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Session Based Breakout Trading Strategy

The session based breakout strategy is based on the premise that most of the order flow in the currency market occurs during the European and the North American sessions - the period of highest liquidity and greatest concentration of news. Therefore a break of the Asian session highs or lows can often lead to significant continuation moves in the market with prices adjusting to the latest economic and political developments of the day.

The Set Up Rules:

The strategy based breakout demarcates the Asian session period as 5PM EST (22:00GMT) to 2AM EST (7:00GMT) measuring the highs and lows of that range. Although the Asian session continues for a few more hours beyond that time, Frankfurt and London traders arrive at their desks at 7:00 GMT and will often begin to move markets with force even before the region's equity markets open up for business. That's why 7:00 GMT serves as the starting point for the setup.

The setup is most effective on the four major currency pairs

- EUR/USD
- GBP/USD
- USD/JPY
- AUD/USD

We hope you enjoy this free report and find it useful!

Session Based Breakout

Figure 1 demonstrates the highs and lows for EUR/USD during the Asian session on February 17th, 2010

As you can see the Asian session is typically a time of consolidation for the currency market with prices generally trading in a narrow range. In the above example the high for the EUR/USD pair is 1.3778 and the low is 1.3738.



Session Based Breakout

News Based Breakout

When trading the session breakout strategy it is extremely important to distinguish between price-based and news-based breakouts. News-based breakouts tend to have stronger momentum because they represent a fundamental change in the market and often require major position adjustments not only by the shorter term speculators but from the more important longer term investors as well. Generally, a breakout in the direction of the daily trend supported by a piece of fundamental data will have the greatest chance of continuation as more players join the trend. Similarly a massive economic surprise against an overbought or an oversold condition will also generate a lot of short term momentum as it forces many different market participants to react and adjust. Therefore, we trade news breakouts with a more aggressive risk profile. Here are our rules for the news based breakouts.



News Based Breakout Money Management Rules

1. Enter trade on break of highs or lows of Asian session with 2 units
2. Place stop at -20 on the whole trade
3. Take profit on half the position at +20 and move the stop to breakeven
4. Trail the rest of the position by 20 points on the trade

Session Based Breakout

Price-Based Breakout

A price based breakout is driven by purely technical considerations and stop hunting forays and will often fail and reverse frequently leading to stop outs. It is therefore a lower probability trade and requires more conservative money management techniques.



Our strategy for price based breakouts involves the following risk control rules.

Price-Based Breakout Money Management Rules

1. Enter trade on break of highs or lows of Asian session with 2 units
2. Place stop at -20 on the whole trade
3. Take profit on half the position at +10 and move the stop to breakeven
4. Trail the rest of the position by 20 points on the trade

Session Based Breakout

If price-based breakouts often turn out to be fakeouts a question must be asked why trade them at all? There are several reasons why price based breakout are worth a try. Often a sharp move above the Asian highs or lows could presage some fundamental news to come as better informed market participants anticipate the release of key event risk during the European morning hours. Additionally, a strong move in price may also signal some non-transparent news away from the daily economic calendar that only becomes evident after the fact. To be sure, these breakouts are often the result of rumors and innuendos that turn out to be false, That's why we trade them with a more conservative money management approach. On the other hand, occasionally they lead to very strong directional price moves and are therefore worth considering.



Session Based Breakout

Caveats, Exceptions and Other Considerations

It is important to remember that session based breakouts are by no means assured bets. Risk control is paramount. Our stop loss rules are based on general statistical approximations of maximum retrace leeway we are willing to give these trades, but in times of high volatility and widening out of spreads you may want to expand your stop parameters accordingly. Furthermore, breakouts can often stall as the tug of war between bulls and the bears resolves itself. Therefore patience is often required. Additionally breakouts can fail on their first attempt only to create a much stronger move on the second or third break of the price levels, so persistence pays but it can be both expensive and frustrating to incur the stop outs so you must prepare yourself mentally for such possibility. Lastly, to trade this setup you must remain agnostic as much as possible. After failing to take out the lows price may reverse completely and take out the highs and you must be able to completely change course to take advantage of such moves. Finally, understand that the profit profile of this setup is much closer to the low probability/high reward end of the spectrum rather than the high probability/steady profit you may initially believe it to be. You are essentially trying to catch and ride the one or two big price moves of the day in order to pay for the many stop outs that occur along the way. We have tried to mitigate some of the risk with our 2 unit approach, but we have not eliminated it completely so above all else you must be disciplined when you trade this setup.

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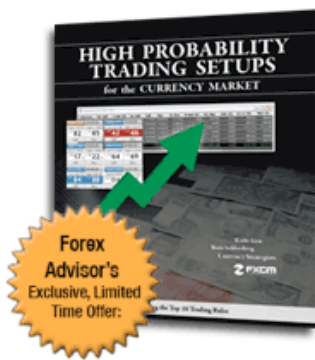
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I am new to your trade calls - but WOW - are you guys impressive. I feel so honored to be able to see into your thinking like this, let alone to be able to jump into the trades too. I'm putting out the word to my trading friends about what you offer."

~ Mindy R.

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