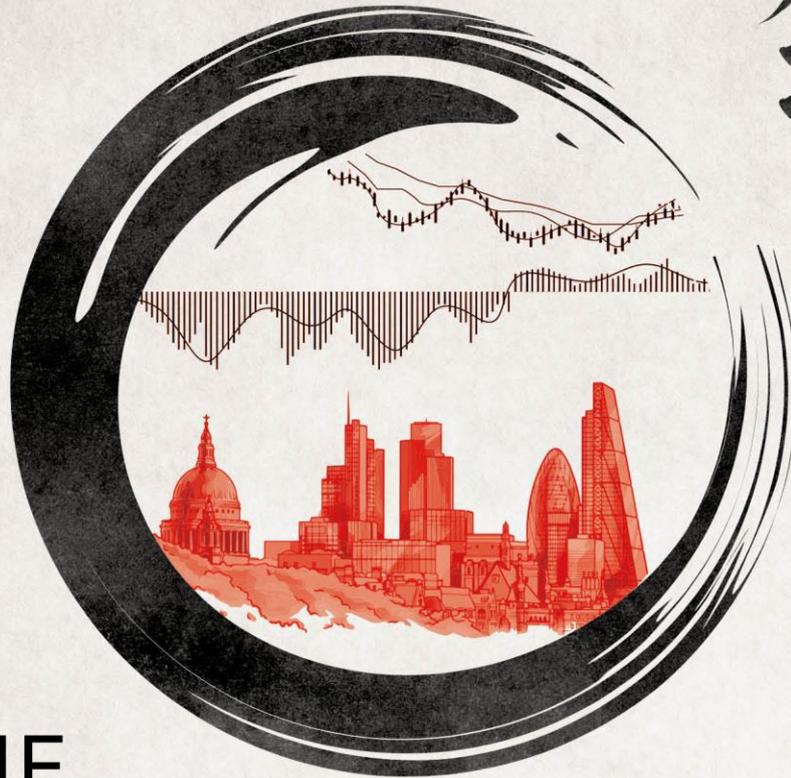


PETER CASTLE

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THE

ZEN

TRADER

How ancient wisdom
can help you master
your mind... *AND THE MARKETS*

Hh

Dedication

I would like to dedicate this book to my parents.

To my mother Rona Mary Castle, who recognised early in my upbringing that the best role for her as a mother was to trust and let me be the person I wanted to become. To my father Kevin Charles Castle, who despite his conservative and more rigid thinking, coupled with a distrust of the share market, gave me as a Christmas present (in 1999) the book *Market Wizards* and wrote inside the front cover:

To Pete,

May you one day too become a Market Wizard!

Love Dad

Preface

Peter Castle has been a share trader for 25 years, 20 years full-time.

Peter Castle (Taishin Shodo) is also an ordained Zen priest.

In this, his second book about trading, Peter explains the wisdom of Zen psychology and its relevance to a trading mindset. To trade well and live happily and successfully, you need calmness and peace of mind; once those qualities of mind are achieved the understanding of what it means to be truly one with the market will follow.

After many years of studying Buddhism throughout Asia (Vietnam, Thailand, Taiwan and Japan) as well as two years as a monastery resident studying the Tibetan Kadampa tradition, Peter was ordained as a priest in the Zen Order of the Boundless Way (Mugendo Zen Kai). This tradition is officially recognised and associated with the Rinzai Zen tradition of Japan.

Introduction

This book is written with a purpose: to compare and connect the methods of trading to the philosophies and techniques of Zen. The intention is to show the reader that embracing Zen in their trading and life will improve not only their financial situation, but also their happiness and overall well-being.

Each chapter shows comparisons between trading and Zen, and demonstrates how adopting a Zen approach will elevate your performance as a trader (or investor) and bring more peace and profit into your life.

Many professional traders talk about their *edge*. For example, an edge can be a trading system based on mathematical probability. Another trading edge may be taking advantage of market anomalies, or perhaps trading non-correlated markets to spread risk and reduce portfolio volatility. Those are just three examples of many. However, this book offers you the greatest edge of all: Zen mindset.

A major goal in my trading career has been to make money as safely and easily as possible, without time-consuming complex methods. Another, but equally important, goal was to be able to trade with minimal stress.

So how have I, as a full-time trader for 20 years, managed to do that? To survive, profit, and keep my sanity? Well, I haven't, and then on the other hand, I have. If that sounds paradoxical, perhaps it is. Zen can be like that.

Let me explain.

One of my first trading teachers claimed that many are attracted to trading for the wrong reasons. My assumption was that I was not one of those people. However, the realisation occurred (unfortunately much later than I would have preferred) that I too was in that category. As aspiring traders, we think we know ourselves well, but many of us do not.

The same teacher warned me that the market would target me like a heat-seeking missile, and find any emotional frailties or weaknesses I had. That was a challenging opinion. On the one hand I didn't believe it, but on the other, there lay an uncomfortable feeling. Now with hindsight, I am aware it was one of my first experiences in realising I didn't really know myself that well, and I certainly wasn't listening to my intuition.

When I started trading in 1995, I was fit, well-read, well-travelled, confident, successful in my business, and owner of some property investments. However, even at my relatively young age, I knew myself well enough to realise that the challenge of trading would not be financial, technical or academic – but emotional. An honest admission is I had no idea what I was letting myself in for.

Full-time trading was tough. I started in January 2000: it was a baptism by fire. In March 2000, US tech stocks crashed, driving down markets all over the globe. The 9/11 terrorist attacks came in 2001 and markets again went down, not recovering until, in 2003, the first bomb was dropped on Baghdad, starting the Iraq war.

It was one of my first important lessons in how markets hate uncertainty. Once the US-led coalition decided to invade Iraq, removing a large element of political uncertainty, markets went up. From then on, markets continued rising until the sub-prime rumours started in 2007, culminating in the Global Financial Crisis (GFC) crash in 2008. I missed the early market move up from 2003 to 2005 but managed to catch a big part of the rally between 2006 and 2007.

Over the ups and downs, I managed to generate profits here and there, and survived. But I remember often thinking, "Wow, someone could make a *lot* of money from trading if they knew what they were doing."

It was around this time I started looking at why I wouldn't or couldn't stick to my systems. Some bad habits had crept into my trading. I was a good analyst, and being a visual and creative person I could remember things like chart patterns, a stock's volatility or price behaviour, and how a lot of trends seem to start in the same way. However, I couldn't stick to any ideas. I kept changing my mind, looking for different techniques and methods. I was easily distracted away from one method I had developed only to re-visit it later and discover how well it had performed. Analysis wasn't the problem; I had a good win rate with my decision making. At one point, despite a 90% win rate when trading an options campaign for several months, I failed to make any money due solely to my atrocious lack of discipline in committing to sell orders. Poor and inconsistent trade-sizing methods didn't help either. The problem was something deeper, and I was determined to find it.

I came across an unlikely signpost on my trading journey: Alcoholics Anonymous.

Early in 2003, I had taken myself off to a country town to renovate a small cottage. I was tired, frustrated, depressed and in desperate need of a break from trading. As I painted the house I listened to the local radio station, where I kept hearing ads for AA meetings. Remembering the trading coach Dr Elder's recommendation to attend an AA meeting, I did so (even though I was confident I was not an alcoholic). My brief association

with AA was my first truly spiritual experience, for what I learnt was that the AA's 12-step program is a spiritual method of rehabilitation. The lesson Dr Elder was attempting to teach me became clear. I had some issues I needed to work on – the main one being my addiction to the market and trading.

An alcoholic I wasn't, but a gambler I was.

I started to notice something peculiar about trading coaches and others I was reading about. Dr Elder was a fan of AA and its spiritual message. Ed Seykota, well known for his trend-following methodologies, devoted many pages of his website to his own brand of spirituality, a blend of Buddhist and American Indian philosophies. Mark Douglas's work was rooted in Eastern philosophy and modern psychology, expressed in his book *Trading in the Zone* (Prentice Hall Press, 2000). Dr Van Tharp was a practitioner and devotee of Oneness Organisation from Chennai, India, an organisation steeped in the spiritual traditions of Hinduism. In Australia, the trading and investing coach Colin Nicholson (although with no direct spiritual affiliation) often talked about the need for gratefulness, emotional intelligence and delayed gratification – all spiritual concepts from the sages of old.

Then of course, there is me and my interest in Zen. So, what is it that makes Zen different to these other forms of thinking – particularly as a way of thinking most suited to trading?

In my opinion, there are two obstacles to trading success. Zen can solve both of them.

In my first book *Mindful Trading using Winning Probability* I explained that those obstacles are:

Traders don't have a system or method to trade.

Even if they do have a method, they don't stick to it.

My first book was devoted to the first issue and a very simple trend-following method was explained in detail. This new book explains and breaks down the second obstacle that affects almost every trader and is a major barrier to success in the markets. During that process, we delve into Zen and explore why it is such a powerful tool to have in your trading toolbox.

If we are to use Zen as a trading tool, how does one reconcile the philosophy of Zen Buddhism with trading, as at first glance they might appear to be in direct conflict with each other?

My initial motives for getting into trading were chiefly self-interested. I had goals I wanted to achieve – and to accomplish those goals I needed money. However, apart from money, one of the most important goals was an alternative lifestyle to the one I was living. Becoming tired of the daily grind of being the owner/manager of a busy car repair business prompted the desire to create better balance in my life. From the beginning of my trading career, I was well aware that continuing self-development would be a large component of the challenge before me. Spirituality, Buddhism, and finally Zen came about from my interest and desire to develop as a person. My life's journey, from leaving a private boarding school at age 16 to start a trade as a car spray painter, to becoming a small businessman/share trader/teacher and now an ordained Zen priest, has surprised me perhaps more than anyone else.

One of the many similarities between trading and Zen is that when you learn something, you think you know it. Upon revisiting the lesson perhaps years later, you see the whole thing in a different light. Before publishing this book, I gave it to some of my more experienced clients to read. I received a common response: they would not have appreciated or understood the content as a beginner trader as much as they do now. So, if you are a beginner, when you finish reading this book, come back later and re-read it. If you are an intermediate or experienced trader, you will be nodding your head in agreement and also be awakened to new possibilities and knowledge.

Attaining a calm and peaceful mind is often mentioned in this book. In this hectic and sometimes crazy world in which we live, those qualities can be rare. As I write, the world is in the midst of the coronavirus crisis – a perfect example of how unpredictable and uncertain life can quickly become. From trading full-time for two decades, along with teaching trading for more than eight years, it is my experience that calmness, together with a peaceful mind, are the missing ingredients for most traders. In fact, as a Zen practitioner, I find these same ingredients are missing for some of those on the Zen path. It can be a simple path, but because of our human complexities we make both trading and Zen difficult. Somehow, we need to make things simpler.

We humans bring our strengths and weaknesses to every circumstance of life. As we say in Zen, "You take your mind with you wherever you go." Until you can be calm in the chaos around you and have the presence of mind to act accordingly, peace and profit will be elusive.

We live in a world of incredible knowledge and resources. There are thousands of books, courses, coaches, computer programmes and webinars about trading; the list is almost endless. There is no shortage of technical know-how.

There are also thousands of books and courses on mindset and meditation. Psychologists and psychiatrists have devised methods and self-development courses in trading. Medications, supplements and even stimulants are available to assist the aspiring trader.

Despite all of the above, the success rate of traders is still low.

Is it all too hard? Is it even possible? Or is it that we are all looking in the wrong place?

I believe it is the latter. This book will address that situation by using Zen: a mindset and way of life renowned for its clarity and calm. If being successful is about modelling successful methods or people, then modelling a method that creates peace and calm is what is needed to be a good trader. We all started trading to bring more opportunity and freedom into our lives – not more suffering.

The similarities between trading and Zen are immense. Both are simple processes but not necessarily easy to follow. However, the rewards are also immense – both personally and professionally. As traders and also as humans wanting to evolve and improve who we are, we need to look at methods that work. Methods that have merit and are proven over time. Zen is such a method.

Chapter 9 – Being in Control and Suppressing Fear is Not the Solution

The title and content of this chapter may surprise you, because often you will hear the opposite statement about trading. Many still believe that to be a good trader you need to control your emotions. I couldn't disagree more. What is required is *emotional recognition*. My belief is that this skill is more common among women and hence the reason they can outperform men at trading.¹

Being able to first recognise your emotions and then understand them is the key to trading well. Suppressing emotions only creates confusion. You need to understand your emotions so you can develop a strategy to deal with them. Women seem more able to name their feelings, which makes it easier to identify their thinking, thus enabling the clarification of their emotion.² Men are often confused by their emotions because they lack the ability to name and then understand them.

By now, you may be realising that awareness of your thoughts, which is followed by not attaching to those thoughts, is the key to peace of mind. Peace of mind is a requirement of trading well. A judgemental and attached mind will often make fearful and thus illogical decisions – a scenario we must avoid if we are to be successful in the long term.

Recognising fear and not suppressing it will allow calmness and peace of mind to increase.

Recognising fear and not suppressing it will allow you to trade better.

I use the word *allow*, because nothing in Zen is forced or controlled. Realisation, calmness and peace of mind come to those who stop controlling or forcing things to happen.

Flow, but sometimes fight

Let me give you an example of how recognising – but not suppressing – the mind's thoughts can work in an aggressive or chaotic environment. As a youth, I studied karate and some other Eastern martial arts. I also tried boxing, a fighting modality more common in the West which has its focus mainly on two things: attack (punch) and defence (block) with the occasional duck and weave.

Eastern martial arts' focus is about very similar things – attack, defence, block. However, there is a huge tactical difference – at times step out of the way and let the force of the opponent pass by you. Do not attack, do not defend; if you can, do not fight – in fact do nothing! Also, if the opportunity presents, use the force of the attacker to your advantage. Do not lose the advantage of thinking clearly. Stay calm and refrain from becoming reactive and filled with fear or rage.

This philosophy can be used in trading. Often when trades go against them, traders feel the need to do something. However, have you realised that the decision to act comes mostly from the desire to alleviate your unpleasant feelings? Suppressing fear, ignoring it and thus fooling yourself that you are in control, prevents the realisation that you are just *reacting* to fear and not managing it. This is the opportunity for you to use fear as the tool it can be: the tool of realisation.

Fear is not to be discarded or suppressed as a worthless and inconvenient emotion.

No mind

If you have not seen the movie *The Last Samurai* starring Tom Cruise as Captain Nathan Algren, I recommend you watch the wonderful scene where he is learning to fight with a wooden sword. He is repeatedly defeated, until he embraces the advice of a Samurai onlooker: "Use no mind." The captain realises he is overthinking his technique, thus creating anger and frustration within himself. When he stops attaching to the thoughts of getting it right or wrong, he starts to flow with his opponent and then his own blade. He doesn't so much win that one

¹ 'The Role of Hormones in Financial Markets' (University of Leicester, 2016)

² 'Gender Differences in Emotion Regulation: An fMRI Study of Cognitive Reappraisal' (National Library of Medicine (US), 2008)

fight (he and his opponent draw), however he experiences an awakening to the fact he has been limiting his own ability through his desire to be in control. This 'no mind' is the beginning of his mastery.

It's a wonderful example of a strong, capable man with incredible drive and willpower, stepping away from his mind's desire to control and get things perfect. Once he allows those thoughts to be in the background, focuses on being present in the moment, and flows with the battle, he gains success.

So, if controlling our emotions is not the answer, what is?

Suppressing fear is the trader's greatest trap

A misperception about Zen accomplishment is that by controlling the mind no fear will be experienced. Let me assure you this is far from correct.

In Zen, awareness of fear accompanied with detachment is what's encouraged. Western thought is centred around avoiding or controlling the emotion of fear. Zen is asking us to do quite the opposite – in fact it wants us to do something radical: turn towards fear and embrace it!

This theory is not so radical when we consider the reasoning for it. Awareness is a powerful tool. If we do not look at which emotions are driving our decisions, how will we ever discover why we keep repeating the same life mistakes, or self-sabotaging our trades? Zen asks you not avoid your thoughts, feelings and actions but to look at them with a mindset of curiosity and willingness. This can be very challenging.

I have witnessed people physically run out of a meditation retreat when asked to sit still and contemplate their actions in life. The feelings arising from realisation overwhelm them, so they run away from the challenge of more awareness and insight.

Often, it is not easy to consider questions that the enquiring mind may produce. These challenging thoughts and life questions that arise could include:

Why am I in this marriage?

Why am I in this job that I hate?

Why don't I say what I feel?

Why do I feel I live a life of quiet desperation?

Why do I compulsively shop?

Why do I overeat?

Why do I drink as much as I do?

Why do I gamble on sport so often?

Why do I have so much anxiety?

Why do I have depression?

Why do I watch so much pornography?

Why do I stay stuck and refuse to act for positive change?

These are tough questions.

At a meditation retreat you are asked to stop your habitual thinking and actions, to give your mind the time and space it needs to open and reflect. Reflection will make you aware of the questions and answers you avoid – then of course sometimes it becomes so challenging you want to run, like some do.

Traders run all the time, except instead of running out of a meditation retreat, they run from the market. Or they run **to** the market to escape their unhappy lives, like I did.

Traders also need to have an enquiring mind. Our actions as traders are often a mirror of our actions in life.

At some stage in your trading career, you will need to ask questions like the ones below:

Why don't I buy?

Why can't I hold a trade?

Why can't I sell?

Why do I constantly screen-watch?

Why do I trade so often?

Why do I constantly change my mind about the market, and trading?

Why do I hide my performance from those who might help me?

Why can't I follow a method without constantly interfering with it?

Why don't I stop trading and take a break to reassess my method?

Why can't I ask for help?

Why do I hide my performance from my partner, wife, husband or colleagues?

Why don't I spend the money and time to get some training, learn that new software, and approach my trading in a much more business-like manner?

These are tough questions. If you have attended trading lectures, I am sure you have been advised to stop your habitual trading (thinking and actions) so as to give your mind the time and space it needs to open and reflect.

However, you don't do these things, because you are stuck in a pattern – a pattern you seemingly can't break away from. If this is the case you may have an addiction to trading.

If you do muster the courage to stop and reflect on all these personal and trading questions, the answers will be hidden amongst...

Fear

Fear of the outcome if you act. Fear of loss if you make a mistake. You fear that if you leave the job you hate you may not get another, or will have to settle for one that pays less. If you leave that unhappy relationship, you fear you may not be able to meet anyone else, or you may fear the emotional or financial pain of starting over. You may fear the challenge in learning something new, such as the trading course you have been thinking about or some back-testing software you have avoided buying. You may fear the emotional confrontation and pain of in-depth counselling and treatment to cure your anxiety, depression, or addictions.

Your fears are so great, you do nothing. You are like a rabbit in the headlights of an oncoming car.

Paralysed.

Most of all though, the following are the fears that govern traders' actions:

Fear of loss.

Fear of missing out.

Fear of losing a profit

How are you feeling? Are alarm bells ringing, as I expose to you how you may think and feel and what the problems may be?

Unfortunately, it gets harder before it gets better. Until you realise and accept that the negative emotions and patterns in your life will be repeated in your trading, you will never be successful at trading.

Zen awareness will free your pain and anxiety

What is required is the ability to recognise fear, and neither attach to it nor avoid it. Developing that skill will provide the calmness and peace of mind required to perform consistently well; not just at trading but in any endeavour in life you choose.

Fortunately, there is a solution to all this – Buddha's fourth Noble Truth:

There is a method (system) to achieve the end of suffering, a way to be calm with peace of mind.

A Taishin Shodo Zen story (Taishin Shodo is my ordained name)

As part of my training, I attended a 5-day silent meditation retreat facilitated by an elderly monk of a Tibetan tradition. During the retreat, upon request we could have a private audience with him. I regarded myself as reasonably experienced; I had been meditating for 25-plus years, had lived in a monastery for two years and was in training for Zen ordination. I had a burning question in my mind: how do I and others overcome fear? I entered the monk's small room, bowed in respect, as tradition expected, took my seat and asked my question. Without hesitation the answer came: "Turn towards it, in fact do more than that. Put your arms around it and embrace it for what it is. Part of you. It is you. The longer you continue to run and avoid fear, the longer it will remain your enemy. The moment you welcome it in and serve it tea, it will become your friend." In trading, and life, we never stop learning.

A Sufi saying that is Zen.

"You yourself are your own barrier – rise from within it".

Idries Shah, leading thinker of the 20th century and Sufi.

Chapter summary

Develop the skill of emotional recognition.

Give your mind the time and space it needs to open and reflect.

What is required is the ability to recognise fear as a thought, then neither attach to it nor avoid it.

Suppressing fear is the trader's greatest trap. Awareness will free you.

Nothing in Zen is forced or controlled.