BRV 'No Brainer' S+R Trading

Taken from posts up to 28th July
Taken from posts by BillyRayValentine and Ironman

Index:

Making Money and the Most Basic of All Strategies

Throughout my years of trading, I have been lucky to have had some good experience and have picked up two important things:

1.Trading as a means of steady income is not a painful process if you know what you are doing
2.Trading can be a very painful process if you listen to the wrong information

New traders suffer a severe disadvantage because they do not understand what moves the market and how to react to certain outcomes. When attempting to learn, the overflow of information out there can be both beneficial and disastrous. This article is intended to provide one winning strategy that provides a very high winning percentage rate, uses no indicators, and is simple to learn and follow. It is also intended to provide information regarding market movers and how they generally operate in relation to this strategy, as it is probabilistically the most widely used and followed.

I'm going to outline my own abbreviated trading plan, making it easier to understand through explanations and presenting examples as to how I trade on a long-term and intraday basis.

Before you read on, I encourage you to take a look at a general overview of the interbank market and how it works. It baffles me that such a large portion of retail traders out there have no clue of this structure, and it's no wonder why so many of them lose money on a regular basis. Deficiency of knowledge in any endeavor is usually going to lead to failure. Understand what you are trading before you trade it, and then move on. You can find one here: http://www.investopedia.com/articles/forex/06/interbank.asp

Banks control the cash. Retail traders such as you or I, as well as major funds play a key part in the movement of the market, but at the end of the day, the banks are the ones putting on multi-million dollar positions which essentially drive the markets. We would like to think we are a bigger part of it, but we're not.

Working for a major fund and a bank for several years, I realized what a joke a lot of trading really was and how simple it really can be for any novice investor with a willingness to learn. In my shop, we had one dedicated analyst per pair and he or she basically called out the shots to traders on the desk. The trader is responsible for moving the cash while securing profit whenever possible. With virtually no spread, most of the positions would last from a few seconds to several minutes. Many of them would take tiny profits trading countertrend all day long, along with hedging other traders, causing rises and shifting bars as you see on a regular basis.

When an order gets placed that seems larger than life, and chips start to stack on, others usually follow like a herd like sheep. The largest orders are placed in areas of extreme support and resistance, and most of the market makers are fully aware of this fact. Analytics done by the banks usually outline these areas first and foremost, hence it's the most widely used and followed technique at distinguishing reversal points. Other analytics are used as well, such as diagonal trend lines, pivots, price channels, macd, moving averages, etc., but issues over ambiguity arise with all of them. The technique I'll describe below uses nothing more than support and resistance, with other methods allowing for possible trend-riding along the way. It's what the big players do; therefore, it makes sense to be doing it as well.

No strategy is going to be perfect, because on top of everyday speculative trading there are other influences on the foreign exchange market, and it might be difficult to discern when one price level will be more influential than another. As a retail trader following this technique, however, it is fully possible to profit 80 to hundreds of pips in a five hour session, each and every day. Less is more, in this case.

I make about 5 to 10 trades per session, each one fitting into the framework of a high probability. I've used this technique over the past 3 years now because it has proven to me to be the most reliable and simple to trade. Others will argue, but while they argue and are looking to short GBP, I'm already closing my trade with 20 pips of profit. They go short, and price bounces back up, and I hope to explain why here.

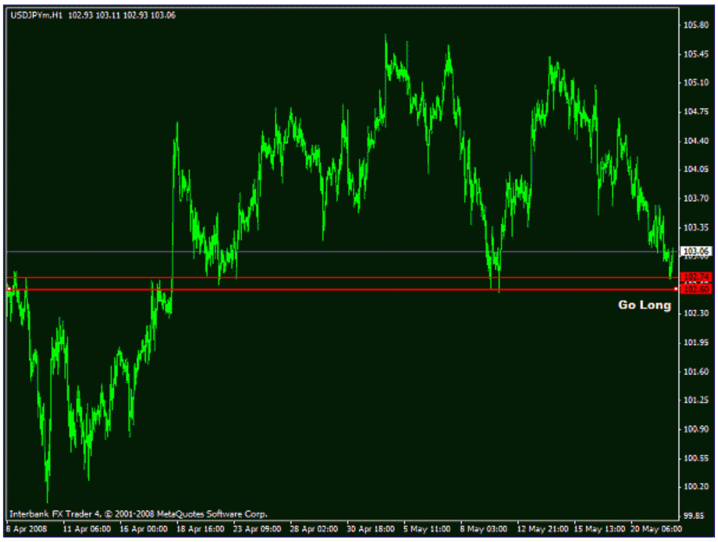
Areas of support and resistance hold because unlike other methods, anyone trading in any timeframe can look at a chart and see where price has reacted many times in the past, or what will be a "no brainer" in the immediate future. Any level is subject to a breakout on a reaction of news, or other various influences. It is important at all times to gauge the current market conditions and in good judgment decide whether or not the level should hold or bust. For example, on days of hysteria where the dollar is getting smashed, you're a lot less likely to make a ton of pips on these levels if they are countertrend. The same can be true for Fridays (stop hunting day), in times of option expiration or at the very end of the month. Regardless, even on these days, it is possible to use this technique to enter trades in the direction of the trend on a retracement to the exact pip, allowing you to take advantage of the madness of the volatility.

The Trading Itself

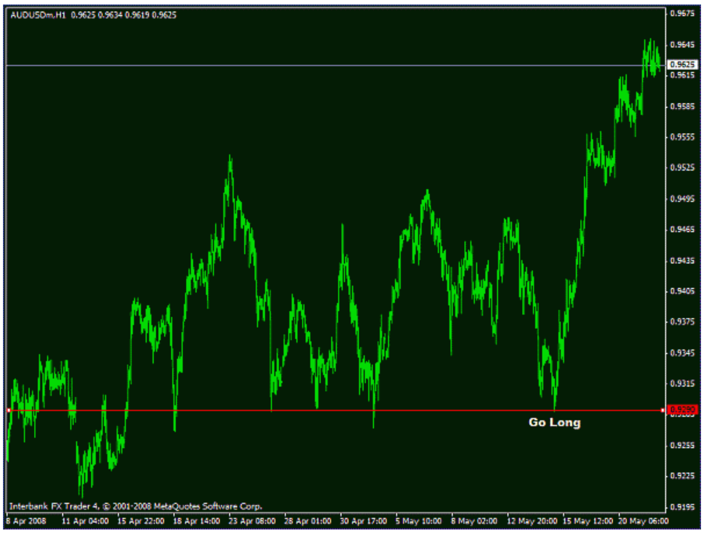
There are 2 different types of support and resistance which generally hold: long-term and near-term.

Long-term support and resistance levels can be distinguished on a 1-hour or greater timeframe. I typically start with a 4-hour chart and scroll down or up depending on the situation. Long term support and resistance levels, under laxed market conditions, can be good for 100+ pips at a time, unless under the conditions previously described. Here is an example of a current USD/JPY trade that bounced right off of predetermined levels. As I write it is currently +40 pips in profit, and the original posting before the trade can be found here: http://www.forexfactory.com/showpost.php?p=2011414&postcount=238

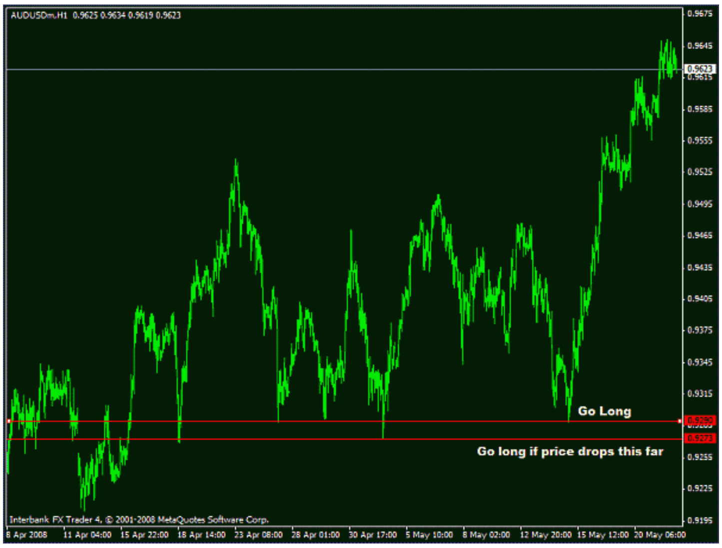
As you can see from the chart below, this entire area has been used as both support and resistance many times in the past. Due to the heavy influence it has had in the market during previous times, a very high probability exists that price will bounce right off of it.
The range of the level might be difficult to discern, as it can be rather wide. Looking at the most recent reactionary levels, one can determine that the most relevant range of price action is 102.74 to 102.60. Within this 15 pip range price was expected to bounce, as it did, right off of 102.73.



Another example on AUD/USD you can find below. You can see that, on several occasions in the past, price used the .9290 level as support. This time was no different. Price hit it right on the nose and started its long journey into new highs. The original posting for this trade can be found here: http://www.forexfactory.com/showpost...63&postcount=3

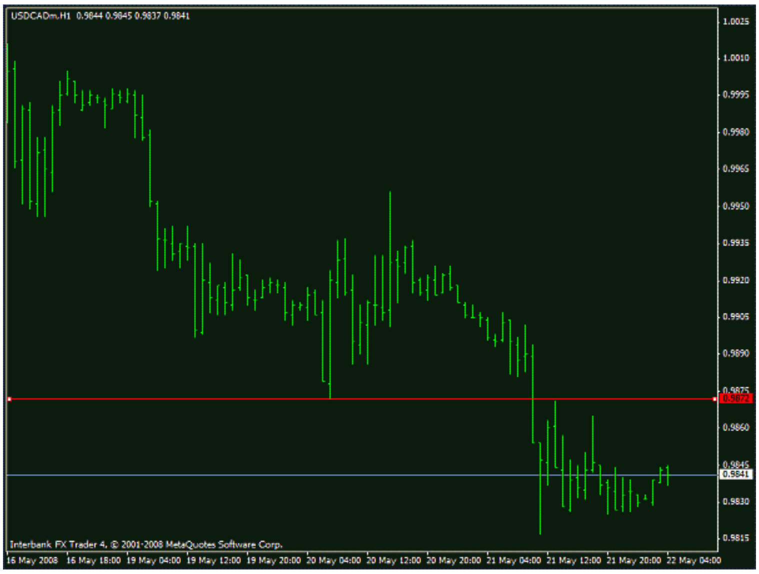


This AUD trade is a good example of ranges, and how to tell which level price will bounce off of if multiple areas of support/resistance can be found in the same area. You can see here that in addition to .9290 support, there is also relevant support lower at 0.9273. One strategy is to scale into the position, putting on a portion of it at .9290 and, if price dropped any lower, put the rest on at 0.9273. Your stop loss should be placed directly under these levels, as if price continued to move any lower, it would signify a follow through, and clean break of this level.

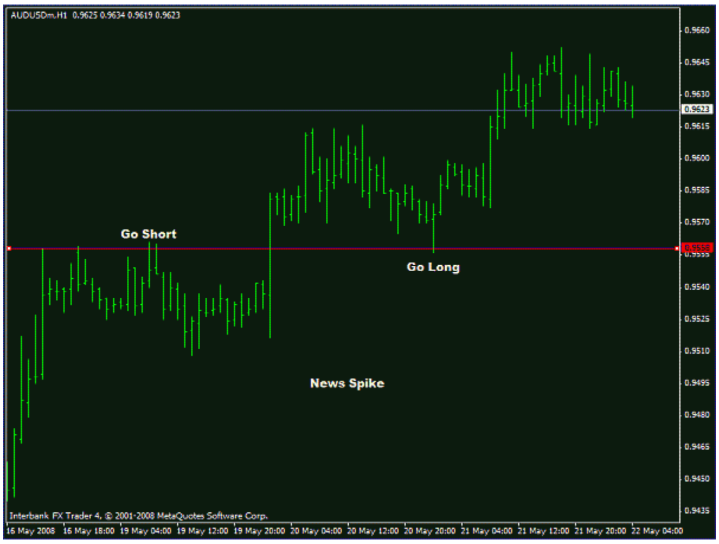


Near-term support and resistance occurs when a previous level is breached, and that support (or resistance) level acts as a resistance (or support) level. The best timeframe to view these on is 1-hour or less. Starting with a 1-hour chart, work your way down to smaller timeframes, paying close attention to the points of support and resistance on the last wave moving countertrend to the current one. 1-hour charts sometimes cover up these areas, requiring a 30-min or 15-min chart to view them properly.

An example of this can be found with a trade I took today on USD/CAD. On news, price spiked down through the former 0.9872 level of support, all the way down to 0.9817. Two hours later, price lurked its way back up to 0.9872, and began to sell off for approximately +35 pips of profit. These happen over and over again on a daily basis, and can be very easy to spot.



Another example below on AUD. Again on news, price made new highs, busting through 0.9558 resistance. Several hours later, price moved back down to this level, tapped it, and was good for approximately +92 pips profit at maximum. You can also see that several opportunities were present to short AUD/USD previous to the news spike, as well.



Taking Profits

Profit should be taken in relation to the setup and current market conditions. No two trades are exactly alike; market conditions change all the time. Typically speaking, near-term support and resistance provides for smaller moves. For some, they can lead to trend continuation; for others, they can lead to consolidation. With the exclusion of market conditions, here are the rules I generally follow:

For long-term support and resistance: I will typically take partial profits at around +40 pips or so, and leave the rest on and see if I get a runner. I will look for opposing areas of support and resistance and use them to scale out of a position.

For near-term support and resistance: I will typically take partial profits at around +20 pips or so, and leave the rest on for continuation. Again, I will look for opposing areas of support and resistance to scale out.

Understanding current market conditions is crucial to taking profits. Whether it be a long-term or near-term support or resistance trade, current market conditions could leave you empty handed for the day if you are not working with them properly. In a wild market, it is best to secure some profit as early as possible (20 pips or so).

Once any trade is +20 pips in the money, I will usually set my stop loss to breakeven. If the market turns on you, it is probably doing it for a good reason.

If the trade is a continuation of a current trend, you might have a better shot at more pips, though it is not always necessarily the case. Long-term support and resistance can commonly act as major barriers, priming the market for a trend reversal.

Things to avoid:

1. Putting on a counter-trend trade during a news spike
2. Not setting a stop loss to breakeven when profit is +20 pips in the money
3. Holding too much conviction on a long-term move
4. Generalizing beliefs on where price will head
5. Not waiting for the setup
6. Chasing a trade late after a setup has already occurred
7. Sloppy trading (“sure, it’s going up”)
8.Letting a profitable trade turn red

Trade Planning and Mental Maintenance

Daily Planning

My day always begins with me opening my charts and doing a basic analysis of possible market turning points. My most highly probable levels get a limit order placed on them, which I am quick to adjust or cancel if market conditions seem overheated or otherwise fundamentally wrong. For all levels in the range of the current price which could possibly be hit in the next day, I mark them up and set price alerts about 15 pips away from each so I know when its time to trade. I mark up levels higher and lower than the current price, so I'm ready regardless of what direction the market decides to head.

Once I get my ideas drawn out on the charts I will usually write them down, outlining the main trades I intend to take during the session. When I'm done, it looks something like this:

sell eur 1.5948, watch for break on diag 4hr TL to the downside, want to buy again big at 1.5670 with other possible buys at 1.5761 and 1.5727, gbp buy still same at convergence of diag tl and horizontal support - looking at action looks like its going to be 1.9838 or higher, 2.000-2.0010 could work as a sell again, AUD sell mark at 0.9775 area, buy never got hit and still intact at 0.9668, buy again on a break down to 0.9639 though will be hard for price to move that far down there, sell EJ same at 170.00, buy at 168.62, UJ buy at 105.90 and looking for a break of the downward sloping diagonal trendline at that point back up to the highs at 108.62 best case scenario (which is a good target for several diff reasons not just because the high), otherwise need to reevealuate sells - intraday 107.41, 107.65, 108.00 are the best candidates, 107.65 best payout at this point, nzd is a buy for me at 0.7538 and .7400, sell it at 0.7681, chf buying pressure at 1.0142 -35, selling at 1.0276, with a sell for dummies at 1.0311-21

By doing this exercise, I'm well-prepared for the upcoming session and any variables that might present themselves. I know what I'm going to do next, and its hard to miss a trade by following this plan.

Doing this eliminates the possibility of me "shooting from the hip" and taking trades that simply shouldn't be taken. Every day something goes according to plan, and it's a result of simply looking ahead and planning a wide range of high probability moves for the next day.

Lack of planning will leave you unorganized and scrambling throughout the session to find the next best thing, when you have already missed three of them earlier in the day. If you plan out a range of possibilities before the session, however, you're sending in a soldier to do a soldier's job as opposed to a boy scout.

The Board of Disaster

Maybe a little melodramatic in its name, but I have a board next to me that outlines my worst moments and trades gone wrong. If I make a error that leads me into a realm of disaster, I print out the chart, mark it up, and make sure it never happens again. Experience is key in trading, and through every mistake is value in the end. I don't like making an error more than once. "Three strikes and you're out" only works in baseball. Three strikes in trading can cost you dearly. Do it once, fine, but don't ever do it again.

Boredom

Taking trades when the market is ready is the correct thing to do. Taking trades when YOU are ready is the wrong thing to do. Wait, wait, wait for the setup and execute, no sooner, no later. Overtrading is the killer of all killers. When I'm bored, I'll usually just plan the next run of potential trades or work on some side projects. If I have a session where I don't make any trades, I walk away, and brush myself off, because I realize one important thing: it's better to take a trade and make money than risk losing thousands because you were looking for something to do.

Anxiety

Anxiety is bad for a number of different scenarios:

-failing to take a profitable trade
-closing a trade too early instead of letting profits run
-closing a trade too early because you are experiencing some drawdown
....among others

Anxiety gets smoothed with experience and mostly nothing else. If you are inexperienced and have no anxiety I would be worried as well. It is natural to be a little fearful in the beginning but overall time heals the psychological aspects that prevent you from becoming more profitable. But even for experienced traders, anxiety can kick in hard if he or she posts a big loss or some other dramatic event takes place. Picking yourself up and moving onto the next set of trades is the only thing that will keep you moving forward.

Reality versus Desired Outcome

It's a rather over exhausted subject but nonetheless worth stressing day in and day out. Making the most of your rational thinking is perhaps one of the greatest necessities to making the most of your trading account. There is a fine line between realizing when you are wrong and when you are right while keeping the book open in terms of what could happen next. You need to be more than objective in your approach, while trading defensively in order to maintain profits. Using a fixed risk/reward ratio and proven trading system eliminates most of this, as long as it is followed and rules are obeyed 100%.

Why do these levels work? (Ironman)

If you went to the movies and spent $18.94 would you later say, "I spent $18.94 at the movies or would you say, "I spent 20 bucks at the movies"

If you went to a new car dealer and picked out the perfect car for your needs and they told you it cost $30,000.00 dollars would you immediately recall what you paid for your last car or depending on your age maybe your first car?

These are two examples of our human psychology at work. It is the way society has hard-wired us.

So if price bounced there before it will probably do it again because those candles and price bars are people with real emotions,fear, greed, goals and memories.

Now as sure as we live and breathe, there are times it will fail. These reasons are not written in stone. There is no substitute for experience. So be sure to get in as much "screen time" as you can.

Strong Versus Weak Levels

Not all things are quite the same in trading. Some levels are unarguably much stronger than others, and stand a much higher probability for success. When we are looking to determine which levels are stronger than others, the key word is time. Generally speaking, support and resistance levels hold much greater significance when they can be viewed on higher timeframes. Your probability for success generally increases by taking trades found these higher timeframes, but higher timeframes can also hide many potential trades which can be found in lower timeframes.

Before we go any further, it is important to note the significance behind the clarity of these levels. In other words, the easier they are to spot, the more likely the level is to act as a price turning point. If a level has been "sloshed" around for sometime, its significance begins to fade, at which point the probability of the trade will as well.

Typically, when we begin our search for potential trades for the day, we prefer a 3 or 4hr timeframe, and work our way to higher (daily, weekly, monthly) or lower timeframes (1hr, 30min, 15min), depending on the uniqueness of the situation. We scan through the charts and mark up potential price turning points of support and resistance. When price is trending, it is generally easier to mark up higher probability trades than when price is in consolidation, as there will be less areas of support and resistance to be noted. When price consolidates, it starts to become more difficult to determine where price will actually react.

We open our 4hr chart and are looking to see where price has historically bounced. When a particular area has been used as both support and resistance, we make a note of it, and start looking for other clues that it will be a good reaction point, which will be discussed later. Oftentimes, from our 4hr chart, we will see a "range" of support and resistance, anywhere from 5 – 30 pips. In order to more precisely determine where to enter the trade (it is possible to enter trades with zero drawdown using this method) we will scroll down to a lower timeframe and look at the last few times price used this level. We look to find an exact price where price has bounced off of the most; that price will certainly hold the most significance to us, and it is where we will usually choose to enter our trade.

Weaker levels are found on lower timeframes, usually from 15 min to 5 min charts. We typically do not use these timeframes when originating a support and resistance level, as our probabilities for success decline. These smaller timeframes are used, however, for trade management purposes and defining exact entry points for levels found on higher timeframes.

Other technical factors come into play when determining a strong versus weak level, such as Fibonacci extensions or diagonal trendlines, which will be discussed later. Finding your strongest levels on your charts is the first and largest concern, and should encompass most of your daily routine. These are the levels which pay, and require the most attention.

Knowing if the Level Will Hold: When to Fade, When Not to Fade

Confidence in any endeavor is usually just a function of experience. Trading is no different, and successful traders are rarely born overnight. From our own experience, we have developed a basic checklist in regards to when a safe trade setup stares us down. For newer traders, confidence in these levels will grow over time as you will probably see levels you have clearly identified act as a major market turning point. We encourage taking only the safest trades in the beginning, and later becoming more flexible on an intraday basis as your experience grows and you know what to look for.

Once we define a support or resistance level, we look at the following when deciding if we want to trade off of it or not:

Its historical significance. Has the price level proved to be strong over time? There must be at least two or three clear instances in which the level has acted as strong support/resistance.

If the level has acted as both support AND resistance. Levels that have historically held significance as both support and resistance tend to hold much better than those that have only acted as only as one or the other.

The time between now and the last time it was hit. If a level was just used, and then price makes a run right back to it, be hesitant about putting on a new trade. When a significant support/resistance level "sits" for a longer period of time, it has a much better likelihood of holding than those hit more recently. Look for major corrections/time passing between levels to enhance probability. This is one of the biggest things we look at.

If the level has not been "used and abused". Levels that have seen such a significant amount of price action will eventually bust. Breakouts are inevitable on any chart. Be sure that the level has not been used too many times to the point where it becomes insignificant and/or unnoticeable by the majority.

If price has already undergone a significant retracement not too far away (20 or less pips appx.) from the level we want to trade. For instance, EUR/USD is in an uptrend. You mark a level at 1.5715. It hits 1.5700 and then retraces down to 1.5670, and then starts coming up again, taking out 1.5700. Your chances of price then making another retracement from 1.5715 have now declined. Look for good spacing between pullbacks, usually anywhere from 40-60 pips on majors.

If there is a significant Fibonacci extension coinciding with the level. The top three Fibonacci levels, .50, .618, and .764 hold a lot of weight. Pay attention to them, especially if they coincide with significant support/resistance level. Commonly, price will either barely hit or surpass these Fibonacci extensions before retracing. This is usually because market movers are looking for the support/resistance level in the area. Plan to take the trade at the support/resistance level, and not the exact Fibonacci extension.

If there is a clear and unmistakable diagonal trendline coinciding with the level. Less important, but we still look at it. Diagonal trendlines that have been used and abused, just like horizontal support/resistance will eventually break. Be aware of this.

Be aware that neither a Fibonacci extension or diagonal trendline have to be in place in conjunction with horizontal support/resistance in order for us to take a trade. They are used only as guides, with Fibonacci levels holding much more significant weight.

With all of these factors taken into account, trade setups offer a very high probability. In conjunction with our rules on when not to trade, your account should be growing in no time. Again, experience pays off; the more you begin to take notice of price reacting off of these levels, the more you begin to realize their potential.

Why look for price ranges and not a specific price?

The reason for price ranges is because the market can generally have tendencies to get overexcited around these areas, by either pushing price lower looking for orders or coming close to an area and shoving off of it prematurely. Either way, we dont want to miss the trade nor get in too early.

Another thing and probably more important/relevant: the last wave up usually holds the most significance in regards to the actual market turning point. In this case, we have strong resistance which will turn into support at .9410 on the last move up. Because it is near a "00" area, however, we want to include the range below it as well, down to the double zeros. The reason for this is that many traders will have lots of orders stacked right on the double zeros, and market makers are going to want to take those out in order to gain momentum.

But its only safe to fade double zeros when they hold strong historical significance or are not sloshed around and lose significance over time. I hear a lot of FX educators saying to fade double zeros all the time but most dont know what they're talking about. The level has to have history behind it as a reactionary level and enough time lapsed from the last time it got hit in order for it to provide a decent bounce.

Combining S+R with Fibonacci Levels

Fibonacci levels have long been used by market technicians to identify turning points as well as determining price objectives. We focus in on them because of the fact that they are so widely used and monitored by analysts of all size, especially key market movers. Most trading platforms come with a Fibonacci extension drawing tool that allows you measure the length of a price wave and identify the proper extensions with ease.

We use Fibonacci levels only in conjunction with support and resistance. We will not enter a trade based solely on a Fibonacci retracement. If a significant Fibonacci level is present at a significant support/resistance level, the probability of a trade’s success becomes much higher.

3 Fibonacci retracements are used in our analysis: .50, .618, and .764. In that order, these levels tend to hold the highest significance. .50 retracements that coincide with strong support or resistance levels prove to be very good times for pullbacks, at which point we are usually taking advantage of the trade. We choose not to use lower level retracements (.236, .382) because the correction, or pullback, from the last major wave would be considered to be still within its infancy stages, and determining major corrections from these levels generally prove to be less reliable).

Much like in the identification of support/resistance levels, Fibonacci levels must be clear to define. Unlike in the definition of support and resistance levels, there might be several different ways to draw a Fibonacci extension. If ambiguity exists over a proper way to draw the extension then we prefer not to use them at all.

Also in line with the definition of support and resistance levels is the concept of time. Fibonacci extensions drawn over higher timeframes hold much greater significance than those drawn on smaller timeframes. For our purposes, we generally do not look at Fibonacci extensions on anything less than a 4hr timeframe. Another way of explaining it is that Fibonacci extensions drawn from larger waves hold much greater significance than those drawn from smaller waves.

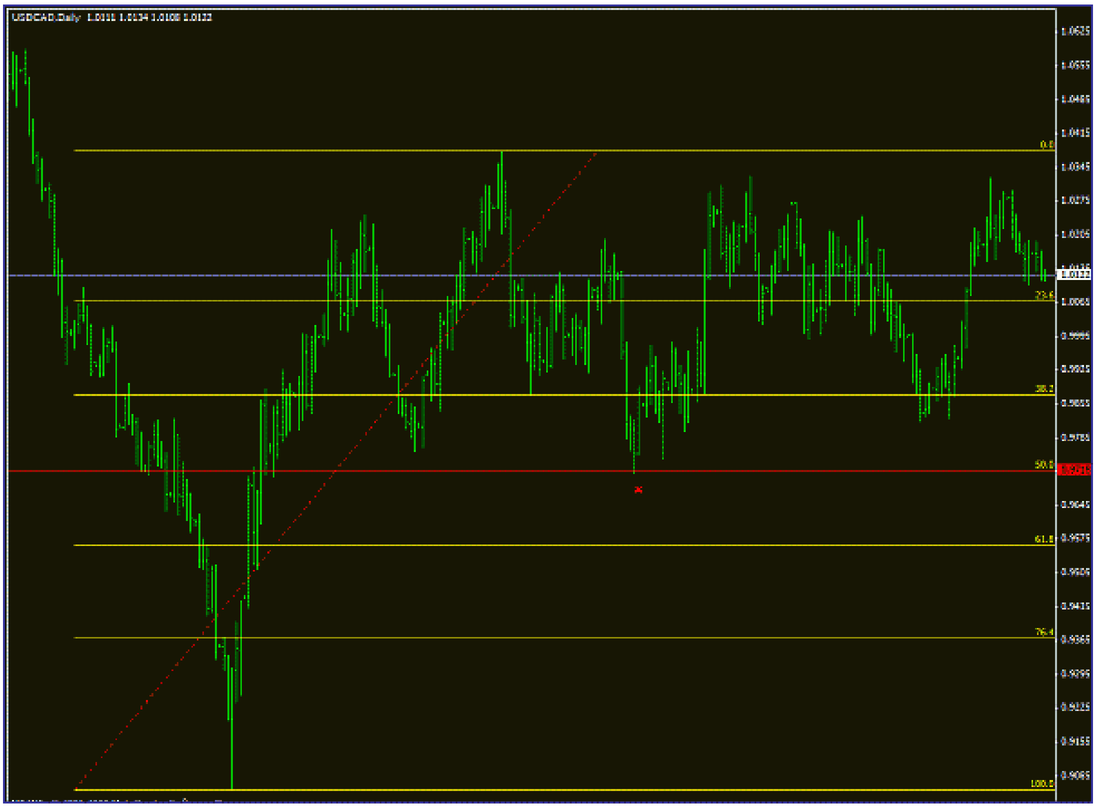
To draw a Fibonacci extension in uptrend turned downtrend, connect the highest high of the wave with the lowest low. To draw a Fibonacci extension in a downtrend turned uptrend, connect the lowest low of the wave with the highest high.

You can also calculate these levels manually, in order to more precisely define the level by doing the following:

(highest high - lowest lowest low)*.50

If we take a look at the chart of USD/CAD below, we can clearly see that the price range around 0.9718had been used as both support and resistance on the first wave down and the first wave up. When this wave completed its cycle and began to correct, this level also came in line with a .50 Fibonacci extension. When price finally hit it, it served as a very significant market turning point, good for several hundred pips on its move back up. This is the true definition of a "No Brainer Trade". Under normal market conditions, our confidence level would be way above average on this one.

Again we do not enter trades based solely on Fibonacci retracements. Historical support and resistance must be present in order for us to enter a trade. Fibonacci retracements can also be used as a guide in areas where support and resistance levels might be difficult to identify, as their significance does not go unnoticed. Commonly, in areas of price consolidation, we will use them in order to identify the most significant market turning points. Ultimately, they reinforce these levels and greatly increase your trade's chances of success.



Combining S+R with Diagonal Trendlines

Much like Fibonacci extensions, diagonal trendlines can be used as a guide when attempting to enter a trade. They are at the bottom of our list because they are generally the weakest, and drawing them can be very ambiguous. Ambiguity is one word we do not like to incorporate in our trading. Because of this we advise you to use them with caution. Regardless, when used in conjunction with horizontal support/resistance, they can reinforce our reasons for entering.

The first major rule when using diagonal trendlines is that when you are drawing them, they must be absolutely clear to the rest of the world. I received some sell-side technical research from a major investment bank one day. The analyst had a chart marked up with a diagonal trendline drawn through several price levels, connecting points which I had a hard time understanding. Sure enough, price broke right through his trendline that very day, and the next day, his trendline was revised to a more reasonable price point; the one which should have been used in the first place.

I can't stress it enough, so I'll say it again: the trendline must be absolutely clear to the rest of the world. We all perceive things in different ways, but the money we trade with needs to be protected. Only use diagonal trendlines if they are very obvious and significant.

Diagonal trendlines do indeed provide support and resistance; we only use them, however, to reinforce our horizontal support and resistance. When the two combine, your probability of success increases, making for a safe trade. Like horizontal support and resistance, however, a diagonal trendline that has been used over and over again will eventually break. Be cautious of consolidated price around these levels.

Also, much like horizontal support and resistance and Fibonacci extensions, diagonal trendlines found on higher timeframes hold much more significance than those found on lower timeframes. We generally start with 4hr charts and work our way up or down, depending on the situation.

HOW LONG WILL THE MOVE LAST......

is the question I hate the most about trading. Its extremely difficult to tell sometimes.

OBSTACLES are the key work here. Please excuse the metaphor but its like a treasure hunt. You get one clue, and it leads you to the next, which leads you to the next, etc.

There are 3 major obstacles for letting a position run:

1 - Opposing horizontal support and resistance
2 - Diagonal trendlines
3 - News events

You obviously want the first 2 broken and the third one in your favor in order to keep the position going.

Forget the third one lets talk about the first 2. Scenario:

You're in a short trade. You nailed the reversal to the very pip. You're in the money by 20 pips.

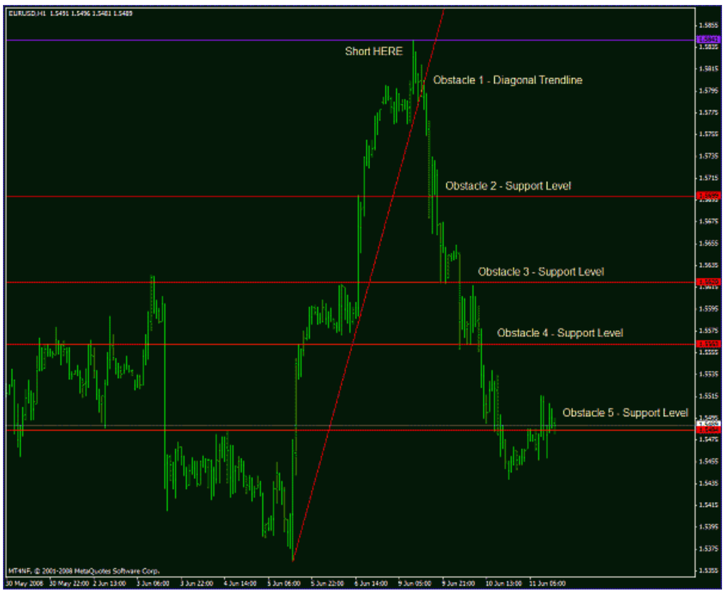
Q - How long will the move last?
A - As long as obstacles keep getting broken.

Advice: Take partial profits at each obstacle.

Each obstacle also presents the opportunity to trade countertrend and scalp 20 to 50 pips at a time. Also, because each support level will turn into resistance on the way down, you can trail a stop loss above each of the previous support levels, so if one of them gets broken, you're out of the trade.

We really dont know all the time how long each move will last, but as long as we keep taking profits, we're making money. Tightening stops as we go eliminates the possibility of losing anything as well.

Here's a basic picture to give you an idea on the last few hundred pip move on EUR where we shorted at .1.5840 earlier this week:



I keep on talking in general terms sometimes saying things like "it depends", or "you have to look at current market conditions", etc. etc. The reason I say this is because it does and you have to. There is no black and white answer.

We're not cooking a rotisserie chicken here; there's no such thing as "set and forget" in the fx market.

In fact, last time I cooked a rotisserie chicken I remember having to check it a lot in order to make sure it was just right. The trades posted here are intended to mark major market turning points (100 plus pips) because they are major areas of support and resistance. Some of the reasons they may only last for 20 pips include:

1. The market just underwent a major correction of 80 or more pips (just an approximation) at a support/resistance level no more than 30 or 40 or 50 or so pips away from the current one. In other words, if the market already underwent a major correction at a level just slightly futher away from where price is now, you've got a much slighter chance of hitting a home run on it.

2. Low liquidity. Market makers are paying off the mortgage and buying the wife a new Range Rover on your money because nobody is there to stop them. Includes holidays, the very beginning and end of weeks, etc.

3. Market moving on hysteria, rumors, news, etc. Dollar getting eaten for dessert? Why try to serve it? If the dollar is getting smashed on any particular day, and you're in a fast-moving market, your chances of a trend reversal get pretty slim.

4. More significant target further away. Option expiration and everyone wants to knock out the knock out options. Put a frame around those double zeros 100 pips away, wrap it up and put it under the Christmas tree because over someone's dead body will they be allowed to make money at expiration.

This also applies to other levels of support and resistance and changing market patterns. Sometimes diagonal trendlines do hold, and in order to complete the sequence and get everyone else on board, price will creep to where it needs to to make it look like the perfect situation.

5. Impatience and weariness. Support and resistence gets used and abused over and over again, until enough is enough, and a breakout is due.

And on and on we go. My typical day starts by looking through my charts and looking for reversal points up, down and all around. Based on where price is currently, I say to myself:

- What are the long and short term trends?
- If price moves up, where is it going to reverse?
- If price moves down, where is it going to reverse?
- Will I be looking for a trend continuation or a trend reversal?
- If a level gets broken, where could it go next?
- What other trendline scenarios (diagonal) could come into play? How do these coincide with my horizonal s/r?
- News coming out? If I take the trade, what's its expected life before a threat of any counter spikes?
- Taking profit: Once I'm in the trade, what opposing levels of s/r are likely to reverse price again and go against me (when should I close out based on these factors)

etc. etc.......

I mark up my charts until they look nearly illegible, marking crucial areas with dark colors making them hard for me to miss.

And then I wait until the trades come, I take them, and manage them.

With 1 through 5 on the above there are plenty of ways to hop on in and take part in the onslaught, which I encourage.....entries are a little more ambiguous, but patience and hard-look analytics pay off. Taking a look at some other stuff right now, but thanks Ironman again for the reply. Much to be learned from you. And I'll take the Ginsu knives. How else am I going to cut this stupid chicken?

Trade Continuation (Ironman)

You may look at some of these trades and say, "Well how is it that some of these trades are good for 20,30 or 40 pips or so and then they turn back and others run 150+." Here again, the answer is not too complicated. Bearing in mind there is an exception to every rule.

Bounces off S&R in favor of the previous trend tend to give up more pips. (Not that 20-40 pips is a bad trade) Otherwise the trade is a counter trend trade and the only time they payoff big is when you catch a top or a bottom. And btw, should you be fortunate enough to do that on a trade just be thankful and move on. Accept it as the luck it was. Here's why I say that. If you pick your favorite currency and zoom back through the data some Friday or Saturday afternoon, the moves that jump off the screen are the big ones. What NEVER jumps off the screen are the false breakouts. So what happens is we analyze that breakout or big reversal and (God Forbid) we add indicators until we have the perfect predictor for that particular move. So the next time we think we see that set up through our rose-colored-indicator-Warren-Buffet-eat-my-shorts-time-to-order-the-Mercedes-whirly bird machine, we go all in and lose big. Ask me how I know.

So when the bounce is against the trend I take my 20-40 pips and wait for the next set up (which sometimes is the exact same trade again) and if it's with the trend.... well I might still take my 20-40 pips (no one ever went broke taking a profit) but I am willing to accept more risk, such as, taking half off and moving my stop to break even, or maybe building a bigger position. Stuff like that.

Stop Losses

Using stop losses in general with this technique is going to require some flexibility, as you're basically looking to not get stopped out if there is another significant level nearby. Thats why if you have any doubts regarding a level it never hurts to go in at a smaller position size and scale your way in if it goes to the next level.

For intraday trading I've done stuff like this before. Today as an example, I wanted to play a bounce off of a support level on CHF, didnt like price action, so I closed some exposure, and the rest went against me. When it did, I was able to get out at about breakeven on the trade (partial profits + partial loss).

I hate to say but I usually go into every trade with low expectations. I always nab some partial as soon as I can at a reasonable amount in relation to the trade expectations (trend, countertrend or trend reversal), and if I have enough room, set the stop loss to breakeven asap. It prevents me from not making money and maintaining consistency in terms of profits.

My paycheck is about as reliable as anyone working for a salary basically doing it this way.

If the market just completely blasts away a level, and you were completely wrong, dont waste time, close atleast half of it and maintain your composure to think clearly about what could happen next.

Live Trade Example

So for example USD/JPY today you have two possible levels of reversal. One at around 104.26 and the other at 104.37.

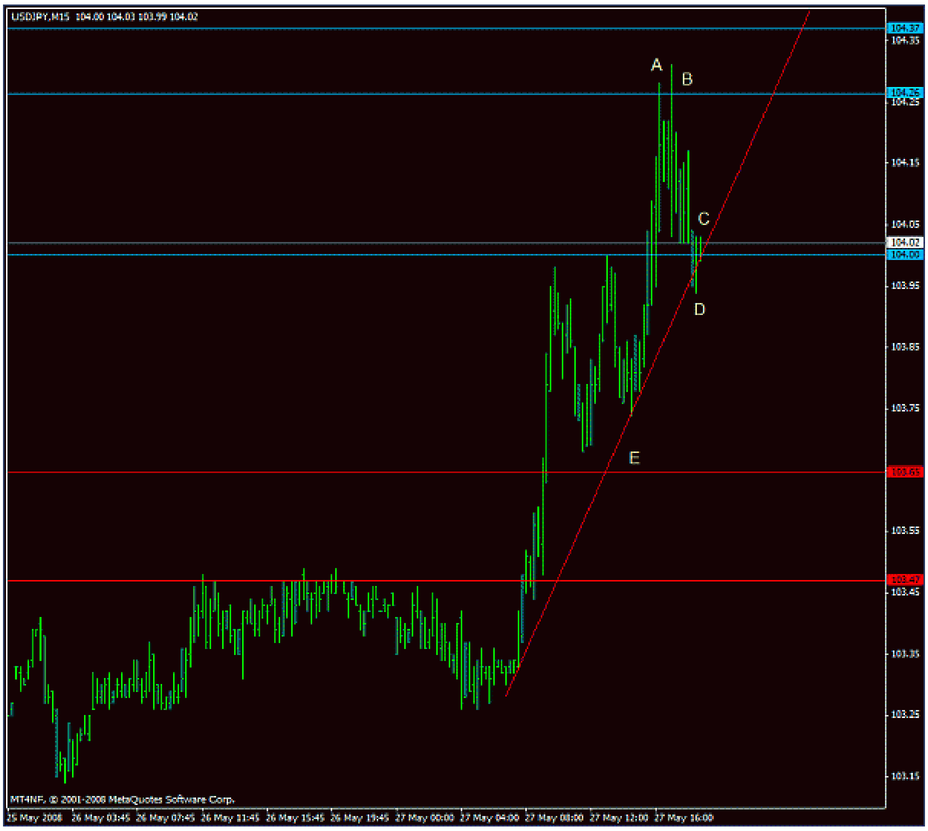
A: Price taps the level and makes a good sized retracement. Already your chances of getting a good sized bounce on the next level are slim to none.

B: Price comes back up and cant take out the level and starts to decline again. Go short. Important: during this time, I saw price being shoved down 4 pips at a time, with minor 1 or 2 pip pullbacks. You can tell what's going on. Just watch the ticks in relation to where price is. Big orders coming on, chances are the rest will follow. I got all this from just looking at the ticks. Usually these big orders lead to big moves.

C: 104.00 support. Price needs to close below it to go lower.

D: Diagonal trendline. Price needs to close (or open) below it to go lower.

E: Next major area of support/resistance. Target if C and D get met on an hourly basis.



Taking Profits

'Creating rules to exit trades' by Ironman

When do I get out of a trade? Now there's a question that haunts us all. It is a situation further exasperated by the appearance of the dynamic duo of trading. It's those mild mannered emotions, Fear and Greed. Fear gets us out too early and Greed keeps up in too long.

There is that gripping, icy fear that this trade is just another wrong call in a list of losers. Let me take my 4 pips and run and then I swear my broker must have a web cam somewhere in my home office because the second I close the trade it goes on a 100 pip tear that would have been my trade of the week.

Conversely, there is Greed, that dashing swordsman of the FX battlefield that will never back down from the likes of any cowardly retracement. (That is until your +40 becomes
-30)

Perhaps the answer is in an FX bootcamp. What if for 30 days every new trader had to do the exact same thing. OK for 30 days this is what we are going to do. We are going to sell the EURUSD at the beginning of the last 30 minutes of the European session and we are going to square that position at the European close 30 minutes later. OK done.

What did we just do. We created parameters for our trading. Rules. We don't need indicators because we know exactly when we are going to enter our trade. We don't need to worry about Stop loss or Limits because we have defined that as well.

Now 30 days later, what happened? Without the benefit of a crystal ball I would say that some of those trades won and some of them lost. Some of them that were winners would have become losers if you had not had a predetermined time to get out and perhaps some of your losers may have become winners if you could have just been allowed to bend the rules a bit and held them just a little longer. Also, you will have noticed certain characteristics about price behavior surrounding this time.

Now I don't advocate the aforementioned example as a valid trading style. Nor do I suggest that we add a dozen indicators to filter out the false signals until we have a chart so confusing that we would end up in therapy if we tried to explain to anyone how it worked. But let's examine some fundamental truths shall we.

We have various S&R levels to enter on and perhaps rather than wonder will it bounce we should take the trade (just like a set time) And just like in our bootcamp some will be winners and some will be losers but as we continually experience the market we develop a feel for where price is going. One of the things I have learned about this trading style is that many times you are afforded the opportunity to exit losers at or near breakeven. Just like trading the same time everyday would reveal price action to you trading the same style does that as well.

OK what have we learned so far? I get into the habit of drawing S&R lines. I enter when price nears one and I watch to see what happens. Price doesn't really go anywhere and it pivots around and finds support where I was hoping for a bounce off resistance. So I do what? Anyone? Anyone? I ……………exit. That's right. No fear, no greed. Just rules.

So I take another one and this time I'm up +30 in no time. So when do I exit?

We are back to where we started and at the risk of sounding like circle talk (you must master fear or fear will become your master) the answer to when do we exit lies in the reason why we took the trade in the first place.

Well why did we?

I just wanted to see how high my blood pressure could get without passing out before I closed the trade. What a rush!

My friends said I wouldn't last 30 days trading forex and today is day 31.

If I didn't take this trade I would have to do yardwork and I hate that!

Or maybe, just maybe you took that trade to make some money so you could pay your bills like any other person out there working for a living. Now any other job out there will not do the one thing that forex can do to you. If you have a bad day at work anywhere else you maybe don't make as much money or as in commissioned sales maybe you don't make any but no person will take money from you, forex will (Fear)

Conversely, no other job out there will do the one thing that forex can do to you. If you have a good day at work, you get a little overtime, you make an extra sale, you do well within the boundaries that someone else set for you. You cannot exceed those limits. Forex can. (Greed)

Boris Schlossberg is a professional trader (though aspiring FX guru might be more appropriate) once said something I do agree with. "Never let a winner turn into a loser!"

What's that you say? "Never let a winner turn into a loser!!!!!!!!!!!!!!!!!"

So we have rules to trade by, not the plan of the dynamic duo, but real-time tested rules.

I will enter when price touches a S/R level. If price does not quickly move in my favor (5 minutes or so) then I will watch for an opportunity to close out as close to breakeven as possible.

If price moves in my favor I will a) always take profit at +30 or + 20 or +10. Make it a level that works on the pair you trade that will give you consistent profits. What that does is allow you to make some money while you refine your skills to be more consistent. Just remember pips are money! Real honest to GOD money! Money that you can spend, money that you can save, money that you can retire on. If you can net 10 or 20 or 30+ pips consistently everyday trading that is way more exciting than that-I-got-lucky-trade and made 3K in a day! Because the problem with that one trade is you will give EVERY penny of that money back trying to duplicate that success. Why? Because it wasn't based on rules.

As far as refining exit points we have already talked about trailing your trade on a 5M chart. We have talked about targeting the next S/R level. But do so with the underlying philosophy that you WILL NOT let a winner turn into a loser. It's fine to target the next level but when price stalls 20 pips away for crying out loud, take the money. Don't watch your +40 turn into -20. If you do that the next thing you need to do is take a walk down the street and stop the first person you meet and say, "Please, slap me real hard!" Usually by the 3rd person, you will find somebody willing to accommodate you. At least that has been my experience.

Ironman's 5 minute chart Exit strategy

These are two wonderful words to utter, as it comes at the end of a meal. Think about it, you get to peruse the menu, decide what you are in the mood for, perhaps take in the recommendations of your server, order, enjoy and only when you are completely satisfied do you feel the need to catch the attention of those who care and softly make your request known, “Check, please.”

Now what’s wrong with that? Well…. Nothing.

If only trading could be like that. Well…. Maybe it can.

Let’s see.

We already get to peruse the menu. Many currencies to trade, even gold and silver if you are so inclined.

We certainly get to decide what our mood fancies. Hmmm….. let’s see, do I want the tight spreads of the Euro or the volatility of the Cable?

We are free to take the recommendations of people who have earned our trust. Long live Billy Ray! Give me a B. ……………….Ok I’ll stop.

We are free to place our order when we are ready.

So all that is left is enjoy and check please. Now some of you are saying, “go ahead hotshot! Prove that!"

Sometimes the enjoyment of the meal is determined by the restaurant we choose in the first place. (the method we use to find trading opportunities.) Support and resistance and price action are fine dining at their best!

But one of the questions I am asked a lot (through PM and personal conversation) is how do I know when to exit? (Check Please!) There are many choices but I want to share one that fits very well with this thread and a couple others that are ok. (So here are your server’s recommendations, ready?)

One I have used in the past is to use a moving average. (when price closes inside the 13 or 21 or 55 or 62 or whatever …. then close the trade.) You determine which one by back testing and by time frame and by currency since there is not a one size fits all. It works ok, the only draw back is a false signal means you exited a good run early. Not the end of the world because you can’t go broke taking a profit but if we want to refine efforts then there are other things we can test and apply.

We have already talked in this thread about taking some or all the money off the table at 20-40 pips. Again I say profit is good! By all means, if you like it that way then great!

But here is one that I use that seems to work well.

It tends to decisively tell you when you are late for the door. But wait there’s more. If you order right now I will through in a set of Ginsu knives.

Just kidding.

BTW does anybody out there actually own a set of Ginsu knives? I was just wondering if they really do last forever?

But I digress.

The technique I use is (drum roll) …………support and resistance!

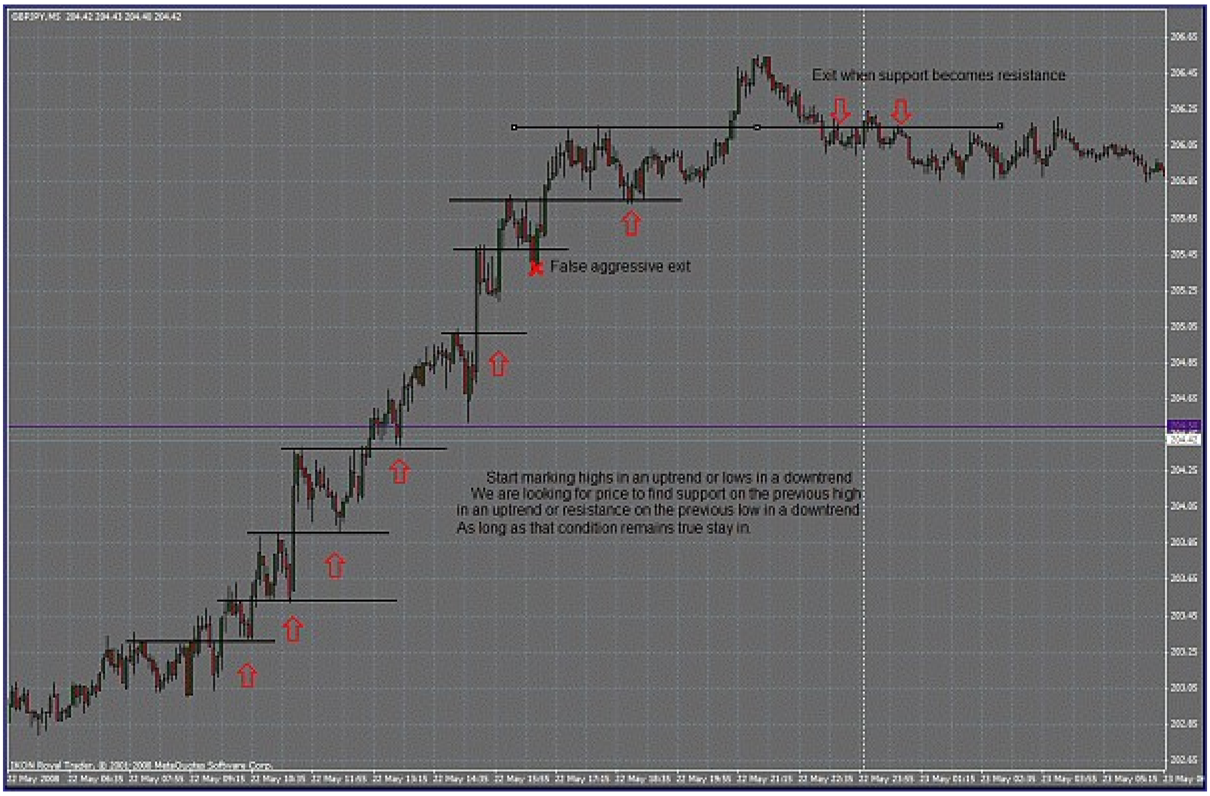
Don’t look at me like that!

First I go to a 5M (not 2, not 10, not 15, not 28 but 5 minute) chart once I enter the trade. If it’s a buy I mark the last swing high price made and look for price to find support on the previous high. If price breaks below then an aggressive exit would be there. If it breaks below and comes back and finds resistance then it is definitely time to get out.

If it’s a sell I mark the last swing low price made and look for price to find resistance on the previous low. If price breaks above then an aggressive exit would be there. If it breaks above and comes back and finds support then it is definitely time to get out.

In other words, “Check, please!”

I will attempt to illustrate in 7 charts or less. (Seven charts is the limit you can upload per message.)



Why here?
It was where price first made a low.
Price would have to break above the
most previous low and find support
before I would exit
EXIT

Intraday Scalping

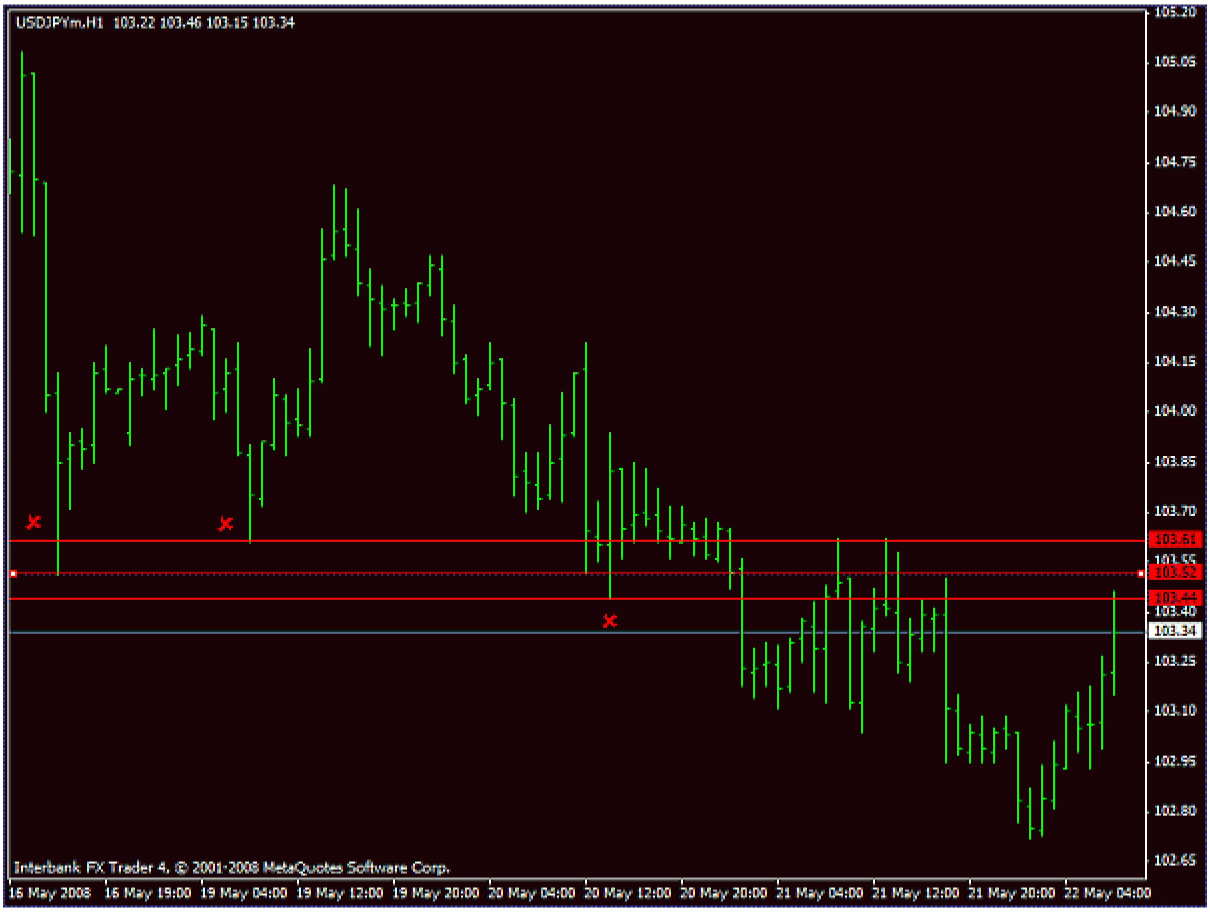
This is how I scalp intraday. These little "stabby" bars that poke out from a downtrend are good reactionary levels in an uptrend, and are good for anywhere from usually +15 to + hundreds if they mean the continuation of a bigger trend. Always watch out for these, especially if they coincide with more historical significance. This is a 1 hr chart.

This is the JPY trade long. At this point price has the potential to go either way, because the bigger trend is down. My intraday target was hit for about +71 pips on the long side. I took most of it off and in my other account have a short which is good for about +23 pips so far, trying to get the most out of the downside on bigger size. This is how I trade typically in a case like this.

So that's about +90 pips on one pair in a couple hours. Just to give you an idea of what is possible. On both of these I got in with a total of 1 pip drawdown + 1.6 spread on each.

Dont feel like you need a lot of guts to pull the trigger on a short like this. Take a look at any chart and you'll see it happen almost every time. The more you see it the more you'll get comfortable with it.

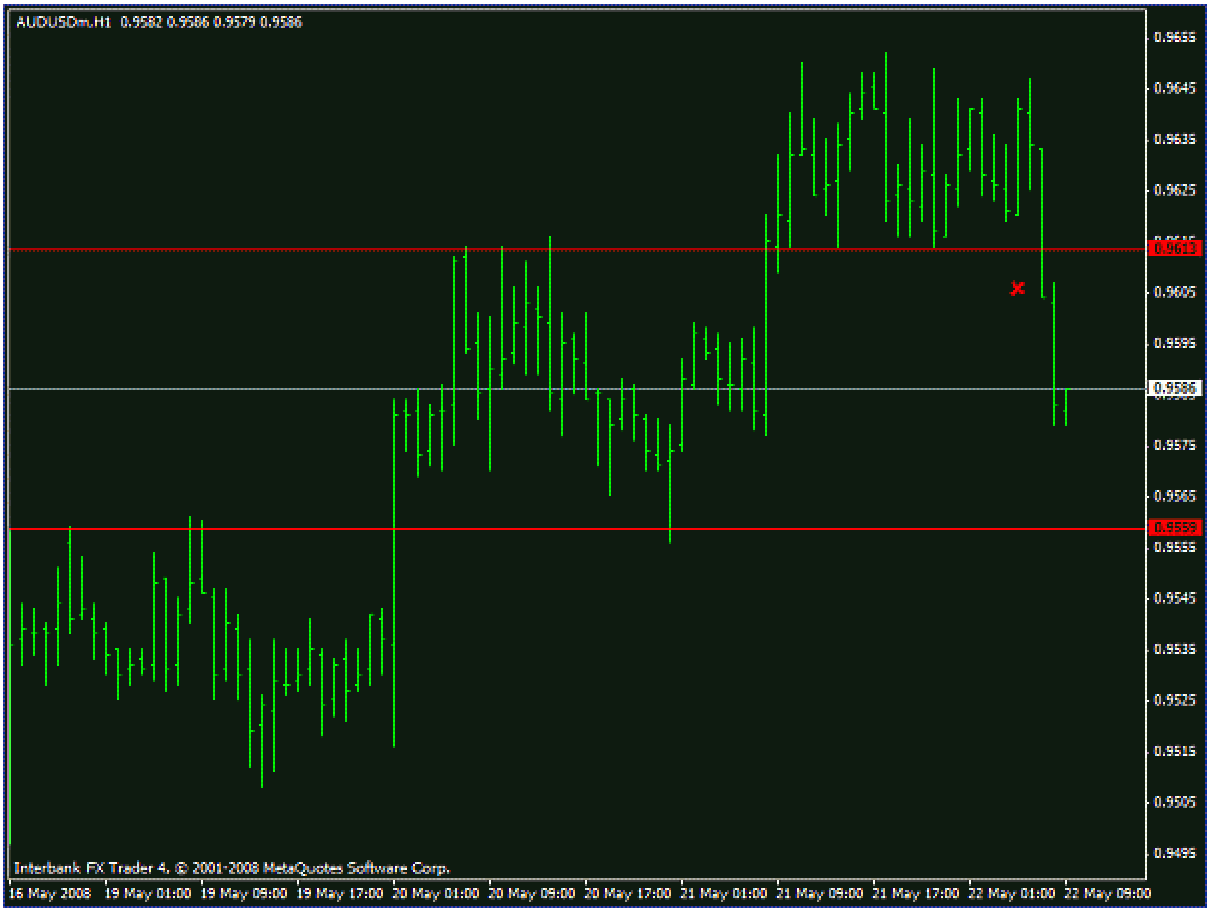
Between these and bigger moves you'll find yourself very busy. No indicators required. Just your eyes.



The Importance of Hourly Closes

Hourly closes hold the most significance. I stated in an earlier post about AUD that I was looking for a close below this resistance turned support to prove continuation. This is another one you'll see happen over and over again. I trade them when I feel strongly about them but generally have uneasiness due to the lack of proximity on the entry.

Shorting at that close whould have provided about +20-something pips right now. You can see the same thing happening but in reverse on the earlier move into the 0.9650 resistance.



More On Intraday Trading

I commonly refer to price in trending environments as stacking bricks, because you will notice over and over again that price forms "blocks" and stacks diagonally, one on top of the other. Below we have a chart of USD/CAD. You'll see that on 3 different occasions during this uptrend, a level of resistance turned into a level of support, a bullish sign indicating further price movement upwards.

In regards to intraday trading, using this technique and using these levels will provide high probability setups over and over again on heavily trending days. When an area finally becomes broken, it is typically a sign that the uptrend is over and either reversal or consolidation is on the way.

Additionally, you will notice from the chart that the diagonal trendline was forfeited for the horizontal support and resistance. Playing a bounce off of a diagonal trendline would not have given you nearly as good of an entry as the horizontal lines, or you would have missed entry altogether, depending on how you were to draw the line. It is why we always require horizontal support and resistance be present before entering any trades.

THE MOST PROFITABLE TRADERS

I thought I would post this here due to the value behind it, as I believe there are a lot of traders that could benefit from basic information such as this. I've posted it elsewhere in ForexFactory as well.

The below list comprises a number of different observations of myself and others through experience working with traders of all shapes and sizes, and is equally relevant to all. Some of the information is rehashed and/or might sound cliche, but here it is:

They are experienced – Probably the most horrifying and worst myth shot out to anyone considering trading for a living is that you will compound millions in an extremely short amount of time. The only true way to make every day profitable comes through experience, and countless hours learning is crucial to longevity of success.

They know the damage they are capable of – Notice I didn’t say potential or profits here. The best traders I know of understand their limits, and seem to focus more on what can go wrong than what can go right. They are not easily convinced of lucrative outcomes, and have a very high sense of self-awareness.

They trade to make money, not to be right – They understand the strengths and possible pitfalls of what it is they do for a living, and use that knowledge to curb their emotional output.

They have an edge and know how to use it – They understand that without it they wouldn’t last long

They have a gameplan, and follow it explicitly – Each trade is planned and opportunities are scouted for before any trading takes place. They steer away from the killer of all killers: overtrading.

They manage risk – Regardless of how much conviction they have on a trade, they will still do what they can to avoid the potential of any losses and understand rule #1 about trading: anything can happen.

They work obsessively – They follow each turn, each piece of info that comes out in regards to their trade, and follow any underlying information relevant to failure or success.

They only access the best information – Information rules in trading, and having some of the best translates to money. Using the wrong information leads to failure.

They think about the trade, not the money behind it - Focusing on money can destroy your means to objectively assess the trade itself.

They are constantly learning - Just when you think you know it all about trading, a new curveball gets thrown your way, not to mention there are continued means and methods to be learned about making money. Even the most highly successful trader I ever knew, a multi-billion dollar portfolio manager, has a team of fundamentalists and technicians come in to train and retrain himself and his traders.

They are active – Activity sparks creativity, a very crucial part of trading.

They have patience – They understand that the money will come, but everything needs to be in place, first.

Reality Realisation and Trader Reactions in Regards to Market Forces

As we are all well aware of, the positions of retail traders comprise an extremely small percentage of the total trading population. As individuals working for ourselves, we have to recognize what the majority of traders are thinking in relation to the next move.

What we think does not matter. What the consensus thinks is the only thing that is vital.

Traders at major institutions are responsible for controlling the bulk of day-to-day movement in the foreign exchange market. They have goals or outcomes that need to be achieved on a daily basis. Because they don't all work for the same bank and are scattered all over the globe, what we must do is make a basic assessment as to what could be going on behind the scenes where momentum is shifting and very large positions are coming into the market.

In thinking in the most basic terms of logic and reasoning, for many of them, momentum is the key that unlocks the gate to making the most profits. They, too, need to be on the same page as everyone else, and understanding what or why price is behaving in the manner that it is leads us to the most probable outcomes for success.

But they also have other goals, many that come in the form of derivatives, etc., that need to be achieved as well; many of these are found in the OTC market, and fundamental factors of course come into play as well. This information can change very rapidly, and price levels can get decimated as market movers look to achieve certain goals, so we have to be on our toes and decide whether or not we like a certain scenario in order to continue taking part in it.

The horizontal support and resistance levels we use here are simply stated, reactionary levels that everyone can see. That's why they work so well. If everyone can see them, everyone can be on the same page, and everyone with influence is able to turn a profit. We don't prefer to use exponential indicators, because although they might be giving us a signal to go long, that long position could be about to crash into a very heavily monitored resistance level, where influence is looking to go short. The same is true for certain trend channels and other methods.

But here is the situation we are in: we don't know what all of these goals are, and we cannot see bank positions, so what do we use as a meter in terms of what to expect next? The answer is that we use our edge, which is comprised of the following:

·Knowing what the majority of traders are looking at and what crucial areas will provide certain profitable outcomes.

·Knowing that these conditions can change rapidly and all the time, and we must be ready for when they do.

·Knowing that we have certain goals we wish to attain, but reality might not allow those goals to be met if we are not on the same page as everyone else.

In trading, acting surprised about price behaving a certain way is not a good thing. We want to forecast what's going on, and we want to be right about it all of the time. But this is impossible. There is no way to know what's going to happen at the very next turning point without listening in to every trader across the globe taking on a position.

So we have to look at the information we have in order to gauge what most people care about at any given point in time. Last week we saw EUR/USD take a substantial hit due to several fundamental factors coming out at the same time. Levels that would normally cause a reaction were taken out, one at a time, by arms of influence looking for a major selloff. What we did know was that much of the information was triggered by news surrounding interest rates. There are few catalysts stronger than this one in terms of currency market movement. Intraday fundamental data releases can be easy money, as we know from the wide range of news traders out there take advantage of this situation. But again they are doing nothing more than being on the same page as everyone else, as the numbers are obvious and hardly lie.

The levels we look to play bounces off of are usually very heavily-concentrated upon areas for market movers and they command a lot of attention. When people see that these levels have been hit, they seek to continue the price reaction in the form of a reversal, which could last for several hundred pips if overall market conditions are in alignment.

We turn to chart below. Here we have the last few days of activity for USD/JPY. On this chart alone, we have several different scenarios which are presented to us, almost all of which we have the ability to make money from. Let's walk through these motions step-by-step.

Point A: We have a new level that gets formed. We're looking for a price reaction the next time it gets seen.

Point B: Price exceeds the level by more than a comfortable amount (we're looking for it to hit it exactly and reverse). Additionally, we have an up close on the 1hr bar that is almost right on top of the level. We close our new short position with only a couple pips of profit. Price exceeds the level, and then uses it as support. We open a long right on the level when we see this.

Point C: Price reaches major resistance, so we go short, expecting a sizable move

Point D: Price uses the high of point B as support and retraces about 25 pips, where we could have made some profits on a long; we know that major resistance is just above us, so our expectations are low for continuation.

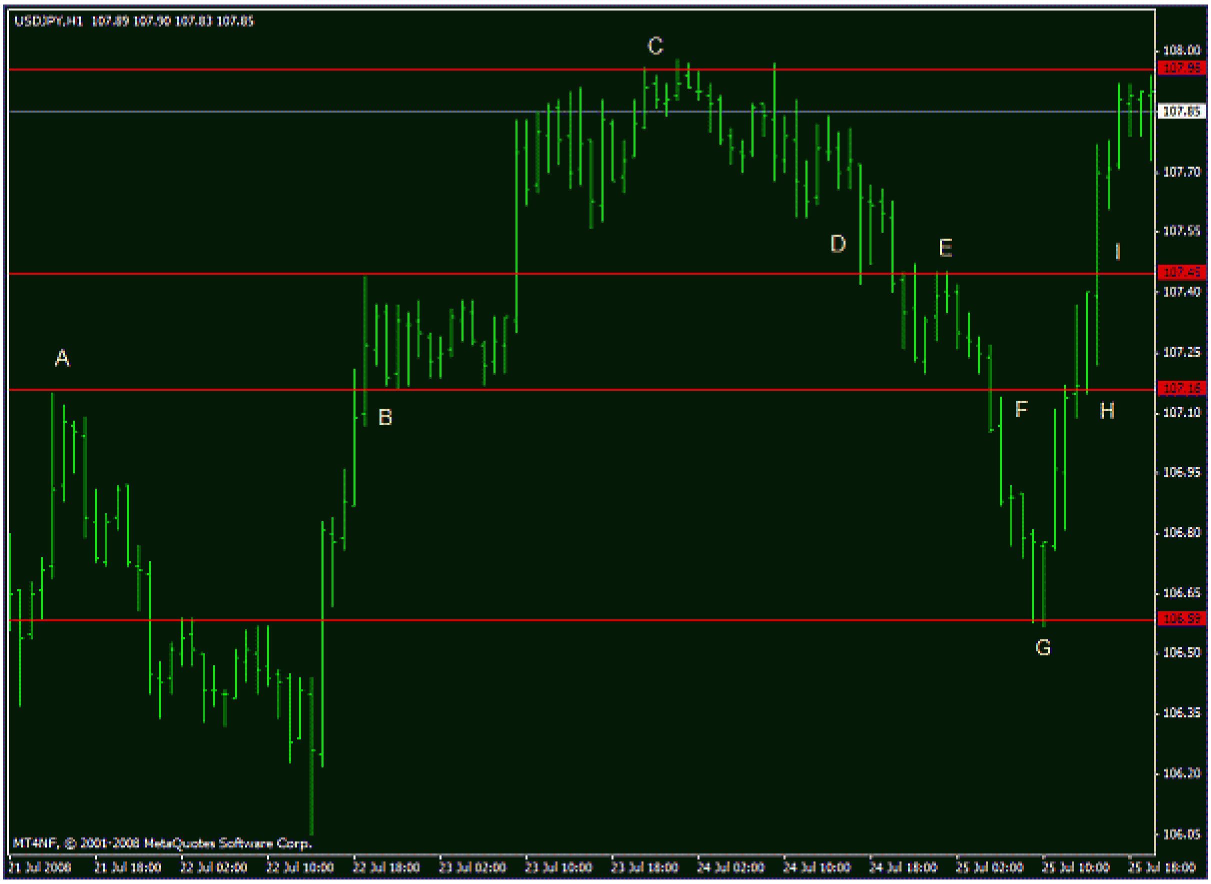
Point E: Price uses the previous support level at point D now as resistance. We go short.

Point F: We attempt to go long at the support level created at point B. The level is taken out, and we get an hourly close below it. Price retraces back up to the level, and uses it as resistance. We go short.

Point G: We go long when price hits a previous support level on the last wave up, which ends up coming off of it hard

Point H: Our support level created at point B is hit yet again, but because it failed the last time, it is now weaker. Additionally, the hourly close is very strong, and in the upper portion of the bar. We take partial profits on our trade and hold off on any new action.

Point I: News comes out, and other levels are taken out. Before the news was released, we closed the rest of our long.



In this example alone, there were many opportunities to make money in both directions. But you need to be on your toes, and most importantly execute or get out of these trades when you see these events occurring. By "dicing" up the chart in this way you are able to see what the majority of traders are looking at and where each money making opportunity arises.

Now lets discuss where most traders go wrong. Its very easy to look at the chart below, make an analysis of it after all of the trades have happened and say what it is we should have done. This is how most of us learn, and we're used to being conditioned. We post trades before they occur on this thread because I find little value in stating something that has already happened. That premise alone completely ignores the biggest component of our jobs as traders: to forecast.

All over this forum, the greatest majority of threads started and posts concern means of entering trades only. Very few of these, or books written on FX trading in general, concern themselves about how to manage a trade once they are in it or when to take profits. This is where traders begin to fail, and fail miserably, as their emotions kick in and blind clues staring them right in the face get replaced by our overwhelming desire not to ever fail. Call it anxiety, call it fear, but in the way we are conditioned in society in regards to all other facets of life we bring to the trading platform and causes us to do damage to our accounts.

Going back to the examples above, how do you think you would have reacted to putting on a short position at point B, or putting on a long position at point F? Would you have reversed the position as the market was telling you to do? Or would you have stayed in it and waited for the trades to turn green again so that you didn't take a loss? Minor damage leads to greater damage, and your emotions will go nuts if you don't listen to the market, and cause you to take greater losses. For example, at point F, clearly the level was broken. Price is not going up, but you stay in the long position in hopes of it turning green again. Price then dropped about

50 pips, at which point your small intraday trade (which you could have and should have reversed for some very good profit) begins to turn into a major loss. Seeing that things are getting out of control, you might have closed the trade deep in the red, suffering an unnecessary loss for the day.

In his book, The Alchemy of Finance, one of the first things discussed by George Soros is a concept which he refers to as reflexivity. Simply stated, this is a concept which refers to the reality of a situation versus a desired outcome. This concept, among others, stands true across a wide range of markets and is in great contrast to hypothesis of market efficiency and other very widely known or accepted economic theories. He explains that many of the "bubbles" caused in the markets are driven by human action replacing fundamental theorem, as they are not explained in any other way.

Without reverberating the concepts of Soros in great detail, we can understand it on a personal level (in our own trading) as well as on a macro scale (the entire market). Seeing the reality of the situation (price moving in a certain direction, and for a certain cause) contrasts against our innate desire to achieve a certain outcome. We need to realize what is happening, and most importantly, react to it, in order to achieve this desire. But we say the path to the ultimate goal is not the same in trading as it is everywhere else, but is this really the case? Setbacks and roadblocks are found in every single business and in every single aspect of life. But when we look at a setback in trading (taking a minor loss), we see concrete dollars and cents going down the drain, which many of us refuse to let go of. This is a natural function of life, and we have to realize this in order to succeed.

Ultimately, the same clues we use in loss prevention are the same ones that bring us profits, and our reaction to these clues absolutely need to get executed in order for us to profit. As day traders, we need to react in the form of buying and selling, sometimes with little warning, quickly and without haste to make the most out of what we do. Realize the obvious, react quickly, use your edge, and the rest will follow.

Always just keep your eyes on where the money is flowing....

its got to be going somewhere.

For those that don't know, to add a little bit about the meaning of Fxorce's comments, risk aversion tends to spur carry trade selloffs, particularly you'll notice, of course, with JPY-pegged currencies, where the rate is so low.......AUD/JPY is a big carry trade pair for obvious reasons and further unwinding would follow sentiment across all major markets - equities decline worldwide, usually you'll get the carry selloff; happens over and over again. Areas with the most influence on these currencies are of course the ones to watch - so in our market we watch equity markets in the Eurozone and US more heavily than others, where the most money is getting cranked into these pairs. Lack of risk tolerance in these markets tend to lead to the eventual selloffs.

But in terms of trading the actual pair short term there are plenty of bounces to take advantage of. Above I listed a couple, but they're basically everywhere. Gold bounces around just as much as anything else, but AUD is still pegged to the dollar, which is subject to selling off short term. Look at all the angles is my best advice, and if there is strong conviction, go for the long haul. Keep your eyes focused on consumer spending, employment data and inflation meters.

In general here we're talking about capital flows, not just gold, equity markets, government-backed securities, etc. The money is always there; its just flowing from one asset class into another. Most people are essentially forced to hold onto riskier assets, so the potentials surrounding day to day movements are what we take advantage of playing these levels. Just keep your eyes wide open in terms of your surroundings in order to best judge when to call it quits.

The way we trade, as daytraders, we're constantly on the lookout for short-term market hysterics. We're not looking for assets to invest in over the next 2 years or even 4 months. We need to look at whats driving price at this particular point in time, because we're taking part in such a small chunk of the overall movement.

Happy Maths – 'why we're doing what we're doing'.....

Ok its time for some math....Its a little slow out there so I thought I would do a little reward check.

First off, I looked at the thread's current track record, using a +150 pip take profit and 5 contracts as a benchmark. I dont want to take too much time explaining what I'm doing here so its a little better if I just show you.

Lets forget for a second about changing market conditions, forget about sentiment hooplah, forget about market obstacles, etc. - lets just quantify how to make the most out of what we do here without any ramblings.

Out of 28 trades so far, 14 (exactly half) have hit +150 pips of profit.

150*14 = 2,100 pips * 5 contracts = USD $105,000.

...but we have the other 14, so lets assume a -40 pip stop loss on those:

-40*14 = -560 pips * 5 contracts = USD $-28,000.

Add them together and you get 1,540 pips, or $77,000 for taking 28 trades. Not bad.

Now the other side of the coin. Lets say you scalp each and only take 20 pips of profit on each one. There were 26 of these.

20*26 = 520 pips * 5 contracts = $26,000

and dont forget about the other two with -40 pip stop losses.

-40*2 = -80 pips * 5 contracts = $-4,000

Add them together and you get 440 pips, or $22,000

So lets see, for about 2 months of part-time work you can have either $22,000 or $77,000. Annualize that and it comes out to $132,000 versus $462,000 per year, respectively.

But wait, it could get even better.

Of the 14 trades that never made it to +150 pips, 7 hit +50 pips of profit. We'll use the +50 pip profit mark as a benchmark for setting a stop loss to breakeven. So we do the math again, taking away 7 of the 14 trades that never made it to +150 pips of profit:

-40 * 7 = -280 pips * 5 contracts = $-14,000

<u>**Subtract that from your $105,000 of profitable trades = $91,000. Annualized that comes out to $546,000.**</u>

Additional Insight

Interest Rate Comments

I looked into some of the statements posted in that article earlier, as I couldnt really come up with too much color on the subject at the time, but here's the bottom line, as it was stated in the article:

Plosser (speaking today) has a notoriously hawkish outlook as he sees that fending off inflation as the number one priority of a strong and stable economy - he has the reputation of being the biggest advocate of raising rates of all the members of the Fed

...but on the other hand,

Bernanke made it pretty clear in his testimony last week that until the stock market stabilizes, we are unlikely to see any rate hikes in the very immediate future. Plosser essentially nullified these comments today by saying that hikes are going to need to occur before the market takes a positive course.

What will actually happen is another story, but in the meantime we find ourselves caught up in a "buy the rumor sell the fact" market today, where the rumor was bought heavily, but should stabilize throughout the end of the week. The stock market, commodities, etc. should be back on the radar by tomorrow pending any other news regard this.

The reason I'm posting this is because nothing runs the market harder and faster than comments like this taken very seriously, especially when it comes to interest rates.

Interest rate talk is the quickest way to get 200 pips out of the daily range and run the market faster than you can blink - I'll admit that I underestimated the news today as I didnt see his comments holding all that much weight in comparison to Bernanke's last week.

But here we go and I'm actually happy that eur got a push down today because new highs make it harder to trade.

And the bottom line (if you read anything here read this):

Someone asked me a while back about taking these trades in regards to longer-term fundamental outlooks, and I responded by saying that I don't really care. And today you have a perfect example: yesterday, all across the news and from every possible angle all I heard was dollar short posted everywhere, and today it gained about 200 pips on some basic comments made during a conference that usually goes unnoticed. And in the background you usually have economists fighting over who was right and who was wrong like hungry dogs playing tug of war with a piece of meat. The fact is we're only going for 20 to a couple hundred pips here, and market conditions can change on the dime each and every day. Its good to stay on top of recent events, but you need to block out the noise sometimes to make the most out of what you do. Taking news articles and other comments too seriously can paralyze you from taking profitable trades. The levels we use here clearly work, and its good to keep a systematic pattern in the way you trade if you're in and out every day. For longer term investors this is obviously not the case, but for us, it suits us very well. I see a lot of people coming into this thread saying "how did they do that??" and the answer is pretty simple: no noise, no bull, just basic technical levels that everyone else uses traded systematically and consistently. Just watch out for those interest rate comments and ride that train until its over, you'll be glad you did.

Options

Just a reminder that tomorrow is option expiration on many cash settled ccy options.

Last month on this day we saw AUD break into new highs, EUR popping out of a local high, JPY flooring it to below 103.50, and CHF breaking below 1.0450. This is one day of the month I use a lot of caution, as many of the rules dictated with support and resistance levels tend to be broken.

In keeping with the trend, a day like option ex day is a good day for buying or selling pullbacks and trading with the trend, especially during the London/US crossover. I would also only use this strategy if price is falling in between major support and resistance to begin with. It can be a very lucrative or destructive day depending on how you play your cards.

I took a look at some data for ccy options today, and scrutinizing some possiblilities for tomorrow the overall bias seems bearish-dollar. This isnt to say I have unseen barrier option data I'm missing out on, which is what I would really need to make a reliable forecast.

But just looking across american, euro style options and relating open interest I'm seeing JPY having downside pressure to 106.30 all the way down to 103.10, less pressure upside; the critical level upside being from 108.70 all the way up to 111.11.

In regards to barrier/binary options, just looking at a probable zone for price movement (based soley on my own judgement and chart analysis), I would speculate up to 110.50 upside (the most significant being appx. 108.70) and 105.50 downside (with 106.30 holding some significance).

For other pairs, I dont have too much info on right now but hopefully you can take a look at the JPY chart and see what I'm doing here and use your own judgement to follow along.

Again, major players are going to be looking at standard option data/critical levels as usual.

Options are not a widely discussed issue on this or many other forums, but they should be becuase they unquestionably move the market in some big ways. Just look for key levels to get broken on these days. Its the same thing as what we do on a day in and day out basis except in reverse.

Volatility is the key word for this day. The simple fact of the matter is that you do NOT know exactly what is going to happen. Support and resistance levels DO hold for pips on these days, but are less predictable. Pip ranges can be generally a little larger than usual, anywhere from 150 to 200+ on majors. Other times the day is less of an event; like anything else in nature it all varies.

Binary and barrier options are OTC products and you wont have exact data, but you can oftentimes guess what level price is headed for looking at american and euro style options as well as major support and resistance ranges once the daily trend is defined. 7am to 12pm EST I have found to be the most fluid times where price makes a run for it.

I haven't posted much info on the topic in the past, but I encourge you to Google the topic and read up on it as much as you can. Here is just a little info to get you started, but there is a ton more available out there.

http://www.google.co.uk/search?hl=en&q=binary+option&meta=

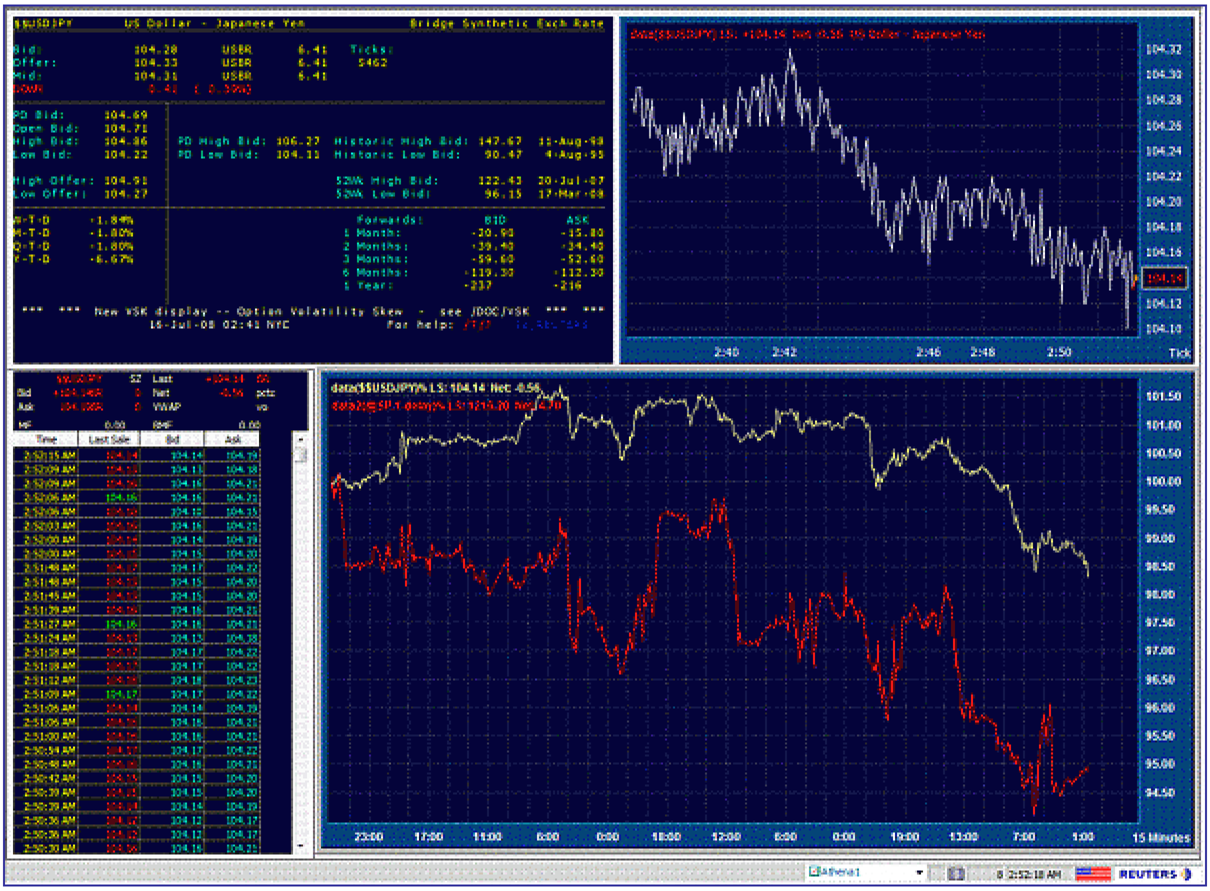
http://www.google.co.uk/search?hl=en&q=barrier+option&btnG=Search&meta=

http://www.google.co.uk/search?hl=en&q=fx+option&meta=

Some basic on the Phil exchange
http://www.phlx.com/market/WorldCurrencyOptions.asp?
Futures
http://www.cmegroup.com/trading/fx/index.html

S&P Index Correlation

Especially during the US session, there is a lot to be said about this correlation in general. But hopefully just by looking at the below you'll be able to see why monitoring the equity markets is so highly relevant during our trading sessions. This is a chart of usd/jpy and the latest s&p futures contract. Just something to take note of as I know we talk about it from time to time but rarely delve too much into it. Thought I would post this as an example. I know there are a couple of threads out there that have made this connection a central focus but cant seem to find them now. If anyone knows please post a link.



Ironman's take on 'The Most Profitable Traders'

They are experienced- Experience is a great teacher but charges exorbitant fees. I have had people say to me, "I couldn't sit there and watch a screen for 6,8,12 or whatever hours a day. To this I say, how is that any different than an office job. You sit, I sit. You make money, I make money. The more I watch a screen the more I learn. Such as, when are the best times to trade volume wise. When is the market at an extreme point and due for a turn. Is the direction the market is currently in, impulsive or corrective. Etc.

They know the damage they are capable of- It has been said that professional traders evaluate trading opportunities by their risk and not their reward, i.e. what do I stand to lose if the trade goes against me. Personally I have lost a lot of money in days of old by not having a stop in place, by overleveraging, by not scaling in to a position, by putting it all on one trade. The fastest way to get to a 50K account is start with a 100K account and no plan.

They trade to make money, not to be right- I must take a moment to commend you, NewstraderFX, for your public acknowledgement that what has worked for you well in the past has not worked of late. It is this flexibility that breeds longevity in the FX world. Quite simply for me the longer I take to admit that I was wrong, the more it costs me. There is a saying among traders, "I am right or I am out." Tight stops at extreme areas of the market rarely disappoint. They either stop out for a small loss or they pay off nicely.

They have an edge and know how to use it – There was a study on the FX market done at Yale and a portion of that study said this,

"Quantitative models, whether technical or not……………..work better when few people use them. It is critical to develop your own proprietary trading strategies and keep them secret.

Maybe I missed something but the more simplicity I incorporate in an approach, the more pips I put in my account. FX Guru's have to overcomplicate the issue to add perceived value to their programs. Indicator free trading on support and resistance areas and price action around the areas will be THE edge for your successful trading. Why? Because banks do it. When they see the market going strong in a particular direction they place an order against it. Guess where they put it? MACD crossing zero? 5EMA crossing the 13EMA? Price closing above or below the 62 EMA? No, no and ah no. They place it right under your nose in a key support and resistance area.

They have a game plan, and follow it explicitly – Oh yes. To the letter. I think you already have insight into mine.

They manage risk – One of the best risk management tools is scaling in. I once had a trader tell me he takes his best guess on buy or sell and sets it for 30 pips profit and if the trade goes against him he duplicates the original order 50 pips away and every 50 pips until it all closes out in profit. Now maybe if you have 10Million in your account and each position was <1% of your account that would work. But no thank you. What I do is develop a risk model that gives me 1000 pips of margin. I then divide the total lots available by 3 or 5 if I want to do more trades and scale in at S/R levels. I find I am usually right but not always on the exact level. SO a level fails and I add on at the next level. When you are good at S/R analysis (which comes with time) this very rarely works against me. Should there come a time when that is no longer true I will change how I do it. Now this may sound like adding to a loser. No that was the first example. The second example is exploiting an edge.

They work obsessively – Guilty. Trading during key market hours, planning other times, sleep optional.

They only access the best information – The best information is your neighbor. When he complains about the price of gas, buy oil. Broker filtered news feeds? Turn them off. Bloomberg is good. I know traders who subscribe to Reuter’s products. The best thing is to find others like yourself and trade in a group. Iron sharpens iron! And when one guy in the group wants $100 a month to mentor you, find another group, because you will never learn to fish in that environment. The franchise model has never produced a great thinker though it has made a select few very wealthy. (Maybe that's what the Yale study meant)

They think about the trade, not the money behind it – If I have said it once, well you know. It is the pips. I know several brokers who have platforms that default to the dollar amount and not the pips in the P&L when you trade. This is a psychological attack to make you close trades early. 10 pips I can hold out, $100 bucks? Maybe not. If you can make 10 pips consistently on a 1K account, you can do it on a 100K account, as long as you get your emotions in check. Pips is a good way of doing that. One of the things I did when I started trading was I sat down and did my monthly budget in pips. At X $ per pip I need X pips per month. So now 10 pips pays my power bill.

They are constantly learning – Yep, show me a profession where continued education is not to your benefit. Swapping ideas with other traders and studying charts will pay huge dividends.

They are active – Note that no where in here did I say, find a successful trader swimming up stream and jump on his back until you both drown. There is no free lunch and no matter how many accounts you margined out to date, it is not someone else’s responsibility to make you solvent. What I like is you teach someone a strategy and then they come back and say something like, “SO what do you see for the Euro tonight?” My response? “Based on what I taught you, what do you see for the Euro tonight?”

They have patience – Go ahead and try to be successful without it. Remember, exorbitant fees. I will tell you this. I haven’t found a better way to lose money in FX than the buy and sell stop orders. (A buy above the market and a sell below the market) You will be at the mercy of every spike of the market. A great cure for the lack of patience is the beloved limit order. A sell above the market and a buy below the market.) 100% spike resistant. So there you have it. All you will ever need to know to be a successful trader.