

# The Little Book of Trading Wisdom

175 things you should know  
about trading before you start

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# INTRODUCTION

Trading is a difficult business, there's no doubt about it. It is, perhaps, one of the most demanding ways to earn a living although many traders manage to do so. What is it, then, that makes one trader successful while many others fail? The following five words provide clues: discipline, focus, intelligence, information and courage. A successful trader needs to exert a high level of discipline by sticking with his winning trades and cutting his losing trades quickly. In addition the trader must be solely focused on the market, quick to pick up subtle changes in price momentum and volatility while deploying sensible, profitable trading strategies that repeat successful behaviour. The successful trader must also make good use of the right sources of information in order to make intelligent trading decisions and, in the face of adversity, must show courage to stay with his or her trading ideas.

What knowledge, then, do successful traders have that other less successful traders don't? The answer is wisdom from many years of making mistakes, learning from them and adapting strategy to be more profitable. The Little Book of Trading Wisdom condenses this valuable trading knowledge and experience built up by traders across the world over many years into one small book. No one source currently provides such information and more can, no doubt, be added. It is up to the trader to find his or her own clues. The Little Book of Trading Wisdom helps to start the ball rolling. It may only be a few pages long but, as you will see, it speaks volumes.

Incorporate the wisdom in this book into your trading day and you will see results.

Good luck and happy trading!

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# 175 THINGS YOU SHOULD KNOW ABOUT TRADING BEFORE YOU START

1. The market is always right
2. The market does not owe you a living
3. Risk no more than 10% -20% of your equity on each individual trade
4. If you have three bad opening trades, take yourself out of the market for the day
5. Rumour is the stepchild of real news
6. Market wisdom can be learned but never ignored
7. A trader's job is to take risk; it's part of doing business
8. Never place a trade just for the sake of it
9. You can lose 100% of the time as a trader, but you rarely win 100%
10. Higher risk, higher chance of large profits; and larger losses
11. Abandon 'hope'
12. The market is only a game
13. Don't over trade
14. Don't under trade
15. When you can, follow the trend
16. Longer term the market is always bullish
17. Don't let good profits turn into bad losses
18. Be careful of using stops; the market knows they are there
19. If you can, enter passively; close aggressively
20. Always close a trade decisively; don't wait for the market to help you
21. Treat other's market commentary with caution
22. Don't follow tips; they are likely to be second-hand
23. If a trader gives you a tip, he's hoping you will help him to sell his stock
24. Listen to what the market is telling you
25. Listen carefully; markets often whisper
26. Don't be afraid to take a profit; be afraid of losses
27. Don't average a loser; pyramid a winner
28. Take big profits and small losses
29. Treat profits and losses with equal disdain
30. Don't buy a stock just because you think it is cheap; don't sell a stock because you think it is too expensive
31. Run your winners, cut your losers
32. Good money will never come easily; easy money will never stay with you for good
33. Don't trade until three out of five of your safety checks are true
34. Back your conviction if you have made all of your checks
35. Understand the market condition and then trade
36. There is a time to speculate and a time to walk away; know each implicitly
37. Run with the herd but leave before they exit
38. If you win three times in a row halve your trade size for the fourth trade
39. Don't trade too many markets at the same time
40. Don't trade more than three stocks at the same time
41. Buy the rumour; sell the news
42. Timing is everything
43. You will never make quick money for long
44. Expect to lose; it's the cost of doing business
45. Someone, somewhere is watching how you trade
46. There's nothing new in trading

47. The more you lose, the smaller your trades should be
48. When you're winning, trade like a winner
49. Don't follow the guy next to you; he'll be out before you are in
50. Be jealous of your capital; guard it carefully
51. Never hedge when you should be out of the market
52. Keep your tyres to the road or you will travel nowhere
53. Trading can appear to be deceptively easy; don't believe it
54. Keep in good health; sleep well
55. Never trade when you are drunk; the market loves a drinker
56. Don't expect to win every day
57. Be ready to modify your approach; the market is like a river with tides and currents
58. If you are right, back your trades with all your conviction
59. Expect only five trades a year to make you ten times your average daily profit; these are the Alpha trades; always anticipate them
60. A good trade feels good from the start; a bad trade, bad.
61. Learn to recognize the other participants in your market; they leave footprints like you
62. Set an exit point but be prepared to extend it; never let your profit fall below it however
63. Think like a human; trade like a machine
64. Big moves, like storms, take time to develop although the sky darkens and the rain falls sometime before they hit
65. Know when to take a loss
66. Losing trades have a habit of sticking together; winners tend to like their own company
67. The market loves a big mouthed sucker
68. Don't bring 'home' into work with you
69. If the market starts to bore you, it's time for a holiday
70. Make sure you are sitting at your desk at least 20 minutes before the market opens
71. If you are late for the open, don't trade until you have spent at least an hour catching up
72. Pairs trades are as risky as outright long or short positions
73. Don't get mad at the market; it doesn't care
74. Know your trading technology
75. Don't accept what you don't understand
76. Respect the market; it has survived longer than any trader
77. You can make money through luck, but not every day
78. Use charts to confirm a move; but don't rely on them for making decisions
79. Know how to recognize and follow the smart money
80. Understand who moves your market
81. Traders rarely move markets unless they should not be trading
82. Never put your stops on or next to a big number; e.g 5000
83. Only use a buy/sell stop to get into a position when the market is gathering directional momentum
84. Put in the ground work, study your information sources and revisit your trades
85. New traders who don't live and breathe the markets will be claiming social security benefits within twelve weeks of starting
86. If a new trader lives and breathes the markets, he will make money within three months
87. Don't sit on the 'Simulated trading market' for longer than three weeks; it will take six weeks to unlearn it
88. Be passionate about trading, or leave
89. If you arrive at your desk after the market opens, don't expect to make money in the first half an hour other than by luck
90. If you leave before the market close, don't expect to know how it may open

91. Smoking can kill your trading; cigarette breaks will render 12.5% of your trading day useless;
92. Missing 1 hour of the live market a day for cigarette breaks can mean missing a year of trading over an eight year period.
93. If you don't drink and drive, why drink and trade? Both are equally hazardous for your (and other people's) health.
94. A lot happens when you're not watching
95. A trader who reads through his daily trading log at the end of the trading session relives the market again; he doubles his experience of the market compared to those who do not, and makes money twice as quickly
96. If a trader does not review his market activity at the end of every day, it will take him twice as long to reach the standard of one that does.
97. Drink plenty of fluids; hydration will mean better cognitive functions
98. Never trade when you are hungry or tired; you can be distracted by strong natural urges
99. You can forget, ignore or renounce your trading performance, but you can't hide it
100. Don't treat the market like an intellectual challenge; it's not a conundrum
101. Theorists are theorists because they aren't traders; good traders are rarely theorists because they rely on fact and knowledge
102. The market is different but nearly the same, one day to the next
103. Common sense does play a part in markets; normally after they are closed.
104. Markets confound
105. Even the best trading strategy has a flaw; 9 times out of 10 that flaw is unknown until it's too late
106. The big players can be wrong; but they have a softer cushion to hide it under
107. Don't take the big boys on; there's nothing they like better than a loaded dog-fight
108. Pride will ruin you; humility will quietly support you
109. A trading idea has a limited lifespan; like an option, it runs out of theta
110. A trade will have its moment; when that moment is over, kill it
111. Look for confirmation in three places before committing to a large trade
112. Keep a journal of your past successes and failures; you never know when the same conditions may arise
113. Don't trust a sudden uptrend in a bear market; it can change direction in an instant
114. Sometimes markets are so strong you have to go with them
115. If you have a long term winning trade, don't wait until the last moment to take your profit; exit swiftly and leave a little of your profit for the market
116. A charting average is of little value to anyone
117. If you can't make money from the best trading stocks of the day, then you should not be trading
118. Watch out for the wrong turn; the market leads many a trader down a dead end
119. Time wasted trading the wrong stock will ruin your chances of picking the right stock in the short term
120. If a stock has had a significant positive run, don't be surprised if it gets tired
121. If you place a trade for certain reasons and those reasons don't change, don't cancel your trade
122. There is no such thing as a good long-term investment; conditions always change, and when they do, a good long-term investment can fall 99% in value
123. Investors are bigger gamblers than speculators; they expect their

- investments to take care of themselves
124. When in doubt, don't trade
  125. Don't trade when you sense danger; if you are wrong, you can always get back in
  126. Hesitation will ruin you; impatience, destroy you
  127. Successful trading relies on a correctly timed and weighted response to opportunity
  128. Listen to your instinct; you will know when you are wrong
  129. Never make speculation a part-time hobby unless you are happy to donate funds to the professionals
  130. Speculation can be fun for those that don't take it seriously; however, it will never be rewarding
  131. If you are serious about trading, make it your full-time focus; you wouldn't expect a successful surgeon to learn his trade part-time
  132. If your broker sends you a margin call, close your trade; it's a bad one
  133. If you have made a good trading decision you are likely to show a profit from the start
  134. Look, listen and learn; there are clues everywhere.
  135. Try and learn something new about trading every day.
  136. Seek out and use the best sources of information
  137. If the best sources of information cost you, pay; they will pay for themselves 100 times over
  138. Don't let trade costs interfere with your trading decisions
  139. Don't let small losses create big problems
  140. When you have taken a good profit, be satisfied; never re-enter the market to better it
  141. Don't try and justify your losing trades to others; they are not criticizing you for them
  142. Don't brag about winning trades; it will sound like you don't have that many
  143. Be judge and jury on your own trades but spare yourself the gallows
  144. Give yourself a break; work with yourself rather than beat yourself up over losses
  145. Self criticism is meant to be constructive; be kind; after all, you have yourself to live with
  146. Personal victories are the best
  147. Take time to practice; top class athletes do not race everyday
  148. Create a trading plan for every market condition
  149. Build a toolbox of trading strategies
  150. Think successful thoughts when you do think about trading
  151. Commit fully; or gradually fail
  152. Skilful traders get their reputation from the market's storms and tempests
  153. Trading is psychology; yours and everyone else's
  154. Ask yourself a question before you sleep; the morning will have your answer
  155. The mark of a good trader is how he deals with his losses
  156. Traders must get used to making decisions with incomplete information
  157. Like nature, there are no straight lines in markets
  158. If you double your money, draw half of your profit and place it in reserve (Jesse Livermore)
  159. Trading is a performance discipline that responds directly to training
  160. Trading performance is influenced by the methods a trader uses to learn
  161. Training translates trading talent into skills(Brett Steenbarger)
  162. Winning in trading demands sustaining enhanced learning processes

163. Trading success in the present so rarely ensures future success
164. Traders experience emotional conflict when they depart from their trading plans
165. A trader will only improve if he pushes himself into uncomfortable territory
166. The trading day does not stop when the market closes
167. Good traders don't accept defeat lightly
168. Good losers usually lose (Vince Lombardi)
169. Practice is the cornerstone of expertise because it multiplies experience
170. The tape never lies (Jesse Livermore)
171. Be patient; the right moment to trade will arrive sooner than you think
172. There is always a signal at the start of any race; learn the signals
173. An important market move will not end in a day (Jesse Livermore)
174. Never buy more than you can easily sell back to the market
175. Risk the profits not the losses