

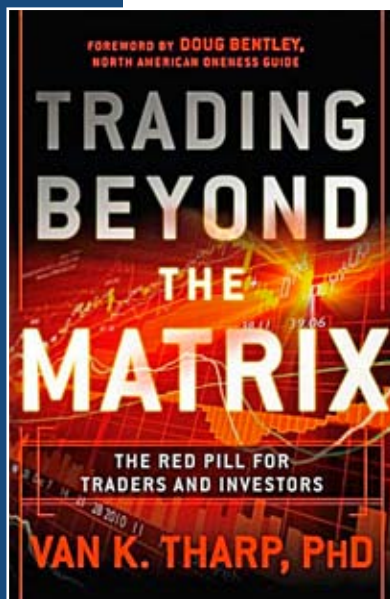
TITLE: TRADING BEYOND THE MATRIX: *The Red Pill for Traders and Investors*
AUTHOR: DR. VAN K. THARP
PUBLISHER: JOHN WILEY & SONS – NJ – 2013 – 397 PAGES

A BOOK REVIEW & INTERVIEW THE UNCONVENTIONAL VAN THARP THINKING

Mario Valentino Guffanti, CFTe

The Review

Guru Gerald Loeb (1899-1974) notes in one of his books¹, “The most important single factor in shaping security markets is public psychology.” He synthesizes one of the main factors on which technical analysis is based: for technicians, it is important to understand the psychology of investors which is then manifested in different kinds of patterns in price charts. Why?—because every pattern has an underlying explanation, a story based on market psychology and crowd action and reaction².



It seems that understanding psychology allows the trader more possibilities of profits from his activity. While in the past it was more complicated to explain and scientifically measure the presence of the psychological world in financial markets, recent academic studies and the emergence of behavioral finance have increasingly reinforced the link between psychology and finance, so, this is still a human game³. Furthermore, technicians who play the game are human beings. Can a trader's psychology enhance his strategies in order to have better result in terms of trading performance?

One of the first psychologists that extensively studied this topic is Dr. Van K. Tharp, known for his interview in Jack Schwager's *Market Wizards*⁴, and for his acclaimed books.

Dr. Tharp has spent a good part of his career studying how stress affects human performance. The focus of his research has mainly been about interviewing and studying top traders in order to create a model for success. As we read in Schwager's book, his basic theory is that by teaching the winning traits of the top traders (not specific trading methodologies), he can dramatically improve the performance of

less successful traders and investors. He now works with his clients for 4-6 years in his Super Trader program. During the program they have continual communication and feedback from Dr. Tharp and can attend all of his workshops while they make at least five major psychological transformations, develop a trading business plan with three systems, and prove they can trade the plan with at least 95% efficiency⁵.

I think that Tharp's latest book, *Trading Beyond the Matrix*, could be considered a cornerstone of this project as not only a personal look inside the performances and experiences of the traders who have and are completing the program, but also what it takes and the milestones you must succeed to become a Super Trader.

I must warn the reader that this is an unconventional book. This is not a book about trading or money management techniques with a part about psychology like that of Tharp's most-recognized book, *Trade Your Way to Financial Freedom*. Dr. Tharp is well aware of the many good trading techniques, which are mainly exposed in his other books. This new book focuses on the entire process of enhancing one's trading skills based on the trader as human being and the best techniques of self-work and improvement. If the reader knows the basics of psychology or other

mind techniques, he will appreciate the content of this book. On the other hand, if this is the first time the reader has been exposed to the ideas it could require a second reading to fully understand “Tharp Think”, particularly the second part of the second section and the third section of the book.

The title of the book refers to the metaphor contained in science fiction action film, *The Matrix* (1999). This metaphor suggests that we are all programmed and we live in a world of illusion shaped by our programming. We have two possibilities, as Morpheus says in the movie, we can take the blue pill and go back to a comfortable sleep where nothing changes. Or, we can take the red pill and see how deep the rabbit hole goes. Van Tharp’s book is that of the red pill where the author states that nothing would change until we change and provides the method to transform ourselves to be Super Traders: this is the basic idea of performing well in the Matrix and going beyond it.

The book is divided in three sections. Each section deals with a level of transformation described in detail.

Level I

Transformation of the trading game. The first level is related to the transformation of the trading game that is, as Dr. Tharp says, from rules that assure big money wins to rules that give the astute trader a huge edge. We have a detailed chapter dedicated to these rules that the traders must know and understand. These rules are “Tharp Think concepts”, not only created by Dr. Tharp, but also derived from the modeling work with great traders.

Level II

Understanding the Matrix and reprogramming yourself. The second level of transformation is related to the metaphor of the book’s title. Dr. Tharp asserts the whole world is shaped by our beliefs and, for that reason, we must analyze them: we don’t trade the markets, we trade our beliefs about the markets; and, if our beliefs are not useful, we are in trouble.

Once we have realized that our beliefs control our reality, we have the opportunity to completely change our experience of the world by changing our beliefs. Dr. Tharp suggests various techniques in order to identify and eliminate or alter the non-useful beliefs. An entire chapter is dedicated to the techniques that deal with our conflicting parts, the first being parts negotiation. Parts negotiation is based on the idea that we have many different parts inside us. The author explores this idea and how to join our parts together.

There is also a chapter that is dedicated to transformational techniques with a strong spiritual component. The author finds that these techniques are the ones that tend to be life-changing.

All these techniques are given because most people have difficulties in adopting the first level of transformation: they are controlled by their beliefs, by the emotional charges attached to those beliefs, and by the various parts of themselves. For this reason many people must undergo a great deal of personal transformation to adopt Level I transformations.

Level III

Trading beyond the Matrix. The third level of transformation deals with changing our level of consciousness— that is, our level of awareness. The author suggests that you quantitatively measure this level through the work of David Hawkins⁶, a successful psychiatrist that had a very high level of consciousness and performed many miracles on his patients. Hawkins describes human consciousness using a log scale from 1 to 1.000. The numeric level that separates the positive from negative is 200. According to Hawkins, Gandhi had a consciousness of 700 and was able to defeat the British Army, whose collective consciousness was 175. Raising one’s level of consciousness doesn’t only help people like Gandhi, it can help us as traders. If we are trading at a low level of consciousness we are probably trading out of fear, greed or desperation. Raising our level of consciousness will bring us to the point where we can see what’s happening in the market without a lot of internal interference: a state where trading will become easy for us.

The next level of transformation, level IV, requires one to reach a state where consciousness remains permanently over 600 on Hawkins scale.

At the end of the book, the author considers two important application areas: (1) learning Tharp Think concepts and (2) transform ourselves in order to adopt these concepts along with three other key areas. The third area talks about how to develop a personal business handbook for trading/investing (a checklist for that work is included in the book). The fourth area is about assessing our preparation for trading which includes another checklist in order to help the trader attain this level of transformation. The last area is about understanding our trading mistakes.

The book has been created from the experience collected from several years of workshops and research. For this reason, Dr. Tharp has written his book exposing his theory based on his pragmatic work that also includes many chapters written by Super Trader candidates. They contribute to the project by sharing their experiences about their transformations throughout the course of their study under Dr. Tharp.

The book is not just a description of theoretical “Tharp thinking”, but a real step-by-step manual with exercises that allow the reader to enhance his mind and his work.

The Interview

Mario V. Guffanti (MVG) - Since your first interview in Schwager’s book many years have passed, but the principles that you outlined in that interview are still mentioned in your book *Trading Beyond The Matrix*. Which are the new topics that you discovered in your research path and how these topics influenced the creation of this new book?

Dr. Van Tharp - So much is new since 1989 when that book came out. I’m an NLP modeler. Since that time, I’ve modeled things like system development, how to use position sizing™ strategies to meet your objectives, how to measure market types and how to design different systems for different market types. In 1989, I was still just scratching the surface of the impact of psychology as it applies to trading and one’s life. Now we talk about levels of consciousness and getting to levels of consciousness that were formerly reserved for a very few spiritual gurus. Yes, a lot is new.

MVG - In your book you said that we don't trade the markets, but we trade our belief about the markets. And if our beliefs are not useful we need to replace them. I think this is the starting point from where we need to use psychological techniques to start our personal transformation in Super Traders. I guess the really great traders you have encountered in your work have the most part of right beliefs: do you think they have reached their situation with a personal research or it is just a matter of a natural and rare attitude?

Dr. Van Tharp - Well, I tend to gravitate toward the NLP proposition that if one person can do it, anyone else can do it- but there are a lot of caveats to that. While certain types of people can do it, the more you understand and apply transformation techniques, the more likely you are to succeed.

For example, as you mentioned, we create our reality through our beliefs. So you can start to transform your reality when you start to look at your beliefs. Then you can ask the question, "is this useful or not?" If the belief isn't useful, it is easy to transform unless it is cemented in place by a lot of emotional charge and then you have to release the charge.

MVG - Galileo Galilei said: "Measure what can be measured, and make measurable what cannot be measured". I would like to share with you this concept in explaining your new book. I mean when people read about trading systems, money management, position sizing and so on, all is comprehensible: we all have a reference mental model for these things. But when we speak of psychological or spiritual techniques, a person without specific knowledge on these topics could have difficulty to understand what is proposed to him. Some readers, especially on the part of the path about spiritual techniques, may feel this topic very subjective and therefore could not agree on what you suggest. Did you find measurement parameters for everybody that allowed you to suggest certain techniques instead of others?

Dr. Van Tharp - Well, I actually give a measurement for consciousness level in the book. The higher the level of consciousness, the more you can see the market for what it is and then less likely you are to be controlled by your beliefs and conditioning. Here I'm referring to David Hawkins scale. It is a numeric scale numbered from 1 to 1000, where 1000 is the level reached by Buddha, Jesus, Krishna, etc. Fear comes in at about 75, greed comes at 125. I wouldn't expect people to do well as traders until they reach at least 350 — the level of acceptance.

David Hawkins says there is a direct correlation between happiness and level of consciousness. So I developed a happiness test that ranges in scores of negative 55 to positive 85. Most people who graduate from the first level of the Super Trader Program tend to have a permanent happiness score (at least as far as I can tell it's permanent) of 70 or higher. (Anyone can take this test, it's <http://vantharphappy.appspot.com/>)

MVG - I am fascinated by your new goal: to fully understand and describe a new target for the Super Trader to reach a state where consciousness is permanently over 600 on Hawkins scale. Can you tell us more about that?

Dr. Van Tharp - Well, it's called awakening. It requires Divine Grace to be given. When it happens there are actual changes to the brain. For example, the left parietal lobe, which gives you a sense of separation (and self), must shut off. The pre-frontal cortex, involved in natural joy and bliss, must become more active. The Oneness movement of India says that each awake person will influence 100,000 other people so that when 70,000 people were awake, it would be enough to transform the seven billion people on the planet. According to the beings at Oneness University who can measure the awakened state, the planet reached 70,000 awake people in August 2012. Right now 100,000 people are "waking up" every month and Oneness says there are now over a million awake people on the planet. Very soon we will start to see major changes in the way people interact with each other as awake people exert more and more impact on humanity. At least seven of my supertraders are now "officially awake." And as of September 21, 2013, there are officially over 1.3 million awake people on the planet according to the people at Oneness University who have a high enough level of consciousness to assess the situation.

I have heard about one person in Hong Kong who read *Trading Beyond the Matrix* in March. He immediately took the two day blessing giver's course in Hong Kong and went to India for a 28-day depending course where he was pronounced "officially" awake. Everything changed for him and I think we'll see many more stories like that soon.

This might seem a little far-out to someone who is not awake, but what is really happening is that when you wake up, personal suffering tends to disappear and you are generally happy all the time. That certainly is the case for me now. And what's more interesting is that you can see things as they really are. The lady who wrote chapter 16 of *Trading Beyond the Matrix* had reached that state and you can see the impact on her trading from that interview.

Whether you accept this or not is a little like the subtitle of the book. If you take the blue pill you go back to sleep and everything remains the same. If you take the red pill, by reading the book and having more awareness, then "welcome to wonderland where I'll show you how deep the rabbit hole goes."

But of course, this is an area of ongoing study. If you want to really understand what it's like to be awake, then a great example of that can be had by reading Byron Katie's book *A Thousand Names for Joy*.



MVG - You introduced new concepts like “to be awake” that needs a reading of Byron’s Katie book to be really understood. And you said that this is an area of ongoing study. It would be interesting if you can tell us more about it.

Dr. Van Tharp - Okay, we can probably say the following: What you know of as you, Mario Valentino, is just a collection of parts or roles you play in life. There are several chapters in *Trading Beyond the Matrix* devoted to understanding parts better. When you are not awake, you think those parts are you. You think there is someone in there who is thinking, listening, seeing, doing, etc. You think there is a controller. But in reality, that is something that your brain is doing as an illusion.

Your left parietal lobe, as a survival function, creates a sense of you. For many, many years, that function has been important for survival — to think that you are separate from everyone else. But as you awaken, the left parietal lobe tends to shut down and more activity tends to occur in the prefrontal cortex. And the net result is that the illusion of a separate you tends to disappear. Now things like thinking, seeing, listening, doing still occur but there is no sense of someone separate is doing them. Instead, everything happens automatically.

As a result, there is no “you” around to judge things. There is no you around to say, there is a way things should be and if they are not that way, then there is something wrong with me or them or it. Instead, you tend to see “what is” as being perfect. This is very obvious when you read Byron Katie’s book, *A Thousand Names for Joy*.

The sense of you disappears, so there is no controller, no seer, no doing, no listener, no thinker.

Since there is no controller, you have a sense of things happening automatically, either based upon your conditioning (which doesn’t necessarily disappear when you awaken) or based upon simply following your internal guidance.

There is no judgment, so you can begin to see the perfection of what is. The natural joy that is inside starts to shine through and you become much, much happier, but for no reason.

And for traders, you can see the markets for what they are. You can see what is actually happening at any given time and respond to it in the now. This is what I call trading in the now and it tends to be easier and more profitable than reacting to the market and judging it (or worse yet, listening to other people’s judgments).

I don’t know if that helped or confused things but you asked what awakening is. You really are not that much different. Before awakening you chopped wood and carried water and after awakening you do the same, except that you see the natural perfection of what is and are much happier. And you stop suffering because you judge and then resist what is.

MVG - This seems an interesting path that requires a deepening of these new topics: in *Trading Beyond the Matrix* there is an appendix of core readings for that. The book is written very clearly, but it is also very complex. The techniques you mentioned and the exercises that you suggested are something of brand new for the most part of the readers. Can you give advice to first time readers?

Dr. Van Tharp - I knew the book would be difficult for some people and it would turn off a lot of people because of the spiritual beliefs contained in it. However, I wrote the book with the idea that I wouldn’t hold anything back. Every Tharp Think principle is in Part I, listed in tabular form. Each transformational technique is described and well-illustrated with examples, so people are able to do them. Just read the book with an open mind and do it.

You might start by finding 200 identity level beliefs. These start with the words “I am” and are then followed by some description. For example, “I am not worthwhile” is a belief that a lot of unhappy people might have. Run each belief through the belief examination paradigm given in the book. If you decide the belief is not useful, then replace it with something more useful. This should be easy to do if the belief doesn’t have a lot of emotion stored in it. If it does have a lot of emotion stored in it, as I would suspect “I’m not worthwhile” would have, then use the feeling release techniques described in the book to release that. Doing this exercise might take a long time, but it will have a huge impact on just about anyone who is willing to complete it. You don’t need anything more than to read the book to do it.

And, of course, that is just the beginning of the journey down the rabbit hole.

MVG – And, as Marcel Proust said: “We don’t receive wisdom; we must discover it for ourselves after a journey that no one can take for us or spare us”.

Thank you, Dr. Tharp.

Footnotes

- 1 G. M. Loeb – *The Battle for Investment Survival* – Wiley – 2007;
- 2 A. Lo and J. Hasanhodzic – *The Evolution of Technical Analysis* – Bloomberg Press – 2012 – Chapter 5 – Chart Patterns;
- 3 A. Lo and J. Hasanhodzic – *The Heretics of Finance* – Bloomberg Press – 2009 – What did we learn from interviews?;
- 4 J. D. Schwager – *Market Wizards* – Marketplace Books – 2006 – pp. 411-430;
- 5 Op. cit. J.D. Schwager - p. 411-412;
- 6 D. R. Hawkins – *Power vs. Force: the Hidden Determinants of Human Behavior* – Carlsbad, CA – Hay House – 1995.



Mario Valentino Guffanti, CFTe is a Financial Advisor, Certified Financial Technician and Researcher. He is the Assistant Vice President of the Swiss Italian Chapter of the Swiss Association of Market Technicians (SAMT) and also a Lecturer in Technical Analysis at the Centro di Studi Bancari in Vezia (CH).