# POSITION SIZING…
# TIPS ON HOW TO AVOID RISKING TOO MUCH

I have written two or three articles on this subject and, in addition, POSITION SIZING has featured within other articles important to Forex Trading. I thought that it would be a good idea to revisit this topic once more from a different perspective.

I believe that the proper position sizing is THE single most important skill a trader should have. Yes, That's right – it's **that** critical.

Simply put, proper position sizing means setting the correct amount of lots (MICRO, MINI or STANDARD) to buy or sell a currency pair. In other words, it involves finding the position size that will keep you within your risk comfort level.

Proper POSITION SIZING is a key element in RISK MANAGEMENT. And as we've been told many times, RISK MANAGEMENT can determine whether you live to trade another day or not. It can keep you from risking too much on a trade and blowing up your account.

Let me spell it out in my style:

CAPITAL PRESERVATION is PARAMOUNT TO TRADING FOREX.

LONGEVITY can only be achieved through TRADING CONSISTENCY.

POSITION SIZING allows you to come back the next day.

TRADE PLANS with RISK MANAGEMENT = LONGEVITY.
(Establish your RISK TOLERANCES)

Sure, when you bet big, you can win big. But what happens when you lose? You don't need to be a brain surgeon to figure that one out – you lose big too.

Without knowing how to size your positions properly, you may end up taking trades that are far too large for you. In such cases, you become highly vulnerable when the market moves even just a few pips against you. Here are a couple of tips to avoid risking too much.

**1. IDENTIFY AND ACKNOWLEDGE:**

Nobody does something just for the heck of it. Binge eaters don't just overeat just so they can eat a lot. In one-way or another, they get something out of it, some sort of self-fulfillment perhaps.

The same is true for a trader who always finds himself or herself betting too much on his trades even when past experience tells him it’s not a good idea. Why do they keep on doing it?

A little introspection can make one realize that it’s more than just about being greedy. For most traders, they realize that their aggressive behavior is tied to their self-worth. They bet big in the hope that they win big. The prospect of massive gains consequently makes them feel good about themselves.

The problem though is that they don’t fully understand how much they could lose and they find themselves being unable to control their emotions when the price goes against their way, even by just a few pips.

In order to address it, one has to acknowledge that there is indeed a problem and that will make a trader realize that this mindset is flawed. With time and conscious effort, he will eventually realize that his trading positions don’t measure his worth as a trader.

**2. KNOW YOUR LIMITS:**

You also need to find out your tolerance for risk. There are two opposite sides in the trading spectrum with one extreme being risk-seeking and the other being risk averse. Do you know where you stand?

Although most traders risk a fixed percentage of their account on a trade, there’s no one size fits all method to go about it.

Personally, I say 3% of your account at risk at any one time and 0.5% risk of your account per trade. You may have different risk levels you are prepared to tolerate. This is critical to success. MANAGING RISK and knowing your RISK TOLERANCES are the critical success factors to trading the Forex Market.

Before you even get to the mathematical aspect of it, you first need to determine your psychological limits for risk. If you’re unsure how to go about it, take it slow. Adjust your position sizes according to the potential losses that you know you can sustain. The basic rule is to keep them small enough so that even when you lose, they don’t evoke any strong emotional response that could derail your trading.

Often times, traders make the mistake of focusing solely on finding the perfect entries and exits, but what really spells the difference between successful and unsuccessful traders is risk management. Its something that should never be taken for granted and the first step towards smart RISK MANAGEMENT is proper POSITION SIZING.

Inside the WEEKLY FX PREMIUM under the EDUCATION tab you will find TRADING ESSENTIALS contained in this folder there are many articles that I have posted that refer to the other key topics listed in this article: -

RISK MANAGEMENT
TRADE PLANS
RISK TOLERANCES
LONGEVITY IN TRADING
CAPITAL PRESERVATION
POSITION SIZING

These should be read in conjunction with this article.

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