ANDREW MENAKER

Develop your mental edge

Process Vs. Outcomes

“Focus on the process, and let go of the outcomes”. How many times have you heard this advice? And if you’ve heard it before, it’s very likely you know it’s a lot easier said than done. Perhaps this will help you in actually doing it.

Since 1996, I’ve talked to over a thousand traders, and a high number of them are boom & bust traders. Make money and lose it. Rinse and repeat. And over the years I’ve noticed one thing in common among every single boom & bust trader and many successful traders who’ve hit a celling.

Whether they realize it or not, they’ve conflated their trading process with the outcomes they experience. And it has to do with how they think:

GOOD OUTCOME (made money) **= GOOD DECISION**

BAD OUTCOME (lost money**) = BAD LUCK** (or poor money management, or poor risk management, or market manipulation, almost anything but poor process)

They equate outcomes with process. They equate results with the quality of their decisions.

In the professional poker world there is a concept, known as *resulting*. Former poker pro Annie Duke wrote about it in her book, *Thinking in Bets*, which I highly recommend to all traders.

Resulting occurs when an individual equates outcome quality with decision quality. Both in poker and trading, you can win with a poor hand, and you can lose with a strong hand, there is a mix of skill and luck. Recognizing this somewhat loose association between process and outcome, the better poker players and consistently profitable traders have learned to evaluate their decision making process as something completely separate from the outcome.

Psychologically speaking, *resulting* is actually a self-serving cognitive bias that keeps traders trapped in a cycle of boom & bust. As a clinical psychologist, and a trader who dabbles in poker, I see *resulting* as an example of what happens when trading process and trade outcomes become conflated.

Among the most consistently successful traders I know, their trade evaluation is based primarily on the quality of their trading process, their decision-making process, all the various aspects of their trading that they can control, with the outcome seen as completely separate (because they know they can’t control it) from the process leading up to it.

Actually, very successful traders go well beyond simply knowing and accepting they don’t control the outcome, they’ve internalized it.

When looking at outcomes, there is always a luck factor. Many of my coaching clients know this as the 3rd team concept, it takes other traders to move price one way or the other. The outcome is largely due to what other traders do (that's the luck part).

Evaluating a trade decision as a good decision simply because it made money (a good outcome) is the quintessential example of conflating process with outcome in trading. Likewise, evaluating a trade as a bad trade simply because it lost money is also an example of conflating process with outcome.

The more you conflate process with outcomes, the farther you are from real sustainable success. This conflation also puts a ceiling on your success, limiting your upside over time.

Separating process from outcome is not easy in trading. It is human nature to think that any good outcome (making money), regardless of the *quality* of the decision that led to it, was a good trade. It helps us feel good.

Herein lies the problem. Eventually you need to accept and internalize that when you make money, you must be honest with yourself in evaluating the quality of the decision(s) that led to that 'good outcome'. For example, in any given trade, you may or may not have engaged in a high quality process. Regardless, you put yourself into a position where you could benefit from what other traders are doing; it is their buying or selling that moves price.

Don't ignore the luck factor in profitable trades. It helps temper over-confidence for a trader; as a trader you didn't cause the trade to work. Chances are you're not a genius, and you didn't know what was going to happen. You simply put yourself in a position to profit from what others do. That's it. Don't let it get to your head. You didn't cause the trade to work.

I have some of my coaching clients sort their trades into Type 1 – 4. A Type 1 is good quality process followed by a good outcome. A Type 2 is good quality process followed by a bad outcome. A Type 3 is poor quality process followed by a bad outcome. A Type 4 is poor quality process followed by a good outcome.

If we know that Type 3 and 4 trades are bad for us, why do we still do them?

In the moment when they occur they provide some form of gratification, some type of short-term need is met.

Type 3 and 4 trades are often impulse trades, and impulse trades can meet a variety of short-term needs, some conscious and some subconscious needs. Impulse trades can give an impatient trader something to do and temporarily quell their intense FOMO. It can provide some action for a bored trader. It can give the trader who feels 'behind' an opportunity to catch-up or make their money back, etc. These are just a few examples of conscious short-term needs. There are also deeper, underlying subconscious needs such as the need to feel good enough, or the need to ward off feelings of not being good enough.

To succeed in trading, an activity that is a mix of luck and skill, we must accurately evaluate our trades.

This is critical because our human brains are not designed to trade. In many ways, to succeed at trading means you must learn to over-ride some natural human tendencies.

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Among the many natural tendencies we have to override in trading: we like to feel good, we seek comfort, we attempt to avoid discomfort, we want to be seen as competent and good enough.

In trading, it is very easy to let short-term needs become the priority, preventing us from reaching (or increasing) consistent profitability over time. The short-term need or desire to avoid discomfort in all its myriad forms (waiting, missing out, taking a loss, managing a winning trade, etc.) is a major developmental issue in trading. It takes work to flip this around, to prioritize long-term goals over short-term needs for gratification. One of the reasons it's not easy to flip around is because many of the unmet needs have deep subconscious roots.

The advice we often get, 'focus on what you can control (process) and don't focus on what you can't control (outcomes)' is good advice. It's the type of advice you often hear from business consultants, in stress management training sessions, or from a therapist, or a performance coach. But the thing is, we all know it's easier said than done.

As a clinical psychologist, coach, and trader, I've learned that a critical thing needs to happen before you can focus more on process and less on outcomes. You must learn to separate process from outcome. And the first step in separating process from outcome is to learn to think of them differently. The second step is to evaluate them separately. Without these critical first two steps, I can pretty much guarantee you'll remain either a boom & bust trader or never break through that celling.

Although there is much more I can say about process vs. outcomes, I want to leave you with a final thought.

If you are a boom & bust trader or are stuck at a profit ceiling, there are two situations that probably occur very regularly in your trading. To end the boom and bust cycle or get past that ceiling, you absolutely must learn to deal with both of them:

- Always thinking it was a good trade if you made money
- Unable to accept in the moment, and feel okay, that a good quality decision can lead to losing money or missing out

The more you can engage in an honest evaluation of your entire process and keeping the evaluation separate from any and all outcomes, the better off you'll be as a trader. And this is how you begin to focus more on the process and begin to let go of the outcome.

If the concepts I've outlined here are intriguing, if you think there is something here for you, I suggest you re-read this on a regular basis. Moving from knowing it, to accepting it, and finally to internalizing it is not easy and does not happen overnight. You will not only have to commit to the ideas, but also immerse yourself in them. If you need help, you can contact me through my web site, go to the contact page at www.andrewmenaker.com or email me, andrewmenaker at gmail.com

The ball is in your court. What will you do?