By B.G.K

THE 3 RULES YOU MUST FOLLOW IN ORDER TO SUCCEED AS A TRADER

BECOME A MACHINE

MONEY MANAGEMENT

DON'T ACT. REACT

Let me start this off by saying that in order to be a successful trader, you MUST internalize the 3 previous rules that I have just mentioned.

<u>I would go so far as to say that the rules I just mentioned are more important than the actual trading system which I will show you, more important than any trading system anyone can show you.</u>

Let me reiterate this. THE RULES I JUST MENTIONED ARE MORE IMPORTANT THAN THE ACTUAL SYSTEM. I know anyone reading this guide is thinking that they want to skip past the boring stuff, but this is the reason many traders fail. Let me go into the rules.

BECOME A MACHINE

I want to share a story with you that has taught me a lesson about what it takes to succeed in the market.

At one point in my life, I played poker professionally. During my time spent on the felt tables, I learned something about what one needs in order to be successful. I think that my knowledge gained from playing poker has lent to my success as a trader. When I first started playing the game of poker, it was just something my friends and I would play for fun, and I didn't take any serious interest in it. By the way, I was very young when I first started playing. Eventually, I became much more interested in the game and I learned the strategy behind what it takes to win. Many people think poker is a game of luck, just like the market, but it is very much a game of skill if you possess the correct knowledge and strategy. I devoured every single bit of knowledge that I could find and I was constantly searching for ways to improve my game.

Eventually, I got GOOD. When I say I got good, I mean it. I could read opponent's hands to a very high degree of accuracy. I could value-bet like a champ, and so on. Although, I was getting great at playing the game, I was still finding it hard to be a consistent winner. I couldn't understand why I wasn't bringing home as much as the other players who I knew weren't nearly as skilled as me. I searched for answers as to what it was that was keeping me from becoming a consistent winner, and eventually I realized what it was keeping me back. I would play the game perfectly, but poker is a game of variance. In order to beat the game you have to withstand the variance the game also brings to the table. I was playing the game with my emotion at the table. The reason I keep calling it the game, is to relate it to FOREX and to any market in general. Forex is very much a game, in which you compete against other traders. If you are making money one day, then that means somebody else has lost money that same day. You have to beat your opponent. Ok, now back to the main point of the story. The reason I wasn't consistently winning money was because I let my emotions distract me at times. If one of my opponents would get lucky on me in one hand, I should've realized that over time my correct play would pay off. Poker is a game that can be played using a system of mathematical calculations and I would discard my perfect play in moments of frustration or anger. This is where the story makes the most sense in comparison to the market.

In order to become a successful trader, you must be devoid of any emotion when you trade. YOU ABSOLUTELY MUST HAVE NO FEELINGS. You must assign a trading strategy that you will use and stick to it 100%. Never allow yourself to sway from the strategy you have created. What I mean by this is, you must

follow the rules of your strategy because it works based on strict mathematical calculations that predict which way the market will move. You must set a number of requirements a potential trade must meet and if it even falls short of one of those requirements but meets everything else, you mustn't take the trade. If you allow yourself to fall victim to emotion then you will lose the edge you had in the market in the first place. This is what all successful traders do, they trade based on a system. Even some of the most successful traders in the world who have become successful based on their ability to trade but seemingly have no system they follow, are still internally trading using a system whether they realize it or not. In other words, their mind has internalized all of the requirements that a trade must meet and their brain does the correct calculations. Essentially, any trading system is cloning the process which occurs inside of a natural's mind. I know you, the reader, are taking this in right now, and thinking that "Sure, I can trade without emotion"… but I want to delve into this further so you understand.

No trader in the world can trade with 100% success. Every single person experiences what it feels like to lose. Michael Jordan knew what it was like to lose. Tom Brady knows what it's like to lose. Tiger Woods knows what it's like to lose. Every single professional in any field of competition has experienced what losing feels like. Losing in trading is especially important. Everything may be going your way. You may have that perfect trade set up, and all of a sudden it starts going against you. Who knows what happened… maybe there was a detrimental news release, maybe big brokerage houses or equity funds came in and started buying completely offsetting the market. Regardless of what it was that blew your trade, you still lost money. Now, you should usually be trading using stops so the trade won't affect you too much. At this point, you might feel angry, upset, whatever, but do not let that affect your trading decisions. This is the time that most traders lose focus and make decisions that do not meet their trading systems and make poor choices. THE PERIOD AFTER TAKING A LOSS IS WHEN YOU MUST BE MORE FOCUSED THAN EVER. So to sum up this particular rule… DO NOT LET EMOTIONS DICTATE YOUR TRADING. BECOME A MACHINE.

MONEY MANAGEMENT

The second rule you must learn to follow is to manage your money correctly. Money Management is another factor that is just as important as the trading system as you use. Allow me to share another aspect of my poker playing days with you that I hope may help put this rule into perspective.

By the way, I hope these poker stories aren't too tiresome or boring because they are relevant to trading.

Another aspect that was holding me back from becoming a profitable poker player that I didn't mention was that I had very poor bankroll management (money management). I would always plays in games that my bankroll couldn't withstand and if I lost in a game it would cripple my bankroll if not completely wipe it out. This concept is extremely relevant to trading.

Never risk too much money on one trade. Many traders that I know all use some form of money management. Some traders don't allow themselves to lose more than a certain amount of money each month, and likewise they limit themselves to making a certain amount of profit each month because if they exceed that amount then it means they are trading too much. Personally, I like to limit myself to trading no more than 4-5% of my entire account on one trade. Some traders prefer higher percentages such as 15%. Off the top of my head, the only trader that I can think of that uses this trading method is Mr. Swing. Mr. Swing trades stocks mostly but a lot of his trading strategies are similar to that of mine.

Another aspect of money management that you must stick to is to always trading using stops and TP points (Take Profit). This is crucial to being a successful trader and also relates to the previous rule of being a machine. You should never just wing it and play your entry and exit points by ear. It's imperative that you have clearly defined targets of where you want your losses and profits to be and I will go into that further when we go over the trading method. Using my method, you'll always have a clear idea of the exact targets you want to reach.

DON'T ACT. REACT

This is the third and final rule that I want to stress, and probably the most important rule as well. It's important to have patience and wait for the market to make its move before you make yours.

You, as a trader, must wait for clear signals to establish themselves before you commit yourself to a trade. Even if you see a specific candle pattern forming do not act before the pattern forms. If you are reading this, and you are new to trading then this is a rule that you might pick up with some experience.

I have lost countless thousands in my early days of trading because I would jump into trades because I thought a pattern would form before it actually

did, and that same trade would come right back and turn around in my face. I can't even stress this enough. As a beginning trader, you may see a trade forming in front of you and see the currency pair moving in the desired direction. However, not all of your prerequisites have been met for you to take the trade and you may feel tempted to enter the trade anyway. Under no circumstances should you disregard your original rules and enter a trade early. Don't act… REACT. Wait for the market to form patterns and then act on them. For instance you may think the EUR/USD is about to make a strong rally upwards, however your indicators don't say so. Instead of putting aside your rules, and taking a foolish trade, WAIT. If the market rallies up then you can trade the inevitable pullback which always happens after a strong rally, and we as traders can confidently predict. In this case we put aside our instincts and if the market moves against us we were wrong, however, if the market does indeed move up we react to the rally upwards and trade the pullback. If we had taken the trade based on instinct, then there is a 50/50 shot… either the market does move our way or it doesn't. If we wait for the market to make it's movement, and then trade on the reaction of that movement then we greatly increase our chances of success to 80-90%. If you can trade with a win rate of 80-90% then you no doubt will be a very successful trader.

To end this section, I want to make it clear that all 3 of the rules mentioned overlap in a lot of cases. All 3 examples that I have used to describe the rules focus on the same core principles such as patience. I want to urge you one last time, follow these rules and you will succeed.

THE METHOD

To introduce my method, I think it's very important to describe how simplicity is so integral to being a successful trader. There are countless trading systems which base their systems on the most complicated formulas and trading indicators, and this doesn't necessarily mean they are more effective than the most simple of trading methods. In Reminiscences of a Stock Operator, Jesse Livermore, one of the most successful and famous traders in the history of the market is profiled. Jesse Livermore went from being broke to being a millionaire more than three times in his life and had a fortune estimated at $100 million at points in his life. By the way, this was in the early 1900's, so by today's standards he would have been a billionaire. To get to the point, Jesse Livermore's system was unbelievably simple. Livermore had no trading indicators available to him; all he had was the price action. Livermore worked as a ticker tape boy at a brokerage house when he was a young boy and he constantly watched the prices move up and down, and after watching the prices for so long, he was able to instinctually predict which way a stock would move based on its previous price action. This is all indicators really do, they use the previous price action to make calculations about where the market will move in the future. No one indicator is more effective than another, and no one trading method is more effective than another. All it comes down to at the end is being able to predict which way the market will move based off previous prices. George Soros, the billionaire investor, who "Broke the Bank of England" and profited $1 BILLION DOLLARS in one day by shorting the GBP, has been interviewed before and what he said was shocking to most people. Soros said that when he trades, he'll give thought out and logical explanations as to why he takes a trade, but in reality sometimes he'll take a position in the market based off if his back is having spasms. Soros, the billionaire investor, in reality trades based off of pure instinct which he has developed from years of watching market price movements. Who's to say that any indicator is more useful than the most powerful of all indicators, the subconscious mind? The point of this passage is to make clear that having the latest fractal indicators or the most complicated methods available will not guarantee success. The most simple of methods have been tried and tested before and they have shown success. My method which is about to be laid out is nothing new. I'm sure there are countless other traders who trade using the same principles I do, and they are all successful as well. Don't think the more complex something is, the more likely it is to generate a profit. Simplicity is the most useful tool a trader has at his disposal.

"The reason I love the market is that it rewards sagacious laziness" – Larry Hite

First, I want to start off by describing the key principles of my trading system.

My system is based on trading trends, or reactions to trends. Many intermediate traders will hear the term "Trade with the trend" and "The trend is your friend" thrown around so often. This term is said so often but yet rarely explained in a way that makes it easy to understand and implement effectively.

I want to explain this so you can use this to your advantage. The first principle of this system is to trade in the way the general currency pair is moving. For instance, let's say you're trading using a 10-minute chart, and you're about to sell the EUR/USD. It's always wise to look at a larger timeframe such as an hourly chart to see if the general trend is downward. If the 10-minute chart looks as if it is about to move down, and the hourly chart says the trend is moving upward, then don't take the trade. If you take the trade, then you are betting against the larger trend that is occurring. If the 10-minute and hourly chart had been in accordance with each other then the trade would have been a wise one. It's also important to note that the timeframes are relative. If you trade using hourly charts, then it's always wise to check the larger trend that is occurring in the 4-hour charts. And if you trade using the 4-hour chart then it's wise to check the daily chart for the larger trend. You get the point.

So the basic principle of my strategy is to always trade in trends. Sometimes I deviate from this and take trades in box ranges if there are clear support and resistance levels that have been established.

Secondly, another key principle of my strategy is to always have clear entry and exit points established before I make the trade. The way I do this is by using Fibonacci Ratios. Most people should be aware of what Fib. Ratios are if they are reading this guide but for those who aren't, let me briefly go over what makes Fibonacci ratios so effective.

FIBONACCI RATIOS

One of the most interesting things that I have heard about the market is that it is essentially an extension of nature. Nature is something that is often seen as being unpredictable and chaotic, but the systems nature works upon are just to complex to fully measure and understand. However, one thing that is known about the workings of nature is that it has a preferred method of travel so-to-speak. Light is produced in waves, sound is produced in waves, and so is water. For instance, if you throw a pebble into a pond, the resulting action will be concentric circles forming waves from where the pebble landed. Waves are natures preferred method of travel, and market action generally moves in waves,

because the market is governed by the laws of nature. So let me break down why the market can be thought of in terms of nature and its laws. Mankind is a creation of nature and markets are a creation of mankind. Since man was created by nature and is governed by the laws of nature, and then man proceeded to create markets, markets then are also governed by the laws of nature because they are an extension of man which is an extension of nature. Make sense? I hope so. Essentially, the market is bound by the laws of a much larger system that is in place, which is too chaotic to predict and measure, but nonetheless it is still bound by it. Just like no human being can escape the forces of gravity, the market can't escape the laws of nature, therefore it is destined to move within some set of pre-defined laws.

Now to explain what Fibonacci ratios are and why they work. Fibonacci numbers are numbers where the current number in the series is the sum of the two preceding numbers in the series. So the series starts with 0, then 1, then 2, and then the next number would be the sum of 1 and 2 so its' 3. Then the next number would be 2+3=5, then 3+5=8 and so on. If you divide the two closest numbers in the series they should be close to .618 .Try it, look at this series of Fib numbers: 0, 1, 2, 3, 5, 8, 13, 21, 34, 55, 89, 144. Now let's divide some of the numbers into each other and see the results.

13/21 = .6190
21/34 = .6176
34/55 = .61818
55/89 = .6179
89/144= .618

If you divide a gap of two numbers then you get this:

13/34 = .382
21/55= .3818
34/89 = .382
55/144 = .3819

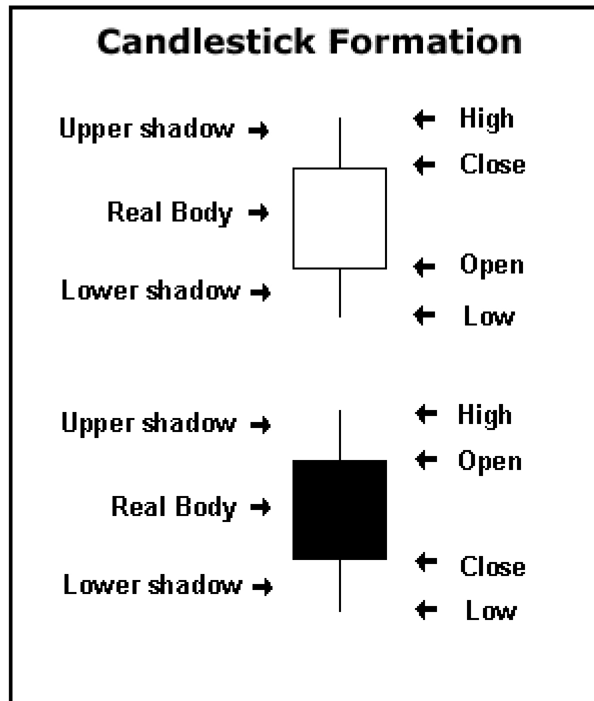
Get the picture? The crazy thing is that the further you go into the series, the closer the numbers get to .618. Fibonacci numbers are found everywhere from musical tunings, to proportions in art (DaVinci's Vitruvian Man can be broken into Fib Ratios). It's also found all over the place in nature from proportions to pine cones all the way to the petals in sunflowers. So as you can see, Fibonacci numbers are found everywhere in art, music, nature, and coincidentally THE MARKET! Yes, Fibonacci ratios apply to the market. This ties back to the previous theory of the market being an extension of nature, so it follows laws found in nature. Occurrences in nature are found to have Fibonacci ratios all over

the place so it's only natural that the market would also abide by Fibonacci ratios. Many guides will not go into this detail to describe the workings of Fibonacci ratios but I believe it's very important to understand why they work. The two previous ratios we found .382 and .618 are two of the most important ratios when it comes to the market. .50 is also just important… I don't believe it's a Fib Ratio but it's thrown in their just because it's a psychologically important number. When it comes to the market, after a large trend upward or downward has taken place, many times the trend pulls back to one of these Fibonacci ratios. Yes… it seems very simple, but the thought is actually crazy. Currency pairs in the foreign exchange market often pull back to the exact Fibonacci ratios previously mentioned. So if a given item goes from 0 to 100, and then pulls back to 61.8 then this is known as 38.2% percent retracement, if it pulls from 100 to 50 then this is a 50% retracement, and if it pulls back from 100 to 38.2 then this is a 61.8% retracement. More often than not, currency pairs will often pull back to Fibonacci ratios after trending for a period of time. By the way, another key Fibonacci ratio to remember is .236, or in our case, 23.6%.

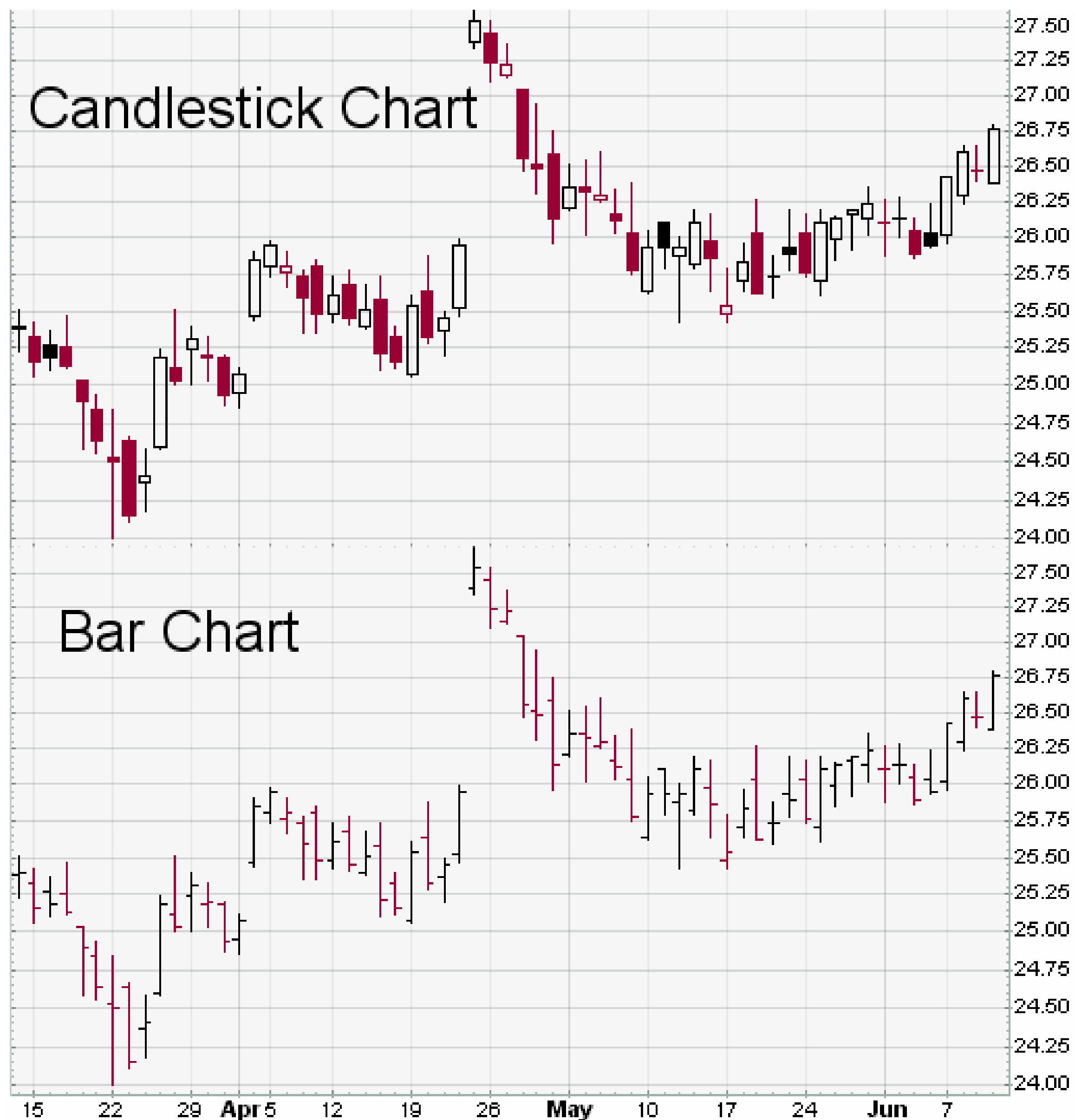
Fibonacci ratios are a staple of my trading because they provide clear exit points when you are trading off of a trend. If you choose to trade after a pullback, they also provide price targets with the use of Fibonacci expansions which are based around the numbers 1.236, 1.328, 1.50, and 1.618. I will not explain where this is in the software you use because it's different for all trading platforms and you as a trader should be able to be knowledgeable in the trading platform you choose to use. For now, this will be the end of Fibonacci ratios as they will be brought up later when I provide charts to display my trading method.

CANDLESTICK CHARTING

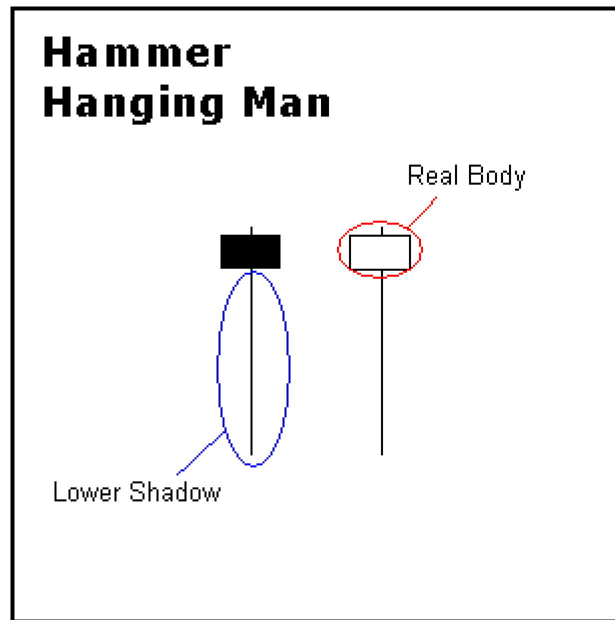
This is another tool that you must be familiar with in order to utilize my trading strategy. Candlestick charts are a specific type of chart which is widely used.



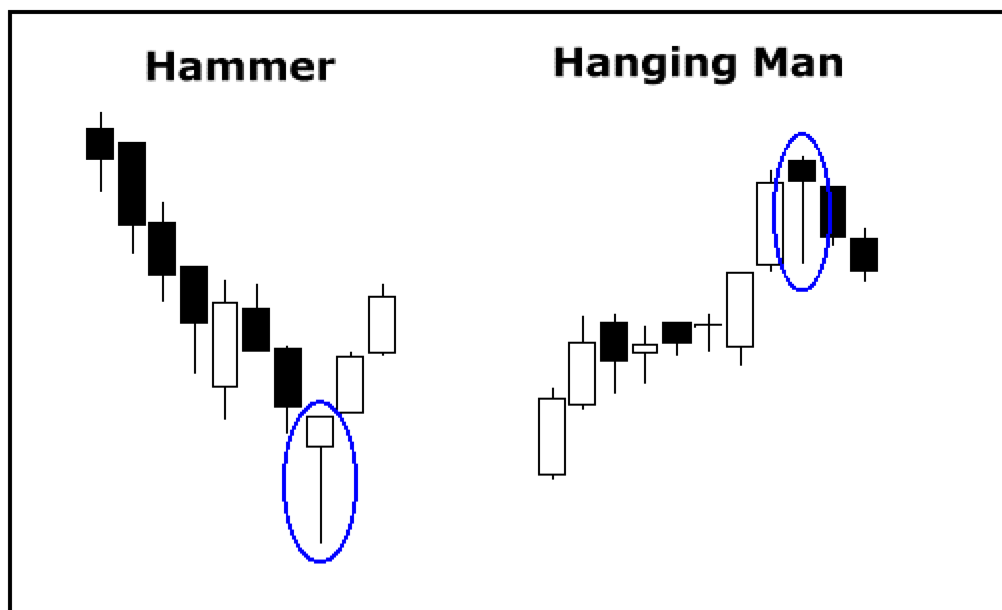
In case you are not aware of how to read candlestick charts, then a method to read them is provided above. Candlestick charting was developed in the 1800's in the Japanese rice futures market. A Japanese trader named Homma from the town of Sakata developed this charting method which is now very popular in the West. Candlestick charting is the most useful tool you can possibly use in my opinion. The reason that I say this is because if you learn to read and interpret the story that candlestick charts tell, then you essentially can read the story of the market. For instance, when I look at a trend, sometimes I can reason that the trend is about to subside due to the small real bodies of the most recent candles indicating little trading volume and waning faith in the price movement. If the trend has lots of candles with long upper shadows then I can also reason that there has been a good deal of resistance from the bears on the rise up and it is likely that there will be a reversal at some point.



Candlestick charts use the same set of data that OHLC (Bar) charts use, so the same Western indicators can be applied to candlestick charts. It is encouraged that you use candlestick charting in conjunction with other methods to further confirm your trading signals as this is what I do as well. If you don't know how to use candlestick charting or how to read candle charts, that's alright, because I look for specific candle signals that point out when a trend reversal is about to take place. Four of the most important candlestick patterns are the **Hammer, Shooting Star, Inverted Hammer,** and the **Hanging Man**.



The Hammer and Hanging Man are essentially the same signal; the only difference is where they occur in a trend. A hammer usually appears when a downtrend is coming to an end, and “hammers” out a bottom. A hanging man usually appears after an uptrend and is slightly less reliable of a signal than a hammer. What both of these candles represent is that at some point the market sold off heavily. In order for a candle to be considered a Hammer or a Hanging Man the lower shadow of the candles needs to be at least twice as long as the real body. On the next page an example of both of these candle patterns is shown in a trend and I will elaborate as to why a hanging man is less reliable of a signal.

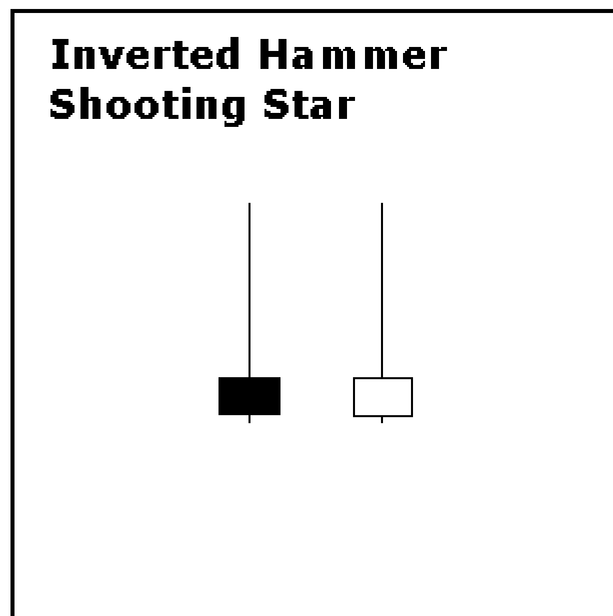


In the picture shown above it's important to be able to visually read each candlestick. When a musician reads sheet music they interpret the notes as music in their head, just as you as a trader should be able to visually read candle charts and verbally explain the story behind the movement.

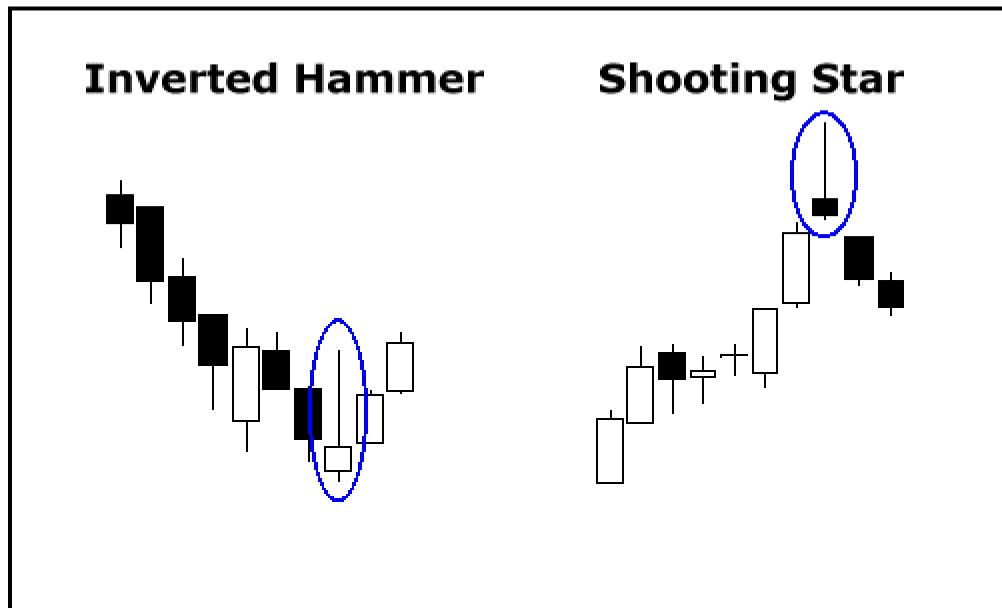
In the example with the hammer, the market trended downwards until the hammer appears. What this means is that the market initially started selling off but then it made a huge resurgence. If the market sells of so heavily then completely retraces back to the current sessions high then this is a very good indicator that the trend is about to turn in the opposite direction.

In the example with the Hanging Man, the market trended upwards and then when the hanging man appears the market then proceeded to turn around. The reason that this signal isn't as reliable as a hammer is because it occurs in an uptrend. In an uptrend, a hanging man means that the market sold off during its rally and then the bulls came in and brought the price back up. This is a semi-dangerous signal because if the market sold off in an uptrend and rallied back this could mean the uptrend will continue. Always look for a confirmation signal after a hanging man. In the example above, the confirmation comes with a black candle with a long real body and little to no shadows which signals a strong movement with minimal resistance.

The Inverted Hammer and Shooting Star are essentially opposites of the previously mentioned candle patterns.

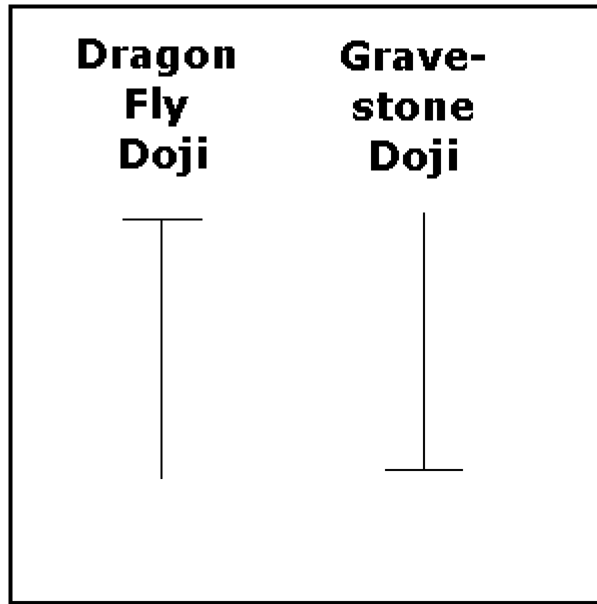


The Shooting Star is a great trend reversal signal after an uptrend and it defines where a top is; this makes it similar to the hammer. An Inverted Hammer occurs in a downtrend and could signal a trend reversal as well but it is somewhat unreliable and requires confirmation in the form of a bullish candle coming right after it.



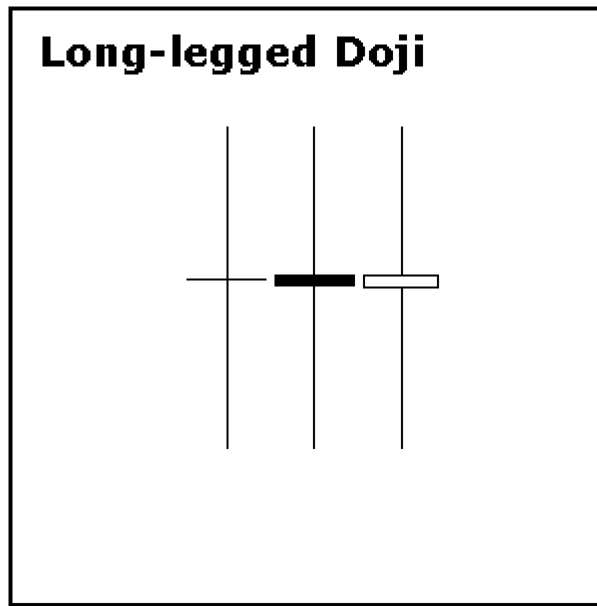
As you can see in the example above, the shooting star means that in the open of the session the market rose and then at some point the bears came in and overpowered the bulls which caused the market to move back down to the lows of the session. The example with the inverted hammer is the same thing as a hanging man.

Two other candle patterns two consider are **Gravestone Doji** and **Dragonfly Doji**. The importance of these two patterns is similar to that of a hammer and shooting star, and the only real difference is the real body of the candles. A doji is a candle where the open and close are the same or have a very slight difference while a hammer may have a slightly larger real body.



A Dragonfly Doji is similar to that of a hammer because it signifies a large sell off in the market and then a subsequent comeback. A Gravestone Doji is similar to that of a Hanging Man because it means that heavy buying occurred and then a subsequent sell off to the session's low or open price.

Doji in general are indicators of great indecision in the market. The story that a doji tells is one of both buying and selling swings occurring in a session. At one point in the session the bulls were in control and in that same session the bears also overpowered price action and gained control of the market.



It's important to look at Doji because they also can signal a reversal in the market. During a strong trend, a general sign that the trend is coming to a close is the real bodies start to become smaller indicating no large price movement and weakening faith in the current trend.

It's important to learn how to read candlestick charts so you can fluently read them and understand what's occurring in the market and also understand the chances that a reversal might take place.

STOCHASTICS

Stochastic Oscillators are another important indicator that I use to aid my trading. Stochastics oscillators measure the momentum of any trend. A lot of trading systems tend to mention stochastics but give no real mention as to the workings of stochastic oscillators.

Stochastics measure the current trading price relative to the high/low range over a set period. The standard period for stochastics tends to be 14. The only real reason for the period being 14 is that George Lane, the inventor of the stochastic oscillator, found that it worked best for him. Personally, in my trading I prefer to use a period of 8 to measure the momentum as I find it works better for currency trading. The important thing to note is that stochastics works purely based on the parameters you enter so you have to know exactly when to enter a trade based on human judgement. What I mean by this is, the oscillator is based on pure math so it might generate buy or sell signals when there is no real trade to be taken. You must discern when it is appropriate to trade based on the data given. A currency pair could be completely stagnant in its price movement but a

stochastic oscillator may give off buy or sell signals because based on the period its measuring the currency pair is at the bottom or top of a trading range. Allow me to show you visually what I mean. By the way, there are fast stochastic oscillators and slow stochastic oscillators. I greatly prefer using slow stochastics to fast. Slow stochastics are just a smoothed out version of fast but they provide more reliable signals and less false breakouts.

In the example above, it's important to look at the spike in the stochastic oscillator compared to the price movement. The price movement is so small but relative to the previous 8 sessions which also had tiny price movements, the slightest jump in price appears as a huge spike in momentum on a stochastic oscillator. The signals that you should be noticing are the ones that occur after large price movements because those are the most relevant. In the picture below, there is a clear example of a good signal that should be used with stochastics.

In the picture above, it's clear that stochastics provide a good picture of when momentum has topped out and a reversal is going to take place. The primary trend is clearly moving upward and the stochastic oscillator first displays when the previous trend has topped out. After the first rally is complete, a pullback occurs which can be traded based off of Fibonacci Ratios which I'll elaborate on further later. It's your job to know that the primary trend is moving upwards and the move down is just a minor correction wave. Regardless though, when stochastics go above 80 and then crosses its signal line, this is a strong sell indicator especially after such a strong price movement. All primary trends have minor corrections at some point. If the price reaches a certain point, then buyers will take a profit by selling their positions which pushes the price down to a point where new buyers come in and take advantage of the pullback knowing that the price will move back up. In this trend, it's clear that stochastics clearly display when momentum is dying down and where a possible reversal may take place. With the use of other elements such as candle charting and Fibonacci ratios the trades which should be taken become much clearer and the chances of

success greatly increase. The example above also has something in it that I missed in the candle charting section and I feel is important to briefly mention.

CANDLE BLENDING: If you look at the very first circled portion on the candle chart you'll see two candles, one that's a red candle with a long real body, and one that's a green candle with an equally long real body. This specific chart that I was using to trade is a 30-minute chart. If you were to think in terms of an hour then those two candles would form a hammer. Those two candles each represent a 30 minute segment of time. In one session, the market sold off heavily, and in the very next 30 minute session the market made a comeback. If you were to combine the two and think about what happened in an hours worth of time, the market sold off heavily and then made a comeback. This is exactly what a hammer candle pattern is, and although this specific chart doesn't show a hammer, it's important to realize that it's the same exact price action occurring and there is a high probability of a reversal. This goes to show how important it is to trade and think in different time frames and to confirm the way the trend is moving in multiple time frames.

I chose not to mention all of the trading methods used in the example above because I want to briefly go over each indicator or trading tool in each section and then piece it all together in the final section which shows all of the trading methods used in conjunction to find and execute trades with very high win rates.

MACD

MACD stands for Moving Average Convergence Divergence. This is one of the most simple and yet one of the most effective trading tools. It is especially useful in currency trading. The MACD is also a momentum indicator similar to stochastics. I hope by now you can see how powerful these two indicators are for signaling the start or end of new trends.

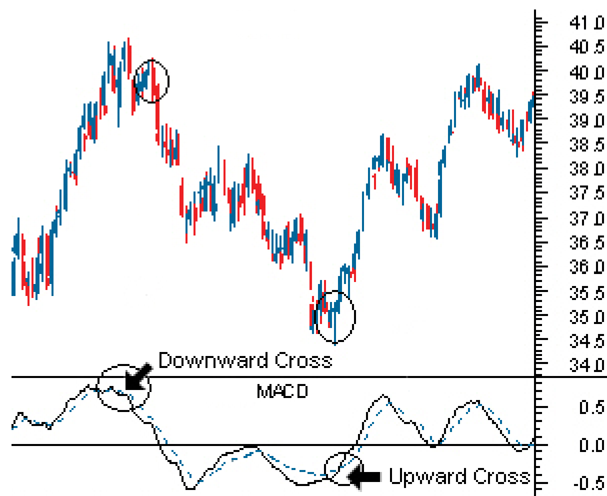
The MACD is the difference between two EMA's (Exponential Moving Averages). If you plan on trading then you should already know what a moving average is but in case you don't I'll briefly explain it. A moving average is essentially the average of the price data for a given time period. It moves with the price of the equity you are trading. An exponential moving average is the same thing as a moving average except it weights the most recent price changes putting more emphasis on the current price range. It's also important to mention that the larger the moving average is, the more smoothed out is. For instance, a 10-day EMA is used for measuring relatively small price movements. A 50-day EMA is more suited for intermediate price movements, and a 200-day EMA is for much larger price movements. The most effective way to trade using Moving Averages is using a crossover system. I personally use Moving Averages as you'll later see on my charts but I don't place as much emphasis on them as I do on my other trading methods and I mostly use EMA's for confirmation. I'll briefly describe the Moving Averages Crossover system just so you're aware of it.

Moving Average Crossover System:

Let's say you plan on trading the EUR/USD. Let's also say that you plot a 10-period EMA, a 50-period EMA, and a 200-period EMA on your chart. The 10-period EMA going to be the closest to that of the recent price action because it is only using the data of the previous 10 sessions. The 50-period EMA is going to be the intermediate moving average, and the 200 EMA is going to show a much larger scale of where the currency pair is trading. A very good indicator of when a large downswing or upswing will occur is when the EMA's crossover each other. It's especially relevant when the 10-period EMA crosses the 50 and 200. The picture below is a great example that would have yielded 200 to 300 pips in about 2-3 days if the trade had been taken based on the MA crossover system.

The 10-period EMA is represented by the grey line, while the 50 is the purple and the blue is the 200. Originally when the 10-period EMA crosses the 50-period this would be an ideal time to take a trade if other bearish confirmations are present in the form of stochastics or candle charting. However, when the 10-period EMA crosses the 200-period EMA this is a very strong bearish signal and could possibly be taken by itself without further confirmation. What this essentially means is that the short term price average is beginning to move below the longer established average. Many traders trade on this system alone and there will be many buy orders triggered when EMA's cross each other; especially when the shorter EMA's cross much longer ones. As you can see in the picture above, shortly after the 10-period EMA crosses the 50, there is a long red candle with essentially no shadows at all, and when the 10-period EMA crosses the 200, there is another very large red candle.

Back to the MACD. Ok, the MACD is the difference between the 26-day EMA and the 12-day EMA. Then a nine-day EMA is taken of the MACD and it's used as a signal line to issue buy and sell signals.



There are three common methods used to interpret the MACD:

1. Crossovers - As shown in the chart above, when the MACD falls below the signal line, it is a bearish signal, which indicates that it may be time to sell. Conversely, when the MACD rises above the signal line, the indicator gives a bullish signal, which suggests that the price of the asset is likely to experience upward momentum. Many traders wait for a confirmed cross above the signal line before entering into a position to avoid getting "faked out" or entering into a position too early, as shown by the first arrow.

2. Divergence - When the currency price diverges from the MACD. It signals the end of the current trend.

3. Dramatic rise - When the MACD rises dramatically - that is, the shorter moving average pulls away from the longer-term moving average - it is a signal that the security is overbought and will soon return to normal levels.

Traders also watch for a move above or below the zero line because this signals the position of the short-term average relative to the long-term average. When the MACD is above zero, the short-term average is above the long-term average, which signals upward momentum. The opposite is true when the MACD is below zero. As you can see from the chart above, the zero line often acts as an area of support and resistance for the indicator.

The safest trades to take using the MACD are when the value is greatly above or below zero and the MACD crosses its signal line. This usually means that the

currency pair is extremely overbought or oversold and there is no possible way it can continue without experiencing a shift in momentum.

The MACD and Stochastic Oscillator are both excellent at measuring momentum, and momentum is most relevant during trends. This is the reason that my system is based around trading trends, because it's very easy to predict when a trend is going to top out in terms of momentum an experience a pullback.

I've described the indicators which I use in order to trade and it may seem very simple. I want the reader of this not to be phased by the simplicity of my trading, because the simplicity of it is what makes it so extremely powerful. All of these methods work and I consistently make money using them. If you stick to this specific kind of trading, then all of your trades will have extremely high win probabilities. The last and final section will offer real-life trades that I have made some of which were as recent as April 2008.

I hope this next section will put everything together in terms of the method and help define how all of the indicators and techniques can be used in unison to provide excellent results. I truly hope that you have learned something to this point and I promise you that if you give this method a try and stick to it with strict rules then you will achieve success in the market. I hope to be able to spread my method and teach as many people as possible (because the more people I have making the same trades as me, the more likely the trade will work in my favor, AND YOURS).

This shall be my conclusion to the rules of the trading method itself. Consider the last 27 pages your formal education on my system and the next section is just a combination and real-life application of the rules and my trading method. I want to urge you one last time, to learn all that you can from this guide and pay specific attention to the first section which teaches you the rules you must use in order to succeed. The core principles that you must learn will make you a much better trader than any indicator can. Who knows, eventually you might get so good and internalize every principle mentioned in this guide, you'll be able to trade based off instinct and won't need anything else. Good Luck!

EXAMPLE #1

This specific example took place on 4/18/08, so it's actually very recent. This is a great example which incorporates Fibonacci Ratios, Candle Charting, Stochastics and MACD. This example is important to mention because this incorporates a key principle in terms of my trading method. Don't Act. React. As you can see a significant uptrend occurred on the USD/CHF with no resistance whatsoever. There wasn't even one bearish candle on the way up. I wasn't sure that it was going to trend up the way it did, but once I saw the way it trended, I was absolutely certain that there would be a pullback that I would be able to trade. The first sign that the trend had died out and the pullback was going to

occur was the stochastic oscillator. Stochastics has gone above 80 which is the overbought range, while 20 is the oversold range. I waited for the stochastic oscillator to cross its signal line before looking for my next confirmation that the trend had ended. The second confirmation signal came in the form of a candle pattern I had mentioned earlier. This candle pattern is known as **The Hanging Man**. Right after the last large green candle, the hanging man appeared which meant that the market had sold off heavily and then made a comeback. A shooting star would have been more reliable so I had to wait for more bearish confirmation so I waited for the next candle. The next candle ended up being a bearish candle which meant it was time to take the trade. During the uptrend, the MACD had also diverged greatly from its signal line and the first sign of it turning around back towards its signal line is a great indicator of a reversal. In order to use the MACD, it's best to look at the Histogram, which is plotted right below the MACD and signal line. The Histogram plots the difference between the MACD and signal line and the circled portion shows that the MACD Histogram was showing that the divergence of the MACD and its signal line was coming to an end. Before I entered the trade, I needed to know a clear exit point and where to set my stop-loss for the trade. I set the stop-loss at 3-4 pips above the high point of the trend which was 1.0280. I was shorting the currency pair at somewhere around 1.0260. I then needed to pick a clearly defined exit point for my trade. I was trading a pullback and currency pairs often pull back to Fibonacci Ratios so this was the perfect time to use a Fib Ratio to set a clear exit point. The most common retracements are 38.2% and 61.8%. In most cases I will set my take profit at somewhere around 3-4 pips above the 38.2% retracement point, and then if I see more bearish confirmation I will execute a new small trade aiming for the 50% retracement or the 61.8% retracement. In this case, the currency pair retraced exactly to the 38.2% mark, which netted me somewhere around 90 pips. The standard most new traders use is $10/pip, so this trade would have netted $900 dollars in around 2-3 hours. I usually trade at $50/pip+ so I believe I made around $4500 or so. Not too bad for 2-3 hours of work right? This example is a perfect example of the clear cut way my system works. An uptrend took place that had to have an eventual pullback which was identifiable by stochastics signaling the turnaround as well as know candle patterns which are strong signals of a reversal.

EXAMPLE #2

This is another trade that is very similar to that of the previously mentioned one. This is similar because this is another trade where we don't trade the trend upwards but we instead trade the inevitable pullback. This trade takes place with the GBP/JPY currency pair. This currency pair is known to be extremely volatile and make very large movements very quickly. In this particular case the end of the trend is signaled by a shooting star. As you recall, the shooting star means that the market opened the session by continuing to rise as its been doing, and then at some point the market begins to sell off. The bears come in and push the price back down. This situation is a good indicator of a pullback and I would take the trade as soon as the shooting star appears, because the stochastic oscillator crosses its signal line when its above 80 further signaling a pullback.

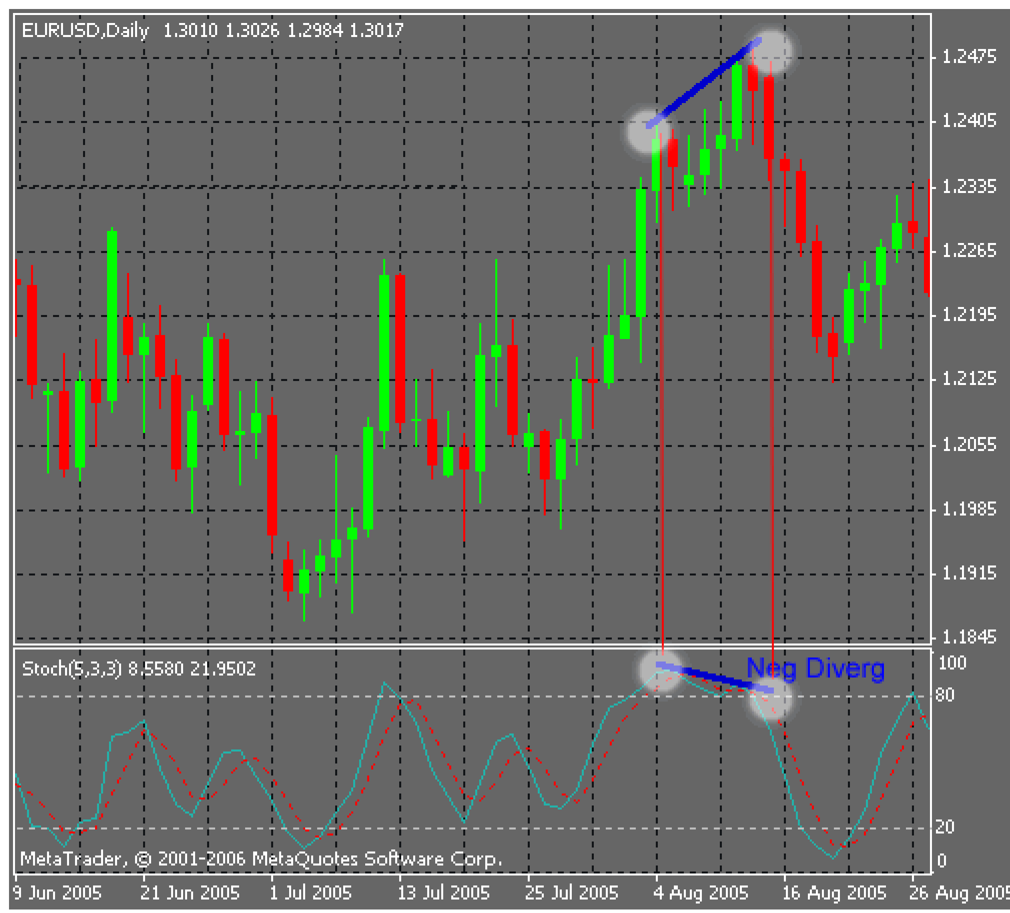
The MACD histogram also shows a reversal about to take place because the divergence between the MACD and its signal line is becoming smaller as shown above. To properly find an exit point Fib Ratios are the obvious choice. Here, I would set my take profit at the 38.2% mark but this specific trade experiences clear resistance at the 23.6% mark or at 206.90. Once I see the resistance taking place I would exit the trade because the uptrend could resume. Here the profit was somewhere around 170-190 pips depending on where you entered the trade and could've netted $1700-$1900 dollars. Not bad at all for a day's work.

EXAMPLE #3

This specific example is a perfect example of how gravely important former support and resistance levels are for future trades. As you can see, on either Feb 7th or March 7th (I can't remember which one, it doesn't matter though), the price of GBP/JPY hit around 208.00. At this point the currency pair rejected this price level and then began to trend down to around 203.50. At this point, an Inverted

Hammer appears. What this means is that the market opened and began to climb up instead of continuing the established downtrend. This is a fair signal of a reversal, but then the subsequent bullish candle is a very clear sign of a reversal. Stochastics at this point were below 20 meaning the currency pair was extremely oversold and a reversal was imminent. At this point, I entered a long trade at 204.00, and waited for stochastics to rise above 80 or for a candle signal to appear to end the trend. The currency pair climbed back all the way up to 208.00 at which point stochastics were above 80. At this point I exited my trade and waited to see what would happen with the price action. If the price could break 208.00 and hold then the uptrend most likely would have continued and I would've entered a new long position. However, the price couldn't withstand 208 and it rebounded sharply in that session to around 207.20. When a former resistance level is tested and can't hold, then the currency pair has a very high likelihood to move in the opposite direction towards a support level as in this case. I entered a short position at around 207.20 and held until around 203.50 when stochastics dipped below 20 and a candle resembling a hammer appeared. The subsequent candle tested the bottom again and it held so at that point I exited my trade. This is a clear-cut example of how to trade established support and resistance levels using stochastics and candle patterns. These two trades netted me around 800 pips. When I aim for large swings, I tend to decrease my $/pip to around $10/pip or so. If you are a new trader and your standard trade is $10/pip then you may want to pick up half a lot at $5/pip or possibly even less. Maybe somewhere around $2/pip.

EXAMPLE #4



This 4th example is a great example of how to trade using the stochastic oscillator when a negative divergence occurs between the price and the oscillator value. In this example we're looking at a daily chart of the EUR/USD from around August 2005. In late July the EUR/USD began to trend upwards from 1.20 to the eventual 1.2475 in mid August. On Aug 5, 2005 the stochastic oscillator is well above 80 and shows that the EUR/USD is currently overbought and the current trend has a good chance of coming to a close. The next candle then appears and it turns out to be a hanging man which we know is a bearish sign but it needs further confirmation in order to take a trade. Stochastics crosses its signal line but the price continues to rise. One key factor to look at here is that the stochastic oscillator hasn't dipped below 80 yet. In fact, it bounces off of 80 which is a support level when looking at stochastics. Stochastics slowly dips but the price continues to rise. At one point the there is a cross above the signal line. Although the oscillator said that the currency pair was overbought that doesn't necessarily always mean that it will immediately turn around and start trending in the other direction. The uptrend continues for some time and then finally a much larger

hanging man appears followed by a red candle with a large real body and little to no shadows which is a great bearish confirmation signal. At that point stochastics finally dips below 80 and then it is safe to go short on the EUR/USD up until we see a bullish reversal signal which in this case comes in the form of a long green candle which in this case is known as a Bullish Piercing Pattern. The point of this example is to make clear how to trade a negative divergence in the price of a currency in relation to stochastics. The key method is to wait for the negative divergence to appear and then wait for stochastics to cross below 80 and then execute the trade. This example equally demonstrates the importance of stochastics to fall from overbought levels into somewhat more stable territory to confirm a trend reversal.

EXAMPLE #5

In this fifth and final example, I provide another method of trading using the moving average crossover system and the MACD. This particular trade involves the USD/JPY, and takes place over the span of 8 days or so with a net yield of

600-700 pips. Prior to the beginning of the trend, every candle shows little to no movement in terms of price and there are many doji candlesticks which mean there is a good deal of indecision in the market as to where the currency pair will move next. MACD shows that there has been upward momentum previously and with the doji right before the trend, it works like a coiled spring in a way. The doji indicate little action or indecision and a long period of indecision or inaction usually leads to a large breakout in one direction or another. Another way to put it is, the market saves its energy for the upcoming price movement. The MACD tells us that the price movement will be a downward one. When the MACD value is far above zero this tells us that the short-term moving average used in the MACD calculation is above the long-term average which indicates upward momentum. When the MACD crosses its signal line so far above the zero value this is a very strong indicator that some shift in momentum has occurred. Coupled with the Moving Average Crossover System we are able to trade the pair. As soon as the MACD crosses its signal line we then see the real bodies of the candlesticks becoming much larger indicating the market is beginning to move. The 10-day EMA then crosses below the 50-day EMA and this is the ideal time to enter the trade because the divergence between the MACD and its signal line is also becoming larger. The ideal time to exit the trade is either when the currency pair begins steadily trading above the 10-day EMA or when the 10-day EMA crosses back above the 50-day EMA. IF you would have exited when the 10-day EMA would have crossed the 50-day, in this case you would have made a few hundred extra pips in profit.

To conclude this guide, I want to offer some parting words. In order to become the best trader that you can possibly be it’s important to constantly study and enrich your knowledge of the market. You should always be looking at the market and trying to figure out where it’s going next and you should always be able to offer an explanation why. After analyzing thousands of chart patterns and watching countless price movements you will begin to instinctually understand the price movements and you might even be able to trade the pairs without any indicators at all. This is only the first step to becoming a successful trader. There is no guide that can make a hugely successful trader immediately after reading it. Your job now is to begin studying the market in a real environment. When you finish reading this course you should begin to look at the market with a new set of eyes. You now have the correct knowledge and skill set to become a successful trader, but you must now study the market and constantly look at charts for potential trades and by doing so you will effectively instinctualize the trading method. Allow me to offer an example that may assist you in understanding what I am trying to say. A person who wishes to play basketball may learn everything about how to shoot a ball properly. They may learn the exact arch to put on the ball, the perfect amount of rotation, and so on. However, this person will never be able to actually shoot a basketball

successfully until they step on the court and continually practice improving their shot. All the education with zero experience will lead directly to failure, this is why it's so imperative to learn first-hand. I have given you the necessary knowledge on how to shoot the basketball. You must now step onto the court and begin your actual training. This guide is short for a reason, and that reason is because there is only a limited amount of knowledge you must attain to be able to trade, but the real development of a successful trader occurs in real-life experience. This guide may have taken you 45 minutes to an hour to read, but you must now begin your training in the market and this can be a lifelong process of constant learning and improvement. I wish you all the best.

B.G.K