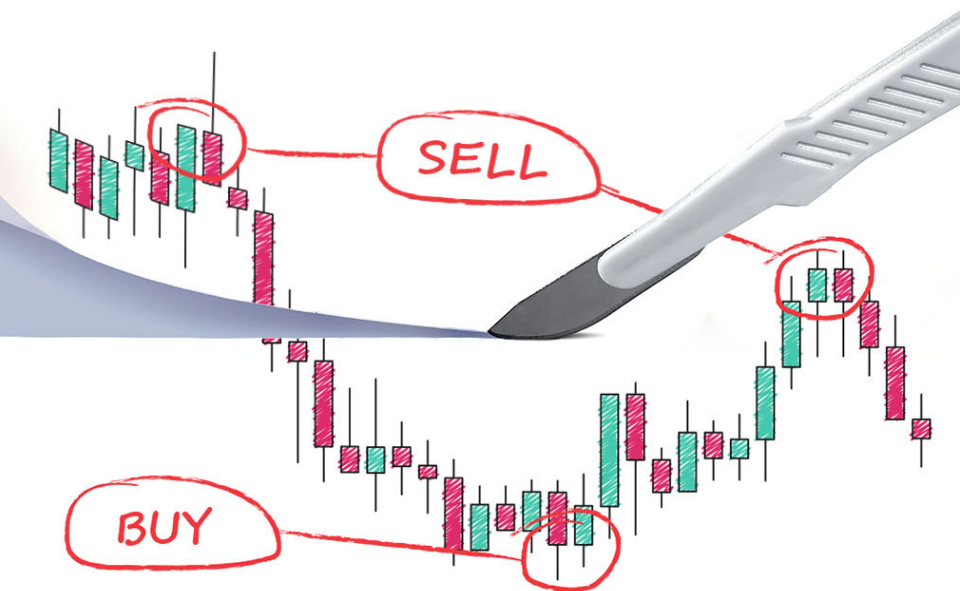


SCALPING METHOD

How to trade within a day



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Introduction

Experienced market players know that sudden changes in market trends don't happen very often. Most of the time markets fluctuate up and down by a few points. Scalping is a method of trading that aims to make a profit from these marginal movements in quotes.

A scalper uses each and every market fluctuation to make money. He or she will close dozens of small deals during the day, with each lasting but a few minutes. The profit a scalper makes on a single deal can be minimal; often we're talking profit of just 1 point. But through sheer number of these tiny micro transactions a scalper can end a day with a sizable profit.

Traders choose scalping because it's simple. All deals can be closed using one and the same template, the positions are opened and closed in a purely mechanical fashion, and you can start trading with minimal investments. And last but not least, scalping makes use of some very simple trading ideas. This means that trading can even be entrusted to automatic advisors.

Another pro of scalping is the psychological comfort it offers the trader. All positions get closed on the same day. This means a scalper is never faced with a situation where the situation in the market changes overnight, and in the morning you make a loss instead of a profit.

This book will tell you about the rules that scalpers should follow in order to make appreciable money by opening and closing all positions in one day. Read and boost your trading performance!



Trading methods

A trader has complete freedom in which trading tools and platforms to choose. If you're in FOREX trading, it does not at all preclude you from investing in company stocks. On the contrary, this can actually increase your chances of making a good profit.

You can learn about FOREX, commodity, stock, futures, and option trading all at the same time. Each financial instrument is different, but when it comes to trading them, the methods are pretty much the same:

- Scalping and day trading
- Medium term trading
- Long term trading

People choose trading methods based on their psychological preferences and how they want to trade. Try trading in different styles to figure out which one you're most comfortable with. Ideally, you want your trading rhythm to match your temperament; that way, it will be easier for you to hit your targets.

Beginning traders often get carried away with day trading. From the point of view of psychology, it's easy to see why: beginners always want to make a quick buck. That's the reason why so many beginners immerse themselves in indicators, day forecasts, and trading within shorter timeframes. Day trading has its pros and cons. Let's take a closer look.



Features of scalping

Scalping – styl day tradingu o wysokiej częstotliwości wykonywania transakcji. Scalping charakteryzuje się krótkim czasem transakcji. W ciągu dnia trader może otworzyć i zamknąć około 100 małych transakcji.

Cel scalpingu: wygranie kilku punktów w określonym kierunku ruchu ceny.

Minimum dla scalpera: przestrzegając wymagań brokera w zakresie wykonania transakcji, zdobyć 2-4 pkt.

In scalping, the trader literally cuts millimeters off the top of the graph by making frequent micro deals. In this manner, the profit is made through the sheer number of deals that are made, but the amount of each one is so tiny that it's like removing the scalp from a head. It's one of the most effective types of trading: a single deal can take seconds, but at the end of every day, the trader has profit in his or her account!

In scalping, it's vital to choose the right moment to enter the market. It's best to do it during a consistent market trend. In this situation, your position will quickly achieve the target profit and close. Alternatively, the trader may continue to watch the trend, shifting the stop-loss if necessary. As soon as the trend changes direction, the position is closed.

Pros of scalping

This trading method has some serious pros:

- You can trade in preferred assets.
- The risks are minimized, because each position is closed in a very short time.
- When a position is opened in the direction the price is moving, profit can be made over a very short distance.

- It's far easier to track small price fluctuations. Thus, for any security, a price change of 10 cents occurs far more often than a price change of 1 dollar.
- Scalping allows traders to make money off every movement of the market. Even during periods of relative calm in the market, scalpers can still make money.

The cons of short-term trading

Short-term high frequency trading has some features that are unique to it and that must be borne in mind. You have to be prepared for the following:

- In day trading, only a special group of strategies can be used. Most existing strategies won't work for this style.
- Frequent opening of positions means that, on the whole, you're taking more frequent risks.
- That will take a higher toll on your psyche than medium and long-term trading. You've also got to be paying attention at all times. This can result in fatigue and possible errors.

The main rules of scalping

In order to make good money, a scalper must be following the following key rules:

Rule 1. Choose volatile assets. A scalper can make a series of profitable deals on any movement in the market. Track prices and read the daily analytical forecasts. You can also connect automatic advisers and get notified about possible profitable deals by text.

Rule 2. Refrain from trading when important economic news comes out. Times like that are not good for scalping. Market volatility can become extreme when important macro-economic indicators get published or when heads and representatives of central banks make official announcements.



Periods of low and increased volatility

Rule 3. Choose currency pairs with smaller spreads.

The spread is the difference between the ask price and the bid price for some asset at a given point in time. In the FOREX market, the spread is the main type of commission that traders pay. In scalping, the size of the spread is especially important—a couple of points can have a huge impact on the financial result of the deal. So we recommend choosing spreads within 3 points.



The trading playlist

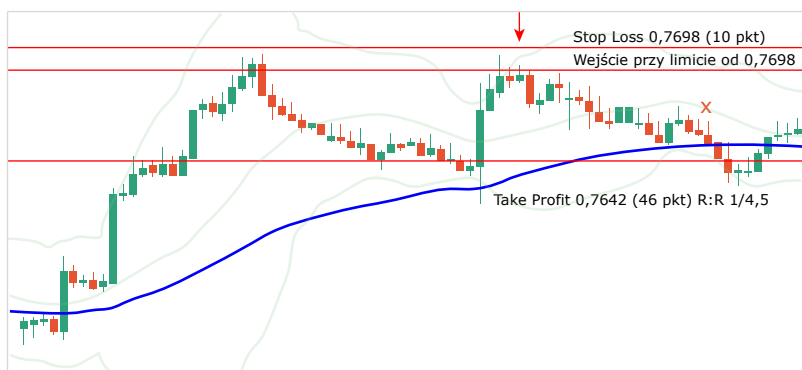
The trading playlist is a record of the circumstances of a specific deal. Experienced traders recommend creating trading playlists for each deal, if possible.

A playlist is a screenshot of the graph made at the time that the decision to go ahead with the deal was made. In the image, you need to note the conditions of the deal you closed:

- specify the points at which you entered the market, the stop-loss and take-profit points,
- explain the idea behind the trade,
- describe the result of the trade.

This simple tool will allow you to analyze the deals you closed. Once emotions die down, you will be able to calmly analyze your mistakes and see the weaknesses in your strategy. So, the most important rule of a good playlist is to include as much relevant information as possible but try and keep any irrelevant details out of it.

As you begin to analyze your playlists, you will begin to understand which methods more often result in profit. In this manner, you will be able to adjust your behavior in the market and trade more effectively. Do not skip this work! Remember: the time you spend picking apart your past trades will inevitably translate into improved quality of your trading in the long run. And that means you will be able to make significantly more money as a trader.





Risk management

Sometimes, we lose profit while trading because of being unwilling to take risks. After all, the ratio of potential profit to potential loss is always 50/50. And some people are just not ready for that kind of odds. But losses can be managed.

For starters, you need to decide how much you are willing to lose on one trade, in one day, in one month. This will allow you to be psychologically prepared to take a loss. Now, even if you do lose money, it won't turn your entire world upside down. You will be able to always remain in control of the situation.

In the market, the ratio of risk to profit is represented as R:R. One R stands for risk, and the other for reward. An R:R of 1/3 is regarded as classic. Even if only three trades out of ten get closed at take profit, at this R:R ratio you will still have made money. But if only two trades out of taken close at take-profit, you'll go into the red.

High frequency scalping strategies use more aggressive R:R ratios, such as 1/1. However, because of the high effectiveness of the high frequency trades, you can consistently make money even at this low level of risk to reward ratio.

Our goal is to manage risk in such a way as to keep you deposit in the black even when some trades lose money and make money in the process.

Let's find out what this approach will look like in a real trade. Let's assume an optimal risk of 1–2% for our example, while the risk for a single trade is 1/10 of the daily limit. If you have a deposit of \$1,000, then the risk (the loss limit) for the day will be \$10–20, while the risk per trade will be \$1–2.

As can be seen from the table below, the minimal price per point is 10 cents, while the size per trade

is 0.01 lot. Using a limit per trade of \$2, the maximum stop loss will be 20 points, including the spread. For a risk of \$1, the maximum stop loss will be 10 points. This table of price per point applies to all dollar-denominated currencies.

Trade size, lot	Price per 1 point
10	100
1	10
0,1	1
0,01	0,1



How to keep your deposit

The key to success in trading is knowing capital management methods and being able to use them in practice. There are a number of rules that you had better treat as axioms:

1. The risk to reward ratio must be at least 1:2, better yet 1:3. For example, if you open a trade that has a potential movement of 100 points, then the stop loss level must be no further than 50 points from the price the trade is opened at. Ideally, this distance must be 30–35 points.

2. You must never use more than 10% of your deposit per 1 trade. If your deposit is \$10,000, then you can use no more than \$1,000 per trade.

3. The total collateral for all the open trades must not exceed 50% of your deposit.

4. The risk of each trade must be no more than 5% of the deposit. For example, you have a trading account for \$10,000. You open a trade that can make you \$1,500; then the risk of the trade must not be greater than \$500.

5. You must never ever remove the stop-loss from an order to move away from the opening price.

Sometimes traders do that in the hope that the market is about to turn in the direction they want.

But that's exactly the sort of action that can lose you your entire deposit, because the market may never turn around. The only thing you can do is move the stop-loss into the breakeven zone. This will guarantee that you will have made a certain amount of profit whatever the outcome of the trade might be.



Optimal risk management strategies

Three strikes

The three strikes strategy is a very simple but extremely effective trade capital management method that can prevent you from losing money. We recommend that all beginning traders start with this strategy.

The idea of the strategy is very simple: as soon as three trades in a row in your trading session trigger the stop-loss order, i.e. they make a loss for you, you stop trading.

This is what it's going to look like:

- If three trades trigger the stop-loss order, then we assume we've completed the day within the limit and stop trading;
- If we trade within the limit for three days in a row, then the next day is a day off.

Diversification

Diversification simply means putting different eggs in different baskets.

The principle of the strategy is as follows: instead of committing all your money to one trade, you open several smaller positions until you hit your target total amount.

It could be said that your trade consists of a series of smaller transactions. This way you will be minimizing risk and, consequently, the total profitability of your big trade will increase.

For example, you figure that, given the current spread, your stop loss will be at 15 points, take profit will be at 30 points, and the amount will be 1 lot. The risk will be \$150. Now we have two options: we can open one trade or we can diversify the risk and instead open 10 trades.

	LOT	OPEN	STOP LOSS	TAKE PROFIT	LOSS	TARGET
RISK DIVERSIFICATION	0,1	1,1200	1,1215	1,1970	(150\$)	\$300
	0,1	1,1200	1,1215	1,1970	(15\$)	\$30
	0,1	1,1201	1,1215	1,1970	(14\$)	\$31
	0,1	1,1202	1,1215	1,1970	(13\$)	\$32
	0,1	1,1203	1,1215	1,1970	(12\$)	\$33
	0,1	1,1204	1,1215	1,1970	(11\$)	\$34
	0,1	1,1205	1,1215	1,1970	(10\$)	\$35
	0,1	1,1206	1,1215	1,1970	(9\$)	\$36
	0,1	1,1207	1,1215	1,1970	(8\$)	\$37
	0,1	1,1208	1,1215	1,1970	(7\$)	\$38
	0,1	1,1209	1,1215	1,1970	(6\$)	\$39
					(105\$)	\$345

In this manner, the risk is reduced to \$150. We'll have saved \$45, which is 30% of the original risk, plus potential profit is increased by \$45.

Conclusion

Scalping is an ideal money-making tool for active people. It's a good fit for those who don't want to track the market for days on end and wait for that magic moment. For a scalper, every moment is the right moment! Any minute can make you money.

Scalping is a type of high frequency trading, so if you try it, you will soon know whether it's the right strategy for you. You'll have completed a whole bunch of trades in a couple of weeks and will have seen some kind of financial result. This fast pace has one major pro: it helps gain experience very fast and achieve a consistent level of revenue.

Try new ways to trade and tap your successful investor potential!

