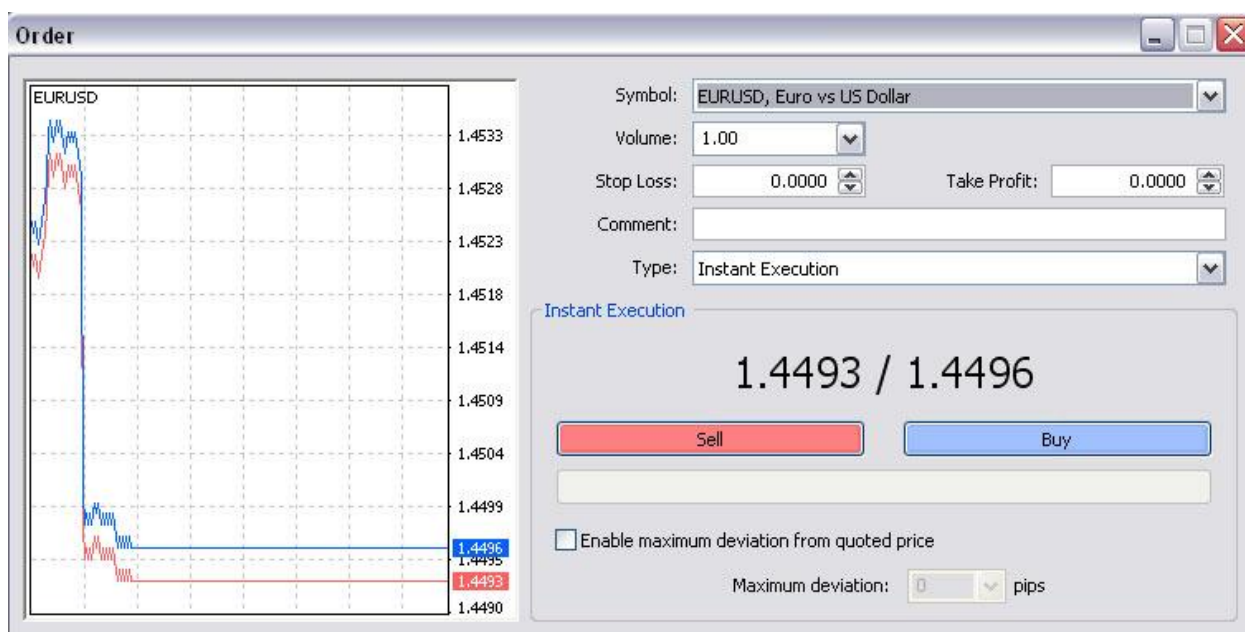


Lecture №6, Part 2

Deal Execution (Continued)

Let's continue from where we left off with lecture №6. We need to execute one more deal. Place orders which limit your profit and loss. Leave a position open and observe the changes which happen in the informational field in the SFX MetaTrader 4 platform.



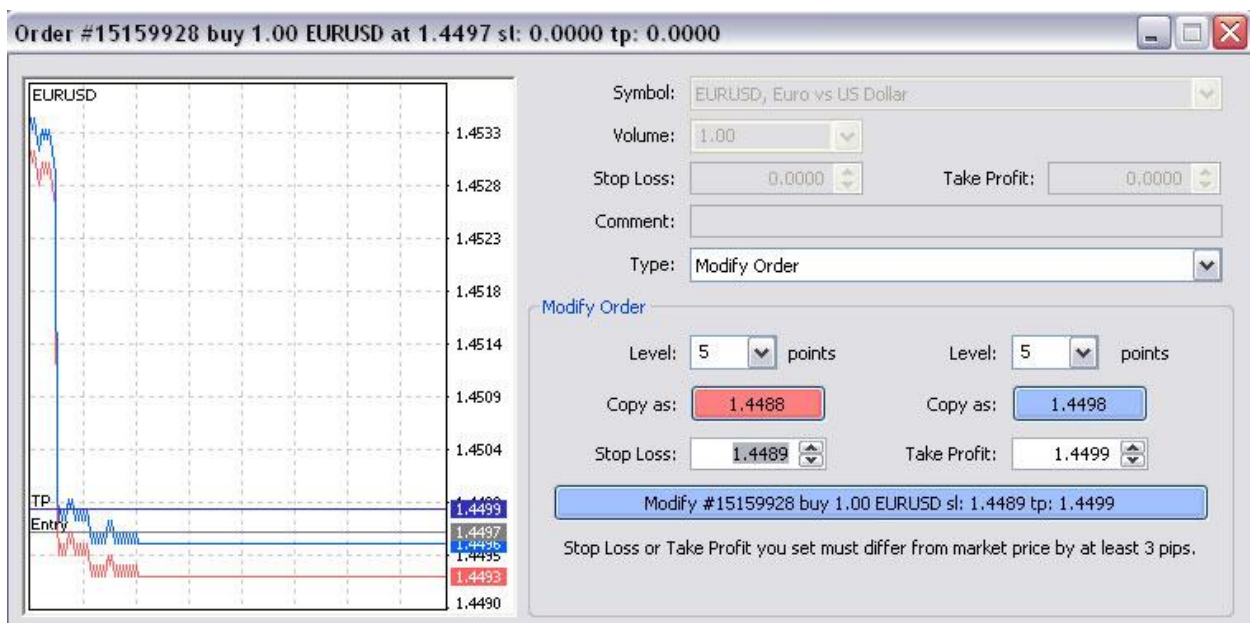
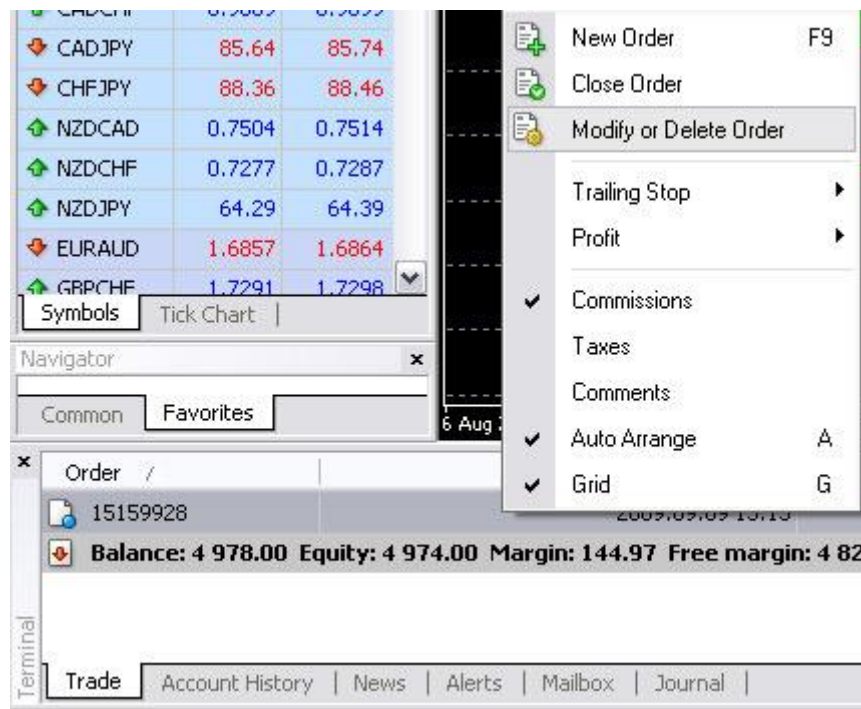
Due to the growth of EUR/USD, a long position was opened at 1.4497 (ask), so we bought the basic asset.

Order /	Time	Type	Size	Symbol	Price	S/L	T/P	Price	Commission	Swap	Profit
15159928	2009.09.09 13:13	buy	1.00	eurusd	1.4497	0.0000	0.0000	1.4494	0.00	0.00	-3.00
Balance: 4 978.00 Equity: 4 975.00 Margin: 144.97 Free margin: 4 830.03 Margin level: 3431.74%											-3.00

Trade | Account History | News | Alerts | Mailbox | Journal

As you can see in the pictures above, the situation is almost the same as in the first deal. The sums in the fields 'balance' and 'free margin' are corrected allowing for profit to be received as a result of the executed operation. We see the buy order; depending on the quote for the pair EUR/USD, the margin sum is calculated as 144,97 (because ask = 1.4497).

In order to limit our losses and fix a profit, we establish orders according to which a broker must close our deal when a price reaches the levels set up in the orders. Open the context menu with the right mouse button and choose Modify or Delete order.



Let us examine the case of stop-loss and establish a profit when a quote reaches the values of Bid=1.4493 and Ask=1.4496.

You can see that the price levels 1.4498 and 1.4499 are established. When the bid price reaches levels (we can only close the position at the bid price) 1.4489 and 1.4499, the broker must execute the reversal of the trade - sell the asset.

This action leads to changes only in the table notes "Position."

Order /	Time	Type	Size	Symbol	Price	S/L	T/P	Price	Commission	Swap	Profit
15159928	2009.09.09 13:13	buy	1.00	eurusd	1.4497	1.4489	1.4499	1.4495	0.00	0.00	-2.00
Balance: 4 978.00 Equity: 4 976.00 Margin: 144.97 Free margin: 4 831.03 Margin level: 3432.43%											-2.00

Trade | Account History | News | Alerts | Mailbox | Journal

In the columns S/L and T/P you can observe the price levels we indicated when we placed the order. This means the orders are accepted and placed, and the Broker will carry them out if/when the price reaches these levels. We limited our risks by stop-loss and now if the Euro falls our losses will constitute not more than 5 US Dollars. It is obvious why a trader places S/L, but what about profit fixing?

As it is known, the price does not move only up or down. Reaching a certain level, a market starts moving in the opposite direction. That is why it is very important to not only determine the levels of possible losses but also the levels at which a price may reverse. In order not to turn a profitable position into an unprofitable one, you should fix profit ahead of time. It will be done with the help of a take-profit order when the price reaches the necessary level.

These orders will be executed without the direct participation of a trader by the broker according to the order fixed. That is why it is not necessary for a trader to stay in front of the computer and monitor market movements. Moreover, the limit orders placed (take-profit, stop-loss or any pending order) are executed without slippage. Slippage is the difference between a price at which an order should be executed and the price of actual execution. For example, a trader places an order stop-loss for closing a long position and establishes a price of 1.4489. In case this order is executed with slippage which is used by many brokerage companies it may be executed on 1-3 pips worse, i.e. at price 1.4488, 1.4487 or 1.4486 and this decreases possible losses significantly. According to SuperForex rules, orders are executed exactly at the price established by the client even if there is a strong movement on the market.

An order with a limited loss (stop-loss) is placed lower than the opening price if the position is long and over the opening price if the position is short because the risk of losses is located in this price range.

An order with a fixed profit (take-profit) is placed over the opening price if the position is long and below the opening price if the position is short.

Let us leave the position opened, without making the reverse deal at the day of its opening and have a look at the changes.

Order /	Time	Type	Size	Symbol	Price	S/L	T/P	Price	Commission	Swap	Profit
Balance: 4 970.00 Equity: 4 970.00 Free margin: 4 970.00											0.00

Trade Account History News Alerts Mailbox Journal

The Euro's price falls and the quote for EUR/USD is 1.4486 (bid) -1.4489 (ask), that is, lower than the level of the placed stop-loss order. This means that the long position opened must have been closed and the absence of any notes in the table "positions" proves it. Open a window with account history and check the results of the deals executed at the given account.

15064729	2009.09.08 17:17	sell	1.00	eurusd	1.4471	0.0000	0.0000	2009.09.08 17:23	1.4488	0.00	-17.00
15159890	2009.09.09 13:12	buy	1.00	eurusd	1.4498	0.0000	0.0000	2009.09.09 13:12	1.4493	0.00	-5.00
15159928	2009.09.09 13:13	buy	1.00	eurusd	1.4497	1.4489	1.4499	2009.09.09 13:20	1.4489	0.00	-8.00
Profit/Loss: -30.00 Credit: 0.00 Deposit: 5 000.00 Withdrawal: 0.00											4 970.00

Custom period ? X

Period:

From: to:

In order to receive the necessary information in the window 'History,' we need to enter a specific time period. For example, set the period to: 01.09.2009 – 11.09.2009 and click 'OK.'

Order /	Time	Type	Size	Symbol	Price	S/L	T/P	Time	Price	Swap	Profit
15159890	2009.09.09 13:12	buy	1.00	eurusd	1.4498	0.0000	0.0000	2009.09.09 13:12	1.4493	0.00	-5.00
15159928	2009.09.09 13:13	buy	1.00	eurusd	1.4497	1.4489	1.4499	2009.09.09 13:20	1.4489	0.00	-8.00
Profit/Loss: -13.00 Credit: 0.00 Deposit: 0.00 Withdrawal: 0.00											-13.00

Look through the data that appears. In the first line you can see the price at which the deal was opened. In the line "Profit" we see -13. This sum is a result of the collected loss 13 US Dollars (after the position was closed at a price of 1.4489) and the commission for prolongation of the position Swap (if there was one).

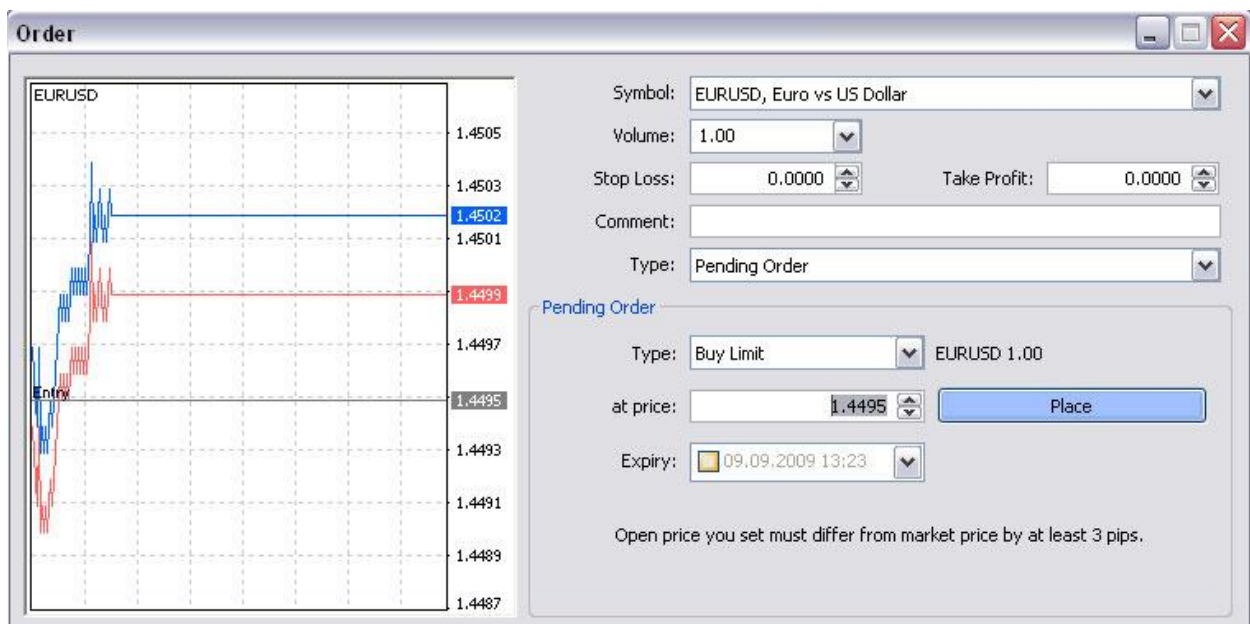
Pay attention that in the profit/loss line "-13" is the profit (there is minus sign). As it was mentioned above, the repeated purchase of the asset (EUR) was made at 1.3579; this means that the calculations for the order's stop-loss should be made according to this price.

+10000 EUR	-14497 USD
-10000 EUR	+14489 USD
0	8 USD

15064729	2009.09.08 17:17	sell	1.00	eurusd	1.4471	0.0000	0.0000	2009.09.08 17:23	1.4488	0.00	-17.00
15159890	2009.09.09 13:12	buy	1.00	eurusd	1.4498	0.0000	0.0000	2009.09.09 13:12	1.4493	0.00	-5.00
15159928	2009.09.09 13:13	buy	1.00	eurusd	1.4497	1.4489	1.4499	2009.09.09 13:20	1.4489	0.00	-8.00
Profit/Loss: -30.00 Credit: 0.00 Deposit: 5 000.00 Withdrawal: 0.00											4 970.00

This figure is fixed in the line “Profit/Loss” and taken into consideration during the calculations of the sum reflected in the field “Current balance.” The total loss is 30; calculations of the balance: $5000-30=4970$.

The execution of the deals via SFX MetaTrader4 is possible not only by means of market orders as it was executed earlier in our lecture but also with the help of limit orders. These are orders that the trader executes when certain price limits are met.



In order to place a limit order, it is necessary to open the window “Order.” Mark the type of order (limit), the price a deal should be executed at, the deal type - buy or sell, and the time of this order validity.

In our case we opened a Buy Limit deal:

Order /	Time	Type	Size	Symbol	Price	S/L	T/P	Price	Commission	Swap	Profit
Balance: 4 970.00 Equity: 4 970.00 Free margin: 4 970.00											0.00
15160358	2009.09.09 13:28	buy limit	1.00	eurusd	1.4495	0.0000	0.0000	1.4502			

With the help of limit orders we may open and close positions or use them like orders stop-loss and take-profit, carrying out position reversals. A position reversal with the help of the limit orders is executed by a settlement on a bigger volume than the opening one.

For example: a trader opened a long position for the pair GBP/USD in the amount of 10 000 at a price 1.8000 and after some time decided to reverse the position because the price reached its target level and a great possibility for the movement in the reversed direction appeared. He placed a sell order and increased the sum of the open positions twice. It constituted 20 000, so the deal was executed at a price 1.8050.

Balance scheme:

+10000 GBP	-18000 USD
-20000 GBP	36100 USD
-10000 GBP	+18100 USD

As it is seen, if the trader's position remains open, the reversal takes place and this position is closed while a short one was opened.

Except the above-mentioned orders the opportunity of using a "trailing stop" orders is foreseen in the terminal.

Test

1. What is a "trailing stop" order? Describe in details.
2. Place order with a "trailing stop."
3. Open a position for any pair and leave it opened for the next trading session. Describe the changes in the informational field of the terminal. What happened as a result of the position transfer? What is the reason for these changes?
4. Explain what price range stop-loss and take-profit orders are placed in after a long or a short position is opened. Give an example.