

The Day Trade Forex System: Advanced Training Course

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Thank you for purchasing our course!

We are dedicated to your success and will help you in any way we can.
For questions, please feel free to email us at: support@daytrade forex.com

The Day Trade Forex System: Advanced Training Course

Dear Forex Trader,

Now that you've mastered the basics of Forex trading by reading our beginner's course offered at <http://www.daytrade forex.com> , you are ready for the more advanced system, offered at <http://www.daytrade forex.com/advanced.htm> . This advanced system will be explained in more detail since you've already grasped the language and the basics of forex trading.

Chapter 1

INTRODUCTION TO OUR PREFERRED BROKERAGE

Please keep in mind that we recommend using the CMS-forex Visual Trading (VT) platform and that all course material is geared towards using this platform. If you want to get the most out of our course, you might consider opening a new demo and live trading account at <http://www.cms-forex.com> .

The charting and the live data feed are FREE, the technical indicators they offer are superior, you can trade right off the charts, there are no commissions to trade, and you get 100:1 margin leverage. Plus, they offer full hedging capabilities on all open positions without using additional margin!

A. An Important Tip About Funding Your Free Demo Account:

We HIGHLY recommend that when you open your demo account, that you fund it with the same amount of money that you intend to fund your live trading account with.

The purpose of this is so that you can have the experience of trading in your demo account with the same amount of available margin that you will have in your live account.

We see no value, in fact we think it's dangerous, in starting with \$50,000 in a demo account, but then having only \$1,000 (as an example) to trade live with. Your experience of margin usage will be completely different when trading only \$1,000, etc...so why not get used to trading with the same amount from the very beginning?! This is a safety precaution intended to increase your rate of success.

There is more information about opening a live account at the end of this course.

B. Learning How To Set Up And Get The Most Out of Your Chart

You should have read the **tutorial** to learn how to set up and use the demo chart with <http://www.cms-forex.com>, our recommended trading platform.

C. Quick Tips For Setting Up Your Chart

If you can't see the colors of your indicators well because of the incompatible chart background color, change your background color by right mouse clicking anywhere on your chart, and then select Chart properties & then select Market band. Then change your Background color & Market Background color by clicking on the drop down color palette. After selecting the color background that pleases you & enables you to see the indicators well, then click on Set As Default.

Also, you can change your indicator colors by right mouse clicking on the indicator & choosing the color palette. After selecting your new color for your indicator, save your change.

Next, when setting up your chart, try using the Candlestick bar price...it gives you a red bar if there's more selling pressure and a blue bar if there's more buying pressure.

And, if you want to trade directly from the chart, at the bottom right hand corner of your chart, click on the Q. You'll get the Buy/Sell prices that you can trade from. Sell is the bid price, Buy is the Ask price if you want to set trading alerts.

Trading alerts can be set by going to the top left corner of your trading chart and clicking on Tools and then Price Alerts.

I also like to set up my chart so that the Open Position is always at the bottom of my chart. That way I can see at a glance how my trade is doing. You can trade from here also as well as put on your stops and limits.

You can save all your chart settings two ways: by clicking on File at the top left corner of your chart and then clicking on Exit, or by finding your VT logo at the bottom of your screen in the status bar and right mouse clicking and choosing Close.

Chapter 2

A QUICK REVIEW OF THE BASIC COURSE

In the beginning course, you received this website to learn about moving averages:

http://www.incrediblecharts.com/technical/moving_averages_three.htm

I'd like you to re-visit this site, and while you're in there, look at the left side and see that there are different topics of discussion. You should have read a lot of this stuff already, but if not, now's the time to dive in and get some more education. Start at the top & work your way down thru the subjects. Pay particular attention to the section on Trading Safety.

Start learning how to set your stops and trailing stops and practice using them, if you aren't already. We'll give you more detailed information about stops later in this course.

Under the section Short Term Patterns, read about Short Term Patterns.

Now look at the section Indicators A-Z. You've already learned about the Moving Averages. If you try to learn all the indicators, you'll quickly get discouraged. Instead, there are just a few that I use that will keep you out of trouble and make you more money.

The Basic course taught you to use the 10/20/50 EMA crossover pair for trading in the 15 minute chart. We still feel that this is the safest way to trade, but may not be suitable for everyone, especially those that work a full time job and can't sit at their computer for hours, monitoring their trades. Don't worry, this advanced course will give you some trading strategies for shorter and quicker trades that will enable you to spend only a few hours or even minutes trading for big profits.

Here are the indicators that were given to you in the basic course:

Bollinger Bands (BB's), MACD Histogram, Relative Strength Index (RSI), PSAR and the Slow Stochastic.

These are all fine indicators and you can continue to use any of them that you like.

Chapter 3

INTRODUCTION TO THE ADVANCED INDICATORS

Here are the indicators that the Advanced course is going to use:

- A. Various faster moving average crossover combos
- B. Bollinger Bands
- C. Chaos Awesome Oscillator
- D. Momentum or volume ROC
- E. MA of RSI
- F. Directional Movement System, also known as ADX.
- G. Stochastic RSI Oscillator (or the RSI and the Slow Stochastic set at 14,5,5)
- H. Support and Resistance

The Chaos Awesome Oscillator indicator is available only in the CMS trading platform. This one indicator is so valuable, it alone is worth the price of the course. If you have had trouble determining when to take your profit from a trade, this one indicator is all you need to solve that problem.

Chapter 4

ABOUT THE ADVANCED INDICATORS – A Basic Review

A. Moving Average Crossover Combos:

Trading signals are generated by either the price moving through a moving average or by one moving average moving through another. We are going to concentrate on moving averages that cross each other.

We use several different moving average crossover combos, and the choices you have will be determined by the time frame that you like to trade in and how early an entry and exit you feel safe and secure with.

Here are the basic crossover combos, listed from the slowest to the fastest. The slower combos are safer to use and the faster the combo, the more whipsaws you'll encounter.

9/18/50, 7/18/50, 5/18/50 and 3/18/50 and

7/11/18/50, 5/9/18/50, and 3/10/20/50

Later in this course, I'll outline the time frames they are best used in:

We like all moving averages to be EMA or Exponential Moving Average (except in The Secret Weapon which uses SMA).

Your “triggers” are the 9, 7, 5, and 3 – notice that they are the first number in all pairs.

Basically, your buy or sell signal is “triggered” when the first number in the pair crosses the second number.

For instance, in the first pair, the 9 is your trigger and when it crosses either above or below the 18, you have a buy or sell signal. If it crosses up, it's a buy signal; if it crosses down, it's a sell signal.

The 50 is the moving average (MA) long term trend line,. When the price is above this MA line, the trend is bullish (going up); when the price is below this line, the trend is bearish (going down).

The fifth, sixth, and seventh pair all have four numbers, instead of just three.

Your first number is the “trigger” and when it crosses the second number, it gives you a buy or sell signal. And when the second number crosses the third number, it's another strong signal, signaling a continuation of the trend; when the first, second or third number crosses the 50, this is indicating a very strong continuation of the movement.

For example, when the 7 crosses the 11, it's a buy or sell signal. If the 7 or 11 also crosses the 18, it's another strong signal that the movement will be continued. If any or all of them cross the 50, **especially at the same time**, it's a very strong signal of a continuation of the trend.

In all cases, the 18 is the middle Bollinger Band, that we have adjusted manually from the default setting of 20, to 18, which is a little faster. We also make it a brighter color than the two outer bands.

The “trigger” is our immediate trend line which is showing us the immediate direction or trend of the price. The second number is the short term trend and the 18 is our medium term trend lines. The 50 is our long term trend line.

In every case, you should only place a trade when the short and medium term trend lines are also going in the same direction as your immediate trend line.

For instance, if your 3 crosses up through the 7, and you want to go long, if the 7 and 18 are flat or turned down, wait to put on the trade when they also turn up.

B. Bollinger Bands:

Bollinger Bands are used to confirm trading signals. Normally from a [Momentum Indicator](#), the bands indicate overbought and oversold levels relative to a [moving average](#).

Contracting bands warn that the market is about to trend: the bands first converge into a narrow *neck*, followed by a sharp price movement. The first breakout is often a false move, preceding a strong trend in the opposite direction.

A move that starts at one band normally carries through to the other, in a ranging market.

A move outside the band indicates that the trend is strong and likely to continue - unless price quickly reverses.

A trend that hugs one band signals that the trend is strong and likely to continue. Wait for [divergence](#) on a [Momentum Indicator](#) to signal the end of a trend.

C. The Chaos Awesome Oscillator Indicator:

It is the same thing as the MACD Histogram, but it has colored bars, green and red, to indicate the changing trend.

NOTE: IF YOU AREN'T USING THE CMS VISUAL TRADING (VT) PLATFORM, YOU PROBABLY DON'T HAVE THIS INDICATOR AVAILABLE. IN THIS CASE, USE THE MACD HISTOGRAM ANYWHERE WHERE WE MENTION THE CHAOS.

The Chaos Awesome Oscillator (Chaos for short) indicates the trend.

The Chaos fluctuates around it's zero (0) line.

When the Chaos is above it's zero line, the trend is bullish.

When the Chaos is below it's zero line, the trend is bearish.

A major trend change occurs only when the Chaos crosses thru it's zero line, either up or down.

If this is accompanied by the Momentum also crossing thru it's zero line, either up or down, but in the same direction, it is confirmation of an especially strong move.

I mainly use the changing color bars for knowing when to exit my position and take profits. When the bars change color, it indicates that the present trend has

slowed and it is time to take profits.

I use it for entry ONLY if the EMA's, Momentum and Stochastic RSI Oscillator are confirming my entry.

D. The Momentum Indicator:

The Momentum indicator shows the rate of a price change. If the price change is strong, the Momentum goes up. If the price change is slowing down, it goes down. Bottoming up of this indicator may be bullish (price going up)...a drop may signal bearish (price going down). It fluctuates around its zero (0) line.

This is a current indicator, not a lagging one. The Momentum indicator is a little ahead of the RSI in terms of a current signal.

A price moving up with greater acceleration is statistically more significant than a price moving more slowly. If you want to make sure that a potential trade you're thinking about putting on has sufficient market momentum to push it up or down enough for your desired profit, then check the Momentum.

If it's flat and going straight at the zero (0) line, I'd wait until there is more momentum. If it's going down sharply below the zero line, this is a good sell signal. If it's going up sharply above the zero line, this is a good buy signal.

A refinement of the Momentum is the Volume Rate of Change (ROC). Here's a link to study it:

[http://www.incrediblecharts.com/technical/rate_of_change_\(volume\).htm](http://www.incrediblecharts.com/technical/rate_of_change_(volume).htm)

E. Moving Average of Relative Strength Index (MA of RSI):

This is an advanced indicator and combines the RSI (the faint dotted line) with the moving average of the RSI, the green and blue lines. The red and blue lines represent an average or smoothing out of the RSI and is used for confirmation of a trend or even actual entry and exit points.

F. The Directional Movement System (DMS):

This is the name that the CMS trading platform gives it, but some of you may know it as ADX or DMI (Directional Moving Indicator). The ADX is actually the thick black line in the system.

This is an indicator that is used as another confirmation of trending, either major or minor. It is an advanced indicator that takes a little more study to learn how to

best use it.

A buy signal is generated when the +DMI line (green) crosses the -DMI line (red) **to the upside** and a sell signal is generated when the -DMI line (red) crosses the +DMI line (green) **to the upside**.

In other words, whichever line, red or green is turned up and going up, that is the trend...red is for selling pressure and it means the price is coming down, that is the trend. Green is for buying pressure and it means the price is going up, that is the trend.

There is also a black line (ADX) that is used to confirm the + and – DMI indicators.

If the black line rises in the direction of the DMI that is going up, whether red or green, it is confirming the trend.

If the black line rises to 30 or 40 and then turns down, the existing trend is waning and it is time to take profits.

However, it lags behind the crossing of the DMI lines and so can't be used successfully to confirm trends in the faster time frame like the 1 minute chart.

It is best used, even in the 1 minute chart, to identify consolidation periods, when trades should not be put on. **When the black line is under both the +DMI and the -DMI, this is a stay aside signal and it is usually a consolidation period for gathering momentum.**

This indicator is optional since it's so hard to understand and use, so if it confuses you, just don't use it. I use it mainly in the slower time frames to indicate the whipsaw consolidation periods when I shouldn't be in a play.

G. The Stochastic RSI Oscillator:

The Stochastic RSI Oscillator is a combination of Stochastic and RSI. It is more accurate and less lagging than the Slow Stochastic. Like the Stochastic indicator, it shows you when the price has become overbought or oversold, and like the RSI, when the line crosses the 50 line, it is a buy or sell indicator.

Overbought is above 80, undersold is below 20. The general rule is, sell when it's overbought and coming down, and buy when it's oversold and coming up, but of course, only when the other indicators support this action.

And like the RSI, if it is coming up from the bottom, the safer time to buy is when it has hit the 50 line. If it is coming down from the top, the safer time to put on a short is when it has hit the 50 line.

The Stoch can become overbought (or oversold) and remain overbought (or oversold) for an extended period. A move above 80 may imply overbought, but it can also indicate a strong up trend and remain above 80 for a prolonged period. Conversely, a quick move below 20 could indicate the beginning of a strong downtrend. Therefore, extremely high or low readings can mean a continuation of the current trend, but not always.

H. Support and Resistance:

Simply stated, support and resistance can be defined as the price levels that the bulls and bears have agreed upon to either "catch" a stock's downward movement or the level at which the stock's upward movement will be held back.

[Another Look at Support and Resistance](#)

Areas of support and resistance form through the normal price action of buying & selling.

[Support and Resistance -- Chart School](#)

Support and resistance represent where supply and demand meet. In the financial markets, prices are driven by supply and demand.

All Indicators Work Together and Confirm Each Other:

You only want to put on a trade when the Chaos, Momentum and Stochastic RSI confirm your moving average crossovers.

For instance, you want to go short because the 7 has crossed below 11. You would need to confirm the trend and put on the trade only if the 11 and 18 are also turning, the Chaos has turned down, and the Momentum has also turned down. The Stochastic RSI Oscillator should also be in an overbought condition and coming down. You actually put on the trade only when the StochRSI has hit it's 50 line.

The biggest moves are when the Chaos and Momentum have crossed their zero lines.

Watch the correlation between these indicators and the price movement. You'll soon start to see the patterns and how they move together.

Chapter 5

IN-DEPTH TIPS ON HOW TO USE THE ADVANCED INDICATORS

I use the BB's for indication of when a breakout or breakdown is imminent. When the outside bands get very narrow, it means the price is consolidating and is getting ready for a breakout, either up or down. At this point, it's dangerous to have a position because you don't know if it's going to break up or down. When the bands get very narrow, it's almost better to close out your old positions, even at a loss, until you see a clear direction. If you don't want to close out an old position at a loss, at least hedge it. See more about hedging later in this course.

The BB's can't tell you which direction the breakout will be, the Chaos and Momentum will do that, and I always trade in the direction the Momentum and Chaos are going.

If the Chaos is going down from overbought towards the 0 line, it's bearish...if it's coming up from oversold & going up towards the 0 line, it's bullish. If it breaks above or below the 0 line, it's quite bullish or bearish, BUT the strength of the move is indicated by the Momentum.

The Momentum is the strength behind a price movement, either up or down. If momentum is decreasing (the line is turning down) it's getting weaker and is considered bearish = the force (volume) behind the 'selling' is pushing the price down. If the Momentum line is turning up, the buying force (volume) is getting stronger & is considered bullish & the price will be going up.

Again, the Momentum line fluctuates around it's zero (0) line, and if it's flat, you don't want to be in a trade. When it breaks up thru it's zero line, it's bullish. When it breaks down thru it's zero line, it's bearish.

Sometimes when using the slower timeframes, I use the outer BB's as targets for my limit sell price. If the bands are real wide after a big move, I use the middle band as my limit target price.

Bollinger Bands are designed to capture the majority of price movement. When prices move beyond the upper or lower band, they are considered high (overbought) or low (oversold) on a relative basis.

The Stochastic RSI also tells you if the price is oversold or overbought. Study how to use the Stoch RSI to get into and out of a position.

When the Stoch RSI is at the top & turning down, it means the price is in an overbought condition & has possibly peaked & is soon to come down. This means there are more sellers than buyers. When it's at the bottom and coming up, it means the price has become oversold & is on its way up, i.e. there are now more buyers than sellers.

I REPEAT:

The Stoch can become overbought (or oversold) and remain overbought (or oversold) for an extended period. A move above 80 may imply overbought, but it can also indicate a strong up trend and remain above 80 for a prolonged period. Conversely, a quick move below 20 could indicate the beginning of a strong downtrend. Therefore, extremely high or low readings can mean a continuation of the current trend, but not always.

To confirm the continuation of the trend, look at the strength of the Chaos and Momentum. If these two indicators are firmly above or below their zero lines, and the color of the Chaos bar is green for a bullish play and red for a bearish play, then the Stoch is confirmed in it's surge in it's extreme condition and you can safely jump into a continuation play. If the Stoch is not confirmed by the Chaos and the Momentum, chances are good that the extreme condition is signaling a stalling out of the trend, and you should not jump in. Usually, the color of the Chaos bar confirms this.

More On Using Bollinger Bands:

First, the BB's can be used as I mentioned before, as price targets.

If the bands are narrow, the price will be jumping up & down within the two outer bands. As mentioned before, this is not the best time to be putting on a trade, as the trading range is too narrow, unless you can make a decent quick profit.

If the range isn't too narrow, you can ride it up and down and book pips. I only attempt this in a 1 minute timeframe using the 5/9/18/50 EMA's. Don't do it if you can't make at least 5-10 pips up and down. The danger is in whipsaws. Most of the time, unless the bands are too narrow, you can make trades by literally bouncing off the outer bands.

It's called "The Bollinger Bounce".

When placing a trade, just set your stop at the outer BB and your price target limit sell order where the other outer band is.

If your trade rapidly approaches the limit price and all your indicators say that the price movement is just getting started & not likely to quickly reverse on you, then you should first either remove your limit price & let the price run, or, raise your limit price another 5-10 pips. Then raise your stop to either your entry point or past it, to lock in either breakeven or some profit if the price suddenly reverses on you.

This is definitely what you should do in a price breakout. If the price keeps going up in an extended breakout, you just keep adjusting your stop upwards to lock in

more profit (this is called a trailing stop, more later on this subject) and keep raising your limit also.

A Super Advanced method of using BB's is to use two sets of BB's, both with the middle band set at 18. Set one BB to a standard deviation of 3 and the other leave the standard deviation at 1. This gives you 6 short term support/resistance lines to work with. Your initial stop and target are the outer bands, and your inner bands are used for your trailing stop and short term resistance and support. You can also trade off the two inner bands.

This method is very similar to using Fibonacci.

The main thing to remember is that all of these indicators work together. You first must learn the characteristics of each indicator and then learn to instantly analyze at a glance how they are correlating with each other. You never make a move unless all the indicators are saying the same thing.

Wait for the signals, be like a cat stalking it's prey & pounce only when ALL of the timing signals are perfect.

For instance, just because the Stoch RSI is at the bottom & turning up, doesn't mean the bottom has been found yet. It needs to cross the 50 line before you jump in and buy long. Also look at the Momentum & your moving averages & Chaos to confirm when it's safe to jump in and buy long.

Once you understand the indicators, you must then learn to trust them. This is done by putting on positions in your demo account and PRACTICING, PRACTICING, PRACTICING. You'll then get to trust them. The most important thing in using them, is that you must then learn to obey them, without hesitation.

You cannot successfully ignore the indicators or trade without all of them confirming each other. If you trade using only one indicator saying something, but the other indicators say something else, you'll just get into trouble. If you ignore the indicators & use your "gut" feeling to get into & out of trades, you'll just lose money. Use the indicators to make you money and to keep you out of trouble.

Chapter 6

THE BEST TIME FRAMES IN WHICH TO USE THE VARIOUS MOVING AVERAGE (MA) CROSSOVER COMBOS

From slowest timeframe to fastest, with MA's ranging from safest being aa and getting more unsafe after aa:

A. 1 - 2 hour and 30 Minute Time Frames:

aa. Using the 9/18 EMA

The immediate (trigger) MA is 9 EMA

The middle Bollinger Band (BB) is set at 18 EMA

The longterm trend is 50 EMA

The super longterm trend is 100 EMA

The Chaos Awesome Oscillator (or Macd Histogram): leave at default

Momentum: leave at default

Stochastic RSI Oscillator (or Slow Stochastic set at 14,5,5)

MA of RSI (or plain RSI): leave at default

DMS (or ADX): leave at default

bb. Using the 7/18 EMA

The immediate (trigger) MA is 7 EMA

The middle Bollinger Band (BB) is set at 18 EMA

The longterm trend is 50 EMA

The super longterm trend is 100 EMA

The Chaos Awesome Oscillator (or Macd Histogram): leave at default

Momentum: leave at default

Stochastic RSI Oscillator (or plain Slow Stochastic set at 14,5,5)

MA of RSI (or plain RSI): leave at default

DMS (or ADX): leave at default

cc. Using the 5/18 EMA

The immediate (trigger) MA is 5 EMA

The middle Bollinger Band (BB) is set at 18 EMA

The longterm trend is 50 EMA

The super longterm trend is 100 EMA

The Chaos Awesome Oscillator (or Macd Histogram): leave at default

Momentum: leave at default

Stochastic RSI Oscillator (or plain Slow Stochastic set at 14,5,5)

MA of RSI (or plain RSI): leave at default

DMS (or ADX): leave at default

dd. Using the 3/9/18 EMA

The immediate (trigger) MA is 3 EMA

The crossover EMA is 9

The middle Bollinger Band (BB) is set at 18 EMA

The longterm trend is 50 EMA

The super longterm trend is 100 EMA

The Chaos Awesome Oscillator (or Macd Histogram): leave at default

Momentum: leave at default

Stochastic RSI Oscillator (or plain Slow Stochastic set at 14,5,5)

MA of RSI (or plain RSI): leave at default

DMS (or ADX): leave at default

B. 15 Minute Time Frame:

aa. Using the 9/18 EMA

The immediate (trigger) MA is 9 EMA

The middle Bollinger Band (BB) is set at 18 EMA

The longterm trend is 50 EMA

The super longterm trend is 100 EMA

The Chaos Awesome Oscillator (or Macd Histogram): leave at default

Momentum: leave at default

Stochastic RSI Oscillator (or plain Slow Stochastic set at 14,5,5)

MA of RSI (or plain RSI): leave at default

DMS (or ADX): leave at default

bb. Using the 7/18 EMA

The immediate (trigger) MA is 7 EMA

The middle Bollinger Band (BB) is set at 18 EMA

The longterm trend is 50 EMA

The super longterm trend is 100 EMA

The Chaos Awesome Oscillator (or Macd Histogram): leave at default

Momentum: leave at default

Stochastic RSI Oscillator (or plain Slow Stochastic set at 14,5,5)

MA of RSI (or plain RSI): leave at default

DMS (or ADX): leave at default

cc. Using the 5/18 EMA

The immediate (trigger) MA is 5 EMA

The middle Bollinger Band (BB) is set at 18 EMA

The longterm trend is 50 EMA

The super longterm trend is 100 EMA

The Chaos Awesome Oscillator (or Macd Histogram): leave at default

Momentum: leave at default

Stochastic RSI Oscillator (or plain Slow Stochastic set at 14,5,5)

MA of RSI (or plain RSI): leave at default

DMS (or ADX): leave at default

dd. Using the 3/9/18 EMA

The immediate (trigger) MA is 3 EMA

The crossover EMA is 9

The middle Bollinger Band (BB) is set at 18 EMA

The longterm trend is 50 EMA

The super longterm trend is 100 EMA

The Chaos Awesome Oscillator (or Macd Histogram): leave at default

Momentum: leave at default

Stochastic RSI Oscillator (or plain Slow Stochastic set at 14,5,5)

MA of RSI (or plain RSI): leave at default

DMS (or ADX): leave at default

C. 10 Minute Time Frame:

aa. Using the 9/18 EMA

The immediate (trigger) MA is 9 EMA

The middle Bollinger Band (BB) is set at 18 EMA

The longterm trend is 50 EMA

The super longterm trend is 100 EMA

The Chaos Awesome Oscillator (or Macd Histogram): leave at default

Momentum: leave at default

Stochastic RSI Oscillator (or plain Slow Stochastic set at 14,5,5)

MA of RSI (or plain RSI): leave at default

DMS (or ADX): leave at default

bb. Using the 7/18 EMA

The immediate (trigger) MA is 7 EMA

The middle Bollinger Band (BB) is set at 18 EMA

The longterm trend is 50 EMA

The super longterm trend is 100 EMA

The Chaos Awesome Oscillator (or Macd Histogram): leave at default

Momentum: leave at default

Stochastic RSI Oscillator (or plain Slow Stochastic set at 14,5,5)

MA of RSI (or plain RSI): leave at default

DMS (or ADX): leave at default

cc. Using the 5/18 EMA

The immediate (trigger) MA is 5 EMA

The middle Bollinger Band (BB) is set at 18 EMA

The longterm trend is 50 EMA

The super longterm trend is 100 EMA

The Chaos Awesome Oscillator (or Macd Histogram): leave at default

Momentum: leave at default

Stochastic RSI Oscillator (or plain Slow Stochastic set at 14,5,5)

MA of RSI (or plain RSI): leave at default

DMS (or ADX): leave at default

dd. Using the 3/9/18 EMA

The immediate (trigger) MA is 3 EMA

The crossover EMA is 9

The middle Bollinger Band (BB) is set at 18 EMA

The longterm trend is 50 EMA

The super longterm trend is 100 EMA

The Chaos Awesome Oscillator (or Macd Histogram): leave at default

Momentum: leave at default

Stochastic RSI Oscillator (or plain Slow Stochastic set at 14,5,5)

MA of RSI (or plain RSI): leave at default

DMS (or ADX): leave at default

D. 5 Minute Time Frame:

aa. Using the 9/18 EMA

The immediate (trigger) MA is 9 EMA
The middle Bollinger Band (BB) is set at 18 EMA
The longterm trend is 50 EMA

The Chaos Awesome Oscillator (or Macd Histogram): leave at default
Momentum: leave at default
Stochastic RSI Oscillator (or plain Slow Stochastic set at 14,5,5)
MA of RSI (or plain RSI): leave at default
DMS (or ADX): leave at default

bb. Using the 7/18 EMA

The immediate (trigger) MA is 7 EMA
The middle Bollinger Band (BB) is set at 18 EMA
The longterm trend is 50 EMA

The Chaos Awesome Oscillator (or Macd Histogram): leave at default
Momentum: leave at default
Stochastic RSI Oscillator (or plain Slow Stochastic set at 14,5,5)
MA of RSI (or plain RSI): leave at default
DMS (or ADX): leave at default

cc. Using the 5/13/26 EMA

The immediate (trigger) MA is 5 EMA
The short term MA is 13 EMA
The middle Bollinger Band (BB) is set at 26 EMA
The longterm trend is 50 EMA

The Chaos Awesome Oscillator (or Macd Histogram): leave at default
Momentum: leave at default
Stochastic RSI Oscillator (or plain Slow Stochastic set at 14,5,5)
MA of RSI (or plain RSI): leave at default
DMS (or ADX): leave at default

dd. Using the 5/9/20 EMA

The immediate (trigger) MA is 5 EMA

The short term MA is 9 EMA

The middle Bollinger Band (BB) is set at 20 EMA

The longterm trend is 50 EMA

The Chaos Awesome Oscillator (or Macd Histogram): leave at default

Momentum: leave at default

Stochastic RSI Oscillator (or plain Slow Stochastic set at 14,5,5)

MA of RSI (or plain RSI): leave at default

DMS (or ADX): leave at default

ee. Using the 3/9/18 EMA

The immediate (trigger) MA is 3 EMA

The short term MA is 9 EMA

The middle Bollinger Band (BB) is set at 18 EMA

The longterm trend is 50 EMA

The Chaos Awesome Oscillator (or Macd Histogram): leave at default

Momentum: leave at default

Stochastic RSI Oscillator (or plain Slow Stochastic set at 14,5,5)

MA of RSI (or plain RSI): leave at default

DMS (or ADX): leave at default

E. 1 minute time Frame:

aa. Using the 9/15 EMA

The immediate (trigger) MA is 9 EMA

The middle Bollinger Band (BB) is set at 15 EMA

The longterm trend is 50 EMA

The Chaos Awesome Oscillator (or Macd Histogram): leave at default

Momentum: leave at default

Stochastic RSI Oscillator (or plain Slow Stochastic set at 14,5,5)

MA of RSI (or plain RSI): leave at default

DMS (or ADX): leave at default

bb. Using the 7/15 EMA

The immediate (trigger) MA is 7 EMA

The middle Bollinger Band (BB) is set at 18 EMA

The longterm trend is 50 EMA

The Chaos Awesome Oscillator (or Macd Histogram): leave at default

Momentum: leave at default

Stochastic RSI Oscillator (or plain Slow Stochastic set at 14,5,5)

MA of RSI (or plain RSI): leave at default

DMS (or ADX): leave at default

cc. Using the 5/13/26 EMA

The immediate (trigger) MA is 5 EMA

The short term MA is 13 EMA

The middle Bollinger Band (BB) is set at 26 EMA

The longterm trend is 50 EMA

The Chaos Awesome Oscillator (or Macd Histogram): leave at default

Momentum: leave at default

Stochastic RSI Oscillator (or plain Slow Stochastic set at 14,5,5)

MA of RSI (or plain RSI): leave at default

DMS (or ADX): leave at default

dd. Using the 5/10/20 EMA

The immediate (trigger) MA is 5 EMA

The short term MA is 10 EMA

The middle Bollinger Band (BB) is set at 20 EMA

The longterm trend is 50 EMA

The Chaos Awesome Oscillator (or Macd Histogram): leave at default

Momentum: leave at default

Stochastic RSI Oscillator (or plain Slow Stochastic set at 14,5,5)

MA of RSI (or plain RSI): leave at default

DMS (or ADX): leave at default

ee. Using the 3/9/18 EMA

The immediate (trigger) MA is 3 EMA

The short term MA is 9 EMA

The middle Bollinger Band (BB) is set at 18 EMA

The longterm trend is 50 EMA

The Chaos Awesome Oscillator (or Macd Histogram): leave at default

Momentum: leave at default

Stochastic RSI Oscillator (or plain Slow Stochastic set at 14,5,5)

MA of RSI (or plain RSI): leave at default

DMS (or ADX): leave at default

Chapter 7

Discovering Your Trading Personality

A. What kind of Trader are YOU?

Basically, there are three different styles of trading:

1. Day Trader
2. Swing Trader
3. Position Trader

All of our indicators that we teach will help you to trade in any style that you prefer.

If you are a day trader, you'll be watching your charts during your entire trading session, which actually can last only a few minutes or hours, taking smaller plays and profits and hoping to catch "the big one". You'll be constantly entering

trades, adjusting your trailing stops, and exiting. If you want to trade only a few minutes or hours each day, you're better off using the 1 or 5 or 10 minute time frame. You can actually play any of the time frames, but you'll want to close out all positions by the end of your trading session. You can daily catch 20 -100 pips by using the 1 or 5 or 10 minute chart, trading for just a few minutes or hours.

If you don't want to sit in front of your computer for a few hours but can watch your positions from time to time, you can swing trade. This is better done in the 15 or 30 minute timeframes. You'll need to check often to adjust your trailing stops, as your trades mature. You are still safer if you close out all positions before the end of that day's trading session and hold no overnight positions. You can easily catch 100-300 pips each day with little time actually spent watching your chart.

If you want to long term position trade, it's best done in the 1 or 2 hour timeframe. With the proper stops and limits in place, you can let your trade run overnight, or for several days, with only a few daily adjustments of your trailing stops and limits.

In any time frame, the danger area is at the beginning of the trade. This is when you're the most vulnerable, so it is really a question of monitoring the progress early on; once the trade has gone the right way, the trader can relax. In all cases, your first goal should be to move your stop to the breakeven position.

B. Ideas About Trading in the Different Time Frames

We sell a product that we call Day Trade Forex, but in reality, you can use what we teach to do any kind of trading you prefer. Each person needs to experiment with the different time frames and moving averages to find out what he/she is most suited for, time-wise and personality-wise. This takes time and lots of practice and patience in your demo account.

If you have a J.O.B., then what we teach is perfect for you if you can trade during the busiest hours, between 3 am to 10 am EST. Even 1 or 2 hours of trading in the 1-5-10 or 15 minute chart will make you enough money for the day. You can do multiple scalping trades in the 1 and 5 minute chart, or one trade in the 10 or 15 minute chart, then go to work. If you get lucky and hit a breakout or breakdown, no matter what time frame you are in, you can make as much as 30 -100 pips in a few minutes!

Some people love scalp trading, which are quick trades in the 1 and 5 minute charts for small but quick profits; and some love day trading, mostly done in the 10 and 15 and 30 minute charts, which simply means you close out all positions before the end of the trading day.

If you do one or more trades in one day that rides the price up and down and

you close each position out, that is called day trade swing trading. And some prefer swing trading over the course of several days or weeks, which I call position trading, mostly done in the 1-2 hour charts.

We personally scalp and day trade, which is really just one-day swing trading.

Chapter 8

PUTTING THE INDICATORS ONTO YOUR TRADING PLATFORM

After you've studied these special indicators, try putting them into your CMS demo chart. If you aren't using CMS for your charting platform, then we will parenthesize the more common comparable indicator.

We always use the Candlestick price bar. It shows red for selling pressure and green for buying pressure.

A great description of candlestick charts can be read about here:

http://rightline.iqchart.com/partner/rightline/education/candle_intro.asp

First, go into Studies and select your moving averages (EMA's), then your Bollinger Band (BB). These will be on the price chart itself. Adjust your moving average values and colors and adjust your BB middle line value and make it a brighter color than the two outer bands. You can also make the faster ema's and your middle BB thicker by changing the Color/Width to 2 instead of the default 0. I like to add the Support and Resistance indicator at this point.

In the bottom of your chart, first put on the Chaos Awesome Oscillator(or Macd Histogram), then the Momentum, then the Stochastic RSI Oscillator (or Slow Stochastic), then the MA of RSI (or RSI), and then the DMS (or ADX), in this order. Use the settings given in Chapter 6.

These are all the basic indicators you need to successfully trade. Don't clutter up your chart with other unnecessary indicators...keep it simple! If you only want a few indicators on your chart, the most important are the Chaos, the RSI or the Momentum, and the Slow Stochastic (set at 14,5,5).

If you find the MA of RSI and the (DMS) Directional Movement System confusing, you can eliminate them from your chart, they are the least necessary indicators. They are optional only for the most advanced traders.

If your price chart above gets too small you can pull down the bottom indicators by putting your mouse over the grey line between the indicators & dragging the

line down.

You can also adjust your price chart by zooming in or out. To do this, right mouse click on your chart and choose one of the Zoom features, until you get it right for you. I like to zoom in close so the price action is bigger. It's easier on the eyes! (Tip: if your eyes get too tired trading, go buy yourself some Eye Anti-Oxidant capsules at your local health food store....I couldn't trade without them!)

Chapter 9

TRY A FASTER TIME FRAME!

Now that you're past the beginning stages, you can start using a faster chart. If you've been using the 15 minute chart, try the 5 or 10 minute chart. If you've been using the 5 minute chart, try practicing in the 1 minute chart. The price activity will speed up and offer you more trading opportunities.

You have several choices of moving averages, and you'll have to experiment in your demo account to see which one you like. All of the moving averages can be used in all timeframes, however the slower ones are always the safest. The faster ones experience more whipsaw, but if you are quick to react, you should be ok.

In the 1 and 5 minute timeframes, the same trading rules apply that you learned in using the slower 15 minute timeframe, but the action is speeded up, especially in the 1 minute chart.

Get used to the new faster speed, as this gives you more trading opportunities. Just remember to use your stops & trailing stops...in other words, keep using the good trading habits you've already learned.

In the faster charts, you'll be putting on more trades but taking smaller profits. You'll also be risking more whipsaws so more practice is needed before attempting this in a live account. If you can realize at least 10 perfect trades in a row in your demo account, then you are ready for a live account.

If you only have a few hours in the morning or evening to trade, it's better to play the faster charts, put on more plays & take smaller profits for each play...then you can be done for the day.

Try to close out all positions before you shut down. Or hedge them with stops and limits in place. Again, more about hedging later.

Chapter 10

THE BEST TIME TO TRADE

The three major trading 'sessions' are as follows (all in Eastern Standard Time):

1. New York open 7:00 AM to 4:00 PM
2. Japanese/Australian open 7:00 PM to 3:00 AM
3. London open 3:00 AM to 8:00 AM

**Often, the best times to trade is at the beginning 3-5 hours of the above mentioned opening times, because the major currency pairs tend to move the most in a particular direction. Especially when there are economic news releases.

THE ABSOLUTE BEST TIME TO TRADE IS FROM 3 AM TO 10 AM EST.

The New York and London trading sessions overlap between 5 and 6 am EST. The volatility is much higher and trading opportunities are much more frequent with bigger moves, especially in this one hour.

This is when you can make 20-100 pips trading in just a few minutes or hours, using any of our strategies in any time frame, especially around news releases.

If you need help in converting EST time zone to your time zone, please use this world time zone converter:

<http://www.worldtimezone.com>

Chapter 11

DAILY FORECAST WEBSITES

First thing in the morning, I go to <http://www.fxstreet.com> to check out Angel Kolev's and some other forecast and news release times for the day. I always check before I start trading and I write down the support/resistance, trend, trading range, target highs & lows, **news release times**, etc. on my **Daily Trading Sheet**, which is provided below.

This is an interesting forecast site that I also like:

<http://www.fxstreet.com/nou/content/1112/content.asp?idioma=angles>

Another place to find out when the world economic news releases are:

<http://www.forexnews.com> and scroll down to the bottom of the website for the list of the current week news releases that impact the Forex markets.

Most often, the economic news release is scheduled for 8:30 AM EST. You **really** want to **not** already be in a trade at this time, but be ready to jump in. The volatility is scary and fast, but you can jump in once you see the major trend.

Chapter 12

THE DAILY TRADING SHEET

You'll need an easy way to keep track of your trades on a daily basis. Please click the pdf url below to access the Daily Trade Sheet so that you can print it out and then xerox many copies:

<http://www.daytrade forex.com/daily.pdf>

Chapter 13

MONEY MANAGEMENT

(taken from John Piper's book "The Way To Trade")

"It is easy to demonstrate that MM is far more important than analysis.

A total lack of MM would mean risking everything on any one trade.

You might have the best analysis system in the world and get 99 straight trades right but that 100th trade would wipe you out.

On the other hand you might have the worst analysis system in the world. If so, a proper MM system will reveal this fact while at the same time minimizing the risk to your capital.

So if you get 10 straight trades wrong you still lose only 10% of your capital! It is therefore immediately clear which is the more important.

MM is what makes the analysis / system work, not the other way around.

Learning to trade in a demo account is necessary, practicing is necessary, but when you start to play the game for real everything changes, if only because you start to hit emotional/psychological problems you never even dreamt existed.

These problems can be overcome but when you enter a new arena (i.e. actually

trading your new system/approach) then you must minimize your risk – indeed good traders minimize risk at all times.

So you don't trade 10 lots, you just trade one. Or you don't trade even 1 full lot, you trade .1 mini lot. And you keep trading **just one** until your **actual results** confirm that you should increase position size.

At that point your area of risk (new territory) has become more quantified and you can move ahead a more relaxed trader. It would then make sense to increase position size in appropriate steps. If your system had some flaws then you do not lose all your capital and you also develop some discipline along the way. What do you stand to lose? Just a little time. If all goes according to plan you may well be trading at the size you originally wanted to just a few months later.”

A. Number of Trading Lots to Use:

In a Universal account size of less than \$20,000, whether demo or live, I would suggest that you **never** use more than **5% -10%** of your **usable margin on any one trade**. This ensures that your account will live to survive the losing trades that you will surely encounter.

B. Here's a Simple Table Risking 5% in a Mini Account:

If your account is \$10,000.....trade using only .5 mini lots...your risk = \$500

If your account is \$8,000.....trade using only .4 mini lots...your risk = \$400

If your account is \$5,000.....trade using only .3 mini lots...your risk = \$300

If your account is \$2,500.....trade using only .2 mini lots...your risk = \$200

If your account is \$1,000 or less....trade using only .1 mini lots...your risk = \$100

NOTE: Your “risk” is never in complete jeopardy unless you aren't using stops and you get a margin call. You should always trade with stops to reduce your risk.

You can easily see that you should NOT be using 1 full lot to trade with until your account reaches at least \$20,000, unless you have proven yourself to be a consistent trader.

****IMPORTANT: We highly recommend that you only trade 5% -10% (Maximum) of your usable margin no matter how large your account is. Once you have become a successful, proficient, consistent trader, then and only then, should**

you risk 10% of your account on one trade, and **NEVER** more than that.

C. How Much the Mini or Full Lots Are Worth in EUR/USD:

The profit/loss when trading .1 mini lot in the EUR/USD is \$1 profit or loss when the price moves 1 pip. The profit/loss when trading .2 mini lots and the price moves 2 pips is \$4. The profit/loss on .3 lots when it moves 3 pips is \$9...etc.

The profit/loss trading 1 full lot in the EUR/USD is \$10 profit or loss when the price moves 1 pip. The profit/loss on 2 full lots when the price moves 2 pips is \$40. The profit/loss on 3 full lots when the price moves 3 pips is \$90....etc.

D. Margin Usage and Introduction to Hedging:

A good rule of thumb for either a mini-account or standard account, is to limit your margin usage for each trade to 5% - 10% of your usable margin. As an example, if your usable margin is \$5000, to trade safely, limit your margin usage for each trade to a maximum of \$300. This means trading only .3 mini lots for each trade.

As your account grows and your usable margin grows, you can increase your margin usage and trade bigger mini or full lot sizes. If you lose money and your account shrinks, drop your margin usage back down to smaller sizes. You need to learn to keep your eye on your usable margin, especially if you've suffered some losses.

Protect your usable Margin by not having more than 2 open hedged or unhedged position at any one time. Your usable margin & equity will get eaten up by un-hedged open positions that go bad in the wrong direction...this is a really good reason why you want to use stop losses, and if you hedge, hedge tightly.

IMPORTANT: Don't just keep putting on positions because you think it's a good opportunity. First sell a position and book some usable margin before you put on another position. Personally, I think you should never have more than one position on at any time.

NOTE: Hedging does not use up more margin! Use it to protect your equity & usable margin, esp. in an emergency situation!

If you break the hedging rules, and your positions go against you and you aren't properly hedged with stop losses, you'll quickly see your usable margin degrade. If it degrades enough so that your usable margin goes into the negative, you'll get a margin call. This means that the operators will automatically start selling some of your lots in your oldest losing positions in order to beef up your usable

margin. This makes your unrealized loss become a realized loss...and the money is gone from your account.

If you lose too much useable margin, they won't even let you trade in your account, the message they'll give you when you try to put on a new trade is, 'Account in Untradeable Condition'.

If this happens, you might have an open position that needs to be hedged immediately or you might need to sell an old position. Or you might need to deposit more money into your account. Then you can start trading smaller lots to win back some usable margin.

You can lose your entire account balance if you're not careful. Stick to the rules above and this won't happen to you. You'll make more money than you thought possible and without the stress of loss.

Chapter 14

THE IMPORTANCE OF ENTRY VS. EXIT

(taken from John Piper's book "The Way To Trade")

The conclusion from this section on Money Management is that it is not entry which is that important - it is exit. This is clearly so, because exit determines your overall risk, your overall profit and your overall control.

Now this is quite a controversial statement. If entry is not so important why do all traders spend so much time on it?

The answer is because they are misguided. Clearly entry is also important, but not as important as the other factors in trading, in particular MM and Risk Control (RC).

To put this in a nutshell:

- **Your entry cannot wipe you out - but the way you exit can.**
- **Your entry does not make you a profit - the way you exit can.**
- **It is not entry which is that important - it is exit.**

Chapter 15

THE IMPORTANCE OF DISCIPLINE

(taken from John Piper's book "The Way To Trade")

"It is said, and it is true, that without discipline you will be unable to make any progress. The reason is simple and comes in a number of guises.

First, without discipline you will be unable to follow your own methodology, you will, in effect, have no methodology. Thus you will be doomed to trade emotionally, and **that is not a winning approach.**

Second, you will not have the self discipline to overcome your own emotions and instincts. So in some ways these two factors overlap, but the second is far more pervasive than simply in operating your methodology.

The big question here is whether you can develop the discipline if you do not have it naturally.

I believe that the answer is "yes, you can," but you must have the necessary commitment to do so.

Clearly discipline can be developed, and you only need to look at an army training program for confirmation of this fact. But it is one thing to have a vast and experienced organization bearing down on you and prepared to do whatever it takes to make its point, quite another to do it yourself in the comfort of your own home, with all the distractions that normally involves.

Clearly self-discipline is going to be a requirement even to start the process.

Ultimately, undisciplined behavior is going to be punished by the market, either by direct losses or by the loss of profits which would otherwise have been available."

Chapter 16

THE IMPORTANCE OF CONTROLLING RISK

"The traders who win are those who minimize risk. **Money is the result once we learn to control risk.** Those who do not minimize risk inevitably pay the price and get wiped out." - John Piper, Excerpt from The Way To Trade

"Those who never control their risk, will never drink champagne." - Mr. Swing

"It is not gambling if you know what you're doing. It is gambling if you're just throwing money away into a deal and praying. The idea in anything is to use your technical knowledge, wisdom and love of the game to cut the odds down, to lower the risk. Of course there is always risk. It is financial intelligence that improves the odds." - Excerpt from Rich Dad, Poor Dad -

Robert T. Kiyosaki

Chapter 17

HOW TO USE STOPS TO CONTROL YOUR RISK

There is much controversy on how to use stops, but you read a little about them in the Incredible Charts under the section Trading Safety.

Basically, using stops is important not only for your account safety and controlling your risk, but also for your peace of mind, which affects your ability to trade well and wisely.

My experience is that the slower the timeframe, the wider your stops should be. Conversely, the faster the timeframe, the tighter your stops should be.

Here are some examples of using stops, but ultimately, you'll have to decide for yourself what you are willing to risk in each trade. And even though I'll speak about stop losses in the form of pips, your actual amount of risk is in the form of dollars expressed by your margin usage.

Also, we are talking about 'initial stops', which means, when you put on a trade, you then immediately put on your stop loss. Adjusting the stop loss is called "trailing stops" and is discussed in the next chapter under Preserving Profits.

In a 30 minute to 1 hour timeframe, you'll be using the slower moving average combo of 9/18/50, with possibly also a 100 MA for a longer term MA for major

trending when position trading. Your initial stop should be a minimum of 40 - 50 pips with trailing stops of 35 pips, which you can tighten as the trade matures, after you've broken even in your trade.

In a 15 minute timeframe, you'll want your initial stop to be about 25 - 35 pips, with trailing stops of about 30 pips. If you are daytrading, which means you are watching the chart at least intermittently, if you have made a mistake putting on the trade, you can close it out without too much loss.

If you are not daytrading, which means you are **not** watching the market very closely, and you are position or swing trading, you need to be willing to let your trade have more breathing room without the possibility of being stopped out too easily. In this case, an initial stop of up to 40 pips is more realistic.

But, according to your margin usage, you need to be willing to take this kind of hit to your account if you get stopped out. If you can't stomach the loss of 40 pips in a given trade, either decrease your margin usage or tighten your initial stop. It's always better, in my opinion, to decrease your margin usage.

In a 5 minute timeframe, if using the slower moving averages, your stop loss should be about 20-30 pips. When using faster moving averages, your stop loss should be tighter, between 20-25 pips.

In a 1 minute timeframe, you'll probably be using the faster moving averages, so you should set your initial stops tight at 10-20 pips. The faster the MA, the tighter your stop should be.

Never set your initial stop at less than 10 pips and a 10 pip trailing stop is only for use with the fastest moving average that we teach.

Other means of setting a stop would be to establish a price that if the price dropped to, you would exit, and maybe base that price on entry price by saying:

"I'll risk 10% on this trade and set a stop 10% below entry while I plan to stay in the trade until I reach a profit of 20%". Stops can be kept mentally or entered as trade orders. We definitely recommend using a real stop, not mental.

If you want to make a profit 50% of the time, you can set your stop at 10 pips, for example, and then set your limit at 20 pips. The idea is that $\frac{1}{2}$ of the time you'll get stopped out, but the other $\frac{1}{2}$ you'll make the 20 pips, which makes up the loss for one trade and still gives you a 10 pip profit. To make this work, you must enter your trade perfectly each time, according to the rules. You won't have to watch or adjust this type of trade; you just set it up and let it do its thing. If you are a "nervous" trader and keep cutting your profits short, this might be an ideal trading style for you to try.

Chapter 18

PRESERVING YOUR PROFITS (TRAILING STOPS)

ADJUSTING YOUR STOP, otherwise known as using TRAILING STOPS:

A trailing stop is one that is adjusted to follow a trade in the direction of a profit, attempting to keep a particular distance without being backed away from holding a profit.

Explanation: if we are long, a trailing stop would follow the price up as the price moved up but would **not** be lowered if the price dropped.

In the CMS trading platform, you need to manually adjust your trailing stop as your price moves in your desired direction.

In each and every trade, your first goal is to move your initial stop loss to breakeven. This ensures a risk-free trade.

In a slow timeframe, I keep my trailing stop quite wide, as I don't want to be stopped out too soon. In a faster timeframe, I keep my trailing stop tighter.

In most cases, I'll keep adjusting my trailing stop every 15-25 pips, as the price moves in my desired direction.

After your breakeven goal is reached, you can then keep adjusting your stop loss every 15-25 pips, to lock in more profit, until you either decide to exit the trade with your captured intended profit, or until you get stopped out.

The closest I will keep moving my trailing stop is 6 pips. This is only in the 1 minute chart and only after I'm 10 pips in profit.

Often, when trading in the 1 minute chart, there is no time to adjust the stop to a break even, let alone keep moving it up. Sometimes, you have to be quick on your toes, as it can reverse quickly, and you need to keep your profit from turning into a loss, by simply taking your profit when you can.

Don't let yourself get stopped out and don't let your trade become a losing trade. Grab even one pip if that's all you can get! **You can't expect alot if you're trading against the major trend.**

If you think you've gotten stopped out too soon, you can always jump back into the trade, if all your indicators are positive.

*** Watch the Chaos and especially the Momentum, they indicate the strength of the movement and the immediate direction. ***

If they both break their zero lines at the same time, it is good for an entry or exit, depending on what you're trying to achieve.

Chapter 19

HOW TO FIND TOPS AND BOTTOMS

1. The top is when the Chaos Awesome Oscillator bar turns from green to red, showing a pullback of the price and a change in trend. This is corroborated with the Momentum spiking and coming down. It's also supported by the Stochastic RSI Oscillator spiking at a peak and then coming down. The fast MA has also spiked and has turned down sharply and the price candlestick has turned red. If using the Directional Movement System, the black line has turned down, although the DMS black line is decidedly a lagging indicator. Under all these circumstances, the price has reached its peak and profit should immediately be taken.
2. The bottom is when the Chaos bar has turned from red to green. The bars then start to slope up. The Momentum is bottoming and sharply turning up as well as the fast MA and the Stochastic RSI Oscillator. The price candlestick has turned green. If using the Directional Movement System, the black line has turned down. The price has reached its bottom and if you are in a short trade, profit should be taken immediately.

Chapter 20

KEEP YOUR EYE ON THE 50 DAY MOVING AVERAGE

Be aware, that the 50 MA is often the resistance level for the price, and often the price or your fast moving average simply bounces off the 50 MA and turns around.

So if the price or the fast MA approaches the 50 MA, just keep your eye on it...and have your stop in place TIGHT in case of a quick reversal. If the Momentum is strong enough to push the price through the 50 MA then you can hold your position and keep adjusting your trailing stop.

A lot depends on the Momentum. If the Momentum is weak, be prepared to sell your position at the 50 MA. The Momentum and Chaos' bullishness or

bearishness will be a clue of what to expect.

Chapter 21

TRADE THE NEWS

You can use the 1 minute charts to trade the economic news releases. To find out when the world economic news releases are, simply go to <http://www.forexnews.com> and scroll down to the bottom of the website for the list of the current week news releases that impact the Forex markets. Most of the major US market-moving economic news releases are scheduled for 8:30 AM EST, but not always, so check every day before trading.

Using a 1 minute time frame along with the news, is an effective way of scalping profits on the FX markets.

****Tip:** Remember to wait a minute or two after the announcement. Don't open a position before the scheduled time! It can be a wild ride up and down for a few minutes!

****Tip:** There are news releases all throughout the week during the different time zones and trading sessions. This technique works well during overnight trading EST during the European and London sessions.

With most US news releases, the EUR/USD or the USD/CHF pairs can either drop or rise **over 30 pips in 1 minute!** If you can practice timing these trades they can become a very profitable tool for the trader. Sometimes it moves so fast that you can't get a fill, but if you keep trying you'll get in, as the moves often last as long as 15 minutes and can jump or drop as much as 100 pips very rapidly.

NOTE: During news releases, the trading volume spikes to the extreme, and price can move so fast that exact fills are difficult to get. I doubt there is any existing trading platform that can keep up with this kind of fast-changing price, so under these conditions, you have to expect some slippage, getting into a trade and getting out.

ATTENTION:

Using the 1 minute chart is **fast moving**. It might not be your style of trading. If you want to test out slower moving average combinations that whipsaw less often on the 1 minute charts, you can try these:

1. 5 EMA, 18 Middle Bollinger Band
2. 7 EMA, 18 Middle Bollinger Band
3. 9 EMA, 18 Middle Bollinger Band

If the 1 minute time frame is too fast for you, you can still play the news events in the 5 minute chart using one of the moving average combos above.

Chapter 22

THE BASIC TRADING STRATEGY

We recommend <http://www.cms-forex.com> and their Visual Trading Platform. You can perform all your trades directly from the charts! This is very helpful when you are trading a technical system. Plus, you can open an unlimited free demo account with the ability to practice trading new strategies with virtual money. If your current charting program doesn't support the following studies, then you will need to visit CMS Forex and open a demo account before proceeding.

In the Basic course, we taught a simple easy safe strategy that used the 10/20/50 ema, with supporting indicators of PSAR, Bollinger Bands, Macd Histogram, RSI and Slow Stochastic in the 15 minute chart.

(If you aren't using CMS, your current charting platform probably supports these basic indicators. If not, you really need to switch. We consider CMS to be the "cadillac" of trading platforms.)

In this course, we're going to revise the Basic set up with a different set up that gives you a little quicker entry and exit and more advanced supporting indicators.

You should practice and perfect this method in your demo account before you move on to any of the other advanced strategies. Again, the best trading hours are between 3 -10 am EST.

I call this most basic advanced strategy **"Lazy and Safe!"** It's best done in the 10, 15 or 30 minute time frame.

SET UP YOUR CHARTS:

1. Open a EUR/USD **candlestick** chart with a white background.
2. Add a moving average of **7** Exponential, Close. Change the color of the line to **black**.
3. Add your Bollinger Band and make the middle line **18** Exponential, Close, color **red**.
4. Add another moving average of **50** Exponential, Close, any color.
5. Add your Chaos Awesome Oscillator (or Macd Histogram), then the Momentum indicator, and then the Stochastic RSI Oscillator (or the RSI and the Slow Stochastic set at 14,5,5).
6. Optional: The Support and Resistance Indicator

Here's the strategy:

Going LONG:

Enter a **long** position when the **black 7** EMA has crossed up through the **red 18** EMA. At the same time, the Chaos and Momentum indicators should be approaching or crossing their zero line, **going up**. The StochRSI should be coming up from the bottom heading **up** towards it's 50 line.

Going SHORT:

Enter a **short** position when the **black 7** EMA has crossed **down** through the **red 18** EMA. At the same time, the Chaos and Momentum indicators should be approaching or crossing their zero line, **going down**. The StochRSI should be coming down from the top heading **down** towards it's 50 line.

When to take your profit:

Simple...when your Chaos Awesome Oscillator turns a different color!

Here's a screenshot of **"Lazy and Safe!"** in the 10 minute chart starting on the next page:



Note: Notice how the ema crossovers at the top co-incide with the Chaos and Momentum and StochRSI at the bottom. However, in the first long position at 18:10, the StochRSI is in an extended overbought condition which signifies a very strong bullish trend.

The round circles at the top are the exact entry points when the 7 ema crosses the 18 ema. The ovals at the bottom are the exit points when the Chaos turns color.

Notice that the short period between the 1st long entry and the next short entry is labeled as “whipsaw, stay out”. The Bollinger Bands are narrow indicating a time of consolidation and potential breakout or breakdown. The Chaos and Momentum are flat on their zero lines, there is no volatility. The moving averages are very close together also...you need space between them for the bigger moves. Do not enter a position during these conditions, you'll only lose money. Wait for the breakout or breakdown.

Chapter 23

ADVANCED TRADING STRATEGIES

Now I will give you 3 advanced trading strategies for you to try. I will describe them from the easiest to the hardest. You may not like all of them but at some point, you'll settle on your favorite. This is part of discovering your own trading personality.

- A. Ride The Wave
- B. Follow The Money!
- C. The Secret Weapon

A. **"RIDE THE WAVE" in the 1, 5, 10 or 30 minute Chart**

This technique is for those who want the most simple method that is almost fool-proof. It must be done **ONLY** during the busiest trading hours, 3 am to 10 am EST. This method doesn't work in sideways markets, only in volatile trending markets.

If your current trading platform isn't CMS, they most likely won't have the Chaos Awesome Oscillator (a colored Macd Histogram), and you would need to switch to CMS to have use of the Chaos.

SET UP YOUR CHARTS:

1. Open a EUR/USD **candlestick** chart with a white background.
2. Add a moving average of **3**, Exponential, Close. Change the color of the **3** ema line to **black**.
3. Add another moving average of **20** Exponential, color **red**.
4. Add your Chaos Awesome Oscillator.

Here's the strategy:

Going LONG:

Enter a **long** position when the **black 3** EMA has crossed up through the **red 20** EMA. At the same time, the Chaos should be approaching or crossing it's zero

line, going up.

Going SHORT:

Enter a short position when the black 3 EMA has crossed down through the red 20 EMA. At the same time, the Chaos should be approaching or crossing its zero line, going down.

When to take your profit:

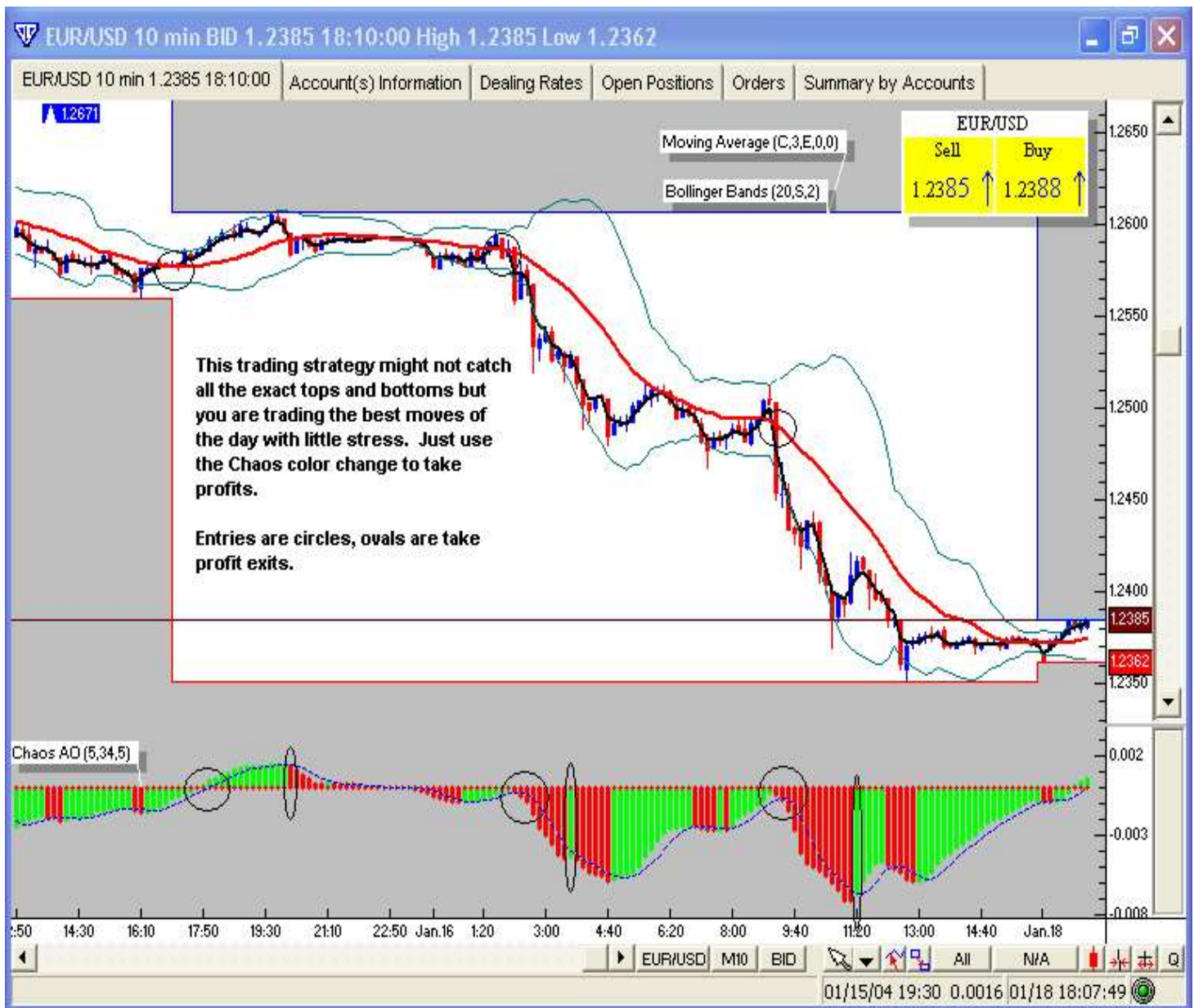
Simple...when your Chaos Awesome Oscillator turns a different color!

The idea is to ride the wave up and down, up and down, catching only the biggest waves (moves).

Here's a screenshot of **"Ride the Wave"** in the 1 minute chart starting on the next page....



Here's a screenshot of **"Ride the Wave"** in the 10 minute chart on the next page:



B. **“FOLLOW THE MONEY!”** in any time frame

If you can trade during the busiest hours, from 3 am to 10 am EST, there is always at least one big breakout or breakdown, good for 30-100 pips, especially around the US news release time which is usually 8:30 am EST. This trading strategy gives you more trading opportunities for re-entries than the simpler "Ride The Wave" strategy.

SET UP YOUR CHARTS:

1. Open a EUR/USD **candlestick** chart with a white background.
5. Add a moving average of **4**, Exponential, Close. Change the color of the **4** ema line to **black**.
6. Add another moving average of **14** Exponential, color **red**.
7. Add another moving average of **40** Exponential, Close any color.
8. Add your Chaos Awesome Indicator, then add your Momentum indicator.
9. Optional: The Stochastic RSI Oscillator, The Ultimate Oscillator and Support and Resistance

Here's the strategy:

Going LONG:

Enter a **long** position when the fast **black 4** EMA has crossed **up** through the middle Bollinger Band, **14** EMA (**red**). At the same time, the Chaos and Momentum should be crossing their zero lines, **going up** and the StochRSI should be coming up and crossing it's 50 line.

Going SHORT:

Enter a **short** position when the fast **black 4** EMA has crossed **down** through the middle Bollinger Band, **14** EMA (**red**). At the same time, the Chaos and Momentum should be crossing their zero lines, **going down** and the StochRSI should be turning down and crossing it's 50 line.

When to take your profit:

Simple...when your Chaos Awesome Oscillator turns a different color!

Here are some screenshots of **"Follow the Money!"** :

In the 1 minute chart on the next page:



Trading in the 1 minute chart is not for everyone. If you are not mentally nimble enough to take profits quickly and reverse your position quickly, this trading style is not for you.

However, you might like to Follow The Money! in the 5, 10 or 30 minute chart. The action is not as fast and you have fewer trading opportunities, but you (hopefully!) won't lose money.

You can also try Follow The Money! with a 3/13/30 or a 5/15/50 ema moving average combo.

The next chart is "Follow the Money!" in a 10 minute chart:

I forgot to put in the Bollinger Bands in this screenshot, but if you like cleaner simpler look, you can leave them off your chart.)

Remember, the circles are entries and the long thin ovals are exits. Notice how the only time you enter a new position is when the Chaos crosses it's zero line. This keeps you out of most whipsaws and gets you into the biggest moves.



Note: the 2nd trade entered short at 2:10 could have been entered earlier at 19:30. You could have taken profit at 2:10 when the Chaos turned green and then re-entered short soon thereafter when the Chaos again turned red.

Here's a "Follow the Money!" 30 minute chart:



Too many trades to circle entries and exits. If you're able to watch your position, keep your trailing stop at around 35-40 pips to allow for retracements without getting stopped out. If you can't watch your position, keep your trailing stop a little tighter so you can take profit by getting stopped out.

If you study this chart, you'll see that there were times when you could have re-entered a trade in the same direction, after the Chaos had turned color and you had taken profit or you had gotten stopped out. You can re-enter as long as the Chaos turns color again and the Ultimate Oscillator is

under it's 50 line for a short, or **over** it's 50 line for a long.

If you notice that each time there was a big move, the Ultimate Oscillator moved through it's 50 line (dotted red line). The StochRSI line shows both overbought and oversold conditions and the entries and exits are supported when it moves up or down through it's 50 area.

Special instructions on how to use the Ultimate Oscillator:

The Ultimate Oscillator is much like the Momentum Indicator. However, it reflects the price action exactly and doesn't jump through it's 50 line unless there's a real trade opportunity. If it goes up through it's 50 line, it's a buy signal. If it goes down through it's 50 line, it's a sell signal. Also, you can use it for re-entry plays. As long as it's down below it's 50 line, the play is still bearish. As long as it's above it's 50 line, the play is still bullish.

c. **"The Secret Weapon" in any Time Frame**

This is our powerful method to be used by traders who like quick action or more trading opportunities! This fast moving trading strategy works well in conjunction with the economic news releases in the 1 minute chart. Otherwise, it's safer to use The Secret Weapon in the slower time frames. **The caution with this strategy is whipsaw, but if you learn to take smaller profits, you will find this technique a valuable tool.**

** Trade the EUR/USD for the smaller 3 pip spread. (Although this strategy works with all Major Pairs and Crosses.)

SET UP YOUR CHARTS:

(NOTE: we're now using Simple Moving Average or SMA)

1. Open a EUR/USD **candlestick** chart with a white background.
2. Add a moving average of **3, Simple**, Close. Change the color of the 3 sma line to **black**.
3. Add the Bollinger Band with the middle band set at **10 Simple**, color **red**.
4. Add another moving average of **30 Simple**, any color.
5. Add your bottom indicators in the following order: Chaos Awesome Indicator (or Macd Histogram), The Ultimate Oscillator (or Momentum), the MA of RSI or plain RSI and the StochasticRSI.
6. Optional for the super advanced trader, the Directional Movement System and Support and Resistance.

Special instructions on how to use the MA of RSI:

The MA of RSI stands for Moving Average of Relative Strength Index.
The faint dotted line is the RSI.

When the RSI moves above the 50 line, it's a buy signal. When it moves below its 50 line, it's a sell signal. This line is a leading indicator and is leading towards the new trend.

The MA is the red and blue line. When the red line moves up through the blue line, it's a buy signal. When the red line moves down through the blue line, it's a sell signal. The MA lines are slightly lagging but confirm the RSI.

Special instructions on how to use the Directional Movement System (DMS):

DMS lines should be used as filters to confirm the trend. This indicator is good for use in any time frame.

A buy signal is generated when the +DMI (green line) crosses the -DMI (red line) to the upside. A sell signal is generated when the -DMI (red line) crosses the +DMI (green line) to the upside.

The black line is called the ADX. When the black line is under the green and red line, this is a 'stay aside' signal and it is usually a time of consolidation, a gathering of momentum for a breakout or breakdown. If you stay out of a position when the black line is at the bottom under both the green and red line, it will keep you out of a short term move which may whipsaw you.

The black line confirms the trend by following whichever line (red or green) that happens to be moving up. If it doesn't follow the red or green line up, it is NOT confirming the trend. However, it's hard to tell sometimes because the black line is a lagging indicator and gets a late start.

If the black line rises to 30 or 40 and turns down, the existing trend is waning and it is time to take profits.

Here's the strategy:

Going LONG:

Enter a **long** position when the fast **black 3 sma** has crossed **up** through the middle Bollinger Band, **10 sma (red)**. At the same time, the Chaos and

Momentum should be crossing their zero lines, **going up**. The **red** line of the MA of RSI should be crossing **up** through the **blue** line and the green +DMI line should have crossed up through the red -DMI line.

Going SHORT:

Enter a **short** position when the fast **black** 4 EMA has crossed **down** through the middle Bollinger Band, 10 EMA (**red**). At the same time, the Chaos and Momentum should be crossing their zero lines, **going down**. The **blue** line of the MA of RSI should be crossing **down** through the **red** line and the red -DMI line should have crossed up through the green +DMI line.

When to take your profit:

The Chaos will turn color, the Momentum will turn towards it's zero line, the MA of RSI lines will cross, and the black ADX line will turn down.

When the 3 SMA flattens out, be prepared to sell the position. When the 3 SMA crosses thru the 10 SMA sell the position immediately.

Don't wait for all of these things to happen at the same time; if any one of these things happens first, sell your position immediately.

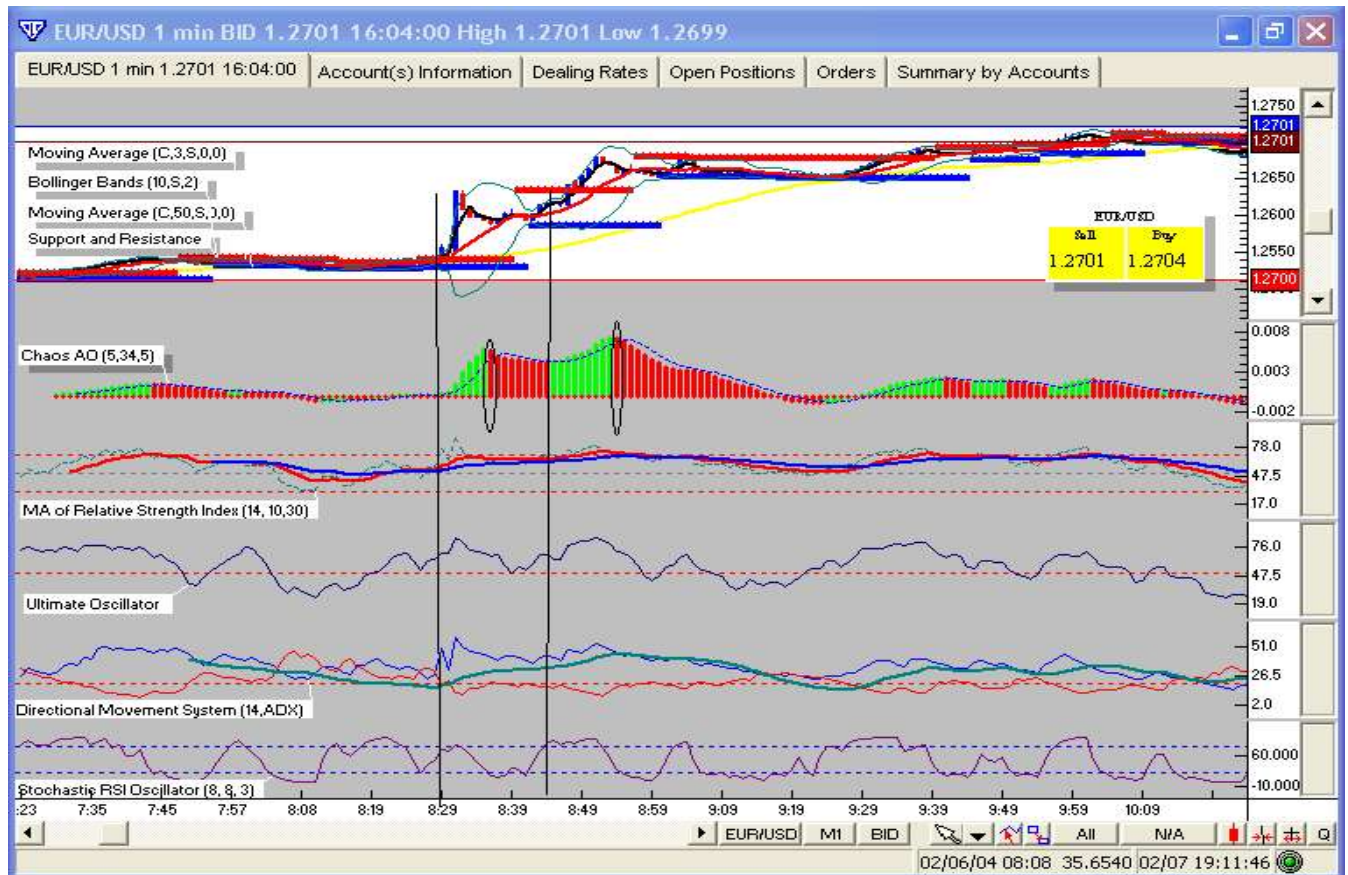
NOTE: You may only be able to book 5 -20 pips, unless there's a breakout, so use as much margin as your available margin will allow you to safely use, BUT only after you have mastered this difficult technique. **Review the Money Management rules and # of lots to trade with for your account size.**

**** This is very fast action so practice this a lot in your demo account before attempting to do this live. If you only have a few hours to trade, this will give you more trading opportunities.**

Here are some screenshots of **"The Secret Weapon"** on the next page:

Playing the News Release in the 1 minute chart:

Note: if you can get very good at using the Secret Weapon technique to play the US news releases, you can make very good weekly money, without trading more than a few times a week for only a short period of time.



This is an example of a US news release at 8:30 am EST, a standard time for releasing US economic news that normally moves the market quite a bit.

The line is the entry point and the oval in the Chaos is the exit when the bars turn color.

Notice how you could have entered this trade a little earlier than normal at 8:29 am, as all the indicators were bullish. Or you could have waited a few more minutes to be on the safe side.

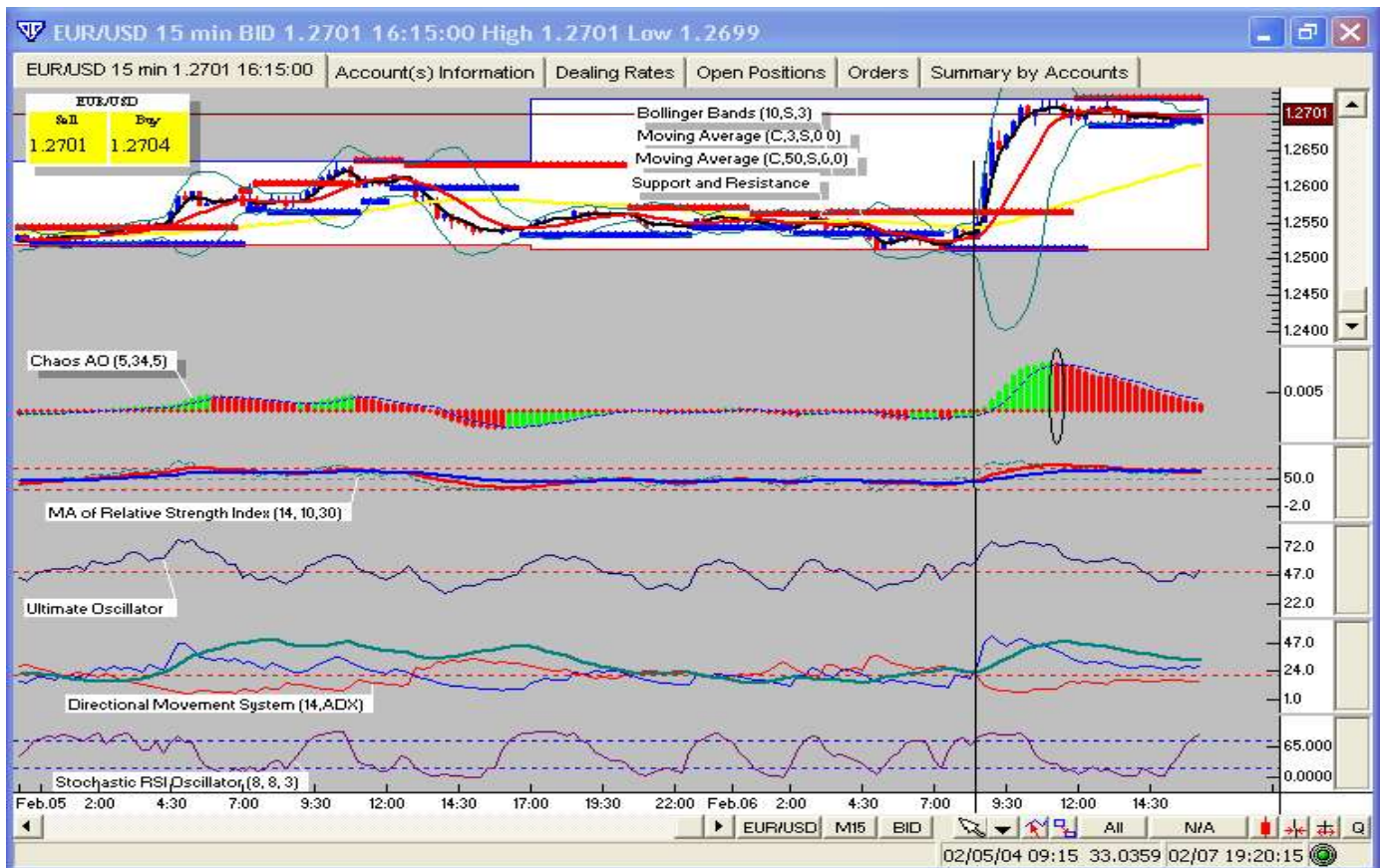
Either way look at where you would have bought, it was around 1.2550. The first sell signal happened when the Chaos turned red about 10 minutes later and you could have sold at 1.2600 for a 50 pip profit.

At about 8:45 you could have jumped back in long and taken another approx. 50 pips right before 8:59 am.

A total of almost 100 pips in just 24 minutes!

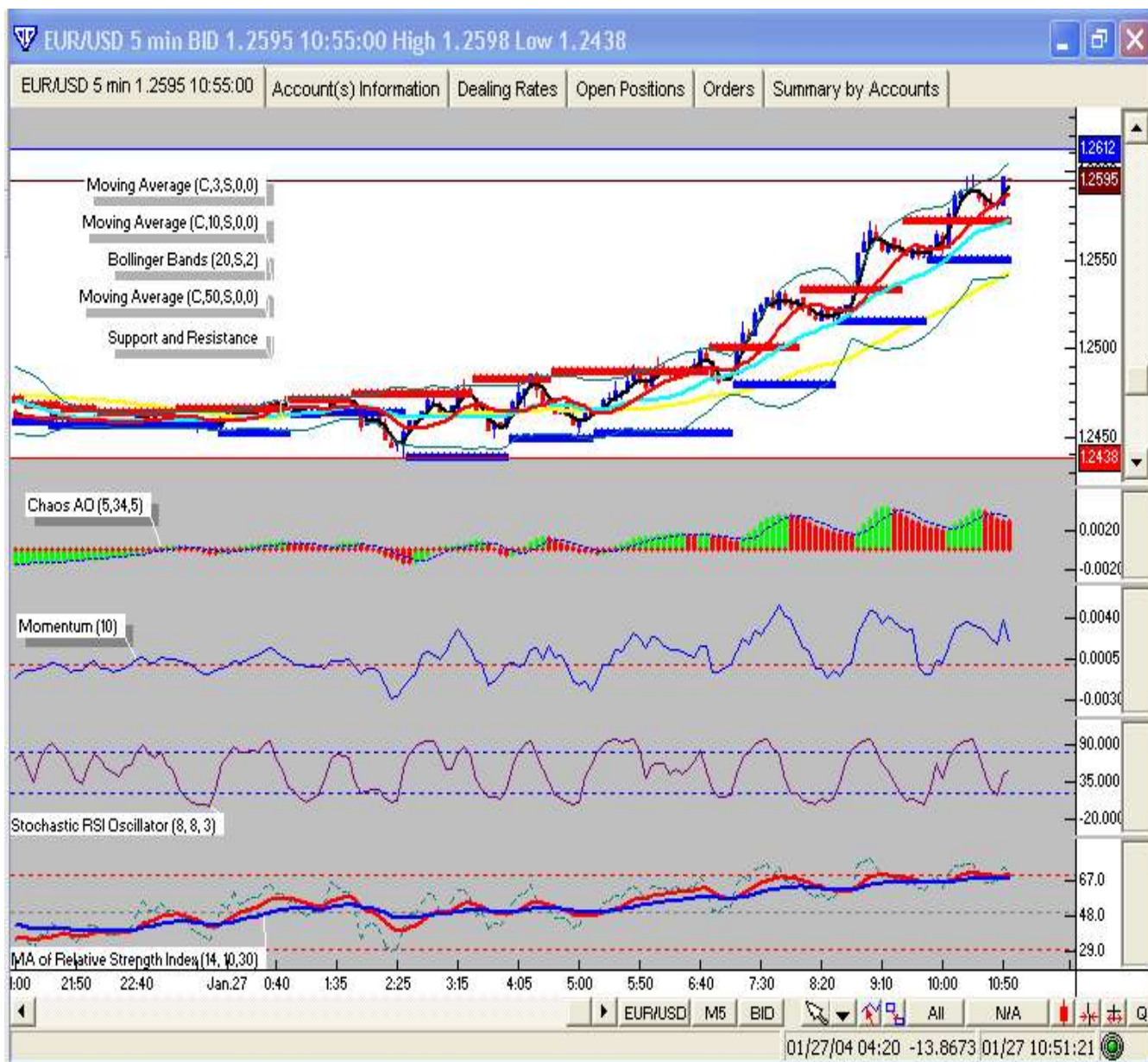
This trading strategy is great for those people with a J.O.B. to go to!

Here's the same news breakout trade shown in the **15 minute chart**. Look at how you could have made another 50 pips if you would have stayed in the trade longer:



Notice how the long time period before 8:30 am EST was quiet, not any market movement. All the traders were waiting for the big US economic news release. Then, the Chaos broke above it's zero line, the red MA line crossed above the blue line, the Ultimate Oscillator was above it's 50 line, the blue DMI line crossed above the red DMI line and the StochRSI crossed above it's highest line....all very bullish signals.

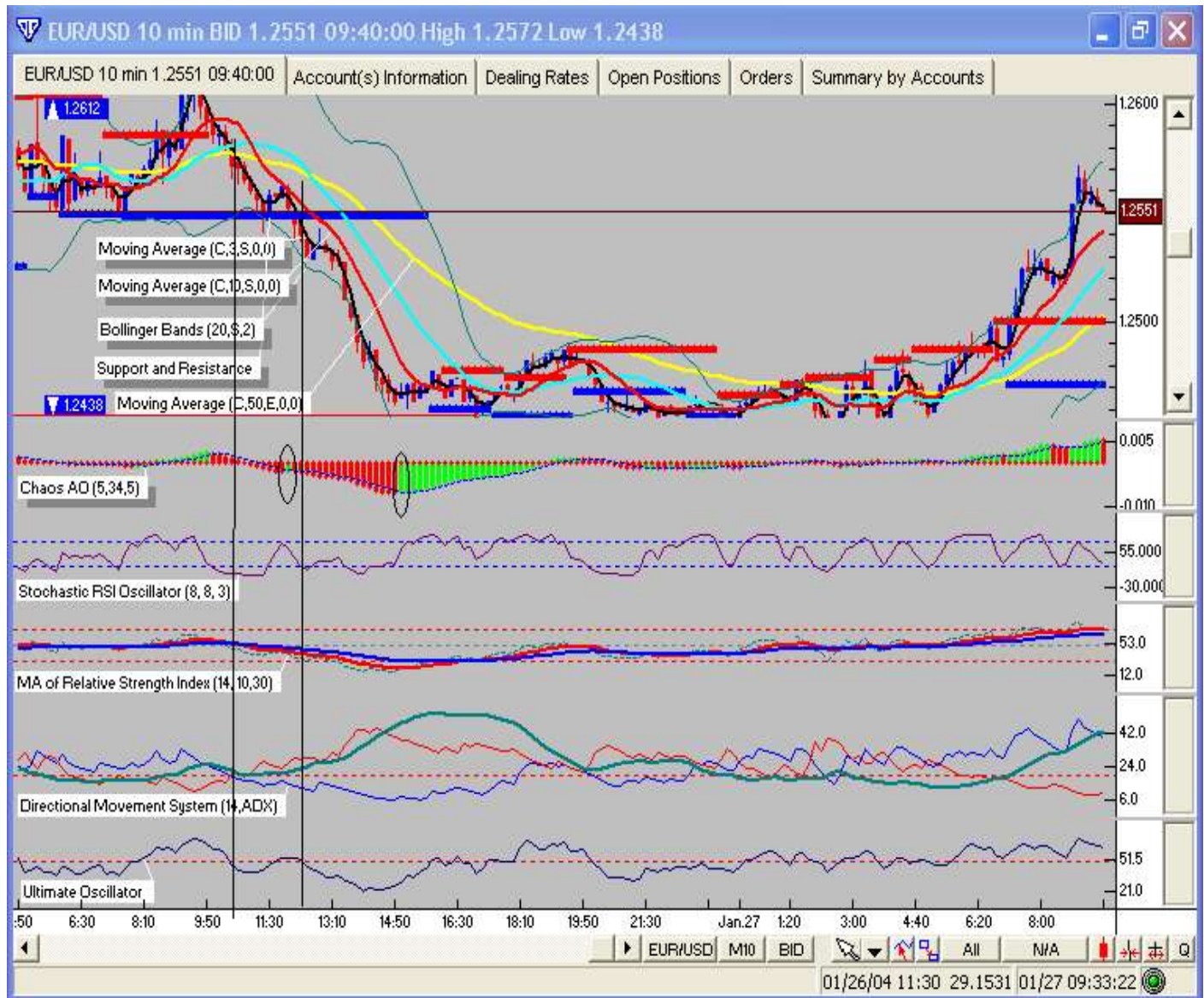
The next screen shot shows a "Secret Weapon" trading session in the 5 min chart:



This was an usual trading session where you could have played the shorts and longs for a 20-30 pip ride each way, starting just after 1:35 am EST. Right at 7:00 am EST is when the US market opens, making for increased trading volume and volatility.

Next, we'll show a Secret Weapon screen shot of a 10 minute trading session:

You could have entered short a little earlier, when the black 3 sma crossed down below the red 10 sma. When you did enter short, the StochRSI was at it's low point, the MA of RSI had crossed down and the RSI was below it's 50 line, the DMS had crossed with the red line crossing above the blue line, and the Ultimate Oscillator had crossed down below it's 50 line.



See how the 3 sma flattened at the bottom in both trades before the Chaos turned green? That was your early warning sign that the down momentum was waning and get ready to take profits. Then take profit when the Chaos turned green.

In the first short play, after taking profit, you could have jumped back in short, as the black 3 sma had touched the 10 red sma and bounced back down. The Chaos turning red again is a confirmation of the continued downtrend. The Ultimate Oscillator also broke down thru it's 50 line again, signalling a bearish continuation.

Notice that you want to avoid trading when the Chaos and the MA of RSI are flat and when the black ADX line is under the red and blue DMS lines.

Here's a Secret Weapon trading session in the 30 minute chart:



The entry point is the line and the exit is the oval when the Chaos turns color. This screen shot shows you how to get involved in just the biggest moves. If you can leave your computer on all day and nite and simply monitor your 25-35 pip trailing stop when you're able, you can have stress-free trading. You can let yourself either get stopped out or, if you're awake at the right time, you can take profit when the Chaos changes color.

As always, it's best to stay with a trade and monitor it and move your initial stop to breakeven before you leave your computer.

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#### **a. More “SECRET WEAPON” Advanced Trading Tips**

1. The slower 10 SMA line is a really good trend line...if it's flat, the trend is flat and you don't want to enter because you'll get whipsawed.
2. Especially watch the Momentum, it MUST be above or below 0 for a good strong push. Again, the biggest moves come when the Chaos crosses it's zero line, accompanied by Momentum doing the same thing.
3. Watch the flattening of the 3 line for your clue to get ready to sell. When the 3 sma flattens, get ready to sell when it crosses the 10 sma. Sometimes it just kisses the 10 sma and you won't sell. Watch your Chaos and Momentum indicators for the clues to sell. Review the section entitled Finding the Tops and Bottoms.
4. If the middle Bollinger Band (which is a 10 sma) crosses the 30 sma, this is a strong continuation of the move. This is usually a breakout, and it's what we're hoping for, waiting for. However, be careful around the 30 SMA, as it can act as resistance.
5. The black line must not be under both the red and green DMI lines to enter either a long or short position. This is a consolidation period with little movement. Avoid whipsaws and 'stay aside'...wait for the bigger moves.
6. Remember to put in your stop immediately after you take your position, and make it a 10 - 15 pip stop in the 1 min chart, a 15 - 20 pip stop in the 10 min, and 20 -25 pip stop in the 30 min chart. However, don't let yourself get stopped out, close the position immediately when you're sure it is not doing what you want.

#### **b. Protecting Your Profits**

When your position breaks even and goes into a 20 – 25 pip profit, move your stop to breakeven. If the price moves into more profit, keep moving your stop every 10-20 pips. Don't ever sell a position out of fear, rather let your stop sell for you...except when you see it topping or bottoming and all your indicators say it's time to sell, you've reached maximum profit, then sell when the 3 sma either crosses through the 10 sma or the Chaos turns another color. Again, you should review the section entitled Finding the Tops and Bottoms.

We take every perfect setup and lots of small profits in the hope that one of the plays becomes a breakout, so we play them all, but only when all of our indicators are in agreement. You only need one good breakout in a day for a good daily profit. If you're playing during the busiest time of the day, you can usually catch a breakout early and be done for the day.

There's no need to hold dangerous overnight positions and no need to hedge.

### **c. How to Use and Interpret SMA in the “Secret Weapon:**

The beauty of using SMA in a moving average crossover combo, is that the faster more current SMA line **FLATTENS** as the price movement slows down and starts to reverse (this is all behind the scenes in the math algorithms) so it forewarns us when the price is about to change trend dramatically.

**We prepare to sell our position when the fast 3 SMA line FLATTENS.  
We sell our position when the fast SMA crosses the slower 10 SMA.**

And, the slower 10 SMA line, which is a little more lagging in reflecting the price, also flattens when the trend is reversing. It's a good warning to NOT jump into a trade no matter what the other indicators say, until this slower 10 SMA line shows a clear trend, either up or down.

This keeps you from quick unexpected movements of the price, which is what we call 'whipsawing'. It keeps you from jumping into a play too early and possibly getting stopped out.

If you wait for the slow 10 SMA line to show a trend, then it's much safer to jump in, with less possibility of 'whipsaw' or getting stopped out. Also, remember that if the black DMI line is under both the red and green DMI lines, this is a 'stay aside' time of consolidation.

## **Chapter 24**

### **HEDGING:**

**TO HEDGE OR NOT TO HEDGE, THAT IS THE QUESTION!**

Hedging is often used to control risk and to eliminate market exposure without "realizing" a loss.

To hedge, you buy one long position and sell a short position. They do not cancel each other out and you use no extra margin. The trader can then manage each position separately, using stops, limits, or market orders to close each "leg" at the most opportune time.

By learning to hedge your short or long positions, you will protect yourself if the price makes a sudden move up or down.

A good knowledge and background on hedging is needed before you implement this approach. There are pros and cons in using hedging.

Hedging a single currency (by means of opening two opposite positions) is basically freezing temporarily your account. This gives you time to think and check the market movement. Hedging can be used instead of stops to do trades without any loss, if you know what you're doing.

If a position dramatically turns around on you & starts going in the wrong direction, you can immediately hedge that position & close out the old position.

#### **A. IMPORTANT NOTE: HEDGING DOES NOT USE UP MORE MARGIN!**

Hedging a position means that you click the Hedge box and then put on an opposite trade. You have now frozen both trades without using more margin.

#### **B. The Realities of Hedging**

##### **Hedging is costly:**

For new traders, hedging seems to be the perfect tool to avoid losses. Keeping losses unrealized seems to be the objective. The truth is that in Forex, you have to keep taking losses (but let them be small).

##### **4 reasons why hedging is costly:**

1. You have to pay for 2 spreads. We should all know how important it is to keep costs low.
2. You suffer the full extent of the interest spread.
3. Inexperienced traders will keep accumulating hedged positions (take new positions and hedge them as well) as they have no urgency to deal with the position.

4. Makes keeping track of performance difficult. You will get a lot of 'small' profits and 'large losses'. Especially when you re-hedge after an unsuccessful un-hedging. Believe me when I say that I have seen a 50 pip hedge balloon to over 400 pips. If a trader cannot take a 50 pip hit, would he take a 400 pip one? Soon, the equity will dry up due to additional losses and interest rollover.

I always keep to this formula: small profits + big profits - small losses = long term trading success.

**Reality check:** Forex is risky business. Losses are inevitable in this game. So better to keep them small and manageable. If you can't afford to lose, don't play. Scared money almost always loses. Most times it's just better to take a small loss than get involved in a hedge.

### C. HOW TO HEDGE SAFELY

1. When hedging, you **MUST** check the Hedge box when opening a new position, otherwise you'll inadvertently close out your oldest opposite position, at a loss.

2. Keep your hedging tight. If a trade turns against you, and you don't have a stop in place, either immediately sell your position or hedge it. Don't wait to sell or hedge hoping it'll turn around....it often doesn't.

3. Don't have more than one hedged position...in other words, don't keep accumulating more hedged positions. They become harder to manage and you're just compounding your problems.

4. If you have a hedged position but want to keep trading, do so but try not to hedge again. Take the small loss instead if the new trade goes bad.

5. If you're going to sell one of your hedged positions, make sure that you aren't being caught in a bear or bull trap. For example, your short hedged position is protecting your long position, so make sure the market is not going any lower and is indeed in an upswing trend before you sell your lower position. Otherwise, you may book some profit on your short position, but if the price keeps going down, your long is now losing more equity and you'll need to put on another short hedged position to keep your long from losing more money. This example will just eat away your equity and usable margin, unless you're very careful.

6. Be careful when desiring to close out just one leg. If you click on 'Sell with hedge' or just 'Sell', you'll sell both legs at the same time. To sell only one leg, in your Open Positions (which you should have moved down to the bottom of your screen), right mouse click on the trade leg you want to sell and select Close...then confirm your sell order.

When closing out one leg at a profit, you DO NOT book more equity or useable margin, it only adds to your account balance.

7. Never get caught with two long (or two short) open un-hedged positions. This eats up too much equity & useable margin if the price goes in the opposite direction. If you want to keep both longs (or shorts) hedge them immediately.

8. Always use hedging in an emergency....if your position takes a dramatic turn, you can safely hedge without using up more margin. Then sell your old position immediately. Hopefully, your new hedged position will earn new profit to make up for the loss of the old position.

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## **Chapter 25**

### **THE LEARNING CURVE**

The learning curve in any endeavor involves four stages:

1. Unconscious incompetence (where the trader has no idea how much he or she does not know about trading).
2. Conscious incompetence (where the trader realizes after initial losses that he or she has a lot to learn).
3. Conscious competence (where the trader has developed and is now doing well as long as he or she works in his or her system and it's rules).
4. Unconscious competence (where the trader has mastered the rules and also knows when to break the rules as conditions change, in a complete flow with the markets based on great experience).

We attempt to teach these things as simply as possible...it just requires you to be patient in your learning process and take it slowly and repeat the lessons several times...it will become clearer to you with repetition and practice in your demo account.

We guarantee, however, that if you are patient with the learning process and spend the time to learn the complexities of the few technical indicators that we teach, that you will be a happy and successful day trader, and WITHOUT spending more than a few hours each day trading!

### **A. Remember \*\* WHY \*\* we want to day trade versus position trade?**

- 1) We want to spend only a few short hours each day trading, sometimes just a few minutes!
- 2) We don't want to hold any overnight positions!
- 3) We don't want to hedge!
- 4) We want the fun of the quicker action and quicker profits!
- 5) We want more profits with less risk!

So keep these goals in mind as you learn our trading techniques!

Be patient in your learning process and keep in your awareness that if you learn this trading system successfully, you will have a cash cow system FOR LIFE that is safe, independent, portable and highly profitable.

It will give you the freedom to quit your J.O.B. (just over broke) and travel the world and earn a great living, with just a portable laptop and your debit card!

### **B. The Trading Mind Software**

Your goal is to learn and practice the indicators well enough so that your analysis and response becomes instant, unconscious, automatic and perfect!

If you need or want help to achieve this goal, check out the very important Mental Training for Traders! It will help you make your trade analysis and response process instant, unconscious, automatic and perfect.

Do any of these subjects interest you?

"Coping With Losses", "Handling Fears & Emotions",  
"Maintaining Focus", "Winning Mindset",  
"Maintaining Discipline", "Strength To Take Losses",  
"Reverse Bad Trading Habits", "Visualize Success",  
"Control Over-Confidence", and "Living in The Success Zone".

If so, order the Trading Mind CD, it's good for traders in any market and there's no risk, it comes with a 90 day money back guarantee.

WOW! This really works \* EFFORTLESSLY \*!

Here's the link:

<http://directyourmind.directtrack.com/ad/38/CD94/>

Take a free test drive! They offer free use of the Maintaining Focus training session!

**C. Here's a special item that you should print out and tape to the wall beside your computer and you should read it several times a day:**

### **The Tao of Trading**

- ~ I believe I am or will be a successful trader.
- ~ I believe I can achieve excellent results in my trading.
- ~ I believe I can identify and execute winning trades.
- ~ I believe I can trade with confidence.
- ~ I believe I can trade effortlessly and automatically.
- ~ I believe each day's performance is fresh.
- ~ I believe I am personally responsible for all my trading results.
- ~ I believe I can be successful without being perfect.
- ~ I believe my performance, as a trader, does not reflect on my self-worth.
- ~ I believe one bad trade is just that.
- ~ I believe trading is a process.
- ~ I believe Glen Campbell should have quit when he was ahead.
- ~ I believe that by believing in myself and in my proven methodology, and by approaching trading each day with a fresh, positive state of mind, I possess the ultimate trading edge.

## **Chapter 26**

### **Introduction to The Psychology of Trading "IN THE ZONE"**

The following excerpt was taken from the chapter Trading Psychology and Money Management, from Price Headley's book, Big Trends in Trading.

edited by Cynthia Macy

Most amateur investors will bail out of an investment program after three straight losses.

How you handle losing trades psychologically is a cornerstone to your ability to prosper in the markets. Losing properly (by losing small and continuing to make your trades) makes winning possible.

**You have to learn to accept your losses**, because if you're not willing to take the chance that a trade could lose a pre-defined amount (by using a stop), you will be afraid to trade or will be scared out of a good position as soon as you get a small profit.

This defeats the goal to score big when you are right. A successful trader's mindset must accept losses as a necessary and beneficial part of the trading process when handled properly.

**You must have the discipline to always cut your losses or keep them small.** You must resist the temptation to say to yourself "It will come back". That type of thinking has ruined many traders.

This is the main thing that will allow you to stay in the game long enough to become successful. If you have discipline and patience, the end result will pay off for you. After all, this is the greatest game in the world, and it's the fastest way to wealth!

When I'm in the zone as a trader, I am totally focused and absorbed in the moment. Time seems to expand, my mind is clear, and I know what is coming next. My indicators speak clearly to me and I obey them automatically.

And being a part of this "now" moment is what makes me, as a trader, perform at the highest level. My ego is not dreaming of riches or fretting over bills to pay – it's just along for the ride. My trading is not tied to my self-worth as a person.

You will reach your trading goals by increments – once you accomplish one goal, you celebrate that success and then set another higher goal. Peak experiences seem to occur often in what many individuals call "the zone".

"The zone" is a state of transcendental well-being, an altered sense of time, or being on a high, a state of focused energy, a euphoric state of optimal performance, exhilarating, uplifting, with a sense of mastery and control and invincibility.

Others describe the zone as radiant happiness, laser-sharp intuition, a total absorption in the present moment, with no self-consciousness or distractions.

This state of mind has been called “intrinsically rewarding” because it epitomizes the love for the game itself, and not so much the outcome. All great traders have a basic love for the game itself because the emotional rewards are so great.

The zone is a rarely achieved psychological state, but once you have been there, you will want to return to the zone again.

One of the keys as a trader is that you must spend the time necessary to make trading skills “automatic” and create winning trading habits. Preparation and practice make for proper skill development. By making these actions automatic, the mind can be totally absorbed within the zone.

What is the key to success? Dedication. The more you practice, the better you get. And you MUST believe in yourself and your ability to succeed. Keep your thoughts and behaviors positive, and you will increase your odds of a favorable outcome in your trading.

The following article will give you some good pointers and guidelines on how to keep your mind and emotions positive, which can only, with time, lead to you trading “In The Zone”.

Check out the Psychology of Trading “IN THE ZONE” by Cynthia Macy

<http://www.daytrade forex.com/zonetrad ing.pdf>

\*\*\*\*\*

Now you have all of the advanced trading mechanics for you to enhance into an art. Trading is an art form that can be developed with time and plenty of practice.

Go slow, trade with caution, obey the indicators, and only trade when you're not tired or feeling stress.

The currency pairs are made to swing, so trade with ease and without fear.

Quickly close out a losing position...don't dream/hope that it will turn back into profit! It often doesn't!

Don't be radically bullish or bearish, swing trade within the trading range of the day, go with the short term trend.

If you can develop the mental and emotional disciplines to trade according to

these guidelines, you'll do very well and become very successful!

Happy Trading!

Cynthia and Erol  
The Day Trade Forex Team

For questions or assistance please contact us at:  
[support@daytradeforex.com](mailto:support@daytradeforex.com)



## Chapter 27

### Opening a Live Trading Account

If you have found the Advanced Day Trade Forex System useful and helpful and if you decide to open up a live trading account through me (Cynthia Macy) as your Introducing Broker (co-owner and co-author of DayTradeForex.com), I will personally give you the customer service and support to assist you with your new account. My service will NOT cost you any extra money. Here is how you open a live trading account.

1. Go to <http://www.cms-forex.com> and under the Sign Up Tab on the top, scroll down to Live Account Sign Up. Choose the IB-Referred Individual (In the circle on the bottom of the picture), and follow the instructions.
2. When filling out your CMS forms, please use my **company name Cynthia, Inc.**, as the third party that referred you. This is on **page 23** of the CMS **IB-referred** application. If you decide to use the online application, **please print out page 23**, print my company name on the top and **sign it at the bottom and fax it to CMS**.

Using my **company name, Cynthia, Inc.** as your referrer is FREE and doesn't cost you any commission at all.

**NOTE: CMS is now offering a new client a 3 pip spread for the USD/JPY if you use Cynthia, Inc. for your Introducing Broker.**

Check out the screen shot to illustrate this process...

To open a live account online click **HERE NOW**. To open a live account offline please continue with the following directions.

**Capital Market Services, LLC ::LIVE ACCOUNT SIGNUP - Microsoft Internet Explorer**

File Edit View Favorites Tools Help

Address [http://www.cms-forex.com/modules.php?op=modload&name=EZCMS&file=index&page\\_id=346](http://www.cms-forex.com/modules.php?op=modload&name=EZCMS&file=index&page_id=346) Go Links >>

**REGISTERED FCM** Home Sign Up Resources Support October 15, 2003

**What's New?**

- Latest Updates
- Indicator Execution
- ICTS-VT Transfer Info
- New Trading Platform

**Our Company**

- Company Profile
- Our History
- Press Releases
- Contact Us

**Forex Services**

- Client Accounts
- Introducing Brokers
- Institutional Clients

**Forex Education**

- Live Courses
- Online Courses
- Real-time Coaching
- Virtual Classroom

**Trading Information**

- Types of Orders
- Trading Specifications
- Trading Terms
- Forms & Applications

**LIVE ACCOUNT SIGNUP**

**Notice:** Before you can begin trading, you must complete the following procedure:

1. Select an appropriate contract from the table below.
2. Fill out and sign the applicable pages.
3. Fax/Mail/Email the above pages, and copies of two identificational documents to us.
4. Immediately notify us that you have sent the documents by emailing [account@cms-forex.com](mailto:account@cms-forex.com).
5. Funds should be sent **ONLY AFTER APPROVAL** of your account.

**What to Send Us:**  
Fax copies of two identificational documents (ie: passport and/or driver's license), and the pages specified in the below table, under the type of trader which applies to you:

| Account Type           | Contract                        | Instructions                                                                                                                                                                                                                                                                    |
|------------------------|---------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Individual             | <a href="#">online contract</a> | Fill out secure online contract, then print, sign, and fax/mail/email the last page.<br>If you experience problems registering via the online contract, you may download the contract, fill it out, sign, and fax/mail/email pages 1-6, 12, 13, 16-18.                          |
|                        | <a href="#">download .PDF</a>   |                                                                                                                                                                                                                                                                                 |
|                        | <a href="#">download .DOC</a>   |                                                                                                                                                                                                                                                                                 |
| IB-Referred Individual | <a href="#">online contract</a> | Fill out online contract, include IB's (Introducing Broker) name where applicable, then print, sign, and fax/mail/email the last page. Page 23 must also be filled out, with the IB's name included where applicable. Click the download links to the left to obtain this page. |
|                        | <a href="#">download .PDF</a>   |                                                                                                                                                                                                                                                                                 |
|                        | <a href="#">download .DOC</a>   |                                                                                                                                                                                                                                                                                 |

Sign Up Internet

On the bottom of page 23 (of the CMS application). where it reads:

10. Client understands and agrees that there may be commission implemented on his account. If such commission is added, its size is the following (in USD or another base currency):

**Universal Account:** Commission per one **100K** lot \_\_\_\_\_;  
and/or per one **10k** mini lot \_\_\_\_\_; **Professional Account:**  
Commission per one **250k** lot \_\_\_\_\_ **Exclusive Mini Account:**

Commission per one **10K** lot \_\_\_\_\_

---

Simply put the number '0' in the blanks as I will not be charging you any commission as your Introducing Broker (IB). Sign and fax this to CMS along with your other information and forms.

Also, you want to choose the Universal Account, which allows you to trade either mini lots or full lots in the same account.

CMS will correspond with you by email every step of the way.

A tip for applying: Your photo ID must be blown up sufficiently and be light and clear enough that they can see your face. If your image is dark, it faxes to them even darker. They will ask you to fax a lighter image. If you can scan your photo ID to them, it comes thru better.

Funding your live trading account:

1. CMS' clients can now deposit money into their account through PayPal. The CMS account at PayPal is: [pay2@cms-forex.com](mailto:pay2@cms-forex.com). Please include your email address that you signed up with and your account name and number in the memo area for proper credit to your account.
2. Bank wire transfer: please follow instructions on the CMS website

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Thank you kindly. For questions or assistance with opening your live account you can contact me at [support@daytrade forex.com](mailto:support@daytrade forex.com)

Kind Regards,

Cynthia Macy  
President of Cynthia, Inc.  
Co-Owner of DayTradeForex.com

**Winning Flag Formations is on the next page!**  
**Chapter 28**

**WINNING FLAG FORMATIONS WITH AN 80% WIN RATIO**

## **WINNING FLAG FORMATIONS WITH AN 80% WIN RATIO**

By Adam Grimes, from SFO Magazine Aug/Sept 2003

Edited by Cynthia Macy for Day Trade Forex

### **A. FIND HIGH-PROBABILITY ENTRIES WITH A BASIC CHART PATTERN**

One of the hard lessons a new trader learns is that markets do not move in straight lines. A trade is initiated, the market moves a little in favor of the trade, then dips back against the position. This back and forth movement continues until the trader gives up and dumps the trade at a loss. Of course, the market then immediately takes off like a rocket, and the trade would have ended up being very profitable “if only it had been held a few more (minutes, hours, days)”!

Some new traders repeat this process many times before giving up in exasperation.

The reason this happens is that the trader does not understand the fundamental structure of the market, which is that markets alternate between periods of trending activity and trading ranges. This is why when a trade is initiated in a “hot” fast-moving market, the market often goes flat and dead as soon as the trade is put on.

Traders must learn to see this underlying structure in the market so that they may make trades that take advantage of it. What was formerly a source of frustration to the novice trader becomes the basis for a high-probability trading methodology that can offer a high percentage of winning trades, excellent win/loss ratio and clearly defined risk management points.

Retracement patterns in trends are a fundamental, enduring element of market structure. These patterns worked a hundred years ago, they worked through the dot.com bubble and subsequent crash, and they continue to work in today's contracting/expanding volatility environment.

These patterns appear and are tradable in all active markets and all timeframes. These principles could be applied equally well to intraday futures, daily forex, or even to monthly stock charts.

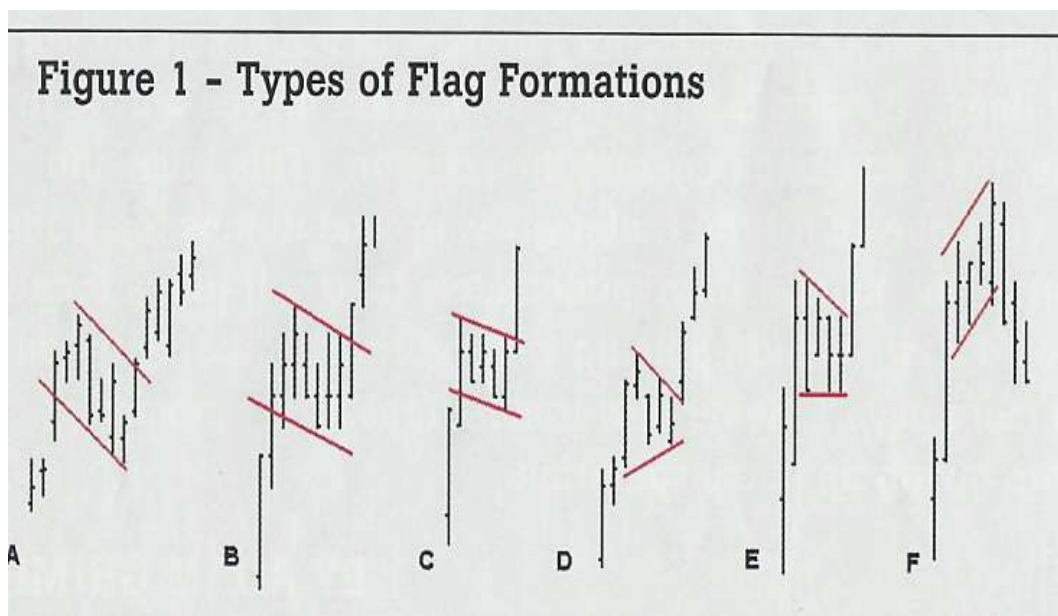
### **CONTINUATION PATTERNS: THE TREND WILL CONTINUE**

Traditionally, authors have used a variety of terms to describe the chart

formations that result from the market's tendency to pause between impulse moves: flags, pennants, rectangles, wedges, diamonds, boxes, corrective waves and x-y-z retracements.

These patterns, which form on bar charts in any timeframe, are technically known as retracement patterns or continuation patterns and are visual representations of the market's tendency to pause and to consolidate between impulse moves.

To simplify matters a bit and to keep terminology consistent, we will refer to all of these chart formations under the broad term "flag". Here are some examples of flag formations:



**Examples A, B and C in Figure 1 show ideal retracement patterns in bull markets.** These identical patterns appear, inverted, in bear markets. Important structures to note are the parallel trendlines (drawn in red) that contain the formation, and that they all slant back against the trend. Examples D and E also slant against the trend, but they have converging trendlines. These structures are traditionally called triangles, wedges or pennants. **Example F shows a pattern to avoid.** Notice that this pattern slants with the direction of the trend. More often than not, these types of patterns lead to reversals rather than continuation.

## THE POLE

All of these patterns are preceded by a fairly sharp impulse move that forms a

pole on the chart. This pole is a pattern of several bars that is a visual representation of the strength of the trend.

If the pole is too short or too shallow, or if it is made up of only one large bar, it may be an indication that the trend is not strong enough to generate high-probability flags. The best retracement patterns will occur in strongly trending markets, and these will set up poles that contain more than one bar.

Eventually, the move that formed the pole will expend itself, and the market will go quiet. The market starts to trade within a fairly narrow range, and this range usually slants against the direction of the pole.

In other words, if the pole was going up, the flag will tend to float back down. Bull flags usually have a downward bias, and the expectation is that price will break out of the flag and continue the uptrend.

Bear flags occur in downtrending markets and usually slant upward. Then the price will continue downwards.

**Flags that slant in the direction of the trend often lead to poor trades.** It is almost as if the energy in the flag pattern is being expended in a slow trickle; these types of patterns often lead to significant reversals. These are not good trading formations – avoid trading flags that slant the “wrong” way.

Most of the time, there will be a sharp break out of the flag formation. About two-thirds of the time, flags will resolve in the direction of the prevailing trend.

Bull flags tend to be followed by a move up, and bear flags tend to break downward.

No trading methodology is without its losses, and there are certainly times when the market comes out of the “wrong” side of the flag. A consistent stop loss is needed to exit losing trades before they become large losses.

### **WIN RATION OF 69 %**

Retracement patterns have a verifiable, statistically valid edge. Trading every flag that forms in a trending market will result in a win ratio of about 69 percent, but it is possible to increase this win ration to about 80 percent by taking certain elements of market structure into account.

The first and most important rule: do not look for flags in trading ranges.

Flags result from the natural alternation of impulse and consolidation that occurs in *trending* markets.

Though chart formations which resemble flags may form in trading ranges, they are not true flags and do not have the same probability of continuation as true flags. It is necessary to be sure the market is actually trending before looking for retracement patterns.

## KNOW WHEN TO EXIT

When looking for the best patterns to trade, the shape and appearance of the flag also can be used as a filter. The best flags will be fairly tightly contained patterns. Beware of flags that have a lot of back and forth spikes and of flags that take too long to form.

Continuation patterns tend to end fairly quickly – if a pattern takes a long time to form, there is actually a higher probability of reversal than of continuation. Again, this is something that will vary a bit from market to market, but 20 bars on any timeframe is a *very long time* to wait for a flag to resolve itself. If you have entered such a pattern and the flag does not “kick out” within the expected timeframe, exit the trade.

Being aware of the overall technical structure of the market is also important.

The best retracement trades will come at significant turning points. For instance, imagine that the market has been in a downtrend, makes a basing pattern, and then gives signs of a upside reversal...or that a market has been locked in a small, tight trading range and breaks out to the upside. **The first retracement after either of these scenarios would be an exceptionally high-probability trade.**

## THE TRADE ENTRY

Once the flag pattern is visually identified, it is time to start considering entry criteria, profit targets, and stop loss levels. Buying a bull flag as it sets up (or the reverse, selling a bear flag as the market is rising) is, in essence, initiating a counter-trend trade against the short-term trend of the market. If this entry technique is used, the trader needs to be aware that the market often will continue to work against the position for a short time, and the trade certainly may fail outright. An initial stop must be used to limit the loss if the flag never turns back up.

It is also possible to wait for the market to turn and enter once the primary trend has already resumed. One way to do this is to use a very short-term breakout system, such as Day Trade Forex teaches, like buying above the high of the previous bar while a bull flag is forming.

This entry technique sacrifices initial trade location in return for some added

confidence that the trend has turned and the market is moving in the “right” direction.

Either of these entry styles can be profitable – the choice will depend on the individual trader. Most traders find one entry style suits their personality and feels much more natural to them than the other.

It is also possible to enter at Fibonacci retracement levels, or to set mechanical entry levels based on an average true range (ATR) or percentage function. Or, use the double Bollinger Band set up, with one BB using the standard deviation of 2 and the other BB using a deviation of only 1. You'll then have 6 BB lines to use for support/resistance and stops and limits.

For example, a trader could decide always to buy once a bull flag retraces a fixed percentage from the swing high. Each market develops its own characteristics and tends to pull back more or less the same amount each time. If you become familiar with a specific market and examine its recent retracements, you will easily gain a sense of how big the average pullbacks in that market tend to be.

## **STOPS ARE NEEDED**

Though trading retracement patterns is a high-probability trading methodology, there are still losses, and stops must be used to limit these losses.

As a general rule with any trading system, larger stops will work better than very tight stops. It is possible to set stops based on visual chart inspection (good retracements usually respect recent swing points) or on Fibonacci levels (if the trade is entered at the 50-percent retracement level, perhaps the stop could go just beyond the 62-percent retracement level).

With the high-probability trading strategy, the highest win ratio will be achieved if the initial stop is somewhat larger than the anticipated profit.

This goes against much of the conventional wisdom that says profit targets should be several times the size of the risk, but tests out well in real-time trading.

**A stop loss twice the size of the anticipated profit is acceptable if you can achieve a win/loss ratio over 75 percent.**

Note that this refers only to initial stop placement – as the trade works, the stop should be pulled in to reduce risk. This is taught in our Day Trade Forex courses as the “The Trailing Stop”.

When used to predict the near-term direction of the market, flags are very high-probability patterns. However, be careful of trying to predict too far into the

future with these patterns; accuracy and profitability fall off the farther into the future one looks.

Highest win ratios will be achieved by playing for the smaller targets, but this technique may also be used to establish positions in trending markets and to play for a larger win.

Whatever exit technique is used, the trader should be aware that flags usually give rise to ***one*** push out of the formation. If this push falls short of the profit objective or does not extend as far as anticipated, the trade should be exited or stops ratcheted up to lock in profits. *Never* let a winning trade turn into a loser when trading these patterns.

An easy exit technique is to keep your trailing stop as tight as your trading platform will let you, and simply let yourself get stopped out. If it turns into a minor retracement preceding a major breakout or breakdown, then you can always jump back into the trade, if all your other indicators say go!

## **FLAGS SHOULD PAY OFF QUICKLY**

Sometimes the market will go flat after entry or the market may move against the position for some time.

If the market goes flat after entry, the trade *must* be exited.

If the market goes against the position, your stop must allow enough time for the trade to work. However, remember that even 20 minutes is a very long time to wait for a flag to resolve itself. If it's taking that long, it's best to exit rather than risk a large reversal.

Even the bad trades can give a "grace period" for exit by trading sideways. Once a mistake is realized, it must be quickly corrected, and no one is ever immune to errors and mistakes.

## **SIMPLE CAN BE BETTER**

In trading, simple is often better. Retracements are simple patterns that work. Certainly there is more to profitable trading than knowing when to enter a market, but if you do not know how to identify low-risk entry points, then chances are you will not be profitable in the long run.

Retracement patterns offer excellent trading opportunities. In fact, it is possible to build a profitable trading program based on these patterns alone. These are enduring and robust patterns that offer insight into the deep, true structure of trends and provide a consistent, low-risk entry methodology.

To Your Success!

The Day Trade Forex Team