

Lessons from a Professional Forex Trader



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There is No Secret

I am constantly amazed at the caliber of people who end up knocking on my door looking for answers to their trading woes. They are engineers, doctors, small and mid-sized business owners. They are by all accounts the best and brightest the world has to offer.

Yet most of these same people are losing money hand over fist in the markets and can't seem to understand why. They are smart, well-educated and yet frustrated by their lack of success in this one area of their lives. Since they obviously possess the intelligence to grasp the concepts necessary for success, their natural conclusion is that they must lack some "insider knowledge", some secret that will unlock the puzzle and drag them from the foggy mist of confusion into the bright light of trading clarity.

But alas, there is no secret. No magic formula. No concoction of indicators and oscillators that will open Pandora's Box and magically transform you from unprofitable into profitable. There is no magic system, SO STOP LOOKING FOR IT! Get out of the trading forums and chat rooms. Stop spending your free time buying books with titles like, "Learn how I turned 200 dollars into 20 million in just 3 Years." If someone offers to provide you the "secret" to making millions for the low, low price of only \$99.95 run for the hills. These are scam artists preying on your emotions. These are the same emotions that are causing you to lose money each day in the markets. They are a cancer to your success, and nowhere are they more prevalent than in the FOREX market.

I firmly believe the key to success is rooted in emotional self-control. For years I struggled as a trader, constantly looking for the "holy grail" that would turn me into a winner. I spent thousands of dollars on books, seminars and trading courses. Then, to add insult to injury I lost tens of thousands in the markets before I finally came to the realization that the answers to my trading problems were not external. It wasn't the fact that I didn't have the "secret system". I had to admit to myself that I could have had a multi-million dollar system and I would have lost money with it. I had no self-control. I put trading plans together that I never followed; made promises to myself I never kept. My trading days were spent hovering over a computer, hanging on every tick in the market praying it would move in my direction. Does any of this sound familiar? If it does congratulations, you are no different than 90% of traders in the market today.

Listen to me very closely. This is very important. 90% of traders lose money in the market NOT because they don't know what to do. They lose money because they don't have the emotional discipline to do what they know they should.

So maybe you're saying, "Ok, Jason. I'm sold. So tell me how to get control of my emotions." First let me just say that the simple acknowledgement on your part that your problems are your

own and not the result of some external force puts you light years ahead of most aspiring traders. But there is a process to success and it starts with identifying and understanding what I call the Progression of a Trader.

The Process:

So what is this process? What is this rite of passage? Do all traders really go through it, or are some people blessed by the divine with a natural ability to predicting market behavior? Well, the truth is some traders have it easier than others. Not all traders experience every stage of the process. There are those who are predisposed to handling the stresses and emotional rollercoasters that exist in the market. But they are the exception, not the rule.

For the rest of us, there is a natural progression we go through on our way to achieving success. I've compiled a list of some of the most common weaknesses and pitfalls traders run into. It is by no means extensive, and there is nothing saying you have to experience all of them. But chances are you have experienced (or will experience) one or all of these symptoms at some point throughout your trading career.

Greed:

Don't lie; this is why you got started in the markets to begin with, right? The truth is it's one of the most common symptoms found in new traders. It's the "get rich quick" mindset. You read a book, or you hear on the news about the massive amounts of money being made in the markets. It looks so easy. You've got a 50/50 chance of being right every time you enter a trade. You start dreaming about all the money you are going to make. You think about how wonderful life will be next week, when you can quit your job and start trading full time from home.

This problem is exacerbated by instant success in the markets. Early success leads you to believe it's easy (which it is) and that you have a natural ability to predict market behavior. (Which you don't)

Greed causes you to enter trades early, stay in winning positions too long, and not take losses when you should. It creates an inability for you to admit your predictions were wrong and get out. For those who don't correct this problem quickly, their trading career is usually short lived. A trader either quits, or the market takes all their trading capital.

Fear:

This is typically the next stage in the process. If you are lucky enough to have tempered your greed, what follows is the fear of loss. More than likely you have just lost a great deal of money. You have come to the painful realization you are not the wiz kid trader you thought you were. You are overly cautious. You now know what you do not know. And that is scary. The market is now a sea of unpredictability. You are second guessing yourself on every trade.

Fear causes an inability to take trades. It creates a wariness of the market. It's at this point that most traders decide it might be a good idea to invest some time and money in education rather than losing it in the market.

But like I said, the more you learn, the more cautious you become. This new found knowledge can create near paralysis in some traders as they begin to over analyze and scrutinize the markets.

Fear can cause a trader to enter trades too late. It's all too common. We've all done it. You are watching the charts and see a perfect trade setup. You know you should take the trade, but fear keeps you out of the market. Then, the market begins to move exactly the way you predicted. So what do you do? You wait (not believing you could actually be right) and you watch the market continue to move toward your target.

Then greed and the need for self-gratification return. You were right, and the market has now proved it. It's moving faster and faster, right through your projected targets. It looks like it's going straight to the moon. You can't wait. All common sense and discipline are gone. Pure emotion is driving your decision making at this point. You have to get in before it's too late. So you take the trade.....

Panic:

Now you are committed. The emotional need to take action is gone, but a new one is waiting in the wings to take over. As soon as you place your trade, the market stalls and begins to turn. Your internal dialog starts. It typically goes something like this...

"I knew it! I knew I shouldn't have entered that trade. What was I thinking? I waited too long. The market is against me. I swear they (the market) wait for me to enter a trade so they (the market) can take my money. They are out to get me!"

The market slips further. You are losing money fast. You remember back to your greed stage. The fear of loss sets in again. You have to get out, so you do.

And then things really start to hurt. No sooner do you exit your trade and the market reverses direction again. Had you stayed in the trade you would have shown a profit, but instead you take a loss.

Lack of Faith:

What follows next is a reassessment of your trading system (if in fact you have one). It doesn't matter that you haven't followed the system. It doesn't even matter if your system is profitable. Your mind quickly begins looking for some explanation for your shortcomings. But instead of

internal reflection, your mind looks externally. You know something is broken. It must be your trading system.

The fact is, very few traders have ever tested the systems they use. They have no confidence in what they are doing because they have relied on someone else to convince them of the systems value. Most of them will hop from system to system looking for that elusive “holy grail.” They will use a particular system as long as it is making money. But as soon as it goes into a drawdown (a period of time where your account balance declines) a trader will give up the system believing it no longer works.

These traders have no faith, in themselves or the system they are using because they haven’t put in the time or effort to ensure their success. I have even heard people say that no one can make money in the stock market. Can you imagine that? 90% of traders never make it past this point. This is where their story ends. Sometimes they live a lifetime trading part-time in the markets. If they’re lucky, they will win as much as they lose. For most, they will be cleaned out.

Does this sound like you? If it does, take comfort, it means you are no different than the vast majority of traders in the markets today. So what is the answer? If you have read this far you are probably at your wits end. So, let me show you how professional traders conduct themselves and what you can do to change the direction of your trading. (Even if you are not yet a professional)

How to be a Professional Trader

Making a Decision to be Successful

There are literally thousands of traders who dream about one day waking up, grabbing the morning cup of coffee and walking down the hall to their home office to start their trading day. More still question if it is even possible. I myself have been sitting at home, having blown out my third trading account and asking myself, “Can I really do this?”

The answer by the way is, YES! But it all depends on how you approach your trading. Do you have a blueprint for success? Do you have a plan? Have you laid the groundwork both professionally and personally, technically and emotionally that will allow you to be successful.

Decision Time

As is the case with most anything we decide to do, if you want to be successful (and I mean really successful) the first step is to make a commitment. Decide to succeed. It sounds simple but you’d be surprised how many traders I work with who have not taken this very simple step. So take a minute and answer in your own mind this simple question, “Do I want to be a professional trader?”

What was your answer? Was it, “I’d like to” or “That’s the hope”? Or did you say, “Yes, without a doubt! I don’t care what it takes or how long or how hard I have to work. I am committed to success.”

In my work with traders what I have noticed is that those who could not answer that question with confidence fell into one of two categories.

1. **They had not truly made a commitment to succeed** (because they lacked a belief in themselves or in the very idea that someone could become successful) or
2. **They don’t really want to be professional traders.**

If after some soul searching and honest reflection you find you don’t truly want to be a professional trader, great! You can stop reading and move onto something far more productive. For everyone else, read on.

If you’re still reading I want you to get out a piece of paper and write down this very simple affirmation:

I will be a professional trader.

That’s it. Simple isn’t it. Keep it in your wallet, on your desk, wherever. Look at it every day. Say it out loud. Why take this seemingly simple step? Three reasons.

1. Because those that actually write down their goals are 10 times more likely to achieve them than those who don’t.
2. Because you’ve probably never done it before.
3. And three because that’s what professionals do.

Remember, 90% of traders who open a live account will close that account with less money than they started with. You may find yourself part of the 90% more than once on your way to ultimate success. Most traders will stop trying before they reach their goal. You will not.

Trading has what is referred to as a “low bar for entry”. You don’t need an education. You don’t need skills, you don’t need a personality. All you need is enough money to open an account. (And brokers are making it easier and easier to do that.) Subsequently there is a very high attrition rate. Most people get started with grandiose dreams but no real idea what it takes to succeed.

Contrary to popular belief trading is not easy. It takes a long time to LEARN to do well. But make no mistake. Trading is a SKILL. It can be TAUGHT and it can be LEARNED. So commit right now.

Decide to be a success. If you haven't done it yet, stop reading and WRITE IT DOWN! Tell your wife, husband, close friend, anyone who will keep you accountable to your new goal.

Now that you've made your commitment we're going to talk strictly in terms of professionalism. You may not be a professional trader yet, but you CAN be a Trading Professional. This might seem like semantics but I assure you it is not.

"When you start looking like Marines you'll start feeling like Marines, and pretty soon... you'll start acting like Marines."

-Clint Eastwood, Heartbreak Ridge-

Just because you don't trade professionally yet, doesn't mean you can't conduct yourself as a trader who does. So from now on I want you to think of yourself as a professional. Stop referring to yourself as a novice or a newbie. Those titles are self-limiting and destructive. The sooner you start viewing yourself a professional the sooner you will start acting like one, and pretty soon...you'll actually be one.

Finally, I would highly suggest you take some time and write down your goals; not just your trading goals, but your personal, emotional, and spiritual ones as well. When times get tough and you begin to question yourself, they will help to uplift you and keep you focused.

Trade plan development

How many times have you heard it? You need a trading plan. You need a blueprint, a road map that can guide you and your trading. But what does a trading plan look like? What should you consider when writing one out? As part of my consulting business I talk with a lot of traders who are struggling. One of the very first things we cover is their current trading plan. A lot can be derived by listening to someone explain their method for entering and exiting the market. I would say 95% (and that's being generous) of the traders I talk to either have no trading plan whatsoever, or their plan is so incoherent and subjective as to defeat the very purpose of writing it in the first place.

Most new traders have absolutely no idea how to write a trading plan. They have no concept of how it should be laid out, so they spend their time looking for a "secret system" or "magic EA trading program" that will give them trading signals. Nowhere is this more prevalent than in the Foreign Exchange market.

To give you an idea, look at Facebook. I have a Facebook page and I accept anyone who wants to be my friend. Since I am in the FX business anyone searching for FOREX is going to find me. That being said, I get A LOT of people trying to sell me something. My page is basically one big advertising board for every internet scammer selling \$99 trading systems or \$49 subscriptions to signal services.

As I've said, 90% of traders who lose money. Well with those kinds of numbers it creates a great deal of room for people to peddle fear and greed to the masses. Keep in mind the FX market is not the stock market, or the futures market. It is very loosely regulated. People can peddle ANYTHING! And they do.

We, as trading professionals, want to step out of that world. We want nothing to do with the allure of million dollar promise or riches while we sleep. We want to attack our trading the same way a professional does, with a trading plan.

So what do you need to get started? Well the very first thing you will need is a concept for your trading parameters. Ask yourself some simple questions.

-Do I want to day trade or swing trade?

-How much time do I have to devote to the market? (Keep in mind if you have a full time job, day trading may not be the right choice for you. You may want to swing trade until you go full-time.)

-What markets do I want to trade?

I like starting with time frames because it gives you something to work with. If you know you can only devote 2 hours a day to your trading, then you will want to use a trading system that does not require you to look at a chart more than once a day. This seems rather self-explanatory but again you would be surprised how many traders I talk to who are trying to be day traders and cannot devote the time necessary to achieve their goals.

Once you know what type of trader you want to be, the next thing you will need is a system that fits your parameters to test. As a trading professional you would never dream of trading any system until you had fully tested it and found it to be profitable. At Triple Threat Trading we have several very profitable trading systems we use to teach traders. There are also hundreds of free systems out there. Pick a system that you believe has a reasonable chance of being successful. There's no way to tell if it will work but you have to start somewhere.

Bottom line, you cannot test a system until you have clearly defined the rules for entering and exiting the market. That is where your trading plan comes in. I want you to take that system and write it out. Be very specific about the rules. Words like "sometimes" or "I'd also like to see" should be nowhere on the page. Take any and all subjectivity out of your decision making. A good rule of thumb is this, if you gave your trading plan to 100 traders, would all 100 agree on when to enter and exit a trade? If the answer is no" you have some work to do.

There is no doubt while going through this process you will find holes in your system. That's ok, just fill them. Not sure how? Make an educated guess. Not sure if you should enter before the close of the candle or after? Pick one. (You will have the opportunity to test multiple theories

about your system when we get to back testing, but for right now it's not important.) What's important is your ability to clearly state your rules for entering and exiting the market.

So now you have an idea of your trading parameters and a system you have clearly defined, what's left? What about expectations and beliefs? I like traders to write down their expectations and beliefs, both about the markets and about themselves. Here is a list of ideas:

- I believe trading is a skill that can be learned.
- I am responsible for my trading decisions
- I am focused and disciplined.
- I trade only my system. I will not allow others to dictate my decisions.
- The market is always right. I am not smarter than the market.
- I choose to live my life in the constant, consistent pursuit of excellence.

Now these are only ideas and you can have as many as you want. My personal trading plan has twenty-two and is constantly evolving.

So to recap:

You now have specific parameters for when and what you will trade, a trading system that you believe has a good probability for success, you have clearly written down your rules for your system, and you have a list of expectations and beliefs about yourself and the markets that will reinforce a positive belief system.

The last thing you need to do is print out a copy of your trading plan and tape it to your desk. (Don't glue it. I got a little over zealous when I was starting out and ran into a little hiccup when I went to replace the old pan with a more clearly defined one. Awe the voice of experience.) Too many traders stuff their trading system and rules for trading into a desk drawer and quickly forget about them. By taping them to your desk you are forced to face them every day. I HIGHLY recommend you review your plan at least once a day. I still read my trading plan every morning before I start the trading day. It puts me in a positive state of mind and reinforces my rules for entering and exiting the market.

Back Testing Your System

The best way I can think of to explain the importance of back testing is to tell you a story about a trader I know who was having a lot of trouble staying consistent and following his plan. Most

people don't back test because they are either lazy or don't really understand WHY to do it. Contrary to popular belief, it's not just about the numbers.

I pulled into Panera Bread at around 2:15. My plan was to arrive before my 2:30 appointment so I could grab some coffee and Tom wouldn't have to wait on me. I use Panera a lot for meetings. It's quite, and the food is healthy. My goal was to catch the lull between lunch and dinner when there would be the least amount of distractions.

I didn't know much about Tom. We had met at a networking function and as usual the conversation had quickly turned to trading. Tom worked in sales for a large pharmaceutical company and had been dabbling in the futures market for about a year. When I asked him how it was going, I was surprised how quick he was to admit he had been quite unsuccessful. We talked a little more about his business, how he liked his work and so on. My initial impression of Tom was that he was quite intelligent, well-mannered and personable. I can honestly say I enjoyed talking with him. (Those that know me know I am not a fan on chit-chat. I actually hate networking events but a friend was hosting this one so I felt obligated to go.)

As the conversation was coming to a close Tom said, "Hey, listen. You think I could buy you a cup of coffee sometime and talk with you a little more about your trading?"

"Sure." I said, "Anytime." (I'm always willing to meet with someone who has an interest in trading although I rarely make the initial offer. If they approach me at least I know they have a genuine interest and are not just being cordial.) So, we both broke out our PDA phones and settled on a day.

As I approached the front door of the restaurant I could see Tom sitting at a high top table close to the entrance. (So much for showing up early.) He greeted me with a wave as I came through the door. I ordered a coffee and we both sat down at the table. I had asked Tom to bring with him a copy of his most recent trading plan. Going through a trader's current plan is something I do very early in my evaluation process. It gives me an initial look into the trader and where they're at in their journey toward consistent profitability.

Tom took from his pocket a folded piece of paper and opened it. On the page he had scribbled a list of rules for his trading system. As I read through it we identified and discussed many of the common problems found in most trading plans. But overall it really wasn't a bad plan at all.

Over the course of the next few minutes we talked about his struggle to follow his plan. We talked about how he was constantly making mistakes. Taking trades off to early, entering trades too soon, then too late. He would take trades outside of his trading plan and modified his system at the drop of a hat. In short he was an emotional mess. I needed to understand where this source of emotional instability came from so I took things a step further.

"Tom, what is the expectancy of your trading system?" I asked.

“What do you mean?” he replied, with a rather puzzled look on his face.

“I mean...let me back up. Have you tested this system?”

“Well, I’ve been trading it for a couple of months.” “But have you ever back tested the model?” I asked. “Have you collected data on the effectiveness of your system? Things like Win/Loss ratio, average number of losing trades, maximum drawdown, average drawdown, risk adjusted return. Have you done any of that?”

“Well no,” he replied. “I’m not even sure how to go about doing something like that.”

“Tom, how can you expect to have the confidence to trade a system if you don’t even know if it is effective? Trading can be an emotional rollercoaster even if you have all the data in front of you. You’re attempting to trade from a position of weakness, and that is never a good idea.”

“Well that makes sense. How do I fix it?”

Over the next hour I talked with Tom about the process of back testing. I took out my laptop and showed him how to set up a spread sheet and enter in data like entry, stops, targets, comments, profit/loss and so on.

At the end of our discussion Tom agreed to spend the next month back testing his system and when he was done I agreed to meet with him again to go over the data. I left the meeting feeling as though Tom had a good understanding of how to take the next step in his trading. It was a great feeling. I hoped Tom would do the work. I knew if he did, it would prove to be more valuable than he could possibly imagine. But only he could do the work.

Back testing is the process of compiling data on your system by taking trades outside of normal market hours. There are several ways you can do this. If you are good at writing code, and you were specific enough in writing your rules for entering and exiting the market, you can program your system and back test it in a few minutes. If you have money, you can have someone else write the code. Or if you are like most people you can do it tick by tick in the market the way I did when I was starting out.

There are people who will tell you that back testing is worthless, even dangerous. That is simply absurd. When I hear someone say something that ridiculous it’s obvious to me they have never done it, and are using flawed logic to talk themselves and others out of doing the hard work necessary to be successful.

Now, while it is certainly true that past performance are not indicative of future results, here is a simple truth; since we cannot look into the future, the best measure we have for predicting future performance is the past. It's that simple. (Oh and just so you know, it is a very good measuring stick) The day someone comes up with a better way of doing it I'll be the first to change. Until then you would be wise to take appropriate action.

So grab your spreadsheet or a piece of paper and start thinking about the information you want to test. Date, time, entry, stop, target, profit and loss, variable money management strategies.

You may also want to test two or three different variations of the same system to see which one produces the best result. This is an especially good idea if you're not sure if you have a profitable system or not.

*NOTE: It is important you do not "form fit" your data. This is what most scam artists do when they want to show you unrealistic results. They use a variety of parameters until they find the best fit for a specific period of time. They then apply a ridiculously dangerous money management system to show unrealistic results. When I talk about testing variations, I mean things like entering a trade at the close of a candle vs. entering after the market makes a new high. Bottom line you want your information to accurately reflect your systems performance not just look good.

By taking the time to back test your model you accomplish several things.

1. It provides you history. Plain and simple
2. When you are done you will have taken hundreds of trades over a large enough time period to see how your rules perform in both trending and consolidating markets. Along with this comes data. A lot of data, and that data is valuable.

(I'll give you a quick example. Let's say you were testing a trend following system, and after testing your system you determined that it produced an average monthly return of 7%. But your back testing also shows your trading system is wrong 70% of the time. Meaning 7 out of every 10 trades are losers. Don't think it's possible? Think again, famous commodities trader and developer of the "Turtle Program" Richard Dennis taught his students this very system. Here is the question: Would you have had the discipline to trade that system if you had not tested it to begin with? The answer is no. You would have taken loss, after loss, after loss and eventually done what you do with every system you have tried. You would cast it aside as a loser. Be honest. You know I'm right.)

3. Testing builds confidence in your system for reasons I've just outlined. When you hit the inevitable draw down you can look back on your testing and take comfort in the fact that if you just continue to trade your plan you will eventually achieve new equity highs.

4. You will have a standard with which to compare your actual trading record. You can literally back test every day you trade in the markets. I do this a lot with traders. I will have them trade for an entire week and then go back on Saturday and back test the week. We then look at the difference in the numbers. It's a real eye opener for traders to see how their emotions have affected their trading over the course of a week, and what it has cost them in terms of profit.

These are just a few of the things back testing provides. If you have not done this let me be bold and say **STOP TRADING IMMEDIATELY**. You have not earned the right to put your money at risk in the market. And I dare say you are not trading, you are simply gambling.

I hope this has given you some insight into how professional traders conduct themselves. If you've taken the time to read this far I want to congratulate you. A lot of people say they want to learn to trade, but very few will ever invest the time or money necessary to achieve that success.

We started TradeEmpowered to help guide traders through the process. To help them move from unprofitable to profitable. From beaten and discouraged, to upbeat and confident.

Know this...Your past does not equal your future. You can change the direction of your trading future.

Great traders are not born. Let me show you what is truly possible.

Sincerely,

Jason Stapleton