Trade Like A Wizard

Adam Sarhan

First, it is important for you to know that money comes in two forms: The Smart Money and The Dumb Money. Unfortunately, most people reside in the dumb money circle and stay there for their entire life. I'm here to change that. I started off in the dumb money circle but kept on pushing and finally joined the Smart money circle. It took me nearly a decade of studying the smart money but it finally clicked and I will share some of what I learned with you!

The Most Important Factor That Determines Your Success

The quality of your actions is the single most important factor that separates the smart money from the dumb money. How you think is important but what is more important is how you act. Actions create results in life. Positive thinking is good - but positive doing is what really matters. That's why it is important to focus on how you think - because it will determine the quality of your decisions and that drives your actions (what you do and what you don't do).

Remember, if you decide not to do something that requires a decision and if you only look at the decisions that lead to actions, you are missing a big part of the equation. Because, most of the time, it is the not doing something that leads to inferior results, not the doing. It is not going that extra proverbial mile, it is not taking a trade, it is not making that sales call, not doing the sit-ups, so on and so forth. So, the key is to learn how to make objective/rational decisions, not emotional/biased ones.

Are You Trading Or Investing

The next step is to define your approach - are you a trader or a long-term investor? Because these are two completely different things. Everyone defines these terms differently. Generally, investors have a longer-term outlook and focus on buying undervalued businesses and have no interest in trading stocks. On the other hand, traders (synonymous with speculators) trade stocks more frequently. They look to enter and exit multiple times, on multiple time-frames, to make money. The majority of my work is designed for intermediate term traders. Not short-term day traders or long-term buy and hold investors. My sweet spot, is the intermediate term time frame.

Three Factors That Move Markets

It is important for you to know that there are three primary forces in the market:

1. Fundamental Analysis: Intrinsic (i.e. subjective) value of what something is worth.
2. Technical Analysis: Objective Study of Price and Volume
3. Psychology Analysis: Perception/Emotions Drive Markets Higher and Lower

I coined the term Psychology Analysis for trading and investing years ago (I just finished a book that will be published soon and available on Amazon.com and in Barnes and Noble titled: Psychology Analysis: How To Make Money, Outsmart The Market & Join The Smart Money Circle. (More on Psychology Analysis later in this course)

I'll leave you today with two powerful epiphanies:

Two Powerful Epiphanies: Don't Predict & Defense First

I had a very powerful epiphany, one week before my 25th birthday, when I realized two timeless and extremely critical lessons:

1. No one knows where the market or a stock will be tomorrow, let alone a week, month, quarter, or a year from now. So do not waste time with foolish predictions. Instead, trade in the now and interpret what you see happening in real time and adjust accordingly.
2. The most important thing you can do is respect risk. A great trader once said, you can define your risk, not your reward. Surprisingly, most people do not define their risk and end up getting killed in capital markets. The first step for 99% of people is to learn how to adopt a smart money mindset. In order to do that you need to learn how to rewire your brain to think like the smart money, make better decisions, and most importantly take better actions.

Two Powerful Epiphanies: Don't Predict & Defense First

I want to tell you about one of the things that helped jump start my trading success.

....It wasn't a new indicator.

...It wasn't some fancy piece of trading software.
...and it definitely wasn't listening a friend who has a hot "tip"...

I didn't even realize it at the time, but the thing that helped me jumpstart my trading success has EVERYTHING to do with changing my internal conversation and improving my Psychology/SELF AWARENESS. By improving my self awareness, I was able to develop a trading plan around who I was, what makes me tick, and what my strengths are. I was able to create a routine that I was able to consistently follow no matter what. AND I was able to adjust it when life threw me a curve ball!

One of my strengths is ambition... and BEFORE I developed self-awareness, my blind ambition was causing me to fail...

I consider myself a pretty ambitious guy. When I first got into learning about the market, trading stocks, the different methods and strategies, the mechanics of it, etc... I wanted to learn everything! I would stay up at night for hours reading just about anything I could get my hands on.

I'd try different strategies, I'd test them, and I'd retest them.

I'd start implementing a strategy... and it would work... at first...

Then, life would start getting in the way, the market state changed (up, down or sideways). My routine would become inconsistent. And what was working at first started to fail. And I would start to lose money. I'd attribute the failure to my analysis being incorrect, the market being choppy, my strategy not being good enough... but none of that was the true thing causing me to fail. ...IT TOOK ME YEARS to figure out that IT WAS THE INCONSISTENCY...NOT MY ANALYSIS, technique, or the market that was causing me to fail.

I needed a routine that could be implemented consistently. That meant creating a trading routine that I could do while having full-time job and lots of family obligations.

I had to sit down with myself and figure out how much time I could realistically commit to trading consistently. Did I have an hour a day or only a few minutes a day? Would I only be able to check in a couple of days a week? What day(s) of the week would I work on trading? What sort of things would I need to include in my trading routine?

My FIRST Trading Routine...

My first trading routine was intense! It took me about 30-40 hours every week and I would sit in front of the screen for countless hours- thinking I'm working but at the end of the day I was just being entertained and had nothing concrete to show for it. In fact, looking back it was counterproductive because not only did it get me nowhere but it also caused me to burn out. So I shifted my approach and I learned the most valuable lesson and that is the greatest traders in the world master the art of thinking accurately and making great decisions, especially when they are under pressure. Most people think they are making great decisions but when you peel back the onion, you find out they are making emotional, not rational, decisions.

When you're developing your own trading routines, here are a few things you will want to consider:

1. **Define what your trading/investing goals are**. This will help define everything else in your routine. For example, someone with a goal of maximizing the investments in their retirement account will have a very different set of objectives than someone who is a short-term trader looking to generate steady income. Once you know what your goal for your account is, you can start to think about what kind of strategy you will use to meet that goal. If you have multiple accounts, you should have separately defined goals (and strategies) for each account

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2. **Pick a strategy and stick with it.** This is important because if you're using a growth strategy today, a value strategy tomorrow, and a day trading strategy the day after that, it will be very difficult to capture the subtle nuances the market will show in any of those strategies. With a consistent routine you'll notice the moment something is irregular and that something is changing. That is the market speaking to you! This will allow you to capture trends ahead of time.

3. **Decide how often to perform your routine.** Some of us will have trading routines that we want to perform daily, some weekly, some monthly or quarterly. One of the keys to a successful routine is doing it consistently. You're far better off having a routine that you can do consistently vs. starting one that you can't keep up with and then letting it fall to the wayside. If you perform your routine consistently, you'll get into a rhythm, perform it faster, and start to see the kinds of subtle nuances mentioned earlier.
4. **Decide where/how you're going to do your research.** Whether you're someone who likes to read the Wall Street Journal or Forbes, watch the news, follow people on social media, subscribe to newsletters or other reports, its important to plan out how you're going to do your research beforehand. If you don't and you begin using multiple different sources day after day, week after week, you'll quickly get bogged down and begin to suffer what many refer to as "analysis paralysis". After you've tested several sources, you're better off limiting them to a handful. This will save you time, money, and headache.

5. T**he Smart Money Looks Forward, The Dumb Money Looks Backward:** Another important point for you to know is that the smart money looks forward, and the dumb money looks backward. This disconnect is one of the main reasons most people have trouble getting ahead in this business and one of the most frequent questions I receive from my members. Most people struggle to beat the market, they struggle to get into the smart money circle, they struggle to stay there, and they struggle to get out of their own way. Another common problem I observe in people all the time is that they are constantly looking backward, when they should be looking forward. At the end of the day, we are all looking at the same data, the big difference how we use it. Trust me, I can speak from experience, starting with nothing and spending many years struggling to “figure it out” - the smart money knows how to use the information we all have access to better than the dumb money. It may sound very simple (because it is) but it is extremely powerful.

   The Big Disconnect: As a quick reminder, the data (economic and earnings), and price data on the chart, tells us what already happened while the market moves on the perception of what will happen (future/unknown data). That's why whenever something negative happens, or you are stopped out of a trade for a loss, the faster you get over that event, the better. At first, it may seem difficult, but over time you will learn how to consciously train your brain to look forward and move on. Once you master this very powerful skill you will be light years ahead of the crowd. Don't get caught up in the past or carry the psychological baggage from past losses into the now and your future. Focus on the present and the future, not the past. There will always be another tick (opportunity to make money).

You've gotten this far so I know you're serious! The next important topic I want to briefly cover is technical analysis and tell you why most people misunderstand and misuse it.

What Is Technical Analysis?

Technical analysis is one of the most powerful and misunderstood approaches on Wall Street. To be clear, it is much better for short and intermediate term traders, and less useful for long-term investors. Technical analysis is best described as the ability to make buy and sell decisions based on the objective study of price action. To a very strict technician, everything else is noise. Technicians use historic price patterns, market volatility, open interest, volume and a slew of other technical indicators as a means of interpreting price movements. Since most people do not understand this approach, they often dismiss it and say that it is mambo jumbo or a bunch of nonsense. Just like anything in life, Technical Analysis has both "good" and "bad." When you master this skill, you can get a clear advantage on your competition.

Why Do People Use It?

When used properly, it becomes an extremely powerful tool that allows savvy traders to preserve their capital and consistently navigate markets with grace. It is similar to a pilot flying a plane. Any seasoned pilot will tell you that you need to learn to read and trust your instruments more than you do your senses because that is the best/safest way to fly. Technical analysis is similar because it helps you with timing- Which is the one key ingredient most fundamental analysts lack.

When used properly, technical analysis, helps you enter and exit trades- and it gives you a brief glimpse at what the market psychology is at any given moment. Surprisingly, most people completely dismiss technical analysis and, in turn, are missing a power tool that can help them successfully navigate the stock market. Learning how to use charts properly is similar to a pilot who learns to use their instruments to avoid storms when they appear on the radar, it helps you fly straight. A pilot trusts her instruments and a technician trusts her charts. Similar to fundamental analysis, this is a very large topic, so I will only highlight a few components and strongly recommend you learn more about it, if you are so inclined.

Few Common Technical Tools:

• Price Patterns – Double bottom, Double top, head and shoulders top, h&S bottom, cup with handle, saucer, flat/rectangle base(sell below),

• Trendlines- Connecting Dots

• Moving Averages- Support and resistance

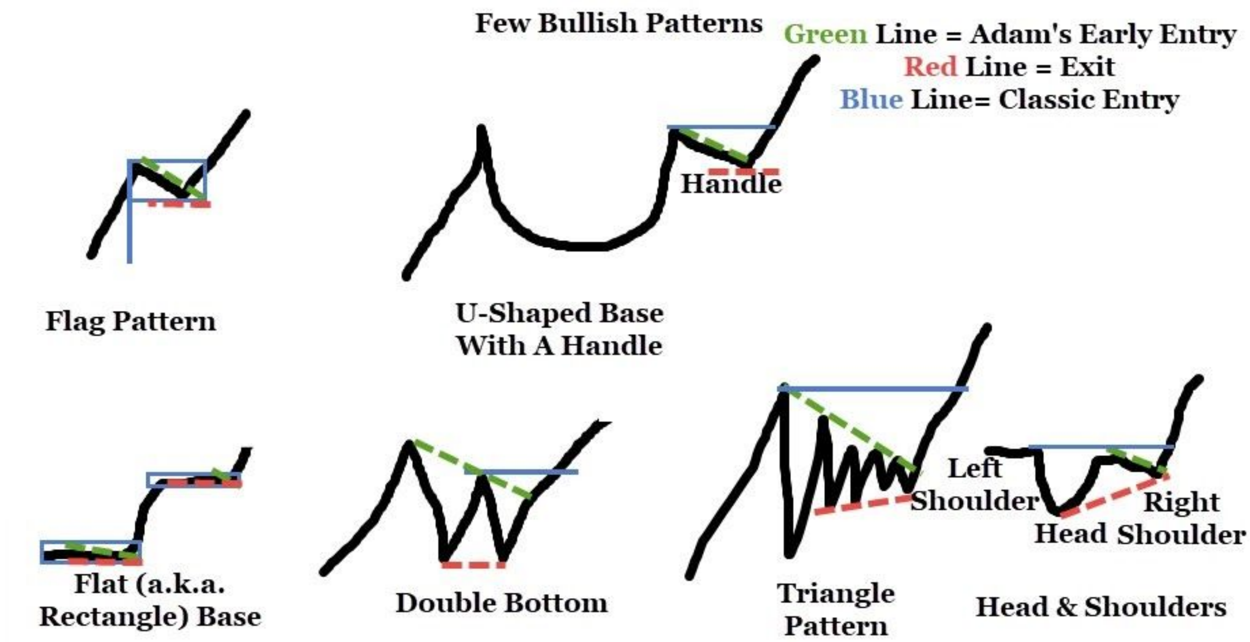
• New Highs vs New Lows – Object In Motion

• Indicators- So many, find one or two that work for you

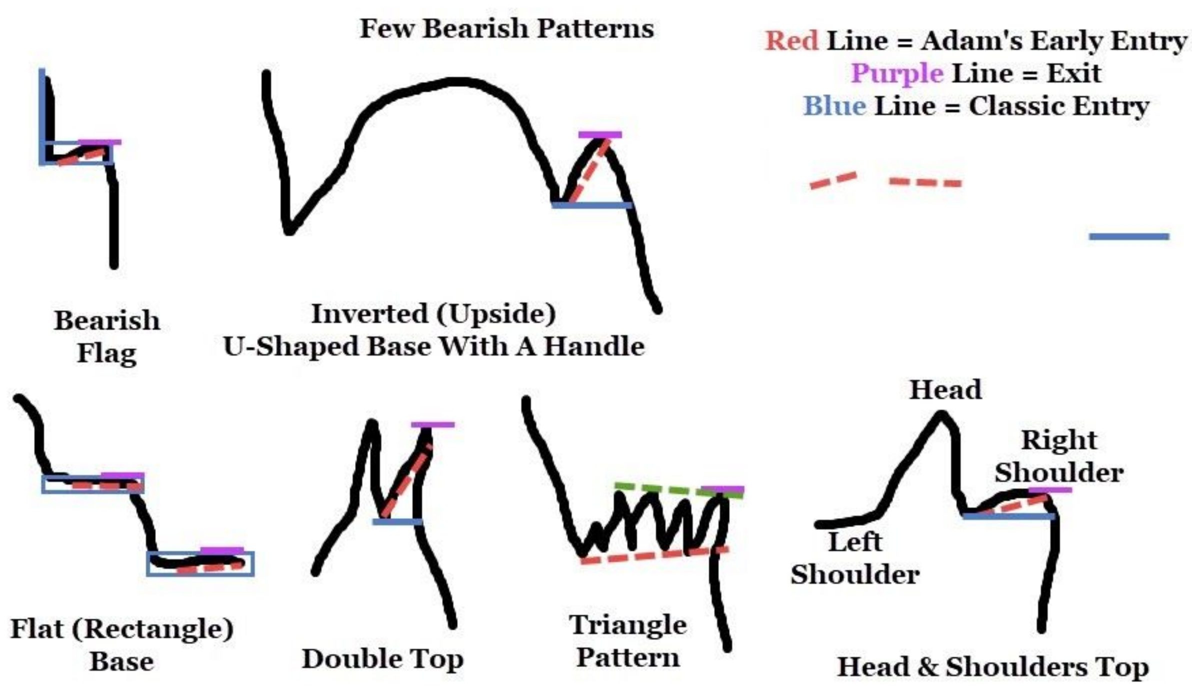
• Pullback off High & Buy leaders on weakness

Let me begin with introducing a few common patterns technicians use

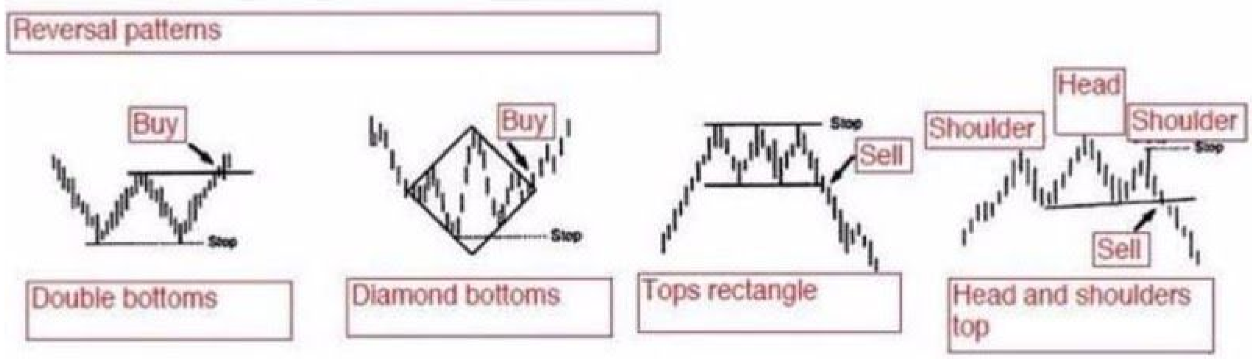
Bullish Patterns:



Bearish Patterns:



Reversal Patterns:



Market States:

Remember there are only three ways any publicly traded market in the world can move: Up, Down or Sideways. Here's how to handle a stock when it "gaps" up or down in each state (a gap occurs when a stock opens significantly higher or lower than the prior day's close due to a major news event like an earnings report):

Uptrend:

1. Gaps Up - If the stock is in an uptrend (meaning it is moving from the lower left to the upper right on a weekly, monthly, or annual basis) then a gap up is what I call a confirmation gap and usually signals further gains will follow.

2. Gaps Down - If a stock gaps down and is in an uptrend that typically means sideways to lower action will follow for the near future. Now, the big caveat, and there almost always is a caveat/exception to just about everything on Wall Street, is if the stock immediately rallies and closes the gap (meaning it trades above the price where it closed the day before the gap) after it falls. If it does that, it is a bullish sign. Additionally, if it rallies after a gap down, closes the gap, then makes a new 52-week high that is even a stronger sign of strength.

Sideways:

1. Gaps Up- If it is moving sideways for a few months and it gaps up that usually is a bullish sign. If it gaps up and hits a new high above the entire range) that is called a break-away gap and usually is a strong sign of big institutional demand.

2. Gaps Down – On the other hand, if it gaps down after moving sideways for a few months, and does not rally to close the gap, then it is a negative (bearish) sign and usually suggests lower prices will follow.

Downtrend:

1. Gaps Up – This is usually a bullish sign and may signal the end of the downtrend

2. Gaps Down- Bad news for the bulls and good news for the bears as that normally signals a continuation of the downtrend.

Technical Analysis Is More Of An Art, Not A Science:

Most people get caught up in the minutiae and miss the big picture. These people have a strong "need" to follow hard rules and obsess about things that don't matter. In the process, they end up beating themselves up and they miss BIG MOVES. For discretionary traders, I've learned technical analysis is more of an art than an exact science and each person is free to follow a process that works for them. [Note: Some people program algorithms to spit out trading signals and to be clear that is not discretionary trading. If you do that- then it becomes more of a science because the computer can't use discretion]. So flexible with your interpretation and how you use technical analysis.

War Of Approaches: I Like To Reframe The Conversation

People love drama and there is no shortage of drama on Wall Street. One of the most basic and (useless) arguments people love to engage in is to defend their approach. Most people who use fundamental analysis dismiss technical analysis and the opposite is also true. To me, this makes no sense. It would be foolhardy to dismiss one approach because you are comfortable using another. Yet so many people do this and this serves as a great example of how rational people behave irrationally (this is a recurring theme in this my work and one major reason why most people lose money in this business- because they make emotional, not rational, decisions).

In my view, fundamental and technical analysis are tools, nothing more or nothing else. Whatever you do with those tools is up to you. Another way to illustrate this point is to look at a hammer and a ladder. I don’t think any intelligent personal would say one is inherently good or bad. Instead, they are simply tools that serve a purpose. Like any tool, they have the potential to be useful or harmful; it all depends on how you use them.

Legendary Investors Use Both.

It is very important for you to re-shape the way you think about Wall Street. Unlike most other areas of life, there concept of “right” or “wrong” is greatly skewed on Wall Street. The only measure of a right or wrong approach is whether or not you are able to use it to consistently make money in the market. This is very difficult for most people to understand because they are used to adhering to a series of beliefs that define who they are and drive their views on life. On Wall Street, both styles can be used effectively it all depends on which approach works best for you.

Several great investors before us understood this point and combined both to form a hybrid investment system that uses both tools. Legendary investors such as: Jesse Livermore, Nicolas Darvas, William O’Neil, Bruce Kovner, etc, etc have all rose to fame by using both techniques to help them navigate capital markets. For each example of a so-called legendary investor that uses both, one can look at a dozen other people that have completely different strategies. I’m not here to argue one side is right or wrong, my goal is to help you re-think conventional wisdom and find an approach that works for you.

It should now be clear that you do not need to incorporate the two approaches but if a tool can help you, why not use it? Knowing that each person is different, each tool may or may not be helpful to your approach. The key is to be open-minded and see which approach works best for you.

I'm going to introduce you to a whole new way of thinking about markets, yourself, business and the world. The best part is that you will get a chance to learn what took me over a decade to learn and cost me more money in "market tuition" than I care to share. After years of applying both fundamental and technical analysis - I frustrated because I wasn't making big money using either approach. How many times have you seen a stock with great fundamentals and great technicals go straight down? Or vice versa? It happens all the time. I realized something was missing but didn't know what it was. I went back to the drawing board and unlearned everything I learned. Finally, the proverbial light bulb went off and I realized that price is a function of perception. Where do market participants- perceive future value and growth to be? Then, it "clicked" and everything started to make sense. I began looking forward, not backward. I realized that I was the only person stopping myself from getting ahead. I took responsibility, looked inward and was amazed at what I discovered.

Psychological Analysis 101- Decisions Matter

Psychological analysis is a very big topic so I'm only going to introduce some of the key points with you here. Those of you who want to dive in deeper, feel free to send me an email- I'm here to help: Adam@ChartYourTrade.com

"Markets reflect you. Therefore, mastering markets occurs after you master yourself." -Adam Sarhan

Make Good Decisions: Respect Risk

Human nature never changes so having a firm understanding of how “they” are going to react can be very beneficial in making market decisions in your favor. Human nature itself cannot be changed but human behavior can be changed but this is totally by choice of the individual. When you learn how to consistently take money out of the market, your life will change. The best part about this business is that you are in full control of your destiny. Your success is determined by only one factor: the quality of your decisions. Nothing more and nothing less. If you make good decisions, you win. If not, you lose. Decisions drive actions. The decision to buy, sell, or hold will determine your success in this business. The decision to act, or the decision not to act, is paramount to being successful in life.

The two most important elements to making a good decision are risk and reward. Every trade has an inherent element of risk and a potential reward. When you first enter a trade, you can control the former, not the latter. If, and when, the trade moves in your favor, you can control the latter. One of the main points of my work, is to learn how to respect and manage risk. If that is the only thing you take away from anything I say, then you are way ahead of the crowd. If you can master that skill, you will view all aspects of life differently, your entire point of view will change, and you will get a lot more accomplished.

Beliefs Drive Decisions:

Going a little deeper, beliefs drive decisions. That is why it is very important to stop and question your beliefs to make sure you are getting the results you want (in the market and in life). Remember, it's very easy to fall into the negative pattern of blindly defending your beliefs, even if they are not working for you. Most people fall into this pattern and that's one of the most common reasons why most people underperform and/or lose money on Wall Street (and do not achieve their goals in life).

The Future & How To Navigate The Unknown:

To be successful in the market (and in life), you need to learn how to navigate the unknown. This is very difficult for most people because people like structure. We like to know that 1+1=2. That’s simply not the case in markets or in most important areas of life. The good news is that the skills needed to navigate the future are simple when you know how to develop them: The easiest thing to do is accept that you are not in control (requires humility) and look at risk vs reward. Navigating the unknown can be simplified to simple risk vs reward ratio. Step one, quantify your risk. What’ the worst thing that can happen if I do X? Conversely, what’s the potential reward? If you are comfortable with the risk vs reward, you can place the trade (a.k.a go for it). If not, then don’t. For now, that is a good way to start to reframe your logic, and reduce your anxiety, about the future.

Human Nature Doesn't Change:

By definition, in order for you to get to the "next" level, you need to breakout. In order to breakout, in any area of life, you need to learn something new and/or make a change. In most cases, that change is internal, and it is a simple change in what you tolerate and/or what you believe to be true. Additionally, you most likely have to make your way through a decent amount of pain in order to breakout. In that light, pain is healthy and a necessary component to improving your life. Once you get past the pain and acquire the necessary knowledge, the change happens instantly, you just have to be ready for it. Often, you are not aware of it in real-time, instead it is clear when you look back on different stages in your life.

During my quest for knowledge, I studied every great boom and bust in history. I noticed, the assets changed, the people changed, the centuries changed, but the one constant is human nature. The simple fact that if you walk into a theater anywhere in the world and yell FIRE! You will get the exact same response irrespective of the people's education, race, religion, creed, socio-economic or any other condition. Human doesn't change.

To further illustrate my point, in 1912, G. C. Selden wrote a great book titled, Psychology of the Stock Market. As you can see from the book's description on Amazon that human nature doesn't change: "When this book was originally published in 1912, Selden's idea that "movements of prices on the exchanges are dependent to a very considerable degree on the mental attitude of the investing and trading public" was still a novel notion. It is now an established fact. Though published in 1912, Selden's book could have been written yesterday. This makes complete sense, as the main topic - human psychology - has not changed at all in the past century."

Psychological Analysis 101

Throughout my work, I focus on psychology because at the end of the day, your mental capital controls - and is more important than - your physical capital. I coined the term Psychological Analysis for capital markets which will be described in great detail throughout the following chapters.

Just as a brief overview, most people on Wall Street focus on Fundamental Analysis and/or Technical Analysis but ignore (or are not even aware) psychological analysis. In addition to fundamental and technical analysis, my work introduces a third school of thought, (I coined the term) psychological analysis for investing. I boil it down to 3 P's: Pain, Pleasure and Psychology. These steps will help you learn how to consistently take money out of the market. I've also found that the best traders and investors are the ones who have clarity and are able to see things in simple terms. People have an innate urge to complicate most things because they don't "believe" things can be that "simple."

Psychological Analysis: Collective and Individual

Now that you know human nature doesn't change, the world, and markets, can be seen in an entirely different light. Human nature is complex but human behavior is simple and often predictable. That thinking lead me to develop Psychological Analysis for investing and trading. Psychological Analysis can be broken down into two sections: collective psychology and your individual psychology.

To break this down into bite size pieces for you, I look for constants and universal truths that are self-evident. Everything I focus on will come back to some universal truth that can be applied by anyone, in any market, in any century, anywhere in the world.

Another nugget of wisdom I've learned is that most people are confused and simply do not know what they are doing, let alone what makes them tick. My goal is to help you peel back the onion and do some serious introspection, to breakout and overcome whatever unconscious hurdles (mental blocks) have been hindering you from getting to the "next" level and preventing you from accomplishing your goals. Ask yourself, What drives your decisions? What makes you tick? Why are you doing something or not doing something? Is it based on Fear? Greed? Love? Hope or any other emotion?

Your Psyche: How You Behave & Think Matters

Earlier, I said the only thing that you can control, and ultimately, what determines your success is the quality of your decisions. I'll dive into your psyche in depth later, but for now, suffice it to say that your behavior and the quality of your decisions, are directly impacted by the way you see – and think about- yourself. If you believe you can't beat the market, you won't be able to beat the market. If you believe you don't deserve to make big money, you won’t make big money. Remember, the way you see and describe yourself has a huge impact on your actions. If you change your internal story, and take responsibility for everything you say, think and do, and truly believe in yourself -then, in time, you will see massive results. In that vein, if you believe you can beat the market, you probably can acquire the skills necessary to beat the market. If you believe you deserve financial freedom and abundance, you will likely get it. Remember, it’s not enough to believe, for that belief to manifest you need massive action. And even with constant belief and massive action, still most people will not accomplish everything they want. That’s just the nature of life.

Market Psyche: How The Crowd Behaves

After studying countless bull and bear markets and economic cycles going back to the third century, I've learned that human nature never changes. The people, markets, bubbles, busts, and nearly every other variable may change, but human nature is constant. The fact is: human nature never changes. That's what I am looking for in markets. Some of what I've discovered is tangible and quantifiably and some is intangible and a quality. The intangible and quality components come with experience and will become obvious to you when you know what to look for. Just like green... Are you able to tell someone what the color green looks like? Or what chocolate tastes like? No. It is impossible because it is a quality that you have to experience to know. It cannot be explained. But once you experience it, you know it. That's the intangible/quality of a trade that I look for. Why are people trading? Who's on the other side of your trade? Why are you buying? Why are you selling? Why are they buying? Why are they selling? No one knows for sure why someone does something, but it is important to ask yourself these questions because, over time, it will help you better understand the quality (a.k.a art) of investing/trading.

Psychological Analysis: Driving Theme

The basic premise of psychological analysis is that perception determines the price of just about any freely traded asset at any given time. Put simply, price is a function of whatever the collective sum of market participants perceive value to be at any given moment in time. Nothing more and nothing less.

Perception Ebbs & Flows:

Perception and opinions ebb and flow just like everything in life. That's why prices are constantly changing and there is no one perfect formula to derive price. People can build models, come up with complicated formulas that forecast or guesstimate price, but nothing is 100% perfect.

Fuzzy Facts & Confirmation Bias We All See Different Things

In life, and in markets, perception reflects the thoughts of the participants that are active in the sample set. Perfection is subjective, not objective. One of the psychological biases that impact all humans is confirmation basis. Put simply, we look for information that confirms our beliefs. That's one reason why we can all "see" or “read” the same thing and draw different conclusions.

This phenomenon is true in nearly all areas of life where there is an element of subjectivity involved with deriving a conclusion. Some of these areas are: economics, religion, politics, sports, markets, business, investing, marketing, advertising, entertainment, and fashion, just to name a few. Politics is the easiest way to illustrate this point.

We all have the same facts, but half the country is on the right and the other half is on the left side of the aisle. Yet we all have the same facts in front of us. Same is true for markets, some people are bullish (believe prices should go higher), some are bearish (believe prices should fall) and some are agnostic (do not have an opinion).

Thoughts & Beliefs Determine Our Perception:

The way we see things depends on our thoughts and beliefs. That's why everyone has a different "truth" that they believe. Once you realize that your beliefs control your decisions and your perception, that is extremely powerful and liberating. Because that raises your awareness and consciousness. The more clarity you have with respect to how your mind and body work, the more control you will have over your life. Furthermore, if you change your beliefs (not easy), your perception will change, and you suddenly "see" markets in a completely different light.

Therefore, in order to make better decisions, you must change your believe to be true, especially if what you believe is not getting you results. I know a lot of “smart” people who are committed and stuck to a school of thought (it applies to both fundamental and technical analysis) that is not getting them where they want to. Remember the emotional states I discussed above. The goal of a successful trader is to master her emotions and learn how to use the power of anticipation in their favor and learn how to make logical, not emotional decisions while the bullets are flying (the market is open). Great traders do not predict the future (or react to the past), they anticipate and prepare for the future.

The Market’s Bell Curve

I want to be as direct and intellectually honest with you as possible. They say the truth hurts, but I believe I lie hurts a lot more. Please take what I’m about to say for what it is, neither positive or negative, it is just a fact. Most people lose money and under-perform markets (and in almost all areas of life). That’s why there is a normal bell curve and it can be applied to just about anything in life. Very few people will get A’s. Most will get B’s & C’s and quite a few will get D’s and F’s. This phenomenon applies to both active traders and passive long-only buy and hold investors.

I'm here to share with you some of what I’ve learned over the years and show you something different. My experiences in life have shown me the power that comes from truly being open minded, consistently learning new things, and looking for knowledge, truth, and clarity at every turn. I want to thank all the investing legends that have shared their views with the world because a lot of what I’ve learned is based on what other people have shared. That’s why I am doing my part to share what I’ve learned (so far) with you.

If you want more, feel free to watch this popular interview I did with ChartYourTrade a few years ago: **AN INTRODUCTION TO PSYCHOLOGICAL MARKET ANALYSIS WITH ADAM SARHAN**

I want to talk to you about one thing that we all experience. Have you ever hit a wall? It doesn't matter what you are doing in life - we all have at one point or another. Mental Walls exist around us all the time, especially when your money is on the line and your emotions are moving all over the place. For most people, the problem is that they are not aware of these mental walls and are trapped and never seek to identify them or destroy them. Why? Because it is painful to do so and requires a lot of hard work. Unfortunately, most people are intellectually lazy and prefer to take the easy way out (avoidance and they do not address the problem)

Mental Walls (a.ka. Mental Blocks):

Mental walls (a.k.a. mental blocks) are unconscious hurdles that hinder you from getting to the "next" level and accomplishing your goals. We all have mental blocks, some worse than others. The problem, for most people, is that they are not aware of these blocks, and go through life stuck to their core beliefs (even if those beliefs are not getting them the results they want) and to make matters worse, they intellectually shut down and do not want to learn. In most cases, in order to overcome your mental block(s), you need to get out of your comfort zone and usually encounter some mental pain. Most people prefer to put their head in the sand and stay comfortable in their “safe” zone - even though that doesn’t get them the results they “want”.

The next, (smaller) group, are conscious enough to know they have mental walls but do not do anything about them. They just play the victim card and blame some outside “thing” (fill in the blank with any excuse under the sun: the market, my past, bad childhood, my parents, my spouse, my boss, my genes, etc). The rest, and smallest group, are the enlighten ones, they are the ones that are able to constantly grow, and push through the mental pain to identify and destroy their mental walls. These are the people who tend to excel at whatever activity they focus on. The good news is that just about anyone reading my work can get to the other side if they truly want it, work hard, and focus hard on introspection.

Dumb Money & Smart Money:

Throughout my work I will describe enlightened investors and traders as smart money and everyone else as dumb money. To avoid the obvious negative connotation with dumb money it is important to note that EVERYONE, even the greatest investors in history, began as dumb money. So there is nothing inherently wrong with being in the dumb money camp as long as you are aware of where you are, work hard, and improve your actions and move into the smart money camp. After all, that is one of the biggest motivating factors that drives me.

Focus On What You Can Control:

The next important fact to keep in mind is that you are the only variable you can truly control on Wall Street. You cannot control what the market does after you enter a position, you cannot control lousy accounting at a company, a merger or an acquisition, or control what someone else buys or sells. But you can control what you do - and that's all that matters. You alone, are in full control of your decisions and actions, no one else. That is very important because even though you can't control what happens to you in life, you can control how you react to it.

On Wall Street, you decide when you enter and when you exit a trade, no one else. I will teach you conventional wisdom and then teach you tactics and strategies I use to successfully navigate both bull and bear markets. If you want a shortcut, stop reading, go to Vegas and put it all on red (at least there you get free drinks). I'm here to tell you, real long-term success in life (and in this business) does not come overnight or from short cuts. Instead, real success almost always comes after years of hard work, persistence, overcoming some degree of mental pain, education, the ability to grow/mature intellectually, and the best teacher of all, real-life experience. Since success depends on the quality of your decisions, I spend a lot of time in my work (Due to popular demand, I developed 1-on-1 coaching sessions- learn more here) - focusing on how you think and how to improve your psychology.

Buy Early; Don't Buy Breakouts

Most people who study technical analysis are taught to buy breakouts. By definition, a breakout a occurs when a stock trades above a prior high. Breakouts come in all different shapes and sizes. You can have a breakout from a 20 day high, a breakout from a 52-week high, or a breakout on a 1 minute chart. All things being equal, the longer the breakout, the stronger the subsequent move. Meaning a breakout on a 5 minute chart is not as powerful as stock that breaks out of a 3 year base (base is another word for trading pattern or consolidation area).

The problem with buying breakouts is that most breakouts fail. But the ones that don't, work marvelously. So instead of buying breakouts, then getting stopped out for a loss, I prefer to Buy early and get in as the stock is moving up the right side of its base---and buy before it breaks out. This way I'm in with a nice cushion by the time it breaks out and have a clear definable edge (statistical advantage) on everyone else who is only waiting to buy a breakout. Those are just a few reasons why most people misunderstand and misuse technical analysis.

For more information on my Advanced Entry Point Process- Please feel free to watch this interview I did with Michael Lamothe- founder of ChartYourTrade.com a few years ago:

ADVANCED ENTRY & EXIT POINTS PART 1 WITH ADAM SARHAN

ADVANCED ENTRY & EXIT POINTS PART 2 WITH ADAM SARHAN

Summary:

1. Strengths – It tells you when but giving you specific entry and exit points.
2. Weakness- Most people don't understand and dismiss it. This causes them to misuse it to make predictions.

Now, I want to talk to you about the THE FORCES THAT DRIVE MARKETS.

When trading stocks, it is so important to be able to see and understand what forces are driving markets and effecting the overall BIGGER picture. Whether you are someone who is trading or investing for short term profits, or someone who plans to hold longer term, ALL STOCKS are effected by this larger fundamental backdrop.

Fundamental backdrop..? What does that even mean??

Well, the "fundamental backdrop" is the underlying forces which are driving the market higher or lower. It could be anything depending on when you look. It could be an upcoming election cycle, the Fed raising or lowering interest rates, or something happening globally. Figuring out what these forces are can be extremely challenging! This is especially true for those of us who are not full-time traders and are attempting to do this all on our own

If you subscribe to newspapers like the Wall Street Journal or Investor's Business Daily, you can get a little bit of the flavor of what is effecting the stock market but in my years of reading them, we're still left to our own devices to put all of the pieces of the puzzle together and come to our own conclusions without much help or guidance if what we're doing is right or wrong. Not to mention how time consuming this process can be!

We send a link to the latest Market Insights post in our weekly newsletter. Be sure to check it out!

If there is ANYTHING I can personally do to help you out in your trading journey, please reach out to me at any time! Your success in the stock market is our goal!