

The Enemy Within

We are all familiar with the terms ***Fear and Greed***, or at least we should be. We hear about them all the time. Everyone is always preaching to us about the dangers of these two powerful emotions. But do we actually realise just how powerful they are? And more importantly, how influential they are? After all, they alone are responsible for moving trillions of dollars a day. Now that's real power.

Yes, these two little old emotions are just not given their due.

The good news though is that once you actually understand how they work, and no longer just “know” that they exist, then for the very first time, you will be able to take control of your trading future.

These are the two emotions that single handedly drive the entire currency market...yes...you read it right...emotions drive the price action, not some mysterious force, that you have been struggling to come to grips with.

The market is driven by emotion under the guise of human behaviour and nothing else.

Whether it's a lonely \$500 punter on his home computer, or a large fund manager hedging millions of pension dollars; or perhaps a young buck on the trading floor desperate to carve out his reputation as a respectable trader. They all fight the fight on a daily basis – they wage war constantly against these two forces.

Every half-decent life coach will acknowledge that we are driven primarily by two forces. We are maybe more familiar with them under the more common names of - *Pleasure and Pain*, but nearly all of life is influenced by these two forces, so make sure you know them well – make sure you are able to recognise them under whichever guise they may appear to you. Your mission as a trader is to learn to recognise the power they hold over you and be able to control them from here on out.

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The truth is we move towards pleasure and away from pain, its as simple as that.

We do this on a day to day basis but we don't even know it. Almost every single decision we make is weighed up, in a split second, by our sub consciousness – processed and executed, without us even realizing it. And what's more - we don't even know we are doing it. The reality is though, that the underlying forces behind every action we take are these two powerful forces. Every trading decision we have ever made was governed by these two forces.

Not me I hear you say?

Are you sure about that?

Maybe it isn't all that obvious at first, so let's paint a picture for you. Let's look at a few examples and see if you can picture yourself in any of these scenarios at all?

- ❖ Ever stood on the side line paralysed by fear only to see your trade run away with you?
- ❖ Ever had to utter these words to yourself afterwards? “Darn, why the heck didn't I take the damn trade...I knew it was right, I did all the right analysis...what the hell happened – why didn't I pull the trigger?”
- ❖ Ever got into a trade all too quickly only to be struck by an almost immediate and overwhelming feeling of uncertainty?
- ❖ How many trades have you been in when you suddenly realised that just maybe you had rushed the entry and now you were seeing other criteria backing the opposite view.
- ❖ Ever been in a trade and – against your better judgment – decided to move a stop away, because you just could not afford another loss at that point?
- ❖ How about moving a stop up too soon only to be stopped out, then see the trade fly off in your direction, but your are no longer in it?

These are only a handful of the day to day “mistakes” that traders have been making for as long as the currency market has been around and in fact as long as any market has been around.

And that’s the real problem here – by the time we figure this all out, and realise just what is going on, we are broken, and yes, probably broke traders, with little resolve left to continue the fight.

I have been conducting surveys with traders for, as I said, a long time now, and I can go over every survey...and it doesn’t matter if it was from 1999 or 2009. I will show you a common thread running through all these surveys?

Was it immediately obvious at first?

No not at all.

Why?

Well because I wasn’t looking for it.

I was looking for what it was that every trader wanted!

I was looking for answers to questions I have long been asking myself.

Why does every trader seem to struggle so much, and why do so many fail?

I wanted to give them answers...the problem is none of them knew what they were looking for. They wanted solutions...

- ❖ They wanted a better system
- ❖ They wanted a proven track record
- ❖ They wanted someone to trade for you (perhaps a robot)
- ❖ They wanted to know the “secrets”
- ❖ They wanted to know what broker to use
- ❖ They wanted to know what charting package to buy
- ❖ They wanted to know if we could trade a managed fund for you
- ❖ They wanted a signal service

Well you know what – they had all of that already...and you know what’s more?

Most of them still struggled...even with all the right answers!

So tell me what the hell is wrong with this picture then?

Are we all too stupid?

Perhaps we are all too inexperienced?

Perhaps all the so called experts are just crappy teachers?

Maybe the odds are so stacked against us that we never stood a chance anyway?

Well the truth of the matter is that none of those are correct. None of this matters one damn bit in the end. You can have the best charting, the best “ninja/guru” teacher....I sure know that you aren't stupid – so what is it then?

Well you should have got to some realization by now...if not then maybe I was wrong in my last assumption after all ;-)

You should be thinking to yourself by now...could it be ***Fear & Greed?*** Just maybe, could it be something as simple as this and not all the technical stuff after all that is responsible for my poor showing?

Well you're right. It is ***Fear and Greed!***

The reason it isn't all that clear, initially, is because we aren't looking for what might be causing the problem...

WE ARE ONLY LOOKING FOR A SOLUTION!!!

Dont tell me whats wrong Doc - just tell me how to fix it



When I began diagnosing the results, it wasn't just inconceivable that the same mistakes were being repeated year in and year out, by so many traders, but it was also clearly obvious to me that there was some underlying 'cause' behind these mistakes...

It was no longer the mistakes that interested me, but why we made these very same mistakes time after time...

It was now a frantic search for the common denominator – the common thread that wove itself through each and every trader's story – that perpetually joined us all together.



Mistakes that not only blow out accounts in one dramatically tragic trade, but that can also just as easily slowly and agonizingly hemorrhage a person's trading account.

And not just in the sense of their money I might add...but more importantly - of their confidence.

And let me tell you, once you lose your confidence as a trader....then all is lost!

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The search was on to establish why we all made the same mistakes!

If we all make them – then we must have something in common – the solution must be something we all have within us then!

Let's take a quick look at some more trading scenarios that play out every single day in the market.

Still think our emotions don't affect the bigger picture?

- ❖ The greed factor (fear) of missing out on a strong trend causes people to buy in at the top, or at the end of a run thus pushing it even further until people start getting nervous and the expectancy of (much more) abates. The market then falters – opinion shifts, and the chase is on again, only this time in the opposite direction.
- ❖ The Fear factor (Pain) also causes people to eventually cut their losses, and I might add, after, often having held on a lot longer than they should have. This once again adds to the momentum and the market is fueled again causing the price to continue dropping.

Greed & Fear play out in many more scenarios. Traders can be frozen by fear and never enter a trade for example. However, the fear is not of the trading itself, but rather a fear of loss...they are fearful of losing money (or perhaps face) and so if they don't ever take a trade...well they won't ever be wrong...or lose anything either of course.

It's far easier to sit on the side lines and pass comment than play the game yourself!

This is the real driving force behind the ebb and flow of the markets. If the market was 100% efficient and currencies were valued at their fair value then there would be no need for traders.

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The seasoned trader knows how to take advantage of this, and knows how to capitalize on the emotions of others.

So how do we become that seasoned trader when we have these strong emotions of ***Fear and Greed*** constantly pulling at us every day?

Most of us were drawn into trading due to the lure of easy money. How difficult can it be after all...it can only go up...or down...surely we have got to get that right more times than not?...after all we're clever - above average at the very least. And we're not one of those suckers who have unrealistic expectations are we?

So we trawl through a few free web sites, download some videos off You-Tube and we grab a free meta- trader charting account.

We demo trade for a while and as per our expectations it isn't all that hard after all. We trade a 50k account and make thousands of dollars at a time – this sure feels good. And those loses...well we weren't really paying attention ... after all we were on the phone...we had to rush out..so it wasn't really a trade that counts...we can ignore it...but that 100 pip win yesterday...the trade we forgot we even had in the system...man that was awesome – this trading thing rocks!

Then one day we go live...we don't have a 50k account of course but we scrape together \$500, and suddenly the feeling isn't quite the same. The wins aren't quite as euphoric as they used to be, as we now only bank a few dollars at a time. So what do we do...we up the leverage...hey man what an idiot I am...I could be making double this amount if I just trade a few more positions at a time.

That's how we make our first 'mistake'...

Did you recognise anything here...get any *AHA* moments...maybe thought to yourself...but that's stupid...that's just being GREEDY...

Oh look there's that word again – greed ;-)

So – we make mistakes – why?

Is it because we are stupid?

Well that can be argued of course, as an entire species we don't seem to be doing all that well – and you only have to watch 10 minutes of local news to figure that one out.

So ok let's assume we aren't all that stupid...then it must be something else...

Ignorance; Perhaps?

Well unfortunately we can't blame that one either as we knew the rules before we started – we had after all read up all about money management and risk, and had been warned enough times – so could it be?

No, surely not?

Could it simply be that we were too greedy?

Well it does seem so, after all...

After all, we did go against proven logic and sound trading principles ...and what led us down the slippery road to certain emotional carnage?

A little bit of *Greed*, that's all it took in the end, and the painful journey had begun.

But surely we knew!

Surely if we figured we could make double – we figured we could also lose double?

Well unfortunately human nature as it is...we tend to ignore pain (and possible painful outcomes)...and we attach ourselves to pleasure (just imagine the endless bragging rights we will be entitled to when we hit the big one).

So here comes a good healthy dose of pain...

To start with, your spouse tears into you for being so dense – after all, even they could see that was a stupid decision.

But just imagine the possibilities should you have got it right...you could have...well let's not go there...

So after beating your head against the wall in your office for a few nasty minutes, you swear to never do this again.

The problem is we don't remember the pain all that long...and unless it is really painful...we are back testing our intelligence again in no time.

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We get it eventually though, but now the pendulum swings and the problem is compounded further...

The pleasure of winning is never as strong as the pain of losing.

And so now here we are, hunched over our charts, frozen with fear at every opportunity or set up that comes our way.

Analysis Paralysis - here we come!!!

Then what happens next?

Ouch, we now add to this rather sad outlook by now trying to make up for the loss...

So we start to...oh forget it – go back to page 2 and read it again.

As traders, I really hope that you get this message loud and clear. We are all driven by *Pleasure and Pain*. Every decision you make is in some way or how based on the implication of one or even both of these two outcomes being unavoidable.

Never forget to analyse the true reason you made those basic trading mistakes...don't forget to look for the cause.

Kind regards,

Chris Mathews.

P.S. If any of this made any sense to you at all then come on over to my website and check out what I have for you at ww.the-traders-mindset.com