

Trading Discipline - Do you Have It?

By Richard Ratchford

discipline (n.) 1. Training intended to produce a specified character or pattern of behavior. 2. Controlled behavior resulting from such training. 3. A state of order based upon submission to rules and authority. *WEBSTER'S CONCISE DICTIONARY.*

How do you react to rules? Do you find them to be a burden, a drudgery to observe and obey? Do you look at them as something negative, a restriction to your freedom perhaps?

Or, do you instead see rules as beneficial, as a protection from possible harm? Do you find that rules are necessary in your trading?

While growing up, we were constantly confronted with rules of one type or another. We received rules in proper hygiene, how to address other people, how to respond to various signs on the road, etc. Wouldn't you agree, that by following these rules it helps us stay healthy, have good association with others, and avoid serious injury or death? Absolutely. It is without a doubt that when we reflect on the role that rules play in our lives, it becomes clear that they were provided for our benefit and well being.

Of course, there are times when bad rules are made, or when following a rule it does not protect us from what it originally was intended for. But this is the exception rather than, excuse the expression, the rule.

The thing about rules is that they will not do us any good if we do not have the discipline to follow them. Ask yourself, do you have the discipline to follow rules, or do you find yourself conveniently forgetting them? How you answer this question will help determine whether you may be exposing yourself to unnecessary risks.

I'm sure that anyone who has been trading for any period of time realizes the dangers inherent with the occupation. Since our system of barter is still the use of money, and it is money that helps us support our families, losing it can be quite hazardous. That is one reason why we need to understand the first rule of trading, **ONLY TRADE WITH MONEY YOU CAN AFFORD TO LOSE**. Failing to follow this rule spells disaster from the very beginning. You will have the tendency to trade scared, make rash judgments, and most likely make your financial situation worse.

Do you have the discipline to follow this rule?

When driving on the road, we find that there are many rules we must obey. If we obey them all, this does not guarantee that we will make it to our destination safely, but it does provide us with the best odds of successfully doing so. Yet, all it takes is for us to break just one rule, such as not stopping at one red light, and the result can be fatal.

In trading it is no different. There are many rules that are the result of past trading experiences. Experienced traders have been victim to many accidents in trading over their careers and have come up with specific or general rules to help others avoid or minimize the impact of such accidents. But just like rules of the road, we need to follow **ALL** the rules pertaining to the type of trading we've chosen. To do so will require our exercising discipline.

We need discipline, for example, to follow rule number two which is to **ONLY TRADE IN THE DIRECTION OF THE TREND**. This is one rule that not only requires the ability to discern what that trend is, but the discipline to obey it. Most traders find that they lack the necessary discipline to do this. A particular market may be moving down in trend, yet a bottom seems to have appeared and the temptation for picking the very bottom to go long becomes great. This temptation then causes a trader to reason that this is it, and if he were to follow the rule to trade only with the trend, he would miss the big one. Discipline is then thrown right out the window, the trade is made, and many times the increased exposure to risk causes a disaster to the traders account. It is usually then that he may reflect on the error of his way.

Do you have the discipline to follow this rule?

Now if a trader does have the discipline to follow the first two rules, this is a good start. However, another rule needs just as much discipline to obey and is just as hard to do so. Rule number three is that a trader should **ONLY RISK A SMALL PERCENTAGE OF HIS TRADING CAPITAL ON ANY TRADE**. This percentage will vary depending on whom you may ask and the amount of trading capital that is available, but the common rule of thumb is that for accounts of \$10,000 or less, no more than 10% should ever be put to risk at any time. This percentage should drop off considerably for accounts much larger. Proper risk management is important to increase your chance for success.

Do you have the discipline to follow this rule?

Now, all rules are good, but they won't help you be successful in trading unless you follow our final rule, **BE CONSISTENT IN HOW YOU TRADE**. This rule is somewhat blanketing in that it refers to all aspects of ones trading. A trader must be consistent in his approach to the markets, whether he be using a mechanical system, or one that requires continual decision making by the trader. The rule also applies to following all the other rules consistently. If we follow them sometimes, but break them at other times, we are certainly not being consistent and will leave ourselves open for trouble.

Do you have the discipline to follow this rule?

These are just a few simply stated rules, yet very hard for most traders to adhere to. They lack the necessary discipline to stick to them on a consistent basis. It is human nature to feel that we can do better than the rules would allow us to do on certain situations, yet to only use them sometimes and not others makes them ineffective for the purpose they were created for, to protect us and allow a chance to succeed.

So then, where do you currently stand when it comes to having the discipline to follow trading rules? If we recognize that we are indeed weak in this regard, it would do us good to go over the points brought out in this message again as well as consider some books on the subject, both of which can help us strengthen our awareness to have discipline in following rules if we are to succeed.

Do you have the discipline to follow this suggestion?