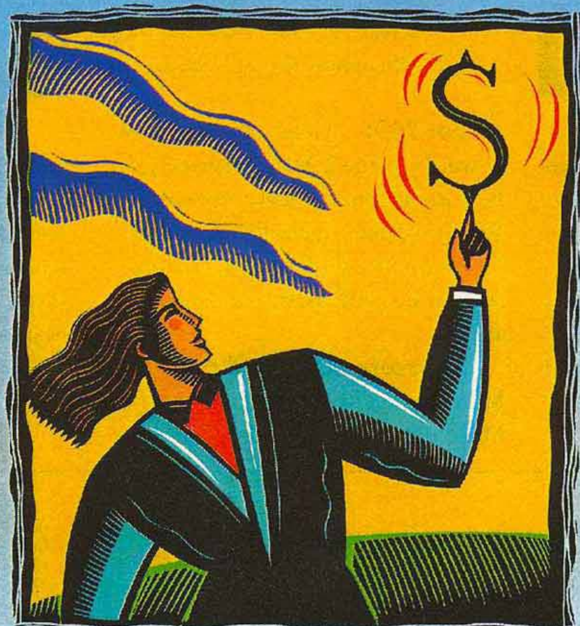
By GREGG HUNT

# Get Street Smart

## The first lesson of trading is learning what not to do



**To learn how to trade** or market anything, you must first understand what not to do. Emotion plays an important role in making sound decisions. Hope and fear, two of the most misunderstood emotions, tie the hands of marketers lost in "the crowd"—those who keep repeating their mistakes.

"The crowd" approaches marketing the wrong way. They rely on hope when riding losers and falter to fear when riding a winner. For anyone involved in trading, overcoming hope and fear requires monumental effort.

When you're in a losing deal, it's only natural to have hope that some miraculous event will turn a loss to a profit. After years of trading, I still have this voice inside me that every so often says: "Please let this trade work and I promise to never do it again." It's the kiss of death. I know that if I don't get out of the deal ASAP I'm in real trouble.

This is where fear can be an asset. If you keep doing the right thing, the money will come. Losses are painful to absorb, but a great relief overcomes me once I'm able to cut bait and move on.

Focusing on the loser can lead to another common pitfall—overlooking a great trade. The money will come if you are able to leave the loser behind—walk away from the emotional hope—and utilize reality-based hope when riding a winner. That's where the real challenge begins.

**Market messages**. It's important never to have a concept of how high is high or how low is low. A professional trader has no target price—the market tells him the high or the low.

The hardest thing to do in trading is to ride a winner. When a trade is working well and suddenly corrects, it's easy for the loss realized—and the fear of even greater losses—to blind you to the message the market is sending. Losing money clouds judgment and drives you out before the market resumes its upward trend.

Losing on a lead is another common mistake. Anxious for a quick profit, most traders move too soon on future leads. By giving into fear and not reading the market messages, they lose the opportunity to catch any big move.

On winning trades, having hope that the market continues its trend is crucial. Remember, we are focusing on the psychological aspects of this complicated equation we call marketing. Fundamental and technical factors are critical components in determining the line of least resistance—better known as "the trend." This foundation supports a marketer on winning trades.

Buy low, sell high is the motto of "the crowd." Buying strength, selling weakness with no concept of true highs and lows is the path to take when trading the line of least resistance—i.e., trading on the messages of the market rather than on the emotions of hope and fear.

Trends are only strengthened when "the crowd" interprets "buy low, sell high" as picking tops and bottoms. Any market will have a high or low. It's the multiple false levels that will become your friend. Listening to the messages of the market will help you readily identify thosee false levels. WM

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