



## Rob Booker's



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# The Woodchuck and the Possum

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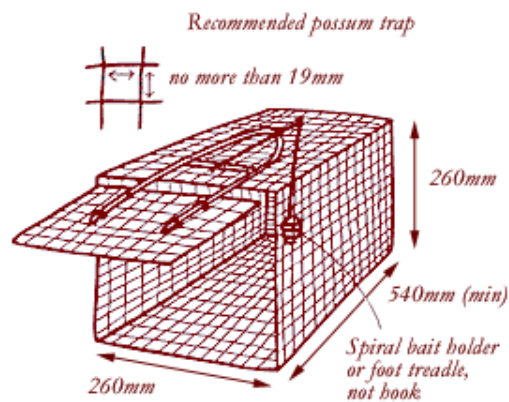
## Why most traders lose money

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# The Trap:



A friend of mine volunteers on a regular basis to rid his neighborhood of rodents and animal riff-raff: the woodchucks, groundhogs, and possums that eat up gardens, attack family pets, and so on. He sets a trap with ripe fruit or tuna fish. The animal enters the trap for the food. If the animal can't find its way out, it is eventually shot and buried.

In the forex market, sometimes you get the fruit.

Sometimes you get trapped and shot. Why?

Possums are relatively easy to catch. They go for the fruit, they get caught, and then, when the trapper approaches the trap, the possum simply plays dead. It plays dead because that's the best defense mechanism that it has.

A woodchuck is tougher to trap. A big one might enter the trap, eat the fruit, and then rip the trap apart, exit, and wander off looking for more food. Or it might roll the trap along the ground, set it off, and then eat the fruit from the outside.

There is a fundamental characteristic of unsuccessful forex traders: they trade forex because it's exciting, cool, or for its sex appeal. The mystery behind the charts, the notion that profits (although elusive) do really exist, and that money can be made quickly (but not predictably) all add up to create a romantic fantasy that is too appealing to avoid. When they start to lose money, they leave their positions open, close their eyes, and hope that the trap is miraculously opened so they can be free again.

This group – the Possums – is the largest block of forex traders.

There is also a fundamental characteristic of **successful** forex traders. They trade forex because it makes them rich. They trade because they know how to do it. They

do not trade for fun. Many of them are unimpressed by their own success.

Most of them never share their secrets with anyone. They take a methodical, almost boring, approach to forex trading. They painstakingly build systems that, although simple, may have taken years to perfect. In the end, their lives are actually quite boring – reduced to waiting for predictable signals that are obeyed without question.

This group – the Woodchucks – is the smaller of the two groups. The Possums outnumber the Woodchucks by a ratio of at least 500:1. For every Woodchuck, there are 500 Possums.

Are you a Woodchuck or a Possum?

Possums don't want to learn the intricacies of the forex market – the charts, the signals, the nuts and bolts – because they are afraid that once known, all these details will ruin the romanticism of the entire adventure. The mystery, the elusive profits, the unknown, all contribute to create an excitement that would be lost if too much were discovered. Searching for King Tut or the Titanic was big news. Finding both was big news. When's the last time you heard about either? Once found, the mystery was solved and the public went on to other mysteries.

Woodchucks want to learn the market. They want to know what signals are most predictive. They want to know everything they can not only about spot trading, but about their broker, their broker's practices, the governments involved in currency movement, interest rate changes, and the list goes on and on. Woodchucks want to know as much as they can. It might destroy the mystery, but they're not in the forex market for adventure. They're in it for profit.

There is a myth in American culture, and it's spreading around the world: your job should be fun. You should enjoy what you do for a living. "Do what you love and the money will follow." And so on. Perhaps we've had too strong of a dose of this doctrine. The truth is that although we are better off choosing a career that interests us, we're going to be bored at work if we learn our job really well. The promise is simple: if you become a world-class forex trader, at some point your job will be ho-hum. Not all the time, but it's not going to be an adventure every day of the week. Sorry.

On the other hand, consider that successful forex traders are some of the most highly paid professionals **in the world**. If you pay them by the hour, they make thousands and thousands of dollars for every 60 minute period they spend working. Some of them only trade for a

half day. Some trade for 20 hours a day. Their jobs aren't always fun, but they do make a lot of money.

## Why be a Woodchuck?

Simply put, if you want to survive, then you need to start thinking like a Woodchuck. If you want to make money, you need to commit yourself to freeing yourself from the trap *and* getting the fruit. Or, more importantly, finding a way to eat the fruit without ever entering the trap in the first place. And therein lies the secret. We're all going to get trapped from time to time, but we have a choice of whether to free ourselves or lay down and let the trapper shoot us.

I learned my lesson early in my career as a forex trader. Although I had spent four months creating a trading strategy and system, I occasionally *really, really* wanted the fruit, so to speak. At those times, when I should have stayed on the sidelines of the market, I would enter trades based on rumor, speculation, or even well-informed opinions – instead of my tried and tested strategy. In other words, I would enter the trap and start eating the fruit, thinking that I could get out of the trap without setting it off.

## How to Discover True Principles

1. **Find a system to test.** Lots of traders use moving averages – when the moving averages cross each other, they give off buy/sell signals. They might read candlestick patterns, Elliot Waves, or Fibonacci Arcs. Find a system that you like and test it. Get charting software that allows you to backtest your results. AmiBroker and TradeStation both work well.
2. **Play with the variables.** If someone's system says to use the 5 and 13 Exponential Moving Averages, then try the 4 and 9 instead. Then add in the MACD or the CCI or the RSI and look for candlestick patterns. Backtest these new variables. Are the new ones more profitable?
3. **Keep notes of the results.** Keeping notes in a trading journal or notebook is essential. Are you recognizing any patterns (e.g., Fridays are bad days for your strategy, or the 5 and 13 work well if you wait for a -.0004 MACD)?
4. **Draw preliminary conclusions.** Once you've done your testing, write out the principles that you've discovered. Then test the principles with a demo account for at least 4 months -- did your system work? If so, set it in stone.

Well, the last time I made this mistake, I entered a trade that lost 250 pips in 72 hours. I stayed in the trade hoping that the market would rebound (it never did). I figured if I just laid down quietly, the trapper would never come and shoot me. Well, he did. I lost my usable margin on the last day. I lost 75% of my account.

I resolved on that day to never again violate the principles of my trading strategy.

I tell everyone that trades forex the same thing: you can learn this the hard way, or the easy way. But you will learn it eventually: in the world of forex trading, there are only Woodchucks and Possums. If you're just

trading on emotion, speculation, or excitement, then you're a Possum, and you're going to get shot. Either take it from me, or learn on your own. I hope you take the time to read the principles below and learn from my mistakes.

### How to Be a Woodchuck

There are five steps to thinking like a Woodchuck in the forex market.

#### 1: Be hungry and determined

The Woodchuck wants the fruit. He believes that he has a right to it. He is

willing to do whatever it takes to safely get it and eat it.

As for you, you've got to want profits. You've got to put profits ahead of everything else. You've got to say to yourself that the most important thing at the end of the money is not making lots of trades, or any trades, but rather the most important thing is to end the money higher than when you started it. This belief has to drive you. If you trade because you like to trade, you're going to lose money – you will end up making stupid trades, getting trapped, and laying down to wait for the bullet.

The Woodchuck wants to fill his belly – but not at the expense of his life. Remember that.

Be hungry for profits, not just for trades.

## 2: Discover true principles

The Woodchuck, unlike the Possum, can learn from its own mistakes or the mistakes of other animals. It understands that if it enters the trap, it will be caught. It knocks over the cage, sets it off, and then jumps back. When it senses the danger has passed, it might start poking at the cage from the outside, or try to grab the fruit through the bars of the cage.

Likewise, you need to become a student of the forex market if you want to become

successful. The forex market does not reward lazy people. Plan on spending some money on books to become familiar with charting patterns. Read everything you can online about how the market works. Get some charting software – there is plenty of good free charting software to start you out – and watch the formations. Most important, start trading on a demo account immediately. Get involved, take notes. Keep a trading journal that lists every trade and the reason you entered and exited.

As you do these things, you will distill principles of the forex market. From the jumbled mess of data, patterns will emerge. Effective trading strategies will become apparent. Profits will still be elusive, but you will begin to learn true principles of trading. Write these principles down as you learn them. They will serve you well later.

## 3: Obey true principles

Once you discover a set of true principles, they'll do you no good if you disregard them. I've met forex traders that understood many, many true principles, but they were still dumb as a bag of hammers

and poor as church mice because **they failed to obey them.**

Our culture isn't much fascinated with obedience – if you've noticed, we're all about how free we are, how unrestricted our behavior can and should be, and so on. This booklet isn't a commentary on social issues, but I do want to advise you that sticking to your principles may seem odd at first.

You might determine that although important, your principles are more “guidelines” than hard and fast rules. Don't fall for that! Don't spend all your time discovering true principles just so that you can violate them – and lose a lot of money in the process.

Once you discover what works, stick to the plan!

Mark Twain said that once he learned all of the intricacies involved in navigating the Mississippi – the steering of the boat, the reading of the compass, the charting of the deep and shallow points – that the river lost its beauty.

That's a lesson, a truth, that you're going to have to become comfortable with. At some point, when you develop a profitable trading system, the system will return profits if you're awake, asleep, playing football with your kids, or if you get hit by a bus. The system will be tweaked from time to time, of course, but it will work. Your hard work will pay off. But the mystery of the forex

## ***All about woodchucks***



The woodchuck circles the trap many times, and from all angles before deciding how he is going to get the fruit. Sometimes he will wait till another animal is in the trap, then pick the fruit through the wire cage. Woodchucks know their capabilities. They pal around with others in their den and know when one does not come home. They search for the scent of their own, and hear the cry of the one that is trapped. The big, old woodchucks learn from others mistakes and do not make the same mistake themselves. They are not paralyzed in fear, but cautiously optimistic, ever searching for the food they want, but holding onto true principles that have kept them alive. Big, old woodchucks will at times walk away from a trap because the lure of the fruit is not worth the work it will take to get out of the trap before the hunter kills him.

**- Terry Larsen, Neighborhood Pest Control Expert**

market will disappear for a time, maybe even forever, and thus your fascination with it might wear off too.

This is why many forex traders, although they have learned true principles, are still losing money as fast as they can trade. They want to chase the mystery of the market. They enter the cage to get the fruit because that's more exciting. It's also more dangerous. Even fatal.

#### **4: Know your limits**

One mistake Possums make is that they never set limits. They'll waltz into the cage and go for the fruit with reckless abandon. You might attribute this to stupidity, and you may be right. But it also might be due to their over-exuberance. Their inability to contain their excitement over finding some fruit.

You will be tempted to snatch the fruit as soon as you can see it. You might be tempted to violate your principles when you see the market take a big swing, or after Alan Greenspan says something on television, or the latest job report comes out. Sometimes, you'll be tempted to set your stop-loss very widely (thus risking the loss of a lot of money) or to not set a stop-loss at all.

In order to succeed, you must set stops. You have to be able to tell yourself that it's time to get out of the market, that you've tried to get the fruit – but that today it's just not going to work. Perhaps your system works 80% of the time, and this time your system has simply failed.

Getting out of the market at the right time is just as important as getting in at the right time. If your system tends to return 20 pips per trade, then set your stop-loss so that you don't lose more than you can possibly gain.

If you disobey your principles, and you find that you're in a big, big losing trade, then look at your trading system: do you really see the market coming back to break-even anytime soon? If not, then get out. If so, then stay in – if you have the usable margin to withstand some heavy losses.

Which brings me to my next point: don't trade huge chunks of your account. If you have a \$1,000 account, then don't make trades that require you to put up more than \$100. Also, don't make trades that can lose or gain more than \$3 per pip. If the market takes a real nosedive against you, you could halve your equity before you realize what you've done.

## 5: Back off when necessary

If you lose a lot of money in one day, or gain a lot of money in one day, back off from the market. These are dangerous times. I talk about Pride, Fear, Greed, and Revenge in my Strategy:10 booklet (free, on my site) but it will help to summarize the main points here too.

Pride is your worst enemy. There is no such thing as “good pride” in the forex market. As soon as you become proud of your success, you’re headed for a fall. When you’re prideful, you leave yourself open to Greed and Revenge. You feel that you deserve more profit, are willing to take more (unwise) risks, and you strike back at the market when it beats you. Being prideful in the forex market is acting the same as the Possum who believes he can go into the cage, get the fruit, and still get out. It won’t work. Keep your pride in check.

Next, watch out for Fear. When you’re afraid, you make poor choices – you’ll exit a trade before it becomes profitable or you’ll enter no trades at all. If you give in to fear, then back off the market. Backtest your system again. Review what made you successful in the past. Take a day off and reset your bearings. You’ll feel better and be ready to trade the next day.

Greed is perhaps the second worst emotion you can ever feel in the forex

market. This emotion will convince you to set higher limits and wider stops, leaving you exposed to the wild swings of the market. Greed is what convinces you to leave a position open for one more pip of profit – when the market is about to slide in the opposite direction and take your entire profit with it. Don’t give into greed. If you lose a bunch of money because of greed – or make a bunch of it – then take the next day off. Watch the market. Demo trade for that day. See how you fare. Then get back in the next day when you’re ready to stick to your principles.

Revenge is the most dangerous emotion of all. When you lose money, you will always feel the temptation to strike back at the market (out of pride). You’ll say to yourself that you deserve to get your money back. This might even work temporarily. But this will catch up with you, as you seek out trades for the sake of trading rather than for the sake of making money safely. If you feel revenge coming on, get out of the market. Take a seat. Review your system. Even if you lose almost all of your money, you can gain it back systematically. You will never get it back by seeking revenge on the market. A Possum in a cage might seek revenge against the trapper, but we all know how futile that is.



## Conclusion

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You can succeed in the forex market.

As a day trader, you can be paid more handsomely than doctors, lawyers, and just about everyone else. But if you want to be a member of the elite class of highly successful forex traders, then you have to put the time in. You can't expect profits to come easily.

Successful forex trading will offer you more time, more money – and more stress – than you have probably ever experienced. But you can do it. Success is not about your IQ – it's about your work ethic and your discipline. It's about your ability to stay out of the trap, not set off the land mines, or just simply get out of the market when it's time.

Write me sometime and let me know how you're doing. My email address is [rob@robbooker.com](mailto:rob@robbooker.com) and I always answer my email. If you hit a wall, need some help, or found the perfect system, please let me know.

*Rob Booker*