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10% Of Traders Go Bankrupt

I was thinking about an article I read some time ago that 90% of traders who ever trade lose their account and that 10% actually go bankrupt. If the first number doesn't scare you then the second definitely should.

Why is it then that there is such a large number of traders failing? It is not because they are stupid; in fact most traders have an above average IQ and are above average in most categories such as education and income. So why do they fail?

Lack of trading education!

By education I don't just mean learning how RSI works or drawing lines on a chart. I mean thoroughly educating yourself in all aspects of your chosen profession. Educating yourself on the correct psychological approach to the market! Educating yourself in the correct risk management techniques relative to your account size. Educating yourself in the correct entry and exit methods for the trading style that suits you.

This, my friend, is where I hope to be of some help. I don't have all the answers nor do I profess to be some kind of guru but I will do my best to point you in the right direction.

Common Misconceptions Of New Traders

- They think they can trade consistently with an 80% accuracy.
- They think they can turn \$1000 into \$100,000 in six months.
- They think they can predict turning points in their given markets to within minutes.
- They think they can buy a system that is 100% accurate.
- They think they will quit their jobs and make a living full time after a few months of trading.

What's the reason that so many new traders believe that trading is an easy way to make big profits? Propaganda!

We are continually bombarded in magazines, emails and the general media with claims of making astronomical amounts, just by applying the vendor's latest method or system.

Don't get me wrong, there is good stuff out there but the vast majority is not worth the price you pay. At www.surefire-trading.com I also recommend products but I have at least read the ebooks or courses and think they have some value to my subscribers and they all have a refund guarantee.

Fundamentals Of Trading

Trading is not an exact science. You can't do X and get Y every time. It is as much an art as it is anything else. There is no magic formula. Trading is all about probability. It is the art of correctly applying a set of carefully thought out rules and allocating the probability of that event to result in success.

Each trade is an independent event. The market does not remember if you lost or made dollars the last time you traded.

The way you approach the market psychologically has as much to do with your success as any trading plan.

Risk management is crucial if you want to have any hope of becoming a successful trader.

Matching a method of trading with your personality is the only way you will ever feel comfortable in the markets.

An adequately funded account is necessary - not only to be able to take the trades you want, but also so you don't feel every trade is a live or die situation.

The journey to the road of successful trading will make you confront your deepest fears. Your armor on this journey will be confidence, knowledge and belief in yourself that you can achieve your dreams.

Never, equate your success or failure in the markets with who you are as a person!

The Flaw In Our Emotions

As humans we have a natural tendency to try and influence our surroundings and events we take part in. This is one reason we, as a species, have succeeded but it is also one of the fundamental flaws we all have when trying to achieve success as a traders.

As traders we have to realize we have no control over the market and if we accept that then we have to accept that we can not influence the direction of the market.

The problem of course is we have a tendency to try and succeed and when inevitable losses come, it is easy to let those losses effect us emotionally. Becoming euphoric when you hit a winning streak is almost as detrimental as becoming depressed when you have a string of losses.

We as traders have to try and achieve the state of impartiality. We have to accept that we will have losses as readily as we will have wins. Reaching the stage where you can comfortably accept loss in the knowledge that your method of trading will produce profits in the longer term is the state we have to aspire to.

Risk Management

Whenever I think of risk management I always think of an article I read on 925 CTA programs between 1974-1995. It essentially confirmed what I have long held to be true. To summarize the report, of all the CTA's who managed funds, the most consistently profitable were the ones with the best risk management systems.

To trade successfully you have to take a long look at yourself. Ask and answer the following questions.

How much equity do I need to start? How much should I risk on any one trade? Am I undercapitalized?

During the course of these lessons I will do my best to help answer these and other questions.

Entry And Exit

As a trader you will probably fall into two main categories, traders who like to trade the breakout and traders who like to join the trend once established. We could also add congestion traders, reversal type traders and mechanical signal traders but for the vast majority of traders you are going to fall into one of the two categories.

If you are a trend trader, you like to define a trend and then find a way in. This may be with the aid of fibonacci retracement levels, moving averages, Gann or one of the other many indicators available today. Your goal is to enter the trend as early as possible with the least amount of risk.

Breakout traders like to enter the market on the breakout of a previously identified range. This may be support/resistance areas, rectangles, triangles or one of the many other chart patterns. The secret to this type of trading is to determine a valid break.

In future lessons we shall begin to look at the more technical side of trading and how you can apply technical analysis to the markets to increase your probability of success.

Conclusion

During this lesson I have tried to give you a glimpse into the world of trading. I have also taken a slightly negative stance, as I don't want you to get unrealistic expectations of what to expect.

On the more positive side, trading is a fascinating world, which will allow you to really exercise your brain. There is no other arena where you get to play with some of the best minds in the world on a level playing field.

Once mastered, if you can ever use that term then the possibilities are endless. Hopefully I can help you achieve your goals

Good Trading

Best Regards
Mark McRae



This lesson is part of the 'Traders Secret Library' which you can see at <http://www.tradingforbeginners.com>

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