

How to Eliminate Trading Risk

<http://www.binaryoptions4x4.com/how-to-eliminate-trading-risk/>

I'm quite regularly asked which broker I would recommend or which signals provider is best. Somewhat less often I'm asked more specific questions such as which currency pair is best to trade or what time period is best.

I will seldom, if ever, provide straight answers to these types of questions. It's not that I'm being unhelpful – quite the opposite.

The most helpful answer I can give to these questions is that the trader must make these decisions for themselves. I can just provide some advice about how to go about making this decision.

An impartial, objective eBook such as the [Introductory Guide to Trading Binary Options](#) covers this in much more detail.

Queries such as these indicate that the questioner realizes that there are important operational and strategic decisions to be made. But sometimes the questions are put in a way that makes me want to throw my hands up.

The Wrong Question

I was recently contacted by a reader who is pretty new to the sector and, in typical fashion, had opened a small trading account, learned how to place trades and seen the account balance dwindle to about half its original value. We'll call him Jim.

Jim asked me if I could recommend a trading strategy that guaranteed high returns with very low risk.

I've been asked similar questions many times before. The truth is it's a pretty understandable type of question.

Jim had been seduced by the possibility of high returns as constantly stressed in the hype on the sites of brokers and their affiliates. However, he had also seen through his limited trading experience that losses happen if you are not picking the right trades.

I tried to point Jim in the right direction but the truth is that Jim is doomed to lose all or most of his fund and stop trading unless he sees the futility of the mindset that leads to a question such as this.

Let's look a little closer at this question and see why I formed such a negative conclusion.

There are actually two concepts contained within the question that to many see like different aspects of the same thing but are actually very different.

High Returns and Expectations

The first concept is return. It's only natural that everyone will look for a 'high' return. But what does 'high' mean? Put another way, what level of return is it reasonable to expect to earn?

I've dealt with this in the eBook and elsewhere with the conclusion that if you are expecting and aiming for an unrealistic level of return then you will fail.

If you are expecting to find a system that will provide 70 or 80% winners then you are expecting that you will perform like a star trader.

What have you got as a relatively newcomer that means you should expect to be such a star performer? It just won't happen.

Your objective is to be profitable. To achieve this you will need to win about 57% of trades. Develop a strategy that will make this a reasonable expectation.

Risk and Its Control

So much for high returns. But it's the second concept in the question that is the real killer and showed how far Jim was from learning how to trade.

He wanted a way to choose trades that was low risk. In fairness to him he did not ask for a system with no risk but if you look on the internet you will find many who claim to have trading systems with no risk.

Let's just think about this for a moment as there are three important points to be made.

First, if there were no broker costs then trading binary options, just like Forex, would be a zero-sum game. In other words, one trader's wins would be exactly matched by another trader's losses.

But there are broker costs of 10% or more of the total amount that is placed at risk. Therefore, the amount that is lost by traders must exceed the amount that is won by traders.

So, if you are to win, you must cause someone else to lose. You must have an edge over them.

Second, you are always trading against a counterpart. Your wins are their losses and *vice versa*.

If you expect a risk free trade, you are looking for a trade where you have a high chance of winning but

the counterpart has no chance of winning. But why would the counterpart take such a trade?

The market only operates if both counterparts believe they have chance of winning. So you must recognise every time you enter a trade that you have a chance of losing.

You must be willing to take on risk. Saying you want no risk is saying you don't want to trade.

Third, to many, it is not immediately obvious what is the difference between a system with a high win rate and low risk. In fact, when it comes to actually trading, the two are quite different.

When you place a trade, the risk means the amount you could lose if that trade goes wrong. That's fairly obvious.

You have no idea when you place the trade if it will be a winner or a loser. This is the case even if you have managed to find the mythical 80% win rate system or if you last 10 trades all won, or if the last 10 all lost.

So, your risk on any trade does not depend on your win rate. It depends only how much you put at risk in terms of your stake on that trade.

Therefore, the risk is totally under your control. It has nothing to do with the choice of trades. It is simply how much you stake on the trade.

My Advice?

There is only one way to eliminate trading risk? Don't trade.

So, if you are looking to trade with the aim of high returns with no risk than my advice is to stop. Do not trade.

Jim's question showed that there was a lot of confusion in his mind. He was aiming for a system that answered the wrong questions.

You need to get some very basic issues clarified. You are chasing the impossible. So you are certain to fail.

Learn what it is reasonable to expect. Then aim to achieve that.

Understand risk and how it can be controlled. It's the most important aspect of trading that you can control.

If you don't get clarity on these points then you are just the type of client that unscrupulous operators in the sector are looking for.

Download the Free Trading eBook

