.

As you may recall memories, beliefs and distinctions exist in the form of structured energy. These three mental components have been lumped together to illustrate: They do not exist as physical matter; the cause and effect relationship that exist between ourselves and the external environment brings these components into existence; how the cause and effect relationship reverses so that we can perceive in the external environment what we have learned about.

To illustrate the difference between a memory and belief we will have to unbundle these components to get at the origins of our beliefs. Imagine yourself as an infant. At the beginning of your life the memories of your experiences exist in their purest form. The memories of what you have seen, heard, smell, touched or tasted exist in your mind as pure sensory information, not attached to any specific words, or concepts. This is pure memory as sensory information in its original form.

A belief on the other hand is a concept about the nature of the way the external environment expresses itself. A concept combines pure sensory information with a symbol system we call language. When positive or negative energy from our memories or experiences become linked to a

set of words we call a concept, the concept becomes energized and is transformed into a belief about the nature of reality (life is wonderful, life isn't fair). If you consider that concepts are structured by the framework of language and energized by our experiences and it becomes clear why belief can be referred to as "structured energy".

What does a belief do, once it comes into existence? One of the prominent characteristics of beliefs is that they make what we experience seem self-evident and beyond question. Even though beliefs are an intricate part of our identity you do not have to take the process of self-analysis too personally.

None of us were born with any of our beliefs. They were acquired in a number of ways. Many of our beliefs that continue to have profound impacts on our life were acquired without and act of free will. They were instilled by other people or by society at large. Many beliefs that may be causing us the most difficulty may have been acquired without our conscious consent. We may have been too young and uninformed to realize the negative implications of what we were being taught.

Regardless of the source of our beliefs, once adopted they all basically function in the same way. Beliefs have certain characteristics ways in which they manifest themselves similar to various parts of our bodies. If you compare the eyes or hands or blood of two people they are not exactly the same but have similar characteristics that cause them to function in similar ways. By the same token the belief that "life is awful" will perform its function in the same ways as "life is wonderful". The beliefs are different and their effect that each has on the quality of the holder's life will be vastly different, but both beliefs will function in exactly the same manner.

In the broadest sense our beliefs shape the way we experience our lives. As beliefs are acquired and accumulate we live our lives in a way that reflects what we have learned to believe. Consider for instance how different your life would be if you were born into a different culture, religion or political system that has very little in common with the one you were born into. What you learned to believe about the nature of life and how the world works may not be remotely similar to what you currently believe. However you would hold these beliefs with the same degree of certainty as your current beliefs.

### How Beliefs Shape Our Lives

1. They manage our perception and interpretation of environmental information in a way that is consistent with what we believe.
2. They create our expectations. An expectation is a belief projected into some future moment. Since we cannot expect something we don't know about, we could say that an expectation is what we know projected into some future moment.
3. Anything we decide to do or any outward expression of behavior will be consistent with what we believe.
4. Our beliefs shape how we feel about the results of our actions.

Remember that how we feel (the relative degree of positively or negatively charged energy flowing through our bodies and minds) is always the absolute truth, (you feel confident you are confident). However the beliefs that prompt any particular state of mind may not be the truth with respect to the possibilities from the environments perspective.

If beliefs limit our awareness of the information being generated by the physical environment, so that what we perceive is consistent with whatever we believe, then how do know what the truth is? Consider these ideas.

1. The environment can express itself in an infinite combination of ways. When you combine all the forces of nature interacting with everything created by humans, and then add to that the forces generated by all the possible ways people can express themselves, the result is a number of possible versions of reality that would surely overwhelm even the most open-minded person.
2. Until we have acquired the ability to perceive every possible way in which the environment can express itself, our beliefs will always represent a limited version of what is possible from the environment's perspective, making our beliefs a statement about, but not necessarily a definitive statement of reality.
3. If you find yourself taking exception to the second statement consider if your beliefs were true, 100% accurate reflection of physical reality then our expectations would always be fulfilled. If our expectations were always fulfilled, we would be in a constant state of satisfaction. How could it be otherwise if physical reality was consistently showing up exactly as we expected it to?
4. If this is true then the corollary is also true. If we are not experiencing satisfaction, then we must be operating out of a belief or beliefs that don't work very well relative to the environmental conditions.

Taking this into consideration we can better answer the question "what is the truth?" The answer is whatever works. If beliefs impose limitations on what we perceive as possible, and the environment can express itself in an infinite combination of ways, then beliefs can only be true relative to what we are attempting to accomplish at any given moment. In other words, the relative degree of truth inherent in our beliefs can be measured by how useful they are.

We all have internally generated forces (curiosity, needs, desires, and goals) that motivate us to interact with the physical environment. The particular steps we take to fulfill the object of our curiosity, needs, desires, goals is a function of what we believe to be true in any given circumstance or situation. The truth whatever it is, will determine: the possibilities we perceive in relation to what is available from the environment's perspective, how we interpret what we perceive, the decisions we make, our expectations of the outcome, the action we take, how we feel about the results of our efforts.

Simply put the truth is a function of whatever works in relation to what we are trying to accomplish at any given moment.

If the external environment can express itself in an infinite combination of ways, then there is really no limit to the number and types of beliefs available to be acquired about the nature of our existence. In other words there is a lot out there to be learned about. Yet the nature of humanity suggests that we don't live our lives in a manner consistent with that statement. If it is true that it is possible to believe almost anything, then why is it we are always arguing and fighting with each other? Why isn't it all right for us to express our lives in a way that reflects what we have learned to believe?

There must be something behind our relentless attempt to convince others of the validity of our beliefs and deny the validity of theirs. Consider that every conflict from the least to the most significant, whether between individuals or nations is always the result of conflicting beliefs. What about our beliefs make us intolerant of divergent beliefs?

It may be that beliefs are not only structured energy but also energy that seems to be conscious, to the extent of having some degree of awareness. Otherwise, how could we account for our ability to recognize on the outside what is on the inside? How would we know our expectations are being filled?

That energy has a degree of awareness is a difficult concept to accept. There are several observations that support this possibility. For instance, everyone wants to be believed. It matters not what the belief, the experience of being believed feels good. These positive feelings may be universal. Conversely no one likes to be disbelieved. It does not feel good. If someone says they don't believe you, a negative feeling would resonate through your body and mind, this is also universal. By the same token no one likes to have their beliefs challenged. Everyone seems to respond in the same way. Thus arguing for, and defending your beliefs or attacking back.

When expressing ourselves we seem to like to be listened to. Conversely it is difficult to be an open listener, without thinking about how we are going to express ourselves the moment we can politely or rudely interrupt the person speaking. What is the compelling force behind our inability to listen without waiting to interrupt?

Being with people with similar beliefs feels comfortable and secure. We avoid people or conversation that is conflicting with our beliefs. Basically the moment we acquire a belief, it seems to take on a life of its own, causing us to recognize and be attracted to its likeness and repelled by contradictory beliefs. Considering the vast number of divergent beliefs that exist, if these feelings of attraction or comfort, and being repelled or threatened are universal, then each belief must somehow be conscious of its existence, and this conscious, structured energy must behave in characteristic ways that are common to us all.

There are three characteristics you need to understand in order to effectively install the five fundamental truths at a functional level in your mental environment: Beliefs seem to take on a life of their own, therefore they resist any force that would alter their present form, all active beliefs demand expression, beliefs keep working regardless of whether we are consciously aware of their existence in our mental environment.

Beliefs resist any force that would alter their present form. We may not understand this dynamic of how beliefs maintain their structural integrity but we can observe that they do so even under extreme pressure or force. Throughout human history, there are many examples of people whose belief in some issue or cause was so powerful that they chose to endure indignities, torture, and

even death rather than express themselves in a way that violated their beliefs. This is a demonstration of just how powerful beliefs can be and the degree to which they can resist any attempt to be violated or altered in any way.

Beliefs seem to be composed of a type of energy or force that naturally resists any other force that would cause them to exist in any form other than their current form. This does not mean they cannot be altered it just means that we have to understand how to work with them. Beliefs can be altered just not in the way you may think. Once a belief has been formed it cannot be destroyed. There is nothing we can do that would cause a belief to cease to exist or to evaporate as if it never existed. This assertion is founded in the basic law of physics. Energy can neither be created nor destroyed; it can only be transformed. If beliefs are energy-structure, conscious energy that is aware of its existence- then if we try to eradicate them it is not going to work.

The easiest way to work with our beliefs is to gently render them inactive by drawing the energy out of them. This is called de-activation. After de-activation, the original structure of the belief remains intact, so technically it has not change. The difference is that the belief no longer has any energy. Without energy, the belief does not have the potential to act as a force on our perception of information or on our behavior.

One example could be that as a young child many of us were taught to believe in Santa Claus, or the tooth fairy. In most cases these are examples of now inactive nonfunctional beliefs. Even though they are inactive they still exist in our mental system, they just exist without any energy.

As you sit reading this if someone came up to you and said Santa Claus was at the door you would treat it as a joke or as irrelevant. However if you were five years old and were taught to believe in Santa Claus and it had a positive connotation you would instantly be charged with positive energy that would compel you to jump up and race to the door.

Once you learned Santa Claus did not exist it did not destroy your belief in Santa Claus nor cause it to exist it just took all of the energy out of the belief. It was transformed into a nonfunctional, inactive concept about how the world works. Now you have two contradictory distinctions about the nature of the world that exist in your mental system. One is that Santa Claus exists, the other that he doesn't. The difference between them is the amount of energy they contain. The first has virtually no energy the second has energy. Thus from a functional perspective, there is no contradiction or conflict.

The secret to effectively changing our beliefs is in understanding and consequently believing that we really aren't changing our beliefs we are simply transferring energy from one concept to another, one that will help us to fulfill our desires or achieve our goals.

All active beliefs demand expression. Beliefs fall into two basic categories: inactive and active. Active beliefs are energized. They have enough energy to act as a force on our perception of information and our behavior. Inactive beliefs are just the opposite, for whatever reason they no longer are energized thus they no longer act as a force on our perception of information or how we express ourselves.

Demanding expression does not mean that every belief in our mental environment is demanding expression simultaneously.

Once something taps into our beliefs it seems as if we can't stop the flood of energy that is released. This is particularly true about beliefs we are passionate about. You may feel compelled to express your belief or not depending on your circumstances. For instance if you were talking to a superior at work you may not express your belief then and there but perhaps you will when you get home to your spouse. Perhaps you will just run your belief or argument using your internal dialogue. One way or another, your belief gets expressed, particularly if someone states a conflicting view.

What happens when one or more of your beliefs are in conflict with our intents, goals, desires, or dreams? This conflict can have a profound effect on your trading. As discussed beliefs create distinctions in how the external environment can express itself. Distinctions by definition are boundaries. Human consciousness on the other hand appears to be larger than the sum total of everything we have learned to believe. This expanded quality of human consciousness gives us the ability to think in any direction we choose, either inside or outside of the boundaries imposed by our beliefs. Thinking outside the boundaries is often referred to as creative thinking. When we purposely choose to question a personal belief we make our minds available to receive a brilliant idea, inspiration, or solution to the issue at hand.

Creativity by definition brings forth something that didn't previously exist. Often these creative ideas can cause us to be attracted to, or desire something, that is in direct conflict with one or more of our beliefs. Consider for example that you were always a losing position trader looking for long-term moves. Your belief was in long-term trends and swings. You never saw the relevance, in fact you never even considered, or believed in day trading. One day you discovered a day trading approach that made sense and seemed to fit your personality. In fact you loved the methodology and results when you tested it historically. Even though you loved the method however, you still got poor results. You changed your belief in what was possible as a trader but your results were the same, losses. Your new belief in a proven winning system is in conflict with your old habits of being a losing trader. Even though the new system has promise, the old habits and expectations from the market have a stronger energetic force thus creating frustration.

To overcome this frustration you must take the energy out of (de-activate) the old habits and beliefs and replace them with a new energized belief and habits. To de-activate the old habits and beliefs, you need to positively charge the new beliefs. This may require quite a bit of effort and time. Little by little with each successive positive experience you take energy out of the old beliefs and create positive energy for the new belief. If there are conflicting beliefs and we aren't willing to expend the effort to de-activate the negatively charged belief then acting on our new belief will be a struggle at the very least and perhaps impossible.

Even though the new system has a proven edge and you accept the idea of the nature of probabilities and you "know" the next trade is simply another in a series of trades that has a probable outcome, you still hesitate. You are still susceptible to several of your fear-based trading errors. What is the source of your potential to interpret the market information as threatening? Our expectation! When the market doesn't conform to what we expect the up and down movements seem to take on a threatening quality. Consequently, we experience anxiety, stress, or fear. What is the source of our expectation? Our beliefs!

If you are still experiencing negative states of mind when you trade you must assume that there is a conflict between what you "know" about the nature of probabilities and any number of other beliefs in your mental environment that are arguing (demanding expression) for something else. Keep in mind that all active beliefs demand expression even if you do not want them.

When you believe at a functional level that every edge has a unique outcome (it is a dominant belief without other beliefs arguing for something different), you will experience a state of mind that is free of fear, stress, and anxiety when you trade. Until we actively train our minds to expect a unique outcome we will continue experiencing only what we know. When you truly believe that you don't need to know, you will be thinking in probabilities. Then you will have no reason to block, discount, distort, or deny anything the market is offering about its potential to move in any particular direction.

## *Thinking like a Trader*

Trading distilled down to its simplest form is a pattern recognition numbers game. We use analysis to identify patterns, define risk and determine profit targets. The trade works or it doesn't. In either case we go on to the next trade. This is simple to conceive difficult to do. Trading is hard because you must operate in a state of not having to know, even though your analysis may at times prove you to be correct. To operate in a state of not having to know you have to properly manage your expectations. To manage your expectations you must align your mental environment so that you believe without a shadow of doubt in the five fundamental truths.

*Now we will go through the three stages of development of a trader. The first stage is the mechanical stage. In this stage, you:*

- 1. Build the self-trust necessary to operate in an unlimited environment.*
- 2. Learn to flawlessly execute a trading system*
- 3. Train your mind to think in probabilities (the five fundamental truths).*
- 4. Create strong, unshakable belief in your consistency as a trader.*

Once you have mastered this stage, you can advance to the subjective stage. In this stage you can use anything you have learned about the nature of market movement to do whatever you want. There is a lot of freedom in this stage but you must verify before hand that what you choose to trade has statistical relevance.

The third stage is the intuitive stage. This is the most advanced stage. You cannot try to be intuitive because intuition is spontaneous. It is a difficult stage to master because the rational mind often overrides intuitive signals.

## Mechanical Stage

The mechanical stage is designed to build trading skills (trust, confidence, and thinking in probabilities that will virtually compel you to create consistent results.

Eliminating errors and expanding your sense of self-valuation will require the acquisition of skills that are psychological in nature. These skills are psychological because each of them in their purest forms is simply beliefs. How truthful a belief is can be determined by how well it serves us; the degree to which it helps us to satisfy our objectives. If producing consistent results is your main objective as a trader, then creating a belief (a conscious energized concept that resists change and demands expression) that "I am a consistently successful trader" will act as a primary source of energy that will manage your perceptions, expectations, and actions in ways that satisfy the belief and, consequently, the objective.

Creating a dominant belief requires adherence to several principles of consistent success. Some of these principles will likely be in direct conflict with some of the beliefs you have already acquired about trading. This is a classic example of beliefs that are in direct conflict with desire.

To overcome this conflict and transform yourself into a consistent winner you must first be willing to change, have clarity of intent, and a strong desire. You must at every turn choose consistency over every other reason or justification you have for trading.

The first step in creating consistent results is to begin observing what you are thinking, saying, and doing. These actions reinforce and contribute some belief in your mental system. You must start paying attention to your various psychological processes.

The idea is to become an objective observer of your thoughts, words and deeds. Your first line of defense in avoiding a trading error is to catch yourself thinking about it. The last line of defense is to catch yourself in the act of making a mistake. If you do not commit yourself to becoming an observer then your realizations will always come after the experience, usually when you are in a state of frustration and regret.

Observing yourself objectively implies doing so without judgment or criticism. Most of us, to avoid emotional pain, typically avoid acknowledging our mistakes. However, not acknowledging our mistakes in daily life usually does not have the same disastrous consequences it can have as not confronting our mistakes as traders. If producing consistent results is a function of eliminating errors then it is an understatement to say that you will encounter great difficulty in achieving your desires if you can't acknowledge a mistake.

If our beliefs are not consistent with what works from the environment's perspective, the potential for making mistakes is very high. We will have difficulty perceiving the appropriate steps to reaching our objective. Even worse we may not be able to perceive that what we want may not be available, or available in the quantity or time we desire.

On the other hand, mistakes that are the result of beliefs that are in conflict with our objectives are not always apparent or obvious. We do know that they will act as opposing forces, expressing their versions of the truth on our consciousness. One of the most difficult to detect is a distracting thought that causes a lapse in focus. Depending on your money management skills and the risk in your open position this lapse can be disastrous.

Mistakes simply point the way to where you need to focus your efforts to grow and improve your trading. Mistakes should not exist in any kind of negatively charged context as, they are held by most people.

When you notice that you are not focused on your objective choose to redirect your thoughts, words and actions in a way that is consistent with what you want to accomplish. The more willfully you engage in this process, and do so with conviction, the faster you will create a mental framework free to function in a way that is consistent with your objectives.

This process of continually redirecting your thoughts, words, and actions as often as needed is the process of self-discipline. Self-discipline is a mental technique to redirect your focus of attention to the object of your goal or desire. This is a learned technique not a personality trait. People are not born with self-discipline. If there is anything in your mental environment that is in conflict with the principles of creating the belief that “I am a consistently successful trader” then you will need to employ self-discipline to integrate these principles as a dominant functioning part of your identity. Once the principles become internalized and become “who you are” you will no longer need self-discipline because the process of becoming consistent will become effortless.

### *Creating a Belief in Consistency*

The following sub-beliefs are the building blocks that provide the foundation for what it means to be a consistent winner.

**I am a consistent winner because:**

1. I objectively identify my edges.
2. I predefine the risk of every trade.
3. I completely accept the risk or I am willing to let go of the trade.
4. I act on my edges without reservation or hesitation
5. I pay myself as the market makes money available to me.
6. I continually monitor my susceptibility for making errors.
7. I understand the absolute necessity of these principles of consistent success and, therefore, I never violate them.

To integrate these principles into your mental system at a functional level requires that you purposefully create a series of experiences that are consistent with them.

The first principle above has the key word, objectively. Being objective means you operate out of beliefs that keep your expectations neutral and to always take the unknown forces into consideration. This requires that you specifically train your mind to be objective and stay focused on the “now moment opportunity flow”. You must learn to be an objective observer and think from the markets perspective (every moment is truly unique).

To establish the dominant belief “I objectively identify my edges” requires a transformation. This process of transformation starts with your desire and your willingness to refocus on the object or your desire (self-discipline). Desire is force. A clear desire aimed squarely at a specific objective is a very powerful tool for change. You can use the force of your desire to create an entirely new

version or dimension to your identity; shift energy between two or more conflicting concepts; or change the context or polarity of your memories from negative to positive.

If there is enough force behind your resolve, it is possible to experience a major shift in our mental structure virtually instantaneously. De-activating internal conflicts is not a function of time, it is a function of focused desire (although it can take a considerable amount of time to get to the point where we really make up our minds).

You must "make up your mind" with as much conviction and clarity as possible, that more than anything else you desire consistency (the state of mind of trust, confidence, and objectivity) from your trading.

## *Exercise*

The objective of this exercise is to convince your self that trading is just a game of probabilities. At the micro level, the outcomes to individual trades are independent occurrences and random in relationship to one another. At the macro level, the outcomes over a series of trades will produce consistent results.

**From a probabilities perspective you can obtain consistent results if:**

1. you have an edge that genuinely puts the odds of success in your favor;
2. you can think about trading in the appropriate manner (the five fundamental truths); and
3. you can do everything you need to do over a series of trades.

### Setting up the Exercise

Choose a market that is liquid you can afford the margin requirements and you can afford three hundred shares or three futures contracts per trade.

Define in detail your edge. This can be any trading system you want. Be certain your system puts the probabilities in your favor over time. If you do not know if your system puts the odds in your favor then test it historically. Track it in a spreadsheet and verify that you do in fact have an edge.

Define your entry, stop loss, profit targets and time frame. As important as it is in predefining your risk before opening a trade and placing a stop loss, it is equally important to take profits. To establish a belief in yourself that you are a consistent winner then you need to create experiences that correspond with that belief. The object of the belief is winning consistently, how you take profits in a winning trade is of paramount importance.

### Trading in sample sizes.

Most traders practically live or die (emotionally) on the results of the most recent trade. If it was a winner he will gladly put on the next trade; if it was a loss he will start questioning the viability of his edge. To verify that your variables work you need a systematic approach, one that does not take any random variables into consideration. This means that you will have to expand your

definition of success or failure from the limited trade-by-trade perspective to a sample size of 20 trades or more. You need a viable sample size to compensate for the variables that are always present in the markets.

### **Accepting the risk.**

Be sure before starting your 20 sample trading exercise that you know the risk in advance. This means being able to know and accept the result of a worst-case scenario. This scenario of course would be 20 losses in a row. Know what this means in dollar terms and make sure you are comfortable with it. If you are not comfortable reduce your dollar value of each trade and or find a market that allows you to reduce this risk.

### **Doing the exercise.**

The rules are simple. Trade your plan exactly as you have designed it. This means committing yourself to trading at least the next 20 occurrences of your edge. Not just next couple of trade but all twenty no matter what! To realize the benefit of having the odds in your favor you must participate in every trade. You cannot choose which edges you will participate in, as this will skew your results.

If you believe in the five fundamental truths and you believe trading is just a probabilities game then you will find the exercise to be effortless. Your desire to follow through with your commitment to take every trade in your sample size and your belief in probabilities will be in harmony.

Conversely, it is more likely that this exercise is going to create a major collision between your desire to think objectively in probabilities, and all the forces inside you that are in conflict with this desire. The amount of difficulty you have in completing this exercise will be in direct proportion to the degree to which these conflicts exist.

The way to handle these conflicts is to monitor yourself and use the technique of self-discipline to refocus on your objective. Write down the five fundamental truths and the seven principles of consistency, read them and keep them in front of you at all times. Repeat them with conviction several times a day. Every time you notice you are thinking, saying, or doing something that is in conflict with these truths or principles acknowledge it. Do not try to deny the existence of the conflicting forces within you.

When this happens refocus on what it is you are trying to do. If your purpose is to think objectively then refocusing will disrupt the negative association process so that you can remain in the "now moment" opportunity flow.

Every time you actually do something that confirms one of the five fundamental truths you will draw energy out of the conflicting beliefs, and add energy to a belief in probabilities, and thus increase your ability to produce consistent results. Eventually your new beliefs will become so powerful that it will take no conscious effort at all to think and act in a way that is consistent with your objectives. Thinking in probabilities will be a part of your identity!

