

Template: Forex Trading Diversification Checklist

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Based on Article: "The Importance of Diversification in Forex Trading Risk Management"

Website: <https://nairafx.ng>

A practical checklist to ensure effective diversification in forex trading to reduce risk exposure.

Checklist Items:

- 1. Separate the driver**
Identify what influences each currency pair you're trading, such as USD strength, oil prices, or local news. This helps in understanding the underlying risk each position carries.
Reference Section: Why should one market move decide your whole trading month?
- 2. Count shared exposure**
Evaluate if any two or more trades are influenced by the same driver. If they are, consider them as one risk cluster rather than separate trades.
Reference Section: Why should one market move decide your whole trading month?
- 3. Set a risk limit**
Before entering trades, establish a total risk limit for each cluster of trades instead of assessing risk for individual trades. This will help maintain overall account safety.
Reference Section: Why should one market move decide your whole trading month?
- 4. Use a simple filter**
Implement a quick pre-trade check: label the main mover for each trade, group them by their drivers, and eliminate any overlaps before execution.
Reference Section: Why should one market move decide your whole trading month?
- 5. Assess correlation**
Analyze the correlation between currency pairs. Be cautious of pairs that often react to the same market moves, as they can amplify risk during adverse shifts.
Reference Section: A strong claim: most account damage comes from overconfidence, not bad luck
- 6. Diversify with low-correlation pairs**
Incorporate pairs that are less likely to move together, such as EUR/GBP and USD/JPY, to achieve cleaner diversification and reduce shared downside risk.
Reference Section: A strong claim: most account damage comes from overconfidence, not bad luck
- 7. Monitor market moods**
Stay aware of market sentiment changes that can shift correlations. Regularly reassess your positions based on any shifts in market dynamics.
Reference Section: A strong claim: most account damage comes from overconfidence, not bad luck
- 8. Learn from past mistakes**
Reflect on previous trades where similar market moves led to significant losses. Use these insights to adjust your trading strategy and improve risk management.
Reference Section: A trader learned this the hard way after one news event wiped out three setups