The Traits of a Winner Trader

It is fair to say that many technical traders are constantly searching for the holy grail of systems, and there are clearly some approaches that work better than others, though very few approaches work all the time in all markets.

What is more important is to have a basic set of rules which cover the emotional aspect of the trading process. If one uses the basic starting rules of going with the trend, limiting risk by using stops, and careful money management, then that is half the problem solved.

But there are many times when things start to go wrong, and during these times it is human nature to question your methodology, or tweak the entry/exit points to try and try to ‘fix’ the problem, or even to abandon the existing system and start again. Many traders become so frightened of losing again that they will then miss out on some of the best trades that occur purely as a result of the law of averages. They may begin to choose the trades that feel good to them, rather than treating every trade as a production line of potential winners.

So it is useful to look at a simple list of additional rules which will help you sleep at night as a trader and take away some of the emotional damage that can be caused by stressful conditions in the markets.

Rule 1: Don’t make your system too complicated

Modern trading software often has hundreds of built-in technical analysis indicators, plus any combination of custom strategies and expert analyses which can be baffling in their complexity. One technique that you favour might indicate a buy signal, whereas another says sell, and a third indicator might not be conclusive or suggest perhaps adding to positions. The key is to find a simple methodology that generally works bearing in mind that no one indicator works all the time. Try and keep it simple and stick to a strategy that you feel comfortable with.

Rule 2: Always buy strength and sell weakness

As a trader you don’t have to act like Warren Buffet with the luxury of being able to wait ten years before value shows itself for your stock. If you are using margin, you want results. So the point to bear in mind (remember going with the trend) is that the public continues to buy when prices have fallen, whereas the professional buys because prices have rallied.

This difference may not appear logical, but buying strength works if you are trading. The rule of survival is not to "buy low, sell high", but to "buy high and sell higher". If you are comparing various stocks within a group, buy only the strongest and sell the weakest. This works on the downside, too – don’t be frightened to sell and sell again until there is a trend change. Many times in our research we have put out buy signals in a stock that has already moved up sharply and regular CFD traders know that stocks that are bid for are invariably already strong before any announcement.

Rule 3: Every trade should be the same

You just never know when you might hit the jackpot in this business, but you should take the view that every trade should have the potential to be the biggest trade of the year. It might be, it might not be, but if you are following a disciplined strategy the whole point is to take every signal. Don’t be disheartened if your favourite trade doesn’t do what you hoped – there are plenty more every day to choose from.

Rule 4: Patience is a virtue

This may be the greatest trait of a successful trader. Once you have the set up to enter a trade, allow it time to develop and give it time to create the profits you expected. Taking small profits is the surest way to ultimate loss, as these are never allowed to develop into enormous profits. The real money in trading is made from the one, two or three big trades that occur every so often. If the thought of losing a profit is toying with you, take some money off the table and let the rest of the position run using a trend indicator. Alternatively, simply set a realistic target that is much higher than your allowed loss. If your trading system is valid, you should make decent long term gains.

Rule 5: Take your losses

Small and quick losses are the best losses, however annoying they may be. It is not the money that is important, but the mental capital that is used up when you are preoccupied by a losing trade that is obscuring other opportunities. You should expect occasional drawdowns as part of any valid trading system, but you must take them and move on.

Rule 6: Forget the urge to 'get your money back'

If you do have a series of sharp losses, which happens to every trader at some stage, take some time off. Close all your trades and stop trading for several days, or go on holiday. The mind can play games with itself following losses and the urge "to get the money back" is extreme, and should not be given in to. To do this risks losing discipline, which is the cornerstone of winning traders.

If you can master these simple rules, you are already far ahead of the majority of traders. By the law of averages, and given that this is essentially a 'zero sum' game, you have every opportunity to make steady profits and of course enjoy trading – it's not supposed to be a stressful business, but humans have a tendency to make it one.

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