

Tips and Facts about Scalping in Forex

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Thursday, 16 October 2008

The only way to make small account big in a short period of time is through the use of really high leverage. But wait... do not jump of the cliff right away. Start with reasonable leverage for scalping, for example 20:1 or at most 50:1, then move on as you see scalping skills improve. But even before that do not be lazy to demo trade your scalping system – make sure it will not disappoint you later...

The only way to trade with high leverage without risking blowing up an entire account in only 10-15 trades is by trading with a tight stop loss. Trading without stop loss will “kill” your investment in no time.

It is wise to decide on the size of the trading lot and exposed risk in advance.

Do a simple math: calculate the worst possible situation, e.g. 10 consecutive losses in a row; then see if your account will survive and if there be something left to move on. And, although 10 losses in a row is a very unlikely scenario, you cannot deny it...

Although Forex is active 24/7, not every hour is suitable for scalping.

No scalper wants to sit in front of the monitor for numerous hours bored and disappointed with the “sleeping” price as it literally moves nowhere.

Scalpers hunt for volatile, liquid market. There are 4 major market sessions: London, New York, Sydney and Tokyo session. To trade effectively scalper needs to learn behavior of a chosen currency pair and define most active sessions, even particular hours for this pair to be able to catch good price moves.

Another thing to keep in mind is spread which brokers charge for different currencies.

The higher the spread the harder it will be to collect desired pips (because once trading position is opened, trader must cover spread cost – earn pips for broker first – and only then collect own pips).

And, of course, the lower the spread the easier/faster it is to accumulate pips.

Another factor to consider is an average daily range of the price for chosen currency.

The wider it is the more realistic is an opportunity to profit from price moves.

One of the scalpers's favorite currency pair is EUR/USD with its low spread and good daily price range.

While using high leverage combined with high frequency trading, scalpers should be very cautious about the cost of actual trading, as each pip here makes a dramatic difference after a large number of trades.

This means being very careful with entries and exits, stops and limit orders, and also be very realistic about profit targets.

Once in the trade, scalpers should manage trading risks by:

- 1) moving stops to break-even as soon as situation permits;
- 2) taking profits at a logical levels: at round market price numbers: 00, 10, 20, 50 etc., at previous support/resistance levels, at Fibonacci levels etc.
- 3) getting out of the trade if the price freezes for longer time than expected.

Scalp-trading is very demanding and requires a lot of concentration, constant monitoring of the price and very quick decision making. Also, short time frames used in scalping strategies, require a good grasp of trading complemented with sound technical analysis skills. It is not a place where beginners feel very comfortable as it demands from traders a good chunk of experience.

Scalping involves substantial risks

A lot of beginners have common problem when trading highly leveraged accounts – they tend to maximize profits by trading with full capital at once. Do not do that! Maximizing chances for higher profits goes hand in hand with maximizing risks! The size of positions opened must be calculated very accurately so that your entire account will not be wiped out with just one(!) very unfortunate trade.

Another factor that increases risks for scalpers is the spread traders pay when open a trade.

Each time a new trade is open, the spread cost is paid to the broker, thus opening 10 small trades instead of 1 long term trade increases the cost of trading in 10 times.

If to measure risk/reward ratio of such scalping activity it may show very risky and potentially losing trading.

Example:

With GBP/USD currency pair a scalper sets profit target of 10 pips and stop loss of 10 pips. So far it is 1:1 risk/reward ratio.

In the next step, when the spread is added, the picture changes. For example, the spread his broker charges for GBP/USD is 4 pips.

When scalper opens a position he is -4 pips (the spread has been charged). Now in order for him to reach the target of 10 pips profit, the price has to move +4 and +10 pips = 14 pips.

On the other hand, in order to trigger his stop loss the price should move... -4 is already in place... so, only -6 pips and he will be stopped at total of -10 pips... the risk-reward ratio has changed in over 2:1, not very promising situation indeed...

To understand the full challenge of scalping as a trading style, consider this: hard work and small gains accumulated over a decent period of time could easily be wiped out with one large loss. Finding a balance between profit levels and size of acceptable losses presents the most difficult challenge to scalper's strategy.

Best of luck in achieving your goals!

