Forex Money Management

Forex money management is one of the most important things you can learn before you actually begin making live trades.

The money management principles discussed here will teach you how to avoid the costly mistakes many new traders make, often to the degree that they lose their entire investment on the first handful of trades.

Psychology is really the most important factor to money management in forex. You have to be able to separate yourself from any emotional attachment you may have to your money. This is not very easy to do, but it works and it can be done.

If you allow yourself to become emotional on a trade, you will not exit the trade properly, and this could mean holding on to a trade when you should have let it go, or letting go before the trade had a chance to turn profitable.

First and foremost, you should consider leverage and risk. It is advisable that you never risk more than two percent of your account balance on any trade. However, some go further and allow for as much as ten percent, but never more than that. This gives you the ability to withstand market fluctuations, and if the trade goes bad, you still have money to try again. You should never operate under the assumption that you will profit from every trade. You should also plan for losses. Therefore, most traders will tell you that the best thing to do is to keep your gains large and your losses small. Develop your trading strategy around this idea.

Keep track of your gains and losses. Keeping accurate and detailed records of your account activity will allow you to see whether or not the strategy is working, or if it needs to be re-built.

Never go blindly into trading without a way to keep track of results. You will lose all of your funds and never understand why it happened.

Finally, it is highly advisable that you first practice a strategy on a demo account. Nearly all brokers offer a virtual account whereupon you make trades in real-time, but with imaginary money, so nothing is risked. This is the best way to test a strategy before you put your real money on the line.

However, be careful, once again, of the psychology of trading. When you play with fake money, nothing is risked. When real money is on the line, you must not get emotional. If you do, you will find yourself with very different results, most likely losses, than you had with the demo account.

About the Author

Milos Pesic is an expert in the field of Forex Trading and runs a highly popular and comprehensive Forex Trading web site. For more articles and resources on Forex related topics, online forex trading, trading tips, forex software and much more visit his site at: http://forex.need-to-know.net