Desert Island Trading Method

Created by Scott Shubert

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Greetings traders,

This document is based on the training program created by Scott Shubert. Included are the notes taken from the training program, with full credit to the original author, Scott Shubert. Trades executed by anyone as a result of reading this document are at the trader's own risk. While I believe these notes will allow anyone to become a successful trader if used effectively, the dynamics of how the live market moves must also be understood. Best of wishes to all those interested in taking the time to consider these notes, and as always, pleasant trading!

Introduction

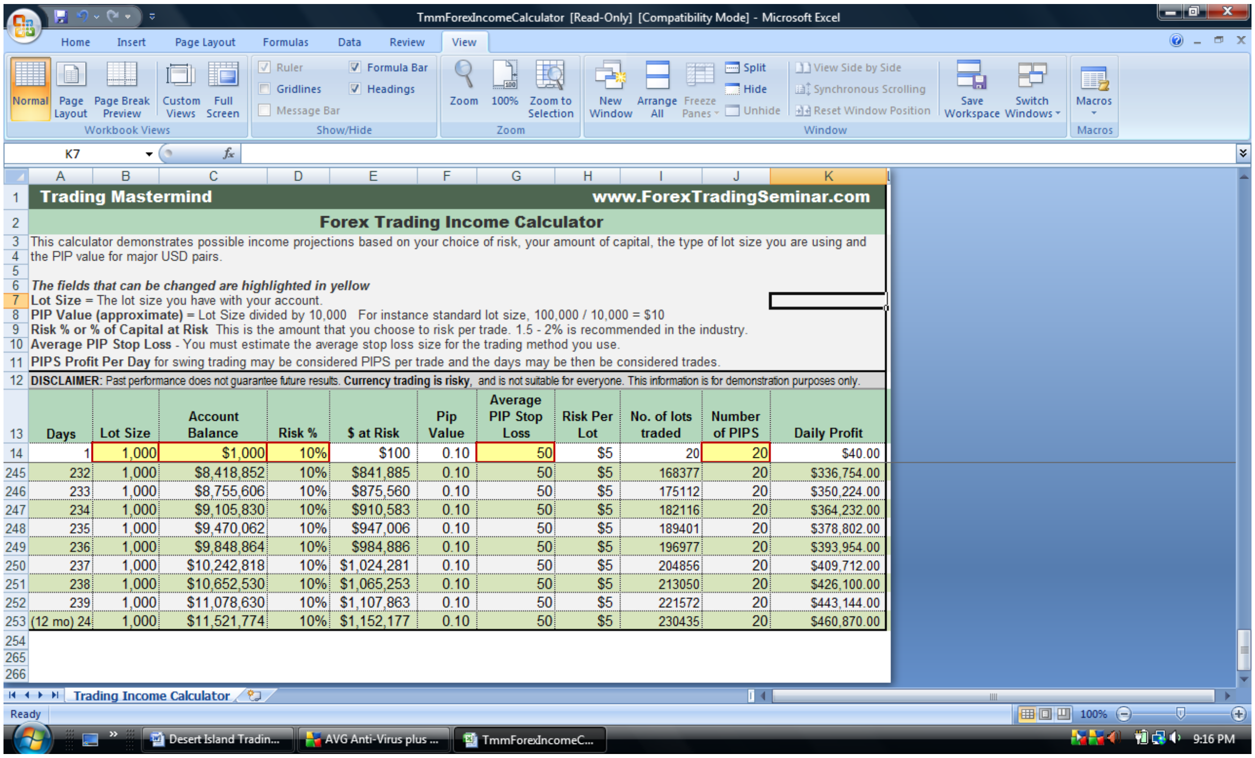
This introduction considers many of the financial aspects of currency trading, including lots, risk, PIPs and leverage, and potential profit.

- A larger lot size means trading with smaller amounts of money on a regular basis.
- Every day the market moves approximately 120 pips on most currency pairs.
- For a $1,000 account with 200:1 leverage, if you decide to risk no more than 5% of your account at any time, this means you can risk $50.
- Each lot might cost you a $5.00 deposit, as an example. With the leverage above you can trade 10 lots while risking 5% of your account.

-With a small account size, you will want to focus on earning $.10 per lot traded. This means that if you traded 10 lots and you closed the trade with 20 pips profit, you will have earned $20 – 50 pips profit. After only six months with the account listed above and at this rate, your account would be $10, 100. Furthermore, your daily profit would now be $202. This is the equivalent of a job that pays $25 per hour, 8 hours a day.

-After 1 year you would have $108,272 in your account and your daily profit would be $2164.

-Starting with $1000, if you average 20 pips per day, you are consistently successful, and you risk 10% of your account, in one year you will have $11, 521,774. The following income calculator shows how you can achieve these results, condensed for space and with the web address:



Trading Mastermind **www.ForexTradingSeminar.com**

Forex Trading Income Calculator

This calculator demonstrates possible income projections based on your choice of risk, your amount of capital, the type of lot size you are using and the PIP value for major USD pairs.

The fields that can be changed are highlighted in yellow

Lot Size = The lot size you have with your account.

PIP Value (approximate) = Lot Size divided by 10,000 For instance standard lot size, 100,000 / 10,000 = $10

Risk % or % of Capital at Risk This is the amount that you choose to risk per trade. 1.5 - 2% is recommended in the industry.

Average PIP Stop Loss - You must estimate the average stop loss size for the trading method you use.

PIPS Profit Per Day for swing trading may be considered PIPS per trade and the days may be then be considered trades.

DISCLAIMER: Past performance does not guarantee future results. **Currency trading is risky**, and is not suitable for everyone. This information is for demonstration purposes only.

Days	Lot Size	Account Balance	Risk %	$ at Risk	Pip Value	Average PIP Stop Loss	Risk Per Lot	No. of lots traded	Number of PIPS	Daily Profit
1	1,000	$1,000	10%	$100	0.10	50	$5	20	20	$40.00
232	1,000	$8,418,852	10%	$841,885	0.10	50	$5	168377	20	$336,754.00
233	1,000	$8,755,606	10%	$875,560	0.10	50	$5	175112	20	$350,224.00
234	1,000	$9,105,830	10%	$910,583	0.10	50	$5	182116	20	$364,232.00
235	1,000	$9,470,062	10%	$947,006	0.10	50	$5	189401	20	$378,802.00
236	1,000	$9,848,864	10%	$984,886	0.10	50	$5	196977	20	$393,954.00
237	1,000	$10,242,818	10%	$1,024,281	0.10	50	$5	204856	20	$409,712.00
238	1,000	$10,652,530	10%	$1,065,253	0.10	50	$5	213050	20	$426,100.00
239	1,000	$11,078,630	10%	$1,107,863	0.10	50	$5	221572	20	$443,144.00
(12 mo) 24	1,000	$11,521,774	10%	$1,152,177	0.10	50	$5	230435	20	$460,870.00

Currency Pairs

Currency	Abbreviation	Nickname
Euro	**EUR**	**-**
Great British Pound	**GBP**	**Cable, Sterling Pound**
U.S. Dollar	**USD**	**Greenback**
Swiss Franc	**CHF**	**Swissie**
Japanese Yen	**JPY**	**-**
Canadian Dollar	**CAD**	**Loonie**
New Zealand Dollar	**NZD**	**Kiwi**
Australian Dollar	**AUD**	**Aussie**

Major pairs/currencies

Euro, Great British Pound, U.S. Dollar, Japanese Yen and Swiss Franc. These are the most commonly trades pairs.

Currencies not including the dollar are called “cross pairs,” and these including the following pairs: EUR/GBP, EUR/JPY, EUR/CHF, GBP/JPY.

The Canadian Dollar, Australian Dollar and New Zealand Dollar are considered “minor currencies,” and together they make up only 3 – 7% of trading each.

Soft Currencies

Hong Kong Dollar, Singapore Dollar, Czech Koruna, New Zloty, etc. These pairs are also called exotic currencies, they not easily traded, they lack market depth, and there may be wide spreads between the bid and ask price. Generally, there is little reason to trade these pairs, and the currencies' national economies are small and may not trend well.

Most brokers usually have at least 10 currency pairs including EUR/USD, GBP/USD, USD/JPY, USD/CHF, USD/CAD, AUD/USD, EUR/JPY, EUR/CHF, EUR/GBP and GBP/JPY. Many brokers also offer additional exotic pairs and metals, such as Gold verses the U.S Dollar. 26 pairs offered by many brokers include CHF/JPY, NZD/USD, GBP/CHF, AUD/JPY, EUR/AUD, EUR/CAD, AUD/CAD, NZD/JPY, CAD/JPY, GBP/CAD, GBP/NZD, GBP/AUD, AUD/NZD, CAD/CHF, AUD/CHF, NZD/CHF and USD/MXN.

Trading the EUR/USD is what mainstream Forex training teaches, and this training often focuses on the EUR/USD only. This pair is what more people trade than any other pair, but it may not be the best idea to only trade this pair, and the chart patterns may be distorted.

Trading Plan

An ideal trading plan will include the following: a goal of demo trading, the number of pips you want to average, a win to loss ratio, risk to reward ratio, and over what time period you wish to trade including how many trades. Further considerations are listed below.

-What will be my starting capital?

-How often will I enter a trade?

-How long will the trade remain open?

-How many pips will my trades average?

-How much will I risk per trade? An example is the amount of deposit verses the number of pips in a stop loss.

PIP- price in points or price interest point. Pip refers to the smallest unit of price of a Forex currency pair. Example: GBP/USD price = 1.6500- the 65 represents hundredths of a cent. If the price moved to 1.6501 it moved 1 pip. Another example of this price is shown below.

GBP/USD price = 1.6501

6 = tenth of a dollar

5 = hundredth of a dollar and tenth of a cent

0 = thousandth of a dollar and tenth of a cent

1 = ten thousandth of a dollar and hundredth of a cent

Lots

Lot size is extremely important and the number may be determined by your broker and the type of account you choose. You should refrain from asking anyone how much a pip is worth except your broker, because the pip worth depends on the type of account you choose.

Lot- traditionally a lot refers to one million dollars in the Forex market. Today a standard account lot size is $100, 000; a mini account has a $10,000 lot size; a super mini account has a $1000 lot size. If you have a standard lot size of $100,000 and your account is set for 100:1 leverage, this means you will deposit $1000 for each lot you trade. If you have $30,000 in your account (a standard lot size of $100,000 and your account is set for 100:1 leverage) and you choose to risk 30% of your account per trade, this means you will be willing to risk $900 dollars, which is less than the deposit for one lot. Therefore, you would need to either deposit more funds into your account or go with a different type of account.

Lot Size Examples

$100,000 = $10 value per pip

$10,000 = $1 value per pip

$1,000 = $.10 per pip

These figures are generally true regardless of the leverage you have. Another way to look at these figures is that lot size divided by leverage equals price per lot.

$100,000 divided by 100 equals $1000 per lot.

An important point to remember is that your risk is based on the number of pips you are willing to go negative or the number of pips in your stop loss, **NOT** the amount of your deposit.

Risk Management Examples

If 1 lot costs you $5 and you trade with 10 lots, you risk $50 margin; many people assume you actually risk is $50. However, if in this trade you have a 25 pip stop loss your true risk is $25, whereas your margin to enter the trade is $50.

-Remember that the value of a pip is different among currencies, and these are general guidelines.

Forex Brokers

When considering a Forex broker, look at the following components:

-What is the minimum account size?

-What is the maximum leverage available and is the leverage limited by account size?

-What is the broker's policy on interest rates for carry over trades? Are the interest rates displayed in the trading platform?

-Are the negative and positive interest rates comparable, or are the negative interest rates consistently twice as much or more? (If so, this broker most likely has an unethical business model that will show up in all other areas.

-Carry trades: most U.S. brokers hold trades overnight after 5 p.m. (Eastern Time), and you are charged or credited interest on any existing trades. This interest is theoretically based on the difference between the interest of the 2 currencies. However, it is not the actual interest rates that represent the difference between the currencies. Finally, holding trades overnight is advisable.

-What currency pairs are available?

-What trading platform software is used and what is it like? Is it advanced or cheesy?

-Charts should NOT be a determining factor. However, if you intend to be a professional trader, you should expect to subscribe to professional charts rather than use charts that your broker provides.

-Do not be lured by free professional charts. You will more than pay for them with the trading requirements such as 10 round turn lots per month trades. Just get your own charts and choose the best broker based on other criteria.

-Do not be lured by apparent low pip spreads or pip rebates. Brokers with the lowest pip spreads are often the ones that are the most notorious for price manipulation. In this way you pay more than you would have with a more reputable broker. PIP rebates are simply an Introducing Broker attempting to bribe you by sharing their profit, because the broker cannot offer any other legitimate reason for you to choose to trade with them.

-Choose a broker based on industry standards, reputation, how secure your funds are…etc.

-What is the company's financial strength? Given the fact that many traders lost access to their accounts when a large major broker recently filed bankruptcy, financial strength could be important. However, this broker was considered one of the stronger companies financially at the time it went under.

-Does the broker offer hedging, entry limit orders, trailing stops, etc… You may not want to do business with a broker that does not permit opening hedge trades, which will be covered later. At the time of this writing (December, 2009) Forex Hedging has been outlawed in all USA Forex accounts regulated by NFA.

-Hedging is simply having two trades open on the same currency pair in opposite directions, (buy and sell) at the same time.

-Does the broker allow trailing stops, which are stop losses that automatically move up or down as the market moves up or down?

-What country is the broker located in, and where will your funds be held?

-What seems to be the concensus about the broker's reputation with other traders? Many inexperienced traders will rave about their broker as being the best, as if it is their football team. Often these traders know nothing about any other broker. Look for legitimate reasons why a broker may be preferred over others. You might also consider having funds with brokers in several different countries.

-Consider trading with multiple brokers to minimize risk and have access to different features.

-When you see "open an account, 2 pip spread, try our trading platform," this is a clue that the broker or site may be unethical.