

Clockwork's thoughts for NEWBIES

Intro: Who I am.

Thank you for downloading this essay. I sincerely hope that you find something useful in my thoughts.

My name is Clockwork71 on the Forex Factory boards. I am a fairly new trader, and in fact have only been doing this since January of 2007. I am a contractor by profession, and NOT some bank trader, or some idiot hedge fund manager. I am you; I am a small fish in a huge ocean. I am trying to avoid the sharks, just like you. If you are looking for that "Holy Grail" trading system, I would like to thank you on behalf of all of us who will be taking your money. Either there is no such thing, or it's such a secret, you aren't going to find it. I believe the former of the two.

As I only have about 10 months of experience, my thoughts are aimed for the beginner, and not the guru. However, you never know, I could have something for them as well.

I have found that wisdom comes from a lot of different places. Take my girlfriend for example: She recently pointed out something that was so obvious; I didn't pick up on it until she mentioned it. (She has never placed a trade in her life.) That's how Forex works. It seems that different people see different things in these charts, and that's what makes our market. One guy sees buy something, while another sees sell.

I.) Expectations.

This is where newbie traders get hurt the most I think. Late at night, and all over the internet, there are plenty of people telling you that you can make "Astonishing returns", "200% in one month", etc.

Let me be the first to burst your bubble. It doesn't work that way. Yes, it's true; you can make amazing returns in this market. (I once went up 10% in one day.) However, this is not a realistic expectation. Compound Interest is your best friend in this market. As a fun little exercise, try compounding a \$2,000 account by 2% every week for 2, 6, and then 10 years. THIS is where you make real money in my humble opinion. (If my math is right, it's something like 51 million dollars at the end.)

If you start with a \$1,000 mini-account, and play \$10/pip, YES...you CAN make 20% in a trade. However, it's more likely that the next time or two you do it, you will lose 20 pips. This is because at 20 pips, you are down \$200. 20% of your account being gone is a frightening thing. You get nervous, you exit out, and it goes your way an hour

later. Then you beat yourself up because “IF I had only held on, I would be up \$150 right now.”

If you have only been playing at \$1/pip, being down just \$20 dollars is MUCH easier to stomach.

Also, as a side note: If you can’t afford a 10 pip drop in your position, then you are playing too large. I firmly believe in the “Never risk more than 2% rule.” That’s 2% of your account if you get stopped out. And that stop can’t be just a whisker below where you are at right now. Think of the market as an ocean, with waves. Never-ending waves. You might have gotten in the middle of a wave is all. The tops and bottoms of these waves will become more apparent to you after time. Trust me on this.

I also would preach first starting with a demo account. While I think there is a lot of this animal you can’t experience via the demo, it’s a great place to develop ideas.

The next step would be a mini-account. I don’t care if you have 2 million to put into the market. There are plenty of brokers that offer minis, so it is a wonderful way to experience the stress of winning and losing. If you blow a \$500 account, that is totally different than blowing a \$50,000 account. There is a saying that the first account is like “Paying your tuition”. I think this is crap, but if that IS true...then I would rather get my education one dime at a time. You get the same experience, and still don’t have to sell your house because you blew up in the market.

Sometimes I read about someone starting out in Forex, looking to make a living right away. Most often, these people are recently laid-off, retired, or in desperate times. I can only offer you one piece of advice: **Withdrawal all of your money now. Someone who desperately needs to win in Forex has no business in it.** Trust me on this: There is enough pain associated in trading without the added pressure of “needing” it.

Recently I read a person’s post that he was from the third world, had invested a couple of thousand dollars, and it was his life savings. He is presently about 85% down. He has done a massive amount of damage to his well-being financially and mentally. I cannot imagine the mental anguish he must be going through. You never want to experience this.

II.) Systems, and timing.

I want to say this before I trash most, if not all systems: I DO believe that overall they can work, but ONLY if you can follow them religiously. Most of us have a tendency to override them at times, and this is the killer of any “good” system.

I have read some of the posts about systems on various forums as you are right now, and yes, I have tried quite a few of them too. I have read who knows how many books, read who knows how many essays and stories, and have seen one prevailing theme: Too many indicators.

I had a mentor/friend that does quite well in Forex. He uses a system he found in a book, and trades it well. I CAN make money using it, but more often than not, I get nothing but aggravation and heartache. He on the other hand, seems to always pick the winners out. We can use the same system, and he does well. I struggle with it. And I can't tell you how many times I just couldn't pull the trigger because I had one timeframe telling me "buy", and the other one telling me "sell". The lines were telling me lies on one of those timeframes, but I couldn't figure out which one. There is a phrase you hear in the trading world called "Paralysis by Analysis." And that does you no good at all.

As time goes by, I am finding my way on my own. I believe in mentors, but I also believe that there is no way he and I can see the same thing at all times.

As I gain more experience in trading, I realize that indicators can be a plus, and a minus. Indicators are fine, but should never be the lone reason for taking a trade. I have found that there has been more than one time that I didn't take a trade because I had too many lines on the chart. And the funny thing is, if I had no indicators, I would have gone for it, and done quite well.

I believe that indicators are mainly useful for making you feel better about the trade. Stochastic indicators can be wrong, Moving Averages can be too late to get to where you want it to be. Most indicators are lagging, which means the reality is that they often times tell you what you need to know too late. I am not saying that you should be looking for the first tick of that "Great Bull Run", but if you wait for the 50 EMA to cross the 100, it could be 75 pips later. (An example.) Remember, your job as a speculator is to try to figure where prices are GOING, not where they have been. Besides, Moving Averages are just an area where deviation returns to. If you name any two moving averages, I can find a crossover system that "works". I don't care if it's the 17 EMA and the 90 EMA. I could find times when it would have worked well. (Those were two random numbers that I have never seen anyone use in a system, but you get the point.)

III.) Freedom, both mentally and financially.

This is probably an area that until recently, I had struggled with. Freedom is the reason we all get into this. Ask yourself this: If that website or commercial promised you endless mental anguish, (99% of which is brought on by ourselves) would you have decided to enter this market? No.

We all started this venture thinking about being able to look at our laptop every once in a while, make a trade, take our profit, and return to our day at the beach. We would be sitting at the beach, sipping tropical drinks, pausing only to make another \$12,000 every couple of hours. Nice dream, isn't it?

Even if that isn't quite what you had in mind, I am willing to bet it was similar. We all want to get rich, and never work again. Endless money, and having no job, **actually equates to freedom.**

To have freedom, that is the actual goal. It's not just about the money. If you think about it, that's what money is: **freedom**. You could be in a place where worry about a bill no longer exists. You could spend more time with your kids. You can travel. You can do pretty much whatever you want. That is actually what your goal is, if you break it down to the bare bones.

So let me ask you this question: "How much time do you spend in front of your monitor?" I am willing to bet it is a lot. I know it was that way for me in the beginning.

While you certainly need to watch them to learn, by sitting there hour after hour, **you are killing your goals.**

Freedom is not sitting at the monitor all of the time.

I think that a lot of us forget that quality of life is a huge potential benefit to trading. If you cannot improve it, then what is the point of trading? There is none. Nobody I know considers sitting in front of a computer 18 hours a day, a life of quality.

By sticking to money management, and longer time frames, you can achieve freedom. In my opinion, this is where scalpers get it wrong. While there are good scalpers, and some are even profitable, it is hard to make a living a few pips at a time. (Those who are profitable in the long run are **very good, and well funded.**)

While I sadly cannot give you the keys to the kingdom, I believe that these ideas should get the wheels in your head turning. To be honest, I only became profitable once I switched to checking the charts every few hours, not minutes.

It is too easy to get "psyched out" of a trade when you have too much riding on a trade, and you are down a few pips. This is **not** the way to make it. Slow and steady wins the game.

You certainly have heard the story of the turtle and the hare, right? Funny how a lot of wisdom is right before our very eyes.....

Best of luck –

Clockwork71/Chris

