

The Affluent Desktop Currency Trader

Legal Notices & Disclaimer: The Affluent Desktop Currency Trader – 2006

ALL RIGHTS RESERVED: No part of this manual may be reproduced or transmitted in any form by any means, electronic or mechanical, including photocopying, recording or by any information storage or retrieval systems, without the express written permission from the author and publisher. All materials contained herein have been copyrighted. Reproduction will be in violation of all copyright laws. Violators will be prosecuted.

While attempts have been made to verify the accuracy of information provided in this manual, neither the author nor the publisher assumes responsibility for errors, inaccuracies or omissions.

There are no claims by the author, Amin Sadak or any of his associates, employees, partners and affiliates that the trading strategies or methodologies in this manual will result in profits and will not result in losses. This manual is not a guarantee to produce profits. Currency trading on the Forex and trading results in general vary from individual to individual and may not be suitable for everyone. All strategies, techniques, methods and trades contained in this manual should not be considered as an invitation to enter and trade in the market

Each trader is responsible for his or her own actions. Your purchase of this manual confirms your agreement with the Statement of Risk, constitutes your agreement to this disclaimer, confirms and exempts the author and publisher from any liabilities or litigation.

Copyright 2006 – Amin Sadak – ShiftTrading.com

How to buy and sell currencies in your spare time and earn an extra \$500-\$1000 per week, every week!

Introduction

Thank you for purchasing this **Currency Trader Course**. A very warm welcome to this adventure you are about to undertake. You are about to begin a journey which will take you into the depths of the financial world and make you financially free at the same time. To prepare for this journey, you will need to don your thinking cap as this trip has a “steep learning curve ☺”

By following the training and methods taught in this manual, you can utilise the time before you leave for work in the morning and the time you return home in the evening to earn you an extra \$500-\$1000! We’ve got to go through a lot of information in order for you to start trading successfully. I do understand that you want to rush out there and start making lots of money but this particular course takes time. Please make the effort to go through this manual at least twice so it gives time for the information to sink in.

To achieve \$500-\$1000 a week as spare income, it will take some time to learn the basics and then some more time to implement a method and various techniques to trade profitably.

\$1000 per week is easily achievable with this business.

Don’t believe me? There are already thousands of individuals using their time to trade currencies who are making more money than their regular job income. Most of them are now doing this full-time, as the earning potential is truly unlimited.

You can do this from any country in the world, even whilst on holiday. Remember, all you need is a decent computer, internet connection, and a little starting capital.

You can start with as little as \$300, but \$2000 is the recommended amount.

You don’t need to risk a single penny whilst learning, as you will learn to trade currencies with a dummy account which will imitate a real account. This will allow you to buy and sell currencies just as if you were buying and selling in the real world. However, you won’t lose or make any real money. You will be able to see your dummy account grow by \$500-\$1000 per week from your initial starting capital.

The reason I’m quoting currency in \$\$\$ and not any other world denomination is simply because you will be dealing with US Dollars more than any other currency.

With this business, you don’t need any stock, employees or anything else that goes along with a traditional business. All it requires is a little computer time and some simple *chart analysis* (research).

When you buy and sell currencies, you are said to be dealing in the “**Foreign Exchange**” market, or “**Forex**” market or “**FX**” market for short.

As a Forex trader, you will face some tough decisions from time to time. In this manual, you will learn when and where to place *trades* (buy or sell currency) to achieve a minimum of \$500-\$1000 per week.

When I talk about achieving \$500-\$1000 per week, I really mean a lot more than that. The reason I didn’t mention a higher figure in my sales letter was simply because you wouldn’t have believed

me. Let me assure you, as a Forex trader, you can even make \$1000 in a single hour providing your timing is right. Don't worry about the details for now as we will cover everything later. I am confident that I can help you secure your own \$500 every week. I say this because I was in your position not long ago. I know what it's like when starting out. During my humble beginnings I lost money, which is when I decided to invest in some personal training. After completing the course, I actually started to make money as I began to think things through. I pondered over every trade. I weighed the pros and the cons and then pulled the trigger. Now, I really do make a consistent \$500-\$1000 every week.

Everything written in this manual is exactly what I do. All *you* need to do is study and follow what I have written. There is no doubt in my mind that you will also bank at least \$500 every week (if not more).

I'm not a trading guru and I don't make exceptional amounts of money simply because I choose to spend my time doing other things. If money can't bring you freedom, what use is it?

Ok, I don't want to bore you with explaining the rags to riches lifestyle and other benefits of having lots of money. I'm sure you are clever enough to know what you can do with your own income of \$1000 a week.

The writing style you encounter in this manual may be different from what you'll find in other books. I am not a writer by trade and therefore my communication style will be geared to your success. As long as you understand the message I am about to convey, you will benefit. Look at the information itself and you will find it of great value. I have written this book with one aim - to show you how to make a lot of money by trading currencies on the Forex market. And this is exactly what you will learn here.

There is a lot of information to cover and I can go into depth on each subject but instead I will explain the necessary and 'nice to know' items so you can get started as soon as possible without spending an era remembering all the other bits and bobs.

So without further ado, let's get started.

Module 1

The Forex Market

A person who buys and sells currency on the Forex market is known as a “Forex Trader”.

There are many other markets which deal with many different items. Have you heard of the Futures Market? Have you heard of the Stock Market?

Well, the Forex (FX) market is just another market where people get together to buy and sell currency. It is open 24 hours a day from Sunday around 10pm UK time until Friday 9pm UK time. The FX market is *the* largest financial market to exist amongst all other markets.

Over 2 trillion dollars change hands every day in this market. Do you think you can take a part of this pool and add it to your own income? Sure you can! I do it all the time.

Have you seen the film *Trading Places*? Did you see how all the traders gathered together in the trading pit to buy and sell their commodities? FX is slightly different. Nobody goes to buy and sell at the pits. Instead, you do it from the comfort of your own home sitting at your own computer table. You can buy and sell currency with a few clicks of your mouse.

That’s how easy it really is.

For every person that wants to buy currency, there must be someone who is willing to sell currency at that exact same price.

“What if there is no one to sell you that currency at that exact same price”?

Since 2 trillion dollars change hands every day in the FX market, it is extremely unlikely that there are no traders willing to sell at that price. There are so many traders in this market that money changes hands at the exact prices they want. This is what you call *market liquidity*. *The FX market is a very liquid market.*

The Forex market is also known as the Forex Spot market as opposed to the Currency Futures market. With the Spot market, all transactions made are dealt with immediately. With futures, you are buying/selling currency in the future.

The FX Spot market is extremely liquid and this is where you can achieve \$500-\$1000 a week on average. Consider it your second home.

Currency Pairs

Many different currencies are traded every day. Traders buy and sell these currencies to make a profit. You don’t need any special skills to trade. You simply need the knowledge and the ‘know how’ to do the same. That is exactly what I will teach you in this manual.

So how do you make money trading currencies?

Let’s start with an example.

Let’s say 1 British Pound is worth 1.8 US Dollars. This means that if you go to the currency exchange kiosk at your local airport and you give them £1 in exchange for dollars, they will give you \$1.80 (in return for your £1 – disregard any commission for now).

You saw the news on TV and now you believe that the Dollar will get stronger against the Pound and so you buy many dollars.

Let’s say you gave the kiosk £100 in exchange for \$180 at the exchange rate of 1.8.

$$100 \times 1.8 = 180$$

A few hours later, you see that the exchange rate has changed and now every Pound is worth 1.4 US Dollars. This means that the dollar has *increased* in value against the Pound. Before, each pound was worth 1.8 US Dollars but now it is only worth 1.4 US Dollars. In other words, the Pound has become weaker against the US Dollar and the US Dollar has become Stronger against the Pound. You will see this as you go back to the kiosk and re-exchange your Dollars back to Pounds. So if each Pound is worth 1.4 US Dollars, how many pounds do you get for \$180? $\$180 / 1.4 = \text{£}128.57$. This means you have just made yourself a profit of £28.57. You only had £100 before but now you have £128.57.

Trading currencies at home works on the same principle except you will be doing it on a larger scale and without the hassle of visiting kiosks and their inflated rates.

Listed here are some of the currencies you can trade on the FX market along with their abbreviations:

USD = US Dollar

EUR = Euro

GBP = Great British Pound

CHF = Swiss Franc

JPY = Japanese Yen

CAD = Canadian Dollar

AUD = Australian Dollar

NZD = New Zealand Dollar

Cur1	Cur2	BID	ASK
EUR	USD	1.2942 ↑	1.2944 ↓
USD	JPY	104.70 ↓	104.73 ↓
GBP	USD	1.8992 ↓	1.8996 ↓
USD	CHF	1.1917 ↑	1.1922 ↑
EUR	CHF	1.5422 ↓	1.5426 ↓
EUR	JPY	135.54 ↓	135.58 ↓
GBP	JPY	198.83 ↓	198.92 ↓
EUR	GBP	0.6812 ↑	0.6817 ↑
USD	CAD	1.2496 ↑	1.2500 ↑
AUD	USD	0.7776 ↓	0.7781 ↓
EUR	CAD	1.6169 ↑	1.6179 ↑
EUR	AUD	1.6635 ↑	1.6649 ↑
GBP	CHF	2.2623 ↓	2.2633 ↓
CHF	JPY	87.85 ↓	87.95 ↓
AUD	CAD	0.9716 ↑	0.9726 ↑
AUD	JPY	81.40 ↓	81.48 ↓
NZD	USD	0.7315 ↑	0.7320 ↑
CAD	JPY	83.77 ↓	83.83 ↓

You can't just trade any currency against any other currency. You can only trade what is available to you.

Currencies are traded in set pairs.

From the 'dealing rates' on the left, you can see the 'set pairs' which are available and you can see that currency 1 (Cur1) is traded against currency 2 (Cur2). Each currency is abbreviated.

Whatever is quoted under Currency 1 is the *base* currency.

This means that if you buy the EUR/USD pair, you will actually be buying the Euro (base currency) and selling the USD at the same time. If you wanted to *buy* the US Dollar against the Euro, you would simply *sell* EUR/USD. Whether you buy or sell, you will be doing that action to the first currency quoted in the pair. In effect, you will be doing the opposite for the 2nd currency quoted in the pair.

"Buy" GBP/USD means I am buying the Pound and selling the US Dollar. "Sell" GBP/USD means I am selling the Pound and buying the US Dollar.

So you see, you will be trading set currencies against each other. When prices change, you stand to make a profit or a loss. Later, you will learn how to trade in a manner which will produce a good positive income by trading the right currencies at the right time.

The exchange rate (in simple terms) is the ratio of one currency *valued* against another. The first currency is known as the *base* currency and the second currency as the *counter* or *quoted* currency. For example, the AUD/CAD exchange rate specifies how many Australian Dollars are required to buy a Canadian Dollar, or conversely, how many Canadian Dollars are needed to purchase an Australian Dollar.

There are 2 prices quoted for each currency pair – the BID price and the ASK price.

The ask price is what you pay if you are buying the currency pair and the bid price is what you pay if you are selling the currency pair.

Have a look at the GBP/USD price above. It is quoted as 1.8992/1.8996 which may also be shown as 1.8992/96.

If you buy the GBP/USD, you will pay the price of 1.8996. If you then decided to sell it straight away, you would sell it at a price of 1.8992. This means you would have made a loss, as the bid price is always lower than the ask price. This is quite normal and the trades you undertake will take this into account.

As soon as you place a trade, you are already in a loss situation. This means that you will have to recover this loss amount as well as make a profit on top for a successful outcome.

Don't worry about this instant loss for now as it will all become clear as you read on. Just accept it for now.

The difference between the bid and ask price is known as *the spread*.

To clarify the bid and ask components, a currency exchange rate is shown as a bid price and an ask price. The *bid price* is always lower than the ask price. The bid price shows the price which will be obtained in the counter currency when *selling* one unit of the *base* currency. The *ask price* represents what has to be paid in the counter currency to obtain one unit of the base currency. Have a look at this as an example:

EUR/USD: 1.2942/44

The first part (before the slash) is showing the bid price (what you obtain in USD when you sell the Euro - Sell EUR/USD). In this example, the bid price is 1.2942. The second part (after the slash) is the ask price (what you have to pay in USD if you buy the Euro – Buy EUR/USD). Here, the ask price is 1.2944.

If you buy a currency (at the ask price) and sell it straight away (at the bid price), it may be obvious to you that you would always lose out because the ask price is always higher than the bid price. This difference (spread) is where the broker takes his cut. So, instead of charging you commission for every trade, he makes his money by taking a little chunk out of every trade you place. The spread is something which all traders have to live with. It is something you will need to take into account when placing a trade.

However, when you deal with profits of \$1000 every week, the spread is negligible.

Although there are scores of currencies being traded around the world, there are 4 major currency pairs and these are traded more than any other. When starting out, you are advised to stick with these '4 majors' until you become more proficient in trading.

They are – EUR/USD, GBP/USD, USD/JPY and USD/CHF.

When you buy or sell a particular currency, you are *placing a trade* which is also known as *opening a position*. When you exit that trade (either with a profit or loss), you are said to be closing that position. You will notice a similarity between the EURUSD pair and USDCHF price movement. When one of these rises, the other will fall and vice versa. No need to know why at this point. Just know that it does.

When you see a currency pair which does not include the USD, it is said to be a *cross* pair. For e.g. the EUR/JPY is a cross pair as it does not have the US Dollar as one of the pairs. Cross pairs are traded in a different manner from the 4 major pairs.

As a beginner, forget trading the cross pairs as some of the techniques taught in this manual will not work on those pairs.

Pips and Pip Value

A pip is the smallest increment of a change in price.

Profit is measured in pips also. Every currency you trade (except the Japanese Yen) will be quoted with 4 digits after the decimal point such as 1.2945. When the last digit changes by 1, the price has moved *a pip*.

.0001 to .0002 is a change of 1 pip.

For example, if the GBP/USD price changes from 1.8996 to 1.8997, the price has changed by 1 pip.

If the EUR/USD price changes from 1.2942 to 1.2932, the price has changed by 10 pips.

If the USD/JPY price changes from 104.70 to 104.71, the price has changed by 1 pip.

If the EUR/USD price changes from 1.2912 to 1.2962, the price has changed by 50 pips.

Any currency paired with the Japanese Yen will have 2 digits after the decimal point. It works just the same as any other currency pair.

So, how much money do you make if the price changes by 1 pip in your favour?

This depends on the currency being traded and the amount you are trading.

Lots and Lot Sizes

Do you remember the kiosk example given above? You were exchanging £100 for \$180 at the rate of 1.8?

If you did that every day, you wouldn't make enough money worth trading for.

In the FX market, you normally trade in 100,000 lots. So in the example above, you'd give £100,000 in exchange for \$180,000. This is known as trading one *standard* or *regular* lot.

100,000 = 1 standard or regular lot (1 contract)

Don't worry; you won't have to provide that amount of money.

Let's say £1 equals \$1.8992, then 1 lot (or 1 contract) of £100,000 should be worth \$189,992 and a fluctuation of 0.0001 (1 pip) should be worth $100,000 \times 0.0001 = \10

Therefore, a 1 pip move is equal to \$10

Here is the formula if you want to calculate the pip value for a given currency.

1 pip, with proper decimal placement / currency exchange rate x Lot Size

Here is an example using EURUSD:

$(.0001/1.2942) \times \text{EUR } 100,000 = \text{EUR } 7.72$

But we want the pip value in USD, so we then must multiply EUR 7.72 by the EUR/USD exchange rate. So $7.72 \times 1.2942 = \$10$.

You will find that the pip value = \$10 with any currency in which the first currency quoted under Cur1 (such as **EURUSD**, **GBPUSD**, or **AUDUSD**) is not the USD but the second currency (Cur2) is. The pip value is always \$10.00 per 100,000 currency units. So \$10 is the fixed value for 1 pip when dealing with the US Dollar as the 2nd currency in the pair.

Here is an example including the Japanese Yen:

USDJPY: Current Price (exchange rate) = 104.70

$(.01/104.70) \times \text{USD } 100,000 = \9.55

So a 1 pip move when trading the USDJPY pair will yield a profit or loss of \$9.55.

Don't worry if you don't understand this right now as you don't really need to know it. There are many calculators online which will help you with pip values. Almost all brokers will work this out for you anyway. For now, just remember that trading the Euro or the Pound against the US Dollar and trading 1 standard lot will give a \$10 profit or loss. To do this, you need a regular trading account with a Forex broker.

If you trade the EURUSD or the GBPUSD more than any other, you'll always gain or lose \$10 per pip.

If you trade the USDCHF or the USDJPY, you'll average about \$8 per pip because the pip value changes as these currencies fluctuate.

You can also trade 10,000 lot sizes. A 10,000 lot is a fraction (a tenth) of a regular lot (100,000). Trading with this amount is known as *trading a mini lot*. Each pip on the Euro, Pound etc... is worth \$1 when trading a mini lot. For e.g. if you were to trade a lot size of 30,000, each pip would be worth \$3 and you would be trading 3 mini lots at a time. You need a mini account with a Forex broker to trade mini lots.

However, some brokers offer accounts which are combined. This means you can trade regular lots as well as mini lots.

Margin and Leverage

Although we trade 100,000 worth of currency, we don't actually need that much. We can use a small amount of our own cash to control a standard lot of 100,000 of a particular currency. The ability to control a large amount with only a small amount in our trading account is known as *Leverage*.

Your broker will specify how much money is required in your account in order for you to be able to control a regular or mini lot. The amount required in your account is known as *margin*. Typically, brokers require \$1000 positive balance in your account at all times to trade 1 regular lot. If you are trading 2 regular lots then the margin required will be \$2000 and so on. To put it another way, using \$1000 to control \$100,000 is a leverage of 100:1.

Whilst having an open position by trading a particular currency, if your balance approaches the minimum margin limit, you will receive a *margin call*. This means your broker will call you and instruct you to either deposit more funds or close your position soon. This is to protect the broker from having to deal with negative balances from their own pockets.

This is why I mentioned a recommended starting balance of \$2000. Although you can start trading regular lots straight away, you are advised to begin with mini lots until you are making money consistently. If you start with \$300, you will have no choice but to start with mini lots. The margin required for a mini account is typically \$25-\$50.

Brokers, Service and Platforms

In order to buy and sell currency, you will need to set up an account with a FX broker. There are many brokers online and across the world. You don't physically need to visit a broker to open an account. It doesn't matter which country your broker is based in. Money can always be transferred between your trading account and your bank account easily.

My broker is in the United States whilst I live in Europe.

When filling out the application form, you'll need to specify what type of account you will require (regular, mini or universal if offered).

You don't need any previous trading experience to open a trading account.

Remember to shop around for the best broker. Look for one who will offer you as many of the items listed below:

- Low spreads for each currency
- No commission (not many charge this nowadays as they make their money from the spread)
- Universal Account allowing you to place either a mini or regular trade from the same account
- See if they offer free training or training material
- A good trading platform with lots of functionality (covered below)
- A reliable service along with good customer service
- Guaranteed fills on all the orders you place (covered later)
- A good range of currencies which can be traded with that broker
- Minimal slippage (covered later)

Make sure your broker is reputable and has been around for some time.

When you place an order to buy or sell a currency, this doesn't mean that your order will be filled (executed and placed) automatically. There is the odd occasion when your order may not be executed at the price you want – it may be filled a pip or two away from the price you asked for. When this happens, it is known as *slippage* as the execution has slipped away from the price you wanted to be filled at.

In my opinion, a good functional trading platform is more important than many other factors.

A trading platform is a software package (normally provided by your broker) which contains charts, prices, news, and a whole host of other information which will allow you to make informed decisions and place trades directly from within that platform.

The platform is an easy way to place trades without having to call your broker every time you need to open or close a position.

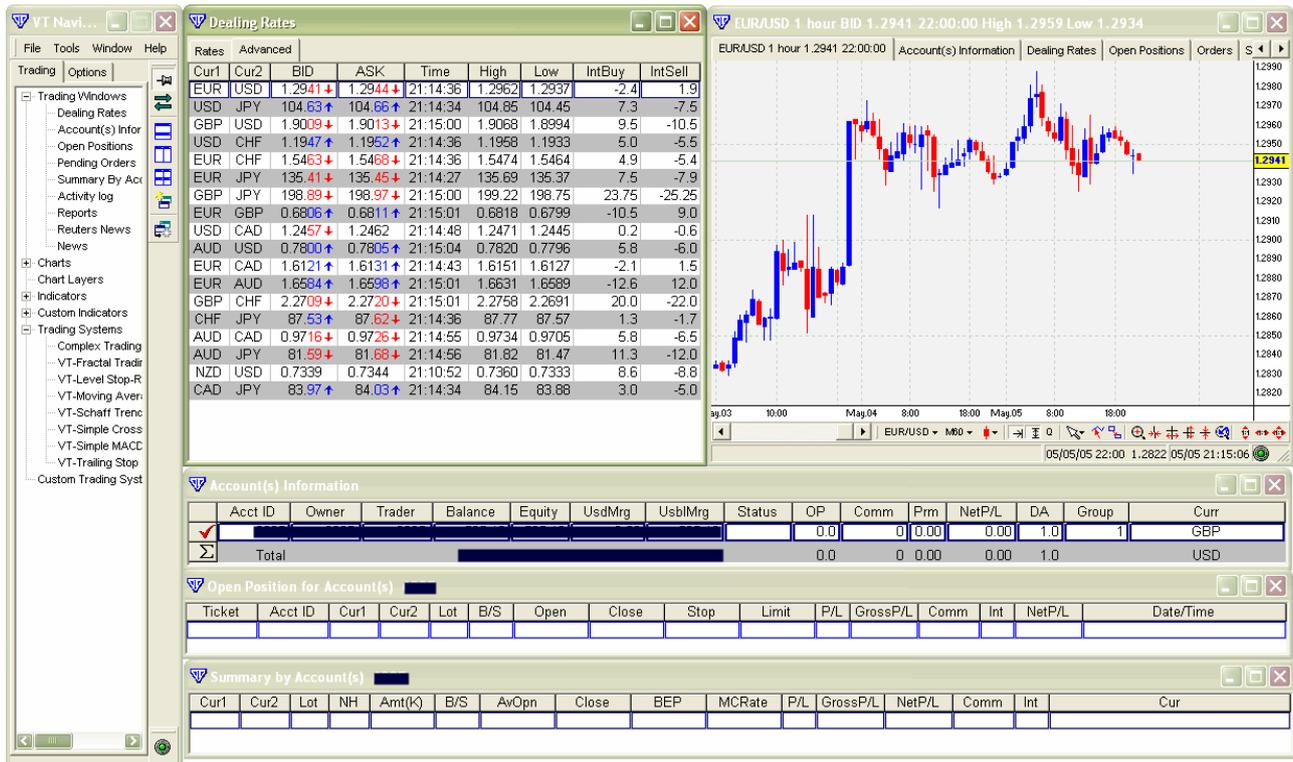
Not every broker has a fully fledged platform. Some only offer prices on their platform whilst others offer much more.

You don't even have to use the platform provided by your broker. If you don't like it, just use any other platform and when you've made a decision to place a trade, you can either place it through your *own* broker's platform or call them via telephone.

Sometimes, the data (prices and news) which is fed into the platform is provided by a third party which adds to the confusion.

Therefore, it would be much easier and better if you got all the functionality of a good trading platform and a good brokerage service from the same place. This is why it's important to spend some time researching which broker you'd like to sign up with.

This is what a typical trading platform may look like:



It consists of dealing rates, charts, account information and lots more which can be selected with your mouse.

After you have learnt the techniques of trading the FX market, you'll be able to place trades by simply clicking on the currency name or some other easy method (depending on the platform).

Almost every broker will have a live version and a demo version of the trading platform.

You can download the trading platform free of charge from the broker's website.

You need to start with a demo version as this is used for practice.

With the demo version, the price and chart movement is all real. It happens in real time and you can place trades as you would do with real money. Remember, price will move continuously throughout the day and so you'll be making money, losing money or sitting aside. The difference being the X amount of money in your demo account is just dummy cash. With this, you can practice and test your theories before committing yourself with real money on a live account.

New traders should spend at least 3 months demo trading (also called paper trading). This will allow you to get familiar with the trading platform, Forex routines & terms and will allow you to test various systems and your beliefs.

When you trade a real account, you will be distracted by many emotions which will eventually lead to bad trades. Although a demo platform won't eliminate those emotions, it will put you in a position from where you can progress further.

Before you continue reading the remainder of this manual, you need to download the charting software I use so you may follow along.

I use the "Visual Trading" Platform offered by CMS (Broker). Visit their website and open a demo account. Download the trading platform so you can follow everything you learn in this course. The website is located at www.cms-forex.com.

Trading Sessions and Trading Times

Since the FX market is open 24 hours a day, Sunday to Friday, it stands to reason that there must be traders trading all over the world at different times. For example, there may be Japanese traders trading whilst the European traders sleep.

GMT = UK standard time.

During the hours from midnight GMT until 9am GMT, the majority of trading takes place in Tokyo and that session is known as the *Asian Session*.

During the hours from 8am GMT until 5pm GMT, the majority of trading takes place in London and that session is known as the *European or London Session*.

During the hours from 1pm GMT until 10pm GMT, the majority of trading takes place in New York and that session is known as the *New York Session*.

The majority of trading takes place during the London session and the first half of the New York session. You are also advised to trade during these times as price will move more during these periods than any other period.

Details you need to know

Your research and analysis of currency movement may be based on several factors.

When you 'buy' GBPUSD (or any other pair), this means you are buying the first currency whilst simultaneously selling the second currency. If you wanted to sell the GBP, you would be buying the US Dollar.

In normal speaking terms, when you say you will buy the Euro or buy the Pound or buy the Swiss Franc, you are generally referring to buying that currency *against the US Dollar*.

In the FX market, the US Dollar is the currency of reference. So if your friend mentions he is selling the Australian Dollar, it means he is selling the AUD but is also buying the US Dollar at the same time.

So you see, you can sell a currency first without even owning it. This is because you are buying the opposing currency against the one you intend to sell.

Let's have a look at this in more detail along with a chart.



As you can see, you can sell first and buy back later. This is something which is not easily comprehended, as normal society tells us to buy first and sell later. But with the FX market, you can profit with the market going down also. This is done by selling the currency (Cur1) in question.

The chart above represents the EUR/USD currency pair. When you 'sell' Cur1 first (to buy back later), you are selling the Euro and buying the US Dollar. When you buy it back, you are buying the Euro and selling the Dollar.

When you 'buy' first, you are buying the Euro and selling the US Dollar. As the chart progresses and you see yourself in profit, you would sell the Euro and buy the US Dollar.

If you don't already know how to interpret a chart, just remember - when price rises, the bars on the chart go upwards. When the currency price falls, the bars on the chart go in a downwards direction. You can see this by looking at the price on the right hand side of the chart.

When you buy a currency (GBP/USD for example), you are said to be going *Long*.



When you sell a currency (GBP/USD for example), you are said to be going *Short*.



A *Bull* market refers to a currency pair which is rising most of the time.

In the 'Long' example above, the market was *Bullish* from mid Feb to mid March.

A *Bear* market refers to a market which is falling most of the time.

In the 'Short' example above, the market was *Bearish* from mid March to the end of March

To recap, if the market goes upwards, we buy low and go 'Long'. We then sell at a higher price for a profit. If the market goes down, we sell at a high price and go 'Short'. As the price progresses downwards, we buy back at a lower price to make a profit from our position.

Whether we go long (buy) or short (sell), we can profit from the FX market.

When markets are going in a sideways direction, it is known as *consolidation* or *ranging* or *flat*.

Although there are a lot of FX terms you will need to learn, within a few weeks, you'll be using these terms like any other trader.

Module 1 Summary

Read Module 1 again before you go further. You need to know the basics like the back of your hand. When you talk to another trader, you must at least know the Forex basics along with its terms. Everything covered in the module should be *ready knowledge* before you start trading (with the exception of pip values). This means that you should not need to look for this information in any manual when somebody talks to you about it.

With the Forex market, you can sell first and buy back later thereby making a profit as price drops. Before you go on, understand the relationship between the first pair and the second pair. Whatever you state you are going to do, applies to the first pair (base currency) which automatically means the opposite for the second currency in the pair.

Module 2

Types of Analysis

To trade successfully, you need to do your research before buying or selling a particular currency. For e.g. If an announcement was due today regarding job figures in the UK and you expected the job figures to be healthy for the UK, would you buy or sell the Pound? You would BUY of course! You did your research and found that all indications were pointing to the Pound rising (against any currency but mainly against the US Dollar) and so you would be ready to buy the Pound when the time arrives.

This little research you do is known as analysis in the Forex world.

There are two types of analysis you can do; Technical Analysis (TA) and Fundamental Analysis (FA).

If you decide to stick with TA, you will be known as a “technical trader”. People who use fundamental analysis are known as “fundamental traders”.

Technical Analysis is done by looking at charts, chart patterns, indicators and by using various other tools on your platform to derive a decision on the currency pair you wish to trade.

Fundamental Analysis is done by looking at the economy and news. You would base your decision on current economic and political factors rather than using charts.

This manual will teach you “Technical Analysis”. TA is used by the majority of traders around the world. Although TA involves chart study, you won't be disregarding news announcements. You will learn to use the news announcements to your advantage through the use of Technical Analysis. Everything will become clear as you read on.

Reading Charts

Since Chart Reading is at the core of Technical Analysis, you will need to spend extra time on learning about the charting platform and its features.

Let's start by looking at the different types of charts available.

Below, you can see 3 different types of charts.

The first one is a Line chart

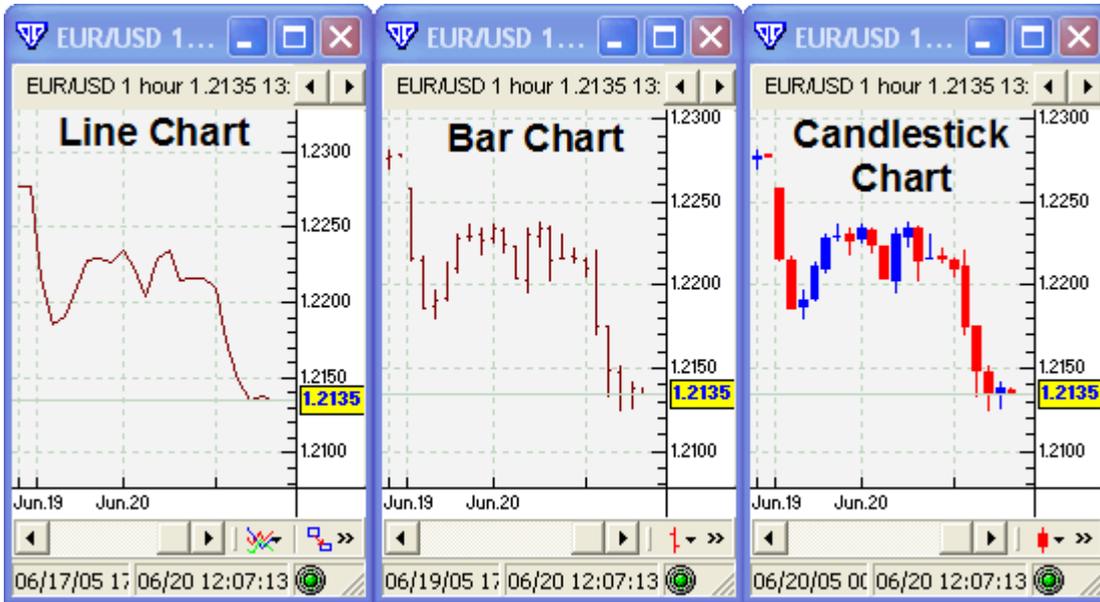
The second one is a Bar chart

The third one is a Candlestick chart

All three types represent price moving up, down or sideways. You can see the timeline at the bottom of the charts and the actual price at the right hand side of the chart. With this, you can determine where price was at any given date/time.

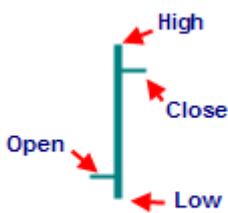
The yellow box with the price inside it (along with the horizontal line extending from it) represents the current price.

The Line chart is the least useful chart as it only shows us what price did without giving us any more information.



The Bar chart gives us a little more information.

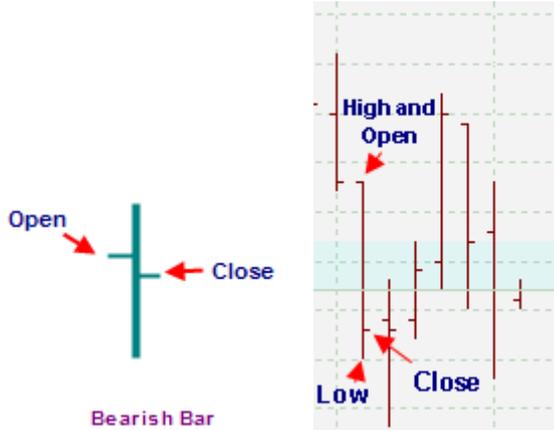
On the chart above, each bar represents 1 Hour in time (because I selected the 1 hour chart from the platform settings). If I had selected the 15 minute chart, then each bar would have represented 15 minutes of time.



The top of each bar represents the highest price it reached within that time (in this case it's the highest price of that hour). The bottom of each bar represents the lowest price it reached within that time. The protrusion from the left side represents the price that the bar started at (the opening price). The protrusion from the right side represents the price that the bar finished at (the closing price). As you can see, this gives us more information to work with.

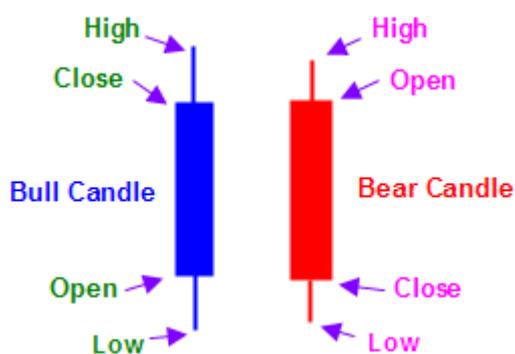
The quick thinkers would have noticed that the bar above represents a bullish bar, as the closing price was higher than the opening price.

The bar below is a bearish bar as it closed at a price lower than the opening price.



The Candlestick chart is the most common chart and it is the one which most traders use. We will also be using this chart for the remainder of the course.

The Candlestick is very similar to the Bar but it shows you the same information in an easy to follow manner. You can interpret the candle with just a glance whereas it takes a few seconds to interpret a Bar chart.



With Candlesticks, you can colour the candles any colour you like to represent an up candle and a down candle. I use Blue for up (bull) and Red for down (bear).

Just by glancing at a candle, you can see where it opened and where it closed simply by looking at the colour of the candle and its body.

The wick which extends above and below the body is also known as the *shadow*.

Some traders use hollow and filled candles to represent bull and bear candles.

The tip of the upper shadow represents the highest price reached (for that time) and the tip of the lower shadow represents the lowest price reached during that time.

You should learn the name of each part of the candle. The Open refers to the opening price (not the highest or lowest). The Close represents the closing price for that candle (not the lowest or highest). The high and the low are self explanatory and they are represented by the shadows above and below each candle. Sometimes, there is no shadow, which means that the opening or the closing price is the same as the high or low (depending on the candle).

There is another type of chart called the “Point and Figure” chart but as it’s not widely used, I will exclude it from our discussion here.

Chart Elements



If you look at a 1 hour chart, each candle will represent 1 hour. You will see the Open, High, Low and Close (OHLC) data on every single hourly candle. For a particular hour, if you switch over to the 15 minute timeframe, you will see 4 different candles which represent the same 1 hour candle you saw on the 1 hour chart.

The highest candle's high will be the same as the hourly candle's high. The lowest candle's low will be the same as the hourly candle's low. The first candle's open will be the same as the hourly open and the last candle's close will be the same as the hourly candle's close price.

Similarly, with a Day Bar or Day Candlestick, you may see that it opened near the low and closed near the high. But what you can't see is the activity it produced during that day. It may have gone up and down twice before finishing near the high. That would have given you opportunity to trade up and down during that day.

You can have multiple charts set up with different timeframes selected so you can make a better decision with your trades. Each lower timeframe (such as 5 minutes, 10 minutes etc...) is just a zoomed in version of the timeframes above it (such as the 1 hour, 4 hour, 1 Day, 1 Week etc...) By looking at all timeframes for a particular currency pair, you can get an overall view of what the currency is doing and has done in the past.

As a beginner, try trading medium term timeframes such as the 15-30 minute charts. It will avoid being rushed which normally happens at the lower timeframes. However, you will analyse all timeframes to arrive at a trading decision.

The grid is there for easy reference to price. One square may represent 20 or 50 pips in price. It's for quick reference only.

Your charting platform will have many features and buttons which will allow you to change the currency pair you are viewing or change the timeframe or chart type and much, much more.

To help with your analysis, you will be using other indicators and tools.

There is a plethora of indicators available. Your charting software should provide you with an adequate amount. You will be plotting these indicators on your chart to help you with your technical analysis.

For the time being, you don't need to know all of them or how they are calculated but you will be able to use them to your advantage whilst analyzing the currency pair.



You can plot as many or as few indicators you like on every chart.

Other than indicators, there are various tools every charting platform will have.

It should have the ability to draw lines, make notes, draw symbols and more.

Having these features will allow you to make a better decision when the time arrives.

These features will allow you to see things clearly. They will help in your decision to enter or exit a trade and ultimately, they will contribute to making a weekly income in excess of \$500.

Have a look at the chart below:



These tools are the bread and butter of your business. Once you know how to use them properly, you should see plenty of lines (drawn by yourself) on the charts you view. It's only a matter of clicking and dragging. That's all!

Later on, you will learn what trendlines, fib projections and indicators can do.

Trading Orders

Let's say you have completed your analysis and you are ready to place an order to buy EUR/USD. All you need to do is right click on the chart or the dealing rates line and click on "Buy (current price)".

It will ask you how many lots you want to trade plus confirmation that you really do want to make the trade.

Enter **0.1** for 1 mini lot or **1.0** for a standard lot.

Click OK and you're all done. You now have an *open position* where you have bought the EUR/USD as determined by your analysis. If you look at your account balance at this point, you will see that your current trade shows a 3 pip loss. This is because of the 3 pip spread on the EUR/USD pair.

Note: Different brokers offer different spreads for each currency pair.

When you place an order in this manner, you are accepting the current price, i.e. the market price and therefore, this type of order is known as a *market order*.

When you want to buy/sell at a price which is not the current price, you would place an *entry order* at the price you want. For e.g. the current price is 1.2831. You want to sell this currency when and if the price reaches 1.2850. So you place an entry order at 1.2850. If the price reaches 1.2850, your order will be automatically filled and you will be in an open position.

The entry order has different terminology associated with it depending on whether you are buying or selling and if the awaited price is above or below current price.

These two terms will be used for an entry order if the awaited price is above the current price.

Entry Stop Buy

Entry Limit Sell

These two terms will be used for an entry order if the awaited price is below the current price.

Entry Limit Buy

Entry Stop Sell

You would place this order when you expect the market to move in a hurry or when you are away from your trading desk.

Just right-click on the chart and you will see the relevant options with the correct terminology. So, any order on which you are waiting to be filled is called an *Entry Order*.

You can also place an order to exit your position when your target has been reached.

For e.g. you sell GBP/USD at 1.8830 and you expect the price to go down to 1.8805. You would place a *Limit order* at 1.8805. When price reaches 1.8805, your position will automatically close and a 25 pip profit (minus the spread) will be deposited into your trading account.

You would place this order if you are not watching the charts all the time or if you are away from your desk. A limit order will allow the platform to do the exiting for you if the target price is reached.

A *Stop-Loss order* is probably the most important order after placing a trade.

Suppose you bought USD/JPY at 105.62. You were expecting it to go to 105.90 at which point you could exit with a nice profit. However, things turn sour and the currency starts to go the other way. What if you are away from your desk and you don't see this. You could lose thousands of dollars unless you had some sort of protection.

This is where the stop-loss order plays a vital role. You would place this order at a price which is the most you are prepared to lose on that trade. When price reaches the stop loss order position, it

will automatically exit the trade for you by closing your position. Normally, the stop loss order will be a calculated or set price (in pips) away from the entry point.

You should never place a trade without a stop-loss order. This is to protect you from sudden large swings against your position. It also takes the emotion out of exiting a position.

You can even move the stop loss order as your trade progresses.

Suppose you were in profit by 30 pips, you could move your stop loss order to the entry point. This would mean that no matter what happens, you won't lose any money on that trade. You would break even.

You can even move the stop loss order to lock in some profit. For e.g. when you are 30 pips in profit, you could move the stop to 10 pips above your entry point (for a buy) or 10 pips below your entry point (for a sell). This will ensure that if you were stopped out, you would still exit with a 10 pip profit (minus the spread).

Module 2 Summary

Learn the candlestick parts by heart now. Know exactly what the open and close refers to on an up candle and a down candle. If I say, "The close of the down-candle should be below 3 pips above the low", what do you understand by that?

It means, there should be a red candle and the base of the body should be 3 pips away from the bottom shadow tip.

Start off by using candlesticks in your trading. It will help in the long run as most traders use candlesticks to explain and teach other traders.

Know your way around the platform well. Place a few bogus trades on your demo account just so you know what to expect. With most platforms, you can customize the colours and settings for almost everything.

When trading, it is quite normal and sometimes necessary to have multiple charts open at one time. I normally have the daily chart on the left hand side of my screen, the hourly chart in the middle of my screen and the 5 minute chart on the right hand side of my screen. With this layout, I get a sweeping view of what the currency is doing.

Learn the ordering terminology. Don't say *buy* when you really want to *sell* EURUSD. This is a common mistake. Just because you want to enter in a trade on that currency, beginners mistakenly state that they would like to buy the currency when they really want to sell.

Learn a bit more about the entry orders as you will undoubtedly use them from time to time. If you visit your broker's website, they may even offer a short tutorial on naming conventions.

Module 3

Technical Analysis

TA will be at the core of every decision you make. This is the knowledge you need to gain in order to make that \$1000 every week. Knowing how to analyse a currency pair will provide a good positive income because you will know which currencies to trade at which particular time. To this end, it would be a good idea to understand how currency fluctuations and patterns work.

Let's start with some basics.

Support and Resistance

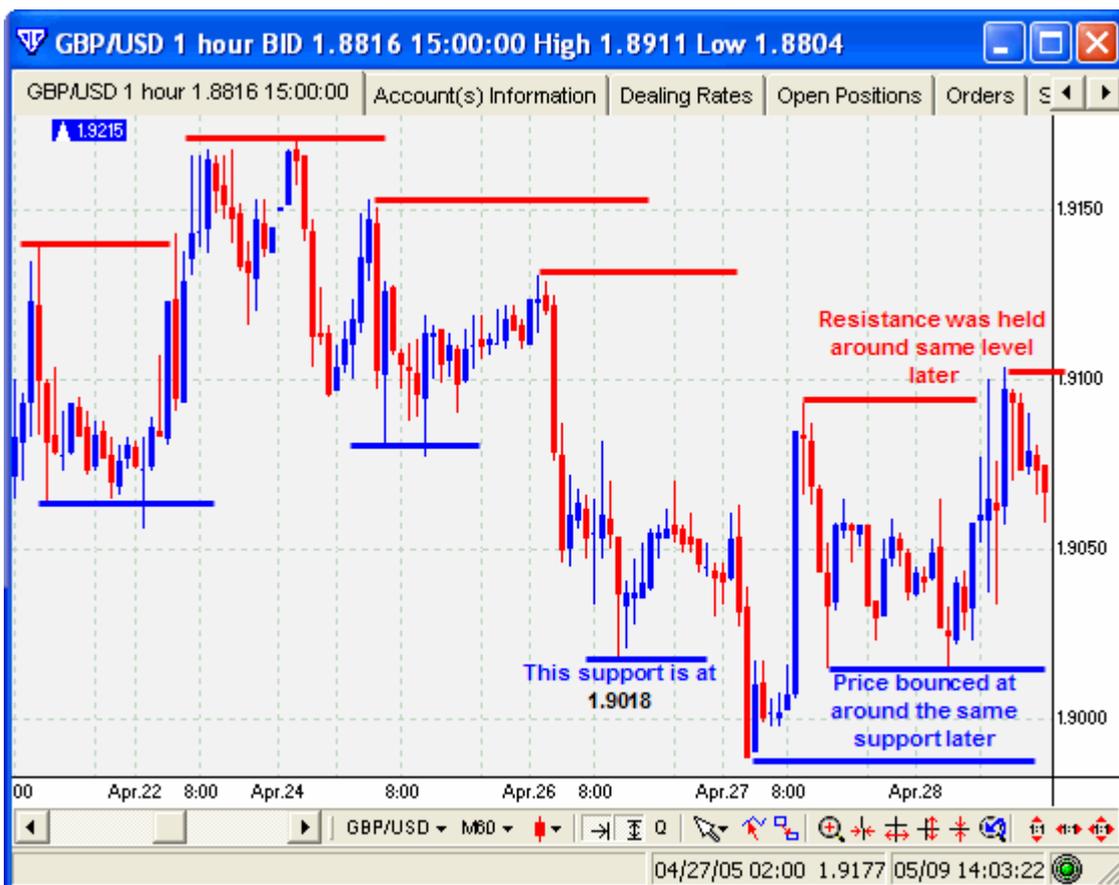
When price goes down and then upwards, it forms a low point. This low point and the price around it is known as *support*.

When price goes up and then downwards, it forms a high point. This high point and the price around it is known as *resistance*.

These turn-around points are also known as *swings*.

Have a look at the chart below for a clearer idea. The red lines are resistance lines and the blue lines are support lines.

You need to extend the support/resistance lines so that you can see these levels at a glance during current price activity.



The idea behind support and resistance (s/r) is that the price can halt and turn around at *previous s/r* levels. So support levels give 'support' to price and sometimes stop price from going lower.

Resistance offers some 'resistance' to price from breaking higher.

Have a look at the support at 1.9018 on the chart above. 1 day later that support was revisited but it didn't hold. The following day, it was revisited again but this time it held and the price swung back upwards.

So, here is a question: - Supposing it was April 28th as shown on the chart. You saw that price was hovering around 1.9018. You also saw that there was support at this level due to the low point from 2 days ago. Would you enter a sell position at this point?

Of course not, you'd wait until price broke through that support before you sold that currency. Another idea may be to buy that currency once you see price swing/bounce off that support level. You'd do exactly the opposite for resistance.

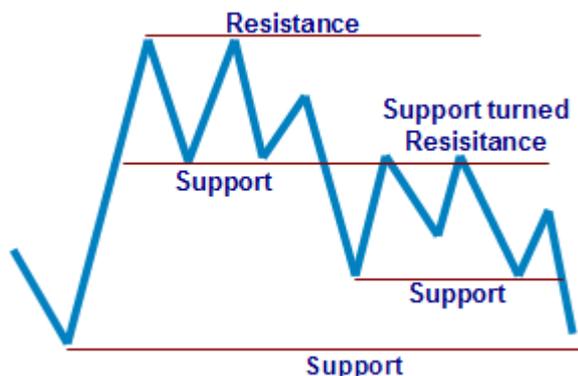
Do you see how the thought process works with support and resistance? Although you won't be trading with s/r on its own, it will help when making a decision to enter or exit a trade.

The more times a s/r level is hit with price, the stronger and more reliable it becomes.

Let's say a resistance level is hit 2 more times where price just bounced off that level. You would draw a line at that resistance level to show you not to buy when price is approaching that level. You would wait until price has passed that level before you commit yourself to a trade. Alternatively, you could wait until price starts to bounce off that resistance level and then you could enter a sell position.

When price revisits that s/r level, it is said to *test* that s/r level.

If price breaks through a support level, that support level automatically becomes a resistance level. If price breaks through a resistance level, that resistance level automatically becomes a support level.



If a good support level has been breached, it is likely to become a good resistance level in the near future. If a good resistance level has been breached, it is likely to become a good support level in the near future.

Trends and Trendlines

When price moves in one direction for a moderate amount of time, it is actually *trending* in that direction.

When price is trending upwards, it is called an uptrend and when it is trending downwards, it is called a downtrend.

As price moves upwards in an uptrend, we draw a line underneath it to signify and mark it as an uptrend. When price moves downwards in a downtrend, we draw a line above it to signify and mark it as a downtrend. These lines are called *trendlines*.

Here is an uptrend with a trendline drawn below it.



As you can see, a trendline is drawn by connecting two or more prominent low points and then extending the trendline all the way up.

Here is a downtrend with a trendline drawn above it.



With a downtrend, you connect two or more prominent high points and then extend the trendline all the way down.

Just like a s/r level, when price hits a trendline and bounces off, it becomes stronger and gives you an opportunity to buy/sell as it continues with the trend.

Sometimes, price breaks through the trendline only to continue with the original trend. When this happens, you simply make another trendline connecting the most prominent points.

Look at the chart below for an example.



You can see various high points are connected with various other high points.

As you already know, when price bounces off an up trendline, it is an opportunity to buy and if it bounces off a down trendline, it is an opportunity to sell.

Question: But what do you do if price breaks through the trendline as in the example above?

Answer: If there is already another trendline above the first one, you simply wait for price to bounce off that higher trendline. If one doesn't exist, then this is known as a "trendline break (TLB)" and is an opportunity to go in the opposite direction of the trend. A TLB generally signifies an end to the trend.

Of course, you would need confirmation with other tools and analyses etc... before you take the trade based on a *trendline break*.

As a Forex beginner, you should always take a trade that goes in the same direction as the current trend. There is a well known saying in the FX world: *The trend is your friend*. Stick to it otherwise you'll experience a lot of bad trades.

For e.g. If you see an uptrend, look for opportunities to BUY the currency based on your tools and indicators. If you can buy whilst the price is bouncing off the up trendline, all the better!

You can draw trendlines on all timeframes and they all count. If you see an uptrend on a daily chart, wait for an uptrend on the 15-30 minute chart so that you can align your trades much better and give you a better chance of a favourable outcome.

Quite often, you will see a lot of trendlines on a single chart, especially on larger timeframes.



Past trendlines that are not broken are kept on the chart as they can be a factor for a long time. Even trendlines that *have* been broken can become the opposite just as in s/r levels.

For example, if an up-trendline has been broken and yet you keep that extended trendline on the chart, you will notice that sometimes the up trendline will offer some resistance further down the line. A down-trendline may offer support after it has been broken. Just keep that in mind.

If your friend tells you that there is an uptrend on the EUR/USD, would you be looking to buy or would you think about questioning your friend first?

Although there may be an uptrend on that pair, you don't know what timeframe your friend was looking at.

There may be an uptrend on the 10 minute chart but the hourly and daily chart may show a downtrend. Would you still buy the EUR/USD? NO. You would wait until the smaller timeframe turned around and aligned itself with the larger timeframes before you considered buying.

The trend is your friend!

Channels

A channel is exactly the same as a trendline except it also has another line drawn on the opposite side which is parallel to the trendline.



The two lines together form a channel.

You should draw the opposite side parallel line at the same time you draw the initial trendline. However, if you find that price has breached the opposite line and has then returned to within the channel, you may move the opposite line so that it touches the high points, unless it seems completely out of place.

The idea behind channels is that you can trade the bounces off either wall of the channel. Don't worry about this too much for now but just keep it in your memory bank. You can use them all the time if you wish.

Fibonacci Tool

Amongst the tools on your platform, you will find a tool called the Fibonacci Projection tool. It is an extremely useful device as it is designed in accordance with the Fibonacci theory.

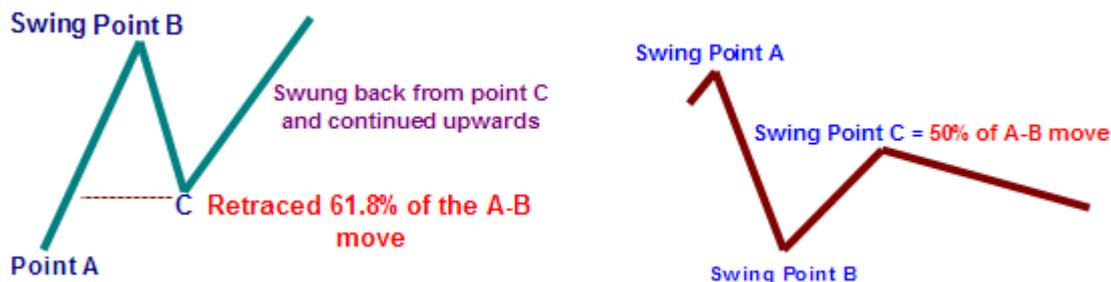
When there is a large movement in price where you see a swing to begin with, and a swing where it ends (such as from September 2003 to mid Feb 2004 on the chart above), you can use the Fibonacci tool to see where it may head next.

After a large move, price tends to retrace part of that move.

Fibonacci theory states that price will retrace 23.6%, 38.2%, 50%, 61.8% or 78.6% (of that big move) before bouncing back the other way.

At this stage you don't need to know why it happens, you just need to know that it does happen and you can profit from this. On the chart above, you can see that price retraced just over 38.2% in mid May before going back upwards.

Think of the first swing as Point A, the second swing as Point B and the retracement swing as point C. Point C will normally be one of the Fibonacci percentages.



How do you use this information to your advantage?

Well, when you see price bouncing off one of these levels, you can open a position from point C. Of course, you wouldn't do this all on its own; you would need confirmation from your other indicators and tools.



How do you use the fib tool?

On your platform, select the fib tool.

Use this tool by dragging it from the most recent high point to the most recent low point or vice versa. In other words, use a large swing.

The place which you start dragging is point **A** and the place where you stop dragging is point **B**.

After you have stopped dragging and have released the mouse button, your platform will plot several lines in between your A and B points. These are the Fibonacci levels and show the fib projections.

Consider A to B as 100%. The levels shown in between A-B indicate a percentage of that 100%. The most important levels are 38.2%, 50%, 61.8% and 78.6%. 61.8% is considered to be the most reliable one.

In theory, price should retrace from B to one of these levels and then bounce off. On the odd occasion, it does continue through without stopping but more often than not, it will bounce enough for you to make a profitable trade.

The point of this section is to make you aware of this great tool in your arsenal which will help when making a trading decision.

Candlestick Patterns

There is another advantage to using candlesticks rather than bar type charts. Candlesticks make formations which when glanced at, give you a pictorial indication of what may happen in the future.

There are many books written on the subject but I will name some of the more common formations here.

Certain candlestick formations occur at the end of a trend indicating that the trend is about to change. If you know the trend is about to change, what would you do to benefit from this information?

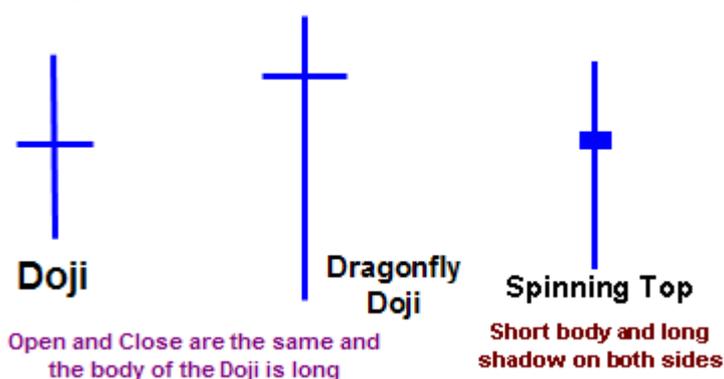
In general, candlestick formations aren't traded on their own. You would normally combine other indications with the formation to give you a clear picture.

When any of the following formations occur during a trend, assuming other factors confirm the pattern, you can deduce that the trend is about to change. They can be used in any timeframe but anything lower than 15 minutes isn't reliable.

Let's have a look at some formations.

Doji and Spinning Tops

A Doji or a spinning top signifies 'indecision' amongst traders. This could be a sign of a reversal coming soon.



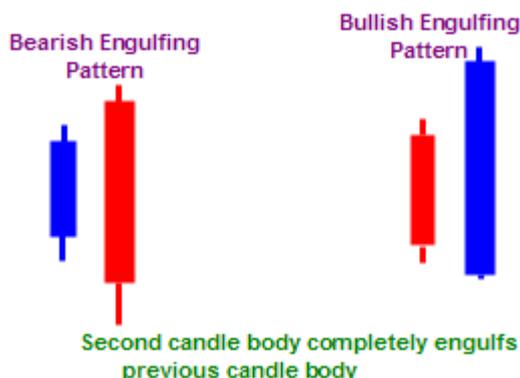
Have a look at a current example:



Remember to obtain confirmation from other indicators/tools before taking a trade based on candlestick formations.

Engulfing Candles

When you have a large candle which has a body that is higher than the previous candle's body high and a body low which is lower than the previous candle's body low, it is called an engulfing candle. When this occurs at the end of a trend and an engulfing candle occurs in the opposite direction to the trend, you can use it to trade (with confirmation).



Hammer and Hanging Man

A Hammer is exactly the same as a Hanging Man. When the formation occurs at the end of a downtrend, it is known as a *Hammer*. When it occurs at the end of an uptrend, it is known as a *Hanging Man*.

This particular candlestick has a small body with a shadow beneath the body which is longer than the body itself. They have very little or no upper shadow.

Both of these need further confirmation before taking action.



Inverted Hammer and Shooting Star

These formations are very similar to the Hammer and Hanging Man.

If you turn the Hammer/Hanging Man upside down, you have an Inverted Hammer or a Shooting Star. They are classified depending on where they appear.

If the formation appears after an uptrend, it is known as a Shooting Star and if it appears after a downtrend, it is known as an Inverted Hammer. Both of these implicate an upcoming reversal.



There are plenty more candlestick formations. You'll find almost all of them in Steve Nison's book, *"Japanese Candlestick Charting Techniques"*.

As you can see, candlestick formations do work but they also require confirmation from other sources before you can use them profitably. Keep the main formations in your minds eye whilst scanning the charts as they will inevitably help you in your decision making process.

Chart Patterns

Just as candlestick patterns warn you of upcoming reversals, chart patterns also have certain patterns which have proved profitable time after time after time.

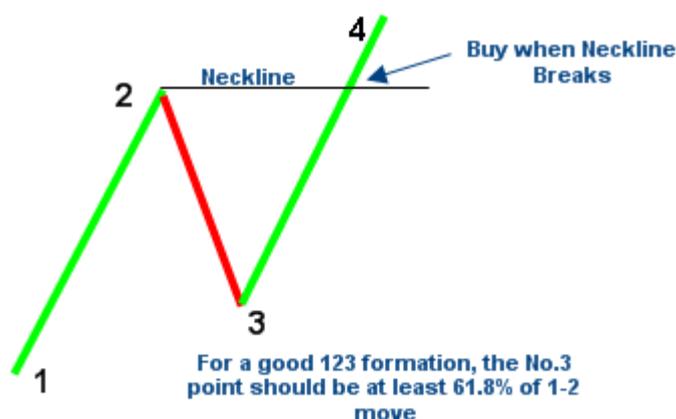
There are a myriad of patterns which have been written about. Since you are beginning your chart reading journey, I will list the major patterns for your immediate benefit. This will help keep your learning curve slightly shallower. Just by trading these chart patterns alone, you can easily achieve a good weekly income.

As you become comfortable with your analysis abilities, you can learn more from various other books.

The price action on charts tends to move in waves and patterns. These waves and patterns repeat themselves often enough to make good trades. This is the advantage of using TA as opposed to FA.

The 1-2-3-4 or A-B-C-D Formation

This is probably the most common pattern. You are likely to see it several times throughout the day on lower timeframes. It looks like a zigzag pattern.



The above formation is a bullish formation.

Price will move from 1 to 2 or A-B. It will swing around forming point 2.

Price will retrace part of the 1-2 or A-B move.

When it swings around again, it will form point 3 or C.

You would buy the currency when price passes the point 2 level again (the neckline). When price reaches point 4 or D, it's time to exit the trade.

To exit the trade, calculate the number of pips between point 2 and point 3. This is the number of pips you should add onto the neckline and exit the position when that point is reached. This point is known as point 4.

To clarify, the distance (in pips) between point 2 and point 3 is equal to the distance between the neckline and point 4.

This is how you would know exactly when to exit.

More often than not, price does reach point 4. However, sometimes, price doesn't quite make it all the way.

If price does not reach point 4, you can still profit by keeping a tight trailing stop (discussed later in the exit section).

Have a look at the example below. There is a bullish 1-2-3 formation within a bearish 1-2-3 formation. No.4 is not drawn.



Become familiar with this pattern as you'll be using it more often than you'll use other patterns.

Double Top and Double Bottom Formation

A top is formed when the currency forms a high and a bottom is formed when the currency forms a low.

When you have 2 highs which are about the same level, you have a *Double Top* and when you have 2 bottoms at around the same level, you have a *Double Bottom*.

When you think about it, a double top looks like an "M" and a double bottom looks like a "W".



So where do you buy and sell with a double top or bottom?

First of all, common sense tells us that we should buy when we see a W and sell when we see an M.

Before the M or W is formed, you will see that price had formed a swing support or resistance. You can draw a straight line at that point and use that as a buy/sell signal. When price passes (breaks) that S/R line, simply enter a trade after confirming with other sources.

Did you notice that when there is a double top or double bottom, it is actually a strong s/r line itself and that is what prevents the price from breaking through? Now you'll know what to do when price revisits that level again. (See Support and Resistance section earlier).

Head and Shoulders

A normal Head and Shoulders is a bearish formation. It means that the high has been formed and now it's time for the currency to decline.

An Inverse Head and Shoulders is exactly the opposite. It means that a low has been formed and now it's time for a rally.

When price forms a high (on any timeframe), it is known as the head. On the left side of the head, you will find a lower high and this is known as the left shoulder. On the right side you may also find a lower high and this is known as the right shoulder. By connecting the bases of these shoulders, you draw a neckline. Once that neckline breaks (price passes that neckline), it is a signal to sell. The opposite applies for an Inverse Head and Shoulders formation.



Bearish Formation: When price swings around after forming the left shoulder, it will form a point which we will call point A.

When price swings around after forming the head and continues on to form the right shoulder, it will form another swing point. We shall call this point B.

Now you need to connect Point A and Point B by drawing a line and extending that line. As price passes (breaks) the neckline, this is a signal to sell that currency, as shown on the left diagram above.

The opposite applies for a bullish Inverse Head and Shoulders formation. Not every formation is as clean as the illustration above.

Have a look at the real life example below.



Triangles and Flags

Quite often during a trend, price will perform little retracements (pull-backs) along the way before it continues with the major trend.

Normally, these pull-backs take the shape of triangles, symmetrical flags, ascending and descending flags.



The idea is to buy/sell on the breakout of the triangle/flag in the direction of the underlying trend.



If it looks like a sideways triangle, trade it in the direction of the breakout provided it is in the direction of the underlying trend.

A *breakout* is defined as price breaking away from the formation, whether it is a trendline, s/r line or any other formation. Sometimes, you may even look for a breakout of the previous candle's high or low point. Breakouts are normally traded in the direction of the breakout. Ideally, it should be in the direction of the major trend.

Indicators

There are hundreds of indicators which can be attached to charts. Indicators are supposed to give indications of what the currency will do next.

Check your charting platform and you will find a plethora of indicators at your disposal.

Some companies develop their own proprietary indicators which they sell to traders.

At this stage, you don't need to worry about buying any indicators.

Learn how the most common ones work before trying others. In time, you'll even be able to make your own indicators (if you are so inclined).

I will list a few common indicators here so that you may become familiar with them and possibly use them in your own trading.

Just remember, you don't have to use indicators in exactly the same way as I do or anyone else does. It is entirely up to you.

Since indicators are made from some sort of formula, you can even change the formula yourself in an effort to see what settings works best. Once you have found a setting which seems to work better, you can check the validity of your theories by scrolling back in time and checking what price would have done when the indicator gave a buy/sell signal. This type of research is known as *backtesting*.

Before attaching any indicator, you will be prompted to enter the settings you wish to use for that indicator. You can leave it as default or enter your own settings.

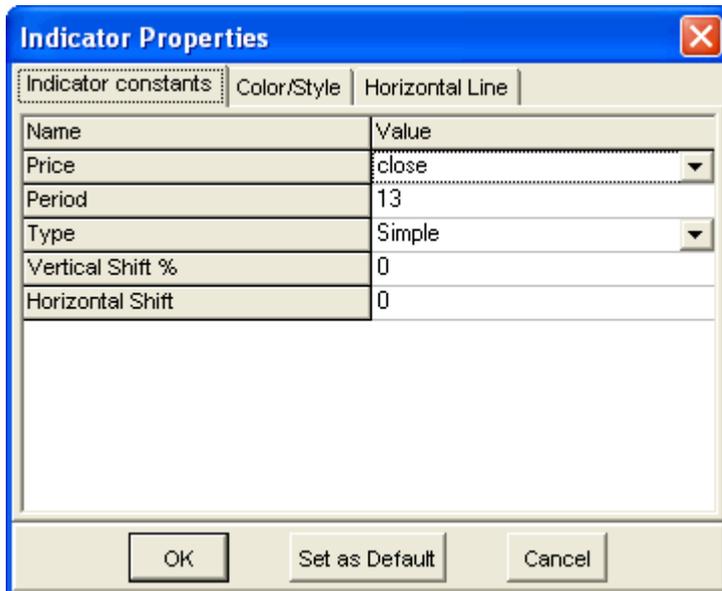
Some indicators attach themselves to the bottom of the chart whilst others overlay themselves on the price action itself. All indicators have something to say. It is your job to interpret what they are saying and to use that data to trade profitably.

Let's start by taking a look at a simple indicator called the 'Moving Average'.

Moving Average (MA)

Moving Averages come in 3 main flavours; *Simple*, *Exponential* and *Weighted*.

Before you plot (attach) it to your chart, you need to tell the platform what settings you would like to use with the MA you intend to use.



I won't explain all the different settings for all the different indicators simply because there are too many. If you don't know what to use, try starting with the default settings and then adjust them as time goes by to see which works best.

Once you have chosen your settings and pressed OK, the indicator will attach itself to the chart.



The label shows that the MA has settings of (C, 13, S). Have a look at the indicator properties above and you will see it refers to (Close, Period = 13, and Type = Simple). This is abbreviated to C,13,S.

Simply speaking, the MA is the price averaged out over a given number of days (specified in the settings).

You can use MAs in several different ways. Have a look at some of these examples:

- Buy when price crosses above the MA by a certain number of pips (for e.g. 20 pips, unless you find another figure more successful during your backtests).
- Sell when price crosses below the MA by a certain number of pips
- Have 2 different MAs plotted, and when one crosses the other, it produces a buy/sell signal



Above you can see there was a buy signal when the 8 MA crossed the 13 MA upwards and there was a sell signal when the 8 MA crossed the 13 MA downwards.

This is just one of few ways you can use MAs to confirm your decisions based on other indicators, price action or s/r lines.

Moving Averages are calculated in different ways and their method of calculation determines what type of MA it is. At this point, an explanation of the calculation would be useless. One type of MA may be used better in a certain strategy compared to another. It's just a matter of finding the best one which you can determine by backtesting each one with *your* strategy.

A Simple Moving Average is abbreviated to SMA.

A Weighted Moving Average is abbreviated to WMA.

An Exponential Moving Average is abbreviated to EMA.

Bollinger Bands (BB)

Bollinger Bands are also plotted on the price action area. BBs consist of 3 lines - Two outer bands and one middle band.

Typically, price remains within the outer bands. When price jumps out of a band, it is an opportunity to buy/sell. There are different rules for buying/selling depending on if the currency is trending or ranging sideways.

When price seems to move a lot in a short space of time (volatile), the BBs expand and give the price action space to breath. Therefore, the bands adjust themselves by adapting to market conditions.

The middle band is just another normal moving average and can be used to possibly enter/exit a position once price has reached it. Different people use indicators in different ways. Take a look at the following example for one method:



With the above chart, the following rules were followed:

When currency is heading in a sideways (ranging) direction and price pops out of the band, trade it back towards the band.

But, when the bands expand, this is an indication that the trading range has finished and so therefore you must trade in the direction of the breakout.

These rules can be changed as you see fit.

The point here is not to teach you a system, but rather to show you how Bollinger Bands work.

Relative Strength Index (RSI)

The RSI is used by many traders and is probably the most popular indicator.

This indicator sits below the chart and has one line that goes up, down or sideways.

Depending on where it is and the pattern it makes, traders use this information to place trades.

Any indicator which goes up and down is known as an *Oscillator* as it oscillates along the chart.



As you can see, there are horizontal lines added to the indicator at various levels which you are free to change. The RSI has a scale on the side from 1-100 and it also has horizontal lines at 30, 50 and 70 across the screen.

A method of interpretation is thus: When the RSI reaches 70, it is considered overbought (meaning that it has been bought far too much and now it's time to sell) and you could consider that as a sell signal.

When the RSI reaches 30, it is considered oversold (meaning that it has been sold far too much and now it's time to buy) and you could consider that a buy signal.

The middle line is there so that you may add further rules if you want to.

Stochastic

The stochastic is similar to the RSI in respect of how it is depicted. It also shows overbought and oversold conditions at 80/20 respectively.

However, the stochastic has 2 lines and you can also obtain a signal when one line crosses the other.



A typical rule could be as follows:

When stochastic is returning down from above 80 and the lines cross, *sell* the currency.

When stochastic is returning up from below 30 and the lines cross, *buy* the currency.

You don't need to know what either of those lines represent or how they are calculated. Right now, you should know that the crossing of these lines can produce buy and sell signals.

As with any indicator, when it is used on a timeframe which is too short, the sensitivity of the indicator increases and tends to produce more false signals. When it is used on a timeframe which is too large, it won't produce enough signals and thereby will not alert you of significant trades.

Later on, I'll talk about a system which utilizes the stochastic indicator.

Moving Average Convergence / Divergence (MACD)

The MACD is another popular indicator. It includes 2 lines (just as in the stochastic) and a histogram. The signals are produced in a variety of ways.

When the lines cross, it is considered a signal. As the lines pull away from each other, the histogram becomes bigger. As the lines start to draw together again, the histogram becomes smaller.

Have a look at the following example.



Since the calculation to this indicator is slightly complex, you don't need to know why it does what it does. Simply use it to obtain buy and sell signals.

You can derive signals from this indicator when the lines cross.

Later on, I'll talk about a system which utilizes the MACD indicator.

Divergence

Divergence works on any oscillating indicator. However, it works better on some compared to others.

So what is divergence?

When the indicator makes a high and price action doesn't make such a huge high as the indicator does and then the indicator makes a low (or a lower high) and the price disagrees again, then you have a divergence between price action and the indicator. Assume the opposite for a low.

Have a look at the following chart for an example.



Once you see a divergence, wait for the indicator/price to start turning around and then enter the trade.

Divergence is one of the most reliable signals in my opinion. It's money in the bank!

To clarify, look for price to head upwards whilst the indicator heads downwards (or vice versa) over any timeframe, and then trade in the direction of further price movement.

Module 3 Summary

Every day, when you sit down to trade, you will be using most of the tools at your disposal. Initially, you will study which indicators to use and what plan of action you'll take.

You will set up your charts and then plot the relevant s/r lines, trendlines, fib projections and indicators.

You will have a strategy in place and you will take buy/sell signals based on that strategy. This strategy will be comprised of all the above tools plus relevant trading rules.

Plot the indicators mentioned in this section on any chart and get a feel for how they work. Plot 2 or 3 indicators together and see where the signals occur on each one. Do you see an indicator rising just before the price does? Do you see an indicator which rises from below 30 whilst price rises at the same time? Do a little backtesting and see what works better.

Later on, I'll show you some specific systems with specific indicators which will help you get started.

Module 4

Exiting a Trade

Entering a trade and making a profit is easy. The hard part is knowing when to exit. How would you feel if you saw your trade in profit by 20 pips when suddenly price turned around and you realised a 10 pip loss instead?

Knowing what to do whilst maintaining an open position is crucial to your success. Exiting a trade is even more important than entering it in the first place.

Luckily, there are several methods I'm going to show you which you can use to exit an open position.

Listed below are several exit strategies which are in common use by traders today.

- **Trailing Stop**

This means that you keep moving your stop loss order to lock in profits as price moves in your favour. You let your stop loss exit the position for you.

An example of using this would be as follows:

When you are 15 pips in profit, move your stop to your entry point (break even point). This will assure that whatever happens, you will not lose out. When you are 30 pips in profit, move your stop loss to lock in +10 pips. When you see a 50 pip profit, lock in +30 by moving your stop again, and so you'd continue to do this until you are stopped out.

- **Use Multiple Lots.**

For example, buy four mini lots. When price reaches 10 pips, exit one lot and move the stop to breakeven. When you have 30 pips, exit another lot and move stop to +10. When you have 50 pips, exit another lot and move stop to +30. The last lot can be left in until an EMA re-crosses or you can use it to trail close by. Alternatively, you can use any other exit strategy.

- **Candlestick Formation**

Learn trend ending candlestick formations from the section shown earlier. For example, when a hanging man occurs after a significant uptrend, wait for price to fall 1 pip below that hammer low (breakout of that hammer in the opposite direction) and then exit. Shooting stars, engulfing candles, hammers, hanging men and dojis are all examples of formations which occur at end of trends.

- **5 Bar Exit**

Exit once you have 5 consecutive bars of the same colour. This exit is part of Bill Williams' strategy. It has merit at times but not always.

- **Follow Through**

Since an uptrend is defined as a series of higher lows, you can use this exit strategy by keeping your stop 2 pips below the previous candlestick's low in an uptrend. This works great when the trend is running away fast. If you do get stopped out because of a spike, simply re-enter on the following candle upon breakout of that candle. Use a vice versa strategy for short exit.

- **Fib Levels and S/R Levels**

Place a limit at a confluence of fib and s/r levels. If you don't wish to do that, simply keep your stops close by, just in case.

- **Chart Pattern Exit**

When you see a chart pattern occur favouring the opposite direction, it's a good idea to exit once you have confirmation of the pattern.

- **Blended**

You can use a combination of each of the above exits by moving from one to the other as you see the situation change. For example, you may want to change from a '5 Bar' exit to a 'Follow Through' exit when the time for fundamental news may be imminent. You may want to look at

a different strategy to see what it is doing before you decide to exit. You may want to see where price and indicators are on another timeframe before you make a decision, as different timeframes can alter your perception.

Whatever happens, once your initial stop-loss is set, never move it to accommodate a larger loss just because price approaches it. This fundamental rule requires discipline.

Money Management

What would happen to your online account if you risked 100% of your money on every trade you made?

For example, if you have \$2000 in your online trading account and on your very first trade, you place your stop loss 200 pips away from your entry position whilst trading 1 standard lot; you are actually risking your entire account on that one trade.

If the stop is hit, you will lose the \$2000 in your account.

Is this sensible? Of course not!

How about risking 50% of your account with each trade? Even with a 50% risk, all you need is 3-4 losses in a row and your account is empty.

The most important risk limiting tool in FX is the *stop-loss order*.

So how much should you risk?

Most experts suggest 2-5% of your entire account as a maximum figure. This is why it is more beneficial to have a greater starting balance than the minimum \$300. If you start with \$300 and trade mini lots, you would still need to place stop loss orders far enough (away from entry point) to make the trade viable. For this reason, when trading mini lots, a 15% risk is sometimes acceptable but should be avoided whenever possible.

Now that you understand how far your initial stop loss order should be, you need to learn the basics of *Risk* and *Reward*.

Before you enter a trade, you need to calculate how much you are willing to risk and how much you intend to make out of that trade (reward).

The rule is: The reward should be at least 1.5 times greater than the risk - **1:1.5 Risk/Reward Ratio**. Some experts suggest that the reward should be at least 2 times greater than the risk - **1:2 Risk/Reward Ratio**.

The method of maintaining this risk/reward ratio is by letting your winning trades run as long as possible whilst keeping your losses short. This may seem like common sense but it is easily forgotten and emotion also plays a factor.

Let us take a hypothetical trade for an illustrated example.



As you can see, the planned reward was much greater than the risk. Keep this in mind before you execute any trade.

Once price reaches the resistance line, instead of exiting your position, you could move your stop loss order close-by so that you don't close the position just in case there are further profits to be had. This technique would allow your winners to continue running if price was due to go much further than your initial expected limit.

Losses are inevitable. They are a part of trading. No system will give you 100% winning trades. Some systems are designed to lose 60% of the trades whilst only winning 40% of trades. Right now, you're probably thinking what use a system like that would be if most of its trades are losers. Think back to employing the risk/reward ratio. If your winners are 2, 3 or 4 times larger than the losers, you will always win in the end. You only need a few profitable trades because your winning trades will outrun the losers. This is the way city traders work and this rule is what will bank you \$500-\$1000 every week. It's all about money management.

Note: There is a mistake in the Reward Calculation above. Can you guess what's wrong?

Psychology

The reason you bought this book was ‘most probably’ because you wanted to make money. Money is a commodity which is close to people’s hearts. Anything involving money whether it be paying or receiving can have various affects on different people.

Trading can bring out the worst in people whether they make money or lose money. Emotions can have a direct affect on your future trades thereby neglecting methodical analysis and research.

Trading is extremely exciting. Temperatures will run high and low and so will your adrenalin. As your adrenalin changes, your emotions and perceptions will also change. Emotion is a trader’s worst enemy. It can run your account into the ground and won’t even look back. It is imperative to keep your emotions in check whilst trading, especially after a large loss.

As a beginner, you need to understand that losses are a part of trading. There is no such thing as 100% winning trades. You will definitely experience losses from time to time and you should consider them as a natural part of trading.

Don’t trade like a gambler! When you start your trading hobby/career, your initial reactions will be to just trade on any old signal and hope to win. This will surely lead to your downfall even though you may make a few bob on several trades. Being impulsive is natural and yet this can be your biggest account killer. If you really must gamble, do it on a demo account but don’t expect your demo results to be the same as your real account.

When you switch from your demo account to your real account, you will feel emotions you never felt before. You will be nervous before pulling the trigger on each trade (at least for a while). This is natural. However, you just cannot afford to let your emotions be a factor when trading.

After experiencing several losses, the normal tendency is to get back in there and recoup those losses. Those are your emotions acting without the benefit of intellect. You will look for reasons to get back in and will justify a trade so that you can make it legal and then blame it on the system if you lose. This is definitely not the way to trade. Do you remember the movie “Trading Places”? The Duke Brother screamed “*turn those machines back on*” when trading closed for the day after experiencing a major loss.

After a win, you’ll feel elated. You’ll feel so good that you’d think you could do anything. This emotion will pull you into a false sense of security and another round of trading will ensue. This trade will be based on your emotion rather than careful analysis.

It is important that you set yourself some strict guidelines before you start trading. You must adhere to these guidelines in ALL circumstances. If you don’t, fear and greed will creep into your head and destroy all trading for that day.

It is widely known in the Forex world that to trade successfully, you need to have blown your trading account 2-3 times. This is how long it takes before you realise the error of your ways and the time it may take to bring your emotions into check.

Once you set your stop loss order, stick to it. Do not let your emotions move that stop for you. If anything, you should move the stop closer to the price and never further away. It is a classic beginner mistake where one moves the stop as price approaches it. This defeats the whole purpose of the stop loss order.

Typical scenarios you may experience: You place a trade to buy the EUR/USD. You are positive the currency will rise and so you place a stop loss order 20 pips away. Suddenly, the price turns

against you and starts dropping. Yet, you are so sure that the currency will turn around that you cancel your stop loss and wait. The currency continues to drop and the loss starts to build up – 30 pips, 40 pips, 70 pips which is when you start sweating and then decide to give in and close your position. As soon as you do that, price will turn around and soar to new heights. You will kick yourself for closing the position.

This type of roller coaster will happen quite often and you must learn to deal with it.

Your ultimate aim should be to feel like a robot and be completely impervious to winning or losing trades. Your goal should be to achieve a number of pips on every trade as determined by your analysis and risk/reward ratio.

There is a lot more to psychology of trading and you will come across it during further research as a currency trader. I sincerely hope you start trading with the right attitude and with the right state of mind, even with a demo account. This will provide good training for your transition to a real account.

Module 4 Summary

Learning how to exit a trade is far more important than learning a good entry. Lots of traders get hung up on finding a good system with a perfect entry.

The entry might be perfect but the trade may turn around after showing a profit of 20 pips. What would you do in this case?

Use the exits mentioned above to get you out of trouble.

Generally, it is a good idea to move your stop loss order to the breakeven point once you are 10-15 pips in profit.

You may delay this action if you find that the currency is volatile or erratic. Sometimes, it is a good idea to leave your stop loss order where it is. It all depends on the strategy you intend to follow (read about systems in the next module).

Think about your risk/reward ratio before opening a position.

Let's say you were buying a currency just above a support level. This would be a great trade in terms of risk/reward ratio as you would be able to place your stop loss order just beneath the support level. If price broke the support level, it would tend to continue downwards anyway so why keep the stop further away unnecessarily.

Employing a positive risk/reward of at least 1:1.5 will always work out in the long run.

Before you start trading, spend a few minutes thinking about your mind. How do you think it will react if you suffer a large loss? How will it react after a large win?

Now think of large losses over and over again and try and calm your brain down. Try and inhibit that adrenalin from flowing.

If you can train yourself to become impervious to gains as well as losses, you'll be far ahead of the 90% who lose money.

Module 5

Systems

A *system* is a set of rules which when followed should provide a profitable outcome. Think of it as a trading plan. A system will normally give you a buy or sell signal depending on how you structure the system.

You can devise a system yourself or simply use what other people are using to trade profitably.

If you wish to make a system yourself, you will need to do some research.

For example, you can plot a RSI and a Moving Average on a chart with particular settings and then scroll back in time to see what would have happened if you had bought/sold when the RSI started to climb from below 30 whilst price crossed the MA at the same time. You can check whatever you like.

If you see that particular points and combinations of the RSI/MA/Price proved to be profitable, then you could employ that strategy for your system.

This type of research is what will allow you to earn \$1000 every week (on a standard account). If you start off with a mini account, you can realistically expect to make \$100 a week. However, as your knowledge, trading account and trading consistency grows, you can start trading with standard lots.

Whichever system you apply, remember to take heed of trendlines, support / resistance levels, chart patterns and fib projections. These basic tools have proved themselves time and time again throughout history. Some traders trade with these concepts only. They don't rely on indicators whatsoever.

Below, you will find several systems which have proved profitable.

To get you started quickly, employ one of these systems and stick to it for a while. Initially, you may lose money but as long as you stick to the trading plan, you will eventually start to make money. A beginner usually places 2-3 trades and when they all turn out to be losers, he simply gives up and starts looking for another system. This process repeats itself again and again and represents a classic beginner trap.

The following systems will have certain indicators with certain settings and you will be required to set up your charts in exactly the same manner. They are shown in no particular order.

Let's get started:

System A

This system has many indicators attached to the chart.
It works on a 10 minute chart very well.
You can easily extract 10-25 pips at a time from this strategy.

The chart does look messy but just remember what you are doing this for. Are you happy with looking at messy charts for \$1000 every week?

Use a 10 min chart on any currency.

Plot Moving Average

Settings:

Period = 10 (Fast MA)
Type = Exponential (EMA)
Price = Close

Plot another Moving Average

Settings:

Period = 50 (Slower MA)
Type = Exponential (EMA)
Price = Close

Make sure both these MAs are different colours so that you can tell the difference

Plot Bollinger Bands (BB)

Settings:

Default (20, 2, close) but change the type to exponential

Plot Parabolic SAR

Settings:

Default but make the width 1 size bigger. This will make the dots darker (you'll see)
I didn't discuss this indicator earlier but it's just another indicator which draws dots above or below the price.

Plot MACD

Settings:

Default but make line width 1 size bigger

Plot RSI

Settings

Default (14)

Plot Slow Stochastic

Settings

Default (5, 3, 3) but change the type to Exponential
The Stochastic has 2 lines. One is called %K and the other is called %D. No need to know what they represent but they produce signals when they cross.
Change the line colours. Make the %K line Blue and the %D line Red and make the width 1 size bigger

This is what your chart should look like. I know it looks a bit chaotic but soon you'll be able to read these charts and indicators like a pro.



How to use this system:

Breakout Strategy

When price is in consolidation (in a range going sideways), the Bollinger Bands will be close together.

When you see price break out of the BBs, wait for confirmation from all the other indicators as follows:

For Long,

The fast MA should cross above the slow MA

The Parabolic SAR (PSAR) dots should be below the price

The MACD histogram should have started to rise

The RSI should be above 50 and rising

The Slow Stochastic %K line should have crossed above the %D Red line

The opposite applies for going short.

Have a look at the attached chart for an example:



With this system, you need to have all indicators in agreement with each other. You can only use this strategy when the price is ranging sideways. If price is trending, you'll need to use one of the other systems.

To exit the position, use any of the exits shown in the exits section of this manual.

Remember to look for s/r lines as these are also possible exit points.

Aim for 10-25 pips.

This is a fairly straightforward system and can only be used when price is in consolidation (trading range / flat / going sideways).

Channel Breakouts

When trading breakouts, it is not necessary to have all these indicators. You can simply draw a line above and below the sideways action to indicate a channel. When the channel breaks, trade in the direction of the breakout.

Sometimes, you have false breakouts known as Bull and Bear traps.

In order to avoid these, you should confirm with another indicator. A Moving Average cross may be a good indicator to have in these circumstances.



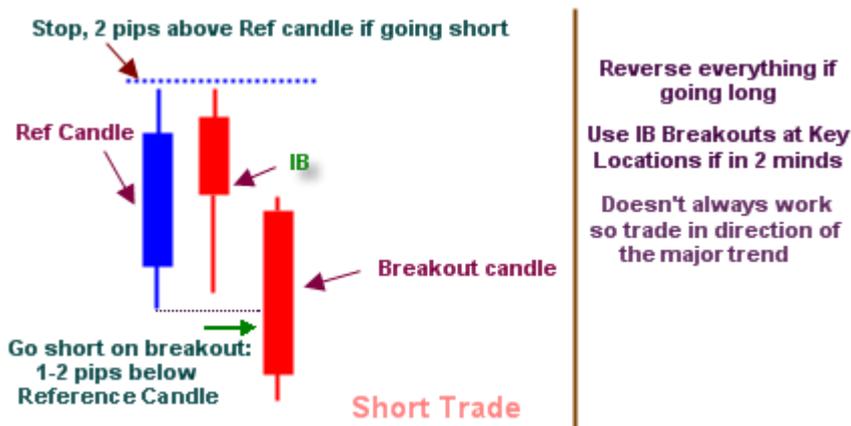
System B

An Inner Bar (IB) is also known as a Harami.

An IB is formed when the previous candle completely engulfs the current candle including the shadows. It is almost the opposite of an engulfing candle.



When you see a breakout (price passes the high or low) of the first (reference) candle, you would enter a trade in that direction. However, you should only do this at key levels. Here is an example of a short trade.



You should only trade Inner Bars at key levels such as trendlines, s/r levels and fib levels and only in the direction you expect from your research.

Inner Bars are a great tool and can be a confirmation indicator within the price itself. Here is an example.



There you have it. You could look for Inner Bars all day and trade them if they occur at key levels.

Treat Inner Bars as your secret indication weapon. Many traders don't use them but they can be powerful indicators at key levels. IBs can be really useful for making decisions when you're not entirely sure.

System C

This is a simple crossover system with 1 or 2 confirming indicators.

Don't be fooled by this system's simplicity.

Aim to achieve a simple 10 pips on ever trade. You then have the option of banking those 10 pips or looking for more and risking the 10 pips you've already made. If you decide to bank the 10 pips and you do this once or twice a day, this equates to \$500+ per week on a regular account

Use a 1 Hour chart.

Plot 2 Moving Averages

Settings:

Fast MA = 10, Close, Exponential (EMA)

Slow MA = 40, Close, Exponential (EMA)

Plot RSI

Settings:

Default (14)

Plot MACD Histogram

Settings

Default (9, 12, 26, Close, Exponential)

When the fast MA (10) crosses the slow MA (40), look for confirmation from the RSI and the MACD in the direction of the crossover.

To confirm a long trade, the RSI must be above 50 and the MACD Histogram has to be sloping upwards whether it is above or below the line.

The opposite applies for short trades.



When you see a crossover, wait for the candle to finish and then enter on a breakout of that candle if the indicators have provided confirmation.

Initially, keep your stop loss 20 pips away. When you are 10 pips in profit, either bank it or move your stop to breakeven. After that, keep trailing your stop loss at regular price intervals as the trade progresses in your direction.

System D

This is a fantastic system if you have learnt your basic candlestick patterns. Study the 'Candlestick Patterns' section above and use that information to trade this system.

Aim to achieve at least 10 pips from every trade.

This system uses candlestick patterns with the Stochastic Oscillator on a 15 minute chart plus confirmation from the 5 minute chart.

On the 15 minute chart,
Plot Stochastic Oscillator

Settings:

Time Period %K = 15

Smoothing %K = 3

Time Period %D = 3

Method %D = Simple

On the 5 minute chart, plot 2 Moving Averages

Settings:

Fast MA = 5, Close, Exponential (EMA)

Slow MA = 13, Close, Simple (SMA)

On the 15 minute chart, when you notice a candle formation after a significant movement in one direction, look at the Stochastic Oscillator and check if the %K line is crossing the %D line in the direction expected by the candle formation (opposite the movement that just happened).

If it is, you can enter the trade based on these 2 factors.

However, if you are not sure, look at the 5 minute chart to see if the fast MA is about to cross the slow MA. Once it does, enter the trade.

The 5 minute chart is there for added confirmation to the signals given on the 15 minute chart. Use an initial stop of 15 pips.

After a 10 pip move in your direction, either bank the profit or move your stop loss order to the breakeven point and look for more pips.

This decision should be based on how far you think the currency will go in that direction.

Look at the chart example below.



Sometimes, you won't receive a proper candlestick formation and yet it may still be a good signal. In these instances, you may use a "poetic licence". This means that if all other factors and indicators are confirming the trade, you can still go ahead with the trade.

Have a look at point 2 on the 15 min chart above.

The candles are very small and the last candle is almost a shooting star after which you have a drop. Notice the stochastic at this point. It confirms the trade. But since you're using the poetic licence, it's best to confirm one more time with the 5 min chart. On that chart, you can see the MAs have crossed and that also confirms the trade.

Poetic Licence can be used on all systems but be certain of your decision. Don't try and make something out of nothing. Don't make signals that aren't there.

System E

This system uses a combination of the MACD Histogram, Bollinger Bands and Williams %R indicator.

Since there are 2 targets, the profit on this system varies.

Plot Bollinger Bands

Settings:

Default (20, 2)

Plot MACD Histogram

Settings:

Default (9, 12, 26, Close, Exponential)

Plot Williams %R

Settings:

Williams %R = 9

Invert Williams %R = ON

I didn't discuss this indicator earlier but it's just another indicator which sits at the bottom of charts. Again, you don't need to know how it was calculated or what it references; you simply need to take signals from it.

The idea behind this system is to wait until price breaches the outer Bollinger Band.

When it does, you are looking for an opportunity to trade back into the band.

The first target is the middle band and the second target would be the other outer band.

You can trade 2 lots if you wish and exit one of them at the middle band whilst letting the other one ride to the second target.

When price breaches the outer band, look for the next MACD Histogram line to go the other way.

At the same time, the Williams %R should also be ticking the other way.

Once you have confirmation with these two indicators, you may place a trade headed back into the band.

If the histogram is still going in the same direction as the breakout or the %R indicator is ticking the same way, don't trade.

Your initial stop loss should be 10 pips above the high (for a short) or below the low (for a long) of the candle that breached the BB provided it was the one which made the most extreme protrusion from the band.

When you place a trade, make sure that your first target (middle band) is far enough to make a decent profit after covering your spread.

Have a look at the chart for a better understanding.



This is a great system when the currency is in a trading range – going in a sideways direction rather than trending up or down.

As a beginner, you should limit your use of this system to times when the currency is ranging.

System F

With this system, you can expect to achieve at least 10-20 pips from each trade.

Use a 1 Hour chart.

Plot 2 Moving Averages

Settings:

Fast MA = 5, Close, Exponential

Slow MA = 13, Close, Exponential

Plot Directional Movement System (DMS)

Settings:

Default (14, ADX)

This system introduces the DMS (which is an indicator) and it also utilizes an MA crossover.

The DMS has 3 lines. DI+ (blue), DI- (red) and the ADX line (thick green line).

When the ADX line crosses the DI+ line from below, it is a sell signal. If the ADX line crosses the DI- line from below, it is a buy signal.

When the ADX line crosses the DI+ line from above, it is a buy signal and when it crosses the DI- line from above, it is a sell signal.

Once you've got your head around that, you need to confirm those signals with the MA crossover. The fast MA should have crossed (or about to cross) the slow MA in the direction of the ADX signal.



When the ADX line crosses from below, this is the strongest signal.

When trading this system, make sure the DMS lines have crossed. Wait for the candle to finish before entering, otherwise you may see that the lines have crossed only to find that they have suddenly uncrossed as the candle develops the other way.

Use an initial stop of 20 pips and move it to breakeven when you see a profit of 10-15 pips. Then use any of the exits described in the exit section above.

System G

This system is affectionately called the 'BG' system as it was devised by someone calling herself Bunnygirl. She made a lot of money from this system and so can you. However, you need to exercise your discretion whilst trading this system and know when to avoid signals which can potentially trap you. For e.g. don't buy when price is heading into a resistance level.

Plot 2 Moving Averages

Settings:

Fast MA - 5, Close, Weighted

Slow MA - 20, Close, Weighted

When you see the MAs cross, wait for price to move 25 pips (from the cross level) in the same direction as the cross before entering a trade. This is called a 25 pip filter.

Place your initial stop 5 pips behind the cross level. Move to breakeven at +10 pips.

First target = 30 pips, second target = 50 pips and third target = 100 pips.

Keep trailing your stops at regular intervals. You can use multiple lots to exit at various points.

Here is an example.



This method will not work all the time so you need to use your knowledge of fibs, trendlines and s/r levels to enter and exit a trade.

System H

To trade this system you need a particular setup which you should see many times during the day. Use a 10 minute chart and look for 2 consecutive candles (in same direction) where each one has a body of 6 pips or larger (the difference between the open and close should be 6 pips or greater). These 2 consecutive candles are your signal to enter a trade *unless* the shadow above or below either of the 2 candles is longer than the body itself.

As with any system, remember not to trade during news times and other volatile/irregular times such as Friday evening or Sunday evening.

You should not enter a trade if you see the market going sideways. You can determine if the market is going sideways simply by plotting 2 MAs (5/13) and if you notice the MA lines to be flat, stay away.

When you notice the setup above, you must enter a trade on the open of the third candle.

Set your limit at +10 pips and your stop loss set at 13 pips away from your entry. This means that if price hits your profit, you will actually make about 7 pips after taking your spread into account.

As price approaches within 2 pips of your limit, move your limit further away by 5 pips. Do this every time price approaches your limit by 2 pips. For example, when price reaches +13 pips, you will move your limit to 20 pips.

When you first move your limit from +10 to +15, move your stop loss order to the breakeven point. Thereafter, move it 5 pips every time you move your limit. This will stop any reversals from giving you a loss.

Although you'll make small profits every time, you'll do this several times a day with approximately 80% success rate. Even if you make 20 pips a day, you are on target for 100 pips a week = \$1000 every week on a standard account.

Here is a summary of how you should move your limits and stops.

Limit movement:	Stop Loss movement:
Initially, place limit at +10 pips from entry.	Initially, place stop loss at 13 pips from entry
At + 8 pips, move limit to +15 pips.	At +8 pips, move your stop loss to the breakeven point at entry position.
At + 13 pips, move limit to +20 pips.	At +13 pips, move your stop loss to lock in +5 pips.
At + 18 pips move limit to +25 pips.	At + 18 pips, move your stop loss to lock in +10 pips.
At + 23 pips, move limit to +30 pips.	At +23 pips, move your stop loss to lock in +15 pips.

See the chart below for a long trade immediately followed by a short trade.



The purpose of moving the limit when within 2 pips is to ride the trend for as long as possible. So why have a limit there in the first place? Why not just let the stop loss exit the trade for you?

Sometimes, you may be away from your desk or price may spike and turn around. In these situations, it is best to gain a few extra pips and exit the position than leaving it open for a turnaround.

System I

Earlier, I mentioned that we don't discard news announcements altogether. In fact, we use them to our advantage.

In normal circumstances when significant news breaks, there is a huge price movement of the currency being affected. This starts within seconds of the news being announced.

Like I said right at the beginning, it is possible to make \$1000 in a single hour providing your timing is right. Well here it is. If you successfully trade a news announcement, you are extremely likely to end up with \$500-\$1000 in a single hour. How's that for being a currency trader?

If you wish, you could trade news events all the time but I suggest sticking to the major news announcements (read on).

This system is based on trading news announcements. You will be using fundamental analysis to place trades with a technical method. Confused? Let me explain.

Since the US Dollar is the currency of reference, we check for US announcements regarding the US economy in general. If the announcement indicates bad news for America, the US Dollar will fall whilst all the others will rise against it.

Bad news for US =
EUR/USD will rise
GBP/USD will rise
USD/JPY will fall
USD/CHF will fall
and so on...

Conversely, if the announcement is in favour of the American economy, the US Dollar will rise and all the others will fall against it.

There are many news announcements every day but only some of them have a significant impact on the Forex market.

There are several websites which will show you when the news is due and what type of news it will be.

Have a look:

Wednesday May 11	Thursday May 12
Market Focus »	Market Focus »
Who's Speaking? »	Market Reflections »
Short Take »	-----
Market Reflections »	<i>Weekly Bill Settlement</i>
-----	Jobless Claims REPORT • 8:30 ET
Bank Reserve Settlement	Retail Sales REPORT ★ 8:30 ET
MBA Purchase Applications REPORT • 7:00 ET	3-Month Bill Announcement REPORT • 11:00 ET
International Trade REPORT ★ 8:30 ET	6-Month Bill Announcement REPORT • 11:00 ET
EIA Petroleum Status Report REPORT • 10:30 ET	10-Year Note Auction REPORT • 1:00 ET

You can see that each day has several announcements. Generally, the ones with a star next to it are the significant announcements which you need to look out for. These will have an affect on the Forex Market. In the example above, you can see 'International Trade' on Wednesday and 'Retail Sales' on Thursday are the important announcements. They are both announced at 8:30 am ET which is 1:30 pm UK time.

You will find the web address of the Economic Calendar in the appendix section.

Now that we know where to find the news, let's take a look at how we can profit with these announcements.

Taking the 'International Trade' announcement above, we will plan a course of action which will allow us to profit from price movement when news has broken.

You will need to prepare yourself in advance for this trade.

Approximately 5 minutes before the news is announced, check the current price on any currency against the US Dollar. Let's take the EUR/USD for this example.

The current rate is 1.2880.

We need to capture this move regardless of the direction it will take. We don't want to second guess the news and place a trade before-hand. We will use a technique call the "Straddle Strategy".

We place an Entry Order to buy, 20 pips above current price of 1.2880 and we also place an Entry Order to sell, 20 pips below current price.

So, your BUY entry order will be placed at 1.2900 and your SELL entry order will be placed at 1.2860.

These two entry orders will ensure that you capture the move regardless of the direction the Euro takes.

Place you initial stop loss at the opposite entry order.

So, to buy, your initial stop loss will be at 1.2860 and to sell, your initial stop loss will be at 1.2900.



The best way to trade the news is to use at least 2 lots. In your case, use 2 mini lots. Once you see a profit of 20 pips, exit one lot with a 20 pip profit and move the stop loss to breakeven so you don't lose out on the other lot. Use that stop loss to trail any further profits.

When one of your entry orders is triggered and filled, remove the other entry order. All that remains is for you to move your stop loss to lock-in profits as your trade progresses.

Have a look at the chart below to see what happened. We made a substantial profit by selling the currency.



In this case, the currency moved down and triggered your Sell Entry Order. Sometimes, you'll find that currency fluctuates both ways before deciding on a direction. This is why it's important to have your entry orders at least 20 pips away from the 'news time' price.

Now, it's time for the 'Retail Sales' news announcement. We'll use the same strategy and see what happens.

Again, we place an entry order 20 pips above and another one 20 pips below.

Have a look at the next chart and you'll see that the Euro dropped again (the US Dollar got stronger) which means that the Retail Sales figures for the United States were good.



Although price fell, it didn't fall enough to make \$500 in one hour. However, if you exited your first mini lot at 20 pips and moved the stop to break even, you could have ridden the trend all the way down with the second mini lot.

As you can see, there were many Dojis at the bottom of the trend.

It is important that you take 20 pips with the first lot and move the stop loss order to the entry point. After doing this, you can relax and ride the remaining pips by trailing your stop loss every so often.

All Round Trading

Whichever system you trade, remember the basic trading techniques which have been proven over the years.

Use trendlines, fibs, patterns and s/r levels.

Think about what you are doing and where price is headed before jumping into a trade.

Spend some time plotting lines and levels.

You may find it necessary to wait a few pips before entering a trade based on a signal given to you by your system. An example of this could be when you see price touching a trendline or s/r level. You wouldn't want to take the signal until you see the price bouncing off that level or breaking through it.

Let's go through a typical hypothetical trading scenario.

Here I will use a very simple system.

I'll be plotting 2 MAs.

Fast MA = 5, Close, Exponential (EMA = Exponential Moving Average)

Slow MA = 13, Close, Exponential (EMA = Exponential Moving Average)

When I see them cross, I will enter on the beginning of the next candle. Remember, you always trade in the direction the fast MA crosses the slow MA. I will not trade if both EMAs seem flat.

Initially, I will place a stop loss 50 pips behind the EMA 13 line.

I will exit using any one of the exits mentioned earlier in the Exit section.

I will also take into account the usual lines, levels, patterns and discretion.



I know it looks like a jungle as you scan the chart and it may even seem confusing at first. However, when you plot the lines and indicators yourself, one at a time, and take time to study and understand each part of the chart, eventually, charts will be deciphered with greater accuracy and understanding.

There are thousands of normal people like you and me who are learning and paper trading at the same time. You will do the same.

Achieving \$1000 every week is no great feat. It is easily achieved. But to get it, you need to put in a little effort to understand the basics first.

Where do I start?

At this moment, I'm sure you may be feeling overwhelmed by the number of systems available to you. There are so many indicators and tools for you to explore that you'll wish there was more time in the day for you to study and experiment.

Not to worry, I've been there and I know what it's like. I had to spend countless hours asking questions and interpreting the answers. I know how confusing things can be.

You're probably still at a loss as to where to start and this is why I'm going to help you, right here, right now.

I personally trade every single system that I have mentioned above. The system I employ depends on what the market is doing at a particular time. If the market is ranging, I use system A or system E together with system D. During news announcements, I use system I. When the Market is trending, I use some of the other systems depending on the situation. I always keep the trendlines, s/r levels and fibs drawn on my charts so I don't follow a signal without some other analysis.

Since you already have your demo account up and running, with at least \$2000 as phantom cash, you can start trading today with the system I'm going to show you now. I'm showing you this system just so you have a directive to follow. I know you are spoilt for choice but if you follow this system to begin with, you'll be well on your way.

The point is, once you've started, you can look at other things and progress from there. You can either explore your trading platform before you start trading or you can do so whilst in a trade. You don't need to be looking at charts constantly during an open position.

You are able to set alerts which will warn you when a certain price has been hit. This is a very useful feature and it's really handy if you've just popped into the kitchen to make some food.

Ok, for this system, you'll need a 5 minute chart and a daily chart.

On the daily chart, plot the Relative Strength Index (RSI) indicator with a setting of 14.

On this indicator, you are able to plot horizontal lines. If it doesn't already have a horizontal line at 50, enter its properties and create one there.



The purpose of the RSI indicator is to filter trades.

When the RSI is above 50, you only take long trades. You would ignore all short signals.

When the RSI is below 50, you only take short trades. You would ignore all long signals.

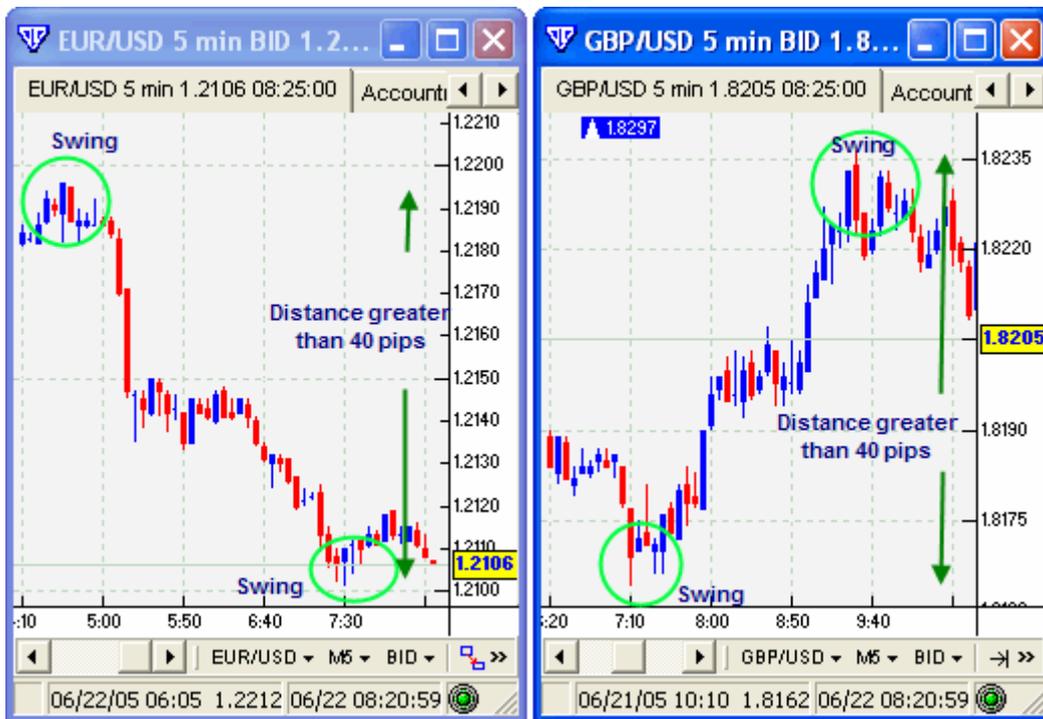
In a moment, I'll show you a system which works on the 5 minute chart. Once you see a buy or sell signal, you'll need to check the daily RSI. If your 5 minute chart signal indicates a BUY whilst the RSI is below 50, you would not take the trade. If your signal indicates a SELL whilst the RSI is below 50, you would open a position.

Ok, so far?

On the 5 minute chart, you need to find the most recent swing which is 40 pips or greater.

Remember, a swing is where the currency turns around and heads the other way.

So, here is an example of a swing which is greater than 40 pips.



If you find that the last swing was less than 40 pips in distance, you should discard it and look at the swing prior to that.

If that swing is also below 40 pips, you'd discard that and look at the swing before.

You'd do this until you find a swing which has a distance of 40 pips or greater.

Once you find this swing, you'll need to plot a Fibonacci projection from the high to the low or low to the high of the swing. If you've forgotten how to draw fibs, scroll back re-read the fib section of this manual.

Once you've drawn the fibs, you wait to see what price does between the 0 and 100% levels.

Disregard the 50% level at the moment. All you should see is the 23.6%, 38.2%, 61.8% and the 78.6% levels.

The area between the 38.2% and the 61.8% level is known as the *transition layer*.

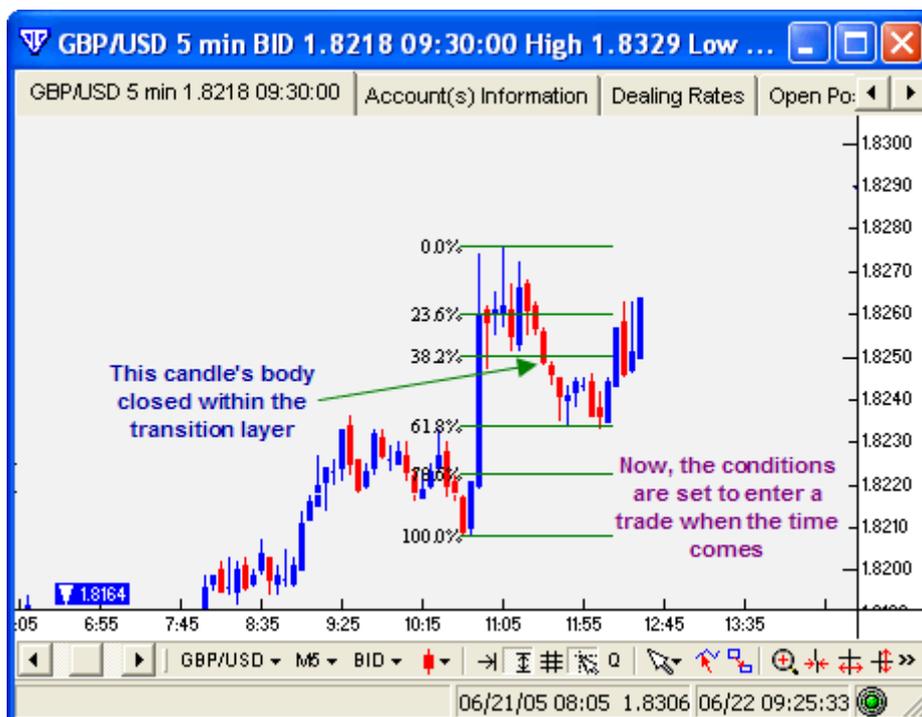
Take a look at the chart below.



Ok, so how do we use these fib levels and how do we enter a trade and what do we do after that?

Wow, steady on. We'll go through each stage slowly.

Next, we need to see price dip into the transition layer and at least have one candle close within it. If price passes right through the transition layer, this is also valid. Once we see this, we can enter a trade when the signal appears later. If price does not enter and close within the transition layer, then you'll have to disregard any signal you do receive.

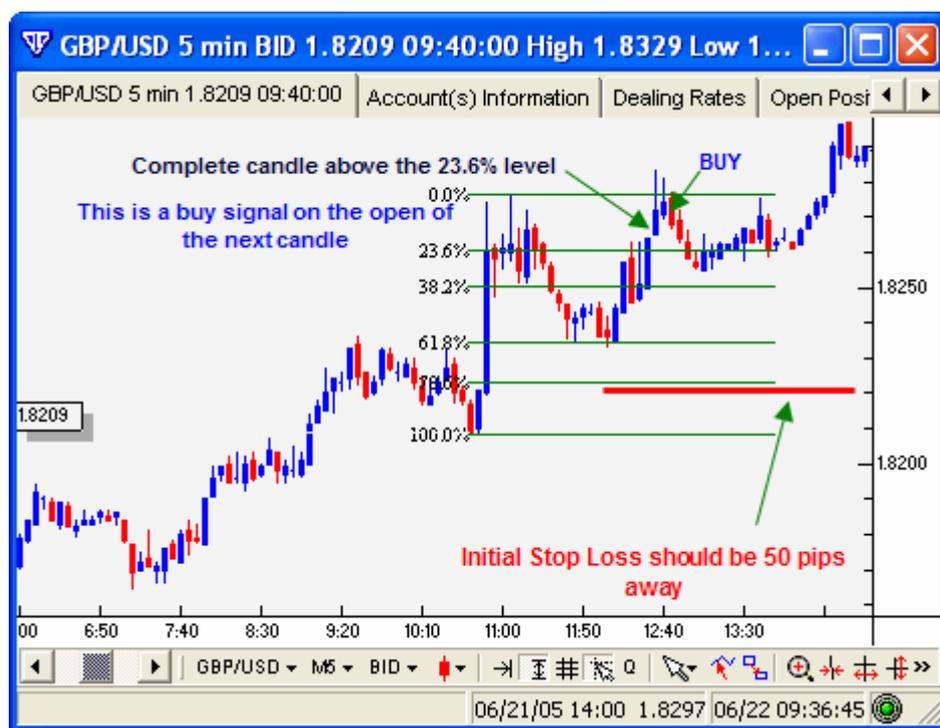


To enter a trade, we wait for price to go upwards beyond the 23.6% level or downwards below the 78.6% level.

Once you have a complete candle beyond one of these two points, this is a signal to enter a trade in that direction. By looking at the chart above, if a complete candle is formed beyond the 23.6% level, this would be a signal to buy. If a complete candle forms below the 78.6% level, this would be a signal to sell. Remember, now we can regard any signal as a valid signal because price closed within the transition layer.

When you see a complete candle above the 23.6% level, you need to enter on the very next candle (provided the daily RSI is also above 50).

As you do, place your initial stop loss 50 pips away from your entry position. This is to stop any sudden and large movements against your position.



Price will continue on its way upwards and every time there is another swing of 40 pips or more, you'll need to draw your fibs again.

Whilst maintaining an open position, redrawing the fibs on every 40+ pip swing is necessary as it will tell you whether you should stay in the trade or exit.

The exit rule is as follows:

When you see an opposite signal, you exit the trade. So, for example, as price moves on and you see more and more 40+ swings, you draw your fibs on those new swings. If you see a complete candle form below the 78.6% level, you exit the trade immediately as this could mean a trend change.



Do exactly the opposite for a short trade. Enter the trade if a complete candle is formed below the 78.6% level (unless you draw the fib the other way in which case it would be the 23.6% level) but only if it confirmed by the daily RSI and the transition layer.

Look at the exit chart above. Do you realise that this is also a signal to enter a short trade (provided the daily RSI confirms)? Although you don't see a close of the candle body in the transition layer, it went straight through which is also acceptable.

Trading in this manner will mean that you will stay with the trend longer. Your trade will last as long as the trend lasts. This will allow your winners to run whilst keeping your losses short and this will also keep you trading with your friend – the trend.

This is a super system as it will keep you profiting in the long run. It has a high success rate. Initially, it's possible that you will hit your stop loss as you may enter a trade at the end of a trend but with the very next trade you should be on the right side of the trend (if the RSI confirms). To make things safer, look for the first 40+ swing *after* a flat (ranging) period. These trades last up to 3-4 days.

It is also possible to do this on a 4 hour chart with conformation from the daily RSI. The only difference is that the swings need to be at least 150 pips or greater. Initial stop loss should be 100 pips away from the entry point. Everything else remains the same as the 5 minute chart. This system would be useful to those who can't stay at their computers for long periods. These trades last for several days or even several weeks.

Well, here you are. You're all set to go and practice these trades on a demo account. If you take note of Module 3 and implement those items in all your trades, I don't see why you can't make over \$1000 every week. It's not too hard.

The first hurdle you must cross is the barrier in your mind. If you can overcome this, everything else can be overcome easily.

Module 5 Summary

There are many systems to choose from.
With a little backtesting, you can make your own.

Some systems are suitable for certain times. If the currency is in consolidation (going sideways), employ a strategy which allows you to trade a break from that trading range.
If currency is trending use any of the other systems which works well when trending.

There is no hard and fast rule for indicator settings. I have posted the above settings as they work very well for me.
You are free to change the settings but I suggest you follow my settings for the time being.

If you find that you can regularly make 10 pips from a particular setting with particular indicators, stick to it. Don't change it if it works.

Start with any system but stick to it for a while before trying another system. It's quite normal to experience losing trades right at the beginning. If you keep at it, you'll soon see trades turning around and giving you profits.

Remember to draw your lines and fibs every day before you even start trading.

Conclusion

The Next Step

In this manual, I have covered the essentials and basics. I have not elaborated on certain subjects as that information would only serve to confuse you and is of no value at this point. You can always enhance your trading knowledge by reading more books when the time is right.

In the meantime, read this book again and refer to it whenever you need clarification. If you have understood most of what I have written, you're well on your way to making a decent income from trading.

You will be taking things one step at a time and you will learn at a rate which is comfortable for you. Use your demo account wisely. Treat it with respect and treat it as a real account, not a gambling account.

When you make the switch to a real account, you will notice a change in your emotions. Try and overcome these with logical and methodical decisions based on your objective analysis.

Start with a mini account and switch to trading regular lots when you feel the time is right and you are consistently making money. Have at least \$2000-\$3000 in your trading account before switching to regular lots.

When you start trading regular lots, \$1000 a week is chicken feed. You'll probably be making a lot more.

However, don't try and achieve a set amount of money every week. If you do this, you'll have the wrong mindset and which will lead to taking unnecessary risks.

Think of it as a game. You are either a Bull or a Bear playing against the other team. Your objective is to capture as many pips as possible. If you profit before your stop loss is hit, you win. If your stop loss is hit first, you lose. If you exit at the breakeven point, it's a draw.

Before placing trust in any system, take control of your own emotions. If you don't, you will not be able to control your trading. Treat it as a business because that's exactly what it is. Although it may be a lot of fun, it is still something which can provide you with a decent living.

Would you ever risk your entire business on a gamble? NO. So don't do it here.

One of the biggest mistakes a beginner makes is rushing into trades. You need to take your time and think things through.

If a potential trade has started and you're too late, don't worry, there will be plenty more.

Well, that's it for now. As you can see, this manual contains a lot of information. My objective was to give you some dynamite and educate you in becoming a high earning currency trader. I now hand you the responsibility of taking this to the next level by practising on a demo account.

It would give me great pleasure to see you succeed in this business and I would be extremely happy if you sent me an email with your success story.

Amin

Amin Sadak

Email: admin@webkept.com

Appendix

Here you'll find some useful links to websites which will help you during your Forex Training.

Broker: Capital Market Services

<http://www.cms-forex.com>

The demo platform isn't as stable as the live platform.

Free Trading Platform which is not restricted to a single broker. Many brokers use this platform.

<http://www.strategybuilderfx.com>

US News Announcements website

<http://www.nasdaq.com/econoday/index.html>

Another Forex calendar which covers all major currencies

<http://www.dailyfx.com>

Select the Calendar button on this site.

A little more on Chart Patterns

<http://www.chartpatterns.com>

A list of candlestick formations

<http://www.litwick.com/glossary.html>

If you have Java installed on your PC, this is a great site for free online charts

<http://www.netdania.com/ChartApplet.asp>

Now, I would recommend that you refer to the Forex Resource  which was included ~~in this package~~ and gain a different perspective on the items you have already learnt in this manual.

Please don't be overwhelmed by the amount of information on the . All you really need is the information in *this manual*. The  information can be read at your leisure.

The  contains various articles, books and software to help you with your trading. 

After a month of understanding the workings of the Forex market, the next step would be to read "Mechanical Discretion" at <http://www.lentrica.co.uk>

It will help you avoid traps and teach you to use discretion when trading.

If you're looking to open a trading account and don't know who to pick, contact Alex at CMS and he will set you up with your own universal account. If you mention my name, he has promised to take extra care of you.

His details are:

Alexander Tolchinsky

Account Executive

Phone: 212-563-2100 ext. 271

Fax: 212-563-4994

atolchinsky@cmsfx.com

ICQ: 295 594 650

Yahoo, MSN, AOL Instant Messengers: baretz07

CMS is the name of the company who provide the VT trading platform.

Once you've had this manual for 30 days, please contact me for another great system.

Amin