

Making a Mountain out of a Molehill

How to turn an average
winning trade into a
large winning trade

By Russ Horn



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Making a Mountain out of a Molehill

I am guessing you are trying to figure out what this book could possibly be about. Does it have something to do with psychology... making a big deal out of what should be no deal at all?

Or is it about poor use of stop losses and bad trade management, allowing a small loss turn into a big loss?

You are right, that it's not about these things at all.

Making a mountain out of a molehill does what it implies; it takes something small and turns it into something big. In the case of this short ebook, we will be discussing WINS!

How you can take a small winning trade and turn it into a large winning trade.

There are a couple of ways that I am familiar with. One method, I used to turn what was initially going to be a 250 pip winner into an 8500 pip winner.

So, how do you take an average trade and turn it into a big trade?

Method number one:

- Move up timeframes as the trade progresses. Manage you trade on progressively higher timeframes as you go farther into profit.

Method number two:

- Add to your winning positions. As the trade progresses, you will add additional lots to the winner, in effect, winning with 5 trades instead of only one.

Method Number One: Timeframes

This one takes more time to perform, and the opportunity to manage your trade from progressively higher and higher timeframe isn't always available. The upside for this is that when the opportunity arises, it can be worth the wait! The pips become plentiful!

Step one:

Take a trade as usual. If you are trading the hourly chart, for example, you would find your trade and take it as per the rules of your trading system.

Step two:

Be on the lookout for a setup on the next higher timeframe. Now that you have taken a long trade on the 1 hour chart, you will check out the 4 hour chart (the next higher timeframe) to see if you can catch a setup occurring there in the same direction. Once the trade entry has signalled on the 4 hour timeframe, your trade management techniques now move from the 1 hour timeframe to the 4 hour timeframe.

This process from the initial timeframe to the next higher timeframe (in this case the 1 hour to the 4 hour) happens very regularly. You can expect to catch these setups on a consistent basis. Well, almost as consistently as the regular setup on the higher timeframe happens. The smaller initial timeframe is essentially just getting you in earlier.

Step three:

Repeat step two as it applies to the next higher timeframe. As the trade progresses in your favour on the second timeframe, be on the lookout for the setup in the same direction on the next higher timeframe. In the example we are using, you will have gone from the 1 hour to the 4 hour, and now in step three, you are looking to find a setup that triggers a trade on the daily timeframe.

It's important to note that although a trade signal is triggered on a higher timeframe, you do not actually enter a trade on these higher timeframes. You are already in a trade from the initial smaller timeframe. When you see a trigger on the higher timeframe, this is your cue to manage the trade on this new higher

timeframe. At this point, in step 3, we see an entry signal on the Daily timeframe, so now we manage the trade based on the daily charts.

Because of the higher timeframes, we can no longer use the take profit levels we were using on the smaller timeframes. We now have to accommodate the higher timeframes with take profit levels that suit the new higher timeframes. On a daily chart, you can't use a target that is meant for the 1 hour. The switch to managing a trade on a higher timeframe also calls for a switch to a more appropriate take profit level.

To get the most out of these trades, my take profits are usually quite far away and I will use a trailing stop of some kind to manage the trade. Generally, I use price swing highs or lows to move my stops. This method often gives your trade the most room to breathe.

Most traders will never get to step 3 and that is fine. Going from step one to step 2 is enough to triple, or more, the initial trade profit potential.

Let's look at an example:

In this example we will use a very basic trading system; this one will enter a trade based on the crossover of a slow Stochastic Oscillator once price has been, or is near, overbought or oversold. If price is in overbought or oversold territory, we wait for the Stochastic to hit either the 80 or 20 levels before we enter. If it's near overbought or oversold, a cross over is sufficient.

We will start off trading the 15 minute chart. In the example below you will see the Stochastic entry signal. Price has been oversold, so now we enter a long position as the Stochastic hits the 20 level.



As the trade progresses, we then take a look at the next higher timeframe. In this case it will be the 1 hour timeframe (the 30 minute timeframe is too close to 15 minute, so I don't include it in any of my multiple timeframe analysis).



Next, we are looking at the 1 hour timeframe. As the trade on the 15 minute chart progresses, we see that the 1 hour chart signals a trade entry to go long. All the criteria were met for a good long trade.

We don't actually enter an additional trade, we simply manage the trade from the 1 hour timeframe, as though we took the trade on this timeframe.

The switch from the 15 minute timeframe to the 1 hour has already increased the potential for more gains.



As this trade progresses on the 1 hour timeframe, we look to the 4 hour, maybe there is an opportunity to manage the trade from there next.

As the trade on the 1 hour timeframe is working out, we occasionally switch to the 4 hour chart to see what is going on there. Will there be a trade setup, hmmm, let's check that out.

We see that as trade have continued to move forward, the 4 hour timeframe has signalled an entry. From here we now switch our focus to managing the trade to a 4 hour timeframe.



You'll notice the 15 minute and 1 hour entry lines are getting closer together, this is simply because on the 4 hour timeframe, the candles are becoming more compressed. There are sixteen 15 minute candles compressed into one 4 hour candle.



So, if things are moving along nicely on the 4 hour chart, we can go one step further and see what is happening on the daily chart. We might luck out and find a setup on the daily.

And alas, we find a trade entry signal on the daily timeframe.



From here, we monitor and manage the trade from the Daily timeframe. As you can see from the chart, the trade worked out very well and lasted for about a month. If you check the price on the right side of the chart, you will notice that this one trade went for about a 1400 pip run. You would have ideally walked away with just over a 1000 pip gain.

Starting from a 15 minute timeframe, initially targeting about 35 pips profit, you ended up with over 1000 pips. What is the best part is if your 35 pip initial target was for about a 2% gain, you would have bagged just over 28 times your initial target. 2% gain times 28 times equals a 56% account growth on one trade! It lasted all month, but was worth the return.

Of course, this is a very nice example, they won't all work out as well as this one, and like any trade, you run the risk of a losing. It's important to always use appropriate trade management techniques.

Is there a way you can see when one of these awesome setups might occur?

Yes. You would want to take a look at the higher timeframes to see if there is a trade that could potentially be setting up in the next few days. If you see a long trade potentially in the works on the Daily timeframe, you would be looking to the lower timeframes, the 4 hour and the 1 hour for a trade you can take in that direction. Moving as low as the 15 minute chart is often a bit of a stretch, but as you see, it can be possible. You would better see the potential on a 1 hour and 4 hour if you want to enter on a 15 minute.

This will take some practice and some work, but you can often multiply your winnings by moving to at least one higher timeframe. The 1 hour to the 4 hour, for example, or the 15 minute to the 1 hour.

You can make a mountain of pips from a molehill.

Method Number Two: Adding To Your Position

Adding to your position is the more common out of the two methods. It's simple to do and you have a lot more opportunity to make this one work.

What does it mean to add to your position?

Adding to your position means that as the trade progresses in your favour, you open more positions. If you open your initial trade with 1 lot, you would then add another lot to your trade when the market moves, or performs a certain distance or event.

Version one: Pip Count

You can add to your winning position when the trade you are in reaches forward by a predetermined amount of pips. For example, if your take profit is 50 pips away and you are reasonable certain you will get your target, you could place entry orders 10 pips apart. The first lot will win 50 pips, the second will get you 40 pips, the third 30 pips and so on.

Lot 1 = 50 pips

Lot 2 = 40 pips

Lot 3 = 30 pips

Lot 4 = 20 pips

Lot 5 = 10 pips

All the positions would net you 150 pips instead of the single lot method which would only get you 50 pips. You effectively earned 3 times your money in the same market move.

Below is an image of a trade we took. You see the royal blue line is the first entry. This is where we got the signal to enter the trade after the trade setup.

The aqua lines are orders that are placed 20 pips apart. Each time price hits a new aqua level, we get taken into another position. All positions have the same target and are managed in the same manner.

Finally, the green line is the take profit level where all 5 open positions are closed. The take profit level is 120 pips away from the first entry price. The first order closes for 120 pips, second for 100 pips, third for 80 pips, fourth for 60 pips and finally the fifth for 40 pips. All trade come together for a grand total of 400 pips as opposed to the 120 pips the one initial trade would have made you.



The number of entries and the pip count apart from each other is something you have to decide on. Your risk will also have to be determined. Experiment with it and see what you can come up with.

Version two: The Event

An example of an “event” would be opening an additional lot when, as the market moves in your favour, every time the Stochastic crosses over in the direction of your trade. You start out with a single lot, and then as the crossover occurs, you would now open a second lot to have 2 lots now open. You can do this over and over. You can add a second, then third, then forth... however many your move will allow.

This event method has several options. You can use:

- Stochastic Oscillator crossover
- Fast moving average crossover
- Recent levels of support or resistance
- Fractals
- And many more

One method of finding several entry opportunities is to step back to a smaller timeframe. If you find a trade on the 4 hour timeframe, dropping back to the 1 hour will give you those stochastic crossovers, the moving average crossovers, the levels of support or resistance, or whatever you choose to use to find additional entries.

On the following page, you will see a 4 hour chart where a trade was triggered and eventually closed in profit.

The entry in this example is the same as the previous examples, the crossover of the slower Stochastic Oscillator. We get an aerial view of the trade as it opened and closed

Below is the 4 hour trade, open and closed.



Above we see the trade, and if we traded one lot, we would have done well.

It's important to understand that the trade opens and closes on the 4 hour timeframe. We will move down to the 1 hour timeframe to get a better look at potential additional entries.

On the following pages, we see a 1 hour version of the trade as it progresses.

The example below we use the 1 hour timeframe to watch for swing lows.

As the trade progresses, we get a move forward in a zig-zag fashion. Every time price zags up, it will leave a swing low. When this event occurs, we place an entry order a few pips below the swing low. As price comes back down, it will drop below the previous swing low and as it does this, it will trigger another entry.



You see in the above chart, there are 4 additional positions that are opened. The last swing low doesn't trigger an entry as the price never breaks below.

The last open position almost always ends up being a small loser if you are trailing your stop on the 4 hour chart. If you are using a target as your exit, all your positions will be closed in profit.

Below you will see that we have shortened the Stochastic setting to 8,3,3.

The quicker setting will allow for a more regular crossing back and forth of the stochastic Oscillator. As the Stochastic crosses up and then back down, we will add another position on the close of the candles that crosses the stochastic back down. To be on the safer side, you could place an entry order below the low of the candle that makes the Stochastic cross over.



Again, if you are trailing your stop, you will generally find that the last position you take will close at a small loss. If you have a hard target, all your open positions will close out in profit.

There you have it!

A few different methods you can use to make a mountain out of a molehill.

Don't just jump into these methods on your live account, you must practice these techniques on a demo account first. This might not be for you, but you'll know for sure after you practice a little bit.

These are techniques that big traders use to get bigger quicker. Your monthly goals could easily be doubled using methods like this.

Try it out, see what you think. You might find additional methods to use to add to your positions.

One important note!

Never add to a trade unless all your other open positions are in profit. If you get a stochastic cross in your favour, but your last position is minus a few pips, don't take on the new position.

Best regards and best of luck in your trading career!

Russ Horn

Are you still looking for a decent trading system?

I have produced a commercial system called Forex Master Method. It is a great system and it works well. I have been using it for the last several years and it is currently being used by traders in various banking and financial institutions.

You can check it out here:

<http://www.forexmastermethod.com>

Thanks for reading this ebook.

Best of luck to you!



Russ Horn

<http://www.forexmastermethod.com>