



FEAR NOT: A Mindful Perspective for Traders

SFO readers cited fear twice as much as greed or hope as the toughest emotion for them to control, according to an August 2008 poll (see Figure 1). Fear is a difficult emotion to manage well. It often leads to problematic trading behaviors, such as cutting winning trades short, overtrading, failing to enter trades and allowing losing trades to run.

In his book *Trading in the Zone*, Mark Douglas identifies four primary trading fears: fear of being wrong, fear of losing money, fear of missing out and fear of leaving money on the table. Even hope and greed are highly influenced by fear. Hoping a losing trade will come back to the breakeven point relates to the fear of losing money and fear of being wrong. Greed can also be viewed as the fear of missing out and fear of leaving money on the table.

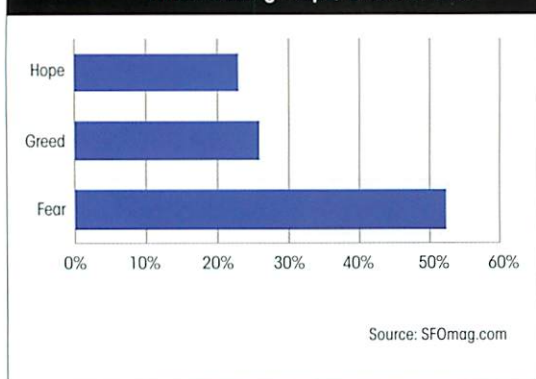
Fear may be the emotion of greatest consequence for traders.

Effects of Fear on Trading

Fear affects traders' minds, bodies and emotions. Racing thoughts, a narrowing of attention to the feared object, muscle tension, palpitations and other bodily sensations, along with an emotional state that can

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FIGURE 1: Which Is the Toughest Emotion to Control When Trading: Hope, Greed or Fear?



range from apprehension to frozen terror, are all part of the experience traders describe as fear.

Although fear is normally helpful by giving people an edge in dealing with outside threats—the fight or flight response—when left unchecked, fear and stress can become toxic to one’s trading and damaging to a person’s health.

Traders who come to the markets lacking a solid trading plan or an understanding of how to read the workings of the market often set themselves up for failure, and fear is a big part of the setup. Traders naturally come to fear the market after a series of losses.

Once primed by losses, the fear response may set in almost immediately after a trader enters a position, triggering the uncomfortable body sensations, scary mental thoughts and frightening emotions associated with high levels of stress and anxiety (see Figure 2).

The trader experiencing such discomfort naturally seeks to remove the distress. In an effort to find relief, however, he or she loses focus on the trade as repairing emotion becomes a greater priority than managing the position. Erratic trading behaviors typically follow. Cutting winners short is one example of how relieving fear affects trading. Attempting to escape fear may extend to pretrade errors, such as looking for trade confirmation outside of the scope of the trading plan, switching to perceived better methods or markets and other unhelpful behaviors.

Although the trader alleviates his or her fear, the relief is only temporary. By never learning to handle stress or to trade well, the fear returns and erratic behaviors persist (after all, they do help escape fear). The hapless trader becomes ensnared in a vicious cycle.

This may be an important reason that so many traders ultimately fail.

The Mind Works Against you

One of the poignant difficulties of the human experience is that people tend to believe what their minds tell them without realizing this is not always helpful. If a person has a thought, it must be true. Humans respond to the thoughts, words, images and memories generated by the mind as if they are the same thing as the experiences and events that they describe. Psychologists call this fusion.

This is a useful mental ability in many aspects of life, but psychologists are finding that placing too great a reliance on the mind can put people out of touch with reality and cause difficulties. Traders may be especially vulnerable to fusion.

To illustrate fusion, look at how a person might act when trading. While in a trade, the trader sees price halt or go against the position slightly. He or she becomes fearful. The mind suggests getting out to take a profit, however small, because as it urgently says, “This trade is about to turn into a loss!”

Rather than remaining focused on the tasks relevant to the trading goals, such as appropriate trade management, the trader believes the mind as if it tells the truth and his or her attention shifts to concerns about loss. As the mind urges, the individual exits the trade and feels immediate relief from the stress of fearing a loss.

What happens, however, when the asset continues further in the direction without the trader? What does the mind say now? If it is like the mind of many traders, it now chastises him or her for exiting too soon!

The question traders must ask themselves is, which mind is right? Is it the mind insisting the trader lock in a small gain or the mind now criticizing him or her for doing exactly what it instructed just moments ago?

Unfortunately, many traders believe both. Even when the mind is so obviously inconsistent, it is easy to uncritically fuse with what it tells them.

The trader may vow that he or she will never let that happen again, but attempting to suppress thoughts and feelings only serves to take one’s mind off the current trading task. Attempting to control thoughts and feelings—as natural as that

seems—is not the answer. Control requires a shift in attention away from trading, and people become preoccupied with fearful thoughts and feelings. The results are likely to be mediocre trading, limited profits and sometimes large losses.

A Different Kind of Thinking

Albert Einstein once observed that people cannot solve problems by using the same kind of thinking that caused the problem. And this is true with fear. A different kind of thinking is needed to help traders know that feeling unwanted emotions does not necessarily predict losing trades.

Traders also need to recognize that what the mind says may not always be reality. People sometimes need to pull back from their thoughts and not always buy into them. Traders may do this by developing the skill of observing their thoughts and feelings.

The practice of mindfulness can loosen the grip of thoughts and feelings and help traders develop a greater flexibility in responding to the market.

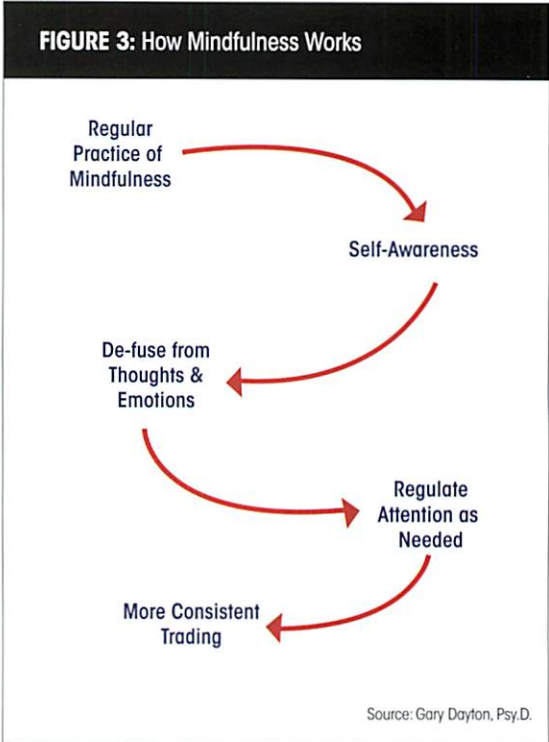
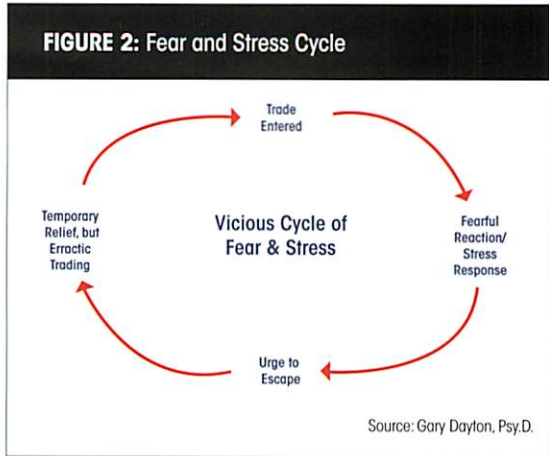
Mindfulness

Mindfulness is a quality of consciousness described in Jon Kabat-Zinn’s book on the subject as “paying attention in a particular way: on purpose, in the present moment, and nonjudgmentally.” Originating from Asian traditions, mindfulness is changing the landscape of psychology in the West.

This important practice possesses several characteristics of potential value to traders. Through mindfulness, traders can develop a heightened clarity about the various aspects of their environment. Trading cues signaled by the market, for example, may become clearer and be seen more objectively.

When mindful, it becomes easier for traders to shift attention between the last few bars on a chart and the larger structure that forms the background. Mindfulness can support the trader in integrating the chart’s right edge with overall market context.

Mindfulness also helps the trader stay in the present moment. The mind is a “frequent flyer” into the past and future. Notice, for example, how many times one’s mind has wandered while reading this article. Usually, this aspect of the mind goes unnoticed. When trading mindfully,



however, traders can become more self-aware and detect when they have left the present.

Not only is attention to market action increased, but becoming aware of where attention is placed is also strengthened. All traders sometimes become distracted. Mindful traders can notice this and bring themselves back to important trading-relevant tasks, a vital mental skill that adds to trading performance.

Perhaps the greatest benefit of mindfulness is its role in de-fusion. Mindfulness teaches traders to see their own thoughts and feelings simply as passing events, rather than something demanding a response.

Usually, the mind evaluates virtually all that comes into its awareness. As the trader watches

price bars unfold, for example, it is easy to misinterpret a bar or two with a negative evaluation. This can cause emotions to stir and set off inept performance.

Mindfulness extends the distance between what is seen and how people react by helping them look at rather than through thoughts and feelings. This aspect of mindfulness enables the trader to see and experience events before the mind has an opportunity to evaluate and react impulsively.

Developing an understanding of how internal experiences influence one's actions is a factor of emotional intelligence. Difficult thoughts and feelings still occur, but they are recognized as just that, momentary thoughts and feelings, not reality. This is de-fusion. Mindfulness helps break down the belief that thoughts and feelings are always correct, always certain and always unavoidable obligations to act.

Three characteristics of mindfulness—a heightened clarity of the market environment, focus on the here and now and de-fusion of thoughts and feelings—may allow traders to take actions in the direction of what matters most in a given trade, as well as what matters most to them as traders.

When mindful, the distance created between having a thought or feeling and reacting to it cultivates a mental space where the trader may choose more valued trading behaviors and let go of internal events that can wreak havoc on trading. The higher level of awareness promoted by mindfulness can help traders experience undesirable thoughts and feelings without derailing their focus on trades.

This is sometimes called being in the zone. In this state, the trader is in clear, moment-to-moment contact with the market. Normally, disruptive mental and emotional influences may still be present, but they recede to the background. Emotional hijackings become less likely. Traders can follow their trading plans and develop trading skills that lead to improved performance, consistency in trading and growth as a trader.

Developing Mindfulness

Like any skill, mindfulness requires practice to develop. The good news is that traders can do it just about anywhere. They should begin

TIPS FOR BEING MINDFUL

To get started with mindfulness, follow these guidelines:

- Practice when you will not be interrupted and make it a daily habit.
- Sit comfortably, limbs uncrossed, feet on the floor.
- Watch your breath. Simply notice your breath by focusing on your abdomen rising and falling or the air flowing across the tips of the nostrils. Sustain focus on the breath.
- Notice how the mind wanders repeatedly. Do not become upset by this. Gently return the mind to the breath; this is the goal of mindfulness.
- Keep sessions short to begin; five minutes is sufficient. Extend the time with experience.
- Notice how you feel afterward. Remember, you can be mindful anytime. Simply recognize when your mind has slipped into the past or the future. When you do, gently return to the present.

by noticing when their minds drift from their subject of focus. Next, traders should become aware of their minds' reliving past events or projecting the future and recognize this as a signal to gently bring their attention back to the present. A few minutes each morning in formal mindful practice is a good place for traders to start (see "Tips for Being Mindful").

Traders can develop mindfulness skills in all aspects of trading. For example, when reviewing charts after the close, a trader should make it a goal to notice when the mind wanders and return his or her focus to the charts.

With practice, traders can maintain mindfulness while trading live when it can matter most in making high-quality decisions. Traders who develop mindfulness and other mental skills cultivate a psychological edge, which is just as important to their trading as a technical edge.

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