
Module 9: How to Manage trending markets

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By now you will realize that Grid traders make their money in sideways trading markets where :

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1.) The price goes up or down 100% of a grid gap and then retraces to the starting point.(see module 4 for examples).

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2.) The Price goes up or down 2 grid gaps and then retraces to the start of the 2nd grid gap (see module 4 for examples).

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These are the magical grid formations we want use when trading the grid system.

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When the price goes up or down 3 grid gaps and then retraces to the start of the 3 grid we will breakeven. A risky and dangerous position. In grid trading we therefore want to avoid the 3rd grid leg target from being reached. At this point we would start having 4 positions open against the trend and only one with the trend. Not a healthy position to be in. Losses will start growing exponentially and gains one at a time.

So, how do we prevent an imbalance between buy and sell open transactions?

.We use any combination of the techniques discussed below to reduce risk

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A) Large grid sizes.

Selecting the appropriate grid size is fundamental to reducing risk of being caught in a trending market. If one selected a 30 pip grid size a small daily move in the EUR would turn into a trend and hit the danger 3rd grid target. If however a 150 or 200 pip grid is selected the price would have to move 600 pips before the 3rd grid target is reached.

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There is a great temptation for traders new to grid trading to use grid gaps that are too small which will result in the 3rd grid gap target being hit very quickly.

We have for instance found a 250 to 300 pip gap for the GBPJPY and a 150 to 200 pip gap for the GBPUSD to be good gaps.

B) Variable grid gap sizes with the trend the trend

Another way of avoiding the 3rd grid gap target of being reached is to have variable grid sizes. The 1st grid size would be say 100 and the next one 200 and then the next one 300 etc. Remember that all of this is basically to avoid the target of the 3rd leg being reached and us having 4 open positions against the trend and only 1 with the trend.

C) Variable lot sizes

To repeat we are trying to avoid a situation where there are 4 open transactions with the trend and only 1 with the trend. One obvious way of avoiding this is to simply increase the number of lots in the direction of the trend.

If the lots are 1, 1, 1 with against the trend then the lot sizes with the trend could be 1, 1, 2. This will keep the gap between open lots against the trend and the lots with the trend smaller and therefore reduce risk.

D) Cash in all your open positions the moment you are profitable.

Trending markets are not good for grid trading. We don't want to be caught with many open transactions against the trend when the market starts trending. One way of reducing the risk of this happening is to cash in and transactions when the sum total of the open transactions are positive.

E) Using all or a combination of the above risk reduction techniques

It would be prudent to use a balance of all or most of the above techniques to reduce risk when trading the grid system. It is important that these techniques are preferable only used after the 3 grid leg target has been reached as we do not want to disturb the natural money making waves that exist in the market.

It has been our experience that if you employ all or most of the above techniques and the price reaches the 3rd grid target it is likely that you are in a trending market and it would be prudent to cashin all your transactions or hedge ensure that most of your against the trend transaction become hedged by increasing the number of lots with the trend.

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Please view this video which give another perspective on this topic Trend

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The next section of Grid Strategies will show how the techniques can be used in setting up your Grid trading structure.