

A 'trading formula'

A universal 'formula' exists in this trading caper that needs to be understood and positioned in the trader's psyche to continue to be successful on an ongoing basis. Anybody can place a few profitable trades, randomness will take of that. But to continue to be successful on an ongoing basis requires more than the consequence of randomness.

Being successful on an ongoing basis means running a portfolio (let's assume equities – other instruments can be traded) that continues to rise at a faster rate than the market accumulation indices (or, more realistically, managed funds) whilst experiencing acceptable (to you) drawdowns (troughs or valleys) in your portfolio along the journey.

Depending on your perception of investing the markets, you will have a different view of what it takes to continue to be successful in the market. Whatever it is, it is sure to be encompassed in the following 'trading formula'.

The 'trading formula' comprises the following: – an edge with a positive mathematical expectancy, well defined trading processes that are part of a plan, continuing to engage according to your processes, overcoming fear and euphoria, overcoming hesitation, indecision and reservation, doing the necessary preparation, trusting your processes and your edge, executing with confidence, resisting "noise" outside your processes, thinking from the market's perspective, transitioning your processes and your thinking into habits so that they become a natural part of who you are, becoming consistent and objective in your decision making (which are the ultimate aim and are the by-product of your processes and how you think).

Along the way you will need to deploy certain techniques, tools and skills to achieve the various parts of the trading formula, such as discipline, technical analysis, fundamental analysis, money management principles, risk management principles, research capabilities, mental drills, physical drills, execution drills.

Discipline is not an end but a technique to use to achieve an end. Some have this capability, some learn it and some don't. Once a particular end is achieved, discipline is no longer required because the end becomes a part of who you are and is executed as a matter of habit. Transitioning from the 'new knowledge' stage to the habit stage is a process that very few people complete, mainly because they give up due to existing habits getting in the way and the necessary actions not being deployed. This is one of the biggest obstacles to individuals going to the next level in any endeavour that they take on.

Notice that knowledge is NOT a mandatory part of the trading formula although it could be argued that it fits under 'research'. Most individuals that fail have sufficient knowledge to succeed, it is that they don't transition the knowledge that they have into a set of processes that are consistent and objective. They chop and change their processes without the necessary preparation and research. Waiting for newer or better knowledge is not the answer. Working on the parts of the 'trading formula' is the answer.