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Six Costliest Trading Mistakes (And How To Immediately Fix Them)

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80%+ of Traders Lose and Quit Within One Year

How To Become One of the 20% of Winners

There have been several studies regarding the failure rate of stock and futures traders. The results are a majority of traders fail within a year of opening a trading account. The failure rate is typically found to be in the 70%-80% range. I suspect the failure rate at least for stock traders was much lower in the late 90's as thousands of people first began their trading experience during the final years of the relentless bull trend when almost any bull market strategy from momentum buying to average down to moving average crossovers was profitable. I suspect the failure rate is higher than the average from 2000 to the present when you actually had to have skills to achieve consistent profits.

Most people who trade are aware of these failure statistics. And, most beginning and experienced traders think they are part of the 20%-30% of potential successes, when in fact, they usually end up with the majority who fail.

Experienced traders are not necessarily successful traders. In the 30 years of teaching how to trade around the world, I know a large percentage of the private traders end up trading more for entertainment or the challenge than to make it a profitable business.

I don't mean to start this series off on a negative note. But, I do want to be honest and realistic with the reader. You have to decide if you are in the business of trading to maximize profit for the capital and time you invest, or if you are trading for entertainment. My job for thirty more than years has been to educate traders. That is what I am good at.

I've helped traders in over 30 countries turn their trading around to a consistently profitable business. I can help you do that as well if you are willing to make some changes.

There are certain things that all successful traders do which most unsuccessful traders do not do. Doing these things does not guarantee success. Not doing them ensures failure.

If you do not make the *Six Costliest Trading Mistakes*, it will not guarantee your success, BUT, if you make just one of them, you can almost be assured you will not succeed.

Let's get started and learn how you should be able to quickly improve your trading results.

Costly Mistake #1 (And How To IMMEDIATELY Fix It)

Not Trading With A Plan

Every successful trader has a written trading plan.

This is probably the number one reason that traders fail. In more than 30 years of trading and teaching trade strategies, every time I talk with a trader who is not doing well the first thing I ask is “What is your specific trade plan?” They usually answer with some generalities like “I buy the momentum breakouts” or “I buy on a Fib retracement.”

I then ask, “How many rules or guidelines are in your trading plan?” It doesn’t matter how many there are. It is just a sneak question to see if they actually have a written trading plan. Inevitably, I find they have no actual plan, just some general untested strategy.

<u>The Business of Trading Is Like Any Other Business</u>

Most traders have been successful in another business or profession. In the other business or profession, they always had a plan of action for developing products or services, completing projects, making sales and every other aspect of the business or profession. They fail to make a plan for trading because for some reason, they believe the business of trading is different than other businesses. They believe you do not have to plan to be a successful trader even though they would not think of conducting another business without a detailed plan of action.

There have been books and articles written about the psychology of the trader and why they fail at trading after being successful in other businesses. We don’t need to know the psychological why. We just need to know what must be done to solve the problem. We don’t need to get paralysis of analysis with the problem any more than a trader needs to have paralysis of analysis in a trading plan.

<u>How To IMMEDIATELY Fix This Mistake</u>

If you do not have a written trading plan of action, make one right now, before you make another trade.

Your trading plan does not have to be so detailed that dozens of very specific conditions must be met before a trade is considered. A trading plan should include the minimum conditions that must be met before a trade is considered, the specific objective entry strategy and the specific conditions that must be met to exit the trade.

Do you have a written trading plan? If not, do not make another trade until you do.

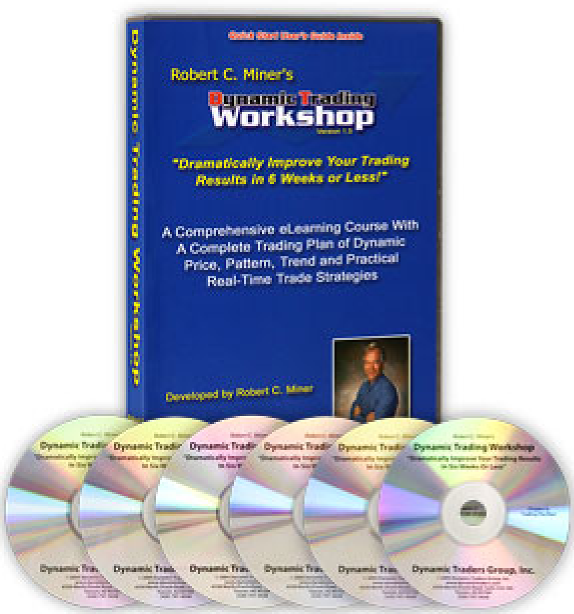
If you fail to develop a written trade plan and then fail to follow that plan, you will make inconsistent trade decisions. If you want to be a successful trader, do not make another trade until you have your written trade plan. Learn How To Make A Comprehensive Trading Plan

The trading plan that we teach in our six CD, almost 40 hour *Dynamic Trading Multi-Media E-Learning Workshop* easily fits on one page and can be applied to any market and any time frame. It is so simple yet logical that when I do live workshops, I will challenge the audience to give me any stock, index, Forex or futures symbol and I'll have a complete trade strategy within just three minutes! Even if I've never hear of the symbol.

ALL consistently successful traders have a written trade plan. Write down your specific trade plan before you make another trade. I think you will find that your trading results will IMMEDIATELY be more consistently successful.

If you "fail to plan, then you should plan to fail." Why not plan to succeed? Right now!

Dramatically Improve Your Trading Results with the Dynamic Trading Multimedia E-Learning Workshop



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Costly Trading Mistake #2 (And How To IMMEDIATELY Fix It)
Are You A Trading Junkie?

The objective of a Trading Junkie is not to make money, but to make trades.

Too many traders become a "trading junkie" and over trade which is always a costly activity. A "trading junkie" overtrades because he feels he must make trades every day instead of waiting for the high probability set-ups. A "trading junkie" does not trade with a specific, written trading plan, but continually takes low-probability trades just for the sake of trading.

When I talk to someone on the phone or at a trading conference who is interested in Dynamic Traders Group products or services and they ask, how many trades does your "system" make each day (or week or month)? I know they are probably a trading junkie because what is most important to them is the frequency of trades.

When I speak with other traders and they brag about how many trades they make each day, I know they are probably a trading junkie who is not most interested in maximizing the return for capital, time and expense in their trading business.

<u>Only Make The High-Probability Trades With Minimum Risk</u>
The principle for any trade strategy is to identify trade setups with a high probability outcome and minimal capital exposure. Trading junkies make marginal trades, those without a high probability outcome. Consistently successful traders have identified conditions with a high probability outcome and minimal risk for every market they trade, <u>and only take trades that meet those conditions</u>.

You know you're a trading junkie when:

- You are nervous if you are not in the market.
- You trade for ticks and not for points.
- You are impressed with the number of trades you make regardless of the net profit.
- You have messages sent to your cell phone or pager from your broker or trade software when you are not in front of a computer. Especially while you are on vacation!
- You are afraid to take time off from trading because you might miss a good trade.
- You have not identified setup conditions with a high probability outcome.

<u>Trade For Profit, Not For Activity</u>
No one wants to think of themselves as any kind of Junkie, but you are probably a trading junkie if you are concerned with anything related to your trading other than maximizing the return from your capital and time. Trading Junkies are always in denial just like any other kind of junkie. They have their excuses like –

"I only day trade because I don't want to hold a position overnight." Which really means – "I am trading out of fear because I don't have a trading plan, or enough capital for overnight trades, or I don't really understand the market." Another one is – "If I'm not in the market, I can't make any money." What this means – "I don't have a clue how to identify trend conditions so I'll always be in the market so I know I'll catch the next trend."

All trading junkies have an excuse. In the past thirty years, I think I've heard them all.

If you want to be a consistently successful trader, your only objective is to trade to maximize your return for the capital and time invested. If you trade for any other reason, you are not in the business of trading.

Trade For Profit, Not For Activity

You are reading this and thinking, "This doesn't apply to me. I'm not a Trading Junkie." That may be the case, but I'll bet at least 50% of the people reading this are. You probably need an intervention, but that isn't going to happen! If you are not a consistently successful trader, more than likely you over trade. Most all traders will improve their bottom line if they trade less.

This isn't theory, this is advice from someone who has traded for over 30 years. And yes, I am a recovering Trading Junkie!

How To IMMEDIATELY Fix Being A Trading Junkie

The easiest way to immediately solve a trading addiction is to trade a higher time frame, regardless of what time frame you are now trading. Whatever type of trade strategy you use, apply it to a higher time frame for at least some of your trades. The junkie day-trader who usually trades for a few ticks on 3 and 5 minute charts, should apply the same strategy to 15 and 60 minute or 60m and daily charts to identify trades that will last at least from hours to days. The junkie swing-trader who usually scans several thousand stocks should apply their trade strategy to a handful of picks with daily and weekly data to identify the potential for trades that may last for several weeks instead of several days.

Make the decision to maximize the gain from the capital and time invested in your business of trading. Move up to a higher time frame for at least part of your trades. Or, take a set time period like one month, and only trade the higher time frame. It will be the first step to overcoming your trading addition and becoming a consistently successful trader. You should quickly learn how to identify the high probability setups and enjoy the success of having a trade and sticking with it when a major move is made.

Treat trading as a business and you WILL dramatically improve your results.

Costly Trading Mistake #3 (And How To IMMEDIATELY Fix It)

Taking Too Much Risk Per Trade

If you risk more than 3% of your trading account on any one trade, you are not in the business of trading.

Taking too much risk is a consistent characteristic of almost every unsuccessful trader. There are all sorts of psychological reasons traders do this. It almost always relates to the failure to accept that the trade could be a loser. The more time and energy a trader devotes to identifying the trade set-up, it seems the more he or she believes the trade will be successful and is worth a larger position with more risk.

Be Ruthless About Limiting Capital Exposure Per Trade

Consistently successful traders are ruthless about limiting their capital exposure on each trade. Consistently unsuccessful traders frequently take way too much risk per trade and set themselves up for big, unrecoverable loses.

Consistently successful traders always assume a trade has as good a chance of being a loser as a winner and they cannot predict in advance which it will be. That is why they are *ruthless* about limiting their capital exposure on each trade. Consistently unsuccessful traders always assume the trade will be a winner which is why they usually take too much risk per trade and are never able to recover from a short series of loses.

Trading and Risk Management

Risk management is as important as maximizing profit, maybe more so. It is no different than with every other business. Every business has risk. But, an important part of any business plan is to identify and minimize the risk so the business will continue to prosper even when things don't work out as planned. Preservation of capital in the business of trading is crucial. That is why ALL successful traders are ruthless about managing risk.

How To IMMEDIATELY Fix This Costly Mistake

This is a very easy mistake to overcome, and can immediately improve your bottom line. Every trader must have an inviolate rule that the maximum capital exposure (risk) for any one trade will be no more than 3% of your trading account. The number of shares or contracts you may have for any one trade will depend on the price you entered and where the initial stop is placed. Here is a simple example of how to determine trade size.

Assume a $100,000 stock trading account. Three per cent is $3,000 maximum capital exposure for a position. The price at entry is 61.50 with a stop at 59.50 for a $2 capital exposure per share. $3,000 / $2 = maximum 1500 share position. The position size is determined by the initial entry, stop and account size. For the conditions above, a trader who enters a position with more than 1500 shares (greater than 3% account risk per trade) is probably an unsuccessful trader or soon will be one.

Consistently successful traders are ALWAYS aware of the maximum risk per trade and NEVER let that amount go over 3% of the trade account.

You should immediately improve your results if you make the maximum risk per trade 3% or less, regardless of what market or what time frame you trade.

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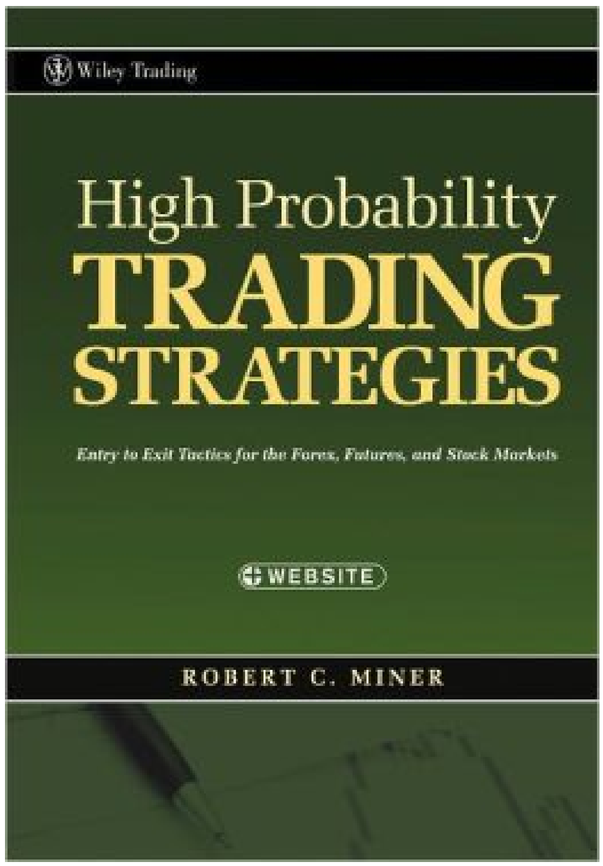

Learn all about the comprehensive trade plan taught in *High Probability Trading Strategies* at:

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Costly Trading Mistake #4 (And How To IMMEDATELY Fix It)

Relying on Technology Instead of Learning How To Trade

Information overload is a problem, not a solution. Most unsuccessful traders think more information will make them a better trader and never take the time to learn how to trade.

Today, software, data and market information is cheap. When I started to trade in the mid-80's, most traders did not have a computer or trading software. Those who did, paid hundreds of dollars a month for the software and data. Back then, most of us traders drew our charts by hand each day on graph paper. Some of us either sat in the broker's office or had a DTN or other streaming data at home and made intraday charts by hand as well.

Today, trading software and data are very cheap. They have become so inexpensive, that the cost of data and trading software is hardly a relevant cost for a trader. Many traders become software junkies thinking they can buy success with a trading program and not actually have to learn how to trade and make trading decisions. BIG MISTAKE!

<u>No Amount of Technology Will Make You Successful</u>

Today's cheap and abundant technology and plethora of trading software and cheap data is not a substitute for learning how to trade. No software program, advisor or any amount of data will make you a successful trader. Only the knowledge of how to distinguish which information is useful and relevant and how to apply the information to make low-risk and high-probability trade decisions will help make you a successful trader. Trading is exactly like every other business. To be successful, you must have knowledge, information and make decisions based on a plan and experience.

Trading software and data began to get very available and cheap to the small retail trader in the early 90's. Today, it is an irrelevant cost for the business of trading. Yet, with all the new technology, cheap data and information that was only available to major institutions a couple of decades or so ago, *the percentage of successful traders has not increased!*

Brokerage companies still report that only about 20%-30% of accounts are profitable after a year of trading, the same as the "old" days of hand charting data at the end of the day! I suspect if the data was available to do a thorough study of trading results going back to at least the early 80's, we would find the percentage of successful traders is actually less today than in the pre-technology days.

<u>You Can't Buy Success</u>

No matter how much technology, information and data you have, you will not be successful if you don't know what makes a market trend, what are the key characteristics of a successful trading business, how to develop and execute a trading plan and much more. In other words, just like every other business, you have to gain knowledge and experience and take risks in order to have the opportunity to be successful.

A while back I gave a talk at a large, local trading group for their monthly meeting one evening. After the talk, several of the group members and I were having a cocktail and someone started a discussion about how many monitors they had on their trading desk. Pretty soon it was a friendly “I’ve got more monitors than you” competition. Someone asked me how many trading monitors I had. I said one. Everyone fell silent. I guess they thought since I was the “guru” of the hour, I would have a desk full of monitors with all kinds of data feeds. I explained to them that I only look at a handful of markets at any time. Before the first tick of the day, I have the trading plan for the day which means I have identified what conditions must be met to consider a trade. It is just a matter of executing the trade if the conditions are met.

You can’t buy success. Most traders have way too much information which causes paralysis of analysis. More importantly, much of the information traders have is not relevant to making a low-risk, high-probability trade decision.

<u>How To IMMEDIATELY Fix This Mistake</u>

Immediately begin to eliminate all information that you cannot specifically identify has been consistently useful to making profitable trade decisions.

Most traders need less information, not more. Decide what are the three or four pieces of information you need to make a trading decision. If you think you need more information, you definitely have too much irrelevant or misleading information. For at least one week, shut down all information flow that provides any information that is not part of the three or four pieces of information critical for your trading decisions. Make all your decisions based on the reduced information. You will probably look at fewer markets. You will probably make more relaxed decisions. You will probably have more profitable results.

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Costly Trading Mistake #5 (And How To IMMEDIATELY Fix It)

Not Keeping It Simple

Successful traders usually have a fairly simple trade plan based on a few pieces of key information and just one or two trade strategies.

Unsuccessful traders usually have very complex trading plans (if they have a trading plan at all). A successful trading approach should be relatively simple to understand, to identify the trade set-ups and execute the trades. Having a trade plan and strategy that is too complex is related to Costly Trading Mistake #4, too much reliance on technology and an overabundance of irrelevant information.

From The Complex To The Simple

In the 1980's, my trade plan was very complex. I was known as one of the prominent Gann and Elliott trading authorities and released a very comprehensive and complex W. D. Gann Home Study Trading Course in the late 80's. Trade decisions involved dozens of price and time calculations, lots of chart geometry and complex E-wave patterns.

As the years have progressed and I've learned more, I've also simplified my trading strategy. I look at far less information now than I did 20-25 years ago. Trading decisions for any market and any time frame are quickly made because there are only three or four relevant pieces of information regarding the multiple-time-frame, price, momentum, pattern and time position of any market that are needed to make a specific trade decision. A market is either in a low-risk, high-probability trade position or it is not.

Successful Trading Is Not Easy, But It Should Be Simple

I'm not trying to tell you that successful trading is easy. I am saying that successful traders do not make trading decisions complicated.

I had a customer of my Gann Course from the late 80's who came to a number of my workshops over the years. He was very bright and did a lot of hard work. Each time I would see him, he would describe a new approach or new indicator he was working on or testing and always finish up by saying "one more tool for the trading tool box." Most of his new indicators and strategies didn't really provide any new or unique information he did not already have. He was over complicating the trading process.

I would tell him my objective is to get rid of most of the trading tools and focus on just three or four tools to make decisions. Most household repairs can be made with just a few tools – pliers, hammer, wrench and screw driver are all you need for most simple home repairs. Most trading decisions can also be made with just a few tools. If your trading tool box is too full, you are likely to overcomplicate a situation and make mistakes or use the wrong tool for the job.

How To IMMEDIATELY Fix The Mistake of Not Keeping It Simple

I'm assuming you keep a trading log that notes the conditions of a market that describe why you took a trade and the outcome. If you don't have a trading log to track and review trades – well – that is another costly mistake. All consistently successful traders keep a trade log to be able to review each trade.

Review all of the information you considered before each trade was made in the last 30 days. Determine which information you considered important at the time of the trade was actually useful for the trading decision. You will probably find that some of the information you thought was necessary before the trade review did not help make a successful trade decision and can be ignored in the future.

After this review, you should have reduced the information you need for a trading decision and the trade strategy to a more simple approach than you had before the review. All traders should go through this process at least once a quarter for all of their trades.

If you do this review and simplify your trade strategies, you should immediately improve your bottom line.

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Costly Trading Mistake #6 (And How To IMMEDIATELY Fix It)
Not Taking Time Away From Trading

Most successful traders take regular time away from the markets for R&R.

Like most businesses, the business of trading can become obsessive. There are opportunities 24/7. There is always something new to learn and ways to improve. Like any other business or profession, traders need to get away from the business on a regular basis for R&R to recharge their physical and mental batteries. You would be surprised how many good trading ideas you will come up with in a relaxed atmosphere with no computers or internet.

Get A Life!!!

There is nothing wrong with being passionate about your trading business. In fact, success in any business is difficult without a passion for the business. But being obsessive or addicted to any business is not healthy or productive.

When you remove yourself from all the information and related activity for any business, you give your mind the opportunity to relax, experience new things and grow. The outcome is often not as anticipated. *You will often come up with new trading ideas or perspectives.*

Get Away From A Trading Environment

I recently spent three weeks in Argentina. I did have my laptop but did very little "productive" work. I let the folks at the office know that I would rarely check email. I only checked email one day the first week of my trip just in case there was a problem only I could solve. (There are fewer of these than I imagine.) I didn't update any data, charts or workspaces. I adjusted my daily routine to the Buenos Aires schedule. Dinner around 9-11 at night. Milongas (social Tango dances) until 2-3 in the morning, sleep until 10-12, dance lessons or sight seeing in the afternoon etc.

Even though I was in one of the great cities of the world with easy Internet connection and all the financial information I could want, I took myself out of any type of schedule where I would be a part of my trading business and had new experiences and a lot of fun.

With very little time during the three week trip specifically devoted to trading and business, my mind was free to make plans, consider options and come up with new ideas that I implemented after I returned. It was probably the most productive business time of the past few years yet the least amount of time specifically spent on business for a three week period in the past few years!

How To IMMEDIATELY Fix The Costly Trading Mistake of Not Taking Time Away From Trading

Whether you are a full time trader or not, take at least one week off per calendar quarter when you do not look at a chart, update prices, read a financial report or trading book or engage in any activity that is related to the financial markets or trading.

This is much more difficult to do than you may imagine. Even if you are not taking a trip away from home, you must shut down all trading related information for the week.

Spend the time on non-trading related activity. Try something new. Preferably some new sort of physical activity. You would be surprised how your trading business comes into perspective when you are not thinking about it.

If you can't take the one week per calendar quarter off from financial information or trading, you probably need help I can't give you. You are probably "addicted" to trading (see Costly Trading Mistake #2) and probably believe you will miss something important if you do not keep on top of trading 24/7. You won't miss anything. Markets have been active for hundreds of years. There will be more opportunities than you can handle after you come back from your week off from trading.

Take at least one week off each quarter from anything directly connected to trading and you should find your bottom line improve, IMMEDIATELY. Start next week!

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