Stock Market Money Management Skills

Let's start by saying: You can't be afraid to take a loss. The investors that are the most successful in the stock market are the people who are willing to lose money.

Having a strategy and/or a specific philosophy is an excellent starting point to investing but it won't mean a thing if you can't manage your money. As I have said a million times: without cash, you can't invest.

Most investors spend far too much time trying to figure out the exact pivot point or perfect entry strategy and too little time on money management. The most important aspect to investing is cutting your losses, 90% of the battle is won by protecting your capital, regardless of the strategy.

Most successful money managers only make money 50-55% of time. This means that successful individual investors are going to be wrong about half the time. Since this is the case, you better be ready to accept your losses and cut them while they are small. By cutting losses quickly and allowing your winners to ride the up-trend, you will consistently finish the year with black ink.

Here are some methods that can help you with money management:

Set a predetermined stop loss (you must know where to cut the loss before it happens ¡°this will help control emotions when the time comes)." A 7-10% stop loss insurance policy is best. Tighten the stop loss range in down markets and loosen the range in strong bull markets.

Establish smaller positions if your account has had a recent losing streak (the losses may be telling you important information such as a critical turning point, it may be time to sell and get out).

If you think you are wrong or if the market is moving against you, cut your position in half ¡°this is the best insurance policy on Wall Street."

If you cut your position in half two times, you will be left with only 25% of the original position ¡°the remaining stock is no longer a big deal as your risk is very low."

If you sell out of a trade prematurely based on a minor correction, you can always reestablish the position again.

Initial position sizing plays a big part in money management ¡°don't take on too big of a position relative to your portfolio size. Novice investors should never use their entire account on one trade no matter how small the account

Know when you would like to get out of a position after a considerable profit has been made. Signs of topping could be a climax run, a spinning top or higher highs on lower volume.

Finally, cut any trade that doesn't act the way you originally analyzed it to act.

With these guidelines, you will be well on your way to solid money management skills that will help you profit in Wall Street year in and year out. Always remember, you are going to take-on losing trades at least half of the time. This is a tough concept to accept for most novice investors but it a fact. If you don't cut losses, you won't be investing for very long as you will run out of cash and the desire to continue to invest.

About the Author

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Chris is the founder and CEO of MarketStockWatch.com, an internet community that teaches you how to invest your money with solid rules. We don't stop at just showing you our daily and weekly screens, we teach you how to make you own screens through education. Through our philosophy, you will be able to create your own methods and styles to become successful.

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