VALUTRADES

4 Biggest Reasons

Why you lose with Forex Trading

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Introduction

The forex market is far and away the largest financial market in the world, with the stats going a long way to back that up.[1] During April 2016, records show that, on average, $5.1 trillion was traded per day. What you can also take from this is just how popular forex trading has become, with this figure presenting a notable jump on the $4 trillion posted, on average, per day during April 2010. With more and more people engaging in forex trading than ever before, we hear endless stories about traders getting their fingers burnt. The reasons for this are actually quite clear; as many traders don't actually understand the forex market, they make the same mistakes time and time again.

In our opinion, most traders lose money because they simply have no real grasp of the big picture. Thankfully, Valutrades understands that the first 6 to 12 months of forex trading can be incredibly daunting, with potential losses and pitfalls seemingly around every turn. Helping you to dodge those pitfalls, address the biggest reason why you might be losing money, and put you back on the right track to forex trading success, the following information is something that you are going to want to commit to memory.

Common challenges new traders will face

As mentioned above, the initial 12 months of any forex trader's journey will certainly be the most daunting, as investors need to get up to speed in pretty quick fashion in order to succeed. The problem is that actually grasping the market is much easier said than done, as there are certain challenges that traders face that can stop this from happening. Highlighting these challenges, what you'll find is that what stands in your way is a mix of both the mental and circumstantial.

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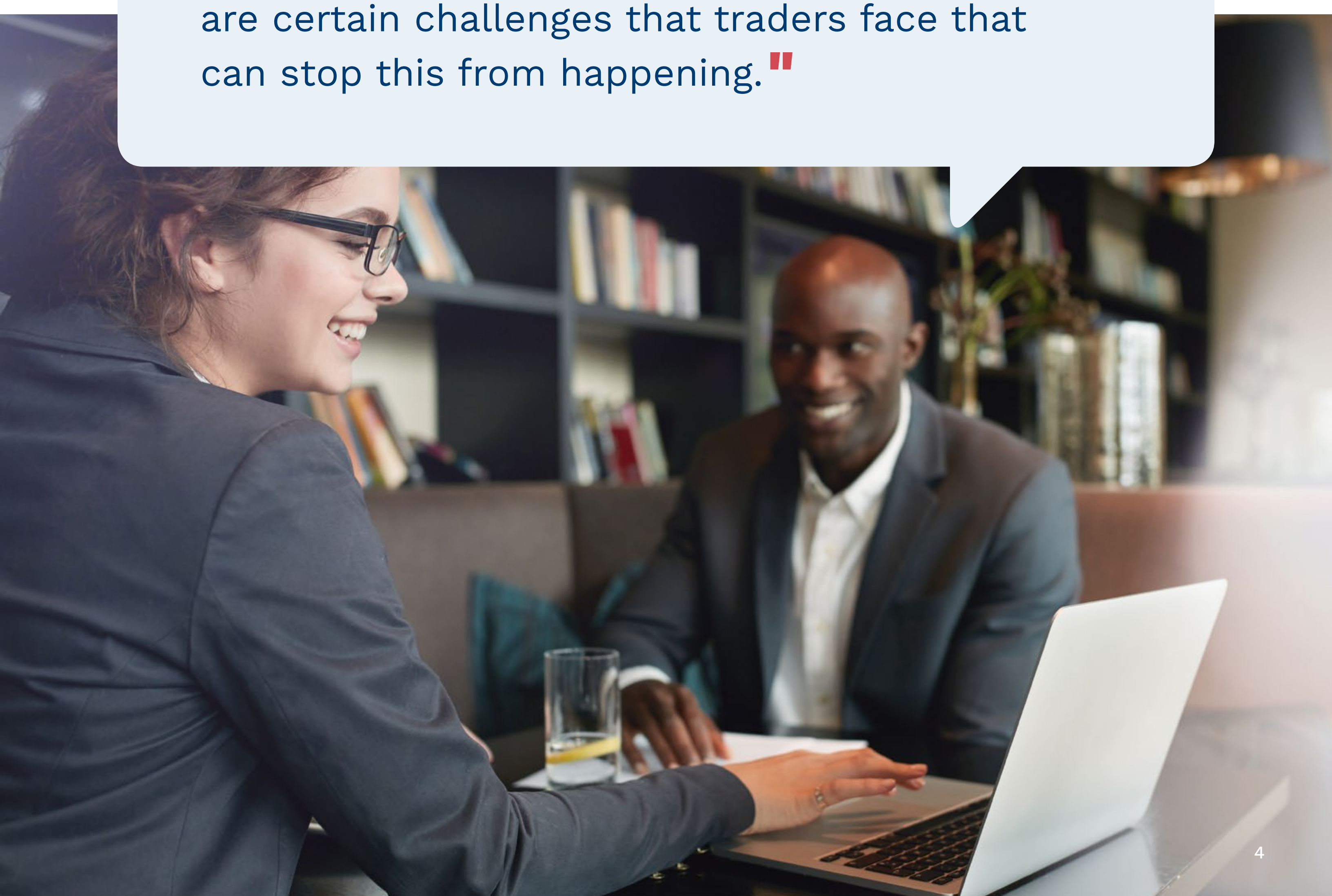

Psychological factors

It's pretty shocking, but the fact is that more than 95 percent of traders lose their whole forex investment pot in the first six months[2], as the market can certainly be unforgiving. Part of the reason why this is the case is that there are still some people who see forex trading as a get-rich-quick scheme. This has strong links to the feelings of both luck and greed, two things that can act as a psychological block to anyone who is new to trading forex.

There are some investors who take incredible risks from the moment they start trading, thinking that "all risk, all reward" is the right approach to take. There is every chance that you could wrangle profits through this strategy on occasion, but the harsh reality is that luck always runs out within the forex market, with greed having the potential to do long-standing damage.

Traders who consistently push the limits, opting for high-risk moves, are often asking for trouble from a psychological standpoint. The allure of huge profits can certainly present quite an image to new traders, but when it comes down to it, luck and greed is a dangerous combination that can rip any solid trading strategy to pieces.

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Financial factors

Arguably, the biggest issue facing new traders is to simply comprehend the sheer size and complexity of the forex market. No matter whether you are trading part-time, full-time, or casually, the worst possible thing you can do is underestimate the market's power, along with its varying levels of volatility. Commit to trading, strive to learn the ins and outs of forex, and learn to appreciate the potentially complex nature of what you're doing.

Another matter that needs to be addressed extensively is budgeting, with this also tying into the actual type of trader you want to be. Budgeting and determining the mount of money you have to invest are of the utmost importance, as your forex trading efforts will need to be bankrolled. For example, if you enter the forex market with full-time trading aspirations, you are going to hit a brick wall time and time again if you don't have the right budget in place.

Environnmental factors

Forex is an investment market that is ever-changing; thus, it is something that needs to be committed to in order for it to be a profitable venture. When you take a look at the options you have, you need to seriously address how much time you are able to commit to forex trading. Are you available to trade around the clock? Are you looking to trade around work commitments? Are you simply looking to dabble in the market? Ask yourself these questions to determine how committed you are to forex trading, along with what your free time allows for.

Following on from the above, from the moment you start forex trading, you are going to have various terms thrown your way, one of which is surely going to be “recency bias”. Recency bias relates to when a forex trader becomes increasingly influenced by recent forex trading results, largely ignoring the bigger picture of the market as a result. Considering the sheer excitement that forex trading can generate, it’s no shock to see that many new traders get “caught in the moment”. The problem with this is that it can disrupt any trading strategy you have in place, as when you are only thinking about the now, you could find that your bottom line suffers as a result.

The biggest reasons why traders lose money

The challenges facing any new forex trader have now been made pretty clear. With that at the forefront of your mind, you need to start looking at the key reasons as to why most forex traders lose money. For your benefit, here is the breakdown of what might be denting your profits and overall potential to trade forex effectively:

Overtrading

When you first start forex trading, the urge is to go big, which probably explains why overtrading is such common issue. Whether it's trading too often or trading excessively, this can go on to wreak havoc with any trading strategy you have in mind, as it can create unrealistically high profit goals, market trading fatigue, and insufficient capitalisation.

Novice traders often act in the moment (see "recency bias" above), which means that trades can occur at lightning-fast speed, creating instability, and making it nearly impossible to put on the brakes. You need to be proactive when it comes to avoiding overtrading, taking steps to do so before you even load up your chosen trading platform. You need to address the emotional pull you'll have towards certain pairs and trades; by quashing this, you can begin to trade in an emotionless state, with only methodical and logical market moves in mind. Those new to trading may lean towards the scattergun approach, but that is what will lead you down the path to overtrading and will often do more harm than good.

Market Conditions

The forex market is notoriously volatile and has certainly swallowed a few novice traders whole over the years. No matter what you might hear, there is no perfect forex trading strategy out there, as it's simply impossible to craft something that covers every market condition, budget, and approach to risk in a single swoop. Sadly, far too many traders don't seem to grasp this, as they have the tendency to paste together a strategy that is overly rigid and doesn't have what's required to adapt to the ever-changing market conditions. Some traders even opt to chop and change between strategies in the hope that something sticks, with this approach often leading to hugely inconsistent returns.

Market conditions with regards to forex can change in an instant, so a trader has to be willing to change approach when needed, ideally through a single trading strategy that has the power to acclimatise to new risks as and when needed. On top of this, you need to mould your trading strategy by tracking major shifts, keeping abreast of financial news and understanding important monetary policy decisions. Remember: A trading strategy, no matter its form, is only a foundation; it's up to you to adjust to market conditions to ensure its ongoing success.

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Risk Management

"Risk management" is a term that is bounced around the world of forex trading regularly, but many traders simply don't understand the sheer importance of it. No matter whether you're trading with £100 in the bank or a £10,000 budget, risk management procedures and processes are crucial to ensuring that you remain protected and in control when forex trading.

The reality is that risk management (along with risk awareness) should already be built into the foundation of your trading approach. However, what can really work to solidify matters are the tools you can implement along the way that will protect you from taking a heavy financial hit should things go south. Looking at the tools that most experienced traders lean on, stop-loss orders are what allow you to restrict the amount you can lose, with it closing the position at a preset loss level.

The statistics prove that no trader gets it right every time, as a study by PhD researcher John Forman revealed that 99.6% of retail forex traders are unable to achieve more than four back-to-back profitable quarters. With this in mind, you need to address risk management extensively so that when losses do occur, they don't trigger a domino effect.

Unrealistic Expectations

Lastly, within the heads of new traders, unrealistic expectations tend to run rampant. As a result of this, far too many of those who enter the forex market set themselves up for failure. Expectation comes with experience, so when you first start trading and during those fledgling first 12 months, you need to push images of untold wealth to the back of your mind. You need the right mindset when you trade forex, with unrealistic expectations certainly having the power to disrupt this.

Forex isn't a get-rich-quick scheme; it's a trading format that takes on both psychological and financial pressures. These are pressures you need to both address and take in your stride. Doing this (along with embracing consistency and patience) allows you to sidestep the myth that you can simply go heavy on one or two trades and strike it rich. Any novice trader needs to banish unrealistic expectations and live within reality when it comes to the world of forex.

How to establish and maintain a consistent strategy

You can't trade forex without a strategy, as it is going to be your "bible" when it comes to finding success. Creating an effective trading strategy isn't always the easiest of tasks, as it requires plenty of thought and foresight. Looking at what it takes to both establish and maintain a consistent forex trading strategy, the following information is going to be key:

Timing

When embracing forex trading, before you do anything, you are going to need to determine what type of trader you are. Do you enjoy swing trading, or is day trading more your speed? Are you interested in breaking down charts and data, or do you tend to go with the flow? How long do you tend to hold on to positions? How active do you see yourself being? Answering these questions will help you to determine a trading time frame that will make up the basis of your forex trading strategy.

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Filtering

Information is going to fly at you from all directions when you trade forex, as the currency pairs of the world are constantly shifting, but not all advice is good advice, especially when it comes to executing trades. As your forex trading strategy begins to take shape, it's important that you filter out the advice that is actually going to be detrimental to your output.

Simplicity

You should learn from experienced traders and well-respected forex analysts when putting pen to paper on your strategy. These individuals have seen it and done it within the realm of forex trading, so you should certainly study them when putting together your strategy. While we wouldn't suggest that you follow them blindly, you can certainly grab several key bits of info that can help to solidify your forex trading efforts.

Long-Term Goals

Plenty of traders can turn a profit from short-term market fluctuations, but when starting out and creating a strategy, it is what takes place over a longer time frame that should take precedence. Short-term data can come with plenty of hype and noise in tow, but it can also cloud the judgement of a novice trader and can't always be relied upon to determine accurate market predictions.

Fundamental Analysis

Technical analysis is largely self-explanatory in execution, as it’s solely based on breaking down the internal forex market factors (such as the number of active buyers and sellers) to determine the likely market direction. However, you simply can’t base a forex trading strategy on these factors; as crazy as it sounds, you need to look beyond the numbers.

The forex market is strongly influenced by what occurs in the real world, as everything from growth figures to interest rate changes can impact currency performance. When formulating a forex strategy, you should carry out extensive fundamental market analysis, understanding what’s ahead when it comes to forex as a result.

Safeguarding

It was mentioned above, but it certainly bears repeating. No trader can monitor the market manually 24/7, so in your absence and in the interest of risk management, you should set stops on your open positions. This type of order will automatically commit you to sell when a currency reaches a certain level, in your absence or otherwise. Limiting losses and locking in profits, correctly used stops can plug up any holes within your forex trading strategy and act as an additional level of protection.

Testing

After going through all the motions and developing a forex trading strategy, you'll need to test its effectiveness. As you are new to forex trading, it is certainly illadvised to do this with real money. By using a demo account, you can put a forex trading strategy through its paces, ironing out any kinks and making modifications along the way. It's important that you craft your own forex trading strategy, with it meeting your investment needs; by testing it through a dummy environment, you can really mould a base approach into something effective.

Tools

With a base forex trading strategy in place, how you can further it is through the use of certain forex trading tools. Coming in a variety of different forms, the right tools really can boost your output to the next level. Ensuring that every trader can have increased control over his or her portfolio, automated trading (via Tradeworks) allows anyone to trade around the clock, with moves being made automatically based upon preset criteria, thus allowing anyone to trade unemotionally based on facts, figures, and statistics. For those who wish to be nudged in the right direction when it comes to the trades that they make, market indicators (often combined with a signal-based service) will be of use.

Alerting subscribers to what is happening within the market, along with certain trends that may (or may not) be unfolding, the right signal service can helpyou to stay one step ahead of the game. Finally, in order to grasp the true effectiveness of your forex trading strategy, performance tracking (via [Chasing Returns]) is stronglyadvised. Allowing you to understand what's working and what isn't, through performance tracking, you can see the hard data that will allow you to tweak your forex trading strategy to ensure continued success.

Conclusion

The image of forex trading has certainly changed a lot over the years, as the advent of web-based trading has brought it closer to the masses. For that reason, it really is no surprise to see so many people dabble in forex trading as a means of investing. If you want to establish a firm footing within the world of forex and ensure that you quickly establish a profit base—as you can gather from above—you can do so by managing your way around the pitfalls that other traders have so often stumbled into.

Sources:

1. http://www.reuters.com/article/us-global-fx-peaktrading-idUSKCN0VK1UD

2. http://www.tradersreserve.com/market-commentary/popular-trading-statistic-95-of-traders-fail/

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