

## 10 Reasons Traders Fail to Make Money Trading

We have all heard the cliché statistic that something like 80 to 90% of traders don't make money. So, you basically have two choices; give up your dream of being free from work, jobs and the drudgery of modern 9 to 5 society, or try to understand why most people fail at trading and work to make sure you are in the top 10 to 20% of traders who actually make money.

You have to take a hard look at yourself and decide what you want. Do you want to submit to the modern-day 'slavery' of bosses and jobs, or do you want to really have a crack and commit to learning how to trade and achieving consistency at what is really the only profession that can give you true freedom?

The first step is identifying the common reasons most people fail to make money trading and learn some solutions...

### **Problem #1: Not demo-trading first**

Why is not demo trading first, a problem? Well, for one, you need to learn how the trading platform you're using works, before you try entering trades on it. You wouldn't want to lose money unnecessarily just because you didn't fully understand how the trading platform works.

Next, trading live before you have actually learned how to trade your method, is a recipe to lose money. You need the screen time and to get some 'runs on the board', as well as some consistency, before committing to risking real capital in the markets.

I don't recommend spending too much time demo trading however, 1 to 3 months is the ideal amount of time after you've learned a trading strategy. But certainly, before you ever try real money trading, you need to demo your trading method to get familiar with it. This will help you avoid losing money unnecessarily.

Or course, real / live trading is going to be the best teacher of all, because the emotions of having real money on the line are present, but that doesn't mean you should rush into it without some practice.

### **Solution: Get a demo trading account**

You can get my recommended demo trading account here. I recommend opening it up and getting familiar with placing trades on it, whilst studying my trading strategies.

Treat the demo account like it's real money, even though it isn't. The more closely you treat the demo account as if it's real, the easier your transition will be when you eventually move to a live account. Read here about the differences between live and demo trading.

### **Problem #2: Making it overly-complicated**

A big reason so many traders fail to make money is due to over-complicating the trading process. Really, people will over-complicate any aspect of trading, from the actual strategy they use, to how often they check the charts, to money management, trading is a very easy thing to over-complicate.

Perhaps the thing traders over-complicate first, is their charts. It's very common for beginning traders to think the more indicators they learn about and use the better off they will be. However, as I discuss in my article on why indicators will destroy your trading account, this couldn't be further from the truth.

If your charts look messy, more like abstract modern art than a price chart, you're probably over-complicating the analysis process. If you're addicted to the lower time frame charts, you're probably over-complicating things as well. If you're sitting there staring at your charts for hours or reading economic news constantly, you're also over-complicating it.

### **Solution: Simplify**

Remember, the primary piece of data we are all trying to analyze and trade, is price. So, step one to not over-complicating trading, is not covering up the most important thing in any market, which is the price action. You need to remove indicators and learn how to trade on a stripped-down / naked price chart, before doing anything else.

Also, remember that adding variables, whether they are indicators, news or fundamentals, other peoples' opinions, or anything else, is only going to over-complicate your mind and as a result, your trading process. Remember, keep it simple stupid.

### **Problem #3: Not understanding and accepting that losses are part of the game**

One of the biggest problems for beginning traders, one that often causes them to blow out their accounts and give up, is accepting that losses are part of the trading game. You have to understand this and accept it, as well as plan for how you will handle losses. Traders often try to avoid losses by not using stop losses or hedging, but these actions only lead to bigger losses and faster account blow outs. You can't avoid losing trades.

Traders tend to freeze up when they lose. They see losses as a very negative thing and the emotional responses they elicit in a trader can be very dramatic. A trader may become afraid to take the next trade and 'hide' for a while, or they may trade too small on the next trade, only to see it win (but a much smaller winner than otherwise possible). Traders also tend to feel revenge after a loss, and they carry out this revenge by jumping back into the market to try and make back the money they just lost, which of course usually only leads to more losses, thus further cementing the cycle of bad trading habits.

### **Solution: Understand, accept and plan for losses**

The solution to losses, is to understand them and accept they will happen and formulate a loss / risk management plan.

It's important to understand that any one trade can be a loser, even if your edge is say 80% profitable. An 80% win rate still doesn't mean you know when those 20% losers will show up. So, out of 100 trades, you could have 10 losers in a row, can you handle that?? Think about how you would plan for that. To learn more about this principle, check out my article on randomly distributed wins and losses.

Next, it's critical that you understand the difference between a good loss and a bad loss. Now, maybe you're thinking, "what the heck is a good loss?". A good loss is one that happened as a result of you trading your edge with discipline and patience. Meaning, you took a trade that fit with your trading

strategy and trading plan and it simply didn't work out because it was a natural statistical loser. No harm, no foul.

A bad loss, is one that you could have avoided. These are typically instances of over-trading, or trading when your edge wasn't present. In my opinion, these bad losses are the biggest reason most traders fail. Most traders simply trade way too often, and so they are essentially gambling. One thing we all know about gambling is that the house always wins, the house in the case would be other traders trading against you. So, if you want to lose your money, trade frequently. You have to work to avoid these bad losses, at all costs.

#### **Problem#4: Focusing on money not trading**

I have found that most people become so focused on money, profits and rewards, that they lose sight of what it actually takes to achieve them.

Do you think a professional basketball player or golfer is thinking about dollar signs and profits in the heat of a game or tournament? No! I can guarantee you they are not. They are solely focused on the game they love and are passionate about and how to best perform. The golfer has to play each stroke and each hole across multiple rounds to win a tournament, he is not thinking about money. He is thinking about the mechanics of the game, his process, his mindset, etc.

Similarly, if you're overly-focused on money and not the mechanics and process of trading, you are not going to be in the markets very long.

#### **Solution: Focus on the journey, not the destination**

The solution, is to simply realize that to make money trading, you can't be always thinking about making money. The goal is to make money of course, but the journey is trading, and without executing the journey properly, you won't ever make money. I get emails almost every day from beginning traders asking me how much can they expect to make per month or how much should they risk, etc. These are the wrong questions to be asking. What they should be asking is, "how do I trade properly?", "how do I learn to read the charts?", and similar questions.

It seems since trading is about speculation and making money, most people don't want to focus on the mechanics and process, but without focusing on those things you will never make it. You have to be passionate about trading, about playing and winning the game, not only about making money.

#### **Problem #5: Not learning the daily chart time frame first.**

Most newbies want to try and day-trade. They've got some idea in their minds about day trading and they all seem to want to look at short time frame charts before focusing on the daily chart. Who can blame them? With all the misinformation out there, on other websites and forums, it's easy to start off being addicted to the tick by tick movement of 1 and 5 minute charts. However, what you have to learn quickly, is that these time frames are just noise.

The market's real story can only be read on the higher time frames, zooming out and seeing the whole picture. Daily price bars tell an entire day of information and as a result, they carry more weight.

#### **Solution: Analyze and trade only the daily chart at first**

The solution to the problem of not learning to trade the daily chart first, is to only focus on the daily chart time frame. I have written many articles explaining why you should trade higher time frames, so I won't list all the reasons here. But, suffice it say, if you don't understand the key levels and how to find and trade trends on the daily chart, you are never going to make money on any time frame under the daily.

If you want to trade intra-day charts, you must first understand what the daily chart is doing, in terms of trends and levels, as well as price action. The solution, is both to understand the importance of learning the daily chart and then actually only focusing on it until you've mastered it.

### **Problem #6: Poor money management**

Poor money management is a huge problem that dooms many traders (most actually) before they even give themselves a chance to get started. The root cause of this problem is both poor education / low knowledge on the importance of money management, as well as greed. Many people simply don't want to accept that they cannot risk a lot of money per trade, so they crank up the risk right out of the gate and promptly proceed to lose all their money thus.

Trading with money you can't afford to lose and risking too much per trade are the two biggest money management mistakes people make. Similarly, not understanding how much you can mentally and financially lose per trade and still be OK is another aspect of this.

### **Solution: Understand and plan**

So, what is the solution to poor money management? Well, it begins with acknowledging that you can't risk money you can't afford to lose. If you are trying to fund your account with a credit card because you don't have extra cash to trade with, you're doomed. If you're putting more money in your account than you know you should be using, you're doomed.

When you start, you've got to decide if you even have any money to trade with. Trading, speculation, is risky, and you have to approach it from the mindset that you could lose the money you're trading with. I am not saying you WILL lose it all, (If you get training and are disciplined you won't lose it all) but I am saying you have to be mentally OK with potentially losing it all. When we approach trading from this mindset of being OK with losing, we put ourselves in the best position to win, as ironic as that may sound to you.

The two keys to money management are funding your account only with money you really don't need, and not risking more than you care to lose per trade. I tell people that you should set your 1R per trade risk at an amount so that if you lose 20 straight trades you could still trade that same amount. Read more about this here.

### **Problem #7: Trading too often**

Trading too often, or over-trading, is probably the number one account-killer among traders. Nearly every trade has over-traded at some point. The ones who figure out they are doing it before it kills their account, are the ones who stick around long enough to find some success. Sadly, most do not figure it out or they simply can't stop doing it.

What I am talking about here is trading when your edge or strategy is not present. It is a mistake born out of greed and impatience. I know you badly want to make money in the markets, but I can promise you that trading more often is not how you do it. Looking at lower time frames is a big reason traders over-trade, also, trading from mobile phone apps is a problem. These things lead to addiction to the charts, and that obviously leads to over-trading. Over-trading is essentially gambling, and as I said earlier, the house always wins (meaning, the casino, or the broker or other traders, not you).

**Solution: Slow, slow, slow it down...**

The solution to trading too much is to slow down all aspects of your trading. This means, looking only at the daily chart for a while, not using your phone to trade and only analyzing the charts a couple of times per day for 20 to 30 minutes each. You need to take a sniper approach to trading, not a machine-gunner approach. You must understand, accept and act on the fact that less is more in trading.

**Problem #8: Not understanding market dynamics or how to read price action.**

Obviously, if you don't understand how markets tend to move and the basics of price dynamics / price action, you aren't going to make money as a trader. Yet, time and time again, I read emails from traders who clearly don't understand basic tenants of market dynamics and price action.

Some examples of this problem are:

- Traders trying to constantly trade breakouts. This often leads to losses because they don't understand false breaks.
- Not understanding pull backs – trying to pick tops and bottoms or entering when the market is extended.
- Not understanding how to read the story on the chart. In other words, you need to look at the entire sequence of bars, from left to right and what they are telling you, instead of focusing on just one price bar.

**Solution: Learn and anticipate, don't just react**

The price action in a market reveals important information, such as, key levels and previous price action signals, event areas and other things that we should have marked in advance. Mark these things on your charts ahead of time, as these levels and pieces of information will guide us on future trades.

Problem #9: You have no daily mantra or routine

If you don't have a routine, your trading is going to become haphazard and out of control. The way you conduct yourself will carry over to your trading results. If you don't have any type of consistency in the way you approach the markets, you cannot expect to have consistent trading results.

The problem here is that many people don't start off learning from a mentor or someone more experienced than them. Instead, they believe they can just 'wing it' or go it alone and 'figure it out' by themselves. However, what ends up happening is that they have no real trading strategy that they've mastered, they are instead just randomly look at the markets hoping they will somehow become profitable.

**Solution: Learn how to create routine and consistency**

I have several articles on my daily routine and how I approach the markets. My routine is one that is a combination of life, strategy and mind. I am not looking at the charts all day. I know what my strategy is and I typically have two to three times per day that I look at the charts in peace and quiet.

### **Problem #10: Trading without professional training**

Trading without professional training, not obtaining real trading knowledge, and failing to master skills before going into the battle of trading, is a killer for any trader and their account.

It never fails to mystify me how or why anyone believes they can succeed at trading before they AT LEAST have learned a solid price action based strategy. I believe everyone needs professional training and to obtain real chart reading skills before they can even hope to have a chance at making money trading. Financial market speculation is not for the weak-minded, and you really need a guide and solid education before you go risking your hard-earned money in the market.

There is no other serious profession on Earth where people think they can avoid professional training and somehow become successful. Whether it's a professional athlete, a doctor, lawyer or anything else, they all require training by a professional

### **Solution: Learn from a professional**

As I discussed above, learning from a professional is essential for learning any skill. You should want to give yourself the best chance at succeeding in the market, and that means learning how to trade from someone who has already made all the mistakes that you will make and can teach you how to avoid them. Doing this, will save you money, time and an immense amount of mental frustration.

My intention in today's lesson was to give you some solutions for dealing with the most common reasons traders fail to make money. Remember, I have walked the exact same path your walking right now when I first started my trading career and I too have experienced most of these problems along the way. It's not enough to be aware of the problem, you must actually implement each solution consistently.