Money Management in Forex Trading *by- www.forexfunction.com*

The key to success behind a successful trader is his strong and disciplined money management. It is very vital for Security Trading, Forex, Options, Futures and Commodity Trading. If you don't believe in efficient money management, you may lost your capital (Margin Call) in a few days or even few minutes. It has been said the 90% forex trader fall in margin call due to unstable money management.

So before starting real trading we might need to know what is money management ?

"Money Management is the combination of some set of rules that help you how to manage or operate your capital properly". Suppose that you are a college student and your parents send you 100 USD per month for your expenses. So you should spend 3.33USD per day to stay live the whole month. It is your money management rule and if you don't follow this rule then you might fall in danger.

Money Management in Forex trading can help to secure your capital and as well as able to make profit daily basis. Golden rules for Forex money management are discussed below-

Take low Percentage of Risk:

In Forex trading your first target should be survive and second target is to make consistent profit. To keep your account alive you might need to take low percentage of risk of your trading. If you do it, you can hold your consistency in profit otherwise it is too hard to exist in Forex.

Result Comparison Between Low Risk and High Risk:

Trade No.	Tradable Balance	Loss (1% Risk)	Tradable Balance	Loss (10%Risk)
01	$5000(Initiial Deposit)	$50	$5000(Initiial Deposit)	$500
02	$4950	$49	$4500	$450
03	$4901	$49	$4050	$405
04	$4852	$48	$3645	$364
05	$4803	$48	$3281	$328
06	$4755	$47	$2953	$295
07	$4707	$47	$2658	$266
08	$4660	$47	$2393	$239
09	$4614	$46	$2154	$215
10	$4568 (total 8.6% loss)	---	$1939(total 60% loss)	---

Clearly shows the difference between the 1% risk and 10% risk. Normally a trader may not loss 10 trades in a row but if he can take 1% risk then there will not so effect because total loss is 8.6% of capital. On the other hand if a trader trade worst trading like taking 10% risk there will much effect because he loss 60% capital after 10 loss trade and it is too hard to recover the 60% loss. So before opening a trade calculate your risk level. For better understanding please see the following table:-

Risk Level Calculation:

Deposit	Risk Level	Trade Volume (Standard Lot)	Loss (Pips)	Loss (USD)	Margin Call (Minimum trades)
$5000	100%	10	50 pips	$5000	1 trade
$5000	50%	5	50pips	$2500	2 trade
$5000	25%	2.5	50 pips	$1250	4 trades
$5000	10%	1.00	50pips	$500	10 trades
$5000	5%	0.50	50pips	$250	20 trades
$5000	2%	0.20	50 pips	$100	50 Trades
$5000	1%	0.10	50pips	$50	100 trades

So try to trade with taking maximum 1-2% risk.

Calculate Drawdown Regularly:

It is also very important to count down the drawdown of your capital regular basis. For example:you have lost 10% of your capital then you need to make 11.11% profit from your remaining capital (ie 10% loss of 100USD is 10USD. So to recover the money of your capital you need to make profit (10/90)*100 =11.11% of 90USD). So if you loss 50% of your capital, to recover these you need to make 100% profit from remaining capital . To learn how to calculate drawdown of your capital I give a calculation chart below for better understand.

How to Calculate Drawdown?

Date	Flow Price	Peak Price	Draw Down
01/01/2050	$1000 (Initial Invest)	$1000	-
02/01/2050	$1100	$1100	-
03/01/2050	$1050	$1100	4.76%
04/01/2050	$1010	$1100	8.91%
05/01/2050	$1080	$1100	1.85%
06/01/2050	$1150	$1150	-
07/01/2050	$1250	$1250	-
08/01/2050	$990	$1250	26.26%
09/01/2050	$950	$1250	31.57%
10/01/2050	$970	$1250	22.55%

Rule for calculating drawdown=[{(Peak Price-Flow Price)*100}/Flow Price]

So If you fall into the big loss , you need to invest more to accomplish what you need to recover, but if no follow Money Management you may fall again in loss. So be careful about your loses.

Calculate the Risk Reword Ratio:

If a trade is unlikely to profit or more risky then try to avoid that type of trade. So before opening a single trade it should be analyzed properly about risk vs reword ratio. Please notice the following chart-

Risk vs Reword Calculation

Risk:Reward	Trade Volume (Standard Lot)	Stop Loss	Take Profit	Loss	Profit	Total Trades	Net Profit/Loss
1:5	0.10	20 pips	100 pips	$20	$100	10	$800
1:4	0.10	25 pips	100pips	$25	$100	10	$750
1:3	0.10	33 pips	99 pips	$33	$99	10	$660
1:2	0.10	50 pips	100 pips	$50	$100	10	$500
1:1	0.10	100 pips	100 pips	$100	$100	10	$0.00
2:1	0.10	100 pips	50 pips	$100	$50	10	-$500
3:1	0.10	99 pips	33 pips	$99	$33	10	-$660
4:1	0.10	100 pips	25 pips	$100	$25	10	-$750
5:1	0.10	100 pips	20 pips	$100	$20	10	-$800

However, More risk reward does not means more profit because there is good chance to hit the stop loss point. Mnay professional trader use 1:1 and 1:2 risk reword ratio for stable trading. As each currency or price has its own strength and often try to recover after falling down, so we should use equal risk and reword ratio for better money management . It is always recommended to open every single trade with setting up stop loss and try to fixed the risk reword ratio.

~Thank You~