



# Trader Mind

## Embrace Your Emotions – Part 1

“Emotions! How many times have traders been told that emotions are bad, emotions get in the way of trading, successful traders are less emotional. Yet Steve Ward explains how emotions are essential to the decision making process and how they keep our brains focused on critical information. Emotional factors in decision making can serve a purpose. In classic ‘Steve Ward’ fashion he grounds his guidance in solid neuroscientific research explanation.” (Linda Raschke, President at LBR Group Inc, CTA, from the foreword to TraderMind, November 2014)

### » Can You Help Me Trade Without Emotion?

We work with a lot of traders in one-to-one coaching and workshops and one repeating request that we encounter is “Can you help me to trade without emotion?” In a recent online seminar 79 per cent of attendees indicated that they would like to be able to trade without emotion. Is this the same for you? Would you also like to be able to trade without emotion?

No trader has ever lost or made money solely based on emotion – it takes action to pull the trigger. The feeling of an emotion and the taking of an action are separate events and it is possible to feel a feeling and act differently. You can feel tired and yet get out of bed. You

can feel hungry and yet not eat anything. You can have a sense of fear and yet still enter the market, or a feeling of anxiety when in the market, and still stay in a trade. Emotions bring an urge for action but we do not have to take that action. It is possible, with practise, through developing emotional awareness, and learning how to regulate more extreme emotions, combined with some commitment to your strategy, to feel an emotion and to not have to act upon it.

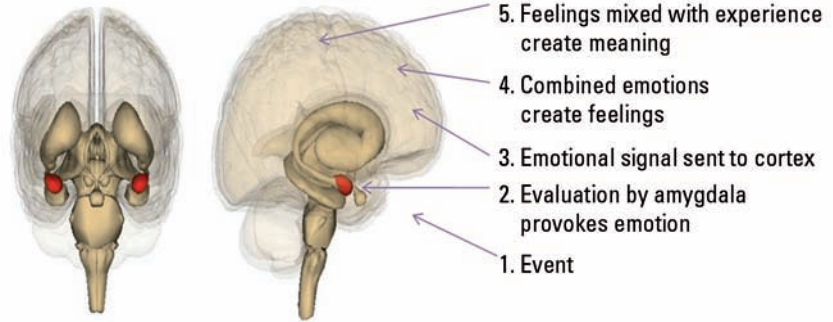
### The Neuroscience of Emotion

Neuroscience research over recent years has resulted in some big shifts in thinking on the role that emotions play

in decision making and these shifts have implications for you as a trader.

Emotions have evolved as ways for your brain to make sense of the world around you, they keep your brain focused on critical information, and enable you to act on that information, to gain what you desire and avoid what you fear. You need an emotional factor in decision making to appreciate the possible outcomes of a decision. Most real life decisions cannot be based entirely on logic as the information that you have is usually incomplete or ambiguous, and that is certainly true in the markets. George Soros has stated that he relied on his emotions a lot in his investment process because of the inadequacy of knowledge in the markets.

### F1) The Information Processing Pathway In The Brain



The image shows how your brain processes information. And not only is emotion a key part of this process, it is the first part of it.

Source: TraderMind

Figure 1 shows how your brain processes information, and not only is emotion a key part of this process, it is the first part of it. You are feeling, before you are thinking.

**References**

(1) 'Descartes Error', Antonio Damasio, Vintage, 2006  
 (2) Seo, Myeong-Gu and Barrett, Lisa Feldman. 'Being Emotional During Decision Making – Good or Bad? An Empirical Investigation', PubMed Central 50, no4 (2007): 923-940  
 (3) Peffer, Gilbert and Fenton-O'Creevy, Mark (2012). 'xDelia Final Report: Emotion-Centred Financial Decision Making and Learning'. Open University, CIMNE, Milton Keynes UK  
 (4) 'Emotional Intelligence 2.0', Travis Bradberry and Jean Greaves, TalentSmart, 2009  
 (5) 'Mindfulness: A Practical Guide To Finding Peace In A Frantic World' Mark Williams, Piatkus Books, 2011

Emotions help you to decipher whether something is a risk to be managed (fear) or an opportunity to be taken advantage of (excitement) – and that is very useful in trading. Knowledge communicated via emotions either explicitly or implicitly enables you to make fast and efficient decisions.

**The New Emotions and Trading Paradigm**

From the relevant neuroscience research three key guiding principles emerge that we believe are important for you to understand and act upon, if they are to enhance their decision making and performance;

1. Emotions are essential to the decision process
2. Emotions are data – they provide messages about your experience
3. Emotions cannot be controlled – but they can be regulated/managed

Because emotion is a key, and actually useful, component of your decision process your goal in trading should therefore, not be to trade without emotion as that, even if it were possible, would actually compromise the effectiveness of your decisions. Rather we would suggest that the goal is to work with your emotions, to be more in tune with them, to improve your ability to coordinate and refine your thinking and feeling processes to enhance your decision making (2).

**Emotional Awareness**

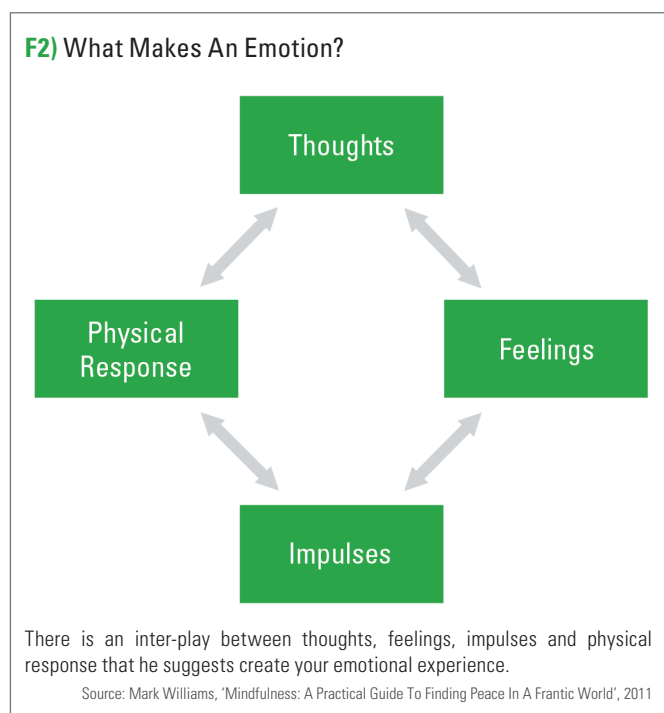
The first step towards being able to work with your emotions and manage them more effectively is to develop a greater awareness of them, to start to notice them. Research with traders suggests that the focus on emotions in trading should be the development of greater self-awareness of emotional states not the elimination of them (3). According to Dr Travis Bradberry only 36 per cent of people, who he studied in his research on self-awareness, were able to accurately identify their emotions as they happened. For the other two thirds of people this lack of emotional awareness, who are less skilled at recognising their emotions in real time, means that they are far more likely to be driven and controlled by their emotions (4).

How about you? How is your emotional awareness? A simple first step towards developing your emotional awareness could be to start 'Checking In', at times through the day.

Emotions can be seen as having four components as shown in Figure 2 (5). There is an inter-play between thoughts, feelings, impulses and physical response that he suggests create your emotional experience. One way of developing your emotional awareness is to periodically stop and start to notice, pay attention to the elements of your emotional experience, ask yourself;

- What thoughts am I noticing?
- What feelings are present?
- What impulses am I aware of?
- What physical responses do I have?

You could also develop your awareness based upon the emotions as data idea in a very simple three step process:



1. What am I feeling right now in this moment?
2. What is the message/data behind the feeling?
3. What effective action should I take?

Another way to develop your emotional awareness could be throughout the day keep a running record of whatever emotions you notice, writing them down, creating a 'ticker tape' of emotional data. Alternatively, you can just start to notice your emotions in the moment, naming them as you experience them, a process known as affect labelling, and as you will see in part 2 of this series is a very effective emotional regulation strategy.

If you want to gain a deeper emotional awareness then the mindfulness 'body scan' practise is a great way of doing so. This practise has multiple benefits for traders. Firstly the mere act of practising is creating the metacognitive, awareness and attention, capabilities for you to be able to regulate your emotions more effectively. Secondly, through repeating the practise you are developing changes to your brains function and structure – for example to your amygdala (the emotional radar) – that will impact how you process emotions, reducing your emotional reactivity. Thirdly, with the focus of this practise on the body you are developing your 'interceptive' ability, the ability of your brain to be aware of your internal physical signals. A high level of interoceptive ability has been linked to the ability to regulate emotions – awareness first, regulation second.

*"Since I have been working on the mindfulness exercises one thing I have noticed is a reduction in my emotional swings." – Equities Trader, London*

Developing emotional awareness is the first step towards embracing emotions. It is also a precursor to being able to regulate them – which becomes important as emotions move towards the extremes – although interestingly, awareness alone actually acts as a regulator helping you to reduce the impact of more extreme and intense emotions on your trading decisions, reducing the number of bad trades you make, and then subsequent spirals that can occur as you seek to correct them and recover losses.

### Emotional Awareness and Market Sentiment

Developing your own emotional awareness can also help you to get a greater awareness of the emotions, the sentiment, of the market. 'We simply attempt to

### Body Scan

- Lie down on your back, making yourself comfortable. Close your eyes, if you feel comfortable doing so. (NB some people may prefer, or find it more comfortable doing the practise sitting down – that is perfectly OK)
- Take a few moments to bring your attention to the physical sensations in your body, noticing the points of contact between your body and whatever you are lying on.
- Remind yourself of the intention behind the practise, to develop an awareness of your experience, without any need to change it. To notice all the sensations within your body as you scan through it.
- Start by bringing an awareness to your breath, and to the sensations in your abdomen. Becoming aware of the changing patterns in your breathing as you breathe.
- Imagine a spotlight of attention, and bring this to your feet and toes, noticing sensations present there, and investigating them with a sense of curiosity.
- Now bring this attention to your legs, then abdomen, lower back, chest, upper back, arms, hands, shoulders, neck and face. Each time spending 20 to 30 seconds noticing any sensations that are there, exploring and investigating without having to actively look for any sensations.
- If you become aware of any tension in the body, see how it is if you 'breathe into' them.
- As with all mindfulness practises, if at any time you notice your mind wanders, simply acknowledge where it has wandered to, and then gently return it back to the part of the body you intended to focus on.

be fearful when others are greedy, and greedy when others are fearful' states Warren Buffet, and Mark Cook, interviewed in 'Stock Market Wizards' talks about how he uses his own fear to know when the right time to buy is. He figures that if he is feeling scared, then most of the market probably is too. Being in tune with your own emotions can put you in tune with the market, and enable you to get an edge from it. «



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