



Forex Scalping – Extensive Guide

on

How to Scalp Forex

Reviewed and recommended
by Rita Lasker, 2012



Extensive Guide on How to Scalp Forex

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Let's take a look at the contents of this article where forex scalping is discussed with all its details, advantages and disadvantages. Our suggestion is that you peruse all of this article and absorb all the information that can benefit you. But if you think that you're already familiar with some of the material, to shorten your route, we present the table of contents of this article.

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1. **How scalpers make money:**

* Here we will take a look at the logic behind scalping, and we'll discuss the best conditions and necessary adjustments which must be made by a scalper for profitable trading.

2. **Choosing the right broker for scalping:**

* Not every broker is accommodative to scalping. Sometimes this is the stated policy of the firm, at other times the broker creates the conditions which make successful scalping impossible. It is important that the novice scalper know what to look for in the broker before opening his account, and here we'll try to enlighten you on these important points.

3. **Best currencies for Scalping:**

* There are currency pairs where scalping is easy and lucrative, and there are others where we advise strongly against the use of this strategy. In this part we'll discuss this important subject in detail and give you usable hints for your trades.

4. **Best times for Scalping:**

* There is an ongoing debate about the best times for successful scalping in the forex market. We'll present the various opinions, and then offer our own conclusion.

5. **Strategies in Scalping:**

* Strategies in scalping need not differ substantially from other short-term methods. On the other hand, there are particular price patterns and configurations where scalping is more profitable. We'll examine and study them in depth in this section.

a. **Range Scalping:** Some traders consider ranging markets better suited for scalping strategies. Here we'll examine why, and how to scalp under such conditions.

b. **Breakout Scalping:** We'll examine news breakouts, and technical breakouts separately and discuss suitable scalping strategies for both.

c. **Trend Scalping:** Here we'll take a general look at forex scalping in trending markets.

6. **Trend Following while Scalping:**

* Trends are volatile, and many scalpers choose to trade them like a trend follower, while minimizing the trade lifetime in order to control market risk. In this part we'll examine the usage of Fibonacci extension levels for scalping trends.

7. **Disadvantages and Criticism of Scalping:**

* Scalping is not for everyone, and even seasoned scalpers and those committed to the style would do well to keep in mind some of the dangers and disadvantages involved in using the style blindly.

8. **Conclusions on Scalping:**

* In this final section we'll combine the lessons and discussions of the previous chapters, and reach at conclusions about who should use the forex scalping trading style, and the best conditions under which it can be utilized.

Introduction to scalping:

Forex scalping is a popular method involving the quick opening and liquidation of positions. The term "quick" is imprecise, but it is generally meant to define a timeframe of about 3-5 minutes at most, while most scalpers will maintain their positions for as little as one minute.

The popularity of scalping is born of its perceived safety as a trading style. Many traders argue that since scalpers maintain their positions for a brief time period in comparison to regular traders, market exposure of a scalper is much shorter than that of a trend follower, or even a day trader, and consequently, the risk of large losses resulting from strong market moves is smaller. Indeed, it is possible to claim that the typical scalper cares only about the bid-ask spread, while concepts like trend, or range are not very significant to him. Although scalpers need ignore these market phenomena, they are under no obligation to trade them, because they concern themselves only with the brief periods of volatility created by them.

Is Forex Scalping for you?

Forex scalping is not a suitable strategy for every type of trader.

The returns generated in each position opened by the scalper is usually small; but great profits are made as gains from each closed small position are combined. Scalpers do not like to take large risks, which means that they are willing to forgo great profit opportunities in return for the safety of small, but frequent gains. Consequently, the scalper needs to be a patient, diligent individual who is willing to wait as the fruits of his labors translate to great profits over time. An impulsive, excited character who seeks instant gratification and aims to “make it big” with each consecutive trade is unlikely to achieve anything but frustration while using this strategy.



Attention is essential for the forex scalper

Scalping also demands a lot more attention from the trader in comparison to other styles such as swing-trading, or trend following. A typical scalper will open and close tens, and in some cases, more than a hundred positions in an ordinary trading day, and since none of the positions can be allowed to suffer great losses (so that we can protect the bottom line), the scalper cannot afford to be careful about some, and negligent about some of his positions. It may appear to be a formidable task at first sight, but scalping can be an involving, even fun trading style once the trader is comfortable with his practices and habits. Still, it is clear that attentiveness and strong concentration skills are necessary for the successful forex scalper. One does not need to be born equipped with such talents, but practice and commitment to achieve them are indispensable if a trader has any serious intention of becoming a real scalper.



Automated trading systems



Scalping can be demanding, and time-consuming for those who are not full-time traders. Many of us pursue trading merely as an additional income source, and would not like to dedicate five six hours every day to the practice.

In order to deal with this problem, automated trading systems have been developed, and they are being sold with rather incredible claims all over the web. We do not advise our readers to waste their time trying to make such strategies work for them; at best you will lose some money while having some lessons about not trusting anyone's word so easily. However, if you design your own automated systems for trading (with some guidance from seasoned experts and self-education through practice) it may be that you shorten the time which must be dedicated to trading while still being able to use scalping techniques. And an automated forex scalping technique does not need to be fully automatic; you may hand over the routine and systematic tasks such as stop-loss and take-profit orders to the automated system, while assuming the analytical side of the task yourself. This approach, to be sure, is not for everyone, but it is certainly a worthy option.

Some words on trade sizes and forex scalping

Finally, scalpers should always keep the importance of consistency in trade sizes while using their favored method. Using erratic trade sizes while scalping is the safest way to ensure that you will have a wiped-out forex account in no time, unless you stop practicing scalping before the inevitable end. Scalping is based on the principle that profitable trades will cover the losses of failing ones in due time, but if you pick position sizes randomly, the rules of probability dictate that sooner or later an oversized, leveraged loss will crash all the hard work of a whole day, if not longer. Thus, the scalper must make sure that he pursues a predefined strategy with attention, patience and consistent trade sizes. This is just the beginning, of course, but without a good beginning we would diminish our odds of success, or at least reduce our profit potential.

1. How forex scalpers make money

We have already stated that scalping is about making small profits over a long time which can reach significant amounts when combined. But of course, scalping is not about randomly entering the market and buying or selling while expecting luck to be on our side. Instead, a successful scalper is very methodical about both his decisions and expectations from the market. He aims to

combine various unique features of the forex market to create profitable conditions for trading, and in this sense he aims to exploit the most basic features of the market for his purposes. Scalping is not only about exploiting economic events, price trends, and market events, but also the basic structure, and internal dynamics of the currency market itself, and this is what sets it apart from other strategies such as swing trading or trend following.



Exploiting sharp price movements

Many scalpers like to concentrate on the sharp movements which frequently occur in the currency market. In this case, the aim is to exploit sudden changes in market liquidity for quick gains later. This kind of scalping is not very much concerned about the nature of the market traded, whether prices are trending or ranging, but attaches great importance to volatility. The purpose is to identify the cases where temporary shortages of liquidity create imbalances that offer trade opportunities.

In example, let's consider a typical for traders of the **EURUSD** pair.

In most cases, spreads are tight, and the market is liquid enough to prevent any meaningful gaps in the bid-ask spreads. But when, for whatever reason (often a news shock, but we don't concern ourselves with the cause here), liquidity dries out, and a significant bid-ask gap appears, the quote will be split into two distinct pieces of data: the bid is, let's say 1.4010, while the ask is 1.4050.



A very short while, the bid-ask spread will narrow, and the price will gravitate rather hastily to one side. Scalpers use these very fast fluctuations for making quick

profits. Right after the price has moved up to 1.4030, and the bid-ask spread has narrowed to normal levels, a scalper may sell, for example, and as volatility takes the price lower to, 1.4020, he closes his short position to open a long one, and so on. The point is to profit from the emotional reactions of the market by remaining calm, and betting that behind the sound and fury, there is nothing of significance, at least for the immediate term.

We'll discuss this trading method in greater detail while examining news breakouts. Gaps which can be exploited by scalpers appear most often in the aftermath of important news releases. The reader can himself open up the five minute charts of the price action after a non-farm payrolls release, for example, and observe the many "loops" where the price action returns to where it began after a series of very severe zigzags. Some scalpers exploit such periods of emotional intensity for profit in the manner just mentioned. They will buy or sell just before the release itself, and trade the sharp, brief swings for a quick profit.

Leverage



Scalping involves small profits compounded over a long time to generate significant sums. But often the returns from scalping are so small that even when combined over weeks or months the returns

are insignificant for the amount of effort involved, due to the small size of the actual movements in the currency market. To overcome this problem, almost all traders involve some amount of leverage while scalping the forex market.

The level of leverage appropriate for a scalper is a subject of debate among traders. But in spite of the debate, the most solid advice that any beginning scalper should heed is to keep leverage as low as possible for at least the first two, three months of trading. We do not want to take significant risks while we are still unsure about which strategy we should be using while trading. On the other hand, since the scalper is certain to use a predetermined stop-loss, and not to tamper with it (a scalper doesn't have that much time to spend on each individual trade), a leverage ratio that is inappropriate to slower traders can be acceptable for him. For instance, a trader whose positions are held over weeks may take a long time before deciding to exit a position, even if the market is against him for a time. But the scalper will immediately close a position as soon as the stop-loss level is reached (and the process is usually automatic).

In short, a higher level of leverage (up to 20 or 50:1) can be acceptable for traders who open and close positions in very quick succession, provided that stop-loss orders are never neglected. But there is still one caveat: in cases like the aftermath of a surprise Fed decision, or an unexpected non farm payrolls release, spreads can widen instantly, and there may not be enough time to realize the stop-loss order even with a competent broker, and losses would be multiplied if high leverage were to be used. To prevent such outcomes from materializing, it is a good idea to lower the leverage ratio significantly if we seek to trade market events that can cause gaps in the bid-ask spread, and create very large volatility.

Scalping Strategies



Although we'll discuss scalping strategies extensively later, we need to mention here that scalping requires a considerable command of technical analysis and strategies. Since one sizable mistake can wipe out the profits of hundreds of trades taken during a whole day, the scalper must be very diligent in analyzing the market, and disciplined while applying his analysis and executing his strategies.

The role of fundamental analysis in scalping is usually very limited. During the time frames preferred by scalpers, markets move in a random fashion for the most part, and it is impossible to discuss the impact of a GDP release during a one-minute period, for example. Needless to say, events influencing the forex market are not limited to the clustered major releases of each day.

Many scheduled and unscheduled events provide input to the markets continuously, and as such, even short term movements have some form of macro-reasoning behind them. However, it is exceptionally difficult for the retail trader to keep updated with all kinds of news events occurring throughout the day, and what is more, the markets reaction is itself often erratic and unpredictable. Consequently, it is difficult to use fundamental strategies in scalping.

Finally, some traders combine scalping with another approach such as trend following or range trading and only differ from the pure practitioners of these strategies in terms of their exposure times. Although this is a valid approach, the great complexities of adjusting a trend following strategy to suit a micro-timing trade plan makes this impractical in terms of both analysis and execution.

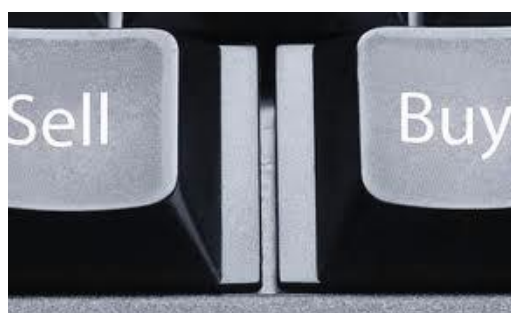
2. The Best Forex Brokers for Scalping



As important as basic concepts like leverage and spreads are for forex scalpers, they are still secondary subjects in comparison to issues related to the broker, his attitude and preferences. Quite simply, the broker is the most important variable determining the possibility, and profitability of a scalping strategy for any trader. A scalper has control over his strategies, stop loss, or take profit orders, as well as his time frame for trading, but he has no say in matters such as server stability, spreads, and the attitude of the broker to scalping.

There are hundreds of brokers operating in the retail forex market today; naturally, each has a technical capability, and business model suitable to a different trader profile. These differences are immaterial to most long term traders, for swing traders they are meaningful but not that significant, but for day traders and scalpers they are the distinction between profit and loss. At the very basic level, the spread is a tax paid on profits and losses to the broker for his services, but the relationship goes a lot deeper than that. Let's take a look at the various issues related to the scalper-broker relationship. (Once you've read this article make sure to stop by our forex broker review section to find more informations on the most popular retail forex brokers.)

Low Spreads



A trader who doesn't use the scalping or day-trading strategies will open and close may be one or two positions, at most, in a single day. Although the cost of the spread is still an important variable, a successful trading style can easily justify the relatively small fees paid to the broker.

The situation is quite different for the scalper however. Since the scalper will open and close tens of positions in a short period of time, the cost of his trades will be a very significant item on his balance sheet. Let's see an example.

Suppose that a scalper opens and liquidates 30 positions on a day in the EURUSD pair, for which the spread is commonly 3 pips. Let's also suppose that his trade sizes

are constant, and that 2/3 of his positions are profitable, with an average of 5 pips profit per trade. Let's also say that the average size of his loss is 3 pips per trade. What is his net gain/loss without the cost of the spread included?

$$(Positions\ in\ black) - (Positions\ in\ red) = Net\ profit/loss$$

$$(20*5)-(10*3) = 70\ pips\ in\ total.$$

Which is a significant gain. Now let's include the cost of the spread, and repeat the calculation.

$$(Positions\ in\ black) - (Positions\ in\ red + Cost\ of\ the\ Spread) = Net\ profit/loss$$

$$(20*5)-(10*3+30*3) = -20\ pips\ in\ total.$$

A nasty surprise awaits our hypothetical trader in his account. The number of his profitable trades were twice the number of his losing ones, and his average loss was about half his average gain. And in spite of that remarkable track record, his scalping activity gained him a net loss. To break even, he would need an average net profit of 9 pips per trade, all else remaining the same.

Now let's repeat the same calculation, with another hypothetical broker where the spread is just 1 pip in the EURUSD pair. The 5 pips per win, and 3 pips per loss (the same scenario which was examined in the beginning) with a one-pip spread would bring us an outcome of

$$(20*5)-(10*3+30*1) = 60\ pips\ in\ total\ profit.$$

Why is there such a large discrepancy in our results? Although the numbers do speak for themselves, let's remind the reader that while we earn money only on our profitable trades, we pay the broker for every position we open, profitable or not. And that is the problem.

In sum, we need to ensure that we choose the broker with the lowest spread for the currency pair we'd like to trade. A scalper must scrutinize the account packages of different brokers thoroughly before deciding to become a client of one of them.

Scalping Policy



What is a scalping policy? Although the majority of well-established firms with a history and a significant client base have an official policy of allowing scalpers freedom with their decisions, some brokers quite simply refuse to allow scalping techniques for clients. Others process client orders slowly, and make scalping an unprofitable endeavor. What is the reason?

In order to understand the cause of this, we should discuss how brokers net out their client's positions before passing them to the banks. Supposing that a majority of a broker's clients are losing money while trading, what would happen if at a time these losses were to reach such a large size that some triggered margin calls which could not be met? Since forex brokers are liable to liquidity provider banks for the profits or losses of their clients, they would have faced periodic crises of liquidity and even bankruptcy. In order to prevent such a situation from arising, brokers net-out the positions of clients by trading against them. That is, as a client opens a long position, the broker takes a short position, and vice versa. Since the result of two orders in the opposite direction is that the total exposure to the market is zero, the liquidity issue is resolved, and the firm is unimpacted by losses or profits in traders' account.

But there's a problem with this situation. We mentioned that the broker countertrades its clients' positions, and what if the client makes a profit by closing a long position, for instance. The broker then has to close the short trade which had been opened to net out the trader's long trade, and while doing so he incurs a loss. And well, isn't this a great incentive for forex brokers to ensure that their clients are constantly losing money?

Well, not so much. First of all, most of the netting is done internally, where individual traders' positions are netted out against each other without the broker having to commit any of its own funds. And the small remaining net position (the net long short or position that remains after the broker has netted out client orders against each other), is usually a losing position which can be counter-traded by the broker safely, because it is a well-established fact that the overwhelming majority of forex brokers lose money.

Now that we understand that scalping does not necessarily constitute a problem for a competent broker (just like the occasional winners are not problem for casinos), we are ready to understand why some brokers dislike scalpers so much. As we said, the broker needs to net out trader positions against each other to guarantee that its liability against banks is minimal. Scalpers disrupt that plan by entering trades all over the place, at awkward times, with difficult sizes which not only forces the broker to commit its own capital at times, but also ensures that the system is bombarded with crowded trades. Add to that the possibility that the broker's servers are not exactly lightning-fast, or modern enough to cope with the rapid flow of orders, and there you have

profitable scalpers as the worst nightmare of a broker with a slow outdated system. Since scalpers enter many small, rapid positions over a short period of time, an incompetent broker is unable to cover its exposure efficiently, and sooner or later kicks the trader out by terminating his account, or slows down his access to the system so much that the scalper has to leave by his own account, due to his inability to trade.

All this should make it clear that scalpers must trade with innovative, competent, and technologically alert brokers only, who possess the expertise and the technical capability to handle the large volume of orders arising from scalping activity. A no-dealing desk broker is almost a must for a scalper. Since trades are mostly automated in the system of a no-dealing desk(NDD) broker, there is little risk of external tampering as the system is left to sort out client orders on its own (still profitable of course).

Strong technical tools



Scalping involves technical trading. In the very short time frames preferred by scalpers, fundamentals have no impact on trading. And when they do have, market reaction to them is erratic and entirely unpredictable. As such, a sophisticated technical package which supplies an adequate number of technical tools is a clear necessity for any scalper.

In addition, since the trader will spend a considerable amount of time gazing at the screen, reading quotes, opening and closing positions, it is a good idea to choose an interface that is not too wearying on the eyes. A bright, graphically intense platform may be pleasant to use and look at at first, but after long hours of intense concentration, the visual appeal will be more of a burden than a benefit.

Also, a platform that allows the simultaneous display of multiple time frames can be very useful for a scalper as he monitors price movements on the same screen. Although scalping involves short term trading, awareness of the price action on longer timeframes can be beneficial for money management, and strategical planning.

No slippage, no misquotes, timely execution



We have mentioned in the section on brokers' scalping policies that a scalper must always seek a competent, modern broker in order to ensure that his trading style and practices are welcome. But timely execution, and precise quotes are also important for ensuring that a trader can profit with a scalping strategy. Since the scalper trades many times in the short time frame of an hour, he must receive timely, correct quotes on a system which allows rapid reaction.

If there's slippage, the scalper will be unable to trade most of the time. If there are misquotes, he will suffer losses so often that trading will be impractical. And we should not neglect the emotional pressures which will be caused by such a stressful, difficult, and inefficient trading environment either. Scalping is already a burdensome activity on one's nerves, and we should not agree to suffer the added trouble of broker incompetence on top of all the other problems which we have.

To conclude this section, we'll add that scalping is a high-intensity technical trading method which requires a highly competent and efficient broker with state-of-the-art tools. Anything less will diminish your profits, and increase your problems.

3. The Best Currencies for Scalping Forex



Scalping is a highly specialized activity which requires a favorable technical and fundamental setup to yield its full potential. In the previous section we examined the necessary preconditions sought from a broker, here we'll take a look at the currency pairs which are best suited to scalping strategies.

In general, the best currency pairs for scalping are those that are not prone to very sharp movements, or if they are, such movements are less frequent. In that sense, the best group for scalping is the group of major pairs discussed below, and among them, the most liquid and least volatile one is the EURUSD pair.

a. Majors

This group includes pairs such as the **EURUSD**, the **GBPUSD**, the **USDCHF**, and others which are formed by currencies of the most powerful and dominant economic powers in the world. Although the JPY (Japanese Yen) pairs can also be examined in this group, they behave differently and we'll examine them under the heading of carry pairs.

The main property of the majors pairs is liquidity.

Their second characteristic is relatively subdued responsiveness to market shocks.

An event which can cause a 100 pip movement in the AUDJPY pair will move the EURUSD by 30 points usually, sometimes less. The major pairs are traded all over the world, by almost all banks and important institutions (since they are often reserve currencies). They are the bulky giants of currency market in terms of trade volume, and move slowly.

Scalpers who prefer to trade ranges, or to exploit slow, and small movements in currency pairs for conservative profits can concentrate their activities in the major pairs.

b. Carry pairs

Carry pairs are liquid, but volatile. Pairs such as the **EURJPY** or **USDJPY** are traded all over the world, and trading activity is hectic, but they are also very volatile, because many financial actors use the Japanese currency to borrow and invest in various risky assets. As a result, when there is a market shock these pairs react in an excessive fashion which is difficult to interpret for trading decisions, especially so in the short time frame favored by scalpers.

The carry pairs are traded mostly for interest income. Although it is possible to scalp them as well, it is not a great idea because at times spreads widen so rapidly that even a stop-loss order cannot protect our account from a significant loss. The sudden widening of spreads is not unique to carry pairs, but while in the EURUSD pair it is often seen after the non-farm payrolls release, or major interest rate decisions, in carry pairs it is more frequent, deeper and longer lasting.

We do not advise beginners to scalp with the carry pairs. Experienced scalpers can trade them with typical trend following strategies in order to exploit breakouts and other sharp movements.

c. Exotic Currencies

Exotic is a term used in the options market, but we'll use the term to discuss the comparatively rare, less liquid, and less well-known forex pairs which are mostly unsuitable to scalping. This group includes such volatile pairs like NOKUSD (NOK being the Norwegian Krone), the Russian ruble, the BRLUSD pair (with the Brazilian Real), and many other lesser known ones.

This group is not suitable to scalping because unpredictable price gaps are frequent, and it is difficult to use money management strategies in the short term. Especially beginners should avoid them to avoid getting scalped while trying to scalp the market.

4. The Best Times for Scalping Forex

****Throughout this text, all times are EST (New York time)***

In scalping, the time period preferred will depend on the technical strategy employed. Some scalpers prefer choppy, directionless markets when utilizing this style, while others prefer to trade strongly directional, highly liquid and volatile markets. This choice is mostly a matter of personal preference, but the two kinds of markets do offer different environments where different strategies will bear greater profit. In this section we will not discuss the methods, but will consider the time periods when a particular approach is likely to bear the best results.

Also let's add here that a scalper is under no logical obligation to exit a trade if there is enough reason to believe that holding it a while longer may be profitable. The rules that should not be broken are about money and risk management, and there is nothing iron-solid about trading styles. Although in general scalpers should liquidate their positions rapidly in order to maintain consistency, there is no rule which forbids the combining of several trading styles by the same trader. It is common that during the most volatile periods of trading, positions held longer than what is common with scalping can be more beneficial and prudent. If that is the case, there is no reason to avoid doing so just because the trader considers himself a pure scalper, so to speak.



8:00-10:00 am



During this period, the **New York, London, and Frankfurt** markets are all open; there are a number of important news releases, and option expiries also take place. As such, this is by far the most liquid and volatile period of the trading day, and requires appropriate scalping strategies for exploitation.

During these two hours micro-trends proliferate, in other words, rapid and sharp directional swings are commonplace as many market events and news releases stir the waters of the forex market repeatedly. In order to exploit these movements effectively, the scalper must possess a reliable technical approach which can be used to exploit rapidly changing conditions. Although we will discuss the technical aspects of trend scalping later, we will mention the importance of building up positions and letting profits run, if possible, in this highly trending market. Of course, scalping involves rapid opening and closing of positions, but unless we let profits run in the sharp moves encountered during this period, the rapid swings that cause us losses will be able to erase whatever profit we gain with other positions. It is a good idea to be alert, and if caught in the middle of a strong trend which we have guessed correctly, there's no reason to avoid exploiting it to the full.

If we decide to build up positions in this period, we may move stop-losses gradually to breakeven for our trades so that some of them can be left to run for as long as they can. Since the stop-loss will generate a profit even if it is activated, we can go ahead and continue our scalping while the positions which are safe continue running.



3:00-7:00 pm



This period can itself be divided into two separate phases. Between 3pm and 5pm, many banks in the U.S. are still open, but they are closing gradually as the day progresses. The period between 5 pm and 7 pm is the quietest part of the trading day. Almost all major markets are closed, and while trading is still continuing, activity is subdued significantly. This is the golden sixth of the scalper who prefers calm, and slow markets where small, directionless oscillations can be exploited with great effectiveness. During this one sixth of the trading day, scalping strategies can be employed both manually, and through automation by traders who seek rapid and low risk profits.

The first part between 3-5 pm is more suitable to scalpers who prefer some volatility in the markets in order to realize more sizable profits. On the other hand, since many banks in the U.S. are still open during this period, volatility and risk are somewhat higher than the following period. **Between 5-7 pm**, on the other hand, almost all major banks in the developed world are closed, and extremely choppy, quiet conditions prevail.

The best way to scalp in these conditions is to use very small and rapid trades, and avoid building up positions. Since directionality in such choppy conditions is unlikely, there is little point in accumulating positions, and tampering with take-profit or stop-loss orders. Quick, multiple trades taken in quick succession without much consideration given to the overall conditions in the market constitute the favored approach of traders during this time period.

5. Two different scalping strategies, two different timings

Scalping in two different ways

It is possible to think of scalping in two different ways. In one approach, the trader is concerned purely with the slow price fluctuations that occur in a short period of time, and uses technical methods to trade them. In the other approach the scalper can also be a trend follower, or a swing trader, but he uses very small, fast trades as a rule. The latter approach tells the trader to exploit rapid and sharp price movements, while maintaining an eye on the overall market direction in order to control risk exposure. The first approach, on the other hand, requires that the trader benefit from slow, and small price movements which go nowhere: while the price is moving slowly up and down, it will generally return to where it left, and it is possible to trade it without taking great risks.

In this section we'll take a look at both approaches. We'll discuss the pure scalping approach in the context of ranging markets where volatility is the main method for generating profits. We'll also examine the combined approach while studying the subject of scalping with the Fibonacci extensions in trending markets. Let's note here that technical strategies that can be applied in day, or swing trading are equally valid in scalping as well, and that there's no difference (apart from the role of the spread) between a 5-minute or 5-month chart as far as analysis is concerned. The reader is invited to read about technical indicators and strategies here.

- **Psychology and scalping**

Before going on further and discussing the details of the subject, however, we wish to say a few words on the psychological aspect of scalping. As we mentioned before, scalping is an emotionally intense activity where the trader must keep calm nerves in the face all kinds of unexpected events. Clearly, overcoming these issues and maintaining a consistent and disciplined approach to trading is a precondition to achieving any kind of profit in the forex market. So how does the trader achieve this necessary degree of emotional restraint and composure?

People remain calm and composed in conditions with which they are familiar and knowledgeable about. Most of us are disturbed if a car makes a sudden movement, but are not bothered while an airplane is taking off with great momentum and speed.

Similarly, the same person can perceive anxiety by a small unexpected cut on a finger, yet feel relatively composed while heading to the hospital in order to be operated on by a surgeon. In other words, our emotional responses to risky activities and disturbing conditions are not entirely dependent on the nature of what is being experienced, but more on what is being perceived by us.

- **Minimize unnecessary risk**

As such, in order to be successful a scalper must accustom himself to market conditions in such a way that losses and profits in the markets are expected and acceptable. We need to convince ourselves, and teach that there is no danger, so that we can trade with confidence. Needless to say, if there are real causes for concern, fear is appropriate. If we are risking more than we should, taking too much leverage, or don't know what we are doing, we'll feel nervous, timid, and insecure about our trading decisions. In that case, the first step is ensuring that we are not taking unnecessary risks. It is difficult for scared money to profit, and even more so in scalping, therefore, we need eliminate the logical causes of fear from our practice.

- **Start with small sums**

If after removing such causes we still feel nervous and worried about what we are doing, it is necessary to take additional steps to deal with the causes of our irrational perceptions. These steps should involve the automation of our tactics. The suggestion for scalpers is to begin this learning process with very small sums which are then increased and combined as experience allows greater, healthier returns. Since at the earliest stages the purpose is not to make profits, but gaining experience, small accounts with minimal leverage are necessary. There is very little point in worrying about a small loss if by realizing it we are gaining important lessons about what should and should not be done in the markets. By being accustomed to difficult market conditions which accompany scalping in the markets, we can prepare ourselves for the ultimate challenge of trading significant sums in the forex market. As we like to say, no body can leap to the top of a mountain or a skyscraper, but by climbing on rocks, or using the stairs many people are capable of realizing such an seemingly impossible deed.

Pattern Scalping Strategy

Most scalpers try to benefit from price patterns in trading the markets. Those who like calmer markets choose to exploit formations like triangles and flags, while those who prefer trading the news tend to be active during breakouts. There's no single type of market where scalping can be applied to best benefit, because there are many different kinds of scalpers. But there are some technical patterns which offer their greatest benefits to a scalping strategy, and those are the patterns which we'll examine here.

First we'll take a look at scalping during breakouts, and then study ranges. Afterwards we'll discuss trend-scalping with fibonacci levels under a separate heading.

a. News Breakouts

The most typical and significant breakouts observed on any trading day are those associated with important news releases, regardless of their nature. Volatility maybe caused by an unexpected government announcement, at other times a surprising result from a statistical release, and sometimes a mundane piece of data which the markets choose to interpret in an agitated manner. The characteristic of these events is a rapid rise in volatility: a strong initial movement which then has aftershocks, so to speak, lasting over hours and generating swings and fluctuations which are then exploited by scalpers. Scalping in the aftermath of news releases is different from scalping in stale, range bound conditions with respect to its stop-loss requirement, the average life of a trade, and the necessary risk controls.

Although this kind of scalping has some resemblance to fundamental trading, in fact it is a purely technical approach, and has little to do with the real nature or significance of the news or data releases. It is not possible to fully evaluate the meaning of a piece of economic data in the ten minutes where market reaction is most intense, and as such, there is no point in giving fundamental meanings to the market's behavior during the same time period. This is especially the case when we consider that news releases are revised frequently, and sometimes drastically following the initial release.



Note: Past performance is not indicative of future results.

In the above graph we have the hourly EURUSD chart and the highlighted region shows the immediate price reaction to the news release at 8 am, followed by its subsequent legs. As soon as the important piece of news was released the market generated a rapidly increasing momentum which never gave traders a chance to look back. The maximum value around 1.4290 was also the opening price of the hourly bar, and it was never revisited. It is easy to conjecture that soon after the release, and in the period immediately preceding it, spreads had widened significantly, and opportunities for scalping were limited. Yet, right after the news release liquidity came gushing back to the market, as traders hastened to readjust their positions. Favorable conditions for scalping would exist within about ten minutes after the news release.

The most important rule while exploiting a news breakout is to stay away from the market during the short period around the news release itself. Unless one is using automated tools for scalping, this brief period is too agitated, and chaotic to allow informed decisions. Worse yet, in the short term the brief but powerful widening of spreads makes technical planning an insurmountable task at times. Instead, a

successful scalper will use this brief period to identify the possible direction of the market before entering positions in accordance.

In the example above, we'd be able to scalp the market for a four-hour long period, during the four red candles in the highlighted area. The best way to ensure against suffering losses in the volatility of this period is using a reasonably tight stop with a somewhat looser take-profit order. In example, if we open a short position at around 1.4250 during the third hour, with a 3-pip spread cost to be paid to the forex broker, we'll place our stop loss at 1.4255, while our take profit order will be at around 1.4240. This would ensure a 2:1 risk-reward ratio for the position being maintained.

It is a good idea to add a time-stop to a scalping position as well. What is a time stop? This is a kind of stop order which will close a position once a certain period of time is reached, regardless of the amount of profit or loss involved (although of course, both the potential loss or profit are less than what would be indicated by the stop-loss or take profit orders). For example, in our previous example, we had placed our stop loss at 1.4255, while our take profit order was at 1.4240. When we add the time-stop to our initial order at, say, 2 minutes, we'll close and exit our position two minutes after its opening regardless of the profit or loss involved in the trade.

Why do we use the time stop? We had defined previously that as scalpers we don't want to be exposed to the markets for a long time. But the market does not need to listen to our expectations, and might as well refuse to hit both the stop-loss and take-profit points for a long of period (at least in the terms of the scalper). The longer we expose ourselves to market moves, the greater the risk of a sudden, sharp movement against our expectations. In order to prevent being caught in such an indecisive, but also dangerous market, we use to time stop as a safety valve allowing us to bail out of our positions if things don't turn out as we had initially expected.

Scalping of news breakouts can be very profitable, because all the ideal conditions required by scalpers are present. The swift, large, moves which occur in the brief timeframe during which scalpers are willing to expose themselves to the market allow the formulation of profitable forex scalping strategies.

b. Technical breakouts

What we term a technical breakout is the case where a range breaks down without any obvious news catalyst. News are released continuously all over the world during the trading day, and although it is often possible to tie a piece of the price action arbitrarily to a piece of news being released somewhere in the world, it is not always practical to identify what causes what in the chaotic trading environment with any certainty or exactitude. These seemingly inexplicable, sudden and difficult to predict breakouts will be termed technical breakouts in this text.

Scalping this kind of breakout requires a lot more conservatism in comparison to the scalping of the usual news breakout. There is very little clarity as to what is causing what, and a market that is up may soon reverse and go down with little or no warning. To avoid being caught up in the chaos of such conditions, it is a good idea to use even smaller trade sizes, sensible stop-loss orders,



Note: Past performance is not indicative of future results.

In this chart we see the hourly movements of the USDJPY pair confined between 94.02 and 94.71. The highlighted area shows the region we would like to trade. Since the established range rests between support and resistance levels which are tested only twice, we would not have had the opportunity to trade the range itself developing on 28-29 July for profit, using scalping or any other method. On the other hand, we are ready to do some scalping in order to exploit the breakout which occurs at around 7 am on 29th July.

The volatile nature of breakout is demonstrated by the green candle next to the small red arrow on the chart where we see observe the closing price of the bar only slightly above the resistance line displayed. Scalping is suitable conditions such as these because scalpers do not need to think long and hard about the ultimate direction of the price. In the timeframe of a one or two hours, five, ten minutes, the price action is more or less random, and it is not very sensible to try to seek logical explanations for it. Scalpers can avoid doing so, and that is their advantage in breakout scenarios, and similar sudden and unpredictable markets.

While scalping this breakout, we'd use a chart with a shorter term, and not the hourly graph which we see above. Fortunately, the fractal nature of price charts allows us to trade a 5-minute chart in a way the same way that we trade a 5-month chart; the scalper only needs to apply the general rules of technical trading to the shorter time frame. The key issue is making sure that you're on board the trend, or in harmony with the phase of the range pattern (up, or down) while scalping.

c. range Patterns

A scalper trading a range pattern will try to identify the time periods and price patterns where activity is most subdued, and will exploit them for profit. We have already discussed some of the general concepts in trading ranges, here we'll try to apply them in greater detail.

Price charts are similar to fractals. They are self-similar at multiple time periods, with a price range at 30 minutes sometimes accompanied by a trend on a 30 second chart. While trading ranges scalpers must keep both the hourly, and the minutely price events in mind. We'll use hourly charts to ensure that overall activity in the market is subdued, while using the short term price action to identify and trade profitable periods.



Note: Past performance is not indicative of future results.

The hourly chart of the USDCHF pair presents an interesting scenario for scalpers. A large hourly range lasting for a number of days is coupled to fairly strong directional movements requiring some trend following skills for successful exploitation.

At this stage, observing the price action in the chart, we must ask ourselves the question: can we determine the severity of short-term volatility by examining charts which show long term activity? The answer is no. Although we can determine the ultimate direction of short term price movements by examining long term charts, volatility on an hourly chart, for example, does not need to be duplicated on a short term chart exactly. The price may move 100-pips in the course of an hour, and the chart would show a large green candlestick, but all that large movement could have happened in the last ten minutes of trading, with the previous fifty minutes presenting choppy, and boring conditions. In other words, the scalper must concentrate on the time period before him, especially if he is aiming to exploit random price movements that go nowhere (as in range trading), in contrast to scalping a strong directional trend. In the latter, the perspective provided by long term charts may be helpful, but in range

scalping utmost attention must be devoted to the 1-minute, 5-minute graph which is being traded.

In the graph above the price is confined between 1.0654, and 1.0741. The three red arrows show us the opportunities where we can be confident that the range will hold: when the resistance line is tested for the third time, we will consider this an opportunity for sell-side scalping. When, at around 27th July 5 am the price rebounds from the support line for a second time, and later for a third, we'll regard the market conditions as being ideal for establishing long positions repeatedly.

d. Flags

Many scalpers prefer to exploit range patterns as they present quiet, tame conditions where various strategies can be utilized without the danger of large losses which would arise in conditions of high volatility. Scalpers who thrive in these conditions have no great expectations from individual trades, and are perfectly content with unexciting, slow markets where "nothing is going on", from the point of view of a trend follower. In spite of the brief lifetime, and small profit of individual trades, great gains are realized as profits of several hours are combined at the end of the trading day.



Note: Past performance is not indicative of future results.

In this fifteen minute chart of the USDCHF pair we observe a strong hourly trend only briefly interrupted by the highlighted flags. Although the formations are not perfect, they are perfect as continuation patterns, and present quite, subdued periods where the scalper can test his skills. Of the three flags highlighted in this chart, the first and the third are the tamest, and the easiest to exploit. In both of these the price moves up and down in a simple range, and doesn't possess directionality.

How does the trader exploit this situation? In essence we'll regard the flags as small range patterns the upper and lower bound of which can be used as trigger points telling us to reverse the direction of our trade. When the price rises and approaches the upper edge of the flag, we won't trade, but wait until it is reversed and a sell order is possible (we don't want to enter a sell order immediately because of the possibility of a breakout). After that we'll enter and exit small and quick sell orders trying to exploit the established range pattern. Conversely, when the price falls and touches the lower bound of the flag pattern, we'll wait until it begins to rise again, and then we'll scalp the market with buy orders.

It is quite simple and easy to scalp the market when there are flags appearing. But flags are very strong continuation patterns, and we must be careful not to get caught in the breakout when the flag pattern dissipates and gives way to the momentum of the main trend.

Triangles can be traded in the same manner as well, and any consolidation pattern can be used for scalping within the range established. As we mentioned before, the rules of range trading can be applied, along with the appropriate strategies, while using the necessary risk controls inside the preferred brief time frame of scalpers.

Using Fibonacci Levels for Scalping the Forex Market

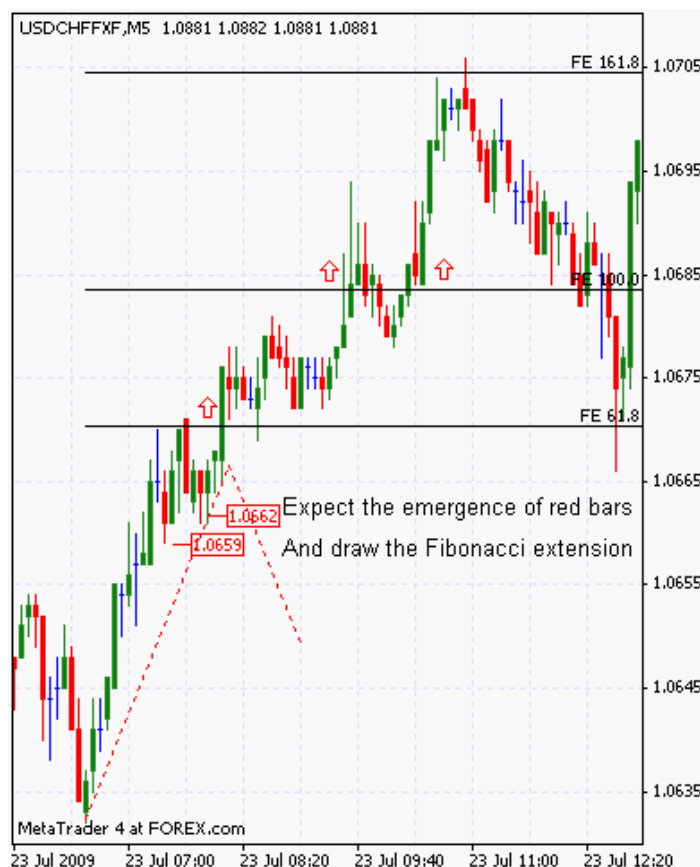
Scalping a strongly trending market is very different from scalping a quiet, tame market where price action is confined in a small range and is going nowhere. In a ranging market scalpers will buy or sell, and wait until the price comes back to where it left, and keep gathering small profits until the prevailing range pattern is eliminated. When trading a trending market, however, we must be careful to ensure that our

orders follow the established trend. Counter-trend scalping is also possible, but since the preferred strategy of most successful traders is trend following, we'll concentrate our attention on using fibonacci extensions in a trend following method in this article.

High volatility requires a strict approach to realizing both losses and profits. A scalper who is trading in a tame, range-bound market can be a bit more relaxed and arbitrary about his risk controls (they must still be applied with discipline, but not in the robotic manner which must be applied in trending markets), because the market is not expected to make sharp movements due to fewer market participants and a smaller amount of liquidity (not to mention that there is no news catalyst for strong price movements.) But a trend scalper must deal with such conditions at all times.

6. Trend Following Method

In this section we'll discuss the use of the Fibonacci extension levels for the determination of trade direction while scalping trending markets. Scalping in trends can be difficult, because of the size of the sudden fluctuations, and the lack of clarity (at least in the short term) with respect to the eventual destination of the price. The Fibonacci extension levels are very useful in analyzing trends in all cases, and scalping is no exception to the rule.



Note: Past performance is not indicative of future results.

Our aim in using this indicator is identifying levels where the price may rebound. For drawing the extension, we'll identify the beginning and end of the price movement which we expect to be extended, so to speak, in order that a new trend is created. In the 5-minute chart of the USDCHF pair, we have identified a sudden and sharp movement beginning at around 4 am on 23rd July, and decided to draw its extension after the first red bar where its momentum is temporarily checked. Upon drawing the extension in the indicated area, we notice the 61.8, 100, and 161.8 extensions of the first movement.

Careful examination of the chart above shows us not only that the price rebounded several times at the extension levels of the indicator, but also that these levels served as strong attractors pulling the price towards themselves. The 100 percent extension level, for instance, provided a support which prevented the price from "falling through" twice, as observed. And the other two levels similarly created performance bars for the trend which, once broken, created further momentum for the trend.

Trading against a trend is dangerous, and the risk of sudden reversals is no less dangerous for scalpers. As such we need a tool which will help us identify the general direction of the trend, so that even if we suffer some losses, eventually our gains will justify our trading activity. The Fibonacci extension level is a great tool for this purpose since it allows us to guess with a reasonable degree of accuracy the main momentum of the price action. In the above example, we'd be scalping the market by buying at the red arrows shown on the chart. If the price returned to the resistance or support levels indicated by the extension level, we'd stop trading for a while and await the market action to present some clarity (is the trend reversing?). But as long as the trend is intact our strategy would involve scalping between the extension levels to accumulate profits.

7. Forex Scalping - Criticism and Disadvantages

Scalping is popular, and profitable for some traders, but it is not without its risks. While trading, many scalpers are similar to marathon runners. They need to capitalize quickly on arising opportunities, and if those opportunities fade, a profitable trade must be a losing one, because a typical scalper will not wait long enough for another opportunity to arise for the same trade. The advantage of this approach lies in the many profit opportunities presented. For a long term trader, even a swing trader, one loss in a trade is by definition a big and important loss. Long term trades require

considerable investment in time, and energy before they are profitable, and failure in one is an important setback. The scalper doesn't suffer from this problem. He can fail in any single trade, regardless of its time or place, and still make a profit if the overall balance of his positions is profitable. This aspect can sometimes reduce stress, and create a more optimistic trading psychology as well.

Yet, short-term trading does not, by any definition, offer the keys to a smooth and risk-free path to great profits. The scalper is playing a game of probability, while the long-term trader is playing the same game with the help of fundamental analysis and strategies. Although each trade is a lot less important for the scalper, in order to profit, he must still succeed in the overwhelming number of his decisions. A scalper will enter and exit his positions while trading a trend, but he still has to make choices about the direction of the main price action. While trading a ranging market, the scalper may not need to make many decisions about directionality, but he has to have a good idea on how long the low volatility environment will last. In other words, discipline and planning are just as important for scalpers, but in a different way in comparison to what is usually experienced by other traders.

In this section we'll analyze the scalping strategy and discuss some of its disadvantages so that you can trade with calmer, more reasonable expectations while employing it. Our purpose is not contradicting the experiences of successful scalpers, or discouraging those who desire to adopt this method for future profits, but merely to help you recall that the strategy does not offer risk-free, easy trades for beginners or undisciplined individuals.

The "Brokers Hate Scalpers" myth

First of all, let's consider this venerable myth that has been publicized over the internet on both forums and blogs dedicated to forex trading. The argument of the propagators of this myth goes as follows: "Scalpers take little risk while trading, and are often successful. In order to hedge their positions, forex brokers counter-trade their clients, with the consequence that if a trader makes a profit, the broker, by counter-trading his position, suffers losses. Of course that makes brokers hate scalpers."

Let's first state that no forex trader will do himself any good by making real, or imagined enemies of brokers. Regulated brokers are monitored by authorities, and most of the firms in the business are legitimate actors with decent practices. There's no

way of trading the market without brokers (or ECN's, but they are not used very often, and have their own disadvantages). And there's no logic or merit in demonizing brokers as crooks or thieves. We, as traders, want to trade the markets, and to do that we need the services of firms which are monitored and regulated by the authorities.

In previous sections we have already discussed how brokers hedge against client losses, and noted that a majority of client positions can be netted out against each other without the broker having to commit any funds. In fact, when such matches can be found, the broker does not even need to pass the buy or sell order client to the bank: all that it must do is matching the order with another customer's opposing order while pocketing the commission, and assuming zero risk. The problem with scalpers arises because their rapid entry/exit orders make the task of hedging hard for forex brokers with slow servers or outdated software. When they can't do so, they get nervous, become worried that the scalper is trying to manipulate the system (exploiting latency issues, as they are called), and sooner or later terminate the forex account of the scalping trader.

There are no statistics on the success ratio of scalpers, but there is no reason to assume to their success rate is any different from that of the overall market. Indeed, scalping is a demanding, and somewhat more sophisticated trading style in comparison to day-trading, or swing trading; there is no reason to expect that beginners will do better in scalping in comparison to their performance in these other trading styles.

Our analysis is confirmed by the public statements of many forex brokers present on websites and blogs throughout the web. The majority of established brokers actually have the stated policy of allowing scalpers to open or close positions in as short a time period as they desire. What is more, since scalpers trade much more frequently than regular traders, they are a good source of revenue for any kind of forex broker. No broker with an updated software and platform would be willing to deny scalpers the style which they like most unless he wants shrink his own business.

Is it a good idea to scalp in strongly trending markets?

Many traders favor scalping in strongly trending markets. This approach is defended on the basis of the notion that scalpers thrive in volatility, and that trends cause a great deal of volatility creating many trading opportunities. But is this idea justified on the basis of facts and analysis?

Let's first remember that while scalping, one misplaced, carelessly created trade can wipe out the gains of tens of successful trades in a short time. A scalper needs consistency above everything else. Discipline in trade sizes, take profit, and stop-loss orders, and a degree of skepticism towards arising opportunities are important components of a successful trading strategy. Let's ask ourselves, then, which kind of markets offer the best conditions for the implementations of these principles? Would scalpers thrive in strongly trending and volatile markets, or quiet, calm markets where activity is subdued and volatility is low? Naturally, the best conditions will be found in the latter. Calmer markets allow us to exploit small fluctuations over a long time with little risk and good profits. Trending markets move rapidly, with widening and contracting spreads, where exiting a position before it reaches its full potential can be dangerous, and maintaining a calm and composed attitude is an additional problem.

We read online that scalping is best in strongly trending, liquid, volatile markets, and some of us wonder why so many people subscribe to these beliefs. This attitude is present either because the traders who write the articles don't have that many experiences in scalping or because they use scalping strategies on a trend following scheme. The latter approach is not very useful to beginners, however, because they mostly choose the scalping style to make quick profits without worrying much about analysis or strategy.

Picking up coins from a railroad

Indeed, scalping after news releases, or during very strong, volatile micro-trends can be similar to picking up coins from a railroad for a living. A determined practitioner can create a sizable income from this practice if he is persistent and patient enough, but also takes a small risk that can be extremely costly if it is not properly protected against. What is the risk? Of course, it is that he will be run over by the approaching train of a market shock, and will lose all his profits, and his ability to make any profit in the future as well. Is this a valid negotiation, a compromise? The answer to the question depends on your personality and approach to life in general.

During a trend, the scalper cannot exploit "idle volatility", or the directionless fluctuations that are often found in ranging markets. Since the market is strongly directional, he has to find a way of identifying the trend and exploiting it with small sized, and numerous orders.

Emotional Pressures

Scalping is probably not the best choice for a beginning trader. The style demands constant attention, concentration, and diligent adherence to principles. The fact that trades are small-sized and quick means that there is a need to be very methodical about trade sizes especially, because irregular sizes will make us blind while trying to determine the performance of our account, and prevent the achievement of a smooth, regularly rising trading account.

For a real scalper, fear is not the main emotional issue, unlike the case with many other types of traders. Since risk in each trade is usually very small, and it is possible to stop and exit any position without much trouble, there is little danger of the account being wiped-out or greatly reduced as a result of any single trade. Yet, the major emotional issue faced by scalpers is overtrading and agitation.

Scalping requires patience. The trader must open many positions in the course of a single hour on an ordinary day, and at times, the slow accumulation of profits can be very frustrating. The trader may regret that he's spending so much time trying to profit from minute price fluctuations. He may feel dismayed that so much effort bears so little fruit. Many other factors can lead to dissatisfaction and unhappiness which can cause the trader to enter an agitated state of mind. And yet, agitation is the worst enemy of a scalper. His finger must press the right buttons on the screen, must enter the correct prices, and place the proper decisions many times during the trading hours, and an uneasy, nervous mind will be prone to making many errors. A nervous mind will make the scalper feel like he's fighting the markets, and lead to many unjustified and deleterious trading decisions.

The scalper must know where to stop, and yet if he's nervous, he'll be unable to stop. Overtrading, based on the belief that the next trade will be the successful one "since one's luck can't go wrong so often" may quickly erode the account balance of any trader, and it's especially dangerous for the scalping strategy. It is on the whole a good idea to suspend scalping activity if you're feeling that the emotional burden of scalping is too much for you at any time. Do not fight yourself, or the market, but stop trading for a while. It is certainly better than losing your wits trying to profit by battling the market, in other words, trying to improve by worsening your condition.

Getting rich, or enriching the broker?

The scalper is running against time in his dealings with the broker. He will make profits, suffer losses, open and close positions with different scenarios in mind, but in all that while he will still be paying the broker his due in the spread. Regardless of the size of profits or losses, the broker's share must be paid, and the trader has to earn at least that much to make sure that his account is not bleeding money.

The broker's fee in the spreads is almost negligible when trading on a long term basis. A 3-pip spread cost is insignificant for a trader who makes 50-60 pip profit in trading, or even more in positions held over even a longer time. But the scalper's profits are usually much smaller, in many cases closer to 5-10 pips for a competent person, and the spread is anywhere between 30 to 50 percent of the gains.

Any scalper should keep a list of his trades which shows his actual gains, losses, and the amount that is paid to the broker. If the cost of the spread is about twice as big as the profits of trading, it is a good idea to change the trading strategy used, or to change the broker and open an account with another one which requires lower spreads. If average profit in pips is equal to the spread, our trade record can be improved, and better profits are possible. In the unusual case that the scalper's profits are a lot larger than the spread it is time to add funds to the account, or perhaps increase leverage gradually.

Traders need not be worried when the broker is making good profits. As long as the relationship is reciprocal, there is no harm in seeing the broker making gains which are even more sizable than what is achieved by the trader. The threshold is profitability. As long as we are gaining from activity, there's no reason to be worried about the fact that the broker is also benefiting from the relationship.

Clustering Illusion

Let's conclude this part by briefly discussing the dangers posed by faulty interpretation of data. Sadly, many beginning scalpers still evaluate their results on the basis of some ethereal concept termed luck. In a string of wins, good luck is thought to be the causal agent, while a string of losses makes us think that we have no luck on that day. Since many believe that one cannot have bad luck continuously, there's a tendency to expect profits soon after a string of losses, and vice versa. Since individual results in short term trading are random, there is no justification for this reasoning, and at least as far as mathematics is concerned, a gain or a loss are equally likely even after a string of ten or twenty gains or profits in a row.

The other issue which traders must grapple with while evaluating their results is the clustering illusion. In this case, traders will see "order" in a string of random data (such as a list of scalping trade results). After seeing a string of, let's say, five wins, they will begin to assume that this time their strategy makes wins more likely, and in response they will increase trade sizes, with often disastrous results.

In order to achieve profitability and a degree of safety in scalping it is extremely important that consistency in trade sizes be maintained. If you make small profits with ten 1 lot scalps, and occasionally decide to throw in 3, 2 lot trades where you feel you're doing well, you're taking the risk of never going beyond breakeven, in the best case scenario. Make sure that you don't get deluded by luck, or the clustering illusion to randomize your trade sizes. You can instead use methods like the z-score to see if the win-loss streaks of your scalping strategies are any different from random results.

8. Forex Scalping Guide - Conclusions

This article is the last part of our guide on how to use scalping techniques to trade forex. If you haven't already, we recommend you read the first part of the series on forex scalping.

Not all traders will do well in scalping, but many can acquire the necessary skills for this strategy by careful practice using a step-by-step approach. As with most other activities, it is better to begin your training at the most basic level and to add upon your gains at each pace to approach perfection.

Controlling your emotions will probably be the first challenge you face as a beginning scalper. It may be difficult to adapt to the violent swings that you will have to deal with routinely, but by avoiding certain time periods, and adjusting your stop-loss order accordingly, there should never be too big a danger in scalping.

We'll conclude this article by briefly listing the principles which must be adhered to by a committed scalper before consistent profitability is attained.

1. Discipline

Scalping is for disciplined traders. A methodical, even mechanical approach to trading currencies will increase the potential profits of any scalper, and if automation is necessary, there is no logic in delaying it. Acquiring mental discipline may require time and effort, but its beneficial in every aspect of life, and nothing will be lost as you put

your trading career in order. If a trade must be closed, it must be closed. If losses need to be taken, they must be. Scalping doesn't allow the trader much time for vacillation or worry, and whining and complaining have no place in this style. Face the realities and act in accordance: success is just around the corner.

2. Patience

Impatient, or arrogant traders don't have a stellar future in scalping. Many people have attained great profitability in trading, but only through persistence and determination. It is even more so in scalping, where minuscule profits are expected to combine into sizable gains.

3. Calm

Scalpers need to remain calm in the face of market turmoil, especially those who want to trade directional, trending markets. Without emotional restraint, trading choices will be confused and arbitrary, and that is the least of what can be afforded by a committed scalper. Get used to losses and mistakes. Accustom yourself to mending the errors. And all should be well.

4. Regular Trade Sizes

This is always a necessity in trading, but even more so in scalping. Don't make the mistake of doubling your trade sizes in response to a chance streak of wins. Don't blur your vision by entering orders arbitrarily. Be disciplined, and ensure that your trades can be analyzed easily by standardizing your order sizes.

5. Concentration

Scalping can be an intense activity, and a good scalper needs to have a mind which can concentrate effectively on the task at hand for profit. If you're scalper, make sure that the place and time period during which you're active in the market is as peaceful and calm as possible. Have the kids sleep or play, let your spouse tend to her own duties. Ensure that you're not distracted while scalping the forex market.

We hope that you enjoyed reading this book and it has contained a lot of useful information for you.

If you have any questions, please feel free to ask our support team by sending an Email to: support@ritalasker.com We will do our best to help you.



Yours,

Rita Lasker & Green Forex Group.

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