



## How emotions can affect your trading results

LESSON 59 MODULE 11

Most traders spend time to learn forex trading strategies and analysis skills but don't even bother to learn the emotional aspect of trading. It is true that technical and fundamental analysis skills are the aspects of trading that are commonly talked about on financial news channels and trading blogs, and they are easier to learn.

However, it is the emotional skills that determine how successful a trader can become. The truth is that a great percentage of retail forex traders fail in trading, and the reason for that is not far from lack of mental discipline and emotional control.

Emotions are those strong feelings and attachments you have as a human being. In normal life circumstances, your emotions are normal ways of expressing yourself, but in the forex trading world, your emotions may be doing more harm than good.

In this article, we will look at why you need to control your emotions when trading and the most difficult emotions that can hinder your success in trading. Read on!

### The importance of mastering your emotions as a trader

Experienced traders know that their emotions do not contribute anything to their trading success, rather, it can cause them to make some costly mistakes. So, they try all they can to put their emotions under check and focus on the thing that matter, which is to properly execute their strategies without fear or favor.

Trading is a game of odds — some trades will be winners, while some will be losers — and the way you feel has no effect on the outcome of any trade. The most paramount thing is to have a strategy that has an edge in the market — more winners than losers or bigger winners and smaller losers.

You should have a strategy that clearly defines the criteria that must be met before you enter or exit a trade. With that, you shouldn't concern yourself with the outcome before placing a trade, and even after the trade, the result shouldn't bother you, as it has nothing to do with the next trade you are going to take.

Profits shouldn't bring joy, neither should a loss bring sorrow. While you can enjoy the fruits of your profits with your family and friend at a later time, there is no point entertaining the feeling of achievement when you are in front of your trading screen. Doing so may lead you to make unnecessary mistakes that will affect your profitability.

For instance, you may be so excited about the last win that you fail to identify the next trade setup, or you place another trade when your trade criteria have not been met. Similarly, after a losing trade, you may be so worried about being wrong again that you miss the next trade setup, and if the setup ends up a winner, you will start regretting why you never took the trade.

Since the profitability of any strategy depends on taking all the trade setups that occur in the market and executing them properly, omitting trades or not taking them properly will definitely reduce your chances of success. Worse than that, unguarded emotions can make you to betray your risk management strategies — trading without a stop loss — which is the perfect recipe for blowing your trading account. Thus, the ability to control your emotions is the first skill you have to learn as a forex trader if you want to succeed. Not mastering your emotions can sabotage your efforts.

### The emotions that hinder your trading success

There are so many emotions that can prevent forex traders from being successful, and each trader may be dominated by a different set of emotions. Generally, the most difficult emotions that hinder traders from being successful in forex trading include the following:

#### Fear

Fear is a distressing emotion that is triggered by the feeling of an impending danger, which may be real or imagined. When a trader is overcome with fear, he tends to act on survival instincts without reasoning, and the response is to stay away from the cause of danger, which in this case is the situation in the market.

In forex trading, fear can manifest in four different ways:

- **Fear of losing:** This can make a trader use a tight stop loss or close a trade before it even has the chance to play out.
- **Fear of being wrong:** It can make a trader not to take the next trade
- **Fear of missing out:** This can make a trader, who has been on the sideline, to jump in so as not to miss an opportunity, and he ends up entering a trade when the market is about to reverse.
- **Fear of letting a profit turn to a loss:** Here, the trader leaves money on the table by taking his profit too early.

The first step to overcoming any of these fears is to be aware of them and know when you are feeling any of them. When you acknowledge the feeling of fear, make efforts not to act by the dictates of the fear, and instead, follow what your trading plan stipulates for that situation.

#### Greed

This is an excessive desire to make the most money in the shortest possible time. In forex trading, greed manifests as the desire for a trade to produce an unrealistic amount of profit. It makes a trader stay in a trade for too long, trying to milk every last pip.

The trader focuses on how much more money he could make if the price continues moving in his favor and forgets the possibility of the price turning against him and wiping out all the profit and even leading to a loss — more like going from heaven to hell.

To overcome greed, you should understand that unrealized profits are profits only on paper. A trade can only be a winner if the profit is booked. But that doesn't mean you should take your profits too early (the fear of letting a profit turn to a loss). Instead, you should have a solid trade management plan, which is to have a target profit for each trade or a profit trailing strategy.

#### Hope

This is the feeling of expectation (which in most cases is unrealistic) and desire for a specific thing to happen. While fear is the most common emotion among traders, hope is the most deadly emotion a trader can have when trading, and here's why.

Hope can keep a trader from closing a trade that is not working out. It is hope that can make a trader not to use a stop loss, increase his stop loss while already in a trade, or worse still, practice the martingale strategy — all these can lead to catastrophic losses and even blowing a trading account.

If you wish to succeed in your trading career, you should know this: in the forex market, hope is for the hopeless. Nobody cares about what your expectations are. You should trade what you see and not what you expect — have a strategy and follow it to the letter.

#### Overconfidence

Having confidence in your trading strategy and your ability to execute it is good when trading, but overconfidence can be very bad for you. Overconfidence is that feeling of invincibility you get when you are on a winning streak.

The euphoria that comes after every win can make you start seeing trading as a riskless adventure, which can lead to making poor decisions in the subsequent trades — for example, trading bigger lot sizes. It often ends with a catastrophic loss.

When you are on a winning streak, you should know that you are not invincible, so you should be more cautious. Don't increase your lot size because you are on a winning streak. Rather, follow your trading plan and only increase in accordance with your account balance.

#### Inability to pull the trigger

This often shows that the trader lacks confidence in his strategy and his ability to properly execute the strategy. It can also be as a result of a perfectionist attitude — analysis paralysis.

When a trader is unable to pull the trigger because he is afraid that the trade may not be a winner, he will end up missing the trade, and if the trade moves in the anticipated direction, he may start chasing the trade and end up losing.

To avoid this condition, back-test your strategy, and if it is a profitable one, forward-test it in a demo account until you're convinced that it is profitable. Then follow it strictly.

#### Exiting a trade prematurely

This occurs when a trader has the fear of letting a profit turn to a loss. A trader develops this attitude after watching his profits get wiped out on many occasions, probably out of greed.

But prematurely exiting trades isn't the solution. Rather, it limits the trader's potential for success over the long term because the risk-reward ratio will be against him. The best solution is to have a profit target that is at least twice the risk or to use a trailing stop.

#### Indiscipline

Lack of discipline will often lead a trader to make careless mistakes when trading. The mistakes can range from putting the wrong lot size or entering the wrong order to forgetting to put a stop loss or missing out a crucial element of his trading rule.

To improve your ability to be disciplined and strictly follow your trading plan, you need to keep a copy of your trading rule in front of you when trading. Also, create a checklist that you must tick before taking any action in the market.

#### Lack of commitment

When a trader is not fully committed to his trading, he tends not to take his trading seriously. He trades only when he feels like trading will be fun, but trading is a serious business and not a hobby.

The problem with not being committed to your trading is that you will miss a lot of trade setups that your strategy has identified. And, since the profitability of the strategy is premised on taking all the trades identified by the strategy, randomly trading some setups may skew the outcome.

#### Lack of focus

If you are not completely focused on what is happening in the market when you are trading, your chances of making a big mistake are high. Trading is mentally tasking because the brain is processing so many information at the same time, so there is no room for distractions.

To enhance your ability to focus on the market, your trading room should be serene. It should only have the things you need for trading and nothing else.

#### Impatience

A lot of traders are naturally impatient in everything they do, and trading is no different. But patience is a necessary virtue for any trader who aspires to be successful.

An impatient trader is more likely to jump the guns (enter a trade when the setup hasn't fully formed), move the stop loss to breakeven too early and get spiked out, or close a trade prematurely.

The best way to prevent these situations is by strictly following your trading plan, making sure that you act only when the criteria for the action are met.

#### Anxiety

This can come from not being sure of which trades to take and how often to trade, and it follows a prolonged period of losing streak. Anxiety is a state of panic or apprehension which reduces your ability to think clearly and make sound trading decisions.

Most of the time, anxiety gives rise to trading erratically without a strategy, and the result will be more losses and more panic. To control anxiety during trading, you can try some relaxation techniques, like deep breathing, yoga, mindfulness exercises, and emotional freedom technique (EFT), or you take a break.

#### Regret

Regret is that feeling of disappointment or sadness you get when something has not happened the way you wanted it. For example, when you take a huge loss and the market turns back immediately or when you refuse to take a trade and it turns out an easy winner.

The implication of this emotion is always thinking about the past and not looking for future opportunities. Regrets can lead you to miss more trades because you won't see them. But most importantly, it can make you to shift your stop loss next time or chase a missed trade.

To be a successful trader, you must learn how to always put the past in the past. Learn from your mistakes and move on.

#### Final words

Although your emotions are normal feelings that express what is going on inside of you, when left unchecked during trading, they can be your worst enemies. It is best you understand them and try to be aware of them when trading.