Welcome to **Forex Trading Machine**, the number one course for learning about the forex market and how to profit from it using my exclusive Price Driven Forex Trading (PDFT) method. Over five months of hard work went into the creation of this e-book so that it will meet your high quality standard demands. **Forex Trading Machine** will teach you effective trading systems which:

A) are very easy to implement after you learn their exact rules and principles, and

B) are totally mechanical, meaning: no interpretation, no confusion, no judgment, no tricks, and no vague chart formations and principles that are easy to illustrate in hindsight but extremely hard to spot and interpret in real time.

This +180 page e-book was created to cater the needs of every type of trader, from beginner to advanced.

If you are new to forex trading I recommend you start from chapter one and not skip any part of the course. It is of extreme importance that you learn the basics of the forex market, technical and fundamental analysis principles, money management and many other subjects.

There is a lot of material to cover so please be patient and thorough. If you did not completely understand a certain chapter read it as many times as needed before proceeding to the next chapter. Remember the saying "a chain is only as strong as its weakest link"? Well, this is particularly true in trading!

Even if you are a more seasoned trader I do recommend that you read every chapter of this eBook for the simple reason that various elements presented through out the course are directly linked to the practical implementation of the trading strategies taught. Furthermore, even if you have already learned about topics like money management and technical analysis it still might be worth reviewing these and other subjects presented in the course, maybe they are approached in a new and different perspective from what you have already seen.

Throughout the course you will see sentences and words typed in blue with an italic format. These are very important parts of the particular section you are reading and demand much attention.

At the end of the course I have included a list of recommended books and websites. Except one, I have not found any good forex related books I feel comfortable recommending. All the other books on the list are not directly related to the forex market but trust me, these are books will greatly contribute to your growth as a trader. The best of the best.

Direct Customer Care: help@forex-trading-machine.net or you may contact us directly through our website support form.

Again, thank you for purchasing **Forex Trading Machine**.

Avi Frister
www.forex-trading-machine.com
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ABOUT ME

Trading has been an important part of my life for the past 10 years. I can honestly say that I have read about 90% of the ***most important books*** on the subject. Throughout the years I've had the opportunity to trade different markets like stocks, futures, and currencies.

Let me tell you how my interest in this wonderful venture started, I think there is a good lesson to be learned here.

About 10 years ago I had no idea what the world of trading was except hearing stories of people making a lot of money in the stock market from time to time (you know, when you see an article on one of those leading magazines about someone that has made millions!). So I always knew that the stock market existed, I knew that people were making huge amounts of money but to me it always seemed “they must be experts with incredible resources to be doing that” (what a joke!).

Anyway, one day I met a friend of mine in a bar who brought with him a much older friend of his, Jason, and we started talking about what each one was doing for a living. Now, you have to understand, my nature is to be an incredibly curious person. I like digging into things and researching them until my intellect is completely satisfied! So after some common chat I found out that Jason worked as a stock broker in a financial institution. I took

Jason and put him on the interrogation stand! What, where, how, who, I had to know everything. I will not go into detail here about the whole conversation but Jason basically opened my eyes with regard to the financial trading industry. He told me about technical analysis and how it was the key to explosive gains in short periods of time. He shared with me some insider information that was truly unbelievable for me and recommended I read some specific books on the subject**.**

The next day I ordered four books from my local bookstore and I could not wait for them to arrive. I read each of them at least two times throughout the following month. "WOW, I can make millions" was my first reaction after the intense reading. Five days later I opened an account with a reputable stock broker and started trading. Six days later I had depleted approximately 75% of my trading account! Why? I was emotional and hasty with regard to my decision to start trading. Four elements attributed to my failure:

- I did not have a trading plan.
- I relied on out dated strategies I have learned from these books (the books were good as far as providing general guidance, its just that markets change and with them so do trading conditions)
- I did not have a money management system.
- I lacked discipline.

Many of today's successful traders had mentors who guided them and showed them the ropes. Gave them direction and sense. I did not have that luxury and my trading account was a painful reflection of amateur trading.

With 25% of my account left and a sense of defeat I decided this was not over. Not yet. I believed there must be a method to win in the financial markets and my mission in life was to find it. That's how I am, that's my nature, no defeat…only success, and that is how you must approach this wonderful venture.

I put my trading aside (as if I had a choice!) for four months to study, refine, analyze and come up with a trading plan both on paper and in my head. The paper plan consisted of two elements already mentioned above: First, a trading strategy (entries, exits, profit objectives, indicators etc.) based on my OWN research and findings. Enough of all the recycled information. This had to be my own! I took all the trading strategies I could find and synthesized them into my unique approach. Second, I developed a coherent money management plan with a risk control element that fit my personality.

But probably more important than developing a trading plan was analyzing my inner self , my most vulnerable sides that came into play while I was trading.

LEARNING ABOUT YOURSELF

You learn about yourself a lot in this venture when you lose money. Amongst the many things I learned, two are extremely important:

I HATE **losing**: Sure, everyone hates losing, the question is on what time scale! Some people don't mind having a bad week or a bad month as long as they know that overall at some point they will make money in the long run. Not me! I have to hear the cash register ring often. I don't care if it is a $100 profit! I need the psychological stimulation that winning provide. So, it was obvious that the only manner to attain the objective of being profitable in the short term was by focusing on designing strategies that have a good winning percent ratio. I found out that predicting market direction on smaller time frames was more accurate. Speculating were the market would go in the next one hour or couple of days was easier than speculating were it will be in one month!

I LACK discipline: No, this is not to say I have no discipline at all but I do get emotional at times which ultimately results in deviating from the main plan. Lack of discipline in this game will get you in some real trouble sooner than later. You can have a crappy trading method but if you have discipline following it you might still make money. On the other hand, you can have an incredible trading strategy with a very high precision rate but if you do not have the appropriate discipline you will lose money fast and sure!

My problem in the past was that I would have the plan in place before the trade, however once in the trade I always though I could outsmart the market or my own plan. And every time this happened I lost money. EVERYTIME! I came to understand that the brains job in this game is as following: You hire it before the trade, you fire it during the trade, and you hire it again after the trade! Evaluate, calculate, asses, analyze, review (or any other action you can think of) BEFORE and AFTER the trade but DURING the trade you must understand that your job is to do nothing except follow your plan. When you are in a trade you are under fire and no matter how calm you try to be once there is money involved it is hard to be calm, specially if the market is not moving in your favor. This is definitely not a situation in which you can think or rationalize coherently and objectively. Hence, the trading plan and the discipline to follow it!

Learning about myself and my flaws was crucial for my success. It is not hard to come up with a trading plan, a decent trading methodology and tons of trading information. However it is hard to recognize and accept your flaws and this is were most traders fail.

I started trading again after the four month break with a depleted account but with unimaginable mental strength (one of the most important elements of a successful trader) , self determination, confidence and an army of strategies I developed. About 14 months later my account was at the same level it was when I initially started trading. A 300% increase in equity! This is when I knew I had it in me to succeed as a trader in the long run. I had proven to myself that I can make it in this tough game, but most importantly I proved to myself that I can master myself!

FOREX, THE GREATEST GAME IN TOWN

My trading career started out in the stock market. I am a true believer that you must master A before you move to B and that is why I had no interest in exploring other markets. Plus, I was doing well trading stocks so I didn't feel the need to trade other financial vehicles. However, as a trader your nature is always to be curious, to want to explore new and exciting venues.
I always had an interest in the forex market. It provided the opportunity to trade with leverage and hence reach higher returns. While the leverage you could use trading stocks was 2:1, with the forex spot market it could be 100:1 or more! Don't worry, later on in the course we will go over the concept of leverage and its implications to trading.

I decided to start of trading the USD/JPY pair. It was amongst the most liquid of all, and more important, it was extremely volatile. First couple of months I studied its behavior. Paper traded some old strategies I used trading stocks, developed some new strategies. Added a bit here, subtracted a bit there. This was a whole new world! No more waiting for the up tick to go short. No more scanning amongst hundreds of stocks. No more getting killed with slippage. No more bad fills due to wide bid/ask spreads. The pair moved fast, had great liquidity and fills were mostly good, specially as time went by and retail trading became a larger part of the overall daily trading volume. As time went by I focused more and more on the forex market and less on individual stocks. It was logical. With stocks I had to wait sometimes a week or two to see descent profits. Now, with the forex market, most trades would last an average of 2-3 days (in case of swing trading, much less when daytrading), sometimes a bit more. And as I already mentioned above, I needed the psychological edge that fast gains provide.

I kept on trading the forex market gradually adding new currency pairs, eventually over 90% of my trades were in the forex spot market. Today most of my trades are in the GBP/USD, EUR/USD and USD/CHF markets since they provide the best opportunities (in terms of liquidity and volatility). The advanced trading strategies you will learn in this course are best traded with these pairs.

BACKGROUND

Foreign exchange, or as it is referred to many times: “forex”, “fx”, or “currency exchange market”, is the term used to describe the trading of world currencies. A currency trade is the simultaneous buying of one currency and selling of another one, e.g. Buying US dollars with euros, buying British pounds with US dollars, selling Swiss francs for Japanese yens etc. The currency combination used in the trade is called a pair. We will dive more into this later on.

The foreign exchange market is by far the largest financial market in the world. Just to put things into perspective, the New York Stock Exchange (NYSE) daily volume fluctuates around US$30 billion per day. Forex market daily volume is estimated to be around US$1.5 trillion! In fact, daily world stock and bond market volume added up is only a fraction of the daily forex trading volume.

We always hear the word “market” after mentioning forex and this usually invokes the idea of a central market place like the New York, Nasdaq or London stock exchange. This is not the case in the forex market. The forex market is considered an over the counter (OTC) or “interbank” market, due to the fact that transactions are conducted between two counterparts over the phone or via an electronic network. Trading *is not centralized on an exchange* as in the case of stocks and futures. This is also the reason why the forex market is a 24 hour market.

The following shows at what times forex trading takes place around the world:

Time zone	GMT
Tokyo Open	23:00
Tokyo Close	08:00
London Open	07:00
London Close	16:00
New York Open	12:00
New York Close	21:00

The major dealing centers today are London and New York, together covering approximately 50% of the daily trading volume. This is also the reason why most of the action in the forex market happens within those timeframes (7 GMT – 21:00 GMT).

There are several pro's and con's for a 24 hour market for the individual trader:

Pro's:

1. The trader can respond to currency moves caused by economic, social and political events *at the time they occur*. This is a *huge* advantage the forex market has over any other markets. If a company listed on the NYSE is scheduled to release quarterly earnings after the close of the market (as they almost always do), owners of the stock cannot react to the data (since there is no after hours trading) and may suffer huge losses depending if they are short or long the stock once the market opens again the day after.

2. A trader has the opportunity to have an active market no matter what part of the world he or she lives in. As an example, if someone living in Australia would like to trade the US stock market they would have to be awake all night because of the time differences. Not so with the FX market.

3. Different times within the 24 hour period provide opportunity for different strategies. As an example, during the European and US sessions the market tends to be quite volatile allowing the trader to take advantage of big moves in currency prices. In the Asian session the market tends to range meaning the trader could play range strategies (don't worry, we will cover the meaning and significance of these strategies later on in the course).

Con's:

1. For the small trader who is most of the times trading alone (unlike banks for example who have traders 24 hours a day viewing and analyzing the market) it is impossible to take advantage of all the action that takes place. For example, if a trader lives in New York and a big move starts in the specific pair he or she is trading during the mid European session he or she would probably miss it (remember the time differences).

2. Some periods within the 24 hour day present low trading interest from the various market participants which means very small moves, no liquidity and sometimes (depending on the broker the trader works with) widening of the bid/ask spread.

Spot and Forward Outrights

The most important forex market is the spot market, it also has the largest trading volume and it is the market you will be dealing with should you chose to trade forex. It is called “spot” simply because the trade is settled instantaneously.

Another part of the forex market is called forward outright. Don’t panic! You will not be dealing with it and in essence you do not even need to know about it but it is always good to understand the whole picture. A forward outright contract locks in the price at which an entity can buy or sell a currency on a future date. The contact holder is obliged to buy or sell the specific currency at a specified price, at a specified quantity and on a specified future date.

FOREX MARKET PARTICIPANTS

There are various entities in the FX market arena. Each trades for its own financial objective. The following are the main FX participants.

Central Banks

Within the foreign exchange market national central banks play a very important role. Ultimately, the objective of central banks is to keep inflation low and steady by controlling money supply. One of the most important responsibilities of a central bank is the restoration of an orderly market in times of excessive currency rate volatility.
Many times, the mere speculation of central bank intervention is enough to stabilize a currency. However, in the event of aggressive intervention the actual impact on the short term supply/demand balance can lead to the desired moves in exchange rates.

Banks

The inter-bank market provides for both the greater part of commercial turnover as well as huge amounts of speculative trading on a daily basis. The type or trading that banks do can be divided into two. First, trading on behalf of the banks customers. Here instructions are given to the bank by the individual customer to buy or sell a specific amount of currency. The second type of trading is proprietary trading. Proprietary trading simply put is when the bank's dealers trade the bank's capital to make the bank a profit. A very large part of interbank trading takes places on electronic broking systems.

Interbank Brokers

Until not long ago, the foreign exchange brokers were doing large amounts of business, facilitating interbank trading and matching anonymous counterparts for relatively small fees. The increased use of the Internet has forced a lot of this business to move onto more efficient electronic systems that are functioning as a closed circuit for banks only.

The traditional broker box providing the opportunity to listen in on the ongoing interbank trading is still seen in most trading rooms, but turnover is noticeably smaller than just a few years ago.

Customer Brokers

These type of brokers are the ones that handle the trades you will make in the forex market. These brokers are a direct result of the increased use of the internet. Their numbers are growing fast and the service they provide is becoming better and better as days go by. Forex trading has become such a lucrative business for these brokers that they literally will do everything to acquire customers. The function of these brokers is to provide foreign exchange dealing services, analysis and strategic advice to customers. The services of such customer brokers are more similar in nature to stock, futures and mutual fund brokers and typically provide a service orientated approach to their clients.

Commercial Companies

Companies engaged in international trade conduct a lot of their business in foreign currencies. These companies use the currency market as a means of protecting themselves from unfavorable moves in the market. A US company operating in England would receive payments for its goods or services in Great British Pounds (GBP). The company decides at one point to change the GBP for USD. This trade, from GBP to USD, is where the company's transaction forms part of the daily liquidity of the forex market.

Investors and Speculators

It is estimated that the largest portion of the daily volume in the forex market derives from investors and speculators. Simply put, this group of market participants trade with one objective in mind, making a profit from rise and fall of currency prices. These type of traders are attracted to the forex market due to the incredible leverage it provides, fantastic short and long term moves, and high liquidity. Ten years ago this group consisted mainly on big well funded traders. Since the internet has become more used and more efficient in terms of connection speed big traders and investors are not the only ones who can take advantage of currency speculation. The field has leveled and today's small speculator has the same tools big investors and speculators had 10 years ago.

Hedge Funds

Simply put, a hedge fund is a managed investment where the fund manager is authorized to use derivatives and borrowing with the aim of providing a higher return. The fund manager is allowed to use aggressive strategies that are unavailable to mutual funds, including selling short, leverage, program trading, swaps, and arbitrage.

Hedge funds have increasingly been known for aggressive currency speculation in recent years. The main reason for this is due to the high leverage, volatility and liquidity the currency market provides.

HOW A CURRENCY TRADE WORKS

1. Reading A Currency Quote

Currencies are quoted in pairs, e.g. GBP/USD, USD/CHF etc. The first listed currency is called the “base” currency. The base currency is the basis for the buy or sell transaction. The second listed currency is called the “counter” or “quote” currency. As an example, if you place a buy GBP/USD order with your broker what you have effectively done is sell US dollars and bought Great British pounds (GBP). By definition, the first currency is the stronger between the two.

Let’s look at another example:

USD/CAD

If you believe that the Canadian government is going to weaken its currency (Canadian dollar) in order to help its export industry you would BUY USD/CAD (in trading terms: GO LONG). Why? Because you want to own US dollars while they appreciate against the Canadian dollar.

On the other hand, if you believe that due to instability in the US economy the US dollar will lose value you would execute a SELL USD/CAD (in trading terms: GO SHORT). By doing so you have sold US dollars with the expectation that they will depreciate against the Canadian dollar.

There are many currency pairs in existence. However, the ones I consider important are those with the best market liquidity, i.e. the most heavily trade. They posses all the quality a good market has for trading purposes. The following is a list of these currency pairs:

EUR/USD : Euro and United States dollar
USD/JPY: United States dollar and Japanese yen
USD/CHF: United States dollar and Swiss franc
GBP/USD: Great British pound and United States dollar
AUD/USD: Australian dollar and United States dollar
USD/CAD: United States dollar and Canadian dollar

2. Understanding Pips

Every currency pair has a corresponding value and hence a quote. For example, a GBP/USD quote could be 1.5776. This means that the exchange rate for every GBP is USD 1.5776. In other words, it would cost the trader USD 1.5776 to buy a single GBP. A pip is the smallest price change that a given exchange rate can make. In our example a move from 1.5776 to 1.5777 would indicate a 1 pip increase. Since most major currency pairs (but not all, example of an important exception is the USD/JPY pair) are priced to four decimal places (.0000), the smallest change is obviously that of the last decimal point, or one basis point.

3. Calculating Pip Value

The value of a pip depends on the amount that is being bought or sold of that specific currency. Let's use a 10,000 unit purchase for our example.

Formula: (one pip with proper decimal placement/currency exchange rate) X (amount being purchased) = pip value

Example 1: GBP/USD Rate is 1.5776

0.0001/1.5776 X GBP 10,000 = 0.6339 GBP. Since we want the value in USD we multiply the GBP pip value by the exchange rate: 0.6339 X 1.5776 = USD 1.00. In other words, in a USD 10,000 purchase of GBP's the pip value is one dollar.

Example 2: EUR/USD Rate is 1.2000

0.0001/1.2000 X EUR 10,000 = 0.8333 EUR. Since we want the value in USD we multiply the EUR pip value by the exchange rate: 0.8333 X 1.2000 = USD 1.00. In other words, in a USD 10,000 purchase of EUR's the pip value is one dollar.

We can see that when the USD is the weaker currency between the two, a pip value will be one USD. However, this is not the case if the USD is the stronger currency. Let's look at some examples:

Example 1: USD/JPY Rate is 113.20

.01/113.20 X USD 10,000 = USD 0.8834. Since the USD is the base currency we do not have to go on and multiply the pip value by the exchange rate (like in the above examples).

Example 2: USD/CHF Rate is 1.5285

.0001/1.5285 X USD 10,000 = USD 0.6542. Again, since the USD is the base currency we do not have to go on and multiply the pip value by the exchange rate (like in the above examples).

Don't worry! I just wanted you to know the correct way to calculate pip value but in reality most trading platforms will tell you automatically the correct pip value of the currency pair you are about to trade.

4. Trading On Margin

There are several unique features in the forex market that attract traders and investors, trading on margin is one of them. Buying or selling on margin simply means that the trader is borrowing money from his broker in order to be able to buy more currency than it would possible with only the traders own money, i.e. buying and selling assets that represent more value than the capital in the traders account. Leverage, in our case, is simply the use of margin to increase the potential return of the currency investment/trade.

You have to be able to understand how all this translates into numbers so we will look at an example.

A trader has USD 10,000 in his brokers account. However, he wants to be able to trade USD 100,000, which is 10 times more than his account value, i.e. money he does not have. His broker lends him the full amount which now means the trader is controlling USD 100,000 with only USD 10,000.

In terms of margin, a 10% margin is used, and in terms of leverage a 10:1 ratio is used.

Why 10:1? 10 times 10,000 equals 100,000, or the borrowed amount of money.

Why 10%? USD 10,000 (the amount of money the trader has in his account, money the trader OWNS) is 10% of the total amount of money being used to trade, USD 100,000.

Bottom line, these two numbers bring you to the same outcome, i.e. knowing how much money you can borrow or are borrowing from your broker to execute a trade.

When you start searching for a forex broker to work with, you will always see that the broker displays the maximum leverage allowed. Most brokers will allow you a 100:1 leverage, but some will go as high as 200:1!
Buying or selling with borrowed money can be very risky because both gains and losses are amplified. That is, while the potential for greater profit exists, this comes at a hefty price - the potential for greater losses. This issue is important and will be dealt with in the money management section with more detail.

5. The Trade

Placing a trade in the forex market is basically the same as placing a trade in any other market. Some people get confused because they feel they are not buying or selling anything like in the stock market, were you buy or sell part of a company.

We will dissect a trade from beginning to end in order to understand what is being done in the process.

Step 1: The trader has USD 10,000 in his forex broker account.

Step 2: In the morning the GBP/USD quote is 1.7478. This means that every GBP (Great British Pound) is worth 1.7478 dollars (i.e. 1:1.7478). Based on his analysis, the trader thinks that within the next 24 hours the GBP will gain strength against the US Dollar (i.e. a single GBP will exchange for more dollars). The trader wants to profit from the speculated move.

Step 3: The trader places a BUY GBP 100,000 (remember, although the trader does not have that amount of money in the account, trading on margin will allow this transaction) order with his broker either through the phone or through the broker's on-line trading platform. At this moment the trader has purchased GBP 100,000 at a cost of 1.7478 USD per GBP. In effect, what has also happened is that the trader sold USD 174,780.

Step 4: About 12 hours after placing the trade, things turned out as the trader has speculated and the GBP has appreciated in value against the USD and the quote is 1.7578, a difference of 0.0100 (or 100 pips) from the quote 12 hours ago. The trader decides to liquidate the position with the current profit.

Step 5: In order to close the position the trader has to now SELL the GBP's he bought earlier and buy back USD. An order to sell GBP 100,000 is placed.

Outcome: The market moved into the direction the trader speculated and a 100 pip profit was achieved. The profit is calculated in the following manner:

Trade Open (rate 1.7478) GBP +100,000 USD -174,780

Trade Close (rate 1.7578) GBP -100,000 USD +175,780

Profit: USD +1,000

Important!

Here we saw a trade from beginning to end with a final outcome of a USD 1,000 profit or a return of 10% on the trader's equity. By now you obviously understood why it was possible to make a 10% profit in less than one day, we traded on margin. Remember how we mentioned above that using leverage can bring you incredible profits (like in our example)? Well, what if instead of the price going up 100 pips it would have gone down 100 pips to 1.7378? That would have been a loss of 10% of the trader's total equity.

Bottom line, and as already mentioned above, leverage can bring you big profits but it can also bring you big losses if not used properly. Again, this issue is of extreme importance and will be dealt with in the "money management" section of the course.

MOVES OF CURRENCY RATES

Currency value appreciates and depreciates exactly as does the value of any other financial vehicle. The reason for the increase or decrease of value is due to an imbalance of supply and demand like in any other market. More buyers than sellers and the price goes up, more sellers than buyers and the price goes down. The reason of why there are more buyers or sellers in the currency market can be divided into two; *technical and fundamental factors*. We will explore in detail each of these two areas and how they affect currency prices later on.

1. Daily Range

Every currency pair has an approximate average daily price range. This average range is measured with the help of simple mathematics. We take the difference between the high and low of each day for the past 100 days, add those numbers and divide by 100.

Formula: (Day1**(Day's High – Day's Low)** + Day2**(Day's High-Day's Low)**….. + Day100**(Day's High-Day's Low)**)/100 = Average Daily Range.

You probably wonder why 100 days and not more or less. Well, this is quite subjective, you can use more or less days in your formula but remember that the more days you use the further you might get away from the current or actual range of the pair. For example, a certain pair might have had very large range days one year ago but not anymore. So, should you use a one year average range for that pair you would be factoring into your equation price ranges that are not occurring anymore.

Examples of currency pairs approximate average daily range since early 2006:

GBP/USD: 120 pips
EUR/USD: 80 pips
USD/CHF: 110 pips

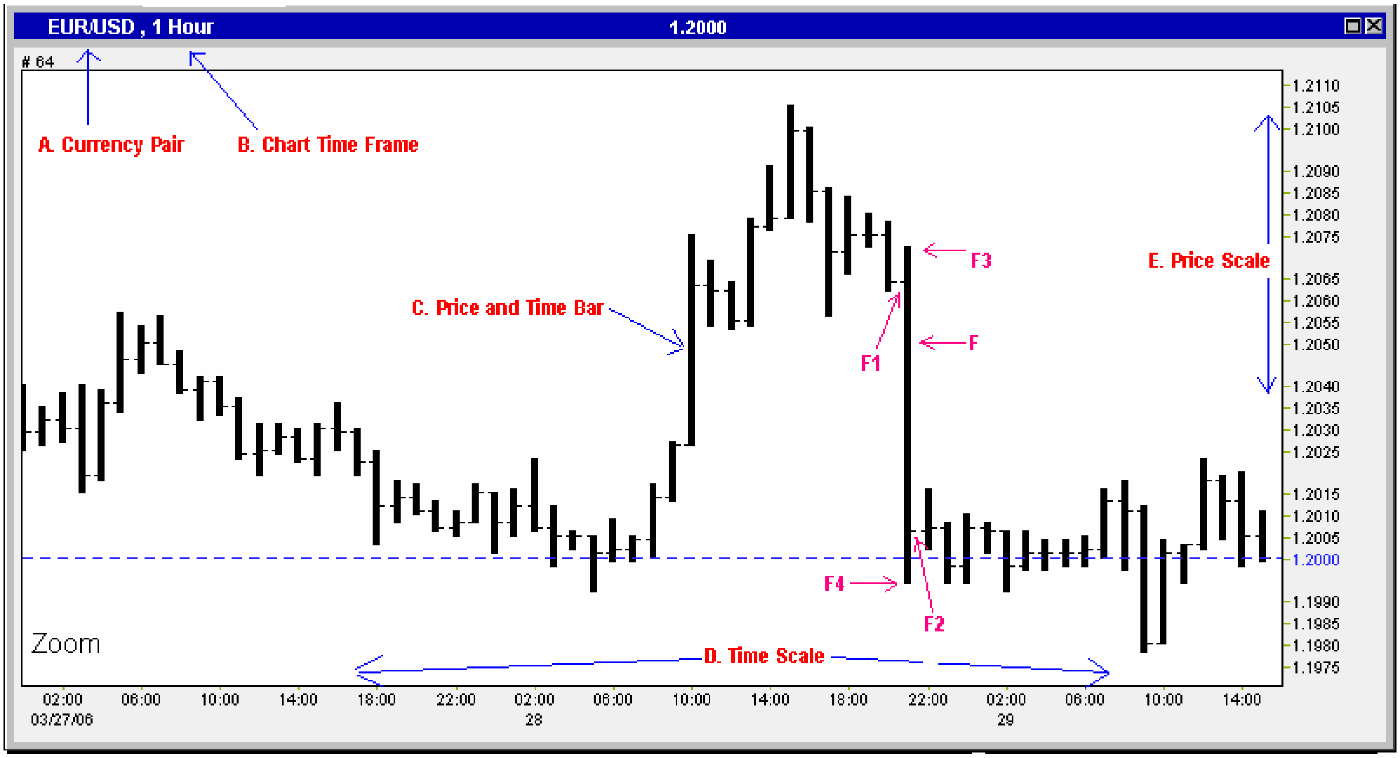
You are now probably wondering why you need to know the pair you are trading daily range. Well, it all has to do with establishing realistic profit objectives and stop loss levels. For example, if you know that the average daily range of the GBP/USD pair is 120 pips, you will not aim at daily profit objectives of 200 pips! Also, placing a 10 or 20 pip stop loss order (an order to limit your risk exposure after you enter a trade) would not be a good idea since a 120 pip daily move means a lot of 10 and 20 pip random moves throughout the day. Hence, your stop loss might be hit not because you were wrong about the direction of the market *but because you were caught in a random move*. It will all become clearer as you learn later in the course about technical analysis and strategy building.

READING A CURRENCY CHART

The purpose of a currency chart is simple, to plot price data in different timeframes. By doing so the trader can visualize, learn, analyze and feel how a certain currency pair has been behaving in the last minute, five minutes, hour, day, week, month or year (every charting package has many timeframes to chose from).

There are various types of charts, e.g. line charts, point and figure charts, candlestick charts, and bar charts. Basically they all serve the same purpose, plotting price data in different timeframes. In this course we will use bar charts.

The following is a 1 hour EUR/USD bar chart. We will now learn how to read and interpret it.



FX Power Charts – Courtesy of FXCM

A. Currency pair: Shows the currency pair to which the chart corresponds to.

B. Time Frame: On the side of the currency pair is the chart's time frame. The above chart is set to 1 hour. *The time frame corresponds not to the time frame the chart covers but to the time frame each bar covers*.

C. Bars: Each bar represents the selected timeframe, in this case each bar illustrates the price action of 1 hour. You can see that each bar has two small lines, one on its left and one on its right side. The left side represents the opening price of the specific bar and the right side represents the closing price of the specific bar.

Example: Look at the bar labeled F. You can see that the small line on the left side of the bar (F1, opening price) corresponds to 1.2065 (the price illustrated on the right axis of the chart). The small line on the right side of the bar (F2, closing price) corresponds to 1.2005. F3 illustrates the bars high (the highest price the currency pair reached within that hour), 1.2073. F4 illustrates the bars low (the lowest price the currency pair reached within that hour), 1.1995. Measuring the difference between points F3 and F4 provides us with the hourly range, in our example that would be 78 pips (1.2073-1.1995).

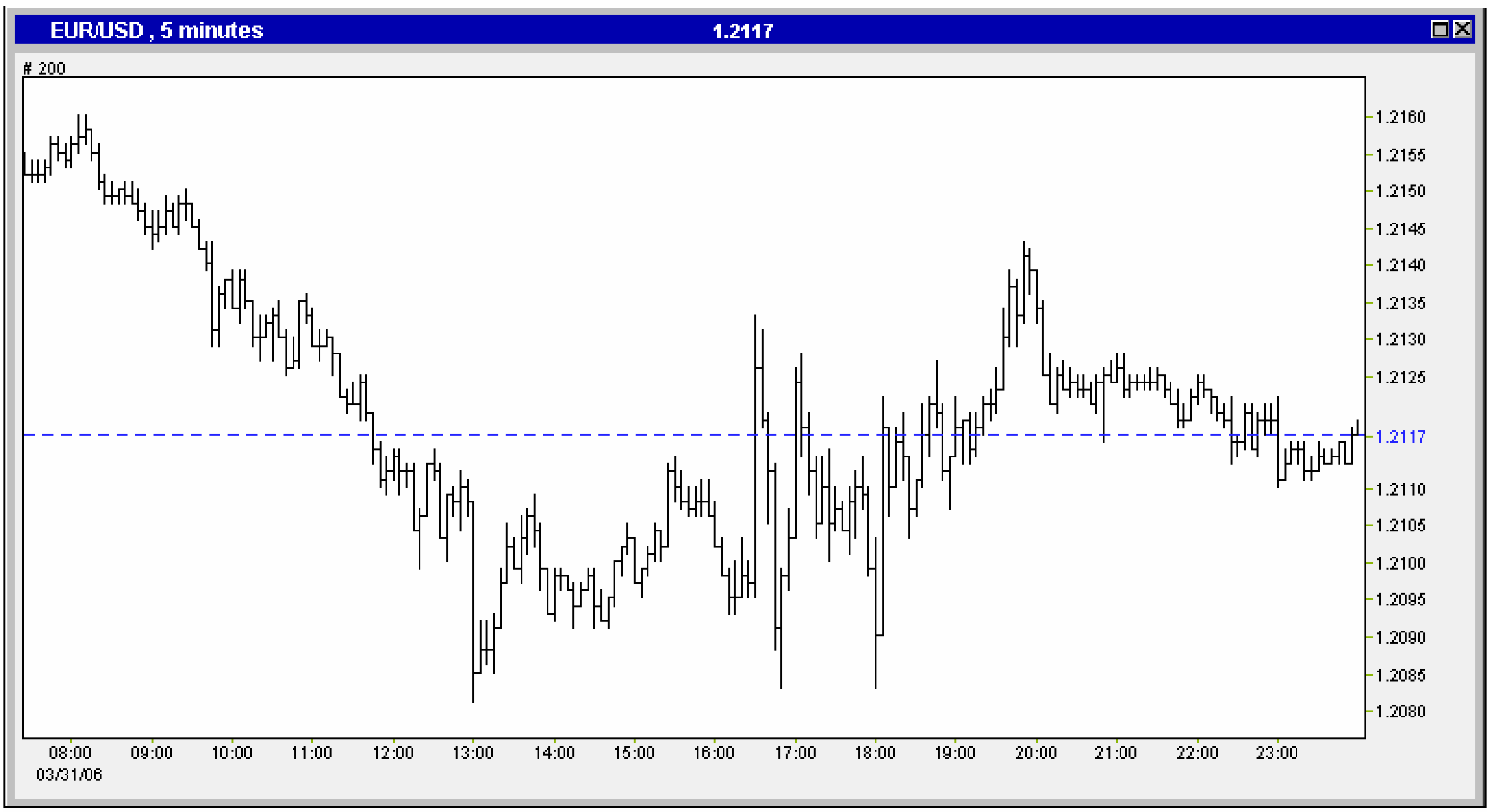
The smaller the time frame you chose the smaller the ranges of each bar will be and vise versa.

D. Time Scale: The horizontal axis represents the passage of time. Depending on the time frame you chose you can see dates, hours, or minutes. In the above chart we can see both dates and hours of the day. Notice how within each four hour section there are four one hour bars. Again, if this would have been a smaller time frame chart, say five minutes, we would have seen a smaller time range scale (horizontal axis). Instead of 60+ hours of market action covered like in the above example, we would have probably seen no more than 16 hours of market action covered.

E. Price Scale: The vertical axis of the chart illustrates the exchange rate of the currency pair.

On every timescale you could choose, be it from a one minute chart to a yearly chart, you would follow the same rules to read and interpret it. The only element that would change would be the time, price axis and the price range each individual bar covers.

Let's look at a five minute bar chart example:



FX Power Charts – Courtesy of FXCM

Note how in contrast to the hourly chart: A) The time scale is of 16 hours instead of 60+, B) each bar covers less of a price range, the largest bar being of 40 pips in contrast to 78 pips, C) the price range on the vertical axis is smaller.

TECHNICAL & FUNDAMENTAL ANALYSIS

The ultimate goal of a trader is to be able to forecast correctly where the price of a certain currency pair will be in the next minute, five minutes, hour, day, week or any other time frame. There are many methods that have been developed during the years to achieve these objectives. Currency traders make decisions using technical analysis and/or fundamental analysis.

There are hundreds of books related to technical and fundamental analysis of the financial markets. You can spend months learning about these two forms of analysis but that is not our objective and that is not why you bought this course. *The objective of this course is to teach you practical methods to trade the currency market, not how to be an expert in technical and fundamental analysis*.

Believe me, after reading so many books on the subject I can honestly tell you that the only thing that came out of it was a tremendous information overload that only made me more confused and out of focus when trading. The methods I use to trade do not rely on fundamental analysis but mostly only on the price of the currency pair I am trading.

So, I will provide a general view of both forms of analysis, just enough for you to be able to see and understand the big picture. You will not need more than that in order to implement the trading strategies that will be taught later in the course.

More will be devoted to technical analysis since this is what you will use in your forex trading, at least as far as this course is concerned.

FUNDAMENTAL ANALYSIS

By using fundamental analysis in the currency market as the basis of the decision making process, traders and investors predict price movements by interpreting a wide variety of economic indicators, different types of news, government issued reports and many times simple rumors.

As a short term trader you will not use fundamental analysis to make your decisions. Your objective will be to capture *short term* price movements which most of the time have nothing to do with fundamental factors. Sure, there are times when a certain government report comes out way above or below the forecasted consensus or a news surprise hits the market and as a result the market makes wild intraday swings. However, these occurrences are not many and speculating what the numbers will be (or in case of news, speculating its impact) and how they will affect the market is gambling and not smart trading.

Depending on which currency pair you are trading, it is important to know what are the main economic reports of the countries the currencies belong to and when they are issued. For example, if you are trading GBP/USD you should keep a close eye on UK and US economic reports and news. If you are trading USD/JPY you should be aware of what important government reports are issued both in the USA and Japan.

Only a few countries economies can affect the forex market. The currency involved has to have a high trading volume and the country involved has to have enough world economic significance. Hence, I have narrowed down the list to only *the most important government issued economic indicators* that I consider important enough to keep an eye on when trading.

(for each country, in order of importance)

United States (affecting any USD/X X/USD pairs)

Non-farm payroll (this is by far the most important economic report affecting the forex market).
Federal Open Market Committee interest rate change announcement
Retail Sales
Consumer Confidence
ISM Manufacturing Index
Gross Domestic Production (GDP)
International Trade/Current Account
Philadelphia Fed Survey
Durable Goods
Beige Book

United Kingdom (affecting any GBP/X X/GBP pairs)

Gross Domestic Production (GDP)
Current Account
Bank of England Interest Rate Announcement
Unemployment Change
CPI
Retail Sales
Industrial Production

Japan (affecting any JPY/X X/JPY pairs)

Gross Domestic Production (GDP)
Current Account
Jobless Rate
Trade Balance
Tokyo CPI
LEI
Retail Trade

European Union (affecting any EUR/X X/EUR pairs. Several German reports are included since it is the largest EU member and its economy is seen to affect the Euro)

GDP
Current Account
Unemployment
DEM Unemployment (Germany)
CPI
ZEW Economic Survey (Germany)
IFO Economic Survey
Industrial Production
DEM Industrial Production (Germany)
DEM Retail Sales (Germany)
Retail Trade

Again, each of these economic indicators has the potential of creating sharp price swings. The further away they are from the forecasted consensus the larger the swings. There are many websites that will provide you with the exact date and time each of these reports come out for free (some listed at the end of the course).

When you begin trading you will see the effect these reports have on the market. Sometimes 100 pip moves occur in less than 15 minutes after a specific report hits the market. This creates the illusion of fast and easy money but make no mistake, this is far from reality.

There are many forex courses on the internet today aiming to profit from selling this "*fast moves, fast profits*" illusion that occurs within the first 1-2 minutes after the release of important news. I tell you right now, forget it! Two elements will prevent you from making a successful *low risk high return* trade from these economic reports. One, the market itself. Two, your broker. Let's analyze each one in more detail.

The Market

For a true large move to occur as a result of an economic report, the report has to be way off the forecasted consensus. There is no way of knowing before hand if and by how much the real numbers will be different from the expected ones (forecasted consensus). Think about it, if the biggest and most important economists in the world, having all the available resources at the tip of their hands cannot predict these numbers accurately, why would you or me? Sure, you can *try* and predict what the specific number will be, for example by looking at what the last months number was or by trying to interpret several previously released *related* market data. You are welcome to try and make a profit this way. However, I would strongly advise against it. Save your funds for more reliable and practical trading strategies.

Second, from the time the report comes out till the time you can see the actual numbers a good 5-10 minutes can pass. Yes, you are the small individual trader and hence you are at the end of the information chain! By that time, many times you have missed the important portion of the move. True, there are instances the market will provide you a good entry point with a good risk/reward ratio later on. For example, there are times that the market can make a reversal after 30 minutes or one hour and those moves can often be more explosive than the original direction of the news induced price swing. However, this is a rare occurrence and requires a very good understanding of chart reading and interpretation.

Believe me, it's not worth chasing that rare occurrence. As a starting trader you want to seek a strategy that works well over time, is *reliable* and easy to implement. This is exactly what this course aims to teach you.

The Forex Broker

Most forex brokers have a fixed spread for the currency pairs they offer (a spread is the difference between bid and ask, we will cover this in detail in the chapter “Selecting a Forex Broker”). However, this fixed spread is guaranteed in “normal” market conditions. What are normal market conditions? Well, simply put, when there are no surprises in the market! However, we have learned that surprises are exactly what causes those big intraday price swings. So what happens when a surprise hits the market? Most brokers (if not all) will widen their bid/ask spread by as much as 10,15, 20 or *more pips* depending on the currency pair and the significance of the surprise.

The result for you as a trader that wants to take immediate action after the report is released is that any fill you might get will automatically put you 10 pips or more in the red. Again, if the news is very surprising you could find yourself losing 20,30 or more pips on the same second you enter the trade.

Suppose you entered the trade, got butchered on the fill, you are down 20 pips and the market continues moving against you. In normal market conditions you have the stop loss to protect you. We will cover the stop loss issue extensively later on in the course, but in a nutshell a stop loss is an order you place with your broker so that your position will be closed at a certain price should the market move *against you*.

So, most brokers will guarantee a stop loss under normal market conditions, but many will not have this type of guarantee in fast markets. This means that even if you did your homework correctly and placed your stop loss in a good place in order to protect your capital, you might get hurt. This could mean an extra 10,20,30 or even more pips additional to the original amount of pips you were ready to lose on the specific trade (defined by the risk/reward parameters you set beforehand).

TECHNICAL ANALYSIS

Traders and investors use technical analysis to locate and evaluate potentially profitable trading opportunities by using charts. The underlying assumption is that past movements, trends, and setups repeat themselves with enough precision to be able to construct good risk/reward ratio trading models. The chartist is not concerned with market fundamentals and only relies on different time frame charts together with a number of indicators and oscillators. It is a quantitative approach to trading rather than a fundamental approach. The technician believes that a chart of any financial vehicle tells all the story; past, present and future.

Traders are able to profit consistently from short term market swings though the use of technical analysis as the basis of their trading decisions. There is a lot of material related to technical analysis but as already stated above, the objective of this course is not to make you a master technical analyst but to teach you a practical and usable trading strategy. We will introduce the most basic concepts of technical analysis. In fact, the trading strategies you will learn are so simple to implement that there is no need to know most technical analysis tools.

By now you already know from what we covered earlier how a currency chart looks and its basic concepts.

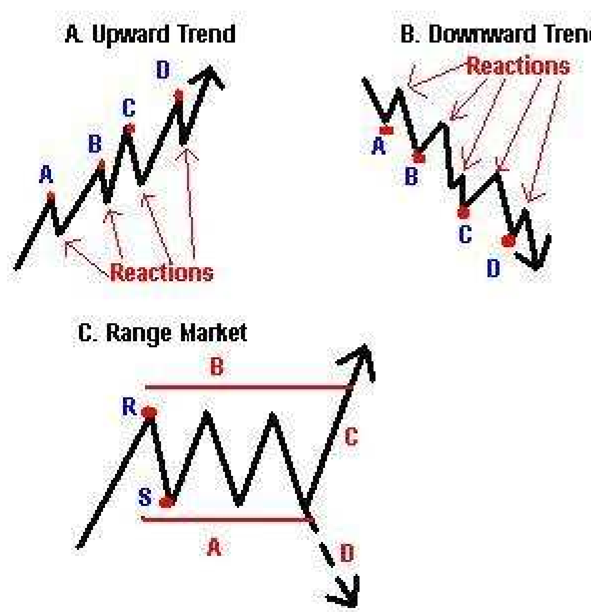
Markets move up, down and sideways no matter the time frame you chose. Different trading strategies are used in these different market conditions. The trader has to be able to identify what type of market he is dealing with in order to apply the appropriate strategies.

1. The Trend

The concept of the trend is essential to the technical approach to market analysis. It is also the concept behind the trading strategies you will learn. If you have already read a bit about the subject you have probably seen the expression “the trend is your friend” or “never go against the trend”. Very true and a very important rule to follow.

In general, the trend is simply the direction of the market, which way it’s moving. The job of the trader is: a) to determine if there is a trend, b) decide how long it will continue, and c) decide if the timing is right to place a good risk/reward trade. If the trader decides there is no clear trend, he might consider using trading strategies that are effective in a sideways or “range” markets.

Let's look at examples of how a trend and a range market look like:



We will now study each case individually.

Upward/Downward trend:

The correct way to establish that an upward or downward trend is taking place is by identifying a move with higher highs or lower lows, respectively (marked as A,B,C,D on both illustrations).

Markets never go up or down in a straight line, they always make stops, or “reactions” (a reaction is a counter-trend move). The reactions could be big or small. In general, the smaller the reactions are the stronger the trend is. Each time a reaction is created in an up trending market, a resistance level is created (marked by the small red circles, illustration A). Each time a reaction is created in a down trending market, a support level is created (market by the small red circles, illustration B).

In an up trend, a *resistance* level is a level where we see a short term turn in the market, a change in supply and demand (suddenly there are more sellers than buyers). In a down trend, a *support* level is a level where we see a short term turn in the market, a change in supply and demand (suddenly there are more buyers than sellers). Again, in both cases we know a trend is in place because we see those small resistance and support levels being broken again and again.

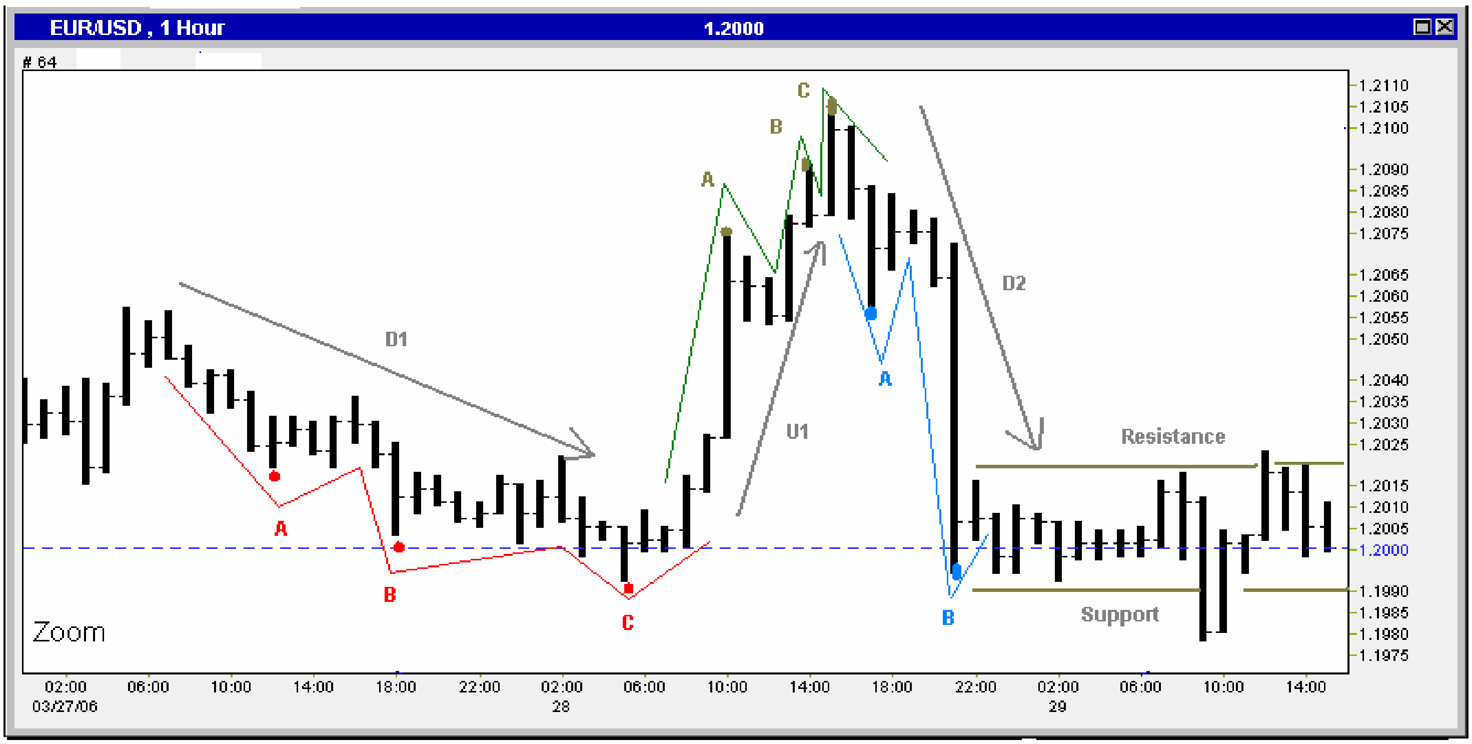
When a trend ends, there are two possible outcomes. Either the market turns to the other side and an opposite trend starts or the market simply moves in a range before deciding whether to turn or continue in its original direction.

Range market:

A range market (illustration C) occurs when the market simply moves sideways. The market "stops" at certain resistance and support levels (marked with the red circles R and S). At this point each time the market moves back to points R or S, it bounces back to the opposite side. The reason for this is that neither buyers or sellers are willing to pay a larger or smaller price than already established by points R and S. The outcome is the range we see between A and B.

The eventual outcome of a range is a breakout as marked by points C and D. The breakout can be to either side. However, if the market was going up before it ranged, there are good probabilities that it will continue in its original direction after the breakout and vise versa.

We have looked at these three examples which form the basis of any other chart formations and patterns. We are now going to look at a real forex chart (the hourly chart we used earlier) and identify each of these formations. You will see that in reality the market does not move as nicely as illustrated in the drawings we saw and the trader does need to use some degree of imagination to see the correct picture.



FX Power Charts – Courtesy of FXCM

This chart is a very good example of how several scenarios can occur within a relatively short time frame.

D1 illustrates a very nice down trend with three important lower lows (marked with red A,B,C). U1 shows an up trending market with the appropriate resistance levels being broken. Notice how the market just turned in a rather *fast and aggressive* manner from down to up (D1 to U1). In trading terms this is called a market reversal. This is a very common occurrence with many volatile currency pairs in the forex market.

Comparing D1 with U1 shows us a very good example that price change is many times not a function of time. D1 moved 60 pips within a 24 hour period while U1 moved 110 pips in approximately a 10 hour period.

D2 shows us yet another reversal example, and here the market moved even faster than in U1. It is also important to see that the stronger the trend is, the smaller the reactions will be in terms of time and price. In other words, they will last shorter periods and will cover less of a price range.

After D2 was completed the market moved into a range and support and resistance levels formed. Notice how although the range is almost picture perfect, it does break out of its formation by a small number of pips to each side. This is quite common and rather the rule than the exception. Markets rarely move in a perfect range.

A very good rule of thumb with regard to ranges is, the larger the move that *preceded* the range the longer (time wise) the range *will be and the clearer the support/resistance levels will form*.

2. Support and Resistance

Support and resistance (s/r) levels are extremely important no matter what type of trading method you are using. They symbolize psychological price levels the market has had difficulty falling below, i.e. support, or rising above, i.e. resistance (in both cases, relative to time frame, we will get there later on). You can think of s/r as a type of "wall"! The stronger they are the stronger the "wall" is and vise versa. There are three possible outcomes once the market reaches a s/r level:

a) Market bounces and turns the other way (reversal), or
b) it stops and ranges before deciding where to go, or
c) it breaks the s/r level and continues its path

The reason these levels are important is that they form an important part of the trade equation. *The trader might use these levels when deciding if to enter a trade, exit a trade or continue riding a trade*.

In my personal opinion, although important, the s/r levels issue is a bit overrated. Simply put, they work well in range markets and bad in trending markets. The problem is, as you will eventually experience, in many situations by the time you find out the market is ranging it's the end of the range and a breakout is due.

But don't get me wrong, I am pro s/r analysis but just as a side tool to the main trading strategy. When we start learning about trading strategies you will see how they can be incorporated in a very smart manner.

Ok, we already learned a bit about s/r levels when we covered range markets. Let's look now a bit closer at how to spot more advanced and sometimes important levels.

One very important issue you must understand is that these levels are *relative* to the time frame you are looking at. For example, if you are looking at a five minute chart and you spot various s/r levels, they might be good for *that specific chart and a lower time frame chart* but not for a 10, 30 or 60 minute timeframe chart. Another example, if you are trading on a 30 minute bar chart, you might be interested in looking at s/r levels on a 60 minute or a larger time frame chart (but not too high). The idea behind this is that higher time frames provide good s/l to themselves and to lower time frames but *not* vise versa! Support and resistance levels found on a ten minute bar chart will not provide good s/r levels for someone trading on a 30 minute time frame.

The other important issue to understand is, the higher the timeframe you are viewing a chart the stronger the s/r levels will be. This means that the harder it will be to break them and the stronger will be the bounce once the market reaches them. It also means that, the higher the timeframe, the longer the trend will be once a s/r level is broken.

I know it is a bit hard to understand all this if you are new to trading, but I promise you it will all become clearer once we review and analyze chart examples.

There are many ways to spot s/r levels on a chart. In fact, it is incredible how people always come up with “new and improved” ideas to spot s/r levels. From various Fibonacci methods and types of oscillators to certain chart formations, traders never stop coming up with new ideas.

I take the simplest approach to the subject. As far as I am concerned there are two important methods of identifying s/r levels before entering a trade.

First and most important, the visual or “historic” s/r levels; i.e. just by looking at a chart, seeing what market levels held in the past (takes a bit of practice but eventually it's easy, I promise!). Second, elemental Fibonacci reactions, i.e. levels that have not *yet* proven to act as s/l. The main difference between these two approaches is that with the visual approach you are looking at *historical* levels which have *already* proven to act as support and resistance while with Fibonacci you are trying to look into the future, figure out which price levels *will* form s/r levels (i.e. trying to predict a s/r level that has not yet formed).

Let’s look closer at each one.

3. Fibonacci Support and Resistance

Many traders look at Fibonacci reactions as indicators of possible s/r levels and so it is important to know what they are. Actually, the *reason* Fibonacci levels seem to work as s/r levels is exactly because many traders use them and plan their trading accordingly! All forex charting packages I know of have a built in Fibonacci tool so you don't even have to calculate the numbers yourself. There are entire books on how to apply Fibonacci ratios to trading. We will keep it simple and to the point!

Fibonacci levels are used in trending markets. We already saw previously that when a market trends it stops, reacts and then continues moving in its original direction (this process repeats itself several times). What traders want to know is how strong the reaction will be (what price will it reach). Fibonacci ratios provide us with three possible answers. In other words, three possible price levels that the market is likely to stop so it can resume its trend after the reaction. These levels are 38.2%, 50%, and 61.8% of the up or down move. Let's look at a chart example so it all becomes clearer.

Courtesy of FXTrek

Move U1 (up): The market trends from point A to point B, around 200 pips. Remember, we use Fibonacci to measure reaction levels of a trend. Hence, the two important chart points you start with are the beginning and the end of the move you want to measure the reaction of (again, as market by points A and B). We can see how the 38.2% reaction of U1 does not hold as a support level, however the 50% reaction does. Although the market stops at that point its downward reaction, it only stops ***but*** the trend does not resume yet (a very common occurrence). The 61.8% reaction is the one that acts as good support and now the market resumes its original trend. This example shows us that you can never know which of the three, or if, will act as a valid support level.

Move D1: A very good example of a down trend. Look how the 38.2% reaction holds as a good resistance level and the market easily resumes its trend after touching it.

These two examples teach us that sometimes these levels work as s/r and sometimes they don't. This is exactly why I do keep Fibonacci levels on my radar but don't give them major importance in my trading decisions.

As we already discussed, s/r levels are relative to timeframe. In U1 for example, the market moved 300 pips after good support on the 61.8 reaction. In D1 the market moved 150 pips after the 38.2% reaction acted as good resistance. These are big moves (300 and 150 pips) *and they would have been realistically speculated since we are on a 1 hour time frame chart*. However, if we were to spot a valid 38.2% or 61.8% reaction on a smaller time frame, say a five minute bar chart, it would have been *unreasonable* to expect such a big continuation move since by definition we would be dealing with overall smaller moves.

Let's illustrate this on a 5 minute chart.

Courtesy of FXTrek

Here we see a perfect example of how on this five minute bar chart the market makes a strong downward move and then holds on the 38.2% reaction. The trend then resumes for an additional 50 pips.

From these two chart examples we arrive to the important conclusion that the bigger the trend, the bigger the continuation move will be from the reaction.

Every tool I use in my trading has to pass the probability test in order for it to move from just being a secondary analysis tool to a main trading tool. By probability test I mean that the tool has to show that it has a good chance of fulfilling its job; i.e. accurate and reliable. Any tool with less than a 50% probability will be discarded, be it as a main tool or as a side tool. Any tool between a 50% to 60% working ratio will be treated as a side tool, it will help me but I won't rely on it. Anything higher than that will be treated as a main tool and I will base my trading decisions on it.

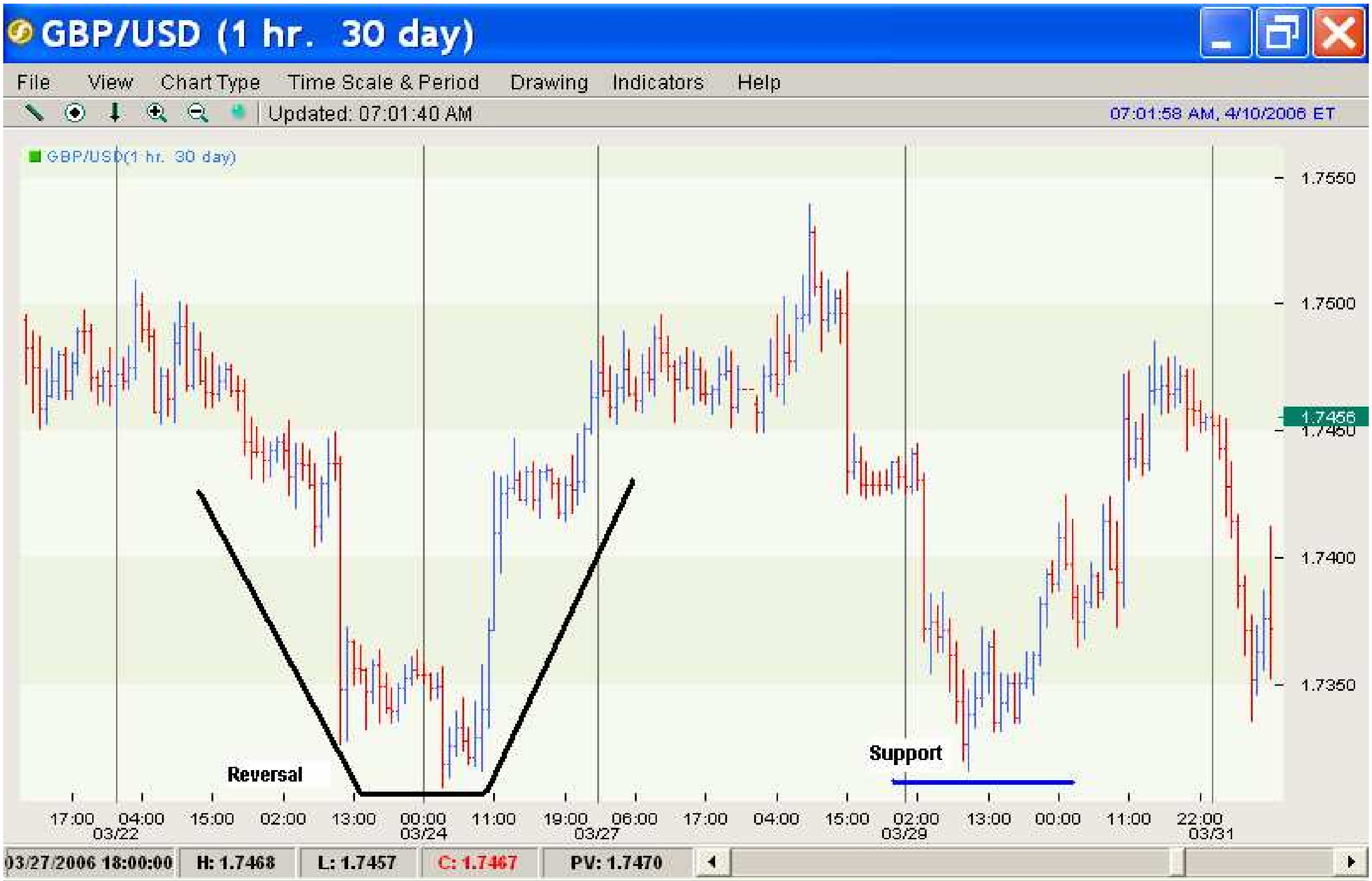
Fibonacci levels are treated in my trading as a 50% tool. *They are important, probably more than 70% of most tools out there such as moving averages and different types of oscillators BUT I still don't solely rely on them in my trading decision process.*

4. Visual Support and Resistance

Spotting visual s/r levels on a chart is quite simple. These are previous market levels that have already proved in the past to act as support and resistance areas. They can be classified into 4 groups:

Strong market reversals: Occurrences where the market has reached a certain price level and suddenly reversed. The stronger (price wise) and faster (time wise) the reversal is, the greater are the odds that a future test of that area where the reversal occurred will provide good s/r. Lets look at chart examples to better understand this.

Support example:



Courtesy of FXTrek

In this example we can see between the 22nd and 23rd of March the GBP/USD moving down and fast from 1.7500 down to 1.7310 (marked with the black lines). It then pauses for a short period of time and then reverses to 1.7545, again strong and fast. This is considered a strong reversal. You can see the clear V shape formation as a result.

The bottom of this V shape formation is considered a strong support level if the market reaches it again. The reasoning: there was a strong imbalance between supply and demand resulting in buyers “taking” over the market (evidenced by the strong push upward). Hence, if the market reaches it again, then many market participants would probably think “if it happened once, maybe it would happen again” and “if there were no more sellers at that point before, probably there wont be any now”. This reasoning could provide the basis of new buying at that level. It’s all about market psychology! And that is exactly what happens, the market moves down again to the 1.7310 price level which acts as strong support. This support level holds and the pair reverses back to 1.7490.

Resistance Example:

Courtesy of FXTrek

This is a USD/JPY 1 hour bar chart. Again, we see the black lines marking the strong reversal. The pair found strong resistance at 118.50 and quickly fell to 116.30. On March 31st, the market tested that resistance level again but failed to break it successfully and it sharply fell to 116.60. It is very important to notice how even though the 118.50 level acted as resistance, the price level was slightly penetrated (by around 20 pips). This is a very common occurrence. Many times markets do not stop exactly at support or resistance levels and a small difference should always be taken into account.

Market tops/bottoms: *Long* term s/r levels where the market has reached and could not penetrate. You use this technique on larger timeframes. I suggest daily bar charts. Let's look at an example.

This is a EUR/USD daily bar chart. It covers a three year period. Level A will probably act as strong support should the market reach it at some point in time. The same goes for resistance point C. They seem to be well established long term s/r levels.

Look at support level B. The market made a very nice stop on the way up, held for some time and continued its uptrend, i.e. a reaction was formed. As time passed level B became a stronger psychological support level. On July 2005, *more than one year later*, the price level was tested again on the way down but could not be broken (test 1), resulting in a bounce of approximately 700 pips! Then again between October and November 2005, the price level was tested for the second time (test 2). This time it was penetrated a bit (we already discussed the margin of error issue earlier) but still held firmly. Overall support level B proved to be a very good long term market "bottom".

It is important to understand that when we are referring to the terms "tops" and "bottoms" we are not trying to measure the absolute top and bottom of the market time wise. The idea is not to go 10 years back in time to see what support and resistance levels exist. Using common sense within the timeframe you are measuring in order to find ***practical*** and usable s/r levels is the key.

Ranges: Chart areas where the market has previously ranged. The key here is, the longer the range was, the higher are the probabilities its *borders* will provide good support or resistance levels. Don't get confused, we are not talking about s/r *within* the range *but the range itself acting as a s/r level*. Again, let's look at an example.

Courtesy of FXTrek

This USD/CHF hourly chart provides some very good examples of how ranges can *later* act as support and resistance levels.

Range A is formed between the 14th and the 15th of March and then the market simply breaks and continues its downtrend just to turn around and form a sharp up swing. R1 shows us how the top of the range acts as a nice resistance level on the 22nd of March.

However, as we learned previously s/r levels don't always provide a turning point to the market, and as in this example instead of the market reversing it ranges between 1.3050 and 1.3000 creating Range B. On the 29th the market reaches the bottom level of Range B which acts as strong support, S1. This is a good example of how a range can provide a good turning point worth about 150 pips.

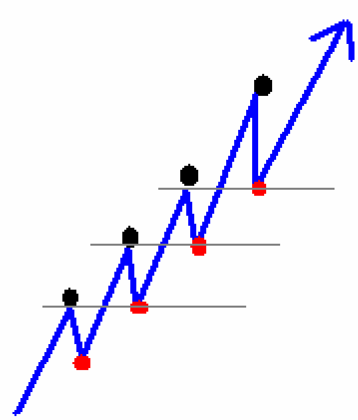
Range C is a bit trickier in the sense that although the top level of the range acts as good resistance later on the 29th of March (R2), providing more than 150 pips swing, the market does penetrate the resistance level by a bit (again, we already learned that chart reading is not an exact science but more of an art! Always allow a margin of error).

Remember we learned about "strong market reversals"? Well, look at the test of S1 on the 29th. This is a classic sharp reversal which has a very good probability of acting as a support level should the market reach it in the near future. We can actually see how on the 30th of March (market with the black V) that support area provided a nice turning point for the market.

As a final note, in my experience most of the time it will be the lower level (in the case of finding support) and the upper level (in the case of finding resistance) of a range which will act as s/r.

S/R reversals: No, this is quite different from what we covered above "strong market reversals". A very common occurrence in chart formations is that previous support and resistance levels *created by market reactions* will reverse their role in the future. Now you are probably confused! Don't worry it's simple.

If a market is up trending and forming reaction, support levels holding but resistance levels broken, there is a good possibility that the broken resistance levels will provide good support levels should the market reach them again on a reaction on its way up. A simple illustration will clear everything!



So here is a simple up trending market, the black dots marking resistance levels and red dots marking support levels. On each instance, once each resistance level is broken (obviously since we are in an uptrend they are eventually broken), the market will form a new reaction. The question is, where will that new reaction find support? Well, the probabilities are high that that a new support area will be more or less where previous resistance was. In our illustration marked with the gray lines.

Let's look at a chart example.

This is a USD/JPY hourly bar chart. Our example shows an uptrend forming reactions on the way up. The black lines marked A1 and A2 illustrate how previous resistance levels later became support levels. On A3, although the market broke the previous resistance area the uptrend lost fuel and hence resistance did not provide proper support.

The exact same rules would apply for a down trending market, however, instead of resistance becoming support it will be the exact opposite, support becoming resistance.

Again, picture perfect formations rarely occur in the markets. A trader always has to use some level of imagination in order to "filter the noise".

A Final Note:

There are many more chart formations, patterns and indicators that are considered important by some in the study of technical analysis. We could fill this and 3 more e-books covering only that! We will not go over them simply because this is way too much material to cover and *unnecessary* for our objective. Also, and this is key, one of the most important things I have learned throughout my trading career is this: *the simpler the better*!

The simplest strategies, the ones that are the easiest to implement are the best and most reliable trading strategies you will find. One of the biggest problems of most traders is that they think that the more indicators, oscillators, patterns, computer programs etc. they use, the better the final result will be. Let me tell you this, that is exactly one of the main reasons most traders fail. Make it simple and you will succeed. *Don't ever make the mistake of thinking that the more "elaborate" your trading methods are, the better the results will be.*

Teaching you these concepts in technical analysis had two objectives. First, to provide you a general background on the subject so you can understand the logic behind the trading strategies you will learn later on. Second, so you can incorporate advanced s/r analysis for trading the "Forex Cash Cow" strategy more profitably. Let me explain. The "Forex Cash Cow" strategy is designed so that the trader can trade it 100% mechanically. No discretion, no interpretation, just follow strict rules. However, more seasoned traders might want to trade this strategy with a bit of discretion. For example (after incorporating s/r analysis), maybe extend profit objectives, or maybe not to enter certain trades. Don't worry, we will further explain and analyze the issue later in the course.

Entire books have been devoted to technical analysis and if you are interested in learning more I have recommended some very good books on the subject at the end of the course.

THE PSYCHOLOGY OF THE GAME

If I had to chose only one section of this course for it to permanently remain in your memory it would be the present one; i.e. the psychology of trading. I truly believe there is no more important subject you must understand and master if you want to be a successful trader. I just can't stress this point enough. There is no holly grail in trading, but if there would be one it would be mastering ones psychological state of mind. You probably hear many times the famous statistic that 95% of all traders eventually fail and go broke. Very true. But not because they don't have a special trading strategy, or a magic pattern that no one else sees, or a perfect system.

First, none of these exists. *Second, even if they would exist I believe the statistic would remain in the 95% range*! Why? Simple, human nature. It is human nature to be greedy. It is human nature to make actions based on feeling. It is human nature to do everything possible in order to be correct. And it is human nature not to be patient, especially when money is involved. Let's expand on each of these in greater detail.

Greed

Most people get into this venture with the hopes of getting rich quick. The lure of fast money. Make no mistake, it's the number one ingredient for disaster. Should you treat trading this way, you will be separated from your money, and fast!

My interpretation of greed in trading is simply **wanting to get out of the market more than the market can give**. Being unrealistic of what can be achieved.

I believe it is more likely for the *under funded* person to make money through trading the financial markets than by doing anything else and much faster. However, this can only be done by obeying to the nature of the game.

Once you start trading you will find yourself in situations where the idea of a big and fast payoff will attack your reasoning. You will develop a plan, you will have your money management rules in place but suddenly you will be lured to deviating from the rules and principles you worked so hard on. You will be faced with a greed attack. It happens to everyone, its those who are strong enough to resist temptation that ultimately succeed.

What will make you successful is not seeking home runs but following a coherent trading strategy that *with time* will bring you consistent wins and equity growth.

Feelings

Fear and excitement are one of the biggest enemies of a trader. Fear will cause you to not think objectively. It will cause you to override your trading methods and to make irrational decisions. You will find yourself taking trades when you shouldn't take them and passing on the ones you should have taken. You must conquer your fear before you start trading. In my experience fear is caused by several factors that can be easily overcome.

First, the unknown. We all fear the unknown. True, you never know if a trade you are about to enter will work out. But if you did your homework well, worked hard and put effort into designing your trading strategy you will have the confidence that what you are about to do will work. You will not be faced with the unknown. Sure, the trade might not work or even the next couple of trades might not work but you will have the necessary confidence to know that eventually your trading strategy will bear its fruits.

Second, the fact that you are risking money. No one likes to lose but its those that know how to lose that eventually make it. We work hard for our money and its significance to us many times is of great importance, specially if it's money we cannot afford to lose. You cannot let your judgment be clouded by the fact that real money is on the line.

So how do we prevent this money issue from becoming a real fear factor in our trading decisions? Easy, only trade with money you can lose. Let me be more specific. The more unattached you are to the money you have allocated for your trading activity the better are the chances you will not fear losing it. You must only trade with money that if you lose, will bear absolutely no negative consequence on your financial situation. In other words, losing this money will have no impact whatsoever on your life and those surrounding you. This is essential. Don't ever risk what you can't afford to lose. If you do, you will let fear come into the equation and you will eventually make the wrong decisions leading to financial problems. We will see how a trader can manage correctly his money later on in the "money management" section of the course.

Our nature as human beings is to be competitive and do everything we can in order to stay ahead, not to lose, and many times be number one. Being correct is very important to us, it raises our level of confidence.

Let me tell you here and now, trading is not an activity designed for those who need to be correct or number one. Try to argue with the market and you will lose your pants! Trust me, there will be many times in your career as a trader that you will absolutely believe that even though a position is going against you, you are right in your decision to stay in the trade (or to have entered it) and it is the market who is wrong. Let me save you the trouble for when those times come, know that the market is always right. The market will do what it has to do regardless of your opinion.

Many times people make the mistake of bringing into their trading qualities and habits they have learned from their profession and past life experience.

Let's take as an example a doctor who is also a surgeon. All his professional life he was taught that anything less than a 98% success rate in his surgeries is not acceptable. This has been instilled deep into his personality and probably reflects in various other aspects of his life. This is a person that lives in a profession that demands that he is right almost all the time. Once he becomes a trader he will probably try to bring into his trading the precision he demands from himself on a day to day basis as a surgeon. *As good a surgeon he might be, he will fail as a trader*. Why? *It will be more important for him to be correct than to make money*. Being correct 60 or 65% of the time will not be enough.

There are several realities you have to face as a trader in order to be successful and one of them is that being correct in 65% of your trades is about as high as you will get.

I don't know what your profession is, whatever it is though, be mature enough to know what are the habits acquired through that profession that you must not bring into your trading.

Patience

I must admit, from all the elements required to be a good trader it is patience that is the hardest for me to master.

Patience is incredibly important for a trader to have but at the same time very rare to find.

I don’t know what image comes into your mind when you think about trading forex. For many, it is the image of that super trader working with many screens, several phone lines, much action going on, everything moving fast and exciting. No, no and no! If you have that image in your mind then simply erase it. I suppose Hollywood has a lot to be blamed for how the life of a trader is perceived by others! Anyway, it’s the complete opposite. Trading is boring. Sorry to disappoint you, but it is. If you are looking for excitement then trading is not for you. I always like to compare a trader with a hunter. The hunter waits for his pray with lots of patience as the trader waits for his trade. Waiting for the right opportunity is what will separate you from the crowd (the losers!).

The problem with many traders is that they want to make money now, not tomorrow, now! So they force a trade on a situation that does not exist. They convince themselves that a particular market setup is there just to fulfill their urge to place a trade. Don’t make that mistake, have patience, believe me it pays off eventually. Sure, you will not have an exciting life as you imagined you will, but better boring and wealthy than exciting and poor.

I don't mind sitting and waiting for a trade two, three or more days. I don't like it, but I accept it as part of the game. If my system tells me wait for A+B+C to happen and only A+B happens I will wait for C to happen as well, no matter how long it takes.

Finally, all the above is irrelevant if a trader is not disciplined. *Being disciplined is hard when trading since there are many emotions and feelings involved*. If you are a disciplined person than you have mastered 80% of what it takes to be a successful trader. If you are not, know that this is something you will have to work on day in and day out or you will be doomed for failure. I do not want to sound pessimistic but discipline for a trader is like oxygen for a living being, essential.

Be honest with yourself, are you really a disciplined person? Many years ago I had a hard time admitting I lacked the necessary discipline to be a trader and it cost me money. Don't let that same mistake happen to you. Be mature enough to admit what are your negative and positive qualities, *if you don't it will show in your bank account*.

MONEY MANAGEMENT – THE KEY TO SUCCESSFUL TRADING

The importance of correct money management is underestimated amongst traders and aspiring traders. It seems like people are completely missing the point about the essence of trading. Too much time is devoted to finding the perfect strategy or the perfect setup just too finally realize that no such thing exists and without correct money management a trader is doomed to fail.

Money management is about knowing how to approach and control risk adequately. I will try to encapsulate through this chapter the true importance of correct money management, some of its aspects and how it really is the difference between success and failure in trading.

1. The Monster of Trading - The Drawdown

Markets are mostly unpredictable, that’s a fact. No matter what kind of market you are dealing with; stocks, futures, forex, or real estate! Through common sense and the use of technology we can predict to a certain degree profitable patterns and systems. The problem is and will always remain that even profitable systems and patterns, no matter how profitable they seem to be, will only work part of the time. **A trader has to be ready for the bad times be it psychologically and financially**.

Dealing with those sometimes large drawdown's that every system or trading method has is probably the hardest part of being a trader. Drawdown can be defined as the magnitude of a decline in account value, either in percentage or dollar terms, as measured from peak to subsequent trough. For example, if a trader's account increased in value from $20,000 to $30,000, then dropped to $25,000, then increased again to $30,000, that trader would have had a maximum drawdown of $5,000 (incurred when the account declined from $30,000 to $25,000) even though that trader's account was never in a loss position from inception

Drawdowns impact your confidence and make your job as a tader a lot harder. The scenario normally looks like this: your system is working, you are making money, you are comfortable with your method and your confidence has never been better. But suddenly the losing streak comes and you start giving profits and sometimes capital principal away. You are wondering what went wrong. Suddenly the changing, tweaking and adjusting of your system or trading method starts. But nothing, the losing streak continues. Sounds bad doesn't it? Well, it happens and you should be ready to handle the situation.

As said before every trader will face this scenario, the dreaded drawdown, it is those who understand that its part of the game (and not a matter of finding a better system, indicator or chart pattern) and know how to manage correctly their money who will ultimately succeed.

The true weapon against that unwanted drawdown is not finding a trading method that will not have any. Yes, you can test patterns on historical data and you may actually arrive at a system that will theoretically produce low drawdowns. But in trading the past is only a rough indicator of the future, if that. Plus, most of the time when constructing trading models from historical data traders are drawn to the temptation of curve fitting (trying to "force" the data so it will show the best historical results) and end up wondering what went wrong. Remember, *your true weapon will always be controlling your bets. Knowing that no matter how tough times may be, you will not be whipped out*. **Securing funds to take advantage of future opportunities**. It is the knowledge that you know that you are protecting yourself financially that will build your confidence levels throughout those severe losing streaks. A type of confidence that is essential for every trader.

2. The Money Management System

Every trader must incorporate a money management system into his trading with the objective of controlling risk.

We will go over an example of a very simple yet effective method to approach the issue. We will use a USD$ 20,000 account for illustration purposes. After understanding how the system works you will be able to adjust the criteria used accoridng to your specific account size and risk tolerance.

Account size: $20,000 (traders initial account)

GBP/USD 1 lot = $100,000 (the trader will buy/sell one lot. As a comparison, a mini lot would be $10,000.)

Pip Value = $10 (as a comparison, pip value of a mini lot would be $1)

Risk per trade: 1.5% of total account (this is a risk level every trader should establish before trading. Depending on how aggressive you are you can risk more or less on any single trade)

Risk in pips: 30 (same as the above percentage but expressed in pips)

Risk in dollars: $300 (same as the above percentage but expressed in dollars)

So, for every $20k in the traders account he will allow himself to trade one full lot of GBP/USD (since you want to keep risk within your predetermined parameters, i.e. 30 pip stop loss being 1.5% of your account). If you feel that a 30 pip stop loss is not enough for a certain trade then adjust the lot size accordingly (mini lots). As an example, suppose you feel that a 60 pip stop loss is what is required in a certain trade than instead of trading one full lot you trade half a lot (or 5 minis). The result would be exactly the same risk wise, 1.5% of the trading account.

A full or mini lot will be added each time the account has grown sufficiently in size so that the *risk proportion remains the same*. The opposite when the account shrinks. What we want to do is control risk and at the same time grow our account safely, i.e. compound on our profits. Example:

Account has grown from $20k to $22k: You can now trade one full and one mini GBP/USD lot. Value of each pip is $11, at 30 pip risk per trade gives you a total of $333 which is 1.5% of the total account. Account grows from $22k to $24k, you can now trade one full lot and **two** mini lots. Again, you are trading within the established risk parameters.

Account decreased from $20k to $18k: You will now decrease your trade size to 9 mini lots (equivalent to $9 per pip) until account size reaches $20k again. What you have done here is keep your risk exposure within the same level percent wise, 1.5%.

Once your account reaches $20k you can start trading one full lot again. Remember, the point is, always adjust your risk level according to account size.

This method will allow you to be more conservative in bad times and compound on your gains in good times and always keep your risk at similar levels.

Compounding supported by a rigid risk control plan is the real way to make serious money in the trading game, not finding a perfect system or placing big bets. It is truly amazing what the concept of compounding can do to the size of your account in a relatively short period of time.

3. Funds

This is very straight forward! *Never ever keep all your trading funds at your brokers account*. For example, if you are trading one lot of GBP/USD, depending on your broker, you will need to maintain a sum of around 2% of the total contract size, i.e. $2,000.

Now, say you know you are not willing to risk more than 1.5% of your funds on any given trade and you have a total of $20k. The correct way to fund your account would be $2k (minimal margin sum) + $2,100. The latter sum corresponds to the total of seven trades gone bad consecutively. So you are now equipped with the necessary margin requirement and a certain sum to keep you afloat in bad times should they come.

So why all this? Well, unless you are a very disciplined trader (which most people are not) *you should protect yourself against yourself!* Temptation is a very big part of trading. Going for larger stops, taking unnecessary trades, stress when in a losing streak, all part of the game. If you get to a point you need more money in your brokers account it's because you should either take a break from trading or rethink what you are doing. It is tempting not to do so and just take the next trade and hope! Well, you won't be able to do so if you have the rest of your funds in a separate account. Having to move funds from another account takes time which means you can now relax, cool down and think in a reasonable manner what your next step will be.

4. Obtaining A Smoother Equity Curve

The objective of every trader is to have his account grow as smooth as possible, or at non-growth phase at least not to have sharp falls. *Diversification* is a very important principle which may help keep a smoother equity curve. This subject has much relevance in the area of risk control.

The conventional way of approaching the subject is simple: trade uncorrelated markets. What are uncorrelated markets? Well, examples might be corn futures and oil futures, stock index futures and orange juice futures, EUR/USD forex spot and cotton futures (the idea is not going into the whole theory or calculating correlation ratios, but rather to illustrate the principle). Of course I am not suggesting you start trading futures now. However, the idea is to provide you with a general idea of what the traditional approach to diversification is.

I take the concept of diversification one step further. You can trade the *same market* and still be diversified properly. How? Use different uncorrelated trading strategies. For example, suppose you want to trade the GBP/USD market. You can use one system based on capturing short term swings and another one capturing long term swings. Or, you could have a day trading strategy on the one hand and a swing trading strategy on the other. Instead of using all capital on one strategy the trader would allot a certain percentage to one strategy and a certain percentage to the other. *The key is, exploiting different characteristics of the same market*.

5. Stop Loss

One of the most important elements of a trading strategy is the stop loss. Deciding how many pips you are willing to risk on a particular trade once you are in the market, and *respecting that decision*. The stop loss can be mental or entered into your deal station as a “stop loss order”. If you are a starting trader don’t even think of mental stops, it requires a lot of discipline. Always set your stop loss with your broker once you enter the trade.

Stop losses can be very tricky once they are reached. It is the trader's nature not to respect them. Types of reasoning such as “maybe the market will start going my way if I wait a bit more” or “I am right and the market is wrong” are very common, especially if you are a beginner. You must obey stop loss levels as you obey red traffic lights. If you don’t, disaster will come sooner than later, guaranteed.

One of the things that separate professionals from amateur traders is the stop loss element. Professional traders know that the stop loss is an investment in self-preservation. Amateurs look at stop losses as only suggestions, they always know better than the market.

One of the best books I have read in the subject of trading is “*Pit Bull – Lessons from Wall Street’s Champion Trader*” by Martin “Buzzy” Schwartz, one of the best traders of our times. I also recommended it at the end of this course as a must for any aspiring trader. Here is part of what Mr. Schwartz has to say regarding stop losses:

"*…That's the problem with amateurs, they only have half the plan, the easy half. They know how much of a profit they're willing to take, but they don't have the foggiest idea how much they're willing to lose. They're like deer in the headlights, they just freeze and wait to get run over. Their plan for a position that goes south is, "please God, let me out of this and I'll never do it again", but that's bullshit, because if by chance the position turns around they'll soon forget about God. They'll go back to thinking that they're geniuses, and they'll always do it again, which means that they're sure to get caught, and get caught hard*." (Pit Bull – Lessons from Wall Street's Champion Trader, by Martin "Buzzy" Schwartz, pp. 122-123).

Trust me, this quote goes to the heart of the issue! Remember, you work hard in formulating a trading strategy so that you can enter low risk high reward trades. Do not fool yourself into thinking that suddenly, while in the trade (under fire), you know better than you knew while you created your strategy. In other words, you already set your stop loss beforehand, and it should stay there.

To sum up, every trading plan has to include sound money management principles. It is absolutely essential. In the trading arena, your trading system is your weapon and money management is your shield!

FOREX CASH COW STRATEGY

We have learned some principles regarding technical and fundamental analysis. We also went over some various money management issues. It is now time to learn how to trade the "Forex Cash Cow" strategy, one of the finest trading strategies I have developed over the years.

Over time I have created and tested many trading ideas for different markets. In the past I was naïve enough to think that the more complex and the more time and effort I put into designing a trading strategy the better it will work and the more money I will make. It took time and some loss of money in order for me to learn that it is the simplest and easiest to implement trading strategies that yield the best results. Using common sense with correct money management is the key. *Understand and follow these two principles, and I guarantee you will be light years ahead of the 95% losing crowd*.

I believe that a good trading strategy is one that exploits certain occurrences in the market that do not happen very often. While the losing crowd tries to trade every day and force trades on non-existent opportunities the winners wait like hunters for those high probability low risk trades.

Strategy Implementation

I refer to the Forex Cash Cow strategy as my bread and butter strategy! There are several reasons of why I like it so much. First, it is very accurate, probably the most accurate strategy I am currently using. Second, it does not occur every day, on an average I expect to see it 3-4 times per month. This means less stress for the trader and more free time to pursue other activities. Third, most of the time I know a day in advance if there is going to potentially be a signal or not. Fourth, it has the potential of providing a very nice profit for the patient trader.

The logic behind this strategy is simple, once the market has "exploded" price wise to a certain direction it will continue moving in that direction until it runs out of fuel. The Forex Cash Cow strategy aims to catch the move from the moment the market has proven to have "exploded" to the moment it runs out of fuel! The idea is simple, instead of speculating if and when a large move in price is due we just wait for the market to tell us "I started moving hard and fast, please join!".

The Forex Cash Cow strategy works very well in the currency market simply because this market possesses the characteristic of having various sharp and long price swings. I have noticed that throughout the month currencies tend to have various strong *two day trends*. These two day trends are what this strategy aims to exploit.

The one thing that always bothered me when trading currencies are the fake moves that occur prior to the market really deciding on a direction. *This phenomenon is very common in volatile markets and can kill you if you do not know how to handle it*. Don't get me wrong, volatility is very good for a trader. Without sharp moves we cannot make those handsome profits in the short term. However, you have to know how to approach this volatility.

The bigger the moves a currency pair makes the higher are the chances of success using this strategy. This is why I chose to use the GBP/USD pair; it has the largest short term moves of all currency pairs.

Many market analysts/system designers/technicians claim that for a trading strategy to be good it has to work in every single market. I strongly believe the opposite. For me, every market has its own personality. This is why I adapted this strategy to the GBP/USD pair. I think its personality is the most adequate for trading the Forex Cash Cow strategy (or any other trend following strategy).

The problem I encountered when designing this strategy was how to establish that a trend has started *without it being too late to place a good risk/reward trade*. I found that there are two problems with trying to identify and join a trend. First, you can easily get tricked into thinking that a trend has started only to find out some time later that this was a fake move. Second, by the time you spot a valid trend it is either to late since it is ending or if it is not ending a very good reaction is due which could easily hit your stop loss.

The first requirement that must take place is an intraday "**explosion**" in price. We want to see the market being *extremely* bullish or bearish within a relatively short period of time. For our purposes "a short period of time" means one trading day (measured on a daily bar chart). I found that if the GBP/USD pair moves 140 pips or more to one direction in one trading day an "explosion" in price has taken place and the trend will probably continue into the next trading day or two. The 140 pips is a very important number. Less than that and it is probably just a common intraday swing which does not provide any insight as to whether a good trend is possibly developing. It is not an every day occurrence that the GBP/USD moves 140 pips or more (in a single day), it probably happens an average of six or seven times a month and that is why it is so special. As a general trading rule, the less often a certain trading opportunity occurs the more profitable it can be.

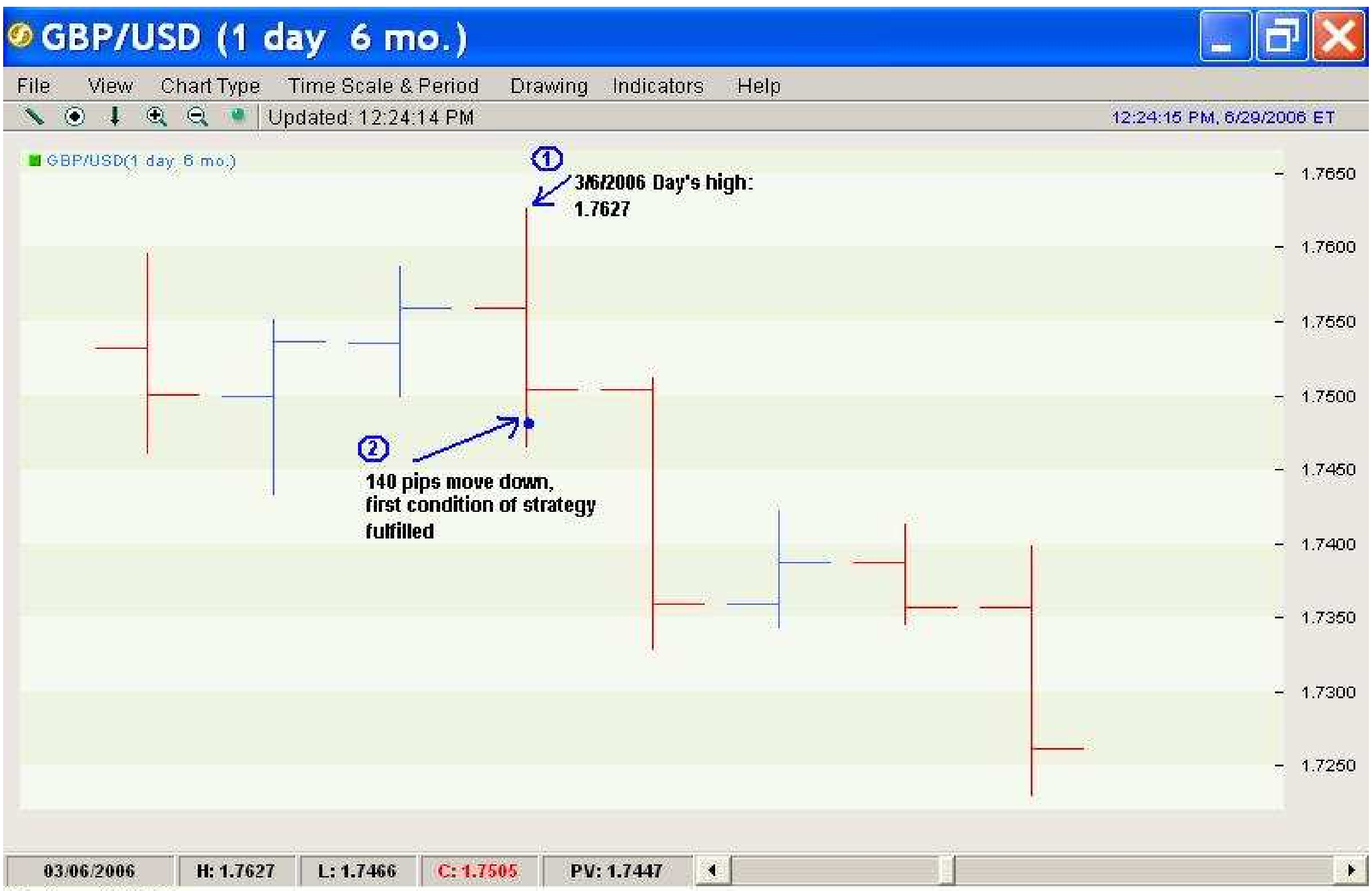
Once we spot an explosion in price as described above, step two comes into play. On the next trading day we want to see the market move 70 pips in the direction of the price explosion. We enter the trade *in the direction* of the move at a distance of 70 pips (it will not always be exactly 70 pips as you will see later on when the 30 pip rule comes into play). Don't worry, it is all very easy to calculate as you will learn shortly.

A stop loss of 60 pips is immediately placed. The exit is either a profit target of 100 pips or a time target of 11:30 EST of the next day, whichever is reached first. Remember, the next day is the day AFTER the trade is entered. So, if the 140+ pip move occurs on day 1, trade entered on day 2, but profit objective is not reached until day 3 the trade is exited on day 3 at 11:30 EST.

Let's go over several examples. All times New York time.

Example # 1

The first step is to look at a daily bar chart to spot a +140 pip day. Every trading software/platform will provide you with the high and low for every day on a daily bar chart. In the following chart we can see that on the 3/6/2006 the first condition of the Forex Cash Cow strategy, +140 pip move, has been fulfilled.



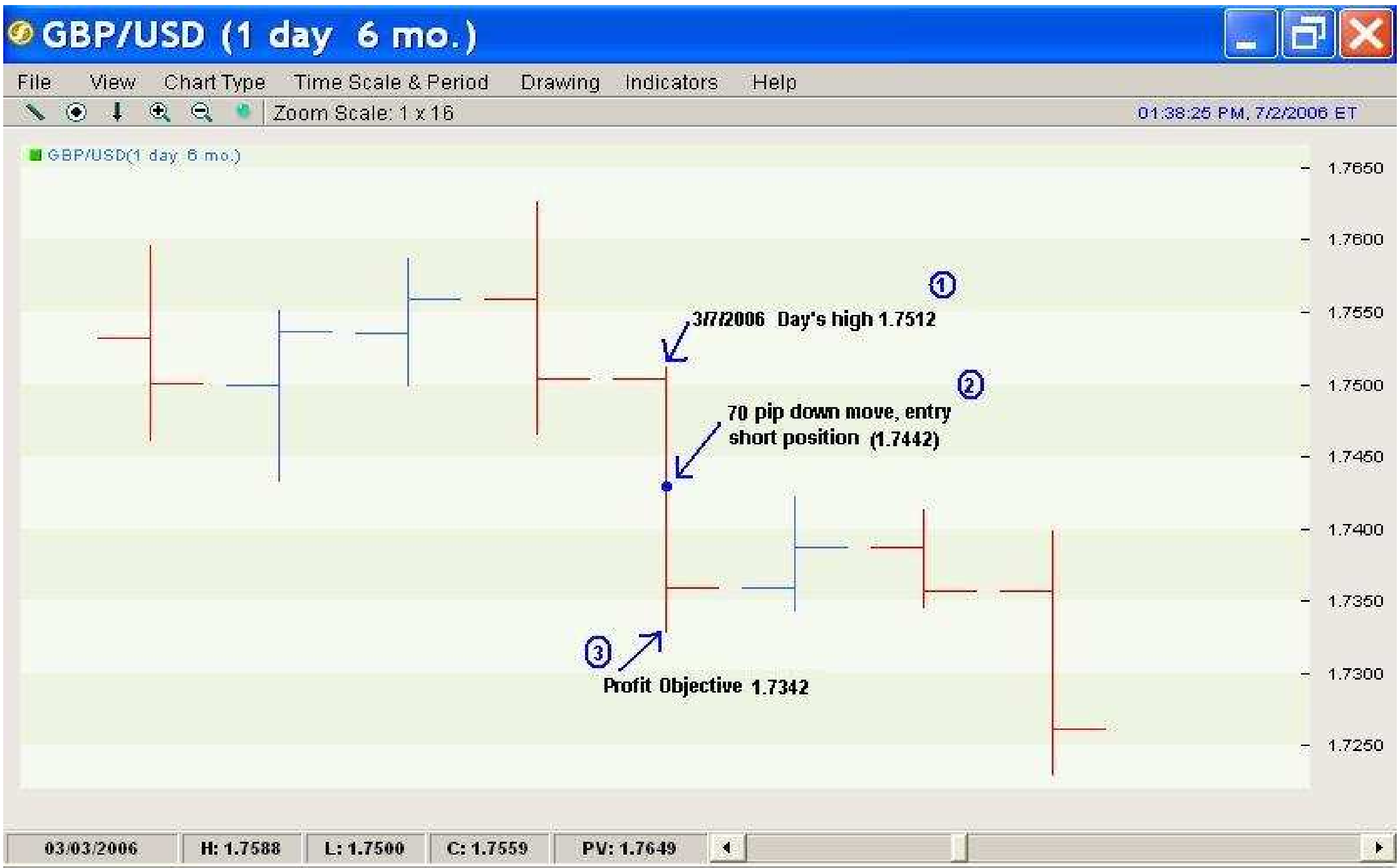
Courtesy of FXTrek

Now a closer look of the 3/6/2006 on a five minute bar chart:

Courtesy of FXTrek

It is not necessary to look at the five minute bar chart since the daily bar chart will give you all the information you need. However, I just wanted you to see the first condition of the strategy on a smaller time frame.

The next requirement to be fulfilled is that the next trading day the market moves 70 pips in the direction of the price explosion. Let's look at the 3/7/2006 on a daily bar chart.



Courtesy of FXTrek

Remember, at this point we are looking for a down move since that is the direction of the price explosion. So here we can see the market first making a high at 1.7512 and then trending downward. Our entry is triggered at 1.7442 (70 pip move in the direction of the trend). We enter a short position and immediately place a stop loss order at 1.7502 (60 pips) and a profit objective order at 1.7342 (100 pips).

The market reaches our profit objective on the same day and we manage to make a profit of 100 pips from this trade.

Let's look at how all of this would have occurred on a five minute bar chart.

Courtesy of FXTrek

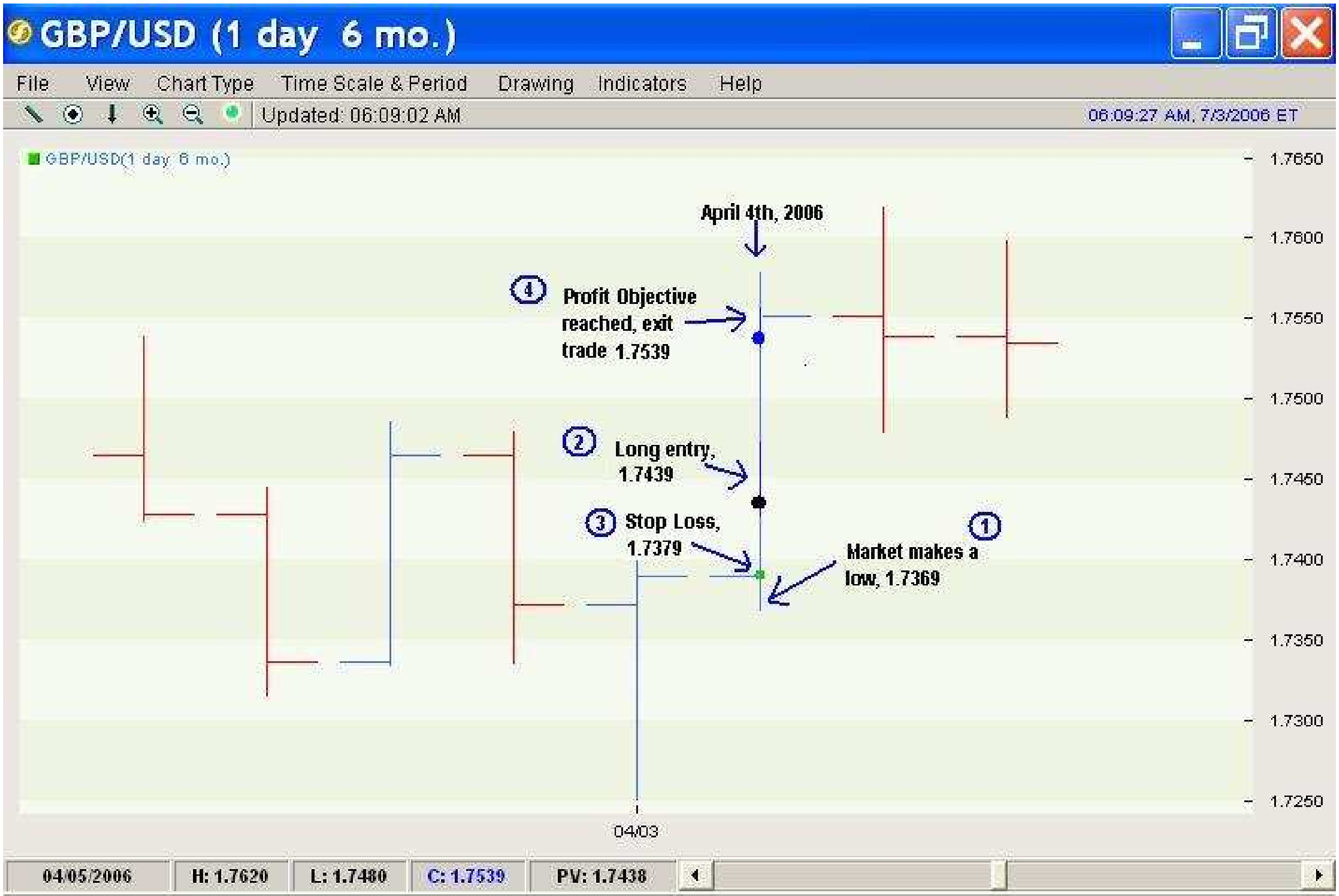
Example # 2

I chose this next example since it illustrates how the market can be tricky at times. Look at this next daily bar chart.

Courtesy of FXTrek

On April 3rd 2006 the market made a sharp down move of about 120 pips. Then, as evidenced by the close of the day (remember, the small line on the right side of the bar), *it reversed* and swung 155 pips. The bar itself is *visually* tricky since at first glace the trader sees the whole bar pointing downward! However, you must always guide yourself by the opening and closing price of the day (again, the two little lines on the sides of the daily bar). By looking at the opening and closing price of the day we can see that although it seems like a down trend bar it is not and the opposite is true.

So, the first part of the strategy is fulfilled as the market moves 140 pips upward. We now want to see if the trend continues the next trading day. Let's look at April 4th 2006.



Courtesy of FXTrek

As we can see from this daily bar chart, the market continues its upward trend from the prior day. After making a low at 1.7369 it swings upward 70 pips triggering our long entry position at 1.7439. A stop loss order is immediately placed 60 pips from entry at 1.7379. Also, a profit objective order is placed at 1.7539 (100 pips). It doesn't take long and our profit objective is reached netting a profit of 100 pips.

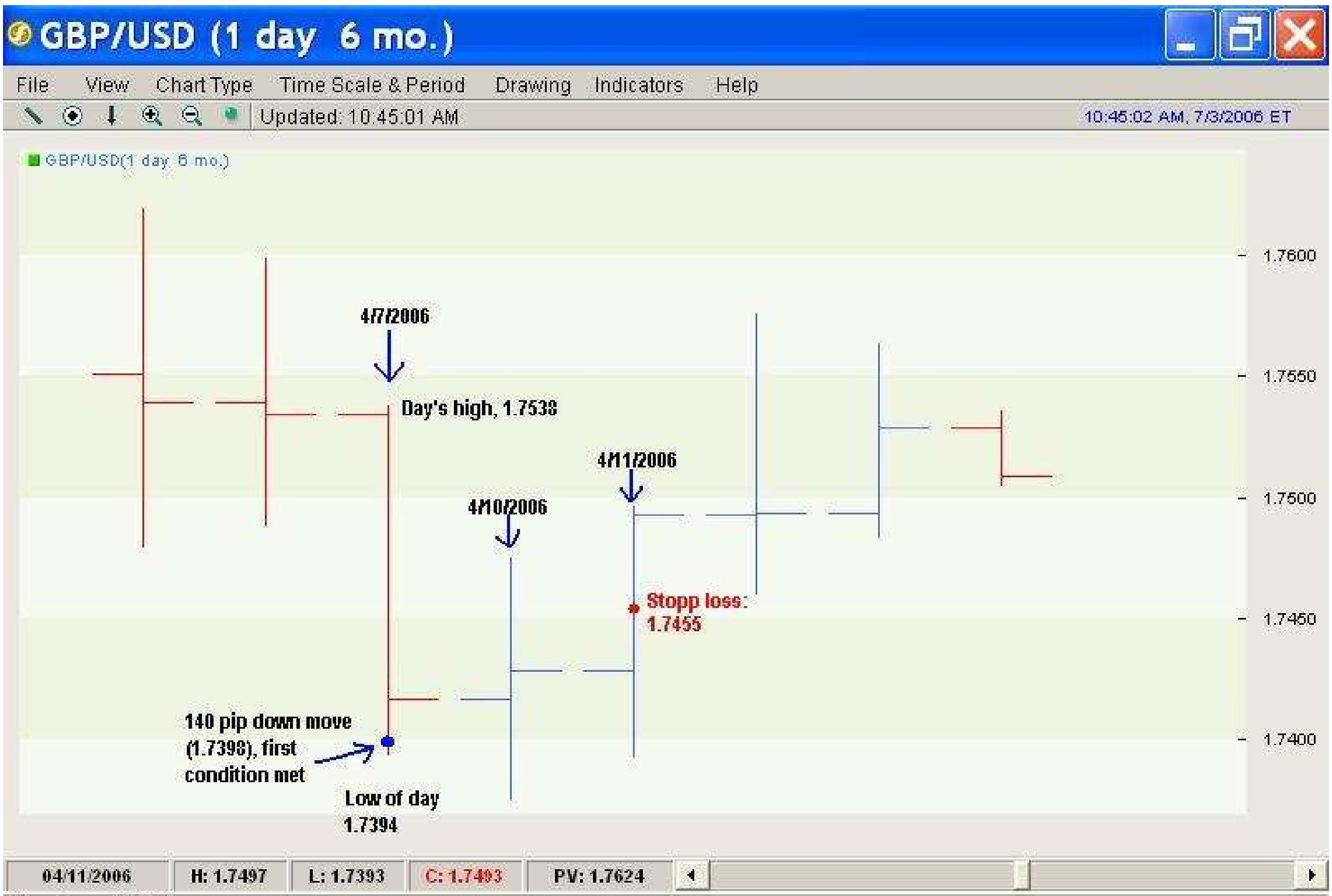
The 30 Pip Rule

One last criteria that must be met for a trade to be triggered is the 30 pip rule. I created this rule in order to filter out all the "fake" 70 pip continuation moves. Let me explain.

As illustrated earlier, we saw that an entry signal is triggered once the market moves 70 pips in the direction of the price explosion. The 30 pip rule requires that once there is a 70 pip move in the direction of the price explosion a trade will be triggered ONLY if at the same time the market is 30 pips above or below the high/low of the previous day (respectively). You are probably a bit confused but it's easy! We will now look at two examples.

Example # 3

We can see on this next daily bar chart the first requirement of the Forex Cash Cow strategy, a 140 pip move, fulfilled on Friday April 7th, 2006.



Courtesy of FXTrek

The next trading day is Monday April 10th, 2006. Let's look at this day on a five minute bar chart.

Courtesy of FXTrek

The market made a high at 1.7475 and then quickly moved downward (the direction of the previous day's price explosion) to 1.7405, a 70 pip move. Without the 30 pip rule we would have entered a short position at 1.7405 with a stop loss of 60 pips or

1.7465. As you can see from the five minute bar chart the stop loss was not hit on that day. However, as shown on the daily bar chart, it was hit the following trading day, 4/11/2006.

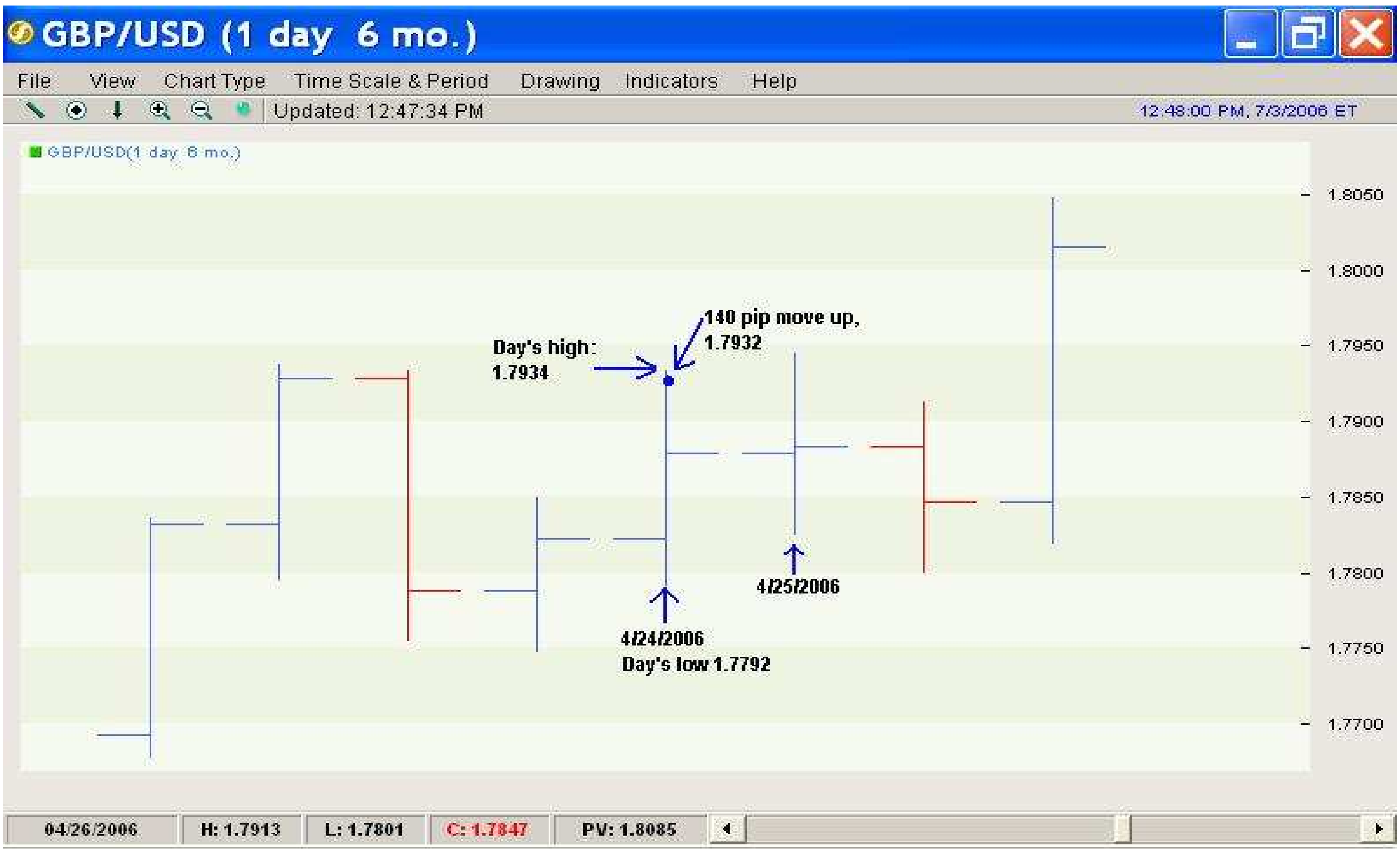
However, since we have the 30 pip rule we would have not entered the trade. The 30 pip rule requires that the entry be at least 30 pips below the previous days low. Previous day's low was 1.7394, next day's low was 1.7376, a difference of 18 pips. For a trade to have been triggered the market had to reach 1.7364 (again, a 30 pip move from the previous day's low).

Important: The outcome of the 30 pip rule is that sometimes a trade will be entered at more than a 70 pip move. However, from back testing it seems that most trades will be normal, meaning that the 70 pip move will already include a difference of 30 pips from the high or low of the previous day (like in the first two examples we saw earlier).

Let's look at another example.

Example # 4

On the 4/24/2006 the GBP/USD pair moved upward 140 pips fulfilling the first requirement of the Forex Cash Cow strategy.



Courtesy of FXTrek

We now want to see on the 4/25/2006 a 70 pip move upward. This upward move must break the 4/24/2006 high price (1.7934) by at least 30 pips. If it doesn't, we wait for it to move 30 pips above the 24th's high and then enter a trade (again, the outcome being that the trade can be entered at more than a 70 pip move).

Let’s look at a five minute bar chart of 4/25/2006.

Courtesy of FXTrek

The market makes a low at 1.7826 and then quickly reverses and reaches our target of 70 pips at 1.7896. However, a trade is not triggered. The previous day's high was 1.7934, this means that for a long position to be triggered the market would have to move to 1.7964. It doesn't. The high of the day was 1.7945. Again, the 70 pip move is not enough and the high of the day must be broken by 30 pips as well.

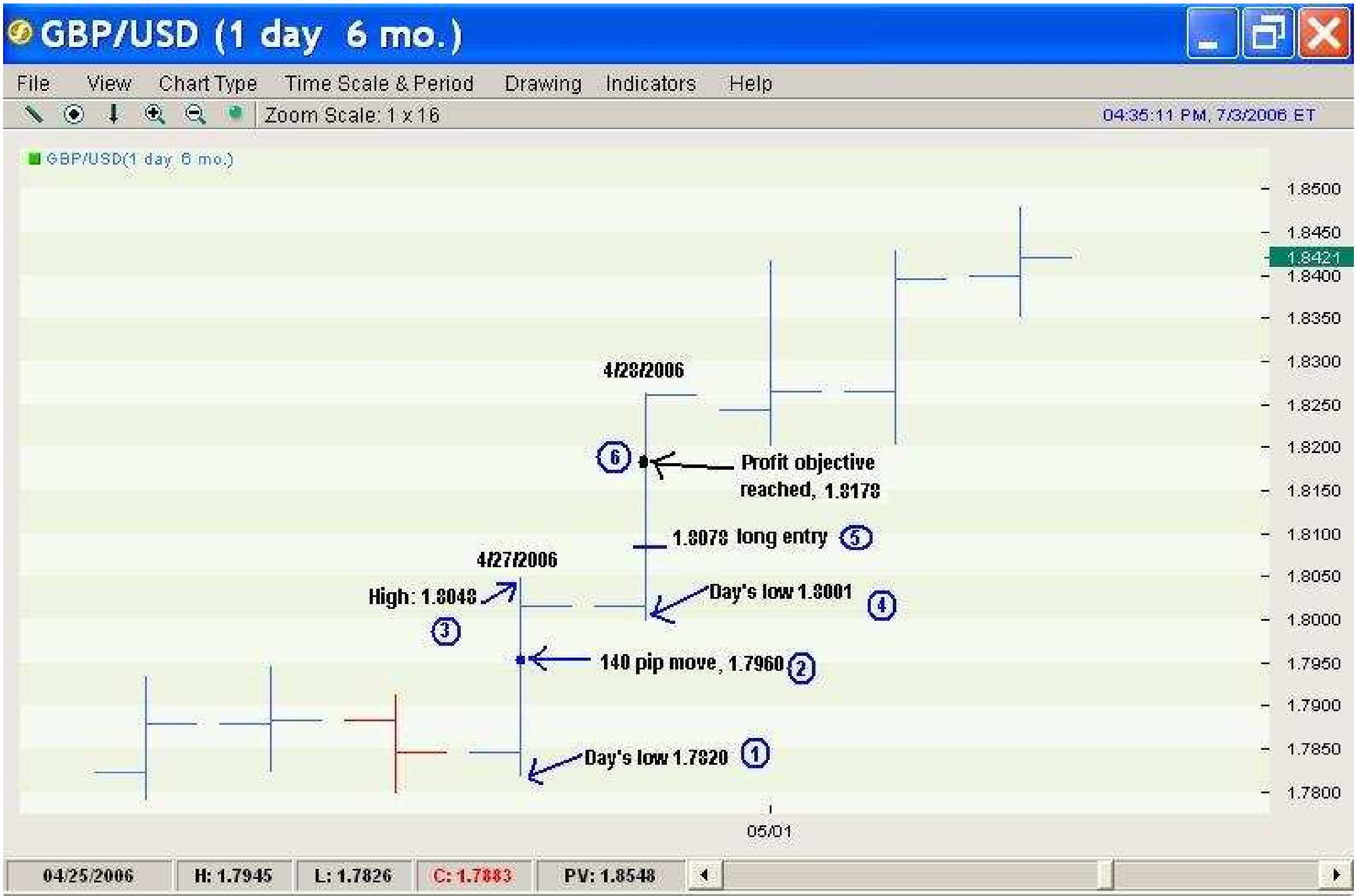
It is important to stress this point one more time. The 70 pip requirement and the 30 pip rule will mean that sometimes a trade will be entered on more than a 70 pip move, but never more than 100.

Notice how in examples three and four the trades would have been losers if not for the 30 pip rule. Also notice how in examples one and two the 30 pip rule was fulfilled and both trades were winners.

The 30 pip rule is a good filter, it doesn't work 100% of the time (no filter does) but in the long run it will prove it's effectiveness.

Let's look at one more example of the Forex Cash Cow strategy.

Example # 5



Courtesy of FXTrek

A very "clean" trade example. As we can see on the 4/27/2006 the market makes a low 1.7820 and then a price explosion occurs reaching our 140 pip target. The pair continues to move upward making a high for the day at 1.8048. So, on the next trading day we want to A). see the market move upward (the direction of the price explosion) 70 pips and, B). enter the trade at least 30 pips above the 4/27/2006 high.

Both requirements are fulfilled on the 4/28/2006. The market makes a low at 1.8001 and then swings upward reaching our long entry point at 1.8078 (70 pips + 7 more pips so that the 30 pip rule will be fulfilled).

As always, a stop loss of 60 pips is immediately placed, in this case at 1.8018. Our profit objective of 1.8178 is reached and the trade nets us a profit of 100 pips.

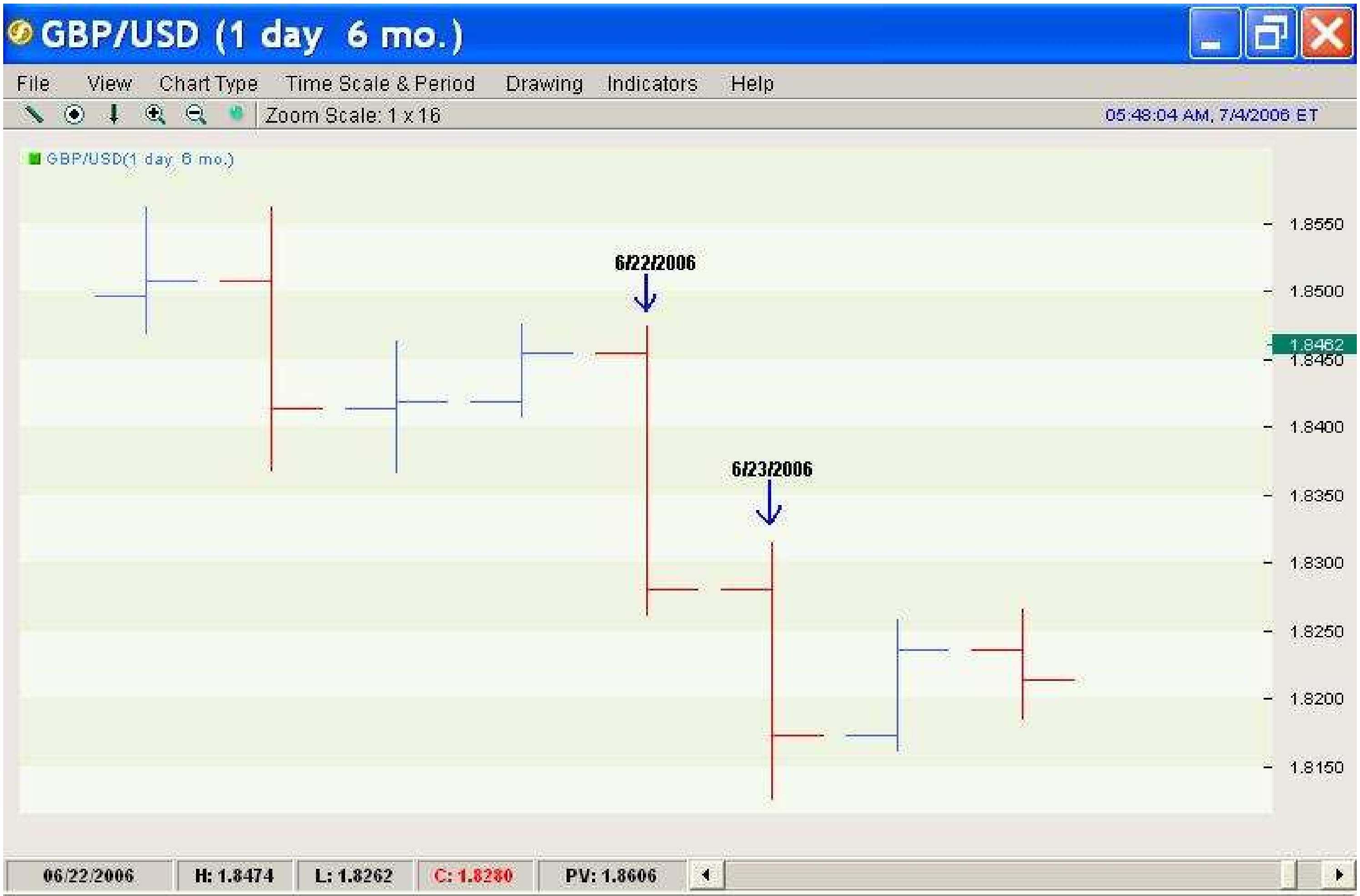
EXERCISES

We will now go over some exercises so you can test your knowledge of the Forex Cash Cow strategy. You will be given a chart with no explanations on it. Study the chart and write down your analysis and how you would execute a Forex Cash Cow trade.

After each exercise a solution is provided. Compare your analysis with ours.

Exercise 1

High/Low of 6/22/2006: 1.8474/1.8262
High/Low of 6/23/2006: 1.8315/1.8127



Courtesy of FXTrek

Analysis for exercise 1

Let’s now compare your analysis with how the trade should have been executed.

6/22/2006

High/Low: : 1.8474/1.8262

Trend: Down

140 pip move down: 1.8334 (High-0.0140)

6/23/2006

Day's high: 1.8315

70 pip move down (*potential* entry, since we first want to check if the 30 pip rule is also fulfilled): 1.8245

Is 1.8245 30 pips below low of 6/22/2006? No. No trade triggered. Calculate new entry.

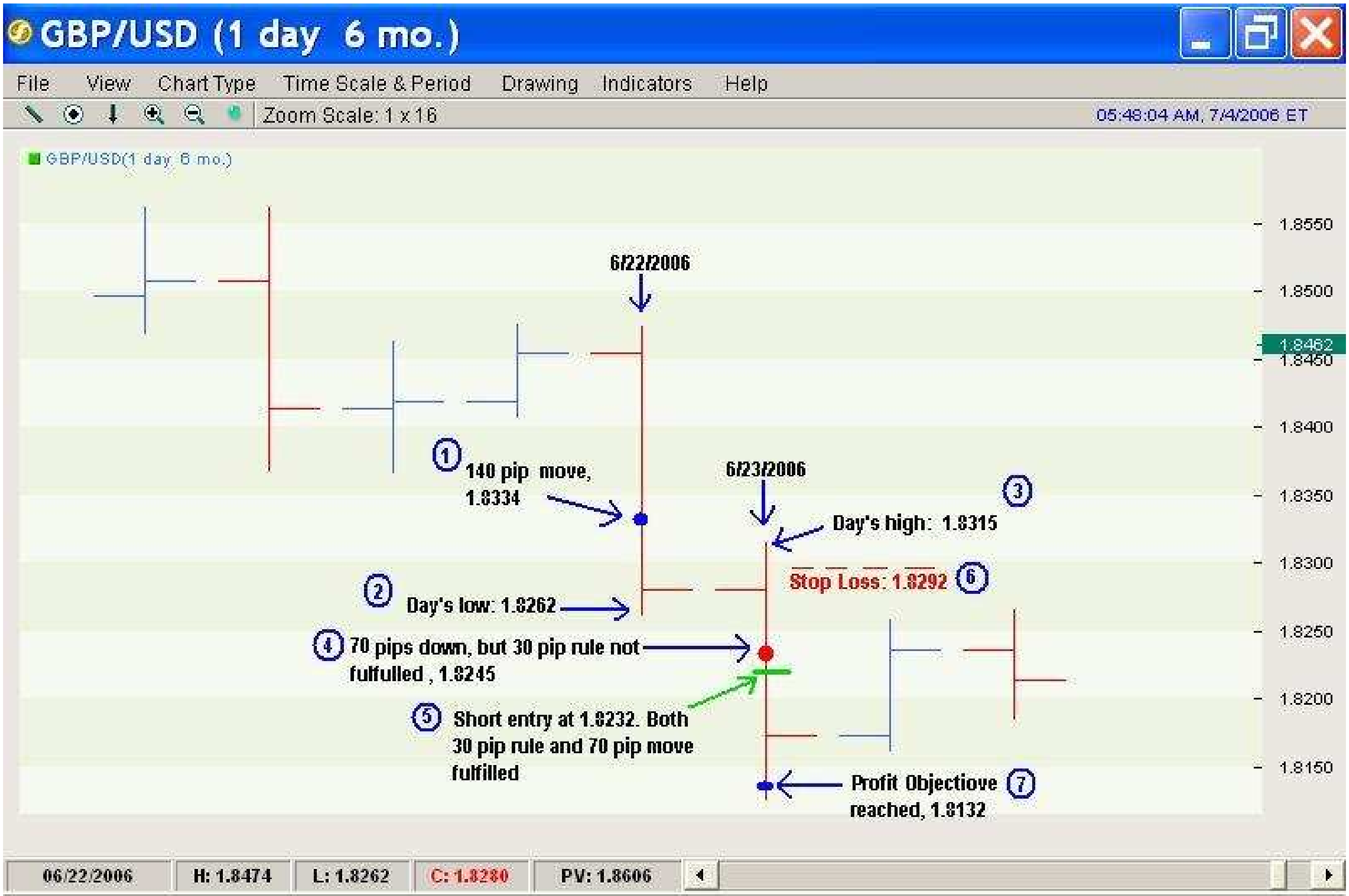
30 pips below 1.8262 = 1.8232. This is my entry level, short position. This number is both 70 pips or more from high of day and 30 pips from low of previous trading day.

Stop loss placed at: 1.8292

Profit Objective: 1.8132

Profit objective reached: +100 pips.

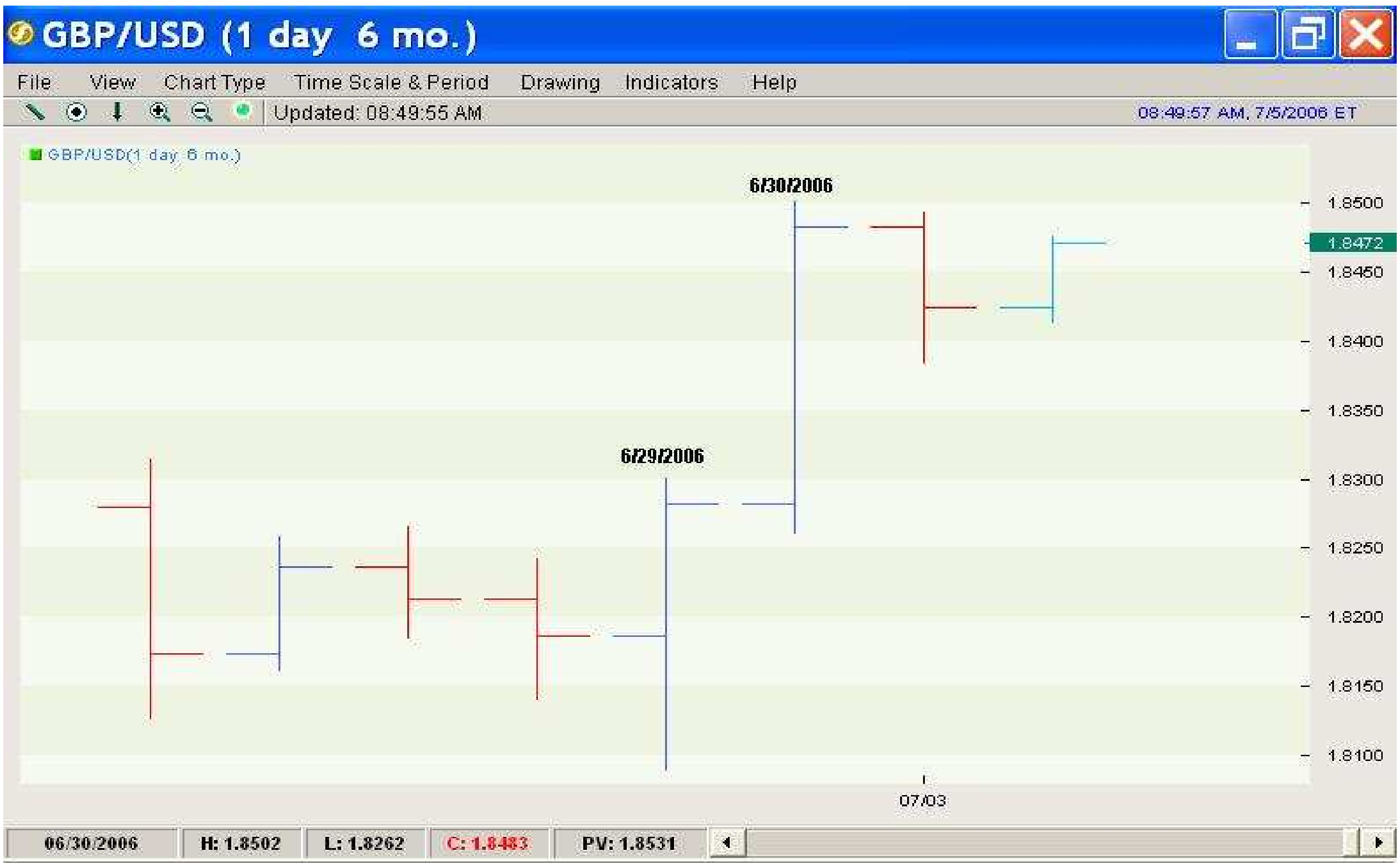
Let's look at how all this would have taken place on the daily chart.



Courtesy of FXTrek

Exercise 2

High/Low of 6/29/2006: 1.8301/1.8090
High/Low of 6/30/2006: 1.8502/1.8262



Courtesy of FXTrek

Analysis for exercise 2

6/29/2006

High/Low: : 1.8301/1.8090

Trend: Up

140 pip move up: 1.8230 (Low+0.0140)

6/30/2006

Day's Low: 1.8262

70 pip move up (potential entry, since we want the 30 pip rule to be fulfilled as well): 1.8332

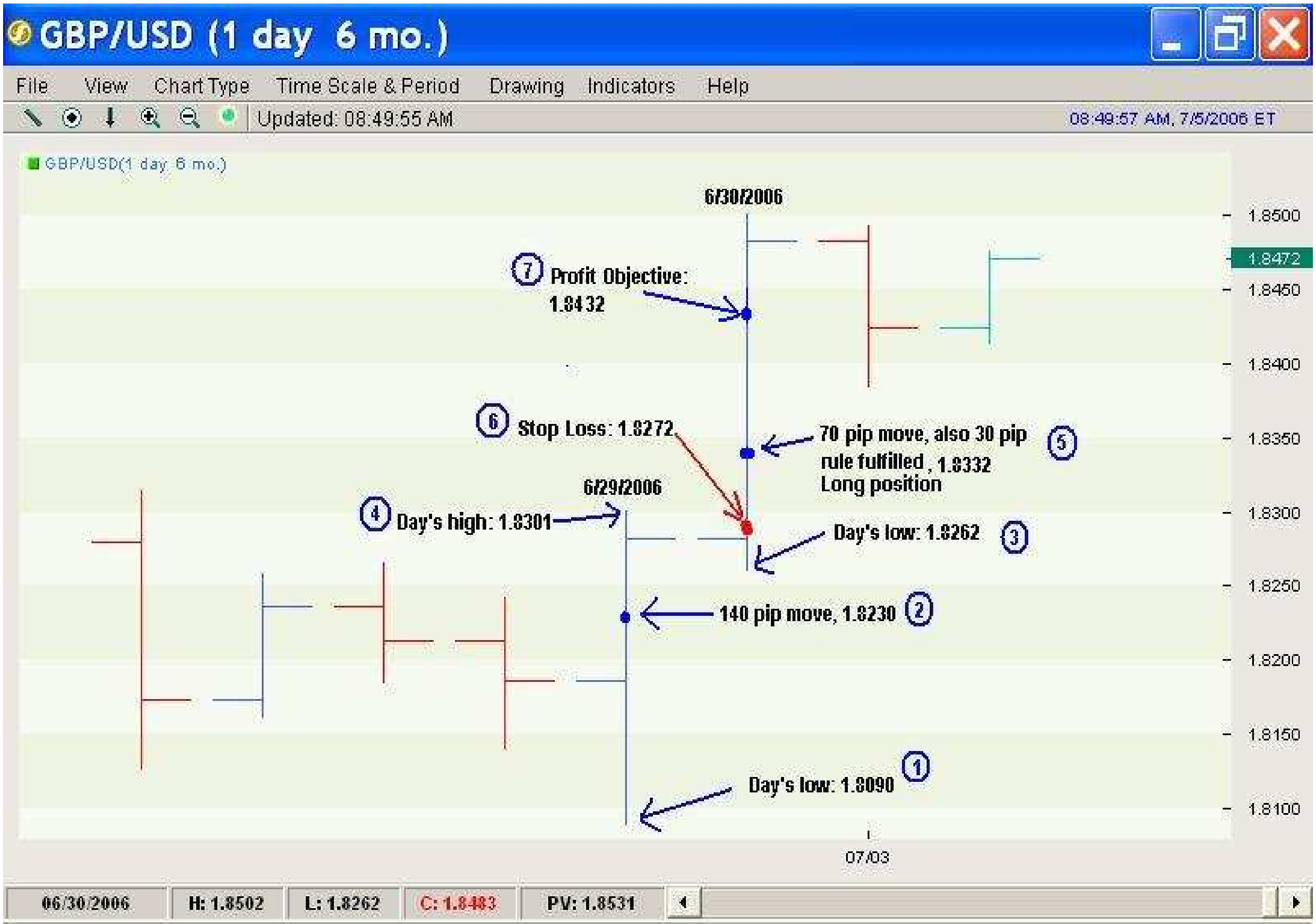
Is 1.8332 30 pips above high of 6/29/2006? Yes. Trade triggered. We are long.

Stop loss placed at: 1.8272

Profit Objective: 1.8432

Profit objective reached: +100 pips.

Let's look at how all this would have taken place on the daily chart.



Courtesy of FXTrek

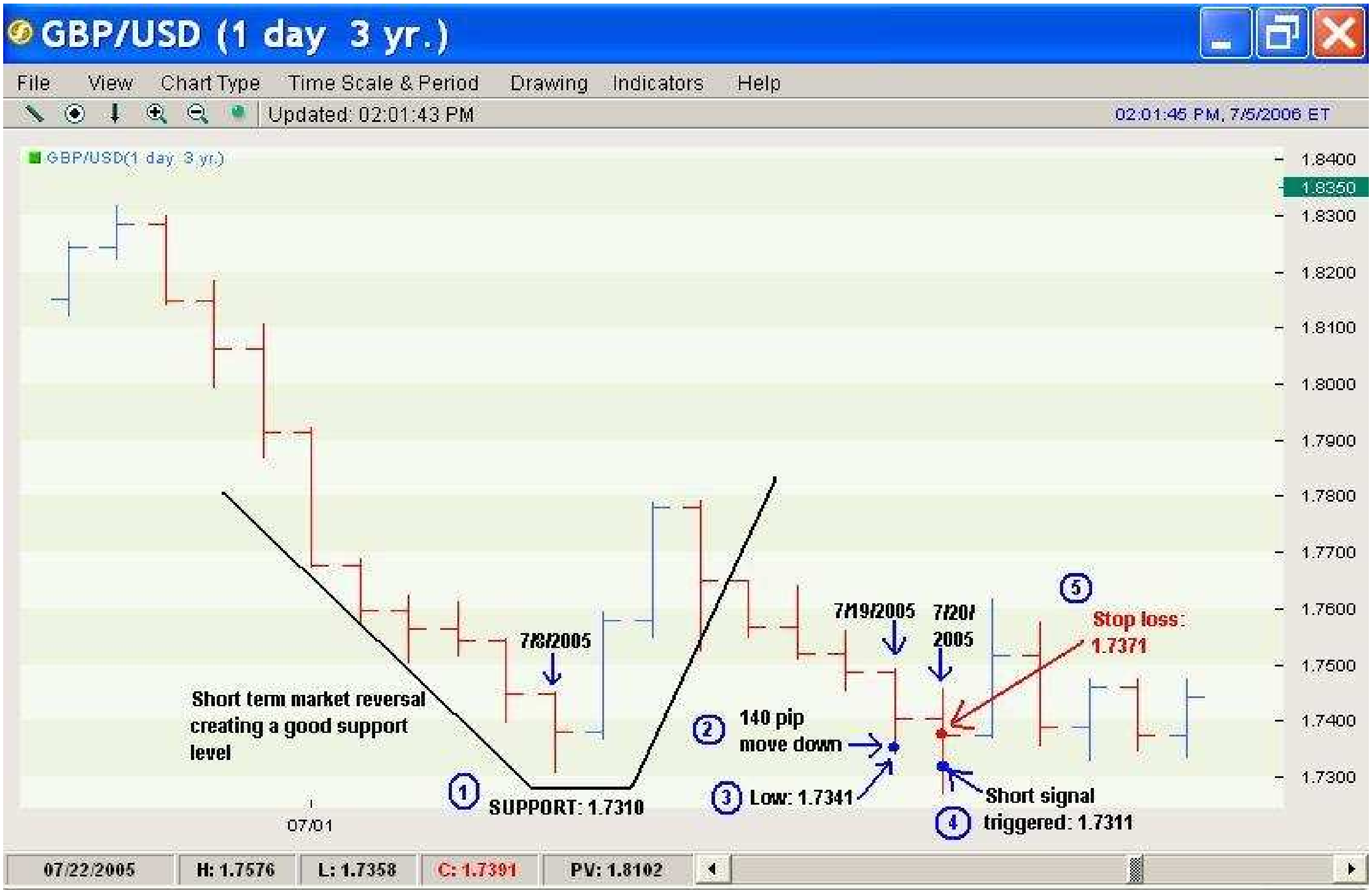
Advanced Trading Of The Forex Cash Cow Strategy

We learned until now how to trade the Forex Cash Cow strategy in a mechanical manner. If A+B happens then do C or D. Very easy to implement and requires minimal commitment of your time. *If you are a beginner in the world of trading than the mechanical method is what you should stick to until you acquire experience*.

In the future, or if you are already an experienced trader, you might consider trading this strategy with a bit of discretion and not 100% mechanically. Previously in the course we learned about support and resistance levels and how the market can react to them. Incorporating support/resistance level analysis with the Forex Cash Cow strategy can prove to be very profitable. *This type of analysis has two objectives. First, alert the trader when not to enter a trade. Second, when to keep riding a trade beyond the standard 100 pip profit objective target*. Let's look at each one separately.

Example of When Not To Enter A Trade

We now know that markets bounce of support and resistance levels. The larger the timeframe you are looking at the larger the potential bounce can be. The first scenario we will analyze is when the market is close to one of a major spotted s/r levels and an entry signal is triggered.



Courtesy of FXTrek

On the 7/8/2005 a very sharp reversal pattern occurs in the market leaving 1.7310 as a potentially strong support level. We already learned that market reversals can act as good support or resistance areas.

On the 7/19/2005 the first requirement of the Forex Cash Cow strategy was fulfilled, a 140 pip move, in this case down. On the

7/20/2005 we get a short entry signal at 1.7311 once the market moves down and fulfills the 70 pip move and the 30 pip rule. If we were trading the Forex Cash Cow strategy blindly (following it mechanically) we would have placed a short trade at that exact level. That trade would have been a quick loser since the market reacted upward more than 60 pips (out stop loss). However, incorporating s/r analysis into the trade would have been very beneficial and would have saved us from the 60 pip loss. We could have easily spotted the major support level created earlier.

Now, hitting this support level doesn’t necessarily mean for our purposes that the market would reverse again. However, what it surely means is that because the market is encountering an important support level it will most likely react to it more than 60 pips (which is our risk tolerance). So, bottom line, the support level created on the 7/8/2005 reduces considerably the probability that the trade would be successful.

Example of Expanding Profit Objective

Let's now look at an example of how we can expand our profit objective with the help of major s/r levels. We already know that the bigger the s/r level the stronger we can expect a bounce to be once the market reaches it. Hence, I would say that when looking to expand your profit objective with this type of analysis you should look at a daily bar chart. It provides the major s/r levels with the greatest potential of causing strong market reversals/bounces. Let's take a look at how this scenario can develop.

The first step in our analysis is to spot a reasonable s/r level on a daily chart. We learned that Fibonacci levels can act as good support/resistance levels. Look at the following chart.

Courtesy of FXTrek

From the 7/20/2005 to the 8/12/2005 the GBP/USD trended up from 1.7272 to 1.8180. It then stopped its uptrend and a reaction was formed. As we learned earlier in the course, with the use of Fibonacci levels we could speculate three areas the market will likely find support. On the 8/30/2005 the pair touches the 38.2% Fibonacci level and stops, hopefully a good support level was found. A day later, on the 8/31/2005 we can see the market exploding to the upside providing us with the assumption that the 38.2% level held and the uptrend will now continue. Additionally, the first requirement of the Forex Cash Cow strategy, a 140 pip move, was fulfilled on that same day.

A long position was triggered on the next day, 9/1/2005, when the market moved to 1.8090. At this point we know that a). the general trend of the GBP/USD is up (7/20/2005 to 8/12/2005), b). more likely than not the 38.2% Fibonacci level acted as support, and c). the uptrend is resuming (as evidenced by the 8/31/2005, a strong 240 pip day in the direction of the trend).

The analysis was correct and the high price of the trend continuation was 1.8500, a profit potential of 410 pips (High-entry = 1.8500-1.8090 = 410 pips)! Unfortunately things aren't that easy in live trading. In hindsight it is easy to say that we could have had a profit of 410 pips because we can see it on the chart. But how could we have known at that time that the market would reach 1.8500? The answer is simple, we couldn't! The way I approach the issue is easy. I reason that if my standard profit objective for the Forex Cash Cow strategy is 100 pips then under these circumstances (as outlined above: a+b+c) I could go for twice that number, 200 pips.

In my opinion that would be a *conservative* profit target simply because we are dealing with a good support level on a *daily* chart, and as we learned earlier the larger the time frame the stronger the bounce off a support/resistance level.

We've gone over two examples of how the Forex Cash Cow strategy can be traded with some discretion and not completely mechanically. When we covered the technical analysis part of the course we saw other examples of how to find s/r levels which you could incorporate into your trading employing the same *logic* we used in these examples.

However, I must say that it is always easy in hindsight to analyze the market as we just did. The problem is doing it in real time! *This is exactly why I think that if you are not an experienced trader you should stick to the conventional mechanical mode of the strategy*.

A SPECIAL NOTE REGARDING CHARTS

I want to stress this point. The best way to trade the Forex Cash Cow strategy is by using daily bars on a daily bar chart. They reflect best the beginning and end of the day. Like we already learned previously each bar has an open and a close point. The close point is exactly where the day ends and a new day begins for our purposes. You can use one of dailyfx.com free charts for your Cash Cow analysis. I suggest this one:

http://www.dailyfx.com/charts/Chart.html

IMPORTANT: I want to clear a point regarding the high and low of the day of the entry (the day after the 140+ pip move). A common question that is asked is "but how do I know what is the high or low of the day before the day has ended?". Well, in essence *the high or low does not really matter*. I use it for illustrative purposes only. Let me explain.

What truly matters (and the only thing the trader must concentrate on) is that the market makes a 70 pip price swing in the direction of the 140+ pip move day. So, as an example: if you are looking for a long position you wait for the market to reach yesterdays high (the 140 pip day). Once it reaches the high of that day, you measure the distance between the CURRENT low of the day and the current price (the high of yesterday). *Now you have a number*. You use this number to calculate if a 70 pip up movement would also fulfill the 30 pip rule. If it will, you know your entry. If not, you calculate the number that would fulfill the 30 pip rule.

Now, suppose *before* the trade is triggered the market makes a new low and comes back to the high of the 140+ pip day. You simple recalculate using the same exact procedure. From experience though I can tell you that if the market makes a *new* low, the odds of it bouncing back to yesterdays high are small.

So, in essence you would only have to wait for the high to be hit (you can use a service like alertfx.com to alert you) and only then calculate the number. Once the high is hit most of the "work" is done. In over 80% of the time the market will not make a new low and then a new high, so you would be practically set.
The exact same procedure would apply for a short position (obviously, using the low of the 140+ pip day instead of the high and the high of the next trading day instead of the low).

FOREX RUNNER STRATEGY

Through the Forex Cash Cow strategy you learned how to take advantage of the profit potential two day price swings the GBP/USD market offer. This strategy is designed specially for people who don't really have time to monitor the market (e.g. people who have day jobs) since it doesn't occur very often and it is a Set & Forget strategy as we already saw.

Forex Runner is the exact opposite of Forex Cash Cow, it is a day trading system. This strategy is designed to mainly trade intraday moves in the EUR/USD pair, although I have seen good results for USD/CHF and GBP/USD as well.

The reasons this pair is the one to be traded with this strategy are two. First, EUR/USD is the most liquid pair in the forex market. This is **very** important when day trading. You are aiming for smaller moves and therefore you need very good order fills with minimum slippage (slippage is a term used to describe the difference between the price your request your broker to enter a trade and the actual price the broker fills the order). Second, many brokers today provide a 2 pip spread for this pair. This is crucial. Since you are aiming at small profit objectives and small stop losses you need to have a small spread. Narrow spreads means you get to keep more pips and you get to risk less pips.

We will illustrate this point later on.

Forex Runner is traded on a five minute bar chart. The strategy can be traded anytime within the 24 hour trading session. Of course, this does not mean you have to sit and trade 24 hours! If you live in Europe for example, trade from 1:00 to 11:00 (the most liquid European market hours). If you live in the USA, you can trade from 8:00 to 15:00. The idea is simple, don't overtrade.

Overtrading is a common mistake many traders make resulting in bad results and mental exhaustion. Set your times and be disciplined enough to trade only between those times. Rest and relaxation is and extremely important part of trading. It allows you to clear your mind, focus, reload your energy levels and attack the market again.

I must stress this point again. Many day traders lose in the market simple because they feel they have to trade every single minute of the day and sometimes night. Please, don't do that mistake.

Let's now go over the rules for placing a Forex Runner trade. Remember, we are trading on a five minute bar chart. **The chart you will be trading from has to be your broker's chart** (every broker offers a free charting package with a demo or live account). The reason it is important to trade from your brokers chart is because this chart reflects the exact prices you can get fills. Let me explain. While one broker can show a EUR/USD quote of 1.2009 at 10:01:32 another broker can show a quote of 1.2010 at that exact same time (a difference of 1 pip). So if you are looking at one brokers chart to spot an entry but you are placing the actual trades with another broker you will get a different price fill. The same goes for using an independent charting software (meaning, all those free/paid charts that don't belong to any brokerage firm) to spot trades and placing the trades with your broker. In conclusion, use your broker to spot trades ***and*** to enter orders.

To trade Forex Runner we will not use any type of indicators, our only guide will be the price of the currency pair.

The reasoning of Forex Runner is simple, spot an intraday price movement in any direction and jump on board for a quick profit. This day trading strategy uses a price element and a time element for it's implementation.

Step 1 – 30 pip move

The EUR/USD pair moves in various directions throughout the day. The moves can be as small as 10 pips or as large as 50, 60,70 or more pips. We already learned previously that even in a trend, the market reacts. These reactions can be small or large. We have also seen that the market can move sideways. Again, a sideways move can be within a 10 pip range or a 50 pip range. The bottom line is that there are many small to intermediate moves throughout the trading session. Speculating where the market will go at any point in time within any trading session is not easy. However, the market does give us clues to where it is heading, at least in the very short term.

The basis of Forex Runner is spotting 30 pip moves throughout the trading day and jumping in the direction of the move. So, if for example the market move from 1.2000 to 1.2030 an entry signal would be triggered to the long side. If on the other hand, the market moves from 1.2030 to 1.2000 a short signal is triggered.

Let's examine the way you should spot these 30 pip moves with the help of charts.

Example # 1:

So, each arrow represents a 30 pip move, the red lines show exactly the price levels of each 30 pip move. The idea is quite simple, the traders job is to simply wait for the market to make a 30 pip move to any side from any point in time throughout the trading day.

Example # 2

Again, the same idea as in the previous chart. White arrows show the direction of the market (and the place where each 30 pip move starts) while the red lines show the exact price level of the 30 pip moves.

Example # 3

We can see four moves that are at least 30 pips each, two up and two down. Again, the red lines mark the exact place the market reaches the 30 pip moves.

What you can learn from these chart examples is that throughout the day the market swings various times. However, the term “swings” is quite subjective. For instance, someone following 10 pip moves could say the market “swings” 100 time a day. Someone following 15 pip moves can say the market “swings” 50 times a day. Of course, the shorter the moves are the more “swings”. For our purposes, we call a swing a minimum of 30 pips.

Now, for those of you who already trade I can see this is elemental stuff but please bear with me since there are many beginners who read this course who do need a clear and precise explanation.

Step 2 – The Entry

Once we spot a 30 pip move no matter to what direction we enter the market in the direction of the move at the exact price the 30 pip move reaches. So, if it's up we enter a long position, if it's down we enter a short position. Again, the entry is exactly in the price of the 30 pip move.

Example:

Ok. So this chart shows the exact entry price of each 30 pip move.

Move A: Down. Start of move 1.2795. Entry short 1.2765.
Move B: Up. Start of move 1.2742. Entry long: 1.2772
Move C: Up. Start of move 1.2750. Entry long: 1.2780
Move D: Down. Start of move 1.2833. Entry short: 1.2803.

Step 3 – The Stop Loss and Profit Objective

Once we enter the market, be it short or long, we have several options. The trader will follow simple rules in the following order.

First: Immediately after entering the trade a 20 pip stop loss is placed. So, if the trader entered a long position at 1.2030, a stop loss is placed at 1.2010. I call this stop loss a "worst case scenario" stop loss since in many cases the market will not hit it. It is designed to protect the trader in the event things go really bad and the market reverses.

Second: Again, after entering the position the trader enters a profit objective order of 40 pips. So, as an example if a long trade was placed at 1.2030 a profit objective order is placed at 1.2070.

Third: Once the stop loss and the profit objective have been entered the following takes place. If the market moves 10 pips or more in the direction of the trade, the trader moves the stop loss to 10 pips instead of 20 pips. For example, a long trade was entered at

1.2030 with an initial stop loss of 1.2010. The market moved to 1.2040 (10 pip profit). The stop loss is moved to 1.2020 (so, maximum risk now is 10 pips).

Fourth: If after reaching the initial 10 pip profit the market does not reach the profit objective within six hours the stop loss is moved to break even. As an example, if at 12:00 we entered a long position at 1.2030 with a stop loss of 1.2010 (same goes for if we moved stop loss to 10 pips from entry) and at 6:00 the market has still not reached our profit objective we move stop loss to 1.2030.

Important: **The reverse move**. If at *any* point after entering the trade the market moves 30 pips to the opposite direction we close our initial position and enter a trade to the opposite side (reverse). Most of the times when the market reverses you would have exited your position anyway (stop loss hit) but there are few times where for example you are in a 35 pip profit, still within the 6 hours time frame and suddenly the market moves 30 pips to the other direction. You do not wait for the market to reach your break even stop loss (remember, you would have moved the stop loss to break even). You simple exit the trade early and enter a trade to the other direction.

Fifth: The next trade. If the stop loss is hit we start counting the next 30 pip move exactly from the price level of the stop loss. Example: Trade entered at 1.2030. Initial stop loss placed at 1.2010. Trade moves 10 pips in the direction of the trade and stop loss is moved to 1.2020. Then suddenly stop loss is hit. Next trade would be 30 pips above or below 1.2020 (long when market reaches 1.2050 short when market reaches 1.1990). The same procedure would take place if stop loss was not yet moved to 10 pips from entry or if stop loss was moved to break even after the 6 hours passed since entering the trade.

One last thing with regard to the fifth step. All this step is cancelled if the market reverses (as explained above in "the reverse move").

If the profit objective is reached the next trade will be placed on a 30 pip move to the opposite direction of the last trade. So, if we were long and our profit objective was reached we will now wait for a 30 pip down move to enter a short trade.

The question that arises now is what happens if the market does not move to the opposite direction thirty pips. How long should we wait? Remember, in strong trends the market sometimes just keeps on moving and moving in a certain direction making only small stops. We want to be able to take advantage of strong trends. So, if after 4 hours of our profit objective being reached we have not seen a 30 pip move to the opposite direction we wait for a 30 pip move to either side (now it's not only to the opposite side).

Let's look at an example:

We start with point A, a 30 pip move downward and a short entry at 1.2821. Our 40 pip profit objective is reached at 15:05, point B (1.2781). From this point onward we are waiting for an opposite 30 pip move (up). However, the market does not give us that 30 pip up move and from point C (19:05) and onward we wait for any 30 pip move to occur. Point D shows us that the move is downward and the red line represents out short entry.

Lets look at various examples now of past trades, from start to finish.

Example 1:

So we first spot a 30 pip move, in this case the move is up from 1.2876 to 1.2906. We place a long trade at 1.2906 and immediately place a 20 pip stop loss at 1.2886.

Let's see how the move now develops:

So, again our long entry at 1.2906. The market moves at least 10 pip in the trades direction, 1.2916, but suddenly reverses. Since the market moved more than 10 pips in the trade's direction we moved our stop loss to 10 pips from entry level to 1.2896. The trade resulted in a 10 pip loss.

The next trade is 30 pips from the price our stop loss was. Since we got stopped at 1.2896 we have to wait and see if the market goes up to 1.2926 or down to 1.2866.

And here is what happens:

We can see that the 30 pip move after our stop loss was hit is to the upside, from 1.2896 to 1.2926. We immediately place out stop loss at 20 pips away from entry, 1.2906.

And the trade continues:

As you can see from this chart the market does move in the direction of the trade and it reaches our minimum distance of 10 pips in order to move the stop loss. I want to make clear that the market can move more than 10 pips in the direction of the trade, it doesn't have to be exactly 10 pips, *it's 10 pips or more*.

Back to the trade now. So we move our stop loss 1.2916, 10 pips from entry. Again, our stop loss is hit and we lose 10 pips. Unfortunate, but that's the world of day trading! To be a good day trader you have to understand that small losses are part of the game. Don't ever take it personal.

Trading continues:

In the previous chart we got stopped out at our 10 pip stop loss. From the above chart we can see the market making a 30 pip move to the downside (a perfect example of the reversing position principle we discussed earlier). Our entry is at 1.2908 and we place an initial stop loss at 1.2928.

Let's see how the trade develops:

Point A is our entry after the 30 pip down move. Point B represents the 10 pip move in the direction of the trade, 1.2898. We move our stop loss to 1.2918, point C. Our profit objective of 40 pips is hit at point D, 1.2858.

Notice how our profit objective was reached in less than six hours. Remember, should six hours have passed and our profit objective was not reached yet we would have moved our stop loss to break even, in this case 1.2908.

This was an example of a day that started out with two small losses and then a nice profit netting the trader +20 pips (-10 + -10 + 40= 20 pips).

As a day trader you come to understand that there are no “typical” days. It is hard to find two identical days and you should always be ready for something new. Once you start trading and you gain some experience you get to appreciate the fact that no two days are identical, it makes things more exciting!

Now that you understand step by step how to spot, enter and exit a trade I want to go over another trading day. This time we will not do it with many charts since I presume you already know the basics.

Events occur in the following order:

A. Market starts up move.

B. Market ends up move but on 27 pips, so 30 pip objective not reached. We wait to see if the market will continue its uptrend and give us an entry at 30 pips.

C. Market starts a down move.

D. 30 pip move completed, short entry 1.2795.

E. Stop loss placed 20 pips from entry, 1.2815.

F. Market moved 10 pips in direction of the trade.

G. Stop loss moved from 20 pips from entry to 10 pips from entry.

H. Stop losses not hit and profit objective reached giving us a profit of 40 pips on the trade.

Second trade of the day:

Events occur in the following order:

A. Start of 30 pip move.

B. 30 pip move completed, long entry at 1.2785.

C. Initial stop loss placed 20 pips from entry, 1.2765.

D. Market moves in the direction of the trade but only 9 pips. Remember, we are looking for at least 10 pips to move our stop loss to 10 pips from entry.

E. Market moves 10 pips in the direction of the trade.

F. Stop loss is moved 10 pips from entry.

G. Profit objective is reached, 1.2825. A 40 pip profit was achieved in this trade.

So, here we saw a day that gave us an 80 pip profit using the Forex Runner strategy. It's nice to make 80 pips in one day and these days do occur sufficient times to make day trading worth while. However, as a veteran trader I must tell you that day trading is like a roller coaster ride! You have your ups and downs and you never know which one is next, the up or the down. You can have an incredible week and make tons of pips just to give it all away in two trading days. You can have two incredibly bad weeks and then three or four days that not only make up for the past two weeks but also increase your account considerably. You probably see what I am driving at by now. Day trading is not a get rich quick program, but a business just like any other business. You will have good days and bad days, you will have good weeks and bad weeks. But, work hard, be patient, keep your losers small, manage well your money, be disciplined and you will succeed.

Trading Forex Runner with other currency pairs

All the above examples are with the EUR/USD pair. If you like a bit more action, you can also trade Runner with two other currency pairs, namely USD/CHF and GBP/USD (**particularly with the GBP/USD pair. This pair is very volatile and with that come many opportunities**). These two pairs are very liquid and more volatile than the EUR/USD pair so expect to have more traders in any given trading day. This means more losses but also more winners, i.e. a more volatile equity curve. I would say that these two pairs are very good for the aggressive trader. If you are new to trading, you might consider starting with the EUR/USD pair and then trade the two others.

FLIP & GO STRATEGY

We learned two strategies so far; Forex Cash Cow - a swing trading strategy and Forex Runner – a day trading strategy. At this point you probably understand that my approach to trading is by using as little or no indicators at all. I look at the market in a different way than most traders. My personal opinion is that most trading indicators are worthless (and trust me, I have tested and traded most of them earlier in my career!). The Flip & Go strategy is another day trading strategy that I like to use since it is very simple to implement and results can be very rewarding.

The logic behind this strategy is as follows. As you have already learned earlier in the course, the forex market is a 24 hour market. Never stops (except on weekends) and moves from one area of the world to the other as days start and end in each and every continent. We also know that the market behaves in a different manner within each period during the 24 hour trading day. For example, in the Asian session we see smaller price movements than in the European and US sessions. High volatility can be seen towards the end of the European session and the start of the US session (since both time zones meet for a short period of time).

Early in the European session (sometimes still in the late Asian session) we can see a very interesting pattern that develops in the EUR/USD pair. I call this the “fake 15 pip move”. What happens is, the market moves up or down at least 15 pips just to suddenly reverse and make a considerable counter move.

I tested this strategy for some time, different profit objectives, different times of day to enter the trade, different stop losses etc. The best results I came up with are the following.

Step 1 – Measuring 15 pips

The best chart to use for this strategy in my opinion is the 5 minute chart but you can also use a minute chart.

So the first step of the strategy implementation is measuring a 15 pip move in the late Asian/early European session. To be more specific, from exactly 5:00 a.m (but most trades will be triggered two or three hours later as you will see). UK time. Let’s look at some examples so you can understand this better.

Note: The charts we will use are set to another time zone so don't pay attention to the time axis. I marked exactly where 5:00 is in each of the charts.

Example # 1

We can see the trading day starting at exactly the 5 minute bar of 5:00 a.m. The high and low of that bar is also to be included in the 15 pip measurement. The market starts the day by moving up and down various times. Move A shows the first move of the day, not even close to our 15 pip objective. Move B is small as well. Move C (blue line) seems to be large enough but after precisely checking the high and low of the move we can see that it's only 13 pips (you have to be precise to the last pip!). It's move D (cyan line) that completes a 15 pip move.

Example # 2:

Again, the day starts at 5:00 a.m. UK time. Move A market by the yellow line falls short from our 15 pip objective, it's only 12 pips. Move B marked with the red line is a very small move. Move C marked with the cyan line reaches our 15 pip objective.

You can see that we measure the 15 pips from any high/low point after 5:00 a.m.U.K time. To clarify, look at move B. It is a small move down after which the market reverses and moves up. For our purposes, the low of move B is not the lowest point from which we measure a 15 pip move. Why? A lower low was formed after 5:00 (marked by the beginning of the yellow line).

With the help of these two examples I wanted to make sure you understand that the 15 pip move can be from any point to any point after the 5:00 a.m. five minute bar (including the bar).

Also, the move can extend to more than 15 pips, that's ok. For our purposes it's the exact price where the market reached the 15 pips that is important.

Step 2- The Entry

Once we spot a 15 pip move we pace an order to the opposite direction of the move at the exact 15 pip price level. For example, if the market moves from 1.2050 to 1.2065 (up) we place a short entry order at 1.2065 (even if the market continued moving up, we are short at 1.2065). On the other hand, if the market moves from 1.2050 to 1.2035 (down) we place a long entry order at 1.2035.

Let's look at some examples.

Example # 1:

The trading day starts at 5:00 a.m. UK time. Move A does not complete the required 15 pip target. Move B is a bit larger than move A since after move A ended a new low was created (this new low is actually the beginning of move B as shown with the red line. It is a new low created AFTER 5:00). However, move B fails to reach the 15 pip objective by 3 pips. It is move C which completes the 15 pip move (downward) from 1.2794 to 1.2779. We place a long trade (remember, the trade is placed to the opposite direction of the 15 pip move) exactly at the 15 pip target, i.e. 1.2779.

Example # 2:

Swing A falls short of our 15 pip objective (it's only 11 pips). Swing B is a bit larger, 13 pips. It is swing C that reaches our 15 pip objective at 1.2757. We place a short trade (remember, opposite direction) at 1.2757.

Example # 3:

We start the day at 5:00 UK time, the first move, A, is insignificant and we wait for a larger move. Move B is a bit larger but still falls short of our 15 pip objective. Finally, move C hits our 15 pip objective and since it is a down move we enter a long trade at exactly 1.2842.

Step 3: Stop Loss and Profit Objective

Once an entry signal is triggered long or short, we set our profit objective to 40 pips (I will discuss other interesting options for the profit objective later on) from entry. We place our stop loss at 15 pips from entry price. If the market moves in our favor 15 pips or more we move our stop loss to break even (i.e. the price we enter the trade). As an example, if we entered a short trade at 1.2650 we would place a stop loss at 1.2665. If the market moved in the direction of the trade to 1.2635 we would move our stop loss to 1.2650.

On the other hand, if we entered a long trade at 1.2650 we would place our initial stop loss at 1.2635. Should the market move in the direction of the trade 15 pips to 1.2665 we would move our stop loss to 1.2650 (break even).

Let's look at some examples.

Example # 1:

Events take place in the following order: **A** - Our short entry is triggered at 1.2794, exactly at the 15 pip upward move. **B** – We place a stop loss 15 pip from entry at 1.2764. **C** – We place a take profit order at 1.2709 (40 pips from entry).

So, events occur in the following order. **A** – Short trade placed at 1.2749. **B** – Stop loss placed at 15 pips from entry at 1.2764. **C** – Market moves 15 pips in the direction of the trade. **D** – We move our stop loss to break even at 1.2749. **E** – Profit objective reached at 1.2709 (40 pips) without stop loss being hit.

Example # 2:

The day starts at 5:00 UK time. The market moves 15 pips down from 1.2725 to 1.2710 triggering a long trade (A). We immediately place our stop loss at 1.2695, 15 pips from entry price (B). Let's see now how the trade develops:

Events occur in the following order. **A** – Our long trade was triggered at 1.2710. **B** – Original stop loss placed at 1.2695. **C** – Market moves 15 pips in the direction of the trade to 1.2725 (remember, our profit objective is placed 40 pips from entry at 1.2750). **D** – We move our stop loss to break even, 1.2710. The market reverses and reaches our stop loss and the trade ends up being a break even trade.

There are two more issues I want to go over and both are related to the time exit. Once you enter a trade, if your profit objective is not reached within eight hours from entry you exit the market at that exact time. So if you entered the trade at 8:00 a.m. and your profit objective/stop loss have not been reached until 16:00, you exit at exactly that time. This is a rare occurrence but it does happen sometimes.

The Profit Objective

I choose 40 pips because it can provide a good number of winners and a steady equity line over time. However, I have seen very good results with a 15-20 pip profit objective. As an example, in September/06 the strategy had 10 consecutive winning trades with a 15 pip profit objective. This is certainly impressive but it does not occur every month. There are always pros and cons to the profit objective you choose. Smaller profit objectives will give you more winners but then every loser will eat up a greater portion of the winners. Having larger profit objectives will provide you with fewer winners but then again, each loser will eat less of your profits.

To me it all comes down to what type of trader you are. Some traders need the psychological stimulation that frequent winning trades provide. It gives them strength to continue. Some traders don’t mind taking losses more frequently but knowing that what is important is the big picture, i.e. the final outcome after a prolonged period of time.

Know what type of trader you are, this is key to your success.

The Flip & Go strategy works well with the EUR/USD pair since this pair is less volatile than the USD/CHF and GBP/USD pairs. With these other two pairs you will have to many false moves before the market will take a true direction. I do not particularly encourage trading them with the Flip & Go strategy but then again, as a trader you always have too keep an open mind about everything! Trying and experimenting is one of the traits that makes a trader a good trader.

Finally, the Flip & Go strategy is not a miracle trading strategy! No strategy is. It has its ups and downs like ANY other trading strategy in existence. It is up to the trader to make it work over ***the long run***. You will have good days and bad days, good weeks and bad weeks BUT what counts is the bottom line after trading several months. *Never try to measure results in trading on a daily or weekly basis,* trust me, I did that earlier in my career and it is self destructing. Invest your time and effort, manage your money well, be disciplined and you will see that in the long run it will pay off!

Time Efficient Trading

Having money, desire and a strategy are not the only elements you need in order to start trading. You also need time. Many people would like to enter the world of trading but simply lack enough time mainly because they have day jobs. This is exactly why I created the Forex Cash Cow strategy. It requires minimal time to implement and for most people easy to trade even if they have a day job. Implementing them would not take more than one or two minutes per day of the traders time (and not even every day since the pattern occurs on an average 3-4 times per month).

Today's technology allows us to trade without having to be in front of the computer. Many online brokers have special features integrated in their deal stations. As an example, a trader might be able to receive a direct message to his cell phone indicating that a certain market level has been broken or a specific price has been reached. The idea being, it is not necessary to monitor the market constantly. Also, at the end of the course I recommended a service, www.alertfx.com, which allows you to receive cell phone/email alerts according to your predetermined settings.

When trading the Forex Cash Cow strategy I monitor the market once every night to first see if there was a 140 pip or more day. If no, then nothing happens next day. If yes then I program my trade station to alert me via email (an email account which is linked to my mobile phone SMS service) once the market breaks high/low by 30 pips. Once I receive an alert via SMS I monitor the market for about 15 seconds in order to calculate the price that would trigger a long or short position. Sometimes I will wait another 2-3 hours to see how the market develops and then again analyze it for an additional 15 seconds. In either case, once I have the entry price I simply enter on my deal station (or through the phone) a sell stop limit order or a buy stop limit order respectively. In contrast to market orders, buy/sell stop limit orders are placed when a trader knows at what price he wants to enter the market but does not want to sit and wait for that price level to be reached. By placing a buy stop limit order the trader tells his broker "buy GBP/USD at X price". *Buy stop limit orders are placed above the current market price*. Vise versa for sell stop limit orders. Together with this buy or sell stop limit order I enter a stop loss price and a profit objective price (both within the same order). That's it! Now I just wait for results. This process is easy and shouldn't take more than 20-30 seconds to implement.

If you are new to trading you are probably a bit confused regarding the types of trading orders. When you start hunting for a broker and you use one or more trading platform demos it will all become clearer. Every broker will walk you through the different order types they have and advise you how and when to use them.

With regard to the two daytrading strategies, it is inevitable to be close to a computer within the times you are trading. More so with the Forex Runner than with the Flip & Go strategy. With the Flip & Go strategy once you spot a 15 pip move you can enter the trade and place a stop loss and a limit order for your profit objective.

Since over 90% of the time the market will move 15 pips to either side (either hitting your stop loss or causing you to move your stop loss to break even) within less then 2 hours you already know more or less the time you will have to monitor the market.

Remember not to overtrade, that is very important. But also remember that trading is a commitment, not a game. If you decide to trade then trade and don't fool around. If you are only going to trade the Forex Cash Cow strategy then trade every signal, commit to it. If you decide to day trade, decide how many times per week you will trade and follow the plan. ***Be consistent and systematic, this is key***.

SELECTING A FOREX BROKER

It is truly incredible how times change. Eight years ago finding a *good and efficient* online broker was as hard as it gets. Today the forex brokerage industry has evolved to fit the needs of the individual forex trader. An increase in demand for online forex trading has generated an incredible competition between brokers. As a result, the private trader has benefited in terms of service and cost of trading. Eight years ago you could have only dreamed of trading the majors with a 2-5 pip spread. Today, depending on the broker you chose, you might trade with a spread as tight as 2 pips.

As far as I know there are around 20 online forex brokers and the number is constantly growing. I like trading with Interbank FX, but this is very subjective. Try demos of at least six or seven of them before you decide with who to trade live.

Here are the general guidelines I think should be considered when choosing a forex broker.

Spread

This is your cost of trading the forex spot market. It's the *difference* between the ask price (the price you buy at) and the bid price (the price you sell at). Every currency quote will have these two numbers displayed so traders know at what price they can sell and at what price they can buy. For example, a GBP/USD quote of 1.7001/1.7005 means bid: 1.7001 and ask: 1.7005, a spread of 4 pips. This difference between the bid and the ask price is how forex brokers make their money.

Two issues demand consideration in this area:

A. No Commission Trading

Don't be tricked with the advertisement that forex brokers don't charge a commission for each trade you make. Sure, they don't charge a commission but the 3 or 4 pip spread you pay is not what I would call commission-less trading! I would like to make a small comparison with the stock brokerage industry to illustrate the point.

On a GBP/USD 100K unit you buy or sell, depending on the forex broker, you pay 30-40 dollars (each pip's value is 10 dollars on a 100K unit trade). Let's average 35 dollars. How much would it cost you to trade the same dollar amount of a highly liquid stock? Let's take Yahoo! as an example. At this moment Yahoo's stock is traded for $32. With $100K you could buy 3,125 stocks.

The bid/ask spread for a highly liquid stock like Yahoo can be around 2 cents. This gives us an automatic cost of $6.25 the moment we place the trade. However, we still have to pay our online stock broker a commission for the trade. Commissions are very competitive and most brokers will charge you an average of $10-$15 for the 3,125 stocks trade (obviously, placing the trades though the internet). This gives us a grand total of around $20. So, trading a highly liquid stock costs half the price it costs to trade the GBP/USD market, which is "commission free"!!! (remember, we are comparing two liquid markets).

So don't get lured into the "no commission" advertising. This must not be a criteria you should use when choosing a broker. Aim to find a broker that provides a competitive spread but don't go hunting necessarily for the lowest spread available in the market.

By itself, having the lowest spread in the market does not make a broker the best choice. This is especially true when you are trading strategies like the ones we learned in this course; i.e. not many trades per month with relatively large profit objectives.

B. Fixed and Variable Spread

Forex brokers either offer a fixed or a variable spread. Fixed spreads are guaranteed to remain the same regardless of market liquidity (although you must be cautious with these “guarantees”. Always read the fine prints and know if and what are the exceptions). Variable spreads change according to market conditions. They are tighter when liquidity is high but become larger when liquidity dries up.

During liquid market conditions forex brokers that offer a variable spread will offer a tighter spread than forex brokers that offer a fixed spread. Once liquidity dries up the opposite is true, fixed spread brokers will offer the tighter spread.

The choice of which type of service to use is dependant on trading patterns. If you trade mostly during low liquidity periods (such as the pre-European trading session), or you trade many news events than choosing a fixed spread broker might be the correct decision. You will have the peace of mind of knowing that although these market conditions can often offer very wide spreads, your broker will honor its fixed spread policy.

However, if you mainly trade during high liquidity conditions such as early to late European session or early to mid US session than a variable spread would be a wiser choice.

It is hard to come up with a clear answer of weather to choose a fixed or variable spread broker. I personally don’t pay to much attention to weather my broker offers a fixed or variable spread.

The reasons are simple. Relatively, I don't trade very often (unlike other people that trade up to 5 or 6 times per day), my profit objectives are large, and I know that over 90% of my trades are placed during average to high liquidity periods. Hence, on the one hand I want to know that I am not being taken advantage of but on the other hand I am not obsessed with obtaining extremely tight spreads.

Again, it is not about finding the most competitive broker spread wise and choosing it only for that reason. The broker-hunting process requires that you look and weigh other important criteria.

Service

I consider service the most important element when choosing an online broker. When you are trading with real money you want to know that you can count on your broker 24 hours a day. Be it through the phone or via email, you want fast and accurate solutions to your questions and needs.

Once you start your selection process and start contacting brokers to ask questions you will immediately see who takes this seriously and who is not equipped or interested in making fast reliable service as a number one priority. Today most respected brokers have a real time online customer support team you can chat with when ever you need help. Start your research with those, it is obvious they invest in customer service.

Strong Foundations

Your money will be in your brokers account and so you want security. You want to sleep well at night knowing that your funds are well protected and that there is no risk of you waking in the morning just to find out your broker has disappeared. Obviously there are no guarantees in life. However, there are certain indicators that provide a general overview of how serious a brokerage company is. Try to look for those brokers who are over seven years in the market, have a large client base, have offices in several places around the world and are registered with the required governmental agencies.

Guaranteed Stop Loss and Limit Orders

Today’s trend amongst online forex brokers is to offer guaranteed stop loss and limit orders. The idea is to limit risk and prevent unnecessary slippage. I have yet to come across a broker that truly respects this type of guarantee 100% of the time. There is always a fine print excluding certain market conditions. You should ask your potential broker what percent the overall stop loss and limit orders have been filled exactly as entered. Some brokers already have a monthly statistic regarding these numbers. The trend today is to be as transparent as possible, so if your potential broker does not have this type of monthly statistic it could raise a small red flag. This does not mean you should discard that broker immediately, but be cautious.

What You See Is What You Get

This element is of extreme importance when using market orders. A market order is used when the trader wants to enter the market now, at the present price. Brokers display the bid/ask price on their deal stations. Once you want to enter the market you simply click on the price you see on the deal station for that particular currency pair. If your broker offers a "what you see is what you get" (WYSIWYG) service, than you will be filled at the same exact price you clicked on. If it does not offer that service, you will either be re-quoted a new price asking you if you want to proceed with it, or in more extreme cases, you will be automatically filled with another price without even being asked. Don't settle for anything else than WYSIWYG. Of course even the best brokers will not be able to provide you with this service under extremely abnormal market conditions such as NFP announcements or any other extreme occurrences in the market. But 99% of the time they will honor the service and that is what you should aim for.

I rarely use market orders since they require that I sit and monitor the market. For me, limit orders are the best way to trade.

Connectivity

If you will be trading online than you will be placing your orders through your brokers deal station software. Some deal stations are downloaded to your computer and some are web-based. No matter which one you use, ask your broker on average what percent of the month there is direct connectivity between their deal stations and their trading center. Anything less than 98% is not competitive enough. This is very important, you do not want to get stuck in the middle of a trade without connection.

The Deal Station Software

Each broker has a different deal station with a number of different futures. I personally do not like the web-based versions but that is a bit personal and does not mean they cannot be good. There is no way to describe a good deal station properly since needs vary from trader to trader. Every online broker I know of offers a free demo account for traders to test their software. Be sure to use this free demo option since it will give you a true feel of how the deal station works and if it fulfills your requirements.

Mini Accounts

Until recently you could not trade the forex spot market by buying or selling less than 100K (a full unit). Today there are many brokers who offer mini accounts where you can trade 10K or more. This means that instead of needing $2K to open an account (remember the concept of leverage) like before, you can now open an account with two or three hundred dollars. Be sure to ask your potential broker if it offers mini accounts if that is your need.

EXPECTATIONS

Trading is not about making a killing every month. You must treat it like any other business. Every business has its highs and lows, *it's the yearly average that counts*.

You will have months where you will have considerable losses, you will have months where you will have considerable gains and you will have months where you will be trading all month long just to end up breaking even.

What counts is being able to see the big picture and understanding the type of business you are dealing with. Not getting emotional about a good or a bad trade, day, week or month is very important for your success. I've had months where for the first week I made a killing but still ended up losing money at the end of the month. It hurts, it makes you wonder if you chose the right type of business and it makes you doubt your abilities. *DON'T! IT IS PART OF THE BUSINESS*.

The key to success is managing your money well so that a consecutive string of losses will not hurt you financially or emotionally. Control your risk exposure and be disciplined. If you have a bad month and you feel you are emotionally hurt then take a break.

I wish you all the best in your trading career and I thank you for choosing this trading course.

Forex Cash Cow Hypothetical Results

The following is a performance illustration of the Forex Cash Cow strategy. Results are hypothetical and include every single trade from January 1st 2006 to August 4th 2006. The reason I did not do the same for Forex Runner and Flip & Go strategies is the following. For a day trading strategy it is very inaccurate to calculate hypothetical results by looking at a string of **many** past trades. The reason being that since you are going for small profit objectives slippage can cause very different results for any two traders trading the same day trading strategy with different brokers (remember, this is because you are looking at many trades with relatively smaller profit objectives. This is in contrast to a swing trading strategy were you aim for much larger profit objectives). The second problem with measuring past hypothetical results with day trading systems like the ones you learned in this course is that even if we did measure these results it is unlikely that a trader will sit in front of his or her computer 24 hours a day for seven or eight months!

Trade both day trading strategies with at least three or four different demo accounts and see which broker gives you the best fills, the less possible slippage and the tightest spread (crucial for daytrading). *This is what will really count when judging if the strategy works or not over the long run*.

FX Powerchart - Courtesy of FXCM

DATE	SIGNAL	ENTRY	EXIT	PIPS	TRADE #
4-Jan	long	1.7520	1.7581	61	1
23-Jan	long	1.7762	1.7862	100	2
6-Feb	short	1.7562	1.7462	100	3
7-Feb	short	1.7402	1.7462	-60	4
7-Mar	short	1.7435	1.7335	100	5
4-Apr	long	1.7437	1.7537	100	6
5-Apr	long	1.7616	1.7556	-60	7
18-Apr	long	1.7777	1.7877	100	8
19-Apr	long	1.7863	1.7803	-60	9
28-Apr	long	1.8074	1.8174	100	10
1-May	long	1.8273	1.8373	100	11
3-May	long	1.8452	1.8392	-60	12
5-May	long	1.8577	1.8677	100	13
12-May	long	1.8885	1.8995	100	14
17-May	long	1.8935	1.8875	-60	15
23-May	short	1.8668	1.8728	-60	16
1-Jun	short	1.8651	1.8711	-60	17
6-Jun	short	1.8686	1.8586	100	18
7-Jun	short	1.8549	1.8449	100	19
15-Jun	long	1.8529	1.8469	-60	20
23-Jun	short	1.8231	1.8131	100	21
30-Jun	long	1.8331	1.8431	100	22
20-Jul	long	1.8481	1.8581	100	23
27-Jul	long	1.8595	1.8646	51	24
4-Aug	long	1.8934	1.9034	100	25
TOTAL:				+1,132 pips	

RECOMMENDED BOOKS AND WEBSITES

RECOMMENDED BOOKS

I have read a lot of books related to many aspects of trading. I have chosen to recommend the ones that I feel provide the best educational value. Most of these books are not directly related to the forex market but to several important areas that are extremely essential for any trader to master, i.e. Psychology of trading, chart patterns, technical analysis, risk management, and trading experiences of top traders. I have attached an * to those books that I consider the best of the best.

1. Martin "Buzzy" Schwartz, *Pit Bull – Lessons from Wall Street's Champion Trader*, **(HarperCollins Publishers, 1998)***

2. Jack D. Schwager, *Market Wizards*, **(HarperCollins Publishers, 1990)***

3. Jack D. Schwager, *The New Market Wizards: Conversations with America's Top Traders*, **(HarperCollins Publishers, 1992)***

4. John J. Murphy, *Technical Analysis of the Financial Markets*, **(Prentice Hall, 1999)***

5. Steven B. Achelis, *Technical Analysis from A to Z*, **(McGraw-Hill, 2001)**

6. Tomas N. Bulkowski, *Encyclopedia of Chart Patterns*, **(John Wiley & Sons Inc, 2005)**

7. Tomas N. Bulkowski, *Getting Started in Chart Patterns*, **(John Wiley & Sons Inc, 2006)**

8. Marcel Link, *High Probability Trading*, **(McGraw-Hill, 2003)**

9. Alexander Elder, *Trading for a Living - Psychology, Trading Tactics, Money Management*, **(John Wiley & Sons Inc, 1993)***

10. Van K. Tharp, *Trade Your Way to Financial Freedom*, **(McGraw-Hill, 1999)**

11. Brett N. Steenbarger, *The Psychology of Trading*, **(John Wiley & Sons Inc, 2003)***

12. Boris Schlossberg, *Technical Analysis of the Currency Market: Classic Techniques for Profiting from Market Swings and Trader Sentiment*, **(John Wiley & Sons Inc, 2006)**

RECOMMENDED WEBSITES

There are many websites related to the forex market. Although a small list, below are the best forex related websites. You will find these websites very well organized, informative, quality oriented and mostly free.

www.fxstreet.com – **The number one portal dedicated to all aspects of currency trading. You will find anything from free live charts, currency quotes, trading lessons, market analysis and commentary and much more.**

www.forexpoint.com - **Information for traders and investors. Forex market analysis, quotes, news, charts, and related information.**

www.alertfx.com - **Alert!fx is an innovative tool that makes foreign exchange trading more convenient and functional for today's traders. Using today's top communication channels, traders can be updated with forex-related information at any time, anywhere around the globe via any wireless method, i.e., cellular phones, pagers and PDA's.**

www.forexvoice.com - **Leading providers of live audio forex rates of major currencies. Forexvoice's breakthrough technology allows You to receive and listen to Live forex rates on your PC via Internet 24 hours a day.**

www.forexfactory.com **- Forex Factory is the world's independent Forex forum. The community features user-friendly Forex forums, an advanced Forex economic calendar, and breaking news from top**

sources. A community bringing together traders from around the globe.

www.dailyfx.com – **Operated by FXCM, the largest forex broker. Daily Fx provides a range of free services from live currency charts and quotes to different types of market analysis and commentary.**

www.fxtrek.com - **offers revolutionary and comprehensive Internet-based analyzing tools, charting software, trading strategies, and real-time FX executions to self-directing investors, third party websites and institutions.**

www.trade2win.com – **One of the best portals dedicated to all aspects of trading (not only forex). You will find anything from free trading lessons, market analysis, commentary, forums and much more.**

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