Simple-N-Easy Forex

7 Great Simple-N-Easy ways to GROW & SAFEGUARD <u>YOUR money</u> in the Forex market

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Introduction

This module of the Simple-N-Easy series uses a simple and hopefully a clear approach to explaining money management techniques. The techniques should contain enough detail to clarify approaches rather than complicate them.

The information in this module is absolutely useless unless applied in the trading environment. It is really up to you to start implementing the ideas and concepts and find those that will best suit your personal trading needs. Forex trading is a practical skill such as swimming. We do not cover every aspect about Forex trading in this module as this module is only one of a series of modules on Forex trading.

You can not learn to swim from an eBook or video – You need to trade the Forex market and let it teach you how it wants to be traded. So we strongly encourage you to experiment and use all the concepts shown in this module.

Spend a few hours a day trading the live market – it is the only way to really learn forex trading.

This module (like the "Where to place stops" module) is one with valuable content traders often don't want to hear about. It is a bit like a child being told to eat their vegetables. People would rather learn about other exciting topic such entry techniques.

In this module we look at ways of protecting the most valuable resource for making money and that is **YOUR MONEY (Money management).**

We will look at how to treat your Forex trading activities as a Money business not only avoiding the activities that cause people to lose money but also how to excel at activities that will help you make and keep your money.

Many books of this nature can be written from a theoretical perspective. Please consider that most of the techniques suggested in this module are approaches actually used, tested and developed in practical Forex trading over the years by Forex traders associated with Expert4x.

This adds more value to what is reflected as the errors and successes have been battle tested in the real world of Forex trading.

The diagram below shows how MONEY MANAGEMENT becomes the hub around which your success as a Forex trader revolves.

Forex Trading is an income producing business – Treat it that way

The Basics (The ABC of Making and Keeping your Money)

1 Your Forex trading account – your biggest asset (even if it is bad)

Ok, let's jump right into it. Remember most of what you will read will not be what you want to hear or like to hear.

There are 2 basic things you need to start your Forex business. You need money and you need a track record reflecting your trading ability. Without those 2 credentials don't even consider a part time or full time career in Forex trading.

Seriously, would you really employ someone in your business who has no track record? So why do you think the boss should get away with running a business without a track record? You need a track record!

Do you have a track record of your Forex results?

How do you get a track record?

If you don't have money, you demo trade pretending to be trading with your own money. Again this is a poor alternative and can not be compared with trading your own money. If you have some money open a micro account and start trading with the smallest lots size allowable by your broker. Trade any system of your choice to build a 20 to 30 trade track record.

So why do you need a track record? Your track record tells you:-

- If you are a profitable trader.
- How risky your trading is – see below how risk can be measured.
- It gives you the trading information and statistics that we will discuss below. These statistics are vital to your success as a trader as they identify your strengths and weaknesses.
- It is the basis of any change you are likely to make to any part of your trading – any change should be aimed at improving your track record.
- Can give your confidence or help you find areas where you can grow as a trader.
- Can identify trading weaknesses such as entering too late or exiting too early etc.
- It is by far the best reflection of your trading ability – You can't eat pips or success rate but dollars can buy you a lifestyle.
- It provides warnings of when to stop trading or reduce lots sizes. It also provides opportunities to increase position sizing for better gains

A trader's track record is the most over looked trading tool and generally ignored by Forex traders.

Trading records can be based on Demo trading or live trading.

So please treat your trading record like gold and with respect. It is your Forex trading mirror which tells you how you are doing.

Forex trading is a never ending process of continuous improvement. You constantly need to work on improving all aspects of Forex trading.

Let's have a look at the basic trading information a Forex trader should know and work on to improve their trading record all the time. In the example below we will assume that the trader's track record shows a $ 7 500 starting account and that 2% ($150) is risked on every trade. The trader makes $ 200 on winning trades. The trader enjoys a 66% success rate and does 75 trades a month.

Success rate percentage

Success rate refers to the number of successful transactions compared to the number of unsuccessful transactions. This rate is often referred to as the winning percentage.

As an example lets say a trader had 50 successful trades and 25 losers and 10 breakeven transactions during a month. He would ignore the breakeven transactions and his success rate would be 50 successful trades divided by 75 being the totals transactions for the month. This would be 50/75 = 66.6%. This is a success rate of 66.6% or alternatively a 33.3% failure rate.

Most traders focus on the success percentage as the most important trading statistic. One has to compare this statistic with much more information. Below are the other parts of information which are important.

> Your success rate can be improved by more selective trading, introducing more trading filters or entry requirements, bigger stops, using a high success trading method.

The value of the average winning trade

The value of the average winning trade refers to the average $ value of all the successful trades made by the trader. In the above example lets say the total of the winning trades made by the trader is $ 10 000. This would mean that the average winning trade made by the trader generates $ 10 000 divided by 50 winning trades = $200.

> The Value of an average winning trade can be increased by using alternative exit criteria, entering earlier, using a bounce trading approach or any technique that gives a good return on risk.

The size of the Average losing trade

The value of the average losing trade refers to the average $ value of all the losing trades made by the trader. In the above example lets say the total of the losing trades lost by the trader is $ 3 750. This would mean that the average losing trade made by the trader loses $ 3 750 divided by 25 Trades = $150.

> Your average losing trade size can be reduced by entering earlier, using a technique requiring smaller stops, having tighter stops if appropriate.

The fact that the trader makes more on winning trades than losing trades is a very positive sign.

Drawdown

Drawdown refers to the most negative streak encountered during the period traded. In the example above let's say that the trader's worst negative streak was during a time when the trading account went down by $ 700 as result of a series of losing trades. At the start of this losing streak the account balance was $ 10 000. That would mean that the biggest drawdown experienced during the month was 7%.

The drawdown ratio or percentage is an important ratio as it a measure of risk and trading consistency. The higher the drawdown percentage is, the higher the risk and trading inconsistency. The lower the ratio is, the more consistent the trader and the lower the risk.

> Drawdowns can be reduced by a combination of increasing success rates and lower average stops. See above for ideas.

Combining your success rate with the amounts you win and loss.

The Table below shows the success rate required to breakeven based on the your $ win / loss ratio

Success Rate required to break even given the different $ Win / Loss ratios	
Win % (Winners as a % of total deals)	**$ Win / Loss ratio** (Money made for every $1:00 risked)
20.0%	$2.50
30.0%	$1.67
40.0%	$1.25
50.0%	$1.00
60.0%	$0.83
70.0%	$0.71
80.0%	$0.63
90.0%	$0.56

The table shows that if you gain on average $1.25 for every $1.00 risked you will still breakeven even if you're your success rate is 40%. All Forex Traders want to reduce risk by having a high success rate but there are other ways of making money in the forex market other than having a high success rate. An ideal balance would be to have a reasonably high success rate (say 70%) and a reasonable %win ratio (say $1.50).

Earning for the month

In the end, this is the most important figure. Using the figures from above the traders earnings for the month is therefore $ 10 000 - $ 3 750 = $ 6 250.

A breakdown of these earning shows that:

- 66% of 75 trades (50) are winners at an average of $ 200 = $10 000
- 33.3% of trades (25) are losers at an average of $ 150 = $ 3 750

- A total of $ 6 250

Your earning can be increased by using a reliable trading technique that provides a good balance between success rate, gains on successful trades and losses on losing trades. Position sizing can increase your account once a profitable track record is established – as will be seen later.

Improving on performance

Now all of this is quite interesting but what can we do with this knowledge?

Firstly: After a few months of this type of information the trader can very quickly tell whether his/hers trading performance, in all the key areas, is improving or going backwards

Secondly, and more importantly, the trader can use this information to look for areas where improvements can be made.

Examples of improvements that can be made are:

> Increase the number of trades:

Currently 75 trades are being made during the month. This works out to 3.75 trades a day. What if this number can be doubled by using more currency pairs? If the same performance ratios are maintained 150 trades would result in a 100% increase in income. $ 6250 x 2 = $ 13 500 would be a nice salary increase.

Increasing the number of trades of currency pairs could however impact the performance ratios and the success rate could drop or even the average gain per trade could be adversely affected. This might not be the best option. This option could also lead to over trading resulting in lower quality trades.

> Increase the number of lots traded

Assuming that the above performance was achieved by risking 2% of the account size why not just risk 4% of the account on each trade? The same effort will result in double the income. 4%/2% x $ 6 250 = $13 500.

This is a better option as the trader merely needs to maintain the existing trading performance. The biggest factor to consider is whether doubling the risk will result in double the return. Suddenly the trader is risking double the normal amount and this could have a negative impact on confidence and nervousness due to the larger amounts traded. This certainly is an option.

Most traders would leave their gains in their trading account and maintain their current risk if 2%. As the account is increasing anyway, the amount of risk increases and based on the existing performance the gains will increase naturally.

To Summarise

Forex Trading is a continuous improvement process that starts with live trading to build a track record that can be analysed and used as the basis of improvement. This process never stops due to ever changing Forex markets.

The Basics (The ABC of Making and Keeping your Money)

2 So you need a successful trading system, do you?

Let’s make it perfectly clear. No amount of clever position sizing or risk management can make a poor trading system into a good profitable one. You do need a reasonably profitable forex trading system to be successful at forex trading. Often, lucky position sizing or risk management allow beginners to do well but the sustainability of lucky streaks is always questionable.

However, poor risk management and money management can ruin a perfectly good forex trading system.

As you have seen a good trading system should either give you a reasonable success rate or a very good return on risk ratio. Ideally both. If your system gives a good success rate and a good return on risk ratio you have a winner.

A usable forex system is one that:-

- You have profitably back traded with a successful track record.
- You have profitably demo traded with a successful track record.
- Provides you with trading confidence
- Has a high probability of success or a very good return on risk
- The strengths and weakness of the trading system are well known to you.
- You know will be successful over months of trading in many market conditions and using many currencies
- Can consist of many trading techniques for various market conditions especially sideways and trending markets.

So, from the above, it is clear that the first rule of risk management is to have back traded and demo traded the system profitably to create a successful track record. There are just so many forex traders who join an alert service or purchase an automated trading system without even testing the service or system. It is far better to sort out technical problems with a system in demo trading mode than when using live trading.

During demo trading you should not only test the system but your lot sizing, risk and money management approach.

The Basics (The ABC of Making and Keeping your Money)

3 The business of Risk and Money Management (or mismanagement)

The most important aspect of Forex Trading is protecting your trading capital from severe damage.

Risk management refers to what you do to manage your trading to reduce that risk of losing your money.

The best and simple method you can use is to simply risk the same small percentage of your account on every single deal that you do. This means that if you risk 1% of your account on every deal your account will comfortably be able to withstand more than 150 negative deals before you lose your whole account. This is so because the 1% is based on a smaller account balance every time you make a loss.

The lower the % the better it is for your Forex trading psychological health. It you are risking .5% of your account on every deal you will sleep better and be more relaxed than if you were risking 5% of your account. 5% only allows just over 20 negative deals before your account is wiped out. .5 % allows you over 300 deals before your account is wiped out.

The challenge is that Forex traders are in a hurry. They want to double their account regularly and quickly. These low risk %s make it impossible to reach these heights in the short time. They do however keep you in the game to prosper in the long run.

The schedule on this page shows the impact of this low risk % over the period of a year. The assumptions in this calculation are that the trader is starting with trading **capital of $10 000** and **risking 1% per trade** and **making 1.5% on winners**. On average the trader's success rate is **66% and 3 trades are made a day**. So on average 2 trades will be successful and he will have one loser on a daily basis. 1% of the capital of $10 000 is $100. He would make $150 per winner so the account will go up by $200 a day initially. 2% on capital initial capital. The next day however he will be risking 1% of $10 200 so the daily gain will increase every day.

Day		Act start		Daily Gain 2%		End Cap
1	$	10,000.00	$	200.00	$	10,200.00
2	$	10,200.00	$	204.00	$	10,404.00
3	$	10,404.00	$	208.08	$	10,612.08
4	$	10,612.08	$	212.24	$	10,824.32
5	$	10,824.32	$	216.49	$	11,040.81
6	$	11,040.81	$	220.82	$	11,261.62
7	$	11,261.62	$	225.23	$	11,486.86
8	$	11,486.86	$	229.74	$	11,716.59
9	$	11,716.59	$	234.33	$	11,950.93
10	$	11,950.93	$	239.02	$	12,189.94
194	$	456,912.62	$	9,138.25	$	466,050.87
195	$	466,050.87	$	9,321.02	$	475,371.89
196	$	475,371.89	$	9,507.44	$	484,879.32
197	$	484,879.32	$	9,697.59	$	494,576.91
198	$	494,576.91	$	9,891.54	$	504,468.45
199	$	504,468.45	$	10,089.37	$	514,557.82
200	$	514,557.82	$	10,291.16	$	524,848.97

After a year of trading for 200 days the trader will make over a half a million dollars (+$0.5 Mil). Don't under estimate the power of risking a small % of your trading account over the long run with a reasonably successful trading technique.

If the success rate was only 50% the earnings would drop to $34 500 but it would still be nicely profitable. If the trader made as much on winners as on losers at a 66% success rate the annual earning would be $ 63 000. The above calculations are slightly flawed as they depend on the trader get exact position sizing for the amount of risk allowed.

Now the problem is that in the Forex market there are adverts of traders doubling their trading account in a trading contest or in a trading software contest. So traders think they are doing something wrong if they don't double their account every month. Doubling your account using 1% risk on every deal is highly improbable and almost impossible.

The traders who win contests or who show high account performance are risking huge percentages of their account on every trade +10%. Success is often not sustainable but good enough to produce spectacular results in the short term.

We are more interested in creating a sustainable Forex trading income stream that will last for many, many years. That is why we are recommending a conservative % approach.

The Basics (The ABC of Making and Keeping your Money)

4 Self Management or pass the mirror

Professional Forex traders treat their Forex trading as a business and a means of creating a livelihood. It is therefore very important for them to protect their trading capital. If their trading capital is lost their whole livelihood is gone. The trading system they use must therefore be a tested, high success probability system to give a reasonable success rate but more importantly a good return on risk.

In order to manage their Forex trading business Forex traders:

- Are highly disciplined
- Focus 100% on forex trading when trading
- Have a Professional Attitude and approach to trading
- Are consistent in what they do
- Are very patient
- Accept losses as part of Forex trading
- Deal with success in a respectful way knowing that it will not last forever.
- Don’t wish for successful deals. They focus on finding high probability trades that have a good chance of success

Please see more discussion on trading psychology later in this module.

The Basics (The ABC of Making and Keeping your Money)

5 Lot Sizing- how much is a lot and how much is too much?

Once you have determined the amount you are going to risk on your trades for a day or for a particular trade, you will need to convert that to the number of lots. It is easy using the approach below.

Once you have determined the % of your account you want to risk, use the calculation method below

1	Capital in your trading account (Your account balance)	$5 478
2	% that you have decided to risk	2%
3	$ Amount that you can risk	$ 109.56
4	The value of 1 pip in your trading currency	10c
5	The size of your stop (including the spread)	14 pips
6	Therefore the value of your stop is	$1.40
7	Calculation of lots	
	(point 3 ($109.56) divided by point 6 ($1.40))	78.26 micro lots
		Rounded down to 78 micro lots

There is great value to using this approach. The further benefit to this approach is that the smaller your balance gets the less you risk, thereby reducing the amount you lose in a losing streak. The larger your account gets because of a winning streak the more you risk and therefore gain, allowing you to capitalise on your winning streak.

Calculation check:

If the stop is hit you would lose 14 pips times 78 micro lots times the value of a pip 10c. That is equal to $109.20 which is close to the $109.56 in step 3 above.

Always do a reasonability check on your calculations.

The Way to Go (How to Make and more importantly how to Keep your Money)

1 Can you really stay cool (in wild winning and losing streaks)

Listening to discussions on Trading psychology can be is boring. It’s a bit like forcing a 9 year old to sit still and listen to a 90 minute sermon in church. It is good stuff but can be uncomfortable and boring. And all of it is common sense anyway, isn’t it? Many think that if they find a successful trading technique, trading psychology is unnecessary anyway. It will work itself out. We know people think that way because we did!!

Now, here is our experience for what it is worth. It is only once we started paying a lot of attention to our trading psychology that our trading improved. And guess what – once we had a sound trading psychology in place, we “found” or “discovered” great trading techniques.

The truth is that ALL trading techniques when applied with intelligent thought and right trading psychology can be successful. It is the trader’s attitude that stands in the way of this happening. Have you ever tried reversing the trade direction of a very unsuccessful technique?

Anyway, if you are not into this “soft, fuzzy” stuff, move onto the next section. We have however paid tens of thousands of dollars to learn what is shown below and these factors (below) are the main reasons for our success – not only with this technique but with most techniques we use.

Confidence

Confidence comes from system testing a technique. It is only when you have a reliable financial success record over a number of weeks that you can really be **confident**. Building confidence takes time and patience. Many early failures in the Forex market are because traders have more confidence in their dreams rather than in reality (your Forex trading record). Doing constructive post mortems every day builds confidence as you improve your trading by learning from your own successes and failures.

Discipline

Many Forex traders relate discipline to the ability to follow trading rules. Discipline goes way further than this. It applies to your total approach to Forex trading. Do you pay attention to your mental and psychological approach to trading every day? Do you perform regular post mortems on deals done? Is your money management and lots sizing appropriate? Do you scale into and out of deals efficiently?

Having good disciplines helps to create consistency in your Forex trading approach. It could also help you achieve better results from your Forex techniques which prevents you from jumping from technique to technique

Focus

Some techniques take split second decision making. It therefore needs highly focused attention during those times. You need to be one step ahead of the market in your thinking and approach. Focus and concentration is important.

Market news and market talk can be distracting and allow you to start developing a bias for direction. The charts are 100% reality and they are the ones you can trust. The charts tell you what's happening in the market right now. Trade in the moment.

Patience

We can not force our will, wishes and wants on the market. Every day you have to patiently wait for the market to expose the way it wants to be traded. Sometimes the market trades sideways, never giving any trading opportunities. Sometimes you enter a deal that takes more than an hour to resolve itself. All this takes patience. Waiting for a breakout to happen or be confirmed also takes considerable restraint and patience.

Objectivity

It is very important to remain completely objective at all times and not to have a direction bias. One has to trade the signals as they are presented objectively. Knowing your trading setups in advance is a great aid in objectively trading those setups when they occur.

Acceptance

Every day is different and every day has its own potential. The market will always do what the market wants to do. “Every moment in the market is unique” and “Anything can happen” (from “Trading in the Zone” by Mark Douglas). One has to accept that some days will offer great trading potential and others will offer losing making potential. Try to approach each day with an open mind without many pre-conceived expectations.

Calmness

In order to execute your deals with technical correctness and accuracy you need to be calm and confident. A calm mind encourages objectivity, patience and acceptance. So keep the music inspirational and remember not to spill your tea.

Fun

If Forex trading is not fun it is time to take a break or stop completely. You have to have fun. Excessively high expectations can take the fun out of Forex trading – When you are trying to make too much money in a short time, the element of desperation and seriousness spoils the fun. Remember there can also be fun and enjoyment from the learning process trading a demo account. Just adjust your expectation level and take a long term perspective. Treat it like a hobby, which has the potential of becoming an income earner later on, if you have to.

Sometimes trading on your own can be lonely and frustrating. Try to get a trading buddy or join a trading group or a trading webinar. Have a positive, healthy, fun approach to trading.

Self Appraisal

Objective, constructive post mortems and self appraisals are a critical part of your learning and development process. It is a way of learning what the market is trying to tell you. It is a good way of changing your psychological approach, your trading technique or your trading skills if required. If you can find a trading buddy, mentor or trading group to discuss your trades or trading approach with, you should take advantage of the opportunity. An outside objective view is sometimes much clearer. Often you can’t see the wood for the trees.

Maintaining a trading record with calculated statistics and using those statistics as a basis for future improvement is one of the best self appraisal techniques.

The Way to Go (How to Make and Keep your Money)

2 Do you have the goods (a Trading system)

Finding a usable trading system has already been touched on previously.

The following comments may help:

- A trading system should consist of an entry, exit, stop, position sizing, money management, time of day and many other parts. An entry method is not a trading system.
- Try to keep your trading system as simple as possible with maybe only 1 trigger signal and a couple of confirmation signals. The more complex your system, the less sustainable it could become.
- Have trading strategies for all market conditions such as trending and sideways markets. Be multi skilled rather than rely of one approach for all trading conditions.
- There are a number of modules in this series which will give the building blocks for trading systems.
- Do not spend your life looking for the perfect trading system and end up never trading. Most systems are developed through the continuous improvement process.

You can find profitable trading systems by:

- Purchasing a good trading system
- Using a good Forex Alert service
- Purchasing a forex trading automatic Robot
- Linking your account to a good trader and applying aspects of your own money management

All of these methods can be used to develop a track record. If you do not have a track record with reasonable trading systems, do not risk more than you should. Demo trade until your track record is sound.

The Way to Go (How to Make and Keep your Money)

3 Do you really have what it takes? Sorry, but Size does matter a lot.

There are a number of principles about Forex trading account size that one has to realise. Unfortunately when starting out these principles are often not adhered to due to personal circumstances.

They are:

- Never trade money on the Forex market that you can not afford to lose.
- Forex trading should always be done with surplus money. Money that has been accumulated by some other means
- Scared money never makes money.
- Never put all your eggs in one basket.
- Use an account size that allows you reasonable position sizing flexibility.

We often receive enquiries from people who want to make a living from Forex trading and upon further investigation they say that, by the way, they have a $250 account.

Now this is where we all need a reality check. Corporate Forex traders and money managers who have advanced tools such as market depth analysis and whose lives revolve around Forex trading will be regarded as highly successful if they produced a return of 50% to 100% per annum.

Then we have someone who is new to Forex trading wanting to generate $ 2 500 a month (1000% a month) off initial capital of $250. Please realise that your expectations need to be realistic.

Online forex traders have small advantages over Forex Money Managers or Corporate traders in the following ways:

They are not restricted by money management and risk management limitations. In general, the larger the capital you are trading, the smaller the % allowed to be risked. In some instances, a percentage risk as low as .05% can be regarded as high risk by money managers. Online Forex traders can position size much more aggressively.

Online Forex traders have nobody to report their results to. Only themselves!

We have already mentioned the fact that forex competitions are often won by traders with extremely high risk money management approaches which distort the expectations of "normal" forex traders or people considering entering the Forex Market.

Back to the question of the size of the Forex account which you need?

Firstly when we say account size we are actually referring to the amount of money you have available for Forex trading. Not the location of that money.

If you have $ 100 000 allocated to Forex trading, it would not be advisable to put the entire amount in one broker's account. You would be exposing your whole amount to risk that way. The risks are that something technically goes wrong. You enter 100 lots instead of 1.00 lots into a deal and wipe your whole account out. What has already happened a few times is that your broker goes belly up.

So if you have $ 100 000 to trade with, you would only have say $ 10 000 of that amount in your Broker's account and the balance, for instance, in a safer banking institution in an overnight interest bearing account. You would then manage your lot sizing based on $100 000. Hope that that makes sense.

Many successful traders have accounts with many brokers and switch between them so as not to draw too much attention to their success. Broker procedures can become tricky on the withdrawal of winnings and sometimes successful traders are targeted for dubious broker trading practices.

So let's be practical. When you start out you are not going to have the 100% correctly sized account. Very few of us did. You are going to have an account that is big enough to put you in the market.

So if you are looking at minimum account size requirements let's look at some possibilities.

Your account size should cover some practical trading requirements:

Absolute minimum: You should have enough to cover your margin requirements. This means that your account should be big enough to finance a possible loss on a trade and the margin requirements of that deal. The deal must be able to be stopped out negatively without using up all the money in your account. If your account does not meet the margin requirements, your broker will close the deal just before your account goes negative. This is called a margin call. This is the absolute minimum requirement.

Second lowest minimum: The next event your account must be able to finance is string of losing trades which will cause your account balance to drop. This is called a drawdown. Your account should cover a series of losing trades as well a number of drawdowns.

Third lowest minimum: Your account should be able to allow you flexible lot sizing. If your account is so small that you can basically only trade the absolute minimum lot size (0.01 lots) it is too small. You should at least be able to enter 4 micro lots on deals where you are risking 2% of you account. I would regard this as the absolute minimum account size.

So let's calculate this size backwards:- 4 micro lots for a transaction with a 40 pip stop loss requires (40 x 10c) $4.00 of finance. At 2% of your account this should amount to $4.00 divided by 5% =

$200. Not too bad. Micro accounts have really created more trading opportunities than the days when only main accounts were active. Please also bear in mind that you are not going to make a fortune from trading such small lot sizes with such a small account.

The ideal is to have a sizable account which allows you to trade a small percentage risk per trade but also generates reasonable returns.

Again we will calculate the account size backwards. Lets say a trader would like to earn $ 5 000 a month from trading. He makes 100 trades of which 60% are successful and 40% fail. He makes 25 pips on successful trades and losses 23 pips on losers. He makes 60 x 25 pips = 1 500 pips on successful trades and losses 40 x 23 = 920 on unsuccessful trades which means he makes 580 pips in a month. Using a mini account lot sizing he would have to use $ 5000 divided by 580 pips = 9 lots at $1 per pip to make $ 5 000 a month (9 lots x $1.00 per pip x 580 pips = $ 5220).

He would risk 9 lots x $1.00 x 23pips on average for stops = $ 207. At a 1% risk per deal risk management approach, he would have to have an account of $207 divided by 1% = $20 700 account. Alternatively if he was risking 2% of his account per deal he would need an account of $207 divided by 2% = $10350.

The above is an example of how important analysing your trading results from your trading record is. Without a trading record showing your results achieved these calculations would not be possible.

The Way to Go (How to Make and Keep your Money)

4 Are you a success junky (Hooked on success only)

Excessive focus of success can restrict your Forex trading progress in the following ways:-

Your search for a high success forex trading technique could be a never ending one distracting you from other Forex trading skills that will provide you with a forex income.

Truly successful traders are very skilled at loss management and containment. Some traders think that if they find a really successful trading technique they don't have to worry about loss and money management.

If you are success focused you will tend to expose yourself to excessive risk in winning streaks due to excessive optimism

It is best to try to develop a balanced approach to accept both winning and losing as aspects of Forex Trading.

The Way to Go (How to Make and Keep your Money)

5 Do you have a ladder (Can you trade the higher lots)

Later in this module we will talk about aggressive trade / position sizing approaches. The best trade sizing approach is where the system:-

- decreases the position sizing in a losing streak
- and increases the position sizing in a losing streak

This is often referred to as the anti-Martingale system

By achieving the above goals your trading account is protected in a losing streak as you are risking and losing smaller amounts. In a winning streak your trading account will increase as your deal sizing increase making your winners produce more.

The question is then:

- What is a winning streak or a losing streak?
- How much should you increase your position sizing?

The following trading ladder should help you with these decisions. In this ladder a winning streak is regarded as any time you have gained 10 times the amount you risk per trade. A losing streak is where you have lost 10 times the amount you risk per trade.

Let’s take a trader who starts with a $ 10 000 account and risks 1% ($100) on each deal:-

When the trader has increased the trading account by 10% (10 times the risk of 1%) it is recommended that the position sizing is increased to 1.5% of the original account balance ($10 000). Should the

account balance reach +25% (10% + 10 times the risk of 1.5%) it would be OK to increase the position size to 2% of the original account balance. And so on. So for each increase in the account equal to 10 x the amount risked, the position size can be increased by .5%. This allows a successful trader to continuously increase the position sizes with unlimited of the upside.

However when the account goes below the level it was before the increases mentioned above (below $11 000), you can continue trading at the increased level (1.5%) until the previous level on the ladder has been reached ($10 000). So in the above example once the percentage risked goes to 1.5% when the account is over $11 000, the trader can continue to trade 1.5% risk until the account balance goes back to $10 000 where the 1% level will again be used.

The opposite applies to losing streaks. When the trader has lost 10% of the original trading account the risk is decreased to 0.5% of the original account balance ($10 000). Should the account balance go down further by 10 x the amount risked per deal, the position size should be reduced to 0.25% of the original account balance. Please refer to the ladder below for details. **Should the account balance then go down further by 10 x the amount risked per deal, you should stop and go back to demo trading.**

AT THIS STAGE THERE IS NO POINT IN LOSING MORE GOOD MONEY ON POOR TRADING. ONLY RETURN TO THE LADDER ONCE YOU HAVE A SUCCESSFUL DEMO TRADING RECORD.

Acount Balance	% Risked of orginal balance	% Risked of current balance
Keep on increasing the % risked by .5% of the orginal amount every 10 x amount risked (as below)		
$ 14,500.00	2.50%	1.72%
$ 12,500.00	2.00%	1.60%
$ 11,000.00	1.50%	1.36%
$10,000.00	1.00%	1.00%
$ 9,000.00	0.50%	0.56%
$ 8,500.00	0.25%	0.29%
$ 8,250.00	Stop trading Demo trade	Stop trading Demo trade

The Way to Go (How to Make and Keep your Money)

6 Don't fall in Love (She may never come back)

There comes a time in every trader's life when they suddenly start fancying a trade. This is like emotional involvement that is so strong that it is unexplainable. Like love. They want to coax the trade, talk to it and have no barriers spoiling the relationship. So stops are removed to give the relationship room to blossom and bloom. The trader gets so taken in by the trade that there is a belief that the trade will never let the trader down. After all there is this deep relationship that has developed.

A trade entered into on the five minute chart will suddenly become justifiable on the daily chart. The trader tries everything to win the heart of the new love. Like a boy experiencing his first relationship the trader can think of nothing else but the new found relationship. The trader's behaviour becomes clumsy and irrational and he is high on hope and optimism that the relationship will be a good one. His friends warn him against the dangers of this newly found infatuation but he defends his new love with some irrational comment.

But the maiden he is courting is a sly one. She encourages him with moves in his direction and then slowly moves away. Every move in his direction is a promise of what may be. Every move away makes the trader wonder what has gone wrong with the relationship.

Stop! Wake up!! She may never come back to you.

You will be lulled into this type of relationship when you are at your weakest or when you are whimsical and not focused. It can happen at any time. Many traders have lost most of their accounts because of simple events like the one described above.

It starts out small, like when you are in a deal and suddenly you see a deal that is a sure thing for ten pips so you enter it to pass the time. Sure enough it soon reaches plus eight pips and as

you are trying to place a stop at breakeven it suddenly retraces and becomes negative. You start thinking that this is just a temporary setback and it will recover. It goes to plus five pips soon, but then retraces. The trader soon becomes emotionally involved in this sure thing deal and he watches every tick. An hour later at minus sixty seven pips the trader is still wishing and hoping the deal will come back to his target. The stochastic is so overbought is must come back. It must. It should have. What do I do now?

The moral of the story is: Don't fool around. Don't tempt the Forex Market. Be faithful to your Forex strategy and Forex business and wear protection in the form of a stop. Stay focused and treat every deal as an important investment. Learn to take negative deals as the cost of being in the Forex Market and see what you can learn from them. Stick to your system for better or worse. If you find yourself wishing and hoping it is likely that you are treating your forex trading as a gamble. If you are trading probabilities and know that four out of ten deals fail and you do most of your work before the deal is placed and not much afterwards, you are closer to being a professional Forex trader.

Hopefully this has brought a smile to those traders who have fallen in love with a deal before and lost money. Most have. To those new to Forex trading please treat falling in love with a deal and not using stops, as a cardinal Forex trading sin.

Seven Simple and Easy places to put your stop are covered in another module of this series.

The Way to Go (How to Make and Keep your Money)

7 Want to live on the wild side? (High risk techniques)

This part is added to make you aware of other more aggressive ways of managing money and lot sizing.

The Martingale system

Most Forex Traders are looking for a lot sizing system to help them get the edge. Many of them stumble upon or hear about a sure fire system that involves doubling their bets after each loss. They figure that sooner or later they have to win. This system that is called the Martingale system and it is a casino system has been around for years. Forex traders have started trading it. It has also been the ruin of many Forex traders. Here is how it works. You make a trade and if you lose you double your lots on the next trade. If you lose again you double your lots again bet. You keep doing this until you win and then go back to your original bet.

OK so let's look at an example of the Martingale. For this example we will assume you are risking 1 lot on a 40 pip stop loss at 10c a pip to potentially gain 60 pips ($6). The progression would look like this:

1. You risk $4 on your 1st deal and you lose. In total you have lost $4
2. You risk $8 on your 2nd deal and you lose. In total you have lost $12
3. You risk $16 on your 3rd deal and you lose. In total you have lost $30
4. You risk $32 on your 4th deal and you lose. In total you have lost $62
5. You risk $64 on your 5th deal and you lose. In total you have lost $132
6. You risk $128 on your 6th deal and you lose. In total you have lost $280
7. You risk $256 on your 7th deal and you lose. In total you have lost $536
8. You risk $512 on your 8th deal and you lose. In total you have lost $1048

And so on. After your 7th loss you are effectively risking $1 048 to gain only $8.

Things are a bit out of proportion at this stage.

<u>An Adaptation of Martingale</u>

Taking the above example you will note that you lose $4 on losers and gain $6 on winners. So you do not need to do a complete double up on step as shown before. If you go for a breakeven situation your risk is reduced even more so the steps could look like this.

1 You risk $4 on your 1st deal and you lose. In total you have lost $4
2 You risk $3 on your 2nd deal and you lose. In total you have lost $7. Risking $3 gives you the potential of getting $4.50 if successful.
3 You risk $5 on your 3rd deal and you lose. In total you have lost $12 Risking $5 gives you the potential of getting $7.50 if successful.
4 You risk $8 on your 4th deal and you lose. In total you have lost $20. Risking $8 gives you the potential of getting $12.00 if successful.
5 You risk $14 on your 5th deal and you lose. In total you have lost $34. Risking $14 gives you the potential of getting $20.50 if successful.
6 You risk $23 on your 6th deal and you lose. In total you have lost $67. Risking $23 gives you the potential of getting $34.50 if successful.
7 You risk $45 on your 7th deal and you lose. In total you have lost $112. Risking $45 gives you the potential of getting $67.50 if successful.
8 You risk $75 on your 8th deal and you lose. In total you have lost $187. Risking $75 gives you the potential of getting $112.50 if successful.

Your total loss is $187 after you 8th loss is a bit better than the normal Martingale method.

If you had made 8 losses in a row risking your normal $4 per trade you would have lost $ 48 anyway. You need to decide whether trying to breakeven on your initial deal is really worth the effective doubling up process.

Using an Average cost of deals approach

Forex traders (some really good ones) often use an average cost of transaction approach. How this work is that, lets say, the traders enters a sell deal at the price of 1.5000 and the price goes up to 1.5100 (100 pip loss). Instead of stopping the deal out the trader would enter another sell

at that level. The average price of the transaction is now ((1.5000 + 1.5100) divided by 2) = 1.5050. The price therefore only has to retrace 50% to breakeven.

The price however moves up again to 1.5200 (200 pip loss on the original transaction and a 100 pip loss on the next one). The trader will then enter another sell at 1.5200 and the average price of all the transactions will be 1.5100. The price therefore only has to retrace 50% of the original loss to breakeven.

The price however moves higher to 1.5300. The trader will enter another sell at 1.5300 and the average price will now be 1.5150. (1 5000 + 1.5100 +1.5200+ 1.5300) divided by 4. The price therefore only has to retrace 50% of the original loss to breakeven.

And so on. In the end a larger and larger retracement is required to go back to the average price of all the deals.

Very risky but it is surprising how many traders use this approach.

In the end if you start with a 1% account risk and use the success ladder approach described earlier you will have a much longer and relaxed Forex trading career

Case study (Success Plan)

This case study is the Forex success story of a trader that took $ 15 000 to over $ 200 000 in 5 months. This trader never had any exposure to forex trading before starting his trading.

The trader was a truck driver who was made redundant due to his company running into financial difficulties. He was given a reasonable redundancy package and he immediately looked around for alternative ways of earning money.

A friend took him to a presentation about a pricy Forex trading course. He signed up for the weekend Forex course. The course was very thorough and covered all the basic Forex trading principles and focused on support and resistance aspects.

After the course he spent 14 hours a day back trading price behaviour and aspects of the course. He however found many of the concepts of the course too complicated and focused of price behaviour and patterns when the market reverses. He soon found patterns which allowed him to trade trend reversals very successfully. Please note that he found his own system which suited him from weeks of studying price behaviour. After demo trading for a while he soon started trading live with a $ 15 000 and increased the balance to over $200 000 in less than 4 months making 3 years of his previous salary .

The schedule on the right shows how by risking and making 4% of his account using a successful technique he could have increased his account by only having one (net) successful trade a day over that period. One net successful deal means that he may have had losses but the losses were effectively cancelled out by winners during the day.

Lessons to be learnt are:

- He found a personal system that was profitable after weeks of intensive price action research in spite of learning another system on his course
- He never needed to risk more than 4% of his account at any one time.
- He used stops and let his winners run.
- He tested the system very well before using it
- Once successful he increased his position sizing all the time
- He stared with a reasonable account size.

Trades	Balance	4%	New Balance
1	15,000	600	15,600
2	15,600	624	16,224
3	16,224	649	16,873
4	16,873	675	17,548
5	17,548	702	18,250
6	18,250	730	18,980
7	18,980	759	19,739
8	19,739	790	20,529
9	20,529	821	21,350
10	21,350	854	22,204
11	22,204	888	23,092
12	23,092	924	24,015
13	24,015	961	24,976
14	24,976	999	25,975
15	25,975	1,039	27,014
16	27,014	1,081	28,095
17	28,095	1,124	29,219
18	29,219	1,169	30,387
19	30,387	1,215	31,603
20	31,603	1,264	32,867
21	32,867	1,315	34,182
22	34,182	1,367	35,549
23	35,549	1,422	36,971
24	36,971	1,479	38,450
25	38,450	1,538	39,988
26	39,988	1,600	41,587
27	41,587	1,663	43,251
28	43,251	1,730	44,981
29	44,981	1,799	46,780
30	46,780	1,871	48,651
31	48,651	1,946	50,597
32	50,597	2,024	52,621
33	52,621	2,105	54,726
34	54,726	2,189	56,915
35	56,915	2,277	59,191
36	59,191	2,368	61,559
37	61,559	2,462	64,021
38	64,021	2,561	66,582
39	66,582	2,663	69,245
40	69,245	2,770	72,015
41	72,015	2,881	74,896
42	74,896	2,996	77,892
43	77,892	3,116	81,007
44	81,007	3,240	84,248
45	84,248	3,370	87,618
46	87,618	3,505	91,122
47	91,122	3,645	94,767
48	94,767	3,791	98,558
49	98,558	3,942	102,500
50	102,500	4,100	106,600
51	106,600	4,264	110,864
52	110,864	4,435	115,299
53	115,299	4,612	119,911
54	119,911	4,796	124,707
55	124,707	4,988	129,696
56	129,696	5,188	134,883
57	134,883	5,395	140,279
58	140,279	5,611	145,890
59	145,890	5,836	151,725
60	151,725	6,069	157,794
61	157,794	6,312	164,106
62	164,106	6,564	170,670
63	170,670	6,827	177,497
64	177,497	7,100	184,597
65	184,597	7,384	191,981
66	191,981	7,679	199,660
67	199,660	7,986	207,647
68	207,647	8,306	215,953
69	215,953	8,638	224,591
70	224,591	8,984	233,574

Case Study (Plan to Fail)

The schedule to the right shows that using 4% risk and losing on every trade that you would still have $800 left after 70 trades. Often traders think that they will lose all their money after 25 trades (100% divided by 4% = 25)

This is not a real case study but if it were it would illustrate the following ways that people lose their money very quickly in the Forex Market.

1 Start with a small account that does not allow position sizing

2 Do not risk a percentage of the account but risks the same amount on every trade.

3 Does not wait until a system is found that is well tested with a demo track record

4 Does not stop trading a live account after losing 20% of the account and does not return to demo trading.

5 Does not analyse the trading results for changes that could improve trading results or reduce the impact of losses.

Trades	Balance	-4%	New Balance
1	15,000	-600	14,400
2	14,400	-576	13,824
3	13,824	-553	13,271
4	13,271	-531	12,740
5	12,740	-510	12,231
6	12,231	-489	11,741
7	11,741	-470	11,272
8	11,272	-451	10,821
9	10,821	-433	10,388
10	10,388	-416	9,972
11	9,972	-399	9,574
12	9,574	-383	9,191
13	9,191	-368	8,823
14	8,823	-353	8,470
15	8,470	-339	8,131
16	8,131	-325	7,806
17	7,806	-312	7,494
18	7,494	-300	7,194
19	7,194	-288	6,906
20	6,906	-276	6,630
21	6,630	-265	6,365
22	6,365	-255	6,110
23	6,110	-244	5,866
24	5,866	-235	5,631
25	5,631	-225	5,406
26	5,406	-216	5,190
27	5,190	-208	4,982
28	4,982	-199	4,783
29	4,783	-191	4,592
30	4,592	-184	4,408
31	4,408	-176	4,232
32	4,232	-169	4,062
33	4,062	-162	3,900
34	3,900	-156	3,744
35	3,744	-150	3,594
36	3,594	-144	3,450
37	3,450	-138	3,312
38	3,312	-132	3,180
39	3,180	-127	3,053
40	3,053	-122	2,930
41	2,930	-117	2,813
42	2,813	-113	2,701
43	2,701	-108	2,593
44	2,593	-104	2,489
45	2,489	-100	2,389
46	2,389	-96	2,294
47	2,294	-92	2,202
48	2,202	-88	2,114
49	2,114	-85	2,029
50	2,029	-81	1,948
51	1,948	-78	1,870
52	1,870	-75	1,796
53	1,796	-72	1,724
54	1,724	-69	1,655
55	1,655	-66	1,589
56	1,589	-64	1,525
57	1,525	-61	1,464
58	1,464	-59	1,405
59	1,405	-56	1,349
60	1,349	-54	1,295
61	1,295	-52	1,243
62	1,243	-50	1,194
63	1,194	-48	1,146
64	1,146	-46	1,100
65	1,100	-44	1,056
66	1,056	-42	1,014
67	1,014	-41	973
68	973	-39	934
69	934	-37	897
70	897	-36	861

Don't let your money go down the drain

Conclusion (protecting your money is more fun)

In conclusion let's summarise what has been covered and list all of the main learning points:

- To succeed at Forex trading you need to pay attention to all aspects of forex trading
- Most money and risk management strategies can be pre-made before trading. This takes the emotion and decision making out of the trading process when in an active deal.
- Forex trading is a practical skill that you can only obtain from actually trading
- Your track record is your biggest tool for managing your Forex career.
- There are many other statistics besides a traders success rate that are important
- You can make money in the Forex market with a low success rate
- Your trading results do not have to be perfect to generate a good monthly income.
- You can use an analysis of your trading record to pin point trading weaknesses
- Finding a good Forex Trading system requires a lot of searching and testing
- Small amount risked can build up a big income over time
- You need to be focused in all aspects of Forex Trading
- Risking the same % of your account on every deal is a sound risk management approach
- You need to lot size your deals correctly to risk the same % of your account on every deal
- Trading psychology plays a big part in staying focused and professional in Forex trading
- A trading strategy consists of more than an entry method
- There are many ways of finding profitable trading techniques
- There are many factors to take into account when sizing your Forex Trading account.
- You can take a low risk % approach or a minimum account size approach to sizing your Forex trading account.
- Using a success ladder to protect your account in losing streaks and to benefit from winning streaks.
- Never trade with out stops which have been linked to a % of your account and never increase those stops.
- There are many aggressive techniques which traders use to avoid losses such as the Martindale technique.
- Forex trading is a never ending process of continuous improvement. You constantly need to work on improving all aspects of Forex trading.

Support

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Viennese Waltz	VW Forex	Time of day Forex trading patterns
WATO	WATO Forex	Multi currency, Multi timeframe swing and scalping
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Magic Momentum	Magic Mom	Ways of making money using the markets momentum
X MT4 Basic Charting and dealing	MT4 Basic	A basic trading and dealing skill course

	LIVE Trading Webinars	Website Links	Brief Description
X	Daily US Analysis Webinars	US LIVE	45 Live trading webinar finding 24 hr set and forget trades
X	Daily European Webinars	Euro LIVE	45 Live trading webinar finding 24 hr set and forget trades
X	Daily Asian Webinars	Asian LIVE	45 Live trading webinar finding 24 hr set and forget trades
X	Good Vibrations	GV LIVE	2 to 3 hour Live trading sessions using the GV method

	Daily Alert services	Website Links	Brief Description
X	Daily US Alerts	US Alerts	24hr Set and Forget emailed alerts daily
X	Daily Euro Alerts	Euro Alerts	24hr Set and Forget emailed alerts daily
X	Daily Asian Alerts	Asian Alerts	24hr Set and Forget emailed alerts daily

Indicators and EA's	Website Links	Brief Description
4x- edge indicator	4x-Edge	This indicator gives the relative strength of all currencies
Grid trading EA	Grid EA	This EA automated the grid trading entries and exits

Free courses	Website Links	Brief Description
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Exact tool	Exact Tool	The tool gives you exact entry and exit values
Free videos	Free Videos	Access free Forex trading videos on any topic
Become a Forex Investor	Invest in Forex	Learn how you can INVEST in great Forex traders

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Long Candle Forex Trading	LC Forex	Support webinars for purchasers of Expert4x methods
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Linked Accounts to Forex Traders	Linked Trading	Linked you Forex account to successful Forex Traders

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Hedged Forex	Hedged Forex	Site used for Hedged Forex services such as the GRID
Expert4x Blog	Expert4x Blog	Forex trading Blog
Long Candle Forex	Long Candle	Site used for Long Candle Forex
Forex Trading Video	Forex Videos	Forex Video site
Forex edge	4x Edge	Website for the Forex edge indicator

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