BEST OF THE DAILY TRADING EDGE

Trading Analysis by

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INTRODUCTION

Each day I share my trade ideas, lesson I've learned from the markets as well as insight into market behavior. These selected Daily Trading Edge updates reflect that as well as anything I've written – including my three books!

I've chosen these updates from the hundreds written and feel that it will be a terrific guide not only to how I analyze the markets but a look into how the market work. In this way, what you now have is really a course (maybe a "crash course"!) into many of the lessons I've learned - often the hard way - through my 20 years of trading and study.

I share the details of not only my 34EMA Wave and GRaB candles but also of my individual trading set ups. It's all here for you to learn and try yourself!

Happy Trading,

Raghee Horner

MARKET TREND DICTATES STRATEGY

I just finished conducting a webinar last night for Interbank FX as part of a weekly series I do from my trading office. It's a mix of education and current market analysis that I schedule as a fun part of my week because I get to interact with traders in a live environment. This week's topics were Market Psychology, Entries, and Decisions Levels and I couldn't help but think about entries and the strategies we choose - more specifically - why and how we choose them.

Being a trader to me is all about observing what the market is telling me. I gauge this by prices and trends. We seek to find price levels that will elicit some sort of reaction. If we find such a price level, whether it be identified by Pivots, Fibonacci, chart patterns, past support or resistance, Psychological Levels, well-respected moving averaged (e.g. 200 period simple) and there is a reaction, then I believe there is basically one of three things that can happen: The market can stall, reverse, or accelerate through that level. The market, actually its participants, have made a DECISION at this level and it causes price movement. Now we could be buyers or sellers at decision levels but it's the strategy we have chosen that will usually dictate which we will be.

But how do we pick a strategy? From my observation and experience, it's too often a random choice. And by "random" I mean it's chosen because it's what we, as individuals WANT to do, not necessarily what the market trend is saying we should do. I do not label myself as any particular type of trader (trend-following, swing, day-trading, momentum, contrarian) because they all have their place within the applicable market trend.

In my opinion, there is no BEST approach, simply a choice as to which approach is BEST applied. If the market is trending, there are specific tools and strategies I will employ. For example, in a trend (which is defined by a specific time frame moving at either a "twelve to two" or "four to six" o'clock angle of the 34EMA Wave) I will look for opportunities to sell into bounces (downtrend) or buy into pullbacks (uptrend) based upon decision levels like Fibonacci Retracements and Extensions, Psychological Levels, and the 34EMA Wave itself because this is where I feel the correction will exhaust and the trend will resume. I prefer to play the corrections rather than the continuations (lower lows in a downtrend, higher highs in an uptrend) because it's my experience that healthy trends correct.

Notice that it's the market trend that dictates my action, not some misplaced desire I have to execute a specific style of trade. When the market is moving sideways, I will consider what the previous trend was as there could be leftover sentiment. A good example would be the current consolidation on the AUD/USD. The previous trend was a strong bullish move and the current sideways movement has not come after a significant move lower-- but is instead "levitating" near the highs. This reflects a certain amount of leftover bullish sentiment. I will - in these situations - have a slight bullish bias even though I will be ready to enter a momentum entry in either direction albeit with smaller size if there is a breakdown since there is a slight conflict with the Directional Bias of the daily. Again, this specific strategy comes from my 34EMA Wave market trend analysis, observation of my GRaB candles, and respect for the Directional Bias of the daily time frame.

What's your Trading Lifestyle costing you in time?

(Why and) How many hours a day do I spend trading, analyzing the markets, and my charts?

Before there was a word for it, I think I was looking at how I could "hack" trading... in other words: How would I get the best (most effective) results in the shortest amount of time?

Have you ever looked at how much time you are spending on the markets? Now I don't mean while actually studying or learning - that's something can be done a little each day or with a total immersion over a (usually) shorter period of time. (I'm more the immersion type…)

I've been tracking how much time I spend on the markets closely since last February of last year and it depends on which time frames I am trading. If it is short term (15 minute, 30, 60) then I am logging about three to four hours per day between 8am and 11am EST. When it's the 240 and daily chart it's about an hour per day about 7:30am to 8:45am EST). From my past observation, the trends on the 240-minute and daily time frames have been more productive. Now I know much of any trader's return is going to be based on the trend and/or volatility of the time frames traded. I'm sure you've heard the saying "All a trader can do it take what the market gives you."

I think most people know that spending more time in front of your monitor(s) does not necessarily equate to a better trading return – yet it doesn't seem stop people from over-trading & over-analyzing. It reminds me of the investing *tinkerers* who keep shifting their portfolio allocation on a monthly or (gasp!) weekly basis. As I say often, we traders live in a RESULTS economy, not a time economy.

When I first started trading it was off the daily chart and daily chart ONLY! That's all that was available to me! My trades were few and far between as daily chart set ups typically took 30 to 90 days to set up and I was tracking just under two dozen markets.

I want you to start to question your time spent versus results. (Again, subtract the hours spent on education. I read a book about every ten to fourteen days and if it's trading related I do not count that time.) There are more stimuli bombarding us than EVER: More websites, more videos, blogs (including mine!), and television coverage. How do you tune out what it unnecessary and focus on what it?

In my opinion, don't buy into the investors and traders that say you have to stay on top of every central bank comment, every geopolitical event, analysts, reports…I truly believe that all news and fundamental data must be confirmed by price action. That means as long as you are not ignoring key reports ("red hot, hot zones" like NFP, FOMC decisions, Retails Sales, CPI, among others) and major geopolitical events (war, elections, natural disasters) **you will see the reaction built into price action**. In fact, when you trade daily charts, these "major" events appear relatively insignificant; the resulting price action gets swallowed up the average daily range.

TIME FRAME SELECTION USING DIRECTIONAL BIAS

Since I began trading using daily charts that were mailed to my home, arriving every Monday, I have an affinity for the daily time frame and a real appreciation for the overall psychology they reflect. The daily is by far the most common and well-followed time frame in my experience of two decades of observing other traders and myself. There's obviously a certain availability to the daily charts that also make them so closely-watched and I also think that the importance of the "closing" price of the day add more relevance.

Directional Bias therefore comes from the daily exclusively. Directional Bias is just my *fancy* way of defining the market trend. For me, market trend readings are really a gauge of market psychology: Fear, greed, boredom, confusion. I think those four are the most common market emotions and are embodied by downtrends, uptrend, narrow sideways ranges, and wide, volatile sideways ranges. The way I identify which one of the four the daily (and any time frame for that matter) is in is with my 34EMA Wave.

When the market is in a trend on the daily, I think that trading is generally more straight-forward because there is a dominant psychology in the market. For example, with the current EUR/USD the Directional Bias has (very) recently transitioned into what I call a "fresh" mark up; fresh simply means that the transition is new and not established.

Results are not guaranteed, individual experiences may vary. Past performance is not indicative of future results.

The angle of the 34EMA Wave has taken on a "twelve to two o'clock" angle. Prior to this, the Wave indicated that price action was in distribution (wide, volatile, sideways range) which is an environment that more often leads to exhaustion at the ceiling and floor of the range. Since there is a more dominant bullish TREND which is the culmination of organized bullish SENTIMENT and MOMENTUM, I will look for buying opportunities on the 60 and 240-minute along with the shorter-term intraday time frames I watch (five, 15, and 30-minute). The reason I mention the 60 and 240-minute is because until there is a clear Directional Bias on the daily, I will usually avoid expecting longer-term time frames to have enough organization to set up, trigger, and follow-through. In a trending environment, swing trades are my preference.

There are multiple levels I will consider for swing trades. In this case, the swing trade will be to the long side and I will look to Fibonacci Retracements, psychological numbers, the 34EMA Wave as well as popular simple moving averages like the 20, 50, and 200 to act as support that I can set up a conditional buy order at. These levels can differ greatly in this location on the chart or often overlap. Levels that represent a shallower retracement (lower) will be considered aggressive and I will not enter with as many lots. I believe aggressive levels are good to enter a small position in case the correction of the trend is not more significant. The 34EMA Wave usually represents the more conservative area and any below the Wave in an uptrend is not valid because the trend has been broken and possibly reversed.

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The two charts (above) show the tools that I will use to assess where I will want to enter long on a pullback. A shallow (aggressive) pullback would be to the 20 period SMA or the 23.6 Fibonacci level while a more conservative (deeper) pullback would require a move lower to the 34 period EMA high or the 38.2% Fibonacci level.

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CORRECTION VERSUS REVERSAL: UNDERSTANDING THE POWER OF DIRECTIONAL BIAS

Consider the move in the GBP/USD since the GDP caused the intraday meltdown in the pair. Then consider where the GBP/USD is now. For the sake of reference, the GBP/USD traded down to a low of 1.5751 on January 25, the day that the GDP came in at a -0.5% versus the consensus of 0.5%, which was a full percentage point miss. The slide lower took the pair from a high of 1.6017 to the support of the 34EMA Wave which was waiting at 1.5809.

The 34EMA Wave angle is at the heart of this discussion. The daily chart reflected the upward ascent of the GBP/USD as price action went “green” on the GRaB candles January 12. This was a shift from the neutral market sentiment and confirmation that the organization of sentiment and momentum could yield a transition to an uptrend - which can subsequently happen. The daily chart’s 34EMA was beginning to move higher at a “twelve to two o’clock” angle and confirmed that the Directional Bias was bullish. I believe this assessment is key not only for trade selection but also which time frames I will consider entries on.

When the Directional Bias (which is always taken off the 34EMA Wave angle on the daily) is heading in an uptrend or downtrend, it will in turn open up trend following entries across all time frames. If I am looking to capitalize on a correction of the Directional Bias (the daily trend) then I will do so only on shorter-term time frames (five, 15, and 30-minute). This helps me immensely with time frame selection. I will only consider 60 and 240-minute entries when there is a clear Directional Bias up (or down) and the entry is following the trend (1).

The GBP/USD has a bullish Directional Bias which is to say that it was in an uptrend on the daily. This means NO shorts on the 60 and 240-minute time frames. The five, 15, and 30-minute time frames however were still valid choices for shorts as the pound sterling weakened against the dollar. The reason being longer-term charts require longer-term price organization for follow-through and I will not rely or expect it when taking an entry that counters the dominant (2) trend. The daily GBP/USD - despite the sharp and sudden move lower - was in fact correcting the uptrend. Because this was a correction on the daily and not a reversal, the bullish Directional Bias remained intact consequently invalidating any short-sell on the 60 and 240-minute charts! Any short entries would then be limited to “Between the Greens” entries on the five-minute and swing shorts on the 15 and 30-minute.

There was also the “one-thing-leads-to-another” scenario/set up that triggered on the daily as the intraday slide created the correction seen on the daily. The correction could have been bought into as the GBP/USD weakened and prices sank into the support of the 34EMA Wave. This triggered a daily trend following BUY or swing buy. Notice that by identifying the move lower as a daily CORRECTION and not a reversal and by knowing the Directional Bias beforehand AND understanding the context of the move lower within the dominant psychology the choice to be position BUY entries was made clear…even on a day where price action and headlines appeared to be sending the GBP/USD to “doom”!

(1) An exception to this would be when there is a distribution entry on sideways daily chart movement.
(2) I consider the “dominant” trend or psychology to be that of the daily

Respect the Market Trend

I believe the USD/CAD is a perfect example of why the Directional Bias must be respected. The Directional Bias - if you haven’t already heard or read about it - is the market trend or psychology of the daily chart. I choose the daily for this because I feel it is the most well-followed and therefore most psychologically relevant time frame. Some time frames (and price levels) are simply important because they are well-watched.

The USD/CAD has certainly had a negative sentiment which organized into bearish momentum BUT DID NOT transition the market back into a downtrend. (IF however you/I determined it was a fresh transition - one that was newly formed - taking a bearish Directioanal Bias would be agressive.) I would pull a daily chart of the USD/CAD and view it within a one-year lookback which means you include 52 weeks within the chart view. The angle of the 34EMA Wave while angled slightly downward would not qualify as a “four to six o’clock” angle and therefore the Directional Bias is not bearish but rather in a distribution market trend.

Respecting the market trend means - for me - that I will consider my entries only after I have identified the Directional Bias and then identified the specific time frame's market trend that I want to set up for a potential trade.

In the case of the USD/CAD, I have been very leery about taking swing shorts on anything but the shorter-term intraday time frames like the five, 15, and 30-minute charts. This is because the distribution market trend on the daily increases the likelihood that prices will bounce as they near prior support between 0.9849 and 0.9836, which were the January 12 and 18 lows respectively.

In distribution, price action often begins to exhaust at prior floors and ceilings so with the daily's Directional Bias indicating distribution, the closer prices got to 0.9849 - 0.9836, the closer to potential support the pair got. This effectively limits the potential downside for any longer-term short. This includes the 60, 240-minute, and daily time frames.

Today's USD/CAD is fueled by, well, fuel. Energies, specifically. With the dollar's strength pushing commodities prices lower, including crude oil, the loonie has little reason to strengthen and add to that the dollar's rally and the loonie falls behind. I believe it's a perfect storm for a USD/CAD comm-doll which works off the loonie-greenback-crude oil triangle.

The idea behind my "hesitant" shorts which would be taken only on the short-term time frames is so that when prices bounce sharply higher as they are doing today, quick(er) adjustments can be made. Of course, the daily itself was ripe for a distribution fade entry long but I realize that this aggressive entry style is not for everyone. As an alternative, consider the "Between the Greens" entry for the five-minute to take advantage of today's USD/CAD strength.

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MY SEVEN KEY TO TRADING

I train in MMA (mixed martial arts) twice a week with one of my best friends. It's a physical chess match as compared to the electronic chess match that is trading. I was speaking to my jiu jitsu sensei (teacher) after class today and the subject of what I did for a living came up. I explained that I was a currency trader and expected him to give me a blank stare. Instead, he began talking about pairs and pips and I realized just how far forex has reached into the mainstream. He began asking about the "how" of trading. Realizing that obviously there was no way I was going to teach him all he needed to know about what it was to be a trader and how to do it, I broke down what I did into seven categories as they came to me. I am going to share those with you now and over the course of seven updates, go into detail about each.

I started off talking about respecting fundamentals, which probably sounds funny coming from a self-proclaimed Chartologist. But my mother always taught me, "do the thing you are most likely not to do and do it first". For me, that's news, data, and economic events. Since I am so into the charts and price action, it's easy for me to neglect the economic scene so my first task each day is the economic calendar and a scan of the economic landscape. I follow fundamental traders and experts in the field and this gives me the fundamental information and sentiment I need.

After that, I discussed trading times. In other words, WHEN you choose to trade is – in my opinion as important as WHAT you are trading. Time reflects financial center participation. Certain times of the day have more volatility than others. The example I shared with him – knowing that he was likely to sit down in the evening and look at the Asian session – was the difference between 8:00am and Noon (EST) and 8:00pm and Midnight; two four-hour chunks of time, just twelve hours apart but (literally) an ocean apart. If anyone were to sit down to look at the earlier half of the trading day and then assume that the action that occurred during the European/U.K./U.S. session would be similar to the price action for the Asian session, they would be surprised by the difference. Knowing the rhythm of the trading day in terms of volatility and pip movement can be – in part – gleaned from a look at the economic calendar, but there is a certain constant to price movement in terms of it normal rhythm. In martial arts, we never expect an anatomical response even though we do have a certain assumption that when we kick someone they will move back. One move follows the next based upon certain likelihoods-- but one person can react wildly different from another, as can the market day to day. There are certain likelihoods we can consider and watch for. I'll have a much more in-depth discussion of pip movement later in this series.

I next moved into my topics of choice these days and that's Directional Bias. I explained that the most well-followed chart in any market is typically the daily time frame and because of this the market trend (accumulation, distribution, mark up, mark down) of the daily must be respected. Furthermore, it's importance that can help determine which time frame(s) to consider depending upon the individual intraday market trend of each time frame that may be set up for an eventual entry. I sensed he was growing a little weary. When someone gets me chatting about the markets, good luck shutting me up… I told him after next class I would explain market trends and clarity, levels that are "in play", proximity and volatility, and finally harmony. And that's exactly what we'll do in the next update as well.

So to follow up on yesterday's update, my jiu jitsu sensei asked at some point during our conversation about all the software, courses, and books he saw teaching people how to trade. I can understand how there is a small voice in many traders head whispering *"I haven't found that great entry strategy….yet!"* My bestie sat there with a grin on her face and said, "I don't understand what she does and I have all her books. I just look to see if she puts me in the Acknowledgments". (gee thanks Pam) But can you really learn everything you need to know from a book? I don't think so, and I've written three! The ideas can be shared there and the concepts can be explained. That's the seven keys.

The main idea behind my seven keys is not simply to outline an entry strategy; in fact, in many ways what I think is really behind successful trading is a trader's understanding of the market environment they are trading. Putting all those lines and levels on the chart in perspective makes all the difference. Perspective in this context means understanding market volatility, and potential volatility, market overlaps, Directional Bias, and individual market trends.

I think there are many, many powerful and successful entries that are being used out there. I am not interested at all in telling anyone that "my way" is the best and I hope you see through anyone who does. There's no such thing. I am much more interested in understanding how any successful trader applies an entry in a consistent manner. That's what the seven keys are for me: They ensure that I am applying my strategies at the "right" time, consistently.

A major aspect of that is market trends and clarity of that market trend. In other words: What's the underlying psychology of the market? Generally speaking, in an uptrend, buyers will tend to buy at support and aggressive buyers will buy into new highs. I am not interested in the latter, but the former, which is a swing trade to me. Buying into levels of support within the context of an uptrend defines swing trading for me, and the trend is what makes this approach valid.

The idea behind market trends is pure Dow Theory. Understanding the psychology behind price action gives me a better idea of whether a decision level (support or resistance that I deem important on a price chart) will elicit a reaction and what type of reaction will occur. Price action can do one of three things at a decision level (IF I have identified it correctly) and that's to accelerate, stall, or reverse. Which of the three it will do depends upon whether it is support or resistance and whether it is being hit within an uptrend, downtrend, sideways market with low volatility, or sideways market with high volatility.

The idea of finding levels that are "in play" is essentially what a decision level is. Large orders and large groups of traders will DECIDE what they want to do at that level. That's why psychological levels like "00" are so powerful. Orders gravitate to them because of the likelihood and the attraction we have to whole, round numbers. How else to you explain 12,000 on the Dow Jones as being so significant or $90/barrel crude oil, $1000/oz/ gold, or 1.3700 on the EUR/USD? They are psychological, decision levels. Other decision levels or levels "in play" can be trend-lines, horizontal support or resistance, Fibonacci levels, pivots, chart patterns, yearly highs, parity. Consider them all and wait to see if they elicit a reaction. That reaction could very well be the trigger to an entry or an exit!

Understanding which levels "in play" could be a factor in the session or during the day comes will be effected by volatility and what I call proximity. Based upon the typical price movement and understanding how economic events could heighten volatility, there is a chance that price action may not reach certain levels. Understanding how realistic is will be for the (for example) USD/JPY to move 100 pips to a resistance level in a downtrend to trigger a swing short will affect how much attention you give that potential entry. I believe one way to deal with this unknown is to use conditional orders and leave a sell order waiting at the swing short price trigger.

I believe organizing your trading day has as much to do with YOUR time as it does the psychology of time as it affects price movement in the different pairs.

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THE LAST OF MY "SEVEN KEYS": HARMONY

The last of the seven keys is harmony, and for many traders it's the most difficult to wrap their brains around the monitor. I believe this is because it has as much to do with my Forex Market Pulse as it does the relationship pairs have to one another and the U.S. Dollar.

In my opinion, no trading is done in a bubble - there are far too many factors that affect the pricing of any market. While there's no way to track every factor, there are some major players who have steady roles in the way the forex market behaves…especially when it comes to currency pairs that include the U.S. Dollar.

I should mention that my "prime time" trading hours are between 8:00am and Noon EST. So consider that I am looking for trades and usually entering them during the overlap between Europe, the U.K. and the U.S. trading hours. The reason for my choosing these trading hours is because of the influence of the stock market open, economic events and releases that occur primarily during these hours, the fact that the Frankfurt, Paris, and London markets are open while all create the largest amount of typical price movement in dollar-correlated pairs and comm-dolls.

Trading "harmony" not only implies that I will seldom be long both on the EUR/USD and USD/CHF simultaneously on similar time frames; but it also implies that I will not fight the trend of influential commodity futures contracts either. I call the commodity futures that affect the forex market my "forex market pulse". These contracts include the U.S. Dollar Index, Dow Jones, crude oil, continuous commodity index, and gold. The bond markets can be included but I do not use this as heavily, rather I am simply aware of any significant changes in the trend. I believe the most basic and easy-to-understand relationship is between any pair that trades against the dollar and the U.S. Dollar Index. For me, one of the most straight-forward relationships is the EUR/USD to U.S. Dollar Index. These two markets move inversely to one another nearly tick for pip. Generally speaking, if the dollar is weak, the EUR/USD is strong as the euro gains on the dollar. I will seldom consider longer-term bullish moves on the EUR/USD if the dollar too is strong. Another relationship then would be directional relationship the dollar has to the USD/CHF. A weak dollar and strong franc will result in a downtrend on the USD/CHF. The directional relationship between the U.S. Dollar Index and USD/CHF is generally sympathetic. Take this one step further and I will very rarely be in a situation where I will be long the USD/CHF and EUR/USD simultaneously on similar time frames. Again there's no "harmony" because eventually one trade will be on the wrong side of the dollar. I look form harmony when I trading multiple pairs because when the market is "clicking" which is to me when the correlations and trends are clear - trades just line up with their relationship back to the U.S. Dollar Index. This is precisely why I spend so much time studying the risk appetite and risk aversion that affects the U.S. Dollar and U.S. equities.

Here's one last concept that related to harmony and that's the USD/JPY's ability to identify the driver of market psychology. In other words, is it the dollar or the Dow that's driving the market on any given day or overlap. The USD/JPY is an important pair because the yen itself is often borrowed (sold) to fund the purchase of higher-yielding assets aka the "carry trade".

If the USD/JPY is moving directionally with the U.S. Dollar Index, then the dollar is the driver of psychology. When the Dow is the moving with the direction of the USD/JPY then the equities market is the driver. I like knowing this because different news can affect the dollar or equities and knowing whether risk appetite or aversion is fueling price movement helps me determine how I will tackle the trading day.

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HOW DO YOU KNOW WHEN TO BUY INTO A CORRECTION?

The GBP/USD is a perfect example of a current swing buy. A “swing” is another way of saying correction or a pullback in an uptrend or bounce in a downtrend. But how much of a correction is enough to offer support in the uptrend and resistance in the downtrend? Price levels like Fibonacci Retracements and Psychological Numbers are powerful and could offer support/resistance. Another tool is the 34EMA Wave itself. It serves two purposes. First, it helps identify the trend and second, it helps identify corrections in the trend. Entering on a correction is only valid - in my opinion - within the context of a trend.

The daily chart of the GBP/USD pulled back from a high of 1.6278. This high was just shy of the 1.6299 level hit on November 4. Many traders would consider this a double top and I agree. The 11 pip variance between the two highs is a “soft” level but none-the-less is also relevant because of the 1.6300 major psychological level overhead. On the daily time frame however, this was not a short entry because the trend was up, as confirmed by the Wave. In this market trend, I believe the strategy is to watch for swing buys on pullbacks and be aware of potential Wave reversal on trend breakdowns. (Any intraday chart in a distribution market trend would be better suited to trigger a fade off the ceiling with an overbought 21/1/3 Stochastic.)

Realize that it was not my goal to “top pick” and set up a short on the daily. The double top was more of a cue for an intraday distribution fade (if available) and alerted me to the potential for a correction lower that would trigger a swing BUY. The subsequent movement lower then had to be watched closely to see where buyers would step in to support the cable and create a support level or correction. In my opinion, as long as prices remained above the 34 period EMA low, the trend was valid unless the Wave transitioned into a more sideways direction - which it did not.

There were two levels that I was expecting potential support at: the 20 period SMA on the close and the 34 period EMA on the high. These two moving averages created a swing buy “zone” where I could park a conditional order to buy the GBP/USD.

Notice that these levels were readily available before the pullback even reached this area, so in essence the entry is a “wait and see” game. There were additional and more aggressive levels that could have also been considered. These were Fibonacci Retracement levels from the January 25 low to the February 3 high. The 61.8% Retracement however overlapped nicely with the 34 period EMA high making this measured pullback all the more relevant in my opinion because of the significance of the “golden mean”.

I believe there is a certain approach to swing entries that must be proactive. That is, anticipating where the corrections to go to and where the sentiment could shift, because after all, it's not the weakness that I was looking to capitalize on but rather the shift and then resumption of the uptrend that I wanted to enter at. Identifying which support levels could offer this shift is what swing trading is all about for me.

Spreading yourself too thin? Start designing you ideal trading life.

As I'm looking at the August Interbank FX webinar schedule and the many topics I want to cover with my fellow forex traders, I can't help but think how much I love NEW projects…so much so that I often put way too much on my plate. Whether it's looking at a new cross-rate I am thinking of trading, examining it on IBFX PowerStats, writing a new Daily Trading Edge or recording new videos, every now and then I have to stop and ask-- WHAT AM I THINKING?

I'm sure this has happened to anyone of you and it happens to me from time to time: It dawns on me that at some point, it's going to yield diminishing returns and I have to consider pulling back a little. Because logically, in the end, the only thing that matters is my trading and investing. Are you looking at too many charts, news, tools or indicators?

Writing and teaching with Interbank FX keeps me focused because THEIR focus is the markets, and that's good for me. It keeps me walking the talk. How do you keep your eyes on the ball?

Realize that when I first starting trading the markets, there wasn't an internet and I updated my charts with a pen, calculator and ruler. Back then I would pour over my charts at a snail's pace looking for just three patterns! I would do this only in the futures stock and futures market, and only use end of day charts. I managed to kill about 90 minutes a day doing something that takes me about eight minutes now.

I think we try and keep ourselves busy at the expense of really being productive. In my opinion, good trading (and investing) involves following a plan, knowing what tools to use and ignoring what you simply don't need.

So what does YOUR IDEAL TRADING LIFE look like? Can you picture it? No one WANTS to spend all day and night in front of their computer monitors. It's just a means (trading) to an end we want (money and the freedom money affords). And in the "employee" mindset most of us we are brainwashed in that we think time = results. I can tell you that being a trader means living in the "results economy". Time spent means nothing!

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LIVIN' LA VIDA TRADER

As the anticipated activity of Fall trading approaches and Summer is coming to an end, it's got me thinking more and more about the "trader lifestyle" I have been designing since I was 17. At first it was just a dream, then a goal, but one I was willing to pay the price to have.

Then, I got it. It was not what I thought it would be. You see, I thought I was trading for THE BIGBUCKS — when you are in your early 20s that seems to be the driving force of success. Then I learned it wasn't so much money but freedom I was after.

In yesterday's Daily Trading Edge I asked a question and maybe what I hope was a challenge. We all need to make a living. I am not going to insult your intelligence and say that money is irrelevant. But money itself is not the ends, it's the means. I think we spend too little time thinking about what the ends ideally could be.

Inspiration, Despiration, Persperation.

I am reminded as I type this that this morning my husband is at a judo tournament. He's not competing today. He's there with his "kids". He is a Sensei at a judo club in Ft. Lauderdale; he volunteers his time. Each Tuesday, Thursday, and Saturday he coaches kids who probably would otherwise be roaming the streets, getting into trouble. These are all "at risk" kids living in neighborhoods in Ft. Lauderdale that most people don't even want to drive through. He loves teaching these kids. In many ways, it's the fulfillment of a dream he's had: Help kids that other people have given up on. A few of the kids will be in the Olympics some day soon. I know it. They are already competitive on an international and national level.

I think about this because that's what the ends are. It's time well spent.

I think that often with all that our lives entail nowadays, we are really asleep through most of it. Have you ever seen that movie "Joe Versus the Volcano"? Yes, it's a quirky movie, and actually a favorite of mine. Meg Ryan's character (one of the three she played), Patricia Graynamore, had a great couple of lines and summed the movie up:

"My father says that almost the whole world is asleep. Everybody you know. Everybody you see. Everybody you talk to. He says that only a few people are awake and they live in a state of constant total amazement."

I am conscious of what I do: I am not confusing myself with a hedge fund, managed account trader (tried it and hated it!), pit trader, or anything else like that. I don't have a monitor in my bedroom or bathroom (not anymore!) and I ditched the fancy trading office for a far less glamorous, much more comfortable home office (love the commute!). I know what I do works for me and I am not tempted by other strategies although there are traders and authors that I still enjoy listening to. I don't need to put down someone else strategy or analysis to make myself feel better about my own. And I'm never going to teach something I don't actually do.

I'm working with the steps I have always followed and gave them an acronym.

D.E.C.I.D.E.

(working title: “Mom was Right: You Have to Do Your Homework Before You Get to Play.”)

D **is for Direction**
(What is the market direction?)

E **is for Entry**
(What are your entry options?)

C **is for Chart**
(Chart the support and resistance)

I **is for Investigate**
(Investigate the market environment. Research the hot zones, market correlations, confirmation indicators.)

D **is for Deal**
(Deal with price action. Let price dictate your trade, in forex quotes are called “dealing rates”.)

E **is for Exit**
(Plan your exits.)

Here are a few things I like to remember, (because common sense is not so common).

Think about what you want from your trading. Let it be what propels you through the good and bad days. Let it be what keeps you on the straight and narrow when you are tempted to try some new piece of software, magical indicator, or follow someone else’s buy and sell signals without caring to learn the how and whys.

No one cares more about your money than you do. Know why you are buying and selling. Know when you trade is no longer valid.

Understand your investments. The people on the TV and in the magazines don’t necessarily know more than you do, they just practice sounding like they do.

Back to “Joe Versus the Volcano”: After being told he had a brain cloud…”You have some time left, Mr. Banks. You have some life left. My advice to you is: live it well.” Well Joe Banks didn’t have a brain cloud but he finally designed his life.

* * * *

WHAT DO YOU WANT FROM YOUR TRADING? IT MAY NOT BE WHAT YOU THINK.

I like to travel with a stack of magazines. It gets me through the waiting for a flight, gets me through the flight itself, and then it usually gets left wherever it is I ended up. In this case, it’s my sister’s house in Texas, where I left a few old Trader Monthly (no longer in print) magazines which I find endlessly entertaining.

There was a particular issue on top of the stack. It was the Trader Monthly top 100 traders of the year. An issue that celebrates the over-the-top, mind-boggling incomes from traders around the world. I've got to tell you, some traders make a silly amount of money each year. When “natty gas” (Natural Gas futures) was going nuts a year or so ago, a young man of about 32 years of age made over a billion dollar in one year. Yup, that’s a “B”, billion. And that was not his net worth that was his income for the year, ONE year. I admire this guy not because he trades a fund - but because most of this fund is his own money. And in my opinion, any trader or investor worth listening to trades or manages their own money amongst the outside money they manage.

It got me thinking though. What do big time traders and money managers go through to make this kind of coin? It doesn’t come without stress, high risk, long hours, and it certainly doesn’t happen by itself.

For some traders, that’s the goal…more money than they know what to do with. What’s the price you’re willing to achieve that? I personally know just a few seven figure traders — small fish compared to the really big Wall Street ballers — and they live the markets. Live, breath and eat. It’s as much who they are as what they do. Honestly, it’s pretty cool…for about a week, a month, maybe a year…and then I feel it just burns you out. It’s an accumulation of the hours, the action, the anticipation, the clients (for managers), and yes, as a result, the stress.

We all have a different measure of success, financial or otherwise. Maybe it’s a laid-back Florida thing. I like a quiet and relatively low maintenance life. Hey it’s South Florida, I live in Jimmy Buffet’s mythical “Margaretville”. To me, a comfortable living is great, really great, and freedom…freedom of time, freedom to travel, financial freedom is better. So something’s got to give. Would I rather spend another hour or two analyzing the markets OR playing a round of golf with my husband or having a nice lunch with my best friend? I think you know the answer by now and it’s not the one that puts me in front of my trading screens.

So what do you want from your trading? What are you prepared to do? Do you have to capital and risk tolerance to realistically do it? Are you dedicated to studying? Early on in my trading career I was willing to sacrifice a lot…vacations, time with my boyfriend (now husband), time with my family, I hardly watched television, and my closest friends thought I was abducted by aliens. It was charts, charts, and more charts…and you know what? I loved it! I wanted to read everything I could get my hands on. The internet didn’t exist then as it is now, so it was a lot of old books from the library and live seminars I would travel to.

Then I burned out. Burned to a crisp! And I can't tell you how thankful I am that I did! It allowed me to find the two important distinctions that would shape the rest of my trading life: I found my threshold for obsessive pursuit of a goal and I found what I really wanted from my trading: Freedom.

So if it's the Trader Monthly 100 you want? Do it! If it's a round of golf, a morning at the beach, trading from the Keys. Do it! Get clear on what you want from your trading. And then make sure you know what you are willing to give up to get what you want. It doesn't come easy and there's a price to be paid - but then again anything worth having or being is.

* * * *

PICKING YOUR SPOT: USD/CHF SWING SHORT SET UP

In my experience, corrections are tricky things to identify and even trickier to take advantage of. However, it's a skill that I believe is certainly worth practicing. There are a number of factors to consider…let's break down a few of them.

I've found that most trends correct. I am not looking to capitalize on a correction in a sideways, non-trending market. Corrections are often the result of profit taking and I feel that healthy trends correct. So, if there is an up or downtrend that I can verify on a time frame using my 34EMA Wave, I will look to see if it can be bought/sold into.

Two of my favorite ways to identify a correction are the support/resistance provided by my 34EMA Wave and Fibonacci Retracement/Extension levels. Now the 34EMA is simple and visual: Just set up the 34 period exponential moving average on the high, the low, and the close and you have an instant view of market direction, sentiment as well as dynamic support/resistance levels. Fibonacci…well, that is much more subjective but I believe it has the potential to be effective once you get the idea behind what I call the "last, major move".

**The LAST MAJOR MOVE is the most recent, significant, sell-off or rally on a time frame that a Fibonacci Retracement/Extension will most accurately identify support and resistance. In my humble opinion, this leaves a lot of subjectivity to that interpretation, but with practice you will eventually learn to see the most recent and un-retraced move on a chart fairly quickly. Fibonacci analysis can also be time frame specific depending upon the last major move e.g. a rally on the 30-minute chart may not necessarily be a rally on the 240.*

There could be multiple Fibonacci Retracement/Extensions for any given pair depending upon the recent rallies or declines. Furthermore, new highs and/or lows can invalidate a previous Retracement/Extension and therefore you must be watchful for price movement that could change the analysis you have already done. For example, there could potentially be three different price points at which an initial correction could be seen simply based upon the 34EMA Wave. Volatility will often dictate which is too close and which may be too far. Economic indicators as well as PowerStats may help you identify when these time are.

Sound exhausting? It's not too difficult once you get the hang of it.

Let's take a look at the USD/CHF this morning.

I've been watching the downtrend on the 30 and 60-minute time frames and noticed that with the "4 to 6 o'clock" angle on both these charts I could set up a swing short to follow the bearish sentiment on the swissy. The 30-minute chart was tempting because of the swing short's entry trigger at the 34 period EMA on the low (the bottom line of my Wave) and the resistance of the 1.0300 major psychological level.

**Results are not guaranteed, individual experiences may vary. Past performance is not indicative of future results.*

The 60-minute's swing short was just above that. Another level of resistance is if the bulls could rally the pair higher through the "00", which I considered a possibility because of the strength of the U.S. Dollar. In fact, because of the narrow range between the two entries (just 15 pips) the area between 1.0295 and 1.0320 could be a swing short "zone".

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This zone approach does however put a strong emphasis on the resistance. The 60-minute 34 period EMA low is offering another layer of confirmation that could be helpful. I would enter Fibonacci.

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The “last, major move” can be seen with the 0.0 and 100.0 levels on the chart and this rally puts the 88.6% which was previously supported as prices were trading lower - retracing the rally - in a position that now shows resistance. The 88.6% is at 1.0318 and within the swing short zone. If prices rally to this level and can exhaust, I believe the USD/CHF may press lower to the near-term 1.0266 low.

* * * *

MY FOUR FAVORITE DOW THEORY PRINCIPLES

What's now known as Dow Theory started out as 255 editorial articles that Charles Dow wrote for the Wall Street Journal. Keep in mind that these principles were written for stock market movement and investors thus they have a buy side bias.

ONE: The market has three movements.

The three "movements" are a main movement or major trend, a medium swing that typically consists of a 1/3 to 2/3 retracement of the main movement (think Fibonacci), and short swing or "minor movement" which I view as a trend reversal.

Keep in mind that Charles Dow never really formally presented a "Dow Theory" but rather his ideas -- which are not really a strategy but a philosophy of price movement -- were collected and organized and presented as Dow Theory posthumously.

The 1-2-3 or A-B-C patterns that have gained and lost and gain popularity over the years is based upon this "three movement" philosophy of Charles Dow and so I call these Dow 1-2-3's.

TWO: Trends have three phases

The phases (correctly or incorrectly, I call them stages or cycles) are an accumulation, mark up, and distribution. Again, considering the bullish bias, the trend referred to is the uptrend. For most stock investors, any move lower was considered a correction or pullback not a downtrend. As a trader, I add a "fourth" phases, mark down. Each of the stages (I call 'em cycles) has an underlying psychology that it represents.

Accumulation is typically is low volume, narrow range cycle. The psychology behind this price movement is commonly known as the "insiders" or "in the know" buyers quietly buying. As the buying continues, the second phase of market participants get involved-- usually savvy traders and investors. This is where prices typically begin to climb in a organized way. When prices climb to a level that the public at large is now noticing, the market will see another cycle of buying and this is usually much more dramatic, these are speculators. This is finally when the market sees this last group of buyers -- late to the party -- and the early (insiders, investors/traders) buyers taking profit off the table (""distributing" or selling in an uptrend and the distribution cycle develops.

THREE: The markets discounts all news

First, let's define discounting. It's the process by which market participants take their opinion of an upcoming economic release, news, or any other fundamental and factor it into the price in anticipation of the actual result. "Buy the rumor, sell the news"...that's discounting.

The market digests news and events quickly, even before it is proven to be true. The possibility of it being true is enough. Once the news is released, the market reacts to the discounted number known more commonly as the forecast or consensus.

FOUR: Trends exist until definitive signals prove that they have ended

I have three words that sum up my view of this principle: Point of Validity.

To the untrained eyes, "noise" can be cryptic. Even to the trained eye, I believe knowing the difference between a correction within the context of the trend and a reversal of the trend can be a balancing act. I also believe knowing how to measure a pullback or bounce can start with the Wave and be measured with psychological numbers and/or Fibonacci levels. I don't recommend giving the trend the benefit of the doubt unless you can confirm that the trend is still intact. This principle was the inspiration for my search for a tool that could allow me to recognize and measure the trend, my 34EMA Wave.

So there you go! My favorite Dow Theory Principles and how I interpret them.

* * * *

"GRAB" CANDLES: GETTING MORE OUT OF CANDLESTICK CHARTS.

In light of tonight's Interbank FX Live Webinar series kicking off the September schedule, let's take a look at what I'll be talking about tonight. The Wave as I call it is my bread and butter and knife. It's at the heart of how I analyze the markets and what I believe is the correct strategy to enter all my trades.

I certainly did not invent exponential moving averages, nor the 34 setting (that's 100% Fibonacci) but the way I use them on a high/low/close setting and clock angles to measure market cycles (didn't invent those either but learned of those from Charles Dow) is all me. In my experience, there isn't any other indicator out there that will identify market cycles on any time frame and in any market.

I don't say this to brag nor to "lay claim" to the study…heck if I wanted to do that I would have named it after myself (which seems to be the trend with studies nowadays). For a short time I tried calling it the "RCI" because traders would confuse my referring to the Wave with Elliot Wave. But "RCI" (Raghee's Cycle Indicator) was just not something that rolled off the tongue and I've been calling my study the Wave for so darn long that I couldn't ever get the hang of the name change.

I put this tool together at the urging of a student and we experimented, laughed, cried and broke more than a few keyboards in the process of testing the Fibonacci series to 144 and figuring out look-backs, and moving average settings, and angles…I shared these settings and ideas in my first book back in 2004 – at this time I had been using this tool for most of my trading career.

Lately, I've seen a lot of references to market cycles and can't help but think that Charles Dow's work is again finding a new audience. I see the 34ema on the high/low/close being used a lot too and that makes me smile.

The Wave is designed to work with any trading strategy you use. What the 34ema on the high/low/close will do for you is allow you to identify when to use your trending following, tend reversal, momentum, or range bound entry strategy. I believe the Wave is going to help you analyze the market cycle and regardless of whether you trade chart patterns, support/resistance, Elliot Wave, Fibonacci, (anything!!) you will have a greater knowledge of what to do at the decision levels of your analysis.

In my office here we call my green, red, and blue charts "GRaB" candles or grab charts; Green, Red, and Blue.

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So since I have been having troubles with some blurry vision, all my charts right now are grab charts because they are easier on my eyes. For those of you who have seen me present or been in the previous Interbank FX webinar over the past nine months these charts should be familiar. I like using these charts because as I believe that candlesticks visually tell a better story about price action, I feel grab candlestick charts tell an even better story. At a glance I can tell whether price action is trending or neutral and whether it's on the strong or weak side of the Wave. All good things.

I prefer to keep the Wave on my grab charts but since the color coding is there it's not always necessary even though market cycles reading with the Wave are, in my experience, much more accurate. I do realize though that for some traders, the clarity is helpful.

Over the next few weeks I will be outlining some nifty things I do with the grab charts and you can see how and whether you want to implement some of the ideas to your own trading. Just remember, it's nothing but a visual cue. You don't need the color coding to know whether price is trading above, below, or within the Wave. but I won't kid you…visually it's easier to clarify with the grab charts.

You can download the free indicator for MT4 at http://www.ibfx.com/tools/grab

Using Candlesticks to Confirm Support and Resistance

The downtrend on the 240-minute chart of the EUR/USD is confirmed by the angle of the 34EMA Wave heading down at between four and six o'clock. The trend has not been in place very long and with the volatility of the BOE Official Bank Rate potentially affecting the EUR/USD as well. At 7:00am EST, I believe there's a good reason to look for more confirmation of selling pressure if the swing entry is going to continue lower.

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The Three Outside Down candlestick pattern that has formed as the EUR/USD bounced into the resistance of the Wave could offer a secondary confirmation of a possible sentiment shift. In my experience, the idea behind a swing entry is to identify the trend - which in this case is down - and then wait for corrections higher to exhaust and attempt to capitalize on the failure to make higher highs by selling into an expected move back in the direction of the trend.

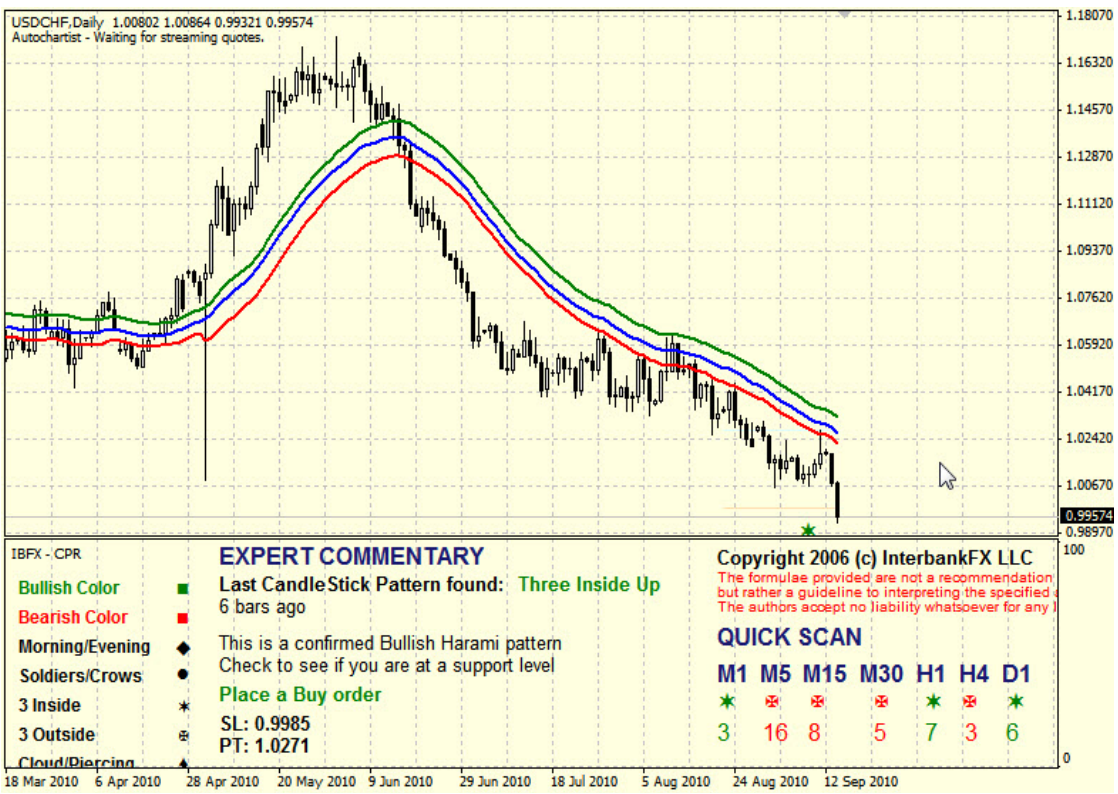
The Three Outside Down pattern is also known as a confirmed Bearish Engulfing pattern. The third candle is used to confirm the bearish "reversal" which in the case of a downtrend would be the exhaustion of the move higher and thereby a continuation of the trend.

I believe by adding a layer of expected resistance (the 34EMA Wave) to the candlestick pattern, the swing set up is complete.

Using Candlestick Patterns to Gauge Near-Term Trends and Corrections

The downtrend on the USD/CHF has pushed lower once again and appears ready to challenge the November 26, 2009 low at 0.9910. (The current intraday low is 0.9932.) This break below the much-talked-about parity level is a major psychological level that the pair has bounced higher from due to the buying support that rallied prices back above this level late in 2009. The question now is whether or not the selling pressure will shift lower to provide a ceiling for the bears and if so, where?

The initial bounce on the daily chart began with a Three Inside Up and this pattern signaled a bounce to the resistance of the 34EMA Wave where prices exhausted and resumed the move lower. In this case, I believe the bullish candlestick pattern was a buy signal within an overall downtrend and therefore should be considered a bounce or not necessarily prelude to a reversal. The confirmation of the bounce however helped set up a potential short as the market needed to rally in order to reach the swing short trigger at the 34 period EMA low.



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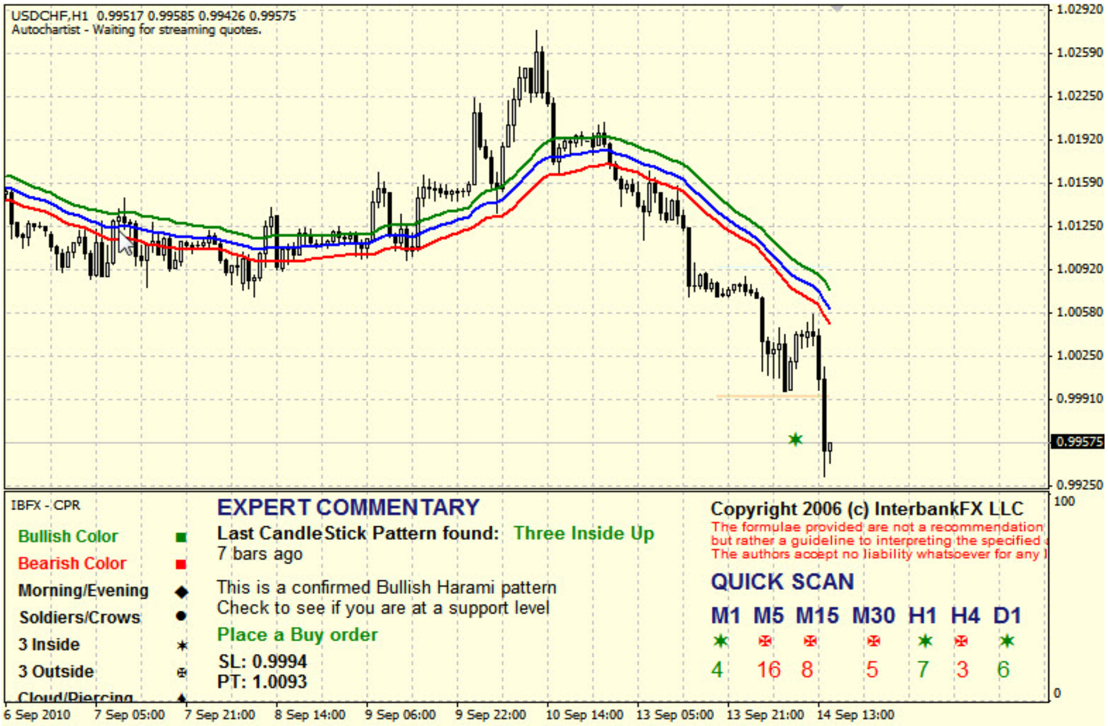
The 60-minute chart of the USD/CHF – also in a strong downtrend today – signaled an intraday Three Inside Up pattern. Since the trend was already down, I feel the bounce was an opportunity to play either an aggressive short-term buy or an early warning to set up the swing short off resistance of the 34EMA Wave. Alternatively, major and minor psychological levels can be considered as well as Fibonacci Retracement levels.



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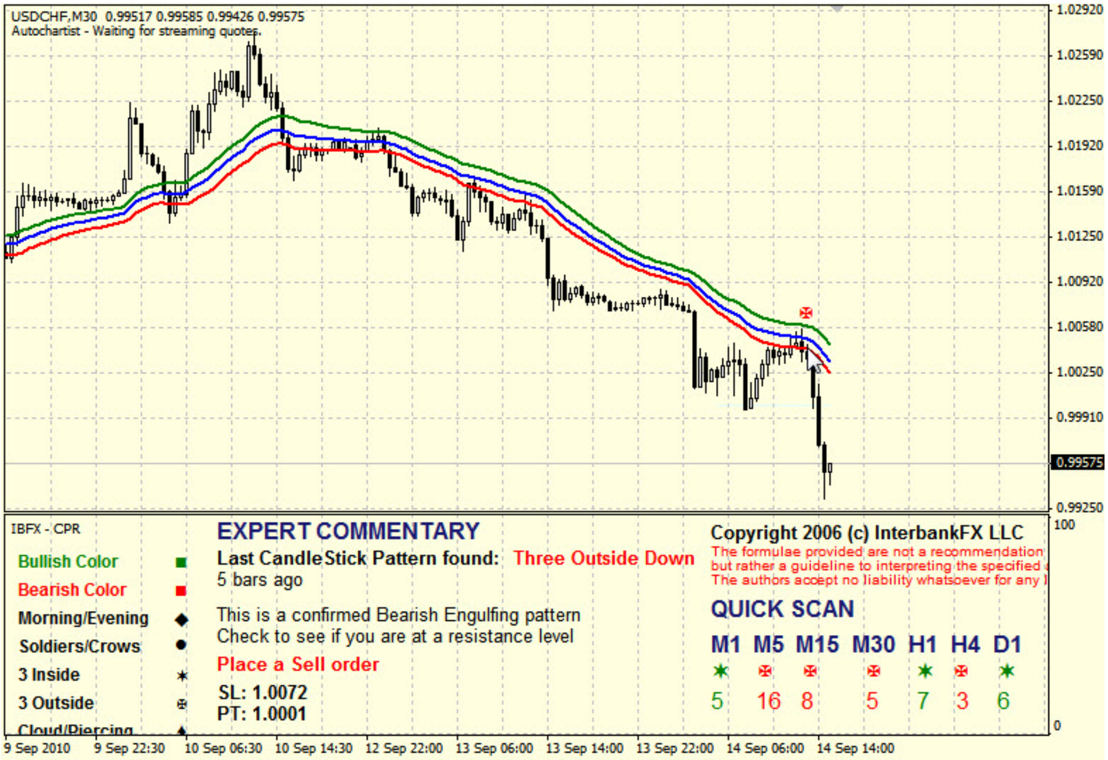
Finally, the 30-minute USD/CHF, which also is moving lower in a downtrend, had a Three Outside Down pattern that coincided with a rally into the resistance of the 34EMA Wave. Realize that I believe all three of the shorts on these time frames stem from the downtrend and therefore will attempt to capitalize on the weakness that I expect after prices rally to an exhaustion level. It's the 34EMA plus other confirmation tools such as a candlestick pattern that may help identify where the sentiment will shift and resume the trend. With this example, the 30-minute chart did not offer an early warning of the bounce within the downtrend but rather a confirmation of potential weakness once prices reaches the 34EMA Wave.



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Considering what sentiment the candlestick pattern is offering into near-term insight may help set up an entry (as in the daily and 60-minute time frames) or confirm an entry as in the 30-minute swing short. Each pattern must be considered a part of the market trend and not necessarily a signal of an overall trend change or continuation.

* * * *

DO YOU HAVE THE PATIENCE TO LET A TREND COME BACK TO YOU?

A trend (correction: a strong trend) may be one of the most difficult market environments to trade. I think that between strong mark up or mark down stages and possibly distribution (volatile, sideways ranges) many traders will be tempted to chase and/or enter too aggressively in expectation of follow-through.

Consider that a trend is an organized market opinion or sentiment that continues because of the momentum is behind it. A downtrend can have temporary bullish momentum while maintaining an overall negative sentiment just as an uptrend can have temporary bearish momentum while maintaining an overall positive sentiment. It's the overall direction of the individual time frame that I feel must be identified and measured first. Without this understanding, it would be very difficult for me to gauge a correction versus a trend reversal. The ideal way to capitalize on a trend and help minimize risk in my opinion is to wait for a correction. There are a number of levels that can be considered a correction as long as the trend is up or down. (e.g. Fibonacci levels, psychological numbers, trendlines) I measure this using a combination of my 34EMA Wave, clock angles, and lookback. For example, let's look at the charts below for some current views of trends.

In terms of market psychology clarity, I am seeing that the 240-minute time frames are offering some excellent views of swing trades. By the way, I think defining what I think is a swing trade would be well-placed here. For me a "swing" is a retracement or correction WITHIN THE CONTEXT OF AN ESTABLISHED TREND. Sorry for all the caps but that last part is IMPORTANT.

Without a trend, the movement up and down is simply range-bound movement and volatility which in my opinion can be incredibly difficult to trade. By the way, I believe that's one of the main reasons a distribution market stage is such an account killer...

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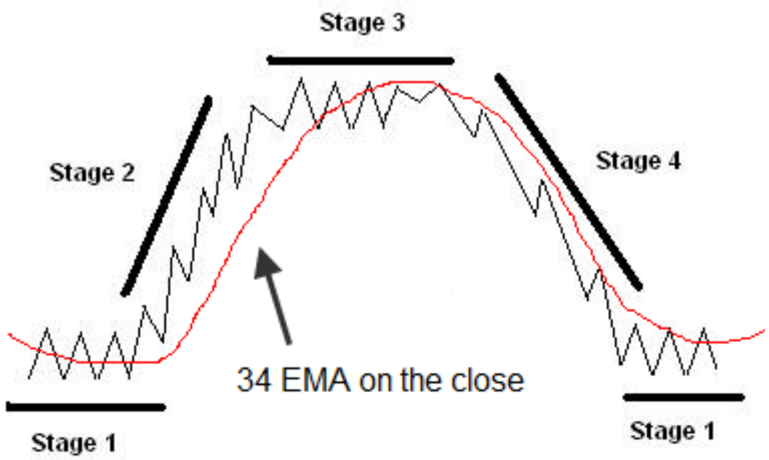
Notice that all three charts have data going back to June 29 which means that there is roughly eight weeks of price action in the chart view. This is specific to a 240-minute chart where I prefer to view six to eight weeks (no less than four weeks) of data in order to make decisions about recent highs, lows, rallies, sell-offs, overall market movement, as well take the "clock angle" of my 34EMA Wave. The clock angle gives me to stage of the market.



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An uptrend is a “two to four o’clock” angle (Stage 2) while an downtrend is a “four to six o’clock” angle (Stage 4).

These three pairs are trending higher in reaction to the weakening U.S. Dollar so the set up in getting long would mean that the U.S. Dollar bounces within its downtrend to push these three pairs lower into the support of (preferably) the 34EMA Wave which consists of three 34 period exponential moving averages: one on the high, one on the close, and one on the low.

I think the simplest use of the 34EMA Wave in a Stage 2 or Stage 4 is to wait for the correction to the Wave itself and enter when prices retrace to it. The idea behind entering on corrections in a trending market is that 1) the trend is still intact and 2) the pullback or bounce (correction) is not a reversal. The Wave helps identify that too by the way. If prices either flatten out the Wave (which indicates a shift to possibly either Stage 1 or Stage 3) or if price action breaks the Wave support of the uptrend or the Wave resistance in a downtrend, the swing strategy is no longer valid.

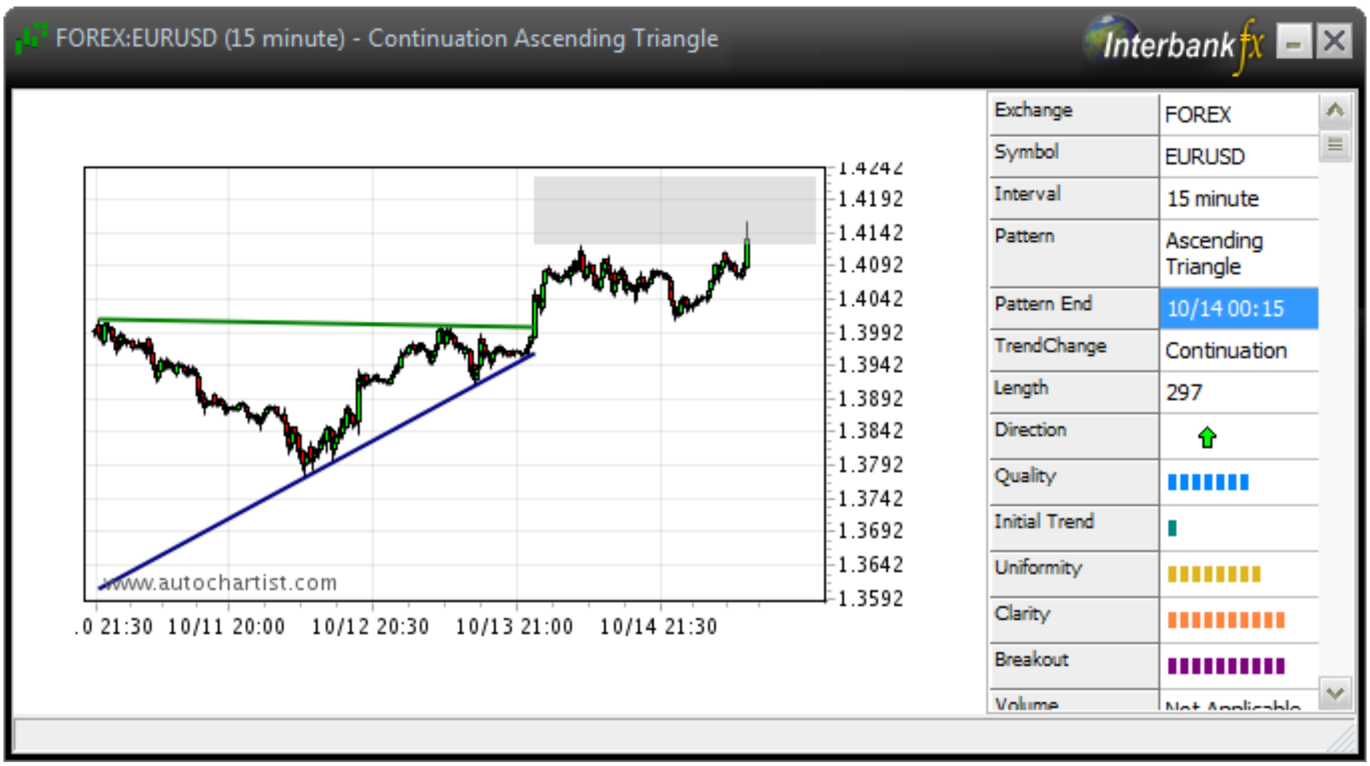
* * * *

CHART PATTERN TRADING: NON-TRENDING PATTERNS

When a market is moving sideways, there are two potential scenarios. First is that the market is moving in a narrow, sideways range with lower volatility which typically represents a “wait and see” market sentiment. The second scenario is that the range is wider and volatility is higher. I believe this is often the most difficult market stage to identify and trade. It’s commonly the environment where false breaks are frequent when momentum is expected. In my opinion, understanding the difference between these two market types is a very important distinction to make when looking at non-trending markets.

Both the GRaB candle plug-in with the 34EMA Wave and the Autochartist Initial Trend reading can clarify which of the two market types the pattern has developed within and therefore also shed light on the entry strategy that can be used. When the market is consolidating (lower volatility, tighter range) the Initial Trend reading with be one to three bars and the 34EMA Wave will be flat and moving sideways. When the volatility increases and the range is wider, a four to five bar Initial Trend reading will accompany the pattern alert and the 34 EMA Wave will be more eratic while moving sideways appearing bumpy.

The pattern that commonly emerges from a non-trending market is a Triangle. This pattern is the culmination of an up and downtrend line intersection (symmetrical), a horizontal resistance level and uptrend line (ascending) or a horizontal support line and a downtrend line (descending). These patterns can begin their development in a wide, more volatile range which is known as the distribution market phase. It can be identified by a four or five bar Initial Trend reading. As the range narrows, the volatility can also decrease. This is due to the pattern squeezing prices into narrowing range. I believe triangle patterns are self-limiting in that if prices simply continue to trade in a range, the pattern will be broken.



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Ideally, however, I believe momentum should accompany the breakout or breakdown, this means that the sentiment must transition from neutral to either bullish or bearish and turn into momentum at the pattern break. Without this momentum, I think there is an increased likelihood for a stall, false break, and even whipsaw. A whipsaw is when prices break through both sides of the pattern which can invalidate the pattern's usefulness.

The momentum of the pattern break can be confirmed by using a MACD Traditional Histogram and measured with the Breakout reading that accompanies a Completed Pattern alert. The confirmation of a strong move to the upside would be a positive MACD Histogram reading and a six-bar or greater

Breakout. For a move lower, I would look for the same six-bar or greater Breakout and a negative MACD Traditional Histogram reading.

Rectangle patterns - while not as common - are also non-trending patterns that will offer opportunities for both momentum entries and distribution fade entries. Momentum entries are the culmination of an organized sentiment carry prices outside the boundary of the pattern. Conversely, a fade (distribution fade) is an entry where price action exhausts at the pattern's support or resistance, keeping the prices within the pattern's range. The exhaustion is due to the support or resistance level having enough buying support or selling pressure to keep prices from finding momentum. The market environment this congestion occurs within is known as distribution. The quiet, sideways range ideal for momentum breakouts and breakdowns is known as accumulation.

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If a Rectangle alerts with a four to five bar Initial Trend reading and the pattern's range is wider than the typical consolidation for the market, I would look for prices to exhaust and remain within the pattern. Therefore, the support of the pattern may be bought while the resistance of the pattern may be sold short. I recommend using a Stochastics (21 period) to confirm when a wide range is nearing overbought or oversold. The Breakout reading is also important if prices manage to pierce the support or resistance of the range. If the Breakout reading is higher (six bars or greater) there may be some follow-through rather than exhaustion so beware of momentum increasing the risk of the entry.

Chart Pattern Trading: Trending Patterns

Most traders believe that if a trending pattern has alerted, the market is indeed in a trend. In my opinion, this is not necessarily the case since trending pattern can and do emerge in non-trending market environments. Consider that chart patterns are simply the culmination of trendlines, support, and resistance. I believe it is very important that the first step of all pattern analysis begin with a simple question:

What market environment is this pattern developing (Emerging) or triggering (Completed) in?

Trending markets offer one of three entry scenarios regardless of whether the pattern is a Wedge or Channel. A trend can continue, correct, or reverse; which of the three has the potential to most likely occur depends upon the strength of the trend. Trend strength can be measured with the Initial Trend reading. A trend is confirmed with a minimum six-bar reading. The Initial Trend has a maximum of ten bars and therefore a ten-bar reading would be the strongest trend. When the Initial Trend is six to seven bars, I would expect a correction and possibly a reversal due to the weakness of the trend. A correction of the trend could be a pullback in an uptrend and a bounce in a downtrend. If the Initial Trend reading is nine to ten bars, I believe there is less chance of a correction and a greater likelihood for a continuation. An eight bar reading can lead to either scenario, and for me, even if the Initial Trend is six or seven bars a continuation may occur--just as a nine or ten bar reading can still correct. These are simply likelihoods and I believe all three scenarios (continuation, correction, or reversal) should be considered.

When using the 34EMA Wave, an uptrend is a “twelve to two o’clock” angle of the moving averages and if the GRaB plug-in is being utilized, the candle will plot predominantly green. A downtrend could be a “four to six o’clock” angle with red GRaB candles. The GRaB differentiates up and down closes with the traditional shaded and hollow candles. Upon pullbacks or bounces (corrections), the GRaB will often transition to a blue (neutral) candle as prices trade into the 34EMA Wave.

There are two uptrending pattern alerts: Rising Wedge and Channel Up, and two downtrending pattern alerts: Falling Wedge and Channel Down. First let’s discuss the difference between Wedge and Channels.

Both the Rising Wedge and Channel Up pattern are made up of two uptrend lines. The difference simply is that with a Channel, the lines are parallel and with a Wedge they lean slightly in towards one another to create more of an angular shape. In the case of the Falling Wedge and Channel Down, the patterns are then of course made up of downtrend lines, parallel for the Channel, slightly angled in to one another for the Wedge. This also makes Wedges a self-limiting pattern much like a Triangle therefore the momentum behind a Wedge break is very important to measure especially if the trend is weaker.

The “backbone” of a trending pattern I believe is the most important line in a Wedge or Channel pattern. Two of the three entry types rely on the reaction at the backbone to determine the entry. In my opinion, the validity of the trend will sometimes rest on the backbone. For an uptrending pattern, the backbone is the uptrend line support while for a downtrending pattern it is the downtrend line resistance. Consider that an uptrend is validated by higher lows (support) while a downtrend requires lowers highs (resistance). When setting up a correction entry in an uptrend, prices must remain above the lower line of the pattern, while in a downtrend prices must remain below the higher line of the pattern.

I believe consideration must be given to the underlying Initial Trend reading when confirming the potential for follow-through when a pattern continues or reverses. Buying into a pullback or shorting into bounce is essentially a trend following entry, and therefore can be executed anytime there is at least a six-bar or greater Initial Trend. However reversals and continuations need a specific market environment for the best chance to follow through. Let's define each, from my perspective. A continuation occurs when an uptrending pattern rallies through the resistance of a Rising Wedge or Channel Up. This is a very bullish move and requires momentum and a strong underlying trend; therefore look for a strong Breakout reading to accompany this type of pattern breakout as well as a high Initial Trend reading.

Reversals rely on the sentiment shifting and accelerating in the opposite direction therefore a weaker trend is ideal but a strong show of momentum in the opposite direction is required therefore look for a high Breakout reading if trading a trending pattern reversal. In fact the higher the Initial Trend reading, the higher the Breakout reading must be to confirm the potential for follow-through after the pattern reversal.

* * * *

ENTERING A TRANSITION PERIOD

Since the first week of September, I believe the trends - especially on the 240-minute time frames - were headed strongly higher or lower with reliable corrections that helped set up swing trades. The most recent price action indicates to me that this time frame has transitioned to a more sideways market phase. Now, congestion can be confirmed by the support and resistance levels containing price action, as well as the GRaB candles now plotting more blue indicating a more neutral market as opposed to the dominance of the green in the uptrend on the EUR/USD and the red on the USD/CHF.

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EUR/USD 240-minute with IBFX-GRaB plug-in

In fact, in my opinion, the 240-minute USD/CHF (below) has begun to slowly climb higher as indicated by price action making higher lows, trading above the 34EMA Wave and plotting a majority of green GRaB candles as a result.

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USD/CHF 240-minute with IBFX-GRaB plug-in

I believe the importance of noting this transition comes from that fact that now swing trades taken in the direction of the previous trend is no longer a valid entry strategy on the 240-minute. After nearly six weeks of this approach, in my opinion it is often difficult to switch gears when these changes occur in price action.

For me Thus far, following the transition of the U.S. Dollar to a more range-bound price movement last week, there is a lack of clarity in market stages in most of the dollar-correlated pairs. For example, despite the fact that the downtrend on the U.S. Dollar is intact, the lack of lower lows has many dollar bears questioning whether the U.S. Dollar is not ready to transition into distribution between 76.33 and 78.61. This has created some confusion or at very least a lack of organized sentiment on many intraday charts.

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Once the market phase enters what I call a “two to four o’clock” 34EMA Wave angle, it is known as distribution. To me, Distribution is characterized by a wider, less predictable, sideways range. Prices tend to exhaust in distribution at recent floors and ceilings, yet because of the wider range it can often be too difficult to pinpoint where the market will likely be overbought or oversold. I believe it is useful to employ a Stochastics indicator (I prefer the slower 21, 1, 3 setting) to confirm the levels and therefore the potential entry.

Here is an example of the AUD/USD on the 240-minute time frame coming off an overbought (over 80) reading on the 21, 1, 3 Stochastics as prices exhausted and reversed within the resistance area of the range. Notice however that price action had a range between 0.9938 to the low side and 1.0019 to the high side with resistance also below the parity level between 0.9991 and 0.9992. This is a wide range within which the AUD/USD could exhaust and makes the overbought reading on the Stochastic very necessary to confirm where the short sell could be entered.

In my opinion, adjusting to this new range-bound reality will be a shift that could be necessary for the near-term as the U.S. Dollar begins to lose consistent selling momentum and continues on in a distribution market phase. I believe a lack of clarity from the dollar means disorganized sentiment, a lack of organized momentum (volatility), and therefore no clear trends.

How does the daily time frame factor into intraday entries?

A little background: The daily time frame was where I began my trading career back when I was predominantly a futures and stock trader. This was back in the early and mid-90’s when I know little to nothing about what the foreign exchange was. I have traded currencies but I was not trading spot until 1999-2000. It was my opinion then as it is now, that the spot offered me more liquidity throughout the day and therefore better risk management. That’s why I’m still trading

it today alongside my "forex market pulse" futures contracts. Much of what I share here is a direct result of my nearly 20-years of futures analysis and trading as I truly feel that understanding how forex and futures work together will offer an distinct edge in your forex entries. Another advantage, I believe, is understanding the price movement of the most psychologically significant time frame, the daily or "end of day" chart.

When I first began trading, all I had access to were daily chart. My charts were mailed to me once a week, arriving on Monday, and I would update these by hand until the next set of charts arrived in my mailbox the following Monday. This is before the internet…and before I began trading spot forex.

The daily charts were a slower paced trading and analysis. My indicators were simple to calculate as they had to be because I didn't want to be burdened with time-consuming, manual calculations. PC-based, real-time charting platforms really didn't exist unless you subscribed to a satellite-feed or direct-feed like Bloomberg. They were very expensive and frankly I didn't have the skill set early on deal with a live, intraday price feed. I was updating charts by hand for the first three to four years of my trading - this was while I was in high school and college. Using exclusively daily charts allowed me to take my time with my analysis and gave me a tremendous "hands-on" feel for price action without the inclusion of indicators. I was looking for the tried-and-true basics: trendlines, support, resistance, and chart patterns and eventually Fibonacci Retracements. These habits haven't left me nor has my dependence of the psychology of the daily chart.

Consider that the daily is the time frame that most market observers will use to gauge the sentiment, momentum, and trend. Because of this, the "overall", most generally accepted opinion will be consistently that of the daily and it's my job then to determine the market trend of this time frame before I enter intraday trades. (The five-minute is the only exception to this because it is so short-term.)

The daily offers a directional bias. The 34EMA Wave can easily be used within a one-year market memory or "lookback" to determine whether the dominant psychology is bullish, bearish, or neutral. I find that when the daily is clearly in a mark-up (uptrend) or mark down (downtrend) phase that it's easier to position my entries in a way that is working with the daily's trend versus when there is little clarity about the market when the daily moving in a sideways range (either accumulation or distribution).

My first step then is always to assess the direction of the daily chart. For example, currently I am seeing many traders getting whipped around by the AUD/USD, USD/CHF, and USD/JPY mainly because these pairs are in a sideways range on the daily.

When the daily chart is not offering a clear-cut view of a market trend (up or down) I will often react by focusing on the shorter-term five and 15-minute time frames or simply move onto a pair that has a trend on the daily. Examples of trending daily charts right now are the EUR/USD, EUR/CAD, EUR/GBP, EUR/CHF while the GBP/USD and CAD/JPY are borderline. Notice that the majority of the pairs in trends are not correlated to the U.S. Dollar.

Using the daily chart's "Directional Bias": EUR/USD

With the downtrend on the EUR/USD still intact as the 34EMA Wave travels downward at “four to six o’clock”, I can see the directional bias is bearish. Using my GRaB candles I can confirm bearish sentiment and momentum - but within the context of a downtrend that’s pretty easy for me. However, what about the sentiment, momentum, and trend intraday?

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The EUR/USD’s daily chart tells me that I would prefer to look for opportunities to be short on the 15, 30, 60, and 240-minute time frames if there is a set up and trigger. (I believe the five-minute chart is the only exception. Because it is such a short-term time frame, reflecting the very near-term psychology, I don’t mind being in trades that are going against the daily’s up or downtrend.) The bias I have for trades capitalizing on the euro weakness versus the dollar has other reasons to be valid. The U.S. Dollar’s stability above the 34EMA Wave on its daily is certainly a strong justification.

The U.S. Dollar may not be surging higher from the recent bounce off the Wave from December 3 and 6, but the fact that prices are maintaining support above 80.00 - a major psychological level – I believe is very important. In fact, yesterday’s test of the 80.00 level with an 80.05 low shows that buyers were willing to get bullish and step in front of the “00” to support the move lower. In my opinion, that’s the sort of confirmation of support that proves a price is truly a decision level.

The five-minute chart has been moving lower at a “four to six o‘clock” angle. This sets up Between the Greens shorts within the area inside the 13 and 21 period EMA on the close.

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The Between the Greens set up chart (above) has the 13, 21, 34, and 55 period EMAs on the close.

Looking out to longer time frames, the 240-minute chart had been a consolidation with a flat 34EMA Wave as the EUR/USD traded in a narrow, sideways range. In this market environment, I would wait for a breakout or breakdown through a chart pattern like a rectangle or triangle. I would use the MACD Histogram to confirm the momentum through the pattern. However, I don't want to ignore the "overall" psychology of the daily which is bearish.

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The 240-minute chart has two symmetrical triangles which area setting up a momentum entry if the up or downtrend line can be broken. I will be aggressive with a breakout through uptrend line support than a break higher - again due to the directional bias of the daily.

Because of the daily's trend I will continue to be more comfortable positioning my entries as short sells at breaks of support or against resistance. However, due to the U.S. Dollar's tight trading range over the prior two sessions, follow-through will likely be a problem. And that will bring me back to the five and 15-minute time frames.

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Notice the 15-minute's downtrend (mark down phase). I believe this will open the door to swing shorts along the resistance of the 34EMA Wave. I would look for opportunities to short into corrections higher on this time frame and keep in mind that 80.80 is resistance on the U.S. Dollar and this is translating into 1.3180 to 1.3162 support on the intraday EUR/USD.

* * * *

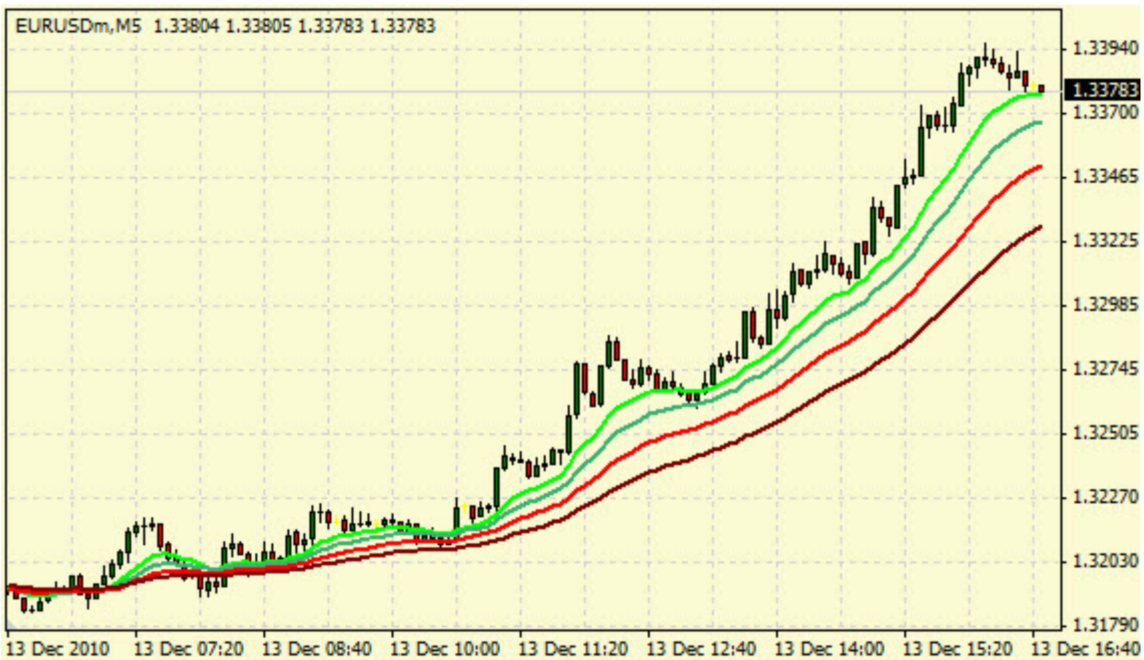
TAKING ADVANTAGE OF THE DOLLAR'S INTRADAY CORRECTION

The U.S. Dollar's weakness today is setting up plenty of short-term time frame trend-following opportunities on the five and 15-minute time frames. In my opinion, the sharp move lower is apparent on the daily chart as a correction of the daily's weak and new uptrend. I also see this correction coming as the 80.80 level proved to be too much for dollar bulls.

I believe the challenge with today's trading will be not to have too high an expectation for longer-term follow-through lower as long as the daily is still maintaining an uptrend. However, I think the near-term weakness is an excellent opportunity for movement as the dollar has broken the 80.00 major psychological level.

In my opinion, the “directional bias” of the dollar daily should emphasize that the intraday correction lower should be taken with short-term time frames with the possibility that support on the daily could build between 79.90 and 79.70.

The dollar’s price action has set up numerous “Between the Greens” opportunities with the five-minute chart mark up and mark down cycles.



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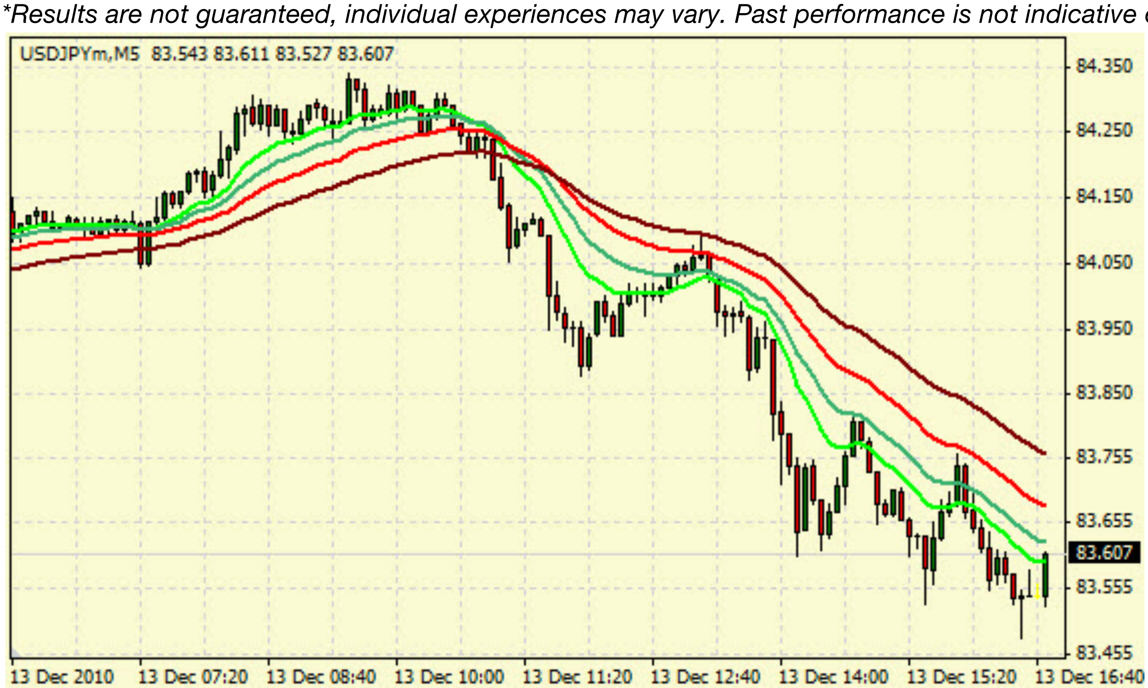

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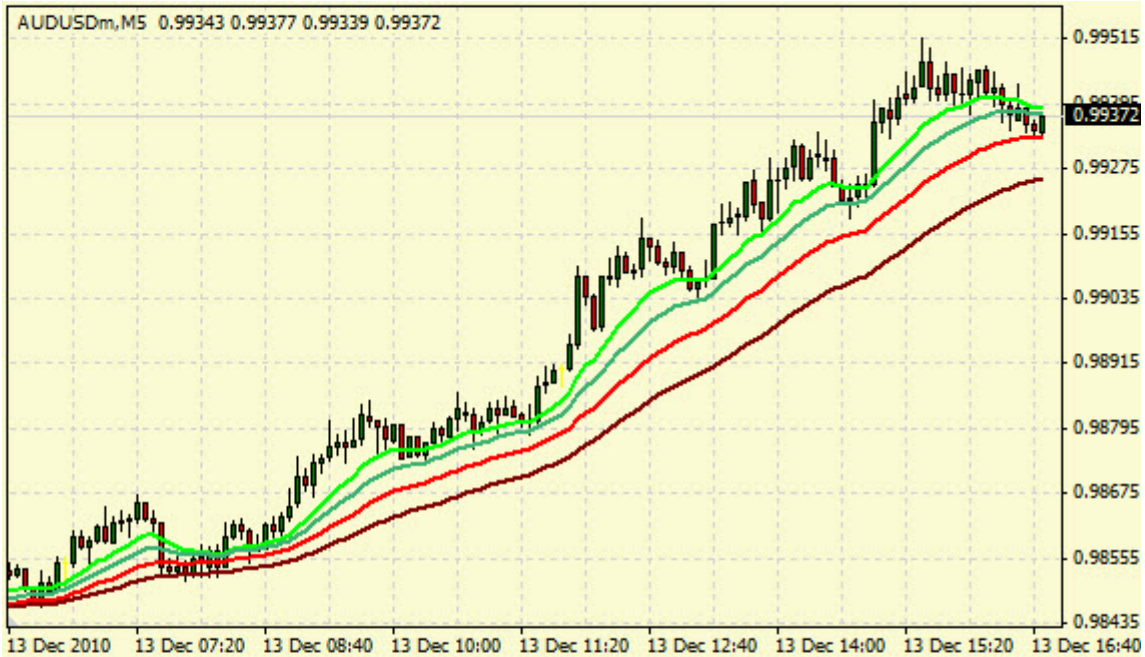

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Finding the swing zones between the 13 and 21 period EMA closes on the five minute time frames can offer short-term opportunities that will not require longer-term dollar weakness.

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DIRECTIONAL BIAS AND TRADE SELECTION

One of the main themes throughout this week for the Daily Trading Edge has been the idea of directional bias and letting the daily chart clarify the overall psychology and trend of the pair I'm trading. Furthermore, if the intraday trend on the 15, 30, 60, or 240-minute is moving against the trend of the daily, I want to 1) be aware of this and 2) make adjustments to shorter time frames to compensate for an expectation of low follow-through - even intraday – when the price movement is opposite of the daily's trend.

I believe there will also be sideways, non-trending daily phases, which have to be dealt with as well. While I prefer there to be an up or down trend on the daily, we know that is not always the case. Consider the current phases on the majors: The EUR/USD is the only daily with a clear trend (down). When the daily time frame does not have a bearish or bullish trend, consider the range and volatility of the price movement. If the range is tight and narrow which will often be a reflection of low volatility, I believe the phase is most likely accumulation. A wider, more volatile trading range will most commonly be distribution. I would prefer to avoid trading a pair, which is in accumulation on the daily or focus solely on the five-minute "Between the Greens" strategy, which will allow me to trade a narrow range but not require longer-term follow-through. Distribution on the daily can be traded intraday-- but keep in mind that before taking an intraday entry, know where price action is in relation to the high and low of the range. Examples of two markets in distribution are the daily USD/CAD and USD/JPY.

The lack of clarity on the daily is often the first sign of a market in transition. This transition is most often to the sideways volatility of distribution. Distribution phases can increase the likelihood of setting up fades (buys along ceilings and shorts along floors) on longer-term intraday charts. Consider the daily USD/JPY distribution and then the 84.20 to 84.50 resistance area on the 240-minute chart. I am not necessarily eager to enter trades on longer-term intraday time frames when I feel there is a lack of organization in sentiment, momentum, and trend but consider that a distribution fade capitalized on this lack of organization.

When a pair is trading near the floor such as the USD/CHF daily, I will look less to short entries unless they are very short term (such as a five to 15-minute). The 240-minute USD/CHF was in a clear mark down phase however since the daily was trading near the bottom of the distribution range, shorts are limited in there follow-through as the buying support builds as prices approach the floor. Instead the 15 and 30-minute mark up phases (uptrends) were more advantageous and set up swing buys that had the added benefit of being shorter-term trades. This is especially helpful on a Friday.

I would consider the daily directional bias as the ultimate trade selection filter.

Learning to Identify Distribution Ranges and Capitalizing on Exhaustion

The idea behind identifying which of four market trends price action has created - for me - has been the key to strategy selection. I know a lot of traders are usually focused on simply trade selection: i.e. How do I enter a trade using a specific strategy. But how do most traders determine WHICH strategy to use? That's always been my #1 curiosity. Why we choose one strategy over another. For the most part, I have observed over the course of two decades and thousands of traders that the process is often random or determined by time. I found this unusual and curious because time - specifically time of entry - is a factor I will consider for follow-through and volatility but not necessarily in DEFINING what my trading strategy should be. In other words, how many of you have heard that "swing trading" is a trade that lasts three to five days? As if the time in the trade defines the entry type. In all respect, I personally find this definition absurd. The idea for swing trading in my mind is first and foremost identifying a trend and then waiting for the "swings" which define as corrections, Fibonacci or otherwise.

Let's examine a trading entry I have been talking about for the last couple of weeks and that is taking advantage of a volatile, sideways trading range also known as "distribution". Distribution could more simply be called confusion, just as a trend could be the organization and continuation of fear or greed. I am constantly asking myself- what is a specific time frame reflecting: Fear? Greed? Boredom? Confusion? These are the four market trends. Downtrend. Uptrend. Accumulation. Distribution. There are three specific characteristics I analyze: sentiment, momentum, and trend. In my opinion, if there is an organized sentiment is can become momentum, and if momentum continued it can transition into a trend.

As I define it, distribution is the lack of a trend and is a range in which sentiment and momentum shift (and possibly reverse) as the ceiling or floor of the range is reached.

I identify this market type or phase (or stage) with my 34EMA Wave moving at “two to four o’clock”. Often this angle is easier to identify by what is NOT, which means that the market is not steep enough to be a trend and not flat enough to be accumulation. What you’re left with then is the confusion and exhaustion of distribution which is ideal to take advantage of by identifying where the market is oversold and overbought. I also use - in addition to the 34EMA Wave - a Stochastic set at 21, 1, 3 which is a rather slow and smooth setting which better filters out when the market is not at an extreme (over 80 or under 20) level.

Examples of pairs that are in distribution right now where I am looking for opportunities to capitalize on exhaustion are the daily AUD/USD along 1.0000 (parity) as well as the daily USD/CAD along parity. The daily USD/JPY also has an exhaustion ceiling between 84.20 and 84.50 within which a fade (short sell) can be entered if the Stochastic is reading above 80. While these three examples are on the daily, I will fade any time frames I usually watch with the exception of the five minute.

Identify and Setting Up Trend-Following Entries

Trend-following can be one of the most difficult entries to set up because there are so many ways to identify a trend. The indicators, time frames, as well as the length of the trend can all be determined differently and therefore the leads to subjectivity. Consider that for many traders there are two options for entry when entering a trending market: continuation or correction. The continuation of a trend - for me - means that I am watching for support in a downtrend or resistance in an uptrend to be broken. This entry can be very similar to momentum trading in that a breakout or breakdown is what will trigger the entry. Let me also add that that trading a trend in this manner is my least favorite way to do so. I would rather not be dependent on a higher high or lower low for an entry within the context of a trend.

A trending market is defined by my 34EMA Wave travelling at either “twelve to two o’clock” or “four to six o’clock”. For many traders an uptrend is a series of higher highs and higher lows. I am more focused on the higher lows since this is the backbone or support of the move higher; it’s where the buyers are supporting price. Alternatively, a downtrend’s backbone is the series of lower highs or resistance. This selling pressure maintains that there is a negative bias when prices attempt to trade higher or correct. While the lower lows in a downtrend are important, I think their value lies in the importance they have in the continuation of the trend and the negative sentiment and momentum. The same is said of higher highs within the context of an uptrend. It’s really about the sentiment and who has the power. But do not neglect the backbone because that is where the validity of the trend is tested.

I feel the best opportunity for trend-following entries - what I call swing trades - are when a trend corrects. The trend must have the 34EMA Wave confirm the market direction and I would prefer that if I am trading an intraday time frame, that the entry be in line with the directional bias of the daily. The patience and trust that a trend will correct may be the most difficult aspect of swing trading because when a market is pressing lower or pushing higher it’s very difficult to sit and wait for price to come back to you. However it’s been my opinion that healthy trends correct. A correction is the SWING and it's the moment that I feel the market is giving me an opportunity to jump in on the next leg of the trend. It's important that I assess the angle of the Wave at the moment of entry and that prices respect the support of the Wave. That means in an uptrend, the 34 period EMA on the high, low, and close act as an area of dynamic support and in a downtrend act as an area of dynamic resistance.

There are three criteria I look for in my 34EMA Wave for confirmation of a healthy trend and a clear reading of the 34EMA Wave, these are my CLARITY readings. First there must be a clear clock angle. If there is ever a question about whether or not a Wave angle is "twelve to two" or "four to six", move on to another time frame or pair for a better reading. Once a solid reading is found, look for whether the lines of the three EMAs are smooth. This reflects organized price action and minimal "noise". Next look for how long or "established" the Wave has been in this particular clock angle. The final criteria applies to trending markets only and that is IF there has been a correction, has the dynamic support or resistance of the Wave been respected. While I do like to enter trending markets on corrections to the 34EMA Wave itself there are two other alternative I will often watch as well. These are Fibonacci Retracements and Psychological Numbers. Recent or near-term highs and lows can also be used but be sure that the correction is sizable enough to present exhaustion at that price point

Remember the entry itself may feel somewhat contrarian but the approach is trend-following 100%.

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MY ENTRY PROCESS DESCRIBED: DECIDE

This is the time of year that I like to take some of my favorite trading books off the shelf and also find a few new "classics". I am re-reading one of my favorite non-trading, trading books which is to say it's a book that has nothing to do with trading techniques but helps my trading process none-the-less. It's written by a Navy SEAL names Richard J. Machowicz and it's called "Unleash the Warrior Within". The book it a fast and entertaining read about one man's journey as an undersized Navy SEAL and how he overcame is limitations. In the book he outlines and discusses his "Four Critical Keys to Overcoming Anything" that he has as acronym for, ACTE. If you are looking to build a trading plan, or perhaps searching for ways to tweak and improve this 189 page book for you.

It reminds me of an acronym I use and developed when I was teaching myself to trade: DECIDE. Now this was designed to keep me on track and also to prevent me from overlooking aspects of the trade that "newbies" tend to leap past in the all-out excitement of entering a trade.

DECIDE, my three C's and my three R's are still all tools I use to this day, some twenty years into my trading. DECIDE stands for Direction, Entry, Chart, Investigate, Deal, and Exits. The first step, Direction, includes something that I have been covering a great deal as of late which is Directional Bias. Direction also reminds me that each time frame can have its own specific market trend (or phase) and that I must identify this first. The second step, Entry, can only be determined AFTER I know the Directional Bias and market trend since the underlying psychology of the market is what I use to choose which entry is most effective in a specific environment. (e.g. trending market = swing trading or Wave reversal)

The third step, Chart, brings me to specific price levels, price patterns, and other tools that I will use on the price chart. It's the chart itself that I watch for my entry and confirmation, not news. That doesn't mean I ignore fundamentals. In fact, the next step, Investigate, is to make sure that I respect the data releases, speeches, and other events on the calendar that I call "hot zones". These hot zones can increase the volatility of the market and I must be aware of what "stories" and data the market is considering and reacting to aka discounting.

Deal, the fifth step brings me to my order entry platform and I consider what orders I can proactively place as limit or stop orders so that my trading plan is ready to be sprung like a trap for price movement. *(*Results are not guaranteed, individual experiences may vary. Past performance is not indicative of future results.)* I can't always do this and sometimes I must wait but I am always considering how and when I can park an order to keep me from having to depend upon watching the right chart at the right time and using market orders. Sometimes just a few moments of distraction - a ringing cell phone or a knock on my office door - can take my eye off the chart and I can miss a crucial entry (or exit) so I want to have as much ready as possible to prevent this. Speaking of orders, do not forget your Exits, the sixth and final step. Exits are both profit target and stop losses. I want to have both these prices written down at the very least. I will admit that I do not always have my stop order live, and that after all these years I do have the discipline for mental stops but I have never been one to say that a stop order is always best to have waiting in the market. There are occasions I have outlined in my first book and also taught for nearly 15 years, that include what I call "time-based stops" and these are used around economic releases. I call them "60 second stops" although very rarely they can be extended to three to five minutes. Of course this is only for advanced traders with the risk tolerance and capital to take (sometimes) significant losses! I believe that trading around economic releases always involves higher risk. *(*Results are not guaranteed, individual experiences may vary. Past performance is not indicative of future results.)*

Between now and the New Year I will be outlining discussing DECIDE, my three R's and Three C's. It's a perfect time to review these ideas as we prepare for next year.

* * * *

THE PSYCHOLOGY OF TRADING: THE THREE C'S

I'm not a psychologist - but having ridden the market-driven rollercoaster for most of my adult life, I'm familiar with its ups and downs. To this day I still get a slight adrenaline rush when I get into a trade. It may sound funny since we're supposed to be "emotionless," but I'm not a Vulcan and I still know what a losing trade feels like, especially when I have broken my trading rules. Winners of course still feel good but I try to stay as even keel about those as I do about my losers. If I get over-happy about winners and pendulum swings both ways and I will feel worse-than-need-be about my losers. Maybe “emotionless” is not the goal, but even-keeled. I do know that my most valuable capital is my own confidence, my judgment, my analysis, and my tools.

That brings me to the Three C’s: Comprehension + Confirmation = Confidence.

It’s the only formula that has ever applied to me and therefore it’s the view of trading psychology that I have always followed.

There are two view of psychology that I keep: One is external or the psychology of the market. It can be defined by one of four market trend phases: Accumulation, Distribution, Mark Up and Mark Down. I use my 34EMA Wave to identify these. But again, this is external or market psychology. I have always felt that if I can get my OWN (inner) psychology out of the equitation I can see/hear the message of the market. Inner psychology is important, but only in that I need to clear my own mind (and demons!), in order to effectively trade the market

Inner psychology is the process by which I pick my strategies and tools, learn them, and apply them. If I can do this confidently then I have a chance at being a trader. The confidence I seek and am so protective of must be earned and the Three C’s describes this process. Skip a step and eventually the weakness in your inner psychology will interfere with your analysis of market (external) psychology.

I believe comprehension is the first step. As myopic as it may be for me to bring up, we must understand the process and tools we are using. It’s no surprise that automation is popular - it’s a luxury that can be extremely helpful however it can also be a crutch for those traders who have lost confidence in their tools and in themselves. Automation’s goal should not be to take the “us” of the process but rather inject an unbiased and less emotional version of “us” into the process. I believe that’s why successful system traders know that it’s about finding the right approach that would mimic what they could or would do if they never were limited by two eyes, two hands, and the need to sleep. In my opinion, far too many traders skip the learning process. They never gain enough knowledge to understand thoroughly what the strategy is designed to do.

I believe prematurely jumping to Confirmation is always a disaster waiting to happen. Confirmation is when we test of what we “know” and see if it “works”. This is often done using a demo or with a mini account. Frankly, and this is only my opinion, I do not see value in demo trading beyond understanding how to use the platform that we are demo-ing. Unless we have real money on the line, we learn nothing. That can be done effectively with a mini-account. Confirmation is where we see and feel how the market behaves. We take our first nervous trades with a new approach or platform, hope for the best, prepare for the worst and see how it turns out. If things go well, we begin to gain confidence. It’s process of observation and time. I don’t think there is no short-cut to Confidence. New traders tend to gain it quickly simply out of enthusiasm and naiveté and traders who have experienced painful or numerous losses tend to gain confidence slowly because they have lost confidence already and building it back is not easy. Confidence is best built over time by winning trades and using discipline to follow the trading plan - especially when it comes to taking losses.

I believe confidence is not something we do but rather something we earn or discover after the Comprehension and Confirmation process and every trader takes their own time to get there. There is no set time or approach. Without a solid foundation of understanding the trading tools and process and without testing it out, there can be setbacks. You can lose your Confidence but since it can be "re-built" with the first two C's keep in mind that you must follow this process in order to protect the most valuable asset you have.

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MARKET PSYCHOLOGY AND ENTRIES

For me, the idea behind every entry should be how you expect price action to react at support and resistance levels. From my experience in teaching and observing traders all over the world, it's not the difference in what we consider a support or resistance level that separates traders. Remember that in a zero-sum game there is a buy at every sell and a sell at every buy…someone has to take the other side of the trade.

I believe the difference between what goes in my head (internal psychology) and what the market is reflecting (external or market psychology) is where the greatest challenge lies for most traders (and investors for that matter). I am never more "right" than the market and the market is never wrong. Get the idea out of your head now that the market is wrong…or right…I don't believe it's either. In my opinion, it's simple and is too large to be argued with. The market is an overall collection of opinion. Keep in mind that it's our job as traders is to identify that opinion - you could also call it psychology - and with this you will never forget what your goal is.

The market can have differing opinions in the short and long term which is why I will look for market trends individually across each time frame that I will potentially trade. Understanding the market trend or phase on each time frame is market psychology. I want to identify where the psychology is most clear and that translates into which time frame has the most clarity in my 34EMA Wave "clock angle" reading.

For example, today the EUR/USD has transitioned into a more sideways, neutral market trend after the dollar plunged through the support of the Wave on the daily chart. This in turn changed my analysis of the directional bias of the dollar. Most of my entries were based upon dollar strength but now there is a change that the dollar will be neutral and that means the bullish bias the dollar has had is no longer applicable.

As I can see it, the GRaB indicator had been dominated by red GRaB candles which reflected bearish sentiment and momentum. The four to six o'clock angle of my 34EMA Wave confirmed the downtrend. Now that there is green and blue on the daily EUR/USD, the GRaB is signaling a slightly bullish but mainly neutral market trend. If this holds for the remainder of the week, I believe this could change everything.

The daily is in transition and in my opinion transitional markets are seldom (usually never) going to be the clearest in terms of market psychology. So while I must respect the shift in directional bias, I am likely not going to set up trades based upon this time frame.

Currently, the best CLARITY in my opinion is coming from the 240-minuite chart. This time frame has a twelve to two o'clock angle as well as all the criteria I would look in term of the CHARACTERISTICS I WANT FOR CLARITY: A smooth set of moving averages, respect (support) on the recent pullback, and it's also established in terms of how long the Wave has been trending higher at twelve to two o'clock. The GRaB candles are solidly green and this is also a bullish sign. Because of this, my entry will be based upon further support on pullbacks and buying into that support. I am trend-following because there is a trend on the 240-minute chart and I am buying into support because I feel that due of the trend, buyers will support pullbacks. In my opinion the swing buy is no longer an entry that would be contrary to the directional bias of the daily because the daily is now neutral.

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MARKET PSYCHOLOGY AND TRIAGE

It's probably fair to say that market psychology (EXTERNAL market psychology to be specific) and market trends are one and the same. I believe the challenge is to find a way to identify what the psychology is. There are two concerns I have here and that is first: What is the overall psychology? That is to say what is dominating the market and the one that is most accepted or followed? The second concern is specific to the time frames I watch. Since I use the daily chart to determine the overall Directional Bias of the market, the intraday time frames could often be moving with or against that bias. In my opinion, it's important to differentiate and respect. I think being able to differentiate is needed because without understanding that near-term trends could be very different than the market trend (also called a phase), it could be commonplace to enter trades that are not in harmony with the trend of the specific time frame. Consider that if you enter a trade on the 15-minute chart. You are analyzing and trading based upon the 15-minute psychology. It's shorter-term in nature compared to the daily, and could be heading lower on a day when the overall trend (as seen on the daily) is still up. In other words, on retracements or corrections of a trend, intraday time frames could be heading in the opposite direction of the daily. I need to know the Directional Bias so that I don't ignore the fact that the bulls may step in to support a pullback or that bears may create selling pressure at a ceiling. I want to know this because intraday time frames can often act as if they are not affected by this…but that is simply not the case.

Does this mean that I will not short an intraday time frame when the daily chart is in an uptrend? No, but it does mean that I will prefer to do so - if there is a set up - on a shorter-term time frame like the five or 15-minute charts. These shorter-term time frames require less long-term organization of sentiment and momentum to follow-through since the psychology they reflect is relatively short.

A current example of a bullish market is the AUD/USD. While I do feel that there is a strong argument for saying that the daily has transitioned into a distribution market trend or phase, there previous rally to the current heights still reflects strong bullish sentiment. The angle of the 34EMA Wave maintains a shallow two o'clock angle and the GRaB indicator is plotting the candles green. However, today's pullback can be seen clearly on the 15, 30, and 60-minute charts as a "four to six o'clock" angle on the 34EMA Wave. To me, this means that the trend is down and bounces into resistance would set up swing shorts along the dynamic resistance of the Wave initially at the 34 period EMA low. I would prefer to enter these shorts on shorter-term time frames like the five-minute for "Between the Greens" shorts, or the 15-minute for swing shorts. The 30-minute chart is often a judgment call. While it is not longer-term it's not quite short-term either so the CLARITY of the Wave for the set up must be strong.

The process of comparing each time frame in a specific market is what I call triage. I am sorting and prioritizing the potential set ups by analyzing first the clarity of the market psychology as reflected on that time frame. In other words, without a clear market trend, what's the point in setting up a trade? The market trend will dictate not only IF I should trade a particular time frame but also HOW I will trade it. For me, this is what it means to RESPECT the psychology of each time frame.

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MARKET PSYCHOLOGY AND MY FOREX MARKET PULSE

The idea behind my Forex Market Pulse initially was driven by the fact that I have been an active futures trader since just after I graduated college. I'd been involved in the market since high school, albeit in a slower, smaller way. After college I got my hands on intraday data and took charting seriously and in an effort to keep from getting a "real" job I dove head-first into becoming a trader: "Act as if it is impossible to fail". I had all this charting experience and knowledge about the equities index contracts, the U.S. Dollar, crude oil, and bonds. When I began to add forex to the mix it didn't take long for me to see the correlations.

My Forex Market Pulse is simply an extension of my futures trading and also gives me a look inside what could be driving the U.S. Dollar and therefore how other currencies will be reacting to its strength or weakness. Additionally, commodity currencies or "comm dolls" can be more effectively analyzed by understating where gold, crude, and the continuous commodity index are going.

Each day is a new look at risk appetite versus aversion: Are traders and investors willing to take risk in potentially higher yielding assets (equities) or are they fearful - which means they will seek the shelter of U.S. Dollars. There has been a surge in the dollar since it's bottomed out last November. The 75.23 low was the nudge the bulls needed and the dollar has steadily gained since then. Most recently however the uptrend has transitioned into a more sideways market trend (or phase) and this means that there will likely be more back and forth between the bulls and bears as prices bounce along support at 79.00 and selling pressure between 81.00 and 81.50.

I focus on futures, my Forex Market Pulse charts, before I even begin to consider what I will do in the forex - which centers on the popular dollar-correlated pairs like the EUR/USD, USD/JPY, AUD/USD and USD/CAD. In fact unless I am trading primarily cross-rates (e.g. EUR/JPY, GBP/JPY, EUR/CAD) my focus is on what is driving the market, the dollar or the Dow.

I find that the Dow Jones Industrial Average is the most psychologically relevant of the equities index contracts I trade and watch. I think this is because most people are acutely aware of where the Dow is and because of this, trends tend to be clearer and follow-through better. Understanding whether it's risk appetite (strong Dow) or risk aversion (strong dollar) can be difficult because since 2008, the Dow and dollar have had an inverse correlation to one another.

I'll look to a supporting cast of "characters" to help me determine what the driver of the market is…and by the way it can change throughout the day although that is not too common. I will use cues like the trend in crude and commodities in general. If the Dow is strong, commodities should increase in value along with it. When the Dow is strong, often the dollar is weak and this creates strength in commodities. If there is strength in the Dow and risk appetite rules, look for the yen to be sold. When the yen is sold (stronger USD/JPY) that means that the "carry" is active and the yen is being sold (borrowed) to fund the purchase of higher yielding (but potentially riskier) assets.

One of my expectations for the coming weeks is that much of the end-of-year window dressing in equities (which could be the reason for some of the gains in December) will unwind. That means a pullback but not necessarily a reversal of the daily uptrend on the Dow. This will allow the U.S. Dollar to rally putting further pressure on the EUR/USD and causing the USD/JPY to exhaust between 83.50 and 84.00. The Dow pullback and dollar strength could also pressure commodities prices which means look for the double top on the daily AUD/USD to hold and the USD/CAD to pop back above parity.

These are but a few potential scenarios - watch the Forex Market Pulse for the cues!

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SENTIMENT + MOMENTUM = TREND

Everything I do is focused around the idea that I must identify the sentiment of the market. I believe it's the organization of sentiment that creates momentum. For me, momentum is the acceleration often seen when prices are able to trade through a key support or resistance level. I call these "decision" levels because market participants are indeed making a decision as to whether they will accelerate, stall, or reverse price direction at the certain level. The idea behind momentum is that the sentiment is organized enough to allow for more emotion to build and carry prices in a certain direction - usually the catalyst is some sort of price break. Consider that the market moves in the direction of the most stops. As these orders are hit, essentially turning them into instant market orders, the size of the move can often be considerable if there are enough orders waiting at a particular price area. I believe this is why psychological levels are such powerful decision levels. For example, think about the size (orders) waiting at "00" price levels.

If it all begins with sentiment, then the logical question to ask would be: What effects sentiment? Sentiment in a basic way can be described as bullish or bearish opinion. They are always both present in the market, however, it's the balance of these two opposing opinions that we are watching. The imbalance in sentiment to one side or the other, ORGANIZED, creates momentum. So economic events and data releases are certainly important as is the ANTICIPATION (discounting) of these events. We've already discussed that price levels create shifts in sentiment, so this means trendlines, support, resistance and moving averages like a 20, 50, or 200 simple can also affect market opinion and therefore direction.

In my opinion, watching for sentiment to organize at the decision level is how to be amongst the first to recognize momentum. If momentum in turn can build and organize, a trend is the result. A trend is simply then the organization of sentiment, turned into momentum which then builds. The building of momentum often attracts more buyers in a move higher or sellers in a move lower and thus can often feed itself.

I use GRaB candles to identify sentiment and momentum. If I am seeing a dominance of green candles I know that prices are closing above the 34 period EMA high. The green GRaB candles confirm bullish sentiment and momentum. In my opinion, it's the continuation of both that will affect the angle of my 34EMA Wave and (potentially) carry it higher to a twelve to two o'clock angle which then confirms the mark up trend. Consider the opposite: red GRaB candles. The red reflects bearish sentiment and momentum as prices close below the 34 period EMA low. The continuation of this can pull the 34EMA Wave lower to a four to six o'clock angle and confirm a mark down trend.

Consider the most powerful sentiment, momentum, and trend of the daily. This is why the Directional Bias of a pair must be considered before entering any trade. Understanding what the "overall" (daily) opinion of the market is will prevent you from swimming upstream on longer-term intraday time frames like the 60 and 240-minute charts. The five and 15-minute charts are better suited to entering trades that are not in harmony with the Directional Bias because the organization of sentiment, momentum, and trend do not need to be long-lasting to see a set up trigger into trade and follow-through. The basis of this opinion comes from understanding pip movement as it applies to the daily price ranges and how the shorter-term time frames need but a fraction of this price movement to allow for a completed trade. (A "completed" trade is one that triggers and follows through to either the stop-loss or profit target.)

I believe as traders it's our job to not only identify the support, resistance, and trendlines on a chart but determine whether these decision levels are being reacted to and HOW they are being reacted to (acceleration, stall, or reversal of price). By watching this price action we can then have a clearer picture of sentiment, momentum, and trend on any time frame.