

# Mental Toughness for Traders

## Performing Under Pressure in the Financial Markets



*Research in performance psychology shows that, under pressure, some people are able to 'raise their game' and perform well, whilst others will perform below their potential. Which are you? How do you perform during crunch times in the market? How focussed do you stay under pressure? Do you stay clear-headed, and retain mental clarity? Are you able to make effective decisions and trade your plan? How quickly do you bounce back from losses, and particularly strings of losses? How much self-confidence do you have in your ability to achieve your trading goals? How motivated are you in achieving them? Do you thrive or survive in the mentally and emotionally demanding environment of the financial markets? How mentally tough are you?*



■ This article is aimed at being both informative and practical, providing you with an understanding of what mental toughness is, why it is important to your success as a trader, and to specify some practical and proven techniques and strategies that you can use to develop your own mental toughness as a trader. The information provided in this article is drawn from research in mental toughness, from sports psychology, the ever-evolving area of trading psychology, and from extensive work with hundreds of traders across the UK, Europe and the USA. I have also included an informal self-assessment evaluation to raise your awareness of your toughness strengths and areas for development. In turn, and most importantly, this will enable you to develop your own personal *toughness-training plan* with the specific actions that you can take to become a tougher trader.

A tested trading system, market knowledge, and money management rules alone are not enough to ensure sustained success as a trader. In the competitive, demanding and uncertain world of the financial markets traders need mental toughness.

### What Is Mental Toughness?

How would you define mental toughness? What would a mentally tough trader be like? Do you know someone who you regard as being mentally tough? What is it about them that makes them that way? Take a couple of moments before reading on to think about your answers to these questions. In the following lines you will find mental toughness quotes from various traders.

Take a moment to read through them. Which of the responses from other traders matched your own? What else did you consider as being important to mental toughness? How would you rate your level of mental toughness based on your own definition?

"Mental toughness is judged by the speed in which a trader can recover from losses and mistakes within a trading session; how quickly they recover from larger losses; and the ability to continue trading while going through a prolonged period of losses or bad performance, and then eventually turn things around."

## F1) The Five Components of Mental Toughness



"When a trader is aware of exactly what they should be focussed on, and has the ability to focus on it in an almost altered state such as that of a samurai, he has mastered mental toughness."

"Sticking with a new trading style even if it is not profitable to begin with because you know that it is all a part of the learning curve."

"Staying positive through bad times, sticking to routines and your trading rules."

"Resilience and emotional distance are the keys to being mentally tough. Resilient enough to get over all the downs you may encounter as a trader... combined with the ability to distance yourself emotionally from past trades."

"To understand and 100% truly believe that every event, whether positive or negative, is there to serve to help you grow as a trader and to take learning from each event to push you closer to your goals."

"Being able to wipe all emotional attachment from events which have

gone beforehand and go forth into the next day with an objective mind."

"Having the discipline to stick to your fundamentals, the core routines and basics you perform everyday and maintaining these rituals even when you exceed your goals and targets – this takes real mental strength."

Looking at the responses from the traders, the themes of resilience, focus, self-belief and confidence, and emotional control are very evident. To perform effectively under pressure requires a certain mental approach, and emotional control. Many traders experience increasing fear, anxiety and reduced emotional control as pressure increases. Winning traders trade consistently with confidence, focus, motivation, composure and enjoy the challenge that the markets offer. They thrive on pressure; they are mentally tough. If we look at that definition, three things can be concluded that are of real value:

1. That mental toughness can occur naturally, which would indicate that some people have a genetic pre-disposition or 'hardwiring' to toughness, but also importantly, that it can be developed. That is that mental toughness is learnable.
2. That mental toughness is a psychological edge. Trading success is all about gaining edges: edges through developing your trading system or style, edges through your market and product knowledge, edges through preparation and planning, and undoubtedly, edges through mental and emotional control under pressure – mental toughness.
3. That there are five specific components of mental toughness – determination or motivation, focus, confidence, resilience and composure under pressure.

It is exciting to realise that mental toughness can be learned and developed. Like all skills, the more you practise them the more developed they will become. After extensive practice they will become 'over-learned' and then executed automatically and effectively under pressure and in stressful situations – you will have mastered them.

Why should you take the time to develop your mental toughness? Think about the benefits of being highly motivated and committed to your trading goals; in having sustained confidence and self-belief; in being able to maintain focus and concentration; in staying composed and in control under pressure; in being able to deal with setbacks and adversity more effectively and to recover more quickly. How would this benefit you as a trader? Financially? Emotionally? What advantage, what edge, would this give you over other less mentally tough traders?

## A Definition of Mental Toughness

Mental Toughness is having the natural or developed psychological edge that enables you to:

- Generally cope better than others with the many demands that are placed on you as a trader.
- Specifically, to be more consistent and better than other traders in remaining determined, focussed, confident, resilient, and in control under pressure.

(Jones 2002)

## Top Tips – Motivation

1. **Take time to make sure you know exactly why you are trading.** Ask yourself:

Why is trading important to me? What does trading give me? These questions will help you to discover your trading motivations. It can be useful to remind yourself regularly of these.

2. **Set yourself some trading goals** – long-term, medium-term and short-term (daily/weekly).



## Motivation – Fuelling Success

Motivation is the fuel that will drive you to the successful completion of your trading goals. Without adequate motivation a trader can be stuck with what is known as 'permanent potential'.

Have you ever asked yourself 'Why am I doing this?' ... 'Why am I trading?' ... Do you know the answer? The answers to these questions (along with other questions, such as 'Why is trading important to me' and 'What does trading give me?') will enable you to discover your motivations for trading. Also consider what your long-term vision and goals as a trader are – do you have any? It is important that you are aware of your trading motivations, and you should strive to meet your motives through your trading. Take a moment to answer the questions and to make a note of your answers – be honest with yourself. Having an insatiable desire and internalised motivation to achieve your trading goals is the fuel that keeps you going. It is critical in helping you overcome setbacks in your trading.

## Confidence – The Foundation of Performance

An unshakeable confidence and self-belief is critical to trading success. Not only is it important in being able to execute your trading strategy effectively under pressure, and being able to perform to your potential, but also in being able to stay confident after losses, setbacks, and errors. How confident are you in your ability to achieve your trading goals? On a 0 to 10 scale, with 0 being "not confident" to 10 being "very confident", where would you put yourself? What would it take to score higher? From my experience, confidence with traders is twofold. Firstly, there is confidence in their trading plan/strategy (outer game), and secondly in their ability to execute the plan (inner game). The two are obviously inextricably linked, and working on both is the key to achieving a core of confidence that allows the execution of your trades to be made effectively.

## Focus – Trading in the Zone

Your ability to focus on what is important – the right thing at the right time – and to be able to block out everything else, is one of the primary

keys to trading success. In their book *Trading Athlete*, Shane Murphy and Doug Hirschborn refer to this as 'tuning in'. Focus is at the heart of performance. What you will focus on will affect how you feel, and how you perform.

What factors do you need to focus on to trade to your very best? What are you focussed on when you are monitoring the markets? What do you focus on when you spot an opportunity? What are you focussed on when you enter and then manage the trade? What do you focus on after the trade? How will you re-focus should you lose concentration at any given time?

## Managing Pressure – Composure

Without the ability to stay composed and in control under pressure, traders will not be able to achieve their full potential. How well traders are able to stay emotionally calm and focussed, maintain mental clarity

### Top Tips – Confidence

1. Be prepared. Great confidence can come from knowing that you have prepared as fully as possible – consider all eventualities and your planned actions. Preparation is a key building block of confidence. Proper planning and preparation prevents poor performance.
2. Be positive. What you say to yourself affects your emotional state. If you talk positively and confidently then you will create a positive state of confidence. Actively work at maintaining positive self-talk until it becomes a habit! Record at least three things each day that went well – keep track of your 'highlights'.
3. Play your strengths. Do you know what your strengths are as a trader? Once you do, ask yourself how you can utilise your strengths further.

### Top Tips – Focus

1. **Tune In.** Identify the key factors that affect trading performance for you in different situations and actively work on directing your attention to these. If you are actively focussing on performance factors, then by nature you will not be distracted at that moment. It is easier to 'tune in' than it is to 'block out'.
2. **Focus on the Process** and not on P & L. Once you have identified the key trading performance factors, focussing on them, the process of trading, and not on your P & L will be useful. The time to think about the outcome (P&L) is before and after the performance. During the performance (trading) stay focussed on the process. These factors will include many aspects that are under your control, and by taking control of your thoughts, feelings and actions, you will feel more in control, more confident, less anxious, and ultimately trade the trade, and not your P & L. Control the controllable!
3. **Plan to re-focus.** Events such as a series of losing trades, a big loser, a losing day, etc. can be a distraction and cause loss of focus. What do you do in these situations? How do you currently re-focus? Some good suggestions include taking a 'time-out' and getting away from your desk to reflect, evaluate, change state, and get back ready to trade. Another quick strategy is to take a moment to look around you for a few seconds and just notice the colours, then breathe slowly for about 10 seconds (in for 5 and out for 5), before doing a quick visualisation of yourself trading well. Whatever you do, having a re-focusing plan will help you regain focus more quickly.
4. **Manage your energy.** Your ability to sustain focus and concentration is linked to the quantity and quality of energy that you have available. To maintain high quality concentration throughout the day ensure that you get good quality and quantity of sleep, eat a nutritious diet, exercise, stay hydrated, and ensure plenty of time to recuperate and relax.

## Top Tips – Managing Pressure (Composure)

1. Accept that anxiety is inevitable, and learn to cope with it – relish the challenge of pressure moments.
2. Focus on the process and control the controllable – see earlier.
3. Slow down – breathe slowly and calm yourself, slow yourself down. As pressure increases, there is a tendency to experience rushing – everything speeds up. Counteract this with some slow breathing and focussed effort to slow down. Try breathing in to a count of 5, and out to a count of 5, in a relaxed way.

and make good decisions is critical to their success. Mark Douglas in *Trading in the Zone* talks about the four main trading fears, Mike Elvin in *Financial Risk Taking* considers the stresses, pressures and anxieties that traders experience, and Brett Steenbarger (who writes a regular blog at [www.traders-mag.com](http://www.traders-mag.com)) in *Trading Psychology* suggests that

## Top Tips – Resilience

### How do winners handle losses and setbacks?

Here are a few hints and tips that, if you apply them, will help you develop your resilience, to deal with losses, setbacks, and to bounce back more quickly.

1. Build physical resilience – sleep, nutrition, exercise, relaxation.
2. Accept that losses are a part of trading, and that setbacks and challenges are a part of achieving any challenging goal. Embrace the challenge. Tiger Woods said 'I smile at obstacles'.
3. Keep perspective – imagine the numbers of trades that you make in a year and put a single loss into context of the total number of trades e.g. imagine someone making 5 trades a day, 25 a week, 100 per month, and over 1000 a year; each trade, a losing trade, as a percentage of those trades is just 0.1%!
4. Learn and move on. Know that every trade, every loss, every mistake, every setback has something valuable in it...LEARNING! Learn from your losses, mistakes, errors, setbacks. Ask yourself, what have I learned from that experience? How will I use it to make me a better trader? There is no failure, only feedback - and feedback is the breakfast of champions. Learning from losses and setbacks helps to release the emotional attachment to the event – you have acted on the feedback, and can now move forward more easily.
5. Recreate success. When you want to boost confidence replay in your mind some of your best ever trades. By recalling positive experiences, you will change your mindset, and your emotional state. Additionally, spend time visualising performing well in the upcoming day/session. Visualisation should involve all of your senses, be vivid, and be seen as though from your own eyes. Spend a few minutes relaxing first to get the best results.

performance anxiety plays a significant part in traders under pressure. Traders talk of fear, anxiety and nerves as being the dark side of trading. How then does a trader overcome these fears and anxieties? Knowing the factors that impact on the creation of our emotional states, and how to adapt these helps us gain control over them. Your beliefs, attitudes, perceptions, focus and self-talk all impact on how you feel. Being aware of them, and taking control of them enables you to manage yourself and your emotions more effectively. Additionally, realising the physical effects of fear and anxiety, such as increased muscle tension, breathing and heart rate, and the experience of 'rushing' (things speeding up) allows you to adopt coping strategies such as relaxation techniques, and particularly breathing strategies to help reduce and minimise the effects on your trading performance.

## Resilience – Bounce-backability!

"It doesn't matter how many times you get knocked down...just as long as you get up one more time than you were knocked down."

Resilience is an absolute prerequisite of being successful in any walk of life, and is often one of the key factors when people talk about mental toughness. On the journey to trading success, there are going to be obstacles, setbacks and challenges that will be encountered and need to be overcome. It is not the number of these challenges that will determine whether a person is successful or not, but how they deal with them. Mental toughness depends on your ability to leave mistakes and poor performances quickly behind you. Hanging on to losses and errors as a trader is not useful.

## Trader Toughness Self-Assessment

I would encourage you to take the time to complete the self-assessment questionnaire at the end of this article, and to consider what your strengths and areas for development are. Once you know these, continue to utilise and play from your strengths, whilst selecting one or two areas where you can improve.

For these areas of improvement create specific actions that you can take to improve your performance. This article has 18 mental toughness strategies that should provide you with a great starting point.

## Conclusion

"Winning in any endeavour is mostly a function of attitude."

Mark Douglas, *Trading in the Zone*

Mental toughness enables traders to perform more effectively under pressure. It allows them to execute their strategy with confidence, to set and achieve trading goals, to achieve focus and concentration that allows for mental clarity and improved decision-

## Final Top Tip – Winning Routines

Create routines and rituals. Routines and rituals that have been chosen and practised because they enhance performance are very powerful. They help concentration, consistency, confidence and composure by providing control and comfort. What routines and rituals do you currently have? What other ones will you develop?

## Trader Toughness Self-Assessment

Take a few moments to fill out this self-assessment of your current perception of your mental toughness in trading. When you are finished, check your answers in the evaluation section that follows to determine your mental toughness, strengths and areas for improvement.

Answer T for True and F for False for each statement	True	False
1. I bounce back quickly from setbacks, losses, and errors.	<input type="checkbox"/>	<input type="checkbox"/>
2. It is easy for me to put losing trades behind me.	<input type="checkbox"/>	<input type="checkbox"/>
3. If I have a losing trade early on, it is hard for me to turn my performance around.	<input type="checkbox"/>	<input type="checkbox"/>
4. One or two losses or losing days does not shake my confidence.	<input type="checkbox"/>	<input type="checkbox"/>
5. I see slumps in my trading performance as temporary.	<input type="checkbox"/>	<input type="checkbox"/>
6. I trade at my best even under pressure.	<input type="checkbox"/>	<input type="checkbox"/>
7. I get too nervous and anxious when trading to perform at my full potential.	<input type="checkbox"/>	<input type="checkbox"/>
8. Sometimes I panic and make bad decisions under pressure.	<input type="checkbox"/>	<input type="checkbox"/>
9. I am able to execute my trading plan without hesitation.	<input type="checkbox"/>	<input type="checkbox"/>
10. I often find myself planning trades that I do not execute and executing trades that I did not plan.	<input type="checkbox"/>	<input type="checkbox"/>
11. My concentration and focus is excellent throughout the day.	<input type="checkbox"/>	<input type="checkbox"/>
12. I am rarely distracted when I am trading.	<input type="checkbox"/>	<input type="checkbox"/>
13. I am able to re-focus easily after a distraction e.g. losing trade.	<input type="checkbox"/>	<input type="checkbox"/>
14. I focus mainly on my P & L when trading.	<input type="checkbox"/>	<input type="checkbox"/>
15. I have clear routines and rituals that I stick to during the day/my trading.	<input type="checkbox"/>	<input type="checkbox"/>
16. I see myself as a successful trader.	<input type="checkbox"/>	<input type="checkbox"/>
17. I frequently worry about losing trades and losing money.	<input type="checkbox"/>	<input type="checkbox"/>
18. I know my strengths and weaknesses as a trader.	<input type="checkbox"/>	<input type="checkbox"/>
19. I am frequently negative about my trading performance and myself.	<input type="checkbox"/>	<input type="checkbox"/>
20. I am a disciplined trader.	<input type="checkbox"/>	<input type="checkbox"/>
21. I love trading and find it enjoyable.	<input type="checkbox"/>	<input type="checkbox"/>
22. I find myself just going through the motions a lot in trading.	<input type="checkbox"/>	<input type="checkbox"/>
23. I have clear trading goals that are important for me to achieve.	<input type="checkbox"/>	<input type="checkbox"/>
24. I know clearly why trading is important to me.	<input type="checkbox"/>	<input type="checkbox"/>
25. I am a motivated trader.	<input type="checkbox"/>	<input type="checkbox"/>

### Interpretation

A score of 4 in any one of the five sections indicates a strength in that area, and a 2 or less highlights that particular area as a mental weakness that needs to be addressed.

### Overall Score

A score of 20-25 indicates strength in overall mental toughness. Scores of 13 - 19 indicates an average to moderate skill in mental toughness and you would benefit from specifically targeted mental skills work. Scores of 12 or below mean that you need to start putting more time into the mental game.

making, enables emotional control, and provides a physical and psychological resilience that allows them to come back with a renewed determination following losses, errors and setbacks. Mental toughness

alone is not enough to create trading success, and likewise a well developed system, good market knowledge and good money management rules without some degree of mental toughness is not enough either. It is the combination of all these factors that allow traders to achieve their potential and to perform most effectively within the financial markets today. What will you do to develop your mental toughness to get a psychological edge?

## Scoring

Section 1, questions 1-5 deal with "Resilience" or your skill at mentally bouncing back from setbacks and mistakes.	1. T	2. T	3. F	4. T	5. T
Section 2, questions 6-10 deal with the ability to handle pressure. Score 1 point for each of the following answers:	6. T	7. F	8. F	9. T	10. F
Section 3, questions 11-15 deal with your concentration ability. Score 1 point for each of the following answers:	11. T	12. T	13. T	14. F	15. T
Section 4, questions 16-20 deal with your level of confidence and the factors that affect confidence. Score 1 point for each of the following answers:	16. T	17. F	18. T	19. F	20. T
Section 5, questions 21-25 deal with motivation. Score 1 point for each of the following answers:	21. T	22. F	23. T	24. T	25. T

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