

Options Trading For Beginners - Do You Have the Psychology of a Trader Or a Gambler?

One of the benefits of trading is that you can write your own rules, the draw backs of trading are that you can write your own rules. In order to be a profitable trader you must adopt the psychology of a successful trader. Although some may look at trading as educated gambling it is crucial that you approach the trading arena as a business and not as a visit to the casino.

Psychology in relation to virtual trading

The purpose of virtual trading (paper trading) is to practice trading in a safe environment without committing actual cash. In order to get the maximum benefits from virtual trading you are required to mimic live (Cash trading) as closely as possible. By carrying out the processes in virtual trading exactly as you would with cash it should become second nature and mirror the psychology of cash trading.

Psychology in relation to Cash Trading

All things being equal the psychology in virtual trading should be exactly the same as that for cash trading. Unfortunately when people have a cash stake involved (Also known as skin in the game) it becomes harder to act. Although it is difficult to totally take the emotions out of trading in order to be a successful trader you need to reduce these emotions to a minimum. There are lots of books out there on trading psychology but I highly recommend "the secrets of emotion free trading" by Larry Levin (which is available as a free pdf download off the net). Larry has produced a comprehensive guide to adopting a traders frame of mind. The activity of entering or exiting a trade is sometimes referred to as pulling the trigger for good reason. Just as the act of pulling a trigger to shoot a weapon involves a psychological decision, committing cash to enter a trade or exiting a trade to take a profit (or realise a loss) requires an emotional decision.

Gambling or Trading Psychology

In his book "Trading for a living" Alexander Elder compares traders to the addicts in his groups. Because trading can be a volatile short time-scale affair it is possible to become a trading junkie. You must adhere to your trading rules and that requires a mental conviction. If you are making quick profits it seems easy and you become a victim of your own success (feeling invincible), if you are making quick losses then just like an addicted gambler you can end up trading more and more often, endeavouring to recoup your losses.

Summary

You need to be a confident automated virtual trader and transfer the same psychology to cash trading. Keeping to your written trading rules will help reduce the chance of becoming a gambler and help you become a successful trader.

For further information on trading and business in general visit

<http://businessclarity.net>

For access to access to the e book "How I lost \$100,000 Trading (so you don't have to) visit <http://ifloserswrotebooks.com>

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