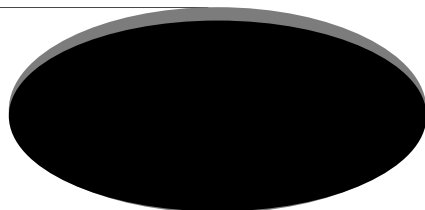




# 5 Traps for the Forex Beginner

## And what to do about them



In the recent 24 months, the stock markets have been on a down turn, and many people started looking towards multi-directional instruments like forex trading. The great thing about trading the forex market is that there is a large amount of free information online, and there are many brokers who can start you up on trading with a very small capital. The news feeds, research data and premium charting software are easily available and free. You can focus on trading without worrying about hefty subscriptions or membership fees. Nonetheless, the usual rule applies to every investment market: “everything seems too good to be true in the beginning”. Thus, here are 5 traps that most beginners fall

into, and what you should do to avoid them!

### **Trap 1: Using too high a leverage**

Many forex brokers would offer you 1:100 to 1:400 leverage, though the more reputable brokers tend to keep it at 1:100. In general, the lower the leverage the better. When you use leverage in Forex trading, you can buy more with less money. For example, \$1,000 allows you to buy \$400,000 worth of currencies on a 1:400 leverage. In theory, this is a good way to make more money from a smaller capital amount. However, this also means that you lose 400 times faster.

Tip: Start trading Forex with little or no leverage. This allows you to trade

for a longer period of time because each trade loss will be smaller. The added experience will be invaluable to you.

### **Trap 2: Over-trading**

The forex trading market is open 24 hours a day, 7 days a week. Many new traders get sucked into the excitement of the markets and trade every chance they get. The most obvious problem will be fatigue and loss of family time, but more importantly, your concentration and clarity tends to decrease after your 5th trade of the day. A new trader also tends to be caught up in the “recency effect” when they trade too often. They will over emphasise on the most recent win or loss, to create new trading rules, thus

eventually missing out the big market picture.

Tip: Always limit yourself to 3 trades in a day. If you have had a profitable day, reduce it to two trades maximum and go enjoy your proud moment!

### **Trap 3: Relying too much on fundamental data**

A simple search on Google News will pull out thousands

the market's direction was sharp. However, most other situations are not so simple. Weak fundamentals do not always lead to an immediate directional move on the exchange rate.

Tip: To trade on fundamental news effectively, you should use as little leverage as possible. This gives you the ability to withstand short term fluctuations. Alternatively, spend time to learn

to improve the precision of your entries for long term trades.

### **Trap 5: Increasing position size too quickly**

This problem usually occurs for new traders who actually made money in the first few trades! They suddenly experience how easy it is to make money in the Forex market and start to increase their position sizes too fast.

## **Technical analysis alone is enough for you to be profitable in the short term intra-day market.**

of articles on currency analysis using economic factors of countries. For example, in mid 2008 – early 2009, the economic factors pointed to a weak UK economy. If you had followed purely the fundamental news, you would have done well because that was a very clear case and


technical analysis, and that is discussed more below!

### **Trap 4: Poor technical analysis skills**

Most investors in the Singapore stock market have very poor technical skills, because we have the luxury of assessing the companies physically in Singapore. However, in most other trading markets, competent technical analysis is greatly beneficial. In forex trading, it is a pre-requisite! Technical analysis alone is enough for you to be profitable in the short term intra-day market. Conversely, the lack of basic technical analysis is a sure-fire way to lose money in the intra-day market.

Tip: Learn proper technical analysis for your short term intra-day trades, and

Take this example; a new trader makes 10 trades and profits 8 of them, but loses 2 of them. Each profit was \$15, and each loss \$20, resulting in a net profit of \$80. He figures that he is now confident to triple his exposure, so each loss will be \$60. After 10 losing trades in a row, he loses \$600 and gives up on trading thinking that it does not work. However, the next 40 trades are profitable, and if he had stayed on, he would have still made 8 out of 10 trades. Unfortunately, the large position sizes wiped him out before the odds could shift in his favour!

Tip: Always use a small amount of trading capital when you are starting out. Do not increase the amount until 6 months or 100 trades, whichever comes later. 

#### **Profile:**

Winston Ng, CEO, Forex Driving School. They conduct Singapore's only structured 8-week Forex Mastery course that combines knowledge with a guided process through live currency market scenarios. Beginner to advance traders attest to their amazing education process through the flood of testimonials and referrals to their sell-out monthly courses.