



Trading Is War – Part 1

## What Can Traders Learn from Battle Managers?

The skills, characteristics and experiences of RAF weapons controllers and financial traders are very similar. The author has been successful in both fields and believes there is much for the trader to learn from the psychological techniques and tactics of war. In part 1 of his article he briefly outlines five of his ten rules to ensure survival, on both the battlefield and the markets. These include ensuring you live to fight another day, only choosing to fight battles you can win, and honing a killer instinct to pick off weak targets. To illustrate the rules, the author describes military tactics and strategies which are invaluable to those wishing to optimise their approach to trading.

Traders can learn a great deal from battle managers. The skill sets, qualities, attitudes and challenges are very similar. Having undertaken both roles, the author feels qualified to discuss the two environments and help other traders develop similar skills and mind-set. These enable traders to operate effectively in the only environment short of physical warfare that holds such high standards for success and failure.

Before entering the City and then working as a Trader for a fund, the author was an officer in the Royal Air Force for six years. His specific title was “Weapons Controller” within the Fighter Controller Branch conducting Command and Control Warfare, guiding fighter aircraft to intercept enemy bombers and their fighter escorts.

To the uninitiated it is like playing chess but with eight other guys, in a complex and three dimensional environment at 500 miles per hour. The margins of error are slim; you have to be calm yet decisive; focussed and flexible; straight talking but able to listen and adapt; swift in your actions without making mistakes. He served in Bosnia, Cyprus and the Falklands.

As a Battle Manager the first rule that was taught was:

### Rule 1:

**Live to fight another day.**

Modern fighter aircraft are expensive pieces of equipment. Aircrew are high value assets, and always in short supply. The battle manager must ensure they accomplish their mission and get home safely. Wherever possible it is better to live to fight another day than waste your resources.

In trading it is your job to ensure you too can live to fight another day. Yes, you will make mistakes. Yes, you will have losing trades. But it is all a waste of effort unless you can go away, learn from the experience and then come back the following day ready for battle. There is no prize for committing professional suicide. In trading the author would define that as simply:

- a. Always use a stop-loss to insure against catastrophic loss.
- b. Always limit your risk exposure to a small portion of your capital.

It is always better to disengage and live to fight another day, than push a bad position, experience a huge loss, and crash and burn.

If you take nothing else from this article the author would



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implore you to take this point to heart and make sure your trading plan ensures your survival.

So what helps traders and battle managers live to fight another day? Rule 2.

**Rule 2:**

**Wherever possible only choose battles you can win.**

The cult of the hero-warrior is long extinct. The image of a gallant and dashing cavalryman armed with nothing more than swords, charging against an enemy wielding automatic weapons, is heroic but ultimately fool-hardy.

People have this romantic notion that all the great air aces from the previous wars were constantly involved in whirling gentlemanly dogfights with an equally chivalrous enemy. This is a myth. 80 per cent of victims in air-battles never saw their attacker. Those great air aces were cold-blooded hunter-killers. They stalked their prey, crept up on them, delivered a ruthless killer blow and quickly fled. They would do anything possible to avoid having to stand and fight.

Successful traders have a similar mind-set. They stalk the markets looking for suitable low

risk, high reward opportunities. Do not get embroiled in pointless tit for tat trades chasing a few pips here and there. Take your time, assess your battlefield, know your enemy, stalk your opportunity, set a trap and wait for him to spring it.

Remember, as a trader, no-one forces you to pull the trigger. The responsibility for taking high quality trades is yours and yours alone. Think to yourself as a trader; are you the hunter or the

“When the bullets start flying you need to be able to act decisively and do exactly what needs to be done right away.”

hunted? Perhaps Rule 3 will help provide you with some clarity.

**Rule 3:**

**It is not the size of the dog in the fight but the size of the fight in the dog. Attitude is key.**

You will have heard about so-called hard men collapsing in fear at the first sign of danger and would-be shy wall-flowers suddenly leaping forward with bravery, courage and tenacity

when faced with difficult situations. A good part of that is down to having the right attitude. As the RAF fast jet aircrew fraternity used to say: “There are pilots who fly fighters and then there are fighter pilots.”

The author has worked with guys and girls who had the necessary flying ability to fly a fast jet fighter, but sadly lacked the hunter-killer instincts to employ their fast jet as a lethal killing machine (which is basically what it is).

In air combat, 40 per cent of all the air-to-air kills in a battle are attributed to four per cent of the fighter pilots. They have excellent situational awareness (the ability to understand clearly what is going on around them in three-dimensions) allied with a natural aggressive hunter-killer attitude. And they are confident without being cocky.

In trading it is usually two to 15 per cent of traders who take money from the other 85 to 98 per cent of traders. Trading is simple but it is not easy. There are many challenges and obstacles. Do you have that attitude of courage, tenacity, perseverance and determination to start each trade afresh,

regardless of the outcome of the previous trade? Are you able to move from one set-back to scouring the market for new low risk high-reward opportunities?

How do we start to look for the opportunities? Rule 4 starts us off.

**Rule 4:**

**Preparing the battlefield.**

“Time spent on reconnaissance is rarely wasted.” – British Army saying.

On the battlefield, commanders are always trying to see what is happening on the other side of the hill. Extensive preparation is always a high priority on a commander’s list. It provides them with an edge in the battle. For a trader it is imperative that you do the reconnaissance of your own battlefield:

- What market are you trading? Is this a field you can genuinely win on?
- When is your market open?
- Which session offers me the most low-risk, high-reward opportunities?
- What are the position size requirements?
- What are the margin requirements?
- Who are my opposition?
- What are my strengths? What are my weaknesses? What are the threats?
- What is my target?

- Am I adequately capitalised for that market?

And so on. There are dozens of good quality questions with regard to understanding and preparing to win on your battlefield.

Regarding trading performance this is definitely all about the preparation for your trading day. It is vital. This leads us to the final rule of Part 1.

**Rule 5:**  
Skill is a drill.

“If officers are not thoroughly drilled, they will be anxious and confused in battle; if generals

are not competently trained, they will suffer mental anguish when they face the enemy.” – Sun Tzu

There are many reasons why the military train hard every day. It develops physical resilience which in turn helps develop mental resilience. It builds confidence in equipment, colleagues, tactics and procedures. Like airline pilots and emergency room doctors, constant training in basic skills is conducted until they become an automatic response. This means the individuals will automatically do the right thing when overwhelmed during

periods of intense stress and pressure. As an aside, how many traders or trading education firms train their people until their responses to situations are automatic? I would suggest very few.

The constant repetition of the most basic of skills helps build routines, self-discipline, confidence and ultimately competence. When the bullets start flying you need to be able to act decisively and do exactly what needs to be done right away.

That is exactly the same for traders. You need to know what you are going to do when the

market does not do what you think it is going to do (which it will do...a lot!)

**Conclusion**

Hopefully this article has been thought-provoking about the way you presently conduct your trading business. The author believes it is worth repeating the message from Rule 1. Wherever possible ensure your survival by living to fight another day. In trading the author would define that as simply:

- a. Always use a stop-loss to insure against catastrophic loss.

- b. Always limit your risk exposure to a small portion of your capital.

Whilst the old hands reading this article may believe the author to be labouring the point, it is amazing how even experienced traders can, on occasion, lose sight of those two principles. We are all human and we all make mistakes. However, by following those principles you will always live to fight another day.

In Part 2 we will cover the remaining five rules looking at such topics as how a plan is only good till first contact with the enemy and how constant debriefing is imperative to developing performance. ■



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