

What is the perfect % of total equity should I use per trade?

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A lot of traders have no clue how to use proper trading sizes per trade especially when they are trading live markets. That is the exact point of mistakes done by most of the traders. These cause them losing money in Forex. We have to know proper money management & trading plans.

Every trading strategy must be taken into consideration of the maximum percentage of total trading capital that risk should be taken on any one single trade. They shouldn't risk too much money on any given any single trade which is very essential for a trader. The following rules are very important in order to survive financially in Forex trading. Your trading size should not be greater as 1/10th of your account size.

For instance, If your account size is 10.000 Dollar than your trading size can be 1 Lot, (or 10 Dollar per Pip)

On an 1000 Dollar account your trading size should not exceeded 0,1 Lot (or 1 dollar per Pip).

On an 100 Dollar account your trading size should not exceeded 0,01 Lot (or 0,1 dollar per Pip).

To keep these things into simplest form, I repeat:

1 Lot buying/selling are 100.000 Units of a currency. Pip value = 10 Dollar

0,1 Lot buying/selling are 10.000 Units of a currency. Pip value = 1 Dollar

0,01 Lot buying/selling are 1.000 Units of a currency. Pip value = 0.1 Dollar

With an account size of 100 dollar and you trade with pip value of 1 dollar, only 100 pips are needed and your account is empty. You lost all! As you can see to adjust the trading size to your account size is very essential.

But why they are doing this? Here is a psychological effect on trading. First they trade with lower as 1/1000 of account size. Than some losses occurred. Account size melt down to 70%. At this level people changed there risk and trade with 1/300 (that mean trade size is 3 times now bigger as before) and they loss again. After account size is 50%, suddenly the risk grows exponential, and they trade with 1/100 or less from account size.

Let us see this as an example now with numbers. Suppose we have an account size of 1000 dollar. As I said above, we should not trade more than 1/1000 account size, that's 1 dollar /pip. (0,1 Lot). If we loose 300 dollar and have now an account size of 700 dollar. (70%). At this point we start to trade with 1/300 of account size. 2,33 Dollar/pip (300 pip lost and we blow our account). We trade it & and make loss 200 dollar. Account size is now 500 dollar. Now we expanded the risk and trade with 1/100, that's 5 dollar/pip. Now we can't loss more as 100 pips, because at this level our account is going to be empty.

On a 50% account size the chances of losses are so strong for most traders and they will now attempts to recover the lost money with 1 or 2 trades. That's the reason why they blown up their accounts. I will not call this greediness, its only fear of loss. These traders can't accept losses anymore

psychologically. If they really want to survive, they must have to work on proper trading strategy and modify it again! If it's proved, than start trading with very small sizes and tries to win more trades. After winning a bunch of trades they would increase trading size easily.

Some stuffs to be remembered essentially:

To recover a lost from 50% we need to double our account size. Clear? If we start with 3000 dollar account size and we lost 50% (1500 dollar) Our account size is now 1500 dollar. We need the same amount of money which we lost. So we must earn 1500 dollar from trading to reach our trading account size from 3000 dollar. Can I able to make you a clear picture what do I mean? If we don't loose 50% of the account and start with 3K and double our account so we had 6K, but with the same amount of work!

About the Author

Helmut Renner is a highly experienced Forex full time trader, with over 10 years specializing in Currency Analysis. He is action-oriented and has a strong work ethic. But more than that, he develop trading systems, strategies, and computer systems for international business management. Want to learn more about how to trade forex for profit online? Claim Helmut's popular free e-course, available at: <http://www.forexheli.com>

