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Cooking In The Forex

"The Forex can make your wildest dreams come true...BUT it is not a get rich quick scheme...it requires work, study, continuous education, discipline and perseverance". Scott Barkley

Thank you for taking the time to download this Cooking In The Forex e-book. First, let me say that I want you to succeed. Like most traders, when I first saw the Forex market I said to myself:

"How hard can this be...you buy low and you sell high. This is a cakewalk."

Several thousand dollars in the hole later, I realized that it was not the cakewalk that I envisioned. I expect you are there also.

There are literally hundreds of Forex Training books out there. I have read most of them. I picked up lots of pieces along the way. That is one of the problems with trading. As I explain to my students, the Forex is like getting a 5000 piece jigsaw puzzle everyday, with all the pieces mixed up and someone has taken away the box cover. You must figure out what the puzzle is by putting one piece at a time into the puzzle and then suddenly, one piece goes in and you suddenly know what the box cover looks like. All of the books I have read and all the traders I have met have contributed their pieces of the puzzle.



This is a Cookbook for the Forex. I spent 15 years in the Restaurant Industry. In those days I was an avid collector of recipe books; but I noticed one thing about all cookbooks. In order to justify the high cost of the cook book, they went on and on about how to make a dish and at the end they could have told you how to do it in one page. Frankly, I don't need three pages to tell me how to scramble eggs.

That is the thought process behind this little book. The Forex, while complex, is **NOT THAT HARD**, and **NOT THAT COMPLICATED**. There are lots of books on the market to tell you just how hard it is. This book is designed to distill the major pieces into a simple "easy to digest" system. I have trained hundreds of successful traders. Many have gone on to far loftier trading heights than I can ever attain. I say that with pride since the greatest thing a Mentor can do is point to a student who does better than they do. **EVERY** successful trader I have ever met, sat under their tutelage, taught or interviewed can tell you EXACTLY how they trade, what indicators they use and how they execute... in less than a minute. Whatever system they

are using, it is always the KISS principle (Keep It Simple). So if you are looking for complicated systems and complicated answers skip this book.

However, if you are looking for some simple pieces to the puzzle that hopefully will take you to the next level then read on.

If you are a moderately experienced or experienced trader, skip the first part. It is boring but necessary for those just starting.

When it comes to successful Forex trading, there are two basic strategies used by the majority of traders: fundamental analysis and technical analysis.

Fundamental Analysis

In fundamental analysis, Forex traders look for causes that might trigger market fluctuations. These may include political activities, financial policies, growth rates and other factors.

As you can imagine, fundamental analysis of the Forex market can be fairly difficult. For that reason, most traders use fundamental analysis only to predict long-term trends.

But a few use fundamental analysis for short-term trades. They review different currency value indicators that are released several times throughout the day, such as:

- Consumer Price Index
- Purchasing Managers Index
- Non-farm Payrolls (the mother of all Fundamental Announcements)**
- Retail Sales
- Durable Goods

In addition, there are meetings held that provide quotes and commentary which may affect markets. These meetings, such as those of the Federal Trade Commission, Federal Open Market Committee, and Humphrey Hawkins Hearings, often discuss interest rates, inflation and other issues that have the ability to affect currency values.

Examining the meeting reports and commentary can help Forex fundamental analysts to better understand long-term market trends, and also allow short-term traders to profit from important activities and events.

If you decide to follow a fundamental analysis strategy, be sure to keep an economic calendar that shows when these reports are released. Your broker may also be able to provide you with real-time access to this kind of information via the internet.

Technical Analysis

The more popular strategy for Forex traders is the technical analysis. Technical analysis of Forex trading includes the use of graphs, charts and other methods of measuring past data to see the indication of the rise and fall of currencies.

In other words, to spot trends.

This is similar to technical analysis for equity trading, except for the timeframe--Forex markets are open 24 hours a day. Because of this, some forms of technical analysis that factor in time must be modified so they will work with the 24-hour Forex market.

Note: this e-book is for those interested in TECHNICAL ANALYSIS. Fundamental analysis is for the BIG institutional trader and is not addressed in this e-book.



Into the Kitchen – or what the heck is all this Forex trading stuff about

In 1967, a Chicago bank refused a college professor by the name of Milton Friedman a loan in pound sterling because he had intended to use the funds to short the British currency. Friedman, had perceived sterling to be priced too high against the dollar, wanted to sell the currency, then later buy it back to repay the bank after the currency declined, thus pocketing a quick profit. The bank's refusal to grant the loan was due to the Bretton Woods Agreement, established twenty years earlier, which fixed national currencies against the dollar, and set the dollar at a rate of \$35 per ounce of gold.

The Bretton Woods Agreement, set up in 1944, aimed at installing international monetary stability by preventing money from fleeing across nations, and restricting speculation in the world currencies. Prior to the Agreement, the gold exchange standard--prevailing between 1876 and World War I--dominated the international economic system. Under the gold exchange, currencies gained a new phase of stability as they were backed by the price of gold. It abolished the age-old practice used by kings and rulers of arbitrarily debasing money and triggering inflation.

But the gold exchange standard didn't lack faults. As an economy strengthened, it would import heavily from abroad until it ran down its gold reserves required to back its money. As a result, money supply would shrink, interest rates rose and economic activity slowed to the extent of recession. Ultimately, prices of goods had hit bottom, appearing attractive to other nations, which would rush into buying sprees that injected the economy with gold until it increased its money supply, and drive down interest rates and recreate wealth into the economy. Such boom-bust patterns prevailed throughout the gold standard until the outbreak of World War I interrupted trade flows and the free movement of gold.

After the Wars, the Bretton Woods Agreement was founded, where participating countries agreed to try and maintain the value of their currency with a narrow margin against the dollar and a corresponding rate of gold as needed. Countries were prohibited from devaluing their currencies to their trade advantage and were only allowed to do so for devaluations of less than 10%. Into the 1950s, the ever-expanding volume of international trade led to massive movements of capital generated by post-war construction. That destabilized foreign exchange rates as set up in Bretton Woods.

The Agreement was finally abandoned in 1971, and the US dollar would no longer be convertible into gold. By 1973, currencies of major industrialized nations became more freely floating, controlled mainly by the forces of supply and demand which acted in the foreign exchange market. Prices were floated daily, with volumes, speed and price volatility all increasing throughout the 1970s, giving rise to new financial instruments, market deregulation and trade liberalization.

In the 1980s, cross-border capital movements accelerated with the advent of computers and technology, extending market continuum through Asian, European and American time zones. Transactions in foreign exchange rocketed from about \$70 billion a day in the 1980s, to more than \$1.5 trillion a day two decades later.

Free Floating Currencies

In 1971 and 1972 two more attempts at free-floating currency against the U.S. dollar, namely the Smithsonian Agreement and the European Joint Float. The first was just a modification of the Bretton-Woods accord with allowances for greater fluctuation, while the European one aimed to reduce dependence of their currencies on the dollar. After the failure of each of these agreements, nations were allowed to peg their currencies to freely float, and was actually

mandated to do so by 1978 by the IMF. The free-floating system managed to hold out for several years, but many denominations had failed against the strong currencies.

The Euromarket

A major catalyst to the acceleration of foreign exchange trading was the rapid development of the euro-dollar market; where US dollars are deposited in banks outside the US. Similarly, Euromarkets are those where assets are deposited outside the currency of origin. The Eurodollar market first came into being in the 1950s when Russia's oil revenue-- all in dollars - - was deposited outside the US in fear of being frozen by US regulators. That gave rise to a vast offshore pool of dollars outside the control of US authorities. The US government imposed laws to restrict dollar lending to foreigners. Euromarkets were particularly attractive because they had far less regulations and offered higher yields. From the late 1980s onwards, US companies began to borrow offshore, finding Euromarkets a beneficial center for holding excess liquidity, providing short-term loans and financing imports and exports.

London was, and remains the principal offshore market. In the 1980s, it became the key center in the Eurodollar market when British banks began lending dollars as an alternative to pounds in order to maintain their leading position in global finance. London's convenient geographical location (operating during Asian and American markets) is also instrumental in preserving its dominance in the Euromarket.

The Birth of Euro

Although Europeans were already very comfortable with the concept of Forex trading, much of the rest of the world were still unfamiliar with the territory. The establishment of the European Union in 1992 gave birth to the euro seven years later, in 1999. The euro was the first single-currency used as legal currency for the member states in the European Union. It became the first currency able to rival the historical leaders in the Foreign Exchange market and create the stability that Europe and the Forex market had long desired.



Working in the kitchen (Forex Market)?

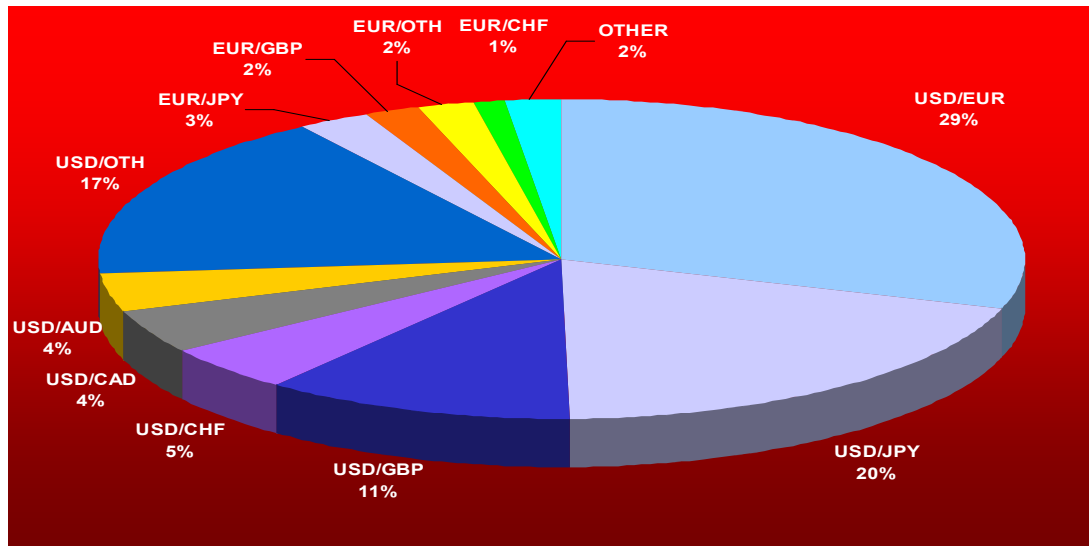
The Foreign Exchange market, also referred to as the "Forex" or "FX" market is the largest financial market in the world, with a daily average turnover of US\$1.9 trillion -- 30 times larger than the combined volume of all U.S. equity markets.

"Foreign Exchange" is the simultaneous buying of one currency and selling of another. Currencies are traded in pairs, for example Euro/US Dollar (EUR/USD) or US Dollar/Japanese Yen (USD/JPY).

There are two reasons to buy and sell currencies. About 5% of daily turnover is from companies and governments that buy or sell products and services in a foreign country or must convert profits made in foreign currencies into their domestic currency. The other 95% is trading for profit, or speculation.

For speculators, the best trading opportunities are with the most commonly traded (and therefore most liquid) currencies, called "the Majors." Today, more than 85% of all daily transactions involve trading of the Majors, which include the US Dollar, Japanese Yen, Euro, British Pound, Swiss Franc, Canadian Dollar and Australian Dollar.

Distribution of Currency Pairs



Source: Stocks & Commodities Dec 03'

A true 24-hour market, Forex trading begins each day in Sydney, and moves around the globe as the business day begins in each financial center, first to Tokyo, London, and New York. Unlike any other financial market, investors can respond to currency fluctuations caused by economic, social and political events at the time they occur - day or night.

The FX market is considered an Over The Counter (OTC) or 'interbank' market, due to the fact that transactions are conducted between two counterparts over the telephone or via an electronic network. Trading is not centralized on an exchange, as with the stock and futures markets.

Understanding Forex Rates

Reading a foreign exchange quote may seem a bit confusing at first. However, it's really quite simple if you remember two things: 1) The first currency listed first is the base currency and 2) the value of the base currency is always 1.



The US dollar is the centerpiece of the Forex market and is normally considered the 'base' currency for quotes. In the "Majors", this includes USD/JPY, USD/CHF and USD/CAD. For these currencies and many others, quotes are expressed as a unit of \$1 USD per the second currency quoted in the pair. For example, a quote of USD/JPY 110.01 means that one U.S. dollar is equal to 110.01 Japanese yen.

When the U.S. dollar is the base unit and a currency quote goes up, it means the dollar has appreciated in value and the other currency has weakened. If the USD/JPY quote we previously mentioned increases to 113.01, the dollar is stronger because it will now buy more yen than before.

The three exceptions to this rule are the British pound (GBP), the Australian dollar (AUD) and the Euro (EUR). In these cases, you might see a quote such as GBP/USD 1.7366, meaning that one British pound equals 1.7366 U.S. dollars.

In these three currency pairs, where the U.S. dollar is not the base rate, a rising quote means a weakening dollar, as it now takes more U.S. dollars to equal one pound, euro or Australian dollar.

In other words, if a currency quote goes higher, that increases the value of the base currency. A lower quote means the base currency is weakening.

Currency pairs that do not involve the U.S. dollar are called cross currencies, but the premise is the same. For example, a quote of EUR/JPY 127.95 signifies that one Euro is equal to 127.95 Japanese yen.

When trading the Forex you will often see a two-sided quote, consisting of a 'bid' and 'offer'. The 'bid' is the price at which you can sell the base currency (at the same time buying the counter currency). The 'ask' is the price at which you can buy the base currency (at the same time selling the counter currency).

Forex Trading Advantage

A 24-hour market - A trader may take advantage of all profitable market conditions at any time. There is no waiting for the opening bell.

High liquidity - The Forex market with an average trading volume of over \$1.3 trillion per day. It is the most liquid market in the world. It means that a trader can enter or exit the market at will in almost any market condition minimal execution marries or risk and no daily limit.

Low transaction cost - The retail transaction cost (the bid/ask spread) is typically less than 0.1% (10 pips or points) under normal market conditions. At larger dealers, the spread could be smaller.

Uncorrelated to the stock market - A trader in the Forex market involves selling or buying one currency against another. Thus, there is no correlation between the foreign currency market and the stock market. Bull market or a bear market for a currency is defined in terms of the outlook for its relative value against other currencies. If the outlook is positive, we have a bull market in which a trader profits by buying the currency against other currencies. Conversely, if the outlook is pessimistic, we have a bull market for other currencies and traders take profits by selling the currency against other currencies. In either case, there is always a good market trading opportunity for a trader.

Inter-bank market - The backbone of the Forex market consists of a global network of dealers. They are mainly major commercial banks that communicate and trade with one another and with their clients through electronic networks and telephones. There are no organized exchanges to serves a central location to facilitate transactions the way the New York Stock Exchange serves the equity markets. The Forex market operates in a manner similar to the way the NASDAQ market in the United States operates, thus it is also referred to as an over the counter (OTC) market.

No one can corner the market - The Forex market is so vast and has so many participants that no single entity, not even a central bank, can control the market price for an extended period of time. Even interventions by mighty central banks are becoming increasingly ineffectual and short lived. Thus central banks are becoming less and less inclined to intervene to manipulate market prices.

For info regarding your rights as a trader check out:

<http://www.cftc.gov/cftc/cftchome.htm>

The following Graphic shows the AVERAGE MOVEMENT in a Currency cross during each market session.

TABLE 1 — CURRENCY PAIR RANGES

The numbers represent the average pip range. Forex volatility is highest during the European trading session, followed by the U.S. session. The two sessions overlap during the busy four-hour period from 8 a.m. to noon ET.

	Asian session 7 p.m.-4 a.m.	European session 2 a.m.-noon	U.S. session 8 a.m.-5 p.m.	U.S./Europe overlap 8 a.m.-noon	Europe/Asia overlap 2 a.m.-4 a.m.
EUR/USD	51	87	78	65	32
USD/JPY	78	79	69	58	29
GBP/USD	65	112	94	78	43
USD/CHF	68	117	107	88	43
EUR/CHF	53	53	49	40	24
AUD/USD	38	53	47	39	20
USD/CAD	47	94	84	74	28
NZD/USD	42	52	46	38	20
EUR/GBP	25	40	34	27	16
GBP/JPY	112	145	119	99	60
GBP/CHF	96	150	129	105	62
AUD/JPY	55	63	56	47	26
All times ET					

Source: Day Trading the Currency Market by Kathy Lien. Courtesy of John Wiley & Sons.

The following is an introduction to some of the basic terms and concepts used in Forex trading.

Foreign Exchange

The simultaneous buying of one currency and selling of another.

Foreign Exchange Market

An informal network of trading relationships between the world's major banks and other market participants sometimes referred to as the 'interbank' market. The foreign exchange market has no central clearinghouse or exchange, and is considered an over-the-counter (OTC) market.

Spot Market

Market for buying and selling currencies usually for settlement within two business days (the value date). USD/CAD = 1 day.

Rollover

The process whereby the settlement of a transaction is rolled forward to the next value date, typically at 5PM EST/10PM GMT. If you open a position on Monday, the settlement date is Wednesday, however, if you hold this position past rollover on Monday, the new value date is Thursday. Most brokers will automatically roll over your open positions, allowing you to hold a position for an indefinite period of time. The cost of this process is based on the interest rate differential between two currencies. Depending on your broker's rollover policy, if you are holding a currency with a higher rate of interest in the pair, you will earn interest, however if you are holding a currency with a lower rate of interest in the pair, you will pay it.

Exchange Rate

The value of one currency expressed in terms of another. For example, if the EUR/USD exchange rate is 1.3200, 1 Euro is worth US\$1.3200.

Market Maker

A market maker provides liquidity in a particular financial instrument and stands ready to buy or sell that instrument by displaying a two-way price quote. A market maker takes the opposite side of your trade.

Broker

A firm that matches buyer and seller together for a fee or a commission.

Pip

The smallest price increment a currency can make. Also known as points. For example, 1 pip = 0.0001 for EUR/USD, or 0.01 for USD/JPY.

Lot

The standard unit size of a transaction. Typically, one standard lot is equal to 100,000 units of the base currency, and 10,000 units for a mini.

Pip Value

The value of a pip. To calculate pip value, divide 1 pip by the exchange rate and then multiply it by the number of units traded. So for example, to calculate the pip value for USD/CHF, divide 0.0001 by the current exchange rate of 1.2765 and multiply it by 100,000 to get a pip value of \$7.83. For EUR/USD, divide 0.0001 by the current exchange rate of 1.2075 and multiply it by 100,000 to get a pip value of €8.28. To convert this back to US dollars, multiply it by the current exchange rate of 1.2075 to get a pip value of \$10.

Spread

The difference between the sell quote and the buy quote. For example, if the quote for EUR/USD reads 1.3200/03, the spread is the difference between 1.3200 and 1.3203, or 3 pips. In order to break even on your trade, your position must move in your direction by an amount equal to the spread.

Standard Account

Trading with standard lot sizes

Mini Account

Trading with mini lot sizes

Margin

The deposit required to open a position. A 1% margin requirement allows you to trade a \$100,000 lot with a \$1,000 deposit. A mini account is 1/10th of a standard account. A 1% margin requirement allows you to trade a \$10,000 lot with a \$100 deposit.

Leverage

The effective buying power of your funds expressed as a ratio. Calculated by the amount of times the notional value of your transaction exceeds the margin required to trade. e.g. 100:1 leverage allows you to control a \$100,000 position with a \$1,000 deposit. You can get leverages as high as 400:1 with some brokers.

Long Position

A position whereby the trader profits from an increase in price. (Buy low, sell high)

Short Position

A position whereby the trader profits from a decrease in price. (Sell high, buy lower)

Market Order

An order at the current market price

Entry Order

An order that is executed when the price touches a pre-specified level

Limit Entry Order

An order to buy below or sell above the market at a pre-specified level, believing that the price will reverse direction from that point.

Stop-Entry Order

An order to buy above or sell below the market at a pre-specified level, believing that the price will continue in the same direction from that point.

Limit Order

An order to take profits at a pre-specified level

Stop-Loss Order

An order to limit losses at a pre-specified level

OCO Order

One Cancels the Other. Two orders whereby if one is executed, the other is cancelled.

Slippage

The difference in pips between the order price and the price the order is executed at.

Ok, now you know your way around the kitchen, let's go cook!



In order to really cook in the Forex you need a few ingredients to be successful:

1. **OUTSTANDING TOOLS**
2. **UNDERSTANDING OF TECHNICAL ANALYSIS**
3. **MONEY MANAGEMENT**
4. **PSYCHOLOGY OF TRADING**

We'll look at each one and see its importance to Cooking in the Forex and especially to the KISS principle.

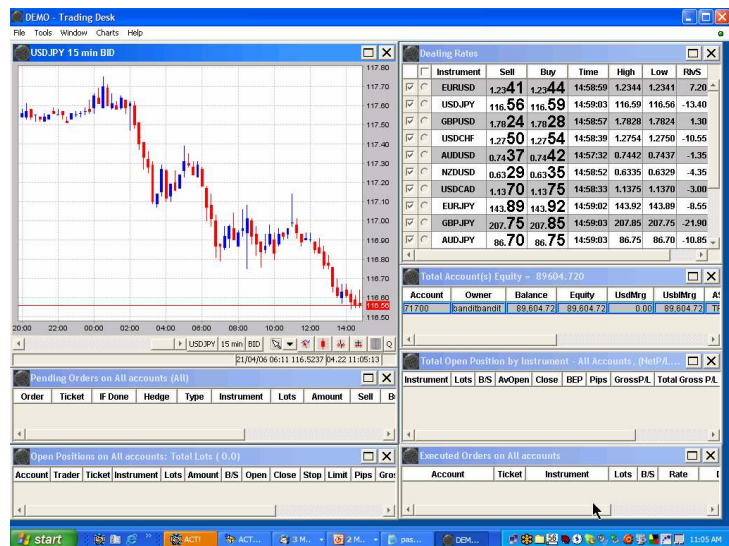
Ingredient #1 - OUTSTANDING TOOLS

Just as a chef needs a stove, broiler and utensils to create their masterpieces, you will need the proper tools to create your masterpieces (Trades).

Broker/Dealing Platform

First you will need a reputable Broker to deposit your money into YOUR account. The Broker must have a **FAST RELIABLE** platform, quote tight spreads, not have any slippage and **NOT HARVEST YOUR STOPS** (the practice of phantom spikes that only appear on their charts and take out your stops for a loss). I have used many and have found those that are lousy and those that are good and would be happy to steer you in the right direction.

Email me at brokers@4xwealth.com for my brokers.



FANTASTIC CHARTING

Second you need phenomenal charts. This is where you do your recipe prep work EVERY TRADING DAY...so they need to be **FANTASTIC**. I have used free charts to outrageously expensive charts and **NONE** compares to these charts. We spent over 3 years developing Charts for Traders. Imagine **Traders** developing charts for **Traders!** These charts have the added advantage of giving **EXTREMELY RELIABLE** Entry and Exit signals and confirmation signals built into the charting system.

Email us at charts@4xwealth.com for our AWESOME charting system.



Ingredient #2 - THE MEAT - UNDERSTANDING OF TECHNICAL ANALYSIS

Ok, this is where most traders fail to truly put their effort. If you want to make Chateaubriand, you have to use prime tenderloin NOT hamburger! Most traders opt for the shortcuts because they want to make money fast. They erroneously think (as I did) that this market is simple and should propel you into stratospheric money making in weeks. NOT SO. Most traders can see the market (after the fact) but make the mistake of **NOT** understanding the **WHY** of the market move and concentrate on just getting an entry and then clicking their profit out WAY TO SOON.

In order to be successful you have to learn to "LET YOUR WINNERS RUN and CLICK YOUR LOSSES OUT EARLY". Unfortunately, for the vast majority of traders it is just the opposite. We let our **"LET OUR LOSERS RUN and CLICK OUR WINNERS OUT EARLY"**.

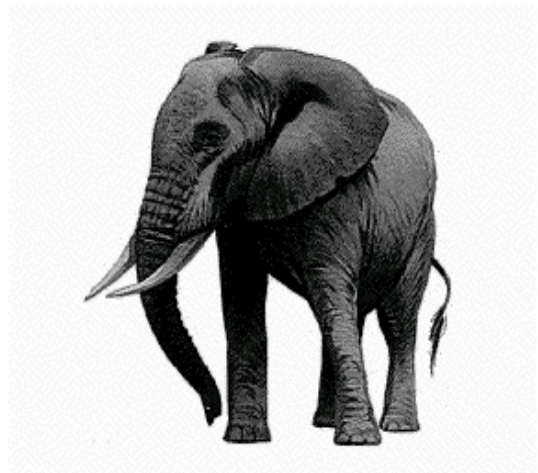
WHY?

For most traders it is a combination of the emotions of **Fear** and **Greed** and the **LACK OF KNOWLEDGE IN ANALYZING THE MARKET**. Fear and Greed we'll tackle when we look at the psychological factors that play in trading. Most novice traders don't know where the market will go so they take any small profit just so they can have a winner. **Sound familiar?** If you take only 5 pips on a trade and then accept one loser with a 30 pip stop, it takes you 6 trades in a row **JUST TO BREAK EVEN**. You have to trade at 90%+ to stay ahead of this losing curve.

Real Traders know **EXACTLY** where the market should go and do everything in their power to stay in the trade until that destination is reached. In other words: they analyze the market, determine where it should go, then at the opportune moment they enter the trade (not too early or you live with a large drawdown – a move AGAINST you), manage it to a profitable position and then **manage it to the destination**.

Surprisingly, this analysis is not that hard, has predictable results and does not require that you be a rocket scientist. There are four things that you have to know. If you know these four things you should have a fairly good idea of where the big boys are going.

In my workshops I call this being the "tick on an elephant". An elephant can go pretty much wherever it wants to go. **The Elephant is the Big Boys** – bankers, hedge funds, large corporations who are the ones who really move the market. **We are the tick** - we just want to bite onto the elephant and go wherever he is going. It takes me 3 days non-stop in a workshop to drive the information about where the elephant is going and then it takes a lot of practice. First you practice on a Demo, then a Mini and finally (if you really get it) on a standard account.



Big Boys (the elephant) have a vested interest in going to certain places in the market. Why, is a secret I can't tell you (*or I'd have to kill you as the movie says HA!*), but suffice it to say that their destination is predictable, whether going long or short. We'll call these spices for our cooking. It is not any one that makes the flavor of the dish but the **COMBINED FLAVORS** that make a dish really special...in this case your trade.

Here are the four things:

1. The trend
2. Fibonacci levels
3. Previous supports and/or resistance
4. Divergence



So let's look at each of these SPICES for our trade

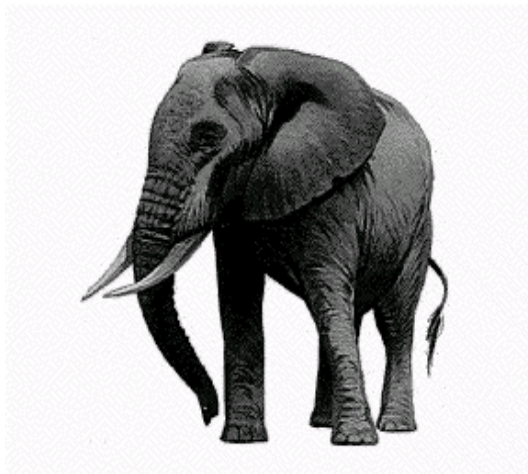
The trend

You've probably heard the following motto: *"the trend is your friend"*. Finding the trend will help you become aware of the overall market direction. The Big Boys have no problem finding the trend because they use the 240 min and higher charts. These larger charts are ideally suited for identifying the longer-term trend. Our problem is we can't trade these charts because we don't have all the money in the world. But the elephant is using these charts to determine his direction so; we **MUST** find and use the same trend that the elephant is using.

How do you do that? Regardless of what charts you are using you need to always determine the trend of the Big Boys. You change your chart to a 240 minute (sometimes a day) chart and plot the trend.

TIP: YOU HAVE TO THINK LIKE THE ELEPHANT WHEN YOU ARE DETERMINING THIS TREND.

Big Boys



You



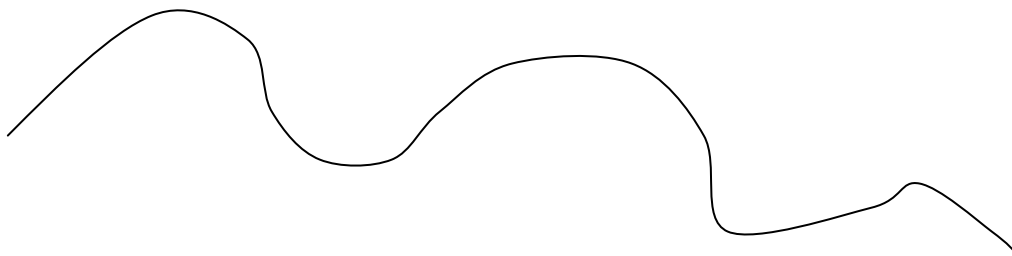
Here we have a 240 minute chart. We can see immediately that we have come off a high from the previous up trend and are now beginning to trend down. So what is the elephant thinking?

Remember that 95% of the trading in the Forex is **SPECULATIVE** so the Elephant is only thinking about one thing; where is the most profit?



Of all the possibilities for the elephant the MOST profit is going short (selling) and they have already moved substantially in that direction to achieve it. Yes there are still lots of Bulls in this market (the big boys who want to still go up) but the Bears (those going short) have wrested control of the market away from the bulls (at least temporarily) so the Bears are now in control. You can see that by the bright red color of the candles. These are Bear candles.

So we'll trend this DOWN for now! But we don't enter a trade down until it proves it!



It looks like this:



Once you have found the **overall trend**, you move that trend down to the time horizon in which you wish to trade – typically the 5,10,15 or 30 minute chart for our level of trading – **tick trading** (as in the insect biting onto the elephant). Once you know the big boys trend, you can buy on the dips during rising trends, and sell the rallies during downward trends.

NEVER TRADE AGAINST THE TREND OF TODAY!

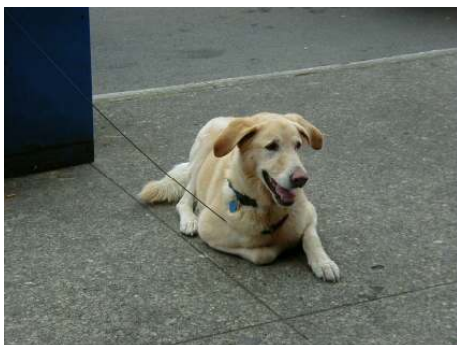
Now here is a tasty morsel!

If we were going to actively trade this market we would **ONLY BE INTERESTED** in the next two hours (yes I know it is a 24 hour market but the big boys are rich and only need to actually work two hours at a time), so it is important to see who is in control on the 120 minute chart. So we'll change this chart to a 2 hour (120 minute chart). If you are using good charts (not free ones) this information will transfer down to the 120 minute chart.

So we'll move to the 120 minute chart to see what it looks like from this vantage point. If you are using great charts, the trend you put on the 240 will move down to the 120 when you open it. It looks like this:



They only really have two choices: continue north which would be a "**BREAKOUT**" of the current trend or crash into the trendwall and turn south. The degree of probability is determined by the dominant trend. We simply need to **WAIT FOR THE REACTION**.



THE WAIT TRADE:

Not one person in the history of trading has ever lost one dime trading the **WAIT TRADE**. It is the hardest trade to master – staying **OUT OF THE MARKET** until the reaction has occurred and then taking the trade when it sets up, **proves itself** and comes to you.

Here is what our trend looks like on a chart we can trade – the 15 minute chart (the trendline is carried down from the upper chart time compressions). You can also see that the reaction is only a few pips away.



Once you have the Trend figured out and you are **WILLING TO WAIT FOR THE REACTION**. You now need to know where this movement has the potential to move. Should it break north the next stop would be back to the top. This would create a DOUBLE TOP and is common in the Forex Market (as are triple tops). But since the greatest Profit is **SOUTH/SHORT**, we need to use Fibonacci ratios (Fibs) to predict its movement. So we will be interested in the Fib ratios **BELOW** US. Will it trade to there? No one knows – you just plan your trade and WHEN it does what you have planned to do, you react as the market reacts.

Fibonacci Levels

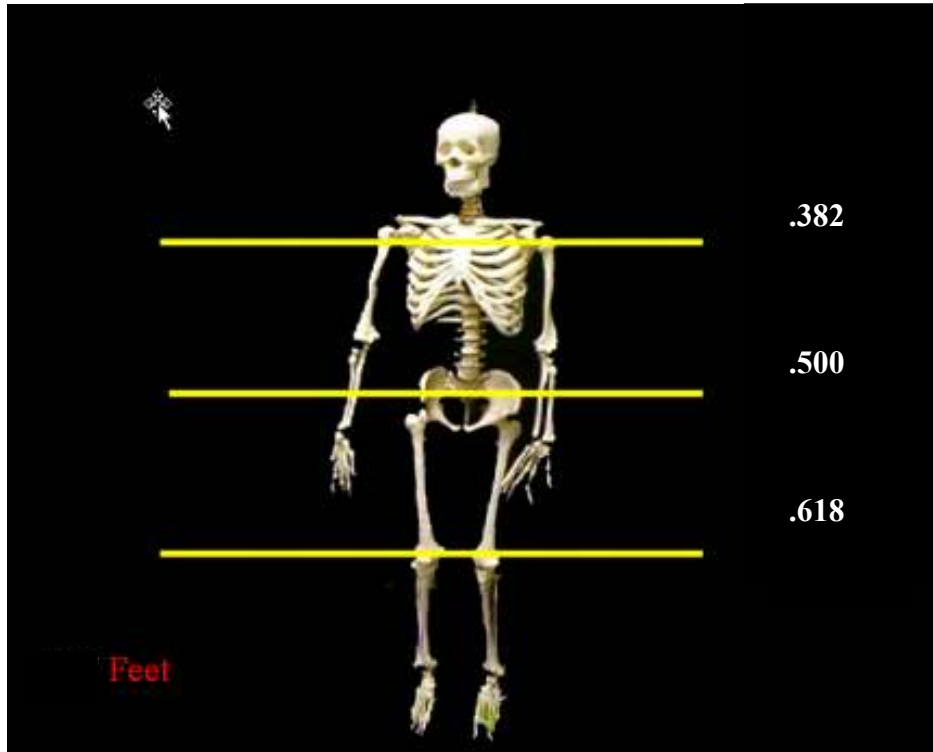


Fibonacci ratios are the basis of many Forex trading systems used by a great number of professional Forex brokers around the globe, and many billions of dollars are profitably traded every year based on these trading techniques.

Fibonacci was an Italian mathematician and he is best remembered by his world famous Fibonacci sequence, the definition of this sequence is that it's formed by a series of numbers where each number is the sum of the two preceding numbers; 1, 1, 2, 3, 5, 8, 13 ... But in the case of currency trading what is more

important for the Forex trader is the Fibonacci ratios derived from this sequence of numbers, i.e. .500, .382, .618, etc.

Your own body uses Fibonacci ratios. If they weren't there, you could not walk.



Fibonacci ratios or FIBS as they are called are extensively used in the Forex Market. Fibs are used on every single chart compression.

The market uses them **AFTER** a move to determine where to get in to continue the move. **This is called a retracement.** The typical entry point is the .500 (or 50%) retracement to resume the up trend or down trend although any Fib value can be used. You can think of it as we had a 30 pip move down and no one is interested in continuing on unless they get a discount. So the market **RETRACES** to a known fib ratio like the 50% and then money is enticed back into the market. Sort of like going to Wal-Mart and no one wants to buy socks today, so you will hear an announcement "ATTENTION WAL-MART shopper. There will be a 50% discount on Hanes socks today for all those in the store for the next 30 minutes". Now anyone in the store who may have a need for socks are now enticed into making that purchase.

The enticement works in trading just as it does at Wal-Mart.

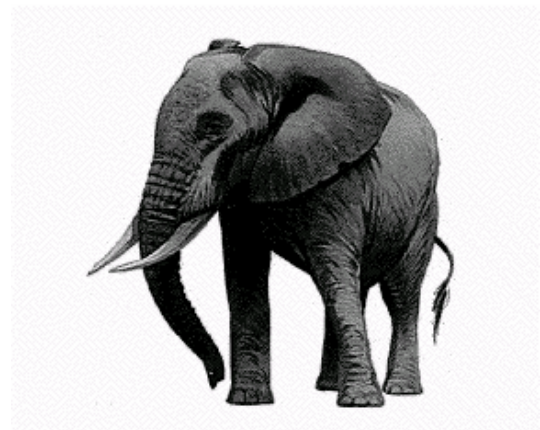
In trading it looks like this:



But for novice traders, one of the least used aspects of Fibs is that the elephant uses these Fib ratios on the 240, day or larger charts as his **TARGETS!** So if you want to know where the elephant is going you go back to a 240 chart and put the Fib ratios on **IN THE DIRECTION OF THE TREND** to see where the elephant is heading. And guess what? You can know this **BEFORE** a move occurs!

Here is a **BEFORE** and **AFTER** on the 240 minute chart in an uptrend. We use the **LAST** trend to determine where the elephant is going. **WHY?**

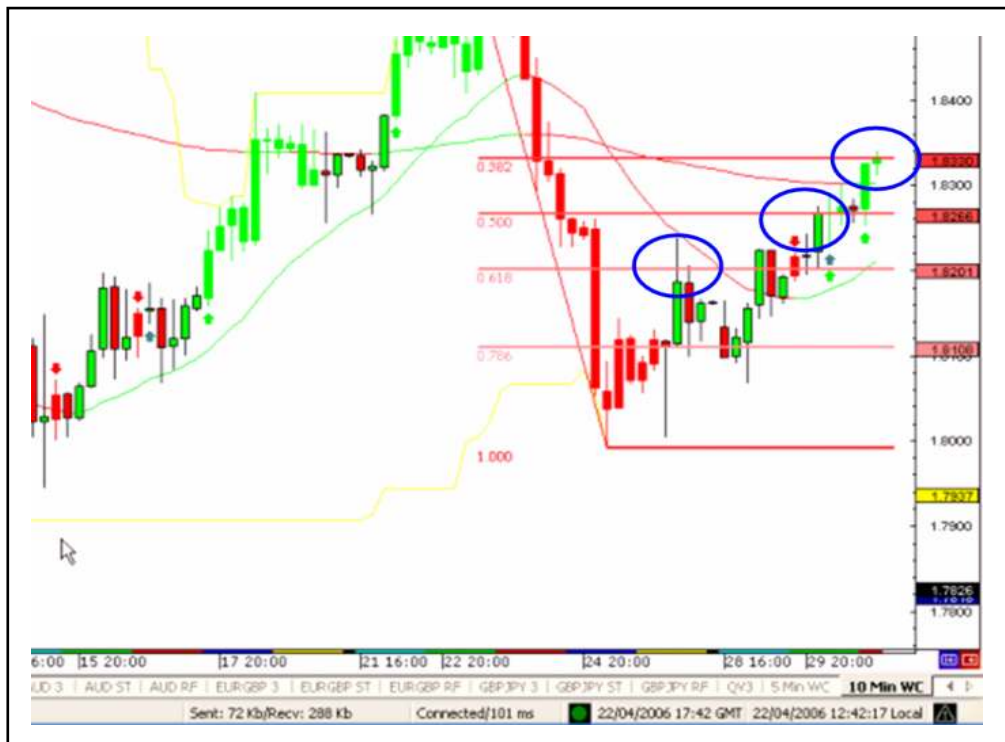
Because that is precisely the information that the elephant is using.



Before:



After



One thing that **CAN** stop these targets from getting hit is previous support or resistance.

If the elephant runs into **HISTORICAL** support in an Uptrend (or the reverse in a downtrend) it has the possibility to turn the market early. **This is because PREVIOUS SUPPORT acts as RESISTANCE in the future and PREVIOUS RESISTANCE acts as SUPPORT in the future.** So let's understand this.



Previous Supports and/or Resistance

Support and resistance levels are points where a chart experiences recurring upward or downward pressure. A support level is usually the low point(s) in any chart pattern (hourly, 240 minute, weekly or annually), whereas a resistance level is the high or the peak point of the pattern. These points are identified as support and resistance when they show a tendency to reappear. It is best to buy/sell near support/resistance levels that are unlikely to be

broken.

Once these levels are broken, they tend to become the opposite obstacle. Thus, in a rising market, a resistance level that is broken, could serve as a support for the upward trend, whereas in a falling market; once a support level is broken, it could turn into a resistance.

Let's look at the chart we did above with a support line put on and see the reactions that occur at this point. **REMEMBER: PREVIOUS SUPPORT acts as RESISTANCE in the future and PREVIOUS RESISTANCE acts as SUPPORT in the future.** I have taken the Fibs off so that it does not confuse you.



So since the market **REACTS** at this historical support level you have to know where it is!

This last Seasoning is how you determine if the market is going to reverse. It is called divergence and unlike other indicators that you might use on a chart it is a **LEADING INDICATOR!**

A note about indicators: All indicators that chart companies use are LAGGING indicators EXCEPT for four! The four that are not lagging are the four we are talking about. That is where so many new traders get caught. They rely on lagging indicators to tell them the market is going to do something and do not learn how to use the four indicators we are using. Our business is **ANTICIPATION**. Therefore, lagging indicators, while nice, are about *WHAT IS HAPPENING NOW*, not what we can **ANTICIPATE** happening! New Traders tend to think of indicators as little Crystal Balls which foretell the future. **Don't become an INDICATOR JUNKIE!**



Divergence

Divergence is a key concept in trading Forex. When a pattern shifts out of the norm, it is a signal that something is either fundamentally or technically different. **When divergence occurs, trading opportunities come with it.**

A MACD is the tool we use to show divergence. It is called a MACD because it stands for **M**oving **A**verage **C**onvergence **D**ivergence.

When the market is trending is it **CONVERGING** and the MACD shows that convergence. But as the trend begins to fall apart, the MACD starts to trend in the opposite direction of the trend. **This is called DIVERGENCE.** It means that the market is potentially setting up to reverse direction. Now the problem is that no one knows exactly when the reversal will come, but the probability is very high at a point where multiple factors come together at the same place to produce the momentum needed to reverse an entire market. **In other words a REACTION!**

I'll bet you can't guess what those factors are? Yep, that's right. At a point where the Trendwall (from a higher compression chart like a 240 minute), a fib (from a higher compression chart like a 240 minute), and a historical support or resistance (from a higher compression chart like a 240 minute) all come together to produce the environment that is right for a reversal.

Another tasty morsel!

Divergence is present when the Price action (trend) of the candlesticks is going the **OPPOSITE** way of the MACD.

You can find divergence on any chart. I like the 60 minute since it is high enough (and 1/4th of a higher compression chart like a 240 minute), and still small enough for me to take advantage of any move it precedes.

If divergence is present and I am trading in the direction of the trend, it tells me to stay really close to the movement by keeping my stop tight. The reversal could come at any time.

Here's a picture of divergence in an uptrend foretelling a move down:



Here's the result:



Now that we have assembled all our ingredients:

- Awesome charting,
- A fast reliable Broker and Trading Platform
- Seasoning/Spices: Trend, Fibs, Support and resistance
- Divergence,

We can now trade ***IF*** we have two more things. Believe it or not the last two things are **MORE IMPORTANT THAN THE FORMER.**

They are:

1. Money management
2. Trading Psychology

If you don't manage your money you will be out of business and the only way to trade is to have your trading psychology in place.



Ingredient #3 - Forex Money Management

Money management is a critical point that shows the difference between winners and losers. It was proved that if 100 traders start trading using a system with 60% winning odds, only 5 traders will be in profit at the end of the year. In spite of the 60% winning odds, 95% of traders will lose because of their poor money management. Money management is the most significant part of any trading system. Most traders don't understand how important it is.

It's important to understand the concept of money management and understand the difference between it and trading decisions. Money management represents the amount of money you are going to put on one trade and the risk you're going to accept for this trade.

There are different money management strategies. They all aim at preserving your balance from high risk exposure.

Utilizing Stop Loss Order

A stop-loss is an order linked to a specific position for the purpose of closing that position and preventing the position from accruing additional losses. A stop-loss order placed on a Buy (or Long) position is a stop-loss order to Sell and close that position. A stop-loss order placed on a Sell (or Short) position is a stop-loss order to Buy and close that position. A stop-loss order remains in effect until the position is liquidated or the client cancels the stop-loss order. As an example, if an investor is Long (Buy) USD at 120.27, they might wish to put in a stop-loss order to Sell at 119.49, which would limit the loss on the position to the difference between the two rates (120.27-119.49) should the dollar depreciate below 119.49. A stop-loss would not be executed and the position would remain open until the market trades at the stop-loss level. Stop-loss orders are an essential tool for controlling your risk in currency trading.

Managing Trade and Margin account Risk

Your risk per trade should never exceed 10% per trade if you are starting out with a small margin or a mini. AND THAT IS TOO HIGH!

Minimizing your risk is 100 times more important than finding a winning trade!

You should start and probably stay in a mini account. The vast majority of traders never trade over 10 standard lots which is 100 minis. A mini account is a broker created hybrid where they aggregate your trade with thousands of others and actual enter the trade as standard lots. This is because the bankers who are taking the actual orders don't recognize anything less than a full lot so the broker essentially makes them up from yours and thousands of other traders. You can trade 500 mini lots so there is no need to open a standard account unless you are full of ego and just want to say you are. If that is the case, you should close this book and get out of the kitchen since ego will ruin you in this business.

Reality is that 10% is way too high also, but it is very hard to get ahead trading a mini for 20-50+ pips profit and getting your mini account to any substantial amount. It's better to adjust your risk to 1% or 2%. We prefer a risk of 1-3% but if you are confident in your trading system then you can lever your risk up to 5%. So start with a mini and if your capital in your margin account is low, risk **NO MORE THAN 10%**. As soon as you start pulling ahead adjust the size of your risk **DOWNWARD**.

The most important rule is to stick to the 1 -3% risk rule. Never risk too much in one trade. It's a fatal mistake when a trader lose 2 or 3 trades in a row, then he will be confident that his next trade will be winning and he may add more money to this trade. This is how you can blow

up your account in a short time! **A disciplined trader should never let his emotions and greed control his decisions.**

If you have 2% of your margin at risk and you lose on that trade, you still have 98% of your margin left and you can get it back tomorrow.

Diversification



Trading one currency pair may only generate a few entry signals. It would be better to diversify your trades between several currencies. If you have \$100,000 balance and you have an open position with \$10,000 then your equity is \$90,000. If you want to enter a second position then you should calculate 1% risk of your equity not of your starting balance! It means that the second trade risk should never be more than \$900. If you want to enter a 3rd position and your equity is \$80,000 then the risk per 3rd trade should not exceed \$800.

It's important that you diversify your orders between currencies that have low correlation.

For example, if you are long on the EUR/USD then you shouldn't go long on the GBP/USD since they have high correlation. This is because in both cases you are actually trading the same thing...which way the dollar is moving. If the dollar is rising and you sold short you will be losing in BOTH TRADES! If you are long EUR/USD and GBP/USD positions and risking 3% per trade then your risk is 6% since the trades will tend to end in same direction. The same is true when trading the USDCHF. It has an inverse relationship with the EURUSD and therefore will always be trending the opposite way. So you shouldn't trade both the EURUSD and the USDCHF, pick one or the other but not both. A better strategy is to trade one USD cross and then a EUR cross. I prefer the EURJPY and the GBPJPY.

Another tasty morsel!

The GBPJPY scares new traders away because it has a 9 pip entry. However, what on the surface looks scary, actually works for you. Because the spread is high on this cross, there are few scalpers in this currency so only the elephants trade it. The elephants tend to trend really nicely. It is not uncommon to see 200-800 pip trends in this cross.

If you want to trade both EUR/USD and GBP/JPY for example, and your standard position size from your money management is \$10,000 (1% risk rule) then you can trade \$5,000 EUR/USD and \$5,000 GBP/USD. In this way, you will be risking 0.5% on each position.

Money management strategy

First, your initial stop should be based on the last previous support or resistance on the chart (depending on whether you are short or long). If you have great charting software like ours, you actually get great signals that eliminate large drawdowns. Set your stop 3-5 pips above/below this previous support/resistance on an **ODD NUMBER**.

Another tasty morsel!

*The market has a tendency to go to even numbers so a number you **WANT TO GET HIT** (your limit) should always be on an even number) A number you **DON'T WANT TO GET HIT** (your stop) put on an odd number.*

Here's what I do.

- **Buying:** After entry and up 15 PIPS, move stop 1 Pip above entry
- **Selling:** After entry and up 15 PIPS, move stop 1 Pip below entry
- **ASAP** move to 5 PIPS above entry

- **Let the currency breathe** (move up and down) but stay with it (moving your stop as it continues its move until it hits the 240 minute trendwall, a 240 fib or historical support/resistance on the 240 minute chart. Obviously you will not always get there.

Someone once said "If you aim at nothing you will surely hit it".

The Martingale and Anti-Martingale Strategy

It's very important to understand these 2 strategies.

Martingale rule = increasing your risk when losing!

This is a strategy adopted by gamblers which claims that you should increase the size of you trades when losing. It's applied in gambling in the following way: Bet \$10, if you lose bet \$20, if you lose bet \$40, if you lose bet \$80, if you lose bet \$160.etc

This strategy assumes that after 4 or 5 losing trades, your chance to win is bigger so you should add more money to recover your loss! The truth is that the odds are same in spite of your previous loss! If you have 5 losses in a row, still your odds for the 6th bet are 50:50! The same fatal mistake can be made by some novice traders. For example, if a trader started with a balance of \$10,000 and after 4 losing trades (each is \$1,000) his balance is \$6000. The trader will think that he has higher chances of winning the 5th trade then he will increase the size of his position 4 times to recover his loss. If he loses, his balance will be \$2,000!! He will never recover from \$2,000 to his starting balance of \$10,000. **A disciplined trader should never use such gambling methods unless he wants to lose his money in a short time.**



Anti-martingale rule = increase your risk when winning & decrease your risk when losing

It means that the trader should adjust the size of his positions according to his new gains or losses.

Example: Trader A starts with a balance of \$10,000. His standard trade size is \$1,000. After 6 months, his balance is \$15,000. He should adjust his trade size to \$1,500.

Trader B starts with \$10,000. His standard trade size is \$1,000. After 6 months his balance is \$8,000. He should adjust his trade size to \$800.

Below is the famous Turtles strategy – not the band for you old folks

If you lose a trade, on your next trade only risk 80% of your former margin % (you have 10K – can risk \$1000 (10%) BUT next trade only put \$800) until you get your loss back.



Ingredient #4 - PSYCHOLOGY IN TRADING

The Forex market is moved by fear and greed. These are EMOTIONS that affect the market. Essentially you are watching a giant auction for money. Fear and greed are part of Psychology. They are emotions and **ABSOLUTELY** need to be exorcised from your trading style.

Something happens to traders when they move from a demo where they have been very successful to real money. They start to lose. WHY? **That something is Psychology.** Most of us can master the techniques of trading but mastering the gray matter between your ears is a different matter altogether.

In order to pull the trigger on live trades you have to be confident in:

1. **Your charts** – that they are giving you a great set up and entry and exit signal
2. **Your Broker** – that he will give you a fast reliable quote and won't harvest your stops
3. **Your Technical Analysis** (the meat and seasoning) - did you do the work so you know where the elephant is going?
4. **Your Trade and Margin Risk** – will this trade totally ruin your life if it goes wrong.
5. **Your System** – all of the above as it all comes together

If so you are prepared to trade **IF** your individual psychology is in place.

The following is from <http://www.turtletrader.com/know.html>

Trading Psychology: Knowing Yourself Is Key

Knowing yourself means understanding how you're likely to behave under various circumstances. Over the past couple of decades, behavioral finance researchers have developed a clearer understanding of the psychological traps investors fall in. The best way for you to avoid these traps is to become aware of them, the forms they take, and which you are most likely to fall into.

Here are five common pitfalls:

Over-confidence. Researchers have found that people consistently overrate their abilities, knowledge, and skill—especially in areas outside of their expertise. Investors must seek and weigh quality feedback and stay within their circle of competence.

Anchoring and adjusting. In considering a decision, we often give disproportionate weight to the first information we receive, hence anchoring our subsequent thoughts. You can mitigate this risk by seeking information from a variety of sources and viewing various perspectives.

Improper framing. The decisions of investors are affected by how a problem, or set of circumstances, is presented. Even the same problem framed in different, and objectively equal, ways can cause people to make different choices. Framing, too, plays a central role in assessing probabilities.

Irrational escalation of a commitment. Investors tend to make choices that justify past decisions, even when circumstances change. To avoid this trap, investors must only consider future costs and benefits.

Confirmation trap. Investors tend to seek out information that supports their existing point of view while avoiding information that contradicts their opinion. Psychologist Thane Pittman's slip of tongue sums it up: "I'll see it when I believe it."

You must also understand how you tend to react under stress. People with different personality profiles behave in dissimilar ways when stressed. Here again, self-awareness and some basic techniques to offset suboptimal behavior go a long way. Pearson declares, "A gambler's ace is his ability to think clearly under stress. That's very important, because, you see, fear is the basis of all mankind....That's life. Everything's mental in life."

There are some real genius's in this end of the market and I will not even attempt to touch their expertise. I ask every trader that I teach to **NOT TRADE LIVE** until they have read these three books.

1. **The Disciplined Trader** by Mark Douglas (REQUIRED READING)
2. **Trading In The Zone** by Mark Douglas
3. **Trading to Win** by Ari Kiev M.D.

I ask them to read each book and highlight areas with a highlighter. I then ask them to read the highlighted areas **ONCE A MONTH. REREAD** each book at least once a year!

You should do the same.

Suffice it to say that what you need to know about the Psychology of Trading is locked up in those books and **these cookbooks are WORTH THE MONEY**. They are **NOT** about how to trade from the technical side but how to trade from the "head" aspect.

In a nutshell however, trading is first of all being confident of your system. Then being confident that you have done the work and feel that you have a handle on where the elephant is going.

Another tasty morsel!

*The time to THINK is BEFORE the market moves. When it starts to exhibit behavior that you have planned for: **REACT** when the market **REACTS** in the way you have planned.*

Actually cooking and creating your masterpiece (trade)

1. Use your ingredients
2. Season well (trend, fibs, historical support and resistance and divergence)
3. Use the above to THINK about your trade BEFORE you make it. If you get it wrong CLICK OUT IMMEDIATELY.
4. REACT when the market reacts the way you have planned to trade
5. Determine **BEFORE you trade** to stay in the trade until it moves to the elephants destination
6. Manage your margin by always risking a small amount of your trading capital – But risk you must.
7. Make a list of your rules that you will use to trade and then NEVER BREAK THEM!
8. Keep a daily trade log and write WHAT YOU LEARNED EACH DAY!
9. Review this every week



Why would we write this e-book and give it away?



We are genuinely interested in seeing traders succeed. The sad story is that many will not. You've probably already read the statistics that 97% of all traders FAIL. **WHY do these people FAIL?**

#1 They fail to get educated. Would a doctor start a practice without going to medical school? Would a plumber start a plumbing business without being certified? Would an accountant start accounting without getting an accounting degree? Yet every day well meaning, smart people jump into the Forex with both feet **and their money** and decide to trade **against** professional traders. **The Forex is a zero sum game. That means that losers pay winners.** Professional traders have all been trained to succeed in this market and the only way they succeed is that they need losers! *Guess where you come in?*

#2 They give up. After a series of losses most people say, "Well the Forex wasn't for me". Of course they were never trained, they didn't have a clue what the elephant was doing and they were trying to be successful against people who are trained to take their money.

WHO ARE THE 3% WHO SUCCEED?

The ones who are really serious about trading - **NEVER GIVE UP and GET EDUCATED.**

We really hope this e-book helps you get to a higher level. If you think about it, you are at least taking a small step towards getting educated. Maybe you will be one of the few who is a natural. Every business has its naturals: Tiger Woods in golf, Michael Jordan in basketball, Donald Trump in real estate, to name a few. But please note that all those naturals learned their profession through hard work and practice. The reality in the Forex is: that while a few chosen ones are naturals, most are not. I suspect that you, like me, fall into the latter category.

If this e-book helps you trade better and go to the next level ... GREAT! If you still see the horizon, but can't quite get there. If you still see the horizon, but you **WON'T GIVE UP**, then you are the type of trader we like to work with.

We developed our charting software to assist novice to experienced traders "see the market" and get fantastic entry and exits. We believe our charting software is unequalled in it's ability to find market momentum – translation: show you visibly when the elephant shows up and where he is going. That means that you can concentrate on the technical analysis so that you know the reaction points. At the reaction points, our software will tell you more times than not what the reaction is going to statistically be. As you trade with our charts your confidence will improve as you learn to trust the trade setups.

To help you succeed:

- We have **two FREE weekly online interactive training calls*** to teach you how to recognize our trades and how to spot the setups. Here we'll hammer home the secrets to better setups, determining the trend and how to let your profits run and cut your losers quickly.
- We do one **FREE weekly online interactive Webinar** detailing the above advanced techniques.
- We have a moderated online trading room where our traders can talk through their trades with an experienced Trader. This also is FREE.*
- Our **charting software** was developed to give SUPERIOR entry and exit signals and confirm **high probability trades** using our color coded technology and proprietary

trading indicators. Match that with proven technical analysis techniques you have a blueprint for success.

* After two free weeks I does require a HotComm subscription

We'll prove it to you!



Simply visit our website www.proacttraders.com or email us at <mailto:demo@ptraders.info> and we'll give you a **FREE LIVE DEMO** of our methodology and charting software. If you really are serious about the Forex, you won't give up, but you think that you might need a little more help, contact us and we'll talk.

We will NEVER pressure you or try and sell you something. A decision to change your life is one you should make all by yourself with no pressure from someone else.

We hope to hear from you.

ProAct Traders Group

THE ALL IMPORTANT DISCLAIMER or I never told you that you might get burned or cut your hand in the kitchen.

Trading foreign exchange on margin carries a high level of risk, and may not be suitable for all investors. Before deciding to trade foreign exchange you should carefully consider your investment objectives, level of experience, and risk appetite. The possibility exists that you could sustain a loss of some or all of your initial investment and therefore you should not invest money that you cannot afford to lose. You should be aware of all the risks associated with foreign exchange trading, and seek advice from an independent financial advisor if you have any doubts. Traders should confirm entries before making a decision to enter the market. We recommend that all ProAct traders should always be very selective with entries while using tight stops. See disclaimer at: <http://www.proacttraders.com>