

Second Lesson in the Robot Training Series

How to Identify Types of Robots

Prepared by: Paul Morton

Virtually all robots are intended to provide you with the same functionality – to trade Forex on your behalf – but each and every robot does it in a slightly different way.

One of the key proficiencies you'll need as a "robots user" is the ability to identify what type of robot you are examining.

So, let's start...

There are many automated and semi-automated robots out there you can choose from.

One of the key differences between the various robots is the type of strategy they employ. You'll now learn what are the different types of strategies available.

This information will help you in future lessons of this course, when you'll learn tips and tricks that you can use to find and explore the best.

Type 1 – Scalping

When the strategy involves high-frequency trading, or uses small profit targets, it is referred to as "scalping".

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Scalping robots often open many small trades, with profit targets of around 10 pips or less. Using high leverage magnifies the profits of these small trades, but leads to large risk. The stop loss is usually located far from current market price, often as far as x5 or even x10 of the take profit distance.

Typical timeframes are M1 (1-minute), M5 and M15.

Advantage: high accuracy rate, many trades meet their profit target.

Drawback: one loss usually erases the gains of several previous trades.

Note: the Quantum FxBot is a special case of scalper which does NOT suffer from the above drawback! The Quantum's risk is significantly lower than other robot - it risks only less than x3 of the profit, as compared to other scalpers which often risk more than x10.

Additionally, there are brokers who ban scalping, or intercept scalping robots to make their strategy fail!

More about this later on in this course.

Order	Time	Type	Size	Symbol	Price	S / L	T / P	Target: 10 pips	Price	Swap	Profit
33051...	2009.01.15 00:53	buy	0.40	usdcad	1.24690	1.24110	1.24790	2009.01.15 01:19	1.24790	0.00	32.05
33054...	2009.01.15 01:19	sell	0.40	usdcad	1.24825	1.25410	1.24730	2009.01.15 01:26	1.24730	0.00	30.47
33056...	2009.01.15 01:32	buy	0.40	eurchf	1.47120	1.46590	1.47170	2009.01.15 01:32	1.47170	0.00	17.91
33057...	2009.01.15 01:44	buy	0.40	usdcad	1.24535	1.23960	1.24640	2009.01.15 02:04	1.24640	0.00	33.70
33213...	2009.01.15 22:42	sell	0.40	usdcad	1.25260	1.25840	1.25160	2009.01.15 23:01	1.25160	0.00	31.96
33543...	2009.01.19 22:00	sell	0.40	eurchf	1.48565	1.49100	1.48520	2009.01.19 22:02	1.48520	0.00	15.88
33543...	2009.01.19 22:03	sell	0.40	eurchf	1.48545	1.49080	1.48500	2009.01.19 22:10	1.48500	0.00	15.88
33544...	2009.01.19 22:11	buy	0.40	eurchf	1.48470	1.47940	1.48520	2009.01.19 22:14	1.48520	0.00	17.66
33545...	2009.01.19 22:30	sell	0.40	usdcad	1.25412	1.25990	1.25310	2009.01.20 00:00	1.25378	1.02	10.65
33546...	2009.01.19 22:34	buy	0.40	eurchf	1.48471	1.47940	1.48520	2009.01.19 23:21	1.48520	0.00	17.26
33557...	2009.01.20 00:00	buy	0.40	eurchf	1.48246	1.47720	1.48300	2009.01.20 00:43	1.48300	0.00	19.07
33565...	2009.01.20 01:29	sell	0.40	usdcad	1.25445	1.26030	1.25350	2009.01.20 05:28	1.26030	0.00	-185.67
33566...	2009.01.20 01:30	sell	0.40	eurchf	1.48400	1.48930	1.48350	2009.01.20 01:30	1.48350	0.00	17.61

Typical trading account statement of a short term "scalping" strategy.

Note the small profit targets (10 pips) and the green rectangles around the opening and closing dates, showing that multiple trades were opened and closed on the same day.

Type 2 – Short Term

In this category we find strategies which open and close trades usually within the same day. Hence, they're called short term strategies. Sometimes they are also referred to as "day trades" or "intra-day".

This means that the strategy does not look for large price movements of hundreds of pips. On the other hand, it is not a scalping strategy, because profit targets are usually 20 to 50 pips.

These robots can be identified by their relatively short term profit target (small moves of 20-50 pips) and the use of the H1 timeframe or lower (such as M30 or M15).

Advantage: high accuracy rate. Less sensitive to broker manipulations than scalping (we'll discuss broker manipulations in great detail in one of the coming lessons).

Drawback: Cuts profits quickly - the strategy would exit a trade, but you might see the market continuing for +100 pips in your favor while you're out. However this also works the other way around, when a move halts and reverses, the strategy is already out with a profit.

Type 3 – Medium to Long Term

This is a relatively wide-ranging category, encompassing many different strategies and approaches to the market.

However, the general thread that runs through all these strategies is trying to capture a trend, as long a move as possible, or having trades open for as long as needed - anything between a few days and a few months.

Medium to long term strategies are usually called "Trend following". This is because they look for a trend and try to follow it to extract as much pips from it as possible.

Another popular approach for medium term trading is called "Swing Trading". This approach seeks to capture a trend or a trend reversal. Usually trades are open for a shorter period of time than the classic "trend following" approach. Trades last usually from a day to several days.

How to identify: When looking at the strategy backtest reports or account statements of a robot employing medium-to-long-term strategy, you would usually see one or more of the following signs:

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1. Profit targets are usually more than 30-50 pips.
2. Trades stay open for more than one or two days.
3. Robots usually work on timeframes higher than 1-hour (H1).

Order	Time	Type	Size	Symbol	Price	S/L	T/P	Time	Price	Target: 264 pips	
52878...	2009.06.09 08:00	buy	0.28	gbpusd	1.60654	1.63290	0.00000	2009.06.10 11:28	1.63290	0.20	738.08
53010...	2009.06.09 21:00	buy	0.35	eurusd	1.40812	1.38805	0.00000	2009.06.15 02:00	1.39767	2.10	-365.75
53126...	2009.06.10 12:00	buy	0.28	gbpusd	1.63454	1.63600	0.00000	2009.06.10 15:45	1.63600	0.00	40.88
53359...	2009.06.11 14:00	buy	0.27	gbpusd	1.64487	1.65050	0.00000	2009.06.12 09:07	1.65050	0.19	152.01
53655...	2009.06.15 01:00	sell	0.28	gbpusd	1.64249	1.64250	0.00000	2009.06.15 14:51	1.64250	0.00	-0.28
53660...	2009.06.15 02:00	sell	0.34	eurusd	1.39767	1.38610	0.00000	2009.06.16 08:49	1.38610	-0.44	393.38
53761...	2009.06.15 15:00	sell	0.28	gbpusd	1.64168	1.63280	0.00000	2009.06.16 08:31	1.63280	-0.28	248.64
54310...	2009.06.17 18:00	sell	0.29	gbpusd	1.62880	1.65380	0.00000	2009.06.19 10:00	1.63668	-0.12	-228.52

Typical trading account statement of a medium / long term strategy.

4-Hours chart of GBP/USD:



Medium or Long Term robot's typical activity: The red arrow represents the opening of a sell trade. The orange arrow represents closing of the trade. This trade lasted for more than 30 hours and captured a profit of 580 pips.

Advantage: Great implementation of the old adage: "Let your profits run and cut losses quickly". The Forex market sometimes enjoys large trends with

hundreds of pips to scoop. Medium to long term strategies are excellent in identifying and exploiting such lucrative trends.

Drawback: Sometimes suffers from extended periods of drawdowns. Also, "thrill seekers" who enjoy seeing many trades open and close on the same day, will find this type of strategy boring... A trade may be open for days or weeks, swinging up and down until finally reaching its destination.

Type 4 – Grid Trading

This category usually assumes little or no market analysis.

Instead, it uses a mathematical betting approach. Sometimes, depending on the specific strategy or developer, the strategy is referred to as "Basket" or "Martingale".

This usually means that several trades are opened in succession, with fixed pip or time interval between them. It is based on the following premises: markets move randomly to some extent, prices tend to return to an equilibrium point, and there's a mathematical way to exploit these observations.

Many of these strategies are aggressive. They may show steady account growth, but at some point (usually upon a dramatic and unusual market move) may in some cases result in a substantial loss.

Warning!

Apart from the aggressiveness of these strategies, there are some technical and regulatory issues with running them in the US.

The regulatory body (NFA) has forbidden brokers from offering "Hedging" of positions, which is commonly utilized in grid trading.

How to identify: You would usually see one or more of the following signs:

1. There is a row of several trades closed at the same time (sometimes also opened at the same time).

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2. There is a row of trades opened at an equal pip distance from each other. For example, a trade opens every 30 pips.
3. If you examine a statement that encompasses at least several months, you might find trades that stayed open for weeks or even whole months.

Order	Time	Type	Size	Symbol	Price	S / L	T / P	Time	Price	Swap	Profit
55126...	2009.06.24 02:09	sel	0.04	usdjpy	95.456	105.456	95.256	2009.06.24 03:32	95.256	0.00	8.40
55204...	2009.06.24 03:32	sel	0.02	usdjpy	95.222	105.472	95.272	2009.06.24 09:13	95.272	0.00	-1.05
55204...	2009.06.24 05:11	sel	0.04	usdjpy	95.472	105.472	95.272	2009.06.24 09:13	95.272	0.00	8.40
55245...	2009.06.24 09:13	sel	0.02	usdjpy	95.251	105.501	95.301	2009.06.24 14:58	95.301	0.00	-1.05
55245...	2009.06.24 13:55	sel	0.04	usdjpy	95.501	105.501	95.301	2009.06.24 14:58	95.301	0.00	8.39
55324...	2009.06.24 14:58	sel	0.02	usdjpy	95.281	105.731	95.531	2009.06.24 19:01	95.531	0.00	-5.23
55324...	2009.06.24 18:17	sel	0.04	usdjpy	95.531	105.731	95.531	2009.06.24 19:01	95.531	0.00	0.00
55358...	2009.06.24 18:25	sel	0.08	usdjpy	95.731	105.731	95.531	2009.06.24 19:01	95.531	0.00	16.75
55373...	2009.06.24 19:01	sel	0.02	usdjpy	95.498	105.948	95.748	2009.06.24 20:19	95.748	0.00	-5.22
55373...	2009.06.24 20:18	sel	0.04	usdjpy	95.748	105.948	95.748	2009.06.24 20:19	95.748	0.00	0.00
55382...	2009.06.24 20:18	sel	0.08	usdjpy	95.948	105.948	95.748	2009.06.24 20:19	95.748	0.00	16.71
55384...	2009.06.24 20:19	sel	0.02	usdjpy	95.515	105.765	95.565	2009.06.24 21:42	95.565	0.00	-1.05
55384...	2009.06.24 20:25	sel	0.04	usdjpy	95.765	105.765	95.565	2009.06.24 21:42	95.565	0.00	8.37
55407...	2009.06.24 21:42	sel	0.02	usdjpy	95.519	106.169	95.969	2009.06.25 05:07	95.969	-0.06	-9.38
55407...	2009.06.24 23:19	sel	0.04	usdjpy	95.769	106.169	95.969	2009.06.25 05:07	95.969	-0.12	-8.34
55419...	2009.06.25 02:49	sel	0.08	usdjpy	95.969	106.169	95.969	2009.06.25 05:07	95.969	0.00	0.00

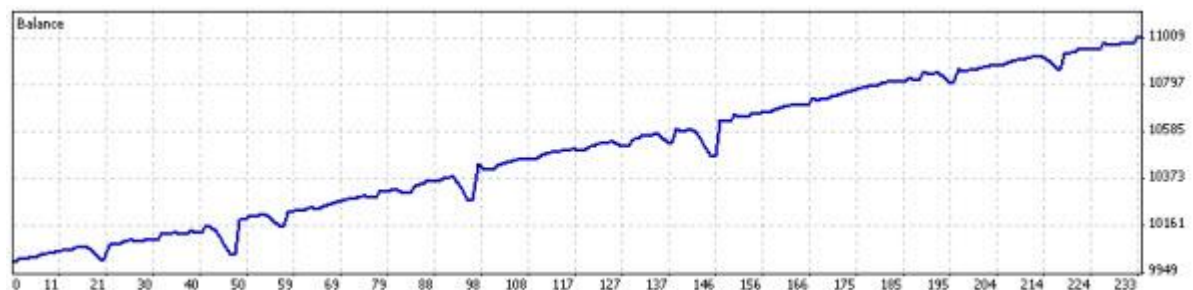
Typical account statement of a grid trading strategy.

Note the groups of trades closed at the same time (the red rectangles).

Pros: Account growth is steady, which is evident by the usually smooth account balance graph pointing upwards. Relies on mathematical and statistical analysis rather than the more "subjective" technical analysis.

Cons: Might fall apart during extreme market conditions. When something really dramatic and unexpected happens, the strategy may lose a considerable portion of the account (depending on leverage used).

The graph of a grid trading strategy has a typical appearance:



Account balance graph of a typical grid trading strategy: very steady account growth with dents to the upper or lower side. The pitfall is that usually, after some time, there is a market situation that will cause a dent so large that it will eat away months' worth of profits – or even erase the entire account!

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In conclusion, while on your journey to finding successful robots to use, you must identify the type of robot you're dealing with. That's one of the key elements that will help you decide whether the robots would be a good choice for your portfolio.

In the case you need a highly profitable robot that will make you money on autopilot, check this out:

<http://www.quantumfxbot.com/>

To your success,

Paul Morton



Quantum Fx Bot

