Introduction

It is very easy to lose money in the stock market, and in fact some people have found it is easy to lose large amounts of money. However, there are ways to reduce the risks.

This Article in Brainy's series on Share Trading (number ST-4020) describes some of the risks in the markets, and some ways that the risks can be reduced. See the closing comments on the last page for further reading references.

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Success in the markets?

Firstly, let's take a look at how to be successful in the markets. This will help give us some ideas for managing and reducing the risks. And when we talk about "success", we might be referring to any or all of the following:

- Making more money
- More winning trades
- Fewer losing trades
- Bigger wins and Smaller losses
- Reduced costs (interest charges, brokerage)
- Reduced slippage

Now, in order to be successful (or perhaps, more successful), there are a number of things we could do. The following list is the result of a drawn out brain-storming session:

1. Avoid "bomb" stocks
2. Better quality stock picking
3. Better trading/investing "system" (including set ups, and triggers)
4. Better entry and exit strategies
5. Allocate more time to do it better
6. Better use of time for better research and decisions
7. Better tools (maybe get a smart phone?)
8. Better charting software and tools
9. Better or smarter position sizing
10. Avoid the stocks that the day traders play with (the day traders' toys)
11. Listen to the news more
12. Ignore the news
13. More fundamental analysis (or less?)
14. More technical analysis (or less?)
15. Get the emotions under control, and remove emotion from the equation
16. Need to feel less nervous
17. Get more practise
18. Do more testing of my ideas and my investing/trading "system"
19. Share my ideas with others
20. Build my network of contacts
21. Get more ideas for investing/trading strategies
22. Buy a proven trading system (if I can find a successful one)
23. Review my weaknesses, and address them
24. Clarify my real objectives:
    - capital growth?
    - income?
    - short term or long term?
25. Clarify my strategy, and make sure it is written down
26. Forget the buy-and-hold approach
27. Focus more on just blue chip stocks
28. Ignore blue chip stocks
29. Accept that there will be losses (ie. be comfortable with wrong decisions)
30. Use a shorter watchlist to focus on fewer stocks
31. Use a longer watchlist for more possibilities
32. Avoid high-debt stocks
33. Trade/invest only in liquid stocks
34. Trade/invest in stocks that have a history of good performance
35. Optimise position size
36. Improve my Stop Loss approach
37. Strictly implement my Stop Loss method

Some of the latter items in this list can be considered as more significant regarding managing our risk, and these are discussed in more detail in the following pages.

It should be clarified here that even though we might talk in this Article about investing in shares, the principles still apply to most investing and trading methods, instruments and markets.