Module 6

Trading discipline

TradeSense

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The final module in our programme discusses the importance of discipline as a trading tool and covers a number of ways to maintain trading discipline, as well as a sharing some general trading tips.

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Trading discipline

This is the final module in the TradeSense programme. Hopefully, after working through the different modules of the course, you are now more familiar with CFDs and how our dealing platform works, as well as how to use important features such as Stop and Limit Orders.

There are many trading strategies available to use (and there are undoubtedly new strategies to be discovered by you as well). Which strategy you employ – whether it is a branch of Technical Analysis or utilises Fundamentals or even a combination of the two – is beyond the scope of this course (and beyond the remit of IG Markets' function as an execution-only service). In the end, the decision is yours to make.

Whatever trading strategy you do end up using, however, will always yield the best results when used in unison with a strong trading discipline.

Even with a trading strategy that yields a high success rate in terms of picking moves correctly, it is possible to lose money overall if the deficits from the losing trades are sufficiently large enough to outweigh the profits from the many winning trades. Similarly, with a trading strategy that offers no more than a 50% hit-rate it is possible to make money if you are able to maximise the profits on the winning trades and minimise the losses when you get it wrong.

Pointers

The following pointers can help to maintain good trading discipline:

Start small

TradeSense offers you small minimum commissions on shares, making it more cost-efficient to trade a lesser number of shares, and also allows you to trade in smaller than one contract on other markets. Take advantage of this while you are still finding your feet! As you get more confident, or if things are going well, increase your size gradually.

Remember why you are trading

At all times remember your primary objective. By all means, have fun whilst trading, but fun should never be anywhere near your prime concern.

This means:

- Do not trade for fun
- Do not trade because you are bored
- Do not trade for fear of missing out

If and when conditions are optimal for achieving your objectives, then place a trade.

Only risk money you can afford

As mentioned in previous modules, it is vital to always have in mind how much you are actually risking. It is equally vital to make sure you are comfortable with the sums involved. If not, the pressure you will feel from fearing an unaffordable loss will undoubtedly lead to rash and imprudent decisions.

Trade with objectively measurable criteria

There is a certain allure in placing a trade because of an intuition that the market may move one way or the other. This style of impulse trading nearly always equates as bad trading, however. If the intuition is a baseless whim, there is nothing against which to measure whether your judgement is faulty if the trade doesn't immediately move in the right direction. If the position starts to move offside, should you let it run five points against you or ten, 20 or more? There is no answer, because the reasons you have entered into the trade are so vague.

Pointers
(continued)

If, however, you believe a share or an index is range-bound and you sell at the higher end of the range, seeking to take profit near the lower end of the range, you have objective criteria against which to measure how successful or not the trade is. If successfully profiting from the entire range would gain you 20 points of movement, for example, you might not want to let the position move against you more then ten points above the high end of the range (setting a favourable risk/reward ratio).

Define entry and exit points in advance

Setting yourself fixed target levels before you enter into a trade will help you to overcome the twin influences of fear and greed.

If your trading studies have shown you that there is value in trading at a certain level, set that as your entry point and then wait for it to happen; be tough with yourself and do not jump the gun by opening a position just because the market has gone somewhere in the vicinity of that level.

You will need to define two exit levels: an exit point should things go wrong and an exit point for taking your profit when things go well.

Don't double up after a losing trade

The market owes you nothing; just because you lost on your last trade, does not mean that you are somehow more likely to win on your next trade. Doubling up should always be done with care: you should only hike the size you are dealing in by a substantial increment if you think there is a substantially greater chance of profiting than before. Even then, you should take care to carefully manage your risk.

Leave your ego at the door and admit when you are wrong

You cannot win on every trade. It is essential to accept this, or sooner or later you will grimly hang on to a losing position, resulting in runaway losses. Managing a losing position and acting swiftly to cut your losses is a hugely important (and difficult) skill. You can only start to master this skill by first admitting that there will be times when you have got it wrong, and then learning to recognise when this is the case.

Use Stop-losses

A Stop-loss will enforce your exit levels and will aid you to cut your losses. Furthermore, Guaranteed Stops will protect you against even the sharpest adverse market movements.

Do not move Stops further away in order to avoid taking a loss

A common mistake is to keep on moving Stops further away so as to avoid getting stopped out. This is just another form of running your losses, and is usually a mistake in the long run (very occasionally you might be able to move a Stop just a few points before the market turns back in your favour, but the likelihood of consistently picking the turning point of a market is slim at best).

If you persist in moving Stops further away before they get hit, you are defeating the purpose of using them in the first place – there is no point in having a Stop there if you will not let it get hit. If you are using Stops correctly, where you have placed them will have been for a reason; they should not be moved unless that reason no longer exists or has changed.

Run your profits

One of the most oft-quoted tenets of trading is to cut your losses and run your profits. The wisdom in this is inarguable: even the weakest trading strategy will be bolstered if you can make your winning trades yield substantially greater amounts than the losing trades.

We are all human, though, and it is very tempting to grab a profit as soon as it appears. How, then, to avoid doing this?

One way is to set yourself target exit levels as we have already discussed.

Another, perhaps more effective technique, is to use Stops to lock in a profit. If a position has moved into profit, moving a Stop closer to the market can lock in what you have made so far whilst still allowing you to have exposure on the upside (there is no charge for moving a Stop).

Pointers
(continued)

Do not liquidate a winning position in order to fund a losing one

If you are in the situation of needing margin to keep a losing position going, don't free the money up by closing a position that is making you money. Consider whether it is worth getting rid of the losing position; there may still be potential for the position that is going well to make you even more profit.

Trade what you know

Tried and tested strategies are always preferable to new strategies of which you are unsure. If you are looking to try out a new strategy, research it fully, ask questions and start small.

Do your research

This course will have introduced you to some of the general features of CFDs, but before entering into a trade, you should always ensure you fully understand how that particular market works and that you aren't thwarted by some small detail of which you are unaware. For example: what hours does the market trade? Is it an expiry trade or not? Is there commission to pay or is it a spread-based market? If there is a commission, what is the minimum ticket? If it is a contract-based market, what is the size of one contract and what does that mean in terms of your profit/loss per point movement of the market? These are all examples of seemingly minor details that can have a substantial bearing.

Also, don't assume a market works in the same way with us as it does with a competitor, as this may not be the case. For example, the share prices that we quote are always the actual bid/offer that is currently trading on the relevant stock exchange – this may not always be the case with other CFD providers.

You should also properly research the share or index in question: read relevant company reports, look at financial websites and take a look at the fundamentals and/or historical charts. Also investigate what other factors may affect it, such as economic indicators or announcements.

We offer free charting, news and research packages on our website. See what works best for you.

Monitor positions closely

No one has a problem checking how big their profits are when things are going well, but it is at least as important to subject losing positions to the same kind of scrutiny. When things are going badly you may have to act rapidly in order to prevent the situation getting worse.

It is also a good idea to make sure that we have current contact details for you: whilst we generally endeavour to contact you when a margin shortfall arises, we may have no choice but to cut back your positions. For the same reason it is not a good idea to disappear on holiday with open positions, unless you either put Stops on the positions, ensure you are able to trade remotely or let us know in advance how we should contact you whilst you are away (you would also need to be in a position to send funds without delay).

Ask questions

You should never be afraid to ask a question, especially when you are starting out. The easiest way to learn more about CFDs is to ask the professionals. Our dealers are happy to explain how our products work.

Summary

By now you should:

- Understand the importance of discipline to successful trading
- Be familiar with ways in which to maintain your discipline

Remember that CFDs are a geared product and can result in losses that exceed your initial deposit. Trading CFDs may not be suitable for everyone, so please ensure that you fully understand the risks involved.

TradeSense: a conclusion

You have reached the end of the final module of TradeSense, but with any luck, it should be just the beginning of a long and rewarding journey.

Full details of every market that we offer can be found in the Contract Details section of **www.igmarkets.com.au**. You should pay particular attention to our normal contract sizes and minimum commissions which will shortly apply to you – and for which you should now be prepared.

We hope that you have learnt a good deal over the past few weeks and that you have found the pointers helpful, but you should continue to strive to learn more and to improve your trading skills further.

Online Seminars

To complement the TradeSense programme we offer a range of free online seminars, designed for all levels of experience, to help you make the most of your CFD trading.

Hosted by our expert speakers, our seminars cover how to use PureDeal as well as more in-depth topics, such as technical analysis and short-selling.

The live and archived online seminars allow you to take full advantage of our free education programme direct from your PC or Mac. To register you just need to visit our website **www.igmarkets.com.au**.

Resources

You can also find more trading resources once you log in to PureDeal in the Tools section, including the TradeSense databank. We wish you the greatest success in your trading going forward.

Good luck!

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