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■Fixed Fractional Vs. Fixed Lot Money Management

A tried and tested approach is the concept of money management which can be the game-changer in helping you get to your trading goals.

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Why money management is important?

Losses is a part and parcel of trading. The trick here is to be able to limit your losses and find the appropriate money managing strategies to suit a situation.

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Money management not a guarantee of sure fire success and high profits but is an assurance against mounting losses in a difficult market. At the same time you need to keep an eye on the volatility of the stock and how much money needs to be put at risk on any one position

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What Is the Fixed Fractional Model?

Fixed fractional or fixed risk is a money management strategy where the risk is restricted to a fixed percentage of the account. Only a fixed part or percentage of the account capital gets exposed to risk.

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Pros Of the Fixed Fractional Model

The ability of this model to capitalize earnings is borne by the compounding effect. In winning streaks the position size

begins to increase. But in losing streaks the size of the trades reduces.

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Cons Of the Fixed Fractional Model

This model is mostly suitable for larger accounts.

With the low risk percentage it does not leave much room for making a bigger move with smaller lot sizes. With small capital it will take much longer time to grow account.

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What Is Fixed Lot or Fixed Ratio Money Management?

This is a money management technique that helps compound returns with an increase in the lot size when the account sees growth. This is widely practiced models where a trader sets the lot numbers to trade per position.

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Pros Of the Fixed Lot Model

This is best suitable for smaller accounts to grow account faster.

The fixed lot model is fairly straightforward and even novice traders can grasp it easily. It is also relatively easy to manage unlike some of the more complex alternatives.

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Cons Of the Fixed Lot Model

The periodic withdrawals from the account reduce the potential to use the additional capital to have a healthy capital and build on incremental profits. With larger accounts the position size can become unwieldy and open to higher risks.

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