9 WAYS

PROS Target *PROFITS*

Introduction

When it comes to trading, it's typically a matter of risk and reward. This seems obvious – when you're looking to flip a house, your risk comes from how much money you put into a property and your ability to sell it, and your reward comes from the profit you make on your sale.

When you buy a stock, your risk comes from the forces pushing the price below what you paid – and in the stock market, when a business goes bust that price could wind up at $0.00. Your reward comes from forces pushing the price up above what you paid so you can make a profit when you sell.

But risk and reward are also components of more common money-making ventures. For example, every day when you go to your job, you're risking the chance that you could have done something more interesting with your time. But hopefully, you're rewarded with a big fat paycheck.

In every case, it comes down to how much risk are you willing to take for any reward, and the optimal combination is always "Low Risk/High Reward." Forex trading can be one of the best ways to achieve this elusive combination, but you need to have the facts about Forex trading before you begin. This way, you can prevent yourself from putting yourself – and your finances – at too much risk before potentially receiving your reward.

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About the Forex Market

The Foreign Currency Exchange Market -- or Forex market -- offers investors a fantastic opportunity to build long-term wealth by selling one currency for another at an agreed exchange price on the over-the-counter (OTC) market. The Forex is the world's most-traded market, with an average turnover in excess of US $6.6 trillion per day*.

As with all forms of investing, trading the Forex involves risk, but unlike stocks or options, the value of currencies will rarely decrease to zero, and the most common currency pairs traded in the Forex market are associated with long-established, dependable countries like Great Britain, Japan and the United States. And, as automated Forex trading systems have become more sophisticated in recent years, human error has begun taken a backseat to more reliable technological advances. Ask any investor, and they'll tell you what's most important -- being aware of risk and taking appropriate measures to minimize it.

As you continue reading, you'll learn 9 methods employed by some of the most experienced Forex traders in the world.

*Source: Bank for International Settlements Triennial Central Bank Survey via Bloomberg.com, Sept. 2019.

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1. Limit Risk

"First weigh the considerations, then take the risks."
Helmuth von Moltke

Limiting risk is simpler when you remember this rule: When opening a trade, it's critical for traders to include a stop-loss order every time. This may seem obvious to most traders, but there are still countless trades opened without a stop-loss.

A rushed entry, the heat of the trade, or just plain greed can open Forex traders to forget this cardinal rule, so it is worth repeating one more time:

When opening a trade, it's critical for traders to include a stop-loss order every time.

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2. Always Know How Much Money You're Putting At Risk

"Money can't buy happiness, but neither can poverty."
Leo Rosten

The stop-loss point should be based on analysis: technical, fundamental or a combination. Some traders look for common risk/reward ratios such as two to one, and that's fine. Just be sure you understand what that equates to in real dollars.

Generally, there are two ways to reduce the amount of money a trader is putting at risk:

1. Adjust stop-loss orders in the direction of the trend being traded to put less money at risk. Be mindful, however, that a rapid market move against your position could prematurely close your trade.
2. Trade a smaller lot size. You can place your stop-loss at an appropriate, affordable level and trade the full position with less cash at risk.

And yes, it can be very tempting to trade large lot sizes. Just remember that this money is leveraged and not real money that you have -- for example, with a ratio of 50:1, you could enter into a trade for up to 50 dollars for every dollar in your account, and your broker would require a minimum margin of 2% of your traded amount available as cash in your account. This leverage could increase your risk if the market does not go the way you planned.

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3. Don't Over trade

"When you make a mistake, there are only three things you should ever do about it: admit it, learn from it, and don't repeat it."
Paul "Bear" Bryant

It is said that the definition of insanity is doing the same thing again and again -- and expecting a different result. Some Forex traders respond to losing trades by doing the exact same thing with their next setups -- in a way that could be defined as "insane"!

For example, let's say you've got a trading account with $1,000 in it. On your first trade, you risk $200 or 20%. The trade goes against you, and now your trading balance is down to $800. Ouch. If you stick with the same methodology and lose 4 more trades in a row, you're done.

For new traders, it's very likely that you'll make some mistakes at first and lose some money in your initial trades. Understand this going in, and resolve to learn from your mistakes to find out how to turn losing trades into potential future wins, and you could vastly improve your chance of making money in the Forex.

As a general rule of thumb, whether you are a beginner or a seasoned trader, you should never risk more than 2% of your account on any trade. Then, when you have a winner, you have an opportunity to repeat your success with more money (as 2% of your account is now bigger!). Traders often discover having more opportunities to trade helped make them better and greatly improved their ability to create repeatable PIP gains in the market over time.

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4. Don't Risk More Than You Can Afford to Lose

"If at first you don't succeed, find out if the loser gets anything."
Bill Lyon

As mentioned earlier, the very nature of investing is about risking money that you are willing and able to lose, in an attempt to make more money. Like everyone, you'll almost certainly lose trades when you first start trading, and that's OK. In fact, losing is a critical part of learning how to trade the market. A key to becoming an accomplished trader is to learn from your losses and not repeat the same mistakes over and over. Huge rewards come most often to traders who are patient and take their trading seriously.

As you determine just how much you are willing to lose, keep this in mind: if you open your trading account with $50, you're less likely to take your trading as seriously as if you'd started with $1,000. If you look at the Forex like it's a Powerball, where you can spend a dollar to win millions, you'll treat it like a game of chance, for entertainment. Assuming you'll lose your money anyway (as you almost certainly would in the lottery), creates a prediction that causes itself to become true. Instead of carefully planning a trade and following your plan, you'll most likely just go with a gut feeling you have at the moment, because it "feels right..."

Serious investors don't begin trading when they make their first market order. They begin trading when they make their first account deposit. You don't have to aspire to become a professional Forex trader to make real money in the market. It's a journey, not a destination. Our research suggests starting with a significant deposit into your trading account at the start will make you treat things more seriously, and help your trading experience become more thorough, more real, and ultimately, more effective.

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5. Don't Rush

"Most men pursue pleasure with such breathless haste that they hurry past it."
Soren Kierkegaard

When you trade is almost as important as what you trade. To keep from making bad moves, you should always take time to examine what has happened in your account before rushing into new trades.

You may find yourself "on a roll" with winning trades, leading you to trade for longer than you usually do. This can produce a "trading tunnel vision," which can blind you to new opportunities and even cause you to see phantom winning trades.

As the FX Chief says, "Life is what happens while you're waiting expectantly for the next big thing on the horizon to come to fruition. Savor the everyday." In other words, sometimes it makes sense to take a break and enjoy the real world perhaps enjoy the fruits of your labor.

So when should you trade? That depends on your trading style. These types of trades are typically suited to the sessions with the highest volatility – the New York and London sessions. If you're a "morning person", consider trading in the morning, when you're at your best. If you're a night owl, trading at night may be best for you.

The idea is to take trading seriously, and listen to your body, not just the charts. Do you have a day job? A family? Adjusting the timing of trading to fit your life not only yields a better personal life but a higher chance of improving your trading skill. Having your family and the Forex collide too often will get you results, but not the ones you want.

People can almost develop a craving to continue their Forex trading, and many traders can get lost in their charts for hours on end. They don't necessarily lose a lot of money, but they do lose touch with the reality of trading. They suffer from "analysis paralysis," and spend all their time preparing for a trade instead of actually trading.

“Analysis paralysis” is the condition suffered by traders who think about their trading so much that they miss out on the best times to take action. Automatic trading systems can be helpful for these traders, because after rules are set, these programs will buy and sell as directed. There are different types of automatic trading systems (also known as robo-trading systems) on the market, including EAs (or “Expert Advisors”).

Trading on a schedule doesn’t mean you have to trade every session. In some cases, you’ve allocated time to trade but your analysis yields no viable trade. When this happens, don’t force yourself into a trade. Testing the markets and deciding not to trade is a perfectly sound decision that can save you money. Don’t run for the next trade. Instead, establish your position, based on analysis, and wait for the market to come to you, as you take the form of a hunter waiting for his target to move into position.

It isn’t just winners who sometimes forget to stop and smell the roses -- the same applies for traders who aren’t winning. These traders start plotting how to get back at “the Market”, and forget that the market will always be bigger and stronger. You may avoid these common pitfalls by planning the times in which you trade.

Schedule the time that you will dedicate to your Forex trading -- and stick to your schedule.

Concentrate on this one task, avoid distractions, and you could increase your chances of winning.

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6. Learn How to Lose

“Many of life’s failures are people who did not realize how close they were to success when they gave up.”
Thomas A. Edison

Winning is awesome. But losing is also part of trading the Forex.

Even successful traders lose lots of trades while learning how to minimize their losses to cope with the situation. To win in the long term, you need to figure out how to lose in the short term and still remain in the game.

After losing a trade, analyze it. What went wrong? Did you follow your plan? Perhaps you missed some calculation during the preparations. Maybe you bent the rules and wanted to go ahead with the trade, or maybe you made unnecessary changes when the position was open. Finding the answers to these questions,helps you become better prepared for your next trade. A good trading plan will not win every trade, but can win over the long term. Going back to the theme of this guide, a good trading plan helps ensure your risk/reward ratio is low enough, and your win/lose ratio is equally good.

If you’re certain that you’ve followed your plan correctly, and you aren’t just experiencing “normal” losses, it may be time for a change. Whenever 4 or 5 trades don’t go your way -- assuming how you traded was correct -- you’re getting a good indicator that your strategy needs refreshing, and it may be time to consider new strategies or technologies. You may need strategies or software designed to help you trade in any market condition, and there are several good trading software platforms available to help you do just that.

Backtest your losing trades and apply “what if?” scenarios to all your trades of the same type. Also, consider how the market was moving when your plan was working in the past, versus how the market is moving now. Was your currency pair trading sideways yesterday, and breaking out and extending its trading range today? Maybe the opposite?

Ultimately, some currency pairs will work with your strategy, while others will not. You will want to discover the optimized pairs for your strategy, and trading software can help you do that. If no pair seems to work with your strategy, it’s time to move on to a new plan.

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7. Learn How to Win

"Many of life's failures are people who did not realize how close they were to success when they gave up."
Thomas A. Edison

This one probably seems easier than #6, "Learn How to Lose;" and in many ways, it is. As mentioned earlier, winning is awesome, and profitable. But it's important that you really take the time to examine and understand how and why you're winning.

Are your profitable trades the result of your plan? Well done. Was it luck? If so, enjoy your random win, but never confuse luck with skill.

Lots of new traders revel in a win based on a hunch. But if your entire trading plan is based on a feeling, then you're likely to see your entire account go up in flames. Overconfidence will drain your trading account faster than your luck can fill it -- and that means that every win that puts money in your account is worth analyzing to see how you can do it again.

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8. Trade High-Volume Currency Pairs

"You can only predict things after they've happened."
Eugene Ionesco

A general rule followed by many top Forex traders is that currency pairs with more trading volume tend to be more predictable. If you're armed with good trading software, it can help you determine which pairs have the most volume.

Some pairs tend to follow patterns more readily than others. With more predictable currency pairs, lines of support and resistance can be easier to interpret. When a pair with more trading volume approaches one of these lines, its movement will slow down

Look carefully to determine if the pair has the momentum for a break out. If not, these lines will serve as a bouncing spot from which the price will likely return to the middle of the range. When the pair does have the momentum to break from the range, the lines will be left behind and create a new range, higher or lower.

Consider adding some high-volume currency pairs to the ones you watch to see if their more predictable patterns make trading easier for you.

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9. Follow the Market's Direction

"When in doubt, predict that the present trend will continue."
Markin's Maxim

You've probably heard this before, and for good reason. Successful investors trade with the market direction, not against it.

If you like to trade in a 1-hour time frame, be sure to check the 4-hour and daily time frames to verify the general direction of the currency pair you're considering. You need to see the big picture and reduce some of the noise found in shorter time frames. Many of the top charting software programs available today can do this analysis for you, which helps give you more time to pick exactly which pairs and trades you want to use to earn pips.

The trend should always be your friend (and perhaps that's why they rhyme). Look at multiple time frames to see how your currency pair is trending in each, and try to follow the pattern shown by the trend.

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In Conclusion

"Take calculated risks. That is quite different from being rash."
George S. Patton

Every single day you take risks.

When you stop for coffee on your way to work, you risk being late. When you hand your credit card to your waiter, you place your identity at risk. When you tell yourself you'll save some money and clean out your gutters yourself, you risk spending some time in the hospital.

Life is never risk-free, but as General Patton said, there's a difference between putting yourself in harm's way and taking risks that could lead to a better life.

In the Forex market, many tools have been developed to help you minimize risk, and you owe it to yourself to learn about them and add them to your arsenal if you want to invest -- even on a part-time basis. Trading education and mentorship can also be very helpful, with experts showing you how to avoid the mistakes they know well (and may have made themselves earlier in their careers).

To risk less and enjoy higher rewards with your trading, use the tips in this guide, and always remember to learn from your losses and repeat your winning strategies. There's no reason your trading can't change your life for the better -- and as you experience both risk and reward you'll see how to identify the factors that contribute to each one.

To take advantage of today's best ways to reduce your Forex trading risk, investigate the latest trading software solutions, which can help automate your trading based on winning strategies. Also, it's extremely important you continue your Forex education and work with mentors to get information from Forex experts with years of experience in trading all types of markets.

Remember that reward often only comes from risk, so consider how a life without risk would feel. You would have less stress, certainly, but you would also never be able to change your circumstances, increase your wealth, or enjoy the rush of excitement from a risk that pays off.

Trading foreign exchange on margin carries a high level of risk, and may not be suitable for everyone. Past performance is not indicative of future results. The high degree of leverage can work against you as well as for you. Before getting involved in foreign exchange, you should carefully consider your personal venture objectives, level of experience, and risk appetite. The possibility exists that you could sustain a loss of some or all of your initial deposit and therefore you should not place funds that you cannot afford to lose. You should be aware of all the risks associated with foreign exchange trading, and seek advice from an independent financial advisor if you have any doubts. The information contained in this web page does not constitute financial advice or a solicitation to buy or sell any Forex contract or securities of any type. SmartTrader will not accept liability for any loss or damage, including without limitation any loss of profit, which may arise directly or indirectly from use of or reliance on such information.

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