45 WAYS TO AVOID LOSING MONEY TRADING FOREX

by Jimmy Young, CTA

Who is Jimmy Young?

Retired proven professional Bank FOREX trader with over 20 years of hands-on FOREX trading experience.

1) Knowledge Deficiency – Most new FOREX traders don't take the time to learn what drives currency rates (primarily fundamentals).

2) Overtrading - Trading often with tight stops and tiny profit targets will only make the broker rich. The desire to "just" make a few hundred dollars a day by locking in tiny profits whenever possible is a losing strategy.

3) Over leveraged - Leverage is a two way street. The brokers want you to use high leverage because that means more spread income because your position size determines the amount of spread income; the bigger the position the more spread income the broker earns.

4) Relying on Others – Real traders play a lone hand; they make their own decisions and don't rely on others to make their trading decisions for them; there is no halfway; either trade for yourself or have someone else trade for you.

5) Stop Losses – Putting tight stop losses with retail brokers is a recipe for disaster. When you put on a trade commit to a reasonable stop loss limit that allows your trade a fair chance to develop.

6) Demo Accounts – Broker demo accounts are a shill game of sorts; they're not as time sensitive as real accounts and therefore give the impression that time sensitive trading systems, such as short-term moving average crossovers can be consistently profitably traded; once you start dealing with real money, reality is quick to set in.

7) Trading During Off Hours – Bank FX traders, option traders, and hedge funds have a huge advantage during off hours; they can push the currencies around when no volume is going through and the end game is new traders get fleeced trying to trade signals. There is only one signal during off hours – stay out.

8) Trading a Currency, Not a Pair – Being right about a currency is half a trade; success or failure depends upon being right about the second currency that makes up the pair.

9) No Trading Plan - 'Make money' is not a trading plan. A trading plan is a blueprint for trading success; it spells out what you see your edge as being; if you don't have an edge, you don't have a plan, and likely you'll wind up a statistic (part of the 95% of new traders that lose and quit).

10) Trading Against Prevailing Trend – There is a huge difference between buying cheaply on the way down and buying cheaply. What was a low price quickly becomes a high price when you're trading against the trend.

11) Exiting Trades Poorly – If you put on a trade and it's not working make sure you exit properly; don't compound the damage. If you're in a winning trade, don't talk yourself out of the position because you're bored or want to relieve stress; stress is a natural part of trading; get used to it.

12) Trading Too Short-term – If your profit target is less than 20 points don't do the trade; the spread you pay to enter the trade makes the odds way against you when you go for these tiny profits.

13) Picking Tops and Bottoms - Looking for bargains works well at the supermarket but not trading foreign exchange; try to trade in the direction the price is going and your results will improve.

14) Being Too Smart – The most successful traders I know are high school graduates. They keep it simple and don't look beyond the obvious; their results are excellent.

15) Not Trading Around News Time – Most of the big moves occur around news time. The volume is high and the moves are real; there is no better time to trade fundamentally or technically than when news is released; this is when the real money adjusts their positions and as a result the price changes reflect serious currency flow (compared to quiet times when Bank traders rule the market with their customer order flow).

16) Ignore Technical Condition – Determining whether the market is over-extended long or over-extended short is a key determinant of near time price action. Spike moves often occur when the market is all one way.

17) Emotional Trading – When you don't pre-plan your trades essentially it's a thought and not an idea; thoughts are emotions and a very poor basis for doing trades. Do people generally say intelligent things when they are upset and emotional? I don't think so.

18) Lack of Confidence – Confidence only comes from successful trading. If you lose money early in your trading career it's very difficult to gain true confidence. The trick is don't go off half-cocked. Learn the business before you trade.

19) Lack of Courage to Take a Loss – There is nothing macho or gutsy about riding a loss, just stupidity and cowardice. It takes guts to accept your loss and wait for tomorrow to try again. Getting married to a bad position ruins lots of traders. The thing to remember is the market does crazy things often, so don't get married to any one trade. It's just a trade. One good trade will not make you a trading success; rather it's monthly and annual performance that defines a good trader.

20) Not Focusing on the Trade at Hand– There is no room for fantasizing in successful trading. Counting up and mentally spending profits you haven't made yet is mental masturbation and does you no good. Same with worrying about a loss that hasn't happened yet. Focus on your position and have a reasonable stop loss in place at the time you do the trade. Then be like an astronaut – sit back and enjoy the ride. No sense worrying because you have no real control. The market will do what it wants to do.

21) Interpreting FOREX News Incorrectly – Fact is the press only has a very superficial understanding of the news they are reporting and tend to focus on one element and miss the point. Learn to read the source documents and understand it for real.

22) Lucky or Good – Your account balance changes don't tell you the whole story about your trading. Fact is if you are taking a lot of risk and making money you will eventually crash and burn. Look at the individual trade details. Focus on your big loses and losing streaks. Ask yourself this, "If I had a couple of consecutive losing streaks or a couple of consecutive big losses, how would my account balance look?" Generally, traders making money without big daily losses have the best chance of sustaining positive performance. The others are accidents waiting to happen.

23) Too Many Charity Trades – When you make money on a well thought out trade don't give back half on a whim. Invest your profits from good trades on the next good trade.

24) Courage Under Fire – When a policeman breaks down the door to a drug dealer's apartment he is scared but he does it anyway. When a fireman climbs onto the roof of a burning building he is scared but does it anyway, and gets the job done. Same with trading. It's ok to be scared but you have to pull the trigger. No trigger – no trades – no profits – no trader.

25) Quality Trading Time – I suggest 3 hours a day of quality, focused trading time. That's about all your brain allows. When you are trading, be 100% focused. Half way is bullshit - it doesn't work. Don't even think that time spent in front of the computer watching the rates has any correlation to profitability - it doesn't. Spend less time but when you're trading, be 100% focused on trading.

26) Rationalizing – Killer. Absolute Killer. Put your trade on and let it run. If it hits your reasonable pre-determined stop, you're out. Think of yourself as a prizefighter. You just got knocked out. Moving your stop is like getting up after being crushed with a knockout blow. It's pointless. Things will only get worse. Don't ignore the obvious. You're wrong – get out. Come back the next day and try again. A small loss will not hurt you - a catastrophic loss will.

27) Mixing Apples and Oranges – Have you ever done this? You see the EURUSD trading higher so you buy GBPUSD because it "hasn't moved yet". That's a mistake. Most of the time the reason the GBPUSD hasn't moved yet is because it's already overbought or some 4:30am UK news was bearish. Don't mix apples and oranges. If EURUSD looks bid, buy EURUSD.

28) Avoiding the Hard Trades – Bank FX traders have an axiom "the harder the trade is to do the better the trade". This I learned from experience. When I needed to buy EURUSD and it was hard to get them, that's when it's necessary to pay up and get the business done. When it's easy to get them, then sit back and wait for better levels. So if you are trying to get into a trade, or more importantly get out of a trade, don't putz around for a few points - get your business done.

29) Too Much Detail – If your trading more than 2 indicators then you need to clean house. Having many indicators stifles trading and finds reasons not to trade. A setup and a trigger is all you need.

30) Giving Up Too Easy – Your first trade of the day may not be your best but certainly it's no reason to quit. I have a preset daily trading limit and I use it. You can't make money by making excuses. Getting trades wrong is natural and should be expected.

31) Jumping the Gun – Don't be penny wise and dollar foolish. Wait for your trade signal to be clear. Put on your trade and give it a decent size stop loss so that you don't get knocked out by random noise.

32) Afraid to Take a Loss - trading is not personal, it's business. Don't think that a poor trade is a reflection on you. It could be you're just ahead of your time or a commercial order hits the market and temporarily creates a small unexpected move. Again, place your stop beforehand and NEVER increase your pre-determined risk. If it's going bad, it will probably get worse. I think that's Newton's "body in motion tends to stay in motion…"

33) Over-Relying on Risk Reward – There is zero advantage in risk reward. If you put a 20 point stop and a 60 point profit your chances are probably 3-1 that you will lose. Actually with the spread its more like 4 to 1 (from entry point if it goes down 17 points you lose, or up 63 - you win; 17/63 is close to 4-1).

34) Trading for Wrong Reasons – Because the EURUSD is going up is not in itself a reason to buy. Buying EURUSD because it's not moving much is even worse. You're paying the toll (spread) without even a hint that you will get a directional move. If you are bored, don't trade; the reason you're bored is there is no trade to do in the first place.

35) Rumors – Rumors are rumors almost 100% of the time. Think about where in the motion you heard the rumor. If EURUSD is up 50 points in last 15 minutes and the rumor is dollar negative, well - then you missed it. Whenever you in motion with the trade, determine where you are entering.

36) Trading Short-term Moving Average Crossovers – This is the money sucker of the century. When the shorter term moving average cross the longer term moving average, it only means that the average price in the short run is equal to the average price in the longer run. For the life of me, I cannot understand why this is bullish or bearish. Easy to set up on software, complete with lights, bells and whistles, and good for the seller getting thousands for the software but in terms of creating profit - it's a zero.

37) Stochastic – Another money sucker. Personally I think this indicator is used backwards. When it first signals an overdone condition, that's when I think the big spike in the "overdone" currency pair occurs. To be overbought means strong and oversold means weak. Try buying on the first sign of overbought and selling on the first sign of oversold. You'll be with the trend and likely have identified a move with plenty of juice left.

38) Wrong Broker – A lot of FOREX brokers are horrible. Get a good one. Read forums and chats in several different places to get an unbiased opinion.

39) Simulated Results – Watch out for "black box" systems. These are trading systems that don't divulge how the trade signals are generated. Great majority of them are absolute garbage. They show you a track record of extraordinary results but think about it. If you could build a trading system with half a dozen filters using the benefit of hindsight, couldn't you too come up with a great system. Of course going forward is an entirely different story. High-speed number crunching capabilities allows for building great hindsight trading systems, so BEWARE.

40) Inconsistency – Every business (FOREX trading included) requires a business plan (trading plan). Unless you have taken the time to write down a set of rules that you can and will follow, it's likely your trading will remain unfocused and directionless. Make a plan, have rules, follow them. Set goals that are realistic and you will achieve them.

41) Master of None – Focus on one currency for technical trading. Each currency has a unique way of trading and unless you get intimate with it, you will never truly understand its underlying idiosyncrasies. Don't spread yourself too thin – focus, master one currency at a time.

42) Thinking Long Term – Don't do it. Stay in the moment. Especially if you're a day trader. It doesn't matter what happens next week or next month. If you are trading with 30 to 50 point stops, restrict your thought process to what's happening right now. That is not to stay the long-term trend is not important. It is to say the long-term trend will not always help you when your trading a significantly shorter time frame.

43) Overconfidence – Trading is simple but not easy. Statistics show 95% failure rate of those attempting to become traders. If you're doing well, don't take your success for granted. Always be on the lookout for ways to improve what you are already doing.

44) Getting Pumped Up – The trick is to maintain an even keel. When you are in a trade, you want to think exactly as you would if you didn't have a trade on. To do this requires a relaxed disposition. This is not a football game. Don't get psyched up. Relax and try to enjoy it.

45) Staying in the Game– I don't recommend demo trading because traders learn bad habits when trading with play money. I also don't think "letting it all hang out" right away is wise either. Start off doing trades and taking risk that is relatively small but still makes a difference to you if you win or lose. About a quarter to a third of what you expect to reach as your trading matures is reasonable.