ThinkMarkets®

BEGINNER TRADING GUIDE

10 TIPS TO SUCCESSFUL TRADING

SAVE TIME AND MONEY WITH THESE HELPFUL TIPS.

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Learn the Rules of the Market

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A good understanding of your selected markets and the methods of how to trade them are essential skills to achieve before moving to live trading. Take every opportunity to learn more about the methods of market analysis and trading for each market whether you are trading Forex, Metals, or CFDs. A great deal of information is readily available in books, websites, blogs, and training videos. Many of these resources can be found on the internet. You can explore these resources on your own or contact one of our trading specialists for guidance and support.

The important information to focus on is market terminology, any widely agreed upon factors that impact the market, and any unique traits of the market. For example, the Forex market is based on the exchange of currency contracts (Unique Trait) with a standard value of 100K that moves in increments known as "Pips" (Market Terminology) with a general value of $10 per pip. Pip values will vary (Unique Trait) based on the currency pairs of the contract traded and the account currency of the trader. The Forex market is heavily influenced by economic reports (Impact Factor) related to the home countries of the currency pairs traded. As a result the Forex market will move in large swings when economic reports are released; especially when the reports are from the US, Eurozone, or Japan.

Terminology, impact factors, and unique traits are key items to understand when trading Forex, CFDs, Metals, or any other market; but each market traded should by fully explored. Getting to know your markets well is crucial to trading success. .

Create a Trading Plan

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The creation and use of a trading plan will provide a blueprint for your trading activities and clarify the necessary actions to take when trading. Your trading plan should document your goals, methodology, analysis process and risk / reward levels. A well-constructed trading plan will provide the controls needed to keep your trading on the correct path.

Key trading plan elements include:

1. A daily process to review the previous trading session or trading time-frame
2. A process to Identify trading opportunities
    a. Macro-Analysis of the Current Market – News, Economic Reports, other Impact Factors.
    b. Micro Analysis of the Current Market – Review of charts and indicators

3. A desired entry point

4. A defined risk per trade
5. A defined stop loss and take-profit levels

Each individual trading plan is unique but at minimum should contain the 5 elements listed above. Document your trading process by setting a plan down on paper and follow the plan as written to streamline your trading efforts.

Put Your Plan to the Test

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Going through the motions of your trading plan is as important as documenting your plan. Use a demo trading account to test your plan in real-world market conditions. Demo trading accounts are readily available from most brokers and can provide the best opportunity to practice trading and test your trading plan in a lifelike simulated trading environment with no risk. Making the effort to practice trading on a demo account can help identify any weakness in your trading plan and allow you to adjust where necessary.

When trading in a simulated environment it is critical to follow your trading plan and execute your trading as if you were trading in a live environment. Only take the trades your plan signals and respect all stop loss and take profit levels. Many new traders make the mistake of not trading their demo account with the discipline of a trading plan and the mindset of a live trader. As a result it is common for their live trading results to differ greatly from their demo trading. By trading your demo account with the live trading mindset you will mentally prepare yourself for the transition from demo to live trading.

Determine Market Conditions before Taking any Action

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Regardless if you choose to use fundamental analysis, technical analysis or a mix of the two core analysis styles, a complete and regular assessment of active market conditions is essential before placing any trades. Sometimes the market conditions will be primed for trading while other times it may be best to stand aside. If you take the time now to learn more about the methods of market analysis it will serve you well later. Choose an analysis process that is not overly complicated, you understand well, and you are comfortable using.

The most critical factor of your analysis is that you truly understand any indicators you are using or any outside information (Economic reports, news, etc.) that you work into your market view. Complete your analysis then let the market show you the way. If you are unsure of the current market conditions or the available information is providing conflicting signals it is best to stand aside and wait for a trade with a stronger signal.

Control Your Trading Capital

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Novice traders have a tendency to have a strong aversion to risk and often focus too heavily on booked loses or worse, refuse to close out of a losing position as they hold onto a belief that the market will come back in their favor. Successful traders know there is potential risk in every trade.

To put it simply there are only 3 things that can happen when you place a trade:

1. The market goes in your favor,
2. The market moves against you.
3. The market trades sideways (No Gain / No Loss)

These 3 possibilities are outside of your control as a trader. What you can control is the negative or positive impact any one of these 3 possibilities has on your trading account. It is up to you to book profits when the market moves in your favor, control the amount of loss if the market moves against you, or to exit a trade if the market moves sideways and there is no momentum.

By knowing your risk and reward levels you can maintain control of the potential outcomes of every trade. Many traders use a 1% to 3% risk level as their control point. For example, a trader with $10,000 in starting trading capital and a 2% risk point will never risk more than $200 on any single trade in hopes of gaining a return of 2% or more. It is just as important to identify your profit exit points and set reasonable take profit exit orders that fall within range of the market you are trading. Do not expect a 300 point move from a market with a 100 point average range.

It is not uncommon to experience strings of wins as well as losses. A low risk point will help you reduce your losses while a clear take profit exit strategy will help you lock in gains. Identify the risk/reward levels that are appropriate for you and make them a part of your trading plan. Never risk more than you can afford to lose. Always make sure you have enough capital to support your trading on both good days and bad.

Know Where to Enter and Exit the Market

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Pending and take profit orders can help manage risk and protect potential profits by helping you get in or out of the market at specified prices determined by your trading plan. The use of these orders will help ensure you enter the market where your plan indicates and you exit the market the same way without the risk of hesitation. Many traders have made the unfortunate mistake of adjusting stop loss orders lower and lower on a losing trade until they hit the point of ruin. Where other traders have adjusted take profit orders higher and higher just to see their profits vanish as a trade quickly reverses against them.

For each and every trade you should identify your entry, stop-loss, and profit goal price levels. All of these levels should be determined by the rules of your trading plan and you should place the appropriate orders on every trade allowing your plan to run its course. Do not adjust your pending orders after the fact, let the market trigger your orders and carry you in and out of the market. If you find the desire to constantly adjust your pending orders then you should review your trading plan to refine your entry and exit level placement.

Remove Emotions from The equation

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Uncontrolled emotions are one of the key reasons traders never achieve the success they are seeking. Successful traders use the structure and discipline provided by a well thought out trading plan to eliminate emotion from day-to-day trading. A planned and strategic approach to trading will help reduce any uncontrolled emotions.

When you begin your trading process, it is important to remove any non-related or outside influences from your environment to allow you to trade with a clear focus. Some traders use a daily ritual such as a short checklist related to their trading plan. Others use brief physical exercise to help clear their mind and sharpen their focus. The goal is to develop your trading process, execute each and every step as required and with proper form. Not so different than a martial art, your trading process will soon develop a natural flow and become second nature as long as you stay true to your process.

Your specific process is not as important as the result it provides – the removal of emotion and the delivery of the mental focus required for your trading. Develop a process to get your trading started on the right foot each and every time and include it in you complete trading plan.

Know What Type of Trader You Are

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Understanding your own personality and working with a complementary trading plan will help ensure you get the most positive experience and best results from your trading. Some traders are better suited for high volume short-term trading while others thrive when using a slower long-term style. Knowing your own personality is just as important as knowing the personality of the market you decide to trade. There are many assessments available online to help you learn more about yourself as well as numerous books and articles written on trading psychology and behavioral finance. Explore who you are as an individual and how that can and will apply to your trading psychology.

Discipline and Consistency Will Lead to Success

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Success in trading is a result of discipline and consistent actions not an above average ability to select successful trades. In fact, most traders select losing trades as much as they do winning trades. Over time the success rate of traders begins to move towards a 50/50 win loss ratio. The more trades one completes, the closer to the 50/50 average they get. In this scenario it is important to consider risk to reward ratios. If for every trade you risk $1.00 dollar and attempt to make a profit of $1.00 with a 50/50 average you will come out even. If one increases their profit targets anywhere in the range from $1.01 to $2.00 or more, on average, you will come out ahead.

Change with the Markets

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From time to time, markets shift and market mechanics move in different ways. It is important to regularly review your trading plan and, when needed, adjust it to new trading environments as they evolve. The core elements and principles of a quality trading plan will serve you well in any market. Take the time to understand the fundamental influences in play and adapt your trading plan to sync with your market of choice as well as you as a trader. **Plan your trade then trade your**