Hello Fellow Traders,

Since I have been repeatedly asked in the past 3 years on Global-View and GVI to explain what indicators and techniques I use and how I make my "uncanny" market calls and trades, I decided to write it down and save it for all to read. Here is a quick thought.

General Observations and Thoughts on trading GBP

- Okay. First thing to know is that the trading volume in GBP pairs is much lower than the euro. I have an EBS price feed and trust me, GBP is much lower volume than you think. In thin markets, this causes high volatility and wild price moves, which is why we love it so. We traders can even nudge it our way sometimes if conditions are ripe.
- Once a strong move starts, forget what your 30 min indicators tell you about being oversold or overbought. It doesn't matter, look for what the hourly indicators are saying. If the hourly indicators get to extreme levels, it is time to think about looking for an exit after the final run is over. But, in a really strong trending market the hourly indicators might be maxxed out in overbought / oversold territory and the move continues on. That is when you defer to the 4 hr chart…which usually gives a good overbought/oversold reading.
- When a trend move starts, GBP-USD likes to follow its 30 min EMA20, and it will retrace to its ema50 on bounces / dips. The best places to enter new positions are after the 30 min ema50 has contained the pullback and it is headed back in the trend direction. Exit your trade if the 30 min ema20 is broken on a candle close through it. You can then re-evaluate and enter at the ema50 area if warranted.
- Sometimes, near the end of the trend move, the 30 min ema50 will fail, and the price will head to the 30 min ema200 area. It might stop at the hourly ema50, but usually heads to the 30 min ema200. At that point, you need to be real careful. It could be the end of the trend move, or it could just be reloading for a stronger move in the trend direction. Usually it chops sideways for several days.
- Make sure that the stochastics are in agreement with your entry point. If the price is riding the ema50, but the 30 min stochastics aren't giving the same signal, defer to the signal the stochastics are giving.
- Always look at the weekly chart on Sunday before trading. The weekly chart will give you a direction bias for the week. There will be some weeks that are on the fence at possible turning points. During those weeks, you just need to look for smaller runs and keep your stops tight until a key level breaks and stays broke.
- Stop Loss levels. If you are trying to trade GBP-USD with anything less than a 40-50 pip stop, you are wasting your capital. That is a 40 pip from a perfect entry point. Gbp jumps around in sudden spikes, and the dealers seem to like to try to hit the stops before going in the intended direction.
- Stop Loss levels on GBP-JPY. If you cannot handle taking 100-150 pip losses, stay away. This pair will give you a 70 pip tall candle and fully

retrace its entire length in a hours time, before heading where it was going before. The best trades on this pair are based on a weekly chart. Find a turning point and go for it from that level. Put your stop at even after it has moved about 150 pips your way and leave it alone until you get another weekly signal saying it is time to reverse.

- Fibo levels. Gbp likes its 50% fib level to retrace to and bounce back. If it breaks the 50%, most times it is going to break the 61.8% level also. Gbp is prone to being predictable when it breaks out of channels. You can calculate its targets using fibonacci projections. If you don't know how, ask. It will almost always hit at least its 50% projection target. Which really means that the channel it broke from was a 50% retracement of the total move. I have nailed many a big picture move 2000 pips in advance using this on a weekly chart. I picked out the move from 1.7000 area to 1.8525 based on it, and I knew where it was going the moment it broke out of that channel.
- Some guys have good success using fibo fans. I do not use them, but Farmacia on GV does. Usually we arrive at the same conclusions using our different techniques.
- Using EMA crosses as trade entries. In a range market it can kill you unless you are trading 5 min charts with a ema5 and 20 cross or something. But, in a strong move, if the 30 min ema50 and 200 cross, that is usually worth another 150-200 pips minimum after it bounces a bit. When the hourly ema50 and 200 cross, that is worth another 100-150 typically. And if the 4 hr ema50 and 200 cross, the previous trend is dead and a new one is about 25% underway roughly.
- Stop and Reverse tactics. I used to be a big fan of it. I had a million different ways to pull it off. Then one day, I left an elaborate order with lots of fancy reverse stuff. When it was all said and done, every single stop got hit and the account took a large hit in a single night while I was sleeping. But if you are going to do it, gbp pairs are the only ones that move fast and far enough to make it pay off. If you play it right , you can make back your stop loss and a small profit, or a big profit too sometimes. But to make it work, you have to KNOW where it will go if your planned trade turns bad. And you have to make sure that you plan the SAR at a level that will still break you even if it doesn't quite make it to where you thought it would go.
- Trend lines. Learn to draw every single trend you can see, in the price, the indicators, everywhere. Gbp likes to channel, and you can play the insides of the channel for 3-4 trips sometimes on a 15-30 min chart. The channels are usually 70-150 pips tall too, and that is like shooting fish in a barrel.
- Trading breaks. Well it is an instinct we have, to want to react instead of anticipate. So we see a support level get broken with a 5 min candle and all of a sudden we are clicking "SELL"….only to see it pull back and head the other way FAST. The dealers do that stuff on purpose, to sucker you in. I try to only trade breaks when I see strong signals on the indicators

saying the break is going to stay broken. But it can tempt you into throwing your entire plan away in a split second.

- Trading Data. I used to straddle the data announcements with entry orders 20 pips on each side of the market. That is still a good way to do it, but have a tight stop on all orders, and make them OCO (one cancels other). If I am in a good winning position, and we come up to data day, I will close it all out lately, and wait for all the knee jerking to end before entering again. I used to try to guess how that market would react, and guess what the data would tell us, and position myself that way before the announcement, with a SAR waiting the other way if wrong. Well, that worked several times too. But your platform has to GUARANTEE your stop and enty orders get filled at those levels. I tried it using IFX, when I was trading for a small hedge fund that used them, and guess what….I got filled on my SAR at next best price…75 pips slippage and a double loser.
- What makes the market move…..well for GBP, it is a carry trade vehicle. Meaning that its interest rates are much higher than other nations. SO the trade of choice, is to borrow Yen, the absolute lowest rate around, and buy GBP with it (buy GBP-JPY) and make easy $$$ off the interest difference. Of course, when a country cuts its rate unexpectedly, or fundamentals indicate rates will not keep rising..it causes a panic of carry trade covering and a bloodbath while carry traders look for better returns elsewhere. This happened in March 2004, and I was heavy long gbp-jpy from all the way down at 191, then added more at break of 200..and was looking for 210 target when the UK announced it had really bad trade deficits….that killed the carry trade, it sold off 800 pips in a day and a half, and my entire 58.8% YTD return was wiped out that week.
- Books….well lets see. Market Wizards is good. New market Wizards has a good currency trader in it…Bill Lipschutz…..Remincenses of a Stock Operator is really a good trading book…..Technical books by Murphy or Schwager are good too. Even Electronic Currency Trading for Maximum Profit has good info in it. And, I have not read it, but there is a really top notch trader…L.A. Igrok who wrote a book ($250…ouch) you can get from his site IGROKForex.com I think.
- Oh…I didn't mention I am an offshore fund manager either…. we only trade currencies in that particular fund. And I also have some private clients I trade for too. We are starting our own offshore hedge fund as well.
- Well, there are a zillion other things I could tell you, but try to watch the stuff I mentioned in these little essays first. I have helped numerous Global-view readers develop a trading style they can use. A few of them are regular posters now, and pretty good at it I might say.

Good Luck
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