

# Trading Psychology: Mistakes in a Forex Trade

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When it comes to trading, one of the most neglected subjects are those dealing with trading psychology. Most traders spend days, months and even years trying to find the right system. But having a system is just part of the game. Don't get me wrong, it is very important to have a system that perfectly suits the trader, but it is as important as having a money management plan, or to understand all psychology barriers that may affect the trader decisions and other issues.

Most Forex trading courses and Forex training programs forget about these important aspects of trading. But the truth is that in order to succeed in this business, there must be a complete equilibrium between all important aspects of trading.

In the trading environment, when you lose a trade, what is the first idea that pops up in your mind? It would probably be, "There must be something wrong with my system", or "I knew it, I shouldn't have taken this trade" (even when your system signaled it). But sometimes we need to dig a little deeper in order to see the nature of our mistake, and then work on it accordingly.

When it comes to trading the Forex market as well as other markets, only 5% of traders achieve the ultimate goal: to be consistent in profits. What is interesting though is that there is just a tiny difference between this 5% of traders and the rest of them. The top 5% grow from mistakes; mistakes are a learning experience, they learn an invaluable lesson on every single mistake made. Deep in their minds, a mistake is one more chance to try it harder and do it better the next time, because they know they might not get a chance the next time. And at the end, this tiny difference becomes THE big difference.

## Mistakes in the trading environment

Most of us relate a trading mistake to the outcome (in terms of money) of any given trade. The truth is, a mistake has nothing to do with it, mistakes are made when certain guidelines are not followed. When the rules you trade by are violated. Take for instance the following scenarios:

### First scenario: The system signals a trade.

1. Signal taken and trade turns out to be a profitable trade. Outcome of the trade: Positive, made money. Experience gained: Its good to follow the system, if I do this consistently the odds will turn in my favor. Confidence is gained in both the trader and the system. Mistake made: None.
2. Signal taken and trade turns out to be a losing trade. Outcome of the trade: Negative, lost money. Experience gained: It is impossible to win every single trade, a losing trade is just part of the business; our raw material, we know we can't get them all right. Even with this lost trade, the trader is proud about himself for following the system. Confidence in the trader is gained. Mistake made: None.
3. Signal not taken and trade turns out to be a profitable trade. Outcome of the trade: Neutral. Experience gained: Frustration, the trader always seems to get in trades that

- turned out to be losing trades and let the profitable trades go away. Confidence is lost in the trader self. Mistake made: Not taking a trade when the system signaled it.
4. Signal not taken and trade turns out to be a losing trade. Outcome of the trade: Neutral. Experience gained: The trader will start to think “hey, I’m better than my system”. Even if the trader doesn't think on it consciously, the trader will rationalize on every signal given by the system because deep in his or her mind, his or her “feeling” is more intelligent than the system itself. From this point on, the trader will try to outguess the system. This mistake has catastrophic effects on our confidence to the system. The confidence on the trader turns into overconfidence. Mistake made: Not taking a trade when system signaled it

### **Second Scenario: System does not signal a trade.**

1. No trade is taken Outcome of the trade: Neutral Experience gained: Good discipline, we only need to take trades when the odds are in our favor, just when the system signals it. Confidence gained in both the trader self and the system. Mistake made: None
2. A trade is taken, turns out to be a profitable trade. Outcome of the trade: Positive, made money. Experience gained: This mistake has the most catastrophic effects in the trader self, the system and most importantly in the trader’s trading career. You will start to think you need no system, you know better from them all. From this point on, you will start to trade based on what you think. Confidence in the system is totally lost. Confidence in the trader self turns into overconfidence. Mistake made: Take a trade when there was no signal from the system.
3. A trade is taken, turned out to be a losing trade. Outcome of the trade: negative, lost money. Experience gained: The trader will rethink his strategy. The next time, the trader will think it twice before getting in a trade when the system does not signal it. The trader will go “Ok, it is better to get in the market when my system signals it, only those trade have a higher probability of success”. Confidence is gained in the system. Mistake made: Take a trade when there was no signal from the system

As you can see, there is absolutely no correlation between the outcome of the trade and a mistake. The most catastrophic mistake even has a positive trade outcome, made money, but this could be the beginning of the end of the trader’s career. As we have already stated, mistakes must only be related to the violation of rules a trader trades by.

All these mistakes were directly related to the signals given by a system, but the same is applied when getting out of a trade. There are also mistakes related to following a trading plan. For example, risking more money on a given trade than the amount the trader should have risked and many more.

Most mistakes can be avoided by first having a trading plan. A trading plan includes the system: the criteria we use to get in and out the market, the money management plan: how much we will risk on any given trade, and many other points. Secondly, and most important, we need to have the discipline to follow strictly our plan. We created our plan when no trade was placed on, thus no psychology barriers were up front. So, the only thing we are certain about is that if we follow our plan, the decision taken is on our best interests, and in the long run, these decisions will help us have better results. We don’t have to worry about isolated events, or trades that could had give us better results at first, but then they could have catastrophic results in our trading career.

## **How to deal with mistakes**

There are many possible ways to properly manage mistakes. We will suggest the one that works better for us.

### Step one: Belief change.

Every mistake is a learning experience. They all have something valuable to offer. Try to counteract the natural tendency of feeling frustrated and approach mistakes in a positive manner. Instead of yelling to everyone around and feeling disappointed, say to yourself “ok, I did something wrong, what happened? What is it?”

### Step two: Identify the mistake made.

Define the mistake, find out what caused the mistake, and try as hard as you can to effectively see the nature of that mistake. Finding the mistake nature will prevent you from making the same mistake again. More than often you will find the answer where you less expected. Take for instance a trader that doesn't follow the system. The reason behind this could be that the trader is afraid of loosing. But then, why is he or she afraid? It could be that the trader is using a system that does not fit him or her, and finds difficult to follow every signal. In this case, as you can see, the nature of the mistake is not in the surface. You need to try as hard as you can to find the real reason of the given mistake.

### Step three: Measure the consequences of the mistake.

List the consequences of making that particular mistake, both good and bad. Good consequences are those that make us better traders after dealing with the mistake. Think on all possible reasons you can learn from what happened. For the same example above, what are the consequences of making that mistake? Well, if you don't follow the system, you will gradually loose confidence in it, and this at the end will put you into trades you don't really want to be, and out of trades you should be in.

### Step four: Take action.

Taking proper action is the last and most important step. In order to learn, you need to change your behavior. Make sure that whatever you do, you become “this-mistake-proof”. By taking action we turn every single mistake into a small part of success in our trading career. Continuing with the same example, redefining the system would be the trader's final step. The trader would put a system that perfectly fits him or her, so the trader doesn't find any trouble following it in future signals.

Understanding the fact that the outcome of any trade has nothing to do with a mistake will open your mind to other possibilities, where you will be able to understand the nature of every mistake made. This at the same time will open the doors for your trading career as you work and take proper action on every mistake made.

The process of success is slow, and plenty of times it is attributed to repeated mistakes made and the constant struggle to get past these mistakes, working on them accordingly. How we deal with them will shape our future as a trader, and most importantly as a person.