40 Bits of Wisdom

All of the successful traders we know blew out their account at least once before becoming consistently profitable on an annual basis. (Or monthly, or weekly, depending on their goals and trading style). These "bits" are not meant to make you a conservative or hesitant trader. On the contrary, trading takes guts, and by following these "bits of wisdom" you are being given the key that will allow you to embrace risk and take the necessary chances required in the pursuit of capital gain. That is, you will feel more compelled to take a chance, because you know you are also going to fight to protect your capital. You won't freeze and lie helpless as it is whittled away.

This is the greatest business in the world. By following the “bits of wisdom” below we hope that you can stay in this business as long as you choose.

40 Bits Of Wisdom

1. Trading is simple, but it isn’t easy. If you want to stay in this business, leave "hope" at the door and stick to your stops.

2. When you get into a trade, start looking for signs right away that you are wrong. If you see them, then get out before your stop is hit.

3. Trading should be boring, like factory work. If there is one guarantee in trading, it is that "thrill seekers" get their accounts ground into parking meter money.

4. Amateur traders turn into professional traders when they stop looking for the "next great technical indicator" and start controlling their risk on each trade.

5. You are trading other traders, not the actual stock. You have to be aware of the psychology and emotions behind trading.

6. Be very aware of your own emotions. Irrational behavior is every trader's downfall. If you are yelling at your computer screen, imploring your stocks to move in your direction, you have to ask yourself, "Is this rational?" Ease in. Ease out. Keep your stops. No yelling.

7. Watch yourself if you get too excited—excitement increases risk because it clouds judgment.

8. Don’t overtrade—be patient and wait for 3-5 good trades.

9. If you come into trading with the idea of making “big money,” you are doomed. This mindset is responsible for most accounts being blown out.

10. Don’t focus on the money. Focus on executing trades well. If you are getting in and out of trades rationally, the money will take care of itself.

11. If you focus on the money, you will start to impose your will upon the market in order to meet your financial needs. There is only one outcome to this scenario: you will hand over all of your money to traders who are focused on protecting their risk and letting their winners run.

12. The best way to minimize risk is to not trade. This is especially true during the low-volume “chop and slop” found during the afternoon trading session between 11:30AM Eastern and 2:30PM Eastern. If your stocks are not acting right, then don't trade them. Just sit and watch them and try to learn something. By doing this you are being proactive in reducing your risk and protecting your capital.

13. There is no need to trade 5 days per week. Trade 4 days per week and you will be sharper during the actual time you are trading.

14. Refuse to damage your capital. This means sticking to your stops and sometimes staying out of the market.

15. Stay relaxed. Place a trade and set a stop. If you get stopped out, who really cares? You are doing your job. You are actively protecting your capital. Professional traders actively take small losses. Amateurs resort to hope and sometimes prayer to save their trade. In life, hope is a powerful and positive thing. In executing a trade, hope is a virus that can infect and destroy.

16. Be right on day one or get out. Don't take a "red" position home overnight.

17. Keep winners as long as they are moving your way. Let the market take you out on a trailed stop.

18. Money management is the secret to success. Don't overweight your trades. The more you overweight a trade, the more "hope" comes into play when it goes against you. Hope is to trading as acid is to skin. The longer you leave it in place, the more painful the outcome will be.

19. There is no logical reason to hesitate in taking a stop. Reentry is only a commission away.

20. Professional traders take losses. Being wrong and not taking a loss does damage to your wallet, mind, and soul.

21. Once you take a loss you forget about the trade and move on. Especially if it is a small one. Do yourself a favor and take advantage of any opportunity to clear your head by taking a small loss.

22. You should never let one position go against you by more than 2% of your account equity. This means if you have a $50,000 trading account, you should never let one stock turn into a loss of more than $1,000. This means if you max out your 2 to 1 margin account and buy 2000 shares of a $50 stock, you must have a stop loss of 50 cents. That is tight and bound to get hit. Do yourself a favor and buy 400 shares of this $50 stock and use a $2.00 stop to start. That is only an $800 dollar loss and gives you room to trail your stop up to break-even before you are taken out on a wiggle. Is there ever a time when it is okay to take more than a 2% portfolio loss on a position? NO! Never means exactly that. This is a maximum loss by the way. Setting up your plays for losses of 1% of your equity is even better.

23. Use daily charts to get an idea of the 30-day trend, hourly charts to get an idea of the 1-day trend, and 5-minute charts to establish your entry points.

24. If you are hesitating to take a position, that indicates a lack of confidence that is not necessary. Just get into the position and PLACE A STOP. Traders lose money in positions everyday. Keep them small. The confidence you need is not in whether or not you are right, the confidence you need is in knowing you will stick to your stop no matter what. Therefore you can actually alleviate this hesitancy to "pull the trigger" by continually sticking to your stops and reinforcing this behavior.

25. Averaging down on a position is like a sinking ship deliberately taking on more water.

26. Build up to a full position as it goes your way.

27. Adrenaline is a sign that your ego and your emotions have reached a point where they are clouding your judgment. Realize this and immediately tighten your stop considerably to preserve profits or exit your position.

28. Look for opportunities NOT to trade.

29. You want to own the stock before it breaks out, then sell it to the momentum players after it breaks out. If you buy breakouts, realize that professional traders are handing off their positions to you in order to test the strength of the trend. They will typically buy it back below the breakout point—which is typically where you will set your stop when you buy a breakout. (In case you ever wondered why you get stopped out on a lot of "failed" breakouts).

30. Embracing your opinion leads to financial ruin. When you find yourself rationalizing or justifying a decline by saying things like, "They are just shaking out weak hands here," or "The market makers are just dropping the bid here," then you are embracing your opinion. Don't hang onto a loser. You can always get back in.

31. Unfortunately, discipline is typically not learned until you have wiped out a trading account. Until you have wiped out an account, you typically think it cannot happen to you. It is precisely that attitude that makes you hold onto losers and rationalize them all the way into the ground. If you find yourself saying things like, "My stock in EXDS is still a good investment," then it is time to start following the basic principals all professional traders follow. (That would be protecting your capital, aggressively cutting your losses, and letting your profits run by not giving in to the temptation to sell just because you have a quarter profit).

32. Siphoning out your trading profits each month and sticking them in a money market account is a good practice. This action helps to focus your attitude that this is a business and not a place to seek thrills. If you want an adventure, go live in Minnesota for a winter. If you want excitement, deliberately forget your anniversary. Just don't trade.

33. Professional traders only place a small portion of their assets into 1 position. Or if they take on a large position, then they strictly limit their risk to 1-2% of their current equity. Amateurs typically place a large portion of their assets into 1 position, and they give it "room to move" in case they are actually right. This type of situation creates emotions that ruin accounts, while professionals are able to make decisions and cut losses because they strictly define their risk.

34. Professional traders focus on limiting risk and protecting capital. Amateur traders focus on how much money they can make on each trade. Professionals always take money away from amateurs.

35. In the stock market, heroes get crushed. Averaging down on a losing position is a "heroic move" that is akin to Superman taking a spoonful of Kryptonite. The stock market is not about blind courage. It is about finesse. Don't be a hero.

36. Sadly, traders never learn the importance of "the rules" until they have blown their account out of the water. Until you "lose it all" it never seems that important to have to follow the basics of professional trading. (Cut your losses, let your profits run, etc).

37. The market reinforces bad habits. If early on you held onto a loser that went against you by 20%, and you were able to get out for break-even, you are doomed. The market has reinforced a bad habit. The next time you let a stock go against you by 20%, you will hang on because you have been taught that you can get out for break-even if you just be patient and hang on long enough. Tell that to the folks who bought VERT at $145. When's it going to get back to break-even? Well, if your timeframe is "never," then you have nothing to worry about. Control your risk by sticking to your stops.

38. This next “bit” is brutal, but true. The true mark of an amateur trader who is never going to make it in this business is one who continually blames everything but his or herself for the outcome of a bad trade. This includes, but is not limited to, saying things like:

1. The analysts are crooks.
2. The market makers were fishing for stops.
3. I was on the phone and it collapsed on me.
4. My neighbor gave me a bad tip.
5. The message boards caused this one to pump and dump.
6. The specialists are playing games.

The mark of a professional, however, sounds like this:

- It is my fault. I traded this position too large for my account size.
- It is my fault. I didn’t stick to my own risk parameters.
- It is my fault. I allowed my emotions to dictate my trades.
- It is my fault. I was not disciplined in my trades.
- It is my fault. I knew there was a risk in holding this trade into earnings, and I didn’t fully comprehend them when I took this trade.

The obvious difference here is accountability. For amateurs, everything having to do with the market is “outside their control.” That is not reasonable thinking, and really just points to an individual who has, probably for the first time, had to confront their “real self” as opposed to the perfect self or idealized self they have constructed in their mind. This is also known as “living in a fog.” A person can drift around through life in their own private world, where they are pretty special and can do no wrong. Unfortunately, trading rips off this mask, because you cannot dispute what has happened to your account. This is also known as “confronting reality.” For many people, when they start trading they are suddenly confronting reality for the first time in their lives. Just to see the world as it really is requires a lifetime of training, and for many people trading the stock market is their first real step in this journey. Some people say that traders are born, not made. Not so. If you choose to see the world as it is, then you can start trading successfully tomorrow.

39. Amateur traders always think, “How much money can I make on this trade!” Professional traders always think, “How much money can I lose on this trade?” The trader who controls his or her risk takes money from the trader whose head is in the clouds.

40. At some point traders realize that no one can tell you exactly what is going to happen next in the market, and that you can never know how much you are going to make on a trade. Thus the only thing left to do is to determine how much risk you are willing to take in order to find out if you are right or not. The key to trading success is to focus on how much money is at risk, not how much you can make.

This is an article from Michael Greco

"One common fact that all successful traders agree on is that a profitible forex system is out there. Just don't give up searching for it".

"If you want to be rich, do what rich forex traders do"

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