Title:
Your FOREX Trading Philosophy

Word Count:
595

Summary:
Easy money is the thought that attracts most FOREX beginners. They are almost right. There is money and it is easy -- to lose money. A disciplined and intelligent trading strategy is required. Without it, your loses are almost assured.

Keywords:
FOREX

Article Body:
"Easy money" is the allure that captivates many beginning FOREX traders. FOREX websites offer "risk-free" trading, "high returns", "low investment." These claims have a grain of truth in them, but the reality of FOREX is a bit more complex.

Mistakes Of The Beginning Trader

There are 2 common mistakes that many beginner traders make: trading without a strategy and letting emotions rule their decisions. After opening a FOREX account it may be tempting to dive right in and start trading. Watching the movements of EUR/USD for example, you may feel that you are letting an opportunity pass you by if you don't enter the market immediately. You buy and watch the market move against you. You panic and sell, only to see the market recover.

This kind of undisciplined approach to FOREX is guaranteed to lose money. FOREX traders must have a rational trading strategy and not make trading decisions in the heat of the moment.

Understanding Market Movements

To make rational trading decisions, the FOREX trader must be well educated in market movements. He must be able to apply technical studies to charts and plot out entry and exit points. He must take advantage of the various types of orders to minimize his risk and maximize his profit.

The first step in becoming a successful FOREX trader is to understand the market and the forces behind it. Who trades FOREX and why? This will allow you to identify successful trading strategies and use them.

Accountability

There are 5 major groups of investors who participate in FOREX: governments, banks, corporations, investment funds, and traders. Each group has its own objectives, but 1 thing all groups except traders have in common is external control. Every organization has rules and guidelines for trading currencies and can be held accountable for their trading decisions. Individual traders, on the other hand, are accountable only to themselves.

Large organizations and educated traders approach the FOREX with strategies, and if you hope to succeed as a FOREX trader you must follow suit.

Money Management

Money management is an integral part of any trading strategy. Besides knowing which currencies to trade and how to recognize entry and exit signals, the successful trader has to manage his resources and integrate money management into his trading plan.

There are various strategies for money management. Many rely on the calculation of core equity -- your starting balance minus the money used in open positions.

Core Equity And Limited Risk

When entering a position try to limit your risk to 1% to 3% of each trade. This means that if you are trading a standard FOREX lot of $100,000 you should limit your risk to $1,000 to $3,000. You do this with a stop loss order 100 pips (1 pip = $10) above or below your entry position.

As your core equity rises or falls, adjust the dollar amount of your risk. With a starting balance of $10,000 and 1 open position, your core equity is $9000. If you wish to add a second open position, your core equity would fall to $8000 and you should limit your risk to $900. Risk in a third position should be limited to $800.

Greater Profit, Greater Risk

You should also raise your risk level as your core equity rises. After $5,000 profit, your core equity is now $15,000. You could raise your risk to $1,500 per transaction. Alternatively, you could risk more from the profit than from the original starting balance. Some traders may risk up to 5% against their realized profits ($5,000 on a $100,000 lot) for greater profit potential.

These are the kinds of strategic tactics that allow a beginner to get a foothold on profitable trading in FOREX.