One paradox I often pose to my audiences in talks about the elements of successful trading concerns the dichotomy in human thinking as it relates to trading versus everything else. Specifically, I use the following example: No sane person would walk into a bookstore (assuming you could still find one these days), go to the medical section, find a book on brain surgery, read it over the weekend, and then believe he could walk into an operating room on Monday morning and perform successful brain surgery. The operative word here is “sane.” Yet how many people do you know who would think that it is perfectly reasonable to walk into a bookstore, go the investment section, find a book with a title like How I Made a Million Dollars Trading Stocks Last Year, read it over the weekend, and then start trading Monday morning and expect to beat the professionals at their own game. Why this dichotomy in thinking?

The foregoing paradox is one that I believe has a satisfactory answer. Trading, as far as I know, is the only endeavor in which the rank amateur has a 50/50 chance of being right. Why? Because there are only two things you could do in trading: you can buy or you can sell. And, as a consequence, some portion of clueless beginners will get it right simply by chance— for a while. This potential for temporary success by pure luck beguiles people into thinking that trading is a...
lot easier than it is. The potential for even temporary success doesn’t exist in any other profession. If you have never trained as a surgeon, the probability of your performing successful brain surgery is zero. If you have never picked up a violin, your chances of playing successful solo violin in front of the New York Philharmonic are zero. It is just that trading has this quirk that allows some people to be successful temporarily without true skill or an edge—and that fools people into mistaking luck for skill.

Jim Paul thought that his early success in the markets was caused by his being smart or maybe by his willingness to break the rules. He didn’t realize that his heady run was based on luck until he had lost all his profits and a good deal more. And Paul would be the first to admit that his winning streak was a matter of luck even though it lasted for years. This conclusion is unavoidable because his deficiency as a trader made a total loss inevitable. As he readily acknowledges, even if he had not lost all his money when he did, it would merely have postponed this ultimate outcome, perhaps to a point in time when his loss would have been that much greater.

The truth is that trading, both successful and unsuccessful, is more about psychology than tactics. As Jim Paul ultimately learns through a very expensive lesson taught by the market, successful trading is not about discovering a great strategy for making money but rather a matter of learning how to lose. From the research he conducts following his catastrophic experience in the markets, Paul realizes that winning traders differ radically, using approaches that often contradict one another. What winning traders share, however, is that they all understand that losing is part of the game, and they all have learned how to lose. By losing everything, Paul becomes an expert on losing, and it is only then that he can become a winning trader rather than a temporarily lucky one.

There is more to be learned from Jim Paul’s true story of failure than from a stack of books promising to reveal the secret formula for success. Not only that: What I Learned Losing a Million Dollars is a much more entertaining read. Although the book can be read simply as a humorous and breezy tale, readers should not lose sight of the
fact that this compact volume is filled with a wealth of trading wisdom and insights. It cost Paul a fortune to learn these lessons; the reader has the opportunity to benefit from this knowledge for the mere cost of a book—a true bargain.