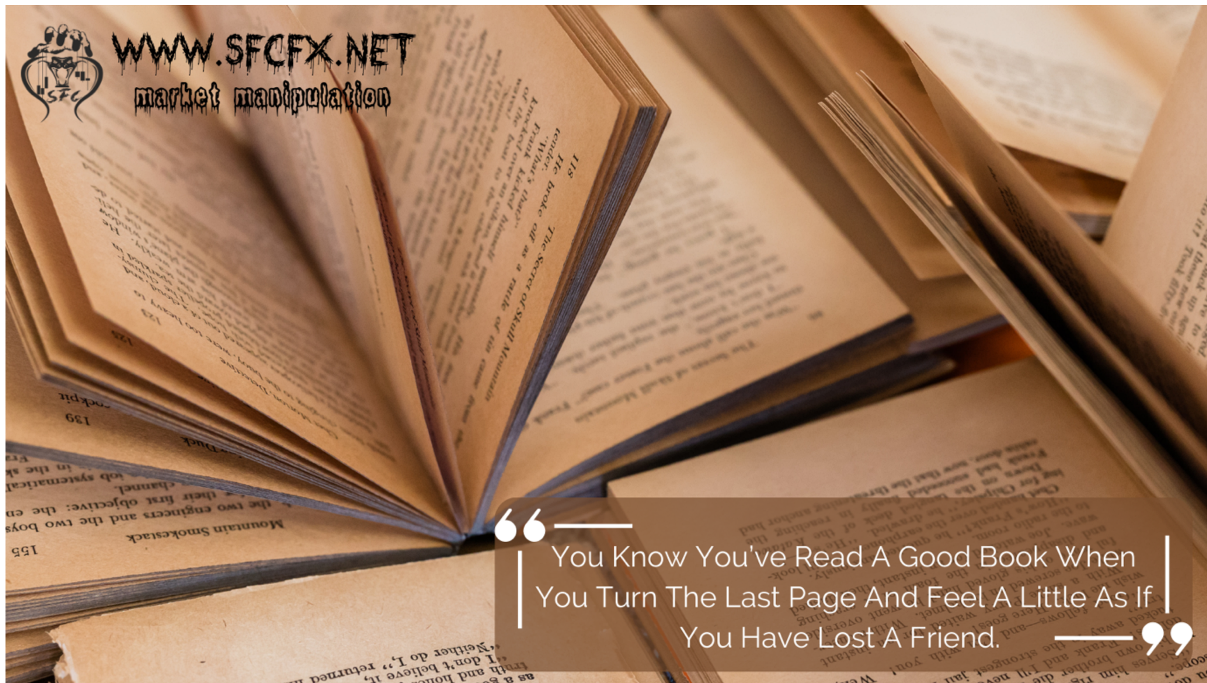

Key Takeaways from Trading in the zone by Mark Douglas

- The consistently successful trader that you want to become doesn't exist yet. You must create a new version of yourself, just as a sculptor creates a likeness of a model.
- Making money consistently is a by-product of acquiring and mastering certain mental skills.

"I am a consistently successful trader"

- You must choose consistency over every other reason or justification you have for trading.

The degree by which you think you know, assume you know, or in any way need to know what is going to happen next, is equal to the degree to which you will fail as a trader.

PRÍNCIPES OF CONSISTENCY:

1. I objectively identify my edges.
2. I predefine the risk of every trade.
3. I completely accept the risk or I am willing to let go of the trade.
4. I act on my edges without reservation or hesitation.
5. I pay myself as the market makes money available to me.
6. I continually monitor my susceptibility for making errors.
7. I understand the absolute necessity of these principles of consistent success and, therefore, I never violate them.

Know it

- As long as you are susceptible to the kinds of errors that are the result of rationalizing, justifying, hesitating, hoping, and jumping the gun, you will not be able to trust yourself.
- If you can't trust yourself to be objective and to always act in your own best interests, achieving consistent results will be next to impossible.
- The successful trader that you want to become is a future projection of yourself that you have to grow into.

Common Problems

- The Unwillingness to Create Rules
- Failure to Take Responsibility
- Addiction to Random Rewards

Taking Responsibility

- Eliminating fear is only half the equation. The other half is the need to develop restraint.
- Attitude produces better overall results than analysis or technique.
- Expecting a positive result from your efforts, with an acceptance that whatever results you get are a perfect reflection of your level of development and what you need to learn to do better.
- The root cause of his trading problems is his perspective, not his lack of market knowledge.
- the solutions are in your mind and not in the market.

Thinking in probabilities

- Anything can happen. Belief in uncertainty.
- At the micro level, the outcomes to individual edges are independent occurrences and random in relationship to one another. At the macro level, the outcomes over a series of trades will produce consistent results.
- Not predefining your risk, not cutting your losses, or not systematically taking profits are three of the most common – and usually the most costly – trading errors you can make.

- Every trade has an uncertain outcome.

- Events that have probable outcomes can produce consistent results, if you can get the odds in your favor and there is a large enough sample size. The best traders treat trading like a numbers game, similar to the way in which casinos and professional gamblers approach gambling.

- You have to believe in the uncertainty and unpredictability of the outcome of each individual hand. You have to believe that the outcome over a series of hands played is relatively certain and predictable.

- Each trade is unique, independent from any other trade

- When we believe in a random outcome, there is an implied acceptance that we don't know what that outcome will be. When we accept in advance of an event that we don't know how it will turn out, that acceptance has the effect of keeping our expectations neutral and open-ended.

- We have to be rigid in our rules and flexible in our expectations. We need to be rigid in our rules so that we gain a sense of self-trust that can, and will always, protect us in an environment that has few, if any, boundaries. We need to be flexible in our expectations so we can perceive, with the greatest degree of clarity and objectivity, what the market is communicating to us from its perspective.

Fundamental Truths

1. Anything can happen.
2. You don't need to know what is going to happen next in order to make money.
3. There is a random distribution between wins and losses for any given set of variables that define an edge.
4. An edge is nothing more than an indication of a higher probability of one thing happening over another.
5. Every moment in the market is unique.

Losses are the amount of money I need to spend to make myself available for the winning trades.

Putting on a trade

All you need to know is:

1. The odds are in your favor before you put on a trade.
2. How much it's going to cost to find out if the trade is going to work.
3. You don't need to know what's going to happen next to make money on that trade.

Don't add uncertainty

When you use "other" information, outside the parameters of your edge to decide whether you will take the trade, you are adding random variables to your trading regime. Adding random variables makes it extremely difficult, if not impossible, to determine what works and what doesn't.

"What is the truth?" The answer is, whatever works.

Developing a trader mindset

Three stages of development of a trader.

The first stage is the **mechanical** stage. In this stage, you:

1. Build the self-trust necessary to operate in an unlimited environment.
2. Learn to flawlessly execute a trading system.
3. Train your mind to think in probabilities (the five fundamental truths).
4. Create a strong, unshakeable belief in your consistency as a trader.

Subjective stage: you use anything you have ever learned about the nature of market movement to do whatever it is you want to do.

Intuitive stage: operate intuitively.

Trade your edge

1. Pick a market.
2. Choose a set of market variables that define an edge.
3. Trade Entry. The variables you use to define your edge have to be absolutely precise. The system has to be designed so that it does not require you to make any subjective decisions or judgments about whether your edge is present. If the market is aligned in a way that conforms with the rigid variables of your system, then you have a trade; if not, then you don't have a trade.
4. Stop-Loss Exit. Your methodology has to tell you exactly how much you need to risk to find out if the trade is going to work. Let the market structure determine

where this optimum point is, rather than using an arbitrary dollar amount that you are willing to risk on a trade.

5. Time Frame. Your trading methodology can be in any time frame that suits you, but all your entry and exit signals have to be based in the same time frame. The lowest-risk trade, with the highest probability of success, occurs when you are buying dips (support) in an up-trending market or selling rallies (resistance) in a down-trending market.

6. Taking Profits. Scale out of a winning position, eg take a third of my position off when I get four tics. Ideally, your risk-to-reward ratio should be at least 3: 1

7. Testing. Once you decide on a set of variables that conform to these specifications, you need to test them to see how well they work.