REPORT 2026

Inside the Mind of the Trader

Understanding Trading Psychology

CMC MARKETS

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ABOUT THIS PROJECT

Inside the Mind of the Trader

Inside the Mind of the Trader is a CMC Markets report published in 2026, exploring the behavioural forces that shape trading decisions in today's markets. Drawing on behavioural finance principles and observed trading patterns, the report examines how psychological biases, emotional responses and risk perceptions can influence the way traders navigate volatility, opportunity and uncertainty. While successful trading is often associated with strategy and market knowledge, execution can be equally influenced by mindset and behaviour.

This report explores the gap that can emerge between planning and action, and the role behavioural awareness can play in improving decision-making over time. The insights throughout this report reflect CMC Markets' ongoing focus on understanding how clients engage with markets in real-world conditions. By examining the human side of trading, the report aims to support a broader conversation around trader behaviour, market psychology and the factors that can influence long-term outcomes. We thank the following contributors for sharing their expertise and perspectives in support of this project.

Kurt Mayell

Kurt is Head of Markets for CMC in the Australia and New Zealand (ANZ) region. With over a decade of experience in financial markets, Kurt has built deep expertise across trading, dealing and quantitative strategy.

Fraser Allan

Fraser Allan is Head of Premium Client Management for CMC in the ANZ region. He has more than 15 years of experience working with private and institutional clients in London and Sydney.

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Sakis Paratsoukidis is Head of Quantitative Trading for CMC in the ANZ region. He has over a decade of experience in financial markets, and specialises in trading risk management across a broad range of asset classes, including forex, commodities, indices and equities.

Executive Summary

Kurt Mayell
Head of Markets for CMC in ANZ

"Markets don't just move on fundamentals, they move on how people interpret and react to those fundamentals. Understanding behaviour is becoming just as important as understanding the market itself."

Understanding the behaviour behind every trade

Financial markets are often viewed through the lens of data such as earnings, interest rates, inflation and economic growth. Yet beneath every chart and price movement lies a series of human decisions.

Trading is not just a technical or analytical activity – it is fundamentally behavioural.

Every trade reflects a judgement call made under uncertainty. Whether entering a position, managing risk or deciding when to exit, traders are constantly interpreting information, balancing risk and responding to price movement in real time. In doing so, they are influenced not only by strategy, but also by instinctive psychological responses.

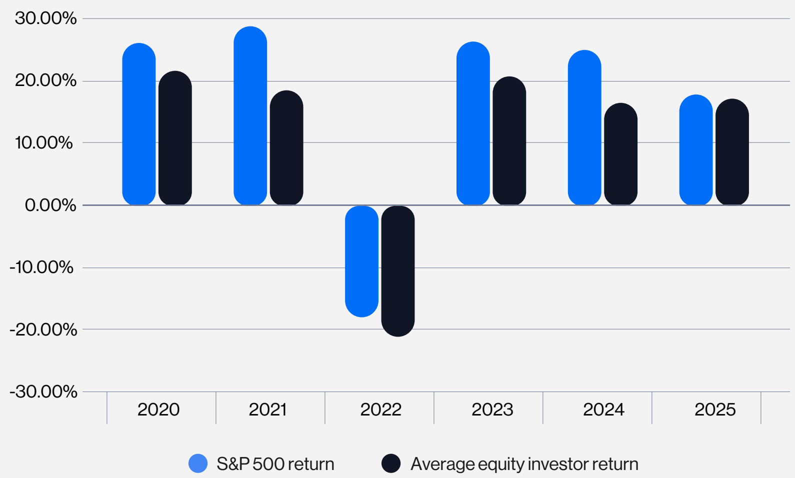
This report explores the behavioural patterns that shape trading decisions. It examines why traders act the way they do, how psychological biases emerge in different market environments and what separates consistent decision-making from reactive behaviour.

In an era when access to markets is widespread and information is abundant, the ability to manage behaviour has become an increasingly important differentiator.

The risks of emotional investing are clear: DALBAR's ongoing QAIB studies have shown that the average equity investor typically underperforms the S&P 500 by 1-8 percentage points annually due to poor timing and emotional decisions (see chart, right). While the most recent report records an investor gap of just 0.72% – the lowest figure reported since 2012 – an 8.48% gap was reported in 2024.

These findings also align with data from Barber and Odean's classic study *Trading is Hazardous to Your Wealth* (2000), which found that individual investors trade excessively due to overconfidence and underperform the market by approximately 6.5% annually net of costs.

S&P 500 VS AVERAGE INVESTOR RETURN, 2020-25



Source: DALBAR's QAIB reports

Psychology and Decision-Making

Sakis Paratsoukidis
Head of Quantitative Trading for CMC in ANZ

"The challenge for traders isn't a lack of information, it's how they process it. In fast-moving markets, decisions are rarely purely rational."

Trading as a behavioural process

WHY DECISION-MAKING IS RARELY PURELY RATIONAL

Traditional financial theory assumes that market participants act rationally, processing all available information efficiently. In practice, decision-making is far more complex.

Traders operate in environments defined by constant information flow, unpredictable price movement and time pressure. Under these conditions, the brain simplifies decision-making through heuristics – mental shortcuts that allow for faster responses.

While these shortcuts are efficient, they often introduce systematic biases. Traders may rely too heavily on recent information, seek confirmation of existing views or avoid decisions that lock in losses.

These behaviours are not random. They are consistent and widely observed across different market conditions.

On January 22, 2025, Commonwealth Bank of Australia (CBA) closed at $158. Morningstar estimated a fair value of $95 per share, suggesting the shares were trading at a substantial premium.[1] From a traditional valuation perspective, this was difficult to explain.

However, looking at CMC Markets client activity tells a clearer story. As CBA's price continued to rise and attract attention, more traders began buying and trading the stock. Later, as the momentum slowed and the stock became less prominent, trading activity dropped sharply, reflected in average monthly trades in the period January to April 2026 dropping 53% versus 2025. This pattern suggests that participation is often driven less by underlying value and more by visibility, familiarity and recent price movement, a direct reflection of the behavioural biases described above.

KEY INSIGHT

Markets may evolve, but the behavioural patterns that drive trading decisions remain remarkably consistent.

The following principles can serve as a practical guide for keeping decisions disciplined.

DO

- Have a clear plan before entering a trade
- Consider predefined risk levels such as a stop loss
- Review both winning and losing trades objectively
- Pause before acting on strong market moves
- Be aware of why you're entering a trade

DON'T

- Don't chase trades purely because prices are rising or falling
- Don't rely only on information that supports your view
- Don't avoid closing losing trades just to "wait and see"
- Don't confuse familiarity with value
- Don't assume high visibility = high opportunity

[1] How unusual are Aussie equity valuations? - Morningstar Spotlight

Psychology and Decision-Making

Emotion in trading decisions

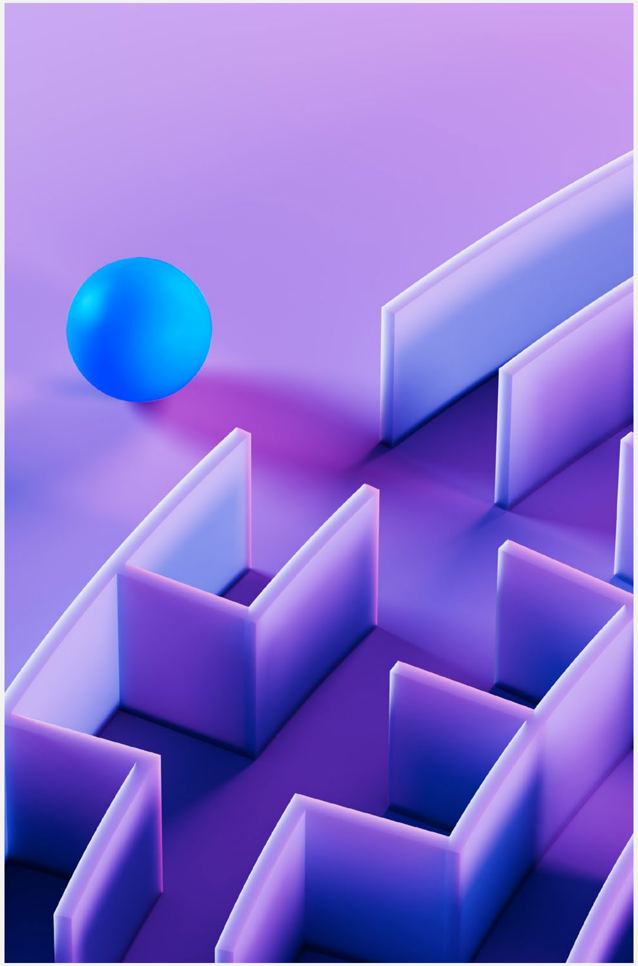
HOW FEAR AND REWARD SHAPE BEHAVIOUR

Trading engages the same neurological systems that govern risk and reward in everyday life.

The anticipation of gains activates reward pathways, reinforcing behaviour and boosting confidence. At the same time, the possibility of losses triggers stress responses that promote caution or avoidance. This creates a constant tension between seeking opportunity and avoiding risk.

Crucially, these responses are not evenly balanced. Losses are typically felt more strongly than gains of the same size. This imbalance influences how traders manage positions, often leading to decisions that prioritise emotional comfort over optimal outcomes. In practice, this can mean:

- Holding onto losing positions for too long or exiting winning trades too early
- Delaying difficult decisions on losing trades
- Becoming more reactive as market conditions change



Fraser Allan
Head of Premium Client Management for CMC in ANZ

"Emotion, instinct, recent experience and stress factor into the trading decisions of even experienced traders – and when real capital is on the line, those human factors can have as much impact on decision-making as the data itself."

Risk perception

WHY PERCEIVED RISK OFTEN DIFFERS FROM ACTUAL RISK

Risk in trading is not just objective, it is interpreted. Two traders can assess the same market opportunity and reach very different conclusions shaped by their past experiences, confidence, recent wins or losses, and risk tolerance.

When markets are stable or rising, risk tends to feel lower. This can lead traders to increase exposure and become less cautious. Conversely, during periods of volatility, risk feels higher, even when valuations or opportunities may be more attractive.

Psychology and Decision-Making

Kurt Mayell
Head of Markets for CMC in ANZ

"Many traders struggle not because they're wrong, but because they hold onto losing positions longer than they planned. This highlights the importance of having an exit plan and sticking to it."

Loss aversion

WHY TAKING A LOSS IS ONE OF THE HARDEST DECISIONS IN TRADING

Loss aversion is one of the most powerful and well-documented biases in trading.

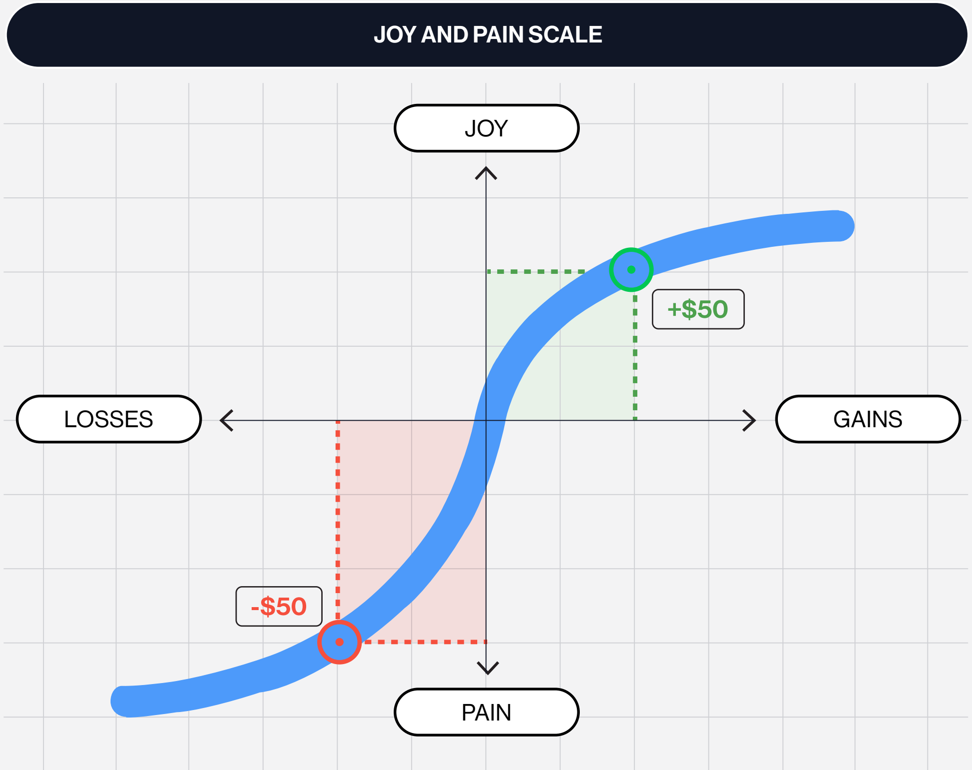
Losses are not experienced evenly. Instead, they tend to feel significantly more intense than gains of the same size. As a result, traders often prioritise avoiding losses over achieving returns. This often results in:

- Holding losing positions longer than intended
- Reframing losses as temporary
- Closing profitable trades early to secure gains

This is further supported by the chart (right), which highlights the basic findings of Kahneman & Tversky's 1979 paper *Prospect Theory: An Analysis of Decision Under Risk*. The study describes how traders assess wins and losses in an asymmetrical manner. As you can see in the chart, the curve for losses is much steeper than the curve for joy, indicating that the pain of a $50 loss is greater than the joy of a $50 gain. This is an important phenomenon for traders to understand if they are to ensure that trading decisions are guided by strategy and not emotion.

KEY INSIGHT

How traders respond to losses often matters more than how they identify opportunities. The difference between strong and weak performance is frequently not the quality of the trade, but the discipline to exit when it no longer works.



Source: *Loss Aversion in Riskless Choice*, Amos Tversky and Daniel Kahneman

Behavioural Biases in Markets

Overconfidence

HOW SUCCESS CAN LEAD TO INCREASED EXPOSURE

Confidence is essential in trading, but overconfidence can become a significant risk.

After periods of success, traders may increase position sizes, take on additional risk or move away from structured processes. This is typically driven by the belief that recent success reflects skill rather than favourable market conditions.

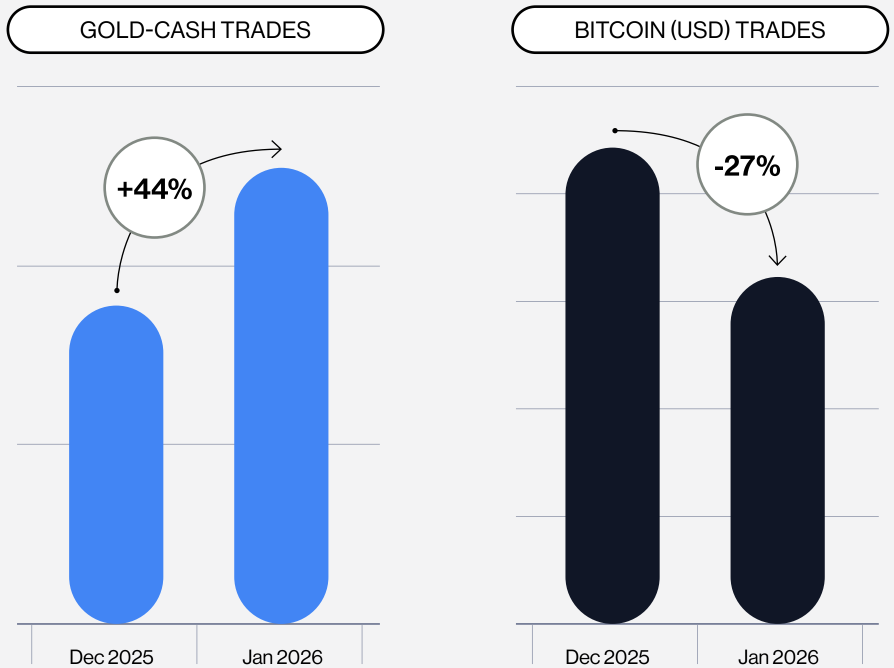
As a result, exposure tends to rise at exactly the point when conditions may be most fragile.

This dynamic was evident in the October 2025 crypto market rally, which saw Bitcoin hit USD $126,080 amid growing optimism and strong market participation. As prices climbed, traders continued to add exposure at increasingly elevated levels, reinforcing the trend.

This left the market more vulnerable to shifts in sentiment. A subsequent wave of profit-taking, combined with growing concerns around valuation, contributed to a sharp reversal, with Bitcoin falling below USD $90,000 in November and continuing lower into early 2026.

CMC Markets client trading data shows that, from December 2025 to January 2026, Bitcoin trade counts dropped by 27%, while gold trade counts rose by 44%. This suggests a shift from risk-on positioning, following a period of bullish overconfidence, towards safe-haven assets, as gold climbed to all-time highs and Bitcoin slumped over 40% from ATH.

GOLD AND BITCOIN TRADING TRENDS



Source: CMC Markets

Behavioural Biases in Markets

Fraser Allan
Head of Premium Client Management for CMC in ANZ

"By the time a trade is widely discussed, a lot of the opportunity may already be reflected in the price."

Herd mentality

THE INFLUENCE OF COLLECTIVE THINKING

Markets are highly influenced by shared narratives. News, social media and price momentum all contribute to influencing market movements and shaping what traders perceive as opportunity.

This often leads to increased participation in popular assets and themes, particularly during strong market trends.

While this can reinforce momentum, it also creates concentration and increases the risk of sharp reversals.

This was evident in the GameStop [GME] rally and subsequent crash in early 2021. GME was traded below $10 between 2016 and 2020. It was a struggling company that many investors believed to be overvalued, with many hedge funds taking short positions. However, in January 2021, a large group of retail traders on online forums began sharing bullish cases for the stock. More and more people saw the potential and piled into the trade, leading to a spike in buy trades and a sharp price increase. This rally received significant coverage in both the press and social media forums. GME's share price rose sharply above $80, but the momentum was not sustainable. Eventually, fear and panic set in, leading the price to crash just as rapidly to below $12 within a few days.

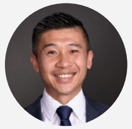
KEY INSIGHT

With the GameStop saga, many retail traders weren't focused on the company's fundamentals. Instead, they were reacting to what others were doing and jumping on the trend in pursuit of easy gains.

GME STOCK PERFORMANCE, SEPTEMBER 2019-FEBRUARY 2021

Source: TradingView

Behavioural Biases in Markets



Jimmy Pan
Head of Retail Trading for CMC in ANZ

"Short-term market moves can feel more significant than they are, which can lead traders to change strategies too quickly."

Recency bias

WHEN RECENT OUTCOMES DOMINATE DECISIONS

Documented by psychologists Amos Tversky and Daniel Kahneman in the 1970s, recency bias is the tendency to give more weight to recent events than to longer-term patterns. This cognitive shortcut stems from how memory works – recent experiences feel more vivid and accessible, so the brain treats them as more relevant.

In trading, this means recent wins, losses or market moves can disproportionately influence decision-making. Studies show investors consistently overweight the last 3-6 months of market data when forming expectations.

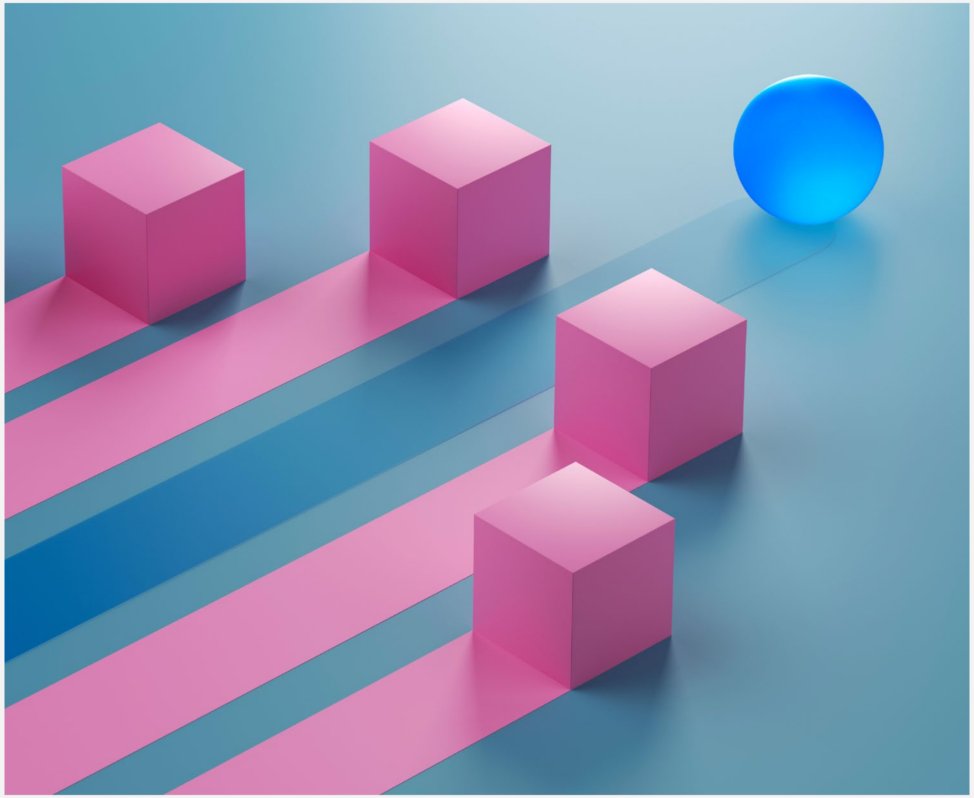
This can result in:

- Adjusting strategies too frequently
- Overreacting to short-term volatility
- Assuming recent performance will continue

Over time, this can reduce consistency and weaken long-term outcomes.

KEY INSIGHT

Recent outcomes often feel more meaningful than they are, leading traders to chase short-term patterns at the expense of long-term discipline.



FOMO

WHY TRADERS FEEL COMPELLED TO ACT

The fear of missing out – known as FOMO – is a major driver of trading activity, particularly during strong market moves.

It can lead to decisions that prioritise participation over process, including entering trades without a clear plan or at less-favourable price levels. Because FOMO trades are often reactive, they are less likely to align with a broader strategy, increasing the likelihood of inconsistent outcomes over time.

Behaviour Under Pressure

Kurt Mayell
Head of Markets for CMC in ANZ

"Trading behaviour tends to move in cycles, so understanding where you are in that cycle can help improve decision-making."

Behavioural cycles

HOW PSYCHOLOGY EVOLVES OVER TIME

Trading behaviour often follows recognisable cycles, moving from optimism and confidence through to anxiety and reflection.

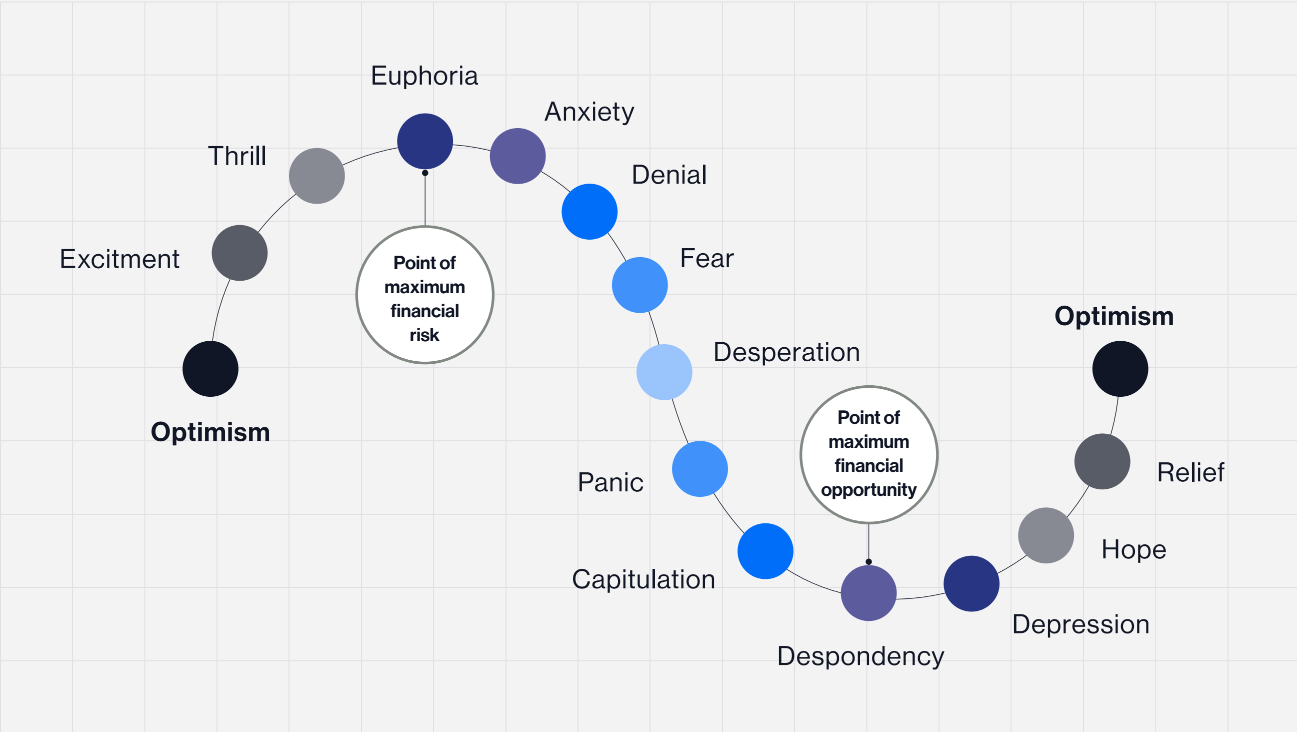
These cycles are influenced by both market conditions and individual experiences, and they can affect how traders approach risk and decision-making over time. Understanding these cycles can help traders identify when behaviour may be shifting away from a structured approach.

The chart on the right visualises the emotions traders typically experience in relation to the market cycle. As optimism builds, confidence grows to the point of euphoria before giving way to anxiety around a potential reversal. This leads to fear, panic and capitulation, resulting in confidence and risk appetite plummeting before the cycle restarts.

KEY INSIGHT

It's important for you to know where you are in the cycle of market sentiment. This can help you manage your emotions and avoid making decisions that go against your strategy.

THE CYCLE OF MARKET EMOTIONS



Behaviour Under Pressure

Sakis Paratsoukidis
Head of Quantitative Trading for CMC in ANZ

"Volatile markets present traders with high levels of both risk and opportunity. It takes significant discipline to stick to your strategy during major market moves, but that discipline often pays off when the dust has settled."

Market volatility

HOW VOLATILITY CHANGES DECISION-MAKING

Volatility doesn't just change markets – it changes how traders behave.

In fast-moving and volatile conditions, psychological biases become more pronounced. Decisions are made more quickly, emotional responses intensify and maintaining discipline becomes more difficult.

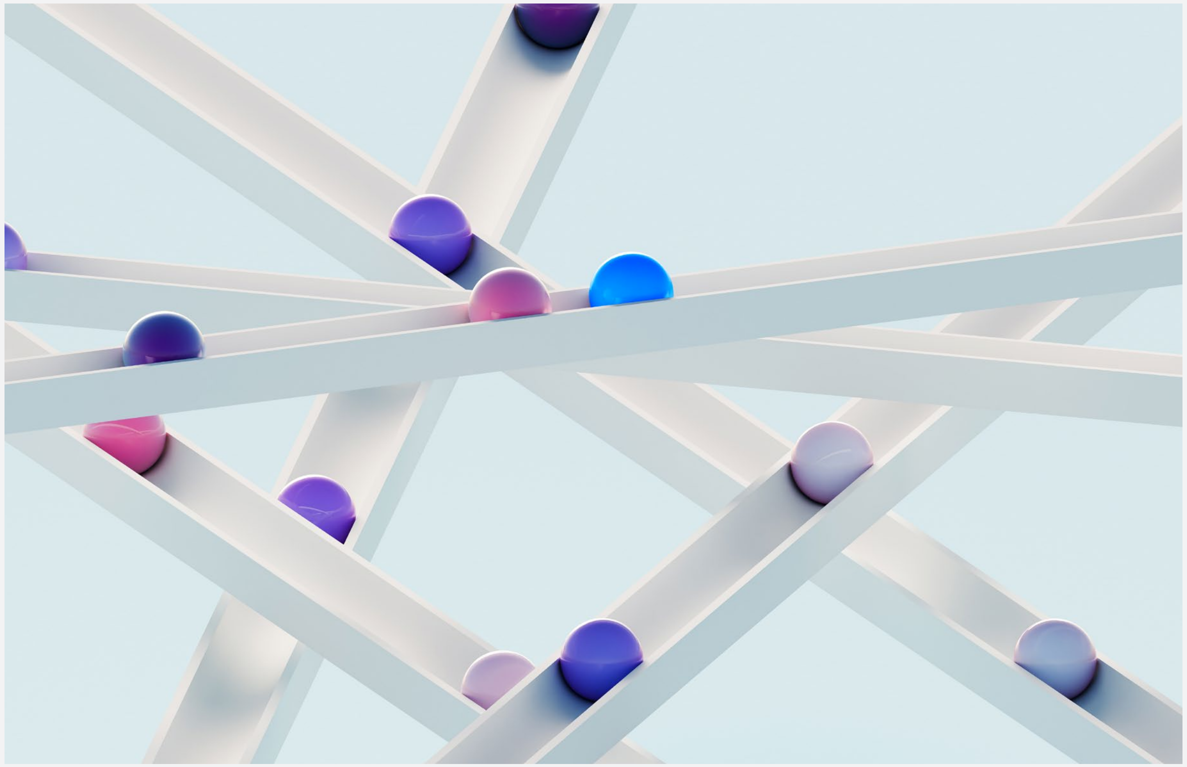
At the same time, volatility often creates opportunity, leading to increased trading activity – particularly during market declines.

This was evident during the 2026 Iran conflict. As uncertainty surged, trading activity rose sharply, with a significant shift towards commodities. Brent crude oil trade counts on the CMC Markets platform in Australia increased by 1,193% month-on-month in March 2026.

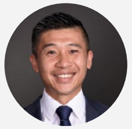
This spike illustrates how attention can rapidly concentrate in markets most directly linked to the underlying event. As volatility rises, decision-making tends to become more reactive, with traders gravitating towards assets that appear to offer immediate opportunity.

KEY INSIGHT

Volatility amplifies emotional decision-making, often leading traders to act faster and with less discipline at precisely the moments that require the most control.



Building Better Trading Habits



Jimmy Pan
Head of Retail Trading for CMC in ANZ

> "Don't eliminate emotion – build processes that stop it from making decisions for you."

Discipline gap

WHY EXECUTION REMAINS THE BIGGEST CHALLENGE

A consistent theme in trading is the gap between intention and execution.

This gap is most visible during periods of volatility, where pre-defined strategies are often overridden by real-time emotional responses.

Most traders understand the importance of planning, risk management and consistency. However, real-time decision-making often deviates from these principles due to emotional pressure and changing market conditions.

Research in behavioural psychology identifies this as an intention-action gap, where cognitive awareness fails to override emotional impulses in high-pressure moments. Brain imaging studies show that financial loss activates the same neural pathways as physical threat, triggering instinctive reactions that bypass rational, pre-planned thinking.

Fraser Allan
Head of Premium Client Management for CMC in ANZ

> "The challenge of trading is not necessarily knowing what to do, but managing to do it consistently when uncertainty, volatility and pressure are at their highest."

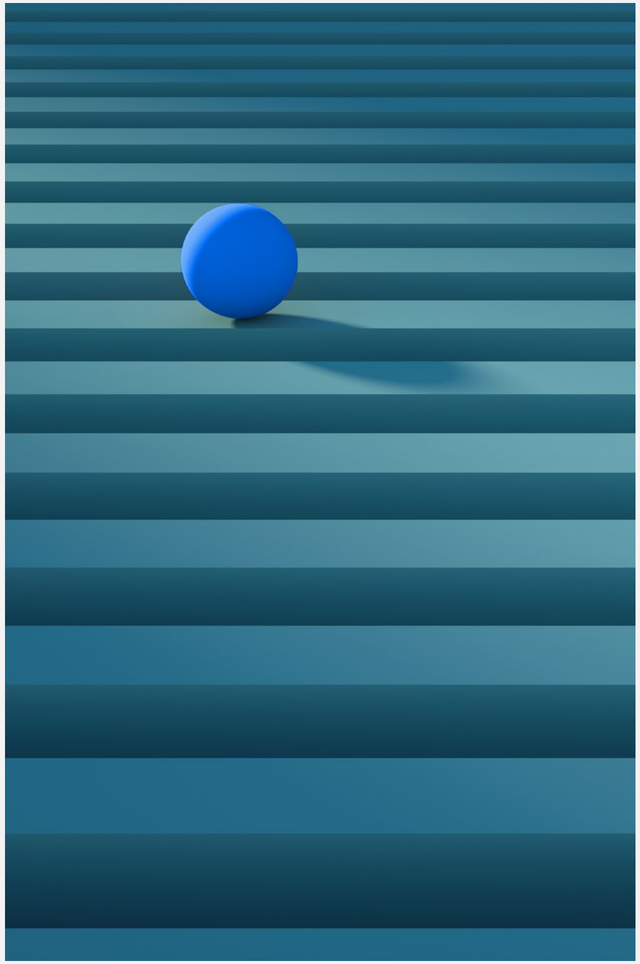
Consistency under stress

APPLYING BEHAVIOURAL AWARENESS IN PRACTICE

While psychological biases cannot be eliminated, they can be managed through structured approaches. This includes:

- Defining decisions before entering trades
- Applying consistent risk management
- Reviewing behaviour regularly
- Focusing on long-term outcomes rather than individual trades

These practices help reduce emotional influence and improve consistency over time.



Building Better Trading Habits

Concluding insights

THREE KEY TAKEAWAYS FROM TRADING PSYCHOLOGY

1 Behaviour shapes outcomes

Trading performance is defined both by performance and by the consistency with which it is executed – especially under pressure.

2 Biases are predictable

Loss aversion, overconfidence and FOMO are recurring behavioural biases that can appear across different market conditions.

3 Discipline is a differentiator

In markets where information is widely accessible, the ability to manage emotions and stick to a process becomes a defining advantage.

FINAL THOUGHTS

As markets move faster and become more accessible, the ability to manage behaviour may prove to be one of the most important advantages a trader can have.

For traders, the goal is not to eliminate emotion, but to recognise its influence and manage it effectively.

Kurt Mayell
Head of Markets for CMC in ANZ

"In modern markets, what increasingly differentiates outcomes is not access to information, but how investors interpret that information and behave under pressure. The real edge comes from discipline, timing and the ability to stay consistent when sentiment is shifting."

About us

CMC Markets is a CFD provider, offering CFD traders access to more than 12,000 financial instruments across shares, indices, forex, commodities, cryptocurrencies, and treasuries. CMC delivers competitive pricing, advanced trading tools, and 24/5 support through its award-winning proprietary platform and integrations with MT4 and TradingView. Its parent company, CMC Markets plc, is a London Stock Exchange-listed company and a member of the FTSE 250, with a global footprint spanning 13 global offices and the trust of over 1 million investors and traders worldwide.

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