

18 Smart Ways to Improve Your Trading

Maria Psarra

SAMPLE

Chapter 8: Maria's Golden Rules for Trading CFDs: Part 1

Ladies and gentlemen, I do realize that we were just beginning to touch upon the subject of “Deadly Trading Sins” in the last few chapters, so I really hope that you will forgive me for changing the subject for this and the next one following the recommendation of my friend and renowned City Market Strategist, Zak Mir, in light of our Traders’ Panel Discussion during the 2016 London Master Investor Show.

We shall continue our trip down the “Sins” lane in later chapters (and mind you, I am no saint, I just know how to keep my sins out of my Trading, and hopefully one day you will too). So for now, let’s just look at my Golden Rules for Trading CFDs.

Rule 1 – Avoid Overleveraging

Do NOT overleverage your accounts ladies and gents. CFDs are one of the most flexible financial products ever invented, but they are also one of the riskiest ones. If you do not know how to play with fire, then just don’t. If you do not trust yourself, but trust someone else enough, hire them to help you. If you do not know such a person either, stay away. And finally... if you think you are better than the professionals, then good luck, prove it, and I shall give you my own money, seriously.

So what do I mean by overleveraging? I start with the assumption that all the funds in your trading account are funds that you can afford to lose (and if not, then too bad, they shouldn’t have been there in the first place), so the maximum of these funds that should ever be used for the total of your open positions is 80% at any given time. And this IS the maximum. The rest (at least 20% at any given time) should just sit there in cash. You are NOT God, I am not either, as such we cannot predict Lehman Brothers, MF Global, a plane crashing on the Tower of London, the End of the World As We Know It. You just have to accept that remote as the probability of such an event happening may appear to be, it is definitely not zero. I have. I guess watching Lehman Brothers fail, and having my money tied up in MF’s liquidation, helped to open up my doors of perception. So, coming back to you and to today, if a similar Black Swan event happens, you want that minimum 20% of remaining capital discussed to get you through the next and rainy days.

Rule 2 – Position Sizing

We discussed this one in a recent chapter, and as I believe I have repeatedly mentioned before, in the markets, size DOES matter. In short, too big can kill you every time, and too small is just not worth your while. What is more, by some weird coincidence, you will find that you will always tend to lose money in the trades you went too big with, and win money in the trades you went too small with. So how about you just try to determine a suitable position size for each of your trades given the size of your trading account and risk tolerance, and adhere to it?

18 Smart Ways to Improve Your Trading

by Maria Psarra

Published by ADVFN Books



Available in paperback and for the Amazon **Kindle**.