

## Winning the Race for Trading Profits

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As a psychologist and trader, I find myself mulling over one question more than any other: What makes highly successful traders different from others? Inspired by the experience of working with traders who earn a consistent six and seven figures a year, I began a program of research into every performance field I could find—athletics, chess, performing arts, medicine, and elite military—to see what makes expert performers tick. I hope to share my results in an upcoming book later this year.

The book's thesis is simple: Trading is a performance activity, and expertise in trading can be developed by the same processes that create elite performance among athletes, soldiers, musicians, and chess grandmasters.

What this means is that there is much more to trading success than finding good indicators and sustaining a positive mindset. *Elite performance is a function of an ongoing learning process that is accelerated by training.*

To see what it takes to be a winner in a performance field, let's take a trip to pit road on the NASCAR circuit and observe the pit crews that often make the difference between success and failure for a driver.

Our tour guide for this visit will be Breon Klopp, senior director of development at PIT Instruction and Training, LLC, a training center for pit crews across the country. If any performance field is as competitive as trading, it is car racing. A mere fraction of a second can separate race winners from losers, and no efforts are spared—from pit crew training to automotive engineering—to gain an edge over competition.

One similarity between racing and trading is that technology has leveled the playing field, leading participants to seek their edge through superior training. In trading, the online medium and improved computer technology have leveled the field with respect to information and access to markets. In competitive racing, Klopp notes, “rule changes have created great parity in the performance of race cars. A byproduct of that parity is that car speeds are very similar and it is very difficult for cars to pass each other on the racetrack. The competitive focus has shifted to pit road, where drivers are

dependent on the performance of their pit crew to gain or lose positions against the competition.”

Klopp observes that racecars traveling 180 miles per hour are moving 264 feet per second. That means that every hundredth of a second gained by a pit crew translates into 2-1/2 feet of advantage—a meaningful edge in races that are often determined by inches. When you consider that the simple act of missing a lug nut and having to retighten it will add approximately 1.3 seconds to a pit stop—putting the driver behind by 300 feet—you can appreciate the performance pressure faced by crews.

How do pit crews train to the level of expertise in which they can perform routine maintenance on cars, jack and change four tires, fuel up, and change oil—all in 13 seconds? Klopp offers the following observations:

- *Frequent practice of routine tasks* – This includes both individual and team rehearsals. “The goal,” Klopp explains, “is to have these common tasks performed to perfection at an almost subconscious level so crew members may be attentive to tasks that are more difficult or occur less frequently.” When routine skills become automatic, one’s resources can be devoted to handling unusual situations as they arise.
- *Highly realistic practice* – The students at PIT conduct live pit stops in full gear with cars matching the ones they’ll work with on race day, right on down to the paint. Drivers and crew chiefs participate in drills and practice communications with the crew. When practice is realistic, skills are more likely to carry over to race day.
- *Simulation of difficult racing situations* – Crews rehearse scenarios involving equipment malfunctions, driver errors, and other problems so that they will be prepared for almost any eventuality. “The most competitive pit crew coaches and teams believe there should be no unforeseen events, just undesirable ones,” Klopp explains.
- *Feedback about performance* – Digital video recordings are made of race days and practices, and all individual performances are timed and observed for possible improvements. When problems occur, those become the focus of further practice. Crews are constantly learning and improving.

What struck me most in talking with Klopp was the similarity between the performance dynamics on pit road and those among Olympic athletes and other elite performers. *Expertise follows from an intensive learning process that combines structured practice of skills with realistic simulation and continual feedback for improvement.* Indeed, business organizations have become so interested in developing this source of edge that they are sending workers to “Thinking Inside the Box” classes at PIT, where they can acquire and hone individual and team performance skills.

The implications for traders are immense. If trading is indeed a performance activity, we should expect the following strategies to speed the development of expertise:

Practice of core trading skills (reading supply/demand, order placement, position sizing, determination of targets and stops) so that they become automatic;

Realistic simulation of markets to gain experience with reading market patterns during volatile and non-volatile markets, trending and non-trending conditions, etc.;

Simulation of difficult trading situations in which trends and/or volatility suddenly change;

Feedback about performance through the collection of trading metrics that track how well traders trade under a variety of market conditions.

The good news is that performance expertise is not a mystical, inborn quality: it is the result of an intensive developmental process. We observe this process among athletes as diverse as Lance Armstrong, Michael Jordan, and Dan Gable—and we see it among concert musicians and prima ballerinas: drilling of skills, simulations of performances, and feedback to create steady improvement.

More tools are available now than ever to assist this process. Trading platforms such as Neoticker and Ninja Trader are now building simulation into their offerings and enabling traders to track the results of their trading with detailed feedback. I notice, for example, that the latest version of Trade Station now allows traders to collect performance data on their trading that is as detailed as their reports on mechanical trading systems. Simulation and

metrics are built into the Trading Technologies platform, and an excellent metrics program from Trader DNA allows traders to assess their performance as a function of market conditions. (Please note: I have no proprietary interest in these firms; nor did they solicit any mention from me for this article).

With a structured program of practice, simulation, and feedback, performers can reach elite levels of expertise, achieving seemingly impossible goals. When a group of equipment technicians from Intel's High Performance Maintenance crews came to PIT to try their skills on pit road, these manufacturing-savvy professionals could muster—at best—33 second turnaround times. Through intensive training processes, real crews shave 20 full seconds from those times—and do so with consistency. The elite traders I have been privileged to work with are much like those crews: their core trading skills are honed to the point of being automatic, and their ability to read patterns in noisy market data and act upon them has become lightning quick.

As sport psychologists like to say, it's not practice that makes perfect, but perfect practice that makes performance. Or, as one of Breon's coaches used to say, "Practice makes permanent...poor or perfect."

**Bio:**

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