

AA-20

TRADING PSYCHOLOGY

Fear, greed, FOMO, and revenge — the game between your ears.

Alpha Academy · Team Alpha Trading

Trading Psychology & Discipline: The Game Between Your Ears

Two traders can use the same strategy, on the same day, in the same market. One ends the week ahead; the other ends it frustrated and down money. The difference is rarely the strategy. It is what happened inside each trader's head.

Trading psychology is the study of how your thoughts and feelings affect your trading decisions. **Discipline** means following your plan even when your feelings shout at you to do something else. For most traders, these two matter more than any chart pattern ever will.

By the end of this chapter you will be able to: name the six emotions that wreck the most trades and spot them in yourself, explain why losing $100 hurts more than gaining $100 feels good, describe why a written plan cures emotional trading, build routines that protect your decisions, and use a journal to turn emotions into useful data.

> **NOTE**
> Struggling with trading emotions is normal — every trader has felt everything in this chapter. But if trading stops feeling like a skill you are learning and starts feeling like gambling you cannot control, stop and talk to someone you trust. No market is worth your well-being.

Why Your Brain Is the Hardest Opponent

Your brain did not evolve for trading. It evolved to keep you alive on a savanna, and it is running ancient software in a modern market:

- **It treats a losing trade like physical danger.** A red number on screen can trigger the same stress response as a threat to your body — racing heart, tunnel focus — and a stressed brain wants the pain to stop *now*, which is why people sell good trades too early or freeze in bad ones.
- **It craves certainty.** The market never offers any, and a brain that hates "I don't know" will grab at anything that feels like a sure thing — a tip, a headline, a stranger's post.
- **It chases whatever moved recently.** That instinct kept our ancestors alive. In markets, it makes you buy whatever just shot up and panic about whatever just dropped — usually at the worst moment.

You cannot uninstall this software, and every professional has the same brain you do. What they have is rules and routines that keep it from driving. You will still *feel* everything — the goal is to feel it and follow your plan anyway.

The Six Emotions That Wreck Trades

Fear

Fear is the dread of losing money, in two opposite costumes. Sometimes it makes you **too careful**: your setup appears, your hand hovers, and you cannot click — then the trade works without you. Sometimes it wrecks your **exits**: a trade wiggles against you, fear screams "get out," and you sell minutes before the trade does what your plan expected.

Meet Daniel. His plan: buy if a stock held above $75, stop at $73.50. The stock held at $75.20, wobbled to $74.80 — still above his stop — and Daniel's pounding heart made him sell "to be safe." He lost $40 on a trade his plan would have turned into a $160 gain. The market did not beat Daniel; his fear did.

Greed

Greed is the hunger for more after you already have enough. A trade reaches your planned **target** — where you said, calmly and in advance, "I will sell here" — and a voice says: *but what if it keeps going?* So you hold, and watch the gain shrink to nothing, or into a loss.

Greed also whispers *before* trades. Meet Priya, who had risked $50 a trade, right on plan, for a month. One morning she felt certain about a stock — truly certain — and risked $300 instead. It lost, and one moment of greed erased six careful winning days. Certainty is a feeling, not a fact, and the market charges full price for confusing the two.

FOMO: The Fear of Missing Out

FOMO stands for the fear of missing out: the painful feeling that everyone else is making money on a move you are not in. It strikes when a stock is exploding upward, your feed is full of celebrating people, and your brain screams, "Get in NOW or you'll miss it forever!"

Meet Marcus. A stock he had never heard of was up 40% by 11 AM, and screenshots of other people's profits were everywhere. Marcus bought near the top — no plan, no stop, no idea what the company did. The decision took ninety seconds and was really just the sentence "I don't want to be left out." The stock faded all afternoon; he sold at a loss. He had bought a feeling and sold a lesson.

The truth about FOMO: there is always another trade — tomorrow, next week, next year. A move you missed cost you nothing; a move you chased without a plan can cost you plenty.

Revenge Trading

Revenge trading means making trades to win back money you just lost, driven by anger instead of a plan. You want the money back — personally, immediately. But the market does not know your name and cannot be punished. The only account your revenge can hurt is your own.

Meet Alex. His first trade lost $100 — a normal, planned loss. Furious, he entered a bigger trade within two minutes, on a stock he had not researched, with no stop, "to make it back." It lost $260. Down $360 and shaking, he did it again. By noon, one ordinary $100 loss had become a $700 disaster. The first loss was trading; everything after it was revenge, taken when his judgment was at its worst.

> **RISK**
> If you notice you are trading to *undo* a loss rather than to *follow a plan*, you are revenge trading. It is one of the most reliable signs to stop for the day.

Boredom Trades

Not every dangerous emotion is intense. **Boredom trading** means placing trades because you are sitting at the screen and nothing is happening — your setup has not appeared, but your finger is itchy and the silence feels like wasted time.

Here is the misunderstanding: a trader's job is not to trade. It is to *wait for their setup and then trade it*. Professionals spend most of the day doing nothing, on purpose — the hours between setups are not empty time, they are the job. A boredom trade has no plan behind it and the same ability to lose money as a real one.

Overconfidence After Wins

The sneakiest emotion arrives disguised as success. After a few wins, the brain quietly rewrites history: *I've figured this out.* Stops feel optional, sizes creep up, and sloppy trades start to feel "intuitive."

Meet Sofia, who won four trades in a row and felt unstoppable. On the fifth she skipped her checklist — *I can feel the market today* — and doubled her size. That loser erased all four wins. A coin landing heads four times has not become a heads-only coin, and a trader who wins four times is not immune to loss. Hot streaks are when discipline matters most — and when you are most tempted to abandon it.

Loss Aversion: Why Losses Hurt So Much More

Behavioral researchers who study how real humans decide about money have documented a pattern called **loss aversion**: for most people, losing $100 feels roughly **twice as bad** as gaining $100 feels good. Losses loom larger.

This one finding explains a huge share of bad trading behavior:

- **Holding losers too long:** selling means accepting the loss, and accepting it hurts — so traders delay the pain and "give it more time," while the loss often grows.
- **Selling winners too early:** the fear of watching a gain turn into a loss is so uncomfortable that traders grab profits quickly, cutting winners short.
- Together, loss aversion pushes beginners toward the exact opposite of what works: **big losses and small wins**. Chapter 19's risk rules — pre-set stops, targets, and position sizes — exist largely to protect you from this one built-in bias.

You cannot argue yourself out of loss aversion with willpower. You defeat it with structure: decisions made in advance by the calm you, which the emotional you has agreed to obey.

The Plan Is the Cure

Every emotion above has the same root: a decision made in the moment, by a stressed brain, with money on the line. The cure is to move decisions to a calmer time and state of mind.

A **trading plan** is a written document that answers, in advance: What do I trade? What must I see before I enter? Where is my stop? Where is my target? How much do I risk? What makes me stop for the day?

It works because when you wrote it you were calm and not losing money — a better decision-maker than the version staring at a flickering red screen at 10:47 AM. The plan lets the calm you give orders to the stressed you.

Three rules make a plan actually work:

- **Write it when calm.** Plans made mid-session, mid-loss, or mid-euphoria are just emotions wearing a suit.
- **Make it specific.** "I'll be careful" is not a plan. "I risk $50 per trade, stop out below the setup candle, and quit after two losses" is a plan.
- **Judge yourself on following it, not on the outcome.** A rule-following trade that lost is a *good trade* — losses are a normal cost of business. A rule-breaking trade that won is a *bad trade* — it paid you to build a habit that will eventually send you the real bill.

> **RULE**
> Plan the trade when you are calm. Then trade the plan when you are not. If it is not in the plan, it does not happen.

Routines: Guardrails for Your Brain

Willpower runs out; routines do not ask for it — they just run. Two short ones will carry most of your discipline.

The Pre-Market Checklist

Before the market opens, spend a few quiet minutes on a checklist like this starter version:

- What is the overall market doing — up, down, choppy, or major news coming?
- What are my setups for today, and at what prices do they trigger?
- How much am I risking per trade today? What is my daily loss limit?
- Did I sleep enough to think clearly? Am I upset about something unrelated?
- Is my journal open and ready?

That question about your state of mind is not soft — it is risk management. Trading while exhausted, furious, or distracted is like driving in heavy fog. Sometimes the professional move is not to drive.

The Post-Trade Review

After the session, spend ten minutes looking back while the trades are fresh:

- Did I follow my plan on each trade — yes or no, one by one?
- Where did I feel an emotion strongly, and what did I do about it?
- What is one thing I will do the same, and one thing I will fix, next session?

The review is mostly about *your behavior*, not whether the money went up or down. You are training a decision-maker, not grading a slot machine. Behavior you can control; outcomes you can only influence.

Your Body Is Part of Your Trading

Short section, simple advice, real impact. Your brain is an organ, and it runs on the basics:

- **Sleep.** A tired brain makes impulsive decisions — exactly the ones this chapter tries to prevent. Slept terribly? Trade smaller, or not at all.
- **Breaks.** Step away regularly — stretch, water, daylight, a short walk. Hours staring at flickering prices narrows your thinking and raises stress.
- **Food, water, movement.** Trading on caffeine fumes and an empty stomach is a real handicap.
- **Distance from the screen.** You do not need to watch every tick. Set your plan, set alerts, and let the market come to you.

You are the player *and* the coach — and no coach sends an exhausted, sleepless player into a game.

Knowing When to Stop

Stopping is a skill, and it has specific triggers. Stop for the day — or the week — when any of these is true:

- You hit your daily or weekly loss limit (see Chapter 19). No debate, no "one more."

- You notice revenge urges: you are thinking about money lost instead of the setup in front of you.
- You have broken a rule twice in one session. A third break is coming if you stay.
- You are physically done — exhausted, sick, or your focus is gone.
- Life is loud right now: a family emergency, a crisis at work, anything consuming the attention trading requires.

Stopping is never quitting. Every professional has closed the laptop on a bad morning and saved their week by doing it. Traders who blow up accounts are not the ones who stopped too early; they are the ones who could not stop at all.

> **TIP**
> Decide your stopping rules while calm and write them into your plan. In the moment, you will always invent a reason to keep going — which is exactly why the decision must be made in advance.

Journaling Emotions as Data

A **trading journal** is a written record of your trades. Most beginners record only numbers: entry, exit, profit or loss. Useful — but this chapter suggests adding one more thing: **how you felt, and what you did about it.** An entry might look like this:

Field	Example
Setup	My planned breakout setup; I waited for it
Planned risk	$50, stop set before entry
Emotion before	Calm, a little impatient after a quiet hour
Emotion during	Fear at the first dip; wanted to sell early; held to plan
Followed plan?	Yes
Result	+2R
Lesson	The dip was normal. Trusting the stop worked.

After twenty or thirty entries, patterns jump off the page. Maybe all your rule-breaking happens after 11 AM. Maybe FOMO trades lose every time while planned trades do fine. That is **data about yourself** — the most valuable data you will ever collect, because no book or teacher can give it to you. You stop guessing about your psychology and start managing it with evidence.

Journal feelings without judging them. "I felt greedy and tripled my size," written honestly, is not a confession — it is the first step to changing it.

Common Beginner Mistakes

- **Believing emotions mean something is wrong with them.** Every trader feels fear, greed, and FOMO; the skill is following the plan anyway.
- **Trading with no written plan**, then wondering why in-the-moment decisions go wrong.

- **Judging trades only by profit and loss** — celebrating reckless wins and beating themselves up over disciplined losses.
- **Revenge trading after a loss** instead of stopping, reviewing, and resetting.
- **Taking boredom trades** in quiet hours because sitting still feels like doing nothing.
- **Letting wins rewrite the rules** — sizing up and skipping the checklist after a hot streak.
- **Trading exhausted, upset, or distracted**, as if decision quality did not depend on your state.
- **Keeping no journal**, so the same mistakes repeat for months with nothing to learn from.

Chapter Summary

- Your hardest opponent is your own brain: it evolved for survival, not markets, and treats losses like danger.
- Six emotions wreck the most trades: **fear**, **greed**, **FOMO**, **revenge trading**, **boredom trades**, and **overconfidence** after wins.
- **Loss aversion** — losses hurting roughly twice as much as equal gains feel good — pushes traders to hold losers too long and sell winners too early. Structure, not willpower, is the defense.
- A written **trading plan**, made when calm, moves decisions to the best version of you. Judge yourself on following it, not on single outcomes.
- **Routines** — a pre-market checklist and post-trade review — carry discipline so willpower does not have to.
- Sleep, breaks, and self-care directly affect decision quality.
- Stopping is a skill: loss limits, revenge urges, repeated rule-breaking, exhaustion, and life crises are all valid stop signals.
- A **journal** recording emotions alongside numbers turns psychology into data, revealing your patterns over 20–30 trades.

Check Yourself

1. What is FOMO, and what did it lead Marcus to do in his story in this chapter?
2. In the story about Alex, the first $100 loss was normal. What turned the day into a $700 disaster?
3. What is loss aversion, and what two bad habits does it push traders toward?
4. Why does a trading plan need to be written while you are calm?
5. Besides entries, exits, and profit or loss, what should you record in your trading journal, and why?

Answers: 1) FOMO is the fear of missing out; Marcus chased a stock up 40% with no plan or stop so as not to be left out, and lost when it faded. 2) Revenge trading — bigger, unplanned trades to win the loss back while angry. 3) Loss aversion: losses feel roughly twice as painful as equal gains feel good; it pushes traders to hold losers too long and sell winners too early. 4) The calm you makes better decisions than the stressed you watching live prices — the plan lets your calm self give orders to your stressed self. 5) Your emotions before and during the trade, whether you followed your plan, and the lesson — over many entries these reveal your personal patterns, turning psychology into fixable data.

RULE

You cannot control the market, and you cannot switch off your emotions. You can control your plan, your size, and whether you stop. That is enough — it is, in fact, the whole game.