GUIDE TO RISK MANAGEMENT IN TRADING

TABLE OF CONTENT

LEVERAGE AND MARGIN

LEVERAGE

LEVERAGE IS VITALLY IMPORTANT TO YOUR TRADING ACTIVITIES. SINCE CHOOSING THE INCORRECT LEVERAGE COULD RESULT IN
LARGE LOSSES AND DAMAGE POTENTIAL PROFITS.

LEVERAGE GIVES THE TRADER THE ABILITY TO TRADE LARGER AMOUNTS OF CURRENCY
WITH A SMALLER DEPOSIT AMOUNT.

FOR EXAMPLE WITH A 200 DEPOSIT AND A LEVERAGE OF 500:1 THIS WOULD ALLOW YOU TO TRADE UP TO 100000 WORTH OF
CURRENCY.

MARGIN

IT IS THE NECESSARY AMOUNT YOU NEED TO HAVE IN YOUR TRADING ACCOUNT IN ORDER TO OPEN RELEVANT TRANSACTION. FREE MARGIN IS THE AVAILABLE AMOUNT OF MONEY, WHICH CAN BE USED TO
OPEN NEW POSITIONS.

LEVERAGE= 1 /MARGIN OR MARGIN= 1 /LEVERAGE

CALCULATION

FOR EXAMPLE:

YOU DECIDE TO BUY 1 LOT SIZE EURUSD AT 1.0430 PER QUANTITY. YOUR POSITION IS THEREFORE $ (100000 X $1.0430). 104300 YOU WILL NOT ACTUALLY PAY $104300: THE AMOUNT YOU WILL PAY

DEPENDS ON THE MARGIN REQUIRED BY THE BROKER IF THE LEVERAGE OF 200 (MARGIN REQUIREMENT OF 0.5%) THE REQUIRED MARGIN WOULD BE

CALCULATED AS FOLLOWS: (AMOUNT X PRICE)/LEVERAGE 100000 X 1.0430/200 = 521.50

SPREAD

THE "BID/ASK SPREAD" IS THE DIFFERENCE BETWEEN THE BID AND THE ASK PRICES AVAILABLE FOR EACH ASSET. WHENEVER YOU OPEN A TRADE, YOU WILL START WITH A LOSS. THAT LOSS AMOUNT IS THE SPREAD, AND WILL APPEAR AUTOMATICALLY ON EVERY TRADE YOU OPEN. IF YOU OPEN TRADES WORTH A LARGE PERCENTAGE OF YOUR EQUITY, THE INITIAL LOSS DUE TO THE SPREAD MAY BRING YOUR ACCOUNT BALANCE DANGEROUSLY CLOSE TO STOP OUT LEVELS.

MARKET VOLATILITY

VOLATILITY IS DEFINED AS THE FLUCTUATION OF PRICES OF A CERTAIN ASSET WITHIN A CERTAIN PERIOD OF TIME. A STATE OF HIGH VOLATILITY EXISTS WHEN THESE FLUCTUATIONS ARE CHARACTERISED AS RAPID AND DRAMATIC. SINCE THE PRICES CAN RAPIDLY CHANGE OVER A WIDE RANGE, TRADING ON THAT ASSET WILL BE A HIGH-RISK ACTIVITY SINCE IT CAN RAPIDLY GENERATE UNEXPECTED PROFITS OR LOSSES.

SO KEEP THIS IN MIND - "PROTECTING YOUR CAPITAL IS ALSO A PROFIT "

WHENEVER MARKET MOVE IN THE ADVERSE MOVEMENT, INSTEAD OF CHASING TO TAKE OR RISKING HIGH CAPITAL OF YOUR TRADING ACCOUNT IS NOT A WISE DECISION.

SLIPPAGE

THE TERM SLIPPAGE REFERS TO THE DIFFERENCE BETWEEN THE EXPECTED PRICE OF A TRADE AND THE PRICE AT WHICH THE TRADE IS EXECUTED. MOST OF THE TIME WE EXPERIENCE THIS WHEN THE MARKET OPENS ON MONDAY. WE HAVE SEEN AGAIN AND AGAIN THAT SOMETIMES THE PRICE OPENS WITH A GAP UP AND SOMETIMES IT OPENS WITH A GAP DOWN. SO IT WOULD BE ADVISABLE WHENEVER THERE IS ANY PRESS CONFERENCE OR ANY OTHER MAJOR EVENT GOING TO HAPPEN ON WEEKEND SO DO NOT HOLD A TRADE OVER THE WEEKEND.

TRADE MANAGEMENT STRATEGY

A TRADE MANAGEMENT STRATEGY IS A TOOL THAT YOU CAN USE TO CAPITALIZE ON THE HIGHER AMOUNT OF PROFIT WITH MINIMIZING YOUR RISK OVER TIME.

TO IMPLEMENT THIS STRATEGY YOU HAVE TO CHOOSE A CERTAIN PERCENTAGE WHICH YOU FEEL LIKE TAKING A RISK WHENEVER YOU OPEN YOUR TRADE. SO
SUPPOSE YOU RISKING 2% OF YOUR CAPITAL PER TRADE AND WHEN YOUR TRADE MOVES 2% INTO YOUR DIRECTION. WHAT YOU HAVE TO DO IS SIMPLY REVISE
YOUR STOP LOSS AT COST AND WHEN IT MOVES 4% FROM YOUR ENTRY PRICE SIMPLY REVISE YOUR STOP LOSS AT 2% PROFIT.

BY STICKING TO THIS, YOU WOULD ALLOW YOURSELF TO CAPITALIZE ON A LARGE AMOUNT OF PROFIT WITH MINIMIZING YOUR RISK.

BUT MAKE SURE YOU HAVE TO CONSISTENT WITH IT

THANK YOU