

ReadySetCrypto Trading Edge Masterclass



Module Two: The Trader Progression

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The Trader Progression

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Introduction to the Trader Progression

Where are you in your trading career?

Everyone is going to come into this program at a different stage of their trading career. Some of you have just dabbled with live trading and this is your first exposure to structured education in this topic. Others will have several years of successful trading experience with different assets but are not happy with their performance. (hint: no one is!) Honestly, where are you today?

And yes, believe me, it's a CAREER. Those who treat trading as a hobby will pay for it like a hobby. Those who truly treat this profession as a career will open themselves to being paid like a professional, if they follow the right steps.

Like everything else, your path to consistent profitability will follow a progression...from outright Novice to Expert. There are many models to quantify this progression, but the best one that I've come across was written by an author named Bo Yoder; his model is comprised of six distinct stages in a trader's development.

As you read through the various stages of the Progression, note how EVERY career or profession follows a similar track. Where else but Retail Investing can someone who is BRAND NEW step up and take a swing? Could you do that as a Doctor? (*Hey, I took a semester of Biology! I should be able to perform surgery!*) Not on your life! Could you do that as a professional athlete? Sure, it makes a great movie or book script, but you'd get trucked on your first play or embarrass yourself.

The point here is that retail investors should not expect a whole lot to begin with, however the media and various institutions keep pumping out those images of dudes relaxing on a hammock while trading. It works every time.

So read through Bo's progression, and then HONESTLY rate yourself as to where you are. Once you determine where you ARE, you can get a bearing on where you need to GO.

(P.S. For those with tender sensibilities, Bo's piece was written several years ago and the male pronoun has been featured. I have not changed his language to gender-neutral in order to honor the Author's original script....just know that I think that women make much better traders than men do, so read this in whatever pronoun that works for you. Doc)

The Trader Progression

Stage One – Mystification

This is where the neophyte trader begins. He has little or no understanding of market structure. He has no concept of the interrelationship among markets, much less between markets and the economy. Price charts are a meaningless mish-mash of colored lines and squiggles that look more like a painting from the MOMA than anything that contains information. Anyone who can make even a guess about price direction based on this tangle must be using black magic, or voodoo.

Stage Two – The Hot Pot Stage

You scan the markets every day. After a while (sometimes a good long while), you notice a particular phenomenon which pops up regularly and seems to "work" pretty well. You focus on this pattern. You begin to find more and more instances of it and all of them work! Your confidence in the pattern grows and you decide to take it the very next time it appears. You take it, and almost immediately your stop is hit, and you're underwater for the total amount of your stop-loss.

So you back off and study this pattern further. And the very next time it appears, it works. And again. And yet again. So you decide to try again. And you take the full hit on your stop loss.

Practically everyone goes through this, but few understand that this is all part of the win-lose cycle. They do not yet understand that loss is an inevitable part of any system/strategy/method/whathaveyou, that is, there is no such thing as a 100% win approach. When they gauge the success of a particular pattern or setup, they get caught up in the win cycle. They don't wait for the "lose" cycle to see how long it lasts or what the win/lose pattern is. Instead, they keep touching the pot and getting burned, never understanding that it's not the pot (pattern/setup) that's the problem, but a failure on their part to understand that it's the heat from the stove (the market) that they're paying no attention to whatsoever. So instead of trying to understand the nature of thermal transfer (the market), they avoid the pot (the pattern), moving on to another pattern/setup without bothering to find out whether or not the stove is on.

Stage Three – The Cynical Skepticism Stage

You've studied so hard and put so much effort into your trading and this *"universal failure in the patterns only when you take them"* causes you to feel betrayed by the market, the books, the materials, and the gurus you tried to learn from. Everybody claims their ideas lead to profitability, but every time you take a trade, it's a loser, even though the setups all worked perfectly before you played them. And since one of the most painful experiences is to fail when success looks easy, this embarrassment is transformed into anger: anger at the gurus, anger at the vendors, anger at the writers, the seminars, the courses, the brokers, the market makers, the specialists, the "manipulators." What's the point in trying to analyze and improve your own trading when there are so many dark forces out to get you?

This excuse-driven blame game is a dead-end viewpoint, and explains a lot of what you find on message boards. Those who can't pull themselves out of it will quit.

Stage Four – The Squiggle Trader Stage

If you don't quit, you'll move into the "squiggle trader" phase. Since you failed with patterns and so on, you figure there's some "secret weapon", a "holy grail" that's known to the select few, something that will help you filter out all those bad trades. Once you find this magical key, your profits will explode and you'll achieve every dream you ever had.

You begin an obsessive study of every method and every indicator that is new to you. You buy every book, attend every course, sign up for every newsletter and advisory service, register for every trading website and every chat room. You buy more elaborate software. You buy off-the-shelf systems. You spend whatever it takes to buy success.

Unfortunately, you stack so much onto your charts that you become paralyzed. With so many inputs, you can't make a decision, particularly since they rarely agree. So you focus on those which agree with the direction of the trade you've taken (or, if you're the fearful sort, you look only for those which will prove to you how much of a loser you think you are).

This is all characteristic of scared money. Without a genuine acceptance of the fact of loss and of the risks involved in trading, you flit around like a butterfly in search of anything or anybody who will tell you that you know what you're doing. This serves two purposes: (1) it transfers to others the responsibility for the trade and (2) it shakes you out of trades as your indicators begin to conflict. The MACD says buy, the STO says sell. The ADX says the market is trending, the OBV says it's overbought. By the end of the day, your brain is jelly.

This process can be useful if the trader learns from it what is popular, i.e., what other traders are doing, and, if he lasts, how to trade traps and panic/euphoria. And even though he may decide that much of it is crap, he will, if he doesn't slip back into the Cynical Skepticism Stage, have a more profound appreciation -- achieved through personal experience -- of what is sensible and logical and what is nonsense. He might also learn something more about the kind of trader he is, what "style" suits him best, learn to distinguish between what is desirable and what is practical.

But the vast majority of traders never leave this stage. They spend their "careers" searching for the answer, and even though they may eventually achieve piddling profits (if they don't, they will of course eventually no longer be trading), they never become truly successful, and this has its own insidious consequences.

Stage Five – The Inwardly-Bound Stage

The trader who is able to pry himself out of Stage Four uses his experiences there productively. The trader learns, as stated earlier, what styles, techniques, tactics are popular. But instead of focusing entirely on what's "out there", he begins to ask himself some questions:

What exactly does he want? What is he trying to accomplish?

What sort of trading makes the most sense to him? Long or intermediate term trading? Short-term trading? Day-trading? Trend-trading? Scalping? Which is most comfortable?

What instrument -- futures, stocks, ETFs, bonds, options -- provides the range and volatility he requires but is not outside his risk tolerance? Did he learn anything at all about indicators in Stage Four that he might be able to use?

And so he "auditions" all of this in order to determine what suits him, taking all that he has learned so far and experimenting with it..

He begins to incorporate the "scientific method" into his efforts in order management. He learns the value of curiosity, of detached interest, of persistence and perseverance, of taking bits and pieces from here and there in order to fashion a trading plan and strategy that are uniquely his, one in which he has complete confidence because he has tested it thoroughly and knows from his own experience that it is consistently profitable.

He accepts fully the responsibility for his trades, including the losses, which is to say that he understands that losses are inevitable and unavoidable. Rather than be thrown by them, he accepts them for what they are, a part of the natural course of business. He examines them, of course, in order to determine whether

or not some error was made, particularly one that can be corrected, though true trading errors are rare. But, if not, he simply shrugs off the loss and goes on about his business. He understands, after all, that he is in control of his risk in the market.

He doesn't rant about his broker or the specialist or the market maker or that vast conspiracy of everyone who's trying to cheat him out of his money. He doesn't attempt revenge against the market. He doesn't fret. He doesn't fume. He doesn't succumb to hope, fear, greed. Impulsive, emotional trades are gone. Instead, he just trades.

Stage Six – Mastery

At this level, the trader achieves an almost Zen-like trading state. Planning, analysis, research are the focus of his time and his effort. When the trading day opens, he's ready for it. He's calm, he's relaxed, he's centered.

Trading becomes effortless. He is thoroughly familiar with his plan. He knows exactly what he will do in any given situation, even if the doing means exiting immediately upon a completely unexpected development. He understands the inevitability of loss and accepts it as a natural part of the business of trading. No one can hurt him because he's protected by his rules and his discipline.

He is sensitive to and in tune with the ebb and flow of market behavior and the natural actions and reactions to it that his research has taught him will optimize his edge*. He is "available". He doesn't have to know what the market will do next because he knows how he will react to anything the market does and is confident in his ability to react correctly.

He understands and practices "active inaction", knowing exactly what it is he wants, exactly what it is he's looking for, and waiting, patiently, for exactly the right opportunity. If and when that opportunity presents itself, he acts decisively and without hesitation, then waits, patiently, again, for the next opportunity.

He does not convince himself that he is right. He watches price movement and draws his conclusions. When market behavior changes, so do his tactics. He acknowledges that market movement is the ultimate truth. He doesn't try to outsmart or outguess it.

He is, in a sense, outside himself, acting as his own coach, asking himself questions and explaining to himself without rationalization what he's waiting for, what he's doing, reminding himself of this or that, keeping himself centered and focused, taking distractions in stride. He doesn't get overexcited about winning trades; he doesn't get depressed about losing trades. He accepts that price does what it does and the market is what it is.

His performance has nothing to do with his self-worth. It is during this stage that the "intuitive" sense begins to manifest itself. As infrequent as it may be, he learns to experiment with it and to build trust in it.

And at the end of the day, he reviews his work, makes whatever adjustments are necessary, if any, and begins his preparation for the following day, satisfied with himself for having traded well.

The knowledge proved through research that a particular price pattern or market behavior offers an acceptable level of predictability and risk to reward to provide a consistently profitable outcome over time.

Where Were You?

What stage were you in? By the time that most traders understand that Mindset and Discipline hold the key to trading success, they are soundly stuck in stage four. In fact, most traders that I meet with some formal trading education and a fair amount of trading experience will be in stage four. That's fine, you're just in the middle of the bell curve.

It's also my experience that you cannot "skip" a stage; everyone will pass through these stages sequentially. The driven and focused student spends less time on the earlier stages, and more time in stage five as they patiently attain the skills necessary for Mastery, stage six.

And the more that you dedicate yourself to this profession, the deeper that you will allow yourself to enter into the study of the Trading Mindset. You will actually begin to enjoy the journey instead of fighting it.

So honestly, it really doesn't matter what stage you begin in. You're going to be doing this for a number of years, right? Does a prospective Brain Surgeon quit medical school in the first month because they haven't yet attained the skills necessary to check someone's pulse correctly? If they do quit, it's because that person didn't have the right perspective and a long-term vision of what it would take.

So you might not yet be a successful trader, because you're in an early stage of your development.....that's absolutely fine. What counts is your determination, and your vision of what you want to achieve.

Where Do You Want to Go?

And this is where the part about Vision comes in. This question really is aimed at two levels:

- **What level of trading expertise do you want to attain?**
- **What will trading success mean to you?**

For the first question, by now you should be honestly identifying what level that you have attained, and are wondering what it will take to get to the next level and beyond. Good. But beyond that is the second question....where do you want this trading success to take you? And what will you do to get there?

The keys to this question will be found in the next chapter; the answer to this question is already in your subconscious mind. It's already thinking thoughts like:

- *"I feel guilty about taking money from others"*
- *"I'll bet that this is hard and I probably won't get it"*

And we'll address those thoughts in the "Mindset" module....but the second part is "what will you do to get there?"

When I was 20 years old I vividly recall a conversation that I had with the head of a recording studio...at the time my dream was to help record and produce records. My question to him was, *"How do you make it in this business? How do you get started?"*

His response was simple, yet powerful: ***"You have to be willing to walk through a brick wall."***

I've never forgotten his response. And apparently I wasn't willing to walk through a brick wall to be a great studio engineer, because I found that it required several years of working for peanuts. But later in life, when I sat in that arena, bored by a motivational seminar to that point, and heard the speaker discuss Options for the very first time in my life...I felt like a bolt of electricity had run through my spine and I immediately knew what I wanted to do with the rest of my life. I jumped out of my seat and ran through that brick wall again and again and I have the scars to prove it. And I'd do it all over again. (the next time, without all the mistakes, please)

But the view's pretty good on the other side of the wall. And I'd like to see you on my side, if that's where you want to go. Only you know the answer to that question.

Tasks - Trader Progression

Here is your “homework” which you need to dedicate yourself to before you move on to the next module. Please resist the temptation to go skipping ahead before you complete this! Understanding where you are on the Progression is extremely important, so that you can begin the work to close the gap on the next stage in your development.

- ☐ Identify what stage that you are currently in on the Trader Progression.
- ☐ Identify what you feel the “gap” is that is currently preventing you from reaching the next stage.
- ☐ List three actions that you will undertake to begin work on filling that gap to the next stage.