

TRADER TOUGHNESS TRAINING



DEVELOPING RESILIENCE TO COPE WITH LOSSES, SETBACKS AND TOUGH TIMES

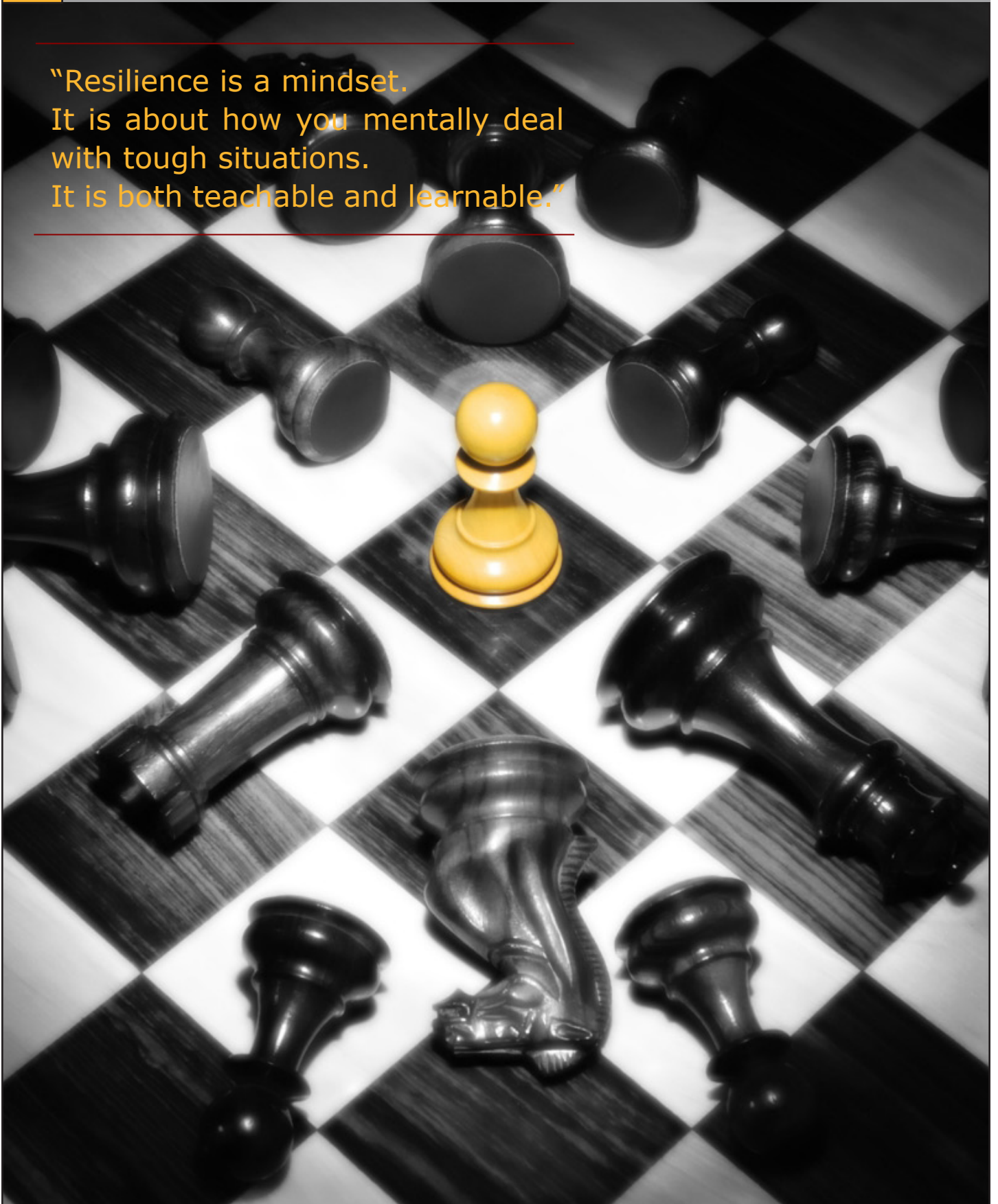
RESILIENCE – THE KEY TO LONG TERM TRADING SUCCESS

It would be hard to find any experienced trader who has not endured tough periods in their trading career and whilst at the time these periods are obviously not that enjoyable it is interesting that in retrospect they often add to a traders ability, knowledge or psychological strength, and in some cases can also be significant turning or launching points to greater success. In fact a very useful technique that I teach my clients when they are having a tough time which utilises this perspective is to ‘use the long lens’ or the ‘wide lens’ (see below).

Resilience In Action : ‘Using The Long Lens and Wide Lens’

- Think of a loss/setback/error you have encountered recently. Look at it with a long lens – go six months, 12 months, 2 years into the future and imagine looking back on the event - what do you notice? What perspective would you have on it from the future looking back?
- Think of a loss/setback/error you have encountered. Look at it with a wide lens – ‘What can I learn from this?’ - what do you notice?

“Resilience is a mindset.
It is about how you mentally deal
with tough situations.
It is both teachable and learnable.”



Exercise : Resiliency Rating Self-Assessment

Answer each one of the following statements either TRUE OR FALSE

1. I have future trading goals which I feel motivated and excited about achieving.
2. I find it easy trade again (in a disciplined way) after a loss or an error.
3. I don't give up when progress is slow or get put off achieving an objective by tasks I find boring or unpleasant.
4. I find creative ways of rising to challenges.
5. Under pressure I rarely feel helpless or fatigued.
6. I don't let difficult periods, with few wins, affect my confidence.
7. When challenged, I am able to summon a wide range of positive emotions engage my fighting spirit and maintain a sense of humour.
8. I know how to motivate myself under adverse conditions.
9. If I start out badly, with a losing trade for example, it's easy for me to stay positive, confident and disciplined.
10. I can see slumps in performance as temporary.

The more TRUE answers you have the greater your resilience . Total up the number of times you have answered TRUE and then multiply by 10 to get a percentage score e.g. 6 True = 60%. This is your current Resiliency Rating.

Make a note of your rating and also the areas where you answered FALSE. These are key areas for development. Which one if you could change the answer to a TRUE do you feel would have the biggest positive impact on your trading performance? Make this your primary resiliency development goal.

Trading presents you with much challenge, pressure and often periods of adversity. Traders lose, they make mistakes, they encounter tough periods in the market, they go through drawdown and they have setbacks. What separates those who 'bounceback', who keep going and eventually make it through and those who get beaten by their situation? Toughness – resilience is the deciding factor.

"I can think of no psychological characteristic more important to long-term trading success than psychological resilience. Resilience has been defined in a number of ways, sometimes as a process, other times as a trait. In all cases, resilience presumes exposure to stressful conditions and an ability to maintain high levels of social, emotional, and vocational functioning throughout this exposure.

My experience with traders suggests that even the most successful ones go through periods of drawdown. Sometimes these drawdowns are extended, either in time or in the amount of money lost. Some traders bounce back from these losses; others don't."

Brett Steenbarger, traderblogspot.com

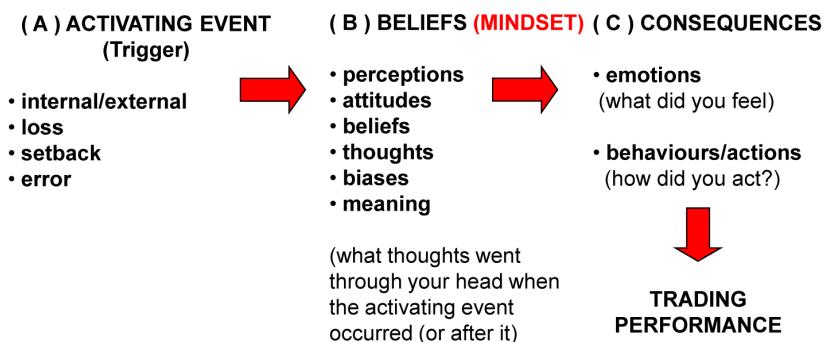
Think back over the last few months of your trading. When, and how, have you been resilient?

MINDSET : THE MIDDLE MAN OF YOUR EXPERIENCE

Psychological resilience is a mindset – it is about how you mentally deal with tough situations. What you chose to think and say to yourself in those events and what beliefs, attitudes and perceptions you have that underpin them.

The diagram below shows how your mindset operates. An activating event such as a loss is filtered through the traders mindset in terms of their beliefs, attitudes, perceptions and this

Psychological Resilience Is A Mindset



* Model taken from Cognitive Behavioural Coaching

physical fitness. A key component part of this program is resilience training, building mental toughness, enabling soldiers to deal effectively with the traumas of war, and interestingly to enable soldiers to move away from PTSD (Post Traumatic Stress Disorder) to PTG (Post Traumatic Growth).

Seligman has found that three factors were important in dealing with setbacks and being resilient.

1. Seeing the event as temporary
2. Seeing the event as local
3. Seeing the event as changeable

generates a feeling and a set of subsequent behaviours and actions which is then played out as the traders performance. The activating event can be the same for many different traders and yet the outcomes, how they perform could all be vastly different based on their mindset. It is therefore not the events that happen to us that actually determines our results but rather our mindset that dictates how we respond.

(It's going away quickly; it's just this one situation; and I can do something about it)

How you interpret the events that occur to you is a critical factor in your experience of them, reaction to them and performance after them. The meaning

DEVELOPING TRADER TOUGHNESS: LESSONS FROM COGNITIVE PSYCHOLOGY AND THE US MILITARY

Thirty years of research suggests that resilience can be measured and taught and the US army is currently testing this with its 'Comprehensive Soldier Fitness' program, developed by prominent psychologist Martin Seligman, which aims to build a soldiers psychological fitness as well as their



US Army "Comprehensive Soldier Fitness" program



Martin Seligman, author of "Learned Optimism"

of any event is the meaning you give it.

The research done by Martin Seligman (Learned Optimism 1990) suggests that individuals with an optimistic explanatory style not only consistently outperform those with a pessimistic explanatory style but are also happier and live longer. An optimistic explanatory style, particularly about bad events, encourages perseverance: pessimistic people are more likely to lose confidence and motivation after a poor performance than optimists, and encouraging optimism in traders can therefore lead to perseverance which is of course a key part of resilience. With pessimistic traders when a negative event occurs - for example,

a big loss; a sustained period of drawdown; making an error; and so on - then their explanatory style would promote less perseverance, and may be result in those traders not achieving their full potential.

How do you currently deal with setbacks?

What meaning do you give to mistakes, losses, setbacks?

How could changing your perspective of such events enhance your performance?

TWO OTHER DIMENSIONS TO TRADING RESILIENCE

Psychological resilience is critical to long term trading success, however I feel that there are two other dimensions to a traders level of resilience that are important and impact on a traders psychological functioning.

- Trading capital

The size of your trading capital is significant because it is not only a determinant of the size that you can trade and the positions that you can take, but also more importantly contributes significantly to how you feel, your level of confidence and composure for example, and subsequently often the decisions you make and the risks you take, or don't take, as well as your ability to cope with future losses.

- Physical energy

Your physical energy impacts on your ability to mobilise and to sustain high intensity emotional states such as motivation, confidence, enthusiasm and focus, and to maintain composure under duress. When times are tough you often employ significant amounts of mental and emotional energy to cope with the situation and so your

physical energy stores are more readily depleted and your resilience lowers.

Focusing on maintaining high energy levels is useful for all traders, and is particularly important during periods of higher stress where interestingly and counter productively you are most likely to give up your good energy habits in order to spend more time focussing on the markets.

There are four key areas to address in order to build and sustain physical resilience:

- Sleep (6-8 hours per night)
- Nutrition and hydration (Avoid excessive sugar and caffeine)
- Exercise (5 x 30 minutes per week of moderate activity)
- Rest and relaxation (recovery and downtime) (Information in brackets based on UK government health agency guidelines for general health and wellness)

GET TOUGH!

In trading, ups and downs are the norm not the

exception. Having the resilience to deal with the downs and to be able to maintain confidence, composure, focus and discipline is essential to long term trading success.

Resilience is sometimes seen as a trait, however the work of Seligman and the US Military Comprehensive Soldier Fitness program demonstrate that it is also both teachable and learnable.

Your physical energy impacts on your ability to mobilise and sustain high intensity emotional states



Complete the resilience assessment, build on your resilience strengths and address the areas where you have answered FALSE, perhaps utilizing the 'Lens' concept to change perspectives or by looking at the meaning you are giving to the events and your

explanatory style about them.

Steve Ward

Reference:
'Building Resilience; What business can learn from a pioneering army program for fostering post-traumatic growth', Martin E.P. Seligman, Harvard Business Review, April 2011