

Trader's Mentality. Let's Play a Game

You play Solitaire. The card game. Its not important what game is being played. This is just an example and Solitaire is convenient. It has an element of skill and luck. The luck bit is how the pack has been shuffled and the initial set of cards dealt.

Let's say that you have a strategy that seems to work pretty well and the strategy involves playing from right to left, dealing with the longest piles of cards first.

You start playing. You win 7 times in a row. You lose once. You win 5 times in a row. You lose once. You win 10 times in a row. You are doing well. Then you start to lose. 4 losses in a row. You get annoyed. The cards are not in your favour. A fifth loss. You have had a good record of winning. Why are you now losing? There is some disbelief. Its just bad luck. You'll get over it. But nobody has such bad luck, you are angry. Maybe the strategy isn't working. You try something new. You no longer work the longest piles first but any pile that has an immediate solution. You lose again. You try again. A win! So the strategy was at fault. You continue the myopic strategy. A loss. A win. Two losses. Its pretty patchy now. You are frustrated. You should stop playing. No, wait. One more. One more win and you'll stop. A win! You need to convince yourself that it was more than luck. You deal another hand. A win. One more you tell yourself. A loss. The disappointment is unbearable. One more. You refuse to stop when you are behind. You'll stop when you're ahead. You need to play until you are ahead. Then you'll stop.

Strange thing psychology. You had a good strategy. You were winning 80% of the time. You hit a bad patch. Bad patches happen to everyone at some point. You changed your strategy to

a sub-optimal one. You began to win 50% of the time. It was pure luck now. You should have stopped playing and packed up for the day. Had a rest. Thought things through and come back the next day. Instead you persisted and your track record became pure luck.

Here is how it works in a trader's head:

- Damn I'm good.
- Its just a couple of losses.
- I cannot believe anyone can be so unlucky.
- Let's try this other method.
- I cannot believe that nothing I do works.
- I refuse to stop until I win.