Wiley RealTime Trading

# Eight Edges You Must Have

## Your Written Trading Plan

by Van K. Tharp, PhD

**What's Inside:**

- Learn how trading is all about probability and statistics
- Boost your trading efficiency from the typical 70% to 100%
- Improve your trading psychology in 5 steps
- Treat trading like a business and not a hobby

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*This book is dedicated to the three people to whom I feel closest—my wife Kalavathi, my son Robert and my niece/daughter Nanthini. I love you. You are my inspiration.*

# Acknowledgments


I've been working with traders and investors for about 30 years. Over that time, numerous peop helped shape the thinking that has gone into this book. Tharp Think, as I call it, is a product of th knowledge of my modeling work with many, many successful traders and investors. Everyone wh contributed in any way has my deepest thanks and appreciation.

I'd like to thank all of the people with whom I've done one-on-one consulting and those who hav been part of my Super Trader program. You've shaped the thinking in this book far more than yo know. You're an incredible group of people, and I hope I've transformed your lives as much as yo have mine.

I've personally taken so many transformational journeys over the past 30 years, and I'd like acknowledge my teachers. Some of you were great teachers simply because you pushed my button and helped me look at issues that needed work. Thank you all.

I'd like to thank my staff at the Van Tharp Institute for their support in completing this book. Fran Eaves, Matthew Fair, Cathy Hasty, R. J. Hixson, Revathi Ramaswami, Micah Spinelli, and Jessic Whitman continually support me in the day-to-day operation of the company; without you, this boo wouldn't have been possible. In addition, I'd like to thank Jillian Ellis and Becky McKay, who are n longer at the Van Tharp Institute but have provided me with tremendous support.

I'd also like to acknowledge all of the great traders I've had the privilege of working with over th years. Many of you have made millions of dollars in profits in your trading careers by following th concepts contained in this book. Whether you helped me understand the concepts better or helped m prove to others that these concepts work, I extend to you my deepest gratitude.

Last, I'd like to thank the three people to whom I feel closest—my wife Kalavathi, my son Rober and my niece/daughter Nanthini. I love you. You are my inspiration. Thank you for being there.

My deepest thanks go to all of you and to the many other people who also contributed but are to numerous to mention or whom I may have inadvertently forgotten.

# Preface

My dad was an engineer. In fact, he was a mechanical engineer, a civil engineer, and an electrica engineer. He built his own first car from parts. Now, you might think that's a bit unusual to have s many engineering skills. But when I tell you that my father never went to college, it really puts thin into perspective. My father got all his education by applying for jobs and then just learning how to c it on the job. He was born in 1904 and in those days you could do that sort of thing.

Over time, however, everything changed. If a profession earns a good salary, the members of th profession want to limit the competition. Thus, they decide that you have to go through certain hoo and meet certain standards in order to enter that profession. These hoops include getting profession degrees and passing various tests. In fact, the higher paying the job, the harder it is to gain entry in that job. Why? Because when you limit the competition, the salaries stay high. Thus, the ent requirements for new professionals in fields with high salaries are very strict. It's part of the mone game.

Generally, the higher paying the job, the stronger the entry requirements. Doctors, for exampl must complete school through college (16 years of study), four years of medical school, an internshi and a residency, plus passing board exams. And they can lose their licenses for practicing other form of medicine. For example, if a doctor gives large intravenous doses of vitamins to patients, it's n considered regular accepted medicine and he or she could be disbarred. And what this does is keep th standards at a particular level while supporting the drug industry and limiting the competition f many high-paying jobs.

So how does this relate to why you are likely to lose in the market? Trading is difficult, so the entr requirements are easy. There is a big money game with trillions of dollars at stake and you don't wa to argue with big money. You certainly don't want to play by their rules and that's why this book wi help you.

**V.**

# Edge 1

# Big Money Wins No Matter What: So Don’t Play by Their Rules

If trading and investing were easy, it would be very hard for you to become a trader or investor. I fact, big money would strictly control the entrance fee to becoming a trader, and it would be almo impossible for you to trade. Why? So big money could control the industry and make most of th money and not have a lot of competition.

In fact, banks already seem to have a strange rule that says to be an investment banker you need graduate from an Ivy League school with a 4.0 grade point average. Now, big banks know very litt about good trading, nor do Ivy League graduates. Banks do make markets and manage client mone and they make a lot of money doing that. So they make it difficult to become a trader for a bank. It that simple.

However, it is not easy for the average person to make money in the markets once he or she opens a account. In fact, big money controls trading and investing income by making money in some wa other than trading income. And there are many examples of this besides the previous example of b banks.

- First, the brokerage industry is paid when you enter and exit the market. The brokers really don’t care if you make money, because they get paid no matter what your performance is. You get charged a commission no matter what. Charles Schwab, and Thomas Peterffy of Interactive Brokers, didn’t get to be in the Forbes 400 because their commissions were cheap—just relativel cheap. In fact, the brokerage industry considers it to be unethical for brokers to participate in you success (i.e., make money only when you make money).
- Second, the mutual fund industry gets paid by convincing you to buy and hold. The funds then ge paid a percentage of the money that you keep with them. And they get paid whether they make you money or not. In addition, many funds charge you a fee when you buy shares in the fund. Thus, you need to make 1 to 3 percent or more off the top before you even break even on the yea
- Third, the better funds (hedge funds and commodity trading funds) get paid both for keeping you money (and sometimes you are forced to stay with them for a certain period of time) and also a percentage of profits. The percentage fee is big enough that a good hedge fund manager could eventually find that most of the money he is managing (because of performance fees) eventually belongs to him, and at that point the fund may close to new money. Most hedge funds, in fact, as they get successful enough, end up giving back all of their client money and just trade proprietar money. Twenty-seven members of the Forbes 400 got to their position on that list through a hedg fund.
- Fourth, many of the bigger investment companies get paid by (1) market making (having the

advantage of getting the bid/ask spread on their side), (2) developing new products that they sell ~~you and for which they get a fee, or (3) putting together investment offerings such as an initial~~ public offering or helping other companies merge.

- And fifth, although this has been discouraged over the years, company insiders (and this doesn't mean employees) generally make most of the money that a company generates through appreciation. It used to be easy for insiders to give themselves free stock. However, that became illegal, so now the insiders issue stock options, which allows them to buy the stock at a cheap price. It still dilutes the price of the stock for everyone else, but for some reason this is considere more honest. In addition, insiders are likely to sell if they know the company is not doing well, and they are likely to buy if they believe that the company will do well. Now insider trading is also illegal, but insiders still trade (more long term) on knowledge that you and I don't have.

One of my first consulting clients in the mid-1980s was a vice president of PaineWebbe PaineWebber is long gone, so it's easy for me to tell you what they were doing. My client told me th PaineWebber would regularly publish its list of recommended stocks to buy. And these were alway stocks that the company owned and wanted to get rid of. So if you followed the brokerage compa recommendations, they won and you lost.

- Wall Street over the years has been filled with robber barons—John D. Rockefeller, J. P. Morga Andrew Carnegie, Commodore Vanderbilt, and Jay Gould are just a few names that come to min And while some of the games they played (cornering the market) became illegal, there are still plenty of games that get played in today's market that are not illegal or that get played despite being illegal. For example, Michael Milken spent many years in jail for what he did in the markets, but he is still worth $2.3 billion according to *Forbes*.
- The Nobel Prize in economics is often granted to an economist who does research to support so of the big money myths.
- And last, what you might learn about trading at a university or college is usually the antithesis o what's essential for good trading, as Jack Schwager points out in his new book, *Market Sense an Nonsense*.

That's how big money developed the game of investing and trading. They make the rules, and tho rules determine how they win. And they win if they can convince you simply to participate in the game. Also you have all sorts of hidden costs that make it less likely that you will win. In fact, b money doesn't care if you win. That's why entry into trading/investing is so easy. You just go down t your brokerage company and open up an account, sign a few documents, and then start trading. A big money wants you to believe that making money is as easy as just picking the right stock. If t E*Trade baby can do it, then you can do it. "See," the baby says, "I just bought stock."

So given that background, do you think it's likely that most people will make money in the mark No, not at all! Yet it's quite possible for someone with talent, a clear psychology, and the righ knowledge to make a lot of money in the market. But you won't make money paying attention to wh big money wants you to know and think. Furthermore, it takes a lot of work and study to get to t point where making good money is easy. And most people don't know what's involved in success all. In fact, it takes the same amount of work, study, and commitment that any other professi requires—perhaps even more because you need a very clear mind to trade well.

Imagine walking into a hospital with no training whatsoever and deciding to perform open-hea surgery on someone. The person would probably have very little chance of surviving. And the sa goes for your account when you deposit money with your broker for trading without adequate traini to become a professional. It’s probably fatal for your account, but good for your broker, at least whi you are trading, so he’s happy to allow it.

Thus, the number one reason you lose is that big money encourages you to play the game investing/trading with little or no education. They want you to play their game. After all, isn’t it ju about picking the right stock? Well, no, it isn’t, but that’s part of why you are likely to lose and wh most of your money will be turned over to those who have the appropriate knowledge and training.

However, for those people who are committed to learn how to trade properly and to do the necessa work and who have the talent necessary (as is required of any field), it’s possible to become qui successful.

For more information about why the average trader/investor is likely to lose, see my YouTube vide below:


# Building Your Edge

I’m a neuro-linguistic programming (NLP) modeler. And in my 25 years as a trading coach, I’v modeled every aspect of trading success. To model any process, you need to find a number of peop who do it well, find out what they do in common, and then determine the three ingredients of each the common tasks. Those three ingredients are the beliefs, mental states, and mental strategi necessary to do the task. I’ve modeled the trading process, the system development process, th process of achieving your objectives through position sizing™ strategies, and the wealth process.

And overall I call the models we’ve developed for traders Tharp Think. The principles in tho models are general success principles, but I call them Tharp Think because I believe we are the on company to have put together this specific list of principles necessary for success.

Tharp Think consists of about 40 commonsense rules plus another 20 psychological rules. If yo adopt them, you have a good chance for success. If you don’t, then you probably have little chance f success.

Let’s go through six key parts of Tharp Think. I’ll briefly describe some useful beliefs in each area

# Part 1: Learning to Trade Is Hard Work, But It Can Be Taught

1. Successful trading can be modeled and taught to other people.
2. Learning to trade well requires as much work and education as any other profession.

In a sense this is the first key problem of why people lose. They think trading should be easy, an they don't want to do the work. They think they should just be able to go into a trading office (f stocks, commodities, or forex), open up an account, and trade. Opening up an account is that easy, an the E*Trade baby would have you believe that success is just pressing the right button. Howeve making that account stay even or grow is not that easy. This is what we have talked about in Edge 1.

# Part 2: Knowing Yourself

A key to successful trading is knowing yourself. Only by knowing yourself can you develop objectiv
and trading systems that fit you. In other words:

1. You need to find a trading system that fits you.
2. In order to accomplish that, you must know yourself:
   - Your values
   - Your strengths
   - Your weaknesses
   - Your parts as described in Edge 3, Step 1
   - Significant beliefs (spiritual, self, market, system)
   - Trading edges
   - Trading weaknesses
3. You can trade only your beliefs about the markets, not the markets themselves. Thus, you should know and understand your beliefs and whether they are useful.
4. System development is 100 percent (1) beliefs, (2) mental states, and (3) mental strategies. Thus, it is 100 percent psychology.
5. You must know your personal criteria for being able to trade a system with confidence.

Knowing yourself is addressed in Edges 2 and 3.

# Part 3: Mistakes

Once you start trading, you'll probably make mistakes. I define a mistake as not following your rule When you understand mistakes, you'll have a whole new avenue to follow to improve your tradir efficiency (i.e., to make fewer mistakes) and improve your profits. These are all covered by the ne set of rules.

1. A mistake means not following your rules. If you don't have rules, everything you do is a mistake.
2. It is much better to trade a lower-scoring System Quality Number® (SQN®)[1] system that fits you than a higher-scoring SQN system that doesn't fit you.
3. You are responsible for everything that happens to you. When you understand this, you can correct your mistakes. If you don't understand this, you will repeat your mistakes over and over again. We call this "respondability."
4. Repeating the same mistakes over and over again is self-sabotage.
5. A trader who makes one mistake in 10 trades is 90 percent efficient; that alone could be enough to make him or her a losing trader. Most traders are probably 70 percent efficient or worse.

[1]SQN is a registered trademark of the Van Tharp Institute. It is a proprietary measure for determining how good a tradin system is

Through my modeling work with traders, we've developed a number of trading tasks to help preve and eliminate mistakes. These tasks usually assume that the trader has already addressed and resolve a number of personal psychological issues that cause repeated mistakes. We'll address those later i Edge 3.

# Part 4: Objectives and Position Sizing Strategies

Objectives are much more important than most people think, and you achieve your objectives throug position sizing™ strategies. The quality of your system just tells you how easy it will be to u position sizing strategies to achieve your objectives. Most people don't even think about objective except that they'd like to make a lot of money. Most professional traders don't have a clue abo position sizing strategies. They learn that asset allocation is important but don't understand that th "how much" factor is what makes it important—and that's precisely what position sizing strategie are all about.

Let's look at the implications of this:

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1. Fifty percent of system development is thinking through and clearly defining a set of written objectives. Those objectives should address your desired gain, your maximum acceptable drawdown, and the relative importance of each.
2. You need to design core objectives that fit you.
3. There are potentially as many objectives as there are traders.
4. You meet your objectives through position sizing strategies.
5. The overwhelming majority of your performance is due to your position sizing strategy and your efficiency as a trader.

6 You must know your mission or purpose in life and incorporate that into your trading.

7. You need to know your financial freedom number (passive income per month less monthly expenses). When it's positive, you are financially free.

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Objectives and position sizing strategies are addressed in Edge 6.

# Part 5: Probability and Reward-to-Risk Assessment

Trading/investing is all about probability and reward-to-risk ratios under specific market condition When you understand these rules and the market conditions at any given time, you can use statistics predict some boundaries for your performance. Although you cannot predict the future, you can get good idea of what your performance will be through statistics and proper sampling under the differe possible market conditions. As you begin to understand this, you'll be amazed at the changes th occur.

There are a huge number of implications to this rule. First, let's look at reward-to-risk ratios and R multiples and what they mean for systems.

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1. Never open a position without knowing the initial risk.
2. Define your profits and losses as a multiple of your initial risk (R-multiples).
3. Limit your losses to 1R or less.
4. Make sure your profits on the average trade are bigger than 1R.
5. Never take a trade unless the reward-to-risk ratio of that trade is at least 2:1 and perhaps even 3:1.
6. Your trading system is a distribution of R-multiples.
7. When you understand the preceding point, you should be able to hear or see a description of a system and know the kind of R-multiple distribution it would generate.
8. The mean of that distribution is the expectancy, and it tells you what you'll make on average per trade in terms of R. It should be a positive number.
9. The mean, standard deviation, and number of trades determine the SQN® score for your system.
10. Your SQN score tells you how easy it will be to meet your objectives using position sizing strategies. Other than that, your system has nothing to do with meeting your objectives.
11. Systems are usually named after their setups, which are usually based on some attempt to predict future prices. Prediction has nothing to do with trading well.
12. System performance has to do with controlling risk and managing the position through your exits.

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Systems and reward-to-risk ratios are addressed in Edge 4.

# Part 6: Systems and Market Type

All markets are not alike. When you buy a trading system or buy into a fund, you're usually expecte to sign something that says you understand that past performance is not necessarily indicative future results. This reflects a basic lack of understanding about statistics. What the disclaimer shou say is:

- We have traded this system under certain market conditions. We know how it performs under those conditions, but we don't know how well our samples represent the potential performance o trading under those market conditions.
- If our samples are accurate, we still have not simulated enough performance from those samples to predict what might happen in the future under those trading conditions.
- We don't know how the system might perform under market conditions in which we have not traded it. In fact, we probably haven't even thought enough about that to know whether we've made some assumptions that might cease to exist if certain things about the market were to change.
- We might make mistakes trading the system in the future, and that would definitely cause the system to underperform under those market conditions.

That's what funds really mean when they say, "Past performance is not necessarily indicative o future results." But if you find a fund that really understands these principles, buy it, because one da they'll close it out and give back your money as the primary owner becomes part of the Forbes 400.

Systems and market type are reflected by the following concepts:

1. There are at least six different market types. You should understand how your system will perform in each of them:

- Bull volatile
- Bull quiet
- Sideways volatile
- Sideways quiet
- Bear volatile
- Bear quiet (almost doesn’t exist)

2. It’s easy to design a holy grail system (one with a high System Quality Number score) for any one market type listed.

3. It’s insane to expect that trading system to work in all market types.

4. The biggest mistake people make is to try to design one system to fit all markets.

5. You should trade your system only in the market type for which it was designed.

6. Good traders understand the big picture, know how to measure it, and become aware of when the situation changes.

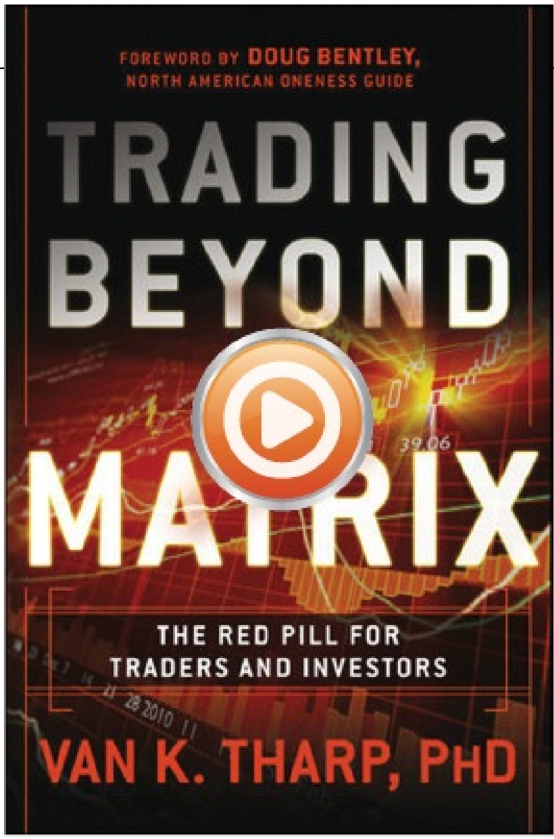
7. Media and academia know none of this and will not teach it to you.

8. For each market type, you need a large sample size to estimate what the population is for that system.

9. You also need to do Monte Carlo simulations with your system’s R-multiples to get a better idea of what to expect in the future. This will work if the sample drawn from is similar to the population.

Market type is addressed in Edge 5.

To adopt these principles, you basically have to change your beliefs about the market and abo yourself. I call adopting Tharp Think principles a Level I transformation in my book, *Trading Beyor the Matrix*. Find out more about my book. See below:


FOREWORD BY DOUG BENTLEY,
NORTH AMERICAN ONENESS GUIDE
TRADING
BEYOND
MATRIX
THE RED PILL FOR
TRADERS AND INVESTORS
VAN K. THARP, PhD

# Edge 2

## Realize That Trading Is 100 Percent Psychological

Remember that to model something you need to find out what successful people do in common. The are the important tasks, and then you need to find the three ingredients of each task. It's th ingredients that make everything become psychology. These three ingredients are the beliefs, th mental states, and the mental strategies involved in each task. And those three ingredients are 10 percent in the mind, which is why trading success is 100 percent psychology.

So let's look at **beliefs, the first ingredient**. Beliefs are your filters to reality. They are th programming that I call the Matrix in my new book, *Trading Beyond the Matrix: The Red Pill fo Traders and Investors*.

All of the statements you make, and all of the statements I've made in this e-book, are beliefs. The shape your reality. In fact, your beliefs about yourself determine your self-worth and who you thin you are. You'll create whatever you believe and defend it strongly. Thus, your beliefs about th market determine how you'll trade. Even people who don't know anything about the market have lo of beliefs about it. They might believe that:

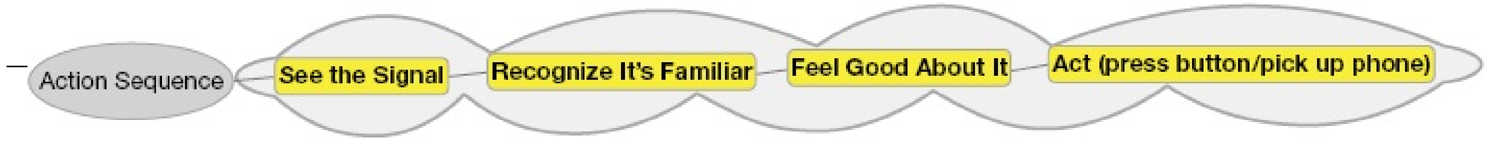
- The market is dangerous.
- Trading in the market is gambling.
- You should find a good stock and hold it forever.
- It's hard for the little guy to make money.

All of those statements (and each of those I've written in this e-book) are beliefs. They shape yo experience. So to gain some control over your experience in the market, you need to understand yo beliefs about yourself and the market. You are not your beliefs, but they can control you if you don control them. Are your beliefs useful? How do they limit you? If they are not useful, then how can yo find something more useful to replace those beliefs?

Now let's look at **mental states, the second ingredient**. Every task you do has an optimal ment state for its performance. If you are in the optimal mental state, then you will do it well; but if you a in a suboptimal state, then you will perform poorly. For example, fear is not an optimal mental sta for any task of trading unless you don't know what you are doing. And if you don't know what you a doing, then fear is an optimal state only if it prevents you from trading.

And last, let's look at **mental strategies, the third ingredient**. Mental strategies refer to th sequence of your thinking. Some strategies are optimal and produce good results, whereas others a not optimal at all. So let me illustrate by using a task that most people would not consider to b psychological—the task of executing a trade.

Typically, people act by seeing a signal that they know is the signal for action. It tells them that the stock or instrument you want to act on does this, then enter the market.



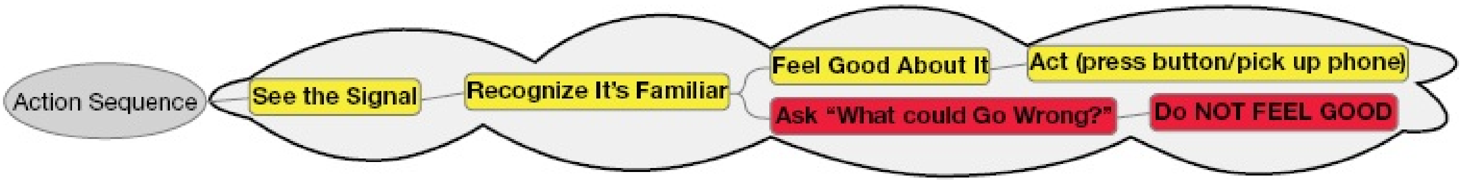

The first step in the strategy is to see the signal.

The second step in the strategy is to internally recognize that this is your action signal. You have t remember and recognize this signal. So this step is visual, internal, and remembered.

Third, people tend to act from feelings, so you need to feel good about what you see.

And last, when you feel good, then you need to press the button (or pick up the phone or whateve to execute the trade.

Now what if you add one extraneous step to that optimal strategy? Once you recognize the signa you ask yourself (i.e., this is internal dialogue), "What could go wrong?" Does that step get you feeling good? No, it tends to produce images of disaster. And you now have to do a lot of processin to get back to feeling good so you can execute the trade. And if this trade has a limited tim opportunity, then you probably will miss it.




It takes a lot of work to make sure that all of your beliefs involving trading are useful. It also takes lot of work to make sure that you always act with an optimal mental state. And, equally, it takes a l of work to make sure that that your thinking runs through the proper sequence necessary to b successful.

Because the key ingredients of success are all psychological, so are the key problems you will face

- First, you'll find that you may have problems adopting the Tharp Think principles, some of whic were listed in Edge 1. Why? Because they will clash with preexisting beliefs that you have.
- Second, you'll also find that negative emotions will come up from time to time and prevent you from trading well.
- Third, you'll probably find that you have a lot of internal conflict. You'll find yourself saying things like, "I know I need to be disciplined to trade well, but sometimes I just find myself making stupid mistakes." Who do the different "I's" in that sentence represent?

The solutions to the first three problems take a lot of explanation, and are covered in my new boo *Trading Beyond the Matrix*.

But there is a fourth problem that will become obvious to everyone—making mistakes whi trading. You should have well-thought-out rules to define everything you do in trading. And when yo don't follow those rules, then you've made a mistake. If you don't have such rules, then everythin you do as a trader is a mistake.

When I ask my clients to keep track of their mistakes, I find that most of them at first trade at abo 70 percent efficiency or worse; that means that they make three mistakes for every 10 trades. Th leads right into the next potential edge you could have.

# Edge 3

# Being Right Is Trading Mistake-Free

Most people like to be right on each trade, meaning that they make money. That never happens, b the belief that it's important to do so leads to "cutting profits short and letting losses run"—th opposite of winning trading. If you have a profit, you tend to take it to make sure you win. Thus, yo cut your potential profit short. If you have a loss, and you need to be right, you don't take it. As result, the loss tends to grow, so you've let your losses grow. This is the opposite of what's require for successful trading. As a result, change your concept of being right from making money on ever trade to trading mistake-free.

As I just stated, one of the most useful beliefs of successful trading is that when you don't follo your written rules, then you've made a mistake. In addition, if you don't have such written rules, the everything you do is a mistake.

What are some common written rules that should guide most people's trading?

- You should never enter a trade without predetermining your risk, which we call R for short. For example, you might buy a stock at $10 and decide to get out if the stock falls to $8. Thus, your initial risk is $2 per share.
- Your total risk for any one position probably should not exceed one percent of your capital. For example, if you are trading $50,000, then your risk per position should not exceed $500. Therefore, at $2 risk per share, you can buy 250 shares for $500 total risk. Notice that your total investment would be $2,500 but your initial risk should be only $500 or one percent.
- Never enter into a position in the market unless you have a reason to suspect that you can make three times your initial risk if you are correct. We would call this making a 3R gain. Thus, you should believe that you can make at least $6 profit per share (i.e., 3R) in your $10 stock, assumin you are risking $2.

4. Enter on specific conditions that you've predetermined. Also exit under specific predetermine rules.

If you had these four rules, then 1) entering on a tip from a broker, 2) a CNBC guru, 3) a newslett writer, or 4) because you got excited about a stock would each be a mistake. Entering without knowin your initial risk would be a mistake. *And when you make the same mistake repeatedly, it's called sel sabotage.*

When I ask my clients to keep track of their mistakes, I often find that they are trading at about 7 percent efficiency. So what does trading at 70 percent efficiency mean? It means that you trac mistake free on only 70 percent of your trades. Put another way, you are making mistakes on three o of 10 trades. And what if those three trades cost you 2R each? That means that your mistakes cost yo 6R. You now have to make 6R in your remaining seven trades just to break even. That's about 0.85

per trade.

Suppose that you have determined that your average win per trade (over many, many trades) is 0.8R. That means that on average you’d make 8R at the end of 10 trades. However, you only have seve mistake-free trades. Those seven trades should produce a gain of 5.6R (7 × 0.8R). However, your thre mistakes produce a loss of 6R. Thus, after 10 trades, instead of being up 8R, you are down 0.4R. You three mistakes have turned a winning system into a losing system. Again, we are assuming that mistake has cost you 2R, which may not be the case. It may have cost you less or a lot more.

You probably need to trade at about 95 percent efficiency to have a reasonable chance of makin money in the markets. In our example, if we made 19 trades, making an average of 0.8R per trad we’d end up with a profit of 15.2R. Subtract 2R for the one mistake, and you will still be up 13.2 You could live with that sort of profit.

When you think about it, that should be easy. But we find over and over again that even when yo have written rules, it is not easy to trade at 95 percent efficiency. Human beings tend to mak mistakes, and this means that you need to pay a lot of attention to preventing and eliminatin mistakes. This is another reason why trading involves 100 percent psychology. It’s also another reaso why most people lose money in the markets without proper training and commitment.

Most people don’t even own their mistakes. After a market crash, CNBC asked people why the thought they had lost money in the markets. The reasons went something like:

- Bad market
- Corrupt CEOs
- Corrupt analysts
- Broker
- Fund manager

What do all of those reasons have in common? People were blaming someone else. And when yo do that, you can never spot your own mistakes. A better selection of choices might be:

- I didn’t have a predetermined initial loss point.
- I didn’t preplan my exit strategy.
- I didn’t have a business plan to guide my trading.
- I invested too much in too few stocks because I didn’t understand position sizing strategies.
- I didn’t cut my losses short and let my profits run.
- If I understood all of this, I didn’t have the discipline to practice it.

All of these reasons are potential mistakes that investors might have made. And if you understan that they were mistakes, you can make sure that they do not happen again. However, if you think yo losses were due to a bad market, corrupt CEOs, corrupt analysts, your broker, or your fund manager, can almost guarantee that those things will happen again.

For more information about mistakes, see my YouTube video:

Trading Mistakes

VanTharpTrading

# Building Your Edge

When people join my Super Trader program, unless they can convince me that they are already goo traders, I recommend that they do about a year of psychological work before they trade. Often, th work changes their lives. In my new book *Trading Beyond the Matrix*, we call this making Level transformations, and I give a number of different steps to make those transformations.

Five of those steps follow here.

# Step 1: Learn That You Are a Crowd Inside

If you think about it, you probably have many parts inside you and they are constantly talking to yo and arguing with each other. Your parts tend to fall into several groupings. The first part migh represent feelings you don't want to feel. For example, you might have a fear part that protects yo from fearful things by constantly releasing stored fear. You might have a similar part for anger, greed rejection, shame, or any number of other negative emotions.

Other parts might represent the various roles you have in life. You probably have a trader par husband or wife part, parent part, full-time job part, golfing part, and so on.

You may also have parts that represent various kinds of behaviors. For instance, you might have control part, a need-to-be-right part, a perfectionist part, a procrastinator part, an excitement part, a adventurer part, and a "don't lose money" part.

Most people also have parts representing significant people in their lives, created to make livin with them easier. Most people have parts representing their mom, dad, spouse, mother-in-law, so daughter, and so on.

The final kind of part is the disowned part, or shadow part. These parts are harder to find, becau they show up only in your projections. What do you dislike about other people? What you see others represents your disowned, shadow parts.

If you start thinking about it, you can probably figure out which parts are inside you. Ask the trad part which other parts tend to be involved in trading. It'll probably tell you. When a new part com