

ReadySetCrypto Futures Masterclass



Module Nine: Trading Mindset

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Trading Mindset

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Introduction to The Trading Mindset

At least 90% of your performance in the pursuit of Futures Trading will be a result of your Trading Mindset.

When I first got into this business I had other mentors cautioning the same thing, and I blew it off. I was a former engineer, and I was mostly interested in the nuts and bolts of how to make money. Show me the STRATEGIES!!!

But it was only after round after round of baffling decisions which I could not explain later on.....that I finally threw in the towel and started to research why I was doing *the exact opposite to what I needed to do* in order to earn income!

Unless you are an exceptional human being, you will also go down the same corridor that I did. So go ahead and give this material a cursory glance....I would have....but know that it's here waiting for you when you're ready.

What you'll eventually learn...and it took me years to figure this out....is that you're not really trading against the Market. *You're actually trading versus yourself.*

Let's see what makes "us" so hard to figure out.

The Issue Is How We Think About Risk

Quick....is the word “risk” good or bad?

Nearly 100% of people would immediately say that “risk” is a bad thing and that we should avoid it at all costs.

But think about the process of “trading.” Without RISK, there is no REWARD.

One of the first questions that I get from newer investors, especially those that come from the business world and have their “crap wired tight,” is:

“Doc, what’s your recommendation for a good, solid, conservative strategy where I’m not going to lose anything?”

Me: “For you? Mutual Funds. Certificates of Deposit. Government Treasuries. End of story.”

Well, that’s not what people want to hear. They are looking for the ubiquitous Holy Grail of Trading, that magical strategy that risks no capital while providing endless bounty.

And that’s because “risk” is considered a bad thing.

You’ve been coached on this concept since you were an infant. Your parents did everything that they could to keep you safe and secure, with the underlying implication is that “safe is good.” This even manifested itself into career choices, such as “Accountants always have a job.”

Never mind that you’re miserable. Risk is bad, right? In fact, nothing that’s occurred to you to this point in your life has taught you anything but reinforcement of that concept. You accept a weekly paycheck at a job you barely endure just because it would be “risky” to jump off that sidewalk into the street and go it on your own.

So you think that trading might be fun and could be the spark to lead you to independence. Unfortunately, until you’re able to think differently about “risk,” then success will be elusive. We have to understand why, first. And that’s due to crowd/herd behavior, which you’re probably a part of.

Herd Behavior in Financial Markets

Let's say you're holding a position long, just a simple long "hodl" of a coin. All of a sudden you notice a big drop lower intraday. The price is down 5% and just getting hammered. What do you do?

The average retail trader who thinks that "risk is bad" will instantly envision all sorts of horrible outcomes occurring to their trade as well as a spinning series of pinball outcomes to their life. *"Oh no I will lose this trade and that's going to affect my ability to pay my rent this month and they'll come repossess my car and my girlfriend will leave and...."* OK, so maybe that's a little bit dramatic but tell me that the human mind isn't capable of kind of going off the edge a little bit when unforeseen events hit?

Let alone manage a trade correctly?

So let's break it down into a couple of simple concepts that might point you in the right path as to how the "Herd" thinks.

Price Moves Towards "Fear"

Fear is a very powerful emotion. Either you...and thousands of your closest friends who are trading the same asset....are feeling "fear of loss" due to the price dropping like a stone on something that you already hold, or you are feeling "fear of missing out" on an asset running away to the upside without you on board. In either case this "fear" will cause you to either sell out at the bottom, or buy in at the top of a rally.

The price moves in those directions because it has to. The investing "herd" is either pushing it there:

- To the downside with sell stops being hit, which are market orders and will fill lower than the stop price, which continually pushes the price down, and then more sellers without stops come along and "puke" out their holdings until the final climax low.
- To the upside when a coin starts its' run, with buy stops being hit from shorts, which pushes the price higher, as well as anxious longs that have waited too long to enter which "FOMO" and add right at the top.

Fear is what moves markets; "greed" to some extent as well, but that usually comes into play with people holding too long and ignoring the signs of decay in a price chart.

So that leads to our second point of Herd behavior:

When Everyone Sees the Same Thing, Look Out

It doesn't matter what you call it, whether it's "GroupThink" or mass delusion, a very real problem with Retail traders is following along with the mass of conventional thinking. When EVERYONE is bullish, such as the market top in 2017, it was unthinkable to provide an opposing opinion. And I believe that the bottom of the Crypto Bear will feel the same way; everyone will agree that price will never again return, and in fact, that Crypto might be "dead."

You must learn to be a Contrarian thinker, which is really difficult for most folks to do. Think back to the last mass sporting event that you attended; 60,000 fans roaring for the same team....it feels GREAT to be a human, and be part of something bigger than yourself! But those same desires for inclusion and "safety" are not your friends in financial markets.

And many get this way because of Confirmation Bias.

The Herd Falls for Confirmation Bias

Let me explain a little Neuroscience for a minute....(very little, as I know just a little about this topic). Ever notice how your "radar" gets tuned in on a topic that you care about? When I hit my mid-life crisis and decided to learn to ride motorcycles at the ripe age of 40, I saw them...EVERYWHERE. I was reading up about them and how to ride safely and what types of bikes there were.....basically just immersed myself into the topic. And suddenly my senses had become tuned in to where I could notice them with just a passing glance.

This is your Reticular Activating System at work, telling your senses what to look out for. It's somewhat of a "conduit" from your subconscious mind into the outside world, telling your senses what to look out for. Notice how well mothers listen for signs from babies while "dad" somehow tunes it out. It's the "RAS."

Back to trading...let's say you watch a particularly informative youtube video by that persuasive Italian guy, and he suggests that BTC is going to price target "X." You nod, you buy in, and you accept that assertion as your own now. You believe it will happen.

Your subconscious mind has now sent a signal to your RAS to "seek and find out information consistent with BTC going to price target X." Astonishingly, you find out several corroborating data points which reinforces your view. It simply MUST happen now! In fact, you cannot conceive of any other outcome and this manifests itself into your trading by "backing up the truck" on the bet that target X will be hit.

You know how this is going to end, right? It's likely that such a collective amount of risk has been placed in the direction of target X, that any deviation from that target causes our old friend "fear" to crop up.

In fact, for most traders, if the price moves in the opposite direction from their “committed” forecast, it causes a “deer in the headlights” reaction which starts out as shock, then anger, then denial, then a sense of betrayal, followed by eventual depression and resignation as you sell out at the bottom of the move. Again.

It's the Same Thing for Everyone

I don't like to generalize or assume that everyone is the same, but after 15 years of taking the same phone calls and answering the same emails, it's almost as if everyone was using the same template. We ARE part of the crowd, the investing herd, and we have to unlearn all of these bad habits and tendencies that have been hard-wired into us.

- We avoid risk and look for investments that look “safe” which usually means that we're getting in late, right at the end.
- We wouldn't consider buying a “dip” in the price because it doesn't feel comfortable, maybe it will go lower? So we forget about it until we see it soaring higher again and then experience the “fear of missing out.”
- We won't execute a stop loss because that “books” our loss. We'd rather pull that stop order and hope that the price rebounds. Meanwhile if the price continues going lower, we just stop looking at our account.
- We don't determine our exits before we enter our trades.
- We use far too much of our account per trade when we're confident (usually because we're biased from someone else).

And It Gets Better With Futures!

With the longer-term swing trades you can see all of this happening in slow motion. No so with Futures; your liabilities will be exposed multiple times per day. That's the bad news...the good news is that you'll get that much more practice and experience!

In very fast markets, it's common for Futures traders that are on a “challenging streak” to literally lose their minds. This can be very dangerous because the more that you try to avoid loss, the more it seems to attract itself to you and you and your account balance can auger into the ground very quickly. This is why Futures trading and scalping require you to be at the top of your game with the Trading Mindset.

Now let's see what we can do about all of this stuff...

How Can We Fix Our Humanity?

About this point, if you've recognized or agreed with everything that I've written here, or at least some of it, you're probably wondering if there is hope at all? Well, the short answer is that YES, there is, but you have to be willing to strip away your humanity if you're going to operate within this space of "trading."

If we're all HUMAN and we come from the factory pretty much 100% incorrectly programmed to trade risk assets, how can we fix this situation to become effective, winning traders?

It's a Progression, It Takes Time

First off, understand that it's a JOURNEY and it might take time. In a previous module I made reference to how many years it takes a doctor to practice medicine. (Doesn't the phrase "practice medicine" seem odd to you?) If you follow the Framework that I outlined in module three, you should achieve a steady ascent to your skills if you're truly applying yourself.

I don't want to depress or discourage you by referring to Gladwell's "10,000 hours to Mastery" statistic, but there is some truth to that. I have, however, seen someone apply themselves and dramatically shorten this time to achieve success.

You Can't Do It Like You Did At The Office

In business, you can literally become a force of nature and bully your way to success. Just run over enough people and eventually you can get what you want. That technique does not work in the markets, especially since the market is bigger than any one person, regardless of the characterization of "whales" and such. To quote Bruce Lee, you must become like water and flow with the market, and not try to impose your will upon it.

Take the Trades That Feel Bad to Take

If you enter a setup because it "feels good" or because you have a high degree of confidence, there's a good chance that you feel confident because you're going along with thousands of other traders and there's a sense of social inclusiveness in the trade. Congratulations, you have just joined "the herd!"

Real investing/trading is not just dog-piling onto things that everyone else is trading, it's being independent and taking the trades that give you EDGE against the rest of the herd. Remember, when the herd moves out of FEAR, the price will move very quickly and decisively; you want to be on the OPPOSITE side of them, not with them.

Be Comfortable With Your Risk

If you follow Rules #1 and #2 of Risk Management, you will be trading “below your risk radar” and will not be freaking out when the price moves against you by a few ticks, or actually stops you out. Keep the risk per trade low. It’s only when you do not perceive a sense of real “danger” in your trade will you be able to effectively manage your trade.

Trade to Win, Instead of Trading Not To Lose

Most people trade “not to lose.” They enter a trade, and if it does not immediately move in their favor, they’ll look to remove it, justifying “well I was looking to reduce my loss vs. what I probably would have taken.” Guess what? Neither you nor I know what will happen five minutes into the future, let alone tomorrow.

Once you enter into a trade, COMMIT to it. You started off the trade looking to risk a certain amount in order to look to win a certain amount. You entered it with an edge, following your plan. LET IT WORK. Don’t “psyche” yourself out of a trade by inferring that you know what will happen next.

Trading “not to lose” will absolutely create more losses and it will become a vicious cycle. The more trades you lose, the more that you will try “not to lose” and you will take worse and worse entries, which are the ones that feel “safe” but absolutely have no edge to them.

Follow Your Framework

Remember the Trading Framework that you built in module three; commit to this continuous process! This is where your subconscious will start to adapt to your trades as not carrying “risk” but rather “reward.” Tony Robbins says it so well that we do things to either seek pleasure or avoid pain. Every decision comes down to that choice. Once you start to train your subconscious mind that your trading can be successful, and it’s because you “earned the right” then everything will start to fall into place for you.

Think Of Yourself As An Athlete

This might sound like an odd statement, but futures trading is really the most “competitive” type of trading in any space, just one notch below the old-school pit trading in Chicago where having muscle and a forceful personality was required.

If you’re tired, fatigued, out of shape and slumped over your desk all day long, how sharp is your mind going to be against your competition?

Start with sleep; I’m not going to lecture you about how much sleep you should get, only you will know when you’re tired and lethargic and not getting enough. There have been huge advances in what we know about sleep these days, just some quick words of advice:

- No iPads in bed, no blue light before bedtime
- Don’t watch TV in bed
- You want to be TIRED when you go to bed, to the point where you’re asleep as soon as your head hits the pillow.

Watch what you eat. Again, do some research here. If you’re eating like a caveman, you’re probably doing it right. Twenty years ago in my office job, I used to reward myself at 3pm with a Coke and a Snickers bar. I was SO tired after that and could not figure out why. I think food has a huge impact on your mood and alertness.

And you’re probably expecting me to harp on your fitness, and you’d be correct. As long as I’ve worked from home at this business, I’ve tried to get outside as much as possible to clear my head. Walks and bike rides are great ways to de-stress after some market battles.

Lately, however, I’ve gotten into programmed workouts with a coach; what a difference. Sure, I’ve wandered down to the “gym” a few times in my life. I insert myself into a couple of torture machines, do a couple of reps, and call it a workout. Nothing much happens, though. In 2018 I decided to commit to an actual gym that is run by a trainer, and it’s phenomenal to notice the changes that you can see and feel if you’re being pushed, and executing exercises with the correct form. I lift 3x/week at 6am for an hour, and you feel the burn for hours and know that you’ve earned it. Somehow, the boost in confidence helps your trading as well.

The process of trading is an intellectual and emotional pursuit, but it’s also a very sedentary one. It’s going to be difficult to be razor sharp in the futures markets if you’re as sluggish as Jabba the Hut.

Summary - The Trading Mindset

I'm not quite sure how I've been able to summarize this into 11 pages. I know that as soon as I publish this in the course, that there will be dozens of other points that I'll remember.

The trader's mindset is by far my favorite topic to discuss because this is a universal issue, one that everyone endures. Because of this, I wrote the Amazon book "Hacking the Holy Grail" and I hope you've had a chance to leaf through it. It's kind of a "how-to" manual for traders on how to solve these universal issues, and why they happen to us in the first place.

I would also encourage you to "bait" me into talking about this topic on any live webinar that I give, even if it's about some technical topic. Go back to what I said at the beginning of this text; at least 90% your trading performance is tied to your mindset. Go learn how and expand.

Homework and Next Steps

Please complete the following tasks before moving to the next module:

- ☐ Watch the associated video for this module.
- ☐ Take the module quiz
- ☐ Dedicate yourself to the pursuit of better sleep! That's the best "next step" that you can take!
- ☐ If you are working from home, detail a routine to become more active and take scheduled breaks.