

Some General Criteria to Improve Trading

Last weekend I suggested you set out and prioritize elements or criteria that you believe are most critical to trading success. I also solicited you to publish them on the blog. Unfortunately, at least some subscribers had a problem getting on the blog so we may have gotten fewer lists than we might otherwise have received. In any event, thanks to those of you who did post and to those of you who tried. I hope that you found the exercise valuable and that it helped focus your attention on doing things that are important and avoiding things that may be less than productive.

I promised my own list this week. What I have found is that my list consists of two overall categories. The first category is what I would call general requirements. That is, personality traits that might be encouraged in trading and, for want of a better description, work ethic. The second category is what I consider to be some specific necessities of trading.

In this article, I'll write about the first category; the general requirements. In next weekend's article I'll finish up with what I consider to be specific necessities of trading.

Here are what I see as general requirements in my personal order of priority:

1. Knowledge
2. Have a plan
3. Exercise discipline
4. Be patient.

Without knowledge we are lost. As we gain knowledge, we gain ability. We may gain the ability to cut losses and let profits run or we might gain the ability to make adjustments to trades that result in turning the trading "lemons" to "lemonade." In my estimation, knowledge is something that can truly empower our trading. Even now, after years of trading for my livelihood I still devote several hours a week to study.

Having an overall plan and having a plan for any given trade is something I consider to be extremely important. I describe elements I believe should be incorporated in a plan in great depth. Suffice it to say here, that without a plan, we are just floundering around without focus to our trading. We have established neither a direction nor a method to our trades or our trading. Which do you think is preferable--knowing what you plan to do or acting randomly?

If we are going to do ourselves the favor of creating a plan, it only seems to follow that we should adhere to the plan as long as it is working or until we change it. That requires discipline and without discipline we are back to random action and floundering. Often I have spoken with students and traders about the internal dialog we have in our minds. How often the internal dialog suggests action other than what we have planned, and how often the suggestions are wrong. Discipline can be very difficult, but it can also be tremendously rewarding.

Finally, there is the virtue of patience. Impatience is an enemy. It can make us enter trades prematurely, exit too soon, force trades, get into trades that don't meet our criteria, and generally result in some pretty poor trades. If we agree that there is a value in having a plan and that we need to execute the plan in a disciplined fashion then it is a no-brainer to understand that we have to be patient and wait until the criteria we have set out in our plan is met before we act.

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