Advanced Leverage Strategies

Strategies adapted from stock options used for ranging while in a zone and limiting losses

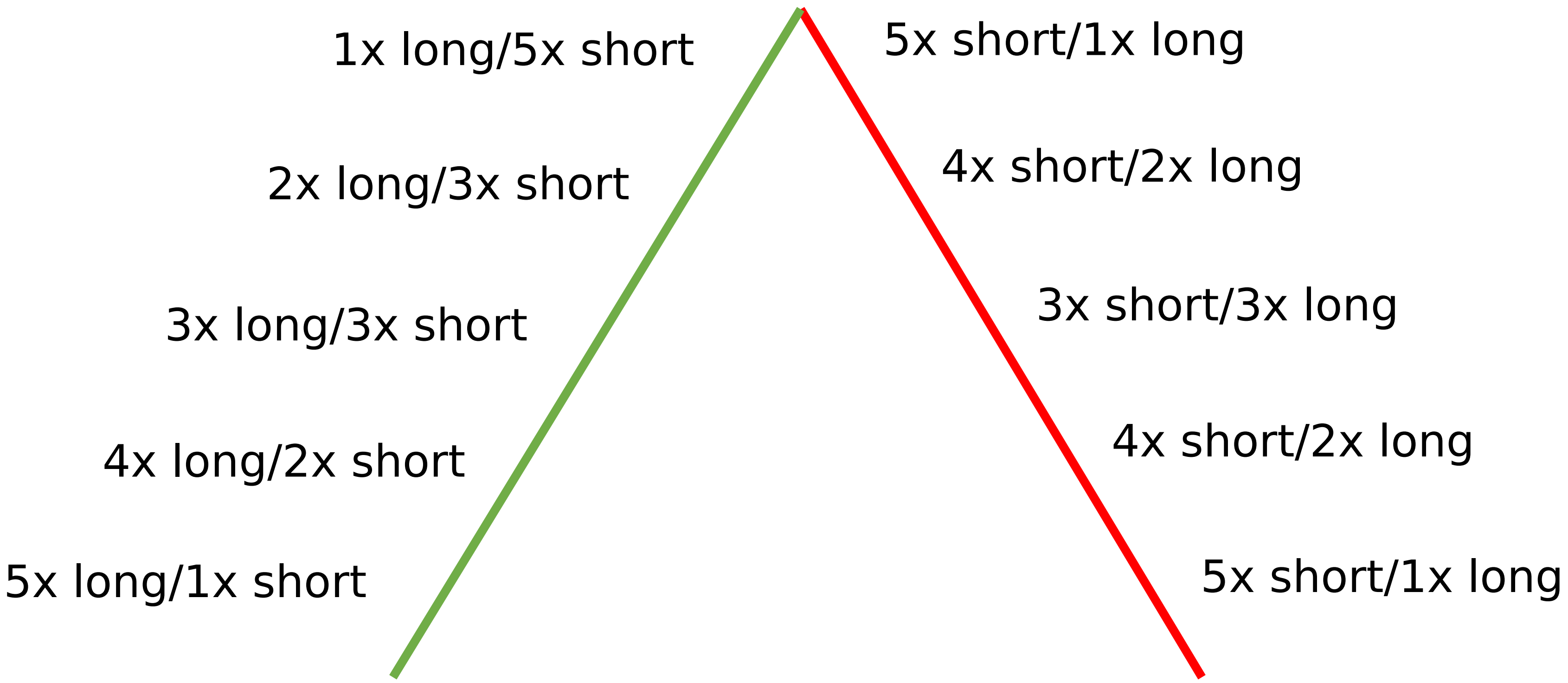
Hi! 130rne here, hope you all are well. I've been studying stock options strategies and adapted them to crypto. Please let me know if I've gotten anything wrong and I'll update the content.

Key topics:

- Basic idea of grid trading
- Leverage offsets which allow you to leave trades open indefinitely
- Increasing leverage while ranging in a zone and waiting for a breakout
- How to close/Damage control

Basic grid trading - how the market makers leverage during the pattern

Imagine this is the up/down cycle. Market makers, like us, want to have the highest leverage longs at the bottom/shorts at the top. So this is the idea of how they build shorts while price is rising and vice versa.



This should give you an idea of the grid, the idea being that they are setting up for the next up/down cycle. Keep in mind this is a generalized idea, there are many firms in play and they compete with each other. Scaled leverage allows them to take profits as it plays out while also decreasing risk in case another firm decides to jump in and inject some craziness. They also have limited capital like us, it's not infinite. So they need to realize profits and return some of the capital in order to buy more contracts.

Grid Strategy tips:

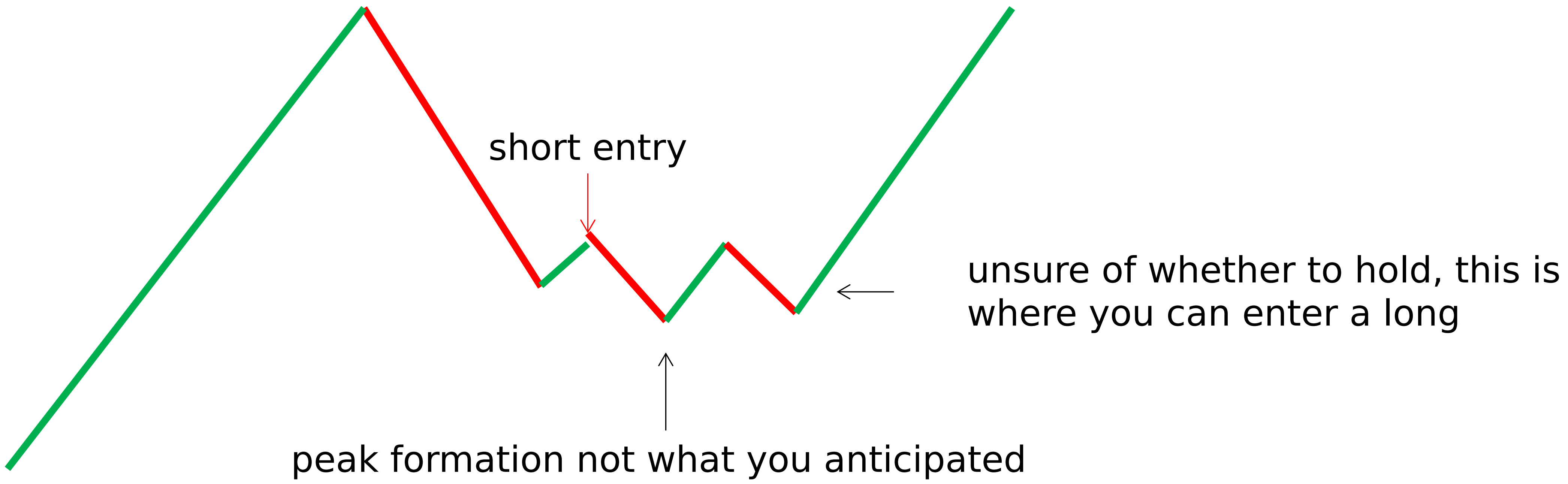
We should be starting small and building position throughout the trend, unlike the market makers. DO NOT use high leverage at the top and bottom of zones unless you are experienced with advanced entries. This is the most risky way to trade, as the pattern can change at any time and break against you. At that point, you are taking large losses. The higher the leverage, the closer you are to liquidation. Near the top of a rise the market makers are building higher leverage shorts. They have max leverage for the downturn. Don't do this. Give yourself some breathing room. Start small and build a bit of profit then add to your position so that it covers you if things get bad. You're not going for max profits, you're going for smaller losses. On retrace, add to your position. Scale up and take profits as you go then let the peak formation play out. Once you've covered your initial capital you're freerolling and you can let it run. Sit back and enjoy the ride.

I'll be covering a topic that shows how to scale a position towards peak formation in order to increase leverage. If you're starting a new entry, don't go big, that's the worst way to trade.

Leverage Offsets

This is the strategy I use when I want to take a break and quit looking at the screen for awhile but I don't want to close positions. The basic idea is to use sub accounts/hedge mode/positions on different exchanges and offset a long with a short. This allows you to take a minimal risk while also leaving trades open so you don't take a loss.

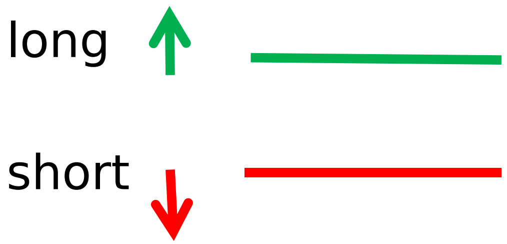
Let's say you make an advanced entry with a short, based on a retrace and indicators, which can commonly happen while scalping. The peak doesn't clear you enough profit so you're basically trapped. You don't want to take a loss. So what do you do? You can either close or leave it open. A long offset is an option and this is how it works:



The long offsets the short and gives minimal risk when you are unsure of price movement. You can close both at any time for a small loss. You will only pay for the difference in entry prices plus trading fees. Can be used to close the long at level 3 while also leaving the short open and waiting for the downside. I'll explain:

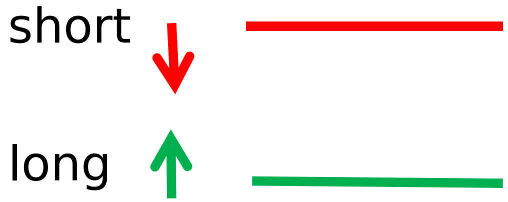
The idea is simple- you only take the loss from the entry difference plus fees.

Example of short below long:



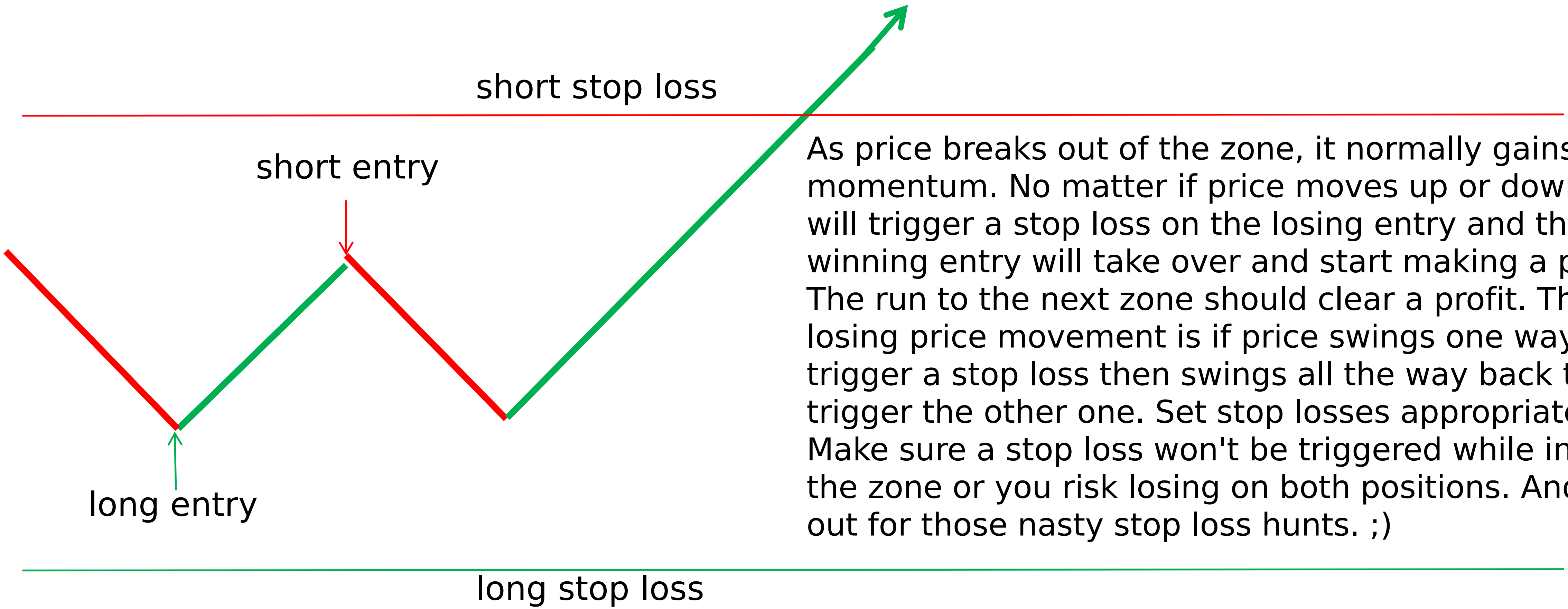
With price above the long, the short is losing while the long is profiting. If you close both at the same time, you effectively lose money equal to the distance from the short to the long plus trading fees. This limits your max losses and gives you time to confirm a pattern. I refer to this as locking in a max loss.

Example of long below short:



If the long is below the short, your max loss is reduced. If the difference between the short and long is enough to cover fees, you are actually in profit no matter which way price moves. This locks in that profit at any time with no risk and without closing a position. If price breaks, you'll miss out on the extra gains. But you'll be risking 0%, the position is held. So go watch a movie :)

It is imperative that you keep a position from being liquidated. Make sure if you walk away that your liquidation point is far away from potential price movement or at least set stop losses. Actually, you can set stop losses at an equal distance away from each entry and if you're in profit by having a large enough spread, it literally does not matter where price goes. An example:



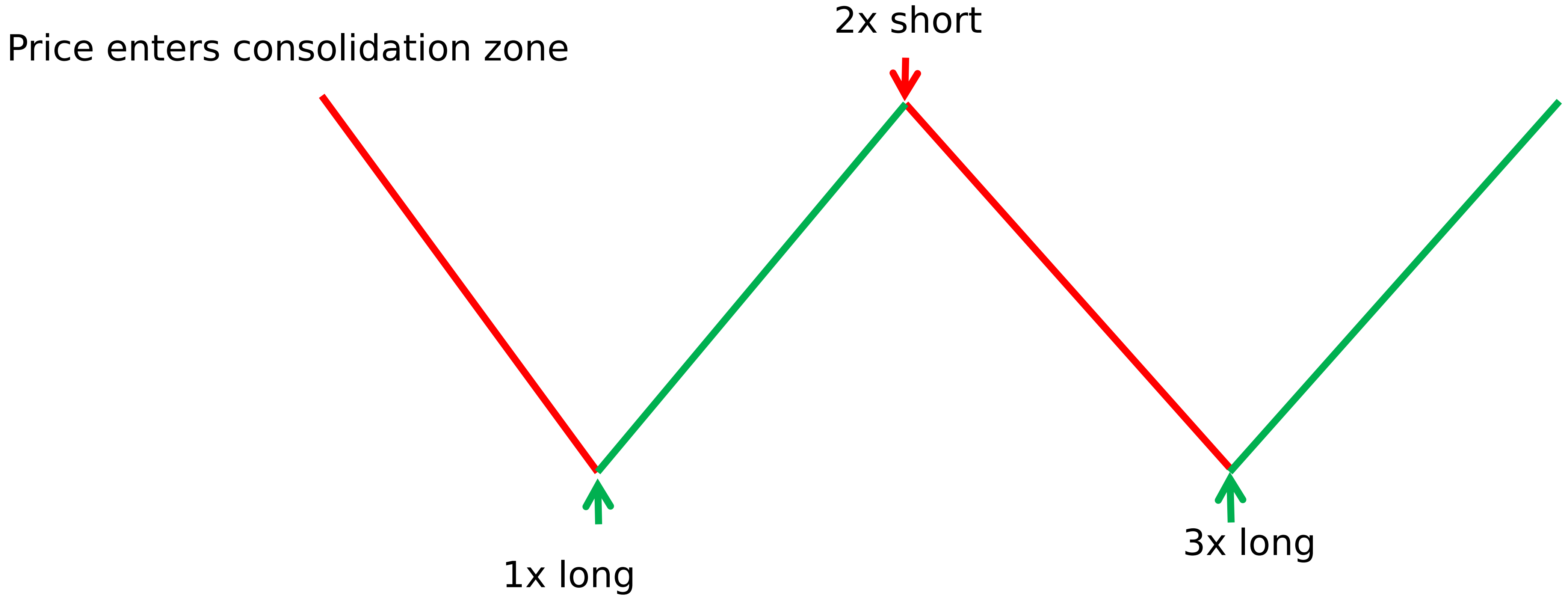
As price breaks out of the zone, it normally gains momentum. No matter if price moves up or down, this will trigger a stop loss on the losing entry and the winning entry will take over and start making a profit. The run to the next zone should clear a profit. The only losing price movement is if price swings one way to trigger a stop loss then swings all the way back to trigger the other one. Set stop losses appropriately. Make sure a stop loss won't be triggered while inside the zone or you risk losing on both positions. And watch out for those nasty stop loss hunts. ;)

Actually, it's not imperative that you keep from being liquidated. I did a trade where I was liquidated on a long. I had set up a short hedge against it. Price dumped and took out my long. Momentum carried price downward. My short was gaining. I watched for the bottom and closed my short. I was liquidated and still made 20% profit. So it's not imperative by any means, if a position gets liquidated the other position will cover. What's important is that you are watching once liquidation happens. You'll need to decide what to do. With a well adjusted SL/TP you can likely just walk away. This is obviously more risky but possible depending on your confidence level. I just set alarms. ¯_(ツ)_/¯

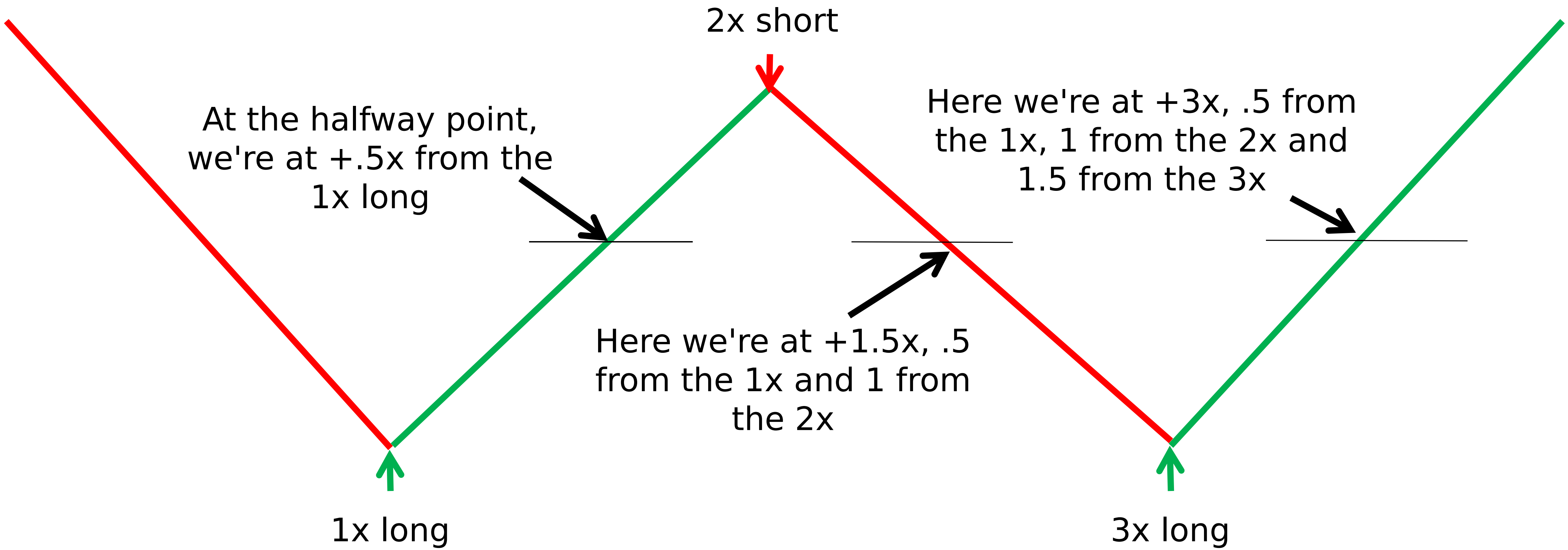
In this example, I was using isolated margin which sets a maximum loss for the position. At this point, I'm really not sure what the advantage is because it's simple enough to set a stop loss at the exact level, rather than isolate your margin and have a liquidation point you can't control as easily. The feedback I've gotten is showing cross margin to be better suited for these strategies since they can involve leaving positions open for a very long time. Just be aware that an isolated position sets a maximum guaranteed loss while cross margin is easier to manage but can liquidate the whole account rather than just the position.

Increasing leverage while ranging and waiting for a breakout

Grid trading involves the idea of building a position while price moves up and down. This method is for building position while price is ranging sideways. Let's say we have some consolidation going on and we know price will eventually break. It's based on the idea of using leverage offsets that fight each other.



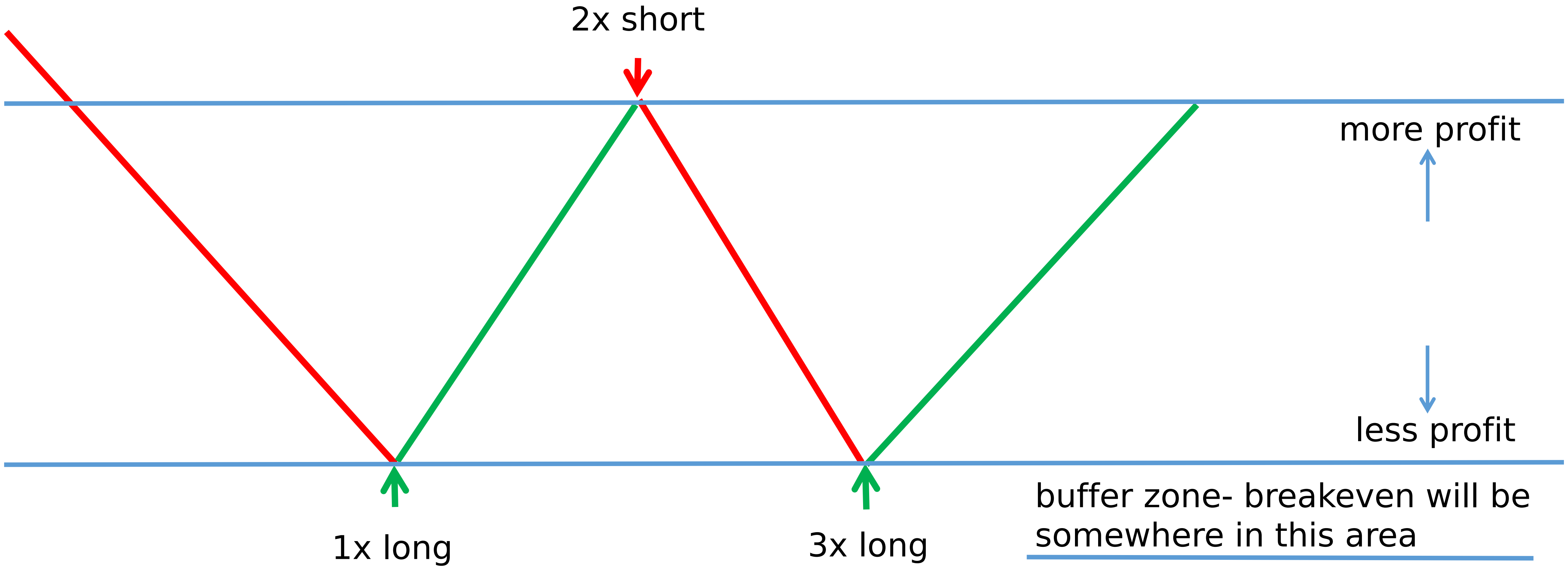
If price goes up, you're fine. Less profit because a 1x plus a 3x long is fighting a 2x short. The advantage is if price goes down you accrue slower losses which gives you time to add another short or close out a losing long. Here are my calculations for a profitable setup, assuming the range is large enough to cover fees:



If price returns to the original entry, the 1x and 3x are at 0. However, the 2x is at max profit for the zone. As you can see, leverage scales up the same as building a position during the pattern. All prices in this zone are profitable. This is essentially a stock options spread strategy with increasing leverage.

How to close

So the key takeaway here is that your profits will vary during price movement. While in the zone, if price is further away from your 3x, you'll naturally see a larger return if the positions are closed. As long as price is above the long entry point, you can close at any time for profit.



Closing out when price is in your favor: The obvious thing to do if price breaks up is to close out your largest short- the 2x. This is effectively the same thing as taking profits as you go. Look to do this on a clear break. The 3x/1x will take over and give you a larger return. This will also decrease your profit if price comes back down, so if you're not sure you can always leave the 2x open. The 3x will gain more than the other positions so you can easily close the 3x for profit and leave the other 2 open. This will reduce risk/reward by scaling back leverage and give you time to decide what to do. What would I do? It all depends on the situation.

Profit variance of 1x/2x/3x

1x profit/loss = 2x profit/loss = 3x profit/loss

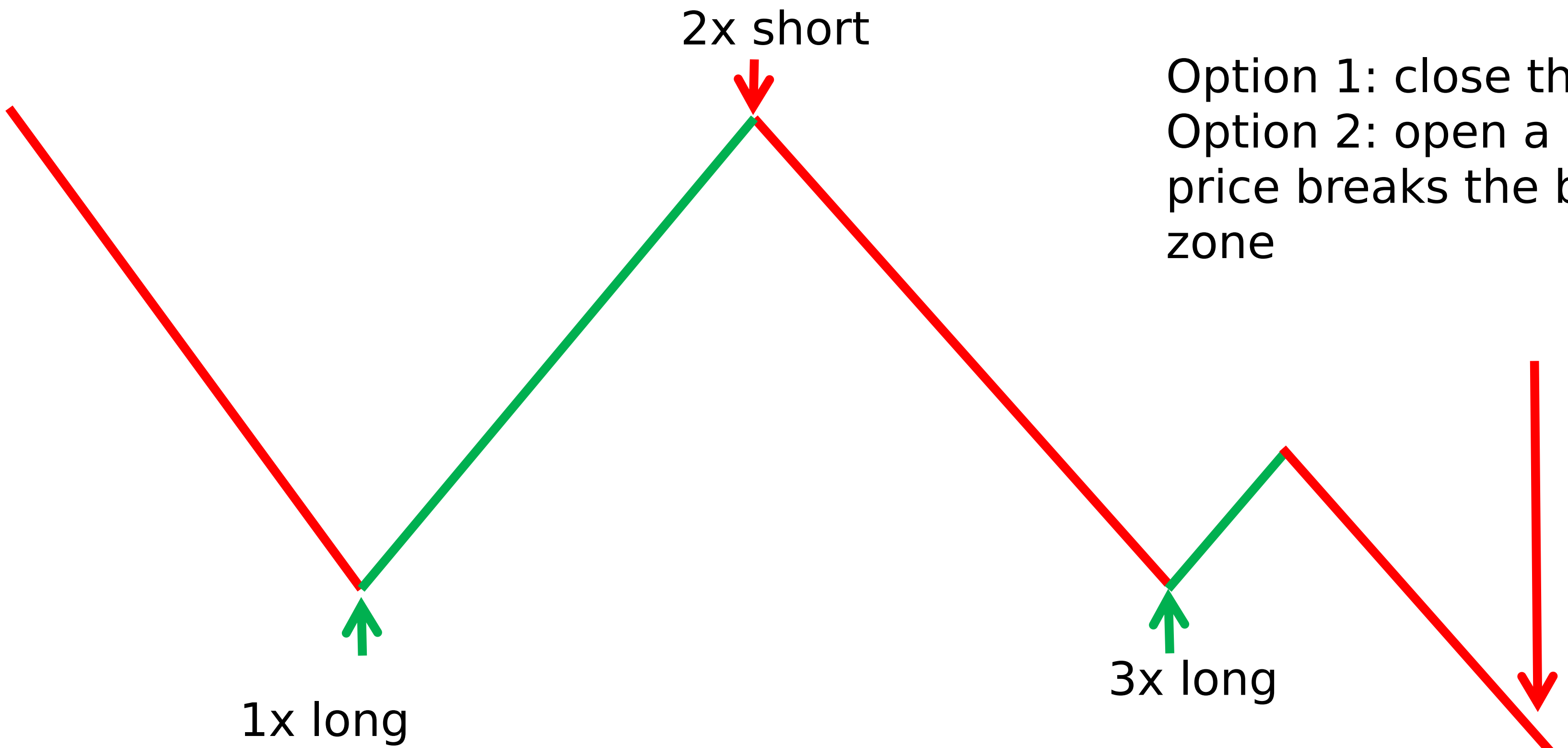
So if I want to be safe, I'll close the 3x out at the top of the zone. Disadvantage- I'll take a loss if price breaks up. There will be a range of price movement to the up where I'm still profitable. It will take more time for the 2x loss to catch up to the 3x gain, especially since it's fighting a 1x long. If I see that, I can close the 2x which would scale me back down to a single 1x long. Less profits and also less risk.

I can also close the 1x at the top of the zone. This will realize a small amount of profit and leave a 3x/2x hedge for the up. More gain for the break. Disadvantage- not realizing additional profit from the 1x long. Further, I could close the 2x short at the bottom of the zone for max profit. Big loss for a break to the down but can be useful for example when price pins the 50 ema and you're confident it's going back up.

The advantage to this strategy is it lets you manage risk/reward depending on your tolerance and without having to worry so much which way price breaks. It allows you to be flexible and adapt to changing market conditions. The number one advantage is it can buy you more time before things get bad. The longer you watch price, the more information you'll have and the better you'll be at reading the market maker's intentions. This type of strategy does not realize maximum profit, it greatly reduces the risk associated with making bad decisions. I see this as the biggest issue with aspiring traders, me included. One bad decision can kill all the previous good ones. On that note, on to damage control..

Damage Control by adding positions

Ok so let's again use the 1x/2x/3x as an example. So you're in a zone, you've just set up your 1x/2x/3x and price all of a sudden dumps and moves against your 3x long. You have a few options. The first is to take a small loss on the 3x and hope you make it up on the 2x, which will of course be fighting the 1x long so it will take longer to make up the loss. Usually a big break is enough to cover though, especially useful if you're in a range and worried about a drop. The second option is to open a short. Remember the simplest form of offset- you can counter a 1x long with a 1x short. So just take out a 3x short. It will offset the 3x long, no worries. It will lock in your max loss just the same as it would lock in your profit. As one 3x loses, the other one gains. Now the 2x short will take precedence. Just wait, simple as that.

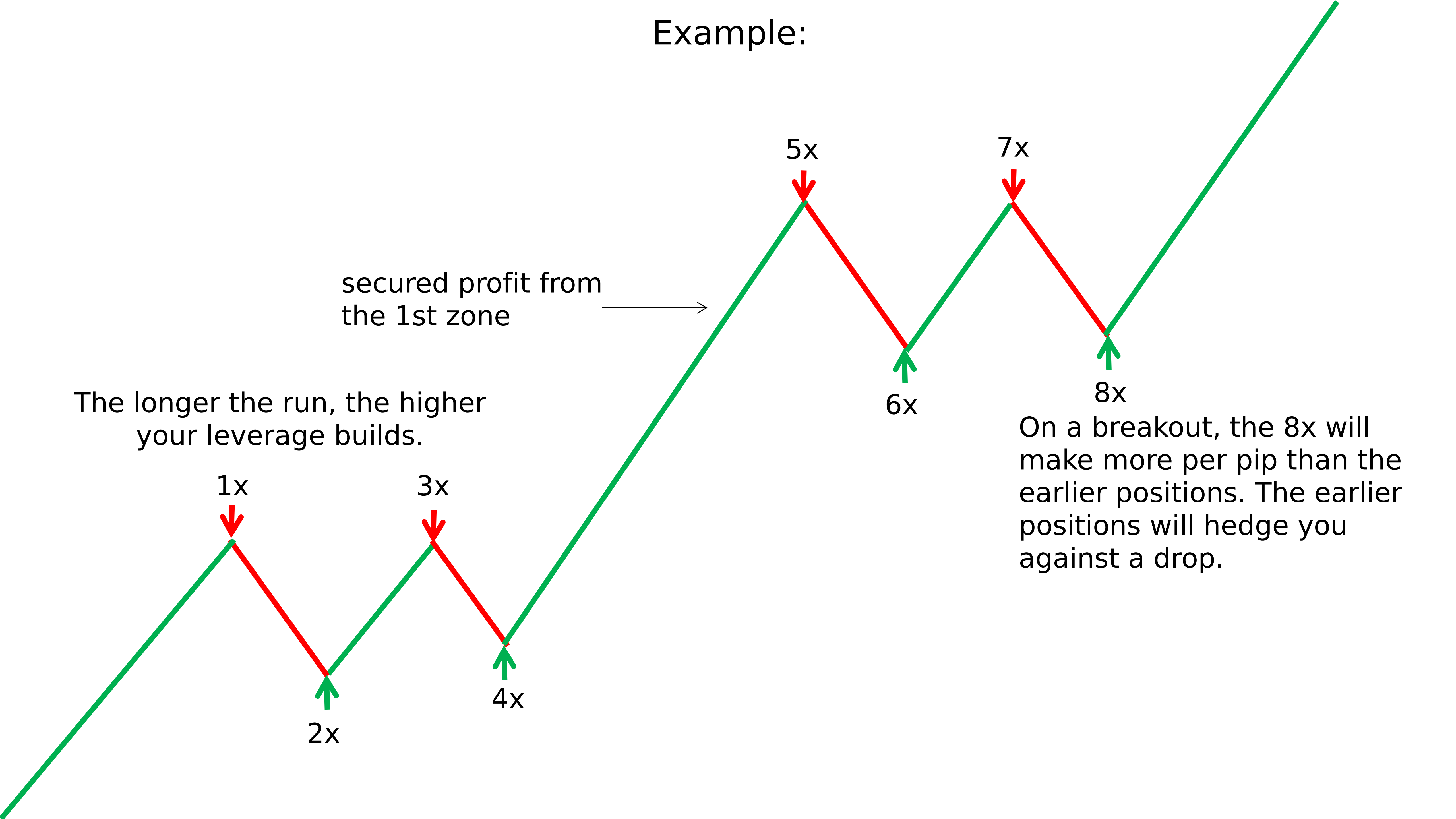


Option 1: close the 3x for a loss
Option 2: open a 3x short when price breaks the bottom of the zone

Open a 3x short here. It will offset the 3x long. 2x short for profit, no trades closed. Most useful for ranging towards a W. The 3x long can be left open until recovery then closed for a profit

How to increase leverage indefinitely and why small capital is essential

And finally, a way to increase your leverage indefinitely as long as you have the capital. So we're in consolidation, say on the 50 ema which is pretty common. You open your 1x at the bottom, 2x at the top, 3x at the bottom.. The zone is getting narrow, now you can't cover fees so you stop adding to your position. Sit back and wait for a break, right? Ok so price breaks your way. Wait til the top, add another short at 4x, a long at the bottom of that zone at 5x.. wash, rinse, repeat. You can literally do this to infinity. It allows you to keep your positions open no matter how price moves. The more capital you have, the longer you can run this strategy. This is the #1 reason why leverage control is so important- you cannot add to your position if you max out from the beginning. You cannot adapt, you lose all flexibility. If you're right about the trend, you're fine. The #1 key is to limit losses if you're wrong. Start small, take small losses. If price goes your way, you're now up and you can afford to throw more money into the game.


Example:
secured profit from
the 1st zone
The longer the run, the higher
your leverage builds.
1x
2x
3x
4x
5x
6x
7x
8x
On a breakout, the 8x will
make more per pip than the
earlier positions. The earlier
positions will hedge you
against a drop.

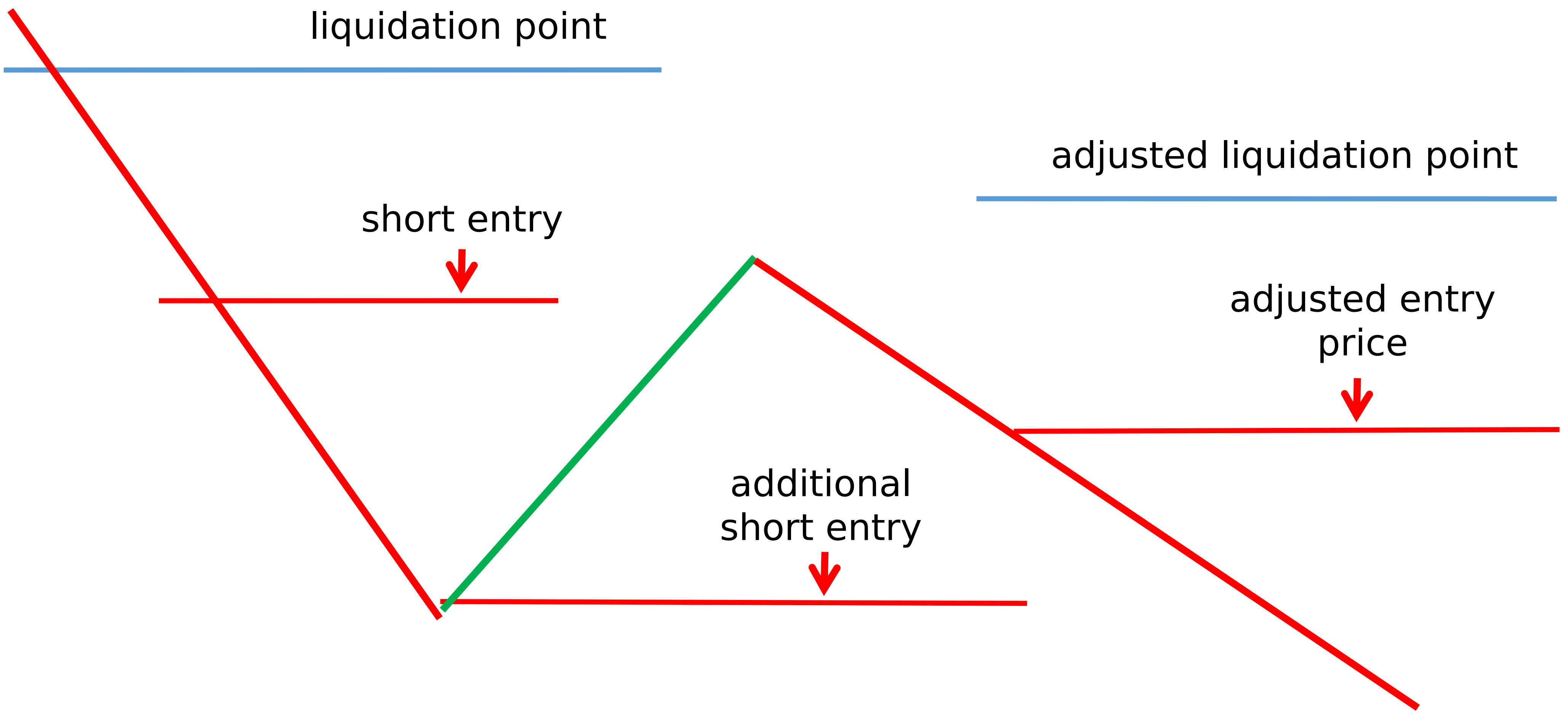
Other ways to scale leverage

Remember that you don't need to increase each position by 1x. You can vary this idea to fit your situation. 1x long, 2x short, 2x long, 3x short.. Also you can really pump it up if you have enough capital- 1x long, 2x short, 4x long, 8x short.. You can even just run all 2x's if you like and build your position around the zone. As long as your entry spread covers fees, you're golden. If you don't want to stay in a trade, just set a long when price breaks, wait for the bounce and set a short, and start capturing the zone. A couple bounces, close all positions, happy days.

So what happens if you enter a position and you missed the pivots? You're in a new zone and looking at a loss, your entry spread isn't big enough, so what do you do? Simple, just move your entry.

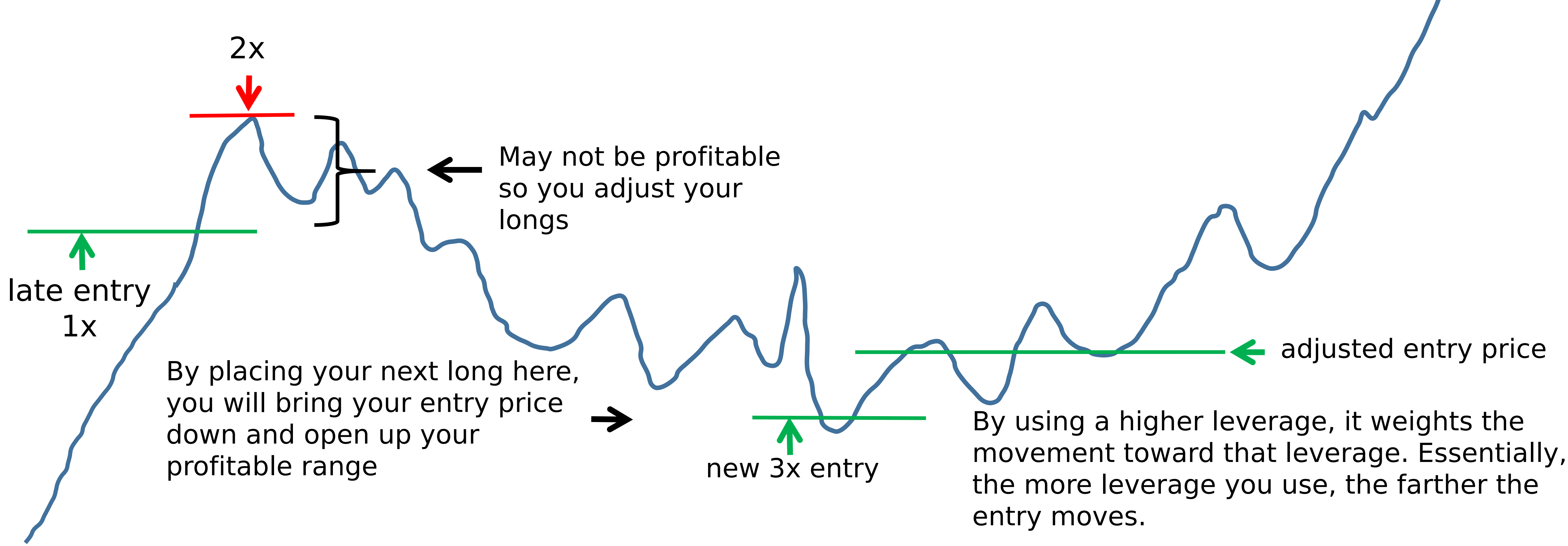
How entries and liquidation points change

As you add to your position, your entry point and liquidation point will change. The more capital/leverage you use for your addition, the farther the points move. This can be used to adjust your entry points and is why it's so important to leave plenty of capital open when building a position. The higher your leverage, the closer your liquidation to your entry price.



So if you add shorts while price is decreasing, the entry and liquidation prices will also decrease. Which means the inverse is true if you add shorts while price is rising.
This will be more of a real world example. Price breaks up, you got your long in late. Price bounces so you set your short, but your spread is narrow. Here's how to adjust. Ignore my drawing skills, I'm a trader, not an artist. :p

This is a basic zone break pattern while ascending to the M. Price will hit the top, drop down and range/consolidate, longs will be built, and when market makers are ready price will break up to the next zone.



Using a 1x to add onto an existing 1x will scale the entry point to the middle of those entries. This is why it's absolutely essential to start small. If you want to shift your entry by a decent amount, you MUST use more leverage or capital. If you're in a zone and you want to yank that entry point down, you have to use a lot of leverage. That's the only way. So now you know how to leave trades open indefinitely, how to scale leverage while in a zone, and how to adjust entry points to maximize profit. Hopefully by this point you're getting a solid understanding of why it's so important to start small. Every one of these strategies which reduces some profit to greatly reduce risk, they all require a lot of free capital. The more capital you use, the more locked into the trade you become. If you're sure, go ahead and lock yourself in. These strategies excel when you're unsure of price movement. My biggest piece of advice is to NEVER use more than 50% capital. At any time, you want to be able to lock your overall position which means offsetting your entire direction with the opposing entry. It will ensure that no matter what happens, you will never lose all of your money.

So a little about me. I took a big loss and it was devastating. I wanted to quit. Instead, I grabbed a pen and a piece of paper. I started running numbers, playing with these ideas and figuring out how I could reduce the impact of my bad decisions. I wanted to write this up and share what I've learned. You don't need to risk much to learn these techniques. I learned more by building up from $30 than I did on everything I had lost. Please take the time to practice. Good luck and happy days!

Credits

Of course I'd like to thank Tino for setting all this off. He's a genuinely good person and I wish him the best. What other people charge money for, he does for free. There are good people in the world and Tino is one of them. Hi mum! :)

I'd like to thank PcShed for his dedication to the community. He's very supportive and tries to help out whenever he can. His time is valuable and it means a lot when he spends his time with you. PcShed, if you're reading this, take a break. You're working too hard. :D

Also, I'd like to thank Rug's Three Crows. He's been instrumental in testing ideas and giving feedback. In talking with him, I've been able to clarify this guide and narrow down its focus. Thank you for all your help. Good days are ahead, my friend.

Good vibes flow throughout this community. I'm so glad I clicked on a strange looking jigsaw puzzle head in my youtube feed lol. People in this community are dedicated to their craft. Every one of us is hoping for better days. Let's keep each other afloat, yeah?

I have a new motto:
Always give credit. Always pay it forward.

All the best :)