LOUISE BEDFORD

Bestselling author of *Charting Secrets* and *Trading Secrets*

Investing Psychology Secrets

SURE-FIRE, DATA-DRIVEN STRATEGIES TO SUPERCHARGE YOUR TRADING RESULTS

WILEY

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PROLOGUE

Let's kick off

I opened my mouth to answer my daughter's question… and no sound came out.

Nothing at all… not even a squeak.

I'd had trouble with my voice for the past decade, but never to this extent. Something had shifted, deep inside my throat. A strange openness. An inability to connect. I could barely even swallow.

It was December 15th, 2019. I was on a holiday with my youngest child, Ash. She was 12.

Little did I imagine this would be my new reality.

I'd caught a virus that triggered a cascade of pain, and an inability to make any noise whatsoever for nine months. Related to a problem I'd had in my twenties (when I lost the ability to move my arms for around three years), it felt strangely familiar… and terrifying.

I was alone in my silent world while the pandemic surged, unable to talk with my family or friends, or even do a Zoom call. I'd never felt so isolated. Inwardly I was screaming from the injustice of it. Raging silently, and wondering whether this would be my reality forever.

Despite intensive speech therapy and a vast array of painful exercises designed to get sound flowing again, it would be two years before I could speak my first hoarse and scratchy sentence.

It's a strange thing to have your body turn against you and not to know whether you'll be able to return to full strength. It's demoralising and humiliating. Waves of grief overwhelmed me. The horror of my situation felt suffocating. Unable to chat with friends, or even talk over the dinner table with my children and husband, I withdrew.

It was subtle at first. But soon I found myself shunning everyone because I felt so damned vulnerable. I became the object of other people's jokes as so-called friends said, 'I'll bet your husband is loving this!' I was appalled by the tactlessness. Their words cut into my already fragile heart.

Then it dawned on me. *This* was a mind game. It was a psychological challenge designed to test whether I was resilient enough to make it through.

Because, by heck, the universe will screw with you. It will treat your plans like a game of Jenga. But how you respond… what you do with your hurts, your discomforts and your disappointments… this is what's really important.

I turned to the lessons the markets had provided me. I sensed that within them were the seeds of my recovery.

Thank goodness I had investing as a back-up plan. Having traded for over 30 years, I had an edge in the markets, which meant I didn't lose my job because I was *already* a full-time investor.

I really don't know what would have become of me if I had been pursuing a regular career when I lost my voice, because 99 per cent of jobs expect you to be able to talk.

I hung onto the words of the Roman poet Ovid: 'Someday this pain will be useful to you.' They were my life raft. I repeated them in my mind like a mantra.

I threw myself into research. What mind hacks could I find to improve my situation? What could help me — both to advance my recovery and to give my investing a boost?

Investing Psychology Secrets is the culmination of that research. In this book I combine my personal experiences as an investor and trader for more than 30 years with data-driven, science-backed, high-performance methods to propel your results to the next level.

Over the past four years I've regained my ability to speak more or less reliably. I still experience setbacks, but I have been able to move through them. And even though I still need regular speech therapy to maintain my voice, I'm much better than I was in those initial months when I was terrified I might never speak again.

Sure, life may let you down. You might experience illness, retrenchment or disappointment.

Today you may suffer fools, face hostility or have to deal with people who despise everything you value in life. Maybe you aren't cared for in a way that makes your soul sing. It may seem like the markets are out to get you and you'll never be the consistent performer you want to be.

The question is, what are you going to do about it?

Listen to that voice. The one telling you that you deserve more.

Let no one keep you from improving your financial future:

Not the mother who wants you to fulfil her ambitions vicariously.

Not the father who expects you to follow the old rules for building wealth.

Not the domineering teacher who can't see you're about to spread your wings.

Not the employer who frustrates you with their unreasonable demands.

Not the voice that whispers in your ear at 3 am, 'You're not good enough.'

Let *nothing* dissuade you.

Your investor's life awaits. You're about to unlock the mindset secrets you'll need to excel in the markets. And I'll be with you every step of the way, drawing on high-performance research to soothe your frazzled mind. The lessons I'll share with you are relevant no matter what time frame you trade in, what pocket of the financial markets you focus on. You'll benefit whether you consider yourself a trader or an investor.

What I'm about to share with you is nothing short of revolutionary. It is your key to developing mental toughness so you can trade consistently in the markets and overcome that nagging self-doubt.

The keys to success

In this book I'll build on many of the ideas I explore on my *Talking Trading* podcast (www.talkingtrading.com.au). I'll show you specific techniques you can use to change the way you look at the markets and yourself. The way to excel in the markets is to detach yourself from your results, and the way to do this is to develop your psychological fitness.

Investing Psychology Secrets is a bench press for your mind. Put in a little consistent effort now, and you'll stretch, develop and grow. You're about to learn why some investors beat the markets … and why most don't.

There are the six golden keys to psychological fitness, and we'll work through each of them together:

Key 1: Success habits. Build winning routines for exceptional investing and trading.

Key 2: Emotional mastery. Keep your cool and flourish.

Key 3: Money mindset. Know yourself to boost your profits.

Key 4: Recharge and renew. Stay energised for optimal performance.

Key 5: Motivation. Use inspiration to drive your results forward.

Key 6: Prime your mind for success. Stories and exercises to reprogram your subconscious.

Read this book starting from the beginning if you'd like. If you're after a quick two-minute boost, though, I suggest you choose one of the stories and exercises from Key 6 to give you the lift you need. Many investors choose to dip into that key for a bedtime story, so their minds are primed for the next day's market action.

At the end of each chapter, I list the key concepts for you as a way of reinforcing the core lessons. When you want a quick refresher, you can turn to those sections for a reminder of the main skills to focus on.

Yes, you may feel a bit vulnerable while reading this book. It may even make you feel a bit queasy when you realise how much money you've left on the table because of your own limitations. But now is the time you put your foot down and get out of your own freaking way to scoop up the rewards the financial markets have to offer.

Trading vs investing

Everything I'm about to relay applies whether you identify as a trader or an investor.

In Australia and some other regions, investors generally have different tax advantages compared to traders. Investors also may choose longer term instruments such as ETFs (exchange traded funds), shares and managed funds, whereas traders may be more attracted to using CFDs (contracts for difference) and derivatives, profiting from sideways movement and downtrends, rather than just uptrends. Many investors adopt a 'buy and hold' strategy.

Some may not even use a trading plan. (Yikes! Perish the thought!) A trading plan is needed by all traders *and* investors to guide how they interact with the market. It helps you decide how to get into positions, how to get out and how much money to put into each position.

To improve your performance, document your trading plan and include all possible scenarios. A written plan reduces the burden on your working memory (your brain's short-term information storage), especially in high-pressure situations. If you'd like my free trading plan template, go to www.tradinggame.com.au and register your details, and I'll email it to you straight away. Following a predetermined plan reduces stress and increases the likelihood of consistent decision making, which will help you achieve success.

Even if you think of yourself as an investor, I urge you to consider carefully and *document* your entry, exit and position sizing. It's one of the keys to success. Although I'll be focusing on investing in the financial markets, even if you're investing in another asset class, such as property, collectables or a business, these mindset tricks are equally relevant.

Show a bit of mental flexibility here. You might think of yourself as a trader rather than an investor — or vice versa. But I use these terms interchangeably throughout the book. The lessons I convey can be applied regardless of your time horizon or how you define your financial activities.

Are you a survivor?

Ever watched the TV show *Survivor*? The goal is to outwit, outlast and outplay your opponents (while being starved, sunburned and semi-tortured in the cause of 'entertainment'). Investing is a bit like that, except the person you're competing against is yourself. You have to outwit, outlast and outplay yourself, performing at the top of your game. That's where the prize lies.

Being a great investor is a gradual, incremental by-product of this activity, not an outcome. It is the fruit of the seed you diligently and lovingly planted. People who do well in the markets exhibit a unique combination of strength, endurance and resilience. These qualities don't come naturally to most of us, but they are exactly what you'll gain by reading this book.

Do you want to discover what it means to be a psychologically fit market dynamo? Join me on this journey and you'll develop your psychological flexibility so you're equipped to handle everything the markets throw at you. There'll be triumphs, struggles, vexation and breakthroughs. You'll learn how to keep your money firmly in your account, how to grow it consistently, and how to stop giving away your hard-earned gains due to rookie mistakes.

I'll give you the tools you need to become a truly consistent performer. Let's start by looking at the success habits required for you to build exceptional investing and trading skills …

KEY 1

Success habits

Build winning routines for exceptional investing and trading

Imagine putting your investing on autopilot. You don't have to think deeply about every decision. You can really concentrate on the aspects of your life that are more personally meaningful. You'll achieve exceptional results without any extra effort. And if you can work out a way to prevent bad habits from taking hold, it will free up your life, right?

It's essential to develop habits that permit you to devote less conscious time to the repetitive aspects of your life. Habits let you free up your working memory, allowing you to think more deeply about things that really matter. Because if every minor decision has to be painstakingly thought through, you'll soon drain your battery, and be more likely to make mistakes.

Behavioural finance expert Brett Steenbarger is spot on when he says, 'The right trading behaviours start as rules and evolve into habits.'

We are the sum of the habits we create. Around half of our everyday behaviours are performed automatically, with little forethought. However, you need to develop conscious awareness of these behaviours. Any habits formed should feed into the goal of developing exceptional trading skills, and not be the equivalent of acting mindlessly.

Key reasons to develop good habits

There are three reasons why you should make the effort to develop good habits:

1. Good habits minimise decision fatigue

If you don't develop effective trading habits, decision fatigue can set in. Past a certain threshold, each extra decision you make taxes your working memory, and your ability to make additional decisions is reduced.

Sure, the first few decisions you make when you're feeling fresh might be carefully considered, but as the day continues, each new decision will wear down your working memory, and your ability to make additional decisions will suffer.

Think of it like a game of chess. You start with a lot of pieces and a lot of moves to make. But as the game progresses, you lose some pieces and your options become more limited. So it's important to practise your early moves in order for them to become habitual. That way you can save your energy for more important decisions later on.

2. Good habits help ensure you always keep learning

Freeing up your working memory allows more room for deep thought. Effective trading requires a combination of following good routines and course corrections when you've made sub-optimal decisions. If you're always fighting mini-fires, you just won't have time to think deeply about your next strategic move.

3. Good habits give you a confidence boost

When you're disciplined and doing what it takes, you feel like a financial market superstar. Your confidence grows when you stick to your routines and make well-informed decisions.

Success hinges on more than just routine actions. It demands conscious engagement, deliberate choices and a deep understanding of your own behaviour. Every habit you form should be intricately woven into the fabric of your trading goals, fuelling your journey towards mastery.

That's where we're starting our journey towards developing psychological fitness. You'll learn how to develop habits with ease, to drop habits that aren't contributing to your goals, and to avoid habits that could deplete your bank account.

It's time to get rolling…

CHAPTER 1

Why is psychological fitness essential?

Why is developing your mindset so important? Surely it's the 'system' you use that determines your success? Well, think again. This is exactly why you should work as hard on your mindset as you do on your trading plan.

I'm about to propose something controversial here: *All success starts in the mind*. Bank accounts are built one step behind the level of your mindset. The sooner you can accept this, the better. When you first dive into trading, you might think success depends solely on the system you use. But let me tell you, it's only after you've faced a few setbacks that you realise the real game-changer is your mindset. You've got to be prepared to dive deep into your tub of emotional goo to come out the other side as an exceptional trader.

Investors start their journey fuelled by excitement about the boundless potential of the markets. The initial enthusiasm sweeping over you can lead to optimism bias, which causes you to overestimate your likelihood of success. It becomes all too easy to overlook or downplay any potential negative consequences.

Most people think the future will be easier, brighter, better. They feel they'll have more time, resources, abilities. Sadly, though, things don't usually turn out as well as we anticipate.

Researcher Sharot found, 'When it comes to predicting what will happen to us tomorrow, next week, or fifty years from now, we overestimate the likelihood of positive events, and underestimate the likelihood of negative events.' For example, we underrate our chances of divorce, being in an accident or suffering from a serious illness, while also expecting to live longer than expected, overestimating job success or believing our children will be prodigies. This tendency translates directly into the financial markets, especially when we're starting out.

Traders swing between extremes. If they're not overly optimistic, they are in despair about the markets and their own abilities. Consumed by thoughts of destitution, homelessness and uncertainty, they envision a bleak future. I like to think of this as *awfulising*. Psychologists use the term *catastrophising*. Either way, you surround everyday events in your life with drama to feel the adrenaline surge through your body. Researchers Sullivan et al. define catastrophising as 'an exaggerated negative "mental set" brought to bear during painful experiences'. More simply, it's the tendency to imagine the worst.

As a trader, however, you can't afford to awfulise. There are consequences. Why? Because you may just awfulise a totally 'normal' situation and freak yourself out. If you constantly surround your trading with drama, you might also put some of the people who care about you offside. They'll seek to protect you, instead of being your cheerleader.

Drop awfulising now!

The price of awfulising is just too high. To avoid it, ask yourself three questions about the 'calamity' you're facing:

1. 'Is it true?'
2. 'What evidence is there for this?'
3. 'Is it useful?'

If the way you're thinking is not true, or if the evidence for it is scanty and it's not a useful way of thinking, you need to drop that line of thought.

From time to time the market can seem like it's attacking us personally. If you've ever popped money into a position and immediately the damned thing goes against your wishes, I can tell you, it's hard not to take it personally. But it's not just when you're making a loss that you have to think about your own psychology. It's also when things go well.

Top-notch investing is not just about mastering technical skills. You also need to train your mind to handle the ups and downs of the trading world. This means developing coping strategies, managing your emotions and staying in control. It's essential to work on building your self-esteem and staying optimistic, while still being realistic about your abilities. Don't worry if this doesn't come naturally to you — most traders need to work on these areas to develop psychological fitness.

Psychological fitness

Psychological fitness means having the ability to grow and bounce back from significant challenges. And, just like physical fitness, it's something you can actively work on and control through training.

When you accept that anything can happen in the markets but it's your mission to assess probabilities, you're on the right track. Only take trades when the evidence indicates that the trend you're backing will continue. If you truly believe this, then you won't block, deny or attack anything the market is offering. You'll respond with clinical detachment, basing your decisions on the weight of evidence.

To achieve this goal, you must train your mindset in various ways. You need to develop coping strategies, manage your emotions and maintain self-control. For most traders, this level of self-awareness isn't automatic.

Five reasons to improve your psychological fitness

Here are five reasons you should prioritise improving your psychological fitness. It will help you:

- **develop detachment.** To make objective decisions and avoid investing emotionally, you need to develop detachment towards your results. You've made a 'good trade' if you've followed your trading plan to the letter (regardless of the profit or loss you make). When you are at peace with any outcome of your trading, you'll be free to trade with precision.

- **open up to new possibilities.** Improving your psychological fitness sparks your curiosity and eagerness to explore new areas. You become more adventurous and develop a genuine thirst for knowledge.

- **embrace resilience.** Psychological fitness strengthens your resilience, making you less likely to give up and more inclined to persevere. You become better equipped to face challenges head-on, bounce back from setbacks, invest more effort and find inspiration in the achievements of others.

- **stay grounded.** Working on your psychological fitness keeps you humble, preventing both overconfidence and self-doubt from clouding your judgement. Interestingly, studies have shown that overly confident traders tend to earn lower profits in their trades.

- **learn from your mistakes.** By improving your psychological fitness, you develop the ability to learn from past mistakes. This ensures that you'll stay in the markets long enough to make necessary course corrections.

Emotional discipline may be even more important than having a good system. Writing in his very popular book *The New Market Wizards*, Jack Schwager puts it this way:

> *If there is a single theme that keeps recurring in this volume, as it did in* Market Wizards*, it is that psychology is critical to success at trading. In order to achieve success in life, you must have the right mental attitude.*

> *If trading (or any other endeavour) is a source of anxiety, fear, frustration, depression, or anger, something is wrong — even if you are successful in the conventional sense, and especially if you're not.*
>
> *You have to enjoy trading, because if trading is a source of negative emotions, you have probably already lost the game, even if you make money.*

Sadly, sometimes *you* can be your own worst enemy. Especially when the market seems to turn against you, it can be hard to decide to pick up the pieces and give trading another shot.

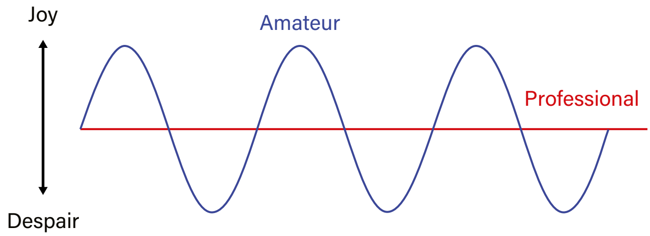
The late psychologist and author, Dr Harry Stanton, was my friend and co-author of our book *Let the Trade Wins Flo*w. Let me tell you how I got to know him … and eventually had the honour of writing a book with him on trading psychology.

Harry is the sole reason I decided to study psychology at university. Frankly, he turned my life around when, as a 15-year-old, I was heading towards a very bad place. My darling sister, Valerie, gave me his book, *The Plus Factor*. I still have the original copy, printed in 1979, on my bookshelf. This book touched my heart. More importantly, it made me realise that my future was in *my* hands.

His words comforted me and made me feel less alone. They spoke to me. After the first three pages, I knew I had found my calling. I was determined to study psychology at university so I could gain insights into how people's minds worked … and how *my* mind worked. Years later Harry and I became friends. He shared with me his views about the markets and candle charts, and our friendship deepened.

Harry summed up beautifully my tendency to become ecstatic one minute and to plunge into the depths of despair the next. As a trader, especially when you're starting out, you'll swing from excessive optimism to abject despair like a little pendulum wrecking ball. The key to high performance, Harry told me, was to be less emotionally volatile, develop objectivity and always take a pause before making big decisions.

Emotional Distance



It's so easy to climb on board a joy/despair roller-coaster, but in reality you'll make your best decisions when you adopt a more level-headed approach. When you feel like your belly is doing flip-flops because of this joy/despair cycle, personal mantras can help.

As a beginner, I cried about every loss I made. Not just one of those pretty soap opera weeps with tears rolling delicately down my face. I'm talking about a howling, red-faced blotchy mess. Yet every profit had me dancing around the house, singing 'I wanna be a billionaire' at the top of my lungs.

It took me a very long time to calm the heck down.

Common biases

We're subject to a bunch of biases that can foul up our thinking and impact our investing results. Here are some of the biases that can affect you:

- **Confirmation bias:** We all hear what we want to hear, and investors tend to listen only to the news that tells them they're right.
- **Overconfidence bias:** If you think you're the guru of the financial markets, you might take risks you shouldn't.
- **Loss aversion:** No one likes losing money. But many people hate it so much they hold onto losing investments forever, hoping they'll magically turn into winners.
- **Herding behaviour:** Investors can blindly follow the crowd, even when it's not the smartest move.
- **Anchoring bias:** Imagine you bought a stock at $50. Now it's at $30, but you're convinced it'll go back to $50. Anchoring bias makes you hang on, even if your hunch is unlikely.
- **Recency bias:** Recent events have a big impact on our decisions. If the market's been great lately, we may imagine it'll stay that way forever.
- **Availability bias:** We're often influenced by what's in front of us. If the news is screaming about a particular company, we might jump in without thinking.