



# Mindful Trading: Mastering Your Emotions and the Inner Game

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*“This book will show you how to develop the potential in you to trade from a sense of calm, confident, impartial, and courageous authority.”*

**J. Rande Howell, MEd, LPC**



# *Trader's State of Mind*

## *The Key to Peak Performance Trading*

Thank you !

I am delighted you have selected my book, ***Mindful Trading: Mastering Your Emotions and the Inner Game***. This book is about building an effective psychological mindset so that you can trade your methodology from a peak performance state of mind. Many traders have expressed to me their frustration of knowing how to trade, but not being able to manage their emotions and mind while trading. And they ask, "How do I develop my state of mind so I can realize my methodological edge?" This book is an answer to those questions.

Upon finishing this book, I strongly encourage you to take the next step towards achieving the calm, dispassionate mindset that is required for successful trading. Read it again. Most traders identify heavily with the problems the characters deal with in the book and the second and third reading helps them to sort out the information presented in the book. This mindset, the *Traders State of Mind*, can be achieved through study and dedicated practice of the skills discussed in this book.

My hope is that, as you embrace the ideas in ***Mindful Trading***, you will begin to see that the promises of trading (personal and financial freedom) are truly within your reach. Your job is to open yourself up to them and grab them for the task of re-developing your mind built for trading and beliefs about trading are within your grasp.

Finally, please feel free to email me as you complete this book (email address below). I would love to hear your comments and answer any questions that you might have. And should you want to embrace the challenge of re-organizing your brain/mind as part of your trading system, I encourage you to take the next step and explore other educational opportunities presented on our website.

Again, thank you. I look forward to getting to know you better as you progress on this journey into peak performance trading.

May your journey into trading be prosperous,

Rande Howell

*J. Rande Howell*

rande.howell@tradersstateofmind.com

# Mindful Trading:

## *Mastering Your Emotions and Your Inner Game*

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*A Guide to Creating Your  
Peak Performance State of Mind for Trading*

*J. Rande Howell, MEd, LPC*

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# Table of Contents

|  |          |
|--|----------|
| <b>Introduction - Part I</b>   | 5—13     |
| <b>Chapter 1:</b><br>Possibility, Probability, Belief, and Trading   | 14—40    |
| <b>Chapter 2:</b><br>Managing Emotions While Trading:<br>Integrating Left Brain and Right Brain for Balanced Trading | 41—56    |
| <b>Chapter 3:</b><br>The First Step to Emotional State Management:<br>Naming Your Fear                               | 57 -- 69 |
| <b>Chapter 4:</b><br>The 9 Roadblocks to Your Trading Success:<br>How Your Fears Manifest in Trading                 | 71—102   |
| <b>Part II :</b><br>Re-Inventing the Self: Creating a Trader's State of Mind   | 103—105  |
| <b>Chapter 5:</b><br>Taming the Furies: Disrupting Fear and Calming the Mind   | 107—128  |
| <b>Chapter 6:</b><br>Mindfulness : Awakening the Observer of the Self  | 129—147  |
| <b>Chapter 7:</b><br>The Internal Dialog: Wrestling Control<br>of the Mind From Limiting Patterns                    | 149—178  |
| <b>Chapter 8:</b><br>The Mindful Trader: Reorganizing the Committee of the Self                                      | 179—228  |
| <b>Epilogue:</b><br>The Internal Struggle: The Real Game of Trading  | 229—231  |

# Notes:

# ***Introduction - Part I***

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*“I have never worked so hard for easy money in my life.”  
A long suffering trader*

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## **Six Months Prior**

*“I give up. I quit,” Jacob writes in the midst of despair to his online trading community, “I’m losing more now than when I started. When I was working and trading, I made money. Trading wasn’t a problem. I didn’t depend on it; I always had the fall-back position of my job. Then when I quit my job to devote my time to trading full time, things started going downhill. It has consumed me. After three years of researching, demo trading, live trading, webinars, trading groups, books, magazines, I have finally decided to throw in the towel. My life has been turned into a mess. I’m smart – I thought I could learn how to do this successfully. I hate giving up, but I have a family to support and this just ain’t workin’, so back to looking for another 9-5 hum drum job - oh well.”*

*In response to his on-line trading friend’s dark night of the soul, a successful trader compassionately inquires, “Have you ever considered that the problem is in you head? Maybe you’ve missed the obvious. Maybe trading success is not in methodology and trader tricks. Maybe the problem is your mindset. It’s your mindset that uses the tools of methodology and platform. Maybe you need to find the courage to chal-*

lence yourself, rather than to cut bait and run. Trading will force you to face your demons – the very ones you’ve been avoiding. It takes courage, but it opens the door to a new world of possibility. Wouldn’t you want to look into that before you give up your dreams?”

Jacob responds, “I’ve read all the trader psychology books – even had a coach. Went so far as to have someone tell me my stars and planets weren’t in alignment – how weird is that? They were able to tell me what I needed to become and what I ‘should’ be doing, but they couldn’t teach me HOW to change.”

“Try one more time – you can always quit later” came the reply. Finding inspiration in his friend’s words, and in a moment of courage, Jacob reevaluated his thinking and decided to do just that before he admitted defeat. This time he was really going to take a good look at himself as the responsible party.

**Six Months Later**

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Chatting with the trader who had encouraged him to train his mind rather than avoid his discomfort, Jacob reports, “I am at 50% wins with my wins being 2.3 times bigger than my losses. I always said if I could be at 50% with a 2 to 1 ratio, I could make a lot of money trading. I feel like the percentage and the ratio will both continue to increase.

Since I first started working with my trader psychology coach less than two months ago, I have gone from bad trading patterns and growing more fearful every day, to having my team of inner heroes in place. I had no idea how inter-related trading and my psychology were. All of this is a direct result of the change brought about by learning how to face my fears courageously and to establish a calm assertive state of mind. For the first time in a long while, I feel



*optimistic about the future. And each day I look forward to my trading – that’s quite a change. It’s a great way of developing the potential I have as a human being.”*

## **What Happened to Jacob’s Trading?**

Did you miss something? What happened in those 2-6 months that changed Jacob from throwing in the towel to trading confidently? How on earth does Jacob (or any trader for that matter) go from a deepening despair about his prospect for trading success to a growing confidence that his trading skills have opened the door to his financial freedom – with a trading account that reflects this change?

Essentially this book addresses the huge breakdown I hear from traders all the time:

“I know HOW to trade, but my emotions keep getting in the way and sabotaging my efforts. How do I change?” The answer to this question is the difference between success and failure in trading.

To answer these questions, let’s start at the beginning. Most traders lose long before they make a trade. They enter their trading day with their thinking already clouded by a fear of loss, a fear of not being able to make up for their losses, or an urgency to make up for prior losses. Entering a trading situation in this state of mind is a set up for losing that can become an avalanche. Learning to manage this is the difference between success and failure.

Unfortunately, traders ignore or avoid dealing with their emotional nature and their mind. And in the left brained, information over-loaded, and emotion ignored trader education process found in trading today, it is no wonder. In their ensuing mindlessness traders do not see or understand the linkage between brain and mind – and trading. They become blind to

the unseen forces that shape perception and create the dynamics of their trading. Mind and trading cannot be separated. Yet traders ignore the mind, living in the dangerous misconception that they can push emotions and beliefs aside. They might as well be walking on the edge of a cliff wearing a blindfold. It is only a matter of time before they blindly take a step that puts them into a free fall.

It does not have to be this way. You do not have to be like the vast majority of traders who lose because they do not know, or refuse to know how brain, mind, and trading inter-relate. You are about to take a voyage of discovery into this inter-linked world that shows up in your trading room as “you” coordinate your platform, your methodology, and the perceptual map called your brain. Let’s take a look.

### **The Three Legged Stool of Trading**

There are three dynamic inter-related aspects to trading – platform, methodology, and psychology. In much the same way that a scalpel is an extension of a surgeon’s mind and hand in an operating room, so is the trading platform, methodology, and psychology of mind for a trader. The scalpel in the hands of an untrained person is dangerous to the outcome of an operation (or trade). To increase the probability of success, the surgeon also needs to be located in a platform (operating room) that creates an ideal environment for successful outcome (beginning to sound like trading does it not?) The surgeon has also invested years in learning a system of knowledge (a methodology) that internalizes a skill set that allows him to make precise cuts with great confidence. The platform (the operating room that provides the essential environment for surgery, or in your case – trading) is not really useful to the surgeon if he does not have a deeply learned methodology.

It all comes together with the surgeon holding the scalpel. (Think about yourself as a trader with your finger on the trigger.) The surgeon's mind has not only been trained in technique (a trader's methodology), but also emotionally so that he is about to maintain discipline, patience, impartiality, and courage. These must be maintained because there is little margin for error. He is able to emotionally manage his mindset in a calm, assertive state of mind no matter what happens. It is this state of mind that separates great surgeons from mediocrity. It's the same with traders.

### **Trading System ↔ Methodology ↔ Psychology**

Now let's take a look at trading as a dynamic process that occurs between your trading system (your platform), your methodology (your method of risk management), and your psychology (the director of the process).

It sounds so easy when you read the advertisements: "When you use this system the keys to your future will be in your hands. You will have the power. Just buy this and you are on the way to easy street!" And the trader dreams about the proposition and wants it. Of course there are those pesky little disclaimers in very small print at the bottom of the page that are ignored. What began as a laptop mushrooms into an elaborate, many-screened system that would make NASA rocket scientists feel envious. Then the trader turns it on and soon discovers that it is dangerous to his financial health without methodology training.

Next the trader discovers trader education that is focused on teaching methodology. For most traders, reading a few books and picking up some tips is far less than adequate to become competent in learning to build a methodology that enables the trader to manage risk effectively. Many thousands of dollars later, the trader knows **HOW** to trade. This is an essential step much in the way the surgeon has to go to medical school and take residencies to build the skills to know **HOW** to cut a human body effec-

tively.

Now the trader is prepared. Like our friend in the beginning vignette, you, as the trader, have learned a tried and true methodology that almost assures trading success if you follow its rules and park your emotions at the door of your trading room. You have experienced success doing simulated trading with play money and are confident of your skills. You're ready to get in on the action.

And then you crash (maybe after some initial success). The moment real money entered the trading game, everything changed. Uncertainties, fears, self doubt, and impulsiveness trigger and overwhelm your carefully laid plans. At first, you try to push these emotional nuisances to the side. But they seem to sneak attack you, and before you know it, you wake up in the middle of the night with bad trader dreams about losing everything or you find yourself in a cold sweat. Your mind begins to ruminate about your upcoming trading day and you wake up with knots in your stomach, dreading going into your trading room. You can already predict the doom that is whispering in the back of your mind. You are already in a fearful state of mind before you start trading – and so starts your trading day.

You try positive thinking or some thought reframing technique with an anchor that you have picked up from a trader psychology article. That works for a tantalizingly short time then stops working, so you try rationalizing your increasing losses by telling yourself that losses are part of trading – so no big deal (another reframing technique). Yet a voice in the back of your mind recognizes that you are BS'ing yourself. You are in self doubt. And you continue to trade from this state of mind waiting, as if by magic, for things to change. They do not.

## **You Trade Your Psychology**

This is about the time that you, as a trader, realize that it is your psychology that actually is doing the trading.

Your platform and methodology are only tools that your mind uses to interact with the market (same as the surgeon). And unless you learn how to deal with your psychology and change it, you will continue losing. The choice made at this moment is a critical juncture in the journey of a trader. You can either get out, as our friend Jacob was considering, or you can develop your mind for trading.

It is at this moment that the separate legs of trading (platform, methodology, and psychology) come together and begin to function as a unit. Traders, like everybody else in the world, have invested enormous energy into avoiding what they fear. The difference is that trading does not allow you to avoid your flaws. In trading, your flaws find you in the process of trading. Wherever there is a weak spot in the integrated system of platform, methodology, and psychology, trading will expose it. It is just a matter of whether you embrace change or avoid it. Short term, avoidance works. Long term, it brings disaster.

Platform and methodology limitations are fairly easy to spot. Psychological blind spots are not. And even if you do find them, how do you correct them? That is exactly what we are going to be exploring in this book.

## **The Organization of this Book**

We start here – recognizing that your personal psychology is what trades. It is not your methodology or your platform. Both are essential in creating effective trading performances, but they are only tools. It is the organization of the self, your psychology, that trades. You trade yourself. And “you” are what you believe at the core of the self – not all that superficial fluff that you tell other people. That is why when your money enters the trading, everything changes. Trading cuts right through the fluff to the core of what you have been avoiding. Sorry, but that is the nature of trading.

Suddenly, you are thrown into risk. And depending on the organization of your psychology, you either

trigger to fear and self doubt or to grandiosity (greed) and impulsiveness. Trading from this state of mind creates incredible suffering for traders. Re-organizing the self so that your psychology trades from a peak performance state of mind is the essential quest for a determined trader.

Initially we will be looking into the nature of perception. You will learn why you see what you see – and do not see what you don't see (particularly the pitfalls of mindless trading). To do this, you will be learning about the biological and psychological nature of fear and how to manage it so that a more empowered trader begins to emerge within you. You will be learning about how to emotionally regulate fear and greed so that they do not sweep you, your thinking, and your trading off into never-never land. Emotional hijackings can become a thing of the past. It takes work, but every successful trader has to learn this lesson. The payoff is consistent, less stressful, and disciplined trading.

Next you will be learning about Mindfulness. This is where you discover that you and your thoughts are not the same. You will literally learn how to step back and observe the heretofore unseen forces in the mind that have been dominating your state of mind. With this skill you will see how to find the discipline, patience, courage, and impartiality so necessary for effective trading.

This is the moment where you will discover that you can reorganize your beliefs and perceptions to become a different “you”. You can become the person who brings forth consistent trading. You are really learning that these aspects of the self are already there; you have simply been blind to their existence and have not known how to develop these aspects of the self. Nurturing and developing them so that they are center stage during your trading day becomes the skill to be managed.

Essentially this is a book about hope. You will learn how to “see” the market from a different perspective. And from that perspective more positive possibility begins

to open to you. So let's start with possibility and how we become mindless to our potential to become consistent traders and blind to how to find more purpose, meaning, and joy in our lives. How do we come to be living in the lives we inhabit? It is interesting - let's take a look.

# Notes:



# Chapter 1:

## Possibility, Probability, Belief, and Trading

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*The Truth Is in the Eye of the Beholder*

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### Two Traders, One Day

*It was Monday morning and after his wife and the kids left the house, Steve went to his trading office upstairs. It was quiet and he wanted it that way. He wanted it quiet enough for him to hear himself thinking. Before he started his charting in preparation for his trading day, Steve sat down in his chair and began preparing his mind for the upcoming trading day. He closed his eyes and began taking deep, long breaths. His body began slipping into relaxation and after a while, his mind began calming down.*

*In this intentionally slowed down mode, he noticed a certain internal discomfort in his mind. At first he felt the temptation to push the discomfort out of his mind – but he knew better than that now. Previously, if left unattended, little voices of fear had mushroomed into tragic trading mistakes. Steve always had a background fear of uncertainty that would nag at him in the recesses of his mind. It used to be that he would push this fear out of his conscious thought, but that was a long time ago. Now he knew better. He knew*

*that this was an alert that he needed to take care of. He had taken a couple of losses last week that still festered in the back of his mind. Now Steve knew he needed to address this discomfort before it showed up in this trading.*

*Patiently he sat with this frightened, child-like part of himself. He soothed the fear down so that it no longer tugged at this awareness. Steve knew that he had to manage his state of mind by acknowledging and comforting the fearful part of himself first. If he avoided his fears or attempted to banish them from his awareness, they would come to haunt his state of mind. And this would compromise his performance in trading.*

*After he took care of this residual angst and with his mind now calm as a still pond, he focused his attention until he established an open and expansive state of mind – perfect for charting and looking for possibility in the market. Opening his eyes and preparing for the day, Steve began his charting from this mood of expansive sense of possibility. This part of trading fascinated him. He was preparing himself for whatever the market would give him. The early morning angst calmed, it was going to be an interesting day full of fascination, impartiality, and intrigue. A great psychological set up for a winning day.*

*Across town Tom also woke up to a Monday morning very different from Steve's. He too went to his trading office after breakfast, seeing his wife off to her job, and getting the kids off to school. Tom felt a nagging doubt in his mind about his success as a trader. Last week had been a tough week. He had had several draw-downs that he did not want to repeat. When he thought about the losses from last week, he could remember how he looked and felt in vivid Technicolor. He felt stupid when he reviewed his trades – how could he not have seen that coming? He*

*hated the fear that would cloud his mind and cause him to hesitate too much before getting into a trade, then jump in too late. "Don't let that happen again," growled a thought emerging from the clutter of competing interests in his mind.*

*The pit of his stomach growled. Tom swore he would quit drinking so much coffee before his trading day started – he'd get to that later. Right now, just push it aside. As he turned on this computer, he admonished himself, "Don't screw up again! And don't you feel scared!" With that, he pushed the thought out of his mind. "I do not have time for that kind of stuff. I'll just think positive thoughts and control my thinking so only good things can happen (his law of attraction training kicking in). I'll focus on what I want to happen, not the bad memories," Tom continued as he turned on his computer to start the day.*

*"I hate charting, but it's something you gotta do," Tom commented to himself under his breath. As he labored over his charts looking for the kind of set ups that could make some of his money back, thoughts and images of his prior losses kept bubbling back up into his awareness. When they did, he pushed them aside and scolded this anxious part of himself. "Park your emotions at the door, buddy. Just focus on trading," Steve commented as he began to look at set ups.*

*This drill sergeant discipline had worked well for him as an entrepreneur. Make the opportunity happen and seize it – that was his mindset. It had worked well in business and Tom was going to make it work in trading – by sheer willpower. If he could, Tom would choke the life out of those errant thoughts. He had to be stronger than that. Tom set his mind to a game day attitude. "I'm going to take charge. I'm going to take back what I lost," were his last words. And it was a great psychological set up for a day of revenge trading.*

## The Reality We Create

Who do you believe is the more effective trader in the vignettes above? Both had losses from the previous week. Both experienced fear. Steve mindfully listened for and to his anxiety and emotionally regulated his fear. Once calmed he seemed to be able to shift his moods and he worked through the fear of loss that could have easily predicted more losing trades and the certainty of doom. Steve managed his state of mind very deliberately. The outcome was that he was able to establish a calm and curious state of mind to explore in a mood of speculation what the market might offer in his trading day.

The other trader, Tom, mindlessly pushed his justified fears aside or shouted down the tiny voice of anxiety pecking its way into his awareness. Having not effectively dealt with his concerns, Tom entered his trading day with a game face on that masked his unmitigated fear. That fear was still lurking inside the shadows of his mind, but, pushing it away, he put on a brave (and false) face – a "ready to rock and roll" face. His attitude was aimed at asserting his will over the market. Yet beneath the surface of that game face was fear. He was entering into his trading day in a denied state of unresolved fear. It would come back to haunt him later in the day, manifesting as self doubt and the fear of pulling the trigger.

The attitude, or state of mind, with which each man entered his trading day opened or closed the possibilities that he saw in the market. Read the previous sentence again and notice what it triggers in your reactions. Steve's state of mind was calm and focused on what the market might give to him if he became a curious, deliberate, and detached observer. He was no longer driven by fear. If he had not resolved the fear within him, he never would have been able to reach the curious, inquisitive state of mind he used effectively throughout his trading day. He had become quite intentional about creating and maintaining this state

of mind, and it allowed him to see through very different eyes than Tom.

Tom, without recognizing it, set himself up for failure. The dynamics of success in trading were very different than the dynamics of success in his past business. And he had not grasped this yet. By intentionally ignoring an emotional disturbance within his awareness, Tom was actually pouring gasoline onto a smoldering ember of fear lurking in the shadows of his mind. Fear was present in Tom's mind. Ignoring it or pushing it away did not eliminate it. It only took it out of awareness. In Tom's case it led him to enter a trading day in a "cover-up" state of mind. While in the background of his mind, his lurking fears created the perceptions that he lived in while he traded.

Your emotional state always determines what kind and quality of perception you see from. Perception (thinking) determines the possibilities you see as a trader. The possibilities you see are what you act on (pulling the trigger). And the actions you take bring forth the continued reality you experience. This is very important to understand. Go back to the vignettes of Steve and Tom and look at their separate stories with this set of distinctions.

**Emotional State → State of Mind → Possibility  
→ Action → Reality.**

Notice that Steve does not force a positive attitude to mask his fear of continued loss, while Tom does. However, Steve does possess a set of skills and knowledge that allow him to manage the emotional state that gives rise to his state of mind. This is the observation I am inviting you to see here. Tom, out of his fear of fear and his lack of psychological skills, attempts to fake it. But the process of trading will cause you to cut to the chase and force self honesty. This is a lesson that Tom has not been humbled enough to see yet.

It was the same market and the same day that each was preparing for. How could it have shown up so differently for each one? Notice that each man had a thought life (perceptual framework) going on in his mind. While Steve actively examined his thought life, Tom had a preconceived notion of what was the “right” way of thinking to produce success...and he did not question his way of thinking. In fact Tom did not even know to question his beliefs. He was mindless to what drove the creation of his life. And in his mindlessness, his unexamined core beliefs about the self were pushed off the radar of his awareness. If you are going to be successful in trading, your beliefs about yourself will have to be examined and wrestled with, or your unexamined beliefs will generate poor trading and potentially enormous suffering

### **Beliefs – the Unexamined Eyes You See Through**

Let's clarify this notion called belief. Neither you, nor anyone else, has beliefs. Beliefs have you. Your beliefs and perception (I call it the Observer that you are – more about that later) create the possibilities you see as your reality. They are assumptions that you hold as true, even if they are groundless assumptions. When you change your beliefs, your perception of reality and the market change as well. In an unexamined life the beliefs you hold are not questioned, you simply assume them to be true. And these beliefs become resistant to change no matter what feedback you receive. This state is called cognitive dissonance and is dangerous to a trader.

The battle cry of cognitive dissonance is “Don’t challenge my beliefs with contrary facts – I won’t listen”. In the story of Steve and Tom, Tom resists integrating new knowledge about himself because it would cause a disorganization of his notion of who he is. So he continues to act within the same belief system while the market gives him negative feedback, which just makes Tom more resis-

tant to change. Then, he has to invent a drill sergeant in his mind to keep order and keep the conflicting information out. The resistance (if you read the vignettes carefully) is his hidden belief of his inadequacy as a trader (which would also follow him into other areas of his life). His cognitive dissonance walls him into a particular "self", causing him to attempt to prove he is adequate by beating the market in a "manly" way.

Meanwhile Steve's beliefs have undergone a metamorphosis. He does not avoid contrary information. In fact, he looks for it as a disturbance within the self that blocks him from a fuller expression of the possibility of his being. His courage to push through the biological motivation to avoid his discomfort (the opposite of cognitive dissonance) leads him to have compassion for this child-like fearful part of himself and to sooth it before entering his trading day. By pushing through the fear, Steve is able to open himself to a greater sense of possibility that allows him to view the market from curious impartiality rather than a state of mind that leads to revenge trading, as Tom did.

In an examined life, beliefs are questioned and re-constructed if necessary. Take a look at the different worlds that Steve and Tom woke up to on that Monday morning. You would have thought they existed in different galaxies, yet they were across town from each other. They even used the same internet service.

Beliefs are like the air you breathe or the water that a fish swims in. They become so familiar, so ordinary, that you no longer even notice that they are there. Yet like air to you or water to fish – you exist in them. You are born into a set of perceptions called a historical narrative and develop a perceptual map through which you view reality (or the market). There is no final reality "out there" that determines the market. It is not "you" seeing the market. It is the beliefs encasing your awareness that open or close the possibility of what you see. This perceptual map creates expectations, anticipations, and predictions, based on

your biases, that get wired into your neurocircuitry. "You", in mindlessness, see nothing – you are like the fish in water. The "you" is so absorbed by the perceptual map that has been created outside of your awareness, that you do not see that you are blinded by the beliefs you are born into. This is what I refer to as Mindlessness, which we will be exploring further later in the book.

These beliefs become conversations in the mind. To the trader, it is all those thoughts running in the mind. You experience these conversations that emerge from unseen beliefs as thoughts. We all have "thought lives". The mistake you make while mindless is to believe that you are having those thoughts. By practicing mindfulness you discover the thoughts, as conversations, are having you and create the world you live and breathe in. "You" have been asleep at the wheel of the vehicle you live and trade in.

When our awareness looks into the world (or market) it sees through these conversations of possibility that run through the substrate we call our mind. You do not have thoughts, beliefs, conversations, and expectations – they have you instead. When you begin to wake up to mindfulness (observation) and out of mindlessness, you realize that your identity and your conversations of beliefs are not the same (take a look at Steve and Tom from above). When a trader comes to this AHA! moment of separating his identity from the conversations of perception called beliefs, a very different perceptual map through which the trader interprets the market begins to be created. He also finds a different reality. This is what separates a successful trader from the legions of traders who "don't get it" and continue to fail. In a paragraph below, you will have the opportunity to "see" through the eyes of a master trader's mindset. Take advantage of it and compare it to your mindset about the market and methodology.

In later chapters, you will see how you can move from an ungrounded fearful state of mind to a vigilant, risk managing, peak performance state of mind. Until then your



unexamined beliefs have you. They are the ones you have avoided challenging thus far because of the emotional discomfort of dealing with them. But the shift in anticipation allows a very different trader to show up. All of this lives within you as ranges of possibility. The difference is that in beginning to wake up, you move from a historical interpretation of the world that keeps you stuck in familiar patterns of survival to a new set of distinctions that allow you to create a methodology that is run by a higher functioning organization of the self.

As you wake up the sleeping giants within you, you become co-creator of the beliefs that will drive your perception. You are able to see the market through different eyes. But you never see "the market". You see what you see based on the Observer you are. Think about the difference in Steve and Tom – they “saw” very different markets. They engaged the market from radically different perspectives and the market gave back to them according to their interpretation (their mindset). One experienced winning trades, the other experienced more losses.

One of the fundamental assumptions about trading (and life) that you are going to be exposed to in this book is that you and I (and the market) exist as possibility – not as facts or objects in space. You do not determine what reality is “out there”; rather you fuse with possibilities that you bring forth into the world – and this becomes your reality. And it is the particular observer of possibility you are that determines success or failure in trading the market. This is why it is so important to spot and change the familiar patterns that possibility has congealed into you called your sense of identity (as Steve did in the vignette). Otherwise you stay stuck in one particular organization of the self when other more effective possibilities also exist. Learning to observe the market through the eyes of possibility rather than through finiteness opens deeper positive potential for performances.

It is into this infinite world of possibility that you (and that adaptive organ called your brain) are born. As a subset you are also born into your own particular history of influences that determine how you perceive the world around you (i.e. your life, your family, your situation). This is what you have to break out of to develop your potential as a trader. Long before you had the capacity to think or reflect, your central nervous system honed “you” into an organism that is built to survive in the particular environment in which you (your brain) are born. You came to embody the specific range of possibilities through this adaptation. Later, much later, your mind emerges – long after the historical narrative has been embedded into your neuro-circuitry. The very process of adapting to a particular world of possibility, by definition, also limits your capacity to perceive other ways of seeing and being in the world. Go back to the vignettes about Steve and Tom, and you will see this. This process all happens on automatic and we do not even notice it.

I understand that what I am presenting to you can be difficult to grasp. It runs against the grain of much of what you accept about yourself and what you see as “true” in the world. I also know that the vast majority of traders lose money every day attempting to stay the same and to not change their beliefs (that drive what they see as possible). I do not ask you to blindly believe what I am presenting here to be true. These are assumptions I am exposing you to about how perception and performance are interconnected. They allow me, and you, to make a new kind of sense of the struggle going on within the self - the struggle that is reflected in your trading.

The self (what you call your identity) becomes organized into a particular prison called your comfort zone (perceptual map for others). This automatic organization of the self becomes the “you” that trades. It is also this very automatic organization of the self that you (as an aware human being) had little license in creating. Based on envi-

ronmental and adaptive pressures existing in your home life, in your community, and in your culture; your brain organized you into a particular set of beliefs that became “who you are”. This is your comfort zone. To re-invent yourself as a trader, you will have to break through the chains with which that adaptation has imprisoned you. Trading will force you to confront this historical conditioning if you are to become successful in trading. Changing this historical conditioning is another matter, for it is hard wired into the neuro-circuitry that is inseparable from your thinking and perception. We will be looking into the re-invention of the self later in the book. So hold on.

The point of this discussion is to help you understand how you got “stuck” in a particular way of seeing the world that you accept as “the way it is”. The truth is that you have been wired biologically to see the world through a particular framework that increased the probability of your survival. That biology of self (the perceptual map of the brain) creates the mind. The mind emerges from the brain. They cannot be separated. It is this bio-cognitive trap that you will need to deconstruct in order to build a new way of seeing and perceiving the world.

The biology that you are is organized primarily around fear and the motivation to survive. Until you become mindful of the way your brain has shaped your mind to perceive, you stay “trapped” in this perception and are blind to your limitations – this is called mindlessness. In this book you will be learning how to de-construct the confluence of the history of possibility and perception that causes you to see the world you automatically see and to believe what you believe (without examination) about yourself, the market, and the world.

What does this look like in trading? Let’s examine how a master trader interprets the market and himself as a preparation to observe and act successfully in the market.

## Through the Eyes of a Trader

These assumptions about the way we create the reality of our world can be difficult to grasp – particularly when they are presented as theory. What does this look like through the eyes of a trader? In an exchange of emails, a successful trader who has integrated this work into his trading discusses the interplay between his beliefs, his methodology, and the market. Listen carefully:

*I separate the notion of reality from beliefs. However, beliefs are those things that I choose to rely on. I have consciously changed my beliefs in my life. My reality, on the other hand, is that part that is neurologically wired in me. I know this may sound like semantics, but it isn't. In my e-mail (this is part of his instruction to a group of his trading students), I specifically tried to highlight the fact that I was "choosing" these beliefs (more about this in a minute). For example, I choose to use a particular trading methodology. But that belief is not neurologically grounded in me. It is simply a framework in which I choose to view market structure. I readily admit that the "market" has no knowledge of the existence of that structure.*

*In my trading work, I have done many exercises of simply removing all indicators from my charts to purposely change my perception. I also studied Elliott Wave for a year which is also a structure in which to view the market, yet very different from DG. I made a choice of which structure I wanted to apply to the market. I didn't choose a structure that I thought actually was the market.*

*This is very important to my mindset and approach to the market. I am under the perception that all successful traders have adopted some sort of belief system about the markets. I also think that these trad-*

*ers would readily admit that their beliefs may not necessarily be shared by others. Yet, it doesn't matter. It is what they "choose" to adopt.*

Notice in this excerpt that the master trader “adopts” his beliefs by choice. He has had to reorganize his beliefs based on feedback from the markets. This is the opposite of cognitive dissonance in the majority of traders in the market, who resist feedback that would cause them to re-think the core beliefs that they have about themselves or the market. What do you “choose” to believe about the market? Most likely, if you are reading this book, you have not chosen the beliefs you hold about the market or about yourself. First you have to wake up from the Mindlessness of not observing the thoughts, beliefs, and expectations that have congealed into conversations in your mind. Until that time you will always run into the wall and feel the pain. Wrestling your beliefs from the history that became embedded into you is exactly what this master trader has done.

In de-constructing that history of beliefs, he has been able to reorganize his beliefs in such a way that he “sees” and acts in the market very differently than when he first started working with me and had his AHA! moment – he learned to reorganize the self very differently than the world he was born into and adapted to. So can you.

In the excerpt above, the master trader is discussing how he uses a methodology to help observe the phenomenon called “the market”. He is choosing a particular structure as an intentional belief, knowing full well that the use of his methodology does not allow him to determine the market. Rather it gives him a way of understanding the market as he acknowledges that there are other ways of understanding the market – there is no “right” way. He volitionally chooses his beliefs after testing market reality and discovers that different methodologies help the user to observe the market from different vantage points. Neither is true in an absolute sense. Both simply provide a structure

through which to observe. He is a particular observer who mindfully chooses his trading methodology based on his beliefs regarding the market. This is something he learned to do. By being mindful, he is able to choose his beliefs, rather than having unexamined beliefs creating his interpretation of the market. You will be learning more about being Mindful and developing the tool of the Observer later in the book.

### **So What Market Do You See and What You is Seeing It?**

Let's take this a step further. Here is the same master trader continuing to mentor a group of traders. In a training exercise he explains how his beliefs are actually doing the trading – he is not trading. Notice that he is mindful of his beliefs. They are no longer holding him. He becomes a deliberate participant in the creation and maintenance of his beliefs. This is the Holy Grail of trading. The ability to manage your beliefs and perception on a volitional level IS the Holy Grail.

By letting go of the illusion of certainty, he unlocks himself from the prison of his comfort zone and takes responsibility for the reality (winners and losers in trading) of his trading. The market is not responsible. The market is neither bad nor good. It is not a conversation about money and his worthiness that he is engaged in. Rather it is a conversation about managing risk. As a financial steward his job (his identity) is to manage risk. Fear (in his belief system and internal conversations) has been transformed into risk management of financial markets, rather than being about him. And he invents some instruments to help him better manage risks.

*I want to elaborate on a topic that we've discussed before, but in a little more detail. During a recent mentorship training session, I made a statement that was grounded in a belief that I had. As the con-*

versation ensued, I realized that this particular belief had not necessarily been adopted by others. As I thought more about this, I realized just how important our beliefs are to trading success and consistency.

As part of the mentorship program, I indicated that, to some extent, you have to temporarily adopt the beliefs that I have. At some point, however, you have to truly accept these beliefs, or at the very least, adopt your own beliefs. As a result, I decided I should recap some of the beliefs that I do hold and why.

**Belief 1** - I accept that I am consciously choosing to use a particular methodology to provide a structural view of the market. As part of this choice, I also have to acknowledge that the market itself is unaware of the methodology. In other words, I do not actually think the market "conforms" to my methodology, but rather I accept this as a structure in which I "choose" to view the market. It is important to understand this distinction. Just as there is no Holy Grail for a technical indicator, the same is true for a methodology that describes the market's structure. I could use a different market structure such as Elliott Wave or W.D. Gann, but I have found that I like this particular methodology.

**Belief 2** - In conjunction with my methodology, I choose to apply A-B-C (a kind of check on the methodology that has developed independently) to my actions. In the context of time frame coordination, it is quite logical to establish a hypothesis that is conditional (non-predictive). If the price of any financial instrument is going from point A to point B (up or down), then the lower/shorter time periods must follow suit. It can be no other way! Simply put, if my hypothesis ("A") is going to happen, then a shorter time period **MUST** conform ("B") in terms of price action. Fur-

thermore, an even shorter time period will exhibit evidence ("C") that the MUST time period is indeed happening. And, it is this phenomenon that makes the methodology I use and A-B-C a good combination. Notice, there is absolutely NO PREDICTION in this statement. This is purposely stated in an "IF" statement. While DG is the market methodology, A-B-C is my internal methodology. It keeps me out of prediction mode while, at the same time, allowing me to monitor DG's structure as objectively as possible.

**Belief 3** - *If the market is not doing what it is "supposed" to, then the opposite is happening. Furthermore, the opposite is likely to happen in a BIG way. Of course, the "supposed to" part is grounded in DG. However, something quite simple becomes very powerful. Markets are either going up or they are going down. There is really no alternative. Granted, for a short time only, markets may appear to go "nowhere", but markets must move in order to exist (I guess this is really another belief). Markets do not just stand still with the obvious exception of a security that has been halted for trading. But to the point, if the market structure reveals that the initial hypothesis is not happening, then indeed the opposite MUST be happening. And, in ALL cases, my methodology allows that alternative to be objectively defined.*

Notice that the master trader's beliefs are intentional. He chooses the belief system that he applies to trading (and to much of the rest of his life). It is these unexamined beliefs to which you are blind that are dangerous in trading.

So I ask you to explore your beliefs about the market. Remember, they are not your beliefs. They are the beliefs that have been handed down through



the generations embedded in your family and your culture. This is the ontological soup that you were born into. In the dance of environment and adaptation, you became organized into a particular perceptual map that determines the way you interpret the world (including the market) in which you exist. You are simply the next generation. And ultimately, you need to answer the following question "What beliefs would you need to have in order to trade successfully?".

### **Where Does the Historical Psychology of Self Come From?**

In the preceding section, we looked into how ontology (our sense of meaning) and biology (our brain) interact to create beliefs, expectations, and perceptual maps (personal comfort zones). Now let's look into how it plugs into your personal psychology and its impact on your trading. Here we will be exploring the mechanism through which meaning and belief get wired into your biology and how you come to interpret the world as you do. It is called attachment. And it has everything to do with the way you perceive the market while trading.

This is where body, emotion, mind, and the spiritual form a collective mass called "you". As the human being that you are (and as the social mammals that is your biology), you are born into a powerful need for connection (a sense of belonging) and cherishment (a sense of being loved for who you are) in the context of safety. Because you, as an infant human being, are profoundly helpless to survive on your own, you become attached to caretakers and protectors that allow you to live and grow. Without the safety provided by a strong sense of attachment (cherishment and belonging), you (and the rest of us) would perish.

Regarding trading and the trader, it is the emotional

organization of this attachment that is so vital to understand. Your sense of meaning, your sense of trust, your sense of adventure, and your sense of fear come from the amalgam of this attachment bond. Your sense of self and the way you emotionally interact with uncertainty (there is the connection to trading) spring from this attachment process. Do you view uncertainty as a threat and attack? Do you avoid uncertainty? Or do you approach uncertainty with curiosity? This is what is wired into your developing perceptual map by the mechanism of attachment.

The primitive organization of this attachment goes through various developmental stages as the brain and mind mature. But the initial attachment parameters stay intact throughout development and deeply influence the development of our personality and who you become emotionally as a trader.

This is a powerful formative pressure for the child that will direct his or her psychological development. The child, motivated by a hardwired organizing emotion called the fear of abandonment or rejection, begins to organize himself so that the caregivers and protectors form a powerful attachment for the child. Reciprocally the caregivers have their own forces of attachment compelling them to protect and nurture the child. Biologically this attachment is to increase the probability that the child will survive and perpetuate the species. It is what gives the child meaning and worth for its existence. But humans, the highly unusual social mammals that we are, take this need for attachment from the need for biological survival (like the way a deer would behave) to a new level.

Humans, including you and me, derive psychological meaning from the quality of the attachment during their formative periods. For humans, not only do disruptions to a sense of secure attachment create a biologically wired fear of death (this morphs into many derivations of fear as one grows to maturity) that forces continuance of attachment; but also creates a psychological belief about the self

and its worthiness for cherishment and connection. This is a hyper-jump between you as a human being and the rest of the social mammals.

This attachment process is paired with some very powerful developmental moments for the developing child. As we discuss the interplay between attachment and development, open your mind to the way this process plays out in your trading challenges and concerns. From Erik Erikson's psychosocial development theory, the child in his first 12 months of life organizes meaning around the developmental task of Hope: trust vs. mistrust. Can the child trust that the world will take care of its needs? This is where hope comes from. If you walk into your trading room assuming that the market is out to get you, you will have experienced an adult version of this developmental moment that leads to poor trading. And this is an unexamined assumption that you will need to challenge and reorganize to become a successful trader. If hope is present as you envision your trading, you will sense that you can trust that you can learn how to work with the forces of the market.

If all is going well in the attachment relationship, the next stage of development (2-3 years of age) becomes very interesting in the evolution of trading skills. The child enters the stage called Will: Autonomy vs. Shame and Doubt. Now we are hitting the nail on the head! If you experience a shame of inadequacy or self-doubt while trading, you have experienced the self-limiting beliefs wired into your neurocircuitry at this developmental moment. Notice that it is not "you" who develop either Autonomy or Doubt; it is the environmental forces to which your brain is organizing you to survive. Many times the confidence that was lost in this moment of development has to be rediscovered. It is there – it is just buried.

The next interesting developmental moment in the development of a budding trader is the developmental stage Erikson called Purpose: Initiative: Industry vs. Guilt. This is a stage that opens and closes between 4 and 6 years of

age. If you have ever experienced yourself in procrastination mode while developing and maintaining a trading plan, you have experienced the contraction of possibility from the attachment relationships from which you have developed.

The last developmental stage that holds interest for someone who is attempting to develop themselves as a trader is Competence: Industry vs. Inferiority. This stage occurs between the ages of 6-11. If you are plagued by a sense of inadequacy and feel that you just do not measure up, you have zeroed in on the hot spot of development and attachment relations that need to be revisited and re-organized.

All these stages represent the opening and closing of possibility. The resulting possibility becomes embedded into your neurocircuitry to produce a particular belief system called “you”. The resulting belief system shows up as a conversation of possibility in your mind. That conversation of possibility either locks you into a perceptual map of mediocrity or it prepares you to engage the future with a belief about the self that produces an attitude that accepts uncertainty as part of the fabric of life. The difference is that in one you are prepared to embrace uncertainty knowing you will be okay, while the other attempts to make certainty out of a market that is, by its nature, uncertain.

What I am encouraging you to open yourself to in this discussion is to see how these combined models relate to your trading. It is the “WHY” of “why am I not trading better than I am”. What holds me back? You are now looking at how development and attachment interact to create the meaning and identity of who you got adapted to be. It is who shows up in the trading room. And unless you are a superb trader, these are the areas that you will need to address, one way or the other, to re-develop the self so you become the trader you desire to be, rather than the human being whose development got steered away from becoming a successful trader. Fortunately you can re-decide and reor-

ganize the meaning and beliefs that got wired into you during your early developmental periods. To master trade, you will need to conquer all the self-limiting beliefs that were wired into you while you were metaphorically asleep. This is the process of waking up that we will be addressing in Part II of the book. So get ready.

Why are we having a discussion about attachment and development in a trader psychology book? Because all “you” are is a grown up version of the quality of your original attachment relationships and the developmental stages that formed you as a historical being. In a study that followed 500 infants into their 30’s by Joanna Maseko, Phd of Duke University Medical School and published in the “Journal of Epidemiology and Community Health,” Dr. Maseko reports, “Healthy attachment between child and parent is crucial to the child’s emotional development.”

Now pair that statement with the often repeated lament of traders trapped in self limiting beliefs: “I know HOW to trade. The problem is that my emotions get in the way and sabotage my efforts. I get swept away by my emotions (fear in particular) and consequently I keep losing.” Now you know where and how these “emotions that swept your better judgment” operate. The problem is that you have been blind to them and have avoided looking at them. They are the ones that you must conquer and reorganize to become the trader you could be.

Dr. Maseko goes on to report that children whose parents created close and secure attachment with their children grew up to be less anxious (if you have ever experienced anxiety in trading, you can now begin to understand where some of it comes from). Additionally they were also less likely to report hostility, distressing social interactions, and psychosomatic symptoms (that tight ball in your gut or chest). This also helps explain the love/hate relationship many traders have with trading. It is the quality of these early attachment relationships that give us our sense of self and our beliefs about our competence to engage the unknown of the future or the market.

Once these beliefs about the self are wired into the system, they become “you”. John Bowlby came to the point where he no longer looked for the ideal parent; he settled on parents being “okay enough”. As the brain wired in meaning during this developmental imprinting period, children incorporated the beliefs that had been running through the developmental soup called intergenerational families. These were the beliefs that the growing brain incorporated into the psychological meaning-making machine called the mind.

Because parents themselves come from an imperfect world and are fallible human beings, these beliefs are downloaded from one generation to the next as a historical conversation of beliefs. It is this very belief system that you will need to crack as a trader. Because of your humanness and your early need to seek external validation (you have to organize yourself so that your family system will take care of you), your brain will have organized you into a psychology that creates a “good enough” attachment for you to survive, for better or worse. This is simply the way it is and it has to be worked with because it is always imperfect. So there will be psychological deficits in you as you enter trading. If you do not change these, your trading account will suffer and your dream of independent living through trading will evaporate along with the money in your trading account.

Let’s take a look at this in the context of how a trader who has a fear of being wrong relates to this.

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*“I grew up in a really critical home. I know my mother and father loved me, that was never the issue. The problem was that I never performed good enough. No matter how good my grades were, they found something to criticize. I know they meant it to be constructive criticism, but it didn’t feel encouraging. I got used to never measuring up and trying very hard to*

*prove myself. I got to the point where I choked if I got close to performing well. I'd think – Don't screw up! I felt like their concern for me was performance driven.*

*“When I got into trading as an adult, I thought I had left this all behind. But it reared its ugly head almost immediately. I was trying to be perfect. If I made a mistake, I fell apart emotionally. Then I became hesitant to even enter trades because I thought I might lose. If I lost that meant I was inadequate. It became a downward spiral for me. Just about cost me my desire to be a trader. This attachment stuff made a lot of sense to me once I connected the dots to attachment style and developmental stage. I began to realize that it was not me so much as the conditioning I grew up in. Fortunately I've been able to crack that code and reorganize my beliefs so my performances and me are different. That's been crucial.”*

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In this compromised attachment, you (and the rest of the world) developed some powerful self limiting beliefs that will be exposed in trading. This is what I call a core wound – and the way you adapted to it will drive your trading. And in trading, until you are willing to face this uncomfortable part of the self, your fears and grandiosities will consume your trading account. As one successful trader recently commented to me, “Trading is like a scalpel, it will cut your psyche to the bone. You have to accept that as part of your growth as a trader.” This is very true.

Out of attachment come two very interesting attachment types that ultimately apply to traders. In an **anxious attachment style**, the developing brain and child become fearful if disruption to attachment happens and will try to avoid perceived rejection or abandonment. After this style of attachment has been internalized into the child's perceptual map and he or she grows into adulthood, the brain gen-

eralizes the fear into his or her understanding of the world. He/she will look for fear and will want to stay in certainty for in this way they avoid uncertainty.

In adult form this attachment style becomes our worrywart, glass-half-empty people. As traders they become the ones who are hesitant and experience disabling anxiety when real money enters the trade. As you might imagine, there are many traders who are grown up versions of an anxious attachment style. The trading community is full of these – you may even be one, if you experience fear and self doubt. The good news is that this can be changed.

Our beliefs about money are really grown-up versions of our need for security, meaning, and power – the basis of identity. When real risk is introduced into trading by going live with your money, you experience a threat to the ego integrity of who you are. This is a grown up version of the fear of death. I have actually had traders tell me, after a series of losses, “I saw my life pass before me and I felt like disappearing.”

Another useful attachment style for traders to understand is called **ambivalent-avoidant attachment style**. This is experienced as a push-pull way of organizing attachment. The fundamental characteristic is that you may feel insecure or experience emotional discomfort, but when someone attempts to comfort you, you push them away in anger. You don't want to feel close. This attachment style shows up in trading as people who engage in revenge trading. You are frightened because you have prior losses, but instead of being comforted, you become angry or possessed to "make it back". Again this way of relating to the world is already formed developmentally as a child. Then as an adult it manifests itself in your revenge or impulsive trading.

So, all those disruptions to secure attachment also organize you into a comfort zone (perceptual map) that helps you avoid discomfort. When those primitive fears grow up and integrate into the mind of an adult trader, they become



nuanced. They have moved from the biology of survival to the psychology of avoidance of discomfort. And they collide in the trading room.

When you are fearful in the trading room, you are experiencing the triggering of the core wound – the disruption to secure attachment. To the primitive brain, this is the fear of death. To the sophisticated psychological brain, one experiences discomfort and a nuanced fear (discussed in the next chapter). The brain, not being able to tell the difference, hijacks the perceptual map of your brain. You call this a bad trading day.

It is your avoidance of the psychological discomfort that keeps the patterns in place. This is what we are now going to explore. You know about attachment/development and its impact on the psychology of meaning - and how fear is one of the primary organizational forces of the developing brain and mindset. Now let's take a look at fear and its impact on your trading.

# Chapter 2:

## Managing Emotions While Trading: Integrating Left Brain and Right Brain for Balanced Trading

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*The only thing we have to fear is fear itself – Franklin D. Roosevelt*

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*Hesitation gripped Jack's tensed hand. He couldn't decide when to enter this trade. His trading plan said he had really gone past the entry point he should have taken. But he had hesitated – what if he was wrong? He decided to wait and track it just a little longer – just to be safe. This was the story of his trading life – waiting on the sideline frozen by his fear of uncertainty. “If I stay on the sideline, I’ll be safe,” he consoled himself. He watched the price go higher and higher. Still he hesitated. Ex-banker that he was – he wanted to be sure.*

*But as he hesitated on the sideline pondering this trade, Jack also began to fear he was missing out on a profitable trade – he wanted in. He felt the urgency build. “Just a little more proof”, his tentative side whispered in his ear. “Get in this trade before it’s too*

*late!” urged an impulsive thought, “Sitting on the sidelines isn’t getting you anywhere. You’ve got to get in to win.”*

*This internal struggle in Jack’s mind escalated. Finally, to prove he had the courage to face his fears, he jumped in. The impulse to get in on the trade finally trumped his fear of uncertainty. In a matter of moments, however, the price began to tank and hit his stop. Because of his hesitation, Jack bought beyond the higher end of his entry range. He had missed the opportunity of profit. Instead, he took a small loss. Hesitation was fatal. Slamming his clinched fist on his desk, he chided himself, “I know how to trade – what’s wrong with me?”*

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## **Between the Crosshairs of Emotion and Trading**

Have you ever experienced a situation similar to Jack’s? His left brain and right brain collided, and the right brain’s organization around fear hijacked his careful training in methodology. To Jack’s reasoning (and to many other traders entering this discipline), trading seems so easy on the surface. Traders, while learning a methodology, are told (and believe), “Just follow the rules of your methodology and trading plan, and you are on your way to achieving your dreams. Oh, and by the way, keep your emotions in check.”

This little after-thought, “just keep your emotions in check”, comes to haunt nearly every trader until they begin to master and learn from their emotions. It’s not a matter of ignoring emotions (pretending you can be emotionless). Rather, disciplined and consistent trading depends on acknowledging your emotional nature, managing your emotions effectively (not ignoring them), and learning from them. This requires a new set of skills that few traders

come equipped with naturally.

Curiously the highly left-brained orientation (the logical problem solving skill sets) of trader educational systems blind both educators and traders to the influence that our right brain (our emotional brain) has over our capacity to think effectively – and consequently impacts the success of a person’s trading. It is as if the vast majority of traders do not acknowledge the left brain (logical reasoning)/right brain (emotional reasoning) collaboration that is necessary to trade from peak performance states of mind. And this is true – it requires an integration of the analytical left brain and the intuitive, emotional right brain. Otherwise, as many traders demonstrate daily (as Jack did in the example above), the trader blows up his capacity to trade well – even when he knows mechanically how to trade.

The flaw is simple and counter-intuitive to the rationalistic mindset through which traders are taught to view the world, particularly given a trader’s bias to look for predictable certainty in the market. We get stuck in a way of viewing the world that believes, on a basic level, that if we really know the causal rules that logically govern the market, then we will succeed. This mindset depends on the existence of a set of rules “out there” that, once found, will be the Holy Grail of trading success. This is the essence of left brain thinking.

What neuroscience has discovered, however, turns our understanding of thinking and states of mind on its head. That seismic shift is this: **The kind of thinking that a trader’s mind produces (for better or worse) comes out of the emotional state of the trader.** And that is what influences the world that the trader sees and reacts to. There is no world “out there” that is deterministic – the world the trader sees is colored by the mindset of how he observes the world. And this is where traders get in trouble. We will be exploring this concept throughout this book – that the hard-wired biology of emotion cannot be separated from the “thinking” of our mind.

We get habituated to “see” the world and the market from a particular perspective, and we get locked into seeing it that way. In social psychology this phenomenon is called cognitive dissonance - and it is very dangerous when applied to trading. The trader’s mind becomes closed to new possibilities, and he is no longer open to new ways of understanding market information. Without a sense of openness to new ways of seeing things, beliefs become impervious to new ideas – and the trader does not grow.

For instance, our friend Jack (who we met in the opening vignette) was clearly looking to find certainty in a world where we can only hope to manage the risk of uncertainty. This may be a challenging concept for you, particularly if your success before trading was in a traditional left brained profession, such as medicine, law, engineering, banking, or accounting. In these professions you are taught a set way of viewing the world (rules and biases) that determines the “right” outcome. When applied to the market, this way of thinking works in the short term. Everybody has seen their share of market “gurus” who have predicted certain movements in the market. They become the new hot genius who has figured out the market – for a while. Then the market changes and they are forgotten. Long term they turn out to be fallible human beings just like the rest of us.

There was no deterministic world that Jack could objectively (devoid of emotion and interpretation) predict. He viewed the market through the eyes of his fears, and what he set in motion with this mindset was not risk management – but risk acceleration. Instead of viewing his trading world through the eyes of impartiality (an emotional state very useful to cultivate in trading) and discipline (so that he could manage this risk effectively), his thinking was swept away by his fear of uncertainty. This emotional dysfunction in his brain condemned his thinking to continue in the failure cycle from which he was finding it difficult to escape. This is Jack’s cognitive dissonance. He became

trapped into a particular way of interpreting his world. And he could not see that he was trapped by his deeply held beliefs.

### **All thinking is emotional state dependent**

Evolutionary pressure, adaptation, and neuro-science were contrary to his rationalistic understanding of his world. In Jack's carefully constructed story of the world, mind and body were separate. Wrong – thought and state of mind follow emotion (which is biological). Emotion does not follow thought. You trigger to emotion any time a familiar established pattern is interrupted. (Just try pulling the trigger on a trade and you will see a live demonstration of this phenomenon). Pulling the trigger represents a change to the current state. To disrupt this pattern automatically produces emotion. (The only question is which emotion.) Then you begin thinking and reasoning from this emotional cloud. In Jack's case (and most traders' minds) this change creates uncertainty (disruption to familiar sensorial pattern). Uncertainty is associated with fear of loss. Jack grew up in a Great Depression era family where uncertainty was seen as a bad thing. His family became very conservative to the point of sacrificing opportunity for safety – even when the odds were clearly in their favor.

How can that be? It does not sound rational at all. And it's not. The world is not rational, but we insist on applying a rational mindset to explain the world. In a deterministic rational mindset, we try to predict what the market will do. Conversely, in an integrated approach between the left brain and the emotionally intuitive right brain, we open ourselves to what the market will give us. Do you see the difference here between these two different mindsets?

Before applying this concept to trading, let's take a look at it in everyday life. My wife and I vacation on an island beach that is remote and offers some of the best sea shell collecting in the world. At first my wife would go

hunting for specific shells that she could then cross off her check list as a way of “measuring up” to other shellers who had produced exquisite collections of valuable shells. And she often would come back from her shelling walks disappointed because she did not find what she was looking for. She was embedded in a mindset of predicting what the ocean would give her. (Does this possibly sound like what traders attempt to do with the market?)

As time passed her shelling strategy changed. She began to let herself be surprised by what gifts the sea would give her. Some days were sand dollar days; other days were conch days. Each day, depending on what the sea was willing to provide, she opened herself to the possibility of receiving its gifts, rather than trying to force her will on the vastness and unpredictability of the ocean (sounds like the market doesn’t it?). What she realized was that she had been passing by “treasures from the sea” because her mind was so focused on finding what she was looking for. The treasures had always been there, but she had to develop the eyes and mindset to allow her to see what the ocean was willing to give her.

What difference would this make in creating and working from your trading plan? A very successful trader who has been through the training outlined in this book, described it this way. “When I plan my trading day, I establish different strategies for trading action so that I am prepared for whatever the market gives me. I don’t hold a belief that I can predict what the market will do, but I do hold an assumption that I can prepare myself for what the market will give me. If you drop the deterministic mindset, a whole new world of possibility shows up. Instead of attempting to force my will on the market, I have learned to prepare myself for what the market opens to me. Emotionally, I’m much more settled now and my trading is much more calm, consistent, and profitable.”

What opens to you as you observe the dance between yourself and the market from these two stories? We create

our understanding of our world from our adaptations to our deepest fears and desires. We try to force our will on an uncertain world in order to create an illusion that the world is predictable but this mindset limits our potential as a trader. Historically, this biological bias had great survival value. It allowed our ancestors to biologically survive in the short term. This is the essence of survival adaptation. However, when traders come face to face with these fears as psychological beings, their trading suffers. The emotional brain, that evolved to help humans avoid mortal threat, can be the trader's enemy if not properly managed.

After all, a trader is alone with just his thoughts (and those screens) during a trading day. There is no external distraction from all the thoughts that whirl in his mind as he moves from observation to action. This is where it gets tough in the solitude of trading. There is no escape from your deepest beliefs about the self or the fears that have been pushed beneath the surface of your awareness. That is exactly what happened to Jack. Being gripped by his fear of uncertainty, he questions his every move. The self-doubt and second guessing that arises out of his fear holds his reason hostage. Consequently, instead of finding the courage to act in the face of his fear, he hesitates pulling the trigger until the opportunity is gone.

Emotion takes over and trumps thought. Take the housing bubble fiasco as an example. After the housing market blew up, outside observers began questioning just how lenders could possibly think that they could loan money for houses to people who could not afford to pay back the loans. In fact, they were incapable of making even the first loan payment. Yet, the house of cards continued to build. Everybody was doing it and nobody "saw" there was a problem. The entire industry never saw the disaster coming. Greed, if left to its own devices, blinds us to our self deception. This is the nature of greed.

When the housing bubble burst, most lenders were surprised. But other people, who had not been sucked into the



delusional thinking that comes from greed (fear of missing out), saw it coming and bet against it. They were not surprised. Very bright people were seduced by greed, and in the mindset that came out of greed, they became blind to the long term consequences of the short term nature of the emotion of greed.

They became drunk on greed and their thinking was compromised. And when they woke up the next day (metaphorically), they had a raging hangover. They did not see themselves being sucked into the vortex created by thinking compromised by greed. People lost tons of money betting while their perception and thinking was under the influence of the emotional state of greed. And many asked, “What was I thinking? How could I not have seen this one coming? There must be something wrong with me.”

What does this look like in trading? Due to their mindlessness, most traders are blind to what they are blind to. And they do not “see” that they do not see. Caught in the brain’s propensity to create familiar pattern and then push it into the background of awareness, they become blind to the familiar. This is mindlessness that a trader cannot afford to be seduced by. What does this function of the brain look like in everyday life? Take for example – driving a car.

When a driver first gets into a car and starts the engine, he is aware of the motor running. After a while, as he enters traffic and his mind needs to be focused on all the variances occurring as he drives his car on the freeway in traffic at 70 mph, the sound of the engine running has simply become a familiar part of the environment and is no longer remarkable. It, the sound of the engine running, has become a familiar pattern and is pushed into the background of his awareness. It is still there, but the driver has become “blind” to it – does not recognize that it is there.

Yet, if the driver were to volitionally practice mindfulness of the sound of the engine running (or if the sound of the running motor were to change suddenly), the sound would reappear. Until then the driver remains mindless of

the sound of the running car. Traders do the exact thing with their fears – they become mindless of them. And this spells trouble.

They, like Jack in the example at the start of this chapter, actually lose before their trading day begins. They enter their day already in a mindless cloud of fear. (Most will have pushed the awareness of this fear out of their mind so they can avoid dealing with it – which is the biggest mistake the trader can make.) From this state of fear, their right brain's biological wiring for negative appraisal biases their evaluation of trading opportunities. The emotion ramps up, seizing any semblance of impartial evaluation of the trade, and either the trader jumps in impulsively to avoid having to endure even more fear, or he stays on the sideline of the trade, waiting for more confirmation, until the opportunity escapes him.

Our friend Jack, before he was laid off by a large bank after a corporate take-over, had spent twenty-five years as an institutional banker. He had always prided himself on being a conservative investor and was usually the naysayer in departmental investment decisions during his banking career. He always wanted more proof. And, working in the trust department of a major bank, this conservative, risk-averse position worked well until the new bank demanded higher profits from his unit's investment portfolio. The story he told himself and others about his layoff was that the new bank did not have the same philosophy about risk as he had – and that was why he was let go. Younger, more aggressive risk takers, who did not have Jack's loss history took his place.

Of course, as he landed in day trading as a second career, he discovered he had a problem greater than a conservative risk management style. The truth, as he got to know himself better, was that his decision making was governed by a fear of uncertainty that he had learned in his family of origin. He was wired (conditioned) to seek certainty before he risked failure. Day trading continually triggered the

equivalent of a 4 alarm fire in Jack's brain. A brain wired to look for certainty so he could feel safe found only risk management of uncertainty in the market. This threw his decision making capacity into flux and the risk averse investor that he was got swept away into impulsive decisions in the heat of a trade.

And here is the kicker. When the trader, Jack in this case, goes back to review his trades, he looks at his trades incredulously and asks, "What was I thinking? I know how to trade – how could I have possibly made such a stupid decision?" The difference between the thinking from which he later evaluates his trading day and the thinking that drove his trading during the heat of the trade is his emotional state.

Even before he started his trading day, his thinking was corrupted by fear. Jack, (similar to other traders) felt a sense of dread thinking about his trading day. Out of his emotional state of fear came the mindset that evaluated the market. That mindset saw danger to escape, not risk/reward opportunity to manage. That mindset blinded him (remember how the brain creates familiar pattern and pushes it out of awareness?) to the risk management skills of his methodology, and, instead, focused his attention on the avoidance of fear. Out of that, he acted irrationally and made decisions not consistent with his trading plan.

Then, after the threat of his trading day was over and he was in a calm state of mind, he reviewed his trades and could not understand what possessed him to trade so foolishly. In his rationally (that's an emotional state just like fear) trained mind (with a bias toward left brain thinking), he can execute trades with confidence and consistency. Unfortunately, not being able to regulate his emotions, he did not know how to manage his emotional equilibrium in the heat of battle. This is exactly why the military trains its soldiers in conditions that resemble the chaos of battle where the fear of death is a real and present danger. They train for the kind of clear-headed thinking that is needed to

face the emotional state of fear and manage it. Traders need to train in a similar way. This is peak performance training and we will be addressing this as we progress through this book.

### **Why Does Fear Overwhelm Thinking?**

Now that we have seen that emotion, especially fear and greed, can and does hijack a trader's brain and mind, it becomes important to understand why. It is the difference between simulated trading (playing with Monopoly money) and trading with your own money. Once real money enters the game, everything changes. New brain and old brain are at odds with one another. And the old brain (mammalian or survival brain) will win every time unless the trader knows how to regulate the impulses of the old brain. This is what you are up against while trading and while you are developing the psychological skills of being an effective trader. A trader (you included) must learn to manage emotional triggering and impulse before learning how to re-organize your psychology for peak performance trading. Emotional regulation is the first step toward this new psychology of peak performance trading.

When practicing simulated trading, there is no risk of real loss. Therefore a person's psychology is not easily triggered by threat. When trading with your own money, there is a risk of monetary loss – which your survival brain interprets as a threat to biological life. And the rational left brain is blindsided by the emotional right brain because you have not become emotionally literate. This is why developing the skills of working effectively with the right side of the brain (emotion and intuition) are mandatory in order to become a successful trader.

What actually happens in an emotional hijacking? And why is it important for a trader to understand? It is important to understand because our biology, therefore our brain and our mind, are ruled by emotions. They are inescapable.

And until we understand how emotions work, we will never manage them. Instead they will manage us.

Go back to our friend Jack in the opening vignette of this chapter. Jack prided himself on his rational mind's dominance over his emotions. Actually Jack's "rational mindset" was just a cover to avoid the discomfort of dealing with risk. He would always find flaws in the probability of success unless there was near certainty. In his upbringing in a farm family whose parents endured the Great Depression, certainty and risk aversion were the basis of his family's money management style. Jack was born into this history and his brain adapted him into this conservative, risk averse view of the world. It became his mindset not because it was the right mindset, but because this circumstance was the familiar pattern to which his brain adapted.

Like Jack, most traders never question their assumptions about risk and money. In the Chinese language there are not separate symbols for risk and opportunity. Both are included in the same symbol. Risk and reward are intrinsic to one another. Managing the risk to create the probability of reward becomes the mindset. When opportunity arises, there is always risk associated with it. Overcoming our evolutionary biology's mandate to trigger to fear and avoidance when the risk of opportunity appears will need to be re-wired in order to become a successful trader. A new observer of risk, not fear, will need to be developed. And that is exactly what this book addresses.

## **The Brain Uses Emotion as the Architect of Pattern**

We are about to learn how people get locked into perceptual patterns and rooted into emotions that keep them from trading effectively. There is a little bit of biology that has to be waded through, and it will help you understand how you become locked into perceptual patterns that sabotage your trading efforts.

The brain's major task is to adapt us to survive in

whatever environment we happen to be born into. It organizes “us” into patterns that react instinctively to disruptions in our environment (without having to think about them) based on what has become familiar pattern for us. This adaptive mechanism is centered around our survival. This is exactly what happened to our friend Jack. For Jack and his family of origin, money was directly tied to his family’s survival – and it was a close call. This kind of environmental pressure molded Jack’s thinking as his brain was developing so that he avoided risk – unless there was a high degree of certainty of continued survival. And survival has everything to do with the emotional state of fear.

Fear is the most primitive of emotions. Its motivation is to avoid threat – which has great survival benefit. When our ancestors lived in caves, life was very different than it is today. Then, real life or death threats were a common everyday occurrence. And our brain needed to identify threats quickly and mobilize us, without wasting time to think, to avoid becoming a meal for another animal. It did this through processes known as negative attribution and response generalization. It was better for our early ancestors to assume that a saber tooth tiger was behind every bush and avoid the threat/risk (even though it rarely occurred) than to assume there was only a one in ten thousand chance of getting eaten. Fear trumps rationalism every time (if left on automatic) and we stay mindless to the fact that there are no saber tooth tigers left.

If you have ever gotten up in the morning and started avoiding going to your computer and trading room, you have experienced both negative attribution and response generalization. The problem is that our more primitive emotional brain, so focused on survival, cannot tell the difference between fear based on biological threat and fear of psychological discomfort (risk to a trader). The brain, left to its own devices, interprets the psychological discomfort that a trader experiences as he anticipates another bad day trading (negative attribution) as a threat that he has ex-

perienced before (response generalization).

Safety has been disrupted with the perception of danger. The disruption to pattern automatically provokes emotions into action. This is reactive pattern recognition that triggers fear as a way to avoid the threat. Meaning has now been embedded into the primitive emotional neural circuitry of the brain. The act of trading has now been associated with danger by the primitive brain!

Essentially your survival brain now perceives trading as a dangerous saber tooth tiger looking for you to become a meal. The emotional state of fear hijacks your ability to think logically or dispassionately and pushes you reactively into avoidance. Out of fear and avoidance comes the quality of thinking that is possible for you and your trading.

Oxygen and glucose (the fuel mixture of the thinking brain) have been cut off from the neo-cortex (the thinking part of the brain that you require for trading) and is rerouted to the body to prepare for fight or flight. You, as a trader, would experience this as tense muscles, knots in your stomach, rapid shallow breathing, and fearful thinking. As the fear arouses more response in the body and mind, the trader may well experience an urge to impulse trade just to get out of the sense of doom that he is experiencing. Or you, as a trader, may find yourself immobilized by fear and be unable to pull the trigger on a trade. This is your untrained emotional brain in action.

Does this sound familiar? If you have ever experienced the roller coaster ride of fear-based trading, of course it does. The good news is that you can train your brain and mind to respond very differently. The first thing that has to be done is to distinguish between biological fear and psychological discomfort. Later in the book, you will be shown how to manage the arousal of emotion so that you can disrupt its power and, therefore, manage it so that it does not sweep you away.

## **Fear and Risk Management: The Emotional Brain Hijacks the Thinking Brain**

Our emotional brain does not think as we understand it. It has evolved over millions of years to ensure our survival and procreation. Biologically it is built around fear and the avoidance of fear as a survival mechanism. It does not perceive risk – only threat. Somewhere within the last million years or so the neo-cortex (or the thinking brain) began to evolve. This is where human psychology began.

The emotional survival brain (that right brain we try to ignore to our detriment in trading) is incapable of distinguishing between real biological fear and the psychological discomfort of risk – much less risk management. Read that again: the emotional survival brain is incapable of distinguishing between biological fear (a threat to life) and the psychological discomfort of risk – much less risk management. Risk management, the essence of successful trading, is a process by which we assign levels of risk so that our odds of profitability are higher than our odds of loss. And on a longer time horizon than our emotional brain was built to manage, consistent and profitable trading becomes possible with good risk management. However, to the short term, immediate focus of the emotional brain, all risk is a threat to survival. To the untrained brain and mind, any triggering of threat automatically produces a biological fear response from our primitive brain.

The brain has to be trained to regulate impulse so that we can make the distinction between biological fear and the psychological discomfort of risk management. That is what we are going to be exploring in this book. An understanding of the biological nature of our emotions and our thoughts (and the way emotions and thinking are inter-related) is essential. With this understanding we do not have to become so personally identified with our emotions or our thoughts.



We can begin to appreciate how purpose, meaning, identity, emotions, and thought become glued together to create “us” and how we react to the circumstances of our environment. This understanding also gives us the underpinning of how to change the way we perceive and respond to the world showing up on our trading screens.

## **Looking Forward**

In the next chapter we will be exploring more about fear and how it specifically impacts trading. It is in freeing ourselves from the power of fear that we change our nature and how we trade. Until you develop the skills and tools to approach your fears, they will control you and your trading. Naming your fears and recognizing they can teach you a lot about yourself is fundamental to growth. Acknowledging your fears and creating the courage to push through them is essential to your growth as a trader; your biology will fight every step of the way. So you will be learning how to manage and calm your biology.

# Chapter 3:

## The First Step to Emotional State Management: Naming Your Fear

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*“I have experienced many a horrible travesty in my life.  
And a few of them actually happened.”*

*Mark Twain*

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*“I left money on the table yesterday, and I’m going to get it back today!” Harry silently declared as he was watching the trade take shape on his screen, “I’ve missed out too many times, could have won big – I’m going to ride this one and clean up.” Harry could feel the excitement pulsing in his veins – he could hardly contain himself. He decided to push aside his target, in his gut knowing that this one was going up and he was going to get all his money back.. What a rush! Harry could feel the surge of energy. He almost became giddy as he saw the numbers climb even higher. That triggered even more excitement as he thought, “I’ve hooked a big one – I’ll show them who’s a trader!”*

*In the blink of an eye, without explanation, the price began to drop. Harry kept waiting for the downward trend to right itself. It didn’t. Harry moved his stop because he knew in his gut that it would go back up again. It didn’t. Finally Harry pulled the trigger and accepted that he had another drawdown on his*

trading account. He felt frustrated.

*Instead of taking some of his profit while the trade was going his way and hitting his targets (as his trading plan called for), in his irrational exuberance (some would call it greed and impulsiveness), he held all his positions hoping for a big winning trade. When it turned against him, he had no exit strategy and watched as all his profit disappeared before getting out with a loss beyond his original stop.*

*He had sabotaged himself yet again. Now Harry felt shame and wondered, "Maybe I don't deserve to make a living at trading. It just doesn't feel enough like work. Maybe that's why I keep blowing myself up just when it's beginning to look good."*

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Harry was surprised to discover that there was a name for the condition described in the above vignette – revenge trading. So consumed by the fear generated by taking a good sized draw-down on his trading account the day before and the desire not to miss out, Harry never saw that he was being sucked into a revenge trading vortex. One minute he had been a rational human being waiting for the right set-ups. The next minute the rational side seemed to disappear and get replaced by an impulsive nature that caused him to trade well outside the parameters of his trading plan. What is Harry, and the vast majority of traders, missing?

Let's go over what we have learned so far about emotions and trading. Because people have ignored strong emotion or pushed uncomfortable emotions out of their awareness, they do not have an effective understanding of what an emotion is and what it does. Just because a trader does not consciously feel the emotion does not mean that the emotion is not shaping his state of mind – outside of his awareness. Until a trader grasps the power an emotion has over thought (particularly fear and greed), the door to understanding and managing his emotional nature will remain

elusive and cannot be opened.

Being mindless of your emotions while in the act of trading is much like pumping gasoline with a lit cigarette in your hands. You are asking for trouble. Emotions, like gasoline, are very explosive. Without forethought and being mindful of how to manage a trading situation effectively, a trader inadvertently sets up disaster.

Take a look at Harry in the all-too-true vignette above. He did not know (he was mindless) that fear had seized him. His fear of missing out on potential trading profits from the day before (much less his losses) had infiltrated the clear headed thinking needed to trade successfully. Subtly, this fear had crept into his state of mind without his awareness. And because it did not occur to him to be mindful of this situation, he never saw the grandiosity and impulsiveness which took over his thinking until it was too late. The emotion had exploded and impulsiveness, born of the fear of missing out and the fear of loss, had blown up his trading day.

### **Trading, Fear, and the Shaping of Identity**

Nor did he understand that his very identity was being attacked. Fundamental to Harry's nature was his identity as a strong provider for his family. More than that though was his belief that he had to "prove" himself to others and even to himself. He had a strongly held belief that he had to be better than others. This is a vulnerability buried outside of his awareness. He had to be "the man" and losing was inconsistent with who he was. His losing money (or not hitting homeruns on all his trades) became an attack on his sense of identity. The winner-take-all attitude he had developed over a lifetime of being an athlete and later a successful salesman was not working in trading. To avoid his fear of not measuring up, he, in his mindlessness, had built a persona of being a "man's man". And it was killing him in trading. Why?

A fear of being found to be inadequate had plagued Harry (and most of us if we were to be honest with ourselves) for most of his life. His method for dealing with this underlying fear was to push himself to be successful in everything he did - not only successful, but to be the best. By winning he did not have to deal with his sense of inadequacy – his fear of not measuring up. His mask of invulnerability and fearlessness had worked all through his sales career. People wanted to buy from him. People wanted to be around him. He had that great positive confident energy that made him a hit socially.

So habituated was Harry to the “rush” of being large and in charge that he considered this particular state of mind to be “him”. Trading, however, was his undoing. He could not “make” the market behave the way he wanted it to. Hiding from his deeper sense of identity had been easy until he started trading. Trading exposed his emotional nature and his vulnerabilities in ways that he was unprepared for. Why is this? This scenario happens all the time in trading.

First, emotions are biological in nature and take over our psychology. They are deeply primitive and do not recognize that we have a psychological nature. Helping us to survive instinctually is their nature. And implicit to the nature of an emotion, particularly fear and greed, is the motivation (what the emotion is urging you to do) and the meaning that becomes embedded into the emotion. Fear is going to push us to avoid discomfort and uncertainty – certainly important to survival.

Deeper still is the meaning that becomes associated with fear. As traders, we are left alone in our thoughts as we trade and are exposed both to fear’s motivation of avoidance or greed’s motivation to take advantage of a situation before it is gone. Our sense of worth and adequacy then becomes grafted into the emotion. It is this that Harry (like us) has avoided until the nature of trading brought all his emotional baggage to the surface. All his

clever disguises came tumbling down like a house of cards in an emotional tempest.

Trading, and the emotions that are generated while trading, will expose all your vulnerabilities: there is nowhere to hide. Remember – emotions are not part of your psychology, they are biological. If you, like Harry, try to push the fear aside, it will simply blindside you in your trading. It cannot be pushed around. And it will hijack thinking. The deeper emotions around identity shape your psychology (your perception of the world) and who you believe yourself to be in the world.

A strong emotion, like fear of loss and fear of missing out in Harry's case, triggers and is coursing chemically through your body in nanoseconds. Your mind's awareness of the emotion's arousal occurs about a half second later. So the emotion, and its power to influence thought, has already corrupted your capacity to think clearly long before you become aware that an emotion has triggered. Add to this one more component that creates a deadly emotional cocktail from which to trade – because the strong emotion creates psychological discomfort

Fear, in particular, is the most primitive of our emotions. It is the mother of biologic survival. That is why a trader must learn how to manage fear, or it will continue to overwhelm the impartial, disciplined, patient, and courageous kind of thinking upon which successful trading is built. Although fear will never be eliminated from a trader's psychology, its intensity can be regulated so that it does not sweep the mind away in a cascade of negative thinking that leads to catastrophic results. Once managed, fear can be directed to help build an effective methodology for risk management. This requires left brain and right brain integration. More about that later.

The problem with most traders is that they attempt to push fear aside or ignore it. As we will be seeing shortly, this fear has a lot to do with avoiding looking into the mirror at ourselves and facing our own personal demons. This

certainly can be done on a short term basis, but as the trader has draw downs on his trading account, it becomes clear that avoiding his fears in trading cannot be sustained successfully long term.

Traders can deceive themselves and others, but they cannot deceive their trading account. It is the measure of how effective the organization of the self is in trading – not the stories you tell to yourself or others. Traders must learn to honor their internal struggle with their fears. To do this, the fear must be approached – not avoided (hesitation of entering trades) or attacked (impulsive trading). When the trader approaches his fears and learns from them, he or she opens the opportunity to re-organize him/herself into a more effective trader.

### **Fear, Possibility, Meaning, and the Organization of the Self**

Imagine being Harry for a moment. In the beginning he feels “large and in charge”. He is ready to prove himself to the world. In his exuberance he allows himself to get carried away – only to be blindsided because of his arrogance. Then, in the end, he experiences the shame he had been running from. And, while under the influence of shame (remember, all thinking is emotional state dependent), he says to himself, “Who am I fooling? I’m blowing myself up – why do I do this to myself? Maybe I just need to pack it in and go get a job. I’m not good enough.”

Where is the “true” Harry? At the start he is “possessed” by a sense of grandiosity (large and in charge) and gets sucked into impulsive trading. While this is happening, he feels good – he feels on top of the world. A false sense of control, power, and a highly regarded sense of self consume his being. What a rush! Who would not want to feel this way, right? This state of mind also blinds him to staying with his trading plan and he loses money.

After he crashes and burns, he becomes frustrated. In his former career as a salesman, he would have gotten angry at someone and mouthed off as a way of regulating the sense of loss from the bad trading experience. Or he may have created a story to cover up his sense of loss by boasting about achievements, real or imagined. But there is no one to get angry at anymore. He could not direct his frustration so easily into a cover up. There was just him, his thoughts, his computer – and his war going on in his head. A war he had carefully avoided for most of his life. And now it has become unavoidable.

That is when he sank into shame and acknowledged that the story he told himself and others was not the real person he was. Harry did not like looking into the mirror of his soul and feeling as though he could never measure up. Who is the real Harry?

Successful trading requires self honesty. This requirement is one of the greatest road blocks to a person's growth as a trader. This is one of the major reasons why relatively few people become successful traders despite the existence of excellent educational protocols that teach you how to technically trade. In the example of Harry, you learn that Harry has been less than honest with himself for most of his life. No one or nothing has held him accountable – until he opened his trading account and started trading with his own money. That is when he realized that he was going to have to take a good, long, look at himself if he wanted to develop into a successful trader.

## **The Organization of the Self**

This is where brain and mind are inseparable (more about spirituality later in the book). Together they create an identity called “you”. When you and your brain are first born, your brain has already started adapting you to the environment to which you are born. To survive as a social mammalian, the developing “you” needs connection and



cherishment in the context of safety. By becoming attached to a mother, these fundamental needs are met. Later this circle grows hopefully to include a father, a family, a clan, and a community. It is in the attachment to these interlocking systems that our sense of meaning of the self and our social identities are created.

Our deepest meanings of self are wired into us by the emotions that surround this need for attachment. Biologically if the conditions of connection, cherishment, and safety are not met, our survival is threatened. So creating strong attachment bonds is vital to our survival. And our brain is going to organize our developing personality to ensure that this interlocking system takes care of the person we are becoming. This is where it gets interesting to the future trader.

Our most primitive fear is the fear of death. Out of this primordial fear come the psychological fears that contaminate a trader's mind that we will soon be exploring. It is these secondary fears that keep the trader from trading with a clear mind. In the quality of these early attachments comes our sense of worth, our sense of adequacy, our sense of importance, our sense of competency, how we react to failure, and how we react to success.

Our developing brain organizes our sense of meaning into perceptual maps that we use to interpret the world and learn who we are in the world. And out of this perceptual map comes our beliefs and our unseen biases. They become "us". These patterns become organized into our neural circuitry and become familiar patterns – not because they are "true" or "right", but because they are simply the responses the brain made to organize you for survival in a particular environment.

This perceptual map becomes your comfort zone. Your comfort zone becomes a box, or a prison, to the possibility of who you can be. You literally get locked into a particular way of seeing the world. And until you learn how to emotionally regulate yourself, you will experience

discomfort every time you try to change. This is how people get stuck in self limiting beliefs and predictions about themselves and their trading.

The great news is that these beliefs and predictions can be changed! Later in this book we will explore how to re-define our relationship to that primal shaping emotion – fear. Right now, what you need to understand is that fear, in its very nature, constricts possibility. It locks you into predictable and reactive patterns of thought and behavior that have proven effective for the short term avoidance of threat. This is the comfort zone, the perceptual map, that you bump up against while trading. And the problem is that this primitive fear cannot distinguish between a threat to life and the psychological discomfort of risk management. Transcending the biological imperative of fear to avoid threat so that it does not overwhelm thinking is the first task that a trader has to accomplish.

Later in the book, you will be shown specific skills and tools you can develop to begin this process. First, let's look generally at them. Basic emotional state management principles apply here. Your body, your brain, and your mind have to be calmed to begin this process. Otherwise the chemical nature of fear in the body will quickly reach high levels of arousal and will hijack the trader's capacity to maintain a calm state of mind. (Just ask any trader who has experienced the fear of pulling the trigger.)

To interrupt this process, traders will need to learn to volitionally breathe diaphragmatically – long, slow, and deep. This style of breathing impacts the heart rate which is connected to the “fight or flight” response that is part of our primitive survival brain. Without interrupting the arousal of an emotion with this kind of deep slow breathing, the trader, in effect, is adding gasoline to the fire of an emotion – particularly fear. If not managed, the emotion will explode and take over thinking. Suddenly, the trader has self doubt, second guessing his decisions, and is seized by fear. With diaphragmatic breathing, you choke the emo-

tional fire and return to a state of calm.

This is not the “cure” to compromised thinking. It is the first aid relief of an emotional hijacking – much like an emergency room physician first stops the bleeding before the real problem is addressed. The calmness releases tension from the body, which, in turn, helps slow down thinking. A calmer mind is necessary to develop the powerful skills of discipline, patience, impartiality, and courage so important to peak performance trading. This is where the trader’s state of mind for peak performance can be developed.

### **Mindfulness – the Second Step to a Peak Performance Trading Mindset**

Getting your body, brain, and mind calm does not solve the problem of creating a performance state of mind for traders. It has only given the trader skills and tools for the first level of emotional state management. Next, you have to wake up from your mindlessness. You need to develop an awareness of the thoughts in your mind and begin to examine them. You have to become an observer of the thoughts in the mind, rather than blindly drifting wherever your thoughts take you.

What does that mean? Let’s use an example to illustrate. Imagine being in front of your computer screens waiting for a set up to appear. You are waiting with anticipation as several possibilities emerge. You watch as the possible trade approaches the entry point. Now it is at the entry point and you find yourself looking for confirmation and more confirmation. Tune into the conversation in your mind as you watch this trade. “Should I take this trade? What if I’m wrong? A little more confirmation before I pull the trigger! It’s here; pull the trigger before this one slips by? Are you sure?”

Have you ever found yourself in this type of conversation? If you are not lying to yourself (mindlessness) – sure

you have. In this case though, you are being asked to be mindful of your thoughts rather than to be swept away by them without observing them. Without training, most of us get swept away into this line of thinking without ever waking up to the thinking going on in our mind. This is called mindlessness. And it produces disastrous trading results. Being mindless while trading is a set up for failure.

In mindlessness, the trader becomes blind to the thinking going on in his mind. And in that blindness, the trader is consumed by those thoughts. He or she may not even notice the thoughts, while others believe that “they are only my thoughts”. Becoming mindful of your thoughts takes away the power of streams of thoughts to simply hijack your mind and take you to wherever they are going. In trading, mindlessness leads to poor trading results.

With applied mindfulness training specifically for trading, the trader becomes a witness to his internal thoughts rather than a blind victim of them. This “thinking” that you have become mindful of can now be examined. What you learn in the development of mindfulness is that you and your thoughts are not the same. In fact, a more powerful question arises. Where do these thoughts come from?

## **We Trade Our Psychology – Our Unseen Beliefs and Biases**

In the detached, calm assertive nature of mindfulness, we come to realize that thoughts are manifestations of our deepest beliefs and biases about ourselves, our worth, our (in)adequacy, and our power to influence our world. It is this core material that we have to re-organize to become a peak performance trader.

Most of us (traders included) avoid this necessary internal inspection of ourselves and our deepest beliefs about who we are in the world. It causes short term discomfort, so our biology triggers us automatically to avoid that discomfort – the threat. It is all exposed in trading though. In

fact, it is inescapable. In trading there is no place to hide for long from our deepest fears. They manifest in the conversations (our thoughts) while in the midst of trading decisions. Until we develop the emotional intelligence to face our fears and learn from them, the trader that we are will continue to produce mediocrity and draw downs to his or her trading account.

By calming the fear to a tolerable level, the trader can approach his/her own personal demons that keep him/her from organizing into a peak performance trader. In mindfulness, we learn to separate our identity from the historical beliefs that we were born into. A powerful possibility occurs here. Freed from the power of our fears, we can rediscover much more powerful meaning and purpose in our lives. And from this deeper sense of self, we have the discipline, the patience, the confidence, the impartiality and the courage to change ourselves and become the peak performance trader living within us.

This aspect of developing your trader's state of mind can be called the re-invention of the self or the re-organization of the self. Emotional regulation leads the trader to the stability where he can sit with his fears and resolve them, rather than avoiding them. In applied mindfulness training, the trader develops the skills of separating his identity from his thought life. With further development, the trader begins to direct his attention mindfully and brings into the light of his awareness the discipline, confidence, impartiality, patience, and courage that are needed to blossom into a peak performance trader.

This is the internal struggle that goes on within every trader. This is the process of knowing the self and conquering your fears. The outcome is a much more purposeful, meaningful, and joyful life. As an added benefit, the trader develops a peak performance state of mind. And it begins by equipping yourself to embrace your deepest emotions and fears that manifest in your trading. With an open mind, you become what you were born to be. And trading is your

teacher.

### **What Are the Fears that Bind You?**

But first let's learn to distinguish our fears. Let's go from a global and generalized understanding of the fear that sabotages your trading to a specific understanding of the fears that contaminate your particular state of mind while trading. Let's name the specific fears that keep you stuck in the prison of your comfort zone.

# Notes:

# Chapter 4:

## The 9 Roadblocks to Your Trading Success: How Your Fears Manifest in Trading

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*“Naming your fear  
is the first step towards conquering it.”*  
J. Rande Howell

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### A Story about Conquering the Fears that Limit Us

A little old lady was being interviewed on a national radio program about conquering fear. Appearing to me as an oxymoron, I asked myself, “What on earth could a 76 year old woman possibly teach me about fear?” Then I began to listen to her. “The little old lady” turned out to be an explorer and adventurer who had invested 50 years of her life into testing her limits against conditions I would never dream of challenging. I was hooked.

This interview was about her 200 mile march to the North Pole – unaided by modern technology. She wanted to conquer the North Pole the same way the native Inuit Indians would accomplish such a feat by using Inuit technology and methods. She lived in an Inuit village for three months to condition and train herself (remember she was in her seventies). As part of her training a village elder gave her a curious gift – a Bear Dog. Because she would be carrying no gun for protection, the dog would be her only defense against an encounter with a polar bear. Remember, she committed herself to conquering the North Pole only



with the equipment that the Inuit would have. (And for those of you who do not know, polar bears are fearsome predators, do not have fear of human beings and see us as a source of food.)

By this time I am thinking that this is either a crazy old lady or a woman of deep wisdom and conviction – and I was fascinated. I could see that this older woman was either fearless or knew how to manage her fears even in crisis situations. Clearly a new respect for her grew as I realized how courageous this woman was. (I also realized she could teach traders how to deal with their fears.) If this woman would prepare herself to confront a polar bear, a trader could be trained to face his fears.

The Bear Dog bonds to the human and develops a highly protective attitude for its human companion. The dog also has a unique way of confronting a dangerous hungry polar bear. The bear is never attacked frontally. This would be certain death for the dog. Rather he continues to circle the bear constantly aiming for the Achilles' heel of the polar bear. The dog's jaw is strong enough to snap the tendon of the back foot. If this were to happen the bear would die a slow death. Finally the bear gives up and goes away to seek easier prey. Theory and practice, to come together, require a leap of courageous faith.

Now imagine that one dog being the only thing between you and a 1400 pound hungry polar bear wanting to consume you for lunch. The woman experienced both biological fear and psychological in one package. The eventful day of departure came. The Inuit villagers gathered around her to wish her well. And the older woman, alone with her Bear Dog, began their hike to the North Pole.

This sounds like a trader's day, doesn't it? You begin your journey into trading alone each day. And you are ready to face the challenges that the market and trading will bring you. But how well are you equipped psychologically to face your fears? Every trader has a bear that stalks him.

How well prepared are you as a trader to deal with the “bears” that wants to consume you? This woman expected challenge in the completion of her quest. The difference is that she had built into her training, her methodology, a strong psychology of internal and external strength. She did not ignore risk – she organized her state of mind for it.

*The interviewer asked her, “Did you run into a bear!?” The courageous woman replied, “Yes, three times.” The interviewer, shocked, asked, “Weren’t you scared?”*

*“Why, yes, I was terrified,” she replied, “You know the North Pole isn’t like a flat plain where you can see the polar bear approach you from a distance. There is no preparing for it. It is sudden and without advanced notice. The North Pole is like a mountain range of ice and snow with no sound. You’re going around switchbacks with little or no visibility – and suddenly the bear is ten feet from you.” (Sounds like a trading day, does it not?)*

*“What did you do,” asked the interviewer? The adventurer replied, “I pushed through the fear. Fear is like a door. Anytime you experience fear, you have to push through the fear and have faith that the resources you need will be found on the other side of that door. This is the way I live my life. That is how you find out who you can be, rather than staying stuck in the prison of your fear. I do not allow fear to define me. Facing your fears courageously permits you the opportunity to grow as a human being.”*

Read this last paragraph again. Think of the limitations imposed on your life and your trading because you fear the idea of fear – not fear itself. This woman faced down a polar bear three times in her journey. Rather than avoiding her fears, she found a deeper confidence, discipline, and courage from which to face her fears. Looking out from

her state of mind into the world through a calm assertive sense of authority, she conquered her fears. Her psychology was not grounded in fear – it was grounded in calm authority. And this calm authority is a state of mind from which she trained herself to engage life. By training herself to “see” life from this state of mind, she created a very different life than if she continued to mindlessly interpret the world through a state of mind grounded in fear. As a trader what would be different about you if you did this also?

Every trader must face their “bear”. It is not a physical bear, but a mental bear that will devour you (or your trading account) if just try to avoid it. The woman knew she would meet the bear and she prepared her mind, body, and spirit for that confrontation. She faced her humanness, just as a trader (to conquer trading) must face his human fallibility. And just as the adventurer discovered all over again that the capacity to live from an empowered state of mind was within her, so can you discover the empowered trader in you. It is by confronting your fears, challenging them, and growing from them that you discover your deepest worth and strength.

Put your book down and journal this question now:

Who can I become as a trader if I push through my fears and “know” that the resources for growth will appear and am I willing to embrace them?

## **Naming Your Trading Fears**

If a little grandmother can regulate enormous fears, certainly you can be taught how to face your fears in trading. Now that we know that you, too, have the capacity to push through self-limiting fears and find the resources to redefine your relationship with fear, let’s look at the specific fears that create the road blocks to your trading success. These are the ones that keep you imprisoned in trad-

ing mediocrity. Fear always creates a box of reactivity – that is its nature. That box is built upon the biological and psychological motivation to avoid discomfort. The fears coalesce into reactive patterns that limit possibility. And until you push through them and find the courage to challenge them, the “bears” of your inner game of trading will consume you.

The remainder of this chapter will look the road blocks that block your way to trading success. As you read them, sit with them and let your mind percolate. See which ones resonate with you personally. These are the very fears that you will have to conquer (as our little old bear lady did) in order for you to move from trading mediocrity to success. If you are using a highlighter, mark which ones dominate your emotions as you trade.

The other thing that I ask you to notice is that these fears existed before you began trading, but then you had better success avoiding acknowledging them. You will notice this in the vignettes and discussion. The fears had been learned long ago – they were simply surfacing because of trading. The problem with trading is that you will be forced to face your fears. They become unavoidable. Now comes the opportunity to actually name what you have probably kept in the shadows of your awareness. This is a place where the fear is most dangerous because it seems to come out of nowhere (like the polar bear) to devour you. Now you are seeking it out. Feel the courage swell in you as you prepare to name your fear.

### **(1) Fear of Uncertainty**

*A trader, Steve, explains, “I’m actually a very positive and out-going guy. The glass is always half full to my way of thinking – except when I’m trading. It’s the craziest thing! In trading, I question my decisions and end up hesitating too long. Today I was looking at a*

*set up and it met the conditions of my trading plan. Logically I had enough confirmation to pull the trigger on the trade, but a little voice in my head kept asking, "Are you sure? You need more confirmation. You gotta be certain."*

*"Well, while I hesitated to clear up the uncertainty, the trade got away from me. It's not the first time either. That voice of self-doubt pops up in my trading all the time. And what's weird is that it seems to come out of left field. I mean, I'm trading to plan – I've got the risk management down. I know in my head these are low risk trades, but I hesitate in uncertainty anyway."*

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Steve is experiencing the fear of uncertainty. And it is a fear (a certain anxiousness) that he has lived with, but covered up outside of trading, for years. After trading for nine years, he knows how to technically trade his system. But until he learns how to regulate his deeply embedded beliefs about the need for certainty, his emotions will continue to sabotage his potential in trading. Not only is he coming up against the psychology of his beliefs, but he is also getting hijacked by this biology's mandate to minimize uncertainty.

Our human nature strives to make order out of chaos. Biological systems, such as human bodies, organize themselves to prevent the entry of chaos into the system. If the system is opened to the greater variability of the external environment, it is perceived as a threat to the survival of the system. Think of cutting your arm, and you will see this principle in action. The closed system of the body immediately starts patching up the wound to keep the unpredictability of the environment out. Closing the system (bandaging the wound and healing), returns the body to the state of preventing chaos from interfering with the body's need for predictability (survival).

The brain creates pattern to predict what will happen in the next moment, in the next trade, in the next economic cycle. This need to predict the future is deeply embedded into our emotional survival nature. We are wired to look for cause that creates a determined outcome – making order out of chaos. A great example of this comes from an experiment done with pigeons. Researchers threw a handful of grain into a flock of pigeons foraging on the ground. Then they repeated the exact behavior of raising their hand to throw the handful of grain into the midst of the birds. The pigeons, seeing the hand raised, took on the exact body positions they were in when the first “manna from heaven” was thrown. The pigeons were wired to find a causal relationship between their whereabouts and the arrival of food – certainty. This is how powerful the need to find predictability in the face of chaos is.

Traders experience the fear of uncertainty in the form of hesitation. They are looking for the confirmation of the certainty that something is going to happen. In trading there is not certainty – in trading there is probability. In risk management the trader manages the uncertainty with the probability of success. The odds need to be in the trader’s favor. Unfortunately for traders, this is not the way our neuro-biology evolved. Your brain wants certainty even if there is little probability of something bad happening. This is called negative appraisal. What you can count on is that your brain is a negative assessment machine. Evolutionally speaking, this trait gave our species a real advantage for survival. It kept probabilities of survival in our favor. The problem for traders is that this very hard-wired trait makes it difficult for the trader to distinguish between fear and risk management.

To move from the biological mandate of deterministic certainty to the management of risk and probability requires emotional state management to overcome the body’s hard-wired imperatives and the psychological mindset to manage risk. Our biological brain has to be calmed so that the fear

associated with uncertainty does not overwhelm impartial thinking that is required for risk management.

## **(2) Fear of Loss (Pulling the Trigger)**

*The set up was there; all Jim had to do now was pull the trigger. His hand hesitated as he felt the clamminess in his finger tapping the key. Jim held his breath. A cacophony of strident thoughts erupted in his mind as his gut tightened. A battle was going on in his mind. "You're going to lose. What if you lose? You can't win. Who told you that you could trade? You need to find a safer way to make money."*

*The battle in Jim's mind raged on – his hand frozen, his gut in turmoil. This was a battle he went through every day. And it was taking its toll on Jim. He feared pulling the trigger because he feared losing. In his logical mind he knew that traders always lose a percentage of their trades, but Jim could not shake the sense of catastrophe that would happen if he did lose. He did not like admitting this to anyone, but he was trapped by his fear of losing.*

*He grew frantic. "Just pull the trigger so it'll be over," commanded a thought in his head, "You'll feel better." Jim held his breath in anticipation and pulled the trigger on the trade just to escape the tension. What a relief! He could feel the tension drain from his hands and chest. Then the price took a nose dive. He stopped out. Then his growing sense of despair engulfed him, "What are you doing to yourself? Trading is killing you. Why don't you give up?", echoed in his mind.*

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This is one of the most common fears that traders experience. A trader's entire dramatic relationship with fear and future possibility are wrapped up in his fear to pull

the trigger on a trade. It is literally the moment of truth about whether you are emotionally stable enough to be trading at a particular moment in time. And like Jim in the vignette above, it is a time when fear crushes the possibility for a trader to be in a calm, disciplined, and impartial state of mind.

It is also one that illuminates the inter-connectedness of body and mind. You can literally experience the body and the mind seized by fear. In this vignette, the trader's hand is frozen, and he cannot pull the trigger. Has this ever happened to you? Simultaneously, his mind is plagued by self doubt. Fear has seized the body/mind of Jim – just as it does for many traders. And here we see the closing of possibility for successful trading. Why?

Jim's fear has set up the expectation of loss in his mind. Now the awareness in his mind is focused on loss if he acts. He is literally caught in a catch-22 of his own making. Unfortunately we generally find what we are looking for – or at least what the attention of the mind is focused on. The fear sets up the state of mind, and the state of mind "sees" what is possible based on the force of the emotional state. The mind on fear sees loss which is exactly what happens in Jim's case – and in many traders' cases.

Fear restricts the possibility that the trader can see. If he were in a calmer more disciplined emotional state, a very different range of possibilities would have been possible. But, locked into a state of mind rooted in fear, he loses his capacity to assess impartially the quality of his set ups. He became the bucking horse in a burning barn. Reacting instinctively, the horse is trying to defend itself from a source of threat – only to be devoured by it. Jim, like the horse, ultimately jumped into a trade impulsively simply to escape his fear.

Managing this fear so that it does not hijack the impartial state of mind and the courage to act within the risk management guidelines of a trader's methodology is a



novel idea. Gut level fear is not something that can be talked away or ignored. There is no leaving your emotions at the door in trading – no matter how appealing the concept. But the capacity to manage the fear so that it does not sweep you into reactive patterns can be taught - as we will see later in the book.

When trading is simulated, this fear stays in the background of your awareness because there is no possibility of real loss. However, the moment your money is at risk, (and you will most definitely lose money and take draw downs on a percentage of your trades) the primitive emotion that the fear of loss is rooted in stampedes your rational mind. And just as in Jim's example from above, the rational, left-brained (and well-trained) mind of the trader is swept away in a flood of self doubt.

To the emotional brain the fear of loss associated with pulling the trigger springs forth from the deeper, darker emotion – the fear of death. The emotional brain simply cannot discern the difference. Threat is threat. And loss is interpreted as a threat by this primitive, emotionally driven, part of our brain and mind. Until its power to hijack the rational, impartial thinking required for successful trading is managed, an anxious state of mind sabotages knowledge every time.

Add to this our culture's obsession with winning as a measure of our worth and importance as a human being. This creates a psychological pressure to perform to a set of expectations that are not realistic, or needed, for success. If you stay mindless to this pressure, you get stuck in the fearful pattern in which our friend Jim is embedded.

Regulating the instinctive aspect of this fear of loss is essential. It is by calming down the power of this fear to freeze us from taking calculated risks that we gain access to the state of mind that accepts risk and loss as part of trading. It is this mindset that allows us to stack the risk so that it favors the probability of winning more times than losing. You will be learning more about how to do this in the sec-

ond part of this book.

### (3) Fear Based Urgency to Make Up for Prior Losses

*John had a series of draw downs on his trading account over the last several days. He even was dreaming about losing in his sleep the last two nights. When he woke up in the morning, he had knots in his stomach that his coffee made even worse. He was worried. "How can I tell my wife? She's gonna be mad and disappointed at me.", he fretted to himself as he brushed his teeth and tried to avoid looking at himself in the mirror.*

*Pushing his anxiety aside as he had learned to do in Iraq, he steeled himself to his mission. "I'm going to get myself out of this pit I've fallen into. I'm going to make up for it today," he ordered himself. Using all the positive thinking he could muster, he told himself, "Your mission is to take back your position. This is an order!" Bringing up his system, he was ready to attack. John kept thinking, "Get it back. Get it back. You've got to be fearless. Charge! Take no prisoners." John disappeared into this state of mind, determined to make up for his prior losses.*

*That trading day was like a fire fight. It was intense. He became obsessed with the mission of making it all up. Though he made mistakes, he stuck to his guns – "Get it back!" When the smoke cleared later that day, John had lost the battle again. He had another draw down on his trading account. This was not fun any more, and John fell into a deepening pit called despair.*

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John's fear, based on his prior losses (and motivation to make up for those losses), led to an impulsiveness that took possession of his awareness (state of mind).

Emotionally such a feeling is often experienced as a mixture of both anxiety and exhilaration. The sense of urgency (the sense of mission in John's case) pushes an impartial state of mind (so essential for trading) out of possibility. He literally lost himself in the frenzy of this inner battle. This state of mind literally blinded him from seeing the ambush he set up for himself. This is how powerful a fear based urgency to make up for prior losses can be. John (and many traders) got so "drunk" on the desire to win that he did not see impulsive thinking taking over his mind.

John's beliefs did not have room for losing. His military training had instilled in him an attitude of conquest of mission. This state of mind may be good on a battlefield where the objective is to win on your terms against an enemy. This attitude will often work in other endeavors such as athletics or business where single mindedness of purpose is an asset. But it does not carry over to trading in markets where you have to maintain a calm assertive openness to what the market will give you – rather than what you can take from the market. In trading a certain detachment has to be developed so that emotions, with powerful urgency, can suck the trader into tunnel vision. This is exactly what happened to our friend John. He did not see that he was being entranced by the urgency of his fear pushing him to make up for prior losses.

Successful traders come to a humble acceptance of losses and the understanding they have about losses. They know losses are going to come. The trick is to discern what you can learn from your losses so that you become a better trader over time. The losses are about your performance (which can be improved) and not about a statement of your character as a human being. Performance and identity have to be separated (you will be learning more about this concept later in the book). Losses are a part of the life of a trader and have to be tolerated and learned from. You do not learn from success, you learn from your losses.

Developing an attitude to humbly learn from your

losses takes you back to face the fear – but from another perspective. This is critical to the evolving trader. Once the biological element of fear is removed (the market is not going to kill you), the trader can become open to what the psychological discomfort can teach him. This is where the trader must re-organize how he thinks about markets and how he emotionally reacts to challenge.

Until the trader has the internal resources to regulate this fear, it will devour him. The trader, in his mindlessness, (like John in the example above) chose to attack his fear rather than to learn from it. The price of this state of mind is that you do not learn and you keep repeating the pattern of loss. Regulating your emotional nature and opening yourself up to change is the state of mind that has to be developed to move out of this pit.

The trader ultimately will need to re-organize his understanding of loss from a short-term fixation on threat to self to a long-term position where profits and losses are part of the game of trading. When the trader is able to effectively regulate the power of the emotion, the notion of managing risk is transformed so that the trader has more winners than losers and his ratio of the size of his winners are larger than his losers. Fear of loss is transmuted into risk management at this time.

#### **(4) Fear of Not Being Right (making a mistake)**

Until they are able to deconstruct and reorganize their understanding of self, people who have a perfectionistic mindset have a difficult time in trading. They may know on an intellectual basis that no one wins all the time in trading, but emotionally they hold themselves to an impossible winning standard. Even if they win, they still find fault with their performances. This second guessing themselves eventually eats at their confidence.

If you are contending with perfectionistic tendencies, you will find a constant negative chatter going on in your

mind – criticizing yourself for what you should have done or ought to have done. Let's listen to a trader who feels he has to win nearly every trade in order to feel good about himself.

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*George reports, "I can't stand to lose. I always see where I was stupid when I review my trades. Even though I'm making some money, I should be doing better. Good enough just doesn't cut it with me. I've got to do better than good enough. When I lose, I get frustrated and begin to berate myself. After beating myself up, I'll go back to trading. I figure punishing myself will motivate me to do better. What I don't understand is why I keep losing as often as I do and why I'm losing sleep because I'm worried sick. I guess I just need to push myself a little harder."*

*Before he started trading, George owned a business where he was very successful. He drove himself to perfection. He worked long and hard. And by setting standards higher than anyone else, he finally achieved financial success. His obsession with setting goals and doggedly pursuing them worked in the business world. After selling his business, he got bored and decided to pursue trading with the same passion and perfectionism as he did business. One of the major reasons he chose trading was because it did not require hiring employees who, you guessed it, did not meet his high standards of excellence.*

*This was just going to be him, his trading system, and trading. Nothing was going to limit his potential this time. After learning how to mechanically trade, he then began trading.*

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Actually George is in my office because his losing is becoming, more and more, a regular habit. And he just

doesn't understand it. The same hard driving, harsh task master attitude had served him well as a business owner for many years. He was the founder of a successful accounting firm where billable hours were demanded. He had learned to keep pushing himself to set an example to his partners and employees. Winning was calculated in hours billed, as much as possible. And the detail orientation, so necessary in an accountant's mindset, was honed into a perfectionistic worldview.

After burning out at the accounting firm, George sold his interest and trained to be a trader. During training and simulated trading, he pushed himself to be the best student in the course – and he was. The trouble began as he tried to assimilate his left brain orientation to thinking developed by years of practicing as a CPA into the emotional minefield that trading can be.

His having to be right and his belief that he should not make mistakes was slowly draining his optimism about becoming a successful trader. It was also beginning to drain his trading account. Underneath a perfectionist's drive to not make mistakes is a need for control and external validation. If he is right all of the time, he is in control of his sense of adequacy and mattering. The problem that a perfectionist faces in trading is that the market cannot be controlled and is a dangerous place to try to stake your sense of identity. As a trader risking your own capital, you approach the market humbly and with respect for what you know you cannot control. In particular, perfectionistic thinking has to be challenged, disrupted, and re-organized.

### **(5) Fear of Inadequacy (External Validation)**

Men, in particular, have a powerful inborn need to provide. Their capacity to provide can easily become a measure of their worth. If not effectively monitored and regulated, this genetically hardwired aspect of human evolution can easily become a liability in trading. There was a

time in the not so distant past that if a man did not provide for his family or clan, the family perished. As social mammals this trait became an element of his core identity. It was not an external psychological judgment of his worth, rather it was a biologically necessary element of his being for his clan to survive. This is an evolutionary motivation that has been honed over countless generations.

Even in today's world where women now have enormously expanded their potential to provide for themselves, this trait still is a dominant element in the core identity of "being a man". The paradigm of man being the provider has shifted in the modern world, particularly in the United States, but the genetics for this drive will be present for many generations to come. In a biological sense this drive has led to species success. But in our modern world this trait for providing can become misguided, especially in trading, when the need to provide becomes a psychological need to prove a trader's sense of worth and adequacy.

While many traders do want to create a sense of abundance from their trading, that sense of abundance is aimed at providing for their families (a purpose greater than the self – more about that later). When they do not get the feedback from their trading account that they are successfully taking care of their family (or their sense of ego), they can easily trigger to a sense of inadequacy. They will experience this feeling as a sense of shame, which is to be avoided at all cost.

As you might expect, they come to fear experiencing this sense of inadequacy. And this sets up a bad psychology for effective trading. Trading success, in their minds, becomes a measure of their worth as a human being (their ability to provide). They are blind to trading success as a performance in which they need to develop competence. The distinction between these two positions becomes blurred – or not recognized. External validation of worth defines the trader, rather than an internal validation of worth. Using success in trading as a demonstration of ade-

quacy is misguided and dangerous.

Performance in trading is an indicator of competency only in a particular domain. It does not speak to the adequacy or worth of the human being. This often becomes confused in trading and other vocations. In the United States identity and adequacy often become fused with a job or a career. What is one of the first questions asked when an introduction is made? What do you do? It is easy to fall into the assumption that what you do IS who you are. And how well you do becomes the marker for how adequate you are as a human being. This misguided line of thought will get you in trouble in trading.

Before getting into trading, most people sought to find success externally. They believed that, in their unexamined beliefs about success and importance, the more objects they owned that represented success meant that they were, in fact, successful. This is a cultural norm that all are born into in a consumer driven culture. This could take the form of the right house or car, one's standing in their community or one's accumulation of "stuff". And, in a short term way, people buy into this external expression of adequacy as proof of how important they are or how much they matter. Then they can create stories to cover their lack of inadequacy that no one can really check out in absolute terms. So people come to live in these facades, believing in their own lies. We have all seen this, and if we are honest with ourselves, we have all participated in this cover up. Trading has a way of exposing all this.

Once I was driving with the president of a small bank and his wife. As we were driving, an expensive Mercedes past us, and the banker's wife knew the driver. Her automatic comment was, "Look how well Jim is doing – he's driving a Mercedes." To which the banker (who Jim was a client of) replied, "You never know how he has it financed." And, in fact, the man was highly leveraged and in poor financial health, but he invested in looking good. It was a great cover up for the inadequacy kept hidden from



his social network and even from himself. In his self deception he believed in his own lies.

What does this fear of inadequacy look like in trading: Let's take a look.

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*Bob had something to prove to the world. Growing up, nothing he ever did was good enough. But this only motivated him more. He was going to show them. By sheer grit and determination, Bob was going to prove himself. By working hard and developing a take-no-prisoner's attitude on the tennis court, he "made" people respect him. He was a competitor and was driven to succeed to prove to everyone that he was "good enough".*

*Coming out of high school, he was not able to get into a college with even average academic standards – he went to an open enrollment school. After struggling through school and finally graduating, he began looking for a job in banking.*

*Unlike more qualified applicants from prestigious schools, Bob had to start at the bottom. What others had in smarts, Bob had in sheer determination and ambition. He began to even resent the way other bankers with more pedigree looked at him. "One day," he swore, "I'll get them back." He wore the right clothes, picked the right neighborhood, and he became a player. All this was done to prove himself to his elitist colleagues and competitors. Deep down, Bob felt inferior – like he didn't measure up. And he had felt that way his whole life. That is why he fought so hard in the turf wars in a large corporate bank. He became such a superior navigator of the politics in this world that no one dared cross him – until he was fired by a new management team. And you guessed it; that new management team was composed of the very elitist bankers from whom he wanted respect.*

*Unresolved though was his deep sense of inadequacy that he had pushed out of his awareness. He had built a strong driven personality to cover up this vulnerability. No one messed with Bob. However, Bob's "driven" adaptation to cover up his sense of inadequacy collided with his trading account. The attacking mentality he had developed to cover up his fear of inadequacy was exposed in trading. At first he blamed his platform, then he went searching for the Holy Grail of methodology – thinking, for sure, the problem was outside himself. No matter what methodology or market he attacked to prove himself, his trading account suffered.*

*Bob has not decided whether he will stay in trading or not. He says, "I may not be cut out for trading." Certainly he has done every thing humanly possible to avoid facing himself and pushing though his fear of inadequacy.*

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This kind of mindlessness will get traders into trouble. You can lie to others; you can lie to yourself; but you cannot stay in denial with your trading account. It will cut to the chase sooner rather than later. And when you fear acknowledging your sense of inadequacy even to yourself, you will blind yourself to its destructiveness unless you develop the courage to come face-to-face with your fears.

It is when you confuse performance with identity that the need for external validation of worth and adequacy takes over your state of mind (which is really bad for effective performance in trading). As you develop a strong sense of internal core worth, you can evaluate your performances and become more competent in performing them. They become only performances; they are not a statement of your worth as a human being. This will be explored later in the book as we seek to establish our sense

of identity with a power greater than the self.

### **(6) Fear of Self Sabotage (blowing yourself up)**

*“Things were going well; I hoped I had turned the corner. I was on a good streak and felt I was in the zone. Trading was profitable and I felt on top of the world. I had a positive attitude and I felt I was attracting the right set ups,” Kim then sighs and goes on, “But it felt too good to be true. I knew it. Things like this always happen to me. Then the bottom fell out. Suddenly I wasn’t in the zone anymore and I blew up nearly all the gains I had made over the last two weeks. I really don’t understand it. I was doing so well, then boom – I lost my groove. And, you know, I half expected this. I run in streaks, and then, out of nowhere – I blow myself up. I really don’t understand what is going on. I think that I’m just postponing the inevitable sometimes.”*

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Self-sabotage is a self-fulfilling prophesy rooted in the neurocircuitry about our expectations of the future. Read Kim’s story again carefully. Look for the deeply wired expectation that leads to self-sabotage. “But it felt too good to be true. I knew it. Things like this always happen to me.” In her mindlessness she does not even know to question this deeply-held belief. It is simply part of the fabric of her life. Her blindness to this belief and its expectation of sabotage creates her life circumstances.

She does not have the belief – the belief has her. It defines her identity because she does not see it and challenge it. It has become so familiar to Kim that her brain (and her avoidance of discomfort) has relegated this self-limiting belief into the background of her awareness. She becomes a puppet being controlled by unseen forces. This is mindlessness. It is not true in an absolute sense, but she makes

it true because she believes it. And by believing this self-limiting story about herself, she “looks” for it to come true – and she finds what she seeks.

The basis for pattern formation in this case starts with her family moving often during her formative years. She was the daughter of a career Air Force officer that demanded numerous transfers from one field of operation to another. Every time she finally got settled in a new location, got comfortable, and built a social network of friends, her family moved. She adapted to this lifestyle. The pattern became that every time she got good things going her way, they would blow up. This pattern became the norm and was unquestioned by her as she moved into adulthood.

Until she got into trading (her husband was climbing the corporate ladder and consequently moving the family around a lot), she was unable to have a stable career interest. Do you see the pattern continuation here? This is called a life script. Trading fit the bill for her – it was portable and interesting to her. The problem was that the pattern of self-sabotage carried over into trading from her formative years.

This is the way the brain works. It adapts you to survive in the circumstance of your environment. This adaptation occurs by creating patterns that allow you to negotiate your environment. Then the patterns go on automatic and operate in the background – outside of your awareness. The problem, in Kim’s case, is that they are also creating the circumstance of her life because they keep repeating themselves in Kim’s life. As long as she stays mindless of the power of these patterns to create the circumstance of her life, she will continue to sabotage her efforts.

Kim is a technically skilled trader. The problem is that she does not know herself well, so she does not know what makes her tick. The pattern of expecting to have the rug pulled out from underneath her operates outside of her awareness (familiar pattern pushed into the background) and, therefore, is able to continue despite her best efforts to

ignore it. Go back and read Kim's vignette. She is explaining the reoccurrence of these self-fulfilling patterns by saying (and believing) that it (the self-limiting beliefs) are just her lot in life. They are only the beliefs that got hard wired into Kim's neuro-circuitry as identity. And by not having the awareness to examine it, she stays stuck in the prison of her comfort zone.

Later in the book we will be addressing how to spot the pattern that drives your trading (and your life), how to disrupt it, and how to build new patterns that create much more powerful ways of trading.

### **(7) Fear of Missing Out (Greed)**

*“Just a little bit more, just a little bit more – I can milk this one!” whispered Mitchell under his breath. He could feel his excitement build as the trade kept trending upward. “Move your exit point higher – this one's a homerun,” a thought inside his mind encouraged him. And why not, this one had all the signs of a big one. Mitchell did not like letting the big one, the ones with potential beyond what his trading plan called for, to get away. Instead of taking smaller profits on any of his positions after the first ping, he decided to move his exit and let this one ride.*

*“Another one like this might not come along again in quite awhile,” Mitchell silently reminded himself. The trend continued and he was ready to grab all the profit that it seemed to be offering. He felt energized, his confidence grew – and that confidence began to blind him. Pushing aside his risk management rules because he did not want to miss out on this great opportunity, his trading plan parameters got pushed out of his awareness. The exhilaration of hooking and riding a big one blinded him to the down side of managing risk. In the clutches of greed, he did not notice the historical trend in this trade – it would drop like a brick*

suddenly. Having abandoned his stops to ride this trade, the deception in his mind caused him to fall hard. Another draw down.

Later that day, as he was reviewing his trades, Mitchell was puzzled. Stroking his chin he was chagrined. He pondered, "What happened? I know better than this. I have no idea why I behaved this way. I started out with the intention of trading my plan, and, somewhere along the way, I got sidetracked and forgot about everything I know. It's like I fell into a trance and my evil twin started trading." He chuckled to himself because he had no other explanation. It was confounding to him. He was smart enough, skilled enough, and confident enough to trade well. But there he was, getting into trades that were not the right set ups and then his good sense disappeared like dust in the wind.

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The fear of missing out urges many to push aside risk management tools that keep a trade within acceptable low risk parameters. The temptation is real. Instead of hitting a safe single or double on a trade, the allure of hitting a homerun or hitting the jack pot (with just a little luck) sweeps good sense off the psychological playing field and leaves the enticement of greed whispering in your ear. Real time temptation. Why not swing for the fences? It feels great when you take all the money on the table. And you get to feel powerful. You get to feel like the hero in a movie.

Occasionally when you move your stops and exits, you do win. You also move your trading into the arena of gambling – not risk management. Actuarially a casino knows the odds much better than the gambler – and they stick to their trading plan for the gambler. On a few occasions the gambler does win and experiences the thrill of winning the jackpot like a drug. Then he is hooked, much like our friend Mitchell is in the vignette above. What the

casino knows is that the gambler will ride his euphoria and never see that the odds are stacked against him. He, like the trader, becomes entranced by the chance of hitting it big. As the greed kicks in, it takes over reason. Once under the ether, the trader becomes mindless and sees only through the eyes of greed. This is what happened to Mitchell. And he wins some – at least on paper. He starts out with the intention of trading to plan. But he is seduced by the allure of greed. Soon, any semblance of an impartial, disciplined state of mind is eroded. Gambler and trader have already lost at this point. Psychological management is really this important.

Ultimately he gives back his earnings (and then some) to the house. The casino is playing by the rules of risk management while the gambler sacrifices his sensibility to greed – the house wins consistently and the gambler, though he has a couple of great thrills, loses consistently.

Trading in a market can be done from a position of impartial and disciplined risk management (which is what the house is doing) and a trader can win consistently. Or a trader can be sucked in by his fear of missing out of big money and get corrupted by his greed – which is what the gambler does. The only difference is that the casino wins consistently and predictably over time, while the gambler wins sometimes (in the short term). But he gives back his gains and loses capital over time.

Greed and fear of missing out, from an evolutionary survival perspective, is a very useful emotion. It pushed our ancestors to consume more than they needed NOW so that they would have the resources to survive in leaner times. Acquiring food on a regular basis could not be depended on. Nor was there an assurance of other supplies needed to survive. So, over countless generations, the capacity for greed was bred into the human genome.

At some moment in our biological history, humans developed a psychological self – and this is where greed and fear of missing out got disconnected from their biological

roots. Suddenly humans were not only putting on fat for the winter and putting away supplies for leaner times (survival motivations), they were putting away money for a rainy day. Eventually the power to survive and prevail became associated with money. By accumulating money we find external validation for our sense of power, our mattering, our importance, and for our power

In trading, if this fear is not recognized and managed, it will blow up your trades and trading account. You have to build the psychological strength and discipline to resist it. In the case presented above, Mitchell does go on to develop the internal strengths to resist the temptations of striking it rich quickly and the euphoric rush that takes over the mind of a trader sucked into a mindset controlled by greed. He had to work on it and re-organize the way he understood success to accomplish this victory. By doing so, he actually achieved the success in the longer term that his greed promised in the short term. This is a classic internal war where a biologically based emotion outlives its usefulness when it takes over psychologically the state of mind of the trader.

## **(8) Fear of Failure/Fear of Success**

*Chuck had worked hard with me. Initially he had been a therapeutic client.. In this moment of his life he was at a decision point about what direction to take his life and he did not know what to do. As it often does, this indecision showed up as anxiety. As he learned how to work with his anxiety rather than avoid it, he realized that he needed to move back home and run the family business. It needed him.*

*His father had died and he was the only one in his family who had the financial background to run the real estate development company his father had started. The dilemma he had to come to terms with was whether to give up his independent life where he was*



*proving his worth outside of his family's influence or move back and run the business his father had started. It was a tough decision because he knew he would always be compared to his father – something he had run from. He came to terms with his anxiety and moved back home to run the family company.*

*Our relationship also changed. Chuck then engaged me as a personal development coach. In this role his work focused on developing the leadership skills he needed to run a large family-owned business. Over time it became more profitable than when his father ran it. But he discovered that he still did not want to walk in his father's footsteps. What he wanted to do was create his own wealth and identity outside of his father's shadow.*

*This is where he began to learn how to trade. Very smart guy that he is, he studied methodology seriously while simultaneously developing the psychological skills for trading. Over time he really re-organized himself psychologically to become a better trader. He worked through a fear of inadequacy rooted in his father's expectations of him – and his desire to please his father. His father, loving dad that he was, had the mentality of a homerun hitter, which he mindlessly tried to pass on to Chuck. The problem was that Chuck was a safety hitter. Hit singles, get on base. Keep driving in runs.*

*Chuck worked through these old familiar patterns and established his own, much truer-to-self, style of investing. Gone was the need to prove himself by taking on too much risk in a trade, as his father would have done. And what showed up was a confident, low risk trader who began to consistently win. So what's the problem, you may ask? ( I sure did.) Though he had a winning percentage, his profitability ratio of winners to loser was only marginal. How could this be?*

*Chuck had learned not to excel. When he was growing up, his older sister was cognitively challenged. He was constantly being told not to “show up” his sister so her feelings would not be hurt. The problem was that Chuck was not being encouraged to expand the possibility of his being. If he did, he was reprimanded. In effect, he was told not to succeed. In fact, a belief was engrained into him to hold back his potential. And he learned how to do exactly that.*

*Here he was in trading. And he came face to face with the truth about trading. Trading will expose every vulnerability you have. If you develop a new habit of learning to be mindful of your vulnerabilities rather than avoiding them due to the initial discomfort of engaging them, trading becomes a power tool of transformation.*

*He had never seen this pattern constricting the possibility of who he could be. It was just an adaptive pattern that had slipped into the background of his awareness – out of sight, out of mind. But by developing the capacity to look for his vulnerabilities, rather than cover them up, he was ahead of the game. This pattern of being fearful of success (not showing others up) had slid out of his awareness at an early age. It had been a successful way of negotiating the world in which Chuck used to live. At 41, and with a need to prove himself, it no longer carried good survival value. And certainly it held him back from thriving as a trader. Using the methods and technologies described later in this book, Chuck re-organized himself and found that inwardly he always wanted to be successful. Now he gave himself permission to do so.*

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What we can see from this vignette is that fear of success is a learned way of coping. It was important in Chuck’s family for his older sister not to be triggered to

shame by the performances of her younger brother. There was unintended blow back from this environmental pressure. Chuck learned to fear, and was actually uncomfortable with, success. And you can see how it led to mediocrity in his trading.

There are many variations to fear of success. Sometimes we are punished if we are too successful, so we learn to sabotage our success before it can hurt us. Other times we learn not to risk because we may lose, so we learn to sacrifice the success we might gain for the mediocrity of playing it safe. When we begin to see that we are born into a history of beliefs that was embedded into us long before we could reason, we can appreciate how we could inadvertently learn to look through eyes that do not want to succeed and know the possibility of who you could be.

What I invite you to notice about Chuck's case is that the narrative instilled in him followed him into trading. It did not show up because of his trading. He was born into a history that shaped him. It (the historical narrative of not excelling) was exposed by his trading. Chuck's inquisitive nature and his courage to confront himself is what allowed him to "see" this pattern as not who he was, but as who he had become. And what he knew was that he could change that. He knew he could re-organize who he understood himself to be. This is the power of trading as a tool not to just make money but also to know the self – and take charge of re-inventing the self.

## **(9) Fear of Growth and Change (getting beyond the box of your comfort zone)**

*"Once I make \$10,000 in a month, I seem to hit a brick wall," Charlie explained to me. "I might do that in 3 or 4 days or on the 31<sup>st</sup> day of a month, but when I reach that level, the wind goes out of my sails. It's like I just stop," he continued, "I've hit \$10,000 in three days before and I broke even the rest of the month, and,*

*boy, it was hard to keep motivated. It was like a switch clicked off in me and I quit.”*

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Charlie has a problem many traders would like to have – he is making money. But he is also stuck in a pattern that has him stymied. When he first started trading, his goal was to replace the income from his real job and then some. It had taken him several years of learning how to trade, and finally he realized his dream. He quit his job and became a full time trader.

In his mind he “saw” \$100,000 a year as a vision of success – more than he ever made in his job. And, after careful consideration, he set his sights to make \$10,000 per month or between \$100,000 to \$120,000 a year. This was a big threshold for him. During his business career before trading, he had flirted with that level of income. But for various reasons he had never achieved it. With trading, he knew this level was possible, and he wholeheartedly committed himself to this goal. He really knew he would have to push himself, but believed this level of income was possible for him.

Now it was as if there was a glass ceiling, invisible to him, that kept him from going beyond that line in the sand. No matter how much he pushed himself, he stayed stuck in this pre-ordained level of income. He was stuck, and he could not tell what held him there.

He began examining his trading with his trading coach, and he realized he had created a self fulfilling prophesy that now limited his understanding of financial success. It is as if he sabotaged himself when he was having good months so he did not go beyond his notion of success. He was doing exactly what he had set out to do (that was a stretch in the beginning), but now seemed stuck in this particular level of success.

When his trading coach referred him to me, he began to examine this familiar pattern with a keener eye. For

most of his life he “saw” making \$100,000 to \$120,000 as the level of success that was possible for him. He could hear his father preaching to him, “Cracking that six figure income, that’s what you want to do.” He never realized that this family inspired declaration of success would become an embedded perceptual map in his brain – and that it would limit his potential.

Charlie had never thought much about this threshold of success his father and family history had instilled in him. But he strove to achieve it. And, in fact, it was why he started trading. He realized that to make a \$100,000 income in his corporate job, he would have to give up his personal and family life. There were more important things to Charlie than giving up his life to make this standard of success. In his mind though, completely out of his awareness, he kept looking for a way to achieve this level of success. Internally this was the gold standard (\$100,000 a year and a family life) for Charlie.

Now that he had achieved it, something did not feel right. What Charlie realized was that this \$100,000 level of success belief running in his head was his father’s voice speaking to him. He laughed at me and said, “I can still hear my Dad’s voice telling me to make \$100,000. I didn’t realize that it was going to limit me also. What I’m discovering is that I have to really examine my beliefs. And what I’m discovering is that many of “my” beliefs are not mine at all. I got born into them and accepted them like I accept the air I breathe or the way a fish accepts the water it lives in. It just didn’t occur to me to question my beliefs about wealth. I thought everybody had these beliefs. Boy, talk about being blind to what I am blind to.”

Charlie has just experienced how beliefs from past generations become embedded into our neurocircuitry as our own beliefs. In reality, they are not our beliefs. Rather they are the beliefs that we are born into and incorporate into how we interpret the world. For Charlie, success became a \$100,000 world. The moment he tried to push past

it, discomfort was triggered in Charlie's perception and he traded down to this unexamined standard of success.

And what Charlie was discovering was how hard it is to change an ingrained habit. He did not even know how to look for this limitation to performance and possibility. This is exactly the way familiar patterns operate. Just like Charlie, you do not know to question your beliefs because they are so familiar that you no longer "see" them. Though you may be blind to them, they still influence the way you "see" yourself and what is possible for you.

Charlie, now that he has woken up from the ether of his mindlessness, is about to embark on a journey into the discovery of how to re-organize the perceptual map – his comfort zone – of his trading world. And he is beginning to realize that he will need to de-construct a generations-old family story about money and success – and worth. A story that has been coming down through the generations like an avalanche, consuming potential while no one noticed. Learning how to wake up from this mindless acceptance of historical beliefs that limit you as a trader and a human being is where we will direct our attention now.

How does Charlie's story of limited possibility relate to you and your trading?

## **Looking Forward**

Now that we have examined fear and the way it shrinks possibility, we will explore how to work with your fears. Moving from the global experience of fear, in its many forms, you have had the opportunity to specify your fear. This way you come to a much better understanding of where, specifically, your fear is grounded. Now we turn to learning how to deal with it. It is by actually waking up to the fear (becoming mindful), learning to regulate the fear, and pushing through the fear, that you learn how to transform the possibility of who you are as a trader. Fear truly

constricts possibility. To open up the potential that lies dormant within you as a trader, fears have to be embraced with a new set of skills and tools that we will now explore.

# Part II

## Re-Inventing the Self: Creating a Trader's State of Mind

In Part I we looked at the pieces of the puzzle. We examined how biology, circumstance, adaptation, development, and attachment forces congeal “you” into a particular way of automatically understanding the world. It is this very bundle of beliefs, perceptions and biases, called conversations in the mind, that determine how you trade. These elements have to be brought into awareness, examined, and re-organized. Particularly we have examined the power of fear to constrict possibility that keeps you contained in self-limiting beliefs about the nature of trading and markets. These are called self limiting conversations of being. You do not have them – they have you. They create how you dance with the market, for better or worse. Now we are going to be looking at how to re-organize the self to become an effective trader.

There is a three staged process that we will be exploring in Part II. First we will focus on emotional regulation, then we will open a new way of understanding the mind. Finally, with the knowledge gained about how to manage body and mind, we will explore how to awaken the peak performance nature that lives within us.



The Emotional Regulation chapter will focus initially on how to use the body and mind to manage fear. If not managed, fear will take over cognition, and you will create a fear-based state of mind. This is probably something you are already familiar with. You will be introduced to skills you can use to manage your fear, greed, or impulsivity so that they do not take over your trading.

As you approach the mind, you will learn how to view thought very differently than you currently do. What you call thoughts, I call the internal dialog. It is this internal dialog – streams of thought occurring in your mind – that poses the most vexing problem you have in trading. You will discover that there is much more to it than you imagined. And, until you learn how to effectively deal with it, you will remain in the quagmire of mediocrity.

You will develop the skill of Mindfulness to observe the thoughts in the mind. And what you will discover is that you do not have thoughts – they are having you. And, as long as you remain mindless to them, your performances in trading will be compromised. It is this distinction that opens the door to radical new possibilities in your trading. You will learn how to re-organize your perception of the market so that trading effectively becomes not just a possibility, but a probability. The key is to move from a belief system that is galvanized on not losing to a mindset that is focused on managing risk so that the probability of success is in your favor. This is the movement from lower order thinking to higher order thinking. And it requires learning to regulate the self.

Finally, we will explore powerful aspects of yourself that have lain dormant inside you. You will learn who they are and how to gain access to them. From this new horizon, you will be able to begin to reconstruct the person you are – the one who trades. This is where you will learn how to re-organize yourself into an effective trader's state of mind. Fortunately, neuro-science has opened a powerful

possibility—the plasticity of the brain and the emergent mind - that can foster change for us.

What this means for you as a trader is that your beliefs and perceptions are not frozen artifacts with which you are stuck; but instead they are fluid and can be reshaped. And now you are turning toward the possibility of reshaping your beliefs so that they bring forth an effective trader. It is a state of mind to be built. From this position you will experience the calm, the discipline, the patience, the impartiality and the courage needed to build a peak performance state of mind for trading.

# Notes:

# Chapter 5 :

## Taming the Furies Disrupting Fear and Calming the Mind

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*The very act of observing an experiment does,  
in fact, change the course of the experiment.  
Schrödinger's Equation*

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*“I don’t get it. I know how to trade,” explains Brian, “I’ve been trading for 9 years and I can’t seem to break through this barrier to really successful trading. Something is holding me back, and I don’t know what it is. I see a pattern though. I see the set up. I see its potential.*

*But I’m tough on the price I’m willing to pay to get into a trade. I’m determined to buy at a price that will limit my losses. The problem is that often my buy order just sits there not getting filled as I watch the price climb. I realize that I could have bought at a higher price point and still made good money, but I want to limit my losses first.*

*What I’m beginning to see is that by focusing on loss abatement, I’m not really practicing risk management. Both the potential and probability for a winning trade is there. But I shut myself out of the trade because I assess from a negative expectation (contain*

*loss) rather than risk capital on the probability of a successful trade. It may seem like a subtle distinction, but now I see that is what has kept me from achieving my potential in trading for nearly a decade. I've tried various training programs about how to change my beliefs, and I've tried to click my heels and snap my fingers, but they don't seem to work for me. How do I get beyond this mindset?"*

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## **The Brain, the Mind, and the Market Collide**

Brian, like many traders, does not understand how to change deeply ingrained patterns of perception and behavior. He assumes that changing beliefs is a mechanical process where he can take a part off and put a new one on. His assumption about change is highly inaccurate. Until he grasps how to disrupt the biology of pattern, attempting to change his beliefs and thoughts will accomplish short term results that fade over time. And the old historical pattern will reclaim perception. This is the same reason why diets do not work. Most diets (and dieters) attempt to change behavior from the outside. This only changes the surface. The dieter, in the attempt to change appearance, remains blind to his self-limiting core beliefs of which over-eating is only a symptom – not the problem.

Let's take a look at what Brian does not understand about the biology of pattern and belief that limits his potential as a trader. He is trying to understand the market when he does not understand some fundamental aspects about himself. This is the piece about changing beliefs long term that nearly all traders miss.

Before moving to the market, let's make sure you know what the default position is for your brain and your mind regarding the market. Your brain evolved over eons of time to be a pattern recognition machine. With survival as an adaptive stressor, it also evolved to negatively assess

situations as a default position. So it is a pattern recognition machine as well as a negative assessment machine. That is the biological predisposition that you bring into trading just because you have a brain and body to preserve. You have an uphill struggle for re-training your biology to right this situation for successful trading.

This subtle difference can be seen in Brian's discovery. Despite knowing how to trade, the fundamental assumption he makes is focused on "not losing, or minimizing loss" rather than maximizing the probability of success. Because his mindset is locked on this position, Brian cannot "see" another world of risk management in which consistently successful traders operate. There is a biological bias, which has become a psychological limitation, and which Brian will need to correct in order for him to move to the next level.

As a pattern recognition and pattern creating machine, your brain's job is to discover pattern and build structure around that pattern so that chaos is avoided (same thing you attempt to do in trading). Like a singular cell biological system organizing itself so that the chaos outside the cell wall will not destroy the engine of life within the cell, so also do very complicated biological systems (such as "you") organize themselves. Your brain organizes you into contained structures (called comfort zones or perceptual maps), both biologically and psychologically, to avoid intrusion of the uncertainty of the world in which you exist. The problem is that in trading you have to embrace the uncertainty of the market. And instead of trying to control the market, you have to learn how to control yourself. To master the market, you will have to conquer yourself.

Like your biology organizing itself to survive in a larger eco-system that can and will be threatening, you build a psychology primarily invested in avoiding dangerous elements in your environment that could disrupt the structural integrity of the organization of the self called "you". Have you noticed how unsuccessful this strategy is when used in

trading? Like Brian, you try to avoid threat to integrity (loss), rather than manage risk for probable outcomes.

As humans in a quest for certainty in a world of uncertainty, we have closed ourselves off from the inherent dangers in the natural world. We build and live in houses where we control who and what we allow in the front door; we control the weather; we control our food, and so much more. It would seem that we have created the conditions of certainty where uncertainty used to prevail. We have the illusion of control.

Then life throws us a curve ball for which we are unprepared or we live lives devoid of adventure and meaning. Both are undesirable. In the first case, we are thrown into chaos. We are surprised because we have been following the rules under the assumption that they will lead to certainty. Faced with uncertainty, we either re-examine our beliefs and position and begin to create a new life – or we stay stuck insisting that our rules should work. Or we begin to seek adventure and meaning that throw us back to grapple with uncertainty and risk. The key is whether we have the skills to manage risk and uncertainty. If we do, we embrace probability and organize ourselves for the adventure to achieve that potential. If we do not develop the skills, we continue to crave certainty so we can prevent loss. And we forfeit our potential just as Brian is doing in the vignette above.

Brian's performances in trading kept crashing him up against the rules of his sense of certainty. Because he was so far removed from the uncertainty of the natural world that contains an element of chaos, his beliefs about how to interact with the forces of life seemed to work. He had achieved a false sense of certainty in his man-made world. Then he started trading and discovered that the world of trading did not follow his carefully orchestrated belief systems of loss containment.

The market he encountered defied certainty. To protect himself from this uncertainty, he screwed down the

conditions on his buy prices so that he could contain his losses. This protective behavior continued until he ratcheted down his potential for loss – only to find he also closed the probability of profit. What was he missing?

### **The Market as Uncertain Possibility: An Ocean of Possibility and You — the Surfer**

Imagine the market as the totality of possibility - unlimited in potential in any direction at any time. Potential for profit. Potential for loss. Potential beyond your capacity to ever comprehend. What you know is that the market goes up and down. Rarely does it stay unchanged for any length of time. Then imagine you as an observer watching the market. The market is an ocean of possibility, while you, the observer, represent someone in a small boat navigating in this infinite sea of possibility. What do you, as a buyer or seller, see? The tide goes in, the tide goes out. Storms come and go. There is no telling what this ocean of possibility is really going to do at any given time.

Yet, depending on the skill of the fisherman navigating the boat in this ocean of infinite possibility, he either harvests what the ocean is willing to give him or he keeps looking for what he wants from the ocean. If his vision is locked on finding what he is looking for, he becomes blind to other possibilities that the ocean presents. The ocean, as well as the market, does not know that the fisherman is there. It is incapable of wanting to help or hurt the fisherman. Possibility opens and possibility closes regardless of the beliefs or desires of the fisherman. The ocean simply is.

The ocean of possibility does not know that the fisherman is using a structure (the boat) to navigate through this sea of possibility. In the same way, the market is oblivious to the structure (methodology) a trader will use to help make sense out of the market. That structure helps the trader (the navigator and fisherman) of the market to make



short term predictions about what the market might bring forth at any particular time. But what the trader and the fisherman do know is that they have to be prepared for whatever the market (as an ocean of possibility) might do. The trader does not control the market, but he does control what he will do based on what the market presents.

A fisherman in a boat must bring skills to the dance between the ocean of possibility and him. He has trained himself to “follow” the lead of the ocean. By learning to respect and have reverence for the ocean, he is able to bring forth a bounty from the sea. He becomes attuned to the market. On the other hand, if he does not become an astute observer of the ocean and his beliefs about it, he can easily get hurt. He can crash his boat and himself. Neither the market, nor the ocean, would ever know. It just is. Therefore, the trader has to learn to stay calm and develop as an observer of the market who can successfully read the signs of the market. This is called "attunement".

Staying calm is the first stage into the journey of attuning yourself to the market as a trader. This is what we are going to examine now. We will first learn the fundamental skills of emotional regulation by managing our breathing and by generating a sense of calm. Without these valuable skills, you will not be able to stabilize your emotions so that you can develop the mindset of attunement.

## **Breathing – the Gateway to Managing Body and Mind**

*“It was like a runaway freight train!” explains Mark. “I could feel my gut tighten as I considered my entry point. I wanted a little more confirmation. Then I wanted a little more confirmation. I was holding back. I wanted to get in this trade, but I felt paralyzed. My finger was on the trigger and my breath was as frozen as I was. I couldn’t make myself pull the trigger. All I could think was, ‘What if you’re wrong!’ That’s when I noticed that I had stopped breathing*

*and was holding my breath. By the time I forced myself out of my tizzy, the trade was gone.”*

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What does breathing have to do with trading? More than you can imagine. Without effective skills in breathing, you are going to be hard pressed to become a consistently profitable trader. How can this be? Did you notice that Mark's breathing and the emotional state he was in were connected? Emotions, particularly fear and greed, have a particular structure to their biology. Breathing, believe it or not, is a component of an emotion that can be used to manage its nature. Fear in particular has a particular breathing style and muscular tension that is associated with it. In fact, this breathing style is a component of the way an emotion is aroused, grows, and is maintained (as is muscular tension).

This link between emotional nature and breathing did not go unnoticed in the Yogic and Buddhist traditions of the East. There, the practice of Pranayama (breath control) has been practiced for thousands of years. Through the skill sets of breathing and relaxation, Yogis were able to manage their heart rate, blood pressure, and metabolism rate in a way that confounded Western scientists. Herbert Benson, a cardiologist, began studying how Yogis were able to manage body physiology that Western science assumed to be out of conscious control.

Once he stripped out the spiritual traditions, he discovered that the control over emotion and body that the Yogis demonstrated was based on their developed skills in managing their breathing and muscle relaxation. Benson developed these processes into the Relaxation Response where he could train people to manage their stress and anxiety by breathing in a particular way and relaxing the body of muscle tension. He even developed a methodology to condition people to trigger to the Relaxation Response rather than to a stressful state of mind.

This process does not get at the core beliefs that cause a person to live in stress or an anxious state of mind, but it is great first aid in managing the fear that most traders experience while trading. Once the emotion is managed and is no longer sending the trader spiraling out of control, additional steps can be added to the re-attuning of the trader's beliefs to the market. But first you have to get the emotions under control.

## **How Breathing Works With Emotions**

Breathing is a unique hybrid to the brain and body. It is simultaneously autonomic and volitional. Due to its autonomic character, you are able to breathe without thinking about it. When you go to sleep, your breathing will go on about its business without your slightest concern. Due to its volitional nature, you can manage how you breathe when in an awakened state. It is this aspect, managing how you breathe, that is vital to emotional regulation.

Breathing is like air supply to a fire. Just as a blacksmith will fan a fire with his bellows to produce a hotter fire, your type of breathing will either fan the arousal of an emotional fire or quell the fire. In Mark's case in the vignette above, his breathing fanned his anxiety to the point that he became incapacitated and literally could not pull the trigger on a trade.

When the emotions of fear and anger are triggered, air supply to the brain is cut off. Consequently one's capacity to think is shut off. Both of these emotions deal with the fight or flight motivation grounded in primitive survival impulses. Biologically you are predisposed to react rather than think. All the body's energy is re-routed into the big muscles and is preparing you to fight or to flee. Thinking is not important at this time.

You may be saying to yourself, "But it's important to be thinking while you trade." This is true, and you have to overcome the brain's reactive pre-disposition to focus on

surviving while in a fearful state of mind. This process evolved over many millions of years and will simply overwhelm thinking when fear triggers. Until you can interrupt this process and return the brain to a calmer emotional state, your mind (your ability to think clearly) will be compromised. More about this in a few minutes.

## **Breath and Heart**

Once breathing becomes a skill, it can be used like a rheostat for your heart rate. There is a reciprocal relationship between the rate at which you breathe and the rate at which the heart pumps. When breathing with long, deep breaths you produce a mood of calmness where the heart is at rest and the heart rate is slowed down. However if you speed breathing up (or stop breathing), you also speed up the heart rate. As the heart begins to beat harder and faster, an alarm is triggered in the survival brain and it triggers to fight or flight. An emotional hijacking (and a bad trade) is in progress. This, in combination with your cutting off your air supply to the brain, leads the primitive survival brain to overwhelm the thinking brain and become a runaway freight train. This is not conducive to successful trading.

If you go back and re-read Mark's vignette, you can see this scenario as it unfolds in his trading. By not being able to manage this aspect of his emotional biology, Mark was doomed. It did not matter that he knew how to trade when he was in a calm state of mind. That state of mind was hijacked and Mark did not know how to regulate it. Therefore his trading was compromised. Once the emotion of fear had accelerated and taken control of Mark's mind, he froze and was unable to act.

## **Learning to Manage Emotion by Breathing**

More than 80% of illness is stress related. Stress,

as a form of fear, compromises your immune system. And with a compromised immune system, the probability of disease increases. Now, by understanding that fear has a specific breathing style associated with it, you can appreciate that the vast majority of people (traders included) breathe in a way that supports fear. By learning how to change the way you breathe, you can impact the residual tension and fear that resides in your body is just waiting to be aroused into full blown emotional hijacking.

In fact you can also set the stage to trade from a much calmer state of mind by changing the way you breathe. As an experiment, add a section to your trade journal that correlates your breathing, muscle tension, and emotional state. Most people do not even realize that they are breathing in such a way that supports their trading failure. They do not notice that their breathing is shallow, rapid, irregular, or stopped. Or they do not associate their breathing with their emotional state. This is important, for it will change the way you trade.

Once you discover the historical breathing signature that is associated with your fearful states of mind, let's work to change it. You can start practicing diaphragmatic breathing (long, deep, slow breathing). It is this form of breathing that uses the lower lobes of your lungs for much greater concentration of oxygen into the blood stream – and especially to the brain. Instead of oxygen being cut off from the brain, you are manually forcing an air supply to the brain. This creates the condition that allows you to calm down and think. Essentially you are putting your brain back on line.

The next thing that diaphragmatic breathing does is to slow down your heart rate. Remember that your heart rate and your breathing rate are correlated. Here, by developing the skill of mindful breathing, you can control heart rate. This, in turn, controls the alarm system in the primitive brain. With the alarm system managed, you stop the emotion of fear from hijacking your thinking. This

establishes a state of calmness as the state of mind that is now available to you and your trading.

The last result of diaphragmatic breathing is muscle relaxation. Muscles tense as the body prepares to fight or avoid threat. These tense muscles become part of the signature of the fearful emotional state from which most traders act. As you take long, deep breaths, you will notice your muscles drain tension away leaving you with a calmer state of mind.

So developing the skill of diaphragmatic breathing with which to manage the emotion and state of mind you trade from is an essential skill. There are a number of avenues through which you can learn diaphragmatic breathing. If you have ever taken a Yoga class you have practiced this form of breathing. There are also various books and guided meditations that teach you the skills of calming the mind and body through breathing also.

In the breath training I teach to traders, I emphasize a form of diaphragmatic breathing I call bellows breathing. It is taught so that it shows up as you trade. Often what happens is that the skill of diaphragmatic breathing is compromised if the skill is not taught in the very environment in which it will be used. This is called stress inoculation.

### **An Exercise:**

#### **The Skill Development of Diaphragmatic Breathing**

Find a place where you can sit quietly for a few minutes and not be disturbed. Give yourself permission to slow down. You can promise yourself that after this exercise, you can go back to your busy life. But right now, you are going to take a break.

Begin to watch your breathing. Notice how most of us only breathe part way down our lungs. Take your fingers and point to where on your chest your breathing normally stops. For most of us, it is in the top sixth to third of the lungs. This is shallow breathing.

Then imagine that your abdomen is a big red balloon. And, using the muscles of your belly and your lower back, pull air from your nostrils, down your windpipe, and into this big red balloon – then let the breath expand to your upper chest. Then release slowly. Each time you take a breathe in this way, allow yourself to slow down and count slowly to 5 on the inhalation and to 5 on the exhalation. And with each breath you take, allow your muscles to drain the tension until they are relaxed.

Now repeat the above sequence. Start with repeating it 10 times in a practice session and keep increasing it until you reach 100 breaths. Notice the difference in mood and relaxation from before and after. What feels different?

Next, once you have the basics of diaphragmatic breathing down, begin using this newly acquired skill during your trading day to keep yourself calm and relaxed. Notice the difference in emotional quality. Remember, this is not the cure to your trading issues. This is the first step you are taking to be able to emotionally regulate yourself so that you can learn the inner game of trading. Without breathing and emotional regulation, you will not get to the core material within the self that needs to be re-organized. This is the first step, and a necessary step.

People who have been trading from a fearful state of mind (most traders) find this exercise to be an essential element of preparing for and maintaining a peak performance state of mind for their trading. This breathing technique requires persistent rote training so that it becomes a habit. It is also something that you will continually need to be mindful of. Until you have it as a habituated behavior, you will always fall back to your old breathing pattern that supports fear based thinking. Using diaphragmatic breathing volitionally is simply the first step to mastering your emotional nature. So much becomes possible as you realize that body, brain, and emotion can be calmed. Instead of becoming reactive to your fears, you can become pro-active in other areas of your trader psychological development.

Once you learn to interrupt and manage the fear in the body, it is time to work with the fear in the mind. That is the next step. Stay tuned.

## **SafePlace – Taking Fear Offline**

*“There is a place up in the desert plateau that my wife and I like to go,” reports Bruce, “It’s a place that sits high up on a bluff in the desert where you can see forever. You are truly the visitor here. It’s just you and the vastness of the West. Nothing has changed in eons – it’s been here long before I got here and will be here long after I’ve gone.*

*It’s off the beaten path so it takes some effort, but the place has drawn us to it for years. There are no lights or distractions for miles. We’ll sit out on that bluff at night in the cool, crisp autumn evening and look out into the vastness of space. You can hear the wind coming toward you for miles on end. It is so clear that the Milky Way looks like you could touch it. My wife and I will lie beside each other holding hands and are blown away by the wonder of it all. I feel so at peace in this place. It is here that I know that I am blessed.”*

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Bruce has just described a highly enriched memory that is associated with an emotional state of calm peacefulness. And he has built this memory using emotional memory technology that allows him to call up this memory – and its emotional state – while he trades. With this technology he is beginning to take charge of the emotional state from which he trades. With it, Bruce is able to take fear offline in his mind. By managing his specific fear of loss



mindfully (and not just pushing it out of awareness), he is able to open himself up to observing the market in a way that is far more profitable and less stressful. He is no longer observing the market through the eyes of fear – now he can observe the market and his trading from a state of calm.

Instead of falling into an emotional state (which is what most untrained traders do), Bruce is designing the emotional state that gives rise to his state of mind. And it is your state of mind that sees the range of possibilities that the market presents. It is from these perceived possibilities that you trade (take action). You were introduced to this perceptual map in a previous chapter.

This is the sequence:

**Emotion State → State of Mind →  
Range of Possibilities → Action.**

Bruce has figured out how to design the occurrence of a particular emotional state, a calm sense of safety, which leads to the invention of a state of mind that produces successful trading. He has purposefully taken fear off line and replaced it with a volitional emotional calm. Out of this calmness beyond fear, he is able to direct his attention to the construction of a state of mind that now allows him to develop the characteristics of a successful trader – discipline, patience, impartiality, and courage. Until you as a trader can establish a calm emotional state while in the act of trading, the development of a trader's state of mind will remain elusive to you.

And Bruce created this possibility by intentionally manufacturing a memory that automatically created an emotional state of calm. How did he do this?

### **You Create Emotionally Based Memory All the Time**

One of the functions of your brain is to built highly

charged emotional memory. Most of it is centered around the avoidance of fear and stressors in the environment. Think about yelling the word “FIRE” in a crowded theater. Your rational brain gets hijacked and you will see how powerful emotionally charged memories are. You incite a stampede. This is what happens when a trader becomes anxious while he is trading. He is remembering the losses from yesterday (or today) in highly enriched emotional detail and is using the memories of those losses to provoke himself to avoid further loss. He finds himself in the grips of the fear of loss. And if he pushes himself into the trade, the anxiety grows because the memory is so enriched that it provokes a fearful state of mind. Of course, this leads the trader to see negative possibility for himself in the market. From here, the downward spiral continues - just like the stampede in the theater.

It does not have to be this way. You can begin to direct the way the brain creates memory and use it to maintain a calm state of mind in the presence of the market and your trading. This changes the way you perceive the market. You begin to see through the eyes of a calm state of mind, rather than a fearful state of mind. From these two states of mind, the trader sees different markets – different opportunities. From a calm state of mind, you also have access to much more powerful parts of the self that lead to better decision making while trading (more about this later in the book).

This state of mind requires taking responsibility for the memories you volitionally create. This leads to intentionality about “who” shows up to trade — a fearful self or a calm assertive self – your choice. SafePlace development, combined with breathing, opens the door for a trader to design the organization of the self that trades. The actual technique is called self soothing. In the Ignite Programming I use memory of a place to create the emotion of calm, so it becomes a safe place. Various other techniques can be used to achieve the desired goal. My technique was

developed in order to interrupt the growth of anger in violent prisoners. To do this, I engineered the process to pop-up during moments of stress so that it was independent of thought.

Take a look at what Bruce did in the vignette above. Historically when Bruce let his thoughts and emotions mindlessly drift as he traded, he was inadvertently sucked into a fear that he might miss out on a profitable trade if he did not act now. It did not matter that the set up did not fit his trading plan criteria – it was the unbridled desire to take advantage of a situation that led him to an urgency to act (call that greed or gullibility) and then got him into constant trouble. It was this entrenched pattern built around the fear of missing out that he kept falling into.

As he developed the highly enriched memory of him and his wife in the vastness of a starlit desert, he began to associate the memory with a sense of pleasure and calmness. It is this calmness that he volitionally called up in his trading rather than mindlessly being sucked into an established pattern of perception and behavior. This is what quelled the engine of desire and kept him out of impulse trading.

When you have learned the breathing skills necessary to disrupt and manage the emotions of fear or greed, then you can begin to work on training the mind. You begin constructing a memory of a deeply calm, safe, secure, and peaceful place or situation that you can then volitionally call up to create the mood from which you will trade. This can dramatically change your trading.

Why does this emotionally laden memory construction work? It is pretty simple really. Your brain stores memory, not as a video image, but in different pieces in different parts of the brain. All the sensorial modalities are involved. Smell, taste, feel, sight, and hearing each have components in the memory – and all are associated with emotional state. That is the piece you need to remember. And when you recall a memory, what you are actually doing is re-

membering (reconstructing) the memory – there is not concrete memory. Memory is fluid. You literally pull the memory up in various pieces, and, based on emotional state, you re-member the components of the memory and that is what brings meaning to the memory. This is how perception colors your sense of reality.

This is why eyewitness accounts are so notoriously inaccurate. There is an assumption that a memory is like a video. You call it and replay it, and, presto, you have an unchanging memory – just like it really happened. Nothing could be further from the truth. Based on how highly charged the emotional meaning was when the memory was made – this is what determines “how” we remember something.

In trading what often happens is that traders get traumatized about losses. That word "traumatized" may seem overly dramatic, but it is not. If you experience visceral symptoms (i.e. stomach pains or nervous stomach, racing heart, holding of breath, or a rigid body) when you have a trading loss, you have experienced trauma. This is a highly charged emotional environment with which to build a memory. You have put yourself back into that situation where it could happen again – and what do you think happens? You automatically (mindlessly) pull up the memory associated with fear and it takes over your mind. Suddenly you are not trading from a detached calm state of mind. Instead you are trading from fear. It corrupts your mind and what you see as possible. Avoiding fear leads you into exactly what you fear – another loss. A fearful state of mind does not win. It seeks to avoid loss. In the tunnel vision based on fear you cannot consider the probability of successful trading because you are locked into “not losing”.

SafePlace generation is a skill you can develop to short circuit this biological aspect of your trading behavior. This does not mean that you do not have to deal with the psychology of your trading. But it does mean that you can gain access to your psychology so that you can reorganize

it. Taking fear off line in the mind is what allows you to do this. Creating this calm state of mind is essential to your development as a consistently successful trader - one who intentionally designs the emotional space from which he trades.

## **Being Intentional About Creating a Zone of Safety in Your Trading**

Now that you understand why managing which particular memory (and its meaning) is controlling your emotional state and state of mind while trading, the question becomes – how do you create your own sense of safety? Let me give you an example of the difference this makes.

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*Mary is a competent trader up until the point where she is ready to enter a trade. She sees that the set up is ripe for profit, and she is ready to risk capital. In the nanosecond before she pulls the trigger on the trade, she freezes and cannot pull the trigger. Mary explains to me, "I don't get it. I was fine one second, and the next I was frozen with fear. I missed the trade, and it was a good one – just as I predicted."*

*When a person is seized by near panic in an instant like this, you can bet that there is a potent emotional memory involved. In Mary's case it was an old memory (called a governing scene) of her learning to freeze after making a mistake and being severely screamed at and punished by her parents. This creates the fear of risk that generalized to many other areas of her life as grew up. The decision to pull the trigger (risk of making a mistake) on her trade, no matter how well reasoned, generated this adapted response from long ago.*

*When she connected the dots between the power*

*of the old memory and the brain's pre-disposition to generalize response in an effort to avoid threat, Mary knew she had to create a safer emotional state from which to trade. She did this. By intentionally calling up a safe, calm, and relaxed emotional state, she was able to slow down the explosion of the emotional hijacking. From here, she was able to maintain emotional order and pull the trigger. She was risking capital, not from a fearful state of mind, but from a calm state of mind.*

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In the Ignite Training Program I use with traders, elements of breathing and SafePlace are taught sequentially and then integrated together. They are also taught to be used in your trading room as part of your psychological trading plan. In this way the capacity to regulate emotions and create a calm state of mind simply becomes part of your trading day. I use a fairly sophisticated psychological training strategy called stress inoculation to accomplish this. If you are doing it on your own, I encourage you to create them so they can be used together and trained to your trading room. Unless they are integrated into the way you trade in real time and under pressure, they will not be as effective as they could be. However, this can be learned independently. The practice to train these skills is well beyond the scope of this book.

First start with your breathing. After calming the body and mind down with diaphragmatic breathing, allow your mind to drift. Ask yourself, "When have I experienced a state of calm peacefulness?" Allow the memory to bubble up. Many people associate a calm relaxed state of mind with memories of being at a beach or in the mountains. There are powerful associations to draw on from memories such as these. Beach memories in particular commonly evoke calm relaxed states of mind. An element

of this association is the sound of the surf, which is what an unborn baby hears as his or her mother's heart beats. (Also the salinity of the ocean is equal to the salinity of the amniotic fluid in the womb.) For the vast majority of people, this is the ultimate in associations of safety. Pairing that with other memories of beaches only adds to the capacity of this type of imagery to invoke emotional calm. In essence, the ocean is the primal womb we all come from. A womb simply makes the ocean portable. That is the emotional connection that makes beach imagery so powerful for calming and relaxation.

The key is to enrich the memory by becoming mindful of what you smell (salt air in the case of the beach), feel (the wind on your skin and hair), see (birds in the air), hear (the surf), and taste. After imagining the scene, write down your memory. Go over each component in rich detail. Allow the image to morph until it becomes a stable memory that is laden with a sense of calm and relaxation. If you can, find a picture that helps you pull the memory up.

After you have developed the memory, begin using the combination of breathing and SafePlace generation in your trading environment. The key here is to build the emotional atmosphere in your trading environment so that you are able to work from a state of calm. Later in the book, we will begin to use SafePlace as a skill to develop other parts of the self.

## **Looking ahead**

You now have been exposed to two vital tools for managing the fear that limits you. Breathing is the tool used to interrupt and calm the power of emotions to hijack your brain and body. SafePlace is the tool that helps you still the mind and take fear off line in the mind. These techniques open the door to a powerful tool that can be

used to observe the thoughts in the mind and discover how to create a trader's state of mind. The next tool is Mindfulness. This is where you learn to discern that you and your thoughts are not the same. You will discover that there has been a powerful battle going on within the mind and you are about to get a front row seat to an epic struggle. At stake is your capacity to trade. Let's move on.

## Notes:





# Chapter 6:

## Mindfulness – Awakening the Observer of the Self

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*“You are always having conversations in your mind. It is your awareness of, or your lack of awareness of, these unseen beliefs that create the possibilities and conditions you bring forth into your trading and your life. Until you wake up and take responsibility for this, you stay stuck in self limiting patterns.”*

*J. Rande Howell*

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*Bill sat in front of his computer. It was just him, the charts on the screen, and his ever present thoughts. In the quietness of his trading room, there were no distractions. It was easy to hear himself thinking. Most of the time his mind just seemed to wander, and he had to bring it back so he could focus on his trading.*

*At first Bill assumed his thoughts were just aimless chatter. But with the new Mindfulness practice he had started, he began to come to a different understanding of his thoughts. As he watched his set-ups and his thoughts, he discovered a heretofore unseen dichotomy to his thoughts. There was part of him which knew how to trade. This part analyzed the set-ups to see if they fit his trade plan criteria. He could see how the trade*

*should be profitable based on the risk management standards he had set for himself in his trading plan.*

*When everything lined up, Bill would prepare to pull the trigger on the trade and actually risk capital. That is when the dichotomy surfaced. His thinking seized up. Suddenly, and without warning, his thoughts hit a brick wall and changed directions. It was as if someone else was in his head and had seized control. His thoughts shifted from calmly and rationally evaluating the criteria of the trade to fearfully doubting the trade. Bill thought out loud, "It's like that Pink Floyd song – Someone's in my head, and it isn't me."*

*From his breathing and SafePlace work, he could slow his thinking down. He could hear his thoughts – "Are you sure? You could be right. Don't you need more confirmation? It was like a see-saw battle going on in his mind. Part of him was trying to be rational saying that based on all his indicators this was a good risk. The other part, getting louder and louder, retaliated, "Don't do it! What if you lose? Don't do it! Don't do it! Get more confirmation before you do something stupid!"*

*As the fearful part of his thinking gained dominance, Bill's hand was held hostage by this internal struggle. He watched the trade hitting tick after tick in the direction he wanted. Still, his hand stayed frozen. Soon, the opportunity was gone and Bill was on the sideline of the trade – again. He heard another thought, "You can't trade. You don't have what it takes. Are you scared of success?"*

*Life was much easier when he was blind to the awareness of his thinking. The problem was that, in that blindness, he was not a good trader. Fear*

*seized him and he made poor choices. Learning how to be Mindful of his thinking gave him a window into his thought life – something he had avoided until trading.*

*Bill was puzzled. How could he be such a master trader while in simulated trading, and such a poor one when he was ready to risk capital on a trade? The difference was fear. He knew that he needed to control his thinking better. But even when he practiced positive thinking, he discovered that he was covering up his self-doubt with affirmations. But beneath the positive affirmation was always the voice of doubt. “What is wrong with me and my thinking?”, mused Bill.*

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You can learn a great deal from Bill about the mind of a trader – and about yourself as a trader. When he started trading, Bill simply transferred the skill set he had acquired over a lifetime to trading. These skills had brought a reasonable level of success as a mid level manager in an IT company. He could get along with people, he could manage projects, he could make rational decisions, and he could set goals and get things done. So why was he having so much trouble trading?

First Bill, in his mindlessness, believed he and his thoughts were the same. He assumed that it was just “him” thinking. He had never talked to anyone about all these different kinds of thoughts running around in his head. His concern was that, if he told anyone about them, they would surely think he was crazy or weird. He figured no one else had this problem because no one else had ever talked to him about “hearing voices” in their heads like he did.

This is a crucial mistake nearly everyone makes. In our Western society we live in an unexamined assumption that “normal people” do not have different aspects of their identity – you are just one big glob in your mind. Yet,

throughout the centuries wise men have implored us, “Know thyself” and “An unexamined life is an un-lived life”. And because it causes you momentary discomfort, you and the multitude of others avoid looking deeper – beyond the surface of our thoughts and identity. Until, of course, you start trading and discover you have to look beyond the surface if you want to become a successful trader.

Conforming to the mindlessness of herd mentality, Bill’s assumption was that “normal” people did not have this problem – so he kept quiet. He simply tried to control his thinking by thinking positive thoughts and envisioning a successful life because of his trading. He kept thinking these thoughts, but the other self-limiting thoughts kept popping up while trading and kept him on the sidelines of many great opportunities. According to the way he understood the world (his cognitive dissonance), he believed that he should be able to push his fear aside and trade. Why he got seized by fear perplexed him. “Any man worth his salt should be able to laugh at his fears,” thought Bill.

In his unexamined thought life, this was not the way it was supposed to be. Why couldn’t he simply set a goal, design the steps to achieve the goal, and get it done? This process had served him well in IT. Now the very same skills seemed to turn on him and he did not understand why. What Bill knew was that the way he thought while he was in an IT company (with his focus on achieving a particular goal by going out and extracting the goal by force from the market place) was not working in this new market place. The market, Bill thought, must have a different set of rules that govern success. And he began to wonder what was missing in his thinking.

## **Waking Up to Your Mindlessness**

Bill is close to a critical breakthrough in his trading. He is beginning to ask questions that cause him to view his thought life differently. He knows that he has various

streams of thoughts cascading through his mind – this he has begun to acknowledge. Maybe everybody has been having a terrific internal struggle in their minds, but he realizes that few would acknowledge it. He is also beginning to recognize that trying to push the “bad” ones away seems to only invite them to become stronger. What he is waking up to is that being blind to his thoughts (particularly the negative ones) is part of the problem. He just does not know what to do about it. No one has ever told him – it has been a well kept secret.

Just being tough did not work for Bill (and many other traders). Past the bravado, deeper in the shadows of his mind, another part of himself broke through his outer toughness and caused self doubt. He did not know how to get at this. He needed a new tool that could help him to know himself better - a tool that could help him examine his un-lived life and bring him to a new fullness of life. That was why he traded anyway. And that tool, Bill was beginning to realize, was Mindfulness - something that he had ignored for most of his life (that is, before trading). Trading, Bill discovered, exposed everything. There was simply nowhere to hide. Trading exposed his fears and his self-doubt. Maybe he could keep others from seeing it in him, but trading forced him to examine his beliefs and his cover ups. Bill, like any trader who has become successful, was waking up.

Bill, like many traders, traded with blinders on. The consequence of trading with blinders on is that you do not see and understand much of what is actually happening in your mind. Being blind to it is an invitation to disaster. It is not unusual for a trader to have no idea that thoughts are running unfiltered through his mind. No one has ever told him that managing his thought life is important. And in Western culture, it is not a priority to become Mindful of your thought life. In trading, being Mindless of your thought life will kick you in the teeth until the pain causes you to start paying attention or get out of trading.

He knows that different streams of thought have a different quality to them. Some are critical. Some are fearful. Some are rational. Some are disciplined. Some are patient. They are all there – whirling in the mind. What are all these thoughts? And what is the internal struggle going on in a trader’s mind among these different kinds of thought? What happened to “me”? Suddenly there is a struggle for control (in Bill’s case, while trying to pull the trigger) about which stream of thought will create the possibilities the trader will inherit in the next moment. For Bill, up until this moment, he had lived with a hesitation that left him (and many traders) on the sideline – watching a possible life drift past, just out of reach. Does Bill’s dilemma speak to you, your trading, and your life?

The quantum leap he is about to make is that he will discover that he and his thoughts are not the same. He is about to develop a new trading practice – Mindfulness. But first he, and you, have to wake up from your Mindlessness. Bill has experienced this first hand. He has seen his emotional life left in tatters by the war going on in his mind as he tries to trade. His hand, frozen while trying to pull the trigger, exposes how self-limiting beliefs (masquerading as thoughts in the mind) sabotage your efforts to create the trader you need to be to win the inner game of trading.

What does this mean? How does this happen? We are all born into a world, adapt to it, and live in it as if it were the only world available to us, never realizing that the world we see is actually only one small sliver of the totality of possibility in which we live. In social psychology this is called cognitive dissonance. This is the perceptual map our brain develops for us and the comfort zone in which our mind embeds us. So accustomed are we to living in this consensus reality, we assume it is the “real” world. At least, until something crashes that world. That is exactly what happens when a trader tries to take the skills that brought success in one domain and tries to use them for success in trading. The market and trading crashes the sys-

tem until you learn a new way of thinking about and organizing the world around you.

That may seem like bad news. But it also can be good news – depending on your perspective. Whether you are open to new possibility or whether you need to force the market to behave the way you have learned to manipulate your environmental reality, the very first concept you need to grasp to wake up from Mindlessness to Mindfulness is that the kind of thinking that got you into trouble is not the kind of thinking that will present a solution. That will require a new order of thinking. And the market (and your trading account) is a perfect reflection of whether you are open to learning about how you are organized psychologically. You either develop a mindset that impartially will take advantage of what the market will give you or you maintain a mindset that is blindly focused on beating the market.

### **Becoming Mindful of Reactive Thinking**

Now let's go back and see what happens to Bill and his frozen right hand. After Bill capitulates and realizes that he is not going to be able to manhandle his fear, he begins working with me. His pride has to be replaced by a sense of humbleness. Trading will do that. And it can be a great opening to a world of change for the better. And the very first skills he learns are the diaphragmatic breathing (to interrupt fear and promote calmness of body and mind) and SafePlace generation (to take fear off line and establish a relaxed state of mind). These are essential skills. They lay the groundwork for developing Mindfulness as a tool of transformation.

Then Bill learns to become an observer of his thoughts. Like most of us, he has always been a blind participant in his thought life. People can muddle through life in this mindlessness, but not through trading. Trading tells no lies for you to continue believing. You either win or



lose in your trading. And your trading account is the truth meter. You can deceive yourself, deceive others, but you can't deceive your trading account for long.

Now he is going to learn how to become a witness to the process of his thoughts. While he is in a calm state of mind, he begins to watch as thoughts bubble up into his awareness, exist for a moment, and then disappear into the abyss of past thoughts. At first Bill tends to ride these thoughts, mindlessly, to wherever they are going. With practice, he begins to disengage himself from the thoughts and becomes a watcher of the thoughts parading past his awareness.

It is at this moment that Bill begins to be Mindful. He begins to be mindful of his thinking, rather than a blind participant to this thinking. Up until this time, Bill simply got "seized" by fear and couldn't pull the trigger. All thinking simply blanked out because the process was so sudden and he was so blind to the thinking process. But as Bill practiced breathing and calmness, he discovered that he could "pull back" from his thinking and begin to observe his thoughts rather than be swept away by them. This was the beginning of a new way of experiencing trading for Bill.

This is a practice that is essential. Being able to "step back" from your thoughts and observe them from a calm state of mind is the key that opens the door to developing the trader's state of mind. You have to realize that you and your thoughts are not the same. And you have to develop the skill of observing thought rather than being swept away by streams of thought.

Zen Buddhist meditation is an excellent way of achieving this skill. In this meditation practice you develop the skill to become a witness to your thoughts. You (as the witness) become detached from the power of the cravings driven by emotions, beliefs, and thoughts. In this detachment, there is immense freedom from the emotional suffering that traders experience. The problem with it is that it takes time (probably too much time for a trader wanting to

make changes before his learning curve eclipses his capital) and culturally it may not resonate with your spiritual beliefs.

Because of this time crunch, in my Ignite Training for Traders, you are taught how to “step back” out of fusing with thoughts using guided meditations. This is far faster than developing your own meditation practice, and it is not aligned with any particular spiritual practice; it is taught sequentially with breathing and the calming of the mind. The goal is to develop the capacity to calm the body and mind so that you can “step back” from your thoughts. It is this ability to step back away from your thoughts that allows you to observe those thoughts. Thoughts that you have always considered “just you thinking” take on a whole new significance. These skills can be developed independently.

These thoughts will need careful examination. They expose the beliefs that bind you to a particular way of trading for better or worst. Without being able to develop the capacity to be Mindful of your thinking, you never learn to step back from your thoughts. You will always believe that your thinking represents “you”. Learning to observe your thinking opens the door to a radical concept – that you can become the designer of the “you” you need to be in order to produce a peak performance state of mind for trading.

For Bill here is what happened. When he was seized by fear and could not pull the trigger, Bill learned in his work that he was triggering to a “limbic memory” or in psychology what is called a governing scene. He was able to slow the reactivity of the adapted pattern down by altering his breathing style and practicing self soothing. (Remember that breathing rates and heart rates are reciprocal in nature. And since breathing is volitional, it can be used to slow down heart rate and, therefore, manage the arousal of an emotion and the speed of thought in your mind.) At this point he was able to resist being swept away into fearful reactive pattern – his hesitation. Instead, with

his developing Mindfulness skills, he was able to step back into a relaxed and calm state of mind where he could observe the fear from a calm and detached perspective.

To his surprise he discovered that the reactivity was very similar to a pattern he developed growing up in a volatile family where he was highly criticized for making mistakes. The roof caved in when he would try something new or daring and it did not work out. He was blasted emotionally and developed a pattern of resisting taking chances that might bring on a personal attack. It was a highly emotionally charged memory and reactive pattern that followed him into adulthood. He had built a persona of being a tough guy to compensate for this fear. And it had worked for most of his life. It did him well in business and his business dealings. No one messed with Bill.

Then he got into trading after a downsizing, and by this time, he was tired of having bosses. It was time for him to be his own boss and answer only to himself (does this sound like you?). He had no idea that trading and the market was going to expose this vulnerable part of his past. He had certainly forgotten it. But as he was able to observe this fearful part of himself, he realized the fearful part had always been there and now trading had exposed it. And in the arena of trading, his adaptation did not have survival value as it did when he was growing up in a volatile and critical family.

In the next chapter we will explore more closely this fearful part of the self that every trader must conquer. Right now the important concept is that Bill developed the skill of being Mindful of his thought life. He was now able to observe his thoughts not as who he is, but as thoughts running through his mind. This was a dramatic change in perspective for Bill (and can be for you). These thoughts represented only a small portion of who he could be. With the tool of observation, there was so much more that became possible.

It is with this tool of Mindfulness, the faculty of being

able to separate your identity from your thoughts, that you can deconstruct the blindness caused by your adapted Comfort Zone. It is this well intended Comfort Zone that keeps you stuck in the reactive patterns of old self-limiting beliefs. It is these beliefs that become the self fulfilling prophecies that create the possibilities of your life. It is these beliefs that create the unobserved conversations in your head, the conversations you are in while trading. Mindfulness, developing an observing self, is the key to unlocking this potential.

### **Developing a Mindfulness Practice in Your Trading**

As part of your trading plan, you probably are already keeping a journal of your trades. To develop Mindfulness as part of your psychological plan, I recommend that you also develop a thought and emotional log that coincides with your other trade observations. In those critical areas where you have breakdowns, you will need to journal what happens. Remember, it is your psychology that is doing the actual trading – not your platform or methodology. This thought log should include a description of the event and your best recollection of what happened.

Once you write down a description of the event, write down what recurrent thoughts were moving through your head. Spill them out. No need to edit. Most of the time, it will be a tirade of thoughts crashing through your mind. Without any editing, simply write them down. Then after each thought, write about the emotional turmoil you were experiencing. Then write down your emotional state during the moment. And especially, what the emotion was telling you to do. This is called emotional motivation, and it is very important.

The moments you are looking for generally occur while deciding to enter a trade, pulling the trigger, while you are in a trade, and after a trade is done. However, you do not have to stop there. There is plenty of emotional ma-

terial to mine about yourself when preparing for your trading day (many experience dread anticipating a trading day) or while reviewing your day. The object is to locate the thoughts and beliefs that are revealed.

Go back and take a look at the vignette with Bill. At first Bill is having problems concentrating – go back and check that out. What emotional state do you think he might be in if he is having a problem focusing? Imagine having money at risk and having focus problems – most would want to be on high alert and attentive, but Bill is having attention problems.

Then as he is looking at set ups, what happens? There is a rational side that seems in charge until he is ready to risk capital. What happens then? He begins to appear to have anxiety problems and his thoughts start getting out of control. Go back and look at them. Pretend that this is your psychological trading log (this actually was derived from Bill's trading log). How would you limit the thoughts and emotional states in this trade? This is exactly what you need to be doing in your own psychological trading log. And it needs to match up with the rest of your trading log.

As a result of working with my program, the trader is now going to breathe and calm the mind, step back into the observer role and ask these questions:

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### **Who says this?**

This question is directed to the thought form. Notice what happens when the thought form is asked this question. Often it fades back into the background because it does not want to be detected. Its power is in its stealth.

### **What makes it so?**

This question asks for grounding, actual evidence, and for an ungrounded assessment that has been running through the mind without verifi

-cation. What you will discover is that many criticisms run through your mind that are not accurate. When they are challenged, they fade into the background — for awhile

### **What is your intent?**

This is a powerful question that will be taken up in the next chapter. Suffice it to say for now is that there are unseen forces for empowerment and for limitation running around in your head. And if you stay blind to them, you will remain a shadow of what you could be.

This will get you started on developing a Mindfulness practice. With time, the development of the Observer Self will give you the advantage of organizing the self into the psychological construction that produces peak performance trading.

### **How is Mindfulness Described by Traders?**

Let's explore how others experience the faculty of the Observer as Mindfulness. These are responses to homework assignments from the Ignite Course. Each trader is learning how to incorporate Mindfulness into their trading.

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*"Initially, I thought that I was having difficulty with the Observer concept. But as I was falling asleep last night, and as I was awakening this morning, I realized that I was experiencing streams of thought that "bubble up, have a life, and disappear" from the screen of my mind.*

*What I realized this morning is that during the day, I am living as the Observer much of the time. When I am working, whenever a new thought comes to mind, I decide if it is helpful to what I am doing "right*

now" and let it go if it is not.

*It is plain to me that I operate as Observer much of the time. Nevertheless, I have been slow to become a consistently profitable trader. Putting together the parts of this homework assignment, it seems clear to me that as parent-trader I need to observe better my thoughts as child-trader leading up to times when my child-trader ignores the parent-trader's rules. It will be helpful to standardize how I cycle through the elements of a trade setup in my mind, including,*

*a. reviewing the confirming factors for the candidate trade setup*

*b. identifying which confirming factors qualify or do not yet qualify.*

*Having fixed routines make it easier to spot other, unhelpful thoughts as a possible trade approaches.*

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This trader is recognizing that he has always used this faculty, but had never known how to exercise and grow it into part of his psychological trading plan. Now he is realizing he can use it to spot a child-like part of himself that trades impulsively if not brought into awareness. In fact, impulsive trading is the problem he is working on. And, using his developing capacity to observe thought and emotion, he is learning to spot and disrupt his impulsiveness before it sabotages his trading.

Now let's examine a trader with hesitation problems – the exact opposite of the impulsive trader from above.

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*"I have been able, although not consistently on demand, to witness my thoughts without reaction. In other words, it was like I was watching myself (or my*

brain) have thoughts or even conversation. I did not feel attached to the thoughts but was curious where the process was going. It was very interesting. Most of the time the thoughts were incredibly random. I have no idea why I was having the thoughts. I was also not trying to control what they were, I just watched. It was very interesting. The negative here for me though was that I realized thoughts are running completely wild and out of control.

It seems to me that my thoughts are dominating right now. I would like more of “me” and less of thoughts. What I recognize is that most of my thoughts while trading are about “not losing” rather than managing risk. It was when I could take a step back out of my thoughts, kind of like being a hawk hunting from a tree. I began to see the possibility of observing the market, and its going and comings, from a position of calm assertiveness, rather than the fear of loss that is so easy for me to fall into.

When I am able to pull out of this stream of thought, I am able to see far more clearly. I have no attachment to either winning or losing. It is allowing me to see things that I have never seen before. I even see that within me is the courage to act rather than hesitate”.

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Here the trader is using his budding Mindfulness skills to actually spot his hesitation, not as who he is, but as a conversation in the mind. This is a powerful distinction. By awakening to the separation of thought from identity, he is coming closer to being able to “re-decide” who (or what part of himself) will actually be trading. It is the difference between loss abatement and risk management, between being driven by the fear of loss or working from the impartial calm that top traders practice.

The point here is that everyone has the faculty of pro-



ducing Mindfulness, of being able to separate thought from identity. It is the crucial step that leads to the capacity to design your psychology specifically for trading. By recognizing that you and your thoughts are not the same and that you have the capacity to influence the kind of thinking (and the beliefs behind the thinking) that actually trades your platform and your methodology, you are also in a position to take your trading to the next level.

## **Mindfulness Exercise**

How do you develop this skill? By developing a practice, of course, that hones the skills of observation. For many, this may seem like reflecting back on an event rather than being Mindful. Let's use this way of perceiving Mindfulness, as reflection, to develop the skill of observation.

First, get comfortable. You might be sitting in a comfortable chair or lying down – however you generally choose to relax. As you sit or lie comfortably, give yourself permission to relax for a few minutes. There will always be concerns that need to be addressed, but for a few minutes, you are going to put them aside and allow yourself to relax. Tell yourself that, after this exercise is over, you can go back to the “busyness” of your world. But right now you are deliberately choosing to settle and calm down.

Then, after you have decided to relax, gently close your eyes and focus on your breathing. Notice how air simply moves from your nose into your chest. As you become mindful of your breath, intentionally begin moving air into your belly first – before expanding it to the chest. So you begin to pull air from your nose, down your windpipe, into your belly – then expand your breath into the upper chest.

Do this ten times. Each time slow the breath down so that you begin to sink into a relaxed state. And if you drift off, that's okay. Simply bring your attention back to

your breath. And start pulling air into your belly, expand to chest and then release slowly. Continue breathing this way until you feel yourself letting go. Keep breathing and letting go until you are completely relaxed and calm.

In this calmness, bring up a memory of your trading. Push the memory away until you can watch it, but do not feel drawn into it. Pretend it is a movie that you have watched and are now telling someone about. Notice what is happening in the movie of your memory. If it starts to pull you into the movie, simply push the memory further away until its pull is neutralized. Simply watch the movie as if it were about someone else. And you're just watching it – observing the movie from a distance.

What do you see in the movie? Watch the thoughts as if they were waves on a sea shore. The thoughts, like waves, arise, have a life, and fall back and disappear back into the sea. Notice this about your thoughts. Sit with this for a while. Just notice that thoughts arise, have a life, and fall back and disappear.

Also notice that emotionally charged thoughts tend to grab your attention and take you for a ride – kind of like body surfing on a wave coming into the shore. When this happens (and it will) simply pull your attention back, and begin watching the memory and the thoughts that arise from the memory again. Notice that you can watch the memory and the emotionally charged thoughts and stay separate from them. There is a state of being a watcher of the thoughts that is separate from the thoughts themselves. Notice that. Feel the separation between the observer of the thought and the thought itself.

Notice that you and your thoughts are not the same. The “you” that watches the thoughts occasionally merges with the thoughts arising as waves in the ocean. And when this happens (and it will) gently pull your awareness off the thought and go back to watching the thoughts as waves arising in the ocean, having a life, and then falling back into the ocean. Notice that you do not have to be carried away

by the thoughts that arise in your mind like waves. You do not have to step in the current and get pulled along by the drift of the tide. You can step back to the sea shore and begin watching the parade of thoughts and recognize that you and your thoughts are not the same.

And when you are ready, you can let the memory of your trade fade away and come back to where you are sitting and lying. Take a breath and come back to your day.

### **Journal to Build Mindfulness**

While this exercise is still fresh in your memory, write in a journal about what it was like to feel the separation between self and thoughts. For some, it is a new experience and initially feels foreign. This is because your thoughts have been conditioned to be so mindless that waking up from their mindlessness opens up a new world for which they are unprepared. The whole notion that your thinking and “you” are different is simply something that triggers discomfort and uncertainty because is not the accepted wisdom that they know. This is what I refer to as being stuck in your comfort zone and resistant to changing your preconceived notions so that new ways of understanding yourself and the market can become possible.

For others, this introduction to Mindfulness practice is a breath of fresh air. They get excited about the possibilities Mindfulness opens. They see that they are not stuck in old thought patterns, beliefs, attitudes, and emotions that have limited their sense of the possible for them. The separation between “you” and your thoughts represents a door to a new world they did not know was there. And suddenly, out of nowhere, the door appears.

Mindfulness becomes a strategic tool for the re-invention of the self. It is the tool that helps you to deconstruct limiting ways of perceiving and acting in the market and re-organize the structure of “you”. It is in this way you

learn how to re-organize the self that trades into a higher functioning version of “you”. You dispel old limiting beliefs that have held you back, and open yourself to new assumptions from which you create your reality. This is when you begin to be an active designer of the self. This is the re-invention of the self. And the perfect laboratory for this work is trading.

Once you grasp that you trade your beliefs and hidden assumptions and that you take full responsibility for managing the conversations in the mind that control perception, you have established an effective attitude and motivation for pushing through your fears and self limiting beliefs. From here, you set sail into the adventure of creating a self called “you” that engages the market and life from a disciplined, patient, impartial, and courageous state of mind.

### **What Happened While You Weren’t Looking**

Before going to the next level, let’s explore how we get stuck in self limiting patterns. Let’s take this newly discovered faculty called Observation to become Mindful of the conversations that dominate a trader’s mind when stuck in mediocrity. This is called the historical Internal Dialog – and it is up next. It is what happens if we continue to stay stuck in an unexamined life.

# **Chapter 7:**

## **The Internal Dialog Wrestling Control of the Mind From Limiting Patterns**

*"There's someone in my head but it's not me."*

*"Brain Damage" from the album "Dark Side of the Moon"*  
– Pink Floyd

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## **Diary of a Trader Waking Up to the Internal Dialog**

*"It's never going to happen for you. You're never going to see the performance you see in simulated trading results when it's your real money account," erupted the intrusive thoughts into Bill's awareness. It sounded so final. And it sounded so on target that I believed it without question – yet part of me fought back.*

*"Whoa! Where did that come from?" astonished, Bill jotted the thought down into his trade log. Later while he reviewed the thought and emotion log portion of his trade log, he realized, "I've obviously been living with that voice for years, but, out of my discomfort, I've avoided dealing with it." The distinction of separating thought from identity was opening up a whole new can of worms for Bill. Now he was being asked to become mindful of the different characters present in his thoughts.*

*"This Mindfulness stuff is beginning to make a whole lot of sense. I had no idea that so much was going on in my mind while I'm trading – I just thought it was my dumb thoughts," Bill recounted. And as he reflected on this new revelation, he discovered another voice also. Focusing hard he thought, "That's the voice that continually tells a very discouraged part of me, "you're gonna do it, keep fighting, keep going, it's gonna happen." But it's not as loud as the Inner Critic and it gets drowned out. When I make mistakes or have a losing trade, the Inner Critic berates me,*

*"you're an idiot; you're a stupid ass."*

*But then there is an accompanying voice that says, "It's ok Bill. No big deal. Making a mistake and losing on a trade is part of the game. You have the skill set to make it up. Forgive yourself and let's get in on this next trade." But the critical voice is louder and drowns it out. I think the fear of pulling the trigger on my analysis stems from my not wanting to make a mistake and be wrong. Being wrong adds fuel to the Inner Critic's beratement of me – gives it confirmation.*

*"It's this battle going on between this Inner Critic and this part of me that wants to prove himself – and the critic is winning. This fearful part of me seems to want to prove himself to this critical part of me – to prove that he matters; that he has purpose. But no matter what he does, it's never good enough. It just goes on and on. And I get exhausted by the internal struggle and my trading day gets blown up," was Bill's analysis of this internal trading dialog going on in his mind.*

*"The most prevalent thought to pop up in my mind is that I'm basing my self-worth on my success or lack of success as a trader. As embarrassing as it is to admit, I want the accumulation of things and power that trading can give me. I want the recognition of family, friends, and co-workers. I want them to see that the years of sacrifice reaped a reward. The crazy thing about this is that I'm a well-liked and loved person by these people, with or without trading but obviously it's not good enough. I also want to be recognized for my professional and financial success, which I still haven't attained through my trading. I do have a sense of entitlement. I worked my ass off. I gave up everything to go after this dream...six years of sacrifice, with thousands and thousands of hours of studying and honing my craft. Sitting in front of this damn computer and I still haven't gotten what I think I de-*

serve.

*The thoughts are there, but I'm not being swept away by them as much as I used to be. But I don't feel detached from them either. The difference is that I'm not observing them, although I am aware of them. And I'm beginning to realize that I have been mindless to this conspiracy running around in my head. Because of my blindness to it, it has been able to sabotage my efforts with relative ease – I've been asleep at the wheel. I haven't been directing my life. This person inside my head that is not "me" has. This has to stop."*

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## **Using Mindfulness to Uncover the Internal Dialog**

Bill is making progress in his evolution as a trader. At first he sees no difference between his thoughts and who he is. Now it is beginning to be different for him – and his trading. He is waking up to the powerful and unseen forces that drive his trading – his hidden beliefs about himself and his worth. It is these unseen beliefs, showing up as conversations in his mind, that have stymied Bill's trading for years. Remember from previous chapters how beliefs become embedded into your neural circuitry? Once wired in, they become the oh-so-familiar voices that you come to identify as "you". Because they are so familiar, the brain pushes them out of your awareness – where they bias your perception without your knowledge. It is here, out of your awareness, where they blow up your trading.

It is through these unseen and unexamined assumptions that we interpret and understand the world. In Bill's case, and in the cases of 95% of traders, it produces mediocrity. To break free of these unexamined assumptions we must first become aware of them. Becoming mindful of these shadowy, hidden, conversations within the self is the first milestone of waking up and becoming the trader you



can become. No amount of fundamental or technical analysis will substitute for awareness of the organization of your current self.

In the vignette above, taken from a trader's psychological trading log, you can see this in bold relief. Bill had experienced powerful financial success before he began trading. But in the course of trading for six years, he lost hundreds of thousands of dollars before he concluded he needed help with his psychological organization. He has a methodology trading coach. And when he is trading simulated, he is a master trader. Yet when real money is risked, he is possessed by an internal struggle of self doubt since losing nearly all his life savings. Now, far removed from the large-and-in-charge persona he had developed to cover a deep sense of inadequacy, he discovers a fight going on within himself. That internal struggle has been going on for his entire life. But it did not come to the surface until he began trading. It is the structure of this deeper fear that he needs to become mindful of.

Even then outside of his awareness in his mindlessness, the large-and-in-charge mask he wore drove his trading. The problem was that underneath it all was a sense of unworthiness and inadequacy that he had never had to address – until he began trading. This is his deeper fear (deeper than his fear of loss) that he has been avoiding for years. It is inescapable in trading. In sales he learned he could bluster his way through – producing a false sense of self-confidence that he hid from others and himself. Like a surgeon's knife, trading exposed it. What, exactly, did trading expose about Bill's internal landscape as it relates to trading?

People avoid dealing with their psychological demons very successfully before coming into trading. People (including you) distract themselves, they busy themselves, they bluster, they drink, they talk sports, they talk business, or they con themselves. They even do this as they enter trading. They talk a game. Then they discover, to their

dismay, that the very psychological demons that they've worked to ignore (in their life before trading) are now stalking them. In trading there is no room to hide from your self-limiting beliefs. You find them in your fear-based trading. Now that they cannot be avoided, let's look and see what you have been avoiding.

## **Locating and Deconstructing the Internal Dialog**

As Bill builds the skills of breathing, relaxation, self-soothing, and mindfulness, he learns how to slow down his thinking and discovers powerful hidden beliefs that shape his trading – behind his back. When he first began, his thoughts appeared to him as a blur (after all, he has avoided getting to know this part of himself for a long time). As he developed relaxation and mindfulness skills, the speed of his thoughts began to slow down. First they showed up as a blur and were of little interest to him. His belief was that all he had to do was learn fundamental, and particularly, technical analysis. He believed that, with these skills alone, he would be able to trade and make buckets of money to fulfill his dreams.

The problem was that when he went from simulated trading to actually risking his capital, his trading fell apart. By placing his capital at risk he triggered his deeper fears of inadequacy and failures as a human being...the very fear that he was previously able to cover up by developing a large-and-in-charge persona. Trading was merciless in exposing this hidden belief. His trading coach encouraged him to explore his psychology as it related to trading. Most traders (like Bill) brushed this suggestion aside believing (due to self-deception) that they had the psychological part down; all they needed was methodology. They were going to find the Holy Grail, and it was going to be in methodology (after trading platforms failed to deliver the goods). After many years of avoidance of discomfort, they ignored the sage advice. They ignored their thought life.

They ignored it until it smashed them in the face. This can come in the form of tens of thousands of dollars lost or, in Bill's case, hundreds of thousands of dollars lost. For Bill, and for you as a trader, thoughts have to be slowed down from the blur used to avoid the discomfort of unsettling thoughts. That is what Bill has learned to do by following the skills management guide presented in this book and through training.

As he developed the skills to slow down the blur of racing thoughts, they still raged by as an uncontrollable torrent. But, even at this speed, he could begin to feel the emotion and meaning attached to the thoughts he had been trying to ignore. With a little more work, he was able to slow them down until he could identify them. That is where Bill is in the diary vignette at the start of this chapter.

This moved him from simply using emotional management tools to calm the self down to using observation skills to detect the dominant emotion/thought/belief patterns (internal dialog) driving his thought life – and his trading life. And it was not a pretty picture. He could understand why he had avoided it for most of his life. It made him uncomfortable. Apparently there had been an active underworld going on beneath his awareness that had powerful impact on his sense of self and his decision making – particularly when risk was involved. What was this underworld of thought composed of?

I want to make one thing clear as we enter this section. All of us have an internal dialog. It is inescapable. We are all faced with challenges or struggles in life – they are unavoidable. Trading exposes these challenges, and your adaptation to them, like a mirror in your dressing room. The mirror in your dressing room reveals all the warts and blemishes that you attempt to hide from the world and from yourself. The difference is that in trading, you are forced to look into the mirror and acknowledge your incompetencies – the very things you have been avoiding in real life.

In real life, you can avoid the mirror by staying busy

and by all sorts of distraction. You can clothe yourself so that neither you, nor anyone else, see the flaws. In trading your trading account is the barometer, not the avoidance mechanisms of the mind. Here, we are looking at thought patterns that exist within all humans – this is what I am calling the internal dialog. Often you distance yourself from the discomfort of these self beliefs showing up as thoughts in your mind. But they become painfully real and can become debilitating in trading. That is really the good news because it actually forces you to examine what you really believe about yourself and trading. As long as you continue to avoid these issues, they will own your trading. And you forfeit the possibility of learning from your mistakes. So let's take a look at what you have been avoiding.

### **The Inner Critic – the Negative Assessment Machine Running Amok in Your Brain.**

When trading, have you ever noticed how easy it is to fall into negative thinking or negative appraisal? After losing a few trades that break the euphoria of your initial naiveté, you become invested in “not losing” rather than managing risk with an edge for winning. Self-doubt and second guessing overwhelm your carefully laid conditions for entry, causing hesitation. A cloud of fear takes over your decision making as a voice in your mind keeps questioning your competence; you end up backing out of a trade or entering it late. Or you jump into trades in which you have no business, based on your trading plan. Then, when the pressure of risk is no longer present and you are doing your review (when you have come back to your senses), you wonder incredulously how you could have been so stupid to not take advantage of such good set ups or how you could have fallen into such bad set ups. What happened to transform a perfectly rational state of mind (before entering the trade) into a fearful or greedy state of mind?

Every trader has to face emotional reactivity to fear of loss. To begin with, it comes naturally to our biology. Our brain evolved over many generations to negatively assess various potentials in our environment as a survival strategy (avoiding fear of loss and life). Your primitive limbic, or emotional, brain does not distinguish between biological fear (fear of death) and psychological discomfort (fear of loss).

As your human ancestors were emerging and competing for survival in the African savannahs, there were powerful physical limitations to humans compared to other animals, particularly predators. As a species we were not fast or strong. Physically, humans were clearly at a disadvantage when compared to far better equipped predators of the time. How does a species like this survive and end up dominating the earth? And you may be asking what exactly does this have to do with trading? (A lot, as it turns out.) The very survival mechanisms that led to your avoidance of danger back then and to your ultimate survival are still alive and well today every time you trade and put capital at risk. This is a serious problem for traders until they learn to regulate these misguided survival instincts.

Remember, your emotional brain does not, cannot, distinguish between biological fear and psychological discomfort (this is something that you must do as a trader though). What early humans did have, though, was an extraordinary brain that could think and assess situations far more quickly than the animals that preyed upon us. One of the outcomes of this characteristic was to look for trouble before it got too close. (Have you ever done that when evaluating a set up, trying to pull the trigger, or managing a trade once you are in it? If you have, this is the instinctual biological predisposition to negative appraisal driving this behavior.) It was better to believe that a saber tooth tiger was behind every bush (although there was only a one in ten thousand chance of that) than to be wrong just once. This turned out to be a successful strategy. And over time,

this trait got wired into our genetic predisposition. In trading, if you find yourself thinking over and over, “What if this, what if that?” – you have been seized by this genetic artifact of our distant evolution.

This is called negative attribution. Your ancestors could look out over the savannah and assume that danger lurked behind every bush, and this negative outlook helped them gain a survival edge (in much the same way you seek an advantage that gives you a trading edge). The vast majority of the time the negative assumption did not play out, but by giving humans a survival advantage, it stuck. By developing the brain as a negative assessment machine, the invisible hand of evolution kept us out of harm’s way.

Then as humans developed a brain from which a true thinking mind emerged, it was only natural that the negative attribution trait would become part of our psychology as well as our biology. And when this negative assessment machine that evolved was pushed into trading, it began creating trouble for the trader. The predisposition for fear-based negative appraisal and the tendency to see the glass as half empty rather than half full naturally influences the perception of the trader to see trouble, where management of uncertainty is necessary for success.

As an example, many years ago I had the misfortune of consuming some bad raw oysters. I became dreadfully ill and had a very rough night. What is the chance of that happening again? Very slim with proper purchase of good quality oysters. Do you think my survival brain cares about the risk management of procuring good quality oysters? Not one bit. I still trigger to negative appraisal every time (even my stomach churns at the thought of consuming oysters) I think about oysters (which I love). My compromise now, in the form of risk management, is to have the oysters lightly steamed. The same process happens in trading and in the brain. Once you have a bad experience, unless you regulate the brain’s impulse, negative appraisal will prevail and you will have problems distinguishing be-

tween fear and risk management.

Learning to counter these biological predispositions is essential in order to change perception and performance in trading. The military actively trains emerging soldiers to perceive and think very differently during combat conditions. They teach soldiers to think clearly and take commands during the chaos of battle – where biological fear is real and tangible. If they do not train soldiers to perceive and think differently during combat conditions, the soldiers react and are consumed by their fears (sounds like trading does it not?). The re-training of this instinctual predisposition to negative appraisal is essential to the development of a battle tested veteran. The same applies to traders. You have to re-train the negative assessment machine (the propensity to be consumed by negative self-talk) to gain a psychological edge for successful trading.

Add one more quality of our brain, and you have a real problem with which to deal; your brain also has a short term emphasis rather than a long term perspective. You lose one time and the brain is going to try to reactively abate further loss. Unless trained to perceive long term in trading, your brain is going to take the short term success road (loss abatement) rather than the long term road to success (management of uncertainty and probability).

These powerful motivations, deeply wired into our genetic history, will produce fearful thinking and self doubt. And this is just the biological component; we have not looked into the integration of biology and psychology (which is next). *Better to have self-doubt and never get into a trade so you do not lose than to get into a trade with any chance of losing...*that is your genetic predisposition for risk avoidance showing up in your thinking and appraisal.

## **Biology and Mind Conspire To Keep You in Self-Limiting Beliefs**

Though it does have a biological underpinning,

your propensity to negatively assess and judge in trading goes beyond the biology of the brain. It also takes up residence in your mind as an internal critic.

Think back to the last time you experienced self-doubt, hesitation to enter a trade, or harsh criticism after you blew up a trade. In fact, write down the experience. Write about what happened (the facts) and also the emotionally charged assessment of your performance. Notice that your thinking becomes loaded with ungrounded assessments. From “Are you sure? You’re going to make a mistake. You’re going to lose.” to “You’re an idiot. You’re just incompetent – you’ll never be a successful trader. Why don’t you just give up?” This is actually a sequence of growing self-doubt expressed by a trader that I worked with. It starts with self doubt and arrives at character assassination – all in the blink of an eye to the untrained mind of a trader.

Notice these internal judgments ultimately condemn the person, not just their performance. They are also unexamined. In the case above, the trader has produced consistent results while in simulation. He knows how to technically trade. There is evidence for this. But the ungrounded negative assessment machine continues to escalate from self-doubt to self-condemnation. Missing in the internal criticism is a competence factor in the trader’s psychology that needs to be addressed. With training and re-organization of his psychology, this trader can and will produce winning trades - unless he stays hooked in the negative, self-limiting, internal dialog that currently dominates the thinking in his mind.

If the Inner Critic is not judging or criticizing you in fear based thinking, then it is goading you to make impulsive decisions that do not fit into the criterion of your trading plan. Suddenly you find yourself moving your targets and stops based on temptation (greed, not a reasonable profit). And before you know it, there you are - far, far adrift from your trading plan. Calm impartial thinking, so



vital to successful trading, has been hijacked by impulse and the rush of counting profits before you actualize them. And after the trap door slams shut, most traders hear the sneering criticism of the Inner Critic.

Let's go back to our friend Bill from the opening vignette. Let's see if you can spot the Inner Critic in his mind. This is an actual conversation going on in Bill's head as he is evaluating his trading day – wondering why he can trade so well in simulation and so poorly when risking real capital. Notice that what the Inner Critic says is not true, but it does have Bill believing its judgments. The important thing to note about Bill is that he gets carried away by impulse and later condemns himself after the adrenaline rush of impulsive trading left him with losses.

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*“It's never going to happen for you. You're never going to see the performance you see in simulated trading result when it's your real money account,” erupted the intrusive thoughts into Bill's awareness. It sounded so final. And it sounded so on target that I believed it without question.”*

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This is the Inner Critic. Most people believe that, if they ignore these thoughts, they will eventually disappear. Believing this deception is a major reason why the vast majority of traders consistently lose money and keep chasing the Holy Grail. Unfortunately, it is a permanent fixture in your mind – both from a biological and psychological perspective. It acts as a prosecuting attorney in your mind. It will lie, it will cheat, it will distort, it will deceive, and it will tempt as a means to get you out of your game plan. Many traders attempt to ignore this element of their inner life. But it is done at their own peril. By push-

ing it out of your awareness, you allow it to operate in the shadows of your mind.

In Bill's case, he will not acknowledge it until it has overwhelmed his trading mindset and has caused catastrophic losses. The avoidance gave him a short term advantage, but it devastated his long term prospects for successful trading. The problem is that he did not know how to deal with it. No one wants to talk about the negative voices lurking in the shadows of their mind – particularly when they are trying to project a positive state of mind.

This is where it has an advantage – stealth. Because it sits in the background (where you put it!), barely noticeable, your attention is taken off of the influence it has in your thinking. Negative thoughts, then, just seem to bubble into your awareness out of nowhere. Without being challenged, the propaganda machine of the Inner Critic slides underneath the radar screen of your awareness and right into your thinking.

Later in the book you will learn the importance of locating this voice living within you and confronting it. By confronting it from a more empowered organization of the self, you take away its capacity to toy with your fears and magnify them outside of your awareness. Until this is done, the Inner Critic simply nibbles away at your level of confidence and your capacity to maintain the state of mind needed to trade effectively.

Dealing with the Inner Critic is unavoidable. A positive state of mind is not one that ignores the fact that an Inner Critic lives in your mind and wants to limit your potential as a trader. An empowered state of mind is one that acknowledges the presence of the Inner Critic as a resident voice in the mind and recognizes the need to challenge it. What is powerful to discover is that the Inner Critic has no power in and of itself. Its power comes from provoking you into a fearful or impulsive state of mind where you make self-limiting decisions. When confronted, the Inner Critic shrinks in size and power once it realizes that it no

longer has the advantage of stealth. This is what every student of trading has to learn.

It is very important to figure out what the Inner Critic whispers in your ear or shouts at you. Go back to your trading logs. Begin keeping a journal of your emotions and thoughts. The Inner Critic is the voice within you that has a critical and judgmental edge to it. Once you know what you are looking for, it is easy to spot. Learning to deal with it is a challenge. Find out what it says. It is almost always the same thing. Write it down and begin developing the practice of looking for the Inner Critic. It is much better to know where your enemy is than to allow it unrestricted access to your thinking.

As you develop your self-calming and Mindfulness skills, you will discover that the Inner Critic is just one potential living within the self. Your sense of identity does not need to mindlessly fuse with the negative assessments and judgments of the Inner Critic. The problem is that it has become so ubiquitously familiar in the internal terrain of your thought life that you do not recognize it as different from who you are. In your mindlessness, you simply accept the Inner Critic's voice as "just your thoughts". This is the height of mindlessness – and this is what you must wake up from in order to grow as a trader.

Certainly, the Inner Critic is one aspect of the potential that lives within you, but it keeps you from exploring and claiming the empowered aspects of who you can be also. It may be familiar. It may be comfortable. But it is also very limiting to the success of your trading. And it has to change in order for you to become the successful trader that also dwells within your mind. Confronting these self-judgments courageously has to be accomplished for you to open the possibility of accessing the greater potentialities living within the self. The Inner Critic has been hogging your thoughts, and you have been duped into believing its lies. These are your unexamined self-limiting beliefs about yourself.

What you will notice about the Inner Critic is that it negatively assesses your competence, your sense of mattering, or your sense of worthiness. By attacking these fundamental aspects of the meaning you bring to trading, it creates self limiting beliefs about your capacity to trade effectively. When confronted by courage and reason, you will discover that the Inner Critic makes global assessments with little evidence to support the characterizations. If you push the accusations out of your awareness, you do not have the advantage to challenge these self limiting beliefs. They are not true, but you can live as if they are. But if you do, that becomes the world you bring forth into your trading.

So, do you have an Inner Critic alive and well and unchallenged living in your mind? Of course you do. If you experience self-doubt, trade from fear, trade impulsively or know how to technically trade but are not successful when risking capital – then you, beyond a doubt, have a resident Inner Critic as part of your emotional and thought life.

### **Inner Critic Exercise**

Go back though the various vignettes given in this book so far. All of them are based on actual people and their struggles in trading – so please do not feel like the Lone Ranger. Find the expression of the Inner Critic that fits your circumstance. Write it down. Include the emotion, the thoughts, and the meaning of those thoughts. It is revealing. These expressions are not who you are. This is the mindless organization of self to which you have drifted. You will have the opportunity, later in the book, to redecide on these deeper beliefs of your adequacy, your worth, and your mattering as a human being, rather than being judged by your performance as a reflection of who you are.

Every trader has to come to terms with the Inner Critic that crashes the possibility of their becoming a truly successful trader. Acknowledging its presence is, therefore, an essential step in your evolution as a trader. Coming out of denial of the fact of its existence may be embarrassing for some, but it is potentially freeing. Until you name this source of your fears and self-doubt, you will remain its victim and stayed mired in mediocrity.

The Inner Critic hooks you into your fears. Setting yourself free from its grip allows you to address the deepest meaning of the self that keeps you from successful trading. The meaning that the Inner Critic attacks is always about your sense of adequacy, your worthiness as a human being beyond your performances, and your sense of mattering as a human being (also beyond your performances). It will always try to dupe you into believing that you are a human *doing* rather than a human *being*.

In your mindlessness until now, you have given the Inner Critic immense power over the way you interpret and interact with your world. Now that you are waking up from your sleep of unawareness into the light of awareness, let's look at the coordination of action between the Inner Critic and another vital part of the self. This is called a dance between the Inner Critic (with all its accusations and judgments) and the Adapted Self (the one that fearfully reacts to the indictments of the Inner Critic). This is your historical internal dialog. And while you have been asleep at the wheel of your life, it is what has provided the direction of the course of your life. You have not been the author of the narrative of your life – it has. If you want to change the direction of your life and your trading account, this is the ticket.

### **The Internal Dialog – the Adapted Voice**

Think back to moments of self-doubt and hesitation, whether it was attempting to evaluate a set up, pull the

trigger on a trade, stay in a trade, or exit a trade. Notice the struggle between the Inner Critic (the critical or judgmental component of your thinking) and the fearful part of you. Do you notice that there appears to be a dance going on between these two streams of thought? This child-like fear-based (or impulsive) aspect of the self is what I call the Adapted Voice, or the voice of the Wounded Child. This Adapted Voice is always either panicking in the face of being overwhelmed by the judgments of the Inner Critic or trying to prove himself to the unrelenting criticism.

From a biological perspective, this aspect of self is the emotional learning that is stored in the limbic system of our brain. This is a very primitive part of our brain that we share with other social mammals and that is the seat of our reactive emotional nature. The limbic system, as it attunes us to our environment, builds a core sense of identity around the instinctual and reactive nature of fear and attachment (being loved). It is built to avoid threat and seek attachment (a sense of belonging) that is extremely survival oriented. The mandate of the limbic system is to organize the self that it is cherished and has a sense of belonging to its caregivers. And at the inter-face of attachment, developmental moment, and circumstance, a human's capacity to achieve their potential is blocked. This is called arrested development. And if you trade from a fear-based position, you are experiencing your own version of this arrested development. The brain simply is seeking to organize you so that you are adapted to the circumstances of your environment.

The brain will adapt you to nearly any conception of self to make sure this happens. It organizes around a sense of mattering, of competence, and of being worthy to the caregivers – and to the circumstance to which you are born. Now, imagine that this part of you is trying to please, matter to, or prove their worthiness to the Inner Critic. It is a losing proposition. The Inner Critic is relentless. This is a problem that many people ignore successfully until they

began trading – where it becomes magnified.

Let's go back to Bill's vignette and locate this Adapted Voice. Notice that it is in a kind of dance with the Inner Critic. It wants to prove its worth, its value, to the Inner Critic. Unfortunately there will never be enough proof. And even proof, where successfully given, would never be enough. But this child-like, fear-based, part of the self keeps trying anyway. You will have experienced it if you have feared making a mistake, feared not being perfect, or beat yourself up for a losing trade. Here is Bill's Adapted Voice taking over Bill's thinking mind:

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*"The most prevalent thought to pop up in my mind is that I'm basing my self-worth on my success or lack of success as a trader. As embarrassing as it is to admit, I want the accumulation of things and power that trading can give me. I want the recognition of family, friends, and co-workers. I want them to see that the years of sacrifice reaped a reward.*

*The crazy thing about this is that I'm a well liked and loved person by these people with or without trading but obviously it's not good enough. I also want to be recognized for my professional and financial success, which I still haven't attained through my trading. I do have a sense of entitlement. I worked my ass off. I gave up everything to go after this dream...six years of sacrifice, with thousands and thousands of hours of studying and honing my craft. Sitting in front of this damn computer and I still haven't gotten what I think I deserve."*

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Notice that Bill is attempting to define his self worth, his sense of mattering, and his sense of worthiness through his trading. Yet simultaneously, **he is beloved by his family and friends because of his being, not his per-**

**formances.** This adapted part of himself believes, despite what others around him say, that he must be financially successful and have material possessions to prove that he matters. This is the dance between the Inner Critic and the Adapted Voice.

The Adapted Voice is seeking validation externally through trading, rather than internally. As long as Bill is hooked into this need to prove himself by performance to the Inner Critic, there is no successful exit strategy in his trading or in the rest of his life.

Notice that the Adapted Voice is continually trying to prove its worth in an external manner. This is why it is important to understand that the Adapted Voice is an aspect of your arrested development (to review this part of the development of the self you call “you”, go back to the paragraph in this section on Arrested Development). It is fear-based and childlike. In the intersection of the drive for safe and secure attachment to an external source (parents and social environment) and developmental stage (identity and competence) that is also externally driven, you develop an identity based on external validation. That is just the way it is. And it happens to everybody. It is where attachment, development, and circumstance intersect to direct the creation of the historical self. This is the one that currently trades – and we are in the process of learning how to change it.

The point is that most traders stay stuck here. This is the arrested development spoken of earlier. It is what keeps their potential as a trader limited. Remember, the vast majority of traders lose money in their trading. Once methodology is adequate to give you an edge in the market, it is this very dance between the voice of the Inner Critic and the Adapted Voice that must be mastered. By doing so, the door is opened to disrupt old, historical, limiting conversations in the mind and build more empowered internal dialog that perceives the market and allows you to manage your trading very differently. As you evolve as a



trader, this self limiting internal dialog is replaced by a more empowered dialog. Great traders do not have a self limiting, historical dialog while they trade. Their dialog has become about the management of risk and the probabilities that result in successful risk management.

## Locating the Adapted Voice

Most unsuccessful traders never examine their historical beliefs about trading. These beliefs take the form of conversations in the mind, or the internal dialog. Instead, they wonder why they cannot trade successfully as others do. And then they hear a barrage of thoughts that produce a manifold of explanations. They believe that this tirade is simply their thoughts and is a representation of who they are. I call this *being enslaved to mindlessness*.

Let's eavesdrop on some of these thoughts running through an undisciplined trader's mind:

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*“Some people are born traders, but not me. I'll never be successful; it's just not in me. Shut up! I don't want to hear anything else out of you. Go back in your hole and stay there! I'm going to figure out the market and make it work for me. If I could only stop my mistakes, I'd be successful. If I risk, I could lose. What if I lose? I'm going to show everyone that I matter – I'm going to win to prove it. I'll finally get the respect I'm due when I start winning. If I could make my fear disappear, I'd be able to trade successfully. I start out fine, but something takes over me and I end up doing stupid things that I later regret. I do well for awhile, then I blow myself up. I'm a champ, I can beat the market – I just need the right technique. I snatch defeat from the jaws of victory – I don't know why I do that. I'm going to*

*keep trying until something good happens.”*

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This is the Adapted Voice in the form of the Victim. It is that sense of giving up and not having a good life. They do not learn from their mistakes. They believe that their mistakes are them. Have you ever found yourself dwelling in thoughts like these? If you are reading this book, you probably have. If you have not experienced thoughts like this, and you are not a successful trader, then you are mindless to the internal dialog going on in your mind and you need to develop the mindfulness to discover your particular historical dialog. It is something you were born into (it is not your fault – it just happens) and become responsible for – if you want to change the way you create your life.

The key to understanding the Adapted Voice is that it is fear-based. Any time you are experiencing worry, anxiety, stress, or fear (and the situation is not life threatening), you are experiencing psychological discomfort – not biological fear. This is the Adapted Voice. It is the way your brain adapted you to the uncertainty of your environment during your formative period. And, to the primitive adaptive brain, uncertainty is not distinguished from biological threat to life. For the vast majority of traders, this is the breakdown that stops them from becoming successful.

Because trading is rooted in managing uncertainty, people who were not lucky enough to have been born into a family and circumstance that exposed them to successful risk management of uncertainty will trigger to fear in circumstances where a calm, impartial mindset would be the preferred state of mind. For the vast majority of traders who were born into and adapted to this ideal circumstance for the acquisition of risk management skills naturally, trading provokes fear. Learning the “personality” of this fear state is important.

Later, when we explore Mindfulness in trading,

you will have the opportunity to begin to observe these hidden (and not so hidden) beliefs that take form as thoughts in your mind. You will be able to examine them from a different perspective. Not as who you are in a final deterministic way, but as the current organization of self that you became. And the good news is that this internal dialog between the Inner Critic (your critical nature) and the child-like, fear-based Adapted Voice can be changed. More about that later.

### **Locating Your Historical Conversation About Money and Risk**

Your beliefs and perceptions about money and risk (and your value as a human being) are transmitted from one generation to the next primarily through your family of origin and through circumstances beyond your control. If you are to free yourself from its power to shape your future in trading, it is vital to locate and understand this deeply embedded conversation. You are born into it and adapt to it. You do not acquire your beliefs about money and risk on your own. Your beliefs and perceptions are shaped during your development and socialization.

Your family and circumstance are the soup in which you become a component. They become so familiar to us that they become ubiquitous. We do not “see” them. They are as common as the air we breathe. You only notice them when you become Mindful of them. In doing this, you wake up to the forces that organized the perceptual map that molds you to understand the world the way you do. The Observer that you are determines what you see as possible in your world. Or as the old proverb says, “The truth is in the eye of the beholder.”

Let’s take a look at a technically great trader, Dan, who has been trading for 10 years, but cannot seem to consistently make money. He is baffled by this. His friend and former business partner, Murray (a former client of

mine), has moved from running a business to trading - and has produced a very successful trading life. So Dan took various psychological assessment instruments and was rated with a superior set of psychological skills for trading. Everything looked good. All he needed was the technical training to give him the edge he needed – or so he thought. Yet, ten years later, he is still a marginal trader.

What we knew is that he set his entry point really tight so that he could keep any chance of loss minimized. He is a bear on what he will pay to enter the trade, and often his trades were not filled because the price he was willing to pay was so low. Then, consistently, he would watch the trades take off. But his order was never filled due to his insistence on the lowest price. When he reviewed his trades, he discovered that this practice was costing him tens of thousands of dollars a years – maybe more. Somehow, it was hard for him to shake this pattern. Then we began looking into his family of origin and the conversations of money and risk that influenced the development of his beliefs during critical moments of his socialization. His eyes bulged as he recognized the current of perception he had been drifting in. He had never seen it in bold relief before this moment. Let's listen in as he makes a startling discovery:

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*I grew up in a good family and at first I didn't understand why you wanted to look at my family. Actually, I felt kinda insulted because I was lucky enough to grow up in a good and loving family – not that crazy stuff you hear about.. I had a normal family and my family didn't do anything to me that would make me weird. Then we started talking about growing up in historical conversations regarding money and risk. This struck a cord.*

*My Dad was a corporate guy who lost his IT*

*job in the eighties. He decided he had had enough of the corporate life and that he was going to start his own business with a partner. And to make a long story short, he lost a ton of money because he chose a really bad and dishonest business partner. His partner just picked up and left, taking Dad's money with him. His partner left the country so there was little real recourse. It was tough. This was a time our family could hardly afford this kind of hit. We struggled through it and there was lots of heated conversation about losing money.*

*Fast forward into the future. My Dad is back in corporate America and this time he is downsized in the first of the shifts of moving IT to India. Dad decides to be smarter and buys a franchise. Unfortunately the franchise is in a rotten location and is not profitable. The franchisor acknowledges that the location is not good and offers Dad a new location – for a large fee. That new location tanks also and we are left in rough financial shape.*

*During this period my parents divorced, and I, as a kid, decide to live with my Dad so I can take care of him. Over time he got another job in IT and, again, he feels threatened about losing his job. This time he is in his sixties though. All the money is gone and he's holding on by threads. All he talks about is safety and avoidance of loss.*

*Our family developed a real, palatable, fear of losing everything. And I look at my father and realize he made some really stupid decisions about where to place trust. He impulsively bet on things that he later regretted. I vowed, even as a kid, that that would never happen to me and my family.*

*I see clearly that I have been shaped by my family's story of money, risk, and loss. I don't want to be the fool that my father was with money or my trust. Yet, now I look at my trading and see my father's imprint on it. But rather than being impulsive, I'm just the opposite. I minimize my potential for loss to such an extent that I also minimize my potential for gain. That's why so many of my buy orders are not filled. I've got to have the rock bottom price so that I protect against loss.*

*The whole story of my family after the loss of considerable capital from my Dad's bad decisions was to protect capital against loss. I envisioned myself as risk manager, but I see that I have behavior as a loss preventer. Waking up to this is eye opening. I'm beginning to get how I was born into a family of origin who experienced certain circumstances that shaped my unseen beliefs about money, risk, and loss. It is these conversations that I hear in my head as I evaluate set up and determine the price I'm willing to pay. I now understand how I can watch a **trade** climb, but I didn't get in, because I wanted a price that would give me a way to prevent loss. I cannot tell how much money I have left on the table because I was so dominated by this unseen dialog between the Inner Critic and the Adapted Voice. Totally blindsided me.*

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This trader has spent ten years caught in a conversation of beliefs that limited his potential in trading – and in his life. And he is dwelling in the Adapted Voice called the Pleaser. In this case the trader's awareness is being held by a belief that if he only does enough, takes care enough, or is perfect enough – he will become a good trader. Unfortu-

nately, he is focused on “not losing” rather than managing risk and probability. Being able to locate the conversation that drove his conversation, he was able to break out of his mediocrity. How about you?

Notice how this trader’s fear of loss is not only located in the here and now of his trading, but also in his history. And that history shaped how he sees the market, opportunity, risk, and reward. He adapted to avoid loss. This is his Adapted Voice reacting unconsciously (mindlessly) to the Prosecuting Attorney in his head. This trader can hear a voice in him saying, “Don’t you dare be foolish. Don’t risk your capital stupidly. Keep a tight lid on your losses – or you’ll be left homeless.” Out of fear of loss inherited from a previous generation, his internal dialog limits who he can be today as a trader. Tragic – the historical dialog he trades from was transparent to him. Now, it is not. He no longer mindlessly has to be held prisoner by this inter-generational conversation of possibilities.

The Adapted Voice can take up different positions. Other adaptations of this voice can be:

**The Perfectionist** – When this belief is the chief organizing principle of the self, you believe that you should not make a mistake. And when you experience failure, it is proof of your inadequacy as a human being. Of course this flies in the face of how our brain (and you) actually learn. Our brain learns from mistakes, not success. Without making mistakes the brain cannot organize the emerging mind into a higher level of functioning. And success locks in pattern so that we become stuck and no longer innovate.

**The Fraud** – This is a form of arrested development of a person’s belief system that is invested in looking good, rather than being good. It assumes that if people really knew you, they would know that you are inadequate, unworthy or not important. If you have ever been in an online trading room and heard from fellow traders about how well

they are doing or what a killing they are making, you have seen the Fraud in action. In the virtual world of the trading world, the Fraud can assume an identity without actually having the performance to back up his claims.

**The Saboteur** – The person’s belief system becomes a self-fulfilling prophesy of blowing up well earned trading successes. Perhaps a fear of success is the core belief that keeps the pattern of giving back all the profits you have earned just when you believe you have finally turned the corner.

**The Fool** – This is typified by a person stuck into “irrational exuberance”. They get sucked into trades that are not in their trading plan because they can seize an opportunity that just popped up. They become excited (not a good idea in trading) and become fixated on chasing trades because they fear they will miss out if they do not take advantage of the situation RIGHT NOW. This leads to impulse trading and disarms the risk management skills that you brought into your trading plan.

**The Alpha** -- This a core belief that you must win, even dominate, to matter. They have to prove themselves to others by being the best and the most powerful. Often this belief system has been rewarded in sports and business. A person brings this belief system into trading and finds that the market cannot be dominated and will not submit. Instead of taking what the market will give, the Alpha wants to force its will on the market. As many former Alphas in trading have attested – this brings disaster.

This is not an exhaustive exploration of the possible positions that an Adapted Voice of a trader’s sense of self can organize itself. These, however, are the most common ones. Greater detail is found in the *Ignite Your Spark Program for Traders*.



## **Inter-generational Historical Dialog Exercise**

What is the historical conversation that expresses your beliefs, your fears, and your expectations about money, risk, and loss? Take time to write in your journal about this history of beliefs. Reflect on how you were born into it, the circumstances, the change in perceptions it caused, and where it has placed you. Talk to family members. Look at the way they handle money. See how they understand money. What does money represent in this historical conversation? How has it influenced you and your trading? It is a powerful exercise.

## **Un-tethering Your Sense of Identity from Your Historical Dialog**

What you are afraid of, owns you. Your fears cloud your thinking and color your perception of circumstance. Nowhere is this more important than in trading. Your historical internal dialog exposes these very fears – the fears that limit your capacity to trade at a higher level.

Unlike your capacity to hide from your insecurities in most of the other domains of your life, trading cuts to the very core of your being – there is no place to hide. Trading exposes the internal dialog that comes forth from your fears. Becoming Mindful of your Internal Dialog during trading will show you the very fears that you must conquer to become a consistently profitable trader.

When you are able to separate your thoughts from your sense of identity, becoming an Observer to your interior conversations takes on a different nature. You move from avoiding acknowledging the existence of hidden parts of yourself to becoming a detective solving the mystery of your capacity to trade. You become the author of the story of trading in which you are a participant. And you realize that the character who has been trading is flawed, and you (and only you) are going to have to redevelop the character

as a peak performance trader.

In developing the capacity to slow the body and mind down so that you can become mindful of the composition of your Internal Dialog, you learn to use the Internal Dialog to become aware of what you have been hiding from yourself. It is through this practice of mindful introspection that you develop yourself as a trader. You will discover that there is far more to develop within your mind than you ever expected. The tiny discomfort you experience when you begin to be honest with yourself and confront self-limiting beliefs gives way to something new.

That something new is the re-invention of the self. There is so much empowerment to be discovered and developed. The historical dialog has blinded you to possibility. Now, with the blinders of fear removed, you are going to explore how to bring forth the empowered self in your trading. In the next chapter you will be exploring instinctual potentials living within you that have been held hostage by your fears. Now you will learn how to name these elements of self that will empower you to zone into peak performance trading.

# Chapter 7:

## The Mindful Trader: Re-organizing the Committee of the Self

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*“Unlocking ourselves from the prison of our fears opens us to the potential that has been sleeping in our midst. The world we perceive and act in opens to the light of a new day.”*

*J. Rande Howell*

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***Trading Four Months Before.*** Frozen by fear and self doubt, Vicki passed on another set up. This was the third one this morning. It was frustrating. Each had hit the criterion needed to enter the trade, but her self-doubt kept her hesitating on the side line. “What if I lose? What if I’m not right? What if I make a mistake? What if I end up homeless?” Vicki’s mind was consumed by a case of the “What ifs”. Her last thoughts were, “Why do I keep doing this to myself? When am I going to face the music and realize I’m not cut out to be a successful trader?” Entering the trade from a mindset of self-doubt with a desire NOT to lose, she continues her slow descent into

*draining her trading account.*

**Trading Today.** *"Déjà vu all over again" – almost. (Note: As she triggers to an old self-limiting pattern, notice the difference in her management and transformation of that pattern.) Frozen by fear and self-doubt, Vicki passed on another set up. This was the third one this morning. It was frustrating. Each had hit the criterion needed to enter the trade, but her self doubt kept her on the side line. "What if I lose? What if I'm not right? What if I make a mistake? What if I end up homeless?" Vicki's mind was consumed by a case of the "What ifs".*

*Suddenly catching herself breathing in deeply, she realized that her emotional regulation training had just kicked in automatically as a conditioned response to the stress she was currently experiencing. "Wow, this stuff really works," she commented to herself. Her thoughts interrupted, she took in another breath – this time intentionally. Slowing down her breathing still further, she could feel the tension and stress beginning to drain. Her racing heart rate slowed as she continued to manage her breathing. Emotionally she was no longer a runaway freight train, but she was still too keyed up to trade from a peak performance state of mind.*

*Taking a brisk walk to burn the rest of the stress chemistry in her body, she got control over her rampaging hesitation and negative self talk. Vicki, with some effort, calmed herself down so that she reclaimed her rational mind. She re-established her calm, assertive state of mind – the one she had developed for trading.*

*This was a real victory for her. She was seeing in living color how she could manage her psychology while trading. She had just broken the*

*spell of fear from which she had been trading. Pushing her chair away from the computer screens and her urgency to continue trading, she continued to self soothe until she was able to imagine her mind as a committee meeting. She called it her trading committee. And that committee, she had discovered, was composed of different parts of herself with starkly divided interests.*

*This had been a major stretch for her. She had always believed that her thoughts were simply “Vicki”. And that “Vicki” was a static, undifferentiated whole. Now she understood differently. It was more complicated than that now. The good news is that it gave her hope that she could turn around her trading. And she was definitely seeing that happen.*

*In her mind’s eye she could sense that a frightened child-like part of herself was frozen by the character assassination attacks of her Inner Critic. This was her hesitation – one voice within her telling her she should pack it in because she would never be successful, and another part frozen in hesitation. No wonder her gut was in knots while she traded! From a state of mind possessed by fear and avoidance, no wonder she had so much trouble pulling the trigger.*

*When she forgot to be mindful, she could easily fall back into this historical pattern. It was this particular structure of her internal dialog that produced self-doubt and hesitation in her trading. Becoming mindful, she summoned a mother-like, compassionate, part of herself into the committee of the self. Calming the frightened part down instead of pushing it away out of her awareness had been a major breakthrough in Vicki’s trading. She had discovered that a combination of both compassion and courage were nec-*

*essary to break the grip that fear had on her state of mind. Instead of beating herself up for a mistake, she now comforted and calmed this fearful, childlike part of herself. She now realized that, until this part was soothed, she did not have access to the parts of the committee of the self that could trade effectively.*

*While calming the frightened part of herself down, she began focusing on a newly discovered courageous part of herself. She had always been tentative and frightened while trading, but there were other areas in her life that had been courageous. She began focusing her memory on that part of herself.*

*In the calmness afforded by the emotional regulation, she remembered what it was like to jump out of an airplane, free fall, and parachute accurately in uncertain air currents. Vicki was an accomplished sky diver. She had landed in stadiums on a target no larger than a basketball in front of roaring crowds. Jumping out of an airplane the first several times had been a challenge for her. But she had been able to bring forth the courage to push through her fear. And she had developed nerves of steel in the process. Not only had she confronted her fears, she had also pushed through them and conquered them in the domain of sky diving.*

*Now that she had calmed her fear, it was this part of herself that she now called into her awareness. Where she had acted courageously in one domain of her life, she was now bringing that warrior-like quality into her trading life. Using her memory of that moment of conquering her fear when jumping out of an airplane, she brought that courageous part of the self into her committee room. The warrior, as Vicki called*

*this part of herself, immediately confronted the voice of self-doubt that had paralyzed her trading.*

*This did not stop the fear from being present in the committee of the self, but it was removed from being front and center of Vicki's thought process. She had taken the courage, confronted the fear, calmed the frightened part of herself – and calmed herself with compassion so that she could direct the attention of her awareness.*

*The fear tamed, she focused on the impartial part of herself that knew how to trade. In past times, this part of the self would disappear due to the fear. But now, Vicki, with new found discipline was able to better manage her thought life. Instead of acting and trading from fear, she was now able to trade from a disciplined, patient, courageous, and impartial state of mind. A very different committee of the self had been developed. And that was who was trading. It was still Vicki, but a very different organization of her potential had been put into play during trading. The next goal was to produce this committee of the mind on an automatic basis – so she did not have to think about it. This, she knew, was trading in the zone that she had read so much about, but never knew how to produce. Now she did.*

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## **The Mind as the Committee of the Self**

Vicki has come a long way in her psychological development as a trader. She has broken her pattern of fear based trading and become a manager of risk and probability. In the first stage of her development, she learned how to better manage the physical arousal and intensity of her emotions (particularly fear and hesitation). This meant a

lot to her trading. She was able to calm her biological system so that an emotional hijacking did not occur, Vicki was able to disrupt and calm an emotional storm that, in previous times, would have seized her trading mind and created poor performances in trading.

Not only was she able to disrupt the emotion of fear from taking over her thought process, she was also able to manage the internal dialog of thoughts in her mind. Initially she was blind to this powerful force because she had never thought of her mind as a committee with various voices with competing interests. By being able to calm the frightened, child-like part of herself she calls Little Vicki, she was (by highly enriched emotional memory) able to access a part of herself that had compassion and cared for this frightened part of her being. It did not stop there though. She was also able to call up other attributes that had been inaccessible to her previously.

In addition to the self-compassion that she was able to direct towards herself now, she also resurrected the courage she once possessed as a sky diver. Remembering the courage she had summoned to jump out of an airplane the first time convinced her that she could face down her self-doubt and hesitation. By using the mental skill set of symbolic representation, Vicki could retrieve the memory of overcoming the fear of death when she jumped out of the airplane. Calmly focusing her attention on that memory, she could ignite the courage of that moment and act from courage rather than fear.

In confronting her fear of losing from a position of courage and compassion, Vicki was able to take both fear and self-doubt off line. In the ensuing calm assertive state of mind, she was able to access the “virtuoso trader” (as she called it) that traded impartially. And what she noticed was that she had the discipline to keep this state of mind in the forefront of her awareness. She shifted from a mindset attempting “NOT to lose” to a mindset that was set on the probability of winning – a very different state of mind.



Vicki had moved from a sense of the self that was static and monolithic, where thoughts are the representations of “You” to an understanding of the self as a committee that was composed of competing interests. The difference in four months was that she was now aware of the intricate complexity of the organization of the self. She was now mindful of more of her potential than was represented by her historical internal dialog. And once she learned how to emotionally regulate her fear, Vicki had gained access to powerful potentialities that had (for what ever reason) been pushed out of her awareness.

Now she had developed the skills to enlarge the internal dialog. No longer was it limited to the Inner Critic that criticized, judged, and predicted doom or her victim-like Adapted Voice that cowered in hesitation when trying to enter a trade. This internal dialog resulted in her fear of pulling the trigger and in staying on the sidelines of many trades. Now the committee of the self that produced her internal dialog included new found archetypes called the Ruler (bringing discipline), the Nurturer (bringing compassion), the Sage (bringing impartiality), and the Warrior (bringing courage). She grasped that these archetypes were simply inherent potentialities living within her that had never been developed properly.

When these elements of the self were added to the mix, a new trader emerged. Vicki was trading from a state of mind grounded in discipline, patience, impartiality, and courage. And when approaching the uncertainty inherent to the market, fear was not triggered. Uncertainty still was present, but she, in this new trader’s state of mind, was able to become someone new as a trader – the manager of risk and probability.

Vicki’s example is not so different from anybody else's sense of self. Who has not experienced a mind divided, a mixed mind, or a confused mind? Who has not experienced a debate going on in your mind (like our friend Elmer Fudd from earlier in the book)? Who has not held

two conflicting opinions about a topic? It is this very internal struggle, and her denial of it, that had kept her in self limiting beliefs. It was those core beliefs that she had learned to change. And it was those fundamental beliefs about her character that actually traded using her methodology and trading system. Same as any trader, including you.

Beyond that though, who has not experienced a moment of clarity when confusion vanished and a clear headed decision could be made? Like Vicki, all of us have experienced a moment where courage was found and we pushed ourselves to the goal. Most of the time though (traders included), people stumble into these rarified moments where they experience their deepest strengths. It is usually when you have been pushed out of your comfort zone and are forced to deal with a concern that you find these inner strengths. Even if it was accidental and you were lucky, it is still evident that the strength was always there – just not consciously available to you.

This is the committee of the self. Your mind. If you view your mind as a committee where the direction of your life is being debated and acted upon, a very powerful way of understanding your trading mind emerges. Not only is there negative self-talk that is an active part of that committee, determining the story you believe about yourself, but there are also powerful forces, inner heroes, that are in that committee meeting. Your job is to awaken them to become active participating members in the committee. Suddenly, much more powerful forces, representing who you could be, begin to give voice to the discipline, compassion, impartiality, and courage that have been silenced by the roar of the historical internal dialog.

This is what happened to Vicki. What changed for her is that she brought into her awareness powerful aspects of the self that had been silenced since childhood. In waking them up and nurturing their voices, they came to have a dominant influence on the committee of the self. This created a new direction for the committee of the self to direct

Vicki's life. Her trading improved. She went from fear-based trading to becoming a manager of risk that stacked probability in her favor. Fear transformed into vigilance, and she became a successful trader.

Now that you understand the concept of the committee of the self that actually is doing the trading, you may be asking, "What are all these elements of the self and what are these archetypes?"

## **Understanding Archetypes and Their Relationship to Trading**

There are a range of instinctual potentialities that humans, across all cultures, possess as part of their biological and psychological make-up. Throughout this book they have been alluded to. Within any group of people being challenged by their circumstances, there will be numerous ways that different people will respond. It is in the way different people respond to the same challenge that we see how each person embodies his or her strengths and weaknesses – their archetypes. From strength, we see the power of these instinctual probabilities in their best light. This is what we strive to bring forth into the world. To be successful in trading, it is essential that we act from the strengths within us, rather than from our weaknesses. And this is why it's necessary to develop and nurture them. In trading, when you trade from fear you trade from the reactivity of biological avoidance – in Jungian archetypal language, you are trading from the dark side of the Orphan. And when you are revenge trading, the Warrior archetype (courage) is serving the Orphan (fear), rather than a disciplined (Ruler) and impartial (Sage) state of mind. Emotional regulation is first necessary to intentionally invoke this state of mind.

In both movies and literature you will see archetypes personified. Think of characters such as Richard the Lion-Hearted. What feelings and images are evoked? The

strength and conviction of a lion is embedded into the character of a man. In envisioning Richard the Lion-Hearted, you gain access to the archetypal energy of the lion – courage and leadership. Even the name, Richard the Lion-Hearted, resonates with the energy of calm, disciplined authority. You can “feel” the presence of the particular energy of the archetype.

Go one step further. Imagine the movie, “We Are Marshall”. In this movie (based on an actual tragedy in 1970) the entire Marshall University football team is killed in a plane crash (except 4 players who didn’t board the plane). Yet the coach calls forth a strength that lies deep inside the remaining team and school. And into this well-spring of strength that the coach taps, the Marshall “spirit” is rekindled. These are the instinctual elements of letting go of the past (Destroyer), courage (Warrior), resiliency (Orphan), discipline (Ruler), and hope (Innocent) that are summoned within each player. Out of the disaster and tragedy of a life-altering experience, the coach directs what archetypes will need to be active to re-invent the possibility of Marshall football. If the coach had not intentionally called forth these archetypes, Marshall could have experienced the giving up of hope (shadow Innocent) and prolonged victimhood (Toxic Orphan). It is the intentionality of the state of mind that the coach calls forth that directs the uncertainty of this life altering event. Just as in trading when you are managing risk and probability, it is the state of mind that influences the direction of the creation of possibility.

Like the coach portrayed in “We Are Marshall”, the intent of the trader is to invoke the group of archetypes that produces peak performance trading. This is what Mitchell Huffman, a Drummond Geometry trader-education trader, calls the “A Team”. Incorporating both trading methodology and the Ignite Your Spark psychological training, he teaches that a trader does not trade until he is able to call into quorum his trader’s “A Team”. He knows that it is this

organization of the self that uses the methodology to trade. It is the ability to volitionally build the archetypes of peak performance trading that created his success in trading. Now he teaches others.

The movie character Braveheart also represents the essence of the Ruler and Warrior archetypes. The movie's character attunes us to these qualities as few movies have. The character calls forth these qualities that lie within each of us. It is the capacity to summon them on an intentional basis that allows us to confront our own inner psychological demons (shadow archetypes) and create states of mind that are grounded in our strengths rather than our weaknesses.

Even enduring stories and movies such as Cinderella resonate with archetypal energy. Cinderella (and many movies developed around the same basic story) is rooted in the hope of the Innocent after being abandoned (Orphan). And in the organization of the self that these movies are directed towards, a prince is awaited to set the princess free from the evil (Inner Critic). This is the same basic story that a trader is seduced by as long as he or she believes that a Holy Grail is "out there". And if they only find it, they will live happily ever after. Ask yourself if you have fallen for this myth by looking around your trading room and noticing how much energy has been wasted on different trading platforms and how many methodology "gurus" you have chased in the effort to become successful in trading.

It is the ability to become mindful of these attributes within the self that is the huge step forward towards becoming a successful trader. Without their proper management and development, you stay mindless (blind to) the forces that operate in your mind. Out of this predicament you end up acting from a self limiting organization of the self rather than a more empowered mindset.

The potential of each kind of response exists within each of us. Whether you react from fear or respond from a position of discipline and courage, the world you create in

the face of the challenge comes directly out of the part of you that interacts with the circumstance. If you react from a state of fear, you will create a world based on that fear. If you respond from a position of discipline, courage, impartiality, and compassion, then it is this emotional state mix that interacts with your circumstance to create a radically different set of possibilities.

The creation of a potential future is in the balance. Different ranges of possibility open or close to you depending on whether you engage your challenge from your strengths or your weaknesses. And inherent in your nature is the potential to direct your attention away from the self limitations imposed by fear and toward the attributes of discipline, courage, patience, and impartiality. The attributes themselves are part of our make-up. The only question is which instinctual potentialities within you do you bring forth into the world? The world you create lies in the balance. And nowhere is it more true than in trading.

It is to these attributes, these parts of our potential, which we now turn. Carl Jung, the father of archetypal psychology, called these in-born attributes **archetypes**. And an archetype was an indwelling aspect of our being that represented a certain cluster of character traits. These character traits, he discovered, existed across all culture. They stayed consistent no matter what culture or country that he studied. These attributes, clustered in particular character traits, were simply part of our humanness. And, if they were inherent in our psychological make up, they could be developed. In the vignette that opened this chapter, that is exactly what happened.

The Myers-Briggs personality test was developed after World War I to quantify a person's archetypal expression so that more effective teams could be put together. What the Army realized during World War I is that more effective teamwork could be developed if they understood these in-born attributes better and could create a team of soldiers with certain attributes. A much better performing team

could be built and maintained with a fundamental understanding of a person's archetypal nature.

Developmentally, as a person moves through attachment, development and socialization, the brain organizes the emerging self into clusters of these archetypal attributes which form a consistent identity. This identity (this sense of "me") is not static as science once believed. Fortunately your identity is fairly fluid – meaning you can nurture parts of yourself that natural development did not bring into the forefront of your personality. This is what the Ignite Your Spark Trader Program is designed to do.

In trading there are certain archetypal attributes that are essential for peak performance. It is to these that we are about to turn. To explore these hidden potentialities, we will be using the work of Carol Pearson. She is a modern master interpreter of Carl Jung's archetypal work and brings a highly researched and understandable view of the archetypes. Her book, "Awakening the Heroes Within", should be required reading for anyone developing their potential as a trader.

A deeper exploration of the Archetypes is beyond the scope of this book. Here, I am interested in helping you develop the application of their specific use. Carol Pearson and Carl Jung are the source of a deeper understanding of archetypal nature. In the Ignite Training Program, these inherent potentialities are developed so that they are present in your awareness as you trade.

## **The Archetypes Necessary For Peak Performance Trading**

You are encouraged to explore Carol Pearson's work to gain a deeper understanding of archetypal nature. My interest is in their application to trading. The purpose here is to learn about a small cluster of these in-born attributes within you so that they can be developed as part of your psychological trading skill set. Here you are learning about

them. To develop the archetypal attributes of discipline, patience, courage, and impartiality, you will need to develop them so that they become part of your awareness – or what I call the committee of the self. We are going to start with the negative archetypes (what is called the shadow side of the archetype). If you experience fear in any of its forms while trading, you have experienced the Orphan.

Any great coach or mentor helps you awaken the heroes within you. Not only do they help you discover the power that lives within you, they also help you to develop these instinctual attributes within the self. No one is a victim – their identity becomes fused with the perception and conversations of the victimized orphan living within you. No one is a champion – they learn to awaken and identify with their heroic nature rather than their self-limiting beliefs. Nowhere is development of these potentialities required more than in trading. Most traders trade from a position of victim or fool, but they have pushed this out of their awareness. This is a formula for disaster. Traders, like other human beings, are not comfortable acknowledging these parts of the self and, therefore, deny them. This gives these parts of self great power to influence your trading. They become like guerrilla fighters. They strike out of nowhere, then fade back into the darkness of your avoidance. Developing the courage to face these destructive parts of yourself is essential to becoming a peak performance trader. By dealing with them, bringing them into your awareness, you gain access to the empowered side of the archetypes. Now let's explore what potentialities live within the self for greater expression of your empowered nature.

**The Orphan.** If your trading is fear-based, the Orphan dominates the committee of the self. You trade “NOT to lose”, rather than trading to win. The Orphan is that part of you that experiences the fear of losing, fear of pulling the trigger, fear of not being perfect, and the fear of missing



out. It is not “you”; it is only one small (but very primitive and powerful) aspect of your being. And it cannot be ignored. Biologically it is the limbic brain, or your reactive mammalian brain. In its less developed forms, it is very child-like – in fact, I call this portion of the self the Wounded Child.

So if you are losing money and trade from a fear of loss mentality, the Orphan part of you is controlling the committee of the self – which is not a good thing for successful trading. Most traders attempt to punish this part of the self. Go back to the many vignettes provided in this book and you will see this. They want to push the Orphan aside so they can trade without emotion. This is impossible. You will always trade from an emotional state. All thinking follows your emotional state, and there are no exceptions. By trying to ignore, punish, banish, or push the Orphan part of you out of your trading mind, you set up the conditions for the Orphan aspect of the self to hijack your ability to think from an impartial state of mind – a requirement for successful trading.

The major work of a trader learning how to manage his or her psychology for peak performance trading is to develop a keen sense of the Orphan’s presence. If you are experiencing either fear or greed, you are operating out of the Orphan in its many forms from Victim, to Saboteur, to foolish impulsivity. From a biological perspective the Orphan is associated with the emotional memory and reactivity of the limbic, or emotional, brain. The Orphan becomes a poetic method that allows us to understand how our primitive brain organizes around fear. It is vital to learn how to emotionally regulate the biology of fear before you are able to access the capacity to produce a higher functioning state of mind. This is paramount in managing the uncertainty and probability embedded in trading.

Until you master the Orphan, your trading will be fear-based, not risk management-based. First, you as a trader have to become mindful of the influence the Orphan has

over your trading. And often, the losing or fearful trader is so identified with their Orphan nature that they believe that this is who they are. So the first task is to become mindful of the presence of this part of your humanness.

Beneath the particular fear that a trader experiences, the Orphan is the part of the self that carries the core belief that you are flawed as a human being. This is expressed in traders as a sense of being inadequate, of not really mattering, of not being worthy, and of being powerless to change their fate. It is these core beliefs that have to be found and challenged before you can find and develop the more empowered parts of the self.

The second task of the emotionally literate trader is to disrupt the power their Orphan nature has over their state of mind while trading. This is done through the breathing and self soothing technologies discussed earlier in the book. After disrupting its influence, the developing trader learns to both discipline and nurture this aspect of his psyche. What emerges out of this process in the trading room is manageable fear that can be taken off line and replaced with far more effective emotional states (to be discussed shortly).

And as the Orphan archetype is developed into a high functioning part of your trading committee of the mind, it takes on a very useful role. After entering a trade, it provides you with a vigilance that is necessary to manage this aspect of your trade. It is no longer operating out of fear, causing you to move out of trading in the zone. Rather it is heightening your capacity for peak performance trading by keeping you from doing something impulsive or being foolish during a moment of powerful uncertainty - a moment where you need your wits about you, and your "A Team" in charge of the committee of the self.

So rather than punishing yourself for experiencing fear and trading from fear – you learn to become a better manager of risk and uncertainty – this is higher order thinking. This is done through the use of self compassion (rather than

punishment and shaming yourself) and courage (the ability to set limits). And this leads to the next archetype needed to transform your trading. It is from this position that you learn how to be a better trader. You learn from your mistakes rather than hide from them or punish yourself. Like a kid learning a new skill (say, learning to ride a bike), mistakes will happen. And it is from these mistakes that you actually learn how to ride the bike – not from your successes. The nurture of the Caregiver (to be discussed shortly) and the courage of the Warrior create a psychology of disciplined encouragement from which the brain learns. It allows you to become relaxed and open to learning, rather than tense and trying not to make mistakes. This is the difference between peak performance and mediocrity.

**The Caregiver.** The Caregiver is that part of you that has compassion for someone or something that cannot care for itself. If your trading is fear-based, you definitely have a part of your trading committee which is not being taken care of. Look at images of a mother and her nursing baby and you will see the epitome of the archetype of the Caregiver. If you have ever been around a child in distress, you will see and experience compassion (desire to comfort and take care of) trigger in the mother as an emotional state that creates the actionable state of mind. This is the archetypal expression of the Caregiver. And it is vital to successful trading. Otherwise you never forgive yourself for the mistakes that are going to happen as you trade. And if you cannot forgive yourself, you stay stuck in the pattern that keeps you in problematic trading.

The Caregiver also has adult forms. In the aftermath of the 9/11 disaster people in New York City (yes, even Wall Street types) were provoked to a sense of compassion to help others in their suffering. We all saw images of men taking off their very expensive jackets and giving them to victims in an attempt to comfort them. This is totally out of “normal” character for this group of people. But the situa-

tion provoked a compassionate response from within them. It was part of their biological heritage to act this way. This is the expression of the archetype of the Caregiver becoming an active part of the operative state of mind out of which a person creates his life.

In my own personal organization of the committee of the self, Nelson Mandela is the symbol I use to evoke this inherent potentiality within myself. The sheer force of compassion as a tool for re-organization of the self is exemplified by Mandela's engagement with the Afrikaner government of South Africa. After trying reason and machine guns, Mandela discovered that compassion was a far more effective tool or weapon for transformation of the South African government.

It is this inspirational aspect that makes Mandela such a powerful symbol of compassion for me. Because of the energy of the symbol of Mandela, it enables me to activate the emotional state of compassion from which I then create a relevant state of mind. From this position, I can have compassion for the plight of the Adapted Self that I came to be. And it is through compassion that this part of me is healed and becomes open to transformation.

In the same way, compassion is a powerful tool for the trader. There is always a wounded part of the self to be found as a component in your trading mind. This is simply our human nature. Whether we call this aspect human fallibility or our brokenness does not matter. As Albert Einstein aptly put it, "We are all born into a raging herd of buffalo. It is a wonder any of us survive." It is the compassion of the Caregiver archetype living within you that can comfort and soothe the aftermath of being born into a raging herd of buffalo. Otherwise, this frightened child-like part of the self takes over the committee of the mind and corrupts the A Team committee. Beating yourself up for making a bad trade is not going to help the future trader you are developing. It will only force the Orphan and his fear to hide deeper in the shadows of your mind, a very bad

thing. Having compassion for the pain of the mistake opens the door to re-organization of the self.

The interesting aspect of compassion and the archetype of the Caregiver is that it is the emotional state that transforms the self-limiting core beliefs about yourself into a higher sense of value. The sense of self-worth comes not from what you do, but from what you are at the core of your being. It opens the door to a re-evaluation of your identity with deeper meaning, purpose and value as a human being. In compassion, you, at the core of your being, can acknowledge that you are worthy, adequate, and very teachable.

It is also the antidote to the fear of the Orphan. Accessing the biologically-embedded self-compassion within you, while in calm states of mind, allows you to have self-compassion for the fearful part of yourself. This not only soothes the fear of the Orphan, it also re-organizes the very core beliefs of the self that limit the capacity to trade from a peak performance state of mind.

As long as you as a trader punish, shame or wish to abandon (or kill) the vulnerable and fearful Orphan within you, you will continue to trade from fear. This is the essence of self-destruction. The fear will simply hijack your capacity to trade. Awakening compassion and self-compassion becomes essential to the development of the possibility of the successful trader. With the addition of compassion to the committee of the self, the probability of re-organizing the self into a successful trader is greatly enhanced. It is the tool with which core beliefs of the self are reformed.

**The Warrior.** The archetype of the warrior is expressed when we experience the courage that allows us to face our inner psychological demons (the ones that keep us in self-limiting beliefs about our capacity to trade). Many times when a person cannot avoid the object of their fear, they reach way down deep inside and find the courage to push through their fear. This is an example of a person be-

ing pushed to the limit before accessing this element of themselves. It is always available, but it often hidden from our awareness until critical times. This is what the woman who faced the polar bear (from earlier in the book) did. She accessed this part of herself and faced her fear.

The Warrior is immensely useful in certain moments of training. Any time you experience fear is the exact time that summoning up the courage of the warrior in you becomes critical. These moments tend to cluster around events like entering a trade where the trader has to pull the trigger. Many traders feel paralyzed to simply click a mouse in these moments. Pulling up the Warrior allows you to take courage in the face of your fear. Other traders experience the need for courage when they are in the trade and it is moving. Out of fear, they get out before the profit potential is realized. Courage (the Warrior) is needed to overcome the fear.

In fact, courage is not the absence of fear – it is the capacity to act in the face of fear. Much of the earlier work described in this book (Stage ONE skills) deals with developing the emotional regulation skills required to disrupt fear's capacity to hijack thinking and decision making. When calmed, the imagination can be refocused from being dominated by the impending doom focused on fear to the courage of pushing through the fear to higher ground. Without the regulation of fear, it is hard to access the courage of the warrior.

Using symbolic representation of the warrior needs careful consideration. Hollywood has often painted the Warrior archetype in less than heroic terms. From Mad Max, to Clint Eastwood, to gangster representations, the warrior has often been portrayed as a loner simply fighting for himself. The portrayals mark the Warrior as a thug or a wicked witch. These portrayals demonstrate the Warrior archetype serving the Wounded Child (revenge or resentment). The Warrior archetype in its higher form is not like this at all.

The duty of the Warrior archetype is to protect the boundaries of the kingdom that you are building as a trader. It protects the emerging, empowered sense of self you are developing for peak performance trading from the torrent of criticism and self-doubt that the Inner Critic directs toward you in the internal struggle.

In the movie, “The Return of the King”, both the elf and the dwarf that protect the emerging and returning king Aragon exemplify the noblest of the archetypal Warrior. They are loyal. They are courageous. They protect the back of the king and go to war to defend the kingdom. They fight in spite of the incredible odds against them. Their attention stays riveted on the courage that dwells within them. And they know they are fighting for a cause greater than the self. This quality of courage lives within you. Finding the symbolic representation that allows you to access this intrinsic element of the self living within you is vital to your success as a trader. Once you are able to take fear off line with emotional regulation, your Warrior archetype becomes available to you as part of your awareness.

The key is to make the Warrior archetype and the courage that it brings into your state of mind a volitional part of the trading committee of the mind. When have you experienced courage? If you have experienced courage in any situation – by definition – you have the capacity to create a courageous state of mind. By using the deep relaxation engendered by both breathing and SafePlace development, you can build a memory of courage in your memory banks. And you can call this memory into your awareness so that it becomes part of your state of mind. This is called intentionality.

Whether you experience this courageous part of yourself as a visual image, as thoughts in your mind or as a feeling of inspired courage really does not matter. That will depend on the way your brain is organized. Some people are visual learners, others are auditory learners, some are kinetic (feeling) learners. It is best when all three modalities

ties of learning are used to create the memory that is associated with the awakening of courage. These attributes of the self can be developed independently. A good source to begin is with Carole Pearson's book, "Awakening the Heroes Within". This aspect of awakening the Warrior within you and others is also addressed in the Ignite Your Spark Training Program and is truly beyond the scope of possibility for this book.

Once activated, the Warrior is the part of you that finds the courage to confront the psychological demons you have avoided for most of your life. From this deeper sense of self, you know that you are not the lies that the Inner Critic, heretofore, has convinced you that you are. Instead, you begin to see yourself as someone who needs to be freed of the self-limiting beliefs to which you were born (your herd of raging buffalo). You are not those beliefs. They have simply dominated the committee of the self for so long that they seem familiar to you. But they are only a familiar pattern – they are not you. They are only one particular organization of the self that you became. "You", this committee of the self, can be so much more.

And this is why you summon the power of the warrior to fight. It is through the courage to face this shadow of fear that you are born to a new life. This is the route to peak performance. Once you break through the barrier of fear, you will discover that the only thing there was to fear was fear itself. It had no power over you except that which you gave it. A new day dawning in the creation of the self becomes possible for you. The trader who could perform well in simulation is freed from the fear that stopped him from trading as well when risk entered the game.

You are freed from trading "NOT to lose", and in the courage brought from your warrior, you can develop the committee of the self that trades to win. It is in this moment that the internal discipline of the Ruler becomes available as part of your internal dialog.

This is so important that I want to share with you a report



submitted as a client's homework about the awakening and use of the Warrior. This trader was tormented by his losing and his sense of victimization. Listen to what she writes.

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*I'm feeling good. For the first time in my life the inner critic within me is experiencing a fight he has never experienced before. I can almost hear him thinking "what the f\_ \_ \_ is going on?" Of course it's still a give and take. He wins battles, but now my inner champion (his name for the Warrior archetype) has been fighting back and also winning battles. More importantly, with the battles that I lost, I didn't become a victim, but found that strength again to go to war with the inner critic. These are profound changes occurring in me. For the first time I'm seeing the possibilities. This is very important for me because when I lose a battle against the inner critic, I have the battles that I won as a mental reference note, telling me that I can do it, to get up, not be a victim and fight again. The heroic voice in me has been getting louder.*

*It's still a give and take battle. After a losing trade or two, that stillness (this is his emotional regulation training kicking in) seems to disappear into the wind, and the IC's voice starts to get loud again, but I become aware, and go through that process all over again to get me back into that state of mind. Sometimes I win, sometimes I lose. Sometimes it takes a lot of trying energy on my part to get back there, but the most important thing is that I've experienced it and know it's possible. None of this could have been done without you.*

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The Warrior had always lived within him, but the trader did not have access to its strength. By waking the Warrior up, his internal conflict (the one all of us have) was

no longer avoided. He discovered he was worth fighting for and could win. He is still in the process of creating long term change as can be seen in his communication. He knows it is possible now though. As he builds the skill of Mindfulness, the Warrior becomes more and more part of his internal dialog – the landscape of his mind. The organization of the committee of the self (the one that trades) is forever changed.

**The Ruler.** The Ruler archetype is personified by a sense of calm authority grounded in discipline, confidence, and organizational delegation. It is the executive function of the trading committee that you are developing. It will delegate specific responsibilities and tasks to various parts of the committee of the self. No one part of the self gets to dominate the activities of trading. When it is time, the Sage's (to be discussed next) talent of impartiality and assessing set-ups according to plan is called on by the Ruler.

At the moment of pulling the trigger, the Ruler (as executive director of the committee of the self) directs the Warrior (courage) to pull the trigger on the trade once the Sage has done his job. Later, while in the trade, the Ruler is what brings the mature Orphan into the mix of resources. Here the Orphan's vigilance is a necessary part of the execution of a successful trade. The Ruler would also call on the Destroyer archetype to be on the alert to cut losses if necessary. If fear starts creeping into the internal dialog, the Ruler will direct both Caregiver and Warrior to the wounded child expression of the Orphan to both comfort, soothe, and contain the influence fear can have on the trading committee's decisions.

If you imagine the trading committee as the command room in a battle, you will get a good idea about how all these aspects of your mind work together as a team. There is a commander who has final say over the direction of activity. But he does not make his decisions in a vacuum. Rather, around the situation table are different groups that

have particular duties and talents. Warriors are to be directed for best effect. The commander is constantly seeking more information and advice from the Sage's battlefield intelligence. To keep his team operating at full capacity, the commander is directing rest and relaxation (R and R) for his resources as they become fatigued (Caretaker and compassion). He will seek input from his battlefield wizards about new strategies or tactics that would produce a new breakthrough in winning the engagement.

Without the discipline, organization, leadership, and delegation of the executive function, the team suffers and cannot prosecute the war effectively. It is the same with trading. If you have not developed the discipline to keep your mind organized on successful trading, the moment a problem shows up you become blindsided and fall into chaos. That chaos shifts your confidence to manage uncertainty into fear. And when consumed by fear, the rout is on. To prevent this outcome and to maintain structural integrity of the battlefield of trading, your Ruler archetype has to be the captain of your trading committee.

The Ruler is the part of you that knows how to use the skills you bring to trading wisely. As an archetypal representation of this trading committee run by a strong Ruler, think about the commander of the Starship Enterprise from Star Trek, The Next Generation. (No, I am not a Trekkie. But the command structure in this show is an excellent example of the structure of the trading committee you need to develop to be a successful trader.) Jean-Luc Picard, the commander, has Commander Riker as the Ruler-in-training and he manages many of the operational components that would otherwise bog the Commander down in details. This arrangement allows Picard to focus on managing the engagement without having to be concerned with how the ship is doing. He has delegated this aspect of operations – and requires that reports come back to him to aid in his decision making. Picard also has navigators (Sages) who actually steer the ship according to plan under his direction.

Lt. Worf is his chief security officer (Warrior) who, along with his team, is in charge of courageously defending the ship from attack.

The engineer, Geordi, is clearly a functioning Sage, but he is also incredibly creative (Creator). When the systems of the Enterprise are challenged beyond their capacity, it is Geordi who invents a new way to solve the problem. He has an intuitive sense of possibility that allows him to think outside the box. And Picard leans on him to solve the ship's problems creatively. This is very similar to the way the Creator and Sage archetypes need to work together in trading. The Sage knows the engineering of the trade. Yet the Creator provides the trading team the “hunches” that allow a higher degree of functioning.

In his command structure Picard also has Lt. Data, who is a Super Sage, who helps him evaluate circumstances. Lt. Data is impartial and can only see and interpret from a rational state of mind – exactly what a trader needs to evaluate set-ups. He also has the ship's counselor (Counselor Troi) and medical director (Dr. Crusher) to take care of the psychological and medical concerns of his crew. He brings them into the conversations of the ship and its journey so that he maintains a healthy crew, ready to engage the challenges that life presents (just like in trading). Interestingly he also maintains a relationship with Guinan, the ship's bartender, who serves as a Magician for him. She is able to provide him with very different perspectives about how to perceive the situation.

Ultimately, Picard assumes responsibility for the invention of possibility. But he takes input from many trusted sources and calls on them to act in their areas of expertise. The same is true of you. Your mind exists as a trading committee composed of various characters. You need your Sage's impartiality to evaluate trades and set ups. You need a Warrior to summon the courage to act on probability in the face of uncertainty. You need the patience that the compassion of the Caregiver gives you access to.

As your committee develops, you, as Ruler, will need to nurture and develop the Creator so that you can use your intuition as part of your trading committee. But, it has to be developed to be disciplined. You, as Ruler, will also need to develop the Destroyer so that you know how to get out of losing trades and cut your losses effectively. It is the executive function of the Ruler archetype that blends these different parts of the self into an effective team. It is this team, managed by your Ruler, which represents the A Team that needs to be trading for peak performance trading.

What would this look like in a trader's mind? Let's take a look at homework from a trader who has developed his "trading committee" to a point where he has brought into his awareness a number of parts of himself. And he has found why he keeps failing. In this dialog, the Ruler is talking to the Orphan about how the Orphan takes over the trader's mind – and how that has to change. Let's listen in.

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*Ruler: Orphan, we want to have a conversation with you. We understand that you have been very scared about trading. We want to talk to you about your fears because it is having an effect on all of us.*

*Orphan: Ok. I'm just not sure trading is a good idea.*

*Ruler: Trading is not a good idea when you are fearful. Our challenge is not trading, but dealing with your fears. I understand why you would be fearful. I know what you have experienced in your life regarding loss, particularly with regard to business and money.*

*Orphan: How do you know it will work?*

*Ruler: Let us explain. First of all, we have assembled a trading team with very special skills for this endeavor. I am the leader and my responsibilities include making sure everyone else is doing what they*

*know best. I watch very closely what is going on and will provide my input as needed. I make sure all areas are functioning as planned. In a way I ensure the team discipline and focus. It is important that you understand that we manage risk very closely. We don't just take trades on a whim. All of our trades are well-planned and executed. Of course there will be losing trades and our winning trades will be roughly 3 times bigger than the losing ones. Additionally, we will win about 60% of the time. To accomplish this though we will be avoiding tickitis (this is a term used in the methodology of Drummond Geometry), which caused us to miss so many trades in an effort to reduce risk. That doesn't work.*

*Orphan: The Inner Critic keeps telling me that this isn't going to work. He wants me to try to stop it.*

*Ruler: Have you asked the Inner Critic who he serves? What his purpose is? What experience does he have in trading?*

*Orphan: We have not talked about any specifics. He tells me he does not want me to get hurt.*

*Ruler: No one wants to get hurt. It is very important that you understand our purpose and who we serve. You see this is much bigger than we are. Much bigger. We have been given a certain set of skills (discipline, focus, impartiality, courage, resolve, etc) as well as a very powerful trading methodology. What has been holding me back is you. I am not angry with you. Please understand that. I understand why your are so cautious. I know what you have experienced in your life. You have reason to be cautious.*

*Orphan: I don't want to hurt anyone.*

*Ruler: We never thought that you did. Unfortunately, your fear is not serving anyone and is unwarranted as I will explain. You see, we have a team with very special skills (gifts).*

*Orphan: Okay, I'll give it a try.*

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This is the way the trader is externalizing what used to be a very destructive internal dialog. What the trader is doing is externalizing a neurological event occurring in his brain. The poetic metaphors that he is using bring the committee of the mind to life. He had been trading for 10 years, and, while his losses had been small, so were his wins. Here the emerging Ruler (discipline and calm authority) is waking up and beginning to run his life, rather than the Orphan who is afraid of losing. Without the awareness of mind that the trader is demonstrating in this dialog, finding this destructive part of the self had eluded this trader for many years. Now, with awareness of the Ruler archetype living within him, his trading state of mind is changing from a position of trading NOT to lose to a position of being a confident manager of risk and potentiality.

**The Sage.** The Sage is a vital part of peak performance trading. It is the part of you that brings impartial analysis to the table of your trading committee. It is not emotionless. The emotion that the Sage operates from is impartiality. And impartiality is simply an emotional state that has high value in specific domains. In trading, it is essential.

Much of the emotional regulation work in Stage ONE of the *Ignite Your Spark Training Program for Traders* is necessary so that this emotional state can be activated and maintained. Fear has to be taken off line for this emotional state to emerge. It is the emotional state of impartiality that gives access to the archetype of the Sage.

If you have ever been hijacked by impulse or fear and made foolish trades and later, when you review your trades, you wonder what on earth possessed you to trade so poorly – you have experienced this phenomenon. This is also what makes peak performance trading so different than peak performance in other domains where physical arousal

are so important – say like football.

While peak performance trading is very cognitive in its nature – Sage oriented – football is very physical at high levels of functioning. The more physical a performance has to be in a domain of action – the less the Sage (with its high order thinking and impartiality) can be present as a member of the committee of the self. This is why low emotional arousal states are required in trading while highly charged emotional states are required for peak performance in physical endeavors like football. In football, you want to require high levels of arousal so that you, as the football player, can dominate another and dictate what is going to happen. You want to force your will on another.

In trading, this mindset produces disaster. You cannot dominate the market. It is indifferent to you. You have to take the position of observing where the market is heading and take what it is willing to give you. This is a much more passive position that the high arousal states needed to dominate another. It is in calm states of mind that impartiality can be maintained and used to anticipate uncertainty and manage risk. The moment that high arousal states appear (for a trader this is either fear or the adrenaline rush preceding impulsive trading), impartiality is lost and the committee of the mind is no longer in peak performance mode. It shifts to fear mode.

Notice in the analogy of the command unit of the Starship Enterprise that the major Sage archetype, Data, does not act alone. He is part of a team where his cool, calm, impartial analysis is his contribution to the command team. It is his capacity to think rationally that is valued. Commander Picard listens to him carefully and then uses the information to make sound decisions in the midst of conflict. This is the essential nature of the Sage. And if you cannot access and use this aspect of yourself, you will not become a successful trader. Again, to access this inherent potentiality within yourself requires a calm state of mind. With it, you create the psychological edge needed for peak



performance trading.

Many traders will explain that they have a sense of detachment when they are in the zone of peak performance trading. It is this impartiality, afforded by a freedom from fear-based thinking, which allows them to watch set ups calmly and deliberately and make trading decisions without emotion. Here is a successful trader talking about the Sage's contribution to a trader's state of mind.

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*It's like I'm watching football from 30,000 feet. There is a real sense of distance and detachment. It's almost like watching something in slow motion. I'm not pulled by attachment to either the offense or the defense. I watch both sides with no emotional investment to either's outcome. This gives me the advantage of being able to observe both sides objectively. This allows me to be able to see what their strategies are because my mind is not contaminated by attachment to either side. I'm able to correlate what either side is doing with my trading plan and impartially assess its trading potential.*

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Notice the trader has his emotional nature under management. If fear is present, the objectivity and impartialness of this element of the self is lost. It is in the calmness of a stilled mind that you can be directed into this essential state of mind. By the way, in this same interview the trader went on to say that the impartiality of the Sage was a terrible element of the self to pull while he was with his wife. The detachment and impartiality of the Sage is a terrible state of mind for peak performance romance!

**The Magician.** This is an incredibly important archetype to develop. It is the part of you that you want activated when you are doing your charting and review. It

allows you to see the markets from an expansive sense of possibility. It is essential to the development of your daily trading plan. After opening yourself to possibility, the Magician's vision must then be subjected to the impartiality of the Sage. It is a powerful archetype that needs to be used wisely.

In trading this part of you is often called the Visionary. If you are trading by signal or by someone else's strategy, it will not be an active part of your trading mind because someone else is providing this aspect of trading for you. If you are trading from a methodology that you are using to interpret the markets, the Magician becomes a vital aspect of your trading. It is the part of you that sees the patterns emerge from the mountains of charts you pore through.

The Magician is always in concert with the Ruler. In the same way that Arthur and Merlin were a team or Aaron and Moses functioned together, these two elements of the self are concerned with creating a vision of the kingdom of the self (the Magician) and then bringing that kingdom forth into the world (the Ruler). They are powerful together.

If you want to see the Magician archetype in play in the business world, think of Steven Jobs of Apple. He was the personification of this archetype. How does a guy get totally beaten down by Microsoft and others, then practically lose his company – only to come back with imaginative products and become the leader of the titan that Apple has become? This is possible with a powerful Magician at the helm who has a good management team around him.

It was the maturing of the Magician archetype that led to this innovative company. The energy he brought to the committee of the self has been inoculated throughout his company. This is the power of the Magician. In trading, the archetype allows you to see patterns and possibilities that others are blind to. And it is essential to high performance trading.

## Other Archetypes Necessary For Trading

It is beyond the scope of this book to explore, in depth, all the archetypes used in trading. The ones discussed above are the essential ones that move a trader from mediocrity to successful trading. But as you grow as a trader, there will be different parts of yourself that you will want to develop to express fully your potential as a trader.

**The Creator.** This archetype represents your intuition. It is that “gut instinct” that can give you hunches about your set ups and entry points. It is not included in the essential archetypes of the trading committee because it has to be a disciplined member of the team. Before you have developed a highly disciplined approach to trading, the Creator can create problems. When tempered by the impartiality of the Sage, a powerful combination is achieved. You have both rational adherence to your trading plan criterion and an intuition about how to solve the challenges of selecting high probability, low risk set ups.

All hunches have to be filtered through the criterion of the Sage’s approach to the trading plan. With the Ruler’s discipline firmly in place, the Creator adds creative problem solving to the mix of rational problem solving. With the disciplined inclusion of the Creator into the committee of the mind, both the right and left sides of the brain are combined and balanced. This is ideal. A problem occurs when the trader has not developed the necessary discipline (Ruler) to properly use the Creator. Trading from intuition is dangerous until the rest of the A Team is developed and functioning.

**The Innocent.** The Innocent archetype is that part of you that maintains hope and a positive attitude, even when you are having bad days. It is the part of you that has faith that you will become the trader that can achieve your

financial dreams. (In its shadow or self-limiting forms, it is the fool that does impulsive trading.)

**The Seeker.** The Seeker archetype is that part of you that wants to know the truth of who you are and what you can be. It is where you find the meaning and purpose for the gift of life that is yours. It is what drives you to read this book to learn how to become a better trader. You seek deeper meaning and purpose (and performance) in your life. It is the part of you that searches for the Holy Grail of trading only to find that it was within you all the time.

**The Lover.** This is represented by the passion you have for trading. If you do not have passion for trading, do not continue trading. If you have genuine passion for trading, you will be willing to give up the organization of the self that you are so that you can become the trader you potentially are. It is the passion of the Lover that is willing to surrender himself to become a successful trader. Obviously your passion for trading has to be tempered and managed for you to produce balanced, successful trading.

**The Destroyer.** All great traders develop this archetype. It is the part of you that can cut losses quickly so you do not get sucked into losing trades. (In its darker forms, it is what destroys your trading account because you do not know how to listen to or use this archetype wisely.) A developed Ruler is required to make the transition from using this archetype wisely or using it foolishly (in its darker form).

**The Jester.** You need to be able to laugh at yourself and your mistakes. This archetype is present when you know you need some fun and relaxation to balance the stress and deep focus needed to trade in the zone of peak performance. It is the part of you that lets go of outcome and begin living in the moment of your trade, rather than all

the “what if’s that keep you out of traders state of mind.

**The Divine.** Ultimately you need to serve something bigger than the self. If you are only serving your ego through your trading, you will continue in your self-limiting ways. As you activate your potential, you begin to see that your life is really about serving others or a purpose greater than the self. This is about your spirituality, not your religion. Often spirituality is expressed in religious terms, but it is not the same. Spirituality is like an ocean of infinite possibility. Religion is like a boat on that infinite ocean of possibility which gives spirituality structure and it gives you a rudder so that you no longer drift aimlessly in the currents of life.

Many times people have been so wounded by historical religious dogma that a notion of God is difficult to contemplate. That purpose greater than the self could simply be your family. The major point in accessing the Divine living within the self is to begin to see that your awareness is woven into the vast, unfathomable fabric of life...that you are part of life and that you belong to life – that you do not belong to yourself. The gift that you have been given is that you can be aware of your being – no other animal is capable of this. Out of this reverence, we are drawn to serve a mystery beyond the capacity of our understanding. And trading becomes a tool of its expression.

It is the connection to this fountainhead of our being that becomes the source of the meaning of our life. The Divine is this internal validation that redefines the core belief of our worth as a human being. External validation, having to prove ourselves adequate or worthy, becomes a distant echo of our past development that we have left behind.

### **What Does the Committee of the Self Look Like?**

Now that we have examined these instinctual potentialities within the self, let's explore how actual traders experience the archetypes. Below are unedited reports from traders I have worked with who have awakened and who are using these heroic aspects of themselves in their trading.

Remember, the archetypes are attributes that already exist as part of your psyche. They can be pushed out of awareness, which is common, or they may simply be dormant because they were never developed. The people who speak about the development of their potential as traders in the following examples have gone through the *Ignite Your Spark Training course for Traders* and have learned how to distinguish these elements of the self from the background of their awareness. Most were skeptical in the beginning, but were able to see how the building of memory circuits in the brain trains it to produce the particular qualities of each archetype discussed. They also began to see that these attributes did live within them. But their fear stopped them from accessing these elements of themselves that could set them free from self-limiting patterns (beliefs) in their trading.

Note that every trader has different ways of accessing and using these strengths. Some of the archetypes are more natural than others. Others have to be really worked with to be brought forward into awareness. Eventually they become a contributing factor in each trader's internal dialog. Imagining them as a committee gives you a good idea of how a healthy mind actually works while trading.

### **The Trading Committee of John**

Here, the trader explains how he experiences each of the parts of himself in his trading committee. He is doing this so that he can distinguish one from the other. This skill is necessary to bring an archetype forth into your awareness so that you can use it as part of your trading

committee. As part of the development of the archetype, John has given specific names to the archetype. This is his way of “pulling up” the state of mind that each archetype represents. Yours would be different.

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**Ruler.** *I feel a sense of calm. I feel more organized, focused and confident about my future. My Ruler is John Wooden. I feel more prepared now. I am very disciplined by nature but now I feel that my discipline is more directed. I also feel a greater sense of purpose and responsibility. Playing small while living in my box is over. John is a master at being prepared and disciplined. His purpose is to serve the divine through me. He is the coach of my team that trades.*

**Magician.** *I feel that so much is possible for me. That I have barely begun to scratch the surface of what is possible in my life. That I have had very limiting beliefs about what is possible. That I will truly have an impact on helping others in their lives, people I don't even know yet. My Visionary is Walt Disney. What is different now is that I see so many doors of possibility. That I have more control/options in my life than I ever thought possible. When Walt and I converse he is always bright eyed and very optimistic. He doesn't see limitations, only possibility. I begin to see what is possible for me. I know he serves the divine and through me, we will have a positive impact on others.*

**Warrior.** *A tremendous sense of courage. A tremendous sense of confidence, purpose, and calm. The symbol is Tony Robbins. What is different now is that I feel more confident, more certain about my future. I don't feel as trapped in my comfort zone. I also feel more compassion toward others as I understand my own challenges. What I see ahead is a life full of abundance and generosity. I see a life that will give*

*inspiration to others to see their own potential.*

**Sage.** *Wisdom. I feel a tremendous amount of wisdom. I also feel a great sense of calm and compassion. The Sage symbol for me is the Dalai Lama. When I feel his presence I feel someone at my side ready to give me supreme guidance. In the committee of the self, he is always closest to the Divine. What I see as possible is someone that will help guide me with his tremendous wisdom, but will also keep me grounded in impartial thinking.*

**Divine.** *The Divine has always been there for me. It is unconditional love. I know I am part of him as he is part of me. He has always been here for me and he was waiting for me to awaken. He appears to me as a man with long brown hair and a beard. He has wings. I am finding it easier and easier to bring him into my awareness. He almost always appears with a boy about 10 years old. Psychologically I feel free from the old self-limiting patterns that have defined who I am.*

Later, as this fear-based trader goes through the process of re-organizing his belief system about trading, uncertainty, fear and probability, he has a conversation with the different emerging components of his trading committee. In a major breakthrough in his trading, he is moving from trading from a position of trying NOT to lose to a mindset of managing risk to produce the probability of winning. Go back to the conversation vignette in the Warrior description and listen in on this fear-based trader as he transforms his internal conversations about trading and success.

### **A Fear Based Trader Transformed.**

Below you will find another way that a trader conceptualized the trading committee and organized it for ef-



fective performance. Notice that he uses these particular strengths to organize the focus of his mind during a trade. He also has a different set of strengths that he uses to produce review and planning.

*The use of the archetypes makes sense to me. The Ruler Archetype is always immediately available to me. I have been a Ruler both professionally and in my private life in a variety of different areas. Because I have "been there, done that" in many environments, simply recalling the most appropriate example of the Ruler experience*

*or the situation at hand instantly invokes the Ruler in me. The same is true for the other Archetypes. I have "lived that story" for each of them. This makes it an easy jump for me to make. I can associate that particular energy with a specific player I imagine in my mind's evolving trading committee.*

*Because of my military history, I tend to see, or experience, the committee as a command bridge on a military ship. The Ruler is constantly getting input from different parts of his crew and command team before acting. It is the same with trading. Each archetype has its function. And I can see that I have allowed my curiosity to operate out of this command structure. This is where discipline has really improved for me.*

*This is the way I experience this new found trader committee — my disciplined mind: The way I graphically visualize the coordination is like this:*

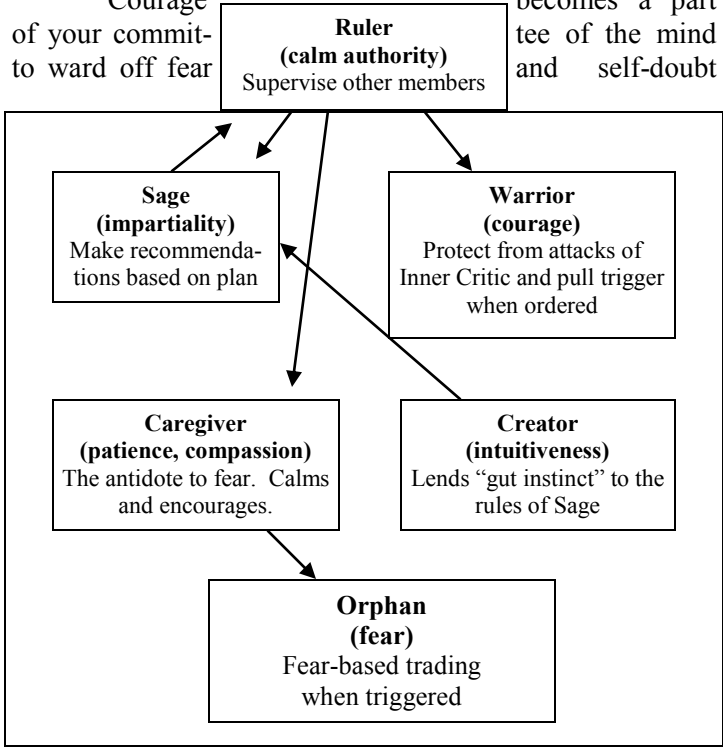
Notice in this diagram the inter-relationship between emotional regulation (Caregiver) soothes and calms the fear of the Orphan. That is the result of the breathing and SafePlace work that addresses the biological nature of fear and emotion.

Then it demonstrates Mindfulness. It takes the development of considerable observational skills to become aware of the different parts of the self that can be brought

|   |   |
|---|---|
| <b>During a Trade</b>                               |   |
| <b>RULER: You should exert control</b>              | Make sure each Archetype is fulfilling his role. More broadly, notice how everyone is doing, and give individual attention where needed, both criticism and comfort.                                    |
| <b>CREATOR: What can be imagined can be created</b> | Using data from Magician, develop for later consideration ideas for revising the management of the profit target and stop orders in the trading plan. Take no active part in the trade in progress.     |
| <b>WARRIOR: The tough prevail</b>                   | <ol style="list-style-type: none"> <li>1. As set out in the trading plan, execute the security function of adjusting the profit target and stop orders.</li> <li>2. Look for Sage's input.</li> </ol>   |
| <b>MAGICIAN: Perception defines reality</b>         | Notice and report to Creator serendipity, synchronicity, the relationship of events and seemingly disparate parts of the trading data, and the ripple effects that emerge from seemingly small changes. |
| <b>SAGE: The truth will set you free</b>            | Monitor Warrior's work. Detect and report to Warrior any unrecognized biases.   |
| <b>LOVER: Love is the answer</b>                    | Keep to the forefront the idea that good trading is a pleasure.   |

into your awareness of trading. You now have an executive function co-ordinating different aspects of trading. All this is being done while compassion and soothing is directed toward the fear that can be experienced while trading. In the calming of the fear, the impartiality of the Sage is activated. This is a high order of cognitive functioning that is not available when contaminated by fear.

Courage of your commitment to ward off fear becomes a part of the mind and self-doubt



— and to pull the trigger. The discipline of the executive functioning of the mind (the Ruler) is able to coordinate all the activities necessary to create and maintain a peak performance state of mind.

Without the emotional regulation, you do not get beyond fear. But with emotional regulation, you access the human capacity of mindfulness. This is where everything

changes. Once mindful, you as a trader become disassociated with thought and become the director of the creation of the self. It is at this moment that the committee of the mind can be re-organized into higher functioning on a long term basis.

The internal dialog has been changed and transformed. The thoughts in the mind come from very different places. Now, instead of fear based thinking influencing your trading — empowered thinking creates the beliefs that trade the market.

### **Organizing Your Trading Committee of the Self**

The intent of these examples is to show you how other people have taken the conceptual nature of the archetypes and their current organization of the self and applied them to their lives and their trading. This requires a paradigm shift in the way most people think and see themselves.

Every story and every trader presented in this book are real. The names and some circumstances have been changed to protect their privacy, but the nature of their problems and solutions in trading have been used to show you how the different parts of the self can be awakened and woven together into a fabric of a very different trader.

Below you will find a conversation from a trader who had built a powerful internal team from which to trade, then had a meltdown back to prior performance levels. Take a look at the way she is able to learn from her mistakes rather than beat herself up.

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### **Getting Blown Up and Recovering**

*Last week was quite eye opening for me and I*

*believe I got a glimpse of my inner critic along with the destroyer aspect. Thursday was my most profitable day on record, Friday was quite a reversal day for me. After reviewing the Fridays trades, it was quite revealing why things went the way they did. After a long weekend, I regrouped this week and went back to basics and traded options quite successfully, more importantly, mentally it certainly helped regain my center and confidence level. The impartial Sage part of me was back making sure that my decisions were based on trading plan and were being made from a calm sense of authority again.*

*I had quite a bit going on into the weekend on the personal front but instead of turning off the computer on Friday, I pushed forward as if my passion could provide relief. My charts even froze earlier before I entered the market but it just didn't faze me at that moment in time. In retrospect, I did not heed my own discipline and the futures market humbled me. This was certainly more painful than what I also had going on in my life at the moment, it actually magnified the situation exponentially because I know better!! Hence, I really had to work hard to incorporate the Caregiver into my weekend feeling so down.*

*The personal stuff worked itself out as it always does (teenagers! nephews & step son) and it was always beyond my control but I guess I didn't realize how upset I was over their situations in the process and my passion for trading became a temporary escape route. I see now how I set myself up for failure in the moment by failing to heed the emotional duress that would not be ignored.*

*I had just arrived at 89% profitability trading futures in the prior week and this week my option trades have been 100%. I am now regrouping to move forward and integrate my experience so that it supports my efforts. I know that the Ruler has to be pre-*

*sent as an overseer of my trading. In the emotional turmoil of the weekend, I lost sight of this and paid the price. I have added an “emotional sponge” to my trading committee. That part of me has to be accounted for if I am going to trade successfully. I didn’t have it accounted for and I paid the price.*

*I am crystal clear on the importance of the trading committee of the mind now and wondered what I was thinking given my background in the hospitality industry which always gave me an opportunity to mask my emotions and the interaction to change the way I felt. How could I possibly forget I'm not in Kansas anymore!! I have a mirror on my desk and my rules taped to it. The biggest part now is that I know that I have to observe my emotional status like a hawk. What I have discovered is that I have a tendency not to take care of myself emotionally, then mask it. This past week showed me that this historical practice is dangerous to my trading account and to my overall mental health. I now know that I need to develop the Caregiver part of me more. I need to have compassion for myself and not let myself trade when I am emotionally out of balance. Once I realized this, I quit trading for the day and got my nails done. That was self care!*

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This trader experienced a lapse in her state of mind management. She does not beat herself up. She simply realizes how important it is to successful trading to produce and maintain a calm, assertive authority from which to trade. She makes a mistake and learns from it.

## **A Trader’s Mind is Built Throu**

Throughout this book you have been exposed to a process of transformation. You started by learning what it is like to be mindless to the underlying belief system that colors the world in which you live and trade. Once you realize that your fear has to be conquered (otherwise you stay stuck in self limiting patterns), you were shown how to begin observing your thoughts and emotions not as a representation of who you are. They are only a representation of who you currently are. This organization of the self can and must be changed to become a successful trader.

By developing breathing and SafePlace skills, you were shown how you could disarm fear from paralyzing your thinking. From here, mindfulness skills were explored so that the trader could begin to intentionally disrupt the historical internal dialog. This is a powerful moment. It is at this second that you can become a designer of the internal conversation of the self – the committee of the self. Using mindfulness as a skill, you were shown how to awaken hidden or poorly developed parts of the self that give rise to peak performance trading.

The development of the mind for trading is contrary to your biology's drive to avoid discomfort. But trading itself forces a trader out of the very comfort zone that

your biology, brain, and mind have collapsed you into. The skills that create a successful trader's state of mind are not the ones that you came equipped with as you began trading. They have to be developed.

My hope is that this book will inspire you to act to develop the trader dwelling within you. It exists as a possibility. To move that possibility to a probability will require unlearning old self-limiting patterns and developing new empowering patterns and beliefs about yourself and your trading.

Once, I was speaking to a trader who had lost plenty of money in his attempts to become a successful trader (most traders can relate to his story). He looked at me and said, "I can't afford your program." My response to him was this, "How much more money do you need to lose before you can afford it?" It stunned him. As long as he stayed in the mindset of "can't", he was destined to continue to believe in the myth of the Holy Grail that exists on the outside of the self.

You have always been the answer to your trading. Developing your potential as a human being and trader is the Holy Grail. Few of us were born to trade. The vast majority of traders will have to re-organize the psychology of the self to become a successful trader. This book exposes a powerful set of skills and tools that the trader can use to develop their psychologies to produce a peak performance state of mind. That power has always been available to you. My hope is that you are ready to engage this journey. You can be so much more than a fear based trader – than a trader who is trading NOT to lose. All that conditioning can be deconstructed. And in its place can be a transformed trader. To do this, you will have to face the internal struggle. Now you see what is possible for you as a trader...it is time to begin.



## How Do You Develop the Archetypes?

Each element of the self is implicitly encoded into the neuro-circuitry of our brain. These elements are simply inherent parts of our humanness. Fortunately, because they are embedded into our brain, they are also represented in our memory circuits. It is by activating **and developing** these memories that we gain access to the strength represented by the archetypes.

Fundamentally these archetypes already have residence in our neuro-circuitry — and therefore our mind. By using the way the brain processes memory, we are able to “re-member” an element of the self and bring it forward into our awareness. And hence, it becomes a resident voice in the Internal Dialog.

It is by training and directing your awareness into forgotten areas of memory that you retrieve the strengths that lay dormant within the community of voices of the mind. By doing this, you develop the trading committee of the mind. Let’s look at two ways that you can bring these elements of the self, that have been pushed out of active awareness, back into your awareness so that they can become major parts of the way you see and interpret the world.

### Symbolic Representation

When someone yells “FIRE” into a crowded theater, the brain processes the information and suddenly you see fire and are compelled to act. The brain has produced neural activity (a behavior) while the mind has associated meaning with the behavior. It has symbolically represented the symbol “FIRE” with deep meaning. When the symbol triggers, it activates a sense of being that interprets the circumstance. Some activate to fear and stampede. Others activate to calm impartiality and ask, “What are my options? Both are based on symbol. One is trained for peak performance. The other is swept along by history.

history.

We all have heroes that represent discipline, courage, impartiality, and patience in our memory circuits. Hollywood has used this link between hero and archetype as the basis for its heroes and villains since their beginning. In symbolic representation you focus on an existing heroic nature outside of the self to activate that very heroic nature within you. Remember, the archetypes are universal and cut across all cultures. They are simply inherent parts of the human genome and the human condition.

In enriching and directing your awareness of this external representation of the archetype, you are stirring your own. Once activated and brought into your active awareness they are used, not to skirt the internal conflict that goes on within, but to confront the Inner Critic. You are simply bringing forward a strength that has lain dormant within you so that you can confront your psychological demons from a position of strength rather than weakness.

This is the major difference between this strategy and the use of positive affirmations. In positive affirmations, you are pretending destructive forces do not exist or can be ignored. In symbolic representation, you are gearing up for internal confrontation. And out of conquering your fears, you produce the disciplined, patient, courageous and impartial state of mind from which you trade.

## **Memory Enrichment**

Once you understand that memory is emotional-state dependent and that memory is created and re-manufactured out of emotional association, you can begin to use memory to create state of mind.

In memory enrichment you are going back and retrieving a real memory of an event that actually happened to you. And the memory you are looking to enrich is an event where your back was to the wall and you found an

inner strength to act disciplined, patient, courageous and impartial in the face of uncertainty. Then you enrich the memory that these elements have associated with the event. You are effectively designing the memory so that it can bring forward into your awareness the elements of discipline (Ruler), patience (Caregiver), courage (Warrior) and impartiality (Sage).

By using relaxation and visualization, you build the strength of the memory so that it can be “re-membered” in a predictable manner at your will. This requires practice. You are not affirming it—you are bringing it forth.

The strength of the archetypes (Ruler, Caregiver, Warrior, and Sage) are built on the foundation of how they “feel” using this process. When you bring these elements of self into your awareness, you still have to honor the struggle within you. You confront it from the strength of this state of mind rather than a self-limiting state of mind.

It is in harnessing the power of the feeling element of an emotion that makes memory enrichment so valuable in creating a state of mind. It brings the archetypal energy to life through your emotional nature. The feeling component of an emotion is the subjective experience you have of the activated emotion. What it does, once it is chemistry in the body and brain, is to create a belief in the certainty in what ever direction that the emotion is carrying you and your perception. For instance, fear creates a certainty in the belief that there will be negative outcomes — and with mind contaminated by this feeling of certainty, you only “see” the negative potential of a trade. The feeling of fear has seized your thinking and perception.

In euphoria (when you are on a winning streak with an undisciplined mind), the feeling element causes you to believe in the certainty that the good times are going to roll on forever. Out of this, the trader drops his guard and begins to trade outside of his trading plan and produces a state of mind that over trades, impulse trades, or revenge trades.

In a trained trader's mind, the trader maintains an emotional state of disciplined impartiality. The feeling element of this emotional state produces a belief in the certainty that the trader can take advantage of what ever the market is willing to give it. This state of mind is much more conducive to effective trading and can be developed though memory enrichment and symbolic representation.

The power of memory enrichment is that it is rooted in actual experience. The Inner Critic cannot argue that it is only a fantasy, as it can do with symbolic representation. You actually exhibited these particular heroic archetypal traits. They may not be common traits for you, but they can become habitual with practice. And you have proven to yourself that they exist within you. Your job becomes to bring them into awareness so that they become an active voice, or element, within the committee of the mind that trades.

In each case, both symbolic representation and memory enrichment, you challenge the self-limiting beliefs that have defined "you". By challenging them, you recognize that fear is what has stopped you from exploring more of the potential that lives within you.

The key is that you are building neuro-circuits that you know how to activate and bring into your awareness. No longer is your Internal Dialog simply drifting on the currents of historical adaptation. Now you are designer of the beliefs from which you trade.

# Epilog:

## The Internal Struggle: The Real Game of Trading

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*“I have seen the enemy. And he is us.”  
From the comic strip Pogo*

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Throughout the journey of this book, there has been an underlying current of an internal struggle. In the beginning the traders, whose lives we have examined, had no idea that they had stepped into an avalanche that had nearly buried their sanity. They thought they were learning to trade as an avenue to financial freedom. But they found that they were hitting a brick wall they had never anticipated. They were stressed and did not really understand why they kept losing.

They had good systems, good methodologies, but they fell apart emotionally as they risked their capital in the uncertainty of the markets. Over time, they came to the realization that it was not the methodology or the system that was the problem. It was them. As one trader quipped to me:

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*“When I thought I was fighting the market, I lost.  
When I realized that the battle was within me, and I  
prepared for this struggle, I began to win”.*

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In this sense, trading is a great path of self-discovery. You learn a lot about yourself, both good and bad. And if you want to become a successful trader, you have to be ready for the battle. But this battle is not with an external force, it is with yourself. As one successful trader said recently, reflecting back on his psychological education in trading:

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*“Trading is like someone giving you a scalpel and telling you that you are about to do brain surgery on your psyche with no anesthesia.”*

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Only a deep passion for trading sustains the evolving trader. By taking full responsibility for his performance in trading, a trader is forced to take a long, hard look at himself for the first time in his life. Often he may want to run from what he finds initially. But over time, he comes to honor the struggle going on within himself. Here he moves from being a bull in a china shop – not even knowing that he is ignorant of his psychological nature – to someone who starts a journey of self-discovery into trading, and into life.

In this book you have been exposed to these courageous journeyers who are choosing to re-design themselves psychologically so that they become the captains of their destiny. Beyond the psychological demons that they have been avoiding, they find a deeper meaning for their lives that is worth fighting for. And by re-claiming that inherent value in the human spirit, they transform themselves into newly reorganized individuals that produce peak performance trading.

Who would have thought that trading would be a powerful vehicle of self-discovery and personal development? Yet, that it is what drew me to working with traders.

In traders I discovered a group of people who had the motivation, and the urgency, to change. Trading had cut them to their core. No amount of spin could deflect from the simple fact that they had to take full responsibility for their performance in trading.

They had found the need to change themselves so that they could become successful in trading. And they, and hopefully you, are determined to organize themselves into people capable of peak performance trading. The moment is now.

My hope is that you have the curiosity and desire to explore the next step in your evolution as a trader. That next step is to commit yourself to a change process that re-organizes your self-limiting beliefs about yourself, trading and life into beliefs that open new possibilities for you as a trader and as a human being.

My hope is that this transformational work can ignite the spark of your potential. Most people who seek to grow their potential realize that head-knowledge, by itself, will not open the door to long-term development. If head-knowledge were enough, people reading diet books and following weight-loss systems would lose weight permanently. Unfortunately, 95% of dieters regain the weight. It is the beliefs that need to change — and the wiring of those beliefs in the brain. And so it is with trading. My hope is that you commit the emotional labor to the process you have been exposed to here.

Being able to emotionally regulate your fears and impulse, leads you to Mindfulness, and the freedom from self-limiting beliefs. In applying Mindfulness rigorously to your life and trading, you begin the process of constructing a new organization of your psychology. You step back from self-limiting beliefs about your worth, your mattering, and your adequacy and embrace the notion that your sense of self is something that can be developed. And trading becomes your teacher..

Peace - and Good Trading!

# About Rande Howell



Rande Howell (MEd, LPC) combines knowledge of emotional intelligence and peak performance to teach traders how to distinguish between fear and uncertainty. His work centers on how to break fear-based, self-limiting beliefs and how to reorganize the self to reach higher levels of performance while

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Most traders lose long before they make a trade. They enter their trading day with their thinking already clouded by a fear of loss, a fear of not being able to make up for their losses, or an urgency to make up for prior losses. Entering a trading situation in this state of mind is a set up for losing that can become an avalanche. Learning to manage this is the difference between success and failure.

It does not have to be this way. You do not have to be like the vast majority of traders who lose because they do not know, or refuse to know, how brain, mind, and trading interrelate. You are about to take a voyage of discovery into this inter-linked world that shows up in your trading room as “you”. In re-organizing your mind for trading, a transformed “you” coordinates your platform, your methodology, and the perceptual map called your brain from a calm impartial authority — the trader’s state of mind.