RISK MANAGEMENT METHODS

One vital strategy that traders new and old tend to overlook is risk management. If you want to make a living or a steady side income on trades, you need to learn everything you can about risk management. Even if you're enjoying a great deal of success today, one or two disastrous trades could wipe out your bankroll if you aren't careful enough.

As important as risk management is, there are many myths about it that stop people from taking it seriously. Here are some of the most common risk management myths:

* Only new traders without much experience need to worry about risk management.
* Engaging in risk management minimizes wins as well as losses.
* If your trades are solid enough, then you don't have to worry about risk management.
* Once your bankroll is large enough, risk management is less important.

Unfortunately, all of this is far from true. Experienced investors, for example, need to pay attention to risk management. This is especially true for traders with large bankrolls. The larger your bankroll is, the more careful you need to be about protecting it.

**Here's what you need to know about risk management:**

BASICS OF RISK MANAGEMENT

Whether you trade commodities, stocks or currencies, there is inherent risk. In the context of risk management, we're referring to the risk of losing a significant amount of money from your trading bankroll. Practicing risk management is the most important thing you need to do as a trader. Once you lose your bankroll, your trading days are over. If the money is critical to your well-being, it could be even worse than that.

A successful risk management strategy begins with carefully analyzing the risk with your trading strategies and methods. This will vary greatly depending on the types of trades you make:

* Are you trading stocks, commodities, currencies, or a combination of them?
* Are your trades short-term or long-term?
* Do you aim to make a steady, consistent profit or do you shoot for huge gains?
* What volume of trades do you usually make?

Once you've determined exactly how risky your trading strategy is, you'll have a foundation for your risk management processes. The next step is defining your risk management strategies.

BASICS OF RISK MANAGEMENT: SETTING LOSSES AND TARGETS

The first thing you need to do is set a stop loss. Your [stop loss](http://www.trade-24.com/stop-loss)is going to be the amount of money that you can stand to lose in a single transaction. There isn't any standard number or percentage, it's simply how much you're comfortable with. It needs to be small enough so that your bankroll won't suffer after losing it, but large enough so that you aren't constantly pulling trades back. In the beginning, you should tend to err on the side of caution, and increase your stop loss as you can risk losing a bit more.

You also want to make sure to set target gains. If you've had a couple losses in a row, it's easy to take a small win just to get back in the green. Doing this severely hamstrings your potential earnings, however, and actually increases the risk of losing your bankroll. If you aren't able to bank large trading wins once in a while, it isn't going to grow sufficiently. You need to take the psychological aspect of it and hold onto your winning assets as long as you believe they will continue to appreciate.

ADDITIONAL RISK MANAGEMENT STRATEGIES

**Here are some additional tips for managing your risk:**

* Be careful when you trade on leverage. Leverage magnifies your wins and losses. If your bankroll is small, limit the amount of leverage you trade on.
* Don't put all your eggs in one basket. If you invest exclusively in energy companies, for example, one energy disaster could wipe out your entire portfolio.
* Forgo thin margins in lieu of larger ones. Thinner margins often have more inherent risk. If your bankroll is still small, wait for more profitable opportunities instead of risking your money for only a small potential gain.

Once you have the basics of risk management down, you'll be ready to [start trading](http://www.trade-24.com/real) on the open market. Create an account with us today to get started!