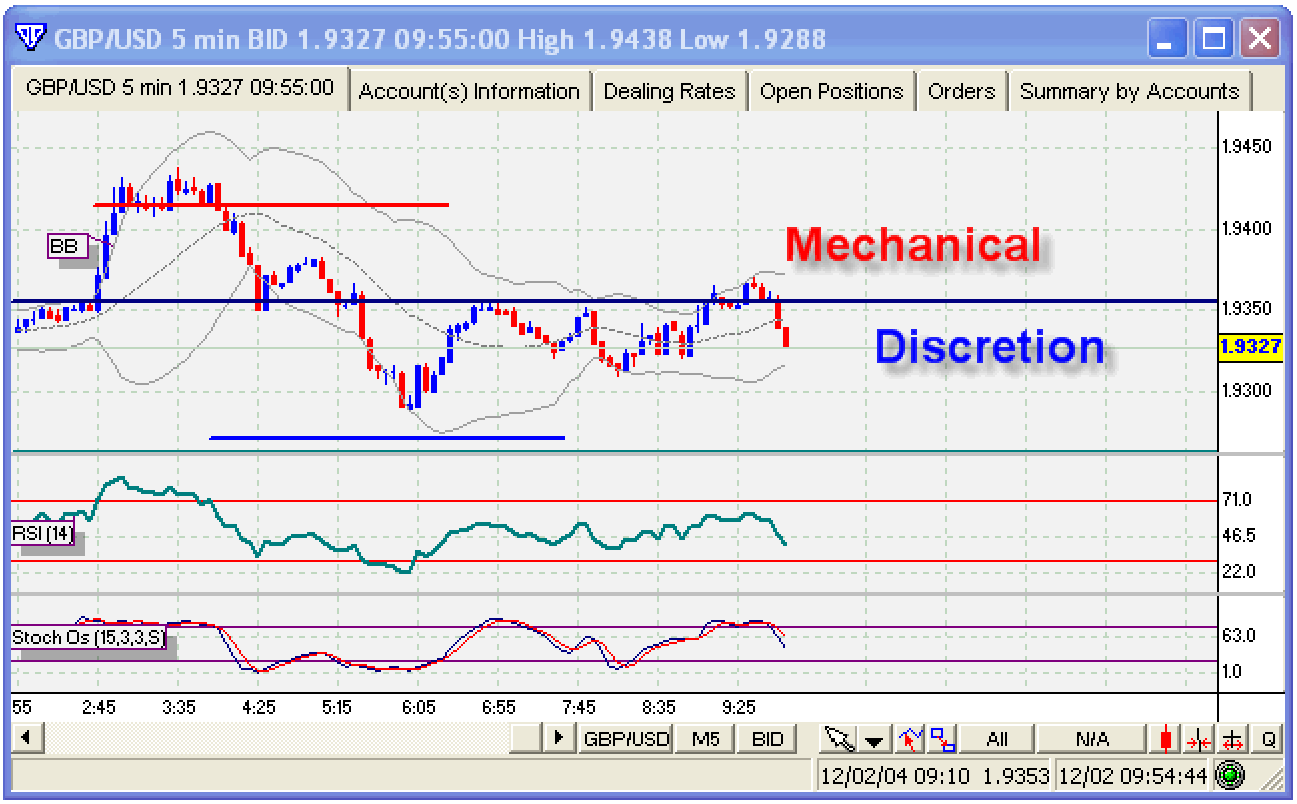
Mechanical Discretion



By J. Heat

Introduction

As I sit here to write, thinking of everything I need to convey, a sense of awe is creeping up on me as I realize the magnanimity of the task ahead and it makes it just that little bit more difficult to get started, hence this sentence.

I am not a writer or a speech master. I do not have any special talents or skills. I am just someone who has understood the meaning of trading by mechanical discretion and trying to put his thoughts and feelings into this book.

The difference between other books and mine is, I am not a book maker or publisher and I don't make my living selling ebooks. In fact, I am the very same person who interacts with other traders online through forex forums asking for ideas and sharing valuable information.
Therefore, the manner of writing found in this book is completely informal and has many grammatical mistakes. If you are a purist, please forgive the incompetence and inadequacy. For the rest of my fellow traders, take it as it is because if you ignore the writing style and concentrate on the information being presented, I know you can make a decent living from the information I am about to communicate. I don't intend to use double spaces or larger font to increase the file size of this book thereby increasing its perceived value. The chart explanations will increase the file size anyway.

The tables of contents in this book have been left out on purpose. This is because it is essential to read the material in the order it is written without skipping a single sentence. I tend to write as my chain of thought progresses.

The details I am about to share with you in this book are so valuable that I would have been glad to share it *for free* on the forums but because of the number of charts and diagrams and the lengthy explanatory material that accompany it, I decided to assemble it in a book form.

Even though I have only just begun to write this material, I can foresee a detailed book with many, many charts and explanations throughout. Therefore, my thoughts are to charge an extremely small price for the trouble of compiling and disseminating this information. Since you have already paid for this book, you already know that I am not out to make a killing by selling this information as I could never do that with the amount you paid. I whole-heartedly believe in charging less and yet over-delivering on expectations.

Who is this book for?

If you are completely new to Forex, this book may *not* be for you. You need to have been around the block a few times and understood the general rules of trading.
You should know the common indicators and the terminology associated with forex.
There are many documents out there which explain what a trader must never do or the 10 most common mistakes made by traders etc…

The suggestions made in those books should be "ready knowledge" (knowledge that you must know by heart and information which can be recalled by memory instantly when needed).

If you really are new to trading, my suggestion would be to (and I don't mean this in a derogatory way) initially visit a few forex websites and read up on forex basics. After you have done that, visit and signup with 2-3 online forex forums and start asking questions (just like I did). Online forex forums are goldmines and you can discover a wealth of information there. So much so, that you would hardly ever need to pay for systems and strategies. Even the information presented in this book can be found on forums but I believe that it would take you several months and lots of searching to truly understand what you will uncover here.

If you have broken into forex and making a few dollars here and there but just can't find your footing, this book is definitely for you. In fact, if you don't find the information in this book useful, just drop me an email and we'll discuss what could be done to resolve the problem. I am sure I can change your perception by making you see the chart in a different manner.

If you are a seasoned trader who makes money consistently, you don't really need another book telling you what to do. You can store this one amongst the others in your library. However, if you do decide to read through it, you may find a nugget of information that could compliment your current trading style. Try not to dismiss it just yet. Since the information is aimed at the new-intermediate trader, you'll have to bear with me whilst I go through some of the information which you may consider "working knowledge" (knowledge that can be looked up quickly).

Charts used

The charts and figures you will see are derived from the Visual Trading Platform. If you wish to obtain the same charting package and platform, please visit www.cms-forex.com

Whenever possible, I will use the hard right edge of the chart to give you examples. This way, you will see that I am not cherry picking charts to curve fit the situation unless there are no suitable examples at the current time.

"A picture is worth a thousand words" and that is why you will find many charts in this book. Most of these charts will have annotations and explanations within them.

Working Knowledge

Like many books, think of this book with the following chapters:

- Introduction to Currency Trading
- Basics of Trading Forex
- Theories and Bull/Bear Market
- Money Management
- Fundamental Analysis
- Significance of Stop Loss and Limit Orders
- Trading Psychology
- Other all round knowledge

Now, under each chapter, read the words “Refer to online forex forums or other books which teach you the basics and general knowledge information which you need to know before trading”.

I just can’t be asked to examine subjects which are readily available for the taking. I need to concentrate my efforts on the stuff which will get you moving. So once you think you have the working knowledge mentioned in the chapters above, you can continue to read this document.

Phew, that took care of a majority of the book. ☺

What and Why

What is **Mechanical Discretion** (MD)?

I know the phrase is an oxymoron but I have coined this phrase after falling into many traps and seeing other traders' trade the same mistakes.
There are a huge number of traders that are looking for the elusive system which makes money, day in – day out. I too am always on the lookout for valuable information which could compliment the system I use and the trading style employed. Just look at the forum postings to see what I mean.

If you have been frequenting the forums, you will have noticed that systems posted by one trader, don't necessarily work for other traders even though it's a completely mechanical system.
Why not? The simple answer is – no two traders are alike. Mindset, time allocation, fear, greed etc… all these "diff factors" creep into a system (in subtle forms) even though the system itself is completely mechanical.

So what I'm trying to say here is **each trader is on his own**. Does that mean you can never follow another trader's mechanical system? Of course not, the answer lies in what you *can do* when the inevitable diff factors do come crawling in.

Alternatively, you may find mechanical systems which require some trader input at the time of entry or exit. This input is commonly known as discretion. When traders read posts which involve a slight bit of discretion, they leave it aside and continue on their search for another system which seems to be completely mechanical. Little do they know about the effects of creepy diff factors!

If an individual is trading a mechanical system successfully, with some required discretion, do you think another trader will achieve the same results as the former? Of course not! Each trader's discretionary decision is likely to be different.

So if everyone's decision to enter is going to be different, how the hell do you follow the system with your own discretion and yet be just as successful?

The answer is: - **you need to be the master of your own discretion. You need to have faith in your own discretionary decision making ability**.
Let me say that again, **you need to be the master of your own discretion. You need to have faith in your own discretionary decision making ability**.

By applying your own discretion at a not-so mechanical system, you can manage *any system* you choose in your own unique way. You can take the system to new heights and you can extract greater profits by pin-pointing the entry and exits.

This is the meaning of **Mechanical Discretion** and it is your very own secret weapon.
After you have read this book, you will have something which you can take away with you and 'fire at will' at your charts.

The beauty of MD is that you can choose any system you want and you don't need to follow it strictly by the rules. You can invent your own rules and wait for a better entry signal rather than follow a mechanical system blindly. It is true that you would be altering the mechanical system but you would be altering the system to *your* criteria. If you find a system that works absolutely fine all the time (Holy Grail) without any intervention, then your discretion would be to leave the system completely as it is.

How many times have you tried to follow a system only to find that eventually you end up losing, or all is not as it's cracked up to be? How many times have you lost, following a mechanical system entry when you knew you shouldn't have entered at such a time because of an uneasy feeling?
Mechanical Discretion will allow you to use those exact same feelings and turn them into more precise entry/exit points.

The buzz in trading this way is the immensely rewarding feeling you experience when *you* are controlling your trades and do not need to rely entirely on somebody else's mechanical system. You know that *you* have actually achieved something because of your very *own* input. If you do it consistently enough, you can consider yourself a *real* trader.

Of course, you're discretionary input has to be *correct* for you to be a successful trader and that is exactly what we are going to try and achieve for the remainder of the book.
"How do you learn discretion" I hear you ask. Well, we don't learn discretion as it is something we develop and is unique to each one of us. What we can do is look at technical factors whilst trading, which can and will alter our perception of the situation.

Many new-intermediate comers to forex haven't yet developed this ability and it is this skill and capacity we will try and gain with the aid of the upcoming instruction.

Jetset

Beginners Trap

I have seen many traders (myself included), time and time again, review a system, try it out for a few days, experience a few losses initially and discard the system due to the fact that the system gave them losses.

It is quite common to experience several losses when starting out with a system. You may even endure 8-9 losses in a row to begin with (known as drawdown).
This is the classic Beginners Trap. It will leave traders with a feeling of unease and have them believing that the system is faulty. This pushes the trader to go in search for another system where the Beginners Trap starts all over again.

To solve this dilemma, try sticking with a system for a longer period of time and see if you emerge on top at the end of that period. If not, the system is truly at fault. If you do see a total profit at the end of that period, you will have achieved what no beginner has achieved before, experience! Experience which has taught you to stick with a system through the good times and the bad and to witness the actual results rather than looking for instant wins.

The Method

In order to use **Mechanical Discretion** successfully, we need to start by developing or finding a system (mechanical or otherwise, we don't care) which has performed relatively well over the last few years and is still performing well. Of course, not every system will win 100% of the time but you already know how to employ money management to turn the system into successful consistent trading.

If the system performs well only 50% of the time and your money management is good, you should be successful. However, if you find a system which performs well more than 50% of the time (say 60-75%); the win ratio will be much higher. The point being, it pays to find a system which has more winners than losers.

To this end, I have studied several systems and have taken superior parts out of each of them to make what is now called the "**Jetset Trading Method** (JTM)". Much of what you see in the JTM, you will have seen before. It is a rework of what has been posted or written about on the internet.
Our aim is not for you to take on this system if you don't want to, but it is a starting point from where we can discuss MD. If you do decide to use the JTM, rest assured there will be more winners than losers. Combine this with MD, and we have a complete trading structure.

The JTM is a means to trade by which you can deal with charts on a day-to-day basis in a sweeping manner.

The Setup

The setup for the JTM has been borrowed by Dr Alexander Elder and is called “The Triple Screen”. Using the Triple Screen setup can increase your chance of a favourable outcome and is integral to MD. For each currency traded, we need 3 charts (Triple Screen). If we were trading the 4 majors, we would need a total of 12 charts.

Having 2-3 monitors to display the various charts of the Triple Screen can be very advantageous and those without an extra monitor will have to manage by squeezing charts onto a single monitor (note to self, buy another monitor ☺).

Figure 1 shows the Triple Screen setup as displayed on my own monitor.
You will notice that the 1st chart on the left is a “Day” timeframe, the 2nd chart in the middle is an “Hour” timeframe and the 3rd chart on the right is a “5 minute” timeframe. All charts should be showing candlesticks.
This is the basic setup and layout of the charts. If you wish to trade more currency pairs, add more Triple Screen charts for each instrument traded in the same format shown.

Figure 1

Indicators and Tools

As Chart Traders, we will utilise the most basic common tools and techniques available to us. These include Trendlines and Breakouts, Fib Projections and Bounces, Support and Resistance (S/R) Monitoring and Chart Pattern Trading.
The use of the above tools and techniques should be ready knowledge as I will be referring to them as we go along.

In addition to the above, we will place certain indicators on each chart.
The outline below is what you will need to attach to the Triple Screen. The explanation of each indicator will follow.

Day Chart
First plot any trendlines, fib projections and S/R you see.
Attach the following:

- Moving Average, Exponential, Close, Setting 100

See figure 2

Figure 2

1 Hour Chart
First plot any trendlines, fib projections and S/R you see.
Attach the following:

- Moving Average, Exponential, Close, Setting 5
- Moving Average, Exponential, Close, Setting 13
- Moving Average, Exponential, Close, Setting 100

Use any colours you like as long as they don't interfere with the candle colours
I believe Rob Booker made the 5/13 settings famous in his book although they were used long before that.
See figure 3

Figure 3

5 Minute Chart
First plot any trendlines, fib projections and S/R you see.
Attach the following:

- Bolinger Bands, Time Period 20, Deviations 2
- RSI, Setting 14 - Horizontal Lines at 70 and 30
- Stochastic Oscillator, Setting 15,3,3 - Horizontal Lines at 80 and 20
- A horizontal line across the chart showing the high of yesterday – colour Dark Blue
- A horizontal line across the chart showing the low of yesterday – colour Dark Red

Note: The high and low of yesterday is calculated from 1700 EST to 1700 EST. If the current time is 10 am Thursday, use 1700 EST Tuesday to 1700 EST Wednesday. This method is popularised by Zoran Kolundzic in his book "Forex Trading Course."

- A horizontal line across the chart showing the pivot for today – colour Teal

Note: The pivot for today is calculated by taking the previous days high and adding it to the previous days low and adding that to the previous days close and then dividing the total by 3.

For E.g. Previous Days High = 1.8603. Previous Days Low = 1.8519. Previous Days Close = 1.8600. So 1.8603+1.8519+1.8600 = 5.5722.
5.5722 / 3 = 1.8574. Today's pivot is 1.8574

- Camarillo Pivots (also knows as "cams")

Note: The timeframe for calculating cams is midnight EST to midnight EST. Some people use different times and different multipliers in their formulas. The formula used for this system is extremely accurate and has been built into the pivot calculator that accompanies this book.
Cam Pivots provide you with several pivot levels but only 4 of these are important enough to plot. They are: Long, Short, Long Breakout and Short Breakout *(Cam realisation was provided by Rob Walton).*
See figure 4.

Figure 4

The beauty of the JTM is the diversity of indicators and tools utilised for our trading style. You are not limited to using a single indicator for a particular set of signals. Instead, you can use the above tools and indicators at will.
We will cover the proper use of the above markers and meters in the next section.

Combine the above equipment with MD and realise the true potential of what you can do with a system.

If you are ready to learn about the system itself, let's move on.

The System, Method and Strategy

It is difficult to explain the system as it covers a wide range of trading but I'm going to try anyway.

The method employed is so varied that it doesn't require you to be in the market 24/7. You can be in and out as you like. You can trade long term or short term. You can scalp or hold positions for a whole day.
This is the reason I like this system so much. You don't need to wake up at a specific time or trade during the night. You can trade whenever you like. My preference is to sit at my computer during the core hours (between 0700 hours to 1800 hours London time) simply because I live in England.
It doesn't matter how or when you trade as long as you make a profit.

Mechanical Discretion is a core part of trading the JTM but we need a halfway decent mechanical system to start from. The system explained here is a blend of different strategies that compliment each other and are used side by side in perfect harmony.

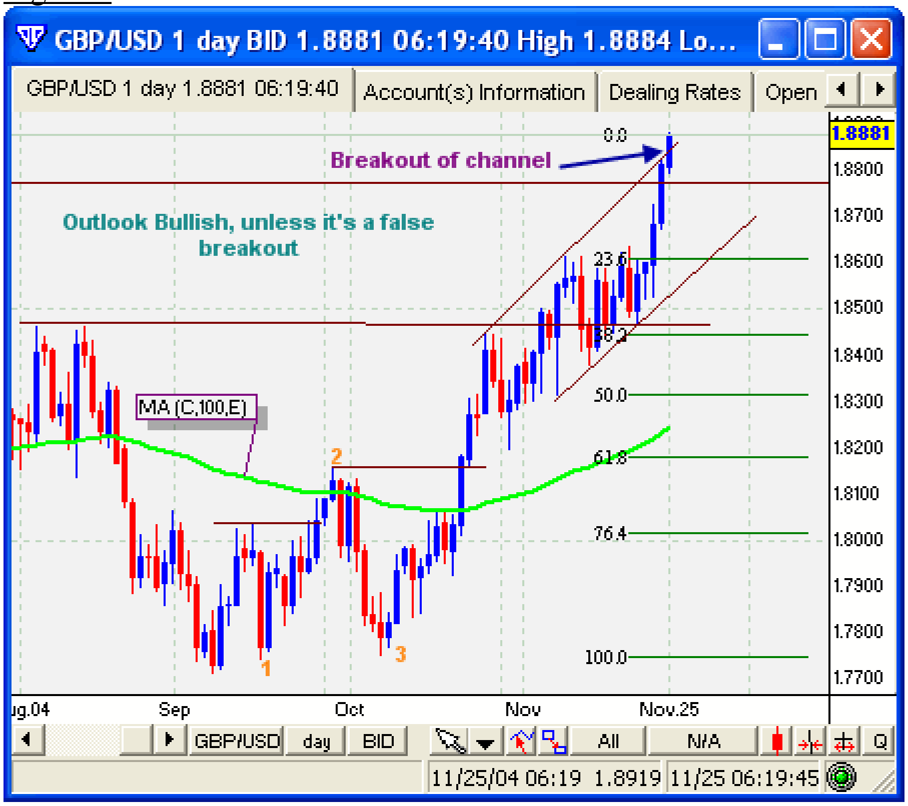
JTM essentially comprises of 3 key strategies:

- Crossout
- Boll Breakers
- Stochastic Divergence

Day Chart
Before I discuss the above 3 strategies, let me explain the purpose of the daily chart first.
The 1st screen on the left of the Triple Screen is the day chart. You may switch back and forth between the day chart and 4 hour chart if you need to. There is no hard and fast rule which says "you must keep the day chart as your first screen".
The chart is outlined with Trendlines, Fib Projections, S/R Lines, Chart Patterns, Candle Formations and the EMA 100. All of these are used to determine the *direction of the prevailing trend*.
The EMA 100 is used as a moving support/resistance line. When price approaches this line, it will halt and reverse, or, if it's a strong trend, it will continue way past it. See the Breakout section and learn how to trade at the EMA 100. In the meantime, see figure 5

The idea behind the daily/4 hour chart is to try and trade in the same direction as the trend indicated on these charts. It is possible to trade smaller timeframes against the major trend but you would need to be on the ball and be ready to keep your stop losses tighter.
If ever you are unsure about a trade, don't enter. If you must enter, enter in the same direction as shown by the day/4hour chart.

Figure 5

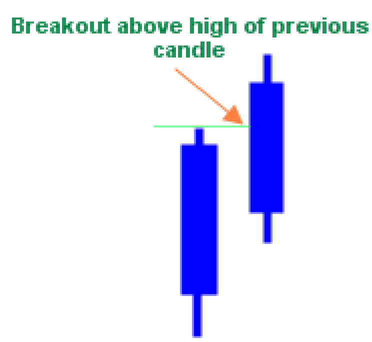


Breakouts
Another technique I need to discuss before explaining any strategy is the use of Breakouts.

Breakout doesn't only mean the Breakout of a channel. When I refer to breakouts as used in the JTM, I am talking about the breakout of the high or low of the candle in question.

See figure 6 for a better understanding.

Figure 6



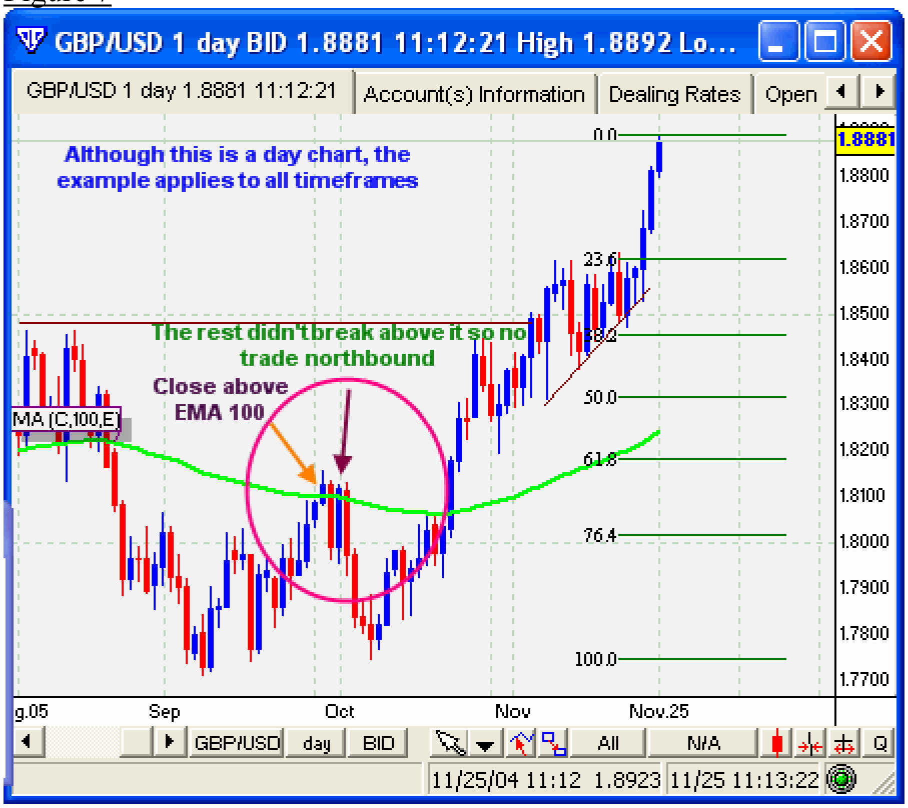
Reverse the candle formation for a breakout of the low.
Why is this information important? In the upcoming sections, I will be referring to bounces off trendlines or s/r lines or fib levels or any other level. I will also be referring to smashing through these same levels. In order to trade the bounce or the smash through, you need to know how.
We use this Breakout method to trade at these important levels.

For example, earlier, I told you that the EMA 100 is a good s/r line on the daily chart. It is also a good s/r level on the hourly chart as you'll find out later.
Let's say, price reached the EMA 100 and you didn't know whether it would turn around or continue through. Either way, you want to trade it. How do you do this using the Breakout method?

First of all, you need to have a close on the side of the EMA for which you wish to trade. If price crosses and closes above the EMA, you will be looking to buy. However, you will only buy if there is a breakout of the bar that has closed above the EMA. If there is no breakout within a couple of bars, forget the long trade. Instead, look for a close below the EMA 100 and then a breakout of that bar.
See figure 7 for an example. It also shows some examples of smash through continuations.

Not all breakouts work but they should be good for at least 10 pips. Remember to buy or sell 1-2 pips above the high/low of the previous bar. Breakout is a great decision maker at critical times.
Learn about Inner Bar Breakouts as they are quite effective at specific places. Visit the forums or drop me an email and I will explain.

Figure 7



Crossout

The term "Crossout" has been coined by the union of the cross and breakout strategies found in many places.
Crossout is only used on the 1 Hour chart.

Buy Signal: Once the EMA 5 has crossed the EMA 13 upwards, you look for a completed up candle (blue on my chart). When you see the up candle, you need to see a breakout of that candle within the next 2 bars. Enter a buy position 2 pips above the high of the up candle.
Remember, you are only looking for the first breakout in the same direction as the cross.

Sell Signal: Once the EMA 5 has crossed the EMA 13 downwards, you look for a completed down candle (red on my chart). When you see the down candle, you need to see a breakout of that candle within the next 2 bars. Enter a sell position 2 pips below the low of the down candle.
Remember, you are only looking for the first breakout in the same direction as the cross.
See figure 8.

Do not enter when you are heading directly into the EMA 100 as this line is the s/r line just as it is on the daily chart. Make sure that there are at least 10 pips between your entry and the EMA 100. When this is the case, take profit or place a limit at the EMA 100. See the Breakout section for information on trading at the EMA 100.

Once the cross has occurred, ensure that there is a slight gap (1 pip) between the 2 EMAs before entering a position. If there is no gap, you may be entering a trading range as shown in Figure 6.
A breakout of the previous bar in the same direction of the cross is unlikely to occur in a trading range and that is what makes this a great strategy. It inherently protects you from whipsaws in a range.

Stops
Place an initial stop loss 35 pips away from your entry price. Once a profit of 10 pips has been achieved, move stop to breakeven. If, in your opinion, you are trading in a volatile period (spikes in the vicinity), wait a little longer before you move your stop to breakeven.
If, in your opinion, there is no clear trend in the same direction as your entry (determined by day and 4 hour charts, discussed earlier), or the breakout candle and the candle before it are relatively small, then move the stop to breakeven a little sooner - at 7 pips profit. Slow moving candles generally tend to reverse direction in my experience.

Exit
Exit when the cross occurs in the opposite direction. There are other exits available which we will discuss when we talk about Mechanical Discretion.

Figure 8

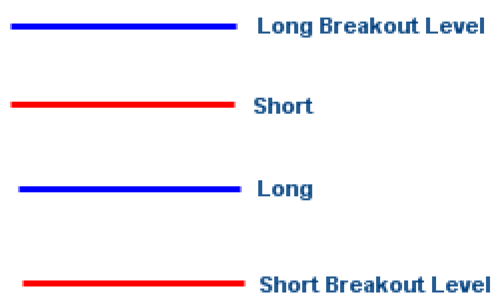
The Crossout can be traded by itself and would yield great profits. Since this book is about MD, we will re-examine Crossout when traded in conjunction with MD.

Boll Breakers
The term “Boll Breakers” has evolved by using the Bolinger Bands, RSI, Cam Levels and the other levels together as an effective trading method. I know it’s a crude name but it reminds me of my wife. Boll Breakers are used on the 5 minute chart.

S/R Levels
First of all, you have already plotted the 3 levels as described in the ‘Indicator’s and Tools’ section. These s/r levels in conjunction with fib levels projected on the 5 min chart are great places to look for trades. You already know how to place trades at these levels by using the Breakout technique.

Cam Levels
These are also s/r levels but they are special. Price respects cam levels with great accuracy.
There are 4 levels you need to plot. Just draw a horizontal trendline to indicate a cam level. See figure 9 for the plotting order.

<u>Figure 9</u>



Generally, price will bounce around between the “Long” and “Short” cam levels.
You can use this information to your advantage by using the breakout method to trade at these levels. Your initial stop loss will be on the other side of the level. This will provide a tight stop with potential for great profit.
Once price has broken the Long or Short cam level, you need to wait until it arrives at the Long or Short Breakout Level. If price breaches this level, there is a good chance it will continue in that direction. Enter a trade as described before.

See figure 10 for a good example of how price broke through the Short cam level and then bounced off the Long Breakout cam level. In this case, there would be no trading until price penetrates through the breakout level.

Figure 10

Bolinger Bands (BB) with RSI
When price touches or breaches the upper or lower BB, it is an opportunity to trade if confirmed by the RSI.

Buy Signal: When RSI has touched or extended below 30 and has started to tick up & price has just touched lower BB, place a buy order immediately.

Sell Signal: When RSI has touched or extended above 70 and has started to tick down & price has just touched upper BB, place a sell order immediately.

There is a proviso when using these 2 indicators together. Price must be between the Long and Short cam levels for better probabilities. If price has passed these cam levels, price can continue in the same direction for a while longer before turning around.
You will get signals 2 to 4 times (on average) during a trading day. Rest of the time, stay out!
See figures 11, 12 and 13 for examples.

Figure 11


EUR/USD 5 min BID 1.3031 05:35:00 High 1.3047 Low 1.2975
EUR/USD 5 min 1.3031 05:35:00
Account(s) Information
Dealing Rates
Open Positions
Orders
Summary by Accounts
1.3045
1.3031
1.3015
1.3000
1.2985
1.2970
BB
RSI (14)
62.0
37.5
13.0
Stoch Os (15,3,3,S)
74.5
3.0
21:30
22:20
23:10
Nov.23
0:40
1:30
2:20
3:10
4:00
4:50
EUR/USD
M5
BID
All
N/A
11/23/04 03:00 1.3047
11/23 05:32:36
GBP/USD 5 min BID 1.8634 05:35:00 High 1.8643 Low 1.8524
GBP/USD 5 min 1.8634 05:35:00
Account(s) Information
Dealing Rates
Open Positions
Orders
Summary by Accounts
1.8634
1.8600
1.8550
BB
RSI (14)
62.0
38.5
15.0
Stoch Os (15,3,3,S)
63.0
1.0
22:15
23:05
Nov.23
0:45
1:35
2:25
3:15
4:05
4:55
GBP/USD
M5
BID
All
N/A
11/22/04 21:35 22.2297
11/23 05:32:36
USD/CHF 5 min BID 1.1637 05:35:00 High 1.1697 Low 1.1622
USD/CHF 5 min 1.1637 05:35:00
Account(s) Information
Dealing Rates
Open Positions
Orders
Summary by Accounts
1.1690
1.1675
1.1660
1.1645
1.1637
1.1630
1.1623
BB
66.0
45.0
24.0
RSI (14)
63.5
4.0
Stoch Os (15,3,3,S)
22:20
23:10
Nov.23
0:40
1:30
2:20
3:10
4:00
4:50
USD/CHF
M5
BID
All
N/A
11/23/04 04:20 1.1700
11/23 05:32:36

Figure 12 - Real-Time Snapshot of an entry

Stops and Exit
There are 2 types of stops and exits. One type is good for aggressive traders and the other type is suitable for non aggressive traders.

Aggressive Trader: Place initial stop loss 10-15 pips away from the high/low formed after touching the BB. Exit when price reaches opposite BB if trading in direction of prevailing trend as determined by daily/4 hour chart. Make sure money management allows a win/loss ratio of at least 1:1. If trading anti-trend, exit at middle BB. If you are really aggressive and you have your finger on the trigger, you could leave the stop loss out altogether but you would need to exit at the middle BB regardless of the price at the time. This is not recommended.

Non Aggressive Trader: Place initial stop loss 2 pips above the high/low formed after touching the BB. Take into account the spread if trading short and chart is in BID mode. Placing the stop at this location will give you a real tight stop and is great for money management. Exit when price reaches middle Bolinger Band. With this method of placing stops, you may get stopped out a little more than the aggressive trader but if you employ proper money management and you trade this formation often enough, you will end up winning in the long run.

If trading against the daily/hourly trend, move stop to breakeven after 7-10 pips profit.

Keep in mind that the middle of the band will move as the trend progresses, so move with the times and exit as you have planned even if it means taking a profit of 1 lousy pip or even a loss.

In all cases, before placing the trade, make sure there is enough space between your entry and your intended exit. If your potential profit is only 5 pips, I wouldn't risk it.

Figure 13 Real-Time conclusion of above trade

Confirmation Trades

You can use all of the techniques and methods discussed above in conjunction with each other. This will provide added confirmation to a trade entry. These confirmation trades are quite common as you will see.

Examples

- Price may be reaching the top bolinger band as well as reaching the short cam level at the same time
- Cam level and s/r level happen to be at the same level (figure 11 GBP and CHF)
- Important fib level may coincide with BB or cam level or s/r level
- Trendline bounce may coincide with BB or any another level discussed above
- BB, RSI and any level appear together (figure 11 Euro)
- Stochastic Divergence (discussed later) confirms with BB or any of the above

There are numerous scenarios, too many to mention here. See figures 14 and 15 for some more examples.

As you can see, Boll Breakers gives you ample opportunity to enter trades throughout the working day. It works pretty well 75-80% of the time. Since there is a chance that you may lose, it is wise to use good money management rules when considering a trade using this strategy.

Non aggressive traders can use the Boll Breakers and the Stochastic Divergence techniques by trading only in the direction of the cross on the Crossout strategy. This adds further reinforcements to the trade. Do you see how you can use all the strategies in conjunction with each other? I think you get the idea.

Figure 14

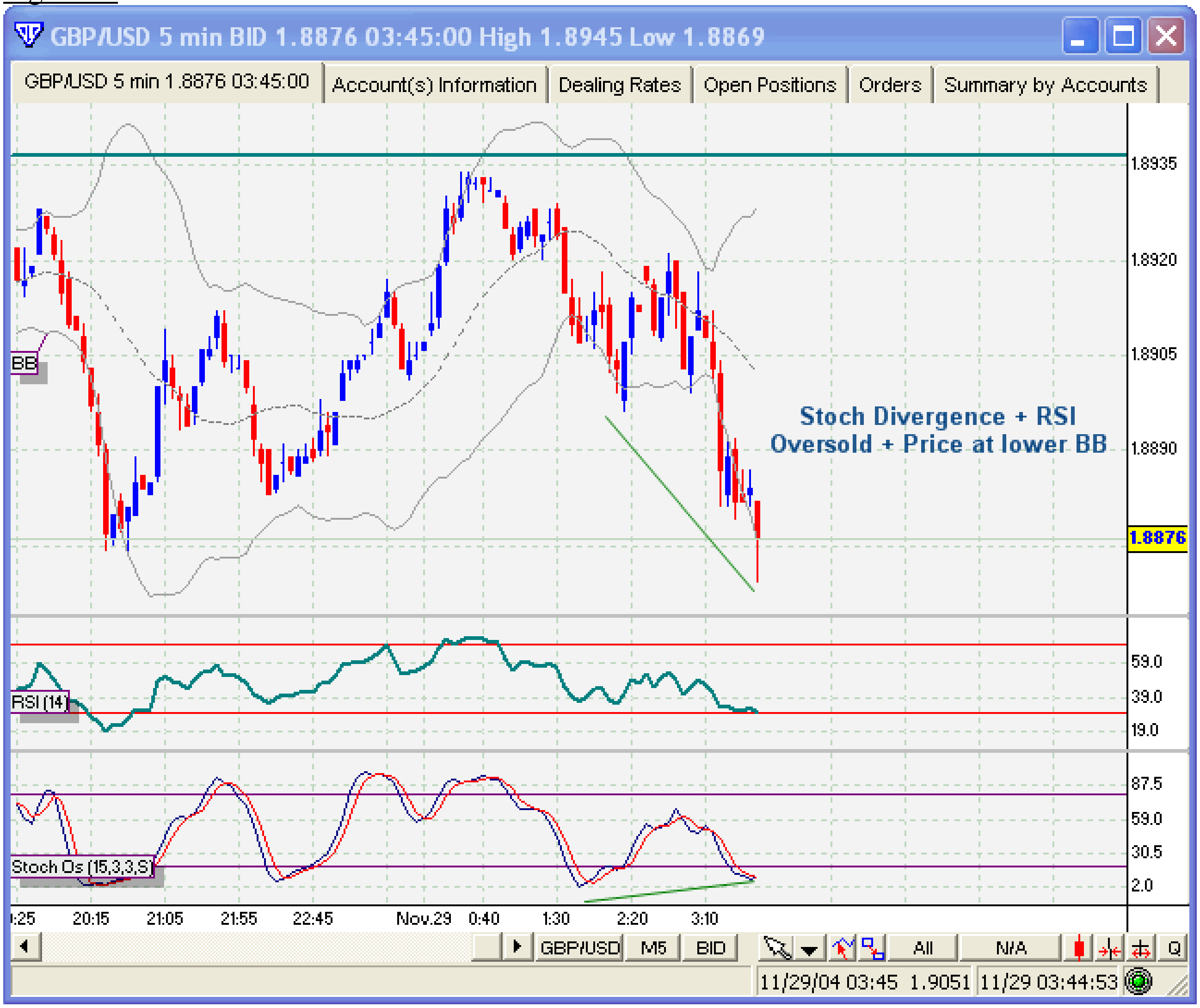


Figure 15

Stochastic Divergence

This fantastic money maker was brought to my attention by Greg Herman.

We all know how divergence works. If you don’t, please read some explanatory posts online.

Divergence occurs when price highs/lows do not agree with the stochastic oscillator highs/lows.

Stochastic Divergence is easy to trade.

All you do is simply wait till a divergence exists, then trade in a particular direction.

Details: Wait till stochastic is below 20 or above 80 for a well defined ‘high probability’ entry.
Wait till Stochastic ticks the other way before entry.
If Stochastic coincides with a Boll Breaker entry, wait for confirmation from both strategies before entry.
On a 5 min chart, you will need to keep checking the chart every so often as the indicator touches and breaks the 20/80 line. If you are able to do this, you will be able to anticipate the divergence and you will be ready as soon as you see a tick in the opposite direction.
See figure 16 for an example.

Figure 16

Stops and Exit
Place an initial stop loss 15-20 pips away from entry. This should be more than adequate.
If you see a Boll Breaker confirmation for entry, place a stop on the other side of the confirming level.
There is no specific exit for this strategy so employ any suitable exit strategy you see fit.
We will discuss a few exit ideas in the MD section and you may use one of those.

Important Summary

Don't you just love this system? It allows you plenty of leeway.
I'm sure you can see the great potential in each of the key strategies mentioned above.

The Crossout strategy is a slightly longer term trading approach compared to trading the Boll Breakers and the Stochastic Divergence strategies on the 5 minute chart.
Crossout trades generally last between several hours and several days.
Crossout opportunities occur 2-3 times a day on average (unless price is trending hard).
In the next section, you will learn when *not* to take a Crossout trade as it could be detrimental to your wealth.
When trading the 5 min chart, look for trades that are in the same direction as the Crossout on the 1 hour chart. This means buying on dips and selling on a rally.

There are many places you can enter a trade and many different tricks you can use, this does not mean you *have to* trade. If you feel uneasy about a trade, don't take it. The beauty of JTM is that you can trade whenever you like or you can sit tight if you wish to do so.

When you arrive at your computer in the morning and a Crossout trade has already begun, don't despair as you still have the Boll Breakers and Stoch Divergences to entertain for the day.

You have total freedom to trade. If you find rules that may be better than the ones I have researched, go for it. Drop me an email and let me know what you came up with. I'd be glad to review and consider it.

The Crossout, Boll Breakers and Stochastic Divergence form the Jetset system. When you combine this system with Mechanical Discretion, you have a complete scheme called the "Jetset Trading Method" and this style of trading is what marketers would classify as an "unfair advantage" over others.

Mechanical Discretion

We have established a mechanical system (to some extent) and now we are ready to start building upon this system to create an individually unique style of trading.

The essence of MD dictates that you add your own researched and personal opinion to each and every trade.

If you do your research incorrectly, MD can be just as destructive as it can be lucrative. How can you use MD to make money rather than lose money? Simply by building upon a given system and using common sense with the aid of various tools.

Trading by MD requires that you do your research before trading. You will need to spend some time drawing and identifying trendlines, channels, potential chart patterns, support and resistance lines, fib projections, candle formations, breakouts, bounces and more. Don't worry; it's not as daunting as you think. Before you start trading for the day, spend some time going through all the charts and spotting, identifying and plotting all of the above. You also need to calculate the pivot and cam levels for all the currencies you trade. It may take up to an hour initially (who said trading wasn't hard work?). Figure 17 and 18 show typical annotations for a daily and hourly chart respectively. The 5 min chart can be drawn as normal but remember to plot your fib projections and trendlines on there.

Figure 17

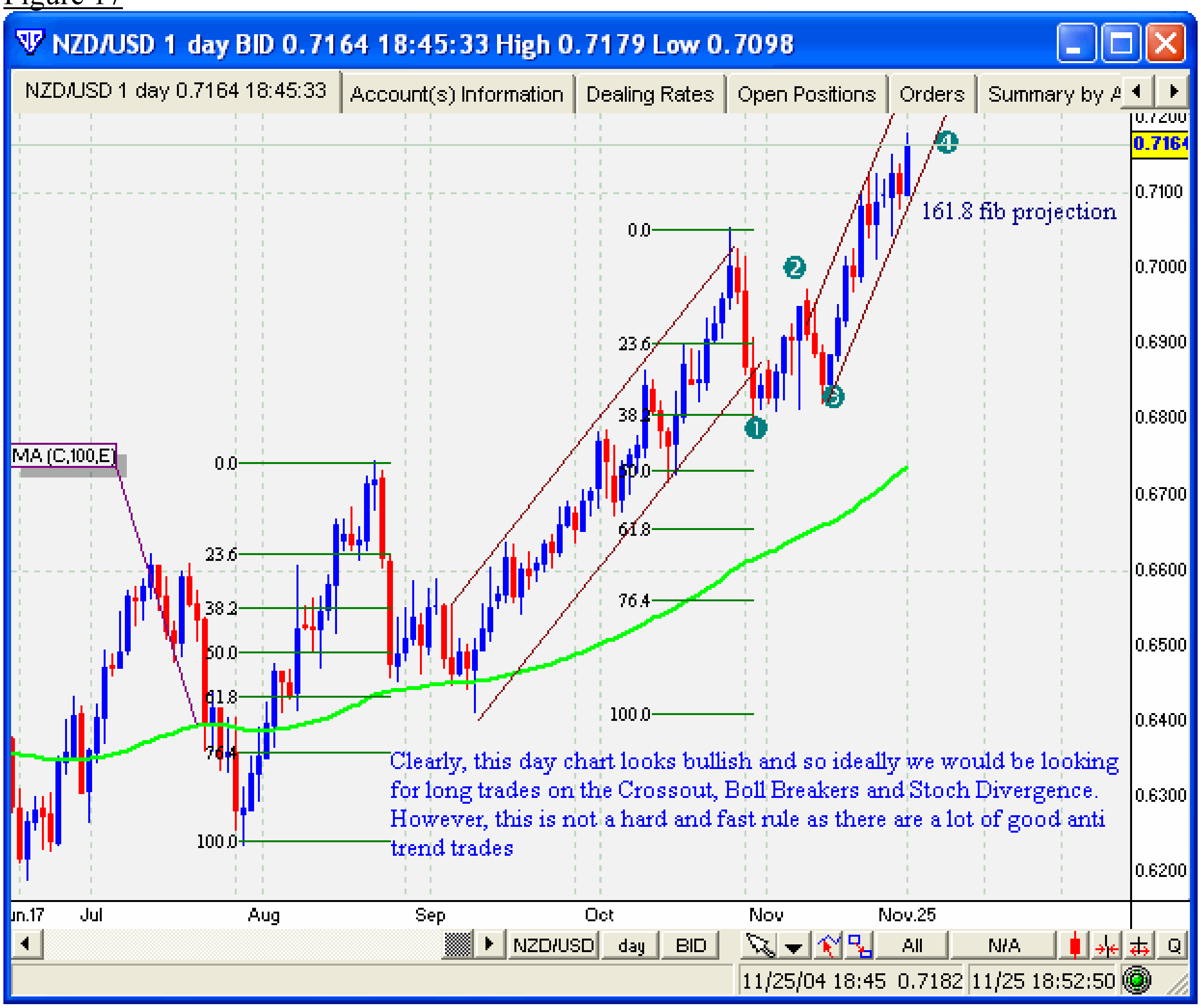
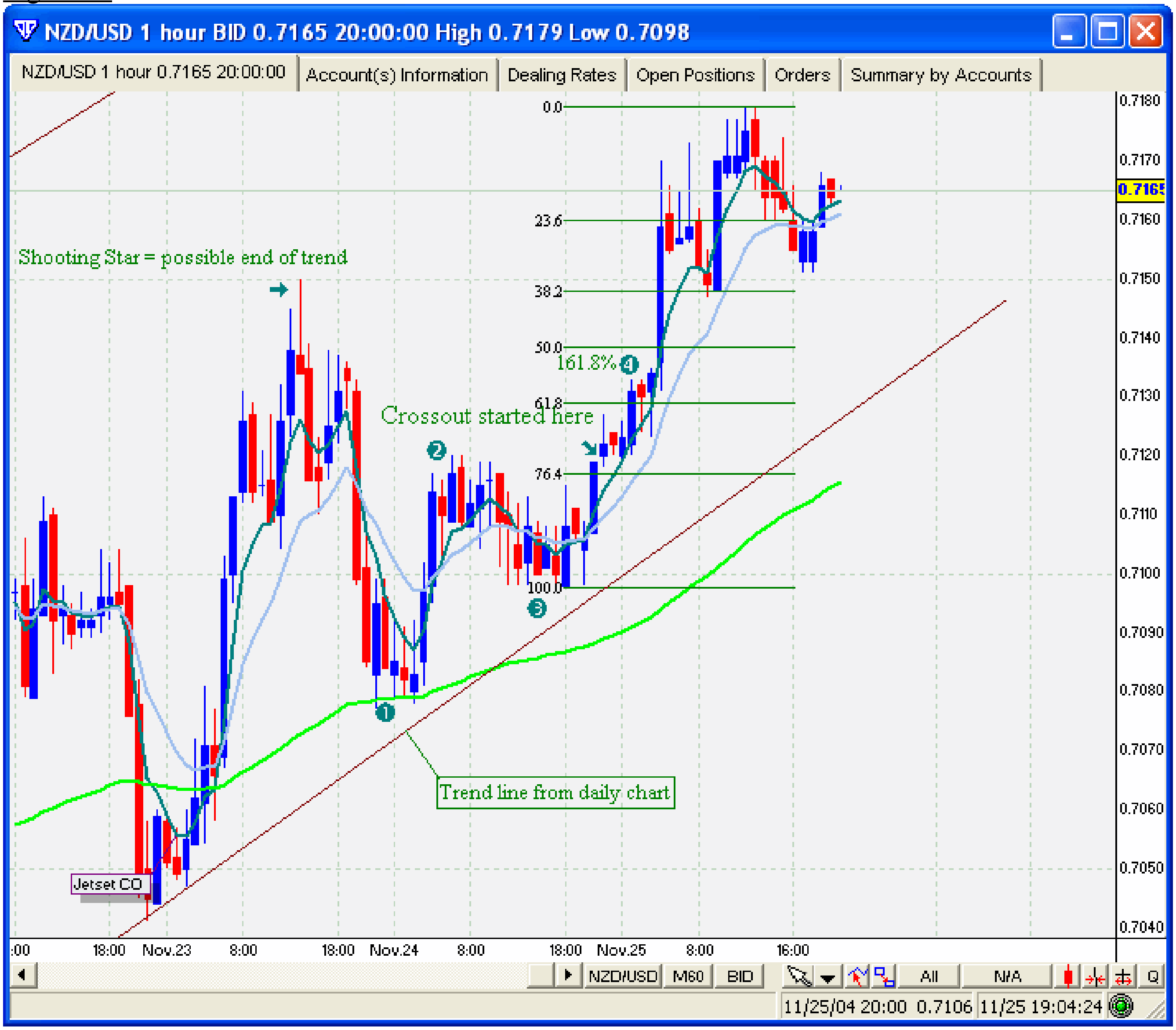


Figure 18



The fun starts once everything has been plotted and it's time to look for trades with Mechanical Discretion.

MD comes into play just before placing a trade. Rather than jumping in at a given signal, stop and think for a moment. Should I really do that? Have I thought it through? Am I following signals blindly like others do? What have I not looked at? These are the type of questions you should be thinking about before you place any trade. This extra bit of thought works wonders and will stop you falling into price traps. It will keep you from following the crowd and will allow you to align your trades with the big boys.

I'm sure you're thinking, "I don't need anyone to tell me to think, I can do that myself. Thinking is common sense, so why have I paid for a book which just tells me to stop and think before placing a trade?"
The question you need to ask yourself is, "although I am thinking, am I thinking *correctly*?"
Although every scenario cannot be discussed, we will take trade signals from the Jetset system and apply MD to each and every trade. The best way to examine MD and the many circumstances possible is by taking a look at examples given by charts and what we could do to re-evaluate the situation.

Let's start by taking a look at a good trade. See figure 19.
We see this appear on the 1 hour chart and now we realise that this may be the end of the current uptrend. So we start looking for short trades immediately.

Figure 19

On the 5 minute chart, start looking for an opportunity which says "short". Here are a few. See figure 20.

Figure 20

The more reasons you have to enter a trade, the better it is.

Figure 21 shows how the trade panned out on the 1 Hour chart and what you could be thinking about next.

Figure 21

It’s good to know that 80% of trades that start to run away between 7am and 9am GMT return back without going far enough.

In the case above, the candle finishes at 9am so it should be ok to trade the Crossout if you see a breakout. But is it really ok? Let’s take a closer look. Examine figures 22 and 23

Figure 22

Figure 23

If it did break south, it would have been poor money management to risk 35 pips for a trade which gave 20 pips profit. Gladly, it didn't break out. Shortly afterwards, there was a second chance entry but the sideways EMAs didn't look convincing enough so I stayed away. MD worked for me. Even if you had taken the trade, you would have broken even if you had followed through with the sideways movement rules (move stop to Breakeven at 7 pips).

What have we learnt so far? Examine all the tools you have plotted and take them into consideration before placing a trade. Think about how many pips may be available and therefore, is it worth the risk/reward ratio? In the above example, you can see that the Breakout clause after the EMA cross saved our bacon.

Do you see that if you are trading the 1 hour chart, it's good MD practice to look at the 5 minute chart and vice versa when trading the Boll Breakers or Stoch Divergence? Taking the 4 Hour into consideration would be even better.
For example, you may find an imminent "buy" entry point on the 1 hour chart using the Crossout method. However, when you look at the 5 min chart, it may have reached the upper BB whilst hitting a s/r level at the same time. In that case, it's best to wait till price crosses the s/r line and you see a breakout of the previous candle. Doing it this way, will avoid taking the Crossout at face value.

Let's take a look at a few more. Examine figure 24.

Figure 24

For the answer, let's consult the 1 Hour chart. See figure 25.

Figure 25

The 5 minute chart looked like a sure bet, didn't it? But to use MD for maximum gain, you would leave the above trades alone, even if it does pan out to give a profit. Instead you would wait for high probability trades where *everything* lines up.

There will be times when everything does not line up and still it would have produced a good profit. You will need to use your judgement and MD for those trades. These are shown later.

Generally speaking, if at any time, you receive conflicting information between indicators and tools, your MD should be telling you to stay out until you find a better opportunity later in the day.

Ok, we now have a signal to go north on the 1 Hour chart with the Crossout strategy. See figure 26. Would you take it?

Figure 26

The new candle has just broken above the high of the candle before it.
We are not going towards a major fib level or the EMA 100. Is this trade worth taking?

Considering it is Friday evening with a few hours remaining before the markets close, I'd have to say no. In addition, price is touching the upper trendline. RSI remains overbought on 5 minute chart (not shown).

Are you starting to get the message? Look at all the facts before placing a trade. Don't take any system at face value.
This is the reason why people use a system and then leave it after a while. They experience a few failures which are inevitable but they do not see the obvious ones because they don't train themselves to look for the 'gotchas'.
The more experienced traders already know this and use MD all the time. It's second nature to them.

Let's look at some more; Examine figure 27. Is this a good trade to take? Seemingly, we have all the factors lining up.
It's the right time, the daily is in a downtrend, the hourly has made a short retracement and has reached the EMA 100 and the 5 minute chart has 3 factors lining up.
Can you see anything wrong with taking a short position, for a few pips at least?

Figure 27

USD/CHF 1 day BID 1.1460 07:55:52 High 1.1466 Lo...
USD/CHF 1 day 1.1460 07:55:52
Account(s) Information
Dealing Rates
MA (C,100,E)
1.2500
1.2000
1.1460
Sep
Oct
Nov
Nov.25
USD/CHF 1 hour BID 1.1460 08:00:00 High 1.1466 Low 1.1386
USD/CHF 1 hour 1.1460 08:00:00
Account(s) Information
Dealing Rates
Open Positions
Orders
Summary by Accounts
EMA 100 could act as Resistance
Jetset CO
1.1600
1.1550
1.1500
1.1460
1.1400
1.1350
10:00
Nov.25
8:00
18:00
Nov.26
Nov.28
Nov.29
11/26/04 08:00 1.1334 11/29 07:55:42
USD/CHF 5 min BID 1.1460 08:00:00 High 1.1466 Low 1.1386
USD/CHF 5 min 1.1460 08:00:00
BB
Price at top BB
Is this a good trade?
1.1460
1.1440
1.1420
1.1400
1.1380
RSI ticked down
RSI (14)
65.0
44.0
23.0
Stoch Os (15,3,3,S)
Divergence
64.0
3.0
0:45
1:35
2:25
3:15
4:05
4:55
5:45
6:35
7:25
11/29/04 08:00 1.1468 11/29 07:55:42

Of course you can't! It is a good trade against the Crossout and a good example of where everything else lines up. When trading against the Crossout or against the trend, remember to keep your stop and limit close.
See figure 28.

Figure 28

OK, have a look at the following dilemma: See figure 29

We see conflicting information. Do you remember what to think about and what to do?

Figure 29

For this trade, I put on my MD cap and started thinking.
Crossout says north. Boll Breakers say south, what do I do?

I know; if a candle breaks through the cam and then I see a breakout of that candle, I will enter a buy position.
If candle bounces off the cam, I will have to see how many pips there are between the current price and the middle BB. I can see that the whole Bollinger Band structure (3 lines) are moving up, which generally means avoid going south.

So I wait to see what happens.
See figure 30.

Figure 30

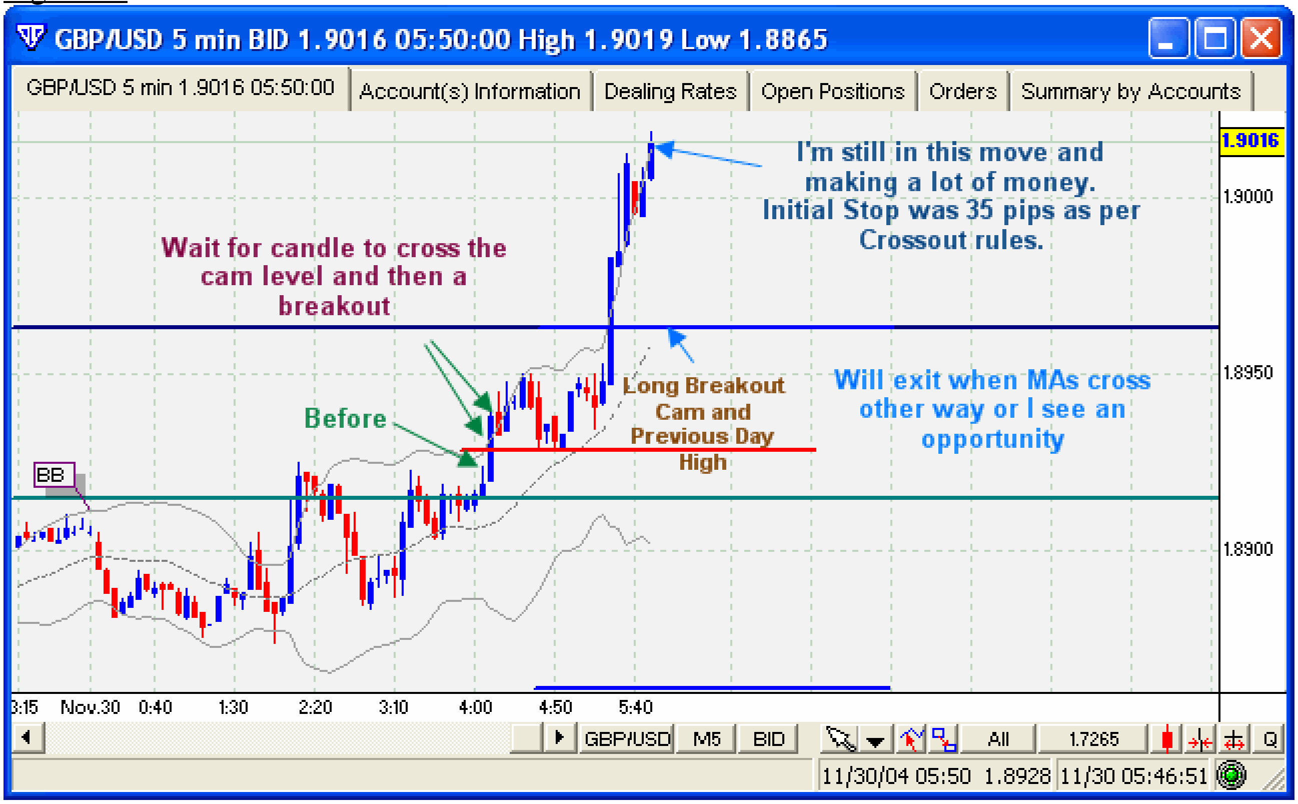
The candle that broke through the cam level didn't break so no long trade.
The red candle after that was a turning point and I would have entered a trade to sell if the middle BB hadn't been so close.
After witnessing the above, I thought it best to stay out as it started to look like a sideways movement plus there was a disagreement between Crossout and Boll Breakers. You can see the → result of that.

Figure 31 shows a similar situation. Same dilemma, different day. What should I do this time?

Figure 31

So I applied the same logic as last time. See figure 32

Figure 32



I eventually ended up making 132 pips on this trade using an exit strategy which will be discussed next.

Exit Strategies

Exiting a position is generally more difficult than entry.
There are several methods which can be employed to get out of a position with profits.
Many online posts have discussed exits at length and so I won't bother delving too deep in the theories.

Should you use MD with exits? This is debatable.
Generally speaking, you shouldn't move a stop loss further away then it already is unless you have a damn good MD reason to do so.
For example, you may have placed an initial stop loss of 35 pips when trading the Crossout. Soon you realise that there is a s/r level 2 pips behind that 35 pip level. It would make more sense to place your stop behind the s/r level than keeping it at a fixed 35 pips.
The same reasoning can be applied if the s/r level was just behind your Crossout entry. You have no need for a large 35 pip stop at that point because if the price started reversing and broke the s/r level, it is likely to continue in that direction. It would be prudent to move the stop closer. See figure 33.
Bringing a stop loss closer is better than moving it further away.

Figure 33

Looking back at past performance, the Crossout strategy would end up with a decent profit if exited when the EMAs re-cross in the opposite direction. This is normally a good exit strategy when the price is rising or falling steadily over many hours or even a few days. See Figure 34.

Figure 34

However, when you have a fast uptrend such as in figure 33 above, we need to use a refined exit to get out at a better price.

Other than the exits defined by the systems themselves, there are about 10 common exit strategies used by traders today.

- Trailing Stop
- Use multiple lots.

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

- Candlestick Formation

Learn trend ending candlestick formations. For example, when a hammer occurs after a significant trend, wait for a breakout of that candle in the opposite direction and then exit. Shooting stars, engulfing candles, hammers, hanging men and dojis' are all examples of formations which occur at the end of trends.

- 5 Bar Exit

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

- Follow Through

Since an uptrend is defined as a series of higher lows, you can use this exit strategy by keeping your stop 2 pips below the previous bar's low in an uptrend. This works great when the trend is running away fast such as in figure 33 above. If you do get spiked out, simply re-enter on the following candle upon breakout. Vice versa strategy for short exit.

- Fib Levels and S/R levels

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

- Chart Pattern Exit

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

- Blended

You can use a combination of each of the above exits by moving from one to the other as you see the situation change. For example, you may want to change from a '5 Bar' exit to a 'Follow Through' exit when the time for fundamental news may be imminent. You may want to look at a different strategy to see what it is doing before you decide to exit. You may want to see where price and indicators are on the 5 minute before you exit on the 1 hour Crossout strategy. All this is a display of **Mechanical** **Discretion** working with exits.

Chart Patterns

Chart patterns should also be traded when they are confirmed by any of the 3 key strategies mentioned above.
There are many chart patterns and I don't intend to go through all of them.
I'd like to show you some of my favourites.

The most common one is the 1-2-3-4 or A-B-C-D pattern.
You should already know what this is but for completeness sake, I'll run through it quickly.

For a buy signal, you need to have an uptrend, followed by a short retracement followed by a move in the original direction again. Buy position is signalled when price breaks above the No. 2 position. See figure 35.

Figure 35

Entry can be made slightly earlier if you follow the "Traders Trick" entry as publicised by Joe Ross.
Exit can be made at the 138.2 or 161.8 fib levels which would form point 4.

Related patterns include Heads & Shoulders and 'W' bottoms.

Some of the less known patterns are The Gartley and the Butterfly formation. These are explained in Scott Carney's book "The Harmonic Trader"
These patterns are quite effective and can be found if you really look for them.

The Gartley
The Gartley is a completed 1-2-3-4 pattern with an extra leg in front of it.
The best way to explain it is by a diagram.
See figure 36 and figure 37.

Figure 36

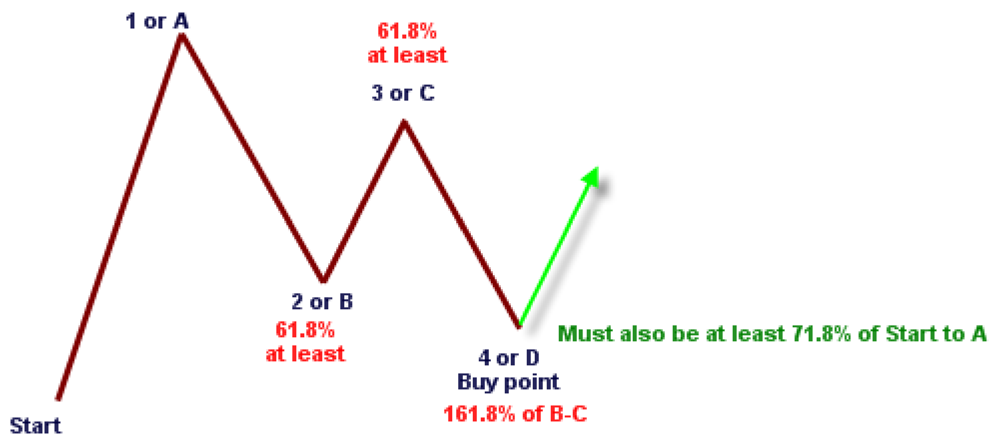
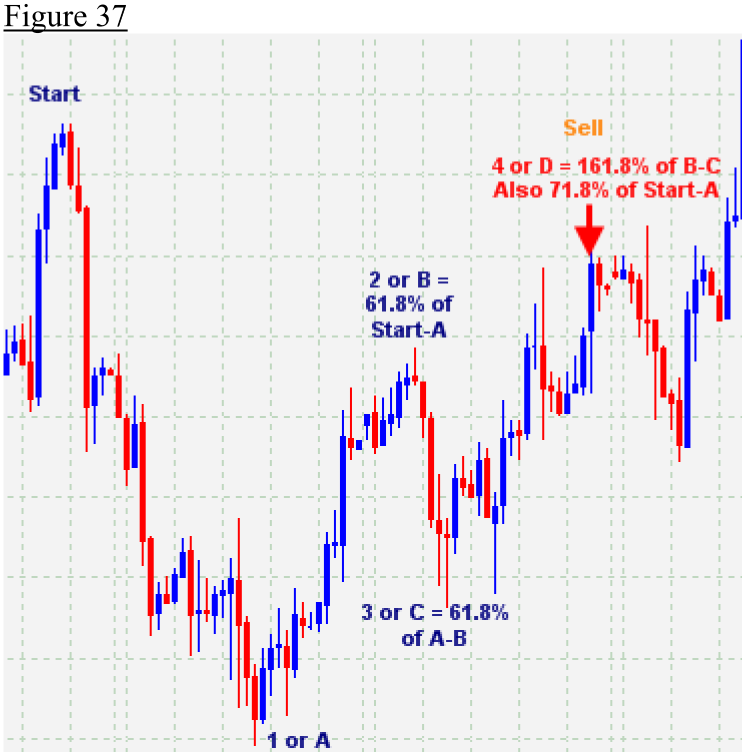


Figure 37



Things to remember about the Gartley:-
A-B must be 61.8% or greater of Start – A (S-A)
B-C must be 61.8% or greater of A-B
C-D must be at least 138.2 of B-C inverted
Point D must be 71.8% of Start – A (S-A) for the formation to be valid.

This is not a common formation but it is quite reliable when it's there.

The Butterfly
The Butterfly is exactly the same as a Gartley except the last leg is 161.8% of (S-A) compared to the 71.8% of the Gartley (S-A). See figure 38 and 39. This too is a rare occurrence and is hard to find but it is fairly reliable when traded.

Figure 38

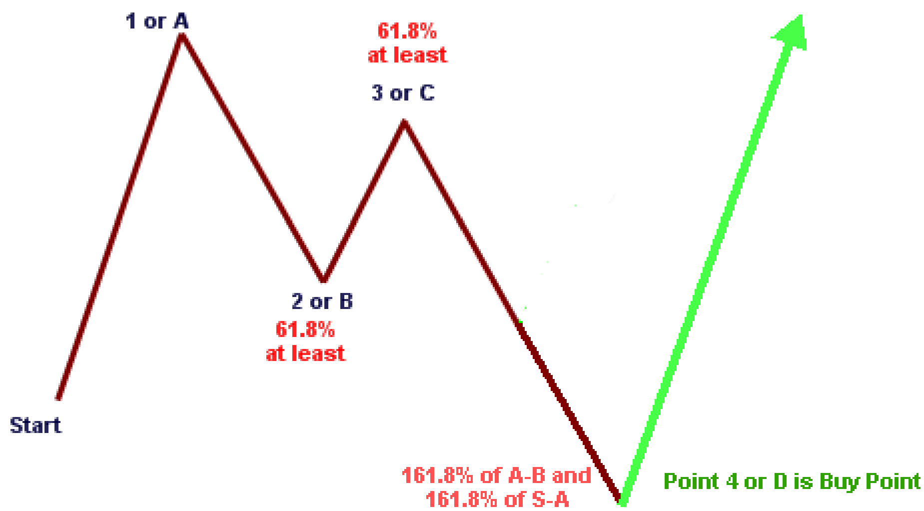


Figure 39

The above chart patterns are the only ones I'd like to mention as many people don't trade these formations simply because they can't be bothered to look for them.
Once you've trained yourself to spot these setups, it will provide yet another opportunity to trade along with Boll Breakers and Stoch Divergence.

The Mile High View

That's it! That's all there is to it ☺
If you think there are too many rules, you have missed the point completely. You need to understand, *you are free*. Free to do whatever you want. That's the magnificence of MD.

MD is Freedom. I can't say that enough. Why do some traders make more money than others? It's because of their abilities to analyse a trade. They have the freedom to take any trade they want. They use their discretion on a strategy developed by themselves or others. There are only a few traders that don't follow a plan or a system.

All you need is a place to start from. You can start on any system you see fit.
To get you kick-started, I have provided you with a cracking system. From here, all you need to do is believe in your abilities to analyse the situation before jumping into any trade. Check out other factors. Is price bouncing of a trendline? Has it reached a fib level? Is it in the vicinity of local resistance? Is there another strategy giving an opposite signal?
Of course, you can choose to ignore any warning and still take the signal based on instinct.
But then, you would be doing exactly what you are doing now and this is the destructive type of MD surfacing from within.
The whole point of this book was to drum into you the need for using your beneficial MD with every trade. Not to go back and still take a trade despite good MD warnings.
To receive warnings in the first place, you need to develop your drawing, plotting and analysing skills. Once you can spot the traps, you will think twice before taking further trade.

Do you see what I mean by "plugging your MD in, seconds before taking a trade"? It is your peripheral scanning which will save you.

Of course, there will always be times when you make a good MD decision to refuse a trade and yet the currency goes on to make substantial profits which you could have had. It can work the other way also. You may make a good MD decision to take a trade based on everything lining up with nothing to stop you making a decent profit. Yet you end up losing.
However, if you apply your polished MD techniques to every single trade, more often than not, you *will* win.

Remember, you can change the rules to fit your criteria. You can change a system to make a completely new system. For example, when working with the Crossout strategy, you spot a recurring formation which gives significant profits. You decide to re-enter a trade on every single breakout of the bar before it as long as it's the same colour candle in the direction of the cross. See figure 40.

The point is - feel free to do whatever you want. Adjust any system to your criteria if you see fit. Don't be afraid to change something if you really see a need. Actively look for ways of changing a system for better profits and feed your pocket.

Most new-intermediate traders are scared to change a system just in case it fails and then they only have themselves to blame. Once you develop your beneficial MD, you *can* blame yourself but you'll be doing it less often

Figure 40

There are two groups of traders:
One group will open up all the charts in the manner I have shown and will plot all the tools and indicators as directed above. They will analyse everything before placing a trade according to the JTM. Once the trade closes at a loss, they will give it another try. Once that trade loses, they will get disheartened and convince themselves to give it another shot on one of the other key strategies. If this one loses also, they will close this book and place it in the “trading books” folder on their computer. This is a mistake and they have fallen into the classic “Beginners Trap (see the section in the first part of this book).”
This group will then continue their search for sure-fire systems only to find that most of them will provide some unexpected losses. Eventually, months or years later, they may decide to re-dig this book from the darkest places on their computer.

There are 2 things this group needs to realize.

1. Nearly every system provides losses when you start to trade it afresh. If you give up before you have tested it thoroughly, you will remain a nomad, wandering from system to system.
2. Remember to use your MD and use it correctly. If the system didn’t work, ask yourself, is it the system or is it my lack of MD? Am I following signals blindly? Did I scan the other charts for s/r or fib attacks? If I am using MD, then am I using it correctly or is this the destructive type?

This group will need to re-evaluate in order to succeed.

The other group of traders will read this book and apply the methods diligently. They will spend time developing their good MD. They will analyse the charts and will think twice before placing a trade on any given system. They will end up using MD for the rest of their lives even if they do forget about this book.

I sincerely hope you are from the second group.

If you feel that the information presented here regarding MD is of low value, simply because you already knew what to do, then go ahead and apply the information learnt on just one trade. I can only smile when I imagine you recovering the cost of this book in a few minutes.
If you do apply the techniques of good MD even once and you are aware of it, then I have done my job by infusing a sense of caution within your thought process.

After viewing the videos that accompany this book, think about the following:-

Before placing another trade on the system you are currently using, look at the basic tools and see if they confirm. Develop your analysis skills over the next few days. Let your **Mechanical Discretion** flow!

Drop me an email and let me know if I can help.
J. Heat