7 Great Simple-N-Easy places to put your STOPS in the Forex Market

Contents

1 INTRODUCTION

Welcome to the stops module of the Simple-N-Easy techniques to achieve Forex trading objectives. As this series uses a simplified approach to techniques, we give enough detail about the techniques for you to understand the concept the techniques are based on.

How we trade these techniques and which setting to use can vary as market conditions vary. In terms of techniques we give you basic settings. It is up to you to start trading the method and find the type of setting and approaches which will best suit your personal trading needs. Forex trading is a practical skill such as swimming. We do not cover every aspect about Forex trading in this module as this module is only one of a 20+ series of modules on Forex trading. You can not learn to swim from an eBook or video – You need to trade the market and let it teach you how it wants to be traded. So we strongly encourage you to experiment and try all the concepts shown in this module.

More information will be provided on specific items and techniques in other modules e.g. where to exit, support and resistance, turning points etc. If you need more information in the meantime try Google search facilities for YouTube. You can find articles and videos on almost any Forex trading topic.

Where to place stops is a critical trading skill which is often glossed over or only one or 2 approaches are presented in many courses or eBooks. In this eBook we will present a number of possible methods. Please bear in mind that we do have a module called “7 Simple-N-Easy ways to exit profitable deals”. This module focuses on stop loss placement. In Forex trading you have to give the exit the same attention as the entry.

The objective is not to confuse you with many stop loss management techniques but mainly to make you aware of all the factors you need to take into account when selecting the place to locate your stops. Each trader can have a different approach to trading (aggressive or conservative) and can use different frames to trade (Scalping, session trading, day trading, position trading or longer term swing trading). There is therefore not one single place that is 100% correct for the placement of stops. Hopefully this module will help you manage your stops in relation to your own personal trading objectives.

What is a stop? A stop is an order placed at a price level where you want to exit the transactions when it does not work as anticipated, or to lock in profits when the transaction does perform as anticipated. If you have entered a sell transaction your stop will be a buy transaction and Vice Versa. Spreads are always included in buy transactions.

2 WHY ARE STOP LOSS ORDERS IMPORTANT?

Not every trade will be a winner.

If you are in Forex trading and are expecting every trade to be a winner you need to re-assess the Forex trading environment. Most highly successful traders have a 60% + success rate. This means they lose 4 trades out of 10. The trick is to make more on your winners and lose less on your losers. Using a stop loss order can help with reducing losses and increasing gains.

The market can move very quickly.

The market can move very quickly and unexpectedly. This can happen at any time. A stop loss order gives you protection against these events.

When Forex trading you should reduce the amount of emotions involved in managing trades.

Forex trading can be very emotional. Professional traders know that they will burnout very quickly if every trading decision on the entry, exit and stop is made on an emotional basis as the trade is progressing. Deciding on the use of a stop loss order mechanises the decision when to exit the deal before you even enter the transaction. It removes all the stress from the transaction.

The high leverage used in Forex trading.

The high leverage used in Forex trading accounts means that gains are magnified. It also means that loses are magnified. When loses are magnified they can make big holes in your trading account if left to run unattended. The stop loss orders can stop disastrous trades.

Forex trading is a skill and gambling.

A professional Forex Trader knows that his/her trading account is their livelihood. Loose it and you loose your way of making a living. Capital and risk management becomes the biggest skill of a professional trader after the basic skills have been mastered. The stop loss is a critical skill in the process. Trading is a game of probabilities and you need to have a number of key skills to stack these probabilities in your favour.

The stop loss is mechanical

A stop loss allows you to sleep and gives you peace of mind that your entire account is not at risk. Using one prevents you from having to watch the screen for ages and saves on the wear and tear on your eyes. All good things to make you healthy, wealthy and wise.

3 TRADING ZONES

When trading, Forex traders can split the trading charts into buy zones and sell zones based on the specific objectives the trader wishes to achieve. The Buy zone is an area on the selected trading chart where the price can be regarded to have more Buy momentum or buy push than sell momentum or sell push. The opposite applies to the Sell Zone.

A simple example of this is when using a simple moving average and the price is above the moving average it is in a buy zone, and when the price is below the moving average it is in a sell zone. Your stop needs to be on the other side of the barrier dividing the sell zone from the buy zone.

You can use many methods to determine buy or sell zones or price levels.

7 of the most popular of these methods are the topics of this module.

Stops are mainly used as risk management tools – they are there to prevent you from losing large amounts or all of your account on one or a few bad deals that have not worked as expected. The importance of stop sizing is that if your stops are too small you will get stopped out prematurely and the deal will then go in your anticipated direction. If they are too big you will incur loses that are too big in relation to the target you are using. Your cost of trading will be too big. So it is a delicate battle between having stops that are appropriate your trade – Not too big and not too small.

Knowing where to put stops is a skill that is developed over time and gained with experience. It is a dynamic skill as the market behaviour changes over time based on currencies used, time of day traded and technique used. The sooner you develop the skill the better.

The general, definition of an up trend is when the price is making a new high and a new low all the time, in the timeframe that you have chosen to trade. When the trend changes from an up trend to a down trend it will start making lower highs and lower lows

Therefore it seems logical that initially when entering into a buy trend, one would place a stop a few pips below the most recent low. You don't want to be in a buy if the trend starts reversing and making lower lows.

If you would like to use a following stop approach you would move the stop to just below the most recent low once a new high has been established.

This will ensure that you are stopped out when the trend reverses.

Traders like using a moving average as a dynamic support and resistance. When the price is above the moving average, it is a Buy zone and when below, it is in a Sell zone. So rather than using recent highs or lows as positions to put stops they would simply exit a Buy deal when the price closes below the moving average. You would then place your stop just below the moving average in a buy trend. The opposite applies in a sell trend.

4 PRINCIPLES OF WHERE TO PLACE YOUR STOP LOSS.

1 TIME OF DAY AND CURRENCY CONSIDERATIONS: One of the factors to consider when placing your stops is the currency's normal vibration rate or beat. Its volatility. This is essentially the trading range that the currency trades at a particular time of day or on a daily basis. If you for instance know that a currency moves approximately 20 pips every hour, it would be dangerous to use a stop of less than 20 pips. You would effectively be putting your stop in a position where if it has a natural movement of 20 pips you are more likely to be stopped out even if the deal is going in your direction anyway. We call that playing in the traffic with your stop.

The table below shows the hourly vibration rate (volatility) of a number of currencies.

GMT	0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23
GBPJPY	18	25	23	22	18	16	18	23	32	37	39	34	31	30	40	33	36	28	23	25	22	19	19	18
GBPUSD	17	24	26	20	18	15	19	22	33	42	45	40	35	35	43	37	42	35	30	27	24	22	16	13
EURUSD	22	30	33	26	21	17	19	26	35	44	40	38	33	34	45	43	45	40	29	31	27	21	16	14
EURJPY	19	25	25	22	17	16	17	22	29	37	31	29	27	26	35	33	33	27	21	23	20	16	17	16
EURCHF	16	20	20	20	18	15	17	23	35	40	34	31	31	29	36	35	40	35	27	24	21	19	15	12
AUDJPY	15	23	23	20	18	15	16	18	22	25	23	21	19	20	24	25	25	20	17	17	18	17	15	15
AUDUSD	17	27	29	23	23	18	19	22	27	29	29	28	24	26	30	31	34	28	23	24	23	21	17	16
USDCHF	13	17	20	17	14	12	12	18	28	34	28	25	25	25	35	34	36	32	24	23	21	16	13	11
CADJPY	12	17	16	15	13	11	12	14	19	21	20	19	21	22	30	25	26	22	18	18	18	15	16	13
GBPCHF	19	25	25	24	23	19	22	28	43	52	51	47	43	40	49	47	53	48	37	30	28	25	22	18
USDCAD	10	13	16	14	12	10	11	13	20	21	22	21	22	25	31	30	32	26	21	21	18	17	17	12
NZDUSD	15	19	20	17	18	14	14	16	22	23	23	22	21	19	25	25	26	23	17	19	19	18	20	15
USDJPY	10	15	15	13	10	9	10	12	15	16	16	14	13	16	23	18	19	16	13	16	14	11	10	10
EURGBP	9	13	13	11	9	8	9	13	19	21	24	22	18	17	20	19	21	18	15	13	12	10	9	7

The table below gives you the daily beats or volatility of a greater number of currencies. In general the higher the volatility the bigger the stop required.

	Daily Pips
GBPNZD	221.3
GBPCHF	176.1
EURNZD	175.9
EURUSD	167.2
GBPCAD	156.5
GBPUSD	148.2
GBPJPY	138.4
EURCAD	138.3
EURCHF	132.6
EURJPY	130.0
AUDUSD	125.3
EURAUD	121.9
USDCHF	115.5
CADCHF	114.7
AUDCHF	112.8
AUDNZD	102.3
NZDUSD	99.2
AUDJPY	95.8
USDCAD	95.1
CHFJPY	94.2
NZDCHF	93.9
CADJPY	93.4
AUDCAD	91.8
NZDCAD	81.6
NZDJPY	80.1
EURGBP	79.5
USDJPY	72.9
AUDGBP	64.9

2 As you may have seen in our other modules (Turning points) there are 2 approaches which can be used to enter Forex trading transactions. You can enter at more or less the exact point you anticipate the price to turn and make a new trend or you can enter only once you have accumulated many confirmation trading signals confirming your trade entry. In general the later you enter a transaction the bigger your effective stop requirement and the earlier you enter, the smaller your stop requirement. It is all related to how far the price has moved away from the buy or sell zone barrier discussed earlier.

7 Great Simple-N-Easy places to put your STOPS in the Forex market

In the example above, the aggressive entry based on a horizontal resistance bounce required a smaller stop which was placed just above the next layer of resistance. The conservative entry requiring a channel breakout confirmation required a stop double the size of the aggressive approach

3 In general it is best to make the decision where to place your stop based on the time frame traded. It you are using the 5 minute chart to make your trading decisions it is best to use information from the 5 minute chart to determine your stop. Using the 1 minute chart to decide on a stop position may result in a stop that is too small. Using a chart higher than the 5 minute chart may result in stops that are too big. Aggressive traders would use charts of a lower time frame to find aggressive places to enter their stops.

4 Stops should also take the spread into account. A currency cross with a 7pip spread is going to require a larger stop than a currency cross with a 2 pip spread. This is of even more importance if the stop is effectively a buy transaction.

7 Great Simple-N-Easy places to put your STOPS in the Forex market

The chart above used the 1 minute chart to determine the stop required based on a recent high. The chart that follows, used the 5 minute chart to determine the stop position based on its most recent high. Using the 1 minute chart resulted in a stop which was a third of the 5 minute one.

5 7 PLACES WHERE STOPS CAN BE PLACED

1 At the last meaningful high when entering a sell or at the last meaningful low when entering a buy.

This is the most commonly used way of determining a position for a stop.

The general definition of an up trend is when the price is making a new high and a new low all the time, in the timeframe that you have chosen to trade. When the trend changes from an up trend to a down trend it will start making lower highs and lower lows

Therefore it seems logical that initially when entering into a sell trend, one would place a stop a few pips above the most recent high. You don't want to be in a sell if the trend starts reversing and starts making higher highs.

2 Above horizontal resistance when entering a sell or below horizontal support when entering a buy.

When entering an existing trend the last recent high may not be a feasible place to place your stop due the sheer size of the stop. Using recent resistance as in the example is a more economical place to place your stop.

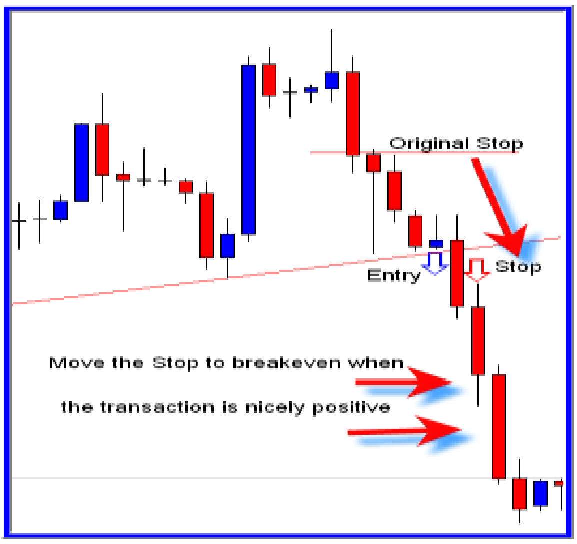
3 Above non horizontal resistance when entering a sell or below non horizontal support when entering a buy

Non horizontal support and resistance lines divide the sell and buy zones. Positioning stops below or above these lines as shown keeps the stops out of the traffic.

4 At the Dot when using the parabolic indicator

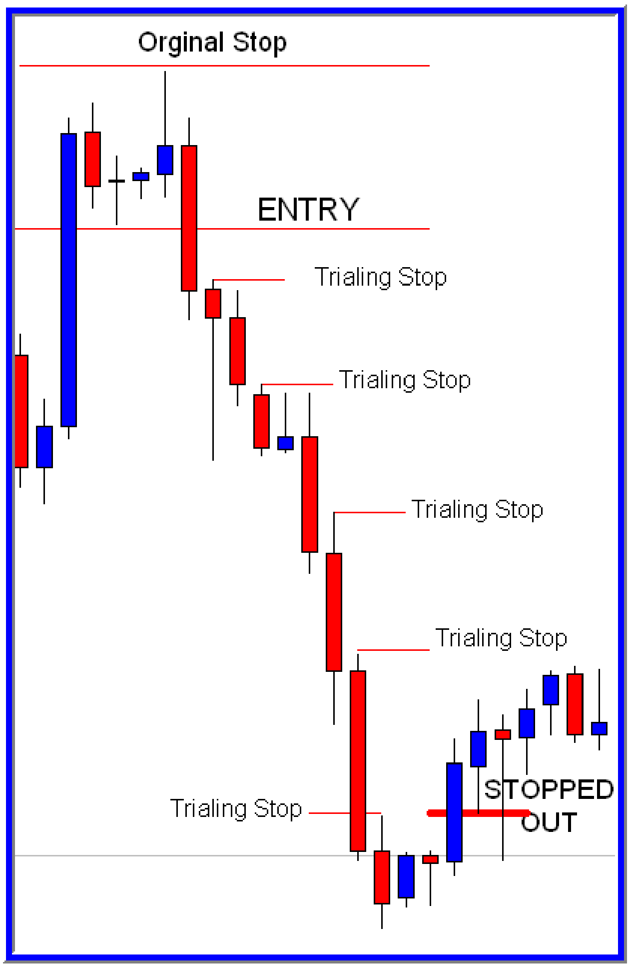
Please view the section of the Parabolic indicator later in this module

5 At breakeven when the price has move nicely positive



In order to create a risk free deal move your stop to breakeven when your transaction is becoming successful.

6 At the last high when the price is trending positively downwards or at the last low when the price is trending positively upwards.



Moving your stop to a recent high locks in profits as the market is trending. Do not use the current forming candle. It is advisable to wait until the next candle closes before moving your stop.

7 Safety / disaster stops

Sometimes you do not want to disclose your stop and use a mental stop instead. In cases like these, it is good to use a disaster or safety stop well away from the price action so that if you forget about your mental stop this stop will prevent a total disaster. Traders often place stops 100 or 200 pips away from current price action for this reason.

Some trading technique exceptions:

The GOOD VIBRATIONS system uses a stop size that is equal to the Target size which is equal to the Vibration rate used. This system can however be improved by using the technical analysis mentioned above.

6 LOT SIZING AND STOP SIZES

Stop sizes can vary considerably based of time frames used to trade, currencies traded, trading techniques used and trading approach adopted. This means that if for example, 1 pip is worth $1, you could be risking $24 on one trade and $37 the next and then $65 on the next. This can create an imbalance in your trading results in that one deal that fails and has a large stop loss can wipe out the benefits of other smaller deals with small stops.

Traders also have a tendency to use smaller stops that they should in an attempt to reduce the impact of losses. This is counter productive as the smaller your stop the greater the chance it will be hit or find itself in the incorrect zone (When in a buy your stop should be in the sell zone)

To allow stops to be placed in the most appropriate positions and to lower the impact of one bad deal with a large stop on the overall trading results, it is often a good idea to always risk the same % of your account on each deal. This gives each deal the same amount of importance and allows you to have stops that are bigger rather than smaller.

To do this, simply decide on a % of your account you wish to risk. Let's say 1%. So if your account is $3784 and you wanted to risk 1% of your account on each trade that would mean that you can risk $37.84 per trade. Using the stops size examples above you would then trade the following lot sizes.

$24 risk allows you to use ($34.84 / $24.00) 1.4 lots for that transaction. If unsuccessful you will lose $24.00 x 1.4 = $33.60

$37 risk allows you to use ($34.84 / $37.00) 0.9 lots for that transaction. If unsuccessful you will lose $37.00 x 0.9 = $33.30

$67 risk allows you to use ($34.84 / $67.00) 0.5 lots for that transaction. If unsuccessful you will lose $67.00 x 0.5 = $33.50

Therefore each transaction will have the same impact on your account although the stop sizes are completely different.

Trading a/c	6200
% Risk	1.0%
Max risk	$ 62.00
Risk (Stop)	60
Lots	0.10

Some traders use a simple excel calculation such as the one shown to calculate the number of lots they will trade for each deal. This makes the trading process more mechanical.

7 TIMES WHEN STOPS MAY NOT WORK

There are also times when your stops will not work. These are when there is a major announcement, volatile times and when there are weekend gaps.

In the case of weekend gaps the broker might close the dealing facilities on a Friday and reopen trading on a Monday morning. If there is an event which has impacted exchange rates, the Friday price might be considerably different from the opening Monday prices. So lets assume that you have placed your stop at say 1.23456 while in a sell transaction and the price has jumped to 1.24567 the broker is likely to treat 1.24567 as the value of your stop as the price has jumped over you stop and the next value that can be used for your stop is 1.24567 instead of 1.23456. This means that you will incur a much bigger loss than anticipated. Traders who want to avoid this from happening close their deals on the Friday before the broker closes their dealing station.

The same phenomena happens when the there is a major announcement. Besides some of the brokers increasing their spreads near these announcements there is also a chance of the price jumping over your stop as it moves up to 50 pips in a second.

At the above time your stop can become useless and it would be better to exit the transaction than rely on a stop. Each broker's practise is different in how they deal with the price jumping over the stop.

Other times when the market is volatile you may encounter situations where the price moves past your stop and your broker treats the next price level after your stop as the price to close the entry. This is general slippage and not something to be overly concerned about but if it occurs excessively consider changing your broker.

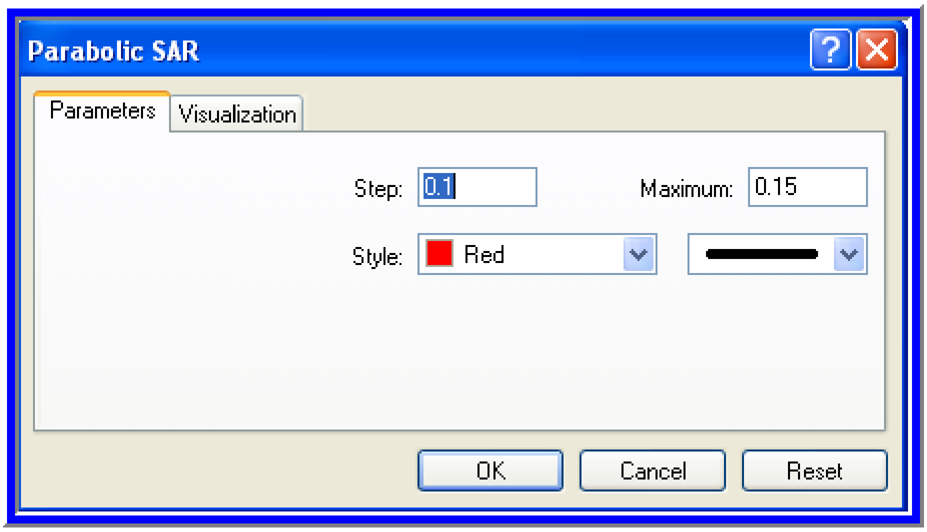
8 USING HEDGING

Some traders use buy orders as their stops when in a sell transaction. This means that instead of your deal being stopped out completely you end up with 2 transactions in opposite directions. A buy and a sell in the same currency at the same time is a hedge. This does nothing for your deals as your loss will remain the same as the price moves. Many experienced traders have used this approach to eventually close both deals in positively by releasing one leg of the hedge at a trend reversal time. This takes great skill and is not recommended.

9 THE PARABOLIC STOP AND REVERSAL INDICATOR (SAR).

This indicator has been designed to give guidance as to where to place your stop and how to move it when the trend continues. It displays a dot at the point on the chart where you should place your stop. It moves the dots closer to the price action as the transaction progresses and will actually skip over to the other side of the price action when the transaction should be reversed. Some traders use this system as a complete trading system.

The settings used for the Parabolic SAR are:-



10 USING AUTOMATED FOLLOWING (TRAILING) STOPS

Following stops are often used to lock in profits when the deals go positive or reduce losses when the deal has gone positive and then reversed. A programmed following stop will automatically move the stop closer to the current price levels as the deal goes positive. Once the stop has been moved closer to the current price level it never move backwards – the result is a constant reduction in stop levels and locking in of gains made.

One important factor when using following or trailing stops is to determine if the following stop is located on your own computer (such as MetaTrader following stops) or located on the Brokers server (e.g. FXCM). If it is located on the Brokers server you do not have a problem. If the following stop is located on your computer, you may have to keep your computer on and connected to the internet during the entire time your deals are active.

The other factor to consider is the method the following stop uses. The most common ones are a pip by pip following stop. This means that the following stop will move every time the price makes a bigger high or a bigger low. The other type of following stop is one which moves in blocks of say 10 to 30 pips and the price has to move in blocks before the stop moves up. For example if the block is 30, the price would have to move to +60 before the stop is moved to +30.

The advantages of following stops are that they are automated and can lock in profits. The disadvantage is that you can be stopped out of good moves if they are set too small. Using the best following stop settings is mainly determined by experience but a following stop which is between 30% and 50% of the target has produced good results.

Trailing Stop (Extracted from Alpari – Help)

Stop Loss is intended for reducing of losses where the symbol price moves in an unprofitable direction. If the position becomes profitable, Stop Loss can be manually shifted to a break-even level. To automate this process, Trailing Stop was created. This tool is especially useful when price changes strongly in the same direction or when it is impossible to watch the market continuously for some reason.

Trailing Stop is always attached to an open position and works in client terminal, not at the server like Stop Loss, for example. To set the trailing stop, one has to execute the open position context menu command of the same name in the "Terminal" window. Then one has to select the desirable value of distance between the Stop Loss level and the current price in the list opened. Only one trailing stop can be set for each open position.

After the above actions have been performed, at incoming of new quotes, the terminal checks whether the open position is profitable. As soon as profit in points becomes equal to or higher than the specified level, command to place the Stop Loss order will be given automatically. The order level is set at the specified distance from the current price. Further, if price changes in the more profitable direction, trailing stop will make the Stop Loss level follow the price automatically, but if profitability of the position falls, the order will not be modified anymore. Thus, the profit of the trade position is fixed automatically. After each automatic Stop Loss order modification, a record will be made in the terminal journal.

Extracted from FXCM help:

Dynamic Trailing Stop

The trailing stop feature allows traders to place a stop loss order, which automatically updates to lock in profit while the market moves in your favor. Trailing stops can be placed by clicking the "**advanced**" button in the "**Create Market Order**," "**Create Entry Order**," or "**Stop Order**" window. Please keep in mind that this feature does not protect against losses.

Trailing stops in the FX Trading Station are dynamic, meaning they continually follow the market as it moves in your favor....even when the market moves only 1/10th of a pip. To set a trailing stop, you must first set a stop. This is the initial level where your stop order will "start from." To make the stop order a trailing stop, simply check the "**Trailing Stop**" box. Then, for every 1/10th of a pip the market moves in your favor, the stop will move the same amount. So, if you bought, your stop will move up when the currency pair rises. If you sold, your stop will move down when the currency pair falls.

Example: You buy EUR/USD at 1.5492(1) and place a 20-pip stop at 1.5472(1). You then check the "**Trailing Stop**" box to activate the trailing stop.

The EUR/USD then rises by 30.2 pips to 1.5522(3) **with every single 0.1 of a pip**, your stop automatically moves up to 1.5502(3), locking in your profits. **The stop will continue to rise if the EUR/USD rises. If the EUR/USD falls, the stop will remain at 1.5502(3). If the EUR/USD falls to 1.5502(3), your stop will execute, and close your trade.**

Re-Cap of Trade
Market Order: **1.5492(1)** with Stop **1.5472(1)**
If Market goes up 30.2 pips on EUR/USD

1.5492(1)
+ 30(2)
1.5522(3) **New Market Price**

Then the new stop price with Dynamic Trade Stop will be:

1.5472(1)
+ 30(2)
1.5502(3) **New Stop Price**

Goal: Although trailing stops do not protect you from occurring losses, stop will automatically move up when the market moves in your favor to lock in profits.

11 TIME BASED STOPS

Many Forex traders use time based stops. An example of this is, if a trader is expecting a long candle move in the market when a particular trading signal occurs and the price just doodles sideways. This means that the entry criteria has not been met and after an amount of time the trader will be able to tell that the deal is not working and will exit the transaction. This is called a time based stop rather than one based on price levels.

Another form of a time based stop is to exit your deal before your broker closes the dealing facilities over a weekend. Exiting just before a major announcement is also a time based stop.

These exits will have to be made on a manual basis.

12 MENTAL STOPS

Some Forex traders do not like entering automatic stops as they believe that if the broker can see their stop the broker will hunt the stop. Although this may appear to happen, the sweeping of the market to clear orders does occur and is seldom your own broker that is doing it. It is being done by major participants in the market.

Using mental stops requires extreme discipline and could result in slippage.

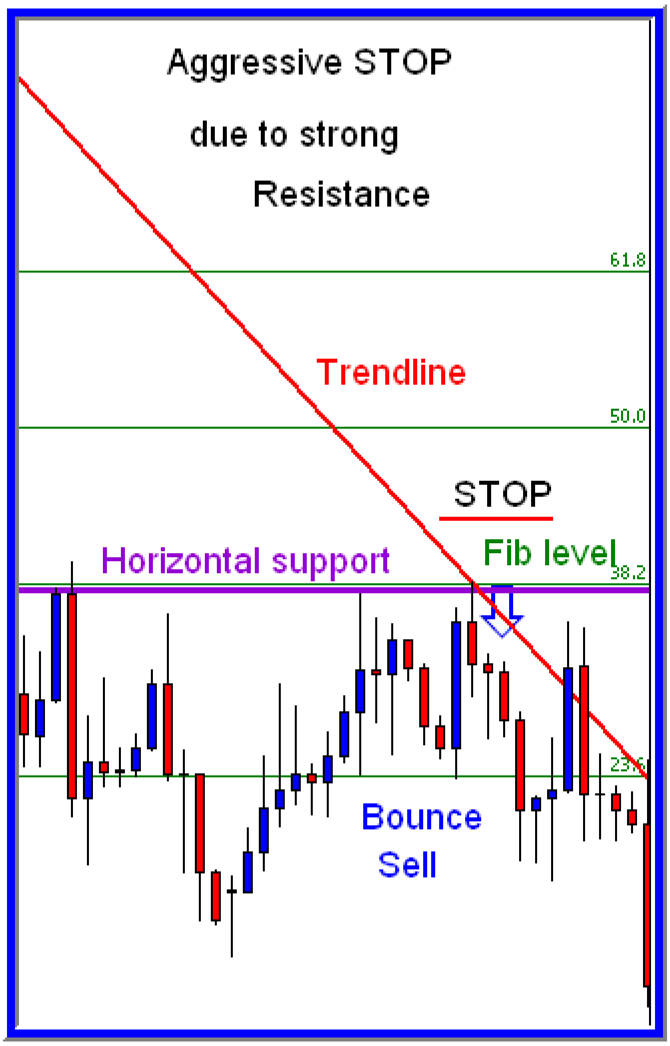
This approach is not generally recommended.

The philosophy is that you are sane and relaxed before a trade is entered into and that state of mind is the best time to decide where the stop should be placed. When the transaction is active you should assume that you have lost this clear and calm state and could become irrational and start having thoughts like “I’ll just give it another 10 or 20 pips – it’s sure to reverse” WARNING: This type of thinking has destroyed many an account.

13 SOME TIPS REGARDING STOPS

Always try to find transactions where the non horizontal resistance or support slopes towards the target. This will increase the effectiveness of the stop as time goes on. The distance between the stop level and the resistance or support will increase with time effectively giving the transaction a bigger stop.

When a number of support and resistance levels cross at the same level it decreases the chance of a breakthrough through the support or resistance and smaller stops can be used.



14 SOME GUIDELINES TOWARDS MINIMUM STOP SIZES

Although initial stop placements are best determined by support and resistance methods the values below offer some guidance as to minimum stop sizes when using different time frames to make trading decisions.

Time frame	Minimum stop sizes
5 Min	15 to 20 pips
15 Min	20 to 25 pips
1 Hour	30 to 40 pips
4 hour	40 to 60 pips
Daily	60 to 80 pips

Please also view the time of day currency vibration rates and daily beats earlier in this module.

15 STOP LOSS HUNTING AND WHAT TO DO ABOUT IT

Many Forex traders do not factor in that when you are using a buy order as a stop (a normal stop for a sell transaction) that the spread needs to be added. If you do not add the spread, you will get stopped out and on the charts the price will never have reached your stop level. That is because charts tend to only show sell prices. Many inexperienced traders think that the broker has hunted their stop and nothing could be further from the truth. So a lot of the myth and paranoia of stop hunting is based on ignorance and a lack of trading experience.

Having said that most reputable brokers are content with the income they make through the spreads, but there are some less reputable brokers who want to make more money. Stop loss hunting is a way they do that. They often have robots or employees who monitor trades. When a position is taken and a stop loss set and the market goes against the position and the price is close to the stop loss, the broker increases the spread manually or programmatically so that the stop loss is hit sooner.

There are a few ways of combating this:-

- Trade with a mental stop so that your stop is not visible to the broker (Not recommended)
- Choose a reputable broker
- Accept the fact that the market does spike naturally
- Put your entries where **others** put their stops.
- Put your entries where **you** would have put your stops

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If you suspect your broker of this practice it would be a good idea run a demo account with your live account. Hopefully the spreads will be the same. You can then enter your deals in both accounts and if you get different results you need to contact your broker or just close your account.

The solution is not to put your stops where most other traders stops are bound to be. It takes skill to determine where traders are most likely to put their stops – with practice this skill can be developed.

The alternative solution is to enter where you would have put your stop. This may sound like a way out solution but it is a way some traders trade. Many traders rely on too much evidence to confirm an entry which causes a delayed entry and a very big stop. If your entry was at the last high or low, your stop would be smaller and safer. Using the techniques shown in the "Simple-N-Easy ways of finding turning points in the Forex Market" these earlier entries are possible and will keep your stops out of the area that most other traders put their stops.

The principle of using smaller stops when entering sooner rather than later was discussed earlier in this module.

16 FOREX SYSTEMS THAT DON'T USE STOPS

There are systems that do not use stops. One of these systems is the No Stop, Hedged, Grid trading system which works very well in a sideways or slowly trending market.

The system rules are simple

1. Decide of a grid size or distance (say 100 pips)
2. Enter a Buy and a sell at the same price level
3. Close the profitable trade once the price has moved by the grid distance
4. Enter into another Buy and sell at that point
5. Continue until all open and closed the transactions added up are positive by 50% to 100% of the grid size or distance. Then close all transactions

Notice there is no stop loss used in this system. You can however use stop losses to mechanise the system.

For more information of the grid system Google "Forex Grid trading" or search for "Forex grid trading" on YouTube.

17 USING THE RETURN ON RISK RATIO TO DETERMINE YOUR STOP LEVEL

The return of risk ratio looks at how much you are risking and compares it with your possible gain (as determined by an anticipated target). So, let's say a realistic target for your trade is 60 pips and you like having a return on risk ratio of 2 to 1, it means you can risk 30 pips as a stop. Many traders use this logic to determine the initial stop placement.

This is a back to front way of determining your stop placement but it is only the first step.

The next step is to then determine if the calculated stop is in a good position as determined by technical analysis. This could be behind support or resistance etc. If so, it is in the correct place.

When the stop is not in an appropriate place as determined by technical analysis, you need to evaluate if the deal is still feasible when you put the stop in a more correct position.

If the stop in the correct position reduces your return on risk ratio by creating say a 1.5 to 1 ratio, you need to decide whether you will accept the higher risk or find another trading opportunity that will meet your risk return ratio requirements.

The chart below illustrates the above example.

The Stop should be at the previous high but the calculated stop is lower.

The trader needs to decide whether to accept the higher risk or not.

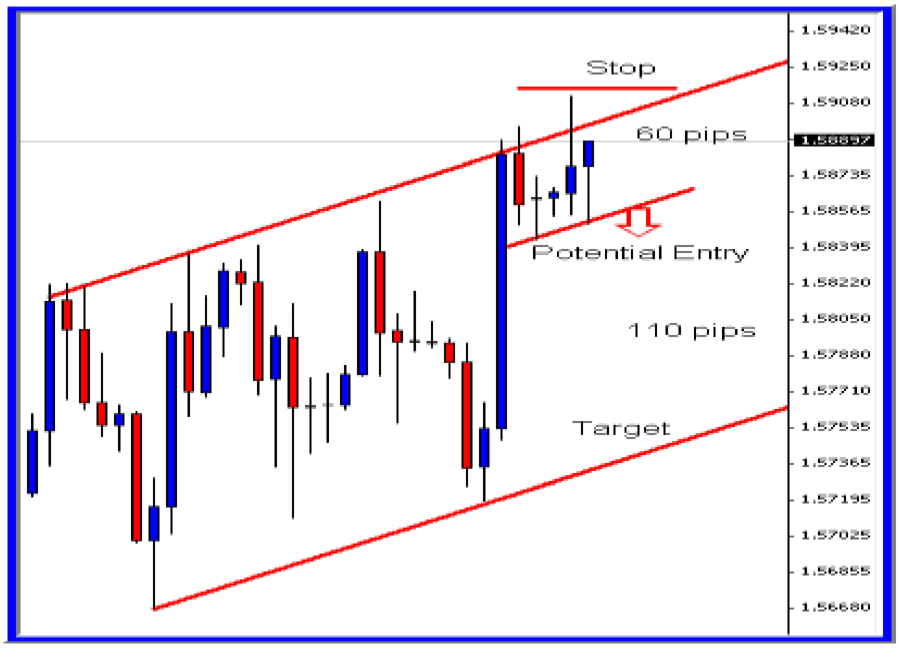
The chart below illustrates another aspect of the above example.

The Stop is at a good, technically determined level as well as one based on a risk return ratio.

The trader can accept the stop level.

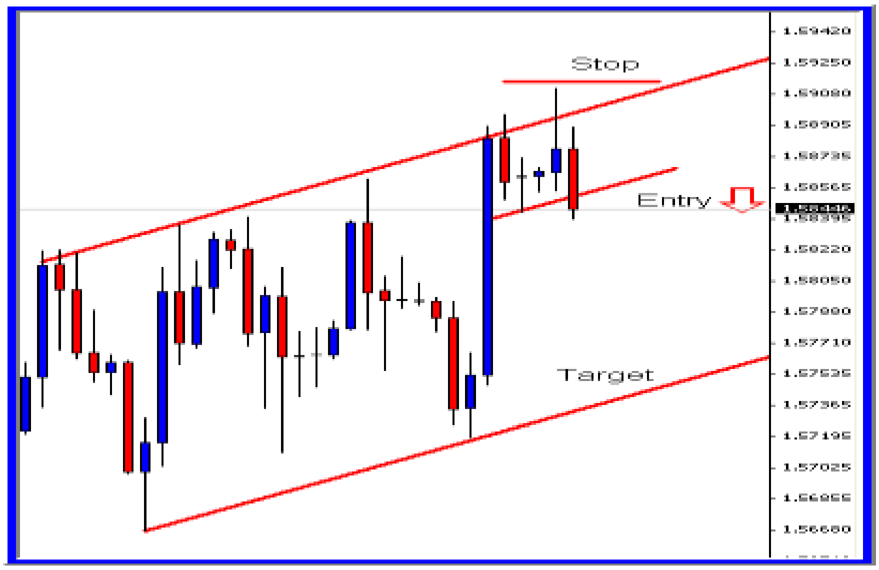
18 A TYPICAL SUCCESSFUL STOP LOSS MANAGED TRANSACTION

1 Before entering a deal determine the potential ENTRY point, the STOP level and a provisional TARGET



2 Calculate the lot sizing based on the stop size (See the lots sizing section in this module)

3 **Enter the deal using the Entry point, Stop size, Target and Lot size determined.**



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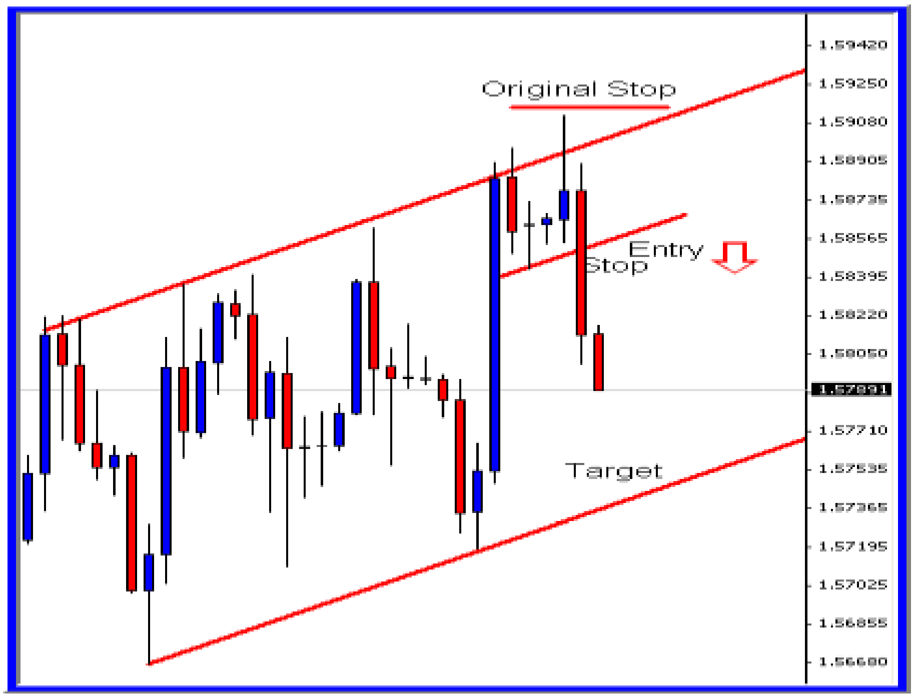
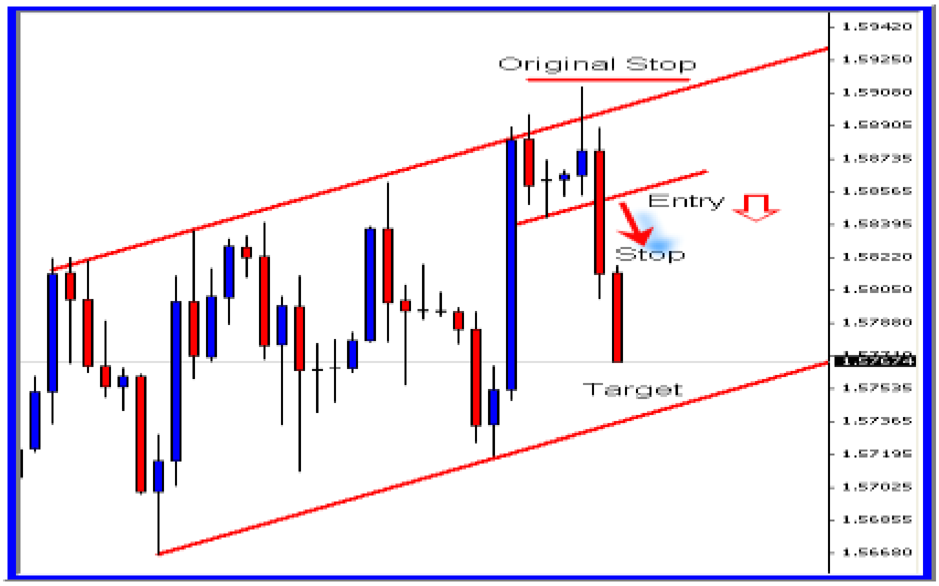
4 **Should the deal reach 30% to 50% of the target, move your stop to breakeven creating a risk free deal.**



5 **Close 30% to 50% of the deal if you like.**

6 **Apply a following stop of 30% to 50% of the target size to the transaction.**



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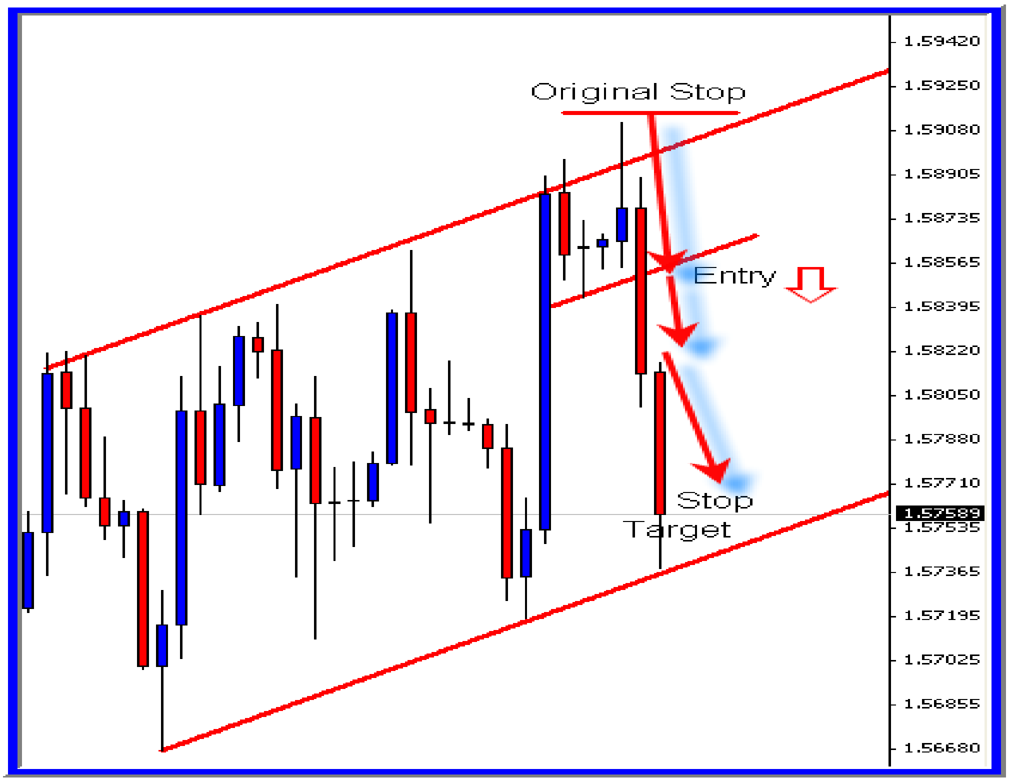
7 When the transaction is close to the target move the stop to a point that will either ensure a good profit, even if the trade retraces, or that the target will be reached. (In this example when the price was 15 pips away from the target the stop was moved to 10 pips behind the price)



This is a good example of dynamic stop loss management.

19 TRADING MISTAKES MADE RELATED TO STOPS

1 Not having an exit strategy at all
2 Not combining your stops with your general risk management and money management plan
3 Using standard stop sizes for all times of day, currencies and market conditions.
4 Not using technical analysis to determine stop levels
5 Increasing the size of your stop
6 Not moving your stop to protect your profits.
7 Not sticking to mental stops
8 Not accepting losses as part of Forex trading
9 Placing stops too close to the price action because you can't afford a big stop
10 Not using a % of Trading Capital for your trading transactions
11 Not giving the transaction enough room to work by having a tight stop
12 Not having a specific reason why the stop is placed where it is.
13 Risking more than you can afford to lose on a trade by aggressive lot sizing.

20 CLOSE ON STOPS

We hope that you have found this module of Stops informative and that it will help you with your forex trading in the future or has confirmed your understanding of stop loss management.

To summarise the main learning points in this stop loss module:-

- Place stops in the opposite zone to the one you are trading or above or below a recent high or low.
- Use stops to protect your gains by moving them to breakeven or by following the price using recent highs or lows or any other method described in this module
- Always use stops

In the end

- good risk management using at least a 2 to 1 return on risk ratio,
- sound money management risking only 1% to 3% of your account,
- a strong disciplined and un-emotional trading psychology
- and selecting high probability trades

will ensure success.

Sound stop loss management as described in this module plays a very big part in a number of the above success factors.

21 SUPPORT

If you have any questions after watching all the videos and reviewing this eBook please contact info@expert4x.com

The Simple-N-Easy Series is brought to you by Expert4x Forex Group. Below are details of this Group's other Forex trading products and services.

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Recommendations that will change your life

EXPERT4X Group Offering

The Expert4x Group has grown over the last few years and offers a very wide range of Forex product and services to online Forex Traders. Below is a summary of these services and links to more information. You will find information on:- Forex trading techniques, Systems, Courses, Live Trading Webinars, Alerts services, Indicators, Support webinars, Free courses, linked account information, **our EXPERT4X Traders Club**, Mentorship and special deals where you can get most of these services for FREE.

Please use the links provided for more detailed information about these services. Our web pages are quite comprehensive so should supply all the details and information you require. If you still have any questions please contact us at info@expert4x.com.

Club benefits

	Experts4x traders CLUB	Website Links	Brief Description
X	Immediate entitlements	Club 1st Month	Benefits enjoyed by Expert4x in their 1st month X

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Forex trading Techniques & Courses	Website Links	Brief Description
Long Candle Forex Trading	LC Forex	Forex Course - Psychology, Money Management & 12 Forex techniques are shown
Good Vibrations	GV Forex	Session trading technique use the rhythm of the market
Viennese Waltz	VW Forex	Time of day Forex trading patterns
WATO	WATO Forex	Multi currency, Multi timeframe swing and scalping
Magic MA	Magic MA	Way of making money using a moving Average
Magic Momentum	Magic Mom	Ways of making money using the markets momentum
MT4 Basic Charting and dealing	MT4 Basic	A basic trading and dealing skill course

X

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	LIVE Trading Webinars	Website Links	Brief Description
X	Daily US Analysis Webinars	US LIVE	45 Live trading webinar finding 24 hr set and forget trades
X	Daily European Webinars	Euro LIVE	45 Live trading webinar finding 24 hr set and forget trades
X	Daily Asian Webinars	Asian LIVE	45 Live trading webinar finding 24 hr set and forget trades
X	Good Vibrations	GV LIVE	2 to 3 hour Live trading sessions using the GV method

	Daily Alert services	Website Links	Brief Description
X	Daily US Alerts	US Alerts	24hr Set and Forget emailed alerts daily
X	Daily Euro Alerts	Euro Alerts	24hr Set and Forget emailed alerts daily
X	Daily Asian Alerts	Asian Alerts	24hr Set and Forget emailed alerts daily

Indicators and EA's	Website Links	Brief Description
4x- edge indicator	4x-Edge	This indicator gives the relative strength of all currencies
Grid trading EA	Grid EA	This EA automated the grid trading entries and exits

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Free courses	Website Links	Brief Description
Maximum Lot course	Max Lot	Double your trading account in 3 trades using this method
Exact tool	Exact Tool	The tool gives you exact entry and exit values
Free videos	Free Videos	Access free Forex trading videos on any topic
Become a Forex Investor	Invest in Forex	Learn how you can INVEST in great Forex traders

Support Webinars	Website Links	Brief Description
Long Candle Forex Trading	LC Forex	Support webinars for purchasers of Expert4x methods
Good Vibrations	GV Forex	Support webinars for purchasers of Expert4x methods
Viennese Waltz	VW Forex	Support webinars for purchasers of Expert4x methods
WATO	WATO Forex	Support webinars for purchasers of Expert4x methods
GRID Trading	Grid Forex	Support webinars for purchasers of Expert4x methods

Mentorship services	Website Links	Brief Description
One on One mentorship services	1on1 Forex	Personal webinar guidance from experienced traders

Linked Forex Accounts	Website Links	Brief Description
Linked Accounts to Forex Traders	Linked Trading	Linked you Forex account to successful Forex Traders

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Special Bundle deals	Website Links	Brief Description
All Alerts and Webinars	Free Alerts	Get all the Expert4x Alerts and Live Trading webinars FREE
Immediate access to All Club benefits	Coming soon	Get all the CLUB benefits FREE immediately
Ebook Packages	Ebook Bundles	Get Expert4x eBooks at discounted prices.

Group Websites	Website Links	Brief Description
Expert4x	Expert4x	Group website
Forex Trading Alerts	Marketing site	Marketing site for the Groups products and services
Hedged Forex	Hedged Forex	Site used for Hedged Forex services such as the GRID
Expert4x Blog	Expert4x Blog	Forex trading Blog
Long Candle Forex	Long Candle	Site used for Long Candle Forex
Forex Trading Video	Forex Videos	Forex Video site
Forex edge	4x Edge	Website for the Forex edge indicator

FaceBook & Twitter	Website Links	Brief Description
Twitter	Twitter	The Expert4x account on twitter is Expert4x1
Expert4x on FaceBook	FaceBook	Registered under Alexander du Plooy in FaceBook the Expert4x FaceBook pages and groups include closed support groups for all products and open Forex discussion groups - Search on Expert4x