

Understanding Why Your Emotions are Causing You to Fail in Forex Trading

By Winsor AGA Hoang

Most of us go to school from grades one to twelve, and some of us are fortunate enough to attend universities for another four to five years. During this time, it is hardwired into our brains that in order to become a successful student, we must obtain a grade of 80% or better. Basically, more than 8 out of 10 times, we are correct in our understanding of new concepts, or correct in solving problems. This works really well in education or in a controlled environment; however, in life, it is impossible to always be correct 8 out of 10 times. Even Warren Buffett or George Soros can't claim that they are profitable 8 out of 10 times in all of their investments. Have you ever seen a baseball player with 0.800 batting average?

Because all of us went to school, it has been ingrained into our brains with the urge to be correct in order to be successful. This habit of being right is causing us to fail in trading. We want eight out of ten trades to be winners. It is the need to be more right than wrong that is causing us to lose. We only want to win trades and avoid losing trades at all costs by trading without a stop loss. We lie to ourselves that a losing trade is not a loss until we actually close the trade. By holding onto a losing position and hoping that it will come back one day, we have failed at trading. This is because we don't accept losing trades.

Once upon a time, when we were kids, we would only play games that we knew we could win. When we lost, we would cry or force other kids to play games that we were good at. As children, we were unable to accept losing, and as adults, some of us continue not to accept losing. In trading, we must expect and embrace both winning and losing trades. Losing trades are part of trading, and if you can't accept the concept of losing, then you should think of it as the cost of doing business.

Let's play a coin game. I will flip a coin, and then you call out whether it is heads or tails. If the coin is heads, and you called out tails, you will lose \$1. If the coin is tails, and you called tails, you will win \$2. If the coin is heads and you call heads, you will win \$2. Basically, if you are wrong, you will lose \$1, and if you are correct, you will win \$2 each time. Would you continue to play this game if you first started out with 5 consecutive losing calls? Believe it or not, some people would stop playing after 5 consecutive losing calls. Most people understand that you will make money in the long run playing this game; however, it is the stress of losing that causes them to quit. Alternatively, why were you excited when you called out at each coin toss?

It should be a mundane game without any emotions since you are guaranteed to win in the long run, regardless of the outcome of several losing tosses. Now imagine this game is applied to Forex trading: each time you have a losing trade, you will lose \$100, but each time you have a winning trade, you will win \$200. The odds are in your favor, and not the Broker's. In summary, it is your emotions towards both winning and losing trades that are causing you to fail in trading. To be successful in trading, either learn to become an emotionless trader, or use automated trading software, which does not have emotions.

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