A MUST KNOW BEFORE YOU START TRADING FOREX

Daily FX Markets

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The Daily FX Markets education center was created in order to serve as a guide to the novice trader over all the essential aspects of foreign exchange, in a fun and easy-to-understand manner.

GETTING REAlISTIC

Getting Realistic

So many traders come with the misguided hope of making tons of money but in reality, long term trading success has been limited to a very small percentage of traders. Most retail traders lose money; in fact it is probably around 95% – and that’s no typo. so, if you start thinking you’re better than those 95% you actually just joined them as your ego is clearly in charge here and your ego has no place in long term successful trading.

So, before you establish a Forex trading account make sure fully understand the following:

Winners Were Losers Once

Even the most successful traders went through a lot of losing before they understood what it takes to be in the top 5%. Long term trading success is a continual process of refinement, discipline and humility.

Forex Trading is Not for Everyone

If you do not have risk capital you can afford to lose, do not trade. If you don’t have a passion for the markets, you shouldn’t be trading either. There is nothing worse than spending a lot of your time on something you don’t love as you probably wouldn’t be good at it then anyways. Find something you love and do that instead.

No Short Cuts

You can’t have massive profits without taking massive risks. Any trading strategy that involves taking on that much risk for large profit potential will most likely suffer inconsistent trading performances, sleepless nights, and often very large losses. Don’t do it, and don’t listen to people who tell you “this time it’s different” – it isn’t.

The Mental Game

You can stare at charts for months, read every book on trading and practice trading as long as you like, but until you understand, feel, and respect the importance the mental side (fear and greed) of trading you are not adequately preparing yourself for long term successful trading. Your trading mind is the most important trading tool you have and is not something to take lightly. This alone, probably separates the successful traders from the unsuccessful ones more than anything else. Do not underestimate it.

Money Management

Money management is paramount of any trading strategy.
Besides knowing which currencies to trade and recognizing entry and exit signals, the successful trader has to manage his resources and integrate money management principals into his or her trading plan. Position size, margin required, recent profits and losses, and contingency plans need to be considered before entering the market.

Risk per Trade

When entering a position you then should only risk about 1% to 3% of your capital on each trade. This stops you from getting too greedy and keeps you focused on the process of trading and not about how much money you can make. So if your account has a balance of $10,000 then you should only risk $100 to $300 on a trade.

Below displays the impact this can have on your capital between a trader who risks 2% and one who risks 10%. Notice the difference after just 10 trades.

Trade #	Account Value	2% Risk per trade
1	$ 10,000	$ 200
2	$ 9,800	$ 196
3	$ 9,604	$ 192
4	$ 9,412	$ 188
5	$ 9,224	$ 184
6	$ 9,039	$ 181
7	$ 8,858	$ 177
8	$ 8,681	$ 174
9	$ 8,508	$ 170
10	$ 8,337	$ 167

Trade #	Account Value	10% Risk per trade
1	$ 10,000	$ 1,000
2	$ 9,000	$ 900
3	$ 8,100	$ 810
4	$ 7,290	$ 729
5	$ 6,561	$ 656
6	$ 5,905	$ 590
7	$ 5,314	$ 531
8	$ 4,783	$ 478
9	$ 4,305	$ 430
10	$ 3,874	$ 387

NOTE: As your equity increases or decreases after each trade, you will need to adjust how much capital you are risking on each trade as well.

Reward to Risk Ratio

If you are only risking 1 to 3% on each trade, then you should be looking for trades that give you profit potential of at least 2 times that. Most traders in fact look for trades with a profit potential of 3 times their risk or more, so if you are risking $100 on a trade, you better be able to see a profit potential on it of at least $200 or it is not worth pursuing.

NOTE: Did you know if you lose 50% of your money, you'll have to make 100% (double your money) just to break even? So, manage your risk!

Scaling

A lot of successful traders use scaling techniques to enter and exit positions as it allows them to focus more on a general market move instead of trying to pin-point the exact price level to get in at. Though there are a few ways to do this below is a method to give you an idea on how it can impact your trading plan.

Pyramid Scaling

Let’s say you see a potential trade and believe it will bounce off a Fibonacci Retracement line. Remembering that you can only risk 3% of your capital on any trade you decide to place your entry order near the line (lets say the. 382 level) to make sure you get this market move if it happens. What you would do is risk only 1% of your capital to start and watch to see if the market goes in your favor (bounces off that Fibonacci line) or not.

If it does not, and extends below (perhaps moves through the. 382 level towards the. 500 level), you can analyze the trade to ensure you are still comfortable with it. If you are, then you can place another order (average down) risking an additional 2% which takes your overall trade risk on this position to 3%. This is pyramiding as the top of your position has less weight than the bottom.

Remember though, that scaling does NOT give you free reign on extending past any of your other risk parameters. Rather, it is used in conjunction with them as many times traders who use this quickly forget about the other money management rules.

NOTE: Scaling also works for exiting out of positions as well. Typically when your first profit point is reached and then letting a Trailing Stop run if the market continues to go in your favor – capturing more profit in the process.

START TRADING

Start Trading

Now it is time to get some hands-on experience with trading on a few different platforms. Not only will you better understand the nuances of trading, but you will also get acquainted with how the different platforms are laid-out, their functionality and exactly how to correctly place orders before you move on to live trading. Best of all, this is the time where you build confidence in your basic trading knowledge and choose which trading style you feel most comfortable using.

Demo Trading

Here we put knowledge to action and start playing around with different platforms, crosses, and trading techniques. Demo Trading is your first step in decision making time and finally getting to use practice all that you’ve learned so far.

Here are 5 easy steps to get started:

Step 1.
Download a demo account with any reputable broker you choose (they will have a manual to help you with its functionality).

Step 2.
Start pressing buttons! Seriously, this is the best way to really dig deep into something and learn how it operates. You don't have to worry about messing anything up or losing money. It's a demo – you're supposed to mess it up!

Step 3.
Focus in on what you learned beforehand. Practice the different orders you can place and how you can edit or cancel them; notice the margin you need for different crosses; the spreads they offer and if they show standard spreads or fractional spreads; what their roll-over policies are, and of course what contract size (standard, mini, or micro) you are trading.

Step 4.
After you have mastered the mechanics, you can use the demo platform to experiment with different trading styles and determine your trading personality. You can also start

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thinking about what you would do if you were trading live, how much money you would risk on a position, and what money management techniques you like.

Step 5.
MOST IMPORTANT – Always remember that demo trading is not the same as trading with real money as demo trading has NO emotional component attached to it. You may be perfectly calm about sustaining a $10,000 gain or loss in a demo, but might become completely unhinged over a $100 gain or loss in your real account. This is where understanding how your emotions can dramatically affect your trading decisions is much more important than anything else you will learn. There is not one long term profitable trader who does not understand this, yet it is one of the hardest things to master.

Mini Account

Once you are comfortable with demo trading, many traders prefer to enter the Forex market with a Mini Account. Mini Accounts were initially designed for those who had less risk capital needed for standard accounts due to their lot sizes of only 10,000 units instead of the typical 100,000. Recently though Mini Accounts have found favor with larger traders as well as they offer better granularity of their positions for their trading strategies.

NOTE: Mini Accounts can be a slippery slope for some traders and should not be taken lightly Sometimes novice traders find it hard to stay disciplined when trading them and just end up piling on more mini lots so they are basically trading standard lot sizes anyways. this is typical for traders that do not understand how deadly emotions can be when trading.

One More Thing

Your trading will be filled with a lot of reading, and even more doing. Long term trading success is a continual process, not a destination. You will have ups and downs where your intellect and your ego will be tested in ways you've never felt before. Embrace it, and acknowledge that your work is never done. This is the beauty of trading and why we love being a part of it.

Discipline

Ask any successful trader and they will tell you that the key to trading success is discipline. Everyone has heard the expression "cut your losses and let your profits run" yet many simply do not do it. Many traders hold on to losses hoping they will reverse eventually, only to see the loss get progressively larger. These "irrational" trading decisions are based on emotional reactions that have no business being part of your trading plan. Recognize them when they happen or your trading career will be cut short.

It's Not about Being Right

It's not about being right, it's about making money. So, if you find yourself caught up in how many winning trades you make your focus is on the wrong thing. Sure, we all want winning trades since that is how we make money, but there are profitable traders who are right only 40% of the time, just as there are ones who are right 70% of the time. It all depends on how they are managing their risk, so get use to reevaluating your trading decisions often and be comfortable with being wrong.

Trade to Trade

It’s ok to sit on the sidelines, in fact there are many times when that is the smartest thing you can do. Too often traders believe they always have to be in the market when they really just need to be patient. Use these times instead to monitor other developing trading opportunities, evaluate your trading plan, or simply enjoy the pleasures of life.

You are relying on the dealer’s creditworthiness and reputation

Retail Forex trades are not guaranteed by an exchange or a clearing organization. Furthermore, funds that you have deposited to trade Forex contracts are not insured and

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do not receive a priority in bankruptcy. Even customer funds deposited by a dealer in an FDIC-insured bank account are not protected if the dealer goes bankrupt.

There is no central marketplace

Unlike regulated futures exchanges, in the retail off-exchange Forex market there is no central marketplace with many buyers and sellers. The Forex dealer determines the execution price, so you are relying on the dealer’s integrity for a fair price.

Forex Trading is not a Get-Rich-Quick Scheme!

Short term trading is not for amateurs, and it is rarely the path to “get rich quick”.
You can’t make gigantic profits without taking gigantic risks. A trading strategy that involves taking a massive degree of risk means suffering inconsistent trading performance and often suffering large loss. A trader who does this probably doesn’t even have a trading strategy – unless you call gambling a trading strategy!

Forex trading is a skill that takes time to learn.

Drill this in your head: there are no shortcuts to Forex trading. It takes lots and lots of time to master. Skilled traders can and do make money in this field. However, like any other occupation or career, success doesn't just happen overnight. Forex trading isn't a piece of cake (as some people would like you to believe). Think about it, if it was, everyone trading would already be millionaires. The truth is that even expert traders with years of experience still encounter periodic losses.

Do not open a live trading account until you are trading profitably on a demo account.

A Chart to Remember

The chart below shows you exactly how most of us think and behave as the markets go about its business. Remember this and be sure to follow your rules, as you will surely be tested on most, if not all, of these soon.

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