PART I

BEING AT EASE
CHAPTER

Money and Me

“What is your risk profile?”

My client tells me he has been asked this question so many times by investment advisers over the years that he is weary of being asked yet again. Sitting across him as his investment adviser (and being obliged to ask), I smile. I agree with him.

He tells me, “I just want to make money and obviously to lose as little as possible, and if at all possible, none.”

Again, I smile and nod. I completely understand what he is saying.

Ken is not alone. This is but one frustration we all struggle with. How do we achieve the goal of making as much as we can, while losing as little as possible?

The answer is not as difficult to know as it is hard to follow. It lies in understanding the core of this tension. Who is holding the bow? The knowledge of the core comes from being aware of and paying attention to the archer instead of the shots from the bow. It is found in the archer’s tendencies, likely reactions, thought patterns, and the openness to tweak the details until the tension is kept taut, sharp, alert, and ready to pounce. That is the answer to this collective frustration.

Once we have insight into who is holding the bow and how and where to tweak to achieve the results we desire, then to invest is to be at ease, with both self and money. The struggle will no longer be about dollars and cents (nor risks), instead it will be of the tweaking of the self in order to be at ease.
My Money Personality

Each one of us is composed of a unique blend of characteristics. Our persona changes according to the settings we are in and the people we are with. Our persona may depend on how we want others to see us. We may identify with our persona for a long time, perhaps even for a lifetime.

But there come times when the real self needs to emerge, pivotal moments in life. Often, these times of decision involve money.

How we think, act, feel, and decide when money is involved, especially when large sums are at stake, such as in trading and investing, is pronounced. Sometimes what’s at stake is all the savings we have, the last capital or all the borrowings we could afford. When the pressure reaches the boiling point, there is no hiding the real self.

The question arises, Who is the real self? Often we are seeking the true self after it has been ignored, buried, neglected, and in oblivion for many years.

To know the true self is to know our own Money Personality. Our money and our self are entwined. We cannot afford to live behind a façade or hide the self in a persona when money is at stake. When pressure rises, emotions soar, and the self that emerges is the one that’s always been there.

To become acquainted with the one who’s there all along, is to pay attention to who we are when we trade, invest, and deal with money. You will find your real emotions, thought patterns, attitudes, and behaviors exposed and visible. They may frustrate and anger you to change or they may push you into the corner of regret and defeat and cause you to sulk for the rest of your trading life and entire lifetime. Or you may just choose to remain blind to it all. Which is it going to be depends on the real self. You need to find out your own.

There are five elements that contribute to the Money Personality that we express today. They are combination of genotype and nurturing, the influences of the culture and the environment we live in, and our past experiences, all play a role in shaping our Money Personality.

Genotype and Nurture

Genotype is basically the genetic composition of an individual. Many believe our genetic makeup plays a part in who we are. Our parents’, grandparents’, and ancestors’ genotypes contribute to our very own.
This genetic inheritance can be manifested in our susceptibility to certain diseases or behavioral traits.

There are certain behavioral traits that are more damaging than others for investors, like impulsiveness and destructive fear. As we analyze these behavioral traits in the next few chapters, we will come upon certain mutations of genotypes that have the propensity to make one more easily fall, transit, or slip into those modes. There are particular brain chemicals that, if “latched” onto certain mutations of genes, cause the investor to be vulnerable to those unproductive traits in trading, but vulnerability does not translate to victimization. Vulnerability can be overcome.

This very concept of behavioral traits and genetic disposition (especially the unproductive and detrimental ones) continue to lead us into numerous on-going debates, research, and discoveries in this area. Epigenetics is one, where scientists in this area are discovering that our genetic makeup can be changed by the environment we live in and how we live.

The study of identical twins (who share identical DNA) provides invaluable insight into how genes can be altered by life experience. A documentary titled The Secret Life of Twins aired on BBC\(^1\) (first broadcast in September 2009 in the UK, and then replayed and aired in Australia in December 2012) revealed the story of a pair of 31-year-old identical twins Chris and Xand van Tulleken, who share almost everything, except for their pain threshold. When asked to immerse their hands into a case filled with ice, Chris did not flinch while Xand felt chilled almost immediately. Why the difference in pain thresholds despite sharing identical genetic makeup? The program revealed that Chris has had conditioning to the cold through working in the Arctic for a long period of time. Chris’s pain threshold had been toughened by the environment he was in. His genetic makeup was altered.

This study of twins has important implications for investors and traders. The pain of loss is one emotion that is encountered often in trading life and the ability to alter our genetic pain threshold through experience is a significant affirmation of how we can be trained to become better investors.

The debate over “nature versus nurture” shall continue for a while more. However, if we have discovered any behaviors, thought patterns, or emotions that are detrimental to investing, even if they are part of our genetic makeup, we have learned that they can be
altered, and they must. Otherwise we will continue to be frustrated and feel defeated with ourselves.

All that’s needed is first awareness and then reconditioning. I have done it.

I grew up being very careful with money. A not-so-complimentary term would be tightfisted. My guess is that I learned my caution with money either because of my genetic makeup or through observing the way my parents spent money. Majoring in accounting at the university did not help with changing my disposition. This tightfisted personality is predisposed toward saving every dollar and cent and earning every dollar possible.

I became aware of this trait early on in my trading career—thankfully, as many of my trades were frustrated. I missed many trades as I concentrated on chasing the last cent on sales and saved every cent on purchases. The aim was to sell at the peak and get the highest price possible before a stock turns down and, on buying, to pay as little as possible. I would hardly place market orders: those are for the “indiscriminating” traders. I would go on the queue (to buy or sell) to wait and often trade slightly above or under what I thought would be reasonable.

<table>
<thead>
<tr>
<th>Market Orders</th>
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<tr>
<td>Market orders transact immediately at market prices. Prices for buying and selling a particular stock can be viewed at the “Market Depth” screen for a stock. Buyers with the highest bid price go on top of the queue on the left and sellers offering the lowest sale price go to the top of the offer queue on the right of the depth screen. There is often a spread or gap between the two prices. To transact on-market or at market price, a buyer jumps the queue and buys at the highest offer price and a seller sells at the lowest bid price.</td>
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I can’t begin to count the amount of profits I have missed due to the tightfisted personality! I missed opportunities to make good profits as the stocks I was on the queue to buy (which I didn’t end up buying, because I queued a few cents too low) went on to rise and rally, and where there were profits to be locked in, I missed selling them (yes, because I queued a few cents too high). It became even more disastrous if the stocks I meant to sell to lock in profits subsequently turned to losses (all for a few cents more!)
I knew I had to change, to survive as an investor not to mention in a career as an investment adviser/broker. It was a time-consuming process, but I did it. I had to consciously remind myself, each time before placing a trade, “Every dollar and cent does not count in investing.” Stick to the big picture. “It’s the thousands and millions of dollars that count.” Forget about being small-minded. To get big results, we need to first be able to think with a big mind and see the big picture.

Now, I am no longer concerned if I locked in less profit for my clients (I’m sure eventually all my clients will share my view, too). I have more chances in the future to compound the now-higher capital. If I buy stocks that are too expensive and if my conviction with the stock stays, I stick with the plan and wait for recovery. I no longer torment myself for selling too low or buying too high. Instead I stick to the plan, the big picture of accumulating wealth over time, over a lifetime.

On looking back at my journey through this particular trait, I realize that I gained more than I had bargained for. This new conditioning in my new thought process spilled over to other nontrading areas of my life. I no longer live in the mental prison of “getting the best price for everything.” I feel more free. Trading triggered the change in me to be a bigger person.

This tightfisted money personality can manifest in other ways. Instead of attempting to get the best prices all the time, it could instead manifest in being dollar-pinching with brokerage fees, or commissions. The logic of not overpaying on transaction costs prevails, but when this consideration becomes a hindrance to better returns or sounder risk management post fees, then you will be worse off for this “mental prison.”

The Money Culture

The race, ethnic group, or nationality we are born into or live in has its own idiosyncrasies. The way we speak, words we use, preferences for food, how we spend money, and what we spend money on are the quirks of culture.

The culture we live in has a great influence on our attitude toward wealth and the practices we have formed regarding money. Russell Peters, a Canadian stand-up comedian, performs to sell-out audiences by poking fun at the audiences’ own ethnic stereotypical
and money behaviors. We laugh when Peters is making fun of our own stereotype, but it shouldn’t take a comedy act to prod us into realizing the conditioning we have been subjected to by the culture we live in.

Culture dictates the role money plays in our lives and what it means to us. Money as a benchmark of success and as a symbol of social standing is common in most cultures, although it’s expressed differently from culture to culture.

The Chinese display wealth and success by buying dinners for relatives or friends they wish to impress. The courses ordered are well thought-out and the choices represent the amount of wealth to be spent to convey respect to the guests. The more expensive and exquisite the food choices, the greater the respect paid to the guest. For example, a dish of rare shark’s fin soup is accorded a higher value as a symbol of success than is chicken soup. A plate of freshly steamed live whole fish has greater “wealth/value status” than a plate of filleted fried fish. These distinctions are not spoken of and are shared and understood among the observers. Those who do not know the culture may be oblivious to the differences in the menu and order and eat whatever they enjoy.

Cultural conditioning works its way quietly into its observers. Often, the followers of cultures are insensitive to the fact that who they are has been partly conditioned by the culture they live in. Some need to be extracted from it to be aware of the conditioning. For others, living in the culture makes it hard to be cordoned off from its claws. Some continue in it oblivious while others play along with it. It’s those who either consciously refute them, by leaving the culture or no longer practicing them, who will be the successful personalities who cease to have the values and influence of cultural conditioning imposed on them.

Cultural conditioning becomes part of one’s values, beliefs, and Money Personality. The money culture that attributes higher status to expensive food and goods, equating wealth with success, that conditions the unaware trader into chasing these success symbols in life. One obvious avenue opened to many to fulfill this pursuit and fulfill the expectations of a culture is through investing and share trading.

Persons conditioned by a money culture approach investing with the very strong instincts to fulfill these needs and expectations. The harder they try, the harder they push, the more the tension on the bow increases, until it breaks. This can lead to many unproductive
behaviors and detrimental investing traits, such as excessive risk taking, compulsive trading, or, on the other extreme, less-than-ideal investment returns due to fear of falling short.

We are all conditioned by the money culture we live in. Are we aware of it and, if we are, are we building productive investing habits or are we allowing expectations to stop us from discovering our best selves?

Environment and the Times We Live In

The times we live in contribute to the type of investors we have become and have reshaped our relationship with money. Working for a wage alone may no longer be as common as in previous generations.

Trading and investing is now a normal part of life for many. It’s no longer just a hobby, something relegated to financial advisers alone or looked into when there’s time. This is now a reality for many, such as retirees and investors actively engaged in roles of managing their own money and retirement accounts. Many more trade for a living. Our lifestyles are now more closely involved with trading or investing.

Technology and the Internet have opened up this new possibility, especially to those who were sidelined before. Transaction costs are lower and the flow of information is much easier and freer with technology. Returns and performances of retirement funds are more readily available and switching is a click away.

Retirees Jan and Paul (not their real names) are in their 60s. They approach investing and the task of managing their retirement funds like a full-time job. Every morning at 10 A.M. they sit at their desk and in front of the computer researching, reading, or trading, stopping for an hour for lunch, and then continuing until 4 o’clock. After four each weekday, they proceed to an outdoor activity, swimming or walking, before heading home to prepare dinner. Money is not only providing for this couple financially, but it’s giving them structure, purpose, and a lifestyle.

Jeremy used to work in the funds management business. Now, Jeremy trades for a living. He is independently wealthy with a home near the beach and a car, but some bills must be paid every month. Trading helps him to maintain his skills and knowledge while paying the bills. Trading fulfills the need for mental stimulation for Jeremy.

Our relationship with money is complex, deeply intertwined with how we live. Many more investors are more actively involved than
before. As we become more involved, active, and sophisticated as investors, our Money Personality ought to mature with the times we live in.

There’s another effect that technology and the Internet brings to the investment landscape: the growth of dark pools, algorithm or program trading, that is, trading done by computer systems that react to change in information in seconds. Buy and sell orders are placed in the market by computer programs, without human intervention. Investment markets are now less straightforward; it’s not only humans we are competing with, but machines as well.

As investors can we afford to stay naive and passive? Our Money Personality needs to grow and mature with the times we are in.

**Experiences Play a Role in Our Money Personality**

Our experiences with money play a role in defining our Money Personality. This is because of our parents’ early influence, their experiences with money, and when we began to have our own financial independence, our own experiences.

As investors, our own past experiences or the experiences of those close to us make an impact on how we approach investments and money. The ones that affect us the most and which we remember most vividly are those that impact us the greatest *emotionally*.

Past money and emotional investment experiences make up part of the person we bring into the investment arena as an investor.

Imagine how Dr. Andrews’s experience, described in the Case Study, affected his Money Personality and how it has changed his approach toward investing.

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**Case Study**

I have known Dr. Andrews (not his real name) for several years and I think of him as a rational, level-headed, nonimpulsive, responsible family man, who likes trading shares. During the bull market preglobal financial crisis, Dr. Andrews, like many other traders, rode the waves, enjoyed the wins, grew increasingly confident, and, like many others, borrowed to increase his wins. There were definitely some darling stocks of the market then, the ones that many traders trade in and out of (and made money on). At the time, Dr. Andrews was trading a then-darling bank stock, too, which rose from a mere $5 a share to nearly $30 in a few years, but when the global financial crisis broke out, the stock first dropped to half of its peak price, and then in a few months stopped trading altogether (went into liquidation).
Dr. Andrews, who already had borrowed against the stock, also wrote or sold long bullish options strategy based on it and multiplied his exposure with several broker accounts doing the same thing with similar exposures. He was many times leveraged and overexposed to the one stock. The unexpected long and deep ride down on the stock price felt like eternity for Dr. Andrews. Though it lasted only 18 months, it felt like the longest and scariest never-ending roller-coaster ride. I could imagine how harassed he must have felt with brokers and margin lenders contacting him daily to top-up margins. He was hanging on to a stock that was slipping more and more by the day. Each peep on the computer screen made his heart skip, seeing more numbers in red and more dollars lost. This cycle of top-ups and losses sometimes happened without respite, consecutively over several days.

It was emotionally wrenching. That was probably the most tormenting few months of his life. He was out of his emotional depth and mentally exhausted, numbed and out of zest for work and life.

Options

Options are contracts that give buyers the right to ask (exercise on) sellers to fulfill the obligations of the contracts (to either buy or sell specified underlying securities at terms specified). The sellers of the contracts are then obligated to do so. There are two types of options: calls or puts.

Investors who hold a bullish (rising market) view of the underlying go long by selling or writing put contracts. Put sellers are obligated to buy the underlying when exercised by buyers.

Investors who hold a bearish (falling market) view of the underlying go short by selling or writing call contracts. Call sellers are obligated to sell the underlying when exercised by buyers.

Margins

Margins are collateral (or deposits) in the form or cash or stock value required from sellers/writers of options (who have received premium from the contract) to ensure they are able to fulfill their contractual obligations. This is not a requirement for buyers as they have paid for the contracts. Margins move dynamically with price of the underlying. The more a position goes against the writer’s initial view, like stock going down on a long strategy, the more that top-up of margins will be required. A similar concept is of stocks bought with borrowed money from stock margin lenders.
This experience had to be significant for Dr. Andrews—one in revelation of self and the other in the memory it has created.

This experience has brought up certain attributes of Dr. Andrews. He was confident, in fact, overconfident, in the way he traded. He had several accounts and positions in the same stock. He was aggressive and opened to different ways of trading, and used margin lending or stock borrowing facilities and options strategies to increase exposure to the stock. He was optimistic. The sign of change from a bull to bear trend was glossed over until bad news was compounded and a large drop in value could no longer be ignored. He was complacent. He hung on to the stocks and positions as the stock fell and as it kept falling, his high pain threshold did not conjure up sufficient impetus to push him to cut his losses. His propensity for regret was low. He bounced back from each margin call and kept on going.

What about the type of memory that such an experience has created in Dr. Andrews? There are two basic types of memories, the short-term, working ones that remain in the brain for only a few short minutes and then are gone. The second type is long-term memories that are kept and remembered in the brain. There are different kinds of long-term memories:

Implicit long-term memories are the unconscious, latent automatic recalls of either procedures or methods called procedural (like driving) or emotional events (like reflexive fear at the sight of an approaching car).

Explicit long-term memories are the conscious recollections of objects, events, facts, and images. They are divided into the semantic, language-based memories and the episodic memories, recollections with emotional imprints.

The experience of Dr. Andrews, which is so personal and emotionally wrenching, with the loss of thousands of dollars, is going to go down as long-term explicit episodic memory. Explicit episodic memories generally leave a lasting impact and change one’s Money Personality.

How is Dr. Andrews going to react to such an emotional experience and how is this explicit episodic memory going to affect and mold who he is and how he trades, that is, his Money Personality from now on?

The answer lies in what his current Money Personality is like.

We will enlist the use of the Big Five Personality Traits Inventory (BFI or Big Five) or the Five Factors Model (FFM). It provides a
structure for exploring and understanding one’s personality traits and tendencies. It will then give clues into how one can learn, change, adjust, and adapt to a new and improved Money Personality (or not).

The Big Five Personality Traits

As diverse, varied, and complex as human behavior is, so it is with the methods developed by behavioral theorists to understand them. There are many methods and psychological tests to help us understand the self.

The challenge over the decades had been to have a common language, an accepted measure from which the complex behaviors of human across cultures, backgrounds, age groups, and genders can be compared and understood.

The Five Factors Model (FFM) is the culmination of such an effort made by various behavioral theorists, developed over the decades since the 1960s.

The Big Five begins from the intuitive polarized dimensions of extraversion and introversion, terms made popular by psychologist Carl Jung in the 1920s. These two dimensions are the dichotomy of attributes that exist in us all, at varying degrees. They were termed by H. J. Eysenck in the 1960s as extraversion and neuroticism and were dubbed the “Big Two” by Wiggins. The third dimension of openness was added by Costa and McCrae (1980), followed by the last two dimensions of agreeableness and conscientiousness (1985). These became the Big Five.3

To increase the descriptiveness of the Big Five, McCrae and Costa later further developed them into six facets of specific traits.4 The five factors became the big outline picture of a person while the facets offer more color and details to the analysis.

Consensus is sought for descriptions of the Big Five through the use of various methods. While the theoretical model approach uses research and various questionnaire-based methods (like the Big Five) to harvest and refine the variables and characteristics used in describing each of the five domains, the lexical descriptive approach uses trained psychologists in selecting adjective words in describing the characteristics of persons participating in assessments. Numerous assessments on various people groups have been conducted to get consensus of the description of these five factors.
Table 1.1 is a descriptive table of the Big Five factors. The names of the domains are given in column A, the six facets (according to McCrae and Costa), providing more details of each factor, are listed in column B. Column C uses adjectives to describe persons with a low scale in that particular domain. These adjectives have been selected and used by 10 psychologists to describe a group of observers during a weekend of assessment conducted at the Institute of Personality and Social Research at the University of California at Berkeley. The group consists of 140 men and women.⁵

Let’s use the descriptions in Table 1.1 to work out a possible profile of Dr. Andrews and his current Money Personality, how he might have reacted to this trading experience and how his Money Personality could have adapted from it.

My assessment of Dr. Andrews’s scores on the BFI scale would be high in extraversion, low in neuroticism, relatively high in openness and about average in agreeableness and conscientiousness. Dr. Andrews (from what I know of him as a person, not in consideration of his profession), comes across as a confident and positive person, stable and calm, with average intelligence and rather perceptive, but not overly friendly or thorough.

How might he have reacted to this experience?

Dr. Andrews’s high in openness places him at a higher possibility of emerging from this episodic experience, adapted to a new and improved Money Profile. Openness is one very important attribute in any investor, especially when it comes to dealing with the sense of regret after losses. Most go on either of these common routes; defeat and retreat or accept, learn, and move on. Those high in openness have a greater tendency to do the latter. For those who lack openness and with a high dose of neuroticism are more likely to do the former, retreat.

With openness, Dr. Andrews will learn that the options trading strategy he undertook could have resulted in fewer losses. All he needed to do was to practice risk management, by buying a put option to limit his losses to a known amount. With leveraging as well, losses could be cut at a self-determined preset level. A mental stop loss level of say 20 percent can be set at the time of stock purchase, where a fall of 20 percent from the price of purchase would be an automatic trigger to sell the stocks at market (without thinking or talking self out of) to be protected from further losses.
# Table 1.1 Combining the Big Five Personality Traits with Descriptions

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<tr>
<th>The Five Factors/Domains</th>
<th>The Six Facets</th>
<th>Descriptions</th>
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<tbody>
<tr>
<td><strong>A</strong></td>
<td><strong>B¹</strong></td>
<td><strong>C²</strong></td>
</tr>
<tr>
<td>Extraversion</td>
<td>Warm</td>
<td>Quiet, reserved, shy, silent, withdrawn, retiring</td>
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<tr>
<td></td>
<td>Gregarious</td>
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<td>Assertive</td>
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<td></td>
<td>Active</td>
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<td></td>
<td>Excitement-seeking</td>
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<td></td>
<td>Positive emotions</td>
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<tr>
<td>Low Extraversion</td>
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<tr>
<td>Neuroticism</td>
<td>Anxious</td>
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<td>Hostile</td>
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<td>Depressive</td>
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<td>Self-conscious</td>
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<td>Impulsive</td>
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<td></td>
<td>Vulnerable</td>
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<tr>
<td>Low Neuroticism</td>
<td>Stable, calm, contented</td>
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<tr>
<td>Openness</td>
<td>Fantasy</td>
<td>Commonplace, narrow interests, simple, shallow, unintelligent</td>
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<td></td>
<td>Aesthetics</td>
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<td>Feelings</td>
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<td>Actions</td>
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<td>Ideas</td>
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<td>Values</td>
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<tr>
<td>Low Openness</td>
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<tr>
<td>Agreeableness</td>
<td>Trust</td>
<td>Fault-finding, cold, unfriendly, quarrelsome, hard-hearted, unkind, cruel, stern, thankless, stingy</td>
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<td></td>
<td>Straightforward</td>
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<td>Altruistic</td>
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<td>Compliant</td>
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<td>Modest</td>
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<td></td>
<td>Tender-minded</td>
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<tr>
<td>Low Agreeableness</td>
<td></td>
<td></td>
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<tr>
<td>Conscientiousness</td>
<td>Competent</td>
<td>Careless, disorderly, frivolous, irresponsible, slipshod, undependable, forgetful</td>
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<td></td>
<td>Orderly</td>
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<td></td>
<td>Dutiful</td>
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<td></td>
<td>Achievement striving</td>
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<td>Self-discipline</td>
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<td></td>
<td>Deliberate</td>
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<td>Low Conscientiousness</td>
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Openness allows a person to consider, learn, and accept new ways and methods of doing something. Openness explores the whys and proposes alternatives and methods of trading differently or using the same instrument but differently and more effectively. Openness keeps the investor looking for solutions to problems that are seen as solvable.

How might Dr. Andrews’s Money Personality be molded?

Dr. Andrews’s personality leads him to be less sensitive to pain and loss, which is the area he most needs to attend to. Regardless, if one can “afford to lose” financially or is able to “tolerate” losses emotionally, it is still an important trading principle to keep losses small. He needs to learn to tolerate less pain and increase his threshold to pain. He can transform himself in order to tolerate less loss.

Despite his normal optimistic and calm view, Dr. Andrews needs self-discipline (an increase in conscientiousness) in evaluating the worst-case scenarios, considering the potential of losses, and putting in place strategies in order to be protected from downside losses turning into realities.

Every experience is indeed a learning experience—especially where there had been a disastrous trade or a loss-making stock, the memories of which stick and sometimes haunt. Are we going to shrink back, keep going the same way, or adapt to a better way?

The easiest way to decide which route we will take is by extracting self from our current Money Personality. Take an objective view of self from outside in. Evaluate the current Money Personality from that perspective and then decide what changes are needed to move this profile from the current state to the future state of a new improved Money Personality.

Money and Me

Turn to Appendix A for an adapted version of the Big Five Factor Inventory questionnaire. You can either complete the paper version
offered in Appendix A or take the online version at my website: www.waiyeechen.com. This will give you a sketch of your current Money Personality. It will become the outline that you will work with to fill in the details in order to move toward a new and improved Money Personality.

**TRADING STRATEGY #1**

You can’t trade apart from your Money Personality.

**Notes**
