

The

ForexPower

Trading System©

By Alan Johnson

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Introduction

It's been said that between 90% and 95% of all traders lose while only 5% to 10% win. Most people think that winning traders are winning traders because they have come up with a winning trading system. Although a winning trading system is important it is certainly NOT why some traders win. It's possible to have a losing trading system and still win money as long as you manage the trades properly. It's possible to lose 3 out of every 4 trades and still win money consistently by keeping the losses small and allowing the winners to get big.

However, losing 3 out of every 4 trades is not our goal. I want to teach you a winning system, one that will produce winning trades 65% to 80% of the time. You might be surprised when I tell you that a winning system is really not that difficult to come up with, but in actuality there are many winning trading systems. And if what I say is true, that it's easy to come up with a winning trading plan, then why do 90% or more of the traders lose? Two words: mental weakness.

Even after you find a winning system you still have to trade it and that's where it can get tough. If you could enter a trade and then have the market immediately move a large amount in your favor trading would be easy. But it doesn't work that way.

The typical inexperienced trader will get stopped out on the losing trades, taking a loss, and then exit too early on the winning trades, not getting the full possible profit. The key to winning consistently is to come up with a winning trading system and follow it, no matter how difficult it is. A winning trader with a winning trading plan knows that he will win 2 out of every 3 trades, or 3 out of every 4 trades, or 4 out of every 5 trades, but he sticks with his plan all the way on every trade, win or lose. He may have 3 losing trades in a row, but on the 4th trade he continues to follow the plan exactly. He doesn't deviate from the plan because he's had a bad streak. He doesn't exit a trade until his plan tells him to.

Sticking with a predetermined plan, and not deviating from it, is the key to successful trading. Some traders can win 3 out of every 4 trades and still end up losing money. Why? Because they exit winning trades too early, turning potential big winners into small winners or even losses. The only way to become a successful trader is to let ALL of the trades play out according to a predetermined plan.

Here's a typical scenario for a losing trader:

Trade 1: He places a trade and the market moves a little in his favor. He's excited. He has a small profit. The market then turns around and moves against him a little bit. He starts getting tense as the price moves further against him. He remains tense for a half hour before the price moves back in his favor. Pretty soon he's got a 15 pip profit. He's happy again. But then it starts reversing again and he watches his profit drop from 15 pips to 12 pips to 8 pips to 4 pips. He then exits the trade with a 3 or 4 pip profit. Over the next 2 hours he watches the market move back in his favor until it is 50 pips in his favor. He's even more stressed now because even though he picked a winning trade he exited too early and didn't get the maximum profit out of it.

Trade 2: He enters another trade and it moves against him and then starts **ranging** (trading sideways - not moving higher or lower). He is in agony for a long time as the price hovers and has no clear direction. Eventually the price moves back in his favor 20 pips. The price then starts to move against him again and when it gets down to a profit of 5 pips he again exits the trade with a 5 pip winner. The price eventually moves back in his favor for what would have been a 100 pip winner if he hadn't exited too early.

Trade 3: This time he decides that he will NOT exit the trade too early no matter what happens. He enters another trade and the price immediately moves against him. It turns around and moves in his favor 15 pips. It then starts to move against him again until he only has a 5 pip profit. He says to himself "I am NOT going to exit the trade too early this time." He stays in, but this time the price keeps moving against him until it gets close to his stop price. He now wishes he would have gotten out with a 5 pip profit. As the price continues moving against him he knows that it will soon stop him out for a loss, but he also knows that the price will soon turn back in his favor and he doesn't want to get stopped out before it does. So he moves his stop loss another 15 pips further away from the price. The price then continues to drop until it stops him out for a 45 pip loss.

Trade 4: He enters a trade and the price moves in his favor 20 pips. The price then reverses and pretty soon he has a 10 pip profit. He doesn't want to get another big loss like the last one so he exits the trade with a 10 pip profit. He then watches as the price moves back in his favor. He gets even more tense when he sees that it would have ended up as a 40 pip winner if he had stayed in the trade.

OK, so how did the inexperienced trader do? He won 3 out of 4 trades, but still ended up about 20 pips in the minus. If he would have waited for an exit signal to exit EVERY trade he would have had some very good profits, but he panicked, making him a loser instead of a winner. Trading seems easy, but it's not. Once you have your hard-earned money on the line it can get a whole lot tougher. However, if you want to be a winning trader you need to come up with a plan and you need to stick to it.

What you're going to discover in **ForexPower** is a powerful trading plan. You will learn when to enter a trade, when to exit a trade, when to raise or lower your stops to protect your profits, and most importantly, how to manage a trade. Managing a trade properly, including when and how to add to a winning position, is the key to successful trading. Learning how to add to a winning position so that you can take out huge profits during a good trend is the best method of making the most money in the safest way. Managing a trade properly is even more important than the actual trading system itself. It's possible to double your account balance in a relatively short period of time with the techniques I will teach you in this book.

Another important element of trading is money management. Improper money management is without a doubt the biggest reason traders lose. If a trader has too much money at risk on any one trade they will have a much greater tendency to exit trades too early. This book will teach you when to enter a trade, how much money to risk on any one trade, how to manage the trade, how to protect your profits, and how to exit a trade. These elements must be learned if you want to become a winning trader. Following the rules in **ForexPower** can help you become a successful trader.

Forex Market Basics

Forex Market Basics

Before you can trade the Forex market you must first know what it is and how it works. Forex is short for "**F**oreign **E**xchange." Foreign exchange is the simultaneous buying one currency and selling of another currency.

Why trade the Forex?

The Forex market has become an extremely popular venue for traders all over the world. Anyone with a computer and a good internet connection can trade the Forex market, making it accessible to almost anyone wanting to trade. And since there is as much as 3 trillion dollars traded daily in the Forex market it has very good liquidity.

When I first started trading twenty-five years ago there were no home computers to trade with. The only people in the Forex market were major banks and institutions. I started trading the futures markets (also known as the commodity markets) and each time I wanted to place an order it had to be called in by phone. There was no computer available to me that had real-time streaming prices. To get a current quote I had to call my futures broker, which I did regularly throughout the trading day.

When I wanted to place an order I would call my broker and tell him what I wanted to buy or sell and at what price. As I waited on the phone he would place the order and then after about 30 seconds I would get a confirmation of my order. If I wanted to buy a futures contract at the current market price there would usually be a lot of slippage due to the lack of liquidity. If I wanted to buy corn at \$2.20 I would probably be filled at \$2.25 by the time my order was placed. When I wanted to exit a trade I would have to call the broker again. It was really a very stressful way to trade.

The worst thing about trading the futures market twenty-five years ago was the slippage. Since there was not a lot of liquidity, not a lot of trading volume, the prices could be manipulated by the big shots. Any time a big institution would place a large order it would move the market a lot in one direction. However, with today's Forex market that's almost impossible to do. Things have changed a lot since I began trading twenty-five years ago. With as much as 3 trillion dollars traded daily in the Forex market there aren't too many people or institutions around that can make the market move in the direction they want it to.

Once in awhile you may see the Bank of Japan intervene and attempt to change the value of the Japanese Yen (called an intervention), causing the currency pairs it's associated with to move several hundred pips. But even when that happens the price almost always returns over time back to its original level. The Forex market is so vast no one entity can control the market price for an extended period of time. So you can enter a trade in the Forex market feeling pretty comfortable that nobody is going to drive the market against you for the purpose of stopping you out.

Trade day or night, 24 hours a day, 5 days a week

Another advantage to the Forex market is that you can trade any time, day or night. There are major Forex markets around the world, in London, in Australia, in Japan, in the USA, and they are all open at different times of the day. So you can trade 24 hours a day, 5 days a week. Trading begins on Sunday afternoon in the USA and ends Friday afternoon in the USA.

The European markets open at 1:00 AM EST and stay open until 10:00 AM EST. The US markets open at 8:00 AM EST causing an overlap for a couple of hours with the European markets, meaning they are both open at the same time. The end of the US market overlaps the opening of the Asian market. Because each market is open at a different time trading can be done 24 hours a day.

So if the markets are open 24 hours a day which time is best to trade? The simple answer is that you can trade any time. However, certain times do offer more liquidity. There is more volume traded during the European market session than any other session. In my experience the best trends develop more often during the European session than during any other session. But that doesn't mean there aren't plenty of good trading opportunities at other times. There are great trends that develop during all market hours. By following the trading plan taught in this book you will be able to trade any time, day or night.

Forex fundamentals

Currencies are always traded as currency pairs. For example, one currency pair would be the EUR/JPY (Euro dollar/Japanese Yen). When you actually place an order to trade the EUR/JPY you will either be buying it or selling it. If you buy the EUR/JPY it means you want the EUR to increase in value in relation to the JPY. If you sell the EUR/JPY it means you want the EUR to decrease in value in relation to the JPY.

On a EUR/JPY chart, if the price moves higher, it means that the EUR is increasing in value in relation to the JPY and the JPY is decreasing in value in relation to the EUR. If the price drops lower it means that the EUR is decreasing in value in relation to the JPY and the JPY is increasing in value in relation to the EUR.

Notice on the following EUR/JPY chart that the price is dropping lower. This means that the EUR is decreasing in value (in relation to the JPY) at the same time the JPY is increasing in value (in relation to the EUR)



If you want to **buy** the EUR/JPY it means you expect the price to climb higher on the EUR/JPY chart. If you want to **sell** the EUR/JPY it means you expect the prices to drop lower on the EUR/JPY chart. If you buy the EUR/JPY it means you are buying the EUR while simultaneously selling the JPY. If you sell the EUR/JPY it means you are selling the EUR while simultaneously buying the JPY.

Currency pair prices - What do they mean?

If the current market price of the EUR/JPY is 155.60 it means that 1 EUR (Euro Dollar) is equal to 155.60 JPY (Japanese Yen). If the current market price of the GBP/USD is 1.9564 it means that 1 GBP (British Pound) is equal to 1.9564 USD (United States Dollars).

There are many different currencies that can be traded, but it is usually desirable to trade the ones that are the most actively traded, the ones with the greatest liquidity. The **major currencies** are:

- 1) **USD** (United States Dollar)
- 2) **EUR** (Euro Dollar)
- 3) **JPY** (Japanese Yen)
- 4) **GBP** (British Pound)
- 5) **CHF** (Swiss Franc)
- 6) **CAD** (Canadian Dollar)
- 7) **AUD** (Australian Dollar)

There are also many different **minor currencies**. Each country has its own currency and it's possible to trade many other currencies, such as the **NZD** (New Zealand Dollar). Any currency that is not one of the major currencies is a **minor currency**.

One currency is always paired with another currency to form a currency pair. For example, the GBP/USD, EUR/JPY, USD/JPY, AUD/USD, EUR/CHF, USD/CAD are traded as currency pairs.

Before proceeding I must first define a few terms. Don't get too stressed over these terms, they are really pretty easy to learn. Once you learn the terms and then learn the **ForexPower** Trading System you will be able to open a free demo account with a Forex broker of your choice and practice with "fake" money until you master the art of the trade.

Long - If you think the price will move higher you will want to "go long" on a trade (or enter a long trade).

Bullish - If you think the price will move higher you are bullish. You will want to "go long" on a trade (or enter a long trade).

Short - If you think the price will move lower you will want to "go short" on a trade (or enter a short trade).

Bearish - If you think the price will move lower you are bearish. You will want to "go short" on a trade (or enter a short trade).

Trend - When the price continues for an appreciable length of time in one direction it is called a trend. The prices will continue to rise in an **uptrend** and continue to drop in a **downtrend**.

Retrace - Prices never move in one direction too long before "retracing." A retracement is when the price moves in the opposite direction of a trend for a little bit before resuming in the direction of the trend. For example, let's say the market is in an uptrend with prices continuing to climb higher. At some point during the uptrend the prices then start to drop back down. After dropping a little bit (the retracement) the price then resumes the move higher again, in the same direction as the original uptrend.

Pips - A **pip** is the smallest unit of price for any currency pair. For example, the EUR/JPY currency pair may be trading at 159.22. If the price climbs to 159.23 it has moved higher by 1 pip. If the price drops from 159.22 to 158.22 it has dropped by 100 pips. Most currency pairs have 4 numbers to the right of the decimal point. Notable exceptions are the currency pairs that include the JPY. For example, the EUR/JPY has two numbers to the right of the decimal point, such as 159.22. However, other currency pairs such as the GBP/USD have 4 numbers to the right of the decimal point, such as 1.9565. If the price of the GBP/USD moves from 1.9565 up to 1.9575 it has moved higher by 10 pips.

What is 1 pip worth? In US Dollars, trading 1 lot (a unit of measurement - explained later), a pip is worth approximately \$8 to \$10 depending on the currency pair. For example, if you trade 1 lot of the GBP/USD each pip will be worth \$10 profit or loss. However, trading currency pairs that include the JPY will be approximately \$8 to \$9 depending on which currency is traded with the JPY. If you are trading 1 mini lot, instead of 1 lot, each pip will be worth 1/10 as much as 1 lot. It takes 10 mini lots to equal 1 lot.

Lots

Lots are the units traded. 1 lot equals 100,000 units. For example, if you are trading the USD/JPY and you trade 1 lot you are trading 100,000 units of the USD (the first currency listed in the currency pair, also called the base currency). 1 lot of the USD/JPY would be 100,000 United States Dollars. 1 lot of the AUD/USD would be 100,000 Australian Dollars. Trading 1 lot means that for each pip the price moves in your favor your profit will increase by \$10. For each pip the price moves against you your loss will increase by \$10.

Most brokers today allow traders to trade in amounts less than 1 lot. 1 mini lot is 1/10 of 1 lot and is worth 10,000 units of the base currency. For example, if you are trading the USD/JPY and you trade 1 mini lot you are trading 10,000 units of the USD (the first currency listed in the currency pair, also called the base currency). 1 mini lot of the USD/JPY would be 10,000 United States Dollars. Trading 1 mini lot means that for each pip the price moves in your favor your profit will increase by \$1. For each pip the price moves against you your loss will increase by \$1.

There are even Forex brokers that will allow you to trade in "micro" lots which are 1/10 the size of mini lots. If you are really strapped for cash and can't come up with at least \$1,000 or \$2,000 you can certainly start a smaller Forex trading account and trade micro lots. It's possible to build the value of your micro account until you have enough money to trade mini lots, it just might take awhile. However, even if you have enough money to open a larger account it still might be beneficial to trade micro lots as a beginner. That way you can get the feel of trading real money without putting a lot of money at risk. Trading micro lots might help you build confidence in your trading abilities before moving up to the mini lots and full lots.

Margin

When a trader opens an account with a Forex broker he must deposit a minimum amount of money with that broker. The minimum varies among different brokers and may be as small as \$300 (and even less), or as much as \$100,000. Every time the trader enters a new trade a certain percentage of the trader's account balance will be earmarked as the initial margin. Depending on the broker it's possible that you could have a margin requirement of only 0.5% or you could have a margin requirement of 5%. Some brokers will allow you to choose the size of your margin requirement, within limits.

If you buy 1 lot of USD/JPY, you are controlling \$100,000 (USD). With a 2% margin requirement \$2,000 will be set aside as your margin (2% of \$100,000). If your margin requirement was only 1% then \$1,000 would be set aside as your margin. This is very important because you do not ever want to get a "margin call."

Margin Call

If you don't have enough money in your account to cover the margin your broker will automatically exercise a margin call and close your trade. Here's an example of a margin call: Let's say you have \$900 in your account and have a margin requirement of 2%. You would not be able to trade 1 full lot of USD/JPY because trading 1 lot means you would be controlling \$100,000 (USD), and you would need \$2,000 in your account to cover the margin requirement (1 lot means you would be controlling \$100,000 and 2% of \$100,000 is \$2,000).

However, with \$900 in your account and a 2% margin requirement you could trade 4 mini lots. If you traded 4 mini lots of USD/JPY (4/10 of 1 lot) you would have an initial margin requirement of \$800 (4 mini lots means you would be controlling \$40,000 and 2% of \$40,000 is \$800). However, if the price went against your position until your account balance was less than \$800 (which wouldn't take a very large move in this case) you would automatically have your trade closed out. It is never a good idea to risk so much on one trade. Later in this book I will show you how much you can trade safely so that even if you have a string of consecutive losses you will still be able to keep trading.

Leverage

The reason Forex trading can be so profitable is because of the amount of leverage you have. You may only have \$3,000 (USD) in your account, but by trading 1 lot you can control \$100,000 (USD). You can be earning profits on \$100,000 instead of \$3,000. Leverage is the ratio of the amount of money controlled in a trade to the amount required for margin. If the margin is 2% your leverage will be 50:1 (you can control 50 times more money than the amount you have in your account). Of course it is very unwise to use the full leverage available to you. If you place too large of a trade for the amount of money you have in your account you could be totally wiped out very quickly. Again, a little later in this book, after explaining the **ForexPower** Trading System, I will teach you about money management, including the proper amount of money to trade depending on the size of your account balance.

Bid and Ask Price

The Bid price is the price that a trader can sell the base currency for (also called the sell price). The Ask price is the price a trader can buy the base currency for (also called the buy price). In this book they will always be referred to as the buy price and the sell price. The difference between the buy and sell price is called the "spread."

Spread

The spread is the difference between the buy and sell price. For example, if you are trading the EUR/JPY the buy price may be 159.35 while the sell price may be 159.31. The difference between these two prices is 4 pips, which means the spread is 4 pips. However, the spread isn't always 4 pips for the EUR/JPY because the spreads are constantly changing. The spread may change from 4 pips to 3.5 pips, to 2.5 pips, to 1 pip, to 3 pips, to 5 pips, etc. This amount of changing can and does happen in a matter of seconds. The spread is the amount that you pay to enter a trade. Here's an example of how the spread works:

Let's say the sell price for the EUR/JPY is 159.25 and the buy price is 159.29. You think the market is going to move higher so you buy the EUR/JPY at 159.29. The very second you buy this currency pair at 159.29 you can sell it (exit the trade) at the sell price, which is currently 159.25. If it were possible to buy this currency pair at the buy price and then immediately sell it at the sell price you would lose 4 pips on the trade. If you buy this currency pair at the buy price of 159.29 the sell price will have to move 4 pips higher (from 159.25 to 159.29) before you could exit (sell it back) with a break-even trade. If the sell price climbed to 159.30 you would have a 1 pip profit. If the sell price moved to 159.40 you would have an 11

pip profit. Whenever you enter a trade the price will have to move in your favor the amount of the spread before you can break even on the trade.

The amount of the spread differs depending on which currency pair you are looking at. Some spreads can be 15 or 20 pips or even higher while other spreads can be 1 or 2 pips or even lower. If you want to trade currency pairs with larger spreads just remember that it will take a very good-sized move for you to break even. If the spread is 15 pips it means that the price will have to move 15 pips in your favor just for you to break even on the trade.

Rollover

At the end of one trading day and at the beginning of the next trading day there is a process called the rollover. If you have an open trade one day and do not exit that trade before the end of the day (in other words your trade remains open from one day to the next day) your account will either be charged or credited a certain amount of money depending on the interest rate differential between the two currencies. Some traders will purposely buy a certain currency pair just before the end of the day so that they can receive this "interest payment" when the next day begins. Other traders might exit a trade just before the end of the day so that they do not have to pay this "interest payment."

The Forex Broker

It's very easy to trade the Forex market today. All you need is a computer with a good internet connection. Once you decide on a broker it's simply a matter of filling out an application on their website, depositing money, and then trading. Make sure you open a Forex "spot" account and not a "futures" account or some other type of account.

There are many Forex brokers. To find a broker all you need to do is type in "Forex broker" in a search engine. Some of the better known brokers are FXCM, Interbank FX, GFS Forex, TradeStation, but there are many others. Plus, almost all Forex brokers today allow you to trade a free demo account until you feel comfortable enough with your trading skills to start risking your own money. For example, at FXCM you can sign up for a free 30-day demo account. Once that demo account ends, or even before it ends, you can sign up again for another free account. You can sign up for new free accounts as long as you want, until you feel ready to begin trading with real money.

Order Types

Market Orders

A market order is an entry order, either long or short, that is opened at the current market price. The following illustration shows a typical dialog box where you would place a market order.

The dialog box is titled 'Market Order' and contains the following fields and controls:

- Account:** A dropdown menu showing '55555555'.
- Currency:** A dropdown menu showing 'EUR/JPY'.
- Sell/Buy:** Two radio buttons, 'Sell' and 'Buy'. 'Buy' is selected.
- Amount (K):** A dropdown menu showing '100'.
- Rate:** A text box showing '155.940', which is grayed out.
- Order Type:** A dropdown menu showing 'At Best'.
- Stop/Limit:** Two checkboxes, 'Stop' and 'Limit', both of which are checked. The 'Stop' checkbox is followed by a text box showing '155.60'. The 'Limit' checkbox is followed by a text box showing '156.20'.
- Buttons:** 'OK' and 'Cancel' buttons are located at the top right.

Here are the steps involved in placing a market order (see illustration above):

- 1) Make sure the currency pair you want to trade is listed correctly.
- 2) Click the Sell or Buy button. In this example we are buying the EUR/JPY.
- 3) Enter the amount you want to buy or sell. In this example we chose to buy 100. Different brokers may list the amounts differently, but in this example 100 means 1 lot. If you wanted to trade 2 lots you would enter 200. If you wanted to trade 1 mini lot you would enter 10. [10 (1 mini lot) is short for \$10,000 and 100 (1 lot) is short for \$100,000].
- 4) "Rate" is the price you want to enter the trade at. In this example the price is grayed out and can't be changed. The grayed-out price will change automatically as the market price changes, until you click the OK button to place the trade. The price is grayed-out because if you are placing a market order you cannot specify a price, the price will automatically be the current market price.
- 5) The "Stop" price, or stop-loss, is 155.60. Once you have placed this order you will have a stop-loss at 155.60. If the price then drops to 155.60 your order will automatically be closed.
- 6) The "Limit" price is 156.20. Once this order is executed you will have a limit order at 156.20. If the price rises to 156.20 your order will automatically be closed. Note: Once this order is executed and you have an open trade, the trade will remain open until either the "Stop" or "Limit" price is hit. Once one of these prices is hit your trade will be closed automatically. However, if for any reason you want to exit the trade before the price hits either the "Stop" or "Limit" price you can close the trade at the current market price in the "open trades" page. For example, if you entered a long trade at 155.94 and the price rose to 156.10, you could exit the trade at that price by going to your "open order page" in your trading program and clicking the button to close the trade at the current market price. Also, you can change the "Stop" or "Limit" price any time while the trade is open.

Limit Orders

A limit order is an order to either sell at a specific price or buy at a specific price. Once your limit order price is reached your order will be filled at the current market price. For example, if you wanted to buy (go long) the EUR/JPY at 159.50 and the current buy price was 159.30 you could place an order to go long at 159.50. Once the price reaches 159.50 your order will be filled. It's important to note that the price you get filled at may not be exactly 159.50. Once your order price is hit, triggering your order, the price may change before your order is actually filled.

Stop-loss orders

A stop-loss is a type of limit order. Once you have entered a trade you can have a "stop price" so that if the market moves against you a certain amount your order will automatically be exited, limiting the amount of your loss. It's very important that you ALWAYS place a stop-loss at the same time you place a trade. Do not enter a trade without also entering a stop-loss at the same time.

Some traders enter trades without a stop-loss, thinking that they can always add it later. This is true, but it's also a very bad habit because two things can happen. First, the price can immediately move against you before you have a chance to enter the stop-loss, causing you to lose more than you had planned on. Second, and more likely to happen, you may enter a trade without a stop-loss and then have your computer freeze up, the power go out, or the trading program stop functioning. You will then have an open order without a stop loss, which means you could lose everything in your account if the market went far enough against you. You may think the odds are slim of this ever happening, but I've had all three of these things happen to me. If for any reason you ever get caught in this situation be sure to have the broker's phone number handy, along with your account number, so that you can call them and either exit the trade immediately or place a stop-loss over the phone.

Profit Orders

You can also place a limit order to take profits once the price reaches a specific target. You can place this limit order the same time you place your entry order or after you've placed your entry order. For example, if you buy (go long) the EUR/JPY at 159.30 you can place a limit order to take your profit at 159.70. Once the sell price hits 159.70 you will automatically have your order closed out at the current market price (which may actually be different than 159.70).

The following illustration shows a typical dialog box where you would place an entry order.

The dialog box contains the following fields and controls:

- Account: 55555555 (dropdown menu)
- Currency: EUR/JPY (dropdown menu)
- Sell/Buy: ☐ Sell ☒ Buy
- Amount (K): 10 (dropdown menu)
- Rate: 155.79 (text input with up/down arrows)
- Stop/Limit: (checkbox)
- ☒ Stop: 155.50 (text input with up/down arrows)
- ☒ Limit: 156.20 (text input with up/down arrows)
- OK button
- Cancel button

Here are the steps involved in placing an entry order (see the illustration above):

- 1) Make sure the currency pair you want to trade is listed correctly.
- 2) Click the Sell or Buy button. In this example we are buying the EUR/JPY.
- 3) Enter the amount you want to buy or sell. In this example we chose to buy 10. Different brokers may list their amounts differently, but in this example 10 means 1 mini lot. If you wanted to trade 2 mini lots you would enter 20. If you wanted to trade 1 full lot you would enter 100. [10 (1 mini lot) is short for \$10,000 and 100 (1 full lot) is short for \$100,000].
- 4) "Rate" is the price you want to enter the trade at. In this example we want to enter a long trade if the price reaches 155.79.
- 5) The "Stop" price, or stop-loss, is 155.50. Once the price hits 155.79 and this order is executed you will have a stop-loss at 155.50. If the price then drops to 155.50 your order will automatically be closed.
- 6) The "Limit" price is 156.20. Once the price hits 155.79 and this order is executed you will have a limit order at 156.20. If the price rises to 156.20 your order will automatically be closed. Note: Once this order is executed and you have an open trade, the trade will remain open until either the "Stop" or "Limit" price is hit. Once one of these prices is hit your trade will be closed automatically. However, if for any reason you want to exit the trade before the price hits either the "Stop" or "Limit" price you can close the trade at the current market price. Also, you can change the "Stop" or "Limit" price even while the trade is open. For example, if you entered a long trade at 155.79 and the price rose to 155.95, you could exit the trade at that price by going to your "open order page" in your trading program and clicking the button to close the trade at the current market price.

ForexPower Pre-Training

ForexPower Pre-Training

The **ForexPower** Trading System is fairly simple, but it requires that you first become familiar with **candlestick patterns**, charts, and some simple indicators.

Candlestick Patterns

The recognition of reversal points is the "golden goose" of any trading program and candlestick patterns are the best way to locate these market reversal points. However, be aware that most trends do not reverse on a dime, but give indications that they may be getting **READY** to reverse. Seeing a sell signal at the top of a long uptrend tells you that the trend **MIGHT** be losing steam. The trend may go into a trading range for awhile before reversing or may not reverse at all. That's why it's important to confirm the reversal candlestick patterns with a couple of powerful indicators.

Bollinger Bands

There have been entire books written about this indicator, but for our trading system there is absolutely no reason that you need to learn about this indicator in detail. All you have to do is recognize where it is and then watch the candlestick patterns in relation to the Bollinger Bands. We will explain the importance of the Bollinger Bands once we start teaching you the actual **ForexPower** Trading System, but for now just know that when you place this indicator on your charts you will use these parameters:

MA Period = 20

Standard Deviations = 2

Prices Used = Close (or closing prices)

Fast Stochastics

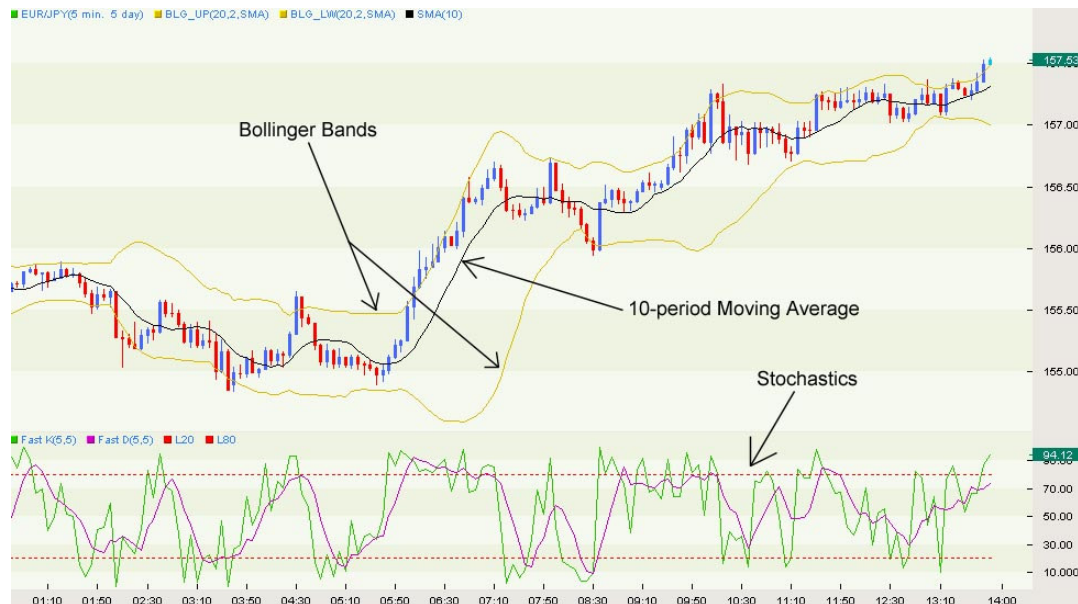
There are two types of Stochastics, fast and slow. For our trading plan we will use only the Fast Stochastics. The effectiveness of candlestick signals is greatly enhanced when buy signals occur in oversold situations and sell signals appear in overbought situations. The best indicator for establishing overbought and oversold instances are the Stochastics which will be explained in detail later after we start looking at the charts. For now just know that when you place this indicator on your charts you will use these parameters:

%K = 5

%D = 5

Prices Used = Close (or closing prices)

Displacement = 0



What are candlesticks?

There are different types of charts, but the most commonly used are bar charts, line charts, and candlestick charts. It is my opinion that candlestick charts are not only the easiest to read, but are the best for reading market sentiment. Candlestick charts are what we'll be using in the **ForexPower** Trading System. There are different time periods associated with charts. For example, with a 5-minute chart each candlestick represents 5 minutes of price action. With a 15-minute chart each candlestick represents 15 minutes of price action. You can have charts of any length, 1 minute, 1 hour, 4 hours, 1 day, 1 week, etc.

Charts

I think now is a good time to say a few quick words about charts before we continue with candlesticks. With all of the different charting time periods, you are probably asking yourself "which charts should I be using?" The 5-minute charts? The 10-minute charts? The 1-day charts? The truth is it doesn't really matter. However, there are a few differences that you should be aware of before making a decision on which charts to use for your own trading.

First, smaller time frames are less reliable. There is not as much data per candlestick on a 5-minute chart as there is on a 1-hour chart. Therefore, the 1-hour chart will be a little more reliable than a 5-minute chart. A 15-minute chart will be slightly more reliable than a 5-minute chart, but slightly less reliable than a 1-hour chart. Likewise, a 1-hour chart will be a little less reliable than a 1-day chart. Now before you decide to start using 1-day charts you should also hear about the negatives of 1-day charts.

A 5-minute chart will produce 12 candles over a 1 hour period, 1 every 5 minutes, while a 1-hour chart will produce 1 candle over the same period. A 1-hour chart will produce 24 candles over a 1 day period, 1 every hour, while a 1-day chart will produce only 1 candle over that same 1 day period. The shorter the chart's time period the more candles there are in any given amount of time. That means that you will get entry signals a lot more often on a 5-minute chart than you will a 1-day chart, simply because there are more candles produced. On a 5-minute chart you may get anywhere from 2 to 7 signals in a 24-hour period of time. However, on a 1-hour chart you may only get one signal every day or two. On a 1-day chart you may only get a signal once every few weeks or even less often.

As you can see, if you want to trade often you don't want to use a 1-day chart, a 1-week chart, or a 1-month chart. If you want to be placing trades every day or almost every day you'll need to use the 1-hour charts or smaller time-frames.

There are other factors involved with the different time-frames that you should also be aware of. The average risk on any one trade will be greater with a longer-term chart than it will be with a shorter term chart, but the potential profit will be higher too. On a 5-minute chart you can certainly get into big winning trades, but the profits are usually not very big. On a 1-hour chart the initial risk will usually be larger than on a 5-minute chart, but the potential profit is larger too. Also, the trades won't last as long using a 5-minute chart as they will using a 1-hour chart. If you use a 5-minute chart your trades will usually last anywhere from a few seconds to a few hours, but if you use a 1-hour chart your trades can last days and sometimes even weeks. So which charts you use depend on how often you want to trade, the amount of risk you want to take on any one trade, and other factors.

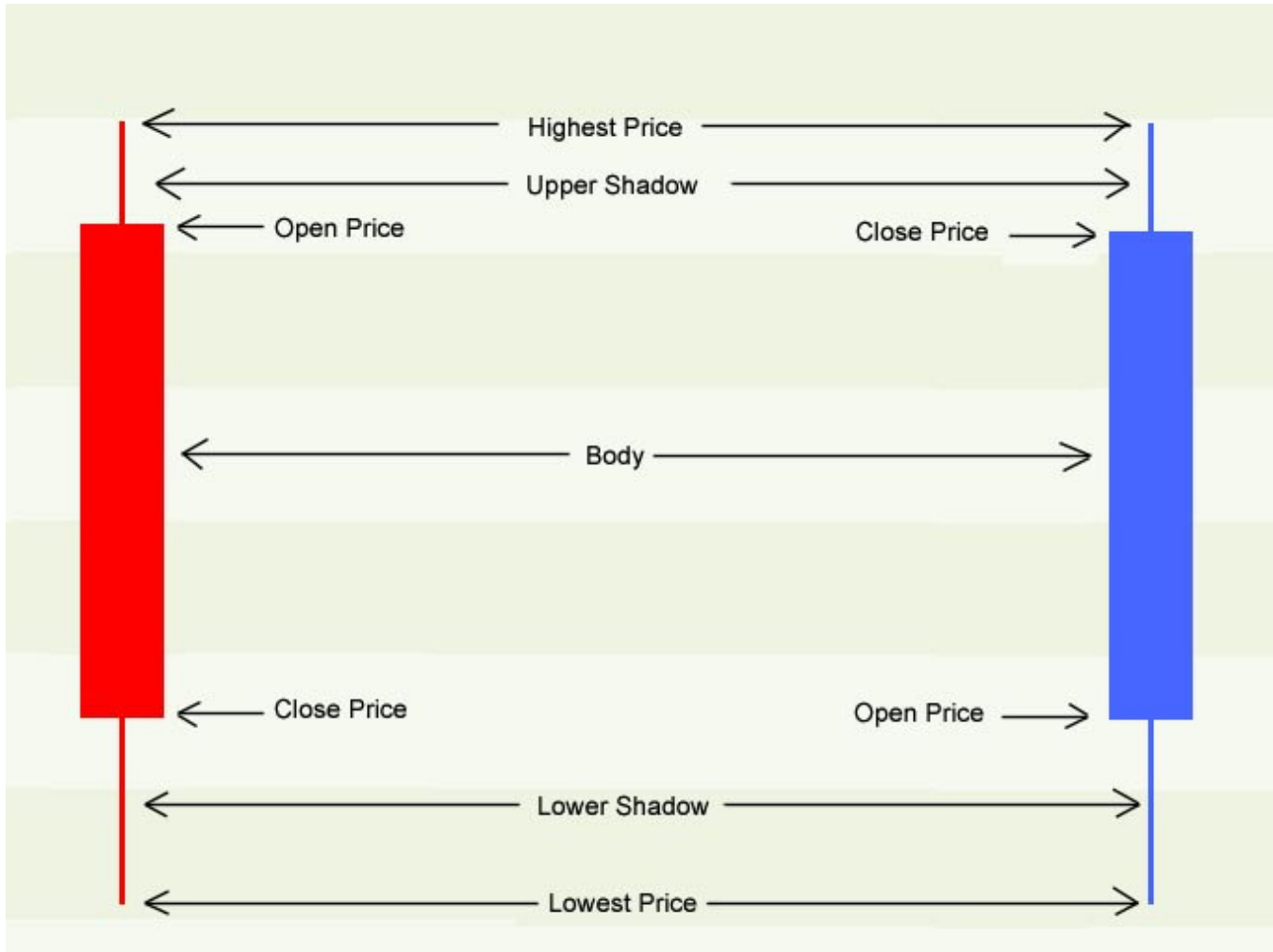
I personally use the 5-minute charts and the 15-minute charts most often. They may not be quite as reliable as the longer-term charts, but I prefer to enter and exit trades more often. I don't have the patience to wait 3 days between trades. Plus, if you use both the 5-minute and 15-minute charts together, if you wait until they both give signals at the same time, you have a very high probability of success on those trades. Even so, I personally take most of the trades from the 5-minute charts even without confirmation on the 15-minute charts. This is my personal preference, but you will have to decide what is best for your personality.

I have found that it is a lot less stressful for me trading from the 5-minute chart than a 1-hour chart because the initial risk is so much smaller. Plus, once the price moves in your favor, which usually doesn't take too long (although it can occasionally be a few hours), you can move your stops and then relax knowing that you have a locked in profit. Also, even though the wins may be smaller they happen more often. And winning a trade is always fun.

Candlesticks

Candlesticks

A candlestick has a body, and usually an upper shadow (or wick) and a lower shadow (or wick). The following illustration shows a candle with its parts. Following the illustration is a description of each part of a candlestick.



Body - The thick column bounded by the opening price and the closing price. If the opening price is the same as the closing price the body will only be a narrow horizontal line.

Shadows (Wicks) - The upper shadow represents the highest price during the candle period. The lower shadow represents the lowest price during the candle period. Depending on the price action candlesticks can often be seen without one or both of their shadows.

By studying candlestick patterns closely it's possible to understand the market sentiment. For example, a large blue candle is bullish, meaning that traders believe the current price is too low and they are buying at a rate that is driving the prices higher. On the other hand a large red candle is bearish, meaning that traders believe the current price is too high and they are selling at a rate that is driving the prices lower. By looking at specific candlestick patterns in relation to the trend you can predict with a reasonable amount of accuracy when a market is ready to reverse its direction.

Candlestick Patterns

The Major Candlestick Patterns

Doji Star - At the top of a trend the Doji signals a reversal without needing confirmation. However, the Doji occurring during the downtrend requires a bullish day to confirm the Doji.

Criteria

1. The open and close are the same or nearly the same.
2. The length of the shadows should not be excessively long, especially when viewed at the end of a bullish trend.
3. It is more effective after a long candle body (an exaggerated move) when compared to the normal candle body seen in the majority of the trend.



Gravestone Doji - At the top of an uptrend the Gravestone Doji is a type of Shooting Star. At the bottom of a downtrend it is a variation of the Inverted Hammer.

Criteria

1. The open and close are both at the low of the candle.
2. It works better at the bottom of a downtrend than at the top of an uptrend.



Doji Dragonfly - At the top of an uptrend it's a variation of the Hanging Man. At the bottom of a downtrend it's a variation of hammer.

Criteria

1. The open and close are both at the top of the candle.
2. An extensively long shadow on a Dragonfly Doji at the bottom of a trend is very bullish.



More Doji Information -

1. If many Dojis are observed on a chart then the appearance of a new Doji will not carry that much weight.
2. Dojis have more relevance at the top of a chart if they follow a long blue candle.
3. Look to exit long trades when you see a Doji at the top of a trend (especially if it has started to range and if Stochastics have started to drop).
4. A Doji near the start of a trend indicates that the last of the sellers are getting out. Watch for how the price moves during the following candle (see the following chart):





Bullish Engulfing -

Criteria

1. Located at the bottom of a downtrend, even if the downtrend has been short.
2. The body of the first red candle is completely engulfed by the body of the second blue candle.
Shadows are not a consideration. The blue candle ideally will close near its high.
3. When the engulfing pattern occurs after a fast move down there will be less stock to slow down the reversal move.
4. When the engulfing body engulfs more than one previous candle body there is more power in the reversal.
5. If the engulfing body engulfs the body and the shadow of the previous candle there is more power in the reversal.



Bearish Engulfing -

Criteria

1. Located at the top of an uptrend, even if the uptrend has been short.
2. The body of the first blue candle is completely engulfed by the body of the second red candle.
Shadows are not a consideration.
3. When the engulfing pattern occurs after a fast move up there will be less stock to slow down the reversal move.
4. When the engulfing body engulfs more than one previous candle body there is more power in the reversal.
5. If the engulfing body engulfs the body and the shadow of the previous candle there is more power in the reversal.



Hammer - The Hammer has a small body at the top with a shadow on the bottom. The shadow is at least twice as long as the small body.

Criteria

1. Found at the bottom of a downtrend.
2. The color of the body is not important (however, a blue body is slightly more bullish than a red body).
3. There should be no upper shadow or a very small upper shadow.
4. The longer the lower shadow the more powerful the reversal signal.
5. The following candle needs to confirm the Hammer signal with a strong bullish move.



Hanging Man - The Hanging man has a small body at the top with a shadow on the bottom. The shadow is at least twice as long as the small body. It looks the same as the Hammer except it is located at the top of an uptrend while the Hammer is found at the bottom of a downtrend.

Criteria

1. Found at the top of an uptrend.
2. The color of the body is not important (however, a red body is slightly more bullish than a blue body).
3. There should be no upper shadow or a very small upper shadow.
4. The longer the lower shadow the more powerful the reversal signal.
5. The following candle needs to confirm the Hanging Man signal with a strong bearish move.



Piercing Pattern

Criteria

1. It's a two-candle formation after a downtrend.
2. The first candle is red (a continuation of the downtrend).
3. The second candle is blue, closes more than half way up the first red candle **and closes at or near the high for that candle.**
4. The longer the red and blue candles, the more forceful the reversal.
5. The higher the blue candle closes into the red candle, the stronger the reversal.



Dark Cloud Cover - The bearish counterpart to the Piercing Pattern.

Criteria

1. It's a two-candle formation after an uptrend.
2. The first candle is blue (a continuation of the uptrend).
3. The second candle is red, closes more than half way down the first blue candle **and closes at or near the low for that candle.**
4. The longer the blue and red candles, the more forceful the reversal.
5. The lower the red candle closes down into the blue candle, the stronger the reversal.



Morning Star - There are many variations of the Morning Star pattern.

Criteria

1. Usually consists of three candles at the bottom of a downtrend.
2. First candle is a red candle.
3. Second candle is an indecision candle. There can be 1, 2, 3, or even 4 indecision candles.
4. Third candle is a blue candle and should close at least half way up the first red candle.
5. The longer the red and blue candles the more forceful the reversal.
6. The more indecision of the indecision candle the better probability that a reversal will occur.
7. The further the third blue candle closes into the first red candle the stronger the reversal.



Here are some variations of the morning star pattern:



Evening Star - It is the opposite of the Morning Star. There are many variations of the Evening Star pattern.

Criteria

1. Usually consists of three candles at the top of an uptrend.
2. First candle is a blue candle.
3. Second candle is an indecision candle. There can be 1, 2, 3, or even 4 indecision candles.
4. Third candle is a red candle and should close at least half way down the first blue candle.
5. The longer the blue and red candles the more forceful the reversal.
6. The more indecision of the indecision candle the better probability that a reversal will occur.
7. The further the third red candle closes down into the first blue candle the stronger the reversal.



Here are some variations of the evening star pattern:





Shooting Star -

Criteria

1. Found at the top of an uptrend.
2. It has a small body with an upper shadow. The upper shadow is at least twice as tall as the body.
3. The color of the body is not important (a red body is slightly more bearish than a blue body).
4. There should be no lower shadow or a very small lower shadow.
5. The following candle should be strongly bearish to confirm the reversal.
6. The longer the upper shadow the higher potential for a reversal to occur.



Inverted Hammer - It looks like a shooting star, but is located at the bottom of a downtrend. It is also similar to a gravestone doji except it has a larger body.

Criteria

1. Found at the bottom of a downtrend.
2. It has a small body with a long upper shadow. The upper shadow is at least twice as tall as the body.
3. The color of the body is not important (a blue body is slightly more bullish than a red body).
4. There should be no lower shadow or a very small lower shadow.
5. The following candle should be strongly bullish to confirm the reversal.
6. The longer the upper shadow the higher the potential for a reversal to occur.



DO NOT anticipate what a candle will do. Wait until the close of a candle before trading on that candle:



Scary Moves

There are some common price actions that occur during trends. Not being familiar with these price actions can scare you out of profitable trades. Learning how prices react once the trade has started can keep you from being scared out of good trades.



Greed, Fear, and Panic

Greed and Fear - Exuberance and Panic - Look at the charts to find exaggerated moves during a trend. Once you see the exaggerated moves look for reversal candle patterns along with overbought or oversold Stochastics.





Railroad Tracks

Candlesticks that form "railroad tracks" are often good places to enter a trade. Railroad tracks are formed when one candle closes at or very near its high or low price with the following candle reversing direction at or very near the same price.

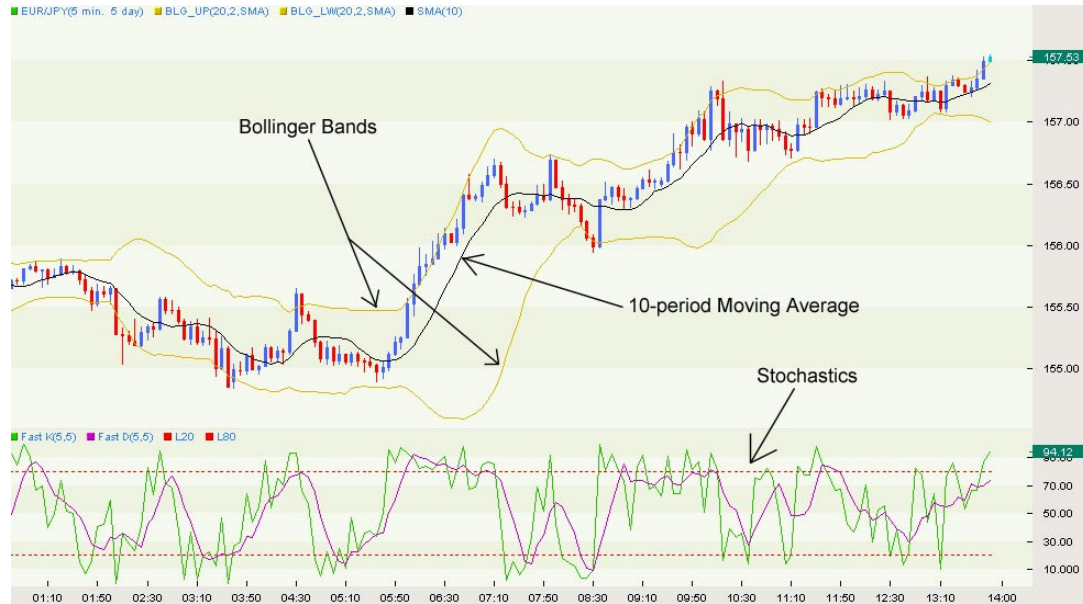


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Bollinger Bands

On the charts below the Bollinger Bands consist of two yellow lines which are located above and below the candlesticks. Most charting packages allow you to change the color of these lines, but on these charts they are yellow.



The trades with the highest probability of success show good reversal candle patterns that have poked above or below the Bollinger Bands. If the trend has been climbing higher and you see a good candlestick pattern poke above the top Bollinger Band and then close back underneath the top Bollinger Band it can be a good signal to enter a short trade. The reverse is true for long trades. If the trend has been moving lower and you see a good candlestick pattern poke below the bottom Bollinger Band and then close back above the bottom Bollinger Band it can be a good signal to enter a long trade. However, not all good signals occur when candle patterns poke above or below the Bollinger Bands. There are good signals that occur inside the Bollinger Bands too.



Confirming Candlestick Patterns with Stochastics

Once you find a good candlestick reversal pattern at the top or bottom of a trend, especially when it has poked above or below the Bollinger Bands and then closed back inside the Bollinger Bands, look at the Stochastics for confirmation of your entry signal.

Stochastics

Stochastics are the best way to determine an overbought or an oversold condition. When the Stochastics are overbought look for a candlestick pattern to enter a short trade. When the Stochastics are oversold look for a candlestick pattern to enter a long trade.

Stochastics levels range from a low of 0 to a high of 100. When Stochastics are above the 80% level the market is considered to be overbought. When Stochastics are below the 20% level the market is considered to be oversold. The Stochastics indicator has two lines, a fast line and a slow line. The charts in this book use purple for the slow line and green for the fast line.

I always set up the Stochastics on my charts as follows: I use the **Fast Stochastics** (not the Slow Stochastics) with the value of **%K as 5 and the %D as 5**. Also, I base my Stochastics on the "close" (closing price) with no displacement.

There are two thoughts as to when to enter a trade based on the Stochastics. My personal feeling is that the best time to enter a trade based on Stochastics is after the price has become overbought or oversold and then both Stochastics lines cross back above the 20% line or below the 80% line. As an example let's say the fast green Stochastics line AND the slow purple Stochastics line BOTH cross above the 80% level. Once both lines are above the 80% level wait for the green line to cross back below the 80% level. After the green line crosses below the 80% level wait until the purple line also crosses below that level. Once they have both crossed below that level take a short trade if there is a good bearish candle pattern at the top of a trend at the same time.

Some traders have different thoughts about Stochastics. Some traders consider the optimal buy or sell time to be when the fast (green) and the slow (purple) Stochastics are crossing, regardless if they are overbought or oversold. However, there can be a good amount of slippage with this method by not getting in at the optimal point. Combining Stochastics with candlestick reversal signals can pinpoint when a reversal has occurred.



High Probability Trades

Trades with the highest probability of success happen when a long or short signal is given on both the 5-minute chart and the 15-minute chart at the same time. Once you see a good signal on the 5-minute chart look at the 15-minute chart to see if there is a similar signal on that chart. If both charts give good signals to enter a trade in the same direction at the same time, take the trade. Note: The times on the two charts do not have to be exact times. If the 5-minute chart shows a good signal at a 15-minute interval, such as 8:15, 8:30, 8:45, 9:00, etc. then the 15-minute chart must show a good signal at that exact same time. However, if the 5-minute chart shows a good signal at 8:20 or 8:25 you will wait for the 15-minute chart to show a similar signal at 8:30. The reason for this is that you always want to wait for a candle to close before making a trading decision based on that candle. On the 5-minute chart a candle can close at 8:25, but a candle on the 15-minute chart will not close until 8:30. The following two charts show an example of a good entry signal based on both the 5-minute and 15-minute charts at the same time:



Here is the 15-minute chart during the same time period as the 5-minute chart above:



The following two charts show more examples of entering trades based on both the 5-minute chart and the 15-minute chart.



The following is a 15-minute chart during the same time period as the 5-minute chart above:



It's also worth mentioning that if you are waiting for both the 5-minute and 15-minute charts to sync up you may only get 1/4 of the amount of entry signals that you might get if you were watching only the 5-minute chart, but the signals are more reliable.

The 5-minute chart and the 15-minute chart do not need to agree with each other 100%

There is one last thing you need to know about finding the same signal on both the 5-minute and 15-minute charts, and it's very important. Both charts will not always agree with each other 100%. Here's an example: Let's say you look at the 5-minute chart and see a great bullish candle pattern at the bottom of a trend. Let's also say it pokes below and closes above the Bollinger Band. In addition, the Stochastics were oversold and have just crossed above the 20% line. Everything on the 5-minute chart makes a perfect bullish signal for entering a long trade.

Once you see this bullish signal on the 5-minute chart you then look at the 15-minute chart. There is a very good bullish candlestick pattern, but it is not poking below and closing above the Bollinger Band, although it's fairly close to the bottom Bollinger Band. You also notice that the Stochastics have been climbing higher for awhile and are getting very close to the 80% level. Even though everything isn't perfect on the 15-minute chart it is still a good trade. You won't always find everything being perfect on both charts, but if you find everything perfect on one of the charts (either the 5 or 15-minute chart) and pretty good on the other chart it still signals a trade that has a high probability of success. The most important thing is the candlestick pattern. If one chart shows everything perfect and the other chart only shows the candlestick pattern perfect it's usually a trade with a high probability of success.

No two trades are ever exactly the same. There will be variations with the candlestick patterns, the Bollinger Bands, and the Stochastics. Therefore, the best way to become an expert at finding good entry points is to see lots of examples with lots of variations of our basic trading pattern. After viewing enough examples you will soon be able to recognize what a good trade looks like and be able to develop confidence in your ability to spot good trades. Below are examples of the **ForexPower** trading technique as explained above.









I personally don't often take trades with dark cloud cover patterns or with piercing patterns. Even though they offer a good percentage of winners I prefer other candlestick patterns that I believe offer a higher percentage of success.

In my experience the trades with the highest probability of success are entered using bullish engulfing patterns, bearish engulfing patterns, evening star patterns, morning star patterns, hammers followed by a bullish confirmation candle, inverted hammers followed by a bullish confirmation candle, shooting stars followed by a bearish confirmation candle, and dojis followed by a bearish or bullish confirmation candle. All of these patterns are located at the end of a trend.

Take only the good signals - Do not take the semi-good signals

The following chart shows that when you only enter trades with "very good" signals you have a much higher probability of winning. By entering only "very good" trades it's possible to win as much as 75% or 80% of your trades. [Also notice in trade #4 there is a very good short signal. After entering the #4 short trade there is another very good short signal (#6) a little while later. When this happens you can add to your winning position (explained later) and also lower your stop for the first short trade (#4) so that both of your short positions have protective stops located 5 pips plus the spread above the high of the bearish engulfing pattern (#6)(protective stops will be explained later)]:



The following chart shows more examples of taking only the good signals:



Bullish Convergence and Bearish Divergence

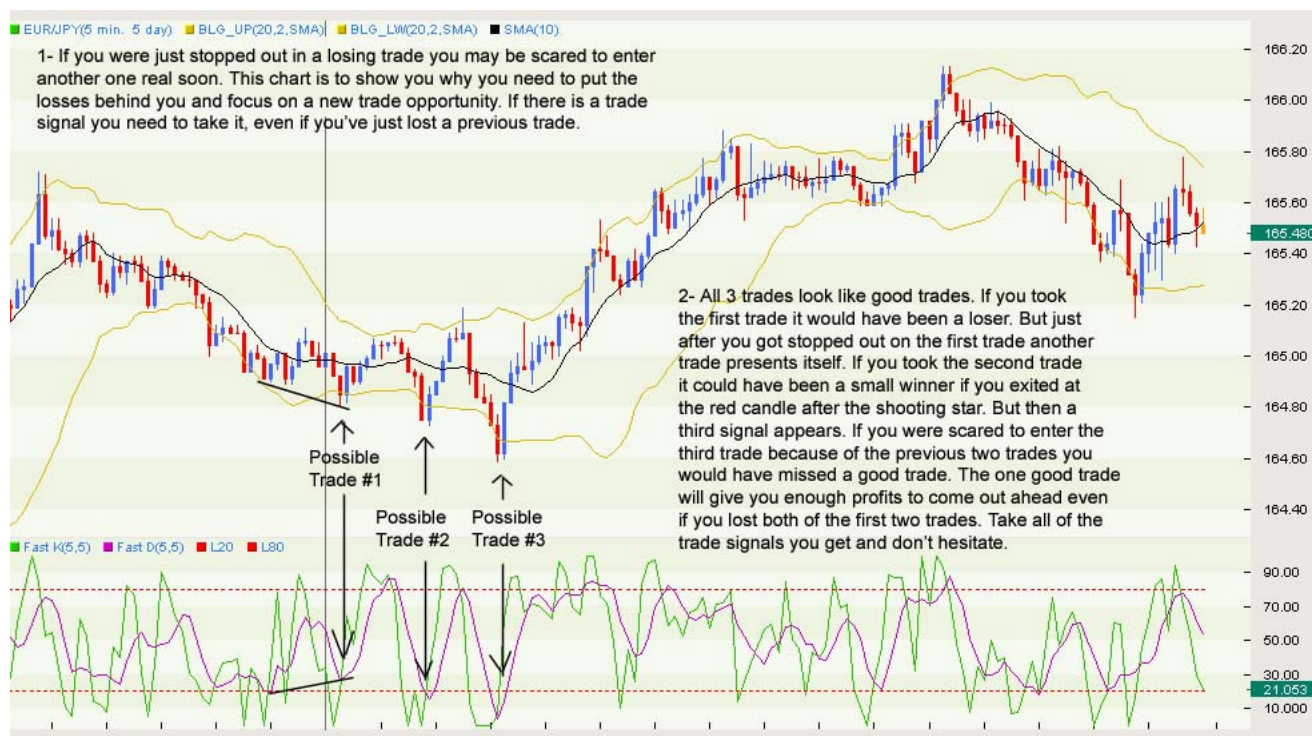
Bullish convergence and bearish divergence are two very powerful signals that can increase the probability of success in your trading. Bullish convergence is when the price makes a new low, but the Stochastics do NOT make a new low. Bearish divergence is when the price makes a new high, but the Stochastics do NOT make a new high. These two patterns are not traded by themselves, but are used in conjunction with the candlestick patterns and the Bollinger Bands as explained previously. The best way to learn these two patterns is to see some examples. The charts below show examples:





Take every signal

You can't win them all, not even with the **ForexPower** Trading System. No matter how good the trade looks it could still turn into a loser. Successful traders put the losses behind them and immediately start looking for next trade. Taking every signal is important if you want to be a winner. If you have a couple of losing trades it's very easy to skip the next signal, but don't do it. Winning traders take every signal. As the following chart demonstrates you can have some losing trades, but still end up with a profit if you take every trade. You will have losing trades, but a good winner can overcome several small losses.



Trade Management

Managing Your Trades

Now that you know how to find good entry points for entering trades you need to know how to manage those trades to keep your losses small and to protect and maximize your profits with your winners. There are 4 main steps to managing your trades. However, there is also a 5th step that is the key to eliminating many potential losses. The 5th step will be learned later when we teach you about money management.

- 1) Place a stop-loss.
- 2) Raise or lower your stops as the price moves in your favor.
- 3) Add to your winning positions.
- 4) How and when to exit a trade.

Placing a stop-loss

Whenever you enter a trade you should always enter a stop-loss at the same time. In long trades I will usually place my stops 5 pips below the most recent low. In short trades I will usually place my stops 5 pips plus the spread above the most recent high. For example, if I enter a short trade at 159.50 in the EUR/JPY, and the most recent high is 159.70, I will place my stop 5 pips plus the spread above 159.70. If the spread is 4 pips I will place my initial stop at 159.79. The following chart shows where I would place my stops on both a long trade and a short trade.



Raise or lower your stops as the price moves in your favor

Once you enter a trade and the price moves in your favor you want to lock in some of the profits as soon as you can. There is nothing more frustrating than being ahead on a trade and then watching it reverse direction and eventually stop you out at a loss. In the section on money management I will teach you the key to preventing these types of losses, but for now I will show you the basics of raising or lowering your stops to protect your profits.

There are three directions the market will move. The market will move up (in an uptrend), down (in a downtrend), or remain in a trading range. In a trading range the price will move up and down, but will stay in a specific range. The following charts show you these 3 types of markets.





When and Where to raise your stops in an uptrend

Once you have entered a long trade and the price starts to move in your favor you will raise your stops to each new swing low (see chart below). A swing low is defined as the lowest price level between 2 high prices. Here is a chart showing you how to determine the swing lows:



Placing your stops

When you enter a long trade you will place your initial stop 5 pips below the low price. After the price moves in your favor for a little bit you will wait for the price to retrace. After a retracement you will wait for the price to move higher again, eventually making a new high. Once the price exceeds the previous high price (once it makes a new high) you will raise your stop to 5 pips below the most recent swing low. Each time you see a retracement you will wait for the price to turn back up and exceed the previous high price, and when it does you will raise your stop to 5 pips below the most recent swing low. The following chart will show you where and when to raise your stops each time the price exceeds the previous high price.



When and Where to lower your stops in a downtrend

Once you have entered a short trade you will lower your stops to each new swing high (see chart below). A swing high is defined as the highest price level between 2 low prices. Here is a chart showing you how to determine the swing highs:



When you enter a short trade you will place your initial stop 5 pips plus the spread above the high price. After the price moves in your favor you will wait for the price to retrace. After a retracement you will wait for the price to reverse lower again, making a new low price. Once the price exceeds the previous low price you will lower your stop to 5 pips plus the spread above the most recent swing high. Each time you see a retracement you will wait for the price to reverse back and then exceed the previous low price, and when it does you will lower your stop to 5 pips plus the spread above the most recent swing high. The following chart will show you where and when to lower your stops each time the price exceeds the previous low price.



Where do you place your stops in a trading range?

When you trade a trading range you will basically enter the trade and place your stop-losses just have you have already learned. However, once you realize that the market is in a range you will want to start buying at the low price of the range (using your same entry signals) and start selling at the high price of the range (using your same entry signals). The following chart shows how to trade during a trading range.



Protect your profits. If the price moves in your favor, giving you a good profit, but doesn't give you a good place to move your stop, you should place a stop to protect your profits anyway. See the following chart.



Add to a Winning Position

Add to your winning positions

One of the best ways to increase your profits on a trade is to add to your winning position. For most trades I will only add to my position one time. However, when the trend seems exceptionally strong you can add to your winning positions more than once. The key is to not overdo it. In other words, don't add so much to your position that it will turn a winning trade into a losing trade. When adding to a winning position you only want to be risking a portion of your profit on the initial trade, you don't want to be risking your entire profit because of this new trade.

Here's an example: You enter a long trade with 1 lot at 160.00 in the EUR/JPY. The price then moves up to 161.25 and then retraces back to 159.75. At the current price of 159.75 you have a 75 pip profit which is about \$675. At 159.75 you see a very good entry signal to go long again. You decide to add to your winning long position at 159.75. Since you are entering a brand new trade you will place your stop for this new trade at 5 pips below the most recent low, but you will also raise your stop on your first trade to that same level. If you entered the new trade with 1 lot you would now be long on 2 separate trades, with 1 lot in each trade.

If your stop-loss for both trades was 25 pips below the entry price of your second trade you would still have a guaranteed combined profit even if the price suddenly dropped and stopped you out of both trades. By making the second trade you would only be risking a portion of your profits from the first trade. You would still end up with an overall profit of about \$225. But, if the price continued to climb another 100 pips you would end up with a profit of 175 pips from the first trade and another 100 pips from the second trade for a total profit of over \$2400. Just think of how much money you could make if you could add to your winning position 3 or 4 times, which can happen with good trends.

If you entered your first trade with 1 lot you are not required to enter the second trade with 1 lot. Since you only want to risk a portion of your profits from the first trade you may only want to enter the second trade with 5 mini lots or less depending on the amount of risk. On the other hand, if the risk on the second trade is very small, and you have a very large profit already from the first trade, you can occasionally trade more on the second trade than you did on the first trade. Here is a chart showing an example of adding to a winning position.



How and when to exit a trade

Once you have entered a trade there are 4 reasons to exit. First, you can get stopped out at your initial stop-loss for a loss on the trade. Second, as the price moves in your favor you will continue raising or lowering your stop-loss until you eventually get stopped out with a profit. Third, you will get another good signal to enter a trade in the opposite direction. For example, if you are long and you see a good signal to go short you will either want to exit the long trade at a profit or reverse your position (exit the long trade and enter a new short trade). There is a fourth method of exiting a trade, but these first 3 methods are the ways you will typically use to exit a trade.

However, every once in awhile something just won't look right to you after you've entered a trade and you'll want to exit your trade before you actually get stopped out or get a reversal or exit signal. This should be a rarely used option however. Once you get in the habit of trying to predict the direction of the market without relying on your signals you'll find yourself exiting most of your winning trades with small profits. It's usually best to exit a trade because you are stopped out or get a reversal signal.

Additional ideas for managing a trade

Once you get into a good trade and you have a nice profit you will usually want to stay with the trade. You will want to raise or lower your stops to protect your profits, but you will not want to exit the trade prematurely. Many times during a good trade you will get a signal to reverse your position. It is usually not a good idea to do this. For example, if you enter a long trade and the trade moves 100 pips in your favor, then you see a signal to enter a short trade, you usually do not want to take the short signal and reverse your position. However, if you decide to reverse your position and go short be ready to either exit the trade quickly or reverse back to the original long position. The following 4 charts show some of your options in this type of trade scenario.

EUR/JPY(5 min. 5 day) BLG_UP(20,2,SMA) BLG_LW(20,2,SMA) SMA(10)

CHART 1 OF 4



EUR/JPY(5 min. 5 day) BLG_UP(20,2,SMA) BLG_LW(20,2,SMA) SMA(10)

CHART 2 OF 4





Money Management

Money Management

Money management is probably the most important aspect of trading. Proper money management is a necessary component of a long and successful trading career. There are four money management components that will keep you in the game as a winner: Placing a stop loss and never moving it unless you are raising or lowering it to protect profits, never exiting a trade before you get a signal to do so, never risking more than 4% of your account balance on any one trade (beginners should start with 1% or 2%), and exiting half your positions at the break-even point.

Placing stop-losses

We have already discussed stop-losses, but it doesn't hurt to reemphasize how important they are. Once you decide where to place your initial stop-loss leave it there, don't ever move it unless you are raising it or lowering it to protect some profits. If the price starts to approach your stop-loss and you are scared that it might stop you out, do not move your stop loss further away. All you're doing is increasing your risk on the trade. If you find a good signal to enter a trade and the price moves against you and stops you out, it's very likely that the price will continue moving in that direction. If you move your stop-loss to avoid getting stopped out you will more than likely just end up with a bigger loss. You are going to get stopped out sometimes so you might as well get used to it. The key is to keep your losses as small as possible and not make them bigger than they need to be. Good winning trades can make up for several small losses.

The only time you want to move your stop is after the price moves in your favor. Once the price is moving in your favor you will raise or lower your stops to protect your profits.

Never exit a trade early

This isn't an absolute 100% rule, but it should be pretty close. It's very easy to turn a winning trading plan into a losing one. All you have to do is exit your trades early with small profits instead of letting them go. It's very hard watching a profit get smaller and smaller. It can be very tempting to click the "Close Trade" button, but if you want to be a winning trader that's exactly what you should not do. Sure, you may lose more trades by letting them run, but you will also get more winning trades, and the good winning trades can make up for the losses.

Never risk too much on any one trade

As a general rule I try to limit my losses to a maximum of 4% of my account balance. However, beginning traders should risk even less until they gain more confidence. If you risk 10% or 20% on any one trade it won't take too many losses to completely wipe out your account. The way to make more money is to risk only 4% or less and then add to winning positions as explained previously.

If you have a \$1000 trading account it means you don't want to risk more than \$40 on any one trade. If you trade the GBP/USD you can trade 1 mini lot if you have a 40 pip risk. When you trade the GBP/USD each mini lot is worth \$1 (one US Dollar), so if you have a 40 pip risk and trade 1 mini lot your maximum loss will be \$40. If your risk on a trade is only 20 pips you can trade 2 mini lots. However, beginners should be risking only half this much. This is why I would suggest starting with at least \$2,500 in your trading account, so you can be making trades with a risk of 2% or less. There is another reason for opening an account with at least \$2,500 because it is required that you enter trades with at least 2 mini lots (and a \$2,500 account will allow you to do that). This will be explained in the section below titled "**Exit half your positions at the break even point.**"

If you have a \$100,000 trading account it means you don't want to risk more than \$4,000 on any one trade. If you trade the GBP/USD you can trade 10 lots if you have a 40 pip risk because each lot is worth \$10 (ten US Dollars). If your risk on the trade is only 20 pips you can trade 20 lots. However, once you get up to a \$100,000 account you may feel more comfortable risking less than 4% per trade. You can still make a lot of money risking just 2% per trade if you have \$100,000 in your account.

Exit half your positions at the break even point

This is one of the most important and beneficial money management techniques you could ever learn. There are many different variations for using this exit strategy and I will give you a detailed explanation of how to implement this technique. Plus, once you know how this strategy works you will be able to customize it any way you want. With this strategy you will be able to reduce your risk, turn potential losing trades into winning trades, and also reduce your trading stress. After all, traders get stress from losing money, so if you could eliminate the risk of losing as quickly as possible after entering a trade your stress would be lessened tremendously. OK, so how does it work?

Entering a trade is exactly the same as explained previously. You will also place an initial stop-loss at the time you enter the trade, also the same as explained previously. However, once the price moves in your favor the same amount as you risked on the trade, you will exit half your positions. In other words, if you are risking 20 pips on a trade you will exit half your positions with a 20 pip profit. This will turn your trade into a break-even trade even if the price reverses and the second half of your positions get stopped out with a loss.

Here's an example. You get a signal to enter a long trade at 155.50 and your initial stop is at 155.20 which means you are risking 30 pips on this trade. You place 2 separate trades with half of your positions in each trade. If you are going to trade 2 mini lots you will place 2 separate orders and go long 1 mini lot with each order. In other words you will place an order to go long 1 mini lot at the current market price of 155.50. Immediately after placing the first order you will place a second order to go long 1 mini lot at the current market price of 155.50. Once you get the hang of it, it only takes a couple of seconds to place an order, but even so, in the time it takes you to place both orders the current market price may be 1 or 2 pips higher or lower than 155.50. That means you might actually enter one trade at 155.50 and one trade at 155.52 or 155.48.

Once you have entered both trades you can go in and edit these open trades. If you entered both trades at 155.50 you will notice that each trade is risking 30 pips. On one of these trades you add a limit order that is 30 pips above your entry price of 155.50, or at 155.80. Then when the price climbs higher and hits 155.80 you will automatically have one of your trades closed out with a 30 pip profit. If the price drops against you and eventually stops you out of the other trade with a 30 pip loss you will have lost nothing on the trade. Once the price moves up 30 pips you will be guaranteed at least a break-even trade. From that point on there is no stress on the trade, you can't lose. But if the price continues to move in your favor you can continue to increase your profits on your one remaining open position.

An added benefit is that once you have guaranteed yourself at least a break-even trade it is a lot easier to stay in the trade even if the price should move against you, without feeling the need to exit the trade too early. This will keep you in more trades longer. It's very easy to want to exit a trade with a small profit if you think you may end up losing on that trade, but it's very easy to stay with the trade all the way if you know you can no longer lose money on that trade.

You will find that many of your trades will move 30 pips or more in your favor and then reverse. Without this technique many of those trades could turn into losing trades. But with this technique you will find that many trades that would have ended up losers turn into break-even trades or even small winners instead. Before we start examining variations of this method here are a couple of charts showing you examples of this basic technique:



I have explained this technique in the easiest way possible, so that you would understand how it works. However, there is one part that I haven't mentioned yet because I didn't want to complicate the process until you learned the basic strategy. I did not mention anything about spreads in the explanations above, but they must also be figured in.

Spreads must be added to the amount of risk in this strategy

All you have to do is add the amount of the spread to the amount of the risk. Here's how that works: As you have already learned there is a buy price and a sell price. The difference between the buy price and the sell price is the spread. Most traders will be looking at the sell price on their charts. When I'm looking at my charts I am always seeing the sell price, never the buy price (which is higher). If a candle closes on my chart at the price of 195.50 and I want to enter a long trade at that price, I will not be able to buy it at that price. The buy price may be 4 pips higher than that price. So if I buy 1 mini lot at the sell price of 195.50 I will actually be buying it at the buy price of 195.54.

Here's an example: My chart shows the sell price. While looking at my chart I notice a good signal to go long in the GBP/USD. My chart shows a blue candle closing at 195.50 and I want to place two separate orders to buy 1 mini lot with each order. I open two trades, buying 1 mini lot at the current market price in each trade, which actually turns out to be at 195.54 because I must buy at the buy price, not the sell price. My stop is placed at 195.25 for a total risk of 29 pips (195.54 minus 195.25). After placing both orders I add a limit order to take profit on one of my trades at 195.83 (29 pips higher than my entry price of 195.54). It sounds more complicated than it is. Once you get your demo account going you will become an expert after just a few trades.

Variations of exiting half your positions at the break-even price

Instead of placing your limit order to exit half your positions at the break-even point you can place your limit order much closer to your entry point. The closer you place your limit order to your entry price the better your chance for at least getting a break-even trade. But on the other side of the coin, the closer you place your limit order to your entry price the better chance you have of getting stopped out and missing a good winning trade.

It's really very simple. Let's say you entered a long trade at 195.50 and your stop-loss was at 195.25. You are risking 25 pips. In the basic strategy you would place your limit order on half your positions at 195.75. However, you don't need to place your limit order that high. There is no law that says you can't place your limit price at 5 or 10 pips above your entry price. You can place it anywhere you want. For example, you could place your limit order just 10 pips above your entry price at 195.60 instead of 25 pips above your entry price. It is much more likely that the price will hit 195.60 than hitting 195.75. And once the price hits 195.60 half of your positions will be closed out with a 10 pip profit. You will then raise your stop from 195.25 to 195.40 so that you will be guaranteed at least a break-even trade.

You can choose to place your limit price 5 pips, 10 pips, 15 pips, or any amount of pips higher than your entry price. The lower the amount the greater the chance you have of at least breaking even on your trade, but also the greater chance you have of being stopped out before the big move. You'll have to decide what's right for you. Here's a chart showing what could happen if you used 10 pips as your break-even point:



Another Variation

If the price moves very decisively in your favor you can delete the limit order you have on half your positions and instead move your stop-loss to retain at least some of the profit on both halves of your positions. For example, let's say you enter two separate short trades, with half your positions in each trade, and you have a 40 pip risk. You place a limit order on 1 of your trades (half your positions) to exit at a 40 pip profit. But as the price moves quickly in your favor, and is getting close to the limit price, you decide that you want to try for a larger profit on this trade. So you remove your limit order and instead lower your stops so that you will get at least 10 pips of profit on both of your trades. If the price continues to move in your favor you will end up with twice as much profit because you never exited half your positions. If the price moves against you and ends up stopping you out you will still get 10 pips profit for all of your positions. Here is an illustration of this strategy:



There are many different ways to tweak this strategy and you should experiment with your own ideas. The idea is to maximize your profits on good strong moves while still reducing your risk as much as possible. What you don't want to do is turn a winning trade into a losing trade.

Here is how I would trade this variation: I would always place my limit order on half my positions at a specific price level as usual. What price level? In my study it seems that the ideal price to place the limit orders (to take profit on half of the positions) is approximately 5 pips less than the initial amount of risk. In other words, if I enter a long trade at 195.50 and my stop is at 195.25 I am risking 25 pips on the trade. I would place my limit order at about 18 to 20 pips above my entry price instead of 25 pips. Then when the price hits my limit price, and I automatically exit the first half of my positions, I would then raise my stop on the second half to the break-even point. This would be my basic method. However, if a strong move begins, especially if I was risking 40 or 50 pips or more on a trade, I would remove my limit order and move all stops so that if I was stopped out I would still end up with a profit of at least 10 or 15 pips. I would then either get stopped out with a 10 or 15 pip profit on all positions or I could possibly end up with a very profitable trade.

The ForexPower Trading Rules

The ForexPower Trading Rules

You have learned how to use candlestick patterns, Bollinger Bands, and Stochastics to find entry points for high probability trades. You have learned how to manage your trades to keep your losses small and get the maximum profit from your winning trades. You have learned how to manage your money so that even if you lose a few consecutive trades you will not be wiped out, but will be able to continue trading. You have learned how to reduce your risk by exiting half your positions at strategic points. This is all the information you need to be a profitable trader, the **ForexPower** Trading System along with some trade management skills and money management skills. However, don't ever stop learning. There are many other techniques and indicators that can also be added to your trading plan that can make you an even more successful trader.

Rules to trade by

I am including below a quick and easy reference guide for trading this system. You can always reread this entire book, but once you understand the candlesticks, the indicators, the trade management techniques, and the money management techniques it will be a lot simpler going through these short trading rules than rereading the entire book. Keep these rules handy while you practice your trading on a demo account. Then once you've mastered the art of the trade, when you no longer have to look at the notes, you are ready to make the move into the fascinating world of real trading. Here are the rules to trade by (remember, this is just an outline and does not include every detail of the **ForexPower** Trading System):

I. ForexPower Summary

- A. **Find a good reversal candle pattern on the 5-minute chart** at the top or bottom of the Bollinger Bands and at the end of a trend.
- B. **The Stochastics should be overbought** (if the reversal candle pattern is at the top of a trend) **or oversold** (if the reversal candle pattern is at the bottom of a trend).
- C. When you find a good candle pattern at the top or bottom of the Bollinger Band, at the end of a trend, with overbought or oversold Stochastics on the 5-minute chart you should then **check the 15-minute chart at the same time for a good reversal candle pattern** (ideally, but not necessary at the top or bottom of the Bollinger Bands, at the end of a trend, with overbought or oversold Stochastics).
- D. **When both the 5-minute and 15-minute charts give good entry signals at the same time enter the trade** and place an initial stop 5 pips below or 5 pips plus the spread above the recent low or high. Ideally you will place two separate orders with half your positions in each order.
- E. **Exit half your positions** at a break-even price.
- F. Once you are in a trade **raise or lower your stops as the price moves in your direction**.
- G. **Stay in the trade with the second half of your positions until you are stopped out, get an exit signal, or get a reversal signal**.
- H. **Add to your winning position** when the opportunity presents itself.

II. A More Detailed ForexPower Summary

1. Open a 5-minute chart on your desktop.

2. Find good reversal candlestick patterns.

- A. The candlestick patterns should normally be poking above and then closing below the top Bollinger Band (for short trades) or poking below and then closing above the bottom Bollinger Band (for long trades).
- B. The candlestick patterns can also be located between the two Bollinger Bands during trends. When there is a good trend the price will often retrace (move a little bit against the trend before resuming the trend). If you don't get into a trade at the beginning of a trend you can wait for a good candle pattern on a retracement and then get into the trade even if the candle pattern is not at the top or bottom of the Bollinger Band. You can also add to your winning positions on retracements.

3. Look at the Stochastics after you find a good candlestick pattern.

- A. If there is a good candlestick pattern at the top of an uptrend and at the top of the Bollinger Band (bearish engulfing, dark cloud cover, evening star, shooting star, etc.) look to see if the Stochastics are overbought. If they are overbought go to step 4.
- B. If there is a good candlestick pattern at the bottom of a downtrend and at the bottom of the Bollinger Band (bullish engulfing, piercing pattern, morning star, hammer, etc.) look to see if the Stochastics are oversold. If they are oversold go to step 4.

4. Look at the 15-minute chart.

- A. If you see a good reversal candle pattern on the 5-minute chart and the Stochastics are appropriately overbought or oversold look to see if there is a similar signal to enter a trade on the 15-minute chart at the same time. If you get a good candle pattern at the top or bottom of the Bollinger Band on the 5-minute chart, good Stochastics signals on the 5-minute chart, along with a similarly good candle pattern and Stochastics on the 15-minute chart at roughly the same time **enter 2 separate trades with half your positions in each trade**. Place a stop-loss 5 pips plus the spread above the high of the candle pattern or 5 pips below the low of the candle pattern.
 - 1. If you get a good signal on the 5-minute chart you may have to wait another 5-10 minutes for the last candle to close on the 15-minute chart before you can get a signal on the 15-minute chart.
 - 2. If the signal looks perfect on the 5-minute chart you can often enter trades based solely on the 5-minute chart and not wait for the confirming signal on the 15-minute chart. If you enter a trade based only on the 5-minute chart you should at least have a confirming Stochastics signal on the 15-minute chart.

5. Exit half your positions at the break-even point

- A. Once the price has moved in your favor the same amount that you risked on the trade exit half your positions.
 - 1. You can also vary the amount of your break-even point. For example, if you are risking 25 pips on the trade you can exit half your positions with a 10 pip profit and then move your stop loss on the second half of your positions to the break-even point (moving your stop-loss so that you are only risking 10 pips on the second half of your positions).

6. Raise or lower your stops to protect profits.

- A. If you are in a long trade there will usually be retracements. Once the retracement is over and the price then moves higher than the previous high you should raise your stop to 5 pips below the most recent retracement low. Whenever there is a retracement and then the price moves back up and makes a higher high move your stop to 5 pips below the most recent retracement low (swing low).
- B. If you are in a short trade there will usually be retracements. Once the retracement is over and the price then moves lower than the previous low you should lower your stop to 5 pips plus the spread above the most recent retracement high. Whenever there is a retracement and then the price moves back down and makes a lower low move your stop to 5 pips plus the spread above the most recent retracement high (swing high).

7. Stay in the trade until you are either stopped out, you get a reversal signal to take a trade in the opposite direction of the trade you're in, or you get an exit signal.

- A. If you are stopped out you should then wait for another entry signal.
- B. If you get a reversal signal you should exit the trade you are currently in and enter a trade in the direction of the reversal signal. Note: Sometimes you'll get reversal signals that you don't want to take. If you are in a trade that has been trending in your favor for a long time you may get a reversal signal. If the signal is perfect you can reverse the direction of your trade, but if it is not a perfect signal you may want to keep raising or lowering your stops (and not reverse your trade) because the trend may continue. Also, if you get a reversal signal (while you are in a trade that has been trending in your favor for a long time) and you reverse your trade, you should be alert and ready to change direction again if there is another signal to reverse your trade back to the original direction.

8. Add to your winning position.

- A. If you have made a good profit during a trend (100 pips, etc.) and the price retraces a little bit you can look for another good signal to add to your winning position (in the same direction as your original trade).
 - 1. You can add to a long trade when there is a retracement and then another bullish candle pattern (especially when the Stochastics are oversold).
 - 2. You can add to a short trade when there is a retracement and then another bearish candle pattern (especially when the Stochastics are overbought).
- B. Each time you add to your winning position it should be with a good candle pattern AND you should raise or lower your stops for all positions to either 5 pips below or 5 pips plus the spread above the candle pattern you just used to add to your position.

How Much Money Can I Make?

How Much Money Can I Make?

Now that you've learned how to recognize trading signals, how to enter trades, where to place your stop-losses, when and where to raise or lower your stop-losses, how to exit half your positions to quickly guarantee at least a break-even trade, when and where to exit your trades, and how to manage your money to reduce your risk, you are probably asking yourself "how much money can I actually make in the Forex market?" My answer to that question is "it all depends."

Some currency pairs move a lot more than other currency pairs. Some currency pairs might move 50 pips while others might move 300 pips over the same period of time. As you begin trading with fake money in a demo account you should be alert as to how much the different currency pairs move. For example, the AUD/USD or USD/JPY might move a little bit while the GBP/JPY might move a lot. But does that mean you want to trade the GBP/JPY because you can make more money with it? Not necessarily.

The GBP/JPY may move more, but the spreads are much larger too. If the risk on a GBP/JPY trade was 40 pips plus a 10 pip spread you would be risking 50 pips on that trade. On the other hand, if you were trading the USD/JPY you may only have a 10 or 20 pip risk with a 4 or 5 pip spread. You may be risking 2 or 3 times as much trading the GBP/JPY as you would trading the USD/JPY. That means you could trade more lots with the USD/JPY than you could with the GBP/JPY while risking only the same amount of money. The GBP/JPY would have to move 2 or 3 times more than the USD/JPY for you to make the same amount of money.

You are probably thinking that I'm going to be like everyone else and never actually answer your question "how much money can I actually make in the Forex market?" However, that's exactly what I'm going to attempt to do right now. The best way to show you how much money you can make is to show you an example, but it's important to note that the following example will be different than what will happen in your own trading. You may make more or less than the following example depending on market conditions at the time of your trading because some weeks the market will move a lot and other weeks it won't move very much.

The 14 charts below took place over a 5-day period of time. I did not look back in history to find the best possible trading period; I simply chose to show you how I would have traded the most recent 5-day period.

The following 14 charts cover the period between January 20, 2008 and January 25, 2008. All of these charts are 5-minute charts of the GBP/JPY and each successive chart is a continuation of the previous chart. By examining these charts you will be able to see what could have happened to a \$5,000 trading account, using the **ForexPower** Trading System, over a 1-week period of time while never risking more than 2.25% of the original \$5,000 account balance. However, this does not mean that we will never risk more than 2.25% of our account balance. Once we build up some very large profits we will begin to risk more than 2.25% of our account balance, but always only a portion of previous profits.

For example, if the \$5,000 account were to grow to \$7,000, meaning we had \$2,000 in profits, we could then risk a portion of those profits, or \$700 for example (which is 10% of our \$7,000 account balance). Even if the trade was a loser we would still have \$1,300 in total profits because we were only risking a portion of our previous profits. If we ever lost a large trade like this, \$700 of a \$7,000 account, we would then start over again, risking no more than 2-4% on any one trade until we had additional large profits. Then, once we built up some large profits again, we could once again risk a portion of those profits. As you'll see from the charts below this method can help bring in large profits fairly quickly.



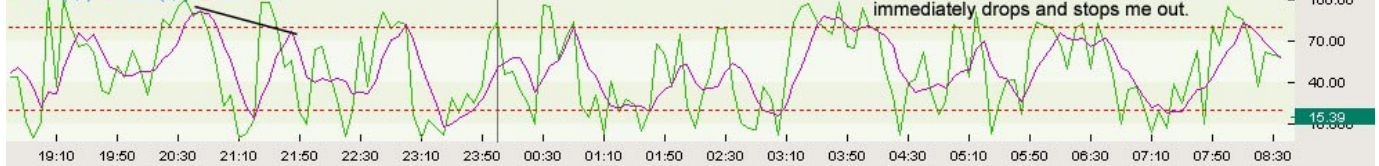
GBP/JPY(5 min, 5 day) BLG_UP(20,2,SMA) BLG_LW(20,2,SMA) SMA(10)

Chart 3 of 14

1-The price begins to move sideways. When it moves sideways it is usually building up steam, getting ready to break out, either higher or lower. Since it could go either way I decide to sell at the top and then buy at the bottom with each good signal. The first good signal is a signal to go short with this evening star pattern and a bearish divergence. However, the 15-minute chart does NOT show a confirmation bearish candlestick pattern at this same time so I remain on the sidelines for now.

2- The next good signal is this bullish engulfing pattern, poking below and then closing above the Bollinger Band. The Stochastics are also oversold and turning higher. The 15-minute chart also has a bullish engulfing candlestick pattern so I enter a long trade with 2 full lots. The risk is 46 pips so I am risking \$828 on this trade, about 1/2 of my profit from the previous trade. If I lose this trade I will still have an overall profit of \$925. The price moves very strongly to my break-even point so I remove my limit order and raise my stops on both lots so that I will get at least a 10 pip profit even if the price immediately drops and stops me out.

Fast K(5,5) Fast D(5,5) L20 L80



GBP/JPY(5 min, 5 day) BLG_UP(20,2,SMA) BLG_LW(20,2,SMA) SMA(10)

Chart 4 of 14

1- I am long 2 full lots from this level

2- As the price moves in my favor I raise my stops to these levels.

Fast K(5,5) Fast D(5,5) L20 L80









■ GBP/JPY(5 min. 5 day) ■ BLG_UP(20,2,SMA) ■ BLG_LW(20,2,SMA) ■ SMA(10)

Chart 11 of 14

1- A good uptrend begins here, but there wasn't a good enough signal for me to go long so I did not enter a trade. If you were watching the 15-minute chart you would have noticed a perfect morning star pattern 15 minutes later. However, I would not have entered this trade. This is a good lesson to show you that you don't always get good signals for every good move.

3- I exit the first half of my positions here with a 60 pip profit.

2- I get a second chance to get into this nice upmove. I see a great morning star pattern at the bottom of the Bollinger Band along with oversold Stochastics which are turning higher. The 15-minute chart shows a perfect bullish engulfing pattern. The risk is 60 pips so I go long with 5 lots for a total risk of \$2,700. I place 2 separate trades with 2 1/2 lots (25 mini lots) in each trade.

4- As the price moves in my favor I raise my stops to these swing lows.

■ Fast K(5,5) ■ Fast D(5,5) ■ L20 ■ L80



■ GBP/JPY(5 min. 5 day) ■ BLG_UP(20,2,SMA) ■ BLG_LW(20,2,SMA) ■ SMA(10)

Chart 12 of 14

1- I am still long 2 1/2 lots as I continue raising my stops to these swing lows.

2- I raise my stop to this swing low at 212.39.

■ Fast K(5,5) ■ Fast D(5,5) ■ L20 ■ L80





Can you really make that much money? Yes, but you would have to stay away 24 hours a day, 5 days a week. You may or may not have noticed that to make the trades depicted above you would have to stay awake 24 hours a day, 5 days a week. Obviously, that would be very hard to do. However, during this 5-day period of time I only traded 1 currency pair. If you were trading 3 different currency pairs it's possible that you could get 3 times as many trades over a 5-day period. So it's also possible that you could make just as much money, or even more, watching and trading 3 different currency pairs 8 hours per day, 5 days per week. But the bottom line is that you can trade as little or as much as you want. There are good trading opportunities no matter what time of day or night you decide to trade.

Final Remarks

Final remarks

As you can see it's possible to make a lot of money in the Forex market using the **ForexPower** Trading System. However, don't let these examples make you greedy. The best way to trade is to start with a demo account and practice the principals as taught in the **ForexPower** Trading System before trading any of your real money.

There are two main reasons for trading a demo account. First, you will be able to learn the **ForexPower** Trading System without any stress. And second, you will be able to build confidence in your ability to make winning trades. If you started learning with real money chances are you would start to panic as soon as the trades started moving against you. You would panic because you haven't yet developed the confidence that the **ForexPower** Trading System will really work. To be a winning trader you must first practice with a demo account until you have proven to yourself that you can win and win consistently. Once you have done that you are ready to trade real money.

Also, when you first start trading real money do not begin by risking 4% of your account balance. Why? Because trading a demo account and trading real money are two different things. Even after trading your demo account with success you will still experience a certain amount of stress when you start trading your real money for the first time. To lessen your stress you should trade maybe 1% or 2% of your account balance until you've made some profits and developed some confidence. Once you have some profits you can increase your risk to 4%. Then once you have a larger profit you can even risk more. Take it step by step and don't try to rush things. By following the principals of the **ForexPower** Trading System you can become a successful trader. Good luck and may the profits be with you.

The **ForexPower** Trading System©