

Mindfulness in Trading: Building the Emotional Self Control to Achieve Your Potential

Getting Blindsided by Implicit Emotional Brain Beliefs

Trading success seems so simple in principle, then the reality of trading blindsides traders. Without having a clue about what they are getting themselves into, traders walk into an emotional minefield for which they are completely unprepared and end up paying the price of emotionally undisciplined trading. The thinking, logical left brain simply gets blown out of the water consistently by primitive emotional responses to the stress of trading. Yet few acknowledge the power that emotion and trading psychology have on achieving their potential in trading. It is almost like there is a conspiracy in the deep state of trading to keep this knowledge out of sight and out of mind.

With all their training, traders are taught to think naively and to believe they are ready to manage the uncertainty and risk of trading – and they do so until they actually experience uncertainty and risk which triggers their survival instincts. Yet as hard as they strive for success by developing their knowledge and gaining experience, traders walk through a door into a world which is alien to them. Emotional cascades of fear, aggression, and over-confidence erupt and spiral their trading minds out of control, blowing up their capacity to get to the next level in their trading. Then, out of dogged-determination to win by perseverance, they do it again and again. The pattern does not make sense until they learn how to look at it with new eyes. Let's take a more common example of an instance where the brain supplies a performance mind that is blind to the dangers of a new reality.

It is not just in trading that this phenomenon happens. I live in a rural area of the Piedmont of North Carolina where we just experienced a powerful and freakish snowstorm. In this area of the country, with its lack of knowledge of how to manage snow, everything stopped because the roads were frozen in deep ice and snow. People were told to stay home and off the roads. And the remote road I live on is one of the last roads to be salted and plowed in the area. It is curvy, goes up and down hills, crosses creeks, and has lots of shadowy areas where the sun does not melt the ice on the road.

Remember, these are curvy, up and down roads covered by ice and snow – that's important to remember. (Think of this as the unpredictability of the markets.) That's the emotional minefield that many drivers, for some unexplained reason, have to travel on even though the authorities give explicit instructions for people to stay off the roads (particularly the back roads like mine). In trading, I would call this mindlessness.

So what do you think (mostly men) people do? (Remember to compare this to trading.) They get in their muscular pick-ups and SUVs with 4-wheel drive and decide that they have to go somewhere – just like traders believing they have to be trading to be trading. They have to

prove themselves (that's the alpha trader). Revving up their engines and sensing that power, the drivers feel safe and confident in their testosterone laden trucks (like their sure fire trading methodologies and platforms), and that 4 wheel drive of theirs which gives them power to control outcome. They are large and in-charge. This is the perception of reality in which they live.

And, in their mindlessness, they do not recognize that a frozen road is still frozen, and their heavy duty, 4 wheel drive trucks still slip and slide every time they hit a patch of ice in a turn. They are blind to that reality as they enter the minefield with the utmost confidence in themselves and their machines. This is the illusion of control that breeds overconfidence and blindness of the reality into which they have just jumped, due to their mindlessness. It is the mindset of the alpha that pushes to make things happen, to win, to not take "no" for an answer, and they enjoy putting themselves to the test. Fear based drivers and traders act from a different set of beliefs about managing their reality.

You know what happens when they engage a reality beyond their understanding – they deceive themselves until they get whacked, just like traders. They hit the black ice as they are entering turns or as they start descending a particularly steep hill leading to a bridge over the creek. Four or five trucks end up skidding off the road because they are going too fast (in their overconfidence) around iced roads. Or their trucks go sideways on them as they start braking while going down the steep hill – and discover that in the reality of the snow storm they have no traction, despite their belief of being in control. They are confronted with a reality for which they are unprepared. You would think that they would learn, but they just get bigger trucks – believing they will have control then. (As for traders, they just keep looking for the Holy Grail.)

The very same thing happens in trading every day. But before trading, you lived in a reality outside of trading that has a set of rules with which you learned to operate successfully. In this world:

You learn that hard work pays off.

You learn that you can make things happen rather than just sitting around waiting

You learn to have a winning attitude.

You learn to not think like a loser – nobody who seeks success wants to lose.

You learn to act confidently.

And especially you learn to be right (and not wrong). These success rules seem to work in most endeavors in life.

So why would they not work in trading? The winning mindset becomes the biases, assumptions, and beliefs that you bring to trading. The problem is that the reality of trading operates from a completely different set of rules than your brain initially normalized. The old rules brought survival and success, so they have been wired into automatic responses (limbic learnings) that trigger without the participation of the thinking brain. They operate outside of working awareness using a language that the thinking brain does not even recognize – emotional learning.

The thinking brain, using its logic and reason as the ground of understanding reality, does not perceive the emotional learnings that dominate more than 90% of how the brain operates. Translated – the vast majority of trading decisions you make are made at the unconscious emotional level and the thinking brain never knows about the decision until after the fact. The thinking brain is blind to the presence of emotions, even while they are hijacking rational thought. They are just like the truck drivers who are dangerously clueless about managing their trucks on ice and snow. Until you make the implicit emotional brain a partner with the conscious thinking brain, you will never be able to change the way you act under the stress of risking capital in an uncertain world.

Everyday Reality vs. Trading Reality

Much like the drivers of 4 wheel drive pick-ups and SUVs, who know the reality of what their machines can do on a road but are clueless to the reality of snowstorm driving, traders bring a mindset to trading that does not match up with the realities of successfully managing the uncertainty inherent in trading.

The reality that has to be faced is that the markets are random, to a large degree. And traders are looking for set-ups that represent a probability of a pattern showing up in that randomness. Sometimes the set up pattern does form and does follow the pattern of the prediction. And often it does not. This is the randomness or the uncertainty that drives the primitive emotional brain of a trader nuts. Your brain evolved to seek certainty and control over outcome – even if it had to lie to itself. How many times as a trader have you decided that you are right and pushed your agenda onto the markets in your decision making? That need to be right (and not wrong) is a deeply wired survival trait that operates implicitly (out of conscious awareness) from its home in the emotional brain. Then the thinking brain makes up a narrative to support what the emotional brain has already decided. This is all happening outside of conscious awareness.

Logic and reason does not run the show. You simply rationalize the deeply held beliefs that drive your emotional brain's perception of dangers and opportunities in the world. Your brain also cannot tell the difference between a real biological threat to life and the psychological discomfort of making a decision based on ambiguity. Your brain makes decisions about survival in the short term, based on the level of threat perceived. The closer the cause and effect (loss or win) is, the more powerful the emotional brain is triggered to respond on a level of instinct (outside of conscious awareness). This is what gets the trader in trouble. This is a very different reality than the rules that governed success or failure before trading. Now the trader is like the guy who drives his big hulking pick-up or SUV onto the icy roads without understanding what he is getting into. Before the snow storm, he felt he was in control behind the wheel of his powerful machine. The snow storm brought new rules that he is mindless to. Cause and effect catches up with his faulty thinking.

Trading requires that you give up the illusion of control – which goes against 6.5 million years

of successful survival adaptation through evolution. The brain you brought to trading loathes the uncertainty and randomness of the markets and it triggers you, the trader, to fight/flight instinctual responses in your encounters with uncertainty. Your brain also wants to be right. And in trading you discover that you can do everything right and still be wrong due to the randomness of the trading reality. Your brain is simply going to need to be retrained for the reality of trading. To change the brain and mind, you are going to have to become a community activist. That's the way your brain and mind operate.

Learning to Be Aware of the Community of the Self

Beyond learning how to regulate your emotional nature, there is also the need to become much more aware of what actually is going on in your mind. As you learn to become mindful, you discover the mind is actually more like a community of voices, rather than speaking with a single voice. This is the link between brain and mind. What you are experiencing are emotional programs that have been adapted by experience and are given voice as your thoughts. They become locked into place on a synaptic level in neural networks by limbic learning and are typically in conflict with one another. You experience this situation when you are "of two (or more) minds" about something or when you cannot make up your mind among various options. By learning how to observe the mind as you trade, you will start noticing how unruly and noisy it can be, and how it needs to be reshaped for probability management rather than the certainty focus from which your brain currently acts.

Have you ever really tuned in to the internal conversation that is going on in your head when you are making a decision under stress? Let's say you are experiencing self-doubt as you are approaching an entry decision. At first there are no set-ups on the horizon and you are just watching the markets. Notice, even here, if there is anxiety about potentially entering a trade. You may experience tension in your jaw, your chest, your neck, and/or shoulders, while at the same time you catch yourself breathing shallowly. You are actually experiencing the arousal of the emotion of anxiety (worrying and anticipating what could go wrong or that you could lose). The anxiety has a biological, an emotional, and a cognitive component.

The biology of the emotion is the muscle tension and shallow breathing that is preparing you for the instinctual fight/flight response of the sympathetic nervous system. Then you feel anxious. That's the feeling element of anxiety. Then the self-doubt kicks in – that's the cognitive component of your anxiety. Then you get your first confirmation of the set up. Yes, it's a potential actionable trade in the making. Notice what happens now. The emotion builds and you start having an internal conversation where you notice the self-doubt. You doubt yourself as a trader. You doubt this trade. And as the negative conversations in the community of the mind keep the pressure up, you begin to feel scared. Then comes another confirmation. It is a valid set up. And if you get one more confirmation, you will need to find the entry point and get in the trade.

"But, what if you lose?" You doubt yourself even more. A critical voice inside your mind screams about your incompetence and a small child-like voice in your mind agrees with the

internal critic. The moment arrives. It's decision time. But your fingers are frozen on the mouse. You, in fear, cannot pull the trigger. An epic battle ensues. "Pull the damn trigger!" "You're going to miss the trade!" – a familiar angry and condescending voice barks. A dense black pit gnaws at your stomach. "Why can't I pull the trigger? Pull it! Pull it!" You rationalize getting in the trade and, simultaneously, rationalize staying out of the trade. You are not being rational – you are rationalizing. This is internal struggle.

You want to but you can't. The moment passes. You feel a sense of relief from the struggle. But then you watch the trade take off and make a run to your original target. Now you feel like a fool. Inside your head, you are being ridiculed. And you feel ashamed – "you'll never make it as a trader". But next time, you decide – "I will jump into that trade." You won't let your demons win again. You'll show them. Now you are setting yourself up for impulsive trading to get past your fear of entry. The battle in the community of the mind rages.

This is the internal struggle that goes on when an undisciplined trading mind engages uncertainty and then feels vulnerability. The default programming from adaptation in your limbic brain leads to the fight/flight response of your survival instincts. Most traders attempt to ignore or push aside this internal struggle going on among factions of your community of the mind. This may be a useful strategy outside of trading. But moving these successful old strategies from another time and place into trading produces the blocking of your potential as a trader. In trading, you have to acknowledge and reorganize the community of the mind. Originally the community of the mind was organized by your survival instincts for short term success. This is what I call the certainty based mind (insuring survival in the short term). The trading mind has to be built for probability management (which is alien and dangerous to the emotional brain). To do this, fear has to be calmed. Then the brain's emotional programs have to be reorganized at the level of belief.

Fundamentally what you are experiencing while risking capital with an uncertain outcome is the limbic beliefs (below the threshold of awareness) that you hold about your capacity to manage uncertainty. You come stocked with a brain and mind that avoid uncertainty and want control due to the fear of biological threat to survival. Your task, in order to be a successful trader, is to reprogram the ancient survival instincts so that you are comfortable with uncertainty and probability. The fear and aggression of the limbic brain's survival instincts when exposed to uncertainty has to be modified. The emotions that give rise to the community of the mind need to be comprised of discipline, courage, self-soothing, and impartiality. This is the emotional foundation of the probability mind.

This mind can be built. It takes effort, and it can happen by luck or design. A few traders do make it through the gauntlet and learn to develop the mind that is effective at managing uncertainty. The vast majority fail. Design is a better option for those serious about developing the mind for effective management of uncertainty. The body, your emotions, and your thinking brain all have to work together to produce this change. Start with emotional state management. Move to mindfulness so you begin to understand the beliefs behind your performances. Then start developing the emotional programs that give rise to the probability

mind. It is the trading mind built by design rather than luck. The emotional nature of the limbic brain and the logic of the thinking brain become partners – you use emotions to create the mind you bring into the moment of performance. You learn to use emotions to reorganize the mind that trades.