Forex Trading Strategy 10 pips by Rob Booker

Contributed by Rob Booker
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A few years ago, when I first wrote Strategy:10, I had no idea that it would be as popular as it has become – downloaded over 100,000 times. I also had no idea that I really had not been as clear as I needed to be. So the time has come to release an updated version of the ebook. I hope that you find it helpful. Please read on.

One hiker, while being chased, stopped to put on running shoes. As he was changing out of his hiking boots, his companion looked at him in horror and exclaimed, “Dude, what’s the deal-io? You’ll never outrun the bear if you stop now!”

Calmly, the other hiker said, “I don’t have to outrun the bear. I just have to outrun you.”

Currency trading can be like running away from the bear. Trading forex offers more opportunity for fast financial success – and financial ruin – than almost any other market. The get-rich crowd has always been attracted to it. This crowd includes speculators, trading novices, me 6 years ago, retirees, and professionals looking for a way to get out of debt, increase the excitement in their lives, or simply get rich really fast.

Up until now, this group might have also included you.

From now on, you will be taking money away from these people.

These are the people who will be eaten by the bear. You don’t have to outrun the bear (the entire market). In fact, that’s impossible. You can’t beat the entire market. But you can trade defensively — and by so doing, position yourself to profit consistently.

The Four Groups

There are four groups in currency trading. There are the novice traders – the greenies, the ones who try to outrun the bear and lose every time. We all start here. We all lose money here. Some of us lose our entire first trading stake (I did).

In addition to the novice traders, there are three other levels of participation: the dealers, the institutional traders, and the advanced retail traders.

In all of your trading, the dealers are the most powerful and they make the market, setting prices and putting together deals. Although institutional traders move more money around than dealers, it is still the case that your dealer either accepts or rejects your orders every time you trade.

The institutional traders work in banks, wire firms, or government agencies. They trade huge amounts of money at a time, and the size of their trades gives them enormous power. Not super powers, but very close. Some of these traders are moving $1 billion in currency or more every hour. Some are trading billions of dollars every minute.

Next, there are the advanced retail traders. This group is comprised of people from all across the world, sitting in smaller investment firms, offices, or even their homes. Eventually, you want to be a part of this group. In some cases, the advanced traders are the smartest group – trade for trade – than any other group. Because they don’t move a lot of money on each trade, they don’t have as much power as the institutional players.

Because their trades are brokered by the dealers, they’ll never have absolute price-setting power. But, because there are so many novice traders, the advanced traders have plenty of people that they can feed to the hungry bears. Your goal as a currency trader is to aggressively take money out of the pockets of the novice traders.

Don’t feel bad about that. Someone’s going to take your money along the way, and it’s going to teach you, very quickly, lessons that can only be learned through failure. So, every time you take money from a novice trader, just remember: you’re teaching him a valuable lesson. After a while, you might even enjoy watching your hiking companion being eaten by the bear. Well, you might not enjoy it. But you will deserve every pip you earn.

Get ready to put on your running shoes.

Are 10 Pips Enough?

The short answer is yes. If you trade 1,000,000 worth of currency, each movement would be equal to $100. So if you bought at 1.1445 and sold at 1.1545, you would make 100 x $100, or $10,000. Now, I don’t know about you, but I could think most people could live off that much money.

That’s not saying, however, that you can make $10,000 per day. Of course it’s possible, but there are a lot of factors that make it very difficult. Consider the questions below tt you might ask yourself before trading:

When should I get in a trade?

Where should I place my stop loss?

What happens if something goes wrong?

Even more importantly, can you deal with the emotions of forex trading? Mastering the emotions of trading is more difficult than mastering the technical skills. You’ll soon find out what that means.

GREED

Most traders try to make a zillion dollars on every trade.

They’re greedy. This leads them to stay in a good trade too long, hoping to get more money out of it. This can lead to disaster — the trade can move against them and they get creamed. This happens all the time, and it still happens to me from time to time. It’s the single greatest threat in trading. But you can already understand why that’s probably true. But how do you overcome greed when trading? We’ll get to that in a moment.

REVENGE

This is the other big one. A lot of traders flush some pips down the toilet and then want to strike back. So they double their last order and go for broke. It’s like, well … it’s like reaching down into your toilet. That’s gross. And it does not make you any richer.

The impulse to get revenge is natural, and I still deal with this emotion often. We all do. It’s not going away anytime soon.

Do not underestimate this emotion. Many traders have not only reached into the toilet of revenge, but have dived into it head-first.

Remember: the market is not your friend. The market is so much more powerful than you are. You cannot “get back at” the market.

Trading when angry or vengeful will be a total disaster. If you take a big loss, then stop, take a deep breath, and talk to a mentor or your mirror, or your favorite stuffed animal. Re-read the charts. Take a break. Chew on your toe if you have to. Even if you think you see the best opportunity in the world after you get blasted – make sure you take a long deep breath and pause before you do anything.

A Defensive Approach

It’s as simple as this: When I am day trading, I don’t try to make a ton of money on each trade, and I never try to get revenge.

Instead, I set up good trades, that have a lot of potential, and then I shoot for 10 pips as an initial target. Just 10 pips. That’s it. I don’t let myself lose a lot of money. I only try to get 10 pips at first, and if that’s all I get, then I’m out for the day. We’ll talk about how I try for more than 10 pips in a moment.

For now, consider that it’s easy enough to get 10 pips and, if that is all you can get, it’s okay to get out. When you know that you can turn turn $10,000 into $130,000 in one year on 10 pips a day, it’s no longer important to strike back at the market or get greedy on one day of trading.

And you can learn to turn $10,000 into $130,000 in one year on just 10 pips a day. I am not promising that you can do that. I am saying that it is possible and I have taught traders who have done it.

If you started with $10,000 on January 1st, and earned 10 pips per day, and only traded 17 days of the month, then you would end the year 2,000 pips UP, and with about $130,000. For a spreadsheet that shows how this works, write me at rob@robbooker.com, with the word “10 pip spreadsheet” in the subject line.

Why is this innovative, different, or revolutionary? Because you are going to not only take money from novices with this strategy, you’re going to take money from other advanced traders. Advanced traders want big money. They didn’t spend years learning to trade so that they could make $100 a day. They want big, big returns. They go for 40, 50, 100 pips at a minimum. Jimmy Young, an accomplished currency trader and a friend of mine, only trades a few times per month and goes for 100 pips or more every time. I also teach and take these types of trades myself. But it’s only one way of approaching the market, and it’s not easy.

Advanced traders are conservative with their trading capital because the market can take BIG swings against them when they’re waiting for 100+ pips. Some advanced traders will think you’re nuts for getting out of a trade at 10 pips. What if it goes to 100 pips? Or 200? Won’t I be upset that I missed out?

Not at all. You should find ways to trade so that your average gain is larger than 10 pips – and at least the same size as your average loss, or better. But I’m never displeased with 10 pips on any given trade.

Let me repeat that:

I am never displeased with 10 pips of profit.

GETTING MORE THAN 10 PIPS

Let’s say that I find a great opportunity to go for 10 pips on a trade. I submit a market order, to buy the EUR/USD at 1.2900. I set a stop at 1.2880 (20 pips) and I do not set a limit order.

I am now long (because I bought) the EUR/USD at 1.2900.

When the price that I can sell at reaches 1.2910, I have earned 10 pips. I can either exit the trade with my profit, or stay in the trade longer. Here is how I stay in the trade:

I move my stop to break even. If my initial stop was 20 pips (or, on this trade, at 1.2880), then I can move my stop to 1.2900. That means that if the price falls back to 1.2900 my trade automatically closes and I have lost nothing. I have gained nothing. I have traded defensively.

But if the trade goes to 1.2920, and 1.2930, and beyond, I am prepared to get more money. I can lose nothing — I am in a 100% risk free trade. Now I can let my profit run and I don’t have to worry about anything.

Many traders ask me why I would do something like that. Why would I accept a break even trade? My answer is a question: Out of 10 trades, would you accept 5 break even trades, 2 losers of 20 pips, and 2 winners of 50 each? I would. That’s trading defensively, and it’s what I want you to do, at least at the beginning of your trading. You have to cut your losses short. Get out of the losers fast. Make sure you stay in the winners longer.

How do you know when to just get out with 10 pips? I say, get out with 10 pips any time you want. It’s ok to just take 10 pips.

How can you make money if your stop loss is at 20 or 30 pips and your gain is only 10 pips? You’re not going to take 10 pips every time. This is not going to be your only trading strategy. This is one part of your trading toolbox. Remember that you are going to move your stop to break even sometimes and go for more than just 10 pips.

That said, I have taught traders who have learned to trade for 10 pips of profit more than 90% of the time. They have made a lot of money going for small gains.

If you earned 10 pips every day for the next 12 months, and you started next year with over $100,000 in your trading accont, you would be making between $10,000 and $17,000 per month trading (depending on your risk tolerance). Can you do this? Absolutely.

Can you do this today? Maybe, maybe not. You have to dedicate yourself 100% to learning how to trade intelligently.

10 Principles

1. Buy and sell on breakouts of support and resistance. Or, sell when a currency pair hits resistance and buy when it hits support. I teach this in the 1 on 1 training, and this is my major trading strategy.

2. Stop trying to make $8 million on every trade.

3. Always have a stop loss in place. Always obey your stop losses.

4. Goal: + 10 pips every time you trade.

5. You can set your stop to break even on 10 pips of profit, and then go for more.

6. There is no ‘makeup’ strategy. If I take a loss, then I’m just trying to end up with a 10 pip gain for the day. If I can’t get it, then I don’t try for 20 the next day, or whatever. I can keep trying for the 10 pips gain as long as I haven’t lost more than 5% of my capital.

7. Time: I can trade for a set number of hours per day, meaning I can have the trading platforms open and sit at my computer for a max of, say, 5 hours per day. If I can’t earn my 10 pips during that time, then I can set my stops and limits and walk away, but I can’t actively watch the market any longer.

8. You must have a daily routine. More on that below.

9. You do not have to trade every day.

10. Cut your losses as early as possible and ride your gains as long as you can. Stops should never be less than 15 pips (that’s too tight for an initial stop) but limits are, well, limitless.

A Strategy:10 Daily Routine

Here’s a daily routine that I’ve used in the Strategy:10 system. Some of the most successful months of my trading career happened when I followed this plan.

Up at 3:00 am Eastern Standard Time (when the market is most active).

Check the charts.

Ask the following questions:

1. Where did the USD close (5pm EST) yesterday against the majors?

2. What effect will today’s economic reports have, if any, on the forex market?

3. Are we at an all time high or low on any currency pair?

4. What one pair am I going to focus on today?

5. Where are the major areas of support and resistance on this pair?

6. What are some good breakout entries? Some good entries when a pair fails to break out?

Following this set of questions does not ensure that you are going to earn 10 pips every trade. But it certainly helps you. The most important question you can ask is What is the major trend in the currency pair that I am watching? If you trade with the trend, you are more likely to be able to find some 10 pip trading opportunities.

About the author

Rob Booker is an active proprietary trader, money manager and forex educator. Mr. Booker has trained hundreds of forex traders around the world, assisting them with developing their own trading systems. But more importantly, Rob focuses on helping traders deal with the mental, psychological, and discipline issues related to trading.

You can visit his blog at: http://www.piptopia.com or his website at http://www.robbooker.com