Introduction

My name is **Dirk du Toit** and I have chosen the nickname **"DrForex"** for my **forex trading mentoring services.**

Day trading in the global financial markets is a unique, fiercely challenging and very rewarding experience for those who master it.

Your past performance, or the performance of another person, is no guarantee or even indication of future **trading success**[1].

But I do believe it will be comforting for you to hear that **I have been trading successfully with my own money** and I know what it means to make (and lose) money, trading global financial instruments on leverage (form time-to-time very high) with a small margin account.

I know from my own personal experience what it takes to make money trading for a living in the global financial markets and I have structured my business in such a manner that I can share these "open secrets" with you, irrespective where you live.

[1] I think it is imperative that we immediately define "trading success". Regulators usually only allow trading results of at least 12 months to be published by professional traders or money managers as a marketing tool. I don't think one should claim any form of success or have any notion as to your success before 12 month's of trading with real money, if you measure success by trading profits only.

Successful traders make money. But success is definitely more than your margin account's bottom line. Long before your margin account starts to contribute to your success you can be a highly successful trader, because **as a beginner** you can and should measure your success, on several levels. The converse is also true. You might show astronomic quick profits on a demo system or with real money, but it may be no indication of success nor of potential success, measured over / after an appropriate time.

Let's examine why I say one can be highly successful even long before his margin account shows anything:

- He might have successfully identified appropriate and realistic goals for **him**
- He might have successfully navigated the offers of "training" and "help" and picked the appropriate service provider / trainer / coach for **him**
- He might have successfully identified the trading styl, strategy and methodology that will lead to that margin account bottom line indicator of **his** success

Expectations are extremely important. You shouldn't expect to be successful before you really are in the game. And I promise you – to really be part of this game, takes not only some doing, dedication etc, but it takes time. To **stay part** of it is both difficult and satisfying.

You have probably heard a lot of wonderful, exciting things about forex trading or futures trading or day trading. Things that sound too good to be true. That's because they are. If you can't find all those day trading millionaires and financially independent people who have turned $3 000 into $30 000 in four months, read on.

I can assure you that it is not difficult to make money as a day trader, even lots of money, quickly. The trouble is to keep it. Even more troublesome is to continue making (and keeping) profits.

Before we continue with the balance of this report please allow me to share my goals for DayForex with you:

Goal #1

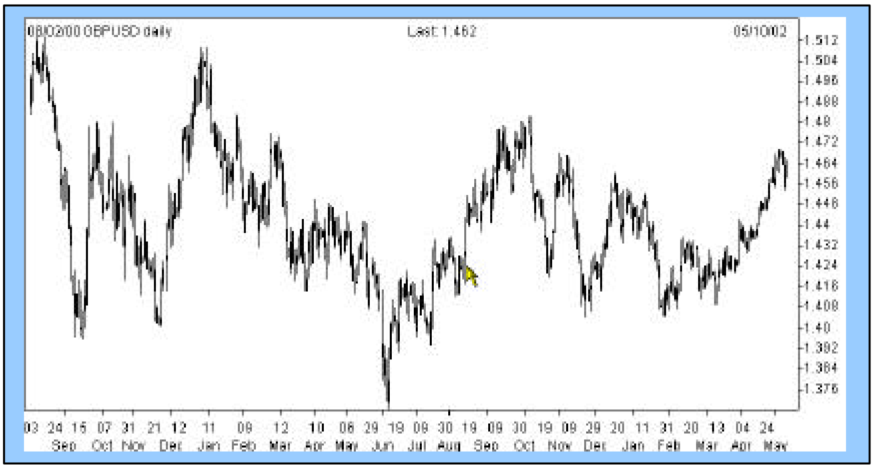
- To have a worldwide growing customer base of successful forex self-traders trading their own capital.

Goal #2

- To develop from my source of successful traders a trading team with the ability to professionally trade investor's money in managed forex accounts.

In this report I will:

1. Tell you what forex day trading is (assuming that you are one of the readers that do not have a clue).
2. Tell you about different approaches to analyse the market (as a day trader)
3. Explain to you the crucial role of "leverage" or "gearing" and what you need before you can even hope to become a successful trader.
4. (Try to) convince you to enter my mentoring programme, either as a new entrant to the trading world or as an existing trader.



A <u>very short</u> Introduction to Online Forex Trading

1. What is Forex Trading?

Every day currency (foreign exchange) transactions are done globally by many thousands of role players such as banks, global corporations, investors, investment funds, speculators and the like.

Some guesstimates place a value of over 1.5 trillion US dollar per day on foreign exchange transactions. Ninety percent of the transactions are being done with the five main currencies, the US Dollar (USD), British Pound (GBP), Japanese Yen (JPY), Euro (EUR) and Swiss Frank (CHF).

The prices of currencies are determined by simple supply and demand factors. If more role players at any given moment during the 24 hour trading day want to sell Euros for US Dollars, the price of Euro relative to USD will weaken and USD relative to EUR will strengthen.

Because of the magnitude of the daily volumes of currency transactions there is ample intra day volatility for speculators to have a "speculative orgy" on the foreign exchange market.

The most simple foreign currency transaction would entail the buying of one currency with another currency.

<u>Example 1</u>

A person with US Dollars (USD) in his pocket may want to buy something only payable in Euro (EUR). He will have to sell his USD to acquire EUR.

<u>Example 2</u>

A speculator may have a view that USD will strengthen against Japanese Yen (JPY). He will therefore buy USD with JPY (selling JPY).

There are always two currencies involved in a currency trading transaction. In fact, the value of one currency can only really be expressed or have meaning relative to the value of another currency.
Therefore, if the one increases in value, the other must decrease. This is one of the unique characteristics of the forex spot market that make it the market of choice for modern day traders. But it also means that some traditional trading wisdom from stock market floors is not 100% applicable.

2. Is forex trading different from share trading?

Yes. Forex trading differs vastly from the traditional trading of shares or stocks listed on a stock exchange. The main differences are however in the approach.

Traditionally stock traders have a longer term view, even though they might have been classified as "speculators", i.e. trying to make short term profits. Rarely "short term" would be seen as less than a couple of weeks or months.

Very recently, with the advent of electronic Internet trading the day trader became a new trading "species" on all types of markets - stocks, bonds, futures and commodity markets.

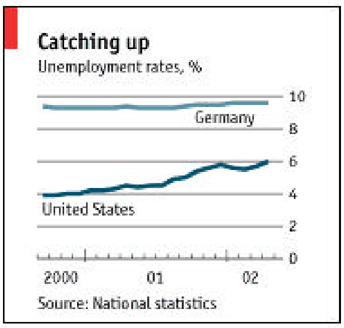
All the excitement, uncertainties, psychological challenges, external influences, emotions and other aspects that made share trading so popular amongst private individuals have been compressed into "a day's work". Hence the name "day trader."

The forex market is exceptionally well suited for such day traders as some of its characteristics are completely different from other more traditional markets.

- **The forex market is open around the clock.**
- **The forex market is very large, very liquid and suitably volatile.**
- **The forex market is a genuine two-way market. You can make money irrespective of the direction of price movements.**
- **Factors such as recessions and such do not hinder your trading at all. You just "buy or sell" the currency that is affected by such factors.**
- **Information about factors influencing the currency prices is immediately available to all role players, large or small. (No "insider trading" and the market is difficult or impossible to manipulate)**
- **There are a limited number of instruments to trade.**

Off the job

Productivity in America shot up in the first quarter of 2002 by 8.6% at an annual rate, the biggest leap since 1983. Employees worked longer and harder as unemployment rose. Jobless numbers grew by 0.3 percentage points in April to hit 6%, an eight-year high. **Germany's unemployment** was stuck at 9.6%, despite improving economic signs.



See article: Productivity and profits

3. Is there a place for small speculators?

Yes, definitely, but there are some reservations.

The aim of a small speculator is limited to making cash profits by buying and selling any currency he thinks may offer such a cash profit opportunity.

Small account traders usually employ **high gearing** to trade instruments several times the value of their invested amount (margin account).

First reservation: "Appropriate gearing"

Small speculators usually use gearing to make speculation worth their while. Gearing means they will trade with instruments (currency packets / lots) of a much higher value than the money they have to trade with. Gearing can work for you and against you.

The impact of gearing is in reality and psychologically much worse when you lose money on a trade than what its impact is when you make money on a trade.

The novice trader must know that NO training except personal experience will bypass the gearing "problem". ***The only solution for this problem is to not EVER gear too high and not to gear high at all before you are really part of the game.***

We encourage any person who commits less than $30 000 to his trading venture to stick to mini lot trading ($10 000 instruments).

There is a substantial distinction between so-called Mini-Forex and mini lot trading. Mini-Forex is a very small account ($250-$300) trading with $10 000 lots with the same unacceptable and unmanageable high leverage of 1:30 or 1:40 and more.
I actively discourage Mini-Forex but encourage mini-lot trading.

Second reservation: Novices need comprehensive and appropriate training

Learning to trade is a bit of a chicken and egg dilemma.

You actually should understand trading before you can make an objective decision about the best training for **you**. Being wrong on this point spells trading ruin in most cases. But the only real way to understand trading is by doing real trading, making and losing real money, and my constant contact Mentor Programme is designed to help you during these first potentially disastrous steps / months / years.

If you have done some day trading training, but seems to be unable to break out of the struggling zone, you may just be barking up the wrong tree – you may be trying to use a trading style totally incompatible with your personality.

In a world that is constantly changing, there is no one subject or set of subjects that wil serve you for the foreseeable future, let alone for the rest of your life. The most important skill to acquire now is learning how to learn.

Trading is a very personal / individualistic experience and no one person can easily transfer trading skills or the application of a self-taught profitable trading system to another person as if it is a pre-packaged product or objective system that only needs implementation by following simple step-by-step instructions.

Third reservation: master the psychology of day trading

To illustrate to you what this is all about I will quote from one or two of the best trading books available.

Trading in the Zone – Mark Douglas

As of this writing, I have spent the last 17 years dissecting the psychological dynamics behind trading so that I could develop effective methods for teaching the proper principles of success. What I've discovered is that, at the most fundamental level, there is a problem with the way we think. **There is something inherent in the way our minds work, that doesn't fit very well with the characteristics shown by the markets.**

… consider that most of the trading industry's failures are also some of society's brightest and most accomplished people. The largest group of consistent losers is composed primarily of doctors, lawyers, engineers, scientists, CEO's, wealthy retirees and entrepreneurs … Having worked with some of the best and some of the worst … I can state without a doubt that there are specific reasons why the best traders consistently outperform the everyone else. If I had to distil all the reasons down to one, I would simply say that **the best traders think differently from the rest.**

What is different about the way the best traders think as opposed to how the strugglers think? At some point everyone who trades learns something about the markets that will indicate when opportunities exist. **But learning how to identify an opportunity does not mean you have learned to think like a trader.**

Fourth reservation: Clearly define what you want to achieve

Success in any endeavour is many times a function of clear, attainable and realistic goal setting.

Trading can be very rewarding, not only financially but also intellectually and in all spheres of the trader's personal live.

Worry doesn't help tomorrow's troubles, but it does ruin today's happiness

Your expectations are vitally important for your success. Your expectations and goals should be adapted towards practical factors such as

- How much time can you spend on learning
- How much time can you spend on analysing the market (trading)
- How much capital do you have to trade with

Becoming a self-trader is definitely the first step towards a fulfilling career in the financial services world offering different options. You may end up:

- A self-trader focusing on your own trading and personal freedom
- A money manager, trading other people's money and benefiting from lucrative fees and incentive schemes
- A financial services entrepreneur, owning your own investment company

Highly geared trading, including currency trading, carries high risk and should only be attempted with capital one can afford to lose and only after / while studying the market you want to enter in great depth. More individuals lose money than make money with highly geared trading of financial instruments because they underestimate the sophistication of the endeavour and mental / psychological prowess needed to be a successful margin /day trader. I not only want to actively discourage you from attempting to trade with too high gearing but also want to assure you that the application of reasonable gearing within a sensible approach to the markets and trading with money you really can afford to lose, may be very rewarding.

Many different ways to analyse the (forex) market

- **Technical analysis**

Technical analysis is based on the presupposition that patterns of price movement in the past will be repeated in the future.

Numerous technical analysis tools had been developed by technical traders, or theoreticians that are supposed to assist the technical analyst to identify patterns of price movement by looking at historical prices.

Please allow me a very short critical view of technical analysis applied in isolation of other analytical methodologies by (novice) traders:

  - There are always two categories of prices in the market, namely **historical prices** and **current prices**
  - Technical analysis by definition only works with historical prices
  - Statistical evidence, generated by computerised back-testing of identified patterns-of-price movement, shows that it is practically impossible for an **inexperienced trader** to apply the necessary principles of technical analysis effectively.
  - Technical analysis, i.e. to identify patterns of price movement on an intra day i.e. very short term, basis, other than with an automated, computerised methodical trading system has not been confirmed by any reliable scientific tests as an appropriate way to gauge future intra day price movements with any significant success factor above 50%.
  - The plethora of technical analysis indicators or tools together with the plethora of possible time frames to use these indicators on, namely any number of seconds, minutes, hours, days, weeks, months or years you want to chose, makes searching for another inhabited planet like earth in the universe much easier than to find a applicable technical analysis only trading system that accompanies a novice on his way to success.
  - Technical analysis works particularly well for theoreticians like economists, analysts and others (trainers, software providers) that do not have to live of the results of there technical analysis based trading decisions.

- **Fundamental analysis**

Fundamental analysis is based on the simplified premise that analysis of the real factors that influence the prices of financial instruments is the most appropriate way to analyse financial markets.

Please allow me a very short critical view of fundamental analysis applied in isolation of other analytical methodologies by (novice) forex traders:

- Currency prices are driven by macro economic factors with esoteric descriptions such as “purchasing power parity” “Balance of payments and internal-external balance”. Say no more.
- Currency prices are influenced on a day-to-day basis by economic data releases such as CPI, PPI, Employment data, consumer confidence etc

- You will appreciate that to apply these economic data to day trading decisions will not be easy.
- Fundamental analysis works particularly well for theoreticians like economists, analysts and others (trainers) who do not have to live of the results of there fundamental analysis based trading decisions.

- **Other types of analysis**

  The absolute inefficiencies of the above two types of analysis has brought about some more thinking and theorising about this elusive “holy grail” of trading.

  - **Mental analysis**

    A concept coined by Mark Douglas an experienced trader and trading psychologist. The gist of his premise is that “it’s all in the mind.”

    Please allow me a very short critical view of Mental Analysis:

    - Mental analysis is based on the premise that the psychological factors influencing the trader is of more importance than the theoretical factors to be read from technical analysis or fundamental analysis when trying to make trading decisions
    - Mental analysis propose that the trader trade “objectively” and “unemotionally” and offers ways to get to such a state of mind
    - Apart from the fact that it is principally impossible to be either an objective participant in the market or objective with regards to your emotions, there is a lot of value in the focus on the mental side of trading.
    - This is easier said than done.

  - **Rational analysis**

    A concept coined by John Bollinger an experienced technical analysis trader, and developer of a popular technical analysis tool, Bollinger Bands.

    Please allow me a very short critical view of Rational Analysis:

    - Rational Analysis is based on the premise that effective analysis can only be achieved by adding to technical analysis some fundamental analysis.
    - If you delve deeper into it you soon realise that it tries to overcome the difficulties of either technical or fundamental analysis in isolation just by combining technical and fundamental analysis.
    - This is easier said than done, but a very positive step towards efficient analysis. Many aspects at the base of rational analysis lead to my own analysis methodology:

  - **Relational analysis**

    Every single element or other building block of the market place, such as time, time frames, volume, events, historical and current prices, traders emotional set up etc., is relative to each and every other single element.

Add to this the basic tenet of "qualified randomness" in the markets and the incapability of the human mind to understand randomness and it is not that difficult to see why simplified technical and fundamental analysis techniques in the hands of novices become very dangerous tools, threatening and in most cases ending otherwise potentially lucrative trading careers.

There is obvious dangers in replacing simplified techniques with too complex ones, but you can rest assured that there has gone some loads of thinking and practical experience into the development of **relational analysis**. (Which is by far not yet developed into a final "product", but **we**[2] are getting there.)

Applying these principles has helped me to be not only a profitable trader, but also a highly acclaimed (by my trainees and prodigies) trainer and mentor.

Definition: Relational analysis is the study of the relationships between price, time and driving forces behind price changes as an aid to investment decision-making.

Institutional role players in the OTC currency markets have access to huge resources of technical and fundamental analysts, quantitative analysts and economists. These professionals abound in and around dealing rooms.

Price-time relationships

Price volatility plays an important role in pricing financial instruments. Volatility can only occur with the lapse of time, and the longer the time period in which absolute price movements occur, the lower the volatility. There is one certainty in the market: prices will not on the short and very short term stay within a low volatility range. It will break out to larger or new volatility "areas".

Event-time relationships

External factors impacting on currency prices may be correctly referred to as "events". Traders should consider the timing of trades / investments based on the occurrence of such events and the impact that events may have on the market participants as a whole. I.e. how and when they will react to news based on different trading approaches. "*Buy the rumour and sell the fact*" – the best description of the currency market dynamic.

Event-price relationships

Events may have a direct and immediate impact on currency prices, which may cause excessive temporary volatility and changes in liquidity. As the impact of the event is discounted ("worked through the system"), volatility returns to normal levels. Many "events" are anticipated and have little impact, others cause over-reaction and a quick return to normality after a "rush of blood".

[2] By "we" I mean my students, demo-traders, real money traders and some associates in the training and trading industry.

Capitalizing your account and gearing

1. What is gearing?

In forex trading "leverage" or "gearing" means the usage of a relatively small amount of margin deposit to control a much larger foreign currency amount to trade with. The leverage employed is usually expressed as a ratio – being the ratio of the margin deposit to the total value of levered foreign currency

Gearing means to trade with borrowed money or with money you do not have. Forex trading is generally done with gearing. It is standard practice.

Standard sizes of forex "contracts" is $100 000. Many online forex companies allow individual traders to use gearing up to 100:1 or even 200:1. In practice this means the following.

- If you are allowed to trade with 100:1 gearing you will be able to trade one "contract" even though you only have $1000-00 in your margin account.
- If you are allowed to trade with 200:1 gearing you will be able to trade one "contract" even though you only have $500-00 in your margin account.

Both of the above options are an indescribable bad idea. Let me explain why.

We are going to use the 100:1 gearing option and for sensible reference add a few others, namely 50:1, 33:1, 20:1, 3:1 and 1:1 (no gearing)

Gearing amplifies the movement in the relative price changes of two currencies by the factor of the gearing in your margin trading account.

Gearing	% price change in market	% price change in account
100:1	1%	100%
50:1	1%	50%
33:1	1%	33%
20:1	1%	20%
10:1	1%	10%
3:1	1%	3%
1:1	1%	1%

Let's now add some real data. For ease of use we take the EURUSD. The Euro is currently very close to 1 on 1 to the dollar, which means our calculations are very realistic, though robust.

Fig 1

EURUSD % price changes per **8 hour period** and % impact on geared account				
Price change	**100:1**	**33:1**	**20:1**	**3:1**
0.46	46	15.18	9.20	1.38
0.87	87	28.71	17.40	2.61
0.23	23	7.59	4.60	0.69
0.50	50	16.50	10.00	1.50
0.25	25	8.25	5.00	0.75
0.43	43	14.19	8.60	1.29
0.31	31	10.23	6.20	0.93
0.20	20	6.60	4.00	0.60
0.17	17	5.51	3.40	0.51
0.55	55	18.15	11.00	1.65

Fig 2

Let's add some $-00 to make it more practical. Beginner trader has $3000-00 in his account at the beginning of period 1. Lets assume the blue periods are profits, red periods are losses.

EURUSD % price changes per **8 hour period** and impact on geared account				
Price change	**100:1**	**33:1**	**20:1**	**3:1**
0.46	**4380.00**	**3455.40**	**3276.00**	**3041.40**
0.87	569.40	2463.35	2705.98	2962.02
0.23	700.36	2650.32	2830.45	2982.46
0.50	350.18	2213.02	2547.41	2937.72
0.25	437.73	2395.59	2674.78	2959.75
0.43	249.50	2055.66	2444.75	2921.57
0.31	326.85	2265.95	2596.32	2948.74
0.20	261.48	2116.40	2492.47	2931.05
0.17	305.93	2233.01	2577.21	2946.00
0.55	**137.67**	**1827.72**	**2293.72**	**2897.39**
% capital left	**4.59%**	**60.92%**	**76.46%**	**96.58%**

Keep in mind this is reflective of a period of only 3 ½days!

This example is only in theory, but based on the randomness in the market it could just as well have been reality in a novice trader's account. It doesn't matter which way you look at it a possible disaster scenario for options 100:1, 33:1 and 20:1 will be lurking.

2. Some side effects of too high gearing

- Create illusions of "ability" when it was pure luck
- Create illusions of "inability" when it was pure bad luck
- Forces most towards "unscientific" scalping
- Causes fear to enter the market and even more fear when in the market
- Causes the placement of stop-loss orders too close to entry levels
- Does not allow for catching up with the "rhythm" of the "professional traders"
- Does not allow for any form of sensible money management or risk management
- Causes "all-or-nothing" attitude
- Excessive volatility leads to psychological havoc in trader's mind
- Inevitably leads to destruction of the margin account – sooner rather than later

3. Capitalizing your account (margin)

There is absolutely no doubt that capitalizing one's account very well increases chances of success exponentially.

It is my experience that standard gearing of 1:3 to 1:5 per entry which allows for multiple entries, within the context of the strategy and methodologies offered on the mentoring programme, could be the norm.

Trading is offered by many American online forex companies with units smaller than $100 000 with the smallest being $10 000 units. We encourage trading on $10 000 units with the obvious advantages of scalability, not available on $100 000 units.

The implications of the above are that one can address the question ***"how much money should I put on margin?"*** in the context of the gearing one thinks he will be able to consistently use without fear of being wiped out.

One is either in a position to trade with $100 000 lots, based on initial capital of at least $20 000, but preferably more, no upside limits, or one have more limit capital and should stick to $10 000 lots.

The gearing based on initial margin in relation to the size of the contracts one trades can be judged in Fig 3

Fig 3

Capital	Minimum gearing on $100 000 contracts	Minimum gearing on $10 000 contracts
$1 000	100:1	10:1
$2 000	50:1	**5:1**
$3 000	33:1	**3:1**
$5 000	20:1	**2:1**
$10 000	10:1	**1:1**
$20 000	5:1	
$30 000	**3:1**	
$40 000	**2.5:1**	
$50 000	**2:1**	
$100 000	**1:1**	

I again stress that the above is reflected of the **minimum gearing** available under the two most popular lot ("contract") sizes, $100 000 and $10 000.

Intelligent, long term minded traders will most definitely attach much more importance to **minimum gearing** rather than **maximum gearing**, which only should come in play if you have in any case lost most of your funds – a situation one should clearly be avoiding by applying the correct levels of gearing consistently.

I encourage any person who commits less than $20 000 to his trading venture to stick to mini lot trading ($10 000 instruments).

Learn to trade – why to follow a mentor rather than a "course"

Learning to trade is a bit of a "chicken and egg" dilemma.

You actually should understand **your trading** before you can make an objective decision about the best training for **you**. But the only real way to understand trading is by doing real trading, making and losing real money, and my "constant contact" mentor programme is designed to support new or struggling traders during the critical starting phase (a year or two!) of live trading that could easily be the end rather than the beginning of a long trading career.

Learn the lessons of the past to prepare for the opportunities of the future

One should see learning about trading as a life-long endeavour. Upfront training is not more than the presentation of a conceptual framework to understand one's options as a day trader.

No amount of demo-trading will replace the fact that your steepest learning curve is your first few months of live trading. There is no such thing as a successful or knowledgeable trader after a few months. School monies will be paid. Accept it.

"Real" training only starts when "real" trading starts.

The above actually says it all, why a mentoring programme is so vital.

It really doesn't matter what amounts of theoretical knowledge one has gained on every conceivable aspect of importance to trading, if you go it alone your chances of bottom line success is to say the very least, limited.

I have learned to trade by speaking every day to my mentor over the telephone. We went through a simple ritual of putting on the table the important information at play. The sharing of viewpoints the sharing of nuances of interpretation all contributed to decision-making. Now I am learning by speaking everyday with some of my clients. And obviously, they learn too.

The purpose of the mentoring programme is not at all to create an army of robotic like clients that all act on this or that "signal". The purpose and approach of the programme is best said in the well-known saying:

Give a man a fish and you feed him for a day.
Teach him to fish and you feed him for a lifetime.

Please read my document on ***forex mentoring*** for more about this training model, why money paid for it will never be wasted and how I have structured it to benefit absolutely new or experienced traders equally well.