THE MOST OVERLOOKED RISKS IN TRADING AND HOW TO ADDRESS THEM

Trading involves a great deal of risk. If it didn't, everyone would be zillionaires! However, there are a few risks that we tend to overlook.

The very well renowned trading psychologist Brett Steenbarger has pointed out that there are also other risks involved, which many of us easily overlook, namely:

THE RISK OF BOREDOM:

A lot of people are drawn into trading because of the prospect of making big money in a relatively short span of time. But sometimes, there's just not that much action in the market or your trading system simply isn't catching any of the moves.

If a Trader is impatient, he could resort to abandoning his trading system or could find himself forcing trades.

If you find yourself fidgeting and can't wait to get a piece of the market, it would be better for you to take a step back from your charts. Stop the monotony and take a break by visiting trading forums or reading up on the markets.

THE RISK OF "DRAW-UPS":

We are fully aware of the dangers and pains of drawdowns, but did you know that you also face risks when your account rises in value or incurs a "draw-up"?

That's right. Traders also experience a risk after going through a series of profitable trades. After having a successful streak, many traders tend to make bad trading decisions because of overconfidence. They end up increasing their position sizes to unmanageable levels, taking too many trades, and abandoning their trading plans.

This is precisely why it is important for traders to always keep their emotions in check. Failing to do so can lead you to be lax with your trade execution. Remember to always stick to your trading plan and keep your ego in check.

THE RISK OF SEQUENCING:

No matter how well you manage your trades or how consistent your trading system is, you never really know in advance the sequencing of your profitable and losing trades.

A trader experiences sequencing risk when he begins to take the sequencing of his wins and / or losses out of statistical context. For instance, you may go through a series of wins and think that you have mastered the markets, which can easily lead to over confidence.

Alternatively a series of losses may make you doubt yourself or your trading strategy, leading you to deviate from your trading plans and make bad trading decisions.

Even times of alternating profits and losses can be perceived the wrong way. If you see your account balance just bouncing up and down without any real progress, you make take it as a sign that you are not improving and lose motivation or give up altogether.

Luckily there is a way to avoid this dangerous mindset. By using a trading journal you can help put things into the proper perspective and keep the bigger picture in mind.

The best way to address these problems would be to align your psychological risks to your actual risks. You can only do so by keeping track of your stats, so put in the work and always update your journals!

Remember that being a FOREX trader is a full time job. Although you may not be trading 24/7, there is always research work that needs to be done.

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