

Stock Doc: Don't Trade With Your Wallet

Fear of losing money can keep you from making a killing.

BY ALDEN CASS

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Trading in our markets is not for the faint of heart nor the weak of stomach. It can be fraught with tremendous risk and uncertainty and requires great skill and emotional discipline to be successful. The slightest turbulence can cost the amateur trader or investor the monthly mortgage payment and maybe even his sanity.

My client "Greg" was an amateur investor who was very proud of his Scottrade account and the returns that he achieved. However, as successful as he believed himself to be, he was still small potatoes when compared to the top traders that I worked with in my private practice in New York City.

Greg lacked the conviction that seasoned traders had when it came to making tough decisions. He came to me for a variety of reasons, one concerning his transition to a new law firm and the other related to his recent floundering in the markets. His Scottrade account had taken a hit and so had his confidence level.

I helped Greg focus on resolving his trading woes and developing more confidence in his strategies. Many of you who are rookie investors or traders will identify with Greg's issues. And for the seasoned veterans out there, his Achilles' heel may be yours as well. Greg's success was hampered by the fact that he was more afraid of losing money than of yielding a smaller return. He became hyper-focused on how much he could lose on a recent trade of **Sirius Satellite Radio** (

SIRI) amid rumors of a merger with **XM (XMSR)**.

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As his position faltered, he reached his mental stop-loss and pulled out of his initial strategy prematurely. Not surprisingly, he was completely trampled by changing tack. As a result of his lack of discipline and courage to wait out the herd, he missed out on making a killing. He was trading from a position of fear instead of one of confidence.

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At the time of publication, Alden Cass had no positions in stocks mentioned. Cass is a performance enhancement coach and clinical psychologist for Catalyst Strategies Group (www.catsg.com) who specializes in working directly with individual and teams of senior investment executives, including high-profile CEOs, top hedge fund and prop traders, investors, and financial advisors to help them achieve their financial and personal goals. He works to modify behaviors that are hampering their performance and to give them the mental edge within competitive work environments. He is a licensed clinical

psychologist and an expert on the use of psychology in the financial services industry. He has conducted behavioral healthcare studies on retail stockbrokers that indicated that 23 percent of the group measured met criteria for major depression. His research has been presented at both national and international conferences (APA, ICPP). He is a major contributor to columns in On Wall Street Magazine and Traderdaily.com. Cass has also conducted workshops with the Securities Industry Association, Money Management Institute, Trader Monthly Magazine's Peak Performance Workshop, The Wall Street Branch Managers Meeting at the Federal Reserve Bank of New York, and the London Bullion Market Association, the Silver & Zinc Association, the Investment Management Consultants Association (IMCA), and the Investment Products Association (IPA).

He has appeared in the following media: The Today Show, Fox News Live, New York Magazine, Businessweek, Lou Dobbs Moneyline CNN, CNN money.com, CNBC London, Financial Times, London Financial Weekly, Washington Post Radio, NY Newsday, On Wall Street Magazine, E-Trade "On Air," BBC Radio, Reuter's Business Newswire, New York Times, Boston Globe, Absolute Return Magazine.

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Sit on Your Wallet, Count Returns Later

I drilled down with Greg on what thoughts streamed through his mind before he executed a trade. He told me that he had images of his wife being forced to go back to work as a sales representative if he took a huge loss. He imagined his current balance plummeting down into an intolerable negative number. As he recounted this imagery, his face began to flush and sweat trickled down the sides of his forehead.

When faced with the prospect of losing money, Greg's conviction abandoned him, despite the fact that he was missing out on making a large sum of money. This phenomenon is what I like to call "trading with your wallet."

The concept is actually quite simple. If you expect to make money investing in the short term, you had better be ready to back up your strategy with some courage. You should even be prepared for that initial slap in the face. Often you hear the saying "you have to have money to make money." On the surface, there may be some truth to that when it comes to trading. Having a financial cushion allows you to wait out a position longer if it should take a turn for the worse.

Good traders must be willing to risk losing a great deal of money in order to make money. If you cannot or will not make this investment, you will panic, pull out of trades prematurely, and bring home peanuts at the end of your trading day.

I told Greg that in order to be an all-pro investor, he needed to "sit on his wallet" when his first instinct was to pull the plug on a well-thought-out position. This is easier said than done, I am quite aware. However, this is what separates the men from the boys on the battlefield.

Thankfully, Greg had past trading successes to refer back to as a confidence boost for making trades he'd thoroughly researched.

If you believe in your original theory about a trade or if you have a rigid and disciplined system working for you, stick to it. Be self-assured and then let the money ride. This is a game of risk, and you can't make money unless you can confidently deal with the uncertainty of making that trade.

Please write to the Stock Doc with your trading or investing dilemmas. Dr. Cass always welcomes comments and stories, for which he'll try to offer valuable solutions in later columns.

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