Price Action Forex Trading with Nial Fuller

Price Action Forex Course Novice & Advanced Material

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Industrial designers should further keep in mind that most designs cannot rely on dual protection under the Copyrights Act and the Designs Act as they generally lose enforcement under the Copyrights Act once commercialized.

Videos -Tutorials

- The Videos are in the members section and will be added periodically. They Follow on From the Course Material.
- Over the next Few Months I will be releasing More Videos to Paying Members to explain more of the advanced content in depth..
- I want you to read and then re read these course notes first, because it is a pre requisite to the Videos.

Basis Forex Market Understanding

Introduction

Course Outline – What you will learn

- The concept of trading for profit..
- Applying risk / reward with a winning edge
- What makes a good entry ?.
- Price Action Setups - The Footprint of Money
- - 3 trading setups that make consistent profit.
- Market structure and repetitive patterns
- Mapping market trends and finding key levels.
- Following the path of least resistance
- Best Price action Entry Setups
- The mental habits of winning traders.
- Bringing it together to win.

Trading Quote

- **"Just as a scenario writer endeavors to mystify his audience, so pools and manipulators strive to confuse and influence the public into thinking a stock is moving in a certain direction when the ultimate purpose is to have it move the other way."**
  -- Richard D. Wyckoff,

INTRODUCTION from Nial Fuller

- Dear Trader,
- I want to begin by saying congratulations on an excellent investment in your trading future. In this course, you will learn what trading masters have done for decades, and that is "Trade Price Action"
- You are going to learn to art of chart reading and price action analysis. You will learn how to think, how to act and when to act. You will live breath and sleep trading. With one goal in mind, "to win".
- You are not going to be promised any financial return, some of you will fail, some of you will go on to become professional traders after learning this material. My one hope is that you believe what you read here is my own personal experiences, this is the way I trade, the way I make my money in the markets. You can't expect to learn everything here, but the tools are provided.
- This course is a testament to my own success, and I am very proud to be passing on this knowledge I have acquired over the last decade. I trust you will respect the fact that no two trading styles are alike, nor are individual traders, thus not all of you will enjoy my thoughts and activities with market analysis.
- For those that harness this material and apply it to your forex market trading … go forth and profit.
- Enjoy the Course and Safe trading,
- Nial Fuller
- President
- www.LearnToTradeTheMarket.com

Trading with the Odds In Your Favour

- Aligning market momentum and price action is a definable edge for professional traders.
- There is an old saying that professional traders miss half the great moves in the market, and I whole heartedly agree. You will not get on board every major move, just be happy to get on board a few.

- I have come to the conclusion after 8 years in the market that although there are price action signals and trends occurring all the time, which often run opposite to one another, I can't define my market edge by simply trading one entry condition or trigger.

- What I found is that Ideally, I want to combine 2 parameters, often 3 or more, purely and simply because by using "confluence of signals" I can easily define an edge. Confluence is where we use multiple factors, such as key levels, trend bias, candle signals to produce 1 complete trade setup entry condition.

- **Over time, I have noted that and equal amount of price action signals will occur in random chart areas as well as in alignment with trends or horizontal levels.**

- I notice time and time again, my most profitable traders occur **when I trade price action signals within very obvious trends, or from key areas in the market**. Early in my career I was obsessed with getting on every great move in the market, until one day I realized, I needed to develop strict rules, even if that meant missing 5 to 10 trades per month!.

- So in summary, I define my edge in the market only after I see more than 1 of my entry rules align, enabling me to increase the odds of success. Furthermore, by doing this, I tend to find the market makes larger moves, because often, I am trading from major turning points, or within natural mid term trends.

- Nial Fuller

No magic here

- If your lucky enough to find some kind of Mechanical forex systems that work for several months, most of the time, these models end up falling apart in the future for enough time to wipe novice traders out. This is why mechanical retail forex systems have no place in "real world trading". They are useless at best.
- Most educators or automatic trading systems teach nothing practical, they fill pages with "garbage" to make a quick buck. They skip the very foundation of market analysis, they fail to teach methods which change with the market , as well as fail to educate traders about price dynamics and price action.
- When you seek a mentor, or a trading approach, you should not look for a system which has fixed rules. All great traders use some form of "discretion" and "gut feel". Don't expect to make the same profitable trade tomorrow as you did today, each day, the market is different, no 2 setups are the same.
- Trading logic remains the same, but ourselves, and the market does not. Be prepared to continue to learn each day, as well as adapt your approach to suit market conditions.
- If your truly still searching for some magical concrete systematic way to trade, your still in first gear. I need to get you to second gear, to move past being greedy and lazy minded, and lets learn some real material to help you profit in the market.
- There is no short cut to developing a trading strategy, there's no holy grail system, and there is nothing completely automated which retail traders will ever be able to put to use for an affordable price. The large players will always hold the advantage, and our only chance it to <u>learn how to ride the price movement these large players create.</u>
- For lack of a better phrase, we must learn to" piggy back " the big players and read the market..

Initiation comes through experience

- Becoming a great trader is like playing a difficult sport, such examples would be tennis , soccer or basketball. Learning the rules is easy, but as we all know, playing the game to win is difficult and requires training and experience to develop skills and intuition over time. The common element in most sports peoples success is that they start out very early in life, and the blue print of success slowly plants itself in he/she's brain over time.

- Some train hard for years to master a sport , many fail, and a small percentage will progress to some advanced level, some will even turn pro. Those that fail simply don't have what it takes, they find other dreams and aspirations and move on with their lives.

- The exact same logic applies to trading. Some make it, some don't, some private traders earn $1000 to $100,000 per week, some may even earn $100 million per year from this business. Some lose money for years on end and finally give up, which is a wise choice.

- I am one of the lucky ones, I started early on, at 15 years of age, and whilst I don't make Millions of dollars per year, I do make a very good living. I make money because I can read price action and read the charts correctly. I truly believe this is a measure of experience and intuition. I was taught the basic strategies, <u>but the way I can filter trades and understand what's happening in front of me is something I learned from the school of hard knocks, that part can't be taught.</u>

- There is obviously some very basic strategies to help play this game we call trading. Some will play it socially, some will move on to an advanced level, some will perfect the art and turn into Professional traders.

- **Remember, a solid trading judgment is the sum of years of screen time and trading experiences. Most of our subconscious learning is taught to us by trading live price action, listening to trading mentors, or reading about various trading concepts like you are about to in this course.**

Key Point:

- Remember, a solid trading judgment is the sum of years of screen time and trading experiences. Most of our subconscious learning is taught to us by trading live price action, listening to trading mentors, or reading about various trading concepts like you are about to in this course.

Trading Realities

- If good trading judgment is the key to success, but good trading judgment only comes after years of market experience, how can an aspiring trader like you hope to achieve success? I get this question often? And its a fair question. ..
- I will say to you straight out, the truth is that all great traders must do the "hard yards". Just as a toddler learns to walk, traders must learn to walk in the markets.
- One short cut is naturally to find a mentor such as myself, as well as to continue to research price action trading strategies, and experience first hand market behavior.
- Shorter time frames are the most volatile and un predictable, thus , paper trading a 5 minute chart can be a quick learning tool, even if your learning "what not to do", experience is experience, good or bad..
- In a nutshell, the **journey to trading success is inescapably one of screen time and acquired market knowledge.** The aim of this course is to guide you, to help you in your interpretation of the data in front of you. **You must master the art of reading charts and price action.**
- Whilst I can't promise you success in trading, I sincerely believe if you master the information in this course, and continue your study and application of strategies pertaining to price action and trading from value in trends, your chances of making it to professional status will be increased 100 fold.

Lets begin

The concept of forex trading

- Directional Forex Trading is the art of using price movements in interbank Foreign Exchange or Capital markets to make profit. Traders may be involved in a trade for 1 second or 1 decade (10 years), depending on their trading method and trading plan.
- Our focus is the short term view of price facilitation from point x to point y.
- To profit from market movements, we must predict price direction correctly, execute a trade entry, then manage the position between our predetermined stop loss level and desired take profit level.
- To win in the long term, traders must develop a trading plan with a statistical edge. Price action, market trends, and support / resistance become our trading tools in creating this edge.
- Every trade setup carries a unique degree of risk verse reward . The cliché – "make your winners larger than your losses" is the most obvious road to wealth. Often, traders lose focus, and they forget what each trade can realistically offer them in terms of profit. Markets do not move in straight lines, yet traders hold on to winners way too long expecting some giant winner, and soon .. They see these profits evaporate. You must lose your greedy attitude and set your rules! My trading setups aim to deliver aprox 3 to 4 times risk, and I am happy to take that kind of profit. This means I can win 1 in ever 3 or 4 trades and still make decent profits over a sample of trades.
- When forex trading, we are effectively running a company. Trading Losses are the cost of business, wins are our revenue. Worst case scenario, on a $10,000 size account, we have to run this company at 500 % per annum just to make a living!. Difficult you ask? YES!

A robust winning edge ..

- Traders should use entry methods which have a robust edge, even if the winning edge is small, we favor using an entry mechanism that has a tendency to repeat itself, as apposed to entering randomly.
- Depending on our risk vs. reward, the 'edge' could be as low as winning just 25% percent of all trades. The higher the risk reward, the lower the required win rate. The lower the risk reward, the higher the required win rate.
- Methods which carry a slight winning edge in the market, combined with a high risk vs. reward, will keep a trader in the game over a large series of trades.
- A robust edge is not the single ingredient in a trading plan, there are naturally , many other key factors which go hand in hand when each trade is placed, I.e. position size..
- All traders who fail in the forex market are no better than a gambler at a casino. These ever persistent "punters" trade with real money, they ride the emotions, the highs and lows, similar to that of a black jack player. They lack knowledge and certainly have no trading method. There is no plan, and no money management or staking model, and these "thrill seekers" certainly all lack the emotion to become successful.. You must do the opposite to this large crowd of losers if you want to win.
- A robust edge is a proven market event, it's repetitive price event in the market which acts as a "signal" for the trader to pay attention and create an order in the market.
- Those traders who truly believe trading is a mechanical process are fooling themselves. You must now ground yourself to the realities. You bought this course to learn "how it really is".
- You must learn to read charts, study price action, and above all, you must learn to act on price action signals without emotion.

- Exploring basic Trends and Mean Reversion
- Universal Market Laws

Trend Analysis

Chart Time Frames and Trends

- **Chart TIMEFRAMES:**
- **Chart timeframes range between , 1 minute 1 hour , 1 day to 1 week.**
- Larger time frames, tend to provide more reliable price signals. This means that a trend formation on weekly or daily chart has more weight than that of a 1 hour or 4 hour. A trading pattern on an hourly chart will have more reliability than a 5 minute chart etc etc.
- Trading from a 1 hour chart is more reliable than a 30 minute chart , and a Daily chart is more reliable than a 4 hour chart in terms of perceiving a trend bias as well as identifying price action trading patterns.
- **Again, the higher the time frame, typically the more weight each signal or pattern has.**
- **TRENDS :**
- **Market direction is called a trend or market bias.**
- The most obvious trend is seen on a daily chart, if its heading in one direction, from left to right, either up or down, it's a trend. Trends may be small or large in size, its depends on your time horizon and time frame.
- Short term counter trend pressure (movements against the broader trend) tend to be aborted and result in subsequent failures. **Over 70% of counter trend movements fail, so it's important we try to stick with the broader trend where possible.**
- Dominant market trends are like comparing a cruise liner to a runabout speed boat, dominant trends are slow, cumbersome and take a long time to gain momentum. They are the most important influence on price behavior on all time frames being traded.
- **Short term trends that are in line with the long term trends tend to result in continuation and increase profit potential as well as increase risk reward scenarios.**

Laws of the market

- Large players "Hedge Funds", "Banks" take positions with a very informed bias, This ebb and flow creates market movement, market rotation and price action.
- There is no distinguishing factor that drives a market movement, it is a group of catalysts which create turning points, volatility and trends.
- **Prices move around a central point, that is called the "MEAN" or moving average. Trending or rotative price behavior will always be either moving back towards the mean or away from the mean. As traders, when a definite trend is identified, we trade in line with the direction of the slope of the mean.**
- Advanced traders will also trade from extremes (areas distant from the mean), in attempt to capture profit as price rotates back toward the mean. However, they will mostly employ this method once a price signal is printed. Trading from extremes is more profitable when there is no major trend pressure, IE: sideways to neutral market periods.
- Trading with a trend , and trading from extremes are 2 different strategies and will be discussed later in this course in detail. The most reliable events in markets arise from the mean (average price), static support and resistance (simple horizontal levels), dynamic moving support (trending moving averages, swing points /pivot areas) and of course, price action signals.
- **Counter trend trades have less chance of success, unless the price action signal is from a major level, we avoid fighting momentum.**
- Every trading pattern or event in the market will always fall back on the above variables. Is the trade in line with the trend, or is it moving back to the mean, and is against the trend etc etc?. These are questions we must learn how to answer, as well as trade upon.

Mean Reversion Introduction

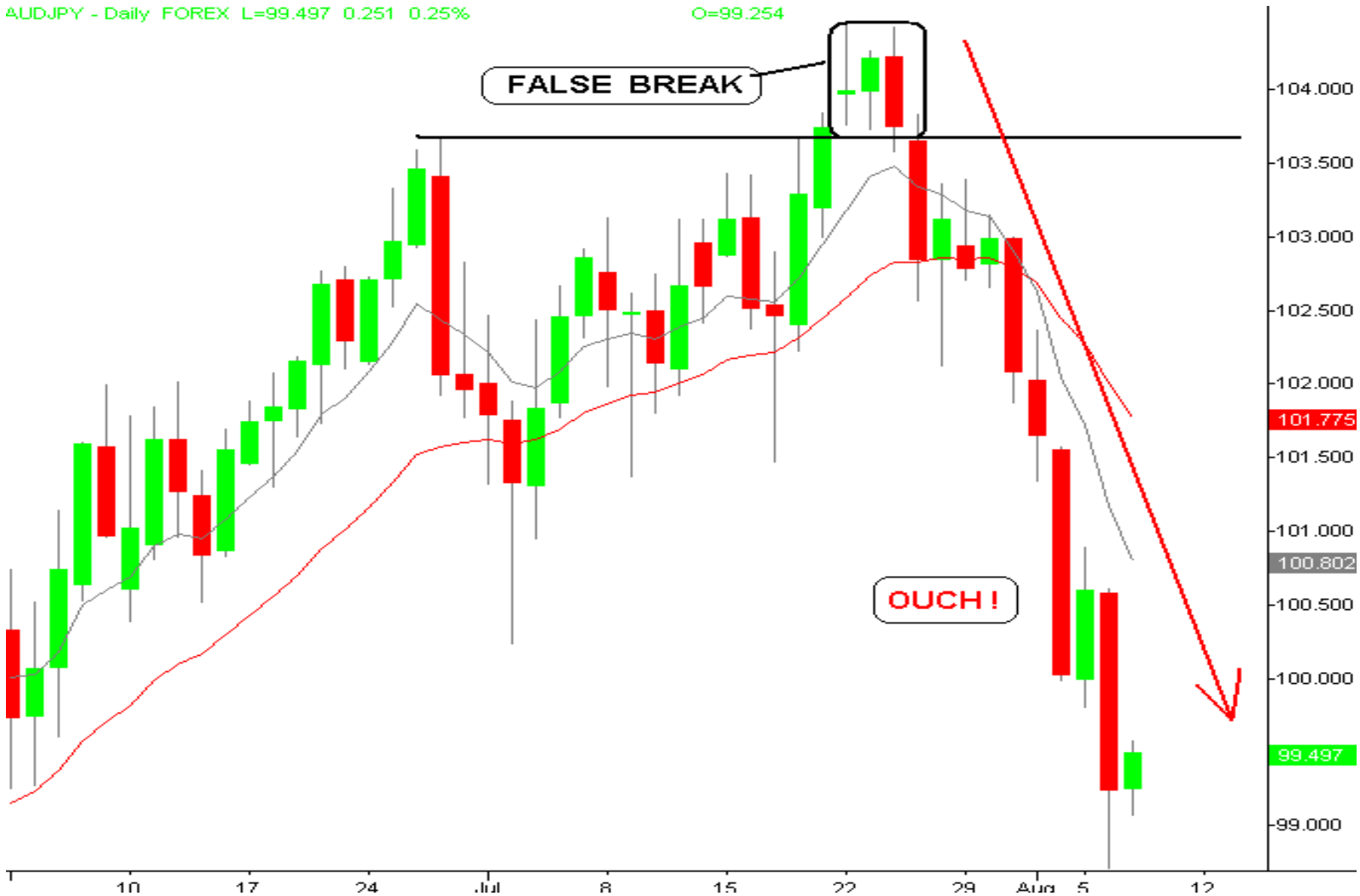
- **Mean reversion is the heart of all market movement. Prices are either traveling away from the mean, or snapping back toward the mean.** We have low trending volatility and high trending volatility. High trending volatility will see a market move substantially in one direction before a retracement occurs. Low trending volatility will see a minor fluctuation around the mean. (choppy trend movement or minor slope).
- It is a well known fact that **all trends, will retrace at some future point**, even if it takes days, weeks or years, the mean (moving average) will be tested. If we apply this logic to short timeframes, we can make money.
- **In summary, prices are always moving back to a central point from an outer extreme and prices are always moving away from central point to an outer extreme. This is the basic understanding of all quantitative models in finance. (see image)**
- **Some points you need to know:**
- The mean acts as a dynamic trend line (value points).
- **Broader term price trends move in line with the longer term moving average direction. This is why counter trends fail so often** . We must try to avoid trading counter trend reactions.
- **Put simpler, we aim to sell strength in falling markets, and buy weakness in rising markets.**
- **OR**
- **Trade only from Price Extremes (support or resistance), where we expect prices to head back towards the Mean.**

Mean reversion illustration

Markets have to move up to move down, and have to move down to move up

- Price rotation, trading ranges, and trends, all carry the one simple law.
- – I.e.: Prices have to move up to move down, and down to move up.
- Knowing this, we can now understand why prices rotate the way they do. As well as why so many break outs are "faded" or used as opportunity to take a trade in the opposite direction.
- How often do you see a textbook break out pattern fail? How often do you see a forex pair make a new recent high or low and then snap back in the opposite direction?
- This is the forex market . . The trading game is designed to trap you, to trick you, and to test your nerve. If trading was easy, we would all be rich, this is why the simple textbook strategies don't work, and the simple minded traders who can't adapt to new ideas fail over and over.

Forex markets tend to be contrarian, thus why false breaks create opportunity over and over. As I said, markets have to do this to move!



Trend Summary.

- We will never know when a new trend starts or finishes, we wait for its origination and then trade within it.
- The first and second retracement are always important after a new trend.
- On an hourly chart, the best short term value areas are the 150 EMA and 365EMA. When the slope of the 150 EMA is in clearly in one direction and not flat, the trend has a good chance of being respected and this level will often be resistance.

- Diverging moving averages signal a trend as well as momentum bias. Key moving averages often align with retracement levels and horizontal support or resistance. **When combined, they are powerful, We call this confluence of dynamic resistance.**

- Trend setups are prone to "whipsaws", meaning not all will result in profit. Some setups will simply die quickly as the market moves straight through the moving averages. You will never know when and where this happens, it just does!

- If following a trend, we can avoid being caught on bad trades by looking around the charts and confirming direction with other influences. Back up your views with Swing points, Trend line breaks, support or resistance breaks, price action signals, etc etc.

- The market makes highs and lows , forming swing points. These are short term reference levels and don't need to be confirmed. E.g., if the market moves down and bounces at point x, that will leave a support swing point. If the market then moves back down and fails point x, point x will become a resistance swing point

- Overall, the trend is your friend. When combined with price action, and being counter intuitive, the greatest position traders of all time, use counter trend moves to enter the market in the direction of the broader swing.

- Retracements E.g.: 55% and 61.5% retracement are often good to trade short term trend swings.
- We do however note that retracement trading is another art form in itself, that's not something I want to Include in this course in detail.

Using Dynamic Mean (Moving Averages)

Using Moving Averages To Help Define Value and Trends

Exponential Moving Average

- **Wikipedia Definition:**
- An **exponential moving average** (EMA), sometimes also called an **exponentially weighted moving average** (EWMA), applies weighting factors which decrease exponentially. The weighting for each older data point decreases exponentially, giving much more importance to recent observations while still not discarding older observations entirely.
- **Lamens Definition:**
- A moving average is simply the average of a series of numbers (days) over a period of time which is constantly updated by dropping the oldest value and then adding the newest value and recalculating the average. So a 5-day moving average of stock prices would add up the closing prices for the last 5 days and then divide that total by 5. After the next trading day, we would drop the oldest day and calculate the average with the latest days' price in its place. So over time the average moves as new data is added and old data is dropped.
- What EMAs do is smooth out fluctuations in prices, thereby making it easier to spot trends. We've all heard the expressions "the trend is your friend" and "trade with the trend' but often it's difficult to identify the trend. That's because financial instruments don't move in straight lines as well as the fact that the trend may be different depending on your time frame.
- Moving averages are lagging indicators, they do not react instantly to price behaviour and thus are used only as trend filters and "value" reference points.

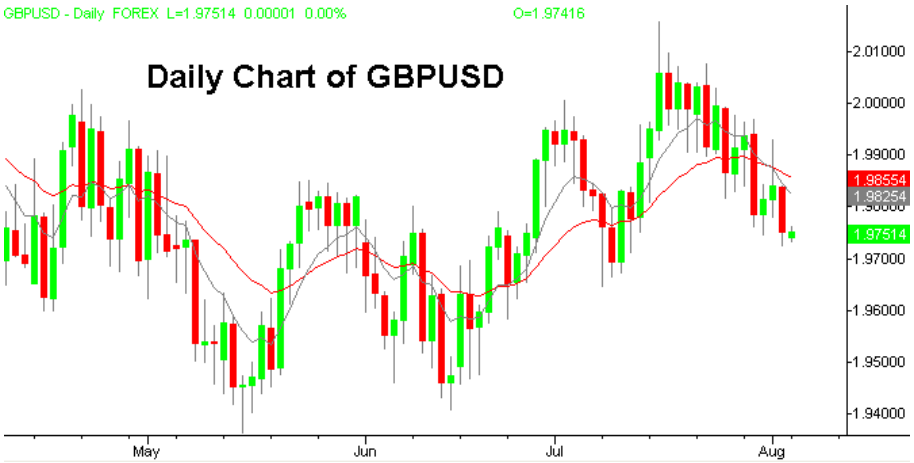
EMA's

- Moving averages have a smoothing or dampening effect on the price chart. The longer the average the smoother. The Shorter, the more jagged.
- The slope of longer term moving average tells us the longer term bias in the market. The slope of the shorter term moving average tells us the shorter term bias in the market. When the 2 are Combined, and are diverging in the same direction, you can define the trend.
- If prices spend more time above or below a moving average, we can define a bias in the market. Below the EMA's and the bias is bearish. Above the EMA's and the bias is bullish.
- Moving averages also act as the "dynamic mean" and become support and resistance points when the market is trending strongly over time..

EMA Example – Dynamic Value Point

Chart workstation setup

- In our trading we should focus on no more than just 4 charts. The 1 hourly, the 4 hourly, the daily and the weekly time frames.
- For trend analysis. We are concerned with the hourly chart and the daily chart only.
- **The setup for the hour trend chart** is a plain vanilla candle chart, Placed on this chart is a 150 and 365 Exponential moving average.
- **The setup for the daily trend chart** is a plain vanilla candle chart, placed on this chart is the 8 and 21 day Exponential moving averages. We also use this chart for price action entry triggers.
- **The weekly chart is not used for our short term trend analysis,** It is used to plot key levels and find price action signals. We can apply an 8 and 21 week EMA to this chart.
- **The 240 minute chart is used for price action analysis and entry triggers**, this is a "helper" chart and will only have raw price data and no indicators or moving averages. It is used to spot key levels and price action **, not a trend tool.**



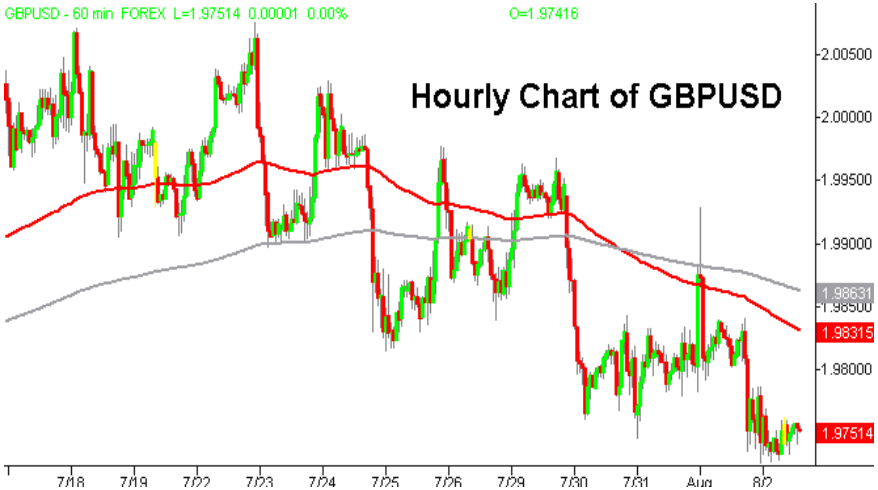
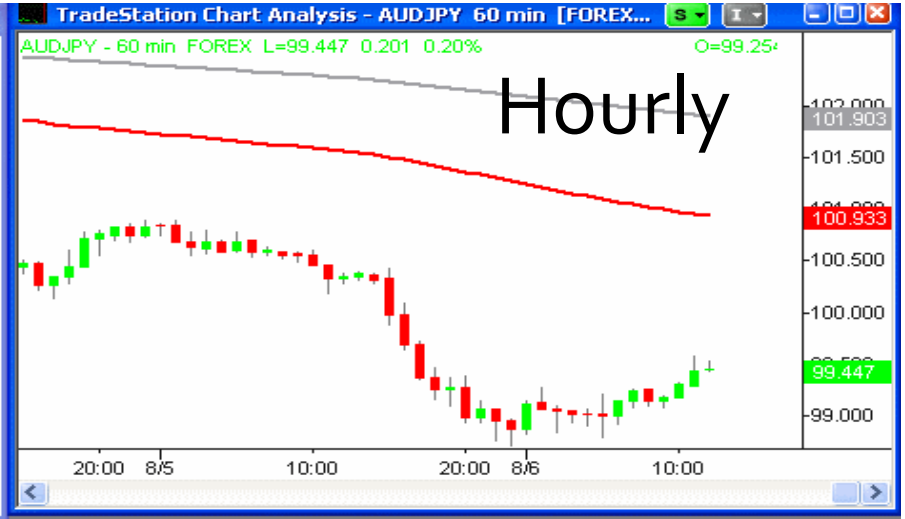


Chart workstation setup

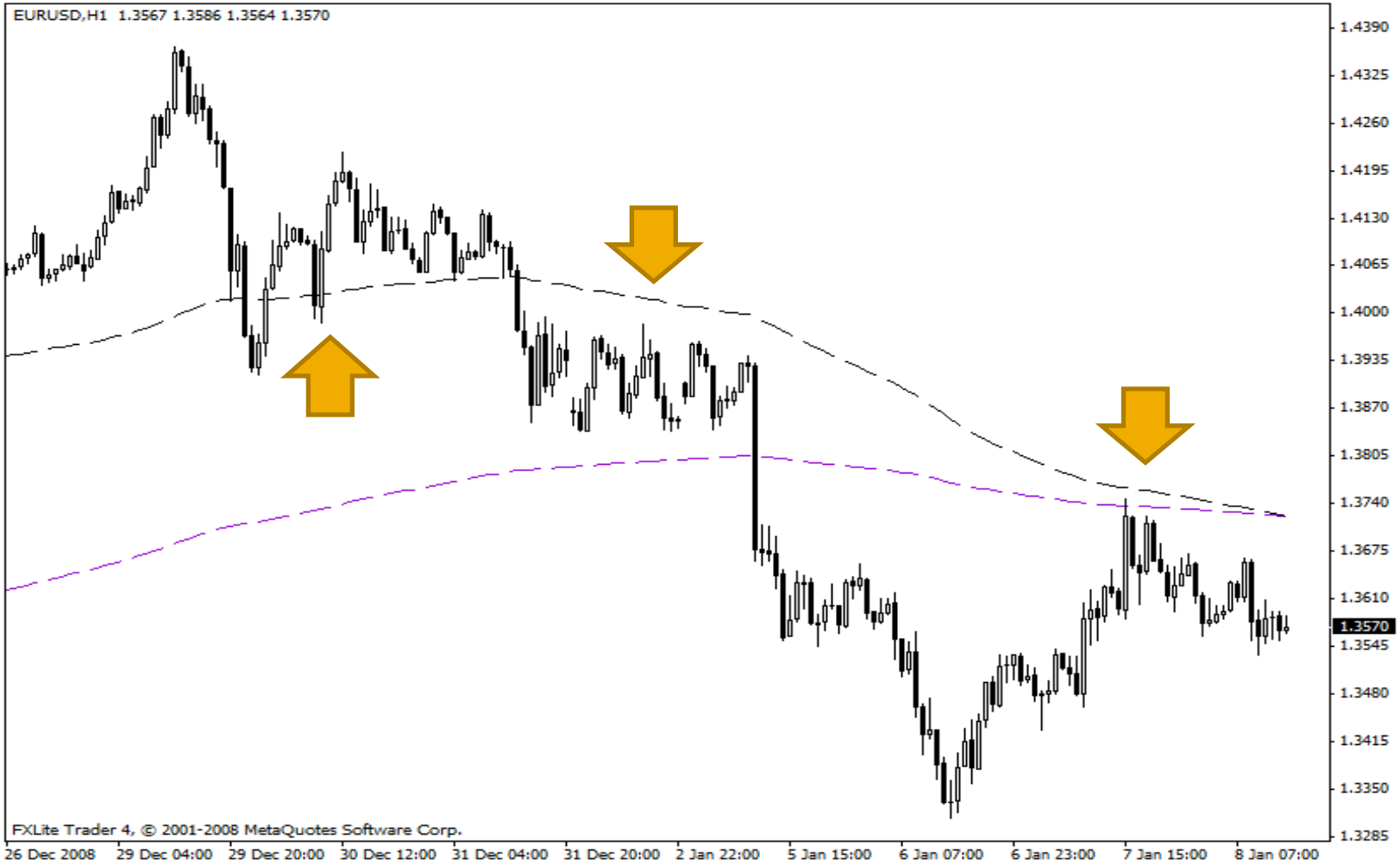


The 150 and 365 EMA's

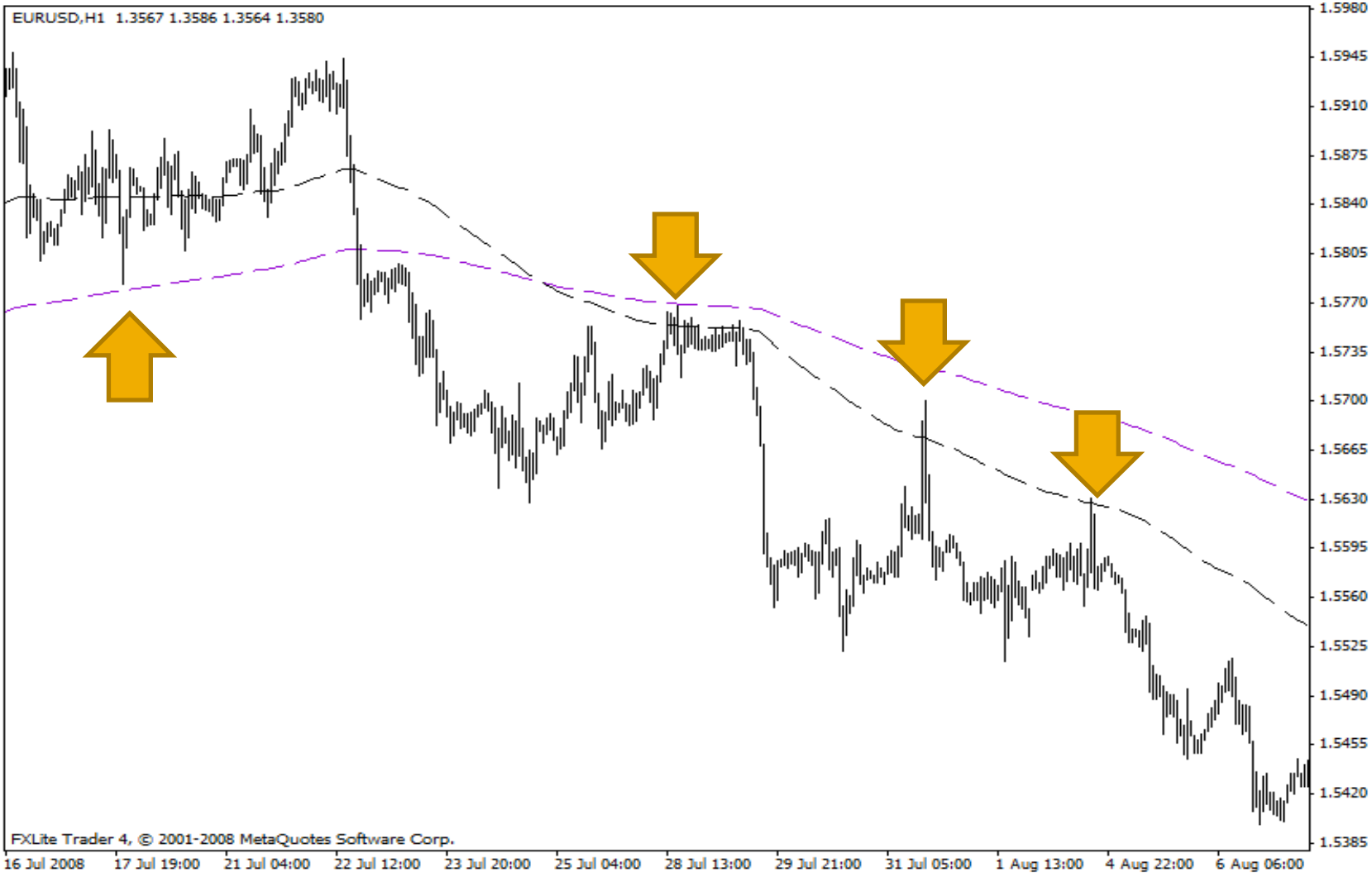
- There are some things we need to know about how we use these long term hourly exponential moving averages.
- The 150 and 365 EMA levels work as dynamic value, markets often respect the levels during all market periods, either during consolidation or trends , you will often see the levels being respected.
- Price action signals often occur at the levels or around the levels.
- They help identify trends, when price is spending more time one side of the 150 ema, we know the market has a bias.
- The slope of the 150 EMA signals momentum and trend behavior. The more aggressive it slopes, the more convinced we are that the trend is in that direction.
- We don't just trade the cross of the 150 and 365 ema, **we use the levels and slope of the averages**. Often trades are entered days before they cross, they just add confirmation and we can then feel comfortable using subsequent retracements to the moving averages to enter positions at low risk entry levels.
- **Any trend techniques work as a guide and should ideally be combined with other analysis methods such as price action and horizontal swing points. (more on them later).**
- Soon, after screen time, you will see how these moving averages influence prices.

150 and 365 hourly ema

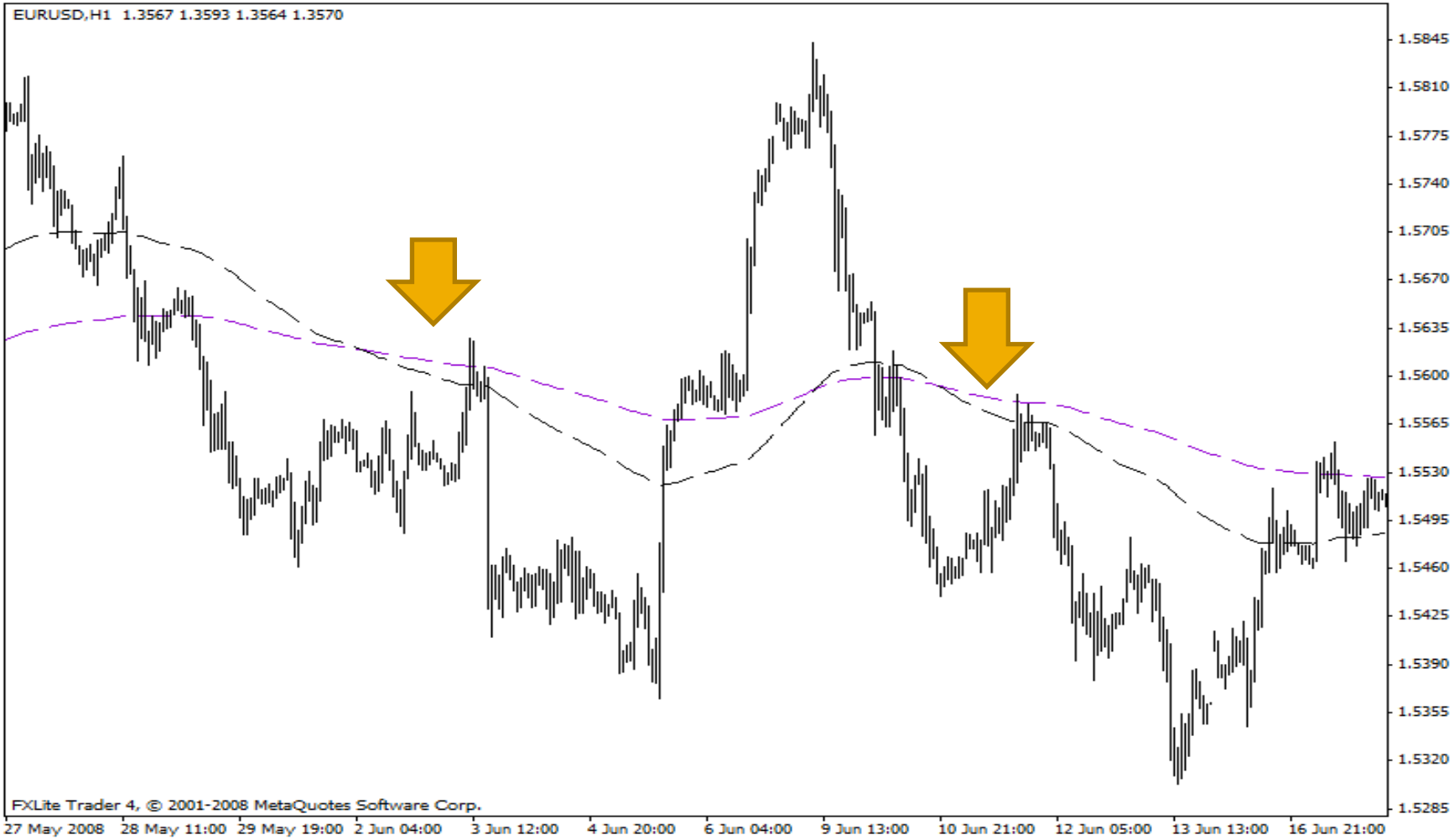
150 and 365 ema



150 and 365 ema



Choppy Market



8 and 21 day ema

- When the 8 day EMA is Sloped in an obvious direction or crossed above or below the 21 DAY ema, we can assume that a strong short term trend is present. Usually, this means short term counter trend moves will fail whilst they remain crossed. They are not perfect, but the direction of the slope of the short term "MEAN" can be a very accurate guide for price movement.

- Amazingly, price can close past the 8 and 21 day moving averages for several days, but the moving averages won't cross. The trend will often then continue. The are good for a quick guide, because they are accurate and not instantly reactive, they take some time to give a signal. An ideal trend filter.

- After a cross of the 2 lines, when the market retraces back and may even move well above the 2 lines, often a quick snap back in prices occurs. What this means is that as a guide, markets use these levels to find value and repel away from them.

- We use them as a regressive tool, to identify an area of opportunity. We often use them in combination with price action. We never trade based solely on the cross over of the averages.

- They are not a pure trading strategy, they are a tool to combine with price action. We are not in the business of trading the crosses of moving averages, on its own, this is unprofitable.

8 and 21 daily EMA (daily)

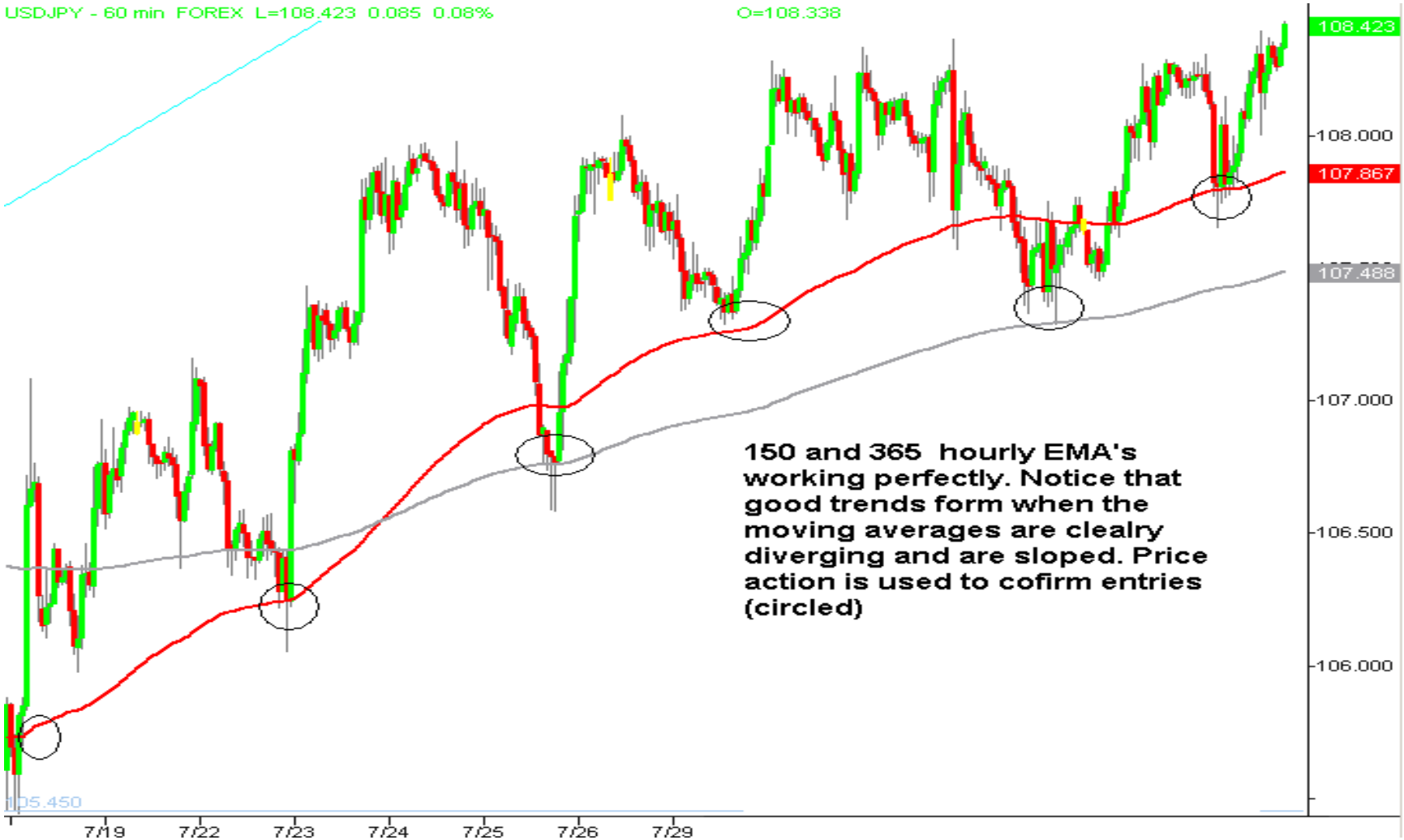
Imperfect trends and (CHOP)

- The hourly trend can often be volatile, and will not always be perfect, some pairs will trend in one direction for days, but prices will have a tendency to over-shoot the mean before retracing, see example to the right..
- **The important aspect is the slope of the 150 EMA, as it begins to pick up momentum, the market will start to respect it more perfectly, as can be seen on this charts most recent test of the 150 EMA, in this example, prices did overshoot the mean by 30 pips, but then quickly reversed.**
- On a daily chart, often, when the market closes at or past the mean, it will reverse. This is why so often market trend, but still rotate in the process.
- The bottom right is a daily chart of the same period as the hourly chart (top right). Notice when prices close above the 8 day EMA, the market sold off. This is called rotation. Prices are headed back to test the mean, and then potentially away from it again.
- Everything revolves around the central point.,
- IE: We are either moving away from value it or back towards it.
- **<u>The moving average slope is more relevant than the level of the moving average.</u>**

Perfect Trends respect the EMA

- When a market is perfectly trending, the price action often provide clues, because it will respect the moving average level and repel back in the opposite direction. Once a trader begins to recognize these clues on the hourly charts, and even the daily charts, he can make an entry from a low risk point.
- Traders will either enter blindly at the moving average level, or wait for confirmation via a price action signal e.g., pin bar, inside bar, trend line break etc.
- You will notice over time, that when a market is trending, it always provides clues, and always provides opportunities to " enter" on a retest of the averages.
- The trading community fail to use moving averages correctly, because they concentrate on the cross over, rather than the slope and the levels.
- Trends provide clues, watch for them.

More perfect trends on hourly charts



Diverging moving averages signal strong momentum

A trend is strong and most likely to continue when the averages are sloped in an obvious Direction. The more aggressive the divergence between the 2 moving averages is, the stronger the trend.

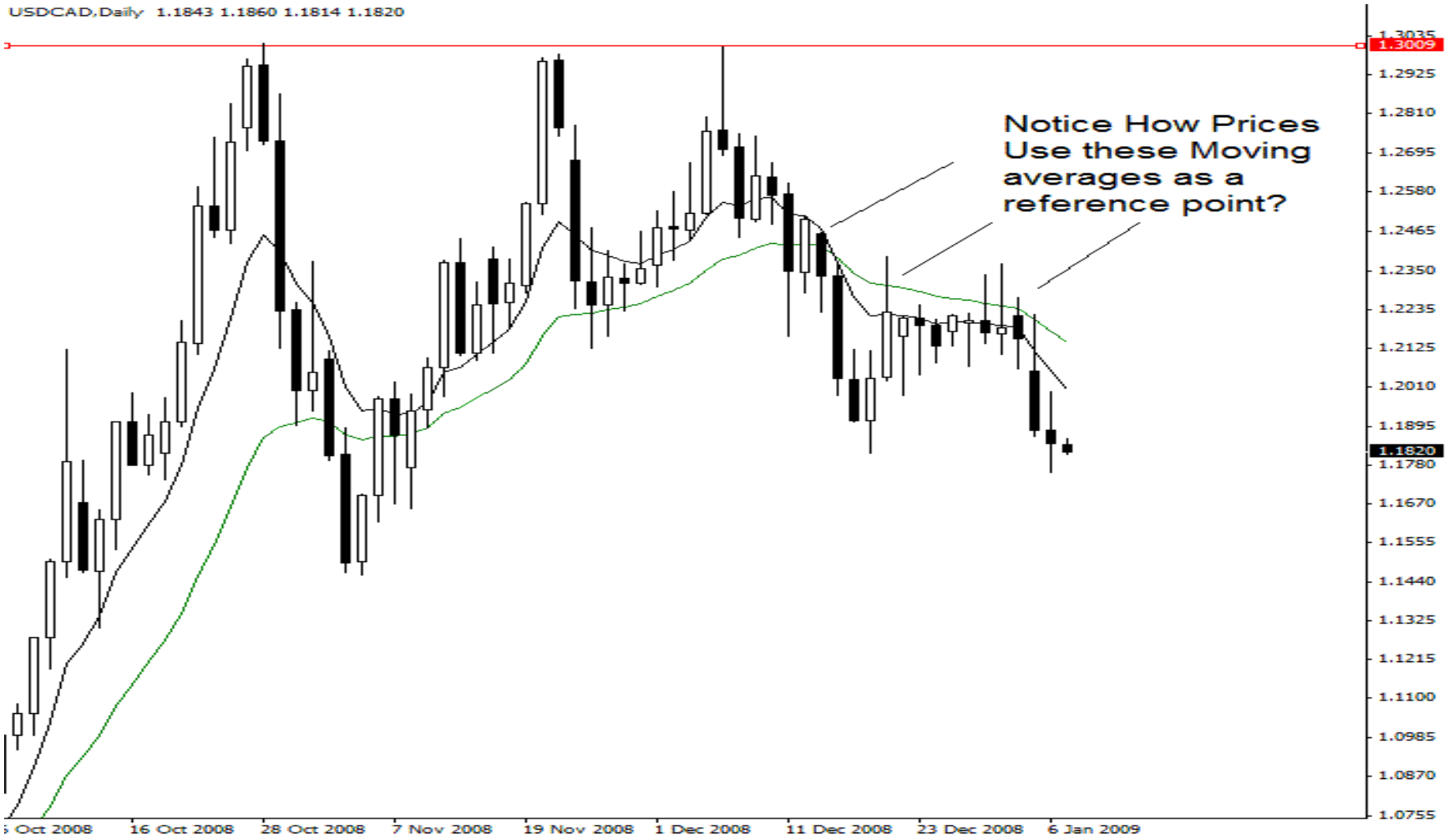
Perfect Trends patterns respect the mean (respect moving averages)

- The above examples show perfect trends, these are the trends we want to be identifying. Perfect trends are when prices respect the moving averages over and over, they mean perfect trades, which mean money in our pocket.
- The single most obvious clue is the diverging moving averages, a nice obvious slope, and subdued price action **which does not close above the 365 or 150 EMA by more than a few ticks**.
- Confirmation Is also the fact we continue to step lower , making lower highs and lower lows. (the opposite would be true for an up trend.)

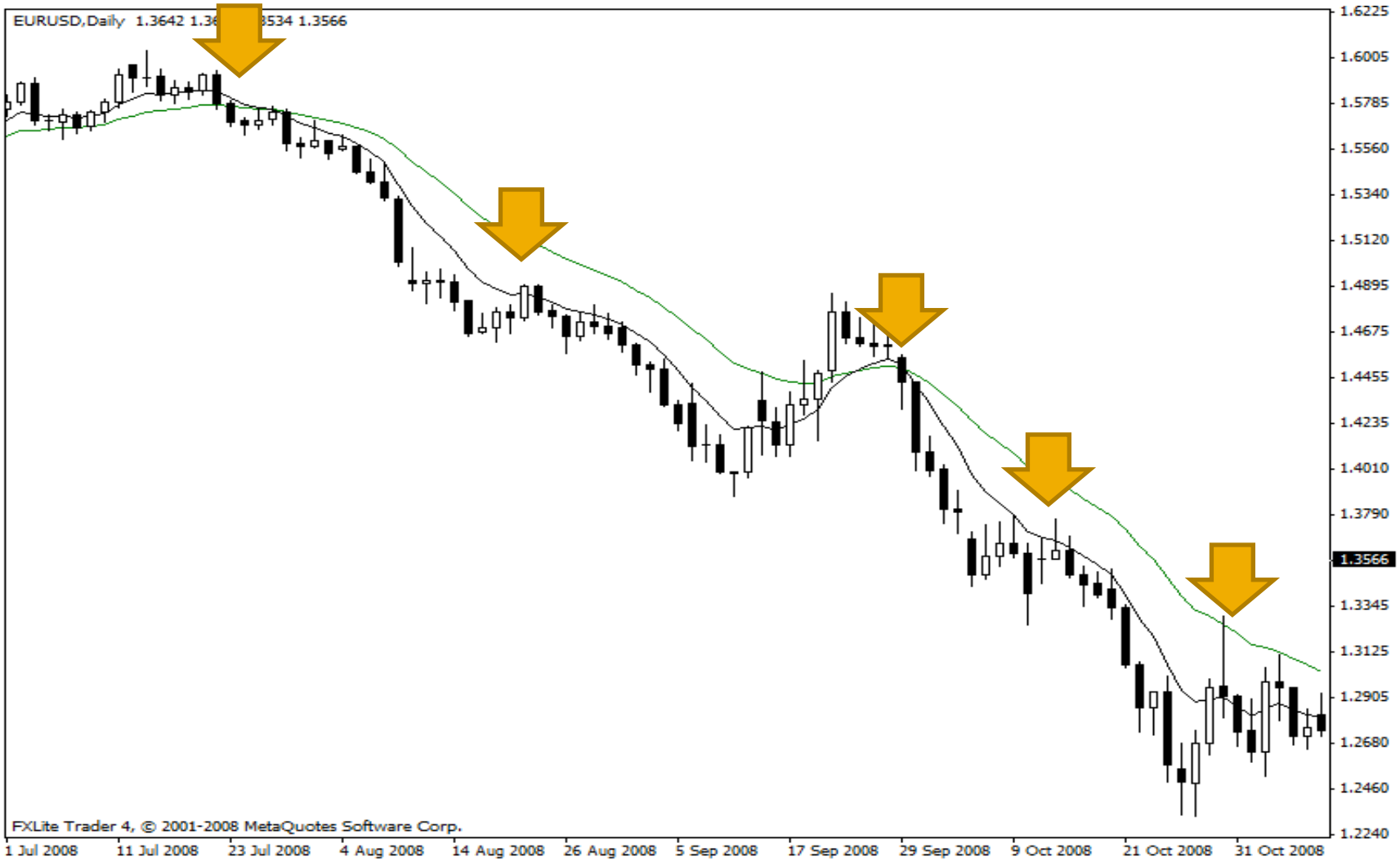
Why we choose counter trend movements to enter trades

- Counter trend movements create opportunity for trade entry in the direction of the current market bias or trend.
- We can see that the best trend setups form when there is obvious stepping price action.
- Textbook lower highs and lower lows are present in this example of a down trend.
- **In this example, notice the previous swing highs become important**

8 and 21 Day EMA trends



8 and 21 day EMA trends



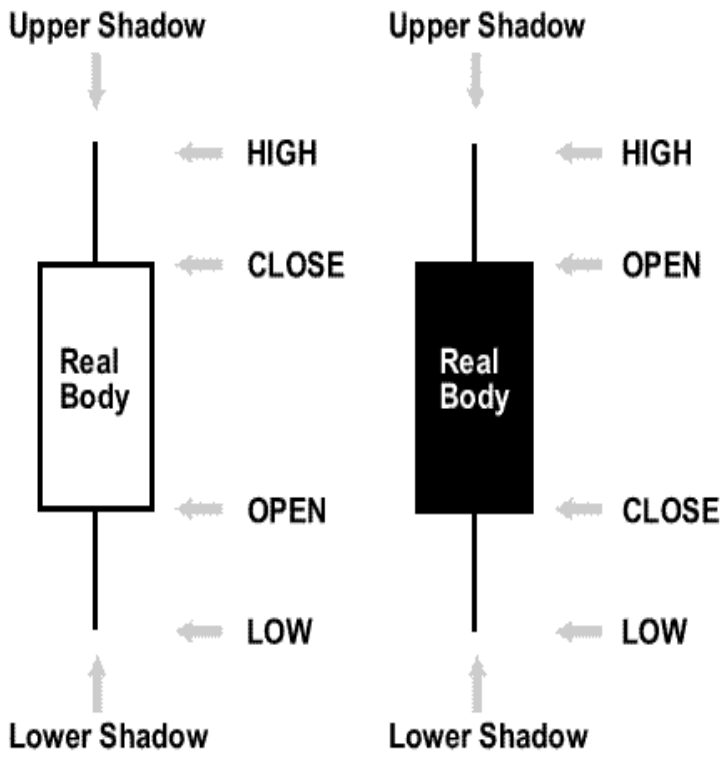
Summary Moving Averages

- No analysis tool is perfect, but EMA's are our most likely clues for short term trend direction and also a reference for value in the short term momentum
- Look for the price to show you what it wants to do. Often price action will provide clues. "perfect trends"
- The more time price spends on one side of the moving average, the bias and trend will start to turn in that direction.

Candlesticks Explained
Candle Patterns used for entry signals

Japanese Candlestick Charts

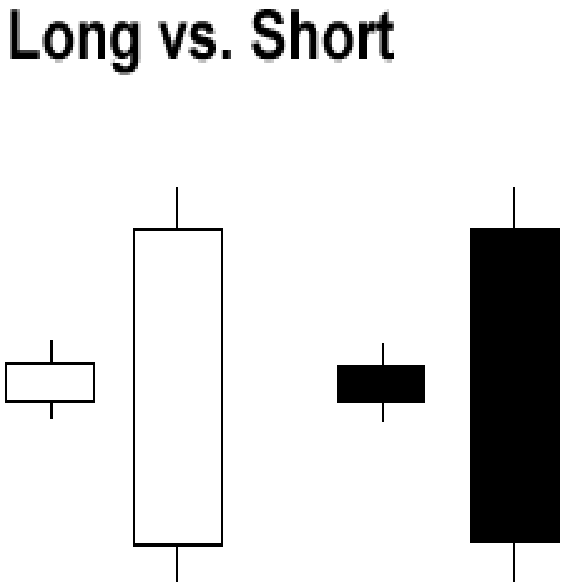
What is a Candlestick?



- Candlesticks are formed using the open, high, low and close of the chart timeframe we are using.
- If the close is above the open, then a hollow candlestick (usually displayed as white or green) is drawn.
- If the close is below the open, then a filled candlestick (usually displayed as black or red) is drawn.
- The hollow or filled section of the candlestick is called the "real body" or body.
- The thin lines poking above and below the body display the high/low range and are called shadows.
- The top of the upper shadow is the "high".
- The bottom of the lower shadow is the "low".

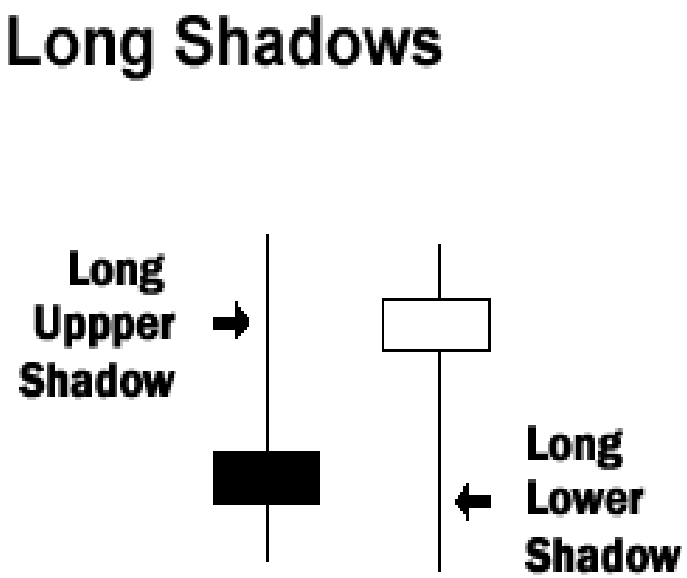
Long and Short Candles

- Long bodies indicate strong buying or selling. The longer the body is, the more intense the buying or selling pressure.
- Short bodies imply very little buying or selling activity.
- Long white (green) candlesticks show strong buying pressure. The longer the white candlestick, the further the close is above the open. This indicates that prices increased considerably from open to close and buyers were aggressive. In other words, the bulls are kicking the bears' butts big time!
- Long black (filled) candlesticks show strong selling pressure. The longer the black candlestick, the further the close is below the open. This indicates that prices fell a great deal from the open and sellers were aggressive. In other words, the bears were grabbing the bulls by their horns and body slamming them.



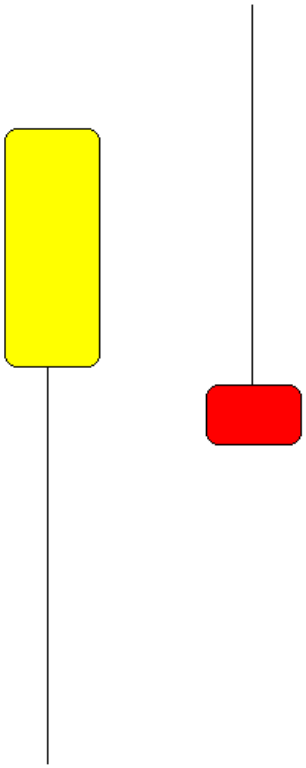
Shadows

- The upper and lower shadows on candlesticks provide important clues about the trading session.
- Upper shadows signify the session high. Lower shadows signify the session low.
- Candlesticks with long shadows show that trading action occurred well past the open and close.
-
- Candlesticks with short shadows indicate that most of the trading action was confined near the open and close.
- If a candlestick has a *long upper shadow and short lower shadow*, this means that buyers flexed their muscles and bid prices higher, but for one reason or another, sellers came in and drove prices back down to end the session back near its open price.
- If a candlestick has a *long lower shadow and short upper shadow*, this means that sellers flashed their washboard abs and forced price lower, but for one reason or another, buyers came in and drove prices back up to end the session back near its open price.

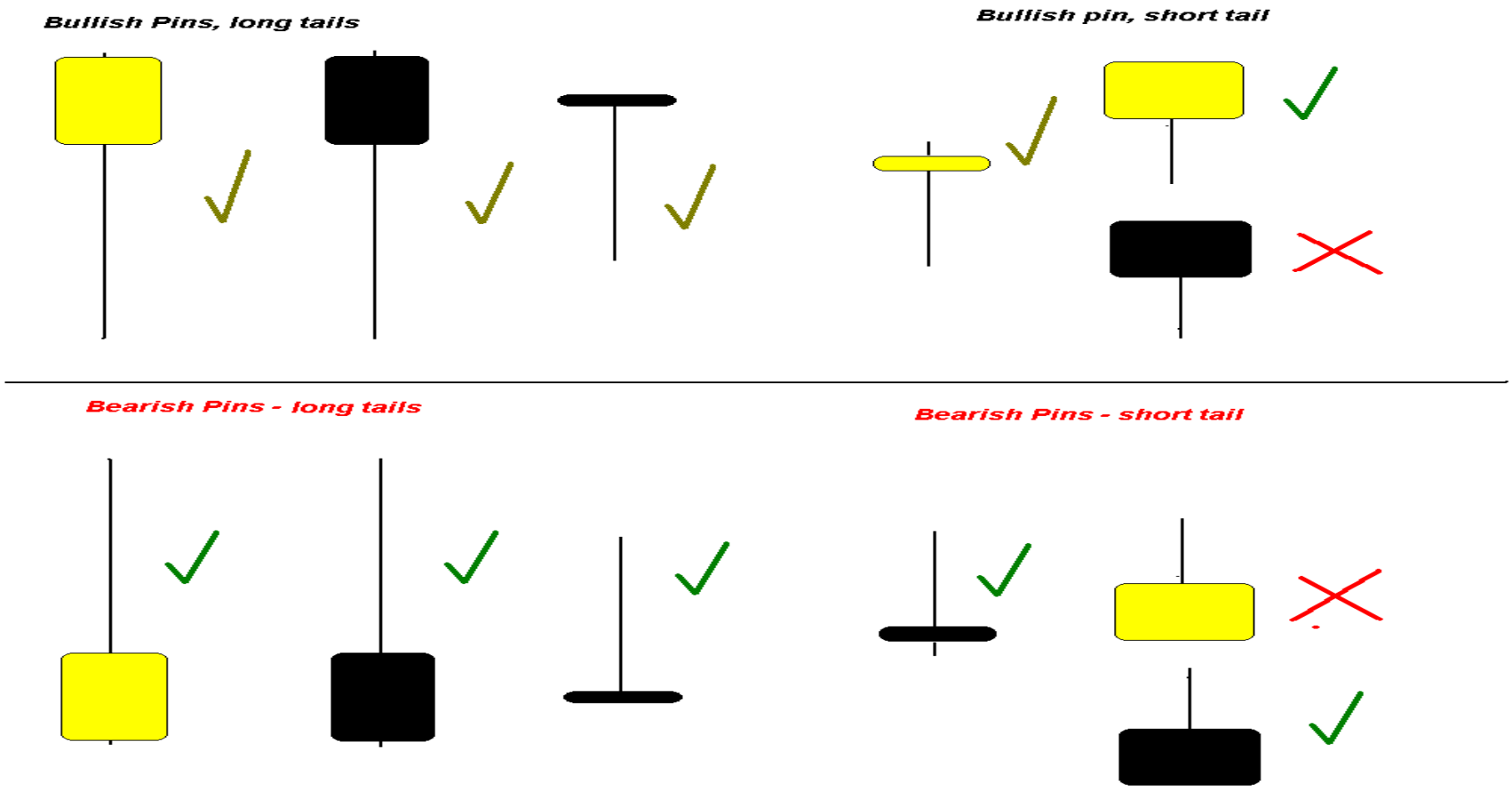


What is a pin bar reversal

- Pin Bar Entry - A pin bar is a 1 bar formation. The pin bar is a price bar which has rejected higher or lower prices. Price will open and move in one direction, and then "reverse" during the session to close at or past the open.
- The candle is easy to spot because it has a "tail" or deep wick. Not all candles with tails are pin bars. Only a bar with a a tail , often much larger than its body can be called a pin bar. Usually, the market closes past the open, or at the open.
- It is a common reversal signal which typically needs to occur near a support or resistance area (horizontal level or dynamic moving average). Some traders use them in conjunction with Fibonacci retracements as well as trends or simple pivot/swing levels.
- In a nutshell, Pin bars are the ultimate strategy for picking up major swings in prices. In my experience, the Forex market is most responsive to this entry signal, due to the number of traders in Forex, the pattern becomes self fulfilling.
- Often, the best pin bars occur after a few days of movement in the opposite direction to the recent momentum.
- **I noted early on in my career that Pin bars that form in the direction of the trend, but are not after retracement, can be dangerous. What I am saying is, avoid pin bars that just are not obvious, and avoid ones that form right near the recent highs or lows of the current move.**
- See examples to right



Pin Bar reference sheet



Pin bar entry discussion

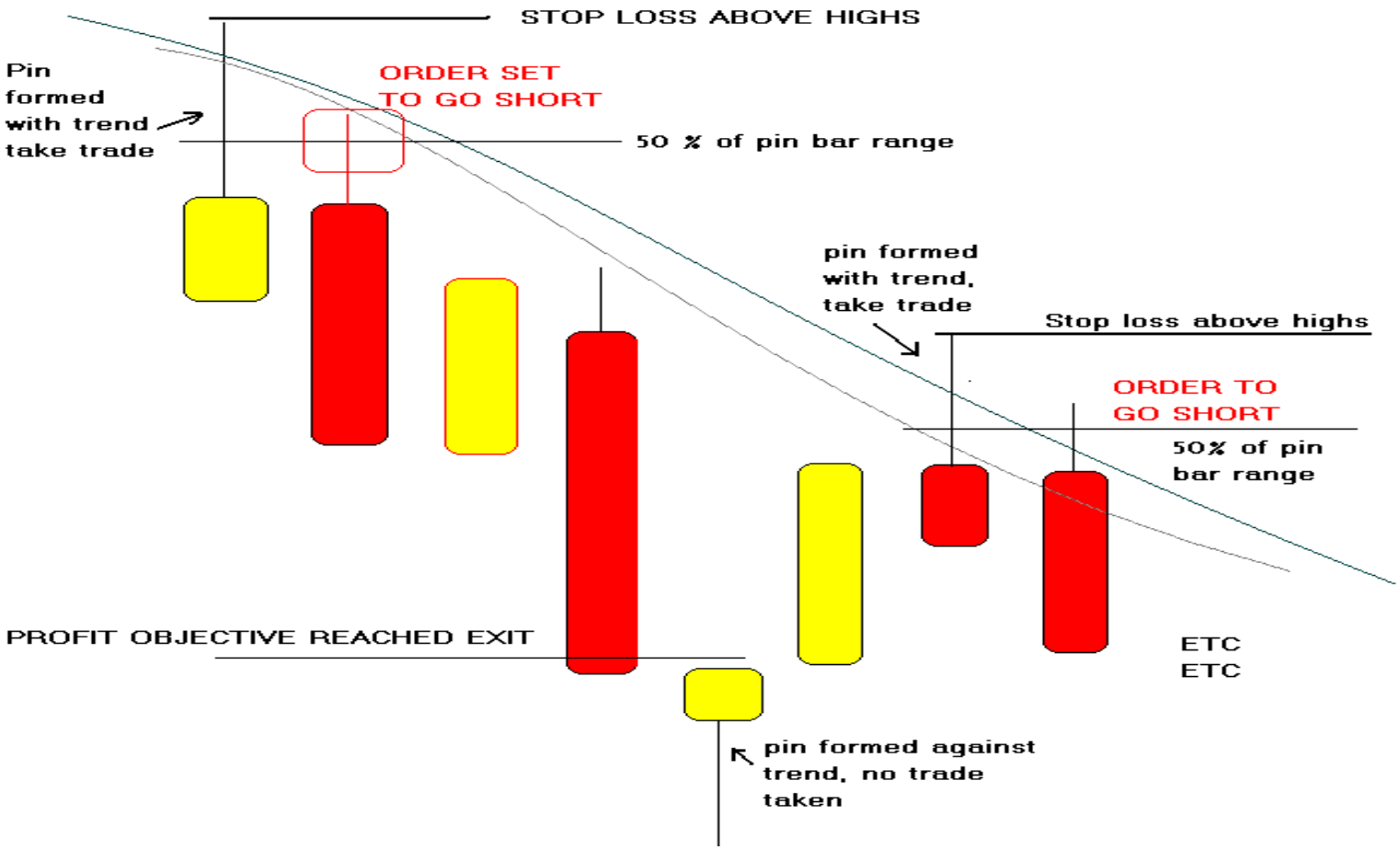
- **There is 3 ways to enter directly from pin bar:**
- It is not always necessary, but it is always better to see that the nose of the candle has penetrated or hit some form of resistance (MA, Pivot Points or Fibonacci.)
- Many times the close of the nose will not drop to the level of the open until minutes or seconds before the close of the bar.

- **Method #1: Aggressive**
- Sometimes, right after the nose bar closes, the next bar will open and immediately take off in your favor, but sometimes without you! This aggressive method makes sure that doesn't happen, but not without a little bit more risk. To ensure that the trade doesn't leave without you, place , you may use an at market entry. This way you are filled and happily making pips when then bar decides to drop like a rock without retracing at all. Place your stop just above the top of the tail. For an even more aggressive trade, place your stop above or below 60% of the range of the bar. I find that large 1 hour and even minor 240 minute Intraday pin bar signals tend to be fast and occur straight off the bat. I will never be able to teach you exactly where to get in, but if the trend is strong, market entries can be a good choice on intraday time frames.

- **Method #2: Aggressive**
- Sometimes, right after the nose bar closes, the next bar will open and immediately take off in your favor, but sometimes without you! This aggressive method uses market momentum as confirmation, but not without a little bit more risk. To ensure that the trade doesn't leave without you, in particular on intraday time frames, use an "on stop " entry. So if going short, I sell on stop below the low of the signal "pin bar", and visa versa for longs. Again, probably more suited to intraday day signals, and possible good for daily pins which don't have a massive range.

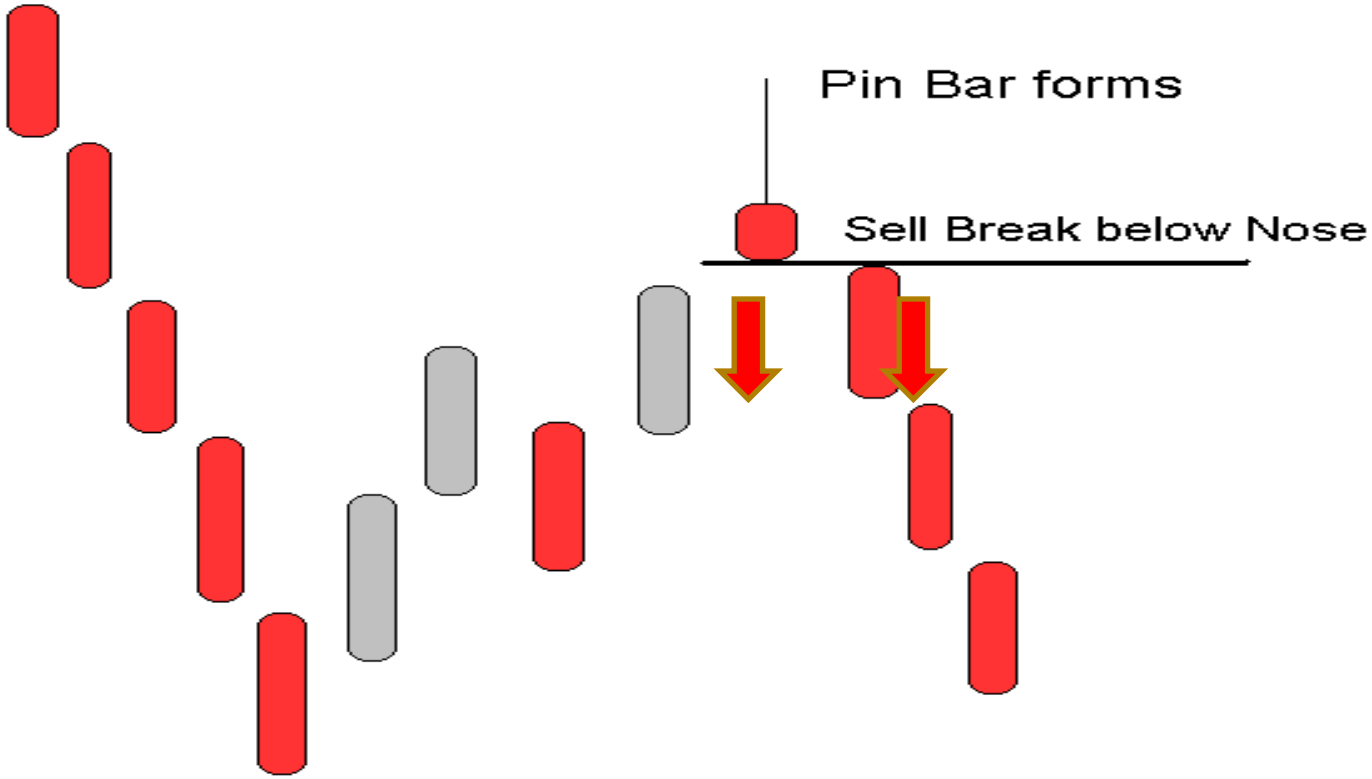
- **Method #3: Conservative**
- Many times , on the daily chart, particularly if the pin bar is large in range, I see a market retrace a little before reversing and plummeting or rallying, it might be 12 hours, or even 1 to 2 weeks, but often, there is a retracement before the signal comes off in the desired direction.. I discuss the retracement entry for pin bars in many of my videos for daily pin bars or larger 240 minute pin bars. The more conservative way to enter the pin bar setup, basically waits for the market to retraces to some extent. I will take the range of the signal pin bar, and find the 38% to 55% retrace range, and look for an entry in that vicinity. Some other ways to enter on a retracement would be to look for a logical nearby level , maybe the nearby resistance or support etc. Using a retracement to enter will facilitate a smaller stop and lessen your total risk, but increase the reward to risk ratio.. The drawback of the conservative method, is that you will sometimes miss out on that trade.

Daily Chart – Conservative Entry

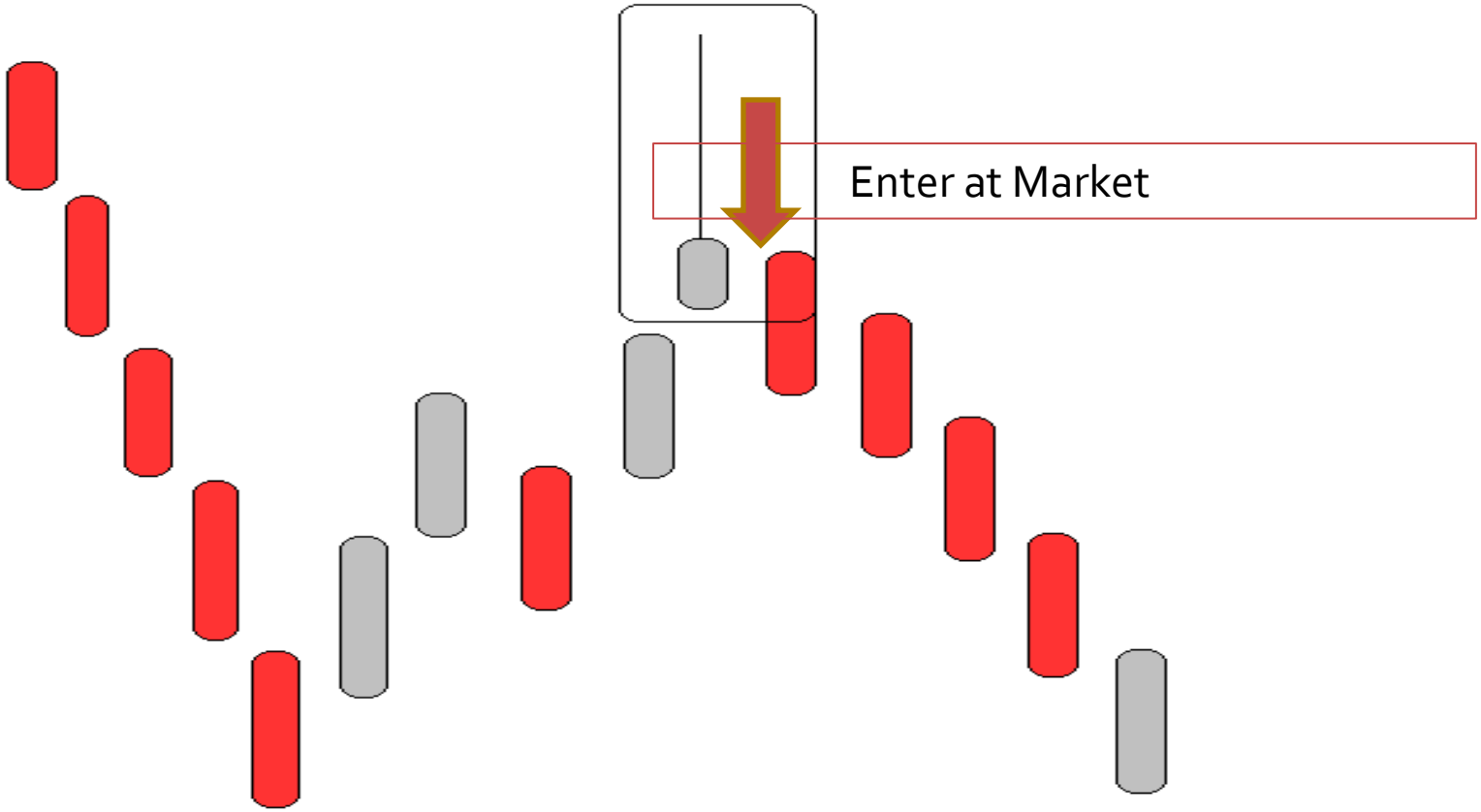


Intraday Pin Bars

Intraday Trading Technique



Aggressive Entry



The Pin bar reversal with trend

Pin Bar - Important notes

- Intraday pins at market or use on stop orders to get in
- Daily pin bars and 4 Hour Pin bars, enter on retracement **if the candles range is large**. If pin range is smaller, market entry or on stop entry.
- Many Traders Often use daily and intraday pin bar signals together.

Entry and Stops

- The Intraday pin strategies discussed later will be at market entries, or we wait for a move below or above the nose, depending on the direction of your trade. As long as the pin bar is not very huge in range, when there's a strong trend under way ,I don't wait, I just jump in.. (more later)

- Daily charts, entry will be depending on the size of the latest pin, if it's a large ranged pin, you might wait for the next day to retrace as we just discussed. I truly am 50/50 on which is the best method, but for new traders, I suggest you consider learning to trade the 38%-55% retracement method, and try to trade with trends or from obvious support and resistance. In time, you will progress. **There are no strict rules for pin bars and price action. The key is to know the price signals themselves, everybody trades them differently and you will decide which is best over time.**

- I find it impossible to make a system and tell somebody there is a set way to trade a pin bar. First off, get experience at finding the good ones, and then learn from your mistakes as well as your fortunes.

- Stop loss is important here, most of the time, it needs to be below the low or high of the signal pin bar. If your trading intraday and you get a confirmation signal, you might be able to get your stop tighter. Some will have it above the high or low of the pin bar itself, some use the 60% level of the pin bar, and some will use the 75% level. As I keep saying. It depends on the candle size, and realistically, depends on your risk reward potential. If it's a huge pin, and you need a 100 pip stop, that's a large stop, so you could make the stop smaller using a variety of self taught methods. **Remember, using a retracement before entering the pin will naturally tighten the stop loss**. An inside bar formation anywhere after pin bar formations will also help with risk management, because you could use the inside bar highs and lows for stop loss placement .. That's more advanced, but something that you will see every now and then on the higher time frames like 240 minute and daily.

- As time goes on you will learn that pin bars set up momentum plays, and **you can manage intraday trades based on the daily signal itself** .. Learning that comes in time.

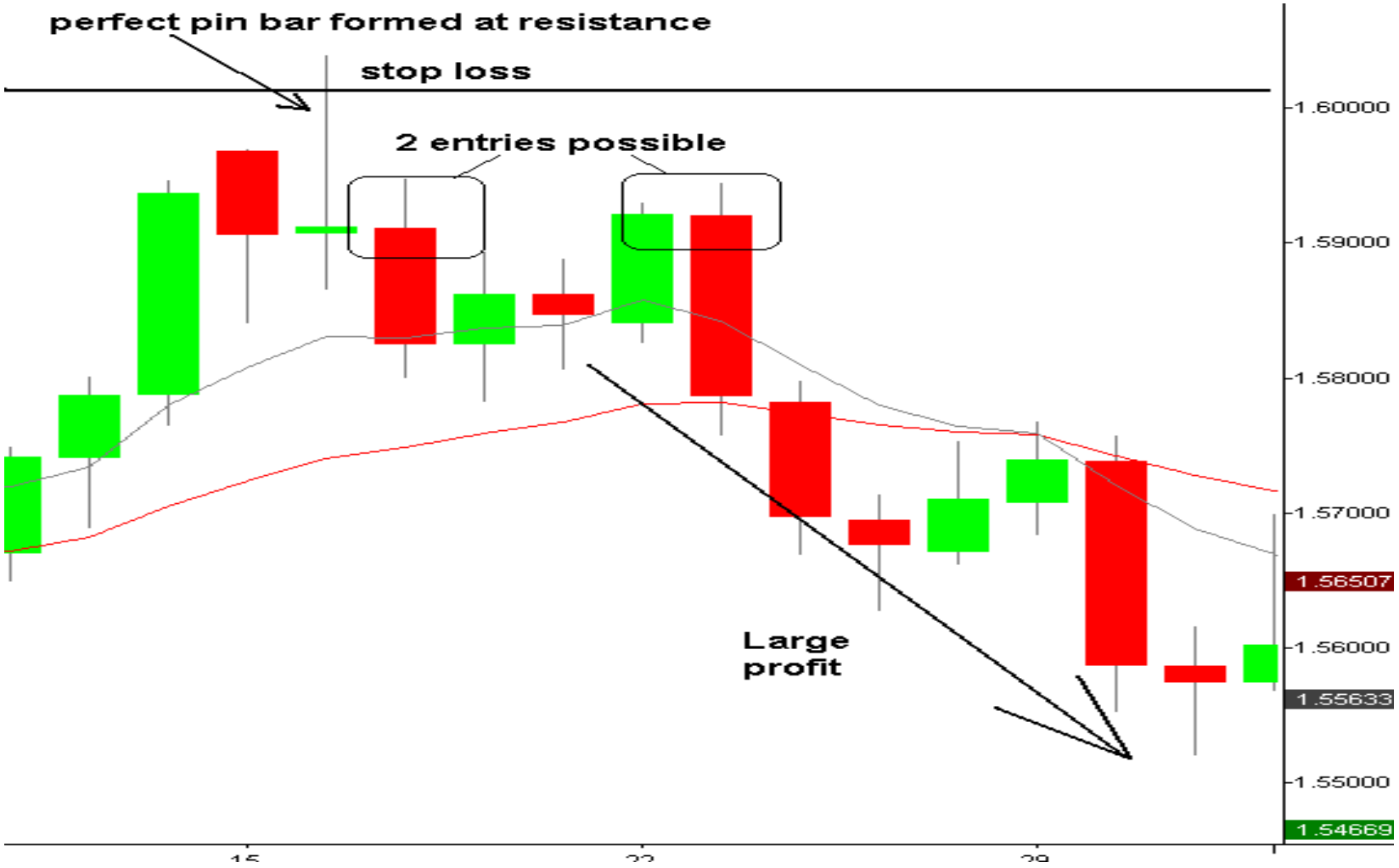
- Obvious support and resistance, trend lines and the 8 or 21 day EMA are all good levels to trade pins when starting out..

- When you enter, look for a profit objective at least 2 times your risk, ideally more!. Pin bars can lead into major moves, so don't be afraid to hold a trade if the signal is strong and price action agrees. I look to target a recent key levels to take my profit. I recently made 6 times risk on a EURUSD daily pin bar, so guys, this can be done!

- If your trading against a trend, you dam better make sure that pin bar is obvious and large, and try to have it align with some logical level in the market. Confluence helps!, if in doubt, don't!

- Be patient and wait for the perfect pins. An example of a perfect pin bar trades follows.

The perfect storm – a pin bar at a major resistance level

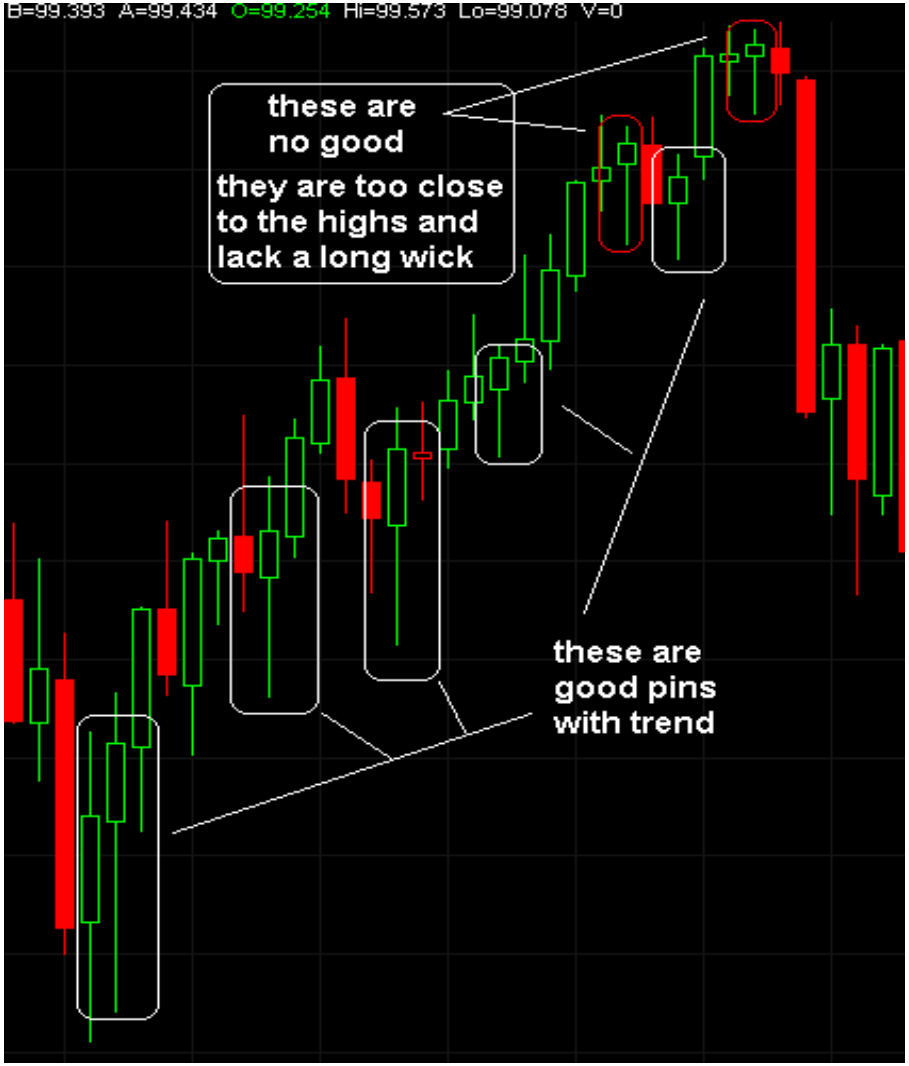


Pin bars are the best signal I've used in forex

Pin bar from swing retracement

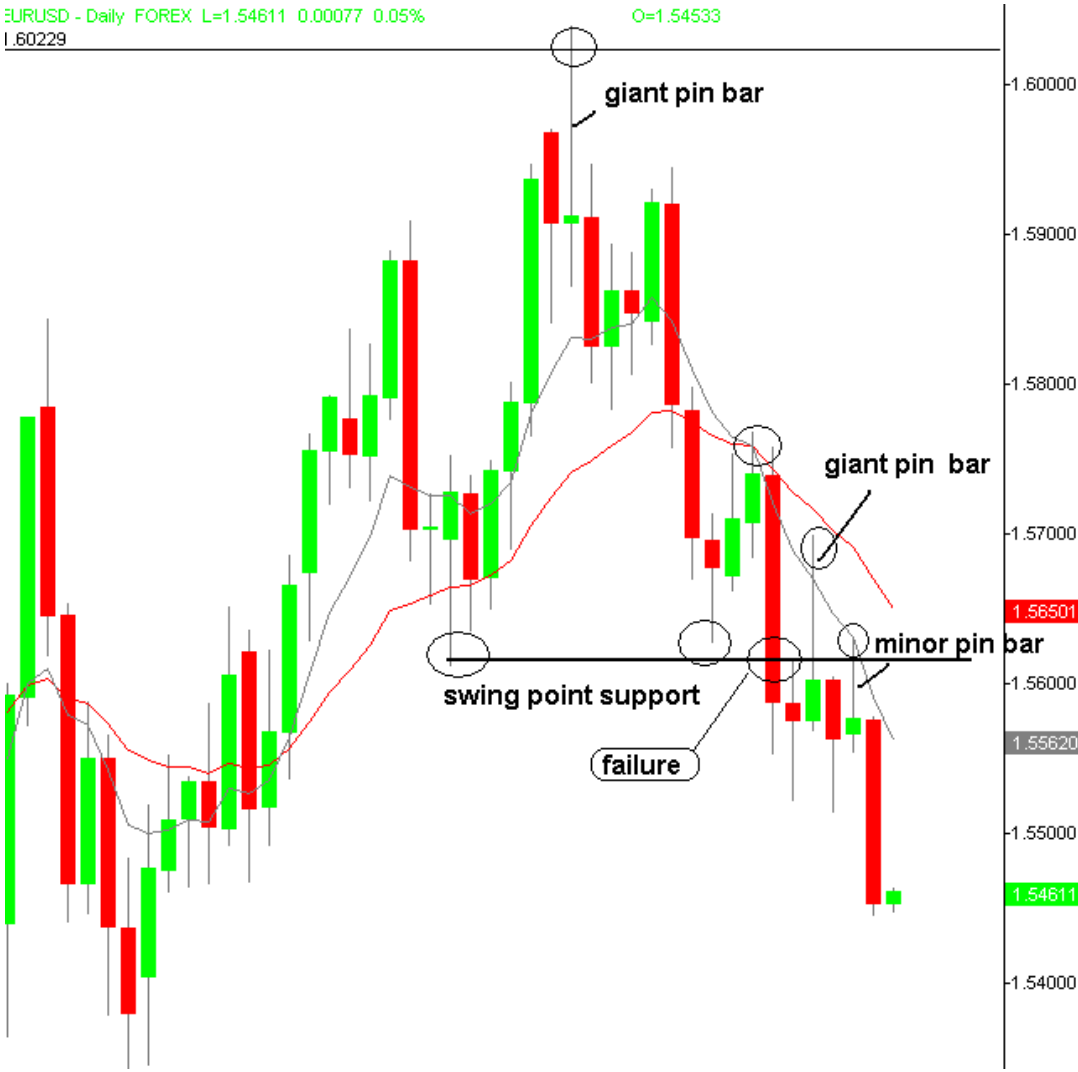
Weekly pin bars show turning points

Pin bar reversal with trend

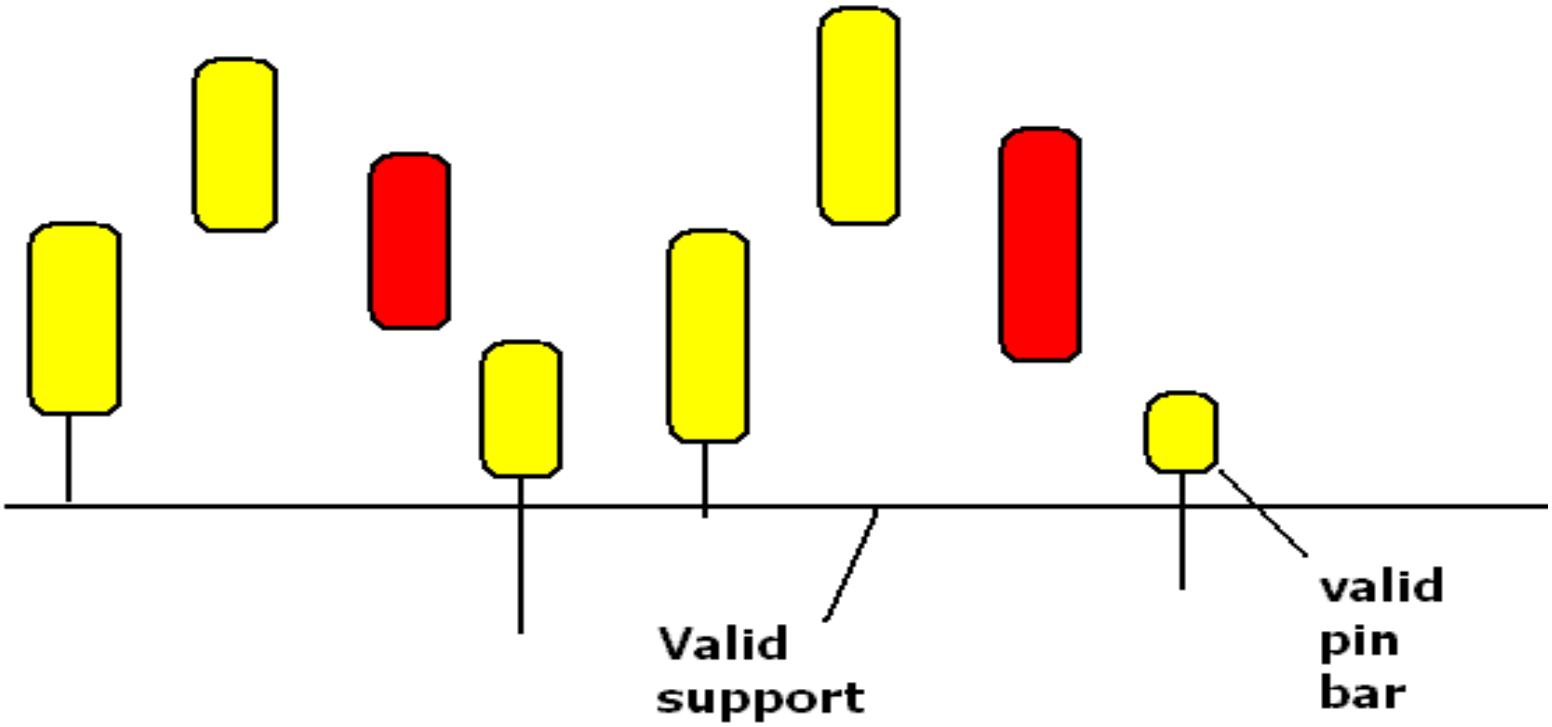


Swing support points and trends

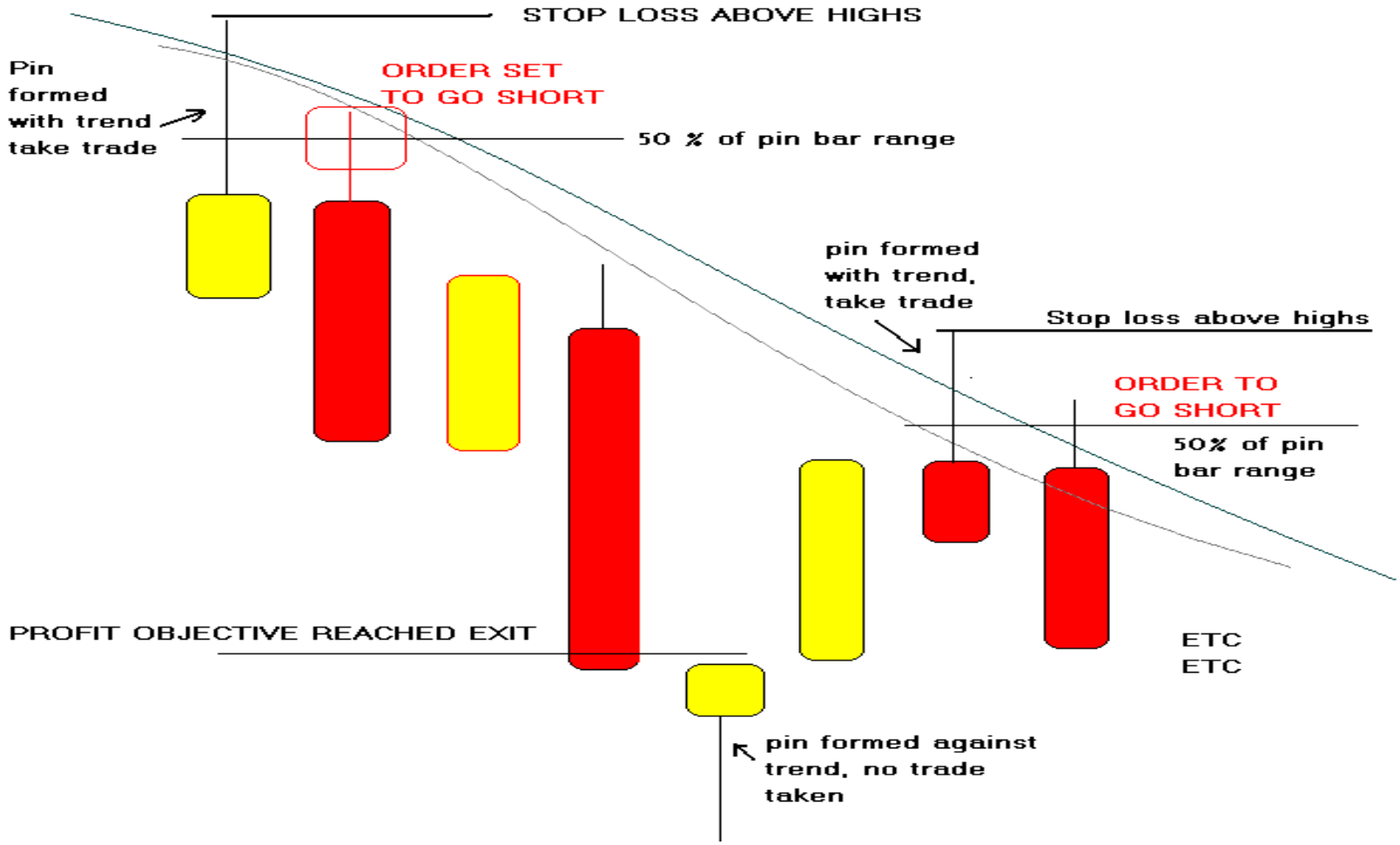
- The market makes highs and lows and forms swing points. These are short term reference levels and don't need to be confirmed. E.g., if the market moves down and bounces at point x, that will leave a support swing point. If the market then moves back down and fails point x, point x will become a resistance swing point
- Notice that support on this EURUSD chart does not have to be confirmed, it can simply be a swing point or reference level, when a market is moving it leaves swing highs and lows, they clearly become key levels over time. See to the right.
- This example shows the trend collapsing off the highs from a large pin bar signal, them prices fall slowly , with the 8 and 21 day EMA eventually crossing lower, the market finally fails the swing support and dies. There are also multiple price action entries we could have made, and I will discuss these later on.



Pin bars at horizontal levels



Example of pin bar entry with stop and target in trend



Price action within trends.

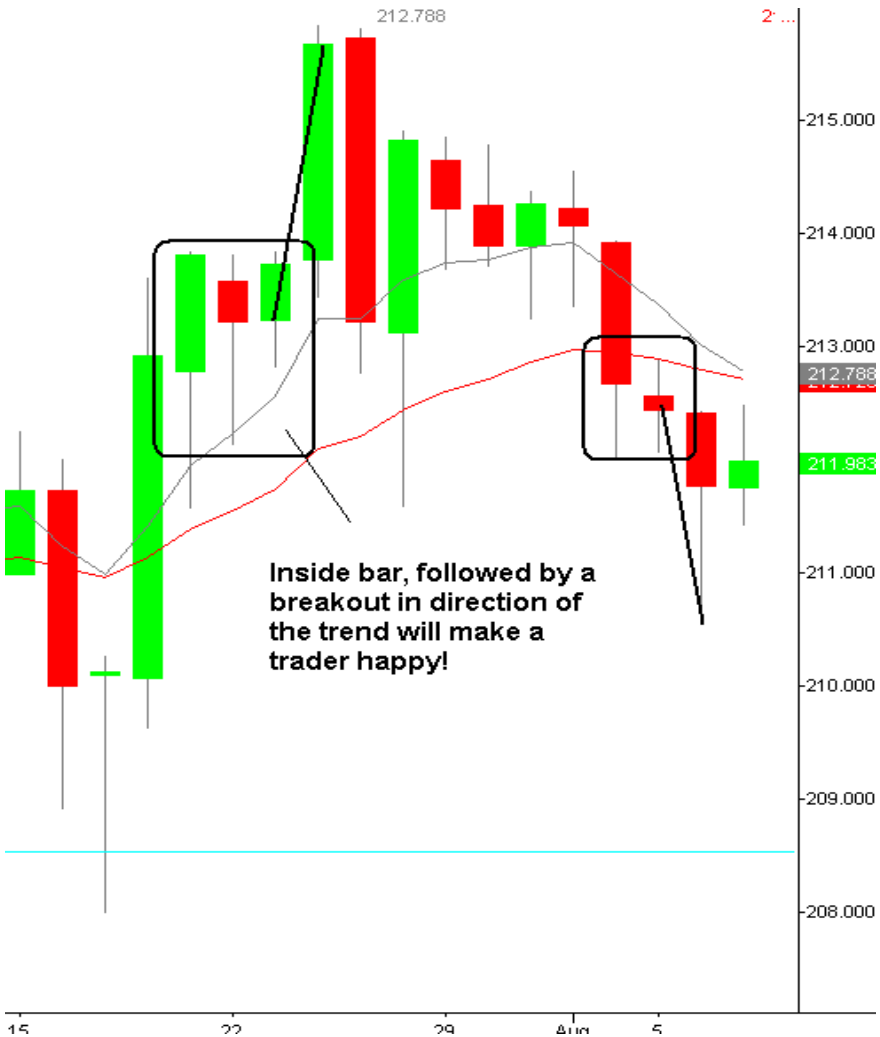
- **This is important:**
- When we combine a price action signal with a value point area (moving average), our odds are increased.
- Price action wont always occur at the exact level, prices may overshoot the moving average or form under it. What is more important is the recent trend and slope of the 150 EMA. Naturally, odds are increased when we see a massive price action signal in the direction of the trend.
- Example. If prices form a major "pin bar reversal" from a value area, or during a trending move, this is an automatic clue to future direction. (read that again)
- **The highest probability for all trades on the hourly and 240 minute charts is when traders use a price action signal to enter in the direction of current momentum**.
- Weather trading price action or simply joining a trend, I like to be in a trade as close as possible to the moving averages , or even above. Then I know my entry was at or above current "value", and I am playing in the direction of current momentum.

Inside bars
FAKEY- False break

Inside Bars and Fakey Patterns

What is an inside bar

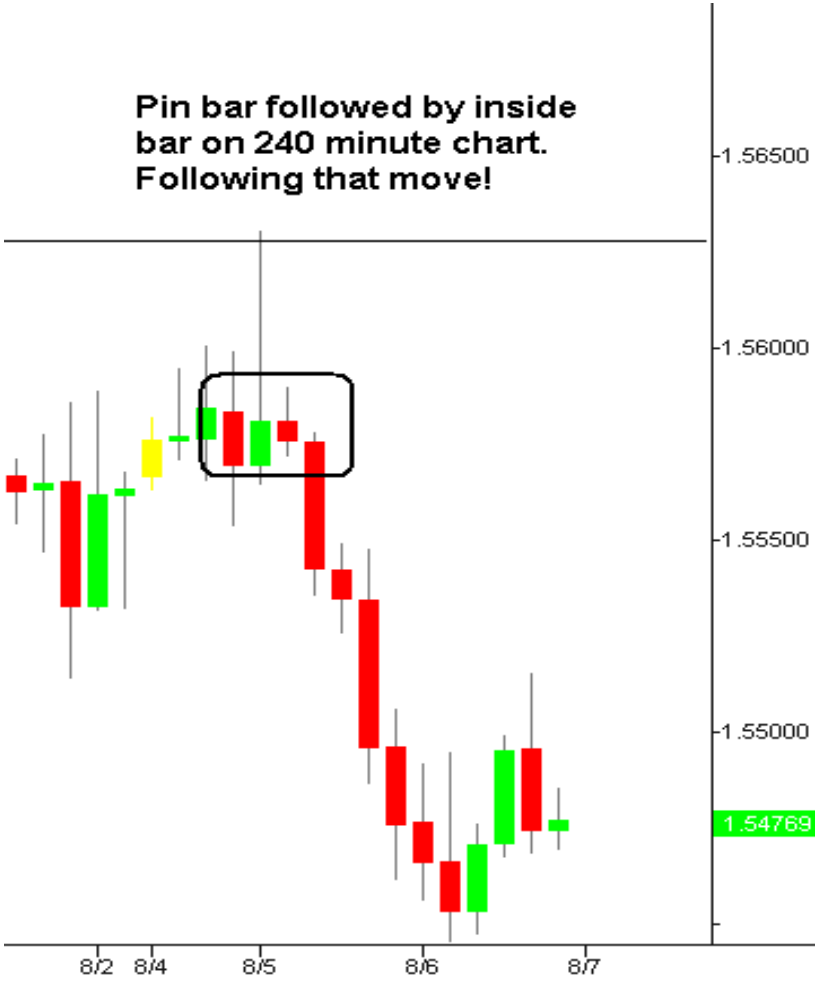
- Inside Bar Entry - An inside bar is a bar or series of bars which is/are completely within the range of the preceding bar, or , i.e. it has a higher low and lower high than the bar immediately before it (some traders use a more lenient definition of inside bars to include equal bars). On a smaller time frame it will look like a triangle.
- An inside bar indicates a time of indecision or consolidation. Inside bars often occur at tops and bottoms, in continuation flags, and at key decision points like major support/resistance levels and consolidation breakouts.
- They often provide a low-risk place to enter a trade or a logical exit point.
- The most logical time to use an inside bar is when a strong trend is in progress. If we play the break out, our stop loss can be defined by placing it below the half way point of the outside bar or mother candle.
- They are very good when trading a trend on the 240 minute charts, and can be good to identify market turning points when trading against the trend.
- Inside bars often stall a market movement, so they are good reversal patterns both with trend and against them
- See Chart example



Inside bar on daily chart

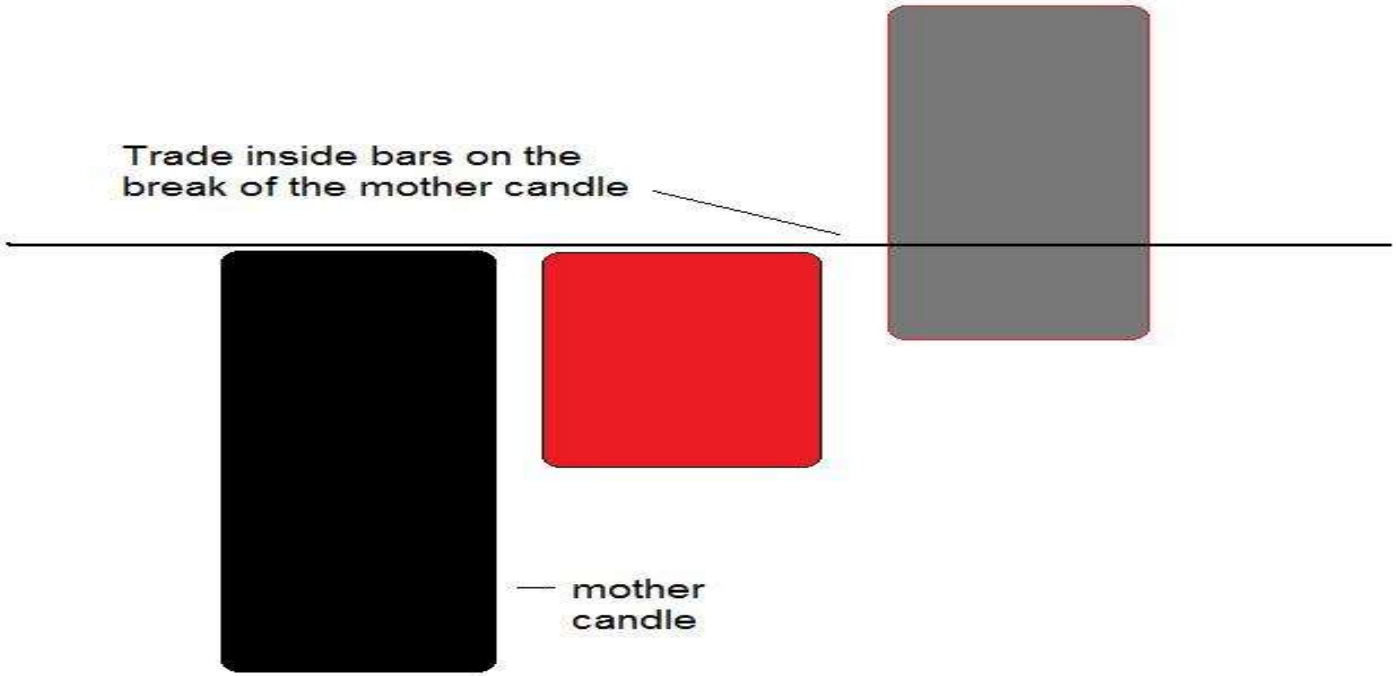
Inside bars observations

- When first starting out in trading, I only used intraday inside bars when they favored the broader trend.
- I noted that inside bars that formed after pin bars where AMAZING! (see right)
- As time went on, I soon realized the merit of using them at key levels too. I still do notice however, that most of the time, the broader overall direction will make very high probability trade setups from inside bars, or multiple inside bar setups.
- I occasionally noted that a short term counter trend move will often stall after an inside bar, but we wait for the market to break back in the direction of the trend before entering.
- I also noted that inside bars near key levels worked as clues to reversal in the opposite direction. The occurrence was rare though.



Combos (pin with inside bar)

Trade the break of the mother candle



The Fakey or Hikkake Pattern

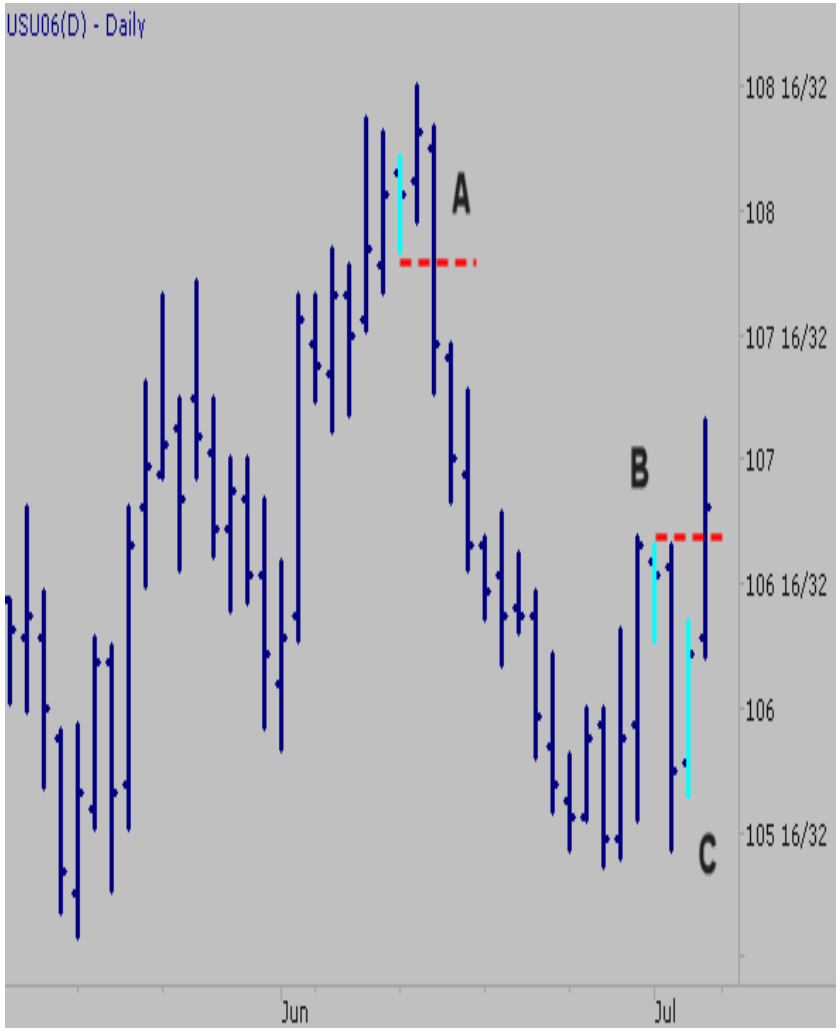
- "By monitoring shifts in short-term patterns and indicators, we may be able to hop aboard early phases of regime change."
  -- Brett N. Steenbarger, Ph.D.

  "Just as a scenario writer endeavors to mystify his audience, so pools and manipulators strive to confuse and influence the public into thinking a stock is moving in a certain direction when the ultimate purpose is to have it move the other way."
  -- Richard D. Wyckoff,

- **The Hikkake (Fakey), False break pattern.**

- This pattern is where we have a false break of a key level or a false break of an inside bar.
- Instead of the market going with the initial break of the inside bar pattern, the market "fakes out" and reverses back on itself over the next few days.
- This initiates a solid burst of momentum which can last 1 or more days.
- False moves create trends in the opposite direction, Setups are "unconfirmed" when they fail to trigger an entry within 3 periods of the inside bar setup.

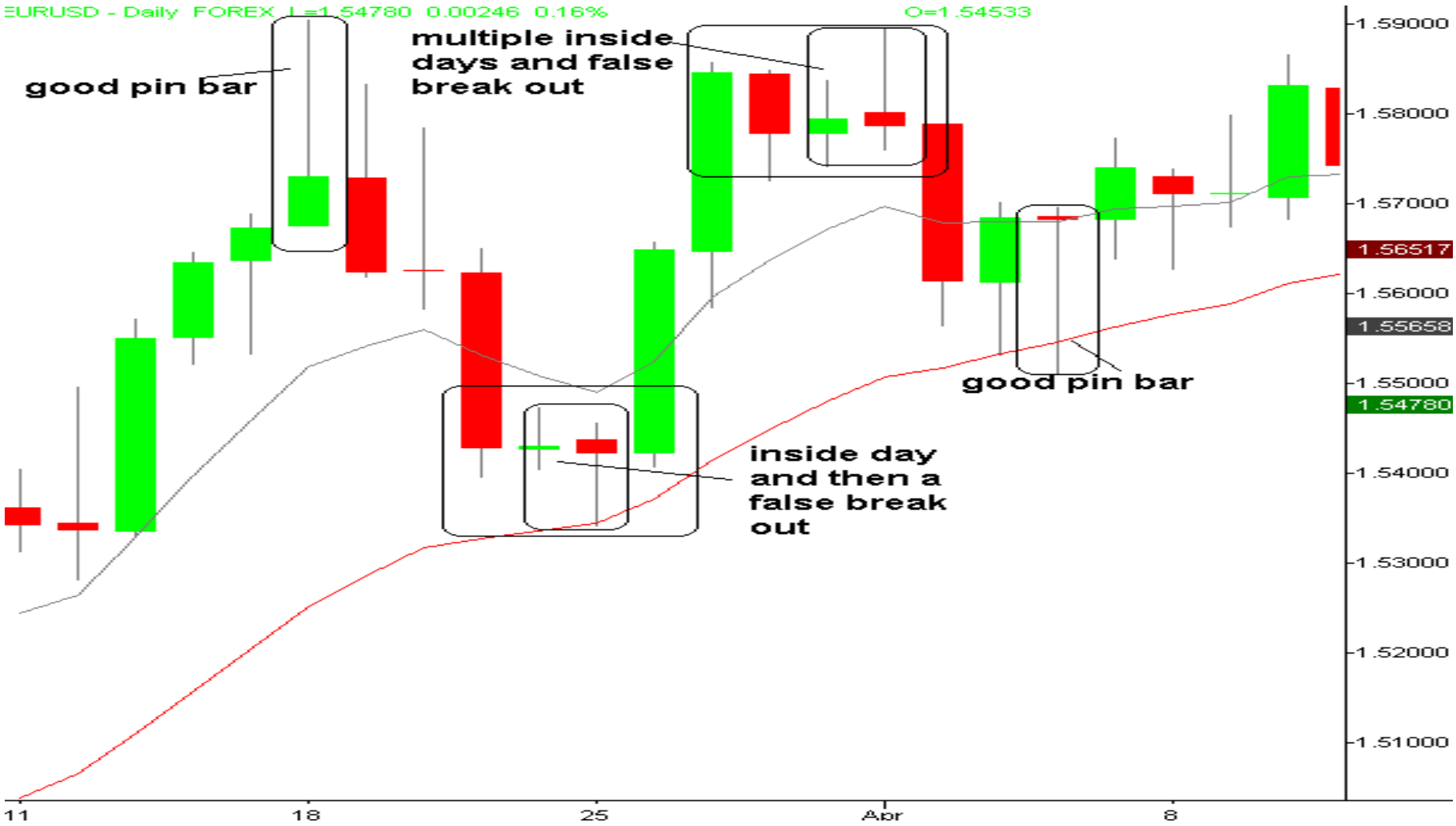
- They work best on a closing basis, that is, they are hard to trade live unless using intraday version of this signal.



Fakey in action

Another Fakey

Pins and Fakey combined, notice how many false breaks result in the formation of pin bars?



Event areas and inside bars

- My version of an inside bar event area, is basically an area of price which started a major event or break out etc.
- I won't go too far into the dynamics of this concept. To make it very simple, markets often find support or resistance at areas where recent price events have occurred. They become reference points..
- This will be the only time I mention this, but you can do your own study. How often can you spot a price event area of reaction which acts as support or resistance zone. Here is an example to the right.

60 and 240 minute Entries

Finding trade entries intraday

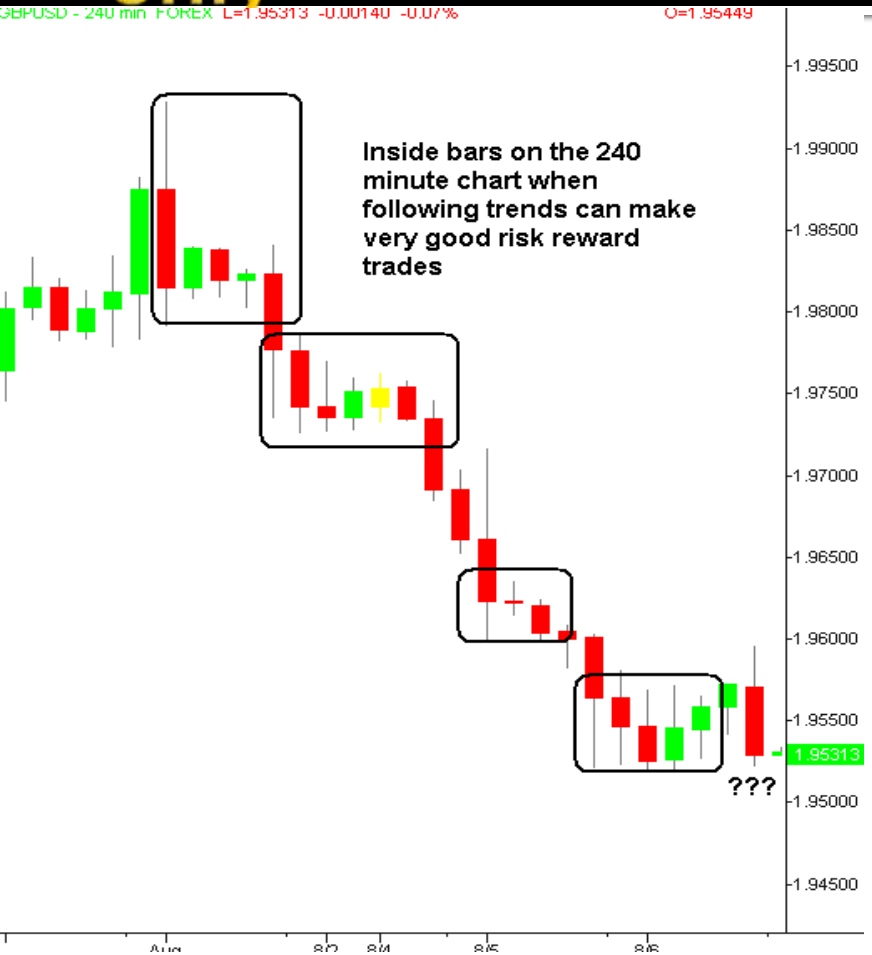
Trading Pin bars reversal in 1 hour chart perfect trends

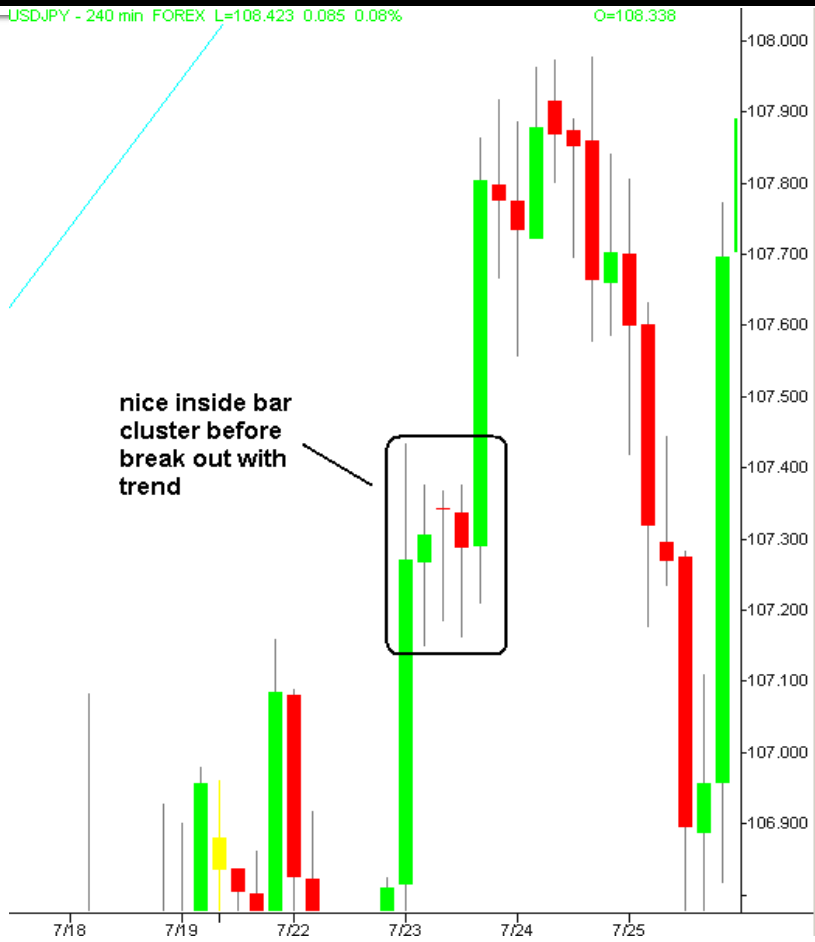
Trading 2 bar reversals in trends

- I only use a 2 bar reversal when trading a trend, and only when its clearly coming from a counter trend move. So that means, I am using a price action model to enter into a trend.
- This pattern is rare, but will work very similar to a pin bar, a quick move up, and quick bar down.
- Effectively, they produce similar results as pin bars, but lets make this clear.. <u>They are best when the second bar breaks the first bars low or high (depending on the direction you are trading),</u> I often wait for the break, and I need them to be perfect.
- See examples to the right.

The 240 minute pins, good with trends and support and resistance

240 minute inside bars, good with trend only





Trend trading pins and inside bar pins

1 hourly Fakey with trend

Intraday Fakey in direction of trend only

How to read a chart in a trend

Trend Line Realities

- In reality, we feel there is no real advantage using the application of trend lines.
- Trend lines can be good to determine trend change, but then again, they are often a "hindsight method" to analyse prices.
- Trend lines will not become a major part of our trading approach

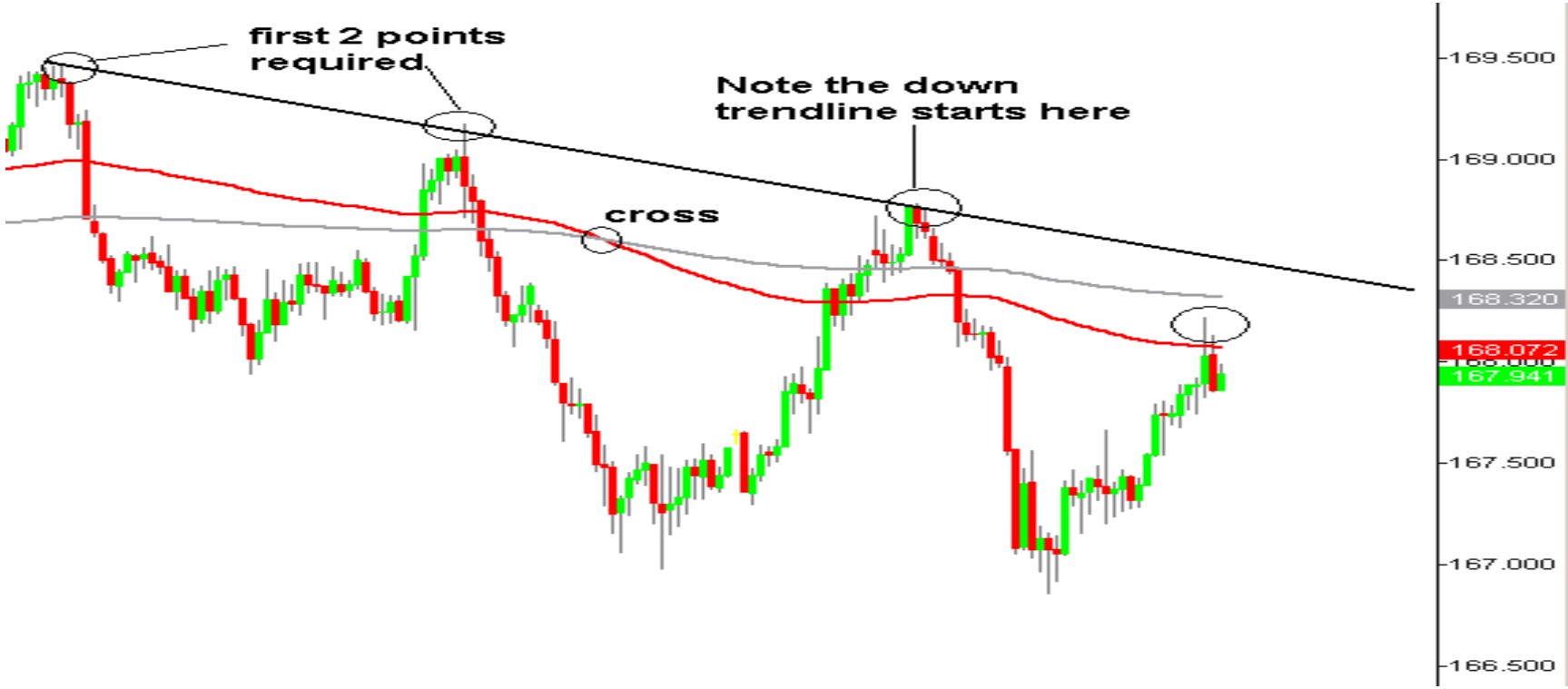
Trend Lines are confusing and interpretable.

How to draw a trend line

How to draw a trend line –

Wait for first 2 points, and connect a line through them, very basic !

A trend line can either hold or break. The prevailing trend is valid until the trend line is broken



How to trade the setups

Bringing it all together with a trading plan

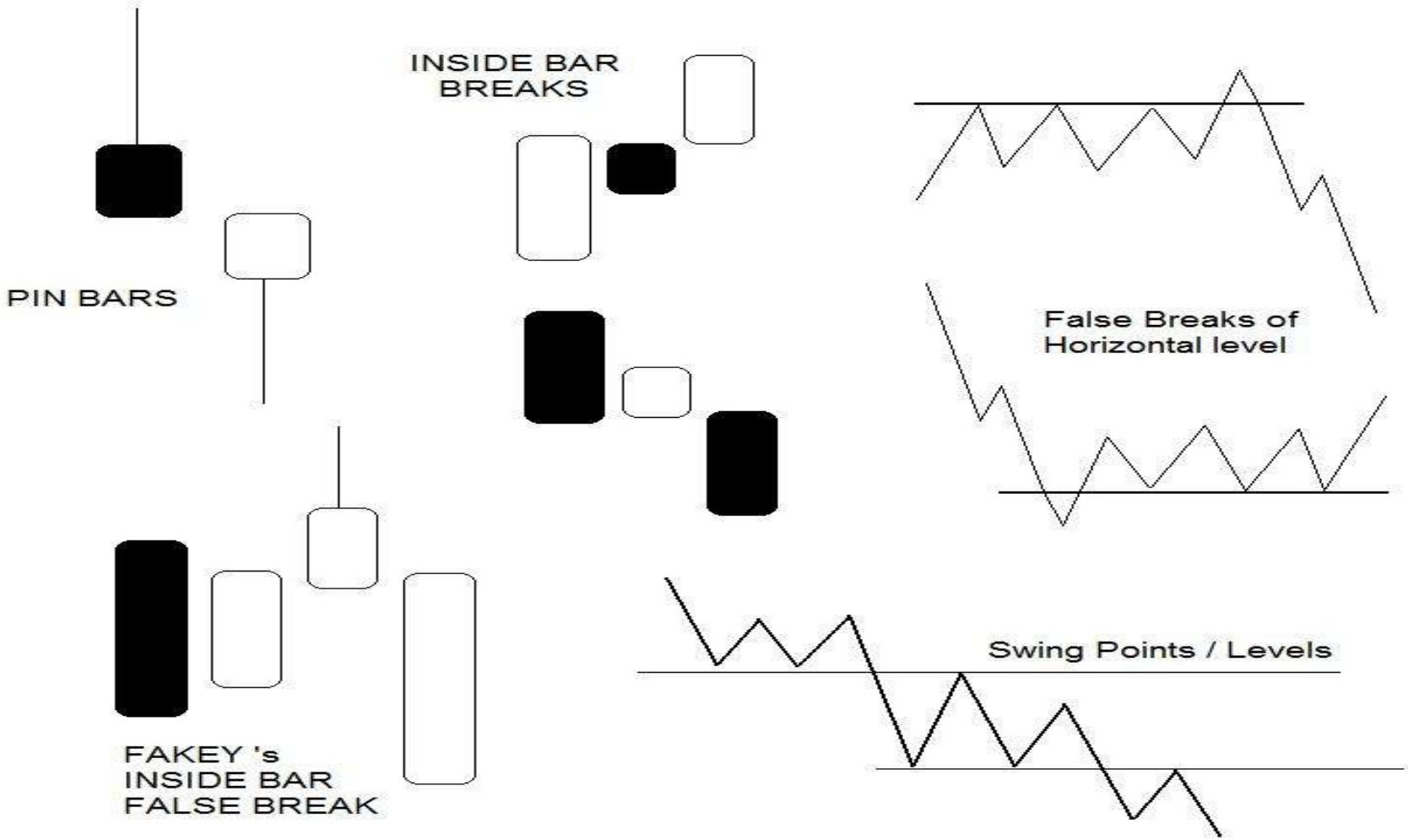
The Trading Plan

- The trading plan we follow becomes a type of checklist prior to entry.
- A helps the trader maintains discipline and provides a checklist or reference sheet for each setup and scenario.
- The trading plan cannot be broken, it is your own version of the law, so follow it!
- Always remember, we never trade every signal, and we never trad every pair. We as humans must still be selective, and develop good understanding of price behaviour, this combined with trading plan rules will aid in our success.

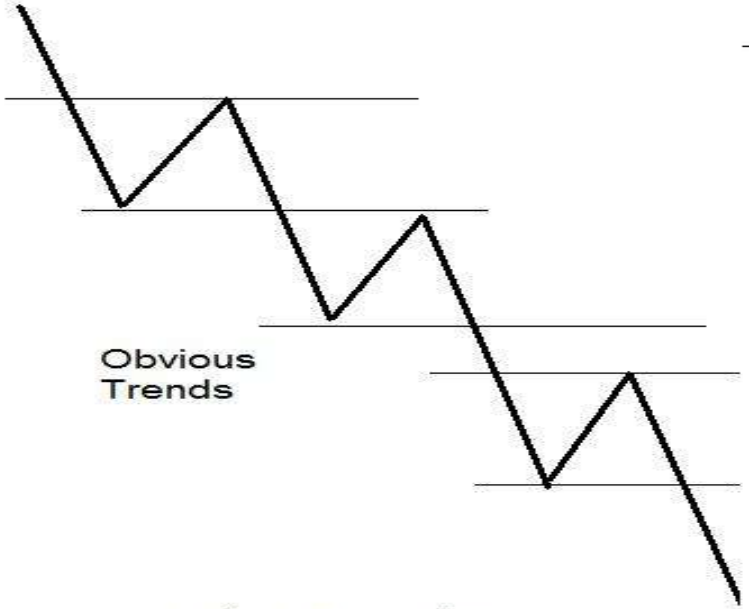
The Trading Plan for Forex

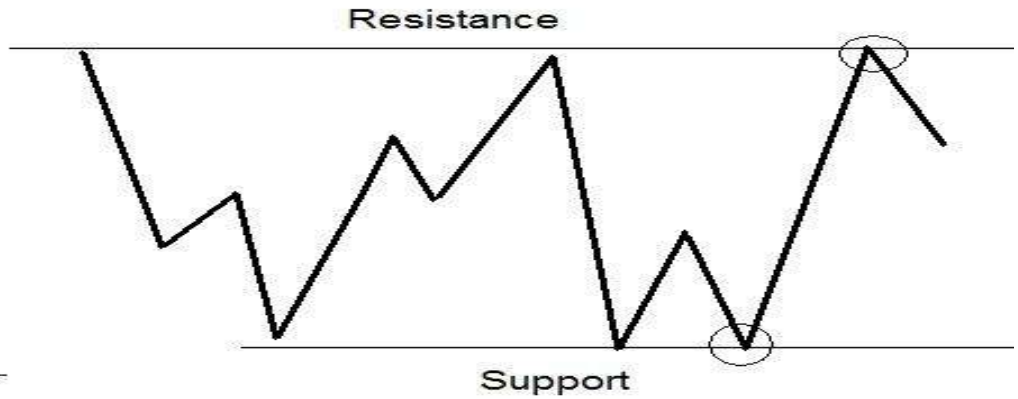
- Rules to trade inside bars
- Rules to trade the Pin Bar
- Rules to trade the Fakey
- Rules to trade combo pin bar / inside bar
- Rules to trade false breaks
- Rules to trade support and resistance
- Rules to trade swing points in trends
- Rule to use counter trend moves to enter existing trends
- Risk Reward , stops and targets
- Sizing your Positions

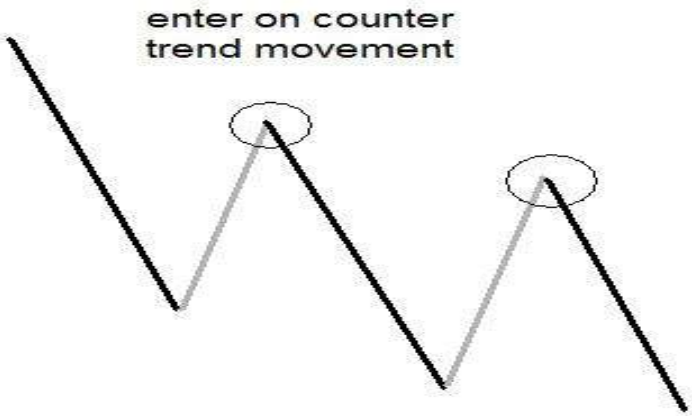
Price action Check list

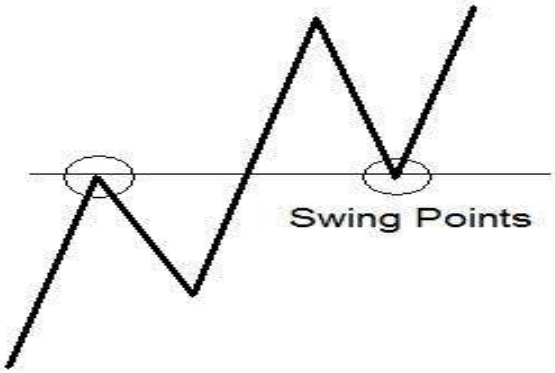


Price Behaviour Check List









PIN BAR RULES

- We will trade a pin bar it forms

1 . With the trend, (with the slope of the general chart)

2. From a clear support or resistance point which has already been confirmed in the recent price history.

3. Forms at a counter trend reaction point within a swing, or retracement

FAKEY RULES

- We will trade a Fakey if it forms

1 . With the clear prevailing trend, slope of 8 and or 21 day ema.

2. Near the most recent high or low of the current trending move. (must always be in line with the slope of trend), this acts as a continuation.

2. At a counter trend reaction point or at a swing point or key s and r level within an existing trend.

3. If against the trend, it must be In combination with something strong, such as a pin bar or a significant major s and r level.

Work on Your own Plan

- A trading plan is not mechanical in any way shape or form. It is subjective and personal to each trader. It is "Your Guide".

- Simply make a set of filters and screening techniques, that are logical and simple to follow. It is a guide for you to follow, to make sure you stay out of trouble and avoid making emotional and spontaneous decisions. It is not a system or strategy, it is as I say "Your Guide" to staying on your game and avoiding stupid mistake.

Write Your Own Daily Recap

- I personally write reports and create market summaries every day. This has done wonders for my trading.

- Through repetition and habit, the market is now like reading a book. Eventually charts become a second language and by writing a daily recap or report for yourself, you will soon get into a mental habit which dramatically increases your skill to pick setups and read key levels.

- Each day, note the price action events or signals on the daily and 4 hour charts, then
- Mark your key levels and swing points, noting any prior price action signals which also may have occurred at or near those levels on the chart.

- Mention you bias, or trend bias on each chart based on the slope of the mean , or slope of the price action, and mention the most obvious recent events which have occurred to support this view. EG- did we just break down below a key level and form a price action signal? Did we just rally up into resistance, stall and reverse? Make sure you note it all down in your daily review.

- Your daily snap shot, recap or review, is your own personal , real time market diary, and you MUST keep it private and confidential.

- I can tell you that if you keep this diary every day of a few pairs, soon , you will become extremely talented at chart reading, it's simply a matter of time.

Trade Setup Examples

I have compiled a new section in the New Members Portal called "Trade Examples", where I post up many chart examples of my price action setups from the past with notes and annotations. This will go hand in hand with the course notes and videos.

It will surely be a good guide for those who don't fully understand the theory in the course notes. You should be able to go to the trade examples section of the members area and look for your setup and see many examples of it with explanations.

This is a superior area of the members area, please use it, but also remember to find your own examples on your own charts for practice.

It will be updated periodically, check back from time to time.

Capital and trade management

Money Management
Risk Control , Trade Planning.

Risk and Return– $'s not pips' or %'s

- Let me make this point very clear.
- Risk and Return is to be thought of as Dollars risked or dollars earned, It is not to be though of as percentages or PIPS.

- Because Pips Gained or Lost only tells half the story. How many lots you trade will dramatically effect your Dollars Risked or Earned, thus no trader should ever measure returns as just PIPS !!

- This is why traders have issues trading with a large stop loss, they are thinking in PIPs, not $'s Risked, a big mistake for novice traders.

- The Following 6 Pages Was Dedicated to Money Management and Tells The Truth about How a Pro Trader Thinks about Capital Risk and Return and Trade Management.

Part 1

- **Forex Risk Management - Why Position Sizing is More Important than Pips Risked**
- Position sizing is a tool that is very often ignored or that many traders simply do not know anything about. Position sizing is very important in forex trading and anyone actively trading the forex market needs to fully understand why it is important and how powerful it can be in regards to helping you manage your emotions. It is far more important to measure your risk on each you trade you take in dollar amount risked as compared to pips risked. Many novice and experienced traders alike mistakenly assume that wider stop losses will require them to take on bigger dollar risks and that smaller stop losses will let them incur smaller dollar losses. This is a false assumption and is a big reason why you need to understand the role that position sizing can play in your forex trading success.
- **The forex market offers the most flexibility in position sizing**
- If you are one of the many forex traders who has convinced themselves that position sizing and risk management is not important because your trading system or method is just so accurate or because you are feeling like your recent winning streak will never end, than you need to read this article more than anyone. The forex market offers extreme flexibility in position sizing; this is one of the biggest advantages that forex traders have over people who trade stocks or commodities. One standard forex currency lot is around $10 per pip, depending on what pair you are trading. Almost all forex brokers now offer mini-lots as the default position size, the smallest value for a mini-lot is approximately $1 per pip, and once again this depends on the currency pair you are trading in. Many forex brokers now even offer micro-lots, these effectively allow you to trade as small of a position size as 1 penny per pip, however most brokers only go down to 10 cents per pip. This extreme flexibility in position sizing allows people to open a forex trading account with as little as $250 and still have a fighting chance at building it up. Compared to commodity futures or stocks the flexibility of position sizing that forex offers is not even close.

Part 2

- **A quick lesson on position sizing**
- Position size is essentially the number of lots you are trading per trade, whether they are standard, mini, or micro lots. For example if you are trading 2 mini lots of GBPUSD than this means you have either bought or sold $20,000 worth of U.S. dollars and depending on whether or not the exchange rate between the British Pound and U.S. dollar moves in your favor you will win or lose an amount of money equal to $2 per pip X number of pips moved. So if you made 100 pips you would have profited $200. So that we can understand the math behind this we will look at it from a different angle; if GBPUSD moved from 1.5600 down to 1.5500 that would be a 100 pip move, which is actually equal to a 1 cent price difference in the exchange rate of GBPUSD. So, we now take .0100 x 20,000 and this equals $200.
- To break this all down 1 standard lot allows you to control approximately $100,000 worth of currency and is worth about $10 per pip, 1 mini lot lets you control about $10,000 and is equal to $1 per pip, 1 micro lot lets you control about $1,000 and is equal to about .10 cents per pip. Thus, if you open a standard lot trading account and elect to trade mini lots, 1 mini lot would be .10 standard lots, 5 mini lots would be .50 standard lots, etc. If you open a mini lot trading account and elect to trade micro lots than 1 micro lot would be .10 mini lots and 5 micro lots would be .50 mini lots, etc. So in conclusion, the actual "size" of your position depends on whether you have a standard or mini account and how many lots you are trading, micro lots are generally a function of the mini account and most brokers don't offer strictly micro accounts. This information is important to know so that you can build your understanding of position sizing on a solid fundamental base.

Part 3

- **Position sizing and the risk to reward ratio**

- It is absolutely paramount to your consistent profitability in the forex market that you understand the importance of the risk to reward ratio and how it relates to position sizing. Before entering any trade you need to know the exact dollar amount you want to risk and the exact reward you think you can make on the trade. At no point should you ever take a profit that is less than the amount you risked on the trade, you will see why this is so important in a minute. Once you have determined the dollar amount you want to risk than you adjust your position size to meet this amount. If you are trading micro lots and want to risk $50 on a trade with a 100 pip stop loss than your position size will be .5 (remember 5 micro lots would be ½ of 1 mini-lot), .5 x 100 = $50. So you would have a position size of .5 mini lots (5 micro lots), risking $50 with a per pip value of .50 cents.
- Risk to reward ratio is very important to understand. If you risk $100 on a trade and your target is set at $200, than you are doubling the amount you risked if you win, this is a risk to reward ratio of 1:2. It is important to realize here that with a risk to reward of 1:2 you can lose on over 50% of your trades and still make money over time, in fact you could LOSE 65% of your trades with a risk to reward of 1:2 and still make money. Over a series of 10 trades if you win only 35% of them with a risk to reward of 1:2 you would profit $50 if you risked $100 per trade.

- Here is where the power of the risk to reward ratio comes into play. Many traders erroneously believe that they must win a very high percentage of their trades to make money in the market. The fact is that winning percentage is nearly irrelevant in whether or not you make money over the long term. What is important is if you are taking advantage of the risk to reward ratio. For example, if you maintain returns of 3 times the amount you risk your risk to reward ratio is 1:3. This effectively means you can lose 7 out of 10 trades and STILL make money. At $100 risk you would lose $700 on 10 trades, but you would make $900 off your 3 winning trades because your risk to reward was 1:3, thus you profit $200 even though you lost 70% of the time. You should be starting to see how this works now , why having a high winning percentage is not relevant, and why it is crucial that you maintain a risk to reward of 1:2 or higher for every trade you take. The fact is it is very difficult to win more than 50% of your trades in any market, most professional traders only win about 50% of the time at best over the long run, but they understand the power of the risk to reward ratio so they still are able to make very good money.

Part 4

- **Risk is measured in dollars not pips**

- Position sizing allows you to adjust the number of lots you trade to meet the amount of money you want to risk per trade. This allows you to use wider stops but still maintain your desired dollar risk. Many forex traders mistakenly believe that a wider stop loss will mean a bigger risk. If your desired risk amount is $100 but you want to place your stop at a level that is 200 pips from your entry, than you simply adjust your position size down to meet the dollar amount. For example, let's say you are trading mini-lots of GBPUSD, a $100 dollar risk with a 200 pip stop loss would need a position size of .5 (or 5 micro lots), you would be trading ½ of 1 mini lot which would be .50 cents per pip, .50 x 200 =$100. So, just because you increase your stop loss distance does not mean you need to increase your risk. Many people will adjust their stops but not adjust their position size; this is a major error and is a main cause of blown out trading accounts. If you start out risking $100 with a 100 pip stop but then decide to move your stop up another 100 pips you have just increased your risk to $200 ($1 per pip x 200pips = $200). This is a cardinal sin in trading and one you can't afford to commit. You need to define your risk in dollars BEFORE entering the trade and then adjust your position size accordingly to meet the desired stop loss distance so as to maintain the desired dollar amount risked.

- Similarly many traders think that a smaller stop loss means a smaller dollar risk. This is not always the case however, position sizing will explain this. If Joe Trader has a stop loss of 50 pips but is trading $5 per pip (5 mini-lots) than his risk is $250 on the trade. If Susie Piper has a stop loss of 100 pips but is trading $2 per pip (2 mini-lots) than her risk is only $200 on the trade. As we can see a smaller stop loss does not necessarily mean a smaller risk, position sizing determines your dollar risk on the trade, not pips. So from these examples the take home lesson is that risk should always be measured in dollar amount risked, not pips risked because the size of your position is what determines your risk, not the size of your pips.

Part 5

- **Build your risk management plan around position sizing and risk to reward ratios**

- Traders often hear that they should have a risk management plan but often times the idea of it seems somewhat abstract so they don't give it much more thought, or they just think, consciously or subconsciously, that they are so good at trading they don't need a clearly defined risk management plan. The bottom line here is that you absolutely MUST have a well thought out and clearly defined risk management plan if you truly want to have a fighting chance at making money in the forex market. There is no way around this fact, you can get lucky for a while and make money without managing your risk, but any seasoned forex trader will tell you that luck will only run for so long and the habit of not managing your risk will always come back to bite you, each time harder than the last.
- Risk management does not need to be complicated to understand or difficult to implement. Most trading books or trading websites don't really give any specifics on risk management plans; they just briefly state the importance of them and then move on to talk about some bogus lagging indicator or other nonsense. Here is what you need to include, in order, at the very minimum in your forex risk management plan:

- **Determine your risk to reward ratio on the trade before entering.**

- Based on the setup you are using to enter, where is your stop loss and where is your profit target? If you can't get a reward that at least doubles the amount you risk than don't take the trade. A risk to reward of less than 1:2 is not sustainable over time because it is very difficult to maintain a winning percentage high enough to maintain profitability at a risk to reward ratio below 1:2. Ideally you should aim for a risk to reward of 1:2, 1:3, or 1:4, as these are the ratios with the highest probability of getting hit before any significant retracement occurs.

Part 6

- **Adjust your position size to maintain desired risk amount.**
- Once you have figured out your risk to reward ratio on the trade you need to implement the proper position size to make sure you maintain your predefined dollar risk. The point here is that not all setups are created equal; there is inherently some amount of discretion in any trading method. So depending on the quality of the setup you may decide to risk more or less than usual. Whatever amount you decide on you will need to make sure you adjust the position size to meet the desired stop loss level so as to maintain your dollar risk.
- **Realize that dollar amount risked per trade is somewhat discretionary.** Forex trading is more art than science; conditions can be volatile or quiet, trending or consolidating, or any combination of the four. Any trading method will inherently provide some degree of discretion, unless you are trading a "robot" system, which never work in the long run. As such it maybe in your interest to risk slightly more or less depending on the quality of the setup at hand. This is where screen time and experience come into play. A general rule of thumb is to risk less than 3% per trade if you are a beginning trader who doesn't have much experience with the method being used. As you grow in experience and screen time you can risk more or less depending on if you think conditions call for it. This is a very advanced method though and traders who do not have years of experience under their belt should never risk more than 3% per trade. Just keep in mind that risking too much on any one trade will very likely impact your psychological stability and could cause you to spiral out of control and commit a whole host of emotionally charged trading mistakes.

Managing Your Capital

- **1. Minimize losses**

- The number one reason why most new currency traders don't trade for very long is because they fail to keep losses small. When you lose money in trading, you have less capital to work with. Therefore, to make back what you lost, you have to earn a substantially higher percentage return than what you lost. Keep your positions sizes small initially and apply stop losses.

- We are not trading forex to gamble. It is paramount that you protect your trading balance. If you lose 25% of the money in your account, you should stop trading live and go back to demo trading until you trade profitably.

Managing Your Capital

- **2. Aim for Consistency**
- Try to earn steady returns month after month, set yourself goals and be prepared to walk away once your targets are hit. Overtrading kills traders.
- **3. Protective Stop Losses**
- All good trading methodologies use stop losses.
- A protective stop loss is an order to exit a long or short position should prices move against you to a specified price. The stop loss insures against an unusually large loss and has to be used in one way or another.
- An initial Stop loss can be placed with your order on the trading platform. The trade will be closed automatically if the stop loss is hit. This type of stop loss will allow you to walk away from the computer to watch TV, talk to people or leave the building. It is the ideal stop and is used by most successful traders. You can still close the trade manually before price reaches your target if the trade doesn't look like it will go your way. If you buy (go long), your stop loss will be below the market. If you sell (go short), your stop should be placed above the market.

Managing Your Capital

- **Mental stop loss/Time stops**

- This is the point you choose for an exit if the trade does everything possible to do the opposite to what you expected. This does not mean to panic or succumb to emotions. The best example would be if you enter a trade, and for the next 5 days the market goes up and down in a narrow range, voiding the initial trade setup. It might be that you use a mental stop loss and also use a normal stop loss as a back up just in case things go wrong. Naturally, the broker can't hit a mental stop because he can't see it.

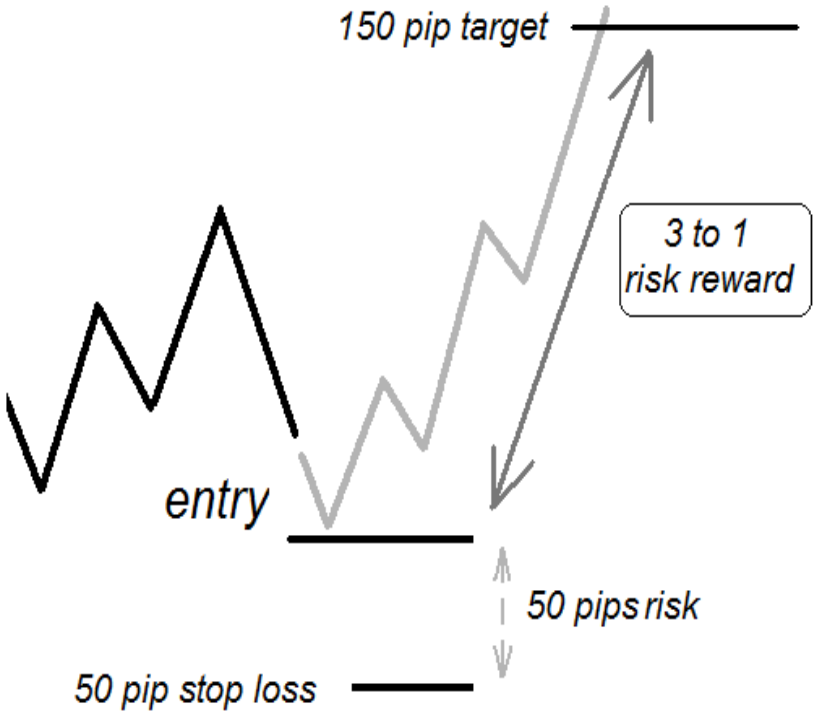
- **Trailing Stop Loss**

- Trailing stops are not essential. This involves the trader moving the stop loss as the trade moves in his favor. Eg, In a long trade, the EURUSD moves up steadily from the entry at 1.2300 to touch 1.2500, the trader will trail his stop loss to 1.2300 to lock in break even, allowing the open profit to run. These are very advanced orders, discussed later.

- **Emergency stop loss**.
- If you are trading very short term, without a stop loss, (not suggested).
- This "emergency stop loss" is a standard stop loss order placed 100 pips below or above your entry price to protect your capital in case you have a computer failure, loss of internet service, sudden unexpected news event spike etc. Let hope you never trade in this manner.

Risk and Reward

- A positive risk/reward ratio of 1:3 would mean we would be risking say 50 pips to make 150 pips. This is better than a negative reward ratio of 2:1 where we could risk 50 pips to make 25 pips.
- Winning percentage is irrelevant when we incorporate a solid risk reward scenario in our trading. If our profits are larger than our losses, over time, our account should grow.



Position Sizing

- **Right-sized trades can be the difference between loss and gain**

- Position sizing is the process of determining how much to invest, or risk, in any single trade. Position sizing is different for active trading, versus longer-term investing. In the case of short-term trading, it is usually a function of how much you could lose if the trade went bad.
- In longer-term investing strategies, position sizing is a bit more complicated and may depend on the strategy at play. In this section, we will focus on sizing positions for short-term trades.

- **Decide your risk tolerance, and stick to a plan**

- The benefit of position sizing is to help you predict and control the affect your trades have on your portfolio's value. Too many traders invest inconsistent amounts in each trade.
- Being inconsistent, or over investing in a single trade, will lead to draw-downs in your account that could wipe you out. Knowing how much you have at risk in a single trade compared to your total portfolio will help your investing become much more stable.
- Good traders sometimes differ on how to calculate the risk, or maximum risk, of any particular position. We believe using the distance between your entry point and your stop loss is the most effective way to determine the maximum risk amount.

- To size your position, you need to know how much money you have in your account, what percentage of your account you are willing risk and what your stop loss is. Imagine that you have an account with $10,000 in it and you are willing to lose 2 percent in a bad trade. You are considering a long position on the EUR/USD at 1.5000 and feel you need a 50-pip stop loss for that trade. You are now ready to calculate your position's size

- **Formula for calculating a position's size:**

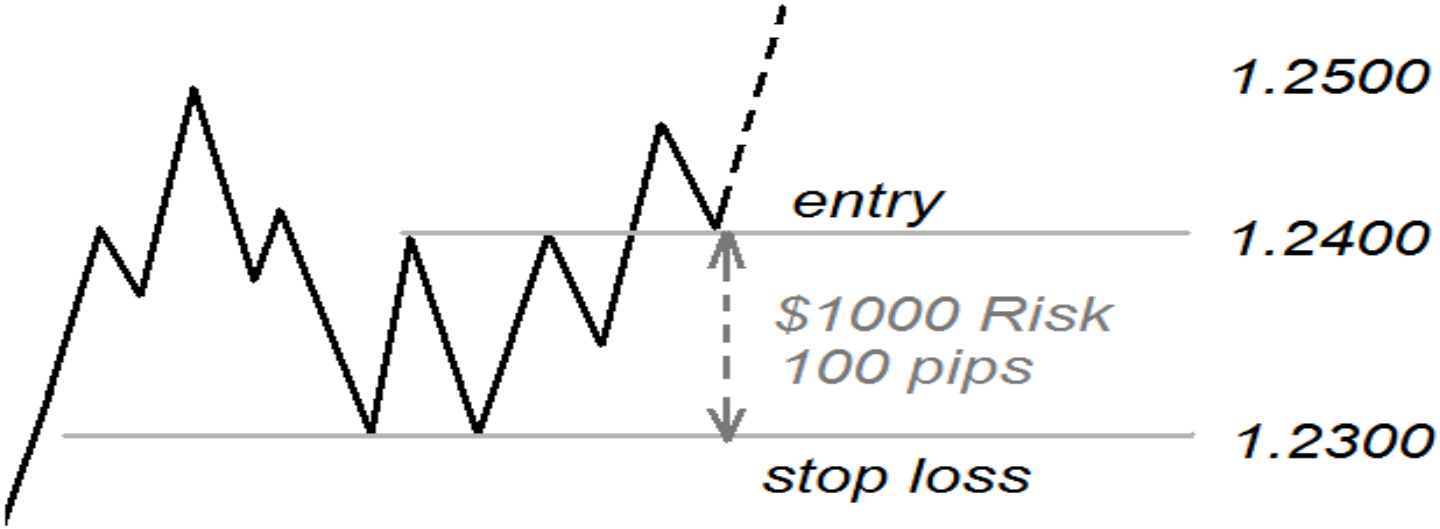
  (Account Value x Portfolio Risk %) / $ value of stop loss = Position size
  ($10,000 X 2%) / 50 pips = 4 mini lots

- We use the stop loss to calculate maximum risk in the forex because a forex position is a margin position. That means that there is an obligation on the trader's part to make good on losses, but there isn't a transfer of ownership in the currency. You are not actually taking possession of $10,000 worth of currency when you trade a mini lot. What you really own is your obligation, and therefore your position sizing should be based on this rather than the entire notional value. This is unlike a stock trade, where you could ask for delivery of the stock certificate itself.

Quick Guide - % Risk Control

- What risk/account ratio should a trader use? Professional traders vary in their opinions and risk 1.5%, 2%, 3% or 5% of their total account on each trade. When starting out, It is preferable not to risk more than 2% of the value of your account balance on any single trade. If your account balance is too small or you choose too much leverage, your stop loss will be small and likely to be hit.
-
- For example, with a $5,000 account using a 25 pips stop and risking 2% of the account, you would trade 3 mini lots. 2% of $5,000=$100.
- $100/25pips =4 mini lots if one mini lot is worth $1 a pip.
-
- For a $50,000 account, 2% of $50,000=$1000.
- $1000/25= 40 mini lots or 4 full size lots at $10 a pip.
-
- For a $40,000 account and a 50 pip stop loss, 2% =$800 = 800/50=16
- mini lots or 1.6 full size lots.

Stop Loss Calculation



$1000 / 100 pips = 10

We can trade 10 mini lots or 1 Full lot

1 mini lot = $10,000 , 1 full lot = $100,000

Mastering Market emotions and Metal Psychology

Trading Psychology

Market Psychology

- A great trading method will be useless without mastering your own emotions and learning about market psychology.
- **Fear**
- Fear can be due to the fear of losing money, the fear of being wrong, the fear of the unknown, the fear of missing out and the fear of leaving money on the table.
- Fear can immobilize a trader and lead to inaction. It can drive out knowledge. Fear can be managed by learning to manage emotions and small fears. Try to remain unruffled and centered.
- Be able to accept consecutive losses without replacing your method. Winning traders take positive action despite their fear. Protect your capital with stop losses. Each and every trade does not have to be a winner.
- You must be prepared to accept financial risk for something you have no control over the outcome if you want to be a consistently successful trader. Trading is a probability game and nothing is certain.
- Don't try to pick the winning trades instead of accepting the losses that come with the methodology you are using. If you have 5 losing trades in a row, you must put the next trade on .All methods have some losses and you are not a loser because your trade is a loser. Remain non-judgmental about yourself each time you feel you have done something wrong. Mistakes will happen. No-one is a perfect trader so doesn't beat yourself up if you make a mistake. Any money lost is a donation to other traders
- Don't say "I should be trading better." or "I should have caught that move" or "I should have already made x dollars this year". Don't listen to negative thoughts. Focus on what you are trying to achieve. Test your method and refine it so you know it makes more money than it loses over time.
- Trade only with money you can afford to lose and set realistic goals. Don't try to make $500,000 in your first year. Trade in a calm and unemotionally attached state. Know what you are good at and what you are not good at.

Market Psychology

- **2. Greed**
- Aggressive traders will enter too many trades or stay in trades too long and the trade will turn against them. There is no need to become greedy in a trade as another good trade opportunity will be along very soon. Don't try to have one big trade that will make you wealthy.
- **3. Overconfidence**
- An overconfident trader might trade too frequently or take on too much risk for too little reward. Get to know how successful a pattern has been in the past. Don't go with a hunch and jump in without thinking or doing your homework.
-
- Euphoria is the feeling you can do no wrong. Since trading is a game of probabilities, traders will experience times when they can do no wrong but these times are temporary. The danger is that a trader will take one risk too many and end up with a huge loss.
- **4. Confidence**
- Successful traders build up a lot of confidence by using their method again and again until they know how successful their method is.

Market Psycology

- **5. Inability to pull the trigger**
- If you are a currency trader, you want to be paid for the time and effort you put into trading. You have to be in the market to make money. You have to make a decision quickly or the trade will pass by or you will enter the trade when price is retracing or near the end of the move. Put the trades on swiftly and decisively. Don't procrastinate or over-analyze.
- There will always be some doubt in your mind. That is the nature of trading. Follow your trading plan. Control your emotions. Do not trade with built-in excuses for failing. Preparation and understanding is required. Develop good trading habits. Wait until the trade setup becomes clear before taking action. If you use mental tops for exits, you must take action there too.
- **6. Exiting a trade prematurely**
- Some traders bail out of a good trade as soon as it starts to retrace slightly. Later, price moves in the direction they picked. This is very frustrating as successful traders let their profits run to their targets. Price zig zags. Retracements are expected. Price does not go straight up or straight down all the time.
- Some traders will exit a trade as soon as they are up by 5 pips, 10pips etc. They could have banked a lot of pips if they allowed the trade to travel to their chosen target.
- Some successful experienced day traders place a trade with a stop loss and a limit order to take a profit at a certain level and then they walk away from the chart and watch TV or go for a walk so the trade has a chance to develop without interference by the trader.

Market Psycology

- **7. Judgment**
- Eventually, traders will develop good judgment and intuition from their experience. Therefore, don't give up. Your trading will improve with time and persistence. Screen time, and good gut feel develop your abilities over time.
- **8. Checklist**
- By using a checklist or trading plan, you will not overlook a setup or pattern you should have noticed. Your trading checklist will also give you more confidence.
- **9. Working at your craft**
- You've got to love finding the patterns, discovering the patterns and researching. Most good traders love the game for itself. Getting paid for it is a bonus. For successful traders, trading is fun and their rules are executed flawlessly.
- **10. Discipline**
- A trader must pull the trigger when an entry signal appears on the chart and calculate the stop loss point. If there is no signal, the trader must not place a trade. Don't deviate from your methodology once you start. Trade your method over and over again to exploit the edge. Repetition builds your skills.
- Discipline determines a trader's commitment to following trading rules, handling emotions and sticking to money management rules. The forex market will pay you well for discipline.

Market Psycology

- **11. Commitment**

- A trader should have a passion to succeed in trading and enjoy it. Be willing to do whatever is necessary to achieve your goal. Commitment will ensure that the trader can go through the occasional losing streak and trade profitably after it. Successful traders are highly goal- orientated, disciplined and ambitious people.

- **12. Focus**

- Try to avoid interruptions from friends and relatives if. Do not try to learn more systems and entry methods, you must stick to what you have and concentrate. All traders feel a natural urge to want more, to keep searching. They loose money and they believe they have made a mistake. This kind of thinking is very wrong. Surfing the internet , reading to many books, doubting what you are doing, are all clear signs you lack clear.

- **13. Patience**
- Don't get bored and take unnecessary trades .Wait for the right setup to come along. Trade setups. Trade with more precision.

- **14. Consistency**
- Keep trading simple and follow rules so you can make money on a consistent basis. Profits will vary from week to week, and yes you will have some losing weeks or months. Try to be on the sidelines , rather than in the market as much as possible. Wait patiently for setups, set your trades up and be walk away. Being consistent is about brining every attribute of successful trading together and implementing it day in day out,.

More On This Topic Added Soon

- More Articles on Trading Psychology will be added soon.

Course Closing Summary

- You have now just spent a few hours reading through this price action trading course, you have seen the various concepts I put forward, I have disclosed my trading mindset, all my wisdom and knowledge, You know all my tools, all my price action entry methods etc etc.
- You should understand the basics of price dynamics, trends, the way we find trends, they way we trade price patterns within trends etc etc.
- Regardless of what methods you liked, I want you to pick a few and master them. A novice could start with trend following approaches and use price action signals to enter intraday or from daily charts.
- Now that you have this information, what are you going to do with it? If you want to keep studying it, go ahead, if you want to trade with it, <u>you need to put a trading plan together and do it</u>.
- Your trading plan will revolve around how much you risk per trade, your desired risk reward per trade and of course maintaining the discipline to enter the setups you choose!. Daily charts are a good place to start.
- Naturally some of you will still be confused about some topics, so re read the course and watch videos and look at your own charts, everything will come together if you follow just a few setups that you instantly take a linking too. Personally, I love trends, and I use all my time to find setups in trends with my Fakey, pin bar and inside bar entries.. I master these only.
- There are well over 10 strategies you have been shown in this material, some will make you wealthy if you master them, some will make you poor if you follow just that single method alone. Honestly, you need to find a few , not just 1, but not all of them, use the ones that that are mixing well with your personality and fit into your time restrictions.
- Now its time to make your plan, the next few pages describe the basics of my own trading plan.

Closing tips

I use New York Close candles. www.fxlite.com or www.tradestation.com provide these charts.

- Each day when I wake up , I scan through the following currency pairs I identify any obvious price action signals such as an inside bar, a pin bar, or a Fakey setup.
- If I spot inside bar formations with the trend, I look for continuations, but if its against the mid term trend , I note a potential Fakey is in the making, remember, the Fakey setup is unconfirmed at this point, so that's a pending trigger I note. After a daily pin bar I typically will wait for a 38-55% retrace of the pin bar to enter. If the market is trending, certainly I try to take daily pin bars instantly if the trend was already strong and moving fast.
- I will have already had key support and resistance marked on my charts, but I will then amend these lines on the charts if things have changed overnight. A move in the markets will obviously change my key short term swing support and resistance, so I note those levels clearly.
- I take note of the current short term trend on the 8 and 21 day EMA chart as well as the 1 hour 150 and 365 EMA.
- I bring it all together and decide what setups I like. I decide if the market is at a trend line, following moving averages, or nearing obvious short term or long term horizontal support and resistance etc. Do the any signals occur near the relevant areas or did they form with the broader trend?
- If the market was previously going sideways, was there any obvious intraday trend move that broke a key support or resistance level overnight? If there was, I need to note that level on my chart.
- Most Fakey setups work best with trending markets, or right next to support or resistance, or key retracement points, so the trigger is only taken if I can clearly decipher this.
- Daily Inside bars are taken if they clearly form with an existing strong trend, when I take an inside bar break out, ideally I want the inside bar to have been the tightest bar than the last 4 or even 7 days. (nr4 and nr 7 days). The less nearby resistance or support , the more potential the inside bar pattern has to move in our favor, if there is a nearby level, you might want to wait for support or resistance to break before entering inside bar.
- Daily inside bars are noted regardless because they can become a Fakey setup
- If there is a strong trend on the daily chart, , with a clear stepping price action in once direction, I will be actively looking to enter a trade in the direction of that trend, using a counter trend move to enter at the 8 21 or 50 day EMA "value" areas. This applies to the hourly trend charts as well.
- Daily pin bar with an inside bar after it is powerful and trigger is usually taken every time if the trend agrees, or if the signal occurs at or near a very obvious significant key horizontal level.

Tips for intraday trading

- I will trade 240 minute pin bars when market is clearly trending on one side of a trend line or with the direction of a sloping 150 EMA
- I will trade the 240 minute pin bar , 240 minute Fakey or 240 minute inside bar in direction of obvious current trend.
- When trading the 150 hour and 365 hour EMA trends, ideally we enter from hourly signals or in combination with 240 minute charts.
- On the 240 minute and 1 hour chart, I will look for a **false break** of a key support or resistance swing level (recent highs and lows) these areas often have signals around them.
- I will trade 240 minute pin bars and inside bars when market is clearly trending on one side of a trend line or with the direction of a sloping 150 hour EMA. (we obviously combine charts to make judgment).
- Large 1 hour pin bars or 1 hour Fakey from inside bar clusters which form in line with a strong trending move are obvious signals! New highs or lows in a trend are a good clue to strong trends.
- You may wish to use a 1 hour or 240 minute inside bar or pin bar to help decide weather to take signals from the daily chart. Remember, the charts we use work best when they are all aligned. Great pin bar setups on the daily chart are often confirmed via intraday signals too, either the same day or next day.

My Final thoughts

- Regardless of stop loss order placement and target profit order placement, if you learn to master just several price action strategies, and have these basic conditions present on the charts, you are well on your way.
- Your edge is price action, learn to read charts and keep a look out for key levels, pin bars, inside bars and false breaks (Fakey).
- Over time you will develop into a good trader by applying your own money management, stop levels and target levels. I can't give you those levels, because the market is always changing. I have given you the signals that work for me, now you must learn to look for them and manage your trades how you feel comfortable.
- I will say it again, there is no system or correct method to enter and exit. The only systematic part of my trading is the price action entry trigger itself, once I see the entry conditions, I look for logical stop placement and target placement, and if I apply a risk reward of 2.5 to 1 or greater, my account profits tend to take care of themselves
- Remember, markets can only move by xyz percent per week, so if your stop is wide, your profit target will also be wider, and your looking at a time horizon of a days to weeks.
- Remain patient and don't stuff around with a trade setup once it is on.
- The course content is a work in progress and you will get 10 times the value of what you have paid for.
- It takes time to put this content together and I am learning how to explain things, so please be patient.

- Good Luck and safe trading
- Any questions? Email me:
- mavericktrading@bigpond.com
- Nial Fuller

Contact Me With Questions

- You Can Contact Nial Fuller with Questions on Course Content at the Following Email
- MaverickTrading@bigpond.com
- Or Use the Contact US section of the Website.