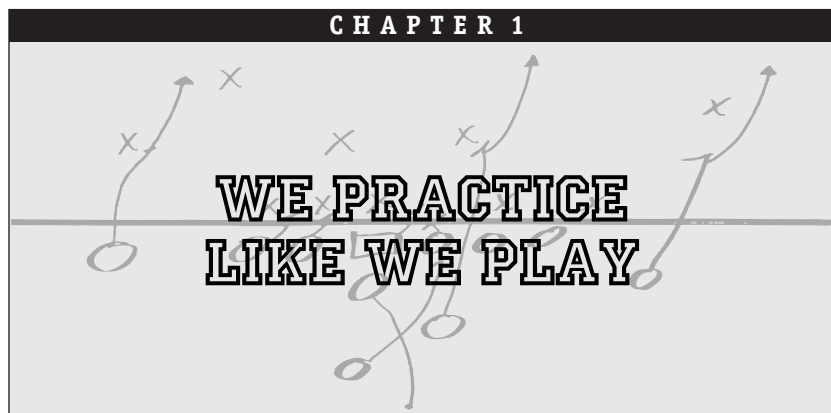


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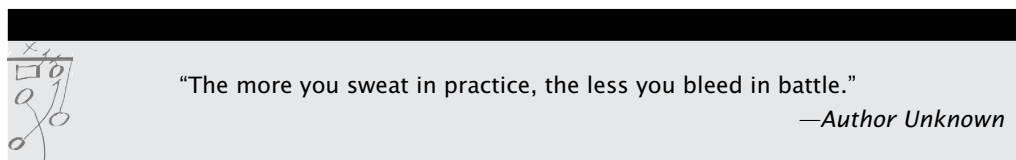
“When I was young, I never wanted to leave the court until I got things exactly correct. My dream was to become a pro.”

—Larry Bird, 3-time Most Valuable Player,
National Basketball Association

One day during football practice, I was goofing around instead of playing hard. After all, it was only practice. My coach pulled me aside. “Ed,” he said, “You have the potential to be a good player, but if you develop bad habits in practice you’re likely to carry those habits onto the playing field. When you practice, you have to practice like you play. Because in the end, when the pressure is on, you’re going to play the way you practiced.”

He was right. Normally, it was my job to catch passes while on offense and prevent receivers from catching the ball while on defense. During our next game, I found myself playing an unfamiliar position (defensive linebacker) due to a teammate’s injury.


We were in the heat of battle and the other team was advancing down the field, when I was suddenly caught out of position. At a crucial moment, I didn’t know what I was supposed to do and I wasn’t quite sure where I was supposed to be. If only I had paid closer attention in practice, perhaps I could have made the transition seamlessly. Instead, I found myself confused and out of position, and the opposing team scored as a result. I had let my teammates down due to my inattentiveness during practice.



Can you think of any great professional athlete who doesn't practice? Pro athletes spend many, many hours honing their craft. Basketball Hall of Famer Larry Bird was so proficient at making foul shots (his career average was .886, making him one of the most accurate ever from the foul line) that when he had to miss a shot on purpose (while filming a commercial), he found it difficult to fail. Bird had so conditioned himself to succeed through hours of practice that *it took him 10 attempts to succeed at missing the shot!*

What was it that made "Larry Legend" such a master at his craft? He did not possess an imposing physical presence; at 6 ft. 9 in., he wasn't a short man, but he wasn't tall by NBA standards (7-foot tall NBA basketball players are not uncommon). He couldn't jump very high and he wasn't particularly fast.

The key to Bird's success was this—nobody worked harder than Larry Bird. He was a perfectionist who would practice for hours. Bird was such a fanatic, he was even known to practice shots *with his eyes closed!* So what was it about him that made Larry Bird a winner? Better still, how would Bird himself *define* the term "winner"?



"A winner is someone who recognizes his God-given talents, works his tail off to develop them into skills, and uses these skills to accomplish his goals."
—Larry Bird

Just like Larry Bird, as well as every other great athlete, we also must condition ourselves to succeed through practice. Everyone reading this book needs to open a demo account. This goes for experienced traders too; any time you learn a new trading technique, you have to practice it in a demo account first. And when you trade in a demo account, I want you to treat it as if it were *all the money in the world*, because that's the way you're going to feel when you're trading in a live account.

I realize there are those who will say that demo trading doesn't help, that it doesn't feel the same as real trading. It doesn't *feel* the same because you're not *treating* it the same way that you treat real trading. Treat practice—in this case demo trading—as if it were real, and it will help your live trading. All the practice in the world will do you no good if you treat it like a joke. It's all in your head. We practice like we play.

A SERIES OF HABITS

Make a habit of doing things the right way. Trading is nothing but a series of habits, and if you form bad habits while practicing, those habits will resurface at the most inopportune moments. Practice good techniques and habits in the demo account, and when you find yourself in the heat of battle, you'll carry those good habits with you onto the Forex playing field.

If you are new to trading, you should trade a demo account for at least three months. When you open the account, you'll see that the demo will expire, usually after 30 days,

but don't worry—you can always open another demo account. A good rule of thumb would be for you to trade successfully for at least three months in a demo account before attempting to trade live.

This part is important—when I say “trade successfully,” that doesn't mean that you should place random trades or hold on to losing trades in the hope that they will become winners. That is not successful trading; in fact, if you are hanging on to losers, please understand that this could ultimately result in the demise of your account and the end of your trading career, because a person who does this will eventually hold a loser that will not come back. We will mention some hard-and-fast risk management rules during the course of this book, and those rules must never be broken.

RULES TO LIVE BY

Let's get some rules straight right now, so there is no doubt in your mind. In fact, you might want to write these down and stick them to your computer monitor, so that you'll never forget. Make it part of your routine to review these rules daily, and try to ingrain them into your thought process. Here are some rules to live by:

- Rule #1: Holding Losses Is Not Allowed
- Rule #2: Adding to Losses Is Not Allowed
- Rule #3: You Must Use a Stop on Every Trade
- Rule #4: Always Tighten Stops, Never Loosen Stops

Rules #1 through #3 seem fairly self-evident, but Rule #4 might require an explanation. In trading, when we say “tighten,” this means to move the stop closer to the current price, thus reducing risk. Whenever we move a stop, we must tighten it. This means that we raise a stop when we are in a long position, or we lower a stop when we are in a short position.

On the other hand, “loosening” a stop is prohibited, because it increases risk. An example of loosening would be to lower the stop on a long position, or to raise the stop on a short position. In either case, the risk is increased—so loosening a stop is considered unacceptable. Traders who loosen stops have a tendency to cease using them, thus opening the door to a huge and unrecoverable loss.

FROM THE MINORS TO THE MAJORS



“Practice does not make perfect. Only perfect practice makes perfect.”

—Vince Lombardi, Pro Football Hall of Fame Coach

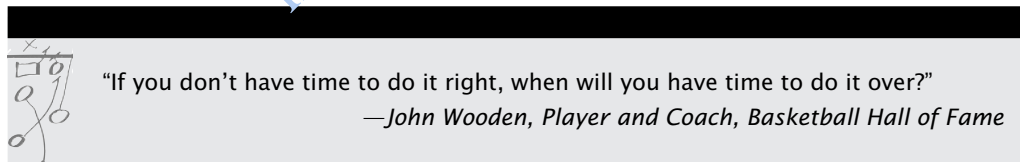
If you can trade successfully for at least three consecutive months in a demo account, and if you are doing everything correctly (notice that I didn't say "if you feel confident"; confidence can be a wonderful thing, but confidence alone will not make you into a winning trader), then feel free to progress to live trading. My recommendation is that your first live account should be a "micro" account, one that allows you to trade live, but at the same time allows for little risk.

Trading in a micro account is the equivalent of playing "penny poker." It's a real game with real money, but it's difficult (but not impossible) to get hurt when you're trading EUR/USD for 10 cents per pip. If you continue to trade well in your micro account, move up to a "mini" account, one where EUR/USD has a value of \$1 per pip.

Think of this progression as you would consider an athlete rising through a minor league system; for example, before making it to the "big leagues," a baseball player must advance through level A, then level AA, and finally the highest minor league level, AAA. Think of demo trading as level A, micro trading as level AA, and mini trading as level AAA. If you can proceed successfully through these levels, spending at least three months trading successfully at each level, you just might be ready for the major leagues—in this case, a standard account (one in which EUR/USD has a pip value of \$10).

By now, these questions might be on your mind: "How long will it take to learn how to trade?" or "How long will it take me to progress to the top level of trading?" The answer really depends upon the individual. We have laid the groundwork for your rise through the minor league ranks, but everyone learns at their own pace, so if you're not ready to advance, be patient. After all, how long does it take to learn how to play the piano, or to ice skate? The answer depends on the student and their level of motivation.

Try not to worry about the length of time involved; instead, focus on doing things correctly. The market will still be there when you're ready. If you do things the right way, you'll get there faster.



There is also a question of aptitude; we have all heard of the player who would've been great, except for a flaw in his game that he just couldn't seem to correct. Think of the tennis pro who could've won Wimbledon but for her weak first serve, or the baseball player who couldn't make it in the majors because he never learned to hit a curveball.

In similar fashion, traders have to work the flaws out of their game. Some people take to trading quickly, and others may never get the hang of it. Try not to worry about how long it takes to become a good trader; instead, concern yourself with mastering the

skills and perfecting the processes of trading. When you have accomplished this, you will be a good trader. First comes the work, and then come the rewards.

MONEY ON MY MIND

I frequently hear the question, “How much money will I make?” When we ask this question, we are looking at trading in the wrong way. Try to think of it this way: You are not trying to “make money,” but instead you are trying to master a process.



“An athlete cannot run with money in his pockets. He must run with hope in his heart and dreams in his head.”

—*Emil Zatopek, Runner, Olympic Gold Medalist*

Ask yourself this question: What does a concert pianist focus on when he is practicing? Most likely, he is concerned with the task at hand—“Are my dynamics correct? Am I hitting the keys too hard or too soft?” What does a brilliant hockey player like Alexander Ovechkin think about when he is blazing a path around the other team’s defense and toward the net? I sincerely doubt that Alex the Great is thinking about money; he is probably calculating how sharply he can turn on his skates at his current speed without losing an edge. When Michelangelo applied his artistry to the ceiling of the Sistine Chapel, I somehow doubt that he was calculating his hourly pay for the project.



“When I go out on the ice, I just think about my skating. I forget it is a competition.”


—*Katarina Witt, Figure Skater, Olympic Gold Medalist*

Anyone who does excellent work of any kind is probably focused on that work alone, and when the mind begins to wander toward the payoff, the work is likely to suffer. Focus instead on excellence, on performing the task flawlessly, and the money will follow.

I know this might sound crazy, but try not to think about money while you are trading. Money is an emotional topic, and when we think about money while trading, it tends to cloud our judgment. Our minds wander toward the things we could buy with that money, and away from the task at hand.

So, whether you are practicing in a demo account or trading in a live account, try thinking in terms of playing a game, as opposed to trading for money. You are playing a game, and the object is to collect points or pips. This might help to protect you from the emotional ramifications of thinking about money while you are trading.

Finally, whether you are practicing or playing, you must acquire an attitude of persistence. Consider the following quote, attributed to a heavyweight boxing champion.




“Fight one more round. When your feet are so tired that you have to shuffle back to the center of the ring, fight one more round. When your arms are so tired that you can hardly lift your hands to come on guard, fight one more round. When your nose is bleeding and your eyes are black and you are so tired that you wish your opponent would crack you one on the jaw and put you to sleep, fight one more round—remembering that the man who always fights one more round is never whipped.”

—James J. “Gentleman Jim” Corbett, *Heavyweight Boxing Champ*

It’s just like my American football coach always used to say, “We practice like we play.” This means that, even though it’s only practice, you run until your lungs feel they are about to burst—and then run harder. Even though that guy on the other side of the line of scrimmage is your good friend, you are going to hit him as hard as you possibly can on the next play. In other words, play like you mean it.

In the heat of battle, when you must react in a split second and have no time to think, your reaction will depend on the habits you’ve formed. The habits we take with us onto the field of play are created on the practice field. But winning doesn’t take place when we step on to the field; we win or lose long before we press the key and place the trade. We win or lose based on our preparation for the game, or for the trade. In closing, consider the following statement from a book that has been lionized by traders for decades:



“The victorious strategist only seeks battle after victory has been won; whereas he who is destined to defeat first fights and afterwards looks for victory.”

—Sun Tzu, *from The Art of War*