

GUIDE TO KEEPING AN EFFECTIVE TRADING JOURNAL

A Powerful Aid to Learning, Improving, and Developing Success
as a Trader and Portfolio Manager



‘A Trader’s Journals: One of the most powerful tools to learning, improving and maintaining success as a trader’.

‘It is not the mountain we conquer but ourselves.’ – Sir Edmund Hillary.

Introduction

The objective of a well-maintained trader’s journal, used in a constructive and diligent manner, is to power one’s trading to a higher level by helping to develop a more structured and rigorous approach to trading, to build confidence and self-belief, and to help win the emotional battle one faces with themself.

In addition, the journal can become a focus for ‘continual learning and development’ of a person’s level of **‘risk intelligence’**.

Some of the many benefits of maintaining a ‘Trader’s Journal’.

- Builds ‘Risk Intelligence’: A special kind of intelligence for thinking about risk and uncertainty.
- Behavioural tool which aids discipline and focus.
- Planning tool to facilitate ‘pre-commitment’ and ‘proactiveness’.
- Facilitates building of improved trader confidence and self-belief.
- An aid to improved money/risk and trade management.
- The process encourages ‘Critical Thinking’ and new perspectives on markets/price action.
- Assist development of enhanced ‘emotional’ regulation and management.
- Helps to develop and build greater resilience.
- Establishes and cultivates improved trading practices.
- Identifying habitual behaviours and negative biases which obstruct clear thinking.
- Foster improved ‘Critical Thinking’ and reflection on one’s practices.
- Cathartic tool: Helps purge oneself of negative thoughts/emotions.
- Grounding tool: Helping traders remain grounded: Reminds and refreshes.
- Identify and build upon working strengths and isolate weaknesses.
- Personal Development Tool; Increase self-awareness.
- Help identify challenges, set goals, and track progress.
- A tool for reinforcing positive feedback/breaking negative cycles.

“While most others seem to believe that mistakes are bad things, I believe mistakes are good things because I believe that most learning comes via making mistakes and reflecting on them.” – Ray Dalio: Founder of Bridgewater Associates, rated by the FT as the world’s most successful hedge fund manager.

Using a Journal to Develop Yourself as A Trader:

A trading journal can help a trader in many ways, from supporting their growth and development to keeping them on track and in the right direction to move forward. The many uses of journal, as shown above are varied. Think of the journal as a guide to an individual to help them run their own trading business, even if they work at a bank or within a hedge fund, the trader should look at what they do from a business perspective. If they succeed, their business succeeds, if they fail to succeed, or if they fail outright, then their business, i.e. they suffer themselves.

A trader should thus look to use a trading journal to help them manage all aspects of their job, as a successful manager would run a business. Good businesses succeed because of planning, good and clear strategy, and careful management. The journal can help a trader in all these areas. Use it as a planning tool, use it to define strategy, modifying strategy as and when necessary, and executing it in an effectively and diligent manner. Use it to ensure the management in all areas one would not normally prioritise but which are vitally important to the ultimate success of the business: Often traders put most their effort into market-watching and trade-selection, however these are only a part of the story, below are other key activities one will need to engage in to ensure long-term and continued success:

- Trade management.
- Risk strategy,
- Risk management,
- Money management, Capital and Liquidity,
- Self-management,
- Gaining deeper market and product knowledge/understanding,
- Self-development
- Balance between work and non-work activities.

4 Cornerstones of Successful Trading.

Prudence: Risk and Money Management: To continue trading one must stay solvent and liquid, trading involves engaging in high levels of uncertainty where even the most well-considered and thought out of strategies can be undone by unknown and unforeseen events. Factor in the unexpected, develop a strong risk and money management capability, and make this a key part of your strategy.

Critical and Strategic Thinking: Steve Covey in his book 7 Habits of Highly Effective People talks about doing the important stuff as well as the urgent stuff. Critical and Strategic thinking come under important stuff. Even the most intelligent people turn off their brains when it comes to trading. Strategizing, planning, preparation, learning, developing, these are all vital aspects of success in trading that come under important but not urgent.

Daring and Creativity: This involves willingness to take risk and push yourself to and beyond your comfort zone. The willingness to do or try something different, the willingness to consider alternative perspectives and to look at new angles. One will never grow and develop if they do not expand beyond their comfort zone. One will never find new ideas and new ways of doing things if you repeat the same old patterns of behaviour.

Emotional Capability: Ability to use your emotions productively. The markets are full of clues, logic and reason will rarely reveal themselves until long after a move occurs. Ability to both manage emotions during these times and to read the markets emotional signals are key characteristics of successful traders.

Most people will be strong in at least one of these areas, and more than likely two of these areas. The more you can be strong in these key aspects, or can address weaknesses in these areas, the more likely one will be successful at trading.

Overcoming the Behavioural and Cognitive Challenges Faced by Traders

There are many behavioural and cognitive traps and hazards which are waiting to trip up traders: - One of the most powerful aspects of the journal is to help traders overcome these traps and hazards.

A well-kept and active journal can help a trader actively avoid the traps and overcome them when they do fall into them. It is useful to include in the journal an area which can remind one of these aspects. Being conscious and aware of the dangers and understanding how these dangers can affect one's work, and will help putting into practice behaviours which can forestall self-defeating behaviours and actions.

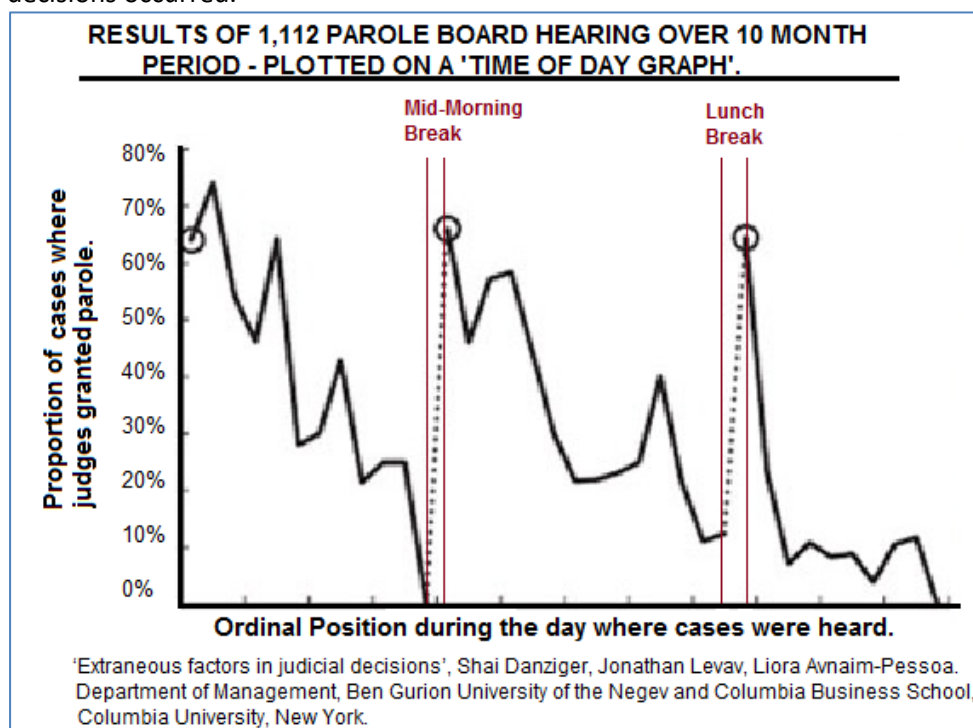
The following pages discuss some of the behavioural and cognitive traps and hazards waiting for traders and portfolio-managers.

Behavioural and Cognitive Challenges 1 Ego Depletion

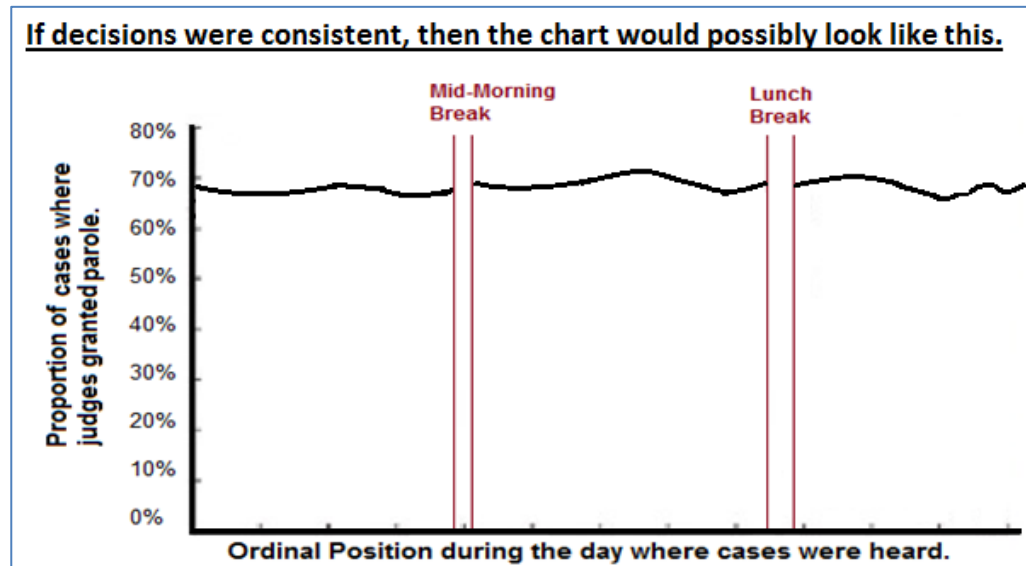
The biggest trap in my opinion waiting for traders is the mistaken belief and overconfidence in our own abilities. We believe that we are consistent in our ability to engage in and practice making good decisions and judgments, whereas all people's abilities in these areas are highly variable and limited, even the most successful traders. One of the differences however between the best and the rest however, is that the best know this.

'Ego Deletion' is the term used in psychology to describe the idea that the conscious faculties of the mind has a resource limit. Use of our conscious mind in activities such as self-control, problem-solving, and exercising willpower, draw upon a limited pool of mental resources that can be and do get used up. When the energy for mental activity is low, problem-solving abilities, decision-making, self-control capabilities are highly impaired.

Below is an example of some research which highlights an example of 'Ego Depletion'. The upper chart depicts the performance of a group of highly experienced judges making decisions about releasing prisoners on parole. The study involved 1,112 judicial rulings, collected over 50 days in a 10-month period. The research evaluated the decisions of eight judges presiding over two different parole boards that serve four major prisons. The outcomes of the decisions (proportion of cases where judges granted parole) were collated and represented on a chart which depicts the time of day when all the decisions occurred.



The above chart shows that the quality of the decision-making of the judges, decreased as the days progressed. With the exception of short-lived increases in the quality of the decisions after the two breaks. If human decision-making was consistent then the chart above should have looked something like the one below (See next page):



So, what is happening to cause this pattern of decisions?

First thing in the morning, and to a lesser degree immediately after breaks, the judge's decisions are well thought-out decisions based on objective data. This leads to enhanced subjectivity, largely free-from biases and other influences. However, as the day continues, the decisions are increasingly less considered and even lazy: Influences and unconscious biases are more likely to affect thinking, and consequently the judges start making 'default' decisions. The default decision in these cases was to deny parole. There is a biological reason for this: Human brains relies on glucose as the fuel for conscious effort, effective decision-making, problem-solving, judgment, resisting temptations, etc. However, people's stores of glucose are limited, they deplete with use, and though they can re-build through the day with food breaks and rest, these only temporarily restore glucose, the levels generally remain far lower levels than earlier in the day. Listed below are some of the key actions and activities which lead to ego depletion:

- Conscious-decision making.
- Problem-solving.
- Intense conscious mental activity.
- Conscious resistance of impulses and temptations.
- Exercising self-control/will-power.
- Working at intense levels of effort.
- Working in higher levels of complexity.
- Worrying/stressing: Relevant in high levels of risk and uncertainty.

How does this impact you as a trader or portfolio-manager?

As the day progresses, and to a degree as the week progresses, particularly aided by insufficient sleep, suffering from illness, activities which undermine your cognitive functioning such as alcohol, bad diet, etc. Some of the following effects may start to occur with more regularity:

Sub-par trading decisions.

- Knee-jerk impulse trades.
- More impatience; anticipate breaks/stops.
- Less discipline; susceptibility to boredom trades/ inability to resist self-defeating behaviours and attitudes.
- More likely to fall victim to basic thinking, biases, following the crowd.
- More responsive to fear, more likely to execute fear based decisions.
- Less able to exert self-control in trading.
- Less resilience to stress and anxiety.
- Procrastination.
- Seeking perfectionism.
- Tardy and lazy analysis.
- Lower conscientiousness around managing risks.
- Lower ability to effectively manage situations, people, self.
- Prioritizing less energetic and less important tasks/activities.
- Greater propensity for unethical decisions.
- Poor social behaviours.
- More likely to engage in social/relationship conflict.
- Poor time management.

The list could go on, but I think you get the picture.

What can you do to help yourself?

Firstly, understand that not all activity is affected by 'Ego Depletion', there are certain types of cognition and behaviour where the impact is far less. These include behaviours and actions which rely less on the conscious aspects of the mind, and more on the unconscious mind, these include:

- Intuition and Instinct: Intuitive and instinctive decisions, as opposed to impulsive decision-making, are more likely to be the result of experience, knowledge, planning, clarity of mind, lower anxiety levels, high levels of confidence, and optimism.
- Habitual behaviours and attitudes: Habits are akin to pre-programmed behaviours and reactions and entail high levels of unconscious thinking.
- Flow-States 'Being in the Zone': A state of mind where one works seamlessly and effortlessly. This happens at an unconscious level, and though many people experience this very occasionally, high performers are more able to get into this optimal state of mind.

Aiming to foster and cultivate these unconscious capabilities should be the aim of all traders, however there is no fast-track approach to achieving that. In the meantime, one should aim to factor in courses of actions/behaviours which will assist them in counteracting some of the negative effects of Ego Depletion, and that will help them move towards developing and growing their levels of competence, such that they do achieve the states and capabilities mentioned above. The journal is a great way of supporting this process.

Some of the Courses of Action/Behaviour traders could adopt to increase their capabilities.

- Plan Actions, activities, trades, what-if scenario planning: Do this early in the day, and perhaps weekly.
- Time-management practices.
- Goal and objective setting.
- Priority and to-do lists.
- Adopt a 'less is more approach': Less quantity more quality/Less complexity more simplicity.
- Try and reduce or limit late day or late morning trading.
- Sleep on the big decisions.

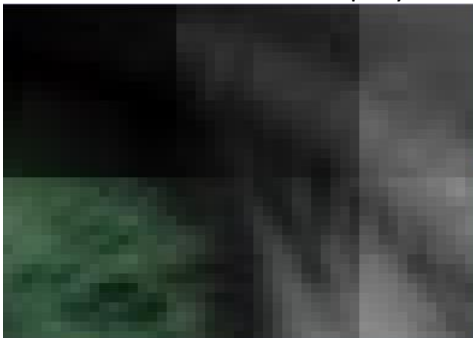
- Use of Trading Insurance Methods: This could be in the form of stops exit and entry, limit orders, options, placing a call request, reducing positions size around high-risk events/uncertainty.
- Use of planning and management tools: Journals, Diaries, Spreadsheets. CRM systems (Sales).
- Try and develop new and beneficial habits. (The irony, is habits take effort and many repetitive actions over many months, in the process deleting ego, but the payoff is highly beneficial).
- Practice activities which de-stress and help regain and direct focus: Sport, Gym, Running/Jogging, Walking, Mindfulness, Yoga, Healthy-Eating, etc.
- Take time-outs, walk away from the screen.
- Engage in conversations away from screen.
- Plan thinking time and space away from the screen.
- Use of reminders and alerts, visible reminders/phone and screen alerts.
- Regular use of coaching/mentoring from an internal coach, colleague, external coach.

Behavioural and Cognitive Challenges 2: Cognitive Limitations.

Micro Focus at the expense of Macro Focus.

Too often people get caught up in the minutia of trading at the expense of ensuring one sees the bigger/macro picture.

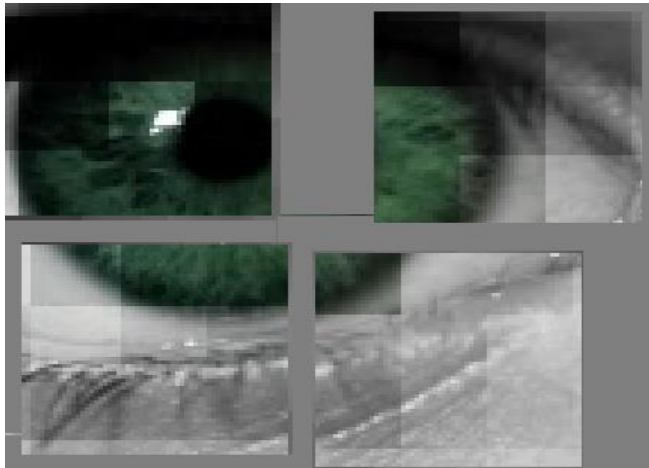
In the top photo below, we have an image of an eye, however this is a close-up of a small section of the picture. This is representative of what happens when too much focus is spent looking at the micro picture and ignoring the bigger picture. You see lots of detail in close up, but you miss out on lots more detail too. In fact in this example you would struggle to know what it is you are really looking at.



If however you zoom out, then you start to see the whole picture, not just the pixels.



Or alternatively if you look at the micro level from different perspectives. This also helps one to piece together a bigger and clearer picture. (See example below)



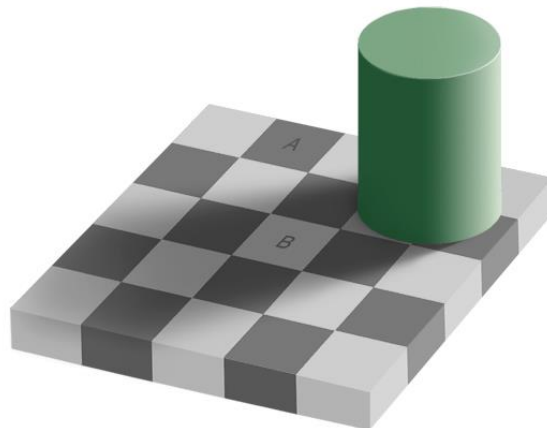
This example has many connotations when it comes to how you work. There is far more to the picture than just what you initially see.

Behavioural and Cognitive Challenges 2: Cognitive Limitations (Continued).

What you see, is NOT always what you get.

To illustrate this point, it will be useful to understand a little more about how the mind works, with some examples.

Look at the following image. The two squares marked A and B are identical in colour and shade. Yet I am almost certain you will not see them that way. Even when you consciously know and accept they are the same colour, your eyes (though in reality your brain), will continue to tell you that they are not. [For the sake of your sanity, turn to Appendix at the back, where you can indeed see that they are the same.]



Next: Read the sentence from a well-known phrase which appears in the following blue-triangle.



Some people, particularly those with a less than perfect understanding of the syntax of the English-Language, perhaps some dyslexics, and the occasional very astute individual may have spotted the obvious error. However most people will have happily read it as 'A BIRD IN THE BUSH'. - Try it again, but this time cover up the word 'THE', I am quite certain you will still read it the same. – Now hopefully you see it; the word 'THE' appears twice in the sentence.

What happens, in both the above cases, is that the mind takes the image your eye sees, and makes it fit into a cohesive story based-off your past experiences and memories. The mind also does this in how we see and engage with markets; price-action, charts, data, events, the news, your mind will try and fit these into patterns which we are familiar with, or even that you will want it to see, and as it such will blind you from seeing the real picture. It certainly puts a new spin on the wise advice, 'Trade what you see, not what you think you see'.

The above examples hopefully demonstrate why it is so vital to be robust, thorough and self-aware in one's trading activities. Successful traders try and see things from alternative angles, they question what they see, seek out alternative views and perspectives, and above all are prepared to accept that they have limitations, they will not always be right. The journal should be considered as a tool that used well is part of the process of raising one's self-awareness.

Behavioural and Cognitive Challenges 3: More information is not better information.

'Less is More'

Read the following paragraph:

Too much, cuatoin, tardnig and alansyis can be as dmaagnig as too ltile. The phaonmneal pweor of the hmuon mnid, aoccdrnig to a rscheearch at Cmabrigde Uinervtisy, it deosn't mttar in waht oredr the ltteers in a wrod are, the olny iprmoatnt tihng is taht the frist and lsat ltteer be in the rghit pclae.

In the above example, we did not need every letter and every word in the right order, to get the message. In trading and fund-management, time, physical energy and mental energy are limited, (as we saw earlier in the section on ego-deletion). Markets can move fast, often leaving the slow and cautious trailing in its wake. 'Dotting every 'i' and crossing every 't', Over-Trading' and 'Over-analysis' can be as damaging to a portfolio-managers or traders long-term performance as too many short-term errors.

Over-Caution: While care and prudence are high on the agenda of any successful trader, being over-cautious can also be damaging, if one waits for the perfect entry, they will never get in, if they wait for the perfect exit they will never get out. Likewise if one waits for confirmation of a move or break every-time, or a high degree of confidence, then this is usually an opportunity cost, by the time you enter, much of the meat may have gone out of the market. Again there are caveats, one should never trade with abandon, that's usually the beginning of the end.

Over-trading: Apart from the fact that it is highly likely that many of these trades will be impulsive trades, and most impulsive trades are unsuccessful, too much trading squeezes out the other aspects which are part of trading and managing yourself. More importantly, one does not have a chance to stand back from the market and see the bigger picture. There are of course exceptions, market-makers running a highly active flow book will have to act like this, but they have the spread in their favour, they do not need to be pro-active to a strong a degree to make money, and they learn to master their art.

Over-analysis: Again, too much time spent on analysis can squeeze out some of the other aspects of the job which are required to be successful, however beyond this over-analyzing can be a precursor to excessive caution. It is very unlikely that one is ever going to see the whole picture that is the nature of

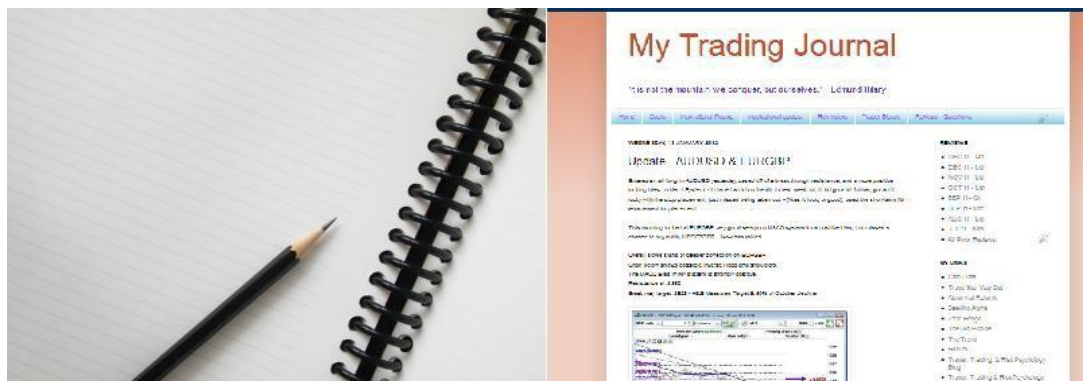
uncertainty. Some technical analysis cover their charts with multiple momentum studies and moving averages, however one momentum study tells the same picture as 5 momentum studies. Price alone will often tell one enough about momentum. Again, there are exceptions, very long-term macro traders and portfolio managers have the time to engage in-depth analysis, and some portfolio-managers will be supported by researchers and assistants to aid them.

Summing-up.

In the battle that traders face in the markets, it is essential that they maintain the most valuable of personal commodities; belief in themselves, confidence to succeed, and trust in their ability. Without these vital attributes, traders risk becoming 'sitting-ducks', their behaviour changes; they can become defensive, hesitate at crucial moments, trade nervously, and suffer from bouts of self-doubt. A trader's journal is a tool for greater self-awareness which through time can help you in the battle to overcome your 'self', and help lead to greater success as a trader. However, a journal is so much more than that, the journey to trading mastery is a long, tough and challenging journey, with many pitfalls, hazards and traps lurking. Some of these are external to the individual, but most of them lurk within each individual. I started with a quote by Sir Edmund Hillary, the conqueror of Mount Everest. He said "It is not the mountain we conquer but ourselves.'. In trading the quote could be re-written as, "It is not the market we conquer but ourselves.'

Keeping a Trader's Journal:

'Predicting rain doesn't count, buildings arks does'. - Warren Buffett.



Format – Written or Electronic Journal?

- Hand-written journal: Use a ring-binder note-book, or a diary. Hand written is often more constructive as it takes people into different thought patterns, can act as a visible reminder (assuming left in a visible place), and can be used for quick and easy notes.
- Computerized journals: Computerized journals offer more flexibility and may fit in with your lifestyle. Options include word/pages, private blogs, spreadsheet records, power-point, etc.
- A combination of both is the ideal: A notebook for thoughts, ideas and reflections, a spreadsheet for permanent trade idea record.

Journal Entries

'Success is the sum of small efforts, repeated day in and day out' - Robert Collier.

It is crucial to write enough to be relevant, but not too much that it becomes an onerous task. Too much information could be counterproductive and may eventually switch one off from maintaining the journal. However, whilst brevity is important, this has to be balanced by writing enough detail and with enough regularity for it to be meaningful and relevant.

What to include and how to construct it.

'Attitude is a little thing that makes a big difference'. - Winston Churchill.

Traders should develop their own method and practice of keeping a journal. Sometimes, one of two sentences may be enough to cover entries, other times you may want to go into more detail. Some ideas of things to include:

- Trade ideas and thoughts, views on markets and market price action.
- Note of positions and risk, with stop levels and reasons or rationale.
- Review of your actions and behaviours, when relevant and pertinent.
- Reflection and observations about one's actions, behaviours, thoughts and feelings.
- A formal self-review process approximately every 3 months is very powerful as a tool for continual improvement. Ask yourself: 1) What have you done well? 2) What could you have done better? 3) What do you need to improve or change going forward?
- Quick notes and reminders about key thinking, bad behaviours, desired positions/trades.
- References to insightful or interesting research, anecdotes, articles, data, events.
- Inspiration or Motivational quotes, comments, people and ideas.

Appendix:

Hand-written Journals - Page example.

14th July

- Poor trading saw me cover Runk and Fides and \$ position close and attempt small longs on undeveloped signals and whilst running contra to trading plan. This has proved expensive. I have covered good positions at poor levels, then re-instated at poor levels.
- Emotion was fear of sharp price spike.
- Ultimate bear signals still exist. Re-instated not as much.
- Look at closes and volume to increase. Work stop levels.

7 Oct.

- Instigated long \$ Futures position M6. Charts show risk of break higher and sharp move. +200
- Also trying to instigate long Spread M6 Z6 @ 8. Chart highlights risk of break higher, trying to put position on a 8 target 25% (Needs refining)

Big Picture view, markets are still in neutral sideways trend phase. Trying to catch large moves is tough, hence look for quick opportunities.

10 OCT

~~\$ spreads are interesting~~

Bought 26-27 \$ Spread 200 lots at +2.

Looking for a move back to +18. Stop on close thru -2

Rate 20k-30k V 80k.

BIG PROBLEM in RECENT MONTHS.

- Cutting out winning views for fear of market pullback. Why?

① Risk of larger Mark to Market loss.

- Is position too big?

- ~~Are~~ Are too many positions open, therefore risking bigger total drawdown?

- ~~Are~~ Positions are not too big, but I am concerned that drawdowns like to get sluggish.

* Have to start being more controlled - believe in position then stay with it - set parameters prior to trades.

- Key examples J48 (T-100) / 27107 Germany.

- This is partly a legacy of my trading style whereby I try to keep losses small, and run profits. I have to square this circle.

My Trading Journal

[Home](#) [Goals](#) [Inspiring Poems](#) [Inspiring Quotes](#) [Reminders](#) [Trader Biases](#) [Review Questions](#) [Journal Guide](#)

WEDNESDAY, 29 FEBRUARY 2012

WED Feb 29 Update

AUDUSD - Big Volume day on a failed breakout, and Bearish Candle. - Will be worth watching to see if this proves to be significant within this move.



I initiated the Long AUD position earlier, have cut, but must remember to look at Volume next time.

Also cut EURGBP as this looks weak too.

Maintaining long USDJPY, which has moved higher.

Labels: [audusd](#)

yogiberra101.blogspot.co.uk/2012/02/wed-feb-29-update.html

REVIEWS

- [DEC 11 - Qtr](#)
- [DEC 11 - Mth](#)
- [NOV 11 - Mth](#)
- [OCT 11 - Mth](#)
- [SEP 11 - Qtr](#)
- [SEP 11 - Mth](#)
- [AUG 11 - Mth](#)
- [JUL 11 - Mth](#)
- [All Prior Reviews](#)

MY LINKS

- [Carl Futia](#)
- [Trade Your Way Out](#)
- [Abnormal Returns](#)
- [Seeking Alpha](#)
- [Zero Hedge](#)
- [The Big Picture](#)
- [The Trend](#)
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- [Trader, Trading, & Risk Psychology Blog](#)
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- [Leavitt Bros - TA Education](#)
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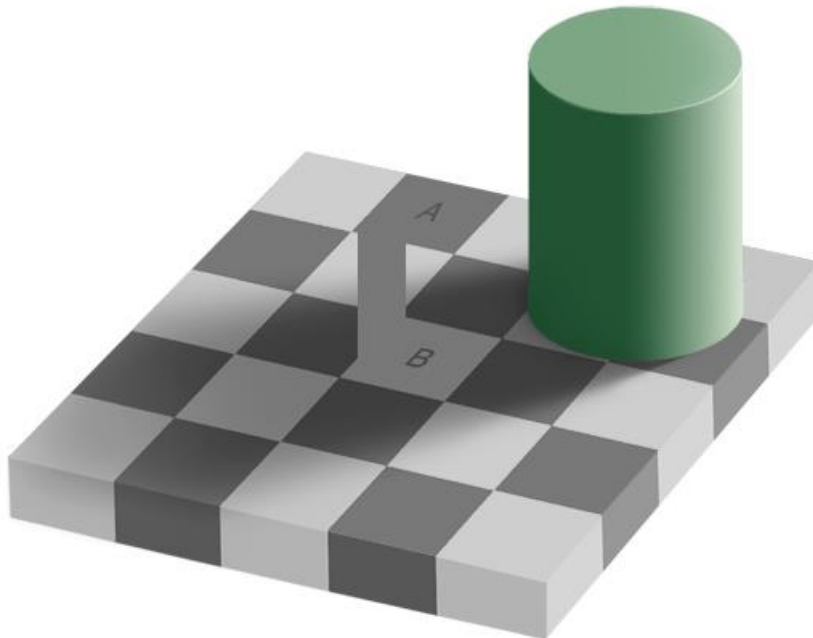
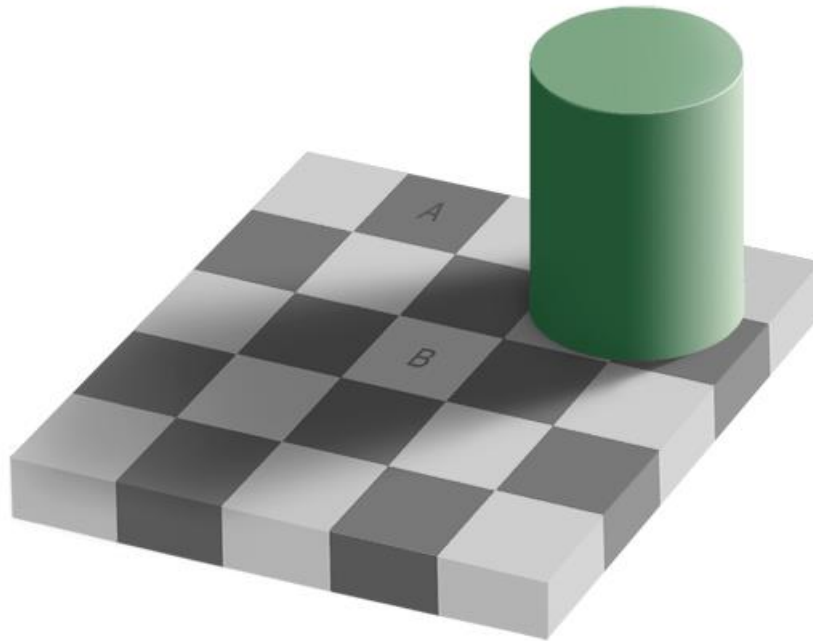
POSTS

- ▼ [2012 \(29\)](#)
 - [March \(3\)](#)
 - ▼ [February \(11\)](#)
 - [WED Feb 29 Update](#)
 - [sp500 - bias](#)
 - [AUDUSD - Bull Flag ?](#)
 - [AUDUSD](#)

Spreadsheet Example

STATUS	THEMES	TRADE	RATIONALE	RISKS	INCEPTION DATE										P&L (\$ 1,000s)		INCEPTION R/R	TARGET PROFIT (\$ 1,000s)	STOP LOSS (\$ 1,000s)	TARGET % AUM	STOP % AUM	STANDALONE VAR (\$k)
					INCEPTION DATE	CURRENT SIZE	ENTRY	TARGET	STOP	CURRENT STOP	PRICE	STOP PRICE										
CLOSED	USDMXN fx rally	Long USDMEX	USD Basing, improving economy, MXN weakening expected.	USD continues to weaken, significant further QE	31-Jul-12	100 USD	13.3300	14.0000	13.0900	13.0900	XX.XX	-916	2.61	1,196	-916	0.24	-0.18	X				
OPEN	EURO Yield-Curve Too-Flat	Short Bund/Schtz Spread	EUR curve too flat as EURO crises eases.	Draghi fails to deliver, crises deepens.	01-Aug-12	-1000 RXU2 / Long DUU2	143 (Yield)	170	125	135	155	1,200	1.50	2,160	-1,440	0.43	-0.29	0.25%				
CLOSED	USDJPY fx basing	Long USDJPY	Risk-on, daily techs improving, lots of Japan risk, e.g. Sales Tax implementation, BOJ easing.	USD continues to weaken, significant further QE	09-Aug-12	200 USD	78.6000	79.2700	78.4000	78.4000	XX.XX	1,690	3.31	1,690	-510	0.34	-0.10	X				
OPEN	SP500 Correcting	Short SPU2	Rally running out of steam, correction may be due.	Correction does not occur,	24-Aug-12	-500 SPU2	1408.40	1380.00	1415.00	1415.00	1411.20	-350	4.30	3550	-825	0.71	-0.16	0.27%				
OPEN	EUR/SEK basing	Long EURSEK	Hit key support, favourable patterns, excellent Risk/Reward	Break of Key Support	26-Aug-12	100 EUR	8.2700	8.6400	8.1490	8.2700	8.4520	2,691	3.06	5,353	-1,856	1.07	-0.37	0.23%				

Chessboard Illusion.



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