Top 3 position sizing strategies for forex traders

The ability to protect your trading capital is one of the benefits of using position sizing when trading the forex, index or commodity markets.

Though markets are unpredictable by nature, there are certain aspects of it you can control. One of those is the size of each position you make.

By using position sizing, you automatically control and limit the risk you're taking per trade. As you're no doubt aware, risk management plays a big role in your success as a trader.

How do you use position sizing when trading the forex markets?

Here are the top 3 position sizing strategies you can use when trading the forex markets:

1. **Dollar value** – some traders allocate a fixed dollar value for each trade they make. For example, if you're new to trading and still building your confidence, you can start with a small trade size like a micro lot of $1,000USD.

   Remember that trading forex is done with leverage, so a $1,000 - $10,000 only requires an initial outlay of 0.25% of that or $25 - $250. This is the power of leverage when trading the Forex markets.

2. **Percentage value** – this is similar to allocating a fixed amount to every trade you make, but instead of a dollar amount, you are using a percentage value. Most successful traders use the 2 percent rule as a guide when using this position sizing technique.

   This means that you will only risk a maximum 2 percent of your trading capital per trade. If you have $5,000 in trading capital, you would only risk $100 per trade.

3. **Leverage value** – controlling the leverage exposure per trade is another way to use position sizing. While using high leverage may seem attractive, OX Securities FX advocates a sensible use of leverage. This is because leverage can magnify your wins as well as your losses.

   OX Securities provides leverage rates up to 400 to 1, but it doesn't mean that you have to use that level of leverage for your trading. Some traders use a 50 to 1 or 100 to 1 leverage. By using a leverage level within your means and that matches your risk profile, you are using position sizing wisely.

Pros and cons of position sizing

Like any other trading strategy and technique, position sizing has pros and cons. Let's look at some pros:

1. Position sizing helps protect your trading capital
2. It gives you peace of mind knowing that you are not putting all your trading capital in one trade
3. It helps you develop the discipline to preserve your trading capital
4. It helps you hone your risk management skills

And some of the cons:

1. May require you to do some simple calculations before you put on a trade. While this is a little more time consuming, it is an essential part you should build into your trading plan.

2. Some traders may find it challenging to limit the size of each trade particularly if they feel strongly about a trade

Position sizing is one of the key ingredients to becoming a profitable trader in the forex market. And seeing the pros outweigh the cons, it is in your best interest as a trader to use position sizing in your trading.