TAYB 009 – Trading Discipline 2.0 : Committed Action and Flexible Response

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 I'm going to be talking about discipline specifically why the old traditional discipline model of having a plan and trading the plan may actually be costing you money and offering up a new possible upgrade, maybe call it discipline 2.0 with a psychological model that may be more helpful and perhaps even more profitable.

[01:00] So most trading books, probably all most trading courses, the topic of discipline always comes up and typically that would be framed as have a plan and trade the plan. And there is of course clear logic to that and all traders will be able to give you plenty of examples of when they didn't stick to the plan and it cost them money. However, there will have been times for all traders as well when potentially sticking to the plan actually cost money, maybe leaving money on the table or incurring unnecessary losses.

[01:36] There's a feeling of safety and security about having a plan and I would generally definitely favour and encourage people having one, but where I'm not so sure is about the rigidity of sticking to the plan, especially probably in inexperienced traders. The newer traders or maybe perhaps if you are trying out a new strategy then maybe a bias towards being more rigid, have that plan and stick to the plan. It gives a bit more security, it gives more stability. Maybe you can measure the feedback more objectively so the context is important to consider, but I think what we have to remember in the trading and the markets environment is that markets are dynamic and they're changing.

[02:19] Things change from the point of the plan and the research and the preparation to the point of execution, and being in the trade even over short trading horizons, but especially over longer ones. So the need to be able to update and flex the plan if the market changes and this is what I would call kind of behavioural flexibility has been identified actually as one of the potential keys to alpha generation and to kind of out-performance.

[02:52] If you think about it in a sports situation if you had a game, a good team. What else do you have a game plan? They'll go into the match with the plan and they'll play according to the game plan. However, they might notice that during the course of that match the opposition is doing things that were unexpected or were different or is responding differently and the plan is no longer working. I guess my observation is what would be the best thing to do? Should you stick to the game plan because that is the game plan or with the changing environment and with the feedback you're getting in real time, do you adjust and flex and what would be most useful? And this would be true again, if you go into a military context, there'd be a battle plan and then you go into combat with your battle plan, but maybe you get new intelligence or maybe things are changing on the battlefield and the plan obviously is no longer may be the most effective plan. Should you keep the plan, again should we be disciplined, stick to the plan or should we exercise and behavioural flexibility and adjust based on the change in dynamics of the environment.

[03:58] And I think actually it's important to stress in the trading context there's a difference between flexing to meet changing market conditions, let's call that a strategic change and flexing to feel better to either avoid pain or to get a quick hit of pleasure to get a quick bit of P&L may be to reduce the loss, which is a psychologically driven change essentially around comfort-seeking. And then of course what it means is the key thing to develop is the skill and the awareness and the judgment to be able to differentiate between the two so knowing when the best option is to stick to the plan and knowing when the best option is to flex. And that's really, I think the goal and this is where I say that discipline 1.0 have the plan, stick to the plan is maybe outdated or has some relevance in some contexts but maybe not for all. Maybe the upgrade to being I've got that plan, but I've also got the ability to know when to stick to it and when to flex. This is what I'll call the 2.0 model is probably more useful and in fact actually in terms of profits and market returns might actually be one of the most important skills.

[05:23] So I want to get into, let's stick with discipline 2.0 and see what it looks like and I want to give you maybe four skills or four parts of that which might be really key. The first part is I'm going to call it committed action and I'll define this as a commitment to taking the steps required, the increase your chances of success, the probabilities of success in trading or on any given trade actually in your favour. So essentially, we're getting trading process. What are the steps that I need to take? Where does my edge come from and again process is at the heart of all high-performance and it's definitely true for trading. Everybody's got a process no matter how in-depth or not is, no matter how discreet or more intuitive it is, but there's a process there. There's steps that people take and being committed to that is really important.

[06:19] Again, around preparation, around execution and around evaluation and the overall trading process has those three big chunks. But then again if get into the trading itself, maybe how you researched the trade. Your idea generation, the market entry, your risk-taking and position sizing, the trade management, the exit strategies, how you evaluate the trade. All of those again might have actions attached which you want to be committed to. So, you've got in your mind the steps you need to take and then you've got the commitment to taking them consistently so that's the committed action. But what's really important to remember is that these actions may have to be taken even in the presence of some difficult thoughts or emotions showing up and that's why the commitment to the action is important.

[07:12] Following the trading process as we've discussed in other episodes is not always easy because when we're in challenging times, the position is moving against us, volatility's increasing, we're having a bit of a tough run in the markets, it can be hard to follow through with the action. We know what we do, we don't always do what we know we should be doing. So that commitment is really key and we have to be committed to doing it even when it's difficult in the internal environment.

[07:42] Now, commitment can be leveraged actually in many ways and we'll perhaps get into depth in this in a future episode, but one way is by linking your action to some kind of value. Maybe it's a strength or a quality that's important to you to show in your trading or by maybe connecting it to a goal or an outcome you're aiming for, or maybe both but you do need that. What are the steps that I need to be taking that gives me the best chances of success and then the commitment to that is really for me, probably the core of all let's call it discipline?

[08:19] The second part of discipline 2.0 for me would be something around psychological skills and what I'm referring to here is having the skills that allow you to manage the difficult thoughts, the challenging emotions, the urges, the impulses that show up in your trading that might otherwise pull you away from doing what you know you should be doing, the action that you're committing to. So there's you've got action in mind that you know you should be taking the one where you've got edge, where you've got some kind of advantage and you're doing that as consistently as you can, yet we know in the real world there are situations that arise where we get pulled away from that and so the commitment to action is the first step. You know what to do and that's where you're focused and then you need to be able to, as you're being pulled away, as you're noticing that, to be able to manage that. So some skills around how you manage your mind, how you manage your emotions, how you manage your physical state will all be really important in there.

[09:23] But you'll also need, and this is part three, you will need situational awareness. You will need the ability to monitor, to notice what's happening, what's happening in the markets. Are you aware there's a shifting and changing in market dynamics? That's the external awareness. Are you aware of what's happening within you? That's your internal awareness, noticing overall, is there a potential need to change your plan based on changing market conditions. Noticing an awareness between a market-driven motivation to change feeling good or one that's driven by the market itself, more of a strategic one. Being aware of the thoughts, the emotions, the urges, that are present so you need that commitment to action. You need the awareness to be noticing what's happening while it's happening both in the market and internally and if what is showing up internally is not helpful as you're now noticing that, if you've got the psychological skills then you've got the ability to be able to manage that so those three pieces kind of working really well together.

[10:30] And then the fourth piece is our behavioural flexibility. This is the actual skill of being able to change your behaviour to meet the changing conditions. This skill can be helped to some degree actually if during your planning and preparation phase, if you start to think about different possible scenarios the if, then scenarios and what you might do in those scenarios, then actually, in essence, you can prepare to be flexible before you need to be flexible. So, you can already start to work out if A happens, I'll do this, if B happens I'll do this and you're already layering in a sense of flexibility upfront. So the overall process in a way looks like you've got your process, you've got the actions, the steps that you know give you some kind of advantage or edge and you commit to them, and the commitment is key.

[11:19] We know there's going to be times when it's going to be difficult. You've got the situational awareness so you're able to monitor and notice what's happening externally in the market and internally within yourself. If you start to notice the challenging thoughts or emotions are showing up, and if you're coming difficult, you've got the awareness of that. That allows you now then to utilize those psychological skills that you've got to be able to work with and manage them or if you've noticed the external change in the market is one that you want to capitalize on, so the effective action is to actually change away from the original plan, you can then exercise that behavioural flexibility and shift and change your trading behaviour in line with the new market conditions and changes. So those four pieces kind of always working together and again, in essence, they're the underlying mechanisms for, let's call it that discipline 2.0.

[12:21] And so we could summarize this new way of thinking about, of discipline as such like this. Have a plan, include different possible plans of action within this plan. Commit to the plan. If difficult internal stuff shows up, manage it using your psychological skills, but stay committed to the plan, to effective action. Be situationally aware. Notice what's happening within you and in the markets, internal and external awareness, If the market dynamics change and the most effective action would be to change the plan then change the plan and flex your behaviour.

[13:06] Now I do admit that's probably not quite as snappy as have a plan and trade the plan, but my sense is it may be for many people is potentially more profitable. We can't always have it all. So, my invitation really is reflect on your own trading. Reflect on the times when maybe in the past you flexed or haven't flexed when you've been rigid. Think about the opportunities that may be verism where flexing may have been useful and just think about again those four key skills about the commitment to action to the process. Think about developing those psychological skills so you can manage what shows up in the most effective way for you. Thinking about developing that situation awareness, the monitoring, the noticing and then finally just recognizing potentially the edge that might be there in behavioural flexibility.

[13:59] 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.

[14:34] 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.