

Module 2: Basic Concepts

It is assumed that you will have read the marketing description of the Grid system on our website before reading these modules.

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The grid trading method is based on a few concepts. To understand grid trading one has to understand some of the concepts on which it is based.

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Firstly grid trading takes place in a grid made up of gridlines. These gridlines are separated by grid gaps which can be any size decided by a trader. These gridlines are normally placed at specific price levels of the currency used.

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So some definitions:

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Grid The area made up of many Grid lines

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Grid Gaps The distance or size of price movement between two gridlines

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Grid Lines Price levels in the grid where grid trading hedge transactions will occur

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A Typical Investment Grid (click to enlarge)
{gallery}01/grid1{/gallery}

The next concept is using normal trading transactions to create hedges and positive transactions. You would normally start your grid system trading when the price is at gridline.

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Taking the above grid as an example, and 2.000 as the starting point of your grid system trading you would enter both a buy and a sell at that point 2.000.

.EXAMPLE 1

{gallery}01/grid2{/gallery}

Should the price go down to say 1.9900 the Sell transaction will make a profit of 100 pips and the Buy transaction will make a loss of 100 pips. The Sell transaction will be a hedge against the loss being made by the buy transaction.

Should the price go up to say 2.0100 the Buy transaction will make a profit of 100 pips and the Sell transaction will make a loss of 100 pips. The Buy transaction will be a hedge against the loss being made by the sell transaction.

A hedge is a transaction that has another transaction in the opposite direction which offsets any gain or loss made.

If the price goes up to 2.0100 the buy will be 100 pips positive. Should we then "cash in" the buy (liquidate the transaction when positive and at a gridline) thereby adding \$1000 to our account. We will however have a -100 pip (-\$1000) carrying balance for the sale transaction.

Cash in refers to a transaction that is liquidated intentionally when the price reaches a particular gridline or price level. We will see later that this could even happen in special circumstances when the transaction is negative.

We will then be in a breakeven position

Cash in our account	+\$ 1 000
Loss on open sell transaction	-\$ 1 000
Net position	Breakeven

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Please note for simplicity we are ignoring the spread at this stage to make our explanation of the system more easily understandable.

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The sell however has now lost its hedge and has now become an un-hedged transaction.

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An Unhedged transaction is one where there is no other transaction in the opposite direction which offsets any gain or loss made

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These concepts will be expanded in the following modules.

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QUESTIONS OR COMMENTS REGARDING THIS MODULE

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Please Email us with any comment or questions you may have regarding this module of the Grid Trading Course by clicking [here](#)> Questions and comments