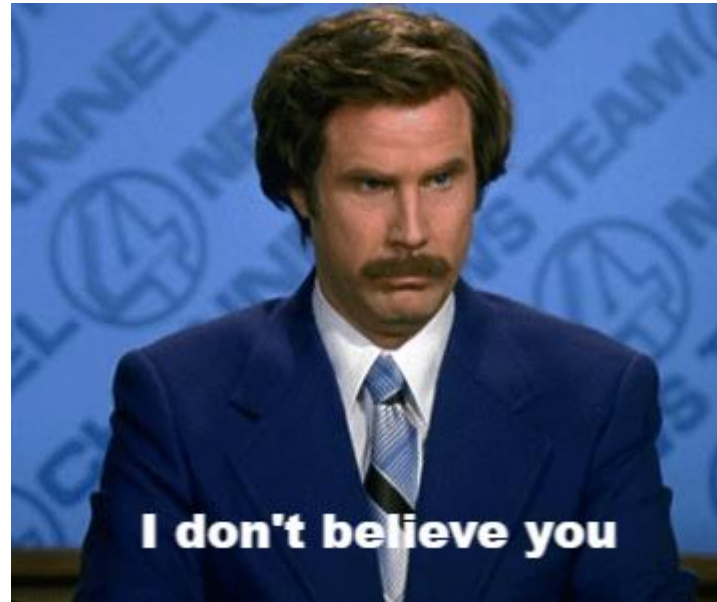


# Don't Be a Victim of Confirmation Bias



# What is Confirmation Bias?

**Confirmation Bias:** The tendency to search for, interpret, favor, and recall information in a way that confirms one's pre-existing beliefs or hypotheses. It is a type of cognitive bias and a systematic error of inductive reasoning.

## Examples in Trading:

- Price does not confirm your original thesis or belief and instead of abandoning your position for a loss you seek out information to confirm your bias. Examples: Fitbit, GoPro
- Relationships: Gold goes up when USD goes down or Gold goes up when there's global uncertainty. Example 2008
- Seasonality: Sell in May and go away, Santa Claus rally

# Why Does It Matter?

- **Causes Poor Judgment/Lack of Risk Management:** Instead of exercising proper risk management and exiting a trade at a small loss you seek out information to confirm your original bias. Google is a killer!
- **Creates Overconfidence:** I know I'm right: Can lead to massive losses once you get past a certain point you might eventually say, "I'm down too much now there's no sense selling" which leads to...
- **The PAIN STOP-LOSS:** Max pain is reached usually by such discomfort you finally capitulate and sell at a substantial loss. Or worse the stock goes to ZERO.

# How To Prevent It


- **Have a Plan and Follow it!**
- **Assume You Know Nothing**
- **Assume You Will Be Wrong**
- **Look at All The Possible Outcomes and Scenarios**
- **Position Size Correctly**
- **Use Stop-Losses That are Appropriate For The Time Frame You Are Trading**
- **Listen To Price. It Never Lies and Is Always Right.**

# Quotes From The Legends

"A prudent speculator never argues with the tape. Markets are never wrong, opinions often are."

- Jesse Livermore





"Everyday I assume every  
position I have is wrong."

- Paul Tudor Jones

