

**BULLET
PROOF
TRADER**

Evidence-based strategies for overcoming setbacks and
sustaining **HIGH PERFORMANCE** in the markets

BULLET PROOF TRADER STEVE WARD



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To Herluf and Merete

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ABOUT THE AUTHOR

STEVE WARD specialises in helping people working in trading, investing and banking to enhance their risk-taking, improve their decision-making and to achieve and sustain high performance by utilising the latest science, research and practice from performance psychology, decision science, neuroscience, behavioural science, physiology and philosophy.



Since 2005 he has provided specialised coaching, training and consultancy services to traders and fund managers at some of the largest and highest-performing investment banks, hedge funds, asset managers, commodities trading houses, utility companies and proprietary trading groups across the globe.

Prior to starting his work with the financial sector, Steve provided sports psychology coaching to elite athletes and teams in over 30 different sports across the globe, with a particular interest in extreme,

action and adventure sports. He has also provided psychological coaching for professional poker players.

Steve is the author of *High-Performance Trading: 35 Practical Strategies and Techniques to Enhance Your Trading Psychology and Performance*, *Sports Betting to Win: The 10 Keys to Disciplined and Profitable Betting* and *Tradermind: Get a Mindful Edge in the Markets*, and has written many articles for leading trading publications. He co-managed a team of 45 proprietary traders in London, was the consultant trading performance coach to the BBC TV series *Million Dollar Traders*, and spent a number of years trading stock indices and FX on his own account.

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PART ONE



**BECOMING
BULLETPROOF**

1

WHY BULLETPROOF?

"I want to bulletproof myself."

IT'S SEPTEMBER 2014 and I'm sitting in the boardroom of a hedge fund in the West End of London having a one-to-one coaching meeting with a new client, the hedge fund's founder. He's a successful trader with an incredible track record going back many years. I'm dressed in my standard uniform of casual trousers and shirt. Across the table he sits in shorts and polo shirt, notepad and pen at the ready.

After an exchange of initial pleasantries – primarily a discussion about the weekend's football results – I prepare to ask my first question. I am aiming to find out more about the trader, his key biographical details, trading history, trading style and strategy – and what outcomes he would like to see from the coaching programme.

"What do you want to achieve?" I ask.

"To be able to deal with my trading performance and results with greater equanimity," he replies.

"And why now?" I ask.

“I have never really had an extended run of bad performance. But I know that statistically one is likely to happen. I have to prepare myself for that. I need to make sure I have the skills to handle such an event. I want to bulletproof myself.”

“How would you know if you were... bulletproof?” I said. I hadn’t heard that phrase used like that before. It stuck with me.

“I would have fewer negative thoughts,” he said. “I can get obsessed about decisions I have made, especially when I have lost money or am not making it. I can be a perfectionistic. When I fail, I can’t stop thinking about it, and I know that mindset is not helpful. Sometimes I am just sat there telling myself ‘what a f***** idiot’ over and over again. My emotions can be very negative. Sometimes I feel pretty depressed. Trading can make me feel sick.”

“And what would be the benefits of being bulletproof?”

“Ultimately I think it is about keeping me in the game. I love what I do, and want to be doing this for many years. I don’t want a big negative event to take me out. But I would like to be able to change some of my thinking and how I feel when things are not going well.”

We went on to define in greater depth what being ‘bulletproof’ meant for him – identifying particular situations where it would be useful and looking at what bulletproof behaviours might be. We explored some tough situations he had already faced in his trading career and overcome. It was important to discover his current level of bulletproofing. Any trader or fund manager who has traded the markets for a long period of time will have developed a certain level of resiliency to still be in his or her seat trading – even if they feel they’re currently in crisis.

Over the next 12 months I helped this top trader develop a range of strategies that increased his ability to deal with tough trading situations. We were ‘lucky’ in that during our work together there were a couple of significant market events that had a big negative

impact on his results – and provided great opportunities to practise what we had been working on together.

Our work included:

- learning about the importance of anticipating and planning ahead for challenges
- the power of acceptance (of your situation and your *experience* of that situation)
- how to manage the mind and the emotion-driven thoughts that can arise in times of difficulty
- understanding perception – and how the way we see a situation creates our reaction or response to that situation
- being able to see the opportunity within a challenge
- being comfortable with the worst-case scenario.

We also undertook some simple mindfulness-based meditation practices to increase in-the-moment awareness, gain greater objectivity, lower emotional reactivity and increase equanimity.

Lastly, we spent some time using biofeedback. This involved learning techniques for increasing the strength of his nervous system, making him less reactive to doses of stress – particularly the impact of it on his decision-making.

All in all, he developed an extensive toolkit that robustly increased his level of bulletproofing. Importantly, he worked at using the tools provided – he practised the skills – and as a result attained a level of trading resilience beyond his initial expectations.

A key part of this is because he spent time and energy developing the skills to become more bulletproof. I believe this is something any trader can do.

COACHING TRADERS

I have been fortunate enough to spend the last 15 years coaching and training thousands of traders and fund managers across the globe at banks, funds, commodities trading houses, asset managers, proprietary trading groups, utility companies – as well as individuals trading from home.

I would summarise my role as helping my clients to trade at their best.

To do this I provide coaching, training and advice around risk-taking, decision-making, and achieving and sustaining high performance. I draw on research and practice from psychology, physiology, behavioural science, neuroscience, peak performance, decision science and – most recently – philosophy. All the while, I try to stay mindful of *what actually works* with real traders in real markets.

The result is a blending of the science of performance with the art of coaching.

Some clients, around 20–30% or so, come to me because they are performing well and want to sustain that level over time, or to move up to the next level, to stretch themselves in the pursuit of becoming their best trading self.

The vast majority seek support, however, because they are facing a challenge of some kind in the markets – a drop or stagnation in results, some psychological discomfort (thoughts or feelings) or an uncomfortable physiological response (stress or fatigue).

This imbalance reflects a number of factors: firstly, human nature, and our negativity bias. Secondly, how reactive traders are to their P&L, especially the ‘L’ part of that. Thirdly, how challenging and demanding trading the markets is psychologically and physiologically.

TOUGH TIMES

Pre-2008 a great deal of my work in trading and investing was framed around maximising returns, increasing performance – going from good to great.

There was a growing sense that trading and investing psychology was creating a performance edge, and an increasing number of traders and fund managers were exploring its possibilities. Post-financial crisis, that focus on performance enhancement continued, but another theme came to prominence: managing stress, performing under pressure, dealing with setbacks, coping with challenges and change, sustaining performance.

In other words, resilience.

This has only increased in the years since. Redundancies, regulatory changes, reduced head counts, sustained or increased targets and budgets (with less resources), information overload, new technology, market structure changes and evolutions, not to mention a global pandemic and many of the above coming together all at the same time (a “cluster f***” as one head of desk at a bank described it to me) have placed huge demands on traders.

SUPPORT, SKILLS AND STRATEGIES

For some traders I have worked with, the challenges they’ve faced have been relatively short-term and situational. For others they have been longer and more drawn out.

For both types of trader, my role as a coach has been twofold.

Firstly, to support them – to be a person they can confide in. Someone they can talk about their challenges with; someone they can reflect on things with. Someone who can advise and guide as required.

Secondly, to help them to develop specific mental, emotional and physical skills and strategies that enable them to overcome the challenges they are facing – and which will also be valuable additional tools in their psychological and physiological armoury going forward.

I hope that this book can provide you with the second of these, as a way of helping you to develop your own bulletproofing skills.

WHAT BRINGS YOU HERE?

Whenever I take an enquiry from a trader or an institution about working together, I like to understand what has led them to getting in touch.

Some examples of what brings traders to my coaching include:

- New traders at the start of their careers looking for support in developing a resilient mindset and the mental skills required to deal with the challenges of trading the markets.
- Experiencing a large loss and seeking help to deal with the experience – and to recover effectively.
- Being in a period of drawdown/losses and wanting support in getting through it.
- Lacking in confidence; being unable to pull the trigger on trades or to take the level of risk they feel they could or should be taking.
- Needing support with managing a change of some type, perhaps in trading style or in trading a new product.
- Managing the demands of trading and the demands of life *outside* trading.
- Help with developing composure to manage big moments in the markets.

1. WHY BULLETPROOF?

- Learning to become more comfortable with the uncertainty and ambiguity of the markets.
- Managing emotions such as fear, anger, frustration, regret and anxiety.
- Strengthening discipline, or consistency, of trade execution.
- Help with managing physical energy – reducing fatigue, overcoming exhaustion and burnout.
- Managing impatience, dealing with quieter and slower-moving markets, overcoming boredom trading or reducing overtrading.
- Struggling with being wrong, with losing money or making mistakes.
- Finding it hard to stay in winning trades, running winners.



Before you read further, my question to you is: what brings you here?

Is there a particular reason you are reading this book? What would you like to get out of it?

2

THE BULLETPROOF FRAMEWORK

THE KEY REQUIREMENTS

I AM OFTEN ASKED what I believe are the key requirements for becoming a successful trader. One thing that I would say is absolutely critical is the ability to manage the highs and lows – but especially the lows.

That ability might be termed ‘resilience’, ‘mental toughness’ or ‘stress-hardiness’, but for this book I am borrowing the term *bulletproof* from my hedge fund client we met in chapter 1.

“Success comes to the lowly and to the poorly talented, but the special characteristic of a great person is to triumph over the disasters and panics of human life.”

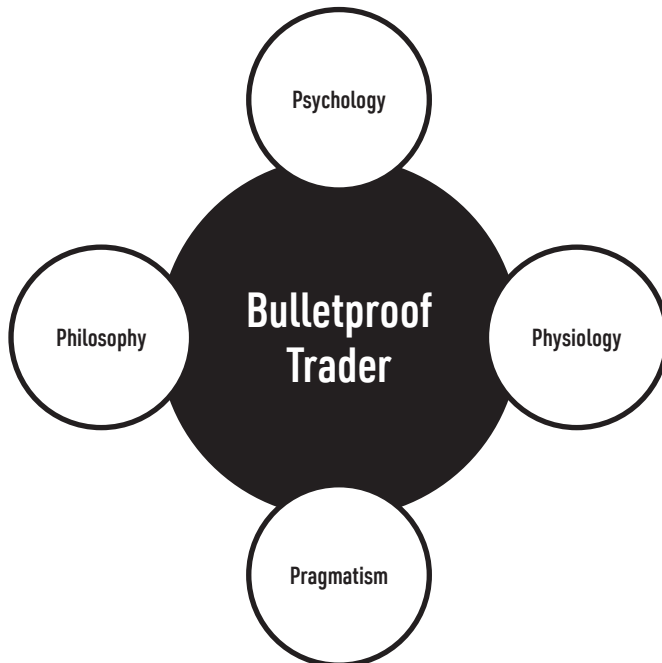
– Seneca

THE FOUR FOUNDATIONS OF BULLETPROOF TRADING

The ability to perform under stress and pressure, to cope with the highs and lows of performance in high-stakes environments, has been thoroughly researched over the years. Traders are now able to benefit from the findings – and practice – of the military, elite athletes, law enforcement and performing artists. All of which feed into this book.

When it comes to helping my trading clients develop their ability to manage the challenges and difficulties of trading, my work is influenced by many different areas of study. They can be grouped broadly under the headings of *psychology*, *physiology*, *philosophy* and the all-important fourth component, *pragmatism*. I believe that a multidisciplinary approach is required to maximise trading performance, and to become a bulletproof trader.

The Bulletproof Trader framework



1. PSYCHOLOGY

Trading psychology draws on a broad field of research and practice, including decision science, behavioural finance, performance psychology, cognitive psychology and more. In this book, you will see input from all of these areas. But I have focused much of the psychological framework on contextual behavioural science and the development of *psychological flexibility*.

Developing psychological flexibility is the goal of Acceptance Commitment Coaching, a derivative of Acceptance Commitment Therapy or ACT (pronounced as ‘act’ not A.C.T.) which was originally developed by University of Nevada psychologist Steven C. Hayes. ACT is third-wave cognitive psychology. It is distinct from other cognitive approaches, such as cognitive behavioural therapy, in that its fundamental goal is not to change or control unwanted thoughts, emotions or sensations, but rather to be aware of them, and accept them, while keeping a strong focus on action.

Rather than focusing on the specific content of your thoughts and emotions, ACT is more focused on the context you are in, and the function (helpfulness or workability) of your behaviour in a specific context – as well as how you are relating to your thoughts, emotions, sensations and urges.

ACT-based approaches have helped people improve their performance in sports, chess and in music, and at work,¹ including alleviating stress and increasing resilience. ACT is a core part of my trading psychology model. I believe that the development of psychological flexibility has a very positive impact on traders’ ability to stay focused on their trading process. It helps them manage the thoughts, emotions, sensations and urges that can cause them to drift from their process.

Alongside a focus on the development of psychological flexibility, I have drawn on the research and practice of developing stress hardiness² and mental toughness.³ Specifically, on these core factors:

- **Commitment** – having a sense of purpose for why you are doing what you are doing, and being disciplined and dedicated to taking action.
- **Control** – largely centred around a person’s locus of control, whether internal or external; whether people believe they can influence how they respond to events or not. Being able to identify what you can and can’t control is a key skill.
- **Challenge** – seeing change events as opportunities to grow, and being willing to work through challenges and difficulty.
- **Confidence** – feeling you can cope with difficulty and setbacks, and seeing and seizing opportunity.

2. PHYSIOLOGY

An important part of the bulletproof framework is the role that our *physiology* plays in our ability to perform under stress.

At the physiological level there are some key areas that traders can really benefit from, including:

- being able to recognise shifts in your physiology (e.g. breathing, heart rate) as indicators of a shift in your body’s physical state – stress response and energy levels in particular
- recognising the need to regulate the stress response when it is too high and potentially impacting your decision-making
- learning strategies to develop your physiological resilience to the stress response – increasing your stress capacity
- managing your stress vs recovery balance so that you can strengthen your physiology muscles, reduce fatigue and sustain high performance over time.

3. PHILOSOPHY

While writing this book I became increasingly interested in the philosophy and practices of Stoicism and its potential application to helping traders deal with the challenges they face in trading the markets.

Stoicism was founded in Greece by Zeno of Citium (Cyprus today) in the early third-century BC. Zeno was a merchant who lost everything in a shipwreck and turned to philosophy in order to rebuild his life, and later taught his messages in a *stoa* (covered walkway), where his school became known as the Stoa and from where Stoicism gets its name.

I first came across the benefits of applying Stoicism to my work with traders after reading Ryan Holiday's *The Obstacle is the Way*,⁴ a book that took the 2,000-year-old Stoic principles and practices and set them into a modern-day text, aimed at helping people to “turn adversity into advantage”. This book has become a popular read for athletes and coaches, and for people operating in competitive or high-stakes environments.

In an article discussing Stoicism in the NFL, Holiday states: “Stoicism as a philosophy is really about the mental game. It’s not a set of ethics or principles. It’s a collection of spiritual exercises designed to help people through the difficulty of life.”⁵

For many people, the word ‘stoic’ suggests being unemotional in the face of adversity. This is a modern and inaccurate misinterpretation. The Stoics were *not* in favour of being emotionless, but they certainly *were* in favour of finding ways to manage and reduce the impact of unhelpful emotions.

Stoicism, at its core, is a robust and highly practical action-orientated philosophy that aims to help people develop the skills to manage the struggles of life. It encourages you to focus your thoughts and actions *on that which you can control*. If you cannot control something, you

have to accept it. The key is to take responsibility for how you respond – and to express your best self in every moment.

This is essential, and very powerful, for traders.

4. PRAGMATISM

Alongside the science it is important that the strategies in this book actually work with real traders in real trading environments. Research is important and interesting but the real-world trading floor is the true testing ground of effectiveness.

All of the techniques and strategies in this book have been used successfully with my own clients – thousands of traders and fund managers – and the wider trading, investing and banking performance communities, such as sales and research.

Their feedback has been invaluable in shaping the content. Where possible I have shared it, as well as providing example case studies to show this real-world application.

GETTING THE MOST FROM THIS BOOK

This book has been written to be a practical resource rather than a scientific text. There are numerous exercises and activities throughout. Completing them will help maximise the impact of the book on your trading performance.

I know that this is not always easy. The key is to start by perhaps focusing on one or two areas where you would really like to benefit. Initially, you can commit to taking action in *just those areas*. That will

make a significant difference to you and your trading, and will make further changes easier.

You can read and learn as much about running mechanics and training theory as you like, but to get better at running you actually have to do some running.

Action is at the core of performance.

"That's why the philosophers warn us not to be satisfied with mere learning, but to add practice and then training. For, as time passes, we forget what we learned and end up doing the opposite and hold opinions the opposite of what we should."

– Epictetus

Stay open-minded and maintain a sense of curiosity; adopt an 'experimental' mindset when it comes to applying the strategies and techniques here. I have been involved in the field of performance enhancement for many years and I see it as very much about self-experimentation.

You get a hunch about something that might help you improve your trading. You test it, adapt it, refine it – or bin it if doesn't work, and try something different.

A FUTURE BULLETPROOF TRADER: YOU

You will already be bulletproof to some extent, thanks to a combination of life and trading experiences. Much of what you are already doing may well be very helpful. This book does not aim to replace that. But even in areas where things are going well, I would encourage you to read with an eye to opportunities to try new approaches.

What got you *here* may not get you *there*.

Imagine for a moment a future trading you: even more resilient and capable of handling the challenges and demands that you face in trading the markets. What would be different? What would you notice? What action would you be taking? How would you be feeling? What thoughts would you have?

Where are the opportunities for you to develop, to become a mentally stronger, more robust, composed and resilient trader than you currently are?

TRAINING YOUR MIND TO ADAPT TO ANY CIRCUMSTANCE

It took me a long time to finalise and organise the content of this book, and just as perfectionism is a dangerous trait in trading it can be equally debilitating in writing. But my intention is not to tell you what to do, but rather to help you to develop a framework: the skills and practices – mental, emotional and physical – that are most relevant and powerful for your trading.

That is what will truly help you meet the challenges and demands of trading the markets as they arise.

"In this way you must understand how laughable it is to say, 'Tell me what to do!' What advice could I possibly give? No, a far better request is, 'Train my mind to adapt to any circumstance'... In this way if circumstances take you off script you won't be desperate for a new prompting."

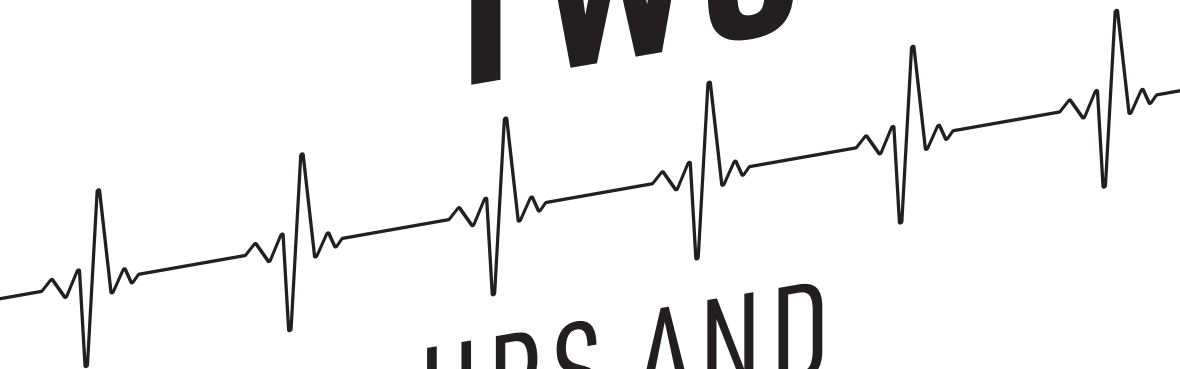
– Epictetus



Each trader is like each moment in the market: unique. And what works for one person may not work for another. As you read through the book, I encourage you to keep reflecting on the question:

- 'Could this be helpful for me in my own trading? And if so, when and how can I apply it?'

PART TWO



**UPS AND
DOWNS**

3

THE NATURE OF TRADING



Before you get into this chapter, take a few moments to reflect on these two questions:

- What are the challenges and demands you face in trading the markets?
- What do you need to be good at in order to meet those challenges and demands?

TRADING AS A HIGH- PERFORMANCE ACTIVITY

IT WAS FEBRUARY 2005 when I first stepped onto a trading floor. It was the first Friday of the month, non-farm payrolls day (the release of US employment data – as I later found out, a significant day and a big market opportunity for traders).

I can remember the minutes leading up to the data release so clearly. The traders – well over 100 in total – all returned to their seats and began to prepare themselves for the upcoming announcement. Then came the countdown from the in-house analyst – “one minute”... the noise and hustle on the floor died down... “thirty seconds”... a focused hush... “ten seconds”... a feeling of anticipation, expectation, an obvious increase in adrenaline and energy... “five seconds”...

Then the data was read over the squawk box. There was an eruption of activity, noise, emotion. It was visible even within a few seconds that many traders were experiencing high levels of stress – and the emotions that came with it.

Over the coming hours I witnessed the highs and lows that trading the markets can bring. Some of the traders made large sums of money, others were flat, some were seriously down and nursing big losses on the day. It was my first encounter with trading. I became acutely aware that trading was a challenging, pressurised and often stressful occupation – something that only became more vivid as I spent time working with traders.

And I recognised that challenge, pressure and stress from another world entirely.

Before working with traders, I had spent a number of years as a sports psychology coach to elite athletes and teams. Trading was undoubtedly the nearest activity to sport that wasn't a sport. Like elite sport, trading is a high-performance activity – and makes for a demanding environment in which traders must operate.

THE TRADING PERFORMANCE ENVIRONMENT

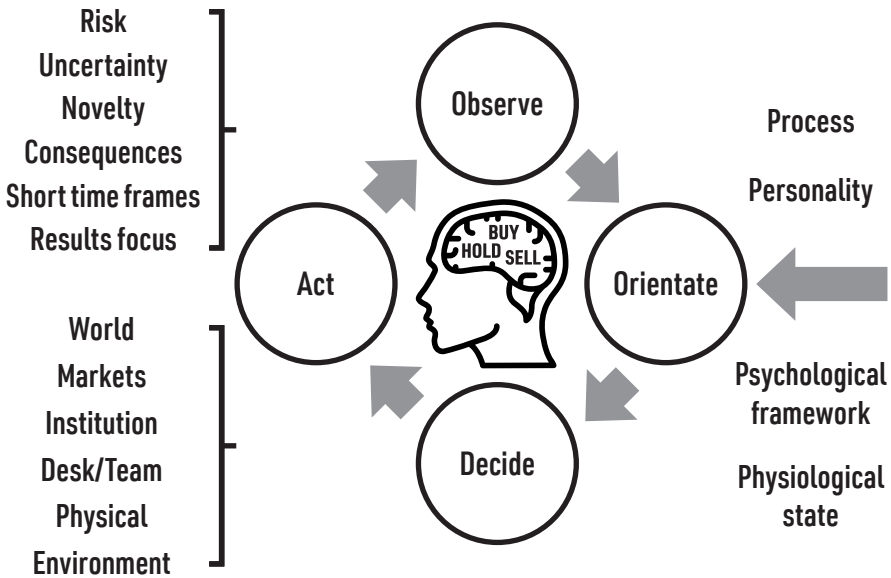
One of the core demands in trading is making risk-based decisions under conditions of uncertainty. Both risk and uncertainty are *stressors*. That is, they activate the stress response in our nervous system. The work of behavioural finance and neuropsychology shows clear challenges for the brain in making decisions under such conditions.

Humans prefer comfort, certainty, familiarity. A sense of control. Traders are continually exposed to a lack of control over market conditions and the outcomes they get on any given trade. Each trading decision has consequences and those consequences must be dealt with, not only financially but psychologically and physiologically. Traders must cope with the highs and lows of winning and losing – with strings of losses, with making mistakes, with being wrong, even with getting a bad outcome from a good process.

You did all the right things, prepared well, executed well, managed your risk, stayed flexible, yet still lost.

Often, decisions are made with incomplete information, sometimes within short time frames – both of these take further cognitive and emotional tolls. For those traders working within institutions there are the added pressures of making your budget for the year and servicing clients; for fund managers, the additional challenges of dealing with investors and the potential of redemptions.

The trader's performance environment



UPS AND DOWNS

"When you are making money trading is the best job in the world.
When you are losing money it is the worst."

– A futures trader

It is common for me to arrive on the trading floor and to greet traders informally with a 'How's things?' and to be met by the phrase 'Ups and downs', or in more severe cases, 'Ups and downs, but mainly downs'.

That response, more than anything else, summarises the trading experience. For some shorter-time-frame traders these ups and downs occur multiple times over the course of the trading day. For others they may be less frequent or more protracted.

I have never met a trader who experienced any other version of events than *ups and downs*.

In fact, in over 20 years of working with elite performers across a range of high-performance domains I always heard the same story. I believe it is common to all high performers pursuing performance excellence. It's a consequence of choosing to take up challenging activities, performed in demanding environments. And it's a result of caring about what you do.

If you want low stress, the simplest strategy is not to give a s***. The downside is you probably won't achieve your best results.

These ups and downs define the whole trading experience – the *journey*. It is through the downs that we develop the attitude and skills that prepare us for future challenges.

Of course, life itself is full of 'ups and downs'. Trading the markets is ultimately just a highly concentrated form of the human experience. And we are wired for survival – which is both what gives rise to difficult thoughts, emotions and sensations. And what means we can ultimately overcome them.

"Life is hard, brutal, punishing, narrow, confusing, a deadly business."

– Epictetus

The downs of trading can be momentary – or they can be protracted. Traders need the skills to manage both. Stress can be a short-term 'acute' response, or 'chronic', a longer-term exposure. Chronic stress brings with it an additional challenge for traders, one which I have had plenty of experience of with my own clients: fatigue and exhaustion, at the extreme end of which lies burnout.

Stress and fatigue play a huge part in reducing a trader's ability to make good decisions and perform at their best. They bias traders towards the short term, amplify risk aversion, increase bias-proneness

and reduce cognitive functions such as self-control. Building the resources to offset the stress response and reduce fatigue, to increase physiological capacity, is fundamental to being bulletproof.

The psychobiology of winning runs and losing runs

	Winning run	Losing run
Brain	Reward-seeking circuits activated	Risk-avoidance circuits activated
Hormone	Testosterone	Cortisol
Emotion	Excitement	Fear
Feeling	Pleasure	Pain
Risk	Risk seeking	Risk aversion
Bias	Overconfidence, irrational exuberance	Underconfidence, irrational pessimism

A survey of my trading clients revealed a variety of examples of the stressors that traders face. I have listed them below, and for a few have given the feedback in the trader’s own words. Which of these ring true for you?

- Dealing with losses and drawdown.

"July-Aug 2017 I lost my whole year’s P&L from a series of absurdly over-exposed positions. I didn’t deal with it very well. At all."

- Uncertainty in the markets.
- Volatility.
- Missing out on trades.

"I cannot stand when the market does the ‘most obvious thing’ and I don’t have the position on or am the wrong way round through overthinking it."

"Seeing other people do well in a consensus move and being the other way has caused me to trade out of frustration and anger initially; then panic when it continues to go against me."

- Expectations, pressure.
- Worrying about how to make money, where the next P&L will come from.

"I get wound up not so much by what my current year-to-date P&L is, but more the feeling of 'where is my next \$ going to come from'? After having a series of losing trades/days/weeks, I begin to think how am I possibly going to make another \$ from this? I've had moments where I am flat or down on the year, but have felt incredible optimism because I think I am onto the right strategy going forward. Same in reverse; had great half years then hit a bad patch and thought to myself: I literally have no ideas left and I can't see how it's even possible for me to add to my YTD numbers."

- Being wrong.
- Taking heat on a position, being offside.

"When I have a relatively large position and am heavily offside, this can distract me from other opportunities as I'm so focused on the position that's concerning me."

- Being behind budget/target for the year.
- Other people's results being better than yours.
- Quiet markets, boredom.

"No market action and the anticipation of signals that haven't manifested yet - here the main problem for me is to deal with the impatience affecting my decision-making process."

- Holding overnight positions.
- Major risk events.

"My most stressful trading situations have been big major risk events like Brexit, major European elections, etc. Mainly due to the fact that due to the increased volatility you have a level expectation on yourself of how well you should be doing - and so, regardless of how you do, you tend to feel you should have done better."

- Investor redemptions.
- Not being able to execute trades as you would like to, liquidity.

"During a drawdown, wanting to reduce position sizes, but not being able to - this is a real problem in credit markets where liquidity (your ability to buy or, more importantly, sell an asset) can disappear in an instant. Knowing what trades you want to do, and not being able to do them, is a more stressful experience than the loss."

- Regulation.
- Making a mistake.
- Large positions.
- Multiple positions in the market.

"Most stressful situations for me tend to arise when I am trading either too much size or too many products at one time."

- Management and leadership ‘interference’.
- Career risk.
- Balancing trading and life commitments.

“Outside of risk-specific stressful events I would say the next most challenging experience I have is the constant battle with balanced intensity, with my commitments outside of trading; and then trying to manage my own trading book through various periods of increased volatility often brings frustrations and distractions that result in poor performance across the board.”

- Overload of information.
- External distractions.
- Fatigue, exhaustion and burnout.

That’s a very extensive list of stressors that traders face. It illustrates the complex nature of the trading environment. Not every trader will experience all of these, of course; everyone’s stress response is individual. But these are, in my experience, representative – and the kinds of stressor I have focused on helping you deal with in this book.

These situations require traders to have the psychological skills and physiological capacity to overcome them and trade at their best.

4

GET GOOD AT THE DOWNS

THE PAIN OF LOSS

IMAGINE YOU HAVE been invited to take a bet on a coin toss – heads or tails. If you call incorrectly you lose \$100. How much would you want to win, if correct, in order to take the bet?

This is a question from research in behavioural finance that I often ask in my trading psychology workshops. The most popular answers are between \$101 and \$300 (the market makers, scalpers and high-frequency traders looking for multiple plays at the \$101 end of the spectrum; the directional traders with their 2:1 or 3:1 risk-reward ratios at the \$200–300 end).

Occasionally a few people come in at around \$500, with the odd person at \$1,000.

Research into loss aversion suggests that, in the example above, on average people want to win around \$200.⁶ That is, they would like \$200 to offset the risk of losing \$100, such that \$2 of pleasure is needed to offset every \$1 of pain.

Flipped around: the pain of loss is twice the pleasure of winning.

This asymmetric relationship between the pleasure of winning and the pain of losing, in combination with our brain's bias towards negativity (hence the strength of our stress-based survival emotions) goes some way to explaining why the downs of trading can feel so painful.

It is important that we find a way to deal with this pain.

I was recently having a coffee with a trader I coached many years ago who has now left trading. We were talking about how amazing trading and life was when he was making money ("You almost feel invincible"), and how tough it could be when it was not going well. He went on to tell me that there had been several times in his career when he had been really struggling with his trading – and much worse than I knew.

He had been losing money, losing confidence, losing self-belief. And on his commute home he had stood on the train platform and thought: *'What would it be like if I jumped. Would it be quick?'*

Trading as a craft is challenging to master, but a trader also needs to master his or her mind and body. Becoming bulletproof is about being able to survive the short-term stresses of trading and to stay in the game for the long term.

I have sometimes heard people refer to trading the markets as a dance. In reality it is more like a wrestling match. A dance partner is not likely to get up and tackle you to the floor, or put you in a choke hold to make you submit.

"The art of living is more like wrestling than dancing, because an artful life involves being prepared to meet and withstand sudden and unexpected attacks."

– Marcus Aurelius

THE INNER CITADEL

"I have on two occasions lost my whole year in short spaces of time. One being as a very inexperienced, naive trader where I had left excessive orders in a market overnight and a pipeline burst and caused the market to spike, resulting in me waking up in the morning to a large short position and my year's work gone. The other was as a more experienced trader and being stubborn, and over-confident in my positions and really not managing my risk well. The second time was a far bigger monetary hit but also a lot harder as I had very high hopes for that year and was on cloud nine... this hit took me back down to earth and made me realise what markets are capable of doing. They were both humbling experiences."

– A commodities trader

Are you mentally prepared for the challenges and difficulties of trading?

Do you have a mental framework to deal with losses, making mistakes, missing out on opportunities, fear, anxiety, uncertainty, stress, drawdown, redemptions, change, poor results?

There is no shame in answering 'no' at this stage. Being ready for dealing with such adversity is not something we are born with, it is developed throughout our life and through our life experiences – it is forged.

The Stoics recognised the need to be prepared for adversity and developed a philosophy – a way of thinking and, importantly, *doing* – that was focused on preparing and fortifying them for challenges to come. In many ways these ancient philosophers were like mental athletes, developing their mental strength, flexibility and stamina ready to face the challenges of life.

They talked about the "Inner Citadel" – "the fortress inside of you that no external adversity could ever break down".⁷

I think of the inner citadel as a mental fortress – built up by skills and practices that allow you to manage adversity effectively. This fortress is not there at birth. It is established through your life and your trading experiences. Part of becoming bulletproof is building and strengthening your inner citadel. Within this book, each exercise and technique is an opportunity to add another stone to your fortress walls.



Ask yourself:

- How is your inner citadel currently?
- How are you already working on building your inner fortress?

GETTING GOOD AT THE DOWNS

You cannot remove the risk from trading. That means that negative experiences are part of the game. They are inherent to the nature of the activity. All traders experience stress, difficult thoughts, unwanted emotions and uncomfortable sensations at times. When you make a trade you are taking a risk; it is perfectly natural to feel some stress.

The goal is to get good at dealing with the stress – with the downs. The most effective way that you begin to learn to deal with tough trading situations is by being in them.

It is being in loss-making trades, enduring periods of drawdown, recovering from a mistake, missing out on an opportunity, experiencing fear and dealing with changing market conditions where you develop your coping skills and strategies. It is through exposure to stressful events that you train your physiology to endure the physical responses to stress.

If you avoid stressful or difficult situations in your trading you never develop the psychological or physiological capacity to deal with them and achieve your trading potential.

"No tree becomes deep rooted unless strong winds blow against it' - the shaking and pulling is what makes the tree tighten its grip and plant its roots more securely - heavy rain and strong winds are to the advantage of good people."⁸

The goal in becoming bulletproof is not to avoid or get rid of trading stress or discomfort. The goal is to get good at it.



Take a moment to think of times in your trading (or in a life event, if that is more useful), when you:

- overcame a difficult period
- bounced back from a tough situation, setback or loss
- got through a difficult time with relative ease
- challenged yourself on purpose and went out of your comfort zone.

For each situation, ask yourself the following questions:

- How did you get through it?
- What characteristics, strengths or attitudes did you demonstrate?
- What skills did you use?
- What lessons did you learn?

This exercise is a great reminder of the experiential nature of becoming bulletproof. It's why we're going to be action-focused rather than avoidance-orientated in our work on improving your trading.

4. *GET GOOD AT THE DOWNS*

“What would have become of Hercules, do you think, if there had been no lion, hydra, stag or boar – and no savage criminals to rid the world of? What would he have done in the absence of such challenges?”

– **Epictetus**