

Everything You Need To Know About Making Serious Money Trading The Financial Markets

Simon Watkins

SAMPLE

Greed And Fear

No matter how high-minded one might think oneself, the aforementioned two emotions are the prevailing ones in trading, and despite what Gordon Gekko (whose character, by the way, was reputedly based on an amalgam of one-time junk bond king Michael Milken and corporate raider, Ivan Boesky – both of whom went to prison for a while) said, greed is not good and neither is fear.

Greed manifests itself most palpably during bull trends, and the less experience/discipline one has, the more one succumbs to its ill-effects on trading strategy. In a bull trend, by definition, there are, in simple terms, more buyers than sellers: which is fine. The problem for the RT comes when he gets greedy for further profits (provided he is long) and decides to hold his position for that bit longer, just to capitalise on his good fortune. The logical outcome of this is that he will hold on to his position until such a point that the trade starts to reverse and go down. Unfortunately, particularly in FX, this turnaround can happen extremely quickly and all the more so if there is a significant presence of hedge fund money in the market (*see above Hedge Fund chart*).

At this point, the prevailing emotion is still greed, as the trader begins to fret that he has not taken all the profit he could, and waits for his position to go back up again to the point at which he could have sold out and taken profit about five minutes earlier. ‘Sod’s Law’ here is that, of course, it will continue to go down, at which point the RT’s prevailing emotion starts to change to fear. Fear that he cannot get out of his position except at lower levels, and greater fear as all his profit is wiped out and his position starts to go into the red.

And that neatly brings us on to the next bit, which, together with Effective Order Placement and solid Technical Analysis, should form the cornerstone to the overall strategy of not getting caught out in the vicissitudes of greed and fear that will ultimately destroy one’s trading account, not to mention one’s sanity.

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