



currencies

# 7 HABITS OF GREAT FOREX TRADERS

THE MOST IMPORTANT HABITS WORTH LEARNING FROM THE TOP FOREX TRADERS – FIND OUT WHAT THEY ARE AND HOW YOU CAN MAKE THEM YOURS.

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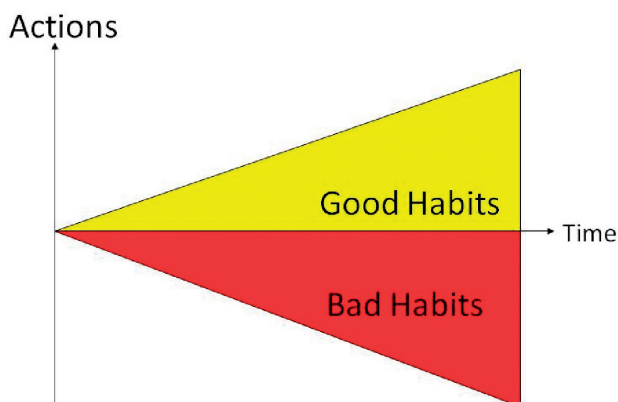


**B**y definition, a habit is an acquired pattern of behaviour. There are many “kinds” of habits, both good and bad. Some of these include:

- 1) Over-eating
- 2) Neglecting yourself
- 3) Being a workaholic
- 4) Chewing your nails
- 5) Negative thinking
- 6) Being late
- 7) Blaming others

To set the record straight, I would classify the above as “bad habits.” The antithesis of the above list would thus fall in the category of “good habits.” As an example, negative thinking vs. positive thinking, or being late vs. being punctual. Here’s an interesting question – how do we get into the momentum of developing habits, good or bad?

Take a look at the graph below:



From the graph, it is suffice to say that ACTIONS, when repeated over a period of time, eventually develop into habits. We can go further by saying that “positive actions” repeated over a period of time would develop into good habits, while “negative actions” repeated over a period of time would develop into bad habits.

Here’s a classic example. In the book “The French Paradox,” the author explains how the French live longer because they drink a glass of red wine a day. We could classify this as a good habit.

Taken OUT of context, drinking a bottle of red wine in a day could be passed off as a good after-dinner celebration. Drinking a bottle of red wine a day everyday, for an extended period of time, would border on alcoholism – a bad habit. You get the picture.

Habits, good or bad, apply to all disciplines in life. Let’s take a look at how habits apply to a discipline where my passion lies – Forex Trading. Over the years, I have found that the following SEVEN habits, above all else, keeps a trader grounded and more importantly, consistently profitable. Let’s have a look at them:

#### **Habit #1 – Know your reason for taking every trade**

All too often, many traders take a swing at the markets because they “feel” it is a good price. The most common scenario where this occurs happens when a trader goes “long” after the price drops a considerable amount. The train of thought is “Woah! It has fallen quite a bit already! It’s bound to reverse!” Let’s look at an example.

From 1st Dec 2009 to 31st March 2010, the EUR/USD plunged from a high of 1.51 to a low of 1.32; A stunning move of almost 1,900 pips in just 4 months. What if you went “long” after EUR/USD dropped a “considerable amount” of 500 pips? Or 700 pips? Or even a mammoth 1,000 pips? Your account would have been ravaged.

Here’s the key: Have a reason for entering every trade. This means you **MUST** follow a trading plan. Never enter a trade based on “gut-feel.”

#### **Habit #2 – There’s always the next trade**

In the course of my trading career, I have come across traders who always appear to be on tenterhooks. They get anxious and frustrated because they “missed a trade,” and rue the day they “should” have been at their laptop to execute the all important trade.

Look, the Forex Market trades about USD4 trillion a day, making it the largest financial market in the world. There is ALWAYS the next trade. It’s no use beating yourself up for missing a trade. If it’s any consolation – who said the missed trade would surely register a win, anyway?

#### **Habit #3 – Always put a stop loss**

This habit is well turning out to be my mantra when I coach my students. I sometimes joke with the class by saying that if I ever hear of ANY student not putting a stop loss immediately after entering a trade, I would personally fly back from wherever I am and smack their heads!

Friends, take my word – the biggest reason why traders blow up their account is the habit of taking on excessive





risk. Don't fall into that trap. Always put a stop loss. Make it a habit today.

#### Habit #4 – Don't take revenge over losses

You have just completed your "apprenticeship" in trading the demo account and you are now ready to trade LIVE. The first opportunity opens up. It's time to make the BIG BUCKS.

You take a trade and it hits your stop loss. You take the second trade and it hits your stop loss too. You get angry. This is not how it's supposed to be.

At your 3rd trade, you now TRIPLE YOUR LOT SIZE because you want to "win back" the money which the Forex Market has so cruelly taken away from you.

Sounds all too familiar doesn't it?

Don't fall into the "revenge" trap. The Forex Market will make you pay heavily for it. The key here is to not take things personally. No one wins every trade. What you should do is to step away from the computer and re-analyse your trading plan. If everything is going according to plan, then great! Accept the fact that losses are part of the game.

#### Habit #5 – Maintain a trading journal

This is a tough one, and not many traders do it. Those who do, profess of its immeasurable effectiveness. A trading journal, among other things, should document your decisions before you take a trade AND note down your thoughts and emotions after the result is achieved. Here is a short list of what a trading journal should encompass:

1. Date and time of trade
2. Currency pair (e.g. EUR/USD, USD/JPY or GBP/CAD)
3. Action/Strategy used (long or short)
4. Risk (how many lots, stop loss)
5. Profit potential (do you have one or multiple profit targets?)
6. Result (profit/loss)
7. State (what are your thoughts and emotions? Did you execute it correctly?)

A trading journal is like a road-map. It helps you stay on track. Here's a question – how would you know if you're heading in the right direction if you are not documenting your progress? How would you know if certain "bad habits" have unintentionally crept up on you if you don't have a framework to measure against? Start maintaining a trading journal today!

#### Habit #6 – Maintain a clear mind

Would it be wise to analyse or enter a trade just after a heated verbal exchange with a friend or family member? What about just after you had a long 14 hour work day where your boss berated you for the things you failed to accomplish?

Certainly not. A clear mind must always be maintained when you step up to the computer. You do not want any emotional distress to cause you to see patterns on the screen that aren't actually there!

#### Habit #7 – Pay yourself consistently

Is this habit important? But of course. What is the ultimate purpose of trading? To generate consistent and profitable returns. However, what good is that if you are not enjoying the fruits of the game?

There are many ways to pay yourself in this business. I'll list a few:

1. Have a goal to earn 100% of your capital. Then withdraw your initial capital, and continue to trade on the profits generated. This is now essentially a "risk-free" business venture.
2. After your trading account has grown sizeably, withdraw 20% as profits and leave the rest to be compounded. Ensure that the withdrawn amount far exceeds the amount you might have to pay for wiring fees charged by brokers.

In short, pay yourself on a consistent basis and you will not only save on costs that you would otherwise be charged by brokers, you would also reward yourself and 'charge up' for your next trade.

So there you have it. The 7 habits of great Forex traders. How do you instill them into your system? Simple. Maintain these actions for an extended period of time. These actions will then automatically become conditioned habits - this is when you bloom into a mature trader and become a force to be reckoned with in the trading world.

I'd like to leave you with a wonderful quote:

Winning is not a sometime thing;

It's an all time thing.

You don't win once in a while,

You don't do things right once in a while,

You do them right all the time.

**Winning is a habit.**

Unfortunately, so is losing.

- Vince Lombardi (greatest football coach in history) **SI**



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