Before going any further…

Forgive me but I am going to make a couple of basic assumptions before I get further in to this manual, and they are as follows:

- In writing this manual I am assuming that you the reader already knows about forex trading and does not wish to be confronted with history lessons of the exchanges or the inner workings of spread firms or forex brokers. No matter what you trade, or how you trade the process is basically the same as is the end game…to make money! If you need to know any of this stuff then please contact me and I will provide the basics for you.

- If you are new to trading you are looking for the answer to your trading problems – more on them later and what they are.

- If you are an old hand at trading you are searching for something that will either improve your trading, free your time up or both.

- Or you are an eternal optimist in constant search of the 'Holy-Grail' of trading – which a lot of the jaded trader wannabe's will tell you does not exist.

The good news is that you are in the right place to over-come all of your trading woes, fears and scepticism.

This manual is concerned with teaching a trading method that takes the strain and risk out of the forex markets (applies to the Dow as well) and allows the trader to relax a little more and enjoy the trading experience.

Having said all of that this technique is ideal for any standard of trader and does not require a stack of learning.

The method/s came about as a natural progression and desire not to be sat in front of my monitors all day long, trying to scalp a market that does not care for being scalped.

But in all fairness to my own trading style, I had become very contented with it and was trading quite nicely thank you…however, one member of the spreadtrade2win forum was still having difficulties trying to piece together a system that he was happy with.

I could understand his dilemma. The more he learned and discovered, the more the waters seemed to be muddied and the less he seemed to be able to get a proper grasp of the markets.

This situation is no stranger to any trader and no amount of tea and sympathy is ever going to make it better. It is all well and good telling everyone in earshot that they will find their own trading style and to stick with it. But what if they give in or become disillusioned with trading?

The only way to truly help is to find out what lies behind the problems that all traders face and then come up with a way of dealing with them.

Anyone who has tried trading or even virtual trading will be aware of the following factors that affect their trading decisions. They come in no particular order and they are just the headings of a longer list of symptoms.

1. Fear and greed.
2. Discipline or lack of it.
3. Money management or lack of it.

All of these factors/symptoms/problems can be overcome with time, patience, a stack of learning, a trading system and an endless supply of trading capital.

However, even when these things are addressed, you've served your time, money and patience. You still need to know what the market is up to.

You still need to know that when you place your trade, the market will continue in the same direction and you will make money.

For this the odds need to be stacked heavily in your favour (even in a game of 50 – 50 chances you can still come out losing) to 'almost certainty' levels and to do that you have to eliminate all risk from your trading.

Usually to eliminate risk from a trade you also eliminate potential profit because you have to sit and wait until a stack of factors line up before you can make a safe trading decision – albeit a very small trading decision. Hey! Profit is profit…or is it?

When you eliminate a lot of the risk of a trade to enter it, you lose a lot of potential profit and then run a higher risk of the market stalling out or reversing. It is a no win situation.

As my old man used to say, (Bless his black little heart) "As one door closes another one slams in yer face." Or words to that effect. I've removed the expletives so as not to offend those of a sensitive nature.

Do not despair dear reader as it is not an impossible task and I shall soon reveal to you how we are going to set about accomplishing our goal.

But to start we have to cover some very old ground that some of you will be well aware of and most of you will have forgotten or even ignored as you thought it didn't apply to you.

As I go through the basics it will highlight the problems that you are having. This all might seem a little disjointed at first as they are thought processes, but stick with it as it won't be for long.

I'll get around to the system soon enough and you can start to play about with it, but my bleating on about the basics has to be covered or you will find yourself treading the same path a few months further down the line.

You cannot keep doing the same things everyday and expect different results – that way lays madness. Oh, and poverty!

I have a beanie hat that reads "Same SHIT – Different Day".

It should read, "Thought processes create your reality, change your thought processes and change your reality."

Doesn’t have the same sort of ring to it and I’d need a bigger hat – but my teenage daughter would have you believe that I need a bigger hat for my big head anyway!!!

That aside the latter statement applies heavily to trading because it governs everything that you do.

This is not hocus pocus, new age crap or even hard to do. But it is fundamental to your trading success.

The thought processes do not necessarily relate to your belief in or of yourself, we all believe that we can make it as traders. The thought processes relate more to your view of the market and your trading decisions.

Keep it in mind as we move on and start to piece it all together.

There is a ‘Holy Grail’ in trading!

If that statement does cause bitter resentment and recriminations from the jaded trader wannabe’s then I will not be in the least bit surprised.

However, I do not intentionally go out of my way to annoy the less fortunate with my heretic statements. There is a ‘Holy Grail’ in trading, it is just not what everyone thinks or expects it to be.

Any indicator, system, method, charting package etc, no matter how complex or amazingly simple, is only as good as the person applying it.

Everything succeeds or fails by your ability to apply what you know to what you are doing. You are the 'Holy Grail' you just haven't gotten around to accepting the fact.

It's a big responsibility I know but accept it and move on and learn how to harness it.

Before you go mad and start shouting at the screen, or worse still, sending me snotty emails. I am not trying to befuddle you with tricky statements. I am merely priming you to become the 'Holy Grail' and to do that I have to point out your weaknesses and help you turn them in to strengths.

None of this is hard to do. But in order to redress the balance you have to be able to identify what it is that is going wrong or causing you problems before you can turn it around.

You cannot fix something if you are unaware that it is broken.

So with that in mind I have put together a few of the usual suspects that form the backbone of trading problems. The list is by no means extensive. It gives a general idea of things that affect a trader during his/her trading career.

Sometimes these problems follow in a progression and sometimes they happen all at once or build up over the course of time. Either way, all traders will suffer from some or all of these at some stage in their development.

If you haven't suffered from any of the following – you are either, naturally calm and spiritually gifted (at one with yourself already), or you have the dubious pleasure of looking forward to becoming acquainted with one or all the following.

It is not mandatory to be stuck with any or all of these afflictions, it is just part of the development process and one that needs to broached in order to pass through it to the lucrative side of trading.

Call it a 'rite of passage'. It is like having to go through puberty before you become an adult.

Weaknesses

- **Greed:** This is most common in the trader just starting out, especially when they have a general grasp of the subject and how easy it is to make massive amounts of money for very little work. It involves predicting market direction (a lot quicker and easier than using indicators), over trading by trading any opportunity that comes along and staying in a trade far too long.

Or the inability to realise that their predictions were wrong. Being unable to cut their losses and accept responsibility for their mistakes.

All of these factors are brought on by instant success in 'The guessing of the market direction' game. This leads them to believe that the whole game is incredibly easy (which it is) and that they have a natural talent and ability to know where the market is going to go (which they don't) – before it even goes there.

So, when the market does not do what they want it to do, they have difficulty accepting that they were wrong and believe that if they stay in the trade long enough the market will turn and they will be proven right.

This trading phase is quite brief and is the point at which a lot of traders hang up their trading shoes because the market takes all of their trading capital.

Those that wake up in the nick of time move on to the next stage of the trading evolution.

- **Fear:** This stage of the game is by far the best and conversely the worst. The best because it is where the real training starts and worst because it highlights (whether you know it or not) a whole heap of character flaws that need to be addressed to succeed in trading.

This is the point at which most traders fail and finally give the game up as impossible.

This folks, is where you will find yourself at right here and now and I will prove it to you in a moment by highlighting the problems that you are having and not by retorting that 'you wouldn't be reading this book if you were not having problems'.

This is not to say that your trading is bad, you may be making a profit. But you know that you are making too many mistakes and you will feel that you are only just keeping your head above water at times.

The good news is that you are only a few short steps away from being a 'Holy Grail' trader.

But let us take a look at the problems created in this phase of the trading mentality.

- **Inability to enter a trade:** Due to past experiences in the last phase (Greed) of trading the trader is now very wary of the markets and as such decides that perhaps some education would be a wise idea instead of guessing what the markets are up to.

  The newly acquired knowledge causes either trading hesitation (the early stages) or total inertia and trading paralysis (the latter stages) even though all of the system indicators are pointing to a trade.

- **Getting in to a trade too late:** This is the start of trading hesitation and comes from the inability of the trader to believe what their eyes and system are telling them.

  The trade set up happens and the trader waits for the inevitable to happen (the market to turn and head off in the opposite direction) but it does not happen. The market keeps on going in the projected direction.

Hesitation happens because the trader cannot believe their luck that the trade is actually going in the right direction. So much so that they have to sit and watch because they fully expect the market to turn any time soon.

Let's face it if something is too good to be true then it can't be true!

So the waiting game begins but the market still keeps on going. Realisation creeps in that the trader was right but there now exists even more of a dilemma. Does the trader walk away or do they trade?

The market keeps moving but now it is moving faster and further. Resolve, common sense and all logic go out of the window and greed and self-gratification take over and the trader enters the market and…

- **Panic sets in whilst in a trade:** The trader enters the trade late due to hesitation, the market stalls or starts to turn.

Greed and self-gratification have run for cover and have been replaced by panic and disbelief and one or two others for good measure.

The little voice in the traders' head is telling them that they (the voice) knew the trade was wrong (even though the market has moved by the biggest margin in its history) and that it would be better to get out of the trade now.

The internal struggle begins, the market slips further and the trader ends up…

- **Getting out of a trade too early:** And just in time to see the market head off back in its original direction.

The trader feels despair and disappointment at this stage but manages to deflect any personal shortcomings on to the system they are using by creating…

- **Lack of belief in the trading system:** So it becomes painfully obvious that the trader needs far more knowledge and they set about creating more and more systems.

  Now there is nothing wrong with attaining greater knowledge on the subject of trading but there is a correct time to do it, but this is not the time. The system they had previously was working just fine; it was their inability to respond to the system that was causing the problem.

  However, blaming the trading system is the path of least resistance and effort and the whole process begins again. Only this time the hesitation is compounded further and the negative emotions intensify and the trader flits ever quicker from one trading system to another.

  Loosing money, losing faith and increasing their…

- **Lack of belief in trading**: The trader now has a stack of trading knowledge but is unable to act upon any of it. Fear has brought them to a standstill.

  They are now suffering from total inertia and trading paralysis.

  They try going back to basics but the market always seems to be one step ahead of them. So they come to the conclusion that the market is rigged or that it is somehow linked in to their computer and that the whole thing is a conspiracy.

  Nobody makes money from trading – it is impossible to do…right?

This is the turning point for most traders. This is the point where they give in or a little light goes on inside their head and they realise that it has nothing to do with the systems that they are using. It has all got to do with the person using the system.

This is the 'Holy Grail'.

Well, almost!

All Traders need a system

To make it to the 'Holy Grail' a trader has to have a trading system.

A system is just a reason for getting in to a trade. Anyone who mocks a system is not a trader because they can't have placed a trade.

To place a trade you must have a reason for doing so and the second you have a reason for doing so you then have a system.

A well-balanced trader can use a very basic system and be highly successful with it – or so it would appear to the average onlooker.

There are some very important principles that are woven through all trading systems that keep the whole thing running smoothly and make it look effortless.

To my mind there are only 3 parts to the puzzle that need to be in place.

- **Money Management**
- **Trading System**
- **Discipline**

Money management covers the percentage of money allocated to any one trade in relation to your trading capital. It also governs the risk/reward of your trade or how much you are prepared to loose before you close a trade down. And if it governs the risk/reward then it also governs the entry and exit point in to a market.

So without even trying, **Money Management** has become...

The **Trading System,** or at least part of it, the rest is made up of reasons for trading, which include technical indicators and fundamental news (yuck!).

Because the trader only trades (supposedly) when the indicators **(Trading System & Money Management)** say so or enters/exits a trade on predefined money management strategies **(Money Management & Trading System)** they are forcing themselves to focus on the methods outlined in their **Money Management** and **Trading Systems** which then creates **Discipline**.

All three are fundamentally linked together and one cannot exist without the other.

- You cannot have discipline without something to be disciplined with.
- If you don't have money management you don't have a system because money management governs the entry and exit in to/out of a trade. If you have no point of entry in to a trade then you have no trade.
- If you have no system you have no reason to enter in to a trade or exit out of a trade.
- If you have a Trading system and Money Management but you have no discipline then you do not have a Trading System or Money Management.

There would be little point in throwing yourself out of an aeroplane during a skydiving holiday on the understanding that you own a parachute but that you choose to leave it under your bed.

If the chute is at home and you are hurtling towards the ground at maximum velocity then for all intents and purposes you **DO NOT** have a parachute.

So in the Land of the trader where **Trading Systems** and **Money Management** reign supreme, **Discipline** is God.

If you think I'm wrong, analyse your own trading. What excuses are you coming up with?

Trading is easy – being disciplined is hard

So let us set about making it easier

Most trading problems arise as stated earlier from too much trading knowledge, the relentless search of the trader to find the perfect system, flitting from one good idea to another and becoming bogged down with information. Blah blah blah!

So, to overcome this situation I am going to put in place a system that is easy to follow, easy to implement and therefore easy to be disciplined with.

There will be no question about whether or not a trade exists, if there is a question then the trade does not exist – that is a fundamental rule of any trading decision.

So let us begin the task of putting it all in to place.

To begin you will need to download a charting package for the forex. I (and a lot of the members on the forum) use metatrader which is free, extremely easy to use and customisable and is therefore highly recommended.

The version I have put in this package (in the zip file called 'money maker') is called 'Strategy Builder Fx' and will be downloaded on to your computer in the destination C:\ProgramFiles\StrategyBuilderFX

I am mentioning this because you will need to upload a host of indicators (some you will use, some you won't – personal choice and all that!) in to the programme to get it to work the way that you want it to.

If you already have metatrader on your computer then just use that version and upload the files to it – more on that later. Also skip the next few pages as it details how to set the chart screens up.

To install metatrader from the zip file 'moneymaker' just double-click on the programme and the installation process will start.

Follow the onscreen instructions – the whole process will take about 30 seconds. On completion open the newly installed programme either via the icon on your desktop screen or through the 'Start' menu.

The following screen will appear.

The form should be automatically filled in for you, if not just complete it.

At the bottom of the form on the right hand side there is a box that says 'Deposit'.

This is for your virtual account and can be set up to $5,000,000.00 and has nothing to do with parting with your own money.

Tick the 'I accept to subscribe…' and click register.

You now have access to free live charts and data.

It is up to you how you set your charts up but I shall have a quick run through now or you can go to http://www.alpari-idc.com/en/userguide/metatrader/ for a comprehensive view on how to use them.

On opening the charting programme you will be faced with the following screen or something very similar.

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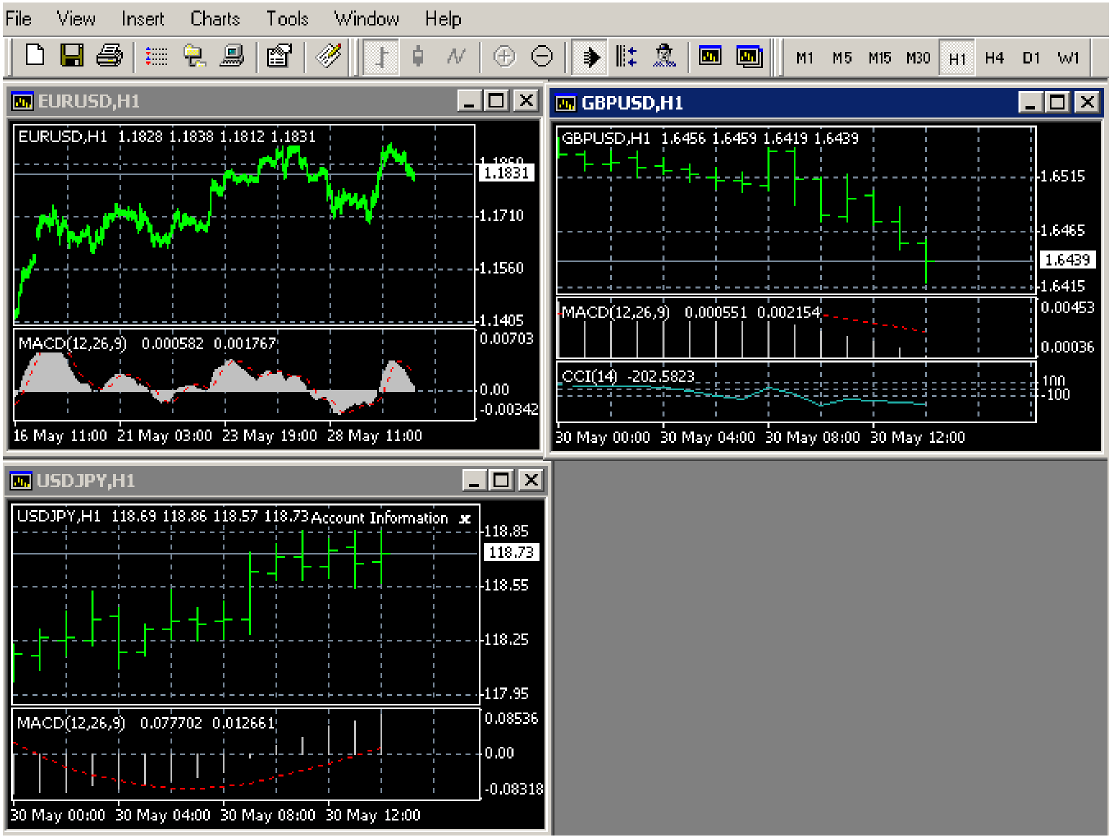
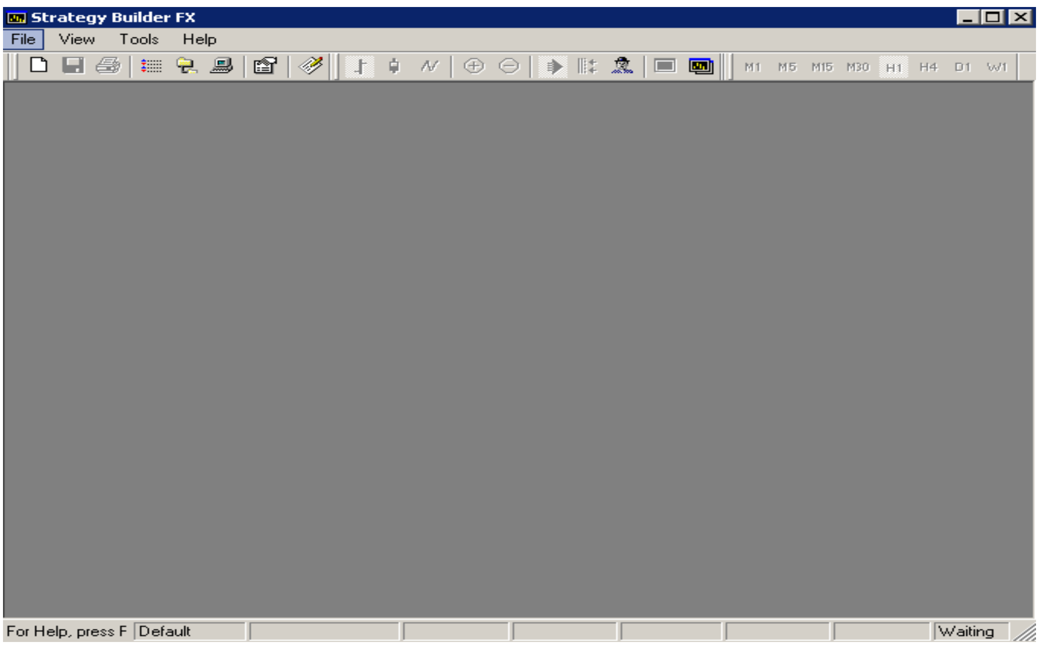


Each chart has a cross in the right-hand corner, click on it and close them all down individually until you are left with the grey programme screen.



From there you can start afresh and create your own chart styles on the charts that you wish to view.

To do this click on ‘File’, ‘New Chart’ and select a currency pairing that you wish to trade. For this demonstration and set up I am going to use ‘GBPUSD’ which is £/$ and because it is one of the pairings I favour most in my trading.

A screen similar to the one above should appear. It is now just a case of adjusting the chart settings to suit your own tastes.

To change the settings, place the mouse cursor anywhere on the live chart and right-click and select ‘Properties’ from the bottom of the drop-down menu. Alternatively, press F8 on your keyboard.

Change the settings to suit and click ‘OK’

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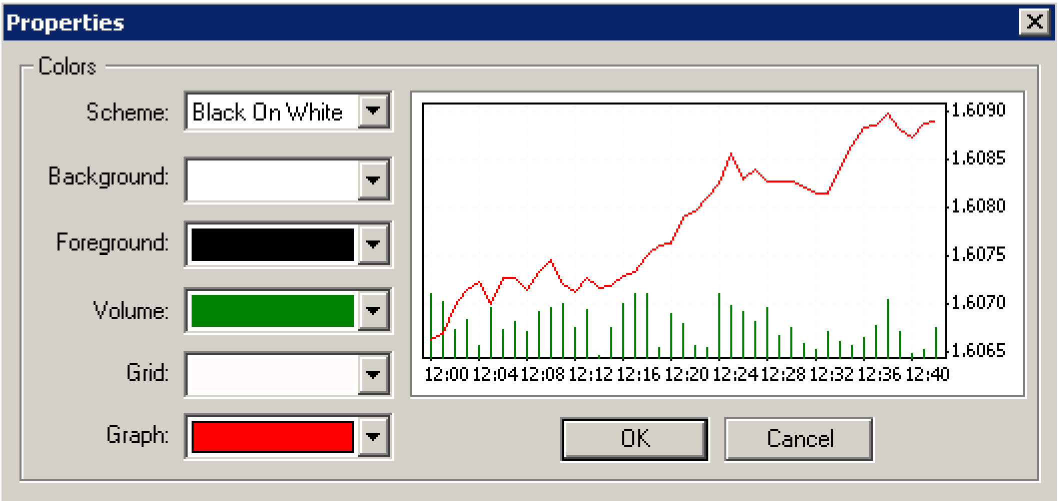
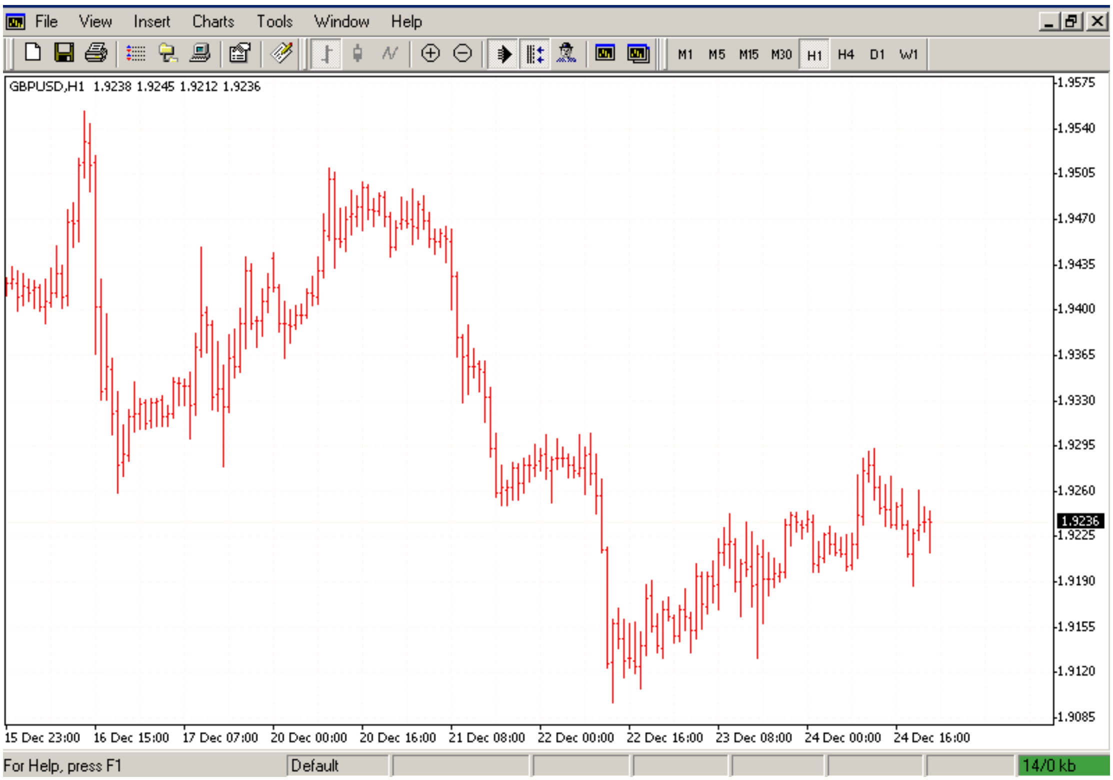
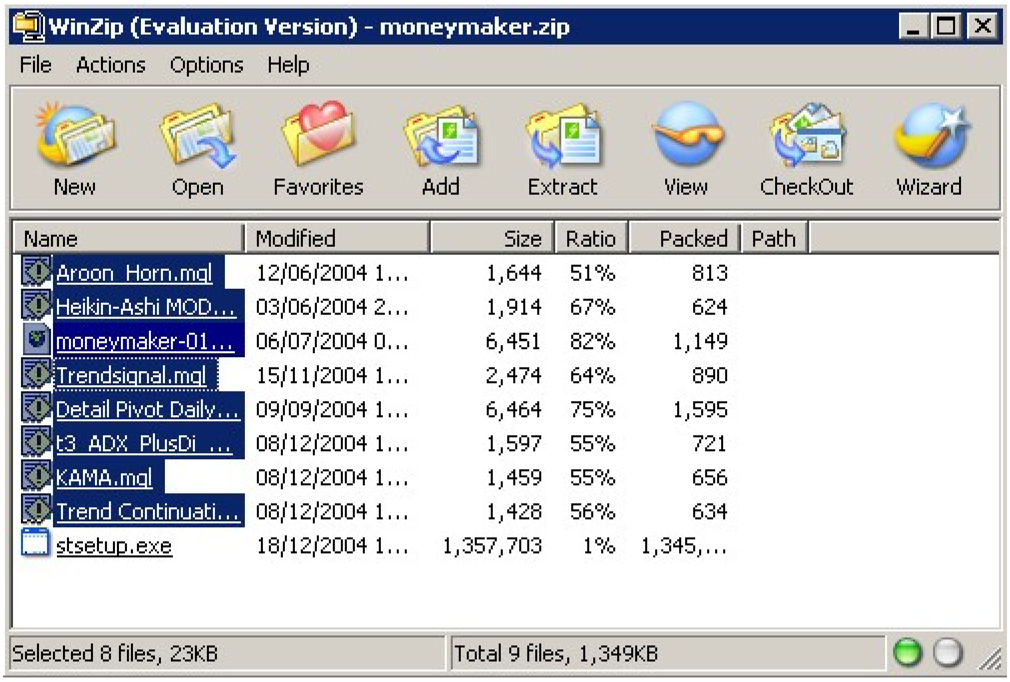


Because of the settings I have chosen, my chart now looks like this. (I am writing this on xmas day and it is snowing so it is probably quite fitting)



The next changes I make to the chart are all going to be with regard to indicators. So now would be a good time to close down the charting programme and load up all of the indicators in the package you downloaded.

Open up the zip file called ‘moneymaker’ and highlight all of the files (except for metatrader ‘stsetup.exe’ that you have already installed to your computer) by running the mouse over them and holding down the ‘Ctrl’ key, which is at the bottom left-hand side of your keyboard.



Once you have accomplished this, click on the ‘Extract’ icon on the tool bar above.

You will then be taken to the following screen where you will be asked for a location to extract the files to.

If you are using the metatrader programme provided with this package then you need to extract the files to the following location.

C:\ProgramFiles\StrategyBuilderFX\experts\indicators

If you are using another version of metatrader then the files will need to be extracted to:
C:\ProgramFiles\metatrader\experts\indicators

FX Wizard

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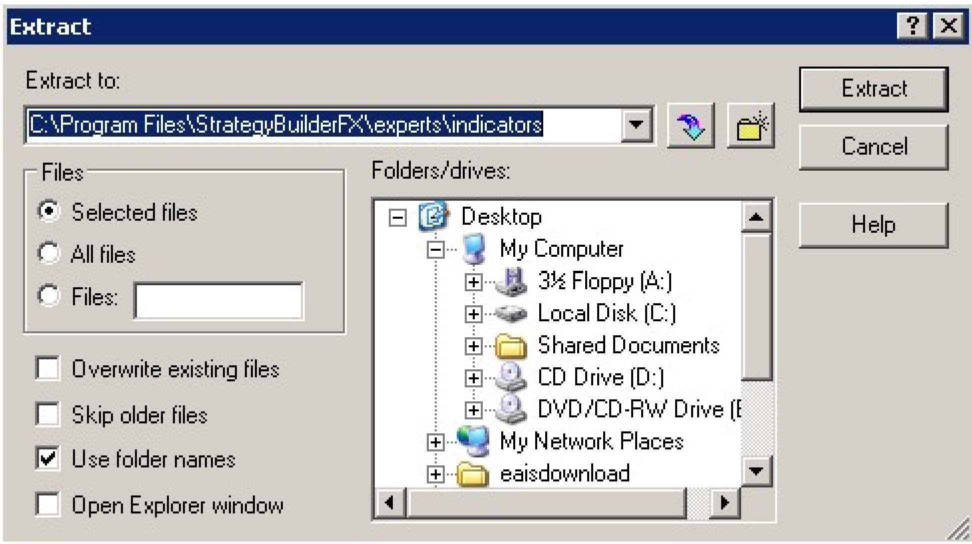

You can now open back up the charting software and start to add the indicators to your charts.

As a trader you are going to be concerned with only 2 indicators on your charts. I do have other things on there as well but they are merely visual aids to determine direction and they are:

Visual Aids

- 5-period exponential moving average set to 'Close'
- 6-period exponential moving average set to 'Open'
- 80-period exponential moving average set to 'Close'
- Heikin-Ashi Mod
- Pivot and Camarilla points, known as support and resistance

As well as a visual aid by showing short-term trend direction, the 5 & 6 ema's are also an alert to a trading set up as the crossover point is indicative of a change in trend direction.

The 80-period ema is for longer-term trend direction as well as a support/resistance level but we'll look at that later.

To put these indicators on your chart click on 'Insert' on the tool bar at the top of the charting screen and select 'Indicators' from the drop down menu (or 'Ctrl+I' on your keyboard or fƒ from the tool bar) and then choose 'Moving average'.

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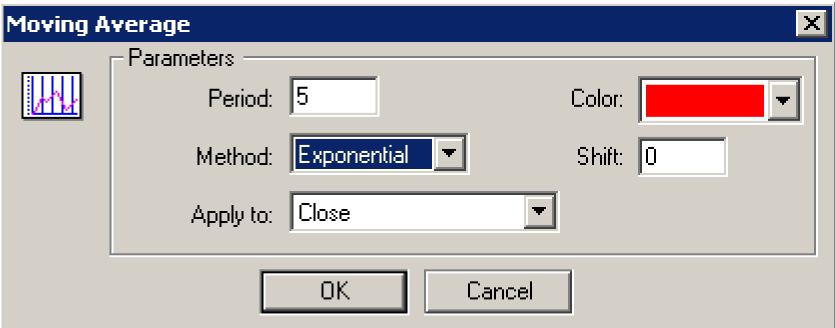
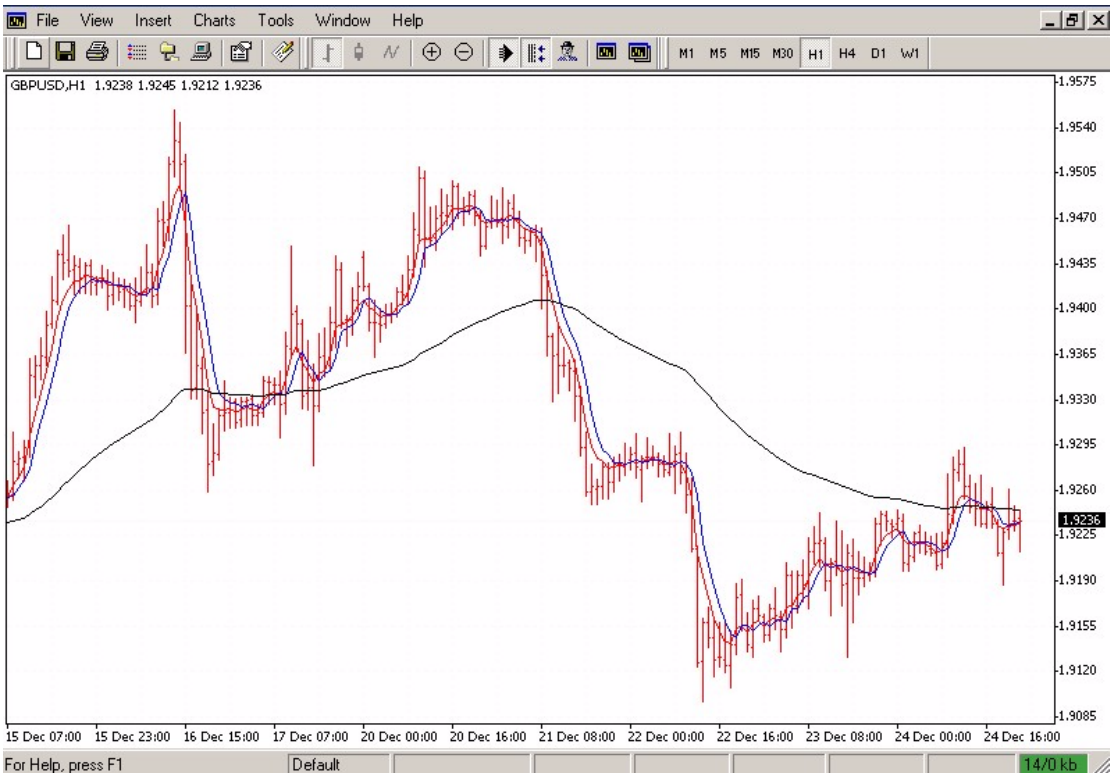
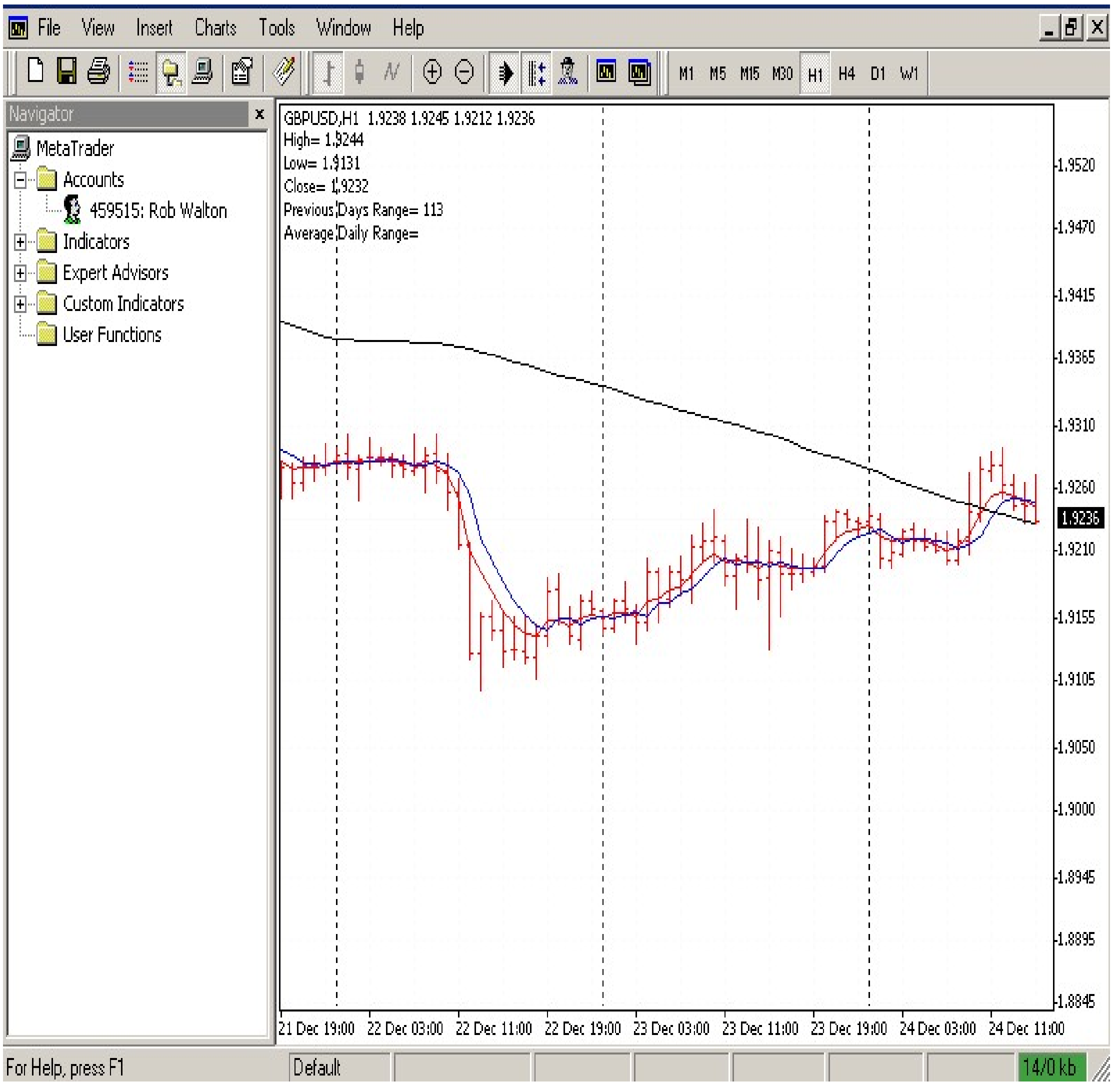


Fill in the information required and click ‘OK’, then repeat the process for the other 2 ma’s, remembering to change the colours for each one so you can tell them apart.

Your chart will now look something like this:



To add the Heikin-Ashi Mod and pivots (as well as all the other indicators uploaded to the charting software) you will need to click on 'View' and then 'Navigator' (Ctrl+N) or the icon on the tool bar and the following screen will appear.



Click on the 'Custom Indicators' folder and select 'Heiken-Ashi Mod' from the list and drag it across to the chart window whilst holding down the mouse button.

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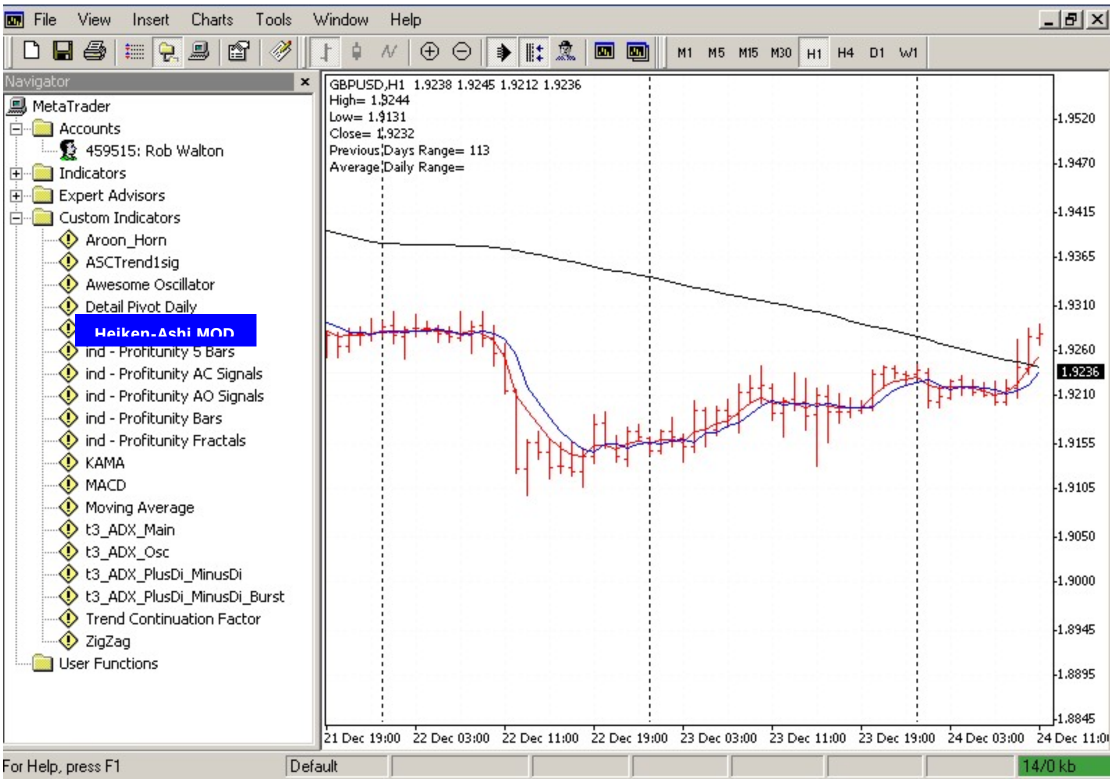


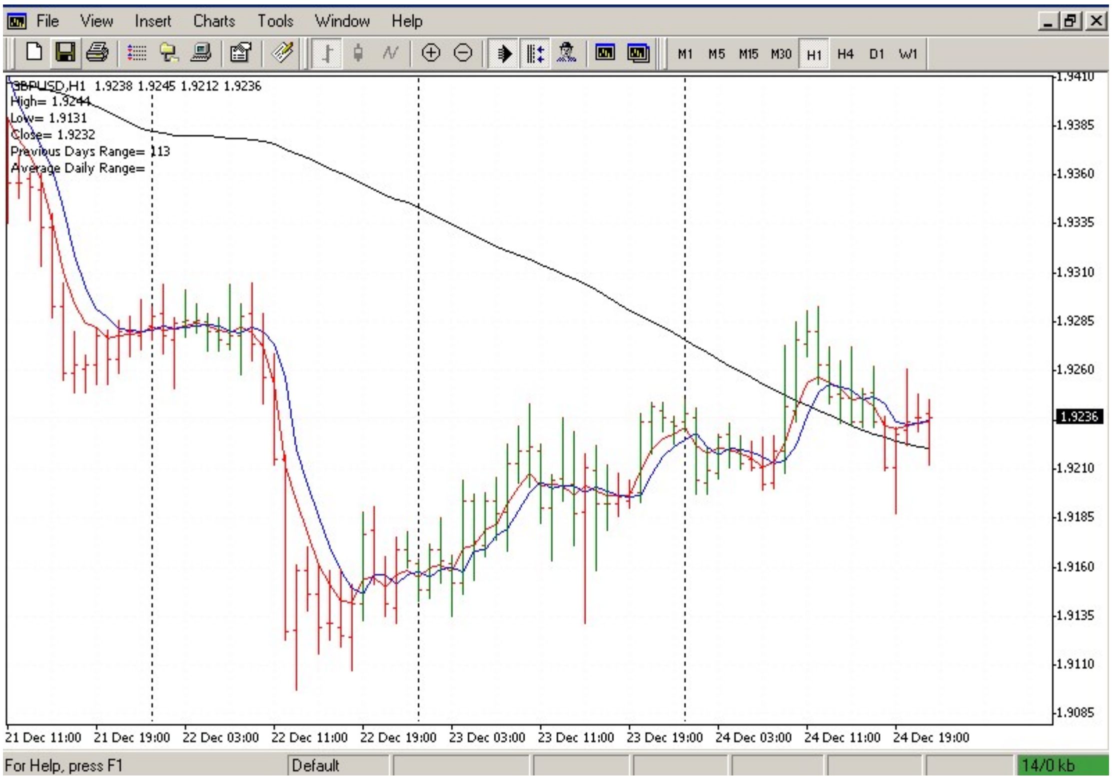
The Heikin-Ashi changes the colour of your chart bars/candles when the market changes direction and is useful to see at a glance where the market is at in the time scale you are viewing.

However, it is not essential to use this indicator and if it annoys you or you find it distracting, then just remove it by right clicking anywhere in the chart window and selecting ‘Indicators’ from the drop-down menu.

It is then just a case of removing the indicator from the list of indicators in the ‘Selected’ list.

You can of course add it back to your chart at any time by following the previous procedure.

Once the indicator is installed on the chart it will look like the chart set out below.



The final visual aid(s) to be added to the chart are the pivots and camarilla points. These are areas of support and resistance in the market, which are calculated each day from the previous days High. Low and Close readings.

Using the technique used to add the Heikin-Ashi indicator to your chart, select 'Detail Pivot Daily' and add it to your screen.

This will add a host of different coloured dotted lines to your chart showing the areas of support and resistance in the market, areas where the market is mostly likely to react, if it is going to react at all. But we shall come to that in good time.

You might not like all of the lines but I heartily recommend that you keep them on there and once you get to grips with how they work and the importance that they have you will be glad that you left them on there. They form part of your money management strategy, which is one of the vital elements of successful trading.

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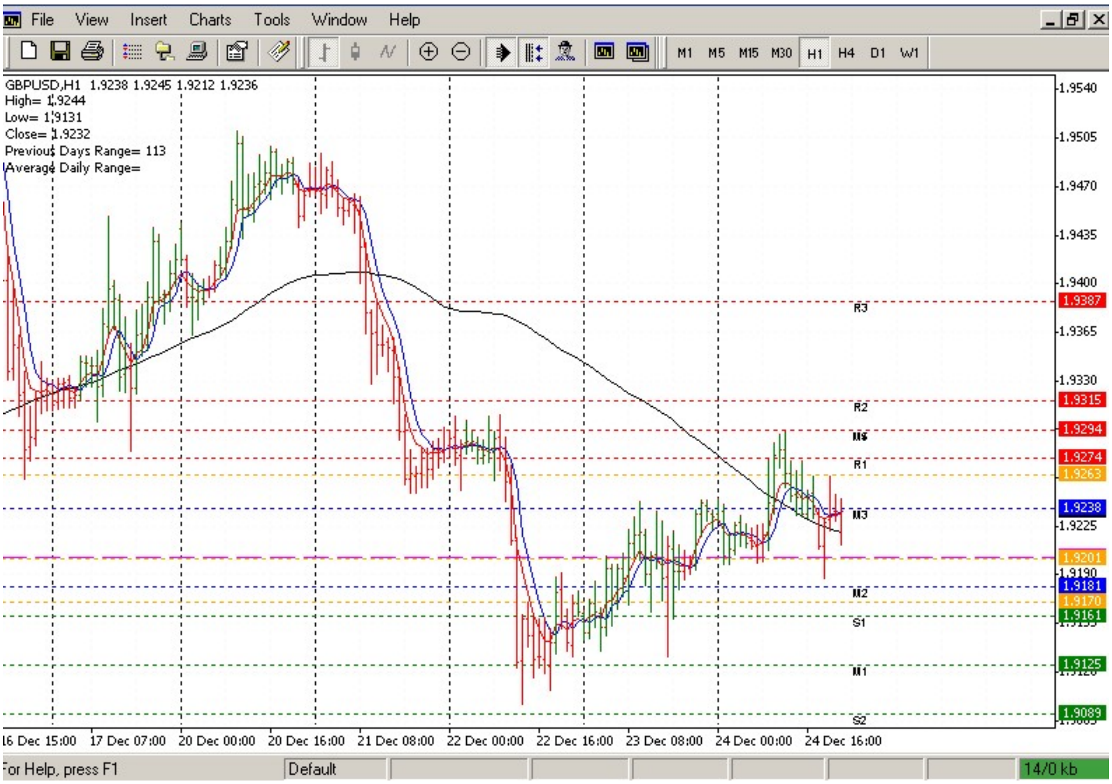

Once they are on, they update themselves automatically at midnight to show the pivots for the coming day.

Excellent stuff – the chart is now starting to look really busy and quite lively – some would say confusing. So lets add to the mix and now add on the 2 indicators that are going to do all of the dirty work for us and make us lots of pips per hour/day/week/month or whatever…

So sit up straight and take note. I shall run through how I use these indicators and then show you examples across different times scales so you can get the feel for it.

The indicators you need to add to your charts now are called:

- ADX
- Trendsignal

Adx is installed on to your charts in the same manner that you installed the moving averages and trendsignal is installed in the same way that you installed the pivots, from the list of indicators you installed in to the charting programme earlier.

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Once installed, Adx will appear across the bottom of your charting screen in the form of 3 mad, wavy lines and trendsignal will appear as coloured dots above and below the bars/candles on your charts.

Trendsignal creates alerts to trade from in the form of the dots on the chart (green when the market is going to rise and red when the market is going to fall), audible warnings (a sound from your computer speakers) and a display telling on which time frame and currency pair that the alert has happened.

So if you happen to be watching several screens at the same time then you will get a lot of alerts.

Adx is our entry in to the market – coupled with pivot points.

Adx is like having a load of different indicators all rolled in to one, it will tell you when there is strength in the market move, it will tell you in which direction the market is moving, it will tell you if the market is going sideways and it will even work as a divergence indicator.

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To make the most of this indicator I add 3 lines to it, one at 20, one at 30 and one at 40. So that it looks like this:

Now you've got the idea of what you are going to be looking at, lets put it all together. But before we do, lets save the settings of this chart as a template so that you can open numerous other charts and add the same indicators to them at the click of a mouse button.

To do this click on 'Charts', 'Template' and then 'Save Template' (or click on the icon on the tool bar and select 'Save Template As...'), then name the template whatever you please (I've named mine fxwizard), and save it.

Okay, all is now well with your charting package so let's set about using it.

This technique can be used across any time frame but I am going to work with the 15 min time frame and the 1-hour time frame, just to show you what is going on and how to work from what you see.

As a guide, the 1-hour time frame usually generates 1 very good trade per day, the 4-hour time frame generates about 3 trades per week and the daily time frame will generate a couple of trades per month.

This does not mean that you will not be trading for the rest of the time, it means your trades will be lasting one hell of a long time should you move your time scales outwards. But let's start with the smaller time frames.

I do not trade the time frames below 15 minutes, not because the system cannot, but because I hate trading too many times in one day, so I try to keep my trades fairly lengthy and wait for the better moves as opposed to diving in to everything that shows a sign of being a move.

I usually have two time frames showing at once, the 1-hour and the 15 mins. The longer time frame is for general direction and the shorter is for entry especially when the longer time frame has already had a significant move and appears to be taking a breather.

Lets have a look at today's chart 28-12-04 for the £/$.

Remember that the moving averages are for direction and alerts to trend change, pivots are entry points (more on that in a moment) and the coloured dots are trade alerts.

We are looking for reasons to trade through the indicators on the chart, the Adx tells us when it is safest and wisest to trade.

Take a look at the chart on the next page and I will walk you through what I see and why.

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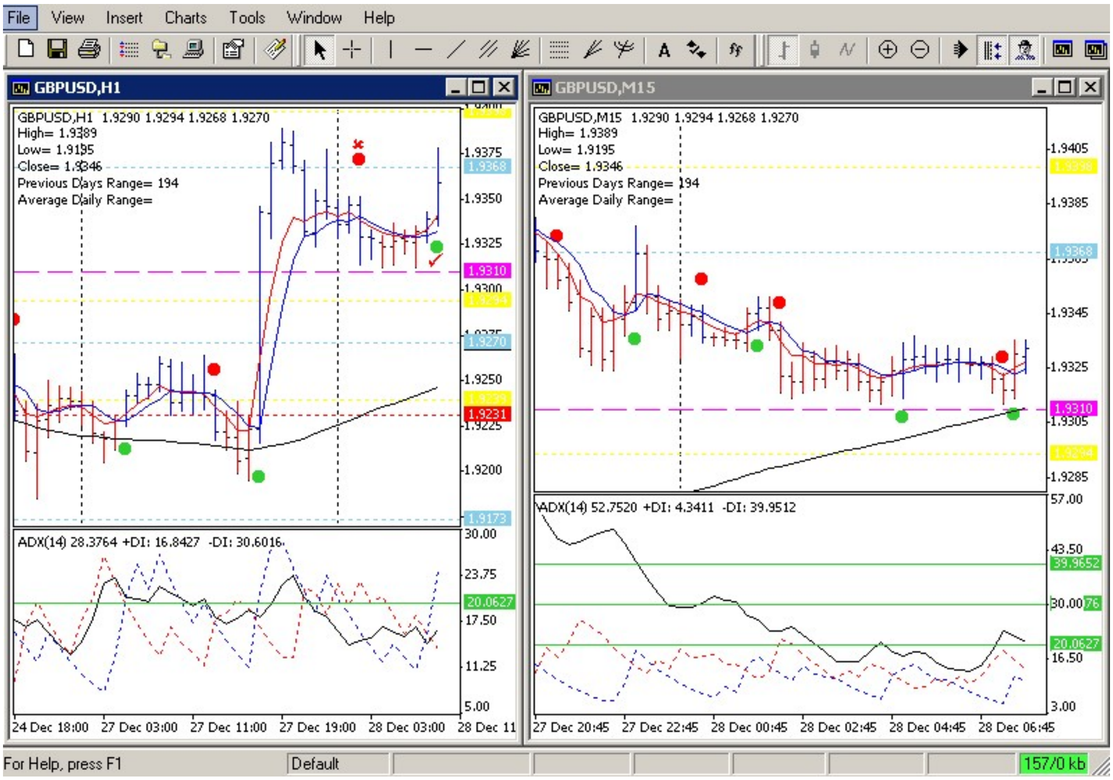

The left-hand side is the 1-hour chart; the right is the 15-minute chart.

Looking at the left-hand chart you will see two broken (dotted) black lines running down the chart. These represent a 24 hour trading period and start from midnight and finish at midnight. Anything in between them is a 24-hour trading period.

This particular charting package is running on a time zone that is Gmt + 2hours, so midnight on this chart will be 10:00pm in the UK.

You can tell from the chart that the previous full trading period (27-12-04) saw the £/$ trade sideways for most of the day before it climbed nicely by nearly 200 pips.

After midnight (UK 10:00pm) the market slid slightly and 2 alerts were generated, one red and the other green – or one sell and one buy.

The moving averages are all rising, which would suggest that the general direction of the market over the medium term time scales is up.

However, that was for the previous trading day and as we are not in the business of predicting where the market is going to go we use it as reference only.

At the beginning of this book I made reference to thought processes and changing them. If you look at the chart and believe that the market is going to go up then you will want and expect the market to go up.

Should the market go down, you would be unable to react to it because it is not part of your belief system and plan and you end up losing money – which then becomes part of your belief system and plan!

So…we are not concerned with what the market did yesterday, we are just aware of what it did. Our only concern as traders is following what the market does today.

From the chart we can see that there have been 2 alerts, the first one was a sell alert and the second was a buy alert.

I have put a cross above the first, not because the alert is not valid but because it happened during the night while the Asia markets were open.

Living in the UK and needing sleep I only trade the European market and US market opening hours. The Asian market hours on a whole are usually a lot less busy – the main cut and thrust of the day happens during the European session.

If you live in Australia you are going to be burning the midnight oil, which is a small price to pay for making easy money. Plus you get to live in a warm country – lucky sods.

Anyway, I digress. The alert on the chart that we are interested in is the second alert (the first one was duly noted) and at this point we will bring the Adx indicator in to play and explain what it does and how it helps us.

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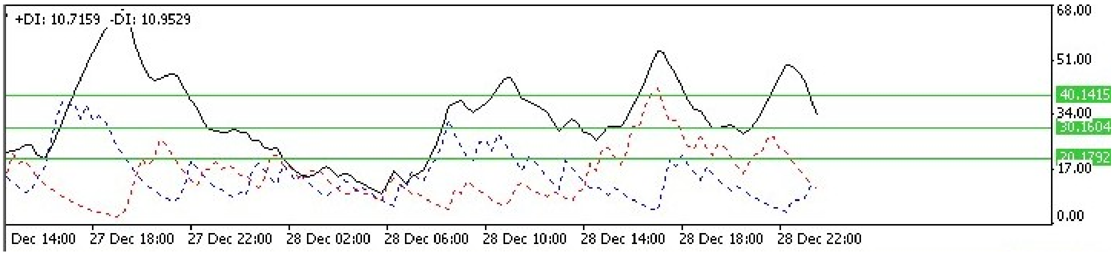

The Adx is made up of 3 wavy lines and they are:

- Solid Black Line = ADX
- Broken Blue Line = +(plus) DI
- Broken Red Line = - (minus) DI

And a scale where I have marked off 3 levels, which are set at:

- Lower Green Line = 20
- Middle Green Line = 30
- Upper Green Line = 40

The Solid Black Line (ADX) is used to evaluate the strength of the current trend. If the ADX is rising then a trend is getting stronger, if the ADX is dropping then the trend is getting weaker.

The ADX only shows how strong a trend or move is, it does NOT show the trend direction, the 2 DI lines do that for you.

If the '+DI' (blue) line is above the '-DI' (red) then the market is said to be rising, if the '-DI' (red) is above the '+DI' (blue) then the market is said to be falling.

The 3 lines that I marked on the chart are used as guide lines to see where the ADX is, and to determine if the market is worth trading. If the ADX is below 20 then the trend is very weak and best avoided, if it is above 40 then the trend is very strong.

We are looking for a rising ADX that is stronger than 20 and hopefully on its way up to 30 and 40.

Remember, our goal is to have a trade that is risk-free with plenty of profit potential.

Now it is time to go back to the chart and put it all together and see if we can find a suitable trade.

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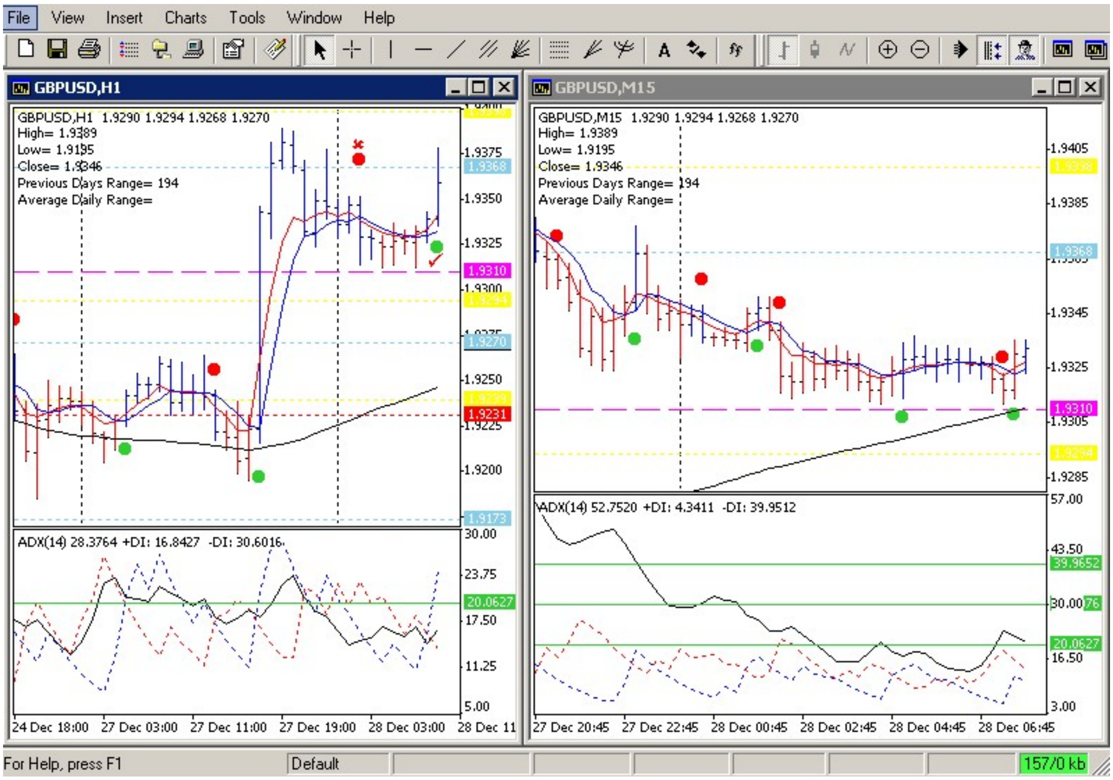
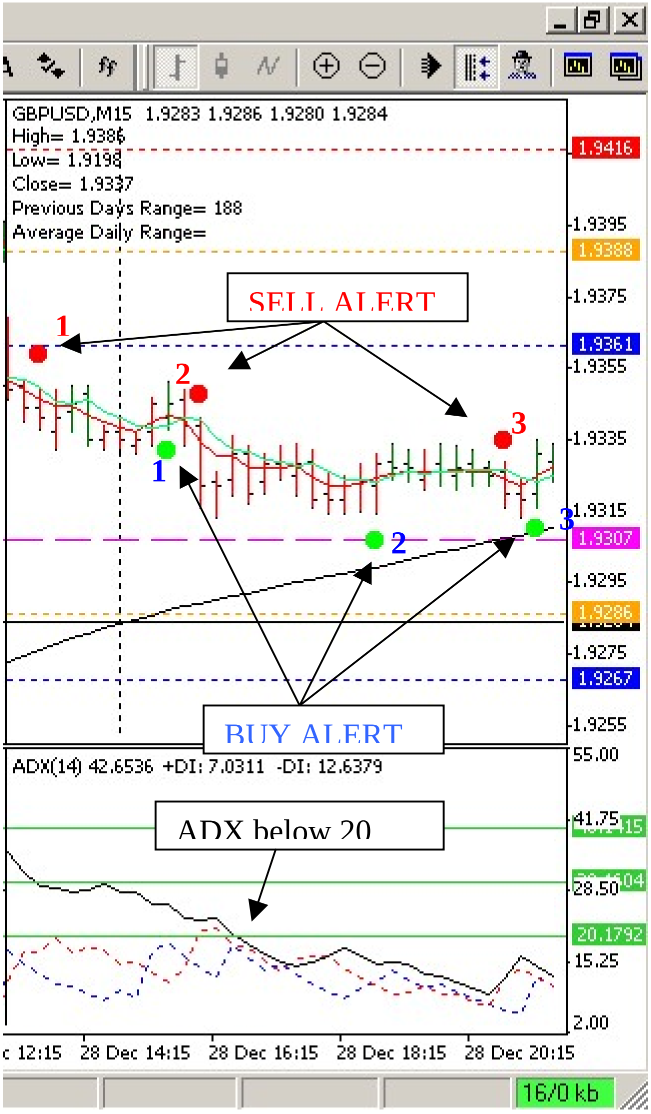


You can see from the hourly chart that the ADX is below the 20 line and is signalling a ‘leave it alone’ situation.

Obviously it is Xmas and I’m not expecting the markets to be busy because most traders and big institutions are away enjoying the festivities – and rightly so.

So I will drop down to the 15-minute time frame and see if there is anything of any note going on at that level. If I can find something to trade then all the better.

I must point out that I do not normally drop down to the 15-minute charts during normal trading conditions because I find there is no need to. But as it is quiet and I am trying to make a point here I might as well do it this way to prove that it can or cannot be done.



The areas of note on the chart are the most recent buy and sell alerts, which are at points 3 and the location of the ADX line with regard to the 20-line.

I'm not concerned about the ADX line at the moment because it is about 05:30 in the morning just prior to the European markets opening and besides, the chart is already showing signs of the ADX starting to rise.

At present I am interested in both the alerts and where they finished, as they will form the base for my entry strategy in to the market.

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Because of the 2 alerts I now have 2 entries in to the market, all depending upon which way it decides to go once the ADX (should it wish to) rises above the 20-line.

As the market is resting on the main pivot point for the day, my Sell point will be the pivot (especially as the market is resting upon it) with a stop-loss set 25 pips above the pivot at 1.9332 – or, more or less the BUY point for the BUY signal.

My BUY point should realistically be the pivot point above the BUY alert at 1.9361, but as that is nearly 30 pips away I will trade from the Buy alert signal as it is more or less in the middle of the 2 pivots. The stop-loss will be set back at the main pivot point.

My reasoning for using the mid-point between the pivots is quite simple. It is a known fact that the £/$ has an average daily trading range (it will move from highest point to lowest point) of about 160 pips per day calculated over the last 9 months.

Over the longer term this works its way down to about 100 pips per day.

If we take the market to be at its lowest point when it is resting on the main pivot (it hasn't dropped any further so far today) then its highest point is going to be somewhere around 1.9413 and half of that move will have gone before I've even placed a trade.

The market also reacts at pivot points and if it is going to turn it will invariably be at a pivot. Therefore if I enter at the midpoint I will still manage to make 30 pips if the market does turn at the next pivot.

Suffice it to say that the trade will be a lot less risky at the next pivot but also a lot less profitable. If the market were a lot closer to the next pivot then I would trade from the pivot.

As it stands though, these are my **planned** trades should the ADX get in to the trading zone and get above 20. If it stays below 20 then I will not be trading.

So far, this trading technique has given me 2 entry points in to the market that are clearly visible. So I now have a system in place.

As I have entry points worked out, I also have exit points worked out and a rough idea of where the market should go to when it goes, so my money management is now in place.

The discipline will come by sticking to my rules of not trading until the ADX is above the 20 line and rising and using my entry and exit points.

All I need to do now is sit and wait and monitor the markets, did I mention anything earlier about needing patience to trade?

Consider it mentioned now!!!

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About 90 minutes later after seeing the last alert the trade is under way. Adx is above 20 and rising, +DI is also above 20 and rising so the market must be buying or rising.

My next move is to get out of the trade at a good time and I can do this by either, hoping and praying that the market will get up to 1.9413 and it has moved its allotted 100 pips, or by following behind it moving my stop to the next pivot.

There is another very neat little clue given away by the ADX indicator and I mentioned it earlier when I said it could also be used as divergence.

The market is still rising but the +DI is dropping and the ADX starts to follow suit. Either the market is going to go sideways (ADX is dropping therefore the strength of the trend is getting weaker) or the trend is going to reverse and the market will drop again.

No matter how you look at it, it is not looking good for the market to continue climbing in the very short-term, so it would be wise to protect our profits at this time.

I actually adopted a very aggressive stop-loss policy once the market got above the 1.9388 pivot and got stopped out at 1.9411 giving me about 70 pips and that was adopted because the +DI was showing divergence.

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Okay, I've made a nice prophet so far today but as I look at the charts another opportunity arises. The –DI crosses above the +DI and starts to climb.

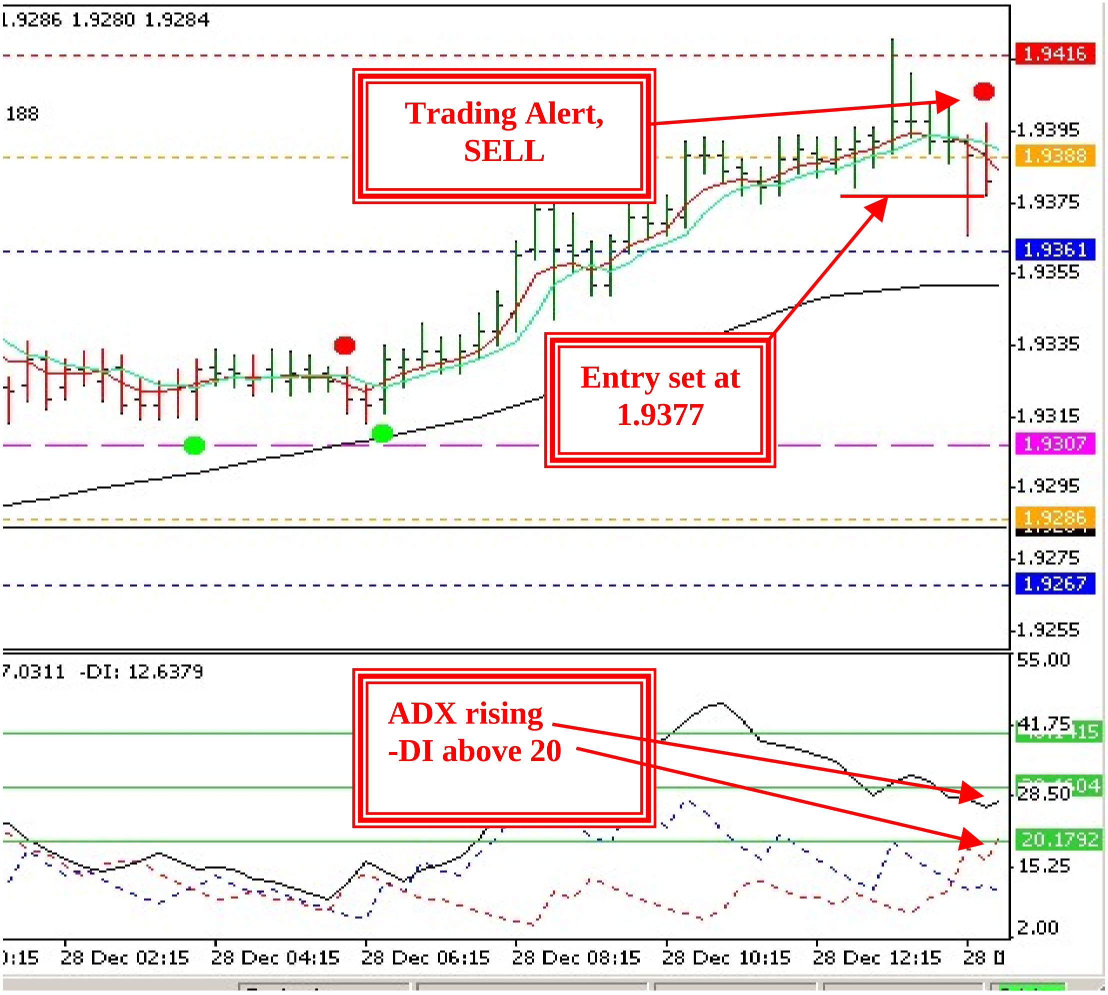
The market has already climbed 100 pips (or thereabouts), the ADX is dropping and –DI is below 20, so the safe option is to wait and see what is going to happen and decide from there.

If the market retraces from where it is it will drop to the 80 sma, which is only 30 pips below the market at present on the 15 min charts. Anything beyond that is conjecture, so it is time to play the waiting game.

By the way, I'm only trading for this amount of time because I want to show you this in action, normally I would have packed up and gone out for the rest of the day. But I'll stick with this to see where it leads.

As for the 80 sma thing, it acts as a floating support and resistance level. The market will usually work its way back towards it. The same applies to the longer time frames.

If you are in to fib levels then today's' low and high have a 61.8% retracement level that is more or less on the 80 sma. But that is boring trivia and clouding a perfectly simple technique.



Aha, my patience has paid off again – I did mention patience earlier, didn't I?

Once again we have an entry point in to the market with the alert setting a low at 1.9377, which is just below the 1.9388 pivot point.

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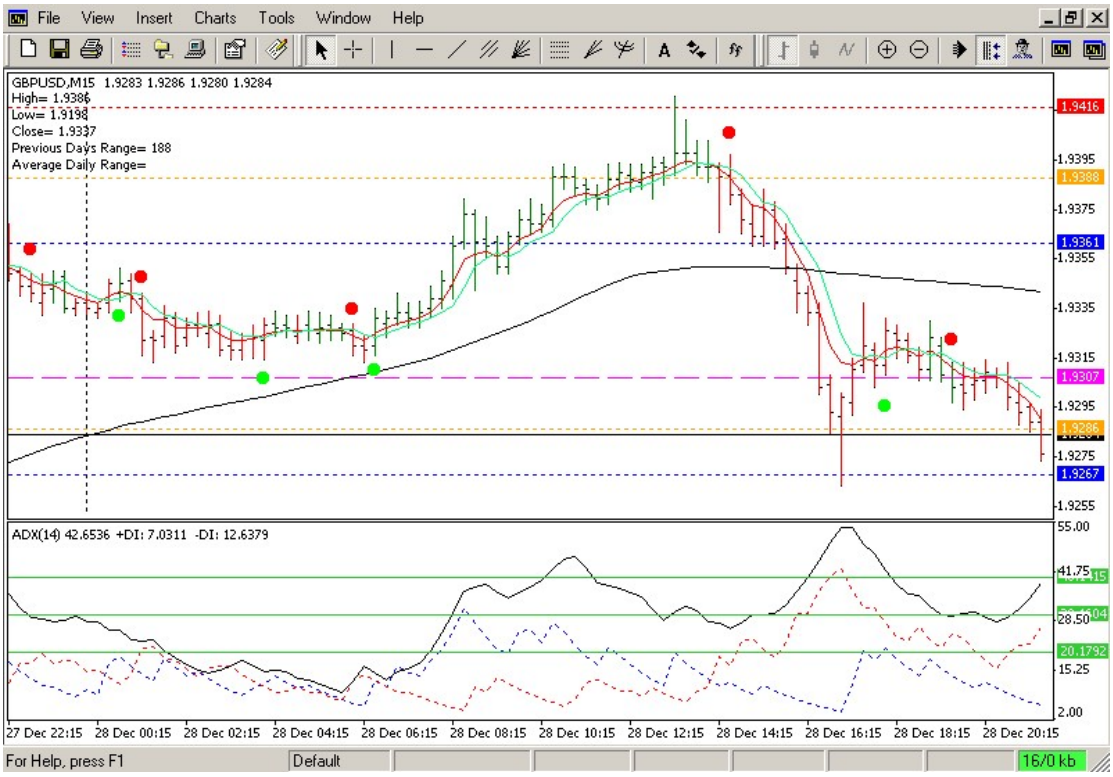
I could wait for the next pivot point to get in to the market but the ADX is already above 20 and starting to rise and the –DI is also above 20 and rising.

My stop-loss is set at 25 points above my entry at 1.9402.

As the market rose to a high of 1.9421 I am looking at escaping at 1.9321 as this will a 100 pips drop from high to low.

My stop will be following the market and set at one pivot behind, to lock in profits.

See you on the other side.



Well, that was worth the wait.

The market dropped well past the original mark of 1.9321 but I kept my stop one pivot behind and was stopped out at 1.9286, gathering just shy of 100 pips.

Notice though that the market stopped at the pivots – you couldn't make this stuff up! Nobody would believe you!!!

Did you also notice that the ADX was rising again and so was the –DI, so there was no reason to follow the market with such a tight stop. I could have been a little more relaxed and kept the trade on over the night, but I'm not one for trading the shorter time frames over a longer time period.

But let's not guess, let's take a look in the morning and take it from there.

The market did slide a little further during the course of the night but a buy signal formed in the early hours, and as you can see, it would not have been a trade because the ADX was dropping. Oh, and I was still in bed!

However, the time is now just before 05:00am, the ADX is above 20 and so is the +DI.

If this were one or two hours later in the day then I would be tempted to trade it. But the European markets have not opened yet so there is no reason to believe that is anything but a little bit of background noise.

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I've also just applied the fib retracement to the high and low over the last 24 hours and I am satisfied that the market will not go far.

My reasoning here (if you need anything other than the fact that it is outside of market hours and is therefore not a trade) is that the market price is currently just below the 38.2% retracement level.

Just beyond that and in a space of less than 20 pips from the market price there is the 80 sma, the main pivot point for the day, a camarilla point and the 50% retracement level.

That is an awful lot of areas of resistance that the market price has to get beyond – and the market is not even open yet. I think I'm safe for the time being.

Just to make things even trickier, just beyond those points there is the 61.8% retracement level (a biggie for in the world of retracement) and yet another pivot point.

So, back to the waiting game we go. So it is time for breakfast and a cuppa.

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Once again the markets behaved themselves and stayed within the confines of the large area of resistance.

Once again the +DI was showing divergence and we now have a sell signal generated. Again ADX is dropping although it is a high band (tempting) but the –DI has not crossed above the +DI so we are back to the waiting game. Anyone fancy a game of cards?

We have an entry point in to the market at 1.9301 so the stop loss will be at 1.9326 and our aim is to get to 1.9242, provided of course that the ADX ever decides to let us play.

As I write this the market has dropped below my entry point but the ADX is dropping and although the –DI has crossed above the +DI, it is still below the 20 line.

I have moved my entry in to the market to the next pivot point at 1.9274 (which I could have done in the first place) and my stop loss is now roughly where my original planned entry was.

This waiting game is great, have I mentioned patience? And let's not forget discipline!!!

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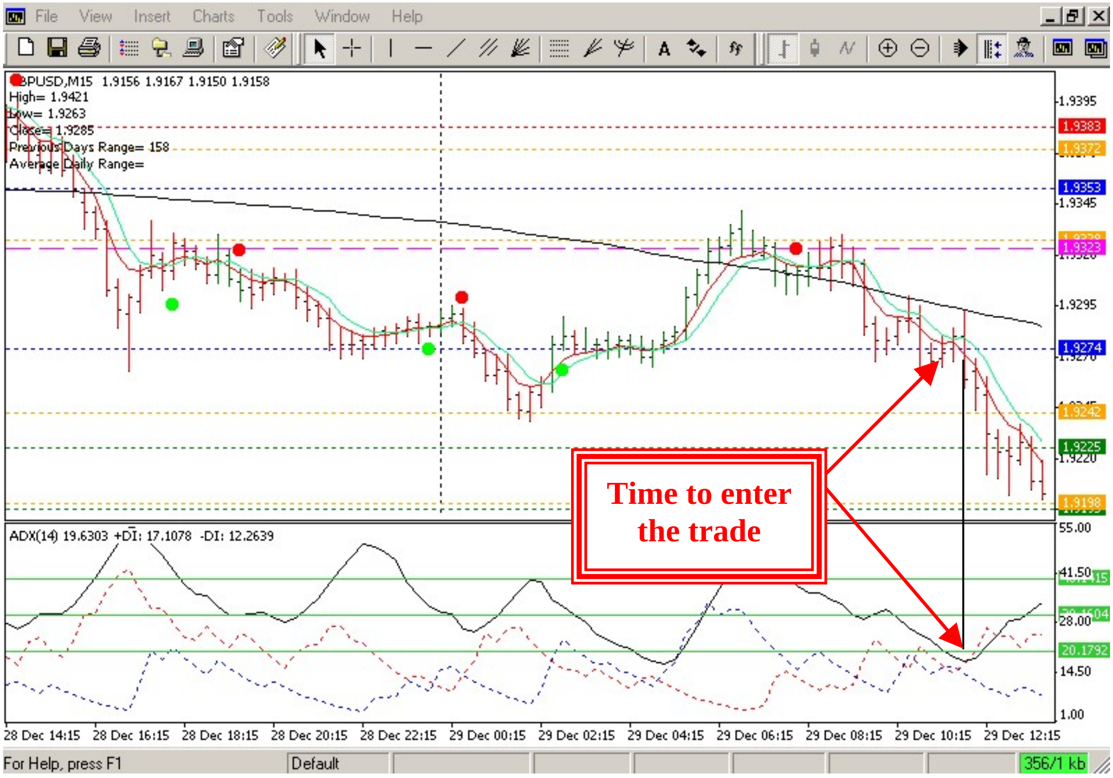


I'm getting good at this discipline stuff, trade number 3 is under way and as you can see from the chart it is in profit.

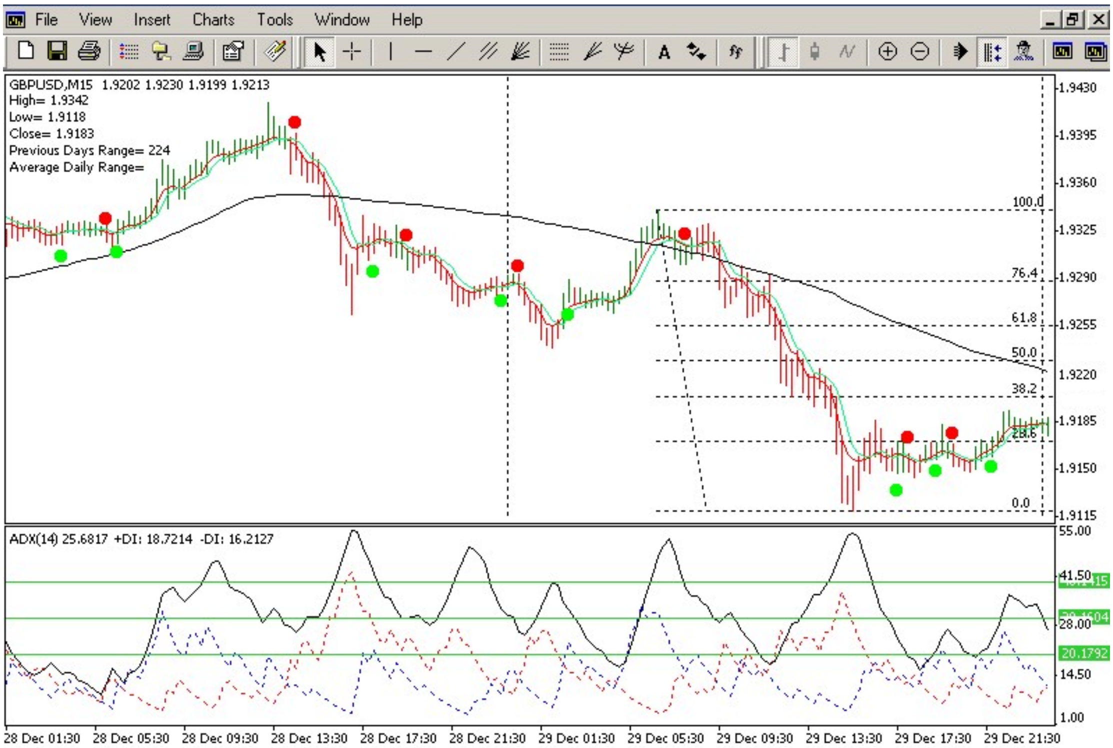
It is just a matter of following the market down with a trailing stop.

I will use a pivot as a stop but prefer to be only 25 pips behind the market.

I finally got stopped out of the market at 1.9150 with a profit of 120 pips for the day.

Job done, see you in the morning, nice and bright and early.

Before I go, I'm going to do the thing with the fib retracement just to see where the market will drift up to during the night.



Judging by the chart the market should bobble around the 23.6% retracement level (where it is resting at the moment) and the 50% retracement level.

By the way, this is just a bit of fun to demonstrate how powerful pivots and retracement levels are in trading – you should never ignore them.

That last statement covers my arse in case the market goes mad over night – it is a bit of fun to predict but, never trade from a prediction, make sure the prediction is in the realms of a certainty.

Hopefully it won't have escaped your attention how the market reached a pivot point before I was stopped out of the trade I was in. The market low was on the pivot point and the market high was just above two pivot points.

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If you ever work on a chart without pivot points, you have no way of knowing why the market is reacting at the point it does. Keep pivot points on your charts and just get used to having them around.

Morning all! A big pat on the back for fib retracements, and I don't get to look like an oaf for spouting on about them last night.

I shall dispense with the self-satisfied grin and get down to business. The exercise over the last few days has been to demonstrate how these indicators work.

This has not been a fluke or a trick. In fact, I was more surprised because the markets are, for all intents and purposes, closed for the holidays. They aren't really, trading is just pretty light due to most people relaxing and enjoying the festivities.

My point is that this system works and works well. You have set entry points and you act upon them when the ADX tells you that it is safe to do so. You are eliminating the risk and turning it in to a certainty by using the system and discipline.

Money management comes in the form of set entry and exit points. You know before the trade begins where you are going to leave it, if it goes wrong.

During the trade you follow the market with a trailing stop so that you manage your trade and have an exact get out point when the market starts to turn against you.

I have a few things to run through before I sign off and get this out to you all for the start of the New Year.

Simple System Rules

1. **Only trade when the ADX is RISING and is above 20**

2. **Trade in the direction of the DI line that is rising and above 20**

3. **Trade what you see and not what you want to see**

4. **Only trade during European opening hours, preferably UK hours – 08:00 – 16:00 GMT. If you must trade out side of these hours I would extend the UK time to coincide with the close of the USA market at 21:00 GMT**

5. **If your market entry is close to a pivot then try and trade off the pivot. If it is not close to a pivot then just trade off your entry point – but only when the ADX and DI are RISING and above 20**

There is no need to use the trend signal indicator. I have it on for you as a method of alerting you to trades. It is then just a matter of plotting your entry and waiting for the ADX to confirm your trade.

If the time scale you are using is not showing any trades and you want to trade, just move down a time scale. This will however, produce more trades because you will get more signals.

For the lazy trader who wants to be in a trade forever then move the time scales out to daily. It works on all time scales; you just have to wait a bit longer for the ADX to confirm your alert entry.

Until you get the hang of this system consider it set in stone. Once you've got the hang of it you can start to experiment with trading the ADX when the DI lines cross and the ADX is dropping. But as this system generates plenty of pips per day and it works well, then in my humble opinion it is best to leave it as it is.

Finally (not really), I am going to show you a little trick with money management that should have you all making millions during 2005.

As you've seen, the system generates a lot of pips per day but, because of the nature of the indicators being used, the trades are about as safe as trading gets. However, to get rich in this game you do not need to chase a lot of pips or have a huge capital base behind you.

For this demonstration I am going to use a starting bank of £1000 and my trading will be based upon 1/500th of my trading bank - £2 per pip to start with.

I am now going to set myself a target of returning a profit of 25% of my trading capital per week. That may seem high, but bare with me because it is well within the realms of what you should be expecting to achieve.

25% of £1000 is £250. I want to return in my first week £250. As I am using a stake of 1/500% (£2 per pip) of my trading bank, I will only need to make 125 pips per week to achieve this aim – 125 x £2 = £250.

125 pips per week might seem high but it is only **25** pips per day for 5 days per week. At the end of the week it is a simple process of adding the 25% return to your trading bank and then adjusting the stake to return 25% of the new balance.

Just making 25 pips per day, 125 pips per week and compounding your trading capital and weekly earnings. You can turn £1000 in to over £10,000 in under 11 weeks.

Take a look at the following spreadsheet and see for yourself.

FX Wizard

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WEEK	STAKE	POINTS	BANK
			1000
1	£2.00	125	£1,250.00
2	£2.50	125	£1,562.50
3	£3.13	125	£1,953.13
4	£3.91	125	£2,441.41
5	£4.88	125	£3,051.76
6	£6.10	125	£3,814.70
7	£7.63	125	£4,768.37
8	£9.54	125	£5,960.46
9	£11.92	125	£7,450.58
10	£14.90	125	£9,313.23
11	£18.63	125	£11,641.53
12	£23.28	125	£14,551.92
13	£29.10	125	£18,189.89
14	£36.38	125	£22,737.37
15	£45.47	125	£28,421.71
16	£56.84	125	£35,527.14
17	£71.05	125	£44,408.92
18	£88.82	125	£55,511.15
19	£111.02	125	£69,388.94
20	£138.78	125	£86,736.17
21	£173.47	125	£108,420.22
22	£216.84	125	£135,525.27
23	£271.05	125	£169,406.59
24	£338.81	125	£211,758.24
25	£423.52	125	£264,697.80
26	£529.40	125	£330,872.25
27	£661.74	125	£413,590.31
28	£827.18	125	£516,987.88
29	£1,033.98	125	£646,234.85
30	£1,292.47	125	£807,793.57
31	£1,615.59	125	£1,009,741.96
32	£2,019.48	125	£1,262,177.45
33	£2,524.35	125	£1,577,721.81
34	£3,155.44	125	£1,972,152.26
35	£3,944.30	125	£2,465,190.33
36	£4,930.38	125	£3,081,487.91
37	£6,162.98	125	£3,851,859.89
38	£7,703.72	125	£4,814,824.86
39	£9,629.65	125	£6,018,531.08
40	£12,037.06	125	£7,523,163.85
41	£15,046.33	125	£9,403,954.81
42	£18,807.91	125	£11,754,943.51
43	£23,509.89	125	£14,693,679.39
44	£29,387.36	125	£18,367,099.23
45	£36,734.20	125	£22,958,874.04

Obviously at some stage you would have to open a proper forex trading account as the spread firms do have a limit to the size of transactions that you can have with them.

What a nice dilemma to have, and all from 25 pips per day and using compounding.

That is proper money management.

If you make more than 125 pips per week then simply move on to the next staking figure until you have made a further 125 pips and so on.

This will of course speed up your progress and it might only take you 3 months to become a millionaire.

If that happens please accept my apologies.

Plenty of food for thought.

So how has this system set about eliminating all of the faults that traders usually get snagged in?

That was the whole point of writing this book, to solve a problem, right?

In my mind it has taken away the element of doubt in a trade by taking away the risk. An alert is generated and the trade is placed when the market gets in to the trend. If there is no trend then there is no trade.

With the trade parameters being so clear-cut, it is easy to see when a trade is there, so it is easy to remain focused and disciplined.

Nothing is left to chance; you have a system for entering the market, and a system for exiting the market – so money management is covered which eliminates the greed aspect.

You have a system that keeps you out of a trade until the odds are stacked in your favour, which eliminates doubt and fear.

You can trade on any time scale so the system can be customised to suit your own trading psychology and lifestyle.

Before I show a few more charts of the last few days across a few more currency pairs I would just like to point out that this system is not a snub to anyone on the forum who is trading a different method.

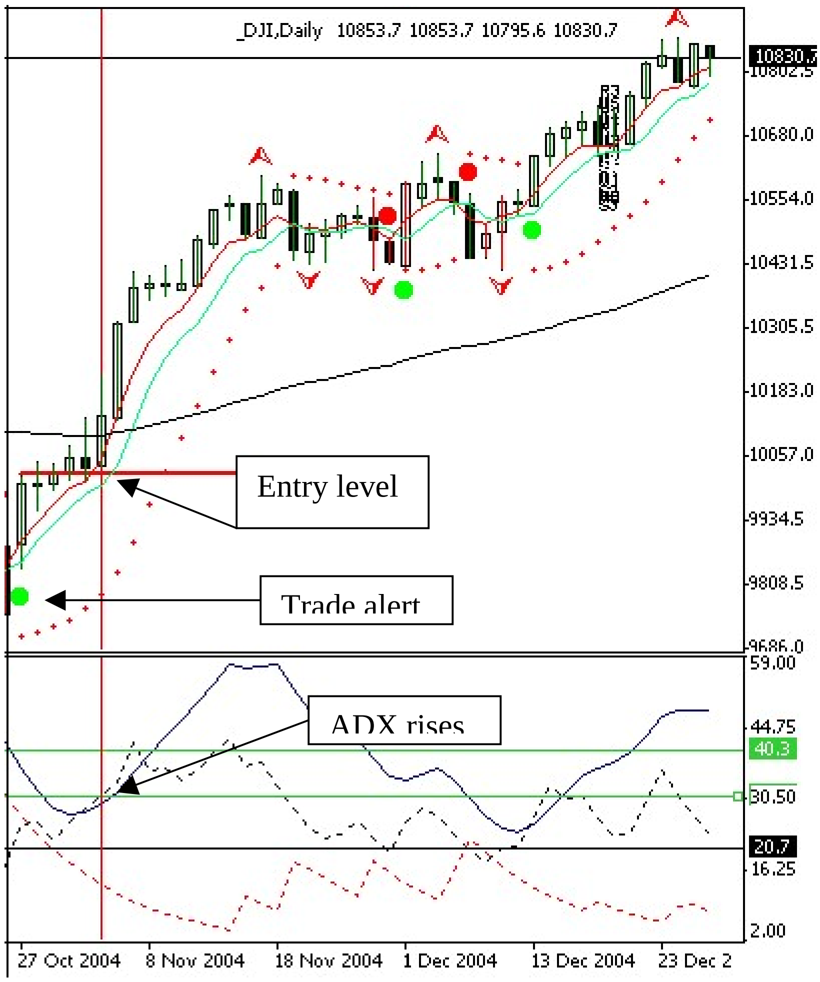
I know some of the boys are using a system called ‘Brains trading’ and it is very good. This is based along the same lines.

Another member has a book called ‘Mechanical Discretion’ which is also very good and well worth a look at as well.

This offering is not meant to undermine anything that anyone else does; it is here as another guide to those that need it.

We all have different tastes and needs and that is why I have shied away from putting together a system to follow in the past. I do understand the need for having a system put in place and hopefully this one is pretty easy to understand and implement.

Anyway, more charts. This one is the Dow Daily chart.



The alert happens on the 27-10-04 but the trade takes place on 03-11-04 at 10018.

Ten trading days later, the Dow has risen nearly 600 points to 10602.

There was no risk involved in this trade.

It would have taken only seconds a day to monitor and make sure everything was fine.

In fact, this trade could still be in place with a profit of over 800 points for doing next to nothing.

I know the above chart is not forex but it just shows that it works on anything.

The following charts are all forex on a daily time scale and all of the trades are very easy to find and there are some very nice profits to be made with minimal work.

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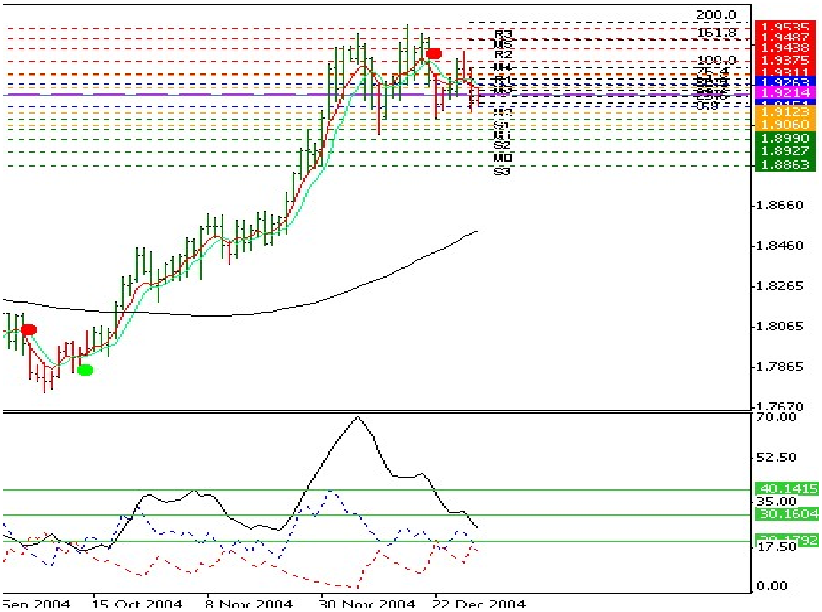

This chart is of the £/$ and there are about 1600 pips in 2 months to be made.

Again minimal effort and once the trade is under way there is no risk.

This chart is of the $/CHF.

Once again it is over the same time scale and period and yields about 1400 pips.

As with the rest, once the ADX confirms the trend then all of the risk of the trade has gone and stop losses are never in any danger.

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This on is of the €/$ and shows about 1500 pips for the same time period and on a daily chart.

And finally, this is of the £/CHF and shows about 2000 pips and once again it is on a daily chart.

I know there is not a lot to this system but it meets all of the requirements and can be traded across any time scale, making it very versatile.

Give it a try and see how it works. Naturally of course I am always on hand for help and support.

I hope this is of use to you all and I hope 2005 is a fine year for trading the forex markets (or any markets for that matter) and making lots of money.

If this goes some way to improve just one person's trading then it has served its purpose and I have done my job.

If anyone decides to take up the compounding money management, drop me a line and tell me when you reach the £1,000,000.00.

Perhaps I ought to start a competition in the New Year to encourage people to try compounding and using this very simple system.

Anyway, I hope you've enjoyed this brief read and I wish you all the best in the coming months.

Let's continue to make money.