

# **PaintBarForex**

## **Trading Psychology Guide**



## **How to Master the Markets**

## Welcome to the PBF Trading Psychology Guide

Millions of words and thousands of pages have been written on the subject of trading psychology, but to me, this is completely unnecessary.

My mental approach to trading is extremely simple and I believe that anyone who applies this methodology will be successful.

The first thing to note is that, when I trade, **the last thing I think about is money.**

That's right, I don't think about money – either making it or losing it.

I know that these things will occur anyway – I will win trades and I will have some losers but I do not think about money at all when I am engaged in the "**art**" of trading.

My job as a trader is to focus on *trading* itself. I want each trade to be well thought out, well executed and to represent the best of my abilities.

If I trade as well as I can, with a good trading system and sound money management rules, I am confident that I will make money from the markets. The money will come, but the main focus must be on placing good quality trades and managing them to the best of my abilities.

In other words, I focus on the **process** of trading, not the **outcome** from trading. My goal is to do it right, not to make money.

Money is only the by-product of trading. If I do everything right, I will make money. If I do everything right but lose a trade, I will still pat myself on the back (because I did my best) and move on to the next best opportunity.

If I break my own rules, even if it results in a winning trade, that's just luck, and luck cannot sustain for a long period of time. Have you won the Mega Million Lottery lately? If you want to treat trading as a

career, as a means to make a living, **you must focus on the process of trading.**

Unfortunately, if you ask new traders why they want to trade, the first answer you get is likely to be "I want to make money". Money is their main, and perhaps only, focus.

**In my opinion, trading while thinking about money is a sin.**

We have all heard that scared money doesn't make a dime. If you are unwilling to lose money (no one *wants* to lose), chances are you *will* lose more, because most likely you will hold onto losing trades and won't cut it short, because while you are still in the trade, psychologically there is still "hope" that "it will come back", "it is just a paper loss".

When you actually exit the trade, the win or loss is realized and the trade is booked and over. Suddenly it is "real". To overcome this, you must NOT think about money while you are in a trade. You must focus on "doing the right thing".

Money will only cloud your thinking. If you think "I can't afford to lose \$100", chances are you will end up losing \$200 or more on that trade instead.

If your trading system tells you the reason you entered the trade is no longer there, if your money management rules tell you to exit at a small loss, that's what you should do immediately without any hesitation, because you are doing the right thing. And doing the right thing *will* make you money over time. It has been proved many times that "Hope" is not an effective strategy!

Over the years, I have talked to many professional as well as retail traders. It is many retail traders' dreams to quit their day jobs and become professional traders.

Many have told me how miserable they feel in their day jobs. They don't like their bosses, they don't like the hours, and they don't like the environments and conditions they work in.

In other words, nothing is working for them. They want to GET OUT of that rat race and become successful traders, so they can make a living from the comfort of their own homes.

In a similar vein, treat your trading the same way: If nothing is working for you, GET OUT! It is a lot easier than you think, just click your mouse!

If you were a General leading a battalion of troops fighting on a battlefield, you probably can't win every single individual engagement. Your injured soldiers get a Purple Heart medal.

When you win a battle, you win, and your job is done.

When you start losing, would you rather keep the casualties small, retreat and regroup, survive and fight another day, or send every last soldier you have into the field until no-one is left except for you and your driver?

The same applies in trading. Trading *IS* a war! You either take profits from other peoples accounts, or they will take it away from yours. You can't win every time.

Would you rather you kept the losses small, survive to trade another day, or you would stay with the losing trade until every dollar in your account is drained and all that is left is your wife and kids with empty stomachs looking at you helplessly?

The choice is obvious. Do the right thing.

Focus on the process, not the outcome. Focus on taking high probability setups, try and manage your trades to the best of your abilities. Over time your account *will* grow, and that is your Purple Heart medal!

**Take pride in your work.**

When it is just you in your trading "den", it is very easy to be undisciplined, to start breaking your system rules and start making mistakes.

If you start feeling tempted to do these things, reapply these principles – why I am doing this, am I trading to the best of my abilities, does this make sense? **Am I being a good trader** if I do this?

Another element to this is **trade what you see, not what you think**.

As a technical trader, another part of your job is to use your system and not second-guess the markets. If you find yourself second-guessing the markets, are you trading to the best of your abilities?

It is well proven that anyone can learn to trade profitably. Great traders are **made**, not born and trading successfully is a transferable skill.

I firmly believe that the reason only 10% or less of retail traders make money is because they spend too much time focusing on money.

We know that fear and greed are the forces that are moving the markets and if we can isolate these by focusing only on the quality of our activity of trading, we can join the elite.

Condense and write your system rules down and keep them by your trading computers, always use good money management and keep a trade journal for future analysis, these things are all important.

And every time you are about to trade, just stop briefly and think "is this the best I can do? Is this the best setup I can get? Does this trade represent my best work"?

If you can honestly answer yes to these questions, then you will have a great chance of succeeding in the markets.

Finally, most people try to find reasons to place trades. I do the opposite.

**I try to find reasons NOT to enter a trade.**

When you are learning a new trading system, you want to have a deep understanding of how each indicator works. The purpose of each indicator, the role it plays in the system.

You want to see how indicators react to the price action, back test with historical data, then forward test in real time.

Nothing replaces the screen time. **Nothing.**

Once you are familiar with the rules and setups, most people begin to actively look for them. This is fine if the system is new to you. But after a while, it should become a second nature.

The setups will "pop out" at you. When you are at that level, instead of taking every trade and every setup you see, you will *want* to become selective.

You will *want* to apply patience and discipline.

If you take ONLY the highest probability setups, you might still have a losing trade here and there, so imagine what happens if you take every one you see?

Remember, you don't need to make 100 winning trades everyday to make a living from trading.

All we need is a few good trades per day if we are a daytrading.

Once you become consistent, you will be confident. Once you are confident, all you need is to increase your lot size. Which one is easier, make 200 pips on one lot, or 50 pips on 4 lots?

Of course psychologically speaking, trading 4 lots compare to one seems to involve more risk, as the value of each pip is quadrupled. But by starting off small and building up your account and lot size over time, you will also gain experience and confidence.

Going back to the main building block of my trading mentality, **you should NOT be thinking about money**, but should **focus on the process**.

You should do the exact SAME thing whether you are trading one lot or 100 lots. In theory there is really no difference on how you should execute your trades.



When you are trading for high stakes, you learn to be patient and disciplined.

When I see a setup, I look for reasons NOT to take it. I ask myself questions like:

- Is this a counter trend setup in a newly developed trend?
- Is the logical profit target too close that the reward does not justify the risk?
- Is the next support/resistance level nearby that might stop the market from breaking out?
- Am I going against the trend on the next higher time frame?
- Is there a news announcement coming out soon?

If I cannot find a reason why I should skip the trade, I will take it.

If the setup is less than perfect, I skip it.

Even if it turns out to be a profitable trade, so what? The next setup will be around the corner. I may not win this time, but I didn't lose anything, either. If I don't lose money, the only thing that can happen to me is making money!

I hope you enjoyed this guide. Please visit [www.paintbarforex.com](http://www.paintbarforex.com) for details on my **PBF Xtreme** system.

Good luck with your trading.

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