



Making Better Trading Decisions: Part II

At the level of understanding of markets that you now have as a student in the final phases of the Trend Dynamics Course, the most egregious errors in trade decision-making that you'll make are likely to be subtle. We've already discussed two of those subtleties in the previous installment. In this installment we examine more ways to identify when your decision-making has become unstable.— Ed.

REVIEW

In the first installment of *Making Better Trading Decisions: Part I*, I referred to two authoritative studies from the field of social psychology to underscore how vulnerable traders are subject to two types of *selective perception*. The first is a *cognitive* condition whereby the normal human mind seeks out patterns that it is already familiar with and when faced with distortions or incongruities will compromise reality to match those pre-existent patterns. Since pattern-recognition is at the heart of the trader's analytical process, making sure the patterns you are seeking are actually those unfolding before you on the screen is one key to sustaining the flow of accurate information so you can make good decisions.

The second type of selective perception is *motivational*. When one has a vested interest in specific kinds of outcomes, one tends to restrict the perceptions to data that support that vested interest. Since traders have such a strong vested interest in seeing trades unfold profitably, they are vulnerable to excluding incoming negative information that contradicts the profitable unfoldment of a given trade.

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PREREQUISITES FOR PROFITABLE TRADING

Let's digress for a moment. There are two key requirements for making profitable decisions in trading:

1. You must have a definitive, objective trading plan with positive expectation centered on how markets really work.
2. You must exercise consistently good judgment in your trade decision-making.

Obviously, if you don't have an excellent understanding of how markets work, at least on an intuitive level, you will not be able to trade well. You also need good judgment. An understanding of theory enables you to identify the elements you need to make sound trading decisions.