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TRUST YOUR INSTINCTS

Make money the old-fashioned way: listen to your gut

Traders who transform split-second decision into gross sums of money usually share three simple attributes: a strong stomach, a systematic framework and a great deal of intuition. Instinct, after all, is the final arbiter when systems don't generate clear signals.



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Many of the top traders with whom I work trust their gut instinct about when to cut and run, and when to double up a position. Their instincts are honed through long hours of market observation and participation, which ultimately teach them when to let it ride and when to pull the plug.

Most perfectionist traders work diligently and tirelessly to find a competitive edge. So I give them strategies for developing a greater sense of harmony between their intellectual, or systematic, approach and their gut instincts. As most traders know, hesitation can prove fatal, especially when opportunity is as fleeting as an uptick in a plummeting stock. The following strategy signposts, combined with core trader mechanics, help some of these guys stick to their guns, or cut and run when their gut tells them so.

Signpost 1: Be A Specialist

Many traders with whom I work live and die by a group of stocks, specific industry sectors or market indexes for which they have a "feel." It is a powerful feeling to observe subtle market changes, understand what makes a group of stocks tick and successfully predict their trends.

Traders who become specialists often feel their confidence soar and begin trading with the Midas touch. It's simple: Pause before making a tough decision, remind yourself that you have invested the tough research hours needed to become an expert and, therefore, feel confident that your instincts are probably right. As a specialist, you are ahead of the crowd and should feel free to rely on your own decisions instantly -- not looking to others for confirmation. You can only bank on yourself!

Signpost 2: Point and Go!

When traders lose confidence in their gut instincts, they often waver. If a decision is unclear, trust the law of probabilities. If you are already a specialist on a particular stock or sector, half the battle is won. Let the money ride on your track record. You've seen this trend before, so it's worth the risk. Trust yourself and make the trade if your gut tells you to.

Execute, close your eyes, sit back, sit on your hands, and let the outcome tell the tale. If you have the right "feel," you will reap the rewards. No hesitation, no missed opportunities. Signpost 3: Be the Shepard, Not a Sheep!

Don't allow unsolicited advice to influence your trading or you will change your mind too frequently to execute a timely trade. Thank them for their insight and do what you feel is right in the end. Ask yourself, "Do I really expect to collect any informational knowledge from these people, or will they just share their "feelings" on data I already know?" Without any new data, outside opinions are often less accurate than your own. Remember - you are the specialist.

For example, everyone begins shorting Proctor and Gamble but you feel it is overdone and might rally into the close. Hold out a little longer, and then place the trade, despite market chatter or a tick of unfavorable price movement. There is great upside potential and minimal downside just for going with your instincts. Be a contrarian, go with your gut and avoid getting slaughtered with the rest of the sheep.

Sign Post 4: Listen For the Signal, Make the Decision

The more you learn from your mistakes and successes, the more trusting you will be of your initial instincts when faced with an unclear decision. With each new day, create a template in your mind of how particular stocks or sectors will behave. Always respond to the market; don't try to predict it. When a stock or sector begins behaving in a stereotypical way with which you are familiar, sit quietly at your desk and wait for a "click" in your head. Other indications: widening eyes, an increased sense of alertness and a shortness of breath. That is your gut instinct reminding you that you know what to do in this tough situation.

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Would you compete in a charity boxing event?

- Yes
- No

On the other hand, when faced with an unfamiliar situation that doesn't match up with your template, trust your gut instinct to sit this one out and pick up a new learning experience. You'll remember how it behaved the next time you see it, you'll recognize your internal signal and you will go in for the kill.

Dr. Alden Cass will answer your questions in his next columns. Write to stockdock28@aol.com with questions about trading strategies, mental blocks or how to shake a slump. And see the Stock Doc's answers here soon!

Dr. Alden M. Cass, President of Catalyst Strategies Group, is a licensed clinical psychologist who works with traders and risk managers to help them achieve financial, corporate, and personal goals. See full profile, or visit his website, <http://www.catsg.com/>

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5/20/05

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