



The Zen8 Forex Hedging Strategy Guide

By Trading Heroes

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Frequently Asked Questions

Before we get started, let's get the answers to frequently asked questions out of the way...

1. Yes, you can do this in an US account, you just need to separate your longs and shorts into separate accounts.
2. No, this is not a magical unicorn system that will make you a billionaire overnight.
3. Yes, you can do this on any timeframe.
4. Yes, you will have to practice this.
5. Yes, it's extremely flexible and you don't have to be in front of the computer all day.
6. Yes, you can do this with a small account.
7. No, you don't need any special indicators or tools.

Now that you have a slightly better idea of what you are getting into, let's get started.

Why Hedge?

You may have heard some very negative things about hedging. If that's the case, then remember back to when you were in the second grade (or so). That's probably around the time when your parents and teachers taught you the difference between a fact and an opinion.

Ask yourself if those anti-hedging traders are giving you a fact, or a strongly-worded opinion. Yes, in reality, people who are against hedging are simply telling you that it doesn't work for them.

So keep an open mind and figure out for yourself if hedging will work for you or not.

Fact: Nobody knows exactly what will happen in the markets.

Some traders are very good at making educated guesses. But the fact remains that nobody can be 100% correct. Instead of getting stopped out all the time, Zen8 helps you go with the flow.

Alright, here's why I like Zen8 hedging...

- The method is stupid simple, no complex rules to remember.
- It's been the most consistently profitable strategy for me. Of course, there are no free lunches, so the trade off is that the monthly return is fairly low. I'm personally looking for gains in the neighborhood of 0.5% to 2% per month.
- There's no need to be exactly right on my call. In fact, I can be completely wrong on an idea and still make money.
- It's highly customizable. Hedging can be tailored to your view of the market. It just takes some practice to figure out what works best for you.
- I can benefit from positive interest and hold long-term positions for passive income.

Now the downsides...

- Since there is so much flexibility in this method, there are no hard and fast rules. If you prefer a highly structured trading plan, then this probably won't work for you.
- I don't use stop losses. Yes, you read that right. Since my positions are hedged, a loss on one side of the books will be offset by the hedge.
- If you don't follow the risk guidelines, you can get caught in a position that can take a long time to work your way out of. That can really, really, really suck. Follow the guidelines and Zen8 can be a lot of fun.

The Zen8 Method Explained

Hedging can have a bad rep in the trading world because hedgers can overload one side of their books and dig themselves into a hole that they cannot get out of. I've seen this happen a couple of times with high-profile traders.

I wanted to avoid this, so I designed Zen8 to keep the books reasonably balanced between long and short positions.

Yes, this shrinks your profits, but it also reduces the chances that your positions will come around and bite you in the ass later.

The best way to illustrate this is to jump right into an example...

I like to keep things simple, so I primarily focus on one currency pair, with a low spread. Since the EURUSD is the most liquid pair, this is my weapon of choice.

As this guide is being written, **the short side is paying me interest** and I have to pay interest to hold a long position. So I prefer to look for a good **long** trade, but I won't turn down a good short opportunity either. This is because I'm going to take more profits on the long side and will have to sit on my short trades for longer. If it works out this way, it will give me a larger short position than long position, and take advantage of the positive carry. You may choose to take trades in either direction, it's up to you.

You can use whatever entry method works for you, but I like simple support and resistance. In this example, I'm going to use Oanda as my broker because you can open an US account and they allow you to trade nano lots.

Now let's setup our two accounts, one long, one short. Since I'm in the US, I cannot have long and shorts in the same account. Even if you are not in the US, you may want to setup two separate accounts because that further limits your risk. If you make a mistake in one account, the damage is only limited to one of your accounts.

When first starting out, you should use a demo account while you get the hang of it. I'm very adamant about this. This method is simple, but you need to go through the experience of getting stuck a couple of times so you can learn how to get out of it.

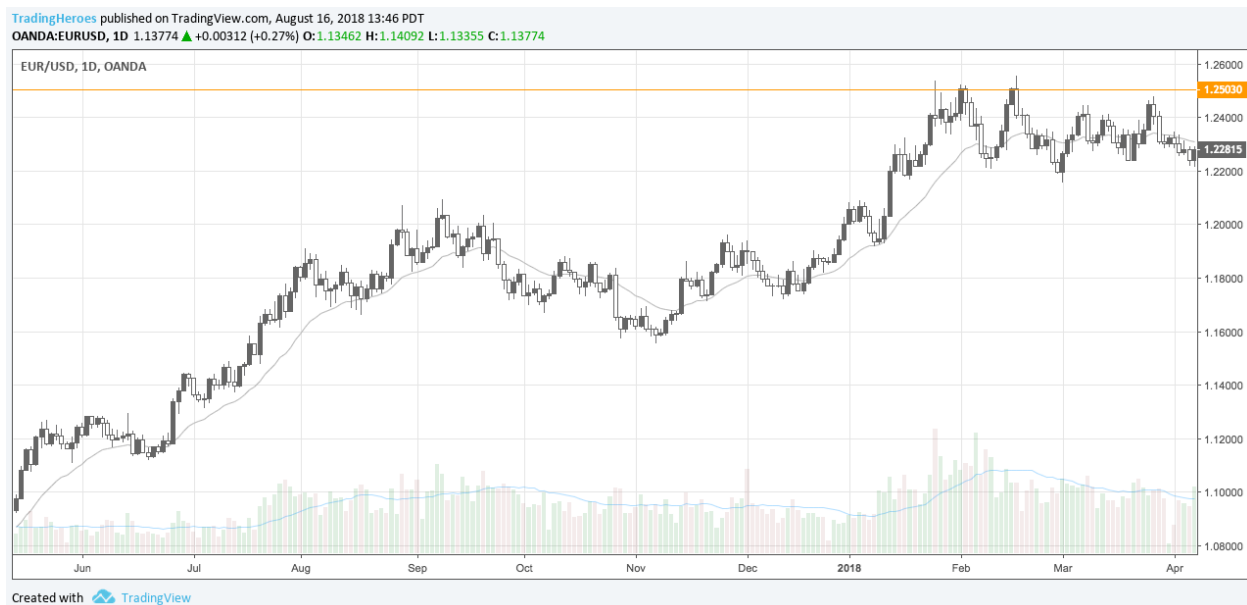
Alright, let's say that I have \$1,000 to trade. **I'm using a small example account to show you that this can be done, even in a small account.** I will split that evenly between two accounts, long and short. Keep in mind that my goal is to get to a flat position as fast as possible.

Accounts Balances:

- Long: \$500
- Short: \$500

Since I get paid interest on the short side, I'm going to focus on finding a short trade first. You can use any entry method you want, but I find that simple support and resistance is the best method for me.

Here's an example of a level that I would look to short at (orange line).



Let's say that I find a good opportunity and I go short 1,000 nano lots. Now I need to hedge that trade on the long side.

You can hedge 1 to 1, but I prefer to keep the hedge at about 50%, in this situation. This allows me to about break even on the interest. Do some experimenting and find out what works best for you.

So here's what my positions look like now:

Positions:

- Long: 500 nano lots
- Short: 1,000 nano lots

Here's where we start to see the benefits of nano lots. They allow me to hedge my risk exactly.

Some time goes by and let's say that I was wrong about my call on the short trade. The positions now look like this.

Positions:

- Long: 500 nano lots @ +\$3.00 (profit)
- Short: 1,000 nano lots @ -\$6.00 (loss)

In normal directional trading, at this point we would probably close all of the trades and take a loss. But with Zen8 we can actually make a profit.

I will close the long position that is in profit and bank \$3.00.

But instead of closing the short trade completely, I'm going to only close enough of the trade to take a loss that is 50% of my gain.

So in this example, I close 250 nano lots and take only a \$1.50 loss. This way, I still end up with a net gain of \$1.50.

Now my positions look like this:

- Long: no position
- Short: 750 nano lots @ -\$4.50 (loss)

Next, I need to hedge my short position, so I put on a 50% hedge in the long account.

Positions:

- Long: 375 nano lots @ \$0 (minus spread)
- Short 750 nano lots @ -\$4.50 (loss)

Notice how the positions are getting smaller. Human nature will tell you to put on bigger positions to make up for your losses. But that can get you into trouble really fast. The beauty of nano lots is that they allow you to custom tailor your positions so you can take exact risks and rewards to reduce your risk.

Now let's say that price finally starts moving lower, like I expected in the beginning. After a nice run, my positions might look like this.

Positions:

- Long: 375 nano lots @ -\$6.75 (loss)
- Short: 750 nano lots @ +\$9.00 (profit)

At this point, I would close both sides at a +\$2.25 profit. So the total gain in this example is \$3.75 (\$1.50 + \$2.25) or 0.3% of the \$1,000 account.

You are probably thinking...whopty-doo, that's such a small gain.

True, but Zen8 is all about consistent gains, not huge gains.

If you can string a few of these trades together, you could find easily yourself with a profit of 1%-2% per month.

A lot of fund managers would love to have that return.

You can get this return without stressing about stop losses or missing the your profit target. If you have a bigger account, simply add some zeroes to the numbers above.

One more thing...when the end of the month rolls around, I balance out the accounts by transferring money between them. This ensures that I have enough margin available to trade in each account. It helps to have your two accounts at the same broker.

Advanced Zen8

That was a very simple example of how Zen8 can be used to make money with just two positions.

But that's just the tip of the iceberg.

Consider how you can trade multiple positions in both directions to take advantage of small market moves. Keep a few small positions on at key highs and “bank” them for later or build a position to earn passive income.

You can also scalp until you are blue in the face. Want to take a quick \$100 profit? Go for it, you can just put the same trade on again and again. As long as your position is properly hedged, taking small profits is not a crime.

Also experiment with using take profits, stop losses and entry orders to take advantage of key levels while you are away from your computer.

Again, you need to practice in a demo account to get the hang of this. But once you get the concept, it's a method that could be a nice addition to your trading arsenal.

Another strategy that you can setup ahead of time is a straddle. This is when you setup buy and sell trades at the same level and only target a small profit on each

side. If you do this during volatile periods like the New York open, this can be an easy way to bag a few pips while you sleep.

The possibilities are endless so don't be afraid to try new things.

Trading Safely

WARNING: Once you start trading this method, it can be easy to start seeing profits right away. You might even start considering yourself a Big Swinging you-know-what.

But hold on there Johnny Bravo, it can be just as easy to get cocky and be stuck in a large position that is down 1,000 pips or more. That's torture.

So stay humble and disciplined. Always look for opportunities to roll off the losing side of your positions at a net gain and keep your individual trades relatively small.

Before you open a position, ask yourself what your accounts would look like if the market went 1,000 pips against you. If you could not handle that, either mentally or financially, then you are trading too big.

Remember, your goal here is to always work towards getting flat, or having no position. Also remember to hedge yourself, regardless of what your Jedi senses tell you...or very bad things can happen.

Start practicing this in a demo account, or in Forex Tester. Never, ever, ever trade this live in the beginning! Also start with much, much smaller lots than you think is safe. Trust me, things can go sideways very quickly.

When you get to the point where you are trading significant amounts of money, then you also need to consider broker risk. Never keep all of your funds at one broker. Consider keeping some of your trading capital at a bank or a second or even a third broker. Unforeseen events can take down even the most reputable broker.

But if you start small and figure out what works for you, this can be a super fun way to trade.

Conclusion

This is the way that I trade Zen8.

Take the time to figure out what works best for you. Obviously these numbers are very small because I want to make the point that you can start small and move up to whatever level works best for you.

If you trade this method well, you can use your track record to attract investors or possibly trade for a fund. This method can also be good for people who have a large trading account and want consistent profits.

Still have questions about Zen8? You can learn all of the nuances of the strategy in my complete course.

You will learn:

- What to look for when entering your first trade
- How to set exact risk limits
- See my live track record with Zen8
- The Range Trade: A way to use Zen8 hedging to profit in ranging markets
- What you need to do if you want to hedge in a US account
- And more!

[Click here](#) to learn more about the Zen8 course.

Happy Trading!