

Psychological Trading & Money Management System

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Dear Trader,

In this report I would like to share with you the two most important factors that I believe make the difference between an amateur and a good, successful trader.

I am going to discuss psychological trading and the money management system.

From the beginning of my experience as a trader, and especially when I started focusing on Forex trading, I have focused on studying different trading strategies, indicators and graphical patterns.

I found I had a hidden talent regarding everything that has to do with technical analysis. I was introduced to the leading experts in the field and we found we had a common language and communicated on the same level.

I stopped losing money.

But I still failed to achieve the continual and steady income that I was striving for.

Finally, I decided to make a significant change and reorganize my trading.

Looking back, I can honestly state that technical analysis is only the second important feature of a good trader.

Don't get me wrong; it is very important to use indicators and charts to find the best trades, but I think that knowing how to enter the trade correctly and knowing how to manage and close a trade is far more important.

But it's not simple.

What comes into play is the psychology of trading, a complex mixture of factors that prevents most of us from succeeding.

Let's try to understand what interferes with our success, using a few real situations.

Please read the following statements and try to identify the scenarios you've encountered in your trading.

Scenario #1

I understand the strategy, but somehow it seems I only enter losing trades.

Or,

I miss the good trades because I work, or because I don't have full access to the computer.

Scenario #2

I spot the right entry points but I'm afraid to enter them. When I get up my courage to enter them, it is too late.

Scenario #3

I fail to wait patiently for the trade to reach its Take Profit target and then close it with a small profit. For some reason, I don't face this problem when waiting for the trade to close on its set Stop Loss.

Scenario #4

After a few losses I try to take revenge on the market and find non-existing trade setups. I enter when I should not enter.

Scenario #5

I make a lot of money on a demo, but I lose money on my real account.

Scenario #6

After a few profitable trades, I increase the leverage and lose everything I've gained.

Do any of these sound familiar to you?

These are the typical scenarios a trader has to deal with every time he

enters or even looks for a trade.

Now, let me share my solutions to the problems listed above.

Scenario #1

“I understand the strategy, but somehow it seems I only enter losing trades.”

Or, “I miss the good trades because I work, or because I don’t have full access to the computer.”

Suggested Solution

Understanding the strategy is amazing. But first, it is very important to identify the kind of trader you are: if you work fulltime and have only one hour a day available for trading, you cannot use intraday strategies.

For intraday strategies, you have to dedicate much more than an hour a day to trading; you have to trade longer timeframes. There are other strategies out there that will allow good trading with only 30 minutes to 1 hour a day.

On the other hand, you might want to use a half-automated Robot that will signal you to open a trade. The best Robots – also called Expert Advisors or EAs – will even manage the trade for you after you’ve entered.

Scenario #2

“I spot the right entry points but I’m afraid to enter them. When I get up my courage to enter them, it is too late.”

Suggested Solution

The best way to overcome fear is to do the exact thing that you are afraid of. Are you afraid of entering a trade? Do you feel insecure? Than enter a trade, or let a Robot or half-automated Robot do it for you. When you are equipped with good tools you can rely on, there is nothing to fear. The progress in technology has made our trading much easier.

Scenario #3

“I fail to wait patiently for the trade to reach its Take Profit target and then close it with a small profit. For some reason, I don’t face this problem when waiting for the trade to close on its set Stop Loss.”

Suggested Solution

I prefer using a half-automated Robot because it does not act on its emotions. It signals me when my conditions are met on the market and I decide on the final entry. From the entry point, it will manage the trade on its own.

If you don’t believe in automated trading, it is very important to close your computer right after you have entered a trade. You should reopen your trading platform to monitor your trade only on the following day. Another option is to ask your broker to close your authorization for closing a trade and to enable your broker after a trade is closed.

Scenario #4

After a few losses I try to take revenge on the market and find non-existing trade setups. I enter when I should not enter.

Suggested Solution

Create a trading diary. I elaborate on this in the Money Management section below.

Scenario #5

“I make a lot of money on a demo, but I lose money on my real account.”

Suggested Solution

When trading a demo account, you are trading without your emotions being involved; you don’t have a problem with letting a trade work. For your real account, you can use the advanced tools already mentioned: an EA or semi-automated EA (which is better than an EA). It will make the decisions for you. If you prefer to do it manually, keep organized records, as described in the Money Management section below.

Scenario #6

“After a few profitable trades, I increase the leverage and lose everything I’ve gained.”.

Suggested Solution

This is a common problem. It is derived from the loss not always being the trader’s fault. One loss might cause the above-mentioned problem: after a loss that involved high leverage, you might look to regain your loss as quickly as possible. It is even more painful to lose the profits than your own money. The only way to restrain yourself from making this kind of mistake is to record all your trades and trade according to your predetermined plan.

So...I hope the above suggestions will help you overcome any problems you might be having. They have certainly helped me.

For me, it has become much easier since I automated my strategy but still left myself the final word regarding the entry.

AND... the next step is proper money management. It is an inseparable part of achieving success.

What is proper money management?

Proper money management is the most important factor in trading. Here is a 6-point tried-and-true money management plan:

1. Limit your maximum allowed loss for each trade.

I recommend that you don’t risk more than 2% of your trading account per trade. And a 5% risk would be the absolute maximum.

2. Determine your monthly profit target.

3. Do not mix different strategies.

If you do, they will contradict one another. Enter a trade according to your chosen strategy and close it according to the same strategy.

4. After each trade, summarize it and write down your conclusions.

Was it a good entry point? Was it a good closing point? Why did this trade fail or succeed?

5. Conduct a trading diary.

As above, keep track of each trade, and then keep a diary so you can refer back to previous trades.

6. Examine your results at the end of each month.

You can learn a lot from studying your successful and unsuccessful trades. Also, examine your trade record at least once in a quarter.

This is an invaluable money management plan. Follow these recommendations and your trading will become organized, consistent and profitable.

Here is an example of a trading diary:

**The dates and trades mentioned below are for the purpose of illustration only.*

Date	Currency	Strategy	+(pips)	-(pips)	Notes/ Conclusions
10/23	GBPUSD	Breaking + Strength indicator	80		Correct entry point. Correct closing point – according to the rules.
10/24	EURJPY	Breaking + Strength indicator		30	Correct entry point. Correct closing point – according to the rules.
10/25	USDCAD	Breaking + Strength indicator	60		Correct entry point. Correct closing point – according to the rules.
10/26	GBPUSD	Breaking + Strength indicator		25	Correct entry point. Correct closing point – according to the rules.

At the end of each month, I review my trades, summarize my profits and losses, confirm that all the entry points have been correct, and then summarize my conclusions.

If at the end of a quarter, your strategy ends up with a loss, you may want to choose a different one.

Personally, I recommend examining a chart backwards (examine entry and exit points) before deciding upon a certain strategy. Create a trading diary as if you would have entered these trades. This way you can be sure to choose the strategy that best suits you.

And here's one last point:

I recommend that you prepare a list of "do's & don'ts, then place it above your screen while you are trading. These will be your trading rules.

For example:

1. Save all my trades in my trading diary.
2. Trade only according to xxxxx strategy.
3. My Maximum risk is 2% of my trading account.
4. My monthly profit target is....
5. Examine my trading diary at the end of each month and write down my conclusions.
6. Do not interfere in a trade after I have placed SL and TP targets.
7. *Etc. –add your own rules or recommendations.*

That's it, my friends.

Consider using the above recommendations. Your trading will become organized, consistent and easy, and most important of all: profitable!

Good luck with this week's trading,

To your success,

Vladimir Ribakov

