

How trading psychology can make or mar you

Before delving into the challenging world of trading, it is well worth your time to pay some attention to trading psychology. Although this may have nothing to do with the all important technical terms and skills necessary in investing, your mental processes and behavior when you trade often determine success or failure.

Your emotions, feelings and subjective thoughts are important because they hardly have a place in trading. It should go without saying that the various investment markets should be approached with cold, calculating logic. You can hardly afford to do otherwise because using your feelings to determine your decisions while dealing with assets can lead to severe losses.

There are many ways in which emotions can come in the way of making profits. In the psychology of trading however, the two most common scenarios that play out are holding on too long or letting go too late because of the fear of losing. A trader can hold on for an extended period of time to a losing position because of the idea that things will turn around and letting go may mean losing out on a possible future improvement. On the flip side, bad traders can also let go too early as soon as they see small gains because they are afraid that when they hold on longer, the value of their assets will fall and lead to loss.

There are different reasons why an individual may maintain a fearful trading psychology. Most likely though, a bad frame of mind and an emotional approach can be pinned on the possible lack of a solid plan or system. This is why it is crucial to make your own before you attempt to invest your cash in any of the markets.

A plan that fits you perfectly can help you decide logically. This is because it takes into consideration specific rules that determine exactly when to enter or exit trades. Moreover, a concrete system can address the problem of the fear of losing by setting risk levels that you are at ease with. A plan takes charge of negative trading psychology by never letting you lose more than you are willing to let go at any given instance.

A system is therefore clearly, the best key to keep your emotions from interfering with trades. There are however some individuals who still fail to succeed despite having one in place. The reason for this is the lack of commitment or discipline to follow through on what has been set. The only reason for the lack of respect for an existing plan is poor trader confidence. Again, there may be a fear of losing because there is some doubt as to the effectiveness and profitability of the rules being followed.

You can control the psychology of trading by making sure your plan will more or less work according to your expectations. You can do this by subjecting it to back testing. This is a way of determining how well your rules will perform against a set of historical data.

Your feelings and thoughts can and will make or break you depending on the level of control you have over them. You can manage them by making sure that you commit to a system of trading that has been tried and tested.

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