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Develop your mental edge

The Boom & Bust Cycle & Sustaining Higher Levels of Performance

Since 1996, I've talked to over two thousand traders, and a high number of them are boom & bust traders. Make money and lose it. Rinse and repeat. And over the years I've noticed one thing in common among every single boom & bust trader and many successful traders who've hit a celling.

Whether they realize it or not, they've conflated their trading process with the outcomes they experience. And it has to do with how they think:

GOOD OUTCOME (made money) **= GOOD DECISION or GOOD TRADE**

BAD OUTCOME (lost money**) = BAD DECISION or BAD TRADE** (or bad luck, bad money management, market manipulation, or maybe even a bit of self-awareness by citing 'poor risk management', almost anything but poor process)

They equate outcomes with process. They equate results with the quality of their decisions. In the professional poker world there is a concept, known as *resulting*; Annie Duke wrote about it in the book, *Thinking In Bets.* Traders experience it as an obsessive focus on outcomes over process.

Resulting occurs when an individual equates outcome quality with decision quality. Both in poker and trading, you can win with a poor hand, and you can lose with a strong hand, there is a mix of skill and luck in both poker and trading. **Recognizing this somewhat loose association between process and outcome, the better poker players and better traders evaluate their decision making process as something completely separate from the outcome.**

Resulting is a self-serving cognitive bias that keeps traders trapped in a cycle of boom & bust. As a clinical psychologist, performance coach, and a trader who dabbles in poker, I see *resulting* as an example of what happens when trading process and trade outcomes become conflated.

Among the most consistently successful traders I know, their trade evaluation is based primarily on the quality of their decision-making process. The decision-making process includes all the various aspects of their trading that they can control, with the outcome seen as completely separate, because they know they can't control it.

Actually, very successful traders go well beyond simply knowing and accepting they don't control the outcome; they've internalized it.

In contrast, boom & bust traders' disproportionate concern and focus on outcomes causes them to be ego-based traders, making it virtually impossible to ever 'let go' of outcomes. Being right is paramount for boom & bust traders; they are driven by the fear of not (being) enough.

When looking at outcomes, there is always a luck factor. Many of my coaching clients know this as the third team concept; it takes other traders to move price one way or the other. The outcome is largely due to what other traders do; that's the luck part.

Evaluating a trade decision as a good decision simply because it made money (a good outcome) is the quintessential example of conflating process with outcome in trading. Likewise, evaluating a trade as a bad trade simply because it lost money is also an example of conflating process with outcome.

The more you conflate process with outcomes*,* the farther you are from real sustainable success. This conflation also puts a ceiling on your success, limiting your upside over time. Even the best traders cannot maintain perfectly consistent profits, but they avoid the extreme boom & bust cycle.

Separating process from outcome is not easy in trading. It is human nature to think that any good outcome (making money), regardless of the *quality* of the decision that led to it, was a good trade. It helps us feel good. Avoiding discomfort is a primary objective of human nature. Most trading 'mistakes' can be seen as attempts to avoid discomfort.

Here is the problem, and also the solution. Eventually you need to accept and internalize that when you make money, you must be honest with yourself in evaluating the quality of the decision(s) that led to that 'good outcome'. In any given trade, you may or may not have engaged in a high quality process. Regardless, you put yourself into a position where you could benefit from what other traders are doing; it is their buying or selling that moves price.

Don't ignore the luck factor in profitable trades. It helps temper over-confidence for a trader; as a trader you didn't cause the trade to work. Chances are you're not a genius, and you didn't know what was going to happen. You simply put yourself in a position to profit from what others do. That's it.

Don't let it get to your head. You didn't cause the trade to work.

I have some of my 1:1 coaching clients sort their trades into Type 1 – 4. A Type 1 is good quality process followed by a good outcome. A Type 2 is good quality process followed by a bad outcome. A Type 3 is poor quality process followed by a bad outcome. A Type 4 is poor quality process followed by a good outcome.

If we know that Type 3 and 4 trades are bad for us, why do they persist? In the moment when they occur they provide some form of gratification, some type of short-term need is met. It's also an attempt to avoid the deeper, often with subconscious roots, fear of not (being) good enough.

Type 3 and 4 trades are often impulse trades, and impulse trades can meet a variety of needs, both conscious and subconscious needs.

On the conscious level, impulse trades can give an impatient trader something to do and temporarily quell their intense FOMO (which is actually a fear of not being good enough on a deeper level). It can provide some action for a bored trader. It can give the trader who feels 'behind' an opportunity to catch-up or make their money back, etc. These are just a few examples of *conscious* short-term needs.

There are also *deeper* - to varying degrees subconscious - needs such as the need to feel valued, to feel good enough, or the need to ward off feelings of not being good enough, and others. These thoughts and feelings often have a conscious aspect, but their underlying associated *subconscious dynamics* are the most difficult to overcome. They often stem from previous life experiences, especially childhood.

This is why understanding what you're feeling and *why* you're feeling it is so critical in trading. (Emotion is a form of communication from our subconscious mind).

Addressing subconscious conflicts and understanding emotion as information is an important part of what I do in performance coaching. Many elite performers (traders, athletes, entertainers, CEOs, etc) work with a performance coach.

To begin to tamp down boom & bust cycle in trading on your own, a good place to start is by accurately evaluating your trades (separating process from outcome), and working toward real-time emotional awareness in the heat of the moment.

This is critical because our human brains are not designed to trade. In many ways, to succeed at trading means you must not only address your individual underlying subconscious dynamics, you also need to learn to over-ride some natural human tendencies.

Among the many natural tendencies we have to override in trading: we like to feel good, we seek comfort, we attempt to avoid discomfort, we want to be seen by others as competent and good enough.

In trading, it is very easy to let the need to avoid discomfort, in all its various forms, become the priority and keeping us, to varying degrees, stuck in the P&L boom & bust cycle. This desire to avoid discomfort in all its myriad forms (waiting, missing out, taking a loss, managing a winning trade, leaving money on the table, etc.) is a major developmental issue in trading.

It takes work to flip this around, to prioritize long-term goals over short-term needs for gratification and attempts to avoid discomfort, and the conscious and subconscious fear of not (being) good enough.

One of the reasons it's not easy to flip around is because many of the unmet needs and fears of not (being) good enough have very deep subconscious roots, often going back to childhood

Unmet needs and not feeling worthy of success are often highly related to a deep-seated fear of not (being) good enough. Most boom & bust traders are on a never-ending quest, or in a perpetual conflict, around this deep-seated fear of not (being) enough. Until both the conscious and subconscious aspects of this conflict are properly addressed, it continues to perpetuate itself. The boom & cycle continues.

The advice we often get, 'focus on what you can control (process) and don't focus on what you can't control (outcomes)' is good advice. It's the type of advice you often hear in webinars, stress management training sessions, or from a therapist, or a performance coach. But the thing is, we all know it's easier said than done.

As a clinical psychologist, performance coach to some of the top traders in the world, and an experienced trader myself, I've learned that a few critical things need to happen before you can focus more on process and less on outcomes.

In addition to tracking your trades by Type 1 - 4, the next most practical thing you can do is develop real-time emotional awareness; attention to what you're feeling and knowing *why*

you're feeling it. And as you feel it, putting it into words on paper is best (not keyboarding).

Psychologically, to begin separating process from outcome we must learn to think of them differently and evaluate process and outcome separately. And developing real-time emotional awareness (what am I feeling and *why* am I feeling this?) is also critical. Without these critical steps, I can pretty much guarantee you'll remain either a boom & bust trader or never break through that celling and sustain it.

Although there is much more I can say about all this; I want to leave you with a final thought.

If you are a boom & bust trader or are stuck at a profit ceiling, there are two situations that probably occur very regularly in your trading; and you absolutely must learn to deal with both of them:

- *Always thinking it was a good trade if you made money*
- *Unable to accept and tolerate that a good quality decision can be uncomfortable and lead to losing money or missing out*

The more you understand what you're feeling and **why** you're feeling it, and you can engage in honest evaluation of your decision-making process separate from the outcomes, the better off you'll be as a trader. And this is how you can begin to tamp down the boom & bust cycle and sustain higher levels of trading performance. The next step is to address the underlying subconscious dynamics.

If the concepts I've outlined here are intriguing, if you think there is something here for you, I suggest you re- read this on a regular basis. Moving from knowing it, to accepting it, and finally to internalizing it is not easy and does not happen overnight. You will not only have to commit to the ideas, but also immerse yourself in them.

If you need help follow me on twitter @Andrew_Menaker where I post helpful tips. If you want help in addressing your own personal subconscious roots to the boom & bust cycle, you can contact me through my web site, go to the contact page at www.andrewmenaker.com or email me directly; andrewmenaker at gmail.com

The ball is in your court. What will you do?