THE PRO TRADERS WORKSHOP

TRAINING MANUAL

Disclaimer notice

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INTRODUCTION

Welcome to the Pro Traders Workshop. We sincerely believe this experience will be rewarding and profitable.

The strategies to be traded are explained step by step with illustrations. In addition the detail of the indicators will be discussed during the workshop. We will gladly provide notes on any indicators that you are unsure of, you only have to ask.

The days may seem a bit disjointed as we will be trading strategies every day that may only be taught later during the week. We will, however, endeavour to present everything in a logical and detailed format and will ensure that all strategies make sense by the end of the workshop.

THE TRADING PLATFORM

For the purposes of illustrations in these notes and trading during the workshop you will be using meta-trader 4 under our FSB regulated service provider. The service provider offers instruments that are not normally available on other platforms so please click on the following link to open an account as this will also afford you preferential service and spreads.

http://track.blackstonefutures.co.za/?t=WAVLcaHD

Please download MT4 and select to trade in local ZAR.

Other benefits of using our preferred liquidity provider include:

- The liquidity provider is situated in London with local representation in Sandton.
- Trading funds are held locally with Investec.
- Direct market access.
- A same day withdrawal on condition the instruction is received before 15:00.
- Eliminate currency fluctuation risk by trading in ZAR or, if you prefer, USD.
- Local and international CFD'S on shares are available.

POINTS VERSUS PIPS

Most new traders will get confused by the use of the word "Points" and "Pips

The price, at which an index trades, is referred to in "Points" whereas the price at which Commodities or Forex markets is referred to in "Pips".

The acronym "PIP" stands for "Percentage in Point". This is why it is suggested that the terminology PIPs and points can be interchangeable. Basically, a PIP is 1/100th of a point, which ultimately is 1/100th of a percent.

For an example of the total number of PIPS being traded in currencies, look at the first 5 numbers, and exclude the decimal point. Below are some examples of markets, with current quoted/traded price in the middle column, and the number of PIPs in the right column:

EUR/USD	1.20273	12027
GBP/JPY	153.326	15332
USD/CAD	0.98822	9882
GOLD	1318.80	13188

Notice all the markets excluding the USD/CAD that the first 5 numbers can be used to get the number of PIPs. On the USDCAD there are only 4 numbers, quoted as PIPs. As the market is trading at 0.98822, it should say it is trading at 09882 PIPs, but basic mathematics would show the zero would fall away and that the market is trading at 9882 PIPs.

World indices trade in points. They are made up of a combination of equities (shares), and averaged out to get an index price which is quoted in points. When looking at indices, although many platforms may quote the decimal places, we know a point to be the last digit before the decimal. Some examples below with the middle column quoting market price, and the right hand column quoting the points:

DOW 30	25281.4	25281
FTSE	7713.5	7713
SA40Fut (ALSI)	53381.5	53381

Notice that different indices trade at very different prices. The FTSE100 (UK market) is just above7500 points, whereas the ALSI40 (SA market) is trading a little over 53000 points. Unlike PIPs, there is no required number of digits to make up a point as it would always be the digit just before the decimal point.

RISK - MONEY MANAGEMENT

Trading is a business and any successful business is reliant on positive cash flow. Keep the losses small and let the profits run.

Most seasoned traders have wiped out more than one trading account. The only way to wipe out an account is to either ignore stop losses or to trade with a position size which is to large for the account balance.

The purpose of money management is ultimately to manage the **RISK**, and not necessarily the reward. Too many traders get caught up in how much they can make and don't take into account what they may actually lose when they are wrong.

<u>Position sizing</u>

These examples will be based on the assumption the SA40Fut or ALSI is been traded using the Blackstone trading platform.

1. Lot size or volume (position size) is the position size that will be traded based on available capital.
2. The margin is the Rand amount required to trade a position. The margin will be removed from your trading capital when entering a trade and returned once the trade is closed.
3. Profit /loss per point. This is the Rand amount profit or loss per point depending on the position size.
4. The spread is the cost to trade and is calculated in points. The spread is the difference between the "buy" price and the "sell" price. The spread needs to be subtracted from a profitable trade and added to a losing trade. The spread is fixed at 22 points.

SA40FUT (ALSI)							
LOT/POSITION SIZE	10	5	1	0,5	0,1	0,05	0,01
MARGIN REQUIREMENT (ZAR)	R 10 000,00	R 5 000,00	R 1 000,00	R 500,00	R 100,00	R 50,00	R 10,00
PROFIT/LOSS PER POINT	R 10,00	R 5,00	R 1,00	R 0,50	R 0,10	R 0,05	R 0,01
SPREAD (fixed at 22 X profit/loss per point	R 220,00	R 110,00	R 22,00	R 11,00	R 2,20	R 1,10	R 0,22

In order for the risk to be managed on individual trades, the following information is required for the calculations to be accurate. These items are listed below and are in no particular order.

1. The trading capital
2. The % risk of capital in value per trade. A trader should never risk more that 2% of capital in any one trade.
3. The stop loss in points. This should be based on the back testing of each particular strategy.

Based on this information, there is a straight forward calculation which will illustrate the position size or volume that should be traded. Provided that the variables (i.e. the stop level; entry price; capital balance) are not changed the loss should never exceed the desired % risk in any trade. The calculation is as follows:

The example is based on the assumption that the ALSI is been traded using the Blackstone trading platform.

For this example the three required elements are as follows:

Capital in trading account = R10 000, 00

% Risk per trade is 2% = R200, 00

Stop Loss based on strategy = 100 points

Based on this example a position size (volume) of less than 2.0 would be correct as R 2.00 per point x 100 point loss = R 200.00. Remember to allow for the spread which would be added to the loss.

STOP LOSS MAXIMUM 100 POINTS OR R 200.00							
LOT/POSITION SIZE	10	5	1	0,5	0,1	0,05	0,01
MARGIN REQUIREMENT (ZAR)	R 10 000,00	R 5 000,00	R 1 000,00	R 500,00	R 100,00	R 50,00	R 10,00
PROFIT/LOSS PER POINT	R 10,00	R 5,00	R 1,00	R 0,50	R 0,10	R 0,05	R 0,01
100 POINT LOSS = LOSS IN RANDS	R 1 000,00	R 500	R 100,00	R 50,00	R 10,00	R 5,00	R 1,00

Same example but the stop loss has been adjusted to 200 points.

STOP LOSS MAXIMUM 100 POINTS OR R 200.00							
LOT/POSITION SIZE	10	5	1	0,5	0,1	0,05	0,01
MARGIN REQUIREMENT (ZAR)	R 10 000,00	R 5 000,00	R 1 000,00	R 500,00	R 100,00	R 50,00	R 10,00
PROFIT/LOSS PER POINT	R 10,00	R 5,00	R 1,00	R 0,50	R 0,10	R 0,05	R 0,01
200 POINT LOSS = LOSS IN RANDS	R 2 000,00	R 1 000	R 200,00	R 100,00	R 20,00	R 10,00	R 2,00

Based on this example a position size (volume) of less than 1 would be correct as R 1.00 per point x 200 point loss = R 200.00. The Capital and % risk of capital remained the same while the stop loss in points doubled, therefore the position size must be halved.

Notice from the two examples above that the size of the stop losses varied, the size of the position size (volume) changed, but the risk on both trades were identical. This means that the risk of on 2% of capital was managed in both scenarios. Notice the inverse relationship between the stop loss and the position size, as the one gets bigger, the other gets smaller and visa versa.

Every trading platform has different margin requirements so please do your homework first in order to get the position sizing correct.

LEARNING TO TRUST THE STRATEGY – TECHNICAL ANALYSIS VERSUS STATISTICAL ANALYSIS.

TRADING IS SIMPLE BUT NOT EASY

Every trading instrument is unique and requires its own strategy and set of rules. As an example, a strategy applied to the S&P may not necessarily work for Gold.

The majority of technical strategies work which makes trading simple. The difficulty is that most traders don't have the required discipline to trade them over and over again especially when there are multiple losses in a row. Some of the most profitable strategies have a hit rate of only 50%.

Many traders spend hours reading trading books, watching u-tube videos to find the perfect strategy or subscribe to trading signals with limited success. There is no Chrystal ball.

The solution lies in testing the strategy. In this way the trader will know exactly what to expect from the strategy and will learn to trust it. The result will be the elimination of one of the main psychological obstacles to trading; FEAR.

During the workshop you will spend many hours back testing the strategies taught. The reason for back testing is firstly to ensure the trading strategy is sound (hit rate) and secondly understanding the potential profits or losses (risk): reward.

The back testing is based on:

- The hit rate. The amount of profitable trades to losing trades (stop loss).
- Maximum gain. The amount of pips/points profit made when successful.
- Maximum pain. The amount of pips/points the trade goes against you before becoming profitable.
- The stop loss. The maximum amount of pips/points the trade can go against you before implementing a stop loss.

An example of a simple basic back test:

The back test is based on trading the ALSI using an hourly close above the 50 simple moving average to trade long or an hourly close below the 50 simple moving average to trade short. The strategy suggests that the hourly candle must close and then the price must break above or below the previous candle.

Results in this example do not include the cost to trade (spread).

Summary

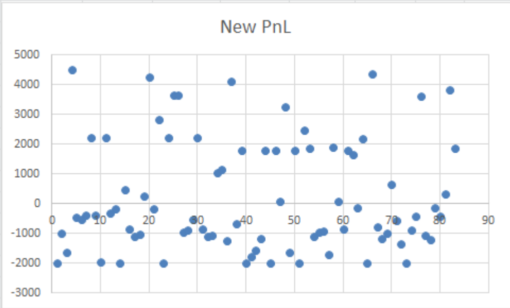
BACK TEST - ALSI 50 SMA HOURLY				
TRADE	**LONG/SHORT**	**MAX GAIN**	**MAX PAIN**	**STOP LOSS**
1.	Short	687	45	n/a
2.	Long	1504	129	n/a
3.	Short	3576	199	n/a
4.	Long	492	0	n/a
TOTAL	4 TRADES	6259	373	

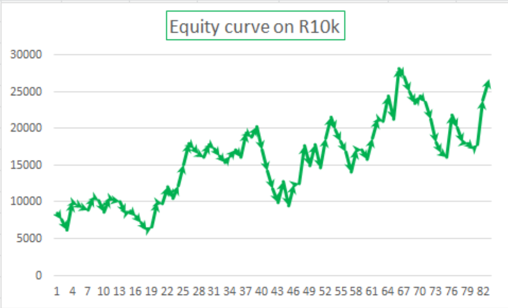
Based on this short summary the trader knows in advance:

- The trade can go 200 points in the negative before going into profit.
- The worst max gain was 492 point profit. Therefore, if the trade goes 300 points in profit the trader can implement a trailing stop loss system (place stop loss at entry for worst case scenario) so that capital is preserved. When the trade is 500 points in profit the trailing stop can be moved to 200 points in profit as an example.
- The stop loss could be set at a drawdown of +- 300 points.

In reality a good back test should be done using a minimum of 60 trades and should contain a lot more data. The back test that will be taught on the workshop will look like this:

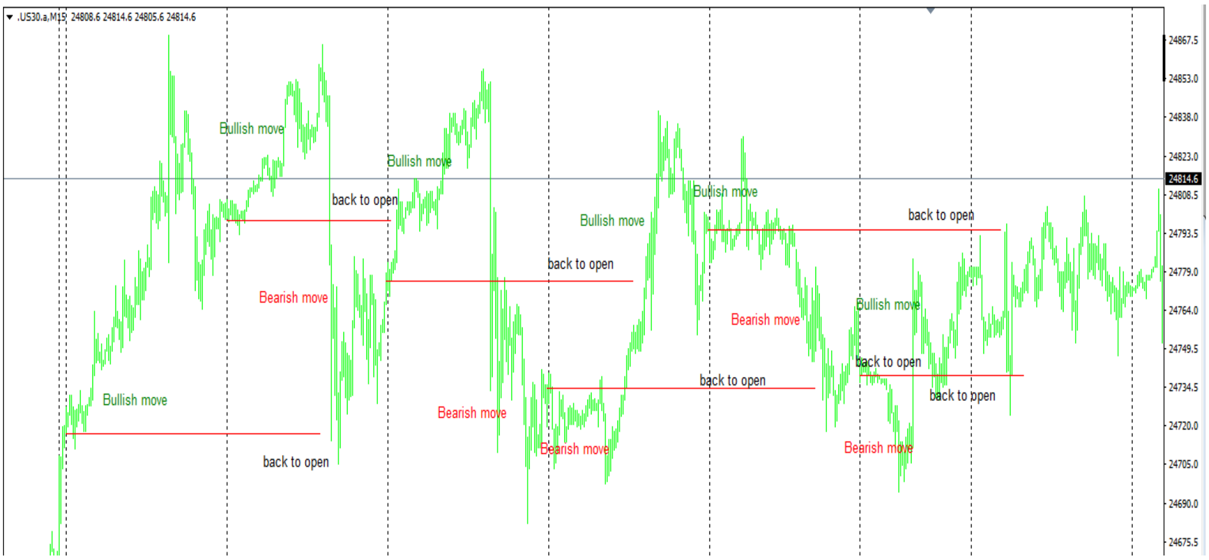
										TP WITH TRAILING LAST AND STOPS					R10,000 Starting Capital
4	TRADE									C1	C2	C3	C4	NETT	10000
5	Date	Enter Price x-x	Exit Price x-x	L/S	Profit Loss X-X	Con Wins	Con Losers	MAX PAIN	MAX GAIN	TP1 350	TP2 750	TP3 1250	TP4	PROFIT LOSS 4 CONTRACT	Cumulative
6	04-01-2017	44191	44552	S	-361			-596	156	-500	-500	-500	-500	-2000	8400
7	05-01-2017	44552	44302	L	-250			-302	20	-250	-250	-250	-250	-1000	7600
8	05-01-2017	44302	44713	S	-411		7	-450	260	-411	-411	-411	-411	-1644	6285
9	06-01-2017	44713	46425	L	1712			-50	2100	750	750	1250	1750	4500	9885
10	18-01-2017	46425	46542	S	-117			-192	37	-117	-117	-117	-117	-468	9510
11	19-01-2017	46542	46411	L	-131			-180	136	-131	-131	-131	-131	-524	9091
12	19-01-2017	46411	46461	S	-50		3	-149	450	-100	-100	-100	-100	-400	8771
13	23-01-2017	46461	46575	L	114			0	805	750	750	350	350	2200	10531
14	27-01-2017	46575	46552	S	23			-125	680	-100	-100	-100	-100	-400	10211
15	01-02-2017	46552	46056	L	-496			-530	0	-496	-496	-496	-496	-1984	8624
16	02-02-2016	46056	45742	S	314			-360	990	750	750	350	350	2200	10384
17	10-02-2017	45742	45658	L	-84			-165	675	-84	-84	-84	-84	-336	10115
18	14-02-2017	45658	45706	S	-48			-275	580	-48	-48	-48	-48	-192	9962
19	20-02-2017	45706	45123	L	-583		3	-558	81	-500	-500	-500	-500	-2000	8362
20	22-02-2017	45123	44565	S	558			-225	1190	750	-100	-100	-100	450	8722
21	01-03-2017	44565	44352	L	-213			-388	310	-213	-213	-213	-213	-852	8040
22	03-03-2017	44352	44634	S	-282			-325	147	-282	-282	-282	-282	-1128	7138
23	06-03-2017	44634	44370	L	-264		3	-297	0	-264	-264	-264	-264	-1056	6293
24	06-03-2017	44370	44306	S	64			-160	630	64	64	64	64	256	6498
25	10-03-2017	44306	45318	L	1012			-140	1810	750	750	1250	1500	4250	9898
26	22-03-2017	45318	45680	S	-362			-360	710	350	-176	-176	-176	-178	9755
86	13-11-2017	53989	53997	S	-8		5	-133	610	350	-8	-8	-8	326	17731
87	14-11-2017	53997	54699	L	702			-90	1520	350	962	1250	1250	3812	23830
88	23-11-2017	54699	54321	S	378			0	927	350	750	378	378	1856	26800
89	29-11-2017	54321												0	
90					686									16929	26800





<u>Markets are cyclical in nature and often return to respect price levels.</u>

Notice that price movements have certain patterns that are repeated over and over again. In the example below notice that the DOW pushes away from the opening price level of the day (0:00 SA time) and within a day or two comes back to respect that price. Back testing suggests that this happens 80% of the time.



Once this observation is made all that is required is a reliable (back tested) strategy that affords us the opportunity to trade the retracement back to the opening price level.

TRADING USING FIBONACCI

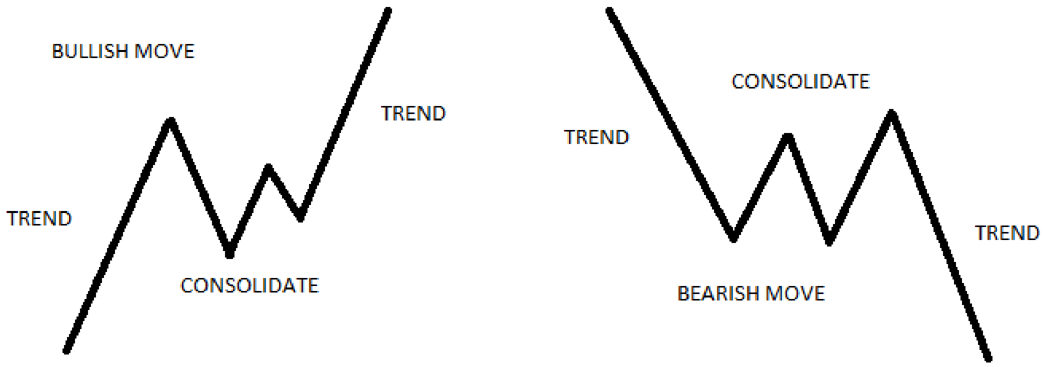
Introduction

The benefit of target trading includes:

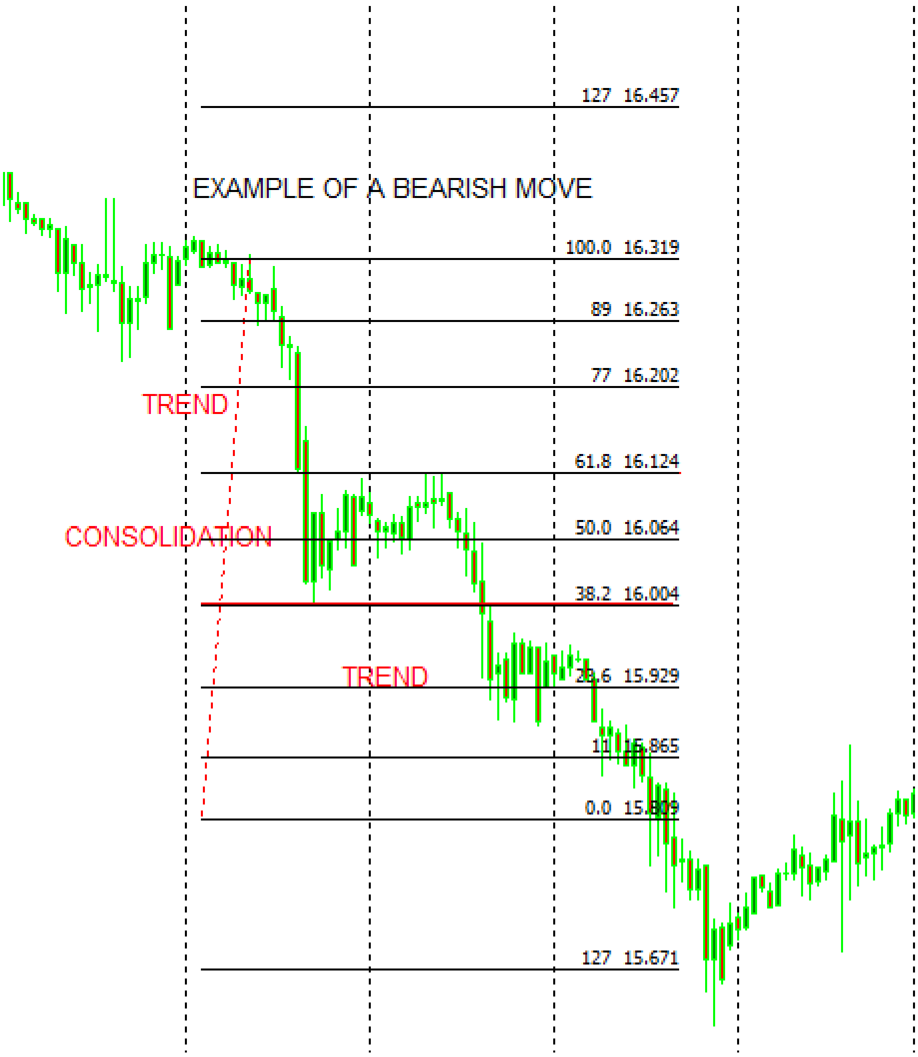
- Having a precise entry level.
- Having a precise take profit level.
- Having a precise stop loss level.
- Having the ability to measure risk to reward before trades are executed.

Fibonacci levels of 0.11 (11), 0.77(77), 0.89(89), 1.27(127) and 2.00(200) will need to be added on your MT4 trading platform.

Markets move in threes. In others words they trend, retrace or consolidate and then trend again.



The basic rule is that markets consolidate between 61.8 and 38.2 of the Fibonacci retracement levels. See the example of gold.



The following strategies will indicate precisely where the Fibonacci retracement levels need to be drawn and how they are traded.

TRADING THE HIGH/LOW FIBS

Introduction

The benefit of trading the high low Fibs is that they provide an absolute entry point, stop loss level and a target price. The High/Low Fibs are traded on end of day, hourly and five minute charts. The bigger the time frame the greater the targets so this strategy is suited for trading in all time frames.

This strategy is particularly beneficial as it provides price targets as well as levels of support or resistance in various time frames which means risk to reward can be measured before the trade is executed.

The high/low Fibs are traded according to two strategies:

1. Trading out of the consolidation strategy.
2. Trading the retracements strategy.

Trading out of the consolidation strategy

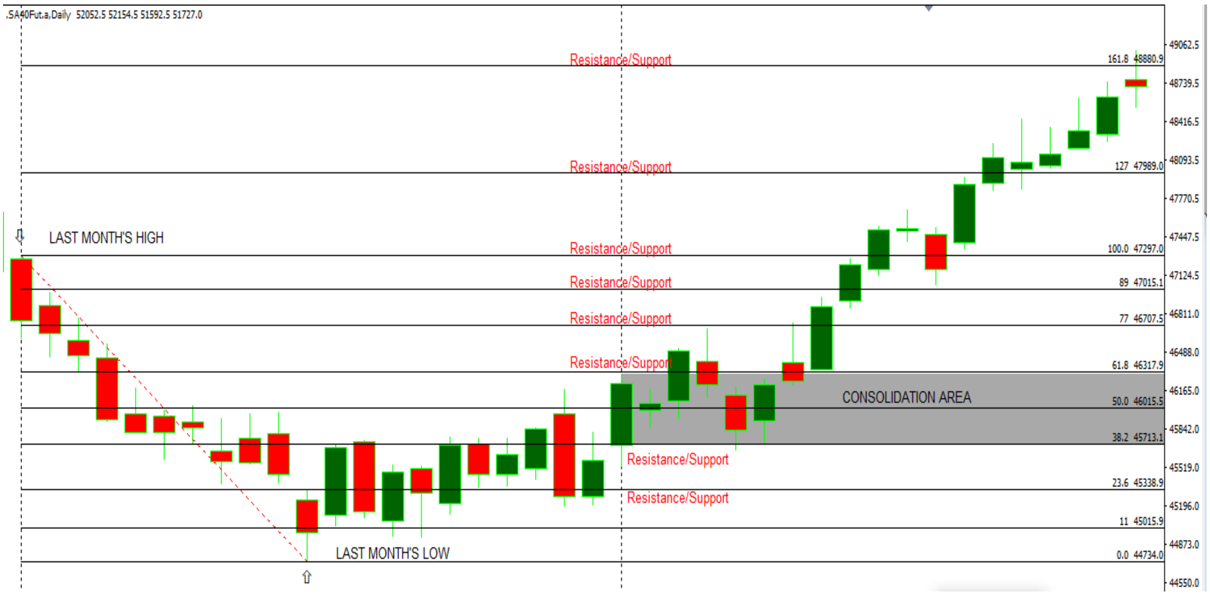
1. The Monthly High/Low Fib.

a. This Fib is applied to end of day candles.

b. Draw a Fibonacci retracement from last month's highest price to last month's lowest price.

c. Shade in the area between 61.8 and 38.2 (consolidation area).

d. The Fib will provide levels of support and resistance for the following month.



<u>Strategy</u>

e. A trigger **short** is when the market respects the 50 level and then **closes** below 38.2 (consolidation area). Wait for the low of the previous candle to **break** before executing the trade.

f. Stop loss is a candle **close** above the 50 level.

g. The first target is 23.6. Move the trailing stop loss to entry when the first target is reached.

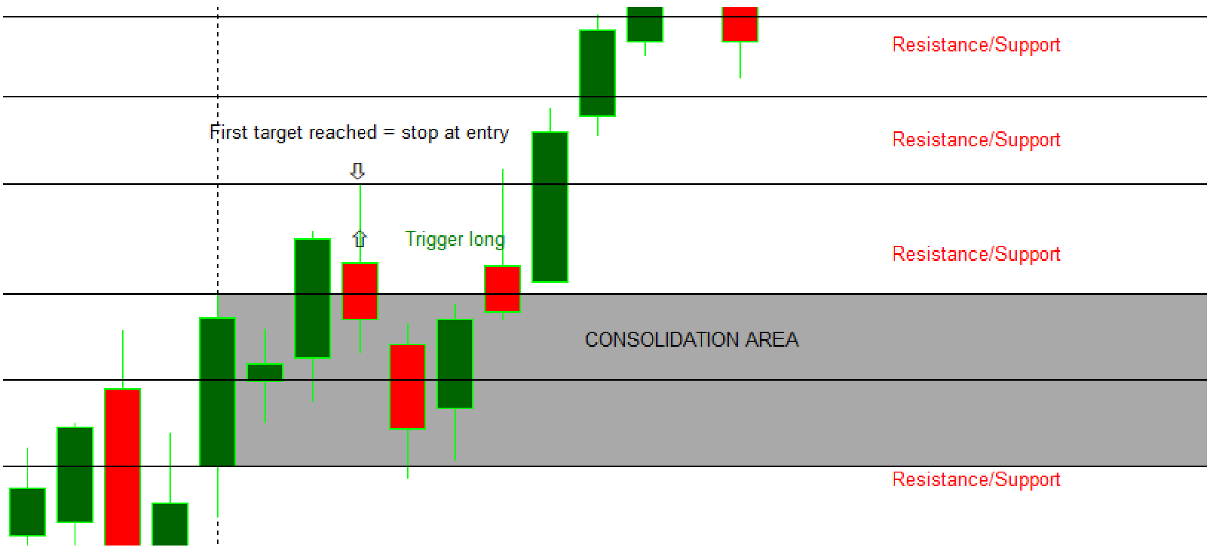
h. The take profit is set at the 11 level of the Fib.

i. A trigger **long** is when the market respects the 50 level and then **closes** above 61.8 (consolidation area). Wait for the high of the previous candle to **break** before executing the trade.

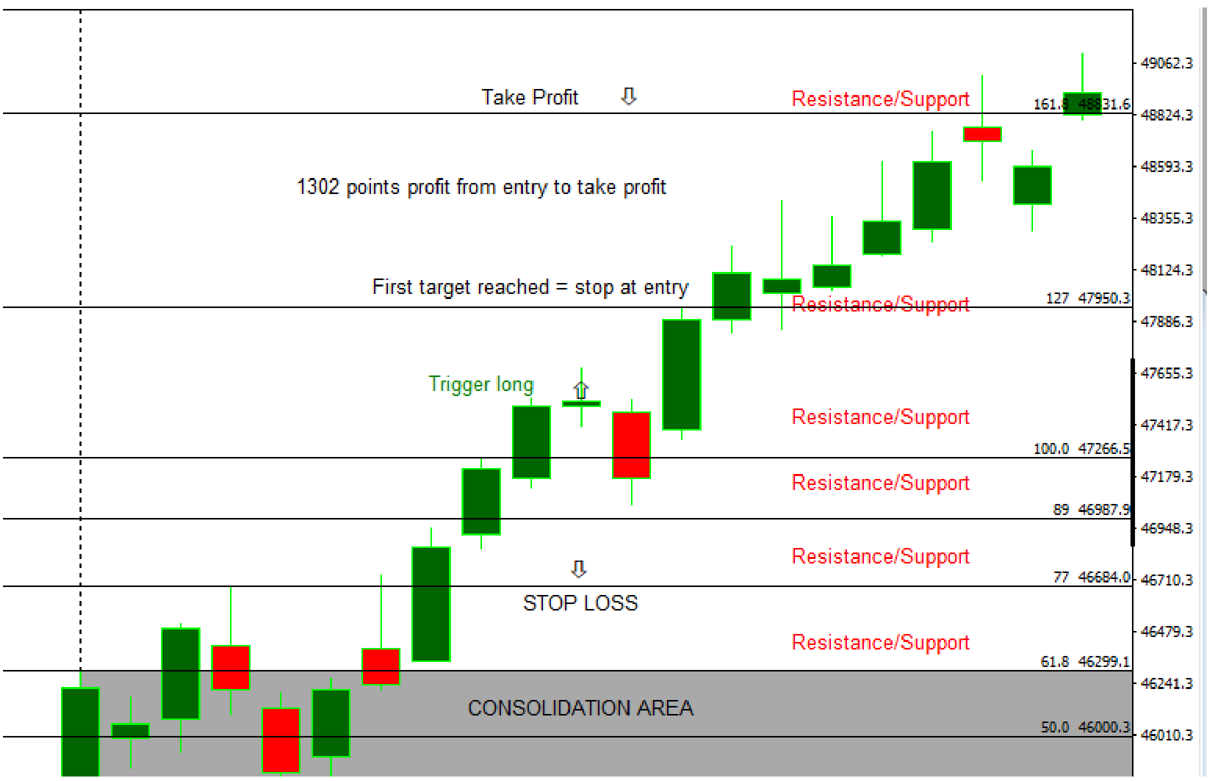
j. Stop loss is a candle close below the 50 level.

k. The first target is 77. Move the trailing stop loss to entry when the first target is reached.

l. The take profit is set at the 89 level of the Fib.



m. An additional trigger **long** is a candle **close** above the 100 level of the Fib. Wait for a **break** of the previous candle high before executing the trade.
n. The stop loss is a candle **close** below the 77 level.
o. The first target is the 127 level. The trailing stop loss moves to entry once this level is reached.
p. Take profit is set at the 161.8 level.



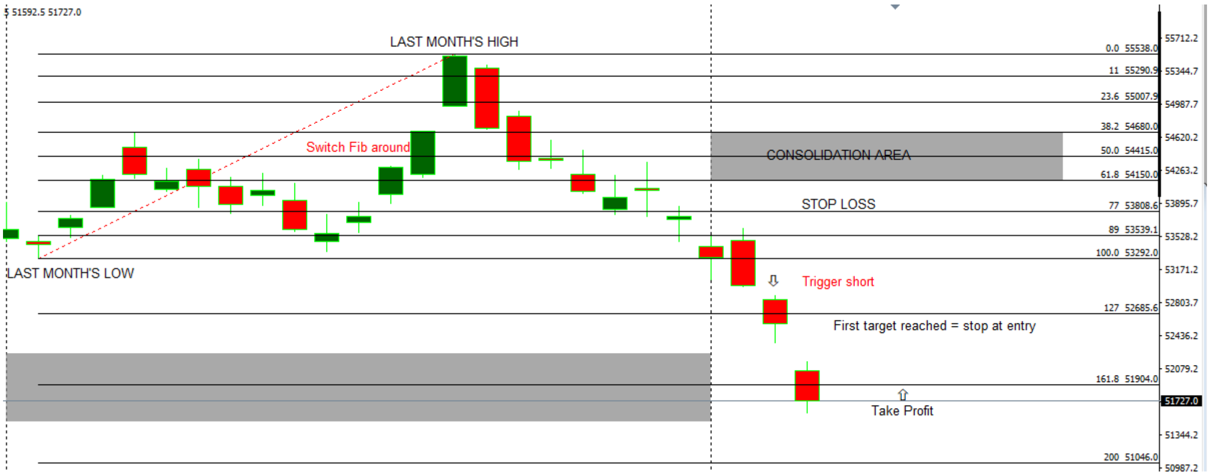
q. An additional trigger **short** is a candle **close** below the 0 level of the Fib. There are no extension levels below 0 so adjust the Fib by placing the 100 level on the lowest price of last month and the 0 level on the highest price of last month.

r. The trigger short is a candle **close** below the 100 level of the Fib. Wait for a **break** of the previous candle low before executing the trade.

s. The stop loss is a candle **close** below the 77 level.

t. The first target is the 127 level. The trailing stop loss moves to entry once this level is reached.

u. Take profit is set at the 161.8 level.



2. The Weekly High/Low Fib.

a. This Fib is applied to hourly candles.

b. Draw a Fibonacci retracement from last week's highest price to last week's lowest price.

c. Shade in the area between 61.8 and 38.2 (consolidation area).

d. The Fib will provide levels of support and resistance for the following week.

<u>Strategy</u>

e. This strategy is traded exactly the same as the monthly high/low Fib strategy but end of day candles are replaced with hourly candles and Fibs are drawn from last week's highest price to last week's lowest price.

3. The Daily High/Low Fib.

    a. This Fib is applied to five minute candles.
    b. Draw a Fibonacci retracement from yesterday's highest price to yesterday's lowest price.
    c. Shade in the area between 61.8 and 38.2 (consolidation area).
    d. The Fib will provide levels of support and resistance for the current day.

Strategy

e. This strategy is traded exactly the same as the weekly (and monthly) high/low Fib strategy but hourly candles are replaced with five minute candles and Fibs are drawn from yesterday's highest price to yesterday's lowest price.

4. Bringing it all together.

a. Draw the High/Low Fibs in various colours, monthly – black, weekly – purple and daily green.
b. This allows for the drawing of support and resistance levels on the smallest time frames. In other words if the five minute candle stops on a purple line, we know its hourly support or resistance (weekly high/low Fib) and if it stops on a black line we know its daily support or resistance (monthly high/low Fib).

Trading the retracements strategy

1. Apply the monthly, weekly and daily high low Fibs as explained above.
2. The concept of trading the retracements involves trading markets back to the consolidation area when they are over extended or overbought/oversold.
3. Markets can be defined as over extended when they are trading above or below the 100, 127 or 161.8 levels of the monthly, weekly or daily high low Fibs.

a. Wait for a candle **close** above the 100, 127 or 161.8 level.

b. A candle **close** below 100, 127 or 161.8 and then a **break** of the previous candle high/low will be a trigger to trade.
c. Take profit would be at the next level, so a trigger above or below 161.8, take profit would be placed at the 127 level. A trigger above or below the 127 and the take profit will be at the 100 level. A trigger above or below the 100 and the take profit will be at the high or low of the consolidation area.
d. Stop loss is a candle **close** above or below the Fib level that triggered the trade.

TRADING THE OPENING RANGE FIBS

Introduction

The opening range Fibs are traded intraday on all indexes using five minute candles or on currency pairs using hourly candles. The opening range sets the foundation for the day whereby a trader would rather be long when the market is trading above the opening range or would rather be short if trading below the opening range.

Often the market will retrace to the high or low of the opening range during the course of the day.

This strategy works well to catch the first trade of the day.

Trading indexes using five minute candles

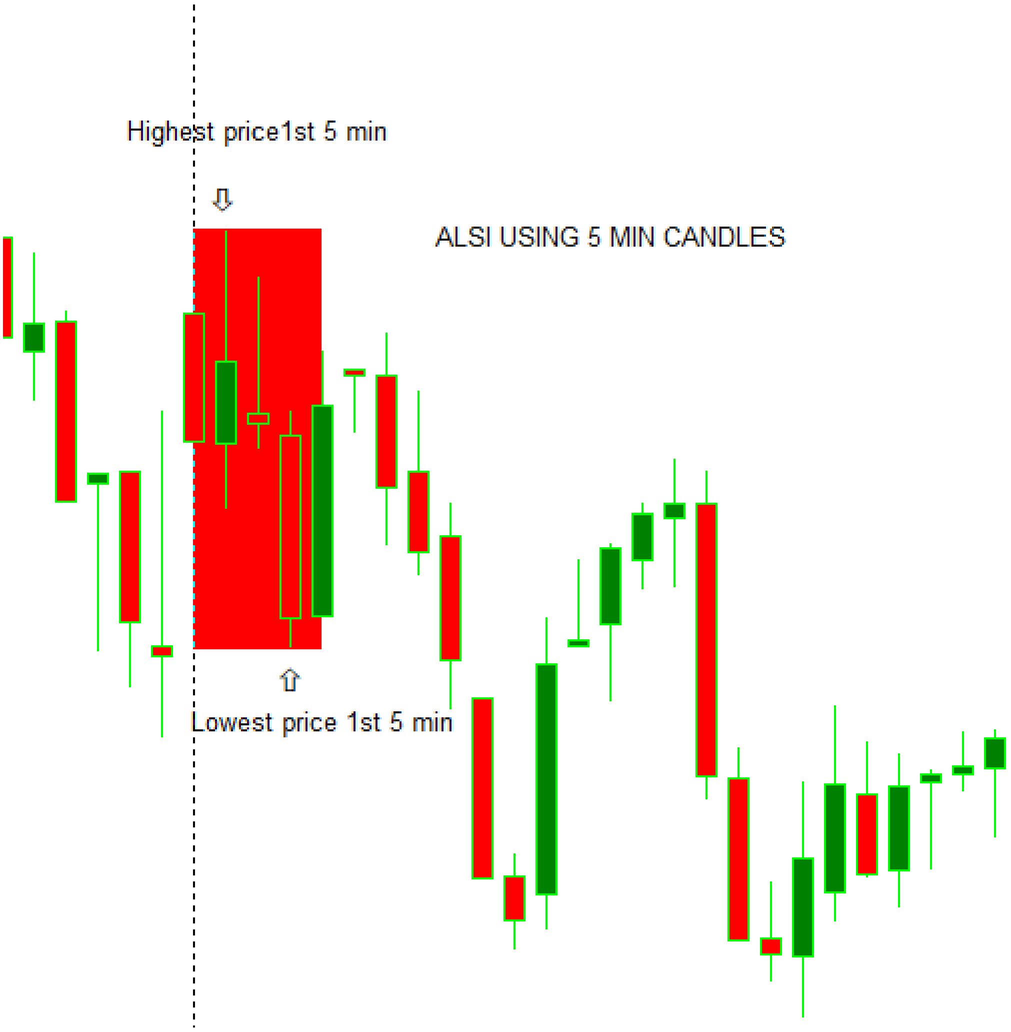
Strategy

Starting from the daily open the opening range is drawn from the highest price to the lowest price of the first five, five minute candles.

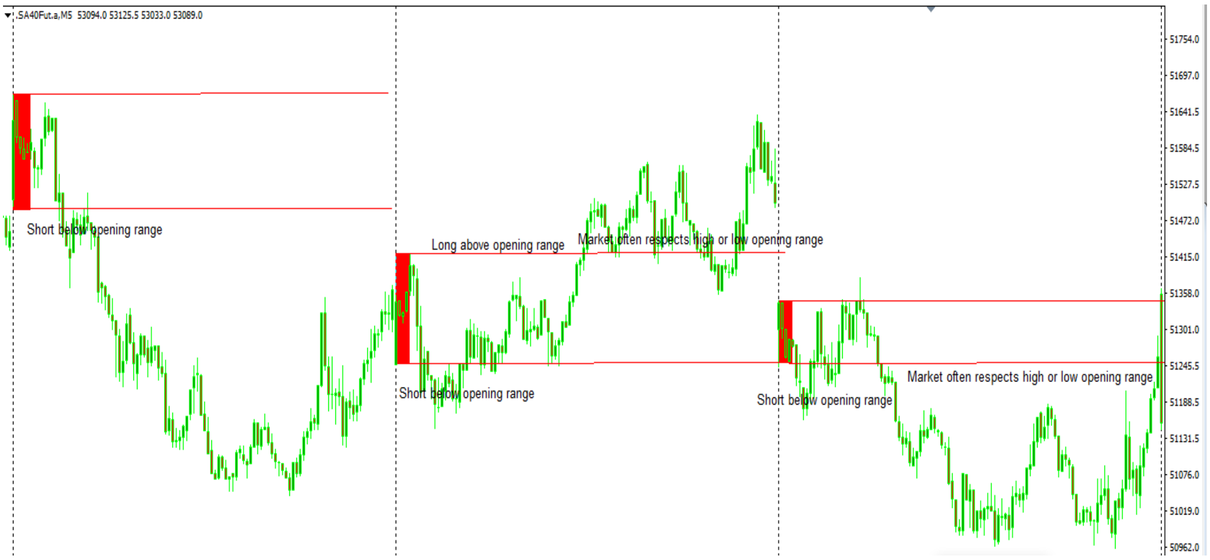
Remember to allow for daylight savings.

Opening times (based on GMT+2):

- ALSI – 08:30
- DOW – 16:30 (15:30 when daylight savings adjust)
- FTSE – 10:00 (09:00 when daylight savings adjust)
- DAX – 09:00 (08:00 when daylight savings adjust)



Notice that the preference is to be long when the market is trading above the opening range and short when it is trading below. Also notice that the market often comes back and respects the high or low of the opening range.



Draw a Fibonacci retracement placing the 61.8 level on the high of the opening range and the 38.2 level on the low of the opening range. The Fib will need some adjusting to get a perfect fit.

A trigger long is a five minute **close** above the 61.8 level. Wait for a **break** of the previous candle high before executing the trade.

Stop loss is a five minute candle **close** below 50.

First target is at 77. It is a good idea to move the trailing stop close to entry when first target is reached.

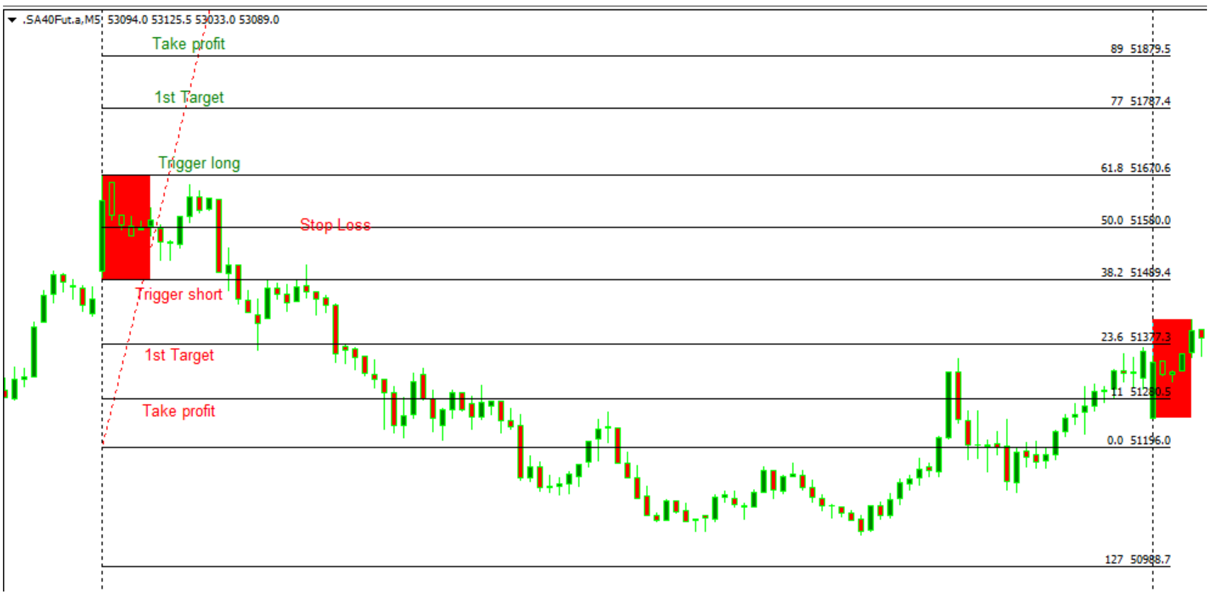
Take profit is set at 89.

A trigger short is a five minute **close** below the 38.2 level. Wait for a **break** of the previous candle low before executing the trade.

Stop loss is a five minute candle close above 50.

First target is at 23. It is a good idea to move the trailing stop close to entry when first target is reached.

Take profit is set at 11.



Trading currency pairs using hourly candles

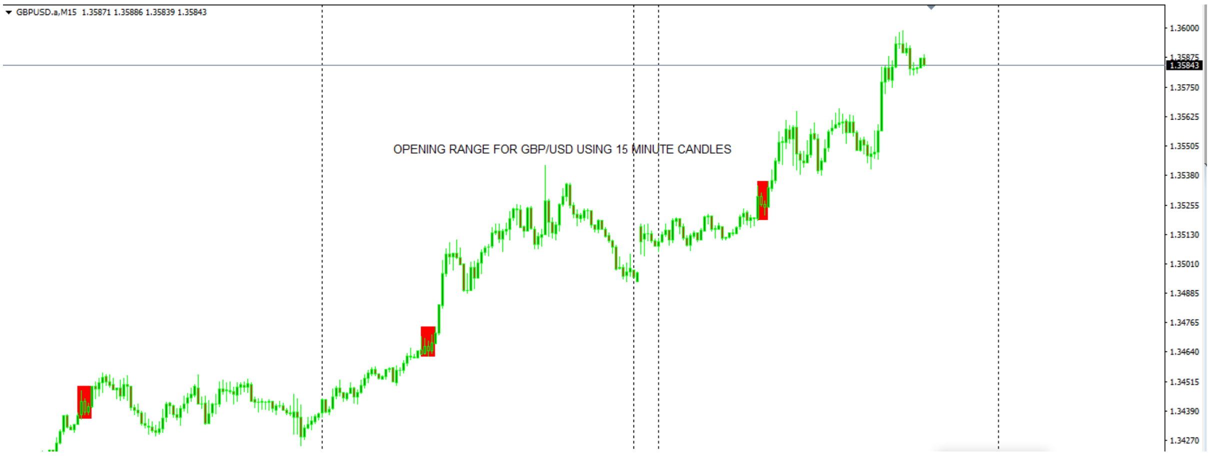
Introduction

Currency pairs trade twenty four hours a day so the immediate need is to determine the opening time for each currency pair.

The opening range will be the hour preceding the opening of the relevant market. In other words the UK market opens at 10:00 (GMT +2 {remember to allow for daylight savings}) so any currency pair where the GBP is dominant the opening range will be from 09:00 to 10:00. The DOW opens at 16:30 (GMT +2 {remember to allow for daylight savings}) so any currency pair where the USD is dominant the opening range will be from 15:30 to 16:30.

It is easier using fifteen minute candle periods when determining the period high and low.

Notice that the preference is to be long when the currency pair trades above the opening range, short when it trades below the opening range and consolidates when trading within the range.



<u>The strategy</u>

Draw a Fibonacci retracement placing the 61.8 level on the high of the opening range and the 38.2 level on the low of the opening range. The Fib will need some adjusting to get a perfect fit.

A trigger long is a candle **close** above the 61.8 level. Wait for a **break** of the previous candle high before executing the trade.

Stop loss is a candle **close** below 50.

First target is at 77. It is a good idea to move the trailing stop close to entry when first target is reached.

Take profit is set at 89.

A trigger short is a candle **close** below the 38.2 level. Wait for a **break** of the previous candle low before executing the trade.

Stop loss is a candle **close** above 50.

First target is at 23. It is a good idea to move the trailing stop close to entry when first target is reached.

Take profit is set at 11.

Use shorter time frames to assist with entries in order to improve risk to reward.

<u>TRADING THE RETRACEMENT – THE MOVING AVERAGE FIB</u>

<u>Introduction</u>

The strategy is based on the assumption that any market will retrace to the fifty simple moving average in time.

Once a Fibonacci level has reached target and profit has been taken, a retracement back or close to the fifty period simple moving average can be expected.

A trigger to trade is at the end of a candle period.

In addition to the Moving Average Fib a 50 simple moving average and a 50 period, 1 slowing, 24 moving average Stochastic must be displayed.

<u>Step 1</u>

Once the market has reached target, identify a candle reversal pattern that could suggest a change in trend. The market should be extremely over bought or over sold at this level.

<u>Step 2</u>

Draw a perfectly vertical Fibonacci Retracement starting from the 50 simple moving average and place the 50 level of the Fibonacci Retracement on the wick or tail of the candle that you believe is the beginning of the retracement.

<u>Step 3</u>

The trigger to enter a trade is a candle **close** above or below the 61.8 or 38.2 level. Stop loss is a 5 minute **close** above or below to 50 level of the moving average Fib.

First target will be the 23 or 77 level of the moving average Fib. Expect some support or resistance at his level and consider moving your stop loss up or down to the entry price.

<u>Step 4</u>

Take profit is the 89 or 11 level of the moving average Fib or the 50 simple moving average, WHICH EVER OCCURS FIRST.

For more positive results apply a 50.1.24 Stochastic.

<u>Step 5</u>

The Opening Fibonacci target levels reached means that the Stochastic will be at overbought or oversold levels (close to the 0 or 100 of the Stochastic). An added bonus is when positive or negative divergence occurs.

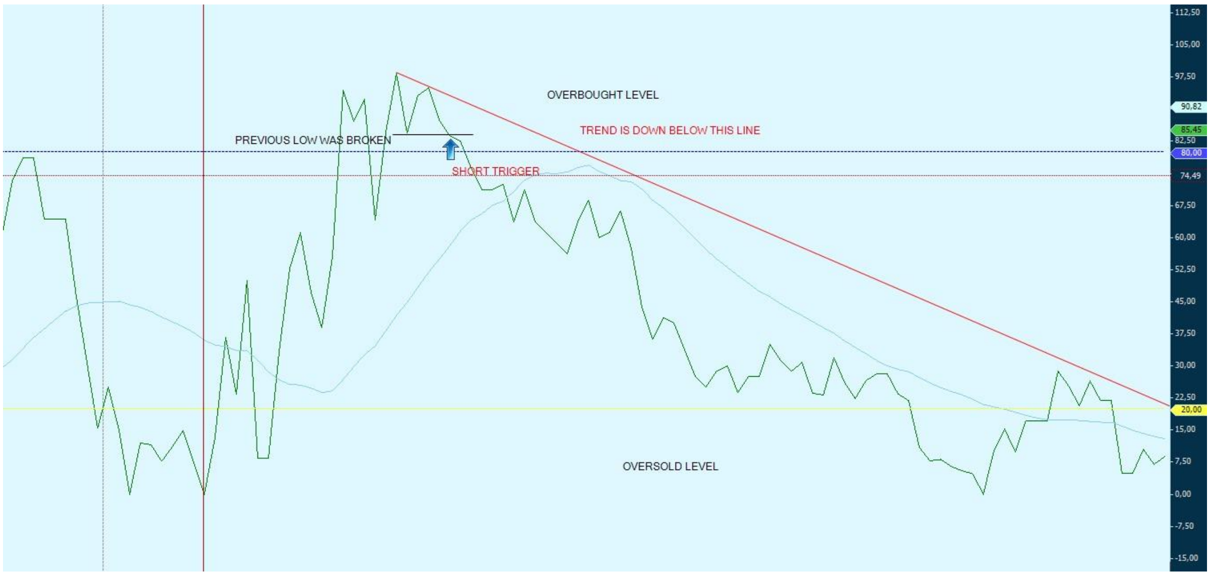
The Stochastic needs to display a trend followed by a retracement and then a trend that is higher or lower than the previous trend at the end of a candle period.

<u>Step 6</u>

Draw a line from the highest or lowest point of the Stochastic to the tip of the retracement. As long as the index trades above or below this line the trend is up or down respectively. A 5 minute close above or below this line would trigger a stop loss.

<u>Step 7</u>

A trigger to enter a trade is when the previous high or low is broken at the end of a candle period.



Step 8

The take profit for this strategy is as per strategy 1A, the 89 or 11 of the moving average Fib or the 50 simple moving average whichever takes place first.

Summary

Notice how the moving average Fib strategy and the Stochastic triggered a short at the end of the candle period at the same time (vertical red line).

Notice how the index found support on the opening price level of the day.

TRADING THE EXTENSION FIB

Introduction

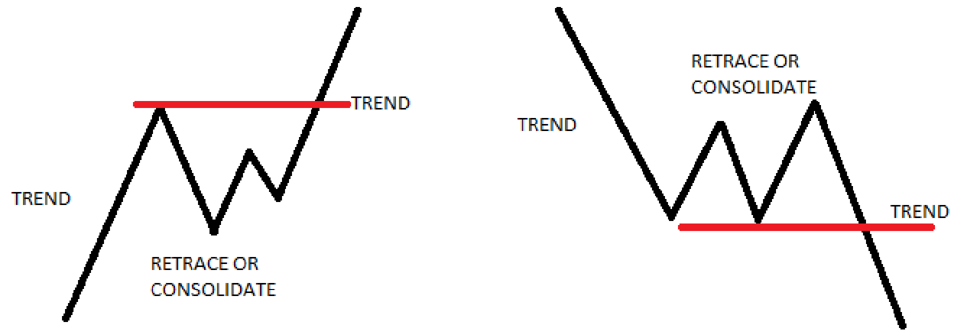
Extension Fibs can be used on all time frames. The longer the time frame the more the potential profit, however, it also takes longer to reach the profit levels.

The extension Fib will provide an entry level, stop loss level and take profit level.

The basic concept revolves around the fact that markets move in threes. They trend, retrace or consolidate and then trend again.

Once the consolidation or retracement is over and the market breaks the high or low of the initial trend the assumption can be made that the market is trending again.

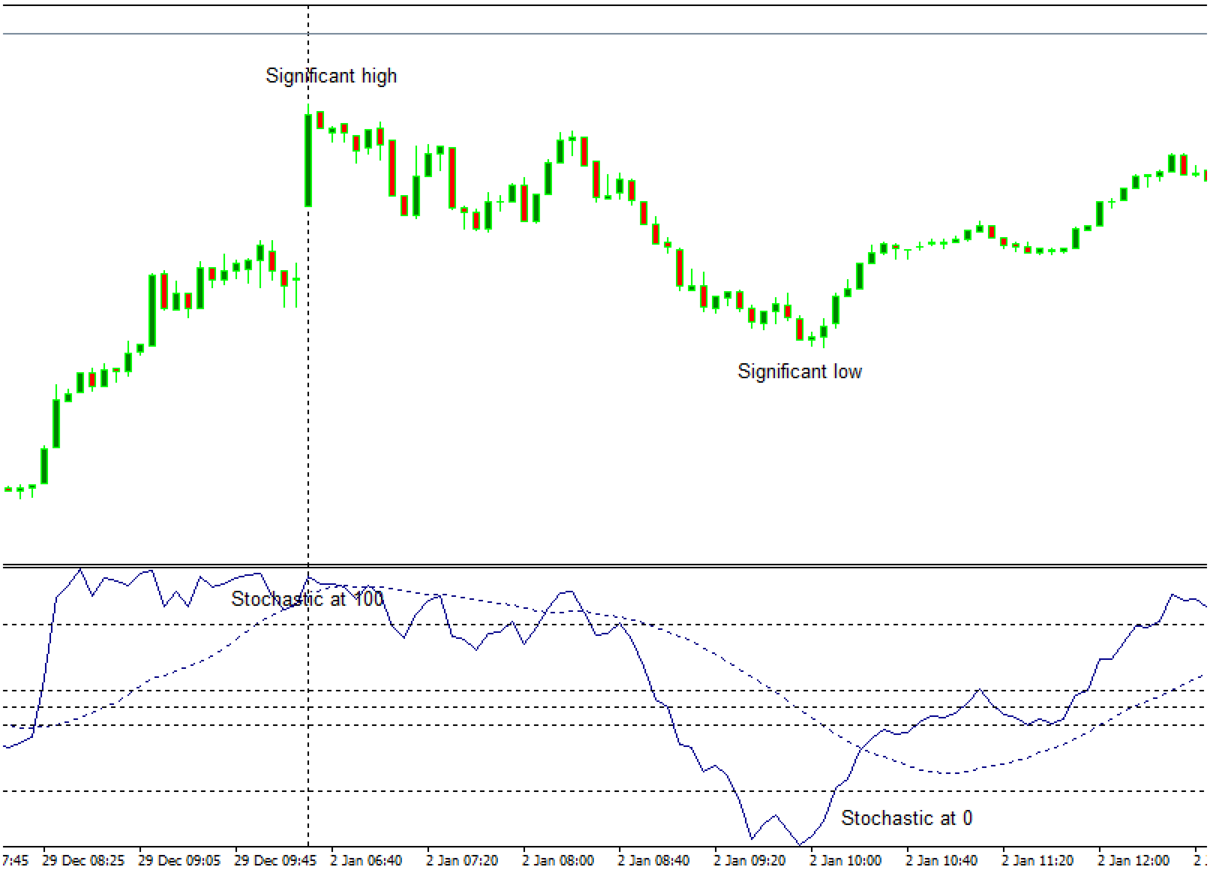
The extension Fib will provide an entry level, stop loss level and target.



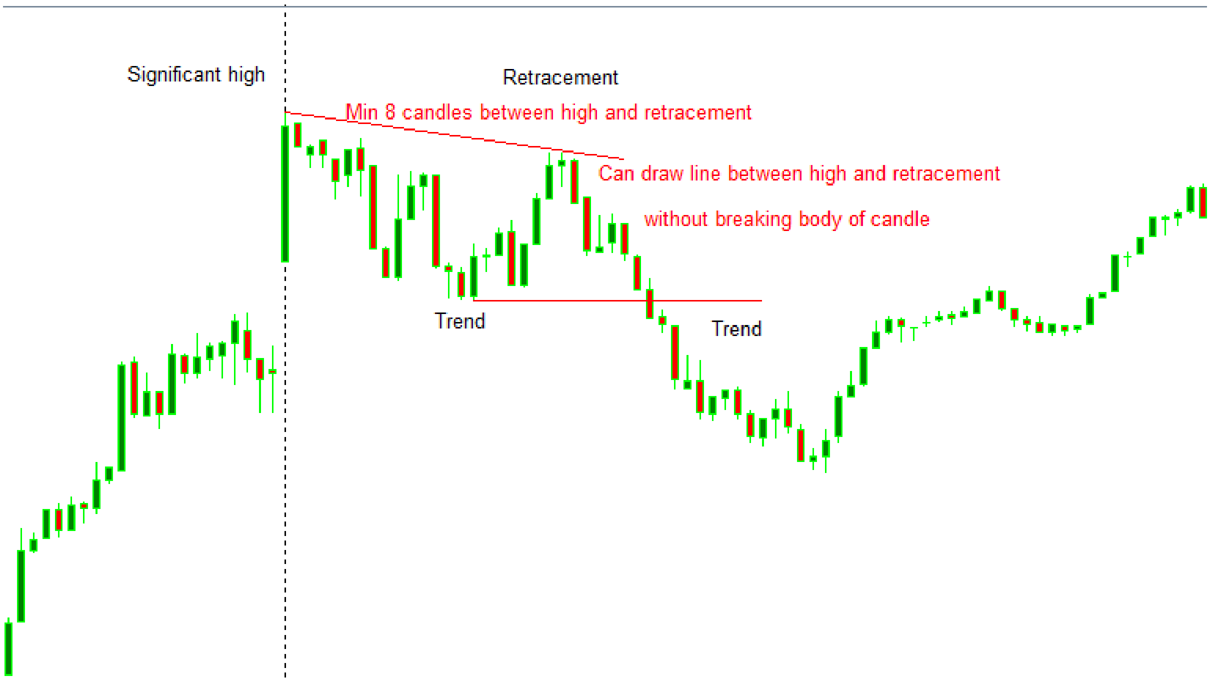
Rules

There are four basic rules to this strategy:

1. Identify a significant high or low. To assist with this the 50/1/24 Stochastic must be at 100 for a bearish setup and at 0 for a bullish setup.



2. Identify a trend and then the retracement where the retracement has a minimum of eight candles from the significant high/low.
3. Must be able to draw a line from the significant high/low without breaking the body of a candle.



4. Draw a Fibonacci retracement by placing the 100 on the low/high of the trend and the 0 at the significant high/low. The retracement must be at least 50% of this move.

Strategy

1. A trigger short/long is a candle **close** above or below the 100.
2. Wait for a price **break** of the previous high/low.
3. Stop loss is the 77 level of the extension Fib (candle **close**).
4. First target is the 127 level. Trailing stop loss moves to entry.
5. Take profit is 161.8 of the extension Fib.

TRADING WITH CHANNELS – THREE EQUAL CHANNELS

Introduction

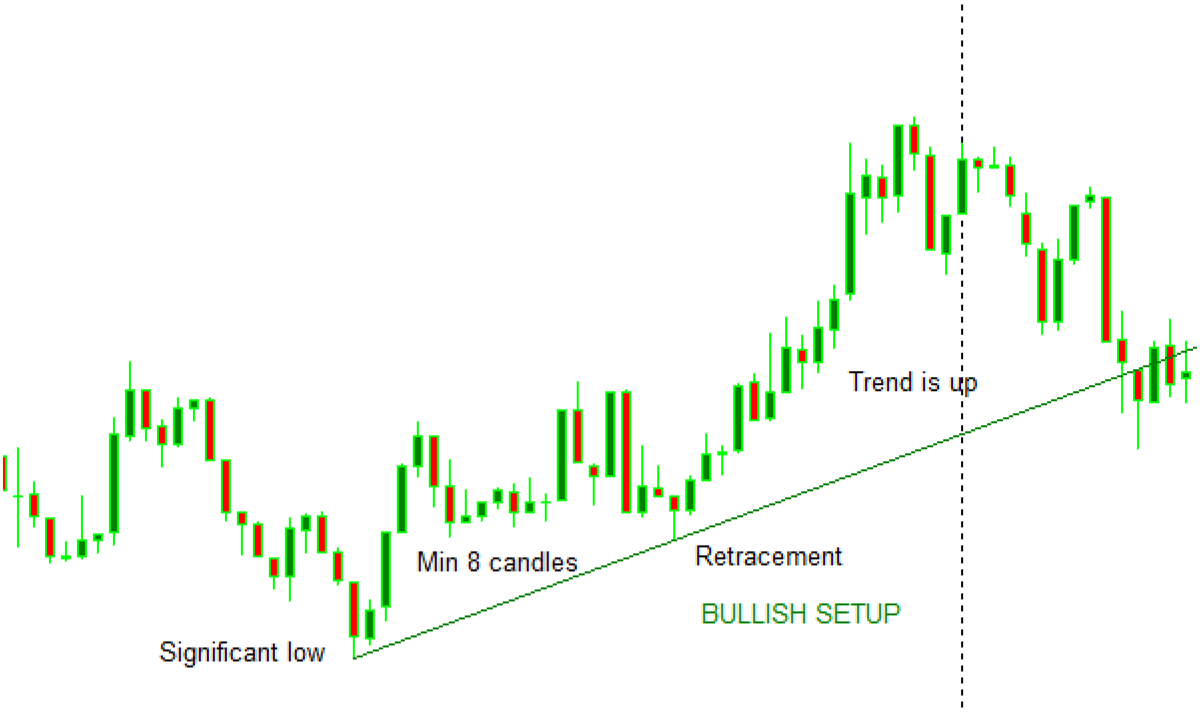
Equal channels are ideal for determining the trend and have been proven to be accurate for identifying price targets. Channels also suggest critical levels of support and resistance. Channels work in any time frame.

Rules

1. Draw a trend line from a significant high or low to the retracement. Remember from the extension Fibs that the Stochastic oscillator is used to assist in determining significant highs and lows.
2. There must be a minimum of eight candles from the significant high or low to the retracement.

3. The trend line between the significant high or low and the retracement may **not break the body** of a candle.
4. The trend line determines the trend. As long as the market remains above the trend line the bullish trend is intact or as long as the market remains below the trend line the bearish trend is intact.

Bullish setup



Bearish setup

5. Identify the hits. The hit is the high or low of the first, second and third retracements. Use line charts to assist in finding the highs or lows.
6. Copy the initial trend line and paste it on the first hit.
7. Measure the distance between the trend line and the line copied to the first hit. Copy and paste a third line with an equal distance.
8. The price target is the third channel line. All the channel lines are used as support and resistance levels.

<u>Bullish setup with targets</u>

9. In the event that the price breaks the high or low of the third channel line, move the middle line to hit 2, measure the distance between the trend line and the first channel line (now at hit 2) and adjust the third line accordingly.

10. In the event that the price target is broken again move the middle channel line to hit 3, measure the distance between the trend line and middle channel line (now at hit 3) and adjust the third line accordingly.

Experienced traders will testify to the reliability of channels. Channels used in conjunction with the balance of the strategy will prove invaluable.

TRADING THE ALSI INTRADAY – THE FIVE MINUTE STRATEGY

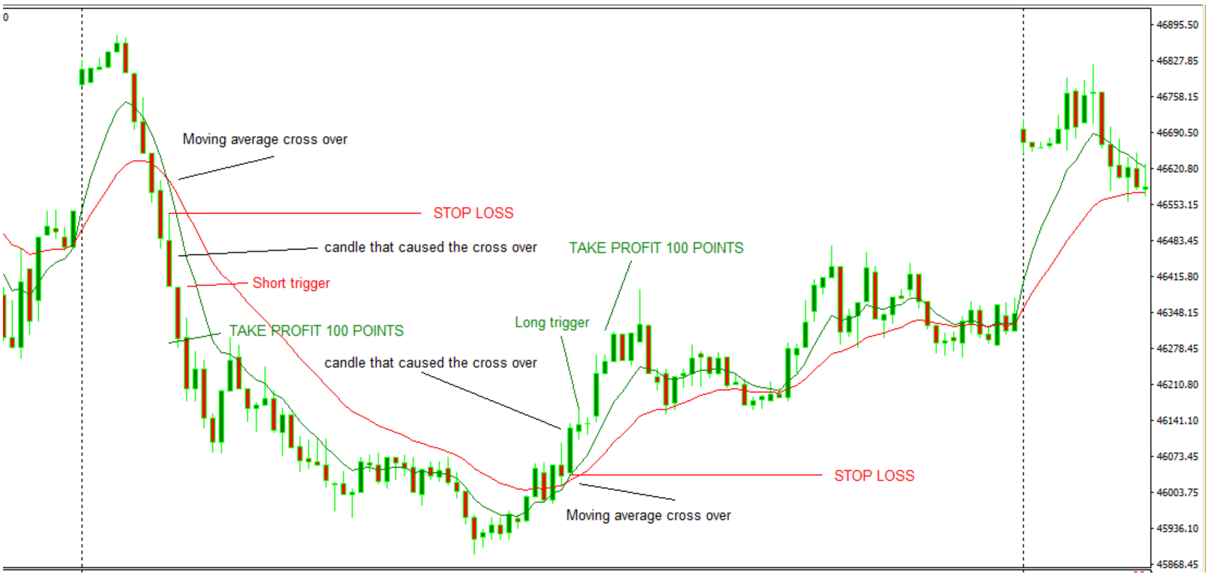
Introduction

This strategy is ideal for those who wish to trade the intra-day trend.

Strategy

Applying the five minute strategy to the ALSI has proven to be very profitable and provides on average two to three trades a day.

1. Apply an 8 and 21 exponential moving average to a five minute chart. A five minute close of a candle after a cross over will trigger a long or short.
2. Wait for the price to break the high or low of the candle that caused the cross over before entering a long or short trade.
3. Set the take profit at 100 points.
4. Stop loss is a break of the high or low of the candle that caused the cross over.



Some of the problems with trading moving average cross overs include:

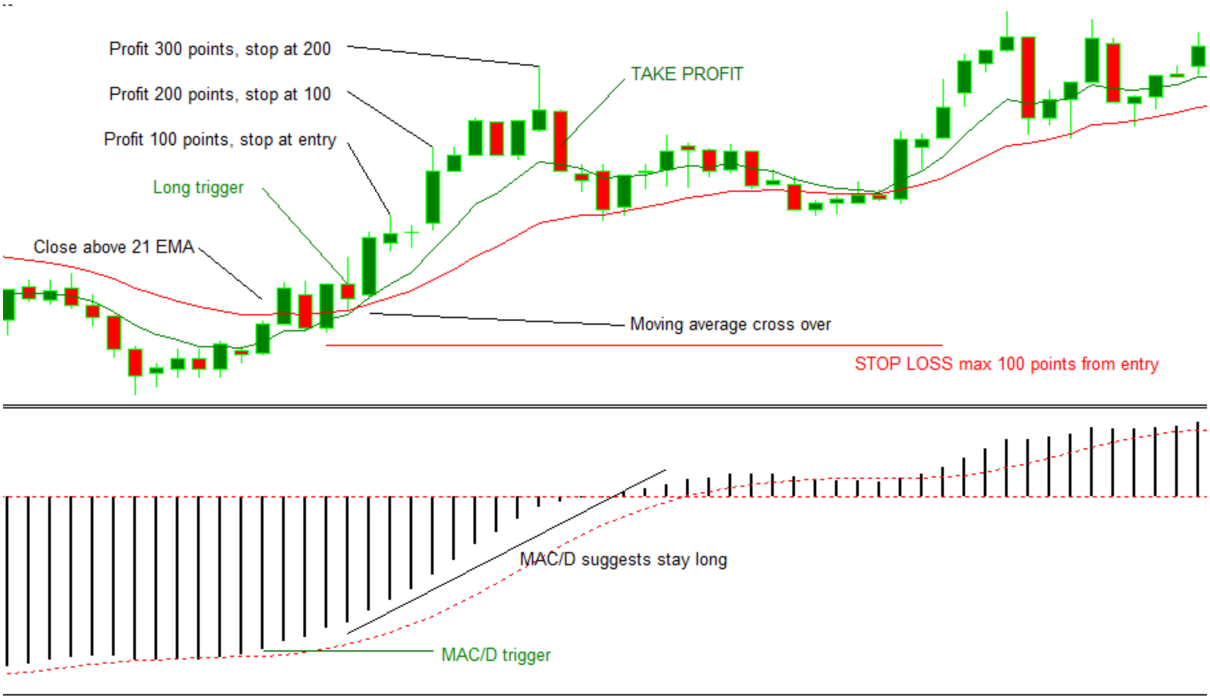
1. The price moves significantly before the trigger to enter is provided resulting in entering a trade too late.
2. The moving average cross over calls for a take profit of 100 points but often the trend continues resulting in lost opportunity

The MAC/D provides a solution to these challenges.

Strategy

1. Apply a 21/50 MAC/D with a 9 period signal line.

2. To enter a long position:
   a. The MAC/D must **close** above the signal line.
   b. A five minute candle must **close** above the 21 EMA.
   c. Enter the long position when the high of the previous candle is **broken**.
   d. Ensure that the moving averages cross and confirm the trend within three or four candles.
   e. Stay long on condition the MAC/D spikes get shorter and when they cross 0 get longer.
   f. Implement a trailing stop where the stop moves every 50 points.
   g. The stop loss is a maximum of 100 points.



TRADING USING THE STOCHASTIC OSCILLATOR

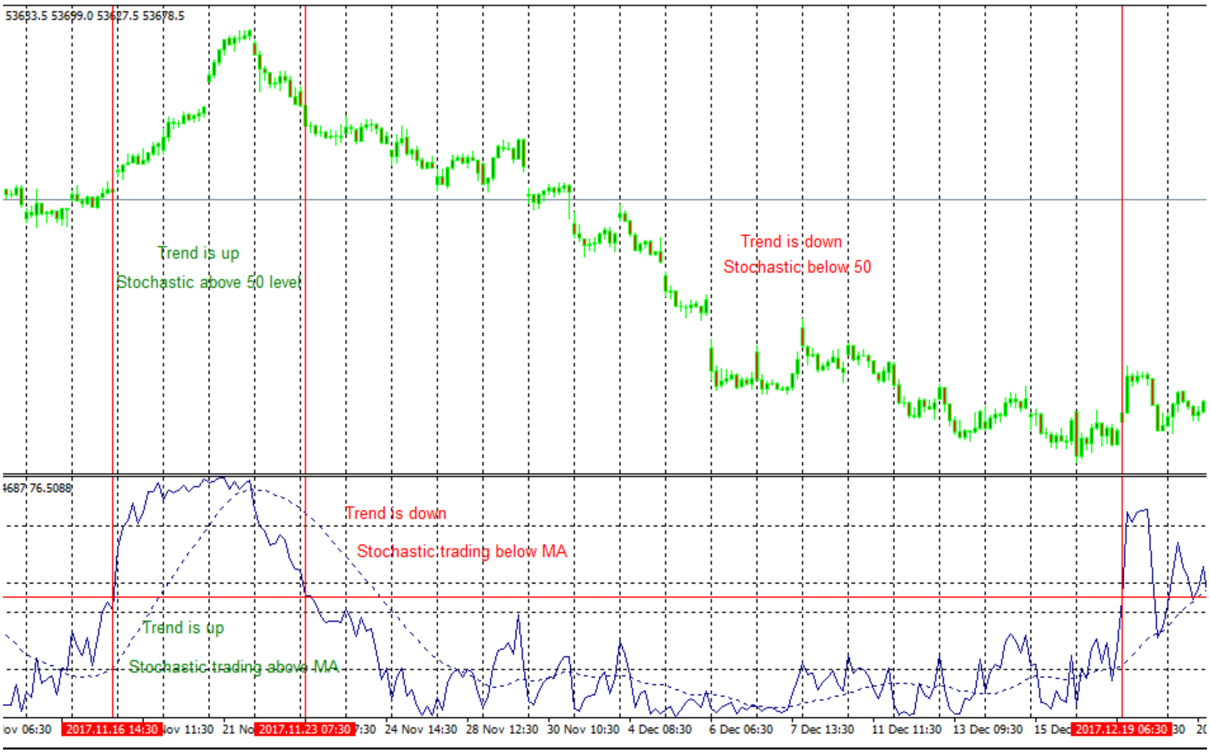
<u>Introduction</u>

The stochastic measures the relationship between the highest price and the lowest price in a specific period and expresses that as a percentage. The stochastic oscillates between 0 and 100. Apply a 50 (period) 1 (slowing) 24 stochastic. The stochastic works well in all time frames, the longer the time frame the greater the profit or loss.

The stochastic is ideal for determining the trend and giving a trigger to trade.

1. <u>Determining the trend</u>

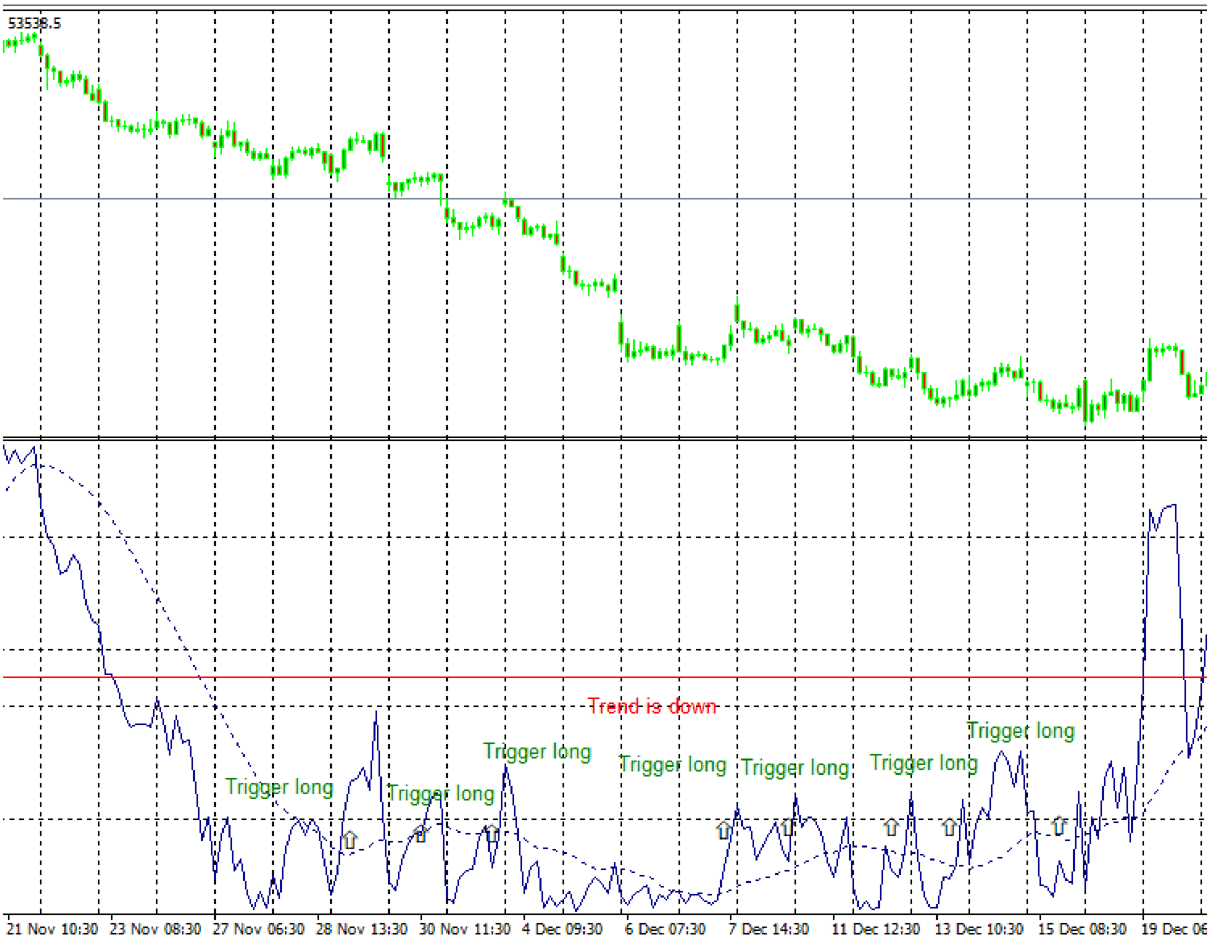
   a. The trend is defined in two ways:
      i. Trading above or below the 24 period moving average. The trend is up while the stochastic trades above the moving average and down when it trades below.
      ii. Trading above or below the fifty level. The trend is up while the stochastic remains above 50 and down while the stochastic remains below.



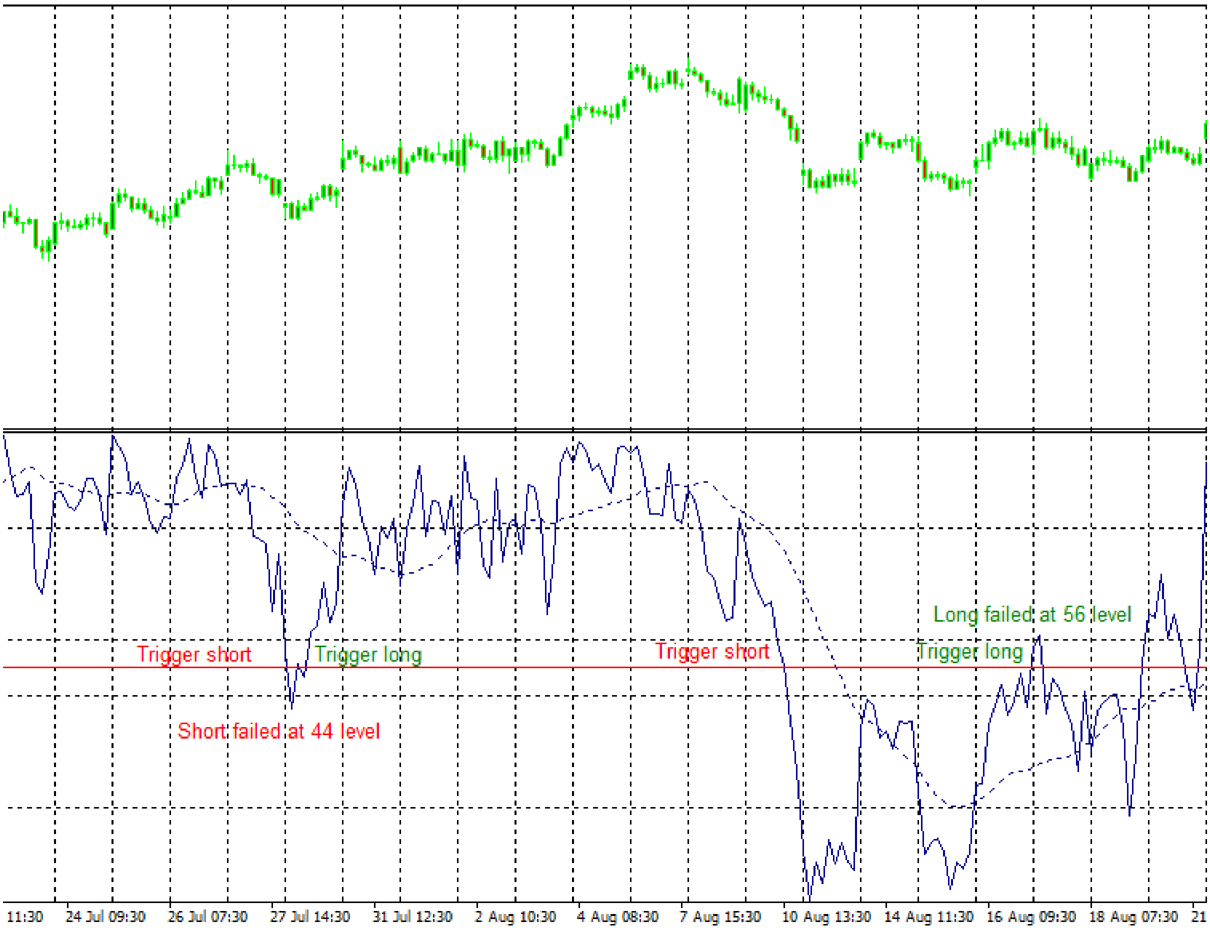
2. <u>Trigger to trade</u>

Many suggest that the stochastic should be used as an oscillator trading overbought or oversold conditions. It suggests go long when the stochastic breaks up through 20 and go short when the stochastic breaks down through 80. Back testing suggests that there are too many false triggers as the trader will often be going long or short against the underlying trend.

Notice from this example that eight losing trades were triggered in a row. Losses occurred as triggers were given against the underlying trend.



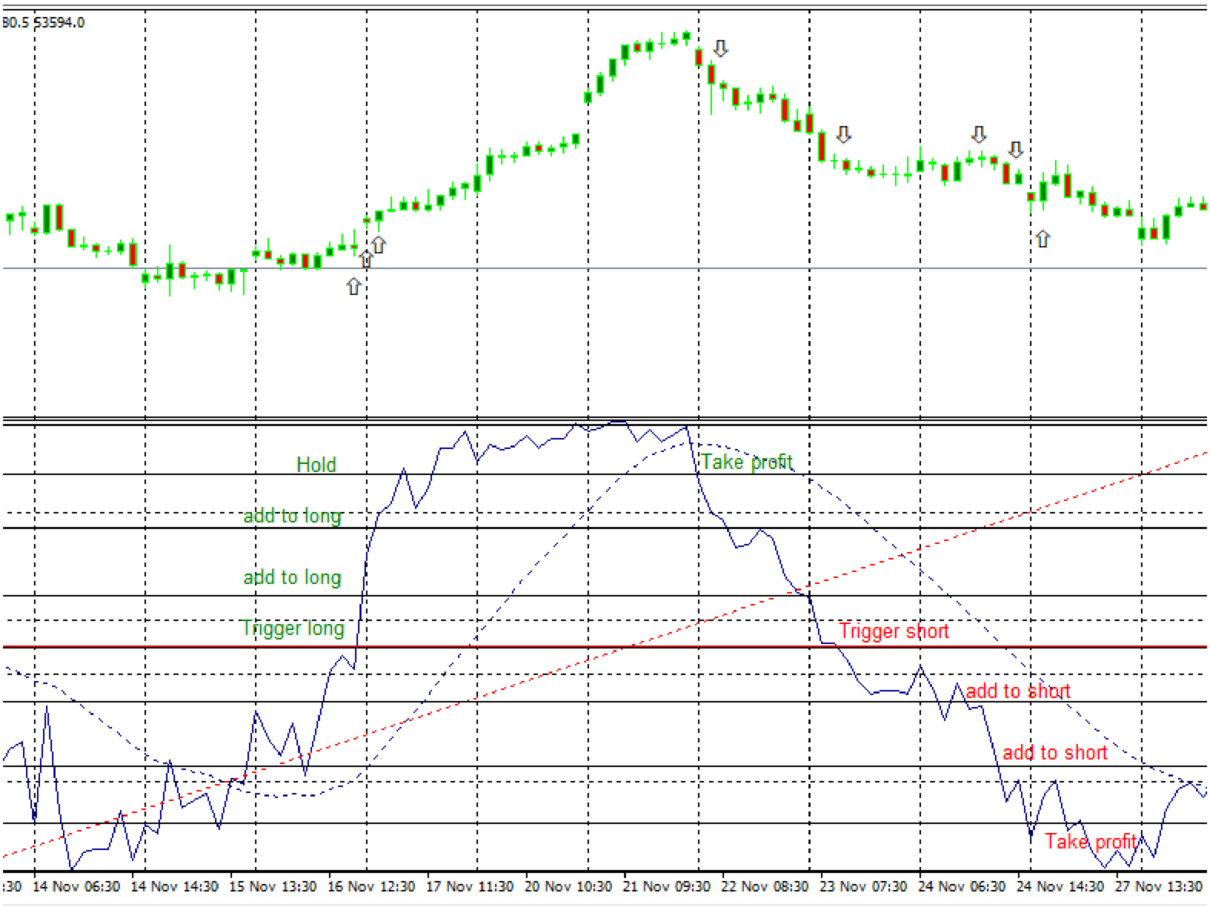
The solution is to trade long as the stochastic goes up through the 50 level and to trade short when the stochastic goes down through the 50 level. This strategy does sometimes fail and when it does it generally fails at the 56 level (going long) and 44 level (going short).



3. Adding to positions.

The stochastic offers opportunities to add into the trade when in profit.

a. Apply the Fibonacci retracement to the stochastic by placing the 100 level of the Fib to the 100 level of the stochastic and the 0 level of the Fib to the 0 level of the stochastic.
b. Trade and add into positions as follows:
   i. **Break** of the 50 level of the stochastic go long or short (trade 1).
   ii. Watch the 56 and 44 levels for possible failure.
   iii. **Break** up through 61.8 or down through 38.2 add to the trade (trade 2).
   iv. **Break** up through 77 or down through 23, add to the trade (trade 3).
   v. **Break** up through 89 or down through 11, hold.
   vi. **Brea**k down through 89 or up through 11, take profit on all positions.



Notice from the examples above how the stochastic displays the strength of the price action or momentum. Momentum is strong when the stochastic runs up in a straight line. Momentum is weak when the stochastic moves in a zig zag pattern.

FOREX TRADING SIMPLIFIED

Introduction

Forex pairs can trend in one direction for many months and sometimes years. The premise of my trading in these markets is that I catch a good portion of that trend as well as profit from the trend continuation patterns.

The first part of this trading strategy is based on the daily time frame that gives me an initial trigger to enter and, thereafter, additional triggers that allow me to build a position over time.

The second part is adding into a winning trade and compounding trend based returns. The negative of trend based systems is that we can be wrong a few times before we are right. The trick is to continue trading the system as designed or wait for clarity.

By waiting for clarity we can give away a large portion of the initial trending move as we wait for support or resistance to be broken or the right trigger. The positive of waiting is that, if the instrument goes into a longer term sideways pattern, we will be out of it until it settles down.

The negative of trading the system is that the overall hit rate is relatively low, between 30% and 45%. The positive is that the risk: reward ratio more than makes up for the low hit rate.

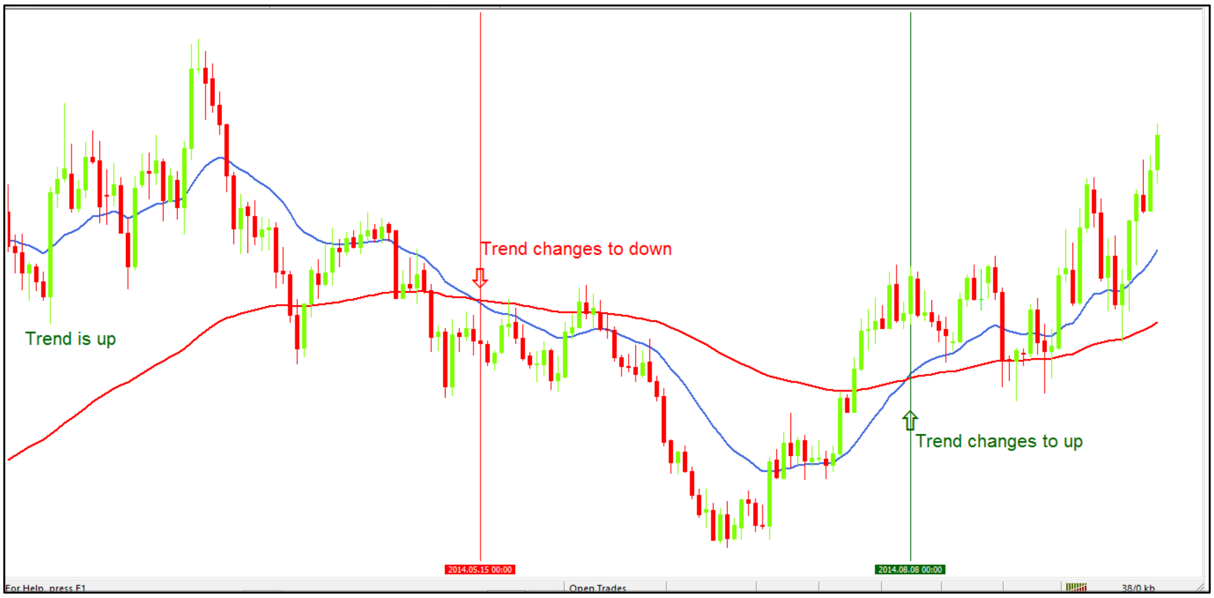
It is really important to remember that there are a large number of currency pairs to trade so you can always be in something. You can also hold trades for long periods and can have a number of different pairs in the portfolio. This should assist us with the discipline of waiting for the trades to come to us, rather than us chasing the trades.

The Basis for all trades

Step 1

The 21 EMA and 89 EMA determine the trend on all time frames:

- If the 21 is above the 89 the trend is considered **up.**
- If the 21 is below the 89 the trend is considered down.



Notice that when the EMAs cross, the price is often a long way from the moving averages. This becomes important when determining our position sizing and risk management as well as the position building plan. To do this we need to understand the Relative Strength Matrix.

Step 2

Relative Strength Matrix (RSM)

The RSM is designed to give us the trend and changes in trend over time.

It also gives us strongest and weakest currencies based on a stable premise, which leaves very little space for misunderstanding or uncertainty. The more we use it the more helpful it becomes. We can find trends within trends as well as the leaders and losers. The matrix also gives an idea of which pairs are likely to change direction. The 1hr charts change first, then the 4hr then the daily chart.

So, how do we fill it in?

USD/CAD is trending up: the USD gets a score of 1 against the CAD, the CAD gets a score of 0 against the USD.

The EUR/USD is trending down: the USD gets a 1 against the EUR and the EUR gets a 0 against the USD.

Initially it will be a double entry and as you become more skilled you won't need to enter the zeros.

D	AUD	CAD	CHF	EUR	GBP	JPY	NZD	USD	
AUD									
CAD								0	0
CHF									0
EUR								0	0
GBP									0
JPY									0
NZD									0
USD		1		1					2
									0

The rows are done as the first currency in a pair i.e. in the EUR/USD example we place the zero first as the EUR/USD trends down. Then we place the 1 in the USD column vs the EUR.

Let's do the matrix for today!

On the next page is a full sheet for all three time frames.

Date: 18 May 2015

Forex Relative Strength Matrix

1hr	AUD	CAD	CHF	EUR	GBP	JPY	NZD	USD	
AUD									0
CAD									0
CHF									0
EUR									0
GBP									0
JPY									0
NZD									0
USD									0
									0
4hr	AUD	CAD	CHF	EUR	GBP	JPY	NZD	USD	
AUD									0
CAD									0
CHF									0
EUR									0
GBP									0
JPY									0
NZD									0
USD									0
									0
D	AUD	CAD	CHF	EUR	GBP	JPY	NZD	USD	
AUD									0
CAD									0
CHF									0
EUR									0
GBP									0
JPY									0
NZD									0
USD									0
									0

	1hr	4hr	D	Overall
AUD				
CAD				
CHF				
EUR				
GBP				
JPY				
NZD				
USD				
Strongest				
Weakest				

Step 3

Analysing the Matrix

Whilst the daily is trending the other two time frames can give us entries in the direction of the daily. E.g. the daily trend on the USD is up but the 4hr and 1 hr trends are down, this tells us one of two things is going to happen:

> Either the daily will change in the direction of the smaller time frames and give us a new long term trade, or
>
> the two smaller time frames will change direction and return to the trend.

This gives us an opportunity to enter the trend on the smaller time frames.

Strongest vs Weakest

Just because one currency is stronger than another does not mean we jump in! The matrix should be used for at least 4 weeks before a trade is based on it.

The real power of this tool is learned over time and cannot be understood by looking at it in isolation, the trading strategy rules all other tools. The matrix shows changes over time that helps you build intuition, so the more you use it the better you get at determining changes in trend as well as identifying trading opportunities long before the moving average system signals a trade.

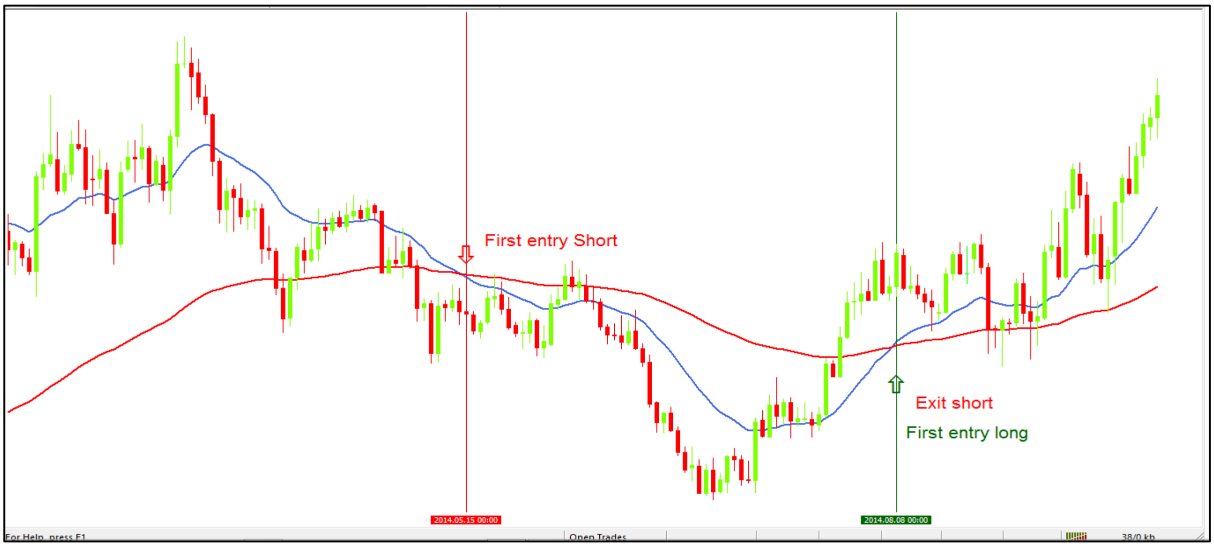
This forewarning assists with planning our trades well ahead of the trigger. What this means is, when a trade triggers we are already primed for the entry that allows us to make the trade without having to, suddenly, think about it and rush the planning. Our position size, stop loss and entry point is already decided. All we need to do is enter the trade!

Step 4

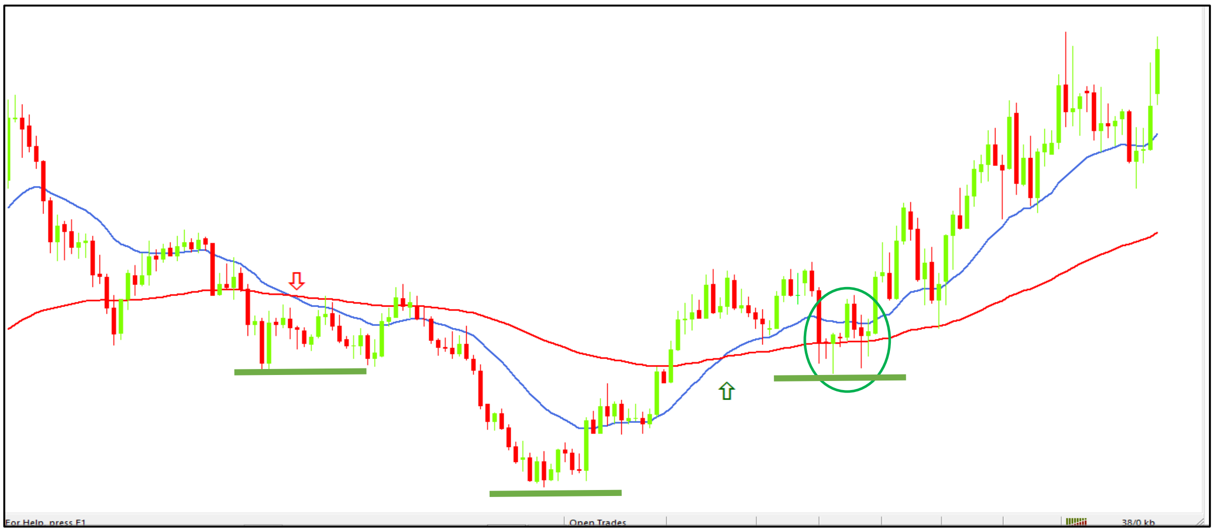
Entries on the Daily Charts

1. The first entry is when the 21 crosses the 89 EMA.
2. The second entry is when price retraces to the 89 EMA and gives a candle pattern or other chart pattern trigger.
3. The third entry is a continuation pattern such as a Flag or Pennant or a support/resistance breakout.
4. Any continuation pattern breakout in the direction of the underlying daily trend can be used for entries to add into the winning position or initialise a late entry.

First Entry. When the 21 closes through the 89 the initial entry is triggered.

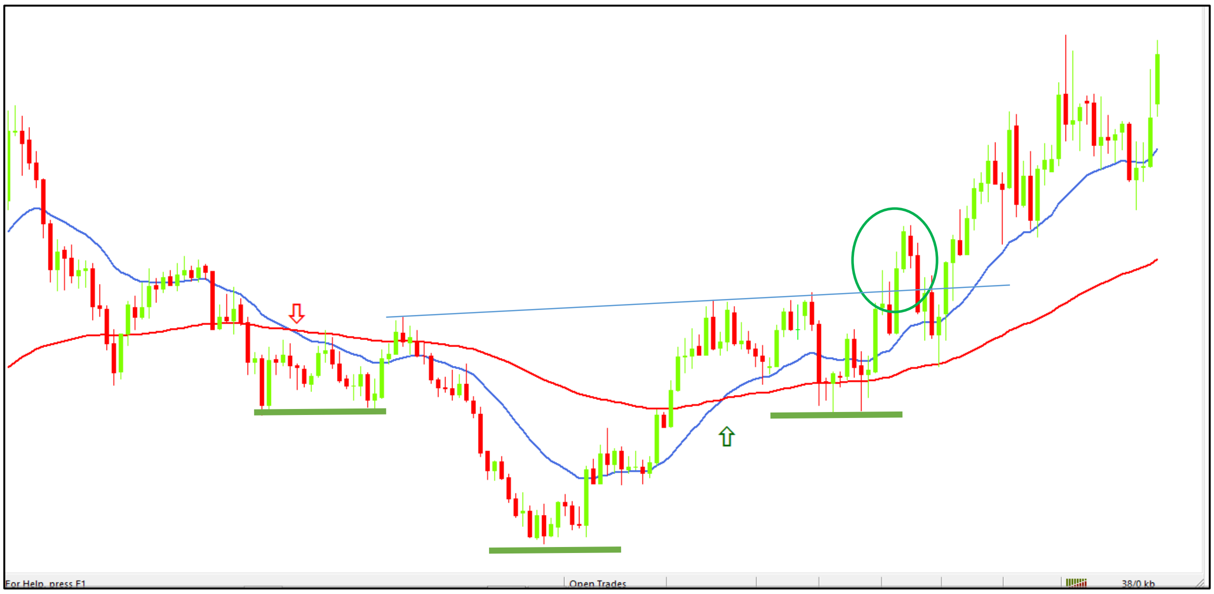


Second Entry. The Second Entry is based on price returning to the 89 and giving a reversal pattern.



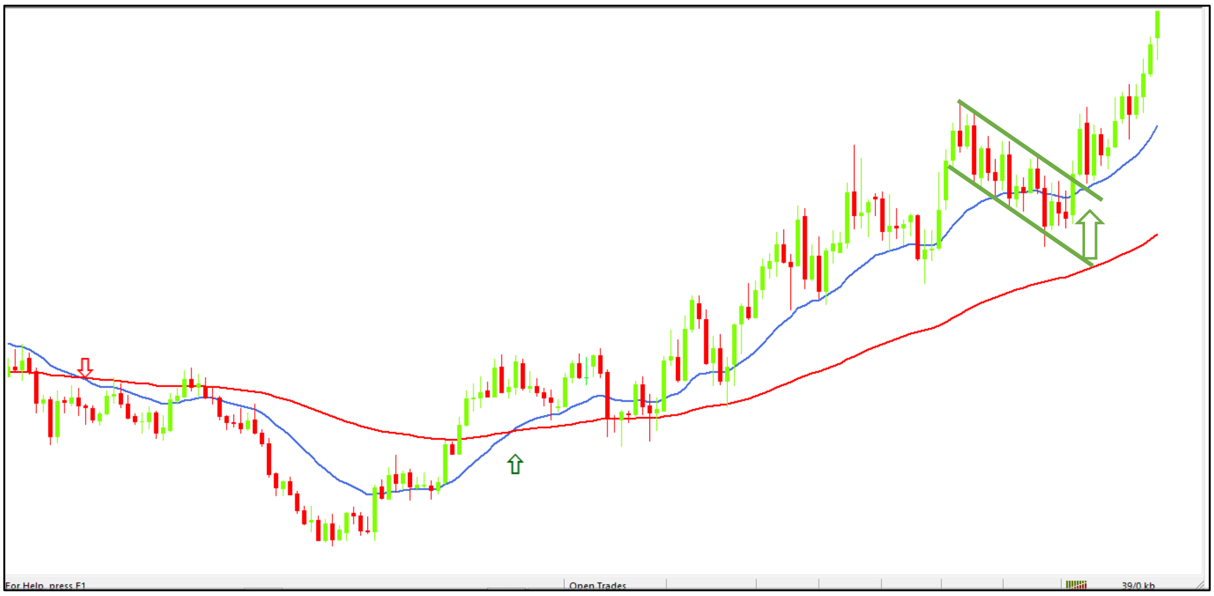
There is a Hammer and a Morning Star variation for triggers and there is also a Head and Shoulders type pattern.

Third Entry. The third entry is a break above resistance.

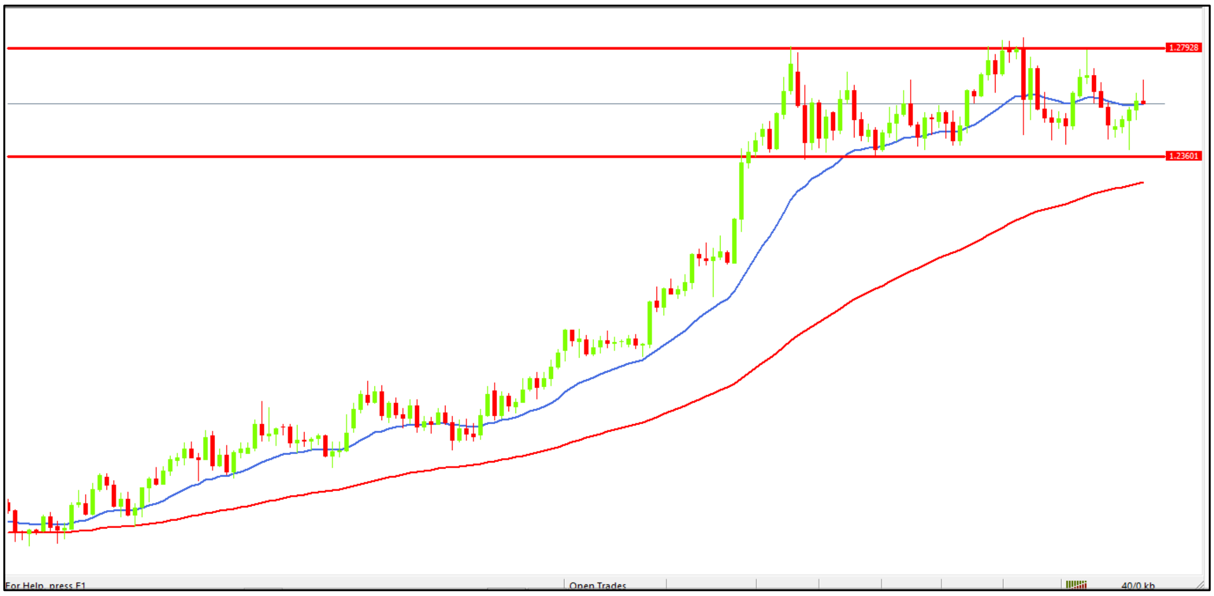


The Head and Shoulder pattern gave us a neckline, which created a resistance breakout opportunity.

Bull Flag Breakout



Consolidation Breakout



A longer term consolidation is in place now and we are waiting for a confirmed break out. Unless the trend changes!

If this pattern breaks to the downside it will become a Double Top reversal and the EMA crossover will be even simpler to trade.

Step 5

Stop Losses

For the initial entry the stop loss is one of two occurrences, either the EMAs cross in the opposite direction or a support/resistance level is broken.

A support/resistance level break can be based on a swing high/low or a consolidation point.

These stops look large but this should assist with position sizing! The EMAs will cross more often than a swing related stop loss. The trade has to have space to move and breathe. Forex is a lively market with many news driven spikes that can stop out an unprepared trader. This will usually happen when the position is over leveraged!

The remaining entry opportunities should only be stopped out with the first trade i.e. add to a winning trade and trail the entire position's stop.

The initial stop should be trailed with a change in price action and can be placed at the next swing low/high as the trade moves in your direction. The stop should only be trailed when a new swing low/high is formed by price breaking through the next support/resistance level.

Trailed Stops for the Short Trade

The stop is only trailed when price breaks below support (thick blue Arrow). The short was closed when price broke and closed above the "internal" resistance level at the thick red line.

Trailed stops for the Long trade after a breakout

The market broke above the range and the initial stop was trailed to the lower range level for all daily entries.

NB: When the break occurred the entry price would have been similar to the original entry at the cross-over, this means that a third entry was not advisable as the risk would be compounded, not the profits.

Step 6

Trading Smaller Trends within Bigger Trends

Use the 8 EMA crossing the 21 EMA in the direction of the 21 and 89 trend. The crossover can be used for entry and exit. The entry can be added to the long term 21x89 trades as well i.e. it becomes a trigger to add into a winning position.

Intraday time frames

Trading on time frames less than 1 Day can be a volatile experience in the forex markets. The way to approach intraday trading is to keep the Daily trend front of your mind and use it to dictate direction for your intraday trades.

The Daily trend is decided by the 21 EMA being above or below the 89 EMA and this decision guides the 4hr entries.

Daily Trend

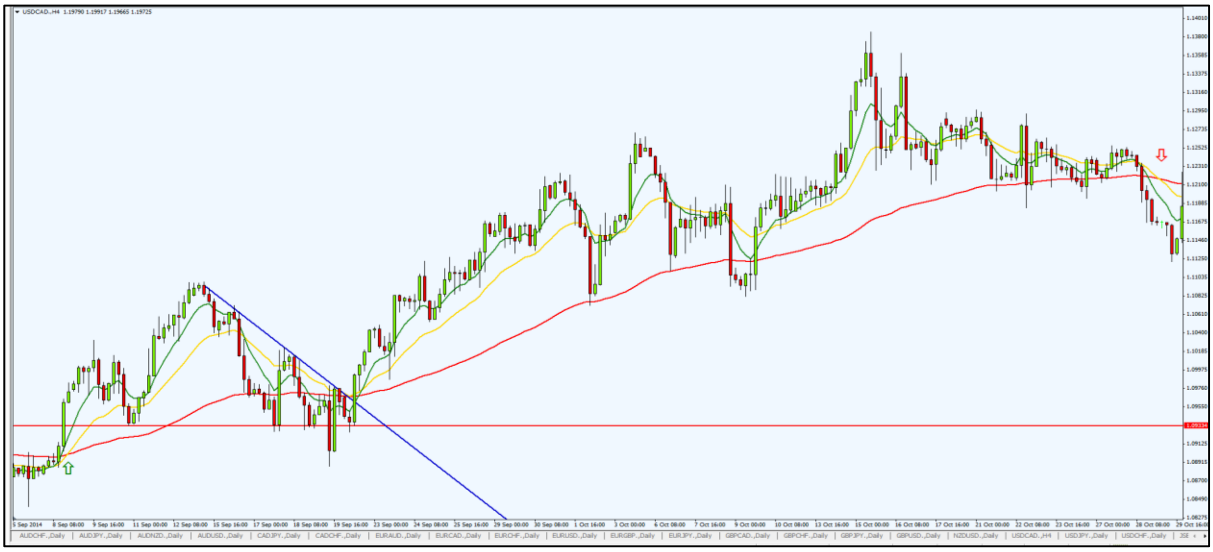
8 Aug 201

The 21 crossed above the 89, thereby changing the trend from down to up, we can now look at the 4hr chart for intraday entry points.

4hr Chart

The daily trend is up at the orange vertical line. The 21 x 89 at the green arrow, this signifies a buy signal in the direction of the daily trend.

Completed Trade



The Red support line offered the first swing low to trail the stop up to. The market broke below that level for 1 red candle and the next, immediately, reversed and ended as a Bullish Engulfing pattern. This can keep the trade open as the 21 never crossed below the 89. Once the blue trend line is broken the trade was back into impulse mode. This reinforces the idea that if the trade is in the same direction as a higher time frame, the market will generally return to that trend. When the 21 crossed below the 89 at the red arrow, the trade could be closed.

NB: If the market had pushed lower instead of making a Bullish Engulfing pattern, the trade would have been stopped out at a loss.

If your initial intention was to add into the daily position this trade would have converted from a four hour chart into the daily chart and the daily stop would have been implemented.

When converting to a daily from the 4hr chart we have to do proper risk calculation to make sure that all open trades, added together on the daily, will not exceed our risk management strategy and the 4hr must not have triggered a stop loss.

How this works:

Daily Chart

Entry: 1.0963

Stop loss (extreme): 1.0621

Initial risk is 342 pips x 1.0 position size = $3 420 ($10 per pip)

4hr chart

Entry: 1.0972

Stop loss: 1.0840

Initial risk: 132 pips x 0.5 position size = $660 ($5 per pip).

When converting the 4hr trade to a daily chart calculate the new risk:

Daily

The Daily trade stop rises from the initial point to the blue line once price moves through previous resistance (orange line) at the light blue rectangle. At the same time, the 4hr trade is converted to a daily chart because the market has moved far enough to leave both positions in profit. The new stop/risk can be calculated on this basis:

New Stop is 200 pips below the conversion point (above the orange line to the blue line)

Conversion price : 1.1292

New stop : 1.1092

Daily entry : 1.0963 @ $10/p = 129 pips profit

4hr entry : 1.0972 @ $5/p = 120 pips profit (remember this was a separate trade in the beginning and was later converted).

This calculation leaves both trades in a profit that means the conversion to daily is valid, as the market moves higher we can add to the position as new triggers are fired. The risk calculation can be done based on the entire trade (the last entry could be a loser) or as was done above where the new trade is calculated separately until it becomes clear that the trend remains strong and the last trade reaches a logical level where it can be converted to the position. This does leave some room for error but can also make it easier to separate the new trades for ease of mind. The trader will have to decide for herself which way she prefers to trade!

Step 7

Hourly Charts

Trading shorter period moves in the direction of the higher time frames can be an intense venture and should only be done when the charts can be watched!

The Daily Trend changed to down at the orange vertical line, we now use the 8 x 21 in the direction of the trend on the Daily charts. This does require more information than the two higher time frames discussed earlier.

Look at the 8 x 21 at the red arrow, the problem here is that there is a parallel channel drawn across the top candle bodies and extended downwards. The reason it is done on the tops is simply that there are lower highs before lower lows in a down trending market. When the EMA crossed over, the price was on the lower channel line which acts as support. The entry trigger now has to move to a break below this channel or price must move higher and give a better crossover later.

Two horizontal lines are drawn at the candle bodies and wicks to create a resistance zone as price breaks above the channel. This gives us an area to watch for reversal patterns, before the EMA cross.

The two grey circles depict a resistance zone and the right hand side shows a very strong Engulfing pattern, covering two previous candles. This can be used as an early entry signal for a small position with a stop above the resistance levels.

When the 8 crossed the 21, price was back in the channel, this is a good sign for the short trade.

When the EMA crossed over price was back on support, this means no adding to the initial trade nor a new entry. This support level becomes the new trigger price should the EMA not give another signal i.e. they don't cross up then down again!

Support line break confirmed by prior price action.

The short term support line is broken and a second entry is triggered. The support level is more important now than the lower channel proximity.

A close above the 21 EMA can be used as a trailing stop for both entries or we can use the previous swing high if it gives us a good profit.

There was a Bear flag as well, this could have been used as another short entry point if the first two where missed.

The price is currently on support which gives another short term opportunity should it break and close lower.

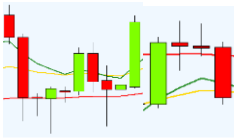
When trading at this time frame or lower, all the technical knowledge you possess comes into play. We cannot simply trade EMA crossovers down here as the market becomes very "noisy" and the EMA can give many false signals. When we use the averages as a guide for direction and other charting techniques for entry we can get many trades that are relatively low risk purely because of the higher time frame trend.

The patterns below are examples and are very important to me in the direction of a higher time frame trend!

Candle Patterns

- Morning and evening Stars at the 89 EMA

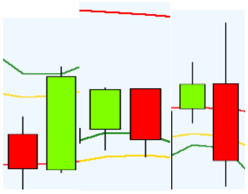
Morning Star *Evening Star*



Two stars here!

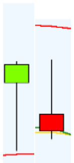
- Bullish and Bearish Engulfing candles at the 89 EMA or at Support/Resistance

Bullish Engulfing *Bearish Engulfing*



- Hammers and Shooting Stars at the 89 EMA or at Support/Resistance

Hammer Shooting Star



For more details you can go to https://youtu.be/hWH_kAcsaZI

Chart Patterns

- Bullish and Bearish Flags/Pennants

Bull Flag *Bear Flag*

Bull Pennant *Bear Pennant*

For more details you can go to https://youtu.be/WNATZtSv0to

<u>Check List</u>

1. Identify the trend on a daily chart using the 21x89 EMA.

2. Back test the pair for at least 2 years to confirm the system works.

3. Trade the 21 crossing the 89 EMA on the daily chart:
   a. Add to the position on a reversal off the 89 EMA.
   b. Add to the position on a break of support or resistance.
   c. Add to the position on a chart pattern continuation.

4. Stops are trailed to a swing high or low only when the support or resistance level is broken.

5. Trade the 4hr chart when the 21 x 89 is in the same direction as the daily trend:
   a. Trade the 4hr chart as an individual trade separate from the long term daily chart.
   b. Enter on the 4hr chart and convert to the daily chart once it has enough profit.

6. Trade the 1hr chart in the direction of the daily trend using the 8 X 21 as shorter term direction. Use more technical knowledge in the areas of support, resistance, candles, and chart patterns to determine entry and exit points.

7. Use candles, support and resistance, flags and pennants as ways to enter trends late or to add to winning positions on any time frame.