

13 characteristics of a successful trader



SET YOURSELF APART
A FOREX.com educational guide



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Contents

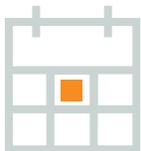
- 1** 13 characteristics of a successful trader
 - Tip 1. Stick to your plan
- 2** Tip 2. Anticipate different outcomes
 - Tip 3. Stay flexible
- 3** Tip 4. Be prepared
- 4** Tip 5. Keep up to date with the technicals
 - Tip 6. Identify the market environment
- 5** Tip 7. Focus, focus, focus
 - Tip 8. Protect your profit
- 6** Tip 9. Don't forget your stop loss
 - Tip 10. Watch other markets
- 7** Tip 11. Keep a track record of your trades
 - Tip 12. Avoid getting emotional
- 8** Tip 13. Risk only a small percentage of capital on each trade

13 characteristics of a successful trader

We believe that successful traders often have a set of unique characteristics or traits that set them apart from the crowd. In our view, if you can borrow some of these behaviors and use them in conjunction with your other knowledge, then you may increase your chance of making a successful trade.

To make it easy for you we have come up with 13 characteristics that we think everyone should follow:

1 STICK TO YOUR PLAN



No successful trader will last very long without a well-conceived game plan for each trade. Successful currency traders have a specific plan of attack for each position, including position size, entry point, stop-loss exit, and take-profit exit.

Successful traders stay flexible with their take profits, sometimes settling for less if they judge that's all they can take out of the market at the moment, other times extending their profit targets if market developments are shifting in their favor. But they do not move their stop-loss orders from the original setting unless it's in favor of the position to lock in profits.

2 ANTICIPATE DIFFERENT OUTCOMES



Trading can be similar to chess, in which the best players are thinking several moves ahead of their opponents. Successful forex traders look ahead to future events and consider how much the market has (or has not) priced in an expected outcome. They also consider the likely reactions if the event matches – or fails to match – those expectations, and then construct trading strategies around those possible outcomes. While the rest of the market is trying to figure out what to make of the event, checking charts and redrawing trend lines, the forward-looking trader has a game plan already in place and is ready to trade.

3 STAY FLEXIBLE



Successful currency traders resist getting emotionally attached to positions. They recognize that it's not about being right or wrong: it's about making profits and minimizing losses. They adapt to incoming news and information, and quickly abandon an open position if events run counter to it instead of waiting for price action to take them out of their trade. At the same time, they're alert to fresh opportunities that may develop in the market and are prepared to react. To be prepared, they must keep sufficient margin available for additional positions.

4 BE PREPARED

Successful currency traders are always prepared, at least as much as possible in a market that's open 24 hours a day, five days a week and subject to random events from half a world away. To stay on top of their game, successful currency traders are prepared for:

- **Upcoming economic data releases in the next week to two weeks:** Know what the prior report indicated and what's expected in the upcoming report.
- **Scheduled speakers:** Find out who's speaking (central bankers or finance officials), what they've said in the past, and what they're likely to say this time.
- **Central bank interest rate setting meetings and announcement times:** Know when they're scheduled and what decision the market is expecting.
- **Important gatherings of financial leaders, such as G20 meetings or monthly get-togethers of Eurozone finance ministers:** Get a sense of whether currencies are on the agenda and what actions are expected.
- **Liquidity conditions:** Stay aware of the different time periods, such as end of month, market closings or holidays, and time of day (for example, European close, option expirations, or daily fixings, when market liquidity may be affected).
- **Unexpected events:** Use rate alerts to stay on top of price movements outside expected ranges. Follow up on alerts to check for significant news and to assess potential trading opportunities.



5 KEEP UP TO DATE WITH THE TECHNICALS



Even if they're not pursuing a technical-based trading strategy themselves, successful currency traders are still aware of important technical levels in the currency pairs they're trading. For instance, they know the key Fibonacci retracement levels, where various moving averages are, important short- and long-term trend lines, and major recent highs and lows (see tip 11).

6 IDENTIFY THE MARKET ENVIRONMENT



Successful currency traders are able to assess whether the market is trending or likely to remain confined to ranges. If they think the market is trending, they aim to go with the flow more often than against it. When the short-term trend is higher, they're looking for levels to get long at, and vice versa when the direction is down. At the same time, they're aware that trends pause and frequently correct. So they're also attempting to actively take profit and minimize loss at key technical points as the larger trend unfolds.

If the environment favors range trading, successful currency traders are able to switch gears and become contrarians, selling near the top of the range when everyone else is buying, or buying near the bottom of the range when everyone else is selling. Just as important, when they're in range-trading mode, they've defined an ultimate point when the range is broken. If that point is hit, they adapt accordingly without any remorse, possibly even reversing.

7 FOCUS, FOCUS, FOCUS



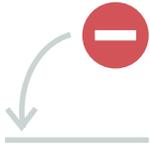
Many successful forex traders focus on only one or two currency pairs for most of their trading. Doing so enables them to get a better feel for those markets in terms of price levels and price behavior. It also narrows the amount of information and data they need to monitor. Above all, they recognize that different currency pairs have different trading characteristics, and they're able to adjust their tactics from one pair to the next.

8 PROTECT YOUR PROFITS



Successful traders attempt to take profit and minimize losses regularly, whether it's a partial take profit (reducing the size of a winning position), modifying a stop order, or squaring up completely and stepping back after a profitable market movement. Above all, when a trade is profitable or risk has been minimized, successful traders focus on keeping what they've made rather than risking it to make slightly more.

9 DON'T FORGET YOUR STOP LOSS



All successful traders lose money from time to time. What makes them successful in the long run is that they actively manage their risk and protect their profits. The absolute key is to have a stop loss in place at all times to prevent an everyday losing trade from becoming an account killer. Keep in mind, however, that placing stop and limit orders may not necessarily limit your risk for losses.

10 WATCH OTHER MARKETS



Currencies don't trade in a vacuum, and smart traders keep an eye on other major financial markets as a matter of routine. The primary markets they focus on are benchmark bond yields of the major currencies (U.S., German, UK, and Japanese ten-year government notes), oil, gold, and major global stock indexes.

On an intraday basis, they look to these other markets for confirmation of short-term U.S. dollar directional bias. For example, if the dollar is moving higher, U.S. ten-year yields are rising, and gold is falling, it's confirmation from other markets in favor of the dollar's move higher. If yields are flat or down and gold is higher, the dollar's move up may be only short lived. On a longer-term basis, currency traders analyze those other markets for significant technical levels and overall directional trends, just as they do the currencies.

11 KEEP A TRACK RECORD OF YOUR TRADES



At the end of each month, quarter, or year, your trading account will be in one of three situations: your trades either made a profit over that period, were roughly breakeven, or lost money. Regardless of which category you fall into, the key to improving your results in the next period is to keep and review a track record of your trades. For instance, if you find you've lost money trading around the US Non-Farm Payroll report in ten of the twelve months, you could theoretically improve your results by avoiding trading during that time period next year.

12 AVOID GETTING EMOTIONAL



The greatest enemy to successful trading is not other traders, central banks, or your broker: it's yourself. Many novice traders have a tendency to stray from their carefully-designed trading plan when they get elated after a series of successful trades or depressed after a losing streak. Especially in trading, strong emotions can sabotage rational analysis and lead to poor results. Successful traders know how to manage their emotions, including taking a day or two off when they get too high or low, so that they can stay at the top of their trading game.

13 RISK ONLY A SMALL PERCENTAGE OF CAPITAL ON EACH TRADE



The best laid schemes of mice and men often go awry, and the same could be said about traders. No matter how strong an individual trade setup looks, successful traders will only risk a small percentage of their overall account on it. While it may be exhilarating to place a trade with the potential to double your account value, it's never advisable to risk losing your entire account equity. Limiting the amount of risk on each trade allows winning traders to let the law of large numbers work in their favor.

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