

Avoid These 7 Classic CFD Trading Mistakes



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How can one person be consistently profitable at CFD trading while another person can't? We are all human, so it comes down to overcoming these very human mistakes.

I really believe it's better to learn from other people's mistakes as much as possible. – Warren Buffett

You don't have to be the next Buffett or George Soros to win at trading CFDs. Profitable trading strategies are not rocket science. Like a lot of pursuits, the difference between making money with CFDs or not normally comes down to attitude and

process.

This list is not exhaustive but if you can overcome these seven mistakes, it puts you on a better footing than nine out of 10 new CFD traders.

1. Not having a plan

Trading can be really thrilling, especially when you first start. The ease at which your account balance can grow and fall at the click of a button is fascinating. But this should be a phase you go through before taking trading more seriously. Some time and energy must be invested into trading education, which includes everything from technical analysis to order types to trading psychology. This education gives you the basis for forming a trade plan.

The trading plan needn't be complicated, but it should cover at a minimum the following items:

- Which markets you will trade
- What time of day to trade
- How long you will hold the trades
- How much to risk per trade
- A list of your best trading setups

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2. Not following the plan

The old saying goes “plan the trade and trade the plan.” It's no good having a trading plan if you ignore it. Trading CFDs, Forex, cryptocurrencies or any other market in the same way consistently helps show whether you have a recipe for long-term success. If you do something different on every trade, you will logically get different results each time and have no way to gauge if the process you have will bring long-term success.

The best way to make sure you follow the plan is to have it laid out in front of you when you trade. Print out your plan and have it on your desk or if doing your bit for the rainforest, check an excel sheet with your basic trading plan and rules before every trade.

3. Overtrading

Overtrading means trading too much. Exactly how many trades is too much comes back to your trading style and your plan. The important takeaway is this: You should only trade when the opportunity exists and when your money management allows you to take the opportunity.

For example: Let's say you are trading a breakout strategy on stock indices like the S&P 500. Your plan involves buying index CFDs when they break above a 20-day high. But indices are rangebound and there are minimal opportunities, so you see a forex pair jump 50 pips and you jump in on a momentum trade. This is overtrading, especially when it's done many times over.

Overtrading normally comes out of boredom. To resolve this, you need to make sure you are not seeking your thrills in trading.

4. Not using a stop loss

To maximize your upside in trading, you must also minimize your downside. It's not that you must use a stop order, but you must know when to cut your losses. Not having a plan of where to exit the trade at a loss means you must think that winning the trade is guaranteed.

This mindset must change because winning any one trade is never guaranteed. Anything can happen to blow your position off-course. Having a stop loss is about expecting the

unexpected and protecting your account.

5. Overleveraging

Overleveraging is not unique to CFDs or individual traders. Huge hedge funds like Long Term Capital Management, and more recently Archegos Capital, blew up because of margin calls on trades with excessive leverage. However, the misuse of leveraged CFDs is commonplace.

Too many traders think about the leverage ratio offered by the CFD broker, but this misses the point. What matters is making sure that you use the correct position sizing. If you set the size of your trade and your stop loss so that you are risking 2% or less of your account per trade, it won't matter if your broker offers 30:1 or 200:1 because you will not be overleveraged.

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6. Revenge trading

Revenge trading happens after a losing streak. Again, we are only human, and we all feel the same kinds of human emotion. After a series of losing trades, we try to “take revenge” on the market for giving us the losing trades. This is done by placing a big trade to try and win back what was stolen from us. Of course, the market is not a conscious being and is not doing anything “to us.” Because this kind of trade is basically a gamble and normally poorly thought out, it often fails and exacerbates the losing streak.

The two most effective ways to avoid revenge trading are to take a break from trading after a set amount of losing trades before the temptation sets in – or to automatically lower your stake size in your trades after a set number of losses.

7. Complacency

This is the opposite issue to revenge trading because it happens after a winning streak. There is nothing quite like the feeling of “I am a genius” after a series of winning trades. As human beings, our brain looks at the fact we have won all these trades and concludes we cannot lose. It’s at this moment that complacency leads us to place unplanned trades or increase our position size to something we really aren’t ready for. The complacency leads us to break our trading rules.

The same techniques to avoid revenge trading can be applied to overcoming complacency. Take a break after a winning streak in the markets. Play golf, do some triathlon training or whatever it might be. Examine what you may or may not have done differently in the trades that won versus those that didn’t win.

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