



Trading Is War – Part 2

What Can Traders Learn from Battle Managers?

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In the second and final part of his article series the author briefly outlines the remaining five of his ten rules to ensure survival – on both the battlefield and the markets. These rules, amongst others, help you by taking control of your portfolio and your emotions or managing investment situations which you have not planned. The author, who is an Ex-Royal-Airforce-Officer, shows you the similarities between trading business and managing a battle.

Before we continue with Part 2 of our strategy-guide, let us recap shortly the first five rules, which were the following:

Rule 1: Live to fight another day

Rule 2: Wherever possible only choose battles you can win

Rule 3: How attitude is key

Rule 4: Preparing the battlefield

Rule 5: Skill is a drill

In preparation for our trading day we now move onto Rule 6.

Rule 6:

A plan is only good till first contact with the enemy.

“Everyone has a plan – until they get punched in the face” (Common boxing maxim). So you have a plan and you have practised until your competence levels are sufficient. Is that all there is to it? Sadly, no.

The person who plans your trade and the person who executes the trade will undoubtedly be two very different people. Let me explain further. It is easy to sit at the end of the day after the markets are closed to go through the charts and pick out possible trading opportunities for the following day’s session. You can take the time to sit and make some great plans on how to engage with the market.

However next day when you are in the thick of the blood and

thunder of a volatile fast-moving market the calm, quiet, decisive person from the other evening has now been replaced by an anxious, indecisive, impulsive, aggressive, crazy whirling dervish! This is where your brains turn to water and pour out of your ears. Unless you have drilled yourself properly and know how to operate in such an environment, you will find your carefully laid plans evaporate when you get caught with your pants down during an unexpected news event.

This is one of the reasons the military are so hot on checklists or Standard Operating Procedures (SOPs). Part of your plan should be how to deal with such contingencies. Create ‘what to do’ lists for all manner of emergencies. Yes, it is boring and with a low probability of being needed – right until that day when it all goes wrong!

Rule 7:

Know your enemy.

Fighter pilots will spend a great deal of time understanding their strengths whilst learning about the weaknesses of their enemies. They are always looking for a flaw in their enemies’ equipment, personnel and tactics that they can use to their advantage. This becomes their edge.

In trading we have a slightly different enemy to understand.

“We have seen the enemy and it is us” (Famous Pogo Cartoon).

Nowhere is this adage more prevalent than in trading. Whilst you are in competition with all the other traders on the planet, ultimately the biggest battle you will face in trading (and in life) is the one with yourself. That screen is your evil twin. It will try and tempt you into all sorts of trouble. Impulsive trades, over-trading, over-leveraging, doubling-up, the whole gamut of reckless mistakes. You will learn more about yourself when live intra-day trading than perhaps any other business activity.

Do you really know your weaknesses? Have you really sat down and analysed your results, behaviours and actions? This can be the point when many traders decide to give up. They do not like what they find. They know in their hearts that they have seen the enemy, it was them, and they did not like what they saw.

If you are an anxious, emotional person with leanings towards indiscipline and impulsiveness then perhaps intra-day trading may not be the right arena for you to employ your skills and talents!

Rule 8:

STOP – STOP – STOP – Knowing when to run away bravely and take a time-out.

“Brave, Brave Sir Robin, when danger reared its ugly head he



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bravely turned his tail and fled. Yes brave Sir Robin turned about and gallantly he chickened out. Bravely taking to his feet he beat a very brave retreat. Bravest of the brave, Sir Robin.” (With thanks to Monty Python and the Holy Grail.)

There is nothing that says you have to stay and fight when the probabilities are against you. Running away bravely in order to fight another day is usually the sensible move. If you find that you have been ambushed wherever possible it is better to bug-out, withdraw and re-group. This is linked to rule 1: Always live to fight another day and Rule 2: Wherever possible only choose battles you can win.

However we know that in trading regardless of how sweet a set-up appears it is merely a game of probabilities. So if your position does not work out like you planned it to then do not just sit there and await the inevitable. Your first loss is always your smallest! Better to take the position off, stand aside and wait for the conditions to suit you. As that old trading saying goes, “Better to be on the side-lines wishing you were in a good move than stuck in a bad move wishing you were on the side-lines!”

During training dog-fights between fighter aircraft whenever there was an issue that could compromise flight safety or an

emergency was developing any pilot could call “Stop –Stop-Stop!” All aircraft would cease fighting, roll wings level and then start searching for their wingmen until the danger had passed.

I mention this because in trading I believe we can use the word STOP in a positive way as described by Timothy Gallwey (the godfather of coaching) in his book “The Inner Game of Work”:

1. Step back
2. Think
3. Organise your thoughts, and
4. Proceed

A STOP can be of any duration from a few seconds to an entire month (if that is what is required). It is a chance to step back from the momentum of action, emotion, and thinking. Step back and collect yourself.

Sometimes the disengagement from the battle will give you a broader perspective and the ability to make more clear headed choices. Sometimes it really is better to just run away bravely. In trading never forget rule 1: Always live to fight another day.

Rule 9:
Keep your powder dry. Save your bullets, wait for the high probability shot and avoid going “Winchester”. In an air battle, the code word “Winchester” denotes that you

F1) The First Contact with Your Enemy



A successful trader should create ‘what to do’ lists for all manner of emergencies.

Source: www.fotolia.com

F2) Knowing when to Run away Bravely



When the probabilities are against you it often is better to run away and fight another day.

Source: www.fotolia.com

have no ordnance remaining, you are shot-clean of all your ammunition. You are not much use in the fight and you need to head home to re-arm and re-fuel.

In trading on both a strategic and tactical level you see traders going "Winchester" all the time. On a higher level they are undercapitalised and are trading with scared money. Their personal financial situation prevents them from being truly successful as a trader.

On a tactical level you see traders going "Winchester" from over trading, over-leveraging, blowing accounts and generally being over-confident and under-skilled. They are impatient, undisciplined and a liability to themselves. Think of these traders kind of like the soldiers you see in Hollywood movies, firing off machine guns wildly, spraying the entire world with wild shots. They rarely hit anything and run out of ammunition pretty quickly (although actually in the movies, they never run out of ammo!) My suggestion is that you aim to be less of a wild trigger happy machine-gunner and more of a calm, deliberate sniper. Demonstrating patience and discipline to set your trap wait

for your target to enter your zone and trigger the trap.

So you have planned and prepared your battlefield, you have spent the day calmly and patiently waiting for your opportunity to take

“Sometimes it really is better to just run away bravely.”

a high probability shot. You have executed your plan and completed your mission. Your day is over, or is it?

Rule 10:
Constant debriefing is imperative to developing performance.

This final point can make all the difference between a great trade being a one-off or the start of a successful, prolonged sustainable career as a trader. You will find that fighter pilots can spend more time going over and reviewing their missions than actual time conducting them. The ethos of continuous debriefing is installed right from the onset of a military career. There is always the dedication to strive for excellence.

In trading, this ethos will pay huge dividends. However, mostly

it is ignored or at best carried out in a haphazard manner. You have paid for your trading experience in time, energy or money (probably all three); it is your responsibility to draw as much educational value from

your experience as possible. What could be improved, what you did well and what will you do next time? You will find that in high performance environments, being able to stand up and debrief your mistakes

is a great way to ensure that the learning process is shared and strengthened. The likelihood of that mistake happening again decreases. What are your own de-briefing procedures? How do you look to improve your trading performance every day?

Conclusion

In conclusion the author hopes you can see the many similarities between managing a battle and running a trading business. The rewards for success are high and the penalties for failure are not worth thinking about. If you can adapt a few of these concepts into your own trading plan then hopefully you will become a great trading general who goes on to win a good many battles of your own. ■

F3) Wait for the High Probability Shot



A trader has to be patient and has to wait for the right opportunity in order to make money.

Source: www.fotolia.com