Top Reasons Forex Traders Fail

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The forex market is the largest financial market in the world, with more than $5 trillion traded on average every day.1 However, while there are many forex investors, few are truly successful. Many traders fail for the same reasons that investors fail in other asset classes. In addition, the extreme amount of leverage—the use of borrowed capital to increase the potential return of investments—provided by the market, and the relatively small amounts of margin required when trading currencies, deny traders the opportunity to make numerous low-risk mistakes.

Forex Market Trading Hazards

Certain mistakes can keep traders from achieving their investment goals. Below are some of the common pitfalls that can plague forex traders:

- **Not Maintaining Trading Discipline:** The largest mistake any trader can make is to let emotions control trading decisions. Becoming a successful forex trader means achieving a few big wins while suffering many smaller losses. Experiencing many consecutive losses is difficult to handle emotionally and can test a trader's patience and confidence. Trying to beat the market or giving in to fear and greed can lead to cutting winners short and letting losing trades run out of control. Conquering emotion is achieved by trading within a well-constructed trading plan that assists in maintaining trading discipline.

- **Trading Without a Plan:** Whether one trades forex or any other asset class, the first step in achieving success is to create and follow a trading plan. "Failing to plan is planning to fail" is an adage that holds true for any type of trading. The successful trader works within a documented plan that includes risk management rules and specifies the expected return on investment (ROI). Adhering to a strategic trading plan can help investors evade some of the most common trading pitfalls; if you don't have a plan, you're selling yourself short in what you can accomplish in the forex market.

- **Failing to Adapt to the Market:** Before the market even opens, you should create a plan for every trade. Conducting scenario analysis and planning the moves and countermoves for every potential market situation can significantly reduce the risk of large, unexpected losses. As the market changes, it presents new opportunities and risks. No panacea or foolproof "system" can persistently prevail over the long

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term. The most successful traders adapt to market changes and modify their strategies to conform to them. Successful traders plan for low probability events and are rarely surprised if they occur. Through an education and adaptation process, they stay ahead of the pack and continuously find new and creative ways to profit from the evolving market.

- **Learning Through Trial and Error:** Without a doubt, the most expensive way to learn to trade the currency markets is through trial and error. Discovering the appropriate trading strategies by learning from your mistakes is not an efficient way to trade any market. Since forex is considerably different from the equity market, the probability of new traders sustaining account-crippling losses is high. The most efficient way to become a successful currency trader is to access the experience of successful traders. This can be done through a formal trading education or through a mentor relationship with someone who has a notable track record. One of the best ways to perfect your skills is to shadow a successful trader, especially when you add hours of practice on your own.

- **Having Unrealistic Expectations:** No matter what anyone says, trading forex is not a get-rich-quick scheme. Becoming proficient enough to accumulate profits is not a sprint—it's a marathon. Success requires recurrent efforts to master the strategies involved. Swinging for the fences or trying to force the market to provide abnormal returns usually results in traders risking more capital than warranted by the potential profits. Foregoing trade discipline to gamble on unrealistic gains means abandoning risk and money management rules that are designed to prevent market remorse.

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