

Learn to Love Your Losers

Ok, so no trader truly enjoys taking a losing trade. But if you want to succeed in this business of day trading, learning to love your losers (or at least accepting them) is one of the most important lessons you can learn. Psychologically, human beings are not well designed for trading financial markets. We hate losing, we hate being wrong, and we get buffeted about by those twin emotions - fear and greed. This leads us into all sorts of self destructive habits. Moving stop losses further out - just to give the trade time to turn round. Or grabbing a profit as soon as it appears - just in case we have to give it back.

The simple fact is that most successful traders lose as many, more likely more, trades as they win. What separates them from the rest is their ability to cut a losing position and run a winner for as long as possible. The arithmetic is simple. If your average winner is twice the size of your average loser, then you can be wrong on 50% of your trades and still make very good money.

In fact, you can be wrong 66% of the time and still break even. Improve the ratio by more than two to one and you can make massive amounts of money in the markets. Unless you can learn the art of letting winners run and cutting your losers short, you will never get those big winners that make the difference, and you will never reach that magical relationship where your average win is at least twice as big as your average loss. This fundamental concept holds true no matter what time frame you trade and whether you're a day trader, swing trader, or even if hold your trades for over a year.

The key to reaching this state of affairs is to develop or adopt a high probability trading system and stick to it. The more you can automate the trading process, the less likely you will fall into bad habits. This will take the psychological problems away and allow you to be less controlled by your emotions.

So don't be afraid of losing trades. They are part and parcel of this business. Learn techniques that will allow you to minimize and control them and the profitability of your trading will improve more than you can imagine. Fail to master this concept and you set yourself up for disappointment and frustration.

Of course, getting the mental bit right is only part of the answer. There is a plethora of moving parts when it comes to trading. Learning how to pick good trades, understanding entry and exit signals, and spotting when a move is coming to an end are vitally important, too.

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