Discovering Your Trading Personality

Forex traders come in many different shapes and sizes. There are male traders, female traders, fat traders, skinny traders, beautiful traders, ugly traders, slow traders, fast traders, professional traders, amateur traders, fur traders … and the list goes on.

Each trader has their own personality, their own personal schedule, their own appetite for risk, their own pain threshold and their own bankroll.

Some traders might have several things in common, but most will be different. The point is each of you are unique. And depending on your personality, personal preferences, and situation, how you trade will be a driving factor in determining your success.

In order to figure out how you should trade, you must first uncover your own "trading personality." Your trading personality will determine the trading style and method that's compatible for you.

Trading is not like a t-shirt. There is no one-size-fits-all. There is no single plan for all traders.

I challenge you to perform a self-assessment on your personality, behaviors, beliefs, and mindset. Do you consider yourself disciplined? Are you risk averse or a big risk taker? Are you indecisive or spontaneous? Are you patient or a firecracker? Would you prefer to go bungee jumping or visit a museum? Do you like your martini shaken or stirred?

An excellent way to help you with your self-assessment is to keep a trading journal. It will help you to analyze your thought processes after the trade, and identify your strengths and weaknesses in your trading. Understanding your personality is one thing, but understanding it while you trade is a totally different story. A trading journal allows you to review your wining and losing trades and pinpoint specific reasons on why you won or lose.

Now, before we dive in to the different components of trading styles, let's look at the profiles of a few traders, their trading personalities, and how it's affected their lives outside of trading.

Pete the Position Trader

Pete is a busy man with a demanding wife, eight kids, four dogs, three cats, two hamsters, and a pet komodo dragon. It would be impossible to support such a large family on a meager salary, so fortunately, Pete is a successful doctor.

Pete doesn't like to sit in front of the computer all day. But he does enjoy reading about the world's economies and has a short list of countries which he keeps up with their economic data releases. Pete prefers to position trade. This means when he enters a trade, his holding period is between a few weeks to a couple of months. He only trades several times a year. Often, at the end of the year, he can recount his number of trades on one hand.

In order to do this, he uses discretionary fundamental analysis. This means he takes an hour or two every week to see what the economic reports (like GDP, employment data, CPI, etc.) are indicating to him. He then makes a decision on which way to trade, but does not automatically go with the signals. Because Pete's trades are longer term in nature, his profit targets are huge – but so are his stop losses! His stop losses usually range between 100-500 pips while his profit targets range from 500-1,000 pips or more. His trades have a big reward-to-risk ratio, which allows him to minimize his losses when he's wrong, but hit the jackpot when he's right.

Pete really enjoys being a position trader because it allows him to have a life. With his current work and family obligations, Pete clearly doesn't have the time to devote to being a day trader. His trading personality doesn't require him to make a decision in the heat of the moment and allows him to look for longer-term trends. As a position trader, he can juggle a busy career with his demanding wife, eight kids, four dogs, three cats, two hamsters and Komodo dragon.

Sam the Swing Trader

Sam is a single guy who owns a small coffee shop around the corner, where he works part time. He has also been trading on the side for a while now, and now his schedule is at the point where he is able to watch the market an hour or two a day.

Sam prefers to hold trades in a shorter time frame than Pete the Position Trader. He attempts to predict the short-term fluctuation in a currency pair's price, and is willing to hold his trades open for more than a day, or even a few days, to give the price movements some time and capture additional momentum. On some trades Sam will generally be in a position from several days to even a week.

Sam dedicates an hour each day and/or evening to go over the market. The first half of his hour is spent reading the major economic news of the day and what news reports are coming out within the next 24 hours. Based on what's going on globally, he determines whether the currencies he is watching will see volatility or not. Since he only watches two or three pairs at the most, it doesn't take him long to read the major reports of the day.

After Sam has finished reading the economic news and reports, he determines if the market will trend or range for the next few days, or even weeks. He pulls up his charts and uses technical analysis to find good entry and exit points. His tools to find support and resistance include Fibonacci retracements, channels, trend lines, moving averages, etc. He then sets limit orders with stops and profit target levels, so it's all practically automated when he enters and exits a trade.

Sam has been pretty successful. He is able to mentally weather the daily swings a swing trader has to go through. His losses have been limited to 50–100 pips, while his gains have ranged between 100–500 pips.

Sam usually checks his position once or twice a day just to make sure unforeseen events haven't significantly affected his positions, and the rest of his day is spent doing whatever he wants, whether it's working, hanging with buddies, or browsing internet auction websites for comic books to add to his collection.

Diona the Day Trader

Diona is extremely impatient and feels she always "needs to be doing something." Her trading style consists of trade positions that are opened and closed in one day or less. Some days, she may only trade once. Other days, she may trade several times before the market closes. The bottom line is that she exits all positions by market close (5 p.m. EST) or when a session, such as the European or Asian session, ends. As a day trader, Diona feels the need to be in the market at all times because she's afraid of missing a good trade. She is also risk averse and is scared of losing too much per trade, so she uses small stop losses.

Diona has spent years developing a consistent method of taking profits out of the market. Her account is big enough where she could quit her job, and she watches the market full time now. While she is aware of news releases on any given day, Diona mainly relies on technical analysis when trading. She has been using technical tools such as oscillators (MACD, RSI, Stochastic) and moving averages, which automatically signal her to enter and exit high probability trades. She just follows the signals.

Most days, Diona goes for 10–50 pips or more while limiting her losses to 10–20 pips, but occasionally she will scalp the market. Scalping is a method where she trades larger lots and takes less pips (usually 5-10) out of the market. Most of her scalp trades last for a few minutes or even seconds!

The day trading and scalping methods allows Diona to make one to several trades per day and satisfy that "need to be doing something." Her confidence in the system allows her to stay with the plan and stick with the rules. She does not have to decide whether or not to enter a trade – the charts do it for her! However, Diona knows that her system is not perfect. She loses a little less than half of her trades, but her average win is almost twice her average loss. Over the long run she has consistently profited from the market. She is now able to work from home, be her own boss and take time off to travel whenever she chooses.

What Kind of Trader Am I?

So, what kind of trader am I?

Well, one of the first questions to ask is, “how much time do I have to trade currencies and how long can I comfortably be in a position?”

We can identify different trading personalities by time frame. Take a look at these different styles and see which one may fit you.

- **Scalping** – Scalpers are very short-term traders, usually in and out of trades within seconds. Most forex brokers discourage this type of trading. It’s also extremely dangerous due the high number of lots required to make a decent profit off a couple pips. Not for the faint of heart or shallow pockets.
- **Day traders** – Day traders open and close positions in the same trading session.
- **Swing traders** – Swing trading holds trades for days.
- **Position trading** – Long term position traders hold trades from weeks to months at a time.

Next question to ask is, “how do I want to analyze the market and decide on which trades to take?”

- **Technical Analysis** – using charts and technical indicators to analyze the past price movements of a currency pair to possibly see where the price may go in the future.

Fundamental Analysis – Watching and analyzing economic news reports and indicators such as GDP, CPI, Employment data, or any political news that may affect a country’s economy and their currency.

And finally are you a system trader, or are you a discretionary trader?

- **System Trader** – a system trader or mechanical trader tends to take to signals from system of technical indicators to automatically enter and exit trades. For instance, if the stochastic indicator shows that the currency pair is oversold, the system trader will automatically enter a buy on the currency pair.
- **Discretionary trader** – this trading style usually refers to traders who use both technical and fundamental analysis. A trader’s technical method may signal a possible trade entry, but his or her analysis of the fundamental landscape may show a different story on the same pair.

Summary of Trading Personalities

Succeeding in forex trading takes hard work, lots of time, and some blood, sweat and tears. New traders need to be realistic right from the start. Beginners should start small and constantly evaluate their profitable trades as well as their failures.

Like I said earlier, trading is not like buying a t-shirt. One size does not fit all. Before you can succeed in trading, you must spend time doing homework, learning your personal strengths and weaknesses, and assessing your personal schedule, trading capital and trading experience.

Take the time to answer these questions, and also look back at your trading journal to see how you fared in different trading situations. Only then will you be able to decide on a trading personality that’s compatible for you.