

The opportunities of trading the Forex hedged grid system

I have seen the hedged grid system been used successfully (and highly unsuccessfully) over the last few years. Unfortunately the failures tend to discourage traders from taking advantage of this great system. I have found that the failures are mainly due to ignorance, impatience and greed (common reasons for trading failure).

In a nutshell the grid system uses the following methodology. You start by buying and selling a currency. When the price moves a predetermined distance (grid leg) you cash in the positive leg, leave the negative leg and buy and sell again. Sooner or later the system goes positive and you would then cash in when it is positive.

This is a brief summary of the content of our free hedged grid trading course available on expert-4x.com. Please refer to this course for more details of how money is made. The attraction is that the system is reasonably mechanical, can be programmed and does not take much supervision as exclusively entry orders are used.

Money is made when the price retraces 100%, 50%, 33% at various levels. This starts looking like a strategy that supports the Fibonacci concept. The grid system is also based on the nature of the market to trade sideways 80% of the time and to trend 20% of the time.

The dangers are that what if the price does not retrace and continues to trend. The Grid system can not make money in a trending market – full stop. One has to realize that. You therefore need Strategies to minimize damage during these periods:-

Firstly I have found that the biggest mistake made by traders is that they select a very small grid leg sizes e.g. 20 to 30 pips. This is a recipe for disaster. The trick is to use big leg sizes between 150 and 300 pips. What this does is that it sometimes turns a trending phase into movement in a sideways market. I would typically use 300 pips for the GBPJPY and 150 pips for the EURUSD for instance.

Secondly there is no rule that says that the legs have to be the same size. So I change my leg sizes in trending markets to be even bigger. If I started with 150 for the 1st leg I would go to 200 for the 2nd leg and 250 for the 3rd leg etc. This makes sure that I am carrying less loss making transactions in a trend.

Thirdly – sometimes it is wise to increase the number of lots with the trend compared to the numbers against the trend in a good trend. However be aware of having the same number of sell and buy transactions. All you will have done was lock in your current status in a 100% hedge.

Fourthly – This is the biggest change and most important one that I personally have made in my grid trading strategy. Always cash in all your transactions when your system is positive and when the price reaches the end of one of your grid legs. By cashing in you are reducing the risk of carrying negative lots in a trending market. This also gives you an opportunity to re-assess the market conditions.

Fifthly:- Cash in a start again is always an option. One of my strategies is to cash in all my open positions when the 3rd leg of my grid is reached and start again. Experience has taught me that this is a short term pain that goes away very quickly and is soon forgotten.

People that have traded the grid system will immediately see how the above approaches will reduce the risks of exponential losses building up in a strongly trending market. Please feel free to contact Mary McArthur at marymcarthur@expert4x.com for clarification on any items discussed above. She has numerous examples of successful applications of grid trading

This article is part of a series and many more will follow on Grid trading, money management and Forex Trading Strategies.

About the Author

Mary McArthur is a Trader associated with expert-4x.com. She provides the main input into the page rated Forex Trading Blog www.forextradeoftheday.com and assists with the educational and trading alert services provided by www.forextradersupportservices.com. She is considered an expert of the hedged grid system and has co authored a free grid trading course on www.expert4x.com. She can be contacted at marymcarthur@expert4x.com.