



## FACTORS FOR DETERMINING POSITION SIZES

How do you determine the size of your trade?

Do you have one fixed size for every trade you make with your favourite pair?

Whilst trading the same position size for every trade sounds simple regardless of what pair you are trading, there are more factors to take into consideration.

Below, I am going to give you three factors that I consider before placing a trade.

### 1. MONEY MANAGEMENT:

From my perspective, this is the most important factor to consider. How much are you going to RISK?

Personally, I operate to a guideline in my TRADE PLAN that no single trade should RISK more than 3% of my trading account.

As a “Newbie” trader there are many other things you can do for effective MONEY MANAGEMENT.

If you are a new FX trader, you could be prone to mistakes and that is 100% normal. Therefore, being conservative with your approach will give you the time required to understand what you are doing and the effects of what you are doing with regards to the balance on your broker account.

### 2. VOLATILITY:

The FX market is a strange animal. The way the market behaves and reacts to events changes from time to time.

It is very easy to be caught out.

At times your currency pair can be trading steady in a range in the desired direction and as such you feel inclined to maybe increase your existing position or add another trade.

On other occasions, the markets can be quite fast moving, maybe around a major economic data release, or on a breaking news event.

As a “Newbie” these are the times to keep your position size unchanged.

Trading Forex you have leverage and whilst this leverage can be good news if you are generating a nice profitable position, leverage can also be your enemy as badly positioned trades can grow losses very quickly.

### **3. CONVICTION:**

There are some trades that you are 100% comfortable with and there are others that seem OK, but you prefer to be more cautious with your conviction until the trade starts to gather momentum based on current sentiment.

The FX market lays out many “Elephant Traps” for the retail trader.

For example, a breakout out of a trading range can be viewed as a trade opportunity based upon the breakout move being directional. However, the breakout move could be a false breakout, perhaps just an extended STOP LOSS run.

A greater CONVICTION trade would be the same move but accompanied with a major news event that supports the move in the same direction.

### **4. DIFFERENT CURRENCY PAIRS / DIFFERENT POSITION SIZES:**

Saving the best for last.

MONEY MANAGEMENT I believe is crucial to TRADING LONGEVITY and trading success. In the Forex market there are hundreds of possible trading pairs, some are very popular, and some are what are termed “Exotic” because they are not traded as often.

LIQUIDITY is important when trading. We need good money flows through a currency pair to ensure good two-way action and a battle between buyers and sellers. This gives moves that are more consistent.

With exotic pairs, the money flows are not as great and bigger institutional orders can create volatility that cannot be sustained and move price that creates issues for retail traders vis-à-vis STOP LOSS positioning.

Therefore, it makes sense from my perspective to adopt position sizes based on the usual liquidity a currency pair would see on a daily basis.

The currency pairs like EUR/USD, USD/JPY, EUR/JPY, GBP/USD and EUR/GBP attract greater money flows than AUD/USD, NZD/USD, USD/CAD and USD/CHF, I would categorize these pairs as LEVEL 1 pairs.

JPY crosses and EUR/CHF, I call these LEVEL 2 pairs.

AUD/CAD, AUD/CHF, AUD/NZD, CAD/CHF, EUR/CAD, EUR/AUD, EUR/NZD, GBP/AUD, GBP/CAD, GBP/CHF, GBP/NZD, NZD/CAD, NZD/CHF, USD/SEK, and USD/NOK, I would call these LEVEL 3 pairs.

USD/MXN, USD/ZAR, USD/TRY, EUR/NOK, GBP/SEK, all others and there are far too many to list here. I would call these LEVEL 4 pairs.

I would apply something like the following factor to a maximum position size.

LEVEL 1 pairs = 100%

LEVEL 2 pairs = 50%

LEVEL 3 pairs = 25%

LEVEL 4 pairs = 10%

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