

Chapter 1

The Foundations for Successful Trading

This chapter focuses on the big-picture items and explaining the foundational skills you need to learn as a trader.

Just as with building a house, you must have the proper foundation to be successful as a trader. Without that, your entire endeavor will come crashing down. I know this personally because a house I bought didn't have a good foundation, and the walls caved in and I had to rebuild. I have also had to rebuild my trading skills because some of my habits and ideas were not built on solid methods. I want to make sure you have a solid foundation.

This chapter provides you with the fundamentals you need for success:

- The first thing to know about trading is to keep it simple, so that you will be able to follow and execute the strategy.
- The second thing you need to know about trading is that “simple” doesn't mean it is easy. If it was easy, everyone would be a successful trader.

Trading a Simple System

As I mentioned above, trading is simple; however, you must learn a set of skills that are built one upon another in order to master the craft of trading. In other words, trading is composed of multiple skills that must be put together in order for you to be successful.

I like to compare trading skills to the human body. The human body has a lot of different moving parts. We have a brain. We have a skeletal system. We have a muscular system. We have a nervous system. All of these things work together to create a healthy functioning human body.

If one of those systems is out of place, it messes up everything else in the body. For example, if your skeletal system is weak, you'll break bones, and it's going to ruin your quality of life. All the systems of the body need to be working properly. And trading is the same way. There are many foundational things that you need to learn and apply to be successful.

Many traders think if they just learn a strategy, that's all they need to know. But there are many different skills that you need to learn in addition to strategy.

This book is written to teach one key skill at a time. Then, I put the entire system together to come up with a way to be successful in trading. Because just as the human body works as a complete system, when trading, if we don't have all systems functioning properly, the entire trading will not be as profitable as it could be.

We must focus on one skill at a time as we learn to become a winning trader. Focus is one skill that a trader must develop to truly excel at trading.

Here are each of the foundations that you will learn and apply by the end of this book.

1. Trading mindset.
2. How to complete a market analysis.
3. Identifying trends a trading them for maximum market movement.
4. Market flow and levels. Learn how to be better than bank traders by understanding these.
5. Candlestick patterns and chart patterns: increase your accuracy with these patterns.
6. How to form a daily trade plan.
7. High-performance entry methods.
8. Using a daily process to create high performance and consistency.
9. Risk management execution and strategy.
10. Road map for long-term growth.
11. Profit maximizers to compound your trading profits with investing.

Once you put all this together and learn this system, you will have a way to create extra revenue for the rest of your life.

The Power of Consistency

One of the major themes of this book, which does not get discussed often, is the power of *consistency*.

Before you can make \$1 million you need to know how to make \$1 and then keep \$1. Then you need to know how to do it again, and again. Each day. Every day.

Many people think they are wasting their time learning to make \$1, but the truth is that if you can learn to make \$1 consistently,

then you can learn to make \$10 consistently. And from there you can learn to make thousands of dollars in the market.

But it is a process, and it starts small. John Meli—one of my students, friends, and now coach who works for my trading education company, Trading Strategy Guides—often says that the “market is designed to take money from you.”

He is right, but those of us who learn to *keep* it consistently can become consistently successful traders.

Do not look at your (potential) millions before you learn to make \$1. Once you learn to make small amounts of money, you can learn to make large amounts of money. I like to focus on the big picture just like everyone else, but it is important to realize we need to start small and work our way up to massive trading success.

The best way to be a successful trader is to start small. Learn how to consistently take profits out of the market, and if you can do that, then you can scale up later on if you want to.

Shortcuts will not work for trading success. If you want to solve your financial problems with trading, that is a noble thing to do; however, you must know that there are no shortcuts. You must learn the key foundational aspects of trading that I lay out for you step by step in this book.

Next, I talk about major obstacles to trading success.

Biggest Obstacles to Success

There are many things that will snag you along the way. These obstacles are not always obvious, so I’m laying it out here in the first chapter. These are the main major obstacles that I have experienced:

1. Believing that all I need is a strategy and disregarding the rest of the foundations.

2. Not following a system—because of lack of discipline and trying to make money too fast.
3. Not taking responsibility for success—blaming the markets or others for my mistakes.
4. Risk management issues—not being careful with risk, trying to get rich quick by risking big.
5. Quitting before breakthrough. There are so many times I stopped too soon. If I had just kept at it a bit longer, I would have been successful.
6. Having a too-complicated system. It is very difficult to follow a complicated system, so we are going to keep things simple.
7. System hopping—jumping from system to system because I think that is the answer when my own lack of integrity is what has caused me to fail.

Richard Dennis, the founder of the Turtle Traders, once said that you can publish the rules of the strategy, and because people have no discipline, they will not follow them. I have concrete proof that this is a true statement. An example of this is that my website TradingStrategyGuides.com has hundreds of free trading strategies. I have people going to that site every day to learn how to trade the markets. Yet few learn and are successful as a result of their searching—even though there are hundreds of strategies posted for free.

The reason most people struggle to learn successful trading is because trading isn't as easy as they hope it will be. When things are difficult, you must dive down, dig deep, and figure out how to solve the problem in front of you.

People tend to jump from strategy to strategy, looking for the next big thing. One reason my website (TradingStrategyGuides.com) is so popular is that I offer many strategies for free. Many of the traders who get these free strategies will later update to paid strategies. They do this not because the paid strategies are better.

The main reason is that some traders lack the discipline to follow a strategy consistently.

There is a serious condition called the *shiny object syndrome*. People with this syndrome will try 100 different strategies, but they won't master any of them. This is something I suffered with until I learned the hard way. By failing so many times, the pain became too great, and I finally just changed—I learned that there is no reason to switch to a new system if you're not properly trading the one you have.

Rather than work to solve the real problem, people with this syndrome will jump from new thing to new thing, getting only a surface level of understanding. My pastor, Doug Allen, often says “that many times people have knowledge about many things, but that understanding is only an inch deep. To have true understanding, we must dive in deep on a few things.”

To become a master, we must work on a set of things over and over again until we master it. If you as a trader continue to switch strategies because you haven't found one that works, I am warning you right now it is not the strategy that doesn't work.

The problem is that you are not trading the strategy properly.

Not Following a Strategy

If you do not consistently trade the same way, you are not following your strategy. One thing I teach, to help you evaluate your trading strategy, is to look at your last 20 trades and analyze them. (You will be learning this important skill later on, in the daily trading process section of the book.) If you were not profitable, what was the cause?

Was it any of the following?

1. The strategy was followed perfectly, and it was a loser.
2. You lost because you didn't follow entry criteria (a set of rules that a trader must follow when entering a trade).

3. You lost because you didn't follow risk (the set amount of money that a trader is willing to risk on any given trade).
4. You have no idea what happened because you didn't review your trades and you're guessing about the success or failure of the trades.

From personal experience and in teaching others, I will tell you that most of the people will be guilty of item 4. Most do not have any idea what they are doing or what works—they are completely shooting from the hip.

If you do happen to take the time to review and analyze your trades, you will notice that items 2 or 3 were probably the reason that you didn't make money. That is easy to fix: in the next set of 20 trades, make sure you correctly identify entry points and risk management criteria, and then try again.

Keep doing this process repeatedly, until you are following proper risk and entry criteria.

If you look at the above list of four points and find that you did everything correctly and you still lost money, congratulations! This puts you in the top 1%! Very few people can follow a strategy exactly as it has been designed to be traded.

This outcome (losing money), however, is easy to fix because now all you must do is adjust one set of criteria for the next set of 20 trades, until you find a winner.

I will be laying out a great strategy for you to begin your testing in this book. The point I am trying to get across now is that this is a key obstacle. If you can identify this now, you will have a huge advantage in your journey to becoming a successful trader.

Remember there is no holy grail strategy.

It is important to find one strategy and continue to trade it and tweak it and make it work. Each strategy becomes unique to the trader trading. We all see things differently, and we must do the work necessary to make the strategy work for us.

When you're learning to trade, you need to look into the mirror. Realize that the problem you're having in your trading is not your strategy. It's that person looking back at you in the mirror. If you want to be successful, understand that you are the reason for success or failure. It's not your strategy.

In the mindset training that you'll learn later in this book, I focus a lot on self-sabotage. The person in the mirror. You can either be your greatest enemy or your greatest ally. And I find that most traders who are not successful have the element of self-sabotage in their life.

Not Taking Responsibility for Success or Failure

When you look in the mirror, you must understand that you are the one taking the trades. Don't be someone who blames others and doesn't take responsibility for their own failure.

Losing traders blame the markets. They blame the strategy; they blame the news that just came out. They blame the indicator they are using or the trainer who is teaching them the markets. They blame everyone but themselves for failure. It's important to realize that successful people take ownership for success and failure. And that it comes down to themselves.

I didn't become successful in trading until I took ownership over the results of my trading. And that meant doing whatever it took to be successful. That meant going to the training classes, learning to have a great trading mindset, learning the systems, learning how to have proper discipline. Talking to people who could help me. Sharing my struggles in trading and being responsible for my undisciplined approach to trading. I tackled all these problems one at a time until I built up my consistency and discipline.

If you are not ready to take responsibility, you are just wasting your time and racking up losses, which will in turn destroy your psychological ability to have success in the markets.

Risk Management Failure

Successful trading is all about managing risk. Managing risk is simply being a good financial manager.

This is as simple as learning how to manage your own personal finances. Do you spend more money than you make?

Are you in massive debt or in financial hardship?

Trading from a Weak Financial Position

On my show, the *How To Trade It* podcast, I find out about the background of many of the traders and why they started trading. Here is a common theme for the ones that end in failure: a trader has a financial problem, and they need money, and they discover trading and believe it can solve that financial problem.

In contrast, successful traders are people who are financially in great shape and use trading to continue to add to their good financial position.

I have found, across the board, that people in a healthy financial position who start trading are much more likely to be successful traders than those who are in a dire situation.

I recently interviewed Sunny Harris, a 42-year veteran trader from moneymentor.com, on the *How To Trade It* podcast. Her company was bought out, giving her a windfall. She started trading because she believed she could do much better by trading than by entrusting her wealth to money managers. She was right, and she became an extremely successful trader. However, she didn't come from a weak financial position.

Traders who need money face several problems. If this describes you, you need to be aware of the following.

1. Trading is a financial problem you need to solve, not a lottery or get-rich-quick scenario.

2. Trading when you're in financial distress puts added pressure on you to perform, which is not conducive to trading success.
3. Trading can also be an addiction and an escape mechanism, just like alcoholism. Sometimes traders will trade just for the thrill of having money on the line.

Money comes to people who solve problems for themselves and others. Money comes to people who add value to the world.

Trading is a wonderful thing to learn and master. Just go in knowing that it is a difficult problem you will need to solve, not a get-rich-quick end to your financial pain.

There is no quick solution to getting out of a bad financial situation. For example, studies show that most people who win the lottery end up in a worse financial situation after they win the big prize than before they won.¹

The problem is we need money now, and we want money now. The market can solve that problem fast. However, the market will not reward us with success until we deserve it by executing a strategy—with an edge, with discipline, consistently.

When we try to use the market as a shortcut to financial success, it makes our financial condition terrible. We are in even worse shape by pouring more money into our trading account.

Patrick Reid, the co-founder of the Adamis Principle and a guest of mine on *How To Trade It*, suggests that traders give themselves a cutoff point—a point where they stop trading if they can't make it past the cutoff point. If you have a \$10,000 account, choose, say, 20% (\$2,000) as the maximum amount of loss you will tolerate. If you exceed that, you should stop trading. That gives you plenty of time to learn how to trade effectively and stops you from putting money into a losing investment.

Gambling Instead of Trading

Many years ago, I saw someone in a casino lose all their money at the slot machine. They took money out of an ATM, then lost

all of that too, repeating this cycle until their bank account was empty. If you are not able to figure out why you are losing money, just stop and reassess until you are able to figure things out.

When you think that trading will solve your problems, but you don't put the work in, all you are doing is gambling, hoping to find that shortcut to success. That mindset is destructive and addictive; you're just gambling, and gamblers never win. When my trading students are gambling in the markets I explain that successful trading is taking calculated and well-planned risks.

Make sure you put the time and effort into learning how to be a successful trader. In the long term, the rewards will be worth the time that you put into learning how to trade.

The Science of Addiction

Our brains release a chemical called dopamine as a reward for doing something good. This can be triggered when you take a trade, when you win a trade, but also when you lose a trade. This is very addictive, and it is why it can be so difficult to close losing trades. This is also why many times traders will continue to trade over and over again.²

Dopamine is the same chemical that gets released when you eat food and celebrate wins. While this is great for helping you develop good habits, it is equally destructive when you have to fight the bad habits.

Instant gratification becomes addictive because of dopamine. As technology increases, we get addicted to things moving faster and faster in our lives. For example, interactions on social media platforms like Facebook, Twitter, and TikTok are so addictive because you generally get feedback almost instantly, and each exchange is usually of very short duration. It is important for traders to understand that this is something they need to be aware of,

and they need to make sure that they are not addicted to trading—and if you are, you need to put in place a plan to stop the addiction.

Most traders who get addicted to trading replenish trading account after trading account. People can even lose jobs, homes, and relationships because of the trading addiction.

If you find yourself obsessed with trading, putting all your time and energy into trading, this is one of the first signs that you might have a problem. Some signs that can help you be aware of this are:

- Anger at your trading losses
- Problems with relationships because of trading
- Losing too much money, causing financial problems
- Borrowing money to help cover your trading losses

Revenge Trading

When you lose money trading and then all you can think about is making that money back and making bigger trades and trading more frequently, this is called *revenge trading*. When you combine this with addiction and dopamine, it is a disaster waiting to happen.

If you find yourself in this position, be aware of what is going on and just stop trading. Then come up with a plan to get back into the markets later on when you are ready to trade and be in control of yourself and not let your addictive nature be in charge.

Only trade with money that you can afford to lose. Do not trade with money you will need to pay bills. There is no shame in reaching out for help. Determine that you are going to make a change in your life. Next, make a plan for how you are going to change—then execute.

If you need to get help, find a support system to help you with your problem.

The true trader focuses on the process of mastering trading, not on making their money back fast or getting rich quickly. As Mark Yegge said on the *How to Trade It* podcast: “The way to get rich fast is to get rich slow.”³

Quitting Before Having a Breakthrough

I believe that anyone can trade, yet the failure rate is about 99.9% for day traders—not encouraging numbers.

When faced with failure, many traders will say that trading isn’t for them, or they quit. But in most cases they never gave it a great shot because they didn’t follow their system properly and didn’t use proper trade management. Aim to continue to improve little by little each day, and if you do not quit, you will eventually find trading success.

One story that has inspired me greatly was that of my friend Tony Pawlak from Real Life Trading. Tony told me when I interviewed him on my podcast that he had spent \$60,000 of his personal savings in trading losses. Plus he added an additional \$80,000 in debt trying to become a successful trader.

He kept going and kept working at it until now he is a successful, profitable trader.

While I do not recommend going down \$140,000 of your own money, he inspired me to understand that if you do not give up you will eventually do what it takes to learn this craft of trading.⁴

Summary

In this chapter, I discuss the foundations of trading: a solid trading plan, discipline, proper risk management, and ongoing education and learning. I emphasize that having a well-defined and written trading plan is essential for my success in trading, as it provides a clear roadmap for making decisions and staying focused. Discipline is also crucial for me, as it allows me to stick to my plan and avoid emotional trading. Risk management is also important to protect against losses, and ongoing education and learning are necessary for me to stay informed and adapt to changing market conditions.

I also highlight several major obstacles that I face as a trader, including lack of discipline, poor risk management, lack of a solid trading plan, emotional trading, and lack of education or experience. I note that these obstacles can lead me to make impulsive and uninformed decisions, which can result in significant losses. I also stress that realistic expectations and patience are important for me, as becoming a successful trader takes time and effort. Additionally, I should also note that the financial markets are uncertain, and even with my experience, I can experience losses.

I conclude by emphasizing that by focusing on the four foundations of trading and addressing the major obstacles, I can increase my chances of success in the markets.

This book will give you all the tools you will need to be successful in the trading market.

Notes

1. <https://direct.mit.edu/rest/article-abstract/93/3/961/57969/The-Ticket-to-Easy-Street-The-Financial?redirectedFrom=fulltext>.
2. <https://www.responsiblegambling.org/for-the-public/about-gambling/the-science-behind-gambling/#:~:text=When%20you%20gamble%2C%20your%20brain,response%20even%20when%20you%20lose>.
3. <https://podcast.tradingstrategyguides.com/the-fast-way-to-make-money-with-mark-yegge-ep-131/>.
4. <https://podcast.tradingstrategyguides.com/90-win-rate-by-trading-credit-spreads-with-tony-pawlak/>.

