Mastering Fear

J. Rande Howell on mastering fear for trading success.
As long as you underestimate the power of fear over thinking, it will cause you to sabotage even your best-laid plans.
The impact of fear on trading

Poised to pull the trigger on the trade, Carl held his breath and hesitated. A current of uncertainty swept him away into second guessing his decisions. Thoughts began to fire rapidly in his head: “Should I really take this one? What if I’m wrong? What if I lose again?” Carl’s confidence was melting like snow in a desert and being replaced by his fear of losing – again. “Should I push through my fear or should I back off this trade?” he asked, trying to gather his wits. He gazed into his screen to no avail. He tried to summon all the psychological tricks he had learned. But all he could hear was the continuing battle in his mind. And this was not the first time. It was déjà-vu. Reaching for antacid to calm his stomach, Carl realised that he had found himself in this situation all too many times. He missed the trade.

Taking the first step to being successful in your inner ‘game’ of trading involves several factors.

Thinking is emotional-state dependent

Why can’t people just push emotions aside and be emotionless? It is because body, brain, and emotions are inseparable. If you are breathing, you are experiencing emotion. Emotions dominate the way we think and perceive, whether we acknowledge them or not. Deeply rooted in human evolution, emotions (including fear and greed) enable us to survive. In the effort to become a successful trader, managing your emotional nature is far more profitable than attempting to ignore it, or being consumed by it.

All thinking is emotional-state dependent. Emotions are biological (not mental) – and they overwhelm thinking and states of mind. The way we think and reason comes from the emotional state, or mood, in which we live. Thinking does not create emotion, on a biological level. Rather, emotion determines our thinking and our perception of the world. Therefore, we push emotions aside to our detriment.

Can you see why learning to managing the biology of fear is so important to successful trading? Take a look at Carl’s situation. Everything seemed okay until Carl was ready to pull the trigger on a trade – the moment when money entered the game. Suddenly uncertainty and fear clouded his judgment, and his thinking was consumed by self-doubt. Carl had pushed his fear away from his awareness until the moment of commitment. Then fear flooded forth and ambushed him.

Not having the skills to deal with his fear, his emotional arousal generated his self-doubt and indecision. Depending on personal history and adaptation, other traders in Carl’s situation might have resorted to impulsiveness or false courage. The emotional ground from which behaviour arises is fear of loss. Often, traders jump impulsively into a trade decision to remove themselves (temporarily) from uncertainty. Others generate false courage in order to escape the fear of uncertainty.

Pushed by emotion, these personalised adaptations to fear divert us from trading our plan and sticking to methodology. Until we learn to regulate the fear our brain associates with uncertainty, our desire for a calm, dispassionate, impartial emotional state (essential for effective trading) is hijacked by our lack of the skills to deal with fear of loss.

Fear and the brain

The brain is organised around fear, the most primal of survival emotions. To the brain, any threat is a threat to life. Whether it is a sabre-tooth tiger flashing his six-inch canines at you or your fear of losing money, it is one and the same to the survival brain, which does not distinguish between biological fear (the sabre-tooth tiger) and psychological discomfort (the fear of losing money). Once the threat activates the emotion, fear sweeps away the capacity to think rationally and impartially – a capacity that is absolutely vital for trading effectively. Once triggered, the chemistry of fear is coursing in your body in 0.003 seconds, while your ability to react to the emotion takes more than 0.5 seconds. For effective trading, this is too late.

The trader, like Carl in the example, then finds himself in fear-based thinking (obsessive thoughts of self-doubt; focussing on negative outcomes; trying to make up for losses; and an urge to avoid the stressor). It is necessary to separate the biology from the psychology of fear.

Self-fulfilling prophecy

If well-intended psychological techniques are not grounded in emotional intelligence, they will fail. The biology of fear simply overwhelms the thinking process and creates a biological pattern based on the avoidance of fear. Carl has triggered a biologically wired pattern of avoidance based on fear.

The brain wires patterns of perception based on emotion. The patterns become so familiar that we do not see them. Yet, they are there – producing a self-fulfilling
prophecy. Once the brain creates the pattern, the pattern starts creating us. Carl’s fear now dominates his thinking and his expectations of the future. Out of this state of mind come his negative expectations of the future, his self-doubt, and his growing impulse to avoid further stressful thinking – a vicious cycle.

Managing this aspect of our biology is the first step to long-term success in trading.

**Stopping fear from taking over your thinking**

In a successful psychological plan for trading, the trader establishes a sense of calm authority before he begins to trade. He does so by managing his fear before it can contaminate his thinking. Imagine fear as a freight train. The first thing you want to do is stop it from getting a full head of steam. If it gets beyond that, the best thing to do is simply stop trading until the emotion has run its course through your body, brain, and mind.

However, it is better to learn to interrupt fear’s capacity to cloud your thinking before it causes problems in your trading. Fortunately, because fear is biological in its nature, it will have an individualised physical signature for each trader – which the trader can use to begin to manage his emotional state. That signature has several components, including a breathing style that supports fear and its escalation, and specific muscle tension. It is these two areas on which we will focus.

**An experiment**

The following is a greatly simplified process that can be developed into a skill. It is for illustration only and not intended to be a trick or tip that will change your trading in the short term. Think of a time you were trading when you experienced fear, stress, anxiety, or self-doubt. Focus on the memory. Build it up for a moment so you can feel the tension build in your body. Feel your mind begin to race. Build it up more. Notice what happens to your breathing. Now, while it is still fresh in your memory, write down how you were breathing and where the tension was concentrated in your body. Also write down your predictions of the future (or prediction of trading outcome) while you were afraid. All of these combined are your *individualised fear signature*. Now let’s learn how to disrupt it to accomplish more effective trading.

Most people find that they either hold their breath or breathe rapidly when they are afraid. This is part of the biology of the emotion and a barometer of your emotional state. These breathing styles fuel and accelerate the emotion’s momentum – like adding gasoline to a small fire. Tension in your neck and shoulders, gut, and chest is common, particularly when you are holding your breath. The breathing and the tension come from the physiology of fear.

However, you can disrupt fear and manufacture a calm state of mind from which to perceive the market impartially.

Let’s take the experiment a little further so you can see the difference in perception between a state of fear and a calm state of mind. This time you will use a diaphragmatic breathing technique as you bring the memory to mind.

Practice breathing diaphragmatically a few times and then bring the stressful memory back into your mind. Keep focusing on the memory and notice how easy it would be for the memory to influence your breathing. But continue slowly pulling air into your abdomen and then letting it expand into your upper chest. Stay focused on your breathing so that the memory does not activate the
fearful breathing style. Continue doing this for a few more moments.

What do you notice about your ability to manage the escalation of the emotional state and the resulting thoughts? Most people experience emotional regulation of the fear. They can feel the fear, but it never sweeps them away. After a few minutes, they are able to establish a calm state of mind.

From this calm state of mind, your perception of the market changes. Your decision-making processes change as you interrupt negative fear states and the thinking that comes from them, so, as you establish and maintain a calm state of mind you are better equipped to think impartially and objectively.

**Moving beyond the first step**

This aspect of emotional regulation is only one part of a successful psychological plan for trading. The calm state of mind is like a launching pad. Once you establish skills to regulate the biology of an emotion, your psychology is no longer being overwhelmed and new skill sets become possible.

This new skill, once developed, opens the door to increased realisation of your trading (and human) potential. It will not work by itself. It represents a way for you to recognise being afraid before fear sabotages your efforts, and to mechanically disrupt fear’s hold on your thinking. Then you can begin to learn how to call up emotional states such as calm impartiality and courage, to move into peak performance.

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