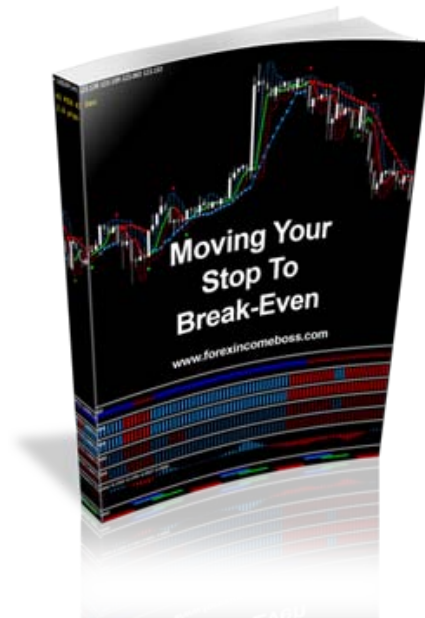


# **FOREX INCOME BOSS**

Presents



## **Moving Your Stop To Break-Even**

**By Russ Horn**

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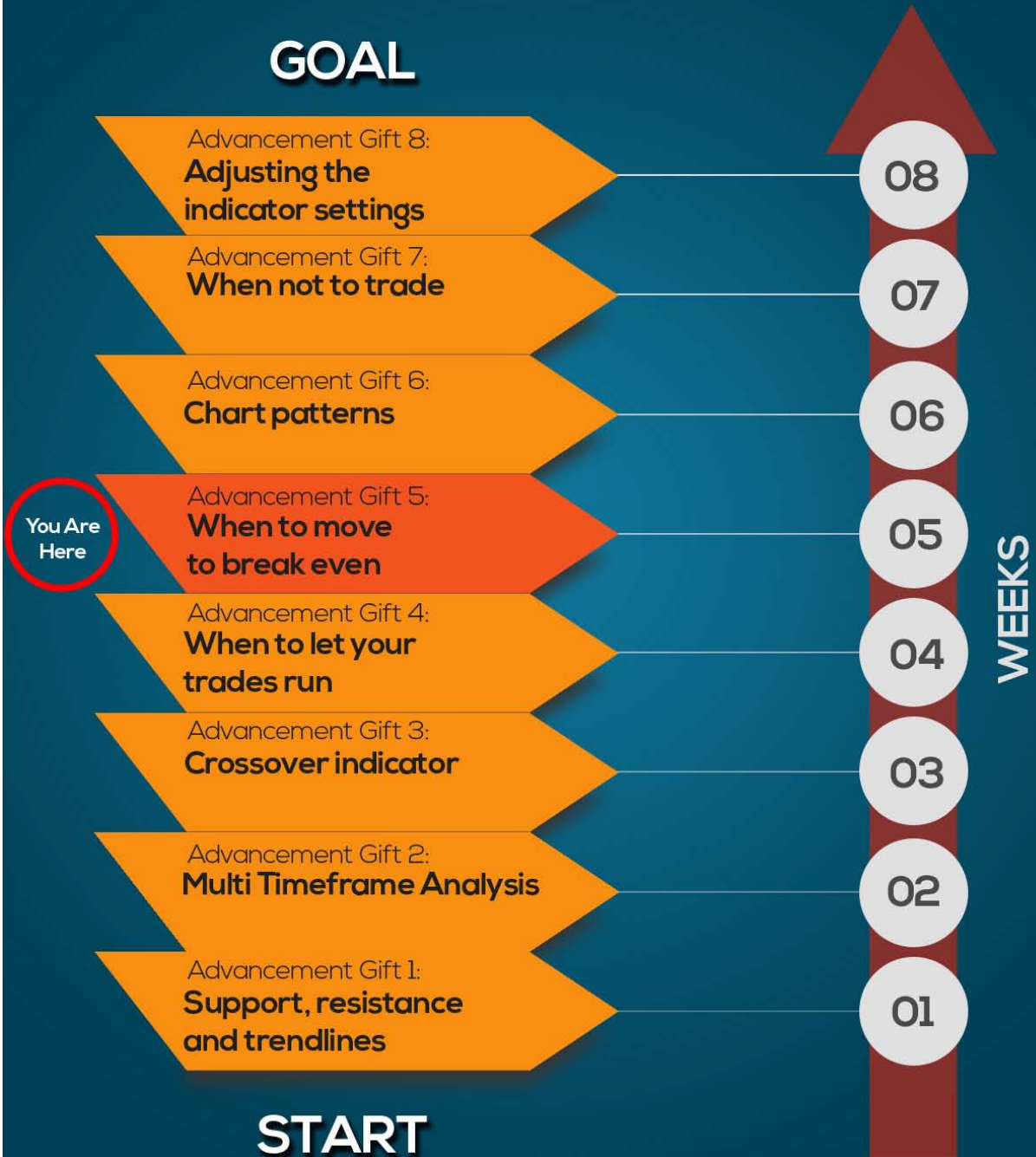
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# FOREX INCOME BOSS

## Advancement Gifts Roadmap

GOAL



# **1. What Does It Mean To Move Your Stop Loss To Break-Even?**

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As a trader, we are all about reducing the risk on our trades, or we should be.

As far as I am concerned, this aspect may be one of the most important aspects of being a successful trader.

As part of the Forex Income Boss trading system, we move our stop loss along the DMP. As the DMP moves closer and closer to our entry level, we move our stop loss with it.

This is a fine way to actively manage our trade. It reduces the risk on each trade we take and this literally puts money in the bank!

Now, is there a better, more efficient way to reduce the risk on our trades?

There is, it's when we get to move our stop loss to BREAK-EVEN.

When we move our stop loss to break-even, we move our stop loss to our point of entry. This means that if the price were to reverse on us and hit our stop loss, we would be taken out of the trade and we would lose NO MONEY on the trade at all.

If we entered a long trade at 1.18412 and our stop loss was 20 pips lower at 1.18212, we would be moving our stop to break-even when we get a chance to move it to the entry price at 1.18412.

For larger funds that trade other people's money, it's more important to them to NOT LOSE money than it is to make money. The fastest way to take a trade and insure that it can't lose money is to have a stop at the same price as they entered the market.

There are some basic rules when we do this, but the variations as to WHEN we move our stop loss is plentiful. In this manual, we will cover several of these options. You can choose the one that makes the most sense to you, and I will also start off with the one I use so you don't have to wonder what version to try first.

## **2. Trade Management Still Applies**

We are looking for an opportunity to move our stop loss to break-even, but that doesn't mean we ignore any kind of trade management in the mean time.

We will be looking for a certain criteria to happen before we make the jump to moving our stop to our entry level. This event may not happen right away, and depending on the version you use, you might have to wait for a while before you move your stop.

We are using the FIB trading system, and we will place our initial stop loss just beyond the DMP. For each new candle that forms, we will still move our stop loss along each new DMP dot.

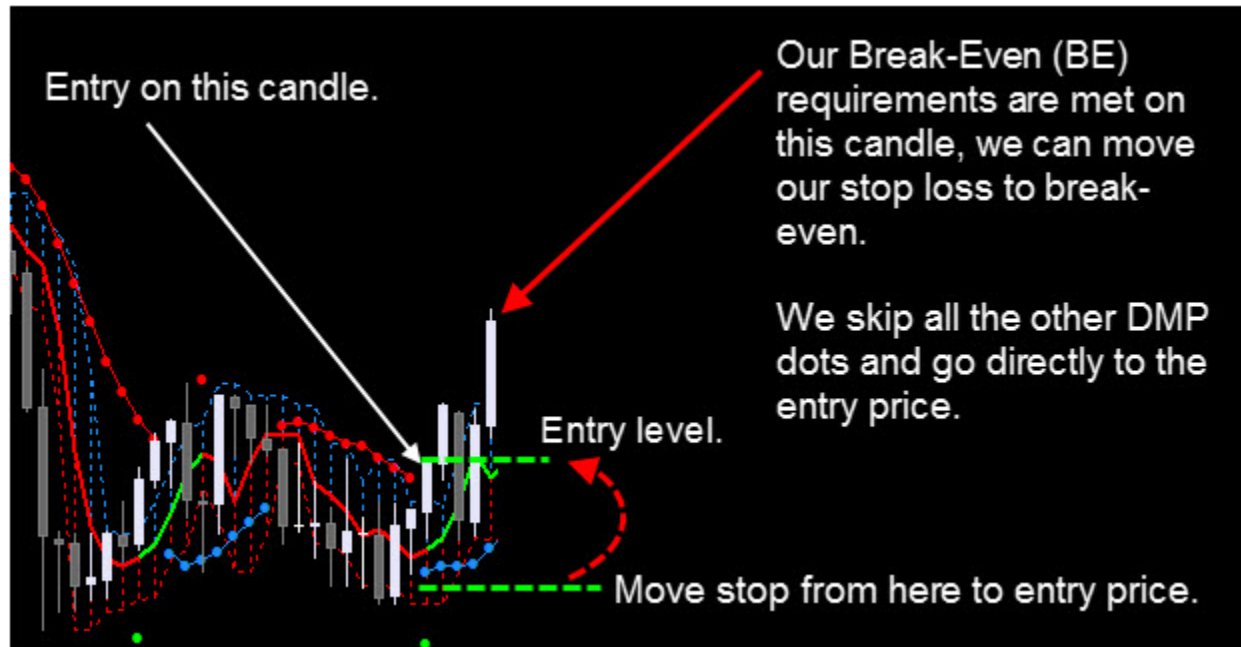
We are not going to void our standard trade management technique, and if the trade works out in such a manner that we never get an opportunity to move our stop to break even, we will at least have the opportunity to reduce the risk on the trade.

We will manage the trade as usual, and when the opportunity presents itself, we will make the jump from the current stop loss location to break-even. The move to break-even will bypass sometimes several DMP dots, it'll be like when we cut into a line at the bank.



In the example on the previous page, you see the DMP is moving upwards as the market moves, but the DMP isn't moving a lot.

Whatever the requirements are, when they are met by the price, we will skip ahead past all the other DMP dots and move right to the same price that we entered the market.



Remember though, trade management is still an important aspect of this process, so how do we manage the trade once we move our stop to Break-Even?

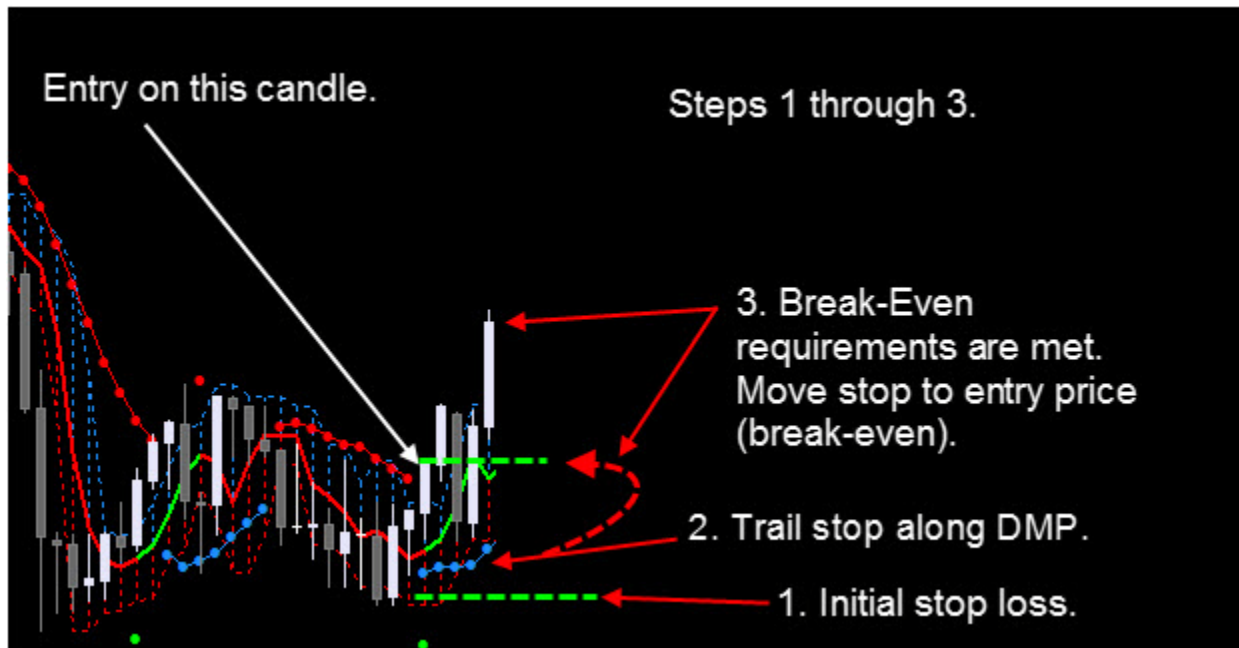
If we are using the DMP to manage the trade, we will continue to use the DMP as the price continues to move. Since we moved ahead of the current DMP dots and are now at break-even, we will simply hold our position until the DMP dots catch up to our stop loss.

Once the DMP moves higher (in the case of a buy trade as the example), then we can resume moving our stop along the DMP.

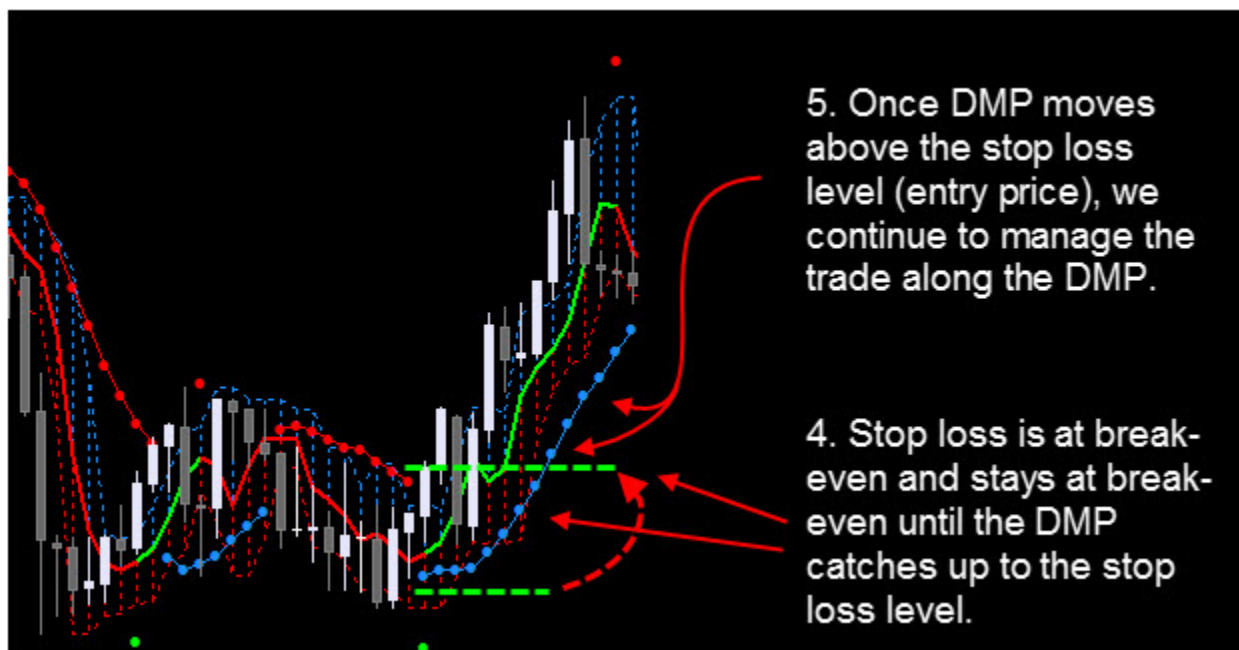
In a buy trade:

1. Enter trade and place the Stop under the DMP.
2. Trail the stop along the DMP as usual.
3. When the Break-Even criteria is met, we move our stop loss to the entry price.
4. We keep our stop at break-even until the DMP catches up to the stop loss.
5. Once the DMP prints higher than the stop loss, we resume trailing our stop along the DMP.

In the image below, you see the first 3 steps of the moving your stop to break-even.



Following are the final steps, 4 and 5.



Once the DMP is higher than the entry level, we resume managing our trades along the DMP.

You may have a trailing option when you use the DC Band, in this case you wait until the DC Band of the current candle moves higher than the entry level.



Of course, the opposite is true of a sell trade.

In a sell trade:

1. Enter trade and place the stop above the DMP.
2. Trail the stop along the DMP as usual.
3. When the Break-Even criteria is met, we move our stop loss to the entry price.
4. We keep our stop at break-even until the DMP catches up to the stop loss.
5. Once the DMP prints lower than the stop loss, we resume trailing our stop along the DMP.





## 3. Move Stop To Break-Even Methods

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We have a variety of methods we can choose when we are deciding on moving our stop loss to break-even. Some of these are very aggressive, and others are much more conservative.

The 3 versions we will look at are:

1. Percent stop, also known as a ratio stop.
2. Pip stop.
3. Candle stop.

### 1. Percent Stop (Ratio Stop).

This kind of stop loss is based on a percentage of a 1:1 level. If your stop loss is 100 pips, then we will move our stop loss to break even when the price touches a certain percentage of that 100 pips initial stop loss.

#### 100%

For traders that let their trades run, the most conservative version of this is to move your stop loss when the market hits 100%, or a 1:1.

When you have a 100 pip stop loss, you would move your stop to your entry level when the price touches 100 pips. The candle doesn't have to close, simply touch that level.

#### 70%

The second most common is the 70% touch. This is the one that I have been using for years, and it's a great semi aggressive way to move your stop to break-even, and it's a good one to use when your target is 1:1.

#### 50%

This is starting to get onto the aggressive side. Moving your stop loss when price touches the 50 pips in profit when your stop loss is 100 pips. It will get you safe faster, but the chances of a premature stop out are getting higher.

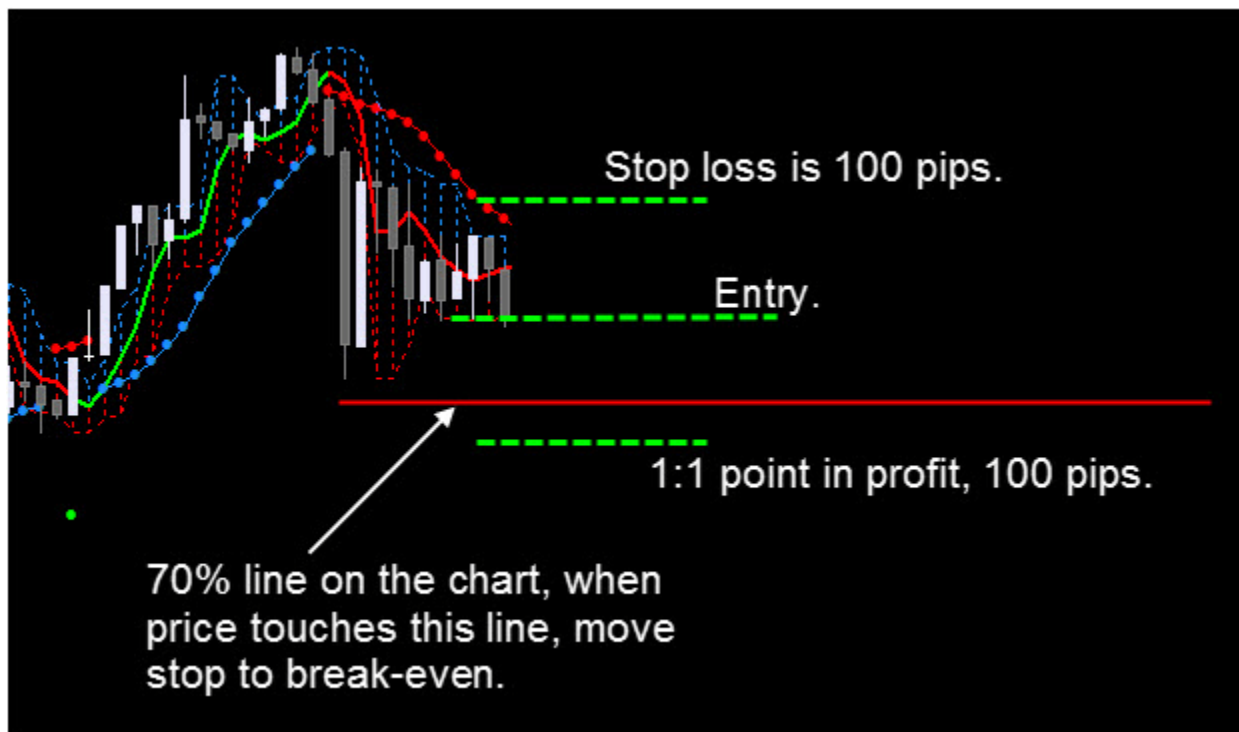
### 30% and 25%

This is ultra aggressive, and the more aggressive your BE criteria is, the more and more you are going to get stopped out of a trade before it goes in your direction. Moving your stop loss to BE at 30% means you are going to get stopped out of a lot more your trades than you would normally, but at the very least, when you do get stopped out, it will be for no loss.

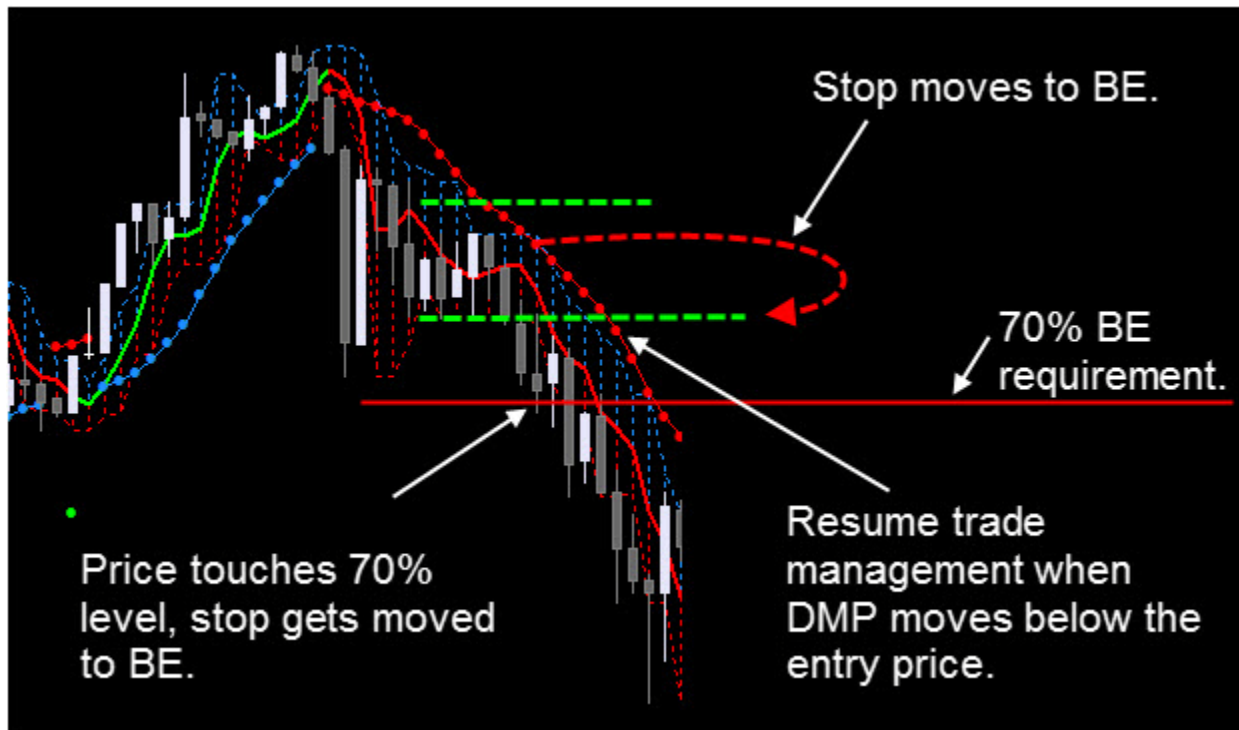
These percentages can be an eyeball or a very specific percentage.

I tend to simply eyeball my percentage, and I go for the 70% move to BE over the other options.

What I have done in the past is draw a line on the chart and when the price touches that line, I will move my stop to my entry level.



Below you see how this plays out.



Just to recap the rules for this 70% example:

1. Enter trade and place the stop above the DMP.
2. Trail the stop along the DMP as usual.
3. When the price touches 70% of our initial stop loss, we move stop loss to the entry price.
4. We keep our stop at break-even until the DMP catches up to the stop loss.
5. Once the DMP prints lower than the stop loss, we resume trailing our stop along the DMP.

## 2. Pip Stop.

This is the second most common way to move your stop loss to break-even.

A pip stop is accomplished when your trade reaches a certain number of pips into profit. Different timeframes will use somewhat different pip counts, but here is the idea.

If you choose a 10 pip BE criteria on your 15 minute timeframe, you would move your stop loss to break even as soon as the price touches 10 pips. The candle doesn't have to close at or beyond 10 pips, it simply has to touch 10 pips.

I have heard of a trader that uses a 5 pip break-even requirement, and he gets stopped out a lot... I mean a LOT. He also loses very little, his losses are few and far between, his break even trades are frequent, but his winners always make up for any losses he takes.

This is the kind of break-even management that will mean you get stopped out maybe 8 times and then you get 1 winner. This is something you want to be prepared for when you use a small pip count for your BE criteria.

The smaller the pip count of the BE criteria, the more often you are going to get stopped out.

There are always pros and cons with whatever you choose to use, and in the case of a small pip count, the con is that you will get stopped out on a very regular basis. The pro is that your losses will be small, you aren't going to take a full loss very often and your profits will more than make up for it.

Remember, even with a pip stop, trade management is still important. You manage the trade until you get to move your stop loss and then you hold it there until the DMP (or the DC Bands or other trailing criteria) catches up to your entry level.

here are the criteria for a long pip count break-even trade.

In a buy trade:

1. Enter trade and place the stop under the DMP.
2. Trail the stop along the DMP as usual.
3. When price touches 10 pips (for example), we move our stop loss to the entry price.
4. We keep our stop at break-even until the DMP catches up to the stop loss.
5. Once the DMP prints higher than the stop loss, we resume trailing our stop along the DMP.



### 3. Candle Stop.

At it's very basic, what we are looking for is a candle to close into profit, and there a couple of ways to approach this.

#### First candle to close in profit.

This can be at times extremely aggressive. What we are looking for is when the first candle closes in profit, we move our stop loss to break-even.

This approach generally comes with a filter, "the first candle to close in profit if the profit is 10 pips or more".

We wait for the candle to close, we aren't looking for a pip count to be touched, we need to see that a candle close in order to move our stop to break-even.

In the image below, it wasn't the spike that had us move our stop, it was the next candle that closed above a certain number of pips.. in this example it was 10 pips. This candle closed 13 pips in profit, this is more than 10 so it meets the criteria.



## Combinations

You can do certain combinations of the methods described.

One big one is to use a percentage and a candle close together.

If you get a candle that closes 50% or higher, then you move your stop to break even. This can mean your candle closes at exactly 50% of your initial risk in profit, 55%, 61% and so on, as long as the candle closes at or beyond that level.

Let's say your initial stop loss is 50 pips, you would move your stop loss to break-even when you get a candle that closes at or beyond 25 pips.



1. Enter trade and place the stop above the DMP.
2. Trail the stop along the DMP as usual.
3. When the price closes at or past 50% of our initial stop loss, we move stop loss to the entry price.
4. We keep our stop at break-even until the DMP catches up to the stop loss.
5. Once the DMP prints lower than the stop loss, we resume trailing our stop along the DMP.



## 4. Conclusion

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Moving your stop loss to break even is absolutely the best way to preserve your capital.

There is a saying:

"There are 2 rules when it comes to trading:

Rule number 1 - Don't lose money.

Rule number 2 - See rule number 1."

Finding a way that you are comfortable with to move your stop loss to break-even is one of the cornerstones to preserving your capital.

How do you save money? You spend less than you make.

How do you make money in the market? You lose less than you earn.

Moving your stop to break-even will not only keep you from losing money, it will allow the earning you gain add up that much quicker.

Remember, though, the faster you move your stop loss to break-even, the more times you will experience a break-even stop out. You will be stopped out of trades more frequently, but these will be trades you get taken out at ZERO. Your losers will be fewer and your winners will amount to much more in comparison.

May all your dreams come true!

*Russ Horn*