

Money Management Principles

Trade With Sufficient Capital

One of the worst blunders that forex traders can make is attempting to trade without sufficient capital.

The trader with limited capital not only will be a worried trader, always looking to minimize losses beyond the point of realistic trading, but he will also frequently be taken out of the trading game before he can realize any sense of success trading the method(s) or patterns.

Exercise Discipline

Discipline is probably one of the most overused words in forex trading education. However, despite the cliché, discipline continues to be the most important behaviour one can master to become a profitable trader. Discipline is the ability to plan your work and work your plan.

It's the ability to give your trade the time to develop without hastily taking yourself out of the market simply because you are uncomfortable with risk. Discipline is also the ability to continue to trade the methods and patterns even after you've suffered losses. Do your best to cultivate the degree of discipline required to be a world-class trader.

Employ Risk-to-Reward Ratios

The following shows you possible risk-to reward ratios, and the win ratios required to break even in a trading system.

Risk-to-Reward Ratio (in pips) and Win Ratio Required to Break Even(%)

40/20 (2 to 1) = 67%, 40/40 (1 to 1) = 50%, 40/60 (1 to 1.5) = 40%,

40/80 (1 to 2) = 33.5%,

60/20 (3 to 1) = 75%,

60/60 (1 to 1) = 50%,

60 /90 (1 to 1.5) = 40%,

60/120 (1 to 2) = 33.5%

Important Note

Never risk more pips on a trade than you plan to make. It doesn't make sense to risk 100 pips in order to make only 10. Why? See below example.

Profit taking level (pips): 10

Stop used or pips at risk: 100

You win 10 times which makes 100 winning pips. You ONLY lose once and have to give back all profits!!!

This type of trading makes no sense and you will lose on the long term guaranteed!

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