

## >: Taming the Emotional Tiger in Your Trading

Thursday, July 2, 2009 / Bob De Dea

"In free markets, sentiment refers to the feelings and emotions of market participants.... Every change in price results from a change in the balance between optimism and pessimism.... As oscillation suggests, the psychological state of a market experiences peaks (optimistic extreme) and troughs (pessimistic extremes)....

"This is the rule in all financial markets, where man's impulse to herd creates extreme and unsustainable levels that ultimately lead to a reversal." -- **Jamie Saettele**, *"Sentiment in the Forex Market: Indicators and Strategies to Profit from Crowd Behavior and Market Extremes"*

"The emotional qualities are antagonistic to clear reasoning." -- **Sherlock Holmes**, in *"The Sign of the Four"*

### **Herd the Tiger**

The market is a wild creature that follows a time-tested pattern. You can view the long-term trends, like Jamie Saettele in the quote above, in terms of optimism and pessimism. Or you can look at the stages of the market (bottoming, rising, topping, descending) and ascribe emotions to them (uncertainty, greed, ambivalence, fear).

In a similar fashion, the individual investor goes through his or her own stages of emotional response to market conditions.

Look familiar?

I don't know about you, but when I first started trading, I went through this cycle on a trade-by-trade basis -- sometimes even during the course of a few minutes.

The cool thing is that we can use this cycle to take advantage of the market's fluctuations. Note the two arrows that highlight the "Point of Maximum Financial Risk" and the "Point of Maximum Financial Opportunity."

(These are identified for the buy-and-hold investor; you and I know that we can make money in *any* market, with the key being to identify *where* it is in the cycle. Or, more specifically, where the *security* is in its cycle.)