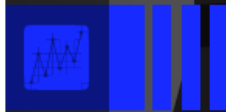
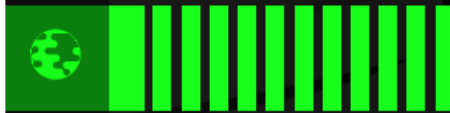




TRADING  
PSYCHOLOGY  
EDGE

## TRADING PSYCHOLOGY: USE THE TRADER'S PERFORMANCE ASSESSMENT TO IMPROVE YOUR TRADING

By Gary Dayton, Psy.D.



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Do you routinely evaluate your trades and trading performance? There is no better way to develop as a trader and improve your trading knowledge, skills and abilities than regular assessment of your trading.

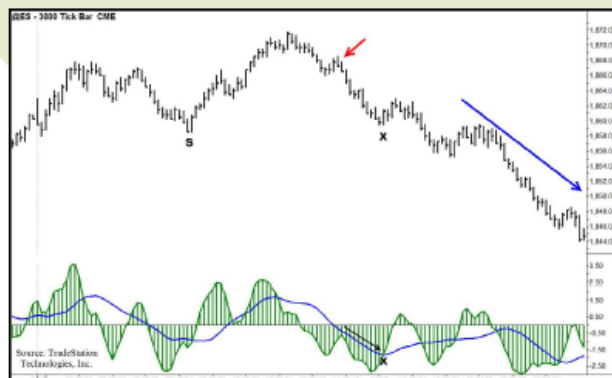
## Case Study

A case example will help illustrate how to constructively assess your trading and the benefits you can expect:

*Jan is a discretionary trader who day trades the e-mini and currency futures markets. He often uses support or resistance as a target to exit trades. He has noticed, however, that many times he exits his trades too early; they run farther and he leaves money on the table. Figure 1 shows a typical example: A good entry (short at red arrow), exit (X) at recent support (S) as the indicator turns up, but the market continues in Jan's trade direction (blue arrow).*

We feel bad missing additional profits and many of us might try to forget about them, as it feels unpleasant to think about. That, however, is the wrong psychological play. Although it is natural to want to avoid the unease we can feel when thinking about the money we could have made, doing what comes natural is not always our best choice in trading.

If you shun reviewing your trading performance because it reminds you of something unpleasant, you may miss correctable errors and opportunities to improve. The Trader's Performance Assessment (TPA) offers a constructive way to review your trading performance and change your trading for the better.



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## Getting Started

The TPA asks four straightforward questions:

1. What were my strong points in this situation?
2. What were my limitations?
3. What can I learn about myself and my trading?
4. What can I do next, based on what I learned?

Let's see how Jan used the TPA to make a real difference in his trading.

**Jan's strong points:** He identified a sound trade setup and made a solid entry. He also set a target objective and took the trade off at target, following his trade plan.

**Jan's limitations:** The trade ran farther causing missed profits. Jan viewed this as a limitation because it was happening frequently on trades like this.

**What could Jan learn:** Jan decided to review recent trades that ran farther in profit after the exit. From his review, he learned that when the indicator's trend line had crossed the zero line and penetrated deeply below (black arrow),

he trade had strong odds of continuing beyond local support. This relationship also held for long trades.

**What Jan can do next:** Jan developed a plan of action. For these kinds of trades, Jan would exit one-half of his position at support and let the other half run with a trailing stop. He tested this approach over the next month. At the end of the month Jan learned that it was more profitable to hold his trades for bigger gains.

## Key Principles

There are two psychological principles of high value to traders at work here. The first is the capacity to tolerate minor discomfort. No one likes missed profits. We can feel bruised psychologically. Nevertheless, the discomfort is only temporary. Had Jan done what many typically do in this situation and tried to avoid or get rid of his discomfort by ignoring the situation or distracting himself with a pleasant activity until the uneasiness faded away, he would have missed an important opportunity to learn about his trading performance and improve his trading.

The second psychological principle involves assessing performance. We get better by reviewing what we do

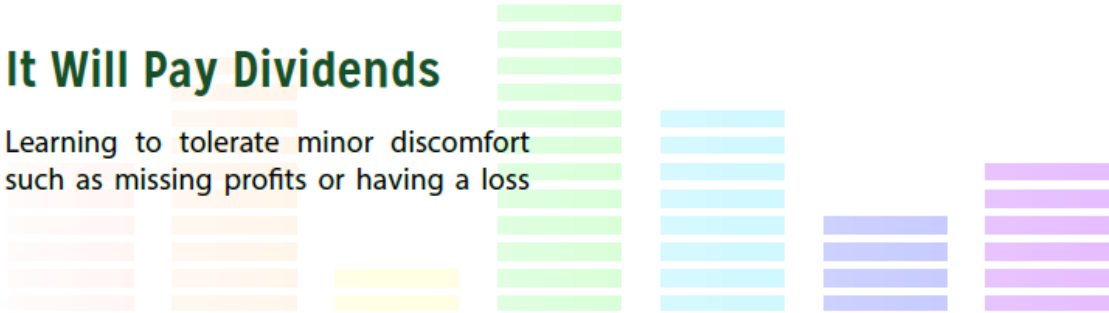


and making adjustments. Athletes understand this. After every match, they review the game video as a way to assess their performance and look for ways to develop and advance their skills. Traders can benefit from this practice, too, by using the TPA to improve their trading performance over time.

will also help you tolerate stronger unpleasant feelings when in a trade. Taking responsibility for your trading and using the TPA to carefully review your performance will pay dividends in the future as you make adjustments and develop your trading knowledge, skills and abilities.

## It Will Pay Dividends

Learning to tolerate minor discomfort such as missing profits or having a loss





# Trader's Performance Assessment

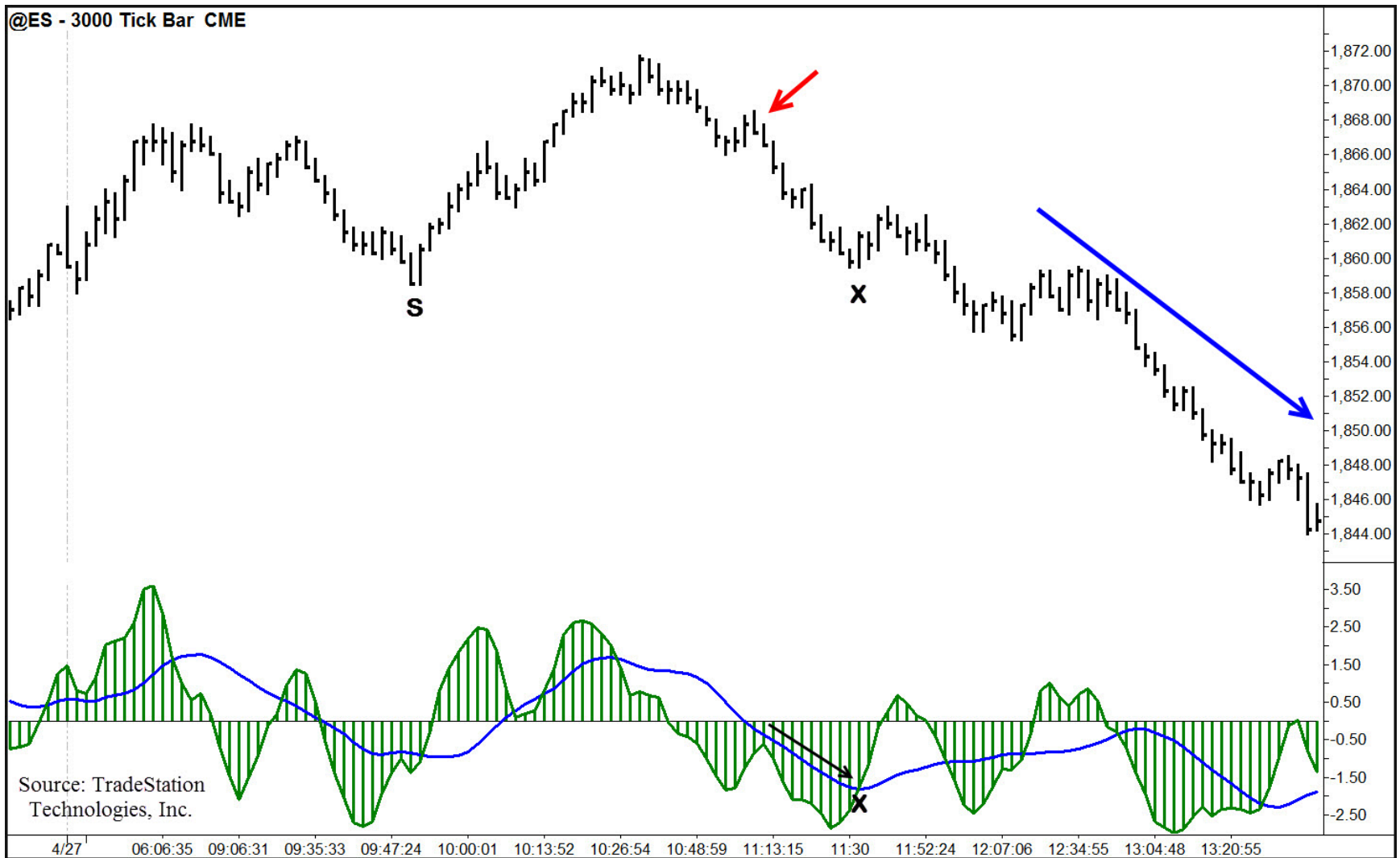
At the end of each trade or trading day, ask yourself these four questions:

1. What were my strong points in my trading?
2. What were my limitations?
3. What can I learn about myself, my trading and my trading performance?
4. What can I do next based on what I've learned?



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