



# TAKE CONTROL OF YOUR TRADING:

## Focus on High Value Actions

For many traders, the topic of trading psychology evokes connotations of negative emotions and limiting thoughts that impair trading and mar results. Perhaps because of this, traders tend to avoid psychology. To a degree this is natural. After all, psychology deals with aberrant behavior. Behavioral finance, with its roots in psychology, for example, shows that traders often make inconsistent decisions based on faulty mental shortcuts.

By Gary Dayton, Psy.D

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Further, sensible actions, such as letting winners run, become tricky because of natural psychological responses to routine trading events, including loss. Psychology seems limiting.

The familiar view of trading psychology also tends to focus on abnormal responses. Prevailing beliefs hold that the emotional trifecta of fear, greed and hope must first be brought under control before a trader can expect success. But is this really true?

### **Psychology and Conventional Wisdom**

Recent psychological research is upsetting conventional wisdom, suggesting it is unlikely that anyone can consistently control emotions or thoughts. Often, attempts to control emotions have an effect opposite to what is intended—i.e., trying to restrain emotions can make things worse for the trader.

Current research in performance psychology also indicates it may be unnecessary for traders to reign in their internal experiences to trade well.

Instead of becoming ensnared in attempts to control private thoughts and emotions, individuals who take meaningful, high-value actions often see their situation improve, despite the presence of contrary sentiments. Traders can benefit from concentrating on high-value actions.

### **High-Value Actions**

What are high-value actions (HVAs)? It is important to understand that they do not regulate emotional comfort. HVAs are not aimed at suppressing the stress of trading. Rather, they are designed to improve competency in trading.

Trading HVAs are acts that:

- are under the trader's control.
- relate to the process of trading.

- expand the trader's ability to interact effectively with the market.
- increase an individual's odds for better trading results.
- indirectly help bring about a positive effect on emotions and confidence.

HVAs can be organized into actions relevant to the distinct trading phases of preparation, execution and evaluation. HVAs undertaken to prepare for trading are completed before trades are taken. Execution HVAs occur during trading, and HVAs carried out after trading is complete are associated with assessment of trading performance and results. This article focuses on eight HVAs that help bring about effective execution of trades. (See the sidebars for an overview of preparation and evaluation HVAs).

### **Execution HVAs**

In execution, HVAs represent the actual mechanics of trading. They are of high value because they relate to trading tasks.

Like a professional tennis player who engages in specific high-value actions that lead to high-quality tennis performances, the trader focuses on performance-related behaviors that lead to successful trading.

Skillful handling of HVAs is the hallmark of a competent trader. Execution HVAs include the following.

**1. Identify the trade:** This HVA involves seeing the potential setup as it meets the trader's specific criteria. It means knowing the exact conditions that provide a trading edge. Just as important, this HVA also involves rejecting market development that may look appealing but does not match criteria.

**2. See the stop:** Once a trade setup is identified, the trader looks to locate stop placement based on predetermined risk parameters. He or she assesses current market architecture to determine whether or not protection can

be located that has low odds of getting hit and that meets pre-established risk parameters.

**3. See the exit:** Here the trader evaluates the potential of the trade. To what level is the trade likely to run? What market hurdles (e.g., resistance levels) must be overcome? Regardless of how trade potential is determined (e.g., nearby support or resistance, equal length swings, indicator value, point and figure chart, etc.), the trader stakes out a potential exit area.

**4. Assess risk-reward:** In this HVA the trader assesses the potential trade for risk and reward levels. This is determined before the trade is entered using the stop point and projected profit target. If the potential trade fails to meet the risk-reward standard, the setup is rejected.

**5. Enter:** Once HVAs Nos. 1 through 4 have been accomplished, the trader seeks a pre-defined entry trigger. This can be a certain type of price bar or an indicator level or event (e.g., a crossover). When this is seen, the trader enters.

**6. Place the stop:** Hard or mental, the stop must be firm and kept in place.

**7. Manage the trade:** This HVA involves assessing market action as the trade unfolds. Is price moving toward the profit objective? Is there warning that price may fall short of the target or reverse? Trade management also includes adjusting stops to protect profit. This HVA entails holding trades to their logical conclusion and may be the most difficult to learn and master.

**8. Exit the trade:** This may involve scaling out of or placing limit orders or trailing stops on positions.

## Importance of HVAs

Why should traders focus on high-value actions? The obvious reason is that they are extremely relevant to trading and fully under the trader's control. HVAs expand one's ability to confidently interact with the market and when followed consistently, can improve an individual's chances of successful trading.

The less obvious but more important reason is that by attending to HVAs, traders are less likely to lose focus and make careless, preventable trading errors.

## PREPARATION HVAs

- Write an overall trading plan.
- Identify key support and resistance.
- Know when economic reports and earnings are due.
- Locate areas where potential trades may occur.
- Assess indicator values for tomorrow.
- Prepare a game plan for the next day's trading.
- Set personal performance goals.

## EVALUATION HVAs

- Evaluate trades.
- Assess trading performance.
- Review and study charts for better market understanding.
- Identify performance and technical skills to improve.
- Note where improvements can be made to trading setups and plans.

When focus is diverted from trading tasks, trading can quickly become dysfunctional. This is especially true when attention slips to one's internal state. As the trader's concentration centers on what the mind is saying (e.g., "This trade will turn into a loser, and I can't stand another loss!") or on emotions (e.g., apprehension), the trader's ability to navigate the trade is lost and the likelihood of poor trade results increases dramatically.

As attention shifts inward, mental activity typically increases to try to control the unwanted internal state.

Performance psychology suggests, however, that high-level performance is associated with reduced cognitive activity. It is not that high-level performers are somehow free of negative thoughts and

# Concentration on high-value actions brings affirmative psychology to trading

feelings. They train to sustain their attention on performance tasks—HVAs—rather than allowing themselves to become enmeshed in internal experiences. This mental skill leads to consistently high performance.

## HVA Tips

Maintaining focus on HVAs under the stress of trading is not always easy, but it is not impossible either. It is an ability the trader can develop and build. Knowing where to place attention through an understanding of relevant trading HVAs is a good start (see the sidebar for tips on maintaining focus on HVAs).

Trading psychology is no longer just about flawed decision making and difficult emotions. Concentration on high-value actions brings affirmative psychology to trading.

More important, HVAs can advance trader performance and results. Succumbing to a

self-focused battle to control uncomfortable thoughts and feelings hijacks attention. The trader's energy is misdirected and responses become restricted, leading to erratic trading and poor results.

A commitment to HVAs helps develop positive psychological and technical abilities. Such commitment enables traders to focus on external market cues rather than their internal states and to develop an expanded repertoire of high-value trading actions to employ in piloting the trade.

Gary Dayton, Psy.D., is the president of Peak Psychology Inc., a firm specializing in developing peak performance in traders. He has been an active trader since 1999. He is also a frequent presenter at trading-related seminars and workshops. Dayton's [website](#) and [blog](#) provide trading-relevant information on the mental and technical sides of trading. Contact him at [drgary@tradingpsychologyedge.com](mailto:drgary@tradingpsychologyedge.com).

## TIPS FOR FOCUSING ON HVAs

- Trade a valid method with an edge; this includes a written trading plan (a preparation HVA). Even steadfast attention to HVAs will be of little value without a trading edge.
- Commit to attend to HVAs. This is a mental skill that takes effort to develop. Make it a personal goal and track progress daily. Refine HVAs by breaking down complex ones into smaller actions. For example, the trader may refine the "manage the trade" HVA with a separate HVA for adjusting stops.
- Add personally relevant HVAs. Every-one is unique, and it helps to add personally significant actions to the basic HVAs described here. For example, thinking in probabilities may be a useful HVA (thinking is an action) for those troubled by losses.
- Use mindfulness to help sustain focus on HVAs (see "[Fear Not: A Mindful Perspective for Traders](#)"). Mindfulness helps reduce efforts aimed at controlling internal experiences, positively influences the occurrence of emotions and keeps the trader focused on trading tasks.