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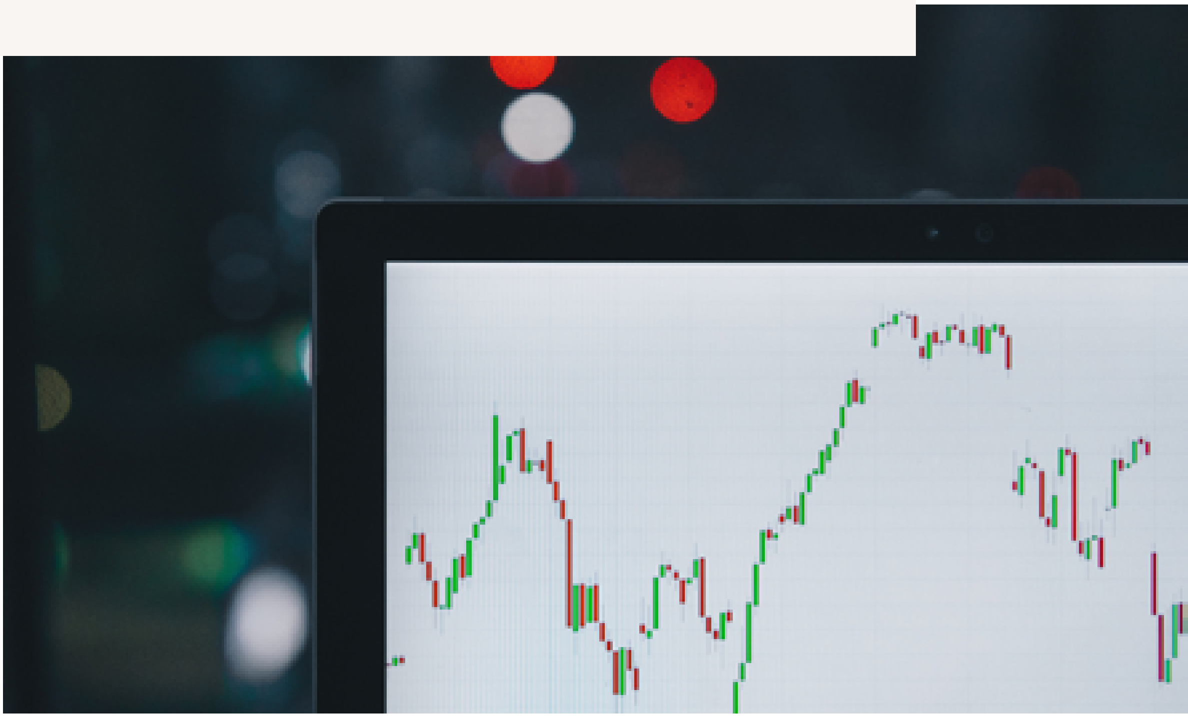
5 Common Mistakes to Avoid When Using Forex Signals.

(And how to use them to level up your trading.)

Since 2007, our signals have been sent to investment banks, hedge funds and high networth professional traders. In that time, we have learned a thing or two about what makes signals work for our clients. In this guide, we share the 5 common mistakes that traders make when using signals and how to avoid them.



Mistake #1
Not knowing why.

If the trader does not know the reason for the signal or trust the person behind the signal, they will likely stop following the signals as soon as there is a drawdown. This makes copy trading, social trading, black boxes and tip sheets difficult to use consistently.

“You must fully understand, strongly believe in, and be totally committed to your trading philosophy.”
Richard Driehaus, Market Wizard

In our experience, traders rarely profit from copy trading, social trading, black boxes or tip sheets. There is one simple reason for this: trust. Unless the trader has trust in the signal, they will find it difficult to continue placing trades during drawdown periods.

Whether following someone on a copy or social trading website, or receiving a signal without understanding the methodology via a black box or tip sheet, it’s great when things are going well. However, as soon as the trader starts to experience losses, it’s hard to maintain the ”faith“. Perhaps the market type has changed, or perhaps the strategy has stopped working all together… or perhaps, it’s a temporary drawdown and the signals will improve. It’s hard to know when it’s difficult to assess the reason for the trade.

In our experience, to persist through the drawdown, a trader needs to have confidence in the method. If they don’t know the reason for the trade then they are not going to be comfortable laying their hard-earned capital on the line.

Mistake #2

Not having a view of the market.

A trader needs to have conviction in their trades, no matter if they are using signals or not. Because of this, a trader will do better if the signal aligns with their own view of the market.

There is a little book called “Speculation as a Fine Art” by Dickson G. Watts. It’s a short book that contains the immutable laws of trading and the essential qualities of a speculator. Uniquely, it was written in the 1800’s and the instructions are just as applicable today as they were then.

The very first essential quality listed in the book is self-reliance: **“A man must think for himself [and] follow his own convictions. Self trust is the foundation of successful effort.”**

In our experience, to gain the level of self-trust required to be successful, traders need to develop their own view of the market. While a trader can use the signals as an input, absolving themself of responsibility because the idea is someone else’s is not a winning approach.

We find the most successful traders use signals as an expert source of information to help them make more informed decisions. If their view lines up with the expert view in the signals, then we find there is a greater chance of the trade working out.

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Mistake #3

Overtrading.

Overtrading leads to losses and confusion. When using signals, a trader should be selective and trade only a limited number of signals.

Overtrading is when the trader places too many trades. Normally, this comes from a scarcity mindset. That is to say, the trader doesn't want to miss out on an opportunity so they trade everything they can.

If the trader has too many trades, then it is easy to get confused. This is particularly true in the highly correlated FX markets. If these trades end up losing, it can cause a big loss. Furthermore, these losses often result in more overtrading in an effort to make them back, creating a self-perpetuating cycle. Alternatively, overtrading may cause the trader to fear taking the next trade because they are reeling from the loss. Inevitably, this would be a winning trade they have just missed out on.

Traders using signals will often receive signals for multiple markets at any given time. The successful trader is selective in the trades they take. Perhaps their goal is to take one or two signals a day. Or perhaps, they may focus on a singular market, such as GBPUSD on the London open.

Mistake #4

Lack of persistence.

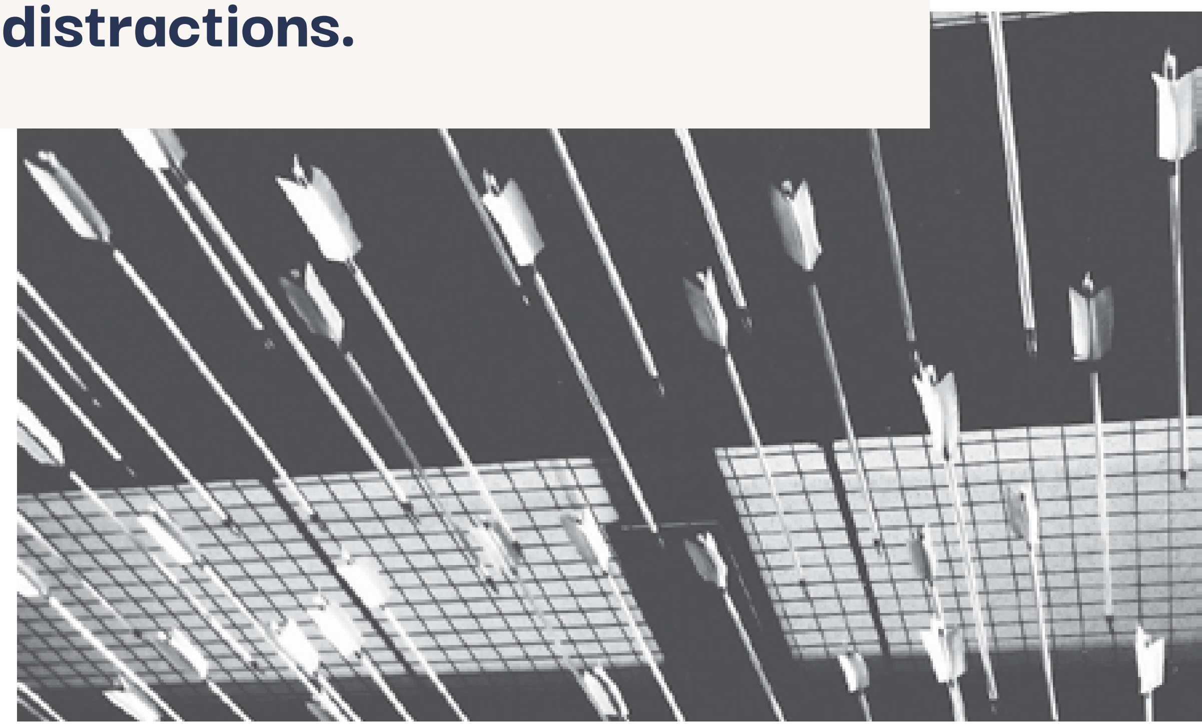
A trader needs to have a plan which includes the signals. The trader needs the persistence to stick with their plan over a series of trades before making any changes, otherwise they will suffer from ”recency bias“.

One reason traders fail to be successful using signals is they lack the discipline to consistently follow their plan. When they start using signals, the trader should write down a brief plan which they review each day. This plan should outline which signals they will take and their risk management rules.

In the plan, the trader should write down how many trades they will place before they will stop trading to conduct a review. Only once this series of trades is complete, should any changes be made to their trading plan. Too many traders have a loss or two and start to change things around. This is the fallacy of ”recency bias“ – overvaluing recent performance when making changes. Traders that do this end up “chasing their tail”.

After the initial series of trades, the trader can review what worked and what didn’t then make calculated changes. They can then rinse and repeat this process, continually removing from the plan what doesn’t work and focusing more on what does. For example, the trader might find that they are a better trader earlier in the week. Perhaps they are better at certain markets, or they need to let their profits run more. This can only be done through persistent application of their plan and a review process.

Trading is about getting "into the grind". The trader needs to stick with one approach, making small calculated changes until they are winning more than they are losing. When they are winning they need to continue to grow their trade size until they are achieving their goals. Good trading is business-like. It's having the discipline to execute on the plan each and every day whilst avoiding distractions.



Mistake #5

Poor risk management.

A trader should ensure they have risk management rules in place to protect their capital through losing periods so they can benefit from the winning periods.

“The most important thing is to keep enough powder for a comeback.”
Marty Schwatrz, Market Wizard

Losses are an inevitable part of trading. Statistically, even the best signals will go through losing periods. Perhaps the market type has changed or the signal provider is having an off week. Trading too big to survive a losing period is a common mistake.

Another common risk management mistake is not using a stop-loss. Surprisingly, up to 93% of traders place trades without a stop-loss (based on the statistics we have seen). Without a stop-loss, if the signal does not work-out, the trader may end up with a rather large loss.

In our experience, the traders that are successful using the signals:

1. Limit their risk to 1-2% of their account on any trade.
2. Always use a stop-loss.

If a trader does not protect themselves from losses using these methods, they will not have the capital to benefit from the winning periods.

About FX Renew.

FX Renew's signals have been used by investment banks, hedge funds and professional traders since 2007. Along with specific entry and exit levels, we provide detailed analysis on 25 markets to help you make the best decision about what to trade and how to manage your position. Subscribe now on www.fxrenew.com.