KNOWING THE TRAITS

Succesful Traders

So You Want To Be A Successful Trader?

Well, before outlining what it takes to become a successful trader, how about we first define the term. For our purposes, the definition is quite simple:

A successful trader is one who profits from trading in the Forex Market.

After all, sure the excitement and challenge of playing the Forex Market is an unbelievable natural high; however, if you're losing money, you will not stay happy for long and definitely cannot be considered a successful trader.

Now that we know what we are aiming to achieve, let's get down to the nitty-gritty of what's involved in actually becoming a success at trading Forex.

Nature or Nurture?

The good news is that **almost anyone can become a successful trader**. This was empirically proven by Richard Dennis and his 'Turtle' experiment.

In short, in the early 70s, Dennis is rumored to have borrowed $1,600 and turned that into $200 million about a decade later. Dennis believed that anyone could be taught to trade successfully and recruited 23 men and women (who he called 'Turtles'), not necessarily with a trading or financial background, and trained them to follow his Forex Market trading methodology.

After training them for 2 weeks and then letting them trade for a month, he gave them his own money to invest which they turned into a $175 million profit over the course of 5 years. A number of Dennis' 'Turtles' have stayed in the investment industry and forged outstanding careers for themselves as traders.

Now we're not suggesting that you follow Dennis' trading techniques as they may not suit your trading profile, however the point is that **you don't need to be a 'born trader' to be a potentially very successful trader**.

Imitation is the Most Sincere Form of Flattery

When we want to become really good at something, it's only natural to look at who are the best exponents in that field and imitate them. It doesn't matter whether it's basketball, soccer, we all 'Want to be like LeBron or Messi/Ronaldo'.

In the world of Forex trading there are also 'champions' who are worth emulating – traders who consistently make vast sums of money. And with the copious amounts of freely available material available, we can attain numerous insights into what makes these traders serially successful.

What we find from analysing the great traders is that they each have a different way of trading that suits their personality and world view. However, they also have **common traits that are the bedrock of their achievements**. It is these traits that we will reveal for you in the coming pages.

We have ascertained that almost anyone can make money trading, but there are rules to the game that must be learnt, assimilated, adhered to and mastered if you are to consistently make money trading. Following are what we consider to be the prime traits of successful traders:

1. Know Yourself

Every successful trader has an intimate knowledge of their own character…and must trade accordingly. There are literally millions of ways to make money in the market; however, what suits George Soros may not necessarily work for Bill Lipschutz.

If you are not familiar with these names, you should be. They are legends in the trading world but didn't make their billions in exactly the same way. Ask either of these legends about their character traits and what works for them as traders and there is no doubt they could tell you their strengths, weaknesses, how they trade to their strengths and negate their weaknesses and how they trade in accordance with their own unique personalities.

Know Your Personality and Trade Accordingly

There is plenty of money to go around, but you have to find the best method for you to get your share of the pie – and how you do this is dependent on your personality. Aggressive traders may conceptualize the market as a **war**, less aggressive traders as a **game**, yet other traders as a **romance** – there are no set rules and whatever works for you is valid.

Are you a restless trader always looking to scalp a trade for a quick turn? Do you want to take a slightly longer term view by taking a position and watching it grow in expectation of a larger return? Do you want to be glued to your computer or smart device watching every tick or do you want to trade Forex more passively? What is your propensity for risk taking – are you a real risk seeker or are you more risk averse? Do you feel more comfortable playing the market from the short side or long side? Are you going to trade using technical analysis, fundamental analysis or a combination of the two? Are you a contrarian or do you run with the pack? These are just some of the questions you will need to answer to become an effective trader.

The beauty of Forex Trading is that **every personality type can make money**. By adjusting position size, leverage and trading frequency, both risk-seeking and risk-averse investors can profit, but they will do so differently.

Trading will teach you more about yourself than you already know. It is an evolutionary process where you need to know what works for you, as what works for you may not work for others and vice versa. That is why it's fine to have a trading hero, but you need to have the courage and faith of your convictions to **be your own hero**.

2. Know The Market

You wouldn't operate on another human being without having studied medicine and you wouldn't try to defend someone in a court of law without legal training. Should you look to enter one of the most competitive trading arenas in the world without a thorough knowledge of what you intend trading and how you intend trading it?

Knowledge is power and never has knowledge been more freely disseminated and available than today. The Internet has been the great leveler in the distribution of knowledge. In fact, there is probably too much information out there, so you will have to spend time finding what news sources you can consistently rely on as nobody has the time to read or listen to all the news on offer.

Knowledge is Power!

Similarly, know the ins and outs of the market. For example, do you know that the best time traders tend to make more profitable trades when markets are less volatile? However, the big money is usually made during the big market moves – so much information and so much of it seemingly contradictory.

And to add to all the drama, when trading Forex, you will have to assess information in real-time and make decisions instantly based on your assessment of that information. Forex trading is not for the faint of heart or weak of mind.

The Forex Market itself, due to its competitive nature, free and equal release of information and massive size is free from manipulation. This guarantees an even playing field for all participants. Consequently, you can trade safe in the knowledge that, if you are good enough, there is nothing stopping you from making a mark for yourself in the market.

3. Know That You Don't Have To Be Manic Depressive

Benjamin Graham wrote one of the seminal books about stock market investing. And although the stock market is not the Forex Market, there are many similarities. In The Intelligent Investor, Graham wrote about the manic-depressive nature of the market.

Logic would dictate that if you want to be in synch with the market, you too need to be manic-depressive. Thankfully, nothing could be further from the truth.

Humility, Bravado, Self-confidence, Modesty, Courage

The Forex Market can make a fool out of the best of us. Even the best traders make losing trades. That's why it takes a mix of **humility and bravado, self-confidence, modesty and courage** to make it as a Forex trader. You have to be self-critical not only when losing money but also when making money; constantly analysing not only why things didn't work but why they did work. You need the confidence to be able to 'pull the trigger', but the humility to know that you are but a small piece in an enormous puzzle.

Other great lessons to be gleaned from Graham's book that are just as applicable to the Forex Market include:

- **Transactions are strictly at your option:** It is best to trade when you have a high conviction trade (see 7. Know Your Downside).

- **The market is there to serve you, not to guide you:** You should not be a slave to the market and don't expect the market to hand over its rewards easily.

- **The market offer you a chance to buy low, and sell high (and in the case of Forex, vice versa)**: Not exactly 100% accurate as it pertains to Forex trading as you can always buy high and sell higher (or vice versa), but the general idea is to convey that you must be aware of where you are in the trading cycle.

- **The market is frequently efficient, but not always:** Many factors can cause market inefficiencies such as regulation and Central Bank intervention. This is often a time when huge gains can be made; however, as always, timing is everything.

4. Know When to Cut Losses And Let Profits Run

This is one of the most important facets of a great trader and one of the most difficult to internalize and act upon as it runs so contrary to human nature.

As discussed previously, anyone who has ever traded Forex has had trading losses. It's how you manage those losing trades that will truly determine whether you are going to be a successful trader over the long-term, as limiting losses and letting profits run is the key to trading success.

'Nobody ever went broke taking a profit' is a fallacy!

The Fallacy Explained
To illustrate this concept, suppose you set a trading rule that you take profits every time you make 20% on a trade but don't make a trading rule pertaining to limiting losses. It is not too difficult to foresee how one bad trade can destroy a string of profits.

Or to quote one of the all-time trading greats, Stanley Druckenmiller, who traded under the legendary George Soros, about what he learnt from Soros:

"I've learned many things from him, but perhaps the most significant is that it's not whether you're right or wrong that's important, but how much money you make when you're right and how much you lose when you're wrong. The few times that Soros has ever criticized me was when I was really right on a market and didn't maximize the opportunity.

Soros has taught me that when you have tremendous conviction on a trade, you have to go for the jugular. It takes courage to be a pig. It takes courage to ride a profit with huge leverage. As far as Soros is concerned, when you're right on something, you can't own enough."

Trading Psychology 101

To analyze the psychology behind why cutting losses and letting profits run is so difficult, picture the following scenario:

You are losing money in a trade and your account is being debited as it is marked to market. Once the position is closed, the loss is crystallized and the funds removed from your account. It's not a nice feeling. As long as the trade has not been closed, theoretically there is a chance to recoup losses. On the flip side, when you are making notional profits, it's very tempting to want to 'grab the money' and crystallize the profit ASAP.

These two situations are contradictory to the cause of making consistent profits and the natural human tendency to trade this way must be overcome to achieve trading success.

The logic behind trading this way is as follows: When trading, if your position is moving in your favour, it means that your original trading premise is sound, and vice versa. Consequently, it follows that it is prudent to cut losses and let profits run.

Successful traders use numerous techniques for minimizing losses and maximizing profits, such as:

- **Stop loss orders**
- **Trailing stops**
- **Averaging up**
- **Only enter high conviction trades**

These are proven techniques that any trader can implement in conjunction when using a professional trading platform.

5. Know How to Manage Your Money

Money management is no less important than your trading decision.

Trade position size is of vital importance. If you have a few thousand dollars to invest and invest it all on one trade with zero room for error, the result will be self-fulfilling. And even if by some fluke the trade did work in your favour, if you continue to invest so irresponsibly, it is only a matter of time before you incur a loss that will be too heavy to sustain and will stop you from enjoying the enormous potential profits that Forex trading can bring to the patient and disciplined investor.

The fact is that with the leverage on offer to Forex traders, there is no need to 'overtrade' when it comes to position size. You are capable of achieving outstanding returns with sound money management.

Who Said Size is Not Important?

The saying, 'Don't put all your eggs in the one basket', is used to explain diversification in the stock market. In the Forex Market, it is of greater relevance in explaining that you should not take on position size beyond what you can manage.

Once again, you can do this by setting rules for yourself with regard to position size and pre-determining not to trade more than a certain percentage of your funds on a given position. The percentage is arbitrary and in keeping with your financial resources, trading profile and personality.

Trading Forex (or anything for that matter) should not be keeping you up at night, tossing and turning. In fact, the great stock market speculator, Bernard Baruch, wrote that one should sell (or buy if you are short) to the 'sleeping point'. Remember, the Forex Market is there to serve you; not you the market.

6. Know To Be Self-Critical

Great traders learn more from their losing trades than they do from their wins. This involves being self-critical and constantly analysing not only what you did correctly when executing a profitable trade but perhaps more importantly, why you lost money on a losing trade.

Did you follow your trading plan? If you did, is your trading plan still valid or does it need reassessment? (Remember, one loss is not a reason to change a previously successful trading strategy but a string of losses means that you are probably doing something wrong). Were you disciplined enough during the trade?

Forex Trading is all About Critical Assessment

These are just some of the questions you need to constantly be asking yourself so that you can become the best trader you are capable of being. Dishonest answers mean that you are only deceiving yourself and the Forex Market is a stern teacher. On the positive side, when trading Forex, you instantly know whether you are doing things correctly as your scorecard (account balance) is updated in real-time.

The great traders are at a stage where they know what works for them and what doesn't and their trading is a natural extension of the lessons they have learnt over time and integrated to their trading. This is what you must also aim to achieve. This doesn't mean that they don't lose money from time to time, but their record does speak for itself.

7. Know Your Downside

It's easy to get carried away when trading Forex. The market can be so exciting that it can be difficult to maintain your composure. However, to be a successful trader, you must at all times maintain your equilibrium.

One way to maintain your trading compass is to know what your approximate downside is before entering a trade. Using stop loss orders is the key to managing your downside. However, taking this to the next level, you need to have a pretty good idea of what your downside is relative to your upside – and only make the trade if you think the odds are stacked in your favour.

Downside, Upside, Probability

For example, most traders would risk 10% downside to make 50% profit. However, would they do so knowing that there is only a 5% probability of achieving the 50% return?

This is the question you must be asking yourself before entering a trade. Just like a sporting competition is usually won before the athletes enter the arena due to the research of the opposition, the intense training and the game plan to be implemented, so too when trading Forex, the trade is often won or lost before executing the order due to your research, analysis and trading strategy.

High conviction trades, where your research and other analytical rigidity have all point to one particular outcome are one way of consistently trading profitably while limiting your downside. However, even then, never forget to use stops.

Psychology or Trading?

So there you have it; seven of the traits that have helped the best traders get to and stay at the top in the ultra-competitive world of Forex trading.

You may have noticed that of 4 these 7 traits have to do with psychology, for although the Forex market is dominated by fear and greed, the fact is that every emotion possible is encapsulated in the market. It is our task to objectively assess them and act accordingly to profit.

We hope you have noticed that every one of these traits begins with the word 'Know'. This is no coincidence. One of the definitions for this word is, 'to have established or fixed in the mind or memory'. And this is what you must do to be a successful trader – have an established set of rules and trading strategies that work for you that have become second nature. This will enable you to trade profitably over the long term.

This requires incredible discipline, intelligence, determination, nerves of steel, a trading plan, constant self-appraisal and even a sixth sense. Keeping track of so many intangible elements in real-time whilst trading volatile markets is not easy; however, the rewards, both from a financial and personal perspective are unbeatable.