

Cornerstone 2
Money
Management

**The next cornerstone we
need to look at is
Money Management**

**Or the fine art of managing
your trading bank**

**It's a simple process to get
right but so easy to neglect if
you don't stay on the ball**

There are 2 phases...

Phase 1 = Survive

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Phase 2 = Prosper

***“Survive? I thought we were
here to make a fortune!”***

**Your fortune will come in its
own time but your first priority
is to **stay in the game!****

**It's all about protecting your
trading bank from over-
exposure**

**Remember how we agreed
that consistent profits will
come from a random pattern
of winning and losing trades?**

Well, you never know what the market will serve up next – will it be a profit or will it be a losing trade?

**Good money management is
all about allocating a small
fraction of your account on any
one trade**

**You need to make sure a string
of losing trades can't do
catastrophic damage to your
account**

**Let's say you had a tough
couple of days and took 5
losing trades on the run...**

(It can happen from time to time and it's nothing to worry about when you manage your money properly)

**Now let's say you had £1000 in
your account and you risked
£200 on each of those trades**

**Bad luck! You've just
blown your account up.
You're down to zero**

**But what if you risked a small
portion of your account on
each trade...**

**Enough to make it worth your
while but never enough to risk
damaging your account**

**What if you risked 3% of your
account on each trade?**

**Yes, you'd take a bit of a poke
in the eye with the 5 losing
trades**

You'd be down to around £850

But you'd still have plenty of powder left in your keg ready for the winning trade which is inevitably around the corner

**That's the way to manage your
money on these trades I'll be
showing you**

**I suggest you limit your
exposure on each trade to
around 3% of your overall
account**

**And you might scale that back
to 2% or 1.5% as your
account grows**

**That will come down to your
own appetite for risk**

**And by working like this you'll
be letting the power of
compounding go to work
for you too!**

**Say you stake 3% of your £1000
on your first trade = £30**

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**And you locked onto a good
opportunity – it returned 7
times your £30 risk...**

A profit of £210

**Your bank now stands at
£1,210 so your next trade
would be sized like this...**

$$\text{£1,210}/100 = \text{£12.10 (1\%)}$$

$$\text{£12.10} \times 3 = \text{£36.30 (3\%)}$$

**Can you see how quickly your
account could grow when your
profits are fed back into the
'machine'?**

**Did you know that a start bank
of £1,000 would stand at
£21,000 by the end of year 2 if
you averaged one profit of 3%
each week?**

**And remember many of these
trades I'll show you how to
find will return **2, 3, 10 times**
that initial 3% amount you risk
– the potential is enormous**

That's how Phase 2 of money
management - **Prospering** -
automatically comes as a
result of your careful risk
management

**Key Point: limit each trade to
risk only **3%** of your current
trading bank**

Let's have a quick overview of
Methods next...