

This is an article I wrote late Friday night/Saturday morning, ahead of my first psychology talk in Amsterdam. I came to Amsterdam late in the evening, but I couldn't sleep because I was concerned. Yes, I was concerned that I might not have conveyed my message to the audience in a proper manner.

So I started writing, adding information about the specifics about trading without feeling, and the nature of how I train my trading.

As it often is, when I hold talks, I am guided by the audience. I observe their reactions. I see if they are interested or if they look out of the window. If it's the latter, I shift gears and steer them towards material what interests them.

That can be dangerous because the things you need to hear might not be the things you want to hear. In Amsterdam I decided to abandon that strategy, and I pursued the line of rhetoric, which I felt they and everybody else needed to hear.

The finished work is what you see below. I call it the Dopamine Connection. On the morning of the talk I decided that I would simply read the entirety of the text below, and then launch into the PowerPoint I had also prepared.

I don't know how it was received, but I know that the message I needed to deliver was the message that was delivered.

So here goes – The Dopamine Connection – or perhaps it could be entitled “Trading Without Emotion”.

Tom

The Dopamine Connection

Dopamine, epinephrine and norepinephrine are the main catecholamines (a label based on having part of the same molecular structure). These hormones are made by your adrenal gland, which is a small hat-shaped gland located on top of each of your kidneys. Dopamine is also a neurohormone released by the hypothalamus in your brain

Dopamine is converted to epinephrine – which is also called adrenalin. This hormone can cause us to take fight when we are in danger. It produces a rush of energy. Think of the New Zealand All Black Rugby Players going through their HAKA, and you get a ritual which for all intents and purposes has at its heart to arouse the spirits – and the adrenaline in the body.

It is a marvellous hormone, one with life saving qualities. Unfortunately for me, as a professional trader, I treat adrenaline and its mother – Dopamine – with the same respect I would treat say a raging ocean. I love to surf in big waves, but I also know that I need to have the utmost respect for the sea. Therefore when I surf, I am both scared and excited.

We are living in an era where the self-help industry is stronger than ever. It is promulgating ambition and goal setting as the pathway to a successful life, a life of meaning and purpose. While I am not principally against goal setting, I am finding that all the gurus I have come across promote the “end goal focus”, and I am vehemently against this approach. The problem with my own approach is that it is nowhere near as exciting as their approach, and no one wants to hear that they can have what they want, but it will cost them – a lot.

I have had the unfortunate experience of having attended a 10,000 people strong conference, where none other than Tony Robbins, was the main speaker, and I have gone through the Dickinson Process as well as many other similar exercises, along with the chanting and the barefoot fire walking.

As it occurred, I took a step back and I asked myself “**is this how change start?**” I wrote an article about some time after. Sadly I think it has been lost as my website evolved, but the essence of the article was that self help gurus have made it their mission to appear to create change in people quickly.

However, I don't always believe that change is instant. I can tell myself I am a super trader, but I am unlikely to be one, no matter how much I chant it. The problem I have with the chanting and the goal setting is that it releases the dopamine before the hard work starts. People feel good before they are meant to feel good.

Let me explain. If it was my dream to make a million pounds a year trading, I might break it down into what I need to make every day, and what stake size I have to trade to generate this return. I may create a neat little spreadsheet which has it all outlined, and I feel a rush of excitement.

I am all for planning, but I sadly think that is not the way forward, because once the brain has released the feel-good chemical, you are less inclined to follow up. Additionally, it is easy to create a linear extrapolation to trading riches, but trading is ANYTHING BUT linear.

If this is too cryptic for you, allow me to explain it using a different approach. If you have the choice between the release of "mission accomplished" dopamine, do you want to do it in the planning stages, in the execution stages or in the completion stages?

I argue that the self-help industry wants us to feel good before we start. Some argue we should feel good when we are finished. I argue that I want to feel good while the going is tough – which is in the middle of the execution stages – where I am least likely to feel good.

When I go about my daily rituals and my daily habits, I am very careful not to promise myself a reward. I am not going to the gym, and then I tell myself I can have a bar of chocolate after. I don't want to layer in dopamine enhancers after the finish line, and I don't psych myself up to get to the starting line.

I don't use music to get into a state. I want to get the dopamine release WHILE I am doing the process that I know is needed to evolve as a trader and as a human being. I don't want to receive a dopamine reward after process. I want it while I am doing it because that is what guarantees I want to continue doing it.

The process in itself is my reward. I tell myself, while I am on hour 2 or hour 3 of intense trading or intense research, that I love this. I get the reward and the feel good factor while

I am doing the process. It might be tough going, but I tell myself I love this. There is no reward after. The process is its own rewards.

It is proven through studies that if you only focus on the reaching the goal, the process is nowhere near as enjoyable, and if you don't enjoy the process, you are unlikely to sustain the effort that is needed to get you towards the achievements you want in your life.

PAUSE = at this point I took a break because this was pretty intense talking, and I shifted gear a little and spoke about something else.

When we lose money, we become fearful (and incidentally also hopeful), and our judgement becomes clouded. This is an evolutionary trait. It cannot be denied. It must be understood. If you want to trade consistently, without the swings in confidence, then you have to learn to accept, even celebrate, the feeling of uncertainty.

There is a story about one of the really great traders of the world. His name is Ed Seykota. He is featured in the classic book Market Wizards. The story centres around an investment class that Mr Seykota gives at a community college. There are only a handful of people attending this 10-week course.

The first lesson deals with the basics of the markets and a light introduction to charting and indicators like a moving average. The second lesson deals with the system parameters of a methodology that Mr Seykota wants to teach. I believe it is a moving average cross over system, designed to capture trends.

The next 8 lessons are focused entirely on the emotional impediments that people will experience and do experience when trying to follow a system. It seems to follow a familiar path to learning.

1/ We have to have the knowledge. Without knowledge we have no guidance on how to follow a successful pathway.

2/ We have to transform ourselves enough to accept the knowledge – to integrate it into our belief system. I often call this the “will to act”. Knowledge alone is nothing and the will to act is everything.

3/ We have to raise our consciousness from “quick to act” to “measured and considered response”. Emotional pollutants such as greed and fear cloud our judgement, and they become our enemies to our process. Can you accept that you can’t control the future, in order to make money?

In my experience, being in a business where I am literally taking money out of the pocket of someone else, there are certain traits that serve me and ensure my sustainability in this chosen career.

I need a system. A system can be knowledge about a particular segment of the technical analysis world. It is important to acknowledge that all systems work some of the time, but no system works all the time. Thus, there are two challenges presented right here.

One is to find a system that resonates well with who you are as a person. It is for this reason that you are unlikely to have luck with a system created by someone else. Another is to build the mental conviction to see you through the periods where your system or your methodology is not giving a positive outcome.

Are your expectations your catalyst? Or are your expectations – or the unfulfillment of the same – what is holding you back? Your beliefs and attitudes frame your world and the way you live (and trade). We tend to find a way to make our beliefs come true. However, your intentions create your results. What does that mean?

You can argue that our intention creates our reality. The Danish philosopher Søren Kierkegaard stated that our life always expresses the result of our dominant thoughts.

Intentions are powerful, like a raging sea, full of power to give and destroy. An intention is a clear and positive statement of an outcome you want to experience, a goal, or vision that

guides your activities, thoughts, attitudes, and choices. To enact your intentions will require focus, action, and positive energy in order to manifest, but the danger lies in where you receive your burst of inspiration? Can you plan dispassionately?

I plan. I think. I evaluate. Along the way I learned to let go of expectations. Letting go leads to freedom from expectations. There is no way to eliminate risk from trading or from life. Success seems to be a result of clear intention.

I don't pretend to know why the market is doing what it is doing. What I can do, with a degree of credibility and integrity is to study myself and my interactions with the market. I think good traders find a method they can deeply embrace, one they truly believe in, which feels good, which resonates with them, and they follow it systematically.

As such you can't say there is one thing that is most important in trading. You can't say that money management is most important, any more than you can say the heart is more important, or the lungs are more important.

Conversely, I don't expect the markets to give me an easy ride. Sometimes it does, but it tends to balance itself out. There is a saying, which I remind myself from time to time. Hard times create strong men, strong men create good times, good times create weak men, and weak men create hard times.

I might not necessarily agree in every facet of this catchy phrase, but its main message is that I don't want to dwell on victory too long.

I use price action because it is pure. The purity doesn't make it easier to trade. I just don't clock up my screen with lines. I think you can make most indicators work remarkably well, if you have the benefit of hindsight. I think the charlatans of the trading industry has made it their business to portray themselves with an air of mystery, giving the impression that they possess a secret, which you can buy into, at a significant premium to your wallet. I can tell you a few secrets myself. I believe there are no secrets, and I believe the people selling you secrets don't want you to know that.

There is no “best system” for everyone. I don’t know what is right for you. I know what works for me. It doesn’t mean I do not get frustrated. However, there is a positive intention to feeling frustrated or overwhelmed. That positive intention is to let you know that something stands between you and what you want to achieve. Trading is not a science. It is a skilful balance act between your psyche and your interactions with other people’s belief about the thing we call the market.

We have made enormous progress with trading technology, but we are still a desert when it comes to dealing with our emotional reactions to uncertainty and volatility. We seem to be unwilling to feel, or we feel, but we keep it hidden. We register risk in our bodies as a feeling of fear. One positive intention of fear is to maintain risk control. Having no fear drives reckless trading and having too much fear inhibits us from trading at all.

I had to find the middle ground and I think all traders have to find their middle ground. I often take inspiration from the solo climber Alex Honnold. Yes, he is a gifted climber, but to the outside world he is nothing but an adrenaline junkie. To himself, he is thorough and has no desire to “lose”, which for him is to die.

I want to risk just enough to make a difference, if I win, but I don’t want to hurt, if I lose. How do I find that right stake size? Well, you feel your way. You imagine what it is like to take a loss. It usually starts with the loss aspect, because we feel fear and hurt much more intensely than we feel joy.

I am mindful that I stand as a symbol of a man who “has made it”, but I don’t think I have made it. I am not riding a trend of life, although unconsciously I am. I seek out the struggle, because I think there is growth in it. However, it is not a helpful attitude when you are trading, because if you seek a challenge, you will find one, especially in the markets and especially if you have a big trading account. Therefore, I had to find a way to balance my desire to live a challenging life with the idiom of follow the trend in my trading life. The conclusion for you is that you have to find your way. You can’t trade like me. You have to trade like you.

Creating a system is part math, part imagination. I have dreamt up The Fishing Technique, The School Run, The Eager School Run, The Sniper’s Trap, The Socker Mum and many

others as a result of my imagination. The challenge was to bridge the imagination with math. Your real trading system takes your imagination and builds the maths around it, but the ultimate test is the “belly test”. Can your belly handle the drawdowns? Are you willing to experience these feelings?

When you are riding a winner, you may find yourself experiencing feelings you are unwilling to experience. It is so important you understand emotionally and academically there is no way you are going to trade without experiencing drawdowns, both emotionally and financially. It is a nice fantasy to entertain that it is possible, but it isn't. You can calculate your drawdowns, but you are better off trying to figure out how to live through them. Are you willing to feel all the feelings you feel when you ride the waves of the market? Perhaps you will find that if you don't get in the way of your feelings (acting on them) but you allow your feelings, they tend to not get in the way of your trading. As Steve Ward once said – on the topic of feeling: Talk it out or act it out.

You don't want to act out your feelings as a trader in the market. I urge you to commit to a specific system or systems, or methodologies. Next, follow your system, and finally work on your feelings. Your real trading system includes your math and your own willingness to experience your feelings about following your math...

The yellow brick road of trading is the yellow brick road of life. Work through your unresolved issues and you not only emerge as a better human being, but also a better trader. The aim is not to get rid of anger, but to accept it, to feel and experience it, but not acting out on it, and appreciate its positive intentions.

I am not letting go of feelings in order to feel better. I want to learn from the feelings. Why am I impatient? Why am I scared? Why am I bored? Why am I restless? Allow yourself to feel and it in turn will allow you to grow. For example one way to dissolve impatience is to allow, enjoy and celebrate the feelings of impatience. This converts the feelings from a drama engine to a drama avoider.

Remember – we all feel, but it is a matter of choice and training whether we act upon what we feel.

Tom Hougaard – Amsterdam 11th/12th November 2022.