

# TRADING DISCIPLINE

The final module in our introduction programme discusses the importance of discipline as a trading tool and covers a number of ways to maintain trading discipline, as well as sharing some general trading tips.



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# TRADING DISCIPLINE

**This is the final module in our introduction programme. After working through the different modules of the course, we hope you are now more familiar with CFDs and how our dealing platform works, as well as how to use important features such as Stop and Limit orders.**

There are many trading strategies available to use (and there are undoubtedly new strategies to be discovered by you as well). Which strategy you employ – whether it is a branch of technical analysis or utilises fundamentals or is even a combination of both – is beyond the scope of this programme (and beyond our remit as an execution-only service). In the end, the decision is yours to make.

Whatever trading strategy you do end up using, however, will always yield the best results when used in unison with strong trading discipline.

Even with a strategy that yields a high success rate in terms of picking moves correctly, it is possible to lose money overall if the deficits from the losing trades are sufficiently large to outweigh the profits from the many winning trades. Similarly, with a trading strategy that offers no more than a 50% hit-rate it is possible to make money if you are able to maximise the profits on the winning trades and minimise the losses when you get it wrong.

# POINTERS

The following pointers can help to maintain good trading discipline:

## START SMALL

Our introduction programme offers you reduced minimum commission on shares and lower minimum trade sizes on other markets. While you are new to CFDs, or still learning how to use our dealing platform, you can take advantage of this reduced exposure to practise and hone your skills. As you get more confident, or if things are going well, increase your size gradually.

## REMEMBER WHY YOU ARE TRADING

At all times your primary objective should be to profit from your positions. CFD trading can be a fun, exciting experience, but it's important to remain disciplined in your trading.

This means:

- Don't trade simply for fun
- Don't trade out of boredom
- Don't trade because you're worried you might be missing out

If and when conditions are optimal, that's the time to place a trade. Otherwise, save your money for a better opportunity.

## ONLY RISK MONEY YOU CAN AFFORD

As mentioned in previous modules, it is vital to always have in mind how much you are actually risking. It is equally vital to make sure you are comfortable with the sums involved. If not, the pressure from the risk of making an unaffordable loss could negatively affect your decision-making.

# POINTERS

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### TRADE WITH OBJECTIVELY MEASURABLE CRITERIA

There is a certain allure in placing a trade because of an intuition that the market may move one way or the other. This style of impulse trading can often put you in a difficult position, however.

If your intuition isn't based on something concrete, such as technical analysis or economic data, there's no way to measure whether your judgement is faulty if the trade doesn't immediately move in the right direction. If the position starts to move against you, should you let it run five points or ten, twenty or more? There is no answer, because the reasons why you have entered into the trade are so vague.

If, however, you believe a share or an index is range-bound and you sell at the higher end of the range, seeking to take profit near the lower end of the range, you have objective criteria against which to measure how successful or not the trade is. If successfully profiting from the entire range would gain you 20 points of movement, for example, you might not want to let the position move against you more than ten points above the high end of the range (setting a favourable risk/reward ratio).

### DEFINE ENTRY AND EXIT POINTS IN ADVANCE

Setting yourself fixed target levels before you enter into a trade will help you to overcome more irrational, emotional influences, such as fear or greed. If your trading studies have shown you that there is value in trading at a certain level, set that as your entry point and then wait for it to happen; be tough with yourself and do not open a position prematurely just because the market has gone somewhere in the vicinity of that level.

You will need to define two exit levels: an exit point should things go wrong and an exit point for taking your profit when things go well.

### DON'T DOUBLE UP AFTER A LOSING TRADE

The market owes you nothing; just because you lost on your last trade, does not mean that you are somehow more likely to win on your next trade. Doubling up should always be done with care: you should only hike the size you are dealing in by a substantial increment if you think there is a substantially greater chance of profiting than before. Even then, you should take care to carefully manage your risk.

# POINTERS

## CONTINUED

### ACCEPT THAT YOU'LL MAKE MISTAKES

You cannot win on every trade. It is essential to accept this, or you might stubbornly hang on to a losing position, resulting in excessive losses. Managing a losing position and acting swiftly to cut your losses are an important and difficult part of CFD trading. You can only get better by admitting that there will be times when you have got it wrong, and then learning to recognise when this is the case.

### USE STOP-LOSSES

A Stop-loss will enforce your exit levels and will aid you to cut your losses. Furthermore, Guaranteed Stops will protect you against even the sharpest adverse market movements.

### DO NOT MOVE STOPS FURTHER AWAY IN ORDER TO AVOID TAKING A LOSS

A common mistake is to keep on moving Stops further away so as to avoid getting stopped out. This is just another form of running your losses, and is usually a mistake in the long run (very occasionally you might be able to move a Stop just a few points before the market turns back in your favour, but the likelihood of consistently picking the turning point of a market is slim at best).

If you persist in moving Stops further away before they get hit, you are defeating the purpose of using them in the first place – there is no point in having a Stop there if you will not let it get hit. If you are using Stops correctly, where you have placed them will have been for a reason; they should not be moved unless that reason no longer exists or has changed.

### RUN YOUR PROFITS

One of the most oft-quoted tenets of financial dealing is to cut your losses and run your profits. The wisdom in this is inarguable: even the weakest trading strategy will be bolstered if you can make your winning trades yield substantially greater amounts than the losing ones.



# POINTERS

## CONTINUED

We are all human, though, and it is very tempting to grab a profit as soon as it appears. How, then, to avoid doing this? One way is to set yourself target exit levels as we have already discussed.

Another, perhaps more effective technique, is to use Stops to lock in a profit. If a position has moved into profit, moving a Stop closer to the market can lock in what you have made so far whilst still allowing you to have exposure on the upside (there is no charge for moving a Stop).

### **DO NOT LIQUIDATE A WINNING POSITION IN ORDER TO FUND A LOSING ONE**

If you are in the situation of needing margin to keep a losing position going, don't free the money up by closing a position that is making you money. Consider whether it is worth getting rid of the losing position; there may still be potential for the position that is going well to make you even more profit.

### **TRADE ON WHAT YOU KNOW**

Tried and tested strategies are always preferable to new strategies of which you are unsure. If you are looking to try out a new strategy, research it fully, ask questions and start small.

### **DO YOUR RESEARCH**

This course will have introduced you to some of the general features of CFD trading service, but before entering into a trade, you should always ensure you fully understand how the particular market to which you are gaining an exposure works and that you aren't thwarted by some small detail of which you are unaware. For example, what hours the market trades, how and when your position expires, what denomination you are dealing in and what a point of market movement actually means might be examples of seemingly minor details that can have a substantial bearing.

If you have traded CFDs before with another company, it's worth remembering that they might not work quite the same way with us. Make sure you know exactly what to expect.

# POINTERS

## CONTINUED

You should also properly research the share or index in question: read relevant company reports, look at financial websites, examine the fundamentals or historical charts. You should also investigate what other factors may affect it, such as upcoming economic indicators or announcements.

**Our insight centre** can be a valuable tool when doing your research. It provides up-to-the-minute news and expert analysis, together with free charting, technical analysis and client sentiment indicators, all in one integrated package.

### MONITOR POSITIONS CLOSELY

No one has a problem checking how big their profits are when things are going well, but it is at least as important to subject losing positions to the same kind of scrutiny. When things are going badly you may have to act rapidly in order to prevent the situation getting worse.

It is also a good idea to make sure that we have current contact details for you: if we cannot get in touch with you for margin, we may have no choice but to cut back your positions. For the same reason it is not a good idea to disappear on holiday with open positions, unless you either put Stops on the positions, ensure you are able to trade remotely or let us know in advance how we should contact you whilst you are away (you would also need to be in a position to send funds without delay).

### ASK QUESTIONS

You should never be afraid to ask a question, especially when you are starting out. The easiest way to learn more about CFDs is to ask the professionals. Our dealers are happy to explain how our trading service works.



# WELCOME TO IG

This is the final education module of our introduction programme, but with the knowledge you've gained we hope this is just the beginning of a long and rewarding CFD trading career.

Please take the opportunity to look at the contract details section of our website **IG.com**, where you can find full details of every CFD that we offer, including our standard minimum contract sizes and share commissions.

You can also find more resources in the 'Tools' section of our dealing platform.

**Good luck in your future trading, and if there's anything we can help with please get in touch. Our helpdesk is always available to answer any questions you might have.**

## SEMINARS

We hope you've found these modules useful over the past few weeks, but the best way to improve your CFD trading skills is to hone them through practice.

To help you continue to expand your CFD trading knowledge we host a series of free educational seminars, either live online, on demand or in person at our offices in London or around the UK.

These cover a variety of useful subjects, including:

- Trading with Charts
- Forex Explained

New seminars are added all the time; to find out more or to sign up, visit the education section of our website at **IG.com/uk/seminars.html**.

## SUMMARY

By now you should:

- Understand the importance of trading discipline
- Be familiar with ways in which to maintain your discipline

Spread bets and CFDs are leveraged products. Spread betting and CFD trading may not be suitable for everyone and can result in losses that exceed your deposits, so please ensure that you fully understand the risks involved.

Please note that although the material contained within our introduction programme is updated regularly to ensure accuracy, the information given is subject to change, often without notice, and therefore may not reflect our most current offering. Our examples are for illustrative purposes only and do not reflect events in the markets. The information is for guidance only and we accept no liability for its accuracy or otherwise.

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