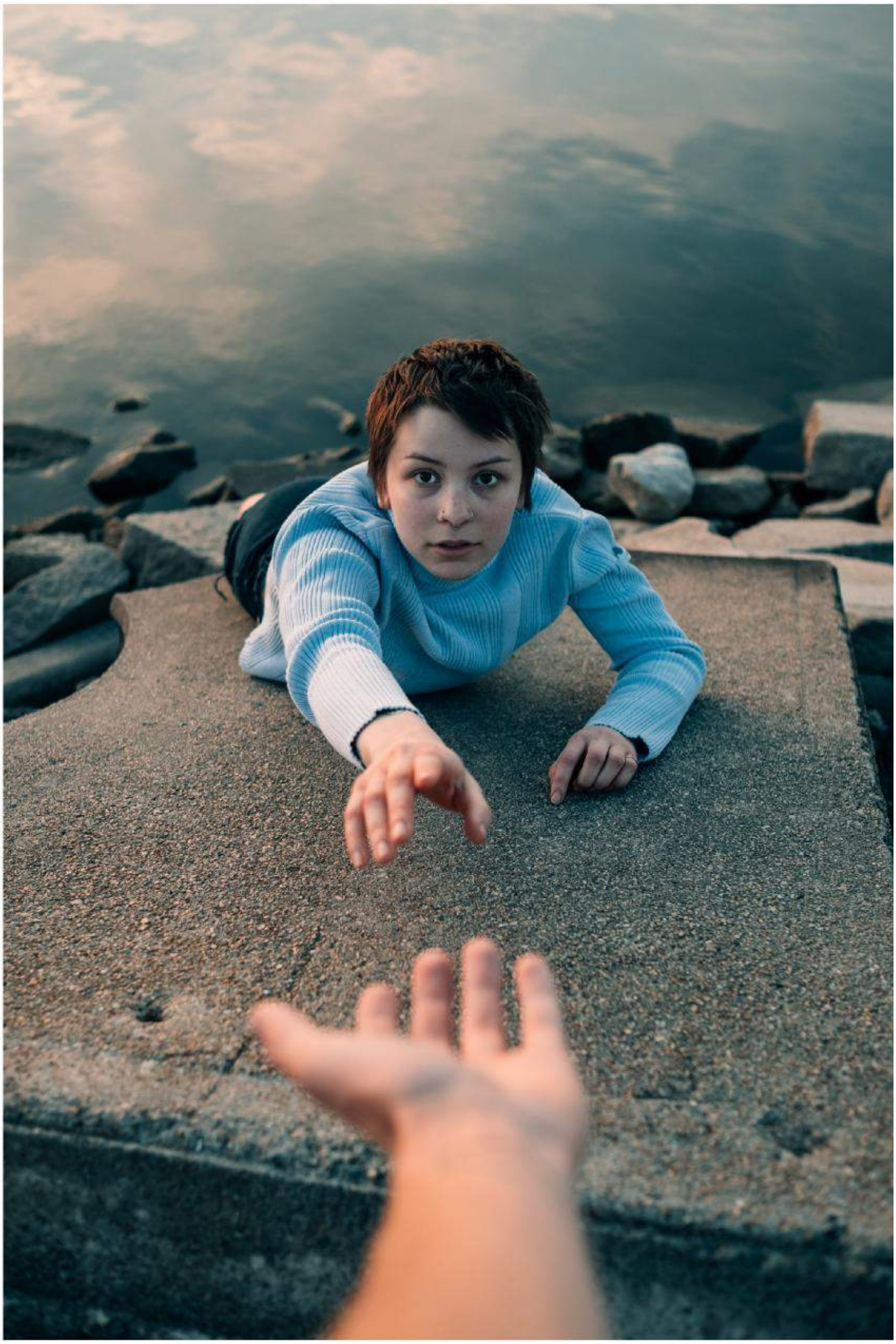
THE BARROMETRICS GUIDE TO SUCCESSFUL TRADING

THE FOUR PHASE FRAMEWORK FOR TRADING SUCCESS

RAY BARROS

Help! My Trading is About to Fall Off a Cliff…. *Here's how to prevent it. Also, what you need to do to ATTAIN your trading Goals!*



John, a trader for over ten years, is sitting at his desk, his hand holding his head in tears about to burst forth. His recurring thoughts are:

"Not again! Another FXXXXing loss! Will I ever break the cycle? Will I ever become consistently profitable?"

"At least", he thinks, "I'm better off than Mary. I know that she blew her account - yet again! And, her marriage is in trouble."

But, at the back of his mind is the image of Paul. Paul has only been trading for seven years but is now consistently making money. Unlike John, he has broken the cycle of Win-loss - where the losses eventually overcome the profits.

Do you identify with John or with Paul? If you identify with John, do you believe in Vince Lombardi's saying:

"Winners never quit, quitters never win"?

Lombardi's saying would be true for John, BUT only, if he internalized one critical fact: success it is not merely a question of perseverance, it's a question of persevering and **learning from your mistakes.** If he did that, then John was merely in, what Seth Goodwin called, "a dip". Being in a dip means ultimately, John will succeed; he need only persevere.

On the other hand, if John kept doing the same thing over and over again, he is in Goodwin's "cul-de-sac": a state that would eventually result in his "**going over the cliff"**. In other words, eventually, he would blow his account – he'd have to stop trading because his money was gone.

Now, I'd like you to stop reading for a moment. Ask yourself this question: with whom do you identify, John or Paul? If you identify with John, how do you feel about yourself? If you identify with John, what will turn things around for you?

Here's the thing: **if you do identify with John, you need to change what you are doing**. But, what changes would you need to put into effect? In this short report, I'm going to answer that question. More importantly, **I'll not only show you what you need to know, I also tell you how to do it, i.e. I'll show you how to apply the knowledge. With the new process, you'll avoid "going off the cliff!"**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THE THREE Ms

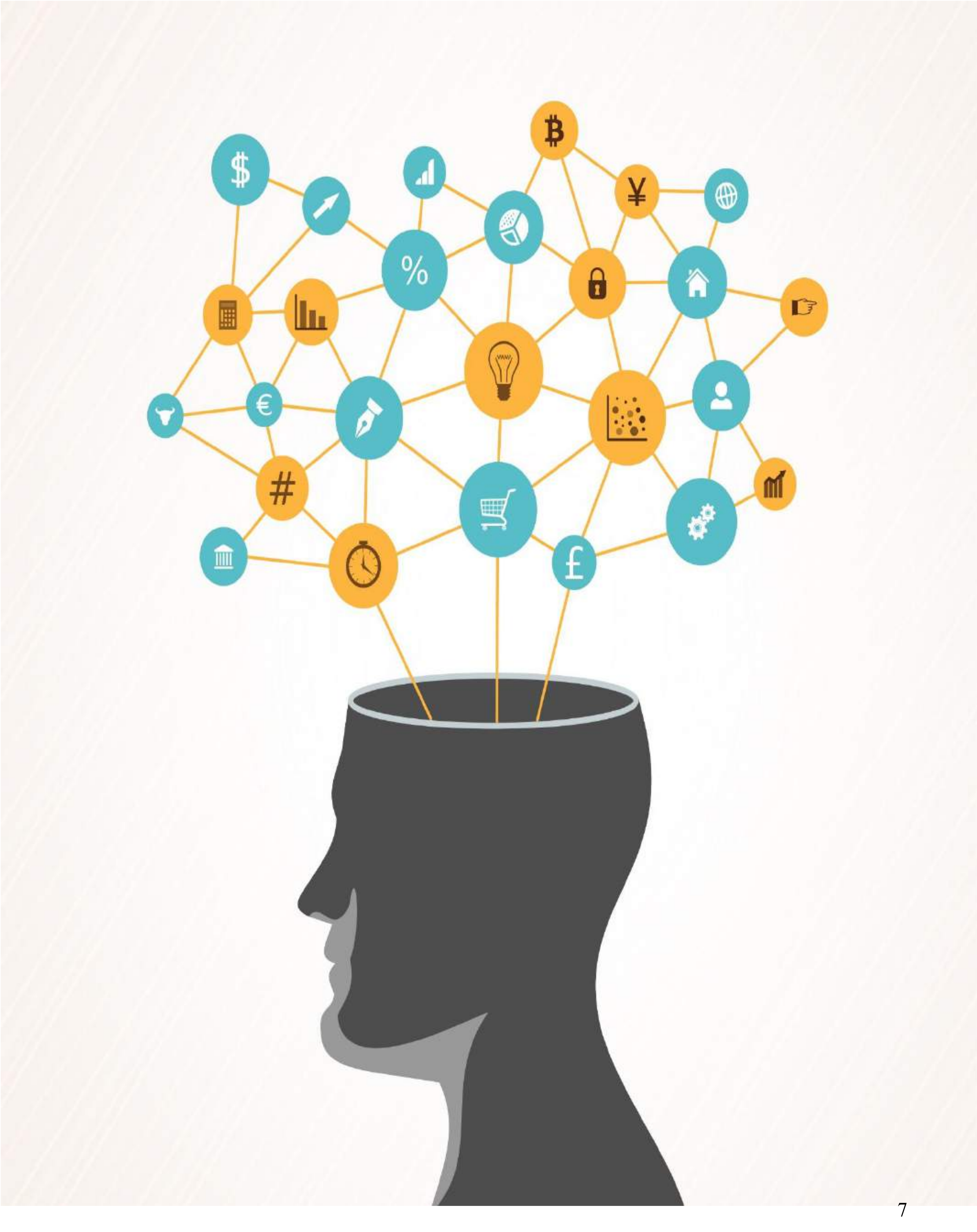
Trading is relatively simple, but it's not easy. It's simple because what you need to know is not a secret; every successful trader/investor knows what it takes. It's not easy because the application of that knowledge goes against human nature.

To be successful, you need to implement the 3Ms. What are the three M's?

MIND X MONEY X METHOD = your expectancy return.

We'll now go into this formula in some depth. But for the moment, I want you to notice:

- The multiplication sign in the formula. A '0' in any of the 3Ms, means you must fail. It also means the weakest element drive your results. For example, you score a perfect '1' for Mind and Money, but '0.2' for Method, your result will be '0.2'.
- Your job as a trader is to strengthen each component to the best of your ability. In the example, you need to find a positive expectancy Method that suits your personality. More in Method.
- I deal with 'expectancy return' in Money.



Mind

The KEY QUESTION: do you have the Mind necessary for consistent profitability?

A warning! The material that follows is pretty heavy. Here's a summary:

- The function of MIND is: the consistent execution of your MONEY and METHOD RULES. Without consistency, you are unable to improve.
- To be consistent, your primary tool is your Psych Trading Journal, where you record the emotional roadmap of your trades.

Got it? Great!

Let's take an in-depth look at the topic.

Right now, you are probably asking: "Ray, what do you mean by Mind?". By Mind, I mean winning psychology. But, then a second question arises: what is "winning psychology"?

It's trading with a probability mindset, the mindset that allows us to execute our Method and Money rules consistently. Unfortunately, a probability mindset goes against our hardwiring – that wiring that we have acquired mostly through the first five years of our life.

We are all wired differently – simply because we all have different experiences. The one thing we know about human nature is that it hates uncertainty and ambiguity. All of us, to a greater or lesser extent, need to feel that we are in control of our environment.

But in trading, we have no control over what the market will do. The only control we have is over ourselves. We need to accept that on a trade-by-trade basis, the market can and will do anything. It is only in the large sample size that our returns will reflect the probability of our rules.

In the training I do, I often see the impact of a lack of a probability mindset.

Let me introduce you to a friend, whom I'll call Jonathan. He is a very successful entrepreneur. Part of his success is his ability to manage his working situation.

Jonathan came to me around 2013. He wanted to learn to trade. He seemed to have all the right tools:

- A great feel for the market
- Well capitalized.
- He was willing to act when his plan called for it.

But, he had a severe handicap. When he brought his 'never-fail' mindset to trading, he found it did not work. Any time he took two or three consecutive losses, he would lose his discipline and start doubling up. Fortunately, he had enough sense not to risk so much as to endanger his financial well-being – so, this trading never fell off the cliff. However, he did find himself in a cul-de-sac where his results never improved. Jonathan made the wise choice to stop trading.

That's easy to say, "*Jonathan made the wise choice to stop trading*". What you don't see is the pain that decision caused and just how difficult it was! Jonathan is not used to failing, to stop trading was super difficult.

How would you feel if you have just lost all your trading capital? On a scale of 1 to10 (where 10 is the most painful), where would you rate the pain? You want to avoid the agony of having to stop? Then

.... your first key question: Do you have a probability mindset?

If not, you face the issue all traders face, how to acquire and improve the psychology necessary to become profitable or even more profitable. Let's turn to the answer, and I have good news!

We are a lucky generation. Why? A new psychological remedy is available us:

Acceptance and Commitment Therapy (ACT).

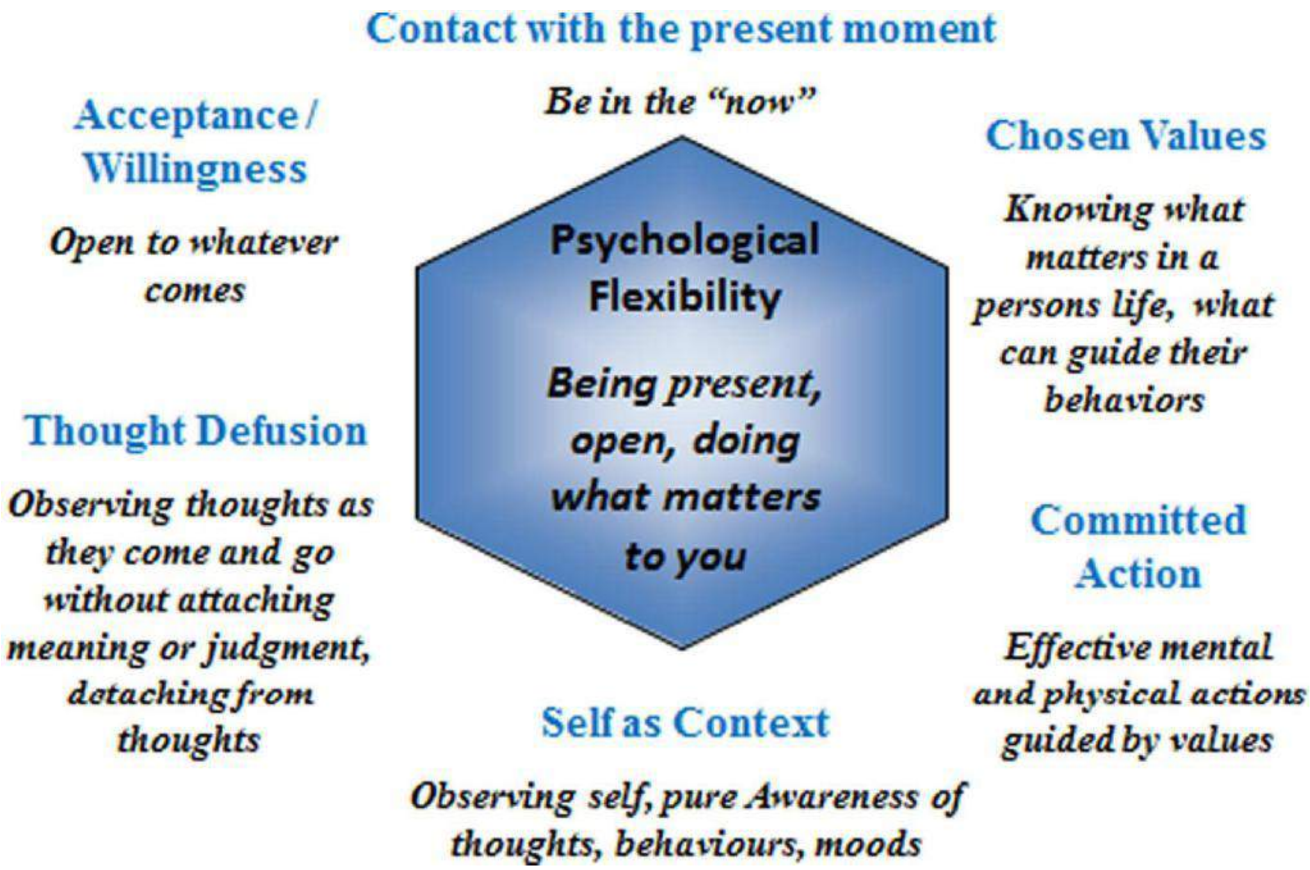
A thorough exposition of ACT is beyond the scope of this article. But here is a brief outline.

All traders tend to feel the loss of money as painful. Those who manage this pain can become consistently profitable. ACT enables us to deal with the pain because it teaches people that although pain is normal, we can learn to live healthier, fuller lives by shifting the way we think about pain.

ACT has three processes:

1. It uses Mindfulness skills to help us live and behave in ways consistent with our values while developing psychological flexibility.
2. Psychological flexibility is attained through value awareness and goal attainment, as well as
3. Application of the psychological tools of Defusion and Acceptance.

Below is a snapshot of the model:



For an excellent overview of the process go to: "An Introduction to Acceptance and Commitment Therapy" (https://www.psychologytoday.com/hk/blog/two-takes-depression/201102/introduction-acceptance-and-commitment-therapy).

If you want more education, there are two excellent books on the subject, see Appendix:

"Ray, what do I get if I apply ACT?"

For an answer, let's take a step back. Mind enables us to execute, consistently, our METHOD and MONEY rules. Consistent execution provides a framework of information for improvement.

What prevents consistent execution? The ‘flight-fight-freeze’ generated by the amygdala in response to a perceived threat. Since most traders see losses as a threat, this response causes fears:

- The fear success
- The fear of failure
- The fear of loss
- The fear of being wrong
- The fear of leaving money on the table
- The fear of losing out

Once fear takes hold of us, we inevitably take less than optimal action.

The usual way traders deal with fear is to suppress it, minimize it, or ignore it. Unfortunately, recent studies show that this response only increases unsuitable action.

ACT provides a way of overcoming the limbic system response with one that is conducive to improved profitability.

ACT is the process. Every process needs at least one tool. The essential tool for Mind is the trader's psychological journal. Interestingly, in my years as an educator and coach, the keeping of this journal has been honoured only by its breach. For some reason, retail find it extremely difficult to maintain their journal.

Why do I find this so puzzling?

Well, I know from experience that journal keeping will take you no more than 10 or 15 minutes immediately before, or after a trade. So, the excuse, "I just don't have the time!", is just that, an excuse.

I suspect that failure to keep a journal has more to do with pain. Having in black-and-white the reasons for a trade provides us with no wiggle room when the trade results in a loss. Similarly, when you review a trade that has lost money, we need to revisit the pain of that loss. It's here that ACT will prove its worth.

You're aren't sure what goes in a psych journal? Here's an excellent starting point.

https://www.babypips.com/learn/forex/summary-keeping-a-trading-journal

What function does a psych journal serve? Like the equity journal, it provides the raw information for improving our trading. Within it, lies the nuggets of information we need to improve our internal and external environments for continued and improving success.

We're at the end of MIND. But, before I move on, some questions I found useful in my quest for trading success:

1. Where are you on the journey to trading success? If you are struggling to improve, KNOW that acquiring a probability Mindset is essential.
2. If what I've suggested here is new and uncomfortable, great! A paradigm for success is being comfortable with discomfort so we can move beyond our comfort zone. It's only when we move outside our zone that change and improvement are possible. You won't become profitable if you keep doing the same old thing.
3. The choices facing you:

- No change, keep losing money and feeling shitty with myself and the world; or
- Change despite the discomfort and take the first steps to profitable trading.

If you want to, and are committed to, attaining your trading dreams, I recommend you start applying the ACT process NOW!

Let’s turn to MONEY.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Money

The second M is Money – a short form for the important topic of risk management. I see Money as answering four questions:

1. The minimum capital you will need for trading?
2. The amount to risk per trade?
3. The size of the trade?
4. When to add profits to your capital, and when to deduct losses?

The answer to the four questions provides us with the foundational principle for our Money tools. The question Money is seeking to answer is this: how do I maximize profitability, and minimize the risk of ruin?

There are many different ways to answer the questions.

For example, Robert Carver in “Leveraged Trading” uses the Sharpe ratio and the Optimal Kelly Leveraged Factor. I find both of these approaches unsuitable to my personality. I prefer to work with “the average dollar loss”, “the probability of consecutive loss”, and “the average return per annum” as the basis for my calculations. Of course, “the average return per annum” needs to be positive.

Whatever approach you use, your key formula is the ‘positive expectancy’ formula:

(Average Dollar Win X Win-Rate) – (Average Dollar Loss X Loss-

Rate) = ***Positive Result***.

Where:

- average dollar win is total dollar win/total number of winning trades
- win rate is the total number of winning trades/total number of trades
- average dollar loss is total dollar loss/total number of losing trades
- loss rate is the total number of losing trades/total number of trades.

I'm often asked: "What is one piece of advice you would give a beginning retail trader?"

For Money, I would say, "Focus on this formula". Too often, novice traders focus on winning trades. And, that can often lead them into trouble.

I know a lady, let's call her Marilyn, who is preoccupied with not having losing trades. If you had a look at her trading record, you'd see that her win rate was 90%.

But, despite her win-rate, Marilyn has never had a winning year! The formula tells us why.

(\$1 X 0.90) – (\$100 X 0.10) = (\$0.90) – (\$1) = -\$0.10

Even though she has a 90% winning trade record, she is never going to be profitable. If you are struggling to make money, then it is likely you are facing the same issues that Marilyn is.

Reflect on what I have just shared: if you have a fantastic win rate, but you aren't making money, the formula has the solution to your problem.

You must remember that your job as a trader is to make money. To do this, you must experience losing trades. No “ifs”, no “buts”, be ready to have losing trades as a part of your trading life.

That’s the process for Money. Its tool?

The tool for Money is one of keeping your statistics and learning from them. Like the Psych Journal, you need to keep a record of every trade. Then, you review to answer questions like:

- What trades are making money? Why? Can I see a pattern?
- What setups aren’t making money? Why? Can I see a pattern?
- Ask similar questions for assets classes and instruments.

You are looking under the surface for possible reasons for your success and failure. Not all losses are ‘bad’ trades. Given that trading is a probability game, your Method may give a ‘perfect’ trade that results in a loss. Fair enough. On the other hand, if you review, you will find patterns that you have missed when trading – patterns that make a difference to your bottom line.

If that’s Money’s process, what is her main tool?

Money’s primary tool is the Equity Journal. This is where you keep a record of your trades and from which you derive your statistics. There are many journals available in the marketplace. In my experience, the one that gives the most exceptional value is Edgewonk

https://edgewonk.com/

For what it delivers, the USD 187 is a steal!

To conclude, let me ask you three questions:

1. Are you keeping an Equity Journal?
2. Are you regularly reviewing its stats?
3. Are you learning anything from the reviews?

If the answer to any of the three is 'no' and you are experiencing the suffering of consistently losing money, ***what new actions are you going to take so you get a 'yes' answer?*** **Give the answer your attention. If what you are doing is not making money, there is no point in continuing with the behaviour.** As Einstein is reputed to have once said:

"The definition of insanity is doing the same thing over and over again and expecting a different result."

So, unless you are insane or a masochist for losses, the principle is: *if what you're not doing is not working, then you change your behaviour.*

Let's turn to METHOD


Gentelella Alela!
2500
1.51 Sec
2,500
4,567
2,315
7,325
Link One
Link Eight
Daily active users
Daily active users
Daily active users
Account Balance
Marketing
Media
Engagement
Awareness
123k
53k
23k
3k

Method

The purpose of Method is to identify when the probabilities are on your side, and when the probabilities fail to favour you.

Traditionally, it has been said that there are two types of methods; which of the two suits you depends upon your personality.

The first is the mechanical approach: you have a set of trading rules, and you must adhere to them.

The second approach is the discretionary ruled-based method. Here, we also have a set of rules. But, those set of rules contain one which says: “I can choose to break my rules.” In this approach, we are taking advantage of our intuition. But note, you need to be careful that intuition does not become “into wishing.” By that I mean, you overrule your Method simply because of fear and greed.

The rules of the two systems also tend to be different.

For the mechanical approach, the simpler, the better. The best ones I’ve seen encompass only these elements:

1. Traders Timeframe, e.g. DAILY
2. Instruments to Trade
3. Long or short
4. Entry set up,
5. Initial stop
6. Trade management, includes final exit
7. Reward: Risk
8. Position sizing

The discretionary rule-based structure is a little more complicated:

1. Traders Timeframe, e.g. monthly
2. Instruments to Trade
3. What is the trend of the Trader's timeframe? Is it likely to continue or change? The answer to these questions provides us with our strategy – to go long or to go short.
4. Zone? At what price level will I take my trades?
5. Setups? What price structures do I need to see for me to take the trade? Generally, setups and zones are linked to whether we are responsive or breakout traders. A responsive trader is one who buys dips in uptrends and sells rallies in downtrends. A breakout trader is one who sells new lows and buys new highs.
6. Trigger bar? What do I need to see to take a trade?
7. Initial stop?
8. Potential profit target?
9. Reward: Risk
10. Position sizing
11. Trade management (including final exit).

For more information on how to identify your personality, go to the Appendix.

And now to a critical issue; an issue which I believe lies at the heart of the high failure rate among retail traders. You know the stats, it's said that over 90% of retail traders fail to make money. Are you among the 90%? **Pay attention! You may find a path to your dreams.**

As I said, it's been the traditional view that we need to trade a Method that suits our personality. My experience suggests that this is incorrect, at least so far as retail traders are concerned. Here's what I have discovered.

Mechanical systems rely for their profitability on fundamental assumptions.

For example, what assumptions underlying a trending system, what underly a return to mean system, etc.?

Most retail traders tend to rely on one system to trade all structures. This necessarily means that a system will undergo a series of consecutive losses when the assumptions do not apply. For example, if you trade a trending system in a congestion market, the system must lose money. The profitable trader is aware of this fact, and as long as the system's results are within the loss tolerance window, he will stick with it. Not so the retail trader.

This was Jonathan's problem (you met Jonathan on page 8, remember?); he was unwilling to accept the consecutive losses.

What's the difference between the professional approach and the retail?

For the professional, he checks his tolerance of loss window. If losses have gone beyond it, he'll determine if the assumptions have changed. The answer leads him to either continuing trading the system or suspending it.

For the retail, usually, what happens? He abandons a profitable system as soon as it enters a drawdown phase – whether or not this phase is within the loss tolerance window.

What do I mean by the 'loss tolerance window'?

When we backtest a system, the backtesting results will tell us the results we can expect as far as losses are concerned, 'average dollar loss, 'consecutive losses, etc. So long as the real-time trading fits within this loss picture, I say that it is within the loss tolerance window.

The discretionary rule-based trader also has a problem. As you can see from the checklist, the rules can be quite complex. As a result, the trader either fails to create a robust trading plan or creates one that is so complicated, he is unable to execute it.

Where are you on the spectrum? Do you fit either category? Are you blaming your lack of success on MIND when the reality is you are experiencing the usual METHOD issue? And the critical question: **what are you going to do about it. Because one thing is clear: if you are not profitable, you will continue to be unprofitable unless you take new action!**

Now, here's the great news: I have found a way of overcoming this issue. More importantly, the trading results of the students who've gone through this new process, have not only made money consistently (for the first time), those who were already profitable produced improved results of 15 to 32%.

To see the process in action, stay on the list to receive a free weekly video telling you what I am trading this week. If you'd prefer not to receive the video, just drop me a line at ramonbarros@tradingsuccess with the subject " unsubscribe".

Keep safe, keep well. Ray

APPENDIX

ACT BOOKS

1. Steven Hayes', "A Liberated Mind" (https://www.amazon.com/Liberated-Mind-Pivot-Toward-Matters/dp/B07W6QYH5X/ref=sr_1_1?keywords=a+liberated+mind&qid=1582248456&sr=8-1)

2. Russell Harris', "The Happiness Trap". (https://www.amazon.com/Happiness-Trap-Struggling-Start-Living-ebook/dp/B004XI12O8/ref=sr_1_1?keywords=The+happiness+trap&qid=1582001183&s=digital-text&sr=1-1)

A warning: other books on ACT tend to be written for the therapist. It would be best if you would avoid these books until you have had some experience in using the process.

PERSONALITY TEST

You can take the test at http://www.personalityassessor.com/ipip120/

You will probably need to read Dr Jason Williams', "The Mental Edge in Trading" to obtain the full benefit from the test. You should find a copy in your library.

A note of caution, some of Jason's terminology is different from that of the test. In the diagram below, I have indicated the differences.

If you see a word written in the category, it means that the test is using the words in the bar and Jason is using the words contained in the gold box. For example, in "C1", the test uses the word "self-efficacy", and Jason uses the word "competence".

Conscientiousness - 56th percentile - about average

You are about average in conscientiousness. Highly conscientious people are diligent, hard-working, and responsible. The six facets of conscientiousness are:

c4

Achievement Striving - 54th percentile - about average

You have about average desires to work hard and get ahead.

c6

Cautiousness - 80th percentile - very high

deliberation

The odds are very low that you'll just jump into things without really thinking them through. You spend very high amounts of time planning what to do.

c3

Dutifulness - 61st percentile - high

You're high in sticking to your word, keeping your promises, and upholding your obligations.

c2

Orderliness - 35th percentile - low

You prefer low levels of cleanliness and order in your environment.

c5

Self-Discipline - 79th percentile - very high

You have very high self-discipline—which is the ability to get to work quickly, stay focused, and avoid distractions or procrastination.

c1

Self-Efficacy - 48th percentile - about average

competence

When you need to do something, you have about average ability to get it done and do it well (or maybe more accurately, you *believe* that your ability is about average).