# Contents

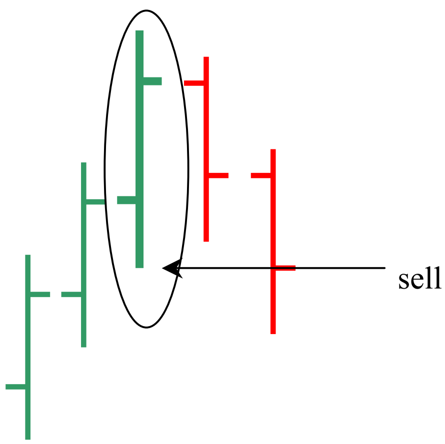
# Chapter 1

## Pivots

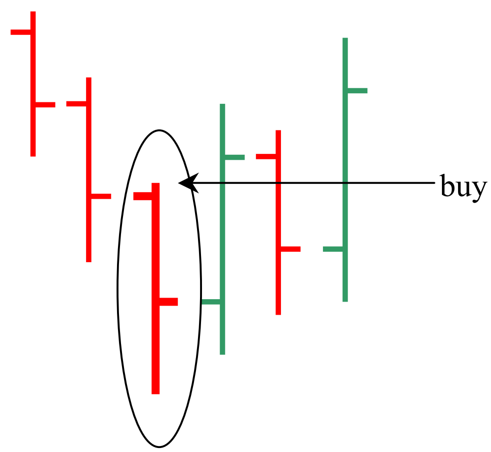
### Pivot Points

Pivot points indicate reversals in the market

Pivot High

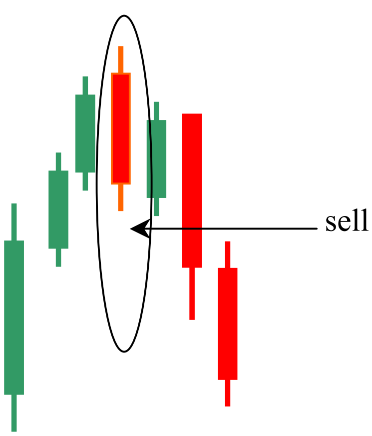


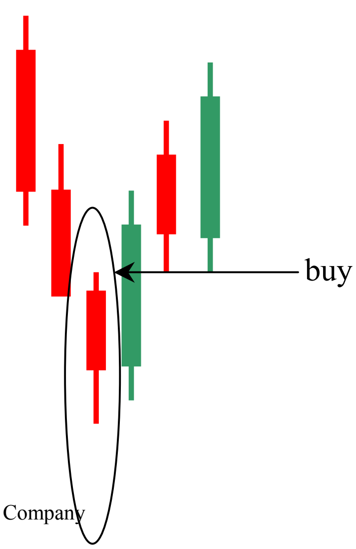

Pivot Low




A pivot is a candle or bar which has one candle or bar on each side, higher or lower than the middle candle or bar.
Some traders buy at a pivot low when the price moves 1 pip above the high of the middle candle or bar as the 3 bar pivot is confirmed when price moves above the high of the middle bar. They sell at a pivot high when price moves one pip below the low of the middle candle or bar.

Candlestick Version of Pivots



## Pivot Lines

Pivot lines are lines of support and resistance and are very useful in today's forex markets as they increase your profitability. The lines let you anticipate today's high or low. You have a roadmap for upcoming price action. If one of your entry setups is near a pivot line, you will have more confidence in buying or selling.

The new day's pivot lines are calculated from the High (H), Low (L) and Close (C) prices of the previous day (Just use the daily charts from your chart provider). Download the free pivot calculator from our website at www.forextechniques.com It calculates R1, R2, R3, P, S1, S2, S3.

| | |
|---|---|
| The Pivot Point | = P = (H+L+C)/3 |
| First area of resistance | = R1 = 2P-L |
| Second area of resistance | = R2 = (P-S1) +R1 |
| Third area of resistance | = R3 = 2P+ (H-2L) |

| | |
|---|---|
| First area of support | = S1 = 2P-H |
| Second area of support | = S2 = P-(R2-S1) |
| Third area of support | = S3 = 2P-(2H-L) |

If there is no significant news to influence the market, price will usually move from P to S1 or R1. On the EUR/USD the S1 or R1 pivot lines have been crossed during 86% of the trading days since August 1989.

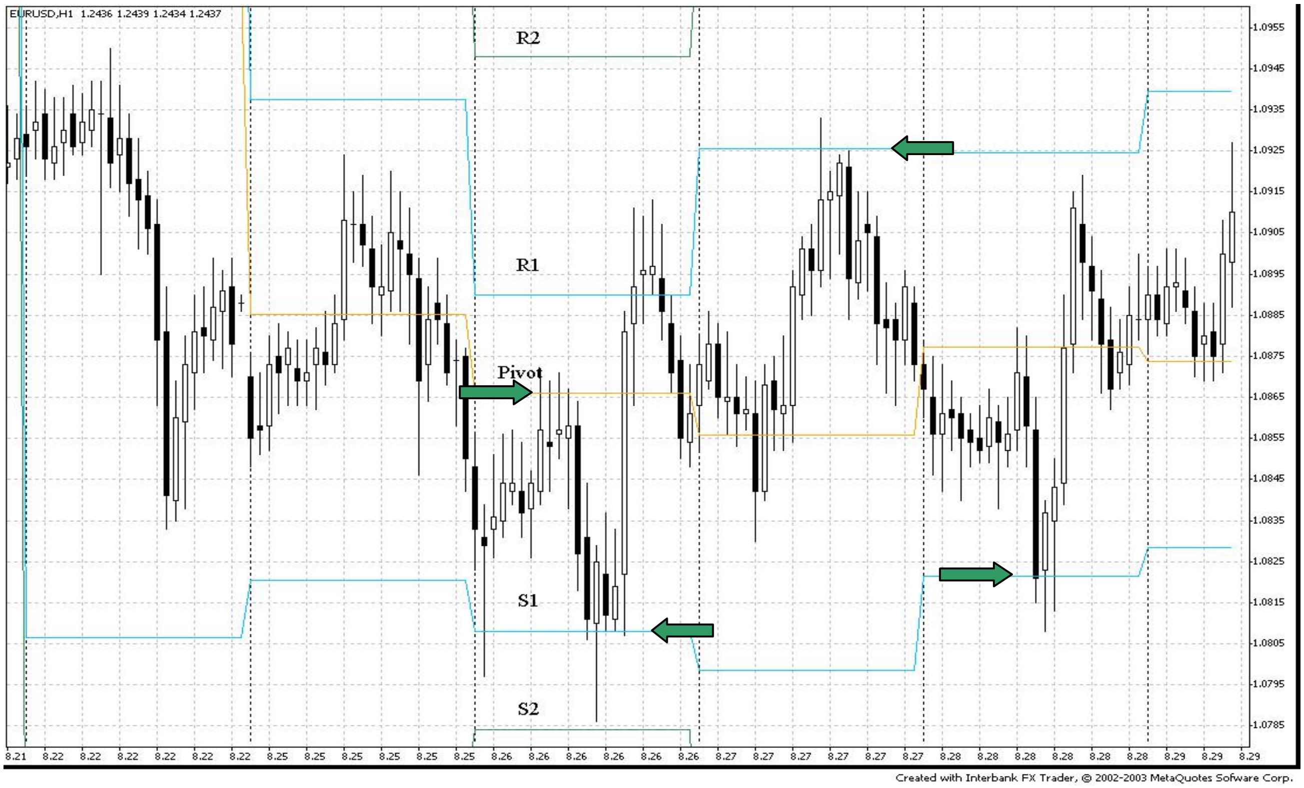
When the direction of the currency has set, the targets are typically the next pivot support or resistance line. Sometimes the currency will either reverse or consolidate when the pivot support or resistance line has been reached. Price tends to hesitate around a pivot line. Price can come back to a pivot line and test it before moving on. When a consolidation occurs, the next target is the next support or resistance pivot line. In a strong trend, price will slice though a pivot line and keep going.
Sometimes price will stop just before reaching a pivot line and then reverse. On other occasions, price will go slightly past a pivot line. Allow a bit of leeway.
Price can fail to reach a pivot line if a significant Fibonacci point or trendline stops it.
Take care as the target can also be a significant Fibonacci line. Sometimes where there is 61.8% fibonacci retracement line or a 161.8%projection, this will be the stronger target.

In summary

If price is at P, watch for a move to R1 or S1.
If price is at R1, expect a move to R2 or back towards P
If Price is at S1, expect a move to S2 or back towards P
If price is at R2, expect a move to R3 or back towards R1
If price is at S2, expect a move to S3 or back to S1.
R3 and S3 are a good indication of the maximum range for the day but can be exceeded occasionally.


The chart above shows how the major lines interact with the Pivot Lines. In some cases the Pivot Lines will dominate and in other cases they will not. This highlights the need to put in all relevant lines so you will not be surprised when the currency pair suddenly stops and reverses. There is always a reason why the currency pair stops, consolidates or reverses at a particular point. The chart above illustrates this point.

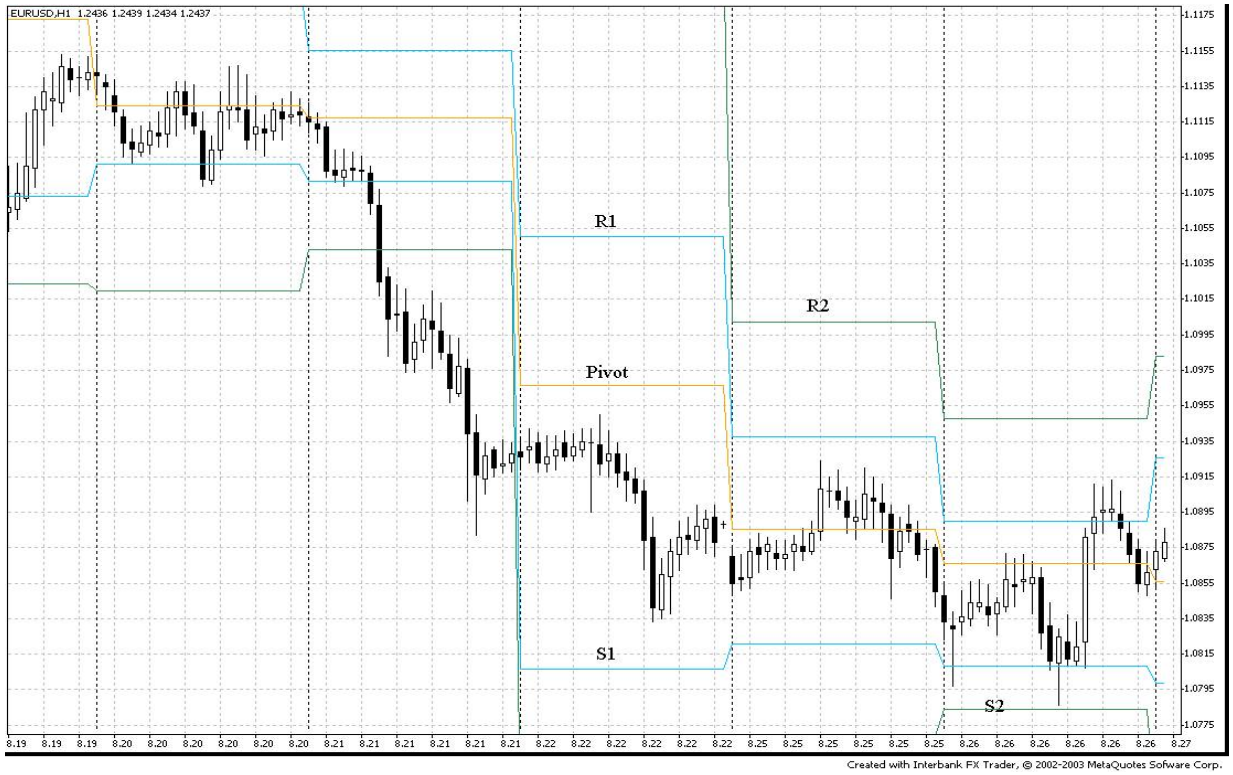
Often the currency will touch a Pivot Line then move away and come back to retest the line before continuing with the main trade




In the chart above the green arrows show where the pivot lines have come into play. Each time wait for the trade setup and enter with the target at the next Pivot Line.

The currency in many occasions will move between R1 and S1. Typically when the direction of the currency is set it will go to the next Pivot line. In strong moves it may go on through to the R2 or S2 and even to R3 or S3.  It is not enough to solely rely on the pivot lines every day as other factors come into play such as trendlines and fibonacci lines.  In the chart above, if one had traded from the Pivot line to the R1 or S1 there would have been a number of good trades.

Pivot Lines work well in sideways markets as the action is typically between the R1 and S1 lines.




The chart above shows how Pivot Lines are less effective in a strongly trending market. Because the Pivot Lines are calculated from the previous day's High, Low and Close, the lines lag behind when the market is trending strongly. When the range of the previous day is large, the Pivot Lines will be widely spaced and conversely when the previous day has a narrow range the Pivot Lines close in.

# Chapter 2

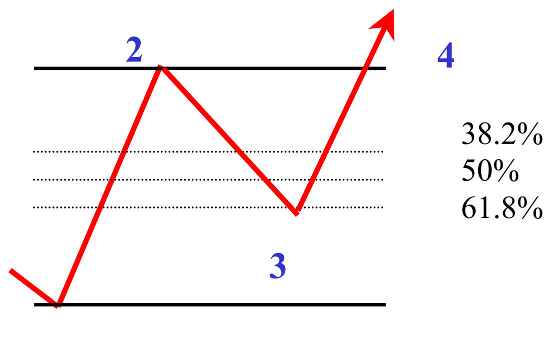
## Fibonacci

### Fibonacci Retracements

Fibonacci levels work consistently on forex markets because they are watched closely by forex traders. The main levels to watch are:

38.2%, 50%, 61.8% and 76.4%.

The market will typically retrace after a strong move before continuing .The market won't always hit these levels exactly. Use the Fibonacci drawing tool on the charts and measure from point 1 to point 2. The 61.8% is a very popular level for the market to retrace to. Watch these levels on different timescales.



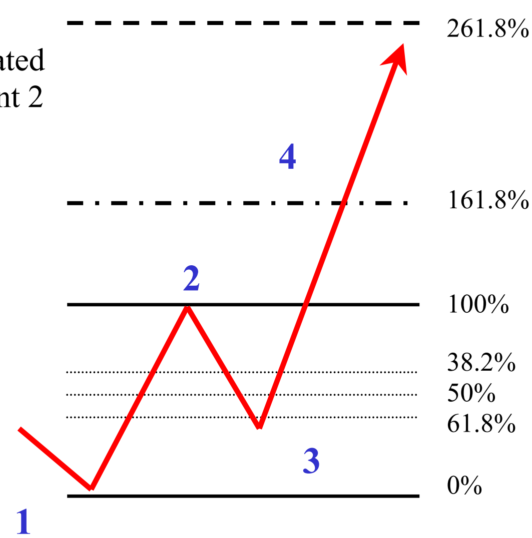

Candlestick patterns are most reliable near fibonacci lines and other support and resistance lines. Candlesticks are also good for signaling the end of a retracement.

Double tops and double bottoms often appear at Fibonacci levels eg. 61.8% retracement or the 1.382% extension.

### Fibonacci Extensions (Projections)

Target point 4 and retracement point 3 can be calculated by measuring the number of pips from point 1 to point 2 and multiplying by the factors below:

| Fibonacci Target | Formula for points 3 or 4 |
|---|---|
| 38.2% | (2-1) x 0.382 – 2 = 3 |
| 50% | (2-1) x 0.5 - 2 = 3 |
| 61.8% | (2-1) x 0.618 - 2 = 3 |
| 76.4 % | (2-1) x 0.764 - 2 = 3 |
| 86.0% | (2-1) x 0.86 - 2 = 3 |
| 138.2% | (2-1) x 1.382 + 1= 4 |
| 161.8% | (2-1) x 1.618 + 1 = 4 |
| 261.8% | (2-1) x 2.618 + 1= 4 |



Some charts have these extensions available so calculations are not needed.

## Convergence


Take Fibonacci retracements from 3 different lows or highs to get a cluster. This will give a level with a strong possibility of a turning point.

A convergence of lines is shown in the oval and is where the 50% fibonacci (dotted line) and Pivot line (gold line) are at approximately the same value and where S1 and a trendline are close by.

Fibonacci clusters are where a 38.2% off one high and 50%R off another and a 61.8% off another , all converging on same area of chart.


Two Fibonacci retracements have been drawn on the chart above from two different low points. Two cluster points are drawn where the 61.8% and 32.8% retracements coincide and the 61.8% and 100% coincide.

# Chapter 3

## Technical Indicators

The indicators are used as filters or confirmation of signals obtained directly from observing patterns on the chart. They are not used on their own because a single indicator is not a trading system and many traders have lost their money following one indicator. Most indicators are lagging in that they are based on historical data, where as chart patterns predict what may happen in the future

An indicator is a mathematical calculation that can be applied to a currency pair's price and /or volume. The indicator is then plotted on the chart or in a separate window below the chart and is used to anticipate future changes in prices.

There are many different indicators, so we will only cover a few which have provided reliable and profitable to us. Each person will choose a different combination of indicators which they will prefer to use.

There are two groups of indicators- Lagging Indicators and Leading Indicators

**Lagging indicators**

Lagging indicators are best when prices move in relatively long trends. They don't warn you of upcoming changes in prices they simply tell you what prices are doing (i.e. rising or falling) so that you can invest accordingly.

Trend following indicators have you buying and selling late**.** In exchange for missing the early opportunities, they greatly reduce your risk by keeping you on the right side of the market.

**Leading Indicators**

Leading Indicators help you profit by predicting what prices will do next. Leading indicators provide greater rewards at the expense of increased risk and perform best in sideways "trading" markets. Leading indicators typically work by measuring how "overbought" or "oversold" a currency pair is. This is done with the assumption that a currency pair is "oversold" or "overbought" will bounce back

It is a matter of personal preference as to whether you use leading or lagging indicators. Most investors are better at following trends than predicting them and prefer trend following indicators. (Lagging) However many successful investors prefer leading indicators.

**Divergences**

A divergence occurs when the trend of a currency pair's price doesn't agree with the trend of an indicator. (I.e. the indicator is trending down while the price is trending up)
When divergences occur, prices usually change direction to confirm the trend of the indicator
This occurs because indicators are better at gauging price trends than the prices themselves.


The chart above is an example of "divergence" with the RSI, note how the RSI started to trend up while the Euro was still trending down. The Euro then reversed and started to trend up to conform with the RSI.


The chart above is an example of "divergence" with the stochastics, note how the Stochastic started to trend up (forming a series of Higher Lows while the Euro was still trending down. The Euro then reversed and started to trend up to conform with the Stochastic

**Trending prices versus sideways prices**

There have been several trading systems and indicators developed that determine if prices are trending or sideways. The approach is that you should use lagging indicators during trending markets and leading indicators during sideways markets. While it is relatively easy to determine if prices are trending or sideways, it is extremely difficult to know if prices will trend or go sideways in the future.

**The Stochastic Oscillator (Leading Indicator)**

The stochastic oscillator compares where a currency pair's price has closed relative to its price range over a specifically identified period of time. In an upwardly trending market, prices tend to close near their high, and during a downward trending market, prices tend to close near their low. As an upward trend matures, price tends to close further away from its high; and as a downward trend matures, price tends to close away from its low.

The stochastic indicator attempts to determine when prices start to cluster around their low of the day for an up trending market, and when they tend to cluster around their high in a down trending market.
The theory is these are the conditions which indicate a trend reversal is beginning to occur

The stochastic indicator is plotted as two lines.

They are the %D line and the %K line.
The %D line is more important than the %K line.

The stochastic is plotted on a chart with values ranging from 0 to 100. The value can never fall below 0 or go above 100. Readings above 80 are strong and indicate that price is closing near its high.
Readings below 20 are strong and indicate that price is closing near its low.

Ordinarily, the %K line will change direction before the %D line. However, when the %D line changes direction prior to the %K line, a slow and steady reversal is usually indicated. When both %K and %D lines change direction, and the faster %K line subsequently changes direction to retest a crossing of the %D line, but doesn't cross it, this is a good confirmation of the stability of the prior reversal.

A very powerful move is underway when the indicator reaches its extremes around 0 and 100.
Following a pullback in price, if the indicator retests these extremes, a good entry point is indicated.
Many times, when the %K or %D lines begin to flatten out, this is an indication that the trend will reverse during the next trading range.

Lower Highs and Higher Lows occur on the stochastic oscillator in a similar way to chart patterns and have the same meanings. In currencies we mainly use the Stochastic Oscillator on the 15 and 60 minute charts. Signals used are oversold and overbought indications and the crossovers of the K and D lines.

## Bollinger Bands

Bollinger Bands are envelopes that surround the price bars on a chart and are plotted with two standard deviations away from a simple moving average. This is the primary difference between Bollinger Bands and envelopes. Envelopes are plotted a fixed percentage above and below a moving average.

Because standard deviation is a measure of volatility, the Bollinger Bands adjust themselves to the market conditions. They widen during volatile market periods and contract during less volatile periods. Bollinger Bands become moving standard deviation bands.

An important thing to keep in mind is that Bollinger Bands do not generate buy and sell signals alone. They should be used with another indicator.

For example some traders use Bollinger Bands with RSI. (Relative Strength Indicator)
This is because when price touches one of the bands, it could indicate one of two things.

> It could indicate a continuation of the trend;
> or it could indicate a reaction the other way.

So Bollinger Bands used by themselves do not provide all of what technicians need to know-which is when to buy and sell. MACD can be substituted for RSI.

When combined with an indicator such as RSI, Bollinger bands become quite powerful. The RSI is an excellent indicator with respect to overbought and oversold conditions. Generally, when price touches the upper Bollinger Band, and RSI is below 70, we have an indication that the trend will continue. Conversely, when price touches the lower Bollinger Band, and RSI is above 30, we have an indication that the trend should continue.

If we run into a situation where price touches the upper Bollinger Band and RSI is above 70 (possibly approaching 80) we have an indication that the trend may reverse itself and move downward. On the other hand, if price touches the lower Bollinger Band and RSI is below 30 (possibly approaching 20), we have an indication that the trend may reverse itself and move upward.

**Moving Averages**
Moving averages are a useful indicator. A basic definition of a moving average is that it is the average price of a currency pair at a specific point in time. A moving average shows a trend. The purpose of the moving average is to show the trend in a smoothed fashion.

We find the use of the 5 and 13 exponential moving averages has been has been successful for us on the 5 min and 15 min charts. The lag increases when prices move fast or reverse sharply.

**Relative Strength Indicator (RSI)**

RSI is a momentum indicator which measures a currency pair's price relative to itself.
It is relative to its past performance. It is also front weighted. Therefore it gives a better velocity reading than other indicators. RSI is less affected by sharp rises or drops in a currency pair's price performance. Therefore it filters out some of the noise in a currency pair's trading activity.

RSI's extreme levels are 0 and 100.

Traditionally, buy signals are triggered at 30, and sell signals are triggered at 70. However, many analysts are now using 20 for buy signals and 80 for sell signals. Some buy when the RSI exceeds 50 and sell when RSI falls below 50 but they miss the first part of the move.

One of the more important aspects of RSI is to look for divergence between price action and RSI. Upwardly sloping price and downward sloping RSI should be taken as a warning. Usually, one of them is wrong. More often than not, this indicates that price is about to break down.

The reverse is true for downward sloping price and upward sloping RSI. It usually indicates that price is about to break out of a decline. (See the chart in the Divergence Section above)

# Chapter 4

## Money Management

There are many analogies that you could use to describe Money Management. Like sport there is attack and defense. It is unlikely that you will win many matches unless your defense is as good as your attack. Money Management is the defense component of trading. With Money Management the main focus is the preservation of trading capital while protecting profits. In other words we intend to stay in the game!

One of the main factors why businesses fail is because they are under-capitalized; it is just the same for currency trading. There must be sufficient capital to survive the inevitable drawdown. If there is not sufficient capital, you become a nervous trader, worried about every loss, always looking to minimize losses, rarely giving your trading system a chance to fully perform. We know all that, however we believe provided we follow the system and only trade strong patterns we can quite quickly get the account to a healthy size.

It is important to establish your maximum exposure. It is accepted that your exposure should never exceed 5-10% of total risk capital. The amount you risk depends on your stop loss.

> Let's say you had $10,000 in the account. You were going to trade the Pound/Dollar (GBP/USD) at $10 per pip. You decided to have an exposure of 7% and because of a very strong resistance line. You calculated a 33pip stop loss. If you were only going to trade the GBP/USD you could trade two lots.
>
> 33 X $10 X 2 = $660 loss which is only 6.6% of capital.
>
> For instance if you want to trade two currencies say the GBP/USD and USD/CHF still using the predetermined 7% exposure. The P is at $10 per pip and the CHF at $6-50 per pip. Because of a tight channel you decided to use only a 25pip stop loss on the Pound and because of the configuration of the charts you decided on a 30 pip stop loss on the CHF. In this case, you could trade two lots on the Pound and one on the CHF or visa versa.
>
> 25 X $10 X 2 = $500 plus 30 X $6-50 X 1 = $195 equals $695 (6.9%)
>
> 25 X $10 X 1 = $250 plus 30 X $6-50 X 2 = $390 equals $640 (6.4%)

The problem is that if you have a risk exposure of 15% - 20% and you have a few losses in a row the losses compound alarmingly and pretty well wipe you out.

**Stop Loss**

Forex is a highly volatile market. The exchange rate can move 200 points or more in a matter of minutes, especially if there is major announcement or central bank intervention. For example, when Greenspan made a comment and around the same time the Japanese Government intervened in the market, the affected currencies moved significantly.

One must say to one's self over and over " ALWAYS ENTER A STOP LOSS " or risk losing most or all of one's capital. Immediately entering the "market at order" a Stop Loss must be placed. It is a pre-calculated price where you plan to exit the trade if the market moves against you. As one is rule based, it forces us to follow an exit strategy getting one out of the market at around the nominated exit price. If possible, it is wise to place the Stop Loss just above or below a resistance or support line.

In cases where there is some catastrophic event, it is wise to place a secondary stop loss or stop order. Generally it's best to place this just above or below a major resistance or support line. If this is ever activated, obviously the loss can be substantial; however it ensures that you are still in the game to continue trading.

A Stop Loss should never exceed your maximum exposure amounts. One should never increase your Stop Loss after you have entered a trade and established your stop price.

RISK TO REWARD RATIOS are important and must be calculated.

Obviously it doesn't make sense to risk $400 to make $200. If one does this one would have to be at least 70% right to make a profit. This would add additional pressure to show a profit. The minimum RISK REWARD RATIO of 1: 2 is the recommended ratio.

For example, let's use a 1: 2 ratio and an average stop of 35 pips and average profit of 70 pips and assume one takes 20 trades for the month. If 70% of the trades reach pre-calculated profit targets or stop targets while the other 30% close out at other points,

| | | |
|---|---|---|
| 7 Winners X 70 pips | = | + 490 pips |
| 7 Losers X 35 pips | = | - 245 pips |
| 3 Winners X 10 pips | = | + 30 pips |
| 3 Losers X 25 pips | = | - 75 pips |
| TOTAL NET PIPS | = | + 200 PIPS |

In many cases one should be able to achieve a higher risk reward ratio than above, however using a very moderate ratio one's winning percentage can be as low as 50% and still show a consistent profit.

**Moving Stops**

We all know the importance of protecting our profit! One of the ways is to use a moving stop loss.

Basically it is a simple process, in that when trading becomes profitable one moves the stop loss, thereby reducing one's initial risk. What one must do is to move the stop loss as a profit protection method. Naturally one's eventual goal is with a moving stop is to move it to a plus position and lock in the profit.

Perhaps rather than just talking about how to use a moving stop loss, let's look at an example that incorporates the Risk Reward principle and which has been covered earlier. The advantage of trading in this way is that if one uses the following techniques diligently, one's chances of success have increased significantly.

- Establish maximum exposure
- Always enter a stop loss
- Maintain proper risk reward ratios
- Use a moving stop loss

Let us say that the Stop Loss is 40 pips with 1: 2 risk reward ratio. In other words we are risking 40 pips to make at least 80 pips. Note the target profit must be at least 80 pips.

- When the market moves 10 pips in your favour, move the Stop Loss 10 pips. Your Stop Loss will now be reduced to 30 pips.
- Continue reducing the Stop Loss each time the market moves another 10 pips in your favour. Your stop can eventually be moved to your entry point and give you a "free" trade.
- When the market reaches 75% of your original target for profit, begin progressively tightening the distance of your stop from the current market price.
- If there is no sign of a market reversal, take off your limit order and continue to use the moving stop technique to protect profits and ride the trend.
- If there is strong evidence of a market reversal, close your position with a market order and consider opening a new position going in the new direction. We will need plenty of practice to do this live, however we know that after big rallies there is always a consolidation, which is basically a retracement to a fib line.

To overcome, as discussed before, one needs to have a stop that does not follow the market too closely. The noise or whipping action in the market can be 20 – 30 pips or more and will take out stops that are too small. It is suggested that stops should be at least 35 to 40 points in most cases, especially in the early part of a trade. However, the best position for Stops is above points of resistance and below points of support.

**Adding to Trades**

Add to winning trades. If one is on a successful trade it's wise to be able to take advantage of that situation. In other words it is important to take advantage of a winning position. This is another important means to good money management. However, there is a right way and a wrong way to do this.

Never add equal or more lots that you started with because the math will usually not work. Below is a simple example that of how best to add to a position.

- Originally buy two lots of Dollar/Yen at 110-00
- Market moves to 111.00 giving you + 100 pips of profit on each lot (+ 200 pips total )
- Buy 1 additional lot of Dollar/Yen at 111.00
- Set all stops at 110.60 to ensure a profitable trade

The advantage of doing it this way means that you can't lose, but have the opportunity of significant gain. Even if we stop our trade at 110.60 on all 3 lots, we are still locked in 80 pips profit! To do this we must have sufficient profit in our original trade to exceed the combined stop loss of all three trades, before we can add the new position.

Adding to a losing trade can often lead to excessive losses. People do this in the belief that the trade is going to reverse.

## Value of Diversification

Diversification can be advantageous as it is just the old story of spreading one's risk, as one does with a share portfolio. Essentially to trade only one currency pair when there is a trade at the same time in another currency pair reduces your overall ability to cut losses and let profits ride.

Diversification accomplishes two investment goals:

- It spreads the risk.
- Increases the probability of reward.

If one currency trade becomes unprofitable, many times a winning trade in another currency pair can recover the first loss and leave you with additional profit.

However, not all currency pairs will give true diversification. Some pairs mirror each other so often that, in essence, you are merely working twice as hard on the same basic trade strategy with no real diversification. For example, the U.S. Dollar/ Swiss Franc moves in a very similar fashion to economies that are fundamentally different from each other. We know that some people like trading a particular currency because they are intuitive as to how it will behave. The point is that if you are confident for instance, how the Swiss Franc moves, you would have a good idea, depending on the relationship to the U.S. Dollar what direction the Pound the Euro and Yen would travel. That means that trading the inter-relationships between those currencies you are not really getting diversification.

As we trade patterns, trend lines and fib points, there is the opportunity using our skill base, to trade with an equal chance of success, a number of different currencies.

Perhaps by just looking at the big currency pairs we are missing out on opportunities to diversify. However it is important if one is going to trade other currencies that you trade deregulated currencies where there is likely to be tradable movement.

Initially beginners are recommended to trade one currency only and as they become more experienced, diversify.

## Best Times to Trade

- Start and finish of the Asian session
- Start of the European session
- Start of the New York session
- Close of the New York session

The best times to trade are around the starts and finishes of the major trading locations. However, the market moves are also controlled by major financial announcements.

# Chapter 5

## Contents of a Trading Plan

A good trading plan is about good money management, money management is the most important aspect of your trading as if you fail here you will fail in trading. This is a very personal thing and only you can write your own plan.

A good trading plan should include strategies for

- Profit Maximization and Loss Minimization.

- Your risk profile. i.e. how much are you willing to lose on a trade? Hence your stop loss policy.

- Risk reward policy. It is important to establish your maximum exposure. It is accepted that your exposure should never exceed 5-10% of total risk capital.

- Number of trades planned per week / month- important so you are not glued in front of the computer 24 hours a day.

- A budget.

- Well defined entry and exit strategies (Good coverage of these can be in the Guide To Profitable Forex Day Trading Book 2).

- Maintenance of sufficient capital.

- How you handle moving stops, and add to existing trades.

- Diversification- i.e. Trade one currency pair or more.

# Chapter 6

## Trading Psychology

### Winning Trading Psychology

When everybody else is giving all they have, the winner finds that extra measure of strength and determination from somewhere inside themselves to push just that extra fraction ahead. It's not a kilometer, or even a hundred meters, it's a margin. Winners learn that when this principle is applied every day, although the margins are only incremental, the distance ahead can increase day by day.

- **Confidence** is something all successful traders have and is gained by gathering knowledge and practicing discipline. Knowledge and practice give you a mental edge and a lack of fear. Successful traders have confidence that the market will provide lots of opportunities they can take advantage of.
- You must **risk** losing on a trade. No successful trader or trading system has won on every trade taken. Be prepared for anything. Playing it safe is dangerous. Don't sell too early for a paltry gain when you could have held on without significant risk. Calculated **risk** is a form of safety as it allows you to make a lot of money from trading whereas using tight stops does not give the market room to retrace a little before it moves in your favour. Stick to your plan and sit tight. Don't let fear of losing some of your profits cloud your judgment. Keep your stops and let the market move according to your plan.
- Don't freeze up instead of taking action. Don't stay out of the market just because the last trade was a loser. Use a losing trade as feedback. Any draw down will only be temporary. You can make back the loss because you have a profitable trading method.
- Don't miss trades and find yourself on the sidelines during large moves. Don't overlook the obvious and notice it later. Stay focused. If you miss a trade, don't worry about it as another trade will show up later. There are plenty of opportunities.
- Don't expect to get every pip from a move. You will miss some at the start and end of a move.
- Don't overtrade; you must wait for the right market setup before entering a trade. Excitement and the fear of missing an opportunity can persuade you to enter the market before it is safe to do so. **Patience** and discipline are required. There are times when it is wise to stay out of the market and observe from the sideline. Never enter a trade because of hope or greed.
- Don't hold too long and let winning trades turn into losing trades.
- Stay emotionally detached from the market. Focus your attention on following your method.

# Chapter 7

## The CI System

Explanations of the terminology used in the CI System can be found in the preceding sections of this Book

There are three sections that make up the CI System

**Primary Patterns**

Chart Patterns
Trendlines
Support and Resistance Lines
Fibonacci Lines
Pivot Lines

**Candlesticks**

Candlestick Patterns

**Indicators**

15 min chart 15, 3, 3 Stochastics
5 min 5/13 ema
Bollinger Bands 20, 2 (Hour Chart)

By including the above three sections we get a system that looks at the "Big Picture" and will minimise the number of losing trades. The CI System is not a pure mechanical system, where one blindly follows a set of indicators. The CI System is a more intelligent type of system that requires a higher degree of understanding of how the market works. Preceding sections cover the important factors and the CI System pulls this information together to give a powerful and profitable trading system.

## Set up your charts

- 5 and 13 period exponential moving averages (ema) on the 5 and 15 minute charts. Use different colours for each ema.
- Slow Stochastics or Stochastic Oscillator set at 15, 3, 3 on the 5 and 15min charts and 8, 3, 3 on 1hour charts.
- Bollinger Bands 20 period with 2 standard deviations on the hour chart

## Draw in the Lines

- Determine the trend in a longer timeframe than the one you trade in. This is a very effective way of giving yourself an edge. Draw in the major trendlines and transfer them to the shorter time frames.
- Study the weekly, daily, 4 hour and 1 hour candlestick charts before the start of trading. Look for candlestick patterns on these charts as they will give you a good clue as to what the market will do.
- Draw P, R1and S1 pivot lines. Update with R2, R3, S2 and S3 as trading proceeds.
- Draw horizontal and diagonal trendlines through relevant highs and lows.
- Draw nearby Fibonacci lines and update as trading proceeds..
- The engulfing candlestick pattern is particularly strong and is used as follows.
  - ♦ When an engulfing pattern appears, use the drawing tool to put a vertical line through the engulfing candle. (This vertical line on the 15minute just allows you to find the same point on another timeframe chart easily). An engulfing candlestick or poetic license candlestick is a signal to enter the trade immediately if the stochastic indicator is pointing in the correct direction. A second signal in the same direction will follow a few minutes later on the 5 minute chart when the 5 ema crosses the 13 ema. It is not necessary to wait for the second signal before taking action.
  - ♦ Place the trade at the point of the engulfing candle entry only if the Stochastics are pointing in the right direction. For example, to buy, the stochastic lines should have crossed and be pointing upwards and when selling, the stochastic lines should be pointing downwards. Waiting until the %K stochastic line crosses the %D line will stop you getting into a trade which reverses unexpectedly.
  - ♦ <u>If there isn't an engulfing candle on the 15 minute chart, look for one on the 1 hour chart</u>. If the candle real body being engulfed by the body of the current 1 hour candle is small, it is often possible to place a trade before the close of the 1 hour candle. Sometimes the 1 hour candles travel a long way and waiting till they close could mean that the next candle does not go very far before a reversal.

## Stop Loss

- When buying, place a stop under the nearest support.
- When selling, place a stop loss above the nearest resistance point
  (Use trendlines, pivot lines, Fibonacci lines or previous highs (eg. a 3bar pivot turning point) or lows (a 3bar pivot turning point).
- The price can reverse more than 100 pips when unexpected news is released so watch the charts if you are using a mental stop even though sudden quick reversals are rare. Place a stop

loss on your trade station (deal station) if you have to leave the computer for longer than 5 minutes especially before a news release.

**Risk/Reward Ratio**

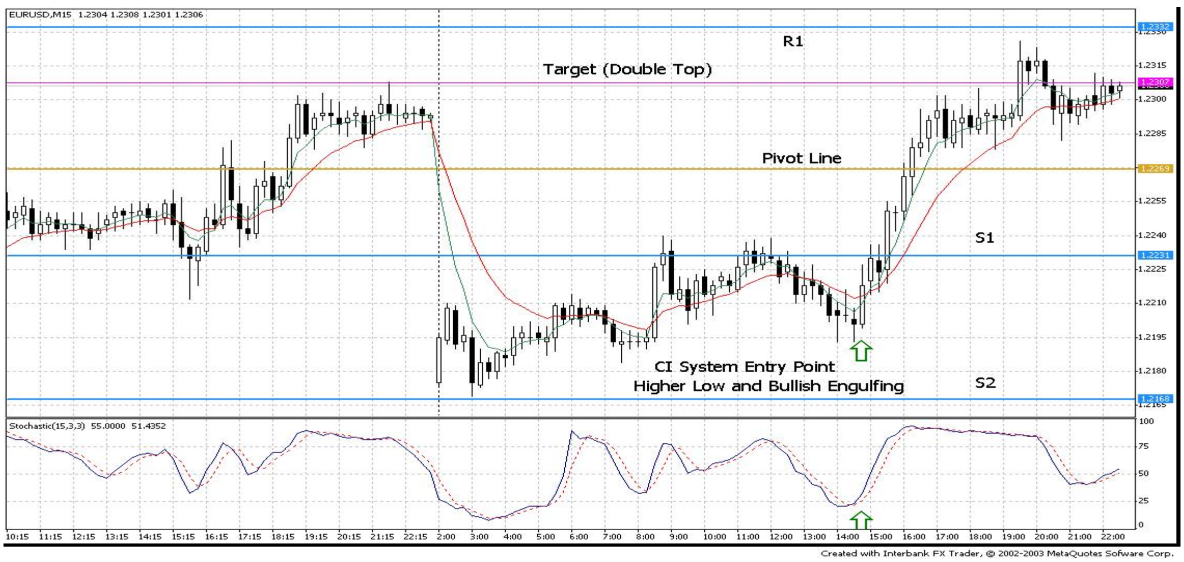
- Calculate your risk to reward ratio prior to making a trade.
- The best trades are the ones where the risk /reward ratio is 1:2 or better, i.e. Risk 1 dollar for every 2 dollars gained.
- Risk Reward Ratio =Risk/Reward = $200/ $400 =1:2   where stop loss is 20pips @ $10/pip and potential gain is 40pips @$10/pip.
- Do not risk more than 7% of your account balance on a single trade.

**Exit at one of the following where appropriate:**

- An engulfing candle is formed in the reverse direction to signal the end of a move, or
- The market bounces off a trendline, support, resistance, double top, double bottom or pivot line (i.e. P, R1, R2, R3, S1, S2 or S3) or any other reversal pattern shown in this ebook, or
- A Fibonacci projection target is reached (161.8% is a good one) or a Fibonacci retracement level is reached, or
- When the 5/13ema crosses on the 5minute or 15minute chart in the opposite direction to the entry.

The choice of an exit method is up to the individual trader. A trader will use different exits on different occasions depending on the circumstances and their strategy.


EURUSD,H1 1.2298 1.2310 1.2296 1.2309
R1
Target (Double Top)
Pivot Line
S1
S2
CI System Entry Point
Higher Low and Bullish Engulfing
Stochastic(8,3,3) 81.7460 84.0759
Created with Interbank FX Trader, © 2002-2003 MetaQuotes Sofware Corp.


EURUSD,M15 1.2304 1.2308 1.2301 1.2306
R1
Target (Double Top)
Pivot Line
S1
CI System Entry Point
Higher Low and Bullish Engulfing
S2
Stochastic(15,3,3) 55.0000 51.4352
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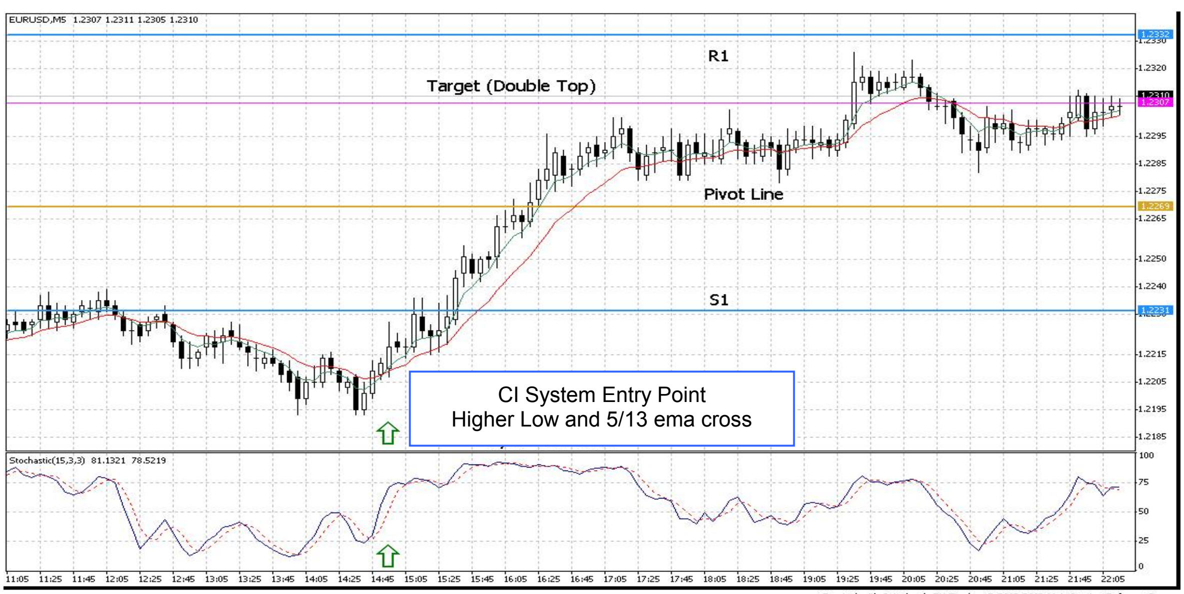
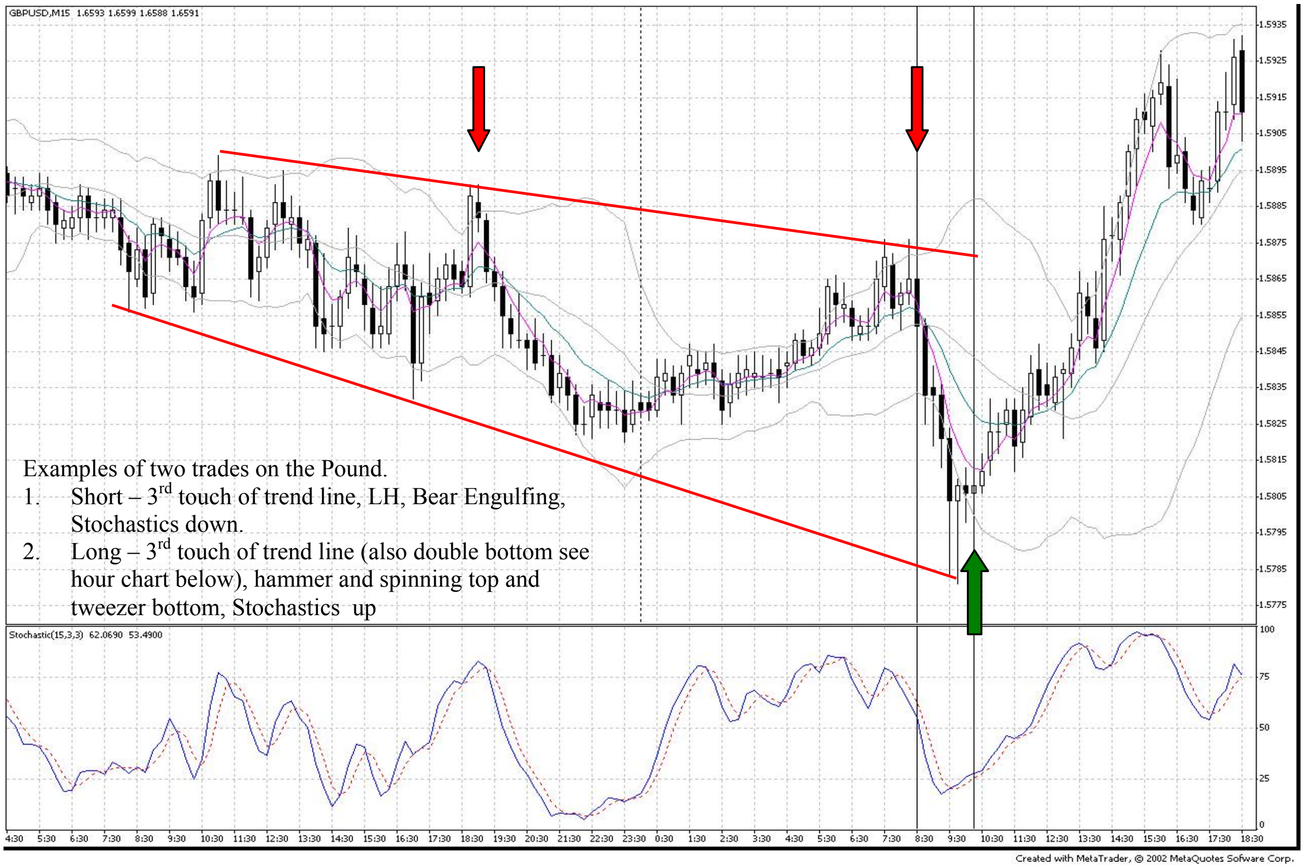
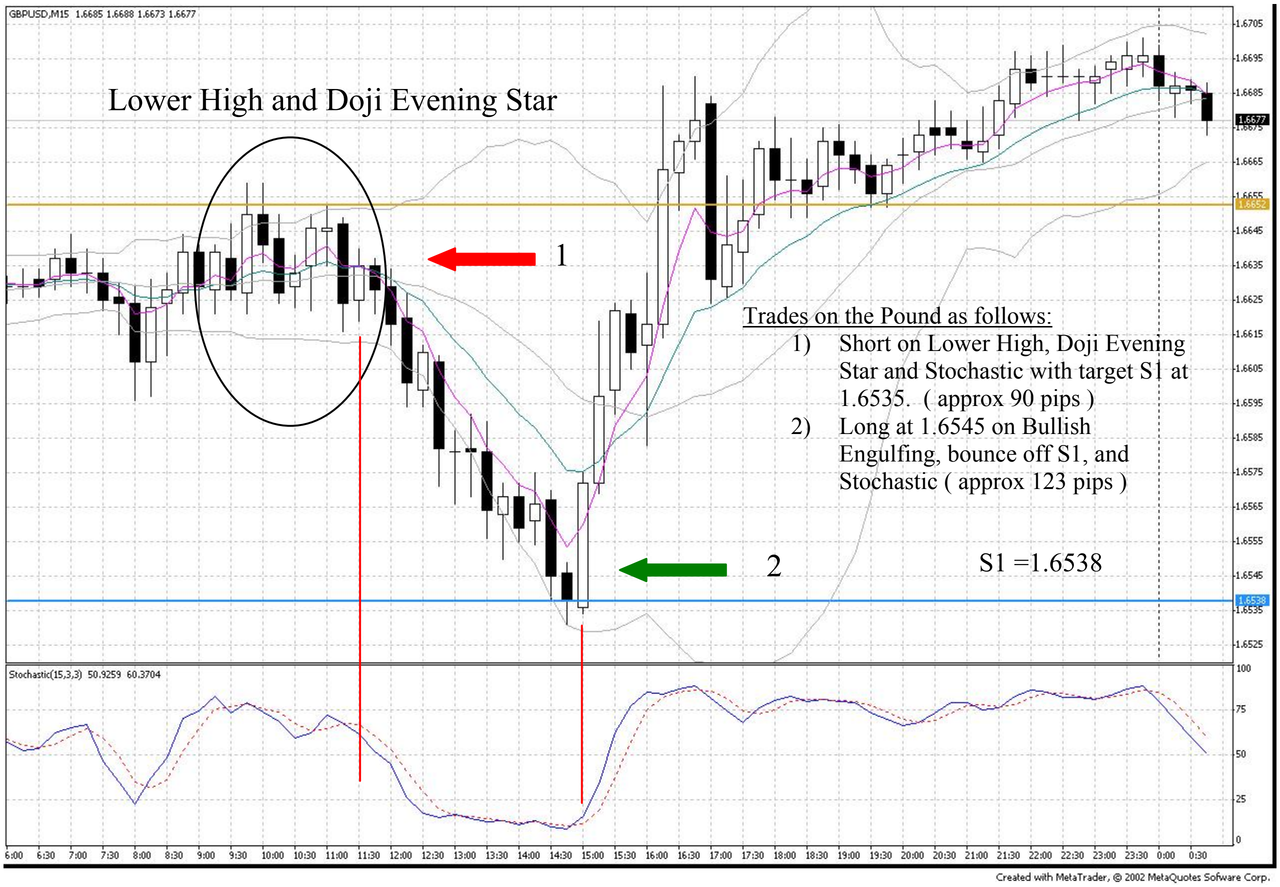
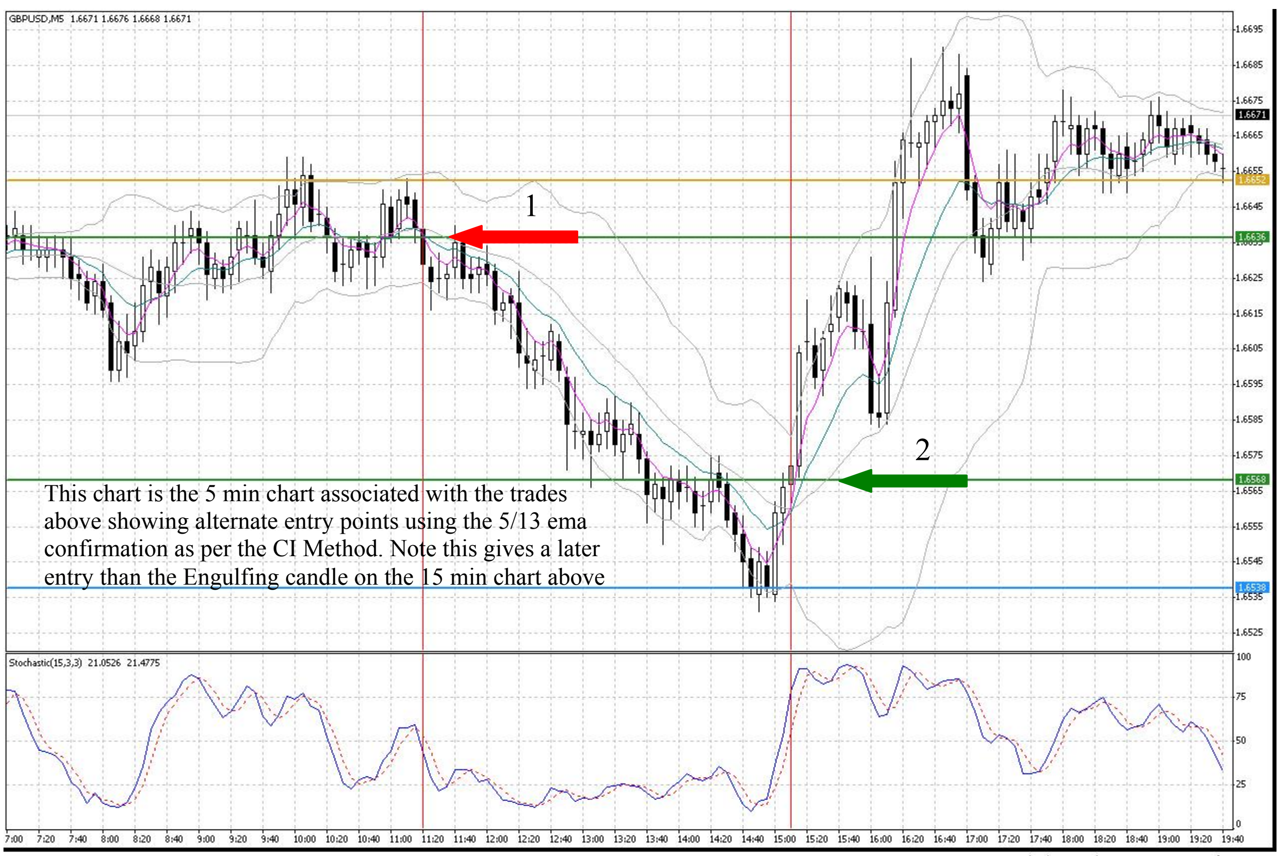

EURUSD,M5 1.2307 1.2311 1.2305 1.2310
R1
Target (Double Top)
Pivot Line
S1
CI System Entry Point
Higher Low and 5/13 ema cross
Stochastic(15,3,3) 81.1321 78.5219
Created with Interbank FX Trader, © 2002-2003 MetaQuotes Sofware Corp.


GBPUSD,M15 1.6593 1.6599 1.6588 1.6591
Examples of two trades on the Pound.
1. Short – 3rd touch of trend line, LH, Bear Engulfing, Stochastics down.
2. Long – 3rd touch of trend line (also double bottom see hour chart below), hammer and spinning top and tweezer bottom, Stochastics up
Stochastic(15,3,3) 62.0690 53.4900
Created with MetaTrader, © 2002 MetaQuotes Sofware Corp.


GBPUSD,H1 1.6585 1.6602 1.6578 1.6591
Note the trading opportunities from candle patterns, trend line touches. Buy using a combination of charts (Hour and 15 min) and entry signals the reliability of the trade increases.
Double Bottoms
See 15 min chart above
Stochastic(15,3,3) 38.3562 40.1826
Created with MetaTrader, © 2002 MetaQuotes Sofware Corp.


GBPUSD,M15 1.6685 1.6688 1.6673 1.6677
Lower High and Doji Evening Star
1
Trades on the Pound as follows:
1) Short on Lower High, Doji Evening Star and Stochastic with target S1 at 1.6535. ( approx 90 pips )
2) Long at 1.6545 on Bullish Engulfing, bounce off S1, and Stochastic ( approx 123 pips )
2
S1 =1.6538
Stochastic(15,3,3) 50.9259 60.3704
Created with MetaTrader, © 2002 MetaQuotes Sofware Corp.


GBPUSD,M5 1.6671 1.6676 1.6668 1.6671
1
2
This chart is the 5 min chart associated with the trades above showing alternate entry points using the 5/13 ema confirmation as per the CI Method. Note this gives a later entry than the Engulfing candle on the 15 min chart above
Stochastic(15,3,3) 21.0526 21.4775
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# Chapter 8

## Putting It All Together

Do not prejudge the market by saying the market is quiet and won't do much. Wait for the trades to come to you. Look at other candle patterns as well and enter trades. If you can trade with patience and discipline (sticking to the rules), you are well on the way to success.

To gain confidence with live trading and your system, it is mandatory that you paper trade or trade on a demo first before you risk your money. When you see the method working successfully over and over, you will gain the necessary confidence. If you do miss a trade, don't worry another trade will be along soon. By using multi-timeframe analysis, a trader can find frequent entry setups. See it, believe it and trade it. Don't say "it can't go lower" or "it can't go higher".

Keep monitoring the 15 minute, 1 hour and 4 hour charts to see what is going on. This gives a good road map of what is happening in the market. If you can't see something with those, then there's really nothing going on and is best to sit on the sideline waiting.

When a currency pair is moving strongly, there will not be any engulfing candles against the trend but there will be a minor retracement. If there is an engulfing candle, there is a high probability that price will retrace to at least 61.8%. After a retracement, wait for an engulfing candle to re-enter the trade. Keep looking for a new point 3 entry point as explained in the Retracement System above.

If you wish, you can use the free charts from www.interbankfx.com Download the free chart program and then sign up for a free demo. When the 1 month demo expires, the charts will stop updating. When this happens all you need do is re-apply for a new demo account. These charts are good for switching from one timeframe to another with one mouse click.
Charts from other sources on the internet are suitable if they have 5minute, 15minute, 1hour and daily charts available.

**Key to timeframes on the charts:**

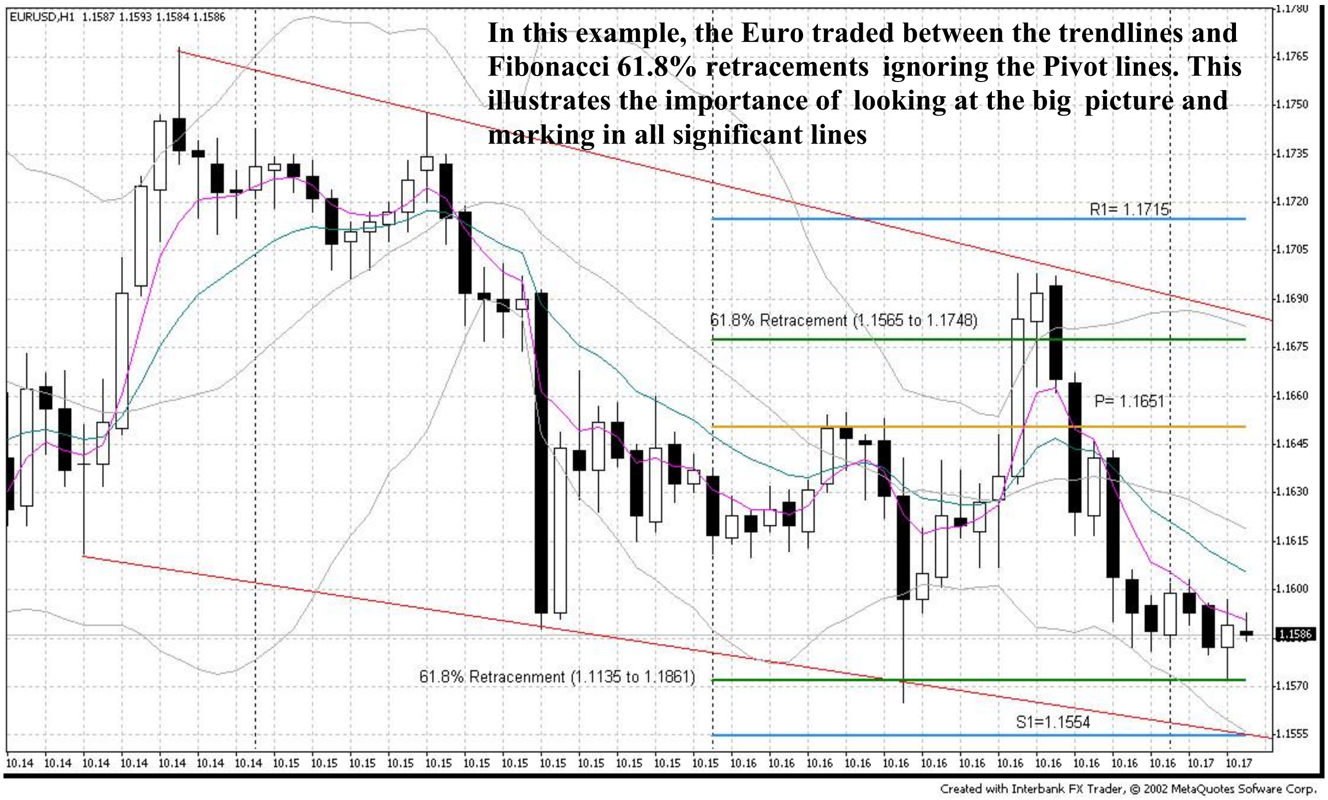
| | |
|---|---|
| M5 | 5 minute |
| M15 | 15 minute |
| M30 | 30 minute |
| H1 | 1 hour |
| H4 | 4 hour. |

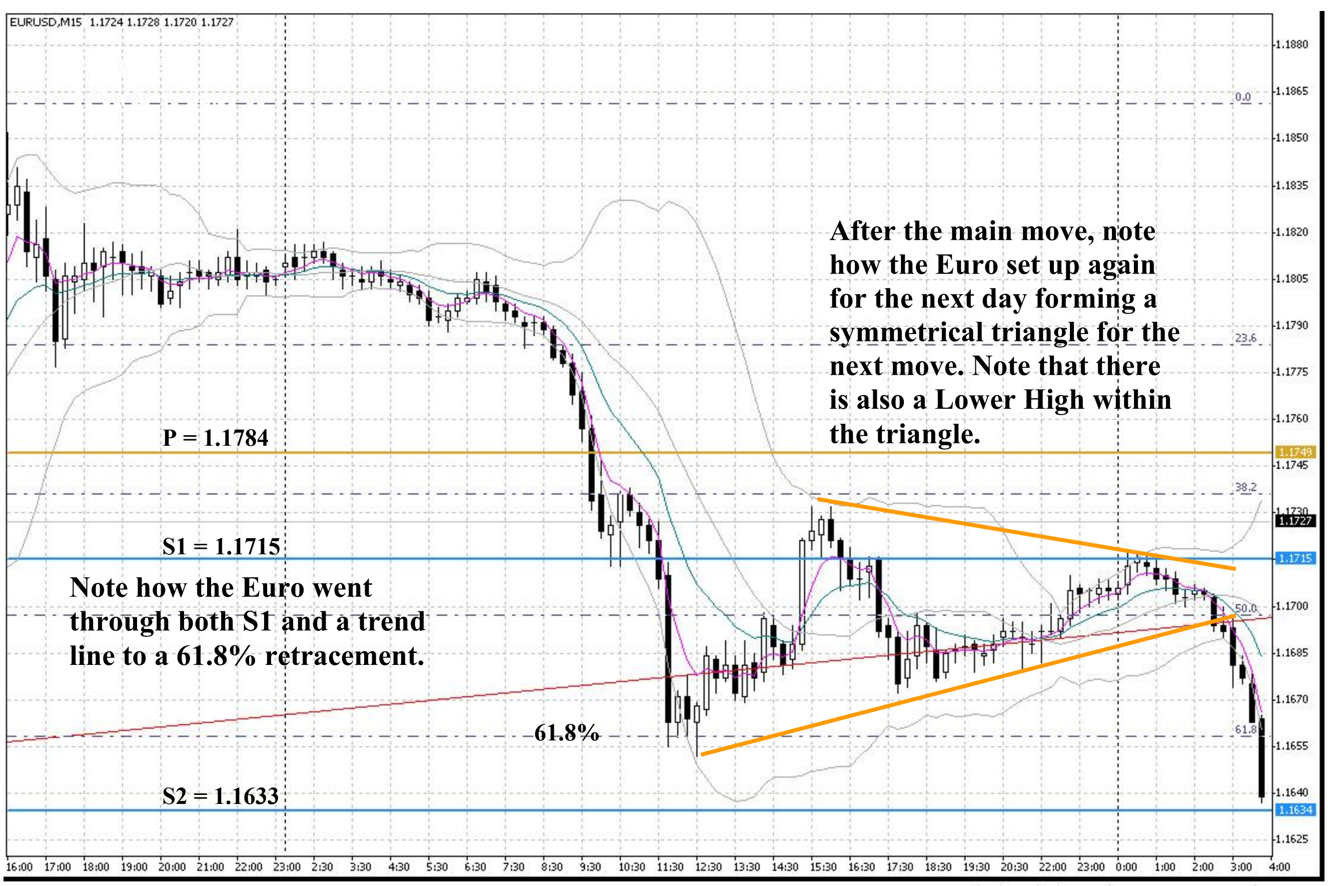
Below is an example using the EURUSD 4 hr chart showing how the systems and patterns work well on the higher timeframes.


Two Fibonacci retracements have been drawn on the chart above from two different on low points. Two cluster points are drawn where the 61.8% and 32.8% retracements coincide and the 61.8% and 100% coincide. But note the second cluster is also a Double Bottom pattern and a descending wedge with a bullish engulfing candle. This is also a good example of how these patterns etc work well on any timeframe as this example is on the 4 hr chart. It also stresses the point why you must look at all timeframes. This chart above illustrates so many other examples. Look at the top where a Double Top has given a reversal pattern indicating the up trend is over and retracement is about to take place. This methodology we use in the CI System is so powerful compared to other mechanical strategies as we look at many factors and the more we get, the more powerful the resultant move is.

Each time the EURUSD has stopped, reversed or consolidated there has been a good reason for this, ie a fibonacci retracement, trendline or a chart pattern or a combination of these factors.

This is why you must draw all the relevant lines in so there are no rude shocks ahead.


EURUSD,H1 1.1587 1.1593 1.1584 1.1586
In this example, the Euro traded between the trendlines and Fibonacci 61.8% retracements ignoring the Pivot lines. This illustrates the importance of looking at the big picture and marking in all significant lines
R1= 1.1715
61.8% Retracement (1.1565 to 1.1748)
P= 1.1651
61.8% Retracenment (1.1135 to 1.1861)
S1=1.1554
Created with Interbank FX Trader, © 2002 MetaQuotes Sofware Corp.


EURUSD,M15 1.1724 1.1728 1.1720 1.1727
After the main move, note how the Euro set up again for the next day forming a symmetrical triangle for the next move. Note that there is also a Lower High within the triangle.
P = 1.1784
S1 = 1.1715
Note how the Euro went through both S1 and a trend line to a 61.8% retracement.
61.8%
S2 = 1.1633
Created with Interbank FX Trader, © 2002 MetaQuotes Sofware Corp.


Entry points are clearly visible result from chart patterns such as Symmetrical Triangles, Highs (123s), engulfing candlesticks, Pivot Lines and fibonacci retracements. Exit points are also clearly marked again by Pivot Lines and fibonacci retracements.

Once you learn and practice using the methods within this book, trade opportunities will become visible everywhere.

Green arrows mark entry points and red arrows exit points.

The CI System can be used on other time frames. For example the following charts are the Euro Day charts.

The entry, exit and stop management are the same as on the shorter time frames. All the patterns are the same and give the same signals.

The horizontal purple lines show where the stops are place as they follow the trade up.

When using larger timeframes, you need larger stops to cater for the bigger pullbacks and consolidations.

## Conclusion

Money Management and Trading Psychology are two very important parts to Forex Trading and it is important that these be mastered before becoming a successful trader. Many systems, books and teachers seem to focus only on part of the total field of Forex Trading and fail to be successful. Mechanical Trading Systems, although some are profitable are very inefficient as some have up to 66% loss trades. We have gone through a wide range of topics which are aimed at making trading not only successful but very profitable

There are a large number of variables, and although we have attempted to cover many different combinations of patterns, it is up to each trader to study further using other resources. One must never stop learning and researching as we have only been able to develop a successful system through many hours of research. We have also done many hours of just marking lines on the charts to learn and understand how the chart patterns, trendlines, fibonacci lines and pivot lines work and interact with each other, also identifying the main candlestick patterns seeing where and when they are most effective.

To become a good and successful trader, it is up to you now to put in the hours of study. If you do, you will be able to spot many profitable opportunities quickly and act on them with confidence.

## Disclaimer

We do not guarantee that any system, including ours, will make everyone rich as there are many factors in trading beyond our control. It is the responsibility of each and every trader to educate themselves and gain sufficient practice before live trading. You must all satisfy yourself that you understand the different systems and methods before using them.

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