

# The Trader IQ Story

At World Wide Traders, aka DayTradersUSA, I get asked these questions often:

“What does it take to trade?”

“How long does it take to learn to trade?”

In developing answers to the questions the first step was to define Trader Intelligence Quotient ingredients in terms the trader requires.

<u>Grade</u>	<u>Learning Time</u>	<u>Intelligence Level</u>
10 A+	Born with it	Super Genius
09 A	Born with it	Genius
08 B+	One Year	Mental Giant
07 B	Two Years	Above Average
06 C+	Three Years	Average
05 C	Four Years	Some Learning Difficulty
04 D+	Five Years	Great Learning Difficulty
03 D	Never	Insufficient Aptitude

Imagine each of the 15 categories with a potential of 10 points in each category with 1 to 10, 10 being best.

**IQ Component Categories:**

01	Aptitude (IQ)
02	Attitude
03	Confidence
04	Discipline
05	Education & Experience
06	Focus
07	Life Style
08	Money Management
09	Patience & Judgment
10	Personal Goal
11	Perseverance
12	Psychological Makeup
13	Risk Management
14	Social Needs
15	Success in Prior Life Works

A brief definition of each of the categories above follows to provide a forum for evaluation. Each of the 15 categories has a total value of 10 points making 150 a perfect score. Traders are not expected to get a perfect score. Such a score would be bogus. The goal is to achieve a score > 100. Whatever the score, the key is in the comprehensive evaluation of the component scores.

**Note:** The author is not a psychologist and therefore concepts are only general in nature.

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## Trader IQ Category Definitions

### Aptitude (IQ)

Think of this as all mental faculties including memory, ability to grasp complex concepts, speed of identifying all activities needed to get ready to execute trade entry and exit, selecting the right course at the right time and being able to put it all together. If you graduated from college at 17, give yourself a 9. If you needed special tutoring to get through 9<sup>th</sup> grade mathematics, score yourself 5. Since you are not Isaac Newton or Albert Einstein, you are likely ineligible for 10!

### Attitude

Norman Vincent Peal wrote The Power of Positive Mental Attitude and many have read it. I am confident you come to the 'trading table' with a positive attitude. That's not enough! The fact is that, after some trade losses, your attitude will become altered from positive to negative. You must be on guard to manage such an attitude change and reverse the trend. When it happens, you must step aside from trading to enable "Attitude Adjustment." If you wake up every morning ready and eager to observe the market open and have completed your daily research the day before and are ready to trade, give yourself a 10 in this category. This is one of the few "10" scores expected of a trader.

### Confidence

Self-confidence counts for a lot in life but even more in trading! Without confidence, you will not succeed and, like attitude, your confidence will change when you suffer losses. Expect losses but keep them small with tight stops. If you wake up every morning confident you will make money today, give yourself a 10. Just know to quit trading on days when your confidence fails you. Remember the market must cooperate with your assessment of it. Choppy trading days are better abandoned for more rewarding time with sweetheart, children, beach, golf or bowling.

### Discipline

Trading requires study and research. A regular rigorous regimen is required. Professionally active traders research and prepare for trading tomorrow with great rigor. Every day, including weekends, they study and prepare by scanning charts and analyze candle chart patterns. When you regularly practice such a routine, give yourself a 10. When you do it only a couple days a week a 5 would be the more appropriate score.

### Education & Experience

If you worked 20+ years in a successful career and have a masters or doctorate degree, a 10 could be appropriate. For less education and/or experience, deduct points appropriately. Remember about ego... success in a prior career is not immediately transferable to trading.

### Focus

Trading requires concentration. It will be difficult to trade effectively if your children enter your trading space during market hours. Avoid reading your eMail and turn the phone off. Discourage friends and family from contacting you during this time. Instruct your trading associates to allow you quiet undisturbed time to focus. Handle pressing life matters during market doldrums and then get back to work. Take two 15-minute breaks during market hours and then take a longer break after the close before you begin the daily research regimen. Focus may be the category in which you rate yourself the lowest. If you are able to handle only the work of trading from bell to bell except for a quick bite to eat and necessary trips to satisfy human needs, give yourself a 10.

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## Life Style

In my opinion, successful *part time traders* are rare. Successful part time traders are those rare individuals who took time off from their other life's interests and learned to trade effectively and now have found newer interests more fulfilling than trading on a full time basis. These traders know how to screen for trades a couple days a week, place their few choice trades, protected by appropriate stops, and then move on to their main career interest the remainder of the day. But my personal belief is that to trade well requires full-time focus on trading; so to learn it, you must like it. I know you want to make money trading but I'm not certain you're willing to pay the price to get it.

To become successful, you must climb into the profession with both feet and become immersed in the cloak of learning and learning and learning only what is essential to trade effectively. You must learn what information to embrace and what information overload to cast to the side of the stream as you navigate your way through treacherous waters.

If you notice the life style to be demanding, especially on the west coast where the markets open at 6:30 AM, and this timing is not for you, immediately abandon your course or learn how to live with it. If you have anyone who demands attention when you're trading, perhaps you should trade away from home in an office. If your wife, parents, or other confidants are negative to your trading interest, quit. Their negative influence will poison your course and you will quit eventually anyway... so, you might as well quit now... ahead of the almost guaranteed draw down in your account. There is no point in waiting to quit just after losing some money... especially so they can say... "I told you so!" Be confident you will lose some money in the market. Think of loses as one element of training, education and experience tuition. If your life style is *absolutely* in line with your interest in the markets, give yourself a 10.

## Money and Risk Management

The main thrust to risk management is knowing where and when to stop. Every trading book I have read or reviewed... more than 25 at latest count... has a section on this topic. For example, never risk more than 1% or (2% maximum) of your trading account. Stop trading after three consecutive losses on the day. Stop trading entirely for a temporary period if you lose a lot of your account.

Example Account Control System:

Regardless of wealth, I recommend new traders start trading with a minimum capitalization of \$50,000 but with only a deposit of \$30,000 in their active trading account. The remainder must be kept in liquid form at a bank where it can easily be wired to your trading account as needed. In order to protect your initial capital, I recommend you state a promise to yourself that before you lose 40% of it, you will quit trading -- at least for 90 to 180 days while you obtain more education, training and experience in trading.

See example at: [Account](#)

## Patience & Judgment

It has been my observation that the optimum trader would have been an arcade game enthusiast as a child, skateboard pipe rider as a young adolescent and surfer in the late teens. Surfers searching the rambling ocean for the '*right*' wave two hundred yards in the distance learn patience and judgment. Judgment in trading makes all the difference intraday. Intraday traders must await confirmed setups and then pounce... just like a bear fishing in a cold mountain stream. Just imagine the bear looking into the stream searching for the right fish. There is only one '*right moment*' for each trade. Finding it requires calm patience and critical judgment. The

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best teachers have patience. People who revert to road rage lack patience. You know your own patience and whether or not you have it, so if you are a patient person, rate yourself high.

## Personal Goal

What do you want? Do you want to double your trading account? By the way, let's talk about trading account size as compared to personal wealth. Currently, the SEC and NASD require pattern day traders to maintain a \$25,000 balance in their account. Therefore, to avoid margin calls, you need to maintain your trading account at or above \$30,000. My personal opinion is for all traders, new or experienced, regardless of prior market trading success, to maintain between \$30,000 and \$40,000 in the trading account. This will enable you to pay yourself weekly or monthly as you grow your account. Remember, you don't need \$100,000 or more to trade well. I know a trader who earned \$250,000 starting with \$11,500 in six months. This trader paid himself every week (sometimes twice) not allowing his account to exceed \$50,000 generally.

## Perseverance

Sticktoitiveness is my special word for drive and determination. There are wandering geniuses searching for interests, causes and direction throughout the world. As an interested trader, you have temporarily completed your search and embarked on one extremely difficult journey. Perhaps you've embraced trading as an interest because good fortune amassed some money within your control. Many, actually most, individuals get only one chance... the chance to keep their money or, possibly, learn how to grow it.

Blindly jumping into trading for a living before you know everything you need to know will put you in the poor house so quickly it will produce insurmountable doubt. Just ask about a hundred thousand "*temporarily wealthy*" individuals who lost considerable amounts of money in 2000 and 2001 trying to play in the major league. Look around at others interested in trading wherever you are. Imagine being able to identify the one in 20 who will remain in the game a year from now. Will it be you? It will be only if you persevere. I don't care how smart you are. Your IQ could be genius level but, unless you commit to this interest as a full time career as well as your desirable life style, you will fail! If you are trading in one year with some trading losses and some trading gains but are in **complete** control of your stop loss system, assign a higher grade to this factor.

## Psychological Makeup

How bad do you want it? You must want it more than anything before in your life because it will be harder than anything you've ever tried before. Trading attracts a lot of successful people.... successful in former careers. How else do people get money to trade aside from becoming successful in their walk with life? Steal, swindle, con, deal drugs, rob... I don't think so! To trade, you must be smart, and you must want to do it so badly that you know you can stick with it through the tough learning curve... required seat time.

**Here is the problem:** Successful people suffer from ego. Many would be traders believe that, because they have been successful in their prior career, they will just be a natural trader.

**Trading is war!** Trading requires more discipline than any other profession I know. Traders go to war daily, fighting money battles throughout each long day. Recognize this: Firemen don't fight fires every day. Police don't fight with fugitives every day, nor is the military at war and engaged with the enemy every day. Professional boxers fight only occasionally. Sparring with boxing partners is not a fight; it's just practice where the combatants wear head protection. But traders enter into battle every day they put money on the line.

**Think about it!** Do you have the stamina to sustain the bruises to your pocket book when the market turns quickly on you? Can you stay in there fighting day in and day out to get the job

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done? Be careful now. Don't just answer yes (because you really want it) without thinking deeply about risk, because there are many variables that you will undergo as you develop. Any number of these variables will put you out of the business. You must be strong to survive the game. If you have humility, knowing the financial markets are smarter than you, and can live with having your ego crushed three days out of five, rate your score higher.

## Risk Management

The main thrust to this category is knowing where and when to **stop**. In addition one must clearly understand the upside potential for a trade along with the downside loss. When you are able to calculate the Reward to Risk Ratio in your head before every trade, you are ready to rate your self a 10 in this category. Every trading book I have ever reviewed... more than 25 of them... has a section on this topic. For example, never risk more than 1% or 2% (maximum) of your trading account on trade positions. Stop trading after three consecutive losses on the day. Stop trading entirely (temporarily) if you lose a significant portion of your account.

## Social Needs

If you are young and like to stay out partying all night, this profession is not for you! If you are young and have your social life under control, you are a contender. Adequate sleep is essential to be at your best when researching as well as when actually trading. You must be stable in your life environment to succeed in this vocation. In times of layoffs producing career change, many embrace the profession of trading as a possible consideration. Consider it, but enter knowing full well that it is a new career and the learning curve is years, not weeks or even months. If your social environment and personal needs lend themselves to isolation, focus and concentration of trading and learning everything you will need, mark your score high.

## Success in Prior Life Works

In the category above, the topic of ego was discussed. Guarding against the detriment of a big ego, you can look back into your prior career success. To the extent you have been successful, you can count on being successful at trading, but only after learning the essential ingredients of all 16 compartments of knowledge discussed in my paper, [The Ice Tray\[der\] Story](#) at: [Story](#)

## Summary

**The bottom line:** trading is a tough business and just because you have amassed funds does not alone qualify you for trading as a profession. Spend a few thousand dollars on training, maintaining a "wait and see" attitude about whether you will go past your original foray into the trading world. Remember, you must endure to succeed. And if you don't plan to invest a sufficient amount of time on developing your expertise based on experience after obtaining appropriate education and training, leave the business now... with a few more dollars in your pocket!

To trade professionally, you need about \$30,000 to trade stocks but only \$15,000 to trade futures. You will need equivalent amounts to satisfy your trader education needs. The best source I know to start is <http://www.worldwidetraders.com/>. Once on your way, these people know the players in the trader training industry, so they are the best source for your continuing education and training. [Active Trader Magazine](#) is also an excellent source of trader information. This monthly periodical brings focus directly on the substance and main topics of trading and has presented content offered by some of the highest regarded professionals in our industry. Take your Trader IQ Test online today at: [TakeTest](#). Your results will be compared to others and you may be assured that submissions are maintained confidential.