Introduction:

The “Carry Trade” is a relatively popular strategy among Forex traders. The concept is to pair high yielding interest currencies against low interest currencies in order to “earn” the difference by holding the currency over night (most Brokers deposit the interest at NY Session close around 5pm ET).

For instance, holding a long AUD/USD (with a standard lot) can earn you about 6 USD each day that you hold the trade. That means if you take an AUD/USD long trade with a 100 pip target on a full lot and the pair takes a week to get there, you will earn an extra 30+ dollars simply for holding the AUD during that period.

People often look at this as “free money” or “easy money” but the fact of the matter is, holding trades open has significant risk, so it's far from easy money. That said, it is an aspect of trading Forex than can give you an edge and is worth taking advantage of.

That's why I've developed “The Stackable Carry Trade” and it's one of my absolute favorite ways to extract money from the currency market IF you’re patient enough to utilize it correctly.

The goal of this strategy is to find great trading opportunities combined with interest-earning opportunities. This strategy combines two of my favorite “tricks” and gives any trader a simple way to take advantage of the “carry trade” principle.

This document will outline the simple Four Step process to executing the Stackable Carry Trade.

Before I begin with step 1, let me touch on the basics of the Stackable Carry Trade:

Of course, any type of “carry trade” refers to taking advantage of interest rates within the market, and the stackable carry trade is no different. One of the key elements to this type of trading will be finding high interest rate pairs that pay you simply for holding onto the trade—making your winning trades larger and your losses smaller.
The stackable aspect refers to “stacking” positions and simply means that the plan entails using more than one position if needed. A key component to this strategy is the willingness to put more than one position on the trade and the skills to know where to place additional positions.

Another component to this approach is that it is longer term by nature. The concept of the carry trade is to earn interest each day that you hold the position, so it makes sense that the strategy would have a tendency to hold positions for a significant period of time—anywhere from several days to several weeks and sometimes even several months.

This is an important concept because if you do hold a position for a substantial period of time, it means that the currency pair has not moved in one direction long enough to hit your take profit or your stop loss. In other words, the currency pair hasn't had much “net movement” and is likely somewhere near your initial entry. It's not uncommon for the market to go weeks and sometimes months, yet end up floating right back to the same price. In a carry trade, you can make hundreds and even thousands of dollars while the market doesn't move much at all, so this tendency for the market to float during slow times is a huge advantage.

**Step 1:**

*Find a Daily/Weekly Trend on an Interest-earning Pair*

This strategy is built on utilizing the trend. The power of the trend in combination with the power of interest is the one-two punch that will deliver consistent and reliable profits with the Stackable Carry Trade.

Now, trends are great on their own…

But, remember, we must find good trends on high interest bearing currency pairs. It’s this combination that makes up the foundation of the Stackable Carry Trade.

We’ll discuss how to define the trend in just a few moments, but before we do that, let’s make sure you know which currency pairs are acceptable to use this strategy on.

Here are the 12 pairs to scan for strong trends:
<table>
<thead>
<tr>
<th>Pair</th>
<th>Direction</th>
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<tbody>
<tr>
<td>AUD/CHF</td>
<td>LONG</td>
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<tr>
<td>NZD/CHF</td>
<td>LONG</td>
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<tr>
<td>AUD/USD</td>
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<td>NZD/USD</td>
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<td>AUD/JPY</td>
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<td>NZD/JPY</td>
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<td>AUD/CAD</td>
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<td>NZD/CAD</td>
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<tr>
<td>EUR/NZD</td>
<td>SHORT</td>
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<td>GBP/NZD</td>
<td>SHORT</td>
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<tr>
<td>EUR/AUD</td>
<td>SHORT</td>
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<tr>
<td>GBP/AUD</td>
<td>SHORT</td>
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There are many ways to define a trend, but I prefer common sense and using your eyes.

If the chart looks like this on a Daily Time Frame, it is a down trend:

Then, you just scoot on over to the weekly to make sure that this “downtrend” isn't just a pullback but is really moving with momentum. A good measure for the weekly chart is to make sure it is below the 20 and 40 SMA for a downtrend and above the 20 and 40 SMA for an uptrend.
Here, we are clearly well below the averages and moving with momentum so we know this trend is for real.

Once we detect a trend on one of our key interest-earning pairs, we can move onto step 2 in the process.

**Step 2:**

*Identify Pullback*

A “pullback” is simply a small, counter-trend move, and there are two reasons we wait for a pullback before taking a trend-continuation type of entry:

1. We simply want to get a better price. Buying at the bottom of a downtrend or top of an uptrend gives you the worst price in recent history, and we do not want to overpay for our trade.

2. We don’t want to Buy or Sell when the market is due for a pullback. If we don’t wait for a pullback, it’s likely that one is coming soon. The last thing we want to do is sell and then have the market begin a pullback against our position.

What does a pullback look like?
Pullbacks come in all different shapes and sizes, but the idea is simple: they are counter-trend movements.

The difficulty with Buying/Selling on a pullback is that you have no clue how deep the pullback will go. Some pullbacks are 50 pips and some are 500 pips. That's why the Stackable Carry Trade doesn't require you to have perfect timing.

We don't need to know exactly when the pullback is going to reverse back into the direction of the trend, we just need it to go at least 30% against the most recent leg of the trend so we are getting a significant discount on the price.

By using a Fibonacci tool, we can easily see when the market is at a 30% retracement. All you need to do is add it to your Fib settings:
Now, with the 0.30 level added, we can easily see when a counter-trend move reaches the 30% level.

If you want to make this REALLY simple to identify, you can delete the other Fibo levels and simply show your 30% area. That way, you have a clear system for when a trade is entering the Stackable Carry SETUP Area (I say setup, because we are NOT ready to pull the trigger--this is only step 2).

Here’s an example of how to draw a Fibonacci line with a .30 level:

As soon as price crosses that 30 level (highlighted in orange) you know that we are entering a setup zone for the Stackable Carry Trade.
Once we "qualify" for a trade by hitting the 30% retracement zone, we can move on to Step 3.

**Step 3:**

*Identify major Support or Resistance*

Step 3 is possibly the most critical element to trading the Stackable Carry Trade effectively.

The main goal here is to find a Support or Resistance level that has a lot of authority and is likely to hold price. To find this, you can utilize historic price action, Fibonacci levels, Whole number/psychological numbers, pivot points, etc.

Our recommendation is that you use a combination of these S/R identifiers to find a level that has confluence among multiple levels/zones:
Above, you can see that if the pair were to continue upward, it would run into several levels and the MAJOR level is at 84.000 which is a great whole number. In addition, we have some historic price action and the 50 Fib Level.

This Support/Resistance zone represents the final point at which you would add a position to the trade. In other words, you are trying to find an area of the market that is a low probability that the price will get to before heading in your direction. It is above or below this key area (because you believe it is unlikely price will get here) that your stop loss will eventually be placed.

Finding this area in the market gives you two things: Time and Space.

**Time** is critical because it allows you to earn that positive interest that we are going for. If you find a critical area in the market that price is not likely to go past, then you can hold the trade for days, weeks, and months earning interest the whole time even if the trade is not cooperating with your direction.

In other words, even if the trade just floats around break-even for a long period of time, or worse, puts you into a drawdown, it is still worthwhile to hold onto the position because it will be making you money on a daily basis. And many times, with patience, it will eventually continue in the direction of the trend and pay you off in both interest AND profitable pips.

**Space** is also critical. It is space that allows you to “stack” positions in the direction of the trend.

Keep in mind that when I use the term “stack” I do not mean rashly or frivolously adding to a position without taking into account the risk of doing so. In step 4, we'll learn that planning the positions out is essential to trading this strategy profitably.

**Step 4:**

**Execute trade and Setup Pending Positions**

Once you have identified a trend, dialed in on a pullback within that trend and found a key level of Support or Resistance that is relatively distant from current price, you are ready to execute the Stackable Carry Trade.

Not only do you need to enter a Market Order and determine the risk, but you also need to know how many positions you will “stack” on the trade and exactly where those positions will be so that you can calculate the total risk on each individual position and the trade as a whole.
For instance, if the Major Level of S/R is 400 pips away, your stop loss should be about 450 pips.

Assuming the total amount of positions is 3 (recommended) and the first position is at current price and the last position is at the S/R level (again, recommended), you'll just need to determine where the 2nd position will be added. For this, we recommend another level of S/R or whole number.

For this example, let's assume that the 2nd position will be about 200 pips from current price.

Now, you know how far each position is from the Stop Loss (since all of the stop losses will be the same—50 pips behind the major S/R level) and you can calculate the right position size for your risk.

For the stackable carry trade, we recommend risking about 20% of your account. The reason for a larger risk is to accommodate a large enough position size to make the interest worthwhile (since the amount of interest is directly related to the trade size) and because it is a long term trade that is VERY unlikely to cause a 20% loss in a short period of time.

Plus, the interest that you earn along the way will help mitigate the 20% loss even if price does eventually hit your stop loss.

Assuming a 7,500 USD account, we know that we need to divide the three positions into a total of $1,500 USD.

**Important note:** We want each trade to have the same position size! Some people suggest the initial position should be small and get bigger (aka a martingale) but this is silly… You want the first position to be the ONLY position in a best case scenario, which means it must be big enough to earn interest. Making it a tiny position is simply a wasted trade.

OK, so let's calculate our $1,500 risk with 3 positions and an initial stop loss of 450 pips:

In this case, each position at .2 (2 Mini Lots) gives us a total of $1,500 because the TOTAL pips we are risk across all 3 positions is 750 and 2 mini lots is $2 per pip on standard pairs.

The first position has a 450 pip stop loss, so we multiply 450x2 = $900 risk
The second position has a 250 pip stop loss so we multiply 250x2 = $500 risk
The final position has a 50 pip stop loss so we can multiple 50x2 = $100 risk
Once you have the positions planned out, you can execute the initial position and set your pending orders for the other two positions.

Once you enter your market order and set up your 2 pending orders, the Stackable Carry Trade has officially been implemented!

Now, you will have to wait and be extremely patient while the trade develops. The worst thing you can do with the trade is cut a loser early that could have potentially turned around down the road PLUS earned you interest in the meantime.

You may have noticed that I didn’t really mention a target in this report. And the truth is, that is because the Target is not all that important. Typically, I target a few pips above the low of the daily/weekly trend but you can also simply hold on to the trade for much, much more profit than that.

Sometimes, a Stackable Carry Trade actually turns into a Home Run Trend trade because of the power of a good trend--just another advantage to one of my favorite strategies.

I hope this report was extremely beneficial, actionable and helpful to you. If you have any questions or feedback, I am available at JCrawford@learntotradeforprofit.com feel free to send me an email any time.

Good luck in your trading endeavors and pursuit of profits!

~J