



# Mindfulness for Financial Traders: an Introduction

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for Traders

**Aedie Caltern Ph.D.**

How to Use Mindfulness Skills to Improve  
your Trading Performance

# Mindfulness for Financial Traders: an Introduction

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## Aedie Caltern Ph.D.

Aedie Caltern did her undergraduate degree in Economics but became increasingly disillusioned with typical assumptions that people were rational beings that always made the best possible decisions. All that ever seemed to change to alter the outcome was the environment. That just did not seem right.

After college, she worked for a few years in a major investment firm and became more convinced than ever that the academic models just did not fit with reality. It was not just that people differ, but that people are different at different times. And sometimes they make much better decisions than at other times. If not, why would trading firms have so many rules and routines that must be followed?

Behavioural economists have long known this and so after taking foundation courses in Psychology she completed a Ph.D. on the impact of

mental processes on economic decisions. It was soon clear that some mental states were much more conducive than others. But how to get to these places? Which was when she came across mindfulness.



With this background and approach, Aedie has been much in demand by top firms who recognise that good decision making at every level is a vital competitive weapon. Nowhere is this more true than in trading. And the same principles and processes can now be put to good use by private financial traders.

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## 1. INTRODUCTION

Among the huge industry of products aimed at the self-improvement market, one area has stood out in recent years. This is the practice of mindfulness. From being very much on the, fairly esoteric, periphery only a few years ago, mindfulness is increasingly being embraced as a means to improve life and realise potential in many areas. Many large firms have committed to mindfulness for their employees and, unusually among self-improvement techniques, it has been shown in scientific research studies to have real positive and measurable effects.

This eBook and the accompanying course are specifically designed to help private financial traders to use mindfulness to improve their performance. The contents are targeted as putting the techniques into practice and are not in any sense theoretical. They provide a workable introduction to the subject and the practical foundation to get started putting mindfulness into practice to improve your trading performance. As a result, many complex questions around the subject are left unanswered.

The book starts by defining mindfulness in Chapter 2 and provides a brief discussion of its background and current rise in popularity. This shows how mindfulness, with roots in ancient religious practices, has become a very modern technique that is directly applicable in modern busy lives.

Meditation is a key part of developing mindfulness. Indeed, it is not going too far to say that mindfulness is meditation. However, I prefer to see meditation as a means to develop and implement the skills that are

required by a mindful approach. Chapter 3 discusses meditation and how it is used in mindfulness exercises.

Most people, particularly private traders at the early stages of their careers, if asked about what will determine their trading performance will point to requirements such as having funds to start, knowledge an information on markets, perhaps a good way to find trades. More experienced traders will point to the importance of controlling risk. But the really successful point to a third factor: having the right mindset. This issue is discussed in Chapter 4.

Chapter 5 builds on this insight and reviews why mindfulness is increasingly being seen as a useful skill for traders as part of a complete trading plan. This supports the argument that you should embark on developing mindfulness skills and incorporate mindfulness into your trading to improve your chances of success.

This eBook provides an introduction to mindfulness and how it can be used in trading. However, you need to take action and commit to learning how this skill can be put into practice and used to improve your trading. The final chapter provides some discussion of developing mindfulness skills and serves as an introduction and guide to the free 15 day course that accompanies this eBook.

Which brings us nicely to the course and how you can get it. Simply go to <http://www.mindfulnessstrading.com> and follow the instructions to receive the course. It's as simple as that.

Once you have started the course, you will receive an email each day for 15 days. The emails contain links to pages on a dedicated site that contain audio files, PDFs and tasks that you need to undertake. While this eBook contains background information on mindfulness, the course is designed to enable you to put it into practice. So, your input and your effort is essential. You should try to follow the timeline as closely as possible. There is a small time input every day and you need to make space for this. If you do not follow the course then don't expect any benefits.

Parts of the course, particularly the early sections, are somewhat generic in the sense that they lay the basis for later exercises, but they are not specific to trading. This is necessary and, in any case, you will see benefits in your life outside of trading. The later exercises are increasingly targeted at your trading activity. These will provide a basis for improved performance in this part of your life.

One final point. You should be fully aware that no matter how good you become at achieving a state of mindfulness it is no substitute for having a trading plan. Mindfulness is not an alternative to what you may consider to be market analysis or whatever methodology you use to guide your trading. There is no 'law of attraction' artificiality here and there is no recourse to higher beings to guide you. If those subjects are your interests then you should look elsewhere.

Mindfulness is a tool, albeit a very powerful one, for you as a trader to have and use in your trading. Think of it as a skill. Without a trading plan you would simply be using this and your other tools without any idea of what you are trying to achieve or the steps needed to get there. So, make developing mindfulness skills a part of your trading plan.

## 2. MINDFULNESS: WHAT IT IS, WHAT IT IS NOT

It may not be the best way to start to define a topic by saying what it is not, but in this case I'm going to make an exception. At least to start. At its simplest, mindfulness can be considered to be the opposite of 'mindlessness'. Most people understand what is meant by mindlessness – the undertaking or repetition of some action without even thinking about it. Mindlessness is not always wrong. It happens and is appropriate where there is a simple action that needs to be repeated regularly or intuitively without thinking. It helps to prevent us becoming very bored, virtually hypnotized by simple repetition. At the opposite extreme, it enables us to act quickly, instinctively, particularly in times of danger or competition, without thinking or planning in advance. Walking, writing your name and many of the required actions when driving fall into this category.

But notice that it is the actions that can be undertaken mindlessly. You should not undertake any of these activities without paying some attention. If you are writing your name, what are you signing? Watch where you are walking. Pay attention when driving. These are all conscious actions requiring attention. But you don't need to stop to think which letter you will put first in your name or how to form it. And you don't want to stop and think about how brakes work or which pedal to press when you need to do so.

So, mindlessness has its place. It allows us to tolerate the humdrum, the repetitive, the mundane and to concentrate our attention to where it needs to be, or where we would wish it to be.



But there is a downside. Mindlessness only allows this. We don't know how far to allow it to happen. We don't seem to have a good inbuilt control for everyday situations. By diverting our minds from our immediate surroundings we have no guarantees about how far our minds will wander nor to where they will go. And a lot of the time the attention capacity that is freed up is put to uses that are not at all beneficial.

The capacity may be used to worry about actual or imagined events. Or it may be simply that the loudest thoughts dominate and constantly intrude. It has been estimated that the average person has over 60,000 thoughts per day. Furthermore, it is estimated that up to 90 percent of these thoughts are simply repetitions of our thoughts from yesterday. And while people spend almost half their time worrying, the vast majority of those worries never come true.

There is a constant noise, a hustle and bustle in our heads, even when the world around us is quiet and non-intrusive. This is particularly the case where the immediate surroundings are familiar and low in terms of their stimulatory impact on our senses. Think of lying awake at night. These are the very places where we should be able to react easily without even trying. But how often are the quietest places also those where worries rush in to fill the mental capacity that has been freed?

Mindfulness is an attempt to stop this. It does not place strict limits on our wandering minds but it tries to call them back to what is the present experience. Is today really just a case of the boring sameness as every other day? Of course not. The truth is our surroundings are constantly changing. Our actions, no matter how repetitive, are constantly varying. It's just that we are not paying attention to these changes and variations.

If you look through the literature on mindfulness you won't find a single universally accepted definition but various forms of words that create quite similar impressions. There does not seem to be any particular boundaries to what constitutes mindfulness, but you know it when you experience it. In general, it appears to be defined by associated actions or experiences, rather than physiological or medical symptoms. This has sparked some criticisms that it too vague a concept to be of real use with little or no definitive empirical or experimental evidence to support it. This has been countered, often by people who have really bought into the cultural and religious ideas from where mindfulness originated, that this is a westernized, scientific mindset that is simply inappropriate and misses the point.

Does this matter? Well, up to a point. If we are going to learn a skill we need some reason to think we will see a benefit. And while mindfulness may not fulfill all the criteria that would see it considered to be a mainstream therapeutic treatment within the medical sciences, there is plenty of evidence, some of which is discussed later in this eBook, that there are plenty of associated benefits. As for claims that looking at it in this way is a distortion of a religious or philosophical practice, I have no wish to get into that argument<sup>1</sup>. Why would I? We are not looking for a way to enlightenment, just a way to improve our trading performance.

So what sorts of definitions appear. Looking through the literature, but avoiding the more esoteric material that sees mindfulness as a step on the path to enlightenment, you will encounter definitions such as that mindfulness is:

- paying attention on purpose, moment by moment, without judging;

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<sup>1</sup> I do not in any way wish to appear to be dismissing or criticising the teachings of many, particularly those in the Buddhist tradition. I do not pretend to know what they know nor to have the same objectives.

- awareness;
- the opposite of forgetfulness;
- a technology that you apply to the mind so that you begin to generate insight into yourself and your place in the world;
- a practice in which we develop a non-judgmental present-centered awareness. In the state of mindfulness, we observe what is, without reacting to it as good or bad and without colouring it with thoughts and feelings of past and future;
- concentration, sensory clarity and equanimity;
- a reminder of what you are supposed to be doing; sees things as they really are; sees the true nature of all phenomena.

The terminology differs as does the different aspects that are emphasised but there is a fairly common theme that is probably best summed up by the shortest of these definitions: mindfulness is awareness. Awareness of our surroundings and of ourselves. We become aware but just observe without judgement. And we stick to the present moment. This final point is summed up very nicely by the Buddhist author Thich Nhat Hanh. He writes that

‘Our true home is not in the past. Our true home is not in the future. Our true home is in the here and the now. Life is available only in the here and the now, and it is our true home.’

If you wish, [click here to view](#) a short introductory video on mindfulness. (It’s only about 4 minutes long).

Becoming more aware of our immediate surroundings, while removing the past and future from your mind, may not sound like an obviously helpful thing to do. However, if you can do this in a way that suspends judgment and self criticism then there can be surprising results. In particular, you can begin to tap into mental capacities that will help you to make better decisions.

So, why are we not doing this automatically or at will? Think about how we typically act as we go through our days. We are intelligent, sentient, sensory beings. This means we have the faculty to experience the world around us, through our senses, and to make sense of it through our minds. But is this what we actually do?

Just having the ability to act in this manner is not enough. The fact is that we actually tune out from the world around us most of the time paying little attention to what our senses are telling us. We think we concentrate on the information from our senses that is, what we perceive to be, of most relevance to our objectives. But look at the huge judgements that are implied in that statement. We assume we can judge what is most relevant and then that we instinctively concentrate on that information.

However, this does not happen instinctively. We do indeed tune out from most of our sensory information, but we do so in an almost a random manner. And we do not use the information we do process in an objective manner. Instead we constantly judge and categorize this information often according to experience which may or may not be accurate. In undertaking this judgement and categorization we bring to bear all the prejudices and obsessions, as well as learning, that we have developed as we grew up.

We rationalize the fact that we pay little attention to what is actually going on around us on the basis that this allows us to concentrate on the task in hand, on what actually matters. But again we do no such thing. We allocate at least as much of our attention to thinking about the future and the past as we do to the present. And yet, neither the future nor the past actually exist. The former is simply our imagination, fantasies in our minds. They may or may not come to pass, but even if they do the chances are we will then be thinking of something else at that time. The past is also simply a construct of our minds. We call it memories. In fact, much of what we think of as memories of events are actually memories of memories and we have limited abilities to distinguish between the two.

So, we are intelligent beings that do indeed make decision on what our senses are telling us about the world around us. But we are actually ignoring most of what our senses are telling us and allocating most of our intellectual capacity to manufactured thoughts.

Is it any wonder we fail to see the obvious, find it hard to concentrate and make mistakes? Worse, we allocate time to rehashing memories of adverse feelings we experienced when we made those mistakes or trying to recapture in our minds positive feelings from good memories. What remains of our intellect we allocate to imaging situations where we can either avoid those bad feelings or experience again the good times. And all this irrespective of what is going on around us?

We do this even though we know that only the present is real, that our senses can only experience the present. We do all this and still carry on with our daily lives, performing most tasks though a combination of



evolutionary strengths such as involuntary behaviours and the mindless undertaking of tasks that require some voluntary behaviour but less than full attention.

Like driving perhaps? Yes it's hard to believe that we take what is effectively a deadly weapon into our hands – the use of private cars is responsible of the deaths of thousands of people every year – and we operate it while thinking about something else. If we do that mindlessly then how much else do we do mindlessly? And now we have reached the point where we can use the word that describes so much of what we do – mindlessness.

Mindfulness is a breaking away from this way of operating. We aim to make space in our minds, not necessarily by excluding other things but by consciously finding space, to observe and become aware of what is actually going on within us and around us. And we want to go further, because we want to be aware that we are doing this, to be able to observe that we are aware of the present.

### 3. WHAT'S MEDITATION GOT TO DO WITH IT?

The origins of mindfulness as a concept and many of its practices are often traced back to Buddhism. Indeed, the word mindfulness is often considered to be a translation of the Pali word 'sati'. Pali is a Middle Indo-Aryan language of north Indian origin that is generally used in as the classical and liturgical language of the Theravada Buddhist canon. There are many reflections of mindful practices in other religions also. These include contemplative practices in Christianity and endurance feats in Hinduism.

However, mindfulness is not about religion. Indeed, practices to increase the odds of a better place in the afterlife or to attain assistance from an external power or a higher being often appear to be very much as odds with mindfulness. That's not to say it is anti-religious in any manner. It is not. But it is a secular practice. It is concerned with the present, not with the afterlife. It is concerned with developing the ability within the person to experience the external world in the present moment. And there is absolutely no reliance on mystical forces, the supernatural, or claims of pseudoscientific forces or laws. Neither are there promises that good things will just happen to you for no logical reason other than partaking in some ritual. You will need to make things happen.

But neither is mindfulness in contradiction with any of these religious practices. If you are a spiritual person who adheres to a particular religion or philosophy then that is fine. If you are neither religious nor spiritual than that is fine also. There is no reason whatever to change your beliefs or your practices.

Mindfulness is not exclusive, nor is it evangelical. The only thing it asks for is an open mind, that you prepare for the exercises and that you make the commitment and effort to follow through. If good things happen and you want to assign them to the grace of your God then that is fine. Indeed, if you assign the beauty of the natural world to the goodness of God and mindfulness helps you to appreciate that better then there is a symbiotic, positive relationship. But if things don't go well, don't blame mindfulness. Instead, accept that it's not working for you and try and find out why.

One further point: there is no end towards which you are working in a mindfulness course. You do not pass through stages of higher achievement where you are assessed and move on to the next stage. There is no black belt or graduation. There should be no point towards which you are aiming where you can say 'well, there's that done. Now, what's next?'

But that does not mean there is no objective with mindfulness. There is. For the moment just think of it as becoming increasingly aware of the present – whatever the present may be. Along the way there is an objective of increased contentment. And given that this course is about mindfulness for traders, there is an objective of better trading performance. So, making more money from trading is probably the ultimate objective. But let's not start thinking about that just yet because that is just an imagined future.

I think it is important to make sure these points are well understood because soon after you begin to learn about mindfulness you will encounter the word 'meditation'. This can be off-putting for some people

as it can at first appear to introduce a concept that is often associated with particular religions or practices and which has been used in ways in recent decades that have seriously undermined its perceived value.

What springs to your mind when you hear the work meditation? Possibly someone promoting some evangelical adherence to an Eastern form of mysticism? Perhaps someone promoting vegetarianism? Or maybe some hocus-pocus, hippy-dippy practice of sitting in uncomfortable positions and basically turning off from the world? A way to drop out perhaps? Or to rip off the gullible by dressing up snake-oil nonsense in a cloak of respectability by associating it with an ancient wisdom? You can be forgiven for that. Perhaps you are not so cynical and see it as a means to attain some form of insight or spirituality, but feel that it's just not for you?

Put these thoughts aside. In a sense, this is your first practice of mindfulness. Meditation is a practice used in the exercises that accompany mindfulness courses. See it as a tool. If you do some DIY, you don't need to understand how the internal mechanisms of your power tools work, or where they were made, or how they came to be developed. Neither do you see any tool as having any inherent moral or ethical qualities. A tool is just that: it either does the job as required, or does not. Or perhaps the tool is fine but you just don't know how to use it. In summary, you are not assessing the tool, you are just using it.

It is a bit unfair to suggest that meditation is somehow equivalent to a power tool, but it's actually not a bad analogy with which to start. Meditation is not the end you desire. You don't want to learn all about meditation. No, you want the benefits that can arise if you use it correctly to develop mindfulness. It's a means to an end. Can you live with that?

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