Twitter Thread by TraderLion

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What to do if you are not trading well. (Thread)

Impatience and instant success are built into our minds from the get-go. We want instant wins and instant rewards.

This has as much to do with our psychological build-up as it does with the society we live in.

In this thread, we will cover:

What to do if you are not trading well.
How to stop the drawdowns when no progress is being made.
How to have a systematic process that protects you from yourself.

So what is it that drives us?

We all want the market to reward us for our hard work, the effort, and time we put into it.

We want input to equal output.

However, there is no such thing as input = output in trading.

Trading is about consistency, persistence, and hard work without the certainty of any reward.

The best traders focus on what they can control:

What they buy, How much they buy, When they sell and accept the uncertainty + small losses as the cost of doing business.

A few keys on what to do if you are not trading well.

1. Have rules in place that identify when you are not trading well.

For instance a 3 Strike Rule: When you have 3 losing trades in a row and you must sit out 1 day before trying another trade.

Such a rule can be modified based upon the level of experience that you have in the markets. If new, stick to the one listed above.

Developing rules like this can be beneficial especially if you have tendencies to self-sabotage.

2. Equity Curve Analysis.

Equity Curve's provide powerful information and feedback about how you are trading in current market conditions.

Once you are 5-7% off the top of your equity curve - it's time to step back.

Stepping back includes reducing size, taking days off and coming back fresh with high mental capital, analyzing your trades, and making a determination on if the market environment has changed.

This will allow you to curb the emotional cycle that many traders go through.

New traders often increase size and revenge trade trying to make back what they lost quickly.

Often this leads to more money lost because you are not thinking clearly, and/or the market isn't cooperative for your style, and instead of being aware you are stepping on the gas.

This is NEVER the optimal solution.

It's about sizing down, stepping away, stepping back, and reevaluating with a fresh mind when you or the market is not quite right.

3. Sizing Down

Trading when treated like a competition brings out the worst in traders.

Our mind puts us in a state where we want to "make up for all the losses and drawdowns" in a few trades. The best of the best don't think or approach the markets in such a manner.

When in a rut, off highs in your equity curve, and struggling to get traction the best course of action one can take is to identify that and then size down.

A simple rule at @TraderLion_ is "only add exposure if progress is being made".

This simple rule keeps your emotions in check and allows you to use Progressive Exposure and Progressive Position Sizing to build traction until you get back into a groove.

When down and in a rut the last thing you want to do is treat the market like a slot machine and position heavily, it will not end well.

Unfortunately, most people will need to make this mistake themselves before it clicks!

4. Be MORE Disciplined.

When your past few trades have not gone well you want to become more selective, not less selective.

You should focus on top-tier names + setups and focus on proper execution + risk management.

Sloppy trading is an easy way to turn a small drawdown into a bigger problem.

Look back on your recent trades objectively. Ask yourself if they were proper setups? Did you size your position properly? Did you manage risk?

Make changes accordingly.

5. Preserve Emotional and Mental Capital:

If the market is and always will be open, traders and investors alike should seek to take some time off. Time off to recoup. Time off to build up energy again to see the markets with a fresh pair of eyes.

Time off can be the way to get yourself out of a rut and back on the right track.

As Jesse Livermore said “There is a time to go long. There is a time to go short. And there is a time to go fishing”

The market will always be there with fresh opportunities, and by giving yourself a vacation you can return with the proper mindset ready to make the most of it.

Read 10 Ways to Train your Brain: https://t.co/VhuF8lt8QC

6. Focus on Yourself:

Social media is noisy on a day-to-day basis. Everyone is compounding 5% a day and their stocks are up even on the worst red market days.

Even though this illusion is due to selection bias, the results of other people do not impact your performance in the slightest and your focus should be inward not outward.

All it does is make you doubt your own abilities even though those traders may be much further along their trading journeys than you.

What matters is you, your portfolio, and the market.

Focus on yourself, your own mindset, and recent performance.

Makes changes to limit exposure and action when trading poorly and gradually increase exposure only when you receive positive market feedback.

7. Wait for the market to be right.

It's important to remember that if you see leading stocks with failed breakouts and many of your setups not working out, it is often a sign of the market conditions being poor for your style of trading.

When this occurs the logical thing to do is to step back as mentioned earlier and wait for a few breakouts to work and setups to re-emerge.

You want all the probabilities to be in your favor and a strong market is a large component of that.

In summary, when your performance as a trader slips you should take a step back, get in touch with yourself, develop new rules to guide you, and decrease exposure until your trading improves.

The keys above are as much about protecting your mental capital as your financial capital since without both you can not trade at your best.