The Market Conditions Manifesto

The One Trading Ratio (That You've Probably Never Heard Of) That Can Instantly Transform You Into A More Accurate, Confident, and Profitable Forex Trader

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4 Squared Analytics

What you are about to read is the result of nearly 10 years of full-time, intensive research, testing, and live trading by several people within 4 Squared Analytics. It is only through some of our technical analysis that we were able to take some of the obvious, even common sense, concepts and turned that into hard trading rules.

The information you are going to get truly has the power to change your entire trading life.

It is the kind of information that can transform you from a losing trader into a seasoned full-time trader in no time.

In a moment I am going to reveal the “3 Market Conditions Ratio” and how understanding it can empower you become a far better trader… almost immediately.

But before we do that, we need to take a closer look at the markets and examine exactly how they move…

The Three Market Conditions

It doesn't matter what you're trading – stocks, futures, currencies, commodities, etc. – the markets can only move in one of three ways:

• **TRENDING** (the item you are tracking moves in a reasonably steady direction over time)

• **RANGING** (This is where the item is stuck within a narrow price range; this is also called "sideways")

• **SPIKING** (this occurs when price "breaks through" to a new high or to a new low and then bounces significantly off of that level)

I don't care if you trade trends, swings, or anything else. Markets move in three ways and only in three ways.

Ok, not so exciting yet, so why does this matter?

It is only once you become intimately aware of the three markets, and can reliably know which condition the market is in, that you suddenly gain a massive advantage over all other traders.

The reason for this is simple; most people have a system designed for a single market condition (nearly always for trending markets), or at most for two of the three conditions (trending and spiking).

The problem is that those two conditions occur less than half of the total time of the market. Very nearly 60% of the time (as you will soon see), the item you are tracking will move in a sideways pattern.

What that means is that your system leaves you sitting and waiting MOST of the time that you are "trading". **The real problem** however is that because you are left sitting and waiting so often, you will force a trade rather than sit and wait so long.

In other words, out of boredom, or simply a desire to make some trades you end up trading the as if the market is moving differently than it really is ... and THAT is what causes you to make losing trades you otherwise wouldn't.

So trading the way you likely are right now is going to slowly drain your account to ZERO.

Now that I have explained the three market conditions, let me examine how they occur and how you can use this knowledge to **increase your accuracy, confidence, and PROFITS no matter what you trade.**

The 3 Market Conditions Explained

Here's an important secret about the various financial markets that will probably surprise you.

On average, the markets are in a **trending mode only about 30%** of the time, **Spiking mode only about 10%** of the time and in a sideways, or **ranging mode about 60%** of the time.

This "60: 30: 10 Ratio" exists across all markets and on any time frame you are charting.

It doesn't matter if you're trading Forex using a 15 minute chart or stocks using a one day chart, the results will be the same:
Sideways: 60% **Trend: 30%** **Breakout: 10%**

As I said before, the system you are using is probably designed for only a trending market (even if it *claims* to work in any market condition).

However, often things like this need to be verified so ...

Putting the 60:30:10 Ratio To the Test

If you want to test the 60:30:10 ratio for yourself, simply place a Bollinger Band (or any other trend indicator) on <u>any chart</u> for <u>any time-frame</u>.

Then, add up the candlesticks where the market was in a trending mode (i.e. the bar breaks above or below the band) and divide it by the total number of bars in the trading period and you'll have your "trending average".

For example, take a look at a daily chart for GBPUSD in 2008. I counted a total of 80 bars that were in a trending mode, out of 240 trading days. That means that for 2008 the market was in a trending mode only 33% of the time.

How about spiking mode? I found that there were a total of 23 breakout days out of 240 trading days, meaning that a spike pattern existed only 9.6% of the time.

GBP/USD
Trend: 80 days (33.3%)
Breakout: 23 days (9.6%)
Sideways: 137 days (57.1%)

In other words, using actual data, we can see that the Market Conditions Ratio holds true. As I said before, this is something you can verify yourself with whatever your like to trade.

Here are some more examples from 2008 ...

EUR/USD Trend: 91 days (37.9%) Breakout: 26 days (10.8%) Sideways: 123 days (51.3%)

USD/CHF Trend: 87 days (36.3%) Breakout: 29 days (12.1%) Sideways: 124 days (51.6%)

USD/JPY Trend: 70 days (29.2%) Breakout: 26 days (10.8%) Sideways: 144 days (60%)

<u>Average</u>: Trend: 34.2% Breakout: 10.8% Sideways: 55%

So now that I've hopefully proven the existence of the 3 market conditions and the fact that they only trend and breakout (at best) 40% of the time, the question you should be asking yourself is…

How Can I Use The Market Conditions Ratio To Improve My Trading Strategy?

You can use this knowledge to improve your current trading in two ways:

First, you need to learn to trade in all market conditions if you hope to truly be profitable. After all, trading profits occur from making profitable trades, and making profitable trades can only be done when you make the right trade for the correct market condition.

Secondly, knowing this information you can more easily spot "predictable profit opportunities."

I'll talk more about "predictable profit opportunities" in just a bit, but first let's discuss the first point which is learning to trade in all market conditions…

FACT: Money Is Made Only By Making Profitable Trades

I probably didn't have to say that one ... after all, it's pretty self-evident isn't it.

However, it needs to be said because you need to remember that the system you are using is designed to place a trade only 30% of the time, leaving you sitting around waiting the other 70%.

So, if you're like most traders (who only trade trends and/or breakouts), you now know why you're in "sit and wait" mode the vast majority of your trading life…

70% of the time, the market isn't doing what <u>you need it to do to make money</u>!

However, if you learn to trade, this type of "sit and wait" trading isn't just boring and unproductive, <u>it's also dangerous</u>. You see, unless you're a super-disciplined professional, you'll often wind up forcing trades that aren't there just because you're hungry for action.

And that's when the REALLY big losses occur…

If you've been trading for any period of time, then you probably understand exactly what I'm saying because you've done this exact same thing before. If you're still new to trading, then count yourself lucky that yo haven't had to eat a trade that sucked up 50% or more of your trading account.

The end result is that you want to be "in the markets" as often as possible ... but with trades that are *<u>correct</u>* for the current market condition. That being the case, it is absolutely **critical** to have a sideways trading system.

What is sad however is that when I talk to fellow traders about sideways trading, I usually hear one of two responses:

RESPONSE #1: *"You can't make money in sideways markets. You're better off waiting for a new trend to fully develop."*

RESPONSE #2: *"Sideways trading is risky. You need to trade with a trend."*

The first response is born of plain and simple ignorance. The notion that you can't make money when markets are moving sideways is ridiculous. Many scalpers regularly make trades with profits of only a pip or two, so it only stands to reason that you could do this during any market condition.

The second response is the one that I hear most often. The reason is that if you open almost any book on successful trading you're very likely to see a "rule" that reads something like this: *"NEVER trade against current trends."*

On the surface, this rule seems so obviously true that it's rarely challenged. It seems so obvious as to be self-evident. After all, you won't make much money placing a short trade in a market that is going up.

But when you do the math and realize that markets only trend 30% of the time; you start to think that maybe all those trading "gurus" weren't telling you the full story.

You see, since the market is moving sideways MOST of the time, and most systems don't make trades in sideways markets, learning to trade during this market condition allows you to easily find "predictable profit opportunities".

Not only that, but regularly and actively trading in sideways markets gives you an almost instinctive feel for what the market is doing. You quickly gain an understading of your markets personality and unique traits. You learn to feel when the market is going to be making a move on an intuitive level that lets you get in on trends and spikes ***very*** early.

This level of intimacy with the market is something that can't be developed by sitting on the sidelines or looking back through old charts or playing around with a monopoly money demo account. It only comes when you are putting your money on the line with real trades. That's another reason why it's so essential that you're in the market as often as possible.

Not just watching charts, not trading funny money in a demo account ... trading your actual money, for real.

Not only does it allow you to skim off the easy profits that would otherwise be left on the table, it also better prepares you for when the big moves do occur.

Now one thing I want to point out is that being in the market "as often as possible" **DOES NOT** mean that you have to spend a lot of time trading.

There is a big difference between understanding how to grab a significantly larger number of trading opportunities, and being married to your screen.

“Predictable Profits” As A Strategy

Let’s go back to how we can use the three market movements in our favor is to take advantage of “predictable profit opportunities”.

“Predictable profits” During Sideways Markets

I realize that watching session opens, closes and news announcements for breakouts is hardly a new concept, so here are two intra-day strategies you can use during Sideways markets:

Strategy #1: Sideways Trading During Market Gaps

While the Forex markets only technically close from Friday at 5:00pm eastern through Sunday at 5:00pm eastern, large banks and institutions (which make up over 95% of the total trading volume) follow standard business hours and cease trading at 4:00pm every day.

So, while the banks are closed, volume drops off dramatically and the markets tend to move in a ranging (i.e. Sideways) mode. The retail traders (i.e. you and me) simply don’t move enough money to cause large breakouts or new trends.

Normally this would be a bad thing, but for traders who know how to trade in Sideways markets, this is a DAILY golden opportunity.

The sweet spot to take advantage of this “predictable profit opportunity” is when the U.S. banks close at 4:00pm eastern but before the Asian banks re-open at 7:00pm eastern, but volume really drops off so much in the final hour of trading that you can usually broaden this window to **3:00pm – 7:00pm eastern**.

This means you have a solid 4 hours EVERY TRADING DAY to scalp some pips off the market if you know how; and here’s one way of doing that:

Set up a EURUSD Forex chart on a 5 minute time frame. On that chart add in a Bollinger Band indicator and set it to a 5 period and a 2 deviation.

Now, wait for the price movement to wick through either the lower or upper band. When it returns back to the line, place the trade. You are looking for only 5 to 10 pips of profit (which does mean manually managing the trade). If the movement was through the bottom band and back, then you will be placing a long trade. If it was through the top band and back, then you are placing a short trade.

This happens all the time, and during times with low volume and a ranging market, this is the easiest money there is to make.

Now, for the sake of full disclosure, I will tell you that I don't personally trade using Bollinger Bands as I've just talked about. While the system above works well, I have developed a proprietary Sideways strategy that is **even more** accurate that I'll tell you about at the end of this report.

More on that in just a bit…for now, let's look at the 2^{nd} "predictable profit opportunity" during Sideways conditions.

Strategy #2: Pre-Announcement Scalping

Another time when the markets tend to move in a Sideways mode is just prior to major news announcements.

Big banks and major institutions know that news announcements such as unemployment rates and interest rate decisions can have a huge impact on currency prices, so just prior to these news announcements trading tends to slow down and go into a ranging (i.e. Sideways) mode until after the news is released (or occasionally just before its release as some institutions get news ahead of "official" release).

This creates a MASSIVE "predictable profit opportunity" that spans the open of the new session until just before the news announcement.

So for example, when the U.S. announces its Non-Farm Payroll figures the first Friday of every month, a Sideways trading opportunity exists from Thursday at 5:00pm eastern until Friday at 8:29am eastern (a minute before the news is actually released).

That means you have a full **15 hours to scalp the markets** while all the banks are in a holding pattern waiting for the release of the news.

The whole key to all this is that we're using the "predictable profit opportunity" to find times when the market will move in a predictable bounce between a trading range.

Now that you have a real-world understanding of how you can trade (and profit) thanks to your understanding of the 60:30:10 ratio, let's talk about your next steps…

How You Can Use This New-Found Knowledge To Become a More Accurate, Confident and Profitable Trader

At this point you have a couple of choices…

One option is to use your new-found knowledge and go hunting for 3 separate systems that are individually designed to trade in each one of the three specific market conditions that you now know exist (or you can develop your own 3 separate systems if you prefer.)

And if you do that, you also know that you would be using your Sideways system the majority of the time, so you better spend heavily on that one because you'll be using it the most.

You see, you already know enough (all backed up by hard evidence you can even go prove to yourself right away) to give yourself a big advantage over 99% of traders.

You know that 60% of the time you need to be trading very differently than the other 40% of the time… and you CAN consistently pull profits out of the market during these very same times most traders are stuck on the sidelines!

Of course there are two problems with doing that.

First, you would need to learn 3 separate systems (not to mention spend a whack of dough to buy all of them, or money thrown away on losing trades creating your own.)

And second, it still wouldn't solve the entire equation… because you would still need to know WHICH market condition you were in. On top of this, since they would be unrelated systems, they wouldn't have the ability to "talk" to each other and identify *which* system should be taking the trades at any given time.

So what now?

I had the exact same thoughts and concerns when I first made this discovery, so I made it my life's work to solve this problem.

And that's exactly what I did…

Enter The 3 Prong Trading Formula

Eight years after I began working on it, I finally perfected it, and when I did it changed my trading life…

And I *know* it's going to change yours too.

Best part?

You don't have to listen to me tell you about how good it is, because when you watch the special videos I've just prepared for you, it will hit you like a ton of bricks.

NOTE: You can watch the "Inside Look At My 3 Prong Formula" video right now by going to:
http://3prong.4sqa.com/blog

When you watch this video you will instantly and immediately see exactly how and why all of this just **makes sense**. In fact it's so crystal clear when you see it in action you will likely kick yourself for **ever having traded any other way.**

I know I did, and if you're anything like me when I would have done ANYTHING to have turned that illusive "corner" and had the ability to consistently pull winning trades virtually at will from the market, you are going to remember this day for a very long time.

But before you leave this report to watch the video, let me tell how I solved the problem of needing three separate systems that had to constantly "speak" to each other.

I knew I needed to develop this final piece of the puzzle to make it all work… and I knew would be an absolute breakthrough ***if*** I could do it.

I have to be honest, for a while there I wasn't sure if it was possible…

In the end, it took me thousands of hours of research, endless months of testing and dozens of sleepless nights to fine tune and perfect the final piece of the equation, and all while I still had my day job!

But guess what? I did it!
It's called **"Auto-Adaptive Technology"…**

…and it works very, very well.

So well in fact I quit my day job and became a full time trader almost immediately after completing the 3Prong Trading system.

I designed 3Prong to be **one single system** that automatically adapts to the current market conditions, ***instead*** of three systems working separately.

And it always takes its trades based on the **exact** set of specialized rules designed for the current market. It is the exact opposite of a “one size fits all” system as most are, and for that very reason, it’s almost “scary accurate”.

It has the ability to “know” when the market conditions are shifting and adapt accordingly.

And whenever it isn’t 100% sure…

Well there’s even a strategy for that called “Transitional Hedging” which is a very cool strategy in and of itself. (You’ll learn more about “Transitional Hedging” midway through the “Insider Look” over at: http://3prong.4sqa.com/blog)

It’s all explained in the video I just finished, so go watch now, and get ready for ***your*** own “tipping point” to occur:
http://3prong.4sqa.com/blog

Thanks for reading, and as always…

Wishing you successful trading,

Danny Wall,

4 Squared Analytics,
Research Associate

About the Author

Since you almost certainly have no clue who I am, I thought it would be appropriate to introduce myself before we get too deep into the report.

My name is Danny Wall, and I am a professional currency trader.

The fact that you haven't heard of me is no surprise. I have never been comfortable in the spotlight and have purposely remain "underground".

I don't write books… I don't try to get on CNBC, and… I don't go from city to city doing "dog and pony shows" so I can sell a room-full of people my overpriced, piece-of-crap, blinking-light, "black box" software.

I'm a trader, a system developer, a husband, and an amateur surfer (not necessarily in that order as my wife likes to remind me).

Trading is what I love, and trading is what I DO as a profession.

I also enjoy teaching and helping other active traders get an edge. I know from personal experience that most trading systems and advice are 100% crap, and it's my mission to provide something that actually works to independent traders just like me.

That's why you're reading this Trading Plan.

If you like what you've seen here and you want to learn more about what I trade and how I trade, I invite you to check out my 3 Prong Trading Formula by going to: http://3prong.4sqa.com/blog