CHAPTER 3

Becoming an Entrepreneurial Trader—The Process

You might ask, "If I am stuck in the *Technical Trader's Trap*, how will I get out of it? And how do I turn myself into an Entrepreneurial Trader?"

Or in other words, in the context of this book, "How do I transform myself from a *Frustrated Technical Junkie Fred* into a *Successful Entrepreneurial Stacey*?"

Steps to Transform from a "Technical Junkie" into an Entrepreneurial Trader

To start on the right path, here are three broad areas that will require work.

Planning

First of all, make sure you have entered the trading business for the right reasons. It is true that successful trading can reward you with more money for less work and an independent lifestyle, but you need to understand that trading is not a get-rich-quick scheme. It takes hard work and dedication to get there.

To be a successful trader, you need to run your trading as you would run a serious business. Define your trader's business plan, including personal and business goals. This will help you to clarify the steps you need to take to fulfill your expectations, and make it possible for you to set your sights on the prize from your trading. You will also know how to react in case of any contingencies.

Execution

As an Entrepreneurial Trader, you need to go through the process of finding a trading style that suits you the best. It does not matter whether you eventually land on momentum trading, day trading, swing trading, or position trading as long as the style fits your personality and preference.

You should also set up trade plans based on your proven trading system that will capture trades in different market cycles and guide your actions, so you will not trade emotionally. Stick to the plan and system consistently and learn the correct process to tweak them if you find some flaws in them.

Continuous Feedback and Improvement

Getting everything right in the first few attempts is impossible. It is okay to encounter hiccups in trading, but when they happen, you have to make sure you know how to track them to learn the lessons. Similarly, you will want to track your good performance, too, so you learn how to repeat your successes.

Most successful businesspeople engage coaches or mentors at various points in their business development to help them grow, and as an Entrepreneurial Trader, you should do the same. At the most basic level, observe what top traders do in their trading business and model their habits of success.

The following chapters detail the 10 habits that you must cultivate to take you out of the *Technical Trader's Trap*, and into the group of Entrepreneurial Traders who consistently "win big" in the trading game. Before you get overexcited about your transformation, let's stop for a bit to examine where you are now and where you want to be.

The Trader's Quadrants: Where Are You Now, and Where Do You Want to Be?

Depending on your level of experience in trading and your trading habits, you fall into one of the quadrants in Table 3.1.

The question you need to ask yourself is this: "*Where am I now, and where do I aim to be?*"

TABLE 3.1 The Trader's Quadrant

	Trader in the *Technical Trader's Trap*		Transformed Entrepreneurial Trader	
New Trader	I	Unsuccessful (developed negative habits)	II	Successful (developed positive habits)
Experienced Trader	III	Unsuccessful (developed negative habits and kept them)	IV	Successful (replaced negative habits with positive habits)

If you have just started trading, your job might be easier because you are not set in your ways. If you follow the advice in this book and get external accountability and guidance if you need to, you will soon see yourself form positive habits and modeling the way successful Entrepreneurial Traders run their trading business. Start strong and start in the right direction, and you will be well on your way to success.

If you've been trading for a while, do not fret if you find out you have formed some negative habits in trading, no matter how long you have been practicing them. Any habit can be replaced, and it is never too late to improve it. The same advice for the complete beginner applies to you: Follow the advice in this book and get external accountability or coaching if you need to because it might be difficult to do it on your own, especially if you find that the habits are already deeply rooted in you.

Some words of caution: Transformation is not a one-way process; it is easy for you to get into the successful quadrants II and IV, only to find yourself falling back to the unsuccessful quadrants I and III if you are not mindful or do not have a process to hold yourself accountable. This is the reason why I highly recommend you learn these habits.

Trading Habit Cultivation

Getting organized and ready to trade is as important as the trading itself. In this section, let us examine the seven up-front setups involved in getting ready for your trading business.

1. The Business Model

See if the following ideas look familiar to you:

- Purchase a dilapidated property at a bargain price, renovate it, and sell it at a profit using those profits to purchase further properties.
- Purchase large rolls of paper, cut them down to small sizes and sell these, at a profit, in packs for use with computer printers.

- Buy a car and make it available to take people, at a price, from A to B within your local city.

Each of these ideas is a business model that businesspeople rely on to make profits from their businesses. All businesses conform to a model, and trading is no exception.

For example, a trader's business model might be this: get to know the behavior of a currency pair or a stock and monitor it for three hours each day; take trades when you believe there is a high probability of making a profit; gradually increase the trade size as your account balance grows to take advantage of the compounding effect.

This is one of many possible business models that a trading business is based on. Each model will depend on the individual trader's circumstances, which are a combination of the time available for trading, the size of the trading account, and the environment in which the trading must take place for example.

If you are unsure of how to identify the business model that suits your unique circumstances, then your coach will be able to help.

2. The Business Plan

All successful businesses have a business plan, and so should your trading business.

A trader's business plan outlines the stages that a trader must work through to arrive at success. Each of these stages typically consists of a series of actionable steps, as well as specific and measurable goals. Some of the earlier stages are the following:

- Obtaining suitable computer hardware and software
- Familiarization with the chosen trading tools
- Finding a suitable broker
- Obtaining the right training
- Identifying a coach
- Growing a demo account

All these have to be done before the "live" trading takes place. Once your trading goes live, you need another set of plans that commits you to the "official trading hours", agreed risk, money management objectives, and so on.

In fact, money management is a subject within itself and that makes up a large part of your business plan. You have to figure out your approach to compounding, draw down, withdrawal of funds as a salary, multiple accounts, and so on.

3. The Physical Environment for Trading

When setting up your physical environment (i.e., your workspace, trading desk, and the necessary facilities), consider the following:

- *Personal comfort*. Even a short time spent in an uncomfortable position can affect your ability to concentrate. You need to be following the ergonomic advice available for using a keyboard and screens. If you are comfortable and relaxed, you can give all your attention to your trading job.

  Make sure your working environment allows you to take regular physical breaks to stretch and bend. Believe it or not, this helps to keep the mind sharp. Consider temperature, light levels, and nourishment. You will not be at your best if you are too hot or cold, blinded by the sun, thirsty, or hungry.
- *Noise levels*. Are you intending to trade in a place where noise from other people or machinery will be a nuisance? Research has shown that high noise levels have detrimental effects on a person's cognitive process and concentration (Göran Söderlund 2010). So, choose an environment where the noise levels are low at your workspace.
- *Distractions and interruptions*. If you are working out of a home office, make sure other members of the family treat your trading time as seriously as you do. Arrange for someone else to take phone calls and answer the door while you are trading.

Make sure your technology hardware is up to the task. Here is a checklist to help with this:

- *Fast Internet connection*. This is important if you want to take part in video conferencing or webinars.
- *Sufficient screen space*. Many traders employ more than one screen.
- *Computer with sufficient capacity*. A computer with reasonable performance (e.g., with fast processor, sufficient memory, large and fast enough disk) is essential. Streaming data from the web to go to the disk first before you can use it.

Make sure the software is up to the task, too:

- Your choice of charting software must do everything you require.
- Your trading platform, if different from your charts, should be easy to understand and use.
- You need adequate note-taking and recordkeeping software.
- The trading tools to assist you should run without a hitch.

4. The Broker

Due diligence is required to research the broker you choose to trade through. First, you must decide in which markets you will be trading and select a broker accordingly. For example, if you are trading stocks, find a full service or discount stock broker, depending on your needs. Futures trading requires working with a broker that offers futures contracts. Finally, forex brokers not only offer currencies but most provide contract for differences (CFDs) on commodities and stock indices, as well. There are also brokers that offer trading access to stocks, options, futures, forex, CFDs, ETFs, and bonds through one account and trading platform.

Second, research how capitalized the broker is to make sure your money is secure and the firm can endure through all market cycles.

Third, look at the costs involved and the margin requirements for the markets you plan to trade.

5. The Trading System and Strategies

It is impossible to be consistent unless you have a trading system and know it well. Your trading system may consist of a number of different strategies that apply to different market conditions. You need to be familiar with these. Don't worry if you are unsure about this now. Chapter 9 of this book will guide you on this.

6. The Money Management Strategy

The money management strategy is one of the most important parts in your business plan. It should cover the following considerations:

- The maximum percent risk you are prepared to accept across all trades
- The maximum percent risk you are prepared to accept for a single trade
- The rules for moving your stop loss to break even
- The rules for breaking the rules (advanced trading only)

Chapter 10 of this book walks you through planning the money management strategy.

7. The Psychological Preparedness for Trading

You must follow the rules of your system and each strategy therein. This involves patience and forming strong habits, and you must absolutely avoid making decisions based on emotion. You must develop the ability to recognize when you are about to make a decision that is not based on analysis, and put a stop to it immediately.

Trading is a waiting game. Your intention is to ambush the market when the conditions are right. If you are not patient and do not have the discipline to follow your rules, then you are a gambler and not a trader. Traders beware, you could earn large sums of money. Gamblers beware, the market will relieve you of your cash in an instant.

It might seem like it requires an overwhelming amount of effort from you to get yourself set up even before you start trading, but do not skimp on the effort for this. You owe it to yourself to give yourself the best chance of success. This level of readiness is essential, and attention to the points outlined above will surely help you on your way.

What Kind of Trader Do You Want to Become?

As we have reached the end of this chapter, ask yourself if you now have a clear idea of what a "technical junkie" is versus what an Entrepreneurial Trader is, and what kind of trader you want to become? Are you clear about the preparations you need to do before you jump into the trading business with both feet?

Now we are ready to cut into the *meat* of this book.

Habit #1 will be presented to you right after the first episode of another key content of this book: the Pendulum Scenarios.

Pendulum Scenario 3.1: Fear versus Greed

"Be fearful when others are greedy. Be greedy when others are fearful."

—Warren Buffett

Fred was still undecided. He must have been staring at his screen for two hours, hesitating whether he should take action or just wait. Since he had first spotted the indication that the market was coming to the end of its downward trend and would soon turn bullish, he had been fixated on the real-time chart.

His analysis was telling him not to delay buying this market anymore. The trend reversal could happen anytime soon, and by hesitating, he might miss the entry point. Fred had a certain confidence in his analysis. After all, he spent one whole year immersed in the methodology and rigorously testing it on paper. He had done everything within his means to prove to himself that he had in hand a "lethal trading strategy" that he could rely on to produce laser-like accuracy in analysis, trade after trade.

But he wasn't entirely sure now. It was not his analysis that he had doubts about. It was something else.

An Outrageous Trade Plan

For this month, Fred had set a high earning target, and expected himself to stake a large sum of capital to achieve it. Half a month had passed and he had only hit around 30 percent of the target. Seeing himself running short of time, he figured that the best plan was to focus on taking a few trades only and aim at making the most profit out of each trade.

This worked at first. Fred ripped the market apart and analyzed it, and confirmed over and over before he entered any trade. And when he did, he risked a sum of money so large that it gave him cold sweats every time. "High risk, high return" he reasoned. And it was a "calculated risk" anyway, so he assumed he would have no worries.

The results were encouraging. Fred managed to reap good profits for the first few trades and was on his way to achieving more than 65 percent of his monthly target. At this rate, he would not be far from exceeding his monthly target in another week.

When the First Major Loss Hit

On Wednesday that week, the market moved in the opposite direction soon after it "lured" him in with what seemed to be an unmistakable uptrend move. Soon after Fred poured in his capital, it went wayward.

Shocked by this sudden turn of events, Fred was at a loss. His chart clearly screamed at him that his analysis was inaccurate, but he was in denial. After all, the consecutive wins in the week were the best proof that his plan worked. His analysis was also definitive, and his strategy robust or so he thought. And he could not make sense out of the subsequent market behavior that unfolded before his eyes.

To make matters worse, he was naive enough to suppose that if he gave the market some time, it would adjust itself to fit into his expected pattern. Sure enough, the market did not please Fred; rather, it plummeted all the way down, way past his imagined stop-loss level (which he had not actually set). But still holding on to some hope, he refused to take action to protect his capital.

When he finally did throw in the towel, he had taken a big hit. With just one trade, he lost 63 percent of the profit he made this month, thus widening the gap between his target income and his profit. Stress was building up again, and he felt remorseful for his reluctance to react to the unexpected situation. But remorse was not the only emotion that overwhelmed him. Another threatening emotion quietly crept in.

The Emotion that Paralyzed Him

It was fear. Fred had not set up any other trade since his last grievous loss. Losing 63 percent of his profit in one trade was a major hit.

He was in fear that the market would behave irrationally again, beyond reason. Whenever he was presented with an opportunity to enter a new trade, he hesitated. He was in fear that his analysis was pointing him in the wrong direction again. Worse, he started to doubt his capability as a trader, as he just witnessed his own indecisiveness in making the right decision at the right time.

So there he was, staring at the screen, paralyzed, and not entering any trade again. He was not doing just nothing. In fact, whenever he saw an indication that a trend move was brewing again, he performed his due diligence to study and restudy the daily chart, weekly chart, and even monthly chart. He wanted more confirmations before he launched into another trade. He would not forgive himself for making another mistake. He could not take another loss.

And he ended up being paralyzed by analysis and took no action. He was in fear.

Trader in Her Fever Mode

Four consecutive wins later, Stacey realized what she was in: a so-called *winning streak*.

She knew that it was not entirely luck. She had spent the past few days and nights watching the market, patiently waiting for the market move to set up. When the right time to enter the market struck, she took the right position size, placed a sensible stop loss that she vowed to obey (even though she was nowhere near her stop loss level throughout the trade), and exited the market when her profit target was met. Rinsing and repeating the same steps for all four trades, she made heart-throbbing profits every time.

Maybe the market was proving to her that her analysis, strategy, and trading system worked. Maybe she had accumulated enough skills and experience. Or maybe some luck was at play. Stacey reckoned that the market was on her side, and wanted to strike while the iron was still hot.

A Decision Beyond Reason

She felt unstoppable and intended to increase her position size and adjust her stop loss to an aggressive one. That went outside the parameters of her trading plan, but she was prepared to take the risk. “Just one more trade! I need to win just one more trade, and that’s it!” she thought.

So, she was all eyes on the market and waited to enter her fifth trade. When the market showed that an end of trend and a reversal was imminent, she got herself ready to pull the trigger. Her heart started to race as she thought about the position size she was going to take, which was disproportionate to what her analysis instructed. That was impulsive, she realized. It was almost like a gamble, but it was one that she did not think she could lose since luck was on her side and she had won four trades in a row.

Deep down inside however, something kept reminding her that she was doing the wrong thing.

Fear and Greed

At some points in our trading journey, we were all Fred or Stacey. Fear and greed are the two most powerful emotions that can overcome a trader's logical reasoning and confidence in trading. Just think of how many times doubtful thoughts immobilized you when your analysis told you to enter a trade. Or how some senseless false hope prevented you from cutting a loss even though it was obvious that the market was not in your favor. Finally, how you relied on your gut feeling to place a position size that was not supported by your analysis, expecting to make more money out of your trade.

These could all be caused by fear and greed.

Nonetheless, these two emotions are not always bad. They can be a barrier to your success and your motivator. Traders who have a reasonable amount of fear are cautious. Fear is what causes them to confirm their analysis over and over before making trading decisions. Fear halts them and forces them to reconsider before gambling their money away. And fear reminds them to be more careful during the next trade after they suffer a loss.

On the other hand, greed is a motivator that makes a trader trade. It often pushes the trader to go beyond the mental boundary that he set for himself to achieve more. The right amount of greed is necessary because it moves a trader forward in his trading journey and allows him to grow.

Fear and greed coexist in trading. Not only do they drive the market dynamics in general, but they also affect every trader on a personal level. We all fear losing and yearn for making more out of our trades at the same time.

These two emotions are at the two ends of a pendulum swing. Each individual has a different risk-reward tolerance, and therefore a different tolerance level for fear and greed. The key to succeed in any trade is to position yourself somewhere in the middle of these two extreme emotions, maintain a balance between them, and not let one of them overcome you.

Tips to Tempering Fear and Greed

Here are three tips that can help you to temper your fear and greed:

1. Instead of focusing on the money, learn to appreciate the rewards of trading.
   - To most successful traders, trading is not only about making money. The process of applying prudent analysis on the market, objectively and accurately

forecasting the move based on the understanding of human psychology and the economy, taking the most fitting actions in a snap, managing inflow and outflow of money, and so on, can all offer an enormous sense of intellectual fulfilment to traders.

- The trading process can be quite enjoyable if skills are learned and the markets are respected. It does not matter whether you are making a winning or losing trade today because every trade can be treated as a lesson. There is always another trading day.
- In the long run, if trading is run as a business, the profits will come.

2. Trade with money you can afford to lose and manage the risk so you can accept the worst-case scenario of every trade taken. Understand the risk before a trade is taken and sign off on it.
3. Develop or adopt a proven trading system. When you execute your trade, trust your system and follow it to the tee. This will help from being overcome by fear and greed.