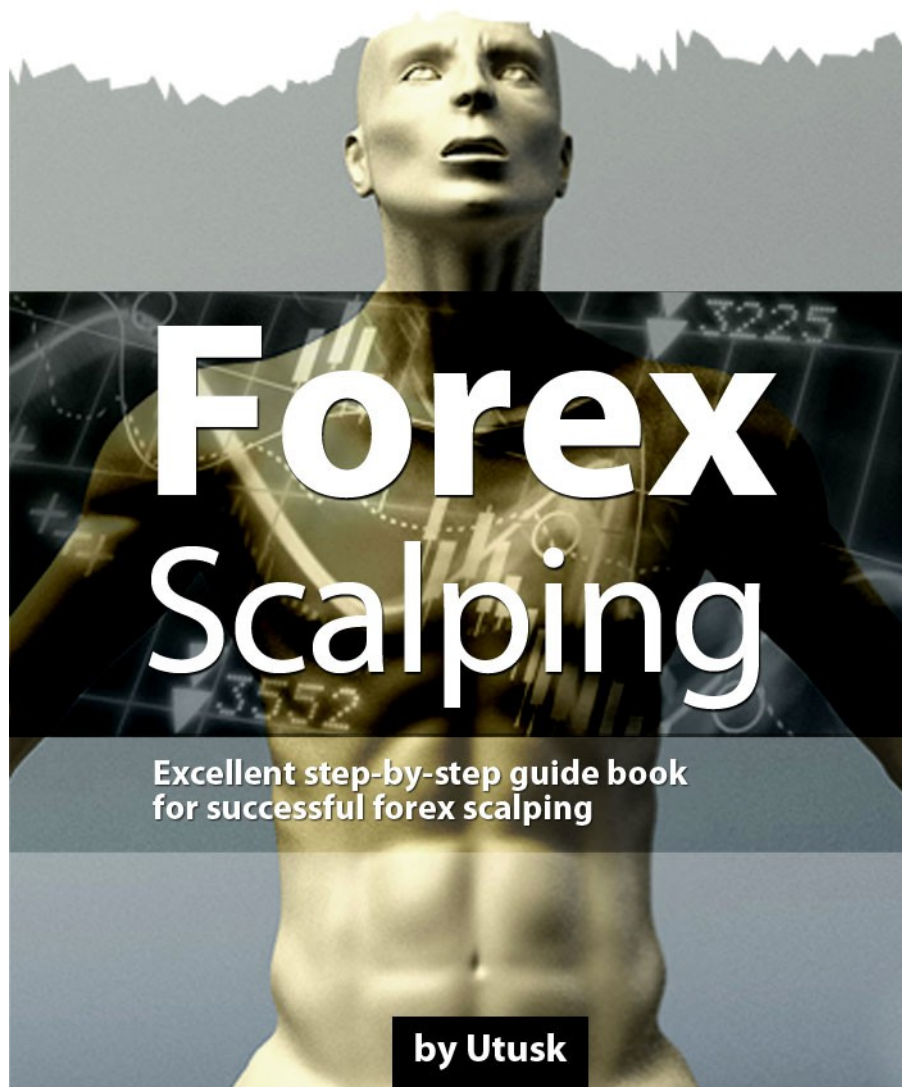


JUST A LITTLE BIBLE FOR FOREX BEGINNERS



Forex scalping by Utusk

My first book is "Forex Scalping". It's almost a year now since I started to test scalping method at the same time as I was also trading using position trading system. The results were amazing. My deposit was increasing by an average of 100% per month within the year.

Utusk.

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Scalping

When I started to trade on Forex, that was 8 years ago, I just like many others tried to grab a few pips on the market and leave. I often succeeded but in the end I always ended up suffering losses on the long run. At times I even had to drop all the money on my account. I had no clue at the time that what I was doing is scalping, and unfortunately I neither had enough knowledge nor experience to do scalping on the market successfully back then.

Afterwards I became a positional trader. I opened positions for a few days trying to gain over a 100 pips of profit. In most cases I succeeded and I kept doing so for many years.

However, everything changed when I met one of the traders who used just one strategy for many years, and that was the scalping strategy. His profits were incredibly high, much higher than mine within similar time terms and account sizes of his broker's.

So I once asked him to explain his strategy and tell me about the key points helping him trade.

We agreed upon a certain day, and when the day came he started to show me his trading and explain me why he was buying or selling at a certain moment of time. We spent 3 days like that, and I was watching him trade all this time.

I was very surprised when I finally got how he was trading. I don't want to exaggerate, but I'd call his system of trading really primitive. This system doesn't require either indicators or oscillators and there's no need revising lots of information on the current economy condition. It's very simple.

After 3 days of observing I decided to try out this strategy on my own. The result was more than impressive. In less than 3 weeks I almost tripled my account. And that when I wasn't even spending much time trading at all, no more than 4 hours per day.

Scalping, its advantages and disadvantages

First of all let's examine the strategy named scalping, its advantages and disadvantages. And we'll compare it with the strategy named position trading.

The essence of Scalping strategy is making a big number of deals during one day within small time frames with having smaller profits, literally several pips.

In position trading a trader takes a long time preparing for the deal and making thorough analysis before stepping into the trade. It's enough for a scalper to only have one signal to enter the market, get a profit and in several seconds leave it. Unlike position traders scalpers don't keep their open positions for several hours or days. A deal stays open for only several minutes or even seconds. But such deals take place many times within the day.

Scalping in its essence is very similar to collecting of small coins. But there are a lot of such coins. While position trader tries to take a large sum scalpers take small ones but often.

What's really remarkable is that in the end of a certain term scalper's amount of profit exceeds that of a position trader since usual scalper's profit is from 5 to 10% of deposit in one trading day.

Advantages of scalping

I find that scalping has more advantages than disadvantaged. And doubtlessly my personal opinion is that it's more profitable and attractive than position trading. I'd name the following advantages:

1. Profits are larger than in position trading.
2. The beginning of powerful trend shouldn't be waited upon, here it's just unnecessary.
3. Analytical forecasts are not important any more.
4. Finishing my trading day I close all the open positions, sum up my profits and go home. Once leaving I forget about the market, I don't care what will happen later on and I don't think whether the trend will go against me. I sleep soundly.

Disadvantages of scalping

Just like any trading system scalping has its disadvantages; they are very serious ones so please read about them carefully.

1. A 4 hours' scalping causes a great emotional tension hence at the end of the trading day one can feel exhausted.
2. Scalping can't stand mistakes. A person who wants to do it should be absolutely cold-blooded and capable of evaluating the situation instantly.

Concerning second issue I'd like to point out the difference between scalping and position trading.

There's a rule of risk management in position trading. It's common not to involve over 10% of capital at the same time. In scalping this rule isn't used, there are some cases in which over 50% of capital or even more is involved. And it requires constant attention, capacity of quick decision making and leaving the market. Mistakes aren't affordable.

The main indicators for entering the market

The key factor in scalping is the ability to define levels of support and resistance correctly. The whole trading system is based on that. Observations from my personal practice show that in over 90% of cases currency rebounds from the levels of support and resistance. Sometimes by not too much, sometimes by just tiny bits, but that's enough to make some money.

However, you may ask what its difference from position trading is? Position traders also define levels of support and resistance, don't they?

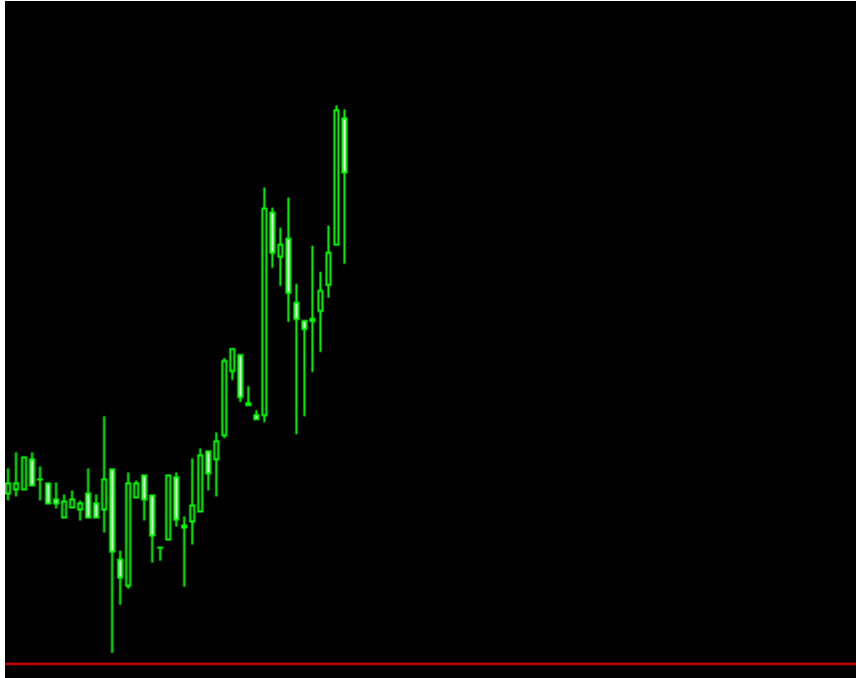
My answer will be simple, the differences are many. The trader who defines levels of support and resistance and the trend channel should also have the minimum of two points for building up his strong levels. At the same time levels should be on time frames of no lower than 1H. The scalper doesn't need that. He can even find levels even on 1M to trade on. Scalper isn't interested in a big bounce, he needs just a little. While situation on the market is always changing, the trends are breaking bringing losses to trader; scalper is always taking a small bounce.

The most important issue in scalping strategy is the ability to quickly determine levels of support and resistance, and that's what the next chapter will be about.

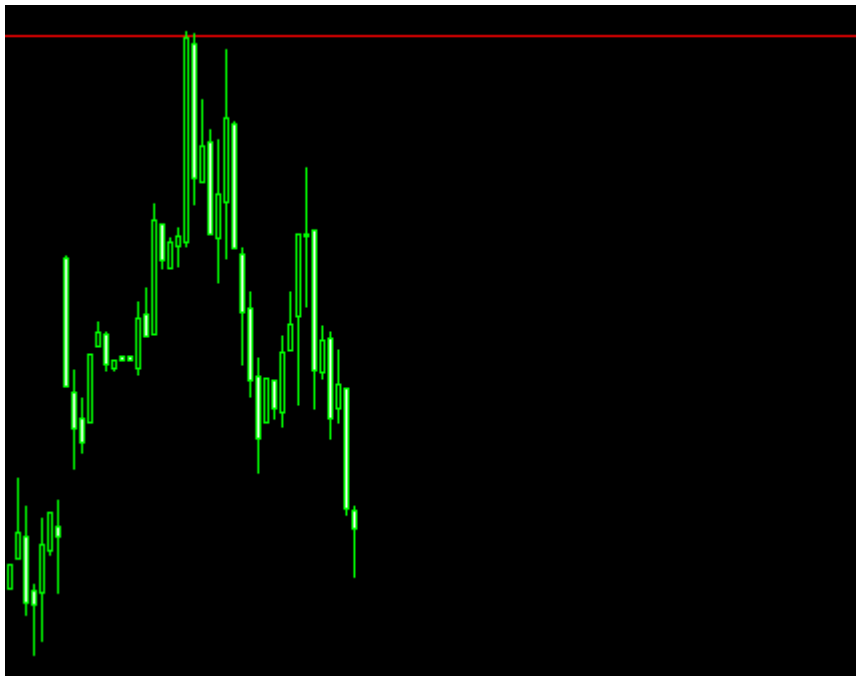
Levels of support and resistance

Remember the following. In scalping strategy it's very important to correctly determine levels of support and resistance on different time frames from 1M to 1H.

Then according classical technical analysis:



This is a 5M time frame and the level of support has been clearly formed here.

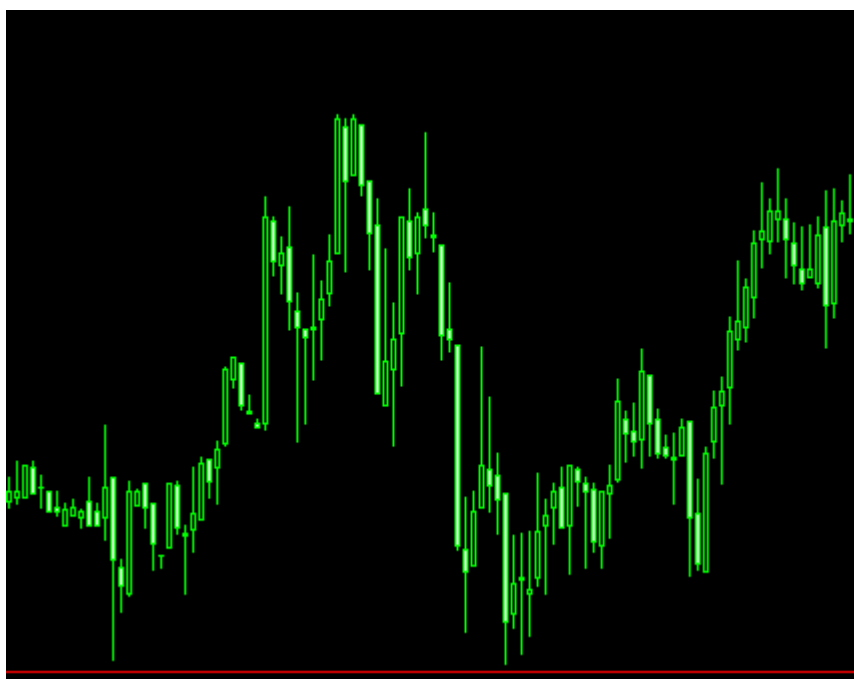
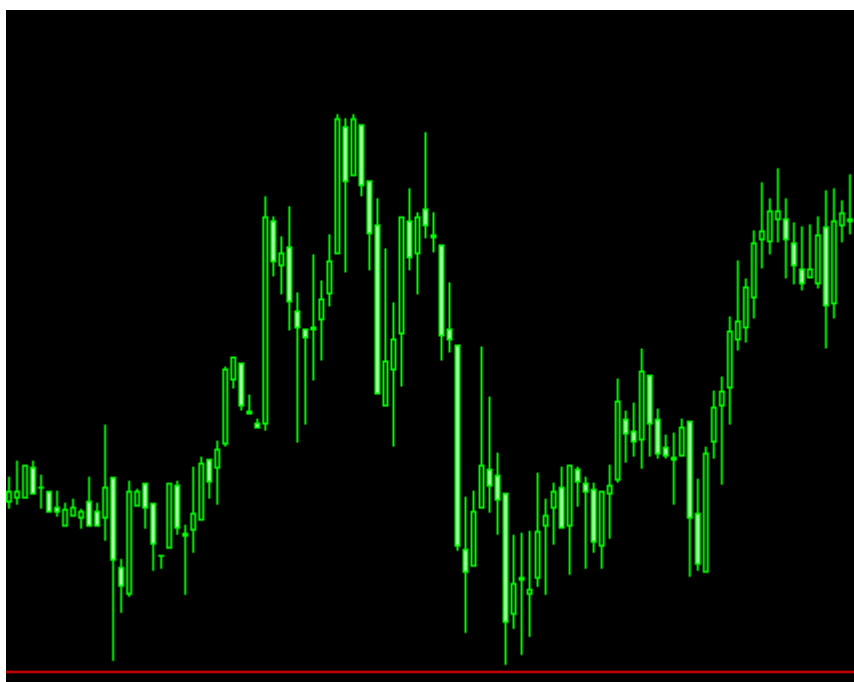


This is a 5M time frame and the level of resistance has been clearly formed here.

On these two diagrams you can clearly see the forming of higher and lower levels. Don't pay attention to the fact it's a 5M time frame. Like I mentioned before it's very important to determine levels on any time frames, and there's almost no difference between them. The larger the time

frame is the bigger amount of money we enter the market with, but I'll explain this later. Now the main goal is to show how to define the levels of support and resistance correctly.

These two graphs I provided above have the most typical picture on the diagram, but for us as scalpers they are very interesting and I'll tell you why.



And these two are still the same pictures but after some time. Here we see that currency the pair returned to the pointed out levels of support and resistance and then rebounded from them.

Question? Where do we make the money? The answer is obvious; definitely when approaching the levels which we drew, accordingly we will buy or sell.

On the diagram with the level of resistance we can see the currency that touched the level of resistance and rebounded from it in a short term. Here sale could be done at least twice.

The way to define the levels

As I mentioned levels of support and resistance have the key meaning in scalping. Here I want to describe my observations on the method of their defining.

Initially according to the definition, level is the price which there was a bounce from to either one or another side. According to the classical technical analysis and my personal observations the probability of the next bounce exceeds 90%.

Here I want to make a short digression and to compare the level in scalping and the level in position trading once again.

In position trading traders need the price to not bounce from the level by 20-30 pips but rather go in the right direction at least by 100. But the number of such bounces is much smaller than the 90% I had mentioned. The price jumps by 20 pips and then goes to the level and then jumps again by 15 pips, and then it can bounce badly or break through the level.

Our goal as that of every scalper is to collect all these bounces and put them into our account.

So let's go back to the levels and see how to define them.

Levels can be defined by several criteria and on different time frames. But you'll always find the similarity in their defining.

Defining of levels on 30M, 1H

From my point of view on 30M and 1H to define trade levels is the easiest, and the last highest and the lowest points on diagram are used for that. Currency dangles between these points very often. We just have to draw support and resistance lines and wait till the currency pair directs either to one or another level. It always seemed to me that in this position currency pair was trapped, and it didn't have the way out, and that at one time or the other it would go either up or down. If currency is above the highest point or under the lowest point you mark it and just wait till currency pair approaches it.



Defining of trade levels on 30M and 1H

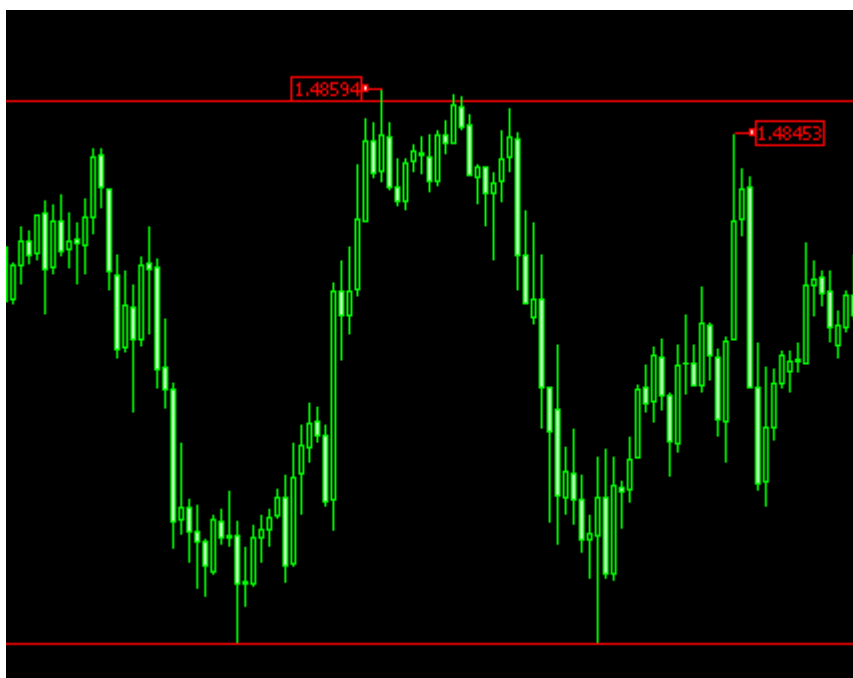
Defining of levels on 1M 5M

On 1M 5M trade levels are marked in a slightly different way. Here the highest and the lowest points reached during 3-4 hours are marked and trade levels are stated there. Trade operations will be carried out upon reaching these levels.

The rule of entering

In reaching trade levels on 1M 5M you just buy or sell, it just depends on whether the price approaches the support or the resistance level but with 30M, 1H it's a bit different. The point is that they are more powerful levels and they are visible to many people, that's why people enter the market earlier than the price had time to approach close to the current level, and the bounce appears too soon.

That's why I make deals even when the price doesn't approach close to the current level. And very often I take my 5-20 pips of profit. But sometimes the price goes to indicated level and then I open up with a double lot again.



The price didn't reach the indicated level on 14 pips.

Volume of entering the market

Just like defining of trade levels, volume of entering the deal in scalping is also a very important factor. Though everything is not so complicated here, it is very important to know and understand it.

As you know the bigger volume we have while entering the market the more profit each earned pip gives to us. But each unprofitable pip gives us losses too. As I mentioned above a different method of capital management is used in scalping because both the profits and the losses can be very high.

Our goal is to maximize the profit and to minimize the loss. In that case we should enter the market with a big volume but only in cases when we have a great confidence that the bounce will take place.

We can get such confidence on 30M and 1H. All the above mentioned can be described as a small theorem.

The larger the time frame is the bigger the volume is, the smaller the time frame is the smaller the volume is.

Anyway we are interested in getting specific figures in other words specific volumes within a specific time frame.

For instance, in case of a trade deposit of 5K I will make deals in my trading system with following volumes:

On the 1M, 5M- from 10 to 20% of the deposit will be used in the deals.

On the 30M, 1H-from 20 to 50% of the deposit will be used in the deals.

What should be done if the currency pair goes against us

I have already mentioned that there are high risks in scalping. In order to minimize them one shouldn't ever feel relaxed.

Unlike a position trader the scalper can't afford big losses because trading volume here is much higher than in position trading, and if unprofitable deals won't be closed promptly this can result in losing quite a bit of money.

Any unprofitable positions that result in a loss of over 25 pips should be closed except for those that were opened with the volume of no more than 10% of deposit. The small volume positions which were opened with the volume up to 10% should be closed only if their losses reach the amount of 50 pips.

Aiming on profiting

Scalpers take small profits but very often. Sometimes scalpers can even make up to several hundreds of trading operations per day.

Based on this we won't chase the big profit, the main goal for us is to get one often. In my scalping trading strategy my usual profits are from 5 to 20 pips and they depend on the currency behavior.

If upon reaching the certain level a quick bounce takes place I wait for a profit of 20 pips, and if the bounce is slow I prefer to fix it at 5 pips.

Currency behavior upon reaching the levels

On reaching the level of support or resistance currency can behave in different ways. Sometimes a quick bounce can be seen; sometimes slight movement takes place directly around the indicated level.

As I mentioned in the previous chapter we know how to act on either one or the other level, but there are also some interesting facts.

Wait a while after the bounce and closing the position, don't enter the market, the bounce can be quite considerable. Since currency is anyway on the certain trend, we have to wait till it approaches a certain limit.

Very often after a bounce the currency approaches the level from which it rebounded again, this is the good reason to repeat the deal. This can happen several times at a row and we have to buy and sell each time depending on whether it's the support or the resistance level that the currency pair approaches.

Very important scalping factors

Scalping is an easy strategy, but there are some key moments which a scalper must remember by heart and never forget.

1. ALWAYS look through the economic events calendar before trading. When news appears it can make a big influence on the flow of the currency pairs you trade, and in the case of strong fluctuations bounce will not happen even with the very strong trade levels, they are just broken down as if they never existed.
2. Emotions are a negative thing for both the position trader and the scalper. But for the scalper they are even more dangerous than for the position trader as his trade is made with large volumes. Never try to out-argue the market or you'll be punished by losing money.
3. Never start the unprofitable positions; it can be a crucial mistake as here it's very important to close loser positions promptly. Don't worry about the fact, a big number of deals are made daily and your profit will exceed your losses. Make a summary at the end of the working day.
4. 4. If you open a trade position don't be away from your computer for any reasons, situation can change very quickly. Be always ready for prompt decision making. You'll need a good reaction.

A few pieces of advice as to choosing a broker

To do scalping successfully it takes loyal broker's conditions besides the initial knowledge of the field.

1. Narrow spreads: 0,8 – 1,5 pips on EUR/USD, 0,8 – 2,5 pips on GBP/USD
2. High speed of trade commands execution.

Not all brokers favor scalpers, and some of them even prevent a scalper from working. Some brokers just don't let scalpers fix their received profit. Avoid them. Without a quick trading execution trade scalping won't be successful.