Struggling with Overtrading: 4 tips to kick the bad habit + video lesson

Are you struggling with overtrading? Overtrading is a common problem for the zealous trader doing her best to make it in the markets. It can even plague the most disciplined and successful traders. In this post, we'll dive into a handful of reasons why, and tips for how, to combat the problem of overtrading.

We've also put together a helpful series on combatting this common issue with our in-house daytrading expert Aiman Almansoori. Have a watch as a primer to the content below:

The Typical Overtrading Scenario:

It’s 9:31am EST and the market has just opened.

You place your first short trade. You have a plan, or at least you think you do.

It’s a perfect premarket pattern for shorting; the stock is bound to go down. The first candle of the day was red and looked bearish. So, you short it.

You’re confident, even though the stock really didn’t confirm the right setup you’d been practicing for weeks. You know it’s going down regardless, ***and you don’t want to miss the boat****.*

Uh oh. The very next candle swipes against you nearly $0.50 per share.

You’re down 6% on the position, immediately.

Now what do you do? Do you average up? Stop out? Wait? The next candle forms and you are down nearly $1 per share. You stop out 3 minutes into the trading day.

The Top

As it turns out, that was the top.

The stock reversed right after you stopped out. Frustrated, you panic and enter the trade again, despite the price returning to your first entry point.

But wait, the stock rallies a second time and now you're down an extra $0.40/share.

The Chop

You proceed to stop out and curse yourself for chasing the stock.

A few minutes go by and you've done the same thing over and over again during the morning chop-fest that we call the market open.

You get sloshed around in the washing machine and before you know it, you're already down $2 per share on a stock that really hasn't gone anywhere but sideways for 15 minutes.

You've been hung out to dry.

The Setup

About 5 minutes later, the stock develops a beautiful shorting pattern with slightly lower highs. Coiling into the apex, volatility dries up and it drops hard and breaks the low of day.

It confirmed for you, finally!

The lack of demand was there right before the drop, the volume *and price action were what they should have been, and the stock acted accordingly.*

Only this time, you were too exhausted emotionally and mentally to enter.

The Despair

It went in the direction you'd originally planned – without you.

How many times has this happened to you?

This is just one hypothetical example of a struggle that many new traders face. It is the problem of overtrading, and it is driven by fear and lack of discipline.

Why You're Struggling with Overtrading

Like with many discipline issues in trading, overtrading is a result of fear. But what is behind the fear that causes us to over trade?

> *…the novice trader: We start out carefree, then become scared, and our fears continually diminish our potential.*
>
> *MARK DOUGLAS*

Well, I am glad you asked. There are three reasons why.

The fear of :

1. missing out
2. being wrong
3. of loss

You start out afraid the stock will leave without you. As soon as it goes against you, you cut your loss afraid that you were wrong.

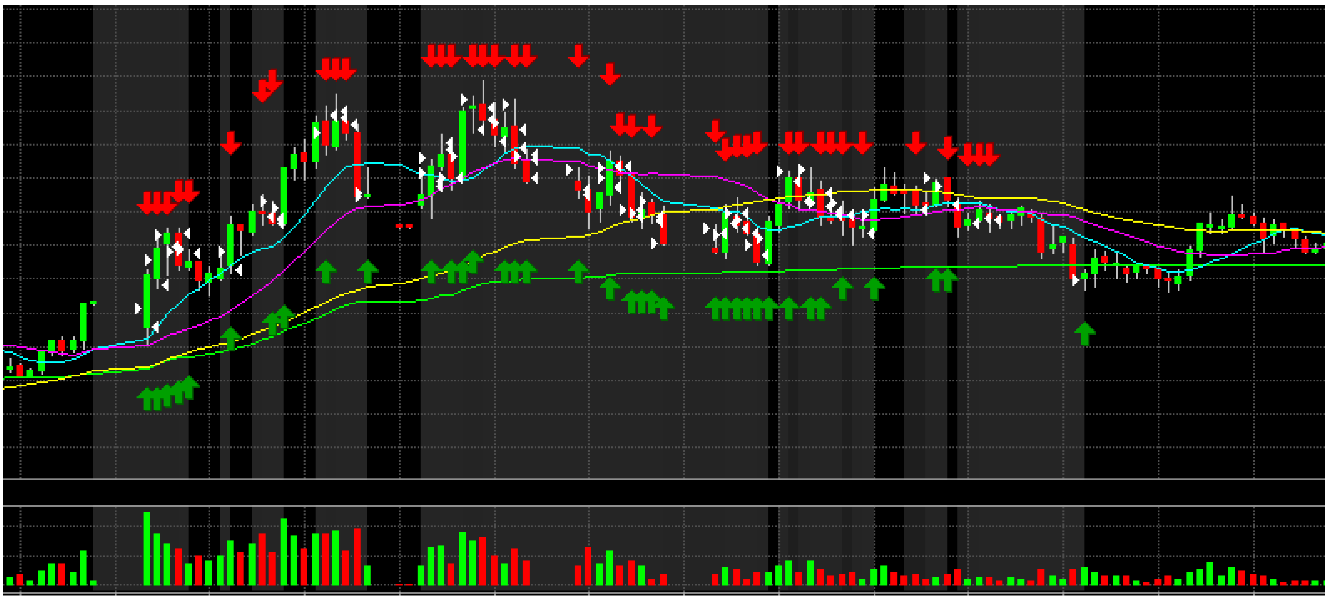
Then, you enter again and again in a vicious cycle until you are afraid of losing one last time when the trade is actually primed and ready.

It is no wonder that the market confounds those who think they are wise.

Sadly, it proves us right, long after we have become insolvent on a position and depleted of the emotional courage we had at the beginning of the trade.

All that's left in the wake of your overtrading are a bunch of green and red entry and exit arrows on a chart, which don't really make sense in hindsight.

It becomes tough to even review the trade. We wonder, "what was I thinking?"



Examples of too many entries struggling with overtrading

So how do we overcome this vicious struggle with overtrading?

Thankfully, there at least 4 reasons we can discuss to make us more aware of this common problem. Let's take a look at each one and the action points with them.

Four Methods to Fix Your Struggle with Overtrading

1. Double-Check Your Edge

Too often we over trade because our edge, or trading plan, isn’t really there. We want it to be, but it isn’t.

You’ve probably heard it said before that the best trades usually go in your favor quickly. **There is something to that**. The goal of an edge is to have a high probability of success.

That being said, if you think your edge is there, but are finding yourself getting chopped up and overtrading, it’s time to put on the brakes and head back to the lab.

To that point, here are quick tips to consider when analyzing the efficacy of your edge:

Trading Edge

QUICK TIPS

Tips for figuring out if your edge is working for you

Checklist

-Bias (short/long)
-Plan (size/risk/target)
-Setup (abcd / bull flag / MACD cross)
-Confirmation (lower high / moving average support)
-Entry (best price)

Time Period

-Midday slump?
-Momentum shifting?
-Has volume diminished?
-Too much chop?
-Too volatile?

Data Set

-Have you traded this set up at least 20x?
-Does the strategy work with your personality?
-Are you better at long or short?
-What is your percentage of success?
-Can you define the best entry spot?

Let’s dig a little more in depth on these tips:

Checklist

Write out a checklist that will keep you accountable for your entries. This way, if you don’t find the confirmation, or the setup, it keeps you out of the trade.

Maybe it looks like this:

- Bias (short/long)
- Plan (size/risk/target)
- Setup (head and shoulders / bull flag / MACD cross)
- Confirmation (lower high / moving average support)
- Entry (best price)

As you watch the market, have this handy and check off your criteria before you actually take the trade. This can help you create a solid trade plan and have more confidence in the trade.

Time Period

Are there periods of the trading day where your edge fails to materialize? Maybe trying to force trades in the middle of the day isn’t working? Is the general market in your favor?

Similarly, are you expecting momentum when momentum isn’t there? Maybe it is time to set some rules for “when” your edge is tradable, and what kind of volume and range the stock needs to have.

We’ve got some great articles on trading at certain times of the day, like the market open. Identifying and practicing during these times may keep you from struggling with overtrading.

Data

Have you actually tested your strategy enough to know its probability for success? If not, try taking a 20-trade sample size of the same trade, then you'll at least know the percentage of times it is a winner.

Personality

Does your edge fit your personality? Are you better with slower moving stocks? Are you better at shorting afternoon faders rather than morning pop and drops?

Do you prefer to go long rather than short? Should you be a swing trader?

These are just a handful of suggestions to consider if you're struggling with overtrading. If you can't define your edge, you really shouldn't be trading real money. Otherwise, you're just gambling.

> *Trading is not about being right or wrong. It's a probability game.*
>
> *Mark Douglas*

Take the time to create your TradeBook, test your strategy, and hone your "chart eye" to see when it's really there.

Once you understand your probability for success with a specific strategy, it will boost your confidence on when to *take* a trade, and when to *avoid* one.

This is how we combat the fear of missing out and avoid impulsive trades.

There is no better place to practice this than a simulator.

2. Practice Being a Good Loser

Hmmmm. That sounds counterintuitive doesn't it? Maybe at first glance. But let's run with it.

Imagine that part of the problem you have **is a fear of losing**. Take that fear away, and you've made a step in the right direction.

Now, we're not saying you want to be a bag holder, or that you should try to lose in the market. Every smart trader respects his/her stops.

Deliberate Practice

What *we are* suggesting is that we can **train our minds** to accept the emotions of losing, or going "in the red." Losing is inevitable, right? Not all of our trades are going to be green the moment we click the buy or sell button.

But what if we were to take our position in a trade with small enough shares that we could allow the market to naturally fluctuate as it is wont to do?

We suggest doing this deliberately. Yes, enter a trade with the sole purpose of experiencing the emotions it will bring. Albeit, with small enough size that it matters, but doesn't hurt.

Let's re-imagine the scenario at the beginning of this blog post.

There was an expectation of what the stock was going to do before the entry. The plan was to short it, and the stock would go down.

There was also a *hope of making money*.

Now imagine putting a smaller amount into the trade – or using a simulator – with the same idea, but deliberately letting it work. No expectations, just observation.

You're probably thinking, "But how will that change my bad habit?"

Psychology

If we deliberately ***practice*** exercising our emotions by sitting in a trade and becoming mindful of the natural tendency of stock price fluctuation – quite literally facing our fears – it can re-train bad habits.

In the world of psychology, they call it **Cognitive Behavioral Therapy**. You introduce a stimulus, starting with smaller exposure, then increase it over time as the fear begins to subside.

> *True deliberate practice is a significant predictor of success.*
>
> *Brett Steenbarger, PH.D.*

Instead of being rigid in your belief in a trade and your expectation of the result, *practice* being more flexible. Watch the ups and downs of that trade with your position dancing red to green to red, until price discovery is made.

If you can't sit through the normal undulations of the market, then you need to go back to redefining your edge, understanding trading ranges, and deciding if what your are doing is in sync with your trading personality and skill level.

7 Steps to Deliberately Practice:

Think about it this way:

Without expectation, there is no fear of being wrong on a trade. In the absence of expectation, it is harder to become disappointed.

3. Size Down

One easy way to combat fear of loss is to lower the amount of money you can actually lose in a trade. It's a really simple concept. Yet it is profoundly difficult for new traders who want to size up their account quickly.

Too often, using big size in a trade that has little or no edge can lead to dramatic losses, even if they are small cuts over time. Heck, even seasoned traders experience this.

[Traders who make millions go through periods where they have to size down](), start small, and earn their way back to big positions. It is the process of discipline, walking before running, baby-steps.

And, it works.

Just keep this in mind: **you will either learn to size down on your own, or the market will size you down**. Wow…that sounds foreboding and scary.

But, it's true.

Strangely enough for most people, sizing down of your own accord is harder to do. Being humbled by the market is the typical, and more painful, route.

On the same token, a lot of traders jump into trading expecting to earn an income quickly. This is dangerous. It can place too much pressure and emotion on your performance.

If this describes you, **consider finding another source of income while you learn to trade part-time**, or in a simulator. It will preserve your hard-earned capital, and save you a lot of heartache in the long run.

4. Think about the Big Picture

If you're already sizing down, not afraid of losing, and have a stellar edge, then there is one more thing to consider if you're still struggling with overtrading: not having a big enough picture for the trade.

This doesn't mean that scalping isn't a good strategy. Don't get us wrong. There are plenty of millionaires in the market that scalp for pennies. But if this isn't your goal or strategy, then you aren't seeing the big picture.

It's kind of like this old expression:

In day trading, there are nearly 7 hours for normal market trading. There are plenty of opportunities for big moves in that amount of time.

To be in and out of a trade multiple times in a matter of minutes without the specific skill of being a scalper or without a reason to exit the trade is utter nearsightedness!!

This, again, is where deliberate practice comes in handy. The key is to develop your strategies by discovering the biggest opportunities each day. Your edge should give you the biggest reward for the smallest risk.

Big opportunities take time to unfold.

You might say, "I don't want to be in the market from 9:30am to 4pm EST everyday." That is perfectly fine. But whatever your time frame, keep the big picture trade in mind.

If it is a 1R/3R trade you want, make sure you give the trade time to develop. Define your risk and size with enough balance to keep you in the trade for the bigger move. *Just respect your stops if it goes against you!*

Example

Let’s look at an example of this with SYPR. Notice the choppy action off the open. The stock bounces between $3.85 and $3.45 a handful of times between 9:30am and 11:00am. You could easily get chopped in this action if you are not a skilled scalper.

SYPR choppy action

Now, zoom out from the trees, and take a look at the forest. Imagine if you could keep this “bigger picture” in mind without getting lost in the minute by minute:

SYPR bigger picture trade

More often than not, nearsightedness blinds a novice trader with the minute ups and downs of a trade.

Try the following tips to overcome this pesky habit:

8 Big Picture Strategies to Beat Overtrading

- Create your plan for the trade based on a higher time frame like the 30m, 1hr, or daily charts.
- Identify areas of support and resistance that could be targets for profit taking, or areas for risk management and stop loss.
- Analyze the volume and momentum for the stock to determine whether or not it could be an "outlier" big day.
- Determine a responsible position size for the trade that will allow you to sit through the ups and downs.
- Be willing to lose on the trade if your stop is hit and you followed your rules and plans.

- Only exit the trade and take profits according to your plan, or **when given a reason** for the exit.
- Identify your reasons for exiting the trade before the trade is taken.
- Set a vertical line at 4:00pm market closing time and zoom out on your charts. This can help remind you that there is a lot of trading left in the day.

Putting It All Together

Hopefully this equips you with a handful of ideas to add to your process of becoming a consistently profitable trader. Overtrading is very common, and not something to beat yourself up about.

Keep in mind that it’s just one of many discipline issues that all traders must overcome. Awareness is the first step, then deliberate practice.

Try putting your strategies to the test in our simulator if you’re struggling with overtrading. Perhaps this could be what you need to retrain your bad habits?