

Executing good trades all the time

The key to making good trades is confidence. The key to developing trading confidence is preparation and trust. Before getting into detail about confidence, preparation and trust, in this issue I will explore what a good and a bad trade is.

There will always be profit trades and there will always be loss trades. But there does not necessarily need to be good trades and bad trades. It is possible to always execute good trades. You see, a profit trade is not necessarily a good trade nor is a loss trade necessarily a bad trade. Both profit trades and loss trades can be good trades. Similarly, profit trades can be bad trades.

The majority of people who give this trading caper a go will define a good or a bad trade by the outcome of the trade. This is a big mistake because it sets the trader up for conditioning themselves with a losing state of mind. The outcome of any individual trade is affected by almost a limitless number of variables. The majority of these variables are beyond the control of the trader which means that we could define a loss outcome as bad when the cause for the loss was a variable that was out of our control. (Another mistake for the trader with this situation is blaming the variables outside of the trader's control thereby relinquishing responsibility— more on this later). Similarly, we could define a profit outcome as good when we actually made a trading error by doing a trade that should not have been done but a variable outside our control caused the profit outcome (this could be called luck).

Being attached to the outcome and defining a loss trade as a bad trade will create a negative frame of mind because human beings tend to take winning for granted but put more significance, logical and emotional, on losing. Also, most trading outcomes will be negative, especially for the beginner, leading to more negative conditioning than positive conditioning. In turn, this will lead to a lack of confidence, the opposite of what is required to make good trades.

If good and bad trades are not defined by the outcome of the trades then what is the definition of a good trade? A good trade is a trade that is executed precisely according to your trading process. It follows that if you adhere to your trading process all the time then you will make good trades all the time. This requires detachment from the outcomes of trades. Your process becomes your trading focus. Become attached to your process not to individual trade outcomes.

In the next few issues we will discuss the trading process and where confidence, preparation, trust and taking responsibility come into the picture and how to achieve them in the trading environment.