Forex: Online Trading Safety: Why Some Trading Experts Risk Their Own Money When Teaching This Important Trading Tip

Remember this important online trading safety tip: The markets will not keep your money safe. Though this is a well known fact, many people find it quite hard to understand. They believe that, no matter what, the market and GOOD FOREX will ALWAYS COME BACK, as though this were a law.

But, there`s no such law. A good online trading safety tips is to remember that forex don`t always come back, and neither do markets. If you want to think about the market in terms of laws of nature, the best one is the law of gravity, specifically:

++ What goes up must come down.

This is especially true for forex and sectors that have risen extremely quickly. You can protect your capital and your profits from this natural market law by setting stops.

A stop is an order you place to sell or buy a position you own if it hits a specified price. It`s called a stop because it stops you from losing any more money on the position. If you`ve sold short, you can place a stop order to buy to cover if the stock rises to a specified price. Stops are not complicated to use, and they are an integral part of trading success.

When we use the word STOP, we`re referring to a stop loss order. This is an order that directs your broker to sell a position you hold if the stock drops to a specified price. If you`ve sold short, you can place a stop loss buy to cover order to get out of the position if it rises to a specified price. Once the stop is triggered, it`s immediately executed as a market order.

Here`s an online trading safety example. Let`s say you buy a stock at 50 dollars a share. You have reason to think it will rise, but you also realize it`s a risky trade. You know that if the stock drops below 48.50, it means there`s trouble with the trade and you`ll want out. So, after buying the stock, you place another order: a stop sell order at 48.40.

This tells the broker that if there is market action at 48.40, or below, to sell your shares immediately in the form of a market order. They`ll be sold at the current bid, whatever that is. This will happen automatically, so you won`t have to watch the stock closely. It also means you won`t be tempted to hold on longer, hoping that the stock will go back up.

In general, there are two types of stop orders: stop loss and stop limit. However, some brokers use slightly different names for various order types, and may not offer all order types to their clients. I`ve already described the stop loss order.

A stop limit order is an order to sell a position at a specific price and no lower than that price, if the stock drops to that price or to buy to cover a stock sold short at a specific price and no higher than that price if it rises to that price. Once the stop is triggered, the order is executed only if it can be executed at the limit price or better, it becomes a limit order. In my opinion, you shouldn`t use stop limit orders, it needlessly increases your risk. If a stock`s price is dropping fast, chances are good that a stop limit order won`t execute at all.

Let`s say the stock from the earlier example does drop. It hits 48.40, and the stop is triggered. The stop order becomes a market order to sell. This means that it will execute immediately at the current bid price. The same principles apply to stops on short positions. If you sell a stock short at 13 dollars, expecting it to go down, you should place a buy to cover order at, say, 13.75. If the stock suddenly rises sharply, you`re protected and you can always re short the stock at its peak price later.

Let`s go back to the stock the trader bought for 50 dollars. If the stock is falling slowly, the market order may execute at 48.40, slightly lower, or even, occasionally, slightly higher. If it`s falling quickly, it could execute a little below 48.40. If the stock is falling very quickly, it could execute well below 48.40.

The possibility that they could be stopped out of a position far below the trigger price is one reason traders may avoid using stops. Although this could happen, it`s better than the alternative, to keep holding the position while it goes even lower. Besides, in most cases the position will be stopped out quite near the trigger price. In addition to fearing a bad execution price, some people are afraid that the position will start to go back up immediately after their stop sell order`s been executed.

A stock may occasionally bounce right at the point where you set your stop, as a random occurrence. But, the smart trader weighs this rare frustration

against all the times he`ll save much more money by using stops to get out of losing positions. Think of it as the cost of insurance. Just don`t forget this last online trading safety tip; using stops as insurance will occasionally cost you a little, but it will save you many times more in the long run, and you don`t often get a chance to insure against a law of nature.

Source: http://www.articlecircle.com

About the Author

Who Else Wants To Learn A Simple, Step-By-Step System For Generating Quick & Easy Profits, Trading Forex? - FREE FOR A LIMITED TIME - http://www.forexcurrencytradingsystems.com/index.php