Using Multiple Lot Positions To Improve Profitability in Trading Made Simple

There are many variations to trading styles and strategies, there is one broad commonality that most retail currency traders, be they novices or veterans share i.e. they are trading one lot at a time. When developing a strategy, most traders pay more attention to their indicators while giving little thought to money management. Trade exit management strategy, determines how managing a position can limit losses and even turn a losing strategy into a winning one. And, while there are many facets or components in the development of a winning system, we will focus on the significant improvement that trading multiple lots positions alone can help achieve overall win-rate, system expectancy and longer term profitability.

The Standard Trade

When a trader goes about defining a money management strategy, they usually decide on what their risk/reward ratio will be, how wide to set stops, how many different trades can be floated at one time, and many otherwise important rules. However, one aspect seems to be overlooked and forever set in stone – each trade will be based on a single position with one entry with initial stop loss and one target profit exit. There is an exception to this generality in those traders that pyramid in and out of positions; but this approach is very time consuming and can often lead to greater losses than taking a single lot alone. On the other hand, taking a trade based on two lots at the outset can offer a great deal more flexibility for a trader while at the same time keeping the downside well defined.

However, before delving into how a multiple lot trading system works, we should first establish a baseline trading strategy.

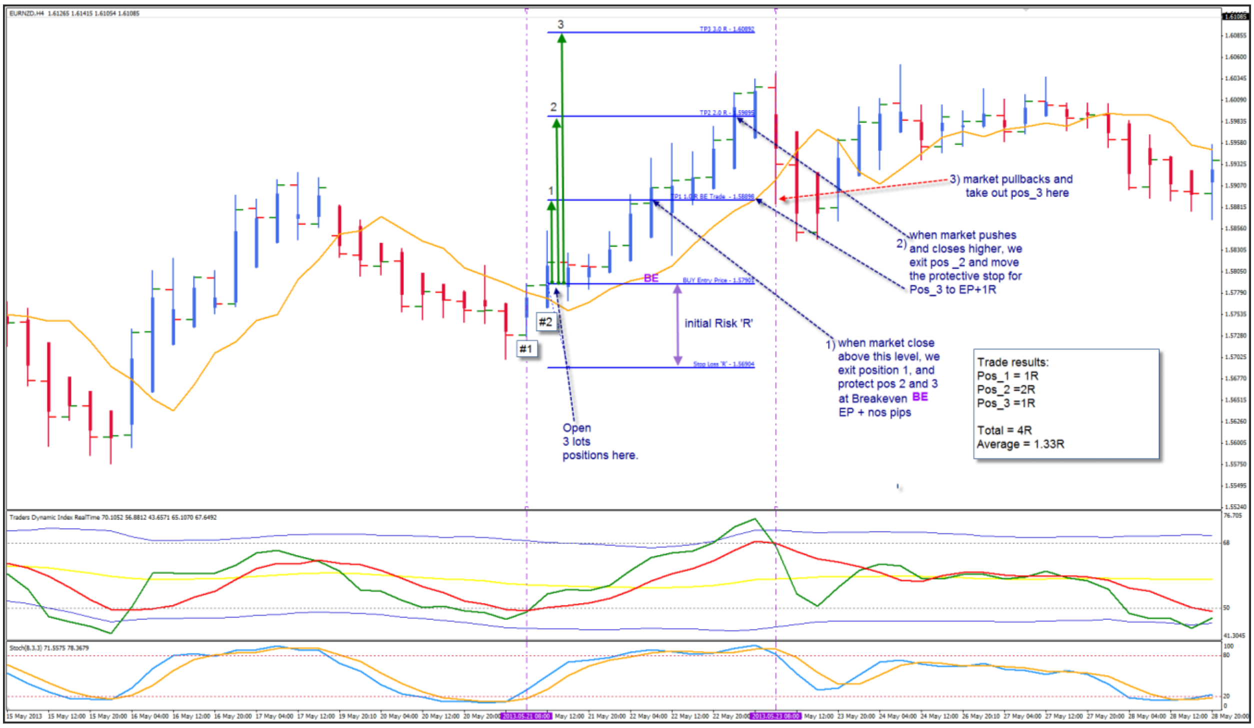
In this paper, we shall use TMS method using the RSI based Traders Dynamic Index and the Average Price Bar (aka Heiken Ashi_DM modified for forex trading) as the Entry and Exit strategy.

The Entry rule is simple: We enter the market when the TDI PL Green crosses the TSL Red and the APB/HA show a change in colour and we pick only entry on the APB/HA candle #1 or #2.

The Exit rule is when the TDI PL Green crosses the TSL Red in the opposite direction , or when the TDI PL Green goes flat or turn-over supported by Price Action using the APB/HA seen on the price chart.

Let's use the EURNZD 4H example below:

We enter the market at APB/HA candle#2 seeing a good PA. Instead of placing one single entry with 1-lot, we place a 3-lots entry with 1% risk each.



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Trading With Multiple Lots
Incorporating a multiple lot positions into a trading strategy actually requires few adjustments. With a single-lot system, a trader would take a position with one standard or mini lot and immediately set a stop loss and profit target. For our new system, we shall adopt Dr Van Tharp's Position Sizing strategy and fix risk of 2% maximum of equity. A triggered entry would lead us to enter in the same way with factional standard or mini lots. From there, we stagger the stops and target levels using the initial R as the multi levels grid to manage our trades.

From here, we will apply the three-lot entry system with a modest R using 2xATR(H4) and initial target of 60% of the 100-weeks Average Weekly Range and an aggressive second target of 100% of the same Average Weekly Range. From the chart above, we can see that our buy NZDUSD trade hits its first target quite quickly. With a portion of our profit secured, we now have greater confidence in pursuing a more aggressive, second target.

The Benefits of Trading Multiple Lots

A first target that is set 'nearby' is essential to this strategy. It should make sense that the closer a target is to the entry price, the greater the probability that the objective will be hit. From a psychological standpoint, a trader will often times view this as a winning trade which leads to a better state of mind when considering subsequent positions. Practically, this first target can help reduce the overall risk of the trade and in also 'pay for' all or part of the trade. If the first target equals the total stop amount, the trade is essentially riskless when the first objective is met. Even if the first target is only a fraction of the total stop, the risk will be reduced significantly when the objective is met.

To better improve the risk/reward probabilities of this method of trading, we can trail the stop on the second and third lots using the R-Multiple method. Therefore, when the first lot meets its first objective, the second and third lots' stop is moved up to breakeven which locks in the gain and guarantees that profit. This one step can dramatically alter the performance of a strategy and boost a trader's confidence. When the first target has been met, the worst that can happen from that point on is the remaining lots retraces to the breakeven point and the trade is closed out for the net profit on the first lot. For strategy performance this will naturally increase the ratio of winners (though it could also lower the average size of winners and increase the average size of losers depending on the size of the stops, first target and second target). Applying the multiple lot method, and the trailing stop for the second lot, to our TMS strategy; we can see a dramatic improvement in performance. Our percentage winners is boosted to 60 percent with a greater average winner to loser. The bottom line, this strategy turns a faulty trading strategy into to a profitable edge through a few money management adjustments.

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