The Top-Ten Mistakes FOREX Traders Make

©Jason Alan Jankovsky
FOREX Analyst & Trader

www.TheLionOnline.com

Introduction

You are ready! You've done your homework. You have read the all right trading books, watched all the right professional trading videos and attended a few of the right live seminars presented by big-name professional traders. You've researched your brokers, did your trials of various electronic trading platforms, and have your trading account ready to go. It's day one of your new career—hopefully the one that will finally send you down the road to financial freedom. Congratulations, you are now a *FOREX Trader.*

But the odds are against you. You know that. You've read the statistics and heard the critics; and you are confident you won't be the one to fail. You have the best trading system and you have planned for every contingency you can think of. Your charts, analysis and research are up-to-the-minute and instantly ready for every market you are going to trade. It's go time. You take a deep breath and click the mouse…your first trade is LIVE; you're in the game.

Fast forward six months. Your account balance is lower than when you started. Sure—you had some great trades and looking back, your analysis of most of the markets you traded was correct; but where is the profit you could have had? How did this happen? How do you get back on track?

I'll tell you how it happened—because it happened to me; more than once. It happened because the real world of trading and the textbook world of trading are two completely different things. You need to be ready for that reality or you run a very big risk of being the one who makes up part of the statistics. If you want to read the whole story of how I got to be a professional FOREX and Futures trader pick up a copy of *The Art of the Trade* (Wiley & Sons publishing August 2008). I think you will be surprised to learn what is really required to be successful. In fact, I bet you are downright shocked to discover what is required; I know I was.

If you would rather not read another book and simply want to get down to making your fortune, then I would encourage you to at least take the next few pages very seriously. Find a way to keep the thoughts you find here at your fingertips and consider them equally or more important than all your pre-trade preparation and analysis. If you seriously want to avoid the worst that could happen; then take some serious advice from someone who knows.

But before we get to ***The Top Ten Mistakes FOREX Traders Make**,* I want to give you some perspective. I started my career at a time when the markets were only just beginning to see the growth and public interest that they have today. The technology you and I take for granted everyday hadn't even been invented yet! It took me years to learn what I needed to learn without any of the help you have available FOR FREE anytime you want. You need to accept one very critical thing: ***the most important part of trading success has nothing to do with the markets. Everything you need is inside your head. All this FREE stuff is not going to offer you an easy road. YOU need to do the work—the markets can't do it for you.***

If you are willing to consider that the human element—the way **you** think and how **you** behave—is the **REAL** variable to lasting trading success; then I think you will get where you want to go a lot faster and with a lot less headache. If you are ready to get serious about your personal trader psychology then please come to my twice daily FOREX training sessions. If you really want to avoid the disasters you have read about then take my advice; don't make these mistakes.

So let's get's started…

MISTAKE # 10

PAPER TRADING TOO LONG

Paper trading is hypothetical trading. If you have never traded anything before, you will probably do some paper trading. The benefit of paper trading is that it will help the new trader become acquainted with the basics of interfacing with the markets. This is often a “demo” account with a broker or clearing firm that provides real-time market data but provides a hypothetical balance. You are allowed to buy and sell as much as you want, just like in a “live” or “real” account. Your hypothetical gains and losses are accrued against your hypothetical account balance over time. As time goes on, most traders find that they can gain quite a surprising amount of paper-profits in a very short period of time. These traders are now completely convinced that they can easily duplicate those hypothetical results in real time with real money. They open their real trading account and POW! Within about three to four weeks they are down usually more than 50% of their equity. This is not my opinion—this is actual fact. Ask any broker in the industry what happens to “paper-traders” who open a real account. The ratio of “paper-traders” to “winning traders” is about one in ninety.

Why does this happen?

Because there was never any real risk to the trader.

Let me illustrate by telling you a story:

I am a private pilot. I soloed on my 17th birthday. In 1979 I was an Air Force academy appointee. I have flown a T-38 Jet fighter in extreme conditions. Just knowing that, I think most people would agree that I probably have a certain amount of experience flying airplanes.

Here in the suburbs outside of Chicago there is a small airport that has a “Fighter Pilot for a Day” program. This is where you fly co-pilot with a retired military pilot in high-performance aircraft. You are allowed to fly the aircraft (with the real pilot’s hands on the controls) in an attempt to “shoot down” an “enemy fighter”; which is another co-pilot flying another airplane with HIS retired military pilot holding the stick. You are awarded a “kill” if your laser guns hit your opponent. It’s like a very expensive high-stakes game of laser-tag.

I went for a day to have some fun. As it turned out, I was flying against a complete novice. Of course, I didn’t tell him I had some Air Force training. I asked my adversary what kind of training he had. He very confidently told me that he was the top scoring “ace” from his on-line club and various other national methods of playing high-tech video games. He told me that he could “out-fly” almost anyone in the Microsoft Flight Simulator in both the F-16 Falcon and F-15 Eagle. I agreed that his credentials were very impressive and proceeded to blow him out of the sky no less than six times in 20 minutes. To start with, this novice had never flown in aerobatic conditions so he spent most of his time trying not to vomit. He stalled and spun most of the other time. If he wasn’t flying with someone he’d be dead. In the end he had to quit early because he simply couldn’t take the physical punishment. To add insult to injury, I have never played with Microsoft Flight Simulator (ever). I do the real thing. BIG DIFFERENCE between the two as you can see.

Do you see the point I’m getting at? PRETENDING to do something is never the same as actually doing it. Yes, it is helpful up to a certain point to simulate certain things but that can only take you so far. In the case of air-to-air combat, PRETENDING to be a fighter pilot will likely get you killed if you ACTUALLY go up against a trained fighter pilot. In fact, the US Army Air Corps learned this the hard way back in WWI. They sent young men into combat with oftentimes less than 10 hours of actual flying time. Imagine how fast those men were killed when they went man-to-man with Richthofen, Boelke and Immelmann. Everyone concluded flying was "dangerous" when in fact it was the ***lack of training*** that was "dangerous"

I'm not trying to impress you with my flying skills. I'm trying to impress on you that paper-trading is exactly like playing Microsoft Flight Simulator. It is pretending to be something you are not while convincing you that you know what you are doing. Paper trading hides from you the need for real skills. Paper-trading will get you killed because when you go up against real traders with real money it's not a game anymore. If you make the wrong move you lose equity. There is no "do over" button. If you stall your F-16 in the simulator, you get another chance; stall your F-16 in combat and you die. Lose money in your paper-trading account; just sign up for another trial account. Lose money in your real account and you go home broke.

Paper-trading is a waste of time because paper-trading will never give you the real skills you need to trade. All paper-trading can do is help you learn how to use the functions of your trading platform. In fact, that is a good thing. But once you learn the functions of your platform and your account is ready to trade, everything you learned paper-trading goes out the window because NOW IT IS DO OR DIE. There are no second chances. There is no "do over" button.

Don't make mistake #1; don't think you know what you are doing because you pretended to trade without taking any real risk.

HOW TO MAKE THIS MISTAKE WORSE: Continue paper-trading for more than 30 days and/or go back to paper-trading if you have lost money in your first real trading account.

SOLUTION: Open the absolute smallest account your broker will allow and trade for 90 days the absolute smallest size possible. If you are ahead, increase your equity size and your trade size by a factor of 20%. If you are losing, stay with the real thing; it's the only way to learn.

MISTAKE # 9

NOT HAVING A TRADING PLAN

Suppose you called your 401K manager this afternoon. Suppose you asked him "What is your plan for the next six months?" Suppose he told you "Oh—whatever. I just try to get on the right side and if I don't I just get out"

How long would that guy be managing your retirement money if you had any say in the matter?

Many traders take the same attitude with their daily work habit and many don't even know they do it. Not having a clear and concise plan for your daily trading presence is a serious mistake and you need to address it. The best way to describe a sound plan is to let you read one from a professional full-time trader. This is an actual trade plan form a friend of mine who is an E-mini trader:

2006 Trading Plan

My goal is to earn 100% on my trading equity before the end of the year. To maintain my focus I will set a near term goal every quarter to be at a 25% gain and I will plot my equity daily. If I reach my quarterly goal ahead of the last trading day of the quarter I will take a two-day break. I will hold any open positions that are at a profit but any open trade losses I will close at that point before I take a break.

If my open trade gains continue into the new quarter I will add to those winning positions by a factor of 25%. I will move my protective stops up to reduce my exposure on the entire position.

If I am behind on my trade goal for the quarter, I will take a five-day break. I will re-evaluate my trade system and ask the question: "Has my market quality changed to something my system is not able to perform at best?"

During the year I will not trade more than three markets. I have learned I cannot focus well on more than three markets at a time.

If I have more than four losing trades in a row in any of my three markets I will take a trading break for five days. Again, I will leave open position winners alone in the other markets but close all losing positions. I will again roll protective stops to reduce my risk.

When I take a trading break, I will enter resting limit orders in the open trade winners to take the objective profit should I be unavailable and the market gets to those levels during my break.

If I am ahead of my plan for the year at any point I will take a break. I will take 30% of the new equity out of my account and place that into a secure place. If I am behind I will not add equity under any circumstances. If I reach a 40% drawdown from my high equity I will quit for the year.

I will record my daily trade activity in my trading log and review this weekly. I will know my ratios and results; I will look to improve them by 5% each week.

I will trade only from the bull side because my analysis tells me that all three of the markets I have selected have more than a year of solid bullish fundamentals. I will learn how to use options this year because I see from last year I could have protected more trades if I had a solid grasp of when to use options and when not to. I will invest two-hours a week on option knowledge.

My son is leaving for Europe in May. I will not trade the week before he leaves or the week after. I plan to join him in the fall for Oktoberfest for one week and will not trade the three days before I leave or when I get back. I know I suffer from jet-lag so the week after I am back I am not at my best. I have blocked out these times on my trade calendar so I will not be tempted to trade anyway.

If you read between the lines you will notice that his trade plan included all the things that were ***in his control—NOT things outside of his control*** (like the markets). If you want to get serious about writing a solid trading plan pick up a copy of my first book *Trading Rules That Work: the 28 essential lessons every trader must master* (Wiley & Sons Publishing, October 2006). I also teach about trading plans in my daily broadcasts and in my Psychology of Trading course. Please see my website for details.

HOW TO MAKE THIS MISTAKE WORSE: Base your trading plan on hypothetical profits or on how well you did paper-trading, Ignore your personal emotional needs when compiling a plan, Ignore your family while making a plan, keep thinking you can trade everyday or all the time, average your potential over a period of time and think results will equal a daily amount.

SOLUTION: Ask a professional trader to show you his daily/weekly/monthly or annual trading plan. Ask yourself if you can make a plan that addresses similar things. If the professional you have selected can't show you or won't show you his plan then ignore what he has to say. If he isn't using a plan then he is likely unable to assist you in building wealth. There are resources for writing trade plans on my site; please use them.

MISTAKE # 8

TRADING TOO LARGE FOR YOUR ACCOUNT

The fastest way to go broke is to bet it all—all the time. Most traders don't learn this lesson until they have had at least one blow-out; by that I mean they have lost all their equity quickly and have had to start over.

For some reason, there is a tendency for traders of all age and experience levels to trade too large for the actual cash in their account. This is a symptom of a larger problem and unless you are willing to consider that you personally might have this problem already you most likely will be trading too large for your account right now today.

What is this larger problem?

GREED, BABY—GREED

It is unrealistic for you to believe you are going to make a killing on THIS ONE TRADE RIGHT NOW. Sure, you might be on the right side of a large move but that will take time and evidence to see. For this moment, any trade you have on has the potential to run the other way against you and if you are trading too large, your potential to lose a lot on only a few trades is huge. No matter your age, education, skill or experience level you are not going to make 100% winning trades. Therefore a certain percentage of your trades will simply not work. Those trades cannot be so large that you lose a significant portion of your equity in the process.

To beat the greed habit you need to make a few changes to both your equity management and more importantly to your thinking.

First, trading is a business. You need to treat it like one. There are certain things every business needs to run effectively and the first thing is liquidity. Simply put, if you run out of cash to play you can't remain open.

Second, if you had a reasonable plan in place already then it is a good guess that your plan calls for only a reasonable amount of percent gain on your equity regularly. If you were to use some basic mathematics while creating a sound trading approach one of the things you would be looking for was a realistic "risk-to-reward" ratio. That means for every dollar you lose you expect to make a certain number of dollars and out of every 100 trades a certain percent will be winners and some will be losers.

If you put this all together and asked the "what-if?" questions you get this base-line number that statistically will be a winning set of results:

42% winning trades out of 100 taken
Two dollars out for every dollar you give back

This is not my opinion, this is the Probability of Ruin Matrix and you can research it yourself if you have time. Of course, if you have higher percentages of winners and take more out on those winners you make money a lot faster but the point is if your results are at least this good consistently you are on your way to success. I teach more about that in *Trading Rules that Work* and in my *Psychology of Trading* course.

It's great to be on the high side of the matrix but most of us didn't start there and that is why you have to TRADE SMALL at first. To protect yourself from being greedy about your trading and to help you stay focused on long-term success it is important to make your trade size small enough so that it won't leave you in a position of not being able to play at all should you have a string of losses all at once. I found that limiting your risk/reward ratio to a factor of about 1.5% on any one trade is a great way to stay focused and not get greedy.

This means that for any one trade you take, no matter how you think of the trade or how certain you are of a win; you will not risk more than 1.5% of your account balance at any one time. This means that if you are trading so that your average loss is 3-5% (or more) of your account balance at any one time—you are trading TWO to THREE TIMES TOO LARGE for your account size. In that case, the Probability of Ruin Matrix will work against you and you will likely run out of capital before you make money with your approach (even if it is a winning approach).

If you are the greedy trader right now and you are guilty of making this mistake; If this means you have to drop your trading size down a few notches then you had better call your broker today and fix it—because if you don't you are an accident waiting to happen. It only takes making this mistake THREE TIMES IN A ROW to drop your account balance 15% or more in a heartbeat; especially if you are day trading!

HOW TO MAKE THIS MISTAKE WORSE: Convince yourself you are so good at trading that this couldn't possibly happen to you, convince yourself that your analysis is good enough to help you find 80-90% winning trades all the time, trade without a stop-loss order "just this once", double-up on the next trade after taking a large loss.

SOLUTION: Immediately reduce your account balance; take 20-30% of your cash home. Trade position sizes that are no more than 300% as valuable as your account balance. In other words, if your account size is $10,000, don't trade anything that has a total contract value larger than around $30,000. If that means trading mini's instead of big-board you had better do it.

MISTAKE # 7

VARYING THE SIZE OF YOUR TRADES

Most professional athletes can tell you when they are "in the zone"—that special place that only they know about but it leads to maximum performance. Every one of those athletes will tell you that they got that way by strict discipline and practice. One of the things that they practiced constantly was *the basics* as they understand them to be.

A golfer has “his swing”. A baseball player knows “his pitch”. A racing car driver has “his line” These professionals got there by following the bedrock basics all the time.

In trading, the bedrock basics include ***trading a size that works for you***. Just because you have the equity to trade a 50 lot of something doesn’t mean it is a good idea for YOU to do that. It is a mistake to think that whatever trading size you choose to work with day-to-day will automatically “fit” in your head. In fact, most traders will tell you the single most embarrassing blow-out they have had is the one that came from varying their trade size when doing well. In other words, they were pulling money out of the markets regularly and decided to increase their trade size just because they could; and subsequently the resulting new levels of equity gains or losses threw off their equilibrium. It made them see things differently and they lost enough of their edge to cause themselves losses.

To help put this in perspective, look back to a time in your life when you were trying something new for the first time. Did you ever have the feeling that someone else “made it look so easy”? Imagine your son or daughter being exposed to baseball or ballet for the first time. You and the instructor can plainly see that those kids have what it takes to excel at these sports. But if you push them too fast they will get discouraged because they “can’t do it”. Of course they can do it, but they don’t see that yet and they lack the confidence that doing the basics well can offer them. Imagine a 10 year old Hank Aaron with no experience staring down Major League Pitcher Al Downing for the first time.

In my early life, before I was a trader, I had the privilege of learning how to drive an open-wheel single-seater race car. The education process started with a lot of classroom theory followed by getting in the car and just doing it. I had to start at small “revs” so the car didn’t get ahead of me; in other words drive slow at first. After every few laps we had some critique by the instructor. While I was learning I was never allowed to exceed a certain amount of revs. Some guys in my class were never given the go ahead for higher revs; they flunked out. When my turn came I was given the green light to “see what the car could do” Because I had gotten really good at doing the basics of cornering I had absolute confidence and respect for my developing talent. I came within a few seconds of a course record for students on my third round of “full lapping” at full revs. I had no idea I had done that well; I just felt “in the zone” When my instructor offered me a chance to move up to a bigger horsepower car I had absolutely no worries. 20 minutes later I was so scared I thought I would kill myself. I was making serious mistakes, my speed was dropping and I was “off my line” In retrospect, and my instructor told me this, he had moved me up too fast. Although I was getting good at lapping with a lower performing car, I didn’t have the real bedrock knowledge yet. I needed more time and experience. When I got that time and experience I was a real driver—but that took two more years. I honestly believe that if I would have stayed with the bigger car initially I would have had a huge accident and maybe gotten seriously hurt.

Trading is a lot like that learning curve. What makes you a success at an early stage is not necessarily going to be what keeps you successful as the game goes on. As you get better and better it is tempting to increase your trade size. When you do, it is not uncommon for the new set of parameters and risk/reward numbers to “mess with your head” so much it leads to losses. Things were going really well but now you are losing ground.

Don’t be the trader that thinks he can do it all—all the time. Don’t vary your trade size easily. Stick with what you know is working and plan on increasing your trade size for very good reasons and at a certain level of success. Don’t do it too fast or you will find yourself holding losses for no real reason you can figure out easily.

HOW TO MAKE THIS MISTAKE WORSE: Focus on the money being made instead of the discipline required to get there, make your trade size as big as possible for your account size, ignore money management rules, don’t run a stop-loss order, trade larger when losing.

SOLUTION: Make the commitment to trade only a certain size until you have successfully doubled your account balance. Don’t increase size until you have done at least 100 trades with your system. No matter how well you are doing don’t increase your size for a full calendar year.

MISTAKE # 6

OVERTRADING

Overtrading is a symptom of a bigger problem; the one we have already discussed:

GREED, BABY—GREED

Overtrading is typically defined as doing a lot of trades, mostly losers very quickly. Sometimes overtrading can be defined as trying to trade too many separate markets. Sometimes it is defined as jumping back into a market immediately after you have gotten out. No matter how you want to slice it, making this mistake is very deadly to your equity.

Here’s why you need to guard against overtrading:

THE TRADE IS A LOSER!! YOU OR THE SYSTEM OR BOTH ARE WRONG!! STOP TRADING FOR NOW!!

By continuing to throw good money after bad you are no longer trading; you are gambling and/or hoping to get your money back. You are not thinking clearly and you are probably ignoring reality. It would be better to take a break and go do something else for a period of time. When you are in a state of overtrading you are doing something that is completely psychological in nature and has nothing to do with the markets. You see, the market does not know you have any position on at all. The market is simply doing what it is designed to do—process orders from traders. The market has no idea what the results of those orders are for any one trader. If you have lost touch with reality and can’t figure out which direction the market is more likely to continue moving in, it is very likely that you will be on the wrong side of the price action; you will likely lose more. If you compound this problem by trading excessively your probability of success drops even farther.

It is better to take a break and just take your lumps. As long as you have equity in your account tomorrow you can come back then and take a fresh look at it. If you continue overtrading there is a strong probability you will lose a significant amount of your equity making it next to impossible to recover easily from a minor set-back.

Losses are part of the game. They are a minor set-back. If you complicate your losses by wildly flying in and out of the market hoping to get your money back you will lose your cool. You will no longer see the market in an objective manner or let your system help you come back to even.

All trading approaches have their share of winners and losers. If you compound your problems by doing trades your system never asked you to do, plus overtrading in the process, you are headed for a meltdown.

Overtrading is easy to spot and simple to stop. First, if you are doing trades your system hasn't called for you; you are overtrading. If you are adding to a position (trading more) without a profit; you are overtrading. If you are reversing after a loss (taking a loss then going the other way) and getting whipsawed; you are overtrading. If you are adding to a losing position with more contracts than when you first did the trade; you are overtrading. If you are "winging it"; you are overtrading. If you are trading too many markets and committing 100% of your equity all the time to all those markets; you are overtrading.

In short, overtrading is any trading you do that is not part of your original plan and not part of your trading system. Overtrading is any trading that causes you to risk more than a reasonable amount of your equity on any one trade. If you spin yourself silly you will not have enough equity to recover. Don't be the trader who is overtrading.

HOW TO MAKE THIS MISTAKE WORSE: Ignore common sense with regards to how much trading you are doing, don't count the number of trades you did daily, tell yourself it is OK to add to a loser "just this one time", get angry with people who ask you how you are doing, ignore professional advice, trade without a stop-loss order.

SOLUTION: Set a number of losing trades in a row and stick to it. If you number is three losers in a row; then have the courage to quit after those three losers. Don't go back in 4, 5, 6 or more times thinking "you will get it back". Ask professionals to look at your trading history and follow the advice they give. If you have a certain number of losing days in a row, take a break for a few days.

MISTAKE # 5

USING ONLY ONE TIMEFRAME FOR TRADE SELECTION

As you can see, it is my opinion that psychology is vastly more important to lasting trade success than anything else. I really believe that trader psychology is 95% or more of lasting success. Part of what shows this clearly is how traders focus on time. Every trader reading this will already have some idea of how much time is "required" for a trade to work; even if it is just a fuzzy sort-of feeling that you need to "give it time"

I realize that this particular discussion of this particular mistake might be over a few heads at first. For those who might be saying "This is a bit much for me" I want you to try and follow along anyway. I promise to make what appears to be a difficult concept very simple to understand.

Suppose you do a trade at this moment. When do you expect that trade to make money?

I'm sure you answered to yourself immediately and said "By (such and such) time" or something close, correct?

That amount of time you thought of, in almost all cases, is too small for that trade to work.

I say this because most traders do not stop to consider anyone else in their trade selection; and this is even truer if you are using a “system” provided to you. It is very important for you to consider that if you are attempting to trade using a particular time frame (say a five-minute price chart) there are only so many people using that time frame as far as all the people in the market are concerned. There are traders using one-hour charts to find a trade, 120-minute charts, 15 minute charts, daily/weekly/monthly charts; all sorts of different time frames. Even if those traders are all using the exact same trading system, each of those different time frames will tell a different story about the market. It is completely possible that you might get a “buy” signal on your chart at the exact same moment someone else is getting a “sell” signal on their chart—even if you both are using the same trading system.

After you put the trade on, each of you will then wait a certain amount of time before liquidating your trade. The amount of time you wait will both be different. For the smaller time frame trader this amount of time will only allow for a certain amount of distance in the price movement; the scale is “smaller” To illustrate this thinking a bit more, have you ever done a trade and closed it with a nice gain only to see that market move considerably farther in your favor over the next few hours or days? You would have made a huge profit if you would have waited just a bit longer. The reason you didn’t wait is because you are using too small a time frame and your system gave you a false signal to get out. The most common problem with using only one time frame for trading is cutting a profit short.

The important thing to remember is that the market is a very big place. There are literally millions of individuals trading. They represent everything from college students hoping to make a few dollars for tuition to multi-billion dollar multi-national investment banks and even governments looking to hedge huge amounts of money. All of these individual traders have different needs and goals from their trading. Sometimes they operate on time horizons that are several years out from now. Sometimes they are “scalping” for only a few PIPS and are out in seconds. All of these time frames are competing against each other and for the most part the people with the longest time frames are usually the winners. You want to trade *WITH* the big players and not *AGAINST* them. By going in and out of the market too quickly you lose the benefit of the large player pushing the market in a particular direction over time.

Think of it this way: *Even a dead fish can float downstream... It takes a lot of effort to swim against the current.*

It is always easier and more cost effective to go WITH the largest traders in the direction they want the market to go. By using a larger timeframe the overall trend is easier to see and it is usually the more accurate one. Once they get the market moving in that direction it will go a long way over time; be the trader who is flowing with that larger amount of time. Don’t jump in and out all the time. For a more detailed discussion of using multiple time frames successfully and seeing how the market is actually structured pick up a copy of my latest book “*Time Compression Trading: Exploiting multiple time frames in zero-sum markets”*

HOW TO MAKE THIS MISTAKE WORSE: Ignore what large traders are doing and focus only on your chart, use your system exactly the same way no matter what it says on a different time frame, don’t place a stop-loss order, add to a losing trade, ignore broken support or resistance on a larger timeframe, go against the bigger trend.

SOLUTION: Use three time frames lower than yours and three time frames higher than yours to get a better idea of what other traders might be thinking. Look for conflict between the timeframes such as a sell signal on one chart and a buy signal on another when using the same system on both; always go with the larger time frame signal.

MISTAKE # 4

FAILING TO DO YOUR HOMEWORK

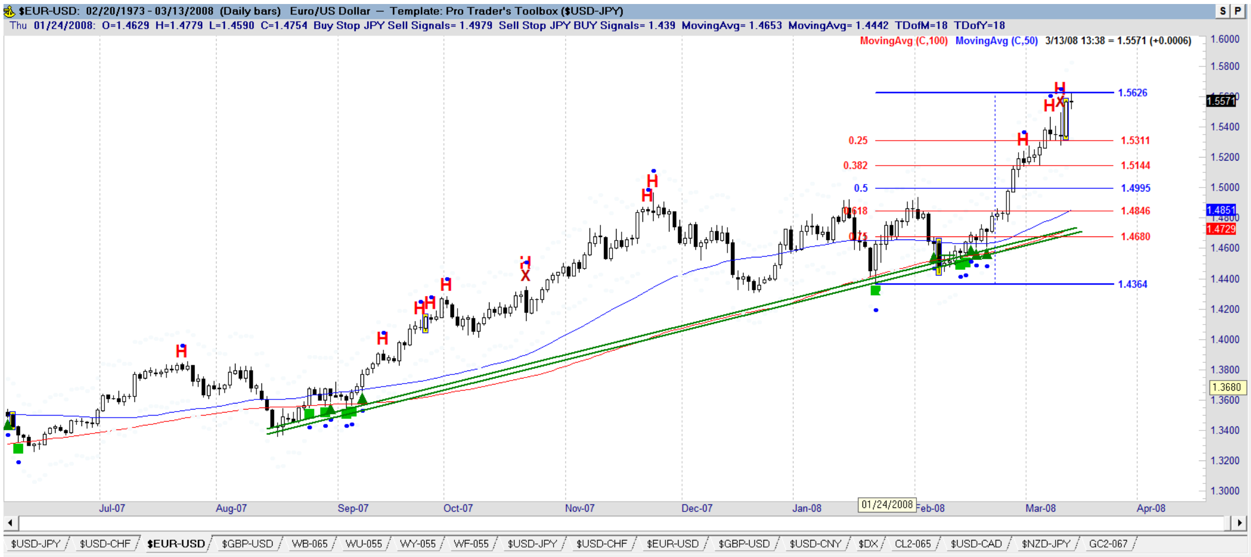
Of all the mistakes that FOREX traders make this one is one of the most common. If you want to lose money quickly—make sure you ignore doing your homework. When I say *homework* I mean *get market knowledge.* People often make the mistake of thinking that all they have to do is buy a trading system or a piece of software and start trading. If it was really that easy then everyone would be rich and there would be no horror stories of people losing all their money.

Market knowledge is highly needed because a trading system or a computer cannot take into consideration ***general conditions****.* Computer software and trading systems don't take into account ***people's behavior****.* As a serious trader looking to make real money trading you can't just plug in a black box, hit "go", and sit back and watch the money roll in. that might work for a period of time but once *conditions change* or *people's behavior changes* the quality of the market changes; once that happens your computerized approach will start losing money faster than you made it in all likelihood.

For example, most electronic systems or trading approaches use the laws of probabilities and averages to create trade signals. Many systems you might buy are *Trend Followers.* That means they use various algorithms, pivot points, formulas, and ratios to determine that a market has traded to a price that is favorable as a place to go WITH the trend. In other words, the market has rallied to a sell point in a down trending market or fallen to a buy point in an up trending market. See example "A" and "B" below:

Example A: USD/JPY Daily Price Chart, courtesy of [Genesis Financial Technologies](), used with permission.

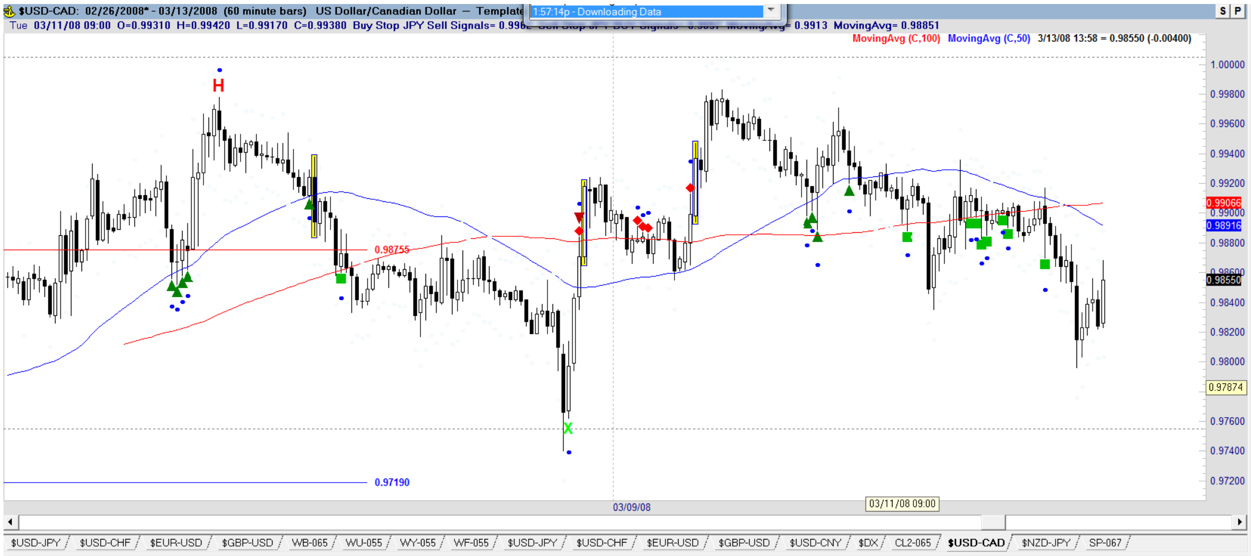
The market is in a very obvious down trend and the red arrows are where my proprietary computerized SELL signals would have told you when to short this market for a potential profit in a down trend.



Example B: EURO/USD Daily Price Chart, courtesy of [Genesis Financial Technologies](), used with permission.

The market is in an obvious uptrend and the green arrows are where my proprietary computerized BUY signals would have told you to BUY this market for a potential profit in an uptrend. Please ignore the other signals/indicators for now. If you are interested in learning more about my state-of-the-art trading methodology please see my website for details. I teach regular classes on how to use this method and provide the software to interface with various trading platforms; such as Trade Navigator, MetaTrader and others.

The problem with a trend following system comes in when the market itself is no longer trending. At a time like this, a trend following software will get chopped to pieces as the market rallies and falls chaotically; whipsawing you as you try taking each trading signal. See example "C" below.



Example C: USD/CAD Hourly Price Chart, courtesy of [Genesis Financial Technologies](), used with permission.

The market is trading sideways with enough distance to fool the computer into thinking it is developing a trend. Notice how the red and green arrows suggest getting in to the market just at the time the market would reverse. This is the same system that generated the wining trades on the longer timeframes seen in example "A" and "B" above AND it is the *same time* for all the markets. All these charts were taken from the software on the same calendar day.

It is true that a trading system or software can be a very valuable asset. Those tools make finding winning trades somewhat easier. But they do not take the place of true market knowledge. True market knowledge can only be acquired by regular study and education.

By understanding how to tell when a market is truly trending and when it is not you can save yourself the headache of continuing to trade every signal a computerized approach might give you. This type of market knowledge is never going to be “inside” the software or “inside” the black box. You as a trader must not make the mistake of thinking that you don’t have to do any homework about the markets you are going to trade. Trading systems and software only will go so far—you need to be vigilant on making up the difference through quality on-going market education.

It is important to understand the basic fundamentals of the FOREX markets as well as how to apply a trading system properly. On my website there are several links, articles and seminars available, many are FREE with your subscription, which will help you stay focused on getting good market knowledge. It’s my opinion that doing your homework is an essential part of knowing when to trade and when not to.

HOW TO MAKE THIS MISTAKE WORSE: ignore new developments in the news, don’t take refresher courses, don’t take advanced courses, don’t read any trading books, don’t attend seminars, ignore changes in your system, and don’t take feedback when offered, trade without a stop-loss order.

SOLUTION: Make regular time daily to read books on solid trading principles, attend seminars or online webinars offered by seasoned professional traders, update your software and hardware regularly, and invest some of your trading profits into continuing education regularly.

MISTAKE # 3

TRADING THE NEWS

Traders who have made a lot of money (and kept it) will be the first to encourage you to not make this mistake; starting on your first trading day. Trading the news is one of the quickest ways to the poorhouse. There are no professional traders working in any trading arena that will make trades when the news comes out or change their strategy when the news comes out. It’s important to understand a few things about the news. There is nothing special about the news, ever. In fact, I would almost go so far to say that the news doesn’t even matter but the markets do need to process changes to the fundamental picture to some extent. But for successful traders, ***the news*** (for the most part), is not any more or less significant than anything else. The market’s reaction to the news is what is significant—not the news itself.

Stop and think about this: Everyone reads the news. The news about the FOREX market is available to everyone. There is no secret news that is so special that if you knew it ahead of time it would somehow help you find the right place to do a trade. All the wire services, reporters, television shows or financial periodicals all have access to the same government reports and people in authority that might move the market. There is nothing they can say or report that is any different, unique, or somehow “more important” For every potential news item that will be released, it has already been discussed, analyzed, debated and re-hashed from both sides for weeks or months before it is released. Even the unexpected news will have a two-sided debate that rages sometimes for years. All the news is the same for everybody all the time. And the markets don't move *because* of the news. The markets move *because* of what people do. Sometimes people focus on the news and trade—that is the only important thing about the news.

Because the nature of the markets are such that we as traders are trying to anticipate a change in price, and often a change in price happens during a news event, most traders consider the news already "factored" into the market. In other words, if I was expecting the news to be bullish for a particular currency I would buy the currency ahead of time and wait for the news to be released. This tendency for traders to "anticipate" the news or "predict" the results of the news is where the trading maxim "Buy the rumor/Sell the fact" came from. It is natural for a market to rally expecting bullish news or fall when expecting bearish news; but that market will do something else when the news is released. This is why you should never trade BECAUSE of the news. All of the traders' actions BEFORE the news created a price change and now when the news is released, the traders' will do a DIFFERENT action. This is why a market often drops hard after a bullish piece of news was released. Basically, everybody was already in; they just liquidated when the news came out. Therefore, the people who rallied the market BEFORE the news were the SAME people selling the market when the news came out. The individual trader who just got in that market at the moment the news came out was left holding the bag. The market now drops when he liquidates. All of this can take place very quickly as some of us can attest.

When you wait for the market news to be released before you attempt to do anything you are taking a huge risk that you will misinterpret what the results of that news will ultimately be by the end of the trading day. In most cases, the market will react violently in both directions enough to either scare you out with a loss or force you out with a loss before settling down to a reasonable sort of trading. Trading the news is a very dangerous thing to do and most professionals often are out of the market around a news event or have only a small base position on.

In reality, there are really only three things that can happen when a news item is released. The news item can be:

1. Better-than-expected
2. Worse-than-expected
3. About as expected

How the market reacts to the news when the news is in one of these three categories will give you much more information about what might be coming next. For example, if a piece of bullish news is expected, and the market rallies ahead of the news, then the news comes out vastly more bullish than expected, but the market actually drops on that day; THAT price action tells you a lot more about the health of that market than anything else could. For a bullish market to rally on anticipated news and then drop on much better news says quite clearly that no one is left to buy that market anymore. It wouldn't surprise me in the least to see that market much lower after only a few days; leaving all the people who bought *because* of the news scratching their heads and asking "Why did the market go down, the news was bullish?"

The market dropped because the news was already "factored in" and the buyers already made their move.

Don't be the trader that gets into the market when the news is released, make your choice and enter the market when the system says to; don't expect the market to respect the news. Don't expect that your interpretation of the news will be in the direction the market is going to trade today.

HOW TO MAKE THIS MISTAKE WORSE: Try to guess the news, go long or short just before the news comes out, buy as the market rallies or sell as it breaks hoping to catch the wave, don't place a stop-loss order, and try to trade both sides of the volatility.

SOLUTION: If you don't have a trade active in the market, wait at least 45-60 minutes after the news comes out to do anything. If you have a trade active, turn the screen off for 45-60 minutes when the news comes out and just let it work. Don't let the volatility scare you out. Give the market time to settle down after the news comes out.

MISTAKE # 2

NOT KEEPING RECORDS OF YOUR TRADING

When I teach my Psychology of Trading class every quarter it still amazes me how many of my attendees cannot provide me written documentation of their trading results. That's like running a business everyday with only one piece of information; your checking account balance.

Suppose you told me that you owned your own business but had absolutely no records of what your inventory was, what your average ticket sale was, how long your customer stays in your store, what the average wholesale price of your best selling items were, etc.?

People, me included, would think you were Looney-tunes. You can't run a business without good records. Trading is a business. You need to keep trading records of your business.

You need to keep accurate records of your trading because over time you are going to learn that certain things work and other things don't. Sooner or later you will come to the conclusion that your trading system or computer analysis is only a small part of what it means to be a successful trader. The rest is how you personally participate and if you don't have a record of how you participate; you can't learn what behavior will work for you and what behavior doesn't help you. The purpose of keeping good trading records is to help document what your personal winning behavior is and what your losing behavior is. Your goal with these records is to discover your trading strengths and weaknesses.

Once you have a handle on what your trading strengths and weaknesses are you can now put guidelines and/or rules in place to maximize your trading strengths and minimize the effect of your trading weaknesses. You don't have to do it by much in order to tip the odds squarely in your favor and put you on the high side of the Probability of Ruin Matrix.

Let me tell you a story of how keeping records helped me turn the corner in my personal trading. As a young trader, I would often "shoot from the hip" I would make a snap judgment based on my point of view and make a trade instantly. Because I had no real rules for getting in or out, I had my share of "jumping the gun" on trades that eventually would have worked from that side. Once I learned to keep good records and review them I discovered that I often was correct on my initial observation about net price action, but I was usually a day or two early. I was often stopped-out for a loss just before the market would turn. After this happened several times, I would simply execute again immediately to get back in; resulting in another small loss. This would happen six or seven times (making mistake # 6 "Overtrading"). Usually the market went a significant distance; then the market would turn. I would hold the winner but I would need to overcome a major loss to my equity before the trade had a net gain. On a 200 point move in Japanese Yen (for example) I would net maybe 30-40 points because I had a 150 point deficit to overcome first.

After reviewing my notes, my observations, and my trading history, I decided that my skill at finding a trade was not the issue. My system worked fairly well. My timing was usually a day or two early. I made a new rule for myself: “If I have three losses in a row, I cannot trade for 24 hours”. If my first three attempts to buy what I felt was a sell-off were losers, usually I would get another chance right in the same area or better within a day or so. By disciplining my trading in this manner, I would save myself three or four more losers. Nothing really changed in my trade selection or my analysis but changing my behavior allowed me to get into the market better and stay there better.

I might have never made that connection if I hadn’t reviewed my records and changed how I operated my business. That one little change made a huge difference in my results.

If you want some clues on how to keep good records or what sort of information will be really helpful please go to my website, there are lots of resources there and additional products to help with record keeping.

HOW TO MAKE THIS MISTAKE WORSE: Don’t keep any records of any kind, never review your trades, check your account balance only rarely instead of after every trade, do trades without thinking them through, ignore advice from professionals, trade without a stop-loss order and don’t write anything down.

SOLUTION: Get a three-ring binder and fill it with lined paper. Write everything you do down. Calculate your results daily and make time every week to review your notes on your trades. Join a support group of other traders and have them hold you accountable for record keeping.

Now, I want to give you the number one mistake FOREX traders make. This is without a doubt the single biggest mistake you can make and you only need to make it once to end up broke. If you made every other mistake in this book but never made this one—you would still have a fighting chance for ultimate success. But if you make this mistake—you might as well take a $10,000 stack of $100 bills out to the backyard, tear them into tiny little shreds and start a bonfire with them. There is no faster way to losing all your money than making this mistake.

MISTAKE # 1

TRADING FOREX WITHOUT A STOP-LOSS ORDER

Why do you think they are called stop-loss orders? *Because that is the point you want to stop losing.*

There is no way to adequately communicate how important it is to pre-select, in advance, exactly where you will liquidate a losing trade if the market goes against you. There is nothing you could say or do, no argument you could ever make, that would justify, even remotely, trading FOREX without a safety-net on your equity. I have heard all the opinions, rationalizations, justifications from traders who say that they don’t need to use stops, they have “mental” stops, they will “just get out” etc. I have heard all the sob-stories from these same traders when they have to clean out their desk and find another career; “If only I had placed a stop at least I would still be in the game”…

I’m as serious as a heart-attack. If you place a trade without a stop-loss order to protect yourself you **WILL** be in that group of traders sooner or later.

It is important to constantly remind yourself that trading is a risky environment. Because it is simply not realistic to think that you will have 100% winning trades it is equally important to limit the risk exposure on any one trade. You have to let the laws of probabilities work for you and you have to control your risk to do that. When you place a trade, it is completely possible that something in the market might change and that change might take the price against you to places you personally just never expected. If you are still in a trade at that point, your loss is probably a significant amount of your balance. If you were trading too large to begin with you might be close to getting wiped out.

All of that is prevented by placing a stop-loss order.

Additionally, getting stopped out of a losing trade frees up both capital and mental resources to look for the next potential trade. You are going to have both winning and losing trades. Get out of your losers quickly and confidently. Don’t let the markets take more from you than is reasonable to find out if you are in a position to profit.

It only takes ONE trade that runs hard against you to wipe you out if you continue holding it. Use stop-loss orders and never break this rule—always use stop-loss orders on every trade.

There is nothing more to say on the subject. Make this mistake and you’re out.

HOW TO MAKE THIS MISTAKE WORSE: There is no way to make it worse. This is as bad as it gets in this business.

SOLUTION: Simply place a stop-loss order on each and every trade. When you click the mouse to get in; follow that order IMMEADIATLY with a stop-loss order to get out.

IN CONCLUSION

I hope you have found this short booklet enlightening and helpful. As I have told my customers many times I learned all these lessons the hard way. I would encourage you to consider very carefully if what has been presented to you here is the right thing for you. Some people won’t agree with my point of view on some of these mistakes but that isn’t the point. The point is to help you get a better head start to trading FOREX and shorten your learning curve.

Please consider me a friend in the business. I have many products and services available to you that have been created from my hard-won experience. They are all designed to help you do two things: Stay focused on what really matters when trading FOREX and stop making costly mistakes. I hope you will consider joining me and my online community for additional tools and training. All the details are on my website.

Good luck and Good Trading,

Jason Alan Jankovsky

About the Author

Jason Alan Jankovsky is a 20+ year veteran of leveraged transaction trading. Trading extensively in Futures, Options, and FOREX since 1986, first as a customer and then as a registered broker, he is self-taught and self-educated. Working in almost all facets of the trading business, he has authored several trading systems, trained other successful traders and has been published in many industry periodicals; his numerous articles on global cash FOREX have appeared in "Traders Savvy", "The Perspective", "SFO Magazine", "Futures Magazine", "FX Magazine" and other industry publications. He is a regular guest on FOREX TV and the Jack Bouroudjian Show as well as other business radio and television shows. He is the author of "Trading Rules that Work: The 28 essential lessons every trader must master" (John Wiley & Sons, October 2006). His second book "The Art of the Trade: what I learned (and lost) trading the Chicago futures markets" (John Wiley & Sons, October, 2008) is an autobiography of his education as a trader. His latest book titled "Time Compression trading: Exploiting multiple time frames in zero-sum markets" (John Wiley & Sons, 2010) is a regular Amazom.com top 100 bestseller in its category as are his other books. He has focused on the psychology of trading as the key component to a successful trading methodology and teaches a six-week course on trading psychology every quarter to traders around the world. He appears regularly as a guest speaker at many public and private trading forums and has been invited to speak at round table discussions offered by events such as "The Orlando MoneyShow" and "The New York Trader's Expo" He provides daily trade coaching and analysis working directly with traders of all skill levels. Born and raised in Chicago, IL, he is an avid Sailor and Private Pilot.

Mr. Jankovsky also discloses his trading results using his proprietary trading method *The Pro-Trader's Toolbox* in his personal and managed trading accounts every Friday afternoon (holidays excluded). Complete details on attending his FREE weekly performance wrap-ups, opening self-directed & managed trading accounts, getting a copy of *The Pro-Trader's Toolbox*, as well as trader coaching services and additional training can be found on his website www.TheLionOnline.com

How to contact Mr. Jankovsky:

Please visit his website www.TheLionOnline.com for current contact details. Use the "contact me" form anytime for a prompt response.