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Lost in Loss

An email in response to my last article prompted me to consider the significance of taking responsibility in trading. There is a natural tendency for most people, in any area of life, to not take responsibility for results and behaviours that appear negative. We want to see ourselves in a good light and it is tempting to try to avoid responsibility for acts that we consider bad.

I have noticed for example, that liars (I mean here people who habitually lie) do not see themselves as liars. For every lie that they are conscious of, they have their justifications. In their mind the lie would have been to save someone else's embarrassment or disappointment; something that allows the liar to feel that not only they are not acting deceitfully, but they are actually doing a good and kind act.

I remember once a teacher at my junior school crudely picking some bit of stuck food out of his teeth. After he had finished he justified himself by saying to us (8 year olds) that he only did it because he knew that we had no table manners. We weren't judging him; he was judging himself and using us as his scapegoat.

What we resist persists

We all lie to some degree and I don't have a problem with that; what I do consider important is how we explain the lie to ourselves. When you lie are you honest with yourself about it, or do you make up a story to yourself so you don't feel guilty? It is a difficult question to answer, but one that will say a lot about your trading.

The most important, the most difficult, and the first skill that a trader must learn is to cut their losses quickly. It is essential (as we all have read many, many times); we only lose significant money by holding onto losing positions. So why do so many (perhaps all) of us find it so difficult? What is it about cutting a loss that is so hard? The answer, I believe, is in what we say to ourselves about what a loss means.

It is the meaning we attach to a loss that determines whether we can accept it and let it go; or whether we refuse to accept it and in so doing hold on to it. What we resist persists. If a loss means something bad about you; if it means you're a loser, or a failure or just no good, or doomed to financial subsistence or whatever; then you won't be willing to accept it.

Too big

Take it to an extreme, if it was a life or death matter, if you were going to be beheaded if you have a losing trade; you would never, ever, accept the loss, you would hold on for ever and as soon as the position was 1 point in profit, you would grab it immediately! Isn't that how many of us trade now? If so, ask yourself what does a losing trade mean about you?

If a loss means something negative about us we won't want to accept it, this is human nature. We would rather hold on as long as we can and then, when we inevitably have to take the loss because it is now too big; too big to hide, too big to ignore, too big to refuse to accept; we look for our scapegoat.

The 'they' of the market: the controllers, the insiders, the manipulators, or even the market itself; anything but to take the judgement that the loss implies. The objective of our self-deceit is to avoid the judgement that the loss imposes. In the same way that the teacher condemned the school children in order to avoid the judgement about his manners, so do we look to shift the blame to some third party.

Significance of loss

The problem here lies, not with our self-deceit, but with the meaning that we attach to having a loss. If a loss means something negative, of course we don't want to accept it; but if a loss had no significance to us, accepting it would be easy.

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