JUMP START YOUR FOREX TRADING

Tips, Tricks and Trading Strategies

by Adam Lemon

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Introduction

If you're reading this manual, you're probably somewhat familiar with what Forex trading is. You likely know that Forex trading can be a great source of supplemental income, and that for those with enough investment capital, proper trading strategies and the necessary mentality and focus, Forex trading can even become a lucrative full-time career.

But if you're just getting your feet wet, you've got a lot to learn before the money starts rolling in, and this ebook will help you get set up properly so that when you're ready to invest, you'll be a wiser, stronger Forex trader.

In the following pages you'll get a unique perspective on the Forex market from professional traders. While you'll need to learn about how to trade before you can really begin, there's a lot of legwork and research that needs to be done before you can even place your first market order. For starters, you'll need to identify the best Forex broker for your needs, and to understand all of the options that are available to you. You'll want to study some basic Forex trading strategies, and to practice them consistently and profitably on a demo account until you feel comfortable investing real money. And, of course, you'll want to familiarize yourself with all of the products that are available to help you throughout the process, such as Forex signal providers and auto-traders, which, for the uninformed trader, can be more dangerous than helpful.

Our goal is to divorce the help from the hype so that you can have a positive trading experience from the outset. Read on to get professional, unbiased information that will set you on the path to becoming a confident, knowledgeable Forex trader.

Choosing a Forex Broker

The first thing you'll need to do before you can start trading is to choose a Forex broker. But with infinite options, how can you know which one to pick?

Below are some key factors that you should consider when comparing your options. If a potential broker doesn't meet your criteria in a specific area, choose another – there are plenty of fish in the sea.

Regulation

While this seems like a no-brainer, many new traders do not know about the various regulatory bodies that are out there. One of their jobs is to protect retail forex traders like you. You should only use a Forex broker that is regulated by a competent regulatory agency. Also, you should be aware of where a Forex broker is regulated. This something many traders overlook. As a general rule, you will want to see a country that is known for being business-friendly (at least in terms of the rule of law) as being the country of registration.

One of the most popular locations for Forex brokers is Cyprus. This is because the Cypriot regulatory authority is a little more lax regarding its Forex trading regulations. By locating there, a Broker can claim that they are "regulated in an EU country", which is technically true. But having said that, you could claim to be "regulated in America" by being registered in Mexico. Look closely at exactly where a Forex broker is regulated before opening an account there, and make sure you pick a reputable location and regulatory regime that gives you an adequate level of protection.

Charting

Believe it or not, not all Forex brokers offer charting. This is becoming less and less of a problem, but there are some brokers that don't offer this facility that enables you to track the technical fluctuation of currency pairs. The provision of proper charting is a sign of a broker's integrity - failure to provide this is a sign that a Forex broker may not be right for you.

Pairs

Not all brokers offer the same currency pairs. Some brokers offer over 100, while others will only offer the 20 most common pairs as an example. One of the pairs whose common absence surprises the most in this regard is CAD/JPY. Since the Canadian dollar and Japanese yen are both major currencies, most traders assume that this cross pair will be offered when it frequently is not.

Leverage

Depending on what part of the world you live in, the maximum leverage offered will vary. Leverage gives you the ability to trade larger multiples of currency with a relatively small deposit. Some brokers out there are now offering leverage as high as 500 to 1.

By 500:1, this means that you can control $500 for every $1 you deposit. Because of this, it can supercharge your losses, as well as gains. As you'll learn quickly during your Forex hazing process, leverage is something that should be used sparingly. Professional traders tend to restrict themselves to a maximum ratio of 3:1. Just because your broker offers you high leverage does not mean you have to use it all. It is always important to remember that it is more important to keep your losing trades small than making your winning trades big, and for this reason excessive leverage is a bad idea.

It should also be noted that the United States regulatory authorities recently cut the amount of leverage that Americans can use down to 50:1 for major pairs, and 20:1 for crosses.

Analysis

When you are learning to trade, it is always helpful to have technical analysis to help you see how the market is moving on a practical technical level. Some brokers are very generous with their offerings when it comes to this kind of thing, and many are now employing professional technical analysts that post newsletters every day. This can be very helpful for the new trader.

Bottom line: When you are looking to invest money with a Forex broker, don't forget that they are there to serve the customer, and it pays to shop around. Forex brokers tend to be very competitive on various features and with a little bit of research you can get a lot more than you realize.

Overrated Broker Features

While the features listed previously are critical factors that you should consider when choosing a Forex broker, it's also important not to get distracted by a lot of the hype that Forex brokers use to attract traders who may not realize that some of the features being offered aren't really very useful or important.

One of the most commonly offered overrated features is AutoChartist. This piece of software will identify existing technical patterns on the chart, bringing them to your attention. In theory, it is a great idea. But the reality is that by using this piece of software, you are doing little to advance your knowledge as a trader. AutoChartist can be very alluring to new traders, but in the final analysis, it may hamper your growth since it might prevent you from really learning technical analysis techniques. If you do use AutoChartist, instead of using it to place trades blindly, you could use it to watch and monitor the success rates of the patterns it identifies, and to try to determine what differentiates the more successful patterns from the unsuccessful ones.

Forums are another waste of time when it comes to your Forex broker. Most of the forum chat that you will see on these boards tends to be of the "troll" variety. In other words, it is just a bunch of people flaming each other on the Internet. At best, you will have a bunch of newbie traders trying to convince you that their trade setup is the right one, even though they have no idea what they're doing. At worst, these forums are filled with insults and name-calling as traders try to prove that their position is the best one. Independent forums that are not directly linked to Forex brokers can be more useful. Do bear in mind that a lot of the material there will be as we have already described. However you can occasionally find a few threads that have been started by profitable traders who want to give something back to the community by sharing the strategies and insights they have developed, with semi-live examples. It is important for a new trader to explore, but also to try to be discriminating and not to hop around from system to system. New traders are better served by proving to themselves that a system/strategy is consistently profitable when applied to real historical data.

Technical analysis provided by brokers can be overrated at times. It really comes down to the quality of the particular analyst that the firm hires. Most of the well-known analysts are working for the larger brokerage houses. Quite often these are well respected analysts, but a smaller broker may hire somebody who doesn't necessarily know what they're doing. One of the biggest giveaways for a suspicious analyst is if they focus mainly on the shorter time frames. If the analyst tends to show a lot of five, 15, and one hour charts, it is very likely that they are they are simply to get you to overtrade, in an attempt to part you from your money quickly.

You will find that most Forex brokers are essentially the same in terms of the additional features that come packaged with their offerings. By focusing on those features that are truly useful to you specifically, you can ensure that you aren't sucked into opening an account with a Forex broker for bad reasons.

Online vs. Downloadable Trading Platforms – Which is Right for You?

Whether you're in the market for a new Forex broker or are looking to change from your current brokerage, another vital thing to consider are the platform options offered by the brokers on your shortlist. Many new Forex brokers simply offer the standard MetaTrader 4 platform in its original, downloadable version, while more established brokers tend to offer MT4 in addition to proprietary software or online options that allow you to trade from any computer anywhere with a login.

You may also want to explore mobile Forex trading options that will give you the flexibility to trade from your phone. Here are some of the features that differentiate downloadable platforms from online versions, so that you can determine which type of platform will best meet your needs.

Updates

When it comes to making sure your software is up to date, downloadable software requires you to actively check it every once in a while, and order an update if a new update patch has been released since the last check. An online environment is updated automatically by the developer, so you, the end user, can always rest assured that you are using the latest and greatest version the company has to offer. In contrast, using a downloadable platform will require you to download updates when they become available, or you'll risk trading on an outdated platform. If you use an online Forex trading platform, you will not find yourself in a situation in which you are trading for months on a system that is completely outdated.

Backup

One of the biggest trends nowadays is what is known as "Cloud Computing". This refers to a shift in the way users store and access their information. If most users would once access their email in Outlook, which stores your emails locally, today, Google's email service, Gmail has become one of the most popular email services. If yesterday, people worked in Microsoft Office that would store your documents locally, today Google Docs is becoming increasingly popular.

The list goes on, but there is no question that Google is leading the Cloud Computing movement. One of the many advantages of this method is of course constant backup. While a local program can easily lose all your information and settings, say with a crash of your PC, if you are working in an online environment, your data is generally safe and secure, at least in terms of deletion.

Speed & Smoothness

When you are watching the chart and waiting to decide whether to enter or exit a trade, it is important that the action on the chart reflects the action in the market quickly, smoothly and accurately. Price movements in Forex from moment to moment may be small, but they tend to happen quite quickly. Many of the best times to trade are times where the action is fast and furious. You need to be sure that the platform you are using won't freeze up, crash, or miss the tick data that is being streamed into it several times every second.

It is often the case that online Forex platforms are more prone to these kinds of problems, for various technical reasons. However, the general quality of many of these platforms has been improving recently. Furthermore, this type of problem may be caused by old drivers or out of date software or other issues on the computer you are using, so it is sometimes unfair to blame the platform.

When it comes to charting, there are several free live online Forex charting services that are updated in real time that can be used as possible alternatives to whatever charting your broker may be providing. One such free service that has been seen to work well can be found at https://www.tradingview.com/e/.

Still, there is a reason why it is most ideal to use a charting service provided by your broker. As there is no centralized Forex marketplace, every broker quotes a slightly different price. This might not matter very much to traders using longer-term methods, but if you are using the chart to determine entry and exit prices this can be a crucial difference.

Robots and Customized Indicators

Some traders choose to use robots or Autotraders to aid in their trading. These are small programs that a trader can link to their broker's platform. These programs receive price information from the platform, from which they calculate trade entries and exits by a formulaic system. In order to function, these Autotraders usually need to be attached to a Downloadable Forex Platform. It is sometimes the case that brokers will allow the trader to send them the strategy which they will implement on the trader's account.

Additionally, some traders like to use customized indicators on their charting platforms. These are indicators that are not standard and as such are not available in the default menus of charting software packages. There are few if any online Forex platforms that allow the upload of such customized indicators, so downloadable Forex platforms are usually required to utilize them.

Security

While it is true that in terms of losing data or settings, a web-based environment is better than a downloadable one, there are many people who are hesitant to trust external companies with their data. Between Google Docs, Google Calendar, Gmail, Google Tasks, Google turn-by-turn navigation, and Picasa, it is safe to say that Google knows more about some people than their parents do. Without taking sides in the debate for or against Cloud Computing, there is no denying that in terms of privacy, a downloadable Forex platform is more secure.

Resources

When you trade with an online Forex trading environment, there is obviously no installation process. Now, it is not the five minute download process that bothers some people, but rather the use of the computer's limited resources. If you are using a relatively older computer, the lack of storage or processor capacity can be a serious obstacle.

The ability to trade in a robust and advanced environment without the concern that your computer will crash on is a huge advantage for all Forex traders. Just to be clear, if your computer is REALLY old, than it might not support the online platform either, but, generally speaking, web-based software is lighter on computer resources than a locally stored program.

Compatibility

Regarding the issue of compatibility, there is no clear winner. On the one hand, an online Forex environment is not dependent on the kind of computer you are using. The internet works on Mac, PC, Linux, and any other OS. This gives the online Forex platform an edge over the downloadable one. However, an online Forex trading environment may not always be compatible with all browsers.

In fact, many sites and online platforms do not support the fastest growing browser in popularity, Google Chrome. So, at least with a downloadable tool, once you find the system that is compatible with your OS, you know it will work, whereas an online Forex trading platform might fail intermittently.

At the end of the day, the right Forex trading platform is a personal decision, and choosing a brokerage with multiple options will allow you the most flexibility.

Is it Ever a Good Idea to Switch Brokers?

The best reason you will ever have to switch your brokerage account is if you ever find that you have a good reason to fear for the safety of your deposit. If you ever ask your broker to withdraw some funds in your account, and they are unreasonably slow or unresponsive, then this is an excellent reason to switch to another broker right away. Of course, if you hear any reliable information about the financial or ethical health of your broker, it is something to look into. Consider testing your broker after you have some good results, by asking to withdraw some of your recent winnings. If there is any undue delay, it is advisable to shut the account down right away and, if necessary, threaten to contact the appropriate regulator.

Moving from crisis mode to some more usual reasons for a change, one of the most common factors prompting a switch is the average level of the spreads being charged. For example, there are still brokers out there charging a 3 pip spread on the EUR/USD. While this was the norm a few years ago, it is rapidly becoming considered to be outrageously expensive. Switching to a broker offering EUR/USD at 1.5 pips or lower makes sense as the spread is a "cost of doing business", and over time can really add up to lost revenue for the trader, especially if they are trading frequently using shorter timeframes.

Another good reason to switch is if the broker has an unstable platform. If you find that the trading platform disconnects quite frequently or that it takes a long time to execute a trade, and it keeps happening, then this is prima facie evidence of incompetence or downright dishonesty. Dishonesty is more likely if these disconnections or freezes happen every time you are trying to enter a trade that would have gone on to be a fast winner. Of course, it is important not to be paranoid and blame your broker for all your bad or losing trades. Nevertheless, as Forex has no centralized marketplace, brokers do have a commercial incentive to "shade" their spread just over levels where a lot of their clients have stop losses set on open trades. You should bear in mind though that during periods of low liquidity, the market often naturally tends to hunt common stop loss levels. The best way to determine whether your broker is acting shady is to see whether these price moves are not matched by other broker's price feeds. Keep an eye on two or three on the execution. If your broker tends to produce sudden unexplained spikes in the price that are not followed by other brokers, it is time to think about finding a new one.

There are other good reasons to switch brokers such as a specific pair that you want to trade that isn't offered by your current broker, margin requirements, minimum trade sizes, regulation and other "concrete" things. Now that we've covered all of the critical aspects to consider when choosing a broker or switching brokers, it's time to shift our focus to how you can conquer the Forex markets (with hard work and patience, of course!).

4 Starting Steps to Forex Success

To begin with, don't be misled – there are almost certainly many more than 4 steps that you'll need to take in order to become a consistently profitable Forex trader. However, the following is a shortlist of the first steps you must take in order to succeed in Forex. If you take these steps properly, there are still no guarantees, but there is a guarantee that if you do not, Forex success will elude you.

• **Educate Yourself:** Do not, under any circumstances, begin trading Forex without getting to know the market. Familiarize yourself with the currency pairs and/or crosses that you intend to trade. Open a demo account and watch how the prices tend to move, after enough time spent watching you will begin to develop a feel for the rhythms of the markets. Do not forget to also study the different philosophies about market analysis, as well as the various tools and resources at a Forex trader's disposal. Most importantly of all, as you begin to learn different theories of what makes the price move, test your technical theories on historical data by investing in inexpensive back testing software such as ForexTester. Metatrader4 can also be converted into a back testing suite, if you have the strategy in robot (expert advisor) format. You can also test the response of the market to fundamental data, although this can be a little complicated and very time-consuming to compile. Bear in mind that the way the Forex market moves tend to change over time, and if you have a strategy that back tests extremely well over the past two years, for example, make sure you also test the two years before that: you might be surprised what you find. The most robust strategies tend to have relatively low win rates, but with its average winner being much larger than the average loser. Additionally, strategies can go through losing streaks and still be successful in the long-term. There is no "holy grail" that will make you a risk-free fortune overnight!

• **Question Yourself:** This might sound childish, but before trading Forex, you need to make sure you are emotionally capable of trading Forex. It is not an emotionally easy pastime, unless you are wealthy enough to really not care about whether you win or lose. The paradox of trading is that the more you want to win, and the more you are afraid of losing, the harder it is to make any profit and avoid an overall loss. It is easy to promise yourself that you will follow all the well-meaning, eternal advice about limiting your risk, never trading by impulse, and not getting upset or overjoyed by the result of a single trade or even a handful of trades. It is much harder to live it. You have to ask yourself honestly if you can go to your computer, see that you have lost a meaningful amount of money, and then sit with your family and be happy and relaxed. It may not be worth it for you, at least at this moment in your life. Trading can be emotionally brutal and fill you with loathing and hatred if you let it.

• **Train Yourself:** The last thing any Forex trader wants is to find himself experiencing major losses due to a lack of control. You need to ensure that your emotions do not get the best of you when you are trading. Do not be afraid to lose, do not be afraid to win, and do not be afraid to pull the plug on certain open positions. Before trading Forex, you need to train yourself to be an objective and scientific trader, one that adheres to their Forex trading strategy, no matter what. Always use stop losses and never widen them.

• **Know Yourself**: In order to succeed in Forex, you need to know yourself to depths not necessary in other parts of life. You need to have complete and utter control over your natural instincts as well as emotions. You need to know how you react to high pressure situations, and you need to know how you handle risk, loss, and profit. This may sound the same as what was discussed under “Question Yourself”, but it is not. For example, there is no point in trading a strategy that aims to profit from one or two really large winning trades against twenty losing trades over a period of several months, if you know that you simply will not be able to stand it. Different people have different emotional tolerances for different models of trading strategies. It is possible to make some profit using either long-term, short-term or very short-term methods. There is no point aiming for the most profitable methods, which require a huge amount of patience and high loss rates, if you simply will not be able to stand it and are likely to abandon the execution of the strategy when the going gets tough, which will be likely to result in an overall loss. You need to be realistic about both yourself and the market. As Sun Tzu said, “If you know the enemy and know yourself, you need not fear the result of a hundred battles.” Note that he said a hundred battles, not one battle. A good trader can lose one trade, but will never lose over one hundred trades.

Get Help from the Pros

In the world of Forex, there's no shame in turning to professionals for help, especially at the beginning of your Forex trading career. There are many ways to get advice from pros, whether via Forex trading signals or an autotrader which copies a professional trader's trades directly into your platform.

Don't be fooled – no signal provider or autotrader is 100% perfect. But for traders who are looking for a bit of guidance, these features, when used properly, can help teach a bit about the way the Forex market works.

Using a Forex Signal Provider

When using a Forex signal provider, it is important to keep a few things in mind. The fact is that some signal providers are going to be better than others, and as such, diligence is extremely important. Likewise, nobody is going to care about your money more than you – including whatever signal provider you use.

If you live in the United States, one of the most important things that you can do to ensure you are using a reputable signal provider is to discover whether or not the signals are being sent by a CTA (a Commodity Trading Advisor).

CTAs are registered with the CFTC in the US, and receive compensation for giving people advice on options, futures, and Forex, as well as for the actual trading of managed accounts. As such, they are highly trained and can be relied on as people who have completed various trading courses and examinations. While the amount of signal providers that have these people working for them are small – they are head and shoulders above the rest in terms of training and ability.

Get Actual Performance

The second thing you should look for is actual performance. Many of the Forex signal providers out there are advertising results that are purely hypothetical. In other words, they are applying their systems to historical market data, and can often be doing what is known as curve-fitting. This is when a system is applied in such a way that gives a better result than would occur in real time.

Watch out for excessive performance claims as well. A fund claiming average gains of a few percent every month might not sound exciting, but it is certainly more believable than one claiming 10% every month. Common sense should be applied. The scammers are counting on your greed overcoming your fear and your inner voice of reason.

Another thing that you should pay attention to is where the service is actually located. You want the company to be located in a country that has a strong rule of law, so that the company can be held liable if something goes horribly wrong.

Even though most of this may seem like common sense, unfortunately greed can make people forget their common sense. Many people get scammed every year by services claiming to be Forex signal providers who have never traded Forex in their lives. They are simply salesmen that have figured out a way to make a basic Forex system look exciting.

Automated Forex Traders

Autotraders are also called “robots”, “expert advisors”, and “auto traders”. No matter what we call them, they all operate in a similar manner. While the exact technical set-ups will vary from system to system, their operations will essentially be the same.

You will download and install the system to your Forex trading platform, and set up should only be a couple of steps. The basic premise of these things is that they are essentially an “add on” to your trading platform. This allows for easy installation, and uninstalling is just as simple. Because of this, many traders will actually have several different systems that they use in a variety of market environments.

The systems will fall into two basic categories: automatic and semi-automatic. The automatic ones will place trades for you, without any input from you at all. The semi-automatic ones will simply give you a signal or suggestion as to which way to trade a particular currency pair.

The automatic one will simply buy or sell based upon a sometimes complex mathematical formula that tells the computer when it is time to enter or exit the trade. The automated system simply does all of the work for you. It is very common for these systems to have a hidden proprietary algorithm that you never see in order to make these decisions. The one thing they will all have in common is that they are all mathematically-based. Hiding the algorithm is just a simple way of protecting their intellectual property.

The semi-automatic system offered by Forex automated traders will simply let you know when it gets a signal to buy or sell. The system will still have that hidden algorithm that you won't see, but instead of automatically placing the trade you will often see some kind of pop up alert when it is time to trade. You can then choose as to whether or not you want to trade the signal, allowing you.

The majority of these systems are made for the MetaTrader 4 platform as it is by far the most popular platform out there. However, you will find an almost unending supply of them for the MT4 platform as even the brokers that use other platforms will usually offer the MT4 platform as well.

The better Forex automated systems will come with a money back guarantee, normally through some kind of ClickBank vendor account. Because of this you should be able to feel somewhat comfortable with the software as your money can be refunded. However, it is recommended that you try a new system out on a demo account just to make sure it performs up to your standards.

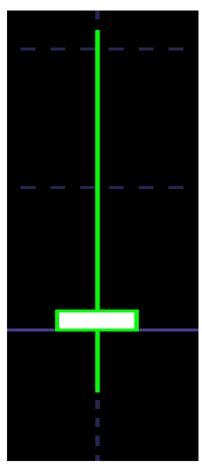
Some Forex Trading Strategies

INTERDAY PIN BAR TRADING STRATEGY

The pin bar (also known as a hammer) is one of the best price action set-ups, especially when combined with an analysis of support and resistance. This strategy is simply to look at the daily candle at the end of each for a wide range of currency pairs/crosses, and to take a close look at any daily candles that have formed into pin bars.

The pin bar can signify a sudden reversal triggered from a failed breakout, or a trend continuation. It is often a very strong signal.

The definition of a pin bar is usually agreed to be a candle with a long shadow (wick) where the open and close of the candle are both close together very near the end of the bar away from the shadow, for example:



These candles do not print very often, so you need to be patient. You may only get a few trades per year, but these trades are often well worth waiting for.

You should not blindly trade every pin bar that you see, even though these candles tend to have high success rates when they are formed on daily charts.

There are two elements here worth thinking about: the candle itself and its position.

Regarding the candle itself, the larger its range (size in pips from high to low), the better. It should ideally be larger than most of the few preceding bars (say 5 to 10 preceding bars).

The shadow should be sticking out, pointing away from recent price action, making a significant swing low or high that should usually be a weekly or monthly low or high, for example:\

The open and close should both be in the top third of the candle's range (if the shadow is pointing downwards), or bottom third (if the shadow is pointing upwards).

If all these criteria are satisfied, it is then worthwhile to drop down to a smaller time frame chart, usually a 1 hour chart would be best, to take a closer look at how this pin bar was formed. What you are looking for ideally is a single sharp move up or down followed by a fast bounce back. If the price has gone up and down the range two or three times, the trade is much less likely to produce a good result.

The trade is away from the direction that the shadow is pointing. The pin bar represents a sharp rejection from a price level, hinting that the price will move further from the momentum of the rejection.

The second most important thing to look at before deciding whether to make a trade is the position of the pin bar within the recent price action, i.e. previous candles.

If the shadow of the candle sticks out into a known major support or resistance level that has not been touched for a reasonable amount of time, that is perfect. These would be trend reversal trades, where you are looking to get in right at the beginning of a new trend, and reap a large reward to risk ratio. In these kind of trend reversal trades, it is also good if the momentum of the previous trend has slowed down considerably before the pin bar is printed, as trends rarely turn around on a dime.

If you are looking at a pin bar trade that is indicating trend continuation, then it should be enough if the shadow is showing a rejection from a level that was holding the trend back but then became a level providing support for the trend. It is also a good sign if the “flow” of the candles looks clean and orderly.

Other things to look out for include indicators confluent with the shadow of the pin bar candle, such as a key moving average or outer band of a Bollinger Band.

<u>Strategy Rules:</u>

Pairs Traded: Any

Time Frame: Daily

Entry: Set a stop order at least one pip above the high of the pin bar (for long trades) or below the low for short trades. If the trade is not triggered the next day, cancel the entry order as there is an absence of momentum.

Stop Loss: Traditionally set just one pip beyond the end of the pin bar candle's shadow, but the stop can be made tighter to produce a greater reward to risk ratio. If the one hour chart shows an obvious place to put it that is just beyond 50% of the candle's range and the set-up looks to be of a very high quality, it could be worth placing the stop at this point. A compromise would be to split the position into two halves and put the stops for each half at two different points.

Exit: This is the most challenging part of the trade. Traders looking for more frequent but smaller overall profits need to be more conservative than traders who are prepared for a smaller winning ratio but greater overall profits. A variety of methods may be used alone or as combinations including-

- Full or partial exits at key support/resistance levels;
- Trailing stops, either by pip total or % of volatility, or by highs/lows of daily candles;
- Chandelier trailing stops;
- Exit at a predefined R multiple, e.g. if the trade has risked 100 pips, and the trader has determined to aim for a reward 4 times larger than risk, the exit target will be at 400 pips in profit;
- Time-based exits, which are not to be dismissed.

The stop may be moved to breakeven after the trade has reached a profit after a suitable period of time, but beware as winning trades sometimes retest common entry levels before making another long, strong move in the original direction of the trade.

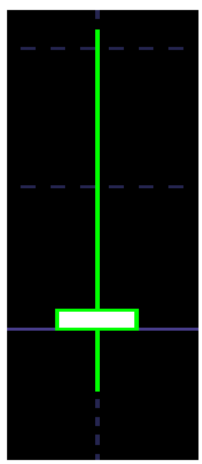
INTRADAY PIN BAR TRADING STRATEGY

This strategy combines one of the best price action set-ups (on a shorter time-frame) with support and resistance (on a longer time-frame). It has a hard-to-find combination of both a high win rate and a high risk-to-reward expectancy.

The Ponshada Pins strategy does not signal a lot of trades (possibly only one every few months on average), but, based upon its performance over the past 5 years, the trades have a high probability of success.

The price action set-up is the pin bar (otherwise known as the hammer). The pin bar can signify a sudden reversal triggered from a failed breakout, or a trend continuation. It is often a very strong signal.

The definition of a pin bar is usually agreed to be a bar with a long shadow (wick) where the open and close of the bar are both close together very near the end of the bar away from the wick, for example:



Of course, you need some criteria for determining which pin bars are best to take. There are two elements here worth thinking about: the bar itself and its position.

The Pin Bar

The best pin bars to trade, in terms of typical reward to risk profile, are the 1 hour time frame pin bars in EURUSD and GBPUSD currency pairs, during London business hours.

Bar Position

The pin bar often signals a powerful trend reversal, or the beginning of a new trend after a period of consolidation. It makes sense to look for a bar to be positioned at support or resistance, the stronger the better.

An objective way to define support or resistance is a 2-day high or low. A high or low that has held for 48 hours is likely to have some strength to it. When combined with whole numbers and pivot points, it becomes even stronger.

For the final icing on the cake, let's add that the bar should be part of a failed breakout. If the wick of the pin bar punctures the 2-day high or low and pivot / whole number, and closes below them, it shows that a failed breakout may be taking place, leading to a possible 2B reversal in the direction that we want to trade.

Now we have looked at the theories behind this strategy, let's set out the detailed entry and exit rules.

<u>Strategy Rule</u>

Pairs Traded: EURUSD and GBPUSD

Time Frame: 1 hour charts

Time Window: Trades may be entered between 9am and just after 5pm London time, excluding UK public holidays and the final two weeks of December.

Chart Set Up:

- 1 hour chart
- London pivot points

- 48 hour Donchian channel (showing high and low of previous 48 hours)
- Whole number horizontal lines indicator

Entry:

- Bar closes between 9am and 5pm (nine closes per day), entry is immediate upon the candle close (we do not wait for a break of the pin bar).
- The bar must be a pin bar with both its open and close contained within either the top (for bearish) or bottom (for bullish) of the bar.
- The open and close of the bar should ideally be contained within the range of the previous bar. However, if they are instead contained with the general range of several recent bars within a larger consolidation pattern, that should be OK.
- The bar must have a range greater than or equal to the largest ranges of any of the previous 5 bars.
- The wick of the bar must penetrate the high (for bearish) or low (for bullish) of the previous 48 hours.
- The wick of the bar must also penetrate or at least touch **either** a London pivot point **or** a whole number (e.g. 1.3100, 1.3200 etc.). If both happen simultaneously, that is even better. Currently, whole numbers seem to be important for GBPUSD.
- Put the stop loss 1 pip plus the spread from the end of the wick of the bar.

An example of an entry is shown below. A bearish pin bar has just closed with both its open and close contained within the bottom third of the range of the bar. The wick of the bar has penetrated both the 48 hour high (represented by the golden line), the whole number of 1.35, and the R1 pivot point (represented by the dotted red line). The bar opened and closed below all three points.

Tips and Advice:

- Based upon the past 5 years of data from the time of this writing, the probability of reaching a reward equal to at least risk is approximately 75% for EURUSD and 70% for GBPUSD. If the bar has closed at 9am or 1pm, the probability is even higher. This is something to keep in mind when planning your exit strategy.
- The probability of the trade producing a reward of at least 300 pips, based upon 2011 and 2012, is approximately 42%. Not bad for a risk/reward ratio that would probably be about 1 to 10 for an average sized entry pin bar! This is also worth bearing in mind when planning your exit strategy.
- This is a very profitable long-term strategy. However, it is perfectly possible to go a year with only 3 or so trades, all of which are losers. This is not necessarily a "bread and butter" forex trading strategy.
- Sample size is small, there are few trades, so probabilities are historically but not quantifiably solid.
- If the entry pin bar's range is pretty much the same as the range of a large amount of

bars before it, the trade is most probably being triggered in a consolidation zone and therefore has a smaller change of reaching a reward equal to risk. You might consider not taking this trade, or at least waiting for the break of the bar to enter, or reducing the cash amount risked on the trade.

Exit Strategies

- Close half the position at 1 for 1 reward to risk, and put a trailing stop on the remainder of the position when it reaches 4 to 1.
- Time based exits, where some or all of the position is removed after 24 hours, 1 week, 1 month, 6 months. These would be good time periods to bear in mind. Time-based exits are counterintuitive but can be surprisingly effective.
- Close one third of the position after 300 pips and move the stop to break even, another third at 600 pips, the final third at 1000 pips.
- You can be creative, just remember a 300 pips plus move is often signaled by these entries.

MULTIPLE TIME FRAME MOMENTUM STRATEGY

As the title suggests, this strategy utilizes multiple time frame analysis in order to identify trades with a very high potential reward to risk ratio.

The initial analysis is performed on the 4 hour time frame. We look for bullish or bearish rejection engulfing bars.

A rejection engulfing bar is a price bar that breaches the high or low of the previous price bar, but then reverses and closes with an engulf of the previous bar's open and close in the opposing direction. This usually indicates a fast reversal following a rejection of a price level, i.e. momentum.

An example of a bullish rejection engulfing bar:

An example of a bearish rejection engulfing bar:

We wait for one of these bars to form on the 4 hour chart. Don't forget that your chart will only show 6 of these bars each day, but you can draw a 4 hour bar at the close of any hour from the 1 hour chart. There is no reason why you cannot look at any one you want to at the close of any hour. Different currencies tend to produce 4 hour bars which are more fertile ground for producing trades at different times of the day (more about this later).

Once we have the 4 hour rejection engulfing bar, we drop down to the 15 minute chart to look for a precise entry in the same direction as the 4 hour bar. We could enter immediately, but by refining the entry we can filter out some of the bad trades and drastically reduce risk by up to 90%.

We draw the high and low of the 4 hour rejection engulfing bar and wait for the first breakout of either level. If the breakout is against the direction we want, or if our trading session runs into time we consider dead time for that currency pair without a breakout, then we wait for the next 4 hour rejection engulfing bar to appear.

Once we get the breakout in the direction that we want, we then look for an engulfing (in the desired direction) or inside bar in the 15 minute chart to break immediately in the direction that we want, and enter on the break. This gives a low-risk entry in a potentially high-reward price zone. As an additional filter, we will take longs only above and shorts only below the 200 EMA. This is because if the price is one side of the 200 EMA, it generally faces some resistance in breaking through it.

An example based upon what followed the close of the bearish engulfing bar above is shown below. The red lines are drawn to show the high and low of the bearish engulfing bar in the 15 minute chart. We wait until the low is pierced, then we get a signal to enter as an inside bar is broken to the downside. The yellow line is the 200 EMA filter, as the price is below that it is safe to enter:

Even if the first trade fails we keep entering, until we reach a time of day when we do not want to trade, or until the other end of the 4 hour bar is broken.

Strategy Rules

Pairs Traded: Any, but be aware that the triggers we are looking for in the 4 hour chart are more effective at some times of day than others.

Time Frames: 4 hour and 15 minute charts

Time Window: As a general rule, the bar closing at 8am New York time is very effective. For EURUSD and GBPUSD, the bars closing at 11am, Noon, 1pm and 5pm London time are the ones to watch. For JPY and AUD based pairs, the 4 hour candles that close about half the way through the Tokyo session, as well as the one that closes just as the London/Tokyo overlap begins, are also ones to watch if you are not asleep. No trades on UK public holidays and during the final two weeks of December. Do not trade before 8am London open if the day is a Japanese public holiday.

Chart Set Up:

- 4 hour chart
- 15 minute chart with 200 Exponential Moving Average

Entry:

- 4 Hour Rejection Engulfing Bar forms and is broken in the direction of its engulf, before being broken at its other end.
- A trigger consisting of an inside or engulfing bar forms on the 15 minute chart. In the case of an engulfing bar, the engulf must be in the same direction as the engulf that was shown on the 4 hour bar.
- The trigger bar must be broken in the required direction by at least 1 pip during the next 15 minute bar. If the other side of the bar is breached first, do not trade. The entry point must be above the 200 EMA for longs or below it for shorts.
- Enter on the 1 pip break, put the stop loss 1 pip plus spread from the other side of the trigger bar.

Tips and Advice:

- Rejection bars off significant support/resistance levels, including monthly, weekly or daily lows and highs, can be higher probability moves.
- Instead of trying to size every position equally, the strategy can work well if you just risk the same (relatively small) amount per pip, which can be adjusted according to overall volatility.
- The win rate is going to be very low, however the winners can be huge. This makes it quite dangerous to try too hard filter the trades at your own discretion. If you are going to do this, try to make sure you only filter out the set-ups that look really bad.
- Inside bars usually produce a significantly greater reward to risk in pip terms, however do not avoid the engulfing bars as you would probably sacrifice too many potential

winners.

- Do not worry too much about large bars, despite the extra risk in pip terms, unless they are freakishly large.
- If the trigger bar is touching the 200 EMA, use some discretion. Take trades only away from the side of the bar that is touching the EMA.

Exit Strategies

- You should expect a high proportion of trades that either fail quickly or only travel a few pips in your favor. Therefore you are going to need to let winners run for at least 0.75% of the pair or cross value before taking any profit.
- You are going to have to expect periods of draw down.
- The best strategy should be to simply aim for profit of about 300 pips or 20X risk if you are sizing each position equally.
- You could try to smooth your equity curve by taking partial profits at 100 pips etc. but it probably is not worth it. Remember, this is a system where being too cautious with profits is actually in reality being reckless.
- You might be tempted to try to move the stop to break even after a certain distance. You will probably only save a few trades by doing this so it probably is not worth the trouble.
- This is a psychologically difficult system to trade on an optimal level.
- You should manage, over time, to make a profit about 3X as big as your losses.

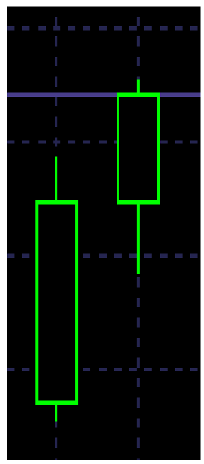
DEMAND RETURN STRATEGY

This strategy is very simple, and it can be used as a simple 2-bar price action principle within other trading strategies or styles. It is based entirely upon price action.

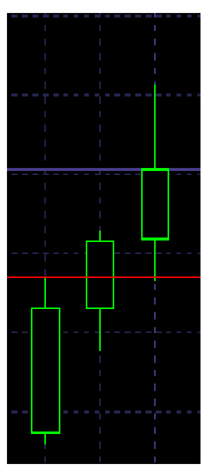
The percentage of winning trades is usually quite high, but the proportion of reward to risk is often relatively low.

Trades are signaled infrequently, as this strategy applies to the daily charts.

The strategy looks for a strong trend, signified by two consecutive strongly bullish or bearish daily bars in the same direction, for example:



If the price returns quickly (i.e. during the next trading day) to the high of the first bar in the 2 bar series, we can expect the price to make another strong move in the direction of the initial trend:



There are technical and psychological reasons why this is likely to happen:

Psychologically, when traders are watching a very strong trend from the sidelines, they get more and more frustrated when the trend does not offer any obvious pullback for a safe, low-risk entry. The longer this goes on, the more traders get frustrated.

Traders often end up looking at some kind of breakout level, and deciding that they will enter on a retrace back to that level. Yesterday's high or low is a psychologically satisfactory entry spot. It can also be good technically as yesterday's high or low may be an actual or perceived breakout level. It is certainly some kind of support or resistance, and traders love to enter on retests, especially if they happen quickly or are parabolic.

If this level is also the 50% retrace level of the directional move or close to it, even better.

Note that the significance of the first day's high lessens after the first day. This strategy will only signal a trade if the return is made during the next trading day.

The entry does not have to be taken as soon as the price reaches the first day's high. You can treat the area between the first day's high and the second day's low as a “buy zone” in which to look for entries.

The second day's low is also technically and psychologically significant, for the same reasons as I outlined above about the first day's high.

When the price drops back into this zone, price has returned to demand, and we can expect a bounce.

There are two ways to play this:

1. Set a pending order at the second day's high (for a bullish move) or low (for a bearish move). The stop loss can be just below the second day's low (for a bullish move) or high (for a bearish move). Alternatively, a more conservative stop can be placed at the first

day's low or high. Cancel the pending order if it is not triggered during the third day.

2. Draw the demand zone with horizontal lines and wait for the price to return to that level during the next day. When the price gets there, drop down to a lower time frame (the 15 minute chart is recommended) and look for a low risk entry off an engulfing, inside or pin bar.

Strategy Rules

Pairs Traded: Any, works best with EUR/USD and EUR/JPY. As a general rule, the stronger the trend and the stronger the 2-bar set-up, the better.

Time Frames: Daily charts

Time Window: No trades on UK public holidays and during the final two weeks of December.

Chart Set Up:

- Daily chart
- 15 minute chart (optional)

Entry:

- Two strong consecutive daily bars form in the same direction, ideally within a strong trend or as a beginning of a new trend. If the bars are a bounce off a key level and have a larger range than any recent bars that closed in the opposite direction, this is a good sign.
- Enter on a return to the high of the first day's bar (if bullish) or low (if bearish).
- Stop loss should be just below the low of the second day's bar (aggressive) or first day's bar (conservative).
- You can alternatively try to refine your entry by watching price on a lower timeframe when it returns to the entry price area.

Tips and Advice:

- This is a simple strategy. If you watch price action on any time frame during a trend comprised of several strong bars in the same direction, you can see that the price will often return to the high of 2 bars ago and bounce off this level (in a bullish trend). This can be a good entry technique within a strong trend, getting you into a move well before the first pullback. You can also use this technique to scalp a few pips if you are a scalper.

Exit Strategies

- Bullish trades should reach the high of the second candle at least, bearish trades should reach the low.
- You can take all the profit at this level if it has a risk to reward of at least 1 to 1.
- Alternatively, move the stop to break even at this point, and consider taking partial profit and leaving the rest on the table until there is a long-term trend change.

Ready to Start Trading?

It is best to begin with a demo account, and not move to an actual live account until you have been profitable with the demo account for at least 3 months. You can of course trade a demo account for longer than 3 months even if you are profitable for that period. Bear in mind that although it's the same price, more or less, you will probably feel very different when you risk your real money by opening a live account. Most brokers offer demo accounts, but take heed because some expire after one month. There are a few brokers out there that offer demo accounts that never expire. There is nothing to stop you from demo trading with only pen and paper either, as long as you are honest with yourself.

It is a good idea for beginners to start by trading longer-term strategies that use the daily chart, where trades might be kept open for days, weeks, or even months. Even if you are trading on an intraday basis and using shorter time frames, it is still a good idea to let winning trades run to as close to their maximum profit as possible, which might involve keeping them open for longer than a day.

Every night that you have an open position, most brokers will charge you a small commission. This is known as "rollover" and is based upon the interest rate that you are theoretically being charged for borrowing the swapped currency overnight. What you need to know is that the rollover will effectively reduce your profit or increase your loss by one or two pips every night. This shouldn't stop you being prepared to hold trades overnight, but it is a something you should factor into your calculations, and one reason why when you have a lot of profit on the table very quickly, it is a good idea to bank some of it, if you are planning to sit and wait for days or even weeks to see if it will go up even more.

Risk and Stop Losses

You should always use some kind of hard stop loss that is entered into your trading platform. When your stop losses are hit, it can feel like a slap in the face. If the price then comes back in the direction that you originally wanted it to go, the anguish increases even more. You will need to ignore these feelings and instead be grateful that your stop loss limited the maximum amount you could possibly lose. Sooner or later you will be grateful that you had the stop in place.

Experts sometimes trade without hard stop losses. They can get away with this because they are experts and because they are probably using little or no leverage. Ignore these methods, for your own safety.

The most common mistake people make is assuming that stop losses should be put in a place where they will not get hit unless the trade is a real loser. That is one way to arrange things, but there is nothing wrong with using tighter stop losses as with most breakout strategies they produce higher profits over time. This is because the best trades usually spend little or no time in negative territory. However, most new traders cannot stand the psychological pain of trading strategies with low win rates, so newer traders can find it much easier to use stops in a traditional way.

Regarding how much you should risk per trade, you should always risk a defined amount of your capital. If you are using a strategy that tells you that every trade you make has the same chance of winning, then you should bet the same amount of your account on each trade. Figures of 1% or 2% are often quoted, we suggest instead that you risk no more than 0.5% per trade. This may seem over-conservative, but it gives a beginner the chance to trade with less pressure and worry. Losses will be less painful and easier to forget. You can always raise the amount when you have a well-established track record of trading profitably with real money.

What is Technical Analysis – And Why Should I Care?

As you can see, the world of Forex trading is complex – even just picking a broker is a complicated process! But fortunately, there are several ways in which to understand the market, so that you're not simply placing trades based on gut feelings, but on reasonable evidence of how the market will perform. One such way to do this is technical analysis, a very popular way to get a real understanding of the history of a specific currency pair, and what this says about how the pair will move looking forward.

Although a full explanation of Forex technical analysis could fill an encyclopedia in its right, it's a good idea to understand the benefit of this service, and how it can impact your profitability.

What is technical analysis and why should you care? Well, let's start with the fact that what separates Forex from gambling is the fact the in blackjack or poker, the hand you receive from the dealer is purely and completely based on luck. There is absolutely no way to decipher what your hand will be (unless you know how to count cards), and therefore, there is nothing you can do to be prepared.

Forex, on the other hand, offers you the ability to predict with high probability what the future will bring for a currency. Now, of course, there are no guarantees, and it is very possible that based on your analysis, you predict the currency will go one way, and it ends up going the other. However, the Forex experts out there, who truly know how to analyze the charts, can make predictions that are accurate up to 7 out of 10 times, and sometimes even more.

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