Forex Factory (*https://www.forexfactory.com/forum.php*)
- **Trading Discussion** (*https://www.forexfactory.com/forumdisplay.php?f=11*)
- - **Same Pair Hedging, Am I Missing Something?** (*https://www.forexfactory.com/showthread.php?t=14894*)

tesla

Jan 29, 2007 11:21pm | Post# 1

Same Pair Hedging, Am I Missing Something?

I've seen some posts where people talk about being long and short the same pair (ex: EURUSD), and they seem to have these complex hedging strategies that involve quite a bit of math. I'm not getting it.

Back when I was a stockbroker, I would occasionally have a client go short against the box (long & short same security, net zero position) to lock in profits but to put off capital gains for a short period. I can't really see any other reason to be long and short the same pair.

Am I missing something? Doesn't this just chew up margin, cost additional commision/spread, and leave you in a net negative swap position?

Ebont74

Jan 29, 2007 11:55pm | Post# 2

Some brokers will only charge margin on one of the two open positions if they are on the same pair. --So there is one reason why some people might want to do that.

The other reason is, that a logical, robust EA that can survive all market conditions must use hedging in some form or the other. Hedging is under utilized. It is also hard to understand how to make it work in a profitable manner. But years of researching this stuff has kept leading me back to the fact that a good EA must have it to survive.

I do not pretend to understand the full wisdom in hedging, as other successful traders I know do, but it has its benifits.

My two cents.

Good luck.

tesla

Jan 30, 2007 12:08am | Post# 3

> Quoting Ebont74
> Disliked
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See? That right there is what leaves me scratching my head. I'm just not feeling it. How can you possibly gain from a net zero position? What benefit does it offer that you don't get from simply closing all currently open positions?

Just for the record, hedging pairs against each other I understand. Building a basket of currencies to create a synthetic position I understand. Going long AND short EURUSD I don't understand.

Darkstar

Jan 30, 2007 12:16am | Post# 4

Not that I would ever do something so silly myself, but I imagine a trend trader would hedge in anticipation of a pullback. The positions are still individual, so being long in a trend you can hedge with a short position at a swing high and close it out lower. You still make the profits on the short and your long is still open (now with a lower cost basis).

don perry

Jan 30, 2007 12:17am | Post# 5

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Newbies. Nothing else. sooner or later they realise they just wasting money on spreads that wont butter their breads

accrete

Jan 30, 2007 12:25am | Post# 6

One of my mentors, a long time FX trader, will use hedging in conjunction with his swing trades to pick up a quick (hopeful) few pips. Crazy thing is in live trading he is very accurate in the when and why of it all. Having done his homework prior to the session, with S/R and Fibos in place he will go into a hedge and quickly be in profit, pulling out at a logical stall point in a retracement before the price continues on in the direction of his long term trade.

It's an art. One i'm a really lousy artist with.

:) Thom

TrueStory

Mar 28, 2007 3:23pm | Post# 7

Being long and short the same pair does not exist. Brokers invent this simultaneous position to make more money in commissions.

mrmikal

Mar 28, 2007 4:28pm | Post# 8

Tesla,

I did the 100% hedge for a while when it was available to me, and it involved going long on the USD/JPY in one broker (FXDD and IBFX in my case), and going short the USD/JPY in a swap-free environment.

When the carry trade environment was favorable, I was able to keep both trades open while moving profits from the winning positions over to the losing side to keep the hedge open as long as humanly possible. Every once in a while, I had to actually close both sides, rebalance the funds and reopen, but as you can imagine, not paying interest on the short side lead to decent gains on the long-side through interest.

The problem was that after the carry trades began to unwind, my short positions became winners, and eventually, the profits on the short side became to large for my broker to handle, and thus, they had to sell my short positions to the next tier, in effect killing my swap-free interest period for my shorts.

So it worked extremely well while the JPY was moving sideways and down. I made a good amount of money for the time that I was in the market, and with very little effort. Unfortunately, it didn't last as long as I would have liked. I essentially ended up with 26% ROI in 3 months (or 104% APY)...so not a shabby trade...again with minimal effort.

The other use for hedging would be grid trading, I would think. I was part of an experiment a year ago that involved buying and selling the same currency at various levels on the grid, and then letting the market hit the various TP levels and then replacing the closed positions at their original entry points. The neat thing about hedging wth the same account is that it normally doesn't eat into your margin, so you could essentially open 2 positions for the margin of 1. In grid trading, you can easil end up with dozens of open positions, but if the market ranges (as it does for some pairs) tightly (< 700 pips), you can go over various levels over and over again, essentially locking in profits as the market goes back and forth over the same levels. Of course, there are risks of one-way markets, but from our experiment from the highly-volatile GBP/USD, we were returning about 4% a month or so...the experiment stopped when the market took off (I was out of it by then), but further analysis has yielded better pairs to trade using this method.

I hope this helps.

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brentmack

Mar 28, 2007 10:30pm | Post# 9

Not being a math whiz, I liken hedging to being in a hall of mirrors. In other words, it's tricky and there are a lot of illusions.

But I'll sometimes hedge a trade in a tight ranging market when I'd normally use a small stop. It works pretty well. That doesn't mean that I win every time. But I can usually snuff out a loss and turn it into a break even situation.

For most folks, it's probably a dead end. But for the gifted - it could probably be a pretty good tool.

P.S. A hedged trade with my broker consumes no margin.

Traex

Mar 29, 2007 1:42am | Post# 10

From what I see, this strategy is useful when a trade system involves multiple timeframes in one pair. You can still remain long in daily tf but take short in hourly tf to trade in that timeframe (purposely, because this is the trade system!). Just my opinion.

Gwan

Mar 29, 2007 3:32am | Post# 11

a silly way of thinking

in my way of thinking, floating loss is a bit less disturbing than equity loss. it is only psychological, but exist. equiped with hedge, i can realise the loss, step by step, easing my heart.

athalon7

Mar 29, 2007 3:52am | Post# 12

Long story short

Hedging can be profitable with the right strategy. The key is to not close the original position as discussed in an original thread. You can then take your profits on the hedge and wait for the original position to become positive.

You can also use hedging to protect profits, in other words hedge a position instead of a target to protect profits at a turning point. In that case make sure the original trade is interest positive and keep if for the long term. Spread your interest positive trades over 100 to 130 pips even as price moves against you (Martingale it is not). Keep using short term hedge trades to protect profits or if price moves against a position say 40 pips. The hedge trades are short term, interest negative positions and used to gain short term pips all the while the interest positive positions are kept for the long term and spread out. Make sure there are never more hedge lots open than original lots. Thats the short of the long of it.

I learned this technique from a very successful trader. He looks at all of his open trades as an overall position. Eventually your equity will become positive and continue to grow. It is a long, industrious way to trade but I like it myself.

Coder

Mar 29, 2007 5:56am | Post# 13

Hedging

Hedging is useful as a money management tool.

If a major trend is in place on the daily/weekly chart and
I want to keep my longs in place, I will hedge if support is
broken on a 1hr/4hr chart. This offsets my longs and allows me
to take new long positions once the drop has finished and turned around.

There is no miracle profit to be made by hedging although some would
like to think so. Practice make perfect applies to hedging.

Coder

CycleSurfer

Jul 14, 2007 1:19pm | Post# 14

Heding method

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Hey Tesla, check out my thread at forex-tsd:
http://www.forex-tsd.com/suggestions...y-charles.html

I describe a hedging method that I use that works well in tight, ranging markets. I trade the asian session only with this. I'm working on a new system that uses hedging as well. Hedging is great.

KudzuFX

Jul 14, 2007 1:35pm | Post# 15

maybe so maybe not

hedging works ok in the same pair when it is ranging. If it strongly trends in one direction...

oh, what was that?

Did see somebody's shirt go flying by?