

A Healthy Psychological Profile is Needed for Successful Trading

By Van Tharp

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Many mental health professionals define an "uncertain" condition as being stressful. Uncertainty occurs because of too much information or because of too little capacity. The very fact that we cannot deal with available information is stressful.

Available trading information far exceeds one's capacity for making basic trading decisions, so one can only attend to some of this data. Limited capacity is a major factor in trading success and in understanding stress.

Three factors are essential to successful trading:

1. a healthy psychological profile,
2. the ability to make accurate decisions from a large amount of information, and
3. money management and discipline.

A weakness in any of these areas reduces one's capacity for processing information, resulting in stress, poor trading decisions, and losses. Losses, in turn, can produce stress, resulting in more losses. Readers who have taken the *Investment Psychology Inventory Profile™* may recall that their test results were split into these three major areas.

A Healthy Psychological Profile

A healthy psychological profile might easily encompass all aspects of trading. However, certain psychological characteristics appear distinct from decision making and money management.

Everyone has a different set of past experiences. As a result of those experiences, one develops certain attitudes toward life. These attitudes may be open or restrictive. Open attitudes produce growth, encompass change readily, orient people toward self-improvement, and produce happiness and success. The successful trader, for example, might describe himself as follows:

I enjoy life to the fullest. I am constantly exploring new ideas, visiting new places, experiencing change, and having fun. I try to get everything I can out of life, and I eagerly look forward to each day.

I am in the best of health because I eat proper foods, get plenty of exercise, and sleep well. I am never overly stressed because I do not feel pressure—only challenge.

Although an open attitude is not essential to trading success, most successful traders are quite open. An open attitude will help a trader in the market because it enhances information processing capacity. Although the successful trader still has a limited capacity, his attitudes toward life keep his capacity at the highest possible level.

The losing trader, by contrast, often has a closed attitude toward life. Part of this closed attitude includes a number of defense mechanisms against winning, such as the fear of success or the fear of failure. Any form of defensiveness results in isolation, building protective walls, and resisting change. Consider the following statements that a losing trader might use to describe himself:

I am really unlucky. Every time I try to trade, something goes wrong. I end up losing. Other people make it impossible for little guys like me to be a winner. Perhaps that is why I am so depressed all the time. Money sure has been my downfall.

Trading is very stressful to me, perhaps because I worry about what will happen all the time. But I also worry about what will happen if I get out of the markets. I'll probably never be able to get ahead in life.

The losing trader has closed himself off from the world. Some information still gets through, but it is all darkly colored by his restrictive attitude. His closed mind severely restricts his capacity for dealing with information, and he feels "stressed."

This is only a brief introduction to this concept. To learn more about the relationship between stress and capacity, and how this relationship affects you as a trader, refer to Chapter V in Volume Two of the *Peak Performance Home Study Course* for more.

About the Author: Trading Coach Dr. Van K Tharp, is widely recognized for his best-selling book *Trade Your Way to Financial Freedom* and his classic *Peak Performance Home Study Course* for traders and investors. Visit him at www.iitm.com for a FREE trading game or to sign up for his FREE weekly newsletter.