<u>If you learn nothing else, learn this:</u>

Good Trade – A trade taken in accordance with your rules.

Winning Trade – A trade that makes money.

Bad Trade – A trade taken that is not in accordance with your rules.

Losing Trade – A trade that loses money.

The trading methodology that Richard Dennis taught his Turtles is arguably one of the most difficult trading methods for a typical trader to execute. Not only does it require the trader to hold on to winning positions for extraordinary lengths of time and profit, but also it requires continually adding to that position if the market moves in the direction of the trade. Since adding to positions raises the average price, the Turtles will often give back substantial profits on retracements and often be stopped out of a trade that rode a significant trend with no profit to show for it. While all trend traders play for the outlier, Turtles play for the outlier of the outliers—typically just one trend a year. How is it that they have the discipline to hold on to positions for so long, continually adding all the way? How is it that they can maintain this discipline after having watched so many profitable trades go bust? And how is that such a large percentage of the people Dennis taught were able to do this successfully when these qualities seem so rare?

The answer is that the Turtles learned very early the difference between a Good Trade and a Winning Trade and the difference between a Bad Trade and a Losing Trade. During the two-week training course, Dennis told the Turtles that he wasn't evaluating them on whether they made money, but whether or not they stuck to the methodology. Since traders could lose money for long periods of time trading his method, it was especially important that they understand that as long as they took Good Trades, they would ultimately make money. Whether or not the trade was a Winning Trade was of no consequence. If these traders evaluated their performance in the short/medium term on profitability, they would have folded a long time ago.

For another example, let's look at Mark Weinstein (also profiled in Market Wizards). Weinstein has an extraordinary win/loss ratio and has achieved this by being ultra-selective with his trades. As a result, Mark must necessarily pass on an enormous number of trades that subsequently go his way. What would happen to his trading if he lamented every missed opportunity and or lowered his standards every time he "missed" a trade so that it would meet his criteria next time? What would happen if he treated the next trade with a view to "not missing it this time?" I would imagine he'd be like the majority of the people—a losing trader.

Mark isn't superhuman. He would probably lament the missed trade like anyone else if he actually saw it as a missed trade. But he doesn't. Mark knows that his job is to take Good Trades. A trade not taken that ultimately "wins" doesn't bother him because his final decision was that it wasn't a Good Trade. Many rookie traders would beat themselves up about "missing a trade" and their trading would be negatively affected for the next series of trades, often disastrously.

Knowing the difference between a good trade and a winning trade, and a bad trade and a losing trade will be one of the most profitable, stabilizing, productive distinctions you will ever make in your career as a trader. For the rookie trader, "missing" a winning trade is more demoralizing than taking a losing trade. But by far the worst trade for a developing trader would be the Bad Winning trade. All it serves to do is reinforce behaviors that will ultimately ruin him/her. Many of the traders in Market Wizards made their greatest reforms after taking a disastrous Bad Losing trade. I really hope that all your Bad trades will be losers (though I don't hope they're as disastrous). Taking a Good/Bad trade is within your control, taking a Winning/Losing trade isn't.

How do we best use this information?

1. Create a set of objective rules for determining what constitutes a Good Trade. If there is a discretionary range within the rules, and you were within the discretionary range, the trade is still Good.

2. By default, know that any trade that has yet to be classified as Good is Bad. If you're still evaluating whether a trade is Good, it is still Bad. All trades are Bad until proven Good.

3. When you take a Good trade that loses, Stand Proud knowing you had the <u>guts</u> to take a small loss.

4. When you don't take a trade that you had been considering that ultimately wins, Stand Proud and marvel at your ability to recognize the difference between a Good Trade and a Winning trade and act like the professional that you've obviously become.

5. Set a time limit within which you will not modify your rules for determining if a trade is Good. You must periodically evaluate your methodology but only at prescribed intervals. Proper risk management rules will prevent you from losing much money if your methodology has ceased working for you.