



TAYB 007 – How To Work With Your Trading Emotions

Steve: [00:00] Hello, I'm Steve Ward and welcome to Trade at your Best. In these podcasts, I'll be drawing on research and practice from the fields of Psychology, Physiology, Neuroscience and peak performance combined with my own experience of working with thousands of traders at institutions across the globe. To provide you with knowledge, insights and practical strategies that I hope will help you to trade at your best and achieve your trading potential.

[00:37] In this episode, we'll be thinking about the much-discussed topic of emotions in trading and I'll be sharing with you some of the latest research and thinking from Neuroscience and how you can apply it to your own trading decision making. Maybe just start by taking a moment to reflect on your own trading experience. What role do emotions play for you? Are there times when you find maybe emotions are interfering with your decision making and performance? Are there times when maybe emotions can be helpful and supportive of your decision making and performance?

[01:18] So when I first started working with traders in 2005 definitely a common theme in lots of the one to one coaching sessions was this idea around, I guess the question was, "Steve, can you help me to trade without emotion," which is a pretty interesting question and to be honest it's still a view which I hear a lot from traders even today, many years later. And I mean the simple answer is no, I can't help a trader to trade without emotions and we'll get into why that is later, but where was the question coming from?

[01:51] I think for many traders they've had experiences where their emotions have interfered in some way or they've certainly had that feeling that the emotion in some way has interfered. Probably more towards the extremes of the range and quite often actually in the mid-range that there's no interference at all, but there's definitely this trend I think and I think if I did a survey of all my trading clients and we took the most popular answer we would see a general trend towards maybe having less emotion or no emotion. And what's interesting about that actually is that was probably a view that was commonly shared even in the psychological world, the impact of emotions and emotional control, managing emotion, controlling emotion are very big themes.

[02:38] We've seen a very big shift in thinking certainly in my world, looking at the world of performance and decision making over the last probably ten/fifteen years around what we know about emotion and how it impacts our decision making and our performance. I want to just take a few moments to share probably I always say maybe the three big ideas that have come out of that research.

[03:04] The first one is just we all need to understand that emotions are integral to our decision making. Information comes in through your senses and then it's processed in the brain and the first part of the brain that it comes to is the part of the brain where emotions are processed, so into the limbic system, and then that information is then pushed up in towards the cortex. So all of our experience has an emotion attached first and then we're doing the thinking secondly. There's a great book if you want to dig more into this there's a guy called Antonio Damasio Descartes' Era and I think first impressions are a great example of this, so when you meet a new person you get a first impression about that person and then you might later use cognition, use thinking to confirm or deny that that impression was right or wrong, but you can't not have the first impression.

[04:03] It happens and there is that kind of the feeling sense happening first, that's just the way the brain works. So all decisions are going to by nature have an emotional component because all information is being processed from the external coming internally, emotion attached and then upwards so we can't get rid of that. And actually, Damasio's work is very interesting because he's a clinical Neuroscientist. A lot of his clients are patients and have had damage to the emotional processing centers in the brain and what happens interestingly is they find it very hard to make decisions, so the absence of emotion actually interferes with our decision making, which is interesting.

[04:48] The second point I want to make really is that emotions are messengers and this is really tied into the idea. I think if you look at it from an evolutionary perspective of if emotions were unhelpful, then why would we still have them, so they're there for a reason, so what is the reason? Emotions are messengers so they're a message from the lower to mid drain up to the higher brain and if we go back in time before we had cognitive capacities, before we had thinking capabilities, we still had to make decisions for survival primarily and emotions helped us to make sense of what was going on in the environment around us, and then to mobilize energy for action.

[05:31] Fear is the risky emotion, basically watch out, potential danger or threat. Excitement is the reward emotion, watch out, potential opportunity so at the very core are these two drivers of our decision making, one which is fear, which is about risk and one which is excitement, which is about reward and opportunity. And those two obviously play a massive part when we think about trading decisions. It is about assessment of risk and reward and that is deep into our kind of neurobiology.

[06:09] So the third point really is if we look at the word emotion and break it down into emotion. Emotions are mobilizers of energy. If you get the fear response, for example, the brain has sensed in the environment some kind of threat and it mobilizes energy probably in a fight/flight system so that we can then deal with and we can engage with that, and that would be the same for facing a challenge. If you sensed externally some kind of opportunity, then energy is mobilized and you'd experience that emotionally as excitement.

[06:43] So what's important about this, and this is part of Damasio's work, is if you don't have the emotion, if there's no motion, then even if you could logically work out the best solution to the action you wanted to take, there would be no energy in the system to act. Yes, I think he calls it a lift to action, but there'd be no energy in the system to be able to act on that. So if we think about those three big ideas you know emotions are deeply rooted into our information processing system that's the way the brain works, they're messengers and at the deepest level about risk and reward and they're mobilizers of energy, then actually that's pretty useful. And the question would be, would we really want to be without them?

[07:30] So I want to give you a few ideas about how we can work with emotions and notice the language here is working with emotions or the agenda 's changed, certainly in my work I'm not so much into controlling emotions. I might use the word manage emotions. I like the phrase working with, I think there's a lot of value in the emotional experience that can be harnessed to improve performance and decision making. I want to share with you an example, some work I did with a client which within the example really models a really great approach for how you can work with those emotions more effectively and then we'll break it down into the three stages as such so you've got a discrete model to take away if that's useful for you.

[08:18] So I'm working with a client, this is a few years ago, he's a trader, he's working in a bank and I'll just give you a bit of broad context. He's an experienced trader been trading for many years and he then takes on a new role and part of that new role is he has to trade some new markets, markets he's not as familiar with. He's been there for about a year and he's not performing very well. He's going to be brought in. His expectation around him performing well, performance isn't good and he looks for coaching.

[08:48] So we do some work together and early on in the coaching relationship I'm trying to really get him into understanding his kind of trading process, what he's doing, what's going well, what isn't going well, and as part of that process I often ask clients to keep a decision-making journal. So we were getting into the journal, it was good he was doing a bit of that already, but mainly what I call the trading data more so than what's also interesting around that which is what's the thinking going on? What are the feelings that are present?

[09:16] And I wanted to encourage him to put a bit more of the feeling into the journal, particularly around when you're getting into the market, how you are feeling? If you change your mind at any time from what you'd originally planned to do. What was the feeling you were experiencing at the time as you were getting out of the market? What was the feeling and so on, so just really quite simply just noticing what the overriding feeling was at each stage of the decision-making process?

[09:41] I could see as I was explaining it that maybe he was perhaps going to be a bit reluctant to do that, but that's where we left off. We get together about four or five weeks later and first of all, I'm really surprised because he's been doing the journaling and he's been doing it in really good depth and he has been keeping the emotional data, which has been really interesting. And he then goes on to tell me that he's been noticing the emotions and he's noticed that he's written down the word anxiety a lot and he said, "It's not unfamiliar for me to have that emotion, but it's unfamiliar to have it so frequently." So it's the frequency of the emotion that's really stuck in his mind, so that's interesting.

[10:24] I was like, that's great noticing. That's great noticing, so there's an awareness of the emotions he's been feeling. He then says to me, he said, "Do you know what Steve, that made me start thinking what's going on here? Why is it that I'm anxious so often?" And again, this is interesting because now we're going back to what I was saying earlier. Is there a message here? Is it telling me something? And I asked what was your conclusion and he says to me "So, well I looked at all my trading, I checked back through the journal, and he said, and what I found is the anxiety is coming particularly when I'm trading the newer markets." And again, just to really cut a bit of a very long story, quite short, but the key essence was what's going on in these new markets is a number of factors.

[11:11] One, he's feeling a pressure to perform, so there's an anxiety just in the need to achieve the results he thinks he needs to achieve. There's that underlying anxiety there, but he's feeling it more because he's new into the role. He's one of the more senior traders, there's an expectation on him producing so he's feeling it a bit more. He's trying to get great results so he's trading these newer markets. Now when things are unfamiliar, then quite often we can have that sense of anxiety because there's uncertainty. We don't know what's going to happen. So the anxiety is ramping up a little bit because he's also trading these newer markets.

[11:45] He wants to perform so he's taking quite a large risk relative to let's call it competence or knowledge of those markets. So again he's in a new market, it's unfamiliar, he's feeling pressure to perform, he's taking a risk that's probably a bit excessive for his abilities in those particular markets and if you put it all together, it would not be unusual for anybody in the same situation to have that experience of anxiety.

[12:18] I then said to him, "Great, that's really good noticing that you've been able to work out what's going on." I said, "Have you changed anything? Have you managed to do anything different?" He said, "Well, yes, he said, once I was aware of what was going on, that was my next step really was what can I do." And what he'd basically done was, and again, just to keep it pretty simple, is in the markets he was familiar with, he was kind of relatively, relatively short time frame, but definitely used intuition and feel as a big part of his decision making process.

[12:50] When you start trading a newer market that doesn't translate, intuition, gut feel, call it what we will, for now, is contextual, so if you change the context, you lose that feel and he hadn't really realized that. So he was trying to trade these new markets in his very intuitive style. He'd recognize that wasn't working. He'd gone for a little bit more structured, so he began to put a bit of process into his trading that was helpful. He recognized his knowledge and his competence was low, so he was seeking advice and guidance to build up the knowledge base doing some readings and some researching and working with people again, great, good action and he was also in the newer markets, reducing his risk-taking so that he didn't feel as anxious about is it going to make money or not? So kind of taking a little bit of the pressure off to a degree and what was interesting was by taking those actions he had noticed a reduction in his anxiety.

[13:49] Now there's three kinds of things happening here. There's an awareness, he was noticing what he was feeling, anxiety. He'd stopped and asked himself, what's happening here for me? Is there a message? And he had gone into at the end taking action and I think, and we'll come to this later in a few moments, but there are your three key stages. But what I think is really important in that story is lots of people who maybe get anxiety in their trading might utilize things like breathing techniques to manage the anxiety and he could have done the same. He could have gone, "You know what I'm noticing today I'm feeling some anxiety. I'll go away and I'll do five/ten minutes of a breathing technique." And he could have done the same two, three, four, five times a day and he could have been doing that day after day after day after day and really nothing changes. He just gets very good at doing breathing.

[14:36] So the key thing here is if the emotion is strong or as in his case, consistent that piece about thinking what's it here for? What's it telling me? Is there something I can do? Can I utilize that information in some way into action is really, really, really powerful and that can't happen if you go into emotional control techniques you noticing the emotion, let's say it's anxiety, let's stay with that one? Let's say you frame that as a negative emotion. You try and get rid of it and then you lose out on the message and the potential for action so that's why over the last probably ten years, certainly in my own work, I've made this big shift much more towards let's work with it and for sure if the emotion is extreme and it's definitely interfering, I'm not against.

[15:22] We might do some regulation just to bring it in line a little bit, but I'm definitely not into this whole agenda of suppressing emotions, controlling emotions. I think that's unhelpful for most people and an analogy I often use or a metaphor for emotional suppression is if you think about taking a beach ball and inflatable ball and holding it under the water, that's a bit what it's like when you're trying to suppress an emotion. So the emotion is still there, you're holding it down, that's taking effort. It takes focus away from other things you could be doing and actually on the whole, probably and when you let go of it, it comes flying out. So overall, I don't think that's the most useful process for people long term. In moments for sure, I'm not against that, but I think as a longer-term strategy, probably not helpful for most people.

[16:10] The alternative would be using that metaphor was if you take the beach ball. It could be an ugly beach ball, we place it on the water, we're aware it's there, but we're not having to hold it down, play with it. We're not engaging with it. We just got that awareness that it's there and to be honest the tide could change, a gust of wind and that beach ball's gone and emotions can be very transient, but if you're holding under the water you're keeping it in place.

[16:36] So let's get back into I guess unpick the story. Three key skills I think are important when it comes to working with emotions. First one, awareness so you can't work with it if you're not even aware it's happening to you. So you need to get good at noticing emotions as they happen and this, again going back to what we talked about probably earlier in one of the episodes around situation awareness, the skill of noticing what's happening while it's happening. Things like mindfulness very good for this is a very important skill. Are you able to notice the emotion you're feeling as you're feeling it? And there's a research guy called Dr. Travis Bradberry, he found, and I think it's roughly about a third of people only were able to notice their emotions as they were happening in real-time, so two thirds of people not good at that skill, but that's the primary skill that you need to be able to work with your emotions going beyond that.

[17:29] So I think once you're noticing the next layer of skill again still in the awareness level would be naming so being able to attach a name or a label to the emotion you're feeling as you're feeling it, and a guy called Matt Lieberman at UCLA has this little technique naming and taming that as you are aware of an emotion, if you're able to name it, it actually has a reduction in the intensity. Again, it's a bit like there's a message coming up if you try and suppress it, you're kind of shutting the door on the messenger. If you open the door and ask for the message noticing and then naming the emotion, then it quiets down and I think that's how I would explain it in simple terms.

[18:06] So awareness is the first step and maybe it could be as simple as just during the day check-in. What am I feeling right now? Write it down on a piece of paper. Could be every hour, could be every half an hour, could be four or five times a day. Could be just as you become aware of some sensations in the body that's where we tend to feel emotions and actually emotions are just a set of physiological sensations that's what they are. We've given different blueprints as such labels, but they're just sensations in the body so that's the point of awareness so that's the first step.

[18:42] The second step is acceptance or allowing, so allowing the emotions to be there without having to get rid of them or control with them and this is a really key step because you might notice an emotion, fear, it could be anxiety, it could be let's say stress, which is more of a state. It could be anger, frustration, they could be emotions, which typically you might have framed as being negative and once we've got that negative emotional, bad emotion framing around it, immediately we're setting up this process of wanting to get rid of it psychologically. So even in our language, negative emotion may be unhelpful. We come back to that maybe another time, but we want this kind of ability to allow the emotion to be there, not to have this immediate reaction to needing to get rid of it and I think one way that I found really helpful for clients of doing that is to look at emotions as data.

[19:41] So you if the emotions are there, whatever it might be and it could be happiness. It could be sadness, it could be fear, it could be excitement, it could be any end of the spectrum, but what's it telling me. Is there a message there for me? What's the data behind the emotion? It's really, really powerful and once you do that, once you reframe emotions as data as opposed to maybe looking at them as negative or positive, it shifts how you respond to them. So I'll use an analogy from my work in sports psychology. Very common in athletes when I was working in sports psych was pre-race anxiety, pre-match nerves, whatever you want to call it and athletes would come in and they talk about the experience they were having and honestly the negative impact it's having on their performance and I would get into how would you know you are having this expression? What are you're aware of?

[20:25] "Steve, you know, my heartbeat's increasing and my muscles are tense and maybe there's some perspiration and my breathing's changing," and we'd have a discussion really about that and how it affected their performance. And I'll be going, "Okay, that's interesting. Imagine you were a resting state and then your body has to perform. What's your body like when it's performing?" And they, "You know the muscles are tight, heart's beating fast and I'm breathing faster and I'm sweating." I'm going, "Okay, great. How about this, what about if what you are labeling as pre-race anxiety or nerves is actually your body preparing itself physiologically moving you from a resting state into a state so you can perform at your best."

[21:17] And what we're essentially doing is a bit of a reframe. Can we see the same physiological sensations in a different way? Now, what's really interesting, and there's been other research done on this around people with public speaking and so on, another stress, anxieties, test anxieties and so on, but if you frame those physiological sensations as pre-race anxiety or pre-match nerves and in your mind that's a negative, then the impact on performance is negative.

[21:47] If you frame the same sensations in the body as performance-enhancing the body preparing to perform, then it improves your performance. So it's not so much about the sensations in the body that matters it's far more powerful is how am I perceiving those sensations in the body, and I think this is where if you can perceive emotions as a data source then it can be really, really empowering because whether it's fear or excitement, whether it is an anxiety or a sense of confidence, whatever it might be, there might be something in it for you which is useful.

[22:26] And that takes us into our third step, which is, is there any action I can take? Is it possible that there's action that needs to be taken which could be useful for me or is the information from the emotion that I can integrate into my decision-making process? And if you look back into the military and take the theme of situational awareness again, part of decision making in combat, and it's true on the sports field and it's true in the markets is about a perception of what's going on externally, matching that to what's going on internally, probably anchored in through your process, and then it's putting all that together when it comes to the decision moment. But there's data coming in through the feelings system, which is really valuable which if we don't take it you might miss out on some things.

[23:12] So emotions are deeply rooted in our neurobiology, part of our decision-making system, information processing it's not going to go away. Emotions are messengers. Emotions provide energy to act. I think and again it might be a leap of faith for some, but my invitation is to maybe see what happens if you start to work with your emotions and again, just a quick refresher, the three stages, awareness, noticing, acceptance, emotions is data, allowing them to be there and then that third step action. Is there any way that you can integrate that into your decision-making process or any action to take that might be useful?

[23:55] The focus of these podcasts is to help you to improve your trading performance, to become a better trader, to move closer to achieving your trading potential. Improving performance requires taking action so I'd like to invite you to take a few moments to reflect on the contents of this podcast episode, to think about what was interesting for you. What resonated and caught your attention, and to consider how you might apply it within your own trading.

[24:30] Thank you for listening to this episode of Trade at your Best. I hope you enjoyed it and found it useful. If you've got any questions or feedback about this episode or suggestions for future ones, then please get in touch through the podcast page, www.tradeatyourbest.com. This is also where you can find any links or resources mentioned in or related to this episode, and if you'd like to find out more about me and the work I do helping my trading, investing, and banking clients to perform at their best, then please visit the Performance Edge Consulting website, www.performanceedgeconsulting.co.uk.