

Trade like a cheetah

by Hans Hannula, Ph.D.

The cheetah: an endangered species who's survived against the odds. It has survived by using a simple set of two rules: be faster than anyone else, and be smarter than anyone else. Sound like a good trading principle? At a recent Market Technicians Association (MTA) conference, in a discussion with Dr. Van Tharp, a trading psychologist, I learned something about top traders that I thought was unique to my own style of trading. What I learned was that many top traders use animals and hunting as a mental metaphor to guide their thinking when they're trading. The metaphor I've always used is the cheetah.

To understand the cheetah you must understand a little bit of its history. The cheetah is a member of the large cat family, but it is a very different breed of cat. It was nearly hunted into extinction about 2,000 years ago. It somehow survived by retreating from populated areas and living in a confined space. The price it paid for this survival was a great deal of inbreeding, which has genetically weakened the species. Nevertheless, the species still survives, simply by following two "rules": be faster and be smarter than other animals.

It is knowing how the cheetah employs its two rules in hunting that can help traders. The cheetah hunts in *six distinct phases*, which I call the **survey, the stalk, the spook, the chase, the kill and the rest**.

The **survey** finds the cheetah in its typical sitting position. This may look like laziness, but the cheetah is actually very busy mentally. If you notice, it will be sitting in a position of perspective, such as a treetop, on a mound or a hilltop overlooking a watering hole, and what it is really doing is analyzing a herd of potential food. It is surveying the territory, like a trader tracking a group of stocks or commodities on a long-term chart, calmly watching the progress of price and time. Like the trader looking for emerging patterns, the cheetah is looking for particular movements in the herd.

The cheetah's next phase is the **stalk**, which is a patient stroll to more closely examine a particular opportunity more closely, perhaps a group of animals which may have separated from the herd. The cheetah leisurely walks toward or alongside that part of the herd, checking out the potential prey, focusing on such details as size, strength, nervousness and position. This is like a trader taking a closer look at a few stocks or commodities, following major trendlines, and observing cycles and oscillators. As a cheetah nears this smaller group of animals, he starts watching for motion, focusing intently on the weaker members of the group, much as a trader watches for the first price formation or trendline break or oscillator crossing that could indicate the start of a move for a stock or commodity.

The cheetah is waiting for its prey to become fearful and panic, just like a trader waiting for other traders to build up fear or desire and go into a buying or selling panic. Every trader knows you make your big money when a stock or commodity moves fast. Both cheetah and trader are looking for the initial twitch that signals rapid motion. Both are

waiting for the target to **spook**. As soon as an animal stalked by the cheetah selects itself, the chase is on. The cheetah kicks in the afterburner and sprints up to 70 miles an hour.

At this point, the cheetah is in full control, driven by desire, while the target animal is in absolute flight, controlled entirely by fear. The cheetah feels confident that it can catch the prey, but also knows it can abandon the chase and select another animal. For the trader, this is entering, selecting a stop, validating the move and pyramiding the trade. This phase requires absolute confidence in your own skills, something that gives me and many traders problems. If a trader becomes fear-driven, the trader may become the victim and not the victor.

Like the cheetah who knows there are other animals to be hunted, the trader must keep in mind there are other trades always coming along. Just as the cheetah does not risk exhaustion of all its energy in one chase, the trader should not risk exhaustion of all his or her funds in chasing one trade. Like the cheetah who has developed the judgment to tell when a chase is fruitless, the trader must develop the judgment to know when a trade will not succeed. This judgment is gained only from the experience of many hunts, chases, successes and failures. Failures are absolutely essential in this learning process and are simply part of the natural order of things.

The cheetah has a distinct advantage over the trader here, in that it is dealing with energy and not money.

Many traders believe that their own self-worth is measured by the money they make, so that a loss triggers inner doubts, and may put the trader into the fear mode. This drains even more internal energy, hampers judgment and can lead to the inability to act even to stop the loss. I find it very helpful to tell myself that money is just the grease for the skids of life, and only determines how fast I can move, just as the cheetah's energy level determines how fast it can move. Think like the cheetah when you trade. Break your trading into the same six stages. Remember it is absolutely essential to be in control, and not in a state of fear or panic, during the excitement of the chase.

The next phase is **the kill** and the cheetah kills its prey very cleverly. Since the lightweight cheetah does not have the jaw strength of big-boned cats, it kills by pulling up alongside its prey at 70 miles an hour, reaching over and tripping the animal with one smooth kick. The prey crashes to the ground, usually breaking its neck. In the worst case, the cheetah will have to pounce on the prey and clamp its jaws on the throat of the already damaged, weakened and nearly dead animal. This is just like the trader who waits for a fast move to crash into a channel top or Fibonacci resistance point, waits for the change in momentum, and then closes out the trade. The final phase is the rest. The cheetah and, I believe, the trader need a rest after a series of intense chases. Neither can run at high speed constantly.

After the kill, the cheetah eats, **celebrates and rests**. I believe the trader should do the same. A good practice is to always reward yourself with a special lunch or dinner, paid out of the trade's profit, then rest from trading for a while. My rule is that after a trade,

win or lose, I don't trade for a time. This allows me to refresh myself, stabilize my thoughts and return invigorated to the hunt. Think like the cheetah when you trade. Break your trading into the same six stages. Remember it is absolutely essential to be in control, and not in a state of fear or panic, during the excitement of the chase. What gives you the confidence is doing the homework, the technical analysis, so you understand what is happening and can plan your approach. As I'm sure Dr. Tharp would tell you, you need a clear mind to trade, unburdened by preoccupations. If you achieve all this, you can be a clean, lean, mean trading animal.