

Trading Systems Series



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HOW TO CHOOSE THE CORRECT TRADING STRATEGY

What trading strategy is right for you?

Deciding which trading strategy to use can indeed be a somewhat subjective process. Simply put, there is no definitive right or wrong way to trade the market, however there are certainly some questions that once answered can help you more easily determine which trading strategy is right for you.

- **Short term vs. long term**

What is your outlook on trading the market? Are you taking a shorter term outlook or a longer term outlook? The answer to this question will directly impact the type of trading strategy you use and also how often you use it. There are a variety of factors that go into a trader's decision about whether to take a shorter term outlook or a longer term one.

First off, you want to take your age into consideration as well as your goals as a trader. If you are younger and have a large trading account you might decide to take a shorter term outlook, perhaps you will look into day trading strategies if you want to take a very short term outlook. However, be warned that day trading is inherently more risky and more difficult than holding trades for multiple days or weeks.

If you are older and interested in trading as a way to diversify your investments then you will want to take a longer term trading outlook by holding positions for weeks, months or even years. This style of trading is much less stressful than shorter term trading and typically leads to better overall average returns. Traders who take shorter term outlooks often end up over-analyzing and meddling with their trades which ends up putting them further behind traders that just let their trades ride without any further involvement besides maybe trailing stop losses.



- **Daily schedule**

What is your daily schedule like? Many people are looking to get involved in trading simply as a way to supplement their income and not necessarily make it a full-time job. If you are trying to fit trading into a busy daily schedule of work and family, you will need to implement a trading strategy that allows you to set your trades and walk away for 24 hours or more. Many traders find much success implementing this trading strategy because it eliminates many of the emotional trading mistakes that are induced by over analyzing your trades. More often than not setting your trades and then letting the market do the dirty work is the most profitable way to trade.

- **Emotional pressure and effectiveness**

Trading strategies that make heavy use of lagging indicators or trading “robots” on lower time frame charts can often induce intense emotional pressure at times, simply due to the brevity and frequency of the trades as well as the inflexibility of such strategies. Emotional pressure is the enemy of trading success, therefore it is best to avoid overly complicated trading strategies that direct you to use short time frames. It is very possible to have success as a shorter-term trader but you must employ simple trading strategies so that you remain calm and objective while trading with higher frequency.

It can be difficult to determine the effectiveness of a trading strategy before using it. But there are a few factors to look for that any consistently effective strategy will contain. Professional traders know that simple trading methods are the best because trading success is mainly a result of discipline and psychological objectivity. Therefore, trading methods that allow you to make sense of price movement through a manner that isn't hard on the eyes or difficult to understand are typically the most lucrative. As an example of this, floor traders in the pits of the major stock and commodity exchanges make all of their trading decisions off of simple price movement, they look at the actual price itself, they do this because it is the most logical and effective way to make sense of a securities movement over time. So, the overall effectiveness of a trading strategy is something you will want to research before committing to it.

- **Personality**

Personality type is something needs to be taken into consideration when deciding on which trading strategy to implement. Are you more of a math oriented person or are you more of a right-brained creative thinking person, or maybe a little of both? Certain personality types will flock towards trading strategies that utilize definitive trading setups with strict rules, while other personality types will gravitate towards trading strategies that require more discretion and interpretation. Also, if you are a person that is impatient and needs instant gratification, you may want to become a shorter term trader rather than a trader who holds their trades for weeks or months.

Source:

ForexTechniques.com – How to Choose the Correct Trading Strategy