

LOCUS OF CONTROL

Understanding Your Trading Psychology



Have you ever heard of the market makers? I think they are like the boogey man for traders. They lurk under your desk trying to mess up every trade you make. They conspire to stop you out of your trades just before they go your way. They eat your stop losses for breakfast and quench their thirst with the blood of your losses.

Do you ever feel that no matter what you do, no matter how much time you spend learning, things in the market conspire against you? You might have what psychologists would call an external locus of control.

What Is The Locus Of Control?

The locus of control has been studied since the 1960's when psychologist Julian Rotter studied how people's behavior and attitudes affected the outcomes of their lives. The locus of control is the point where you believe control exists. An internal locus of control means you overwhelmingly believe that your actions determine your outcomes. Whereas an external locus of control means you believe that your actions have little to do with the outcomes seen in your life, rather you are at the whim of fate, external forces and maybe even those evil market makers. On the more extreme end, a severely external locus of control can lead to anxiety and depression, believing that no matter what we do, we can never change our lives.

People with an internal locus of control are more likely to persevere in the face of adversity. They are more likely to identify their own failings and work to correct them, as they believe they are steering the ship of their own life.

Locus of Control and Trading

If you have an external locus of control, it will be difficult to make a lot of headway in the market. It will often feel like your winners are times you got lucky, or copied someone else's work, and your losers are times you were just at the whim of the markets. Essentially, both winning and losing is attributed to anything other than the work you have put in. There is a caveat here. If you believe your winners were your hard work, and your losers were because of the markets, you are likely just trying to deflect blame - and you will likely know it by the amount of disappointment you feel in yourself. A closer

On the extreme end, an extremely strong internal locus of control can also lead to arrogance, poor risk management, and inability to take direction or course correct. "I know what I'm doing, I don't need help, I got this." Failures may also hurt much more deeply because you feel like everything is always your fault if it doesn't turn out how you hoped.

While some aspects of one's locus of control are innate, studies point to our childhood rearing style as a likely source of our locus of control, but this doesn't mean we are a slave to it. Rather if we seek to understand where ours is, we can also take steps to improve our outcomes. There are several online tests you can take in order to determine where your personal locus of control stands.

This is one resource which may help:
<https://my-personality-test.com/locus-of-control>

Practical Steps To Improve

Setting small goals that are trackable and attainable through your own action, so that you can record your progress and see how your positive actions led to achieving a goal will build your confidence in your own abilities, and your ability to navigate your future. In trading, you must be specific in the actions that you can control, even more so if you have an external locus of control. Risk management, position sizing, keeping track of earnings are all things that we can control in an otherwise uncontrollable environment. Develop a strategy to track these in combination with your goals, ie: never enter a trade without a 2:1 reward to risk ratio, set a defined dollar risk for each trade, write down your trades and what went

well, and what you could have improved upon. By tracking your movements, you will be able to see how your actions slowly and positively affect your outcomes, creating more confidence in your trading.

On the other extreme end, someone with an extremely internal locus of control will be prone to needing to be right on trades, as well as more likely to be riskier. This can lead to extreme losses because in the markets we are never always right and combining that with poor risk management can lead to frequent account blow ups, or very volatile swings in one's account that keep you on a severe roller coaster of emotion in the markets.

Finding The Balance

Healthy is always somewhere in the middle. A healthy mindset is one where we know that our actions matter. We recognize that there are certain things we can invariably do to make our lives better, and that even though not everything is self determined, how we respond to things outside our control is what we can control.

You can't control a halt. You can't control the news. You definitely can't control the market makers. But you can control how you position yourself, how you stop out, how you accept being wrong on a trade thesis. And you can control how you study, learn, track, and improve yourself to increase your odds of outcome... but you might need to adjust your locus of control inwards first.

