

Chapter 5

WHAT'S YOUR EQ?

In my book "Trading is a Business, I talked about trading being the world's most perfect business. At the end of this chapter I will be showing you that I am not alone in believing that trading is an excellent way to make a living.

What is your emotional quotient (EQ)? Do you know? Are you aware that you have one?

Your EQ involves some of the factors that determine whether or not you will be successful as a trader. We're going to cover a few of them in this chapter. We'll be talking about some of the major qualities that go into making up your EQ. You need to know about them if you are to be successful in this world's most perfect business.

SELF-MOTIVATION

One of the primary factors of paramount importance if you are going to achieve success as a trader is that of positive motivation. You might say it is the ability to marshal feelings of enthusiasm, zeal, and confidence. Being able to motivate yourself to pursue relentless training routines is a must in the long run. It is a trait common to world-class performers of every kind. From chess-masters to Olympic athletes, the ability to be self-motivated is evident. To accomplish self-motivation requires that you believe in yourself, that you have a can-do, must-do, will-do attitude. In addition, you must have clearly defined goals, and be optimistic about achieving them. The flip-side of being self-motivated is one of being pessimistic. The pessimist tends to see things in catastrophic terms because he doesn't really believe in his ability to succeed. A pessimist is likely to interpret a trading loss as meaning *I've failed, I'll never make it as a trader*. He inculcates the loss into his own personal psyche. Conversely, the self-motivated optimist will blame the fact that he's had a trading loss on the situation that brought it about rather than on himself. Because of that, he is motivated to make the next trade.

Your predisposition to a positive or negative outlook may or may not be inborn. By trying and with practice, a pessimist can learn to think more positively. It has been documented that if you can learn to catch negative, self-defeating thoughts as they occur, you can restructure the situation in less disastrous terms and see things in a more hopeful light.

SELF-AWARENESS

Self-awareness is the ability to recognize a feeling while it is happening. Learning to recognize feelings and separating them from opinion is the basis for being able to trade intuitively. People who are more sure of their feelings are better guides of their trading lives.

Developing self-awareness requires that you learn to recognize and use what are called “gut-feelings.”

Gut feelings can occur without a person’s being aware of them. All too often, people tend to suppress these feelings rather than to cultivate them and bring them to the forefront.

It takes deliberate effort to become more aware of your gut feelings. You have to tune in on them and learn to evaluate them. Trading from the gut is one of the best ways you can possibly trade. Becoming more astute in emotional awareness is a fundamental building block of your EQ.

EMPATHIC SKILLS

The ability to put yourself in the other person’s shoes is important to successful trading. You have to be able to work with the people with whom you have to deal in the market. The capacity to know how the other person feels is essential to your ability to communicate your own desires. Even over the telephone we transmit to and catch moods from the person at the other end of the line. This is done in such subtle ways that unless you pay careful attention, they are almost imperceptible. Simply the way you give an order in a verbal ordering situation, or the way you say please or thank you, can leave the other person feeling that you are rude, that you feel superior to that person, or that you basically reject that person. On the other

hand, your tone of voice, your inflection, the expression on your face when you give a verbal order can be upbeat. It can make the person taking your order feel important and appreciated. You can make that person want to help you and to give you the best possible service. The more clever we are at discerning the feelings of others, the better the quality of signals we can send to them. In case you are saying to yourself, “but I never give verbal orders, I’m an electronic trader,” think again. You never know when your electronic ordering system is going to break down and you find yourself having to call a broker and tell him/her verbally what it is you want to accomplish.

Through years of trading, I have learned to refrain from entering a verbal order to trade when detecting that the person taking the order was angry, frustrated, or in some way not feeling well; refusing to increase risk if that link in the organizational chain was in a state of “disrepair” and unable to function well.

I have remembered to always praise and thank those people who handle my trades well. I have let them know I care and that I appreciate even the smallest of favors and cooperation.

HANDLING MOODS

We all have our moods, both good and bad. That’s part of being human. Moods are part of our character building, and the key to handling moods is balance. In general, we have little control over when an emotional wave will sweep over us. Moods are entirely emotional regardless of the cause. But we do have some control over how long the mood will last, and how we will handle it. Psychologists say that the most difficult mood to escape is that of anger. When you miss a trade because someone else goofed, or you get a terrible fill for unexplained reasons, you can become filled with rage. Outbursts of anger stimulate the arousal system of the brain leaving you more outraged, not less.

An effective technique for dealing with this powerful emotion is that of restructuring. When you get no fill or an unexplained outrageously bad fill, tell yourself that perhaps the market was fast, or maybe the person taking your order was having a bad day.

Try to see the situation in a different light. Restructuring can be applied to any bad mood. The sooner you place what happened to cause it into a more positive light, the sooner you will be able to put the negative emotion to rest.

Another way to defuse anger is distraction. Turn off your computer screen and go somewhere else to cool off. It's a good idea to do this when you are feeling despair over a serious loss, or you are frustrated with the way you've been trading. You need to get away and stay away until you can think clearly. Traders who have gotten into a seemingly impossible situation actually experience brain-lock. The best thing you can do is get away. Make yourself think about something else. Occupy your hands, or get involved in some sort of physical exercise. Take a walk. Do something to force your brain out of its locked state. Your aim should be to distract yourself.

Distraction and restructuring can alleviate depression and anxiety as well as anger and frustration. Add to these deep breathing, meditation and other relaxation techniques, and you will find that you have a fair measure of control over negative moods.

CONTROLLING IMPULSES

Let's say you're in a trade and it begins to go against you. You experience an impulse to get out now! But you also have a goal of staying with this trade in order to give it a fair chance. In such a situation, following your impulse sacrifices your goal.

Perhaps the essence of emotional control is the ability to delay impulses that get in the way of your meeting your goals. Controlling impulses is an important part of your EQ and ability to achieve success.

The ability to resist impulses can be developed with practice. When you are faced with an impulse, remind yourself of your long-term goals.

We're reminded of a time when a trader friend of ours wanted to purchase some far-distant out-of-the-money options. He wanted to pay the minimum possible for them, which in this case was \$6 apiece.

He waited three weeks for those options to come down to that price, but they steadfastly remained at \$10 each. Finally, on impulse, because he felt he couldn't wait any longer, he bid the \$10 and was filled. Two days later, and for the next few weeks, he could have been filled at \$5. What he did was to allow the impulse to get in the way of his goal which was to buy those options at the lowest possible price. Later on, when those options went up by 30 times the \$5 he could have paid for them, his options went up only 15 times because he had paid twice what they were selling for two days later. Instead of making \$150 apiece, he made only \$75 for each one he had purchased.

THE WORLD'S MOST PERFECT BUSINESS

Richard Russell of the Dow Theory Letters once wrote a piece on the "Ideal Business." We thought it might be interesting to show you how what we think about trading matches up with Richard Russell's concept of the ideal business. Our own comments are in bold print.

"(1) The ideal business sells the world, rather than a single neighborhood or even a single city or state. In other words, it has an unlimited global market (and today this is more important than ever, since world markets have now opened up to an extent unparalleled in my lifetime). By the way, how many times have you seen a retail store that has been doing well for years – then another bigger and better retail store move nearby, and it's kaput for the first store."

When you are a trader, the whole world and all of the exchanges are your market place to buy or to sell!

"(2) The ideal business offers a product which enjoys an 'inelastic' demand. Inelastic refers to a product that people need or desire – almost regardless of price."

As a trader, you can choose to buy or sell any one of a number of commodities. If there is a shortage of crude oil, you can buy crude oil futures lower and sell them higher. If there is a shortage of gold, you can buy the gold futures. Let's face it, inelasticity is the basis for every bull market there ever was, and *elasticity*, its opposite, is the basis for every bear market.

“(3) The ideal business sells a product which cannot be easily substituted or copied. This means that the product is an original or at least it’s something that can be copyrighted or patented.” With futures, you as the trader are the main product and you are unique.

“(4) The ideal business has a minimal labor requirements (the fewer personnel, the better). Today’s example of this is the much-talked about ‘virtual corporation.’ The virtual corporation may consist of an office with three executives, where literally all manufacturing and services are farmed out to other companies.”

Can you think of fewer labor requirements than a single person? You are the only executive and the only employee needed to run your trading business.

“(5) The ideal business enjoys low overhead. It does not need an expensive location; it does not need large amounts of electricity, advertising, legal advice, high priced employees, large inventory, etc.”

A trading business, while it has some overhead, mostly avoids the kind of overhead mentioned here. Probably the largest single item of expense is commissions including fees followed by the costs of data should you happen to require a live data feed. Believe it, some traders actually trade from newspaper prices, subscription chart services, and even delayed data feeds.

“(6) The ideal business does not require big cash outlays or major investments in equipment. In other words, it does not tie up your capital (incidentally, one of the major reasons for new-business failure is under-capitalization).”

Amen to the under-capitalization part. Most small traders attempting to “make a living” trading are woefully short on capital. However, trading futures, because of the leverage involved, requires relatively little capital investment commensurate with expected returns.

“(7) The ideal business enjoys cash billings. In other words, it does not tie up your capital with lengthy or complex credit terms.”

Trading futures is one of the most liquid occupations there is. Cash is generally available within 24-48 hours. No credit involved here.

“(8) The ideal business is relatively free of all kinds of government and industry regulations and strictures (and if you’re in your own business, you most definitely know what I mean with this one).”

As an individual trader trading your own account, you are virtually free of government regulations except wherein they affect the entire industry. You are subject to exchange regulations, however. These are generally minimal and exist only to keep order in the market place. You don’t know what it’s like to have OSHA, the EPA, the SEC, or the FTC and a few others like them on your back unless you’ve actually experienced the horror in person.

“(9) The ideal business is portable or easily moveable. This means you can take your business (and yourself) anywhere you want – Nevada, Florida, Texas, Washington, S. Dakota (none have state income taxes) or hey, maybe even Monte Carlo or Switzerland or the south of France.”

This is where an individual trader can really shine. You can port your trading business to many parts of the world. The less you day trade and require a live data feed, the more places you can travel to and live in. As long as you can make a phone connection, and obtain prices within a reasonable length of time, you are in business. And now with access via electronic trading and the Internet, the entire world is your market.

“(10) Here’s a crucial one that’s often overlooked: the ideal business satisfies your intellectual (and often emotional) needs. There’s nothing like being fascinated with what you’re doing. When that happens, you’re not working, you’re having fun.

Here is another situation in which trading really glows. Most individuals trading their own account really and truly enjoy the never ending challenge of the markets.

“(11) The ideal business leaves you with free time. In other words, it doesn’t require your labor and attention 12, 16, or 18 hours a day (my lawyer wife, who leaves the house at 6:30 AM and comes home at 6:30 PM and often later, has been well aware of this one).”

Even an addicted day trader does not have to trade all day long or every day of the week. Trading can be tremendously relaxed and leisurely if you allow it to be.

“(12) Super-important: the ideal business is one in which your income is not limited by your personal output (lawyers and doctors have this problem). No, in the ideal business you can sell 10,000 customers as easily as you sell one (publishing is an example).

Okay, so we only got 11 out of 12 right. Sad but true, when you are a trader, you are IT! You can’t hire a substitute. But you can sell 100 contracts with the same effort it takes to sell 10 contracts.

“That’s it. If you use this list it may help you cut through a lot of nonsense and hypocrisy and wishes and dreams regarding what you are looking for in life and in your work. None of us own or work at the ideal business. But it’s helpful knowing what we’re looking for and dealing with. As a buddy of ours once put it, ‘I can’t lay an egg and I can’t cook, but I know what a great omelet looks and tastes like.’

“ ‘Work is love made visible. And if you cannot work with love, but only with distaste, it is better that you leave your work and sit at the gate of the temple and take alms from those who work with joy.’

“Albert Einstein’s three rules of work:

(1) Out of clutter find simplicity.

(2) From discord find harmony.

(3) In the middle of difficulty find opportunity.”

Einstein's three rules of work are the heart and core of what we try to teach in our books, seminars, and private tutoring sessions! Please read Einstein's rules and memorize them. They are the basis of all successful trading.