# THE PSYCHOLOGICAL LINE

# BETWEEN YOU AND THE MARKET:

# LEVELS OF VITAL AWARENESS

While starting his or her trading career, any trader, consciously or inadvertently, attempts to solve the problem of self - identification and selection of his or her trading-related preferences. Akin to an ancient sea-farer, he plots his future routes, defines his priorities, and looks into the feasibility of achieving in practice what has been conceived by him as a hopeful and, sometimes, audacious plan. In a word, he tries to determine his current position and which part of the huge world of trading can become his realm.

However, there is a lot more to this process than there seems to be at first glance. Because when you ask yourself the question "Which level am I currently on?" a very simple but very important thing happens: while trying to figure out where you belong, you draw a line between the market and yourself as a trader (and thus, your skills and vision of the market). This line runs across the whole range of tools and methods that can be used to profit. It divides everything that seems congenial or suitable from what, as you believe, is "not your piece of cake".

In other words, your vision of the market, the tools and methods which are fully acceptable and effective in your particular case, depend wholly on where you draw the line.

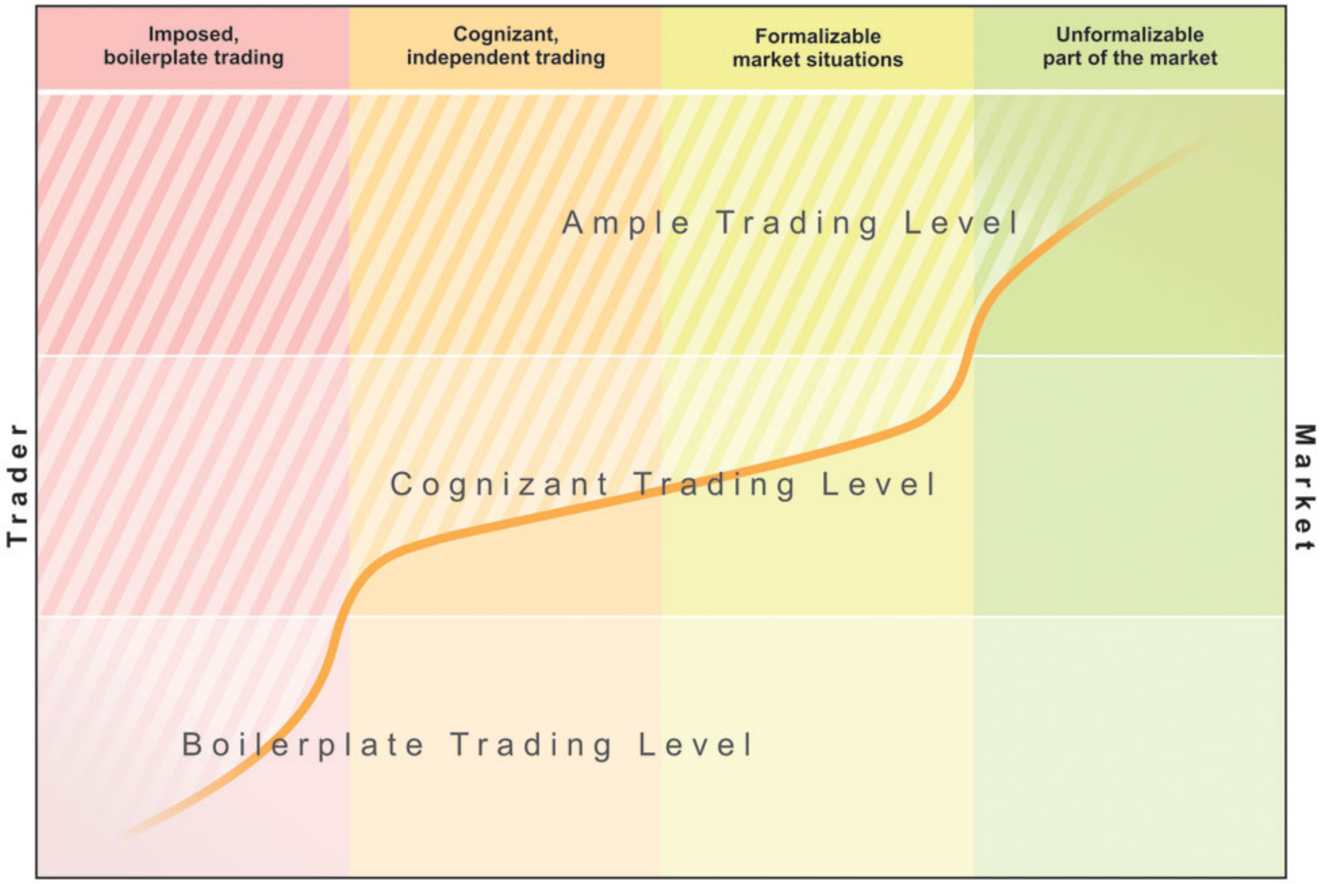
The essence of the present discussion of the borders between a trader and the market is that there are several levels on which the trader can self-identify himself relative to the market. These levels are not just theoretical postulates but they are the reality one can observe – one of the levels "lives" in every trader, defining his relationship with the market, and, correspondingly, his reaction to market situations. A trader's awareness is a sort of a spectrum, something like a rainbow, consisting of several ranges or levels on which he can position himself on the market.

We are not purporting to determine which of the possible levels is "true", "not excessive" or "optimal". What we are trying to do is help you identify your level. Why? Because each of the levels offers effective means and opportunities for achieving a trader's goals. The incorrect identification of your level and position is fraught with bitter consequences that can cost you years of wasted time, effort, and, obviously, some money.

## Levels of Market Awareness

Over the years, our broad experience of communication with a large number of traders and the necessity to better tailor our products and services to their needs have enabled us to form a structured vision of the huge and variegated phenomenon of the market, and, in particular, define several basic levels which a trader can pass and the understanding of which is vital to any trader's success.

In the figure below, these levels are ordered as a spectrum. Also, the borderline between the trader and the market is shown. This borderline is the trader's path toward his maximally efficient vision of the market. At each given point in his trading career, the trader positions himself somewhere on the borderline and, thus, on a certain level of market awareness.



## Boilerplate Level

At the beginning of their trading career, most traders start getting familiar with and using market-related stereotypes, “the right kind” of rules and somebody else’s trading systems, imposed on them by publicity, market gurus or their “more experienced” acquaintances. This is ”boilerplate trading” – developing the “space of opportunity” with the help of the knowledge, accumulated by other traders.

In the course of time, a boilerplate trader can make a breakthrough and start mastering “cognizant trading,” whereby he will rely solely on his own opinion and objectively hold himself responsible for his market actions, while consciously studying all market analysis tools and opportunities. Many traders fail to reach this level because the transition requires a psychological effort and a change of one’s attitude toward the market.

## Cognizant Level

On the Cognizant level, a trader trades using his own knowledge and stereotypes that stem from his personal experience, as well as a set of ”necessary illusions”, required “to simplify” the market down to the level of the intellectual capacity of a specific trader. Over time, the set of the stereotypes and “necessary illusions” undergoes changes to include newly acquired experience, new market analysis methods, and new knowledge about the market that have been proven true by the trader’s personal experience. During this stage, the trader builds systems of his own and adjusts well-known systems to his vision.

Resourceful and talented traders often find such market opportunities and phenomena that are not seen or paid attention to by other traders, or they model market behavior using a unique method which allows them to see and earn more where others see the average picture. The trader’s “own”, “necessary illusions” hide the real market from him, exposing only some part of it – the phenomena that can be formalized (for example, a pronounced trend or the periods during which his favorite indicators can be useful) and the phenomena that can be explained to the left hemisphere of the brain with the help of rules, algorithms, or inferences. On this level, traders learn to control and model with their trading rules and system (irrespective of whether mechanical or discretionary) what can be controlled.

Many traders remain on this level, improving their skills within it, which, actually, doesn’t interfere with them making a profit. However, these traders still fail to achieve harmonious co-existence with the market, which means they are stressed more, spend more effort and earn less money than they could earn. They don’t reach the point of accepting what the market gives them, trying to figure the market out and, from time to time, struggling with it (or themselves).

## Ample Level

On this level, a trader lives in harmony with the market and all market situations are perceived as the correct ones: the questions ”why” and “how” don’t arise. There are only adequate observation of the market and adequate reaction to it. At this point, the trader subordinates his ego, illusions and vision to the will of the market, accepting whatever the market gives. There is no magic intuition or lack of will, but only the maximally efficient and timely application of the skills, acquired on the previous levels. As a result, the divide between the correct and incorrect trading methods, exclusive and conventional situations is no longer. There is no longer a frontline or a borderline: being part of the market, the trader calmly accepts all of its aspects and reacts to them correctly and in a calm manner.

To rise to the Ample trading level, a trader must make another breakthrough in his awareness and make the unpredictable part of the market with its constant changes and surprises part of his field of action, part of what he psychologically accepts and feels comfortable with. A trader who has reached this level is less and less concerned with the magic formula of the market, desire to find a universal trading system, be right or become renowned. A trader who has reached the basis of this level is increasingly concerned with the task of honing his skill of correctly reacting to what is happening on the market. He understands which aspects cannot be modeled and controlled, has already tried different methods of reacting to similar situations and can combine those with accustomed actions as efficiently as possible to minimize any possible losses or turn an additional profit.

The transition between the levels is a change of one’s outlook and it often takes place after a series of losses. In this respect, losses are our teachers, and big losses are opportunities for reaching a higher level of awareness. One should learn to love losses until they are calmly accepted and taken, without which, by the way, trading on the Ample level is impossible.

# Specifics of Each Level and How to Use Them to Advantage

Determining the borders for his understanding of the market, a trader determines the nature of his forthcoming struggle with it. The borders of self-identification divide those market aspects which the trader will have to consider as his own and those that he will consider as “somebody else’s, “inaccessible” ones. Thus, on each of the spectrum levels the trader will find some of the market and trading aspects alien to him. As Freud once noted, any stranger seems an enemy to us. Any of the levels is potentially full of conflicts with numerous enemies. Remember that each of the borderlines also represents a frontline, and that the enemy on each level is different. In psychological terms, different “symptoms” are caused by different levels.

The following table describes the basic differences between traders on the different levels and their tasks.

| Level | Market Vision | Monetary Goal | What is Sought After | Market | Trading Systems/Methods | Ways to Increase Profit |
|---|---|---|---|---|---|---|
| **Boilerplate Trader**<br><br>( Easy) | Masks Imposed. | Make money easily or quickly. | A silver bullet or easy universal trading rules. | Any or depending on favorite stereotype or advice. | Uses somebody else's methods or signal services or systems supplied with purchased software. | • Change one's your monetary goal to "Not Lose Much"<br>• Understand one's Location, get rid of the "fog".<br>• Try to carefully select one's initial stereotypes - a signal service, paradigm, method that most suited to one's personality. |
| **Cognizant Trader**<br><br>(Complex) | Own opinion/vision, "necessary illusions", personal superstitions, stereotypes acquired through personal practical experience. | Profit from "clear" situations; reduce the risk. | Understand how the market works, what moves the market or how the market participants react to the market developments. | Specialization in selected markets, familiar and analyzed Situations and price movement phases. | Adjusts well-known methods, invents new ones. | • Form own opinion about the market and trading methods.<br>• Adjust well-known methods; invent new ones suited to the trader's personality and preferences. |
| **Ample Trader**<br><br>(Easy again) | Minimum of "masks" and stereotypes, a free and unprejudiced view on the market. | Make a profit whenever possible with controllable risks. | Ability to watch the market without bias. Skills to reduce the risk and increase profits on whatever the market offers. | Any, depending on the market.<br><br>Diversification. | Uses combinations of methods changing those combinations depending on the market.<br><br>Diversification.<br><br>Simplifies but deepens, stabilizes and makes universal the methods applied. | • Brush aside the "necessary illusions", maximally simplify the trading methods without loosing efficiency.<br>• Adjust personality to the market.<br>• Notice global changes in the market nature. |

You can see that table is sandwich-structured (Easy-Complex-Easy) or represents a spiral evolution of trader awareness. The table also contains short tips on what should be paid attention to in order to maximize the profits in accordance with the level you are on. Below you will find some advice and tips on how to speed up the process of transition from level to level avoiding the related pitfalls.

## Specifics of the Boilerplate Level

Rookies are often told to “follow the market” or “follow the trend”. However, there is a psychological side to this approach – if the trader and the market are divided by a borderline, in most cases the above is impossible. On this level, instead of constantly following the market, the trader should divide the market into situations that fall under the existing stereotypes and theories, and those when the market should be steered clear of. Unlike this, to traders who have made the transition to the Ample level, following the market is quite natural.

They say rookies are lucky. This happens because initially some novice traders intuitively sense what the crowd is driven by, but then, learning more and more about the market and the methods of its analysis (and, more so, forecasting) they lose this “inborn” flair that can only be regained after the transition to the highest level of awareness: on the next, Cognizant level, they will no longer be able to benefit from their “inborn” intuition.

Beginners must also understand that it’s extremely difficult to skip the middle level and remain profitable. They should morally prepare to spend some time and effort on becoming a “cognizant” trader.

Having skipped the boilerplate stage without experiencing the disadvantages of this approach, the trader will be in constant danger of falling for just another more convincing and sophisticated advertising campaign, touting for a “new”, “unique” system, guru or analysis method.

## Specifics of the Cognizant Level

On this level, the trader must ask himself after each successful or unsuccessful trade the question "Why?" and honestly answer this question, avoiding the trap of attributing his success to his ingenious trading system or advanced skills rather than to chance, bullish trends being easy to profit from, or a fluke. He must also, objectively and in an unbiased manner, assess the possibilities, provided by the different TA and FA methods, even if those are associated with some negative trading experience or have been advised by his best friend or a market guru. A "cognizant" trader tends to regard all his successful and unsuccessful moves so that they will hurt his personality the least. This prevents him from perfecting himself, broadening his view of the market and reaching the next level. Fair analysis while keeping a diary helps overcome this obstacle. A trader should always believe in himself and his judgment if he expects to make a living by playing this game.

## Specifics of the Ample Level

On this level, there are two main perils. The first of them is becoming cynical and disregarding the analysis methods. Many institutional professionals turn cynical and recognize only money management not because technical analysis methods are sham, but because money management is the most predictable and easy to calculate part of the trading process that can be banked on in any kind of a situation – it always works because it doesn't predicts/model the market behavior. The rest of the methods (for example TA and mechanical trading systems) are rather erratic and their efficiency varies due to market changes. Risk control and money management are, undoubtedly, the most important parts, but better results can be achieved if money management is combined with worthwhile trading systems and analysis methods, selected on the Cognizant level.

The other peril is the failure to fully pass the Cognizant level and fully understand which of the market aspects can be controlled and modeled, and which cannot be. In this case, the trader will try to model the uncontrollable and unpredictable aspects of the market using his system. He will come back to the previous level again and again, thus distancing himself from full understanding.

## Trading Schools and Levels

A trader who is really trying to get the hang of the market's workings, in and outs for a long-time, profitable career, is faced with a staggering variety of technical analysis and psychological systems that make the problem of choice extremely difficult. Many novices are misled into thinking that this problem can be solved by painstakingly studying the teachings of the different schools of market analysis. Having followed this path they get all the more baffled for the underlying concepts of the different approaches are in a controversy with one another. For example, some of the schools consider the Elliott waves to be a sort of a sham, while others idolize the third and fifth waves. The former recommend that you ditch the method altogether, the latter insist that you hone your skills of identifying the fourth wave. Both the schools can easily quote utterances by the greatest traders ever as proof of the rightness of their vision. Who's right and who's wrong? This question is posed by both analytical-minded beginners and many a well-seasoned professional.

On the face of it, there are a large number of different schools and all of them endeavor to do the same thing – try to enable a trader achieve his ends. And this is where the similarity ends. The approaches they profess and tout for actually represent approaches that can be more suited for one level of the spectrum and less for some other one. Often the conflicting approaches merely reflect the actually existing differences between the different levels of the spectrum. And all these approaches (especially the psychological ones) are more or less correct relative to their corresponding levels of the spectrum.

## Conclusion

Increasing one's possibilities for making a profit virtually means raising one's sights and broadening one's space on the market by moving one's "demarcation lines". This process is ascent up the spectrum of the levels of market understanding. If a trader realizes the need to move up the spectrum, he will have to reconstruct the whole of his market vision to include the newly gained territory. Any trader's professional growth can only be ensured by the continuous modifying of his market vision, recognition and subsequent embracement of the increasingly more profound and all-round levels of market analysis, as well as the understanding of the market as a dynamic entity, developing according to its own complex and changing laws.

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