
Forex Pips Gizmo

Forex Scalping Blueprint – Transcript of
“Money Management Plan”

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Forex Scalping Blueprint—Money Management Plan

In this video, I will share with you the Money Management Plan that can be used for the Forex Scalping Blueprint. This is some very crucial stuff to make a good amount of profits using the scalping methodology, so please pay close attention to this. We are going to look at how you can grow your trading account through scalping.

We know that in scalping, especially using the Forex Scalping Blueprint, we are looking to target 15 pips, per lot, per trade, so scalping is good to keep your trading balance moving. You are going to get 15 pips, 15 pips, 15 pips, one after another and that will keep your trading balance ticking, but it still cannot be your plan and methodology.

Your primary methodology has to be a day trading or swing trading system unless you are using the scalping technique extensively and making multiple trades a day. We are going to look into that. If you are a swing trader or day trader, have scalping as a strategy to realize quick profits on a day where the market is relatively quiet.

Even though the market is going to be very quiet, there are still going to be opportunities where you can go and have 15 pips profit. But again, your swing trading or day trading has to be a methodology where you are going to get a lot of pips. However, if you are going to follow some money management principles, which I am going to share now, the real power of scalping is unleashed.

We are going to see how you can use scalping and make hundreds of pips in a single day. In the coming slides, I'm going to show you how you should approach scalping and at which points you should increase your stakes or reduce your stakes so that you are not putting your trading account at risk, while at the same time, you are seeing a good growth in your trading account balance.

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Forex Scalping Blueprint—Money Management Plan

First and foremost, an important point: scalping is all about a high volume of trades. That's because per lot, you're going to make only 15 pips. For example, if you only place one trade a day, that means you are going to make 15 pips and in one week, you will make about 60 or 70 pips. At that time, you will have 100% profit ratio, which is never practical.

Even if you maintain 65 or 70% profitable trades, you are going to make about 45 to 50% a week. But if the volume of trades increases, then definitely you can see a significant surge in your overall profits. If you place only one trade a day with a success ratio of 75% and in each trade you make about 15 pips profit, and in each losing trade you lose 15 pips, you will make 40 pips a week.

In one month you are going to have about 175 pips I am assuming—four weeks and two or three additional days accounts for 175 pips in one month. In one year, you are going to end up making 2,100 pips. Those are the statistics for a system which is having a 75% success ratio. In the Forex Scalping Blueprint, just to mention, we are not going to have 15 pips loss on each trade because of the Money Management principle where we are using 10 pips trading stop-loss. In some of the trades, you will find a loss of only 5 pips.

Overall, this strategy is not bad because eventually you earn profit in one year of 2,100 pips but again, using the strategies we are going to discuss, this can be done better. Needless to say, you can increase the stakes either by trading more times a day. For example, instead of placing one trade, you can have two, three or four trades a day. Using the Forex Scalping Blueprint, you will find ample opportunities in a single day to make multiple trades a day.

Instead of trading only one lot, you start trading two lots, three lots, four lots—based on your comfort level. Both of these approaches are crucial and necessary

for a scalper so that you have huge profits in a single day. Scalping then can become your primary method to make money from the Forex market.

Which approach to take is definitely trader dependent. Some of the factors that you should consider are: time available per day. If you are having only three or four hours to trade, then definitely you cannot use the approach of having multiple trades a day; you are limited by the amount of time you have. This again, is risk-taking capability, because if you can take only a 30-pip risk per trade, then you can have a maximum of two lots per trade.

If you can have a 60 or 75-pips scalp lots per day, then you can trade as many as five lots. Here are some of my recommendations: only if you start having a 60% win ratio, that means for every five trades, you have three profitable trades and two losing trades, and a minimum of 20 profitable trades, then start increasing to two trades a day.

At this point, you can have the luxury of increasing the trades because if you're having 20 profitable trades, that means you have gotten enough exposure to the market using scalping and you are able to maintain a more than 50% success ratio, which is good from an experience point of view, so you can start taking some more risks and more trades a day.

You can do this every 20 trades basically. For example, once you have 20 profitable trades, you can move from one trade a day to two trades a day. After that, once you achieve 40 profitable trades, you can start trading three times a day, followed by four times a day, and you can jump this every 20 profitable trades. The success ratio should be 60% or higher, otherwise this method is not going to work.

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For example, at a 60% win ratio, 20 profitable trades, 13 losing trades and 15 pips won/15 pips lost will result in 105 pips. At a 55% win ratio, 40 profitable trades, 32 losing trades and 15 pips won/15 pips lots will result in 120 pips. Do you see how we have increased the number of trades to two times, from 20 to 40, but reduced the win ratio to 55% from 60%?

We are just going to see an increase of only 15%, but at a 60% win ratio, we are going to have 40 profitable trades, and 26 losing trades on 15 pips win/loss, and we are going to make 210 pips. This is a difference of 90 pips by just increasing the percentage of the win ratio by 5%.

In this comparison, you see the number of trades we have doubled, in fact, more than doubled. Still, we see an increase of only 15 pips in the overall profit. So a 60% win ratio is absolutely crucial. If it's higher than 60%, great, but it shouldn't go below 60%.

Let's look at what this plan would look like for the duration of one entire year. In one year, I'm assuming that there are 250 trading days and let's say that our opening account balance at the beginning of the year was \$1,000. We have a success ratio of 60% and we are going to increase the trades after every 20 profitable trades.

As you can see here, at the end of 33 trades with a 60% success ratio, we are going to have 20 profitable trades. Our total profit will be 120 pips, our account balance is \$1,120, and we are placing only one trade per day. But after 33 days, now we can definitely increase our frequency because we have achieved the goal of 20 profitable trades at a win ratio of 60%.

After 66 days, from 33 to 66, that is in the next 33 days, we would have made 240 pips because we are now trading two trades a day and our account balance

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would have increased to \$1,360. In the next 33 days we would have gotten 360 pips because we are now placing three trades per day, followed by four trades per day.

But as you can see, after four trades a day, I am not recommending to go further because it requires a lot of concentration. You would be simply tied to a chart for the entire eight hours and you won't get any breathing space. Emotionally, it would be very difficult to adjust some trades because you are not able to objectively see the market and identify whether it is good to place a trade or not.

You start seeing different things and this really impacts your analysis of the market. It's good to limit it to having only four trades a day. That's what I would recommend. As we can see, in one entire year, our account has grown from \$1,000 to \$3,880, which is a growth of 380%.

The next approach is to increase the number of lots per trade. Please forgive me for the heading. I mentioned increasing trades per day. Please treat it as "Increasing Lots Per Day." Here, we are going to see how we can increase the money that we risk as our trading account grows. For example, if you have \$2,000 in your account, your risk taking capability will be much different than if, for example, you have only \$200 or \$500 in your account.

The risk capability changes as the trading account moves—either shrinks or grows. Once a system proves to be profitable, we can start increasing the lot. In the previous approach, we are increasing the number of trades per day. In this, we are going to keep the number of trades the same, but we are going to increase the number of lots.

Instead of trading just one lot per trade, we are going to start trading two lots or three lots per trade. You can use this once you have made 10 times the amount

you risk typically. For example, if you typically risk 15 pips per trade, if your profit has reached 150 pips, you can start increasing the lots.

Once your trading account grows by 150 pips when trading on a 15-minute chart using 15 pips stop-loss, start trading two lots per trade. Similarly, when you have reached 300 pips for trades with 30 pips stop-loss, you can start using two lots. However, if the account balance falls below the threshold of 150 pips, reduce the number of lots. For example, now you have \$1,000 in your account balance. Once it grows to \$1,150, you can increase the lots to two, but if it falls below \$1,150, you are going to reduce the number of lots per trade by one.

In scalping, the number of lots used per trade can be extremely high. I've seen some traders who trade about 10 or 11 lots per trade. Again, the risk per trade they are putting in is also high, but their returns are also good. This is also a strategy that should be used only if you are finding the system to be profitable.

However, don't trade more than 10 lots per trade because if the amount risked is high, your emotions will start running and you won't keep the trade open for the profit target of 15 pips. You will start closing your trades, let's say, after every 5 pips of profit. This is basically the idea of the Forex Scalping Blueprint.

This is what your account balance would look like. Let's assume the same things—that we have 250 trading days, the starting balance is \$1,000, the profitable trades are at 60% and the number of trades a day is only one. Out of every 40 trades, you are going to have 150 pips profit and we are using only one lot per trade; your account balance will come to \$1,150.

Since we are increasing the number of lots to two, we will see that it took just half the number of trades to realize the same level of profit. After 60 trading days, you are going to have \$1,300 in your account balance and it will take only an

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additional 12 trades to achieve the next \$150, or around 9—we fluctuate around that level because we are going to increase the lots to 3, 4, 5 and 6. I am going to stay at 6 just to be on the conservative side.

You will see in 250 trading days, your account has grown from \$1,000 to \$5,200. That's a growth of about 500% in one year. Here are some closing thoughts. You can decide to choose the hybrid approach, increasing the trades as well as the number of lots per trade. Initially, I would suggest that you increase the trades per day because that will give you more exposure to the market, and you're not going to unduly risk a lot of money per trade.

You should definitely maintain a trading log. You will see how this will be a good way to measure how much the system is affecting. You will also start seeing some insight in the Forex market, at what point the market moves and what kind of trades are working best for you. It will help you identify where you are making mistakes, whether you are closing the trades prematurely or if your confluence areas are not accurate.

You will find out which account plan is working for you. Is increasing the lots working for you or is increasing the number of trades per day working for you? Is the hybrid approach working for you? Over a period of time, you will see that either the EUR/USD or GBP/USD currency pair best suits you for scalping.

That's all for this video. Please feel free to let me know if you have any questions and I will try to respond to them. Thanks! ♦