POSITION SIZING

FIJITRADER

Joined FF: Mar 2004

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An entry exposes ones capital to risk and/or profit and an exit eliminates risk and/or profit.
I think that entry and exit are as different conceptually as "beginning" and "end".

Entry always begins with an immediate and quantifiable loss.

Exit may produce either profit or loss.

Entry is deterministic and has a guaranteed instant loss.

Entry is where you give control of your account to a force over which you have no control.

Exit is where you take resume control of what happens to your account.

An entry has only one possible immediate result: Loss.

Exit has one of two possible immediate results either loss or profit but you are not guaranteed of one or the other.

I think it would be clear that you could not apply money management to a system that had random exits. Exits are how we control risk, which is one of three main components of money management -- The other two being **position sizing** and profits.

FT

PAULYSHIMADA

Joined FF: May 2004

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The basic problem with some systems is the proposal's poor Money Management.

Please pay more attention to trading systems research; *do not focus too much on entry and exit subsystems.*

No sane professional trader (or experienced amateur) would risk 10% equity per trade!! The generally accepted level of risk is 1 to 2% per entry, and no more than 5% in the market at one time.

The best reference that I have found that discusses a COMPLETE TRADING SYSTEM includes the following major subsystems:

What to trade, how much to risk (**position sizing**), when to buy or sell (signals), stops, and planned exits (I have ignored tactics).

The reference for an excellent *complete system* designed by Richard Dennis, the legendary commodities trader (including foreign exchange), who eventually turned US$400 into US$200 million, and gained additional fame for his Turtle experiment in the 1980's.

I use the Turtle Trading system for **position sizing** (including scaling up) and stops. Those were his system's most advanced concepts, both being based on volatility.

I have been doing quite a lot of research regarding the aspect of money management, a.k.a. risk management. It is generally agreed that if your tech. analysis system is at least half-way sensible (via back testing), that your success or utter ruin will be determined by your risk management system and adherence to it.

To recap, trade 1-2% of equity per trade and risk no more than 5% concurrently in the market. (See the Turtle Trading System regarding the relationship between the level of correlation among concurrent trades and **position sizing**.)

It seems that many participants on FF threads are enamored with the apparent simplicity of some systems and the very attractive hoped for result; this is merely the first of the twins of doom--greed and fear.

Paul Y. Shimada

BILLYRAYVAL

Joined FF: Apr 2006

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One of the biggest myths about trading and what is usually stamped into the heads of traders from the very early stages of their careers, is that successful entry techniques will lead you to consistent profits. This is wrong! This and this alone is only one component, and there are unarguably many other factors which attribute to consistent success.

In most books and articles I have read about trading, the main focus of discussion is typically centered around entering trades. There are literally thousands of ways of doing it, as more and more indicators and trading strategies are developed over time. As we start trading, however, we learn that entering the trade can become rather easy once we have it practiced enough, and that managing a trade and knowing when to take profits becomes perhaps our biggest obstacle.

Trade management is perhaps one of the most overlooked yet vitally important aspects of trading. Any experienced portfolio manager will tell you that knowing when to call it quits and defining a systematic means of trade management is as important of the trade selection itself.

Poor trade management, just as with poor entry selection, can lead an otherwise profitable trader into an area of undesirable consequences if not executed properly. Here, we will outline the basic aspects of trade management: risk/reward, **position sizing**, taking profits and using stop losses.

Before we delve into any detailed discussions of the above, it is important to note that all three must be executed in terms of the market we are trading. In other words, they should be *dynamic*, or *not* a fixed pip amount. Many newer traders will define both a stop loss and profit target based on a fixed pip amount. This is generally an inefficient strategy because it completely ignores any dynamics of the market, and hinders their risk/reward ratio. The market does not “think” like we do, in terms of fixed numbers or profit goals, and instead reacts to key price areas, we are on its turf; it’s not on ours, so we have to shape our trading plan around its rules. Defining our trades around static numbers can be good if setting an ultimate limit on risk, but regardless, is not a recommended approach, especially in terms of taking profits.

One of the largest benefits of setting dynamic stop losses and take profits is the generous increase they can provide in terms of your risk/reward ratio.

BILLYRAYVAL

INFLECTION

Joined FF: Jun 2007

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From what I've seen there are a few ways that a equity curve could be smoothed out.

1. The first and simplest way is simply, not to trade. For example, if the equity drew down a certain %age, stop executing live trades. But continue to execute hypothetical trades. That way a hypothetical equity chart would continue to be plotted (rather than a flat line). When the curve crosses up, start executing real trades again. This of course requires other income sources and a strong commitment to the system. (I came up with that idea myself; if it's a stupid idea, now you know why).

2. The second way, as I've also mentioned, would be to optimize the system itself with more intelligent stops, exit strategies, and **position sizing**. I don't know of a smart and easy way to test this, except to come up with various scenarios and try them out. Maybe others of you with more experience have better ideas.

3. The third way is diversification. This could come in different ways. Here are a few ideas:

(a) I could trade other markets, such as futures or stocks. I trade stocks using a purely mechanical method and last year was very good for me (50% return). That would have certainly smoothed out my overall equity curve. But it all depends on the combined effects.

(b) Another way would be to trade multiple systems on the same pairs. I like this idea a lot and think it has tremendous merit. Too many people are looking for the "one right system" but I think markets are too complicated and chaotic for that.

(c) A third way would be to modify the portfolio of pairs. Since all the currencies are interrelated there is always some effect on one from the movements of others. I looked at this idea and added four other pairs to my portfolio.

INFLECTION

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My general approach in working out a mechanical system is to first find something that is simple and fairly robust and then only make very specific changes in the three areas:

(1) Selection, (2) Trading Rules, or (3) Risk Management.

In general, I am more inclined to try things in #1 and #3 first, whereas many people would start slapping more rules and filters on top of the system to get it to "prove out" the historical data.

You can see what I mean if you can look at several super-popular approaches that many people here on FF discuss and follow.

The power comes from **position sizing** and risk management.

The methods emphasize the #1 and #3 aspects of system development.

Anyway, these are not mechanical systems, but it goes to show that much can be done by tweaking #1 and #3 before you even have to deal with lots of additional rules and filters. Most of what I have found trolling around various places are the same old worn out indicators tweaked and combined a hundred different ways with a gazillion rules and filters. It doesn't mean that it doesn't work. There are thousands of systems and approaches that work, even using those same indicators.

I guess what I'm trying to say is that I am striving to keep things simple and systematic. I don't know about you, but the more complex something is, the more I doubt my own ability to keep up with it.

I have hundreds of thousands of $'s in my account. It's not that I'm so smart or such a great trader. I think I just got lucky. I made some good investments in IPO's and real estate, and for the past several years I've been using a statistically derived mechanical system for trading the stock markets, based on some ideas from a Russian physicist. I used to day trade stocks, sitting in front of three screens, trading Level2 opening gaps, breakouts, and swing trades. I did fine. I made some money. But it just got old for me. My brain isn't really wired that way. So I went on a quest for more intermediate term, more mechanical approaches. I'm a quant by nature, though I'm certainly no mathematician. So I sort of stumbled across and further developed the system I use now.

A simple, mechanical stock trading system is our only means of support.

<u>INFLECTION</u>

FXDANNY4X

Joined FF: Mar 2009

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Let me start by saying **position sizing** & money management is one of the most important aspects of trading, so it's good to take some time to fully understand what you are doing.

As a general rule of thumb, you should not be risking anymore than 3% of your account on any single trade. Even 3% is highly aggressive when starting off in this business. I personally suggest you start of risking only 0.5-1% of your equity per trade, and only start increasing your risk per trade once you become consistently profitable. This will not only protect your equity while you learn how to trade, it will also allow you to condition yourself psychologically to handle the drawdown/loss/risk.

A lower risk profile will also have a tendency to assist with your trading discipline when starting off. A common mistake is to take a large position size, and close it prematurely not allowing your trades to follow the plan due to psychological pressures of having larger positions.

That said, the first thing you need to know before deciding your position size is:

- Entry
- Stop Loss Position
- Take Profit Position
- R:R ratio
- Average expected success rate of the system being traded

All these factors play an important role. The latter two especially when you begin to build up a track record and statistics of your trading system, allowing you to 'fine tune' your money management and **position sizing**

Very basic Example:

Account Balance: US$10,000
Pair traded: EUR/USD

Risk per trade: 1% roe
$/value risk: $100
Stop Loss: 40pips

So to calculate the position size needed for risking 1% over 40pips:
($100/40) = $2.5/pip or 25,000units, 2.5minilots, 0.25lots

You might not be getting enough $$$, but don't focus on this, as it is largely dependent on your account balance. Focus on %Return on Equity or %Drawdown; this is what matters in the long run.

Making 10% a month is an absolutely awesome return on equity. But on a $1000 account this only means $100. But on a $50,000 account it is $5,000. Bottom line you can't expect to make a decent living with a small balance, but that does not detract from the fact that ROE is ROE!
Which is what really matters in the long run.

My **position sizing** varies depending on the pair I trade and the type of trade taken (scalp/swing etc).

Yes there are times I go in heavy. But at the end of the day my stop loss is in place such that I will never lose more than 3% of my balance in any single trade, worst case scenario. The main thing you need to know is the expected outcomes of your system, in order to fine tune **position sizing**, and perhaps most importantly ability to read the PA.

Hope it helps...

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No single trade should set your account balance into a bad state of repair.

As mentioned before I risk a maximum of 3% or equity on any given trade.

I have been trading for over 5years now, and fulltime for well over 2.5years and this is my maximum risk threshold per trade.

In my opinion the best thing you can do for yourself is pick a fixed leverage profile of either 0.5x or 1x account balance. Use this position size for EVERY trade, regardless of whether you have a 40pipSL or 60pipSL *(0.40%risk & 0.60%risk of balance respectively)*, for a minimum of 1 consistently and disciplined profitable month.

Next month, Ammend your position size on a per trade basis, this time keeping your %risk fixed, regardless of your Stop Loss. I.E if you have a 20pip, 30pip or 60pip SL you will have a fixed loss of 1% (or whatever figure you chose). If you lose this month, it means you haven't got an understanding of where to place your SL yet or reading PA, and you should go back to how you traded the previous month with a lower risk profile.

Once you have done 3 or 4 consecutive profitable months of consistent disciplined trading then you will know for yourself the ins&outs of your trading setups and the profitability factors, and be able to 'fine tune' your leverage/**position sizing** on a per trade basis.

<u>FXDANNY4X</u>

TIAGO

Joined FF: Jan 2006

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It doesn’t matter what entry techniques or indicators you use....The entry system you use is only 5% of the pie, **position sizing** and your mental toughness are the other 95%.....I trade a trend trading system and my success rate is 50%, but my winners far exceed my losers....That’s the whole key and reflects the golden rule of trading.....Hope this helps...

Phorex Phreak

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When I was a newbie, I used to think I had to have a high percentage rate, then I read the market wizards book by Jack Schwager and the last paragraph on page 166 changed my trading life forever (interview with Mark Minervini), most of the world’s most successful traders win rate are between 35 to 50%, that’s a fact, they are not successful because of the accuracy of their trades but are successful because the size of their wins far exceed their losses, the faster you can develop a system around the golden rule of trading the faster you'll be profitable, high win percentage does not mean a thing if you can’t wrap your brain around **position sizing**...

I do have losses, but my winners in comparison are HUGE because I scale into the trades as well, the most important thing right now for you to understand is the golden rule of trading and to get mentally tough for a few small losses in a row that you’re going to take, Dr. Van Tharp has impacted my trading immensely and I would recommend you start to read his books and get a real grasp on how the world’s best traders trade....

Phorex Phreak

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The **position sizing** is the edge....flat bet it? What’s the point in that? of course the results would be different....what we are talking about here is a small piece of the pie my friends, which is the so-called edge of a system...a system’s performance or edge or whatever you want to call it has a few components to it and **position sizing** along with psychology is by far about 90% of the pie my friend...there are many systems on this forum that have negative edges but because some traders know how to *position size* they still make money.

Phorex Phreak

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What do you mean by negative component? all your doing is adding components or units to the position as it goes in your favour at different intervals, I bet you most of the systems on this forum have statistically relatively the same win percentage but the results are radically different because of the **position sizing** not including psychological factors of course....

I also bet you if I used my **position sizing** on any of the half decent systems on this forum in the end I would still make money, my current system is only 45% win accurate but it's my **position sizing** (and psychology) that lets me stay in the game during my losing streaks and its **position sizing** that allows me to win big when I catch those trends, my wins far outweigh my little losses at the end of the month, and I believe that's what trading is all about, so in reality, I have more losers than winners at the end of the month but my winners are far greater than the losers...the difference in the way you use **position sizing** has a radical effect on your results....

Starting off with full positions is crazy in my opinion, you should add to these positions once the trade has proven itself and as soon as a loser is identified, chop it off immediately, and of course the loser will be only a quarter position so you're really not losing that much so therefore you can take many losses and not really feel it...the faster traders realise this the faster they will start seeing success in there trading....

<u>Phorex Phreak</u>

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The whole idea is that when you do lose your only losing on a slither/fraction of a contract therefore the losses are really kept to the bare minimum....It rubs people the wrong way because in the simplest form your right, you will lose if you do it the conventional way, but there are a couple of ways and a few more caveats to this discussion that you're not aware of that negate the negatives about **position sizing** that you believe....

Cut losses short and let profits run is the golden rule, if you look and concentrate your efforts on the cut losses short part of it in terms of **position sizing** a la Van Tharp, you'll start to realize and come to open your eyes, the negatives you speak of can be negated and therefore when you do have a winner that you ride and add on to it more than makes up for all the little losses, and this is what long term sustainability is all about, and with this type of system, I'm also making the most out of my wins, so if a trade goes 100 pips in my favour instead of me making, let's say 1000 dollars because I position sized correctly on that same 100 pips I make roughly 1700 dollars instead, so now when I'm losing I only lose a fraction of a contract at a very miniscule cost compared to the monster gains I make when I win.....

My trading didn't take off until I started to concentrate on **position sizing** in relation to cutting those losses short, I knew how to let profits run and build onto a trend but I had problems with that because when the market retraced and came back I lost money on the trade and the scale ins, then I started focusing on how I can scale in without being exposed to retracements and crashing the **position sizing** and therefore I started to concentrate more on the cutting losses short part of it and it's made a huge difference in my trading performance, and in the end my friend the simplest mathematical fact you can't ignore is at the end of the month whether your wins outweigh your losses....cheers

<u>Phorex Phreak</u>

X.ODEN

Joined FF: Feb 2006

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When I started out, I had grand dreams of telling my old boss to shove it and walk out.
Never happened, at least not back then. A few years ago, I lost over $65K.
It was everything I had. Then the worst happened, I got laid off. You can only imagine.

To make a long story short, I let go of the drama and all I saw were two options, get back on my feet with work, which I had to do anyway and totally give up trading, or learn from my mistakes, get back on my feet and try again. I chose the latter. Well, it paid off in a big way.

I would say to you...a) Don't give up b) Learn about money management and **position sizing**

That's the key.

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The bulls are right and the bears are right, depending on what time frames you are trading.
It’s the same concept as fractalization or Dow Theory...

If you picture a Sine Wave with the Midpoint, Trader A can buy and Trader B can sell and both will win in time....the trick is to be able to hang on to the price swings....that's the real key.....thus **position sizing** is extremely important..

I know that long term it’s anyone's ball game, depends on which side of the fence the Sine Wave is swinging......

As to my own range, I can typically hold on to a 2000 pip swing PER position I hold, this gives me an infinite possibility of range to ride......however at anytime, if I close all my trades, my positions are positive.....

In all honesty, I don't focus on the profits, but I focus on growing my margin.....

X.ODEN

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The first thing you will want to work on first is to understand price action.
Learn about candlesticks and specialize in one pair.

Second thing is, you have to understand **position sizing** and how it falls into play with risk management. For instance, I see some folks trading with a 10 pip stop loss and targeting a 20 pip target. That's a fair ratio, but realistically, your stopped out positions will almost always get hit frequently enough to negate any wins you have in place. One thing you could do to keep risk consistent is by determining first what your stop loss should be on the actual trade (ex...Trend is down, place stop loss above the last swing high....). So in the example above if the stop loss requires a 70 pip stop, and you only want to risk 1% or less per trade on say a small $500 micro account for instance, you first have to know how much 1% of the account is...and if you calculate this, you have $5...if you lose or win $5, you would have earned 100 or loss 100 pips of profit on a $500. Next thing, is, you have to determine your stop loss. If in the above example, your stop is 70 pips, you will be risking $3.50 (70 pips)...this would therefore require a lot size of .05 lots per position.

So if you wanted to risk 1% or under on a trade that required 70 pips in stop loss on a $500 micro mini account, you would only trade .05 lots.....
Each 100 pip trade will earn you $5.

So for folks that say they don't have enough funds to last a wide swing, they probably haven't done the math on the account and may need to reduce the size of their account in order to achieve what a larger funded account would.

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The ability to hold trades and average them in using small **position sizing** is key to your survival in the markets. Space them out enough and you will be able to survive most anything the markets can throw at you. The brokers will also leave you alone.

I am still learning myself and I also still work a full time job and trade full time (You know this from my presence on the boards)....I am always watching the screens. I honestly do better when I watch the screens less.

I have very bad trading habits that I have learned to control by being more patient....these you must be conscious of. They will destroy your account. But if you are constantly reminding yourself then you'll be alright. Your results look good. Keep it up and be consistent. When you're doing well is the primary time you must remain FOCUSED. Most of the time, that is when all traders relax and think they've beaten the markets....and then suddenly, a slight change or modification to ease the strict rules crumbles the fortress you have built.

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I started out scalping years ago. Was very good at it. Then like most, I blew up my account from lack of money management. Never went back to it....decided to ride the trends with small **position sizing**. Never looked back. As of 2 years ago, I became profitable, still made lots of mistakes along the way, but my trading is pretty tight now when I'm not playing around and experimenting (old habit). In any case....I can't help but get excited watching an account grow at a nice pace through short scalps and hardly any time spent in the markets.

Small quick gains in and out once a day is all we're doing. My long term trades are also nice when a trade finally closes and you're sitting on nice profits, but sometimes it gets EXTREEEEEEEMELY BORING!

I've taken up playing my playstation 3 again and working out in my spare time now to keep my sanity.

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Trading is very simple. You always trade with the trend. Trade with a larger time frame. You always wait for a breakout of consolidation before even considering entering the markets and out of a 100% trend move, simply catch the middle and get out before the move is well over. This means leaving profits on the table, this means not bothering or wasting your time trying to catch market tops or bottoms....

Do this over and over and over and you'll have a nice amount. Its nothing magical or special. Most of the time, you'll be sitting on your hands and waiting for price to come out of consolidation, other than that, the rest is just **position sizing** and planning your trades from exit to entry. So honestly, you'll find yourself in a trade, at most a few times a week for a few days, maybe 2 or 3 days at most.

Fibs can tell you where on the map you're at....quite simple....

Try it out...you'll be surprised how much money you make.

X.ODEN

STEWARTR

Joined FF: Mar 2007

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I am a full time trader now. I gave up my day job. I have no income other than from trading. I have been quite successful in my previous occupation and don't need to work for 2 years or so and I have a large $ amount to trade.

But that doesn't mean that I am trading full clip. I am still not quite 'there'.
This is what I am learning. Trading is 99% waiting for the best setups and that flies in the face of what I used to think trading was all about. Its not about trading frantically and taking lots of trades. It's about waiting, stalking and only acting when the odds are overwhelmingly in my favour.

So I continue to trade just 2% of a $10k account until I have corrected my psychology.

I know I am getting close to trading 1% of my full equity, but will not do it until I have *demonstrated beyond all reasonable doubt that I can trust myself to behave as a professional trader*, no matter what the market presents to me.

Major shifts in my mindset over few months since trading full time:

1. I am totally responsible for the success of myself as a trader. "I" am the most important factor in success. (Not the system, not the markets, its entirely determined by me).

2. My job is to consistently trade *only* my exact and precisely defined system, with sound **position sizing** so I can realise the positive expectancy, *and not trade anything else*.

3. I finally understand what professional traders mean when they say that "discipline" is the key. It takes discipline to "only trade the *very very best setups*".

(Interestingly, when I look at the best setups (as defined a few posts ago), they almost always run well beyond 1:1 Reward to Risk. So I may have some more work to do there.)

In the mean-time, I continue to wait for the next "A+++" setup.

Best wishes
Stewartr

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For me, risking 1% per month, I expect to make 5 to 20% per month, on my real money account each month. That return can be supercharged or destroyed by ***position sizing*** *(betting bigger or smaller). So the METHOD is reliable and consistent. However the RESULTS are determined by how large your bet size is.*

What kind of drawdown might I expect? Extreme backtesting showed only one losing month of 4% in almost 4 years of testing on every pair my broker offered. However I have grown to not like the results of backtesting. Trading for real results in different decisions to backtesting. In backtesting I took EVERY trade, and in real life I would have missed some great trades and taken some poor trades etc. This is one reason why I keep a journal of live trades. After months of doing this I now have a record that proves to me that my approach is robust and reliable (for me).

So having said what I expect from my trading let me share the expectations of two full time traders I know. These are real people. I have spent a bit of time with both of them and can vouch that their results (as outlined below) are consistent.

Trader 1: has been trading the S&P since 1960. He is a lovely gentleman and he trades the 5 and 10 minute charts with the 30/60charts as background. He takes 1 to 2 trades per day. He has a $50,000 trading account and makes between $3000 and $20,000 per week (with most weeks around $10,000). Remember - he's been doing this for 50 years so he is about as good at it as you are going to get. He wins almost 80% of the time and his wins are bigger than his losses. He moves his stop to break even FAST and exits way before the move is over. He does NOT try to let his profits run. He never adds to the account (not for years and years now) and withdraws money every fortnight.

Trader 2: is an American lady who trades forex (the GBP/JPY only). She trades only one market and keeps $10,000 in her account. I don't know what types of returns she makes, but I can tell you that she lives off that $10,000, never adds to the account, withdraws money regularly and recently bought a new house with the proceeds. Again, she has been doing this for 4 or 5 years full-time, watching the 30min, 5min and 1min charts. She trades once per day (or less) and trades the london open. She demo traded for about a year before she started using micro lots. Then after another year she stepped up to mini lots.

These two traders are real people that I have met and spent time with. So it IS possible to make a living from a small account. But these guys are very very disciplined and are totally at peace with their methods. They are both FULL TIME traders and have dedicated themselves to knowing one market only. They MISS LOTS OF GOOD TRADES. They don't look at other markets. Neither of them tries to make a "lot" of money. Both have a core position size (Trader 1 = 10 eminis; Trader 2 = 20 mini lots). And they never go above that core size. They are not trading to make a killing. They trade to make a good living while working from home.

So the question that we each have to ask is "what do we want?" Do we want income from trading or 'lotsadosh'? The paths to these destinations are usually very different.

I would recommend that you start a journal and note every trade for the open and close and result. You will learn so much about yourself through doing that. And it will give you something that is essential for trading......"belief in your proven system".

For the record, I spent months trying to trade the methods of Trader 1 and Trader 2 and I could not do it. Every trading method has pros and cons and I couldn't handle the cons. That's why it's such a good idea to record all your trades and re-read your notes. Eventually your method will evolve before your eyes and then trading gets fun. (No more looking for the grail....instead you just wait for low risk entries to present themselves).

Best wishes
Stewart

HANOVER

Joined FF: Sep 2006

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Having a successful entry/exit method is only part of the equation; *capital preservation (money management) and psychology (discipline, courage, patience, confidence, perseverance ...*) also play a huge part.

Even in the case of a well defined system, I would suggest that many are likely to deviate from its rules or principles, for a variety of reasons, obtain differing results, and yet still attribute any success or failure to "the system". And unless a system incorporates precise **position sizing** rules, newbie traders might be tempted to oversize, inflating both profits and losses, and further polarizing opinion. Hence reviews are frequently a mixture of those who are ecstatically praiseworthy, and those who are bitterly scathing,

Markets are driven by emotion, and hence probabilities of price movements can't be predicted with mathematical accuracy.

Anybody can get lucky in the short term (read their testimonials on system vendors' sites!)

But to succeed consistently, year in and year out, one must have the "fantastic four":
Edge, turnover, MM and discipline.

David

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Psychology in trading is a very personal issue; each individual has to find the optimum way of dealing with his or her own temperament.
If emotional attachment is one of the main reasons that the 95% fail, then IMHO *it makes sense to take whatever steps are necessary to eliminate it right from the outset*.
If we can conquer the MIND and MONEY areas ("money" is really nothing more than preserving capital by applying modest, consistent **position sizing**), then that just leaves working toward a positive expectancy METHOD, a process of research and experimentation.

Best wishes to all
David

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A quick summary of what I've gleaned so far:

--- Key levels that justify low risk entries, and hence potentially high RR trades (cutting losers, riding winners).
--- The use of formal stop losses.
--- A formal plan, that involves acceptance of losses, and the concept of an 'edge': more raw pips gained than lost over time.
--- Consistent **position sizing** because nobody knows in advance which trades will outperform others.
--- No 'rescue' or 'revenge' positions, or averaging down.

All mandatory reading, IMO. Aspiring traders, take note.

David

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For me:

- *Strategy* (or 'method') = the rationale and rules behind both the entries and exits;
- *MM* = how much of the account is placed at risk on each trade, i.e. **position sizing**;
- *Mindset* = the patience, discipline, nerve, self-confidence etc needed to consistently execute the strategy.

My view was shaped by Elder's Trading for a Living (he describes what he calls the "3 Ms": method, money and mindset).
But at the end of the day it's all just semantics and terminology.

David

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*MM and **Position Sizing***:

The priority must be to preserve capital, minimizing the impact of a black swan. Both return and drawdown increase/decrease in direct proportion to position size (although, if position size is increased N times, risk of ruin increases significantly more than N times). Hence the object is to somehow find a compromise offering a worthwhile return, with minimal risk of catastrophic drawdown.

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Here's what I look for in a strategy.

1. *Risk management*: Risk control, through the use of loss exits, and conservative **position sizing**, is imperative. Any of the following would result in instant disqualification:

--- Failure to use stop losses, or at least a lack of some kind of strictly applied loss exit rules.
--- Adding to losing positions, unless the averaging down has proven technical or statistical backing, and is performed with strict control, with total risk being capped.
--- Recovery systems.
--- Martingale variants.
--- Systems with RR < 1, unless there was a very good reason for this.

2. *Positive expectancy*: Whether the system itself (entries and exits, as distinct from MM) has a genuine edge, i.e. is capable of winning more *pips* than it loses, on balance, over all known market conditions. Obviously a system needs a profit factor > 1, to be profitable; but if the PF was unrealistically high, then I'd be asking some serious questions as to why. I'd also be looking into the method itself, to ensure that the underlying concepts were robust (examples of some robust concepts that I'm aware of: macroeconomics, money flows, levels of supply and demand, orderflow, breakouts during times of high liquidity, tracking central bank/heavyweight activity, news trading, fading extreme overboughtness/oversoldness).

3. *Statistical validity and longevity*: Whether the system has been rigorously tested, over real-life market conditions, over several hundred trades and many years of changing markets.

Good luck,
David

*

We break trading up into 4 core areas:

#1. Mechanical entry and exit rules.
#2. Market knowledge and nuanced analysis that overrides or adjusts these rules.
#3. MM: **position sizing** and account/risk management.
#4. Psychology and implementation issues, i.e. personal qualities like emotion, discipline, patience, nerve, self-belief, positive thinking, etc.

I follow the textbooks in basing my exits around technical criteria; hence I include them in #1. For me, MM includes topics like position size, and sizing method (fixed amount, fixed frac, optimal-f, fixed ratio, martingale, etc), but *not* exits

You could have a winning strategy (#1 and #2), but if you size your positions too aggressively (#3), then an 'unexpected' period of losses could cause irretrievable drawdown. And to whatever extent your implementation (#4) is inconsistent or faulty, then it renders the system (#1 and #2) effectively useless.

Ultimately, to be long term profitable, a trader must master *all four* areas.

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CUCHUFLITO

Joined FF: Nov 2008

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I have been browsing through FF for a few months now. There are way too many trading systems here on FF and most of them don't make any pips in the long run. CORRECT!!!

Here´s proven successful system:

Open a brokerage company with tons and tons of cash, get the best specialists, gun all the stops, of almost every system on this forum (and any others for that matter), have fun, enjoy your profits, and have a big laugh on top.

Big smart money is geared to wipe out every single account. It´s like sitting on a poker table, you play against good and bad traders, so far so good, BUT, one trader, the best of all, has the most amount of cash AND at the same time has the privilege of reading everybody´s cards on the table!!!!!!!!(They can see all the orders, of big and small players, all the time, real time!!, try and beat that!!, and of course they trade too)
So just try and beat HIM...Ever wondered how often you get the perfect signal, timing, etc.. Just to see your trade turn and lose money.... again, like it was magic... (Or black magic?); Impossible task?

No, the only chance is to be able to read HIS game (somehow), exact **position sizing** (forget about lots and mini lots unless you have more than 100000), "Lots trading" is part of the design to upset any reasonable, **position sizing**, which is the single most important variable in a system...far more important than entry and exit..

The game is "almost impossible" (unlike Roulette or lottery, they are mathematically impossible).

So once you understand the above, and quit dreaming about a "sweet working system" (what do you think everyone in this forum is looking for!!!), face the odds straight in the eyes, you can begin studying...maybe after years of practice you end up within the less than 5% chosen few who make it..
Don´t forget most traders are intelligent people with some money (engineers, doctors and math and software experts, etc..).
Ever wondered why these intelligent folks ALSO lose consistently… (Consistently is the key word here)?
SMART MONEY is the secret, learn how to follow them and you´ll be rich...and that´s an art, cause that´s the last thing THEY want you and me to learn..

Hope this helps, enjoy your life, and by the way, whenever you open any chart, just remember, there´s a Price, AND TIME axis, the time axis is the time of your life, EURUSD will probably outlive all of us...

*

I’ve been trading forex for more than 6 years, options and stocks before...consistent loser...
Luckily I trade risks of cents by now, so I´m still alive and well..
Studied tons of books and courses...best of softwares, put in thousands of trades...
FINALLY I come to understand why it is "almost" impossible.

YES: Brokers and big money, (smart money), and stop hunting is just one strategy, they will not only wipe you out of almost every trade, they will create market patterns designed to lure evryone inside...

They are the players on the table that can see everyone’s cards...try to beat that...and those excuses about acceptable slippage and computer delays are part of the design..
I must say, I come to "admire" these big boys, they are dammed good, they are so greedy they take everyone’s money, slowly but surely, but not making it too obvious..
Look, most traders are intelligent folks; some are doctors and professionals, owning companies, etc.....they lose consistently...few are aware of the real odds....
It is NOT a fair game!!!
Position sizing is one of the most important variables in your end results...so they offer you lots, unless you have a million to spare, you’re obliged to risk too much, even with mini lots.

AND: remember, they not only see your orders, they also trade , AGAINST YOU…
Reminds me of the case of Goldmann Sachs, there´s a big story about the "morality", of them trading against their clients...They discovered their game after investigating the financial meltdown...
They even had them declare in Congress...and they said that their service to their clients is their sacred mission...and gave some cute phony excuses....they probably bribed half of the congressmen to begin with...

Friends, our opponent has VERY BIG TIME MONEY, and they want ALL your money on top...

Understand these facts, act accordingly..and maybe........one day you´ll make it...

Don´t ask me for the solution, I wouldn´t be writing this if I knew... I heard...some folks say volume and spread is a way to read THEIR cards...there´s some truth there...need to become a total expert...

Enjoy life in the meantime...

CUCHUFLITO

*

The biggest impact on performance is neither entry, exit, or so called MM...the biggest impact is **position sizing**, meaning your dollar risk to stop loss...that should always be as exact as possible and always the same till you change it because you made more money last month or so (or lost)...that´s why I don´t trade lots, I trade units...
And I trade manually cause every trade is different...trailing an auto stop has some advantages too....
These questions are as old as trading itself...probably the best it to find the shoe that best fits your own personality...

*

I can tell you I´m an expert in Fibonacci trading and Elliot Wave. Studied for years, own some of the best software in the industry...I know about some secret Fibos, I know how to measure Fibos exactly on the price and time axis.....
Let me tell you something, follow all that that I mentioned, by the book: it won´t work.
The same goes for moving averages, S/R, Macd, and everything else....why do you think there´s an endless list of systems, and threads, and indicators, and, and....

MM and **position sizing**, especially **position sizing**, have the biggest impact in your bottom line. That´s why, tossing a coin does work (it´s proven), provided you trail with enough distance...but it´s very slow.

I read somewhere: the market is random, that´s a given, the second one, it trends...now: try to catch a trend...the price you will pay, with any indicator or system, usually eats up all the profits of the trend, by the time you caught it, if you were good enough to catch it.
Add to that, the cheating brokers, if you don´t agree on this you need to pay more attention...just look at any chart, any kid can spot the stop hunting....and that´s only one trick...news spikes is another, some are justified to have liquidity on the other side of the table...most are just an excuse to wipe out millions and millions on SL, then run in the original direction, with all the retail money in their pockets..

Add all this together, and it´s easy to understand why almost everybody fails...and traders are usually on the high IQ end of the population...
To summarize: you need an extra edge...

My tip: it has a lot to do with **position sizing**, and managing.

Wish you the best of luck in finding it.

*

What worries me is a newbie could jump to a thread, learn how to draw some pretty colorful Charts, even precisely, and think he will get rich in a week with tick Charts.

"Properly place our stops", Needs to be understood, defined, tested and practiced for any time Frame, cause it will affect you account dramatically.
That alone is a study in itself: just consider the difference on each time Frame in terms of distance, and the Impact of those stop sizes on your bottom line.
Add that to **Position Sizing** and you have a whole subject, which if neglected, will spoil your efforts.
Unless you are trading dayly's, stop placement (won´t say stop hunting to avoid hurting people´s feelings), will dramatically affect your bottom line.

I would go as far as to say, that if you just master *Position Size*, and "stop placing" (trailing), you are better off flipping coins, than drawing pretty Charts without those mentioned.
Then, if you master both...we are talking serious Business here...
All the best to all...

*

Position sizing is in my humble opinion, one of the most important variables to affect a system´s *bottom line*.

The smallest unit is literally 1... (Not lot but 1 $, or Euro or whatever currency you're trading)
FIRST: you can adjust the size of your risk, in relation to your *stop distance*, exactly to your desired size. (To the cent!)
Then, you can adjust your *R* (risk), to the same size, for every set of trades in your system.
Once you define your risk, you can calculate your *expectancy (after a given number of trades),* provided you have a positive one...also a negative expectancy will clarify how many trades you have , till all the money is gone..
Hope it helps....and all the success to you...

*

It doesn´t matter if your start with a lousy 1$, or 50$, the point is to have an *edge*.
If you do, then correct MM, which in my book is **POSITION SIZING** gets you there...no limits...
The next variable is the amount of times in a day, week, month or year your edge can be played...(Life is limited)...

The best horse betting millionaire in Australia once said..."give me an *edge* and a *dollar*"...I would add, and some years to live...so I can play my edge, and finally enjoy my profits...

DARKWOLF

Joined FF: Jun 2008

*

Money management and **position sizing** is one of the most important aspects of trading.

Risk will vary from trader to trader depending on your accounts or your risk appetite. Some are comfortable with a high risk and some would simply prefer a lower risk. How much you decide to risk per trade will be a personal choice.

When you set your risk per trade you can choose to do this a number of ways with the most common either being a set risk percentage of your total capital or giving yourself a set dollar figure per trade that you are willing to risk.

Position sizing is the key behind all successful risk management strategies.

If you do not get your **position sizing** right to match your risk then your potentially in trouble from the start.

So let's say you decide to risk 1% per trade, then it should not matter how large your stop loss size is as regardless if the stop is 100 pips or 20 pips the risk per trade will be the same as you are *adjusting your position size and therefore your risk to match your stop loss size. You should not use your position size or risk to give you your stop position* as this will most of the time simply put your stop in no man's land, in an area that there is no logical or technical reason for it to be there other than the fact that your stop loss size is telling you to. For example if you always trade with a 20 pip stop as the risk you take and the position size you use only allows for that, where is that 20 pip stop placement relevant on the chart?

A $10000 account using a 2% risk model with a 100 pip stop will give you a position size of .20 lots

A $10000 account using a 2% risk model with a 40 pip stop will give you a position size of .50 lots

So the risk remains constant and yet the position size is variable adjusted to the size of your stop loss. These example figures may vary depending on the currency pair you are setting your trade to. These were calculated using a $10000 USD account taking a position on EURUSD.
Again, always use your stop loss size to set your position size, not your position size to set your stop placement.

Many traders will simply have the mindset that a large stop means larger losses as they don't understand **position sizing**.

*

Position sizing will ensure that your risk will remain constant regardless of your stop loss size. In my opinion if you don't understand this concept then stop trading, walk away from your account until you do. There is hours of reading on the net about **position sizing** if you do a simple Google search on the topic.

Now as far as stop loss placement. I like to simply place my stops in a logical area on the chart that is protected by some sort of support or resistance area. An area that when I look at the chart I believe that if price reaches or goes past this level that I no longer want to be in the trade.

For example if price is caught in a range and you take a short from the top of the range area then the most logical stop loss placement may be just above the top of the range or above the highs of any false breaks from that current range. Your position size will then be calculated on the size of that stop to match your risk management criteria.

If you take a long position from a swing low then I would most likely place my stop below the low of that swing that I took the entry from.

The best and most simple way to look at stop loss placement is simply to look at the chart and decide where you think the most logical area is that if price breaches that area you no longer want to be in the trade.

Cheers.

DW

*

The problem for some traders can be that they simply don't understand the concept of **position sizing** and risk management; they think that large stops are too big. The correct **position sizing** will ensure that your risk management will be correct regardless of the stop size.

A common mistake many traders make is trading to set position size therefore the risk only enables them to have their stop x amount of pips away from their entry level, which will put their stop at a place in the market that has absolutely no significance except for their own risk management.

I hope this helps a little.

Cheers.

*

In my opinion the risk management and **position sizing** side of trading is of upmost importance and my apologies for those readers who have heard it before and who are already doing it but it can be worthwhile revisiting it now and then.

"Less is more, patience is profitable, greed is suicide" - I couldn't agree more with this statement. You do not need to trade often to be profitable. Whatever suits your personal risk tolerance and lifestyle is what you should aim for.

I used to trade a lot of smaller time frames charts but now due to wanting to lessen my screen time and have much more time for other things going on in my life I switched to the longer time frame. Same principles just longer term and less trades.

Curve fitting can be a dangerous practice.

Cheers.

<u>DW</u>

*

I have always said that whatever you do and it is profitable and it works for you then absolutely keep doing it.

As far as probability goes, it is simply what trading is all about.... what is the most probable outcome.

As far as R:R I personally don't pay too much attention to it and I certainly will not base my trade decisions around whether or not certain R:R is evident.

I simply like to set my target and stick to it. Why be concerned about achieving a certain R:R if that puts your target in no man's land with no logical reason for the target being there.

As far as I am concerned, **position sizing** and risk management are the key fundamental elements that you need to understand within the trading world. If you do not understand **position sizing** and *risk management* then you absolutely should not be trading on a live account.

What works for one will may not work for another, one trader may be very comfortable trading a 5 min chart, others may only trade daily.

Plan your trade.... Trade your plan......

DW

*

Stop loss size is not relevant to your risk management strategies.

Stop loss size does not matter at all if you use the correct **position sizing** to ensure your risk is the same on every trade.

For example:
$20,000 account size
EURUSD
2% risk
50 pip stop
$400 risk
Position Size .80

$20,000 account size
2% risk
100 pip stop
$400 risk
Position size .40

$20,000 account size
2% risk
200 pip stop
$400 risk
Position size .20

$20,000 account size
2% risk
500 pip stop
$400 risk
Position size .08

So you can see that the size of your stop is totally irrelevant as long as you practice the correct risk management and **position sizing**. I think this concept is one that many traders simply do not understand and more to the point do not use as part of their trading. *You should not place your stop due to the size of your position, you position size should be based around your stop placement.*

You should not be afraid of trading higher time frames and placing larger stops as the risk should be the same regardless.
If any trader does not understand the concept of correct risk management then I would suggest that you stop trading any sort of live account until you do.

DOMINO

Joined FF: Apr 2009

*

MM is never really talked about much and yet is simply the most important; entry and exit tactics fail to overcome mistakes in MM, but MM can create a hugely profitable system from really bad entry and exit tactics.

Here is something to consider... fix lot **position sizing**... makes a huge difference to your efficiency as a trader... I encourage new traders to have great efficiency with their MM through the learning process... Something that helps our traders is this idea of fixed lot **position sizing**... This is having set plateaus for fixed losses and gains while trading...

Let's say, a trader has an idea of how to trade the market... this idea uses pin bars at swing highs and swing lows of the market to buy and sell the trader notices that risk rewards of 1:1.5 hit quite frequently without breaking the low of the pinbar. The trader wants to trade the pinbar but doesn't know the magnitude of the edge that the pinbars provide.

The trader in an effort to learn the magnitude of the pinbars dives into trading the setup but has a limited account size. He is told that he should risk a % of high account per trade... Since this trader is a tester he tests the edge needed to produce profits with this strat... the trader runs the test at 50% win rate at 1:1 and notices something odd. Most traders consider 1:1 r:r at 50% win rate to be breakeven trading... but the numbers don't reflect this... what is reflected is a slowly accruing loss. this is what the trader saw...

beginning balance: 1000
win rate 50%
50% on a loss
50% on a win

1000*.50=500*1.5=750*.5=375*1.5=562*.5=281*1.5=421
bal * loss=bal*win=bal*loss=bal*win=bal*loss=bal*win = new balance

You'll notice he won.... 3 times
And you'll notice he lost .... 3 times
And you'll notice his r:r was 1:1
And you'll notice his win rate was 50%
BUT you'll also notice he only has 42.1% of his account left after 6 trades when he should be breakeven.....

The trader scratches his head and says, well that's not gonna work how can I really make this BE at 50% without skewing my R;R and lowering my probabilities to hit my targets...?

Smart trader....

He says hey... I know I'll use fixed losses and gains not a % of my account... He goes back to the drawing board and notices that with fixed losses and win amounts he is a breakeven trader... this is what his new test showed...

beginning balance: 1000
win rate 50%
$500 on a loss not a %
$500 on a win

in the same win loss order...

1000-500=500+500=1000-500=500+500=1000-500=500+500=1000
bal+loss=bal+win=bal+loss=bal+win=bal+loss=bal+win = new balance

He notices that he saved 580 dollars not using a % based R;R system and is actually be at 50% with fixed.. He says to himself well I know from my back testing that these pins hit 1:2 r:r 42.75% of the time.. and he reruns the numbers... and notices 2 things

at 42.75% at 1:2 risk reward you are net - after 100 trades with a % based **position sizing**
at 42.75% at 1:2 risk reward you are net + after 100 trades with a % based **position sizing** system.

He then posts his idea on ForexFactory....

Hey guys look what I think I uncovered may be causing my losses... 95% of the trading community calls him a noob and using fixed **position sizing** will never achieve trading greatness because it will limit the upside on his account. The trader feels confused and goes with the FF crowd and says well I guess I'll use % based **position sizing**... 30 days later his account is blown and he is another war casualty due to the urge of people to make 1000% of their money in 6 months - 1 year and achieve millions with 4 dollars.

I'll let you guys draw your own conclusions...

DOMINO

*

First, let's define an edge... what is an edge?

What gives a person who trades on fundamentals and edge in the markets or someone who trades based on technicals..? You see traders take trades based on ema's, pin bars, support/resistance areas, trendlines, master candle setups, etc..

But still there is a division in the ones that are profitable trading quite the same thing... you go to a book store and you find 150 books in the trader section all on entry and exits but nothing about *risk control*.

Why? Because the more types of entries exits the more things there are to implement and control there is always a way to show every market turn or major market turns resulting from some tech form or another that is based on a historically building lagging database of past events. When taking my first internship at a hedge fund up in Philly... They told me one of the best marketing tools for financial products is the use of technical analysis... why? because everything can always be explained in hindsight but many unexpectancies and options remain available creating the illusion of knowledge and understanding giving faith to the idea and creating the idea to check back and see the update and be reaffirmed. This gives control to those who understand how to use it. Tech Analysis creates liquidity for the market and helps build attackable order flow setups for those who know how to manage and control risk. For example... I have a letter here from Citi bond trader... Who is a friend of mine... names have been blocked to protect the innocent lol...

"Hi ya mate, yeah cheers for that! Yeah def free trading is the best...I trade Eurogov Bonds for Citigroup. To be honest we have an army of analysts working for us that give us data every day on what they think is going to happen, so we take our lead from the desk lead who'll say "right lads you need to hedge this much today" or "there's a big German bond auction today I want you guys to squeeze the market like this". My job is basically a market maker so I don't really get involved in the stuff that u talk about which is why I'm so interested. On a daily basis I'm just squeezing the markets to make it harder for the smaller boys to get good prices..it's a dirty job I guess but someone's gotta do it :=)"

Although I guess for you guys this is all hear say... So without divulging too much they squeeze and change price patterns to manipulate the order flow... This can make big changes using the little guys to buy in at better prices... And well as blocking orders from being placed against.

So right now ur probably wondering where I'm going with this and the point is... if your trading on expectation of a edge based on patterns and formations your basically for the most part buying into manipulated price patterns for those trying to push price in their direction using order flow manipulation techniques.. Psychological factors... And risk control.

If you are trading based on price patterns that is fine but in itself is not an edge... it just gives a trader the balls to execute and trade trying to find the flow of the market they are trading... the edge at that point is understanding when it is not a working trade and managing your capital at risk from that point on cutting your losses and letting your trades run when u r with the flow…

So essentially your edge comes from controlling is aspect... This is *money management*... it is by far the most important factor to consider when trading... it is not the entrance or the exit it is how to CONTROL the normal distribution of the SUM of the Maximum allowable risks while trying to create a right skewed distribution.

And by controlling your risk, you can effectively control distance as multiples of N... this for a reference is also discussed in "the way of the turtle" by Curtis Faith… While I'm not advocating the book it is a useful *Money Management* tool because the turtles for the time where extremely advance in *money management* and made money understanding that.

As I have already stated that by applying negative or positive expectancy to a system you are in effect placing a limit on your profitability factor... As many good traders Know trades may last a few moments or for a long while as long as the trade proves to be profitable... by understanding this... and limiting losses and applying basics of *money management* rather then systemic defined areas of profit you are limiting profitability because you are capping your winners even at some point. This negative expectancy or positive expectancy is what you would hear of in a casino... well unfortunately the futures and futures derivatives market and equities market... is not a casino... you can not cap your winners and view the market with no sound judgement and run it like it has odds in a casino… When you hear of traders that are profitable discuss win loss ratios and risk reward setups…Usually these are averages not set areas they are always aiming for as good traders know that the market is not going to confine to their idea or *risk:reward* and probabilities at all times.

If u want to gamble I suggest blackjack...

A trader is a trader because he understands efficiency and *money management*... Traders place in the market is to apply liquidity and balance place when it gets off track and it's important to note you job in the big picture. If trader didn't exist to balance the market and find fair value the market would act completely irrationally.

I'm talking about *risk control and money management*... I could care less about my entry most of the time i just eyeball it...

That one variable in your methodology that makes you feel like you have an edge is just that... a perception of edge... I'm not saying that there is not a specific edge just that the most usable is *risk control and MM*... But people want a perception of edge to give them balls to enter the market... they need courage... they know direction... They know where price is going it's easy to see trend.. But they need the courage to enter the trade and so this idea of edge exists.

After they put the money to work... you need money on the sidelines you need to expect the unexpected you need to control risk... and a good risk manager/money manager is their ability to control these aspects...

For example quadranting... many traders use the quadranting to define an edge... they say it's an edge if it ends up in this quadrant and we can verify that price moves to that quadrant more than against it its and edge.. but we when u systemize it and apply caps to it and limit the upscale and the downside you'd reduce whatever edge does exist by optimizing or curve fitting the "edge" that what would be considered left sided positive expectancy is nothing but a curve fitted model that doesn't work but is an edge..

Just using *money management and risk control*... You can take advantage of the natural edge and increase effectiveness. What is this *money management and risk control* exactly? Well if we are right sided thinking we don't know what is going to happen in the future... But we know... that if a daily pinbar trade has been triggered and a stop is at the low... you will have a predefined risk... but allowing a trade then grow infinitely until the wins far outweight the losses. You make use of a couple things... the black swan you limit it... and allow it to also power your trade and also right sided skewing of a normal distribution... the market is random until it is not and the way to control it when it is not is buy using money management and risk control to reduce when it is random or manipulated.

Roulette is an example of a negative expectancy game because it is gambling and no you cant beat it with money management but it is also not trading…

But there is much more, one way does account to out of trade aspects another is in trade aspects more than just **position sizing** and stop… it has to do with using money to skew probability of distributions and can be used as an effective edge.

The only good way to move a stop is into profit or closer into profit... and this is a risk control idea minimizing losses it's how to control your position after the entrance is made. Note it's not place a stop walk away and grind the odds.. It's controlling the odds as well... It's risk management and money management there is no excuse to let a stop gets hit after a trade has been in significant profit because it didn't confine to your positive expectancy criteria.

I feel *MM and risk management* is more important than anything in this business... it's a business of protecting yourself and understanding what works… which is protecting yourself ... the use of stops.. Break evens and right sided skewed distributions.

*

MM isn't just **position sizing**... why would people say **position sizing** is the most important aspect to trading among professional traders? Money management is more than that... Money management I consider to be meshed with risk control and risk is money... and modifying it is money management. Now just because I'm saying that Risk control/MM is the only edge doesn't mean I don't have entrance criteria... No money management in the world is gonna save u from trying to only short the Dow for the past 60 years. The reason I'm careful in what I choose doesn't have to do with edge either... it has to do with efficiency... I wanna get paid to hold these positions... I feel compelled to use that to cover my transaction costs in long term trades.

*

First incorrect assumption, there is an optimal position size... No there isn't...
It depends on how safe you want to be and generally must be adapted to entrance into the market.

2nd incorrect that there should be a set target... Nope setting a target generally will only cap how much you can win and will lower your average win size vs loss size and will drag normal trading strategies into losses.

3rd % based MM has exponential growth at the expense of higher account risk... Nothing in trading is free... Risk is always tied to reward... Without risk there is no reward and with 0 risk there is always - reward... in the near term... fixed **position sizing** can be set for any number of amounts of trades and managed easily...
example... i think over 100 trades I will make money and have 10k account so 10k/1k =100$ out of 10k every time this does two things...

1. Lowers the %win rate vs loss rate needed to be successful and profit at the same risk:reward ratio by about 15%... and improving efficiency in trading game

2. Keeps the effect of wins in proportion to account starting size so as to increase expectancy of positive outcome..

Generally exits are not a part of money management... only the INITIAL RISK is money management thus the effects of how to reduce initial risk without effecting future outcome becomes the bridge to MM and the trades profitability.

Newbies start fixed positioning, it's much safer.

BASSRAMY

Joined FF: Apr 2011

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My opinion:

1- Always enter with a small lot size like Van Tharp says and its crucial for your success, **position sizing** is the most important aspect of trading.

2- U have to use a *risk management* strategy be it a stop loss, trailing stop, recovery, that depends on your strategy and on your risk tolerance level, these risk management strategies can keep you alive to trade another daily, be it Daily, weekly or monthly stop loss, and that is another crucial criteria for success; try to lower your leverage too until you get successful and then add risk slowly, very slowly, play it defensive.

3-On the psychological level, practice keeping your emotions out of the way, do not go panic any time a trade goes against you that is perfectly normal even if you had a loss that's just part of doing business, we do not go panic anytime we get a telephone or electricity bill in our business, these are the costs of doing business, in the contrary take this losing trade and dissected to know where you were wrong when you took the trade, and learn from it I repeat, learn from it.

To resume:

1- Small **position sizing** and low leverage.
2- Control Risk with stop loss or recovery.
3- Keep your emotions in control.
4- Treat your trading as a business.
5- Practice on Demo until it's in your blood and becomes second nature and only then go live small and scale in as you become successful.

Thank you and Good Luck.

*

Position sizing is key in my system and it works magic in those situations when things go wrong. A good MRM (Money and Risk Management) strategy will be to enter with a small position and then scale in as the trade goes your way.

B.R.

*

Repainting can harm you when you enter early without confirmation from other tools but it can work magic when you take a good trade with the trend because it let you milk the move to the last pip, and that is exactly in line with my philosophy in trading, which is CUT YOUR LOSSES SHORT AND LET YOUR PROFITS RUN, and to my humble knowledge that is the Holy Grail in trading, which includes all the good habits of successful trading :

1 - MRM = Money and Risk Management.
2 - Discipline.
3 - Patience.
4 - **Position Sizing**.

Hope it helps.

Regards,
B.R.

*

The most important thing is *capital preservation*, even with a lot of trades open I can sleep soundly @ night not worrying about anything, because my *money and risk management* is carefully planned (Small **position sizing**, low leverage, 1:3-4 Risk:reward, etc...).

Don't doubt yourself you will get there but do it slowly, don't rush things, consider it a 4 years college education which leads to open your business of trading, don't open live account until you are totally profitable on demo, don't rush things the markets will always be there, and even then start small because of the psychological effect of live trading and even then focus heavily on *capital preservation, money and risk management*, these are the holy grail of trading and Investing, nothing fancy.

Hope it helps.
Regards,
B.R.

*

What if u don't have the Discipline to follow the rules?

What if u don't have the confidence in the system that u use?

Then you are experiencing is fear, the fear of losing what u already have (Some pips), you're getting greedy (To gain some more pips), everybody knows that these are normal trading emotions which u are entitled to feel like everybody else.

The answer to this problem is self control and only self control, this doesn't come easy, u need to practice this day in and day out until u feel that you are in control and not your emotions, then comes the confidence in your system, if you back and forward tested your system or strategy extensively then it's much easy to control yourself knowing that your system will come out a winner in the Long term, if and only if you have the discipline to follow your rules and only then and with time and experience these emotions will become marginal and only then u will sleep well @ night having confidence in your system and rules.

One of the utmost important rules in any trading system is **position sizing**, always choose a PS that make you sleep comfortably @ night and take it easy, accumulating wealth is a marathon not a sprint and it's been achieved by sitting on your hands most of the time.

Hope it helps.

Regards,
B.R.

*

My Top 10 Rules are not a "Get Rich Quick" scheme. They are a set of guiding principles that will help you learn how to save, invest, prosper and to achieve your financial goals. I can not guarantee that they will make you a millionaire overnight but they will certainly help you to get started. Over time you will quickly see the benefits of these rules and your financial prosperity will grow... SIGNIFICANTLY!!!

The principles used in my Top 10 Rules apply anywhere in the world for anyone that is eager to achieve financial independence and that wants to make good, honest money... a lot of good, honest money !!!
So if you want to win, understand these rules.

1) You cannot predict the future. Stop believing it and stop wasting your time trying to do it. No-one ever has nor ever will be able to "predict" what is going to happen in the future. Runaway markets tend to keep running away. Do not even bother trying to justify a market simply let it do what it wants to.

2) The big money is made from **position sizing**. You really must stop chasing a Holy Grail and spend time on different **position sizing** rules. This is the one "secret" that separates a professional from the man in the street.

3) Price is all that matters. The Market does not follow fundamentals. It's all about "perceptions."

4) Stop thinking like an institution. The big money management funds are not interested in outperforming the market. As strange as it seems they are interested in managing money.

5) 99% of technical analysis is junk. Whole companies have been set up to feed you B*S in the form of technical analysis. Throw it away and get down to basics.

6) Question everything and everyone. Never blindly believe anything you read or hear about. Be careful about what you read and even more careful about what you believe in. After all an opinion is only some-ones belief.

7) If you have to ask, you shouldn't be in. I can't believe people actually ask other people whether they should hold or sell a position they are in. Surely before you enter you have your exits all in place. I'll guarantee if you are asking this question you are not making money.

8) I am in the market to make money not to win a puzzle. No-one can beat the market. Make a fortune in a bull market play defensive in a bear market. Returns of 300%+ should be easily attainable in the right conditions but do not give it back when the market conditions change.

9) Some people are just not cut out to trade the market. If you attach too much importance to your trading account i.e you are trading "scared money" you will never have the conviction to follow your rules. If you are not having success stop trading. Better try to learn why you are failing.

10) Trading the market isn't everything. It's only money. There are much more important things in life & you'd better not forget it.

These commandments aren't rocket science... however if you follow them you will be very successful, no matter what market you trade.

Best,
B.R.

*

My 3 General Rules are:
1 - Cut your losses.
2 - Let your profits run .
3 - Don't ever break the Number 1 and 2 rules.

Position sizing goes hand in hand with stop Losses and measured with volatility and pip value of every market in mind, u can start with the lowest **position sizing** possible and build from there as soon as u master the system, taking in consideration the lowest leverage possible as a start 1:10 - 1:20.

Exits are the most important part of a system, coupled with good expectation, risk of ruin parameters and a solid PSYCHOLOGY profile gained through 13 years of trading ups and downs, this protected me through a lot of black swan events like the recent SNB Chaos which instead of taking heavy losses I was able to generate profits instead.

Best,
B.R.

*

Learn how to trend follow the markets and to build a solid psychology profile to withstand big drawdowns that come hand in hand with this trading style.

Before asking about entries, exits and SL's, better learn everything u can about the turtles and Richard Donchian the father of all Trend followers, also about Jesse Livermore methods, John W. Henry, Ed Seykota, Paul Tudor Jones, Jerry Parker, Salem Abraham, Bill Dunn, David Harding, Larry Hite, Kevin Bruce and Bruce Kovner.

Ha "And Forgot to mention to study Van Tharp's methods and techniques, specially the **position sizing** and *Risk and money management* studies".

I'm not trying to Intimidate you or make it an impossible Job to do, but I did all this homework through 13 Years and still reading between 2-3 Hours / day to get where i am and I’m still in the beginning of the road.

Best,
B.R.

*

One of the main ingredients of successful trading is *Patience and Discipline* and these comes with experience coupled with low leverage, higher TF 's, small **position sizing** and adequate diversification.

We as human beings seems to lack these 2 qualities and that's why maybe about 80 - 90% of aspiring traders fail, the rich quick marketing scams played by most of the Bucket shops Brokers (The other Las Vegas) seems to aggravate these situations in thinking that trading the smaller TF, high leverage and big **position sizing** will make you richer faster, in reality it’s the opposite and its surely the clear path to margin calls, these scam marketing strategies are carefully marketed by these BS (Bucket Shops or ...) to steal the newbie’s money the legal way saying “we will take your money and invest it but we are not responsible if "when" we lose it all, it’s not us it’s the market”.

We aspiring traders, especially Newbies, tend to start in the opposite direction, instead (and because we have no clue what trading is) of taking the less risky road of learning to trade demo first, then trading small sizing and extra low leverage and huge Diversification to offset the risk and build on that as time go by and we became more experienced, we tend to begin by Jumping directly in the pool before even testing the water and trade with high leverage (500:1) big **position sizing** which could wipe us out in only one trade, we are optimistic we are looking to be rich in 1 year, we look @ the profits and ignore the risks of high leverage and big **position sizing** which could bring disaster to our trading accounts considering we don't have a clue of what we are doing.

With pro traders it’s the other way around, we look @ risks first then let the markets decide how much profits we will have, the first question before entering a trade should be " How much can I lose " not " how much can I profit " nobody can control the markets but you can control your losses and that is the only thing that you can control in this business and the pros know it, they know their expectancy and their risk of ruin because they back and forward tested their systems and they know exactly what will happen if they risked 1% or 2% or 5 of their trading capital.

Long story short, begin very small and don't go live until you are profitable on demo first even if it takes 10 Years to do so and then scale up, that is the most important advice that i can give to somebody today considering to trade the markets, being there done that so don't do like i did, learn from others and shorten your learning curve (For what is worth).

Best,
B.R.

*

Money management is the most important aspect of trading, your **position sizing** and stop loss orders should be set at your comfort level and an exit strategy should clearly be defined

It's being proved again and again that those traders who trade with low leverage are the ones that are consistently pulling profits from the markets year in and year out, bet sizing is also one of extreme importance, it have to be proportional to your equity and not risking more than 1 volatility adjusted percent per trade (Study the turtle bet sizing to understand the concept or other volatility adjusted **position sizing**).

The basic concept is you bet more on less volatile Instruments and less on more volatile ones measured by the Average ATR to keep a same dollar value for every position taken in your portfolio thus the same dollar risk, this is not too complex a theory but need a little bit study, this or a variant of this bet sizing system is used by many successful hedge funds and institutions which trade millions of Dollars per day. Van Tharp has a book that explained this and other betting systems.

Quoting Van Tharp:

Size really does matter in the markets! **Position Sizing** tells you how much to risk on any particular trade. It is one of the most important concepts that any trader should know).
Best,
B.R.

*

Everyone should start with the least leverage and the smallest size possible until proven profitable and only then begin to experiment with other options, trading a portfolio of assets require us to *position size* depending on the volatility of the underlying asset to level off the dollar value risk.

My trading took a huge turn up when I discovered volatility, now my **position sizing** and stop value depends solely on the underlying asset volatility, the bigger the volatility the smaller my PS (**Position Sizing**) and vice versa taking in consideration the tick or pip size and value of the asset (For example I hate the Dax, Crude Light and the Bonds for even with the smallest **position sizing** they will eat u up in a case of a loss) talking about Futures here.

Taking these in consideration my position size is rarely more than 1% and sometimes 0.4 - 0.6%, the ATR plays a big role in my trading since I use a volatility trailing stop to exit my trades, I believe firmly that this is the most dynamic way to adapt to the market and way better than the fixed percentage or market structure stops.

There is a ton of materials regarding these topics on and off the net and here in FF also look it up, Van Tharp have a huge work done on this also.

Best,
B.R.

COPERNICUS

Joined FF: Apr 2013

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To determine the expectancy of a system, use the following simple guide. I prefer calculating expectancy in terms of trade risk (R), however the below formula will do the trick.

Pwin - Probability of a win
Ploss - Probability of loss
AvgeWin = (Sum of total win dollars)/Number of wins (Needs a sufficient sample size of trades)
AvgeLoss = (Sum of total loss dollars)/Number of losses (Needs a sufficient sample size of trades)

Expectancy = *(Probability of Win * Average Win) (Probability of Loss * Average Loss)*

If it ain't positive then a Martingale approach will come undone over time......There is no way around this dilemma statistically speaking....but if your technique does have positive expectancy then a Martingale progression can enhance results albeit with some nasty drawdowns along the way. There are however better ways through **position sizing** to enhance returns with less risk.

I have tried ...I don't know how many times to try and make Martingales work...and many sleepless nights. I think it was Hanover that actually finally put this to bed for me with a mathematical demonstration of the verdict.

*

The old unicorn pops up from time to time when I see those seductive equity curves associated with forms of Martingale progression. I don't know how many times I have stood at the cliff's edge and thought I could fly.

Having come undone with Martingale's in the past, I still dabble from time to time with limited averaging down variants but only with overall positive expectancy....however they frequently still create drawdown drama's that I don't always have the cohonas to tolerate. It has forced me to just accept the fact that there are better more efficient ways using judicious **position sizing** with positive expectancy to avoid these unnecessary risk events that just makes me unpopular with the wife and kids and gives me an ulcer.

<u>COPERNICUS</u>

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The reality appears to be that market participants (humans and their associated creations [bots]) make 'subjective' decisions based on partial information that is available to them combined with a swathe of other reasons (rational or irrational) that are specific to the participant that we simply can never predict with any degree of certainty. The result is that the plethora of different reasons to trade a particular quantity at a particular time produce a cumulative price pattern that is dominated by uncertainty in future price direction as opposed to directed price action from co-ordinated market behaviour (that is usually associated with an outlook associated with economic fundamentals) and simply does not provide sufficient information over short timeframes for reliable predictive purposes.

Given that the 'tick' is the fundamental unit upon which price action is constructed, the information gleaned from short term patterns (eg. 1 min to 5 mins) cannot with any statistical certainty (low sample size) have any predictive power as their contribution to total price action over an extended timeframe may or may not have any material impact on the longer term trajectory of price. At any particular moment in time, the trade decisions made may have no context to the overall direction that price may take based on market consensus. The ability therefore to use short term price patterns as a predictive measure of future price movement does not possess the requisite statistical validity required to deliver a trading edge over the long term.

The ability to predict future price action only emerges over time with an increasing sample size where price action becomes more than just a simple pattern associated with short term collective behaviour but rather a persistent series of patterns (along a single time horizon) associated with repeated price action behaviour indicating a degree of market consensus (or consistent action of durability) to the direction price is taking. The impact on price associated with this co-ordinated price behaviour is a bias in overall price direction (a gross movement) which can only be visually detected over an extended sample size and exhibits itself as extended directionality on otherwise complicated short term random patterns.....a small non-random drift embedded in otherwise random price patterns.

It is visually impossible to detect the difference between a random price pattern and a random price pattern with a small level of inbuilt drift associated with co-ordinated price action. As a result, you will never know with certainty if you are trading an illusory pattern of no meaning or a pattern representing co-ordinated collective participant behaviour. The best that you can ever hope for is to simply trade those patterns (illusion or not) that have been statistically validated over an extended sample size to be of a sufficiently repeatable nature to provide the necessary positive expectancy (within the parameters of a defined confidence interval) to your trading. The price pattern that I use which is perhaps the simplest and most endurable of all price patterns is the simple trend but I simply can never determine with any degree of confidence whether the trend I am riding is an illusion or a real trend of co-ordinated price action. The only way I can detect this with any certainty is with hindsight.

At the end of the day my performance results are dominated by simple random luck, but the edge that I am seeking to obtain is a small bias that more than compensates for frictional costs of trading to deliver positive expectancy. Once you have positive expectancy that really is the most difficult aspect of trading.

Once you get positive expectancy (which really is the holy grail of trading) you can leverage your returns using a range of MM techniques (but most importantly **position sizing**).....but only when you truly have positive expectancy. The best measure of this is a very large sample size which only comes with a very large data sample....or as Nick Radge states....the next thousand trades. To stay inthe game for the next thousand trades in a market riddled with uncertainty, risk management must be your objective.

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Reverse Martingales (Anti-Martingales) are the opposite of a Martingale whereby you double your lot size after a win etc etc etc.....Of course there are also modifications where progressions do not take the strict form of doubling up after each loss/win event.

Anti-Martingales have a distinctly different form of equity curve where you have a steady linear decent with small losses interdispersed with tremendous quadratic wins. They base success on market divergence whereas Martingales base success on market convergence and their loss profile is quadratic in nature.

One thing about Martingales, there are many different forms of them, and some sub-categories of Martingale progression have particular characterictics. For example with both Martingales and Anti-Martingales you can have further variations such as Supermartingales/anti-martingales (where Pwin <50%) or Submartingales/anti-martingales (where Pwin >50%).

The anti-martingale is an interesting twist on the Martingale but like the Martingale, also suffers from performance inefficiency when compared to flat betting techniques that use **position sizing** to enhance performance. They can be employed very successfully on exponential trend moves but if applied to linear trends face problems in that the breakeven point of the progression can fall behind price. They are however far 'safer' than Martingales.

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I have always tended to disregard portfolio diversification as applicable to my retail world, but have only more recently started to regret not getting deeper into it because the nuts and bolts of it, once digested, are fairly easy to apply but dramatic as a performance measure.

The more I get into portfolio diversification (asset allocation) the more I realise how too much of my trading attention has been focused towards attempting to be a great trader or a rocket scientist using unnecessarily complex approaches that pay too great an emphasis towards the trade technique itself, when sitting right in front of me is a well known and understood approach that offers excellent long term performance results while minimizing unnecessary risks and costs.

The correct application of diversification principles (using equity profile contributions that don't correlate very well) reduces portfolio volatility which costs real dollars through a phenomenon referred to as 'risk drag'. Effectively risk drag reduces performance efficiency (by tying up available capital significant reducing earnings potential) and simply by addressing this factor and optimising performance efficiency, you can significantly accelerate performance above and beyond that which can be delivered by more accepted approaches in this retail world such as optimal **position sizing** or money management methods. Any asset with a volatility of returns of greater than 0 will see its multiyear returns erode from risk drag.

We are all familiar with the notion that 'higher returns typically carry more risk' but many of us are less familiar with the ability to 'increase returns with no additional risk' by evaluating the portfolio components against a measure of performance efficiency referred to as 'the efficient frontier'. The reason for this lack of knowledge is attributed to an assumption buried in the former quoted statement relating to 'perfect performance efficiency'. Of course for a perfectly efficient system, 'higher returns are 'always' associated with more risk' but for less than optimal efficient systems portfolio diversification using 'Modern Portfolio Theory' allow you to achieve enhanced performance with no greater risk simply through optimising strategy efficiency.

Too few of us retail traders venture into this world, probably because it is not regarded as sexy, however when an emblazoned opportunity such as the terrific power of diversification shows up on the doorstep, for those traders who truly are concerned in obtaining an edge in this market, it really is a 'free lunch' opportunity. I would always prefer to play roulette with a biased wheel.

*

Somewhere between the spectral extremes of random walk and predictive certainty is the solution, but to find it, you need to shift your focus away from reliable cash flow generation and instant profitability (the calling of the ebullient retail trader), and focus on long term survival via risk management.

Imagine for a moment that rather than thinking in terms of a trade strategy profitability as a measure of success, you simply looked at the ability of a trade strategy to survive for the long term in the market. What would be the results of this chosen mindset? What you may find is that you unfortunately cannot help but be profitable to survive in the long term, but this is not a consequence of a profit focus. It is simply a feature of an inefficient market. Having a 'survivalists' mindset allows you to be around and participate in any non-random biases that may turn up from time to time.

A survivalist's mindset will ensure that you don't give a stuff about the next trade, only the next thousand trades. It will allow you to focus on more important aspects of trading such as volatility **position sizing** and trade management as opposed to the entry/exit technique itself (that takes up the lions share of discussions on this forum), and it will ensure that you are at least around to talk about trading in the next 10 to 20 years. Just by being around for an extended period of time virtually guarantees wealth creation.

To appreciate this subtle mind flip, you need to assess things long term, have patience, strictly manage risk and the rest of the trimmings are simply the consequences of this trading philosophy. The way out of the 'trading is a mugs game' versus 'trading is an instant ticket to riches" is by being less concerned with regular cashflow generation and more concerned with wealth creation and actually opening our eyes and investigating what we might be able to draw from the professional trading community to assist us in this endeavour and in particular those professional trading firms with a long term auditable track record.....but this is written in invisible ink as no matter how many times this is mentioned, the 'yes it is', 'no its not' unhelpful diatribe on this forum will continue.

<u>COPERNICUS</u>

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If you closely study the nature of current markets is that success in trend following is becoming more punctuated and less consistent in nature. For example prior to 2000 (eg. between 1970 to 2000), diversified trend following using relatively shorter term filters was a consistently profitable technique to apply to the markets. Nowadays however you have to apply longer term filters to reduce impacts of 'noise' and wait longer between high performance periods. However trend following as a technique is not dead in the least, it is just that the times when this strategy shines are fewer and farther in between. However when the crisis events arise, that's when TF gets paid it's dues and significantly outperforms other techniques given the correlated nature of markets fundamentally supported by irrational fear and greed of market participants (herd behaviour) which is hardwired into participants.

Where the odds of winning or losing approaches 50%, that is when overconfidence starts to rear its head and provide an exploitable edge for those predating on human behaviour. Trend following preys on overconfident traders by utilising systems that are specifically geared to counteract normal human behaviour....to let profits run and cut losses short. Crowd behaviour will always be represented by asset bubbles and provided there are bubbles, trend following will shine. You can kick the can down the road and allow those bubbles to get big.....real big......but sitting quietly in the bushes will be the predators that just rub their hands together with glee and patiently wait for the fallout.

You may hear that trend following doesn't work in FX and should be restricted to other asset classes such as commodities or equities etc. That would be the take of those ill informed traders that view trend following as a technique for the everyday. The bottom line is that trend following is not an everyday strategy but a technique that must be applied everyday to ensure that when crisis alpha occurs, you are participating. Trend following works best in liquid asset classes as it relies on collective behaviour of it's participants to shine. Sink this in your skull to then realise why there are Trend Follower's in the FX space. It is to predate on collective behaviour and the correlated nature of FX. For example, while you may hear some say use TF for equities.....once again they are not thinking like a trend follower....Trend following is not as successful in individual equities as you may think. Trading indices are better due to the greater liquidity and correlated nature of assets within the equities class. The more effective technique for trading individual equities are rotational momentum based strategies.

What defines whether you are a trend follower or not is not the details of the specific technique but rather the behaviour of the trader between entry through to exit. If you let profits run (open ended) and cut losses short, then you are a trend follower no matter what timeframe or technique we are dealing with. What is inbuilt into this technique is the ability for significant wins when conditions are favorable and far greater profits than would otherwise be achieved by human behaviour. The open ended nature of exits defines the positive skew of the technique and sets it apart from convergent strategies such as mean reversion.

There are three decisions every trader must make:

- When to get in;
- When to get out; and
- The *position size* to take.

Most traders think getting in is the most important feature. While this may be appropriate for some asset classes such as housing etc., but for liquid asset classes it is the LEAST important as in liquid markets, every moment is a potential decision point that allows you to determine whether to increase or decrease your position size or get out completely. It is the ongoing trade management at every point between entry and exit that defines whether or not you are a trend follower. You stay in provided that momentum upon entry remains in your favour and you let this go on for as long as price tells you this is so. You never form a subjective opinion of when enough is enough. The market can only decide that. Entry can be random but **position sizing** and when to exit (trade management) defines a trend follower.

Trend following is not easy and diversification is an essential component that most conveniently avoid....Professional trend followers recognise that the techniques to TF are many and varied and that each delivers a small portion of alpha (perhaps as low as 0.1 annualised Sharpe)......so the pro's swallow all forms in their diversification across hundreds of instruments, system variations and time-frames to smooth performance and deliver acceptable return profiles for the investment community. Each individual component contributes to the overall pie to deliver sufficient returns and the accumulation of components serves to reduce the overall volatility of these returns. It is the requirement for diversification that makes a significant barrier to entry into this space by the retail trader.

The market has fundamentally changed and so have the performance metrics of TF, however it is still the superior trading strategy when talking long term 'sustainability' and given it's positive skew is geared to thrive (steal alpha) when the rest of the world turns to _ _ _ _!!!. It is the strategy of choice when it comes to having the last laugh and a particularly relevant stance to adopt today given the current disequilibrium observed in modern markets. Keep the powder dry peoples but keep on systematically applying the TF technique. Patience will reward you as markets inevitably have to diverge to achieve new equilibrium. The Edge in Trend Following is knowing what we don't know. :-)

*

What the exit and trade management practices such as **position sizing** are effectively managing is 'risk' and that is key to this game. Profits can occur at any time but risk is something that needs to be controlled all the time and is the only aspect of trading that you have any direct control over. You become a successful trader 'or species' because you survive in an uncertain environment. If you survive, the profits will come by default from your increased share of alpha received over time relative to the competition.

Ask yourself why are species successful? Is it through purposeful directed action or is it through possessing more robust features that are capable of surviving in a competitive and uncertain environment?

*

As a definition, trend following is simply a specific set of rules that defines your trading parameters. In its simplest sense to be a trend follower, you assess whether price is up or down with respect to the average directionality of your chosen look-back period and then enter a trade in the direction of that historic directionality and let profits run (while price movement obeys that condition) and immediately exit from your position when that condition is no longer met (cut losses short).

The heart of trend following is:

1. Generation of signals;
2. **Position Sizing**;
3. Exit strategy; and
4. Overall risk management.

All trend followers do is define rules that respond to typical questions that every trader faces. When to get in, when to get out and what position size to adopt however the entry point is not the most important consideration. Modern trend following requires you to manage risk at all times of the trade. Precision of entry is simply not that important. We are simply risk managers. In order of importance:

1. Exits; then
2. Position management; then
3. Entries.

EMMANUEL7788

Joined FF: Nov 2008

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Trading a system which uses a combination of **position sizing** and smart money management methods has potential to be further develop and will be an edge to winning.

Getting into the right direction is something you need to do using your analytical skills. Support and Resistance is one key and Price Action always take the lead.

It is more important to be consistent in applying any method then with smart money management and risk based **position sizing**, you control your losses. To maximise profit "let profit run", that depends on your Trade Management skills and how you manage your trading psychology.

I am sure with trading discipline, proper **position sizing** and money management and good trade management, trading the system can be profitable over long run.

*

Every trade has a risk. Whether the SL is 50 pips or 100pips, the risk is the same.
If you do not know this and don't agree with this, you should not be trading until you learn what **position sizing** is all about.

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In my opinion, it is better to measure trades results in term of R-multiples.
And with proper **position sizing**, the end results will be the same when we look at ROI.

The method is technical hence remains the same. What you need to work on is money management, risk management and **position sizing**.

EMMANUEL

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We all know that having trading losses is normal and must be accepted being part of the trading business. Some people will say treat these losses as cost of doing business, expenses, etc. But in reality it is not so easy for many traders on a day-today basis. Managing drawdown has nothing to do with money management or trade management. We all know by now that recovery of drawdown is much more difficult that the normal trading itself. Managing drawdown is in fact to focus on how we manage our trading psychology when we are in a drawdown period and how we react to drawdown.

Some of the things I learned are:

- I must not blame the strategy and start making changes to the strategy or in worst case change the strategy.
- I must recognise that drawdown is inherent in all systems due to unforeseeable adverse market conditions.
- I believe that my trading methodology, money management and trade management are all sound and drawdown is NOT a reason to make any changes to these.
- I must avoid the temptations to increase more trades hoping that it will help recover losses quicker.
- I must instead, go back to the basics of my systems, do review and make sure I am following my system rules and my trade plan.
- I must not make any change to money management thinking that it will help me recover the drawdown quicker.
- I know that only consistent trade management over time will help me recover the drawdown.

There is one aspect in money management which is the preservation of trading capital I think is most important as an investor trader. There is attractiveness in compounding profits to grow your trading account as many forex coaches and financial advisors will tell you. There are of course both upside and downside to this. To do this or not is up to your individual business plan and strategy.

In my intraday and swing trading, I do not use compounding of profits.
I maintain a fix base capital and use this to do my **position sizing** for every trade. I keep track of a profit cycle, currently at 10%. When I achieve the 10%, I withdraw the profit and start again at the base capital. In this way I do not overtrade. I have set an equity protection cut-off limit, say at 20% where I will stop all trading. Consistency in building the 10% profit cycle is more important than adding up the pips. The shorter the number of trading days to achieve 10% profit cycle is one KPI which I use. This is an ongoing monitoring and evaluation of trading performance.
On an average, a 10% profit cycle in 10~15 trading days is achievable but requires some diligent work. I think this is one effective way to cope with drawdown and manage the recovery process.

*

It is important when we design and build our own trading systems for any market type, we must be able to verify the type of technical setups and the range using historical data.
For every technical setup, we need to count how many times it occur in history, the frequency of occurrence and also during which market session to know the repetitive nature. These statistics are crucial to know in order to build a complete system with money management and trade management methods in it.
We need to be able to make a rough estimate what the returns would be if those technical setups and traded using our own money management models.
For this, we need some kind of backtesting systems.

Having backtested the system on our own, we all need to forward test it using a demo account.
But we need to think of our own money management, **position sizing** strategy and trade management method.
More important for us is also to ask ourselves:
Is this system suitable for our individual temperament?
This is the most vital questions because many traders failed because the system they trade did not match their temperament.
I have traded scalping systems on M5 and M15; these did not match my temperament. I failed and I stopped trading lower TFs below H1.

*

How will I know if the market condition will go sideways before I decide to take a trade?
How will I know if the trade will run into a trending mode?
And if it does, how will you maximise profit in the trend run?

I rather focus more on money management, **position sizing** and trade/exit management which will I believe is one of the keys to successful trading.

*

There is a popular saying: 'Cut Losses Short, and Let Profits Run'.
This is easy to say, but not so easy to do as a trader.

My belief is that only a proper money management strategy and proper **position sizing** will make a big difference to become a successful trader.

For every valid trade setup, we must have also a invalidation setup or condition to let us know when to cut loss. This is a mind game every day when I trade. Every trader must know how to manage his/her own trading psychology and this is the biggest part of the whole trading game.

*

Every trade is taken based on a particular setup condition. Once we are in a trade, we look for condition which will invalidate our trade. If the invalidation occurs, we as traders must take action according to our trade management plan. Often that means we cut loss, sometimes we cut loss early than before our intended initial SL when there is a trade invalidation signal.
One of the success in trading is to manage trades using the R - multiple. R being the initial risk or the SL. The **position sizing** is based on this R.
The success of a trader trading a particular system can be measure in terms of the average R of all his trades. The total number of pips does not matter to me.

Q: When I would take a reverse trade?
If there is a reversal setup but then again I must have a trade plan for that.
For every trade, I have a plan A and a Plan B. This will help me get in and stay in the market.

Q: 'Compensate for loss'?
Every trade is unique in a sense, so I do not look for 'revenge' trade to make up for a loss.
First, I must try and manage out of every a losing position before I accept that cut loss decision.
Then, that's where plan B come into consideration.

*

I attended Dr Van Tharp courses and I learned about money management and **position sizing** and lots of stuff about trading psychology.

I can conclude that mental SL is definitely not for me. It won't work for me to trade this way because I trade for a living and treat trading as a business. This is one instance where I learn things which I should not do.

*

The market move in waves, if you see the waves and know how to ride them with proper money management and **position sizing** strategies, you will be in for a good year-end bonus.

*

I've had a losing phase too, until someone helped me analyse my trades and suggested some changes in Money Management and **Position Sizing**, and also Trade Management.

*

My mentor/coach told me to evaluate performance after 100 trades, then every 300 trades over a longer period to get a good performance of any system.

I've been through a bad situation with one of my trading accounts during the last 4 months and only managed to recover back to my starting point.

What I did was to refocus into Money Management, **Position Sizing**, and Risk Management (reducing my trade risk), evaluate my Trade Management on how I plan my Exits and Re-entries.

Just some thoughts:

1. Discipline requires time to cultivate and it is often influence by the way we manage our trading psychology.
2. Money has a big influence in the way we determine Risks in trading.
3. Account size sometimes has also influence the way we discipline ourselves while trading. $100 compare to say $1,000 will make some difference when we make trading decision. Hence if you increase your account size to $1,000.., then your discipline will improve significantly. If you want to multiply 10xtimes that, you will make a major breakthrough. in quick time.

*

For every trade decision, I only decide my entry price and the initial stop loss (SL) and this SL is the Risk or 'R'.

The initial SL 'R' will be use for **Position Sizing** i.e. to determine the Lot size.

For all my trades, I need to see a potential Risk Reward R:R of 1: 1.5 for me to decide whether or not to take the trade.

*

If I find a high probability setup entry on M15 and it is in favour of a swing trade, then I will still look at the volatility on H1, H4 and D. I also compare these with the recent swing highs and lows, Fibo levels as well as the RN and BRN. Most often you will find confluence of some of these price levels. It is a matter of playing the **position sizing** game all the time when I trade. Whether the initial SL is placed 80pips or 150pips away from my entry, my Initial Risk remains the same.

*

I know setting SL has been a challenge for many traders and including me. It took me a longer time to see the benefits in having SL and doing **position sizing**.

I use a combination of different methods for determining stops. I find that using volatility ATR is an effective method. It is also common hence many traders will place their stops using ATR factor.
But we must also observe the PA where the recent swing highs/lows were and key S&R, RN and BRN.

The other thing is in trade management, particularly for short term swing trades, I also look at trade invalidation. If I enter a trade based on a defined setup, I will also exit when there is a setup in the opposite direction. I don't move and increase my initial SL when market move against me. My initial SL is something I use to calculate my trade position size. And I cannot change that risk once I decided on taking a trade.

*

1st M - The Method
2nd M - Management- of Money, Risk, Trades, **Position Sizing**, ...
3rd M - Mental Fitness - Manegement of the Trader inside you (tame the beast) and Positive Psychology.

Trade Well.

*

You can use an indicator cross as entry but you need to have a proven exit management in place.
You also need a proper money management strategy, risk management and **position sizing** strategy in your system.
Whether you use scaling in and scaling out positions will determine how profitable your system will be in long run.
Trade like an investor. THINK.

*

We all have to understand what risk is and how we can use **Position Sizing** in our trading.

If your risk is 2% for the trade, it does not matter if your technical initial SL is 40 pips or 100 pips.
Your risk remains the same at 2%.

*

More and more I read members posts struggling with their trading. I think we all should look at some perspective of successful trading.

Perspectives for Successful Trading:

It's very important not to be overly engrossed in the mechanics of analysis. Our minds are wired to believe that elaborate analysis should give a "correct" trade setup. However, a winning trader's mindset is such that he's not too concerned about being right about any individual trade. Sophistication often masks the undeniable fact that the future is uncertain, and that all analysis is based on historical data.

As long as your entry rules are unambiguous and do not result in overly high trading frequency, every trade produced by the rules is a valid trade.

The more important message is that a valid trade does not mean a winning trade.

We need rigid and well-defined rules for every trade, while being flexible in our expectations of any one outcome.
A trading method (consisting of its entry, exit and position-sizing rules) can give the trader an edge over the market, but that edge is to be considered "probabilistically". This means that over a sufficiently large sample of trades, the method (if applied consistently) should display a pattern of profitability. However, each outcome is uncertain.
At the micro level, every outcome is uncertain; at the macro level, repeated application of the method (which gives you an edge over the market) should display a pattern of profitability.

How successful we become as traders depends largely on our ability to think in terms of the above. The typical trader is naturally and instinctively driven to do a lot of analysis which fulfils the subconscious need to predict the future of market movements, whether in the short term, medium term or long term. The financial media has conditioned us to believe that predicting the future is necessary to be successful traders. However, the counter-intuitive truth is that we don't need to predict the future at all in order to be winning traders. All forms of analysis are NOT meant to predict the future. Trading analysis and rules are merely meant to systematize our trading decisions, while allowing us to profit from the method's edge by repeatedly applying the trading rules over time.

There are many methods which will give the trader an edge over the long run. However, the typical trader will not be able to benefit from this edge. Why? For the average trader, the tendency is to "pick and choose" from the many methods available.

For example, a trader may be choosing from 3 methods (for most traders, there are many more). Let's say he starts by using Method 1, and gets a couple of winning trades, and once he gets a couple of losing trades from this method (which he is bound to get sooner or later), he will naturally be driven to "try out" Method 2, or Method 3 (and likely many more). It could so happen that once he does that, he gets losing trades from the other methods too. Therefore, many traders spend years "trying out" many strategies, seeking in vain to discover a strategy that they can finally "settle down with".

We need to understand that for any method that works (i.e. that gives you an edge), the distribution of wins and losses is entirely random. This means that we will never know whether a trade will be a winning one or a losing one. Also, among the many reliable methods (each of which gives the trader an edge when applied consistently over time), we will never know at any point in time which method will give a win and which will give a loss. This is why a trader can have many reliable methods and yet end up losing money by habitually switching between them whenever he gets losses. The typical trader simply does not internalise this principle.

A winning trader does not "pick and choose" from many methods based on recent outcomes, because he knows that every outcome is really uncertain, and that we don't need to predict the future to be winning traders.

This is why being a winning trader is NOT about sophisticated market analysis. It can become very simple once we internalise these principles. It can also become very hard if we become overly engrossed in the wide variety of analysis methods available.
Every moment in the market is "unique", i.e. it's never the same as any previous encounter you had with the market, no matter how identical the indicator lines and price action appear to be as compared to that previous encounter. The truth is that every tick in the market is the result of the aggregate impact of trading decisions from millions of market participants. So, even if the chart patterns show something compellingly identical to a previous encounter, you don't expect the same market participants to re-appear at this instant to make the same trading decisions as they did before in order to produce the same market movements. The point is that every individual outcome is uncertain. Ironically, by repeatedly doing trades according to a method that gives an edge, the long-run result shows a pattern of profitability.

It's also very important to realise that you need to be at peace with the method that you use. One may feel confident about a method because of the good back-test results that he sees after doing some simulations. However, he may have a hard time keeping to this method when the drawdowns happen. On the psychological level, acknowledging the drawdowns on a back-test result is very different from experiencing those drawdowns in real time. The back-test results are presented on a chart such that our minds see everything "at one instant"; when reading back-test results, we see the drawdowns and the equity growth on the same chart at the same instant, so that we find the drawdowns psychologically acceptable. We would say, "A temporary 20% drawdown is nothing in the light of the 300% equity growth that happens eventually!"

However, in the real-time and trade-by-trade execution of the trading plan, we are forced to experience everything within the confines of time, i.e. we have to sometimes take losses and patiently and confidently tell ourselves that our edge will play out over time. Psychologically, it's a lot harder than reading back-test results. This is why it's so important to be at peace with the trading method, so that you can experience drawdowns and still keep to your trading rules. Once you're at peace with your method, you can think statistically about the distribution of your wins and losses, so that you're not short-sightedly too concerned about any one outcome.

Indeed, taking losing trades is a necessary part of the business of trading. Losses can be considered as the "cost" of your business. Without accepting the necessity of losses, you will always be hesitating whether to take a trade when your trading rules are fulfilled (because every outcome is uncertain, no matter how nicely the rules are met). Once we internalise such a necessity, we will keep following the trading rules without thinking too much about the outcome. Some of the trades taken will be losses, but the losses "pave the way" for the winning trades to come, because our consistent execution of the trading rules will make ourselves "available" for the winning trades as and when they come. (This means that we will be "there" when the wins come, whereas if we're always hesitating, we may not be there when the winning trades come). After a sufficiently large number of trades, the wins will then more than cover the losses.

*

No two traders trading the same method will have the same results.
It is not about the indicators or having better indicators. These are all technical.
The method is only 10% maybe less. There is a lot more under which we do not see.
Like the iceberg which sank the Titanic.
You need to consider your money management strategy, **position sizing**, trade exit management, etc.
The other big part is how you manage your trading psychology. This is the toughest part and there is one solution fit all. It is an individual thing. It is about your mental fitness as a trader.

*

I think is more important for everyone to develop the method into a personalized system with a proper money management system, **position sizing** and exit management to maximise profits. Your system must help you meet your financial objectives.

To achieve financial freedom through trading won’t come easy. It is a business and there are many things you need to know in this business. There is a lot to read and learn from. There are trading skills which you need to learn and master through deep practice. There is no quick way and there is no short cut. It is really difficult but can be achieved with passion, commitment and diligent work. I don’t see any other way that you become an independent trader.

*

Use **position sizing** when you enter the market, and use scaling-out and scaling-in of your positions to maximise profits.
Forget about using Single Entry/Single Exit (SE/SE).
Single Exits / Multiple Exits (SE/ME) work better.
Multiple Entries /Multiple Exits (ME/ME) work best in trending market.

*

Knowledge overload is a danger for some traders wanting to learn and know so much and cannot apply them all in the right moment.

To resolve this quickly, you need to zoom into fewer types of technical setups. Limit yourself to 5 types of setups for a start and focus only in these 5 setups.

Looking at too many currency pairs is also a problem for some traders. Just stick to not more than 5 pairs. This should prevent overtrading when you are tempted by so many setups in many pairs.

Learn **position sizing**. Whether the technical setup show you a initial SL of 20 pips or 100pips, the Risk for that trade remains the same. It is about **position sizing** in the Money Management strategy you use. Grow your capital slowly and achieve a consistent win rate of above 50%.

*

Do not worry about big SL.
use **position sizing** and it will work out.
Otherwise, go down to lower TF H1 or M15 to get a good entry price level which will give a smaller initial SL.

*

If I risk 2% per trade, whether my initialSL is 50 pips or 100pips, my risk remains the same when I use **position sizing**

Trading require technical skills and the patience to execute.

*

CONSISTENCY

Have you lost your consistency?

This is a common problem with many traders. It is very difficult to maintain consistency to be a profitable trader. To be consistent in our trading that requires a clearly defined trading method and the discipline which goes with that method. Trading requires a certain setoff discipline. Also it requires sufficient trading capital, a proper money management and trade management skills, and a lot of self-control in how you manage your emotions while trading.

When you mix different rules from different methods when trading, you are bound to make some mistakes when you do not separate the trading methods rules and some of the rules are timeframe dependant.

For trading H1 and M15, there are different rules. I hope you all realised these and stick to one method for trading different timeframes.

PATIENCE is one of the several causes of inconsistency.

What cause you to be impatient when you trade?

Impatience could come from your lack of clearly defined trading methodology and the understanding of it. You may think you know the method well enough, but when you see the price bars moving in real-time, you are not really 100 percent if that is a setup. But you jump into a trade.

Boredom is the common cause of impatience and inconsistent trading. Many traders just want to open trades when they boot up their PC and fire up their trading platform. They don't really have a trade plan for that trading day or session. They simply don't want to miss anything when they see price move on their chart. Some are even afraid of missing that expected 'big move' when someone had mentioned.

Until you know what are the causes for your impatience, you will not be able to solve that.

You need to know how many trades you should have per trading period for you to achieve your financial goals. For 4H swing trading, all you need is 5 good A+++trades every 20 trading days. I am not talking about one month but 20 trading days.

These A+++ trades will give you the multiple Rs when you use a proven money management and trade management method.
Therefore think of looking for that 5 A+++ trade every time you open up your trading charts.

You must have the skills to trade different methods during the same trading session. If you are trading intraday using H1, your rules for entry and exits are different from H4. So unless you know how to reconcile different methods and blend them into one, my suggestion is that you do not trade multiple methods in the same trading session. By blending, I mean entering a trade setup based on H1 trading rules, then when the trades goes in your favour and you see a 4H setup, you convert that to a 4H trade and manage it as a 4H trade. You may consider to re-do your **position sizing** and make add-on positions which I do often

Note: A trading session is not market session. It is the defined hours you have available to trade. Usually this must also coincide with one of the market session, for example the London session or the overlap hours of London / New York sessions.

Just focus in picking those A+++ trade setups and gradually you will develop patience in an unconscious state. It is about the QUALITY of your trades and not the QUANTITY of trades.

I do not recommend trading M15 timeframe as it requires very different setups and rules.
I know a few members trading M15 and it damaged their confidence over the past year.
They have not recovered their losses and drawdowns since.

*

To start live trading with EUR10K, is a big decision to make.

Think of demo trading using a Demo account EUR10K and complete 100 trades, then we evaluate all your trades - entries, exits, **position sizing**, trade management, wins and losses analysis, expectancy, etc, then it would give a good picture and then we make a business and trading plan.
After that, you decide when to start business Live trading with real money.

*

It is all about smart money management and smart **position sizing** strategies both use effectively. Others may just follow any method experiment blindly and get their accounts blown without ever learning anything about how to trade the different market types.

*

4H trading is easier to learn and over a longer term more profitable when we build in a proper money management strategy and use of **position sizing** plus the proper use of scaling-in and scaling-out trades when we are caught in a trend breakout.

<u>EMMANUEL</u>

*

Few things which you can look into:

1) Improve initial SL using market volatility and technical stops.

2) Placement of initial SL and **position sizing** and using R and R-Multiple...

3) Using multi-lot entry and with multiple exits. This will improve win rate and help reduce initial trade risk.

4) Think of how to "Let Profit Run" in trade exit management.

5) Work on a strategic way on how to scale-in more trades with banked-in profits in a trend breakout situation. This will increase profit$. Think like an investor, Trade like an investor.

EMMANUEL

*

We are bound to have many losing trades when we do not pay much attention to market condition and timing.
Trading is about market entry and exit management. To achieve long term profitability trading, we need to look more into money management, risk management, **position sizing**, multiple-entries and multiple exits, managing exits to help hit those "let profit run" type of trade when market starts strong trending. A carefully thought of and including these making the method into a trading system. The key is "How to Develop a Winning Trading System that Fits You".

EMMANUEL

*

Turtles traders were trend breakout traders.

Buy High , Sell/Exit higher .... Trending stocks.

Money management and **position sizing** was a key in the trading game they played.

*

We are talking about short term position trading which usually last 2 to 3 week at most.
Best suit traders who do not have time to check their charts every 4-hour period.
To generate a 3R trade using 2% initial risk, we must play with multiple entries and multiple exits with proper position building in a trending market type. This requires a combination of skills other than technical chart reading and analysis.
The concept is not that complex as many traders think.
It require effort to work out the method and all the necessary like money management, trade management, **position sizing**, etc. with the mindset to 'let profit run' and relatively stress-free trading.

*

I trade a 4H swing method and with my own trading experience and chart reading skills I put more weight using PA and Supp/Res to look for A+++ trade setups and entries.
A+++ trades mean higher probability setup.

For exits, I scale out my trades which enables me to ride the trends longer reading the PA using candlestick patterns.

I also incorporate my own money management strategy which allows me to trade with multiple entries and multiple exits ME/ME instead of trading with single entry and single exit.
The ME/ME MM strategy is proven to be more effective in longer term trading.

For trade management, I use an automated trade manager EA which eliminates the emotions when I am managing trades.

Like in all trend trading systems, the trader needs to be competent to determine the market trends he/she wants to trade. Different timeframes will show different trend therefore if you intend to trade this kind of method, you need to decide which timeframe you want to trade.

Exit management is the challenge for many traders. Many traders place small initial SL when trading H4 timeframe and this is one cause for poor trade results. Exit management skill requires the trader to determine where the technical and logical stop loss should be place on entry and to manage moving stops as trade progress.
Position sizing is also necessary when trading larger account size and to prevent over exposure.

Regards,
EMMANUEL

*

There is no A+ or A++ setups. ...

I coined that A+++ trade setup thing. .. to mean higher probability trade setups, and you build your edge trading using proper money management, risk management, **position sizing**, R-Multiples, trade management, Multiple Entries / Multiple Exits as components of the your own trading system.
The other trading system component is the trader being part of the success equation. The trader' mental fitness is the biggest of all the other components.

Regards,
EMMANUEL

*

Position Building:

Building position is not averaging down to losing position. It should be in your trading plan and it is pre-calculated with Risk and **Position Sizing** taken into consideration.

When a trade is in positive with protected profits, we add on more positions with banked-in profits and these add on trades are risk free.

*

Using ME/ME with **position sizing** will make a lot of difference.
The Entries and Exits are both important factors for long term profitability.

My trading strategy is 4H swing to capture 60% of the weekly trading range and for me to get high probability trades I rely more on Price Action using Price Bar / Candlestick patterns.
My money management strategy is to build up positions with bank-in profits and this will help me achieve Expectancy above 2.0 and to achieve my financial target of 10% ROI every 20 trading days.

*

LTF entry will allow you to enter on the retracement of the H4 setup candle.
This allows you better entry price, and also smaller initial Stop Loss which can improve your trade **position sizing**.
Smaller initial SL means small R and the R-Multiple of profits become much easier within expectations if the price swing.

*

If you still have not achieved consistent win rates, then you should consider adopting a less aggressive trading style.
You will get fewer trades but that also translates to fewer losses.
Fewer trades can be more profitable over a longer term trading when you have a proper money management and **position sizing** strategy.
Think of a "Let Profit Run" money management and trade management methodology and work that into the method to create your own winning system which only fits you.
You decide on your own rules and only you can discipline yourself to follow your own rules.
You need to trust yourself and your own rules.
You need to believe in yourself.

*

As far as my trading strategy, I look for market consolidation and trade the breakouts.
For risk and money management, I use market volatility stop and R-Multiple method with **Position Sizing** strategy. I trade with Multiple Entries and Multiple Exits.

I trade mostly 4H swing and I use volatility based stop.
Study the Chandelier Exit concept.
I use **position sizing** and scale-in and scale-out.
I need to see a minimum R:R potential of 1:1.5 or else I don't take the trade.

*

Higher TF means fewer trades but bigger traded range.

Higher TF does not mean more risk than lower TF.

A SL of 50pips and a SL of 100pips has the same % risk per trade when you trade using **position sizing**.

*

I use the Percent Risk Model and R-Multiple Money Management with **Position Sizing**.
Keep track of trade results in terms of the risk R and not in terms of pips.
If I risk 1% per trade and with a win rate of 55% and Expectancy of 2.3, you can work out the number of trades to reach positive 10%.

*

Do you know the difference - scalping, intraday trading, swing trading and position trading?

Which type of trader are you?

Do you know the concept of R-Multiple and how to use **position sizing**?

The number of pips win / loss is not that important when you should consider the risk to reward and how to achieve your financial target in trading business.

Regards,
EMMANUEL

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Learn R-Multiple and **Position Sizing** and apply them to a method then incorporate them and develop your own personalised winning system.

*
I do not believe in full automated trading robots. A discretionary trading method cannot be automated unless there is artificial intelligence; AI systems out there with learning capabilities.

It is about entries and exits, and it is money management which you need to work on and make that part of your own trading system. I don't recommend Single Entry / Single Exit for D-chart trading.
You need to consider Multiple Entries / Multiple Exits strategy.
Position sizing is important and should be used.

You can consider doing a trading system development course.
Learn and gain more experience, use the knowledge and develop a winning system of your own.

EMMANUEL

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Not to trade when there is red news item is a prudent advice.

It is advisable not to open a new trade before those red news release unless we see a probability to BE the trades before the news release hour.

For my case, I have different trading style and my money management and **position sizing** is very different.

What is important to me is my trading plan for 4H swing and I base that on my weekly Big Picture Planning and looking more to the longer timeframe. My 4H swing trades usually run 2 to 4 days and the stops are much larger and will withstand the whipsaw during news release. What is also important is also how much profit I can protect before the news release. Usually when I have more than 1.5R protected, I will stay in the trade and fight the market volatility due to news. It is the Exit Management strategy, the way we manage our trade exits/stops which will matter most how much profits we will make.

Dr Van Tharp has a popular saying: "If we want to let profits run, we must be prepared to give back 50% of what the market gave us".
This statement is very true and I have tried and tested this using R-Multiple management method.

EMMANUEL

*

I am conservative with my hard-earned money, so I use the percentage risk model and I do **position sizing**. My exit is quite different as I want to hold my 4H swing trades longer and I do not exit when an indicator goes flat. I use the R-Multiple management.
I look at the PA candles, I can scale out and I can move my stops to protect my floating profit.

You need to understand the method and build into it with your own money management strategy and make it into a winning system of your own.

Regards,

EMMANUEL

*

Trade less, focus on longer term results, say 100 trades, then 200 trades, 300 trades…
Do your top down analysis more into details,
Be more selective with the H4 trade setups,
Learn to manage with 'let profit run',

Select your trading currency pairs carefully when you want to look at pips as profit, or use percentage risk model, **position sizing** and use R-Multiple money management.

*

People who are thinking of trading to supplement their fulltime job income should work on a trading business plan with realistic financial objectives. Focus on risk reward and taking only the high probability A+++ trade setups and use a proper money management strategy which supports the 'let profits run' concept.
Risk reward is more important than the pips count and in using **position sizing** strategy and building up positions (scaling in), a profit cycle of 10% every 20 trading days is both realistic and achievable.
Think of using a trading capital the size of your annual salary. 10% of that every 20 trading days will bring home a lot more comfort to your family and loved ones.

Good Trading Folks,

EMMANUEL

*

Backtesting will show how often aggressive entries fails when we neglect the use of PA and Support & Resistance; a conservative entry works out better.
The edge is a combination of factors; both money management and **position sizing** strategy play an important part of the trader's winning edge.
That is one important point which I have been making all along.

For me, R is more important than the pips.
Position sizing strategy works out better in long term trading with R and R-Multiple.

*

In brief, we start with knowing when we enter (the entry price level) and where the SL exit (the exit price level) where we cut loss. Next we calculate the pip distance of entry level to the exit level and decide the number of levels where we can add-on positions. There are different methods to add-on positions. The MM **position sizing** is little bit complex to explain because we can use linear **position sizing** or we can use a factor for add-on positions.

We protect a % of the equity as the overall SL. What is nice is all these are done using scripts and a EA for management.
To trade this way, you need to do the top down analysis the way I do and the PA condition must be there at key historical swing of the MN chart.

*

When trading the D chart for setups, I will place limit orders using smaller position size. The full risk remains the same at 1% to 2% maximum.
Using **position sizing** and risk percentage model, the maximum risk for the trade remain the same when we have a stop loss R in place.
Even in situations if there is a 250pips drawdown, the maximum rirsk remains the same at 1% to 2%.

*
How to differentiate between Primary and temporary / secondary trends?

You must decide which chart timeframe you want to trade with. When I trade the 4H using H4 chart timeframe, I look for trade setups on my H4 charts.
The Trend chart is one timeframe higher, therefore I look at the Day chart and also the Weekly chart as my Primary Trend.
I will enter the market on the retracement of the Primary Trend using the H4 chart which is the Intermediate Trend.
When I want to fine tune my entry, I switch to H1 and try get an entry so that I can get a good Entry Price where I will find a smaller initial Stop Loss SL, so that I can do my **position sizing** for my trades. I follow the R and R-Multiple concept, therefore **position sizing** is very important.
My initial SL is my R of the trade.

*
Trading H1 is more difficult to catch the huge pips we all expect. It is like having to pick tops and bottoms for our entries which is high risk and requires exceptional trading skills.
I suggest you look more into money management and risk management strategy, **position sizing** and exit strategy, these combine can help you improve your overall win rate overall long term and also a better Expectancy.

*

I do position trading using D chart. Same approach with top down analysis and also use %risk with **position sizing**.
In this way, no matter how many pips is the initial SL, the risk per trade remains the same %.

*

Knowing both the volatility range and pips value is important so that we keep your Exits (Initial SL and TPs) within expectations and when you trade with **position sizing**, the pip value is use to calculate your Risk and Trade position size.

*

Trading the D chart requires a different mindset because some things are different to what is trading intraday on H1 charts.
The top down approach remains the same and we must follow a consistent approach in whatever we chose to do.
Keeping a 9/5 job is good and that is regular income. Trade the forex market for addition income to build wealth.
But working 9/5 also restricts our access to real-time live market and we need to know when is the best time to place our D trades.
I usually trade the Tokyo session and the European session. This allows me to enter D trades during either of these two sessions.
I don't trade after the London close.
Tokyo open is also a new D candle for me. So I look at the previous W and Previous D ranges, then decide whether I have a good price to enter. If I don't see a good price, I wait till after Tokyo lunch time and also when London open.
It is about using %risk and **position sizing** when I trade 4H swing and position trading.
Building positions is also something to consider to maximise the use of our trading capital and with same %risk, we build up positions in the market. We all want to trade the trend and therefore must cultivate the habit to manage trades and "Let Profit Run'. This is something easy to say but in real life it is very hard to do.

*

Most traders here trades with fix lot size and do not use **position sizing** with percentage risk of equity.

Whether you are trading just for few dollars, or to supplement your full time job, or to grow an account, etc. you need to consider what your money management strategy work best for your business. Trading can be profitable and you need to use a proper money management strategy.

*

The pips count alone is not sufficient to measure your trading results or the performance of a trading system. There are many other factors to consider how a trading system performs. This is outside the scope of discussion in this thread.

You need to look at how you manage your trade risks when you use multiple entries and multiple exits ME/ME strategy. It is complex at first look but with enough practice it will become easier. Know the concept, work that on paper then try it in live trade using a demo account.
You need to manage your initial trade entry to Breakeven BE and then think of whether you want to add another position after the initial trade is 'risk free' or a 'free trade' what some traders call it. Whether you add the second position of same lot size or not depends on you. It need not be the same lot size as the first trade. But I use the same lot size of the first trade because I do **position sizing** and do not risk more than 2% for the first trade. Every subsequent added on position must have also its own risk % and do the **position sizing** using the same initial SL. What is important is every position must be protected with a SL.
Besides looking at the total number of pips won for each currency pair traded, there are also other parameters to look at. The pips $value being one. If you make a net win of 2500 pips overall and with the pip value of say $10 per pip, then the total amount of money is important.
Other traders will look at the money as percentage of growth in their account.
How you want to measure your business performance is up to you. Instead of pips, you can also use R= % risk say 1%. Then, when your trade results in a total 5R, that would be 5% overall gain with **position sizing** being used.
For those who do not know the R-Multiple concept or still think that it is misleading, then it would better you to read up on R and R-Multiple concept explain by Dr Van Tharp. Many trading schools and coaches teach this and also many investors and traders alike adopt this concept in their business. Professional traders knows this but whether they use it or not is up to them.

If you have tried this R-Multiple concept and find that it does not help you in your trading business to achieve your financial goals, then please thrash it and do something else.
I traded the stock market since 1980's and I was taught to use **position sizing** but never heard of the R-Multiple concept until years later. Ever since then, trading has not been the same and it has more to do with risk management of my hard earned money, how I invest and re-invest the same money I make. It has become more money management game we play in the market. The trading method being a very small part of the system is no longer the winning edge. We need to make our money work for us. Easy to say but not easy to do, that is the psychological challenge in trading and how we as traders and investors deal with and develop our mental fitness.
My advice is read what is being shared in this thread. Verify all the information shared here. There are lots of online resources available. Then decide in leaning what being shared, follow up with practice it to see how things will work. If you think what being shared here does not work for you, by all means thrash them and move on. There are many things which I read here and I learn not do follow. That's the discretion I use being an independent trader.

*

When we use percentage risk (say 1%) and do **position sizing**, whether your SL is 50 pips or 100 pips, your initial risk remains the same. The end results in money will be different but your winning statistics will be better overall. What is important is your exit strategy and how you manage your trades. You need to differentiate the method technical exit rules and work that into your exit strategy.

When scaling-in positions, the trade lot size can be the same or different. You must consider the % risk and **position sizing**. But when you trade with fix lot size without the use of **position sizing**, then you must make sure you have locked in profits and use that to open more positions.

*

One of the basic rule of trading is Do Not Chase After the Market.

When you use the last swing low as technical stop, then that trade setup entry will not make much sense because using %risk and **position sizing**, it won't be attractive. Using fix SL like 50 and 100 pips will not work because often the price will pull back and will threaten your small SL. This cause stress to many traders seeing their SL being threaten.

Hope this helps.

*

When I trade using Multi-Lots positions, the trades must be of same position size and calculated with the risk %.

It is about 3 things - Risk and R-Multiple, **Position Sizing** and Expectancy that I want to share here.

Regards,

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*

It is important that we use percent risk and **position sizing** when we trade multiple lots.
It does not matter if the SL is 50 pips or 100 pips when we use **position sizing**. The problem here is most traders trade with fix lot size and they fear 100 pips SL.

When we trade H1, the TP1 is 25pips for those 12 pairs I trade. When we pick a good entry candle with momentum and volatility, the TP1 should exit in 2 to 3 H1 candles. This TP1 will help reduce the overall risk of the other two positions. Usually, I will move my initial SL to BE when TP2 is exited.
If after first entry and you don't see the market moves in your trade direction, you must be prepared to exit.
Remember that we must not chase after large candles because the next candle can retrace in most cases. This can be the case where you get 60pips retracement in H4. The better way to enter after a large candle is to wait for a retracement entry, usually a Fib38/50 entry.
You need to know the hourly volatility and the timing of the entry. Reversal entries are very risky.

*

Don't lose sleep because of H1 trading.
You have to consider trading all timeframes.... H1 Intraday, H4 Swing Trading and
D1 Position trading.
Trade H1 intraday only when you are available and if that fits your lifestyle.

H4 and D1 are the more profitable business and you need to money management strategy to go along and generate the supplement income you want. (What you want may not be what you need).

The game is how we manage our risks R.
R and R-Multiple with **Position Sizing** strategy is one of the way to make it happen and achieve financial freedom with your hard earned money.

*
Avoid trading low timeframes - H1 and below around news release hour. Most traders here use stops that are just too small and will be taken out easily.
Have some simple rules when trading H1. No opening of new trades 3 hours before a major news event. Most pairs take 2 to 3 H1 candle to move 20~25 pips and when there is news ahead, the price action is usually 'flat' or 'resting'. If you want to trade around news hour, the best thing to do is waiting until the news is out and after the big spike is over, look for A+++ setups and trade them.

I trade mostly H4 and D1 and have less to worry about the market's 'knee jerk' reaction news candles because I use volatility stops and **position sizing**. Once the direction on D1 and W1 are set, the news candle seldom take out stop trailing behind two days high/low (2 days look back).

*

Never chase after the market 'big candles'.
If your technical stop loss is a last swing low, it will be too big and will not make good **position sizing**. However, if you use fix lot size and small SL, you risk being stopped out during the retracement of 'big candle' as entry.

*

For all traders who have day jobs and cannot trade the H1 charts, I suggest you look at the Day chart and plan your trades. You can open your trades on H1 at any time during the day when you have time to login into your trading platform. Start with a demo account and use that like a real account so that you can forward test and practice your money management strategy. Use percentage risk of your balance for each currency pair you want to trade and do your trade **position sizing**.

Do you know how to plan your trades using Day chart?

Do you know what is a good account size to trade?

*

Trading a technical method can be profitable when we have a proper money management strategy to add to the Method and to make it into your own winning system. Also trade the higher timeframe like the D1 chart and use money management and risk management deal with those intraday and intraday week retracements. Take small bite-size trades (0.2% of $balance per trade, use **position sizing**), and build up gradually as the market moves by scaling-in and scaling our positions during the market swings.
The technical trading method and is less than 10% of a trading system. The other big parts are Money Management (30%) and our Minds (or what I call our Mental Fitness as traders makes up (60%).

Big question is "How to Develop a Winning Trading System that fits you?" Google does a good job always.

*

Remember we keep it simple and no need for complex **position sizing** formula when you want to trade with a small account.

If you trade with large account, then use the R and R-Multiple method for **position sizing** and use a technical stop loss for that. Do not use the Hard Stop Loss.

*

A trend following trading method performs better when trading the higher timeframe and it work great when we add to it a proper money management strategy.
Position sizing is one of the keys to a winning trading system. .
Trust me that you won't take decades to learn how to do it. A few hundred hours of reading, studying and putting things in real-time practice.
Stay on track and learn how to spot and avoid the detractors.

What a good trading account size is to start with?

There is no correct answer to this question. We need to ask ourselves, what are we trading for? Forget about wanting to trade for a living. Some can do that and have made it, but many failed. The best way to start is to trade for a supplement income to what our day job. Start small with financial goal to supplement 10% of our annual income, then grow to 20% in small steps.
Let use an example; for someone with an annual salary of $100K and have saved up $100k to invest in a business, this is hard earned money so we treat that money with carefully when we invest. Use $50K of that hard earned for trading forex. Aim for 10% return every 20-trading days.
This 10% maybe small and can be achieved with a proper trading business plan what I call a SMART objective. Why 20-trading days cycle? Well there will be periods where you won't find good trades and may have some losses. Losses and drawdown is inherent in every trading system. We cannot avoid nor prevent that but we have to know how to recover from drawdowns. Like many businesses, this is forex trading business requires constant attention and development to keep up with market dynamics. Systems need maintenance and that is the fun part which requires our attention day in day out. You know you can grow that $50K slowly with tender loving care.
At the end of it all, you gain a lot of knowledge and experience which stay with you. You can share them with other people, you can pass them down to future generations, but the knowledge and experience remains in you and nobody will ever take them away.

*

When there is support seen on the weekly chart, but with selling momentum the support can be broken. We mitigate this risk with **position sizing** and ME/ME.

*

The 'secret' is in **Position Sizing** and how you utilise your equity % risk of 1% to 2 % maximum per basket of trades.
If you risk 0.2% per trade and do position size, whether you lose 100pips of 150pips, your loss is still 0.2%.

*

Martingale is doubling the previous lots size, 1,2,4,8,16,32,64….
It is a gambling strategy and I do not use that in forex trading. It can destroy a trading account much quicker than one can think of.
Some very inexperienced traders see averaging down as Martingale without any knowledge what Martingale and anti-Martingale actually are.
Averaging down has both pros and cons and only knowledgeable and experienced traders know when and how to use this.
There are other ways to determine the average down trade lots size other than Martingale.
There is also a Fibonacci way using 1,,2,3,5,8,13,21,34,55,…
Or a simple Linear way using 1,2,3,4,5,6,7,8,9,…
Or a Fractional way using a multiplier (1.2x for example) , 1, 1.2, 1.4, 1.7, 2.1, 2,4, 2.9, …
In my ME/ME trading, I limit my position building using only 1% risk and dividing that into 5 trades of 0.2% each as one basket. There is a technical stop loss for every trade basket and using the same technical stop loss I do the **position sizing** from each trade entry to the SL. You know that as the price retraces after the initial entry trade level, every subsequent trade level will be closer to the technical SL hence the positions size will be larger than the previous trade level. The increase in the subsequent position size is a fractional increase of the previous and initial position. In all cases a basket consists of total of 5 open trade levels and a total 1% risk. This is a manageable and controlled money management strategy which has work for me for many years when trading the 4H swing and position trading.
We trade the higher timeframe charts with Multiple Entries / Multiple Exits using small positions.
It is a combination using position building when there is retracement to get a better average entry price and to add more positions when my trades run into profits.
It is knowing the market type which is very important – whether the market is trending or sideways ranging. Trending market is easy to manage with ME/ME trades.
But it is when the market is sideways, we need to identify whether the range is narrow or wide range. We learn to avoid narrow range market type.
We identify historical support and resistance on higher TF Monthly and Weekly and use these levels to plan our trades. Knowing the market swings on the H4 chart TF – swing highs and swing lows is important part of how we trade. We play with average price of all open trades hence in a basket and also the technical cut loss of all open trades when things goes against our trade plan. There will be times when after we have maximum 5 open positions in a basket, the market starts range again and we can then look at the price action and exit some position to take some profits while keeping some position in floating loss. We may at times have to close the earlier trade levels by breaking even the first 1 to 3 levels when there is opportunity to and even take small losses but letting the later 4th and 5th levels be the profitable ones to run. We will by then know if the trend will continue and when it does, we begin to scale-in with more trades.
I don't use Hedging as a recovery method but I know a few of my buddies do. Hedging is not allow by the US based brokers so I think it would be matter of time that this would also be forbidden in other countries too. We don't know when.

*

It is more important to know the method rules and when you do your visual back-testing by scrolling back the history chart, you check and confirm that you know the rules where your entry and exits point are. Know the time of day when you are available to trade and look at the charts and see if your trade setups occur during your trading hours. Once you have done enough back-testing and know the method rules, then you should start forward testing with a demo account in live market environment. Open a demo account of the same size of what your live account would be in future, If you want to trade with $10,000 live account then make sure your demo account is also $10,000k. This is to ensure that you forward test money management strategy - risk calculation, **position sizing**, exit strategy, etc. works in live market.

It is all about entry and exits...

Trading is all about Entry and Exits. You cannot achieve good positive results without doing your preparation work.
Your prep work includes having a trading plan ready for every currency pair you want to trade.
When you do not have a trading plan ready, do not trade.

*

I use 1% to 2% of my base capital not the equity and calculate the position size of every trade.
Every trade has its initial risk R in pips and every trade result is measured in multiple of R. If one trade hit the initial SL, that would be -1R. **Position sizing** is key in my money management strategy plus a few other components to consider such as keeping drawdown to 10%, recovering from drawdowns, etc.
Dr Van Tharp’s books are a good source of information to develop your money management strategy.

*

If we strictly want to trade following the Weekly Trend or Bias, then selling in H4 means we have to face the drawdown during the correction/retracement. Not a good idea knowing that retracement can be deeper than 50%. But trading with ME/ME we can use the retracement to build up positions but we must watch our drawdown and use **Position Sizing** to manage our risks. It's no fun when we want to recover from drawdowns. Any drawdowns above 10% is very difficult to recover that is why I use 1% risk and chop that into 5 smaller trades of 0.2% risk.

*

Whether the SL is 300pips or 30pips, the risk per trade is the same at 1%.
Use **position sizing** to calculate your trade lot size.
You account size must allow you to use risk % and **position sizing**.

*
The market hunts me too they way it hunts you.
Many retails traders are losers in the long term. The statistics say 95%, I don't know if that 95% is accurate but the percentage of losers far outweighs the winners over long term. You look at the number of new brokerage firm in the recent years, what do you make of it?

One of the problems I see with technical traders is how they position their trades and the use of initial stop loss. Many trade with very small account and do not use **position sizing**. They trade with single entry and single exit. They just want to make some money regardless of what the market volatility is. Using small SL is where the market will hunt these whether they trade M5, M15, M30, H1 and even H4. Many lack the basic skills in trading. They will learn from their winners and losers, and that will require time and cost them tuition money.

Trade the Day chart, use risk % and **position sizing**, have a SMART cut loss method and you will survive longer in this brutal market.

Don't give, keep going at it with clear focus on what your personal goals are when you decided to trade this spot forex market.

*
Did you hear this before:

Risk too much and you could blow up your account.
Risk too little and a big winner won’t even pay for your dinner.

How do you decide how much you should risk on your next trade?
Position sizing does not mean looking at entry, stop loss and decided on the trade position size.
Position Sizing strategies mean we have to be innovative how we use our money when we trade.

*

Do not sell on rising prices with positive momentum. You must ask if yourself, if you sell at the high thinking that it is in the PRZ , where do you place your initial Stop Loss and how do you do your trade risk and **position sizing**? Even if you trade with very small lot size, you risk margin depletion and you lose the ability to use your account deposit for other trade opportunity in the meantime when your account is in floating drawdown. You can also face possible margin call. The art of trading and money management is to have a healthy margin in your trading account. Learn to use SMART Money Management strategy. Many well known investments and trading authors / coaches (some call them Gurus) have written books on this. Know them, use them.

*

SL is your potential loss when the market goes against your trades.

But, what about the potential profits when you are right and the market is always right.

It is all about entries and exits.

When do you scale-in and up-size your trades?
This is something only experience will teach you. Learning to trade with ME/ME took me 18 months more then 10,000 trades demo trading in live market conditions and using an account size which I had planned to trade live eventually. This is a good way to test your money management strategy to make sure you do all the **position sizing** calculation correctly when trading live later. Using a demo account the same size as you live account also help you develop your mental fitness be conditioned for live trading. Sports man and women especially the athletes go for high altitude training to condition their bodies.

*

Statistics shows most traders are more profitable trading the higher timeframes.
It is the entries and exits that counts not the timeframes.

What matter more is your risk and **position sizing** of your trades.

Many traders trade with fix lot size because of their small account. For these traders, a 100pips SL on 0.01lot is a big deal. so they thought better lose 50pips using SL =50pips. They have no idea of the intraday volatility aka noise to hunt all these small stops.
But if I trade with 1% risk, and with a SL of 150pips, and do my **position sizing**, I stand to lose only 1%.

*

For many traders who have day jobs and do not have regular hours where you can log into your trading platform to trade, you should learn EOD trading. You chances to become profitable is far better than if you trade intraday and any of the lower timeframes like H1, M30, M15 and M5.

You only need to log in at minimum once per day to place your trade if you had done your top down analysis and know when there is trade opportunity for you to open a new trade entry.

Trading is about entries and exits. Knowing your Risk and **Position Sizing**.

*

Entry and Exits:

Using Stop Loss is important as it is part of our Exit Strategy. It is often said by investment/trading coaches that:
Every Entry must have minimum two Exits.
First Exit is your Stop Loss SL.
Second Exit is your Take Profit TP.

Stop Loss alone will not protect your trading/investment account. It is SMART money management strategy that will protect your trading and investment accounts. Using the proper risk model in your money management will save your account and when you use percent risk and do your trade **position sizing** like what professional traders do, you have an edge over those who trade with fix lot size and are afraid of 100 to 150 pips as stop loss.

You need to have at least Eight Edges in Your Trading. How many do you have at the moment?

*
I have 16 pair in my watchlist, these will give me 5 good trades every week for 4H Swing.
No need to overtrade and not need to aim for high win rate above 70 percent. Your risk percent management with **position sizing** and your exit strategy and a high Expectancy is what that matters more than win rate alone.

The other more important thing is how you decide on when to trade and when not to trade with this ME/ME strategy. It is the market type which the traders must be discipline to look for and execute the trading. It is not difficult, and I repeated many times, we need to see the price action for setups and we also need to know the market volatility.

Do you have your winning edge? When do you know when you have your winning edge? Can anyone tell me if you know your winning edge? It’s not complex MM, it is something else.

If you still don't know, then you haven't got it. Keep working at it.

*

News moves the market, isn't that when traders want?

You just need to know the higher timeframe direction and learn to stay away from the volatility created to fill orders.
Don't trade with small stops and fix lot size without knowing the market volatility and where the orders are to be filled.
Learn to trade like the professional do, use position building and get a better average entry price.
Learn to use **Position Sizing** strategy with % risk of your trading capital.
You don't need high win-rate of 80 to 90 percent. You need achieve and maintain consistent high Expectancy over a longer term trading.

*

know that most traders who trade very short term trends in smaller TF like H1, M30 and M15 will end up losers more often than not. The reason is they trade with small lot size and small stop loss. They do not believe in **Position Sizing** using market volatility.
Those who trade the bigger TF like H4 and D1 chart trends will do better when they use **Position Sizing** and know where to place their stop loss to avoid the market volatility during news release.

*

One of the key to successful investing and trading is to know how to mitigate risks. When we use the percentage risk model and know when to cut our losses short, we use an initial stop loss and use **Position Sizing** method to calculate the number of trades and their lots sizes, we do not have to think too much about the outcome of our trades, the wins and the losses, etc. We simple focus on our trading tasks and perform those tasks with confidence and discipline. After a series of trades over a longer time, we will know our trade Expectancy and this is one of the important key performance indicator as a measurement of our own trading system.

*

Do you use **Position Sizing**?

If you use **Position Sizing**, a SL of 100pips cannot cause any damage larger than your initial Risk %.

Drawdown must always be kept small in relation to your trading capital.
Never more than the Risk % of each trade.

*
Trading this spot forex market is not an easy business. We all need to hours of practice and to gain experience, not simply any sort of experience but the right experience which will help you find your winning edge. Often we hear members here telling us we need to gain experience in order to build confidence. But we need to learn from the type of experience which will help us gain confidence.
Trading Demo account is not the same as trading a Live account. Many traders do well when trading Demo but fail when they turn to Live account trading. The psychology behind Demo account trading is very different from Live account trading. Also trading a $500 account and trading a $50,000 account is also very different.
Therefore you need to know what sort of trading experience you need to go through and what you will learn for that trading experience.
You need to know the ups and downs of Demo account trading. When you Demo trade, you first must know what you objectives are and how your demo trading will help you learn and achieve your objectives. Most trader demo trade to learn the trade setups, the entry and exit rules, etc.
They do not demo trade to test their Money management strategy, such as the use of the % risk model and do **position sizing**, the R-Multiple trade management for exit strategy.
How does demo trading help you develop the mental fitness to trade in live market with your hard-earned money?
My suggestion is to demo trade with the trading capital which you plan to trade live as a business. Start with one year of your annual salary as your base capital. If you live in the US, the median annual income is about $55k. Use that $55K as your base capital.
Demo trade and see if you can achieve your financial goal which you have set for yourself when you want to trade this spot forex market.

Set SMART objectives and goals for your trading business. Ask yourself, do you want to supplement 20% to you annual income by trading this spot forex market? Is 20% per annum realistic and achievable?

Forget about thinking of doubling your base capital in one year for the start. You first must learn to trade and achieve consistent results. You read some traders double and triple their trading account, did they show you what their trading account size other than just the equity curve chart? For all you know, that trading account is only $5K, and losing $5k to margin call is no big deal because they can top up another $5k and start all over again. As long as they top up their trading account, they do not have the winning edge. Trading becomes a game not a business to make money.

Do not believe in compounding that it will work for you when you trade this spot forex market. In theory it does work, but when you are the trader it will not likely to work out over a long period of time. Do not have that newbie dream of how t turn $5k into $1 million in 4 years of trading.
Compounding theory work best in banking, which is almost risk free. Put your money in a bank and see how your interest gain will add up to your principal when compounding over many years.
Be realistic, make some sacrifices and be prepared to do the hard work spending 3 to 5 hours every day for the next 2 to 3 years.

*

You just have to wait for the right moment for the market to move and we follow.
No need to guess that market reject at any pivot or S and R levels.
Look at the Previous Price Action and pay attention to what the market will do then we follow.
There is no way we small retail traders can master the market. That is what rookie traders believe.
If you trade one standard lot @$10 per pips and make 100pips, that is $1,000 real good money in one trading day no floating loss / drawdown which tie down our trading capital. Rookie traders will trade 10 x 0.01 lot and claim they make 1,000pips with 10 micro lots in a 100pips move. That is no edge in trading small lots. One component of a winning system is to use **Position Sizing** and Risk%.
When you can make you money work for you and can consistently maintain a healthy equity-balance in your trading account with small floating loss/drawdown, you stand a very good chance in creating an edge for yourself.
But when will you really know that you have a winning edge?

Have Fun trading.

*

If you don't build position with proper %risk and **position sizing**, your trades will be in huge drawdown especially if you trade with a huge risk of 15% to 30% per single entry.
I cannot trade with that huge risk of 15% to 30% per single entry trade.
I prefer to risk only 1% to 2% per position / basket for each currency pair I chose to trade.
Dividing 1% risk into 5 trades as multiple entries, my risk is only 0.2% per ME trade.
My maximum drawdown should my basket of trades hit initial SL is only maximum 2%.
That is the beauty in using **position sizing** what Dr Van Tharp is well known for.

It is up to you as the trader what you do with your hard-earned money is your business.

*

On a D1 chart setup, the pullback can be 100 pips but we use the pullback to our advantage when we trade with %Risk and use **Position Sizing**.
Then we can scale-in as the 'trend' continues, we 'let profits run' by using banked-in profits and take more positions.
This is how traders learn to make their hard-earned money work harder for them and minimal drawdown.
We do not let our trading capital be locked in floating losses/drawdown.

*

We need to use risk and money strategies to mitigate those bigger pull back on D1 chart and also the Weekly chart setups entries. This is why I use the %Risk model and do **Position Sizing**.
There are different ways to mitigate those huge price pull back when we trade the higher TF like H4, D1 and also W1 charts setup. Using Multiple Entries / Multiple Exits is just one of several ways/methods.

I see the spirit to share is here despite a few non-believers who are against this. There is a proper way to make some money from the markets. We should not stop others from knowing the ways and we should give them the chance to acquire the knowledge and gain experience on their own. The knowledge and experience they gain can be passed on to their own family members and community folks.

Let be positive and accept one another here.

*

To tell you the truth. I have been trading since 1980s and I had never and would never risk 15% to 30% of my trading account per trade.

That is not my money management strategy to risk that kind of of high percentage. For many years, I learned to trade with R and R-Multiple with %Risk and **Position Sizing**. That has been my money management strategy and had helped me grow my trading account by 10% every 20-trading days. 10% maybe small for some traders, but to me 10% is my SMART target.

*

Every hour there is some news/data releases which affect the market. Every day there are events which also will affect the market.
When we trade , we follow the higher timeframe 'trend' or direction and know its volatility.
We are seldom wrong when we know the market's direction and the market volatility.
We must learn to place our stops away from price levels where the volatility range is.
We must learn the use of % risk and do our trade **position sizing** to remain in the market by staying away from those volatility stop levels.
We should know that the currency market is complex and therefore we must learn what move the currency market.

Can trading the spot forex market be simple? Answer is NO.
Can the trading method be simple? Answer is YES.
So what the heck is the belief “keep it simple" all about?