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What Is Drawdown?

Drawdown is commonly known in Forex as negative open positions on a trading account where your equity is lower than your balance often described as being in the red. As well as negative drawdown you can also have positive drawdown, where your equity is higher than your balance, this happens when the current open position is in profit or the blue.

In most cases as soon as a trade is placed the account will be in drawdown due to spreads and the buy and ask price of the given pair, Drawdown is a normal part of trading and cannot be ignored.

New traders often look at drawdown and become worried as they do not understand what is happening. It is important for traders to have a good mind-set and learn to accept drawdown and control the emotion attached to it.

Mindset?

So what do we mean by mindset? Well as we know some people have different tolerances. For example some people will go into betting shop and put money on a football match, whilst the match is in play some people become anxious and worry that they are going to lose, other people don't show this emotion and accept the outcome of a win or a loss.

In trading this can also apply, some people when they see the red negative number panic, this is not a good thing for a trader as they become emotionally attached to the trade.

The best course of action is to remain calm and do not let the red negative position get to you as mentioned earlier, this is a normal part of trading for every single person in the forex market.

After all we have an expert advisor placing, managing and closing all our trades for us, the expert advisor has no emotion therefore does not become attached, so we need to sit back relax and let our system do what it has been designed to do.

The PipMakers Team