

Web traders can be led astray by emotions

By Bryan Borzykowski | Fri Feb 18 2011

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Wally Trenholm has been buying and selling options for about 10 years, but even this disciplined active trader occasionally lets his emotions get the better of him.

After making a ton of cash in August — enough to hire someone to help him develop trading software he's been working on — he lost it all in September.

His mistake? Betting too much and thinking he could win big two months in a row. "It was a combination of arrogance and doing things I shouldn't have been doing," he says.



Active trader Wally Trenholm made a pile of money in August and lost it in September. He says he got arrogant and did things he should not have. So he took a break from trading.

Aaron Harris for the Toronto Star

Trading has always been a risky game, but now that online brokerages have made it so effortless to buy, sell and leverage investments, it's even easier to let emotions get in the way of smart investing.

Trenholm has a rule: when he makes a big mistake, he takes a break. He learns a new trading skill, or works on the active trading platform he's developing. This blunder forced him to take a month and a half off.

But other traders and investors aren't so level-headed. Many blow through dollars like they're playing slots, or spend so much time in front of a computer that they forget about their other commitments.

David Teplin, chair of the Canadian Psychology Association's section on substance abuse and dependence, has seen how trading can get out of control. The danger is when it starts to take over someone's life.

"Many traders do just fine," he explains. "Those who get addicted get hooked on the adrenaline rush. The main thing to watch out for is if that person is preoccupied with trading."

Research shows that the Internet has heightened the possibility of addiction, says Teplin. It's fast-paced, immediate and it's easy to lose track of time.

Trenholm admits there are many days where he doesn't take his eyes off the markets, and he often gets just four or five hours of sleep. But he does take breaks to work on his software, spend time with his girlfriend or sneak into an economics class at U of T.

He's also, for the most part, making money. Save for that big loss, he says he usually can keep his emotions out of trading.

"You never want to stress about a position on the downside and you never want to be carefree about one on the upside," he says. Success does not give a trader license to bend the rules, he adds.

Although Trenholm is an active trader — he makes several trades a day — the same rules apply for online investors.

Connie Stefankiewicz, head of BMO InvestorLine, says investors can get into trouble if they're taking on more risk than they can handle. Losing sleep over investments is an indication that there's a problem.

Sticking to a plan will help keep emotions in check. Remaining engaged in a portfolio, which involves staying on top of trends and news events, will help investors make intelligent decisions, she says.

The key, though, is to remain detached. That's easier said than done, but suppressing the desire to react to the market, and staying focused on a plan, is the only way someone will become a successful online investor.

“Market forces cause people to make bad decisions if they don’t take a detached stance,” says Stefankiewicz. “If you’re holding securities, the ability to take a step back and ask yourself if this is a good investment is important.”

Online brokers have numerous tools to help investors make informed decisions. All of them offer company analysis, fundamental metrics like price-to-earning ratios and charting software that helps investors take a detailed look at share-price movements.

Regular reviews of a portfolio can also help an investor stay focused. Stefankiewicz says people should look at their returns against a benchmark, such as the S&P/TSX Composite Index. If they’re consistently underperforming, something could either be wrong with their investing style, or they’re making bad, emotionally driven decisions.

“Ask yourself, ‘Am I actually managing my portfolio in a way that’s helping me achieve my goals?’” she suggests. If the answer is no, then you should seek additional help.

Although investors and traders can lose sight of their mission, and many treat an online brokerage as they would an online casino, Teplin points out that gambling and trading aren’t the same thing.

With investing, people can make decisions based on actual research. It’s more systematic, greed and fear don’t play as big a role and it’s more long-term.

Investors, he says, aren’t motivated by compulsion the same way gamblers are.

But for some people, trading and gambling are the same thing — Trenholm has friends who have lost a lot of money. However, he says what he’s doing is based in the realities of the market.

“My decisions are anchored in things like capital flow into China or employment reports,” he says. “Just betting on basketball is different, but unfortunately, not every trader looks at it that way.”

Trenholm is the first to admit he works a lot, doesn’t get enough sleep and watches way too much CNBC. But he’s confident he can keep making a living as a trader.

“This is for mine and my girlfriend’s future,” he says. “My friends know I work hard, but no one would say I have an addiction.”