The Trader Curriculum

Oct 11th · None of Your Business · Sources & Further Reading

I. THE RESEARCH BEHIND THE ISSUE

Why traders sell winners too early

Shefrin, H. & Statman, M. (1985). The disposition to sell winners too early and ride losers too long: theory and evidence. Journal of Finance, 40(3), 777–790.

The original description of the disposition effect. Supports the point that cutting winners early is a documented bias, not a personal flaw.

The evidence from real accounts

Odean, T. (1998). Are investors reluctant to realize their losses? Journal of Finance, 53(5), 1775–1798.

Analysed trading records of 10,000 brokerage accounts. Investors showed a strong preference for realizing winners over losers, and the pattern was not justified by what the positions did afterwards.

Believing you steer what you cannot steer

Langer, E. J. (1975). The illusion of control. Journal of Personality and Social Psychology, 32(2), 311–328.

The foundational paper. People behave as if skill-like involvement can influence outcomes that are decided by chance.

Illusion of control in professional traders

Fenton-O'Creevy, M., Nicholson, N., Soane, E. & Willman, P. (2003). Trading on illusions: unrealistic perceptions of control and trading performance. Journal of Occupational and Organizational Psychology, 76(1), 53–68.

107 traders at investment banks. A stronger illusion of control was associated with lower manager ratings of performance and lower total pay. The authors conclude it is maladaptive in this setting.

Why 30 trades is not a verdict

Tversky, A. & Kahneman, D. (1971). Belief in the law of small numbers. Psychological Bulletin, 76(2), 105–110.

People expect small samples to resemble the underlying population, so short streaks feel like proof. Supports deciding your sample size before the series begins.

II. BOOKS

Trading in the Zone

Douglas, M. (2000). Trading in the Zone. New York Institute of Finance.

The source of this issue's quote. Core idea: inside any edge, wins and losses are randomly distributed, so any single outcome is not a verdict on you or the system.

Trade Your Way to Financial Freedom

Tharp, V. K. (2006, 2nd ed.). Trade Your Way to Financial Freedom. McGraw-Hill.
Expectancy and R-multiples: judge a system over a series of trades, not one result.

The Psychology of Trading

Steenbarger, B. N. (2003). The Psychology of Trading. Wiley.
Practical, clinician-written guidance on building self-review routines. A natural companion to the Process Grade drill.

III. FOR DEEPER READING

Prospect theory

Kahneman, D. & Tversky, A. (1979). Prospect theory: an analysis of decision under risk. Econometrica, 47(2), 263–291.
The framework most often used to explain why gains feel safer to lock in and losses feel harder to accept.

Overtrading and retail performance

Barber, B. M. & Odean, T. (2000). Trading is hazardous to your wealth: the common stock investment performance of individual investors. Journal of Finance, 55(2), 773–806.
Shows how more activity and less discipline hurt individual investor returns.

IV. A NOTE ON HOW TO READ THESE

Most of these studies come from stock investors or bank traders, not 1-minute futures fades, and Fenton-O'Creevy et al. report an association, not proof of cause. Use them to understand the bias, then test your own process on your own data.