The Magic of Money Management

When most traders start to trade they think of entering and exiting trades as the most important part of trading. Then one day it dawns on them that there is more to trading; it is called Money Management. By controlling losses and protecting profits, a consistent building of your account becomes a reality. Trading is just as much about losing as it is about winning. Where the advantage comes in is with proper Money Management.

Forex Strategy Secrets has a very effective entry and exit method that enables traders to trade on the side of probabilities all of the time, when traded correctly. Markets move up, down, and sideways and even with the best programs there will be a losing trade once in a while. One thing you must realize is that all professional money managers have losses. They make money by using good Money Management techniques!

The thing about traders is that they primarily focus on making money and not preservation of capital or keeping what they have. By making a guess you could be right half of the time. Once you have made your entry into the market, you need to protect your position in the event your guess was wrong.

First of all, you should only enter the market with a small number of lots, then set your stop so there will only be a small loss. When the trade goes in your direction you should add onto the trade for greater profits. For every dollar you lose you can make 3 to 5 times that amount by adding onto the trade and managing your money. You might ask: how do I know how and when to add on to a trade? That will be covered at another time.

A key point is to follow the rules of trading and money management is the most important rule for trading long term. Always trade with a stop loss, and know where you will set it at the time you enter a trade. Always enter a trade with a tester size trade. This means: start out small and then add on to the trade as it goes in a positive direction. This way only a small portion of capital is risked in the beginning.

ForexStrategySecrets' Rules for Money Management:

1. Make goals that could actually be achieved with your skill level
2. Always trade with a stop loss
3. Never over trade your account
4. Trust your indicators
5. Always protect profits
6. Trade with investment capital, not grocery money

1. Make Goals That Could Actually Be Achieved With Your Skill Level

When someone first starts to trade they have a lot to learn. They must first learn the trading platform, terminology, market movement, behavior patterns, when the best time to trade is, fit it into an already busy schedule and the list goes on and on. Two of the biggest lessons to learn are to get over their emotion and greed, or the thought that they have to make money before they develop skills.

A good first goal would be to not lose money or just break even. Then strive to have a little profit at the end of the week. When the skills come and a feel for the market is developed, expect to make a larger amount of money each week.

Trading is not a race. Trading is a skill developed over a long period of time. Once the skills are developed *you can expect to have some hefty rewards.*

2. Always Trade With a Stop Loss

We have heard it said, "The first loss is the smallest." This means that when you are stopped out at your stop loss this will be the smallest loss as compared to letting it run and thinking the trade will come back. Then when the trade becomes more than you can deal with you close the trade for a huge loss and are happy to have anything left in your account.

Losing is a part of trading. Controlling those losses is good money management. A stop loss is as important as a good entry or exit signal. We suggest starting out with a small number of lots, placing your stop loss, then adding on to the trade when it goes in a positive direction. If the stop loss is hit you have only risked a small portion of your account. It is ok to lose if you are in control of the losses.

3. **Never Over Trade Your Account**

The Forex market gives the best leverage of any of the financial markets. Leverage of 100:1 or 200:1 are common and in some cases a person can even get 400:1. We recommend sticking with 100:1 or 200:1, whichever is the default amount from your broker.

This generous leverage will allow us to make exceptional returns on our trading. But, it also opens up the potential to lose some or all of our money if we do not trade by some good money management rules. A very conservative yet very effective method of trading is to never leverage more than 2% of your account on any 1 trade. Due to the fact that people want to make money fast they lose site of following good trading rules and developing good trading skills. If a trader wants to make consistent returns on his investment capital then he will follow these simple trading rules.

A good rule of thumb is to keep your trades at 5% of your account or less. We recommend you start with a mini account. Start by trading only 1% or 2% of your account on any one trade and no more than 5% being traded at any one time. We can show you how to do more than this once you learn how to be a good trader.

4. **Trust Your Indicators.**

It is easy to get caught up with the movement of the candlesticks and start trying to pick tops and bottoms. We should learn to take a loss and look for the next signal to get back in the market going in the right direction. Don't get greedy or try to get even on the next trade by going for the home run.

Learning how to lose is probably more important than winning. If a trader does not learn how to lose they will stay out of profitable trades wondering what happened to them. By learning and following a trading strategy you will find it easier to get right back into the market. Discipline is another key factor in trading. It is a learned trait that takes a bit of time to get used too. So accept your losses and move on; trust the indicators, as they are usually right.

5. **Always Protect Profits**

We have talked about preventing large losses with the use of a stop loss. Now let's talk about protecting our profits. When a trade is profitable and you have moved the stop loss so that the worst you can do is make a small profit, we like to change the name of the stop loss and call it a "PROTECT PROFIT." We follow the profitable trade with a protect profit and let the market tell us when it is ready to change directions. By using different time frames a trader can learn which time frame will give them the most profit on a longer-term trade. It is hard if not impossible to lose money while taking a profit. Learning to take a good profit out of the middle of a trade is when you are on your way to success.

6. Trade with Investment Capital Not Grocery Money

A very important rule to follow is to trade with money that you can afford to lose. This takes a lot of pressure off. If you can lose the money and not have any emotions about it then you can be focused on trading and not on your pocket book. One of the reasons we trade is to improve our life style. We all need the odds in our favor so trading with extra money helps with the odds and is one more thing to help give us the advantage.

If you need to get some trading money together then save a little each week while you are learning how to trade. You might also consider getting a part time job to get your trading money. The practice of saving to get the money or working to get the money will help to develop the discipline you need in your trading career. Trading is not a race, it is a well thought out plan to make money, and it takes discipline and patience to become a successful trader.