Are These Simple Trading Mistakes Costing You Money In The Forex Market

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Sample of Content:

The 2% rule is a powerful tool in Forex trading. By adopting this rule youâ€™re using a strategy that decreases the size of your losses during losing streaks, an important consideration. There is, however one small caveat that you need to be aware of when using the 2% rule to calculate how many Forex shares you are going to buy.

Content:

The 2% rule is a powerful tool in Forex trading. By adopting this rule youâ€™re using a strategy that decreases the size of your losses during losing streaks, an important consideration. There is, however one small caveat that you need to be aware of when using the 2% rule to calculate how many Forex shares you are going to buy. As you know, the number of shares you can purchase is determined by your maximum loss and the size of your stop. This means that by increasing your risk, you can also increase the dollar value of the position you open. By simply shrinking your stop size, that is by setting a tighter stop loss, you can increase the dollar value of the position you open.

To avoid a situation where you could end up with excessively large positions that may put your Forex trading float at risk, you can choose to introduce an extra rule. This rule would limit the dollar value of a position to be no more than a set percentage of your entire Forex trading float.

For example, you might decide that youâ€™ll never open a position that has a dollar value of more than 25% of your entire Forex trading float. This rule would only be executed if, after calculating the formula that determines how many shares you buy, you find the dollar value of that position would greater than 25% of your float. If this happened, you would scale down the position to make sure it did not exceed that 25%.

The percentage that you decide upon will depend on the type of system youâ€™re trading, the size of your float, and your personal tolerance for risk. Generally, smaller Forex trading floats might use 25%, and larger Forex trading floats might use as little as 10% or even 5%. There are no definitive numbers, and the percentage that you choose will depend on your personal circumstances.

Once this tendency is corrected for you will have all your money management rules in place, ready to control your risk in the Forex market. Now you need to take the next step. Test your system to find out which of the variables best suit you, remembering always that position sizing is the most significant part of any system design. It is the lynchpin of money management. Once youâ€™ve tested your system, and fine-tuned your rules, you will be well on your way to becoming a successful Forex trader.

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