

On the exchanges

Peter Webb picks up where he left off last month and looks at even more ways of locking in a profit from betting exchanges

It don't mean a thing if you ain't got that swing!

Last month we looked at how important it is to put a basic framework around your trading. We showed an example where we pulled £45 out of thin air by using a small stake and turning it repeatedly through the market.

This month we look at another way to achieve the similar thing but with bigger results and using a different style.

Last month we were 'Scalping'.

'Scalping' is the name given to the process of trading money through a market for small gains per turn.

Scalping typically involves establishing and liquidating a position in the market very quickly on very short timescales.

Your time in the market is usually measured in seconds and your profit is generally small on each turn.

While the individual profits are small you can still reach large profits overall by 'recycling' your money through the market many times over effectively multiplying the small amounts to much larger ones.

The best, non technical, definition I have found for scalping is: 'Picking up pennies from in front of a steam roller!'

This definition clearly captures your objective when you are scalping. Money is rushing

around the market and coming for or against a selection and your objective is to nip in and out of the market quickly and make a little amount of money, doing so at the least risk possible.

Scalping, as with any other gambling strategy, does carry risk; the upside though, is it that doesn't require that much thought because your focus is on very small price movements.

Form or knowledge of the market shouldn't greatly influence you. When you scalp, you are not looking to make a judgement on the broader direction of the odds, which horse is being favoured or lack

"It's just like picking up pennies in front of a steam-roller"

favouritism, but you will make enough of a judgement to ensure you can get in and out without it moving significantly against you.

Getting the smallest risk possible is clearly your biggest objective when scalping, if you lose sight of that objective that steam roller heading toward you may crush you!

Profits are always limited but your downside potential isn't if you maintain discipline. With effective scalping, you

should expect to see lots of small gains and the odd larger loss but the total of gains should significantly outweigh your losses.

'Scalping' is typically trading for individually small gains by looking to profit from small price movements in the market.

Swing trading however, looks at much broader price movements. While scalpers are terrified of very large price movements because of the potential for loss that they could bring, swing traders love volatile markets and large price movements.

These traders are not picking up pennies in front of steam-rollers they have usually decided which steam roller is going where, and try to choose one to hitch

a ride on.

The problem is, choosing the steam roller! The approach of a swing trader therefore, in terms of setting up a position, is more in-depth than a scalper.

They need to identify why a movement of odds will occur and over what time. Entry and exit points are much more subjective to a swing trader and while they will always try to get in at an optimal mo-



ment the entry and exit at the end of a trade requires more thought.

In short, you need a reason to enter and exit a swing trade.

Let's look at a swing trade. In the first illustration you can see we have already attempted to catch a decent price move on Royal Dignitary at Musselburgh, we failed.

We were expecting a drift in the price of this selection so we laid at 1.79. When nothing

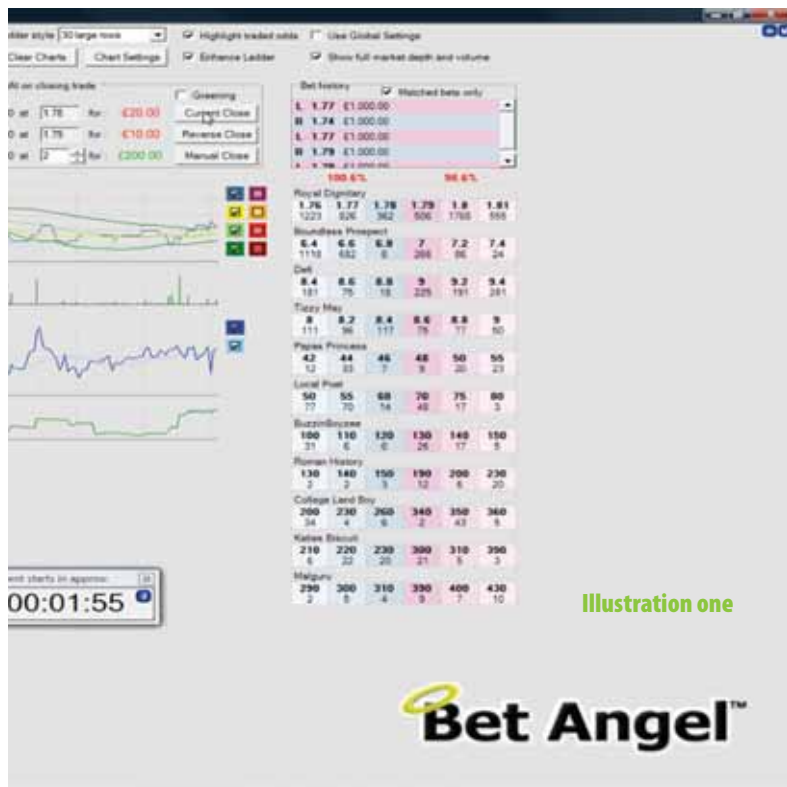


Illustration one



Illustration two

happened we 'scratched' our position by backing it at the same price for no gain.

On our second attempt we laid at 1.77 but instead of drifting the price came in a

little, as this wasn't what we expected we immediately settled for a £30 loss.

Two attempts and two failures isn't a great start, but this is actually quite a common

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occurrence if you are trying to get a nice move in either direction.

Not put off by these early set backs we lay again at 1.77, soon after the price does indeed start to drift a little and go forward a couple of minutes later and you can see that the price has drifted much further from our entry point of 1.77, out to nearly evens.

As we are just before the start of the race at this point we need to close out our position. You can see that the trade calculator shows us that we have earned £130 for our efforts. Not bad for a couple of minutes work!

Of course not all swing trades end up the same, but as long as you manage your position when it looks like it is not going your way you only need a few decent winning trades to be on the right side of things.

Swing trading without exposing yourself to adverse risk is really only applicable on the horse racing market.

This is because you can trade in and out of positions with no risk on the underlying event, as it wouldn't have started yet.

It works well on horse racing because there is a lot of price volatility before a race starts. You can swing trade in other sports markets as well, but the only way to achieve this is to be active and in the market while it is in-play.

If the market is in-play it can move against you and you will have to take risk on the underlying event. While it's possible to be successful at this, it is a much tougher ride.

Swing trading on horse racing is where form students can benefit from their betting knowledge in combination with a trading strategy. If a horse looks fractious, recalcitrant or there is a change in the going, it's likely to affect the odds of a horse.

Form students are likely to be able work out how this will affect the odds for a particular selection.

It's also well known that big gambles occur frequently on certain types of races and if you watch for a big gamble or know where it is likely to occur you can benefit from the money that is going for that horse.

Both scalping and swing trading are effective but it's important to note the differences between scalping and swing trading.

When swing trading your set up can be more or less similar to scalping but your approach to risk and losses is completely different.

Your objective should be to get out with the lowest monetary loss as possible if your set up does not work.

This is because it is likely that even if you call the market correctly it may take more than one attempt to catch that all important large move. Even then it's quite possible that you could still miss an opportunity quite often.

You must accept that you will face a lot of small losses when swing trading in order to catch the big moves. Swing traders actually face the opposing situation to a scalper from a money management perspective.

Scalpers make small amounts and turn their money through the market quickly but occasionally lose larger amounts. Swing traders though, typically lose small amounts often but make very large, less frequent gains, in return.

Scalping and swing trading are two very different disciplines, if you can master both then you will be doing very well but typically most people prefer one style or another, either from a psychological or risk management perspective.

People who have no opinion tend to scalp, those with an opinion can swing trade. Whichever you use both are very viable strategies.