THE 5 MOST COMMON MISTAKES NEWBIE TRADERS MAKE

It isn't always easy being a newbie. Whether it's in taking on a new job, starting your own business, or trying out a different sport, the degree of uncertainty in a new and unfamiliar undertaking can sometimes be overwhelming and push you to make mistakes. Trading is no different. Here are five of the most common mistakes that newbie traders can make:

1. TRADING WITHOUT A PLAN OR JOURNAL

Even newbies fresh out of school and in their first week of trading know that the market is as unpredictable as the next "American Idol" or "The Voice" sensation. More often than not, in the attempt to make the most out of the opportunities the market presents, you get so lost in the emotions that you forget what you are supposed to do.

With your own money on the line, planning and researching trades and not being impulsive are they key goals. To help you achieve this key goal, which is to become a consistently profitable trader, you need a TRADING PLAN and maybe a TRADING JOURNAL.

It can be a simple outline of your entry and exit conditions and your RISK MANAGEMENT rules, and it needs to be written down so that you can refer to it, record and review your progress. I use my TRADING PLAN all the time to refer to my entry and exit strategies. Your TRADING PLAN helps to keep you focused.

2. NOT SETTING A STOP LOSS

Trading without a STOP LOSS is like trying to train a Labrador puppy to walk beside you nicely without a lead (unless you are Caesar Milan). It is impossible and crazy.

Stop Losses are there to protect. They are not 100% guaranteed as the SNB day (when the EUR/CHF peg was removed) illustrated. They are the best insurance you have however, to stop your account being wiped out. Over the past three to four weeks in particular we have seen very volatile markets and short squeezes that could potentially wipe out accounts. Therefore setting a STOP LOSS allows you to survive and fight another day even if you have a losing trade.

3. REVENGE TRADING

You would not be a trader if you had not ventured into this area at one time or another. Pure and simple REVENGE TRADING is when you get emotional over a losing trade and then try over aggressively to recuperate the loss. I have revenge traded and like most traders my REVENGE TRADE was twice or three times the position of the original trade.

It is difficult but you just have to try to accept the loss and not let your judgement in the future be clouded by your ego. The text books will tell you that instead of REVENGE TRADING you should focus your efforts and energy on analyzing what went wrong and figuring out what you can do to improve your subsequent trades.

4. LETTING LOSING TRADES RUN

This is an interesting subject. The textbooks also say that newbie traders often let their losing trades run all the way to their stops instead of cutting losses early.

As a POSITION TRADER I am at odds with some of the textbooks. I fully understand that mentally if the trade is going the wrong way, maybe on the back of a significant news event, it may be the correct action to exit a trade early, I have no problem with this.

However, 90% of the Trade setups that I get involved with are based off Fibonacci levels and I usually allow an excess of 10 or 15 pips either way for stops or limits. It has been proved and well known that currencies will run to specific prices, test these levels and then stop and reverse. Therefore sometimes if you believe that your stop is at a level where there is a lot of price interest I see absolutely no problem letting the trade run because history has taught me that sometimes taking a loss is wrong if there is a huge amount of interest at your Fibonacci level.

When you enter a trade you assess risk. This risk is based on possibly several indicators and chart analysis techniques. You have to set realistic stop loss levels and sometimes the best policy is not to exit the trade but to wait and let it reverse. This route preserves capital in your broker account and CAPITAL PRESERVATION is key to Forex success.

Knowing when to let a losing trade runs comes with experience. If you have entered the trade with a clear objective and assessed the risk you sometimes need to allow the trade to move around within the parameters you have set. Having said that a geopolitical event or poor headline economic data sometimes means that no matter what you have planned, it needs to be forgotten and the trade exited.

5. HAVING UNREALISTIC EXPECTATIONS

Having goals in all aspects of life help you stay motivated and disciplined, the same can be said of Forex trading.

The goals you set have to be realistic and achievable without adding too much stress.

Hand in Hand with setting your goals whether you prefer, daily, weekly or monthly you also need to have a clear understanding of the steps that you need to take to achieve these goals. This is what your TRADING PLAN is for. You detail objectives and the critical success factors that you need to achieve the goals set.

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