Twitter Thread by DoejiStar



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Some reflections on trading psychology...

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> Was out tonight - great cocktails whiskey wine, all alone and didn't indulge in the people or beautiful women around me, instead I jotted down some notes after reflecting on trading psychology quite a bit this past week. Will expand on this once I come out of my daze...
>
> — DoejiStar (@DoejiStar) December 12, 2020

Trading is as simple as "do you think it will go up or do you think it will go down", yet this is one of the hardest jobs I've ever experienced and I've been lucky (or so I'm told) to have experienced a few - musician, pe associate, baker, biz owner, insurance underwriter.
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But with this simplistic binary proposition comes a tremendous amount of pitfalls which is well explained imv by Daniel Kahneman’s book “thinking fast and slow”, that illustrates a lot of why traders succumb to these pitfalls time and time again...
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And that is, Humans are innately horrible (horrible) traders. And it's no wonder why trading has an extremely low success rate. As I've come to realise from reading that book some years ago, we - Humans, tend be risk-averse when winning, that is to say...
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we tend to take our profits or whatever we have gained quickly; and tend to be risk-seeking when losing in that we tend to let our losses or whatever we may lose a chance (or give more risk) to recoup what we could end up losing.
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Traders will have heard the adage "let your winners run and take your losses quickly”. But as easy as that sounds, and as explained by Daniel Kahneman in so many words - it is in fact our psychological make-up to do the complete opposite!!
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Understanding, accepting and appreciating this is key to having a successful trading career imo because it is an extremely difficult thing to come to terms with. But by doing so, good traders go on to take steps to set up rules and processes to avoid those pitfalls that we...

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as humans often fall into when making financial decisions. The sooner a trader or aspiring one understands and does this, the better they stand to becoming a successful one whether that be via systematic trading or discretionary with a systematic element - a methodology...
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a process, and rules for risk management. Because at the end of the day, the odds are heavily stack against us and it all comes from within our own selves - our innate psychology. This continues to be a constant reminder to myself since "to err, is human" (A. Pope) and...
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as humans we are likely to err at times again and, to err in trading could very well be the precursor to the end or "game over". And when that happens, it is ridiculously hard place to come back from!
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This past week I've had a good number of profitable trade ideas but there was one 'problem child' - short EURGBP which made me think a lot about trading psychology and although there was a satisfying end, I came away with some very mixed feelings...
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The basis was for a dovish ECB tilt given recent data and lockdowns into winter since the past meeting, and a brexit deal making progress while seeing how the GBP rolled with the punches in recent weeks like the market was more hopeful than not.
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ECB response turned out to be underwhelming and no-deal Brexit risks went up causing EURGBP to shoot up nearly 2 handles. But as I continued to take losses by shedding more losing positions as it went up, I also continued to reestablish more shorts even though my thesis...
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turned out be wrong. Eventually, when 0.9125 came (a strong level I had marked out on my chart some weeks ago) I went on to short it in much bigger size than usual as I had a view on GBPUSD levels and believed it would be supported there after the sell off:
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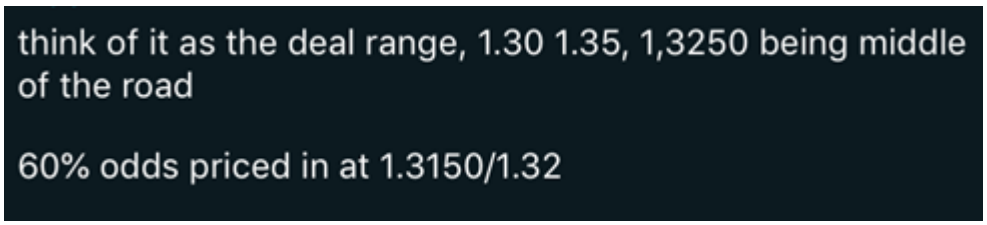

After a big pull back, I closed out most of that position and ended up slightly in the green net on EURGBP for the week with a little bit left to run as I planned to leave a small bullish bet for the weekend. But it isn't normal that revenge trading should

work out this way..
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and it all feels like a dirty win. After all, it did take headlines from a German Foreign minister to trigger the sharp pullback to come away with a strong finishing trade and one that could be considered very very lucky.
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In hindsight, patience and self-restraint was lacking and this goes back to what we know about our inherent trading psychology when dealing with losses. Had I been more patient, I would’ve most likely avoided a lot of unnecessary stress and losses between and re-engaged...
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at my marked-out level with more confidence and calm. Next time I find myself in that situation, it will be a time to step-back, reevaluate, replan, then having done all that to re-engage with a plan instead of fighting it relentlessly and compulsively.
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