

## **Finding Solutions: How Traders Can Become Their Own Therapists**

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*Note: This is a draft of an article that appeared in the January, 2003 issue of Stock, Futures, Options (SFO) Magazine. The original article can be accessed at [www.sfomag.com](http://www.sfomag.com).*

In recent years, brief therapies have demonstrated their effectiveness for dealing with a number of normal life challenges. Unlike traditional psychotherapies, which may take months or even years to show results, these short-term techniques often help people change persistent problem patterns in as few as several sessions. Even more interestingly, these therapies can be learned by the motivated layperson, allowing individuals to become their own therapists. This is particularly useful for traders of futures and options, for whom time is the essence.

In the October, 2002 issue of SFO Magazine, I presented a brief, intensive method for overcoming anxiety and impulsive behavior patterns known as exposure-based therapy. In this article, we will turn the tables and explore a set of methods used to cultivate *positive* trading behaviors. Known as solution-focused therapy, it is one of the briefest and most powerful of the “therapies for the mentally well”.

## How Problems Are Constructed

A cornerstone of the solution-focused method is the idea that problems are constructed by the human mind: they represent ways in which we view ourselves. An example might help illustrate this somewhat unusual idea:

John is a trader of S&P e-mini futures contracts. He has had several losing days in a row and on two occasions failed to honor his stops, wiping out several weeks of profit. The night before his last busted trade his sleep had been fitful, and he attributed his lapse in discipline that next day to fatigue. The next evening he vowed to get good sleep, but found himself mulling over the day's poor trading. As a result, he could not fall asleep and woke up even more fatigued than the previous morning. Fortified by coffee, he vowed not to make the same errors, but now found himself hesitant in taking his normal trades. Cursing his "sleep problem", he decided he would take an over-the-counter sleeping aid and go to bed early that night. When he still found himself replaying the day's missed opportunities in his head, however, he started to worry that he would never recover his sleep. Frantically, the next day he called his doctor and asked for help with his insomnia.

The problem, from a solution-focused vantage point, is not simply that John cannot sleep. Rather, he has drawn a conclusion in his mind that he is an insomniac; that he has a sleep problem. This construction of a problem-based identity helps to maintain many negative patterns of thinking, feeling, and acting. Once people label themselves as "bad traders", "insomniacs", or "depressed", they tend to react more to the label than to their initial difficulties. John begins with a normal sleep disruption that, sadly, contributes to a lapse in his trading discipline. Instead, however, of viewing his problem

as one of trading—leaving his stops too discretionary, so that fatigue affects their implementation—he defines the problem as one of sleep. Once he constructs this sleep problem, it now becomes an object of worry and threat. Even normal difficulty getting to sleep becomes viewed as evidence of “my insomnia”, further convincing him that he has a problem that will undermine his trading.

Solution-focused therapists emphasize that many life difficulties possess this self-reinforcing quality. A statistically normal, but nonetheless upsetting string of negative events is viewed as a new problem, which sets off an emotional chain reaction of anxiety and depression, and further reinforcement of “the problem”. Active traders of futures and options are very familiar with this phenomenon when they experience streaks of wins or losses. Even random trading results are apt to show runs of consecutive wins or losses, yet traders—like gamblers—become convinced that they have a hot hand or a cold one. Once they construct the notion of being hot or cold, they alter their trading accordingly, perhaps by raising or lowering their position size or by taking trades they normally would not. This shifts them from their time- and experience-tested strategies, raising the likelihood that their equity curves will suffer.

Another way in which constructed problems become self-reinforcing is the notion of “trends”. A short-term futures trader takes a long position in the SP after a seeming price breakout and then observes the market move one, two, three bars in the opposite direction. At some point, the trader concludes that the countermovement is evidence of a new, downward trend—despite the fact that the market is moving in a range not distinguishable from random motion. Now emotionally reacting to this constructed

“trend change”, the trader bails out of his long position, only to see the market spike higher after its consolidation of the prior breakout.

The important idea offered by the solution-focused therapists is that many problems that bring people for help do not exist in reality. They are byproducts of the mind’s ceaseless search for meaning in events. Even random occurrences can be taken as meaningful, leading us to believe that problems are present when nothing meaningful has actually changed. As we shall see, this tendency of the mind to construct problems out of randomness creates pitfalls for therapists and traders alike.

### Why Self-Help Techniques Often Don’t Work

Traders of futures and options typically work with a high degree of leverage and recognize the need to always be on top of their game. They are all too aware of the ways in which emotional interference can create lapses in discipline and distortions in perception, resulting in trading losses. As a result, many traders are interested in psychology and self-help methods that can assist them in maintaining their focus.

To be sure, there are many such self-help methods that can be useful additions to the trader’s toolkit. Indeed, I recently wrote a book (“The Psychology of Trading”; Wiley, January, 2003) that details many of these methods, and I employ them religiously in my own trading (see [www.greatspeculations.com/Brett.htm](http://www.greatspeculations.com/Brett.htm) for specific applications). From a solution-focused vantage point, however, traditional self-help methods often make trading difficulties worse, not better. Let’s explore why.

Returning to our trader John, who is bemoaning his insomnia and its impact on his trading, let us imagine that a psychologist recommends a relaxation exercise before he gets to sleep as a way of winding down and becoming sufficiently drowsy to fall asleep.

Perhaps a psychiatrist might also prescribe a short-term course of a sleeping aid to help John return to his sleep cycle. Although these are sensible courses of action, many times they will backfire. John will return to his counselor or physician with continued sleep difficulty and an even greater sense that he has an intractable problem.

The reason for this backfire is subtle, but important. By offering aid for John's sleep, the helpers are unwittingly buying into his initial premise that he *does* have a problem. The more they talk about his "sleep problem", the more they reinforce the notion that this is, indeed, a real problem that exists independent of John's meaning-making mind. This is especially problematic in longer-term therapies, where exhaustive discussions of the person's past conflicts helps cement the idea that the person is, indeed, conflicted and troubled. After all, why would your therapist treat you for a problem unless you really had a problem?

Let's bring the issue a bit closer to trading. Suppose a trading coach offers assistance for their client's "cold streaks". The coach may advise about unique money management strategies, protective stops, trading methods, or self-help techniques to cope with these streaks. All of this assistance, however, simply reinforces the underlying idea that these streaks exist, that they are a problem, and that trading needs to be adjusted to deal with them. Like the trader who exits a long position too early following a couple of adverse bars, the trader who experiences several consecutive losses is all too likely to abandon a worthwhile system at the worst possible time. From a solution-focused vantage point, any help that you seek for a problem is apt to reinforce that problem in your mind, making it worse. Many problems begin in random ways,

but—ironically—are maintained by the very things we do to eradicate them. (See Table One at the end of this article).

So what is a trader, therapist, or trading coach to do? The example of streak trading offers perhaps the clearest illustration of an alternate strategy. Instead of addressing the “cold streaks”, the coach could aid the trader in backtesting his trading methods. This would identify expectable runs of losses based upon real market data. Armed with a concrete set of expectations regarding normal drawdowns, flat equity periods, and consecutive losers, the trader would be inoculated against the tendency to overinterpret events. Random adverse outcomes would be less apt to be taken for more than what they are.

#### Finding the Solutions: An Alternate Strategy

Solution-focused therapy avoids the pitfalls noted above by redefining the aims of the helping process. When traders seek psychological advice, they typically frame their request as, “Can you help me get rid of X?”, where X is a problem pattern in trading. Their aim is to eradicate a conflict, habit, or mood state, which they have interpreted as *their problem*. Solution-focused work does not seek to eliminate such negatives. Rather, it identifies people’s goals—the positives they wish to attain—*and the ways in which they are already achieving these*, even in limited fashion. The idea is not to do less of problem X, but to do more of solution Y.

Once again, an example will prove helpful. A couple comes to counseling indicating that they have “communication problems” and are considering a legal separation. They indicate that they are arguing frequently and that they seem to have grown apart. The wife indicates that her husband spends too much time working on his

trading, ignoring family responsibilities. The husband says that his wife continually nags him to do things around the home, leading him to retreat to his study. During the session, the wife bursts out in frustration, “You never listen to me!” The husband, in turn, replies, “You never support my work!”

Clearly the couple has constructed the notion that they are on the ropes. The idea of “never”—that he never pays attention to her or that she never supports him—reinforces the idea that this is a dysfunctional relationship. If the other party *never* behaves in a manner that is conducive to a good marriage, little wonder that separation seems to be the only option.

The solution-focused counselor will not fall into the trap of exploring the couple’s conflicts. Discussing their problems—especially airing them in the meeting—will only further convince the couple that things are hopeless, that they cannot avoid being swamped by their difficulties even in the therapist’s office. Instead, the solution-focused counselor asks each member of the couple to describe *exceptions* to their problems. “I’m sure you don’t argue 24 hours a day, 7 days a week,” the counselor might point out. “Tell me what you’re doing when you’re not arguing.” Or, even better, the counselor could point out that there might be times when the couple feels just a little bit closer to each other than during the fighting times. “What are you doing differently during these closer times?” might be the question.

Beneath the counselor’s inquiries is a key assumption: *During the exceptions to presenting problem patterns, the couple is doing something different and is doing something right.* Very, very few people are wholly dysfunctional. The key is to identify what they are doing when they are more functional—and then to construct this as a

solution. Instead of doing less of the problem, the idea is to keep doing more of the behaviors that bring them toward their goals.

The couple, for instance, may report that they feel closer when they act as a team, citing an occasion when they had to cooperate to get the house ready for a family reunion. From that recognition might come homework exercises that involve a high degree of teamwork toward shared goals, such as jointly planning a vacation or researching investments. In the process of performing these exercises, the couple finds out that they can, indeed, enjoy each other's company, undermining the construction that they have a "bad relationship" and "never" care for each other. Indeed, the new experiences allow them to construct a more positive identity for themselves, creating a solution out of the exceptions to the initial problem.

When traders become mired in problems, the solution-focused approach is to search for the exceptions. "Let's take a look at what you're doing when you're trading well," is what I said to a troubled trader who complained of a fear of "pulling the trigger" on trades. "Instead of assuming that you 'never' trade well, let's look at your successful trades and find the kernel of an effective trader. Let's find out what that kernel is all about and then develop it. The goal is not to eliminate a trading problem, but to become more of the trader you have always been when you're at your best."

With trader John's insomnia problem, for example, the solution-focused counselor might ask, "What kind of trading are you doing when you sleep well?" Out of this is likely to emerge a set of healthy trading practices that, once reinforced and extended, will allow John to sleep naturally, of his own accord. *The key to the solution-*



*focused method is to identify what people are doing that brings them closer to their goals—and then have them do more of it.*

### Applying the Solution Focus to Trading

In my personal trading, I have made an annual ritual out of conducting an audit of the trades made during the past year, focusing on the winners as well as the losers. From the audit of the winners, I try to identify what I did right: what was working for me during the past year. These become the basis for “trading solutions” that I consciously attempt to implement in the coming year (See Table Two at the end of this article for a sample list of trading solutions from my personal trading). The idea is to create my own model of trading success, but to build the model from my own experience rather than borrow it from a trading guru. Before each trading day, I rehearse elements of this model in my trading diary, which I maintain as an online weblog ([www.brettsteenbarger.com/weblog.htm](http://www.brettsteenbarger.com/weblog.htm)). This consistent rehearsal helps me to internalize the trading solutions so that they become an automatic part of the trading arsenal.

The solution-focused method appears to work for much the same reason that evolution works. When there are random mutations within a gene pool, some of these prove highly adaptive and improve a species’ survival rate. Over time, this selective pressure increases the representation of the mutation within the gene pool, until it becomes dominant. Similarly, we can view our trades as a set of mutations within the total pool of our trading behaviors. By emphasizing the successful trades and paying particular attention to these—constructing them as solutions—we exercise our own selective pressure and increase the representation of those behaviors in our repertoires.

Conversely, when we are problem focused—paying more attention to our deficient behaviors than our successful ones—we unwittingly reinforce these and create a kind of devolution.

Recently, I extended the trading audit concept to daily preparation by identifying a single “trade of the day” for each past day’s trading. The trade of the day, which is part of the daily weblog, is not necessarily the most profitable trade one could have made, but it is the highest probability successful trade either that I did make—or should have made—given my trading systems and data. For instance, if the market emerges from an oversold condition and rises on a breakout number of stocks making short term new highs and a breakout level of positive TICK, the odds of continuation of the upside move are favorable. Entering on the long side of such a breakout, perhaps on the first pullback in the Dow TICK, might constitute my trade of the day. By identifying “best trading practices” each day, I cement in my mind the way I want to be trading, reinforcing solutions rather than spinning my wheels over problems.

To be sure, solution focused methods are not the answer to all trading challenges. Sometimes people do experience emotional disorders that interfere with their success, and these can require ongoing attention and treatment. Auditing worst trades can also be useful, especially in eliminating those few trades that often create a large share of one’s annual losses. Among helping approaches, however, solution-focused work is unique in its ability to help traders become their own therapists. By requiring market participants to find their own successes and create models built on these, the solution focus makes each person his or her own guru, empowering traders rather than fostering an unhealthy dependence on others.

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## **Table One**

### **Trading Problems: A Solution-Focused Perspective**

1. Many problems begin as a string of negative events or as a single, powerful negative event that capture the trader's attention.
2. While a string of negative events or single, powerful negative events can occur through chance alone, people tend to search for meaning in events and look for explanations and patterns.
3. Once traders notice a problem, focus on it, and create explanations for it, they alter their behavior in an attempt to eradicate it.
4. Attempts to analyze and eliminate problems generally reinforce these problems and their consequences, creating a vicious cycle.
5. Over time, a problem focus becomes internalized, leading traders to experience themselves negatively, undercutting confidence.
6. By the time most traders seek help for trading problems, they have already internalized a problem-based identity, which further interferes with the information processing needed for successful trading.

## Table Two

### Sample Trading Solutions: Patterns From an Audit of Successful Trades

- Keeping each trade small, removing the pressure associated with any particular trade
- Keeping trade size constant, with each trade like every other, making trading automatic
- Limiting trades to one or two intraday swings on the SP or ND, entering markets only when tested patterns show a significant directional bias
- Limiting breakout trades to those in which the breakout is qualified by a breakout level in the NYSE TICK and/or a breakout in the number of stocks making intraday new highs or new lows
- Exiting overbought or oversold markets when the five minute volume in the ES or NQ contract spikes higher by three or more standard deviations, compared with the normal volume for that five minute period (blowoff moves)
- Entering trades only when price and the cumulative normalized TICK and TIKI lines have already moved in the direction of the anticipated move, using the most recent lows/highs in these values as a stop-loss for long/short trades.