November 23rd, 2014

Hi everyone,

Continuing on with our discussion about Mark Douglas' book "*Trading in the Zone*" and how thriving traders "think" differently from those that are less effective. We left off last week with the comment, "You devoted yourself to learning but you may have done it for the wrong reasons."

Question From member:

QiT is considered Swing Trading Correct? How long do you usually hold positions? Days, Weeks months?

Answer:

Two types of trading extremes are buy and hold and on the other end day trading. Buy and hold may be preferred by some but many traders understand the inherent downside risk in this timeframe and want to be a more involved participant in their financial well-being, yet cannot sit in front of a computer all day to day-trade. Swing trading is pretty well anything in between. QiT will hold positions for day, very rarely over a week and never for a month.

You all know our brains are wired to circumvent physical and emotional pain. Unfortunately learning more and more about the markets will not compensate for the undesirable effects our pain-avoidance tools will have on our trading. Everybody understands the nature of avoiding physical pain. Accidentally walk on hot pavement, and you start the "hot pavement dance" to avoid the physical pain. On the other hand, when it comes to evading emotional pain and the negative consequences it has on our trading, very few traders (people) understand the underlying forces that are at play.

Our wonderful brains have many methods to protect us from the information we perceive as painful. How many of you have "justified," or "rationalized" staying in a losing trade. We call our trading buddies, talk to our broker, or look at indicators we never use, just to gather non-painful information allowing us to deny the validity of the painful

information. This all happens at the conscious level but at a subconscious level, our minds will automatically modify, misrepresent, or specifically exclude information from our conscious awareness. In other words, even if we are aware at a conscious level we are avoiding painful data, we are not aware our pain-avoidance mechanisms are either excluding or altering the information being offered by the market.

Have you ever been in a trade and the market was consistently moving against you but all your focus was on the occasional moves in your favor? Even though the position continued to lose you were able to convince yourself it would reverse. At some point, the dollar value of the loss became so pronounced that it could not be ignored any longer and you bailed. Once you had no emotional attachment to the trade, and you looked back on it, you hit yourself on the forehead and said, “I should have had a V8,” or better yet, "Why didn't I just take my loss and reverse?" The opportunity to reverse was blocked from our consciousness until the subconscious had no reason to “protect” you from the painful data you were been bombarded with.

Learning more and more about the markets only to avoid pain will compound your problems because the more you learn, the more you will naturally expect from the markets, making it all the more painful when the markets don't do their part. You have unwittingly created a vicious cycle where the more you study, the more debilitated you become, the more debilitated you become, the more you feel compelled to study.

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The cycle will continue until you either quit trading, never to return, or you recognize that the root cause of your trading problems is perspective, not lack of market knowledge.

Next week the “Boom and Bust Cycle.” Stay tuned.

Food for Thought

For the week ending Nov 19th bullish sentiment as defined by the American Association of Individual Investors (AAII) fell 8.8% from 57.93% down to 49.12%. This was largest decline in bullish sentiment since June 19th and the 3rd largest weekly drop this year. One has to keep in mind though that the week's level was the highest in more than four years and the second highest weekly reading of the entire bull market. Along with this drop in bullish sentiment we also saw a moderate increase in bearish sentiment that rose from 19.31% up to 23.82%. This week's increase was the second straight week where bearish sentiment increased by more than four percentage points. The last time we saw back to back weekly increases of four percent in bearish sentiment was in June 2013.

In Conclusion …

The man who called the last stock crash is already blaming the Fed for the next.

Do not read this if you think Buy and Hold is the way to go, unless you're the Warren Buffet kind of buy and hold dude/dudette!

Nasdaq 10,000 by 2016 Really?

Make sure you check out the Weekly Market Update on our homepage.

Remember, plan your trade and trade your plan.

TraderJanie