

## Trader, Trading & Risk Psychology

5 things you should know about trading psychology - By Brett Steenbarger (Apologies to Brett, but in order to paste the article within the word limit, I have had to abridge).

The overlap between trading and psychology is complex. Psychological factors, such as performance anxiety, can interfere with clear-headed decision-making about markets.

Similarly, poor trading practices--such as taking on too much risk with excessive size--can magnify the normal stresses of the marketplace. Sometimes it is difficult to separate chicken and egg. Many traders put their money at risk without a demonstrable edge. It is difficult to imagine such trading \*not\* generating frustration over time.

Other traders ground themselves in solid methods, but these may not fit their talents, skills, or personalities. A very short-term, aggressive method of scalping markets, for instance, may work fine on paper, but prove completely unworkable--and stressful--for a highly analytical, risk-averse trader.

Sometimes, however, trading psychology problems have nothing to do with trading. They are the results of pre-existing problems that will not be solved by different trading methods. Nor will they go away with simple coaching advice to control emotions and build discipline. If you have considered getting help for trading psychology concerns, here are five things you should know before deciding upon the kind of help that is right for you:

1) Psychological problems are more prevalent in the population than most people realize - The prevalence of clinically significant depression in the population is about 5-6%. There is a similar prevalence among such anxiety disorders as phobias, obsessive-compulsive disorder, and generalized anxiety. There is a prevalence rate of over 5% for substance use disorders; 1% for bipolar disorder; 2-3% for eating disorders; and 1% for post-traumatic stress disorder. That suggests that well over one in ten people--including over one in ten traders--has a diagnosable emotional disorder at any point in time.

2) Psychological problems can benefit from therapy whereby people can improve their functioning. Some problems benefit more than others from therapy or require longer-term treatment. Many anxiety problems, for instance, can be successfully aided with brief

therapies. Other problems, such as major depressive disorder and substance use problems, have higher rates of relapse and may require more extended assistance.

3) Psychological problems can benefit from medications - Medications for depression and many forms of anxiety, can be quite helpful in situations where symptoms are so debilitating that it is difficult to fully engage in therapy and/or where symptoms are impairing functioning at home and work. There are some conditions, such as bipolar disorder and attention deficit hyperactivity disorder (ADHD), for which medications are typical treatments of choice. Some research for depression suggests that intervention is most effective when combining medications and therapy.

4) Some psychological problems can benefit from very brief therapy - In general, if a problem is not severe nor chronic it will probably be amenable to brief forms of therapy. This is particularly the case when problems are the result of situational life stresses. When problems are chronic--and especially when there is a family history of emotional disorders--it is much more likely that longer-term therapy and/or medication assistance will be needed.

5) Some psychological problems can result from purely medical/physiological causes - Fatigue, high blood sugar, or a host of other medical conditions can be mistaken for depression. Endocrine disorders may manifest as signs of anxiety or depression. There are seasonal forms of depression and depression related to hormonal changes in pregnancy and menstrual periods that have a purely medical basis. Many addictive problems have roots in underlying attention-deficit/hyperactivity and resulting loss of impulse control. Such conditions are not likely to go away with therapy alone and require competent medical evaluation.

-- Brett Steenbarger