Risk Management and Money Management

Fifty Fourth session of Forex Training

Welcome back to Forex professional training in financial markets.

In this session we will discuss Risk Management and Money Management in Trading.

Trading Procedure

At first, trader must learn Technical and Fundamental analysis methods to identify direction and trend of a market price.

Afterwards, continuous practicing over the years is essential in order for a trader to develop the ability to trade successfully.

Practicing periods will vary from person to person, depending on their background knowledge and enthusiasm to learn more.

Traders must always practice and study, just like an athlete that must never stop their practicing routine in order to reach the peak of their profession.
After a trader gains enough experience and knowledge, then he/she can determine a Sell or a Buy entry price through the **Price Action** method.

Trader must consider that in some regions it is not possible to place any order, so it is better to watch the market trend and wait for suitable points that can be detected by strategies or patterns such as **Price Action**, **Elliott Waves**, **Andrew’s Pitchfork** and **Harmonic patterns**.

Trader should learn and utilise **strategies** which can be personalised for each trader.

This will be discussed in more detail in our next session “Creating and Customizing Strategies”.

Eventually, trader can determine the exact Sell or Buy entry, TP and SL prices.

Trader can utilise a Scenario-based **planning** to develop his/her trading skills.

Based on number of orders and the amount of pips, trader must exploit
Risk and **Capital Management** on their orders.

With the help of multiple confirmations from diverse strategies, patterns and analyses, a trader can place a suitable order.

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**Forex Training: Fifty Fourth Session**

RISK MANAGEMENT, CAPITAL MANAGEMENT AND TRADING PROCEDURE

- Trading procedure
- 4. Learning strategies - personalized strategies
- 5. Selecting a plan for trading - Risk and Capital Management
- 6. Desired point confirmed by your strategies and Price Action

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**Money Management**

Trader must consider **Money Management** strategies to achieve a sound trading process and a higher yield.

1. Money management of deposited funds in a real account for different traders can be classified as follows:
   1. Amateur traders should open accounts with $50-$500 for one year.
   2. Intermediate independent traders who have not obtained enough **trading ability** to avoid blunders such as inaccurate Volume of order, TP or SL prices. These traders must deposit less than 3% of their extra budget capital for 3 years.
   3. Professional traders with an extensive experience and knowledge can deposit less than 10% of their extra...
budget capital. However, a comprehensive knowledge, rational predictions and analysis do not guarantee **successful trades** and profit.

2. **Money Management** of orders and trades can be as follows:
   1. Based on a trading method and behaviour: Long, Medium or Short-term; trader can open a real trading account. For instance, if a trader desires to place a short-term order with TP price 20 pips away from the entry price in addition to medium and long-term orders on the same symbol with 50 pips and 500 pips, respectively. Short-term orders can be closed in minutes or hours, while medium-term would take some days, and long-term order would last some months. It is strongly recommended for a trader to place orders separately in different **accounts** based on their terms. This method can be applied to reduce the pressure of decision making for the trader.

   2. Trader can transfer certain amount of funds from each of the accounts to another one. For instance, if a trader derived profit from their medium-term account and a **suitable position** with several confirmations is
detected on the short-term account, the trader can transfer a certain amount of funds from the medium-term account to the short-term account.

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- Capital Management
- 2. Capital Management – trading
- Opening various accounts based on trader’s type
- Transferring money between account
- Avoiding the use of the entire capital in one order

3. Trader must never dedicate all of his/her funds to a **single account** or an order. No one can guarantee that an order would be 100% successful. Any news or an event such as war, flood or an earthquake can change the direction of a trend in which trader has placed an order with several powerful confirmations.

1. The ratio of reward to loss based on 1 pip price shift. For example, profit or loss of EURUSD in each pip is $10.
2. The number of pips that TP or SL points are away from the entry priceTrader must determine the volume of each order considering the following aspects:
3. The percentage of risk specified by a Risk management method
4. The number of orders around that certain price
3. Money management in withdrawing funds is an important matter that most of the traders never explore. Keeping too much funds in an account increases the risk of losing the capital. For instance, a trader could derive considerable amount of profit from the trades. After some confirmations a trader placed an order in which the volume is selected irrationally high due to the large amount of funds in the account. After some fluctuations, price has touched SL point and all of trader’s funds were lost. If only trader withdrawn a certain amount of funds after deriving profit, their capital would have been saved.

1. Trader must consider a certain limit for his/her funds in each account based on the trading method.
2. Trader should withdraw the amount of money higher than the defined limit.
3. If a trader can derive $900 profit from a $100 account, it does not mean he/she can derive $9000 from a $1000 account. A $100 account has different conditions than a $1000 account. $100 can be negligible, while $1000 is not the amount most of the people can ignore. The higher amount of money brings more stress on traders.
One of most important issues that a trader must consider when he/she wants to place an order is a **Risk Management**.

Like an accelerator pedal in a car, if trader misuses the Risk Management, then all of the capital in **the account** will be lost.

Through a good Risk Management method trader can risk part of the capital based on the applied strategies, as well as power of **signals** and confirmation on a certain point.

For example, no one can drive an even pace in every condition.

Speed of a car in a narrow street must be below 8 miles/hour while it can be higher than 70 miles/hour on a highway.

For example, **Strategy** of a trader has 4 conditions in which each one has a different probability of success based on confirmations and signals:

1. 65%
2. 72%
3. 77%
4. 85%

So when the possibility of trader’s order success is around 65%, he/she can risk the 2% of the **account capital**.

If the second strategy is determined, then he/she can risk on 3% of the capital, while in the 3\(^{rd}\) and the 4\(^{th}\) condition trader can risk 4% and 8%, respectively.

So based on trading conditions trader can select a portion of an account capital to develop a suitable Risk Management.

Trader can determine more strategy conditions to place more orders. For example, 5 types of trading **strategies** can develop conditions in which a trader has more time and focus to detect more beneficial points and trends.
Traders who utilise more strategies and wait for better conditions, would place an order in a condition which represents higher possibility of success, thus, loss possibility is considerably decreased.

Despite **fewer trades**, these traders can derive more profit from their orders.

One of the most important things that a trader must learn is to understand and be aware of in this market and while doing his trades is risk management.

Using risk management incorrectly can cause a trader to lose all his **bank roll**.

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Risk Management, Capital Management and Trading Procedure

- Risk Management
- Example:
  - Your strategies with 4 conditions:
    - a. 65%  b. 72%  c. 77%  d. 85%
    - Amount of risk in each condition
      - a. 2%  b. 3.5%  c. 4%  d. 8%
  - 2 or 5 strategies

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Risk management or involving part of the investment in a trade that
can be done by using strategies and **conformation factors**.

For example, it is impossible to drive at a speed of 100 kilometers an hour at all times, continuously, in one street you may drive at 5 kilometers an hour and in the other street you may drive at 20 kilometers an hour, or in a motorway you be able to go up to 100 kilometers an hour.

So what speed you choose is based on your risk **management** and knowing the road, the time and the speed.

Same examples can be found in a financial market, for instance, you have a **strategy** with four possibilities and in each one the percentage of your profit is different.

In the first strategy your profit is 65%, in the second one with a better conformation is 72%, and in the third one with even better conformations is 77%, and finally, in the fourth one with much more **conformations** is 85%.

So in one trade based on the number of conformations the risk can also be calculate in that trade.
Here is the risk management **breakdown** following the above example: at 65% profit only take risk up to 2%, when it is 72% only risk 3.5%, when it is 77% only risk 4%, and finally when it is 85% take up to 8% risk.

It is recommended to use between 2 and 5 **strategies**, if you would like to make more trades.

It also helps you to have a better time limit to make your trades and on special occasions have a better option when the **market settles**, to allow you to make your trades.

For example, using 2 to 5 different strategies will give you better perspectives, so you will no longer do trades such as 65% or 72% and only make trades in 77% and 85%.
Remember to have a better risk management you should use more strategies and be more patient.

Parties that make their trades based on this principle have better results in the market.

That concludes this session, until next time and another session take care.