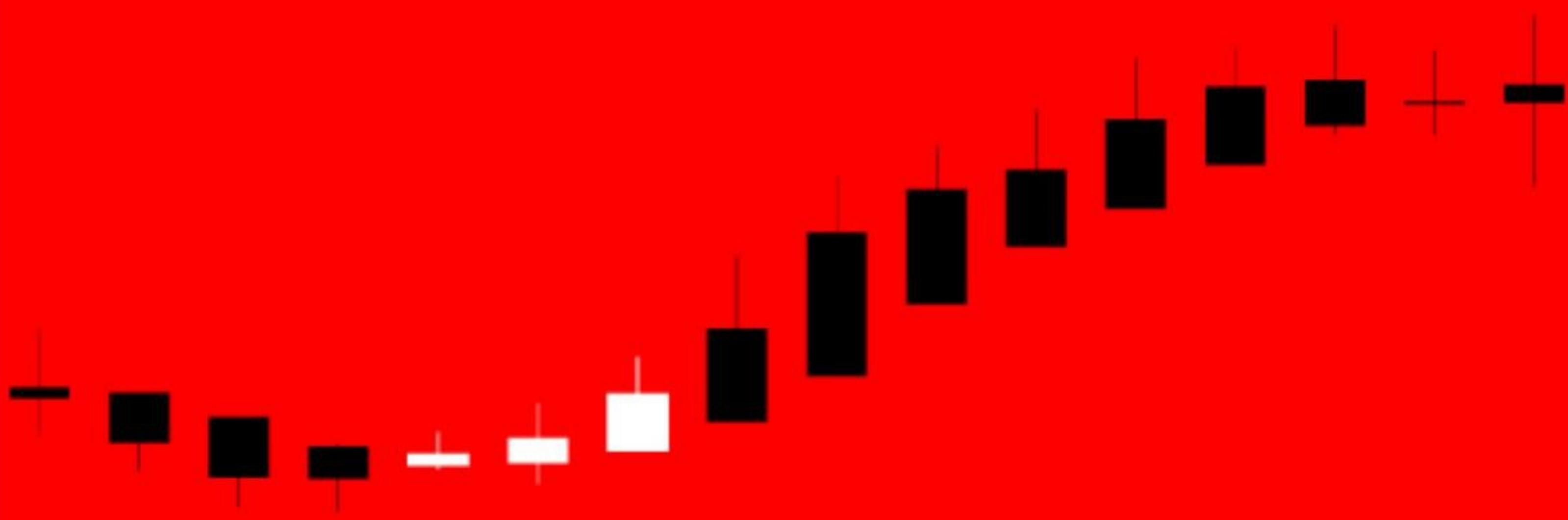
Swing Trading with Heiken Ashi and Stochastics



A reliable method to make money trading the forex markets .

By Edward Munroe

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Contents

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If you have any trouble viewing the images they can be downloaded from my forum at http://edwardmunroe.com where you will also find a template and some useful indicators. It is free to register and you can ask questions there too.

You can also contact me at my email address at edwardmunroe@yahoo.co.uk

Disclaimer

Trading forex carries a level of risk that is not suitable for all people. The contents of this book are offered for information purposes only. Please seek professional financial advice before putting your money at risk with this or any other system.

Introduction

Hello and thanks for purchasing this revised edition of the system Swing Trading with Heiken Ashi and Stochastics. I have been trading this system for a few years now and it remains to be one of my favourite systems. Favourite because of it's ease of use and it's steady profitability.

Since I published the first edition I have continued to receive emails of thanks from people all over the world who have found success trading this system. This revised edition contains the answers to some of the questions that I have received as well as a new way to look at the markets.

Inevitably over time things evolve and this is the most up to date version of the system. The basic entry pattern is the same but defining when to use the system and on what pairs has changed somewhat.

In the first chapter, the basics, I talk a little bit about the psychology of trading. This is so important because without focusing on this from the start you are not putting the odds in your favour. You can have the best system in the world but unless your head is in the right place you won't be able to trade it.

Then I have introduced a new topic, that of pair selection and relative strength. This is about some simple fundamental analysis that we can do to increase our chances of making money.

I hope that you find this book interesting and useful. If you have enjoyed this book then please leave a review at Amazon.com.

The Basics

How to make money trading forex

Everything you need to know about trading can be summed up in just a few lines...

Buy support into an uptrend, sell resistance into a downtrend.
Cut your losses short and let your winners run.
Don't bet the farm on one trade.

That is in a nutshell all you need to do. It IS as simple as that and yet if the often quoted figure is to be believed then 95% of the people who attempt to make money from trading will fail. How can that be when trading is, on the face of it, so simple?

The answer lies in the fact that the vast majority of traders are incapable of sticking to a system through a losing run. This assumes that the trader is using a system in the first place but that's a whole other story.

Without a doubt the biggest reason that traders fail is their unwillingness to accept that all systems will have losing trades. It's just not possible to win all the time. In addition to that there will be losing streaks in a system. With a strike rate of 40% it is possible that you will experience a losing run of up to 20 trades in a row. If you don't know this information then at what point would you stop trading the system? It's unlikely that you would get past a handful of losses before you quit and start looking for something else.

Here is something I wrote a few years ago for a public forum post...

A little bit about systems, probability and expectations...

A very good reason why new traders fail to make any money, and indeed lose money, is the search for the so called holy grail, that elusive system that never loses and always wins. I used to do it myself all the time, try out a system and after 2 wins, 2 break evens and 3 losses I would determine that it was no good and go on to the next one. Experienced traders of course know that if your system is expected to give you a 40% strike rate at 2:1 risk/reward that is sufficient to make money. Also, given those figures, you can expect 4 wins out of 10 trades and maybe 2 or 3 break evens with the rest losses. This represents a solidly profitable system. What can't be known is over 100 trades what order the wins, break evens and losses will come. With a 40% strike rate it is not inconceivable that you will incur 5 or 6 or more losses in a row before you reach a winner. Of course it can and does happen the other way round and you experience a run of winners. So why when most people profess to know this will they only work a system for 10 to 20 trades before abandoning it if it doesn't perform?

It is my feeling that it is more or less impossible to predict with any degree of accuracy a sustained direction for any market. What a trading system does is increase the probability of your trade working out and making you money against a randomly placed trade. A trading system is not a licence to print money but merely a way of identifying patterns and/or situations which have a higher percentage chance of making you money than a random guess.

What really makes the difference between traders that make money and those that don't is that winning traders are willing to be wrong quickly and willing to be right for longer. In other words, and taking into account the randomness of the markets we trade, if it really is that a trading system will have winners and losers and we can't know in which order they will come then it is vital to accept and close the losing trades quickly and unless you are working with a fixed take profit to take advantage of a high probability situation you should hold on to your winning trades until you have a solid reason to close them.

There is a link to a very good video that will help further on my forum.

Pair selection and relative strength

When I first started trading this system I would simply look through the charts, find something that looked as though it was trending well and take entries with the basic entry pattern. I had some success trading like this for a while but it occurred to me fairly early that by being more choosy about which pairs I traded I could increase my strike rate considerably.

This realisation is what led to the two timeframe approach which is described later in the book. Without a doubt using two timeframes and trading the lower timeframe in the direction of the higher timeframe momentum move increases the probability and profitability dramatically.

Since then I have realised that by using some very basic analysis we can increase our returns still further. The first part of this analysis is to look at the relative strength of the main currencies and to only buy strong currencies against weak currencies.

On my forum I have attached some useful indicators and one of those is called CSW daily basket. This can be set to display the currencies in order from strong at the top to weak at the bottom. Just set the timeframe setting to 43200 for monthly and ensure that the ma setting at the bottom is 8.

What this does is to look at each currency pair in turn and assign each currency a score as to whether it is above or below the moving average. For example, if eurusd is trading above the moving average then the euro will score a point as the euro must be stronger than the usd on that particular chart. If gbpchf was trading below the 8 sma on the monthly chart then chf would score a point because chf must be stronger than gbp. It does this for all of the majors and the major crosses including the major pairs and nzd.

Once it has assigned the scores it totals them up and displays the strongest currency at the top and the weakest currency at the bottom. The currency at the top will be stronger than every other currency. If it is the euro then it means all euro pairs are going up because they are above the 8 sma on every monthly chart. Similarly if euro is at the bottom then you know it is weak across the board. This is very useful for our trading because then we can just look for trends in the direction of the strength and weakness of the individual currencies.

Bear in mind that these relationships will change throughout the month and preceding month's strength/weakness relationship does not necessarily predict the future. All it does is give an indication of what may happen.

The next piece of analysis that we can look at is interest rates. In general the pairs with the highest interest rate differentials will tend to continue to trend in favour of the currency with the highest interest rate IN THE LONG TERM. On a day to day basis or even for a few months at a time this analysis will not hold true because there are other factors involved.

At the time of writing the highest interest rate is for the nzd and the lowest for the jpy. Nzdjpy has been trending up for a good time now. China recently had a bit of a wobble and so nzdjpy had a pullback but now it is back to new highs.

This is not set in stone analysis that you must always follow but on the whole it is interest rates that drive the currency markets in the long term and it pays to keep one eye on this. The other advantage to it is that you will be collecting interest on your postions every night through the swap. Over time this can build up to a nice extra sum just for holding your trades open.

The last thing that I want to introduce is the top trenders indicator which I coded to find which pairs are currently trending well. You can find it on my forum in the downloads section. Apply it to a chart and set the settings as you want them. The most important settings are the timeframe and the moving average. I use it on the 4 hour chart with a 100 sma.

What this does is to calculate the slope of the moving average as a percentage of ATR (average true range). This can then be compared with the other pairs and the pair with the highest trending 100 sma is listed at the top.

All this does is tells you what is trending right now which can give you some good trades in the direction of the trend.

In summary, by using these new techniques to identify the pairs that are trending and pitting strength against weakness you can help to identify the best pairs to trade. By far the best signal is a heiken ashi change and a stoch cross on the higher timeframe but this additional analysis will also give you an extra push in the right direction.

What is swing trading?

It is generally accepted that traders are grouped into three categories. Day traders (including scalpers), swing traders and position traders. Day traders look to hold positions for no more than a few hours and all trades will be closed by the end of the day. Swing traders look to profit from more extended runs on higher timeframes. Trades can last a few hours to a few weeks. Position traders look to make money from the long term trend lasting from days to months or even years.

This system is a swing trading strategy so it looks to hold trades for up to a few weeks at a time.

In common with most other longer term trend following systems it looks to take multiple entries with low risk per individual trade but building a good position of profitable trades when a trend continues for a long enough period of time.

What are Heiken Ashi candles?

Heiken Ashi candles are "average price" candles. They are calculated using a moving average and change colour according to that average. The open, high, low and close of these candles represent slightly different things to normal candles and the best way to get a feel for them is to put them on your chart and see how they look. If you have metatrader you can go to a line chart and then set the line chart colour to "none" in the chart properties and that gets rid of the line leaving you a nice blank screen to put your HA candles on. Notice how the candles can sometimes stay one colour for a long period of time, hundreds of pips on a 4 hour chart. Catching and holding on to these long trends can be very profitable but of course it is not always as easy as all that!

What are stochastics?

The Stochastic Oscillator is a momentum indicator. It has two lines that range between a value of 0 and 100. It is important to remember that the movement up and down of the lines represent the change in the momentum of the pair you are watching and not the direction of price! In general if the lines are moving smoothly between high and low readings then when they turn upwards and a smooth heiken ashi change occurs this is a good signal to enter. The stochastics are merely a back up to our other analysis and the trend is by far the most important aspect.

You can read in lots of places that stochastics only work in ranging markets. This is not the case. I find them much more useful for trading trends. They give you information not only about the strength of the trend, the strength of the pullback but also the smoothness of the pullback.

The Indicators

Now that we have defined our terms and we know what the system is about let's look at the indicators used.

Heiken Ashi candles applied to a blank chart. The colours you use do not matter but I prefer green for up and red for down.

A 100 simple moving average of the closing price. I use blue.

Stochstics with the settings 8,3,3 with the price field low/high.

You can also use an indicator to draw horizontal lines at the round number levels. There are plenty of these available all over the internet but I can supply one if you need. A trade taken near one of these levels is usually a stronger trade.

If you have any difficulties setting your charts up then there is a template available on my forum as mentioned in the introduction.

The Entry

I have included lots of charts of the basic entry pattern but the best way to learn to spot these setups is to look back through the charts yourself. You can see this pattern occur over and over. Of course it does not always lead to a profitable trade but it definitely gives you a good starting point.

What we are looking for is the 100 sma sloping either up the chart or down the chart. If the price is above the 100 sma then the trend is up and we are only looking to buy. If below then we only look to sell. If the sma is not particularly sloping in one direction or the other and the price is moving from above to below and back again then there is no trend and so we don't trade.

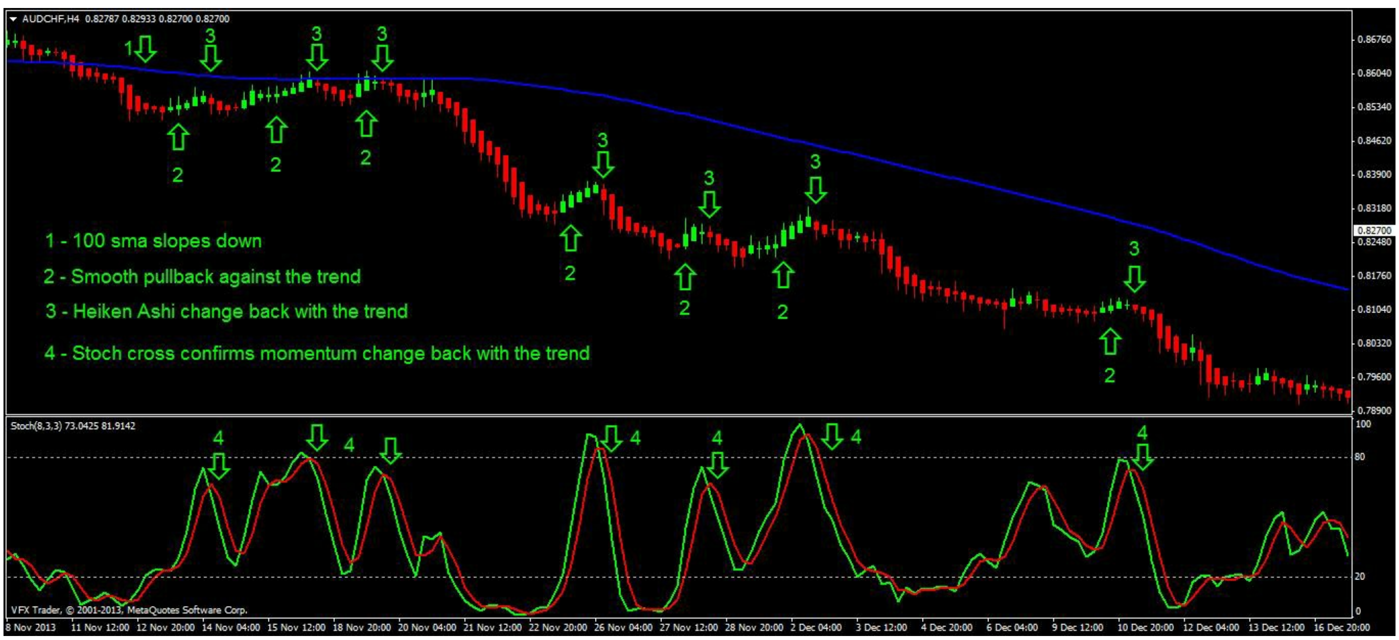
Once we have found a trend using the moving average then we are waiting for a pullback in that trend using the heiken ashi candles. If we have an uptrend then the HA candles will be more often green than red and they should be pushing to higher prices with each push. The entry point is after a run of red candles against the trend. When the candles turn back to green and a smooth stochastic cross occurs back in the direction of the trend then we enter. The charts below will help.

So to sum up the basic entry we are identifying a trending currency pair using the 100 sma. Then we are waiting for the immediate momentum to turn back into the direction of the trend as shown by the HA colour change and we are looking for it to be backed up by a stochastic cross which confirms the momentum change back in the direction of the trend.

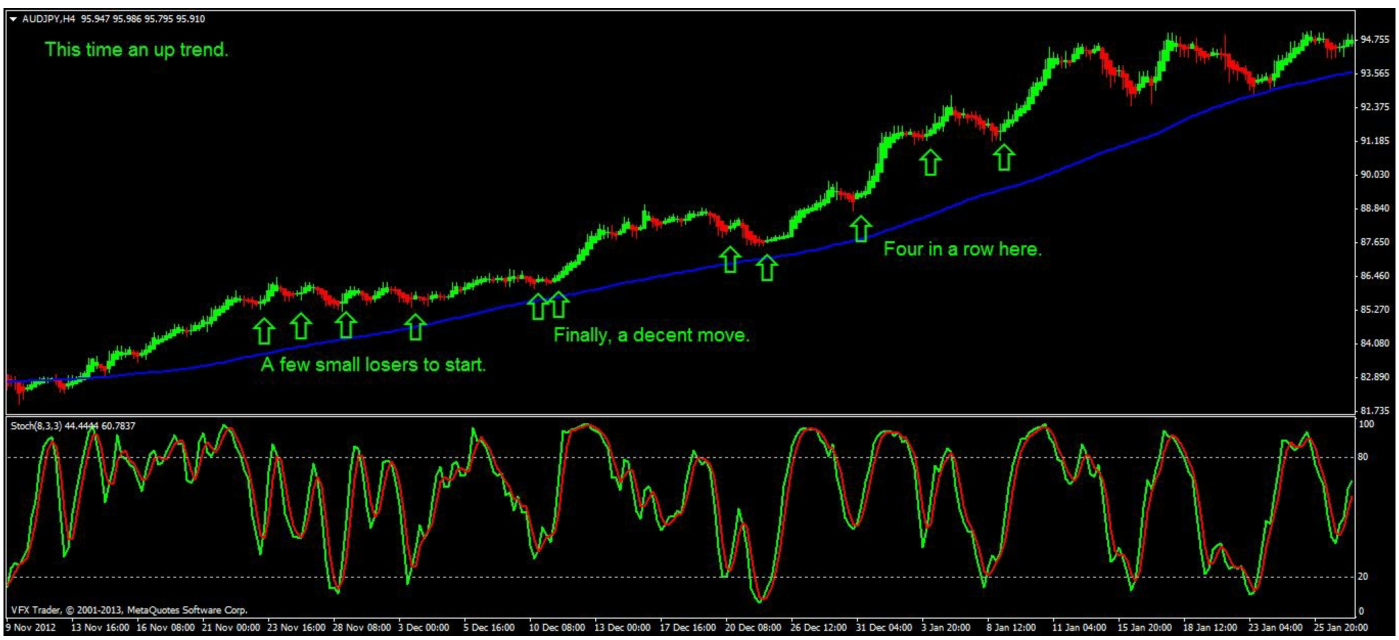
The stop loss should be placed just below the last low before the HA changed colour. The average stop loss on a 4 hour chart should be around 50 pips. Different pairs have different volatility and so EurGbp will require a smaller stop loss than GbpAud. If your trade would need a stop loss much bigger than the average then you can always skip the trade. Taking trades away from support and resistance areas like round numbers is always a good idea as it gives you somewhere logical to put your stop loss. If the support/resistance breaks then you want to be out of the trade pretty quickly anyway. Don't put it too close behind though.

Here are the charts of the basic entry pattern...


CADCHF,H4 0.81152 0.81291 0.80885 0.80885
1 - 100 sma turns down
2 - Small but smooth pullback occurs
3 - Heiken Ashi turns back with the trend
4 - Smooth stoch cross down
Stoch(8,3,3) 63.9710 73.8745
VFX Trader, © 2001-2013, MetaQuotes Software Corp.


AUDCHF,H4 0.82787 0.82933 0.82700 0.82700
1 - 100 sma slopes down
2 - Smooth pullback against the trend
3 - Heiken Ashi change back with the trend
4 - Stoch cross confirms momentum change back with the trend
Stoch(8,3,3) 73.0425 81.9142
VFX Trader, © 2001-2013, MetaQuotes Software Corp.


AUDUSD,H4 0.92858 0.92921 0.92774 0.92892
Here are some losing trades as well as some winners...
You wouldn't necessarily have taken all of these trades but even if you had taken them and closed on the next ha change against the trend you would still be well ahead.
1 - closed out halfway down, bit of a shame but a small profit
2 and 3 - didn't follow through, break even or small loss
4 - classic winner, this is what you are looking for
5, 6, 7 , 8, 9 - nothing special, small wins, small losses
10 - another classic winner
11 - small gain maybe
Notice how the best trades bounced from the 100 sma
This will happen quite a lot and is worth watching for.
Stoch(8,3,3) 82.2479 83.2094
VFX Trader, © 2001-2013, MetaQuotes Software Corp.


AUDJPY,H4 95.947 95.986 95.795 95.910
This time an up trend.
Four in a row here.
Finally, a decent move.
A few small losers to start.
Stoch(8,3,3) 44.4444 60.7837
VFX Trader, © 2001-2013, MetaQuotes Software Corp.


EURJPY,H4 141.606 141.612 141.373 141.378
No particular trend and so no good trades.
Stoch(8,3,3) 11.3969 14.9737
VFX Trader, © 2001-2013, MetaQuotes Software Corp.
143.600
142.920
142.240
141.540
141.378
140.860
140.180
139.500
138.800
138.120
137.440
136.760
136.080
100
80
20
0
4 Feb 2014
7 Feb 00:00
11 Feb 16:00
14 Feb 08:00
19 Feb 00:00
21 Feb 16:00
26 Feb 08:00
3 Mar 00:00
5 Mar 16:00
10 Mar 08:00
13 Mar 00:00
17 Mar 16:00
20 Mar 08:00
25 Mar 00:00
27 Mar 16:00
1 Apr 08:00
4 Apr 00:00

All about heiken ashi dojis

Heiken Ashi candles differ from normal candles in that the open, high, low and close represent different things. In an uptrend the bottoms of the candles will be "flat bottoms" with no wicks and in a downtrend the tops will be flat. The wicks of these candles are the same as normal candle wicks and they do represent the extremes of price during that time period but in a strong trend it is usual not to see a wick at the upper or lower end of the candle (depending on the direction of the trend).

The "open" level of the candle is always the midpoint of the previous candle, ie the high minus the low divided by 2. The close of the candle represents the position of the moving average that is being used to calculate the candle. In normal HA candles this is not user changeable.

Here I want to talk about heiken ashi dojis which more or less represent what a normal candle doji shows. I have found these to be good reversal signals and although good trades do come from other candle patterns I believe they are worth watching out for.

With a HA doji you may or may not see a change in colour of the candle but the body of the candle will be quite small and there will be wicks, usually quite long wicks, at BOTH ends of the candle. These signals are strongest when they occur after a nice smooth move in one direction against the trend and the doji forms signalling a move back in the direction of the trend although they are good signals in non-trending markets too.

I have attached some screenshots. The first one is a 5 minute chart of eurusd on the simulator. I've used this so I can show you in real time what these candles look like as they set up. You can see the stochs crossing at the top after a smooth pullback against the trend and the HA colour changed from green to red. There are fairly large wicks at both ends of the candle.

The second chart is immediately at the open of the new candle. As the actual price closed towards the lower end of the doji the real body of the next candle opens as a quite large red candle. This is the entry point.

The third chart is a while later. You can see we had a nice move with the trend but a candle posted green and the stochs have crossed at the bottom and are heading up. Time to either close the trade with a profit or at the very least move the stop loss very tightly behind those candles in case the trend takes off south again without pulling back much farther.

This is just one example that didn't take that long to find and illustrates what I want to get across perfectly.

The Exit

Simple in and out

The basic entry pattern on it's own will lead to good trades on any timeframe but the most important part of any system is never the entry. The most important part of the system is how you manage your trades once they are open. A development of the system which was available as a pdf on the forum for a brief time but is not discussed in the thread is the use of multiple timeframes to inform your trades and the use of the 100 sma as an exit mechanism.

Individual trades using the basic entry pattern will give a strike rate of winning trades somewhere in the region of 40% and it is usually possible to achieve a risk/reward of around 1 to 3. What this means in theory is that for every 10 trades you take you will win 4 and lose 6. Let's use our average stop of 50 pips. So your 6 losing trades will lose you 300 pips. If you get 1 to 3 on your 4 winning trades that's 150 pips for each of 4 winners which is 600 pips. So for every 10 trades you take you can expect to lose 300 pips but gain 600 pips coming out with a profit of 300 pips. This is not taking into account break even trades which will usually increase your profit in this type of example.

Of course in practice you don't know in what order your wins and losses will come. You would need to take at least 1000 trades to get a representative sample of trades that you would expect to follow the above pattern.

That's not a bad return on it's own but I'm going to show you how to put this on turbo. Without a doubt the most profitable form of trading is long term trend following combined with adding trades as the trend develops. As each additional trade is taken higher and higher up the chart (in an uptrend) the previous trades can be moved to break even or better. In this way it is possible to build a large position of trades from near the start of the trend until the end and all the time our total risk on the whole position was only ever one stop loss.

We don't know when a trend is going to start or finish but we can narrow down our search by using a higher timeframe to give us a sense of the where the next big trend could start. Combine our higher timeframe analysis with our lower timeframe multiple entry method and the profitability of the system goes through the roof.

It's worth pointing out that no take profit is ever used. When you are following a trend the only method of exit that you should consider is to trail your stop losses up behind the price action until you are stopped out. It's also worth pointing out that you will experience a good number of times that you start to trade an anticipated trend and the trend will not materialise leading to a losing or a break even trade. This is part of trading and you must develop the discipline and patience to continue to stick to the plan. One good trend with multiple entries will pay for a lot of small losing trades while you are waiting to catch the big trend.

Choosing a timeframe

Now you must decide what timeframe you want to trade. I prefer 4 hour charts as I only need to look at them a few times a day when the candles close. If you have the time you may want to trade a lower timeframe. If you want to just trade for a few minutes a day then you could use daily charts. This system is a bit slow for me on daily charts and requires too much attention on hourly charts. This is a personal matter and one for you to consider.

Whichever timeframe you choose your starting point for the system is to first watch the higher timeframe that corresponds to the timeframe you wish to trade. For 4 hour charts you must start with the weekly chart. For daily use the monthly charts. For hourly use daily charts. For 15 min use 4 hour charts. For 5 min use hourly charts. This ratio gives you the correct degree of separation between timeframes.

Advanced trend following

Once you have decided your trading timeframe and you know your higher timeframe then you can start to look for trades. For the purpose of this book all the charts are based on trading the 4 hour timeframe with reference to the weekly charts.

First we must find a basic pattern entry on the higher timeframe. As we are going to refine the entries by going to our lower timeframe the higher timeframe signal need not be exactly perfect. Quite often on weekly charts the 100 sma may not be sloping perfectly. We are more concerned with the HA change and the stoch cross on the higher timeframe.

When you have found a signal on the higher timeframe move to the lower timeframe. You will find that after a signal on the higher timeframe the price will be trading the same side of the 100 sma on the lower timeframe as the signal. If you have a buy signal on the weekly chart then the price will be above the 100 sma on the 4 hour chart. Now we use the basic entry pattern on the lower timeframe to enter our trades.

We are using the higher timeframe to tell us when a good trend may develop on the lower timeframe. The signal on the higher timeframe will be a good push on the lower timeframe. Now we just trade the pullbacks in the direction of the trend moving each previous one to break even as the trend develops.

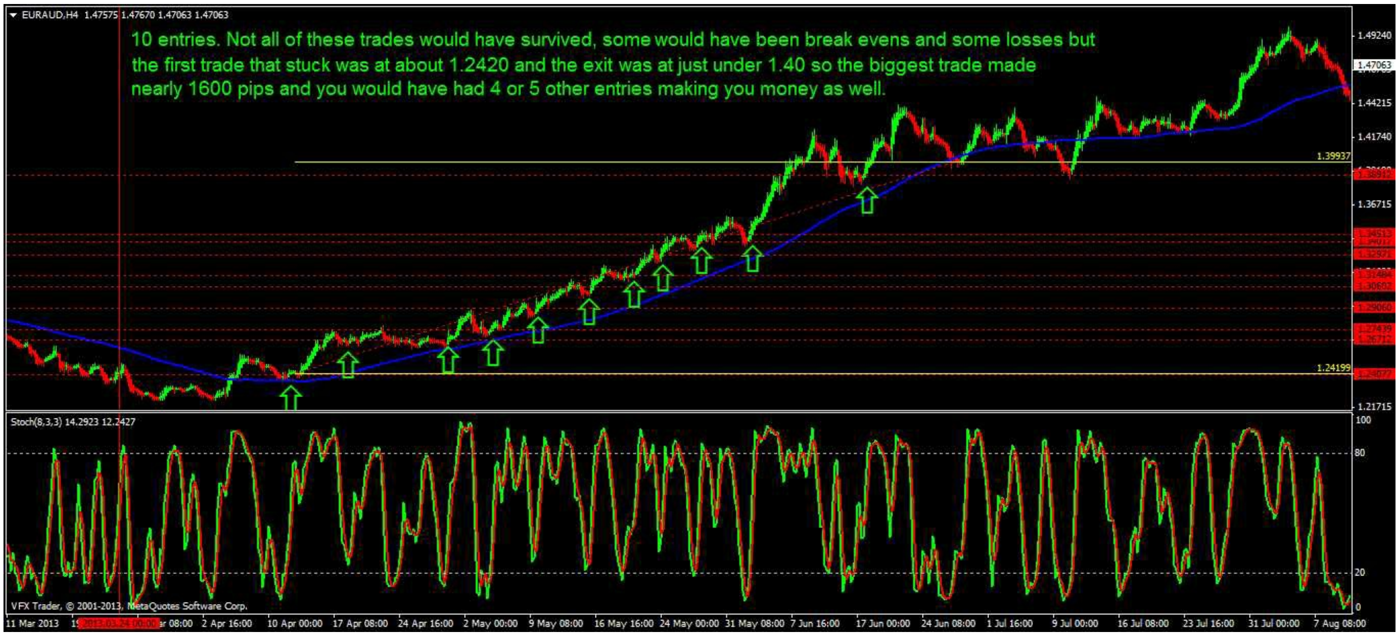
Trail your stop losses 10 to 20 pip behind the 100 sma on the lower timeframe until all your trades are stopped out. Then simply repeat the process from the start.

Sometimes you will make some progress only to be stopped out by a sharp move against you. This will often happen multiple times in a row. Sometimes you will start trading a trend and it will not stop for weeks at a time allowing you to establish multiple trades in the direction of the trend. This is where patience and discipline is required. Sticking with the system through the dry patches makes the difference between a winning and a losing trader. More about that later in the book.

Here are some weekly charts and the subsequent trend on the 4 hour.

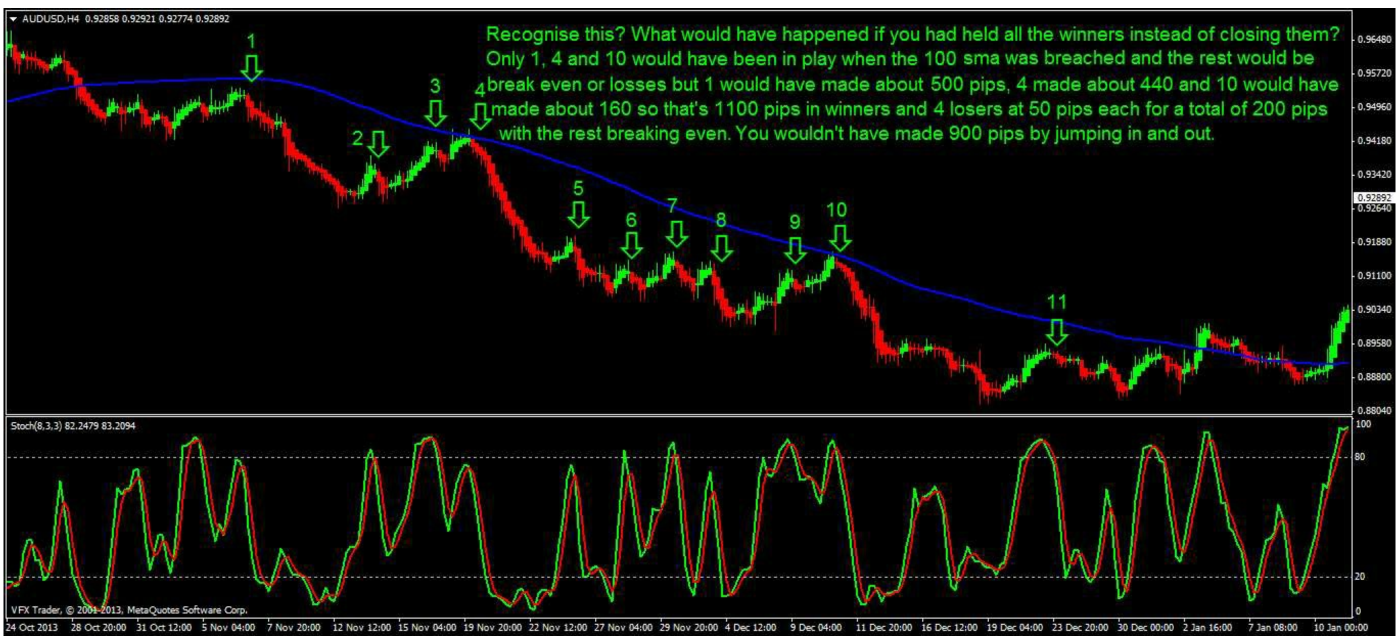

EURAUD,Weekly 1.48862 1.49645 1.46946 1.47063
A lovely smooth turn on the weekly
Stoch(8,3,3) 11.7795 25.0369
VFX Trader, © 2001-2013, MetaQuotes Software Corp.


EURAUD,H4 1.47575 1.47670 1.47063 1.47063
A lovely smooth trend to trade on the 4 hour chart.
All trades exited here for a huge gain.
We would start trading here.
Stoch(8,3,3) 14.2923 12.2427
VFX Trader, © 2001-2013, MetaQuotes Software Corp.


EURAUD,H4 1.47575 1.47670 1.47063 1.47063
10 entries. Not all of these trades would have survived, some would have been break evens and some losses but the first trade that stuck was at about 1.2420 and the exit was at just under 1.40 so the biggest trade made nearly 1600 pips and you would have had 4 or 5 other entries making you money as well.
Stoch(8,3,3) 14.2923 12.2427
VFX Trader, © 2001-2013, MetaQuotes Software Corp.


GBPAUD,Weekly 1.80130 1.80735 1.78077 1.78083
A nice smooth turn on the weekly.
Stoch(8,3,3) 3.7663 12.4972
VFX Trader, © 2001-2013, MetaQuotes Software Corp.


GBPAUD,H4 1.78508 1.78661 1.78082 1.78083
A nice smooth trend on the 4 hour.
Exit all trades here.
10 entries. About 5 would have stuck.
Largest trade nearly 1200 pips plus the others.
Start trading here after the weekly turn.
Stoch(8,3,3) 9.6208 10.6290
VFX Trader, © 2001-2013, MetaQuotes Software Corp.


AUDUSD,H4 0.92858 0.92921 0.92774 0.92892
Recognise this? What would have happened if you had held all the winners instead of closing them? Only 1, 4 and 10 would have been in play when the 100 sma was breached and the rest would be break even or losses but 1 would have made about 500 pips, 4 made about 440 and 10 would have made about 160 so that's 1100 pips in winners and 4 losers at 50 pips each for a total of 200 pips with the rest breaking even. You wouldn't have made 900 pips by jumping in and out.
Stoch(8,3,3) 82.2479 83.2094
VFX Trader, © 2001-2013, MetaQuotes Software Corp.


AUDUSD,Weekly 0.92394 0.93069 0.92049 0.92892
This is what that trend looked like on the weekly.
Stoch(8,3,3) 91.0471 85.9539
VFX Trader, © 2001-2013, MetaQuotes Software Corp.


USDJPY,Weekly 102.930 104.121 102.787 103.224
Stoch(8,3,3) 62.0335 47.5206
VFX Trader, © 2001-2013, MetaQuotes Software Corp.

Of course there are times when this type of trend doesn't appear after a turn on the weekly but by following the weekly you are increasing your probability of finding a good trend. If you consistently follow these trends then you will make a profit in the long term.

Money Management

Money management and discipline

Money management and discipline go hand in hand. Quite often if your discipline slips it is your money management that is abandoned first. It is important to only use a very small percentage of your account when trend trading because it is not unusual to take a number of losses in a row before you find a good winner. I have included here a basic money management plan, a discussion about strike rates and also leverage which is a much misunderstood area.

Most traders deposit their whole risk capital into their trading account in one go. This is a mistake in my view because the more money you have available to trade with the more likely you are to lose it. With the correct use of leverage it is only necessary to deposit very small amounts at any one time.

I'm going to use for an example a trader with $10,000 to invest. It could be euros or pounds or whatever, the principle is the same.

Rather than deposit the whole lump in one go the trader calculates how much margin they would need to open 10 trades at their specified risk level and then just deposits that amount. This then keeps the rest of the money safe in their own bank account. This immediately reduces the risk of an accidental "fat finger" loss or a catastrophic discipline slip wiping out the whole balance.

This is easy to do and I will show you how.

The trader has $10,000 and wants to risk no more than 0.5% of their balance on any one trade. This is very conservative and you could use more or less depending on your tolerance to risk. The larger the percentage risk per trade the larger the equity swings in your account.

0.5% of $10,000 is $50. So the trader only wants to risk $50 per trade. Assuming our average pip risk of 50 pips and we can see that the average position size will be $1 per pip. This translates to 0.1 lots although this varies per pair. 0.1 lots means you are buying a $10,000 position (on usd pairs). With leverage of 500 to 1 which is regularly offered by brokers these days that means you need $10,000 divided by 500 which is $20 of margin to open that position. To open 10 similar trades you would need free margin of $200. Why deposit $10,000 when to open more than enough trades for your overall balance you only need to put up $200?! Consider also that deposits to broker accounts are more or less instant and it just makes sense to only deposit what you need.

Leverage is only dangerous if you use it to open a trade with a larger position size than you should do for the size of your account. Let's assume our trader had deposited the full $10,000 and was having a bad day. With leverage of 500 to 1 and $10,000 in the account there's nothing to stop him/her opening a trade of 500 times 10,000 which is $5 million or 50 whole lots. This works out at about $500 a pip and a quick move against the trade would take a large chunk out of the account before the margin call and automatic stop out kicked in.

A solid money management plan

Here is my advice if you are a beginner or you have so far not made money from trading.

Just deposit $50 to $100 or equivalent in your own currency. This will give you more than enough money to trade the minimum position size of 0.01. Most brokers will allow deposits of this size and if your broker doesn't then just get a different broker. (By the way, my recommended broker Vantage FX UK do accept deposits of less than their official minimum of $350. If you have trouble just speak to your account manager.)

Use this small starting fund to build your experience and confidence.

Once you have made money consistently for a period of time, say a few months, then increase your position size on your trades to 0.02.

If you still continue to make money then feel free to increase your position size again incrementally.

After a year of profitable trading on a month to month basis then you can start to trade with your full position size (use the calculations above to work out the position size you should be using for your account size) but remember that if your broker offers you large leverage then why not use it and only ever deposit the amount you need to cover 10 or so trades.

In this way it is never necessary to put at risk more than a fraction of your account. I recommend following this course even if you have a very large amount to start with. If you can't make money trading 0.01 lots with a $100 account then there is absolutely no way you will make money with a larger amount. Learn to crawl before you try and walk. You'll be running soon enough. The forums are full of people with stories of losing $10,000, $20,000 and even larger sums of money by trading big sums when they weren't up to it. Don't become one of them, play it smart and play small until you get better at the game.

Conclusion

In the chapters above I have laid out a simple and robust trading method that if followed correctly will make you consistent money. The only question now is do you have the discipline and patience to follow the system or will you just try it for a while, take a few losses and get fed up and move on to the next thing?

I urge you to stick to the plan for a decent number of trades before you take a decision whether the system is for you or not. Trading is always simple but never easy. Price trends up or down and all you have to do is trade in the direction of the trend and add trades as a good trend develops. If it is that simple though then why is it so hard to do in practice?

Developing the mindset of a winning trader takes time and dedication. Only the few who can do the right thing when their emotions and human nature are telling them to do the opposite will come out as winners in the end.

I have personally traded this system and I have helped others to trade this system. I have also completed several hours of back testing and that is why I have the confidence that the system is robust. It will help you immensely for you to complete your own back testing. This will give you the inner confidence that you will need to stick to the plan when things are going against you.

I recommend the program that can be found at the following link...

www.mt4i.com

It is free to download and use and it will massively improve your trading in a short space of time.

I welcome feedback on this book. Please post a review on Amazon or contact me directly. Thanks for reading and I wish you success.