



# PSYCHOLOGY & STRATEGY WHEN TRADING



# Content:

Psychology .....	2
Trading Strategy .....	7

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# Psychology

Most people experience similar thinking patterns and emotions as they trade the markets, and we can learn many important things from the differences in the way losing traders think and the way winning traders think. Most Forex websites trying to sell some indicator or robot-based trading system will not tell you this, because they want you to believe that you can make money in the markets simply by buying their trading product. The bigger portion of the pie is managing your trades correctly and managing your emotions correctly, if you do not do these two things you will never make money in the markets over the long-term.

You have probably heard that most people who attempt Forex trading end up losing money. There is a good reason for this, and the reason is primarily that most people think about trading in the wrong light. Most people come into the markets with unrealistic expectations, such as thinking they are going to quit their jobs after a

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month of trading or thinking they are going to quit their jobs after a month of trading or thinking they are going to turn \$1,000 into \$100,000 in a few months.

To be a little bit more specific about “emotional” trading, let us see some of the most common emotional trading mistakes that traders make:

- **Greed** – There is an old saying that you may have heard regarding trading the markets, it goes something like this: “Bulls make money, bears make money, and pigs get slaughtered”. It basically means that if you are a greedy “pig” in the markets, you are almost certainly going to lose your money. Traders are greedy when they do not take profits because they think a trade is going to go forever in their favour. Another thing that greedy traders do is add to a position simply because the market has moved in their favour, you can add to your trades if you do so for logical price action-based reasons but doing so only because the market has moved in your favour a little bit, is usually an action born out of greed. Obviously, risking too much on a trade from the very start is a greedy thing to do too. The point here is

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that you need to be very careful of greed because it can sneak up on you and quickly destroy your trading account.

- **Fear** – Traders become fearful of entering the market usually when they are new to trading and have not yet mastered an effective trading strategy like price action trading (in which case they should not be trading real money yet anyways). Fear can also arise in a trader after they hit a series of losing trades or after suffering a loss larger than what they are emotionally capable of absorbing. To conquer fear of the market, you primarily must make sure you are never risking more money than you are totally OK with losing on a trade. If you are totally OK with losing the amount of money you have at risk, there is nothing to fear. Fear can be a very limiting emotion to a trader because it can make them miss out on good trading opportunities.
- **Revenge** – Traders experience a feeling of wanting “revenge” on the market when they suffer a losing trade that they were “sure” would work out. The key thing here is that there is no “sure” thing in trading...never. Also, if you have risked too much money

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on a trade (starting to see a theme here?), and you end up losing that money, there's a good chance you are going to want to try and jump back in the market to make that money back.... which usually just leads to another loss (and sometimes an even larger one) since you are just trading emotionally again.

- **Euphoria** – While feeling euphoric is usually a good thing, however it can do a lot of damage to a trader's account after he or she hits a big winner or a large string of winners. Traders can become overly confident after winning a few trades in the market, for this reason most traders experience their biggest losing period's right after they hit a bunch of winners in the market. It is extremely tempting to jump right back in the market after a "perfect" trade setup or after you hit 5 winning trades in a row there is a fine line between keeping your feet grounded and thinking that everything you do in the markets will turn to gold.

Obtaining and maintaining an effective Forex trading mindset is the result of doing a lot of things right, and it usually takes a conscious

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effort on the trader's behalf to accomplish this. It is not necessarily difficult to achieve, but if you want to develop an effective trading mindset, you must accept certain facts about trading and then trade the market with these facts in mind.

You need to know what your trading strategy (trading edge) is, and you need to master it.

You need to always manage your risk properly. If you do not control your risk on EVERY single trade, you open the door for emotional trading to take hold of your mind which can be very hard to stop your slide, or even recognize that you are trading emotionally in the first place.

You need to not over-trade. Most traders trade way too much. You need to know what your trading edge is with 100% certainty and then ONLY trade when it is present.

You need to become an organized trader. Having a trading plan and a trading journal and using both consistently. You need to think of Forex trading like a business instead of like a trip to the casino. Be calm and calculating in

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all your interactions with the market and you should have no problem keeping the emotional trading demons at bay.

## Trading Strategy

There are many different Forex trading strategies. However, there are some basics of reading a price chart that you need to know before you can move on to learning any one strategy in-depth. Let us cover the basic building blocks of trading the Forex market from a technical analysis approach:

### ***Support and Resistance Levels***

Support levels are created as a market turns higher. So, if a market is moving lower for example and it then changes direction and begins moving higher, it either has created a level of support or bounced off a previously existing level of support.

Resistance levels are created as a market turns lower. So, if a market is moving higher for example, and it then changed direction and

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beings moving lower, it either has created a level of resistance or bounced off a previously existing level of resistance.

## ***Trend Trading***

Trending markets offer us the best opportunity to profit, since the market is clearly moving in one general direction; we can use this information to our advantage by looking to enter the market in the direction of the trend. An uptrend is marked by a series of higher highs and higher lows, and a downtrend is marked by a series of lower highs and lower lows.

## ***Counter-Trend Trading***

Since trends do end, we can also take advantage of this information. However, counter-trend trading is inherently riskier and more difficult than trading with the trend, so it should only be attempted after you have fully mastered trading with the trend. Some of the things to look for in a good counter-trend signal is a price action pattern or setup forming at an obvious and 'key' support or resistance level on the daily chart.

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## ***Range-Bound Market Trading***

When a market is in a trading range it means that it is consolidating between a level of support and resistance. We can use the fact that a market is bouncing between support and resistance to our advantage. As the market approaches the support or resistance boundary of the trading range, we have a high-probability entry level, since risk is clearly defined just above or below the resistance or support of the range. When trading price action in trading ranges, you can watch for obvious price action setups forming near the boundaries of the range.

### ***FX candlestick charts and patterns***

It is important to understand that candlestick patterns have certain terminology all to their self that you should become familiar with before you attempt to master a trading strategy like price action.trend. Some of the things to look for in a good counter-trend signal is a price action pattern or setup forming at an obvious and ‘key’ support or resistance level on the daily chart.

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