

Blessing and Money Management

A wise man once said, “The safest way to trade is to not trade at all”. That being said, trading in any market, especially FOREX is very risky. One way or another, whether or not we are new, we are reading this because we want to make money. Well, Blessing is an Expert Advisor designed to help us automate our trading and unlike the previous quote, trading involves risk.

How much does someone risk to trade? That’s a great question and I’m still searching for the perfect amount of money to trade. Whether we trade a lot or a little, if we trade FOREX, dangerous waters are right around the corner if we risk more than we should. This small talking-paper will discuss a philosophy I’ve adopted and put into practice.

I won’t discuss the finer details of Blessing as I am not the designer or writer of this Expert Advisor. I did add this money management feature to Blessing to help us determine how many lots we *should* be trading with a Martingale Hedge Expert Advisor. Blessing trades in a Grid fashion using a Martingale Hedge routine. In addition, I have added an equity protection routine to Blessing to make it a more viable and safe Martingale Hedge trader. I want to discuss why I have come up with the money management routine I use on all Martingale Hedge routines.

First and foremost, how much should we trade? Should we trade 1% or 10%? How about 2% to 3% of our account balance or available equity? Everyone seems to have the right answer. Here is the simple and safe philosophy I use: I simply move the decimal place to the left three times for a standard account and two times for a micro account. What does that give us? That gives us the total “contract” we *should* have in open trades on our account. That amount is highest we should be trading. If we traded manually, one trade for this amount is it. If we wanted to trade two manual trades we take that figure, divide by 2 and trade those two trades at that new amount. Our contract with our broker is the total of those two trades.

What is a contract? It is simply the total number of trades we have out on our account. That is our contract with our broker. Here is what that looks like:

Contract Assumption in \$	Standard Account Contracts	Mini/Micro Account Contracts
1,000,000	100	-
500,000	50	-
100,000	10	-
50,000	5	50
10,000	.1	10
5,000	.5	5
1,000	.1	1
500	.05	.5
100	.01	.1
50	-	.05
10	-	.01

Using this chart will help us in our trading. On our \$5,000 account, we shouldn't have any more than .5 standard contracts or 5 mini contracts (micro account) out on trades. This is safe trading, this is smart trading and it's the approach I take for trading my money. It doesn't seem like a lot but it can make me money *over time*. If we trade this philosophy on a Martingale Hedge Expert Advisor, we have a more complicated issue to contend with.

A Martingale Hedge is a way of "doubling up to catch up". It isn't exactly like that but it does use a multiplier to calculate its next trade based on the current trade. Blessing uses this trading method. It uses many levels and total profit calculation to make us money. If we let it run, it has the potential of completely wiping out our account. How do we trade Blessing using the previous contract strategy and protect ourselves from complete disaster? We first must understand how the hedge works then we protect our account.

First and foremost, we must make an assumption. Blessing continues to take out trades using its levels and in rare cases, it could trade up to 12 trades (or more) at any one time. But Blessing rarely goes past 7 levels and most of the time, it trades 4 to 5 levels. It only goes higher if the market isn't helping out Blessing's trading strategy. This is how accounts are blown up. For the next section I will assume, at worst, Blessing goes to 7 levels each and every time. A small percentage of the time it may go higher and if it decides to run away, I will use my equity protection feature to simply stop trading. I'll provide more on equity protection in a minute.

With an assumption of 7 levels, we can actually calculate what Blessing will do to us, our trades and more importantly, how many trades we have out (contract). Here's the math:

$x = \text{lot}$

$y = \text{Multiplier (amount you are willing to increase each new trade)}$

Level 1 = x

Level 2 = xy

Level 3 = xy^2

Level 4 = xy^3

Level 5 = xy^4

Level 6 = xy^5

Level 7 = xy^6

$$\text{Contract} = x + xy + xy^2 + xy^3 + xy^4 + xy^5 + xy^6$$

Using simple algebra here's the formula for finding the number of base lots to trade on a standard account:

$$\text{Contracts} = \frac{\text{Account Balance} * (.0001)}{(.001)} \quad \begin{matrix} \text{(the safe trading method selection, standard)} \\ \text{(used if a micro account)} \end{matrix}$$

$$\text{Factor} = (y + y^2 + y^3 + y^4 + y^5 + y^6) \quad \text{(the 7 level assumption)}$$

$$\mathbf{x = \text{Contracts} / (1 + \text{Factor})} \quad \text{(equation for base number of lots)}$$

It's simple to see the elegance of the math and how we can get the base lots knowing Blessing might run the levels up to and past 7. Our hedge multiplier has a HUGE affect on our Martingale Hedge trading strategy!

Doing the math on, say, a \$5,000 account will give us the following:

Multiplier of 1.4

Level 1 = .02

Level 2 = .03

Level 3 = .04

Level 5 = .05

Level 6 = .08

Level 7 = .11

Level 8 = .15

This is a total of .48 trades out on contract which is less than our .5 from our table above. We can see if Blessing decided to go higher, the next level of lot would be a factor of 1.4 greater and so on. If Blessing did this and went all the way up to 12 levels, there's a possibility of a huge negative P/L and probably, equity protection would be hit (depends on your tolerance). We need to know this math to trade smarter and safer with Blessing. All this assumed a standard account. We can simply multiply these numbers by 10 (if our account size was \$500, the numbers above would be divided by 10) for a micro account and we can see that we're still within our parameters for safe trading. Intuitively, we should have at least \$500 on a Micro account to trade Blessing safely.

Now, all of us who have traded demo accounts for a while have seen a demo blow up. Why is that? Because Martingale Trading is inherently dangerous for the reasons we read about earlier and when we are new to this strategy, we want to see bigger gains. So, on our \$500 account, we put in a micro lot of .5 lots. We can see now how dangerous this thinking can be. Maybe we only have \$50 on a micro account. Doing the math, Blessing will blow that account in short order because the smallest micro lot contract we should be trading is .05. The trade levels with a Martingale Hedge will kill this account fast. If we put Blessing on many charts on a \$500 account, Blessing will kill it. We simply must do the math to see. But what if we were all smart and actually used the smallest lot available manually, .01. Blessing could still run away because of the market so we need equity protection.

Equity protection was developed to prevent a total blowout of our account. Knowing what we now know about Blessing and "the hedge", we can see if Blessing started taking out higher levels of trades, our P/L would continue to go negative. That's good and bad. Blessing needs room to breathe and huge P/Ls are common to Martingale Hedge strategies but how much is too much? That's entirely a personal choice. Blessing needs at least 50% of our account balance before we should consider shutting it down. This new feature is programmed into Blessing.

If we set 50%, Blessing will use up to 50% of our account balance, if it needs to continue to trade. If it goes beyond that, it closes all trades and stops trading if that loss takes us below the account balance we had started with initially. That feature is added into the initial menu setting as well. Here's an example:

Our initial account Balance is \$500.

Blessing starts to hedge big but it's been working great so our balance is up to \$800.

Blessing hits a -\$400 P/L and closes all trades because we set our protection at 50%

Our account balance is now \$400, below \$500 so Blessing stops trading.

If our account balance were up to \$1001, the loss would have been -\$500.

Blessing would have continued trading because our balance is \$501.

Equity protection is simply a must with this trading routine. Can we trade Blessing on multiple pairs? Sure, if our account balance is multiplied by the number of pairs we trade. This is the safest way to trade! So, the minimum amount we need on a 4 pair Blessing account (mini/micro) would be \$2000. On a standard account, a 4 pair Blessing would need \$20,000. Enable the feature of "pair set" in Blessing and we've just told Blessing we are trading it on more than one pair. If we had a \$2000 micro account, money management would tell us trade no more than 2 contracts. If we told Blessing we were trading 4 pairs, it would take that 2 contracts and divide by 4 then use the .5 contract as its number to go into the lot determination routine. As we might have guessed, the total base lot would be .02 lots for each of the 4 pairs in this case. If we didn't identify to Blessing that we were trading 4 pairs (left at one), the base lot for all four pairs would be .08 lots. That could destroy our balance. Or, we could simply trade manually with .01 or .02 base lots per pair. We always have this option. Just simply do the math and follow the safe trading practice. Enabling money management correctly will do the work for us.

Blessing now has these features programmed. If we turn money management on, make sure the account type is set, standard or micro. As we can see, the math is simple and money management will increase our base lot size as we get a higher balance. Make sure equity protection is enabled. 50% is great. Yes, we may lose money but then why are we trading in the first place? We risk money to make money.

I certainly hope this didn't insult anyone's intelligence or sensibilities. I hope I provided insight on basic money management principles using "the hedge". I programmed Blessing to trade using these money management and equity protection concepts. If we want to trade another way, simply turn those features off!

Happy Trading!

respectfully,

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