

## **Trading the Ranger Way: Training the Elite Trader**

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*Ranger School created a concentration camp-like atmosphere at the physical training (PT) pit. Large stadium lights stood around the perimeter of the area, and their glow cut through the blackness of the early morning. It gave us the eerie feeling that tall fences and armed men in watch towers were just beyond our vision in the darkness... We stood in box formations doing the various exercises commanded of us. After warming up, and especially after running, our heated bodies gave off steam like hot cups of coffee on a cold morning. In a way we were trapped, though voluntarily. We had signed our lives over to people we didn't know with the expectation that they would subject us to pain. Ranger students aren't necessarily guided by their left brain.*

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The article you are about to read is a unique application of trading psychology. It is the product of an unusual collaboration between an Army Ranger and leadership expert (Brace); a master trader and educator of traders (Linda); and a professional psychologist/trader/researcher (Brett). In this article, we are going to challenge your notions about what it takes to become an elite trader of options and futures. Our goal is not to comfort your afflictions and reassure you that you'll be a great success in the markets. No, in the Ranger tradition, we are here to afflict your comfort. We are going to push you a bit beyond the boundaries of your normal thinking by introducing a new model for developing trading success. That push is important because, as we shall see, becoming part of any elite requires driving yourself beyond your self-defined boundaries.

Ready to challenge yourself? HOOAH! Let's roll...

### Lessons From Brett: The Anatomy of Greatness

Psychology is not just the study and treatment of emotional problems. A large body of recent research has focused on individuals who are super-normal: those who have been highly creative, productive, and successful in their fields of endeavor. Summaries of this work can be found on Brett's webpage: [www.greatspeculations.com/brett.htm](http://www.greatspeculations.com/brett.htm) and in his forthcoming book on The Psychology of Trading (Wiley; January 2003). Consider some of the more provocative findings:

- Highly successful individuals in sports, science, and the arts are distinguished by the amount of time they spend in intense, deliberative practice. Most have spent multiple hours each day for a number of years refining skills and immersing themselves in their craft. They find pleasure in this immersion and sustain a high degree of concentration during their practice sessions.
- Highly successful individuals across various fields are successful because they are unusually productive. Researcher Dean Keith Simonton of the University of California, Davis has found that the greats in any field produce the same ratio of unsuccessful works to successful ones as their less noteworthy peers. They succeed because they produce so many works that a few are likely to survive as major contributions.
- The combination of lengthy practice and sustained productivity means that successful individuals are unusually capable of sustaining effort, even under trying conditions. Because a sizable percentage of their works is unlikely to succeed, they require a high degree of emotional resilience to weather disappointment and fatigue.

Research on a phenomenon called *implicit learning* helps us understand how greatness is cultivated. Suppose subjects are asked to identify complex patterns from a stream of data with no idea of what they are looking for. They are only told whether their guesses are right or wrong. Over repeated trials—and with sufficient concentration and effort—subjects are able to achieve results far beyond what would be expected by chance.

Here, however, is the catch. While the subjects become excellent pattern recognizers, *they cannot verbalize the patterns that they are responding to*. This is why the learning is called implicit. After many hours of immersion, people know the patterns they are being exposed to, but they do not know that they know. Experience shapes their intuition.

Savvy traders of options and futures know the “tape feel” that results from long hours spent watching market action. *What is less apparent is that the implicit learning studies are actually duplicating the conditions under which greatness thrives*. By sustaining intense concentration, practice, and effort, subjects develop the kind of expertise—and confidence—cultivated by highly creative, successful individuals.

In the Ranger spirit, we challenge you to examine your own trading practices—especially the ways in which you practice trading. *Are you practicing trading, or do you tell yourself that you will achieve superlative success by finding ever more complex trading formulas or mastering the perfect self-help technique?* Research on extraordinary achievement suggests something different: **Greatness arises from the continuous posing and surmounting of great challenges**. Accomplishment becomes automatic—a natural part of the self—when the repetition of a limited set of core skills becomes an ongoing part of one’s daily routine.

Great challenges, tackled routinely—that, we are about to see, forms the basis of Ranger training.

### Lessons From Brace: Transcending One's Limits

Brace has written extensively about Ranger training, and much valuable information can be found on his site: [www.rangerschool.com](http://www.rangerschool.com). U.S. Army Ranger School is divided into three phases. The Fort Benning Phase is designed to develop basic military skills and physical and mental stamina. The Mountain Phase involves immersion in military mountaineering and battle tasks under conditions of severe weather, challenging terrain, and extreme hunger, thirst, and fatigue. The final, Florida Phase, pushes the Ranger to perform against opposing forces in a jungle/swamp environment while under high mental and physical stress. Only when these challenges are successfully met does the student earn the right to wear the coveted Ranger tab.

What is it about forcing individuals to perform complex, challenging tasks under conditions of extreme deprivation and stress that brings out the best in them? Ranger Lance Bagley, speaking of his experience in Ranger School, put it this way:

*I learned that there is always something left. When I got to the point where reason said I couldn't continue, there was always something left...It was amazing to learn how far I could push myself, how far down I could go and still function, and what teamwork meant. To me, that was the essence of Ranger School.*

It is difficult to overestimate the confidence that results from successfully tackling the greatest challenges that can be thrown at you. This confidence, internalized at a deep, emotional level, emerges later in life whenever fresh challenges occur. Ranger W. John Hutt explains,

*My Ranger School experience and learning how to operate under extreme pressure and scrutiny allows me to be cool under pressure now. The discomfort of reduced food and sleep added so much physical distraction to the already intense pressure on us that it makes it easy in the outside world to handle problems when those annoyances are absent.*

Trading futures and options is very similar to the challenges faced by the elite infantry soldier. Operating with high degrees of leverage, the trader performs under conditions of high risk where time is of the essence. There is also considerable uncertainty in both trading and combat, with the enemy always ready to take you out of the game. Nothing quite builds the sense of mastery for the beginning trader, for example, as successfully weathering the adversity of an initial drawdown.

The Rangers prepare men for real life stresses by teaching them basic skills—from land navigation and hand-to-hand combat to teamwork and leadership. Moreover, they review and drill these skills under conditions similar to those found in

combat. *The goal is to rehearse basic values and skills so thoroughly, under so many challenging circumstances, that they will become automatic.* In trading this means rehearsing all phases of trading: not just entry patterns, but also the all-important exit and money management strategies that maximize opportunity and manage risk.

The Ranger way of training recognizes a fundamental reality: ***You cannot prepare for extraordinary performance by rehearsing under ordinary conditions.*** Elite troops can only be forged from extraordinary challenges that force them to draw upon emotional and physical reserves *they never knew they possessed*. Many of the challenges posed by Ranger Instructors are unexpected ones that require quick thinking and responding. If you have drilled handling your worst-case trading scenario—as in a gap that opens against your position—you will feel confident in handling any situation that arises.

It is commonly heard that the majority of futures and options traders lose money over time. This is not because traders have not yet found the Holy Grail. *Rather, it is because traders fail to practice their skills and shape their plans in real time conditions of stress and uncertainty.* Indeed, the majority of traders do not practice their exits and money management disciplines at all!

Push yourself to identify how you develop yourself as a trader. Trading the Ranger way means conditioning yourself the way infantry soldiers build their conditioning. Experiencing intensive challenges in training allows skills to be so internalized that they emerge naturally in real-time. That is how successful traders can experience a Zen-like flow state when they are at their best—even in dangerous, volatile market conditions. Extraordinary challenges are *normal events* when you have encountered them repeatedly in training.

### Lessons From Linda: Speeding Up the OODA Loops

When Linda needed a model for guiding her recent training project for traders, she did not turn to the fields of finance or psychology. Rather, she turned to the military and the writings of Colonel John R. Boyd.

Col. Boyd of the Air Force was a fighter pilot known for his challenge to fellow airmen. He allowed himself to be placed in a position of tactical disadvantage in an airfight and promised that, within 40 seconds, he would be on his adversary's tail, ready for the kill. Col. Boyd was never known to have lost this bet, earning him the nickname "Forty Second" Boyd.

During his career, Col. Boyd developed his approach to airborne combat into a comprehensive philosophy of military strategy. He described combat decision-making as a function of Observing, Orienting, Deciding, and Acting (OODA). These processes form loops, with new actions providing fresh observations and requiring renewed efforts at orienting and responding. The goal of military training, Boyd stressed, is to accelerate OODA loops, becoming more efficient than the enemy.

Trading futures and options requires especially tight OODA loops. There is always new action to Observe across multiple markets and indicators. This requires an ability to rapidly Orient and assess whether we are in trending or non-trending markets, volatile conditions or non-volatile, near support/resistance or away from it, etc. From our Orientation, we must rapidly create and update trading Decisions and then find the will and clarity to Act on these plans.

Ask yourself: Am I preparing myself to trade like Col. Boyd? Am I training myself to observe my market data, size up the action, craft a trading plan, and execute it all within a matter of seconds?

A glance through the Ranger Handbook offers some helpful clues as to how this might be accomplished. Much of the book is taken up with descriptions of drills and procedures, each broken down into easily identifiable components. By breaking complex processes down into clear components that can be reviewed and rehearsed, the Army ensures that they are in “an instinctive and familiar way of thinking for a platoon leader.”

Making complex skills instinctive and familiar is the key to tightening OODA loops. Col. Boyd could never have overcome his adversaries in forty seconds if he had to consciously analyze and plan each of his maneuvers. It was because these maneuvers were overlearned to the point of becoming automatic that he was able to operate within his opponent’s mindset.

Elite traders of futures and options also need to make complex decisions within a time frame measured in seconds. This can only happen if they have broken their trading down into easily identifiable processes that can then be rehearsed under pressure until they are second nature. The process of development being followed in Linda’s training project can be described in three stages:

- **Skill** – A trading skill or pattern to trade is taught to the trader or identified by the trader as having profit potential. This corresponds to the Observe phase in Boyd’s OODA loop.
- **Drill** – The trading skill or pattern is rehearsed, first via walk-throughs (simulated trades on historical data) and then by paper trading live markets. The trader learns to recognize opportunities to utilize the skills and patterns as trading conditions unfold and formulate trading plans based upon the incoming data. This corresponds to the Orient and Decide phases of Boyd’s loop.
- **Fulfill** – The trader’s development culminates in the fulfillment of actual trades in real time utilizing the entry, exit, and money management skills that have been rehearsed. This provides practice in “pulling the trigger” on one’s decisions: the Act phase of Boyd’s loop.

In Linda’s trading chatroom, which trains traders under real-time conditions ([www.mrci.com/lbr](http://www.mrci.com/lbr)), Linda and Brett—working together with a team of researchers

under Andrew Lo, Ph.D. from the Massachusetts Institute of Technology's Sloan School of Management—are investigating the training of traders. Linda assists traders enrolled in the study with their entries and then challenges them to manage the trades on their own, reviewing their results at the end of each day. This provides daily experience in skill/drill/fulfill training. Preliminary results suggest that traders can indeed acquire the skills and methods of a veteran trader and improve their performance.

### Putting It All Together: The Ranger Way

If you ask the average trader what makes for success, you will probably hear about two things: good techniques and proper psychology. We are presenting a different perspective: *Successful trading is the result of a learning process.* It is the same learning process that can be found among great contributors in any field of endeavor, and it is a learning process that can be accelerated through intensive training. Our experience—in psychotherapy, military training, and trading—is that weeks of consistent, hands-on, real-time rehearsal are more valuable than months or even years of leisurely activity.

The Ranger model of training is particularly promising for futures and options traders because it has a long track record of producing high-performance professionals in a relatively short training period. The steepness of the Ranger's learning curve is a function of several factors, including the breaking down of skills into bite-sized components; the relentless rehearsal of those skills in realistic conditions; and the practice of skills in the face of extreme environmental, emotional, and physical challenges.

Our current research will show us whether daily experiences with skills and drills can help traders fulfill their highest aspirations. In future research, we hope to introduce elements of extreme challenge into the training to determine whether or not this will accelerate learning and improve performance. For example, we may have traders rehearse their skills under conditions of high fatigue, distraction, or time pressure as ways of simulating decision-making under fire. This truly would train traders the Ranger way!

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