

Expose Yourself!

A Powerful Technique for Breaking Emotional Patterns in Trading

Brought to you by:

FX-ebooks.com

Forex eBooks Library

Forex Mentor by Peter Bain

The new **Leading Professional Currency Trading System** shows you how to trade currencies like the **Pros!**

Peter Bain has put together a stunningly comprehensive forex course. He shows you exactly how the professionals are doing it. All the benefits of a live trading seminar, but in the comfort of your own armchair. We recommend checking out the video clips on the website



WHAT YOU WILL LEARN ...

- **Indicator** that beat out the other 99 as the most successful technical market pointer
- How to use **futures data** to confirm the currency cash market trends.
- **Take money** from the Euro which puts an average \$US760 on the table everyday!
- How to use **hedge** your currency trades.
- Learn these never revealed techniques in this **seminar video recording**.
- **Watch and Listen** to a topic as many times as you need.
- **150 page** detailed trading manual. See Table of Contents at the end of this page, 35 page Getting Started Guide
- Real currency trading **examples** from the last **8 months** designed to further reinforce every trading concepts
- Access to **daily pivots** for the 4 major pairs and "News not Noise" Forex news digest and commentary.

Get on-going support from our members-only **mentorship** program which includes daily examples, questions and answers, tips, articles, etc.

[View 11 Forex Course Sample Videos Online Now!... Click here...](#)

Expose Yourself! A Powerful Technique for Breaking Emotional Patterns in Trading

Traders love patterns. We trade chart patterns, oscillator patterns, historical patterns, cyclical patterns—you name the pattern, chances are there's someone trading it. Much of trading boils down to pattern recognition and the ability to quickly identify and act upon profitable patterns as they occur. This is particularly challenging for active futures and options traders, who must read the patterns, make their decisions, and place their orders within a matter of seconds. Processing market patterns in the midst of our own emotional patterns—our tendencies toward impulsivity, hesitation, frustration, and regret—is one of the greatest challenges of active trading.

It is always sobering for traders to realize that they are every bit as patterned as the markets they're trading—and sometimes far more so. In this article, I will draw upon two decades of experience as a clinical psychologist to illustrate a powerful technique for interrupting and changing repetitive emotional and behavioral patterns that disrupt trading. The technique is a cognitive-behavioral method known as exposure, and—in the Ranger tradition described by Brace Barber, Linda Rashcke, and me in September's issue—it is a powerful tool for challenging oneself for exemplary performance.

Becoming Your Own Therapist

Extensive studies by Axel Cleeremans and Arthur Reber suggest that, with sufficient experience, people can learn to read patterns in data and anticipate future data sequences. Interestingly, this pattern recognition is intuitive and implicit rather than verbalized: *we know things long before we know we know them*. Such findings contradict the common belief that successful trading requires an elimination of emotions. Our feelings, like market data, consist of relatively weak—but vitally important—signals in the midst of considerable noise. Our sensitivity to market patterns often remains hidden amidst the pushes and pulls associated with trading fears and ambitions. *Traders can learn to become their own therapists by using techniques such as exposure methods, not to dull or eradicate emotion, but to gain control of their cognitive worlds and better extract signal from noise.*

The problem, you see, is not simply our patterns of anxiety, guilt, anger, or discouragement. *The problem is that we cannot control these patterns.* No one consciously plans to fail to pull the trigger on a promising trade; nor does anyone want to impulsively leap into a non-trending but volatile market before evidence of a breakout is at hand. As I emphasize in *The Psychology of Trading* (Wiley; January, 2003), such emotional and behavioral patterns play themselves out against the will of the trader, in spite of our best-laid trading strategies and sophisticated market research.

For most of us, the scenario is embarrassingly familiar: We make plans to get into shape, to diet, or to treat others better—and what happens? All too easily, we lapse into our ruts. At the time we make our resolutions we are sincere. But under the influence of old patterns, the resolutions lose their force. The plans that we had carefully crafted fall by the wayside, like so many good dieting intentions.

Why?

Our trading (or dieting or exercise) plans are anchored to a particular state of mind—associated with a particular set of thoughts, feelings, and physical sensations. When something intervenes to shift us to another state, we lose our anchoring. We no longer have vivid and immediate access to the motivating experiences that spurred our initial intentions. The key is not to spend months and years psychoanalyzing why we are “self-defeating” or otherwise lack “self-esteem”. *Rather, we need to become our own therapists and learn to remain anchored, even in the face of market and emotional forces that could disrupt our trading plans. That is the purpose of exposure-based techniques.*

Overcoming Problem Patterns Through Exposure

Let’s take a classic example of how exposure can break seemingly intractable emotional patterns. Ellen is suffering from a condition known as panic disorder. Sudden, episodes of anxiety hit at seemingly random moments, greatly interfering with normal activities. These episodes are so scary that she is afraid she is losing control and might even die. As a result, Ellen develops a fear of her panic episodes—something known as “secondary anxiety”. Sure enough, her fear of the panic attacks leads her to become increasingly anxious and actually triggers further attacks. By the time Ellen makes it to therapy, she has been caught in a continuous cycle of worry, anxiety, and panic.

If I were using exposure methods with Ellen, I would first teach her a skill, such as a deep-breathing, progressive muscle relaxation method. This involves learning how to slow oneself down by reducing the rate of respiration and deepening the breathing while eliminating physical tension by gradually tensing and relaxing muscle groups from one end of the body to the other (See Figure One).

Figure One Relaxation Training: A Useful Behavioral Technique

Step One: Deep Breathing – Close your eyes and begin breathing deeply, slowly, and rhythmically. Your breathing should be from the diaphragm, and should not be forced or exaggerated in any way. During the deep breathing, you keep your body as still as possible, performing the exercise in a quiet, distraction-free environment.

Step Two: Mental Focus – Fix your attention on a peaceful, relaxing stimulus while you are performing the deep breathing. You can play instrumental music through headphones if this is helpful and/or focus your attention on soothing mental images or scenes. For instance, you could imagine yourself in vivid detail walking along an ocean beach, smelling the salt spray, feeling the warmth of the sun, hearing the crashing waves, etc. The key is to make the music and/or imagery all absorbing, tuning out internal chatter.

Step Three: Muscle Relaxation – Once you are feeling more relaxed, begin at one end of your body (such as your toes) and tense and relax one muscle group at a time, working your way to the other end of your body. Ten repetitions for each muscle group,

with hearty tensing and slow, easy relaxing, works well. This can be performed while you are breathing slowly and deeply to the accompaniment of the music and/or imagery. From toes and instep to calves, knees, thighs, buttocks, back, shoulders, arms, wrists, fingers, neck, and forehead, you progressively undo your body's tension.

Step Four: Self-Awareness – When you have finished the muscle relaxation, slowly open your eyes and notice how you are feeling. By now you have been breathing deeply and slowly, with an altered focus and physical relaxation, for quite a few minutes. Very often there are particular physical sensations that accompany your relaxed, focused mode that traders call **the zone**. I find that I experience a quiet feeling in my head, as if I am somewhat removed from the world. Such sensations can become your cue, alerting you that you have entered the zone and are ready to deprogram old patterns via exposure.

Note – At first it can take a while to get to the zone. With practice, you can become very good at the breathing and muscle relaxation and enter the zone in a matter of minutes or even seconds. The key is frequent rehearsal, first under normal conditions, then under conditions of gradually increasing stress.

Once Ellen has learned this method, the exposure can begin. I would ask her to take a few rapid and shallow breaths, simulating hyperventilation. This *exposes* Ellen to the some of the same physical sensations that she experiences during the early phases of her panic attacks. It also summons those panicky thoughts and feelings that have become deeply associated with the physical sensations of anxiety. When Ellen begins to re-experience a bit of her anxiety, I instruct her to perform the deep breathing and muscle relaxation. She continues with the relaxation work until the initial anxiety sensations are eliminated.

After Ellen learns to extinguish the anxiety that comes from a few rapid, shallow breaths and then from more prolonged hyperventilation, I then have her perform more intensive exposure exercises. I may have her spin around in the room, recreating the feeling of dizziness that comes with her panic attacks. Later, I might encourage her to provoke panicky sensations by entering situations (such as a crowded shopping mall) that are associated with anxiety. In each case, she would expose herself to the very problem pattern that she has been trying to avoid, *but would always limit the exposure and immediately follow it with the rehearsal of a coping skill*. With daily practice between sessions, severe problems such as panic disorder can be successfully treated within a matter of weeks.

What makes this technique work?

Most of our problem patterns are painful; no one likes feeling anxious or depressed. It is only human nature to want to avoid emotional pain. In avoiding our problems, however, we never learn the control necessary for their elimination. By gradually and progressively exposing ourselves to stressful circumstances—all the while practicing ways of coping and maintaining control—we build a sense of mastery. This is how people learn to overcome crippling

phobias and debilitating traumas. *No amount of talk substitutes for the first hand experience of directly facing fears time and time again and staying in control.* Repeated success changes the self-image, and it alters our self-talk. Suddenly, we really begin to feel and believe, "I can do this!"

Applying Exposure Methods to Trading

If you are going to serve as your own therapist in the exposure-based mode, the cardinal rule is: *You always must activate a problem pattern in order to overcome it.* It isn't enough to think about your problems or talk about them. You must actually experience your problem patterns in real time, gradually and progressively, and make conscious efforts to counteract those patterns. If your trading problem is triggered by increasing your size, you will need to gradually and steadily trade larger. If your impulsive trading pattern occurs during trendless, low volatility markets or in the opening minutes of trading, *that* is when you will need to work on yourself.

Fortunately, we can speed emotional change through a process known as ***imaginal exposure***. Imaginal exposure can be thought of as the psychological equivalent of paper trading. Instead of starting out with real-time problem situations (known as ***in vivo exposure***), we can vividly imagine scenarios associated with our negative patterns—triggering some of the feelings of greed, fear, doubt, and regret—and mentally rehearse strategies for dealing with those scenarios. Imaginal exposure is not as powerful as facing problems in vivo (much as paper trading lacks the immediacy of actual trading), but it is a useful starting point in building the sense of success and mastery. Just as athletes have found mental rehearsal to aid Olympic performance, the mental tackling of trading challenges can prepare us for the real thing.

Let's consider an example:

Lou is an active futures trader, with a little over a year of experience under his belt. He has made most of beginner's mistakes and has learned from them, carefully planning his trades, limiting his losses, and scaling in and out of positions with initial sizes that are adjusted for market volatility. He largely trades the ES and NQ eminis in a short-term breakout mode, attempting to catch 1-4 swings per day depending upon trend and volatility conditions. His entries are based on dual RSI oscillator readings, using short-term (intraday) and longer-term (swing) parameters. While he has been generally successful, he notices that he has performed relatively poorly on upside and downside trend days. He finds that he hesitates too long in entering the market and then is too quick to exit the trades once they are profitable. As a result, he takes small bites out of the moves that should be providing him with much of his profit.

An examination of problematic trend days reveals that these begin with a gap at the open in which price moves sharply up or down relative to the last trade of the previous day. This gap immediately triggers negative thinking on Lou's part, much of which reflects feelings about having missed the apparent high or low in the market. During this period of regret, he is not actively following price action or planning an entry. Instead, he finds himself hoping for a pullback so that he might have a better entry point (and a reprieve from his self-recriminations). Price, of course, does not accommodate to his desire and moves even further from the open, now registering an "overbought" or "oversold" signal on the short-

term oscillator. Lou uses this as further justification to hold off on entering a position, allowing him to miss a good segment of the morning trend.

This problem seems unusually rookie-like for an experienced trader, so we examine Lou's overall trading performance. Sure enough, we find that his worst losses have occurred when opening gaps in the market have been reversed. These false breakouts have left him buying at the early highs and selling at the lows, starting his day with solid losses and shaking his confidence. This allows us to see that *what appears to be the problem—the failure to enter the market early during trend days—is actually a coping mechanism designed to minimize the possibility of losses*. Unfortunately, it also minimizes opportunities!

Our exposure therapy for Lou begins with skill teaching, as in the case of Ellen. We teach Lou a method for behavioral self-control that involves slow, rhythmic deep breathing and soothing imagery and encourage him to practice this until he becomes skilled at maintaining his composure. In addition, however, we also want Lou to learn some vital trading coping skills. He needs a set of rules for distinguishing potential trend days from those that may reverse and/or rules for quickly identifying reversals once they occur. For example, his own research and a little mentoring from experienced traders might teach him that gaps that occur on X-period breakout highs or lows in the NYSE TICK are more likely to show continuation than gaps that occur without such breakouts. Alternately, he may find that moves from opening gaps that remain intact by Y o'clock are more likely to continue through the day than those that partially fill.

Once Lou has identified his trading rules for the problem situation and learned a method for cultivating self-control, the exposure work is ready to begin. First we can start with imaginal exposure, encouraging Lou to enter his relaxed mode with slow, diaphragmatic breathing and eyes closed. In this mode, he vividly imagines an preopening news report that sends the market gapping lower, well outside its prior Globex range. He maintains the visualization of the scenario as he practices his slow breathing and mentally rehearses the appropriate trading strategies. Thus, for instance, he might image the TICK plunging to a multi-day low on the opening move and the SP failing to fill its gap on the first TICK bounce toward zero. This would be his trigger for a short entry, and he would clearly visualize each step he would take in monitoring the market, placing his order, setting his stops, etc. A similar set of visualizations could also facilitate the rehearsal of exit strategies.

Once all discomfort is extinguished in the mental rehearsals, the next step in exposure work would be applying the skills in paper trading. Using historical market data, we would have Lou advance charts bar by bar in trading simulations of trend days *while rehearsing his self-control and trading strategies*. Only when these simulations proceed successfully (i.e., eliminating anxiety) would Lou undertake real-time, in-vivo exposure, beginning with small positions and building to larger ones. (The speed with which Lou progresses from imaginal exposure to paper trading to in vivo work would depend upon the severity of the problems and the intensity with which he rehearses the techniques. Research suggests that fewer but longer, more intensive exposure sessions are more effective in eliminating negative emotional patterns than a greater number of brief exposures.)

The idea is that, before Lou confronts another potential trending day in the market again, he will have experienced multiple successes in

handling such days in imagination and then on paper. It is the repeated experience of mastery and success that provides the power behind exposure-based intervention. Nothing so builds confidence as repeatedly facing and overcoming one's fears. (See Figure 2 for keys to success in the exposure method).

Figure Two Keys to Success With Exposure Methods

Patience – Taking the time to become fully relaxed before starting the exposure is crucial. Give yourself enough time to reach the zone (see Figure One).

Persistence – A key to extinguishing negative patterns is repetition. Applying coping skills to problem scenarios again and again, in imagery and in vivo makes stressful situations safe and familiar.

Gradualism – Set yourself up for success by starting with manageable versions of your problem patterns and imaginal exposure before tackling your greatest challenges in vivo.

Consistency – These are short-term techniques, but applying them intensively and consistently on a daily basis provides superior results.

Realism – Exposure can break old problem patterns, but by itself won't instill new patterns of success. Nothing substitutes for experience and research in the markets!

A Final Note

There are many psychological approaches that can enable us to gain control of our problem patterns. Exposure-based methods are particularly useful for futures and options traders because they can be self-administered and often produce rapid results. Such methods cannot overcome all problem patterns; sometimes people with chronic difficulties need additional forms of treatment, including medication. Nevertheless, when emotional reactions are situational rather than chronic—and especially when you can isolate the trading situations that trigger the problem patterns—exposure-based techniques are excellent mechanisms for gaining control and staying anchored to trading plans.

Notice, however, that I have emphasized the need for proper, researched trading strategies to accompany the exposure methods. As an experienced clinical psychologist and trader, I can assure you that self-help techniques alone will never enable you to master the markets. If you want to know how to trade a candidate trend day, an intraday range breakout, or an afternoon consolidation of a morning trend, you damned well better have researched those market conditions and generated some rules and techniques to guide your entries and exits. Otherwise, you will be teaching yourself to focus and relax while you lose your hard-earned capital.

What psychological methods can do is provide you with the self-control to implement your well-researched trading strategies. That is important. Consistency of effort, not the home run trades we all like to talk about, best positions us for trading success.

Brett N. Steenbarger, Ph.D. is Associate Professor of Psychiatry and Behavioral Sciences at SUNY Upstate Medical University. Dr. Steenbarger is an active trader and author of *The Psychology of Trading* (Wiley, 2002). He writes feature columns for the MSN Money website (www.moneycentral.com) and several trading publications, including *Stocks Futures and Options Magazine* (www.sfomag.com). These articles and a daily trading weblog are linked at Greatspeculations.com.