Learn The Mistakes The Pro's Make When CFD Trading

Before you start trading Contracts for difference it is vital to obtain a few suggestions from the professionals to ensure that you do not make many of the costly errors that newbie traders make. Below are three trading pointers that will help you in your CFD Trading success.

1. Manage your Positions
Over and over again new traders spend a large amount of time choosing, planning and executing new positions, however they often make the mistake of exiting these trades with much less thought. This is unfortunate as it's the exit which will determine whether a trade has been profitable or not.

It is human nature to take profits quickly while the fear of incurring a loss will see the same trader leaving poorly performing positions open in the anticipation that prices will move in the right direction and reduce losses or even turn them into profitable trades.

Numerous new traders ignore the old proverb “Let your profits run and cut your losses short”. As the saying states when you have a profitable position, you must allow that trade to achieve its full potential, instead of closing it out at the first sign of a small profit. On the other hand, if you happen to hold a position that is moving against you, you should move quickly to get out of that position, before the loss becomes too great.

If you're managing your trades properly, your average winning trade should be considerably larger than your average losing trade. After you have the discipline to trade in using this method, you should be able to attain overall profitability even when only half of your trades are winners. Many traders make the error of not closing poorly performing positions fast enough. One tool that makes this simpler is a stop-loss order.

Once you have identified a price level that corresponds with the amount of risk that you are prepared to take on a particular trade, a stop-loss order can be placed at this level to automatically close out the trade. This removes the human element from the exit, reducing the risk that the emotion of hope will interfere with rational decision making.

It is essential to understand that a stop-loss order simply gives you a trigger point for the execution of an order. If a sell stop has been placed on a long position, the stop-loss will likely be activated if the price trades at or below the nominated stop level. Every so often, this can result in trades being executed a price that is less favorable than the nominated stop-loss price. This is called slippage.

2. Understand the instrument you're trading
Being over-the-counter products, there are various variations in the contract specifications of Contracts for difference. If you are buying and selling these products, it is crucial to know what these specifications are.

You should also be aware of the influence that currency price changes can have on your holdings. If the base currency of the Contract for difference rises against the base currency of your account your profits may be eroded by any currency fluctuation or your losses could be made worse.

Most CFD traders buy and sell Contracts for difference based on stocks listed in their own country. The simple explanation for this is that traders are more comfortable trading CFDs that they're familiar with. Most traders also enjoy the convenience of trading their home market as it is not practical to sit up for half the night to trade a CFD over a share listed on an exchange in another part of the world?

In lots of circumstances it is much better to stick to Contracts for difference quoted on stocks listed on exchanges that you are familiar with rather than trading Contracts for difference based on shares listed on markets you don't fully understand.

3. Use the correct order types
You must always treat trading as a serious business. As such, you need to take some time to ensure that you thoroughly understand the tools of your business. Many CFD traders miss opportunities or have been closed out of trades at the wrong time simply because they placed the incorrect type of order.

At the very least, you should become familiar with these order types:

Market order: This type of order is used to execute a trade at the present market price.

Stop-order: This order type is used to exit a trade at a specific price. Stop-orders are located at a level that is worse than prices presently obtainable in the market. On a long position, the stop-loss order to sell would be positioned below the present market price. Conversely, on a short position, the stop-loss order to buy would be positioned at a level higher than current market prices.

Limit order: A limit order is utilized to exit a trade. Limit orders are positioned at a level that is better than the present market price. When seeking to lock-in profits on an open long position, a limit order to sell would be positioned at a level greater than current market prices. If seeking to lock-in profits on a short position, a limit order to buy would be positioned at a level below current market prices.

You must always keep in mind that as CFDs are geared and that buying and selling them can be risky. However if used correctly CFDs will become a valuable tool in your trading arsenal.

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