



TRADING
PSYCHOLOGY

Amplify Trading Psychology

TOPICS

Prospect theory

Kolb's cycle

Self awareness

Measuring and managing
behaviour

TODAY'S AIMS & OBJECTIVES

Trading Psychology is the most significant variable for any traders performance.

A traders' mind-set will dictate what they actually **do**, rather than what they think they would do in any given situation.

This lecture will describe how self-awareness, discipline and focus are key to it all.

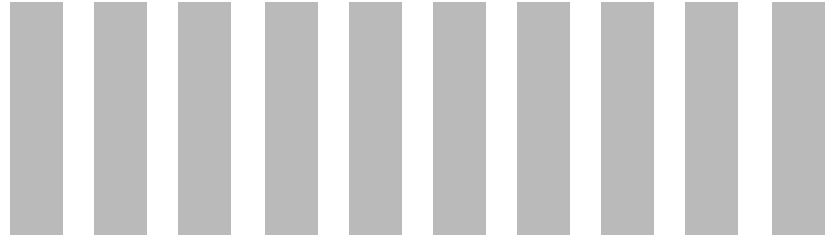
BY THE END OF THE SESSION PARTICIPANTS WILL BE ABLE TO:

- Be aware of their own mind-set
- To be proactive in managing their performance to meet goals
- To mitigate behavioural factors the impact trading performance
- To help others at go through a cycle of continuous improvement

INTRODUCTION

“Taking full responsibility
for risk decisions, made
under pressure and
within an uncertain
environment can lead to
an incredible discovery of
self”

WHAT SHOULD HAPPEN



WHAT DOES HAPPEN

PSYCHOLOGY IN THE SPOTLIGHT

TRADING IS PERSONAL

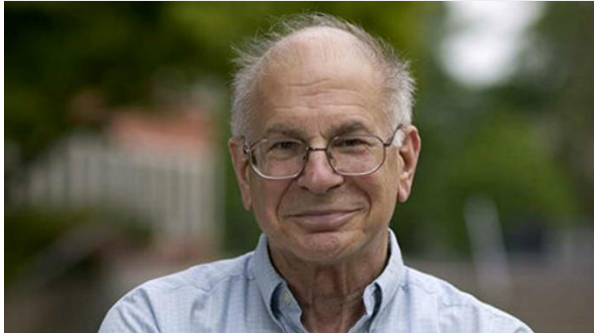
Assessing how someone really responds when it is most important can inform a great deal about somebody's character. It is hard to assess the ability of a trader if they have only ever made money.

TO MANAGE YOUR MIND-SET, MAKE IT MEASUREABLE

At Amplify we want to measure a traders performance not only to assess ability, but also as a crucial element for traders to understand their trading style and current mind-set.

- **Sharpe ratio** | What is the volatility of returns?
- **Patience** | Time spent in winning or losing positions
- **Variance Resilience** | Ability of the trader to mitigate positive or negative performance
- **Pragmatism** | Ability of the trader to book profit or take a loss on a trade close to potential
- **Discipline** | How fast does the trader rectify a mistake made on any size or limit breaches?
- **Product Type** | How does the trader perform in products of varying volatility?
- **Deviation of return** | Are returns close or disperse to the mean average of return?
- **Trading Style** | How does the trader perform in periods of different volatility?
- **Equity Curve** | How the traders equity curve changes over time

Kahneman's Prospect theory



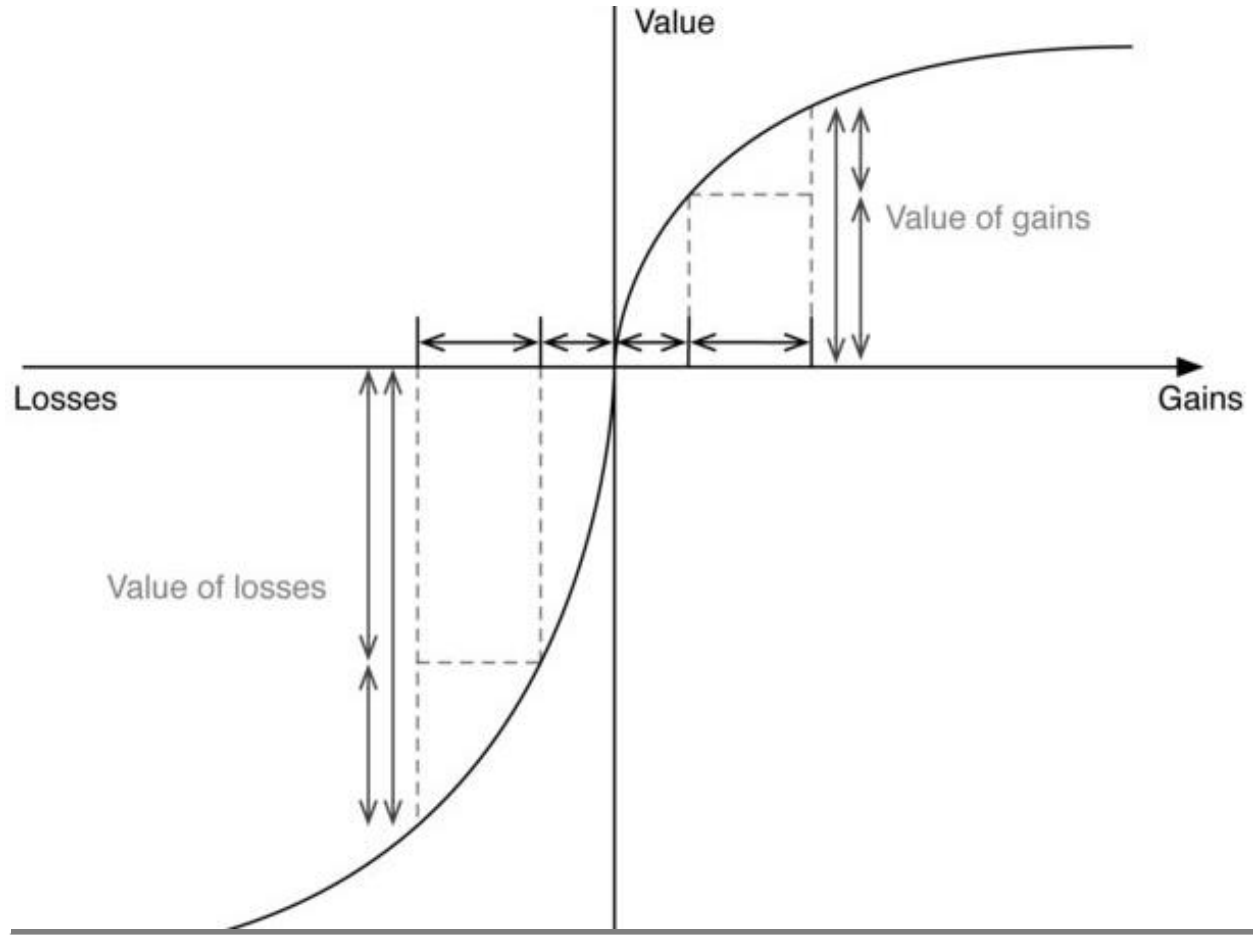
BEHAVIOUR UNDER UNCERTAINTY

In the 1960s as cognitive psychology began to shed more light on the brain as an information processing device. Psychologists in this field, such as Ward Edwards, Amos Tversky and Daniel Kahneman began to compare their cognitive models of decision-making under risk and uncertainty to economic models of rational behaviour.

In 2002 Kahneman and Tversky's Prospect Theory won the Nobel Prize as a viable alternative explanation of behaviour under uncertainty – which was dominated earlier by the Expected Utility Theory

More consistent with the psychological make-up of people making decisions

PROSPECT THEORY



A or B?

A

£10m with absolute certainty

B

50% chance of getting £25m or £0

A or B?

A

A prison sentence of 10yrs

B

50% chance serving 25yrs or freedom

EMOTIONAL IMPACT



14:30:26 {Paul} {WD}

Let me introduce new Paul:

Until 1.30pm today I was a

young 32 year old Alpha male!

Now I'm about 85, & trembling!

Thanks NFP!!!

14:32:56 {Paul} {WD}

"That was absolute torture!!

Massive gamble to hold that and shift the stop so wide. Have you ever done that before after getting hit big 'on paper' ?? I was sure we'd get back to 1380 Torture gambling on avoiding getting squeezed out"

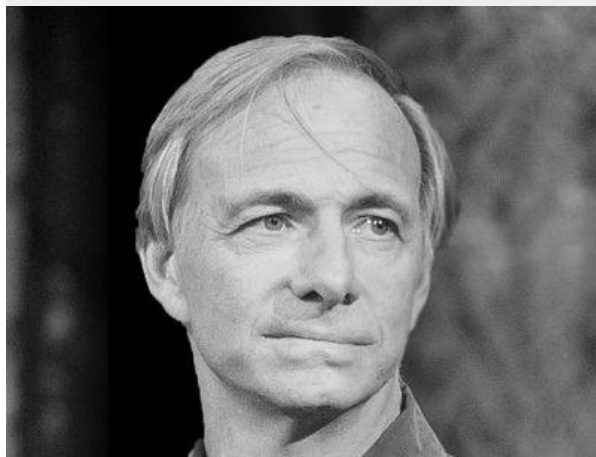
A TRADERS' MINDSET

- Confidence in decisions
- Trust yourself to act without hesitation
- Do not fear erratic moves of the market
- Always be honestly self-aware
- Embrace mistakes, learn from them



Ray Dalio

Principles



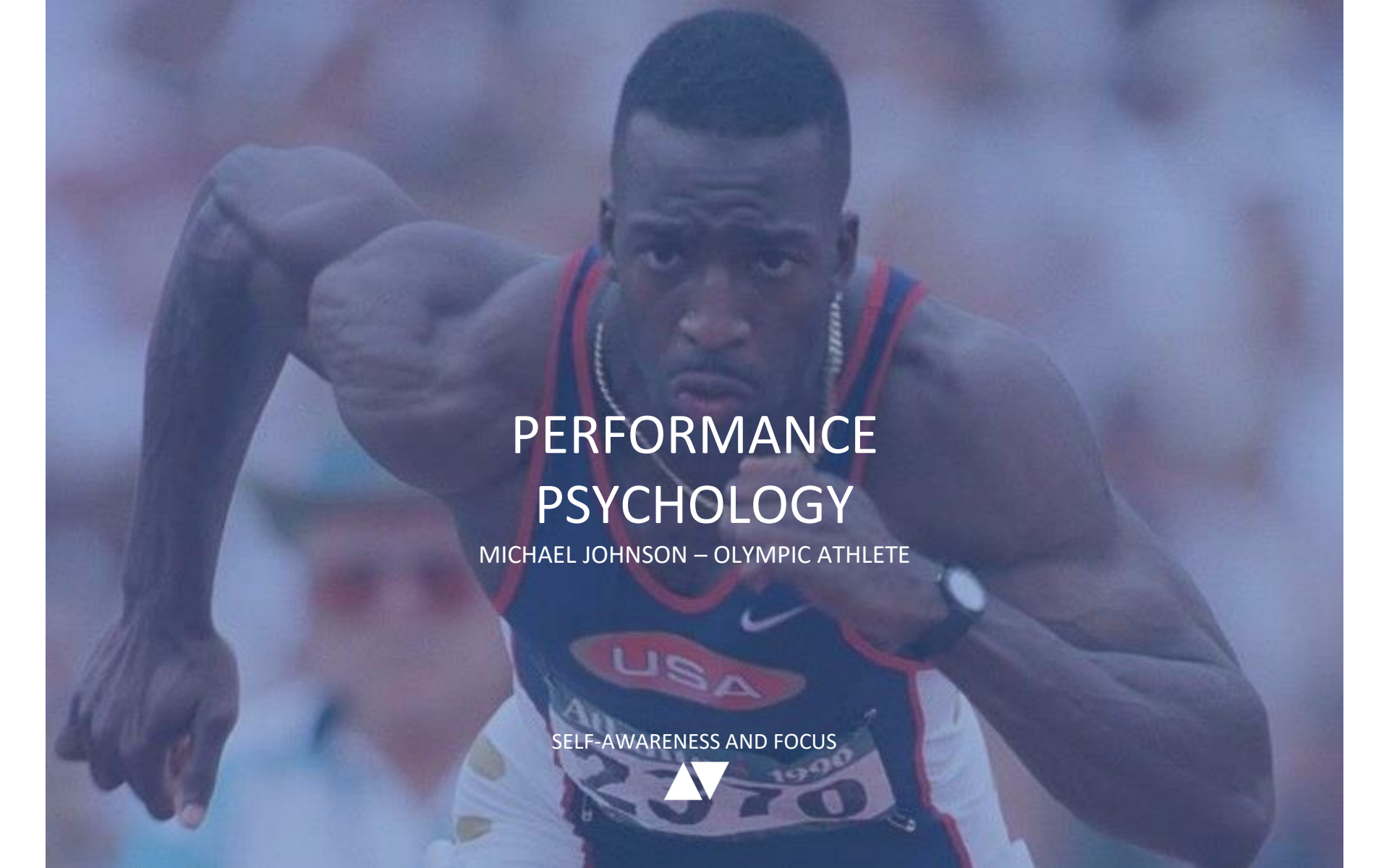
ANOTHER ONE OF THOSE

Ray Dalio, founder of the world's most successful hedge fund Bridgewater talks about how the experience of a mistakes can enhance future performance.

With a clear principle to dictate how you should act in different situations will allow a trader to see a future event as 'another one of those'.

"If you're not failing, you're not pushing your limits, and if you're not pushing your limits, you're not maximizing your potential"

"Fail well"

A full-page background image of Michael Johnson, an Olympic athlete, in a dynamic running pose. He is wearing a dark blue USA singlet with red and white trim, a Nike logo, and a bib with the number 2370. The image has a blue color overlay. The text is centered over the image.

PERFORMANCE PSYCHOLOGY

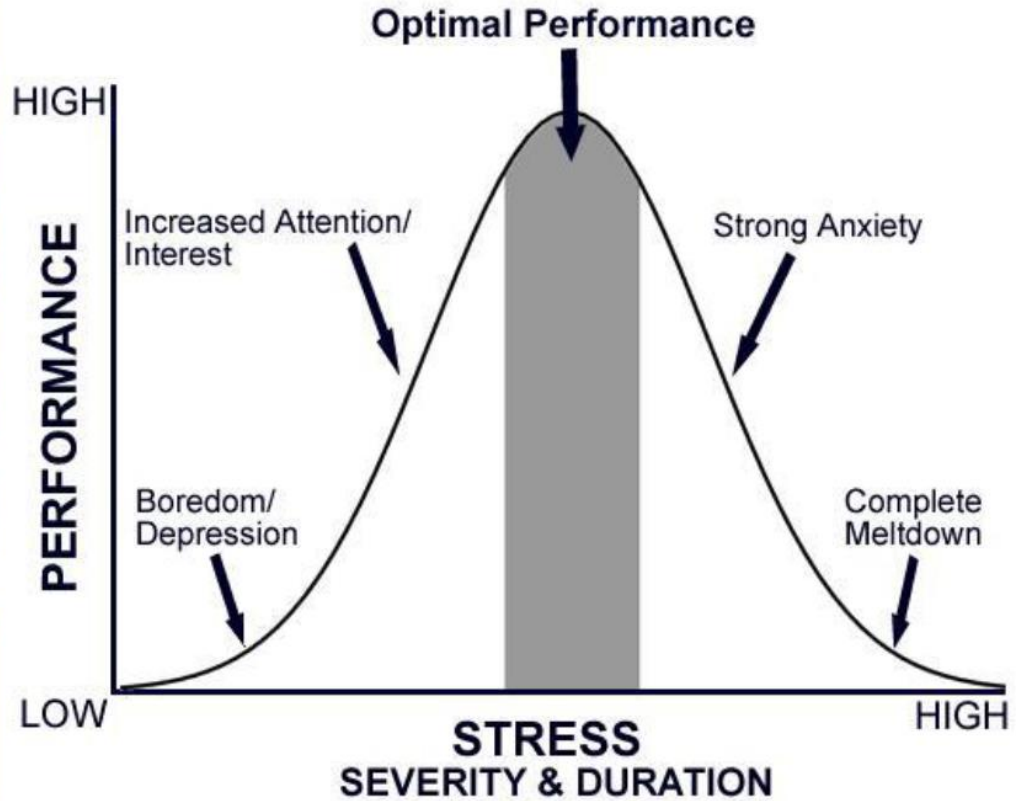
MICHAEL JOHNSON – OLYMPIC ATHLETE

SELF-AWARENESS AND FOCUS



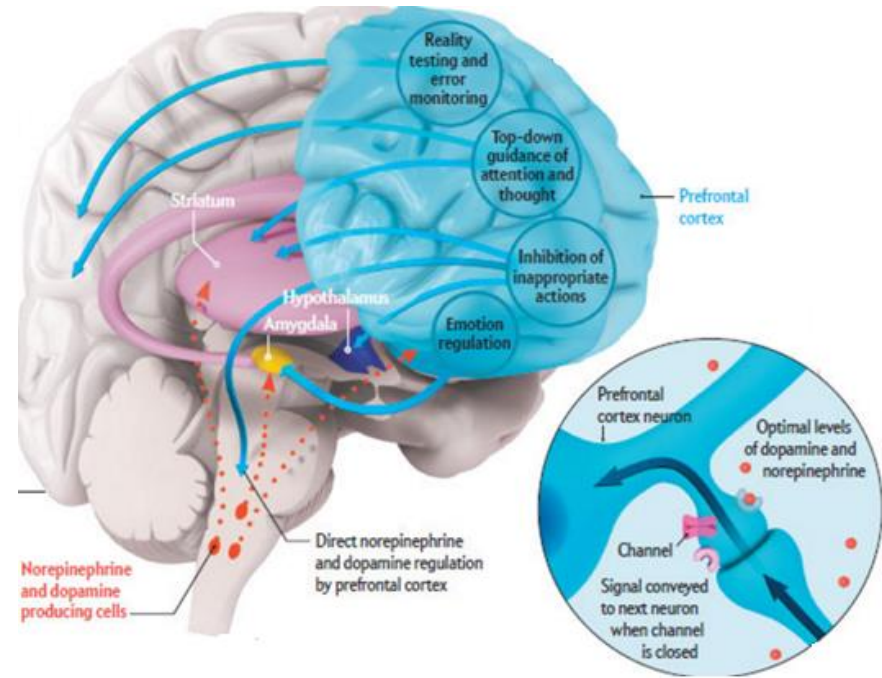
Self
Awareness

Stress



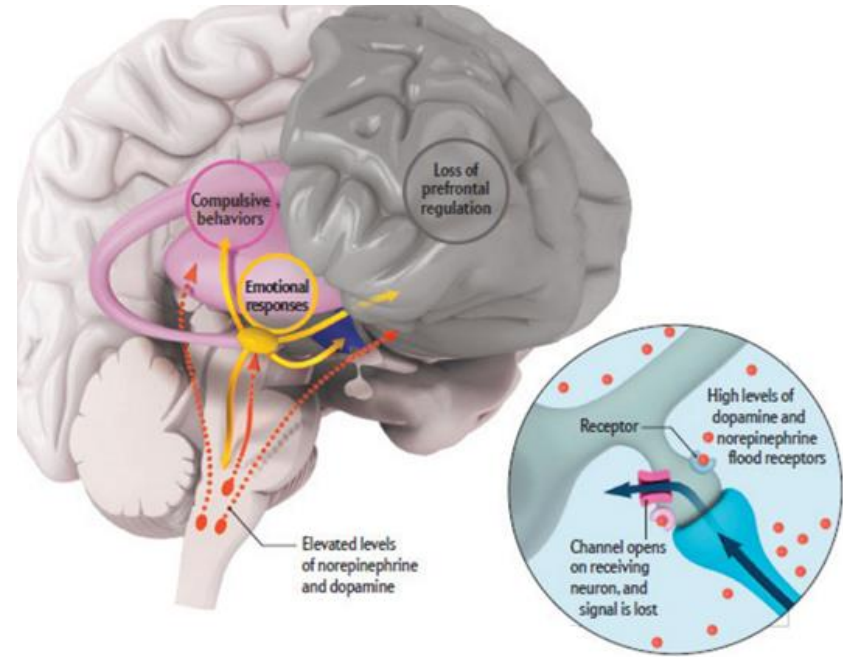
Self
Awareness

Not Stressed



Signals from the prefrontal cortex move to areas deep within the brain to regulate habits and behaviour, including emotional responses such as fear from the amygdala.

Self Awareness Stressed



The amygdala commands production of excess norepinephrine and dopamine. This shuts the pre-frontal cortex weakening the area's role in controlling emotions

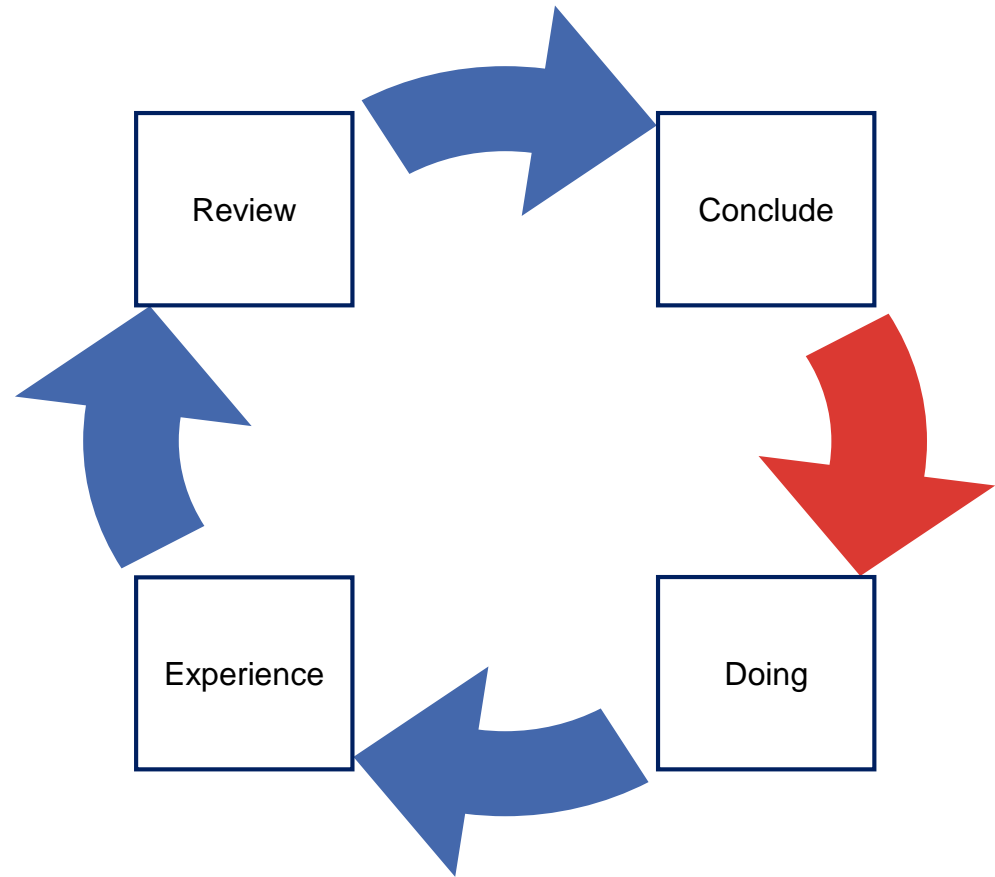


A LACK OF SELF-AWARENESS (Beware the Gorilla)



Self
Control

Kolb's cycle

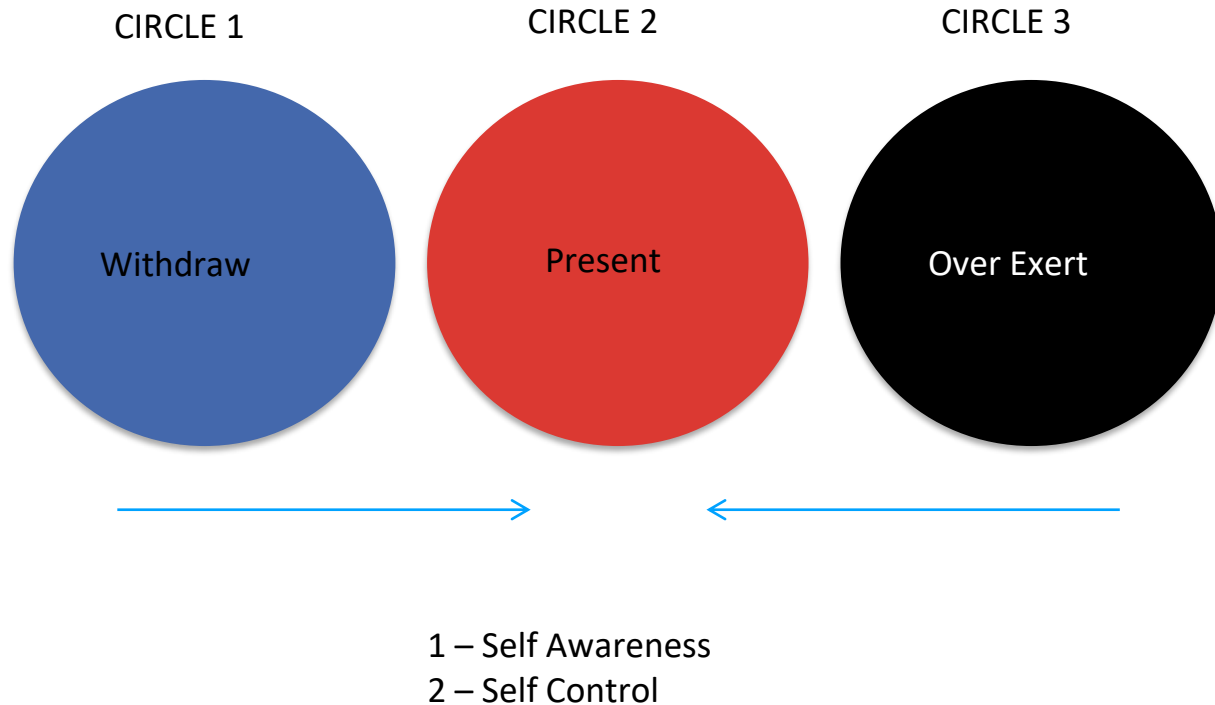


Roddenberg's model

Are you aware of where your subconscious lies?

In the last example you saw what can happen when a trader loses focus, and control.

The result is not always over-execution however, it can be withdrawal.




Presence

Accept risk, allow
freedom and flow

The best traders can put
on a trade without the
slightest bit of hesitation
or conflict, and just as
freely and without
hesitation or conflict,
admit it isn't working

Monday	0.00	0
Tuesday	-62.50	1
Wednesday	-25.00	1
Thursday	225.00	9
Friday	225.00	4
	<u>362.50</u>	<u>15</u>
Monday	225.00	4
Tuesday	400.00	7
Wednesday	-100.00	6
Thursday	-275.00	4
Friday	12.50	2
	<u>262.50</u>	<u>23</u>
Monday	12.50	4
Tuesday	25.00	2
Wednesday	25.00	3
Thursday	75.00	2
Friday	150.00	4
	<u>287.50</u>	<u>15</u>

8/3/10 Monday	\$0.00	0
9/3/10 Tuesday	-\$100.00	3
10/3/10 Wednesday	\$75.00	1
11/3/10 Thursday	-\$37.50	3
12/3/10 Friday	\$100.00	1
	<u>\$37.50</u>	<u>8</u>
15/3/10 Monday	\$50.00	2
16/3/10 Tuesday	-\$125.00	2
17/3/10 Wednesday	\$75.00	1
18/3/10 Thursday	\$0.00	0
19/3/10 Friday	\$0.00	0
	<u>\$0.00</u>	<u>5</u>



PERFORMANCE PSYCHOLOGY

TERRY GRIFFITHS – SNOKER PLAYER

RESILIENCE



BEHAVIOURAL TRAPS: BIAS

CONFIRMATION BIAS

You see what you expect to see. This can come from a prolonged experience where an outcome has been repeated. This may not be negative for performance when applied to patterns, however it can be damaging when attributed to personal performance.



DESIRABILITY BIAS

You see what you want to see. This is a common problem for traders. This is why a voter for Brexit may read the Telegraph, and a voter for Remain may read The Guardian.

The Telegraph



WATSON SELECTION TASK

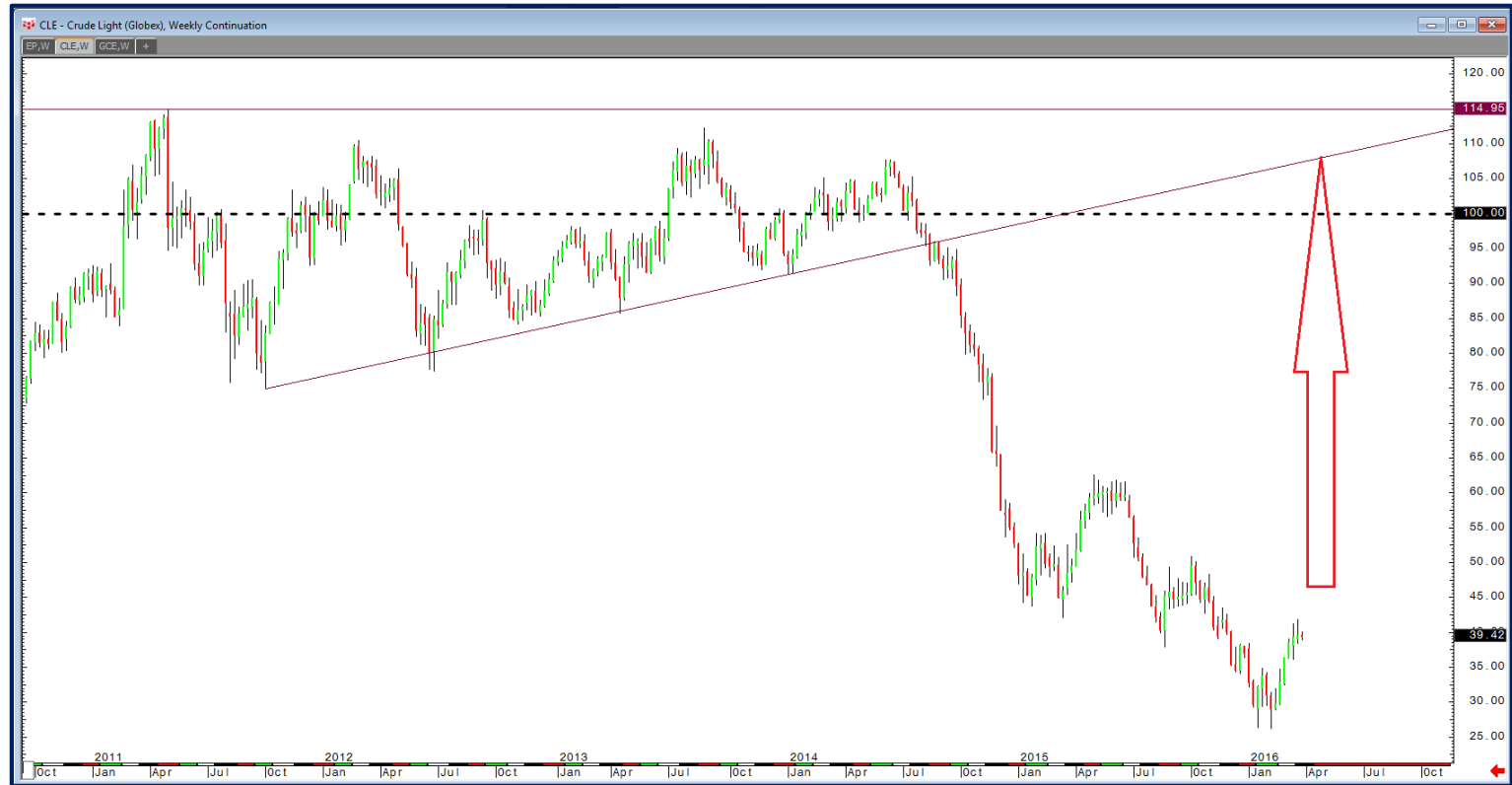
SEEKING POSTERTIVE AFFIRMATION

1	
2	
3	

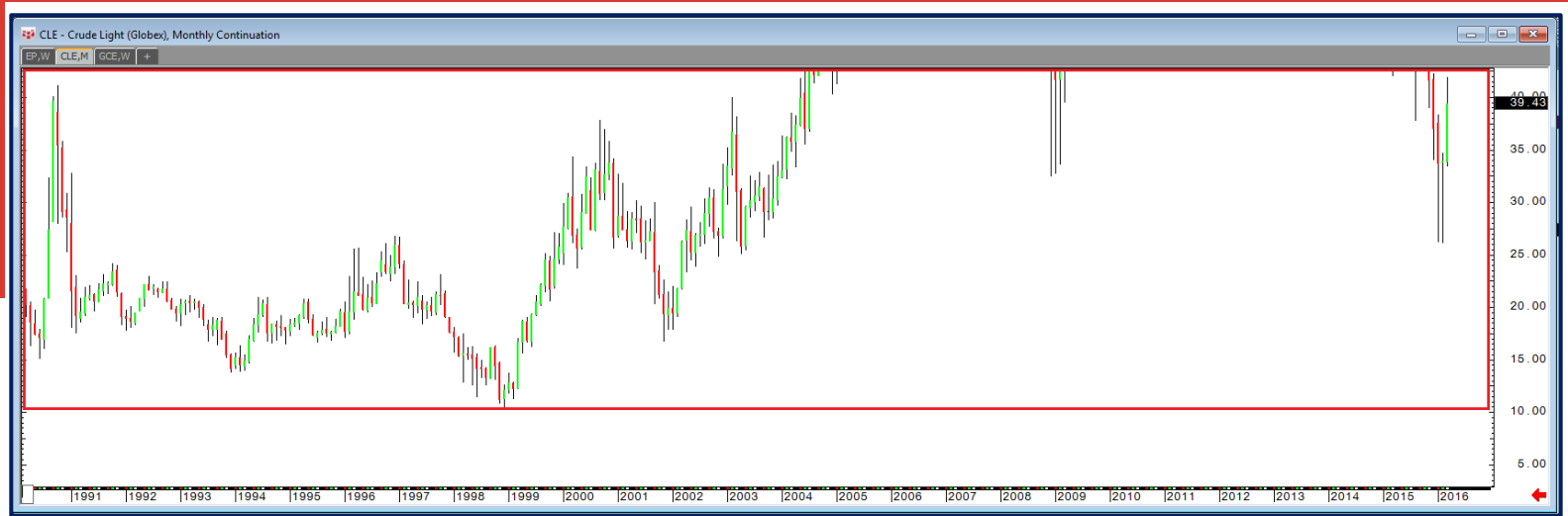
Select the cards you would turn

[Here's a puzzle](#)

BEHAVIOURAL TRAPS: ANCHORING

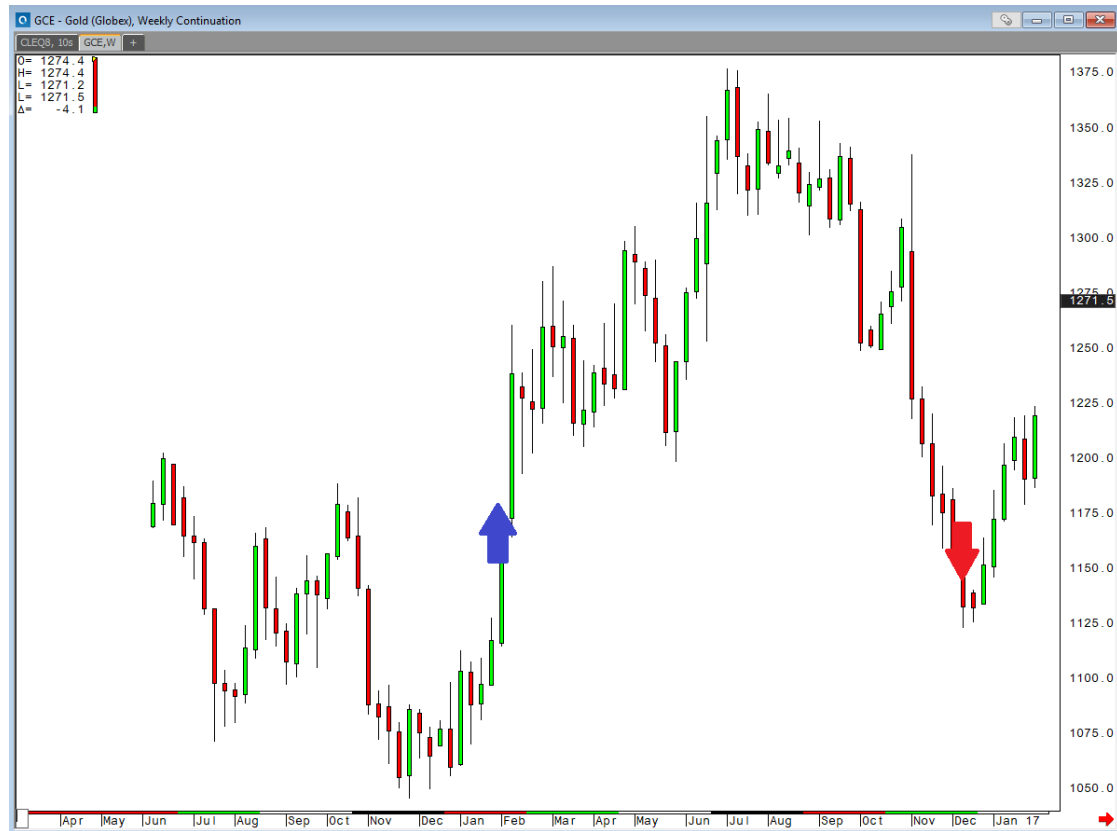


BEHAVIOURAL TRAPS: ANCHORING



A different perspective

BEHAVIOURAL TRAPS: ANCHORING ON PNL



BEHAVIOURAL TRAPS: ENDOWMENT EFFECT

Over the last 10 years you have bought 10 investment flats in London.

Some properties have now quadrupled in value and you believe the market is at it's peak.

What do you do?

BEHAVIOURAL TRAPS: HUBRIS



THE SUNDAY TIMES

The Sunday Times

Archive Article

Please enjoy this article from The Times & The Sunday

From The Sunday Times

April 15, 2007

Brown lost £2bn selling UK's gold

Robert Winnett and Holly Watt

GORDON BROWN is to face questions in parliament after revelations that he disregarded advice from the Bank of England before he sold off more than half the country's gold reserves at the bottom of the market.

Insiders involved in the decision have broken ranks after an 18-month battle in which the Treasury has blocked attempts by The Sunday Times to make public the official advice received by Brown before he sold the gold.

They have revealed that Bank of England officials had serious misgivings over the chancellor's determination to sell 400 tons of bullion in a series of auctions between 1999 and 2002, when the price was at a 20-year low. Since then the price has almost trebled, meaning the decision cost the taxpayer an estimated £2 billion.

piiiiou*

£2 billion cost the taxpayer an estimated £2 billion

BEHAVIOURAL TIPS:

WHAT IS TRUE IN WHAT YOU SEE?

- Objectively forecast compelling rational that could indicate you are wrong, and know your plan of how you will act when that happens.
- What technical breach or correlated asset move will indicate you are wrong?
- Show you position to someone who's ego is not invested in the trade and ask for their critical opinion.

WHAT IS TRUE IN HOW YOU FEEL?

- Reflect on why you are making the trade you are trying to enter
- Reflect on the reasons why you may be holding on .or scared to enter a position
- Use the prospect marker
- Take a birds-eye view of your actions. Will this move you towards your long term goals.

BEHAVIOURAL TIPS:

TRY TO THINK ABOUT WHAT YOU COULD BE MISSING

- Black swans?
- Where is your focus? [Trial](#)

AFFECTIVE TRADING

- Allowing emotional intelligence to be present in trading decisions
- Using emotional brain and logical brain

HABITS TO HELP

- Appreciate the conditions you made decisions in when looking back in hindsight
- Avoid asking “What if?”
- Disconnect
- Use of support system
- Physical awareness

TRADING STYLE

ACTIVIST

They enjoy the here and now. They are open-minded, not sceptical, and this tends to make them enthusiastic about anything new.

REFLECTORS

Reflectors like to stand back to ponder experiences and observe them from many different perspectives. conclusions.

THEORIST

Theorists adapt and integrate observations into complex but logically sound theories.

PRAGMATIST

Pragmatists are keen on trying out ideas, theories and techniques to see if they work in practice.

KNOW YOUR STYLE

An activist may be better at trading volatility and momentum in the short-terms, whereas a theorist may be better equipped to trade in a structured trade over the long term.



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