Options Trading For Beginners - The Top Three Mistakes That Traders Make and How to Avoid Them:

1. Not paper trading for long enough before beginning cash trading.

Paper trading is the art of practice trading (Sometimes called virtual trading). This involves carrying out the processes and procedures exactly as you would if you traded cash but not actually using real money.

There is no specific time frame for an individual to paper trade (each individual will have various factors that dictate this period) but in order to be ready to trade real money you need to be consistently trading successfully on paper.

It is important to understand the psychology of a trader. I highly recommend "The secrets of emotion free trading" by Larry Levin (this e-book can be downloaded free as a pdf off the net).

2. Trading shorter and shorter time-scales just to reduce market exposure.

Trading options allows leverage to make a profit quicker than traditional stock trading. The problem arises when we trade under the belief that shorter and shorter trades are the best way to make quick money.

Although the less time we stay in a trade may result in reducing our exposure this can lead to us entering excessive numbers of trades, leading to us entering positions that aren't aligned with high probability returns.

In his book "Warrior Trading", Cliff Bennet puts traders into two categories: "Archers and Swordsmen", Where Swordsmen are trading for 85% of the time and Archers are only trading for around 15% of the time.

Just trading more than others doesn't make you bad or a good trader. Sticking to your rules (whether they are written down or based on gut feelings) is the main priority.

If you are losing money because you aren't trading with a winning strategy, trading shorter and shorter trades will just allow you to lose money faster.

3. Not operating good money management practices.

We sometimes forget that just like any other business if our cash flow dries up (trading) we are out of business.

Most trading strategists suggest splitting your trading bank into twenty equal parts and only placing 5% of your bank in any one trade.

The importance is to place trades with a high probability of a profitable outcome. Certain successful traders only place one trade a year (they wait for specific factors to align and know that this is there best chance of a profit), in which case only trading 5% of their bank may not be the right strategy.

Even the most successful traders are rarely right 100% of the time and the old adage of cutting your losses and riding your winning trades is one way of remaining cash flow positive.

Deciding when to enter a trade is usually a lot easier than deciding when to exit. Even with winning positions you should still set an exit point as you only realise a profit when you take it.

For further information on trading and business in general visit
http://businessclarity.net

For access to access to the e book "How I lost $100,000 Trading (so you don't have to) visit http://iflosserswrotebooks.com

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