

# Plain Forex Trading

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First, we need to discuss the most important aspects of trading, which are Trading Psychology and Risk Management.

## Plain Forex Trading Psychology

Just think about it. To succeed in anything you do in life you need to have the right mindset. This is the single most important factor of success. A professional in any occupation is someone with an occupation-specific mindset, education and tools. And trading is no different from any other occupation.

There are books written on the topic of trading psychology and we recommend beginner traders to educate themselves on this subject. All our trading is based on the following principles:

- Trading is a long-term business and not a get-rich-quick scheme. The plain forex trading strategies are built not to make a quick buck but to make money in the long run. Just like casinos, we make sure that our odds to win are greater than 50% and we repeat the process again and again.
- Make sure that you trade to make money not for excitement or puzzle-solving or ego honing or any other reason
- Never try to be right just react to the market
- Never try to pick a bottom or get out at the top
- Overcome your emotions and stick to the trading system.

## Plain Forex Trading Philosophy: Be a Casino!

Why casinos don't mind occasional losses or even strings of losses? Because they know that in the long run they will always win. How can they be so sure? It's a simple math. Every game in every casino has the odds of your winning that game less than 50%. That's all.

Let's consider a roulette game as a sample. A U.S. roulette wheel consists of 38 numbered slots: numbers 1 to 36, a zero, and a double zero. After the players make their bets, the dealer spins the wheel and a ball and after several seconds the ball will land in one of the numbered slots.

Each numbered slot is coloured in either black or white. Therefore betting on red or black seems to have a 50:50 chance of winning, except that there are zero and double zero, which are green.

Those zero and double zero bring casinos all the money. They shift the odds to the casino's side. With zero and double zero the casino's odds of winning become 20:38 or 52.63% and the odd of the client become 18:38 or 47.37% giving the casino the edge of 5.26%.

The Plain Forex Trading philosophy is to treat trading as a long-term business and to always have the odds of winning stack on your side. The math will do the rest and in the long run you will always win.

## [Be a casino!](#)

## Risk management

Your trading capital is your means to success in trading. Without the capital there is simply no trading. Therefore preservation of the capital should be the top priority of any trading system.

You can have the best trading strategy in the world and still lose money if you do not control the risk. Just a couple of big losses can debilitate your account to the point of no return. The simplest and most effective way to limit losses is the use of stop loss orders. And yet the majority of amateur traders do not use them.

**PlainFX Trading RULE #1:** No trade can be open without a stop loss order.

**PlainFX Trading RULE #2:** Once placed, the stop loss order can be moved only in the direction of the trade, which “Up” for buy stop orders and “Down” for sell stop orders.

### How much to risk?

Let's pretend we play a game of coin toss. You got \$100 and for each correct guess you double your bet. How much should you bet for each coin toss? Let's see. You can bet all you have and double the money in a single coin toss. But if your guess is wrong, you are out of the game and cannot recoup anymore after just one coin toss. What if you bet \$50 per coin toss? Well, just two wrong guesses in a row would take you out of the game. How about betting \$1 per coin toss? Yes, you will get only \$1 for the correct guess but what are the chances of you being wrong 100 times in a row? Pretty slim I suppose.

As we can see from this example, deciding on the size of the bet is very important. In the case of trading the size of the bet is the size of the order. To make sure that the account never gets wiped out, many traders use the fixed fractional risk management method. The fixed fractional method means that for each trade you risk a fixed fraction of your account as opposed to a fixed dollar amount.

How does it work? Let's say you got \$10,000 in your trading account and you decided to risk 1% of the account per each trade. The 1% of \$10,000 is \$100 and therefore for the next trade you are going to risk \$100. Now, if you lost, you would have \$9,900 remaining in your account and for the next trade you would risk \$99 (1% of \$9,900). But if you won \$100, your account balance would become \$10,100 and for the next trade you would risk \$101 and so on and so forth.

How much to risk per trade depends on your account size, risk tolerance and the trading system you use. The most commonly accepted number seems to be 2% of the account size. Some money managers use 1% and even less.

**PlainFX Trading RULE #3:** Always use a strict money management system and never exceed the maximum allowable risk per trade.

**Remember!** Similar positions in related currency pairs must be considered as the same trade and therefore the risk must be spread between those positions. The related currency pairs are those that are affected by the move in a single currency. For example EURUSD, GBPUSD, USDCAD, USDJPY, USDCHF, etc. are all related pairs as the move in the USD will affect each one of them. Therefore, if your risk per trade at the moment is \$100, the sum of the risks in all related pairs should not exceed \$100.

The Plain Forex Trading system always uses profit targets to secure a part of the profit and to know the approximate risk/reward ratio for the trade. Hence the rule number 4:

**PlainFX Trading RULE #4:** Never open a trade until stop loss and profit targets have been calculated.

### Trade Order Size

Once you know the dollar amount that you will be risking on the trade, you need to figure out how many trading lots you should buy or sell.

In order to do that, you need to:

1. Find the difference between the opening price and the stop loss order. That will be your risk for the trade in PIPs. (see more info on PIPs here: <http://plainfx.blogspot.ca/search?q=what+is+a+pip>)
2. Divide the dollar amount that you will be risking on this trade by the risk in pips to arrive to the dollar amount that you will be risking per each pip.
3. Divide the number above by the value of the standard lot in USD. The final number is the size of the trade in standard lots.

*Alternatively, you can use the Lot Size and PIP Value Calculators provided together with this document.*

For example, let's imagine that we are going to buy the EURUSD pair at 1.3010 with a stop loss order at 1.2960. We calculate the lot size in the following steps:

1. Calculate the risk per trade in PIPs:  $1.3010 - 1.2960 = 50$  pips
2. Calculate the risk in USD per PIP:  $\$100 / 50$  pips = \$2
3. Calculate the lot size:  $\$2 / \$10$  per lot = 0.2 standard lots

In the Plain Forex Trading system each trade is split into 3 units. The unit sizes are calculated by taking the maximum allowable risk per trade and dividing it between trading units in the following proportions:

- Unit 1 = 30% of the total risk per trade
- Unit 2 = 40% of the total risk per trade,
- Unit 3 = 30% of the total risk per trade.

Therefore, for the example above, the unit sizes would be as follows:

Unit 1 = \$30 risk or 0.2 lots \* 30% = 0.06 standard lots

Unit 2 = \$40 risk or 0.2 lots \* 40% = 0.08 standard lots

Unit 3 = \$30 risk or 0.2 lots \* 30% = 0.06 standard lots

*Alternatively, you can use the Lot Size and PIP Value Calculators provided together with this document.*

## Deciphering Plain Forex Signals

Each Plain Forex signal looks like the following:

**EURUSD Sell 1.3600 SL 1.3635 P1= 1.3576 P2= 1.3554**



**GBPUSD Buy 1.6632 SL 1.6598 P1= 1.6650 P2= 1.6690**



As you can see each signals consist of the following parts:

1. Currency pair: EURUSD or USDCAD or else
2. Action: Buy or Sell
3. Entry price

4. Stop loss (SL) price
5. Profit target one (P1) – this is the exit price for Unit 1
6. Profit target two (P2) – this is the exit price for Unit 2

Normally, once the P1 price is reached, the stop loss orders for units 2 & 3 are moved to the entry price or in other words to the Break Even (BE) position. Once the P2 price is reached the stop loss order for Unit 3 becomes a trailing stop, which is placed under short-term support levels and adjusted as the price moves in our favour.

**PlainFX Trading RULE #5:** Follow rules 1-4 at all times.

## Trading News Releases

The Plain Forex Trading on news method is probably the easiest way of trading. There is no need for indicators, oscillators and such. It ignores all fundamental and technical data and concentrates on the price action alone. All that is needed is a simple 15-min. or 30-min. price chart.

Originally I learned this method from Courtney Smith but modified it by adding my own twists to it.

The one obstacle with trading on news is that in order to trade this method profitably, you need to be in front of a computer. On many occasions the price moves in a matter of minutes and you need to react fast enough to protect your gains and capital.

Usually, prior to important news releases, prices of currency pairs, which are going to be affected by the news, start to consolidate and trade in a relatively narrow range. Since major news can move the market in any direction, we do not try to outguess it. We just bracket the price range by placing simultaneous Buy and Sell Stop orders. The Buy orders we place above the top of the price range and the Sell Stop orders we place below the bottom of the price range. This way we will get in the move regardless of its direction. See the chart below.

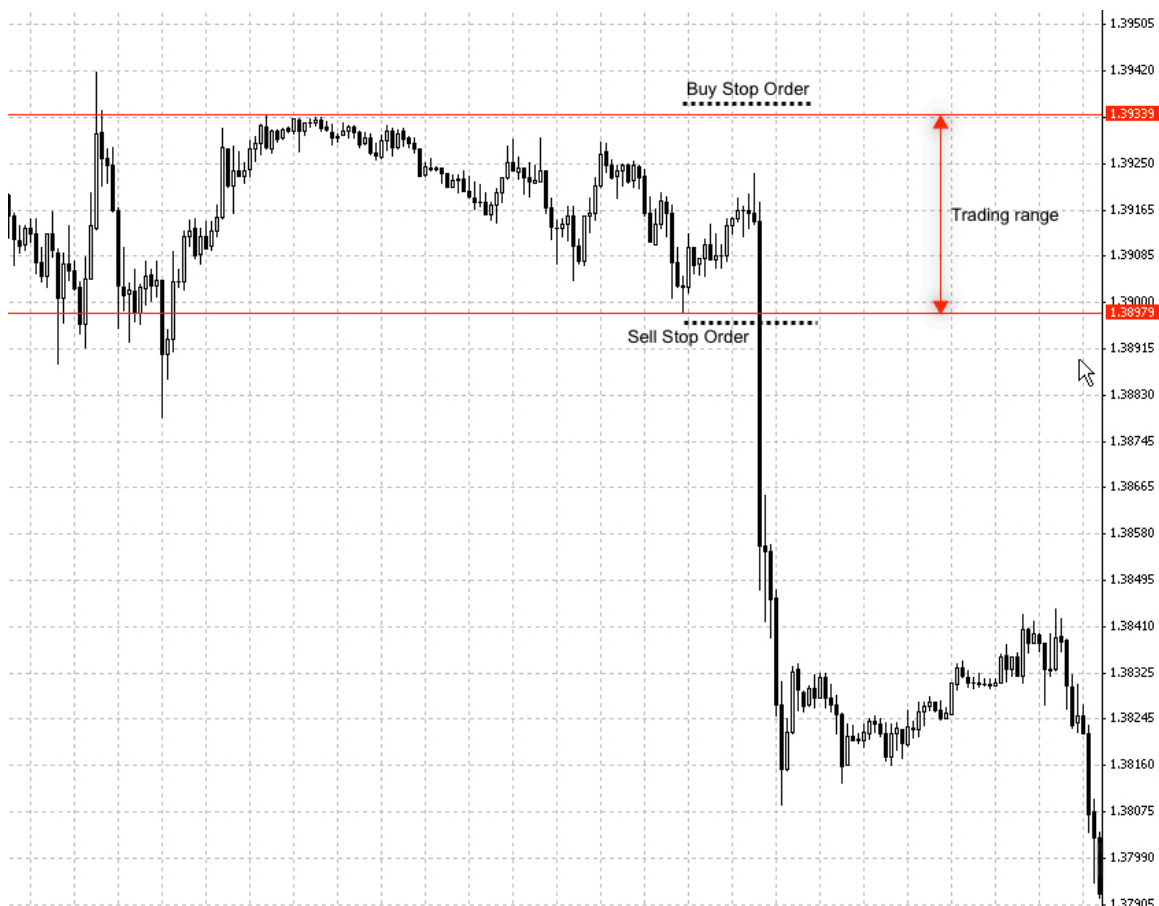


Figure 1 Trading range prior to news release.

We place a 3-units Buy Stop order 5 pips above the top of the range and a 3-units Sell Stop order 5 pips below the bottom of the range:

- The Stop Loss for each order is the opposite side of the range. So, for the Buy order, the Stop Loss will be the Sell order's price and vice versa.
- The first profit target (P1) is always 20 pips away from the entry price.
- The second price target (P2) is set based on either Fibonacci lines, Pivot Points, major support/resistance lines or psychologically important levels.
- The third unit has no target. We use it with a trailing stop to ride the bigger wave whenever that happens.
- Based on the statistics of all trade on news results and using the fractional Kelly formula, each order is recommended to split into 3 units in the following proportions:

Unit 1 – 33% of the total trade size

Unit 2 – 38% of the total trade size

Unit 3 – 29% of the total trade size

If for any reason you cannot use the Plain Forex Lot Size Calculator, you can split the units as 30%, 40% and 30%.

**As soon as the first profit target is reached, we move the stop loss orders for the remaining 2 units to their entry prices or in other words to BE (break even).** If we get knocked out of the trade and the price move continues in the same direction, so be it. We just collect our 20 pips of profit and walk away.

## There are 5 possible scenarios for the price move on the news:

1. The best-case scenario is when the price moves in one direction and continues to do so for the rest of the day. See the chart below.

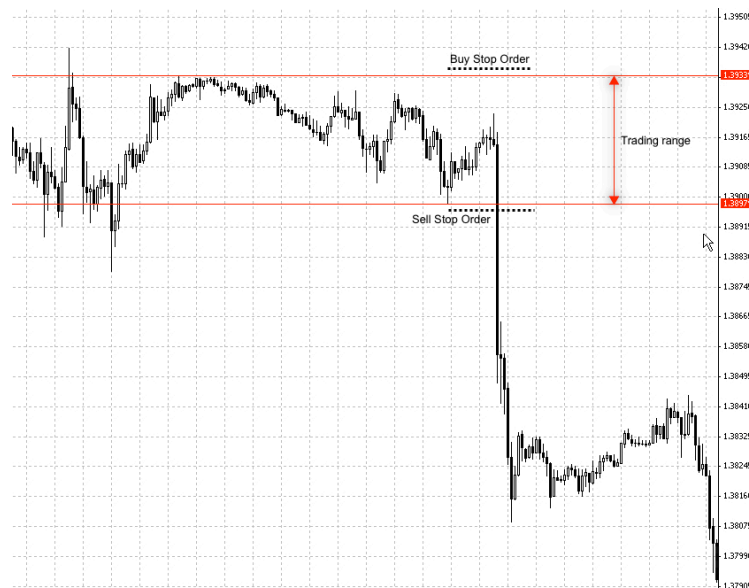


Figure 2. Break out of the range in one direction.

2. The price moves sharply in one direction, then reverses and starts its real move in the opposite direction. If we are lucky, we might even collect our 20 pips of profit on the fake move and get on board for the longer ride in the opposite direction. If not, we take a loss on the first move and more often than not we more than make up for the loss on the move in the opposite direction. See the chart below.



Figure 3. Fake break out of the range followed by the true price move.

3. The price moves in one direction than returns back in the range and remains there for the rest of the day. If the price moves far enough we make a small profit, if not then we act in accordance with the bigger picture.



Figure 4. Break out of the range and return back

4. The worst-case scenario is when the price breaks the range in one direction then reverses without hitting our P1 target and breaks the range in the opposite direction and then again reverses without reaching our other P1 target. In that case we just take a double loss. That's where money management is very important.



Figure 5. Double break out of the range with no change in direction.

5. The price does not move anywhere. If there is no meaningful move within 5-10 minutes after the news release, we cancel all orders.



### There are few considerations:

1. Which news releases to trade? Look for the list of the most important news releases that affect their related currencies.
2. Which currency pairs to trade? If there is an important news release coming out that might affect the US dollar, which USD-related currency pairs to trade? Well, there is no straightforward answer to that. The chances are that prices of all related pairs will be affected. Personally, I am having troubles keeping a close tab on more than two fast-moving currency pairs at the same time. Therefore in those situations, I usually pick 2, sometimes 3 USD-related currency pairs based on the width and length of their trading range. The rule of thumb is that the longer and the narrower is the range the greater will be the price move.
3. When to place orders? All your buy and sell orders have to be entered while the market is still relatively quite. Some brokerages stop accepting orders 30 minutes or so prior to the news release. So, naturally you would want to place your orders before that.