

A Different Take on Money Management

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Anyone who read one of my books or spent time in one of my trade rooms knows I put a lot of emphasis on using sound Money Management principles when trading. In fact, I've gone so far as to suggest the ever elusive "Holy Grail" of Forex Trading is more likely to be found in Money Management than in some trading method or system.

The key component to sound Money Management is keeping your risk low and your chance at profit high. In other words, don't bet the entire farm on a single trade and use tight stop loss settings to limit your losses to an amount that won't leave you suicidal should you actually take a loss every now and then (and we all take losses, I don't care what the sales letters say!)

Having that in mind, you might think that after reading the next few pages someone hacked my computer and put this guide out under my name.

I can assure you, it's really me writing this.

Let me explain.

I've always known about this method of trading. It's hyper-aggressive and can ultimately leave you with your entire account exhausted and every bit of your available margin tied up in a single trade.

In other words, it's exactly what I've counseled people to NOT do for the last 6+ years.

But stick with me.

The problem with this style of Money Management is that it requires you to have SUPREME CONFIDENCE in the trades you are taking...meaning you need to be somewhere between 85 and 100% certain you're going to win the trade.

And honestly, I've never had that much confidence in any trading method, including the Renkos. Renkos are great, don't get me wrong, but if you blindly follow every signal you get off of the Renko charts, you are going to run into those periods where you get chopped to bits by a boatload of signals that go nowhere except straight to Loserville.

It's taken me this long, but I've finally located, traded, refined and traded again a method I really believe will put me on a path of 80-90% consistent winners (and yes, it's the Renko Advanced method I'm referring to).

This new method of trading Renkos has **nearly** eliminated the choppy trades that end up killing your account with multiple signals that go nowhere. Since you only get 3-6 signals a day, and the vast majority of those signals end up at +20 or greater, you can use this aggressive Money Management method with confidence, knowing you are going to

end the day in profit, with many days ending in profits that normally take you a week or more to accumulate.

Convinced yet? I hope so, because I'm done selling you on the method.

Here are the Money Management rules:

When the Renko Advanced method gives you a signal to buy or sell, you execute a trade using a lot size consistent with the conservative rules of money management (meaning you risk no more than 1-2% of your account if possible, and no more than 5% in all but the most extreme cases (such as when your account is underfunded and you cannot add any more cash to your account at the moment.)

Assuming the trade continues to move in your direction, you continue to execute new trades every time a new candle is formed. You do this for 5 consecutive candles and then quit, either exiting when the sixth consecutive candle closes or when the first opposite color candle closes.

If the trade stalls out at any time prior to your opening 5 new trades, you exit when the first opposite color candle forms and closes.

Rather than explain further, let's look at every option you can possibly see when following this method of extreme money management, using Sell signals as our example.

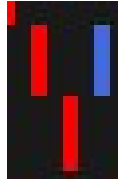
If you have a \$1,000 starting account, you can safely trade 1 mini-lot (\$1 pips) with a stop loss of 10 pips (more or less...you do have to take into account spreads and commissions, so the true stop loss on an account where the EUR/USD spread is 1 pip or less and a commission is \$7 per full lot traded round trip, your actual stop loss would be closer to 12 pips). This puts your risk at about 1.2% which is well within the realm of reasonableness.

The first trade is a Sell which happens at the bottom of the Red Box. If you lose this first trade (meaning you never saw another candle form in your direction)



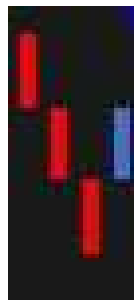
you've lost 12 pips (the 1.2% mentioned above, which includes anticipated spreads and commissions). This picture shows a sell trade that immediately turned around and formed a candle in the opposite direction, which is your signal to exit the trade.

If your next trade goes a little better, and you actually see a new candle form in the direction of your trade before the trade falls apart and you then see an opposite color candle, you are more or less in the same boat as before, only with 2 trades open.

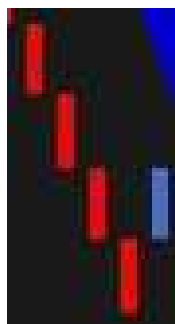


Here you are in a Sell trade (top left [red] candle) and price moved down and formed another red candle before reversing on you. You would lose the same 10 pips as demonstrated in the previous example, plus an additional 5 pips when your original trade closed out as well. So you would be down 15 pips (plus spreads and commission).

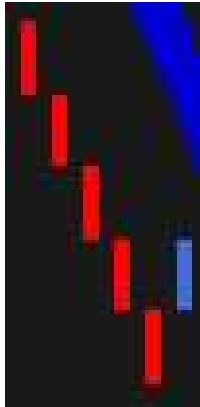
All the following examples show what happens when your trade continues to move in your direction and additional boxes are formed.



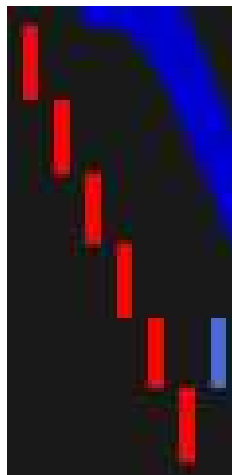
Here your entry was at the bottom of the upper left hand red box. Two additional boxes form before a reversal takes place. You lose the same 15 pips as you do when the last box takes the hit on the reversal, but because price closes at your original entry point in the first trade, you lose nothing on that trade (break even) and you are only down 15 pips.



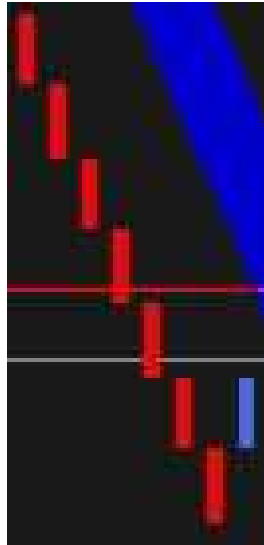
Here your entry is the bottom of the upper left hand red box. You lose the same 15 pips as described in the section above but make 5 pips off the entry candle, for a net loss of 10 pips.



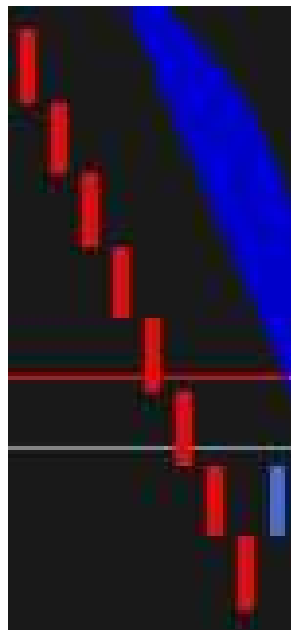
Here your entry is at the bottom of the upper left hand red box. You lose the same 15 pips on the reversal, but make 10 pips off your original entry box and 5 pips off your second entry box for a total of 15 pips. Subtract the 15 you lost at the end and you have essentially broken even on the trade.



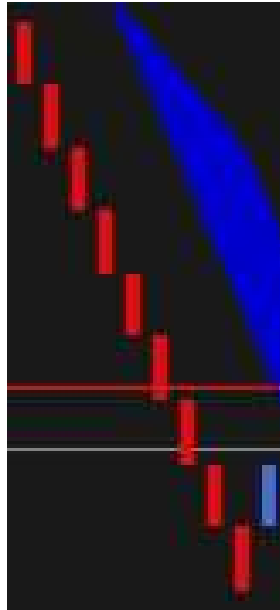
Here your entry is at the bottom of the upper left hand red box. You lose the same 15 pips on the price reversal, but your original (first) trade closes at +15, your second at +10 and your third at +5, for a total of +30 minus the 15 you lose at the end for a profit of +15 pips.



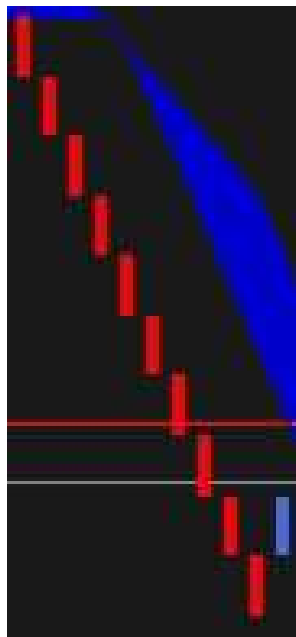
Here your entry is at the bottom of the upper left hand red box. You lose the same 15 pips on the price reversal, but your original (first) trade closes at +20, your second at +15 and your third at +10 and your 4th at +5, for a total of +50 minus the 15 you lose at the end for a profit of +35 pips.



Here your entry is at the bottom of the upper left hand red box. You lose the same 15 pips on the price reversal, but your original (first) trade closes at +25, your second at +20 and your third at +15, your fourth at +10 and your fifth at +5 for a total of +75 minus the 15 you lose at the end for a profit of +60 pips.



Here your entry is at the bottom of the upper left hand red box. You lose the same 15 pips on the price reversal, but your original (first) trade closes at +30, your second at +25 and your third at +20, your fourth at +15, your fifth at +10 and your sixth at +5 for a total of +105 minus the 15 you lose at the end for a profit of +90 pips.



Here your entry is at the bottom of the upper left hand red box. You lose the same 15 pips on the price reversal, but your original (first) trade closes at +35, your second at +30 and your third at +25, your fourth at +20, your fifth at +15, your sixth at +10 and your seventh at +5 for a total of +140 minus the 15 you lose at the end for a profit of +125 pips.

I could go on but in reality you will rarely see more than a 50 pip move in one direction without at least one retrace large enough to trigger a box formed in the opposite direction.

Here is where the math really works in your favor.

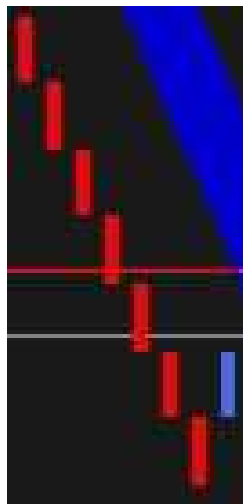
You never let a trade run past the first box that closes against you. So you are limiting your losses in the best way possible and keeping those losses under 20 pips total in pretty much all cases that I can think of (including spreads and commissions).

But when you do catch a trade that runs in your direction for a good while, by adding in new trades with every new box that is formed, your growth becomes literally exponential while your losses will still remain around -15 to -20.

But let's take a step back for a moment, and look at what I consider to be a normal price move using this Renko Advanced method.

As I mentioned earlier, the vast majority of these trades move to +20 or greater. From my visual observations it looks like around 50% of your trades are going to end up somewhere between +20 and +30.

Remember that a 30 pip move, left to run until an opposite color box closes, will net you around 35 pips.



So knowing the odds are you won't see much more than +30 on any given trade, what if you make an executive decision to quit adding in new trades after your original trade reaches +25 and close all your trades when that original trade reaches +30?

$30 + 25 + 20 + 15 + 10 + 5 = 105$ pips off of a very reasonable 30 pip move.

What if you close out early like that and more candles are formed in your direction?

Who cares?

You just closed out a trade for 105 pips worth of profit on a move that happens 2 or 3 times a day on a normal day. So you lose some extra pips by not staying in the trade.

Who cares?

When was the last time you closed out a trade for 105 pips?

If you're the average trader, it doesn't happen often, if ever.

Remember, 50% or more of your trades will reverse at around +30 and if you follow the rules and exit when the first reversal candle closes, you end up with +35 pips.

Which sounds better to you, +35 or +105?

Do you see my point?

When you are just starting out with this method, I strongly recommend you stick with the Money Management rules I laid out earlier (1 mini-lot for each \$1,000 in your account).

But as you use this method and grow comfortable with it, you could easily double up the size of your trade, and trade with 2 mini-lots per \$1,000 (or 2 full lots per every \$10,000) in your account. Your risk would from 1.2% to 2.4%, but that is still an acceptable level of risk in my book, especially using a trading method that has a very high win percentage.

So now instead of closing out a 30 pip trade with 105 pips worth \$105, you close out the same trade for \$210 (remembering this is a 30 pip trade we are talking about). It would not take too many winning trades to turn a \$1,000 account into a \$2,000 account, and so forth (5, actually).

A Few Final Random Thoughts

The examples I listed above are what I consider to be "best case scenarios" where you have plenty of time to enter each trade so that you can maximize your profits as price moves down.

Obviously (to me, anyway) that won't happen every time. Some time you get fast price action due to news events or other market moving incidents that cause such a fast jump in price you have no time to react and enter trades as prices moves off in one direction.

Who cares.

These trades are like city buses. If you miss one, don't worry. Another will be along shortly.

Of course, you can always enter pending trades once you get a signal, so that if you do get some quick price action in the near future, your trades are sitting there ready and waiting for execution.

If you have a Trade Assistant, such as FXSynergy or the like, you can use their 1-click options to quickly get in and out of trades, without resorting to the clunky, time wasting trade execution functions built into all MT4 platforms.

I am not 100% certain about this, but I think you can even program some of these trade assistants to automatically place pending trades 5 pips apart once you enter Trade #1, and even program them to exit all trades once Trade #1 reaches +30.

And if the existing trade assistants are unable to perform this relatively simple task, worry not. There just might be one available soon that will handle trades like this from start to finish (hint-hint).

And please be aware that just because most days include 2 or 3 winning moves that qualified under the rules of Renko Advanced it does not mean that EVERY DAY will include 2 or 3 qualifying moves. In fact, the previous two days were brutal trading days, and only 1 out of 9 signals actually completed a full +30 move. Had you traded Renko Advanced using this aggressive style of money management, you would have ended both days down about 30-40 pips each day.

Then today had 4 consecutive winning moves on all four of the pairs I am watching (E/U, G/U, E/J and G/J) and you would have ended the morning up more than 400 pips from where you closed out yesterday.

Remember, small losses, BIG WINS. That's how you get ahead in this racket.

Finally, if you decide to give this Money Management method a shot, remember:

GET OUT ON THE CLOSE OF THE FIRST OPPOSITE COLOR CANDLE.

If you stick around any longer than that, you put your account at risk unnecessarily.

If you don't have my Renko package, which now includes the Renko Advanced software and training material, you can grab a copy for just \$49 at www.simple4xsystem.net

All of the Renko Advanced material is at the bottom of Page 3 of the downloads.