



THE SIMPLE FORMULA FOR TRADING SUCCESS

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Since the beginning of time, man has largely been controlled by emotions—fear and greed. When a student of market action allows these emotions to influence his market response, he loses many opportunities in the market. The student must at all times resist these emotions. Confidence and courage are required to overcome fear and greed. Courage is inborn. Confidence is gained by study, study, and more study...John Hill, Founder Commodity Research Institute.

I cannot think of a more fabulous time to be alive and trading. What we are going through will bond us forever in the knowledge that we share a common witness to market history. These markets have tested the mettle of even the most highly-skilled traders.

You are watching the beginning of the great unraveling of years of unmitigated greed and fear. By choosing to play this game you have become willing participants in a struggle for power and wealth unlike anything in our lifetime. During this tsunami, some will survive and prosper, others will become prey to the ravenous market beast, and the rest will drift out into the vast ocean never to be seen again.



The opening quotation from John Hill addresses two important aspects of survival: inborn courage and learned confidence. He says that confidence is gained through study, study, and more study—but fails to tell us what or whom to study. Most of you thought that if you read enough books, joined enough newsletter services, followed the market guru “du jour,” attended expensive seminars or bought the even-more-expensive software, it would lead you to The Holy Grail of trading and investing. Many of you have been sorely disappointed to find that—after all the hype and the hope—the Holy Grail remains elusive. It is important to read and study as much as possible about the markets you are trading in order to devise a trading strategy and trading plan. But there is more. My Trading Wisdom Blog of May 19, 2009 gave our members 13 specific things to do in order to survive and thrive market volatility and avoid risk of ruin.

What great traders know is that true study means going within to discover themselves in the world of money. The markets have been their greatest teacher because the markets have told them who they REALLY are—at the core of their being. Trading and investing are at least 90% psychological. The single reason that most fail in the markets is that they do not take the time or invest the money to understand their thinking in terms of the “Why?” and the “How?” rather than the “What?”

After all is said and done, the message is simple: Trader-- above all—know yourself! The Grail is within you.

During the past year, you saw moves in the markets that took your breath away. Rises and falls that previously took a year were happening in a day. Buy and hold morphed to buy and hope and then to buy

and cry. The new mantra is buy and sell—and be quick about it! Through all of this, we chronicled and were guided by the sentiment roadmap. We trained ourselves over many years to be in close touch with our emotions and the emotions of the millions of others trading with or against us (especially those against us.) We do not believe that markets are totally random or totally rational. We know virtually nothing about fundamental analysis and tend to distrust those who say they do. We know that technical analysis is nothing more than a representation of emotions plotted on a grid to make a chart. By studying charts and using quantitative backtesting, we exploit these emotions to make money.

Here is a complete table of our aggregate trading gains since March 3, 2009:
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Buy when others are despondently selling and sell when others are greedily buying... Dr. Joseph Mark Mobius (legendary investor in emerging markets)

The sentiment roadmap below is a very simplistic representation of the predictable cycle of human emotions.



As markets begin to rise, optimism increases, excitement builds, and making money becomes thrilling. Feel-good chemicals (dopamine and others) flood through the brain. Over a period of time, the bull market finally reaches a level of adoration. The market mistress is now almost impossible to resist and you must have her. Lust and euphoria from the dopamine-drenched rat brain overwhelm all rational thinking. You just have to get in. This is the point of maximal financial risk and traders who do not know

themselves succumb to temptation. Then, the markets start to decline. Anxiety, denial, fear, desperation

and panic follow. Eventually, panic is followed by capitulation, revulsion and despondency. The mistress is now universally hated and looked on as a source of intense pain, suffering and dis-ease. Ironically, it is at this point of maximal pain and revulsion that you are likely to find the point of maximum financial opportunity. Most people have sold and felt immediate--albeit temporary-- relief. Shortly thereafter, when people realize the world is not coming to an end, the markets start to turn up. Hope turns into relief, which then leads to optimism and then the cycle starts all over again. The best traders are constantly in touch with their feelings during this entire cycle. The best traders stay the course, plan their trades and trade their plans. They know that this is a winning formula for trading success:

A= Awareness of Emotions

B=Behavioral Discipline

C= Consistent Practice

AWARENESS OF YOUR EMOTIONAL STATE + BEHAVIORAL DISCIPLINE TO FOLLOW YOUR TRADING STRATEGY/ PLAN+ CONSISTENT PRACTICE= SUCCESS

Genius is the ability to put into effect what is in your mind... F. Scott Fitzgerald

Thanks and Good Trading!

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