

Three Ways to Maximize Your Returns

Trading foreign exchange on margin carries a high level of risk, and may not be suitable for all investors. The high degree of leverage can work against you as well as for you. Before deciding to invest in foreign exchange you should carefully consider your investment objectives, level of experience, and risk appetite. The possibility exists that you could sustain a loss of some or all of your initial investment and therefore you should not invest money that you cannot afford to lose. You should be aware of all the risks associated with foreign exchange trading, and seek advice from an independent financial advisor if you have any doubts.



People who become interested in trading for a living are often drawn to trading because they want freedom and they are interested in multiplying money. While initially most traders are drawn to trading because of the promise great monetary gains and freedom from the rat race, most traders come to realize that trading is essentially a balance of risks and rewards. Each trader must decide whether or not a particular trading system or money management system is appropriate for his risk level.

For every trader the question remains “how to I maximize my returns?”

I would like to present three ways that you can increase your trading returns. Of these three methods, I believe that only one is appropriate for the majority of traders. Is up to each individual traders decide which method, if any, traders willing to employ in order to maximize trading returns. So, let’s begin with the first method of maximizing your trading returns.

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Risking too much of your account will eventually catch up with you.

1. Take a Large Position

This is the simplest, and most well-known method of increasing returns. Many traders understand that if the trading system has a positive expectancy (the system will make money in the long run), that it is possible to take larger positions and see increased profits. This method only works if the trading system has a high win percentage. Taking a large position will spell disaster if the trading system experiences too many losing trades. Taking large positions with a trading system that loses often (50% or more) will not work. Either the account will lose all or most of the money during a drawdown, or the trader will pull the plug on the system, or both.

Emotional hurdles are most likely to pop up when the risk per trade moves beyond the comfort level. When risking a high percentage of the account on a trade, if the trade goes in the wrong direction the trader may second guess the trade and decide to pull the plug on a losing trade early. Even if the trade goes in the expected direction, the trader may decide to stray from the original plan, by exiting the trade before the profit target is achieved. Most traders will eventually run into psychological issues when risking too much. Some traders may find it difficult to hold on to trade, knowing that there is a large percent of the account at risk. Most traders will eventually run into psychological issues when taking large positions, and for this reason this method is not recommended.

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2. Increasing the Frequency of Trades

Another method of increasing your returns is to simply trade more often. While this method is not as well known as the first method many traders are aware of the fact that taking more trades may mean greater returns. Increasing the frequency of trades is one way that traders can accelerate time.

An example may best illustrate how increasing trading frequency can accelerate time. Let us suppose that two trading systems - the gap system and the runaway system - have identical statistics. Both trading systems are expected to yield 2 dollars for every dollar risked. Let us also assume that the gap system takes 5 trades per day and that the runaway system takes only 5 trades per month. Overall, we would expect that the gap system will make much more money over the long run than the runaway system, simply because the gap system trades more frequently. In fact, if the runaway system made 3% after two months, we would expect that the gap system would make the same 3% after two days. This is an extreme example, but it illustrates the point - if all things are equal, the system that trades more often will make more money than the system that trades less often.



Most traders eventually come to the realization that trading often is exhausting.

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While it is true that trading more often might lead to higher returns, it is also true that many traders will run into problems when trading frequently. Trading frequently means spending more time in front of the computer, as it is generally more time consuming and difficult to trade a higher frequency trading system. Sooner or later most traders will decide to either automate this type of system or suffer from burn out from spending so much time manually trading such a demanding type of system. Most traders are attracted to the freedom and the money that is possible when trading for a living. A trader loses this freedom when constantly managing a high frequency trading system.

3. Find Trades With Greater Reward Than Risk

For most traders the best method of maximizing returns is to find those trades that have a reward that is much greater than the risk. Waiting for these high reward to risk trades may be ideal for most traders because this method of trading does not have the negative aspects of the previous two methods. Trading high reward to risk setups does not involve the strong emotions that are common when taking large positions that risk a large percentage of the account. Likewise, the extreme vigilance that is necessary when trading very frequently is not needed when trading high risk to reward setups. In fact, many high risk to reward setups take a while to unfold, and thus the trader is not tied to the computer.



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For most traders, waiting for these high reward to risk trades are probably the best approach to drastically increase the returns on a trading account. Most traders have the psychological wherewithal to stick with a trading system that provides big rewards. The common traps that are associated with taking large positions (emotional distress during drawdowns) and high frequency trading (burnout and overtrading). So, this is by far best of the three techniques traders may use to increase their account size.

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If you know to become a better trader one of the best things that you can do is to find a mentor, someone willing to show you where the pitfalls are and what you can do to consistently improve. I wish I would have found a mentor 9 years ago when I began trading forex. A good mentor would have saved me two years of losing, pain and countless lost trading accounts. If you want to discuss the personal trading program that I offer, please email me at walter@fxjake.com

I also have a lot of free stuff on offer. I have trading spreadsheets, ebooks and generally I just like to hear from other traders. It can get lonely trading for a living and that is why I would love to hear from you.

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