FOREX SURVIVAL PACK

Secrets for surviving and thriving in the Forex markets

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The Three Truths Of Trading

Three facts you can adopt NOW as your true beliefs about trading. Take them as your own and let them sink into your bones. They'll help you start to make money consistently as soon as possible.

1) You don't need to know what will happen next to make money

2) You **will** experience a random pattern of winning and losing trades

3) Profit is made simply by gaining more money on your winning trades than you give back on your losing trades

Introduction

Rich Fitton

It doesn't matter if you're brand new to trading or if you've already dipped your toes into the markets and want to build your knowledge, you've come to the right place.

Especially since I'm going to keep everything really nice and simple for you. Just like trading should be!

Honestly, there's really no need to feel overwhelmed by all the strange sounding jargon surrounding financial trading.

To make good money, you don't need to know a thing about 90% of the tools and techniques you'll hear discussed in the trading forums and elsewhere on the internet.

I'll tell you which ones I think you'll get a genuine profit edge from (Hint: they're almost always obvious, easy-to-use and logical.

And you certainly don't need to worry about trading being risky or anything remotely like gambling.

By the way, have you had that conversation yet? You mention to a friend or family member that you're trading and you get a response along the lines of "Ooh, that's a bit dodgy isn't it – gambling on the markets?"

Well, what they don't realise is that trading – when done right – can be the most lucrative, most highly profitable venture you could ever hope to undertake. And once you know what you're doing, all your operations can be carried out with tiny up-front risk.

But before we get into the nitty-gritty of what to do and when to do it, let me ask you a question:

What is it you really want from trading?

There's no right or wrong answer because there's a space in the markets for every kind of trader. But have a think about where you stand at the moment.

Your perspective is probably going to change over the coming weeks and months as your experience grows. But for today, just so you have a starting-point, how would you best describe yourself?

Are you looking for a reliable second income? A brand-new income stream that could help you afford those little luxuries – you know, the meals out, the weekends away, the latest tech gadgets – and let you earn it all in a way that doesn't encroach on your current daytime commitments or on the way you like to spend your free-time.

Is it that you're looking for a new mentally stimulating money-hobby? Starting out on a small scale – maybe aiming for a couple of hundred pounds a month (just be warned though, once you see what you're actually capable of, you might suddenly take your hobby a lot more seriously!)

Or could it be your first step into a brand new full-time career?A way of leveraging your trading skills and entrepreneurial appetite into a fully-fledged venture of your very own.

Let me tell you, it doesn't matter where you see yourself at the minute, the key to getting whatever you want from the markets is to treat trading with a business man's mindset.

Forget any notion of 'playing the markets'. This is real business. Even if you're a trading hobbyist you should operate in a business-like manner. It's the sure way to enjoy ongoing positive results.

(If you're just after a quick thrill – the kind you get from

randomly backing horses or playing the national lottery – that's a different matter. Go for your life. You'll just need to accept you're vastly reducing your chances of actually making any money.)

Remember, when you enter the markets you're walking into the same arena as the professionals. You can't expect to compete without preparing and executing your trading campaigns in an adept manner.

But don't feel overwhelmed or put off by all this talk of running a business. It just needs a subtle change in attitude.

Once you elevate trading from something you're going to have a 'punt' at to a solid, potentially life-changing enterprise – even if you're funding it initially with just a couple of hundred pounds – I'm sure you'll be thrilled with the potential of your new business venture.

So let's help get that mindset firmly in place now.

Why trading is probably THE perfect business

There are no time restrictions and you can trade from anywhere in the world. Part time, full time, any time. It doesn't matter how much time you have available, there is a way for you to trade. The thing is, you get rewarded in this business for being smart. You're not paid by the hour or by how many products you sell. You just need to put a proven strategy to work for you – one that suits your own schedule – and your money worries could be over. Oh, and did I mention you can do this from anywhere in the world? (Anywhere you can get an internet connection, anyway).

There's a low barrier of entry. You don't need any special qualifications, pieces of paper, or letters after your name. You just need a small amount of money for your starting bank and you're right on the same footing as the professionals. Where else can you directly access such a lucrative opportunity?

There are few rules, regulations, or restrictions. You can buy and sell right around the clock. You're pretty much left undisturbed to live off your wits alone and if you carefully choose your route into the markets you don't even pay tax on your profits – you really do get to FULLY enjoy the fruits of your labour.

You'll never need employees. No matter how large you scale your trading operations, you'll never need to rely on other people to run it. It's just as easy to place a trade that can make £10,000 as it is to place one that makes £50. And you can do it all yourself with a click of your mouse button.

No need for business premises. You don't need to store anything and you don't need a special place to meet people or to make phone calls from. You can operate from your kitchen table or spare bedroom.

No customers to deal with. There's no one to complain that they didn't receive their order. No returns or refunds to handle. No relationships to maintain in order to keep the orders coming. In fact, you'll never need to worry about finding a buyer again. In the markets we'll be trading there's ALWAYS someone patiently waiting to do business with you.

No products or stock. You've no guarantees or warranties to honour. No faulty goods to replace and nothing ever needs making, storing, or delivering.

No overbearing admin work. You'll never worry about raising invoices, chasing payments, issuing legal paperwork to bad debtors. There's no monthly payroll run, no personnel files or disciplinary procedures to maintain. No risk assessments, fire drills or other health and safety concerns. All you need to do is check your brokerage statement to make sure your returns have been calculated correctly!

No competitors trying to run you out of business. There's always space in the financial markets for one more trader, in fact – the more, the merrier! The current market price is simply a reflection of the value placed on a particular asset at a specific moment in time by all interested parties. Sure, every other trader is out to make money for themselves but you have total control over your own business at all times. It means you haven't got the risk of someone ripping off your products or your marketing campaigns, no one trying to out-do you on service and no one trying to poach your key employees.

Thanks to modern technology the lone-wolf, home based trader has instant access to the same opportunity that the professionals have. You're basically seeing on your screen what they're seeing on theirs. It's all down to you to apply yourself in a way that lets you share the spoils!

Cornerstones

Next, we're going to look at exactly how you make money from trading.

We'll start at the end and work backwards because in this part of the course I'm going to lay out all the components of a fully functioning trading system. It's what you'll eventually have working away for you so I think it's a good idea to get it all out in the open now.

It does mean I'll be throwing a lot of concepts at you. Some of them might be new and unfamiliar…

But DON'T PANIC!

This is just the high-level plan we'll be working from, it's a

blueprint you pull out and can refer back to whenever you need to.

The things we'll be discussing throughout the course all fit into this master plan somewhere. Everything has its own little pigeonhole which means you'll always know exactly why it's relevant to your trading success.

So, are you ready to go?

The 3 Cornerstones of Trading

There are three areas you need to address before stepping out to trade with success. You might think it's all about just placing buy and sell orders at the right time. And ultimately, it is. But there's a whole lot more going on under the bonnet that's going to let you do that more effectively.

Here's what we'll need to look at:

1. Mindset

2. Money Management

3. Methods

I've put them in order of priority in terms of making money.

Does it surprise you that something as intangible as Mindset has the greatest effect on your profitability?

I know it's not top of your list at the moment. You'll probably be more interested in how to find those entry signals that tell you when it's time to pull the trigger!

But don't worry. I've got you covered. We WILL look at all that good technical trading stuff very soon, but I just want get this point over to you early…

This is the order in which you should work on improving your

abilities as a trader: Mindset, Money Management, and finally Methods.

In fact, I've seen it suggested that mindset – your ability to manage your emotions while you trade – is at least 70% responsible for your success. Here's how it breaks down overall:

Area	*Contribution to success*
Mindset	70%
Money Management	20%
Methods	10%

It might sound unbelievable to you now but it will make perfect sense by the end.

It's because once you've got a good solid trading plan to hand (it can be one you've bought or one you've created yourself) you'll already have your trading rules in place. The 'Method' part is pretty much done.

Sure, things might need tweaking from time to time, to adapt to changes in market conditions (hence the 10% allocation to Methods). But once your system is finalised, everything swings over to your ability to trade your plan with discipline. That's where Mindset and Money Management take over.

But you know, most traders have this all completely back-to-front. They'll spend 90% of their time trying to find the 'ultimate' system. They'll jump from one strategy to another, usually trying to uncover some market 'secret' that means they'll never have to take a losing trade.

Well, the good news is, you don't need perfection to make money from trading. Those other traders are wasting their time searching.

Just think of their opportunity cost… instead of chasing the 'Holy Grail' they could have been quietly pumping money out of the market all along with a simple system, some self-discipline, and a little bit of money management…

And that's exactly what I think you really want, isn't it?

So let's crack on now and have a look at our first of the three cornerstones – Methods.

Cornerstone #1: Methods

What You Should Know About Watertight Trading Systems

Method is all about the *process* of trading… analysing the market in the first place, then placing your orders to get into a trade, and finally placing your orders to get out of the trade.

We break it all down into five chunks. These are the essential components of any good trading system.

1. **What to Trade**
2. **How Much to Trade**
3. **When to Enter a Trade**
4. **When to Exit a Winning Trade**
5. **When to Exit a Losing Trade**

1. What to Trade

We're certainly not short of financial markets to trade these days. Even as lone-wolf operators trading from home we now get access to the same markets as the professionals. This would have been unheard of just a couple of decades ago but thanks to the internet and modern technology we get to feast at the same table as the big boys!

So when it comes to choosing what to trade there are two questions to answer:

– Which instrument will I trade?

– What vehicle will I use to trade it?

Instruments are the markets themselves. The Euro/US Dollar Forex pair is an instrument. The FTSE100 index is an instrument. The Pork Bellies futures contract is another instrument, and so on.

Vehicles are the different portals we can use to access those markets. They all have their different pros and cons. Some require hefty upfront investments to be able to trade them and are more suited to well-funded trading companies. Others – the ones we'll be interested in – need just a couple of hundred pounds to get going.

Here's a quick list of some common trading vehicles:

Spread Betting

Futures Contracts

Direct Access (Stocks)

Options

Binary Options

CFD's (Contracts for Difference)

ETF's (Exchange Traded Funds)

You won't need to worry about most of them to begin with.

Like I said earlier, Forex (Foreign Exchange – the currency markets) is where we'll spend most of our time. And the vehicles we'll trade through will typically be Spread Betting and/or Binary Options.

So depending on the particular strategy we're looking at, an answer to the 'What to trade?' question might be something like:

I'm trading GBP/USD (British Pound against the US Dollar) by Spread Betting.

Or it might be:

I'm trading EUR/USD (Euro against the US Dollar) via Binary Options.

OK so far?

If it's all new to you please don't worry about the abbreviations of the different currencies. I'll give you a full list of the different Forex markets later in the beginner's guide. Remember, this is all just to give you a high-level view at the moment.

2. How Much to Trade

This is the part of your trading system that tells you how much of a particular currency to buy or sell on any one trade. We'll cover this more under the Money Management section but your first priority is always this:

First job: Protect your capital!

Your system needs a way of allocating a specific amount of risk against each trade you intend to enter. You need to avoid AT ALL COSTS the risk of any one trade being able to knock a huge hole in your account equity.

A typical way of achieving this might be to allocate a maximum risk of 2% of all your available trading money on any one trade.

That way, even if you took five losing trades on the run you'll only experience an overall drawdown of 10% (5 x 2%). You may well be able to cover that entire loss and be into overall profits on your very next trade.

But imagine if you'd risked 20% per trade…

5 x 20% = 100%. Your entire account would have vanished!

There's an art to maximising your potential returns whilst keeping your risk to acceptable levels and we'll covering all the tricks you need to know.

3. When to Enter a Trade

Right, this is the bit most traders get all excited about!

This is the part of your system that gives you the green light to go. Everything looks good and a high-probability opportunity has been confirmed… it's time to pull the trigger and trade!

This is your Entry Signal.

It is important. After all, you can't take any profits from the market until you've got yourself into trades. But it's not the be-all and end-all.

The way you get *out* of the markets makes the biggest difference to your bottom line.

Did you know, as an experiment, an analyst once proved a coin-toss entry signal could be profitable?

If it was heads he bought as the markets opened for the day. If it was tails he sold when the markets opened. He made his money with a carefully designed exit signal that maximised profits when he

happened to be right, and got him out quick if it looked like the coin toss was wrong that day.

Does that surprise you? Keep it in mind later when we talk about thinking in terms of probability instead of accuracy.

Now when it comes to your entry, a big part of it depends on the timeframe you'll be trading on.

There's no right or wrong answer with this. It all comes down to your own personality and your appetite for activity…

If you'll be sitting at the screen throughout the day and prefer a lot of action you might trade as a Scalper.You'd be looking to enter the market many times throughout the day and take a small profit each time.

Or if you don't want to be quite so active you might trade as a Day Trader. You might look for an entry signal that crops up once or twice per day giving you a larger chunk of potential profits.

Swing Traders can trade from a longer term timeframe like the 8-hour or Daily chart and they'll look to capture a slice of the short-term trend from their entry signal.

And Position Traders are in for the long haul. Their entry signal needs to get them into trades that ride the medium to long-term trend. They might hold a position for weeks, or even months, looking for huge profits.

We'll be looking at some simple ways you might find entry signals that are right for your style of trading.

4. When to Exit a Winning Trade

As I mentioned above – the way you exit your trades is the key to profitable trading. If your system looks for large enough profits on

the winning trades you could lose 8 out of 10 trades and STILL make big money. It's all about the Win to Loss ratio… how much you make when you win minus how much you give back when you lose.

Exit strategy on winning trades is probably one of most neglected areas of trading yet one that can make a big difference to your results. I can't stress enough that you shouldn't be afraid of losing trades. They are an essential part of the business man's equation.

5. When to Exit a Losing Trade

The key is to have a fixed price at which you'll get out of a trade that didn't go in your favour.

You need to give the markets a little bit of breathing room but don't hang in there watching your trade moving further and further into the red. It's easy to convince yourself that things will turn around – more often than not, they won't.

In fact, if you don't have a formal exit strategy for losing trades you can end up losing much more than you intended to risk. And that can have a devastating effect on your chances of future profitability.

I'll show you how you can set everything up automatically by using special types of order with your broker. This way you don't even have to think about it. You'll get taken out of a losing trade on autopilot and your carefully planned Risk: Reward profile will be maintained with no further input from you. That's the smart way to do it.

So that's Cornerstone #1 in place: you now know the 5 crucial elements that any functional trading system needs...

You know you need a way of deciding what to trade, how much to trade, when to enter a trade, and then, once you're in – when to exit a winning trade and when to exit a losing trade.

HOMEWORK:

With this book comes an invitation to join my ***Traders' Nest*** (www.tradersnest.com) website. It's free and it contains a load of stuff you'll find helpful, including a blank PDF of a Watertight Trading Systems template of these five crucial elements I've prepared, which you can download. I suggest you:

1) Print off a couple of blank ones now and put them in your ring-binder. Later in the course, as you start exploring different trading systems see if you can quickly note down the key elements of each system. It's a quick way to check the system designer has covered all the bases!

2) Have a look at the template I've filled in as an example for you.

3) CURRENT TRADERS: If you're already trading, download the Watertight Trading Systems PDF and see if you can quickly note down your own rules against each of the 5 cogs. If you can't, you've got a gaping hole in your system.

Cornerstone #2: Mind

So, as I mentioned to you in the last lesson, Mindset is the one cornerstone of trading that can make the biggest difference to your results.

I know it doesn't sound particularly glamorous. And I don't want to make a big song and dance about it. I'm certainly not going to

turn this beginner's guide into a course on trading psychology (although you might like to focus some of your own time in that direction later – it'll be time well spent!)

But let me briefly sum up the situation for you. It'll help you avoid a very common mistake.

The Single Biggest Mistake New Traders Make:

Most beginning traders spend far too much time and energy looking for perfect trade entry signals and not enough time on managing their self-discipline.

This means instead of jumping between systems and strategies looking for the perfect one (Tip: There ISN'T one single 'perfect' strategy) try to keep your focus on trading one good, robust strategy to the best of your ability. Learn from it, and *then* maybe add another method to your arsenal. That's how you'll take big leaps ahead.

It might mean keeping yourself blinkered from all other shiny new tools and systems while you get your head down and focus on just one for a while. But I promise you, it will pay in spades.

In fact, losing your focus is an easy trap to fall into, especially with so many different avenues of trading open to you online. That's why I'm going to do everything I can to keep you on the straight and narrow!

So first things first… In order to get the right mindset in place, you simply *must* be willing to do one thing…

Take Responsibility For Your Own Actions

The great thing about trading is that there are very few rules stopping you from doing exactly what you want to do anytime you want to do it.

It was one of the reasons I gave you for trading being such a great business.

You're in the driving seat of your very own trading machine… you decide when a trade will start, how long you'd like it to last, and finally, it's you that brings the trade to a close.

You control everything. And you get immediate feedback on your decisions too. If your decision was 'right' a nice wedge of money lands in your account. But if it was 'wrong' the broker gets to keep a slice.

Now this does give you the unrivalled opportunity to make a lot of money in a very short space of time. But it is possible to let your ego get in the way of doing things properly. It's easy to start taking things too personally…

Sometimes it really will feel like the market is your best friend. Everything you touch turns to gold and you'll feel invincible. But some days you'll swear the market is out to get you. Trades that looked like a 'dead-cert' end up taking losses instead, and then the next one does too!

And since we're backing our decisions with cold hard cash, all kinds of emotions can crawl out of the woodwork.

But you can't let those feelings stop you from trading your carefully prepared plan.

You need to rise above the pride, greed, fear and frustration that can get in your way.

Whether a trade works out perfectly or not, be ready to move on to the next without hesitation. Forget about finding someone or something to blame. If a trade doesn't make money, accept it and move on. That's all just part of the game.

In the end, it's YOU that'll have made the money. You'll get to enjoy it all and no one else will have a claim on it.

But this does mean you can't let yourself get sidetracked by playing the blame-game. Be prepared to take the small knocks and bumps on the chin but keep moving onward and upward!

So when we look at Mindset in a bit more detail, there are five key areas I'll be preparing you for:

Five Keys to a Winning Mindset

1) **Rock solid self discipline**: Overcoming naturally arising feelings of greed – expecting too much from a trade. And fear – being scared to pull the trigger and missing good opportunities.

2) **Eliminating unhealthy reactions to losing trades**: How to stop taking things too personally when you take an occasional loss. And how to prevent yourself trying to wreak revenge on the market!

3) **Trading with consistency:** Accepting that wins and losses are all part of the game. It's about making MORE money with your winning trades!

4) **Keeping a carefree state of mind**: How to keep your mind clear and make your decisions with perfect clarity.

5) **Thinking in terms of probability:** Understanding that consistent profits come from a random pattern of winning and losing trades. And why you should treat your trading campaign like a Casino treats a roulette table.

And after we've been through that, we'll take a look at measuring and improving your trading mindset by using three important tools:

1) **Your spreadsheet of trades**
2) **Your trading Profit and Loss account**
3) **Your trading journal**

Right then, that wasn't too heavy after all was it? Coming up in the last part of your Foundation material, we'll be taking a quick look at money management – that's the last of our three Cornerstones – and then we'll get right into the nitty-gritty of finding good trades.

HOMEWORK:

A big part of getting the right mindset in place is embedding healthy beliefs about trading at an early stage. You CAN make a hell of a lot of money, but don't trip yourself up by expecting the impossible from day-one.

Remember, we're not aiming for perfection, we want PROFIT!

No is the time to repeat our *Three Truths of Trading*. Read them and have a think about the implications. Then keep re-reading them until they become your own reality.

The 3 Simple Truths of Trading

1) You don't need to know what will happen next to make money.

2) You will experience a random pattern of win and lose trades

3) Profit is made simply by gaining more money on your winning trades than you give back on losing trades.

Cornerstone #3: Money Management

Here's the last of your three cornerstones of trading…

It's money management. Or in other words, the art of managing your trading bank.

This is a simple process to get right but so easy to neglect if you don't keep on-the-ball. There are two phases to trading money management:

Phase 1: Survive

Phase 2: Prosper

Now phase one might sound a bit dreary and glum…

"Survive? I thought we were here to make a fortune!"

Well, your fortune will come when the time is right. But first, you have to keep yourself in the game!

First Priority – Live to fight another day

Your first job is to protect your trading capital. As I told you in the material on Mindset, consistent profits will come from a random pattern of winning and losing trades. But the thing is, you don't know what the market is going to serve up next – will it be a profit or will it be a losing trade?

When you've got a proven system in place you'll have a good idea of its performance over a larger number of trades.

As an example, you might expect to win on, say, 60% of your trades. And when you win, you might make twice as much as you

give back on the losers. That works out as a very solid system.

And over a sample size of say 1000 trades, you should see the overall win to loss ratio pretty close to 60% wins against 40% losses. But the smaller sample size you take the more of an effect the random distribution of wins and losses will have.

This means if you took a smaller sample batch of 100 trades from your original 1000 you might see a slightly skewed result. From that 100 trades you might find 72% were winners and 28% were losers even though things eventually evened themselves out to 60%:40% across the full 1,000 trades.

And if we go smaller still…

Say we took a sample of 5 trades: With a 60% winning strike rate it would be perfectly possible to take 5 *losing* trades one after the other.

All of them could have lost money and it's nothing to worry about.

Remember, you make twice as much on winning trades as you give back on the losers. So that was just a short-term loan you made to the market. You'll soon be back in front *if* you keep yourself in the game!

So, can you see where the problem might lie?

It all comes down to the fraction of your trading account you risk on each trade.

Let's say on that sample of 5 trades you had risked just 1% of your overall account. As the fifth losing trade came to a close your self-discipline would certainly be tested. You'd need to keep your frustration under control. But you'd only be down 5% on your overall account. You could cover all those losses and be back in front within the next 3 trades.

But what if you'd gone at it a bit gung-ho and risked 20% on each trade. Even though your system is a real top-drawer performer you'd have blown yourself up!

Your entire account would have been wiped out by those 5 losing trades.

So can you see what a huge effect bad money management can have on your net results?

In fact, did you know if you deplete your account by 20% (it's called a twenty percent 'drawdown' in trader's lingo) you'd need to make 25% on what was left just to get back to breakeven? And if you took a 50% drawdown you'd need to show a 100% return just to get back to your starting bank!

Trust me, it pays to strictly limit your exposure on each individual trade and let the law of averages deliver your profits across the long run. That's what good money management is all about.

Phase 2 - Prospering: How Much To Trade?

So when we come to look at money management in a bit more detail we'll focus on how much you should risk on each trade. It's called 'Position Sizing'.

There's a bit of an art to it. You obviously want to maximise the amount of money your system can make but without risking a disastrous drawdown. You just need to find the sweet spot for your own particular way of trading.

And don't worry. It's all easy to do with a simple bit of maths. I'll walk you through it all step-by-step.

How to Pay Yourself

It's easy to overlook the obvious with all this talk of markets and trading rules. But in the end you are here for the money, aren't you? Real money you can pull out of your pocket and spend!

You might be happy to withdraw a few hundred pounds for some treats each month and let your trading bank carry on growing with the rest of your profits reinvested. Or you might be looking for a £3000 monthly draw as soon as possible to cover your household bills. It all comes down to personal preference.

So later, we'll also be taking a look at strategies for rewarding yourself *without* slowing down the performance of your trading machine. We'll see how best to turn your system into a perpetual cash generator that lets you pay yourself on a regular basis.

Homework:

There's another document that you can download from *The Traders Nest* for your Trading Handbook Ring binder. You can keep referring back to it as you get your own trading campaigns underway.

This one is a table that shows how much return you'd need to make on your account just to get back to breakeven following different amounts of drawdown.

There's a little bit of shock-factor involved. But don't worry – it's designed specifically to remind you about controlling your risk by using good money management! And that's a good trading habit to develop from day one.

Foundation Summary

So that's your solid trading foundation in place.

I know we've covered a lot of different concepts, and it was important to get all that information in place before we go looking for trades.

We'll be exploring everything in a bit more detail now as we work through the key elements of each of the 3 cornerstones.

But first, here's a quick summary of what you've learned so far:

Introduction – Why do you want to trade?

In the introduction I asked the question – "What is it you want from trading?"

We went on to explore the main reasons traders come to the markets. They all involve making money. And we identified three main categories of trader:

1. **The Second Income trader**
2. **The Money-Hobby trader**
3. **The Full-time Career Trader**

I explained how the way to get what you want out of the markets is to come at it with a business-man's mindset. That's the only way you'll compete alongside the professionals.

And we then looked at nine reasons why trading is probably THE perfect business opportunity.

Why trading is probably THE perfect business

1. You can trade from anywhere, at anytime
2. Anyone can get involved – there's a very low barrier of entry
3. There are few rules and regulations – you control the show
4. You can scale things up massively without employing people
5. You can do it all from your kitchen table or spare room
6. You don't need to deal with customers
7. You don't need to deal with any products or keep stock
8. There's very little admin work involved
9. There are no competitors trying to put you out of business

Your homework from the introduction was to:

1) Buy a nice paper notebook that will become your trading journal

2) Buy an A4 ring-binder to file the PDFs you can download from *Traders Nest*. This will be your trading handbook. Write proudly in it: "I treat trading as a business".

Cornerstone #1 – Method

Next, I introduced you to the three cornerstones of successful trading:

Mindset

Money Management

Method

We dived straight into the third cornerstone - Method - and

looked at the five components that make up a complete trading system:

The Five Key Elements of a Watertight Trading System

1. What to trade
2. When to trade
3. How much to trade
4. When to exit a winning trade
5. When to exit a losing trade

Your homework for the Method cornerstone was to:

1. Print off some blank Watertight Trading System forms from the TN website
2. Study the example form I filled in for you
3. OPTIONAL – Existing traders could see if they were able to fully complete a Watertight Trading Systems form for their current strategy.

Cornerstone #2 – Mind

In the foundation work on Mindset I told you the biggest mistake a lot of new traders make:

"Most beginning traders spend far too much time and energy looking for perfect trade entry signals and not enough time on managing their self-discipline."

We looked at how essential it is to take responsibility for your

own actions before you can grow as a trader. And then we put the five keys to a winning trading mindset in place. They are:

1. **Rock-solid self-discipline**
2. **Eliminating unhealthy reactions to losing trades**
3. **Trading with consistency**
4. **Keeping a carefree state of mind**
5. **Thinking in terms of probability**

I then mentioned three tools you'll soon be using to help you keep your winning edge. They are:

1. **Your spreadsheet of trades**
2. **Your trading profit and loss account**
3. **Your trading journal**

Your homework for the Mindset foundation material was:

Download the 3 Truths of Trading PDF and absorb those facts deep down into your brain!

Cornerstone #3 – Money

The final cornerstone we dropped into place was Money – the art of managing your trading bank.

You learned how the two phases of trading money management are:

Phase 1: Survive!
Phase 2: Prosper

We took a look at the surprising effect drawdown (losing money!) can have on your trading account.

And I mentioned how you should consider a way of pay yourself in a way that doesn't slow down the growth of your trading fund.

Your Money Management homework was:

Download the Drawdown PDF for your trading handbook

What happens next?

So now you've got a good solid foundation in place, I'll be taking you to look at specific tips and tricks for mastering each of the three cornerstones.

We'll start off right now by moving deeper into the basics of trading as well as more advanced methods. The following selection of topics will tell you more about these forex markets we'll soon be trading together. It will provide a range of insights into the methods that'll set you off on your trading journey in the best way possible.

Part 2

The Vault

Being a selection of articles for those who wish to understand the ins and outs of trading

Calculating Trade Sizes

What do trading and slicing up birthday cakes have in common?

As we have said, there are only two key phases to ANY profitable trading approach? They both fall under the banner of Money Management. Or in other words *the fine art of managing your trading bank.*

Money management is simple enough to get right, but oh-so-easy to neglect in the heat of the moment. You'll need to keep your self-discipline under control in order to apply this properly, but here are those two phases of money management that can make all the difference:

Phase 1: Survive

Phase 2: Prosper

Now phase one might sound a bit dreary… '*Survive? I thought trading was all about making a small fortune!*'
Well your fortune can come when the time is right. But you have to keep yourself in the game first. You need to keep your head above water!

First priority: Making sure you live to fight another day

The first phase of money management is all about protecting your trading capital. Consistent profits will come from a random pattern

of winning trades and losing trades. But you never quite know what the market will serve up next – will you profit or will it be a losing trade?

When you've got a proven system in place you'll have a good idea of its performance over a larger number of trades. As an example, you might expect to win on, say, 55% of your trades. And when you win, you might make twice the money you give back on an average losing trade. That's a very solid system.

And over a sample size of say 1,000 trades, you should see the overall win-to-loss ratio pretty close to 55% wins against 45% losses. But the smaller the sample size is, the more of a skewed effect the random distribution of winning and losing will have.

It means if you took a smaller sample batch of say 100 trades from your original 1,000, you might see a slightly skewed result. From that 100 trades you might find 72% were winners and 28% were losers, even though things eventually evened themselves out to 55%:45% across the full 1000 trades.

And what if we go smaller still…

Say we took a sample of 5 trades: with a 55% winning strike rate it would be perfectly possible to take 5 *losing* trades one after the other. All of them could have lost money. And it's absolutely nothing to worry about!

Remember you make twice as much on winning trades as you give back on the losers, so it was just a short-term loan you made to the market. You'll soon be back in front *if* you keep yourself in the game!

So, can you see where the problem might lie?

It all comes down to the way you divide-up your overall trading account. It's all about the size of each account 'slice' that you allocate, and risk against each individual trade.

Now let's say on that sample of 5 trades you had risked just 1% of your starting account size. As the fifth losing trade came to a close your self-discipline would certainly be tested, you'd need to keep your frustration under control, but you'd only be down 5% on your overall account. You could cover all those losses and be back in front within the next 3 trades.

But what if you'd gone at it a bit gung-ho...

Say you'd risked 20% of your starting account on each trade. Even though your system is a real top-drawer performer, you'd have blown yourself up! Your entire account would have been wiped out by those 5 losing trades.

So can you see what a huge effect bad money management can have on your net results?

In fact, did you know that if you deplete your account by 20% (it's called a 20% 'drawdown' in trader's lingo) you'd need to show a 25% return on what was left, just to get back to break even?

And if you took a 50% drawdown you'd need to make a 100% return just to get back to your starting bank!

Trust me, it pays to strictly limit your exposure on each individual trade and let the law of averages deliver your profits across the long run.

So good money management is all about limiting the risk on each trade – you don't want any single trade to have the potential to wreak havoc on your funds.

There's a bit of an art to it: you obviously want to maximise the amount of money your system can make without risking a disastrous drawdown, but you just need to find the sweet spot for your own particular way of trading.

And don't worry. It's easy to do with a simple bit of maths...

Using Position Sizing to Prosper from Your Trades

(This is where Phase 2 – prospering – comes into the equation. You'll see how in a moment.) The secret to achieving smooth growth in your account equity is to standardise the position size you take on each trade.

Now it's no use staking a flat stake per pip on every single trade, because they'll all have a different initial stop-loss size and therefore a different amount of initial exposure. (Imagine cutting up a birthday cake but giving each person at the party wildly differing sizes – a big fat slice for some people and a wafer thin slice for others – you'd get some strange looks wouldn't you? Well it's the same with your trades. You need to get the initial risk exposure on each one about the same to keep everything nicely balanced).

Say you staked £1 per pip on trade A and it's got a 50-pip stop-loss. That would be an initial exposure of £50. Along comes trade B and that might have a 100-pip stop-loss. If you staked the same £1 per pip on trade B you'd have an initial exposure of £100 – and that's twice as much as you risked on trade A!

Trade A might give you a 200% profit against your risk (£50 X 2 = £100 profit). And trade B might lose (giving £100 loss). That means you'd be left at break even across the two trades. £100 profit minus £100 loss = £0.

But if you'd standardised the position size – staking £2 per pip on trade A to give both trades an initial exposure of £100 each – you'd have made £100 profit. (£100 x 2 = £200 profit on trade A) minus (£100 loss on trade B) = £100 net profit.

That's the way to keep the positive probability of trading systems

with a profitable edge working for you. If you don't do this your net returns will be all over the place; there will be no standard 'unit' (or equally sized slice) to reward you in an equal manner for each profitable trade that you catch.

So you need to try and get it so each trade's initial exposure has around the same overall £ value, even though the pip size of the stop-loss will vary on each.

Here's how you do it...

Let's say you're willing to risk 3% of your overall account on each trade. First, work out 3% of your account equity so you know what you can risk on each trade.

If you have a £1000.00 account it might look like this...

· £1,000 ÷ 100 X 3 = £30.00 maximum initial risk available per trade (3%).

Next, work out the number of pips you'll need to risk on the trade you're currently working on. Calculate the difference between your entry price and your initial stop-loss price. Here's the risk on an example Long EURUSD trade:

· Entry (1.10255) minus initial stop loss (1.09775) = 0.00480 (that's 48 pips).

If you then divide the amount of £ risk available by the number of pips needed by this trade you'll see how much you can stake per pip: £30 ÷ 48 pips = £0.63 available to stake per pip. When you come to place the trade you'll find you'll be restricted by the fixed increments in which your broker will let you trade: in this example you'd probably have to round it down to 60p per pip, but the key to good position sizing is all about getting the exposure on your trades evenly sized best you can.

This is the most important thing you need to know about trading.

If you're new to trading, understand this and never forget about it.

Imagine the perfect trade set-up. You've been following it for weeks. You're getting ready to place your trade. Here's the scenario.

Preparing for the perfect trade

A long-run uptrend has run out of steam. The series of higher highs and higher lows has started faltering. And from the analysis you've done, the uptrend looks set to end. In fact, you're sure the market has peaked.

You're anticipating a downtrend starting and you want in on it – you want to cash in as the price starts falling and the lower highs and lower lows of the new downtrend take over.

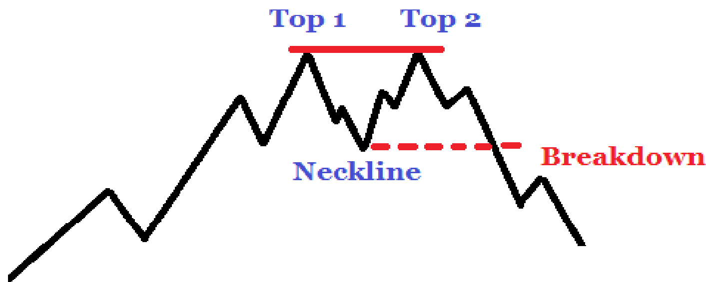
But you're not rushing in. You've done all the right things so far. You've been patient. You've been waiting for the market to tell you when to make your move.

You have your trend lines drawn on your chart. Your levels of support and resistance mapped out. You've got your moving averages on there too, giving you more clues about when the trend might end... and when your NEW trend might start.

When the price hit that peak, you drew a horizontal line on your chart to mark it. You watched it fall over the next week or so until it reached a new swing low and then started to rise.
And you calmly monitored it until the price once again clawed its way back up to the same level (within a couple of pips anyway) as the previous peak. At that point, you knew you were almost there. It's almost time to trade.

Just one more rule to tick off: wait for the breakdown through the

low point reached between the two peaks. That's your confirmation. That's when you know it's a cut and dried double-top pattern And that means a high-probability (although not guaranteed) trade.



So you place the trade. You've worked out your target is 100 points away. And you put your stop loss 100 points away, too (you're confident it's never going to hit that).

And you're so convinced this trade is going to make you money that you decide to bet at £10 a point. No rationale for it. You just see the £1,000 target in your mind and the treat you're going to give yourself when you hit it!

Only, it doesn't work out.

The worst mistakes in trading

Sure, the price broke down through the neckline. But only by 20 points. Then, it turned and headed straight back up. It got back to the double top line and paused, dipped back a little, but then

powered right through, taking out your stop loss on the way. Ouch.

You've been caught by a 'fake out' – a failed double top.It happens every now and then, even though they have a pretty high success rate.

And you did everything right preparing for the trade. You watched the set-up form. You planned your entry and target. And you waited for confirmation – for the sign to enter.

Everything done right, just as you've been shown.

Everything, that is, except for the **money management**. You didn't look after your risk. You didn't plan for the trade going wrong.

And as a result, you've just wiped out half of your account as the trade stopped you out for 100-pip loss at £10 a point – a painful £1,000 hit on one trade.

Remember, no trade is ever guaranteed to win, no matter how good the set-up. Double tops are great, reliable patterns and I encourage you to look for them. They win more often than they lose if you play by the rules.

But far, far more important than looking out for these patterns, I urge you to learn how to manage your money and your risk sensibly.

Two things to take away today:

1. Only risk a small percentage of your account on any one trade. Five percent is tops, but even better, stick to 2% max. Please, never ever think it's OK to bet £10, £5 even £2 on every trade. Do it by risk per trade and bet accordingly.
2. Try to aim for a risk/reward ratio of at least 1:2. In other words,

the money you risk (stop loss) is half your potential reward (target).

On the first point, if you're staking just 2% on each trade, you can afford to get a lot of trades wrong and still live to trade another day. Whereas if you risk 50% on a trade (as in my example), then two losing trades and you're dead.

And on the second point, by going for a reward that is twice your risk, you ensure that even during the bad times, you only need to be right 40% of the time to remain comfortably profitable. In fact, you **only need to be right 34%** of the time to break even.

Just think about that for a second... Due to the positive risk/reward ratio and sensible money management you only need to be correct just over 34% of the time to be profitable.

Two easy price action patterns trading novices could find today

A friend of mine from college and I caught up with each other in Manchester recently, and found ourselves in a watering hole (It's a great bar to check out if you're ever in town by the way: Cottonopolis on Dale Street). The conversation and the drinks were flowing nicely and we got onto the day-to-day challenges we each face in our work these days; he was telling me how his mental health patients never fail to keep him on his toes; I was describing to him how the chaotic nature of the markets can have much the same effect – you just never know for sure what you're going to get day-to-day.

By the way, I always forget how alien trading can seem to people who have no real interest in the markets...

Even brand new trading students at least have an eagerness to learn and a vague understanding of the basic concepts. So I was having a really hard time describing how futures contracts work, and how you can actually make money by selling assets you don't own and buying them back later at a lower price.

I could almost see his eyes glazing over in confusion. (And I do admit, it must all sound a bit weird to the uninitiated!).

By about the third attempt at explaining I was getting quite animated, flailing hands were marking out imaginary price levels in the air and price charts were drawn with a fingertip dipped in beer-froth on the polished surface of the bar.

I'm sure it all sounded like random nonsense to anyone who'd popped in to for a quick after-work drink and had to endure our

rather loud conversation, so apologies to all who put up with it.

But I did finally see a flicker of understanding when I started to talk about pattern recognition and repeating behaviour. I suppose this was right up his street as a medical professional; it's the kind of stuff he deals with all day long.

So here are my two favourite 'starter' price patterns that even complete trading freshmen can get to grips with quickly. They are especially useful to know because they give you a way to calculate a target price too (by projecting a pre-measured level above or below the current market price).

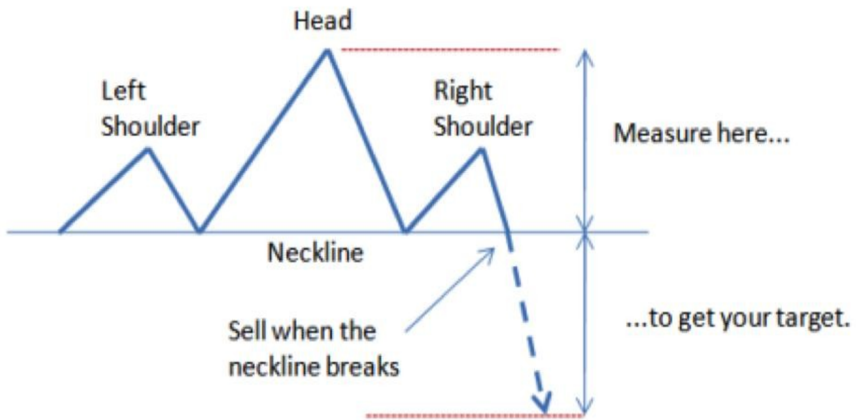
The big question is, of course, is there really some kind of mathematical order to the market or is it more of a self-fulfilling prophecy – lots of traders all acting on the same piece of analysis? The jury's still out on that one. But as long as a method or technique can earn its keep by giving you a profitable edge, it's worth hanging on to, as far as I'm concerned!

Let's have a look at those two useful price patterns now…

1. Head and shoulders

The head and shoulders pattern is made up of three peaks (or troughs: they can happen at the top or bottom of price moves). There's the left shoulder, the head, and the right shoulder. Between them, they give a 'neckline' which you can use as your signal to enter a trade, once the price breaks through it. Take a measurement from the head to the baseline and extend out by the same distance below the pattern, and you've got your target price.

Here's how it looks:



And a real-life example:

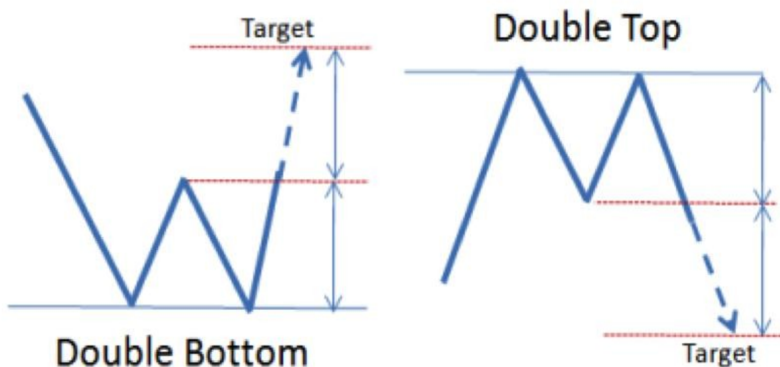
If you spot the head & shoulders pattern you have a location to enter a high-probability trade (on the break of the neckline) and it's also a warning sign that the market could be about to make a strong move. In the above example, if you were holding a trade to the long side, this is your sign it's time to bail out of the trade!

2. Double tops and double bottoms

A double top or bottom is a failed test of a previous high or low. It's called a failure because price doesn't move past the previous high/low. It's another potential reversal pattern. The double top looks like a 'M' shape and the bottoms look like a 'W'.

You can enter a trade when the market confirms the pattern by moving back past the point of the central peak. The height of the peak can be measured and projected out as a price target.

Here's how they look:



And a real life example:

So there are two reliable and frequently occurring price patterns you could go and hunt for right away, even if you were absolutely brand new to trading.

Remember to cross-reference the different time frames too – you might find a very strong pattern on a long-term time frame, even if you actually trade it on a shorter-term chart.

Do you even NEED a stop loss?

(How pit traders did it all without a safety net)

What part of your trading strategy do you think has the single biggest effect on your results?

Personally, if I could only focus on one thing, I'd look way beyond entry signals or any of the stuff that gets you into trades. I'd actually drill-down on what gets you OUT of trades.

After all, the money is made or lost at the point a trade is exited. And an integral part of the exit strategy is our old friend: the stop loss.

Now stop loss placement and management are two very personal issues. There's simply no single right or wrong way to do it; no one-size-fits-all. There are as many different stop loss approaches as there are traders because we each have our own goals for our trades and different tolerances to risk.

But let's play devil's advocate for a minute... what if you didn't use a stop loss order at all? What if you went into the market without the customary safety net of a stop loss order in place?

It certainly goes against all common trading advice but could there actually be a way to throw the rule-book out of the window and make this work?

Completely contrary to all common wisdom, I've known very successful futures scalpers trade without stop losses... It's not what

I'd recommend WE do. At least not until you're a total master of the craft.

But I thought I'd share this with you. You won't see this mentioned in any of the trading books, but sometimes you can learn more by spinning conventional wisdom on its head and seeing how things look from the polar opposite position.

Especially when you know the 'experts in the field' are doing it too!
So basically, what these guys do is find a very strong support / resistance level and use that as a 'backstop'.

How to use support or resistance as your 'backstop'

For example, the market is trading at 1.3724 and a strong resistance level has been spotted almost 50 pips higher at 1.3772... Now they might sell into any up-move at 10 pip incremental steps (i.e. they'll have limit sell orders working at 1.3734, 1.3744, 1.3754, 1.3764) and then they'll just work the position...

They get filled at 34 and the market carries on moving up, filling them again at 44 (the position is now a 2-lot averaged at 39).

The market dips a bit and they take one-lot off at 38 (the position is now a 1-lot averaged at 40).

The market rises filling them at 54 and again at 64 (position is now a 3-lot averaged at 53).

The market dips and they unload the entire 3-lot at 40 (giving them 39pips profit on their 3-lot position (13pips per lot), and so-on.

With this approach they're constantly scaling in and out, riding the ebb and flow of the market's tide. They'll work the position,

grabbing a few pips here, letting it run against them, scaling-in with more entry orders and then grabbing a few more pips when the markets flows back in their favour.

The resistance level (hopefully!) puts a cap on the markets up-move. It lets them scalp away in its shadow with an element of protection.

But of course the inevitable does happen from time to time...

If the market blasts through the level they're using as a backstop, they bail out immediately and take the loss. It's quaintly known as ‘spewing’ your position.

So yes, from time to time they'll have to swallow a loss. But this is all about playing the probabilities. And the times they're banking substantial profits can more than cover the occasional trades that go bad.

This is how many of the futures pit 'locals' traded before the great migration to computerised trading. Because they were absorbing the buying or selling coming into the pit from the various brokerages and institutional clients, they were often positioned against the short-term trend.

In fact, they couldn't have placed a stop loss order even if they wanted to. They were trading in the physical environment of hand gestures and head nods, so when they wanted to cover their positions they had to make the right signs and find a counterparty to take the other side of the trade, hopefully before the market had already moved too far!

Riding positions like I described above was how they created a

viable edge for themselves, even though they would often appear to be trading against the immediate price action.

And there was only one prerequisite: nerves of steel!

The traders that were best at trading like this were the ones who could disconnect money from trading results. Sure, they had to keep score so they always knew where their positions stood at any given time, but it really was a case of them keeping track of the 'score' – seeing things like a game, with points won or lost – rather than sweating over the effect of their activities in terms of cash. When I was doing my training for scalping the Bond Futures, they had us practicing on the Mini-Dow futures like this. You had to have a position (at least a one-lot) and you had to work that position like I described. You actually were not allowed to be flat, even if the market wasn't really moving anywhere!

The idea was (and I think it's 100% correct by the way) that when you are invested in, committed to and closely monitoring a position in the market, you start noticing little quirks that you probably wouldn't see otherwise. You make faster progress than you ever could by being just a passive observer.

Now it is a pretty advanced way of trading. It's completely foreign to how most people are looking at the markets these days, and it's certainly not for everyone. But I do feel it's important for me to pass this stuff on to you.

You never know: one of these ideas might just be the catalyst for your own great trading breakthrough!

Golf-caddy trading secrets

(Using moving averages to indicate trade direction)

As a general rule I'm not a massive fan of technical indicators. (I'm talking about things like stochastic indicators, MACD, RSI and all those other exotic sounding tools.)

If you've been following my stuff for a while, you've probably noticed I lean more towards pure 'Price Action' when it comes to technical analysis – and that means following the 3 core dimensions of any market's movements: price, time, and volume.

Now I'm not saying indicators can't or don't work – many traders make a good living from using them exclusively! But technical indicators do take the data from the 3 core dimensions and then manipulate it in some way via mathematical formulas and computations.

And the results are then delivered onto your chart by way of a visual 'indicator'.

So it might be a line overlaid onto your candlestick chart. Or it might highlight pre-defined conditions in a special way – it could change the background colour of the chart, or put coloured dots underneath certain candlesticks that fulfil a specific criteria. Some of them even paint a blatant 'buy' or 'sell' arrow on your chart.

But one problem I always seemed to experience with indicators is the time-lag factor. By the time the market-action that an indicator

refers to has printed, the bulk of the move can already be over. And trading like that can often be a frustrating case of chasing your tail.

Why I prefer price action over indicators

So why not take a sneaky shortcut, cut out the middleman and go straight to the source? Learn to read the price action of the market directly and you simply can't get any closer to the coalface.

Trading direct off the price-action can also help you avoid 'analysis paralysis'. That's where you might have a range of conflicting indicators with some suggesting the market is likely to move higher, but some suggesting the market is likely to move lower. It can make traders freeze in confusion – they have no clear idea of what they should do.

Now, like I said earlier, I'm not saying indicators cannot add value to your trading, but for me they tend to get in the way. They're derived from elements we already have direct access to, so why not learn to read the market's price action and be totally in control of your own trading?

When you trade using indicators you're always relying on someone else's interpretation of market conditions. Remember, the programmer's bias already affects the way the indicator works!

So I would definitely urge you to develop your skills using price, volume and time.

But going fully naked on your charts can be a big step to take all at once, especially if you're already used to seeing those indicators lines in place. But what if there was a 'halfway house' – a way of focusing on price action and then gaining an additional edge from applying one certain type of indicator too?

Well, the good news is that there is a way you could develop your price-action-reading skills while filtering the buying/selling decision with moving averages.

The moving average doesn't give you a trading signal itself, but it **does** tell you whether you should look for buy trades or sell trades. And having a clear way of getting yourself pointed the right way around in the market like this gives a big head start to any campaign.

What are moving averages?

First of all, let's have a quick look at what moving averages actually are. There are two commonly used types:

1) Simple Moving Averages (SMA) are calculated by dividing the sum of the closing prices of a range of candles by the number of candles in the range.

A 100 period SMA adds up all 100 closing prices in the range and divides them by 100. A line is then plotted on the candlestick chart at the resulting price. Each new candlestick replaces the oldest one in the range so the line is constantly being updated as the market moves up or down.

2) Exponential Moving Averages (EMA) work in a similar way to SMAs but they are weighted to give greater importance to the more recent candlesticks. It's a way to get the indicator reacting quicker to recent developments in price.

Now there are a number of ways traders use moving averages. They might use a 100 period SMA and buy as price moves up through it, and sell as price moves down below it. They might use a combination of moving averages where they generate buy and sell

signals from the 50 SMA moving above/below the longer period 100 SMA. That's called a 'crossover system'.

But I think moving averages can be most useful when used as a directional filter. They can help you decide whether to trade to the long side – anticipating movement higher – or to the short side. And you can then use the price action to actually get you into and out of the trades.

Let's have a look at a simple way to show how moving averages work.

Here we have a day's worth of activity on the 5-minute chart.

I've overlaid the 100 period SMA – that's going to give an indication of the longer-term picture in this market – and I've also used a 34 period EMA which is a 'faster' indicator line.

You can see how the 34 EMA dips above and below the slower 100 period line. We can now use the position of the moving

averages as a filter to help us trade to the long side when the market looks like it might be ready to move higher and to the short side when the market looks ready to move lower.

So you can use the moving averages to give a directional bias and then make the actual trade entries and exits from price-action-based triggers... things like your candlestick patterns, patterns from price movement, Fibonacci levels etc...

If candlesticks are above the 34 EMA, which is in turn above the 100 SMA, you trade to the long side. If the candlesticks are below the 34 EMA, which in turn is below the 100 SMA, you trade to the short side.

Here's how you might have traded this chart.

So there's an example of how indicators might assist you with your trading decisions, especially when you first start out with price-

action-based trading. I don't think they should be relied upon in isolation. Try to keep your main focus on price, time and volume!

I like to think of treating indicators in the way a pro golfer might treat advice from his caddy: he'll take tips on club selection and he'll listen to advice on the layout of the golf course, but it's the golfer himself who must address the ball, take a backswing and take that shot at the pin!

Stop Orders and Limit Orders

Choose the right tool to gain an edge in every trade

When newer traders make their way to the Metatrader platform for the first time it's easy to become overwhelmed by the range of options on the MT4 order ticket. So, let's have a look at what you'll see on the screen when you first call up the Metatrader order ticket.

Here's an order ticket for the GBPUSD market.

“Surely it should only be a button for buy and a button for sell, shouldn't it? Why am I seeing things like 'Buy Limit', and 'Sell Stop'? Why is it all so confusing?”

If that sounds like a familiar story, don't worry! We're going to run through all the different order types today. I'll tell you exactly what the different orders do and when best to use them to your advantage.

Now I know it might all seem a bit complicated at first, but choose the right tool for the job carefully and you can actually gain an extra edge each time you pull the trigger on a trade.

You'll find that the default ticket comes populated for you to instantly buy or sell at the current market price: the order type is set for 'Instant Execution' (I've also shown you the other available option - pending order - more about those in a minute).

An Instant Execution BUY order would go through at the 'offer' price. That's 1.55747 in the example shown.

And an Instant Execution SELL order would go through at the 'bid' price. That's 1.55727 in the example shown.

But why are there two different prices for buying and selling?

Well, that's how the broker or spread bet firm take their piece of the pie.

It's called the price spread and it's no different to the rates you'll see quoted when you change pounds sterling into Euros at the bank before you jet away on your holidays.

You'll have seen the 'bank buys at quote’ and the 'bank sells at quote', right? Well that's the bank doing the same thing as the Forex firms - building in a price spread that means they take a chunk of the transaction for themselves - only the high street banks do it on a much grander scale than the trading firms!

(Once you've gotten used to tight Forex trading spreads the prices you'll see down at the bank for exchanging hard currency will make your eyes water!)

Anyway, back to our example trade...

You can see that there is a 2 pip spread between the price you can buy at and the price you can sell at (a pip is one unit of the fourth decimal in GBPUSD). If you had an urgent need to get into this market you could just hit Buy or Sell and you'd be straight into the position.

The advantage of using the instant execution order is that you are done and dusted in the blink of an eye. You're into your position and don't have to worry about missing any subsequent movement in price.

There is a small pricing disadvantage though: the market will still be moving while your instant order is routed through the broker’s system so you can often receive a slightly different price than you were expecting. It's called 'slippage'. But unless the markets are really flying around with high volatility it's not going to affect things too much.

The greater threat from using instant execution orders comes from user abuse! They are so easy to use that you can literally fire off orders willy-nilly. And in the heat of the moment, when emotions are running high, this can pose a problem to a trader's self-discipline.

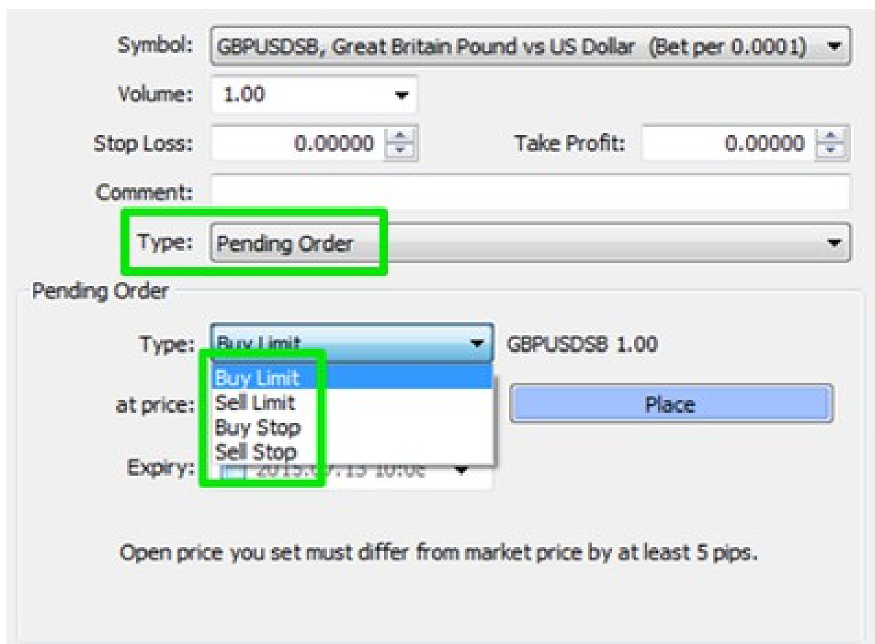
When would you best use a 'pending' order?

Instant execution orders are fine when you want to get into the market quickly, and providing you have a legitimate reason for doing so! But what about the other available options - what if you have an idea that doesn't need you in the market immediately, but perhaps depends on the price action meeting particular criteria first?

Well, that's where the 'pending' order types come into play...

Here's a screenshot of the drop-down list you'll see when you select pending orders:

There are four new orders that become available: Buy limit, Sell limit, Buy Stop, and Sell Stop.



Let's have a look at Stop orders first, they're **good for getting into breakout trades.**

You are able to place a Buy Stop order above the current market price and your order will be filled only if the market trades up through your designated price.

For example: you're bullish on the market, but you only want to be in a trade once the market has started to make a move upwards and has taken out the most recent high price.

Instead of sitting at the screen for hours, waiting, you could use a Buy Stop entry order to get you into the trade. It might look like this:

Using a Buy Stop order for strategic trade entry

Sell Stop orders work in a similar way only you'd use them to strategically enter your trade at a LOWER price than the current market.

Now what about the Limit orders?

Limit orders are great at getting you into trades when you have identified a good support or resistance level to use.

A Sell limit order would be used to enter a short position at a higher price than the current market. This might sound odd - why would you want to sell when the market is moving higher? Here's an example.

Using a Buy Stop order for strategic trade entry

Sell Stop orders work in a similar way only you'd use them to strategically enter your trade at a LOWER price than the current market.

Now what about the Limit orders?

Limit orders are great at getting you into trades when you have identified a good support or resistance level to use.

A Sell limit order would be used to enter a short position at a higher price than the current market. This might sound a bit odd - why would you want to sell when the market is moving higher?

So let me show you an example on the chart:

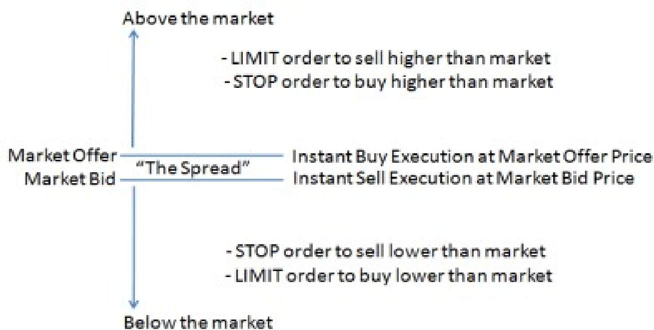
Buy limit orders work in a similar way - you'd place them below the current market to enter a long position but only if the market actually dips down to the price you specified.

So you can see from the chart example that the limit order is another way of strategically entering trades. It can help you achieve really good prices for your trade entries. But there is one drawback: if the market doesn't quite reach the price you specified you'd miss the trade!

One way the professionals handle this problem is to 'scale into' a position by having limit orders spaced out by a few pips below the resistance level they are using. This way, their worst case is missing getting filled on just a small part of the intended position instead of the entire trade.

So both pending order types - the stop orders and the limit orders - allow you to be selective about entering trades. It means that you don't have to follow along in real time to execute your trading ideas, plus they can help with your discipline because they force you to actually have a plan in place before you submit the order - no excuses for random trade entries!

And just to wrap things up, here is an easy overview of where you'd use each order type in relation to the current market:



The 10,000 Hour Rule

The ultimate shortcut: Time-surf and grow rich

Can you ever truly 'master' a complex skill like trading?

Possibly. If you have the time and the patience. They might even interview you for the next 'Market Wizards' book!

But is it even necessary to reach the level of mastery to get what you want from the markets? The great thing about trading is the sliding scale of reward. It ensures even the beginning trader - as long as he has the discipline to follow a solid plan - can still profit beyond his wildest dreams. And for most traders the comfortable lifestyle and the ability to make money on demand is reward enough.

The big step is getting to that stage of course! Now there was a popular book that came out a few years ago called *Outliers*. The author, Malcolm Gladwell, has a theory that high achievers in many different walks of life are a product of their environment rather than pure natural ability. And that often, a twist of fate earlier in their lives could be seen to draw out their unusual and highly-honed skill.

It could be that the actions of a parent that were responsible. Dad might have kept his young charge laser-focused on a certain activity from a young age. I remember reading about the golfer Tiger Woods - his dad had him out on the course from the age of 3 with sawn-off golf clubs to fit his tiny backswing.

Or the Williams sisters: Serena and Venus: not only were they coached in tennis from the age of four by their parents they were

home-schooled with strict discipline by them as well. With that kind of single-minded attention from such a young age is it any wonder they went on to accomplish amazing achievements in their specific sport?

But probably the most thought provoking idea to come out of Gladwell's book is the 10,000 hour rule... You might have come across it before. It's the theory that anyone can come close to performing at an exceeding high level in whatever field they choose, as long as they dedicate enough time to focused practice: the magic 10,000 hours.

The magic number of practice hours keeps repeating at 10,000

There's a great example in the book about the Beatles and how they came to stand head and shoulders above most other bands of the same era (not to offend any Stones fans, it would be interesting to see if this same rule could be applied to the Rolling Stones actually). The story goes the Beatles had already performed live over twelve hundred times even before they had their first taste of commercial success in 1964.

They played in those dingy Hamburg strip clubs for eight hours at a time, gigging back-to-back seven nights a week. Most bands don't rack up that many performances over their entire careers! So is it any wonder the Beatles had a certain aura about them? And going back to Tiger, Serena, and Venus… if they'd been practising away for hours at a time from such an early age they would have hit the 10,000 hour mark by the time they were in their teens. It's no surprise they were such 'naturally gifted' athletes really, is it?

And to hijack an old saying... the more they practised, the more 'naturally gifted' they became! But if 10,000 hours is the magic number, if that amount of practice will ensure your high degree of trading prowess, how on earth are we going to have you squeeze in

so much time at the trading screen? If you’re like most home-traders with a day job, family commitments, and a healthy social life to attend to, the outlook is a bit bleak.

Even if you could put in a solid two hours a day, every single day, it’s going to take another 14 years or so before you could get near to your 10,000 hours. And chances are good that you want those skills a bit sooner!

But fear not. If attainment of trading skills beyond the norm is what you seek, I have the perfect solution for you! We’ll simply speed up time so you can squeeze in your 10,000 hours of trading practice faster! You’ll get it all done in just three months if you practice an hour a day.

Easy, hey? But not as daft as it sounds.

No time-travelling machine required!

Now don't worry. I've not taken complete leave of my senses.

I'm talking about putting the power of technology to work for us. And combined with an easy hour-per-week schedule for your practice we'll have those 10,000 hours behind you in no time.

Here's what you do...

1) Get yourself a 'Market Replay' plug-in for Metatrader (or one of the standalone 'replay' software platforms) that'll let you replay your chosen market's price action bar-by-bar.

2) Have the rules of your trading strategy written down and placed on the desk in front of you. And be ready to stick to them with some discipline.

3) Set the replay software to print the bars one-per-second. Press play. Now follow the action and place your simulated trades. You can pause the replay stream if you need a bit of thinking time, but try not to 'rewind' and undo any mistakes you make. They are all

part of the learning process!

If you follow a strategy that trades the 15 minute timeframe you'd have traded 10,000 hours of price action inside 12 weeks...

- 15 min replay bars printing at one per second = 15 hours of compressed action per minute of training.
- 15 hours x 60 = 900 hours of replayed action per hour long training session.
- 12 weekly hour long training sessions = 10,800 replayed hours in total!

And the software lets you replay real market conditions at whatever speed you like… you can have it rattling along, printing one-minute candlesticks every second while you practice your all-out scalping assault. Or you can pull-back onto the hourly charts while you hone your swing-trading entries.

Or what about scouring the five minute charts for intraday-reversal patterns? And you can do it all with a 'hard right edge' to the charts that keeps you on your toes.

There's no opportunity to kid yourself with any of that "would have, could have, should have" mind chatter you can get by manually backtesting from old charts. Instead, you use a built-in simulated account that tracks your performance and even prints out the hard evidence of your improving trading skills at the end of each practice session.

It's not perfect. We all know that trading a practice account is not quite the same as having real money on the line. But in terms of developing trading muscle-memory and re-grooving your mind with good trading habits I think you'll find realistic practice like this hard to beat.

Scalping #1

Reality check! Scalping: what kind of results can you really expect?

I get a lot of feedback and enquiries about scalp-style trading. It might sound intimidating if you've not traded like this before – like you need to be some kind of lightening-fast keyboard ninja or something – but that's not the case. Not when you scalp like I'll show you, anyhow.

So let me start by telling you what it is and what it isn't... Now first of all my techniques are not what I'd consider 'pure' scalping.

To me a proper scalper is a trader who takes tiny 1 or 2 pip trades.
He might buy at the bid price, and turn right around and sell at the ask price. This is how the full-on pit scalpers did it. Before computer trading took a full stranglehold, the bulk of order flow went through the pits and the guys in there provided the liquidity. They were the buffer between the external buyers and sellers. The pit traders might trade directly on behalf of the brokerage houses and institutions, but because of their privileged position they could also trade on their own account, and many of them did. Some of them made a long career flipping relatively small positions many, many, times a day.

So why do I refer to my short-term stuff as 'scalping'?

Well, it's just what the wider Forex community has latched onto in terms of a label. Most Forex traders would define a 10 or 12 pip trade as a 'scalp' trade. So why fight the tide? If this is what traders call scalping these days, then scalping it is!

What I'll be showing you…

The methods I'd like to show you all aim to exploit the market’s reaction to pre-determined price levels you’ve identified.

You'll look to take your pips off the table as the market makes a short-term reversal or ‘bounce’ off one of our many levels level and you’d typically enter trades using LIMIT orders.

You choose your spot, wait for the market to do its thing, and pick your orders off. You’re not chasing around after the market.

I think of it as a game of chess rather than the adrenaline-fuelled shoot-em-up computer game a lot of Forex traders seem to be playing.

We’re aiming to align ourselves with the smart money and be a few steps ahead of less sophisticated traders. And don’t worry about having to use complicated indicators, chart patterns or anything like that.

These methods are simple for one very good reason: they were honed and developed on the trading floors of Chicago’s futures exchanges.

I don’t know if you’ve ever seen film footage of traders in action in the pits in their heyday – but to trade there was a cross between a bar brawl and a game of poker.

Forget computer algorithms and multi-monitor chart displays… These guys needed stuff they could make work even while getting

elbowed in the back of the head. It needed to be no more complex than a few basic calculations and some numbers they could scrawl down in pencil on the back of an order card.

And most critically of all…

It had to work.

These traders paid upwards of $300,000 for their 'seat' at the exchange (or they were paying a hefty monthly lease for one). So they weren't messing around 'playing the markets' – it was dog-eat-dog; survival of the fittest.

And under those testing circumstances it's amazing how the froth and fairy-dust tends to drop away!

How scalping probabilities can work for you:

You'd typically be looking for between 12 and 50 filled trading opportunities every week – maybe more, maybe less, depending on your personal appetite for activity.

You'd be aiming to establish a foundation win/loss ratio of 55:45 with a 1:1 (or better) risk/reward ratio, but aiming to improve that win/loss ratio as practice and experience begins to pay-off.

Those 55:45 stats offer a 10% edge on your scalping campaign, even with the minimum 1:1 risk-to-reward ratio. I.e. over the long term – that calculation returns ten pence every time you put a pound out there into action for you.

Your task would be to put that same pound to work for you time after time as you identify opportunities throughout the week, thereby maximising your bottom-line net return.

Here's an illustration of how things could start working out for you as you kick-off your trading operations:

Trades taken during the week:	35
Av. Profit Target per trade:	12pips
Av. Risk per trade:	9pips
Winning trades:	19 (54.28%)
Losing Trades:	16 (45.72%)
Total winning pips:	228
Total losing pips:	144
Total pips for the week:	84
Average pips per day:	16.8

What you'll need…

Please don't carry on with these scalping methods if the example figures have left you agape.

But if you're still avidly reading away, itching to know, you just need a brokerage account that lets you access the Forex markets with a low Bid/Ask spread – ideally one pip or less on EURUSD during European and US sessions.

Even a demo-account is good enough while you're finding your feet. You can have one of those set up in minutes at most online brokers.

You need to be looking at that low spread (one pip maximum) on EUR/USD during the London and New York sessions and there are plenty of brokers out there ready to offer you this. You also need your broker to support pending orders without any restriction on where you can place them.

This is basically an order that you can leave working away on

your behalf i.e. you place your entry order and also type in the number of pips away you want your stop-loss and your profit target. You then leave your entry order working.

Once filled, your broker automatically places your two exits orders – your stop loss and your profit target – without you having to monitor the market or fiddle around placing more orders.The orders are sat broker-side, on their servers. You don't need to worry about your own computer getting disconnected from the internet or any other client-side tech issues. Your orders are in and it's your broker's responsibility to work them for you. In terms of live charts for you to trade-off – your broker will provide these, usually via the 'Metatrader' platform that comes free with almost all brokerage accounts.

But is it really for you?

So what do you think? Does it surprise you that short-term trading might involve so many losing trades?

Can you see how an average of 10 or 20 pips a day might put an end to all financial concerns, or does it all seem too trifling to even bother with?

Take a minute to think about that... Because how you've been conditioned to think about trading is going to have a bearing on your fate here.

I've deliberately revealed some hard-hitting home truths in this piece They're designed to filter out traders for whom scalp-style trading wouldn't be a good fit.

Sit down – anytime – and find these easy-to-spot price action trades

Much of the scalping material needs to be worked through in order, with one piece building on another, but I can offer one technique that you might like to mull over, and maybe even give a little test-run. The strategy is called 'TMT' (Ten-Minute Toeholds) and I'm going to tell you all about it in this blog...

Why use 'Ten Minute Toeholds' to trade like a scalper?

These TMT levels can keep you busy if you just want to sit down at the screen and trade live for an hour or two. They'll also let you spot the very latest intraday opportunities if you're just 'poking your head around the office door' to see what the market's up to. They let you find opportunities from 'free-trade', so there isn't the formal, rigid framework like with some of the other set-ups we'll use. With this, you simply open your eyes, look at what the market is showing you, drop your orders in, and see what you get. Rinse and repeat.

The TMT set-up occurs with quite high frequency: you can take trades both with and against the intraday trend. This means you can always find action if you're an aggressive trader but you can also filter the trades according to your own personal appetite...

For example, you might decide only to take trades to the long-side on a particular day, because your analysis of the markets has highlighted strong bullish sentiment or vice-versa.

So you're getting a lot of flexibility here but you mustn't abuse it.

As with all of my methods I don't expect every trade to work out for you. I can't stress enough how important it is to have a realistic outlook. You will have losing trades – I absolutely guarantee it – so your job is simply to identify the opportunities, take what the market gives you, and move on to the next trade, with a clear and unflustered mind.

How TMT trades let you stalk the intraday markets

The TMT set-up involves taking trades off retests of the minor retracements, as liquid markets (like EURUSD) make their progress through the trading day. It's the price action of the market that's important here, rather than the timeframe we view it on – although we do defer to a ten-minute chart here to help us rise above the 'noise' of the very short-term charts.

This is a set-up that pretty much guarantees action every day. The market can't really move without leaving behind the opportunity to scalp with retracement retests, and the premise we're working on here is enough buying or selling pressure coming into the market at a particular point to halt a retracement –we're looking to participate when the market RETESTS that area...

Now I must be clear, we're not looking for full-on market reversals and we're not trying to pick tops and bottoms. We're just waiting for the little window of opportunity to open and let us get involved for a handful of pips; taking advantage of the little lumps and notches the market will have difficulty in flowing over without

stalling to some degree. Think of a rock-climber scaling a sheer cliff face: these are like the little toe and finger holds that let him pull himself further up the rock to make progress.

Scalping the TMT Levels step-by-step:

Here's the quick overview of the 3-step system for finding and trading the TMT set-up, followed by the detailed step-by-step process:

1. Examine your 10-minute candlestick chart (liquid markets only!) and locate the latest untested intraday intermediate highs & lows.

2. Isolate the 3-bar formation that formed the climax of the high/low move and identify the dominant candlestick real-body. (Make sure you've seen the market put in a movement of at least 15 pips away from the candlestick real body high/low before placing an entry order.)

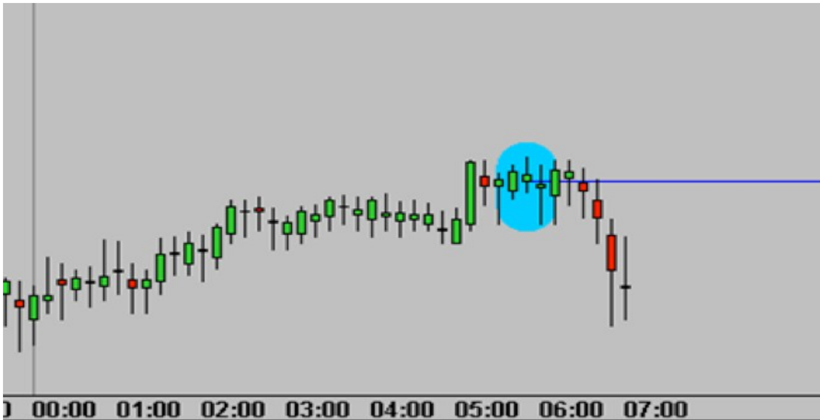
3. Place a LIMIT SELL order to enter a trade one pip below the real-body low where you're looking to enter a short trade. Place a LIMIT BUY order to enter a trade one pip above the real-body high where you're looking to enter a long trade.

4) Once filled on your entry, use the 'If, Then OCO' bracket order to automatically place your exit orders. The default trade is a 12-pip target with a 12-pip stop loss.

N.B. For best results you'll need to work with a broker that allows orders to be placed in close proximity to the market.

The detailed process:

1) Examine your 10-minute candlestick chart and locate the latest untested intraday intermediate highs & lows.



Here we are at the European market opening. We’ve just seen a little 30-pip pop to the downside. When we look for the untested intermediate highs and lows we see that little peak highlighted blue above the current market which gives us a high to work from.

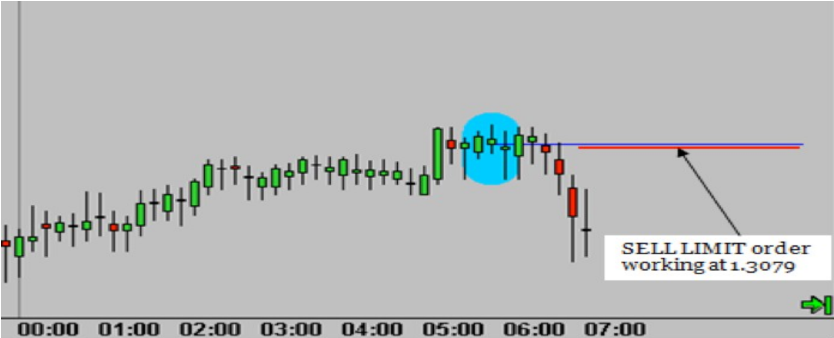
2) Isolate the 3-bar formation that formed the climax of the high/low move and identify the dominant candlestick real-body.

You can see that the bar at the centre of the highlighted area provided the climax of that gradual upward movement (although it ended up more of a congestion area).

N.B. The ‘dominant’ candlestick real-body is usually the ‘peak’ or ‘trough’ bar, i.e. the bar that provides the extreme high or low.

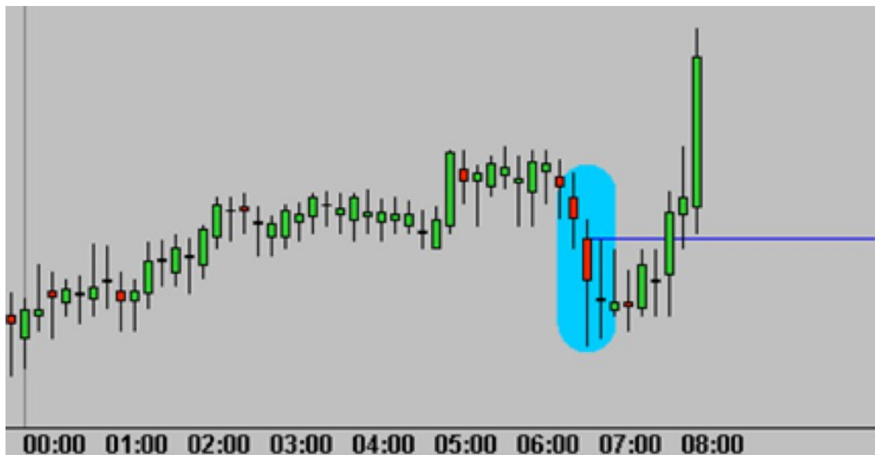
3. Place a LIMIT SELL order to enter a trade one pip below the real-body low where you're looking to enter a short trade. Place a LIMIT BUY order to enter a trade one pip above the real-body high where you're looking to enter a long trade.

4. We project a level off the candlestick real body low and place a SELL LIMIT order one pip below it.

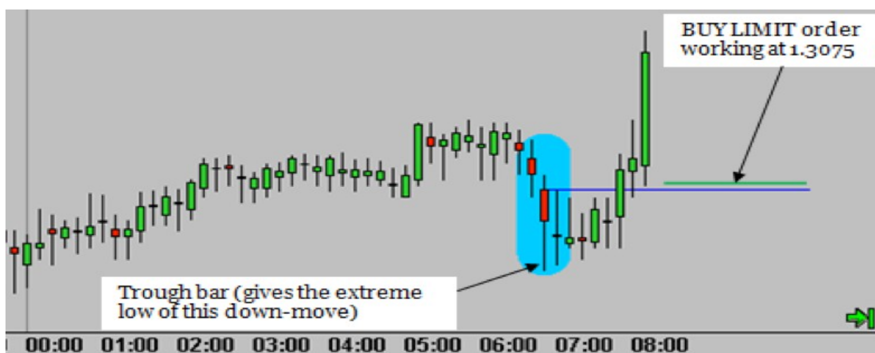


A 40-pip move to the upside gives us a fill on our entry at 1.3079 – we only get an 8-pip reaction off our level however, a losing trade on this occasion...

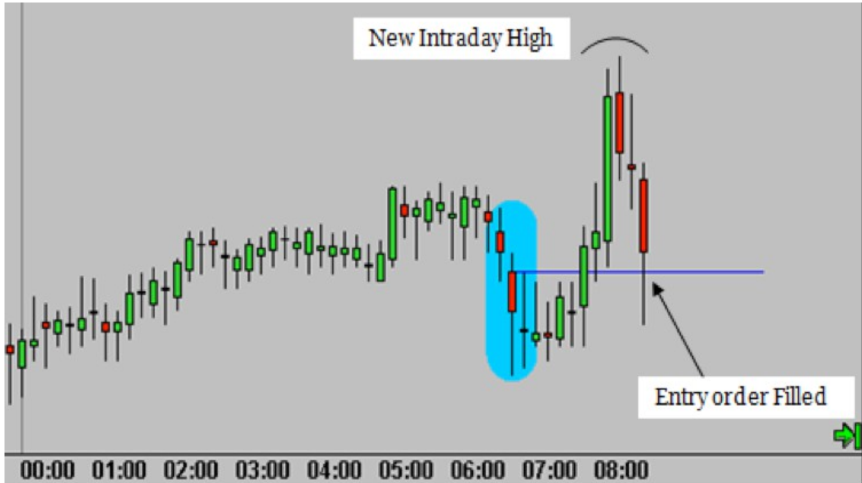
As the latest 10-minute bar closes, we look back down below our trade to calculate the TMT level off this new intraday low...



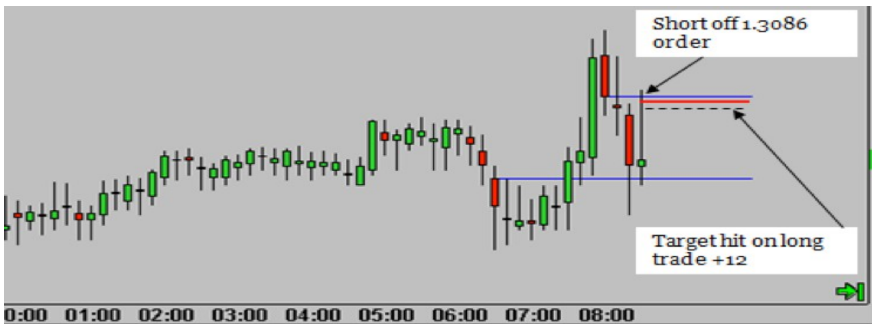
Again, we use the 3-bar formation that gives the low (the 'trough' bar itself; the bar immediately preceding it; and the bar immediately following it). The real-body of the trough bar gives us our level at 1.3074 and we place a BUY LIMIT order working one pip above the level at 1.3075.



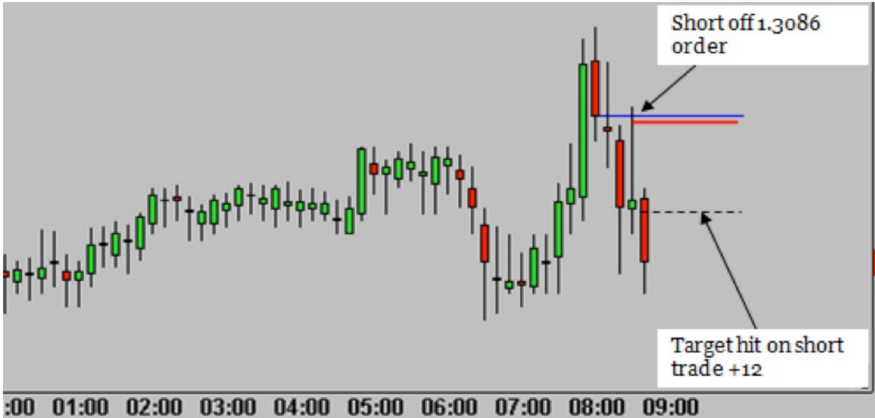
We get a fill on our entry order – exit orders go in 12 pips either side of entry. We also note the new intraday high that printed, and get ready to place a new short-entry order (if trading from both sides today)...



The next 10-minute bar gives us a simultaneous profitable exit on our long trade and a new entry to the short-side off the 1.3086 Sell order...



And the target is hit on our short trade on the next 10-minute bar...



Now the set-up is very simple as you can see. It relies on visual identification of the trading levels and there's nothing complicated to it at all. In fact, the risk is that it can be overused and abused precisely because it is so simple.

So... give it a test run yourself. Make sure you find good liquid markets that are currently displaying the range of motion the strategy needs: it's no use trying to force it to work in a flat listless market!

Your broker doesn't offer 10-minute charts? Try it on the 15-min or even the 5-min. Or you could open a demo account with a broker that does offer the 10-min timeframe.

And you might apply just a little bit of longer-term analysis before you start hitting the order button (the secret is to get yourself pointing the right way around to begin with – looking for buying

opportunities in bullish markets and selling opportunities in bearish markets).

The beauty of the TMT set-up is that it keeps you nimble and in a position to change your scalping bias as you watch the price action develop, but you must have a good reason to start scalping against the prevailing intraday trend. Don't fall into the trap of trying to catch a falling knife.

Mind Training

Conquering Fright Reactions

There's no shame in experiencing difficult emotions when trading

Control of your emotions - that's all winning trading boils down to...

"Fight greed. Overcome fears of pulling the trigger on trades. Adjust your position size until you sleep easy at night…"

They are all great pieces of advice. But have you ever stopped to think how emotional responses get triggered in the first place? Delve into the workings of your brain and you discover it all revolves around some startlingly simple processes.

Really get to know your stuff and you'll find there are ways of 'beating' the system - you can actually start to control how your brain responds to certain situations. This is how stage hypnotists pull off mind control to the delight of their audience. And how hypnotherapists help people knock nasty habits on the head.

So did you ever see the Derren Brown TV programme where he went to the greyhound races? He asked a lady to put a bet on a dog at one of the on course bookies. When it lost, he had the lady go up to bookies' window and say: "This is a winning ticket; this is the ticket you are looking for." And he banged on the counter with his hand - a distraction that was critical to the trick's success in some way I guess.

Lo and behold, the bookie's clerk paid out on the losing ticket!

When asked why she had done it she was at a complete loss for

words - couldn't even begin to explain. She was even convinced her computer had told her the bet was a winner! Now how about that for power? Imagine being able to phone up your broker and perform Jedi mind tricks that turn losing trades into winners:

"This is a winning trade. This is the exit price you are looking for."

It'd be great to fantasize about for a while. But it wouldn't take long for your little ruse to be uncovered.

Plus, it would be TOTALLY unethical of course!

So why not work on controlling your own mind instead, it's completely ethical and that's where the long term benefit lies anyway, right? Let me tell you some things I've learned recently about how the brain processes incoming data.

You'll see how stress responses are created in your body. How THAT can have a negative effect on your decision making when it comes to trading. And I'll also give you an idea of how you can start overriding the natural reactions that don't serve you well.

How your trading brain works

Your brain responds to stimulus. When it comes to trading we're dealing with external stimuli (things that happen outside your mind and body). And your brain filters each individual event as either threatening or non-threatening.

So imagine logging in to your account to check progress on a trade… Things are going in your favour. The trade has almost reached your target and you move your stop loss to lock-in a good chunk of profit.

This is processed as a non-threatening situation. You are

rewarded with feelings of calm and well being. Feel-good chemicals called serotonin and dopamine flood into your nervous system.

Now imagine the opposite situation…

The trade is moving against you. And you see blood red numbers in the profit/loss column of your account. It shows damage being done to your trading bankroll.

It can be difficult to control your natural response to this type of stimulus. You brain can process it as a highly-threatening situation even though logically you know that losses are part of the game.

Your sympathetic nervous system starts firing up - it's what gives you the ‘fight or flight’ response. And then it's crunch time... Reach the point of 'fight or flight' and you risk trashing your carefully tested strategy.

Fighting the market with revenge trades is a common response to this situation. As is bailing out of the trade (running away) before things get any worse, even though your strategy clearly says you should stay in. Your in-built survival mechanism actually starts to work against you. At this point many traders can go off the rails.

But there’s a small window of opportunity that’ll let you control your state of mind before your fight or flight response launches.

And don’t worry if you miss it, there’s still something you can do to keep things in order. Let me tell you how to do it...

Five steps to managing tricky trading emotions

1. Spot your incoming stress sign

Start paying attention to recurring physical feelings that let you

know your fight or flight mechanism is igniting. It might be a tightness in the throat, tension in the chest, a swirling sensation in the stomach. It's different for everyone. But there will be a sure sign an emotional response is on the way.

2. Put the brakes on now (if possible)

So you've noticed your recurring physical sign. And you can tell your fight or flight mechanism is about to kick in. You now have a very short window of time to acknowledge it and break the state. It takes a bit of practice but visualisation techniques can be used here (you just need to act quickly enough). Do the job well and you'll quickly correct your response. You'll stop the full blown emotional response in its tracks.

3. Remove the ability to do damage

If you didn't catch things in time at step 2 (and it does take a bit of practice) you'll now need to let the sympathetic nervous response take its course. Your body will flood with fight or flight chemicals and there's little you can do until your nervous system has flushed itself clean. This doesn't mean it should affect your trading decisions though!

You need to remove yourself from the trading screen for a while (take away the risk of emotional actions damaging the integrity of your strategy). Go for a walk, take it out on a punch bag, go and chop some logs in the garden… Just keep yourself out of mischief for about 20 minutes - that's how long it'll take your nervous system to reset itself. (A physical activity really does work best.)

4) Analyse what triggers your ‘fight or flight’ response

So once your nervous system returns to normal you can start analysing exactly what triggers the fight or flight response in you. It’ll be related to fear at some level, and not necessarily a fear of losing money. It can be something more deep-seated like a fear of ‘being wrong’. And once you know exactly what you’re dealing with you can start to improve things…

5) Practice engineering more appropriate responses

A technique called ‘reframing’ can be helpful here. Instead of looking at losing trades as an assault on your skills you can see them as investments made in future profits. This can help neutralise the fear of being wrong.

And consider this ploy: it’s probably the most useful trading exercise I ever used myself…

Aim to take a string of DELIBERATE losses in quick succession and then reward yourself for doing so. It can quickly blunt any sensitivity to taking losses. Rehearse performing the responses you feel are most appropriate and most helpful – with actual money at stake for added realism – and you can reap the benefits for years.

There’s nothing shameful or negative about experiencing difficult emotions when trading. It’s how you handle it that makes all the difference!

Conquering Fright Reactions

Here's how to tell if a sneaky 'meta-hole' trading hassle is holding you back

Talk about a lucky escape…

I was sauntering through town the other day minding my own business. No reason to rush, no appointment to keep, so lord knows why I did this…

I arrived at a pedestrian crossing when the little man was on red. It meant I probably had to wait a whole 45 seconds before I could safely cross. But instead of waiting, I gave a quick glance over my shoulder and stepped into the road – right in front of a JCB digger!

I just didn't see it. Luckily, the driver jumped on his brakes and the enormous, bright yellow, couldn't-miss-it-in-a-snowstorm machine came to a clanking, rocking halt with the raised digger-bucket just 3 feet away from my head.

After apologising profusely to the visibly shaken driver, and giving a sheepish grin to the other people waiting to cross, I did actually manage to make it to the other side of the road in one piece. But it really played on my mind for the rest of the morning.

I'm always needling my children about being road-safe, so how could I have done something so silly myself?

There was no excuse for my impatience. What difference was it going to make to my day if I just waited until the light turned green and I could cross safely, compared to the consequences of getting

flattened by a JCB? The payoff just wasn't worth the risk. But it was the way in which the JCB seemed to bypass my vision that I find really intriguing. I did look back to check the road was clear, but just didn't notice it, even though it was bearing down right on top of me!

Time for a bit of amateur psychology, methinks.

Here's what I think was going on…

I think my brain was aware I was about to put myself in a slightly risky situation, so it cranked-up whatever biological risk-assessment functions go on in there. It kind of put itself on 'amber alert'. And I think this might involve some kind of selective filtering coming into play: I was scanning for the kind of hazards you'd normally expect to see on an inner-city road: cars, motorbikes, cyclists etc. But I wonder if other things – objects that are bit out of the ordinary given the situation – don't get the same kind of attention.

They're not classed by the conscious mind as a likely risk, so they slip through almost unnoticed. In fact, there was a famous experiment that actually proves 'selective attention' exists. It's called the Invisible Gorilla and you learn about it here:

http://www.theinvisiblegorilla.com/videos.html.

If you are in front of a computer, please watch the short video before you read on.

Spoiler alert

In case you aren't in front of a computer when you read this, the trick, and it's not really a trick, involves six basket ball players, three with black shirts and three with white in a corridor, bouncing two basketballs and passing between them, white shirts to white and black shirts to black. The video asks you to count the number of times a white shirt passes the ball to another. Your mind rapidly filters out the movement of the black-shirted players while you watch the white shirts intently. Thus, you do not register the person in a black gorilla suit who walks through the picture. It really is astonishing.

If you cheated and read on, you now know what to look for. However, it's a great trick to play on unsuspecting friends.

So that’s why my huge, unmissable, 8-ton-yet-very-slow-moving nemesis nearly got me!

Now then… what if we use this idea of selective filtering to potentially crack open and get to the bottom of some deeper trading performance issues you might be having?

I’m sure you’re already aware of the obvious ‘technical’ things you need to pay attention to: your ability to trade a system with discipline, the emotional tug-of-war you sometimes feel as soon as real money becomes part of the equation (good old fear and greed at work!), and making sure you’re not overexposing yourself to risk on individual trades.

You know the kind of things I mean: it’s the stuff trading books always cover. And they are VERY important. I’m not belittling their relevance in any way. But I think there can also be deeper issues at work too. There can be a 'meta-hole' in your approach, which you

might not spot by thinking purely in trading terms. So let me tell you the kind of things I mean...

4 traders and their stubborn big-picture afflictions

These are all examples of deeper issues that I know have affected traders in the past. They can often be the actual driver behind performance issues, and can therefore be the issue that ultimately needs addressing in order to improve.

Trader A was doing it to prove his friends wrong

This is a common one. He might have mentioned to his brother-in-law or the guys down at the golf club that he's doing some trading, only to be met with smirks and snide comments: '*Ha-ha, you'll never make any money doing that!*'

It can be easy to slip into an emotional '*Right: I'll show them!*' mindset.

Instead of placing his trades because it's the right thing to do at the time, Trader A is suddenly working to a completely different agenda: he's trading for bragging rights, so he can prove the doubters wrong.

This can create an unholy amount of pressure to perform and can also create an environment of self-delusion (it's tough to be honest with yourself about any areas that might need attention and to make progress when you're feeling harshly judged by other people).

Trader B believed he'd be unstoppable because of his superior abilities

This is a common pitfall for people who have enjoyed great success, or held respected positions in other fields. Especially those which involve working with known outcomes, like engineering and medicine.

It can be easy to mistake the efficacy of a preconceived ‘formula’ – the engineer’s time-tested load calculations, the surgeons preset procedures – with some kind of advanced ability of your own creation.

Now before I receive angry emails from engineers and doctors from across the country, I mean no offence. It’s just there’s no diploma Trader B could brandish, no letters after his name he could refer to that will guarantee success in the markets.

It can be understandably difficult for people who have applied advanced skills to great effect in other fields to revert back to a beginner’s level and accept there is no headstart in the markets solely because of their other achievements.

But there is simply no substitute for a humble and respectful approach to the markets!

Trader C just liked the adrenaline rush!

You know, deep down some traders really aren’t in it for the money. They might think they are, but it’s the thrill of the chase – the adrenaline rush of the unknown outcome – they are really after.

And this is completely fine. There’s space for everyone in the markets, but being honest about the reasons behind his trades could

cure Trader C's frustrations instantly. If he accepts that he's not really bothered about making a fortune from trading, it could take the focus right off his performance and let him enjoy it as a hobby instead.

If he makes sure he sets aside only the amount of money he's prepared to lose, he could just have some harmless fun! But be warned, Trader C: you might find you suddenly start making much better trading decisions once your focus is taken away from the result!

Trader D fancied some fast and easy money (but wasn't prepared to earn it)

A lot of people come to the markets because they think it's easy money – a way to make a fortune without actually doing much. And you know what? There aren't many businesses simpler than trading: there's always a supplier to buy your wares from, and there's always a customer ready to pay you for them.

All you need to do is press the buy and sell buttons at the right time and in the right order. But as simple as it is, there's still work to do.

Admittedly it's mostly of a psychological nature – working on your own mental strengths and weaknesses – but when I receive a tetchy email from Trader D who complains he has placed his first week's worth of trades but hasn't yet hit pay-dirt, I can read the underlying problem like a book.

And the unfortunate thing about the Trader D type is they are usually unwilling to spend time upgrading their unrealistic outlook, even when I offer to help. They're usually too busy looking for the next glittering path to overnight riches!

So anyway, these are a few examples of the kind of bigger issues that can be at work, well away from the entry patterns and stop-loss adjustment of day-to-day trading.

If you're trying to remove a trading blockage, it might be worth giving some thought to the big-picture circumstances you find yourself trading from. You might find your performance-enhancing breakthroughs actually rest in some surprising places!

Deliberately Losing Money

Why the Losing Trade Paradox Can Ultimately Accelerate Your Profitability

A couple of sections back we mentioned deliberately losing money as an important mind training gambit. It sounds so bizarre that we should perhaps take a closer look at the process and its implications for your trading attitude.

When you first get into trading it's so easy to be dazzled by the promise of overnight riches. It's certainly enticing, but I think over-hype can do the beginning trader a great disservice.

That's why I think deliberately trading to LOSE can be one of the wisest investments a trader can make at the start of his career. It sounds a bit odd doesn't it? It's the polar opposite to what we're trying to achieve: we want to make money not lose it! But the psychology behind the idea I'd like to share with you today can make losing trades one of the best long-term investments you can make.

So let me lay it out for you...

Now if you've ever considered Forex trading as a serious tool for building your wealth, you've probably been through the following exercise on more than one occasion…

Putting the finishing touches to the spreadsheet that plots your rise to Forex trading glory, you sit back in admiration... If you can just average the 2% return per trade your spreadsheet predicts, you'll be into six figures within three months. That's not too difficult right? After all, the new trading system you're buying into claims a

98% strike rate and hasn't taken a loss over the last 362 trades – this time next year you'll be a trading millionaire!

Nice in theory!

Now here's the case for why you should probably take a step back, measure your personal 'trading temperature' and give your confidence a mauling by launching an initial mini-campaign that deliberately LOSES money.

And let me clear one thing up first: when I say lose money, I don't mean your entire trading bank or even the amount you're prepared to risk on a normal trade, but it's got to be enough to matter – you've got to feel a little bit of pain!

What you stand to gain…

There's no doubt that trading is driven by mathematics. Probability and the law of averages dictate the outcome of any given trading system, and there are certainly mathematical patterns identifiable in the way that the markets move. But what is almost always underestimated and even completely overlooked by those new to Forex is the emotional and psychological aspects of the 'inner game' of trading: the things that go on in your head.

Be in no doubt, your mind can twist otherwise straightforward decisions beyond recognition once money – and the risk of losing it – becomes part of the equation.

It's why paper-trading is so different to trading under real market conditions.

The biggest hurdle many traders must overcome is the anxiety felt when a trade heads off in the wrong direction and puts you in a losing position. I know from experience that the range of thoughts

and emotions you go through can lurch between anger, frustration, disbelief, denial, a desire to immediately exit the trade, and an attempt to take a ‘revenge trade’ in the other direction... all of which threaten to assault your self-discipline.

But the basis of a well-designed system is that it already has trading losses built in – your only job should be to pull the trigger and let the trade play out, win or lose. You shouldn't need to give it another thought. But that's not always so easy to do!

Here are some well-meaning market-mantras you may have come across before. Reciting them to yourself can certainly help get you in a better frame of mind, but the little exercise I'll share with you in a minute will actually PROVE just how true their wisdom is.

‘**Love Your Losses**' – Learn to take losses on the chin: they are just a part of the game. And remember... each losing trade brings you one-step closer to the next winner!

‘**Trade Your Edge Like A Casino**’ – Have confidence that following X ‘spins of the wheel’ the laws of probability will kick-in and deliver your expected return: treat your trading system like a casino treats a profit-producing roulette table.

‘**Trade for Expectancy, Not Accuracy**’ – The number of losing trades your system takes is irrelevant: it’s the monetary expectancy per trade that holds the key. You should jump all over a system that takes 70 losing trades out of 100 if the losers hit you for £60 but the winners each rack-up £240 per trade. Can you see how the money is made there, despite recording so 'few' winning trades?

Now I’ve often thought about how much time, money, and emotional despair would have been spared in my early years of trading if someone had sat me down and given me a step-by-step plan to toughen me up a bit and expose my ego to trading reality.

But I had a bit of a freakish start to my Forex trading career... I made money, good money, week after week. The problem was my discipline was non-existent!

I was fully loaded and exposing myself to huge risks; gambling on the outcome of economic reports and firing off trades all over the place because I couldn't come to terms with taking losing trades. And I got away with it... for a short while anyway!

But knowing what I know now, here's the simple three-step 'antidote' that I would gladly take in my first week of trading if I had to start again from scratch. It'll ensure I get over the initial resistance to taking losses, give me an edge on other entry-level traders and align me with the 'smart money' traders as quickly as possible…

A simple three-step 'winning through losing' exercise

1. Think of something you like to treat yourself to occasionally – a meal out with friends, a designer shirt, a couple of fine cigars. Write down the monetary equivalent – this is the amount you are going to try and lose and write off as 'market tuition fees' – and then divide the amount by three.

2. Look at a daily chart of your favourite Forex pair but don't over-analyse. If it looks like it's in an upward-trend, place a market-sell order and place a stop-loss above the current price equivalent to one-third of your overall total 'market tuition fees', and place the opposite corresponding order if the market looks like it's going down, i.e. you BUY hoping to take a loss.

3. Let the market take out your stop-loss order and give you the loss; if the trade is still running at the end of the day, cover it with a market order so you walk away flat.

4. If you've accidentally made money on the trade, throw it into the

pot and divide the new total up ready for your next 'winning through losing' trade.

So what's the point of losing money on purpose?

The idea is to string a minimum of three sequential losing trades together in quick succession and feel how the losses feel *without* allowing excessive negative emotions to come into play. You're learning how to take losses unemotionally, and in a controlled environment.

I cannot emphasise how much of a positive impact this can have on your future success.

This is you willingly making a small investment in your Forex trading education through live experience.

Now I know what you're probably thinking: *Lose money on purpose – is he crazy? I'm off to buy the latest fail-proof indicator so I don't need to even think about taking losing trades.*

But know this: the markets have some very weird 'anti-logic' forces running through them. It's survival of the fittest at an extreme level and what appears to be an act of self-preservation in the outside world can often have the very opposite effect in the markets. And paradoxically, what appears to be an act of self-harm can actually be the most long-term life-embracing action available to you!

Lessons From the Skate Park

Ten trading lessons from a nerve-jangling skatepark session

Anything that gets my boys out in the fresh air and moving around rather than permanently hooked-up to a computer game is fine by me!

And top of the boys' Christmas lists this year were 'stunt scooters'.

Now, about two months ago I heard about an indoor skatepark tucked away on a rural business park not far from where we live. I took my boys down there one Saturday morning with the little fold-up scooters they've had for a while, but we were met with a shake of the head when I tried to pay to go in.

It turns out the fold-up scooters aren't allowed on the ramps (too many cases of them inadvertently folding just as the poor rider launches himself from the top lip of a half-pipe ramp, apparently).

And of course the officially endorsed heavy-duty 'stunt scooters' cost an arm and a leg. But what a great idea for Christmas presents! Especially after we'd watched some of the other children zipping around, defying the laws of gravity and then going through the whole 'Can we have one of those, Dad? Can we, can we?' ritual.

So once the wrapping paper was torn off on Christmas morning the two boys were itching to head back to the ramps as soon as possible

Now I don't know if you've ever seen one of these indoor

skateparks, but they are pretty impressive places. The one we go to is an entire industrial unit kitted out with massive plywood ramps and obstacles as far as the eye can see.

Drop a whole bunch of kids in there – young and old – on an assortment of self-propelled vehicles: it reminded me of a colony of ants at work. They all seemed to be intuitively aware of who else was on the move, and from which direction: high-speed collisions were always avoided at the last minute with a casual flick of the handlebars.

That is, until my two eager charges entered the fray. To be fair, they didn't cause any actual crashes, but their lack of awareness certainly kept the other riders on their toes.

I've promised to take them again on Saturday morning, but only on the understanding they learn the unspoken rules of the skatepark (I don't think my nerves would take it otherwise).

And of course, once I sat them down to have a 'quiet word', the things I had in mind made perfect sense in a trading context too!

So let me share them with you…

10 trading lessons direct from the skatepark

1. Learn the flow

Instead of going hell-for-leather straight into the thick of the action, take a few minutes to simply watch and observe the natural flow of traffic.

At the skatepark there'll be a popular route around the ramps that riders tend to follow – best not to ride against that flow – and in the markets at any given time there'll be a flow of buying and selling

pressure, with certain prices areas acting as important reference points. Take the time to watch and identify the current order flow and it can keep you from battling against the tide.

2. Enter with care

Look both ways before jumping in. Even crossing from one part of the skatepark to another can be treacherous to the uninitiated. Make sure you are aware of what's going on around you and who is moving at what speed and in which direction.

In the markets, before pulling the trigger on a trade, make sure you take similar precautions: check to make sure there are no pending market-moving economic data releases that may impact your trade in an unexpected way. Make sure you know which markets are moving in which direction and at what speed. Don't fight the momentum of an established trend!

3. Wait… ready… GO!

When it's your turn, go! Don't hesitate or act uncertain: it creates confusion among the other skaters and that's when accidents can happen. When a trade ticks all your boxes, pull the trigger! Don't hesitate or second-guess your signals, it's what destroys the integrity of a systematic trading approach.

4. Narrow and deep, not wide and shallow

If you want to get good at a certain skating trick, or nail a particular riding-line on the ramp, go narrow and deep: focus on that

one objective until you chip away and conquer it. When it comes to trading, don't expect to master an entire portfolio of analysis techniques all at once. Take them one step at a time: master the real-time identification of ONE candlestick pattern, or ONE method of exiting your trades. Mastery comes one piece at a time.

5. Accept the bumps and bruises

Don't expect to ride the ramps like a pro skater from day one. Expect bruised knees and bashed elbows – it's all part of the learning curve. In trading, it never ceases to amaze me how beginners expect to dive straight into the financial markets and compete with professional traders without first going through a period of 'education'.

Expect there to be a few mistakes along the way. That way you'll take the knocks and scrapes in your stride and find them much easier to handle when they do happen.

6. Don't be greedy

No one likes the kid that doesn't wait his turn and hogs the ramps. It's only a matter of time before he is shown the error of his ways by the big boys!

Being greedy with your trading will almost certainly end in a similar way. The market will soon mete out punishment to traders who fail to wait for genuine high-probability opportunities on a regular basis, or milk their trades way past the optimum exit point.

7. Know your place

Respect your current level of knowledge and ability. Gently

pushing yourself towards the next level is the way to make progress, but it’s a fine line between that and overstretching yourself. Don’t risk an accident or a confidence-bashing crash by biting off more than you can chew. It's just as relevant at the skate park as it is in the markets.

8. Don’t sit in the way of oncoming traffic

‘This looks like a nice place to watch from’, I mistakenly thought as I plonked myself down on the top of a ramp. I then had the humiliating experience of being called-out by a feisty 8-year-old girl on a BMX bike for sitting smack in the way of her next trick.

Lesson learnt: don’t risk your safety by sitting in the way of oncoming traffic. With your trades, don’t be too casual about leaving positions sitting open longer than you should, or failing to tighten stop-losses when you have the opportunity. You never know when an unexpected rush of traffic might hit you from the other direction and adversely affect your results

9. Laugh-off your mistakes

I’m trying to teach my boys not to take things too seriously, i.e. don’t have a big tantrum if you fall-off, get something wrong, or generally make yourself look silly.

Pick yourself up and try again, and have a good laugh about it. With trading, always keep your trades small enough that you can laugh about mistakes made. It really is the best therapy.

Take things too seriously and you’ll put a huge amount of psychological pressure on yourself to achieve perfection. And that can cause all sorts of problems.

10. Think about your timing

Saturday afternoons are NOT the best time to go scootering if you're a complete beginner. You'll be competing for ramp space with a whole horde of experienced riders. It is a great time to watch and learn though!

Think about the timing of your trading sessions in a similar way: are there times when you would be better standing aside to simply watch and learn, rather than getting yourself all chopped-up by busy and volatile markets?

Seven Concepts To Grasp

Path of the master trader: 7 essential skills to learn

What's your favourite piece of market wisdom? It's a bit of a brain-tangling paradox, but here's mine...

“An act of self preservation in the 'normal' world can have the exact opposite effect when you're trading.”

Think about it...

We come naturally hard-wired to grasp 'lucky' finds. We get an overwhelming urge to stash easily won loot before anyone else notices.

It's probably some kind of evolutionary throwback

After all, stumble across a couple of tasty dinosaur eggs and you'd best tuck them away to feed your family before the next guy fights you for them.

Unfortunately this approach is not so effective in the markets. Quickly close out trades that move into early profits and you can deny yourself over the long term because those are the times the market can reward you is a big way for your good timing. It goes against your primal nature to do so, but letting those trades run can often swell your account significantly.

Or how about the times your trade moves against you and shows no sign of recovering?

A 'never say die' approach may be rewarded in the outside world. Have the courage to dig deep when your back is against the wall and it might be the difference between your business thriving or folding.

But use the same tactics in the markets and you can literally bleed yourself to death. No matter how stubborn you are, there's only ever going to be one winner - the market!

And it can be tough to come to terms with this apparent paradox… but the markets are just so different to any other commercial environment.

An academic education can't prepare you for it. Not really.

Sure, you can swot up on the theory. But it's not until you feel your heart beating through your chest as your first big position takes off that you really understand the true emotional aspect of trading.

And the markets are so unlike any other workplace...

They are always changing minute-by-minute, in a constant state of perpetual motion, without any true structure. The markets roam pretty much wherever they like. It's one huge never-ending event without a cap on the money that can be made (or the losses that can be incurred).

There's really nothing else like it.

The trouble is most people associate a safe, static environment with feelings of security and well-being. And there's absolutely nothing wrong with that at all. It's just the markets aren't the place to find it!

By definition, a safe, static environment does not give you the opportunity to make thousands of pounds in a matter of seconds with very little physical effort.

This reality really doesn't sit well with most people's sense of

identity. They see themselves as steady £X/per hour kind of guys. Again nothing wrong with that at all, it's just when a true windfall of profits lands in a trader's account his deep-seated self-image can tell him he doesn't deserve that money. He'll often end up losing it as quickly as he earned it without understanding what just happened.

Subconsciously we all stay true to the image we hold of ourselves.

It's why you hear those stories of lottery winners ending up bankrupt within a couple of years. Their suppressed self-image just cannot handle being so far out of line with the pleasant reality of being a multi-millionaire. Circumstances will change to remove that internal conflict. And as they're boarding up the windows to a repossessed mansion, the poor winners stand scratching their heads, trying to figure out where it all went wrong.

So the 'normal' rules of expending time and effort to earn a proportionate reward do not apply to trading.

In order to prosper as traders we need to think differently. And it might mean unseating some long held beliefs about yourself too.

I've been having a think about this and I've made a short list of steps to take and the skills to learn in order to accelerate success in the markets. Here's what I came up with...

The 7 steps to accelerated trading success

Learn how to visualise appropriate goals. You've got to be able to see yourself trading profitably before you can truly accept it as your reality. Get hold of *Psycho Cybernetics* by Maxwell Maltz for

a menu of visualisation exercises. Choose your favourites and do them. Every day!

2. **Identify the technical trading skills you need to improve.** Learn to work on perfecting those processes instead of thinking about the money. The money will follow as a by-product of performing the right actions at the right time.

3. **Learn to adapt to changing market conditions.** It's no use stubbornly trying to bang a square peg in a round hole. Learn the tell-tale signs of a trending market versus a range-bound or congested market. Make sure you know which particular methods from your toolbag work best in current conditions.

4. **Learn to work with your exposure to risk.** The first step is the 'Sleep Soundly Test'. Make sure your intraday trading activities or overnight held position do not keep you awake worrying. Once you're at that stage, start to steadily increase exposure as your account grows. You need the ability to grow your account through incrementally larger trades (all while keeping stress levels under control and maintaining an unbiased opinion on the market's comings and goings).

5. **Learn to pull the trigger fearlessly.** In other words, fear can have no place in your trading activities. If your strategy says make the trade, you must make the trade. Remember, no one knows for sure what's going to happen next, it's all about playing the probabilities. And you've got to be in it to win it!

6. Learn to let the market tell you when enough is enough. Remember not to choke those trades that break out quickly in your favour. Try to incorporate a trailing stop mechanism on at least part of your position. This means you get to participate in those big moves you time just right.

7. Learn to maintain an objective outlook. Try to keep an unbiased analysis of the market. It's not so easy to do when you're committed to a trade. You tend to see things through the distorted lens of your own self-interest.

Keeping your wits about you and not being blinkered to the reality of current conditions is the mark of a master trader.

Trade A Global Mindset

I felt his pain. I really did. His words summed up a very common frustration.

Personally, I remember a similar situation very vividly: a feeling that the markets were somehow conspiring against me. That somewhere, behind the scenes, there was sniggering going on as my carefully prepared trading plans unravelled.

And worst of all... that it was costing me a small fortune in losses!

So what caused these feelings and memories to flare up?

It's because I received an email from a particularly miffed trader at the weekend. And two sentences he wrote say it all. Here's the nub of his frustration in sentence number one: "*It's almost magical the way I can see several promising trades, but choose only to trade the two that stop me out, while the others usually go on to win.*"

Now doesn't that sound like a familiar story?

If you've not felt it at some point you're either a bonafide market wizard with some kind of supernatural trade-divining ability, or... you've not quite hit one of these purple patches yet. (And if you fall into the latter category, I'll give you odds of 10:1 that you'll feel the pain of your trades suddenly seeming all 'wrong' before too long!) But don't let this worry you. It's all part of the trader's journey.

The answer is hidden in plain sight

In fact, the miffed trader already knows the cause of this situation. He's written it down in his own words. So here's sentence two - the answer to the problem: "*I accept that the problem is in my*

head most likely, but I still keep looking for the missing piece of info." He's pretty sure the problem is an internal one, but he's looking for a missing piece of information from external sources. Hmm...

I thought it would be a good idea if we took a closer look at this. I hope it'll help this trader get things back on track and it might just help you too. Now, looking back, I was probably a good few months into my trading before I experienced any kind of negative thinking along these lines.

I really did enjoy a beginner's 'golden' phase. It's where you don't really know enough yet to have any expectations or feel any kind of frustration. It's a strange kind of pure state where you totally focus on the mechanics of placing the trades, and not be too worried about the outcome.

And typically, this is when you tend to get some good early trading results. You know, by just pulling the handle on the trades and seeing what comes out the other end, like we all should be doing! (If only you could bottle this carefree frame of mind and resell it back to traders a few months further down the line – you would be a millionaire in short order!)

The root of the problem

I think you subconsciously accept that you're just learning the ropes at the beginner's stage. There's no pressure from your ego lurking in the background, nagging away, telling you that you should be doing better, that you should be getting your trades 'right' by now, damn it! It only seems to be when you get a bit of experience under your belt that you start to form preconceived expectations from your trades. And that's when the problems start.

So what's really at the root of the issue here?

A lot of it just comes down to the way our brains are wired. We naturally look for patterns and connections between events. This is the kind of stuff your in-built survival mechanism does for you.

Toddlers soon learn, for example, the result of touching a hot radiator. The brain connects the action of touching the object with the painful sensation it receives as feedback from the nerves in the fingers. A connection is made and a preconceived result is attached to that pattern of events.

So imagine being a trader... having seen a pattern of events create a particular result on a previous occasion - a crossover of moving averages was seen before a big surge in price for example - it's natural for the pattern recognition software in a trader’s brain to expect the same result again. And it's understandably infuriating (and a blow to preconceptions) when it doesn't happen.

Probability vs Guarantee

The moving average pattern can certainly be seen as an 'indicator' of future events. It can suggest conditions that tend to precede an upward movement in price are in place. But it's no guarantee.

Many other factors can come into play that simply did not occur on that first occasion. The moving average pattern can be used, but only as a sign that the PROBABILITY of a move to the upside may now be greater than a random 50:50 split.

Going back to what the trader wrote in his email, he said he can “*see several promising trades, but take only the two that stop me out, while the others usually go on to win.*”

So let's put this into a slightly different light. Say the pre-trade analysis has been done and five potential opportunities are on the table. Patterns have been recognised that suggest a better than random chance of price movement in the trader's favour. The trader

has his working materials. It's now time to put them in play.

Now it sounds to me like this trader is cherry picking only certain trades at this point. And that's perfectly fine. There may be reasons for doing this. But by doing so it's throttling the results he'd expect to see from a larger sample size.

But what if he simply took ALL the trades that fulfilled his criteria?

We need to switch mindset here. We need to move from one that seeks accuracy - predicting which trades are going to 'win', thereby proving our pattern recognition right - to an outlook that plays the probabilities.

And when you play the probabilities, you're going to see the expected edge of your campaign materialise much clearer once you have MORE trades under your belt, not less.

The effect of more not less

Take two, three, five trades and you can still lose on them all. In probability the edge was still there so they were good and valid opportunities - it's just these particular trades were some of the ones that didn't work out in your favour. Take fifty, a hundred, two hundred trades that all had a probable edge and you're going to see the overall per trade result you might have expected.

But the result can only shine through once you take it as an AVERAGE on the greater number of trades. That's after all the winning trades and all the losing trades have each been tallied and taken into account.

Just to be clear... you can still approach your campaign in piecemeal fashion, taking one or two trades per day. That's perfectly fine. All it means is an acceptable sample size of trades will be

stretched out over a longer period of time.

But all things being equal, and if you want faster results, when five trades fit the bill why not take them all? It'll get you that workable sample size quicker, and that means you'll see the expected results quicker too.

Powerful traits of master traders

Two groups file into a room… Eyeing each other, they settle into private booths. They're about to do battle.

To the left we have the psychopaths: the hooligans, the violent serial offenders, and worse. And to the right we have the financial traders.

To win this game of strategy they'll make calculated decisions under extreme stress. They'll assess probabilities on the fly and take immediate action based on their findings. It's all about good strategy.

So who's your money on to win - the psychopaths or the traders?

Believe it or not, this experiment happened for real at a Swiss University. The two teams played a game of 'prisoner's dilemma'. It's a game where the participants can choose to betray each other or co-operate in an attempt to come out in top. The surprising result showed the traders coming off second best. Their competitive attitude was their undoing. Instead of just aiming for the most points they couldn't help but make it personal...

"It was more important to the traders to get more than their opponents. They spent a lot of energy trying to damage the opposition".

It sounds like a classic case of ego getting in the way of performance, doesn't it? Good strategy going out of the window as pride takes over.

Anyway, back in the test the psychopaths were all business. By definition they lack empathy. It means they don't care about other people's feelings, but *equally*, they don't care how other people

view them either. So the psychopaths had no problem trampling over the others. They clawed their way to the top and didn't care what the others were doing until the final reckoning.

So does this mean psychopaths would make good traders?

It's a fascinating idea. Scratch away at the surface and you might find psychopathic tendencies in the top performers. Especially when you dig a bit deeper…

Researchers at Glasgow University found psychopaths are easily bored but thrive in jobs where there's lots of action. They're cold, callous, and prepared to take risks. Plus, they're happy in situations where things are always changing and they can react fast.

Hmm... the financial markets are sounding more and more like a perfect fit!

The research concluded that psychopaths are not born, but made. Peer pressure and environment can encourage psychopathic behaviour in the best of us.

So here's the killer question…

Are potential (and actual) psychopaths attracted to the markets? Or is it the other way around - does successful trading encourage psychopathic behaviour?

I think there's probably an element of both.

Antisocial behaviour is almost encouraged at the institutions. And traders who lose all sense of proportion are often the ones earning the most money.

Jerome Kerviel ended up losing his employer 4.9 billion Euros on bad futures trades. I mean, what why was trading of that kind of size going on in the first place? There's no way the bank's

compliance department would not step in to reduce the exposure.

And the scary thing is you only get to hear about the big trades like this that go wrong. Think how many huge positions have ended up *making* money for the banks instead.

It seems in certain cases that if the money flows **into** the bank's pot all is deemed well. Regulatory infringements tend to be ignored and swept under the carpet (well, unless someone brave blows the whistle).

But when you consider trading *creating* psychopathic tendencies I think we have lots to use to our advantage…

First, let's turn the equation around and look at it like this:

The RIGHT psychopathic tendencies = successful trading.

All you'd need to do is embrace the part of a psychopath's personality that'll serve you well as a trader. And just leave the bad bits out!

So here's how to apply the psychopath's traits for a boost to your trading success…

Ruthlessness: It's not difficult to be ruthless when you're trading from the screen. There's no face-to-face interaction with people so just keep it all about making money. Avoid getting into any ego driven competition with other people. Your performance will almost certainly suffer in any attempt to 'look good'.

Fearlessness: This is the first side of the self-discipline coin. Make sure you're trading at a level of risk you're comfortable with. The thought of risking money mustn't hamper your ability to place good trades. You need to overcome fear to get a long-term profitable edge working away for you.

Impulsiveness: This is the other side of the self-discipline coin.

And it's one trait you need to dial right down. Overcome any urge to place ad-hoc trades just because the market ‘looks like’ it might go up. And don’t go looking to take revenge on the market for any losing trades!

Self-confidence: You need confidence in your trading strategy before you can make money on a consistent basis. Make sure you have a reliable and tested system of identifying and placing high-probability trades. Confidence in your own abilities can only follow.

Focus: If you’re a day trader this might mean shutting down your email software, signing out of Facebook, and hiding your phone in a drawer for a couple of hours. Sod’s law says the perfect trade will come along exactly as you’re distracted by an amusing text message from one of your pals.

If you’re an end-of-day trader, make a daily ritual of checking your charts at a certain time. Don’t go at it willy-nilly, missing some days because you were in the pub. Make sure you design a routine that fits your lifestyle – one you know you can stick to.

Cool under pressure: If you’re trading a system exactly as designed this is something you never need worry about. Just do what your system says and then sit on your hands. Other traders might compliment you on your ability to keep cool as the money rolls in, but only you will know how you designed things to be this way in the first place.

Mentally tough: This comes with experience. One of the best things I learnt as a fledgling trader was an early lesson in getting over taking losses. I took a string of deliberate losses just to get those emotions out my system as soon as possible. If you make it so you don’t care about the losing trades what's left to worry about?

Empathy: Have no concerns about other trader’s feelings. We’re all here in the markets for the same reason. And other traders will be

eager to relieve you of *your* hard-earned money given half a chance!

But do give some thought to how your trading approach might affect those near and dear to you. Are you short tempered with your family after a bad day in the markets? Are you lost in thought of new trading system ideas when you should be enjoying a meal with your wife?

Big tip: Make sure you know when to switch off. Take regular time away from all thoughts of trading. You’ll come back refreshed, balanced, and ready to do battle. Plus, you're more likely to keep the full support of your family!

Conscience: A healthy conscience – the sense of doing right and wrong - is essential. It can mean the difference between using all these other traits as a fast track to success, or misusing them and ending up in prison! So if one day you happen to find yourself trading currencies for a large European bank, don’t forget to check yourself (and your trading limits) before dropping any earth shattering orders on the market!

Cow Jumping, Land Diving and Worshipping the Duke of Edinburgh

What can we learn from tribal culture?

They were doing an end-of-term performance down at the primary school one Friday and Luke - my eldest – was to be a tribal dancer. So at the weekend we were on the search for tips to help him make it look realistic.

He'd already raided his mum's wardrobe for a suitably 'tribal'-looking scarf (we kept that one quiet!) and then we found some old reruns of Bruce Parry's documentaries about tribal groups on YouTube.

And, well, that was the rest of Sunday morning gone because this stuff is simply fascinating!

At one point, Bruce spent a couple of weeks with a tribe in Ethiopia. We saw a boy coming of age set to go through an initiation ceremony to make him a man. So of course, before the dancing and celebrations could begin, he had a challenging task to complete...

The rest of the tribe gathered up all their cattle and had them up side by side in a big long line - one person held each tail, and another held onto each giant set of horns. The boy then took a run up, jumped onto the back of the first cow (landing on his feet) and ran across the backs of all the other animals down to the end of the line.

He is required to do this four times, twice in each direction, and if

successful – determined by not falling off and getting trampled to death or gored by horns - he then gets to join the men's hunting party and can marry one of the tribeswomen.

And, respect to Bruce Parry: he'd been fully integrated into the family by this point, they daubed him with tribal markings and he actually did the cow jumping too. Rather him than me!

And then have you ever seen something called 'land diving'?

I've seen this one done before. It is practised on a small island called Vanuatu out in the South Pacific.

The tribesmen build a huge rickety scaffold tower out of sticks, about 100 feet tall. They then tie two tree vines around their ankles (without measuring first - they have to guess how long to cut them) and then jump off the top of the tower, head first!

It is considered a rite of passage for the young males and a show of warrior-strength for the older ones. If they judge the jump right all is well and they receive a hero's reception. Get it wrong though and it can be a disaster: concussion, broken neck... or worse.

The men settle any arguments or business disputes before they jump. It prevents any ongoing family feuds in case they don't come out the other side in one piece.

And the really interesting thing is the people of Vanuatu, as a population, are reportedly the happiest on the planet. And that's despite living in relative poverty. Of course, that spectacular tropical climate will always help take the edge off a bad mood.

Their religious beliefs may help them on that score too...

They worship The Duke of Edinburgh as a living god (I swear this is true, look it up if you don't believe me).

Now that may seem a bit strange to us outsiders, but even so, they're definitely getting something right.

Personally, I think it's down to the simple and clear rules they all live by as a tribal community. Their society may not be 'advanced' according to Westerners but each member knows exactly what he or she must do to extract the result they want: acceptance into the tribe, their basic needs met, and a life filled with simplicity and joy.

So let's try and bring some of their wisdom into the trading domain...

First of all ask yourself a few simple questions that should help get some perspective and clarity on what you want (it's easy to get lost in the detail of strategies and systems sometimes, and forget the reason you're doing it all in the first place!).

So...

1. Do you know exactly what you need to be doing as a trader to extract the results you want? Not the results other traders in forums say they are achieving, the results that are right for YOU.

2. And are there a set of simple rules you can follow to give you the best chance of achieving them?

3. If you wanted to be welcomed into a 'tribe' of profitable traders, what would you need to do exactly?

4. If you were part of a tribal community that solely relied on trading for their existence, what form might the initiation ceremony take, before you could gain fully fledged, widely respected hunter-gatherer status? What challenging task might be set in order to prove that you deserved your status as someone that could be relied on to support and provide for the rest of the tribe?

Now this all might sound a bit weird but I've been thinking about it quite a lot.

These remote tribes are (or were at one time) totally self-sustaining. If certain members couldn't be trusted to get up in the

morning and do whatever was needed to fill the cooking pots with food for the women, children, and tribal elders, they would become social outcasts.

If they couldn't bring themselves to do the necessary - to do the things the rest of the tribe expected of them - they'd be shunned and kicked out of the village completely.

When it's a matter of survival like this - of life or death - it gives everything clarity. There's an inbuilt level of accountability that's totally unavoidable. You do what is needed or you don't last long. It's that simple.

But for home traders it can be a bit different. Many have income from elsewhere and their trading campaigns are a secondary source of income.

This does provide an invaluable safety net - it means their families can still eat and the bills still get paid if they have a bad month of trades! - but it also takes away that immediate accountability.

It can be easy for sloppy self discipline to creep in. For excuses to be made for trades missed or panicky decisions made in the heat of the moment. And worst of all, for the merry-go-round of jumping between different strategies and systems looking for the perfect one, instead of settling on something robust and reliable that'll get results.

So if you ever find yourself in a situation where it feels like you're treading water and not really making the progress you'd like, do a bit of role playing: think what your tribe would need you to do if their survival depended on your trades.

I've even got that outfit you can borrow (size: small) and some nifty Masai warrior dance moves to share if you want to go in for the whole method acting thing!

Slow your heartbeat at will...

Survive sub-zero temperatures while naked....

Remove doubt and stress from trading...

...using these ancient powers from India

Three evenings a week – Monday, Wednesday and Thursday – I pull on my lycra pants (don't worry, nothing too tight) and head down to the village hall to do a yoga class.

I've been doing it for years. It changed my life and I simply couldn't do without yoga. I practice at home too and if a day goes by without me pulling a few stretchy shapes I start to feel like something's missing.

But did you know the physical side of yoga is only one part of the overall package? Do the fancy twists and bends and sure, you'll end up flexible and toned, but that's just a nice side effect. The real magic happens on and in your mind.

The asana (that's what the stretches, poses and postures are called) train your mind to focus on a single point. While you teeter around on one foot and bend your body into unnatural shapes while sweat drips off your nose, it's pretty hard to think about anything but the job at hand, trust me!

Combine that with pranayama (that's what the special yoga

breathing techniques are called) and your everyday worries soon dissolve into the ether. Concerns over whether you forgot to feed the cat this morning become a dim and distant memory. And replaying those pesky losing trades over and over in your mind becomes impossible. It's like taking a mini mental holiday for an hour every time you roll out your yoga mat.

The story is that the physical side of yoga developed eons ago as a way to keep randy teenage boy's minds away from 'improper' thoughts. And the more you practice, the more the positive effects start to spill over into everyday life.

So if they have the power to curb certain adolescent enthusiasms, imagine what such techniques can do for your mental discipline when it comes to trading!

I really do think traders have a massive amount to gain from yogic techniques.

You don't have to do anything physical if you don't want to. Some of the simple breathing drills alone can help lower stress levels in an instant. And they can certainly help keep you cool, calm and collected in the heat of a hectic trading session. I'll give you an exercise to try.

If you ever feel yourself flapping because you can’t bring yourself to pull the trigger on a trade, or because a trade is going against you, this is what you should do immediately. It’s called Alternate Nostril Breathing.

This is real ‘mind-over-matter’ stuff. I don’t think you need to worry about levitating out of your chair or anything, but there have been scientific experiments where monks consciously slowed their heart rate down to almost nothing using methods like this. They even

controlled their body temperature to survive subzero temperatures – while sitting naked – for hours at a time.

If they can use breathing techniques to command their mental processes and metabolism to that extent, getting you and me back in the right frame of mind for trading should be a walk in the park!

Alternate Nostril Breathing – here's how to do it:

1. As soon as you start to feel a loss of discipline approaching turn your chair around to face away from the screen or get up and walk outside.
2. Close your eyes and tilt your head down a bit so you lengthen your neck at the back and rest your thumb and forefinger either side of your nose.
3. Gently press your left nostril closed with your finger, focus your mind on counting as you breathe out through your right nostril to a count of four.
4. Deep inhale through the right nostril to a count of four.
5. Close the right nostril and deep exhale through the left to a count of four.
6. Deep inhale through the left to a count of four.
7. Close the left nostril and deep exhale through the right to a count of four. This completes one full cycle.
8. Continue for ten cycles or more as you get comfortable with it. You can also try and extend your exhale to be longer than your inhale for an increased effect.

The theory is, by doing this you're balancing out the right and left sides of your brain and tuning into a special frequency of relaxed brainwave activity. You might be a little bit spaced-out

when you first open your eyes but it feels good!

And trading aside, you can also use this to de-frazzle yourself in any situation. It'll leave you in a mentally alert but chilled-out state. Give it a try now and get familiar with the process. Don't wait until the day you actually need it!

Batching Trade Results

I now want to introduce a cunning mind-trick that can help take the sting out of individual losing trades.

I've got two particular coaching clients who are making great progress with the technical ins and outs of market analysis and finding trades, but they've each hit a temporary comfort-zone ceiling when it comes to embracing risk...

One is currently making the transition from paper trading to real-money trading. The other is working on cranking up his average position size quite substantially.

And I think they've both been a bit surprised at how the change in circumstances has affected their ability to pull the trigger and leave the trades to do their thing. A bit of mental resistance to taking losses has crept in - never an issue at smaller levels of risk.

It's nothing to worry about: just a hard-wired survival instinct that needs skirting around. But it is annoying when things like this slow down your progress.

Ultimately, it's just a case of desensitising yourself to greater levels of risk by repeatedly 'putting your head on the block'. There's no way to build up a resistance to the emotions that creep in unless you actually perform the actions that cause the negative response.

Well, there is one other thing you can do...

I suppose it's a bit of self-kiddology. But hey, it works! And all's fair in love, war... and trading!

A quick trick that'll take the sting out of losing trades and keep your mind on long-term success

This is a special way of arranging your results so you don't get sidetracked by the 'noise' of individual trade outcomes. And it doesn't matter what system or strategy you're trading. You can apply this to anything. You see, it's just a subtle shift in perspective really… a little bit of psychology in action. But take on board what I'll show you, and here are three solid benefits you can take away with you right away:

1. You can stop yourself ducking out of taking good trades.
2. It can help stop you tinkering around with your system, trying to make it 'perfect'.
3. You can force yourself to focus on long-term profitability (where the big money lies), instead of agonizing over the daily ups-and-downs in your trading account.

Now, from personal experience, I've found the best way to avoid getting bogged-down and demoralised by inevitable losing trades is to do everything within your power to remove their hold over you. …even if it means a little bit of self-trickery!

I've seen just how many other Forex traders live trade-to-trade, their confidence levels lurching up and down. It's no way to find trading consistency. So the tactic I've got here for you clusters your trade results together in little batches. Each individual win or loss now becomes a cog in the machine of a broader trading campaign. It can take the sting right out of a losing trade, because you'll already be looking directly ahead to the next trade in the batch.

And it's really simple to set-up too…

It’s going to take you about ten minutes to work out the best batch-size for you to use from examining the recent results your system generated. And it’ll take about another five minutes to set the spreadsheet up…

But once you’ve done it, you’ll have given yourself an instant psychological edge over the way your results affected you previously.

So here’s the step-by-step guide to reframing your trading results in a powerful, confidence-boosting format. It’ll help you avoid uncertainty, control negative emotions and keep you focused on long-term success:

1. Get your recent trade results in front of you either on paper or on your computer screen (if you’re using a rule-based system, make sure you refer to the complete trail of system results rather than just the trades you chose to participate in).

2. Have a quick tot-up to see which batch-quantity size of trade results usually gives you a positive sum. If you add together strings of 10 consecutive trade results do you usually get a positive overall total? How about 8 consecutive trades, or 7?

3. Settle on the smallest batch quantity that gives you consistent positive results (ideally around 80% positive). Remember, this isn’t a precise science.

4. Start tracking your results in a campaign-format like example B in the screenshot below – it's a simple shift in perspective but incredibly powerful. You can also change the font colour of the individual results to light grey to take the emphasis right off their

relevance. You could even keep those columns hidden in your spreadsheet until you need to type in a new result.

Here's the same set of results shown in traditional list format (a) versus "campaign" format (b)

(a)

1	50
2	-20
3	-5
4	-5
5	-5
6	-15
7	10
8	-5
9	-5
10	20
11	-10
12	-10
13	30
14	-3
15	15

(b)

Campaign #	Trade#1	Trade#2	Trade#3	Trade#4	Trade#5	TOTAL
1	50	-20	-5	-5	-5	15
2	-15	10	-5	-5	20	5
3	-10	-10	30	-3	15	22

See how much more of a psychological edge you could give yourself simply by refocussing your attention slightly

This is an easy way to notch your mental-game up to the next level. But if you already have total control over your trading emotions... if you never second-guess the signals your trading system gives you and if you never take trades outside your system's rules, then don't worry, you probably don't need to do this.

Don't risk upsetting a routine that's already working well for you. Otherwise, just look over your recent trades, quickly work out the best batch size for you and start recording your results in that 'campaign' format.

It can be a massive psychological boost to see that wall of positive green numbers on your screen. But please remember this method can only *optimise* the feedback of results for a trading system with an existing positive edge.

Technical Aspects

Beware of Slippage

What to do with your trades when chaos reigns

A lot of people were burned badly during 2016, when this book was compiled. During the year we had the China slowdown scare, Switzerland decoupling the Franc from the Euro, the Brexit vote, the American election. The markets raged up and down uncontrollably and many financial houses were consumed in the pyre. European share indices plummeted and US equities plunged.

I guess we'll never know for sure what went on behind the scenes, but I'll tell you what, it certainly makes for interesting conditions!

Now when we look at events like this I'm going to ask you to think about the markets from two perspectives: the investor and the trader.
The investor will be looking to park his money up long term, buy into some shares or something and let nature take its course. Hopefully his/her wealth will grow on autopilot as time goes by.

If you're an investor caught up in whipsaw moves like Monday's, then yes, you will have important things to think about.
And it's the investor that the media will be targeting with their hype. You might have seen stories on the news and in the morning papers: fear sells after all. And what great stories to do the selling for them: *Bloodbath in the Markets* and all.

I do have sympathy for investors though. It is always going to be pretty scary watching the value of your life savings leap up and

down minute by minute. But we're not really looking at the markets from the perspective of the investor. The 'blood in the streets' scare stories don't really apply to us traders. Here's why...

Trader Vs Investor

The trader is lighter on his feet and more opportunistic than the investor. He doesn't care whether the markets go up or down because he can make money either way. He can buy low and sell high to make his money. Or he can sell high and buy back lower to make money. He's only interested in whether the markets move. *Movement puts bread on his table. But it's got to be movement within reason.*

Let me explain...

When the markets cease to function within the thresholds of normal activity, like they did on Black Monday, most players make a run for the exits. They get the hell out and watch from the sidelines until the dust settles.

This has a big effect on the market. The buying and selling pressures that normally push and pull against each other – keeping the market vaguely in check – disappear.

It means markets that normally bob up and down at a relatively sedate pace turn into raging monsters. This is because there is no buying or selling interest in the market to complete both sides of a transaction at a tightly matched price.

A seller might want to shift his inventory instantly, at the most recent price, but in fast-moving markets the nearest buyer might only be willing to step in several points lower. The buyer might not see any value in buying until the market drops down to his price, so

that's where the transaction takes place – at the nearest buyers bid price.
It's something that can easily frustrate traders: *I hit sell when the market was at 80 so why did I get this lousy fill 7 points lower at 73*

But even spread bet firms are affected by the withdrawal of liquidity (that's what it's called when market players bold for the door).
They can only offer prices and conditions which reflect the underlying market.

When slippage becomes your sworn enemy

So when you get 'slippage' of, say, 7 points on your fill price (slippage is the difference between the price you were expecting and the fill price you received), it's only a reflection of real-world conditions. It shouldn't come as too much of a surprise, especially when you're already watching the market leap around like a wild thing.
But to see what's really going on, let's look at this through the lens of an example trade... Let's say a trader was active in USDJPY on Monday. He had a short-term bullish outlook so he was long the market. He was looking to make money from an up-move.
Now when the markets started to tank he might have wanted to get rid of that position as soon as possible. That sounds pretty reasonable doesn't it?But I'm going to show you how massive slippage can occur in conditions like this, and how that can have a devastating effect on his trading account.

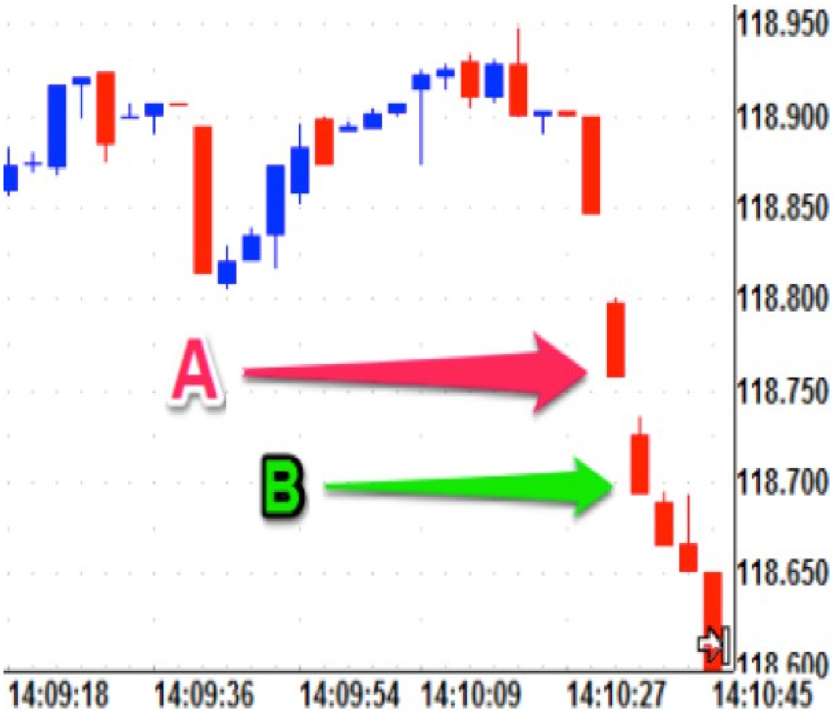
We'll make a start looking at a regular candlestick chart, but it's a very short-term one. Each of the candlesticks shows just three seconds of trading activity. Remember that, it's important!

Here we go...

So let's say that despite being aware of very thin (low liquidity) conditions, this trader insisted on continuing to trade. He finally pulled the plug on his long trade at point A. He'd had enough and wanted out. But by the time he'd pressed the button, and his order had been routed through to his broker, the market was already trading at point B – that's just 3 seconds later.

It's a difference of 5 pips. So it's not difficult to see how slippage can occur in low liquidity conditions.

Now 5 pips are bad enough, but take a look at what happens just minutes later...



The distance between point C and point D is 52 pips! And do you know how long it took the market to travel that far? Just 6 seconds. You can see the huge gaps between the candlesticks where no buying interest came in at all. The market was swamped with sell orders and the buyers were nowhere to be seen. That's what drove price down so aggressively.

Is it possible to still trade profitably in these markets?

Yes, it is still possible to make profitable short-term trades in volatile markets, but there is a caveat: **There are times – like on Monday – when you should simply sit on the sidelines until you see a level of normality return.**
Keep an eye on the way the last price changes as the trades go the risk.
There will always be other opportunities. I think it's better to watch low liquidity carnage play out without getting involved.
Jealously guard and protect your trading bank in times like this. You have the luxury of choosing when to do battle in the markets.

Just because the markets are open doesn't mean you always have to trade!

Jesse Livermore #1

The 'Boy Plunger' spills the beans... how to make a fortune from trading

There's a big cherry blossom tree in the middle of my lawn. I'm looking at it now, through my office window. When I first got interested in trading we were having some glorious sunny weather. And I dragged the wooden picnic table under the branches of that tree for shade. It's where I did my early studying.

I remember the pink blossom floating down into my untouched cup of tea as I sat transfixed by Reminiscences of a Stock Operator. I just couldn't tear myself away. It's still my absolute favourite trading book today. I'd heard how some of the big hedge fund guys would re-read Reminiscences every year and I vowed to do the same. So as soon as we get a bit of spring-like weather and the tree starts to blossom that's my cue.

Now you probably own a copy of Reminiscences. But have you read it? I mean really read it, absorbing all the lessons right there at your fingertips? If not, I insist you go and do so immediately! It's the biggest single biggest trading education leap you can take.

If you don't own a copy yet, go and get one. Personally, I'd order the proper book so you can underline passages and make notes in the margins. But if e-readers are your thing, the Kindle edition only costs 99p.

And if you want a short-cut to the best bits, just so you know where to pay closest attention, here are my top 5 lessons from the

book… They all come to us via the main character Larry Livingston, everyone's favourite 'Boy Plunger' and thinly disguised caricature of master trader Jesse Livermore (the real focus of the true story).

Livermore Lesson 1: Learn to take small losses

Livermore went through periods of boom and bust during his trading career. He could certainly make money, no doubt about that. His weakness seemed to be hanging on to it.

Later in life he looks back through the lens of experience. He says he learnt little from the winning trades, “they looked after themselves”. It was the losing trades that will teach you the lessons of a lifetime. As long as you don’t make the same mistake twice you can always trade another day.

And a big part of his refined strategy was the willingness to take small losses as he tried to establish his longer-term positions.

So he would send out little ‘probes’ into the market. Small-sized trades that would let him get an insider’s feel for current conditions. He was happy to cut losses quickly if the market didn’t behave how he anticipated on these tiny trades. In fact, he’d be willing to take numerous losing trades on his ‘probes’ until the market told him the time was right. He’d then build up his big position as the market moved in his favour.

Is that something you could copy on your position trades? Could you go in initially with a fraction of your intended position? It’ll let you minimise risk and then let you fill your boots once the market shows you your analysis is good.

Livermore Lesson 2: Ignore tips

He would go to great lengths to prevent his mind becoming contaminated by popular opinion and market gossip. He'd ride a chauffeured Rolls Royce into his Manhattan offices but with curtains drawn across the windows. He didn't want to take the risk of being influenced by anything he saw or heard on the sidewalks.

He was especially resentful of well meaning friends who gave him stock tips: "Tips! How people want tips! They crave not only to get them but to give them."

He believed everything he needed to know could be found by observing the way the markets behaved… especially by the price patterns they formed. So being a student of market price action is the lesson here.

You can listen to the financial press, you can subscribe to trading tip services, and you can follow the latest trading guru – you may even enjoy successful periods by doing so…

But unless you're being taught the reasoning behind the trades – and ultimately understanding why you should take those trades in the first place – you can never have full control over your own activities.

It can take a bit of time and a bit of education, but make sure you're always working towards being able to stand on your own two feet as a trader. Thriving off your own knowledge is the ultimate freedom.

Livermore Lesson 3: Being flat is a position in its own right

Livermore tells us: "After spending many years in Wall Street and making and losing millions of dollars, I want to tell you this: it was

never my thinking that made the big money for me. It was always my sitting. Got that? My sitting tight!”

So never feel like you have to trade.

The temptation – especially if you spend time watching the market in real time – is to take trades to justify your status as ‘trader’. And we’ve almost become conditioned by rules of the 'normal' workplace… Busy, busy, busy. Be proactive: get stuff done.

It just doesn’t work like that in the markets. There are no hourly rates of pay. You eat what you kill.

You need to sit on your hands until the high probability situations your system identifies come trotting by – even if that means waiting for a couple of days before getting your order filled.

Remember, it’s the profit you’re here for. Not activity for activity’s sake.

Livermore Lesson 4: Follow the path of least resistance

“When the price line of least resistance is established I follow it, not because I am manipulating that particular stock at that particular moment but because I am a stock operator at all times”. Here he’s basically talking about following the trend. Why swim against the tide when you can swim with it?

It can be very tempting to try and catch trend reversal points but a rising market can always go higher, and a falling market can always drop further. (Unless it has just hit zero!)

Using your powers of price action analysis (see lesson 2) you need to make yourself aware of the underlying current in the market and try and flow with it. That’s where the higher probability opportunities lie.

Livermore Lesson 5: Scared money never wins

"As I studied the problem I saw that it wasn't a case that called for reading the tape but for reading my own self. I quite cold-bloodedly reached the conclusion that I would never be able to accomplish anything useful so long as I was worried, and it was equally plain that I should be worried so long as I owed money." Here, Livermore's mental clarity is clouded by the debts he was trying to clear. He was having trouble employing his usual methods because he was under such pressure to make money in order to pay back his creditors.

It's one of those fascinating paradoxes (and the markets are full of them): the more pressure you're under to make money, the less likely you are to make it.

The mental dialogue running through your head – reminding you that you MUST make money – can sabotage even your best efforts. It's why you should only ever trade with money you can afford to lose. Don't go staking your mortgage payment on a Forex trade!

Keep a clear mind. In order to make objective and well-balanced trading decisions, you need to be operating from a low-pressure (ideally a no-pressure) position.

I hope you found something useful yourself from those five lessons and there really are loads more in the book. I would urge you to have a read and uncover some for yourself. You'll find the lessons that are most relevant to you jump right off the page.

And I guarantee you'll learn a whole new set of lessons on each re-read too!

Jessie Livermore #2

"If you want to make money from trading forget about making money!"

Two tricks that'll help you to bigger profits

We spend a lot of time as traders focusing on trade entries. I suppose there is some logic to it. After all, until you get into a trade you can't record a result.

But you'll probably notice another part of the process demands just as much attention, probably even more! That's when it comes to exiting your trades.

Our two greatest adversaries - fear and greed - can run you ragged here if you're not careful. Fear can have you on pins. As soon as your trade shows a small profit the urge to cash-in your chips can become almost unbearable. And cutting profits short on a regular basis can be fatal to your campaigns.

Greed on the other hand can have you overstaying your welcome. This feeling tends to grab me when a trade starts out particularly smoothly - when it runs in an 'almost too good to be true' fashion. The market might have moved strongly in my favour from the off, the profit target looms just a few pips away, and suddenly I'm torn.

Why take profits here? That all happened so quickly there's bound to be more movement still to come!

And it can be a particularly bitter pill to swallow when you

cancel your profit target, hoping for more, yet watch all those 'easy' profits turn into a loss instead.

Thankfully there are simple and easy ways to feed the greed. You can close 50% or 75% of the trade at the intended target and leave the rest working. This way you've managed your exposure on the trade and you still get to play a part in any bigger momentum move.

It's that nasty business of cutting profits short that needs our most urgent attention! So I’m going to show you two little tricks that helped me overcome this exact problem. They’ll be useful to you because cutting profits short is one of those paradoxes we must overcome as traders.

What would otherwise be classed as an act of self-preservation in the ‘outside world’ can have the exact opposite effect in the markets. After all, I’ve very often heard traders say things like “you can’t go broke by taking a profit”. But I disagree… I think the key factor is how much money you might be leaving on the table by bailing out too early. Leave too much behind on a regular basis and it can seriously impact your potential results!

The only way to overcome ‘the urge’ is by overriding the natural emotions you go through when your trade first shows good profits.

But do remember, it’s just your ape-brain trying to take control. It does have your best interests in mind, even if it’s a little misguided. It’s sending you an urgent message:

You’ve found something good, take it. Take it now, before you lose it!

Now those instincts served your caveman ancestors very well. Every bit of food they had the good fortune to stumble across and stash away could be the difference between life and death. Problem is, evolution has been slow to change the way our brains are wired.

And to really maximise success in the markets we need to adopt a more controlled exposure to risk. I must give fair warning though – these two methods are not for the faint of heart. They'll both stretch a trader's comfort zone as the trades are allowed to develop fully.

So if you do try them out, please make sure you don't go risking anything over and above your own personal trading limits.

Method 1: Always have a position in the market

So the first thing my mentor had me do when we were working on this aspect of my trading was to take a one-contract position in the market and never be flat. I could change direction as I saw fit. For example, I could be long all morning and then flip to a short position if I thought I detected a change in trend. But I could never be completely out of the position.

The exercise lasted for two weeks. I was learning to trade T-Bond futures which moved at $32.50 per tick but for this exercise he had me take a position in the Mini Dow futures which ticked at $5.00 (less risk but still with real money on the line).

And this was all about getting over the tendency to focus on trading for profit. Sounds a bit backwards doesn't it? But, if you focus on getting yourself in tune with the ups and downs of price, the profit will inevitably follow. Again, it's one of those odd trading paradoxes: if you want to make money from trading, forget about making money!

Get yourself to do the right thing at the right time and the money will look after itself. And I'll tell you what, watching the price action develop when every little flicker on the screen makes or loses you $5.00 – especially when you know you can't avoid it - has a way of gripping your attention like nothing else! You start to notice

little quirks and characteristics of the market because you are financially committed and fully involved. These are things you probably wouldn’t pick up on if you were casually observing your charts with no stake invested.

(NOTE: If you did want to conduct a similar exercise yourself, the micro lot Forex contracts can let you have a go for pennies per pip.)

So once I’d been through the mill with the first exercise I was relieved of the requirement to be permanently in the market. I could then actually choose when to enter and exit my positions! It was then time to look at method 2...

Method 2: 'Pyramid' your way into the trade

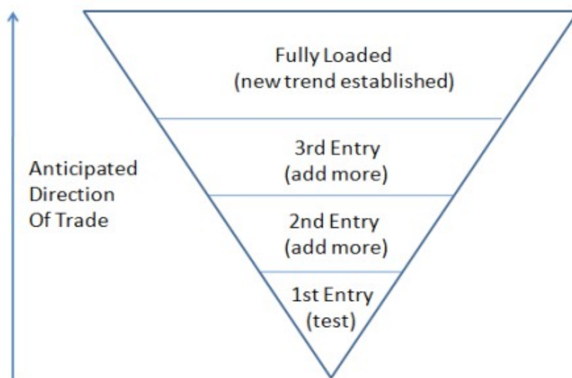
This time, you could choose when to get into a trade, but when you felt a premature urge to exit the trade, you had to double up instead. You bought a second contract, adding to your position. And you know what? Very often the trade rolled on into super-size profits.

Put yourself through that initial pain-barrier of going against your instincts and you’d often see four or five times the return you’d have gotten if you took the first ‘scared-money’ exit. Now this technique of adding to a winning position can be developed into an essential part of your trading toolkit. It was Jesse Livermore’s secret weapon.

He was the incredible trader characterised in *Reminiscences of a Stock Operator*. Also known as 'The Boy Plunger' for the huge positions he ran from a young age (he started trading aged 14).

Livermore called his scaling-in technique ‘pyramiding’…

Now imagine an upside-down pyramid. In fact, here's a diagram:



What Livermore did was to identify a potential turning point in the market and make his first entry (a small test trade) when the market explored that price area. Next, if the market showed the intention to carry on moving as anticipated, he might double-up his position.

In the pyramid diagram above, the market moved upwards proving the analysis to be correct so more contracts are added at the second entry. The market carries on upwards, more contracts added at the third entry… Until eventually the new direction of trend cannot be disputed and the full position is loaded-up.

You might even be able to get a stop loss order working at break-even level for the whole position at this point. The beauty of this technique is that you are almost never heavily positioned when a

loss is incurred. You can happily let the market prove you wrong at the first entry stage multiple times because you know it's only a matter of time before you are rewarded with a trade that snowballs into massive profit.

I don’t know about you, but it makes so much sense to me to scale into a position like this. You can take things cautiously, letting the market prove your judgement correct with hard cash. The profits you start racking-up can then fund the purchase of your later additions to the trade.

Jesse Livermore certainly found it to be effective... his only problem was actually keeping his hands on the vast sums of money he made! So would you agree that’s a smart way to manage your big-money trades? Give it a try!

Strike Rate v Probability

(And how you can prove which one of them REALLY matters!)

I've been working with 'S' for a couple of months now: he's one of my 1-2-1 coaching clients and he's just reached the decisive point of becoming a consistently profitable trader...

Yes, he's actually proven to himself, with profitable results from live trading, that he really does have the ability to extract reliable income from the markets.

Just as we all do!

He's done the hard bit, he's achieved positive results from his first batch of trades, but it's what he does next with the knowledge and experience gained from running this winning campaign that'll decide his ultimate fate.

But let me quickly explain what we've been working on together...

S joined the Trader's Nest Breakthrough Academy at the tail end of 2015. He absorbed the training materials but wanted some personal attention in adopting the core techniques to suit his particular circumstances: he needed to be able to place and manage his trades at arm's-length while he went about his other day-to-day business.

And that was all perfectly fine. There's always room to build the perfect strategy for you, providing you're clear and honest about the

resources – including time availability – that you can dedicate to your trading.

So the first thing we did was chop some bits and pieces out of the 'standard' FXBA trading plan.

(There's a ready-to-roll trading 'recipe' right there in the academy, but there were parts of it that S wouldn't be best-placed to use. He couldn't really look for signals on the 15-minute or the 5-minute charts, for example, because he wouldn't always have continual access to his chart software during daytime hours.)

Next, we concentrated on ways to enter trades from the 4-hour chart. This would still give plenty of trading activity, but in a way that only needed a quick glance at the charts every now and then: perfect for when you have other things that demand your attention during the day!

We exchanged a few emails at this stage while we knocked this tailored trading plan into shape. We looked at ways to maintain a reward-to-risk ratio of 3:1 while keeping the number of opportunities high, for example.

And once we had the framework of trading plan version 1.0 in place, it was time to put it to the test!

Now, there's one particularly effective way of doing this. It makes you trade any plan with a proven positive edge, just as it stands. It prevents any tinkering, so no bending the rules trying to eliminate losing trades or extend gains!

It's Mark Douglas's infamous **'learning to trade an edge like a casino'** exercise.

The idea is that you execute a batch of trades EXACTLY as your trading plan says, and then you take the results of that live test campaign forward.

I really do believe there's no better way of testing the mettle of a strategy, and your own ability to trade it.

There's also a huge psychological reward too, but more about that in a minute. Let me tell you how to run the test first...

How to run Mark Douglas' **'Learning to trade an edge like a casino'** exercise

NOTE: Make sure you check out his book – *Trading in the Zone* – for full details of this exercise (see it all on page 189).

Ensure you have a fully conceived strategy. Make sure you know when to enter a trade, where the stop loss goes (and how you might adjust it later), how you'll take profits, and which markets and time frames you'll be trading.

IMPORTANT: You should only test a complete and probability-proven strategy. Be careful not to come at this with some vague 'I'll figure it out as I go' idea, or you'll gain nothing from your test.

1) Prepare to trade the next 20 events without hesitation. Prepare to pull the trigger on the next 20 trades your strategy brings to the table. No hesitating, second guessing, tweaking or rule-bending.

2) Remember you're testing a fully formed strategy. If you start changing things on the fly, the integrity of your test goes out the window and the results won't mean anything. Make notes of any ideas you have for improvement, but introduce them to a future independent test.

3) Accept the risk. Make sure know in advance what the monetary risk will be on your batch of 20 trades. Allocate a percentage of your testing account against each trade and be ready to put it on the line. Don't let the fear of losing hard cash suddenly get in the way of running your test trades.

4) Run the test. Take the 20 trades!

5) Analyse your results. The cold data your test gives you will be telling enough and you'll see exactly how the strategy performs for you under live conditions. You won't be able to kid yourself about decisions made with benefit of hindsight, like you can sometimes get with back-testing, and you'll have introduced the real-world pressure of having actual money on the line, instead of trying to simulate it with a test account, (Test accounts have their place but it's not the same as risking real money).

But it's the huge psychological advantage you can gain by proving to yourself that money can be made in spite of taking losing trades that is the real benefit here.

The test will show you how you don't need to know what's going to happen next in the markets to make money, that a mix of winning and losing trades can all be taken in your stride, and that it's the laws of probability that actually deliver profits over the long-term.

It'll stop you living or dying by the result of your very next trade, and that it's the bottom-line result after a larger sample size that matters. After all, you're a trader for the long-term, right? You're not planning on shutting down your trading operation after just one trade, so why not have a longer-term vision for profits from the outset?

Now, going back to my 1-2-1 client S and his own test results...

He's just completed his test batch of 20 trades, and get this... he had 13 losing trades but only 7 winners. A winning trade strike rate of 35%. It doesn't sound like anything to write home about at face value, does it?

But let's look a bit more closely...

Remember how I mentioned that the trading plan sought trades that win three times as much as they lose? Well let's say a fixed 2% of the starting bank was risked on each trade...

Seven winning trades at 2% = +42%

13 losing trades at 2% = -26%

42% - 26% = 16% net return on account.

That's a potential 16% return on account in just over a month. Or £1,600 profit on a trading fund of £10k, all while S goes about his other daily business.

It really does highlight just how misleading the winning 'strike rate' of a strategy can be. Yes, I know a high strike rate can give that warm fuzzy illusion of security, but nothing replaces actual realised profits.

You can't sit down at a fancy restaurant, have a slap-up meal, and then try to pay with your 'high strike rate' can you? You'd get some very bemused looks.

It's actual money that makes the world go round, and that's where your focus needs to be as a trader. It's not always easy to do, I realise that, but I think S has just made the breakthrough. He's seen how money doesn't necessarily come as a result of 'winning' lots of trades. And I'm going to be doing everything I can to get this discovery deep-seated in his psyche.

If you're still tangled-up focusing on strike rate instead of profit, why not join S and run your own test too? It can be a useful way to highlight where the money really comes from.

Three Chart Comparison

Try blending these three together for a complete picture of any market

We're going to review a bit of basic charting stuff this week. It follows a question from a new Trader's Nest reader:

Which kind of chart is best? I don't know why they include so many different types of charts in my [broker's] software when I only need to see if the price has gone up or down. I'm finding it all a bit confusing!

Great question!

And I think there is definitely a bit of an 'arms race' going on between the different brokers and software firms. Understandably they all want to lay claim to the 'ultimate solution' for analysing markets and finding trades. But the charts needn't be confusing if you keep things nice and simple.

Remember there are only really three core dimensions to trading data – there's price, time, and then there's volume traded. The different chart types just display this data in different ways. It means you get a selection of different 'lenses' through which you can spy on developments in the markets.

Each has its own particular strengths and weaknesses.

Now I guess good old candlesticks are the default choice for

many traders, and they do a good job of giving you the essential information in a visually pleasing way, but there are other charts you should probably look at from time to time too.

Imagine an artist scrutinising his almost-complete painting...

Holding hand to chin and with narrowed eyes the artist steps away from the easel and gives his canvas a good check over from a few paces back. He steps to the left and dips his head for an alternative view that catches the light In a certain way. Next, he turns his back and walks a slow semi-circle around the studio, before facing the painting again, this time from the right hand side.

Each viewpoint gives him a slightly different perspective. He might spot something that needs attention when he looks at his painting from the left that just wouldn't be seen in the same way when viewed from the right.

It's the same with your charts...

You might run candlesticks as your day-to-day default chart, but when you're doing your bigger-picture analysis you might flick through line charts and bar charts too. They can all help bring additional bits and pieces to your attention – patterns or price features you might not always spot so easily when running your regular candlesticks.

So let me suggest a small selection of chart types you might refer to regularly. They can help give you a balanced and complete overview of market action.

These three chart-types combine really well to give you a complete 'widescreen' overview of the market:

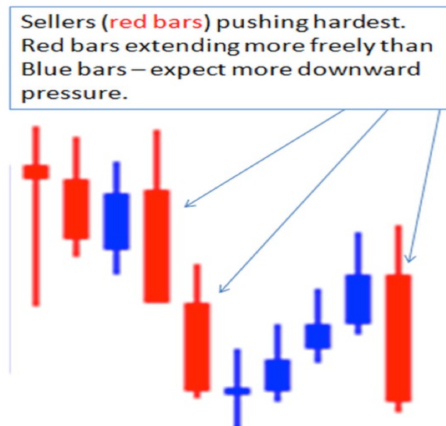
Candlestick Charts: Probably the default choice of most traders these days. If you've been trading for a while you've probably used

candlesticks yourself at some point. (If candlesticks are completely new to you, or if you'd like a quick refresher, you can read more on the Trader's Nest website).

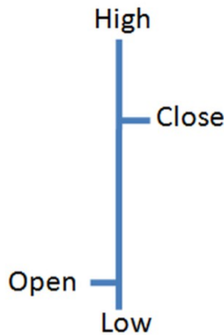
I tend to use candlesticks when I'm looking for potential turning points in the market. I'll be ready to use them on all time frames and I pay particular attention when the market is trading near an anticipated level of support and resistance – they help me see how things are playing out in those areas where a pause in momentum or a short-term reversal is most probable.

The good news is there are a hundred and one (at least!) predefined candlestick price patterns to look for. I like the way the strong visual impact of the candlestick gives a fast overview of the buying and selling forces in action. Your eye is drawn to the colour-filled bodies of the candles as they print on your screen. They extend upwards and downwards like little pistons and that helps you spot whether buyers or sellers are currently controlling the action .

Key Advantage**:** Candlesticks give you a strong visual overview of the buying and selling forces in action.



Bar Charts: You might hear these called Open-High-Low-Close (OHLC) charts. I'm sure you'll have seen them. They're those thin vertical lines with a little 'tag' on either side to mark the open and close price of the bar. They look like this:



Now they might not look as fancy as the candlesticks, they certainly don't have the same striking visual impact, but I like them for two reasons...

1. You are not so drawn to the bullish/bearish nature of the bars as you are with candlesticks. OHLC bars can help you take a more objective overview of the longer-term picture.

2. You can cram loads more bars on the screen than you can with candlesticks, and this helps areas of support and resistance stand out really clearly.

So this is a different tool for a different job. Candlesticks still definitely have their place, but I like to use bar charts to uncover little pockets of price congestion. I find they just jump off the screen with this chart type.

Bar charts can help me find price levels that have proven to be

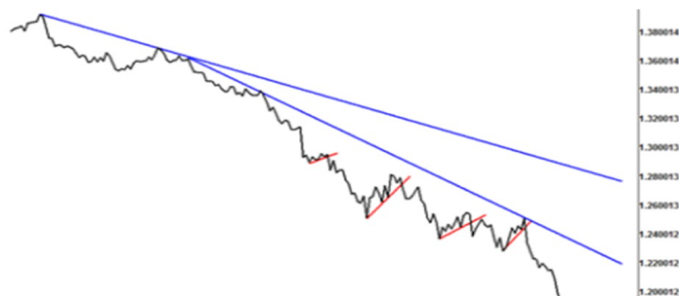
relevant to the market on previous occasions and could be expected to provide support/resistance again in future.

Key Advantage: OHLC Bar charts let you cram more data on the screen and see areas of price congestion easily. It means you can quickly find reliable support and resistance levels.

Line Charts: The third of my regular chart types is the line chart. It's just a simple line drawn between the closing prices of the period the chart is measuring. I tend to use these on the longer-term charts – the weekly and daily (and sometimes monthly) charts – and it's just a really clean and simple way to keep focused on the main trending action.

Get yourself in tune with the bigger picture on the weekly and daily chart and you can then go looking for specific entry opportunities on the intraday charts. I'm not saying this is the only way you can stay in tune with the longer-term trends, but I really like the pared-back line charts for their pure simplicity.

Key Advantage: Line charts help you concentrate on underlying longer-term trends through their clutter-free simplicity.



Line charts are simple and distraction-free, perfect for when you need to zoom-out and focus on the main trend.

So those are the three charts I find myself flicking between the most, especially when looking at the longer-term big picture.

Am I saying these are the only three charts to use? Not at all. I know traders are out there gaining an edge from Ichimoku charts, putting Point & Figure charts through their paces, and finding great trades with Renko charts.

But as with all things trading, the important thing is to find what works best for YOU, and then build it into your personal trading campaign. So why not give a new chart chance to shine next time you sit down to analyse the markets? You might find a chart-type you've never really given chance to work before actually gives you a deep personal insight into market movement.

Why Indicators Fail In High Volatility

Technical indicators go awry in overheated markets – what you might do instead

(Plus my top tip for day-traders looking to go full-time)

The monthly US job numbers can cause a pretty wild ride. A recent example had an immediate 77 pip drop in EURUSD, then a 123 pip rally... then another 68 pip dip... and a final 85 pip pop an hour later.

It made you queasy just looking at the chart, never mind trading it! Here's how it looked on the one-minute candlesticks:

Now it's not particularly unusual to see a 'whipsaw' reaction to reports like this, especially when there are so many different facets to the figures they release. In this case the headline number – the thing that everyone responds to with a kneejerk reaction – suggested massive growth in employment, but not all was as it seemed...

Once the market had had chance to delve deeper into the details of the report, it was soon discovered that most of the growth was actually created by minimum wage positions. And that's just not the flavour of job growth that implies underlying strength in the productive economy.

It's why we saw that initial US dollar strength as the report hit the wires soon give up all its gains.

Anyway, I thought it was a good opportunity to answer a couple of questions I received from 'Reader A'. Her first question addresses the economic reports specifically, and the second... well, that's probably the big question on many traders' lips!

But more on that in a minute. Just a bit of background info: Reader A is a very short-term trader. She looks for many small 'bite-sized' trades throughout the session rather than trying to hold onto trades. Here's her first question:

'*I don't trade around big news releases like non-farm payroll [US job numbers: usually released the first Friday of each month] because my system doesn't seem to work very well when the market is too volatile, but sometimes that erases pretty much the entire trading day for me. In your experience which indicators work well under those kinds of conditions?'*

Ok, firstly, to be upfront and honest, I just don't tend to use indicators for short-term trading at all. I was taught to trade purely

off the price action (but that's not to say that the many indicators available can't be useful tools for YOU of course).

Reader A doesn't mention which particular indicators she uses, but the main drawback with most is that they lag behind the market – and this gets amplified massively on short-term charts like the 1 minute.

Here's how I see it: The markets will typically be subdued in the run-up to a numbers release so you might have an accumulation of 100+ 1 min bars printing with an average range of say 7 pips each.

Then the number gets released, and volatility instantly goes through the roof. (You'll have seen for yourself, how things like non-farm payroll can drive prices 100+ pips in under a minute.)

Now this sudden spike will totally distort things like stochastic and RSI oscillators. It'll put them into overbought/oversold territory through brute force alone. The gaping disparity between pre-news low volatility and post-news insane volatility can blow the formula that drive the indicators apart at the seams. Moving averages and MACD are stretched beyond capacity, Bollinger bands burst wide-open...

And they'll all be false readings!

It makes indicator-based signals very tricky until things settle back down a bit. And this isn't always a bad thing: big news days can be treacherous trading to say the least, and there's nothing wrong with avoiding trading them altogether.

If you wanted a few ideas for trading the news off price-action, you could look at scalping the reaction to the momentum moves (waiting for pull-backs and getting back in as the market flows back

in the direction of the initial move). There was a nice example of a pullback to the 50% level last Friday (the 50% levels are definitely worth watching when things are really flying around)...

And you could identify strong support/resistance levels way above/below current market as the news is released. You could have limit orders working and fade the market* as it hits the levels for a quick scalp – the smart money holding positions as the number gets released will be looking at liquidating (at least partly) at the first strong S/R level, and the change in buy/sell pressure can give a window for your quick scalp trade to play out.

Secondly, Reader A asks: *'In very practical terms, what's your top tip for being able to day-trade for a living?'*

My advice can be summed up in one sentence: 'The Power of One Move'.

* 'Fading' the market means scalping individual price moves, up or down.

There are a thousand and one ways to trade the markets, some are built on sound foundations and some are built on fairy dust. I would suggest exposing yourself to a handful of reputable techniques, choose just ONE set-up that feels right for you, and then concentrate on perfecting just that one move.

Mastery will come by working through the mistakes and self-doubt until you are expert; you then keep on trading it until you are REALLY good; only then do you go looking for other set-ups (and only do that if you really want to).

But don't make the mistake of feeling obliged to trade all day every day. If you can establish a campaign that averages just 8 or 10 pips per day, and then develop the self-discipline to scale-up your operation – staking larger amounts per pip – and stick with it, you're up and running.

And the same applies whatever time frame you trade from. You don't need to make massive amounts of pips per day, week, or month. **It's the monetary value of each pip that counts!**

Supercharge Your Trading Technique

Outwit The Market Washers

Profiting From The Stop Runners

I've been working with a new coaching student recently. We're just getting into the swing of things - he sends me details of the trades that he made by following the methodology I share in the Forex Breakthrough Academy, and I give him my feedback.

And credit where credit's due, my student is doing a great job with his trading journal. He's making notes of all the essential data points - his entry price, his target price, his initial stop loss location and how he might adjust his stop as the trade develops - but he's also looking deeper into the process too.

He's already been spotting areas where things can be tightened up and improved (and it only takes two or three small tweaks for a trader to see a massive improvement on their results).

There was a situation on Friday, for example, where he'd overlooked a scheduled economic report. He'd already jumped into an otherwise valid opportunity but the market moved against him as it reacted to the report and he took a bit of a poke in the eye as a result.

But rather than get frustrated and look for someone or something to blame, he took in all in his stride. He knew it was a valuable lesson. And like I told him this morning, these are usually the lessons that stick with you for the rest of your

trading career: the valuable ones you needed to learn most!

It's one thing to read about avoiding trading around economic announcements, or even to be told not to trade around them. But it's quite another thing to be on the end of a losing trade as a direct result. Sometimes you just need to go through the direct personal experience in order to take it fully on board.

(And better to go through it now, on a small scale, than 'get away' with bad habits only for them to bite you in a much bigger way after you've graduated to trading at higher stakes!)

But sometimes, you can do everything 'right' and still be on the end of a losing trade. In cases like these there are no lessons to learn.

Well, no lessons in terms of looking for improvements to your trading technique.

The no-lesson lesson

The big lesson there of course is that each valid trade is just an excursion into the world of probabilities. Even trades that look to be 'dead-certs' carry no guarantees. If you have the discipline to keep running your strategy even in the face of a disappointing outcome on one of these gold-plated trades then you already have the body of knowledge you need.

There was one particular setup my student traded last week that was a perfect example of this. Everything looked good beforehand. All the pre-trade criteria were in place. But looking back at events later that day it was obvious market players with a bit of heft behind them had a different agenda.

The market did eventually move to the upside as the setup might have suggested. But not before it took a dip first. A certain element of this market had a vested interest in taking out the stop loss orders that had accumulated below some intraday lows. Once they'd done the deed, the temporary selling pressure was removed and the market could float upwards unhindered.

It just goes to show that you never really know what's going on in the market, who else is involved, and what their intentions are. Especially if they have enough size behind them to push the price around a bit. And if you've never heard of 'stop-running' before let me show you how it works...

How to make money from stop-running

It’s a common complaint: a trader places his stop-loss in a logical place according to recent price action, only to see his stop triggered. The market then pivots round and heads off back in the ‘right’ direction leaving our trader open-mouthed in amazement.

Yep, it’s the dreaded ‘Stop-Running’... but how can you put the shoe on the other foot and actually make money from it yourself?

Overleaf is a nice example of a Stop-Running campaign in full flow, and some ideas on how you might take advantage of it yourself in future.

EUR/USD 5 Minute Chart

A: The market has broken through support and made a strong move to the downside.

B: Here's the anticipated pull-back. No real buying strength yet though. It's just a bit of profit taking before the next wave of selling comes in.

C: This is the 'Swing High' that a lot of traders will use to position stop loss orders above in order to protect any short positions they initiated after the pull back. Once the market had pushed down on the red bar immediately after C, seller's stop losses would be expected to enter or be adjusted to sit a few pips above C.

D: Here it is. The market goes after the liquidity sat waiting in those accumulated stop loss orders above C. They get it up there and trigger the orders. They ran the stops! The lack of real bullish intent is obvious here though - the market turned and put in a new bearish (red) bar.

E: Here's your opportunity. You've been observing all this action going on and you've just had your confirmation to trade once we saw the close of that bearish bar – note how not even a single bar closed above the swing high at C.

There's a high probability of a continuation to the downside now. If you did get short on the close of the bar marked E, you could use the previous low at the end of that down-leg marked A as a technical target – maybe liquidate part of your position just a couple of pips above that low (around 1.3145)?

Or you could simply trail your stop down behind you and let the market take you out.

Let's see what happened:

F: There goes that technical target we spotted at 1.3145.

G: And here’s where you would have been stopped-out if you simply trailed your stop above the pullbacks.

We saw a maximum move to the downside of 70-odd pips after the signal to sell at E. Initial risk was around 10 pips. And a 7:1 reward to risk trade is never to be sniffed at!

So just as an experiment, try to imagine that YOU have a 'stop-running' agenda. Where would you try and move the market to if you had that size and power, where would the maximum amount of pain be caused to the most traders?

Spot your places and then keep an eye on things if the market does manage to get there. You might just have uncovered a live stop-running operation in action!

How the old-timers used volume to get ahead in trendless markets

(and how you can do it too)

September (2016) was a bit of an odd month for the Forex markets...

Despite all that commotion leading up to the US interest rate decision, and one the most eagerly anticipated employment reports in memory, the main markets haven't really gone anywhere.

There have been the usual short-term fluctuations, of course. I don't quite mean the markets have flat-lined. But most of the majors have simply rotated around the prices they closed at on the last trading day in August. They're still trading there as I write.

It shows uncertainty and a lack of directional bias – neither the bulls nor the bears are prepared to commit to either the buy side or the sell side.

But still, there are ways the big boys will play...

They'll reign in the timeframe of their trades and take a more opportunistic outlook: the first prominent levels of support or resistance on the chart become their major profit targets. And this activity is what can contribute to those rolling, range bound markets we've been seeing.

The good news is that there are ways to spot the potential turning points in ranging markets, and there are also early-warning signs that the range is about to be broken. It's all a matter of monitoring what the big players are doing. And there is one tool that can really help you do it:

Volume!

I must admit, I've got a bit of a soft spot for volume. You might have heard me talk about it before. It tends to be followed more closely by futures and stock traders than Forex traders, and it has a certain romantic appeal attached to it.

Traders like Jesse Livermore and Charles Dow (co founder of both the Dow Jones company and also the Wall Street Journal) used volume to make millions of dollars in the early 1900s, back when computers were just a figment of the imagination.

And even though their methods might seem antiquated, I think the old-timers actually held an advantage over modern-day traders...

They were forced to use only the purest elements of analysis in their trading decisions: the ticker tape reported prices and quantities (volume) traded – it came spooling out of a great glass-domed machine on a thin strip of paper. I guess they had to look at the clock on the wall to keep track of the times. That was all they had to work with!

If you read about their methods you'll find they relied heavily on the relationship between price and volume to make their calls. It's how they'd get a feel for the flowing currents of the market... If the price was moving upwards AND bigger and bigger blocks of volume were hitting the market to buy, it told them the up-move had some genuine weight behind it. It was a good time to get involved.

But if the stock was moving upwards in price and the volume coming into the market was drying up, it told them the move was possibly on its last legs: a reversal could be on the horizon So they had this way of using volume quite effectively to steer them into high-probability trading decisions.

Why does volume analysis get little attention from most traders these days? Using volume effectively is a bit more subtle than having a big green arrow flashing on the screen telling you to buy.

It will be right there available for you to use even on the most basic chart packages. But you do need to give a bit of thought to the relationship between the movements in price, and the amount of volume driving them.

Volume is what's going to show you the intensity or urgency behind movements in price. Keep an eye on it and you can gauge the buying or selling pressure behind the move – it's all about who's being most aggressive: the buyers or the sellers.

That can help you see beneath the surface of price movement… It's what can help you gauge the tops and bottoms of those range-bound markets, and it can also give you a clue that an eventual breakout is genuine or if it's likely to fail.

But I've heard Forex doesn't have volume!

That's right: because Forex is a de-centralised market there is no definitive record of quantities traded. But most data providers do offer 'tick' volume. It's a record of the number of trades taking place rather than the actual quantity of currency changing hands.

So a one-minute bar on a chart of EUR/USD might show a volume of 300… That means 300 different transactions took place during that minute. It's not perfect: one trade might have been three times larger than the next, but it's good enough to give you an edge to your decision-making.

In fact, studies have concluded tick volume gives as much as a 90% correlation to actual volume. And remember, it's all about the relationship between price and volume anyway. You're watching how rising or falling price is backed up by corresponding fluctuations in volume, not just volume alone.

So exactly how do you go about using volume in your trading? There's a bit of an art to it. It will take a bit of study and contemplation before you become an expert. But this is a perfect pursuit if you do enjoy a bit of analytical thinking and getting rewarded in a big way for doing it!

Here are some basic applications of volume analysis to get you going… Three simple ways you could use volume to pick high-probability trades in range bound markets.

1) **A potential reversal bar on high volume:**

This almost certainly suggests a short-term end to the down-move. The long wick on the candlestick shows buyers have already

moved the price against the sellers, and you can see the high volume confirming the pressure they are bringing to bear.

You might see this type of price action at the bottom of trading ranges. It's your signal to take profits on short trades and it's also a potential entry point for long trades.

2) A breakout on increasing volume:

Here we see price breaking out through the top of a previous trading range on increasing volume. This shows traders are jumping onto the move and contributing to its building momentum. You can take some confidence the breakout is genuine. Look to trade in the direction of the breakout.

3) A pullback on decreasing volume:

Here we see a potential reversal on high volume at the bottom of an established trading range, but the immediate pullback in price doesn't confirm further buying. The decreasing volume shows no more buyers are stepping in.

This means a continued push to the downside has more probability of playing out. Enter a short trade (or add to your open short position) looking for price to continue lower.

Using volume and a bit of logical thinking can give a whole new perspective to market analysis. It can give you greater confidence in your trading decisions and help you get involved, even when the markets are wheeling sideways. Give volume a try and see what you can uncover: you might be pleasantly surprised.

Moving Average Envelopes

"The Trend is Your Friend (Until The Bend At The End)"

Have you ever heard that bit of old trading wisdom? It's a bit tongue-in-cheek, I know. But isn't it a thrill when you catch a reversal point in the market and watch the others scrambling for cover?

It's like the trading equivalent of smacking a golf ball 330 yards dead straight, over the lake and onto the green…You know it can't happen every day. But when conditions allow, and you do hit the sweet spot just right, it can keep you grinning for the rest of the week.

And hey, it's certainly not a practice to be taken lightly. You don't want to make a habit of trading against the trend unless you've got a really good reason! So what are the signs that can tell you the market is due for a change?

I thought I'd share an old technique with you today.

This really is one of the first bits of technical analysis I ever used. I think I got the bones of it from one of Alexander Elder's books and mixed in my own candlestick patterns. I've got an old hard drive at home with screenshots of my very first trades on it. I'll have a dip into it now and then. And the moving average envelopes we're about to look at today are all over my old charts.

(Some of my goofy notes make me cringe a bit – we all have to go up the learning curve, right? But the analysis was pretty solid!)

Have a look at what I'm about to show you and keep in mind the three main ways I think it can help your trading:

a) If you're an aggressive end-of-day trader you can use this to find entry points for counter-trend swing trades.

b) If you're a trend-following end-of-day trader you can use this as an early exit signal. It can show you the current trend may be due for a correction.

c) If you're short term trader – a day trader or a scalper – you can use this to set the directional bias for your day ahead. You could even use it to build yourself a low risk position during the day and then let your trade run-on for a day or two.

So as I mentioned, this is all about using moving average envelopes. And if you've not seen them before, they're very simple to use. Every decent charting package has them as a standard feature…

They're simply two additional lines drawn above and below the moving average (MA) itself. And they're plotted by adding and subtracting a fixed percentage of the instrument's price from the MA.

The key is to use a percentage value that contains at least 95% of the price action. Each Forex pair will be different and you only need a visual scan over the chart to see when you've got it right. It's not an exact science.

Here’s an example:

You can use a 22-period moving average to good effect on the daily chart (the red line on the above chart). And in this case a 2.2% upper and lower envelope – the blue bands – contained at least 95% of the price action.

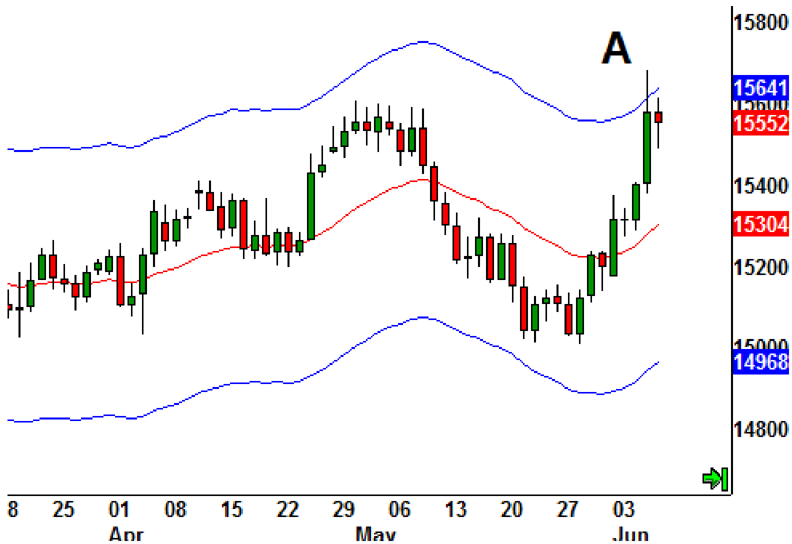
NOTE: A setting of 2.2% was right for this particular chart but it is not a ‘default’ setting. You must find the right setting – one that captures 95% of the price action – for the current conditions you are working with.

So this now gives you a visual channel to help you gauge when strong moves are overextended. When you see the market out there at one of the blue lines you know you can start looking for a short-term reversal (or at least expect a pause in the current trend).

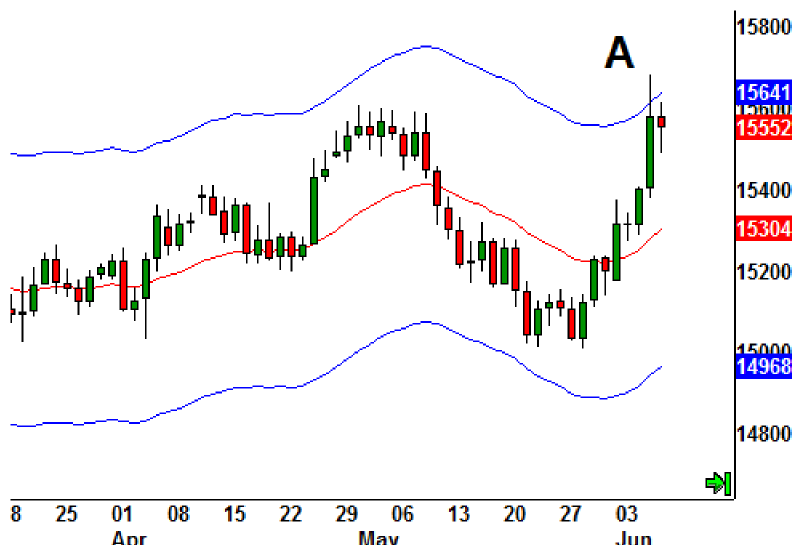
Here's a simple three-step process to help you highlight the high-probability scenarios:

1. Wait for the market to touch one of your blue envelope lines.
2. Monitor the price action and wait for a strong reversal candlestick to print in the opposite direction to the prevailing trend.
3. Consider opening a counter-trend position at the close on the day of the reversal candlestick (or close out your position if you had been riding the upward trend). Your first technical target is the 22 period moving average line.

Let's have a closer look at that daily chart now to see exactly how those opportunities developed.



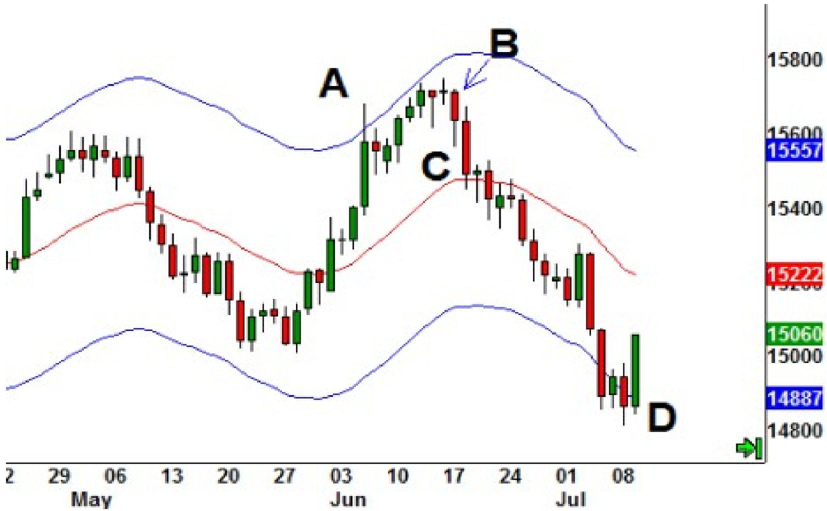
a): In this first shot the market has taken a run at the top of the upper envelope from the lows of the move at 1.5000. We've seen a poke through the upper envelope which puts us on standby. We're now waiting for a strong bearish bar to indicate a possible reversal.



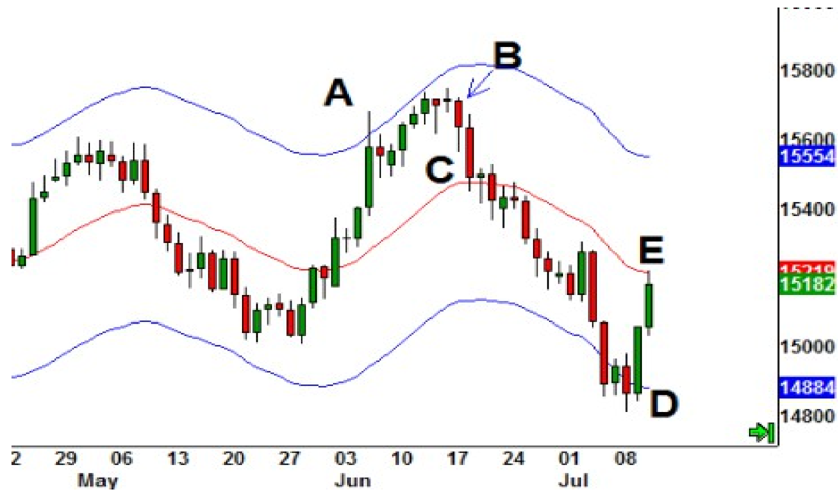
b): We had to wait a while before we got a strong bearish (red) candlestick. I like to see one that closes below the lows of preceding candlesticks. You can go short at the close of B (or exit any long positions).

(C): The 22 period moving average is the initial target. This was pinged the very next day on this trade. You can close out your short trade for a quick profit or at least pull in your stop loss now.

A couple of weeks later, we're down at the lower band…

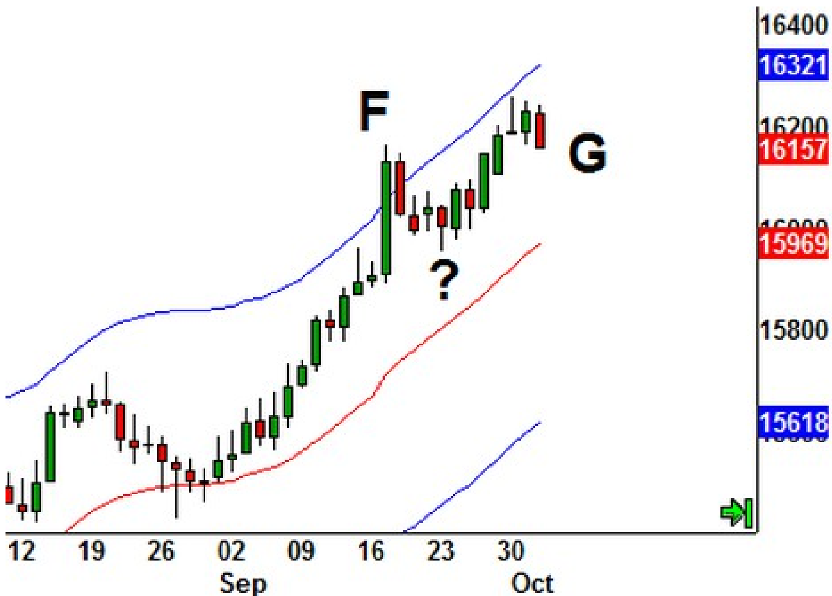


d): We had a down move that penetrated the lower band. The market paused and then put in that strong Bullish Engulfing candle. Go long at the daily close (and cover short positions)?



e): Again, we weren't kept waiting long for an exit on our trade. The first target (22MA) got hit the next day for a quick profit.

The next opportunity with this technique came in October…

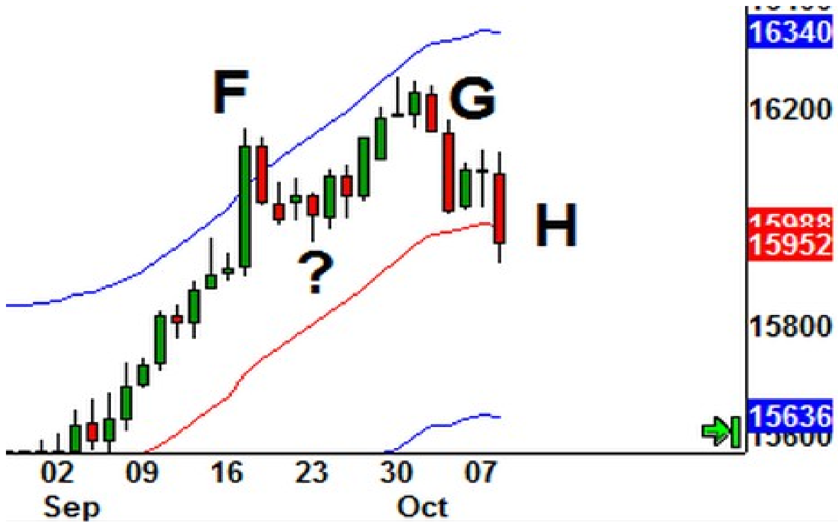


f): There's the penetration of the upper band to put us on stand-by. The trend may be stalling but we still need a strong red candle to indicate some bearish sentiment.

?): And here's why you need to be careful in filtering out good entry signals. We got a pullback to this area but nothing to suggest the bears had really jumped in with conviction.

g): It was around a week later on that bearish engulfing

candlestick (see how it covers the preceding green candle and closes below it) before we get the chance to go short.



h): And there's the target filled a few days later for more profit.

So have a play around on your own charts. Try different sized envelopes on each of the pairs you're interested in trading and see how often this set-up lets you get involved in good counter-trend opportunities.

Just remember, as with all robust and probability driven strategies, it is not a magic bullet.

You will not – and should not expect to – win on every single trade, just often enough to tip the odds of long term consistent profits in your favour.

But if you are a technical-indicator kind of trader I do think this is well worth your while investigating and experimenting further.

Swing trading for specimen hunters

Three Simple Steps To Anytime Trading

Here's a question I get asked on a regular basis: “How can I fit trading in around my job and still make consistent profits without having to check charts during the day?”

The good news is: there are loads of ways!

The trick, of course, is finding the way that has 'your name' on it – the method that fits your personality best.

Now trading 'end-of-day' (that's where you check your charts and manage your orders in the evening, after work) is a common situation amongst home-based traders. And it can be a very effective way to go about things. The fact you're not sitting in front of the charts all day long can actually be a blessing in its own right. It stops you fiddling around with your orders before the right time!

The problem is many traders confuse activity with effectiveness. They think they need to be busy placing bucket-loads of trades all the time. And they panic a bit at the thought of only checking the chart once per day: but how am I ever going to be able to find ENOUGH trades to make my big profits?

It’s like being busy somehow equates to profitability. But maybe modern society has conditioned us to think like this. A throwback to a 'manufacturing' mindset where the more widgets your factory cranks out in a day, the more money you make.

But trading is a very different proposition. In fact, the best trade you ever make could be one you only close months, or even years, after you first opened it.

A single trade could actually be responsible for the lion's share of your annual profits!

Think about it: if you ran a strategy with a positive statistical edge and let the profits run, it would only be a matter of time before you hooked into a really good specimen of a trade.

There'd be the matter of risk control, of course. You'd need to manage the stop loss somehow. But a common pattern of results for a strategy like this might be to see a series of small winning trades and small losing trades and then BAM! A huge whale of a trade comes along that you manage to hang onto that sends your net returns through the roof.

So how might you go about trading like this?

Why, I'm glad you asked. Let me remind you what swing trading is all about…

Simple 3-step swing trading for end-of-day traders

1. Find an eye-opening event. First of all you want to find a price-action pattern that suggests either a potential reversal or one that anticipates a continuation of the current market direction.

The world of technical analysis is at your disposal here. Choose any of your favourites. You can even specialise in just one pattern and be a very successful swing trader. You can look out for double tops, head and shoulders patterns, breakouts to new highs, doji reversals... and that's just scratching the surface.

(If any of the price patterns I mentioned are new to you, or if you'd like to explore deeper, I'd recommend Murphy's Technical Analysis of the Financial Markets as your go-to reference book.)

Next, once you've had your eyes opened to a potential opportunity, you monitor for a confirmation. You want to see a pullback before you attempt to enter the trade.

2. Pullback and Entry. Most successful swing trades will occur in a high-momentum environment once the market has already indicated its next probable move (via the 'eye opening' event).

Your job now is to wait patiently until the market makes a small pullback or pause. This gives you chance to enter a trade strategically with a carefully calculated (and very limited) exposure to risk.

In an example of a breakout to new highs (see below) you might patiently wait until the initial volatility dies down, the move higher slows and eventually pauses for at least a bar. You'd now be poised to enter your long trade once the market continues higher again, breaking out above the 'pause' bars.

You can do this by leaving a stop-entry order working with your broker that gets you into your position automatically. You don't need to sit watching.

Next, once you're in, you need to manage your trade with a Target and Trail exit strategy...

3. Target and Trail.

You've found an eye-opening event, you've had it confirmed by the little pause or pullback, and the market now looks ready to soar again to new highs...

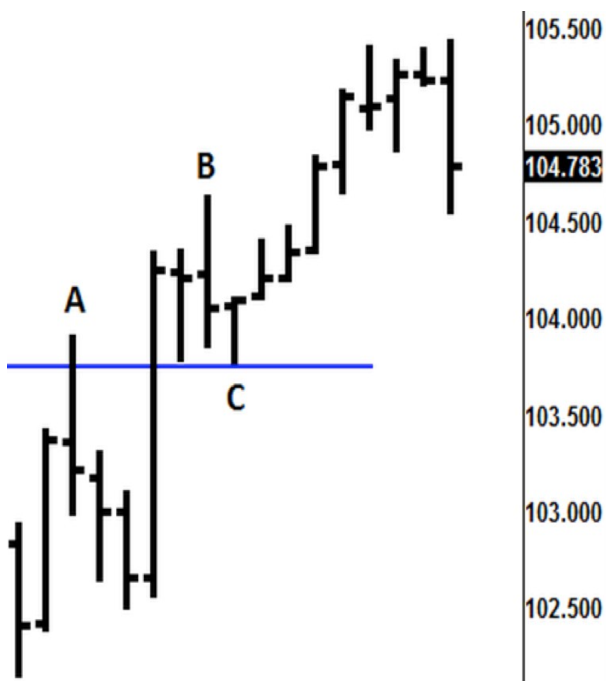
You can use a retest of the recent breakout high as your first technical target – it's the logical place for the market to strive to reach next.

By doing so, you're letting the market prove it's going to try and do what you suspect. You've got a high probability initial target to use to take some fast profits and you can also use that as your signal to move your stop to break even. You'd then let the trade run and hang on for as long as you can (via a sensible trailing-stop loss strategy).

So let's pull all the theory together now and look at the chart for an example swing trade. First of all this is the eye-opening event. It's a breakout above recent highs:

And overleaf there's a close-up of the swing trade in action:

(This is an Open-High-Low-Close chart. If you haven't come across it before refer to the earlier chapter on chart types).

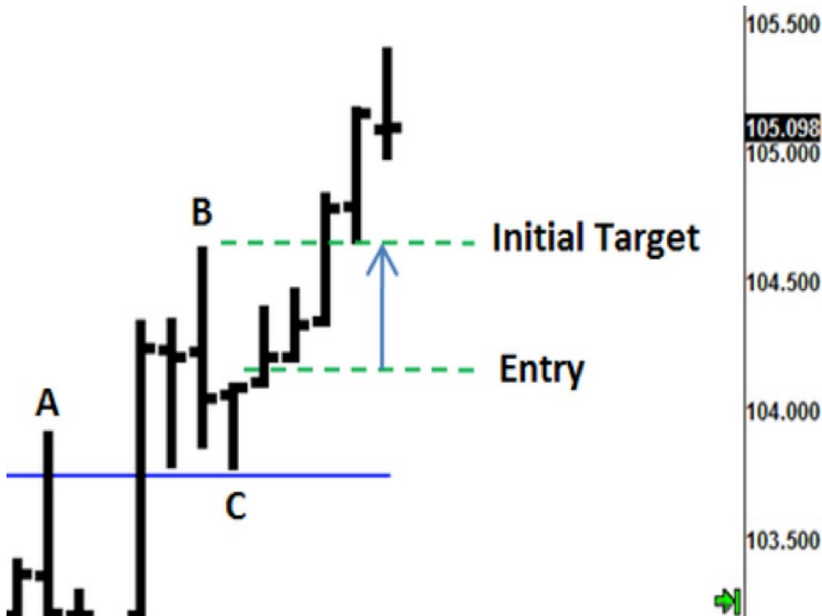


a) False breakout. The market takes out the highs but can't keep it up there. No opportunity yet.

b) Here's the eye-opening event. The market breaks out above the old highs and holds its ground. We're now waiting for the pullback as confirmation to try and enter a trade.

c) Here's the pull back. We want to enter on a breakout above the bar labelled C with an initial technical target of the highs of the bar market B. That's where the market will try to reach firstly.

Here's a close-up of the trade management:



The entry point is a break above bar C. The initial target is the high of bar B – the market will try to go there to keep the up-move intact.So your initial stop in this case could be placed below the bar marked C. (I would suggest using a default 1:1 risk/reward ratio in cases where stop placement is not obvious from the price action alone.)

You can see the thrust upwards after entry into this trade...

It takes out the target within three bars – a 53 pip move. And once

the target is reached you should consider taking some money off the table, trailing your stop up to breakeven at least. The move may continue upwards for days to come, but who knows for sure? Keep the upside potential in play but don't risk watching your paper profits disappear by holding out for too long!

The 'whale trades' will come. But not every single time! The secret is simply to keep yourself in the game and you'll catch them sure enough when the time is right.

When You Hit a String Of Losses

How a Simple Circuit Breaker Can Save Your Bank

Sometimes you can find yourself simply out of step with the market. It could be your strategy just isn't suited to current conditions, even though you are executing it with iron-willed discipline.

Or it could be caused by something more personal: you might be a bit off-colour health-wise, or you might have other demanding things going on in your life. And it can all have a draining effect on your trading powers. But you can only do something about it once you've recognised it.

So how do you know when these conditions are in force? Easy, you feel it in the pocket!

These are the times when you suffer more losing trades than you'd otherwise expect. When you sit scratching your head, asking why your otherwise solid campaign seems to have gone a bit wonky, wondering what you should do about it.

It's an important situation to address. We spend a lot of time looking at ways to make money from trading, but priority number one should always be to protect what you already have!

So let's go back to basics for a minute... let me tell you why I think of trading as a two-phase process:

Phase 1 = Survive
Phase 2 = Prosper

Your first job as a trader is to survive!

Now Phase 1 – surviving – is usually the 'beginner's' stage.

So this could be a complete trading newbie coming to the markets for the first time. He'll be learning the ropes and focusing on staying in the game long enough to develop the skills that'll let him transition to phase 2 (which is, of course, prospering).

Or it could be an experienced trader trying a new strategy or approach for the first time...

Even though this trader has a lot of previous experience he still goes through a 'mini' beginner's stage while he learns a new technique. The methods are all a bit unfamiliar and he expects mistakes to happen while he goes through the learning curve, so he treads carefully. He conducts his business in survival mode (low stakes, double-checks all his trading decisions before pulling the trigger) until he's ready to scale things up.

Experience and confidence then allow you to prosper

In both cases phase 2 – prospering, remember – comes with confidence and experience. Once you're happy with your ability to trade in a way that doesn't put your bank at risk and you've seen small profits you can then move your focus to maximising returns. But the prospering phase doesn't always follow neatly on after the survival phase. And they are not mutually exclusive.

Just because you've gone though the beginner's learning curve it doesn't mean your approach to the markets will perform in a similar way for evermore. You must always have one eye on the downside.

And when it looks like things are going a bit wobbly, when market conditions seem odd, switch back to 'survival mode'. Don't risk blowing up your hard won profits out of sheer stubbornness!

So let's have a look at some ways you might manage your trading activities with this in mind.

Position traders and swing traders might employ a monthly drawdown 'circuit breaker'

Let's say you're an end-of-day trader. You look for two or three opportunities per week and you risk 2% of your account on each trade. How might you limit your activities so you never risk causing fatal damage to your funds? What's going to pull you out of dangerous market conditions or protect you from challenges to trading performance that come from your personal life?

One way you might do it is use a simple 'circuit breaker'. It means you'd stop trading for the month once a certain level of drawdown had been reached.

So if you started the month with £1000 in your trading bank and you're risking £20 (2%) on each trade you might pull the plug if your account balance dropped to £900. That would be a 10% drawdown.

This would allow for five consecutive losing trades. It would pull you out of unfavourable market conditions, and it would also protect you from too much self-inflicted damage if your decision-making processes were affected by other things.

(Plus, it would have the added bonus of keeping you on the straight and narrow when it comes to discipline and sticking to your trading rules!)

But what would you do once the circuit breaker kicked in?

You'd continue to paper trade your strategy. You'd want to monitor the performance of your approach but wait to see a return to form before going live again. And you'd need to wait until the next valid period begun before placing trades with real money.

You could manage this on a calendar-month basis, or on a rolling 30-day period, i.e. you'd have to wait 30 days before live-trading again (or wait 14 days, 21 days... whatever you feel would best fit your level of trading activity).

Just make sure you set up the rules before you need them! Don't risk waiting until you're in the middle of a sticky patch before deciding how you'll handle it.

Day traders might use a daily threshold limit

Now let's look at things for a short-term trader...

Let's say you're an active day trader. You typically trade 5-10 times a day and you risk 1% of your account on each trade. How might you put a self-enforced limit on poor performance?

Well, because of the shorter time-frames involved and the added element of time pressure on your decision-making, it's important to note there's more scope for things to go 'wrong' faster here. If you or your strategy is off the boil, you'd want something to get you out fast before too much damage is done.

If you were trading for a firm, you'd have a risk manager breathing down your neck. He'd pull the plug on your trades once a

certain amount of loss had been realised. Kind of like the cartoon hooked stick yanking you off stage by the neck!

But as home traders we don't have that luxury. So again, we need make sure we have some rules set up in advance, ones we can't easily override if we get swept up by emotion in the heat of a frantic session!

A preset number of consecutive losing trades might be the answer for you – '*I will stop trading if I take three losing trades one after the other.*'

Or you might prefer a monetary based drawdown figure if it's normal for you to take many small losses on the day. You might be on hunt for just one or two trades that deliver huge returns, so in that case it might be a case of '*I will stop trading if I suffer a £200 drawdown*.'

One good way to enforce this might be to hold in your trading account only enough funds to cover the margin requirement for your normal trade, plus the amount of drawdown you are willing to accept.

If that loss were suffered you'd then have to physically transfer more funds before trading again.

This could provide a valuable 'cooling off period' that might help prevent you ploughing on with more losing trades if you're still working on the self-discipline side of things.

Anyway, that's just a couple of ideas for how you might build a 'survival mode' into your campaigns. If you do a little bit of planning I'm sure you can come up with something creative and effective that will suit your trading outlook perfectly!

Three Short Steps To The Trader's Holy Grail

Consistency !

I'm going to have a little wager with you today...

If you were to sum up your biggest trading frustration in just one word, what would it be?

Here's what my money is riding on: '*Consistency*'. (Or the lack of achieving it!) Am I right?

A lack of consistency usually means the trader has a certain profit figure he's looking forward to at the end of the week or end of the month, but for some reason he's not hitting it on a regular basis. Does it sound like a familiar story?

Now, a lot of the time this can be down to erratic performance on the part of the trader himself. He might be second-guessing trade signals, or messing around with stop-loss placements, or even trying to over-clock the system rules so it squeezes out more winning trades or eliminates more losing trades…

Yes, there are a number of methods you can get in your own way when it comes to finding consistency. But the good news is they are all easy to navigate around. This means you can always cure your own personal trading frustrations once you know how!

So today, I'd like to share my thoughts on what I believe is a very common cause of trading inconsistency. And if this is something you're struggling with yourself I'll show you how a simple 'mind shift' will soon help you get things back on track.

The common error that leads to inconsistent results

When talking to traders with consistency problems, I'll ask them to tell me a bit about their experience, the systems or strategies they're using, and their results so far. What they tell me usually suggests something like this:

· *They're aiming to draw some kind of fixed result from their trading.*(They're focusing on making an exact 10 pips per day, for example, or a minimum 400 pips per month.)

· *So they're following systems/services that claim very high 'strike rates'.* (I.e. the number of winning trades is much greater than the number of losing trades.)

· *But they have very little patience.* (They jump from one methodology to another if they don't immediately see the results they want).

The problem is they're setting their expectations incredibly high from day one.

Newbie traders in particular go after those systems that claim incredibly high strike rates. As an example, I've just found one advertised online that claims 93% wins over the last 272 trades…

It certainly looks impressive, but a high probability of a winning trade is no guarantee of consistent profitability. It's only one part of the mechanism. We'd need to know how much the system makes on a winning trade and how much it drops on a losing trade to get a true picture of its profitability.

And even that's only part of it…

Because many systems claiming very high strike rates actually lose money over time.

On paper they might have a good current strike-rate, but they also

tend to be tightly fitted to current market conditions. It's called *recency bias*: it means a change in market conditions can wreak havoc on the system’s performance.

We move from a bull market to a bear market or from a period of relative calm to sudden high volatility, and what looked like an ‘easy money’ system under favourable conditions is suddenly haemorrhaging pips at a rapid rate.

Our trader is now in a dilemma...

Does he ride out the unexpected rough patch and carry on trading, thereby risking losing a bundle? Does he pull the plug now and consider the system expired? What if he widens out the stop loss on his trades: will that get things back under control? This is exactly the kind of situation leading to the frustration, hesitation, and system-jumping that creates inconsistent results.

So when presented with two trading systems – one claiming 93% winners, one claiming 40% winners, but both claiming high profitability – why would most traders tend to jump on the 93% system?

The thing is, even though more consistency may be available from the 40% system for the long term, it can be difficult to set your ego aside and accept you’ll be ‘wrong’ on 60% of your trade entries. We want to be profitable AND have an impeccable record for accurate trades – as if we get extra marks for it or something!

So if accepting a lower-strike-rate system is something you'd struggle with, even though it may provide the consistent profits you ultimately seek, here's something you might try...

Move your focus away from the day-to-day profits of your trades

for now, and focus on entering and exiting the trades the system provides without worrying about immediate results.

I know it sounds like a bit of a paradox but that's how you lock-down long term consistency. If you have a trading system with a long-term profitable edge – even a small one – and you can pull the trigger time after time, without hesitating or second-guessing, the money will follow as sure as night follows day.

Here's a little 3-step sequence that you might follow to help you get there…

1. Assess: Do you have access to a trading system with a proven profitable edge? Has it shown consistent profits through a range of different market conditions (you might need to do some backtesting here to satisfy yourself that the system is reliable)?

2. Prepare: Be ready to make finding consistency your number one priority ABOVE ALL ELSE. Forget about individual trade results and money-making for now. Set yourself a future review point – after your next 30 trades is a good number to work to – and then put your plan in writing.

Something like this: '*Starting Monday 19th October, I will take every single trade my system generates without hesitation. My focus is purely on pulling the trigger and I will not second-guess the system or be concerned with the results. I will operate under these conditions for the next 30 trades and then review my performance*'.

3. ACT!: On Monday 19th October – or whatever date you set yourself as a starting point – pull the trigger on your trades, and carry on doing so with discipline. After you've completed your 30 trades, analyse how consistently you performed. Did you take every trade? Did your system's positive edge play out for you as

expected? Once you’ve learned to let go, and handed the responsibility of making money back to your system, YOU should just be fulfilling the role of ‘machine operator’ – the man that pulls the handle.

And that’s when things can really start happening!

Gun-To-The-Head

An evergreen trading method I'd still choose even if my life depended on it

Have you ever heard of 'gun-to-the-head' decision making?

You can use it in any aspect of your life. It's not just for trading.

It's a way of cutting through clouded judgement to give you the best chance of choosing a successful course of action.

Whenever you have a decision to make and there a number of options fighting for your attention simply imagine someone holding a gun to your head, cocking the trigger, and forcing you to make a choice.

The trick is they get to pull the trigger if your decision doesn't eventually get you the result that you want!

It makes you drop any wishy-washy ideas you might have been considering in an instant. And keeps you focused on the high-probability ones instead.

Ask yourself a relevant question while you're making any decision. Imagine how likely it is that you'll be defying the gunman through your final choice...

Is this the most opportune market for me to trade today?

Will this choice from the restaurant's menu keep me on my fitness plan?

Will a cultural tour of Florence give my young children a fun-filled holiday? Or would they rather be on the beach with a bucket and spade instead this year?

You get the idea: it might sound a bit daft but it's amazing how this can add a whole new perspective to your thinking. Especially when it's a decision you have to make on your own with no chance to discuss it with others.

So if you're anything like me you've probably got all kinds of trading ideas, strategies and systems floating around in your brain.

But how many actually cut the mustard? How many of those strategies would you be comfortable putting forward if your life actually depended on it working?

Out of all the things I've seen and used in the markets over the years my pile of trusted methods would be surprisingly small.

But there's one strategy that would be right up there with the best of them. And that's using support and resistance to find potential reversal points in the market.

So let me show you how to do it. You know, just in case your life ever depends on a batch of trades!

First of all I'll quickly review the concept we're using...

The support and resistance levels we're using are basically price zones the market has indicated to be significant. They are 'balancing points' between buyers and sellers - the tight bands of pricing at which previous dips and rallies fizzled out.

And the market keeps these prices tight in its memory bank.

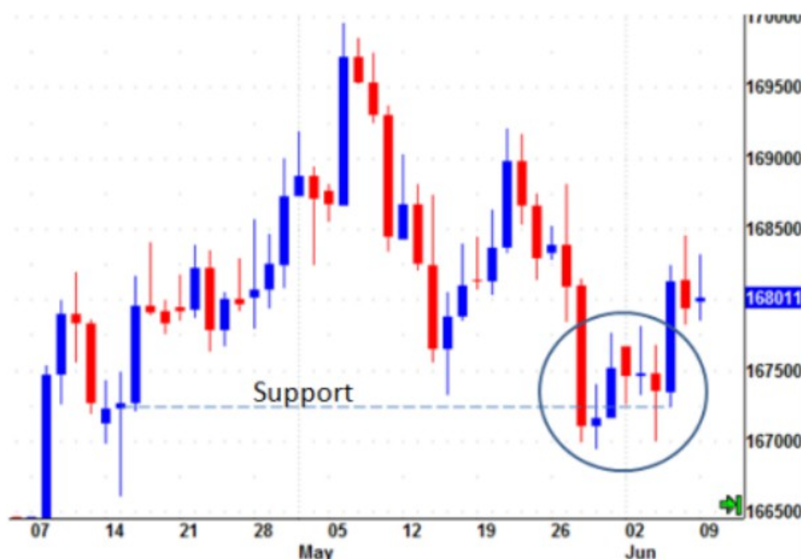
If price action creeps back to them all eyes are peeled to see how they will be treated on this next occasion. Depending on what happens on the retest - whether price reverses or breaks through - they can indicate if buyers or sellers have the upper hand. And this can help keep you trading in-line with the underlying bias at work in the market.

We also need to keep in mind the concept of support becoming

resistance (and vice versa). This is where a price level that provided significant resistance can actually become a reliable level of support once the market breaks through and establishes above it. Again, it's down to the historical activity that took place in this area.

How to Take Reversal Trades Off Support and Resistance Levels

So here we are on the daily chart of a currency market.



I've labelled up some areas of interest:

The dashed line extends from the real-body of a spike-low candle from mid May.

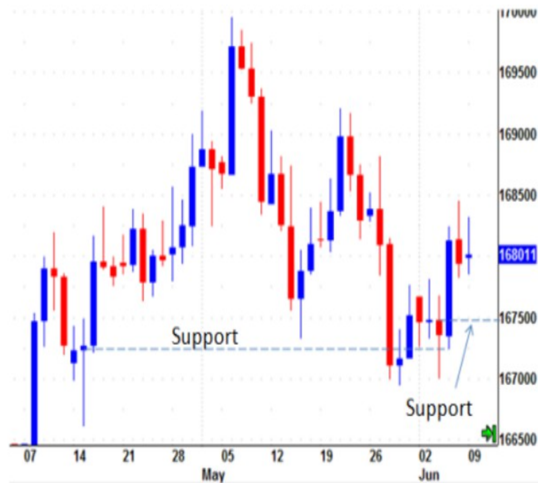
That bar marked a significant low before the market rallied

higher throughout May and into early June. We're looking at that as a pivotal support level with resonance in the market now. It's a price zone which marked the baseline of recent Bullish dominance and one which should see some buying activity come in again if the market goes on to retest it. We're looking for that level to offer support.

The circled area marks the point at which the market dropped down and tested our support.

You can see the buying interest come in and a real tussle going on between the bulls and the bears right on top of the dashed line.

It looks like the Bulls have secured a short-term victory - the market has popped up off support in recent days. And we now have a new secondary level of support to potentially trade off. Here it is:



We're taking a new support level off the real-body of the candle that marked the most recent low.

We've also got that longer-term level of support sat right below so

it should give us a good opportunity to look for a reversal trade. If the market drops back down to our new level of support we'll look to BUY in anticipation of the market bouncing back higher.

And here's what happens next:

You can see the market reverse straight off our new level of support before rocketing higher. So how could you have traded this opportunity yourself?

I think there are three common ways to look at this. You can obviously be as creative as you like but these three ideas should give you a good starting point.

Three ways to trade the reversal

1) Have a resting Buy order in the market that gets you into the trade on a retest of support.

Here's how you might have set up your orders for this trade:

The Buy Limit order sits working away all on its own until the market hits your specified price and automatically gets you into the position. You might have had your limit order placed just above the level of support with a protective stop loss order below the very low of the candlestick.

It's a more risky approach - you're entering the market before any sign of buying in the market - but it's a great way to play support and resistance levels if you can't watch the market in real time.

And on this occasion you would have been rewarded with a 5:1 reward to risk trade within eight days - not too shabby from a trade on the daily chart!

2). **Wait for buying to come in and buy a move higher.**

With this method you wait for signs of buying - confirmation that support or resistance is being observed by the market - before you take any steps to commit yourself to the trade.

It's a more conservative entry but you'll usually give up some pricing advantage by getting in a way above support or below resistance.

Here's how you might have done it:

You've seen signs of buying come in to the market at the support level on the blue up-candle. You might now try to get into the trade by buying a breakout above the high of the blue bar with a Buy-Stop entry order and your protective stop loss placed just below the low of the bar (and just below the support level for extra insurance!).

You didn't get in at quite as good a price this time - it was around a 4:1 reward to risk trade - but you did have peace of mind that the market had already shown signs of the reversal before you jumped in.

3. Use intraday price action to fine-tune your entry.

This method can give you incredible reward:risk ratios on your trades if you are able to watch the markets in real time.

Opposite you can see how you could have used the 60 minute chart to your advantage:

Here we see two strong bullish candlestick patterns within a couple of hours of each other right on the level of support.

First we see a bullish Doji pattern followed a few hours later by a Bullish Engulfing pattern. Taking an entry on a break above either of those bars would have given you 30 pips of risk if you kept your protective stop below the 60 minute bar lows.

Once your entry had been secured you could then use the daily chart to manage your exit. Taking the same exit point as the two examples above would have given you in excess of a 10:1 reward to risk trade.

Those are the opportunities that can really boost your account balance. And keep your head on your shoulders!

Moore Research

How to trawl the data banks of this top-notch research firm and steal their best trading ideas

Let me tell you about a 'secret' vault of trade ideas I know...

It's been around for years, but ask your average Forex trader if he's heard of it and you'll likely get a blank stare. It really does reveal trades ideas that have a proven track rate. Most of them have made money 75% of the times they've triggered over the last decade.

But to properly understand the true value of what this resource offers you need to know the full behind-the-scenes story. So let me tell you a tale of mystery and intrigue. And then I'll tell you exactly where to find the trades at the end.

This is an oldie, but such a goody, and if you're sitting comfortably, I'll begin...

Trades from beyond the grave

In the early 1900s a wealthy grain trader lay on his death-bed. He'd lost his wife many years earlier and had since dedicated his life to his three children.

The children had led lives of privilege. They'd attended the best schools and never wanted for a single thing. But now they were older, they mostly just burned through their trust fund income as fast as they could.

The trader thought them lazy. He regretted spoiling them and could see how they were just itching to get their hands on the rest of his loot. But this trader was a wise man. He'd figured out how to teach them a valuable lesson – one that would stand them in good stead after he'd passed. And as darkness drew in around the trader, his three children gathered at the bedside.

"Go and see Jim Levit," the trader rasped. "I've left instructions with him. You'll never have to work a day of your lives.”

So the trader's life slipped away, and as soon as they could, the children raced round to see Jim Levit (attorney at law).

Jim pulled a small piece of paper from a file on his desk and read aloud what was written on it: "To my three children, I leave my most valuable possessions..." Smiles and expectant glances were exchanged. "...Sell March wheat on January 10th, buy May wheat on February 22nd, sell July wheat on May 10th, buy December wheat on July 1st, sell December wheat on September 10th and buy March wheat on November 28th.

“If you follow these instructions every year, the wealth you were expecting will surely be yours. The rest of my estate I leave to charity."

His most valuable possessions were dates for buying and selling wheat futures contracts! I'd love to have been a fly on the wall in that room. I'll bet you could have heard a pin drop.

So anyway, legend has it all three of the trader's children went on to place the trades year-after-year, and sure enough became very wealthy in their own right. Once they were ready to retire, the three of them agreed to share their secrets with a few of their close associates and the story spread.

The buying and selling dates became pretty well known: they're called the ‘Voice from the Tomb’ trades because they continued to

work just as the old trader said they would, even after his death.

No-one outside their little circle knows for sure exactly how the trades are managed once the positions are open. But rumour has it their special method still works, even today.

A trader called George Kleinman – now president of Commodity Research Corp – did a bit of testing: over a 35-year period, if he'd bought or sold on the 'Voice from the Tomb' dates and simply looked for a $750 profit per contract against a $750 stop loss, he found profitable trades 75% of the time. Not bad - 75% profitable – but is there any logic behind the method?

Do you think it all sounds a bit haphazard?Well, it's nothing mysterious. The trades are simply being driven along by seasonal trends. You see, in many markets there are conditions and events which happen every year and influence price to a greater or lesser degree.

The change of the seasons and the harvest-cycle are the main influences in the grains. But what about the currencies? Can you gain an edge from seasonal tendencies for your Forex trades? There are no guarantees, of course, but if you found a seasonal pattern that repeated with 80% reliability across the last 15 years you've got yourself a statistically significant edge.

And you don't really need to know the reason why the pattern is there. It could be down to big corporations repatriating funds at certain times of the year to make their books stack-up. It could be due to something like the seasonal influence of oil prices affecting a country's currency (the Canadian dollar tends to be sensitive to the price of oil).

Whatever the reason, if you're aware of the pattern you can use it to your advantage and make it part of your decision-making process. But who's got time to go trawling back through 15 years

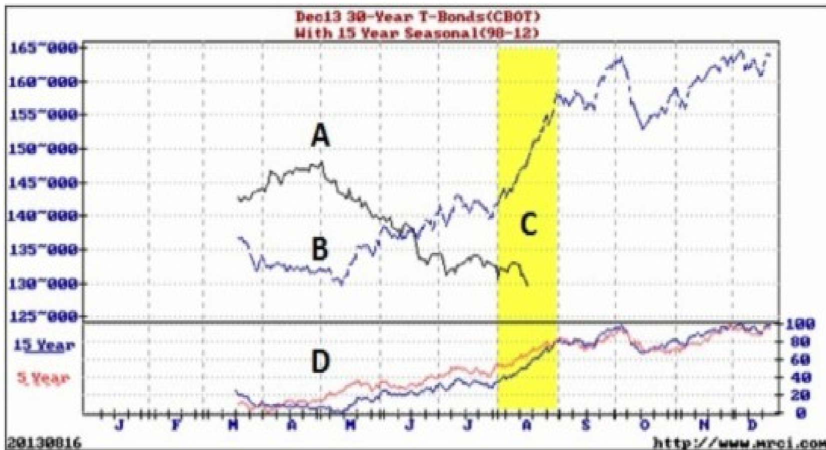
worth of data looking for correlating patterns?

Well worry not, my friend, because the good people over at Moore Research do it all for you. They crunch the numbers going back 15 years looking for trends with a minimum reliability of 80%. They do a bit more proprietary 'fine-tuning' and then deliver a complete trading strategy outline to their traders.

They'll even give you the optimised entry and exit dates for the trade, the average profit earned, and also the exit date with the optimum accrued profit. Their Forex research can easily be applied to the spot currency markets and, if you're interested, they offer a free 14-day trial. You can read about it by visiting their site.

What the research looks like

Here's an example of the kind of research you can find over at MRCI, and how you might use it for your own trading. (Out of respect for their copyright material, I'm showing you the free



sample chart they display on their homepage. It's a T-Bond futures chart but the principle is exactly the same for the Forex stuff you'll find in their subscribers area).

A – The black line is the current price action.

B – The blue line is the seasonal pattern.

C – The yellow area is the statistically significant window of opportunity.

D – The chart in the lower pane is simply the 15-year seasonal pattern with the five-year seasonal pattern overlaid: you can check the more recent years are not beginning to stray from the 15-year pattern.

On this chart, the window of opportunity is to buy on 01/08 and sell on 31/8. But rather than go in blind on the entry date, I look for a breakout pattern to actually enter the trade. I like to make sure there really is buying pressure in the market first, and then let the seasonality simply carry the trade along, once the trade is triggered.

So, for example, you could look for a simple breakout of the 21-day highs anywhere within the yellow zone to get you in, and then exit with a market order on the specified exit date. Adding this extra trade-entry filter can keep you out of trades that aren't really working in the current year for whatever reason.

Trading the seasonals can be a really nice way to trade. You simply get your 'playbook' out at the start of the month, have a flip through the seasonal charts to see which opportunities are due to come in, and simply wait for an entry signal in whichever currencies you're keeping an eye on. Moore Research has done all the heavy lifting for you!

Cross-Fertilising Trading Systems

How to customise your system with tried and tested 'borrowed parts'

There's a restaurant not far from me I've just never fancied visiting. It's popular, gets good word of mouth recommendations, and even the online reviews are good. (If you can trust they are genuine!) But this place has never really appealed.

And it's because of the type of food they serve: Italian tapas.

If I want Italian there's a cracking little family-run restaurant I know. It's a bit old fashioned with red-and-white checked tablecloths, giant wooden pepper grinders on the table, and dusty photos of the family's village back in Italy on the walls – you can probably picture the kind of place. But you always get a warm welcome and the food is outstanding. It's the experience I've come to expect when I think Italian food.

And if I want tapas I'm thinking the little Spanish place in town. It's only small – just a handful of tables – but they spill a few more out onto the pavement when it's warm (and not raining). There's even a little deli counter where you can buy whole Iberico hams and wheels of Manchego cheese. It's almost too stereotypically Spanish.

But Italian tapas? That just didn't sit with me too well. It sounded a bit gimmicky. Even the venue is a bit of an oddity. It used to be a spit 'n' sawdust boozer, the kind of place everyone stopped talking and turned to stare as you walked through the door.

So here we have this strange fusion of cuisines in a building best

remembered by the local Young Farmers Club for their raucous monthly gatherings.

But you know what? This restaurant is absolutely fantastic. Oh, it's glorious.

I went for the first time in between Christmas and New Year for a friend's birthday. I was back there on Sunday to see what the children thought (they loved it too), so it just goes to show how wrong my prejudices were!

Now before you think I've turned my hand to restaurant reviews, I just wanted to give you the background to a very valuable concept...

It's effective for all kinds of business endeavours, and it's particularly well suited for the development of new trading systems. It's the idea of fusing two (or more) existing approaches together to create a new third way.

Think how horticulturalists might graft two existing types of roses together to create a brand new strain that possesses particular properties. Or how the business plan for FedEx was rumoured to have been hatched by fusing together existing (but slow) airfreight shipping and the speed-efficient hub-and-spoke distribution model used by bank clearing systems. Or even how a bold restaurateur might bring together two concepts that have existed independently for hundreds of years!

So there's nothing revolutionary about this – it's just smashing together two existing ideas – but when a new 'third way' is born it can often eclipse the sum of its parts - sometimes in a big way too!

Now when it comes to combining trading ideas, it really can be as simple as pinching the trailing stop-loss idea from an end-of-day strategy (maybe using a measure of volatility for example) and adapting it for your intraday strategy.

Or you might take the timing of your trade entries from a scalping system you're already familiar with and apply it to the weekly charts. This might give you low-risk entry points for position trades that can roll-on and rack up the profits for the next 4 months.

The potential for experimentation is unlimited!

And even better, if you're anything like me you've probably got loads of trading systems – both fully developed and maybe a few half-baked ideas – sitting right there on your computer's hard drive. And there's certainly no shortage of tested systems you can download from the Internet if you haven't.

In fact, I'll bet you could gather together enough raw materials to start fusing and cross-breeding ideas within the next ten minutes.

Trading is a very personal endeavour. What suits one person down to the ground might torment and irritate another because it doesn't fit their trading 'personality'. But when you can chop bits from one system and slot them straight into another, there's no need to reinvent the wheel. There's no reason why you can't build your own approach directly from the tried-and-tested parts already available to you.

Think of it like customising a car to fit your particular needs: lowering the suspension or tuning the engine. No need to completely swap the vehicle – just upgrade and change the parts that'll give you the qualities you want.

Now it might sound a bit daunting to start chopping and changing parts of a trading system. But it shouldn't. Not when you remember there are only really 5 'moving parts' for you to consider.

So let me refresh your memory...

If you fancy trying your hand at tuning up a trading system or cross-breeding two systems together, just consider these 5 building

blocks. Think which might give you the quickest upgrade in performance you need and then run some tests.

There's nothing to break; your test results will soon tell you whether your idea is worth pursuing or if it's time to go back to the drawing board.

Test your borrowed ideas one at a time and see what you can come up with.

Five building blocks for crossbred trading systems

1. **What to trade:** Think about the instrument (the markets themselves) and the vehicle you're using (this is the way you're accessing the market – e.g. spread betting, binary options, futures contracts etc). A new and efficient crossbred system might be created by simply applying a Forex strategy to a stock index market like the FTSE100, or by adapting a stock trading system to suit binary options trading.

2. **How much to trade:** This is the part of your system that tells you how much to buy and sell, or risk on each trade. If you're looking for accelerated growth to a small account you might tweak your money management settings using the settings from more aggressive approaches. And if you're already trading a sizeable account, you might usher-in a more conservative methodology to protect and preserve your existing trading bank.

3. **When to enter a trade**: This is the part of your system that gives you the green light to go – your entry signal. The world is your oyster here. No matter what your timeframe of trading, you'll be able to borrow and test ideas from almost any other trading system. Scalpers might ethically steal a Swing trader's approach and there's absolutely nothing to stop a long-term position trader

looking to the day trader's toolbox for ideas. Remember how preconceived prejudices might be stopping you discovering a little gem.

4. **When to exit a winning trade**: Exit strategy on winning trades is probably one of most neglected areas of trading, yet one that can make a big difference to your results. This is definitely an area to spend some time on. See what new ideas you can plunder and introduce to your campaigns from other trading systems.

5. **When to exit a losing trade**: Don't be afraid of the losing trade – they are an essential part of any systemised approach. Be very wary of any system that seems to shrug them aside as if they don't matter or that they won't happen – that's not a good approach to model.

But otherwise feel free to test and appraise any idea you come across. There are some really clever ways of applying trailing stop losses I'm currently testing myself. And you know what? I didn't invent a single one of them!

Trade Your Own System

There's no one-size-fits-all in the markets

I've another client question to share with you. This one will give you a deeper insight into the results other traders are achieving. And it could also help you steer your way out of a nasty mind-fog if you ever find yourself in a similar position to Jim (I’ve changed his real name to protect his privacy).

Here’s how he describes the situation:

Jim has two strategies he uses…

The first is a EURUSD method. It trades the 60 minute chart and it holds positions for between one and twenty days.

When he gets into a trade he looks for 1:1 reward to risk on half his position. He then lets the other half run on, looking for a higher return of 2:1.

He did nine months of demo trading with this before taking it live. His tests recorded paper profits of 4610 pips.

When he started trading with real money he netted 1836 pips on a single full contract. It was worth A$18,360.00 in profits to him.

Sounds pretty good, right?

But he’s also got a second system that trades USDJPY. He’s based in Australia so he gets good access to the Asia sessions in his home time zone. He averaged 280 pips per month on his demo with this second system and then traded it live for a further two months. He tells me it has netted him A$12,000.00 in cash.

Now then, how many traders do you think would give their right arm for Jim's results?

Quite a few I bet! So what's the problem here?

Well, as idyllic as Jim's situation sounds, he's actually going through some heavy duty mental turmoil. You see, he started attending free webinars that his broker lays on as part of their training material and he got to know one of the presenters pretty well through the on-screen chat.

So as soon as he'd got these impressive live results tucked under his belt he pinged over a message to share the good news. (I think there was an element of approval seeking at work too!)

But when the reply came back ripping his results to shreds, telling him this is not how they (the broker) want their webinar students to trade, Jim went to pieces.

The broker told him how his risk to reward ratio was all wrong, and how the ONLY way to trade is to target twice as much as you risk. They got him to rework his strategies to try and fit around THEIR ideas. And now Jim doesn't know whether he's coming or going.

Here's what he says: "Now normally I wouldn't worry about this and just go on trading.

"However, as you know, emotions play a big part of trading and now he has planted the seed of doubt.

"All last week I found myself second guessing and stressing that maybe he's right and to be honest it's really screwing with my head.

"I have spent a long time working on these strategies to get them just right and now I'm starting to feel like I've wasted my time." Talk about a kick in the teeth!

It can be tough enough to find a strategy that fits your personal

requirements at the best of times. But then to have your profitable efforts slated by someone seen as an authority...

Well, it makes you wonder what's behind it all, doesn't it?

Questioning the motives of the broker by offering free training in the first place is one thing. Think about it, they're always going to promote a style of trading that benefits THEM in some way. But why shouldn't you trade however you damn please?

The good news is that you are free to do just that. You can - and should - trade in a way that suits you best. But you shouldn't take this freedom as license to run amok. You still need to make sure any strategy is effective before you risk your money!

Start with a proven strategy. Get used to the method behind it and watch the results it produces. And then start to experiment with putting your own twist on things. That's the best way to come up with a tailor-fit trading system.

Don't try and reinvent the wheel. But don't let yourself get boxed-in by other people's opinions either.

The beauty of trading is instant feedback

Want to know how effective a particular system is? That's simple, load some funds into a small test account and get to work. The market will soon tell you if it's viable or not.

If it's a higher frequency method you'll know whether to pursue it further or pull the plug in around two weeks. And you'll be able to tell in an easy way - by looking at the bottom line of your brokerage statement.

And that's the beauty of this business. There's a transparent way of keeping tabs on your progress. The money keeps score for you.

But not money at all costs… You've got to consider your health, too.

Tune-up your performance by all means, but not to the extent you're losing sleep or feeling frazzled by stress.

Dial things back one notch from the high-level stress point and you'll hit your own personal sweet spot. It'll be different to other people so don't feel like you have to compare your results.

There's no one-size-fits-all in the markets

Now there are only four key elements you need to consider when evaluating a trading system:

1. **How much do the winning trades win**
2. **How much do the losing trades lose**
3. **How often to the winning trades win**
4. **How often does the system trade**

Combine these four things together in various ways and you can come up with all manner of trading styles of trading that get good results. Think about it: if the ONLY way to trade was to enter at a specific point and then exit with a 2:1 reward to risk it would be impossible to trade. There would be no market because no-one would be willing to take the other side of the trade. Everyone would be trying to do exactly the same thing at the same time!

So whereas taking the 2:1 ratio is a well balanced approach, it's not the ONLY way.

For example, one of the Bond strategies I used to trade was the opposite way around. When it took a losing trade it lost twice as much as it won on a positive trade. But it did win 75% of the time.

So even though it hurt to take a loss or two in close succession, the money was always there if you could hold your nerve.

Don't trust anyone's opinion but your own

Now this might sound a bit harsh, because there are plenty of well-meaning people out there offering advice and opinion. But you've got to take any piece of trading information – whether it comes from me or anyone else - and give careful thought to its merit.

You need to decide whether to cast it aside as useless to YOU, or slot it into your evolving personal knowledge-base as a useful tool.

If you **are** keeping it, make sure you put it to the test. Remember, in the markets only one thing tells you what's right and wrong. And that's the result you see on the bottom line of your own statement!

That's (Not) All Folks!

By your Editor's estimation the nearly 40 articles contained in this book represent about half of the contents of the '*Articles'* section of Rich's *'Traders Nest'* website. I doubt there's a trader out there who would not benefit from winnowing through this additional material.

As we mentioned, all this wisdom as well as contact with your trading peers (and much more) is available free if you register to join the site. You can't lose and there is much to gain...

Sign up at this web address: www.TradersNest.com

We wish you a profitable journey into trading