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Recommendations that will change your life

The Maximum Lot

Forex RISK management
and LOT SIZING method

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1   INTRODUCTION

Forex traders have quite a challenge:

1. They have to find a **trading system** that they are comfortable with and that gives them a consistent success rate.
2. The have to apply good **risk control** to make sure that their trading system does not expose them to big losses
3. They have to apply sound **money management** that will ensure that they do not give back a months gains in one bad days trading and yet make good gains when the market is favourable.
4. They have to have a **trading psychology** which allows them to do the above steps consistently and with strong discipline every minute that they trade

The course is mainly about developing a mechanical approach to **item 3** (Money management) so that **item 4** is no longer a possible trading handicap.

Items 1 and 2 are covered in our short term (With ALL the ODDs) and Swing trading (Long Candle Forex trading) courses. Click the links for more details of these courses. Items 1 to 4 are covered by our 4 hour, LIVE trading webinars which occurs 3 times a week – see LIVE Forex

The Maximum lot approach uses a money management approach which is similar to the approach the professional casino some gamblers use. The Forex market is not the same from day to day. Some days there is no volatility and no trends and other days the markets trend unexpectedly.

Therefore Forex traders should always be ready for good and bad days. The trick is to do well in the good days and to survive the bad days. The general principles that apply are:-

- Never risk more of your account than you are prepared to lose in one days trading.

  EXAMPLE: If you have $10,000 in your trading account and you have decided to limit one day's losses to 5% of your account you should never use or touch the other 95%

- Reduce your exposure to losses when things are going badly.

EXAMPLE: If you are in a losing streak (could be because the market is inconsistent during a particular day) lower the amounts you are risking on your trades.

- Use gains made from Forex market ("the Casino") to increase your stakes when things are going very well in good markets.

EXAMPLE: Increase the amounts you are risking when the market is moving in a favourable way from gains you have made during that day. Use "the Casinos" money to make more money.

This approach is opposite to the high risk Martingale approach which doubles up on each unsuccessful trade until a successful trade helps them to breakeven or make a small loss. This approach is very dangerous and very risky as even highly successful traders have days where they incur successive losses.

Take the stress out of Forex Trading

2   BASIC RISK REDUCTION CONCEPTS

2.1   TRADING "NORMALLY" USING THE SAME LOT SIZES

Lets take the example of a trader who has $ 10 000 in trading capital and trades 10 lots per trade using a mini account. Let say the winning trades are 50 pips and losing trades are 50 pips and $1 =1 pip. We will use 3 trades to illustrate the principles.

EXAMPLE 1

During a **winning phase** this trader will make:-

Trade 1   50 pips x 10 lots x $1 = $500 gain

Trade 2   50 pips x 10 lots x $1 = $500 gain

Trade 3   50 pips x 10 lots x $1 = $500 gain

Total Gain   = $ 1 500   (A return of 15% on the $10 000)

During a **losing phase** this trader will make:-

Trade 1   50 pips x 10 lots x $1 = $500 Loss

Trade 2   50 pips x 10 lots x $1 = $500 Loss

Trade 3   50 pips x 10 lots x $1 = $500 Loss

Total loss   = $ 1 500   (A loss of 15% on the $10 000)

This trader therefore needs a success rate above 50% to start making profits**.**

2.2   ADJUSTING LOT SIZES

What we are after is a way of taking advantage of winning streaks and losing streaks so that losses are decreased and gains are increased. We want to find a way of improving on the above result.

Now a simple solution would be, for example, to increase the number of lots by 2 for gains and decrease the number of lots by 2 for losses.

PLEASE NOTE: We are not expecting the trader to see into the future. The previous trade's result determines the phase you are in. If it was a loss then you are in a losing phase, and if the previous trade was a gain you are in a winning phase – as simple as that.

Also bear in mind that at this stage we are only covering **basic** principle so we are using simple and ideal examples

EXAMPLE 2

During a **winning phase** this trader will make:-

Trade 1   50 pips x **10** lots x $1 = $500 gain

Trade 2   50 pips x **12** lots x $1 = $600 gain

Trade 3   50 pips x **14** lots x $1 = $700 gain

Total gain   = $ 1 800   (A return of 18% on the $10 000)

During a **losing phase** this trader will make:-

Trade 1   50 pips x **10** lots x $1 = $500 Loss

Trade 2   50 pips x **8** lots x $1   = $400 Loss

Trade 3   50 pips x **6** lots x $1   = $300 Loss

Total loss   = $ 1 200   (A loss of 12% on the $10 000)

Already this simple method has increased gains in winning streaks and decreased losses in losing streaks.

2.3   ADJUSTING THE RISK / REWARD RATIO

Can we do better? Another method is to look at ways of increasing gains from positive trades and decreasing losses from negative trades. From the above example we are risking 50 pips to make 50 pips. Our risk / return ratio is 1:1. It makes more sense to risk less for a greater return and in general traders seldom risk more than 2 thirds of their target. This means that if their target is 60 pips their stop loss should not be more than 40 pips.

Now if we apply this return on risk approach to our above example 2 the results are:-

EXAMPLE 3

During a **winning phase** this trader will make:-

Trade 1   60 pips x 10 lots x $1 = $600 gain

Trade 2   60 pips x 12 lots x $1 = $720 gain

Trade 3   60 pips x 14 lots x $1 = $840 gain

Total gain   = $ 2 160   (A return of 21.6% on the $10 000)

During a **losing phase** this trader will make:-

Trade 1   40 pips x 10 lots x $1 = $400 Loss

Trade 2   40 pips x 8 lots x $1   = $320 Loss

Trade 3   40 pips x 6 lots x $1   = $240 Loss

Total loss   = $ 960   (A loss of 9.6% on the $10 000)

We are now make more than double the gains during successful streaks than we are losing during bad streaks**!!**

Traders that use support and resistance and Price patterns can normally determine the size of required stops and potential gains quite accurately. For more information on this how to use support and resistance and Price patterns please click on these FREE links:-

<p align="center">Technical Analysis</p>

<p align="center">Price Patterns</p>

2.4   USING A PIP BY PIP TRAILING STOP

How can we improve this even more? – One way is to make use of a mechanical, pip by pip trailing or following stop. A trailing or following stop is one that follows the price while it is going in the direction of the trade but does not move backwards when the price moves against the trade. An example of this is that if one were to use a 40 pip following stop in the above example and the price moved to +10. The following

stop would move to -30. Most Brokers offer a mechanical following stop. MetaTrader Brokers have a pip by pip mechanical stop facility.

Should the price then turnaround and move in the unfavourable direction for say 50 pips the transaction will be stopped out at -30 as the trailing stop will be hit. Not -40 that used to be the previous stop loss. Our losses were therefore reduced. In the same way the price could reach +50 and then turn around and run 100 pips in the wrong direction.

Instead of being stopped out at -40 pips the transaction will be stopped out at +10. A much better result.

Lets say that losses are reduced to 20 pips (on average) by using a following stop and gains are reduced to say 50 pips (on average) by using a following stop the following will result (using Example 3's results)

During a **winning phase** this trader will make:-

Trade 1   **50** pips x 10 lots x $1 = $500 gain

Trade 2   **50** pips x 12 lots x $1 = $600 gain

Trade 3   **50** pips x 14 lots x $1 = $700 gain

Total gain   = $ 1 800   (A return of 18% on the $10 000)

During a **losing phase** this trader will make:-

Trade 1   **20** pips x 10 lots x $1 = $200 Loss

Trade 2   **20** pips x 8 lots x $1   = $160 Loss

Trade 3   **20** pips x 6 lots x $1   = $120 Loss

Total loss   = $ 480   (A loss of 4.8% on the $10 000)

We are now making gains of 18% during winning streaks and only losing 4.8% during losing streaks.

2.5   WINNING AND LOSING PHASES

The above examples have been kept simple to illustrate the principles involved. In practice you don't know whether you are in a winning phase or a losing phase until it happens or is over. In practice we therefore use our last (most recent) transaction to determine what phase we are in. If the last transaction was a loss then we are in a losing phase and if the last transaction was a profit we are in a winning phase.

The beauty of the Maximum lot system as you will see later on is that we always calculate our lots from the amount in our daily trading account so we don't need to know or care if we are in a losing or winning phase.

2.6   PROGRESS QUESTIONS

What are the 3 methods discussed above which will improve gains in a winning streak and decrease losses in a losing streak?

2.7   PROGRESS TEST ANSWERS

1   Adjusting lot sizes

2   Improving Risk Ratio

3   Using a trailing stop

3   MONEY MANAGEMENT TECHNIQUES

3.1   SPLITTING YOUR TRADING CAPITAL

Our approach to trading is based on the management of risk. If you have an amount of money you want to use for Forex trading, say $ 10 000, it would be prudent not to have this entire amount in 1 account. You should only be exposing your trades to between 5% and 10% of total money.

If we were to expose our trading to 10% of our total money we would create 2 accounts:

1. a Capital account with $ 9000 and

2. A Trading account with $ 1000.

The capital account is the part of your capital you do not want to expose to risk while trading. You would therefore have a separate account where you keep the 90% of your capital in an account that is not exposed to trading risk. This account could be another account with the same broker or an interest bearing account with a financial institution. The main objective of this separate account is to firstly safe guard you money and secondly have some where to transfer your gains to or to top up your loss from.

The whole idea is to use the following process (which will become clearer as we go on):

1.   When you double the amount in your trading account (the one with say 10% of your money) you would transfer the gains to your capital account.

2.   When your trading account losses cause that account's balance to drop to below 20% of the original balance you would top your trading account up from your capital account.

This approach of not having all your eggs in one basket is a risk management technique which has been very important to Expert4x over the years. Some traders just mentally split their money into a capital and trading portion of their trading account, but the physical splitting of these amounts is part of the trading psychology and discipline adopted by Expert4x. This becomes even more important when the money that you use to trade is over $100 000.

If you can not arrange this with you Broker you will have to apply strict mental discipline and separate these balances mentally in your one account.

You will also see later on that splitting of the account into a daily risk balance and a safe amount also allows us to trade **very aggressively** using the smaller amount

3.2   THE MAXIMUM LOT TRADING METHOD

In the previous section we used the method of increasing the number of lots in winning streaks and decreasing the numbers of lots in losing streaks. This was quite effective.

This method however ignored factors such as how much was at risk during every trade and how trades are financed. For instance if a trader risked 30 pips on one trade and then 100 pips on the next the method of just increasing or decreasing lots could result in lopsided weighting of transactions.

The Maximum Lot trading method is a very aggressive trading method that takes the following factors into account.

1   How much the trader is prepared to risk per trade (Stop loss)
2   What margin the trader is using to trade (Margin requirements)
3   The amount of capital the trader is using in the Trading account (Balance on the trading account)

Using these factors we calculate the maximum number of lots which can be risked on the trader's next trade and this calculation is repeated for every trade which follows that one.

The objective is to double our trading account as quickly as possible by risking the maximum amount per trade. This sounds highly aggressive but the biggest advantage actually lies when losing streaks are encountered as fewer and fewer numbers of lots are being risked.

So let's have a look at a few examples:

Lets take the example of a trader with $30 000 available to trade the Forex market. The trader decides to risk 10% of the trading money by putting it in a mini Trading account. The rest $27 000 stays in the Capital account as discussed above.

So his available trading account balance is $ 3 000. The margin requirements per lot are $50 per $10000. (200:1). This means that for every lot traded he will require $50. **It is important to realize that margin is not risked or can not be lost during a trade**. It is a deposit held by the broker who returns it after the trade.

The trader now has identified a trading opportunity to trade the EUR with spread of 2 pips. The stop loss will be 40 pips and the Target will be 60 pips.

In order to get the maximum benefit from this trade the trader will have to take a many lots (the maximum) as the trading account balance will allow. So how do we calculate that:

For each lot the trader will need $50 for margin, $40 for the stop loss, $2 for the spread and a safety margin should the trade go overnight and incur interest of say of $5. This means that the trader will need $97 for every lot traded.

To get the maximum lots that can be traded the trader merely has to divide the trading capital of $3000 by $ 97 to get the maximum lots that can be traded. This gives 30 lots (always round downwards).

This means that if successful $ 1 800 will be earned (30 lots x 60 pip target) A return of 60% on the trading balance! If unsuccessful the trader will incur a loss of $ 1 200 (30 lots x 40 pip stop loss) A loss of 40% of the trading balance.

Now in the case on the successful trade the trading account balance will be $ 4 800 and if a similar trade is identified the lots for the next trade will be ($4800 / $97) 49 lots. If successful the gain will be (49lots x 60 pips) = $2 940. The trading account will now have a $ 7 740 balance. (A 158% return on the starting balance of $ 3000). So it takes 2 trades to double the trading account.

In the case of the unsuccessful trade the trading account balance will be $ 1800 and if a similar trade is identified the lots for the next trade will be ($1800 / $97) 18 lots. If unsuccessful the loss will be (18 lots x 40 pips) = $ 720. The trading account will now have a $ 1 080 balance. (A 64% loss on the starting balance of $ 3000).

So it takes 2 trades to double the trading account (+156%) but the loss on 2 unsuccessful trades' only results in a 64% loss and does not wipe the account out as maybe thought.

In brief: This method allows many, many trades before the trading account is depleted (10% of total money) whereas a very small number of trades allow for the doubling of a Trading account. The above examples can further be enhanced by applying the pip by pip following stop.

NOW is not unusual for your head to be spinning around in circles because of all the maths used. Re read this section 3 or 4 times if necessary – it contains highly important trading principles and could be of great importance to you in the future.

If you need a recap why not watch this video.   Click here>>>   MAXLOTVIDEO

3.3 PROGRESS TEST

Please continue the process as shown above and calculate:

1) What the balance of the trading account will be if **4** successful trades are experienced and

2) What the balance of the trading account will be if **4** unsuccessful trades are experienced.

ANSWER TO THE ABOVE QUESTION

GAINS

Cap	Req per lot	Lots	Gain per lot	Gain	Balance
3000	97	30	60	1800	4800
4800	97	49	60	2940	7740
7740	97	79	60	4740	12480
12480	97	128	60	7680	$20,160

LOSSES

Cap	Req per lot	Lots	Loss per lot	Loss	Balance
3000	97	30	-40	-1200	1800
1800	97	18	-40	-720	1080
1080	97	11	-40	-440	640
640	97	6	-40	-240	$ 400

4   TECHNIQUES USING THE MAXIMUM LOT TECHNIQUE.

4.1   BASIC TECHNIQUE

The basic technique already discussed in this course is:

1   To split your capital and trading funds

2   Use the maximum lot trading approach

3   Transfer funds to your capital account once your trading account has doubled (+100%)

4   Transfer funds to your trading account once your trading account has reached +/- 20% of its original balance due to losses.

5   Use a following stop to reduce losses

4.2   5% BASIS

The 5% technique is based of your trading account being 5% of your total risk money. The balance would then be in your capital account. This is a conservative approach but one that will ensure a long trading career.

4.3   10% BASIS

The 10% technique is based of your trading account being 10% of your total risk money. The balance would then be in your capital account. This is a less conservative approach. One would have to have a reasonable good trading success rate of between 60% to 70% to adopt this approach.

4.4   INCREASING % METHOD AFTER A NUMBER OF SUCCESSES.

Once you have achieved a number of successful 100% transfers to your capital (Say 4) it would be appropriate to increase your % which makes up your trading account. If you were using the 5% strategy then increase it to the 10% basis. If you were using the 10% basis increase it to the 12% to 15% basis.

4.5   OVERALL PHILOSOPHY

The overall philosophy is that you will only increase your capital very slowly if you traded the same number of lots per trade or the same % of your capital. By using the maximum lot methods you can increase your capital dramatically without exposing your total capital to excessive risk.

Watch a video that shows more info on Maximum Lot trading.

Click here>>>   MAXLOTVIDEO

(Note this is the same video as previously mentioned on page 12)

5   AN EXAMPLE OF THE DOUBLING OF A TRADING ACCOUNT IN 2 TRADES.

Actual example

Click here for a practical example of the power of maximum lot trading

<u>Trading statement</u>

Made up example

Joe has $10 000 available for Forex Trading. Using the guidelines of this course he puts $ 9000 in his capital account and $ 1000 in his Forex Trading account. He generally likes trading trades where the risk is 40 pips and the target is 60 pips.

He does 2 successful deals and the results are a gain of $ 1 560 (156%) on his trading account. His gain is 15.6% on his total capital. He now transfers $ 1 400 to his capital account and starts the same process with a trading account of $ 1 160.

	1st deal	2nd deal
Trading account	$ 1,000	$ 1,600
Required for 1 lot	$ 100	$ 100
Maximum lots	10	16
Gain per lot	$ 60	$ 60
Overall gain	$ 600	$ 960
Account Balance	$ 1,600	$ 2,560
Return	60%	156%

Now if he were unsuccessful with both deals his balance would be $360. The losses can however be recovered very quickly with 3 successful transactions.

	1st deal	2nd deal	3rd deal	4th deal	5th deal
Trading account	$ 1,000	$ 600	$ 360	$ 540	$ 840
Required for 1 lot	$ 100	$ 100	100	100	100
Maximum lots	10	6	3	5	8
Gain per lot	-$ 40	-$ 40	60	60	60
Overall gain	-$ 400	-$ 240	180	300	480
Account Balance	$ 600	$ 360	$ 540	$ 840	$ 1,320
Return	-40%	-64%	-46%	-16%	32%

6   EXCEL MODEL USE TO DOUBLE RISK CAPITAL IN 3 TRADES

At one of our previous **LIVE trading webinar** a spreadsheet to calculate the number of lots to use to double our account or reduce our risk in a losing phase was used.

The spreadsheet used was very specific to

1. the type of account used,
2. specific leverage used,
3. risk / reward ratio used,
4. the values of the stops,
5. the values of targets
6. and the amount of account risked.

All of the above play a role to determine if an account can be doubled or not.

Since then a **universal model** was designed that can be used to determine if it is possible to double your account in 3 trades based on any of the above variables. If it is possible the model will also calculate the number of lots to be used.

Please make sure you fully understand the principles the maximum lot course which are used in this model.

Please bear in mind that this is a tool that you can use to double your account in 3 trades and is not dependent on the trading method you use. It is therefore not a specifically recommended risk management tool for the "With ALL the ODDs" or the "Long Candle" forex trading method.

The model is downloadable by clicking on this link> <u>Double in 3</u>

7   CONDITIONS FOR USING THE MAXIMUM LOT MONEY MANAGEMENT SYSTEM.

1   A reasonable success rate: In practice, we make money with a success rate as low as 60%. Especially if the return on risked can be managed to a 1.5 to 1 ratio.

2   One trade at a time: - You can only trade 1 trade at a time when using the maximum lot system

3   You need a reasonable amount of Capital:- in order to split your capital into a trading account and a capital account in a meaningful way you need at least $ 5 000.

4   Micro accounts offer the best lot management ability so trade a Micro account even if you are using large amounts of trading capital

8 HOW CAN YOU FIND A WAY OF TRADING TECHIQUE WITH REASONABLE SUCCESS RATE THAT WOULD BEST SUITE THE MAXIMIM LOT APPROACH.

Hopefully you have found a technique with a reasonable success rate when applied with discipline.

If not you can get a few ideas from our "With ALL the ODDs" course which give quite a high success rate even to traders that use the technique for the 1st time.

For more info please click here> WATO

Our Long Candle forex trading techniques give you ideas on finding trades with low risk and high rewards

For more info please click here> LONG CANDLE

9   CONCLUSION AND SUMMARY

Thank for working your way through this course.

Please do not think that this is a theoretical technique. There are Forex traders making serious money using this and small variations of this technique.

We use variations of this technique in our LIVE Forex trading webinars presented 3 times a week – see LIVE FOREX for details

We hope this has given you food for thought.

Please contact Expert4x at info@expert4x.com if you need help with your Forex trading.