

## Tutorial : The psychology of trading, by Dr John Doyle.

Dear Jack,

Kudos to You! What a spectacular ride you've given us in the last trade.

You don't hear from me very often because I'm a relatively independent trader and don't need much handholding. I've been an investor, a trader, and a technical analyst for over 25 years. I've also been following your work for the last three years or so. Additionally, I'm a 65-year-old retired clinical psychologist residing on Long Island, in New York.

As you might imagine, I've read innumerable books, subscribed to many investment letters, heard the ramblings of many Market Mavens and Gurus, read all of the various financial newspapers and magazines, and have been extensively exposed to the intrusive noise incessantly generated by an endless stream of seductive spin-doctors on CNBC. In these many years I've never come across anything with the simple elegance and spectacular effectiveness of your trading methodology Jack.

Over the years, my effectiveness in running the business of managing my family's liquid assets has been varied. I've had good years and bad years. In the process of teaching myself to develop trading skills, I've ridden the market's rollercoaster to the heights of spectacular gains and breathtaking draw-downs. Since much of this business is driven by psychology one would think the shrink would be able to avoid these problems –**Ha!** No one is exempt from the Agonies of the Trader's Learning Curve.

My passion for investing has always been driven by the dream of becoming a Master Trader. With your concepts, trading methodology, and risk management techniques, I am finally at the threshold of achieving that dream. Your help has pushed me to the top Jack.

The ultimate measure of effectiveness for most things in life is the Final Performance Outcome – the results attained. I will share some things with you and your fellow traders, should you decide to include this in your Conversations series. I offer the information, only to show others what is possible and to put things into perspective.

I am functioning as a Trader not as an Investor. As such, I took the trade on 3/24/06 and put most of my assets to work. The trading vehicles were Fidelity Select Gold (FSAGX), Pro Funds Ultra Precious Metals (PMPX), Rydex Precious Metals (RYPMX), Fidelity Select Energy Service (FSESX) and Fidelity Select Natural Gas (FSNGX). Approximately 70% went into the gold funds and 30% into the energy funds. All positions were exited on Friday 5/12/06.

The aggregate return on investment (ROI) was 25% and the net profit was a little over \$100,000. That return was generated with capital risk exposure for only 34 trading days (49 calendar days). To put this into perspective, before I retired 10 years ago, my wife and I had to work full time for a year to generate an adjusted gross income of \$120,000. This was the kind of trading result I only dreamed about until recently. You've made my life much easier and my retirement much more enjoyable Jack.

My wife and I live comfortably on our combined pensions. The purpose of my trading machinations is to secure the financial future of our son, his wife, and our three grandchildren. We all sincerely thank you for the trader's skills you've helped me paste on top of my technical skill base and past experience.

Aside from the specific JC concepts, trading methodology, and risk management techniques, you've given me something else. In observing your work over the past several years, I've noticed that you have five personal characteristics that make you a successful Master Trader. You are Patient, Rational, Disciplined, Focused, and Confident. Let me elaborate just a bit.

**Patient** – You never chase the trade; you patiently wait for the trade to come to you. You patiently wait for the market to serve up the correct Technical Signal, Setup, and Risk Profile.

**Rational** – You have a simple but well articulated Trading Methodology and set of Risk Management Techniques. The simple but specific elements of Trading Signals, Setups, and Risk Management go a long way toward reducing the emotional noise of fear, doubt, and uncertainty that prevent one from entering and exiting positions in an efficient and effective manner. Your conceptual firewall between Technical Analysis and Trading Tools is an invaluable contribution. In the past, I often confused the two and screwed things up beyond belief. Clearly seeing ***Technical Analysis*** as a means of preparing for possible trading activity and ***Trading Tools*** (signals, setups, and risk profiles) as the means for actually Executing Trades is absolutely essential to successful trading. As the saying goes, “You plan the trade and trade the plan” thereby controlling the internal emotional noise.

**Disciplined** – You continually evaluate the price action for Signals, Setups, and Risk. When the market serves up the correct configuration, you make the trade. You make the trade only when all the conditions are correct. You are not early, you are not late, you execute with disciplined precision.

**Focused** – You focus your attention on a limited number of Market Sectors: Gold, Energy, and Tech. Within these sectors, you limit the field of choices to only the best trading vehicles available. You remain focused by using a set of Trading Tools that are simple, well defined, and limited in number. By remaining Focused and ignoring everything else, you effectively shut out all the meaningless external noise.

**Confident** – Trading Tools are never perfect. Being human, we are all prone to make errors in judgment. How can we ever hope to invest confidently? The answer is simple: learn what Jack Chan has to teach us. You have a highly effective set of trading tools that allow trades to be entered when there is a high probability of success. Your risk management profile allows you to assume only a limited amount of risk that is well defined and manageable for each trade. These specific tools enable us to manage our own fear of loss, doubts about our judgment, and uncertainty about the direction of prices once the trade is entered. You trade with great confidence because you have developed a very effective set of Trading Tools and Risk Management Techniques Jack.

I am a somewhat cautious person by nature. The emotional factors mentioned above have often prevented me from entering successful trades. At times they have screwed up good trades before they reached their maximum returns. After taking note of your personal

characteristics Jack, I worked diligently to make them my own. Every morning when I wake up, the first thing I do is review the five characteristics of a Master Trader and your Trading Methodology from memory as I lay in bed. It preps me for the day ahead Jack.

I will make one other observation Jack. In a world so often driven by selfish egocentrism, your willingness to share your ideas, your trading methodology, and the various products of your struggles and efforts to become a Master Trader is truly extraordinary. You have also proven to be a person who adheres to the highest level of ethical standards. You are a truly an admirable person Jack.

I have long held the belief that the more clearly we can articulate what it is we do and how we do it, the more effective we become in the day to day execution of our efforts. The more thoroughly we understand our personal characteristics and our skill sets, the more effectively we can control the Final Performance Outcomes of our chosen endeavors.

I offer my observations and comments in the spirit of giving something back Jack. You have helped me overcome some important obstacles in the way of my becoming a Master Trader. I will be forever grateful for what you have given me.

The younger traders and investors who subscribe to your magnificent service have an enormous opportunity to shorten the Trader's Learning Curve. To them I would say, invest the time and effort to learn everything Jack Chan has to teach you. You will be well rewarded emotionally and financially. Learn Jack Chan's personal characteristics and practice them every day. The things Jack has to offer will take you along the road to becoming a Master Trader. Learn from Jack's generosity, his willingness to share what he has struggled to learn, and his high ethical standards. You will become a better person, live a better life, and be more at peace with yourself.

Your service is truly one of a kind Jack. The dedication and hard work that you put in to serving your subscribers with daily emails and weekly updates is nothing short of spectacular and is much appreciated.

Please feel free to share my observations and comments with our fellow traders, if you would like to do that. Thanks for everything you've given me Jack.

Sincerely,

John Doyle