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Dealing with Losses.

Perfectionists are often motivated by avoidance. The need to avoid unpleasant emotional experiences. Traders who seek the perfect system are also likely to be motivated by the need to avoid unpleasant experiences.

With trading losses, the only pain that you will suffer is the emotional reaction to a loss. If you concentrate on avoiding losses rather than on maximizing your overall gain, you are unlikely to succeed at trading.

Traders may all incur the same loss but suffer vastly different emotional responses. A lot depends on their past experiences not only while trading but in the broader arena of life.

More competitive u are, More uncomfortable u are about taking loss. From an early age, we programmed to compete, to win, to accomplish, to be top of the class, to always be right & to succeed at whatever we set out to do. Losses are equated with losing to be avoided at all costs.

Newcomers to trading often start off with a string of positive experiences. Unfamiliar with the basics of money management, they are often over-confident and prepared to bet large amounts of their capital in the expectation of further gains.

Past trauma affects how we view related experiences. A child who almost drowns may develop fear of water. Similarly, when hit major loss, many traders never recover. They quit trading completely or spend their entire career trying to avoid that negative emotional experience.

Developing Attitude Towards Losses

1 = Avoid chasing perfect system that promises to eliminate losses.

2 = Don't equate losses with failure. In fact, complete elimination of losses should be seen as a failure you are likely to have eliminated most of your gains as a consequence

3 = Distinguish between abnormal losses and the small losses normally incurred by any trading system.

4 = Accept that small losses are an unavoidable part of trading and that you will regularly incur them. They are as much a part of trading as are profits.

5 = Most successful traders, as Van Tharp points out, enjoy success rates no greater than 50%. What they are able to do, however, is to restrict the size of their losses while realizing substantial gains on their successful trades.

6 = Focus on the collective effect (maximizing your overall gain) rather than on the impact of individual transactions.

7 = Practice sound money management to restrict the size and frequency of your losses.