FOREX EBOOK

Keeping your spirits up while the stock market takes you on a rollercoaster of emotions can be quite challenging. From everyday geopolitical events to your personal choices, there are a lot of factors that can define your trading journey. In this book, we will show you how to manage those influences and turn them into your greatest assets.

What is Trading Psychology?

Trading psychology is an emotional and mental state which can lead to a success or a failure in trading. It can depend on many factors, such as characteristics of an individual and their behavior. Also, it can gravely affect your performance on the market and determine the path of your trading experience. Trading psychology is equally important as knowledge, confidence and other skills which you acquire along the way, that make you better in trading.

Understanding Trader’s Psychology

The two crucial aspects of trader’s psychology are discipline and risk-taking. Though many would argue that one cannot coexist with the other, learning how to combine them is key to successful trading. Risk-taking requires discipline, so it wouldn’t take you on a stray path and diminish your hard work. But it also works the other way around – not even the strongest discipline in the world can help you on the market if you do not take some risk now and then.

In addition, there are many other emotions and behaviors which contribute to your trading psychology. The most important thing is to constantly work on becoming better at market trading. To do that, you first need to learn how to detect those emotions and states which are harming your performance and turn them into an advantage!
Let’s review some of the most common ones in the following passages.

Fear

The first thing to know about fear is that it is normal to experience in life, but especially in trading. You could say that fear comes with the territory. It is natural to wonder what's going to happen next. However, the rush you feel after your move has paid off will be worth it.
Fear is a natural reaction.

However, you need to learn how to keep it under control, and eventually use it to your advantage. Sometimes, fear can be a good thing. It can serve as a warning to be cautious. In this case, you should ask yourself - it this my gut trying to tell me something, or am I just anxious?

In other cases, fear can paralyze you. It can make you paranoid and stop you from thinking clearly. And that is a dangerous thing, which can make you prone to mistakes. This goes to show that the only thing you need to fear, is the fear itself.

Greed

Greed is a dangerous ally. When trading on the market, it is quite easy to get carried away and resort to greed. It can sneak up on you easily, leaving you in disbelief after it's left you with nothing.

Greed typically manifests on the market as an investors' refusal to leave a position. Rather, they want to keep it as long as possible to drain every single bit of their leverage. However, this can be quite damaging to their overall return. Remember, trading is risky and uncertain, and what once was an ideal surrounding can change in a heartbeat.

It can be quite difficult to overcome greed since it is based on instinct. It drives you to do better and get a little bit more, but it is up to you to learn when enough is enough. This takes a lot of practice, however, it is possible to achieve over time.

Ground Rules

Back to discipline, you should always create some ground rules to suit your game plan on the market and stick to them no matter what. It is the only way to ensure that emotions won't affect your judgment.

Ground rules are useful in other cases, too. They can help you manage your time and money. In addition, you should update those rules after you've made developments on the market but do it with caution! In the meantime, it is quite helpful to set limits, such as how much money are you willing to spend in a day, for example.

Learning and Improving

No matter how experienced you are, you should always attempt to be better at what you do. Not to mention, with this day's technology that moves so fast, you need to be able to keep up. Thankfully, technology has also given us many new useful tools for learning and perfecting ourselves.

From attending trading seminars to online courses, there are many ways to educate yourself. You should especially be updated with the area of the market that interests you the most. However, it can also be useful to experiment with the financial instruments you haven't used yet.
You never know what can work for you even better than the things you already tried.

Technical Analysis

Technical analysis is unlikely and a very helpful friend to every trader. It relies on charts and graphs, helping you visualize the market's features and understand them better. It is also good for detecting trends and helping you find the best buying or selling opportunity.

Though it requires additional research, technical analysis is a feature that reminds us all that knowledge is power. The more you know, and the more you seek, the better you are at adjusting to the many changes in the market.

How to Trade Successfully?

In order to become the best possible trader, you need to work on controlling your reactions to the many ups and downs you will experience along the way. It would be ideal if you planed your moves based on data and statistics alone, but that wouldn't be so exciting, right? Besides, most often your gut feeling can help you immensely to determine a good plan from the wrong one.

Still, there are some skills you can pick up that are quite useful in your everyday life, but especially in trading. By perfecting them and learning how to apply them in the right way, you will be able to overcome obstacles much more easily.

Right Mindset

Being cool-headed in heated situations can be quite challenging.
With the adrenaline rush washing over you while trading on the market, it's easy to get carried away.
However, the right mindset can take you even further.

In addition, you can practice achieving it by giving yourself pep talks every day. Reminding yourself each day about what matters will keep your spirits up and you will remain on the right track.

Also, it can be quite useful to try and wake up a little earlier than you usually do. This way, you will have more time to take your pace, instead of rushing and risk becoming flustered and nervous. This way, by giving yourself just a few extra minutes in the morning, you can get centered and relaxed for a new day ahead of you.

Knowledge is the Best Tool

We don’t have to tell you that getting to know how the market works is key to be a successful trader. By educating yourself, you will be prepared for the unexpected events that can shake up the market. Also, it will give you the confidence to plan your next move and make it a reality.

Having a strong base of knowledge will also help you minimize risks, which are inevitable in trading. You can never predict what will happen, of course, but it is quite helpful to avoid stumbling on a first obstacle that comes your way.

Prepare for the Worst...

This is a crucial part of having the right mindset. It is not all rainbows and butterflies in life, and in trading, too. Being prepared for a worst-case scenario is useful but in small doses. You should always revise the disadvantages of a certain move you are planning to make next. However, you don't let it paralyze you and cloud your judgment.

Also, by imagining yourself losing, you can take a step back and think about the mistakes that can lead you to it and avoid them. Of course, we are not advising you to be led by fear, but rather to look at every situation from both angles and think of all the possibilities.

… But Still, Hope for the Best

The greatest athletes in history swear in the effectiveness of this method. Simply, you imagine yourself as if you've already won. How does it look? Can you feel the excitement and the pride taking over your body and mind? Good! Use that confidence in your everyday trading and see it go much more smoothly.

This is a useful tool not only in trading, but also in other aspects of your life. It will inspire you to do better and bring you closer to your goals. Since you will plan your moves anyway, why not include an image of you winning in it, too?

Imitation is the Sincerest Form of Flattery

When we say this, we don’t mean you should copy every move of a successful trader. It simply won’t get you anywhere. There are many factors that can contribute to your performance on the market, from current events to your individual traits.

However, it couldn’t hurt to observe how more experienced traders do their thing. You can learn quite a lot, as long as you keep in mind that it is imperative to find what works best for you. Maybe it’s a combination of traits from several other traders you admire, or a completely new thing. You will know when you find it.