



**PSYCHOLOGY  
OF FOREX TRADING**

---

**EBOOK 05**

## Psychology of Forex Trading

Psychology is the study of all aspects of behavior and mental processes. It's basically how our brain works, how our memory is organized and how people interact with others. Our psychological behavior definitely has an impact on trading because a lot of people tend to make decisions according to their emotion and mindset.

Most traders are aware that psychology is an important factor in trading. Most people experience similar thoughts and emotions as they trade in the markets, and we can learn significant things from the differences between thoughts of losing traders and winning traders. It is definitely not the right way to think that being successful in the forex market entirely depends on the system or a strategy you use. Because it depends mostly on your mindset, how individuals think about and how you react to the market. However, Forex websites that are trying to sell robot-based trading system won't generally tell you this, because they want you to believe that you can make money by buying their goods. It is the mindset that they want traders to have. Having an effective trading strategy is very important, which also includes how you manage your trades correctly and your emotions correctly. You have to develop such control of your emotions to be able to trade whilst eliminating emotional decisions. If you do not properly control your mind, you will have a minimal chance at making consistent profit in the market, in fact, you are most likely to lose money.

### **Why most traders lose money (because of your expectations)**

You have probably seen or heard that majority of people who attempt Forex trades end up in a loss. The reason is primarily that most people think about trading in the wrong sense. Majority of the people approach the market with an expectation of making the unrealistic amount of profit and not thinking about potential losses at the same time. These kinds of expectations only foster negative effects to most traders because they feel too much pressure to make money, which you most likely end up trading emotionally than will lead to further loss.

### **Greed & Fear (Think about why you lose)**

Why do we get greedy? The most emotional trading mistakes that traders make are having too much greed and being feared.

Greed is quite self-explanatory, and there are things that you need to be aware of as you are trading in the market. The most critical aspect of greed is that you need to understand that if you let it consume you, it will cause you to try too hard to make money, which will most likely cause you to lose money. It is perhaps natural that the vast majority of traders are money-oriented individuals who hope to be financially successful, which it makes greed to consume their mind easily.

To conquer greed, you need to ensure to trade with a disciplined approach which will minimize the role of impulse in our trading decisions. By formulating a trading strategy at the beginning and remaining to the plan throughout the course of a trade, we can ensure that greed will have much less impact on your trading exercise.

Trader usually feels fear of entering the market when they are new to trading and have not understood an effective trading strategy. Fear can also arise when you come across a series of losing trades or after suffering a loss larger than what you are emotionally capable of managing. You can conquer fear by never risking more money than what you can manage. Fear can be a very limiting emotion to a trader because it can make them miss out on good trading opportunities.

### **It's all because of your expectations**

Having unrealistic expectations is another common trading mistake that directs you towards losses. New traders freshly starting to trade will have a different view of it. Many people start trading only thinking about the profit they are going to make. Having this kind of thoughts will lure you into risking too much money too easily and overtrade, which will eventually cause you to lose money gradually. Of course, striving for your goal and having expectations in trading is important, because it is what keeps you motivated. But it's necessary to know what and how much you are expecting.

### **How do you control?**

It is recognizable that no one enters the market as a supreme being with perfect control of their emotions, we all have flaws. The bigger the capital size and base a trader has to trade, it is assumed the more emotional control that trader will have developed. The smaller the capital size and base, the less knowledge a person has. Therefore, it is safely assumed that they will take greater risk. However, there are many traders with small capital and base who can remain calm and cool no matter how their trades are developing.

**To assist removing emotions from your trading is to have developed a robust trading plan which you never violate. This plan can cover a few things.**

- plan your success
- Take a break after each trade
- Find the least volatile hour of the trading session
- Risks - (?? More information) describe what, what to risk, admit the result
- How you respond to losses

### **Plan your success**

One of the things that expert traders do to ensure discipline during an emotional period, is to plan out their approach. As traders, there isn't one way of being profitable. There are many strategies and approaches that can help you accomplish goals.

Planning each trade and planning how you want to react in each situation that takes place in those trades can assist new traders to be able to manage the emotions that come with speculation.

### **Trading with emotions**

When you make up your mind of investing, you must be able to keep your emotions under control. Obviously, not everybody has the ability to do so, by trading is a serious financial matter and from the time of starting trading, you have to work on controlling your emotions a lot.

### **Take breaks regularly (give yourself some time to relax)**

Even just for a minute, given the extreme nature of trading, it is easy to get consumed into your pit of emotions. Taking a break from trading regularly is a physical action that you can take to control your trading tempo. This simple act can clear up your mind and will help you stay in control of yourself.

### **Find least volatile hour of the trading session (timing is everything)**

Most trading strategies work best when price action is volatile. Trading when the market is congested can lead to frustration. Solution to this is quite simple, taking a break when the market is going nowhere and continue later.

### **Mastering your emotions for long-term trading success**

Learning to control your emotions require persistence. Over a period of time, you will begin to perceive the benefits of keeping your emotions under control. These benefits serve as positive reinforcement to your brain to endure good emotional habits and responses.

### **Using too much leverage**

Possibility to use high leverage is one of the biggest advantages of trading. All traders have an equal opportunity to trade with greater volume due to the leverage which is provided by a broker. Everything isn't always good, so is leverage. Leverage gives you the opportunity to trade with higher volumes but you can also result in big losses. High leverage does not mean it's always good.

### **Eliminate over-trading (Never too much)**

The majority of traders tend to over trade. eliminating overtrading and only trading when your optimum setup occurs, will create a calmness in your mind. Over-trading affects new traders as they confuse being busy with being successful. Traders sometimes have a view in their imagination that trading is a highly active, energetic emotional rush. They think that in order to work hard at trading is to do as much as you can, yet the reality is that successful trading is calm, measured and deliberate.

### **Trade smart, take control**

Every time you trade, there are costs occurred. When you lose a trade, it is more than just the loss of that trade, it is the cost of the order and time spent as well. You need to think of Fx trading like a business rather than a gamble. Thus, you need to be organized when trading. What it means by being organized, it is having trade plan and trading journal that you actually need to be using consistently. Be calm and calculate all your interactions with the market and it should assist with keeping the emotional feelings controlled.

### **Take responsibility for your trades (Revenge trading)**

There is a term, “going on tilt” which describes those gamblers who enters a tunnel vision and can’t stop trading. As you can guess, it happens in the Fx trading world too. This symptom could lead to something called revenge trading. It is when a trader decides to ignore all the signals he or she relies on and instead fights with the market to win back the losses desperately. If this behavior continues it can cause larger losses. Be responsible for any losses that occur because of your trading behavior.

### **Ask yourself if you're scared**

Aforementioned, fear is a powerful emotion that traders often face. When your trades aren't going to your favor, ask yourself if you are scared. At any given moment if yes is the answer, stop trading immediately. Take a break and review your trading rules and plan. Reduce your trading size and keep calm.

### **Confidence, stand up to your decisions (Have confidence, do as your decisions)**

Expert traders make their own choices and their own decisions. They will be confident in every trade they make and they will remain calm, assured and secured with their decisions, even when the trades don't go well. Experts are able to stay stronger in mind and have gained control of their decisions through the use of their trading plans and money management techniques. You have to accept that nothing in trading is ever 100% certain. Readiness for all possibilities is a great way to consistent success.

### **Conclusion**

We must minimize the effect of emotions in our trading decisions while dealing with the problems related to trading psychology. The best way of dealing with emotional problems is acquiring a logical approach to trading. A good way of reaching that attitude is to understand the market mechanisms. We have given you a basic understanding of factors upon which you can build your knowledge to improve your potential for success in the forex market.

To sum up, trade by your organized trading plan. Do not let the emotions get to you while trading and get interfered. It will help with lessening your stress level a lot. Overall, if you follow these trading methods, it will bring you good effects and result in your trades and help you make better decisions.