or when the market switches into the Asian trading session. This would apply for traders reacting to news, because if the trade does not move in your favor after a few hours, the momentum from the news release has probably waned. As for the weekend, occasionally something big may happen between Friday night and Sunday afternoon. Unless you have stops that can absorb any shocks or you know that there isn't a significant event risk, closing positions before the weekend may also be something to consider.

THE ART OF ENTERING AND EXITING

In an interview for *Millionaire Traders: How Everyday People Beat Wall Street at Its Own Game*, Rob Booker made a fantastic analogy. We were talking about whether the entry of a trade or the exit is more important, and Rob likened this to flying and asking a pilot which is more important, the takeoff or the landing. Without even needing to ask a pilot, as passengers, we will all agree that the same degree of precision needs to be applied to both the takeoff and the landing. This is true for trading as well.

The majority of traders spend their time trying to figure out the best entry strategies by looking for the perfect combination of indicators for buy and sell signals, while their exit strategies are usually relegated to being nothing more than an afterthought. Yet this afterthought often is what differentiates consistently profitable traders from ones who are perpetually looking for a better trading strategy. Too often have I heard traders complain about how they let a winning trade become a losing one.

When hedge fund managers design trading strategies, they give a great deal of thought to both entries and exits. There are primarily four different ways to enter or exit a trade:

1. **Single entry, single exit:** With a single entry and a single exit, traders basically put on their entire position at one price and exit the entire position at one price.
2. **Single entry, multiple exits:** With a single entry and multiple exits, traders enter their entire position at one price but scale out of the position at different prices. This tactic is usually used to ride a breakout or trend for as long as possible while banking some profits along the way.
3. **Multiple entries, single exit:** With multiple entries and a single exit, traders scale into a position at different prices but end up closing the entire position at one price. This tactic is used by traders who are averaging down and averaging up. To average down means to add to a position as it moves against you with the hope of attaining a better

average price. To average up means to add to a position as it moves in your favor.

4. **Multiple entries, multiple exits:** With multiple entries and multiple exits, traders scale both into and out of their positions. This is a tactic frequently used by trend traders. They average up into a position by adding to winning trades and scale out of the position to capitalize on as much of the trend as possible.

With automatic systems, entry and exit strategies are set in stone and coded into the system. Traders should try to approach entries and exits in the same way by deciding which of the four combinations to use before laying on a trade. For those traders who like to average up or down, an important question to ask is how low or how high you are willing to buy. If you keep on adding to a losing trade, at some point it just becomes smarter to bite the bullet, take the loss, and admit that the move you were initially looking for will not happen or the trend has changed. A good rule of thumb is to average down no more than three times. When it comes to stops, there should be no art involved—have a set rule on placing stops and stick to it.

TEST DRIVE

You will never buy a car without test-driving it, so you should never trade a strategy without back-testing it! For hedge funds and developers of automated trading systems, back-testing is extremely important because if a trading strategy did not make money in the past, how can they believe that the strategy will make money in the future? Many FX traders will learn strategies from their friends, trading coaches, or even this book, but no one should ever just follow a strategy blindly. Make sure it is back-tested and forward-tested.

For traders who are particularly good at programming, code your strategy using something like TradeStation, eSignal, or Meta Trader, run the results, and make sure that it is profitable.

Traders who do not know how to code should do the visual back test. Open your charts, apply your indicators, and look for a minimum of 20 examples of the strategy working. Then downgrade the time frame of your charts to make sure that the strategy could have been executed at your desired price. For example, if you are trading a strategy based on hourly charts, make sure there are no spikes on the 5-minute charts.

Once you have found your back-tested examples, it is time to forward-test. One of the great things about trading currencies is the wide availability of demo and mini accounts. It is important to live test with a small amount