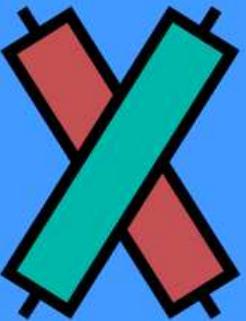


<https://t.me/bearandbullcourses>

THE ULTIMATE **FOREX** TRADING BLUEPRINT



👋 HEY MY FRIEND!

First of all a warm welcome! Happy to see you here taking advantage of the educational content! That's the first step. The first step in your trading journey, and what a journey it will be. In this program, we will cover a lot of ground, since we are starting at zero. But that's fine, you don't have to rush through it and you can take your time. Actually, you should take your time to be able to process all the information. Since it really is a ton of information, and everybody learns differently, I've added videos to the ebook to either explain things more in detail, make it more visual, practical, or just to give an overview of a chapter. I'll always tell you what the video is for. **(NOTE: VIDEOS WILL BE ADDED IN THE NEXT UPDATE!)**

We will also go through some quick exercises from time to time, just to make sure you did understand the provided material. Don't worry, these will be no-brainers. We are not in school. The overall concept of the program is to provide you with **EVERYTHING** you need to know, to become an independent trader. The information and educational material is provided objectively , this way you can choose the approaches and instruments you find useful for yourself. If I include my opinion about certain topics, it will be extra marked. The idea behind this is, only because certain instruments and approaches haven't worked for me, doesn't mean they might not work for you and within your trading approach.

The program is build based on five major pillars that we will go through in detail and secure a practical approach rather than just staying within the trading theory.



After going through all the five steps, you should be able to understand how the forex market works, master technical analysis, be able to develop your own trading strategy/system/plan, backtest your trading strategy/system/plan, understand the psychology at work while trading and therefore being perfectly prepared to start live trading. With this course, you will also gain access to our trading community on discord, where you can exchange ideas, experiences, problems, strategies, and more with fellow traders, that also went through the course. This secures that everybody has a minimum knowledge base. The upcoming course updates as well as all strategy examples will be release on discord only! If you do not know what discord is, or how to use it, don't hesitate to contact me and I can sort you out.

Additionally to this ebook file & discord invitation link, you can contact me via email hoerningjoshua@gmail.com for any requests you have as well (I do not provide financial advice!). You can contact me by email at any time and I will do my best to get back to you as soon as possible! Please keep in mind that I might not always answer on the same day. That's just something to keep in the back of your head. Besides this, you can ask me anything, except direct investment advice. If you didn't understand certain parts of the program, if you want to know something that was not covered in the program or anything else, just let me know. The community (discord server) and I are here for you.

This program is also never a finished product. I will continue to update the material, including new material, and react to any feedback of yours. Probably the most interesting for you will be the strategy examples, which I will continuously post on our discord server. Those strategy examples will have detailed explanations about the rules in text & video as well as contain screenshots of all backtested trades so that you can see how exactly those rules would have been applied in live markets. Of course, the backtested total performance will also be included. What I would love to ask from you in return is if you are not happy with something, let me know! That's how I can improve the program and experience for you and other trading beginners! I really want to continuously improve not just the amount of material but also the quality and experience to provide a better learning curve for new traders.

That's it, my friend! Let's dive into the program and start this awesome journey!



A handwritten signature in black ink that reads "Joshua Horning". The signature is fluid and cursive, with a slightly larger first name and a smaller last name.

⚠ Disclaimer ⚠

The content covered in this course is NOT investment advice and I am not a financial advisor. The material covered in this course and the resources offered is for educational purposes only. Always do your own research and only execute trades based on your own personal judgment.

„A journey of a thousand miles begins with a single step.“ - Lao Tzu

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1. THEORY



1.1. THE 5Ws OF FOREX

In the following chapters, we'll cover some basics about forex.

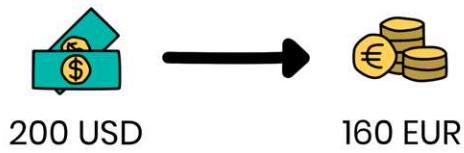
It's crucial to know and understand certain things about the market you want to trade. We will cover the following 5Ws (almost): **What, how, when, who & why?**

1.1.1. WHAT IS FOREX?

Forex, short for foreign exchange, is a global market that allows one to trade two currencies against each other. Everybody has taken part in it eventually during traveling. If you have ever traveled into a country with a different currency, you probably either exchanged your money at your local bank before the trip or exchanged money in one of the exchange shops at the airport (just to get the worst exchange rate ever 😞). When you exchange your currency for the currency of the country of your destination, you have participated in the forex market. Crazy right?

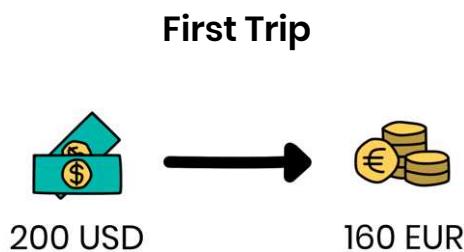
Example:

Let's say you are a US citizen. Your currency is the US dollar. You are planning a trip to Germany (to visit me 😊). You arrive at the airport in Frankfurt, Germany, and exchange 200 USD into 160 EUR. That's it. You have participated in the foreign exchange market.

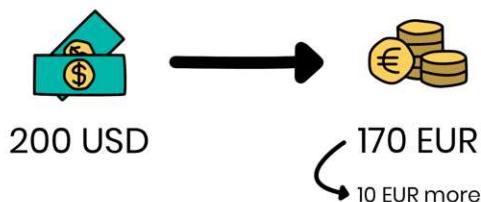


How is this related to our forex trading?

Let us go back to our example. Let's say you've enjoyed your stay in Germany big time and therefore want to come back in 2 months. You arrive again at the airport in Frankfurt, Germany, and go to the same currency exchange shop to exchange 200 USD. But what's that? Instead of the 160 EUR you've received the first time, you received 170 EUR this time. That's a 10 EUR difference! (I know, my math skills are strong!)



Second Trip



What happened? It's simple. The exchange rates between the US dollar and the Euro have changed during the 2 months. The exchange rates change every second. Not by a lot to be able to notice it while exchanging 200 USD, but they do.

Exactly these changes are what we want to exploit as a forex trader. These changes allow us to make money (or lose if done incorrectly).

THE FOREX MARKET

The transactions in the foreign exchange market (FX market) don't happen in airport shops. The FX market is, in fact, the largest financial market in the world!

A quick comparison. The New York Stock Exchange is the largest stock exchange in the world with a daily transaction volume of about \$25 billion per day. The FX market has a whopping \$6 trillion. This makes the forex market not just the biggest financial market in the world, it makes it **BY FAR** the biggest market in the world.

Exchanging currencies for traveling is just a very small part of total transactions. There are also commercial and financial transactions, but the trading is based on speculation. In other words: Traders who want to profit from short-term movements. Most forex trading takes place in the so-called „interbank market“, which is formed by the largest banks in the world. Unlike, for example, the New York Stock Exchange, which is located on Wall Street, forex does not have a central location. Trading does not occur on an exchange and does not have a physical address. Forex transactions take place over-the-counter (OTC) between agreeable buyers and sellers from all parts of the world. That is due to the fact that the entire Forex market is run electronically within the network of banks. This also means that the market is decentralized and trades can take place where ever you are. You only need an internet connection. We Retail Traders, however, are not really able to access the interbank market, because of the lack of credit connections with the large players. That doesn't mean that we are not able to trade forex.

There are mainly 2 types of brokers we can use to trade forex:

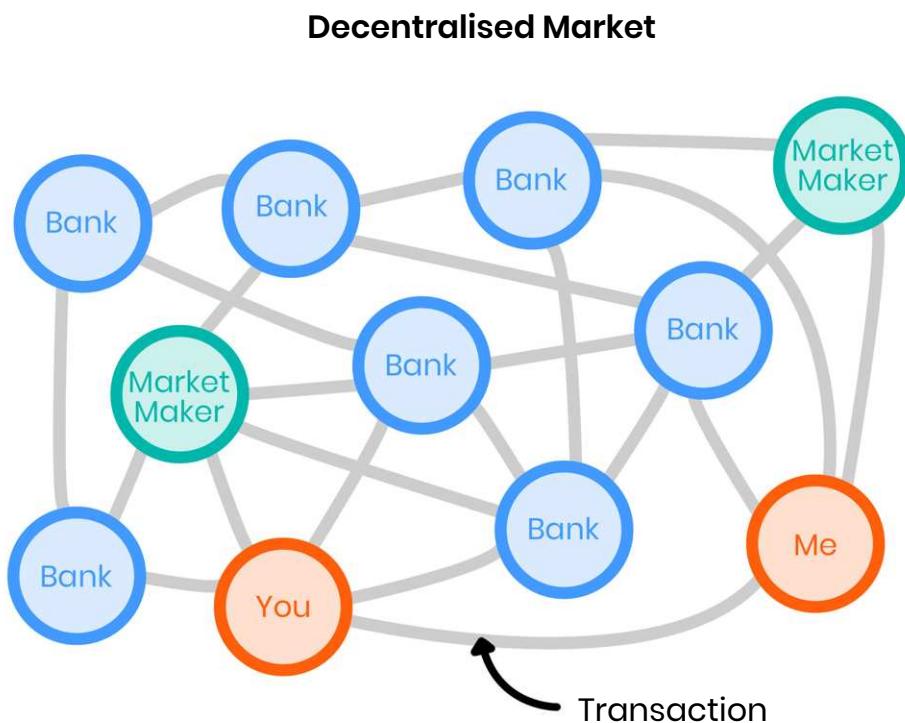
1. Market makers
2. Electronic communications networks (ECNs) or Straight Through Processing (STP)

But that's enough on that topic at this point. I don't want to confuse you right at the start and we will cover those two different types in the chapter „Forex Brokers“.

THE FOREX MARKET STRUCTURE

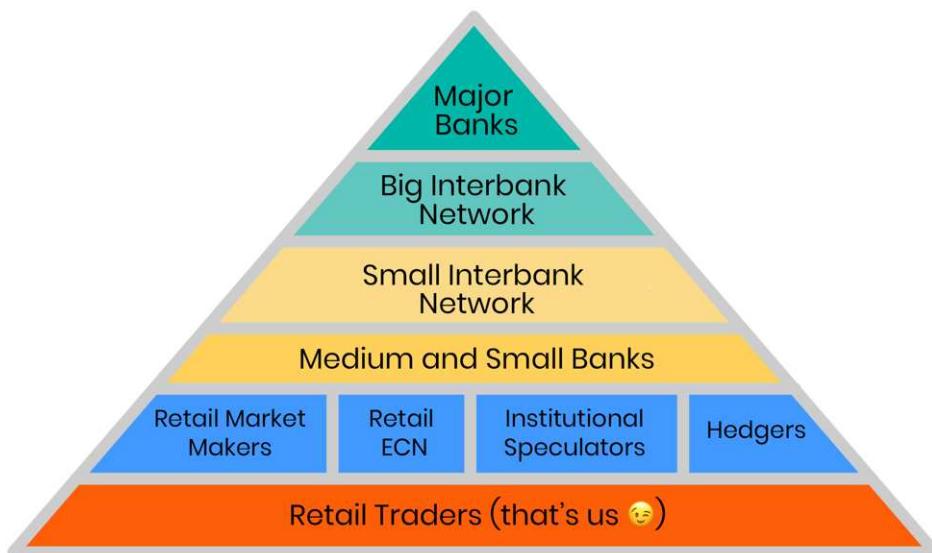
As we learned, the forex market is decentralized. What does this actually mean? In the forex market, there is no single price for a specific currency at any time. The currency quotes can differ from dealer to dealer.

This is how a decentralized market looks like:



Looks chaotic right? But it is actually the beauty of forex trading. The competition between all those dealers is so huge that trading conditions are actually favoring us. But even though everything looks very chaotic, there is a structure in the market. On the next page, a map of the market participants.

Market Participants Hierarchy



At the very top, we have the interbank market. Those include the **largest banks** in the world. Those banks trade directly with each other through the **big interbank network** (like the Electronic Brokering Services (EBS) or Reuters (now: Refinitiv)). All banks that are part of the interbank market can see the rates each other is offering. This creates enormous competition but doesn't mean that everybody can make deals at those rates. The credit relationship between the trading parties needs to be established at first. That's why **Medium and Small-Sized Banks** are separated from the Major Banks on the map above. One hierarchy level below is the **Retail Market Makers, Retail ECNs (Electronic communications networks), Institutional Speculators, and Hedgers**. Those are the participants that have to do their transactions via commercial banks. Below those, or in other words, at the bottom of the hierarchy, are the **Retail Traders**. That's us. I know, looks bad. But back in the days, it wasn't even really possible for regular people to participate in the forex market as traders, which the internet has made possible.

All this information is a bit dry, I know, but it is important to know who the main players are in the market you want to become a part of. Imagine somebody that trades forex professionally, but doesn't know the major players. This just doesn't exist. Since you want to become a pro, let's hustle through this essential information.

MAJOR PLAYERS

The Big Banks

Because the forex market is decentralized, the big banks are the ones that determine the exchange rate. Those are banks like Citi, JPMorgan, Deutsche Bank, Barclays, Goldman Sachs, HSBC, etc.

As we learned, all rates are public to other Big Banks which creates huge competition. But since this market is not as regulated, not everything works smooth here and cartels can be built between traders from the Banks. Based on a Reuters report by Foo Yun Chee and Kirstin Ridley, the European Union fined several Big Banks a combined 1.07 billion Euros for rigging the multi-trillion dollar foreign exchange in 2019.

Large Commercial Companies

Companies, especially international companies take part in the foreign exchange. Since they're doing business globally, they need to exchange their local currency into another currency when for example buying products for their production. Since the amounts are normally not huge, by Big Banks standard, the companies mostly deal with commercial banks to do their transactions.

Governments and Central Banks

Both parties are also regularly involved in the forex market. Operational transactions like the international trade payments as well as handling the foreign exchange reserves need to be done on the foreign exchange. Central Banks additionally influence the exchange rates through the interest rates decisions or through direct intervention based on wanting to change the pricing of their currency.

Speculators

Speculation in the forex market involves the buying and selling of currencies with the view of making a profit from price fluctuations. In general, the large speculator category represents fund traders and professional traders who carry large positions, but they also can come in all shapes and sizes. Some have bigger pockets than others. The CFTC (Commodity Futures Trading Commission) requires large speculators and commercial traders, or hedgers, to report their net positions. This is something that can be very interesting to look at. Who doesn't want to know if the majority of the big boys/girls are currently long or short on a specific currency pair? The positions will be published on „The Commitments of Traders (COT) reports“. We will check this out once we've more advanced into the course.

CURRENCIES & CURRENCY PAIRS

Now we have established that on the forex market, we exchange currencies against each other. In other words money against money. The question is: What currencies do we focus on? Are we trading all of them or just specific ones? There are about 180 currencies across the world, that are recognized by the United Nations, with the British pound being the world's oldest currency that's still in use. The British pound goes back to the 8th century. Currencies are always traded in pairs, since we buy one currency and sell another currency. That means a currency pair is a pairing two different currencies where the value of one is relative to the other. For example, the Japanese Yen and the US Dollar (JPY/USD).

Currencies are categorized into so-called **major currency pairs**, **minor currency pairs**, and **exotic currency pairs**.

List of **major currencies**:

-  US Dollar (USD)
-  Euro (EUR)
-  Japanese Yen (JPY)
-  British Pound (GBP)
-  Swiss Franc (CHF)
-  Canadian Dollar (CAD)
-  Australian Dollar (AUD)
-  New Zealand Dollar (NZD)

MAJOR CURRENCY PAIRS

Major currency pairs refer to any pair that contains the US dollar and one of the currencies of the list above. In total, we have 7 major currency pairs:

| | | | |
|-----------|---|--------------------------------|---------------|
| EUR / USD |  /  | Eurozone / United States | euro dollar |
| USD / JPY |  /  | United States / Japan | dollar yen |
| GBP / USD |  /  | United Kingdom / United States | pound dollar |
| USD / CHF |  /  | United States / Switzerland | dollar swissy |
| USD / CAD |  /  | United States / Canada | dollar loonie |
| AUD / USD |  /  | Australia / United States | aussie dollar |
| NZD / USD |  /  | New Zealand / United States | kiwi dollar |

The major currencies are referred as the most traded currencies. The majors makeup about 85% of the foreign exchange market and therefore have very high market liquidity. The market liquidity refers to how quickly we can cash in or convert the currency into our local currency. The more traded a currency pair is, the higher its liquidity. The number 1 most traded currency pair is the EUR/USD.

MINOR CURRENCY PAIRS

Minor currency pairs are all combinations within the major currency list that do not have the US dollar included. Even though minor pairs are not being traded as much as the major pairs, the minor currency pairs still remain very liquid and can be easily traded.

All **minor pairs**:

| | | | |
|-----------|---|------------------------------|---------------|
| EUR / CHF |  /  | Eurozone / Switzerland | euro swissy |
| EUR / GBP |  /  | Eurozone / United Kingdom | euro pound |
| EUR / CAD |  /  | Eurozone / Canada | euro loonie |
| EUR / AUD |  /  | Eurozone / Australia | euro aussie |
| EUR / NZD |  /  | Eurozone / New Zealand | euro kiwi |
| EUR / JPY |  /  | Eurozone / Japan | euro yen |
| GBP / JPY |  /  | United Kingdom / Japan | pound yen |
| CHF / JPY |  /  | Switzerland / Japan | swissy yen |
| CAD / JPY |  /  | Canada / Japan | loonie yen |
| AUD / JPY |  /  | Australia / Japan | aussie yen |
| NZD / JPY |  /  | New Zealand / Japan | kiwi yen |
| GBP / CHF |  /  | United Kingdom / Switzerland | pound swissy |
| GBP / AUD |  /  | United Kingdom / Australia | pound aussie |
| GBP / CAD |  /  | United Kingdom / Canada | pound loonie |
| GBP / NZD |  /  | United Kingdom / New Zealand | pound kiwi |
| AUD / CHF |  /  | Australia / Switzerland | aussie swissy |
| AUD / CAD |  /  | Australia / Canada | aussie loonie |
| AUD / NZD |  /  | Australia / New Zealand | aussie kiwi |
| CAD / CHF |  /  | Canada / Switzerland | loonie swissy |
| NZD / CHF |  /  | New Zealand / Switzerland | kiwi swissy |
| NZD / CAD |  /  | New Zealand / Canada | kiwi loonie |

EXOTIC CURRENCY PAIRS

Exotic currency pairs are all other currency pairs that include one currency, which is not mentioned in the major currency list above. Those are currencies such as the Hong Kong Dollar (HKD), Thai Baht (THB), Mexican Peso (MXN), Norwegian Krone (NOK), or the South African Rand (ZAR). Exotic currency pairs are the least traded currency pairs, which results in higher costs of trading. Due to the lower liquidity, exotic currency pairs are mostly more sensitive to economic and geopolitical events, which makes them more volatile. This volatility is tougher to forecast since any scandal or event can cause crazy exchange rate changes. Therefore, most currency traders exclusively trade major and minor currency pairs.



Here is how a watchlist could look like with all **28** minor and major currency pairs:

| | | | |
|-----------|-----------|-----------|-----------|
| EUR / GBP | GBP / AUD | AUD / USD | NZD / JPY |
| EUR / AUD | GBP / NZD | AUD / CAD | USD / CAD |
| EUR / NZD | GBP / USD | AUD / CHF | USD / CHF |
| EUR / USD | GBP / CAD | AUD / JPY | USD / JPY |
| EUR / CAD | GBP / CHF | NZD / USD | CAD / CHF |
| EUR / CHF | GBP / JPY | NZD / CAD | CAD / JPY |
| EUR / JPY | AUD / NZD | NZD / CHF | CHF / JPY |

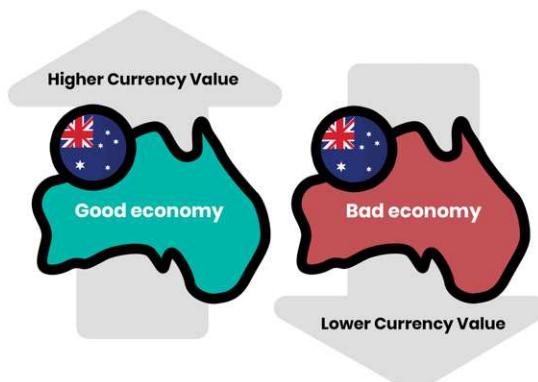
1.1.2. HOW DO WE TRADE FOREX?

There are many different products we can use to be active in the forex market. In this course, we will focus on CFDs (Contracts for Differences). CFDs are agreements between a trader or investor and a provider (CFD Broker). They agree to exchange the difference in the value of a financial product between the open and the close of the contract. It is important to understand that the trader or investor never owns the underlying asset. CFDs have clear advantages and disadvantages. Advantages include low fees, easy execution and easier flexibility to go long and short, and more. Disadvantages include the mentioned lack of ownership, cost of overnight financing, and more. Before using them, you should carefully do your own research, get familiar with all the risks involved and decide for yourself if you want to trade such products.

TECHNICAL ANALYSIS vs FUNDAMENTAL ANALYSIS

Technical and **fundamental** analysis are the 2 major approaches to trading and investing. Most traders and investors tend to like one approach and dislike the other, while they actually can be combined.

Fundamental analysts study everything from the overall economy to social and political forces. In short, anything that might affect the currency pairs. In the forex world, there is a lot of ground to cover. You need to understand how a change in the unemployment rate can affect the country's economy and monetary policy and how this might affect the supply and demand of the specific currency. The idea behind this approach is to find out if the future economy of a country is going to strengthen or weaken and therefore foresee a rise or fall of the related currency.



While we will look at news events and how certain data, like the unemployment data, might influence the relevant currency, our focus lies on technical analysis.

Technical analysts predict price movements by using historical price charts and market statistics. The idea behind this approach is to identify previous market patterns that might accurately predict future price movements. This is the bread and butter of this course and takes in most of the theory explained.

This was just an overview. We will go into the different analysis types in more detail within the course.

TRADER TYPES

Then there are also different styles of trading. Trading is a very very broad term and includes so many different ways of doing it. While those are only the general categories, there are also hybrid versions where traders would count themselves to multiple trading styles.

1. Scalper

Very short-term traders. Scalpers are focused on trades with a holding period as small as a few seconds to a few minutes. These are very quick trades. Scalpers are mostly trying to achieve small gains during the busiest and most liquid times of the day and don't hold positions overnight. For this trading style, quick decision-making is a must. Processing new information and being able to quickly react to any market movements can put a Scalper under immense and constant pressure.

2. Day-Trader

Short-term traders. While Day-Traders are still short-term traders, the style is not as fast-paced as the Scalpers. Normally you count as a Day-Trader if you close and open positions during the day without holding positions overnight. This means you can open a position in the morning and sell it in the evening or night, which can make your holding periods of your trades way longer compared to the ones of the Scalpers.

3. Swing Trader

Longer-term traders. Swing Traders can hold trades open from a few days up to a few weeks. This is a great style for somebody who doesn't have time to spend the whole day in front of a screen or isn't able to handle the pressure of a Scalper or Day-Trader. You have way more time to make decisions as a Swing Trader, while still using Technical Analysis as a tool.

4. Position Trader

Long long-term traders. Position Traders have holding periods from multiple weeks up to years. This type of style has the longest holding period of trades and almost counts as investing in my opinion. A Position Trader normally doesn't care about the short-term price fluctuations (which all trading styles above take advantage of) and focus more on the bigger picture and the long-term price movement and includes fundamentals into the decision making.

5. Algorithmic Trader

Those traders rely on computer programs (algorithms) for their decision-making. The word you hear a lot in this context is „Expert Advisors (EA)“. Traders can either program such an algorithm themselves or buy an existing one. Ok stop, hold on right there. Sounds awesome right? Just buy a trading algorithm, which does all the work for you while you are swimming in cash. Well, let me tell you the bad news. All the years I spend in trading, I have never come across an algorithm that actually works and is profitable. Especially not if you can buy it for 500\$. The good news, you can develop an algorithm on your own without needing to program. If this is something you are interested in, check out the NoNonsenseForex website or his YouTube channel. This is a trading style we will not further discuss in this course.

6. News Trader

A News Trader is looking for rapid price movements based on economic events. Such events could be the release of the Non-Farm Payroll data, Gross Domestic Product data, etc. In short: Fundamental analysis is more the focus here. Since this course mainly focuses on Technical Analysis, this will not be discussed in detail. We will go over News events and check how such events can influence price movement, which News we might try to avoid, but we will not develop a strategy based on this.

READING CURRENCY PAIRS

Before you decide what kind of trader you want to be, we have to take a few steps back and learn the essentials about forex.

THE EXCHANGE RATE

= Ratio of one currency valued against a different currency.

Example:

The EUR/USD exchange rate shows us how many US dollars we would receive for one single Euro.

As you probably have noticed, currency pairs are always quoted in pairs. The reason for that is that we always simultaneously buying a currency while selling another currency. In order to understand which currency you are buying or selling, you need to be able to read the quote.

FOREX QUOTE

= The forex quote represents the price of one currency in terms of another currency and consists of two pillars. The base currency and the quote currency.



The **base currency** always equals 1.

What do we actually do when we are buying or selling the EUR/USD, as an example:

Buying the EUR/USD: We have to pay 1.1791 US dollars for 1 Euro. We are buying the Euro while simultaneously selling the US dollar. Why would we buy? We are thinking the Euro appreciate in value compared to the US dollar.

Selling the EUR/USD: We receive 1.1791 US Dollars for 1 Euro. We are selling the Euro while simultaneously buying the US dollar. Why would we sell? We are thinking the Euro depreciates in value compared to the US dollar.

Let's jump into a quick exercise.

When would you buy or sell a currency pair?

I'm going to describe some obvious and over simplified scenarios and you need to decide if you would either buy or sell a currency pair. It's going to be easy, don't worry. You will find the correct answers on the next page.

1. There are some really really good news for the US economy. Focusing on EUR/USD with the expectations of the US dollar to increase in value compared to the Euro, would you buy or sell EUR/USD?



2. The British economy is skyrocketing right now. We are expecting the British Pound to increase in value as well. Looking at GBP/JPY, we are expecting the British Pound to increase in value compared to the Japanese Yen. Would you buy or sell GBP/JPY?



3. We have strong believe that the Canadian Dollar is undervalued. Looking at EUR/CAD and the believe that the Canadian Dollar is going to strengthen compared to the Euro, would you buy or sell EUR/CAD?



ANSWERS

When would you buy or sell a currency pair?

1. There are some really really good news for the US economy. Focusing on EUR/USD with the expectations of the US dollar to increase in value compared to the Euro, would you buy or sell EUR/USD?



When the USD increases in value, the EUR/USD pair is falling.

2. The British economy is skyrocketing right now. We are expecting the British Pound to increase in value as well. Looking at GBP/JPY, we are expecting the British Pound to increase in value compared to the Japanese Yen. Would you buy or sell GBP/JPY?



When the GBP increases in value, the GBP/JPY pair is rising.

3. We have strong believe that the Canadian Dollar is undervalued. Looking at EUR/CAD and the believe that the Canadian Dollar is going to strengthen compared to the Euro, would you buy or sell EUR/CAD?



When the CAD increases in value, the EUR/CAD pair is falling.

Now, since we know how to read a forex quote and know what we actually do when buying or selling a currency pair, we have to look at one additional point. The broker we will use to trade currency pairs will not give us just one quote for a currency pair.

BID, ASK & SPREAD

A broker will always give us two prices for one currency pair. The bid and the ask price.



The „Bid“

The bid price represents the maximum price, the buyer is willing to pay for the currency. If we want to sell the EUR/USD (sell the Euro and buy the US dollar), that is the price the broker will accept to buy it from us.

The „Ask“

The ask price represents the minimum price a seller is willing to take for the currency. If we want to buy the EUR/USD (buy the Euro and sell the US dollar), that is the price the broker will accept to sell it to us.

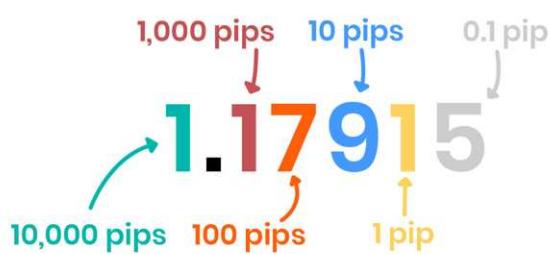
The „Spread“

As you have noticed, there is a small difference between the bid and the ask price. This difference is called the „spread“ or the „bid/ask spread“. The spread is basically the fee we have to pay for trading. Instead of charging us for every trade, the broker has its „fees“ built into the price.

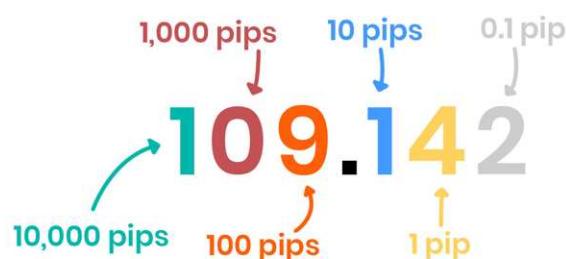
When we are already at the topic. How are spreads actually measured? Since we are dealing with different currencies, we can't just use cents. In forex, we measure movements or differences in so-called „pips“.

A pip is the unit of measurement. It represents the change in value between 2 currencies. Nearly all currency pairs consist of five significant digits and most pairs have the decimal point immediately after the first digit, for example, EUR/USD with 1.17915. In this instance, a single pip equals the smallest change in the fourth decimal place – that is, 0.0001. Let us take this EUR/USD example with the current exchange rate of 1.17915. Now EUR/USD moves to 1.17925. This would be a move of 1 pip. The rule counts for all major & minor currency pairs, excluding all currency pairs with the Japanese Yen.

Change of pips (excluding 🇯🇵 JPY)



Change of pips (only for 🇯🇵 JPY)



Still confused? Don't worry, here a few more examples to clear things up:

| Currency Pair | Past Value | Change | Current Value |
|-----------------|------------|------------|---------------|
| 🇪🇺 EUR / 🇺🇸 USD | 1.17839 | + 1 pip | 1.17849 |
| 🇬🇧 GBP / 🇺🇸 USD | 1.37927 | - 50 pips | 1.37427 |
| 🇪🇺 EUR / 🇨🇭 CHF | 1.10918 | - 100 pips | 1.09918 |
| 🇬🇧 GBP / 🇯🇵 JPY | 151.444 | + 30 pips | 151.744 |
| 🇦🇺 AUD / 🇳🇿 NZD | 1.09132 | + 80 pips | 1.09932 |
| 🇨🇭 CHF / 🇯🇵 JPY | 116.661 | - 150 pips | 115.161 |
| 🇨🇦 CAD / 🇯🇵 JPY | 87.363 | + 300 pips | 90.363 |
| 🇬🇧 GBP / 🇨🇦 CAD | 1.73358 | + 5 pips | 1.73408 |

Let's jump into another quick exercise.

What is the current value of the currency pair?

| Currency Pair | Past Value | Change | Current Value |
|-----------------|------------|------------|---------------|
| 🇪🇺 EUR / 🇺🇸 USD | 1.17839 | + 10 pips | |
| 🇬🇧 GBP / 🇺🇸 USD | 1.37927 | - 150 pips | |
| 🇪🇺 EUR / 🇨🇭 CHF | 1.10918 | - 1 pip | |
| 🇬🇧 GBP / 🇯🇵 JPY | 151.444 | + 300 pips | |
| 🇦🇺 AUD / 🇳🇿 NZD | 1.09132 | + 3 pips | |
| 🇨🇭 CHF / 🇯🇵 JPY | 116.661 | - 15 pips | |
| 🇨🇦 CAD / 🇯🇵 JPY | 87.363 | + 9 pips | |
| 🇬🇧 GBP / 🇨🇦 CAD | 1.73358 | + 5 pips | |
| 🇬🇧 GBP / 🇯🇵 JPY | 151.444 | - 25 pips | |
| 🇪🇺 EUR / 🇺🇸 USD | 1.17839 | + 10 pips | |
| 🇬🇧 GBP / 🇯🇵 JPY | 151.444 | - 50 pips | |
| 🇬🇧 GBP / 🇨🇦 CAD | 1.73358 | + 80 pips | |
| 🇦🇺 AUD / 🇳🇿 NZD | 1.09132 | + 100 pips | |

You will find the correct answers on the next page.

ANSWERS

What is the current value of the currency pair?

| Currency Pair | Past Value | Change | Current Value |
|-----------------|------------|------------|---------------|
| 🇪🇺 EUR / 🇺🇸 USD | 1.17839 | + 10 pips | 1.17939 |
| 🇬🇧 GBP / 🇺🇸 USD | 1.37927 | - 150 pips | 1.36427 |
| 🇪🇺 EUR / 🇨🇭 CHF | 1.10918 | - 1 pip | 1.10908 |
| 🇬🇧 GBP / 🇯🇵 JPY | 151.444 | + 300 pips | 154.444 |
| 🇦🇺 AUD / 🇳🇿 NZD | 1.09132 | + 3 pips | 1.09162 |
| 🇨🇭 CHF / 🇯🇵 JPY | 116.661 | - 15 pips | 116.511 |
| 🇨🇦 CAD / 🇯🇵 JPY | 87.363 | + 9 pips | 87.45 |
| 🇬🇧 GBP / 🇨🇦 CAD | 1.73358 | + 5 pips | 1.73408 |
| 🇬🇧 GBP / 🇯🇵 JPY | 151.444 | - 25 pips | 151.194 |
| 🇪🇺 EUR / 🇺🇸 USD | 1.17839 | + 10 pips | 1.17939 |
| 🇬🇧 GBP / 🇯🇵 JPY | 151.444 | - 50 pips | 150.944 |
| 🇬🇧 GBP / 🇨🇦 CAD | 1.73358 | + 80 pips | 1.74158 |
| 🇦🇺 AUD / 🇳🇿 NZD | 1.09132 | + 100 pips | 1.10132 |

THE VALUE OF A SINGLE PIP

What value does a single pip have? Since each currency has its relative value, we need to calculate the value of a single pip for every currency pair, if we want to find it out. Don't get scared by the following calculations. There are tools that do all the calculations for you, so that is nothing you need to do while trading.

Let's take USD/CAD. The currency pair is quoted at 1.1005. What we want to do is buy \$10,000 CAD with USD.

$$\text{Equation: } (1 / 1.1005) * \$10,000 = \$9,086.78 \text{ USD}$$

That means, we have to pay \$9,086.78 USD for \$10,000 CAD. So far, so good. Now the currency pair moves up by 1 pip resulting in the quote of USD/CAD = 1.1006.

$$\text{Equation: } (1 / 1.1006) * \$10,000 = \$9,085.95 \text{ USD}$$

This is a difference of **\$0.83 USD** and represents approximately the value of a single pip for the specific currency pair. Why approximately? Because as the exchange rate changes, so does the value of each pip.

Alright. That is how far we'll go into this topic. If you want to jump the line and check out the magic calculator that does all this for you, then you can click right here: [Free Position Size Calculator](#) (just one out of many free position size calculators). We will cover this tool later in the program when it becomes relevant for entering positions.

TRADING IN LOTS

Another measurement unit. I know... 😊

A „lot“ measures the transaction amount of a specific forex trade.

How we don't do it: „I'll buy EUR/USD with 100,000€.“

How we do it: „I'll buy EUR/USD with 1 lot“.

Why do we use lots? Back in the past, when trading required larger capital to trade with, lots were used to standardize the units. Standardization is important since we have many currencies involved and trading accounts run on different currencies. Forex Traders in Europe might have a trading account based on

Euros and Forex Traders in the United States of America might have a trading account based on US dollars.

For example, the standard lot size is 100,000 units of a currency value. So, if you wanted to trade 1 lot of the EUR/USD this would be €100,000 worth. Whaaat? So we need 100,000 units of a currency to trade forex? Nope, don't worry! When trading became more open to the general public, various brokers introduced alternatives to the standard lot:

| Lot Type | Number of Units |
|----------|--|
| Standard | 100,000 |
| Mini | 10,000 |
| Micro | 1,000 |
| Nano | 100 (<i>not provided by all brokers</i>) |

Depending on the broker, they will either show quantities in lots or use the number of units. It is important to understand the different lot sizes in combination with the changing value of a pip.

⚠ Why understanding this is so important:

Two trades with the same amount of pips to our stop loss (If you don't know what a stop loss is yet, don't worry, we will cover it. It is essentially the price level where we would exit the trade automatically) but in 2 different currency pairs need to have different lot sizes in order to have the same amount of risk in terms of money. Why? Because as we have learned, the value of a single pip is different from currency pair to currency pair and changes with the movement of a currency pair as well.

| | | |
|---------------------|-----------|-----------|
| Currency Pair | EUR / USD | AUD / NZD |
| Stop Loss (in pips) | 20 | 20 |
| Risk in % | 1.0 | 1.0 |
| Risk in \$ | 100 | 100 |
| Lot Size | 0.5 | 0.715 |

This is just an example. Lot sizes will already have changed! This calculation can be done by a free lot size calculator.

ORDER TYPES



The video covers the same material right here in this chapter + live examples

The term „order“ refers to an opening or exiting a position, and there are different ways to do so.

In general, we have two categories of order types.

1. **Market order:** This order will be executed immediately as we hit the sell or buy button to the current price. We have 2 options: **Buy** and **Sell**.
2. **Pending order:** This order will be executed at a later time to the price we specify. This means our specified price is either below or above the current price and our order gets triggered once the market price has reached our specified price. We have 4 options here: **Buy Limit**, **Buy Stop**, **Sell Limit**, **Sell Stop**

1. HOW DOES THE MARKET ORDER WORK?

The market order is done by the trader through a broker to buy or sell a currency pair at the best available price in the current market. This order is considered to be the fastest and most reliable way to enter or exit a position.

As you probably can still remember the broker provides us with the **bid & ask price**. When using a market order, this is the price we are likely to get. Please note, there are no price guarantees.



2. HOW DOES THE PENDING ORDER WORK?

Pending orders are divided into the **limit** and **stop** orders.

Limit Orders

A limit order is an order that we place when we want to **buy below** the current market price or **sell above** the current market price to a specified price. Once the market reaches our specified “limit price” the order is triggered and executed at the “limit price” (or sometimes even better, depending on market movements/conditions).



We set our „limit price“ below the current market price. Meaning, the price needs to fall further for the order to get triggered. Why would we do this? Because it might be the case that we are not willing to accept the current market price. We are looking for a more favorable price, therefore we want the current price to fall further down, to enter the market at a lower price with a buy order.

A limit order to **BUY** at a price below the current market price will be executed at a price **equal to or lower than** the specified price.



The same as the Buy Limit, just in the opposite direction. We set our „limit price“ above the current market price. Meaning, the price needs to rise higher for the order to get triggered. Why would we do this? Same reason, because it might be the case that we are not willing to accept the current market price. We are

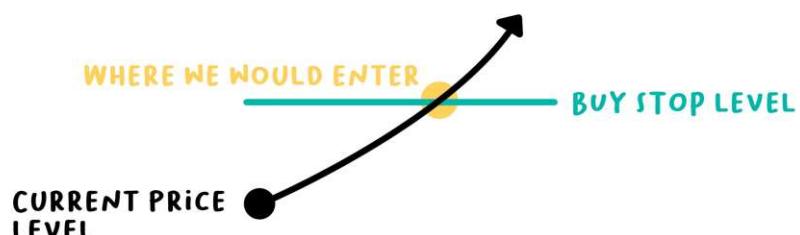
looking for a more favorable price, therefore we want the current price to rise higher, to enter the market at a higher price with a sell order.

A limit order to **SELL** at a price above the current market price will be executed at **a price equal to or higher than the specific price**.

Stop Orders

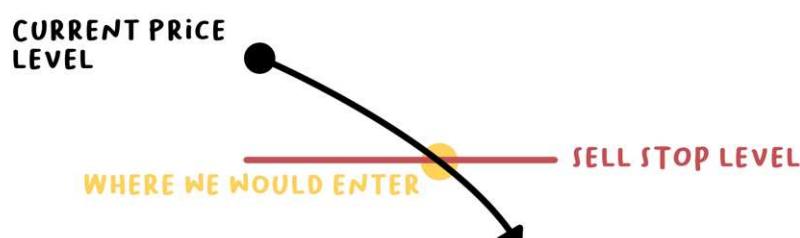
A stop order is an order that we place when we want to **buy above** the current market price or **sell below** the current market price to a specified price. Once the market reaches our specified “stop price” the order is triggered and executed at the “stop price” (or sometimes worse, depending on market movements/conditions)

Buy Stop



We set our Buy Stop Order above the current market price. Meaning, the price needs to continue to rise for the order to get triggered. Why would we do this? Because we might want to see the market continue a bullish movement before we participate.

Sell Stop



The same as the Buy Stop, just in the opposite direction. We set our Sell Stop Order below the current market price. Meaning, the price needs to continue to fall for the order to get triggered. Why would we do this? Because we might want to see the market continue a bearish movement before we participate.

Exit Stop Loss Order

The stop loss. You might have already heard this term and counts to the Stop Orders. The difference between the types above is that we don't want to enter the market this time. This is an order we use when we are already in a trade and want to exit at a specific price with a loss. Wait, we „want“ to exit a position with a loss? Yes! Not all trades are going according to plan. In order to secure our capital, we are reducing our risk and set a Stop Loss Order at a specific price where we would automatically exit the trade when it runs against us. This way, we know that if sh*t hits the fan, we are out of the trade at our specified level and prevent further losses.

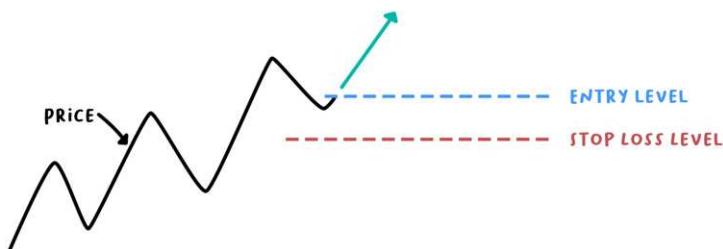
Since we are **buying** and **shorting** the forex market. We use

- a sell stop, when we are **buying** a currency pair.
- a buy stop, when we are **selling** a currency pair.

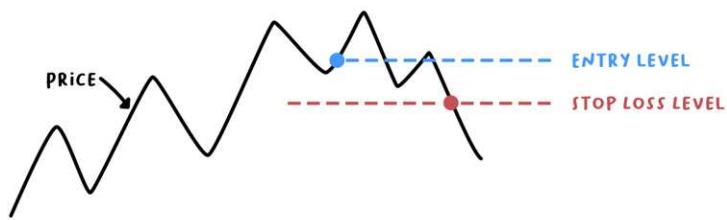
Don't worry, within your trading terminal you can simply place a stop loss level. You don't necessarily need to know the differences between buy and sell stops.

Let's see how the stop loss works when we are buying or selling a currency pair:

Buy Example:

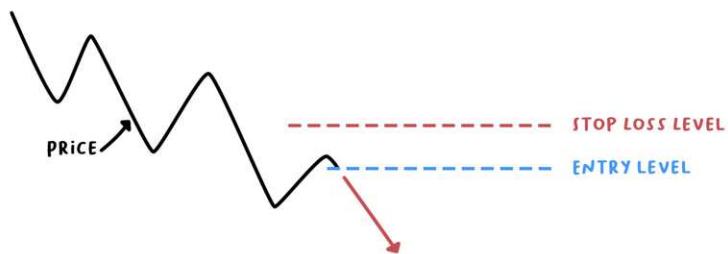


In the picture above, we can see that price is in an uptrend. We will completely ignore why and on what base we would make our trading decision in this example and concentrate just on the fact that we will enter the market with a buy position at the current market price (blue price level). The green arrow shows the price behavior we expect and we would profit from, which is upwards. The stop loss level is below the entry price since we would like to exit the position at this specific level since our trade idea would be invalid when the price retraces back down to the stop loss level (red line). Since we are discussing stop loss orders, we will continue with price moving against our position.

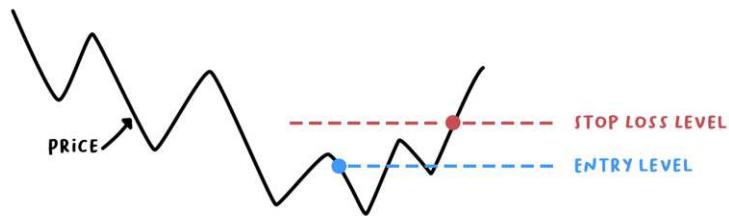


As we can see above, the price has moved against our position and moved downwards. The **blue** dot represents the entry point, and the **red** dot represents our exit point. The stop loss level can be (and should be) placed with the entry of the position. When price moves against our position, as in this example, and price moves till it reaches our specific stop loss level, the order gets automatically executed and we would exit the position with a loss. This prevents us from bigger losses through unexpected price moves and kicks us out of the trade because our trade idea would be invalid. Therefore, the stop loss level also represents the price level where we would admit that our trading idea did not go as we expected and therefore don't see any reason to stay in the trade.

Sell Example:



In the picture above, we can see that price is in a downtrend. We will completely ignore why and on what base we would make our trading decision in this example and concentrate just on the fact that we will enter the market with a sell position at the current market price (**blue** price level). The **red** arrow shows the price behavior we expect and we would profit from, which is downwards. The stop loss level is above the entry price since we would like to exit the position at this specific level since our trade idea would be invalid when the price retraces back up to the stop loss level (**red** line). Since we are still discussing stop loss orders, we will continue again with price moving against our position.

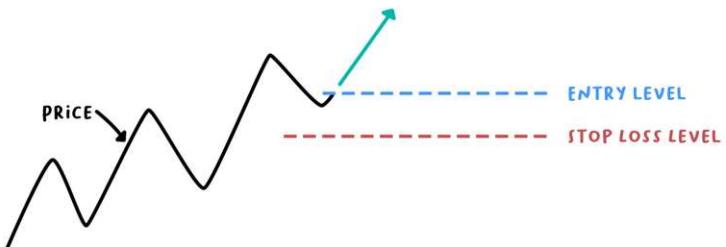


As we can see above, the price has moved against our position and moved upwards. The **blue** dot represents the entry point, and the **red** dot represents our exit point. The stop loss level can be (and should be) placed with the entry of the position as we just learned. When price moves against our position, as in this example, and price moves till it reaches our specific stop loss level, the order gets automatically executed and we would exit the position with a loss.

But stop loss orders don't just prevent us from larger losses, they can also secure some already made profits:

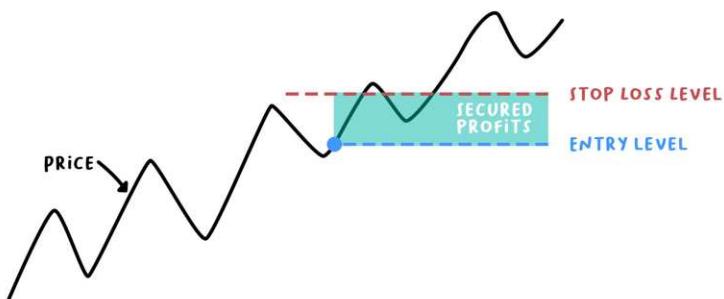
Buy Example:

Let us go back to our buy example from above with the same uptrend situation:



This time, the price will move as we expected and continues to trend upwards. As the price continues to move upwards, we have the option to change the price level of the stop loss order. We can place it further down (not recommended) or we can place it further up. A common way among traders is to move the stop loss to the entry price level, when the price has moved a certain amount in favor of our trade, to make the trade „risk-free“. When price then retraces back down, we would exit at the level at which we have entered the position and therefore would exit the position with no profits, but also no losses. What needs to be noted is that there might be costs involved, such as order commissions, that need to be calculated. Therefore, a great tip is to place the stop loss just a bit above the entry level to give us a small profit when the price retraces back down, which can be used to cover our costs (if we have any). Another scenario is moving the

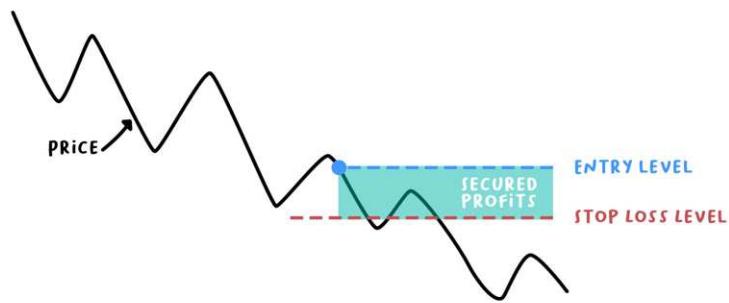
stop loss even further up and above our entry level. This way, if the price will retrace back down, we exit the position at a higher price compared to the entry price. To visualize this scenario, let's take a look at the picture below:



As we can see, the price has moved upwards after we entered a buy position. That's fantastic. We would be (temporarily) in profit with this particular position. To secure some of the profit, when the price makes unexpected moves against us, we have set our stop loss level above the entry level. The distance between those two order levels represents our secured profits since we would automatically exit the trade at the stop loss price level, which is above our entry level. Makes sense? Perfect! (If you have trouble understanding this, you could check out the video, where I can break down the single steps a bit better).

Sell Example:

Let's go over this with the sell examples as well. Price will also move as we expected in this example and continues to trend downwards. As the price continues to move downwards, we have the option to change the price level of the stop loss order. We can place it further up (not recommended) or we can place it further down. A common way among traders is to move the stop loss to the entry price level, when the price has moved a certain amount in favor of our trade, to make the trade „risk free“. When the price then retraces back up, we would exit at the level at which we have entered the position and therefore would exit the position with no profits, but also no losses. (As explained above, always have a look at your costs). Another scenario is moving the stop loss even further down and below our entry level. This way, if the price will retrace back up, we exit the position at a lower price compared to the entry price. To visualize this scenario, let's take a look at the picture on the next page:



As we can see, the price has moved downwards after we entered a sell position. That's fantastic. We would be (temporarily) in profit with this particular position as well. To secure some of the profit, when the price makes unexpected moves against us, we have set our stop loss level below the entry level. The distance between those two order levels represents our secured profits since we would automatically exit the trade at the stop loss price level, which is below our entry level.

⚠️ Important: These are just possible approaches on how we can use the stop loss order. You do not have to move your stop loss at all if you don't want to.

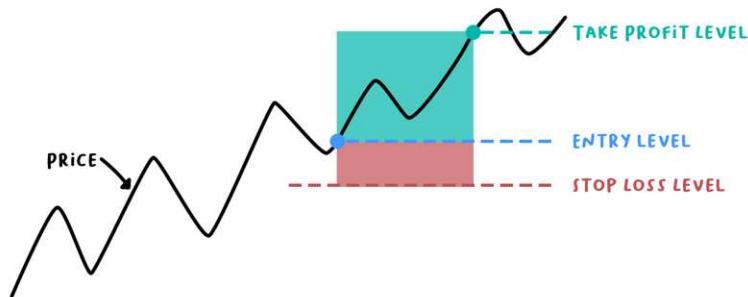


I've already mentioned that moving the stop loss order to the downside, during **buy** trades, and moving the stop loss order to the upside, during **sell** trades is not recommended. **Why?** By doing this, we would increase our risk on the trade. Normally, we would calculate our position size in combination with our stop loss price level to calculate exactly what we would potentially lose when the trade goes against us. (We will go through how exactly this is done later in the course). If we move the stop loss into the mentioned directions, we increase our potential losses. This is not something we want to do at any time, even though it means that we might stay longer in the trade if the price moves against us!

Exit Take Profit Order

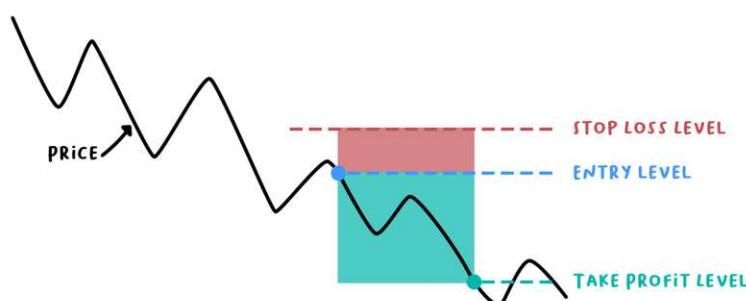
The Take Profit Order is essentially just the opposite of the Stop Loss Order. When we are already in a trade, and we want to exit at a specific price with a win, we use a Take Profit Order.

Buy Example:



As we can see above, we have the already discussed entry level and stop loss level. When we are buying, the take profit level is always above the entry level. When price reaches our take profit level, we would automatically exit the trade with profit. We exit the trade, even though the price might continue moving to the upside. In the example above, the blue dot is the entry point, the green dot is the exit point and the stop loss level has never reached by the price after we entered the trade, which will be automatically erased, once the trade is closed. This means, if we enter a position with a take profit level and a stop loss level, without moving those levels during the time the trade is open, we will either exit the position **with a loss**, if the price reaches the stop loss level first or exit the position **with profit** if the price reaches the take profit level first.

Sell Example:



The same thing counts for the sell example. When we are selling, the take profit level is always below the entry level. When price reaches our take profit level, we would automatically exit the trade with profit. We exit the trade, even though the price might continue moving to the downside. In the example above, the **blue** dot is the entry point, the **green** dot is the exit point and the stop loss level has never reached by the price after we entered the trade, which will be automatically erased, once the trade is closed. This means, if we enter a position with a take profit level and a stop loss level, without moving those levels during the time the trade is open, we will either exit the position **with a loss**, if the price reaches the stop loss level first or exit the position **with profit** if the price reaches the take profit level first.

Both of those two „exit“ orders (stop loss order & take profit order) can be very easily added to any order type. Those two are basically add-ons to a market or pending order to enter a position. Generally, I want to present the trading education in an objective manner, and only include my own views through marked comments. This right here will be an exception. This is a rule I want you to take seriously: Always, always, always enter a trade **WITH** at least a stop loss. Your take profit order is not as important since there are multiple ways on how to handle taking profits from your trade, and we will discuss this in a later chapter, BUT having stop loss order in place is just **A MUST!**

⚠️ IMPORTANT INFORMATION ABOUT PENDING ORDERS

All pending orders (including our stop loss and take profit orders) have never a guarantee to be executed at our specified price level. In extremely volatile and/or illiquid markets, our orders could be executed at a way less favorable price. An example would be the flash crash in January 2015:



In the chart above, we can see the EUR / CHF pair on the daily timeframe. We haven't discussed the Japanese candlesticks (chart type) yet, but I think the big red candle is pretty obvious to anyone. I don't really want to get into detail about what happened just to keep it simple. Just a quick info: A major change in the monetary policy happened, which caused the immense price drop of the EUR / CHF pair. The tall red candle represents an extreme price fall. As we can see, the candles before and after the big price drop are just a small fraction compared to the tall red candle. During this sharp decline, a stop loss order from a buy position is likely to be executed way below the specified stop price. Price is moving too fast for your order to get filled. **While such events are rare, they still exist!** It is important to understand this risk and that there is never a guarantee for your broker to execute your pending orders at the specified price level.

Quick „order type“ recap:

- “**Buy stop**” to open a *long* position at the price *higher* than the current price
- “**Sell stop**” to open a *short* position at the price *lower* than the current price
- “**Buy Limit**” to open a *long* position at the price *lower* than the current price
- “**Sell Limit**” to open a *short* position at the price *higher* than the current price



It is extremely important to fully understand the order process in your trading terminal before executing trades with real money. This is a process that can & should be exercised on a demo account at first. In the provided video for this chapter, you can see live examples of all order types. I strongly recommend watching the video and practice on your demo account till you understood everything perfectly!

1.1.3. WHEN CAN YOU TRADE FOREX?



The forex market is open 24 hours a day. Yes, you heard right. 24 hours, Monday - Friday. (Depending on your location, the forex market might even open on Sunday but will close earlier for the weekend. Don't worry, we will get you sorted out with this information.) But this doesn't mean all trading hours are the same. There are more active and less active hours during the day, and that's what we are going to look at in this chapter.

Trading Sessions

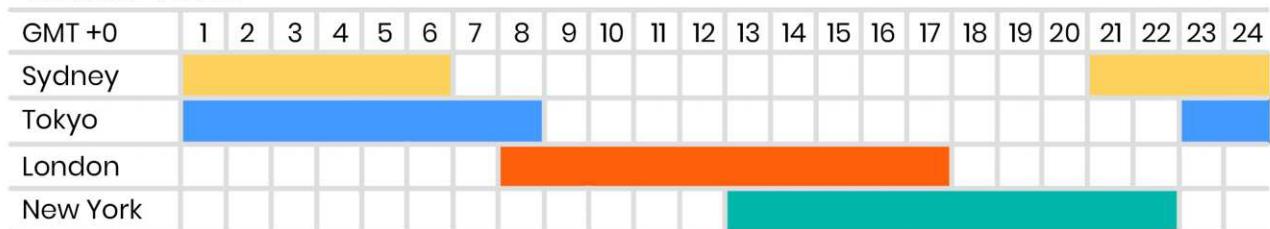
The forex market can be broken down into **4** major trading sessions:

-  Sydney Session
-  Tokyo Session
-  London Session
-  New York Session

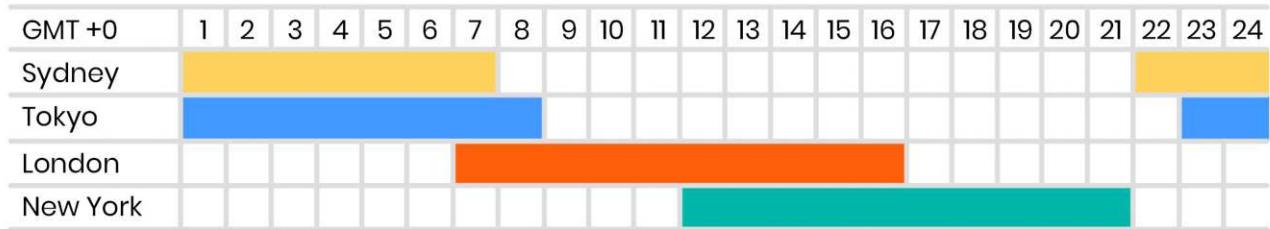
In terms of public holidays, there are only 2 days on which the entire forex market is closed. Those are Christmas, and New Year's Day.

On the next page, can find an overview of when the specific sessions start and end.

Winter Time



Summer Time



As you can see, the trading sessions don't start and end in order, there are even times when three trading sessions are open at the same time. As you can imagine, the times when different trading sessions overlap are the busiest and rank the highest volume.

Now let's check how busy the individual trading sessions are in terms of pip movement:

| | New York | London | Tokyo |
|----------------------|----------|--------|-------|
| EUR / USD | 48 | 46 | 30 |
| EUR / JPY | 50 | 54 | 46 |
| EUR / GBP | 44 | 50 | 32 |
| EUR / CHF | 33 | 37 | 27 |
| GBP / JPY | 81 | 93 | 69 |
| GBP / USD | 71 | 79 | 52 |
| NZD / USD | 32 | 31 | 31 |
| USD / CAD | 58 | 54 | 30 |
| USD / CHF | 41 | 42 | 28 |
| USD / JPY | 43 | 40 | 34 |
| Average pip movement | 50 | 53 | 38 |

Source: IG Group Holdings Plc; As of 2019

As you can see, the London session provides the most movement across almost all currency pairs. No wonder! About 43% of all transactions within the forex market are happening in London.



WHEN IS THE BEST TIME TO TRADE FOREX?

Well, this depends on what kind of trader you are going to be. Are you going to be a scalper/day-trader (short-term trading) or swing-trader/position-trader (longer-term trading)?

If you are going to be a scalper/day-trader, here a few Infos:

1. When 2 or more sessions overlap is the liquidity the highest. This is where you want to be in the action. Normally, these are also the times where major news will get published and you can see some volatility coming into the market. That's exactly what you are looking for as a scalper or day-trader.
2. When you can, trade during London sessions, which tends to be the most active session of all.
3. During the week, Tuesday - Thursday have historically the highest pip movement.

If you are going to have a longer-term trading approach like swing and position traders, then the question about when the best time to trade is not really relevant for you. Since you are at the beginning of your trading journey, and you probably will test the different trading styles before you decide, just keep the information above in mind and come back when needed.



THE BAD SIDE OF A 24 HOURS MARKET

Yes, the market is open 24 hours. **No**, you don't need to trade all sessions. Ok, let me rephrase this. You should not trade all sessions! The bad thing about trading a market that is constantly open during the week is the feeling of missing out. Missing out on opportunities, missing out on movements or news. But you need to remember, as a trader, you are making decisions involving money. You need to be fit to do so. You need your sleep.

Depending on your current situation, it might not even be possible to trade all sessions. Most traders start trading while having a job, being a student, or have any other responsibility besides trading. This is where swing and position trading (longer-term trading) comes into place.

1.1.4. WHY SHOULD YOU TRADE FOREX?

Why trade forex at all? We have so many asset classes to choose from, why go with forex instead of stocks or any other market?

Here are some great reasons:

 **Liquidity.** As we learned, the forex market is huge. Especially the major currency pairs are very liquid. That means that our orders will be almost instantly executed. Don't know what this means? Let's take a small company that is listed on the stock exchange. Since it is not as famous, fewer people are trading its stock. When you are looking to buy some stocks from this small company, there might be the chance that nobody is offering any stocks for the current price or the price you are willing to pay. That means you will have to wait till there is a transaction opportunity. This would be the case of an illiquid stock. (As we will learn during the „Forex Broker“ chapter, depending on the trading account, we do not always have access to the huge interbank forex market. Mostly, we will trade with the Broker or other clients of the broker.)

 **Flexibility in trade direction.** In currency trading, there are always 2 currencies involved. We always buy one currency while selling another currency. Because of this, we have equal opportunities to profit from rising or falling markets. This brings us directly to the next point.

 **Recession-proof.** A global recession affects individual currencies differently, so there will always be an opportunity to make money. A recession also increases volatility in the currency markets, leading to even more trading opportunities. Because we are so flexible to go long or go short and have a variety of currency pairs, trading forex is recession-proof. That's specific for the trading itself, not necessarily for the currency your trading account is in.

 **Trends.** The value of a country's currency is determined by interest rates and the health and strength of the country's economy in relation to other countries. This results in the fact that currencies tend to trend until the fundamentals change.

 **Leverage.** In forex trading, we will get huge leverage offered. It can even go up to 500:1 (which is insane and not necessary at all!). While we absolutely have to use leverage in order to profit from the forex market, it is also a big disadvantage. Leverage can be a brilliant and powerful tool when used correctly, but unfortunately gets used incorrectly way too often by way too many traders. Leverage is one of the main reasons there is something called

„blown accounts“. This means that you trade your trading account to the ground (till there is no money left). With way too much leverage, this can even happen through a single trade gone wrong. That's why leverage should be enjoyed in small portions and you should get used to it step by step.

 **Free recourses.** This is a great connection to the previous point. Most brokers offer something called „Demo Accounts“. Essentially, this is a trading account filled with fake money for you to try things out. This is completely free. This is an awesome tool to get used to leverage and trading in general. I strongly recommend using demo accounts for quite some time before switching to a „Live Account“ (Trading account with real money). But we will get into this later onwards. Just a quick tip: Don't sign up with your real phone number. Some brokers have very aggressive marketing and you can get called every day to decline any offers again and again. I speak from experience, unfortunately.

 **24-hour market.** This is what we learned just in the chapter before. Doesn't matter where you live in this world. If you wake up, the forex market is open. This gives you great flexibility but can give you too many opportunities at the same time. Don't trade all sessions and spend enough time away from the screens. But overall, I would rate this as a big advantage, rather than a disadvantage.

 Oookey, the first chapters are behind us and you've already learned quite a bit about the forex market. Before we jump right into technical analysis, you need to hold your horses just for a few more moments, because I would like us to go over three more very important topics. Margin trading, forex broker, and trading expectations.

 The following chapter gets a bit more technical and looks behind the scenes of margin trading. Don't get frustrated if you don't understand everything on the first try. I'm giving my best to guide you through this chapter as slow as possible, but we need to do some math here. Don't worry, you don't have to do any of this during your trading, it is just great to know what happens while trading with margin & leverage. It is also extremely relevant since all the numbers we will cover are constantly displayed on your trading platform.

1.2. MARGIN TRADING

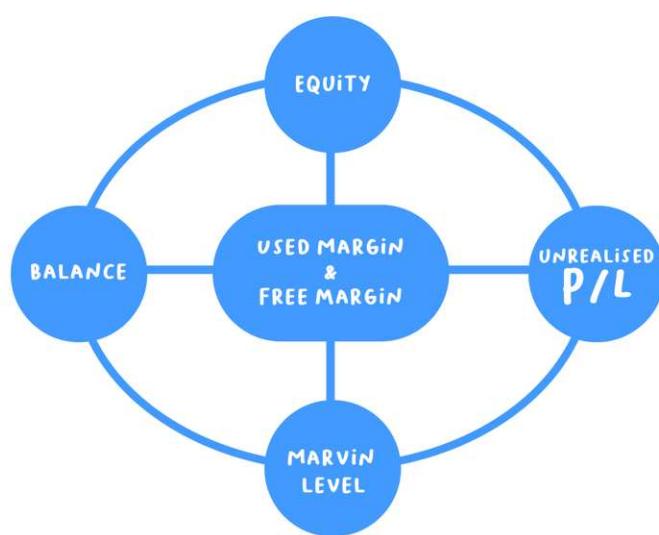
⚠ Margin trading is considered highly speculative and you should only attempt margin trading if you completely understand your potential losses and you have very solid risk management in place.

WHAT IS MARGIN TRADING?

Through the so-called „margin“ in combination with leverage, traders can open larger positions than the cash in their trading account would otherwise allow. In short, you can open big trades with little cash. The additional money for the positions will be borrowed from the broker. Through this, potential returns and losses can be boosted. It is very very important to understand that it goes both ways. You can boost your returns, but you will also boost your losses.

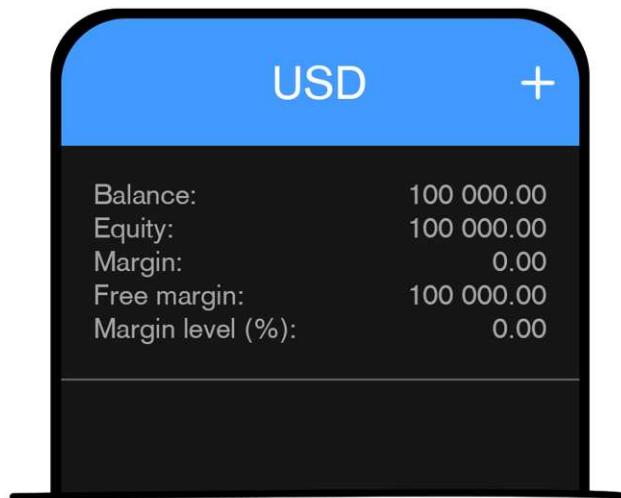
What we will do in this chapter is going through all the different terms that come with margin trading and try to understand the numbers behind it even more. I really want you to understand the concept to be able to take advantage of the tool and don't use it for self destruction, which unfortunately many new traders do.

Let's check out an overview about the relevant areas of margin trading:



The **blue bubbles** have relationships with each other. A change in one area or number will influence the value of another. It's important to understand what those numbers mean and what values for the numbers of each area are still

considered healthy. Your broker or trading terminal will normally give you information about all fields at any given moment.



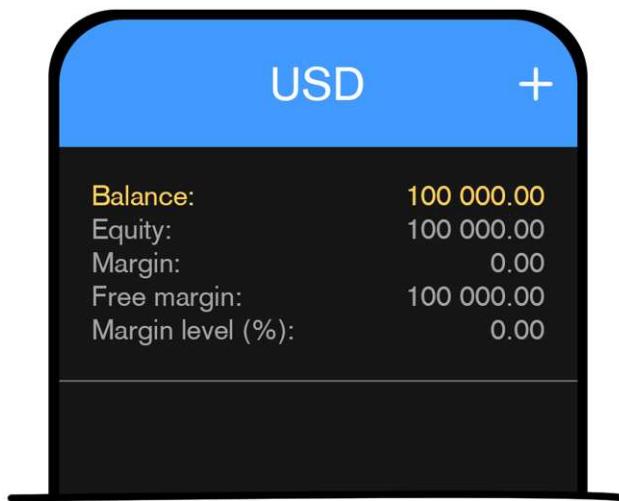
Ok, let's dive into the different areas:

1. Balance
2. Equity
3. Unrealized P/L
4. Used Margin (often referred as just „Margin“ within trading platforms)
5. Free Margin
6. Margin Level

1. BALANCE or ACCOUNT BALANCE

This is probably the easiest to understand. When we open an account with a CFD Broker and transfer funds into the account, these specific funds represent our Balance or Account Balance. The Balance represents the cash in our trading account.

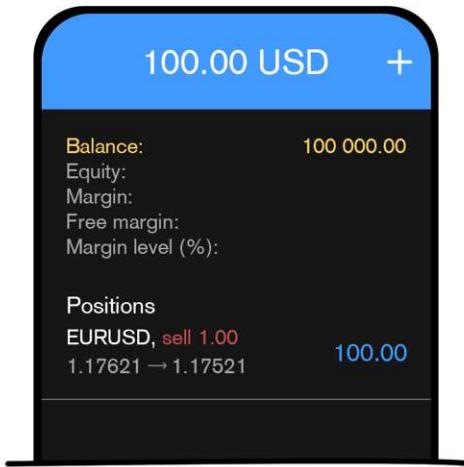
Quick example: We open a trading account with 100,000 USD. Our balance represents 100,000 USD. Ok, that's easy. Our trading platform MT4 would show us this number right here:



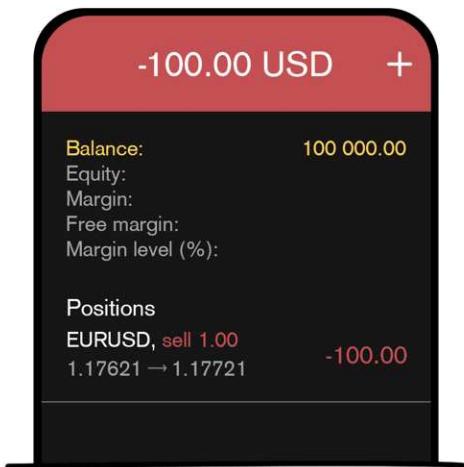
(The pictures are self-made, but represent the MT4 mobile version)

Now, when you open a position, the balance will remain 100,000 USD. As long as the position or positions remain open, your balance will not change. If your position is up 100 USD your balance will remain 100,000 USD and when your position is down 100 USD, your balance will remain 100,000 USD as long as the position is **open**. When you **close** your position with a 500 USD gain, then this amount will be added to your account balance. If your trade will be closed with a loss, then this amount will be subtracted from your account balance. On the next page, the scenarios on our MT4 trading platform:

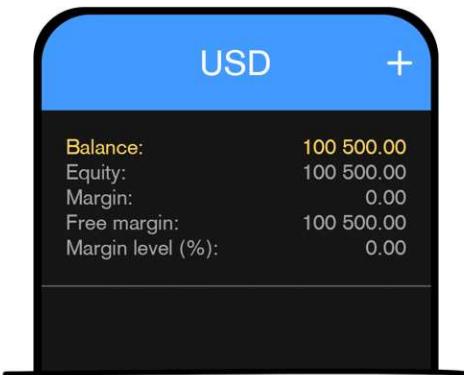
Trade is 100 USD in **profit** but still running:



Trade is 100 USD in **loss** but still running:



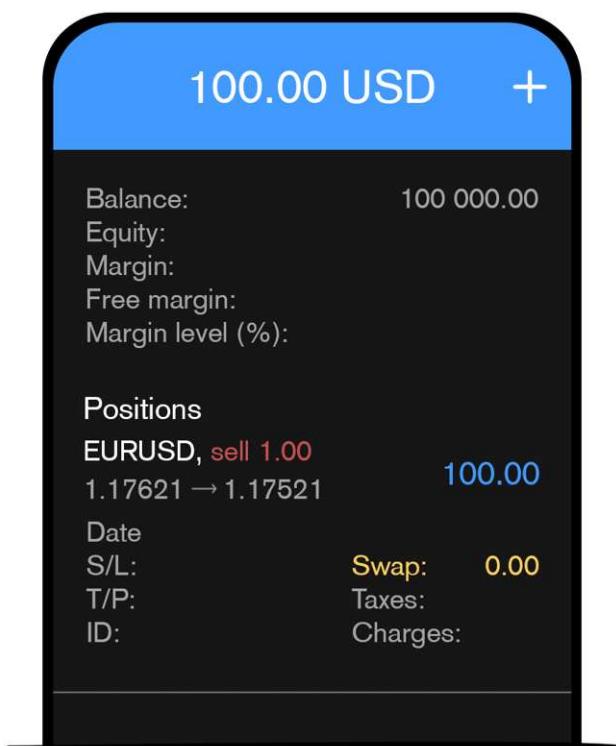
Trade is closed with 500 USD **profit** and closed:



There is one more thing that will affect your balance, except profits and losses. The swap fee. In currency trading, you will either be paid or charged interest on your position if you hold it overnight. If you get paid or charged depends on the underlying interest rates of the two currency pairs. If you get paid a swap, the amount will be added to your balance. If you get charged a swap, the amount will be deducted from your balance. This swap fee is caused by the so-called rollover. The rollover is done automatically by the broker, which is essentially closing the open positions at the end of the day, while at the same time, open the identical positions for the following day.

If this is all getting too complicated, don't worry. All this is done automatically by your broker. Depending on your position sizes and trading style, swap fees are usually staying small.

You can check your current swap fees on your specific positions on MT4 right here:



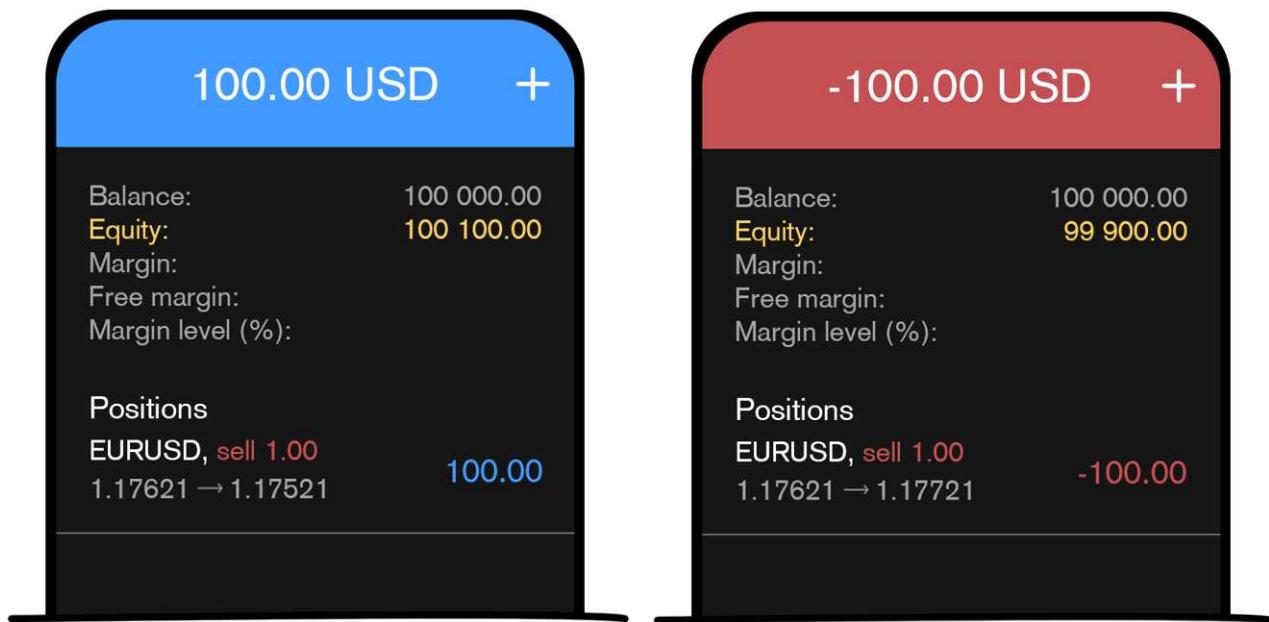
2. EQUITY

The equity represents the current value of our trading account. So what do I mean with the current? While the account balance only considers positions that are closed, the equity considers also the positions that are open. This means, if our position goes up in value, the equity rises as well. If the value of our open positions goes down, the equity falls as well.

How is the equity calculated?

Equity = Balance + or - Floating Profits or Losses

Floating Profits or Losses, in other words, unrealized profits/losses are the losses or profits from our open positions. Those can fluctuate by the second.



If we have no open positions, our equity and your account balance are exactly the same.

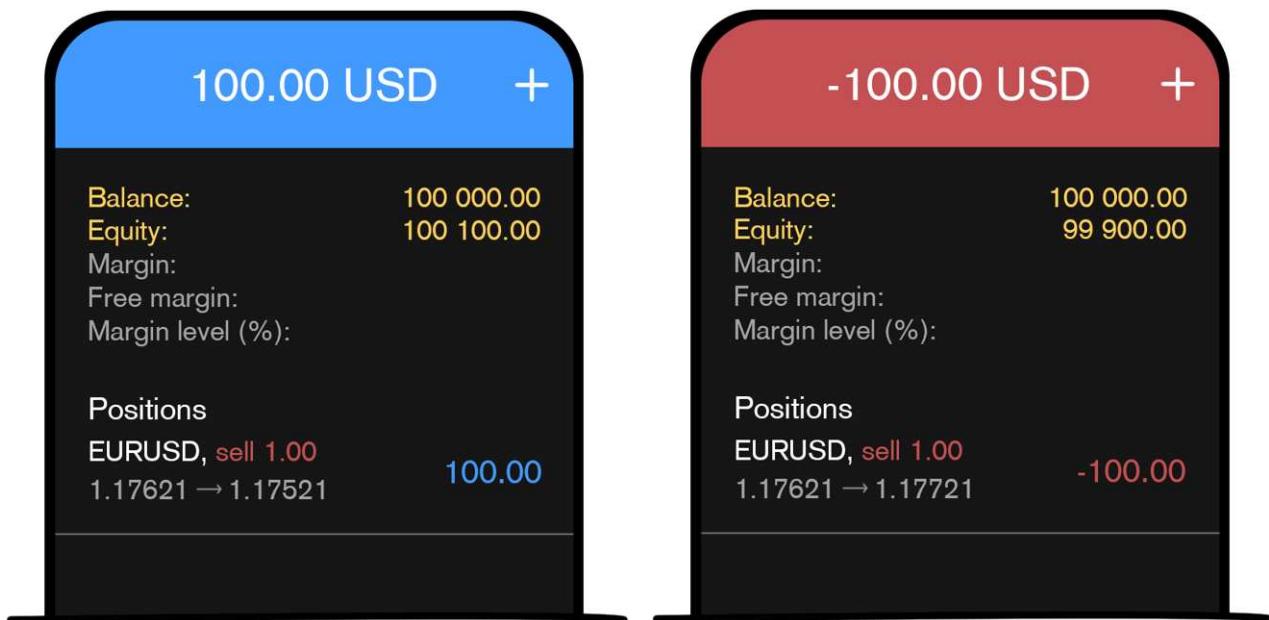
⚠ Important: When having open positions, don't focus on your balance anymore, the equity is what counts now! It is possible to have quite a difference between your balance and equity, depending on how your open positions are performing.

3. UNREALIZED P/L

Unrealized P/L (unrealized profit or loss) refers to the profit or loss resulting from our current open positions. Those positions are still active and can fluctuate by the second which affects our unrealized P/L as well as our equity.

There are also realized profits and losses, but those will be calculated into our account balance. In the „history“ section of your MT4, we can check all our realized profits and losses (closed trades).

The unrealized P/L are the profits or losses we would realize, if we would close your positions right now. But the focus is on „would“! Unrealized P/L is essentially theoretical profit or loss. If we have an unrealized loss, it can still change into an unrealized profit. If we have an unrealized profit, it can still change into an unrealized loss. Therefore, never count a trade won because it is in unrealized profits. A trade is only won when it is closed with profits.



When looking at the example from before, we can either add all open positions together to calculate our unrealised P/L, or we could also just calculate:

$$\text{Equity} - \text{Balance} = \text{Unrealised P/L}$$

In **profit** example: $100,100.00 - 100,000.00 = 100$

In **loss** example: $99,900.00 - 100,000.00 = -100$

4. MARGIN

Margin is a portion of our funds, which our CFD Broker sets aside as a deposit or collateral to keep our trades open and to ensure that we can cover potential losses. The margin is no fee or cost but is required in order to use leverage. Leverage is essentially the additional „buying power“ we receive through our broker.

In real life, it would look something like this: We want to open a position worth 100,000 US dollars, but we don't have 100,000 US dollars in our account. Through our CFD Broker and the use of leverage, we only need to come up with 2,000 US dollars to open the position. The 2,000 would represent the margin.

When we look at it visually, this is our open 100,000 position:



The required margin for the 100,000 US dollars position, which is determined by our broker, will be „in use“ as long as our position is open. When we close our position, our margin will be set „free“ and we could use it again for another position.

MARGIN REQUIREMENT

Depending on the currency pair and the CFD Broker, the required margin can vary quite a bit. The margin requirement is always expressed in percentages of the full intended position size we want to open. Brokers most likely have published the specific requirement for all provided currency pairs and products. In general, more volatile products such as cryptocurrencies or exotic currencies pairs have higher margin requirements than less volatile products like the major currency pairs.

How does the required margin work?

Going back to our 100,000 US dollars position. Let's say we want to open a EUR / USD position and our broker has a margin requirement for EUR / USD trades of 1%. This means we only have to put down 1,000 US dollars to open the position.

Here are some examples for different position sizes to make it clearer:

1% MARGIN REQUIREMENT

| Position Size | Margin Requirement |
|---------------|--------------------|
| 100,000 USD | 2,000 USD |
| 10,000 USD | 200 USD |
| 1,000 USD | 20 USD |

Now let's put in our balance as well to really understand what's going on here:

| | |
|--|-------------------|
| Position Size | 100,000 US Dollar |
| Balance | 10,000 US Dollar |
| Required Margin to open the 100,000 US Dollar position | 1,000 US Dollar |

It also needs to be mentioned that every single trade requires margin. If we would open a second position, it would require an additional margin.

How is the required margin calculated?

The required margin is calculated with the **base** currency of the currency pair.

$$\text{EUR} / \text{USD} = 1.1791$$

Base Currency Quote Currency

If it happens that the base currency is different from the currency your trading account is in, it will be considered in the calculations as well.

Calculations (Base currency is your trading account currency)

Required Margin (Money Value) = Position Size (Money Value) x Margin Requirement (%)

Calculations (Base currency is not your trading account currency)

Required Margin (Money Value) = Position Size (Money Value) x Margin Requirement (%) x Exchange rate between the base currency and account currency

CONCLUSION MARGIN REQUIREMENT

If we use margin trading, and we need to use it in CFD forex trading to make any kind of reasonable returns, the funds we have in the trading account have the task to cover the margin requirements for the currency pair or product in order to open positions and to cover potential losses.

LEVERAGE

Leverage was not mentioned in the overview of margin trading at the beginning of this chapter but is strongly connected to the topic of margin, that's why I'm squeezing it in right here (I know, very cheeky of me 😊). As we just learned, we use margin to receive the additional buying power (leverage). The leverage is always expressed as a ratio between our account balance and the possible amount we can use to open positions. It works as followed:

Our 100,000 US dollars position with a 1% margin requirement results in a margin of 1,000 US dollars. This represents a leverage of 1:100.

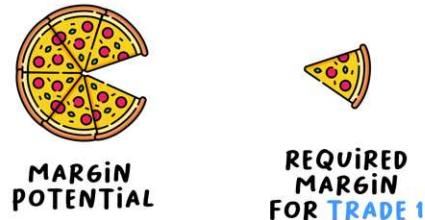
The question is, do you need such high leverage? No, you don't. Especially in forex trading, a 1:500 leverage seems to be very popular and widespread with forex brokers. Such an amount of leverage, however, is completely crazy. You don't need it to achieve fantastic returns. While it feels great to be able to open super large positions, over-leveraging is probably one of the biggest reasons why accounts blow up (= lose all money within the account). In short, even though your broker offers you such leverage, it doesn't mean you need to use it.

USED MARGIN

All right, we're back on track. As we learned, when we open a position, a specific amount of margin will be set aside as a „deposit“ for the specific trade. The **USED MARGIN** is just the sum of the required margin being used. Let's make it easier with a pizza example:



Right here, we have a full pizza that represents our full margin potential (= **EQUITY**).



If we open a trade, one piece of the pizza will be set aside. This piece represents the **REQUIRED MARGIN** for the specific trade.



If we open another position, the same thing happens, since every additional trade needs further margin. As you can see on the left side, the pizza pieces are getting less and less. This is our margin potential or **FREE MARGIN** (which we will cover next). When we sum up all the **REQUIRED MARGIN** which are the single pieces on the right, we will get the **USED MARGIN**.

REQUIRED MARGIN is for one specific trade, the **USED MARGIN** is for all open trades.

5. FREE MARGIN

As already mentioned, the free margin is what we have left when we take away all required margins, from our equity, to open our trades (total required margin = used margin). Therefore, the margin can be divided into „free“ and „used“. Free Margin essentially refers to the equity in our account that is not tied up in form of the required margin for a trade and still can be used as a margin for additional trades.

Free Margin = Equity - Used Margin

In this calculation, it is important to know that equity is a dynamic number. As we learned the equity includes the unrealized profits/losses. Therefore, depending on how our positions are playing out, we can have more or less free margin.

If our open positions are currently **profitable**, meaning our equity is also **rising**, the free margin will be **higher**.

If our open positions are currently **losing**, meaning our equity is also **falling**, the free margin will be **lower**.

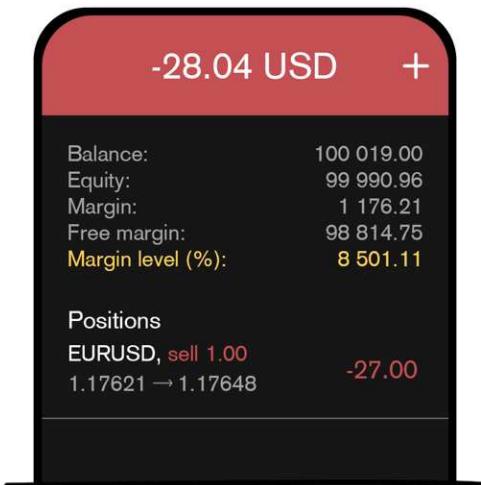
6. MARGIN LEVEL

Margin level indicates the health of your trading account, in the form of a ratio involving your equity and your used margin. The margin level will be presented as a percentage. The **higher** the margin level, the **healthier** your current trading account is in terms of margin, and the more free margin you still have available. The **lower** the margin level is, the **unhealthier** is your trading account is in terms of margin, and the less free margin you still have available.

To what extend can you have an unhealthy margin level? Well, as you know the term „blown account“, we can indeed overleverage our account which results in the need for too much-required margin in relation to our equity. In short: Our equity can't cover the required margin anymore. This especially happens when we use almost all our margin, and then our positions run against us. This can end in a so-called „Margin Call“, where our broker closes all our open positions to ensure that our trading account can still cover the losses. This way our broker tries to avoid that our losses extend our equity.

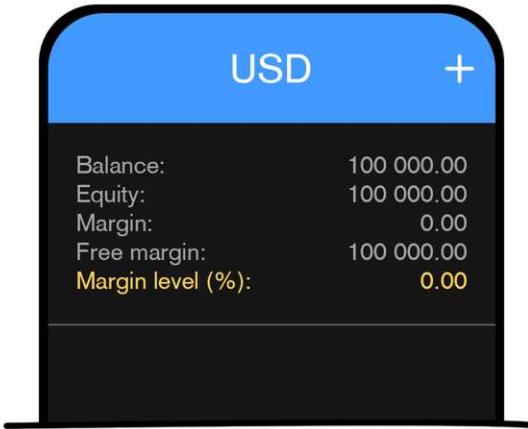
Calculation: **Margin Level = (Equity / Used Margin) x 100%**

Don't worry, this is nothing you need to calculate on your own. The MT4 platform is calculating this for us and we can check it right here:



Do you wonder why the unrealized loss of -27.00 USD does not match with our overall loss of -28.04 USD? Remember that we have swap fees influencing our results when we hold positions overnight. Those swap fees are calculated into the overall unrealized P/L at the top of the MT4 app. In this case, the position was held over 1 night and has swap fees of -1.04 USD.

If we do not have any positions open, the margin level will be zero, even though no margin is being used right now:



The margin level is a very important number and should be looked at. Most brokers will not let you open another position when your margin level is less or at 100%. This varies from broker to broker.

How can you improve your margin level? Very simple, you need to close open positions to set some of your **USED MARGIN** free.

MARGIN CALL

The call you never want to receive (it's actually an email from your broker). I personally never had a margin call, since my risk and therefore my leverage was never crazy high. I made many many mistakes, but I never completely over-leveraged 🙏. A margin call occurs when the margin level reaches a specific level (= Margin Call Level). The margin level of 100% is a widespread margin call level, BUT you should always check your broker since there is a chance that they might have a different margin level. Once this level has been reached or crossed, you will receive a margin call (email) from your broker, and you will not be able to open any positions anymore. This is basically a warning email that your trading account is in a very unhealthy situation. If the open trades continue to run against you, and your margin level goes lower and lower, they might reach another important level, the „stop out level“. The „stop out level“ is set individually from broker to broker as well, but essentially means that the broker is now taking action. The broker has looked at it from the sidelines but had enough and closes some or all of the trades. And you know what? It is actually more than great that the broker is doing this. Obviously, the broker wants to secure themselves, but the broker also protects you from losing more money on positions than you have in your account. This being said, there is of course a chance that this might happen, depending on the volatility of the markets. As we

learned, in a crash, where the price is moving at a crazy speed, even the margin call can't take you out of positions and there is the possibility that you lose more money than you have in your account.

STOP OUT LEVEL

As previously mentioned, the stop out level is similar to the margin call level, only that this time your broker is not just writing an email. If the stop out level is hit, some or all open positions will be automatically closed or liquidated. The broker will most likely liquidate the positions starting with the most unprofitable one. The broker will continue closing positions till the margin level is back above the stop out level. In the event of all trades running against you, this can easily end up with all open positions closed.

⚠️ IMPORTANT: Some brokers don't have an extra stop out level. If this is the case, they most likely use the margin call level as a stop out level and already start closing your positions if this level is reached. It is important to know this and should be provided on the website of your broker. If you can't find this information, contact your broker since this is vital information. Here a quick overview of what we've just learned:



Wow, you've made it. Congratulations 🎉. This probably wasn't really fun. Let me be honest, it wasn't also really fun to write this down. But it is very important to be aware of the risks and of the limits. This knowledge is crucial when you trade with leverage!

1.3. FOREX BROKER

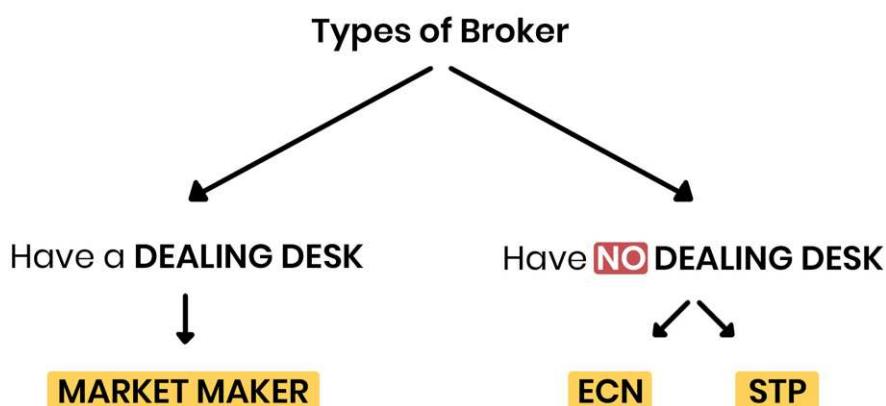
If you want to trade forex, you need a broker. There are hundreds of forex brokers out there, offering different account types and zero commissions, low spreads, and many more. With such a big number of brokers out there, there are also quite a lot you should stay away from. This is a forex broker guide covering everything you should know and set you up perfectly to make a more informed choice & to understand why I worked together with the specific broker!

A BIT OF HISTORY

Forex brokers exist for centuries and started as so many things in a time where the internet did not exist. Back in the days, the offline forex brokers were exclusively for large financial institutions such as banks and investment firms. This was due to the reason that speculative investing involved huge amounts of money. With the invention of the internet, the CFDs arrived in the investment world, which could be leveraged and therefore used with way less capital. This brought the entry barrier for the general public way down, and only financial know-how needed to be acquired. As forex brokers realized this, they introduced demo accounts, trading courses, simplified trading tools, and more. While this is a blessing for any interested trader, such low entry barriers do not only have advantages. While the trading account can be arranged and ready by tomorrow, this doesn't mean the trader is!

TYPES OF BROKER

While all brokers essentially provide the same basic service, if you look a bit closer it isn't as simple as this. In general, we can break them down into two sections:



MARKET MAKER

Brokers called „Market Maker“ has something called dealing desks, where they set their own price rates and fill client orders by matching buy and sell orders of their clients. If they can't match up the orders between clients, it is often the case that they take the counter-party of the order by themselves. As the name and the process already suggest, those types of brokers essentially „make the market“ for their clients. All trading orders are managed internally. A big and common misconception among traders is that market makers are betting against their client's trades through taking the counter-party of the unmatched orders and therefore have a conflict of interest. This is simply not true! Most brokers always have very similar price quotes, if market maker or not. The broker industry consists of big competition to provide the closes rates to the interbank market as possible. They might vary by a few pips, but they are normally never completely off (as long as they count as serious brokers). This way, if the broker takes the counter-party of the trade or not, it will not influence the price and your trade. This counts for regulated and serious brokers only!

Why bother with all this? Because market makers have different advantages and disadvantages to the brokers without a dealing desk.

MARKET MAKER



- Instant execution (due to internal process)
- Fixed spreads
- Wide range of leverage



- Slightly different prices to the interbank market
- Danger of low liquidity if orders can't be matched and broker is not willing to take the counter-party
- Danger of bad dealing desk management

CAN BE REDUCED THROUGH THE
RIGHT BROKER CHOICE!

NO DEAL DESK

If a broker doesn't have a dealing desk, they do not set their own price rates. They will get the price quotes directly from the interbank market and process the order flow by linking it to liquidity providers. Liquidity providers are banks, hedge funds, mutual funds, etc. Brokers without dealing desks can be separated into two categories.

1. Electronic communications networks (**ECNs**)
2. Straight Through Processing (**STP**)

A true ECN broker connects the client's trades with counterparties in the interbank market. The broker is therefore just the link for the trader to the interbank market and therefore does not make its own price quotes. Price quotes are coming directly from the interbank market. Like the market makers, ECN brokers make their profits with spreads. In addition, most ECN brokers often make additional income through commissions that need to be paid by the trader for every trade execution. As with everything, the ECN broker also has pros and cons.

ECN



- Interbank price rates
- Tight spreads
- Broker does not take the counter-party of your trades



- Dynamic spreads
- Possibility for re-quotes & order rejection
- Limited leverage
- Commission
- High deposit requirement

Straight Through Processing (STP) brokers use some of the market maker practices to provide more flexibility within the trading conditions. As ECN brokers, STP brokers do not have a dealing desk but try to bypass some of the limitations of trading exclusively within the interbank market. The first priority of the STP broker is to link orders with the interbank market. If there are no counter-parties found for the client's order, the STP broker, unlike the ECN broker, tries to match orders within its own client base or takes up the counter-party of the order itself. The price rates stay identical to the interbank market quotes. This way the STP broker is somewhat of a hybrid version between a market maker and an ECN broker.

STP



- Interbank price rates
- Rare re-quotes or order rejection
- Wide range of leverage
- Low entry capital requirement
- Small trade sizes



- Dynamic spreads
- Swap fees

After getting to know the different broker types, it is important to know that brokers can also offer different trading account types. This means they can offer a market maker account, while also offering an ECN trading account to their clients. Since the different types have different advantages and disadvantages, it makes sense to provide the clients the possibility to choose.

TRADING PLATFORM

Every broker offers a trading platform. The trading platform is used by the trader to place trades. Some brokers offer their own trading platform, some offer popular trading platforms design by 3rd parties (MT4 or another popular one is cTrader), and some offer both. In the end, there is no right or wrong here. If you can work with a trading platform designed by a broker and you're happy with it, go for it.

SPREADS & COMMISSIONS

Let's check out how forex brokers make their money and what we have to pay for their services.

GOOD: Opening a forex trading account does not cost you anything. You can try them (demo account) for free and you don't have monthly payments to make if you do decide to fund the account with real money.

BAD: Depending on the broker, the costs of trading are not always super transparent and you can easily accumulate small costs. There are many different brokers out there and the variety of costs are big.

SCAM: As in almost any industry, there are some players that do not really prioritize the client's needs, to put it gently. Some brokers really try to squeeze the last cent out of the client's pocket through hidden fees.

FOREX SPREADS

We already learned what spreads are. Quick reminder: The difference between the ask and bid price, or in other words, the difference between the buy and sell price. This is the most basic way for forex brokers to make money. Depending on the broker or account type you choose, the spread can be smaller or larger. Obviously, we as traders want our spreads to be as tight as possible. We slightly covered the pros and cons lists of the different account types, that we have fixed and variable spreads. Fixed spreads are usually offered by market makers and are generally popular among beginning traders, since you know exactly what amount of pips you need coming into a trade, to break even the position. Variable spreads, as the name says, can change from second to second and depend on the volatility situation of the currency pair.

⚠️ IMPORTANT: There is 1 hour of the day, where spreads are enormous and opening or exiting a trade can cost you way more than you are used to. It is the hour following the close of the daily candle. If possible, we need to try avoiding trading within this hour. If you are going to develop a trading strategy based on the daily candle, always enter or exit your trades a few minutes before the close to avoid the high spreads. But we will get to this in more detail later on.

COMMISSIONS

As we have covered before, depending on the broker or account type, we will get charged commissions on the execution of currency trades. This especially

counts for the ECN and STP accounts. Commissions are paid on top of spreads, not instead! But, because we will be charged commissions, the spreads are mostly way tighter than the spreads of a market maker.

SWAP FEES

We already covered the rollover process of holding positions overnight into the next trading day. Brokers normally provide us with a swap fee list, if you would like to keep tabs on the fees.

This covers the basic costs we need to pay as a trader. Depending on the broker, additional fees can be charged such as withdrawal fees, inactive account fees (for example if you do not place a trade for over 365 days without closing your trading account, the broker might fine you for this), or any special services a broker might provide. To avoid surprises, contact the broker before opening an account and ask for a list of fees. This way you are on the safe side.

BROKER REGULATIONS

Something that is way more important than the costs of using a broker. It is safety. When it comes to choosing a broker, the regulatory status of the broker is crucial! A broker without regulations has no obligations to use ethical business behavior. This means you can't even rule out illegal behavior and often no legal actions can be taken against them.

A regulated forex broker needs to comply with certain rules and regulations. Because of the fact, that the forex market is decentralized, various regulators will enforce restrictions on a national level. Some of the most recognized forex regulators are the FCA in the United Kingdom, CySec in Cyprus, the NFA in the United States, and the BaFin in Germany. On top of complying with the regulatory bodies, some brokers need to comply to additional regulations. For example, forex brokers operating in the European Union will need to comply with the Markets in Financial Instruments Directive (MiFID), which is a European Union-wide regulation. A broker should always transparently list on their website, by which regulatory body they are regulated.

A popular location for brokers within the European Union is Cyprus because of its advantageous fiscal and tax structure. To be a CySEC regulated forex brokers, as of 2019, the broker needs to comply with following rules:

- Initial share capital of at least €200,000
- At least €750,000 in operation capital
- Submit regular financial statements
- Submit yearly audit reports through certified third-party auditors
- Ensure protection of clients funds by holding them in segregated accounts
- Using top tier 1 banks and quality liquidity providers
- Comply to the Investor Compensation Fund (ICF) - Meaning: In case of bankruptcy, each client can recover up to €20,000

SEGREGATED ACCOUNTS

Something that has personal importance to me. The protection of my capital. In order to forbid the broker to use the client's money to cover any costs they might have, the money should be held in segregated accounts. This is the best way to ensure that you can withdraw your money whenever you wish to withdraw it.

INVESTOR COMPENSATION FUNDS

Some regulators require brokers to deposit a predetermined amount into an investor compensation fund. The fund is set up to secure the client's interest in the event of financial problems of the broker. Different compensation funds are set up, and not all brokers are required to comply with them. Depending on the regulatory body, the amount deposit into the fund can change. It is always recommended to check out the broker's website, if they offer this kind of protection.

COSTUMER SERVICE

Something important to consider. If things go south for some reason, you want to be able to contact your broker and get things sorted out as soon as possible. I haven't experienced anything worth contacting my broker yet, but it is great to know you could contact them at any time and your request will be handled professionally. Therefore, make sure your broker has multiple channels you can contact them (FOR FREE!), speak your language to make things easier to explain, or at least speak a language you are comfortable with.

1.4. TRADING EXPECTATIONS

Expectations. It is important to have optimistic ones, but realistic ones. I personally would say it is really crucial to have the right expectations to stay in the long run, to stay disciplined even if it gets tough, and to not give up. Most people give up actually. There are probably hundreds of reasons why somebody would stop trying, but what I want to focus on in this chapter is setting you up properly in terms of expectations, so that you will not get frustrated if you are not a millionaire by next year, are not driving the Ferrari you have seen so many people „own“ on Instagram. While we are on the topic, can you get rich through trading? Yes, you can. You can get richer than you ever thought. But it is possible not just in trading. It is possible in most areas. How are the chances to get super rich in most areas? Not really big. It is absolutely possible, but it is tough. The same thing counts for trading. Why shouldn't it?

A big misconception about trading is, because of the number of trades we take, it feels like work. It feels like being productive and feels like you should deserve something because of it. Working hard is really not what you should be after in trading. Don't get me wrong, it is essential, but the key combination is working **smart & hard** (the focus is definitely more on smart!). More trades don't need to mean more profits. There is actually a well-known trading mistake which is called „overtrading“. Yes, trading too much can hurt your trading account. How come? Overtrading refers to taking trades that are not within your strategy. Trades that are not within your trading plan. In short, you are taking trades you are not supposed to take. As you will learn, you are probably a more emotional person than you thought, because in trading you are dealing with a lot of greed and a lot of fear. Greed for more money, and fear of losing money. Those two emotions alone will be the cause of terrible trading decisions. The cause of jumping into a trade without a system behind it. The cause of getting out of a trade based on nothing but emotions. It is unavoidable. I made them, I still make them from time to time, and you will make them too. Through practice and experience you will get better at controlling them, but we are human beings, not robots, we just can't shut them off completely (we will discuss this topic more in a whole chapter). Coming back to the misconception about trading, traders and investors do not differ much in terms of performance. An investor that is buying a stock in the beginning of the year and does nothing but enjoys his or her life, without thinking about the stock once during the year, can have the same or even better performance than a trader taking 3,000 takes during the year. A trader still needs to compare his trading results with the S&P 500 or a similar investable index. Of course, we are aiming for higher numbers and of course, we

want to receive more returns for our time and work. But we can always higher our expectations. Let's start conservative and humble.

Time. This is what it takes to become a profitable trader. You need to be willing to invest time. There is no way around it. But guess what? Once you are on the profitable path, it is more than worth it. You acquired not just knowledge, you acquired a skill that will pay dividends for the rest of your trading career. There will always be tough times, but with a backpack full of experience, you will overcome them. But to get to this point, there is a long journey in front of you. What I really want you to do is to invest at least 1 full year into studying, practicing, trying, and never giving up. And guess what? I will check on you. You will receive 12 emails from me over the next year. One email every month to check if you are still on the path of becoming a trader, and to give you extra motivation to ask me any questions. I'll not let you slip away this easy. I've seen so many people give up because the process was not fast enough for them because they thought it was easy to make money from your laptop because they thought they turn 1,000 USD in 100,000 USD within months. If you went into trading because you think you can make a living off it, and you can, but why think that you will achieve this within a few months? Would you think you will be living off a sneaker business in just a few months? Not really.

I'm glad that these points made sense to you (I'm assuming here but I'm confident in this assumption 😊). With this in the back of our heads, let's really kick off your successful trading journey 🚀.

1.5. GUIDE: Tradingview.com



Before we will get into technical analysis, I quickly recommend you checking out the guide above to the tradingview.com platform. This platform is a **FREE** charting platform (with paid options) you can use to analyze charts in an easy and simple way. This is really useful to have while going through the course so that you can check out the theoretical things you learned directly in the live markets. **The free version is absolutely enough.** Here the link to the trading platform:

CLICK HERE
www.tradingview.com

1.6. GUIDE: MetaTrader 4



Another platform you should get familiar with is MetaTrader 4 (or MetaTrader 5), which is a widespread electronic trading platform. Most CFD brokers let you connect your trading account with MT4 in order to place trades. Some brokers also offer their own trading platform through which you can place and manage your orders, but MT4 is very user-friendly and easy to navigate. In the end, MT4 or MT5 is not a must, but I would strongly recommend it.

Where is the difference between tradingview.com & MetaTrader?

| | | |
|------------------|---------------------------|---------------|
| Tradingview.com: | Only Charting | (free & paid) |
| MetaTrader4: | Charting & Placing Orders | (free) |

METATRADER 4 MOBILE

Of course, I also have included a guide into the mobile version of MT4. Just click on the video below:



1.7. TYPES OF ANALYSIS



We already went quickly over the different types of analysis. **Technical** and **fundamental**. Since the beginning of the different analysis types, there has been a discussion about which one is the more advanced one. Which one is the better one? Since the discussion is still going on since today, we can definitely say: There is no answer to the question! It comes down to preference. There are people basing their decisions on fundamental analysis only, there are people basing their decisions on chart analysis or technical analysis only, AND there are people that use a mix of both analysis types. Both types can be profitable, therefore none of them is more advanced. While we will cover in a bit more detail what the approach of each individual analysis type is, we will focus heavily on technical analysis in this course.

TECHNICAL ANALYSIS

In theory, with chart analysis (another word for technical analysis), a trader can look at the price movement of the past and can make a decision about the potential future price movement. If you ever heard the term „technical analyst“, this means the specific person uses chart analysis to make decisions about future price movements. The reason why this works is that technical analysts believe that all current public market information are reflected in the price of the currency pair. This includes all fundamental news and events. If price really reflects all public information, then looking at the chart is really all that's needed to make decisions. Technical analysts look at certain things in price action (price movement) that repeat themselves. If price tends to reverse to the upside at a specific level or if price tends to return to the downside at a specific level, a technical analyst will focus on this specific level (key level) for a potential trade

opportunity. This means we look at patterns that repeat themselves, have formed in the recent past, and possibly take advantage of price movement acting the same in the future.



A very very important point in technical analysis is that it focuses more on probability than the prediction of future price movements. As technical analysts, we try to develop a system that identifies price patterns in the past and determines the probabilities of price moving the same way in the future.

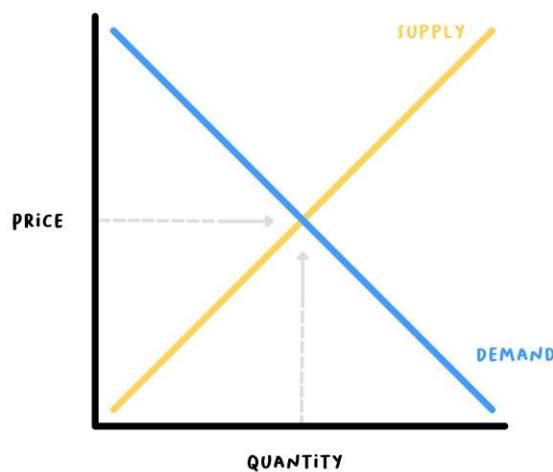
How do we identify price patterns in the past? We use charts. Charts are the easiest way to visualize historical data. Technical analysis is also often referred to as self-fulfilling. This means that specific key levels or chart patterns develop caused only by the prediction that it is going to occur. Those who argue that technical analysis is a self-fulfilling prophecy claim that because of the large numbers of traders basing their decision on the same tools and indicators, in other words, use the same information for the decision making pushes the price in the predicted direction. It is in fact true that very common signals generated by technical analysis can self-fulfill themselves, but it is very likely that those only lasts for a short term. The goals of the participants are different and technical analysis is highly subjective. 10 different chart analyses could look at a chart, while 5 would predict different price movements and could see a potential trading opportunity, the other 5 might say that no trade opportunity exists at this moment. Common tools for technical analysis are trendlines, support and resistance levels or zones, Fibonacci retracements and extensions, chart- and candlestick patterns as well as various indicators like the Relative Strength

Indicator (RSI), Moving Average (MA), Moving Average Convergence/Divergence (MACD) or the Ichimoku cloud. Don't worry if those terms confuse you, we will cover all of them and more, one by one and in detail. Again, take your time with all the information since it is going to be a ton of it. But I find it to be essential at least to know different tools, even though you might only end up using a handful of them.

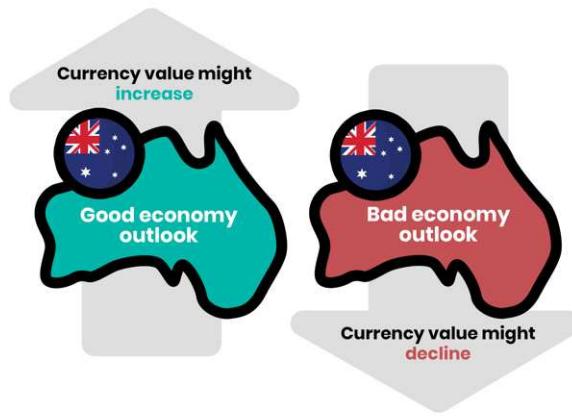
FUNDAMENTAL ANALYSIS

This analysis approach uses economic data reports and news headlines to look for trading opportunities. These can be of economical, social, or political nature. And as we have just found out over the last 4 years (Presidency of Donald Trump), social media also becomes more and more powerful in terms of the impact of financial markets. Basing a decision on a tweet would also count as a fundamental analysis.

Supply and demand determine the price. If you ever have attended a basic economic class, then you know the simple rules of a market. If supply is higher than the demand, the price will drop to create higher demand in order to match up with supply. If demand is higher than the supply, prices will increase in order to match up the demand with the supply.



Luckily, we are not in an economic class, so we leave it with this. What's important is to know what events can influence the supply and demand of a currency. For example, news like a decline in the unemployment rate can affect the economy of the country as well as the monetary policy which affects the demand for a currency. The currency value represents the economic strength of the country, always in relation to another currency (and another economic strength).



Why is the currency value of a country expected to rise when the economic outlook of the country is promising? Because the demand for the currency will be higher. The better the economy, the more foreign investments will be made in the country. Those investments need to be made in the currency of the specific country, therefore will rise in demand. The currency market is not just controlled by supply and demand, central banks will also control its currencies to keep things in check (doesn't always work). For example, to control the growth and inflation of a growing economy, central banks like to raise interest rates. Higher interest rates mean that the financial assets of such currency will become more attractive. Foreign investors and traders have to exchange their currency in order to buy those more attractive financial assets, which boosts the demand for the currency. If all this is getting too complicated, don't worry . We are not here to become fundamental traders. In order to purely place positions on fundamental news, we need to have a really good understanding of macroeconomics. Later in the course, I will cover a few regularly occurring news events to get you up to speed. We will go through what data changes might have what impact on the specific currency. We will also cover some news events, which we want to avoid as a trader. But all at its right time, and step by step. Don't get overwhelmed.

It is absolutely possible to not pay any attention to fundamental news and purely trade based on technical analysis. The only problem that might occur is extreme volatility during special news events like a presidential election, especially the US presidential election. While a trader normally looks for volatility (strong price movements), crazy and unpredictable volatility is not manageable and should be avoided. Therefore, we can't shut off the fundamental part to 100%.

1.8. TYPES OF CHARTS

We already established that as a chart analyst, we need to be able to read historical price action. This is where the price chart comes into place. Every new trader needs to be able to read a price chart and understand how it works. A chart is basically the visual representation of the currency pair's price. This doesn't count just for currency pairs, any financial asset with price data can be visualized within a chart. That's why technical analysis can be performed the same way for stocks, crypto, or any other financial asset. It's just important to know that every financial asset behaves differently. While the technical analysis itself is the same for stocks and for forex, the price is behaving slightly differently.

Going back to charts, the y-axis (vertical) represents the **price**, while the x-axis (horizontal) represents the **time** scale, which is normally fixed. A fixed time scale means that a specific distance on the x-axis represents a specific time. No matter where you check the same distance on the x-axis, it will always represent the same time.



Every single transaction between buyers and sellers is represented within a price chart. Every news is incorporated as well as expectations of the future. If different news comes up or the expectation of the future changes, the price shifts to the appropriate level. **What is the appropriate level?** Nobody really knows for sure. The price movement represents the opinion of millions of market participants, whether they are actual humans or algorithms that buy and sell currency pairs (Algorithmic trading or more known as „Quant trading“ is a rising trend within big

financial institutions and the trading world. Big hedge funds employee physicist, mathematics and other very clever people to develop and code algorithms that take over the decision making within the trading process). Because of this, the price is changing by the second.

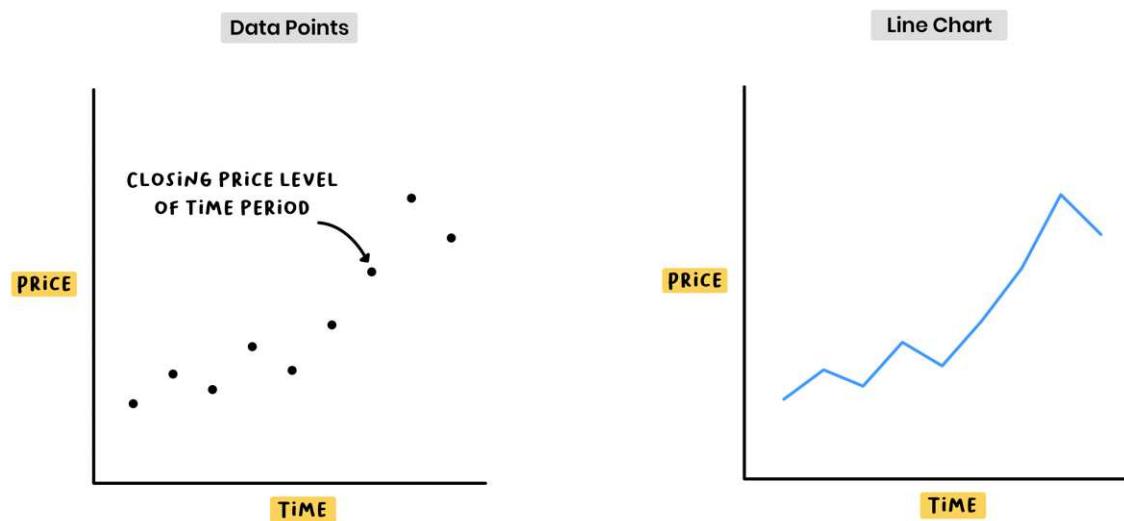
There are popular and more exotic price charts we will cover:

1. Line Chart
2. Japanese Candlestick Chart
3. Bar Chart
4. Renko Chart
5. Heikin Ashi Chart

In this chapter, we will just quickly go over the different chart types for you to have already heard them. We will go more into detail during the course once you have acquired additional knowledge to make things easier for you. This also gives you the time to already explore the chart types on tradingview.com or any other charting platform you prefer, as we go more and more into details.

1. LINE CHART

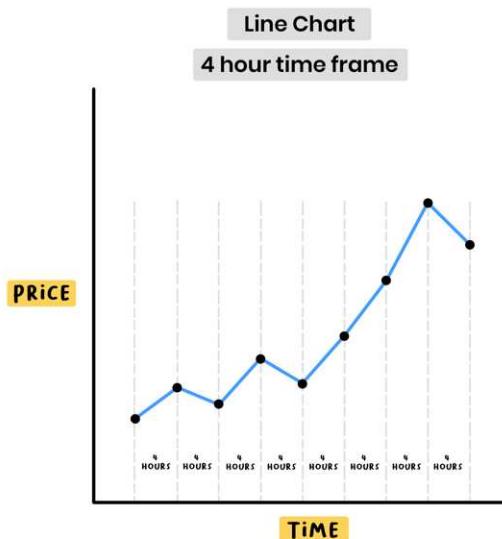
The most basic type of chart. The line chart connects a series of data points with a continuous line. Those data points represent the closing price of the currency pair.



With the line chart, we have Line charts that can also be used on any timeframe. This means we can use the daily timeframe, 4-hour timeframe, 1-hour timeframe, or even the 1-minute timeframe.

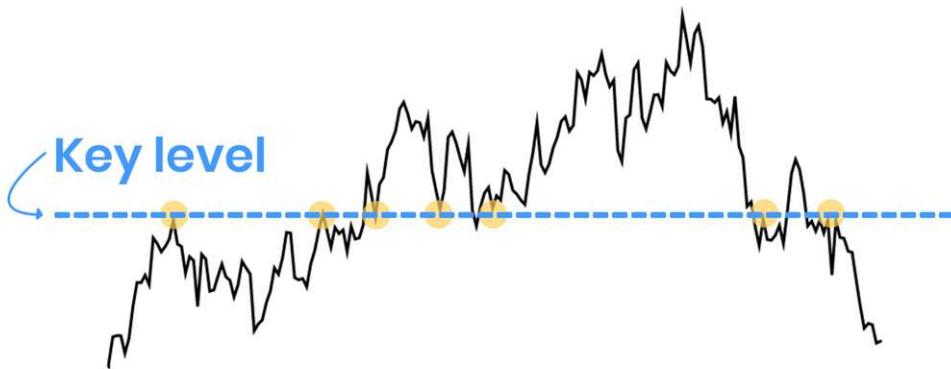
A quick explanation about timeframes on line charts:

The timeframe of a chart is the time passed between the two following data points.



An advantage of the line chart that it is considered to be very simple to follow since it only gives us the closing prices of the currency pair. The same simplicity can be seen as a disadvantage. Because the line chart just connects the two closing prices with a line, which does not represent the price movement between the data points, we are lacking the knowledge of exactly this – the price movement between the data points. As traders, when looking at the line chart, we have no clue what happened during the time of the two following closing prices. But the closing price is typically considered to be the most important, therefore the line chart is quite popular among investors and traders. Mostly, however, the line chart is used in addition to other charts, like the Japanese candlestick chart.

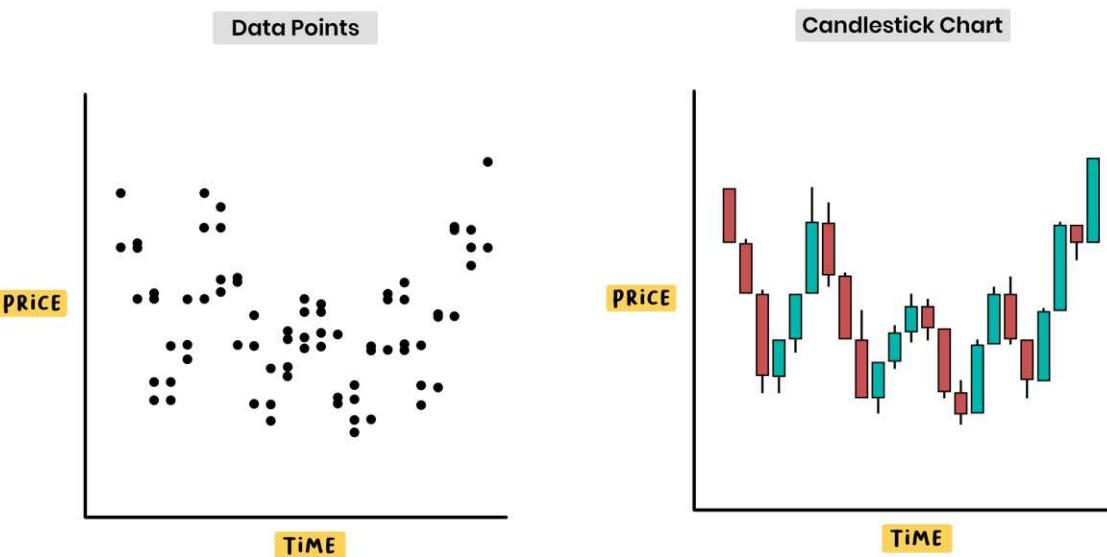
Benefits: Clarity. As mentioned, traders, especially new traders, can be quite overwhelmed with too much information during the analysis of a chart. The chart type is also easy to use. They help understanding basic chart reading skills before jumping into more advanced charts like the Japanese candlestick chart. Line charts can also really help to identify key areas, trends, and chart patterns. We're jumping a bit ahead here with those topics, but let's just have a quick look on the next page:



Limitations: For some trading strategies, seeing only the close price of the currency pair is not enough. The simplicity has big disadvantages in form of lacking essential information for a trader.

2. JAPANESE CANDLESTICK CHART

As the name suggests, the candlesticks originated in Japan in the 18th century and are able to visually show emotions through the size of price moves and are by far the most popular chart type among traders. While the line chart has only one data point (close price) per time period, the candlestick has 4 data points (open, close, high, and low price).



Sometimes, a candle does not necessarily have 4 data points. When the high price and the close price level align up during the time period, we are getting fewer data points for the specific time period.

COMPONENTS OF A JAPANESE CANDLESTICK

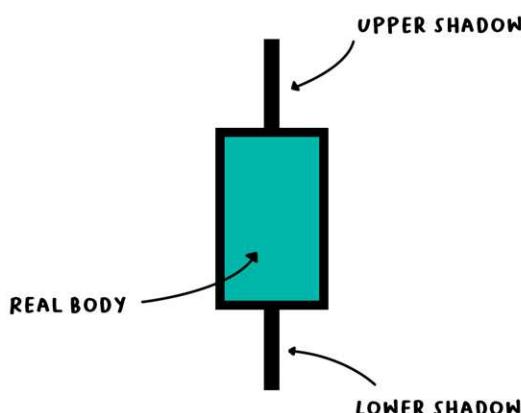
1. The real body

Price range between the close and the open price (**green** or **red**)

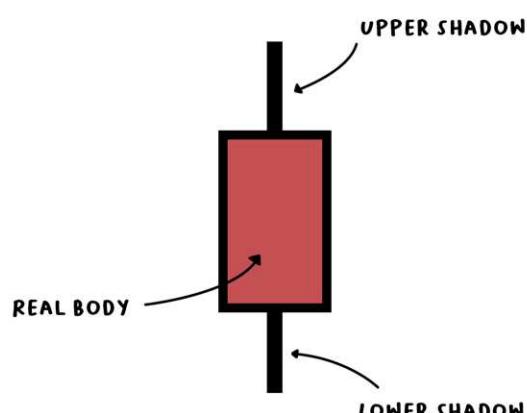
2. Wicks

Price range between open/close and high/low. Sometimes the wick above the body is called upper shadow, and the wick beneath the body is called lower shadow.

Bullish Candlestick



Bearish Candlestick



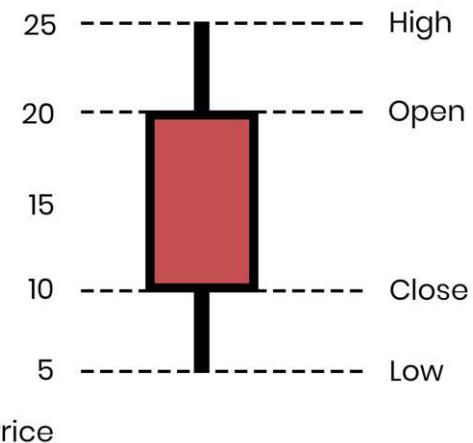
How do you read Japanese candlesticks?

Depending on if the open price is higher than the closing price (**bearish**), or the open price is lower than the closing price (**bullish**), the Japanese candle can be red (**bearish**) or green (**bullish**). With most charting platforms, you can choose the color individually.

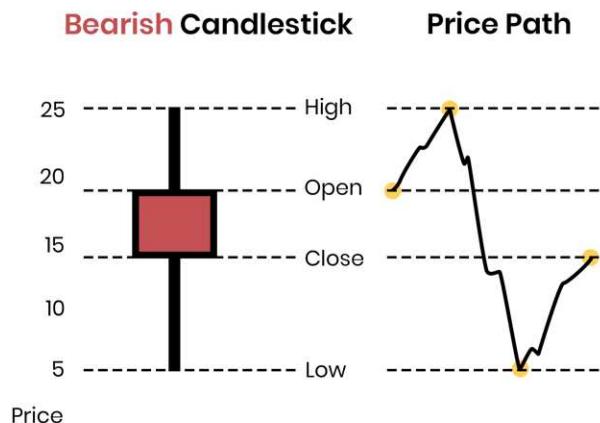
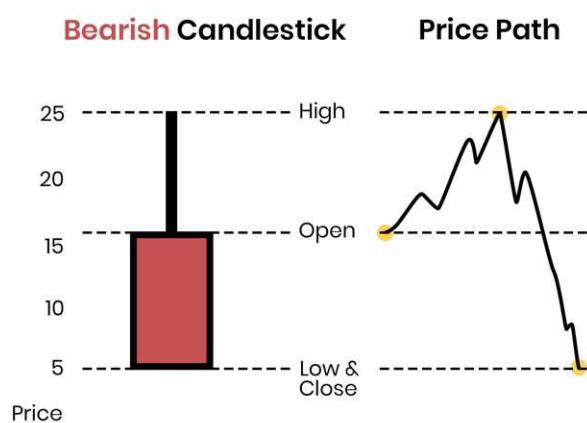
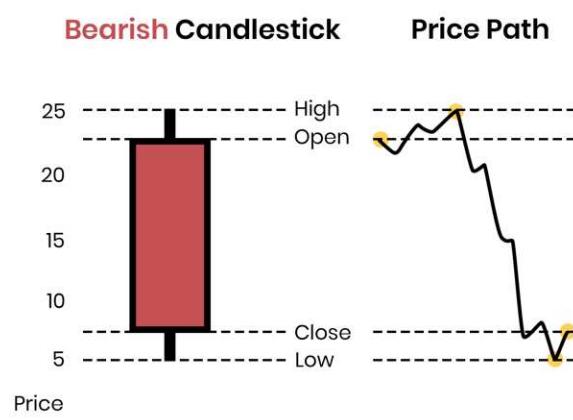
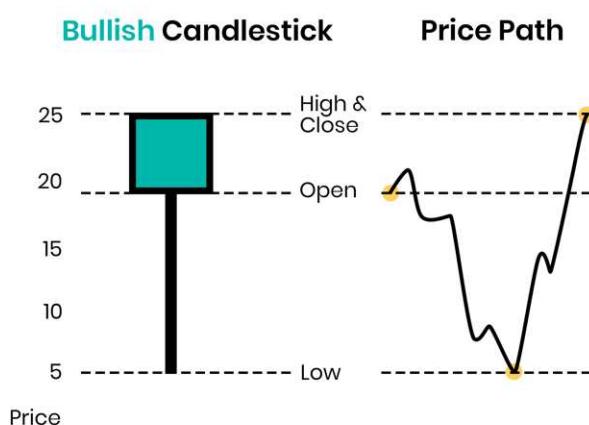
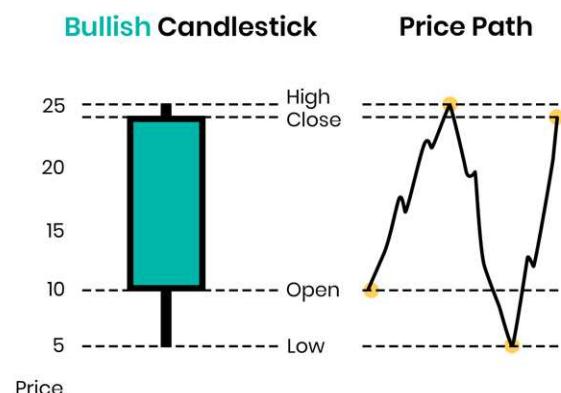
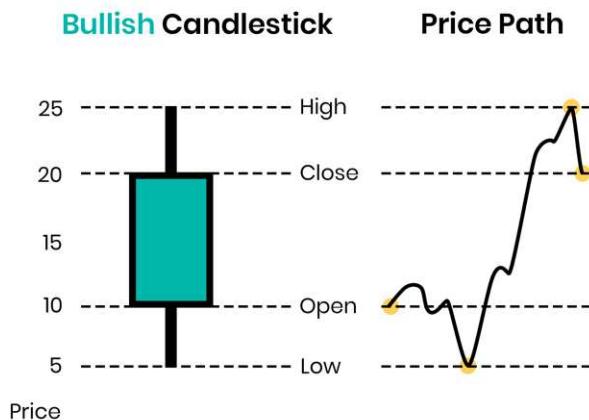
Bullish Candlestick



Bearish Candlestick

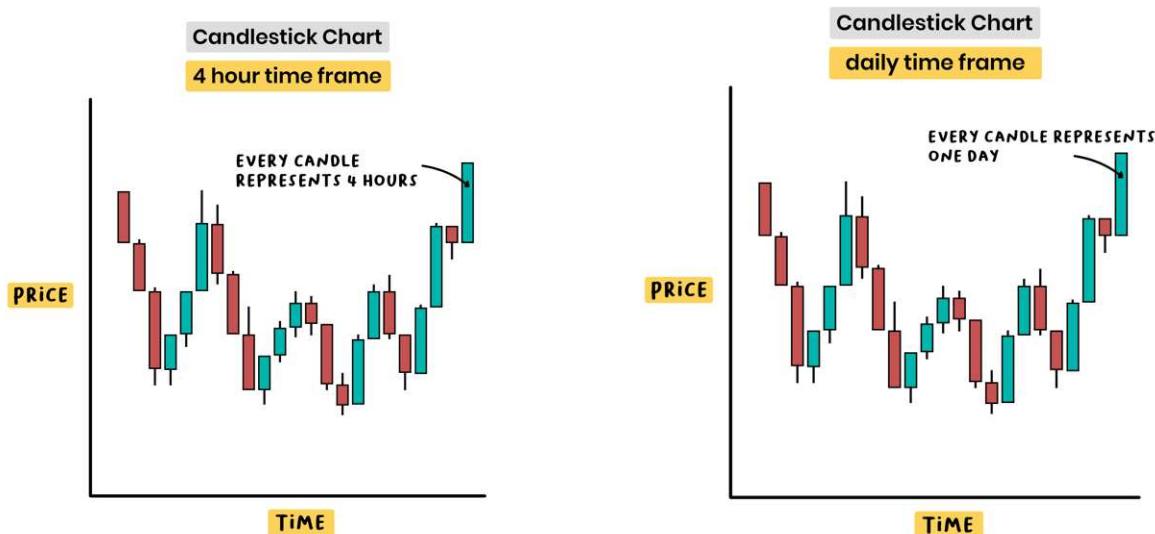


Let us check out some different candlesticks and **possible** price movements behind it:



⚠️ **Important:** Those are only **possible** price movements. Price doesn't have to move the exact way as illustrated. The only certain fact is that price has reached the high and the low price levels as well as the open and close price levels during the time period (the 4 data points). How exactly price moved between the high and the low, can not be interpreted through the specific candlestick. We would need to go into a lower timeframe to get more details.

Depending on the chosen timeframe, one candlestick represents the price movement within one unit of the chosen timeframe. If we are on the daily timeframe, one candlestick represents the price movement of the entire day. If we are on the 4-hour timeframe, one candlestick represents the price movement of 4 hours.



Benefits:

1. Once you got used to reading candlesticks, they are pretty easy to read
2. Candlesticks are giving us more information than for example line charts through more data points
3. Candlesticks can form patterns with all 4 data points, which help a trader to interpret the market and help to make trading decisions

This was just a quick overview of candlesticks. We will go into more detail in a few chapters, where we will also check out candlestick patterns. Candlesticks are the main chart type in the course, based on the fact that I use them myself and I strongly believe that they are the perfect choice based on the data points they present us with.

3. BAR CHART

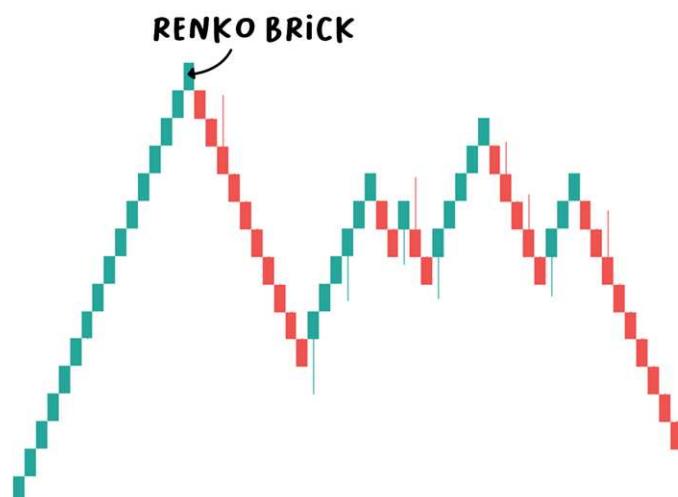
A bar chart is pretty much the same as the Japanese candlestick. It shows us the same 4 data points (open, close, high, and low price). The only difference is the visual presentation.



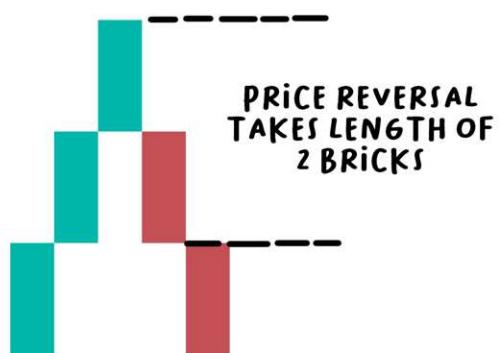
Let us be honest, looks kind of skinny. It's also not as nice to look at. This is also just that you've seen it once and to understand how they work. We will not go further into details here.

4. RENKO CHART

The chart type I've always been fascinated by. The Renko chart was also developed by the Japanese. It is designed to focus on price movement rather than price AND fix time intervals. Since the chart type looks like a wall „brick“, its name is coming from the Japanese word for brick, which is „renga“.



A new brick is created when the price has moved a specific price amount, which can be individually set. One brick always represents the same price movement. It can represent 10 pips, 50 pips or 500 pips. The time axis of a Renko chart is not fixed. This means that one brick can take 1 hour to develop, but can also take 5 days to develop. Time does not matter as much in this chart type, the only thing that is being focused on is the price movement. There will also never be two bricks next to each other at the same price level. If the price has not moved enough into one direction to develop a new brick, then there will be no new brick on the chart no matter how long the price stays at such level. If the price reverses, it has to reverse double the individually set amount to develop a new brick.



But that's enough for now. I just wanted to show you a little insight into the probably cleanest chart type there is. Because of its pure focus on price movement and the disregard of fixed time scales, it filters out a lot of noise and can help traders to clearly see price trends. Obviously, there are also limitations with the Renko chart due to the little data which is provided.

5. HEIKIN ASHI CHART

Heikin Ashi, a chart type developed by who? Yes, you got it. The Japanese. Heikin Ashi means „average bar“ and is especially useful when markets are trending. This means when the price goes either in an upward direction or in a downward direction. Don't worry, we will cover market structures in just a few. The Heikin Ashi candlestick is a bit more complicated. It is developed by a series of open-high-low-close candles set apart by a time series (individually set by the trader). Let me save you the calculations. As you can see, the Heikin Ashi candle looks like a regular Japanese candlestick:



But when comparing charts with Japanese candles, you can clearly see a difference. This is because the Heikin Ashi is essentially taking an average of the movement. But before you get completely confused, let's not fill up your brain with this chart type now.

All right. We've covered 5 chart types, but which one is the best? Well.. it depends on personal preference. Each chart type has its advantages and disadvantages. In this course, however, we will focus primarily on candlesticks. I personally trade with candlesticks and find that they provide the best information to base trading decisions on and perform technical analysis with.

1.9. TECHNICAL ANALYSIS 101

🎉 We've made it. We finally start with technical analysis. I know I've probably bored you with all the stuff before, but we've set up an absolute necessary knowledge base on which we can put our chart analysis expertise. This expertise is what we are after in the next chapters and are going to build step by step.



1.9.1. WHAT IS TECHNICAL ANALYSIS?

Technical analysis is the skill of reading „price action“, in other words, price movements. Through technical analysis, we can analyze the speed, duration, and distance of price movements. This helps us identifying recurring patterns in the market, which can give us clues as to where the price might be headed next. If we collect those clues and build some kind of rules around them, we can create trading strategies.

When we are already on the topic of trading strategies. There is no such thing as „the best trading strategy“. There is simply is not. Even if there would be, a trading strategy is still highly subjective. This means if „the best trader in the world“ would give you „the best trading strategy“, there is a chance you might lose money with exactly this strategy. How come? Because trading is more than just the trading strategy. There are so many factors you have to control, especially the psychological factors, but also your current life situation. You might not have the time to sit in front of your computer for 10 hours a day. The strategy you have been given by „the best trader in the world“, however, only works if you spend 10

hours a day in front of your charts. You might have to decide in seconds because „the best trading strategy“ has a scalping approach. What if you just can't work under such pressure? I think you get the point. A trading strategy is something you should develop for yourself. That's why you are here, that's why you go through the course.

1.9.2. WHAT IS AN „EDGE“?

Well, there is no exact answer to this question. Every trader interprets it slightly differently, and when you ask a couple of traders they might all answer differently. Essentially, an „edge“ or „trading edge“ is either a technique, observation, or some kind of approach that can create an advantage over other market players. In short: it can make you money. This is not a trade-by-trade basis advantage, but over hundreds and hundreds of trades, over months and months of time. A great example to explain a „trading edge“ is comparing it with a casino, in particular with the game roulette.

In the game roulette, the odds are predetermined by the game and set in favor of the casino. This doesn't mean the casino wins every spin, but over the longer time horizon, the house always wins. Let's take John. John loves to play roulette. We sit John on a roulette table with only black and red numbers. John bets the next number is going to be a red number. He will have a 50% chance of winning this bet since half of the numbers are red and the other half is black. Therefore, the black-or-red bet has a 50% chance of winning for both sides, the player and the casino. Fair and square. But that's not how the game works. Roulette always has an additional number. In European roulette, the table has an additional „green zero“. This means the number zero is neither black nor red. Therefore, no matter what color John is betting on, he would lose the bet if it hits the „green zero“. You might think, how big are the chances the „green zero“ is hit, when we have a total of 37 numbers in the game. Let's have a look at the chance of winning. With the additional „green zero“, chances of winning a black-or-red bet for John has decreased from 50% to 48.65%. The chance of winning a black-or-red bet for the casino have increased from 50% to 51.35%. Those additional 1.35% of more winning chances for the casino, is the casino's edge. This is the reason why the house always wins.

Why do I tell you this?

Because this is why we even perform technical analysis instead of just buying or selling a currency pair randomly. We are trying to create a trading edge. But in trading, the edge gets a bit more complex compared to roulette. In roulette, the casino tries to gain a winning percentage greater than 50%. In trading, we do not need to win more than half of our trades to be profitable. In trading, you can build a whole trading plan, that decides on how much we want to lose when we lose a trade, and how much we want to win when we win a trade. This falls under

the category „risk management“, and is something we will look at before we go over to combining all our learned theories into developing such a trading plan.

1.9.3. MARKET TRENDS

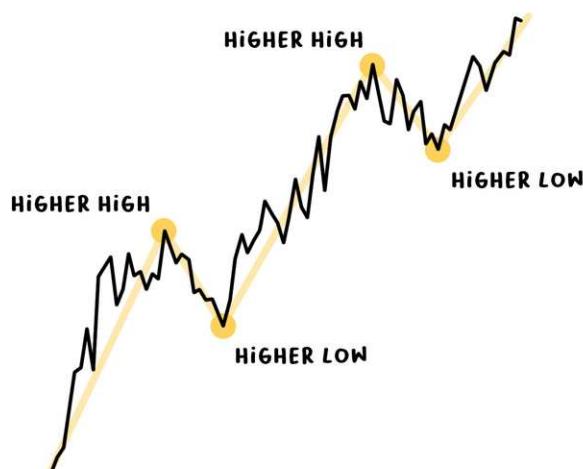
The market (which is in our case a currency pair) can be divided into 3 different major trend conditions.

1. an **upward** trending market (trending market)
2. a **downward** trending market (trending market)
3. a **sideways** trending market (ranging market)

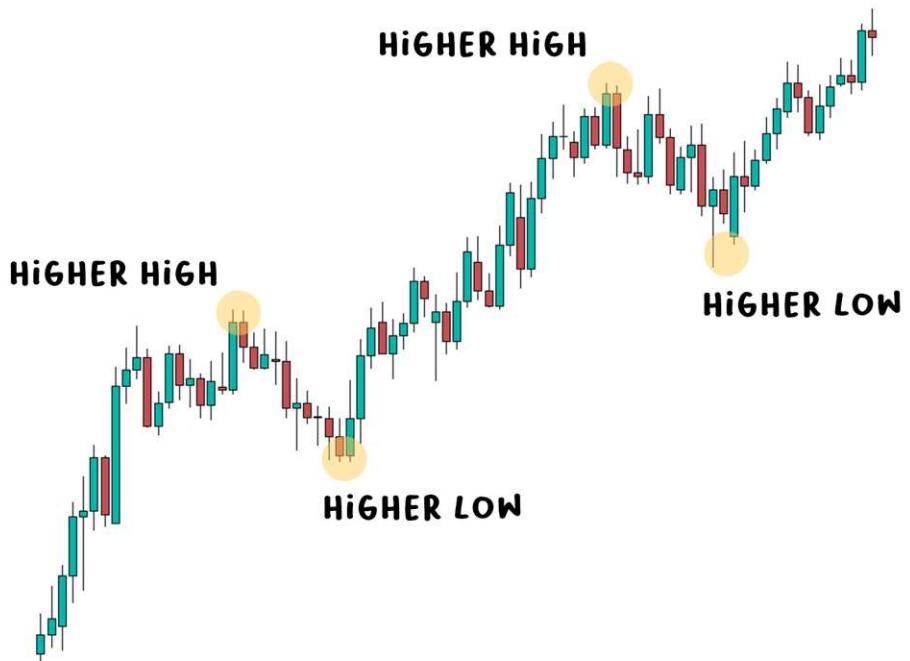
In simple words, the price can either go up, down, or stay in the same area. It is possible to make money in all 3 different market trends. However, because of the system a trader relies decision on, consistent profitability is made either in a trending market **OR** in a ranging market. Developing a system that performs outstandingly in trending and ranging market conditions is more than difficult if not impossible.

UPWARD TRENDING MARKET

Generally, an uptrend is when the price overall increases. No price can keep rising, therefore there will always be a kind of swing or zig-zac movements. An uptrend is also normally defined by creating higher highs and higher lows within price movement. To understand what this means, let's check out the following line chart.



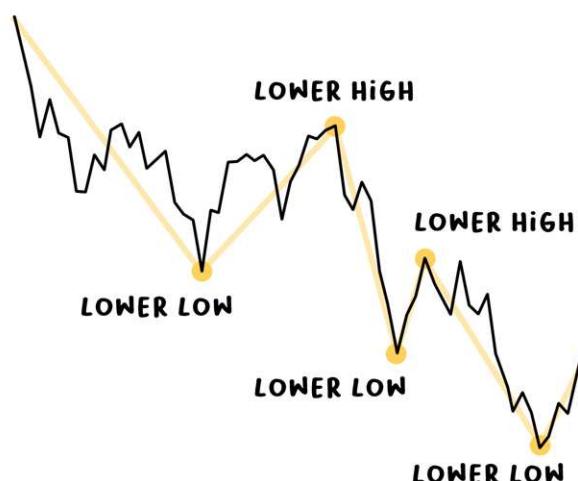
Since we want to perform our technical analysis, let's start getting used to Japanese candlesticks and check out the upward trending market on the candlestick chart.



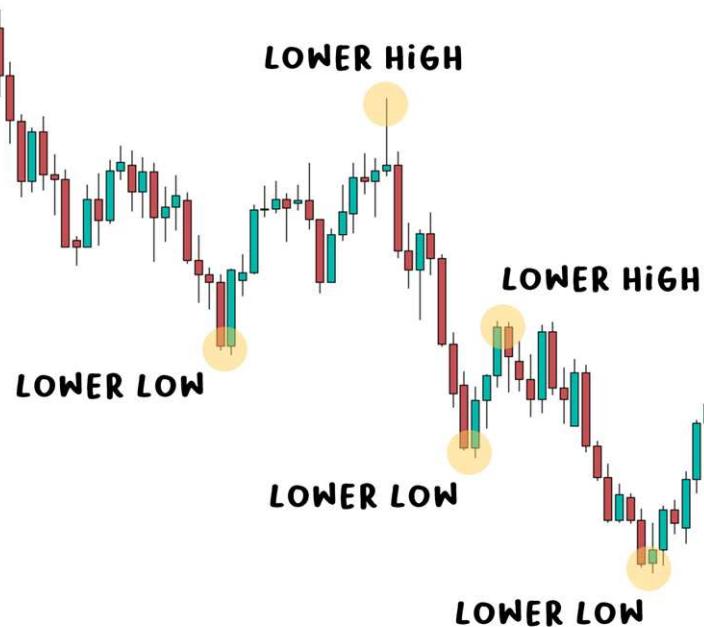
Once this structure is broken, which means when price fails to develop a higher high or higher low, the uptrend could weaken and could lead to a different market condition such as a range (sideways moving trend) or a downtrend. The word „could“ is chosen here with intention, because this is not a rule. The structure of higher highs and higher lows can be broken, but the uptrend can still continue. This structure just helps us identifying an uptrend,

DOWNTWARD TRENDING MARKET

A downward trending market, or bearish trending market, is just the opposite of the uptrend. It is defined through lower highs and lower lows. Let's check this out on the line chart.



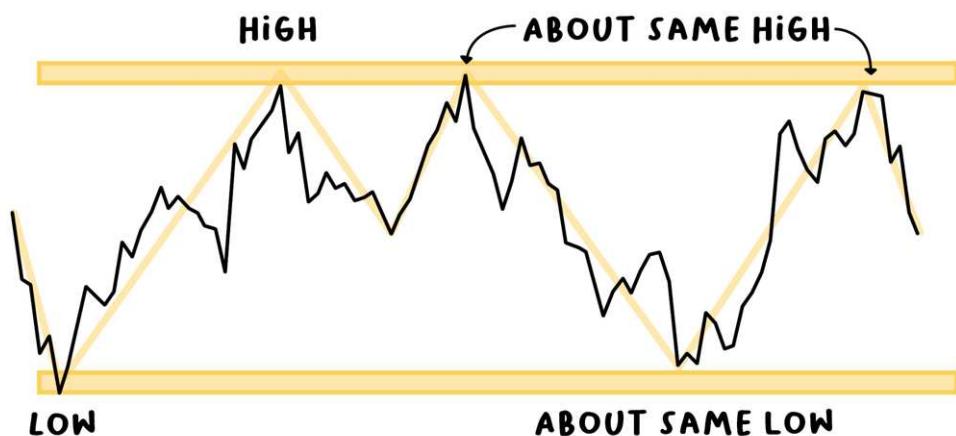
And as we did before, let's check the Japanese candlestick chart.



Again, the same things count for the downtrend as well. If the structure of lower highs and lower lows is broken, it can be seen as the trend weaken, but doesn't need to mean that the downtrend is over.

SIDEWAYS TRENDING MARKET

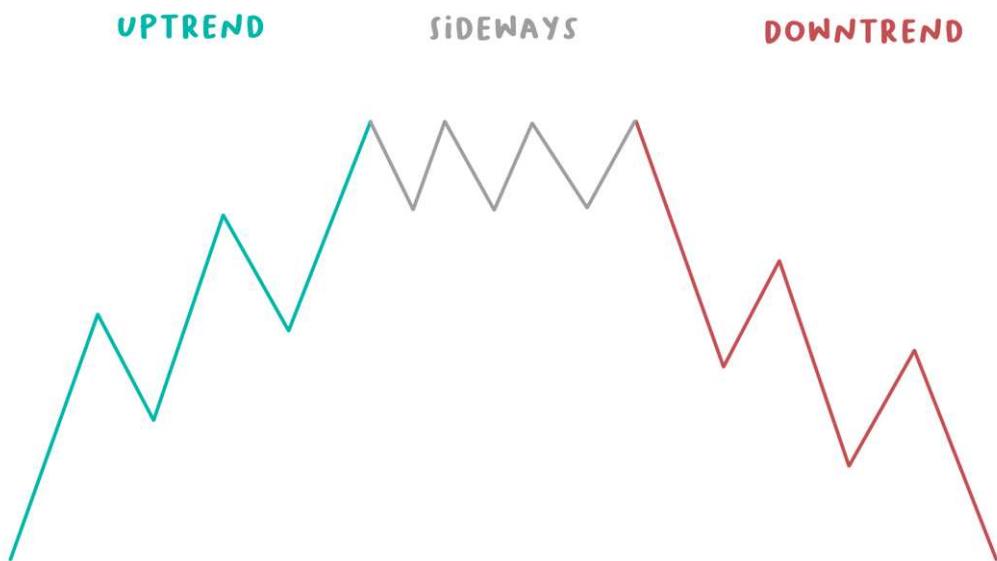
A sideways trending market is defined through price moving in a fairly stable range. This means no distinct trend to the upside or downside is formed. Price is moving horizontally, as described in the following chart.



And the Japanese candlestick chart.



Those 3 market conditions change constantly and fluently from one to the other. A bullish trend can be following by a ranging phase which can be followed by a bearish trend.



Normally, it is the case that traders assume the trend continues till there is enough evidence that points to a change of trend. When exactly a trader changes his/her opinion about the trend highly depends on the individual person. Evidence could include lower lows/highs, higher lows/highs, a break of a trendline, or a technical indicator signaling a change of trend.

A great tool for identifying trends or possible trend changes is through support and resistance lines/zones or trendlines (diagonal support/resistance lines). Coming up in the following chapters!

1.9.4. HOW DOES A TRADE WORK?

Before we will go over analyzing charts in more detail, a quick overview of how a trade is actually built. Generally, we place 3 orders when we open a trade:

- The actual **Entry** Order (buy or sell)
- **Take Profit** Order (automatic exit order with loss/breakeven/profit)
- **Stop Loss** Order (automatic exit order with loss/breakeven/profit)

We've discussed the different order types for our entry order already, as well as what order types are behind the Take Profit and Stop Loss Order. In the world of CFDs, we've already learned that a big advantage is a simple speculation on rising markets as well as falling markets by buying or selling a currency pair. Buying and selling in the context of CFDs should, however, not be seen as the normal buying (receiving ownership) and selling (letting go of the ownership). Remember that with CFDs, we never actually own the underlying asset. In both scenarios (buying and selling), we can enter positions. This might seem confusing to some of you, since how can you open a position by selling something. If you have trouble understanding the concept, try to exclude the part of ownership.

Speculating on **rising markets:**

We **buy** the currency pair to open a position and **sell** the currency pair to close a position.

Speculating on **falling markets:**

We **sell** the currency pair to open a position and **buy** the currency pair to close a position.

Now let us use the information we have about the ask and bid price to include this in the scenarios above.

Speculating on **rising markets:**

We **buy** the currency pair with the **ask price** to open a position and **sell** the currency pair with the **bid price** to close a position.

Speculating on **falling markets:**

We **sell** the currency pair with the **bid price** to open a position and **buy** the currency pair with the **ask price** to close a position.

TAKE PROFIT & STOP LOSS PLACEMENTS

We will learn different techniques on where exactly we could place our take profit and our stop loss later in the course. For now, let us just take a look at where those orders would lie in terms of above or below our entry price.

Speculating on **rising** markets:

We buy the currency pair with the ask price to open a position. We set a **take profit** order somewhere **above** our entry price and our **stop loss** order somewhere **below** our entry price. This makes sense since we are speculating on rising markets and would exit with a profit if price increased. If the price decreases, and our trading idea becomes invalid, we exit the position somewhere below our entry price level. Both exits (take profit and stop loss) will be done with the bid price.

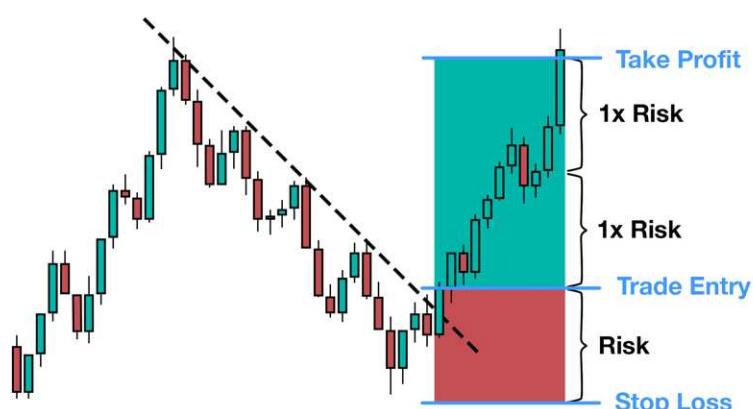
Speculating on **falling** markets:

We sell the currency pair with the bid price to open a position. We set a **take profit** order somewhere **below** our entry price and our **stop loss** order somewhere **above** our entry price. This also makes sense, since we are speculating on falling markets and would exit with a profit if the price decreases. If price increases and our trading idea becomes invalid, we exit the position somewhere above our entry price level. Both exits (take profit and stop loss) will be done with the ask price.

RISK-REWARD RATIO

The risk-reward ratio measures the potential reward (distance between entry price and take profit order) to the accepted risk (distance between entry and stop loss order). For example, we will enter a trade with a risk-reward ratio of 1:5, which means for every 1\$ we accept to risk, we potentially earn 5\$ if the trade is successful. The ratio is therefore calculated by dividing the amount of risk by the amount of potential profit.

Here an example of a 1:2 risk-reward-ratio trade:



Traders often argue to only take trades with a minimum of 1:2 risk-reward ratio. This is not an official rule, but it makes sense to risk less than the potential reward on every trade. However, there are multiple ways on how this can be approached. I would like to come back to this in a later part of the program, where we can discuss this in more detail. I'm doing this so that you actually keep going through the course and finish your education before starting trading.



It is always advised to enter a position with a take profit and a stop loss order in place. It is possible to enter a position without taking profit and stop loss order, but this would not automatically secure any profits when the price moves in favor of our position and does not automatically protect us from unexpected price moves against our position. Having no stop loss in place can be a **very dangerous scenario!**

1.9.5. TIMEFRAMES

The question of „What's the best timeframe?“ occurs all the time. Just check the comments of my Instagram posts. The thing is, there is no such thing as „the best timeframe“. We can even use multiple timeframes during our analysis process, which we will cover later on. The bottom line is that we as traders, need to be able to identify the underlying trend of the currency pair or stock and be able to take advantage of it. When looking at different timeframes, there can be different trends on different timeframes at the same time. On the higher timeframe price might be in an uptrend, while on lower timeframes the price might be in a downtrend. The question is. „What timeframe should **YOU** be looking at?“

A very general rule is, the higher the timeframe (daily, weekly, monthly) the stronger the signals (of which we will base our trading decisions). However, the higher the timeframe, the fewer trading opportunities we will have. The lower the timeframe, generally, the weaker the signals. The signals on the lower timeframes, however, occur way more frequently which gives us more trading opportunities. The question of which timeframe you should be used also depends on your trading style. If you want to take longer-term trades (swing trades), you might analyze the markets on the 1-hour / 4-hour or daily timeframe.

If you are looking for shorter-term trades, you might go to the 30-min / 1-hour timeframe. If you are looking to scalp, you can even go down to the 1-minute / 5-minute timeframe (I personally have never used those). What needs to be said is that everything we will discuss in the upcoming chapters is valid for all timeframes. Candlesticks patterns, chart patterns, indicators, and more. Everything can be used for every timeframe!



Ok, I will not let you completely hanging here. I personally use the **1 hour / 4 hour & daily timeframe**. Those 3 are my absolute favorites. I never go below the 1 hour, and I rarely go above the daily timeframe. This, however, only counts for my personal trading style & strategies and you are absolutely free to choose your own timeframe.

I.9.6. HORIZONTAL SUPPORT & RESISTANCE



Probably the most widely used & most powerful concept in technical analysis.

Support and resistance (S&R). S&R refers to price levels that tend to act as barriers. Support refers to a price level where a downtrend is likely to stop, and possibly reverse into an upward direction. This is caused by the concentrated interest in buying power at a specific level. Concentrated buying power or concentrated demand for the specific currency pair can build such support levels, which means a lot of market participants are looking to buy at the specific level or area.



Resistance refers to a price level where an uptrend is likely to stop, and possibly reverses into a downward direction. The same as with the support, resistance levels are built through a concentration of selling power or concentrated supply.



A great way to showcase horizontal support and resistance levels is when looking at a ranging market (sideways trending market). As we learned, the range of the market is defined through the support level at the bottom and the resistance level at the top. As we can see clearly, price tends to „bounce back“ from those levels and tends to change direction.



Those levels of support and resistance can be used as potential entry and exit points. **Why?** Because we have identified the level as a key level, where price will do 1 out of 2 things. Either price will respect the support or resistance level and „bounces back“ or will violate the support or resistance level and continues into the chosen direction till the next key support or resistance level is reached. Both outcomes can be traded. We can either trade the acceptance of the key level or the violation of the key level, depending on our strategy and the overall direction we want to trade. The whole concept seems to be relatively easy, but as you will notice after some practice, support and resistance come in many forms which makes it not as easy to master as it seemed at first. Support and resistance also don't have to be an exact line as shown in the examples above. Many traders rather use „zones“ to identify support and resistance levels, or better support and resistance areas. This approach gives price a bit more room and flexibility to accept our identified support or resistance. Both ways are quite popular and depend on the preference of the trader. What can be said is that the market mostly never exactly accepts a single price level. As we can see in the examples above, the wicks of the candle often shoot above or below the levels, while the real body reaches or closes a bit short to the key level. That's where technical analysis starts to get subjective and comes down to how we will draw the S&R lines or zones. Here some approaches:

Candle wicks only



Candle wicks only

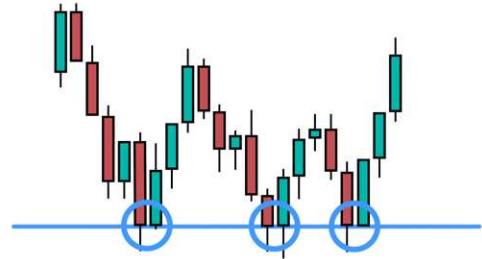


We could use only the upper wicks for resistance or lower wicks for support levels. As you can see, not all wicks are lining up perfectly with the blue highlighted price level. This is absolutely normal and fine. The market does not always respect a specific price level all the time. What we are trying to achieve while drawing horizontal S&R levels is to connect as many „points“ as possible.

Close & open only

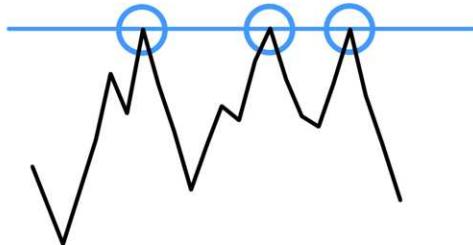


Close & open only

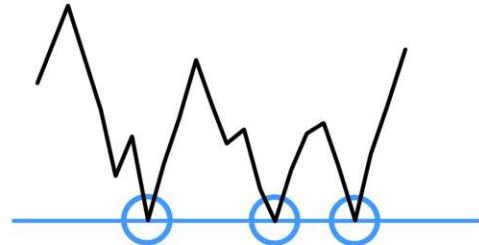


We could also use only the close or open price levels (real bodies) to determine our S&R levels and ignore the wicks (charts above). This would actually represent the exact same S&R levels as if we would use a line chart to determine S&R levels:

Line Chart



Line Chart

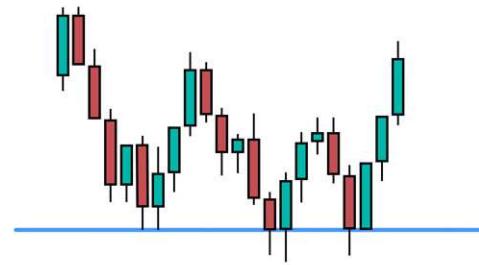


But when we use candlesticks, we have 4 data points (open, close, high, low), we can take advantage of. If the chart type already gives us that much data, why not use it. This approach is also the **most popular** approach on how to draw S&R lines:

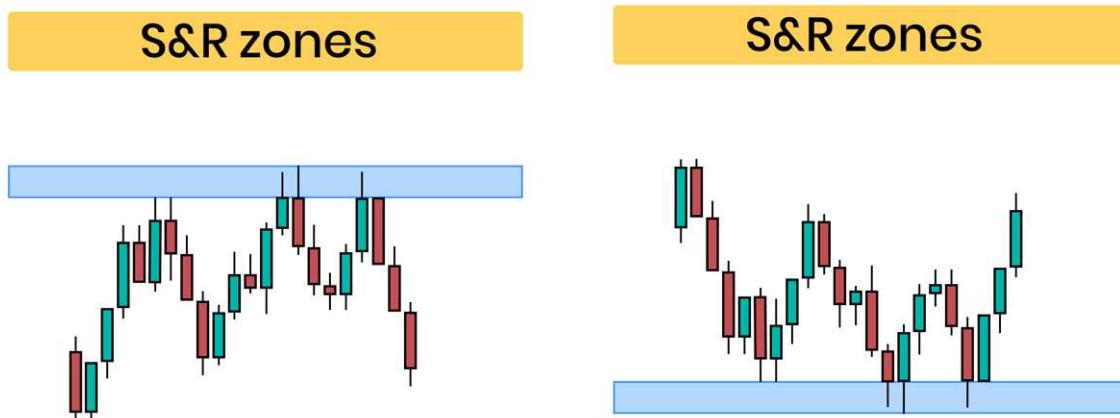
All 4 data points



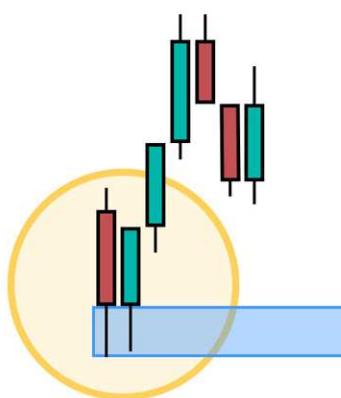
All 4 data points



As already mentioned, many traders use S&R zones. This is based on the fact that the market does not always act in a textbook way and therefore we would like to give the price a bit more flexibility to accept specific S&R levels. One approach to draw such zones is by using the wick of the candles we are focused on.



In the example above, we determine the reversal point on the left side as a key support area. We would use the zone between the first 2 candles' real bodies and their wicks as a potential support zone and draw it to the right to highlight the zone. In this example, the price just touched the support zone with the wick of a candle, just to continue to the upside.



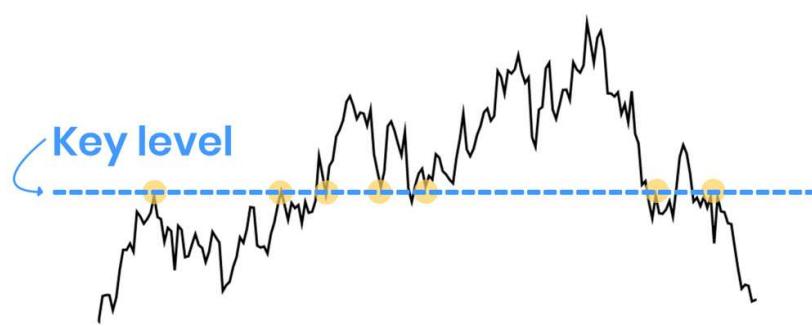
Here, a close-up of how we could draw the S&R zone. This is only one approach, however, and every trader is developing an own style of drawing S&R lines and zones after a while.

After showing you multiple examples of support and resistance, you might think: „How do we identify support and resistance levels or zones?“

Since Japanese candlesticks give us 4 data points (open, close, high, low), the chart can look a bit chaotic for a beginner and it might not be as easy to spot those key levels. We will cover 2 ways to make identifying support and resistance levels easier.

1. USING A LINE CHART

We already touched on this approach on the previous page. As we know, a line chart is a simpler presentation of price action. Therefore, we have less information to work with, which might be easier to identify levels where the price tends to bounce back from and reverse. With the line chart, we are only working with the closing price levels of the time periods.



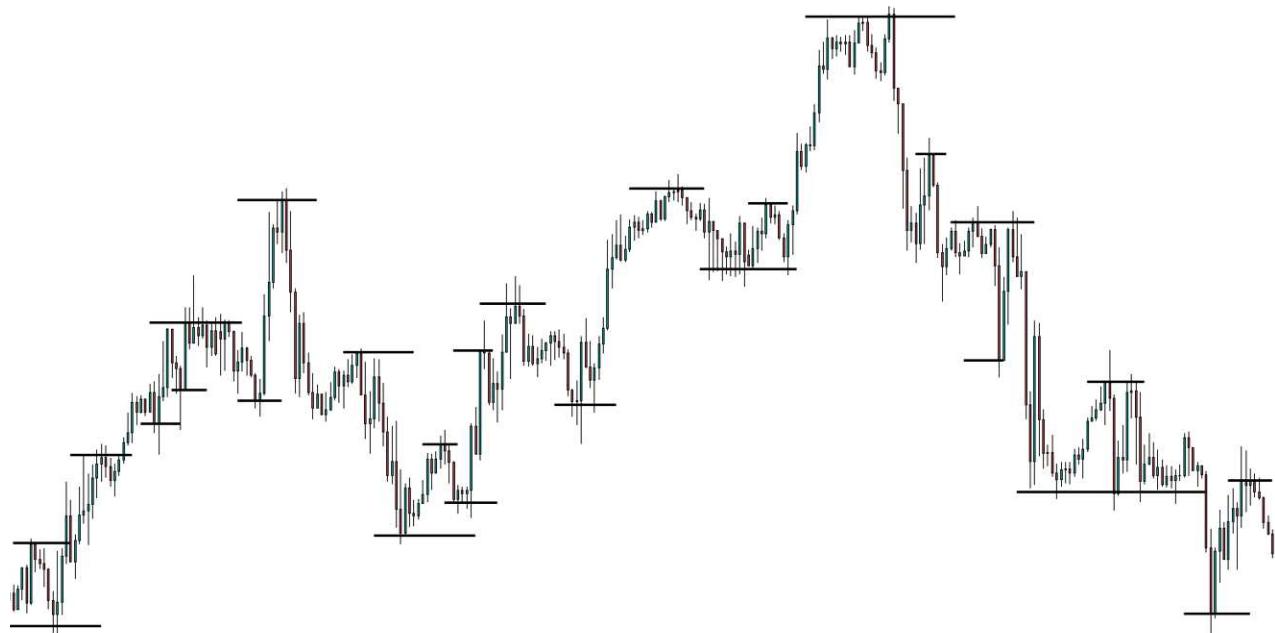
This approach might help a bit, but if you're still having difficulties implementing it, there is also another way to face this problem.

2. SHORT TO LONG S&R LEVELS

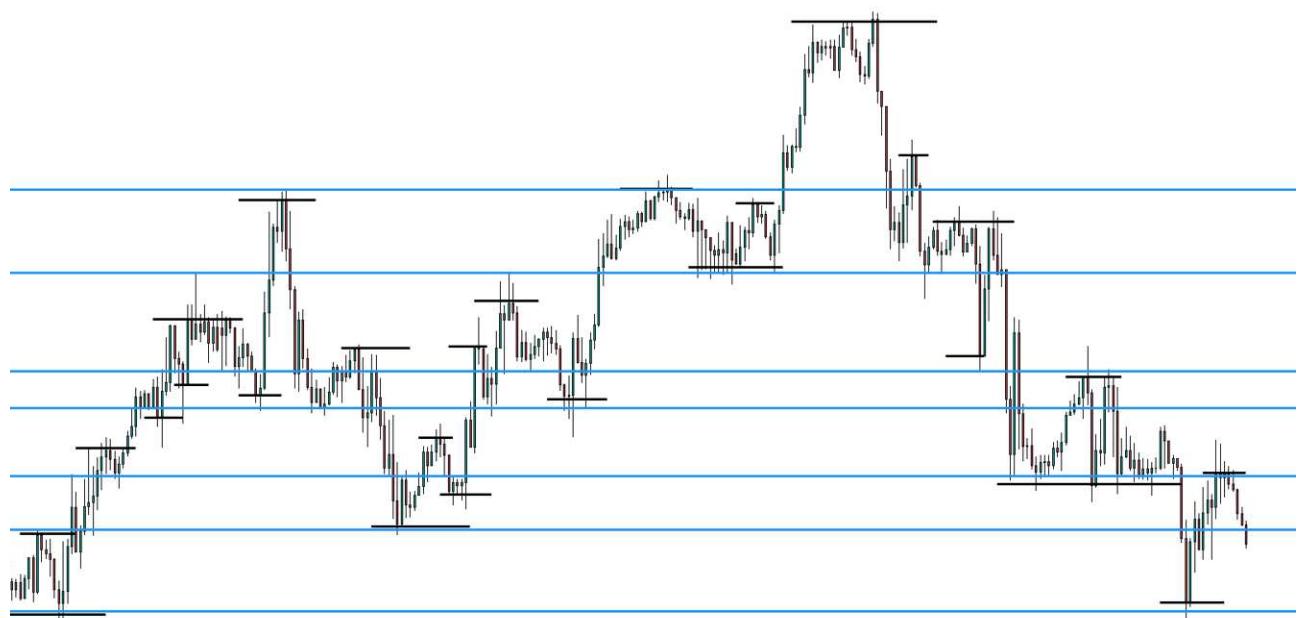
1. Open a candlestick chart. Doesn't matter what currency pair or what time frame.



2. Pick a specific time period and start drawing short horizontal lines above all swing highs and beneath all swing lows during the specified timeframe as shown in the chart.



3. The last step is to draw longer horizontal lines to connect your shorter horizontal lines, which identified swing highs and lows. Most of the time, it is simply not possible to draw the lines exactly on the highs and lows you have identified before. This is totally normal and doesn't mean the level is not respected. Whenever you feel that you can link at least 2 highs or/and lows together through a longer horizontal line, do it. As you can see below, we often need to take the wicks into consideration as well and therefore the larger lines do not always match up with the shorter lines that have been drawn more above/below the real bodies of the candles:

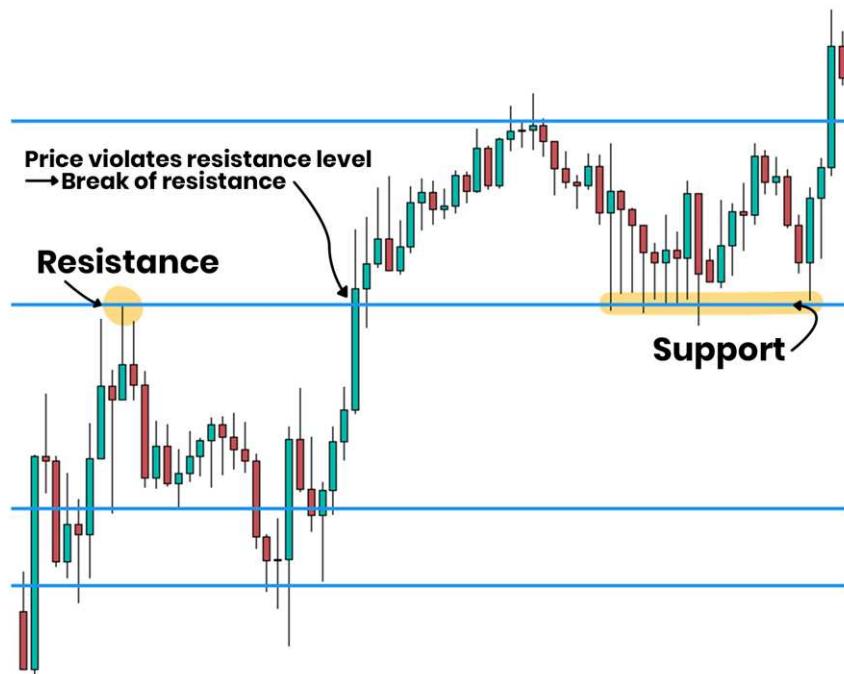


After you've done this, you can delete the shorter swing high/low lines, which you can not link with at least another swing high/low line as well as the lines that have not been respected by price recently and here we go, we have our support and resistance lines.

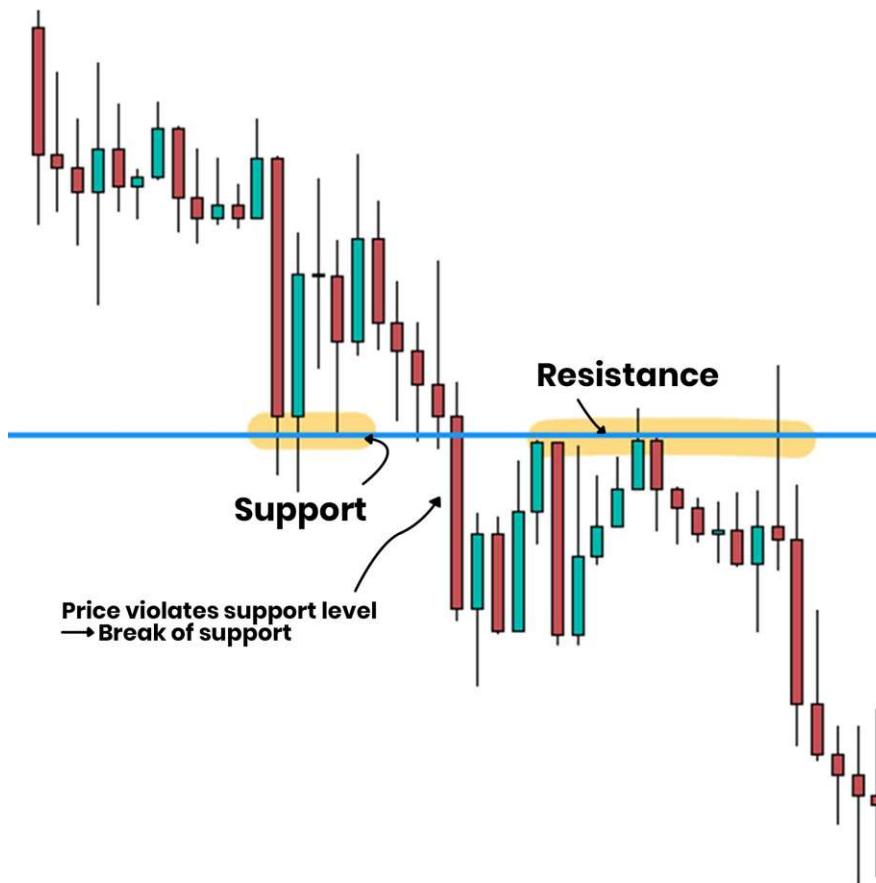


As you can see, price doesn't always exactly reverse at the drawn line. This is where you could use the mentioned support and resistance zones to include wicks as well. Remember, technical analysis is highly subjective and zones and lines can be drawn slightly differently from trader to trader. I also want to point out that this is an approach for more beginner traders. As you will get more experienced, you will not need to use this approach anymore. You will also find out which support and resistance levels you want to focus more on in the context of your strategy and don't need to draw in all of them. I normally do not draw as many support and resistance levels on my charts.

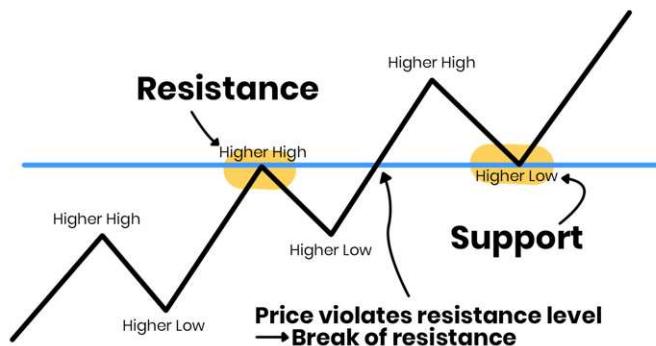
As you have probably seen on the chart above, a support level can become a resistance level and a resistance level can become a support level. This is the case when for example the resistance level is being violated and the price breaks through the resistance level continues to move upward for a while just to come back again to our violated resistance level and accept exactly this level as a new support level. Let's take the following section from the chart above as an example:



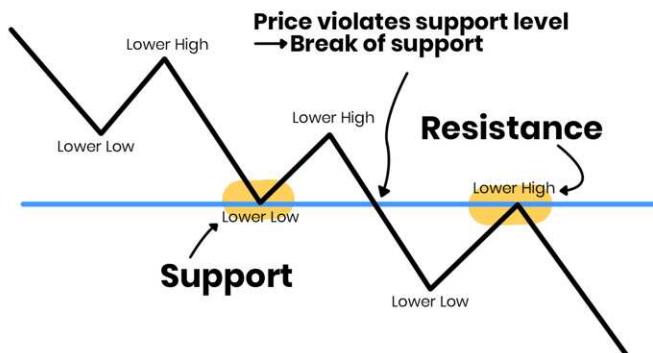
The same counts for the other way around. Support levels can be violated by price, just to pull back to the violated support level to accept it as a new resistance level.



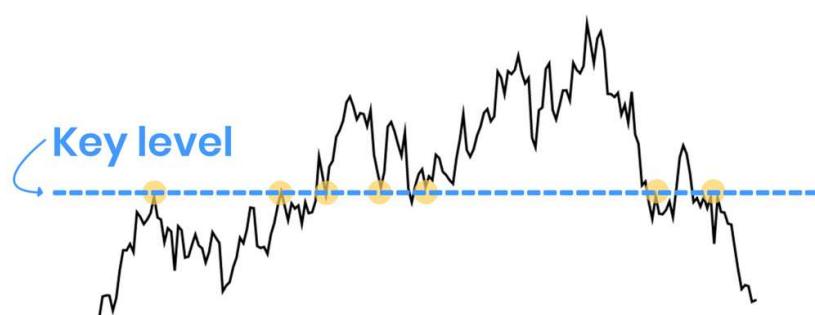
A really great example and trading opportunity, is using this exact concept within a trending market. As we learned, an upward trend is defined by developing higher highs and lower lows. It is often the case that within such an upward trend, the higher low is created on an old resistance level from a previous high point, that has been violated and becomes support.



The exact same scenario counts for the downtrend.

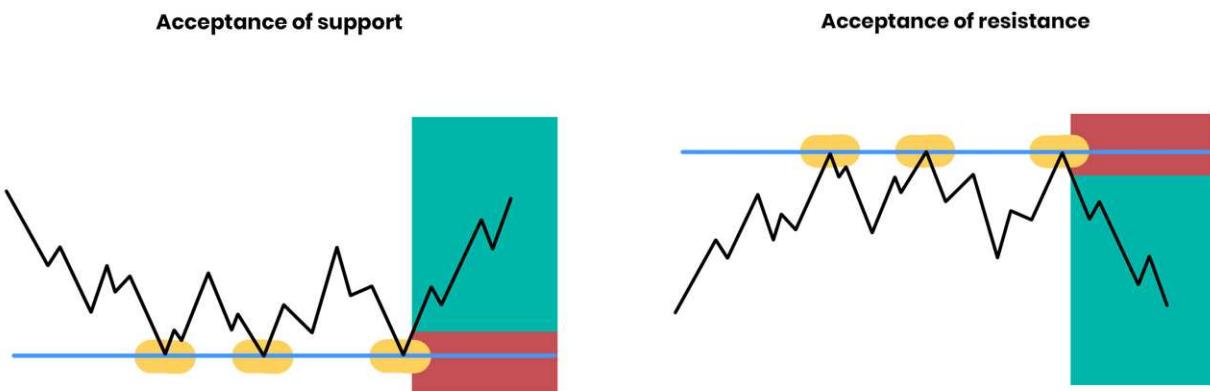


The change of support becoming resistance and resistance becoming support is not just valid for short periods of time. When we look at the line chart below, we can see the drawn blue horizontal key level. This level is accepted by price as support **AND** as resistance over time while being violated as well:

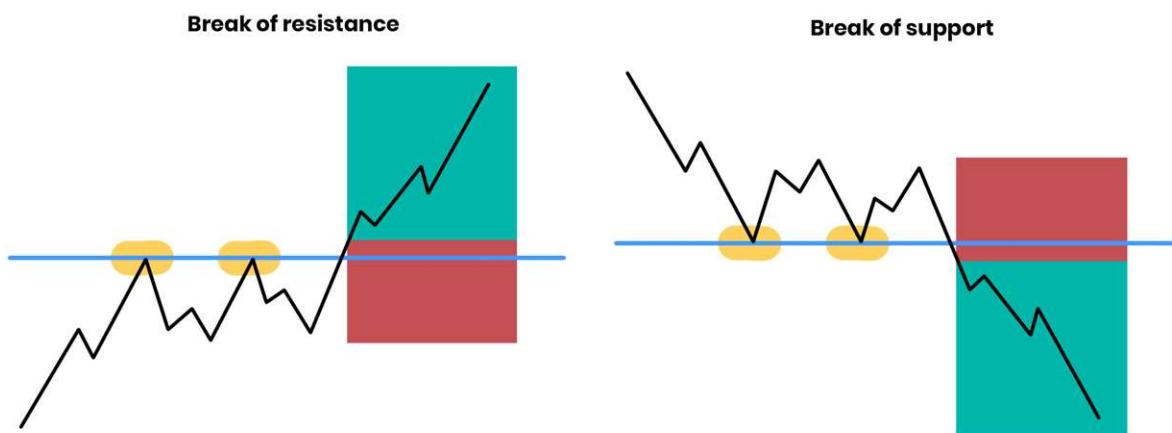


When we recap the scenarios we just covered, we can identify **3 possible basic scenarios** we can see as trading opportunities.

1. The acceptance of support or resistance

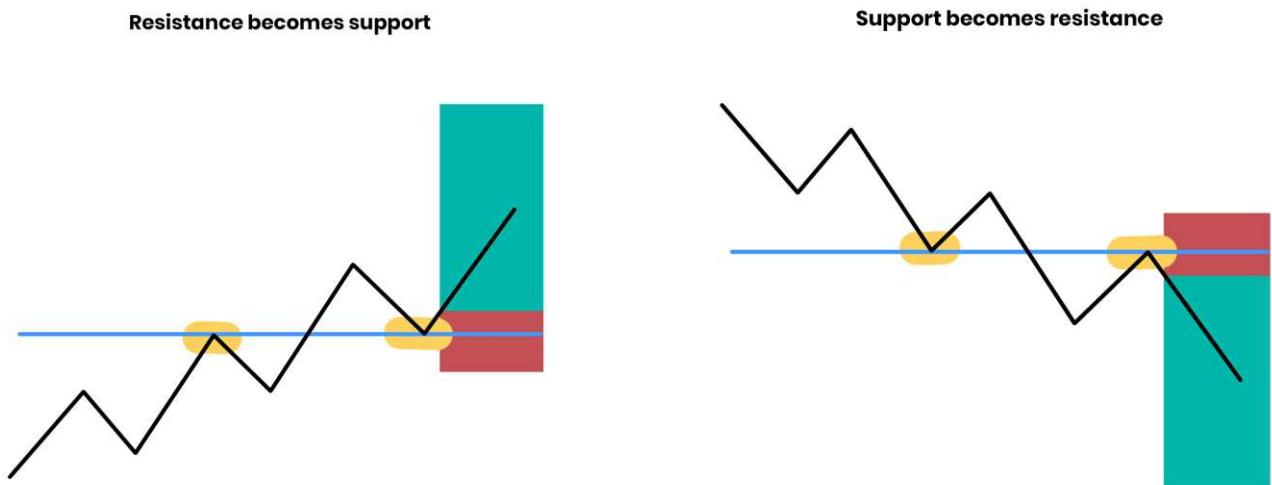


2. The break of support or resistance



Entering a trade with the violation of a support or resistance level is also called breakout trading. Price breaks through the key level violate it, and with the placement of a trade, the trader believes the price will continue in the direction of the breakout or the key level break.

3. Support becoming resistance & resistance becoming support (Retest)



Entering a trade in a scenario of resistance becoming support or support becoming resistance, directly after the key level has been violated and price retraces back to the key level after the „breakout“ (as we just learned), is called trading „the retest“. The trader looks for additional confirmation of price continuing into the direction of the breakout, by looking if the price accepts the key level again after the price broke it.

The breakout and retest approaches are something we will look at in more detail once we learned more about Japanese candlesticks and are able to better read the meaning of the different candlestick types.

👉 YOU SHOULD STOP READING RIGHT HERE! This is already a great point where you need to go out into the practice field. Go straight into your charting platform (www.tradingview.com, MetaTrader, or alternatives) and look for possible support and resistance levels. You can try out the 2 approaches to make identifying support and resistance levels easier and you can also try to spot all three covered trade opportunities:

1. Acceptance of S&R
2. Violation of S&R,
3. Support becoming resistance & resistance becoming support

You can use any currency pair and any timeframe you like since they happen on all timeframes! Being able to identify support and resistance levels in any form is absolute basic and super important!

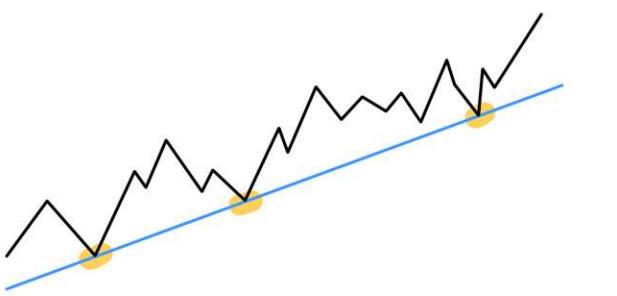
1.9.7. TRENDLINES



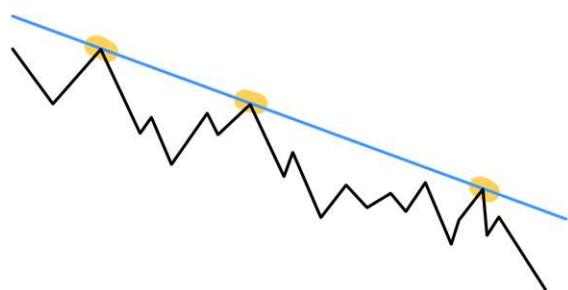
The video covers the same material as provided in text with lots of examples and multiple real live examples!

Trendlines are essentially diagonal support and resistance levels. Trendlines are drawn by the trader to connect a series of prices through a diagonal line. When drawing a trendline, it can also give a clearer picture of the trend and can be applied to any timeframe. We can use all 4 data points of a candlestick (open, close, high, low) to draw trendlines. A trendline is always drawn to connect at least 2 data points. There is also the common rule that a trendline is only confirmed when the price „touches“ the trendline for the third time.

Trendline Uptrend



Trendline Downtrend



The trendline during an **uptrend** will act as a **support** level, while the trendline during a **downtrend** will act as a **resistance**. The trendline will be extended into the future and act as a critical level, where a trader would look for possible trading opportunities. This will be done till the price is violating the trendline multiple times, and therefore the level lost its importance. The same as for the horizontal support and resistance levels/zones, we have the same 3 scenarios at our key level (trendline).

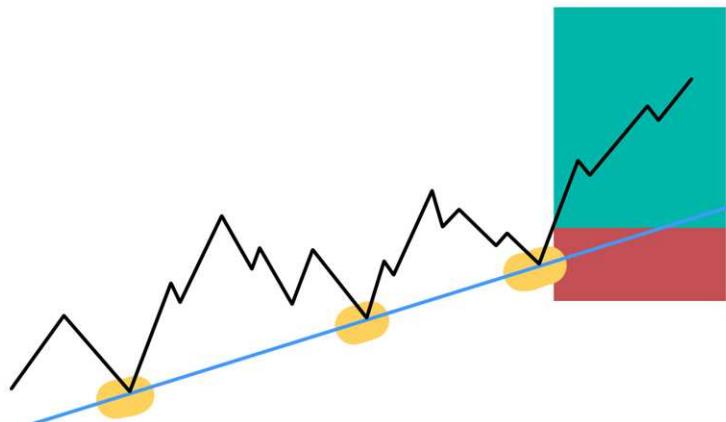
TRENDLINE UPTREND

As mentioned, the trendline during an uptrend signals possible support levels and will be extended into the future to use it as a key level to look at for possible trading opportunities.

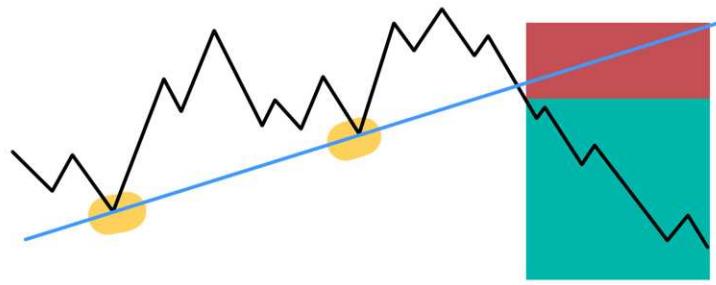


With the bullish trendline, we have the same 3 basic scenarios we could take advantage of:

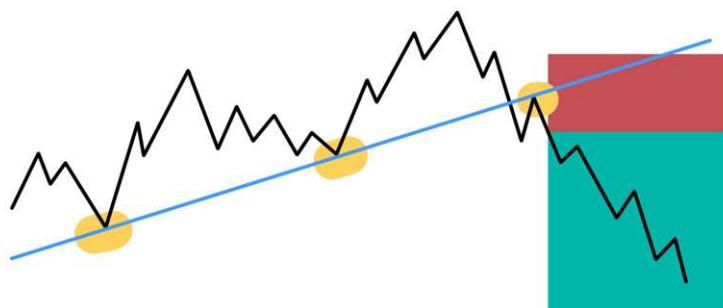
1. The acceptance of the trendline



2. The break of the trendline



3. Support becoming resistance (retest)

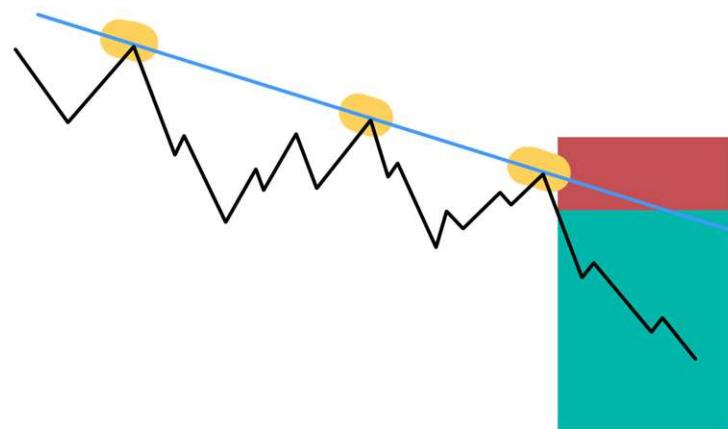


TRENDLINE DOWNTREND

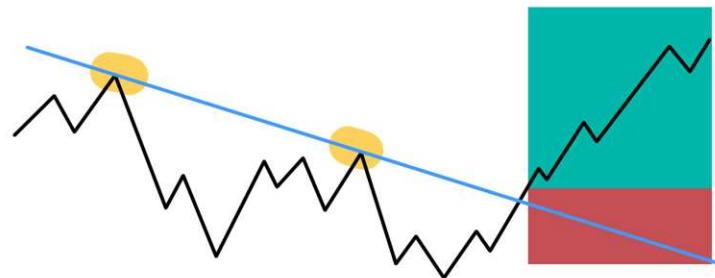
The trendline during a downtrend signals possible resistance levels and also will be extended into the future to use it as a key level to look at for possible trading opportunities.



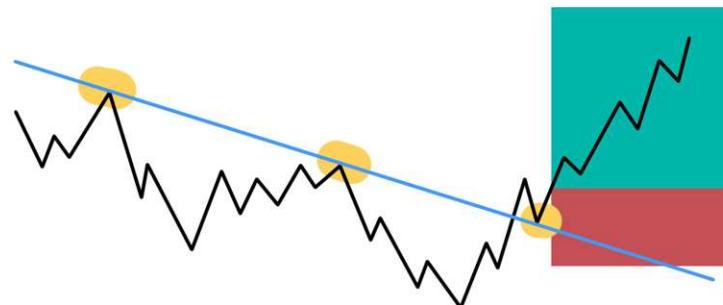
1. The acceptance of the trendline



2. The break of the trendline



3. Support becoming resistance (retest)



TRENDLINE ADJUSTMENT

Sometimes a trendline will last for a long time and sometimes we traders need to adjust a trendline in order to connect it with newly developed price movement.

Initial Trendline



Adjusted Trendline



As you can see in the 2 charts above, new price movements have developed and we needed to adjust our trendline to match the recent data points. Sometimes a trendline still stays valid with a few changes, sometimes the trendline is just being violated by recent price and we can't adjust the trendline to connect the lows or highs anymore. The point is, a trendline is not a tool you draw once and will stay solid. Since there are different ways we can draw a trendline, using either just the wicks of the candles, the closing price of the candles, or a combination of both, we have a bit of flexibility to fit the trendline on the chart.

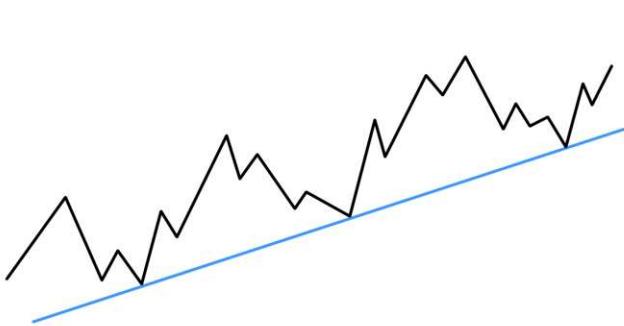


A lot of beginner traders try to force a trendline on the chart, which needs to be avoided. If we simply can't fit a trendline on the current price action, we just don't draw it. There is no need to force anything. Prices move 24 hours / 5 days a week. There are more than enough opportunities that will come.

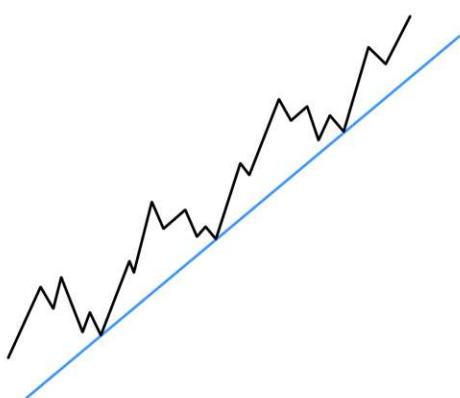
TRENDLINE'S DEGREE

There is also the rule, that the steeper the trendline is, the less reliable it is going to be. The reason behind it is because a very steep incline or decline refers to a very impulsive move that probably will not be sustainable. This means, the steeper the trendline, the higher the chances of price violating the support or resistance of the trendline.

Stronger Trendline



Weaker Trendline



TRENDLINE STRENGTH

Another common rule is that the more price tests a trendline, the stronger it will become. It makes sense since this means the price has accepted the specific level as support or resistance. But as it would be this easy. There are others that say: „The more price tests a trendline, the higher the chances of it being violated.“ This also makes sense. Support and resistance levels can't hold forever. This would make trading too easy and the market just doesn't behave this way. As you can see and will continue to learn during this course, there is not just one way to look at things in trading. There are hundreds, if not thousands of different approaches and philosophies that can be followed. Therefore, it is so important to learn things first, but then also question those things if you experience them differently. In short, it is best to develop your own philosophy. Don't worry, you don't have to do this right now. This course is also developed to provide you with as much knowledge as I can in an objective way so that you get introduced to it, use it and then develop your own opinion about it as you gain more and more experience. So don't panic, we will do everything step by step.

COMBINING HORIZONTAL SUPPORT & RESISTANCE WITH TRENDLINES

This is something very important. Not just combining those two different kinds of support and resistance, but combining different tools and methods into your trading, which is called „confluence“. Confluence occurs when various technical analysis methods are used, combined, and give the same trading signal or entry signal. We will discuss this in more detail at the very end of the **THEORY** part in the chapter „**Confluence Trading**“. I think it is important to just touch this topic roughly before we cover more and more trading methods and tools. Since you should not just speed read this course, but always jump into your trading platform and try out the theory we learned, you can also start combining different methods.

Why do we combine different trading methods?

Combining different techniques can increase our odds of a winning trade. It can also lead to more confirmation of a trading idea being more valid. Let us jump right into what this would look like with the horizontal support and resistance levels/zones and trendlines.



As you can see on the chart above, we have drawn our support/resistance level during this uptrend. The trend creates higher highs and lower lows, as we learned. In this example, the price has accepted the highlighted zone as resistance, violated it, but came back to test it and accepted it as support. We have also learned, that this can also be seen as a possible trading opportunity.



When we use the same chart, we could also just use a trendline to confirm the uptrend and use the third trendline touch to confirm the trendline and use it as a possible trading opportunity. This now represents two different trading techniques that essentially signal both the same thing.

Now let's combine those different approaches into one chart:



(More examples like this in the „Technical Analysis 101: Trendlines“ video)

As we can see, the horizontal support and resistance line crosses the trendline. This is also the exact level where price tested the horizontal resistance level as well as the resistance level of the trendline. Makes sense, since both lines basically lie over each other at this point. Through the combination of those two approaches, it signals us a stronger confirmation of price going to respect the level as resistance.

We also need to know that there is not a single trading approach, which is working 100% of the time. This means a trendline can break, horizontal support and resistance levels can be violated or any other trading method can fail. Therefore, we need to try to confirm our trading ideas as much as possible. This is done by confluence. This is done through combining different techniques when we want to trade the acceptance of support or resistance levels.

1.9.8. CHANNELS

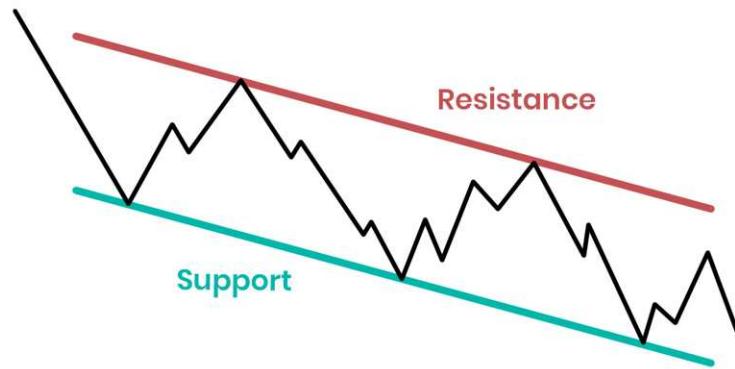


Channels are two parallel trendlines connecting the highs of a period and the lows of a period, creating a channel.

ASCENDING CHANNEL

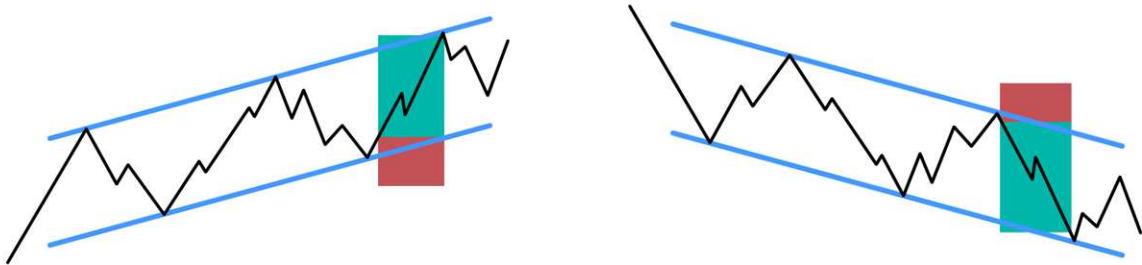


DESCENDING CHANNEL

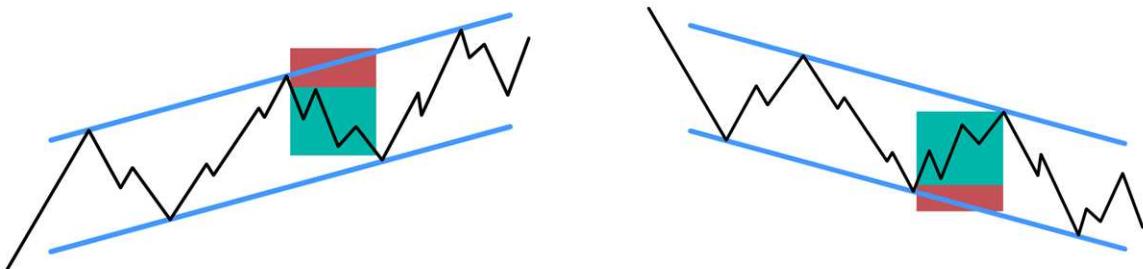


A channel represents both, possible resistance and support levels for the time period, while a single trendline only represents possible resistance or support. This can give us more trading opportunities.

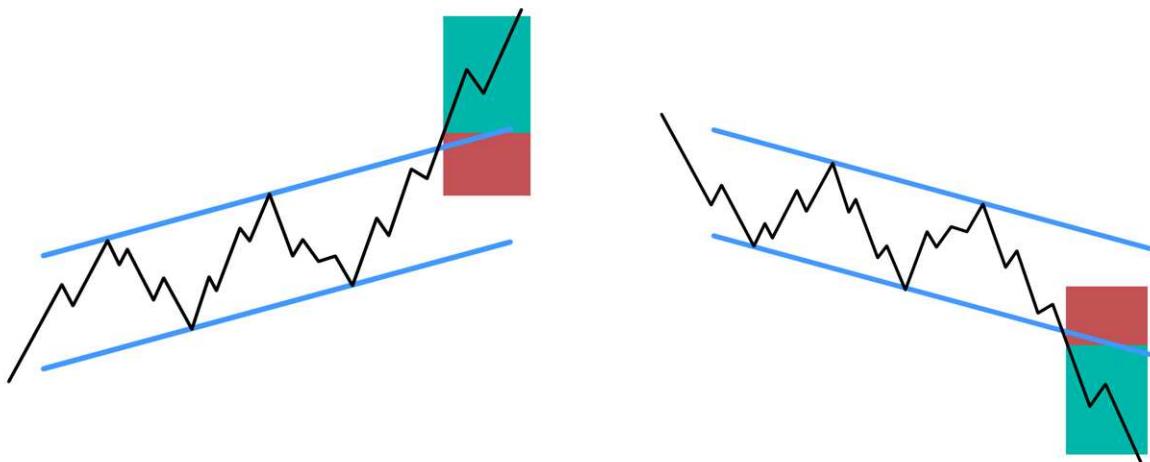
Trading with the channel trend



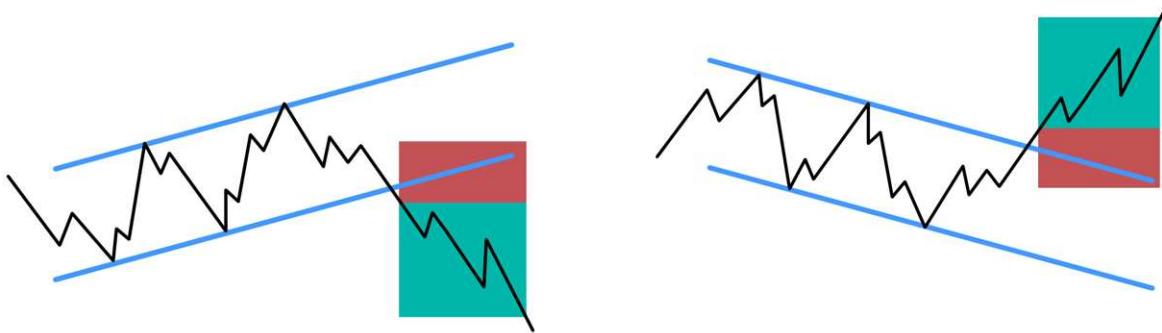
Trading against the channel trend



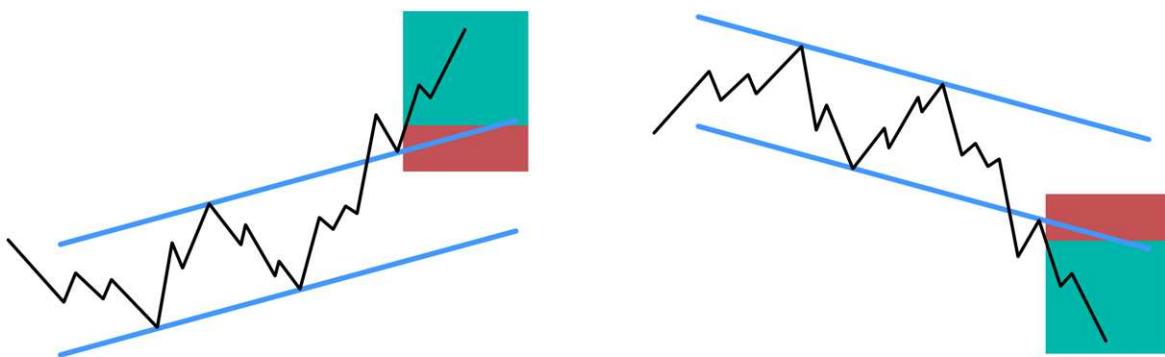
Trading the breakout of the channel trend in channel direction



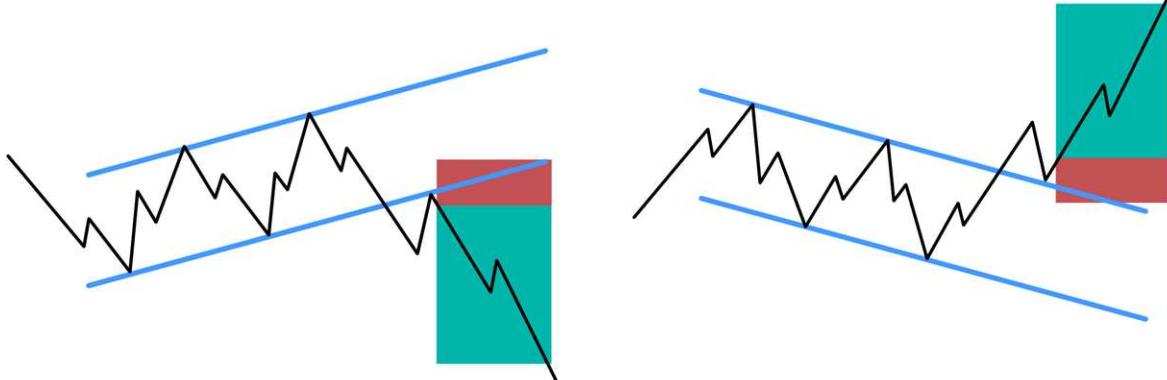
Trading the breakout of the channel trend against channel direction



Trading the break and retest of the channel trend in channel direction



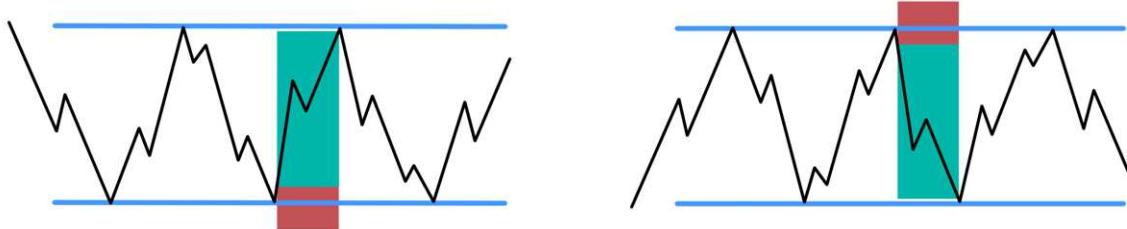
Trading the break and retest of the channel trend against channel direction



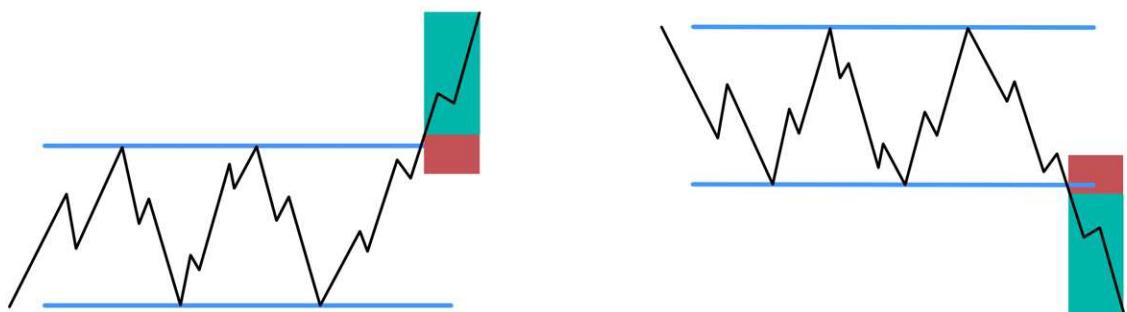
Special case: HORIZONTAL CHANNEL

In a horizontal channel, we do not have a trend, therefore we can't trade against or with the overall trend. If we want to trade a ranging market, we have two main options.

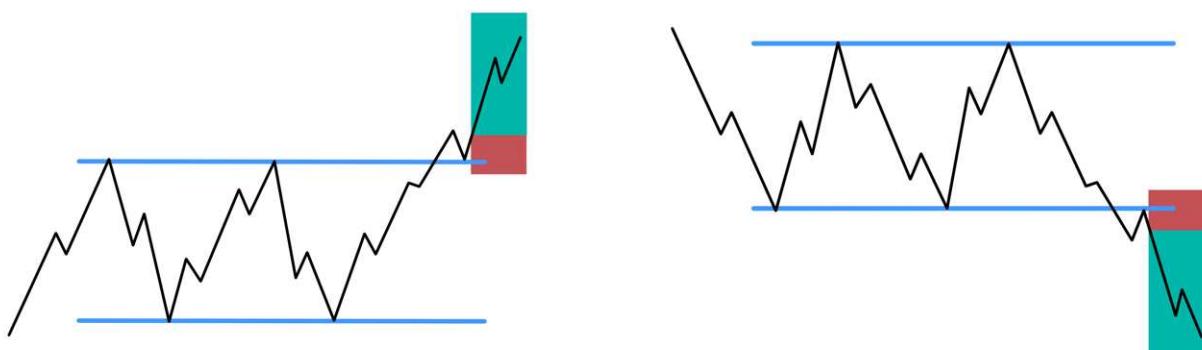
Trading the acceptance of resistance or support



Trading the violation of resistance or support (break)



As we have learned, the violation of resistance or support can be traded in two ways, with the breakout or with the retest of previous support becoming resistance or previous resistance becoming support. In a ranging market, those scenarios could look like this:



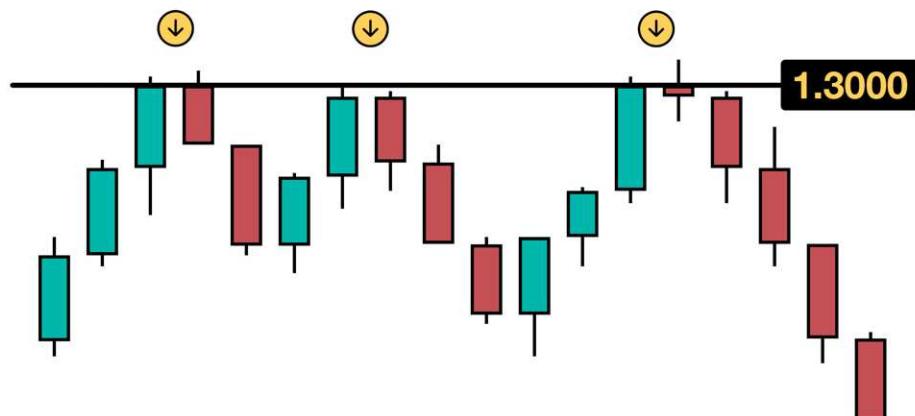
All other rules that we've covered for trendlines count for the channel as well, as a channel is essential just two parallel trendlines.



If the trend direction is upwards (ascending channel), a great idea would be to only consider long trades (buy) to follow the trend. The same counts for the other way, if the general trend direction is downwards (descending channel), a great idea would be to only consider short trades (sell) to follow the trend.

1.9.9. PSYCHOLOGICAL NUMBERS

Psychological levels are often price levels that represent key levels such as support or resistance and consist of round price levels, such as 1.3000 or 1.2500. They are called psychological levels because of human beings like simplicity. Translating this into the trading world, means traders value whole numbers, which are often used for trade entry or exit. This can also happen in form of stop and limit orders. When such orders are concentrated around a round price level, this level can turn into support or resistance.





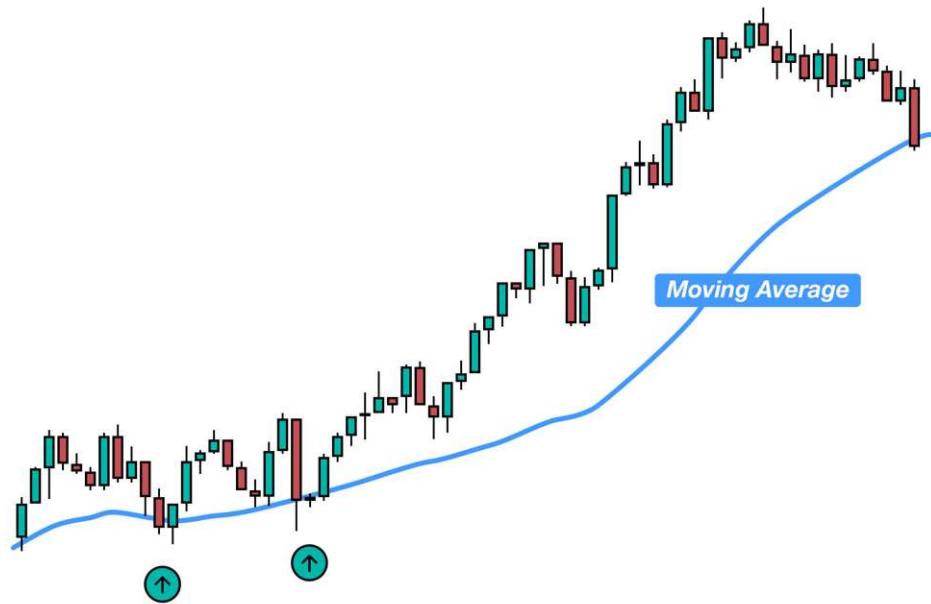
Price action is always more important to look at. Only because the price is moving around a round number, doesn't mean that it will automatically be a key level for support or resistance. Many orders need to be concentrated around a round number for it to turn into a support or resistance level. Most of the time, this only happens when the price has previously accepted the round number as support and resistance. Use psychological numbers as additional confirmation, not as a sole reason for entry or exit orders.

1.9.10. ALTERNATIVE SUPPORT & RESISTANCE

Different technical indicators and tools can also help to identify support and resistance levels. I'll introduce two examples in this chapter, to completely cover the topic of support and resistance. This is just a quick overview, however, since we will cover each of those two tools separately and with more detail later on. Therefore, you don't need to completely understand right now how the tools work and what they represent.

MOVING AVERAGE

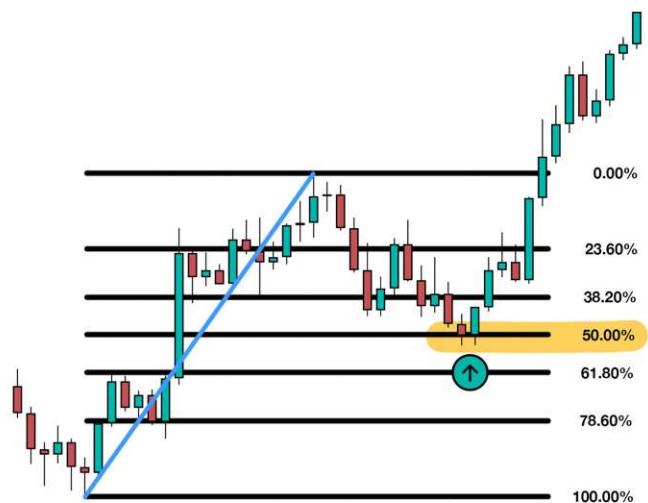
A moving average is a constantly changing and dynamic line. The moving average, as its name already suggests, smooths out past price data and presents the trader with the general direction of price movements. As you can see in the chart below, the moving average (blue line) can also act as dynamic support or resistance. You can clearly see that price tends to bounce back from the price level of the moving average and turns around.



The same thing can happen the other way around, where the moving average can act as resistance.

FIBONACCI RETRACEMENT

The Fibonacci retracement tool is developed to identify possible future price action barriers. When you will look down at the chart, it might look complicated, but getting to know the tool and a bit of practice, the concept is really not that complex. As you can see below, the indicator signals different levels to which price could retrace, accept the level and reverse into its original direction. Those different Fibonacci retracement levels can be used for support and resistance as well, depending on a retracement to the upside or downside.



1.9.11. MAJOR AND MINOR S&R LEVELS



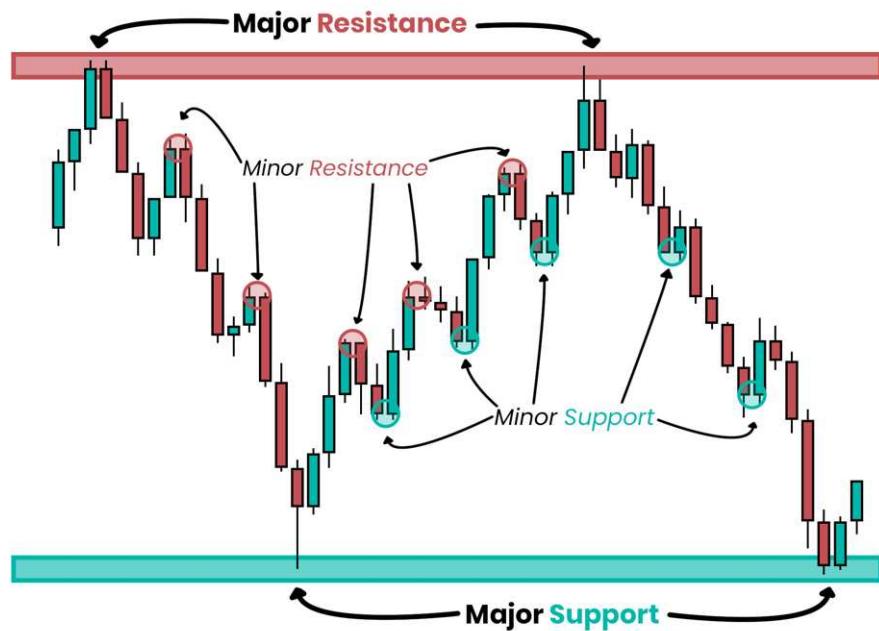
To finalise the chapter of support and resistance, I would like to go over the differentiation of major and minor support and resistance levels. We don't really want our chart to look like this:



Those are way too many support and resistance levels, and there is no chance we could find a clear trade opportunity here. Therefore, we need to differentiate them.

Minor resistance and support levels are levels price has respected within a larger market trend and therefore only temporarily stops price from rising or falling. Major resistance and support are levels represent levels that focus on the larger market movements and the possibility of the whole trend reversing exists.

CONCEPT



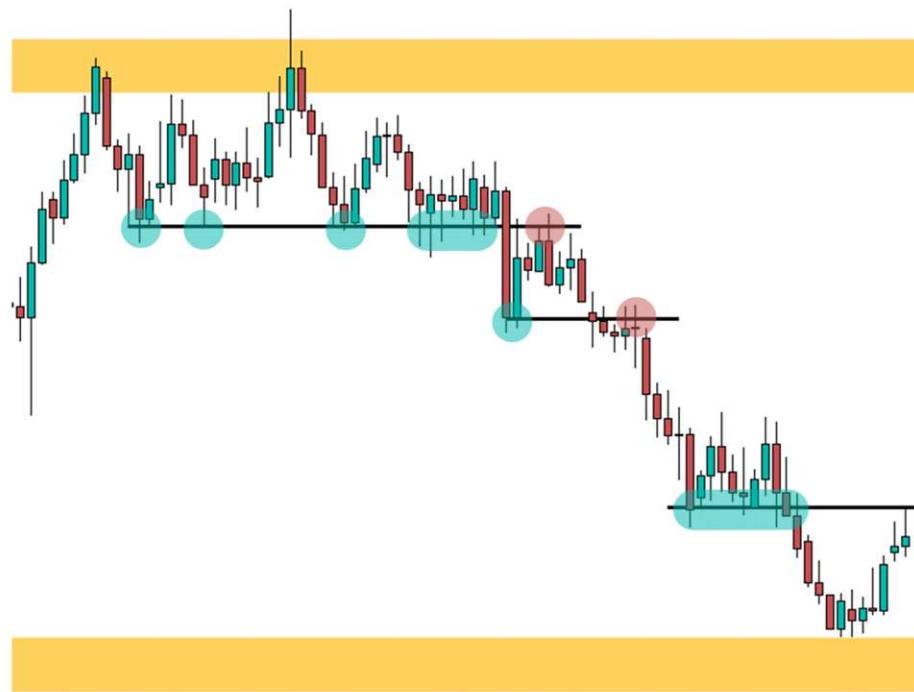
OUR EXAMPLE



We want to have some sort of differentiation in order to structure our charts more and understand the strength of the support or resistance lines or zones. Obviously, this is also a bit subjective in terms of how I approach it. If you are feeling completely comfortable with simple support and resistance lines or zones without any differentiation, go ahead.

Support becomes resistance (minor level)

As we have already covered, support becoming resistance can lead to a great trading opportunity. This can happen on a bigger scale (major levels) but as well on a smaller scale (minor levels) as it happens in our given example.



Minor support and resistance are best traded within the direction of the bigger movement between major support and resistance levels. In the example above, the support levels becoming resistance levels could be used to identify sell opportunities. In such examples, we do not really want to look for buy setups.

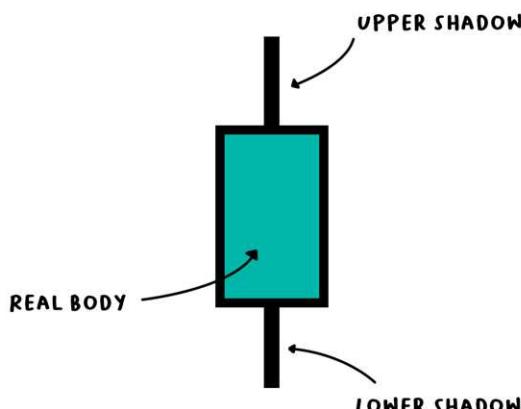
Try to differentiate that major and minor support and resistance levels on your charts (jump to your charting platform and try it out) .

1.9.12. JAPANESE CANDLESTICKS

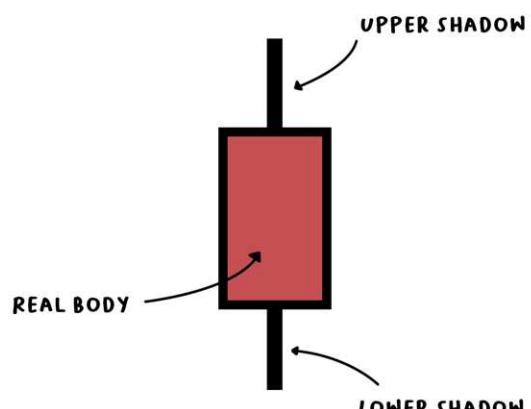


In order to be able to have a better understanding of how price reacts on key levels such as support and resistance, we need to have a better understanding of Japanese Candlesticks. Just a quick refresher of the basics that we already discussed:

Bullish Candlestick



Bearish Candlestick



As you noticed on your charts, candlesticks come in every form. Long, small, with long wicks or with short wicks. Different types of candlesticks represent a different strength in price change. Obviously, it doesn't make sense to interpret every single candlestick on a chart, and they also can't completely tell us what the price might do in the short future, but we can use it to get a better picture of how price reacts for example around our key levels. To get a better understanding, it can help to see the movement of a candlestick as a battle between buyers and sellers. Buyers push the price higher through their buying interest and sellers push the price down with their selling interest. Depending on which interest is higher, the price moves in the direction.

1.9.13. DIFFERENT TYPES OF CANDLES

1.9.13.1. BULLISH CANDLESTICKS

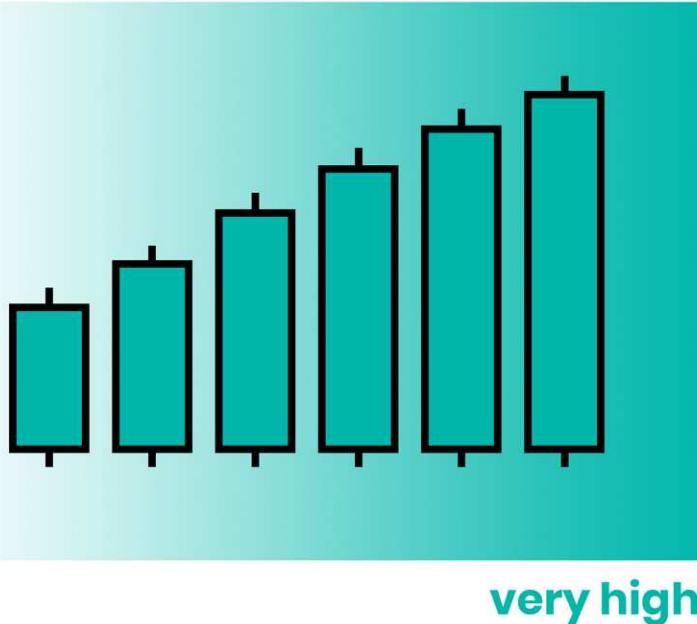
If there is more buying interest for a specific currency pair than selling interest, the price will increase. How come? There is nobody from which the buyers can buy from, therefore the price will increase as long as sellers are ready to sell again. With an increasing price, it will also get more and more attractive for sellers to sell. The price stops increasing when buyers decide that the price reached a level that is too high in order to continue to keep up the high buying interest and therefore selling interest could possibly take over. The strength of the interest can be analyzed with the following points:

CANDLESTICK BODY

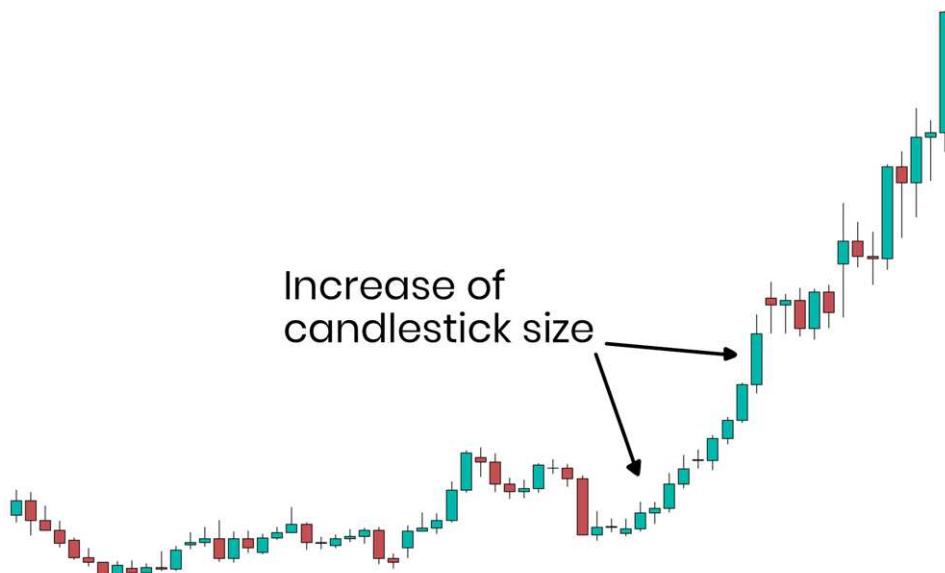
The strength of such buying interest can be seen in the size of a candlestick body. Remember: The size of the candlestick body represents the difference of price between the open and the close price during the given period.

Long candlestick bodies, which represent a sharp increase in price also represent a strong buying interest.

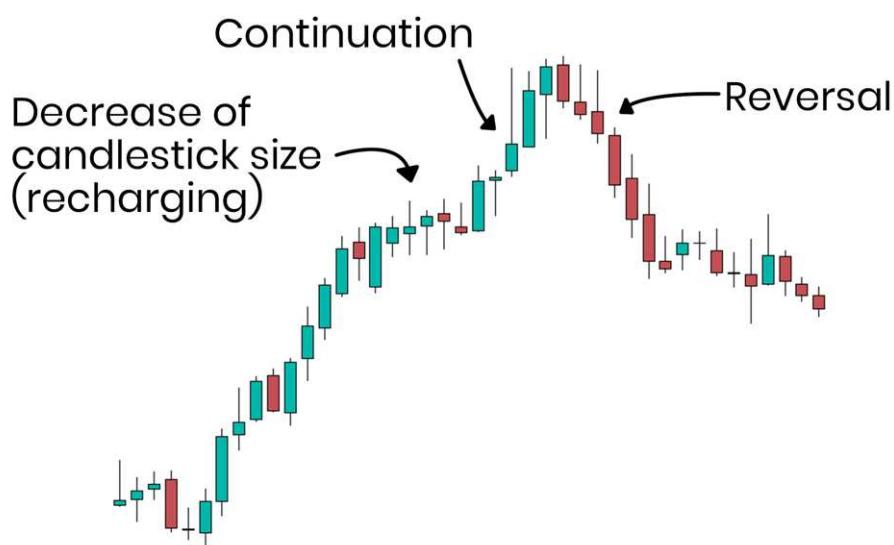
Buying interest



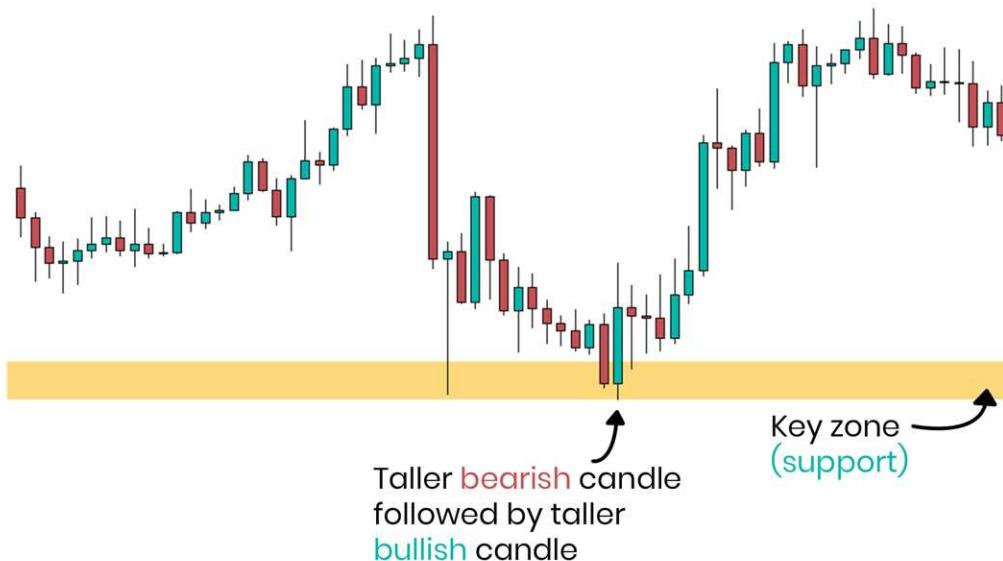
Over a specific period, it can also be the case that the bodies of the candlesticks increase in size. An increase of the bodies can be seen as an acceleration of the bullish price movement and accelerates the buying interest and strength and the trend might continue.



If the bodies of the candlesticks decrease, the buying strength might also decrease and the trend might weaken or even come to an end. However, a weakening trend doesn't have to mean that it is over. As we've already discussed, price is always moving in a zig-zac movement. You can often see within an uptrend trend, that price retraces back down a bit before pushing higher again. This can be seen as buyers „recharging“ from the previous battle, just to continue going „full-attack mode“.



If you see an uptrend with consistently similar candlestick bodies, this represents the trend is stable and steady. When price suddenly shifts from a long falling candlestick to a long rising candlestick, this represents strong market forces working against each other. In other words, the battle between buyers and sellers is heated. It can indicate a sudden change in trend.



This scenario of two very long candlestick bodies happens quite often around key areas. As you can see above, we have our support level marked on the chart (yellow key area). Price accepted the support level nicely. We had a strong selling power to the support area followed by very strong buying power that counter-attacked. Price does not always continue to the upside in such scenarios, but the tall bullish candle which follows the tall bearish candle indicates that there is definitely support and high buying interest.

LENGTH OF WICKS

Through the length of the wick, we can see how volatile the currency pair currently is, but as well showing us the uncertainty of price movements. Long upper AND lower shadows (wick) develop when buyers and sellers are in a big competition, but neither of them is able to take completely over.



We can see in the candlestick above, the price has moved quite a bit during the given period. We reached a high that is quite far away from the actual close price, and we reached a low that is quite far from the actual open price. I've included the candlesticks before and after as well, to see that price has been quite volatile during the highlighted candlestick period. The difference between high and low point is by far greater than the difference of the high and low points of any other candlestick around. Exactly this movement between the high and low point without price actually closing too far away from its open level, shows the competition of buyers and sellers without one of them winning clearly. In the example we even had sellers taken over after the highlighted candle before buyers were able to take over again.

Often we can see that wicks are getting longer after trend periods (or during retracements). Longer wicks on both sides represent the increasing fluctuation of price and signals that selling interest increases and buying interest does not have the clear upper hand anymore. Such periods can be retracement periods during a trend or could be the sign of a possible reversal where the power shifts to the sellers.



Short shadows on the other hand show a rather stable price environment.



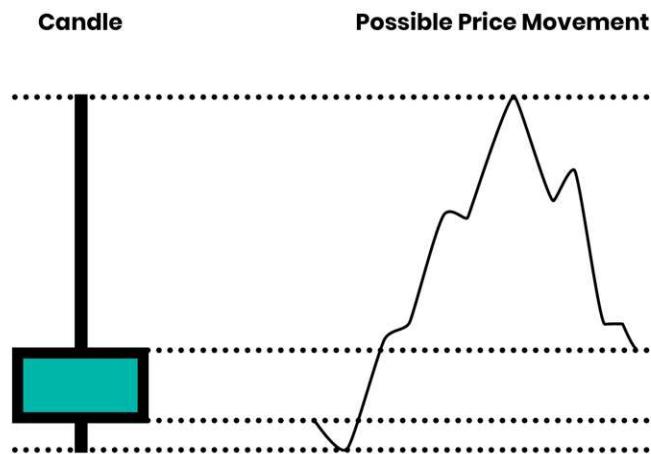
A bullish candle without an upper shadow signals a very strong price movement within the period, based on the fact that the price has been lower (lower shadow) but pushed completely back up and closed at the absolute high. Healthy trends consist of bullish candlesticks with small upper and lower shadows, since buying interest is clearly dominating and the price is not fluctuating as much. This being said, it is rarely the case that candles have no wicks over a longer period of time. Price movements are constant battles between buyers and sellers, which occur even during healthy uptrends.

CANDLESTICK BODY POSITION

When we talk about the position of the candlestick body, we will distinguish between mainly two scenarios. Obviously, there are a thousand different options of how a candlestick looks like, but to set certain rules, we always have to look at it in general terms.

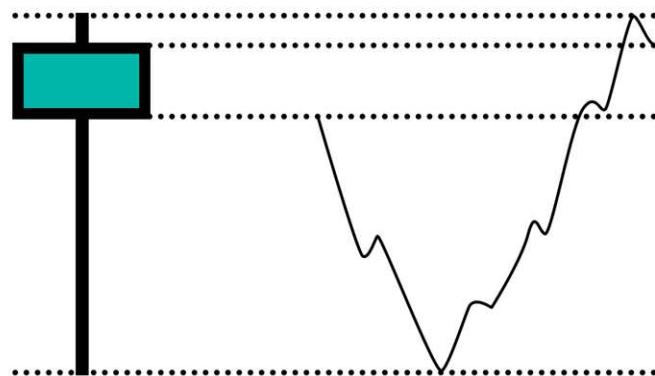
Body with one dominant shadow (upper or lower)

If we have a bullish candlestick that has a long and dominant upper shadow, then this can be seen as a weak bullish candle and a possible rejection of a key level. Price has pushed to the upside, created a high quite far away from the open price, but came back all the way down and closed quite close to the open price. The specific scenario describes a typical candlestick pattern called „bullish shooting star“ (highlighted in the picture below) and indicates a possible price reversal to the downside after an uptrend. In such cases, where the body is more or less on the lower half of the candlestick, it represents a very weak bullish candle.



If we have a bullish candlestick that has a longer and dominant lower shadow, then this can be seen as a stronger bullish candle. Price has pushed to the downside, created a low quite far away from the open price, but came back all the way up and closed quite close to the open price. The specific scenario describes another typical candlestick pattern called the bullish hammer (highlighted in the picture below) and indicates a possible price reversal to the upside after a downtrend. In such cases, where the body is more or less on the higher half of the candlestick, it represents a stronger bullish candle.

Candle **Possible Price Movement**

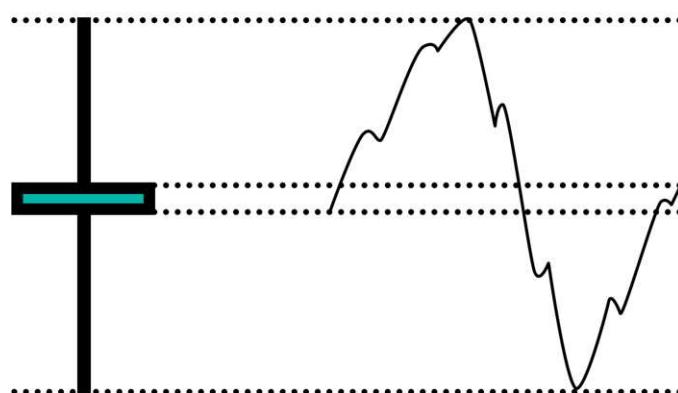


In both scenarios, the price has tried to move in a certain direction, but the opposite side (either buyers or sellers) counterattacked with a strong push against it. The longer the wick, the stronger the counterattack was, and therefore the stronger the opposite side has become. We will discuss those scenarios with one dominant shadow in more detail when we cover all popular candlestick patterns.

Equal long shadows (both sides)

If the upper shadow and the lower shadow have the same size, this can signal indecision in the market, and buying and selling interest are balanced. In such a case the body is located in the center of the candlestick. The rule is, the smaller the body the bigger the indecision.

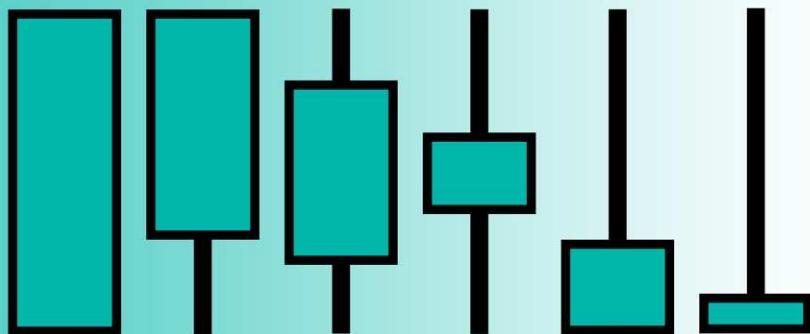
Candle **Possible Price Movement**



STRENGTH OF BULLISH CANDLESTICKS

Here, a quick and general overview of the strength of bullish candlesticks. To the left side, we have a very strong bullish candle, which represents the price moving straight up and closing at the highest point. The more to the right we look, the less bullish we will get. In the middle, where the candlesticks have longer wicks on both sides, we have more neutral candlesticks signaling an almost balance between buyers and sellers, where buyers won just by a bit (therefore we have a green candle). The candlesticks to the right show even strong bearish movements where price reached quite some high levels, but sellers pushed price almost all the way down to the opening price level. The candle is still green, but signals that sellers have been in power recently.

Most bullish



Least bullish

1.9.13.2. BEARISH CANDLESTICKS

Now let us check out the same topics, just for the opposite direction. If you already understood the concept, you could even skip this chapter since we will discuss the same things from above just the opposite way.

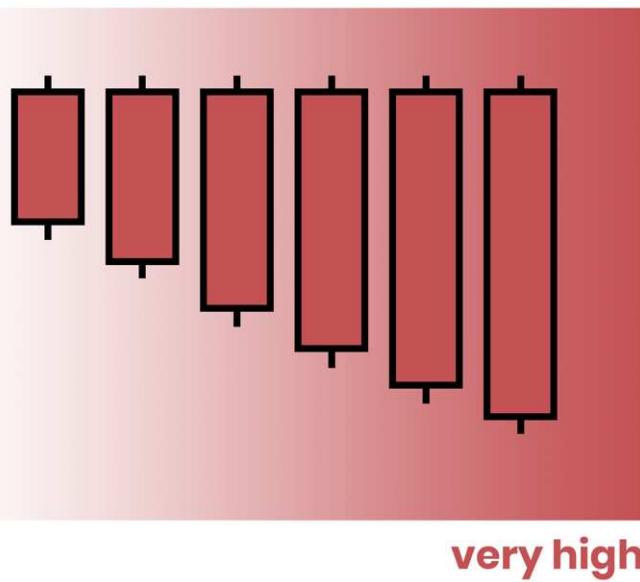
If there is more selling interest for a specific currency pair than buying interest, the price will decrease. How come? There is nobody from which the sellers can buy from, therefore the price will decrease as long as buyers are ready to buy again. With a decreasing price, it will also get more and more attractive for buyers to buy. The price stops decreasing when sellers decide that the price reached a level that is too low in order to continue to keep up the high selling interest and therefore buying interest could possibly take over. The strength of the interest can be analyzed with the following points:

CANDLESTICK BODY

The strength of such selling interest can be seen in the size of a candlestick body. Remember: The size of the candlestick body represents the difference of price between the open and the close price during the given period.

Long candlestick bodies, which represent a sharp decrease of the price also represent a strong selling interest.

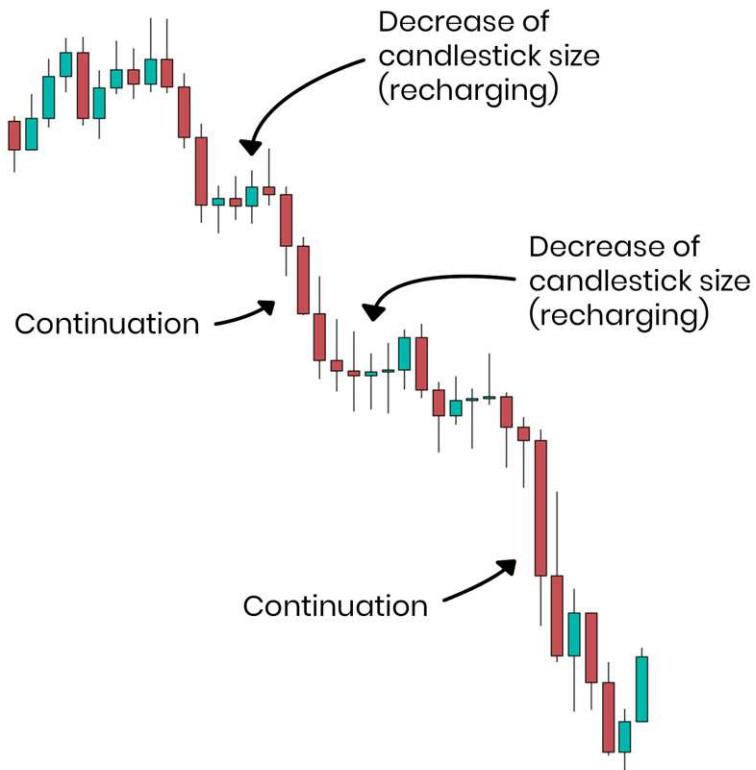
Selling interest



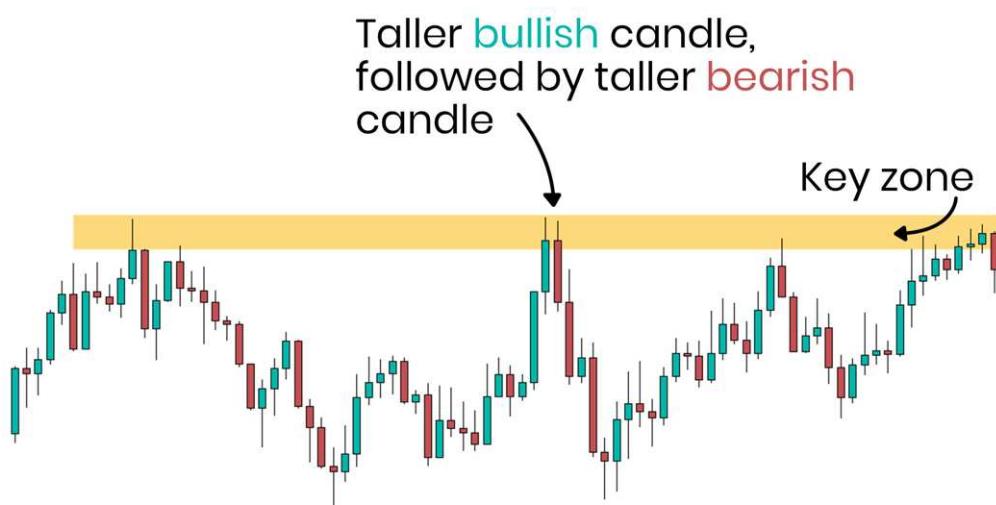
Over a specific period, it can also be the case that the bodies of the candlesticks increase in size. An increase of the bodies can be seen as an acceleration of the bearish price movement and accelerates the selling interest and strength and the trend might continue.



If the bodies of the candlesticks decrease, the selling strength might also decrease and the trend might weaken or even come to an end. However, a weakening trend doesn't have to mean that it is over. As we've already discussed, price is always moving in a zig-zag movement. You can often see within a downtrend trend, that price retraces back up a bit before pushing lower again. This can be seen as sellers „recharging“ from the previous battle, just to continue going „full-attack mode“.



If you see a downtrend with consistently similar candlestick bodies, this represents the trend is stable and steady. When price suddenly shifts from a long rising candlestick to a long falling candlestick, this represents strong market forces working against each other. In other words, the battle between buyers and sellers is heated. It can indicate a sudden change in trend.



This scenario of two very long candlestick bodies happens quite often around key areas. As you can see above, we have our resistance level marked on the chart (yellow key area). Price accepted the resistance level nicely. We had a strong buying power to the resistance area followed by very strong bearish power that counter-attacked. Price does not always continue to the downside in such scenarios, but the tall bearish candle which follows the tall bullish candle indicates that there is definitely resistance and high selling interest.

LENGTH OF WICKS

Through the length of the wick, we can see how volatile the currency pair currently is, but as well showing us the uncertainty of price movements. Long upper AND lower shadows (wick) develop when buyers and sellers are in a big competition, but neither of them is able to take completely over.



We can see in the candlestick above, the price has moved quite a bit during the given period. We reached a high that is quite far away from the actual open price, and we reached a low that is quite far from the actual close price. I've included the candlesticks before and after as well, to see that price has been quite volatile during the highlighted candlestick period. The difference between high and low point is by far greater than the difference of the high and low point, of any other candlestick around. Exactly this movement between the high and low point without price actually closing too far away from its open level, shows

the competition of buyers and sellers without one of them winning clearly. In the example, we even had buyers taken over after the highlighted candle.

Often we can see that wicks are getting longer after trend periods (or during retracements). Longer wicks on both sides represent the increasing fluctuation of price and signals that buying interest increases and selling interest does not have the clear upper hand anymore. Such periods can be retracement periods during a trend or could be the sign of a possible reversal where the power shifts to the buyers. In our case below, sellers continued to dominate after the sideways move.



Short shadows on the other hand show a rather stable price environment.



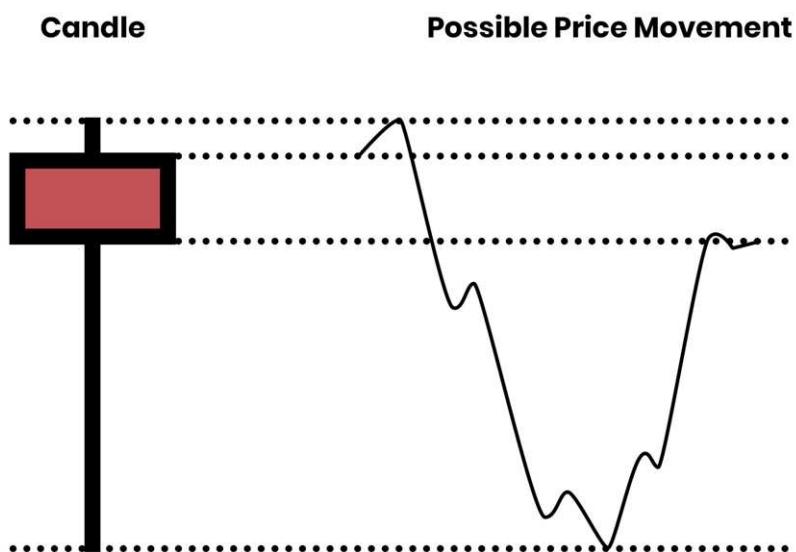
A bearish candle without a lower shadow signals a very strong price movement within the period, based on the fact that price has been higher (upper shadow) but pushed completely back down and closed at the absolute low. Healthy trends consist of bearish candlesticks with small upper and lower shadows, since selling interest is clearly dominating and the price is not fluctuating as much. This being said, it is rarely the case that candles have no wicks over a longer period of time. Price movements are constant battles between buyers and sellers, which occur even during healthy uptrends.

CANDLESTICK BODY POSITION

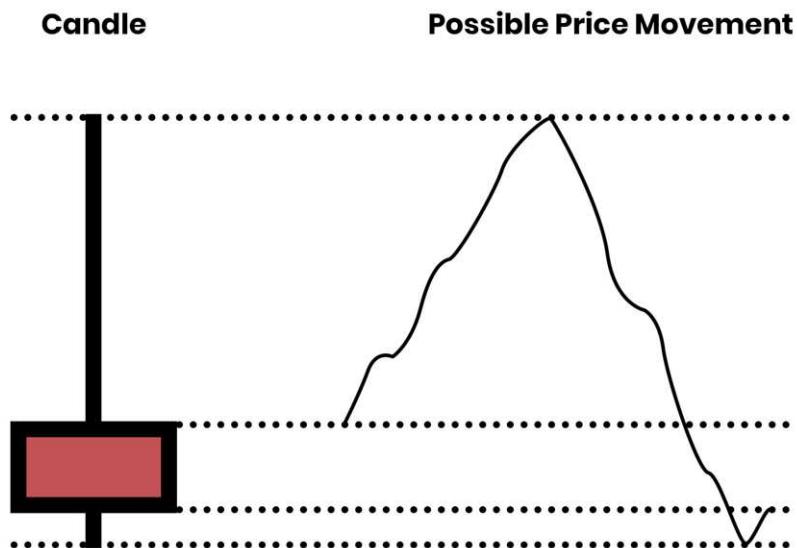
When we talk about the position of the candlestick body, we will distinguish between mainly two scenarios as before.

Body with one dominant shadow (upper or lower)

If we have a bearish candlestick that has a longer and dominant lower shadow, then this can be seen as a weak bearish candle and a possible rejection of a key level. Price has pushed to the downside, created a low quite far away from the open price, but came back all the way up and closed quite close to the open price. The specific scenario describes a typical candlestick pattern called „bearish hammer“ (highlighted in the chart below) and indicates a possible price reversal to the upside after a downtrend. In such cases, where the body is more or less on the higher half of the candlestick, it represents a very weak bearish candle. As you might have noticed, it is very similar to the „bullish hammer“ candlestick.



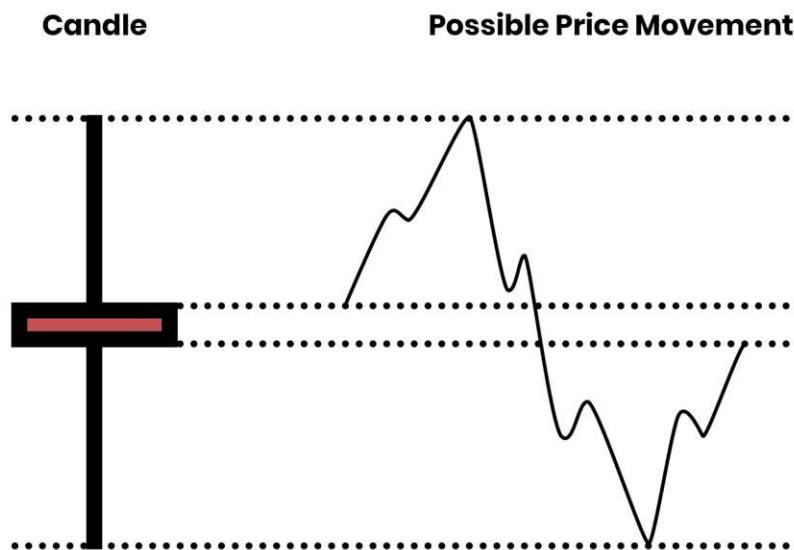
If we have a bearish candlestick that has a long and dominant upper shadow, then this can be seen as a stronger bearish candle. Price has pushed to the upside, created a high quite far away from the open price, but came back all the way down and closed quite close to the open price. The specific scenario describes another typical candlestick pattern called „bearish shooting star“ (highlighted in the chart below) and indicates a possible price reversal to the downside after an uptrend. In such cases, where the body is more or less on the lower half of the candlestick, it represents a stronger bearish candle. Again, very similar to the „bullish shooting star“.



In both scenarios, the price has tried to move in a certain direction, but the opposite side (either buyers or sellers) counterattacked with a strong push against it. The longer the wick, the stronger the counterattack was, and therefore the stronger the opposite side has become. We will discuss those scenarios with one dominant shadow in more detail when we cover all popular candlestick patterns.

Equal long shadows (both sides)

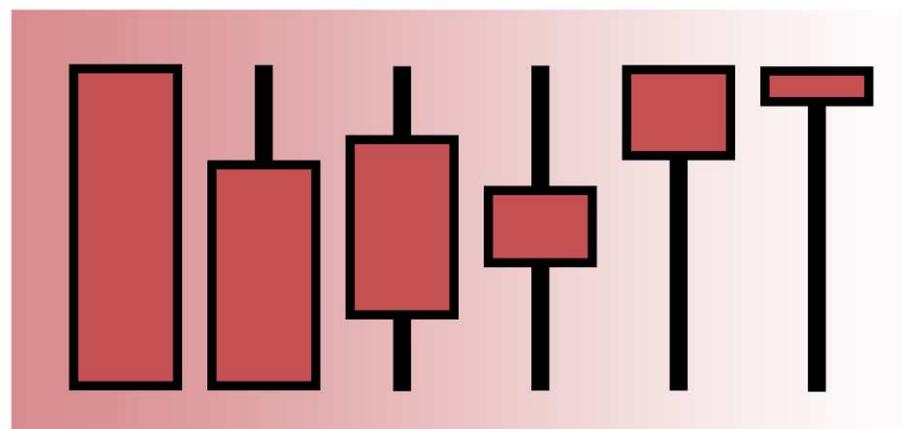
If the upper shadow and the lower shadow have the same size, this can signal indecision in the market, and buying and selling interest are balanced. In such a case the body is located in the center of the candlestick. The rule is, the smaller the body the bigger the indecision.



STRENGTH OF BEARISH CANDLESTICKS

Here, a quick and general overview of the strength of bearish candlesticks. To the right side, we have a very strong bearish candle, which represents the price moving straight down and closing at the lowest point. The more to the left we look, the less bearish we will get till we reach a neutral candlestick that signals a complete balance between buying and selling interest in the market.

Most bearish



Least bearish

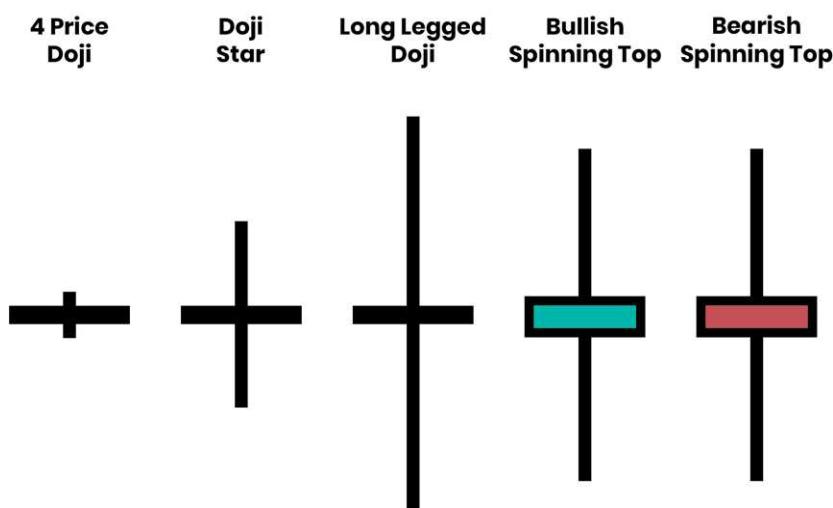
1.9.13.3. NEUTRAL CANDLESTICKS

Next to bullish and bearish candlesticks, there are also so-called „neutral“ candlesticks. Neutral candlesticks represent a total balance of buying and selling interest. This doesn't mean in any way, that they can't be useful.

Let us go over the different types of neutral candlesticks:

NEUTRAL DOJI

The Neutral Doji is probably the most popular neutral candlestick. Neutral means that buying and selling interest is in complete balance and signifies neutrality in the market.



The neutral Dojis have the same or almost the same closing price as the opening price. If the opening and closing price differs by just a few pips, some traders would call the candle a „spinning top“. Essentially, they're almost the same candle, have the same psychology behind it, and can be traded the same way. How exactly can we trade such a candle? We'll take a closer look at it during the next pages, where we will go deeper into Japanese candlestick patterns, in which context we will also discuss how exactly we can use candlesticks to enter trades.

How can we use the information about candlesticks?

Generally, knowing how to read candlesticks can help us read the market. We get to know how strong a trend is and how healthy a trend is. It helps us understand what the price movement behind a candlestick is, and what it indicates. We can also identify periods of balance between buyers and sellers.

The really important point is that with the information we just covered, we can already analyze how price accepts for example a key level such as support or resistance. If we look at a support level, and the price is accepting the level with a strong bullish candle, this might signal us a higher probability of the price continuing to the upside. If the price accepts the support level but with a weak bullish candle and a long upper shadow, we might not see it as a trading opportunity due to the weaker acceptance of the support level. By ruling out such scenarios, we can already establish higher probabilities of winning. The same, of course, counts for the opposite direction. If we look at a resistance level, and the price is accepting the level with a strong bearish candle, this might signal us a higher probability of the price continuing to the downside. If the price accepts the resistance level but with a weak bearish candle and a long lower shadow, we might not see it as a trading opportunity due to the weaker acceptance of the resistance level.

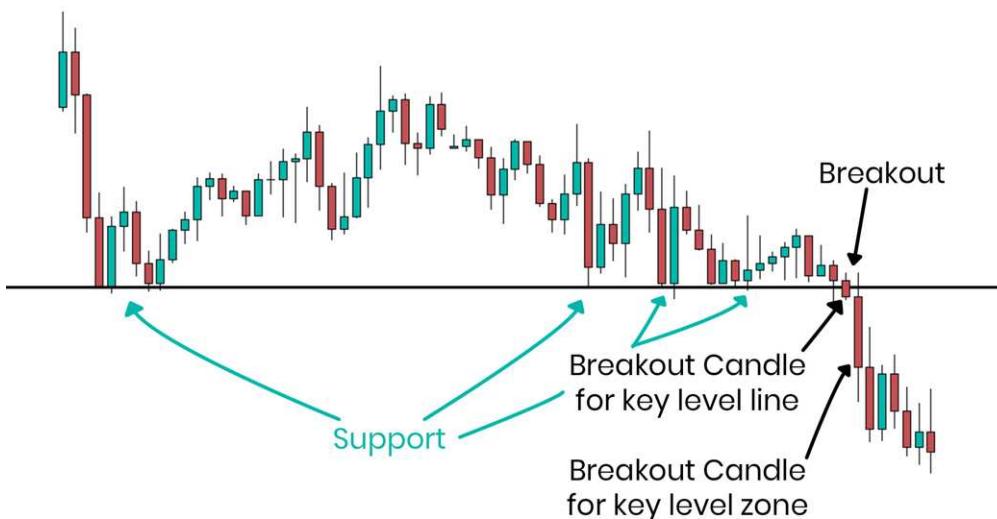
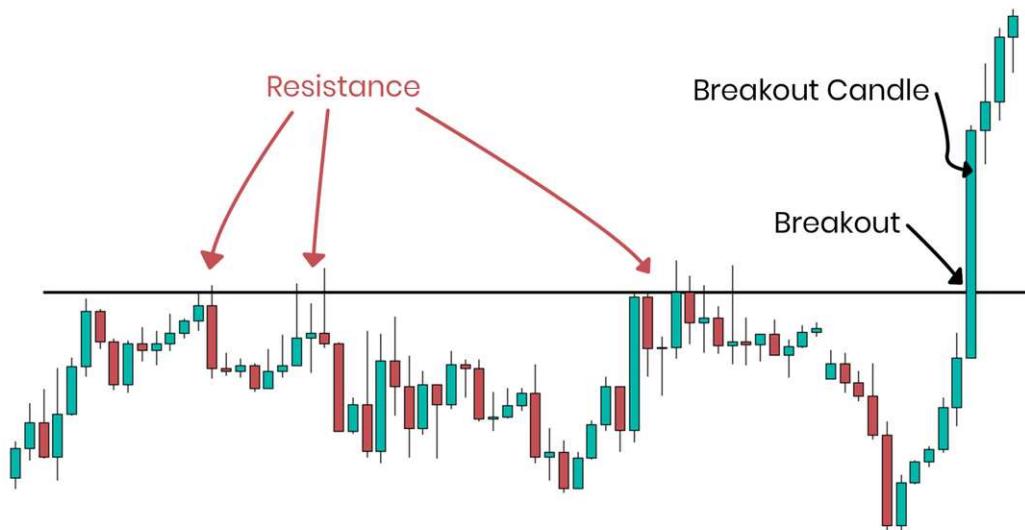
1.9.14. BREAKOUT, FAKEOUT & RETEST



Before we jump into the candlestick patterns, and how we can use them to determine trading opportunities and enter a trade, we need to cover „breakouts“, „fakeouts“ and „retests“ in more detail. We already covered breakouts and retest roughly, in the chapter on support & resistance. I wanted to squeeze this chapter in, because those concepts will be used within the candlestick patterns, and therefore are an essential requirement to completely follow and understand candlestick patterns.

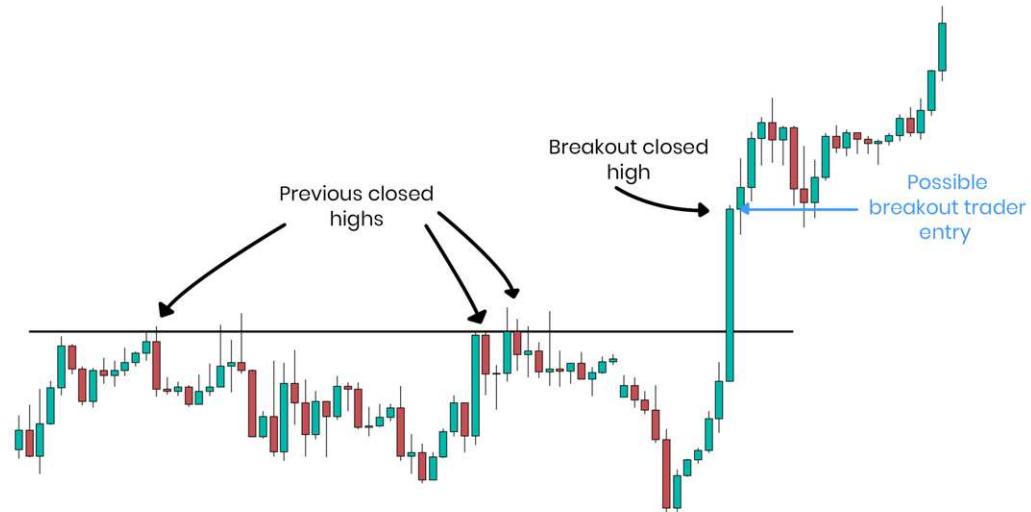
BREAKOUT

Breakouts refer to the scenarios of price moving above a resistance level or beneath a support level.



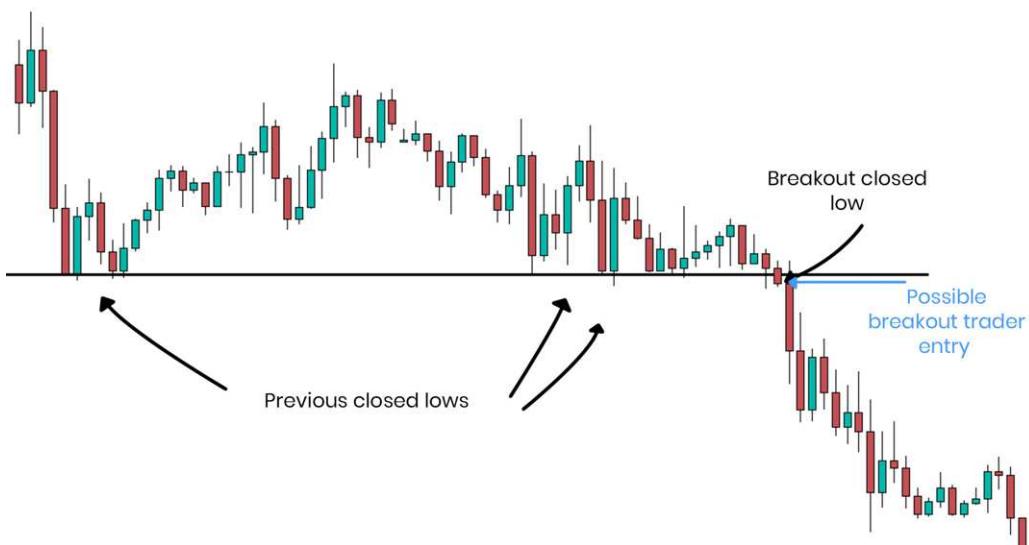
The candlestick needs to close, in order to be called a breakout and is called the breakout candlestick. Breakouts are very subjective. As we've learned, different traders draw different key levels. Some might use a line, some might use a zone, while others don't see it as a key level at all. While the trade with a key level line sees the scenario as a breakout, the trader with key level zones might still see it as price accepting the resistance. Both traders, however, could be profitable traders. None of the approaches is in any form better.

Such breakouts can be used as possible trading opportunities. A breakout to the upside can be signaling a possible buy opportunity. The recent high has been trumped with the current candle, therefore the price made a new high. Doesn't have to be an all-time high, this can be simple compared to the recent high to the left.

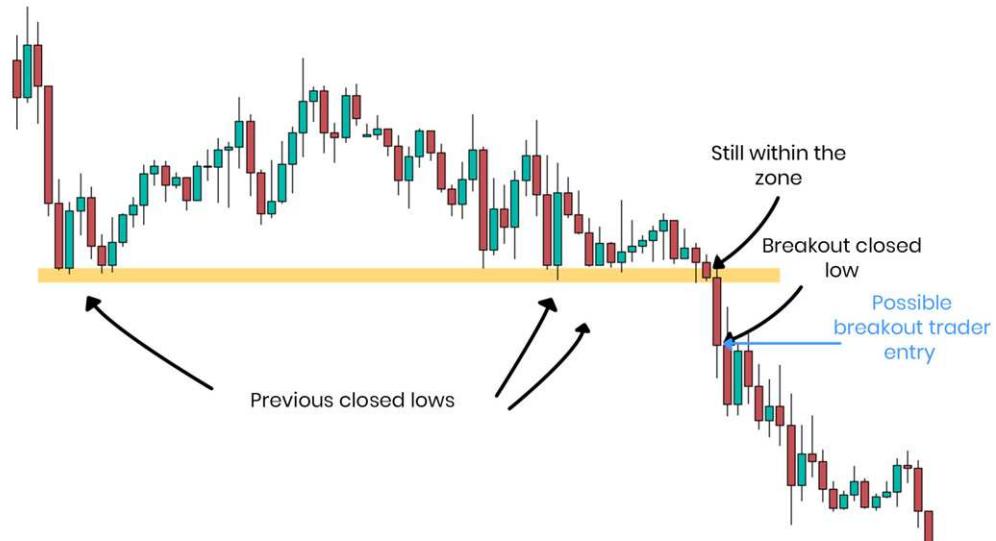


A so-called „breakout trader“, would enter a buy trade with the close of the breakout candle or with the open of the following candle. Since we are going more into specifics, a buy entry when price trumps recent highs are mostly backed up with other confirmations such as a technical indicator or and other technique that supports the decision. As we discussed this when we talked about trendlines, combining different techniques can improve the odds of winning.

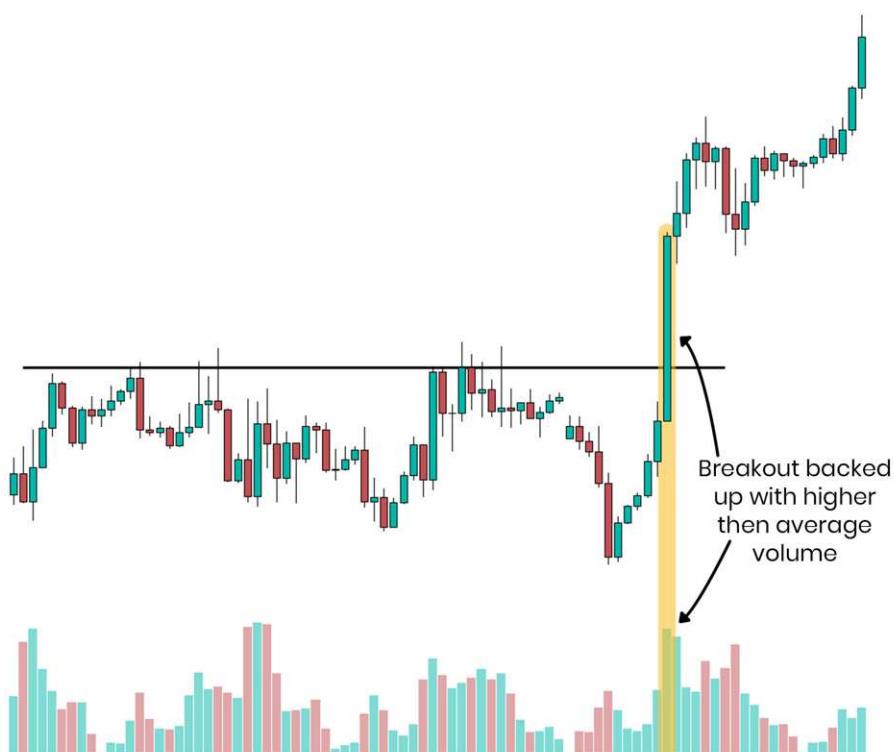
The same scenario for a breakout to the downside. A breakout trader would enter a sell position with the close of the breakout candle or the open of the following candle.



As mentioned, some traders rather use zones than lines to give price more flexibility. The downtrend example is a perfect example to showcase this since a zone would actually push the breakout entry one to the following candle.



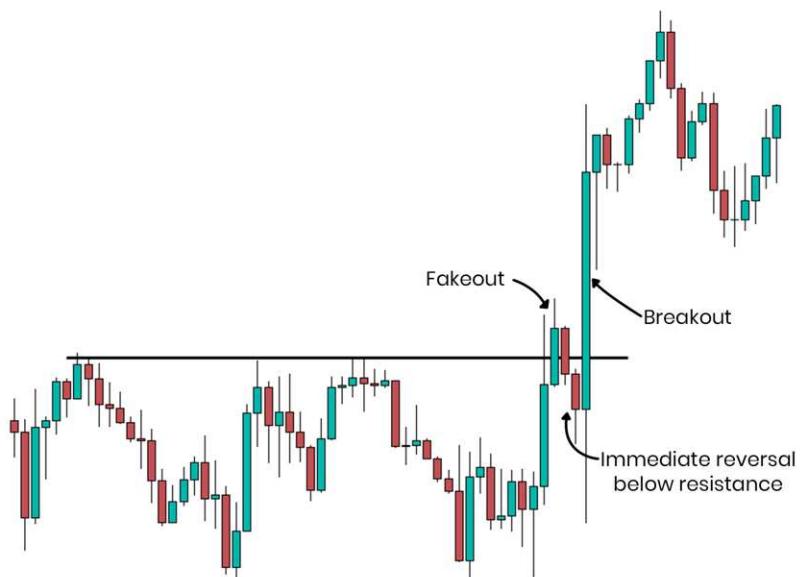
One extra confirmation breakout traders like to use is the volume indicator. Breakouts with relatively high volume can be seen as strong breakouts since interest buy or sell interest is high and the price is more likely to continue into the breakout direction. The volume indicator simply measures the amount of an asset changing hands. If the volume is relatively high, this means a lot of transaction volume occurred within the time frame (or within a breakout) and therefore the breakout is backed up with more interest.



On the other hand, a breakout with lower relative volume can be seen as less likely to continue into the breakout direction and therefore seems not as strong. This, however, is a general rule and while it completely makes sense in combination with the volume indicator, it isn't always the case (as with everything in financial markets). A breakout with high volume can fail as well, and a breakout with low volume can continue.

FAKEOUT

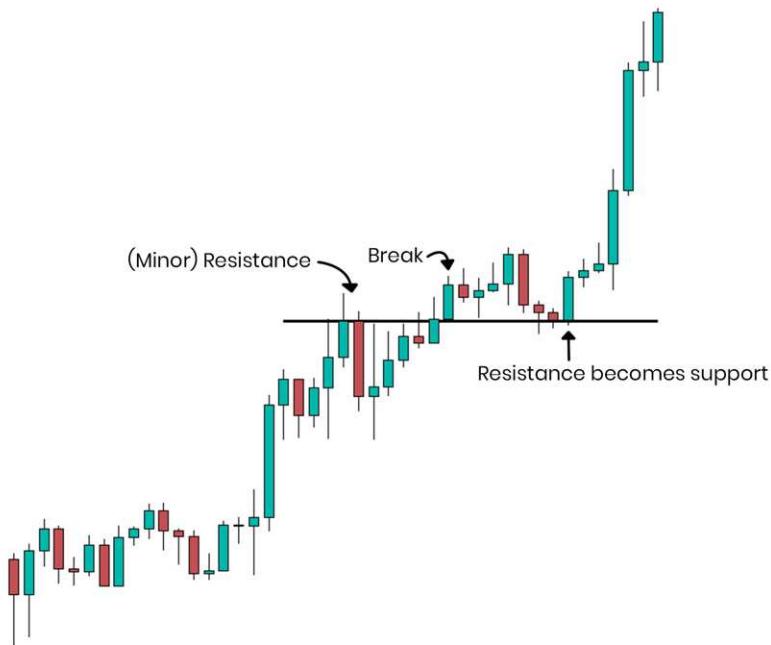
When we talk about breakouts, we have to talk about fakeouts. A fakeout is essentially a breakout as in the examples above, only that price reverses immediately back with the next (couple) candle(s) above support or below resistance.



Fakeouts are the biggest enemy of a breakout trader. While additional confirmations try to reduce such scenarios (like the volume indicator), they can't be completely avoided. Losses are part of trading. Period. Therefore, fakeouts can be contained with solid risk management and breakout traders can be very profitable, even with trading fakeouts from time to time. If you don't want to be confronted with fakeouts, you can simply decide to trade the break and retest, which we will cover next.

Retest

As you might remember, a retest is a scenario when price violates resistance or support (breakout), comes back to the key level, and „test“ it as a new resistance or new support. This approach will be used to open trades in the direction of the breakout with additional confirmation of price testing previous resistance or support.

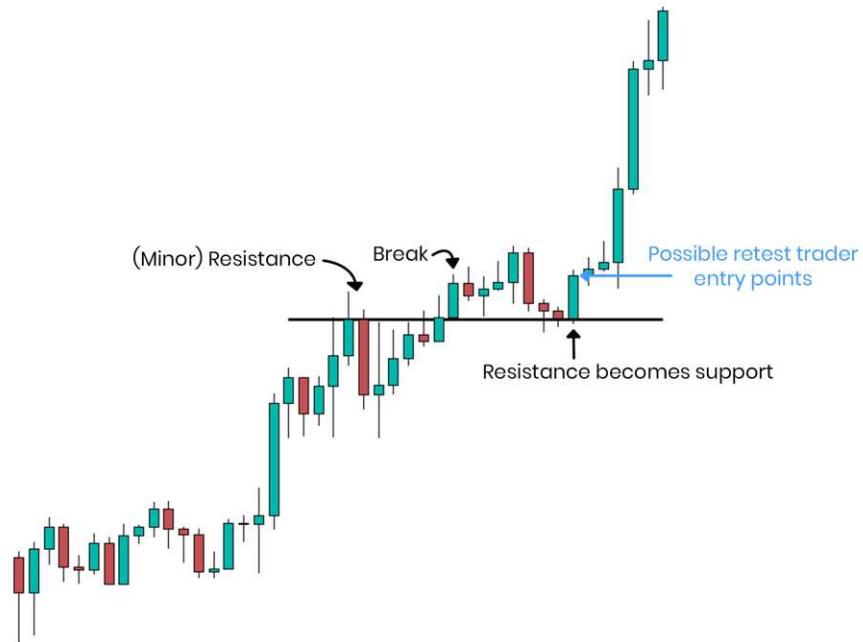


Successful retest: Price breaks above resistance. Comes back down to the key level (retracement). Previous resistance becomes support and is accepted by price. Price continues moving upwards in the direction of the breakout.

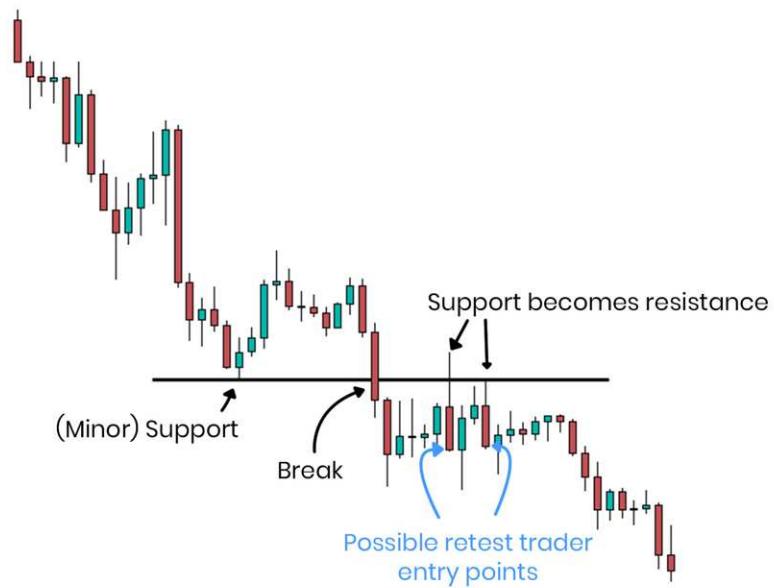


Successful retest: Price breaks below support. Comes back up to the key level (retracement). Previous support becomes resistance and is accepted by price. Price continues moving downwards into the direction of the breakout.

A „retest trader“ would open a **buy** position with a bullish candle moving upwards from previous resistance that has become support...



... or open a **sell** position with a bearish candle moving downwards from previous support that has become resistance.



Ok, now we are ready to dive into the different candlestick patterns, which we can use to analyze how price reacted for example at such key levels and what it indicates 🚀.

1.9.15. CANDLESTICK PATTERNS



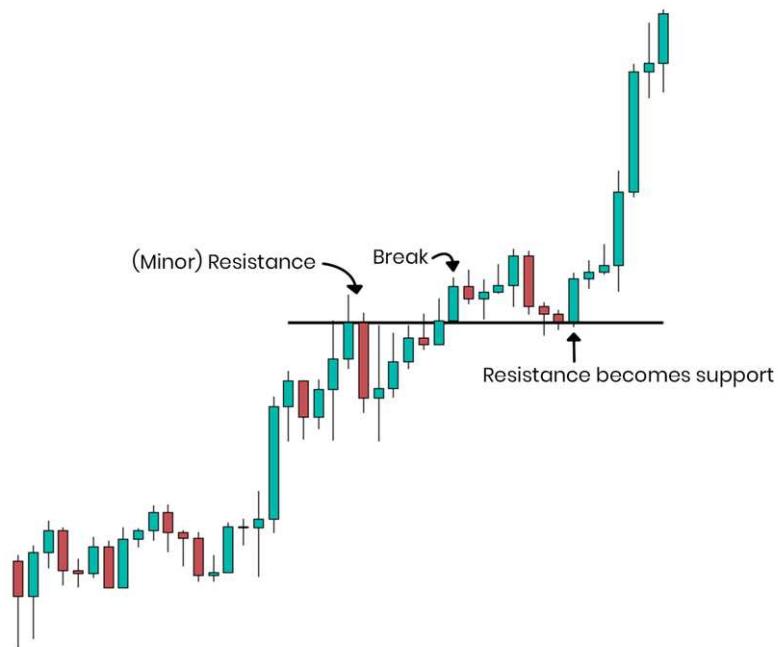
Coming back to Japanese candlesticks and going a bit deeper into the material now. Candlesticks can form patterns, which traders use to identify trading opportunities, mostly within or around key levels. There are candlestick patterns that indicate a possible price reversal, continuation, or a balance between buyers and sellers. Patterns are essentially one or multiple candlesticks that follow each other and have specific meanings in the market.

In order for you to completely understand where we are right now, here a quick breakdown.

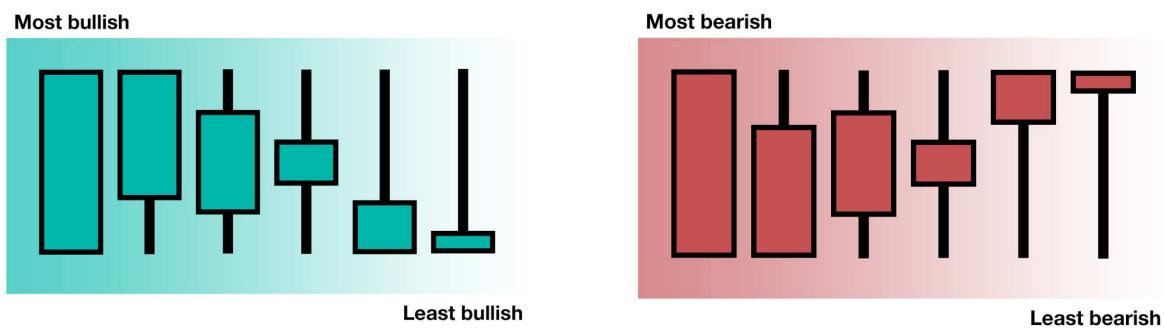
We learned about horizontal support and resistance lines as well as trendlines.



We learned about breakouts and retest.



We learned about the different forms of Japanese candlesticks.



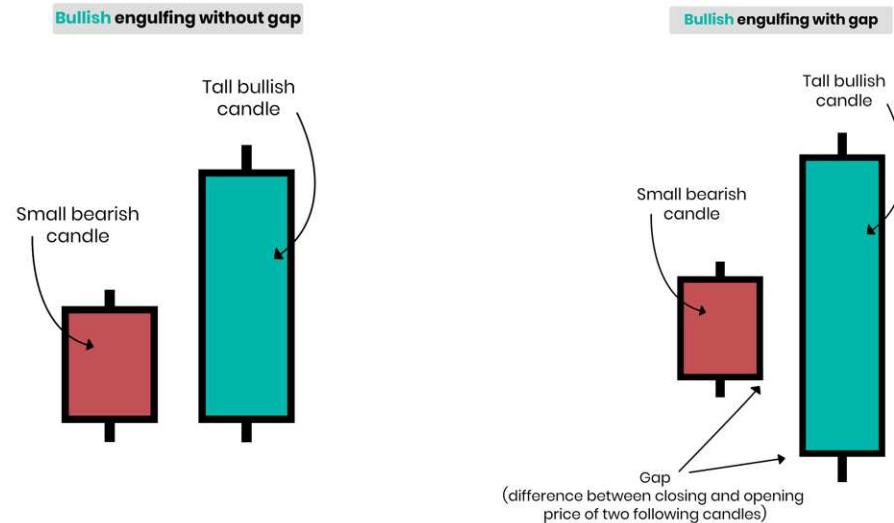
Now we will go a bit deeper into candlestick patterns, which can be combined with everything we learned so far. In a sense, those topics stack on top of each other and form a great first base and understanding of technical analysis.



Before we start, candlestick patterns can be seen quite often in the market. Those patterns don't always have to mean something. The context within which a candlestick pattern occurs is by far more important than the pattern itself. Ok, maybe that was a bit too far, but you get the point. Candlestick patterns should always be used with additional confirmation such as key levels of support and resistance.

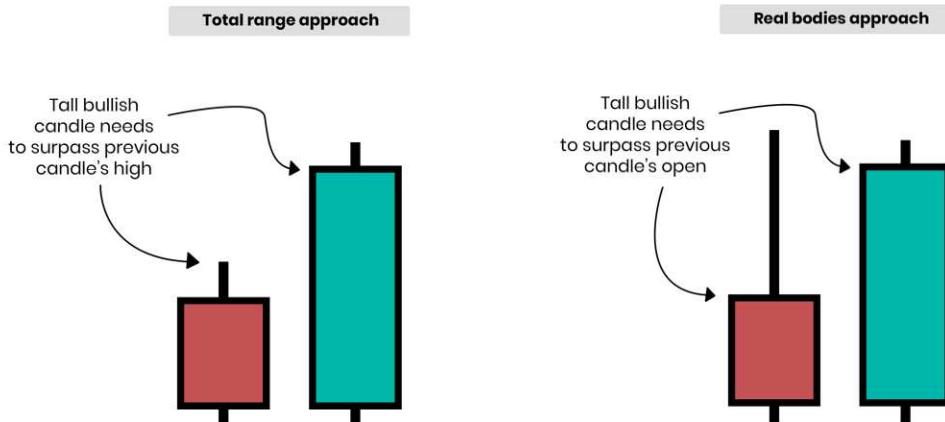
1.9.15.1. BULLISH CANDLESTICK PATTERNS

BULLISH ENGULFING



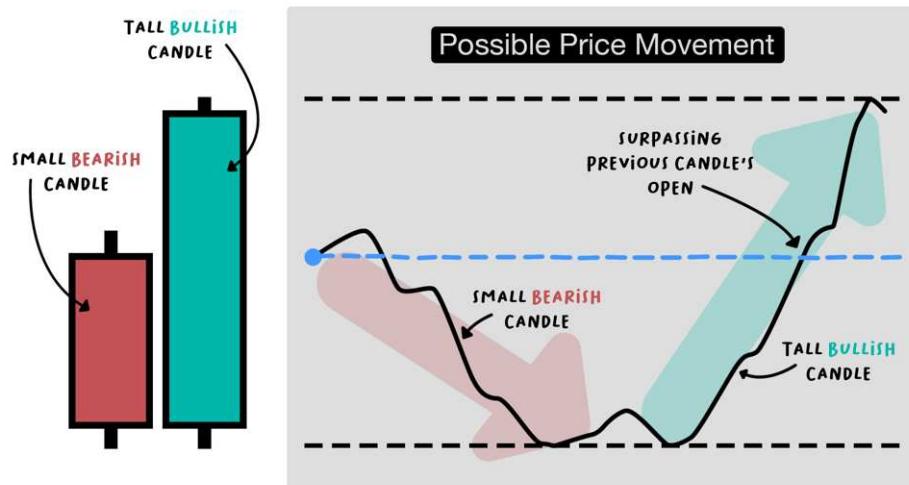
The engulfing pattern is probably one of the most occurring candlestick patterns. The bullish engulfing pattern is basically just a candlestick that opens at the same price or below the close of the previous candle (in cases of market gaps) and closes above the open of the previous candle. The bullish engulfing candlestick pattern is a **bullish reversal pattern**, consists of 2 candles, and occurs at the bottom of a downtrend, indicating a possible reversal to the upside.

While some traders look at the real bodies only, some look at the total range of the candles. When looking at real bodies only, we want to see the engulfing candle closing above the open price of the previous candle. When looking at the total range of the candles, we want to see the engulfing candle closing above the total range of the previous candle.



PATH OF THE PATTERN

This represents just one out of hundreds of possible price movements behind the pattern. This is just to make it a bit clearer to understand what actually happens.

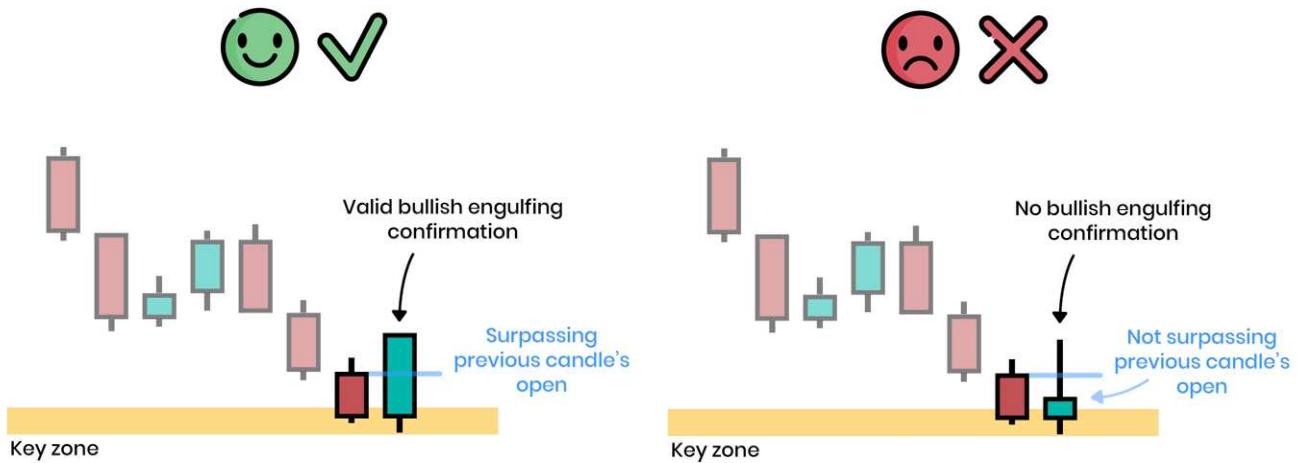


After the bearish candle, buying interest is increasing rapidly and pushes the price above the open (or/and absolute high) price of the bearish candle. At the same time, short positions could be covered (closed) and would infuse the bullish movement with fire even more.

CONFIRMATION CANDLE

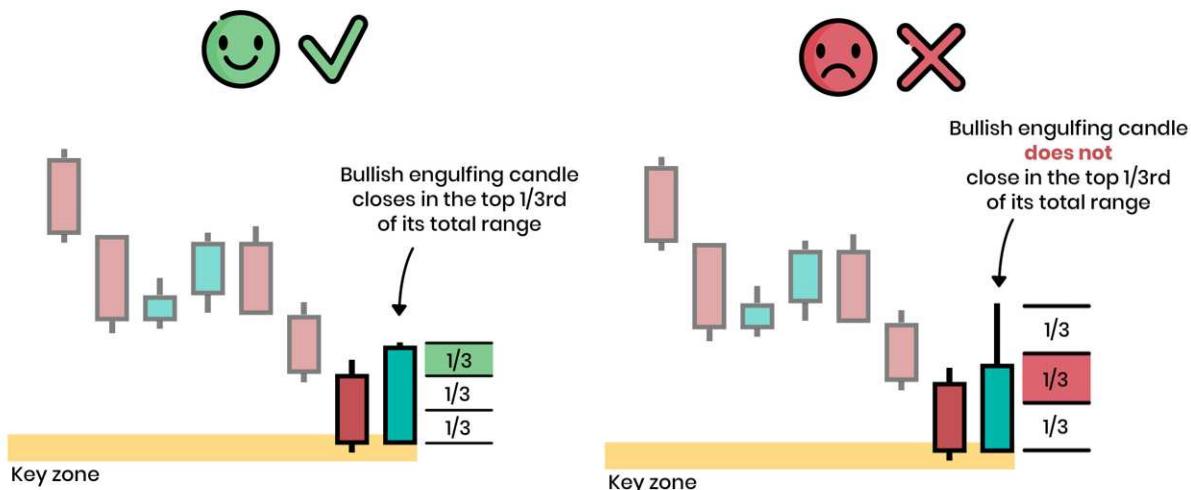
As with most candlestick patterns, we want to see some sort of confirmation or validation of the pattern, if the confirmation is not within the pattern itself. With the engulfing candlestick patterns, we have the confirmation candle within the pattern. The confirmation candle is the engulfing candle.

Let's compare a successful close of the confirmation candle vs. an unsuccessful close of the confirmation candle, which results in an invalid engulfing chart pattern.



QUALITY OF CONFIRMATION

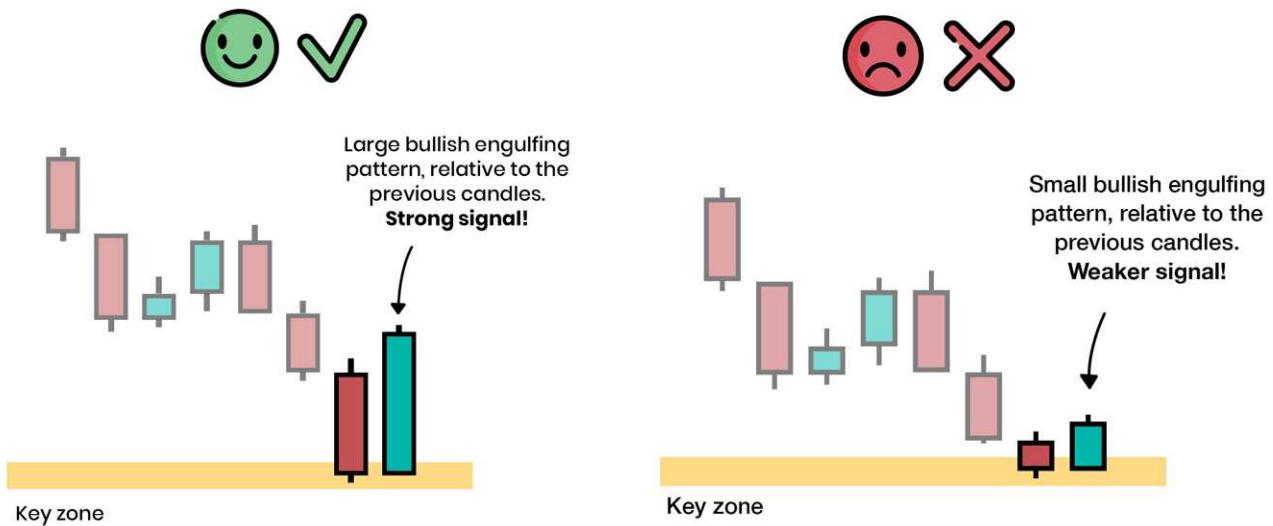
The bullish engulfing candle can also be differentiated. What we want is that the bullish engulfing candle to close in the last 1/3rd or better, in the last 1/4th of its total range.



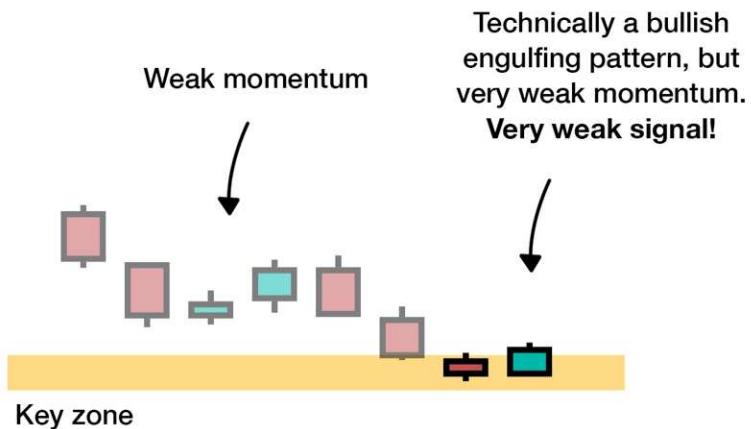
As we can see on the left side, the engulfing candle closes in the last 1/4th of its total range. Don't worry, you don't have to measure it. This just shows generally how the engulfing candlestick should look like. The reason behind it is that we want to see a strong bullish movement, which a close in the last 1/3rd or last 1/4th of the candle's total range represents. On the right side, we can see a rather weak engulfing candle. Price has moved all the way up, to come back down halfway. This does not show us a strong bullish movement.

SIZE OF THE ENGULFING CANDLE

A great comparison to make, to rate the strength of the reversal pattern, is to compare the relative size of the pattern (both candles) to the previous candles before.



The reason behind this is that larger candlesticks are more significant than smaller candlesticks since there is more momentum behind the moves. The comparison is made while looking at both candles of the pattern. While in general, a smaller candlestick pattern refers to a weaker reversal, it doesn't mean we have to completely filter them out. What we don't want is such scenarios:

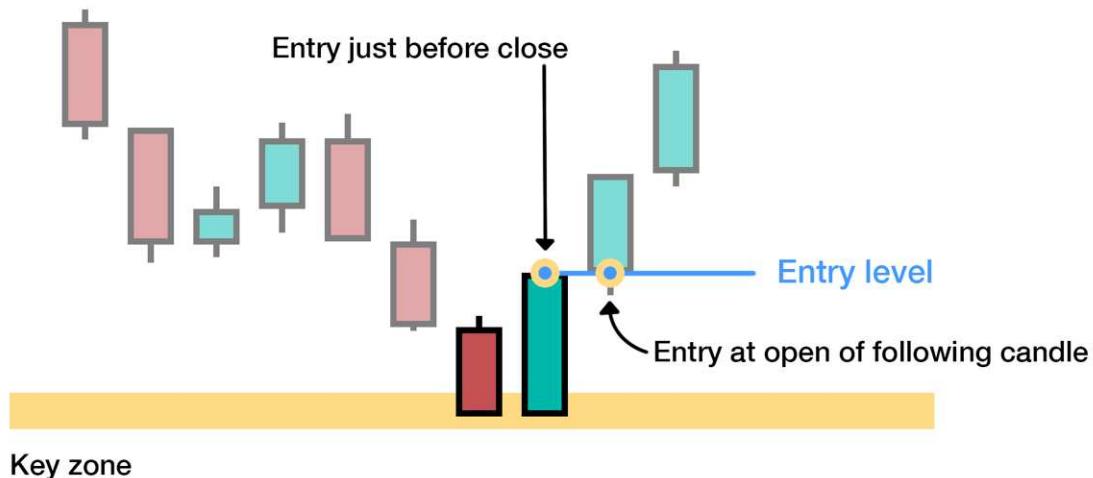


There is barely any momentum behind the pattern and is seen as a very weak price movement. Those scenarios should be definitely avoided.

ENTRY METHODS

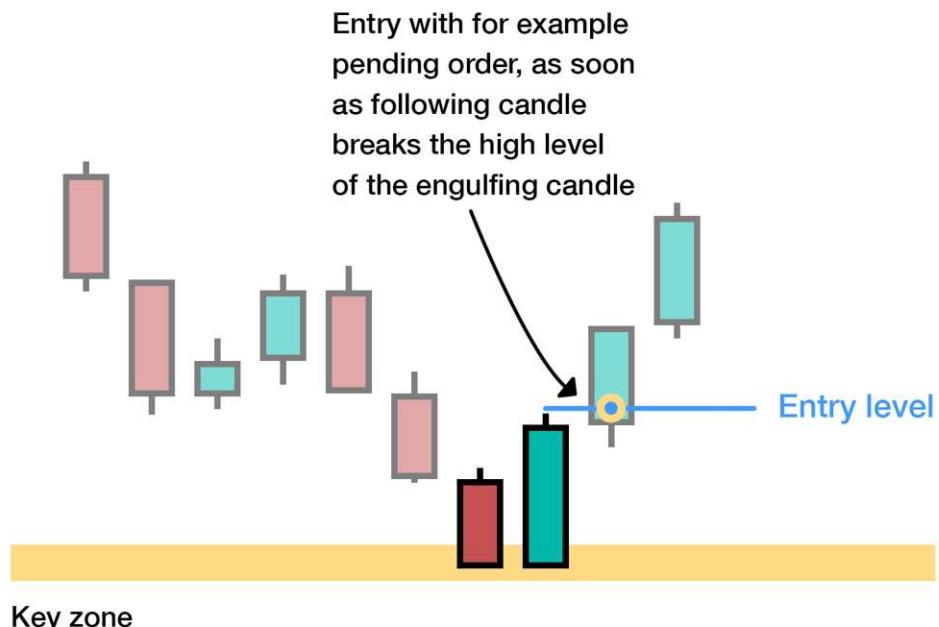
We have two main techniques, how to enter a bullish engulfing pattern. Entry at open, and entry at break.

Entry at open



As shown in the image above, we can enter with the close of the engulfing candle or with the open of the following candle after the engulfing candle. The time difference between the two options is normally a matter of seconds.

Entry at break

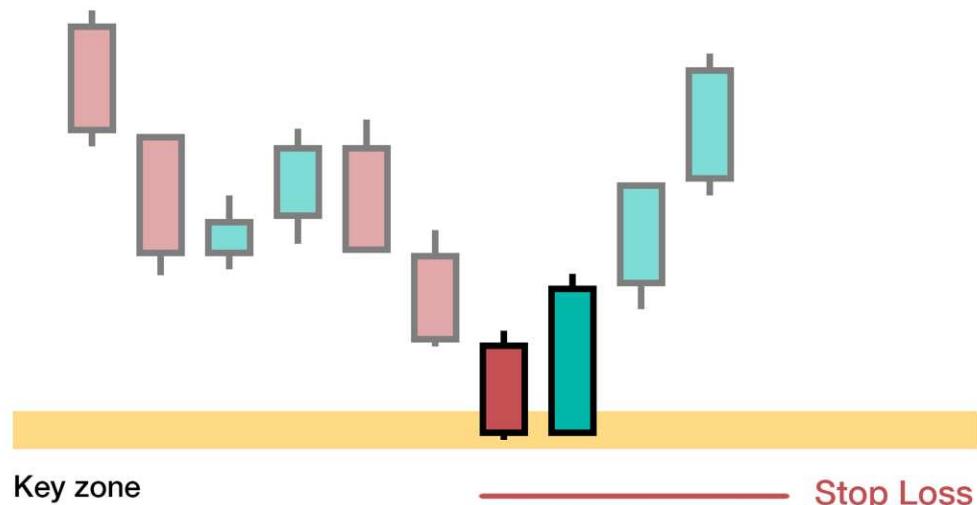


As shown in the image above, we can enter with the break of the total range high of the engulfing candle. This would give us an additional confirmation. The problem of such entry is that it doesn't happen with the open or the close of the candle, and therefore would need to be monitored more closely. A great way is to use a buy stop order for this technique. The order would be placed about 1 pip above the total range high of the engulfing candle and will be automatically executed if the price reaches this level.

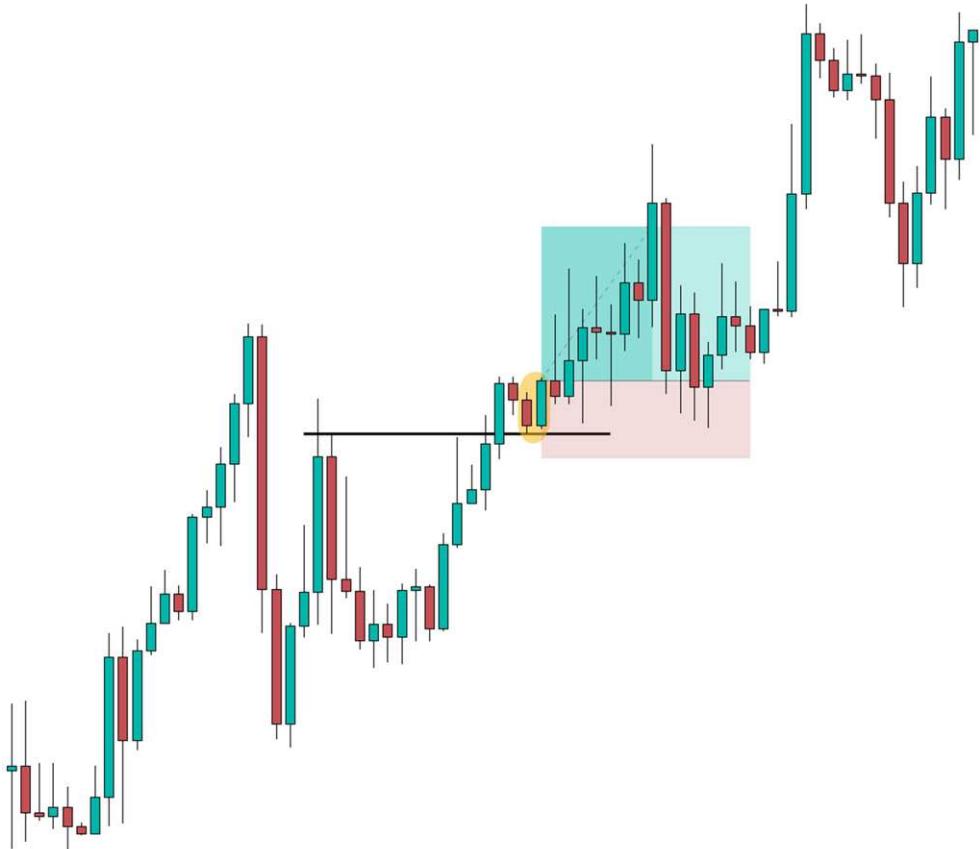
STOP LOSS PLACEMENT

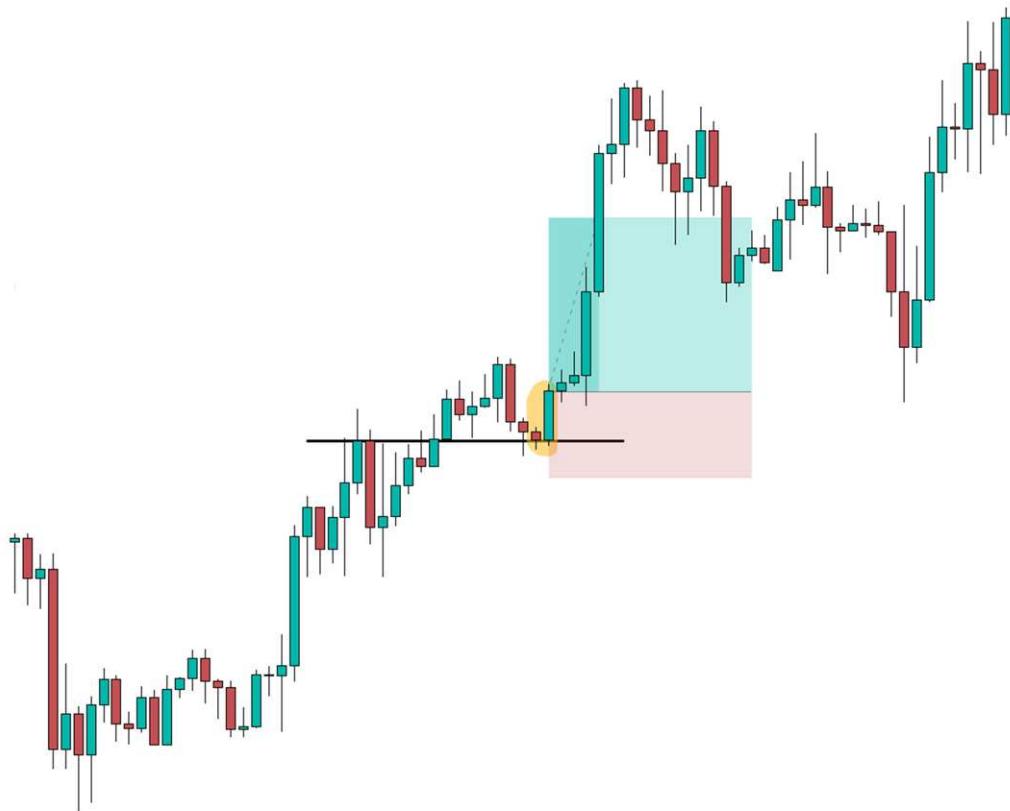
As always, the stop loss order should be placed at the nearest logical area with a bit of room to give the price some flexibility. It should be at a place when the price hits this price level, you definitely want to be out of the trade since your trading idea is not valid anymore.

With the bullish engulfing candlestick pattern, the trade idea would not be valid anymore if the price moves lower than the low of the candlestick pattern. Therefore, we want to place our stop loss just below the total range low of both candles. There is no general pip amount we can use since currency pairs move differently. 5 pips would be a lot for some currency pairs, but a very small amount for others. A great rule of thumb is to leave a visible gap between the low of the candlestick pattern and the stop loss.



Let's take a look at some examples:

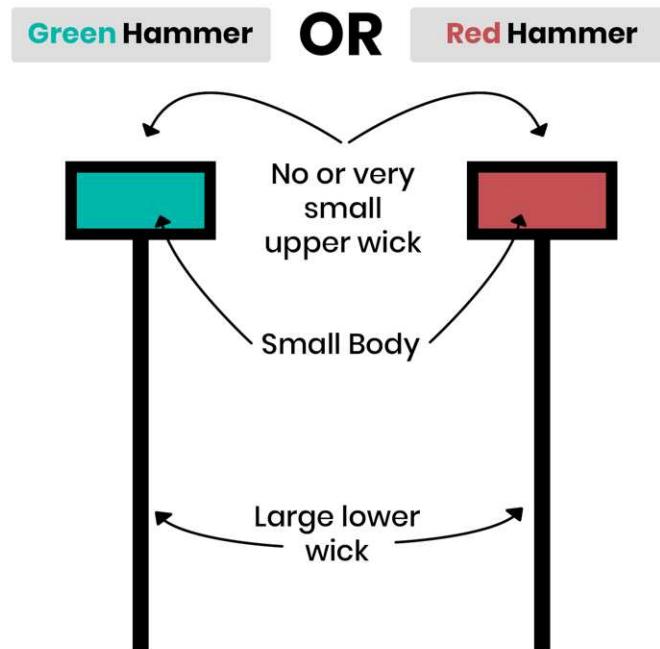




As you can see, a reversal pattern doesn't necessarily mean that price was in an overall downtrend, the reversal pattern occurs (in this case bullish engulfing), and then price reverses. A reversal pattern can also occur in a retracement to the downside within an overall upwards trend (which is absolutely a great way to approach looking for trade setups). Price doesn't need to be in a long-on-holding retracement, as we can see in the example just above, we had only 3 following bearish candles followed by a bullish engulfing candle to continue to the upside. This was combined with a minor resistance level that became support as the engulfing candle occurred.

⚠️ Important: Those examples are cherry-picked. This means I was intentionally looking for setups that worked out perfectly. Bullish engulfing candles, as well as any other pattern, does not work all the time and depend heavily on the larger context (filters, key levels, other indicators, or tools) which are combined with the candlesticks, as well as the overall trend of price. This being said, the bullish engulfing pattern counts as a **strong pattern!**

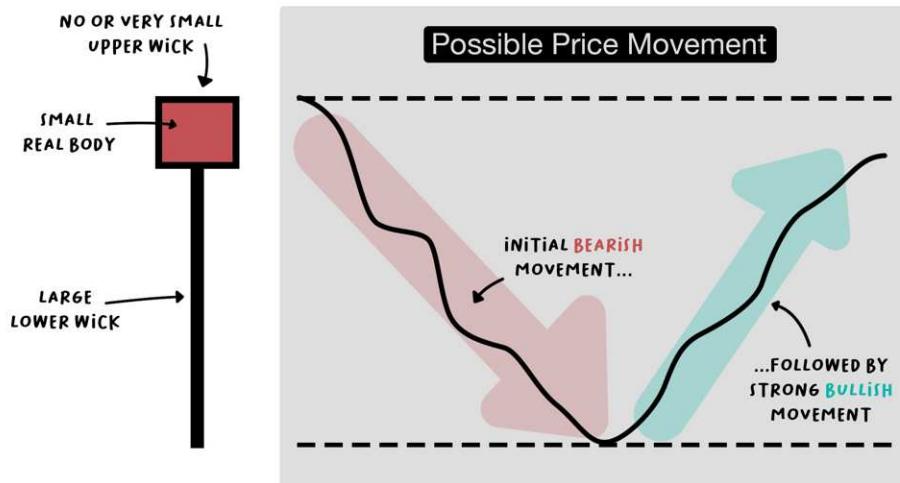
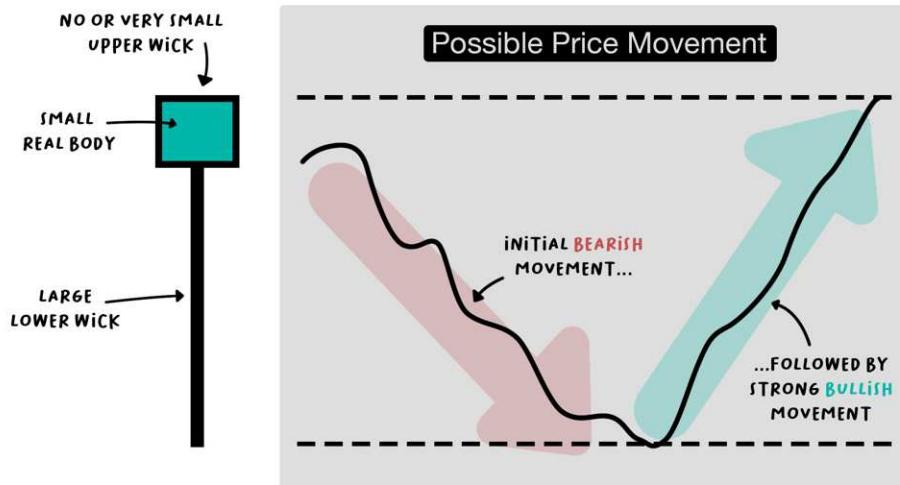
HAMMER



The Hammer candlestick pattern (also called bullish pinbar) is one of the most popular candlestick patterns. The Hammer is a bullish one-candle reversal pattern. This means it occurs at the bottom of a downtrend, and we expect the price to reverse to the upside, after the hammer candlestick, without going lower than the lower shadow. It is considered to be a strong reversal signal if used in the right context and with the right filters. The candlestick consists of a long lower shadow, which should be at least twice the size of the real body. The body can be „green“ or „red“. The candlestick should have no or only a very small upper shadow.

PATH OF THE PATTERN

This represents just one out of hundreds of possible price movements behind the pattern. This is just to make it a bit clearer to understand what actually happens.



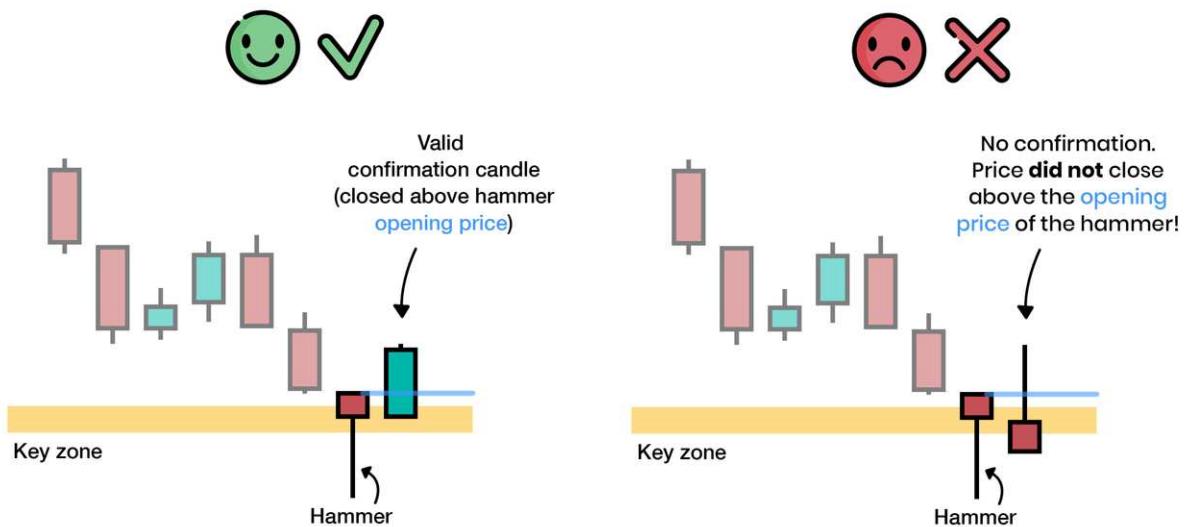
It occurs a very sharp sell-off where we have a strong bearish movement. This movement will quickly be counterattacked by an even stronger bullish movement and price reverses into the area of the opening price.

CONFIRMATION CANDLE

As with most candlestick patterns, we want to see some sort of confirmation or validation of the pattern, if the confirmation is not within the pattern itself. Since the hammer is a single candlestick pattern, we need to have further confirmation or validation.

„Red“ Hammer

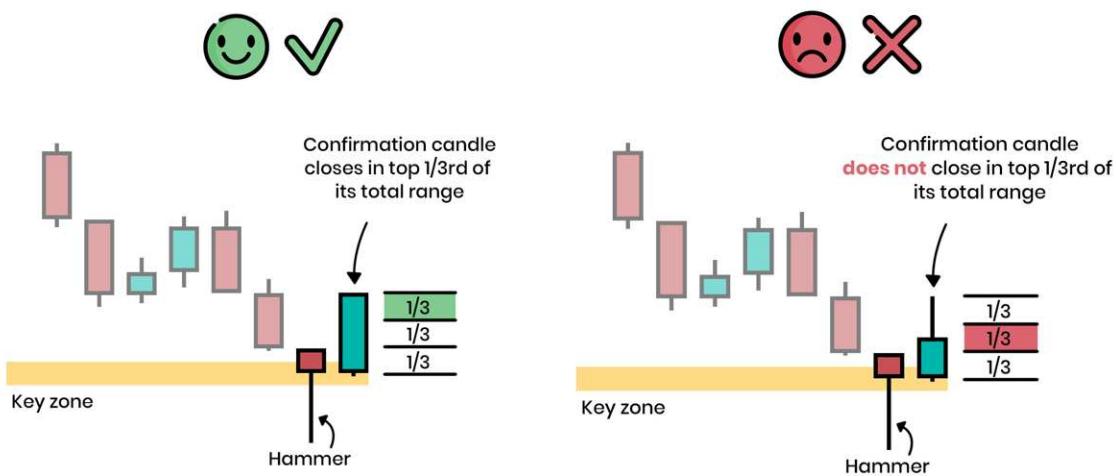
When the price closes lower than the opening price of the hammer candlestick, it is a red candlestick and we will have to see the following confirmation in order to see it as a valid pattern.



Here we can compare a successful confirmation of the hammer to the left, and an unsuccessful confirmation of the hammer to the right. For confirmation, the following candlestick after the shooting star is key. If the following candlestick closes bullish above the real body of the hammer, we can see the pattern to be valid. It is important to wait for the close to truly validate this. If the following candlestick, after the hammer, is bearish (or bullish) and does not close above the real body of the shooting star, the candlestick pattern can be seen as not valid.

QUALITY OF CONFIRMATION

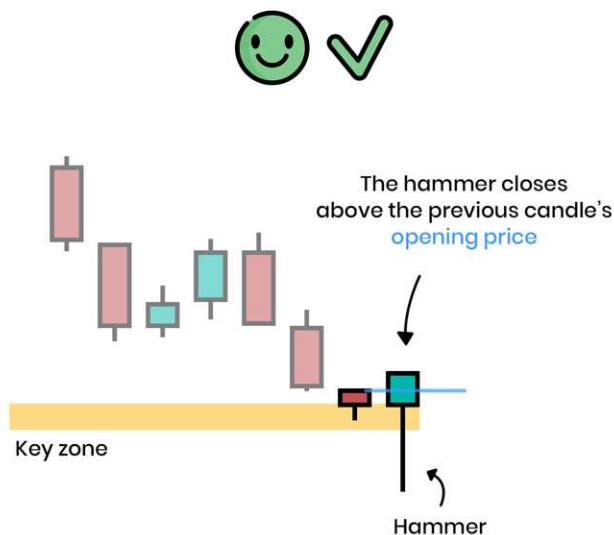
The valid bullish confirmation candle, which follows the hammer, can also be differentiated. What we want is that the bullish confirmation candle to close in the last 1/3rd or better, in the last 1/4th of its total range.



As we can see on the left side, the confirmation candle closes in the last 1/4th of its total range. Don't worry, you don't have to measure it. This just shows generally how the confirmation candlestick should look like. The reason behind it is that we want to see a strong bullish movement, after the hammer. This is the case when the confirmation candlestick closes in the last 1/3rd or 1/4th of its total range. On the right side, we can see a rather weak confirmation candle. Price has moved all the way up, to come back down half-way. This does not show us a strong bullish movement.

„Green“ Hammer

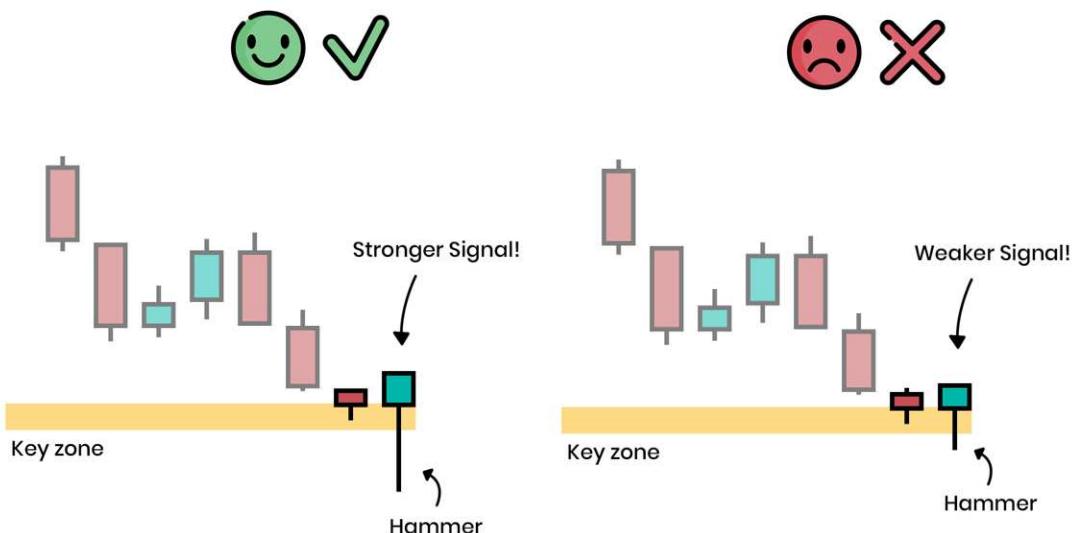
When the price closes above the opening price of the hammer candlestick, it is a green candlestick and we will have to see the following confirmation in order to see it as a valid pattern.



The only time a hammer can validate or confirm itself is when a „green“ hammer candlestick closes above the previous candlestick. For a strong entry signal, it is important that the hammer occurs at the very bottom of the trend. It does happen that it will follow another bullish candle, but this would be a rather weak signal, and therefore I will not even discuss it further.

SIZE OF THE HAMMER

A hammer signal can be stronger or weaker depending on the relative size of the candlestick compared to the previous candles.

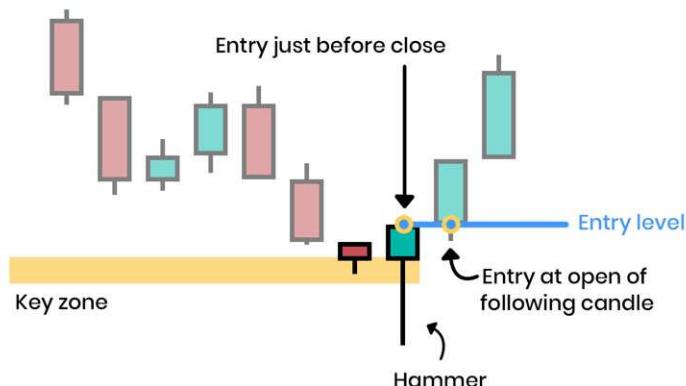


On the left side ,we see a large hammer candlestick that is multiple larger than the previous candlesticks. This is considered to be a stronger reversal signal because the price has been rejected and bounced back up all the way from its low point. The larger the movement back up is, the stronger the signal. On the right side, we see a weaker signal. Price didn't move as low and didn't need to move a long distance to come back up again. This refers to a weaker signal and price rejection. However, this doesn't mean we have to completely ignore a weaker signal. We just need to watch out, that the hammer candlestick has a decent size.

ENTRY METHODS

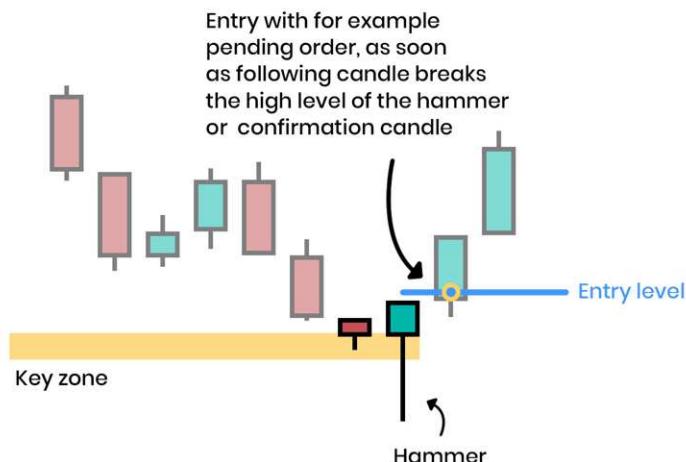
We have two main techniques, how to enter a hammer pattern. Entry at open, and entry at break.

Entry at open



As shown in the image above, we can enter with the close of the confirmation candle or with the open of the following candle after the confirmation candle. The time difference between the two options is normally a matter of seconds.

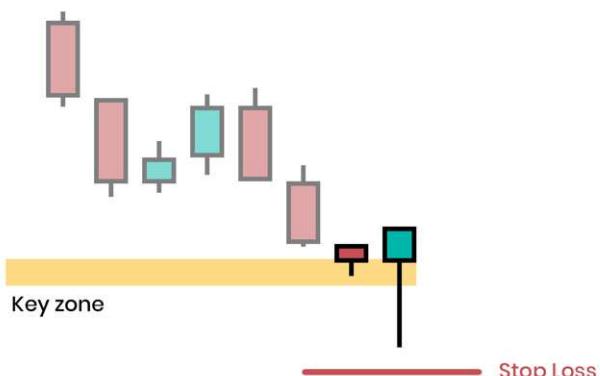
Entry at break



As shown in the image above, we can enter with the break of the total range high of the confirmation candle. This would give us an additional confirmation. The problem of such entry is that it doesn't happen with the open or the close of the candle, and therefore would need to be monitored more closely. A great way is to use a buy stop order for this technique. The order would be placed about 1 pip above the total range high of the confirmation candle and will be automatically executed if the price reaches this level.

STOP LOSS PLACEMENT

As always, the stop loss order should be placed at the nearest logical area with a bit of room to give the price some flexibility. It should be at a place when the price hits this price level, you definitely want to be out of the trade since your trading idea is not valid anymore. With the hammer candlestick the trade idea would not be valid anymore if the price moves lower than the low of the lower shadow. Therefore, we want to place our stop loss just below the low of the lower wick. There is no general pip amount we can use since currency pairs move differently. 5 pips would be a lot for some currency pairs, but a very small amount for others. A great rule of thumb is to leave a visible gap between the low of the hammer and our stop loss.



Let's check out some examples:



Weaker signal working out

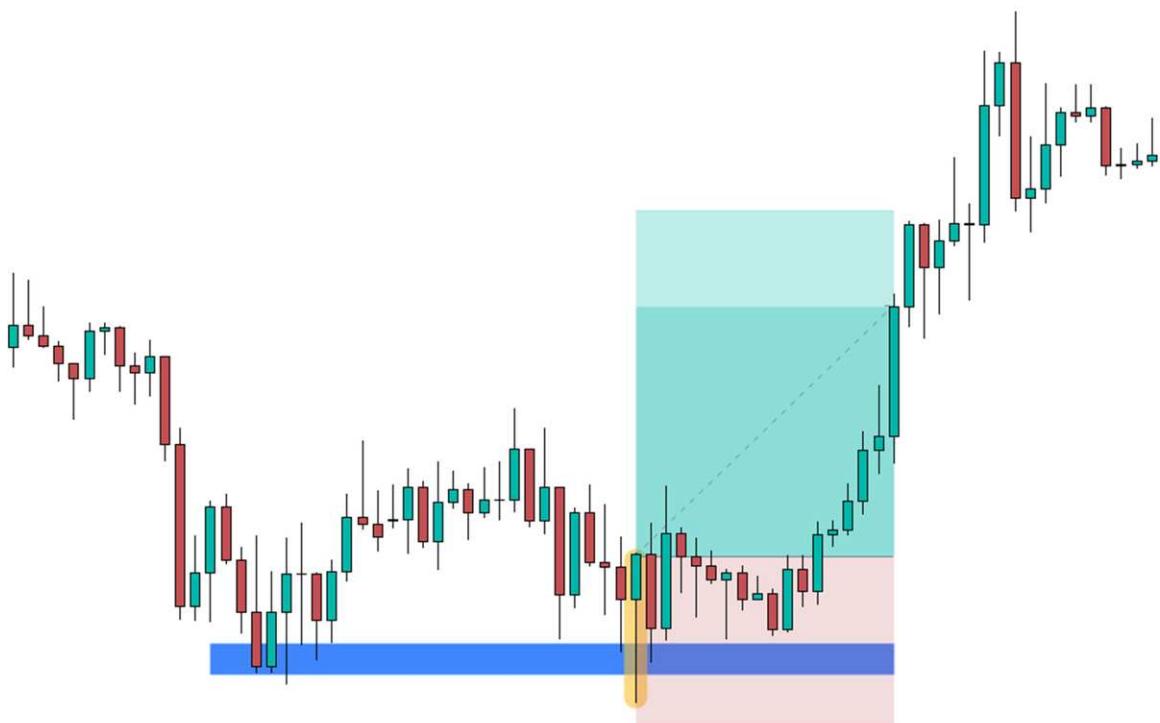
Depending on the trader, this trade would have been filtered out based on the weak signal from the hammer candle itself as well as the confirmation candle but showcases that even weak signals might work out, even though they are considered to have less quality. It happens and only should change something in your approach if you feel like the mentioned filters do not add value to the setups, based on your experience from looking at many hammer candlestick setups.



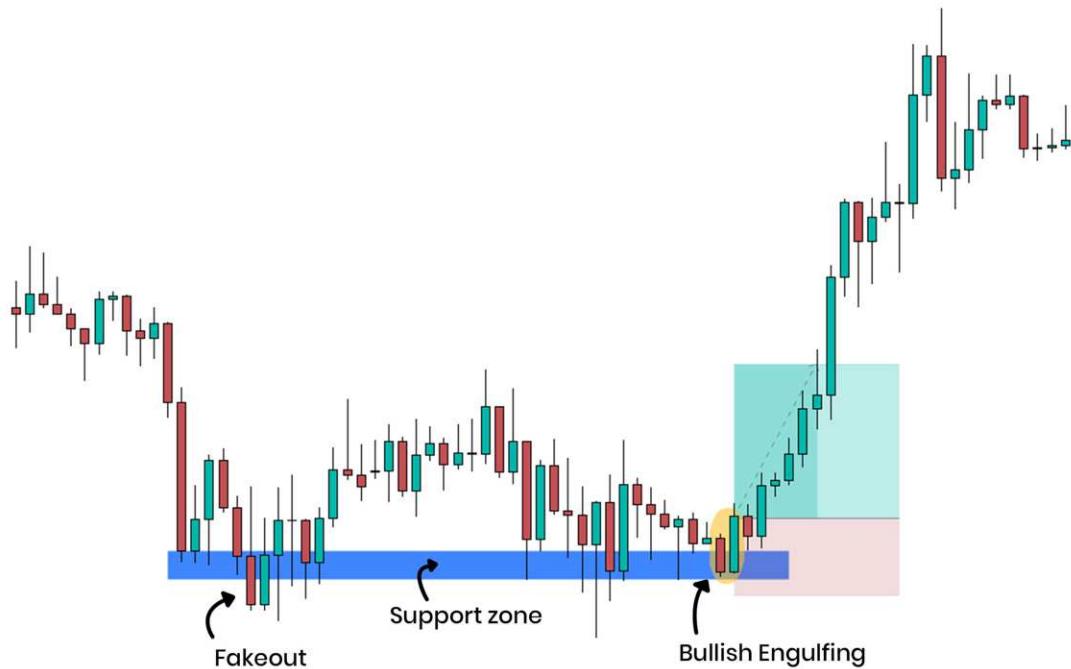
„Green“ Hammer candlestick + confirmation candle



The following example could be debatable if the highlighted candle is still considered to be a hammer or not. That's where it depends on the individual view of the trader. We see a wick rejection of the support area but price pushed quite a bit to the upside within the time period created a larger body. If we are already on the topic of subjective, the example down below also includes a bullish engulfing.



Just to show you that technical analysis is subjective, which needs to be trained and developed through experience, the chart above could be also seen the following way, which perfectly integrates some of the already learned material:

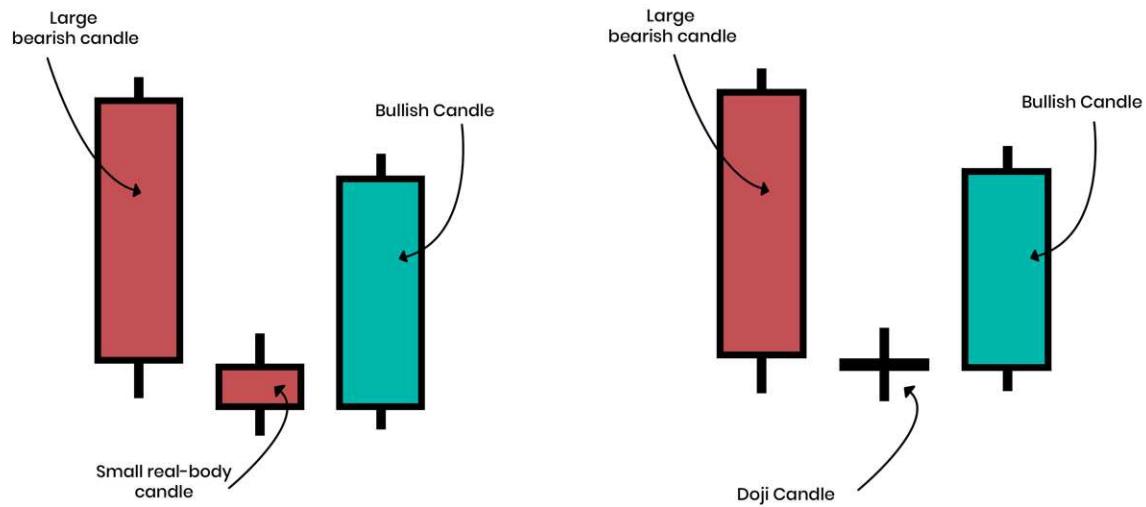


To sum it up, both ways are fine. Both analyses worked out at the end and it really comes down to how the individual trader sees the market. Every trader has to develop that „view“ itself through for example going through historical data and drawing support and resistance levels to create setups.

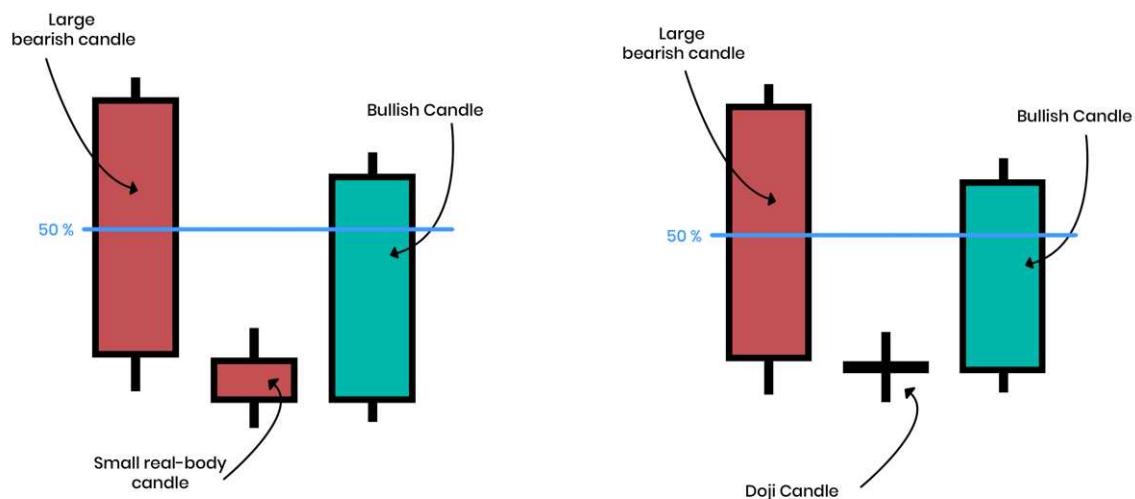
The hammer candlestick itself (with confirmation), is seen to be a **strong signal** if used as always with other confluences.

If you wonder about the take profit placement. In every example, I simply used a 1:2 risk-reward ratio to keep things simple.

MORNING STAR

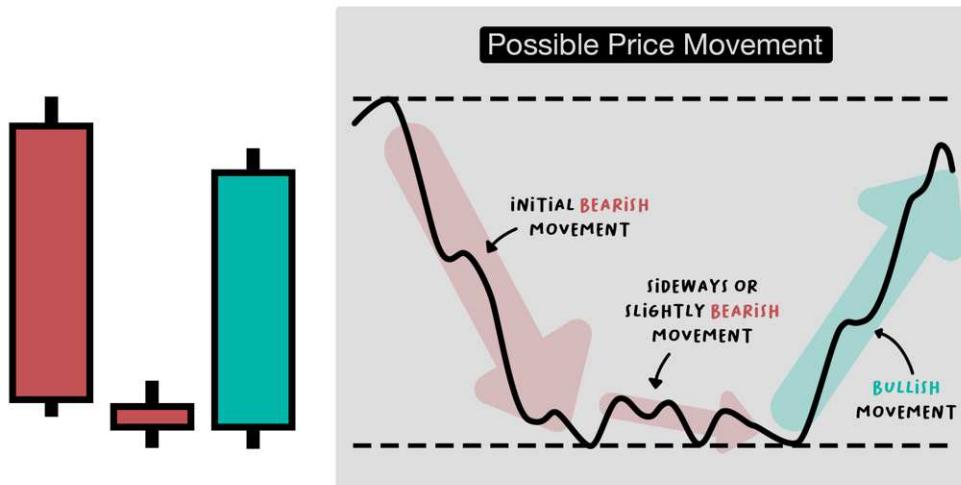


The morning star is a three candlestick pattern and is another strong reversal pattern. The pattern occurs at the bottom of a downtrend and indicates a possible reversal to the upside. The pattern itself consists of a relatively large bearish candle, followed by a small neutral candle in form of a Doji or spinning top (but with a small real body AND small wicks), followed by a strong bullish candlestick which closes above the middle of the real body of the first bearish candlestick. The second candle, if not completely neutral with any real body, should be bearish as shown in the picture above. The third candle should, at least, close past the halfway point of the first candle's real body as shown below:



PATH OF THE PATTERN

This represents just one out of hundreds of possible price movements behind the pattern. This is just to make it a bit clearer to understand what actually happens.

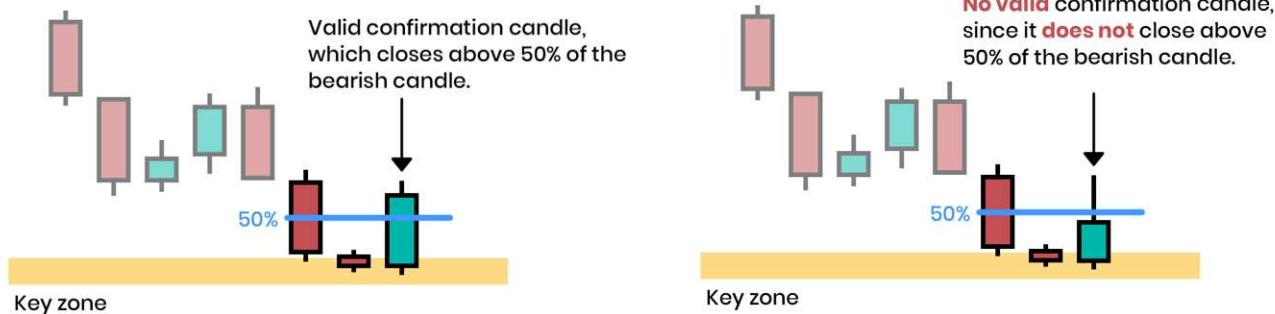
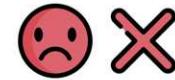


After the bearish candle, buying and selling interest is in balance and the market is neutral. This would be especially interesting within a key level. After the struggle between buyers and sellers, the buyers finally get the over hand and push price back up.

CONFIRMATION CANDLE

As with most candlestick patterns, we want to see some sort of confirmation or validation of the pattern, if the confirmation is not within the pattern itself. With the morning star candlestick pattern, we have the confirmation candle within the pattern. The confirmation candle is the third candlestick (bullish candlestick).

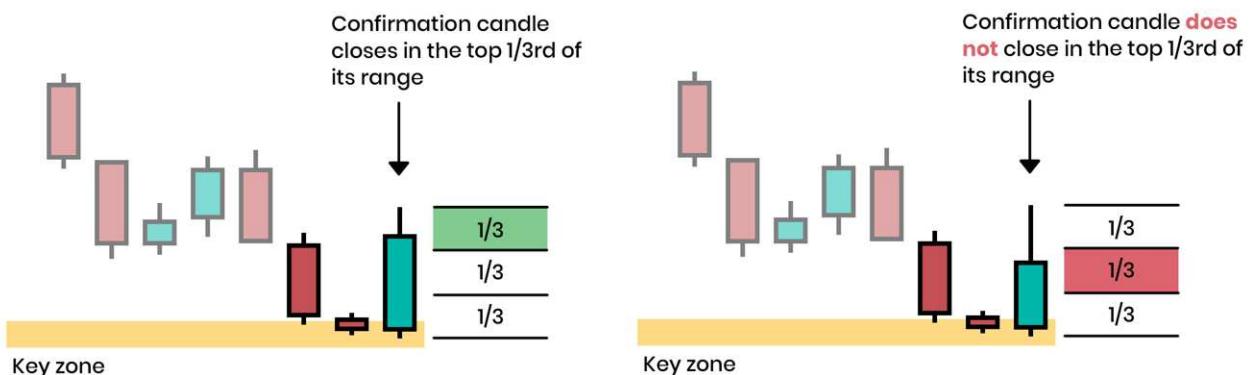
Let's compare a successful close of the confirmation candle vs. an unsuccessful close of the confirmation candle, which results in an invalid morning star candlestick pattern.



On the left side, we can see that the third candle closes above the middle of the first candle's real body. This signals a strong bullish move after the market has been neutral during the second candlestick of the pattern. On the right side, we can see that the third candlestick has not closed above the middle of the first candle's real body. This signals a weak bullish movement and would not validate the candlestick pattern.

QUALITY OF CONFIRMATION

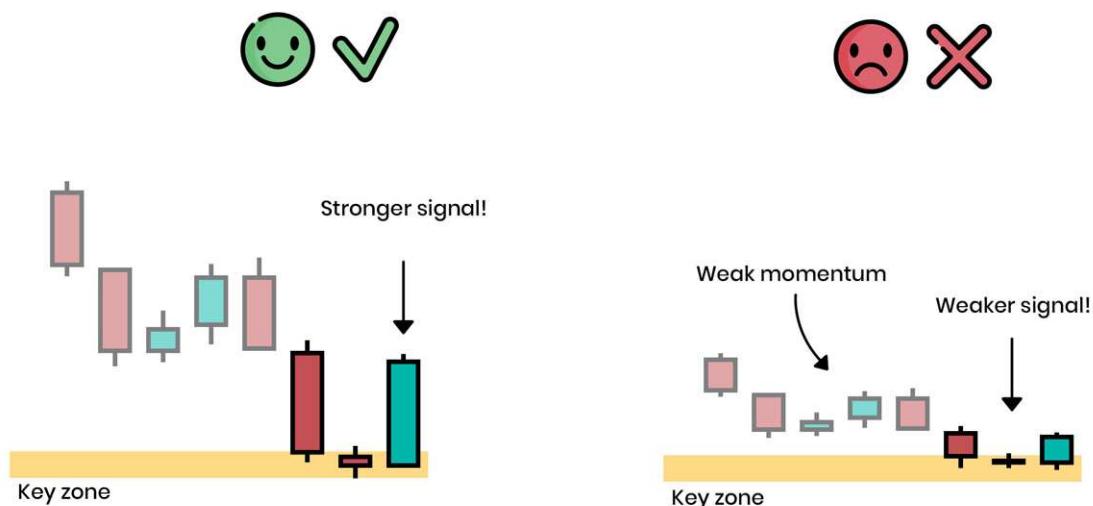
You know it already. The valid bullish confirmation candle, which is the third candle within the pattern, can also be differentiated. What we want is that the bullish confirmation candle closes in the last 1/3rd or better, in the last 1/4th of its total range.



As we can see on the left side, the confirmation candle closes in the last 1/4th of its total range. The reason behind it is that we want to see a strong bullish movement, after the neutral candlestick. This is the case when the confirmation candlestick closes in the last 1/3rd or 1/4th of its total range. On the right side, we can see a rather weak confirmation candle. Price has moved all the way up, to come back down half-way. This does not show us a strong bullish movement.

SIZE OF THE MORNING STAR

Within this pattern, we do not really have to go into the size of the candles, since they will be larger candles anyway. But of course, the same rules count for the pattern as well, the larger the first and the third candles are, the stronger the signal.

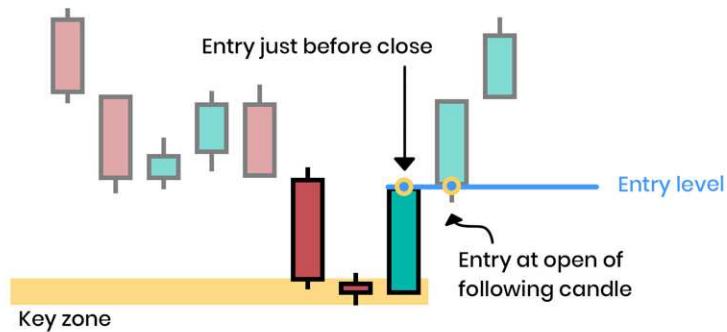


As always, we want to avoid really small candlesticks within the pattern. The right scenario should be avoided. I personally would rate this scenario as quite rare as well.

ENTRY METHODS

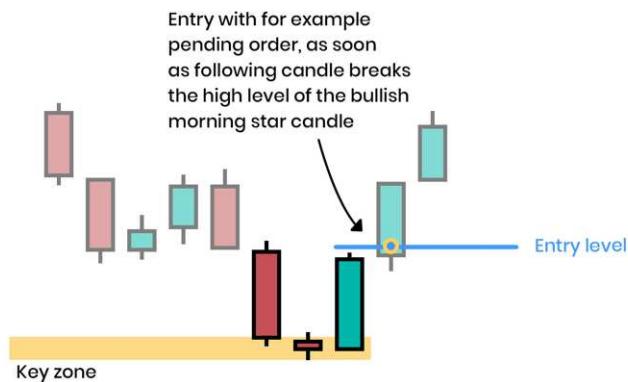
As always, we have two main techniques, how to enter a morning star pattern. Entry at open, and entry at break.

Entry at open



As shown in the image above, we can enter with the close of the third candle (bullish candle) or with the open of the following candle after the bullish candle. The time difference between the two options is normally a matter of seconds.

Entry at break

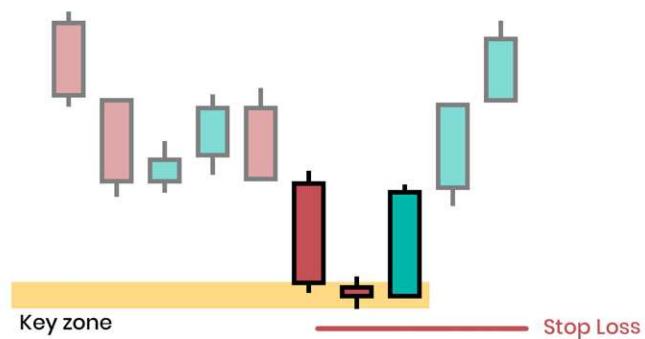


As shown in the image above, we can enter with the break of the total range high of the third candle within the pattern. This would give us an additional confirmation. The problem of such entry is that it doesn't happen with the open or the close of the candle, and therefore would need to be monitored more closely. A great way is to use a buy stop order for this technique. The order would be placed about 1 pip above the total range high of the confirmation candle and will be automatically executed if the price reaches this level.

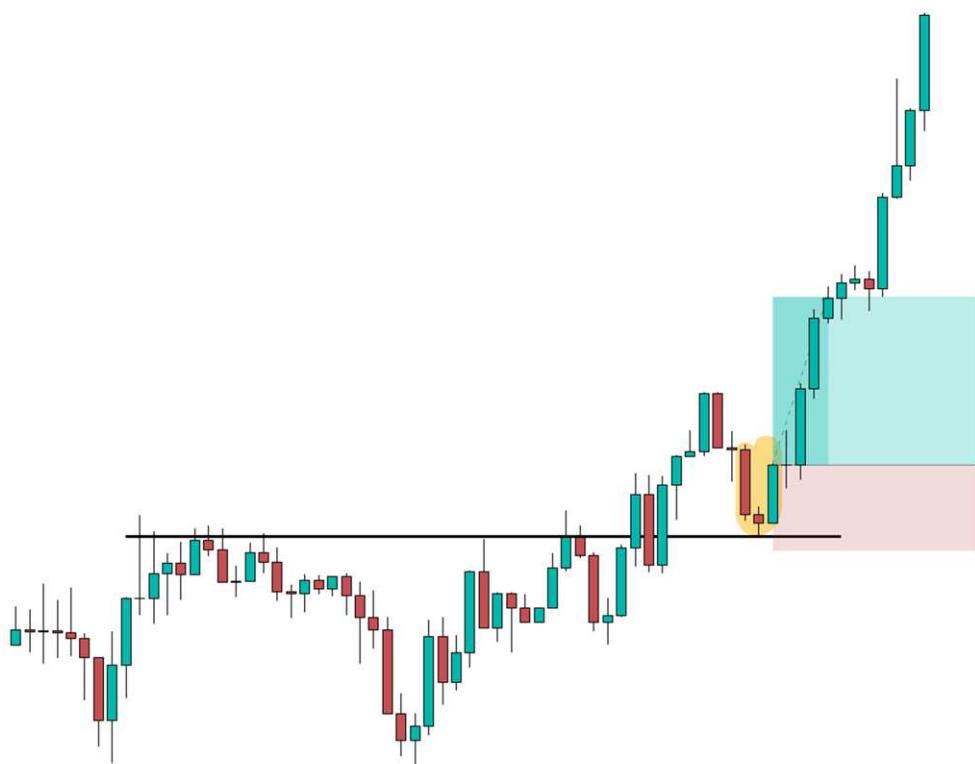
STOP LOSS PLACEMENT

As always, the stop loss order should be placed at the nearest logical area with a bit of room to give the price some flexibility. It should be at a place when the price hits this price level, you definitely want to be out of the trade since your trading idea is not valid anymore.

With the morning star candlestick pattern, the trade idea would not be valid anymore if the price moves lower than the total range low of the three candlesticks the pattern consists of. Therefore, we want to place our stop loss just below the total range low of the 3 candlesticks. You know it by now, a great rule of thumb is to leave a visible gap between the total range low and our stop loss.



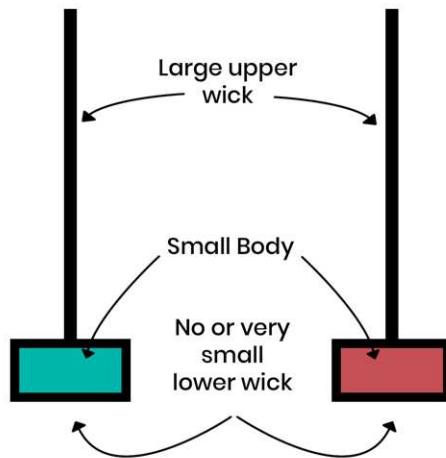
Let's check out some examples



Do you know what's funny? The whole bullish movement from the example above started even earlier than the period shown, and also started with a morning star. I wanted to show you this since this morning star occurred in the middle of nowhere (far away from any key levels). Even though the example below looks like a fantastic trade setup, it was not, since there was no other indication than the candlestick pattern that the bearish trend is about to end. Entering a trade based on candlesticks pattern only is not really recommended or only for very very experienced traders that can also read the overall sentiment of the market.



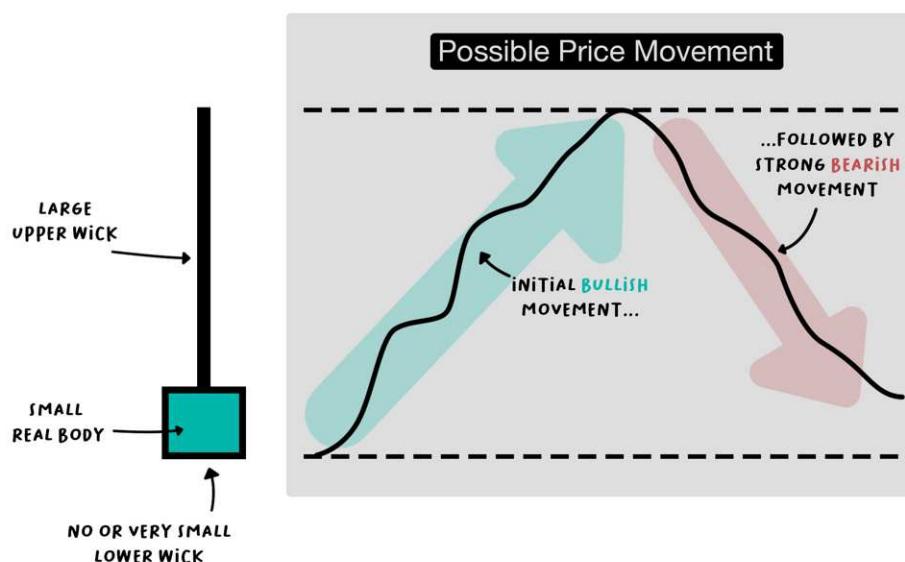
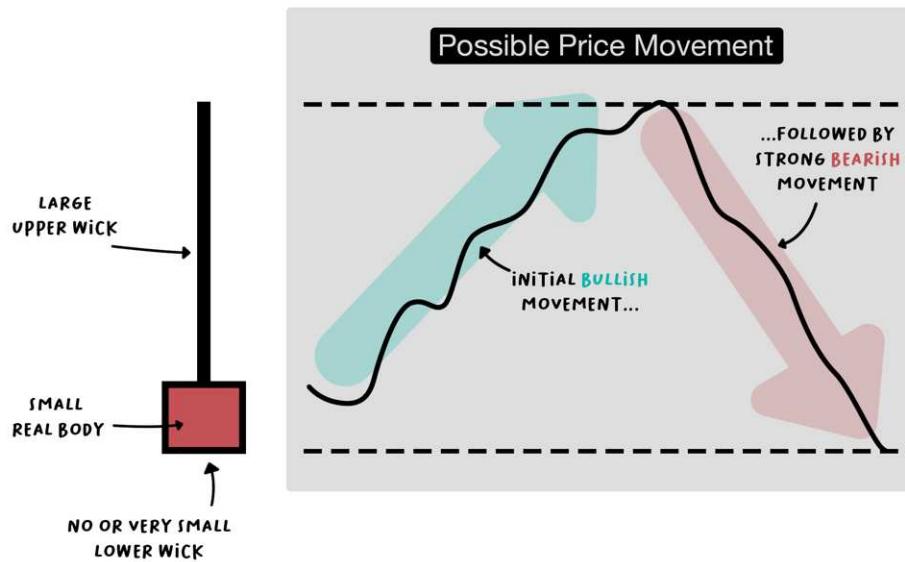
INVERTED HAMMER



The inverted hammer candlestick pattern is a one candlestick pattern and counts as a weak bullish reversal pattern. It appears at the bottom of a downtrend and signals a possible reversal to the upside. The inverted hammer candle shot has a small real body, an upper shadow that is about 2x the size of the real body and has no or only a very small lower shadow. The real body can either be „green“ or „red“, which means the inverted hammer can either be a bullish or bearish candle. The candle itself signals, as we already learned, a rather weak bullish price move. Therefore we really need great confirmation (for the bullish as for the bearish version) in order to take it even seriously. This pattern is not the opposite of the already covered hammer, even though it looks like it. The opposite of the hammer is the shooting star, which we will cover in the chapter „bearish candlesticks“. Often new traders confuse the inverted hammer with the shooting star. Stand alone, the candle is exactly the same, but the context in which they occur is completely different as we will find out.

PATH OF THE PATTERN

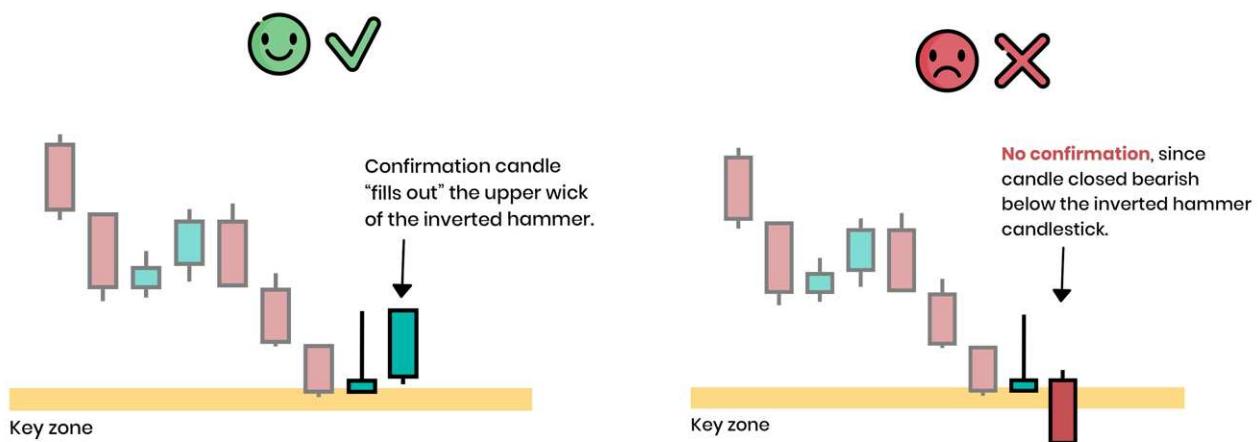
This represents just one out of hundreds of possible price movements behind the pattern. This is just to make it a bit clearer to understand what actually happens.



A strong bullish move is happening which pushes price heavily to the upside, just to get counterattacked by a stronger selling interest, which moves prices back down. While the normal view on it would be that buying interest lost during the period of the candlestick, the fact that it happened is getting bigger weight in this scenario. The pattern suggests that it might happen again, and buyers could try again to push the price higher. As mentioned, it is a weaker signal!

CONFIRMATION CANDLE

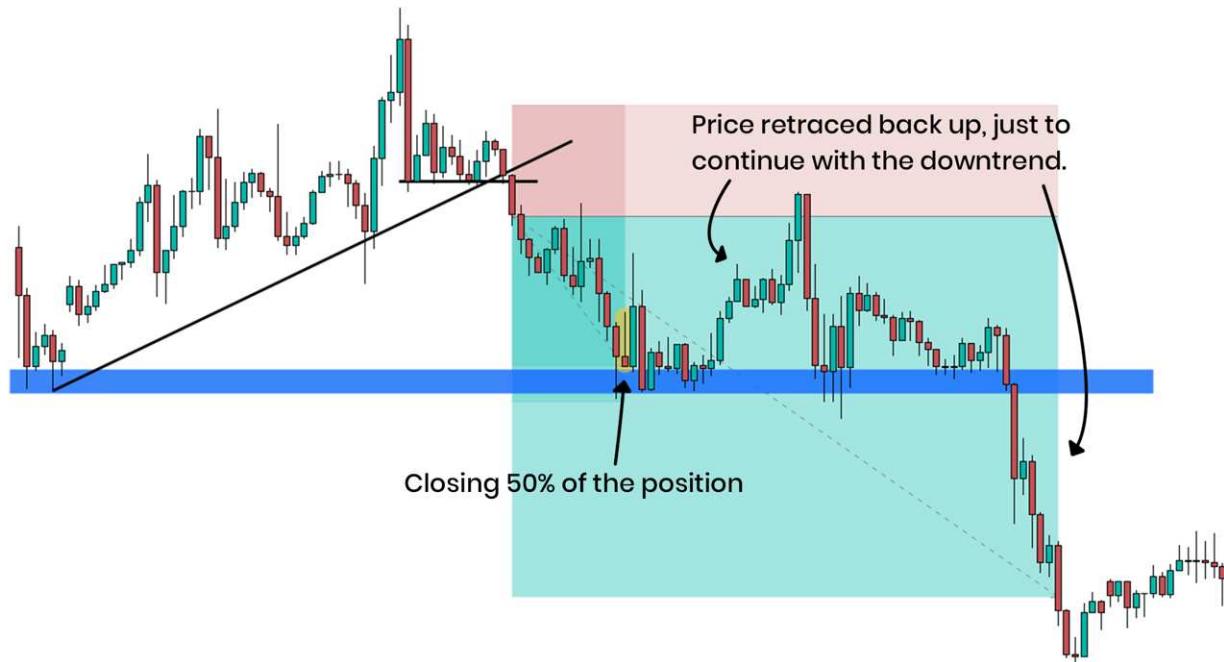
As with most candlestick patterns, we want to see some sort of confirmation or validation of the pattern, if the confirmation is not within the pattern itself. With the inverted hammer, we definitely need a great confirmation given the fact that the inverted hammer itself is already a weak bullish candle.



As we can see on the left side, the following confirmation candle needs to close in the area of the high of the upper shadow. In a sense, the price needs to „fill out“ the upper shadow to give us a confirmation. On the right side, you can see an often scenario following an inverted hammer candlestick, which is that price continues downwards. This is the reason why an inverted hammer stand-alone can never signal or represent a possible trading opportunity.

BETTER USAGE OF THE INVERTED HAMMER

The candle is not really the best entry signal. It is more often used as an early exit signal. This means when we already have a sell trade open, and our strategy allows us to be more flexible in our trade management, which means we manage or exit our trade based on the specific situation without 100% clear rules to follow, we could see the inverted hammer candlestick as a possible early exit signal and exit a portion of the whole position.

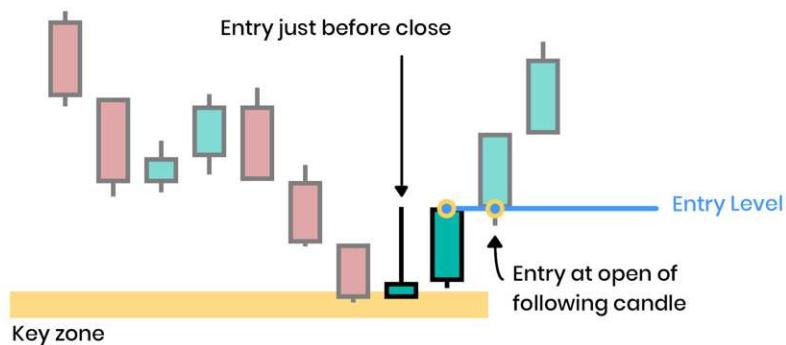


As we can see above, we entered previously to the inverted hammer candle with a sell position. The first inverted hammer occurs and we decide to close half of the position. Only half? Yes, the inverted hammer is still a very weak signal, doesn't matter in which direction we are trading. Since we use it as an early exit signal to close half of our position, we don't necessarily need to wait for confirmation. Price continues to retrace up a bit just to continue its trend downwards, and we catch this price movement with the other half-open position. This is an example of how the inverted hammer candlestick could be used as an early exit signal in combination with a more flexible strategy. If you are not really sure what a „more flexible“ strategy means, don't worry. We will discuss this later on when we talk about how we develop our own strategy and about different trading styles.

ENTRY METHODS

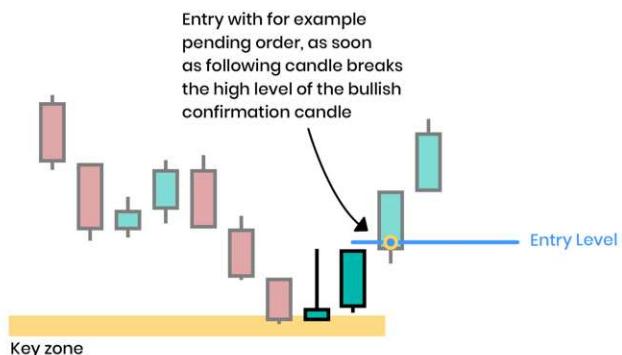
In the case of using the inverted hammer as entry signal, we have as always two main techniques, how to enter. Entry at open, and entry at break.

Entry at open



As shown in the image above, we can enter with the close of the confirmation candle or with the open of the following candle after the confirmation candle. The time difference between the two options is normally a matter of seconds.

Entry at break

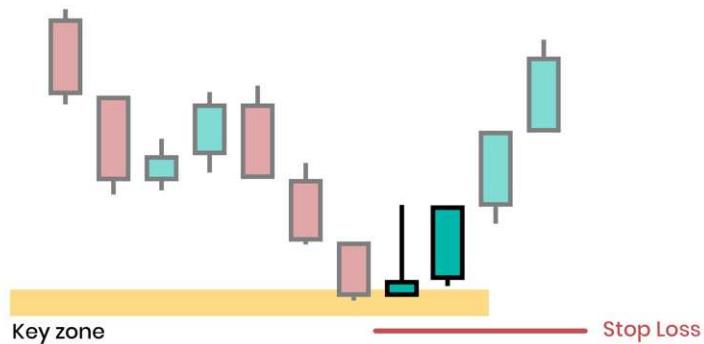


As shown in the image above, we can enter with the break of the total range high of the confirmation candle. This would give us an additional confirmation. The problem of such entry is that it doesn't happen with the open or the close of the candle, and therefore would need to be monitored more closely. A great way is to use a buy stop order for this technique. The order would be placed about 1 pip above the total range high of the confirmation candle and will be automatically executed if the price reaches this level.

STOP LOSS PLACEMENT

As always, the stop loss order should be placed at the nearest logical area with a bit of room to give the price some flexibility. It should be at a place when the price hits this price level, you definitely want to be out of the trade since your trading idea is not valid anymore.

With the inverted hammer candlestick pattern, the trade idea would not be valid anymore if the price moves lower than the total range low of the inverted hammer. Therefore, we want to place our stop loss just below the total range low of the candlestick. You know it by now, a great rule of thumb is to leave a visible gap between the total range low and our stop loss.

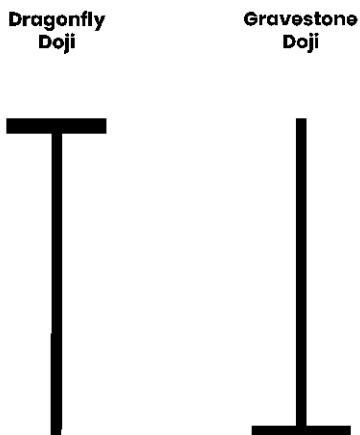


Let's check out one example. For the example below, I needed to check quite some time to find it. This already says something about the strength of the candlestick pattern. In the following example, the price needed 3 following candles to „fill out“ the upper wick of the inverted hammer, and therefore that's where the entry took place. I personally would have **never** entered this particular trade, but I'm here to show you objectively how the pattern would work if we used it as an entry signal. Therefore, here we go:



DRAGONFLY DOJI & GRAVESTONE DOJI

This is a special case and will be treated a bit differently than the other candlestick patterns. Depending on the location and context of the Doji's, it can be seen as a bullish or bearish signal and therefore will count as a bullish and bearish candlestick pattern.



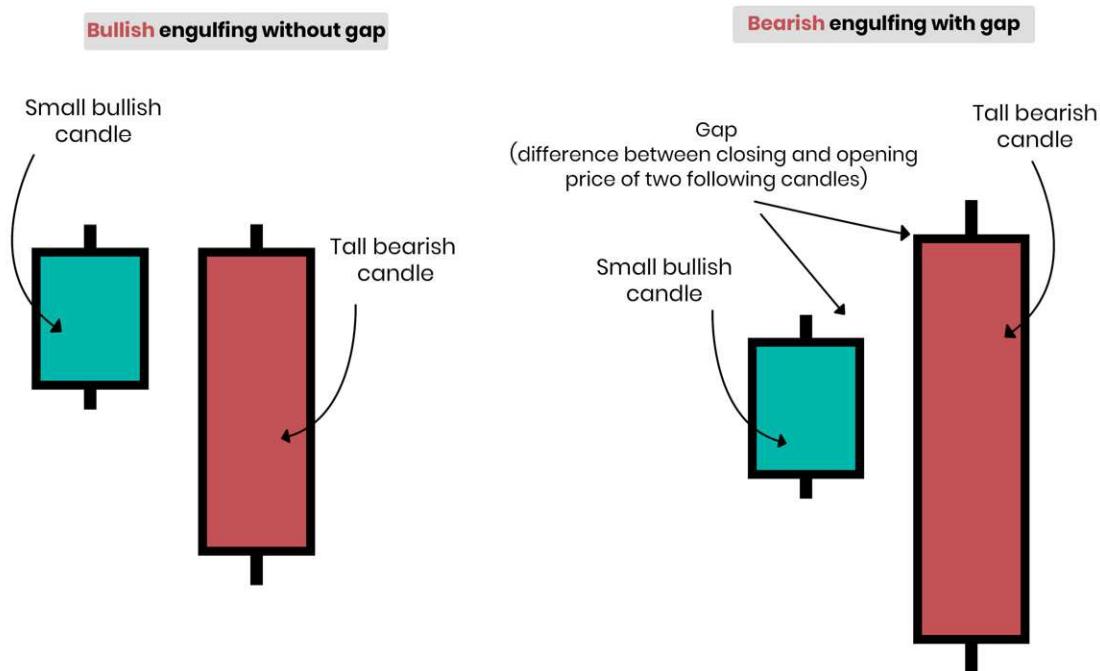
The Dragonfly Doji (left side) consists of a large lower shadow with no real body and no upper shadow. The Gravestone Doji (right side) consists of a large upper shadow with no real body and no lower shadow.

When we say no real body, a few pips between the open and close prices are allowed. But as soon as we get into 5+ pips between the open and the close, we can't really consider it a Doji candle anymore. Don't freak out about how you are supposed to know where exactly to draw the line. If it is not a Doji anymore, it counts as one of the candlestick patterns we just covered and can be treated the same.

A Dragonfly Doji that occurs after a downtrend signals a possible bullish reversal to the upside. In such case the Dragonfly Doji can be treated as a „red“ hammer candlestick pattern. This means we definitely need a bullish confirmation candle. All the rules we covered for the „red“ hammer candlestick pattern would count for the Dragonfly Doji in such context as well. Just note that the Dragonfly Doji in such a scenario is a weaker reversal signal than a hammer candlestick pattern. A Gravestone Doji that occurs after a downtrend signals a possible bullish reversal to the upside. In such case the Gravestone Doji can be treated as an inverted hammer candlestick pattern. This means, we definitely need a bullish confirmation candle. All the rules we covered for the inverted hammer candlestick pattern would count for the Gravestone Doji in such context as well. The same as for the Dragonfly Doji, the Gravestone Doji in such context is a weaker reversal signal.

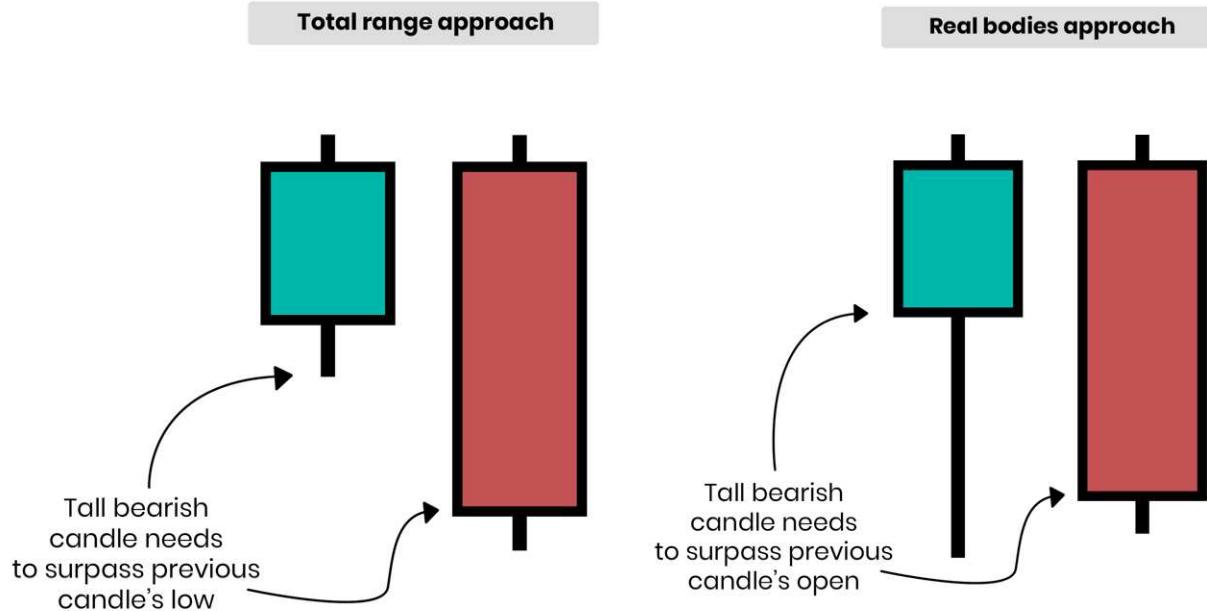
1.9.15.2. BEARISH CANDLESTICK PATTERNS

BEARISH ENGULFING



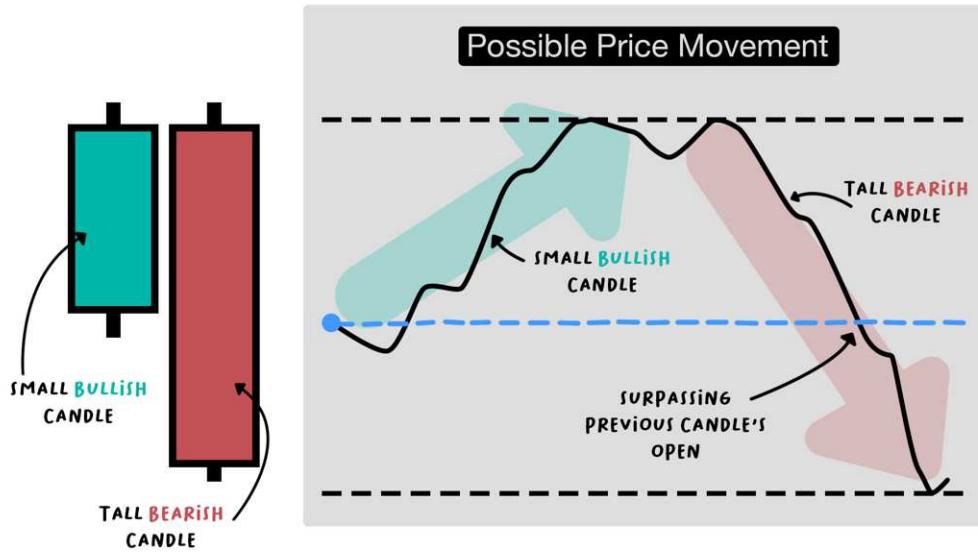
The engulfing pattern is probably one of the most occurring candlestick pattern and just the opposite of the bullish engulfing candlestick pattern. The bearish engulfing pattern is just a candlestick that opens at the same price or above the close of the previous candle (in cases of market gaps) and closes below the open of the previous candle. The bearish engulfing candlestick pattern is a **strong reversal pattern**, consists of 2 candles, and occurs at the top of an uptrend, indicating a possible reversal to the downside.

While some traders look at the real bodies only, some look at the total range of the candles. When looking at real bodies only, we want to see the engulfing candle closing above the open price of the previous candle. When looking at the total range of the candles, we want to see the engulfing candle closing above the total range of the previous candle.



PATH OF THE PATTERN

This represents just one out of hundreds of possible price movements behind the pattern. This is just to make it a bit clearer to understand what actually happens.

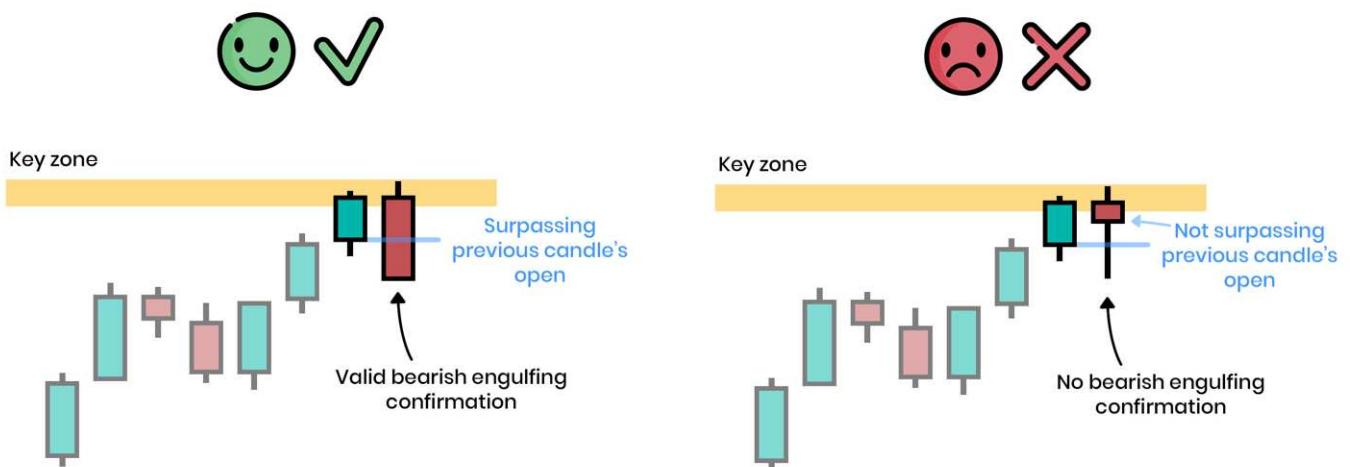


After the bullish candle, selling interest is increasing rapidly and pushes the price below the open price of the bullish candle. At the same time, buy positions could be covered (closed) and would infuse the bearish movement with fire even more.

CONFIRMATION CANDLE

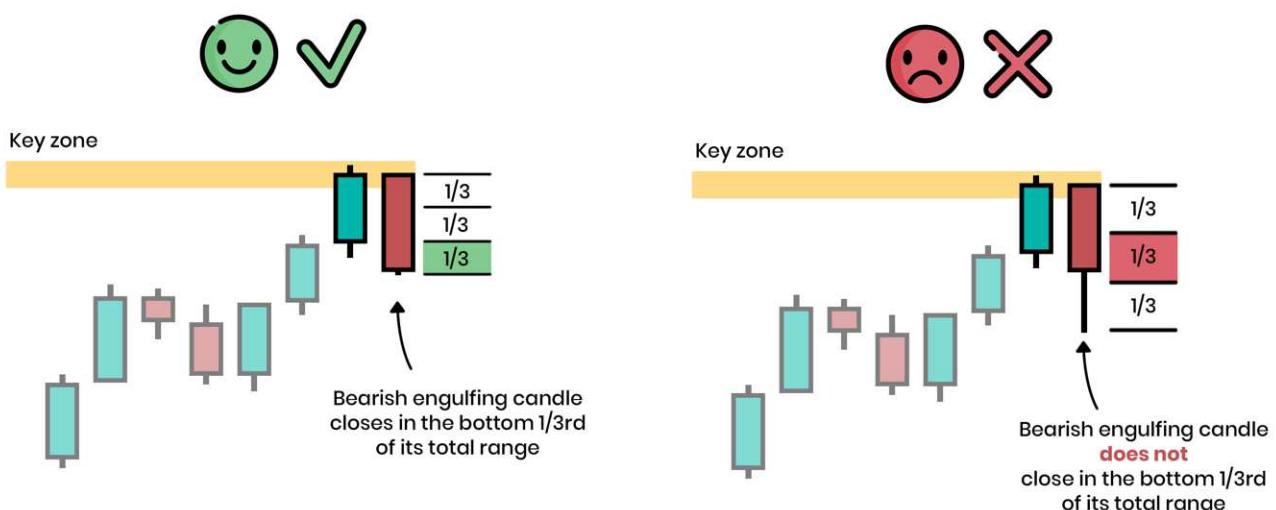
As with most candlestick patterns, we want to see some sort of confirmation or validation of the pattern, if the confirmation is not within the pattern itself. With the engulfing candlestick patterns, we have the confirmation candle within the pattern. The confirmation candle is the engulfing candle.

Let's compare a successful close of the confirmation candle vs. an unsuccessful close of the confirmation candle, which results in an invalid engulfing chart pattern.



QUALITY OF CONFIRMATION

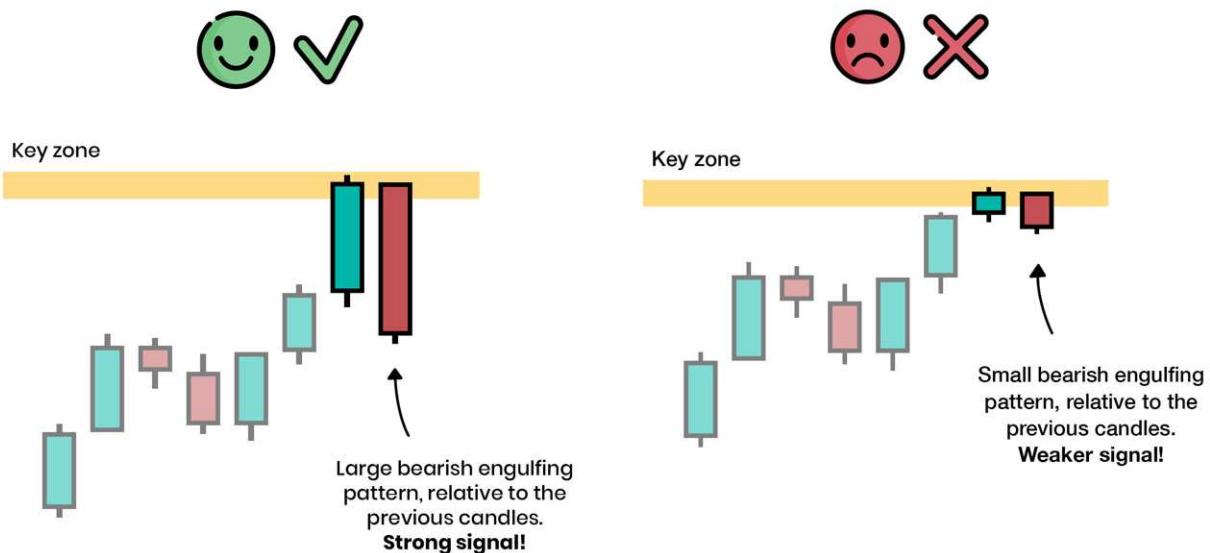
The bearish engulfing candle can also be differentiated. What we want is that the bearish engulfing candle to close in the last 1/3rd or better, in the last 1/4th of its total range.



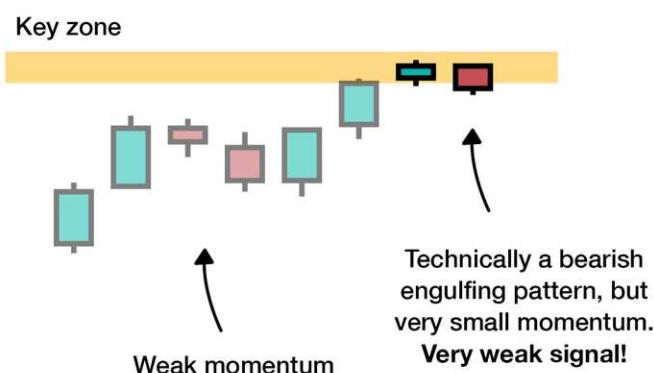
As we can see on the left side, the engulfing candle closes in the last 1/4th of its total range. Don't worry, you don't have to measure it. This just shows generally how the engulfing candlestick should look like. The reason behind it is that we want to see a strong bearish movement, which a close in the last 1/3rd or last 1/4th of the candle's total range represents. On the right side, we can see a rather weak engulfing candle. Price has moved all the way down, to come back up half-way. This does not show us a strong bearish movement.

SIZE OF THE ENGULFING CANDLE

A great comparison to make, to rate the strength of the reversal pattern, is to compare the relative size of the pattern (both candles) to the previous candles before.



The reason behind this is that larger candlesticks are more significant than smaller candlesticks since there is more momentum behind the moves. The comparison is made while looking at both candles of the pattern. While in general, a smaller candlestick pattern refers to a weaker reversal, it doesn't mean we have to completely filter them out. What we don't want is such scenarios:

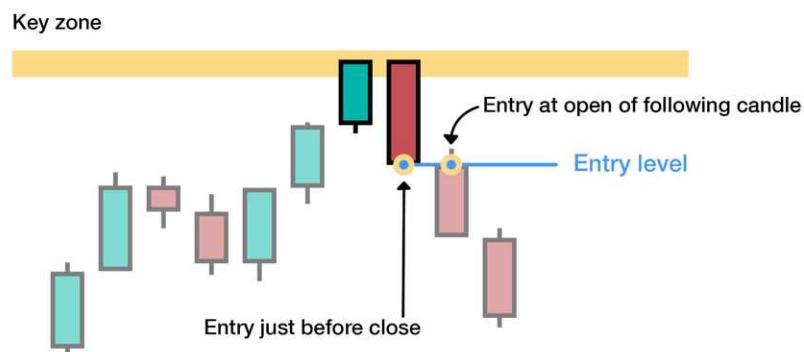


There is barely any momentum behind the pattern and is seen as a very weak price movement. Those scenarios should be definitely avoided.

ENTRY METHODS

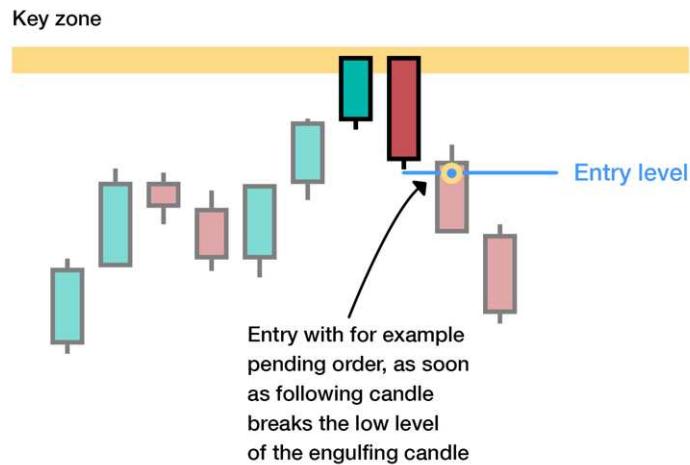
We have two main techniques, how to enter a bearish engulfing pattern. Entry at open, and entry at break.

Entry at open



As shown in the image above, we can enter with the close of the engulfing candle or with the open of the following candle after the engulfing candle. The time difference between the two options is normally a matter of seconds.

Entry at break



As shown in the image above, we can enter with the break of the total range low of the engulfing candle. This would give us an additional confirmation. The problem of such entry is that it doesn't happen with the open or the close of the candle, and therefore would need to be monitored more closely. A great way is to use a sell stop order for this technique. The order would be placed about 1 pip below the total range low of the engulfing candle and will be automatically executed if the price reaches this level.

STOP LOSS PLACEMENT

As always, the stop loss order should be placed at the nearest logical area with a bit of room to give the price some flexibility. It should be at a place when the price hits this price level, you definitely want to be out of the trade since your trading idea is not valid anymore.

With the bearish engulfing candlestick pattern, the trade idea would not be valid anymore if the price moves higher than the high of the candlestick pattern. Therefore, we want to place our stop loss just above the total range high of both candles. There is no general pip amount we can use, since currency pairs move differently. 5 pips would be a lot for some currency pairs, but a very small amount for others. A great rule of thumb is to leave a visible gap between the high of the candlestick pattern our stop loss.



Let's check out some examples:



In the following example we even have two following bearish engulfing patterns:

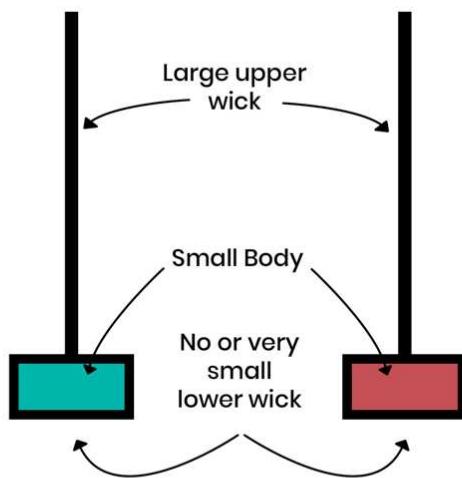


To change it up a bit, for the next example I will show you a bearish engulfing pattern that would have worked out perfectly, but through a spike of volatility the stop loss got triggered and we would have been out of the trade before the bearish continuation. Such scenarios happen, and there are actually more than the one stop loss placement we covered so far. If you want to give the price a bit more room to move and place your stop loss differently, we will cover this in the „exit techniques“ chapter.



SHOOTING STAR

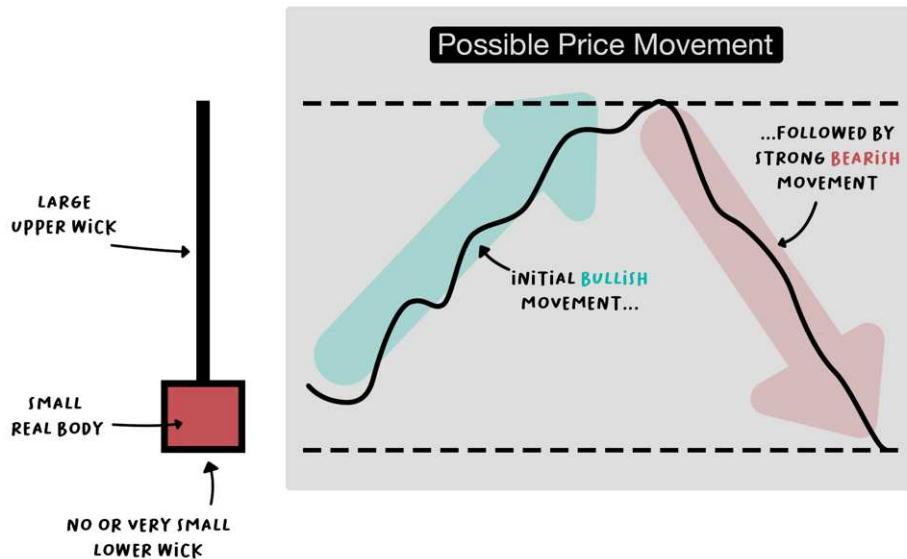
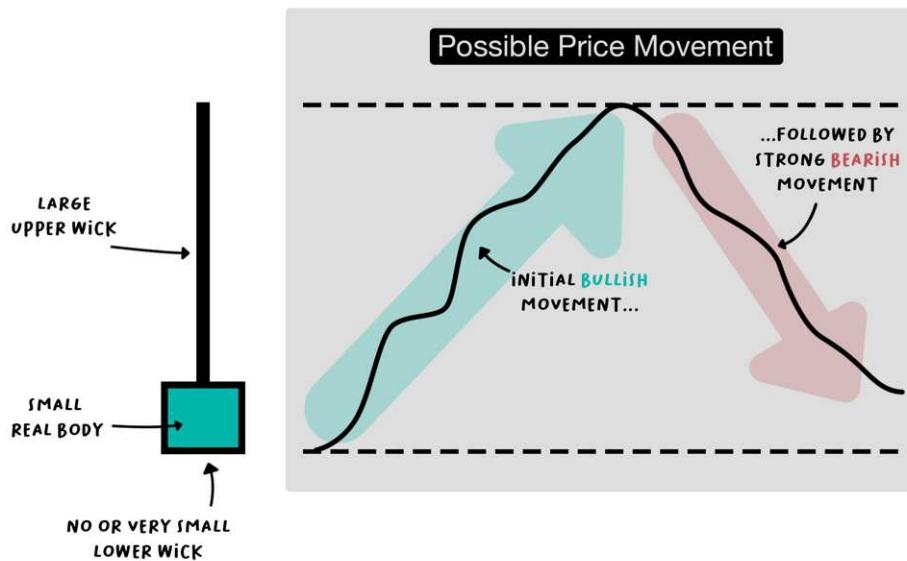
Green Shooting Star OR Red Shooting Star



The Shooting Star candlestick pattern (also called bearish pin bar) is one of the most popular candlestick patterns and is basically just the opposite of the hammer (bullish reversal candlestick pattern), which we already discussed. The Shooting Star is a bearish one-candle reversal pattern. This means it occurs at the top of an uptrend, and we expect the price to reverse to the downside, after the shooting star candlestick, without going higher than the upper shadow. It is considered to be a strong reversal signal if used in the right context and with the right filters. The candlestick consists of a long upper shadow, which should be at least twice the size of the real body. The body can be „green“ or „red“. The candlestick should have no or only a very small lower shadow.

PATH OF THE PATTERN

This represents just one out of hundreds of possible price movements behind the pattern. This is just to make it a bit clearer to understand what actually happens.



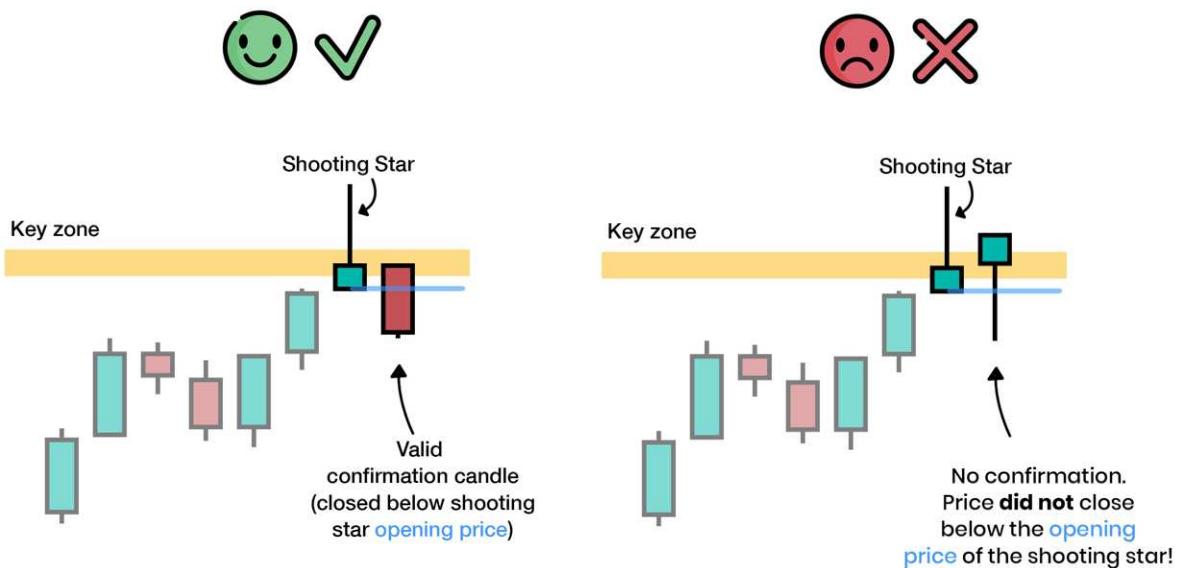
It occurs a very sharp push to the upside where we have a strong bullish movement. This movement will quickly be counterattacked by an even stronger bearish movement and price reverses in the area of the opening price.

CONFIRMATION CANDLE

As with most candlestick patterns, we want to see some sort of confirmation or validation of the pattern, if the confirmation is not within the pattern itself. Since the shooting star is a single candlestick pattern, we need to have further confirmation or validation.

„Green“ Shooting Star

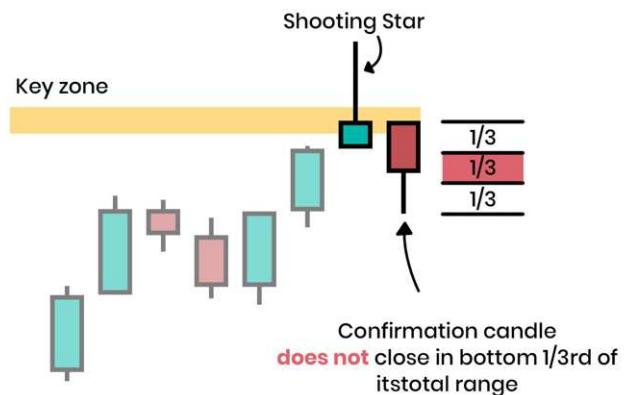
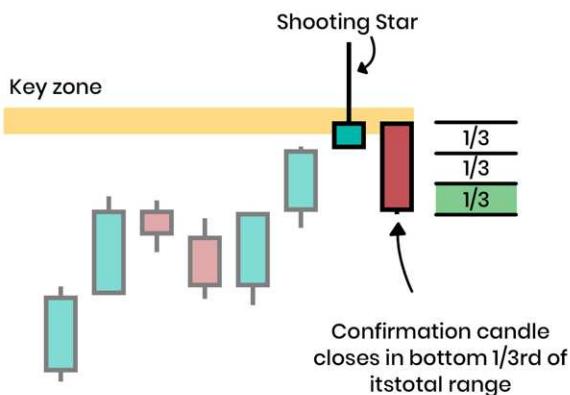
When the price closes higher than the opening price of the shooting star candlestick, it is a green candlestick and we will have to see the following confirmation in order to see it as a valid pattern.



Here we can compare a successful confirmation of the shooting star to the left, and an unsuccessful confirmation of the shooting star to the right. For confirmation, the following candlestick after the shooting star is key. If the following candlestick closes bearish below the real body of the shooting star, we can see the pattern to be valid. It is important to wait for the close to truly validate this. If the following candlestick, after the shooting star, is bullish (or bearish) and does not close beneath the real body of the shooting star, the candlestick pattern can be seen as not valid.

QUALITY OF CONFIRMATION

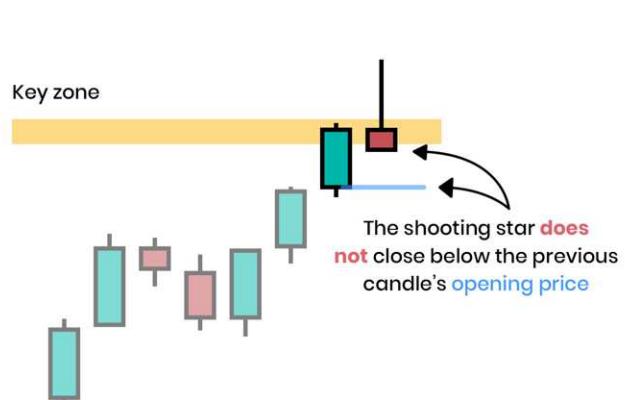
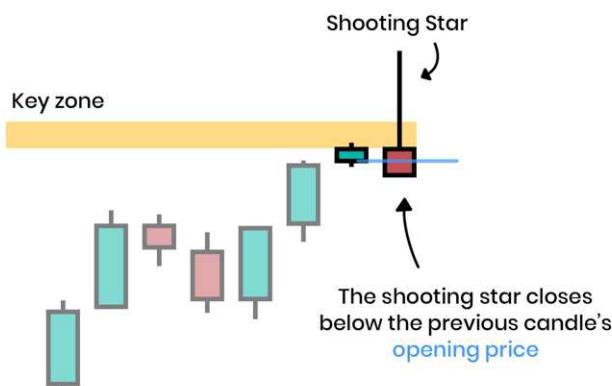
The valid bearish confirmation candle, which follows the shooting star, can also be differentiated. What we want is that the bearish confirmation candle closes in the last 1/3rd or better, in the last 1/4th of its total range.



As we can see on the left side, the confirmation candle closes in the last 1/4th of its total range. Don't worry, you don't have to measure it. This just shows generally how the confirmation candlestick should look like. The reason behind it is that we want to see a strong bearish movement, after the shooting star. This is the case when the confirmation candlestick closes in the last 1/3rd or 1/4th of its total range. On the right side, we can see a rather weak confirmation candle. Price has moved all the way down, to come back up halfway. This does not show us a strong bearish movement.

„Red“ Shooting Star

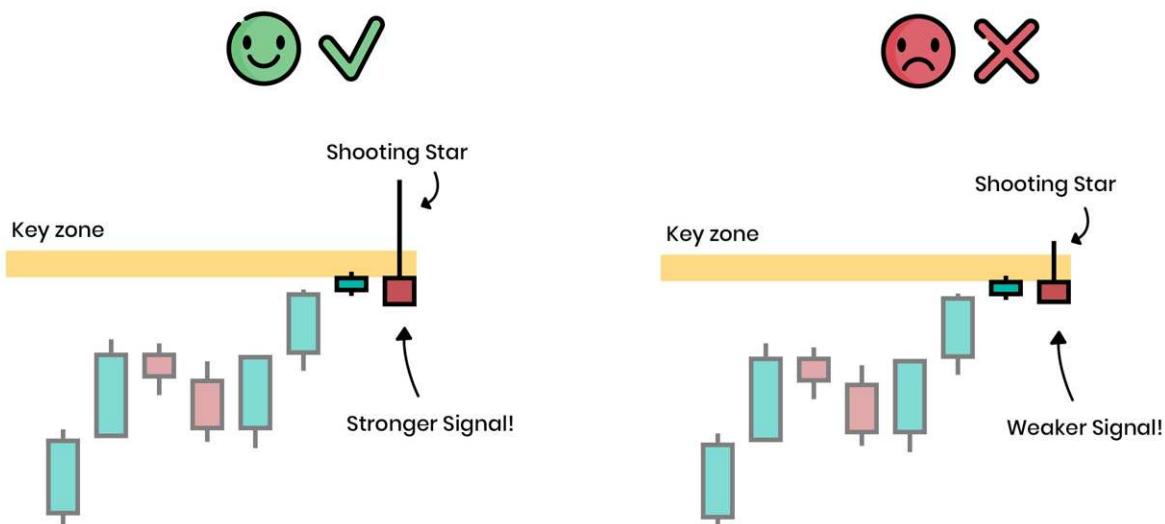
When the price closes below then the opening price of the shooting star candlestick, it is a red candlestick and we will have to see the following confirmation in order to see it as a valid pattern.



The only time a shooting star can validate or confirm itself is when a „red“ shooting star candlestick closes lower than the previous candlestick. For a strong entry signal, it is important that the shooting star occurs at the very top of the trend. It does happen that it will follow another bearish candle, but this would be a rather weak signal, and therefore I will not even discuss it further.

SIZE OF THE SHOOTING STAR

A shooting star signal can be stronger or weaker depending on the relative size of the shooting star compared to the previous candles.

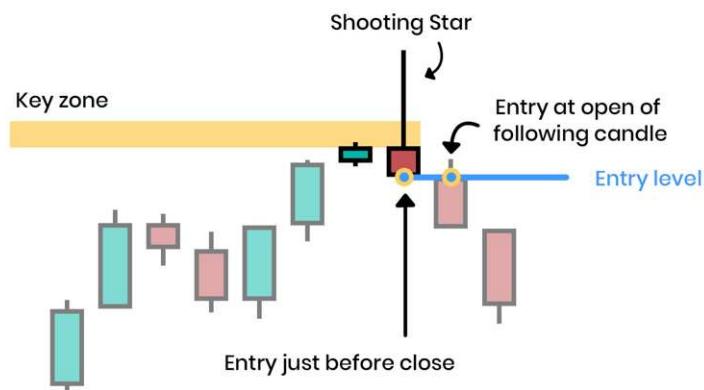


On the left side, we see a large shooting star candlestick that is multiple larger than the previous candlesticks. This is considered to be a stronger reversal signal because the price has been rejected and bounced back down all the way from its high point. The larger the movement back down is, the stronger the signal. On the right side, we see a weaker signal. Price didn't move as high and didn't need to move a long distance to come back down again. This refers to a weaker signal and price rejection. However, this doesn't mean we have to completely ignore a weaker signal. We just need to watch out, that the shooting star candlestick has a decent size.

ENTRY METHODS

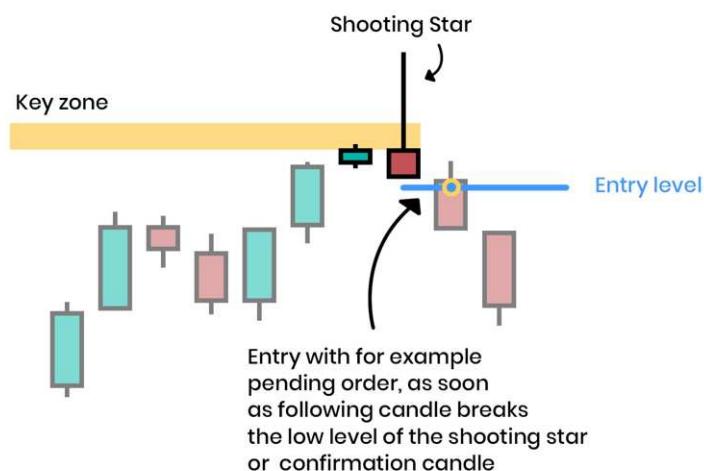
We have two main techniques, how to enter a shooting star pattern. Entry at open, and entry at break.

Entry at open



As shown in the image above, we can enter with the close of the confirmation candle or with the open of the following candle after the confirmation candle. The time difference between the two options is normally a matter of seconds.

Entry at break

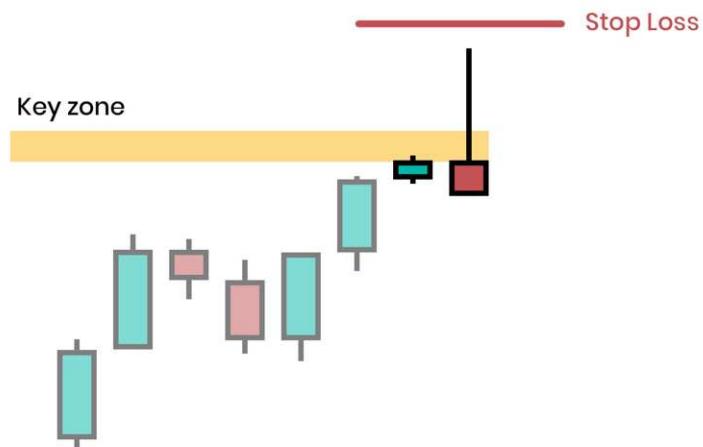


As shown in the image above, we can enter with the break of the total range low of the confirmation candle. This would give us an additional confirmation. The problem of such entry is that it doesn't happen with the open or the close of the candle, and therefore would need to be monitored more closely. A great way is to use a sell stop order for this technique. The order would be placed about 1 pip below the total range low of the confirmation candle and will be automatically executed if the price reaches this level.

STOP LOSS PLACEMENT

As always, the stop loss order should be placed at the nearest logical area with a bit of room to give the price some flexibility. It should be at a place when the price hits this price level, you definitely want to be out of the trade since your trading idea is not valid anymore.

With the shooting star candlestick, the trade idea would not be valid anymore if the price moves higher than the high of the upper shadow. Therefore, we want to place our stop loss just above the high of the upper wick. There is no general pip amount we can use since currency pairs move differently. 5 pips would be a lot for some currency pairs, but a very small amount for others. A great rule of thumb is to leave a visible gap between the high of the shooting star and our stop loss.



Let's check out some examples:

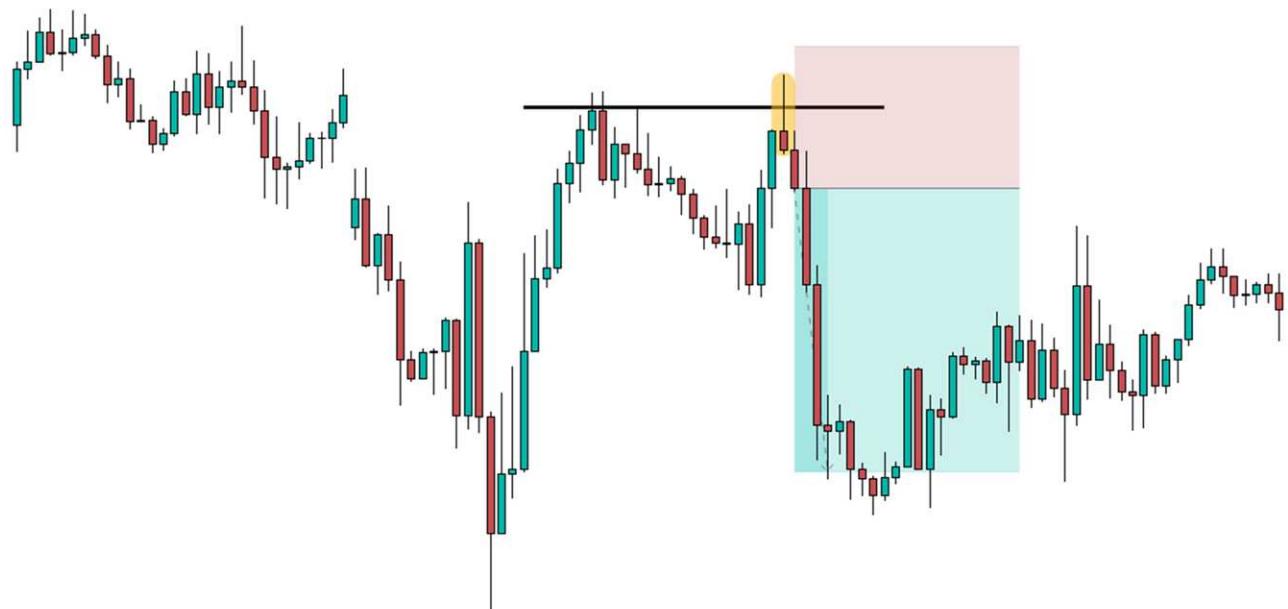
First of all, let us go through something even I struggled with in the beginning. As soon as I saw a shooting star, I thought it's a reversal sign. This can't be further from the truth. Candlestick patterns always need to check within the context and key levels need to be considered. We can't just depend on one single candlestick. Here an example of shooting stars within an up trending channel. There is no substantial setup here, we could have taken advantage of:



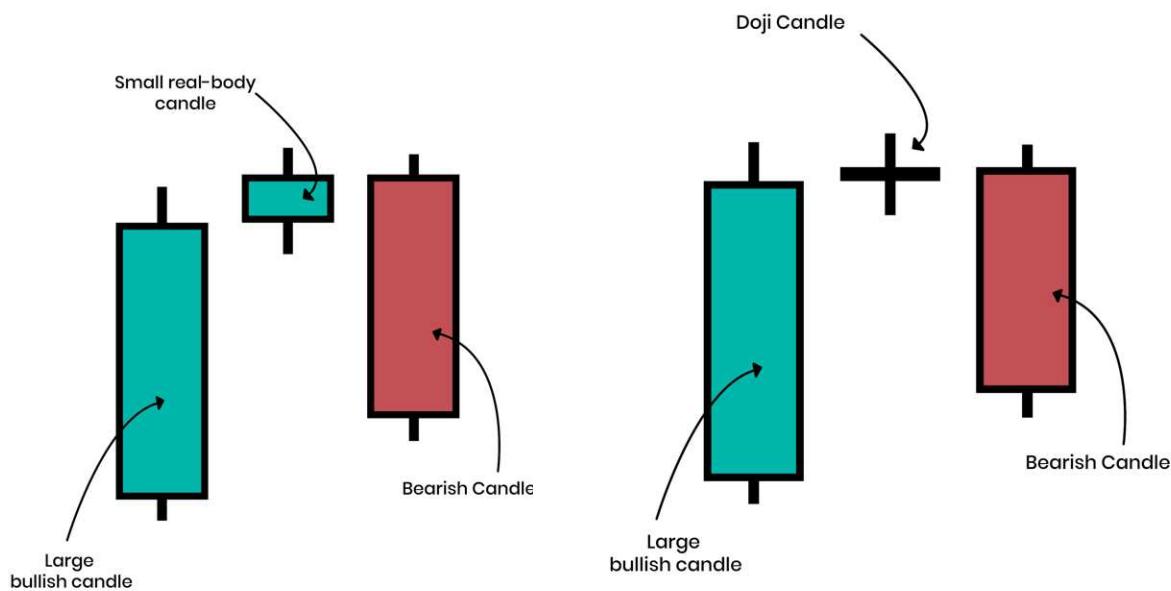
The next example is great for checking out why we have filters and confirmations in place. The first „red“ shooting star was built but did not close below the previous bullish candle, therefore no confirmation. The candle afterward turned out to be a „green“ shooting star, which was followed by another bullish candle closing above the real body of the „red“ shooting star, which canceled out the trade opportunity.



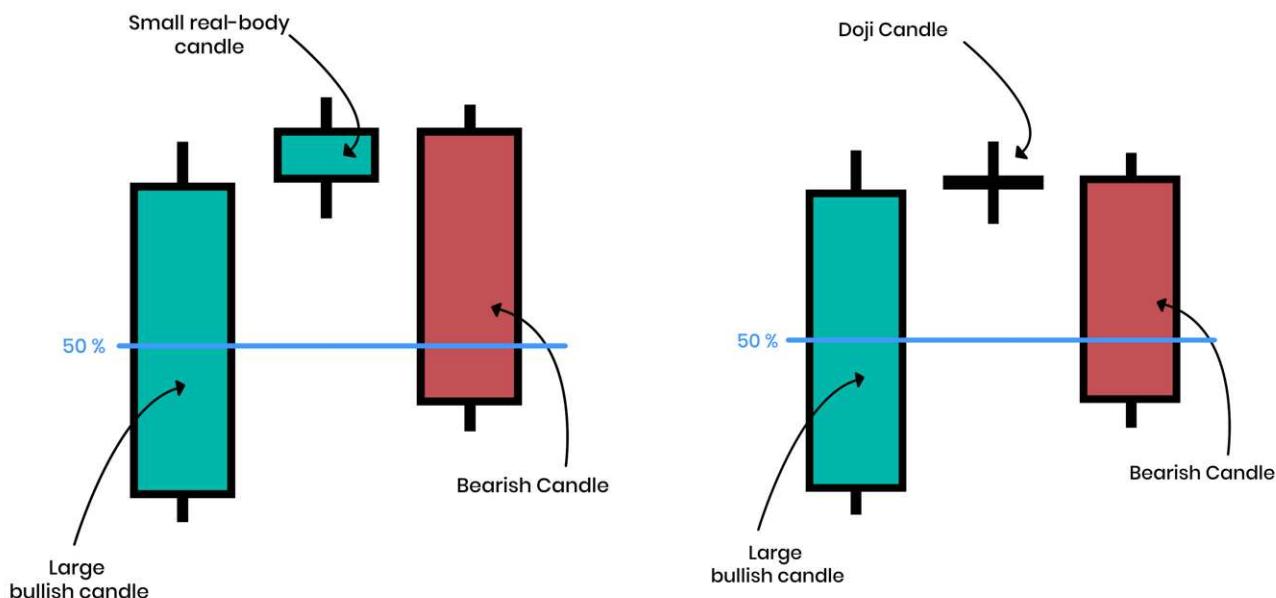
And finally, an example that full-filled our requirements and worked out:



EVENING STAR

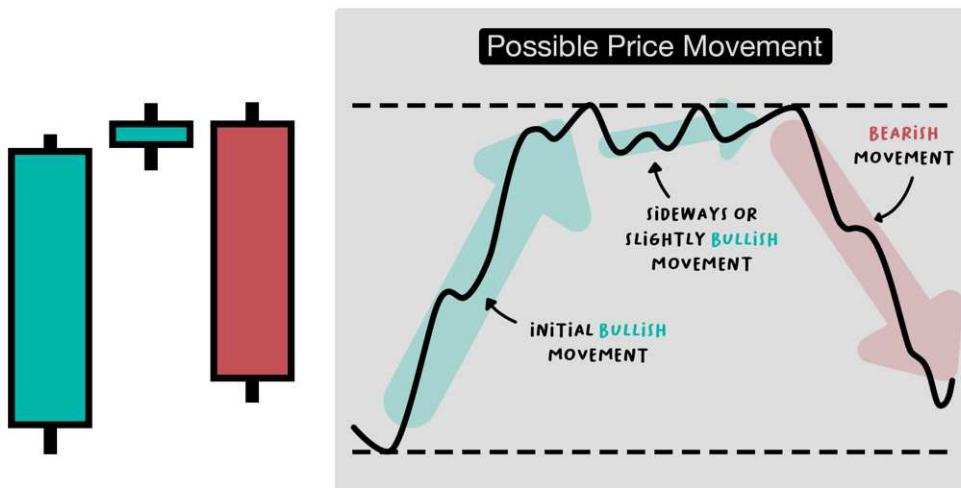


The evening star is a three candlestick pattern and is another strong reversal pattern. The pattern occurs at the top of a downtrend and indicates a possible reversal to the downside. The pattern itself consists of a relatively large bullish candle, followed by a small neutral candle in form of a Doji or spinning top (but with a small real body AND small wicks), followed by a strong bearish candle which closes below the middle of the real body of the first bullish candlestick. The second candle, if not completely neutral with any real body, should be bullish as shown in the picture above. The third candle should, at least, close past the halfway point of the first candle's real body as shown below:



PATH OF THE PATTERN

This represents just one out of hundreds of possible price movements behind the pattern. This is just to make it a bit clearer to understand what actually happens.

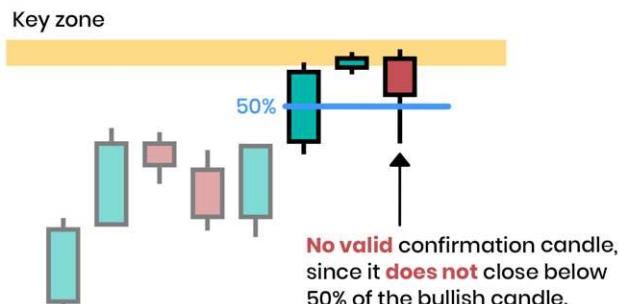
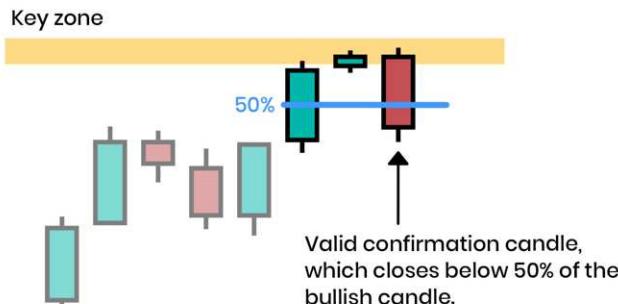


After the bullish candle, buying and selling interest is in balance and the market is neutral. This would be especially interesting within a key level. After the struggle between buyers and sellers, the sellers finally get the over-hand and push the price back down.

CONFIRMATION CANDLE

As with most candlestick patterns, we want to see some sort of confirmation or validation of the pattern, if the confirmation is not within the pattern itself. With the evening star candlestick pattern, we have the confirmation candle within the pattern. The confirmation candle is the third candlestick (bearish candlestick).

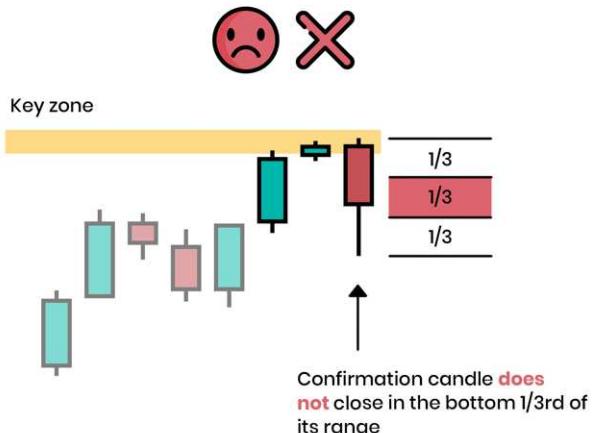
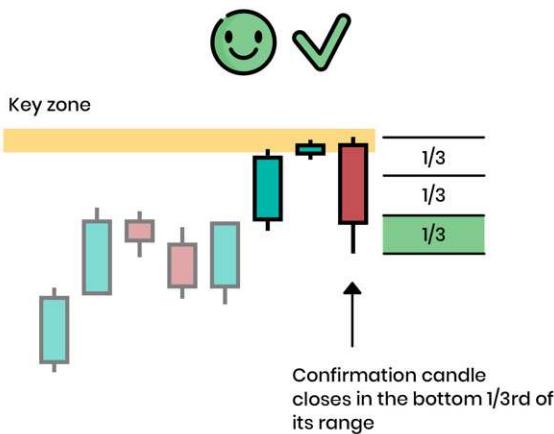
Let's compare a successful close of the confirmation candle vs. an unsuccessful close of the confirmation candle, which results in an invalid evening star candlestick pattern.



On the left side, we can see that the third candle closes below the middle of the first candle's real body. This signals a strong bearish move after the market has been neutral during the second candlestick of the pattern. On the right side, we can see that the third candlestick has not closed below the middle of the first candle's real body. This signals a weak bearish movement and would not validate the candlestick pattern.

QUALITY OF CONFIRMATION

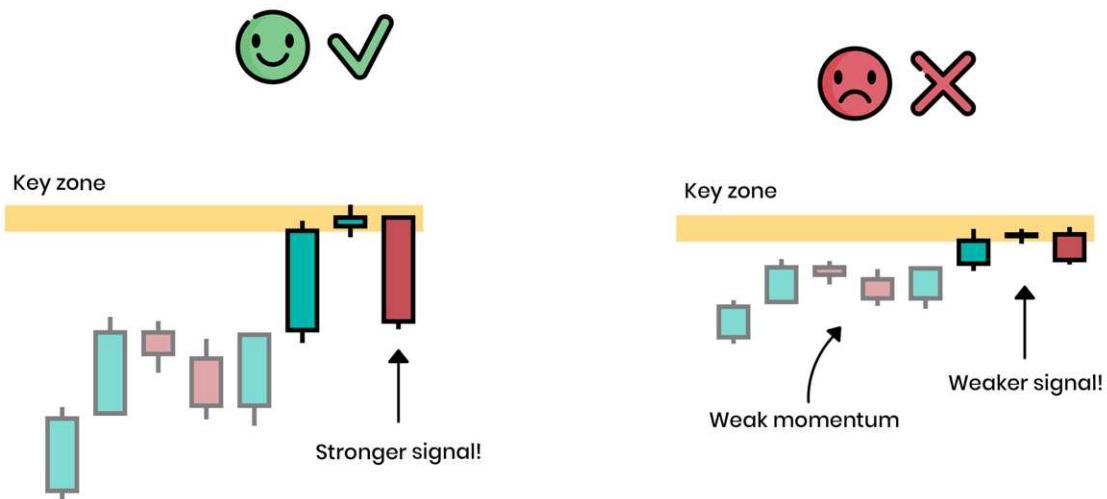
You know it already. The valid bearish confirmation candle, which is the third candle within the pattern, can also be differentiated. What we want is that the bearish confirmation candle closes in the last 1/3rd or better, in the last 1/4th of its total range.



As we can see on the left side, the confirmation candle closes in the last 1/4th of its total range. The reason behind it is that we want to see a strong bearish movement, after the neutral candlestick. This is the case when the confirmation candlestick closes in the last 1/3rd or 1/4th of its total range. On the right side, we can see a rather weak confirmation candle. Price has moved all the way down, to come back up half-way. This does not show us a strong bearish movement.

SIZE OF THE EVENING STAR

Within this pattern, we do not really have to go into the size of the candles, since they will be larger candles anyway. But of course, the same rules count for the pattern as well, the larger the first and the third candles are, the stronger the signal.

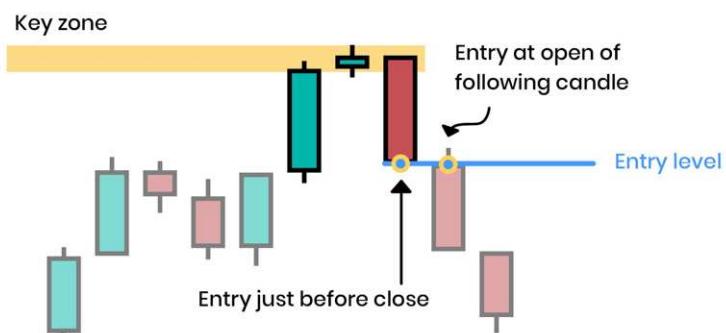


As always, we want to avoid really small candlesticks within the pattern. I personally would rate this scenario as very rare as well.

ENTRY METHODS

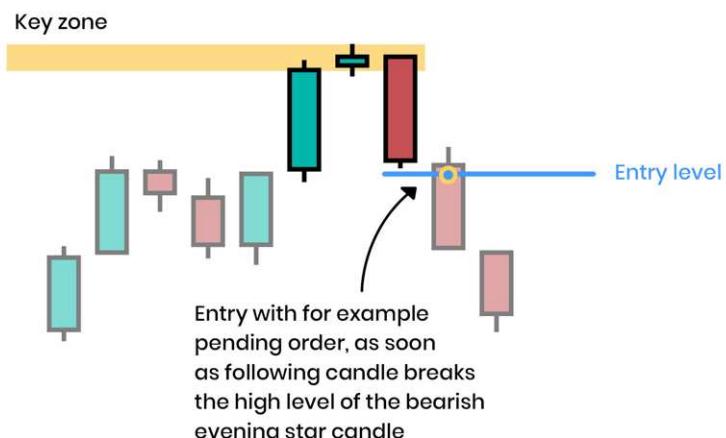
As always, we have two main techniques, how to enter an evening star pattern. Entry at open, and entry at break.

Entry at open



As shown in the image above, we can enter with the close of the third candle (bearish candle) or with the open of the following candle after the bearish candle. The time difference between the two options is normally a matter of seconds.

Entry at break

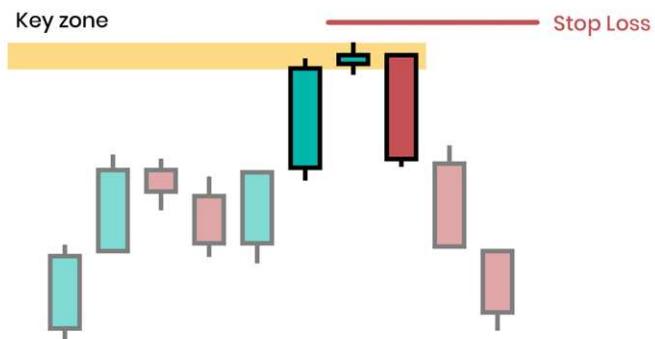


As shown in the image above, we can enter with the break of the total range low of the third candle within the pattern. This would give us an additional confirmation. The problem of such entry is that it doesn't happen with the open or the close of the candle, and therefore would need to be monitored more closely. A great way is to use a sell stop order for this technique. The order would be placed about 1 pip below the total range low of the confirmation candle and will be automatically executed if the price reaches this level.

STOP LOSS PLACEMENT

As always, the stop loss order should be placed at the nearest logical area with a bit of room to give price some flexibility. It should be at a place when the price hits this price level, you definitely want to be out of the trade since your trading idea is not valid anymore.

With the evening star candlestick pattern, the trade idea would not be valid anymore if the price moves higher than the high of the total range high of the three candlesticks the pattern consists of. Therefore, we want to place our stop loss just above the total range high of the 3 candlesticks. You know it by now, a great rule of thumb is to leave a visible gap between the total range high and our stop loss.



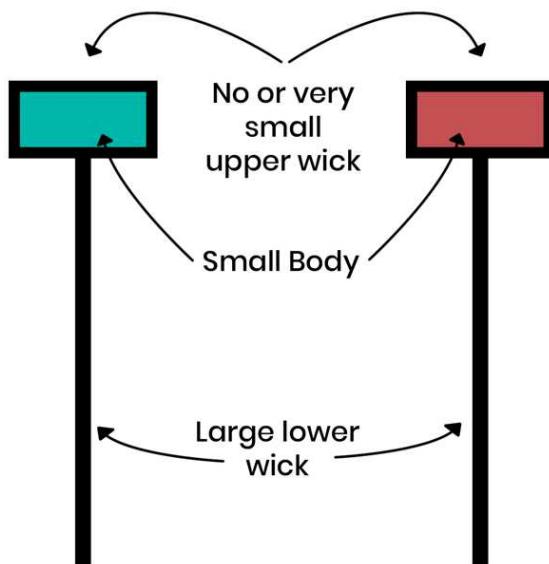
Let's check out some examples:



As always with candlestick patterns, only looking for those patterns to enter trades is simply not a great idea. They occur quite often, and we need key levels, overall trend, or any other method into consideration. If we zoom out a bit, from the example above, we can see that the evening star, as well as morning star, occurred quite often. Not every pattern provides us with a strong setup:



HANGING MAN

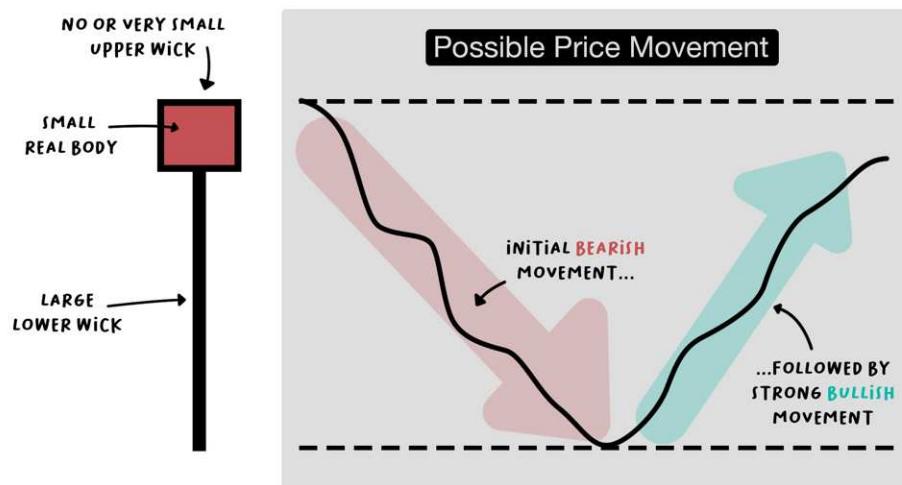
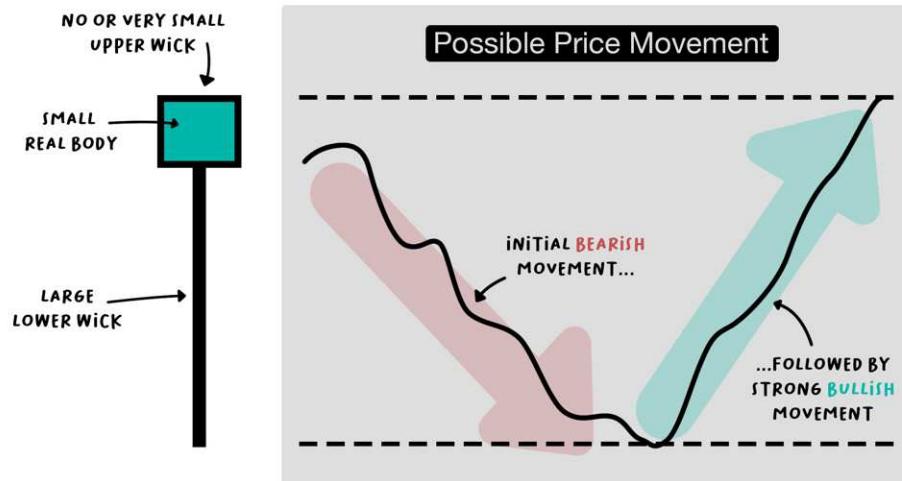


The hanging man candlestick pattern is a one candlestick pattern and counts as a weak bearish reversal pattern. It appears at the top of an uptrend and signals a possible reversal to the downside. The hanging man candle should have a small real body a lower shadow that is about 2x the size of the real body, and has no or only a very small upper shadow.

The real body can either be „green“ or „red“, which means the hanging man can either be a bullish or bearish candle. The candle itself signals, as we already learned, a rather weak bearish price move. Therefore we really need great confirmation (for the bullish as for the bearish version) in order to take it even seriously.

PATH OF THE PATTERN

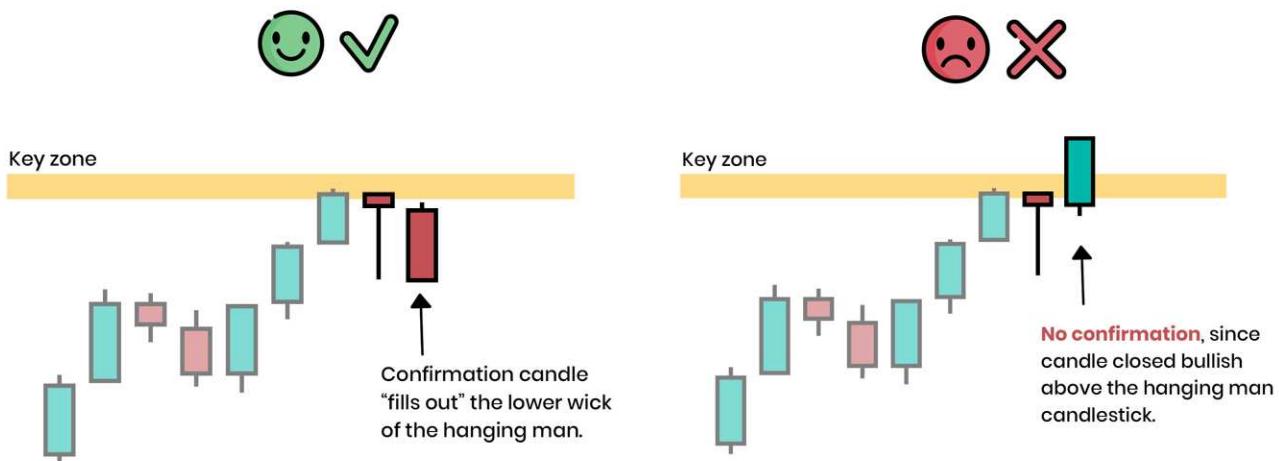
This represents just one out of hundreds of possible price movements behind the pattern. This is just to make it a bit clearer to understand what actually happens.



A strong bearish move is happening which pushes price heavily to the downside, just to get counterattacked by a stronger buying interest, which moves prices back up. While the normal view on it would be that selling interest lost during the period of the candlestick, the fact that it happened is getting bigger weight in this scenario. The pattern suggests that it might happen again, and sellers could try again to push the price lower.

CONFIRMATION CANDLE

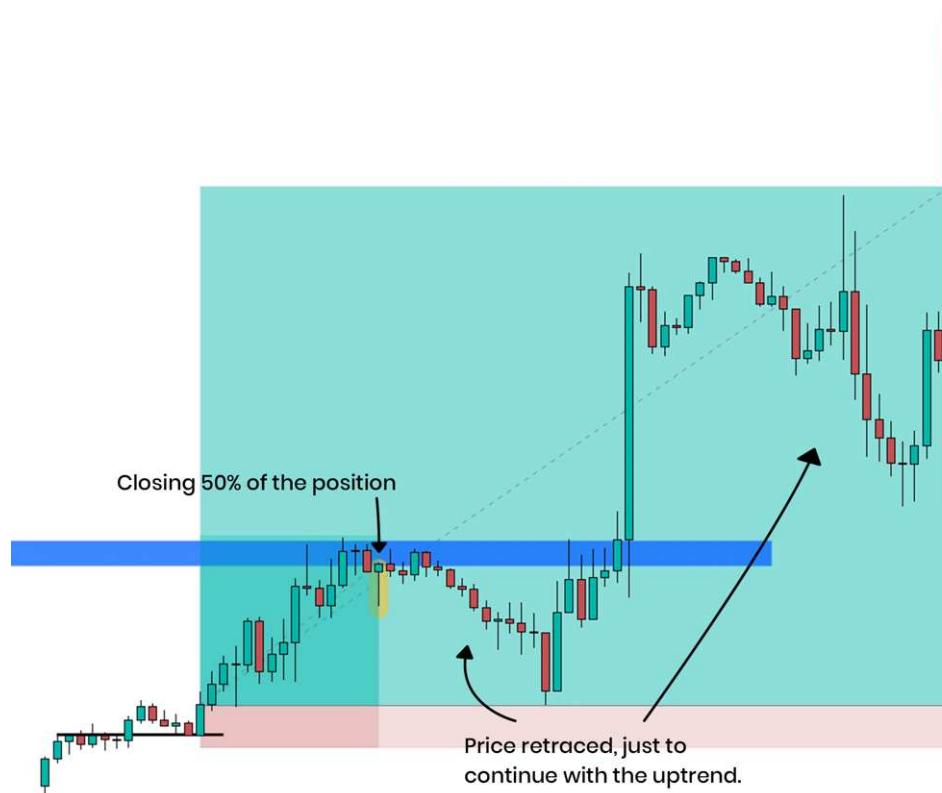
As with most candlestick patterns, we want to see some sort of confirmation or validation of the pattern, if the confirmation is not within the pattern itself. With the hanging man, we definitely need a great confirmation given the fact that the hanging man itself is already a weak bearish candle.



As we can see on the left side, the following confirmation candle needs to close in the area of the low of the lower shadow. In a sense, the price needs to „fill out“ the lower shadow to give us a confirmation. On the right side, you can see an often scenario following a hanging man candlestick, which is that price continues upwards. This is the reason why a hanging man stand-alone can never signal or represent a possible trading opportunity.

BETTER USAGE OF THE HANGING MAN

The candle is not really the best entry signal. It is more often used as an early exit signal. This means when we already have a buy trade open, and our strategy allows us to be more flexible in our trade management, which means we manage or exit our trade based on the specific situation without 100% clear rules to follow, we could see the hanging man candlestick as a possible early exit signal and exit a portion, or the whole position.

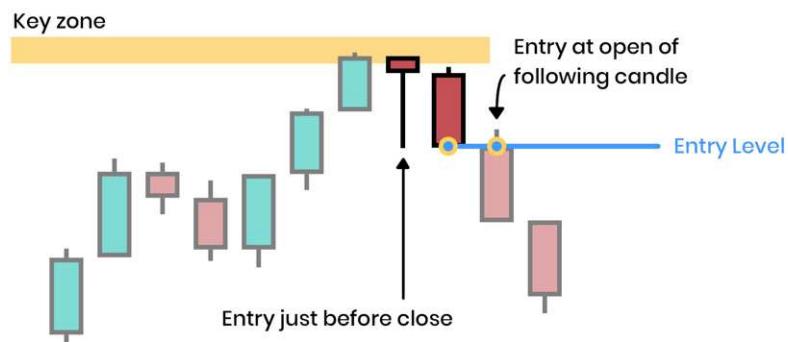


As we can see above, we entered previously to the hanging man candle with a buy position. The first hanging man occurs and we decide to close half of the position. Only half? Yes, the hanging man is still a very weak signal, doesn't matter in which direction we are trading. Since we use it as an early exit signal to close half of our position, we don't necessarily need to wait for confirmation. Price continues upwards, and we catch this price movement with the other half-open position. This is an example of how the hanging man candlestick could be used as an exit signal in combination with a more flexible strategy. If you are not really sure what a „more flexible“ strategy means, don't worry. We will discuss this later on when we talk about how we develop our own strategy.

ENTRY METHODS

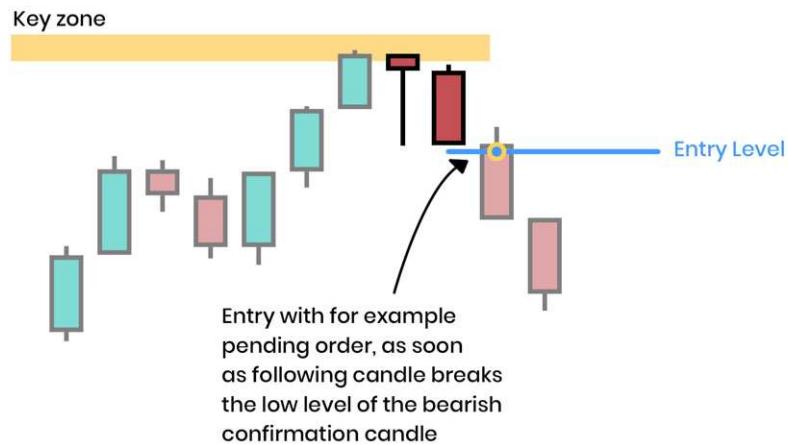
In the case of using the hanging man as an entry signal, we have as always two main techniques, how to enter. Entry at open, and entry at break.

Entry at open



As shown in the image above, we can enter with the close of the confirmation candle or with the open of the following candle after the confirmation candle. The time difference between the two options is normally a matter of seconds.

Entry at break



As shown in the image above, we can enter with the break of the total range low of the confirmation candle. This would give us an additional confirmation. The problem of such entry is that it doesn't happen with the open or the close of the candle, and therefore would need to be monitored more closely. A great way is to use a sell stop order for this technique. The order would be placed about 1 pip above the total range low of the confirmation candle and will be automatically executed if the price reaches this level.

STOP LOSS PLACEMENT

As always, the stop loss order should be placed at the nearest logical area with a bit of room to give the price some flexibility. It should be at a place when the price hits this price level, you definitely want to be out of the trade since your trading idea is not valid anymore.

With the hanging man candlestick pattern, the trade idea would not be valid anymore if the price moves higher than the total range high of the hanging man. Therefore, we want to place our stop loss just above the total range high of the candlestick. You know it by now, a great rule of thumb is to leave a visible gap between the total range low and our stop loss.



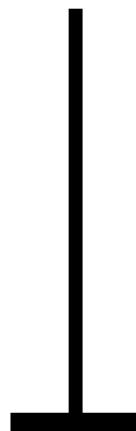
DRAGONFLY DOJI & GRAVESTONE DOJI

As we have covered this within the chapter „Bullish Candlestick Pattern“, those Doji candles are a special case and will be treated a bit differently than the other candlestick patterns. Depending on the location and context of the Doji's, it can be seen as a bullish or bearish signal and therefore will count as a bullish and bearish candlestick pattern.

Dragonfly
Doji



Gravestone
Doji



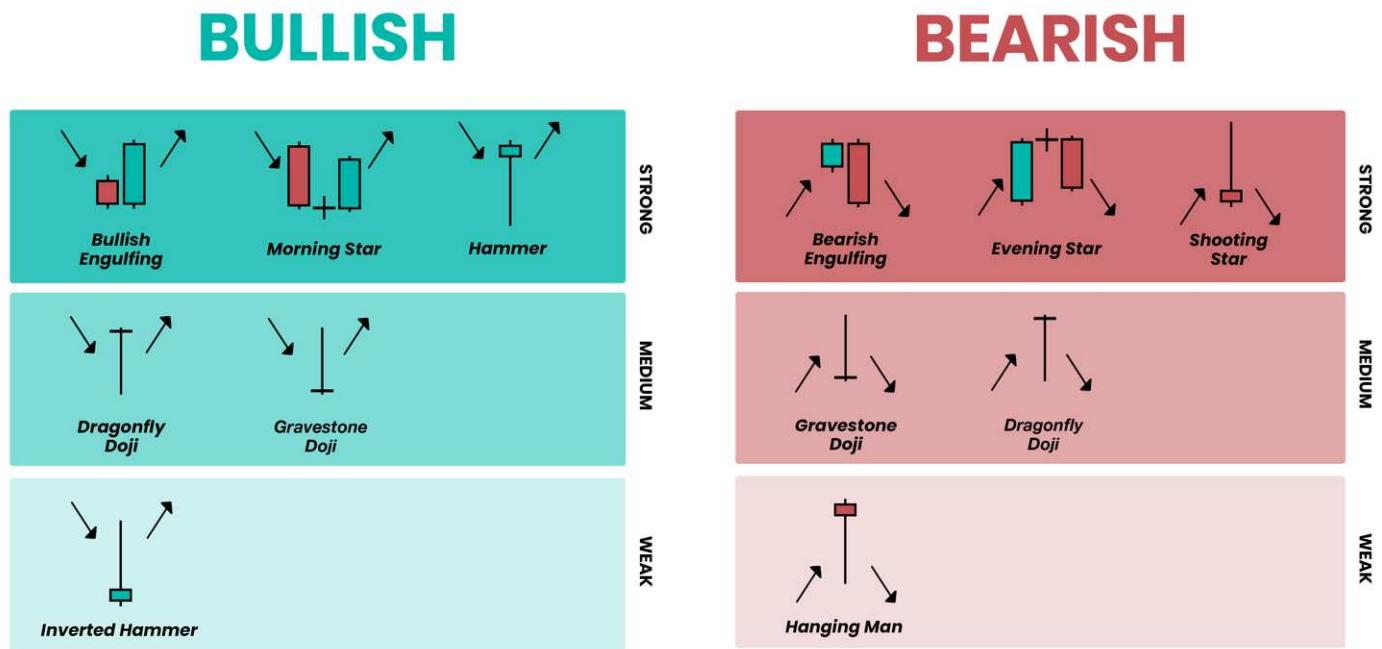
The Dragonfly Doji (left side) consists of a large lower shadow with no real body and no upper shadow. The Gravestone Doji (right side) consists of a large upper shadow with no real body and no lower shadow.

A Dragonfly Doji that occurs after an uptrend signal a possible bearish reversal to the downside. In such a case, the Dragonfly Doji can be treated as a hanging man candlestick pattern. This means we definitely need a bearish confirmation candle. All the rules we covered for the hanging man candlestick pattern would count for the Dragonfly Doji in such context as well. Just note that the Dragonfly Doji in such a scenario is a weaker reversal signal than a hanging man candlestick pattern.

A Gravestone Doji that occurs after an uptrend signal a possible bearish reversal to the downside. In such case, the Gravestone Doji can be treated as a „green“ shooting star candlestick pattern. This means, we definitely need a bearish confirmation candle. All the rules we covered for the „green“ shooting star candlestick pattern would count for the Gravestone Doji in such context as well. The same as for the Dragonfly Doji, the Gravestone Doji in such context is a weaker reversal signal.

1.9.15.3. CANDLESTICK PATTERN OVERVIEW

Let us have a quick recap on all the candlestick patterns we just covered.



Those are the patterns I personally trade the most (excluding the inverted hammer & hanging man), and therefore focused heavily on in this course. They occur very regularly in the markets and present us with great trading opportunities when using the filters presented, and in combination with key levels or other trading methods and instruments.

You can maybe have noticed that we did not cover all of the patterns that are out there. This is because some of them are just so weak or rare, that it doesn't make much sense to include them. Just so we don't ignore them completely, here, a really quick overview of most of the candlestick patterns that are out there:

BULLISH

| | | | |
|----------------------|--------------------------|----------------------------------|------------------------|
| Hammer | Inverted Hammer | Bullish Engulfing | Piercing Pattern |
| Bullish Harami | Bullish Kicker | Morning Star | |
| Bullish Tri Star | Three White Soldiers | Three Inside Up | |
| Bullish Meeting Line | Bullish Belt Hold | Three Stars in the South | Bullish Stick Sandwich |
| Matching Low | Tweezer Bottom | Bullish Breakaway | Upside Tasuki Gap |
| Rising Three Method | Bullish Separating Lines | Bullish Side By Side White Lines | |

BEARISH

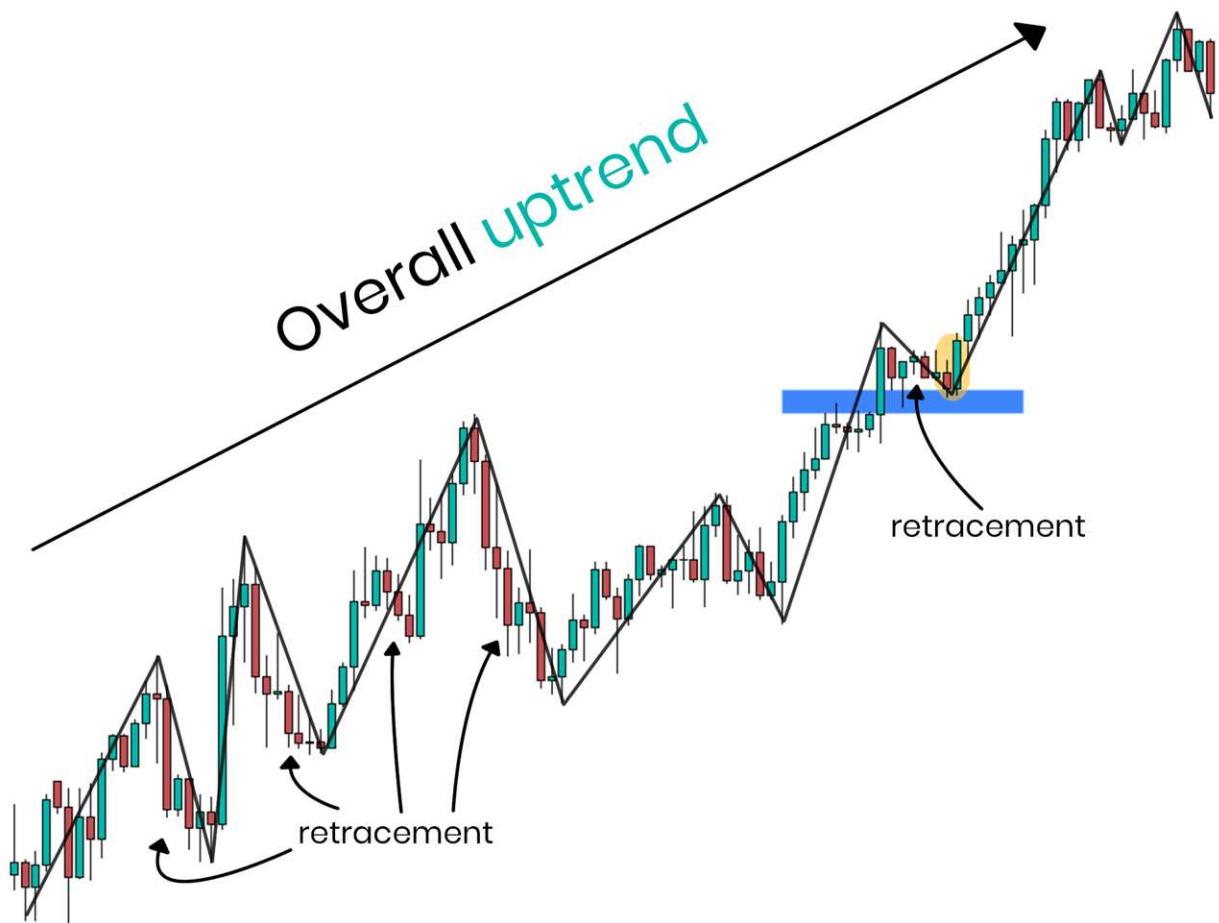
| | | | |
|----------------------|--------------------------|----------------------------------|------------------------|
| Dark Cloud Cover | Bearish Engulfing | Hanging Man | Shooting Star |
| Bearish Harami | Bearish Kicker | Bearish Abandoned Baby | Evening Star |
| Bearish Tri Star | Three Black Crows | Three Inside Down | Three Outside Down |
| Bearish Meeting Line | Bearish Belt Hold | Advance Block | Bearish Stick Sandwich |
| Matching High | Tweezer Top | Bearish Breakaway | Downside Tasuki Gap |
| Falling Three Method | Bearish Separating Lines | Bearish Side By Side White Lines | |

What also needs to be said is that the forex candlestick patterns slightly differ from stock candlestick patterns. Most of them look very similar, but stock candlestick patterns often have gaps between the candlesticks. This is just based on the different markets. Since we rarely have gaps in forex, they are not really included in our candlestick patterns. This is just in case you want to trade stocks as well, or find different traders write about candlestick patterns and they look slightly different from those covered in this course.

Why did I only include the Stop Loss Level placement and didn't include the Take Profit Level?

The Stop loss level can be easily determined without knowing the whole context of the situation. Of course, those stop loss levels are also just the textbook levels, but they work. There are other approaches as well, which we will cover later in this program. I personally like to even leave a bit more room between the candlestick pattern and my stop loss level. This is kind of subjective however but can be underlined with clear rules if preferable. The take profit level can have many many different variables. It all comes down to what technique is being used for the successful exit of a trade. The take profit level is also not essential for the explanation of the Japanese candlestick patterns. Don't worry, we will go over the different techniques on how to have clear rules-based stop loss levels or take profit levels later on. For now, this should be enough information.

⚠️ IMPORTANT: As I have shown multiple times in the examples, the uptrend or downtrend in which the pattern could occur, can also be just retracements and does not need to mean that the overall trend direction changes. A reversal pattern can also mean that the retracement within the overall trend will end and the price reverses back into the overall trend direction. Those are actually also my favorite setups, that I found to have higher quality. Just to visualize this, here an example again of my most favorite patterns, the bullish engulfing candlestick pattern.



As we can see, the currency pair is in an overall uptrend. But as we know, trends don't really work in straight lines, they happen in kind of zig-zac movements. Those movements to the downside during the uptrend, are so-called retracements. This when the price retraces to the downside for a bit, just to continue upwards. The patterns we just covered, can also happen during such retracements (very small downtrend moves within the overall uptrend).

That's it about candlestick patterns. I hope you have a better idea now on which patterns exist and how to identify more promising candlestick patterns and also are able to filter out the less promising ones.

1.9.16. CHART PATTERNS



Remember when I told you in the chapter before that we are going deeper into support and resistance structure and see how price can react at such a key level through candlestick patterns? Well, now we are going to scope out completely. When we look at chart patterns, we need to see way more than just one, two, or three candles. We want to see more price movement to determine price movement patterns. The information in this chapter can just be added on top of everything we learned so far as well. Within a chart pattern, we have support and resistance, and we quite possibly have Japanese candlestick patterns. In short, everything is connected.

What are chart patterns?

Chart patterns are certain price movements that tend to repeat themselves within financial markets. Those patterns are categorized into three different sections. The price patterns can either mean that price will continue, reverse or the pattern stands for a neutral market. The patterns are separated in those categories because research showed that when a specific price movement pattern occurred, the price tends to either continue into the overall trend, reverses, and possibly start a new trend in the opposite direction, or just signals a neutral market where buyers and sellers are in balance. Chart patterns are part of technical analysis for many many years and are very established. Especially for new traders, chart patterns can help to structure price movements as well as give clear guidelines and rules on how to find possible trading opportunities. Those guidelines and rules will be covered in the following pages.

Quick Overview about the different patterns we will discuss:

CONTINUATION PATTERNS

- Ascending Triangle
- Descending Triangle
- Bullish Flag
- Bearish Flag
- Cup and Handle
- Inverse Cup and Handle
- Bullish Symmetrical Triangle
- Bearish Symmetrical Triangle

REVERSAL PATTERNS

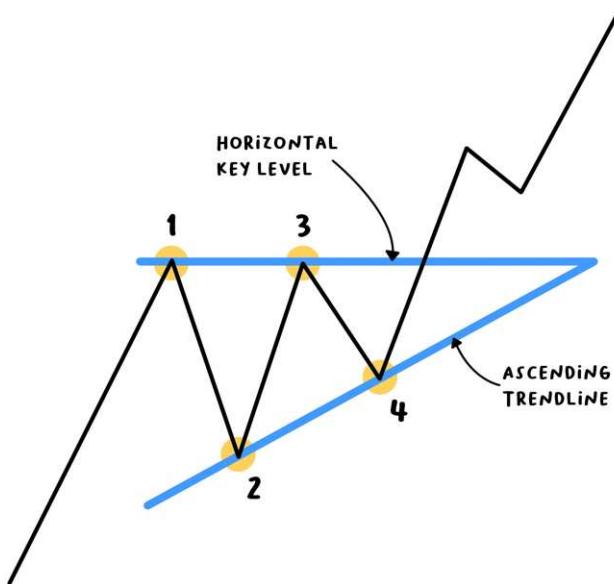
- Double Bottom
- Double Top
- Triple Bottom
- Triple Top
- Inverse Head and Shoulders
- Head and Shoulders
- Falling Wedge
- Rising Wedge

1.9.16.1. CONTINUATION PATTERNS

ASCENDING TRIANGLE

The ascending triangle is a **bullish continuation pattern**. This means that price is already in an uptrend, the ascending triangle occurs, which will be followed by price possibly continuing to the upside.

PRICE PATH



The ascending triangle consists of a horizontal resistance line and an ascending trendline.

WHAT HAPPENS IN THE PATTERN?

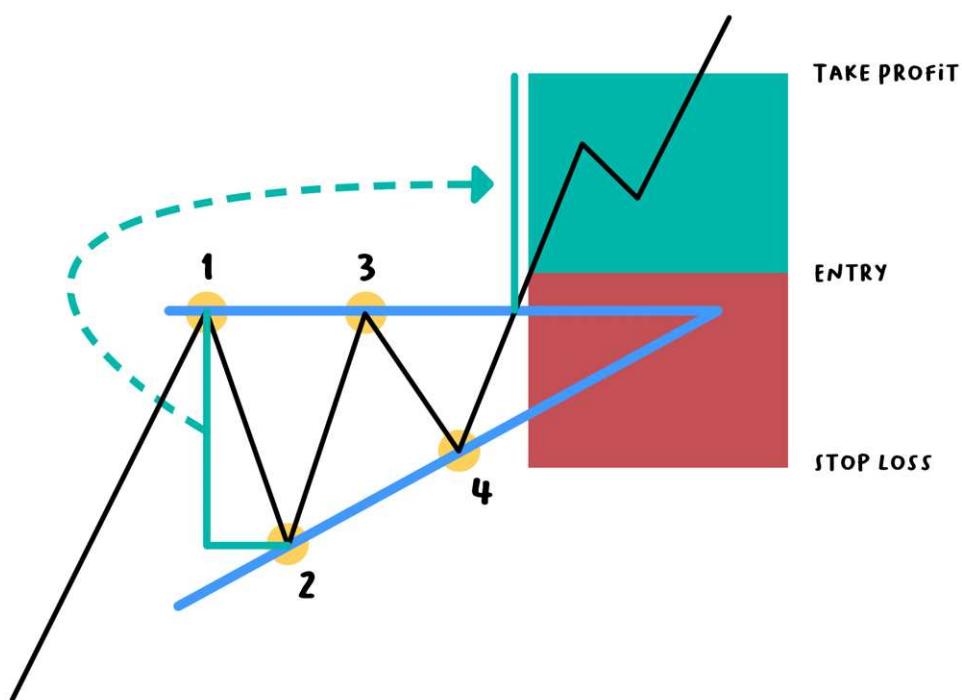
During an uptrend, price finds resistance at the horizontal resistance level. This horizontal level is the most crucial level in this pattern. Price accepts this resistance 1, reverses till it finds first support 2, which is also the lowest price level in the pattern. Where price will find the support level, is not defined. It can be a previous key level or not. After the price found new support, it will push to the horizontal resistance level again 3, just to accept it again and reverse to the downside a second time. Price will move lower till support is found yet again 4, just to push higher again. Those two support levels within the pattern should be connected through the ascending trendline, therefore price needs to build

higher lows. After touch 4, the price could once again accept resistance, reverse, find support and move to the upside again. This means, 1– 4 are the minimum to build this pattern, any additional „bounces“ up and down are also acceptable but not necessary. As explained, after the higher support level 4, the price moves to the upside and breaks the horizontal resistance level.

DIFFERENT VERSIONS OF THE PATTERN

In total, we have two classic ways to trade the ascending trendline.

Breakout



We have the breakout version. This means we are looking to enter the pattern with the close of the breakout candle.

Stop loss can be placed below the last swing low 4. Take profit can be set as followed: We measure the distance between the first price touch of the resistance level 1 to the level of the first found support 2 after price accepted the resistance level. The measured distance can be added on top of the resistance level as shown in the picture above. The level where the measured distance ends can be seen as our take profit level. This is the classic way of trading the pattern, by no means a must. This can act as a great guideline but as you spend more and more time with this pattern, you might find out a better way to place

your take profit or stop loss level. If you find a better way, use it! Those rules act as great guideline, but are definitely not the only way.

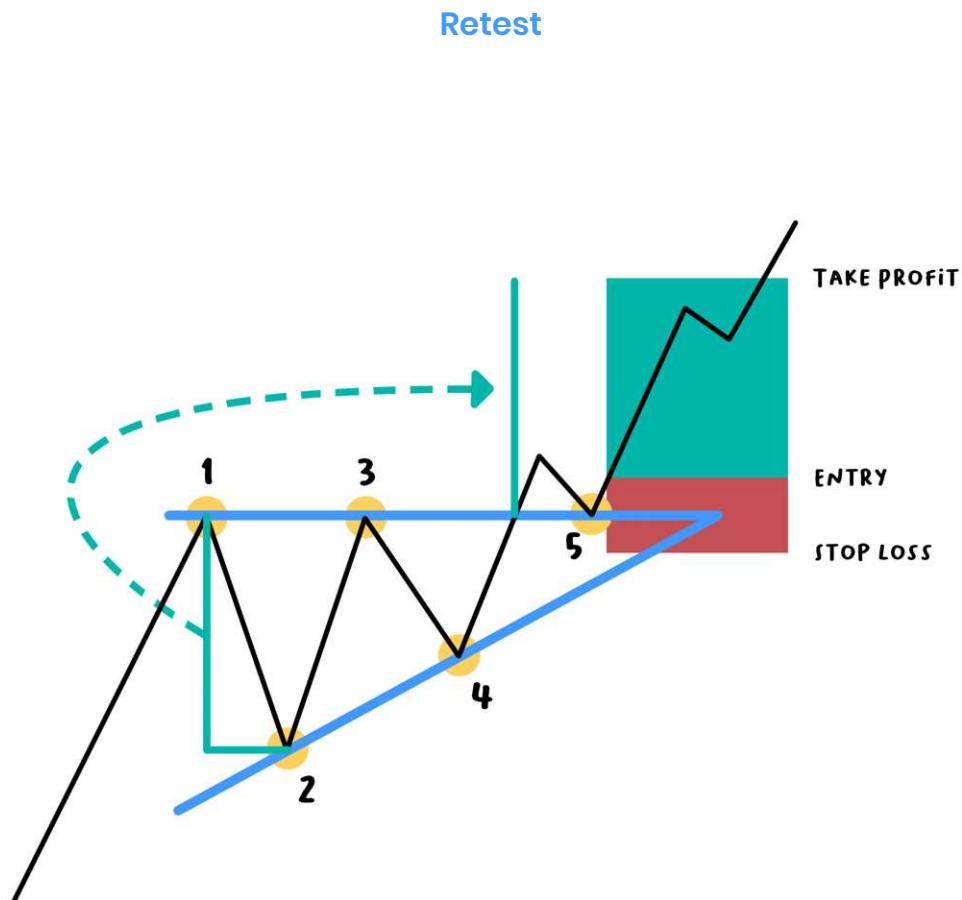
👍 **Advantages:**

More trading opportunities

👎 **Disadvantages:**

Danger of fakeouts

Probably worse risk reward ratios



Another version is the retest version. This means we would look for trade entries after price broke resistance, retraces back, and accepts the former resistance which became support. (If you forgot how this works, you can go back to the chapter „Support & Resistance“.) A breakout ascending triangle can be a retest ascending triangle, but the retest does not necessarily happen, which results in fewer trading opportunities compared to the breakout version.

Stop loss can be placed below the retest 5. Take profit can be set the same way as in the breakout version: We measure the distance between the first price touch of the resistance level 1 to the level of the first found support 2 after price

accepted the resistance level. The measured distance can be added on top of the resistance level as shown in the picture above. The level where the measured distance ends can be seen as our take profit level.

👍 Advantage: Extra confirmation through retest

Avoiding fakeouts

Probably better risk reward ratios

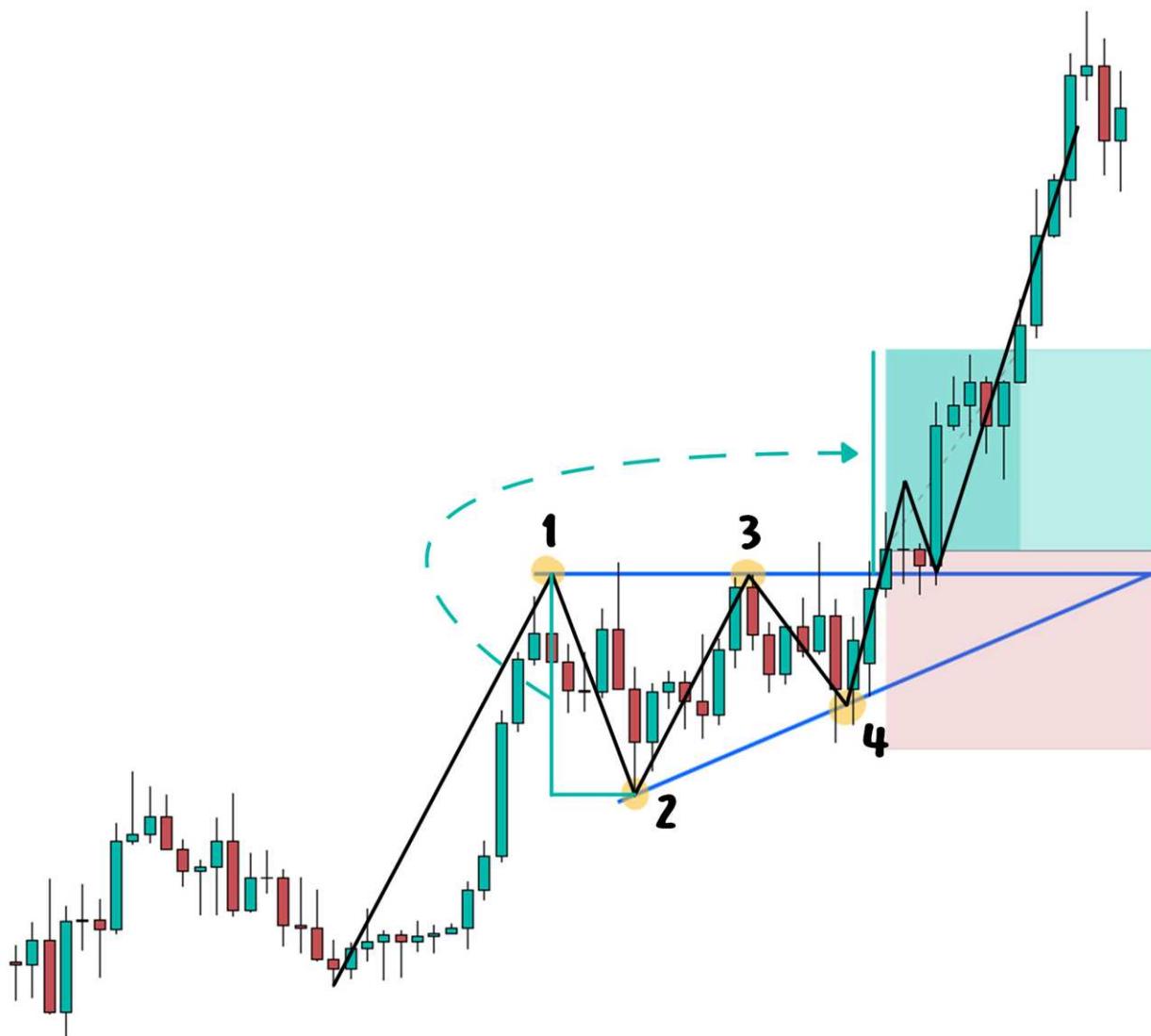
👎 Disadvantage: Less trading opportunities

EXAMPLE



In this scenario, price retested the horizontal key level (which is not always the case), which makes it the perfect example to illustrate both approaches (breakout trade & retest trade).

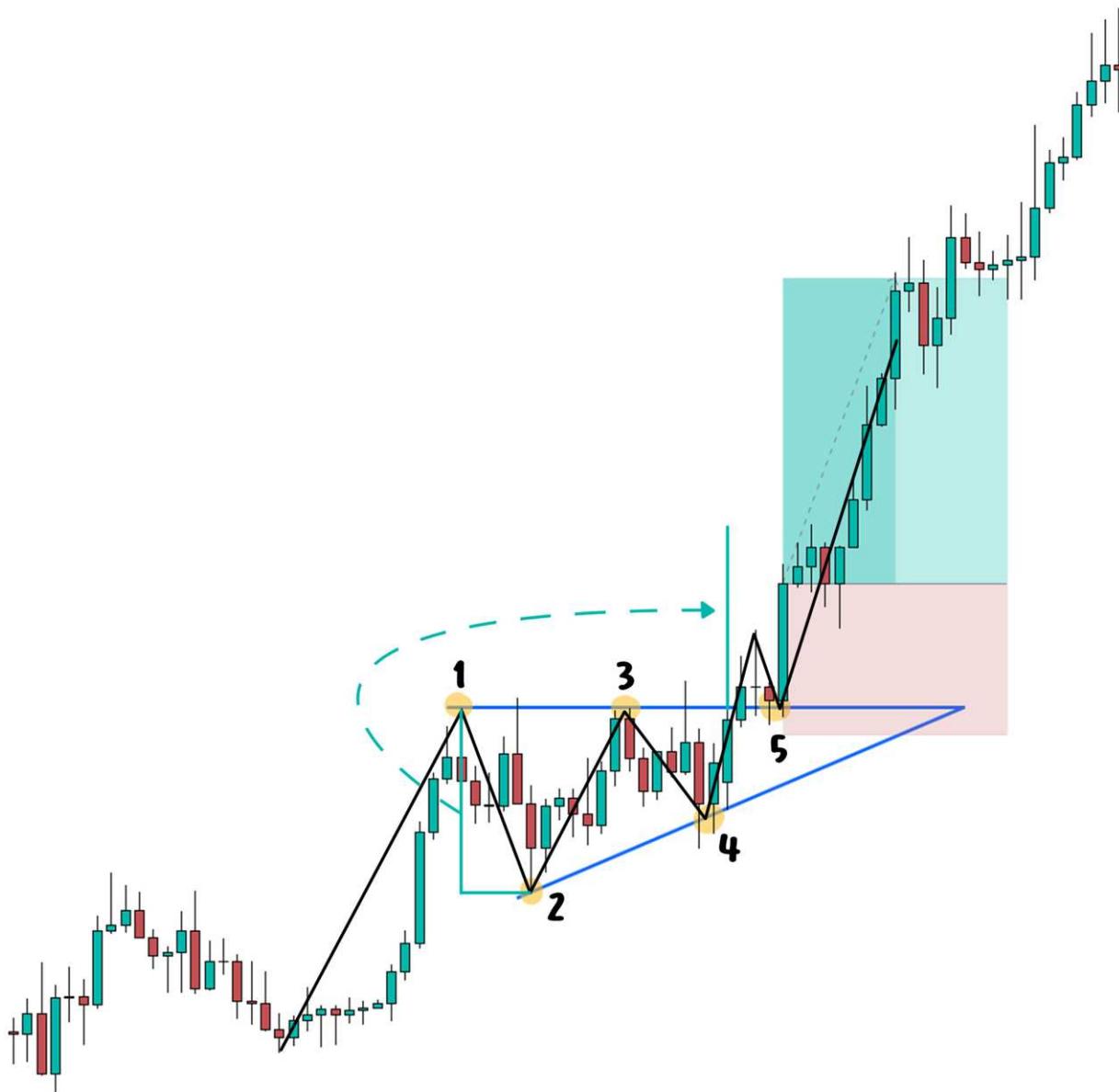
The breakout trader could have entered with the breakout candle as followed:



I did draw in the general price movement for you to make it easier to identify the ascending triangle pattern. If you have problems finding classic chart patterns, this might be something you could do as well, in order to make things easier. After a while, you will not need to do it anymore, after you trained your eyes.

The take profit and stop loss are set in the same way we have discussed it (the classic approach). The risk-reward ratio is about 1:1 in this case. It really comes down to you if this ratio makes sense to you. I personally would not like this ratio and either extend my take profit target or skip the trade.

A retest trader could have entered with the strong bullish retest candle as followed:

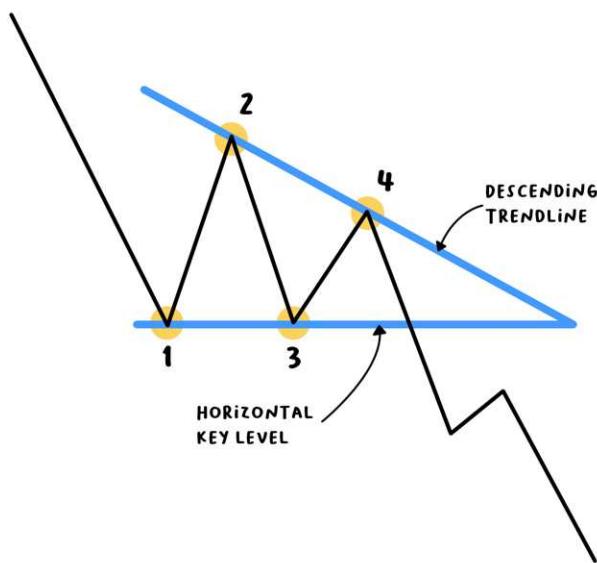


As you can see, the retest trader would definitely need to adjust the take profit level, since it almost aligns with the entry in this particular scenario. Here we have a fix risk-reward ratio of 1:2. The rules we discuss with the classic chart patterns are the textbook rules on how you **could** approach those patterns. This is great, especially if you are starting out because it will give you certain guidance. If you get more and more experience, you will find your own way on how to approach those patterns. You might set your stop loss differently and determine your take profit level or levels (if you have multiple take profit orders) based on your experience. There are really many different ways. Some of the take profit approaches, we will cover late in the „exit techniques“ chapter.

DESCENDING TRIANGLE

The descending triangle just the opposite of the ascending triangle and can be treated the same way. The descending triangle is a bearish continuation pattern. This means that price is already in a downtrend, the descending triangle occurs, which will be followed by price possibly continuing to the downside.

PRICE PATH



The descending triangle consists of a horizontal support line and a descending trendline.

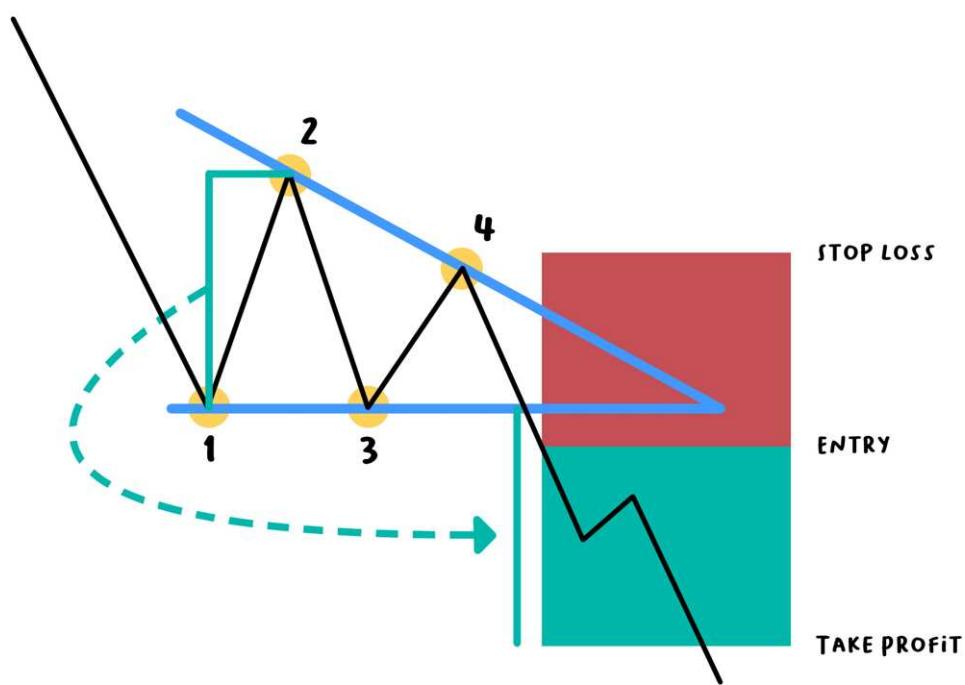
WHAT HAPPENS IN THE PATTERN?

During a downtrend, price finds support at the horizontal support level. This horizontal level is the most crucial level in this pattern. Price accepts this support 1, reverses till it finds first resistance 2, which is also the highest price level in the pattern. Where price will find the resistance level, is not defined. It can be a previous key level or not. After the price found new resistance, it will push to the horizontal support level again 3, just to accept it again and reverse to the upside a second time. Price will move higher till resistance is found yet again 4, just to push lower again. Those two resistance levels within the pattern should be connected through the descending trendline, therefore price needs to build lower highs. After touch 4, the price could once again accept support, reverse, find resistance and move to the downside again. This means, 1 - 4 are the minimum to build this pattern, any additional „bounces“ up and down are also acceptable but not necessary. As explained, after the lower resistance level 4, the price moves to the downside and breaks the horizontal support level 5.

DIFFERENT VERSIONS OF THE PATTERN

In total, we have two classic ways to trade the descending trendline.

Breakout

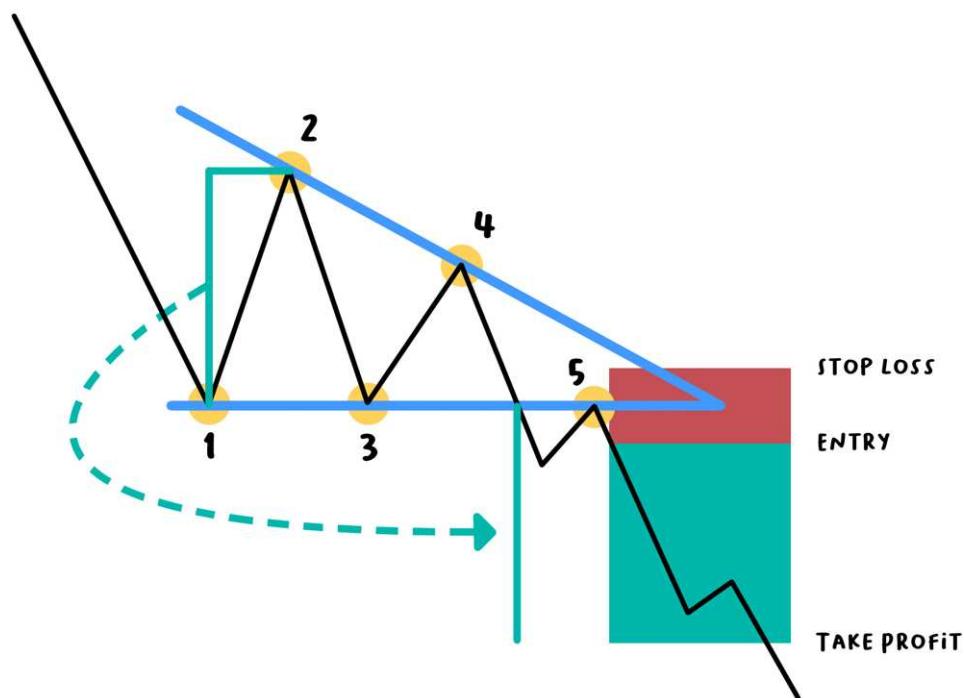


We have the breakout version. This means we are looking to enter the pattern with the close of the breakout candle.

Stop loss can be placed above the last swing high 4. Take profit can be set as followed: We measure the distance between the first price touch of the support level 1 to the level of the first found resistance 2 after price accepted the support level. The measured distance can be placed below the support level as shown in the picture above. The level where the measured distance ends can be seen as our take profit level.

- 👍 **Advantages:** More trading opportunities
- 👎 **Disadvantages:** Danger of fakeouts
Probably worse risk reward ratios

Retest



Another version is the retest version. This means we would look for trade entries after price broke support, retraces back, and accepts the former support which became resistance. A breakout descending triangle can be a retest descending triangle, but the retest does not necessarily happen, which results in fewer trading opportunities compared to the breakout version.

Stop loss can be placed above the retest 6. Take profit can be set the same way as in the breakout version: We measure the distance between the first price touch of the support level 1 to the level of the first found resistance 2 after price accepted the support level. The measured distance can be placed below the support level as shown in the picture above. The level where the measured distance ends can be seen as our take profit level.

👍 **Advantage:** Extra confirmation through retest

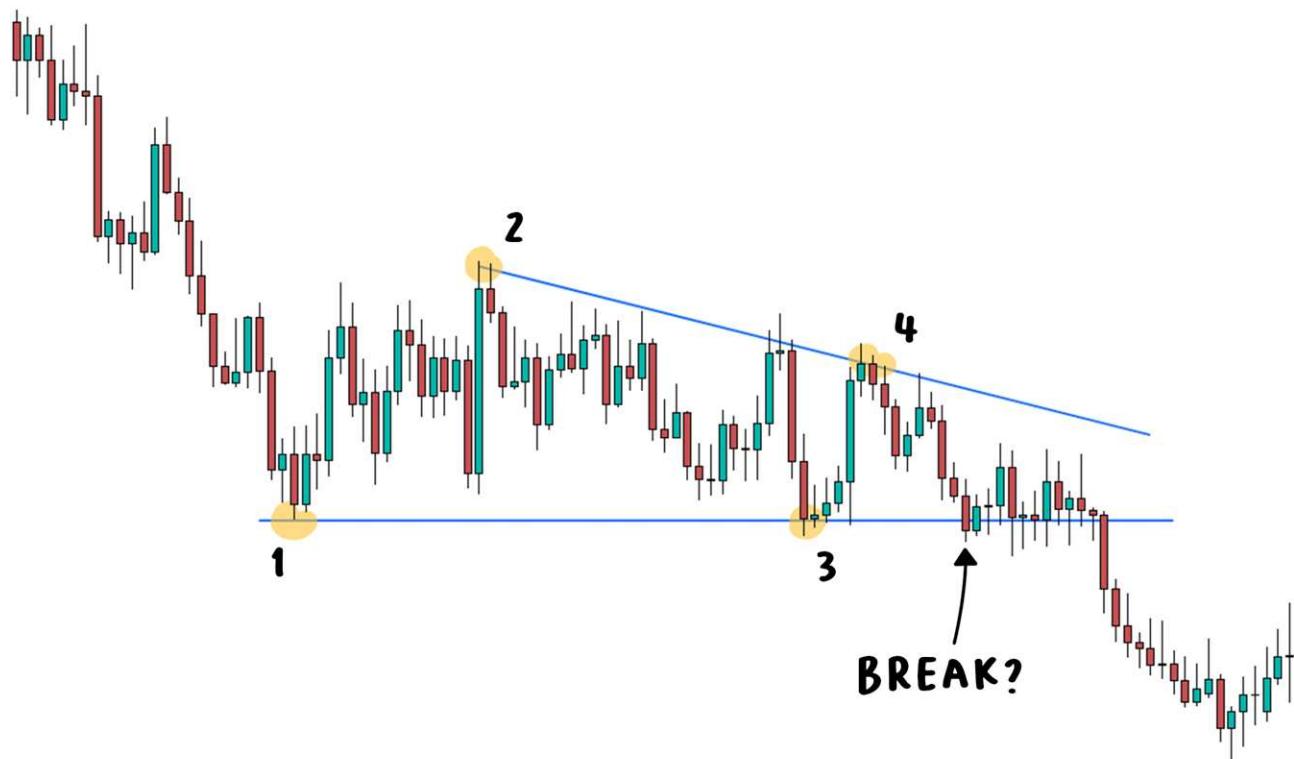
Avoiding Fakeouts

Probably better risk reward ratios

👎 **Disadvantage:** Less trading opportunities

EXAMPLE

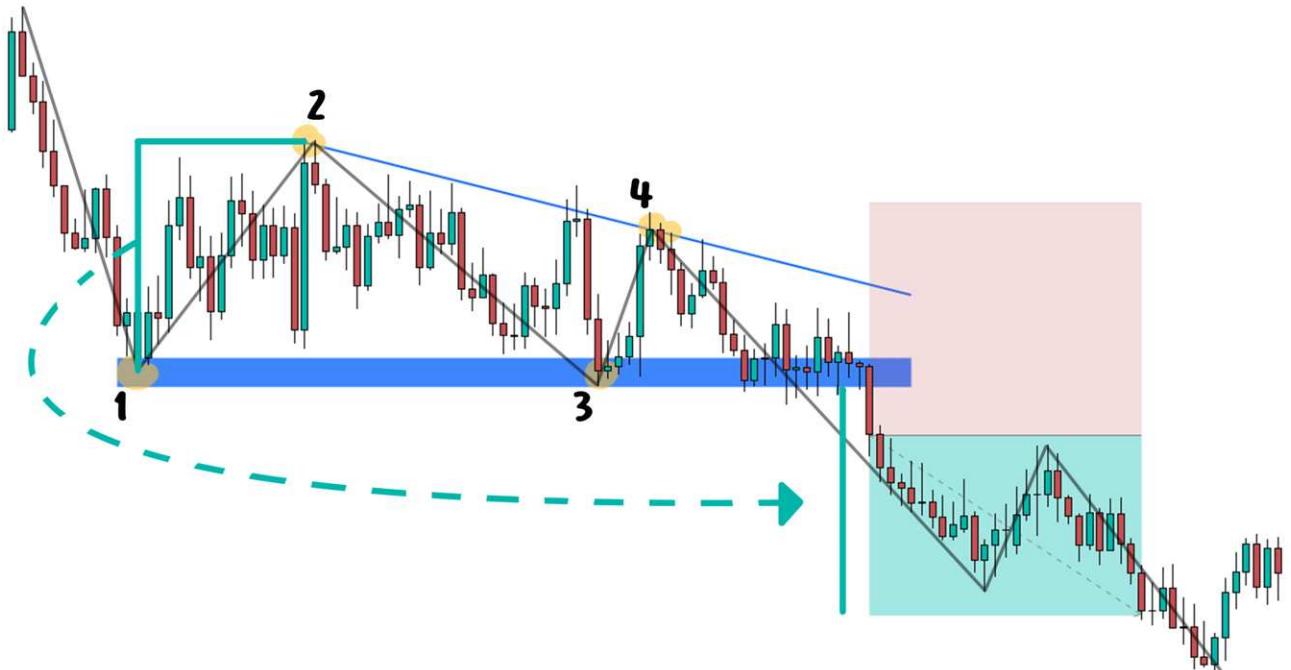
This example is very interesting and combines some of the material we already covered. We have discussed that traders often use zones instead of lines, since price doesn't always move in a textbook-like way, and therefore want to give the price a bit more flexibility. On the chart below you can see that when using a line, we would see a break with that barely closes below resistance. It does not, however, closed below the low points (lower wicks) of previous candles that touched the support line. A breakout trader must find some sort of rules on how to manage such situations. For some traders this break might be already enough to enter a trade, for others, it is not enough and they would have waited for a following bearish candle to confirm the breakout.



As mentioned, other traders use zones. When we switch to using a zone, the whole scenario changes a bit. Let's check out the same example, but with a zone as a horizontal key area:



As we can see above, when using a zone, the breakout candle from the key level line did not break through the zone and the actual breakout in this scenario happened later. That's where the zone approach could help out. In scenarios where the breakout candle just barely closes below/above a key level could give a trader difficulties making a decision. A zone would need the price to break through the key level in a more significant way and therefore could get us a more significant signal. Anyway, both approaches (key level line breakout & key level zone breakout) would have worked out in this scenario. Again, there is not better or worse, it really comes down to how you see the market.

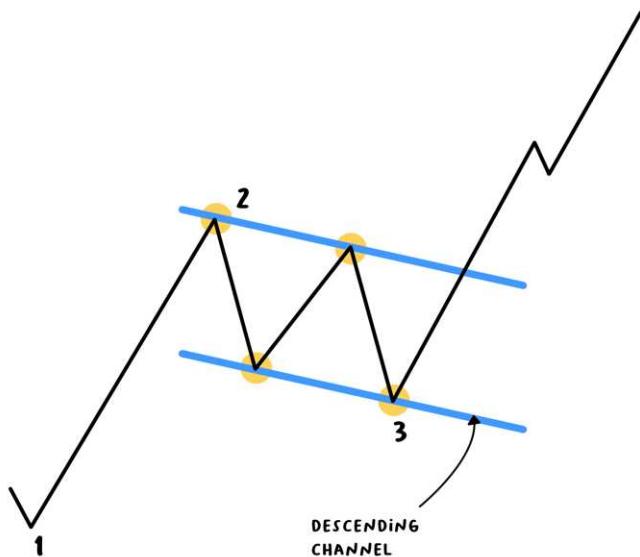


Why do I show you such examples instead of simple and clean examples where everything worked out? Because the market does not work in a textbook way. You will be confronted with more difficult scenarios and I really want you to start thinking independently instead of basing all decisions on the classic textbook. The textbook (which includes this course as well) does not prepare you for all scenarios. It can't. But I can prepare you for accepting that the market does not always provide us with clean patterns. This doesn't mean we can't take advantage of it. We just need to know how to approach it. As you can see above, the trading idea still worked out, even though the risk-reward ratio doesn't seem favorable and would have needed to be adjusted in order to make it worth the trade entry. I hope this makes sense to you, and does not confuse you too much 😊.

BULLISH FLAG

The bullish flag is a bullish continuation pattern. This means that price is already in an uptrend, the bullish flag occurs, which will be followed by price possibly continuing to the upside.

PRICE PATH



The bullish flag consists of a descending channel (2 parallel trendlines).

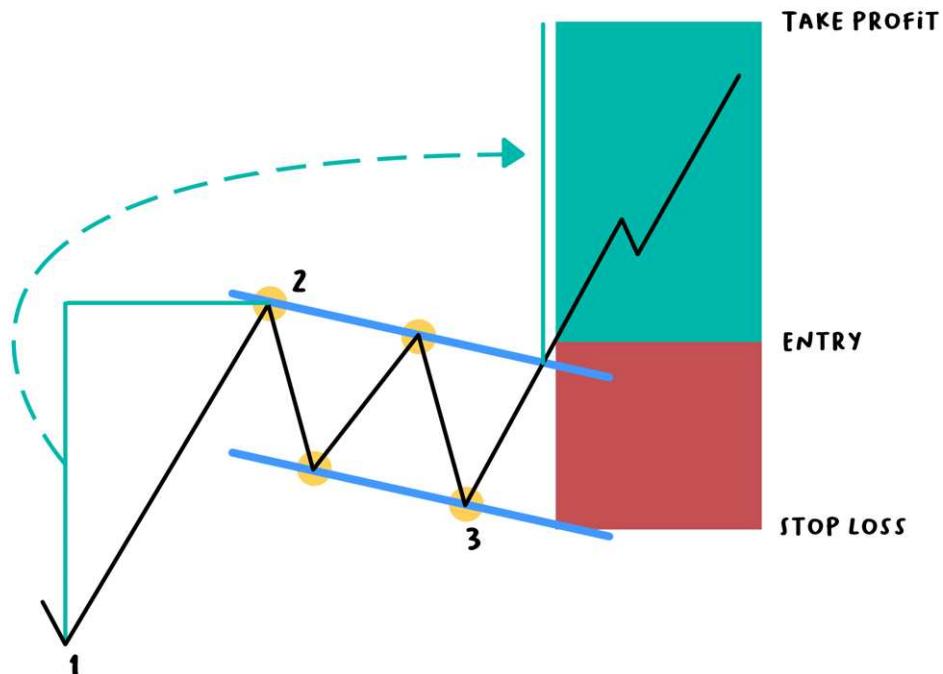
WHAT HAPPENS IN THE PATTERN?

During an uptrend (which starts at 1), price finds resistance 2 to build the so-called „flag's pole“. Since the pattern looks like a flag, the long uptrend to the pattern is considered to be the pole, which is important for determining the take profit level. After resistance is found, the price reverses to the downside to form a lower low, a lower high, and another lower low within the descending channel. The channel needs to have at least 4 price touches to build the pattern. Any additional touches are acceptable as well. After the last lower low 3, the price moves higher and breaks the resistance level of the descending channel, to possibly continue to the upside.

DIFFERENT VERSIONS OF THE PATTERN

In total, we have again two classic ways to trade the bullish flag.

Breakout

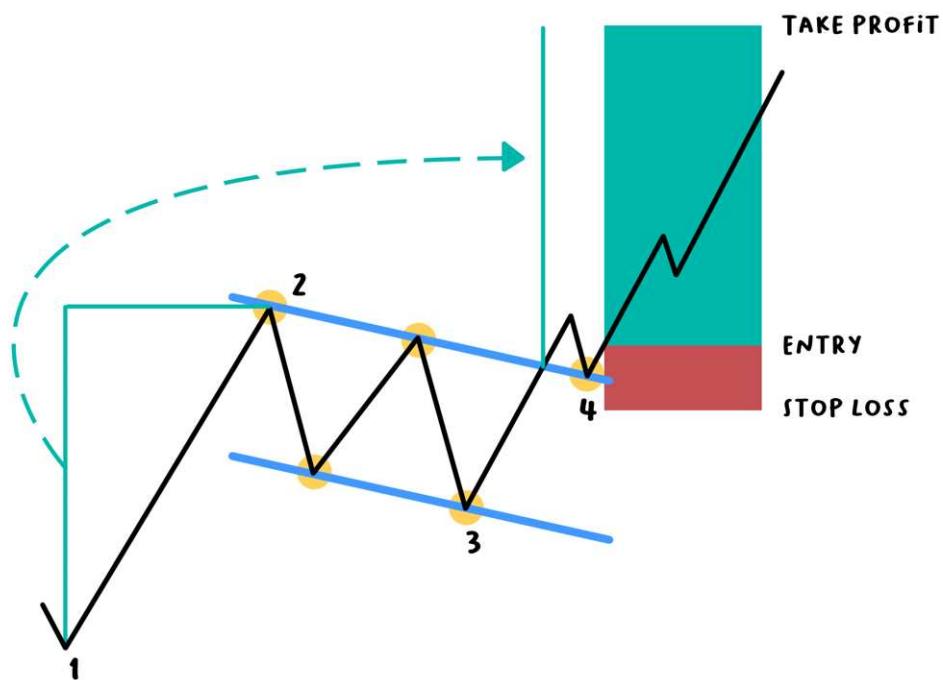


We have the breakout version. This means we are looking to enter the pattern with the close of the breakout candle.

Stop loss can be placed below the last swing low 3. Take profit can be set as followed: We measure the distance between the start of the uptrend 1 to the level of the first time price touched the resistance trendline 2 of the descending channel. The measured distance can be added on top of the last price acceptance of the support trendline within the channel (last lower low) as shown in the picture above. The level where the measured distance ends can be seen as our take profit level.

- 👍 **Advantages:** More trading opportunities
- 👎 **Disadvantages:** Danger of fakeouts
Probably worse risk reward ratios

Retest



Another version is the retest version. This means we would look for trade entries after price broke resistance, retraces back and, accepts the former resistance which became support. A breakout bullish flag can be a retest bullish flag, but the retest does not necessarily happen, which results in fewer trading opportunities compared to the breakout version.

Stop loss can be placed below the retest 5. Take profit can be set the same way as in the breakout version: We measure the distance between the start of the uptrend 1 and the first resistance within the descending channel 2. The measured distance can be placed on top of the last price touch of the support trendline within the descending channel. The level where the measured distance ends can be seen as our take profit level.

Advantage: Extra confirmation through retest

Avoiding fakeouts

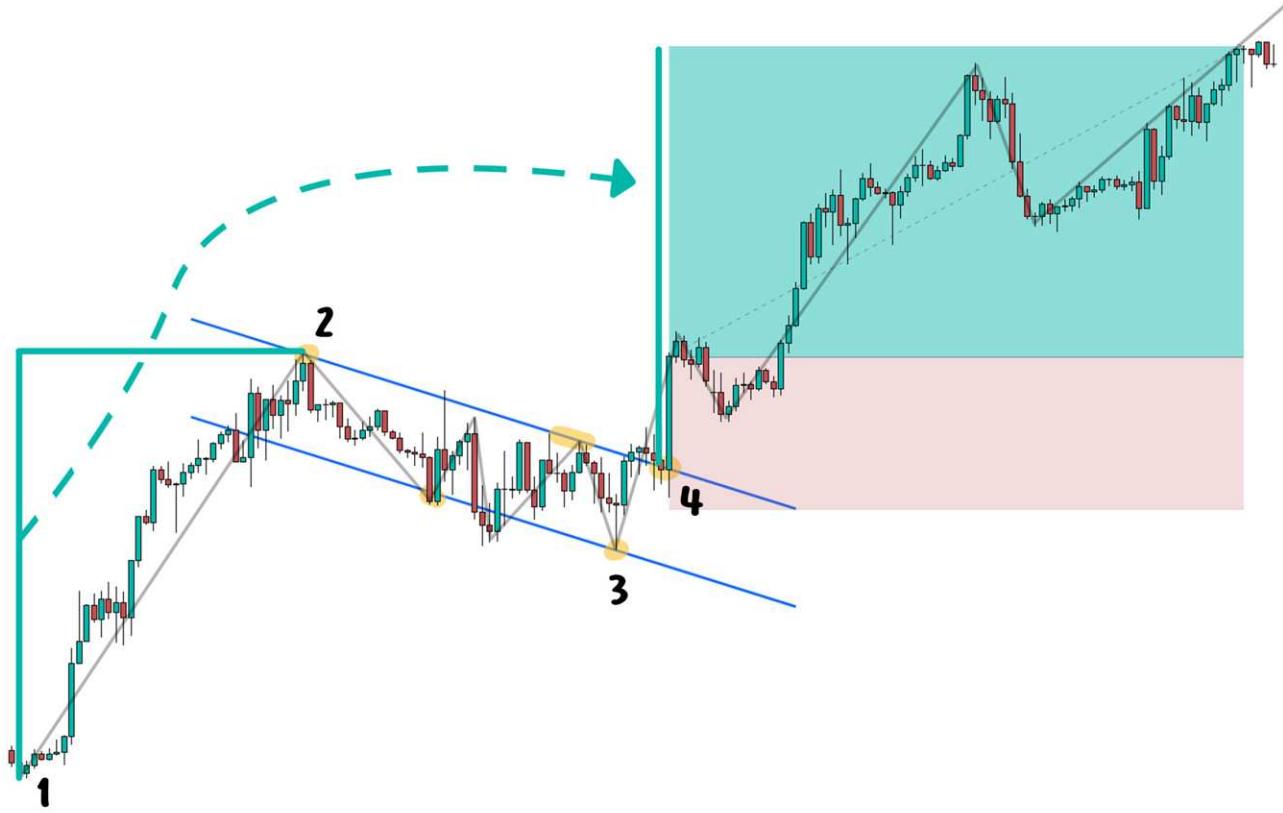
Probably better risk reward ratios

Disadvantage: Less trading opportunities

EXAMPLE



In the example above we can see again that patterns are not always as clean as we draw them in our textbooks. In this example, I want to get into the subject of large bullish breakout or retest candles. As you have noticed, I like to use real life examples to get into some experiences and tips I've learned over the years of trading. In the videos, I will go over some more examples so you can get a better vision of the pattern as well. Back to the specific scenario, there is sometimes the case that the signal candle, on which we base our decision to enter the trade, is very tall compared to previous candles. The problem that we can be confronted with is that the candle is pushing to such high or low levels that it messes up our initial risk-reward ratio. If this happens, we can either adjust our take profit level, wait for a potential pullback after such a price push to the upside or downside, or we could ignore the setup (in extreme scenarios). Let's continue with the example and see how the classic approach of setting stop loss and take profit levels would have worked out in this example:

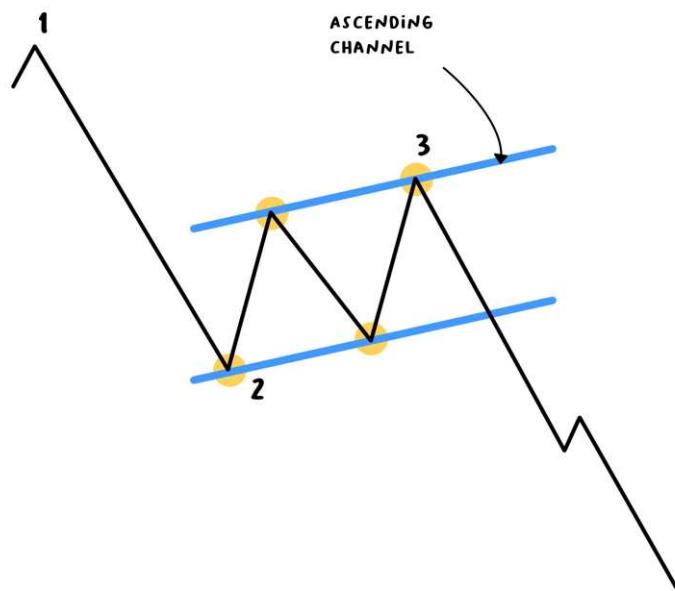


When we draw in the price movements with lines, we can clearly see that the downwards channel isn't perfectly accepted by price. It really comes down to personal judgment if such a setup would fit into the scale of acceptance. From my personal experience, I can say that setups do not necessarily need to be clean 100% to work out. There is, however, a fine line. The setups should still generally be within our rules. Because I was running out of space, I had to cut the chart right after take profit was hit. I can say that price continued upwards after the take profit level and we did not exit perfectly at the swing high, which is not the goal. This info is just to ensure you that the setup was still signaling correctly the trend continuation to the upside.

BEARISH FLAG

The bearish flag is just the opposite of the bullish flag and can be treated the same way. The bearish flag is a bearish continuation pattern. This means that price is already in a downtrend, the bearish flag occurs, which will be followed by price possibly continuing to the downside.

PRICE PATH



The bearish flag consists of an ascending channel (2 parallel trendlines).

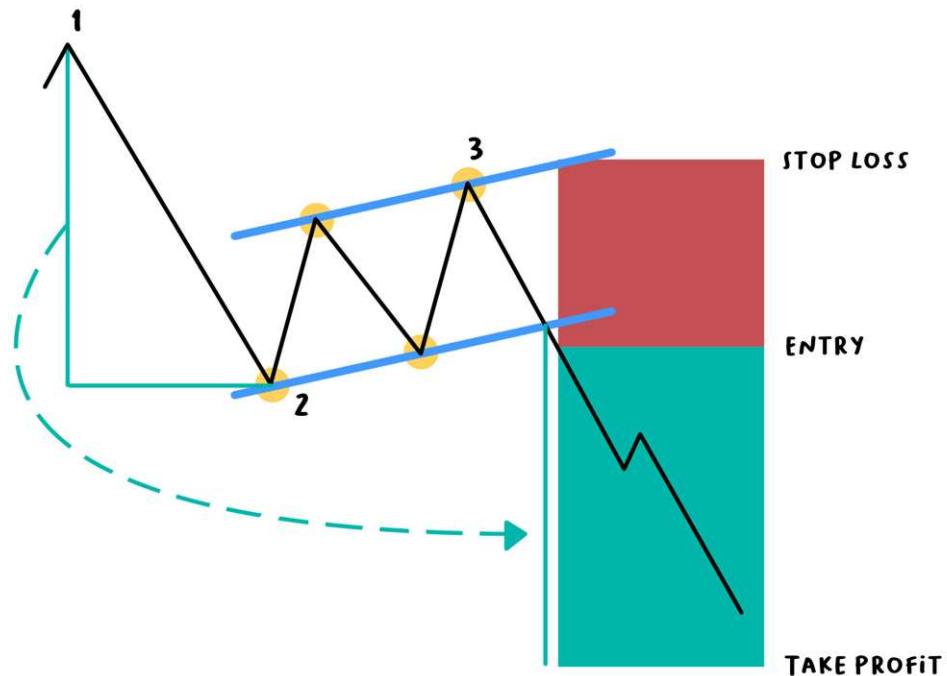
WHAT HAPPENS IN THE PATTERN

During a downtrend (which starts at 1), price finds support 2 to build the so-called „flag's pole“. Since the pattern looks like an upside-down flag, the long downtrend to the pattern is considered to be the pole, which is important for determining the take profit level. After support is found, the price reverses to the upside to form a higher high, a higher low, and another higher high within the ascending channel. The channel needs to have at least 4 price touches to build the pattern. Any additional touches are acceptable as well. After the last higher high 3, the price moves lower and breaks the support level of the ascending channel 4, to possibly continue to the downside.

DIFFERENT VERSIONS OF THE PATTERN

In total, we have again two classic ways to trade the bearish flag.

Breakout



We have the breakout version. This means we are looking to enter the pattern with the close of the breakout candle.

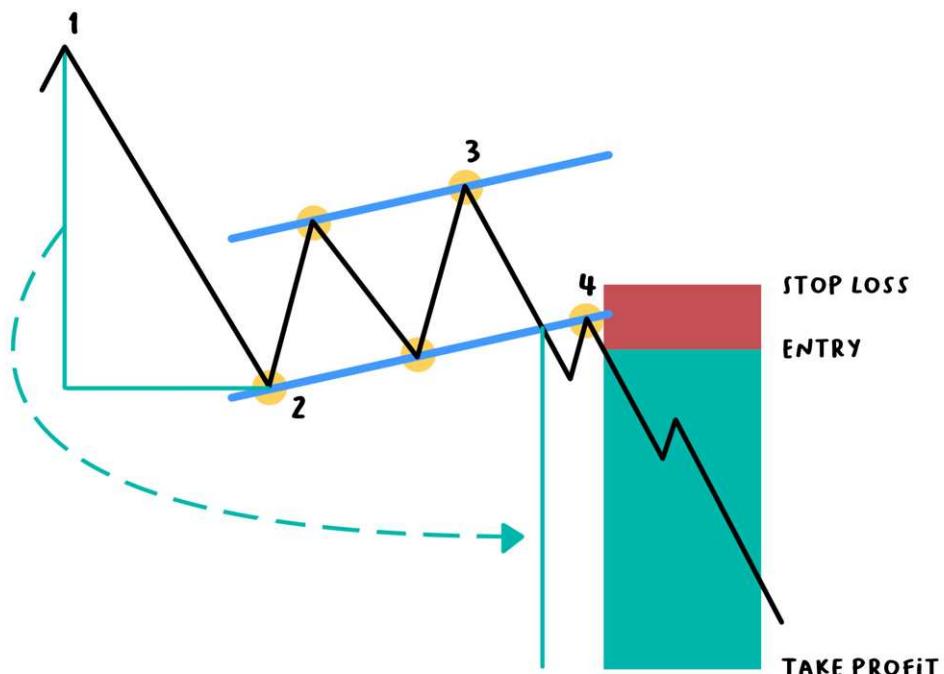
Stop loss can be placed above the last swing low 3. Take profit can be set as followed: We measure the distance between the start of the downtrend 1 to the level of the first time price touched the support trendline 2 of the ascending channel. The measured distance can be placed below the last price acceptance of the resistance trendline within the channel (last higher high) as shown in the picture above. The level where the measured distance ends can be seen as our take profit level.

- 👍 **Advantage:** More trading opportunities
- 👎 **Disadvantage:** Danger of fakeouts
Probably worse risk reward ratios

Retest

Another version is the retest version. This means we would look for trade entries after price broke support, retraces back, and accepts the former support which became resistance. A breakout bearish flag can be a retest bearish flag, but the retest does not necessarily happen, which results in fewer trading opportunities compared to the breakout version.

Stop loss can be placed above the retest 5. Take profit can be set the same way as in the breakout version: We measure the distance between the start of the downtrend 1 and the first support within the ascending channel 2. The measured distance can be placed below the last price touch of the resistance trendline within the ascending channel. The level where the measured distance ends can be seen as our take profit level.



👍 **Advantage:** Extra confirmation through retest

Avoiding fakeouts

Probably better risk reward ratios

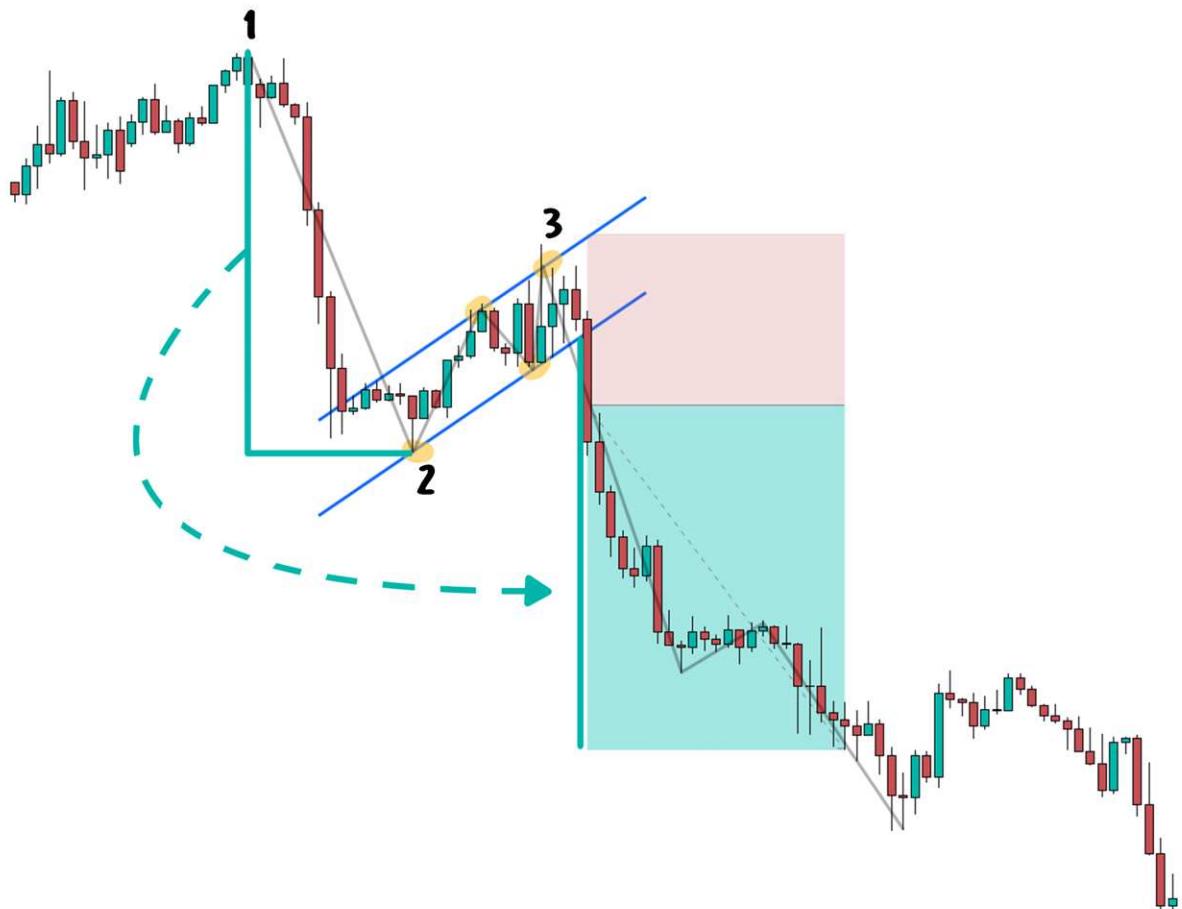
👎 **Disadvantage:** Less trading opportunities

EXAMPLE

Let's have a look at a breakout example. A retest trader would have not found any entry here, since the price never reversed to test the lower trendline of the ascending channel.



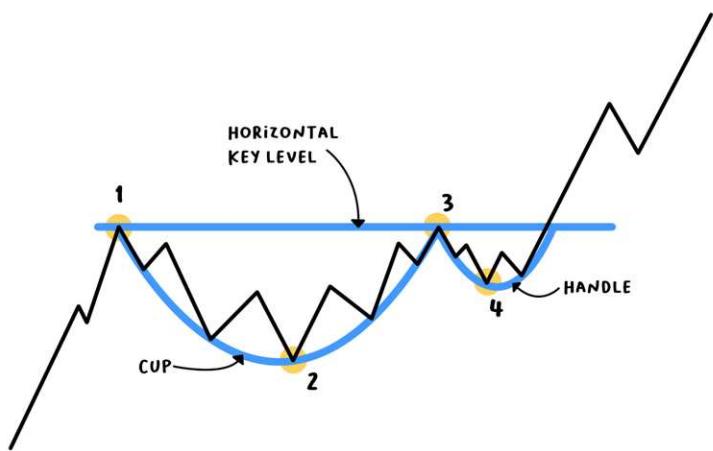
In order to show you the overall context of the scenario, I went from the 30min timeframe to the hourly timeframe, therefore the scenario looks slightly different in the next chart:



CUP AND HANDLE

The cup and handle pattern is a bullish continuation pattern. This means that price is already in an uptrend, the cup and handle pattern occurs, which will be followed by price possibly continuing to the upside.

PRICE PATH



The cup and handle pattern consists of a bigger „half circle“ (cup) price movement followed by a smaller „half circle“ (handle) price movement as well as a horizontal resistance level.

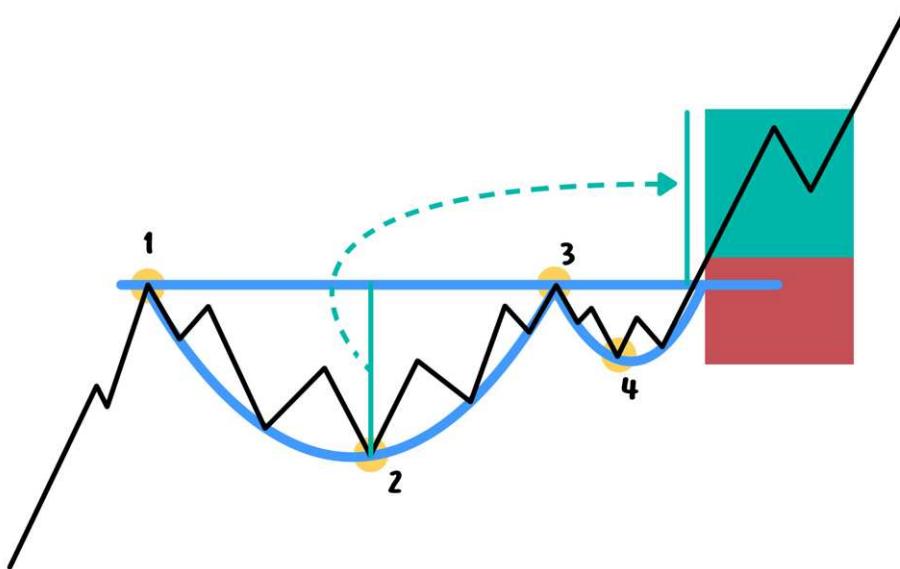
WHAT HAPPENS IN THE PATTERN?

During an uptrend, resistance is built 1. Price reverses to the downside till it finds support 2, which is the lowest point of the pattern. Price accepts the support and moves higher to the previous resistance level. This movement builds the „cup“ and is the bigger „half circle“ price movement. Price accepts a second time the resistance level 3 and retraces back till it finds support again 4. The second support 4 must be higher than the first support 2. After the second support 4, the price will move to the upside and possibly continue to the upside while breaking the resistance level and completing the „handle“.

DIFFERENT VERSIONS OF THE PATTERN

In total, we have again two classic ways to trade the cup and handle pattern.

Breakout

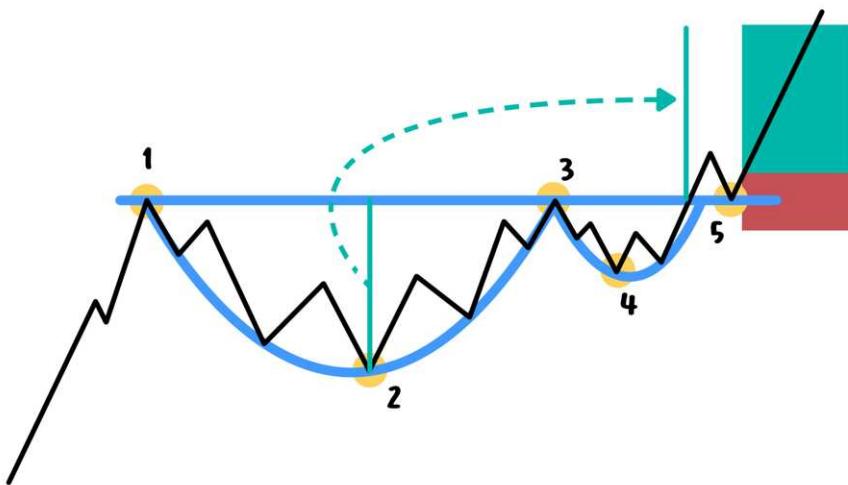


We have the breakout version. This means we are looking to enter the pattern with the close of the breakout candle.

Stop loss can be placed below the second support 4. Take profit can be set as followed: We measure the distance between the first support 2 and the horizontal resistance level. The measured distance can be added on top of the resistance level as shown in the picture above. The level where the measured distance ends can be seen as our take profit level.

- 👍 **Advantage:** More trading opportunities
- 👎 **Disadvantage:** Danger of fakeouts
Probably worse risk reward ratios

Retest

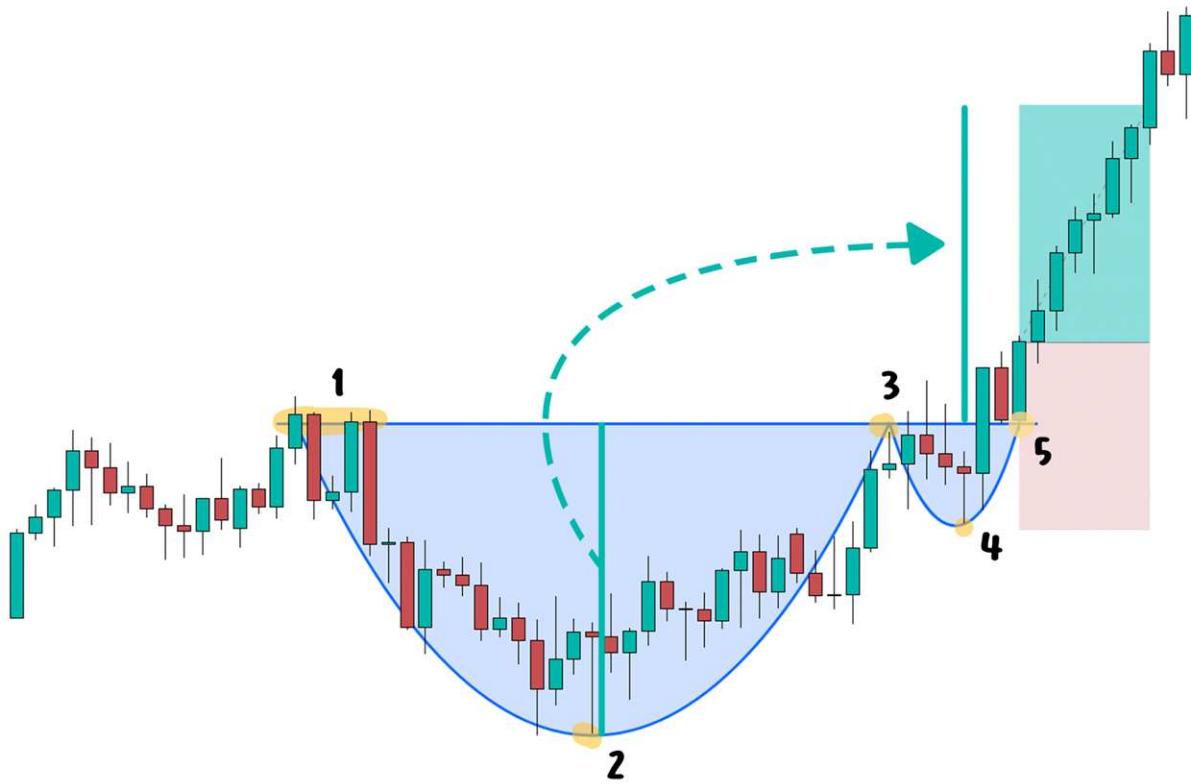


Another version is the retest version. This means we would look for trade entries after price broke resistance, retraces back, and accepts the former resistance which became support. A breakout cup and handle pattern can be a retest cup and handle pattern, but the retest does not necessarily happen, which results in fewer trading opportunities compared to the breakout version.

Stop loss can be placed below the retest. Take profit can be set the same way as in the breakout version: We measure the distance between the first support 2 and the horizontal resistance level. The measured distance can be added on top of the resistance level as shown in the picture above. The level where the measured distance ends can be seen as our take profit level.

- 👍 **Advantage:**
 - Extra confirmation through retest
 - Avoiding fakeouts
 - Probably better risk reward ratios
- 👎 **Disadvantage:**
 - Less trading opportunities

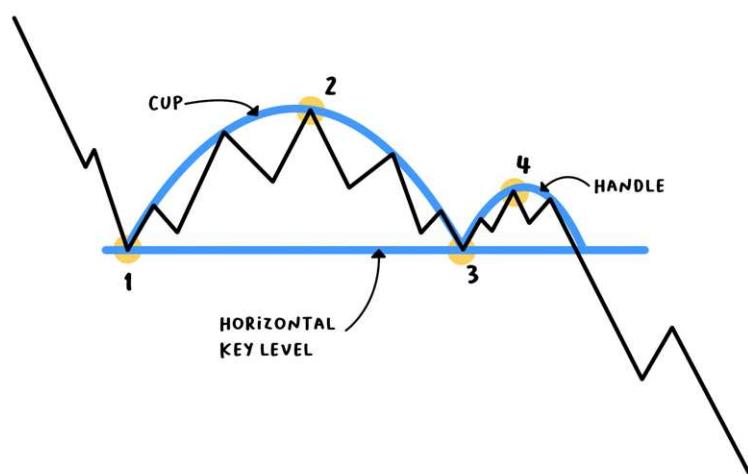
EXAMPLE



INVERSE CUP AND HANDLE

The inverse cup and handle pattern is just the opposite of the cup and handle pattern, which makes it a bearish continuation pattern. This means that price is already in a downtrend, the inverted cup and handle pattern occurs, which will be followed by price possibly continuing to the downside.

PRICE PATH



The inverse cup and handle pattern consist of a bigger „half circle“ price movement followed by a smaller „half circle“ price movement as well as a horizontal support level.

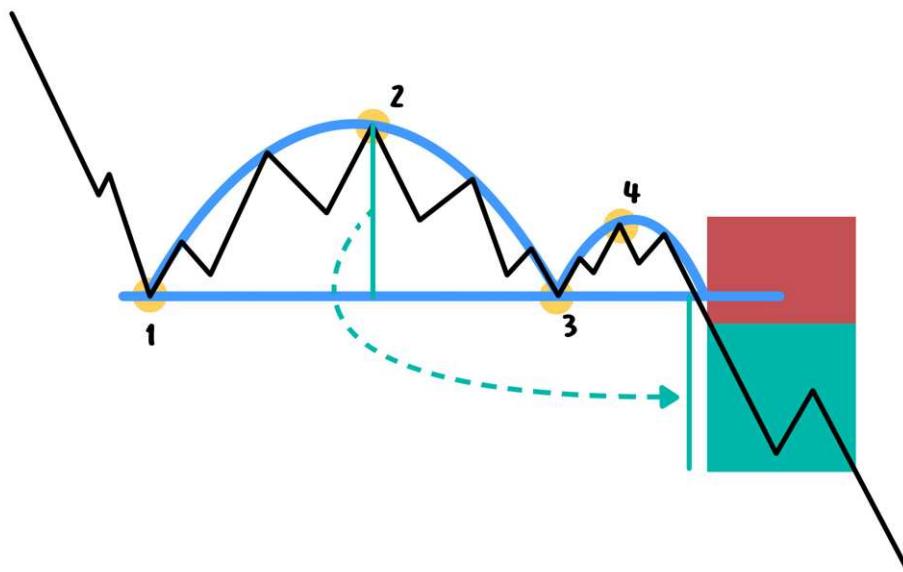
WHAT HAPPENS IN THE PATTERN?

During a downtrend, support is build 1. Price reverses to the upside till it finds resistance 2, which is the highest point of the pattern. Price accepts the resistance and moves lower to the previous support level. This movement builds the inverted „cup“ and is the bigger „half circle“ price movement. Price accepts a second time the support level 3 and retraces back till it finds resistance again 4. The second resistance 4 must be lower than the first resistance 2. After the second resistance 4, the price will move to the downside and possibly continue to the downside while breaking the support level and completing the „handle“.

DIFFERENT VERSIONS OF THE PATTERN

In total, we have again two classic ways to trade the inverted cup and handle pattern.

Breakout



We have the breakout version. This means we are looking to enter the pattern with the close of the breakout candle.

Stop loss can be placed above the second resistance 4. Take profit can be set as followed: We measure the distance between the first resistance 2 and the horizontal support level. The measured distance can be placed below the support level as shown in the picture above. The level where the measured distance ends can be seen as our take profit level.

👍 **Advantage:**

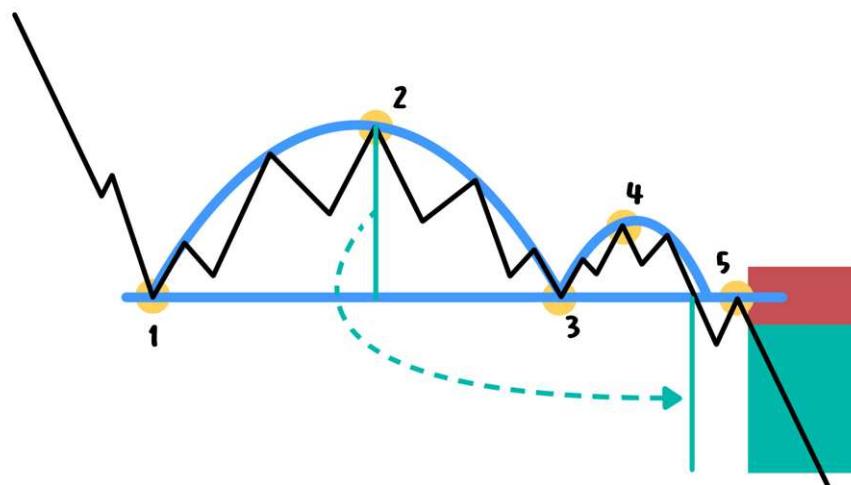
More trading opportunities

👎 **Disadvantage:**

Danger of fakeouts

Probably worse risk reward ratios

Retest

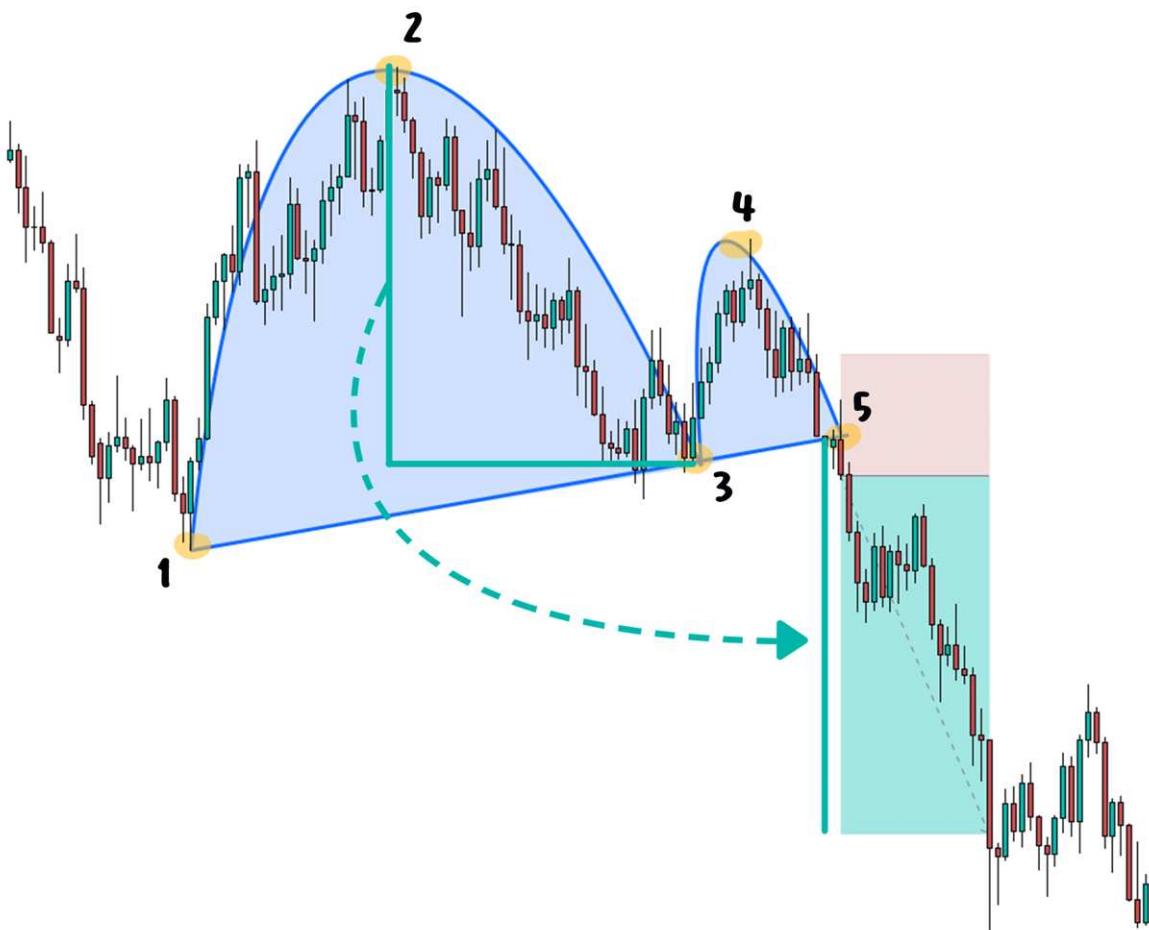


Another version is the retest version. This means we would look for trade entries after price broke support, retraces back, and accepts the former support which became resistance. A breakout inverted cup and handle pattern can be a retest inverted cup and handle pattern, but the retest does not necessarily happen, which results in fewer trading opportunities compared to the breakout version.

Stop loss can be placed above the retest. Take profit can be set the same way as in the breakout version: We measure the distance between the first resistance 2 and the horizontal support level. The measured distance can be placed below the support level as shown in the picture above. The level where the measured distance ends can be seen as our take profit level.

- 👍 **Advantage:** Extra confirmation through retest
Avoiding fakeouts
Probably better risk reward ratios
- 👎 **Disadvantage:** Less trading opportunities

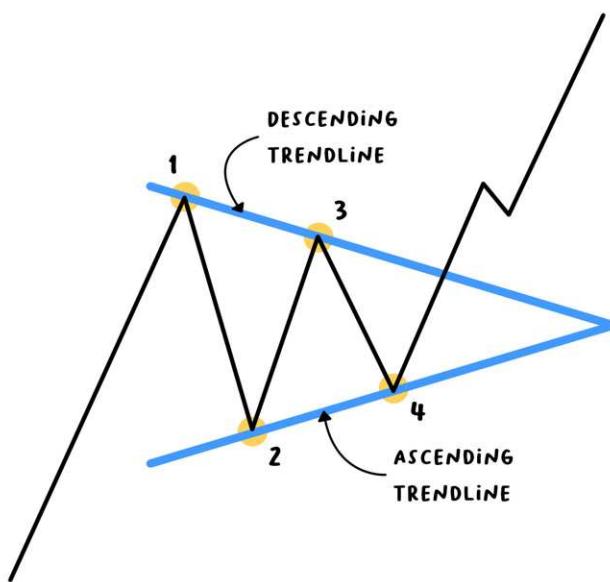
EXAMPLE



BULLISH SYMMETRICAL TRIANGLE

The bullish symmetrical triangle pattern is a bullish continuation pattern. This means that price is already in an uptrend, the bullish symmetrical triangle pattern occurs, which will be followed by price possibly continuing to the upside.

PRICE PATH



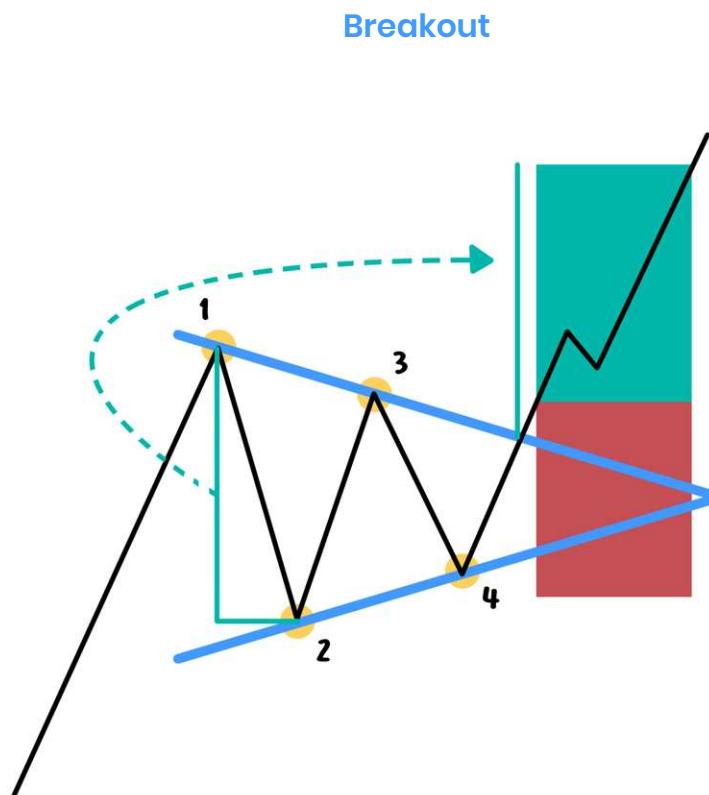
The bullish symmetrical triangle pattern consists of an ascending lower trendline and a descending upper trendline forming a symmetrical triangle.

WHAT HAPPENS IN THE PATTERN

During an uptrend, resistance is built at point 1, which is the highest high of the pattern. Price reverses to the downside till it finds support at point 2, which is the lowest low of the pattern. Price will continue to build lower higher and higher lows. Price needs to touch the trendlines at least 4 times for the pattern to be valid. Any additional touches of the trendline are also acceptable. After the last higher low 4, the price will continue to the upside, break the resistance descending trendline, and possibly continue to the upside.

DIFFERENT VERSIONS OF THE PATTERN

In total, we have again two classic ways to trade the bullish symmetrical triangle pattern.

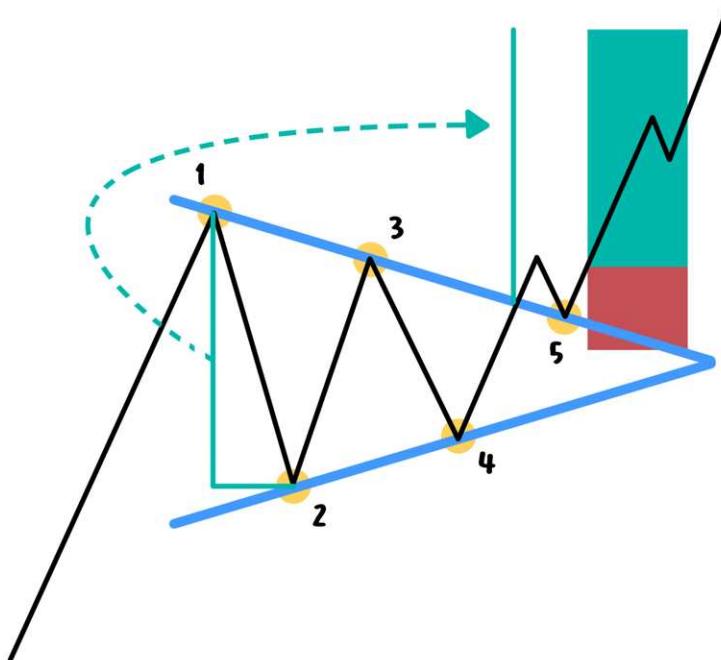


We have the breakout version. This means we are looking to enter the pattern with the close of the breakout candle.

Stop loss can be placed below the last higher low 4. Take profit can be set as followed: We measure the distance between the first resistance 1, which is the highest high of the pattern, and the first support level 2, which is the lowest low of the pattern. The measured distance can be added on top of the resistance trendline at the time of the breakout candle as shown in the picture above. The level where the measured distance ends can be seen as our take profit level.

- 👍 **Advantage:** More trading opportunities
- 👎 **Disadvantage:** Danger of fakeouts
Probably worse risk reward ratios

Retest



Another version is the retest version. This means we would look for trade entries after price broke resistance, retraces back, and accepts the former resistance which became support. A breakout bullish symmetrical triangle pattern can be a retest bullish symmetrical triangle pattern, but the retest does not necessarily happen, which results in fewer trading opportunities compared to the breakout version.

Stop loss can be placed below the retest. Take profit can be set the same way as in the breakout version: We measure the distance between the first resistance 1, which is the highest high of the pattern, and the first support level 2, which is the lowest low of the pattern. The measured distance can be added on top of the resistance trendline at the time of the breakout candle as shown in the picture above. The level where the measured distance ends can be seen as our take profit level.

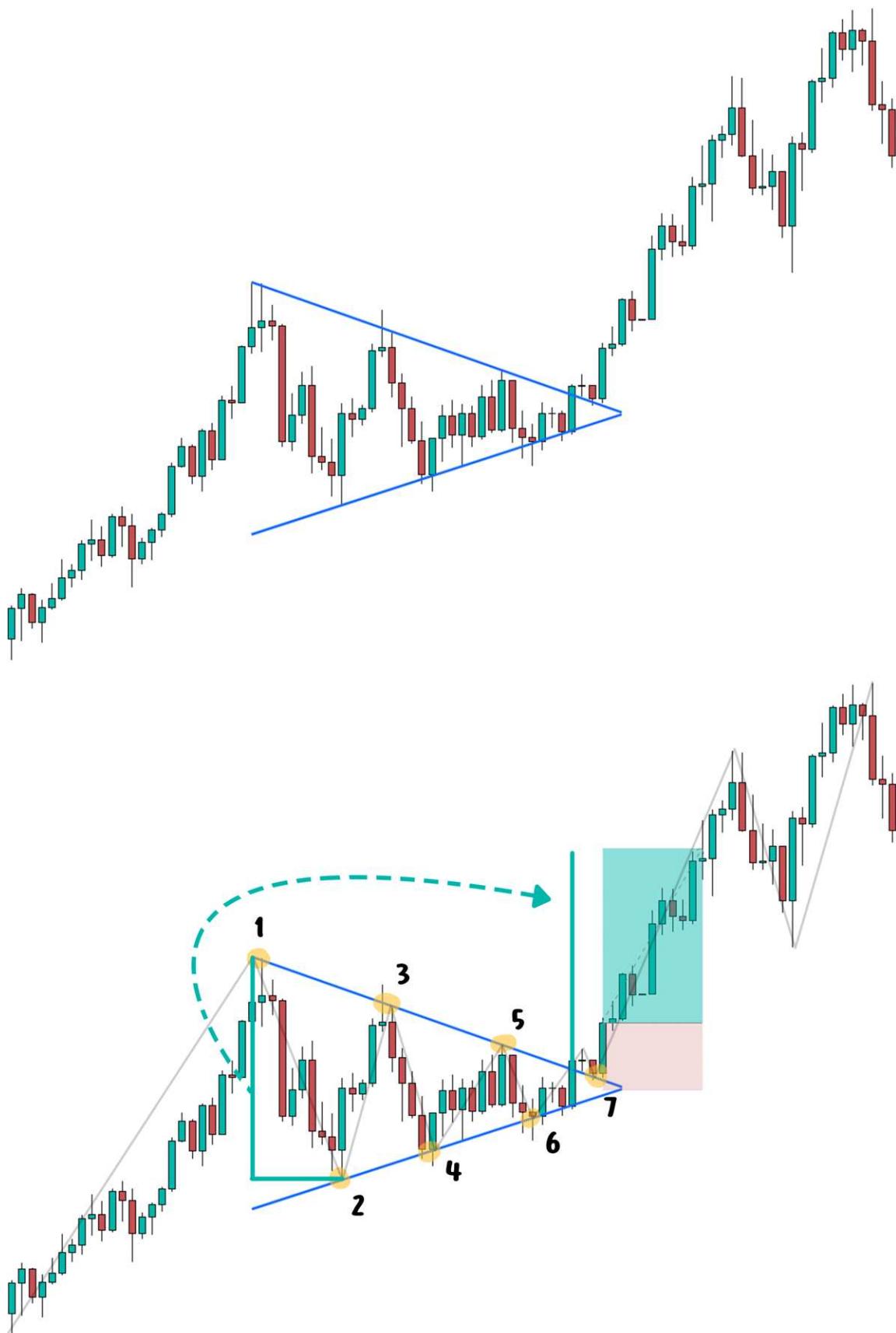
👍 **Advantage:** Extra confirmation through retest

Avoiding fakeouts

Probably better risk reward ratios

👎 **Disadvantage:** Less trading opportunities

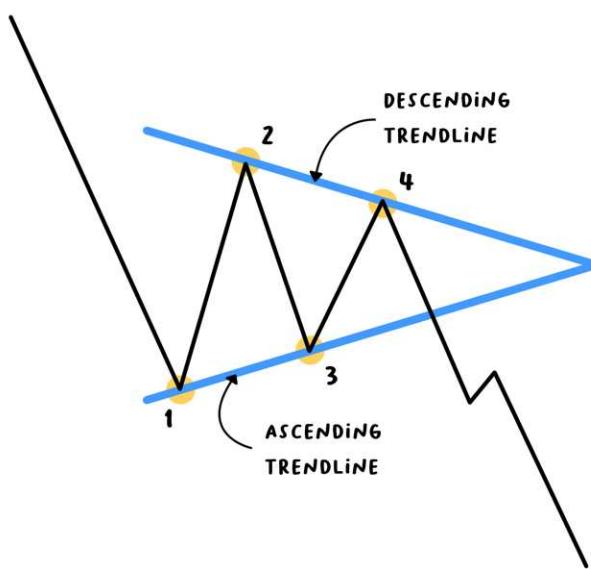
EXAMPLE



BEARISH SYMMETRICAL TRIANGLE

The bearish symmetrical triangle pattern is a bearish continuation pattern. This means that price is already in a downtrend, the bearish symmetrical triangle pattern occurs, which will be followed by price possibly continuing to the downside.

PRICE PATH



The bearish symmetrical triangle pattern consists of an ascending lower trendline and a descending upper trendline forming a symmetrical triangle.

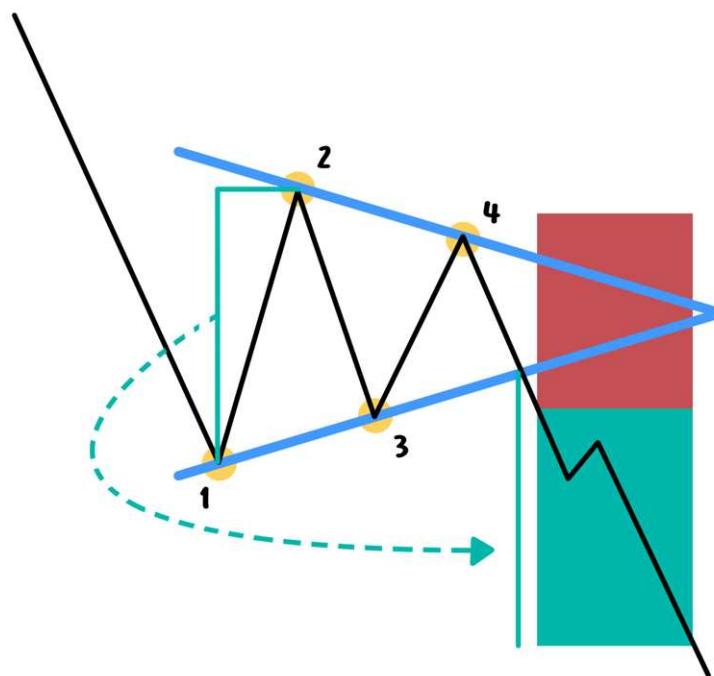
WHAT HAPPENS IN THE PATTERN?

During a downtrend, support is built 1, which is the lowest low of the pattern. Price reverses to the upside till it finds resistance 2, which is the highest high of the pattern. Price will continue to build lower highs and higher lows. Price needs to touch the trendlines at least 4 times for the pattern to be valid. Any additional touches of the trendline are also acceptable. After the last lower high 4, the price will continue to the downside, break the support ascending trendline, and possibly continue to the downside.

DIFFERENT VERSIONS OF THE PATTERN

In total, we have again two classic ways to trade the bearish symmetrical triangle pattern.

Breakout



We have the breakout version. This means we are looking to enter the pattern with the close of the breakout candle.

Stop loss can be placed above the last lower high 4. Take profit can be set as followed: We measure the distance between the first support 1, which is the lowest low of the pattern, and the first resistance level 2, which is the highest high of the pattern. The measured distance can be placed below the support trendline at the time of the breakout candle as shown in the picture above. The level where the measured distance ends can be seen as our take profit level.



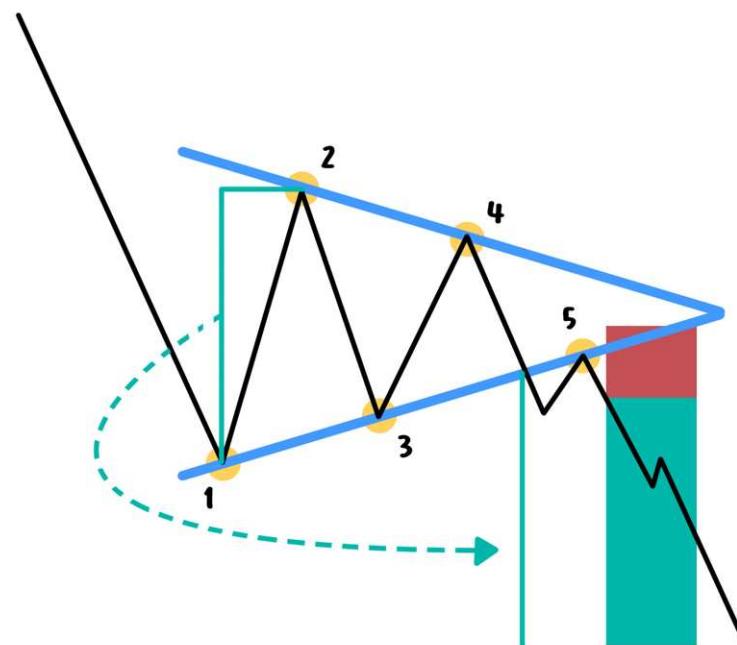
Advantage: More trading opportunities



Disadvantage: Danger of fakeouts

Probably worse risk reward ratios

Retest

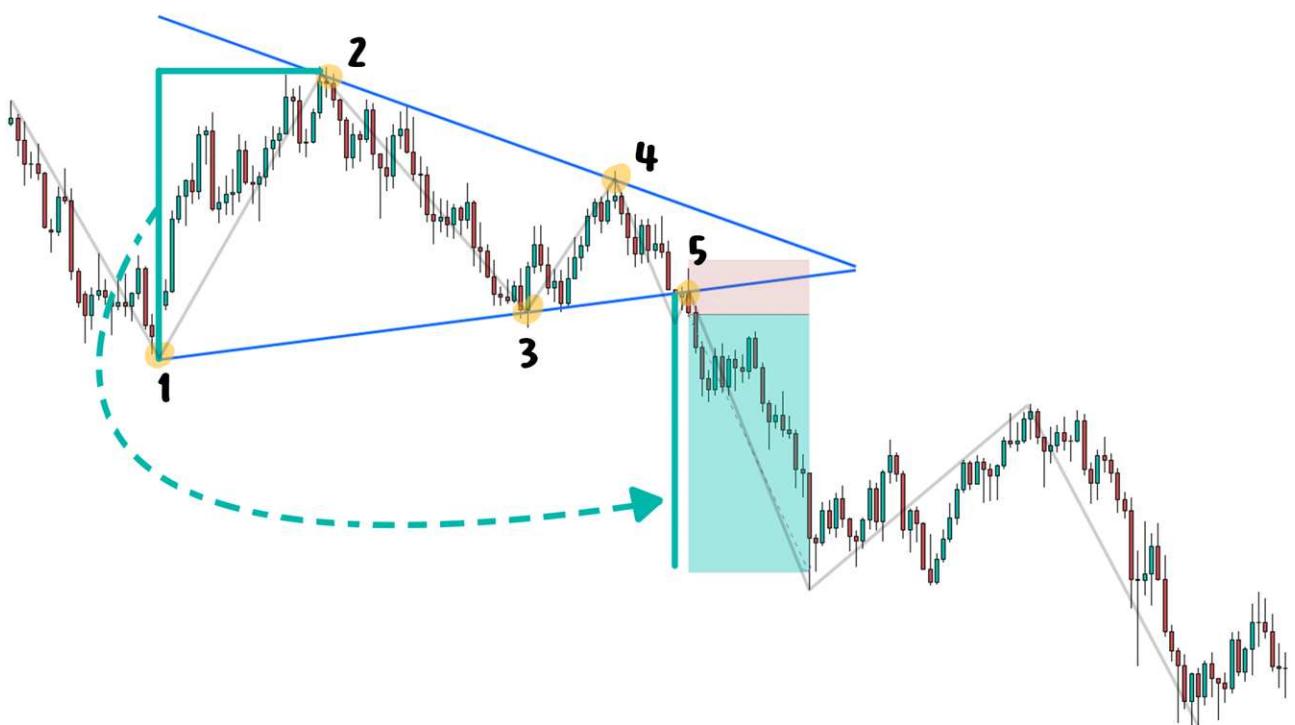


Another version is the retest version. This means we would look for trade entries after price broke support, retraces back, and accepts the former support which became resistance. A breakout bearish symmetrical triangle pattern can be a retest bearish symmetrical triangle pattern, but the retest does not necessarily happen, which results in fewer trading opportunities compared to the breakout version.

Stop loss can be placed above the retest. Take profit can be set the same way as in the breakout version: We measure the distance between the first support 1, which is the lowest low of the pattern, and the first resistance level 2, which is the highest high of the pattern. The measured distance can be placed below the support trendline at the time of the breakout candle as shown in the picture above. The level where the measured distance ends can be seen as our take profit level.

- | | |
|------------------------|--|
| 👍 Advantage: | Extra confirmation through retest Avoiding fakeouts Probably better risk reward ratios |
| 👎 Disadvantage: | Less trading opportunities |

EXAMPLE

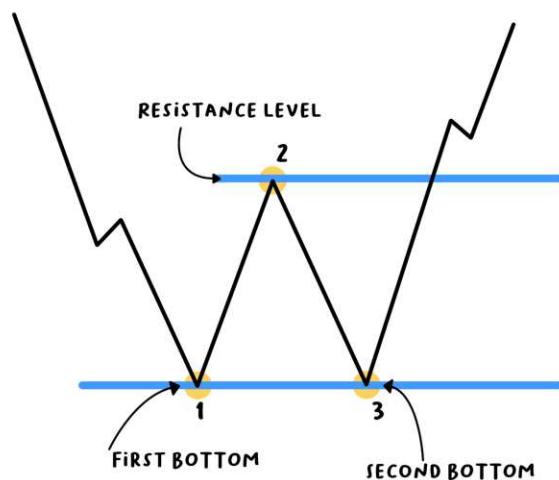


1.9.16.2. REVERSAL PATTERNS

DOUBLE BOTTOM

The double bottom is a bullish reversal pattern. This means that price was in a downtrend, the double bottom occurs, which will be followed by price possibly reversing to the upside.

PRICE PATH



The double bottom consists of two horizontal key levels. One support level, on which the double bottom occurs, and a resistance level (which could become support), which represents the so-called „neckline“.

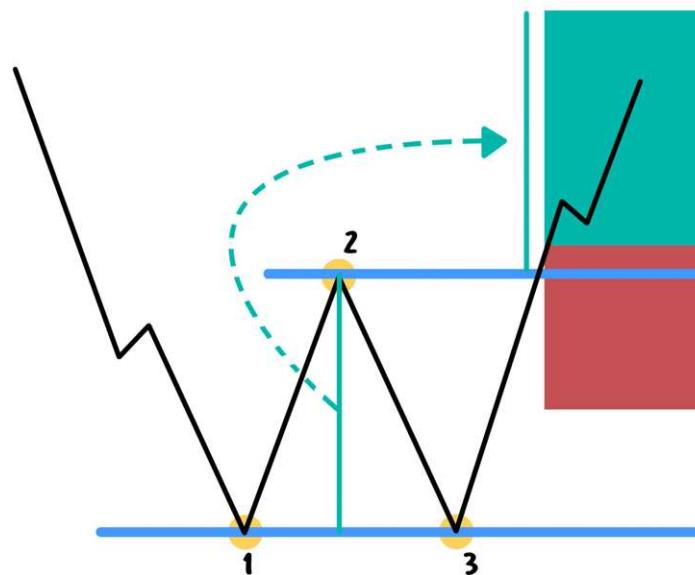
WHAT HAPPENS IN THE PATTERN?

During a downtrend, price finds support 1 and reverses to the upside, building the first bottom. Price then finds resistance 2, to retrace back to the previous support level 3. This represents the second bottom. Price accepts the support level again, reverses to the upside, breaks the previous resistance (neckline resistance line), and possibly continues further to the upside.

DIFFERENT VERSIONS OF THE PATTERN

In total, we have again two classic ways to trade the double bottom pattern.

Breakout

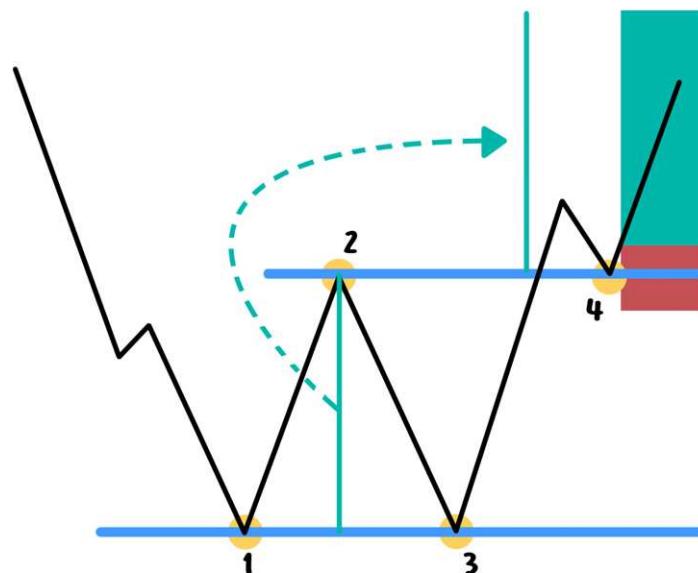


We have the breakout version. This means we are looking to enter the pattern with the close of the breakout candle.

Stop loss can be placed between second support (second bottom) 3 & resistance 2 (depending on the structure of the price movement). Take profit can be set as followed: We measure the distance between the first support 2 and the horizontal resistance level. The measured distance between the support level, where the 2 bottoms occur, and the neckline. The measured distance can then be added on top of the neckline. The level where the measured distance ends can be seen as our take profit level.

- 👍 **Advantage:** More trading opportunities
- 👎 **Disadvantage:** Danger of fakeouts
Probably worse risk reward ratios

Retest



Another version is the retest version. This means we would look for trade entries after price broke resistance (neckline), retraces back, and accepts the former resistance which became support. A breakout double bottom pattern can be a retest double bottom pattern, but the retest does not necessarily happen, which results in fewer trading opportunities compared to the breakout version.

Stop loss can be placed below the retest. Take profit can be set the same way as in the breakout version: We measure the distance between the support level, where the 2 bottoms occur, and the neckline. The measured distance can then be added on top of the neckline. The level where the measured distance ends can be seen as our take profit level.

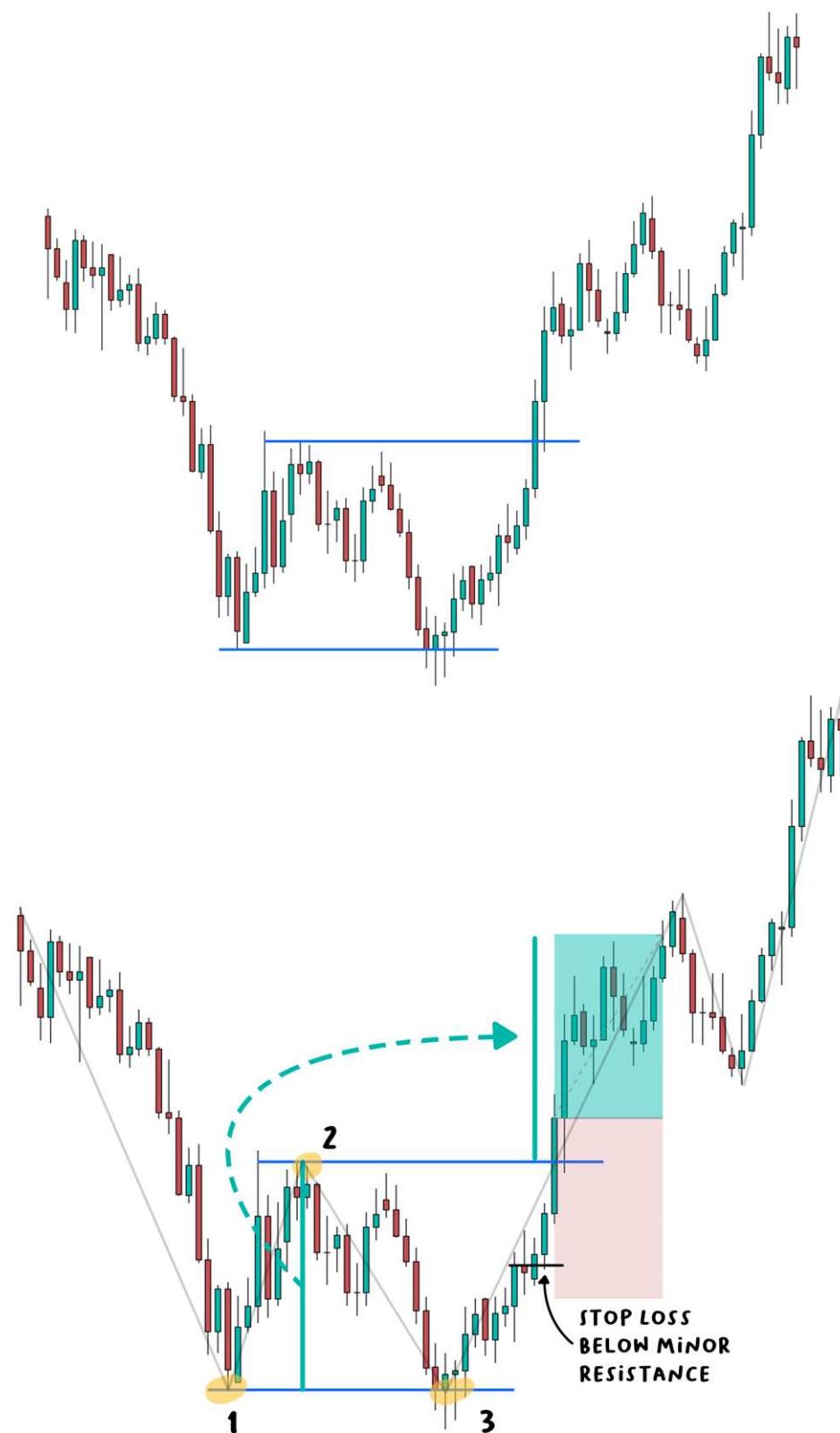
👍 **Advantage:** Extra confirmation through retest

Avoiding fakeouts

Probably better risk reward ratios

👎 **Disadvantage:** Less trading opportunities

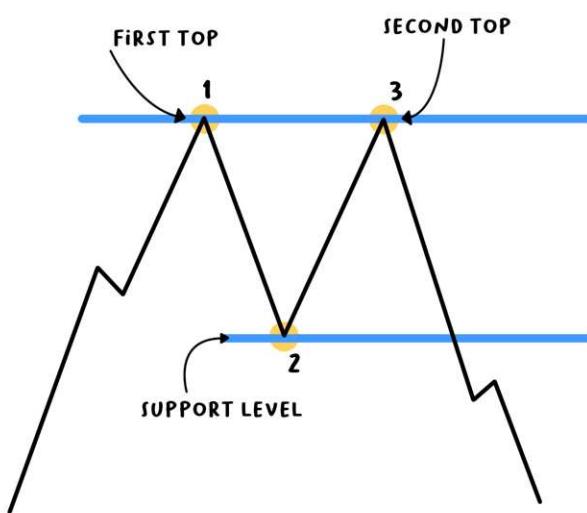
EXAMPLE



DOUBLE TOP

The double top is the opposite of the double bottom and a bearish reversal pattern. This means that price was in an uptrend, the double top occurs, which will be followed by price possibly reversing to the downside.

PRICE PATH



The double top consists of two horizontal key levels. One resistance level, on which the double top occurs, and a support level (which could become resistance), which represents the so-called „neckline“.

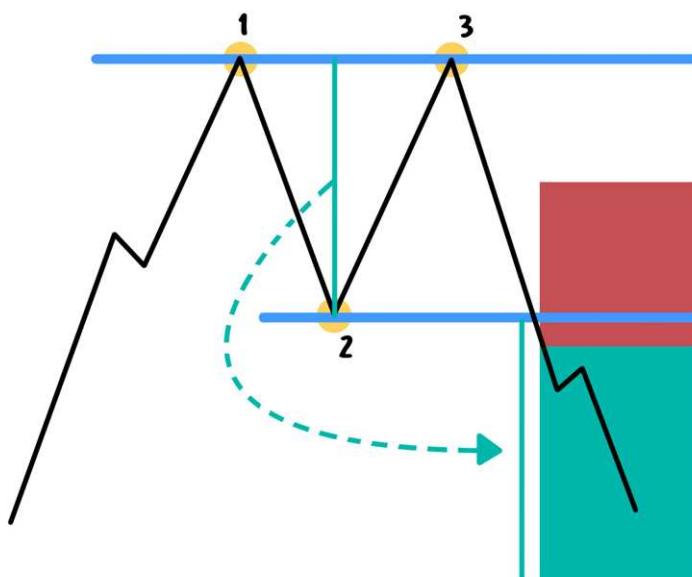
WHAT HAPPENS IN THE PATTERN?

During an uptrend, the price finds resistance 1 and reverses to the downside, building the first top. Price then finds support 2, to retrace back to the previous resistance level 3. This represents the second top. Price accepts the resistance level again, reverses to the downside, breaks the previous support (neckline support line), and possibly continues further to the downside.

DIFFERENT VERSIONS OF THE PATTERN

In total, we have again two classic ways to trade the double top pattern.

Breakout

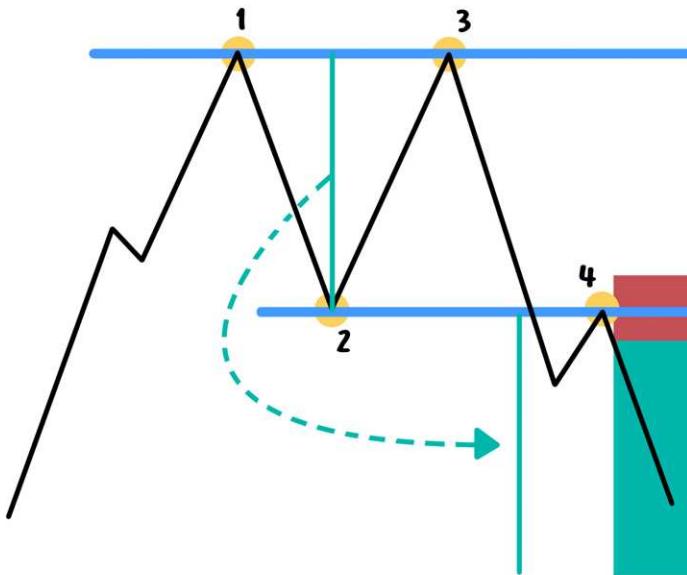


We have the breakout version. This means we are looking to enter the pattern with the close of the breakout candle.

Stop loss can be placed between second resistance (second top) 3 & support 2 (depending on the structure of the price movement). Take profit can be set as followed: We measure the distance between the first resistance 2 and the horizontal support level. The measured distance between the resistance level, where the 2 top occurs, and the neckline. The measured distance can then be placed below the neckline. The level where the measured distance ends can be seen as our take profit level.

- 👍 **Advantage:** More trading opportunities
- 👎 **Disadvantage:** Danger of fakeouts
Probably worse risk reward ratios

Retest



Another version is the retest version. This means we would look for trade entries after price broke support (neckline), retraces back, and accepts the former support which became resistance. A breakout double top pattern can be a retest double top pattern, but the retest does not necessarily happen, which results in fewer trading opportunities compared to the breakout version.

Stop loss can be placed above the retest. Take profit can be set the same way as in the breakout version: We measure the distance between the resistance level, where the 2 tops occur, and the neckline. The measured distance can then be placed below the neckline. The level where the measured distance ends can be seen as our take profit level.

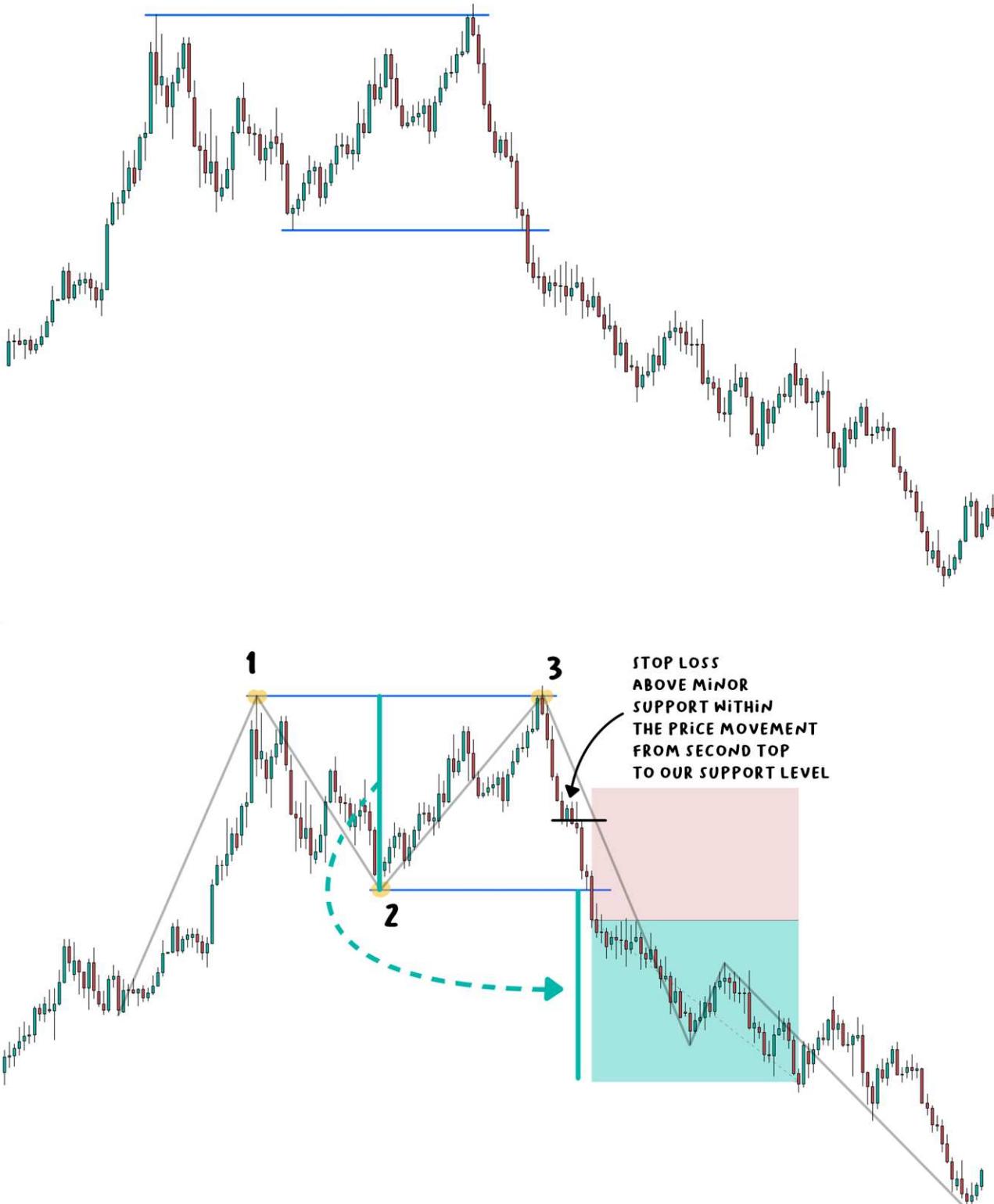
👍 **Advantage:** Extra confirmation through retest

Avoiding fakeouts

Probably better risk reward ratios

👎 **Disadvantage:** Less trading opportunities

EXAMPLE

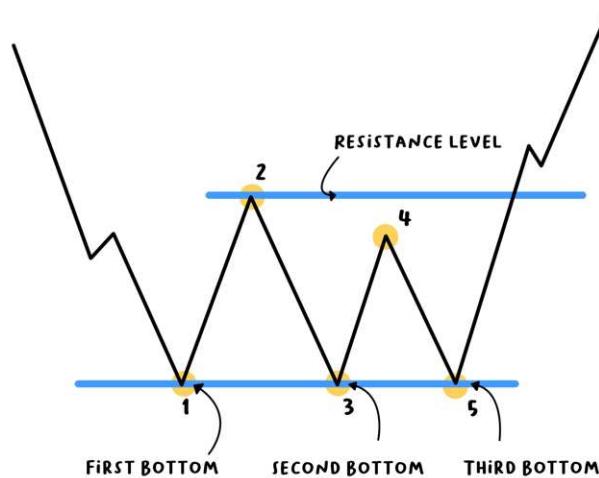


In the example above, our risk-reward ratio is not really favorable and we would need to adjust it to make it worth taking the risk (higher risk to return). The examples are being used to visualize the rules we have just covered.

TRIPLE BOTTOM

The triple bottom is a bullish reversal pattern. This means that price was in a downtrend, the triple bottom occurs, which will be followed by price possibly reversing to the upside. The triple bottom is essentially the double bottom, only with one more retracement of price to the support level before breakout through the neckline (resistance).

PRICE PATH



The triple bottom consists of two horizontal key levels. One support level, on which the triple bottom occurs, and a resistance level (which could become support), which represents the so-called „neckline“.

WHAT HAPPENS IN THE PATTERN?

During a downtrend, price finds support 1 and reverses to the upside, building the first bottom. Price then finds resistance 2, to retrace back to the previous support level 3. This represents the second bottom. Price then reverses to the upside to find resistance 4 again, just to retrace back to previous support level 5 and form the third and final bottom. Price accepts the support level again, reverses to the upside, breaks the previous resistance (neckline resistance line), and possibly continues further to the upside.

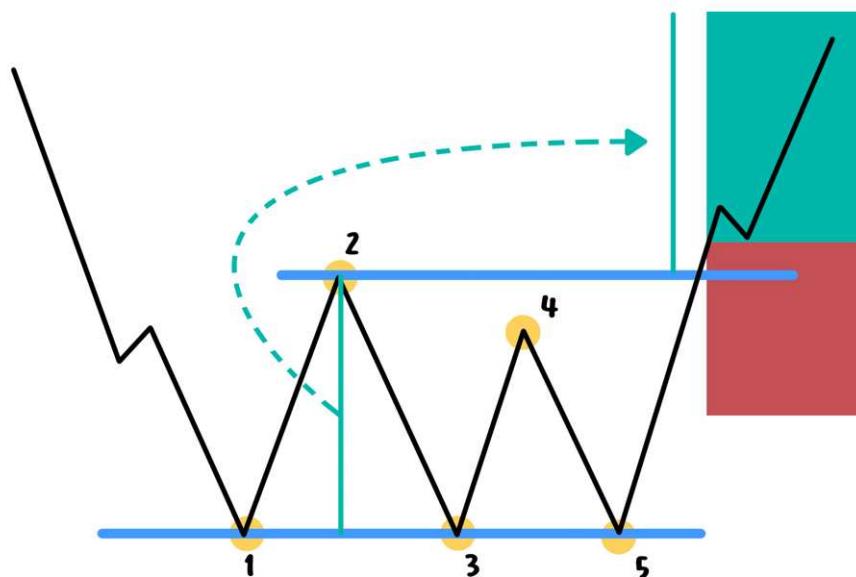
⚠ Important: Point 4 (second resistance) can be higher or lower than the previous resistance. For simplicity reasons, we kept the resistance level at the same height during the explanation above. But price doesn't move in a textbook way most of the time. If point 4 is lower than point 2 (as in the picture), we see the resistance level of point 2 as our official neckline, which needs to be broken to complete the pattern. If the resistance level of point 4 is higher than the

resistance level of point 2, we see point 4 as our neckline which needs to be broken.

DIFFERENT VERSIONS OF THE PATTERN

In total, we have again two classic ways to trade the triple bottom pattern.

Breakout

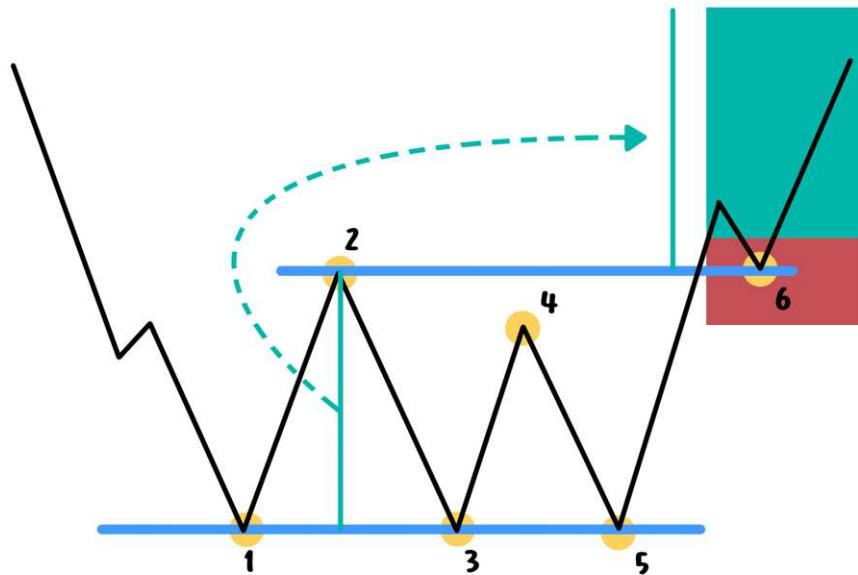


We have the breakout version. This means we are looking to enter the pattern with the close of the breakout candle.

Stop loss can be placed below the third support (third bottom) 3. Take profit can be set as follows: We measure the distance between the first support 2 and the highest horizontal resistance level (just as we have discussed above). The measured distance between the support level, where the 3 bottoms occur, and the highest neckline. The measured distance can then be added on top of the highest neckline. The level where the measured distance ends can be seen as our take profit level.

- | | |
|----------------------|---|
| Advantage: | More trading opportunities |
| Disadvantage: | Danger of fakeouts Probably worse risk reward ratios |

Retest

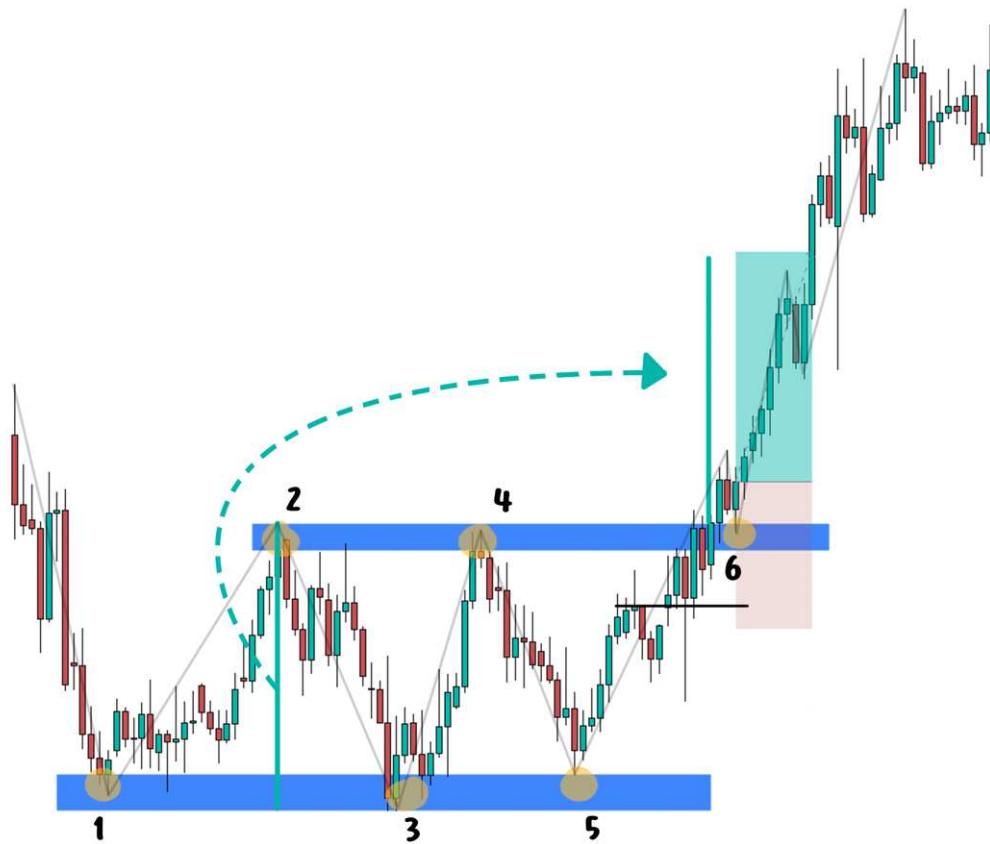


Another version is the retest version. This means we would look for trade entries after price broke resistance (highest neckline), retraces back, and accepts the former resistance which became support. A breakout triple bottom pattern can be a retest triple bottom pattern, but the retest does not necessarily happen, which results in fewer trading opportunities compared to the breakout version.

Stop loss can be placed below the retest. Take profit can be set the same way as in the breakout version: We measure the distance between the support level, where the 3 bottoms occur, and the highest neckline. The measured distance can then be added on top of the highest neckline. The level where the measured distance ends can be seen as our take profit level.

- | | |
|------------------------|--|
| 👍 Advantage: | Extra confirmation through retest Avoiding fakeouts Probably better risk reward ratios |
| 👎 Disadvantage: | Less trading opportunities |

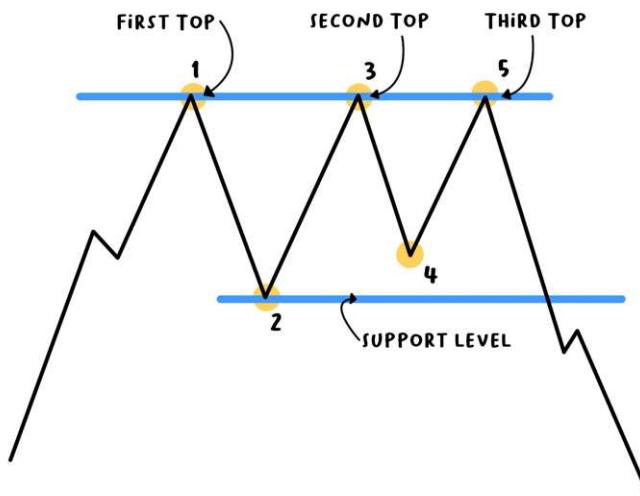
EXAMPLE



TRIPLE TOP

The triple top is a bearish reversal pattern. This means that price was in an uptrend, the triple top occurs, which will be followed by price possibly reversing to the downside. The triple top is essentially the double top, only with one more retracement of price to the resistance level before breakout through the neckline (support).

PRICE PATH



The triple top consists of two horizontal key levels. One resistance level, on which the triple top occurs, and a support level (which could become resistance), which represents the so-called „neckline“.

WHAT HAPPENS IN THE PATTERN?

During an uptrend, the price finds resistance 1 and reverses to the downside, building the first top. Price then finds support 2, to retrace back to the previous resistance level 3. This represents the second top. Price then reverses to the downside to find support 4 again, just to retrace back to previous resistance level 5 and form the third and final top. Price accepts the resistance level again, reverses to the downside, breaks the previous support (neckline support line), and possibly continues further to the downside.

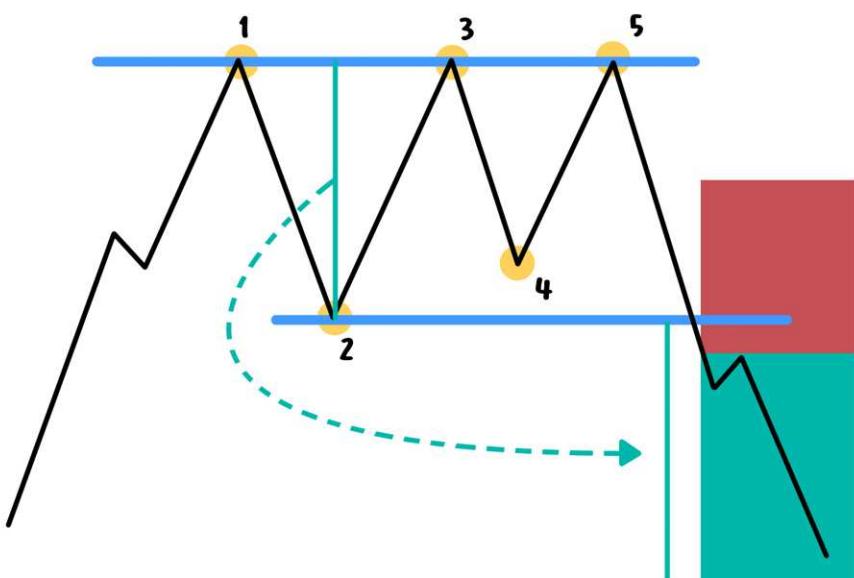
⚠ Important: Point 4 (second support) can be higher or lower than previous support. For simplicity reasons, we kept the support level at the same height during the explanation above. But price doesn't move in a textbook way most of

the time. If point 4 is lower than point 2, we see the support level of point 2 as our official neckline, which needs to be broken to complete the pattern. If the support level of point 4 is lower than the support level of point 2 (as in the chart above), we see point 4 as our neckline which needs to be broken.

DIFFERENT VERSIONS OF THE PATTERN

In total, we have again two classic ways to trade the triple top pattern.

Breakout

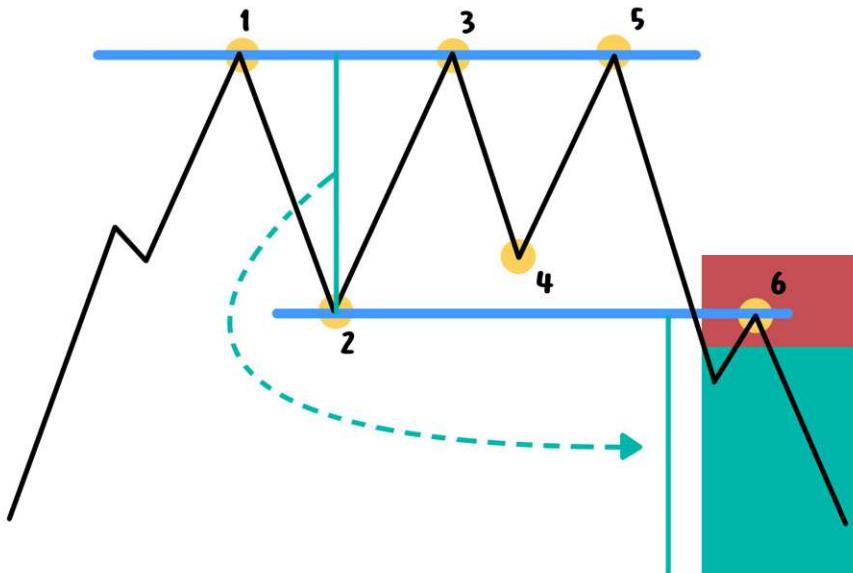


We have the breakout version. This means we are looking to enter the pattern with the close of the breakout candle.

Stop loss can be placed above the third resistance (third top) 3. Take profit can be set as followed: We measure the distance between the first resistance 2 and the lowest horizontal support level (just as we have discussed above). The measured distance between the resistance level, where the 3 tops occur, and the lowest neckline. The measured distance can then be placed below the lowest neckline. The level where the measured distance ends can be seen as our take profit level.

- | | |
|----------------------|---|
| Advantage: | More trading opportunities |
| Disadvantage: | Danger of fakeouts Probably worse risk reward ratios |

Retest



Another version is the retest version. This means we would look for trade entries after price broke support (lowest neckline), retraces back, and accepts the former support which became resistance. A breakout triple top pattern can be a retest triple top pattern, but the retest does not necessarily happen, which results in fewer trading opportunities compared to the breakout version.

Stop loss can be placed above the retest. Take profit can be set the same way as in the breakout version: We measure the distance between the resistance level, where the 3 tops occur, and the lowest neckline. The measured distance can then be placed below the lowest neckline. The level where the measured distance ends can be seen as our take profit level.

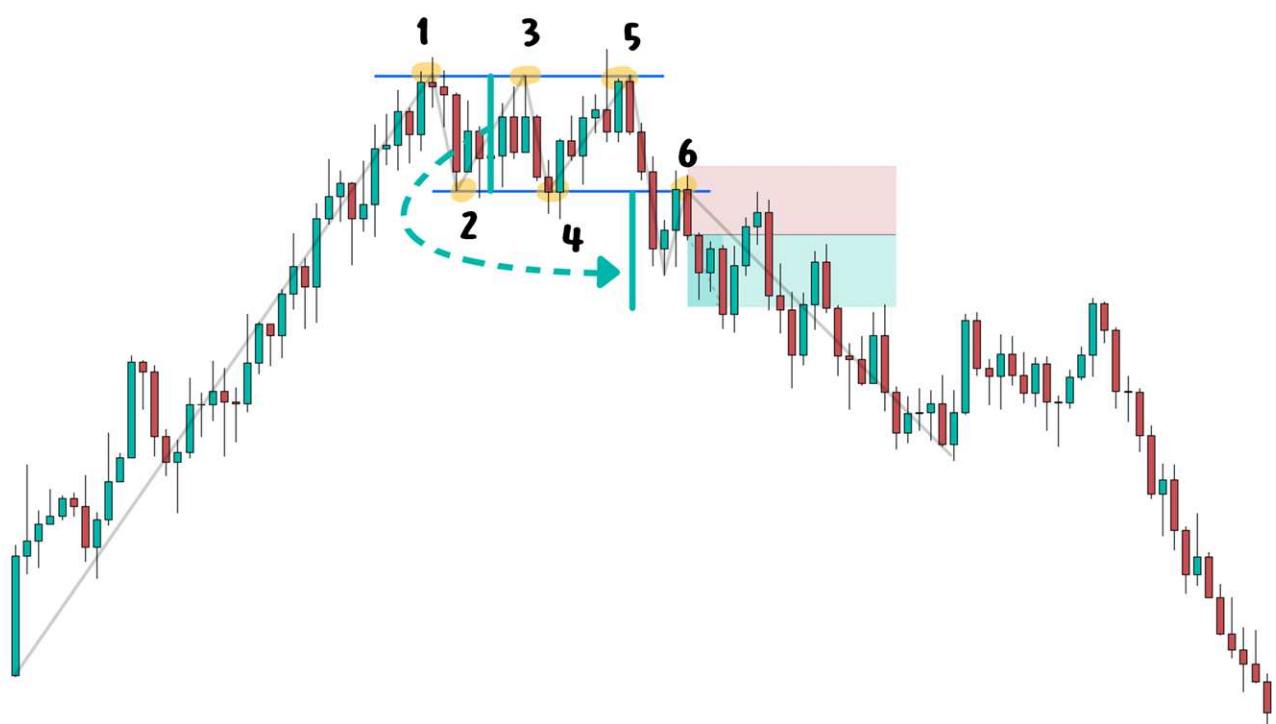
Advantage: Extra confirmation through retest

Avoiding fakeouts

Probably better risk reward ratios

Disadvantage: Less trading opportunities

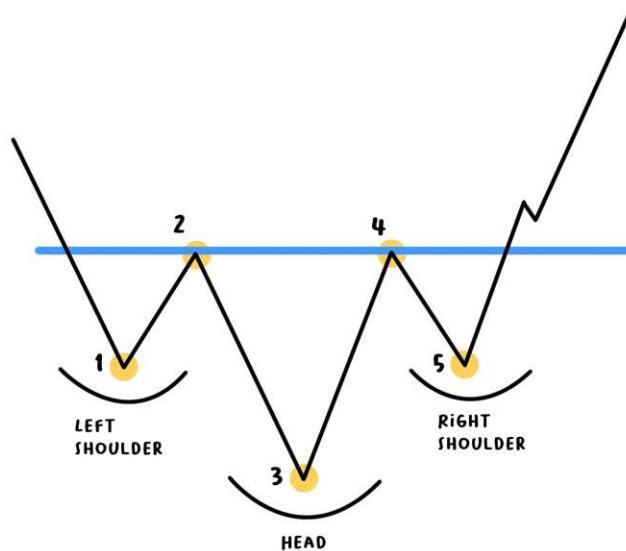
EXAMPLE



INVERSE HEAD AND SHOULDERS

The inverse head and shoulders pattern is a bullish reversal pattern. This means that price was in a downtrend, the inverse head and shoulders occurs, which will be followed by price possibly reversing to the upside.

PRICE PATH



The inverse head and shoulders consist of a critical resistance area, also called „neckline“. It has two smaller price retracements from the resistance level (shoulders), and a larger retracement (head).

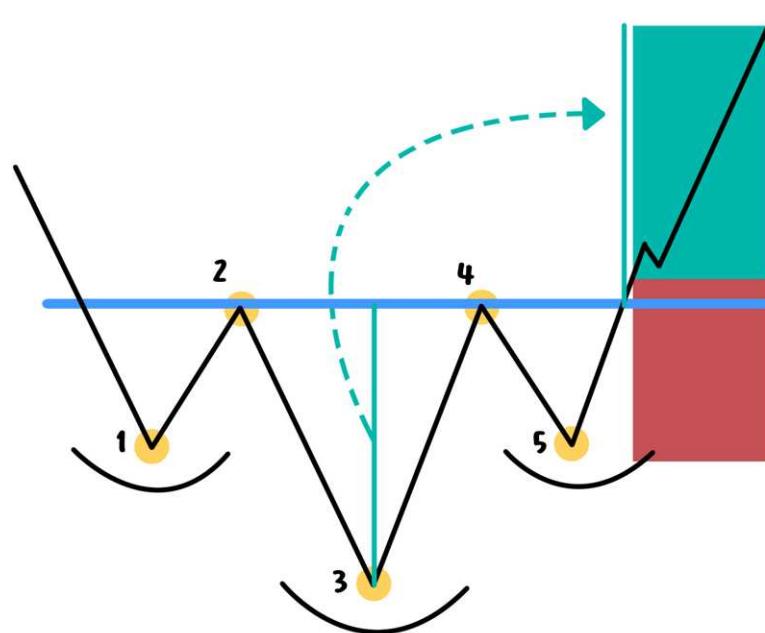
WHAT HAPPENS IN THE PATTERN?

During a downtrend, the price finds support 1 and reverses to the upside till it reaches a resistance level 2 (which completes the left shoulder). Resistance will be accepted and price move down violates the previous support to move lower and find second support 3, which is also the lowest point of the pattern. Price then moves back up to our resistance level 4, and completes the „head“. Price retraces one more time till third support is found 5, which is supposed to be higher than the last support 3, and around the area of the first support 1, but not necessarily at the exact same level. After this, the price moves higher and breaks through the resistance level to complete the right shoulder and the inverse head and shoulders pattern.

DIFFERENT VERSIONS OF THE PATTERN

In total, we have again two classic ways to trade the inverse head and shoulders pattern.

Breakout

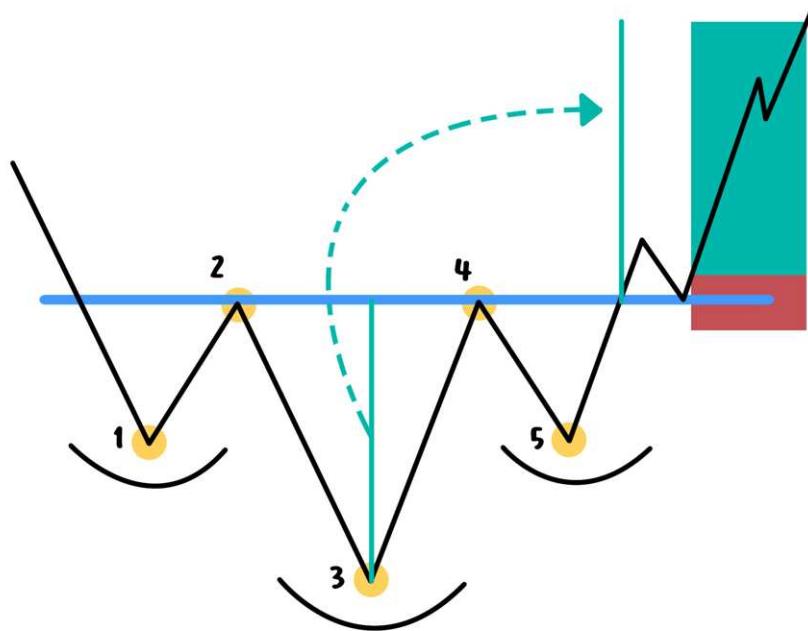


We have the breakout version. This means we are looking to enter the pattern with the close of the breakout candle.

Stop loss can be placed below the right shoulder 5. Take profit can be set as followed: We measure the distance between the neckline (resistance key level) and the lowest point of the pattern which is the „head“ or second support level 3. The measured distance can then be added on top of the neckline. The level where the measured distance ends can be seen as our take profit level.

- 👍 **Advantage:** More trading opportunities
- 👎 **Disadvantage:** Danger of fakeouts
Probably worse risk reward ratios

Retest



Another version is the retest version. This means we would look for trade entries after price broke resistance (neckline), retraces back, and accepts the former resistance which became support. A breakout inverse head and shoulders pattern can be a retest inverse head and shoulders pattern, but the retest does not necessarily happen, which results in fewer trading opportunities compared to the breakout version.

Stop loss can be placed below the retest. Take profit can be set the same way as in the breakout version: We measure the distance between the neckline (resistance key level) and the lowest point of the pattern which is the „head“ or second support level 3. The measured distance can then be added on top of the neckline. The level where the measured distance ends can be seen as our take profit level.

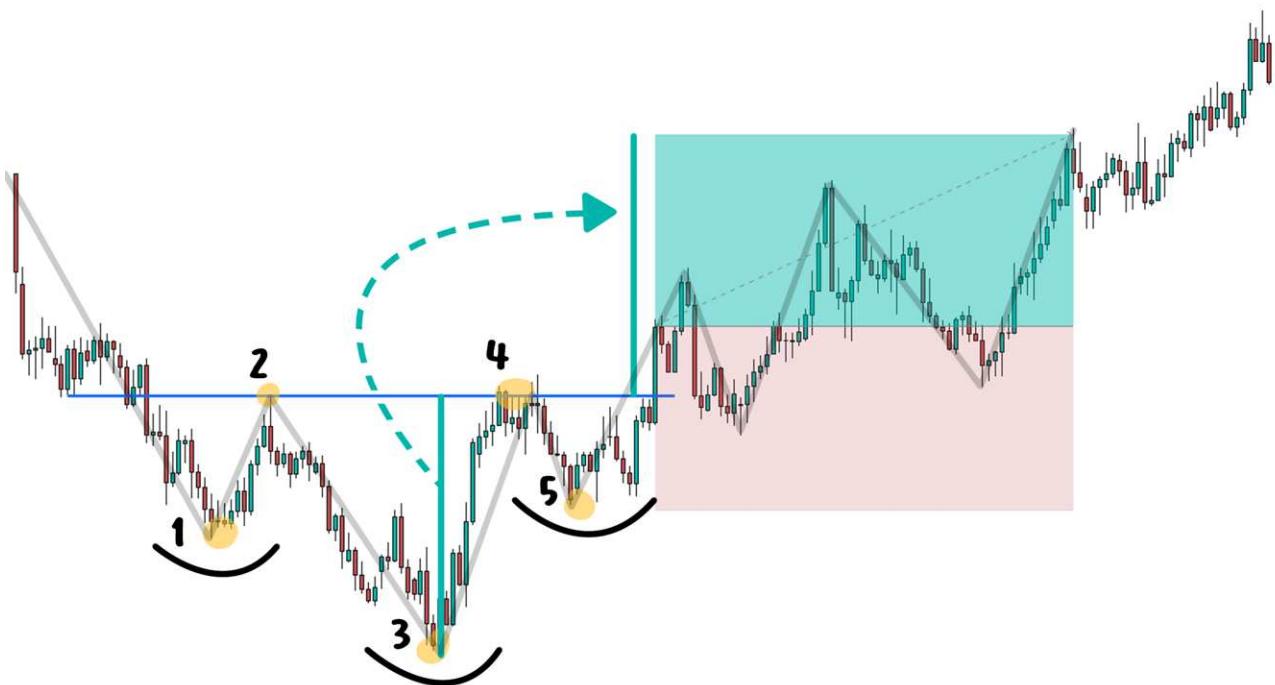
👍 **Advantage:** Extra confirmation through retest

Avoiding fakeouts

Probably better risk reward ratios

👎 **Disadvantage:** Less trading opportunities

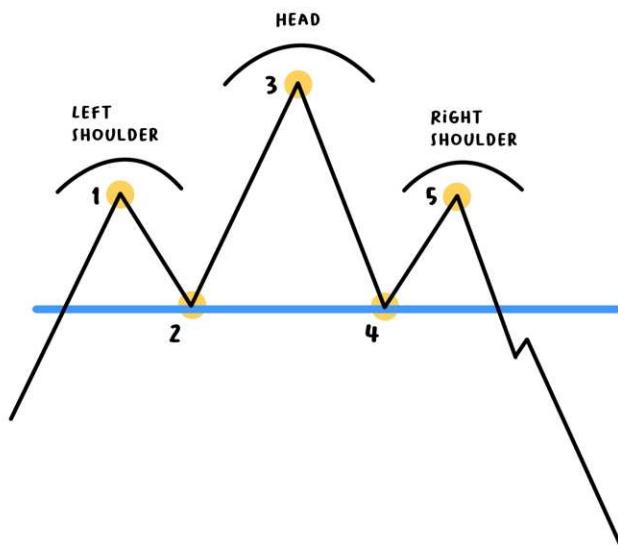
EXAMPLE



HEAD AND SHOULDERS

The head and shoulders pattern is a bearish reversal pattern. This means that price was in an uptrend, the head and shoulders occur, which will be followed by price possibly reversing to the downside.

PRICE PATH



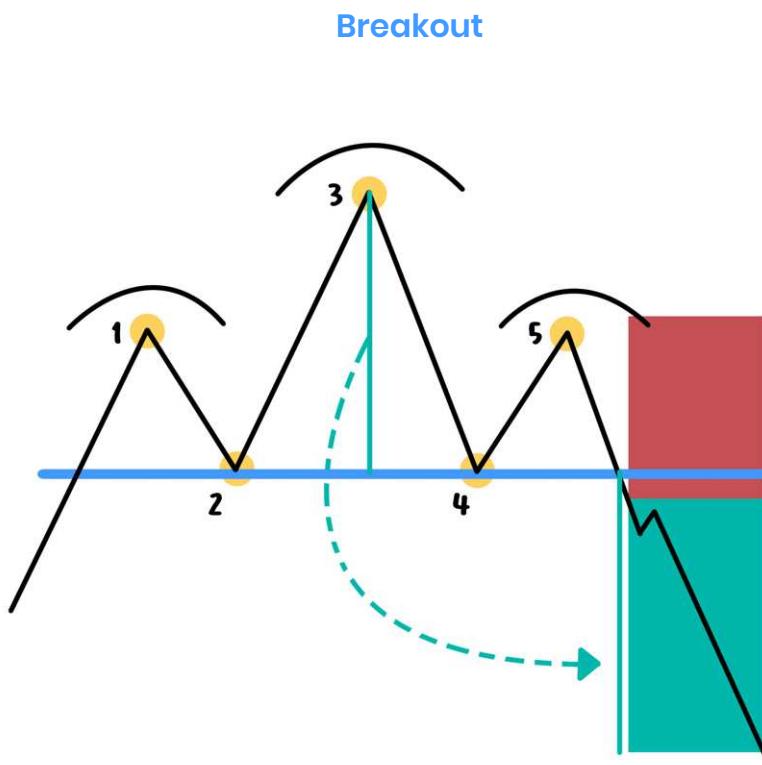
The head and shoulders consist of a critical support area, also called „neckline“. It has two smaller price retracements from the support level (shoulders), and a larger retrace (head).

WHAT HAPPENS IN THE PATTERN?

During an uptrend, the price finds resistance 1 and reverses to the downside till it reaches a support level 2 (which completes the left shoulder). Support will be accepted and the price moves up, violates the previous resistance to move higher, and find second resistance 3, which is also the highest point of the pattern. Price then moves back down to our support level 4, and completes the „head“. Price retraces one more time till a third resistance is found 5, which is supposed to be lower than the last support 3, and around the area of the first support 1, but not necessarily at the exact same level. After this, the price moves lower and breaks through the support level to complete the right shoulder and the inverse head and shoulders pattern, and possibly continues to move lower.

DIFFERENT VERSIONS OF THE PATTERN

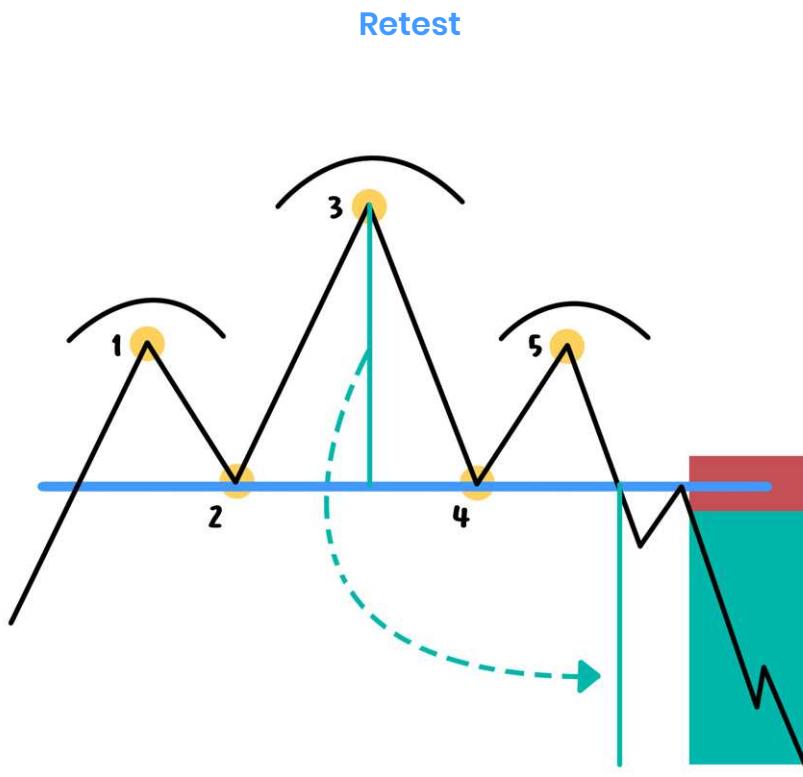
In total, we have again two classic ways to trade the head and shoulders pattern.



We have the breakout version. This means we are looking to enter the pattern with the close of the breakout candle.

Stop loss can be placed above the right shoulder 5. Take profit can be set as followed: We measure the distance between the neckline (support key level) and the highest point of the pattern which is the „head“ or second resistance level 3. The measured distance can then be placed below the neckline. The level where the measured distance ends can be seen as our take profit level.

- 👍 **Advantage:** More trading opportunities
- 👎 **Disadvantage:** Danger of fakeouts
Probably worse risk reward ratios



Another version is the retest version. This means we would look for trade entries after price broke support (neckline), retraces back, and accepts the former support which became resistance. A breakout head and shoulders pattern can be a retest head and shoulders pattern, but the retest does not necessarily happen, which results in fewer trading opportunities compared to the breakout version.

Stop loss can be placed above the retest. Take profit can be set the same way as in the breakout version: We measure the distance between the neckline (support key level) and the highest point of the pattern which is the „head“ or second resistance level 3. The measured distance can then be placed below the neckline. The level where the measured distance ends can be seen as our take profit level.

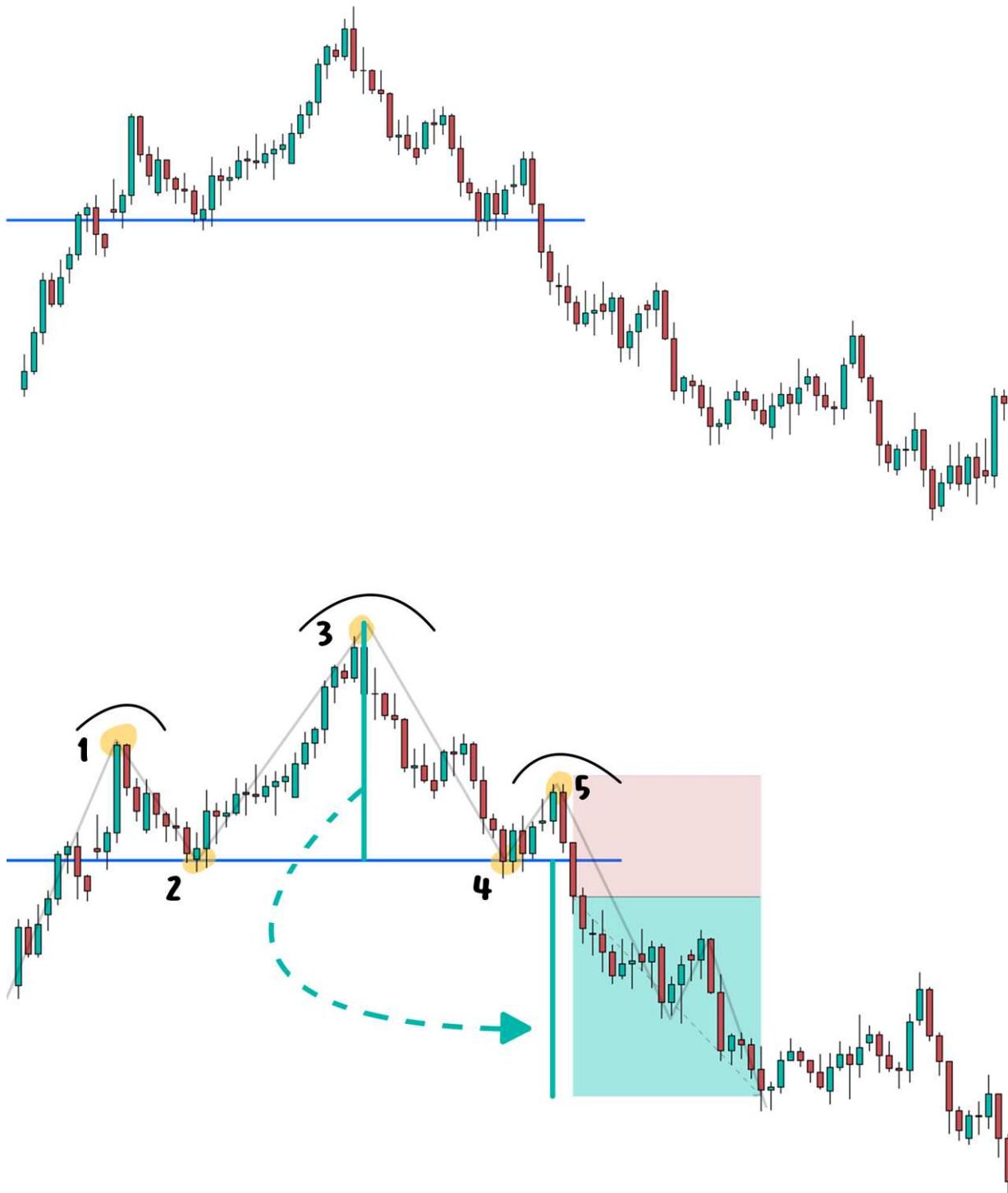
Advantage: Extra confirmation through retest

Avoiding fakeouts

Probably better risk reward ratios

Disadvantage: Less trading opportunities

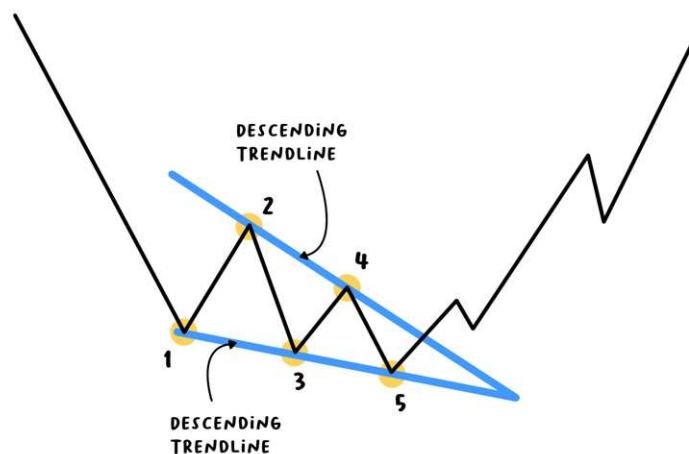
EXAMPLE



FALLING WEDGE

The falling wedge pattern is a bullish reversal pattern. This means that price was in a downtrend, the falling wedge occurs, which will be followed by the price possibly reversing to the upside.

PRICE PATH



The falling wedge consists of two descending trendlines. The upper trendline acts as resistance and the lower trendline acts as support.

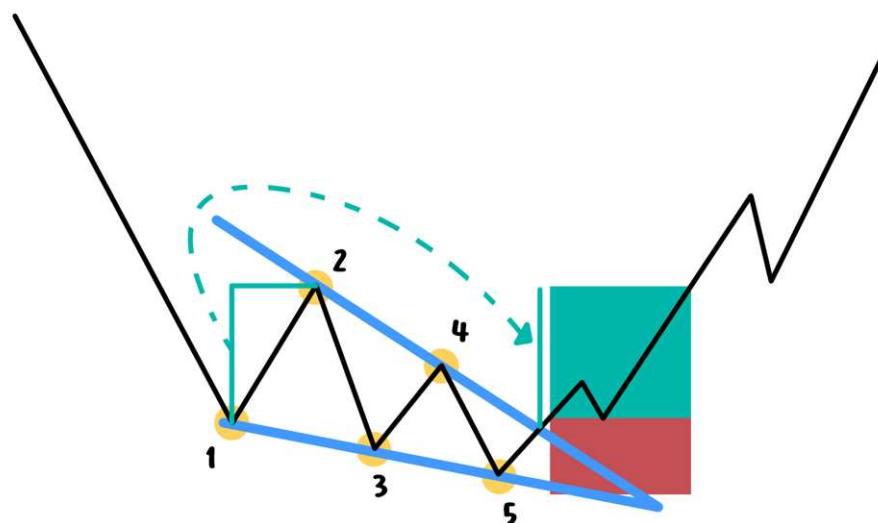
WHAT HAPPENS IN THE PATTERN?

During a downtrend, the price will find support 1. After first support is found, the price moves higher to find the first resistance level. Price then continues to create a lower low and a lower high. Those highs and lows will be connected through the two descending trendlines. The pattern needs at least 5 touches on the two descending trendlines to be valid. Any additional touches are also acceptable. After the last lower low 5, the price will move to the upside, breaks through the upper trendline (resistance), and possibly continues higher.

DIFFERENT VERSIONS OF THE PATTERN

In total, we have again two classic ways to trade the falling wedge pattern.

Breakout

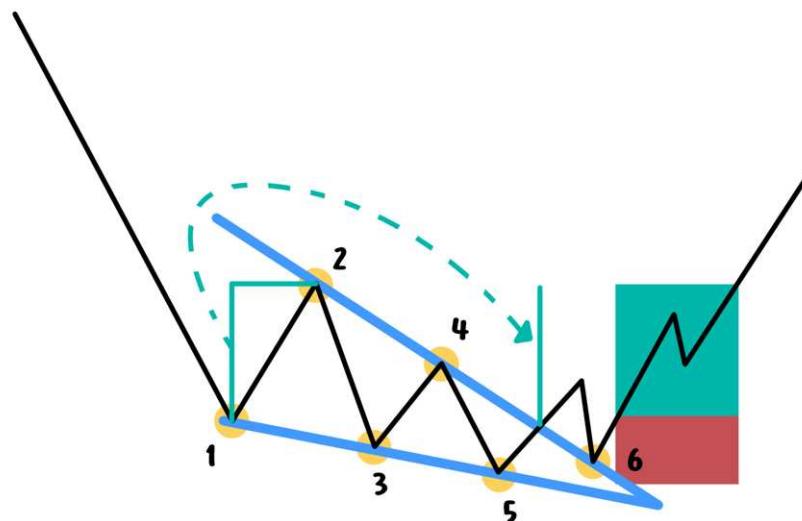


We have the breakout version. This means we are looking to enter the pattern with the close of the breakout candle.

Stop loss can be placed below the last lower low 5. Take profit can be set as followed: We measure the distance between the first support level 1 and the first resistance level 2. The measured distance can then be added on top of the upper trendline at the time of the breakout candle. The level where the measured distance ends can be seen as our take profit level.

- 👍 **Advantage:** More trading opportunities
- 👎 **Disadvantage:** Danger of fakeouts
Probably worse risk reward ratios

Retest



Another version is the retest version. This means we would look for trade entries after price broke the upper descending trendline, retraces back, and accepts the former resistance which became support. A breakout falling wedge pattern can be a retest falling wedge pattern, but the retest does not necessarily happen, which results in fewer trading opportunities compared to the breakout version.

Stop loss can be placed below the retest. Take profit can be set the same way as in the breakout version: We measure the distance between the first support level 1 and the first resistance level 2. The measured distance can then be added on top of the upper trendline at the time of the breakout candle. The level where the measured distance ends can be seen as our take profit level.

👍 **Advantage:** Extra confirmation through retest

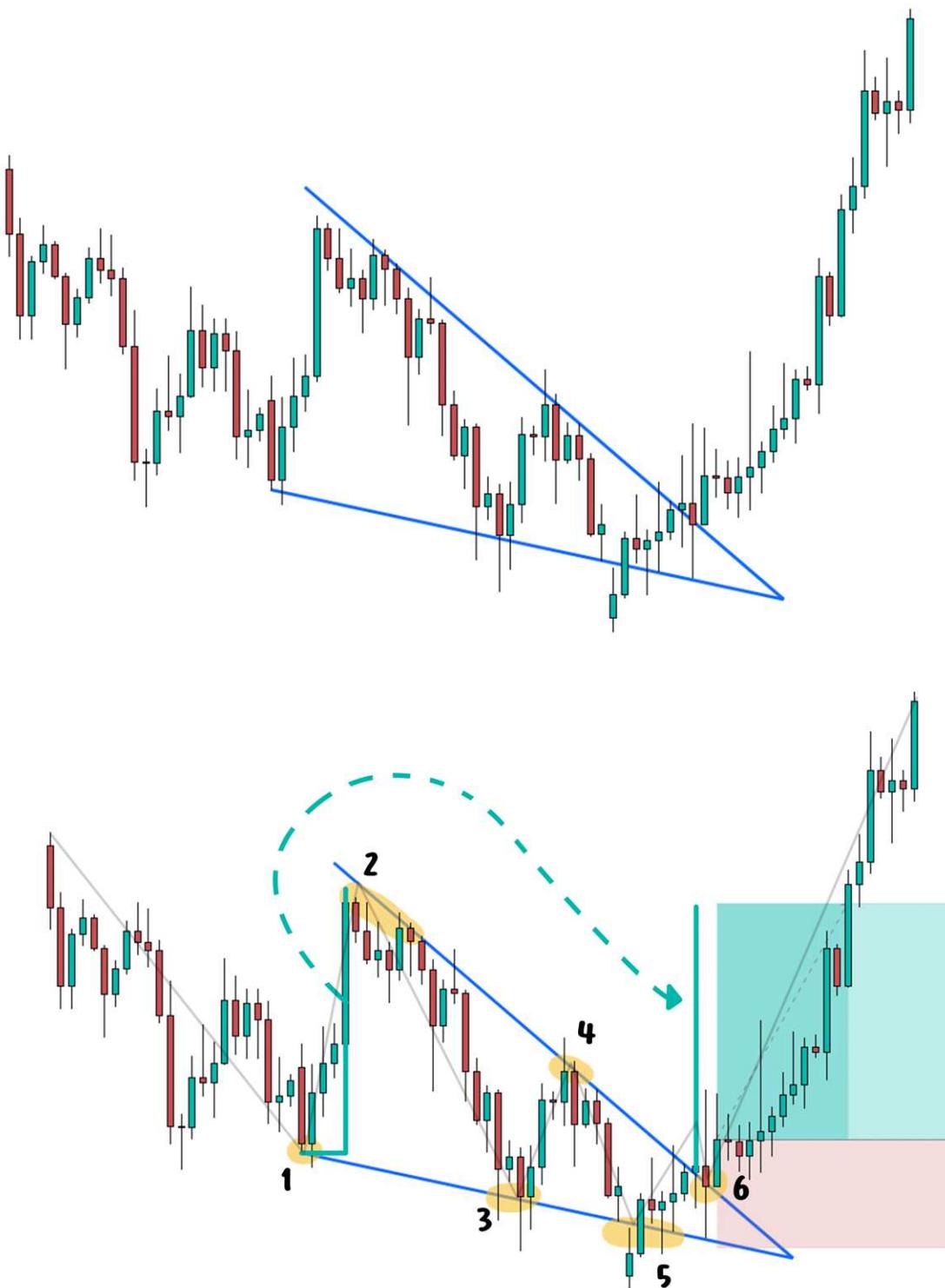
Avoiding fakeouts

Probably better risk reward ratios

👎 **Disadvantage:** Less trading opportunities

EXAMPLE

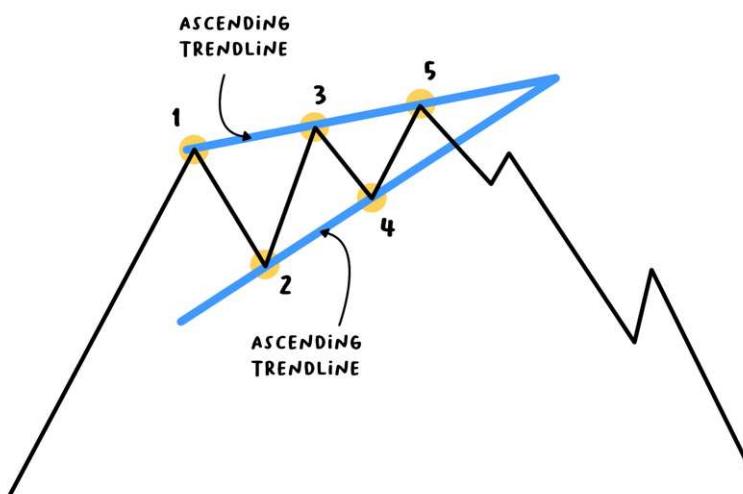
This is another example of a pattern not being 100% clean, but still working out perfectly. As you can see the 5th price touch kind of violated the support trendline with a gap between the two time periods (this is because we are currently on the daily timeframe and even though we do not see a lot of gaps in the forex market, they do happen when the markets open on Monday or Sunday, depending on your location). This doesn't necessarily mean that the pattern is not valid, especially if all other requirements were fulfilled.



RISING WEDGE

The rising wedge pattern is a bearish reversal pattern. This means that price was in an uptrend, the rising wedge occurs, which will be followed by price possibly reversing to the downside.

PRICE PATH



The rising wedge consists of two ascending trendlines. The upper trendline acts as resistance and the lower trendline acts as support.

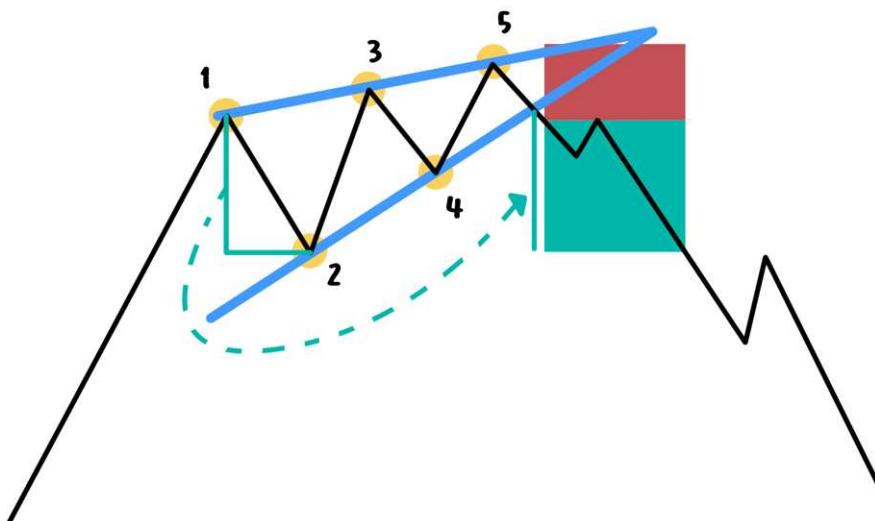
WHAT HAPPENS IN THE PATTERN?

During an uptrend, the price will find resistance 1. After first, resistance is found, the price moves lower to find the first support level. Price will then continue to create a higher low and a higher high. Those highs and lows will be connected through the two ascending trendlines. The pattern needs at least 5 touches on the two ascending trendlines to be valid. Any additional touches are also acceptable. After the last higher high 5, the price will move to the downside, breaks through the lower trendline (support), and possibly continues lower.

DIFFERENT VERSIONS OF THE PATTERN

In total, we have again two classic ways to trade the rising wedge pattern.

Breakout



We have the breakout version. This means we are looking to enter the pattern with the close of the breakout candle.

Stop loss can be placed above the last higher high 5. Take profit can be set as followed: We measure the distance between the first resistance level 1 and the first support level 2. The measured distance can then be below the lower trendline at the time of the breakout candle. The level where the measured distance ends can be seen as our take profit level.

👍 **Advantage:**

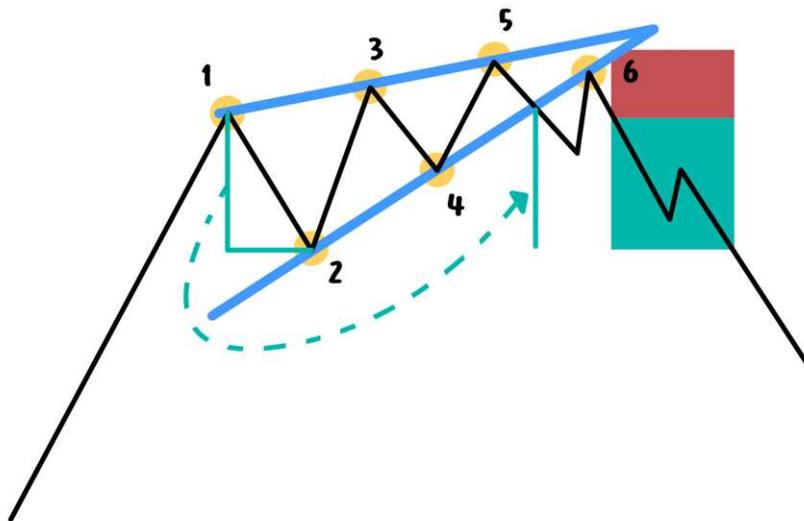
More trading opportunities

👎 **Disadvantage:**

Danger of fakeouts

Probably worse risk reward ratios

Retest



Another version is the retest version. This means we would look for trade entries after price broke the lower ascending trendline, retraces back, and accepts the former support which became resistance. A breakout rising wedge pattern can be a retest rising wedge pattern, but the retest does not necessarily happen, which results in fewer trading opportunities compared to the breakout version.

Stop loss can be placed above the retest. Take profit can be set the same way as in the breakout version: We measure the distance between the first resistance level 1 and the first support level 2. The measured distance can then be below the lower trendline at the time of the breakout candle. The level where the measured distance ends can be seen as our take profit level.

Advantage: Extra confirmation through retest

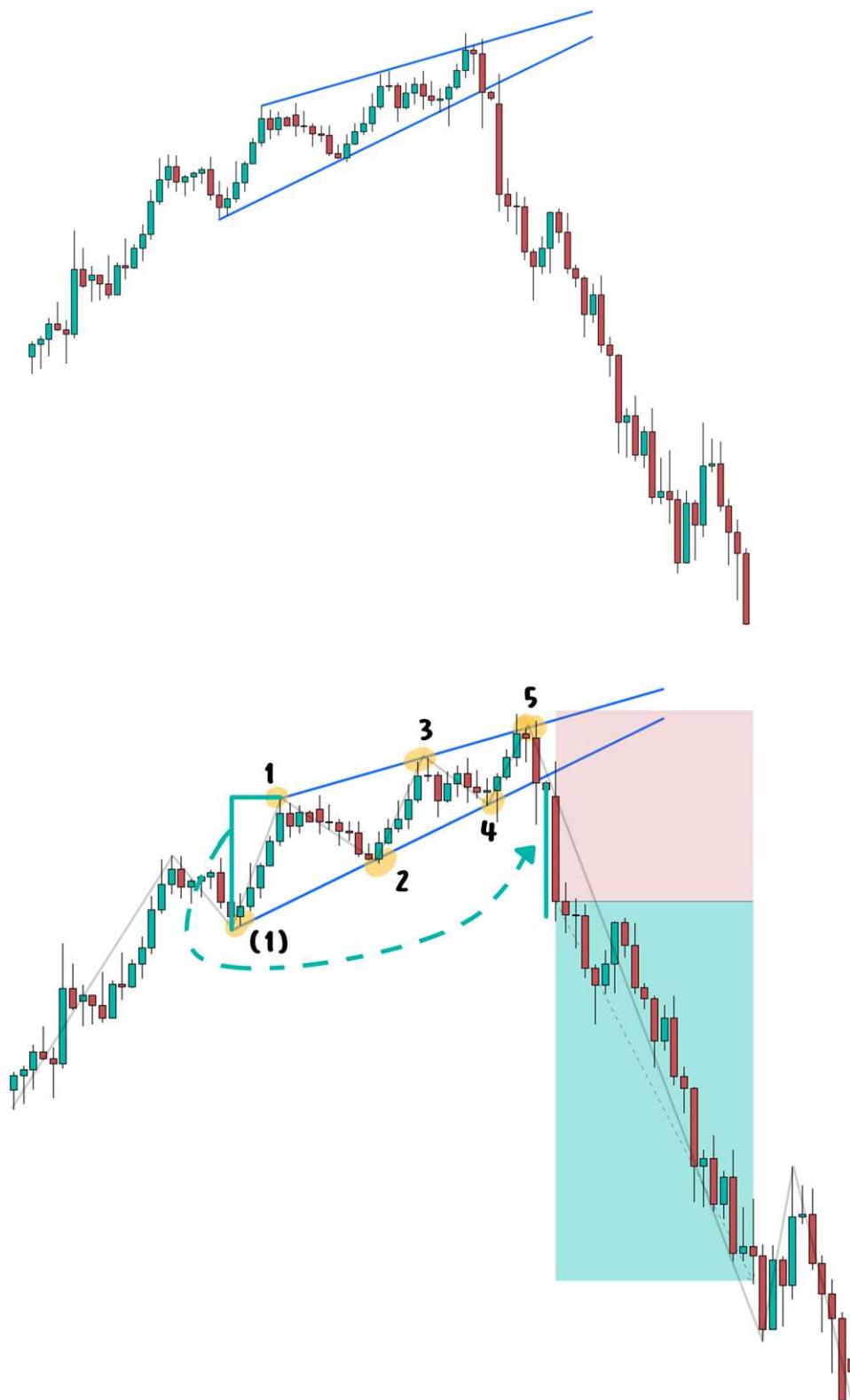
Avoiding fakeouts

Probably better risk reward ratios

Disadvantage: Less trading opportunities

EXAMPLE

Here, the rising wedge started with finding support that perfectly aligned with following higher lows, therefore I included it into the pattern. The take profit targets based on the patterns did not make sense, since the first breakout candle was too small and had not enough momentum, and the following candle had quite a lot of momentum brought price down. Therefore, I used our standard 1:2 risk-reward ratio from the previous examples before.





Classic chart patterns exist because they continuously occur in the markets. This doesn't mean that they always behave the same. Patterns can fail. Therefore it is important to build a system around it if we chose to trade chart patterns. What I like about classic chart patterns is that they are mostly quite clear and come already with some rules we could use. Those ones we did just cover, which does not mean that you absolutely need to use them. As we have seen in quite a lot of examples, when using the classic rules, we often have not the best risk to reward ratio. The take profit levels based on the patterns are also often seen as minimum target & there could be the chance of price continuing into our anticipated direction.

If you already can't wait to start, here a quick guide on how to approach classic patterns. If you somehow do not understand what to do in one of the steps, continue with the course, or jump to the specific chapter (such as „developing a trading strategy“, „risk management“ or „trading plan“).

STEP 1: Determine which patterns suit you. Do you want to trade trend continuation or reversal?

STEP 2: Set up a strategy and rules around those patterns. Determine how you want to enter (retest vs breakout) and how you want to set take profit and stop loss orders.

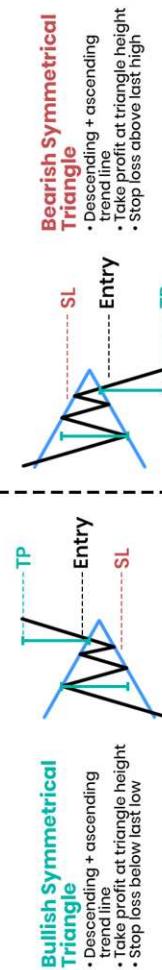
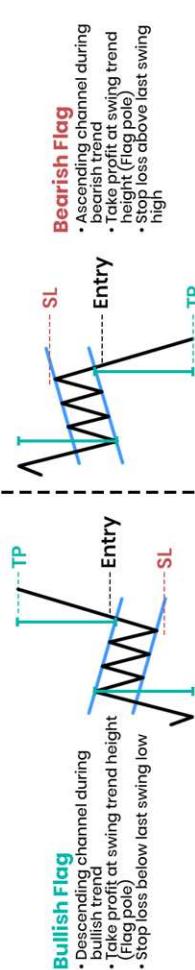
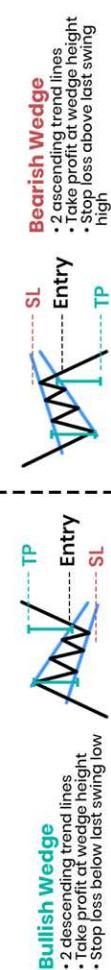
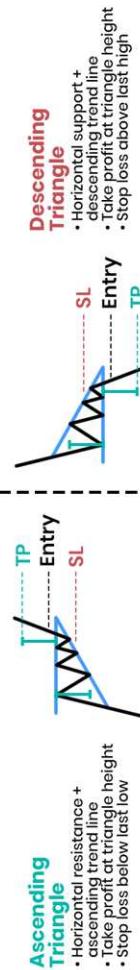
STEP 3: Backtest those patterns with your rules to see if they would have worked in the past.

STEP 4: Insert your strategy in a trading plan which determines your risk management.

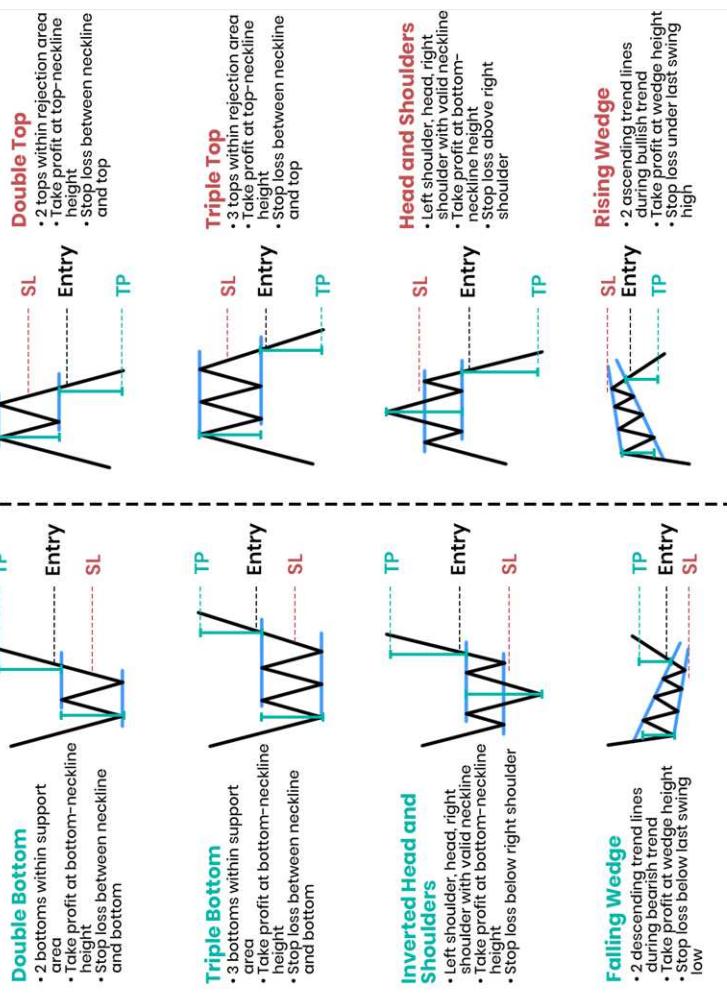
STEP 5: Be consistent with your approach and stick to your trading plan.

Following a small overview on some of the common and strong classic chart patterns:

CONTINUATION

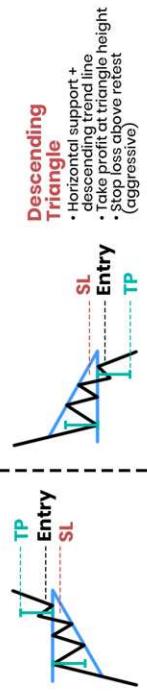


REVERSAL

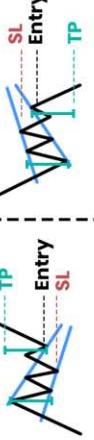


CONTINUATION

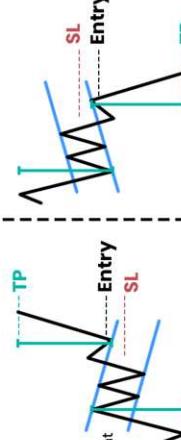
Ascending Triangle
 • Horizontal resistance +
 descending trend line
 • Take profit at triangle height
 • Stop loss below retest
 (aggressive)



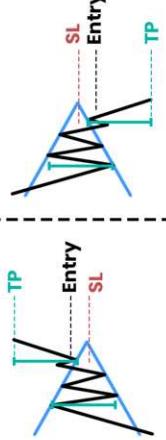
Bullish Wedge
 • 2 descending trend lines
 • Take profit at wedge height
 • Stop loss below retest
 (aggressive)



Bullish Flag
 • Descending channel during
 bullish trend
 • Take profit at swing trend height
 (Flag pole)
 • Stop loss below retest
 (aggressive)



**Bullish Symmetrical
Triangle**
 • Descending + ascending
 trend line
 • Take profit at triangle height
 • Stop loss below retest
 (aggressive)

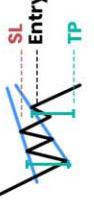


REVERSAL

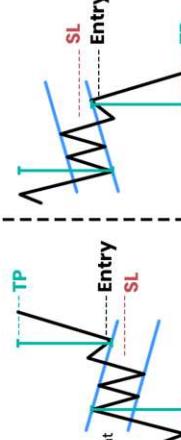
**Descending
Triangle**
 • Horizontal support +
 descending trend line
 • Take profit at triangle height
 • Stop loss above retest
 (aggressive)



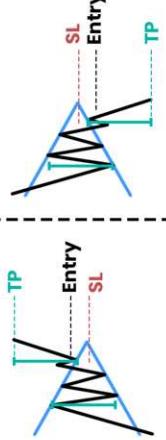
Bearish Wedge
 • 2 descending trend lines
 • Take profit at wedge height
 • Stop loss above retest
 (aggressive)



Bearish Flag
 • Ascending channel during
 bearish trend
 • Take profit at swing trend height
 (Flag pole)
 • Stop loss above retest
 (aggressive)



**Bearish Symmetrical
Triangle**
 • Descending + ascending
 trend line
 • Take profit at triangle height
 • Stop loss above retest
 (aggressive)



| | | | | |
|--|--|--|--|---|
| Double Bottom | Double Top | Triple Top | Head and Shoulders | Rising Wedge |
| <ul style="list-style-type: none"> • 2 bottoms within support area • Take profit at bottom-neckline height • Stop loss below retest (aggressive) | <ul style="list-style-type: none"> • 2 tops within rejection area height • Take profit at top-neckline height • Stop loss above retest (aggressive) | <ul style="list-style-type: none"> • 3 tops within rejection area height • Take profit at top-neckline height • Stop loss above retest (aggressive) | <ul style="list-style-type: none"> • Left shoulder, head right shoulder with valid neckline • Take profit at bottom-neckline height • Stop loss above retest (aggressive) | <ul style="list-style-type: none"> • 2 ascending trend lines • Take profit at wedge height • Stop loss above retest (aggressive) |
| Triple Bottom | Triple Top | Entry | Entry | Entry |
| <ul style="list-style-type: none"> • 3 bottoms within support area • Take profit at bottom-neckline height • Stop loss below retest (aggressive) | <ul style="list-style-type: none"> • 3 tops within rejection area height • Take profit at top-neckline height • Stop loss above retest (aggressive) | SL | SL | SL |
| Inverted Head and Shoulders | Entry | TP | TP | TP |
| <ul style="list-style-type: none"> • Left shoulder, head right shoulder with valid neckline • Take profit at bottom-neckline height • Stop loss below retest (aggressive) | Entry | SL | TP | TP |
| Falling Wedge | Entry | SL | SL | TP |
| <ul style="list-style-type: none"> • 2 descending trend lines during bearish trend • Take profit at wedge height • Stop loss below retest (aggressive) | Entry | TP | TP | TP |

This was quite a lot of material. I think it would be a great idea to take a small break from the course and go back to your charts and look for such patterns. Just check if you can identify them, and do your own research on how they behave. Something I'll continuously remind you of is to do your own research. While everything makes sense when reading the explanations and seeing the charts in this course, the real charts out there are not always as easy to read and not prepared by me. There is only one single way on how you get better at identifying patterns and candlesticks - you have to go to your charts, and invest hours in front of your screen.

When you come back, we will continue with additional confirmations you can add on top of the previous material we covered. The additional confirmation in form of technical indicators, but for now...



1.9.17. TECHNICAL INDICATORS

1.9.17.1. INTRODUCTION

Technical indicators are used by traders in order to increase the chance of making a profit or increase the chance of winning a trade. Indicators mostly use historical data, such as the currency price, the volume, and market performance to predict how the market will behave in the future, or simply provide us with different additional information. Indicators can be used in order to make trading decisions and can be implemented into a trading strategy. There are different kinds of trading indicators that can be separated into categories.

LEADING VS LAGGING INDICATOR

A leading indicator gives us signals before the new trend or reversal occurs. The indicator uses the information from the current market to predict the future. The value the indicator is visualizing is based on specific rules and formulas. Most leading indicators signal „overbought“ and „oversold“ scenarios, such as the RSI.

Lagging indicators will present us signals after the trend has started and basically just confirm the action. They basically told us what price is doing right now, so that we can trade accordingly.

What's the catch?

Yes, leading indicators sound way better, but there are also a lot of disadvantages. Leading indicators are not always right and give us quite a lot of wrong signals. This means, the indicator might suggest a reversal soon, but the price keeps staying in the current trend. On the other side, lagging indicators give us signals after the price already made its move and we could potentially miss out on profits.

Which one to use?

There is a general rule that leading indicators are best in ranging markets while lagging indicators are best in trending markets. In the end, it really comes down to how the indicator fits into your strategy and if it improves your probabilities of success or not. There is no better or worse.

Let's have a look at some of the most popular indicators:

1.9.17.2. MOVING AVERAGE



The video covers the same material as provided in text, plus much more with real live examples!

The Moving Average Indicators takes the price fluctuations and presents them in a smoother way. It is done by using the average closing price of a currency pair for the last „X“ amount of periods. The number of periods the indicator is supposed to look at can be determined by the trader. The period always refers to the time the specific candle represents. If we are on the daily time frame, a period refers to one day.

A moving average can be used to reduce „noise“ (price fluctuations) and have a clearer view of the trend direction. As we can see in the chart below, the moving average is a chart indicator and is shown directly over the candlesticks.



The moving average also counts to the lagging indicators, this means a moving average only confirms a trend or better a trend reversal after it already happened.

LENGTH OF A MOVING AVERAGE

The length refers to the number of periods the moving average is taking into consideration.

The shorter the length, the fewer data points will be considered and the closer is the moving average to the current price. The longer the length, the more data points will be considered and the moving average will be more smooth and a single candle has not such a big impact. Both extremes might arise problems. A length that is too short does not provide as much value, since it is almost following price directly, rather than showing an average price line. A length that is too long, might smooth out the line too much and does not bring any value, since too many data points are considered and simply do not help us in the decision making. Both extremes just have difficulties visualizing changes in general price direction. Therefore, the correct length is crucial.

Very common lengths are 5, 10, and 20 for rather a short-term trading (lower time frames). And 50, 100, and 200 length periods for longer-term trading. The difference in length between 5 and 200 are very extreme and are already confronted with the above-mentioned problems.





TYPES OF MOVING AVERAGES

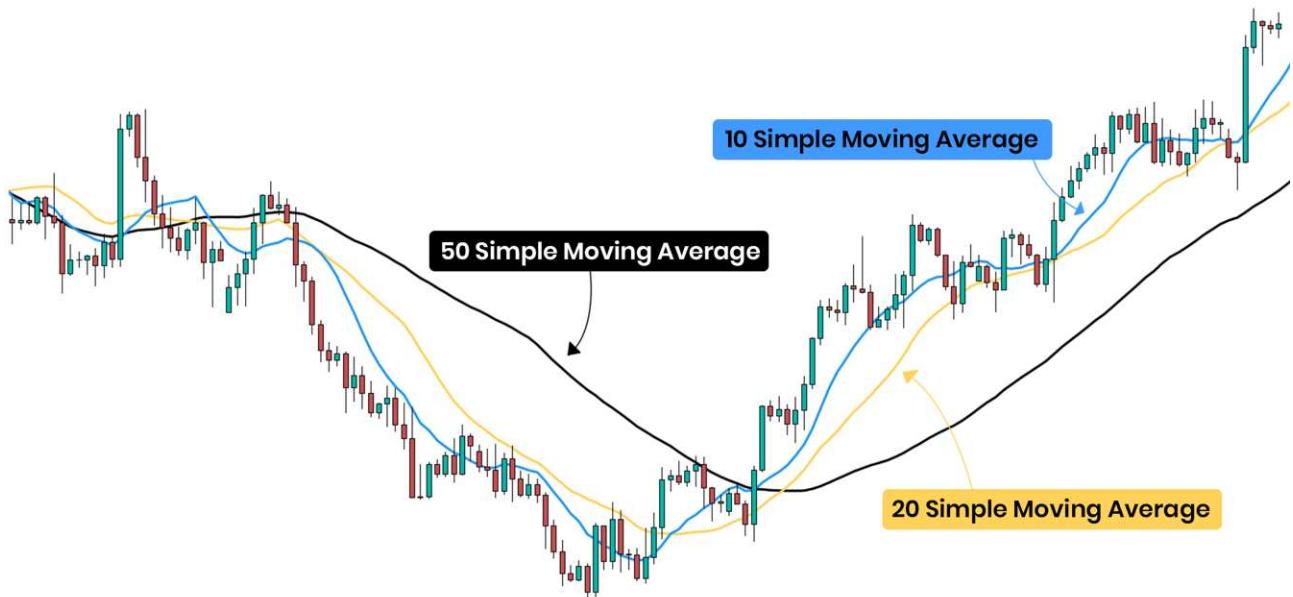
There are 2 major types of moving averages

- Simple Moving Average (SMA)
- Exponential Moving Average (EMA)

SIMPLE MOVING AVERAGE

The Simple Moving Average (SMA) already reveals it by its name. It is the simplest type. It is calculated by adding up the „X“ amount of the period's closing prices and then simply dividing that number by „X“ again. Confused? Don't worry, you don't need to calculate a thing. It is just important to know that with the Simple Moving Average, every candle has the same weight within the calculation.

Here an example of the 10SMA, 20SMA, and 50SMA (short for simple moving average with the length 10, 20, and 50)



As we discussed previously, the moving average with the shorter length tracks price more while the moving average with the larger length is more smoothed out. While the more smoothed out moving average shows us the clear direction of the trend (upwards), the 10SMA is closer to the price and does not show us the clear direction, but reacts immediately when the price is changing direction, while the moving averages with great length need time to change direction. As you can see, it really just depends on what information you want to get out of the moving average.

The problem with the Simple Moving Average

Since every single candle within the calculation of the simple moving average has the same weight, a drastic change in price during the starting period of the calculation still has a big impact on the current output of the moving average. What do I mean by this? Let us quickly dive into a calculation. Don't worry, I'll make it quick and I promise you don't have to do this at any point during your trading. This is simply to give you a better overview of the simple moving average and will also lead directly into the difference to the exponential moving average.

Alright, here we go. We have following 5 closing prices of the last 5 periods.

Period 1: 1.2570

Period 2: 1.2694

Period 3: 1.2615

Period 4: 1.2689

Period 5: 1.2743

As we know, we simply add up all the closing prices and divide it by the number of periods, which is in this case 5.

$$(1.2570 + 1.2694 + 1.2615 + 1.2689 + 1.2743) / 5 = \mathbf{1.2662}$$

1.2662 is the level the simple moving average would be sitting on currently. So far, so good.

Now, let's say we would have had a big price fall on Period 2.

Period 1: 1.2570

Period 2: 1.2370

Period 3: 1.2615

Period 4: 1.2689

Period 5: 1.2743

$$(1.2570 + 1.2370 + 1.2615 + 1.2689 + 1.2743) / 5 = \mathbf{1.2597}$$

1.2597 is the level the simple moving average would be sitting on in this case. This shows exactly what we just discussed. A price change from the beginning of the period that will be considered can still have a great impact on the current simple moving average level. Depending on we use the moving average, this could impact the decision making, since the moving average would be way lower in this situation, even though the price has moved in the exact same direction as before.

There is a way to filter out the impactful price fluctuations from the beginning of the period and focus more on the recent price fluctuations.

EXPONENTIAL MOVING AVERAGE

The Exponential Moving Average (EMA) puts more weight on the most recent periods. For example, during the 5 periods we had in the calculation above, the EMA would put more weight on the Period 3, 4 and 5. This would result in the fact, that the higher price fluctuation during Period 2 does not have such a big impact on the current level of the Exponential Moving Average.

This is also the only difference between the Simple Moving Average and the Exponential Moving Average. If you want to see how big the difference is, just put both Moving Averages on your chart.



The question is, which one is better? Which one should you choose? You'll not be happy with the answer. The answer is: It depends on what you are looking for.

SMA

- Responds to recent price action slower (which is not positive or negative)
- Gives slower signals for trend changes, therefore signals the overall trend, and avoids fakeouts
- Slower signal results in delays of signaling trend changes

EMA

- Responds to recent price action quickly (which is not positive or negative)
- Gives faster signals for trend changes
- Gives more false signals (fakeouts)

A general rule is, for shorter-term trading, the Exponential Moving Average is a better choice since it takes recent price action more into consideration, and for longer-term trading, the Simple Moving Average is a better choice since it cancels out a lot of noise and shows the overall direction of the trend.

I quickly want to remind you that trading has thousand of approaches. Who said that you are not able to use both types of moving averages on your chart? There is really no limit to your creativity when it comes to putting multiple tools and methods together to build a strategy.

HOW TO USE THE MOVING AVERAGE

There are multiple ways how a moving average or multiple moving averages can be used within a trading strategy. Let us cover the top 7 most popular techniques of using the moving average.

1. PRICE ABOVE/BELOW MOVING AVERAGE

A very simple and popular way to use the moving average within a trading strategy is to only look for buy opportunities when the price is above the moving average and only look for sell opportunities when the price is below the moving average.

When the price is and stays above the moving average, it signals that price is currently in an uptrend.



When the price is and stays below the moving average, it signals that price is currently in a downtrend.



This is a very simple and effective way. It also has its disadvantages. Price actually crosses the moving average more often than the trader with such an approach would like to and is confronted with chaotic signals. This counts especially for ranging markets:



A solution for this could be the use of the different lengths of moving averages on a chart. Let us say we use a 50 MA and a 200 MA. Price will cross our primarily

200 MA, which we could use to determine if we are starting to look for only buy or only sell opportunities since the trend might have changed, but the secondary 50 MA would for example stay below the 200 SMA, which would signal use that price is still in a downtrend. This way we can use the 50 MA as an extra confirmation for the trend change.

Continued to look for sell opportunities,
since 50 MA never crossed 200 MA.



Of course, the same thing is being valid for an uptrend and we can summarise it as followed:

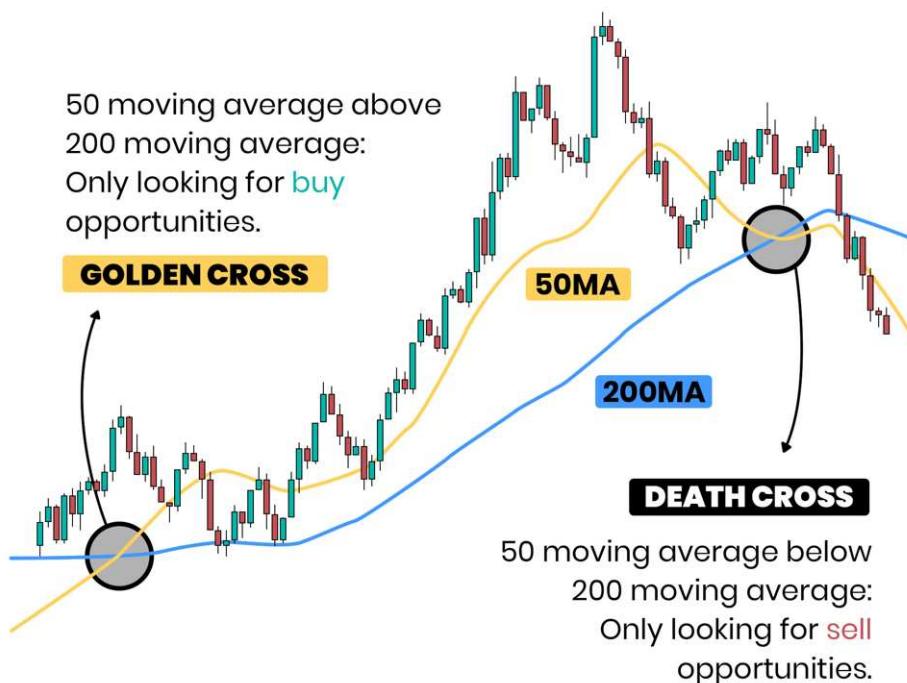
Faster Moving Average stays **above** Slower Moving Average: **Uptrend**
Faster Moving Average stays **below** Slower Moving Average: **Downtrend**

Some traders even use 3, 4, or even more moving averages. It is something you could do, but it can easily look chaotic on your chart and might distract you rather than bring you any value for your decision-making process.

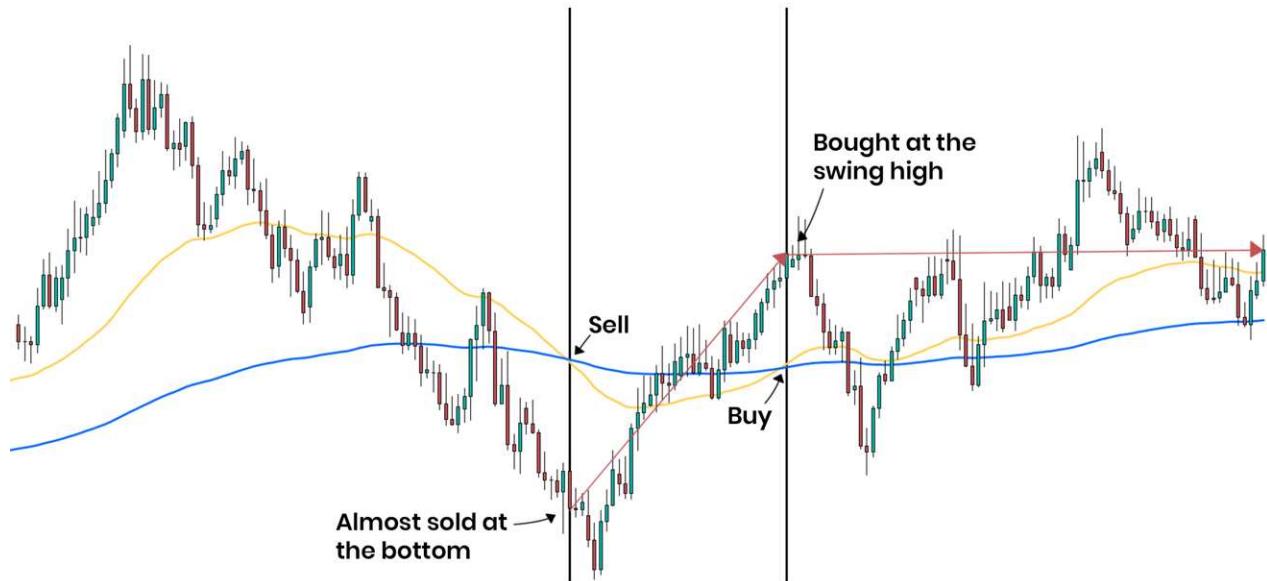
Since we talked about one moving average crossing another moving average, let's quickly dive into the next possible way of using moving averages.

2. MOVING AVERAGE CROSSOVERS

A concept that is very popular and always advertised because of its simplicity. A moving average crossover can help you determine when to enter and when to exit a trade and is suppose to show when a trade starts and ends. Every time 2 moving averages cross each other, it gives you a signal. For example, let us use a 50 MA and a 200 MA again. When the 50 MA (quicker moving average) crosses above the 200 MA (slower moving average), it can be seen as an uptrend confirmation. This scenario is also called the „Golden Cross“. The same way to the opposite side. When the 50 MA (quicker moving average) crosses below the 200 MA (slower moving average), it can be seen as an uptrend confirmation. This scenario is also called the „Death Cross“.



It often gets advertised that when a crossover happens, we can simply enter/exit trades. This means when a „Golden Cross“ occurs, we enter a buy position and exit the previous sell position if we had one. When a „Death Cross“ happens we enter a sell position and exit the previous buy position if we had one. Sounds simple and almost too good to be true right? Well, it is. While moving crossovers work perfectly and nicely during volatile markets with strong up and down swings, following such a strategy will destroy your trading account during ranging markets. Let us check out what I'm talking about:



Yes, this happens. If you enter and exit every time the two moving averages cross each other, you could end up closing a losing position after the other. This is why a moving average crossover should never be the only trade signal. We can use this technique if we want to, but we need to build a better structure around it. We would need further confirmations and methods to filter out some of the weak signals, such as in ranging markets. How can you find such confirmations and filters? Backtesting! Backtesting is simply using your developed trading strategy and apply all the included rules to historical data. This way you can see if your combined techniques, tools, and methods work great together and improve your odds of winning. Since backtesting is so important, we have a whole chapter about it later in the course.

3. PRICE CROSSOVER

A price crossover refers to price crossing above or below the moving average which would signal a potential change in trend.

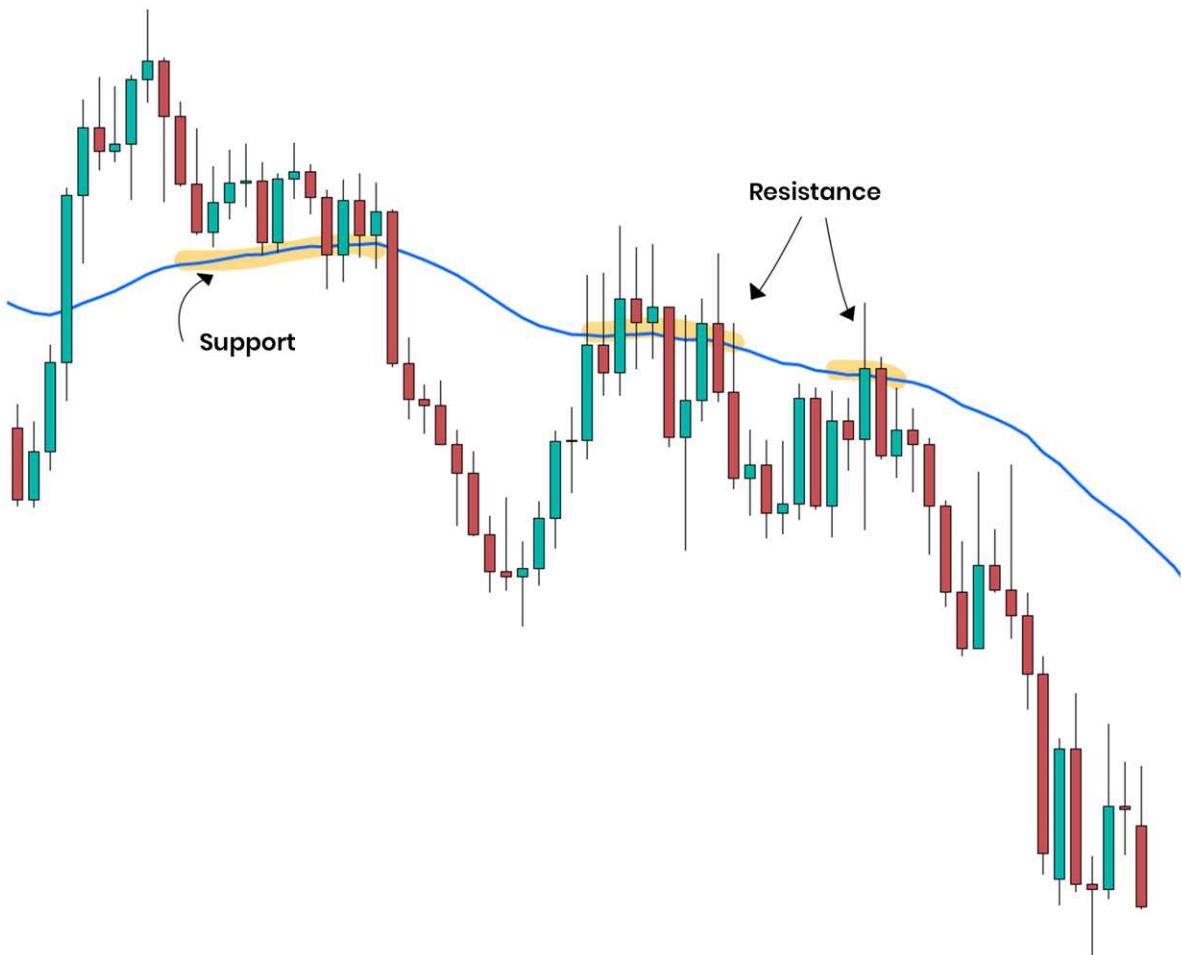


Using such a trading approach would give buy signals and suggests price going into an uptrend when the price is crossing above the moving average and would give sell signals and suggests price going into a downtrend when the price is crossing below the moving average. In order for this to work, we need a slower moving average so that price does not constantly cross the moving average, giving us too many signals.

The difference between price being and staying above or below the moving average, which we discussed before, is that the focus here is the crossing. Simply entering with price crossing a moving average is, again, not really profitable. It should always be a supplement to other techniques and tools within a strategy. As with most approaches including the moving average, this approach has real difficulties during the ranging market where the price is constantly crossing the more or less horizontal moving average.

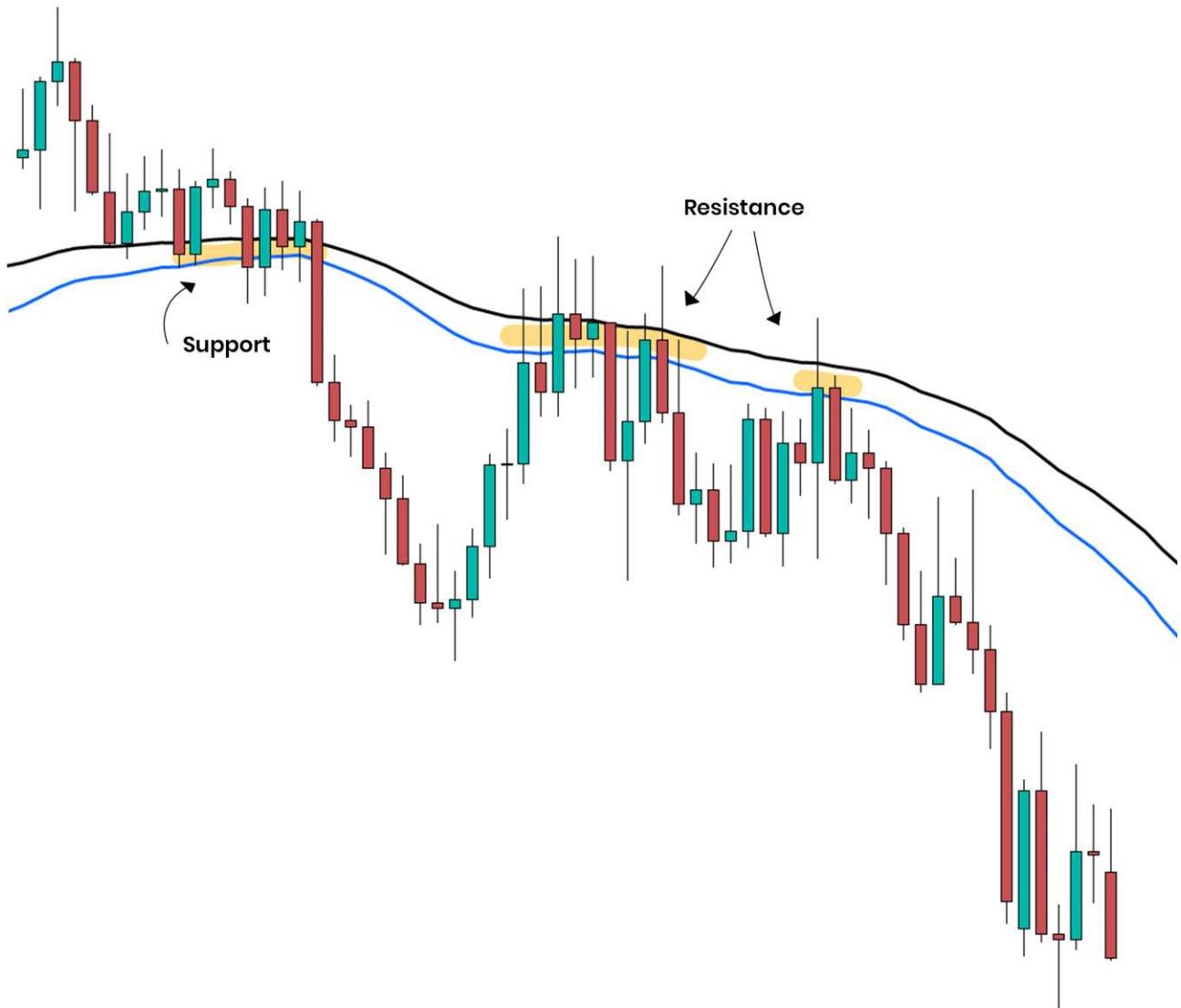
4. MOVING AVERAGE AS DYNAMIC SUPPORT AND RESISTANCE

Moving Averages can act as support and resistance levels during an uptrend or downtrend. Since they keep moving based on the data they use to calculate their level, they are called „dynamic“. Support is created when the price moves downwards and bounces off the moving average to the upside, and resistance is created when the price moves upwards and bounces off the moving average to the downside.



But the price will not always respect the moving average like this. Therefore, we can't use it completely like a horizontal support or resistance levels or like trendlines. We have to see the moving average, even though it is a line, as a zone. Price also likes to run slightly through the moving average to the accept as support or resistance as well as reverse just prior to reaching the moving

average. Because of this, some traders like to use 2 different moving averages and use the zone between the moving averages as a zone for support and resistance. As you can see below, we have a 50 MA and a 70 MA, and the zone between those moving averages acts as a resistance and support.



5. MOVING AVERAGE ENVELOPS

A Moving Average Envelop consists of a moving average plus 2 additional lines. One line will be above the moving average, while the second line will be below the moving average. Both lines will have about the same distance to the moving average in the middle and form the envelopes. The upper line is called the „upper envelop“ and the lower line is called the „lower envelop“. The whole thing looks like this:



Additional to identifying the trend, as we try to do with the moving average, we can use the envelopes to identify overbought and oversold conditions. Overbought is a term used by traders referring to an asset (currency pair) being traded very high in price and has the potential to move downwards. As the term „overbought“ says, the currency pair has been bought by too many market participants (from the perspective of a trader or an indicator) and therefore the price is too high and could move lower in the short-term future. Oversold is a term used by traders referring to an asset (currency pair) being traded very low in price and has the potential to move upwards. As the term „oversold“ says, the currency pair has been sold by too many market participants (from the perspective of a trader or an indicator) and therefore the price is too low and could move higher in the short-term future. Overbought and oversold are often misused as buy & sell signal. Overbought and oversold are not a signal, rather than just a status. The status of being overbought or oversold can stay for a long time without price reversing to the other direction. Overbought and oversold is often presented by technical indicators such as the Relative Strength Index (RSI) or Stochastic Oscillator, which we will cover later on. The envelopes around the moving average can be adjusted.

Using the envelopes for trend confirmation

Since the envelopes represent the moving average, we can use it as a trend following indicator such as the moving average itself. If we use the envelopes for trend confirmation we are focusing on the situations when the price is above or below the envelopes, with the following rules:

If price closes above the upper envelop: **Buy** signal

If price closes below the lower envelop: **Sell** signal

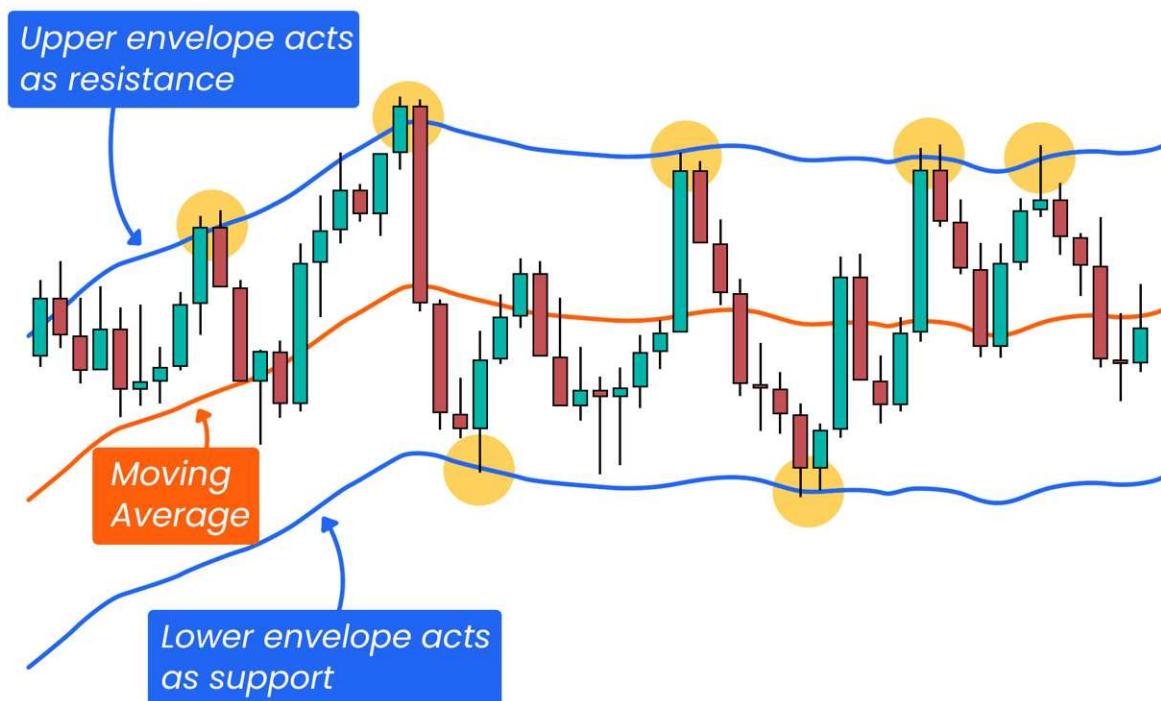


This can be used as extra confirmation, compared to the 2. Price Crossover we have discussed since the price will need to cross the moving average as well as the upper or lower envelope. This can be used as a filter for price crossovers that immediately reverse into the other direction (fakeouts).

Using the envelopes to identify overbought and oversold levels

As already mentioned, the moving average is working nicely during trend situations but has its problems during ranging markets. During such market conditions, the price often crosses the moving average, without continuing into the breakout direction. The envelopes can be used here, to trade exact such market conditions. When price moves above the upper envelop, the price can be considered overbought during a ranging market. When price moves below the upper envelop, the price can be considered oversold during a ranging market. The upper envelope would act as resistance and the lower envelope would act as support. This would give us the following rules:

If price closes above the upper envelop or touches the upper envelope: **Sell signal**
If price closes below the lower envelop or touches the lower envelope: **Buy signal**



As we have discussed just a few moments ago, oversold and overbought are not really meant to buy and sell signals. That's why those rules can get into trouble. Oversold and overbought is just a status and it can stay like this for a long time. That's why this approach is rather used in ranging markets only! There is also a lot of flexibility in terms of setting the envelopes. This is something that needs to be adjusted and will change from currency pair to currency pair.

6. MOVING AVERAGE RIBBONS

A Moving Average Ribbon is multiple moving averages of different length (slower and quicker moving averages) on the same chart. This can be used to determine the strength of a trend, by looking at the distance between the multiple moving averages. It will look chaotic, by as always, we will go through it step-by-step:



How many moving averages should be used?

There is not really a clear answer. As always in trading, there are a lot of different approaches. A popular amount is 6 – 8 moving averages. Mostly, they will be used in 10-period intervals. It is possible to use for example the 40, 50, 60, 70, 90, and 100 MAs. Some could be removed, or some could be even added. Some traders, include longer length moving averages such as the 200 MA, and build their moving average intervals down from there, to have a better view on the overall trend. Some use the Simple Moving Average, while other use the Exponential Moving Average. It comes down to personal preference.

The same rules that apply to a single moving average, counts for multiple moving averages (moving average ribbons). The shorter the length of the moving averages is, the quicker does the moving average reacts to price changes and the longer the length of the moving averages is, the slower does the moving averages react to price changes.

What do the Moving Average Ribbons tell us?

There are mainly 4 ways how we can interpret the ribbons:

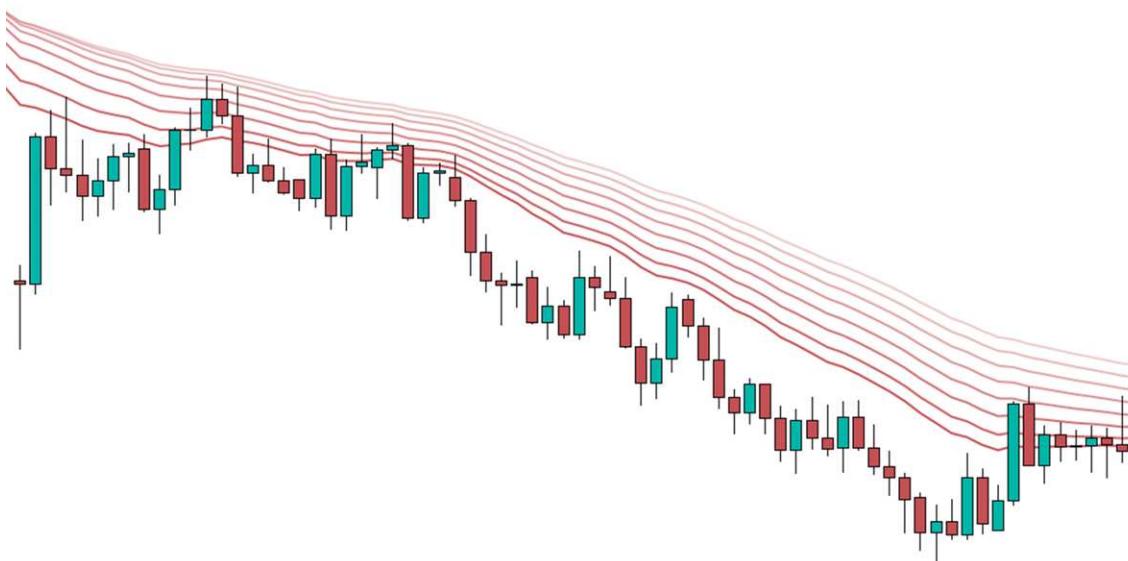
1 Expanding Spaces between Moving Averages

When the spaces between the multiple moving averages expand, it can be seen as the trend strength and can be used as confirmation. This is caused by the lower length moving averages rise or fall quicker than the slower moving averages and the indicators look like a hand fan.



2 Parallel Moving Average Ribbons

When the multiple moving averages are moving parallel to each other, this means the current trend is quite strong and healthy in a consistent way. This scenario can be seen quite a lot during trending periods of the market.



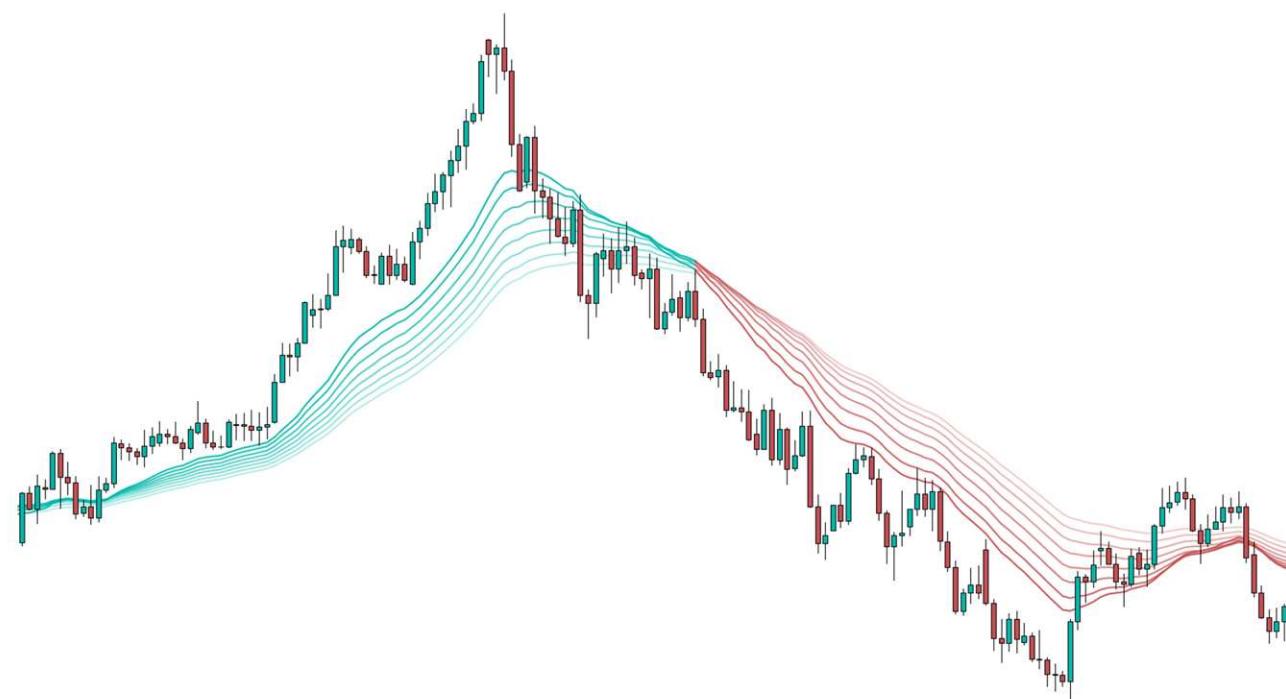
3 Decreasing Spaces between Moving Averages

When the spaces between the multiple moving averages decrease, it can be seen as the trend weakening. This could mean the current trend is either going to retrace, before continuing into the trend direction, or it could mean that the trend starts to reverse.



4 Ribbons Cross

When all moving averages crossed each other, it can indicate a potential trend reversal. But even here, there are different rules that could potentially be applied. Some traders wait for all moving averages to cross each other to see it as confirmation. Others see it as enough if only a few of the MAs cross to see it as confirmation.



Limitations of Moving Average Ribbons

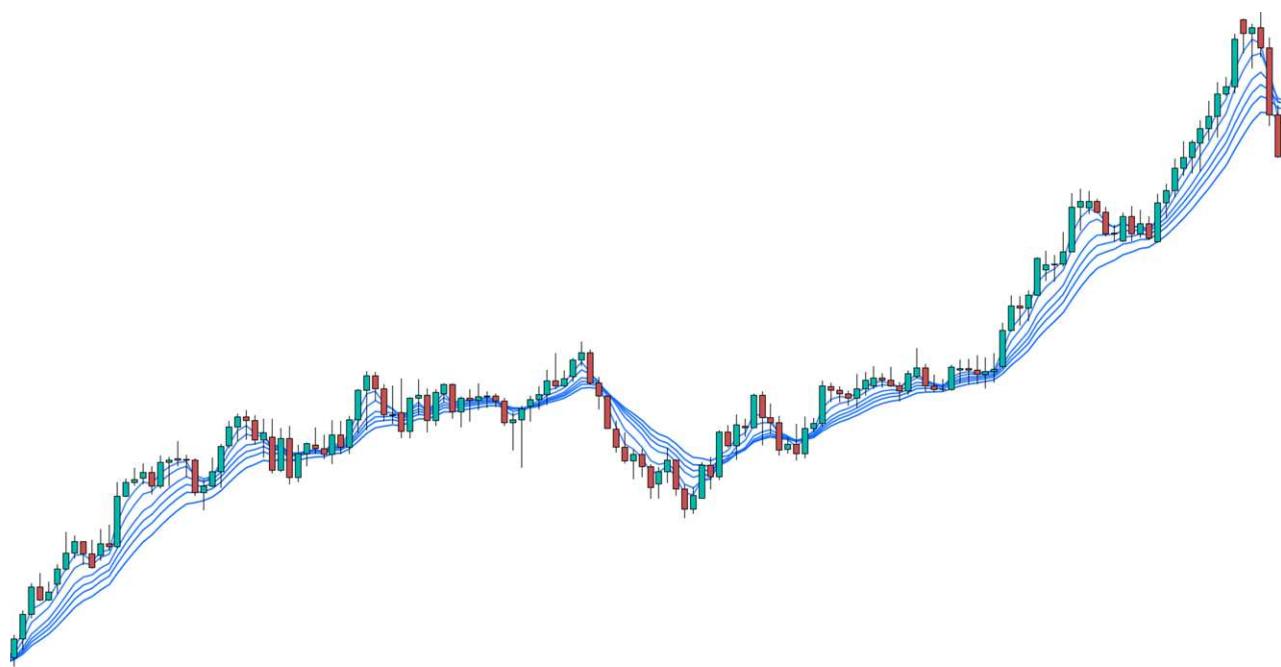
An obvious limitation is the amount of indicators directly on your chart. It can easily get chaotic, and not easy to determine which one is relevant. The classic limitation, I already mentioned a couple of times, is the one that moving averages are always lagging behind. More often, price already has changed quite a bit, before moving average ribbon signal a reversal or a trend strengthen.

If the approach of determining on your own how many moving averages you want to use and need to decide what exact lengths you should use is not really working for you, we will cover a similar technique in the following, which gives us a bit more structure from the start.

6. GUPPY MULTIPLE MOVING AVERAGE (GMMA)

The GMMA is a more advanced and structured version of the Moving Average Ribbons. It was created by an Australian trader called Daryl Guppy, which used 12 EMAs in order to create a trend-following strategy. He introduced the GMMA in his book „Trend Trading“. The 12 EMAs are separated equally into a group of faster (short-term) EMAs and a group of slower (long-term) EMAs.

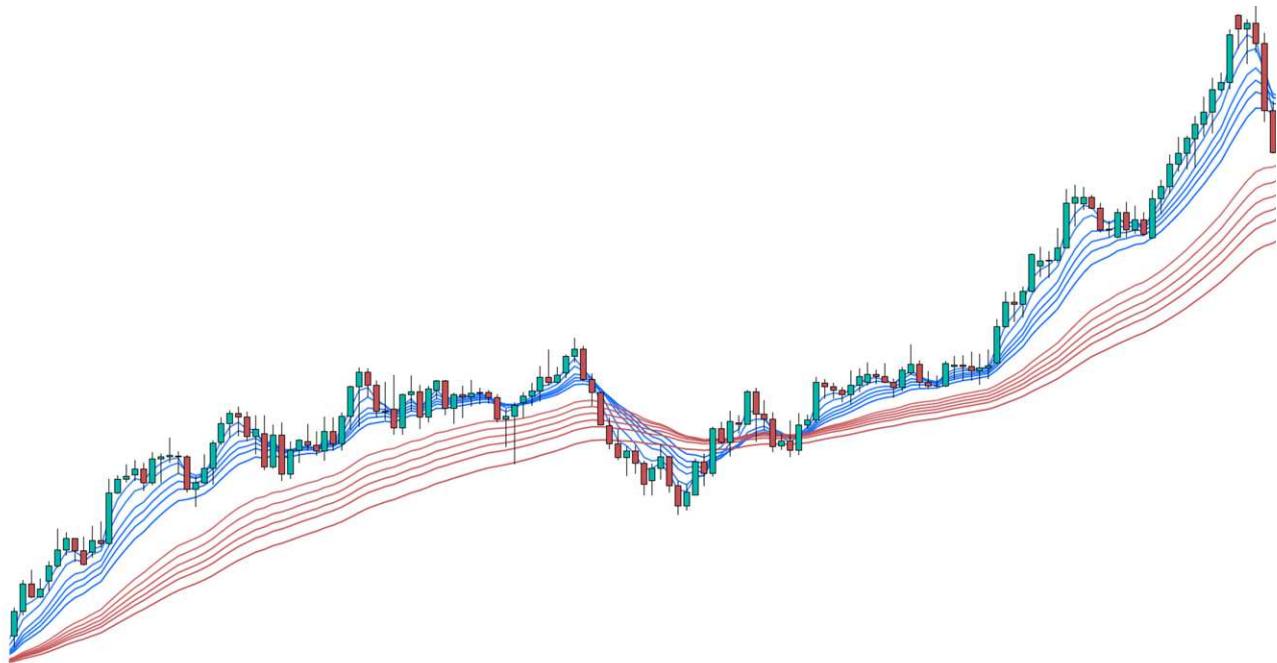
The group of fast EMAs consists of the 3, 5, 8, 10, 12, and 15 EMAs. They show the shorter-term trend's momentum.



The group of slow EMAs consists of the 30, 35, 40, 45, 50, and 60 EMAs. They show the longer-term trend's momentum.



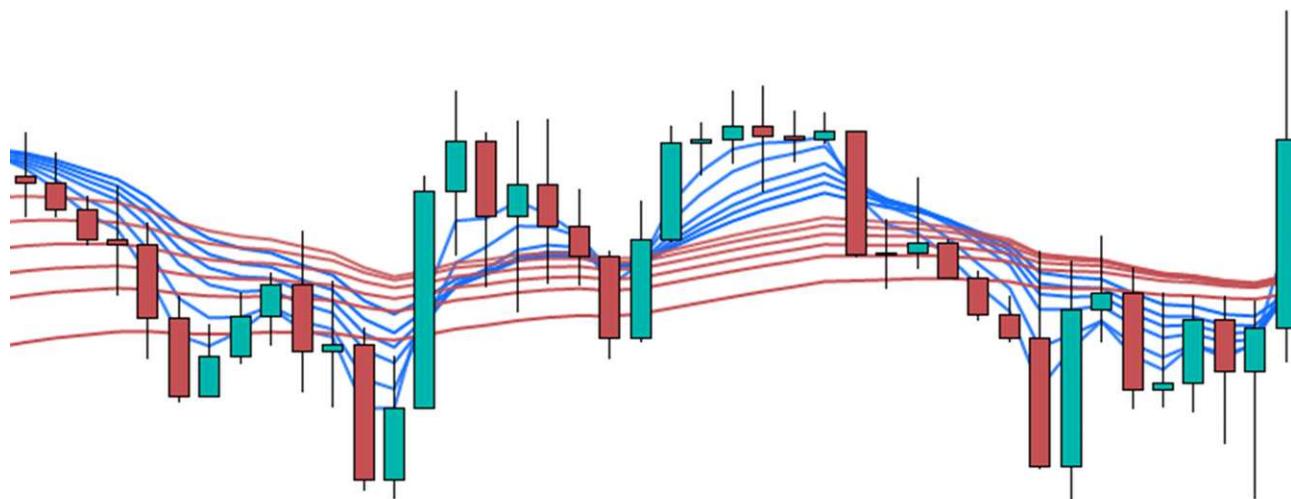
Both combined would look like this:



The idea behind it is that the longer-term EMAs show us the overall trend, while the shorter-term EMAs give us the trading signals. We would enter a trade when one whole group crosses the other. The rules:

- When the shorter-term EMAs cross **above** the longer-term EMAs: **Buy** signal
- When the shorter-term EMAs cross **below** the longer-term EMAs: **Sell** signal

A crossover, just as discussed before in the context of the moving average, signals a change of trend direction. When both groups of EMAs overlay each other as in the example below, it can be seen that neither a bullish nor a bearish trend is given. We are in a ranging market, and no signals occur, since it is a trend following strategy. (We have discussed that there is also a sideways trend. When talked about trend following strategies, they mean upward and downward trends only).



As we can see above, we have no upwards or downwards trend. We are in a ranging market. During ranging markets, trend-following traders sit on the sidelines without taking any trades.

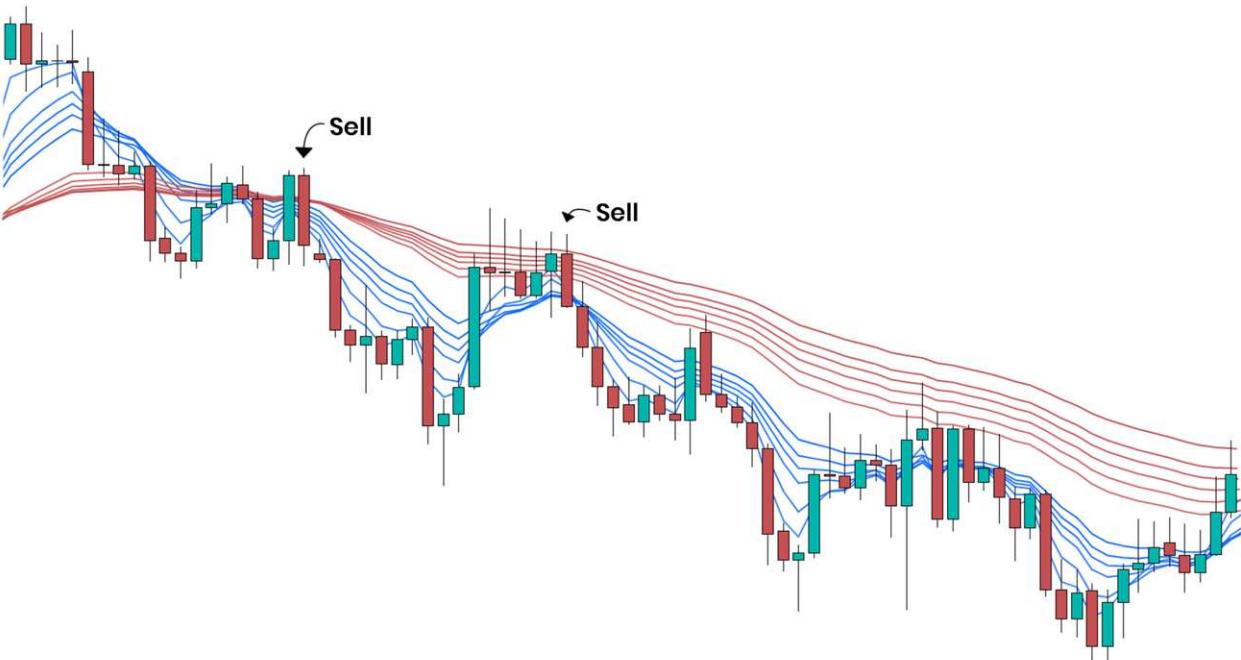
Buy Signal

As already mentioned, when the shorter-term EMAs cross above the longer-term EMAs, it is seen as a buy signal. When the shorter-term EMAs retrace back to the group of longer-term EMAs, but not cross it, and then continue to drift away again, it can be seen as a trend continuation sign and would give us another buy signal.



Sell Signal

The opposite for the sell signal applies. When the shorter-term EMAs cross below the longer-term EMAs, it is seen as a sell signal. When the shorter-term EMAs retrace back to the group of longer-term EMAs, but not cross it, and then continue to drift away again, it can be seen as a trend continuation sign and would give us another sell signal.



Rules and Limitations:

The same rules (expanding spaces, decreasing spaces, etc.) as well as limitations for the Moving Average Ribbons, count for the GMME as well, since it is basically the same approach, just a bit more refined.



I personally have never used Moving Average Ribbons or the GMMA within my strategies. I did not do extensive testing, but from what I have found out is that you need to tweak it a bit, in order to make it fit into a strategy. The buy and sell signals alone are not profitable but generally, work better on the higher timeframes (for example daily).

CONCLUSION: MOVING AVERAGE

Those are a couple of different techniques and approaches on how to use the moving average and ways to **include** them into your strategy. When we combine this with the material we already learned, we could already build hundreds of different strategies. For example, we could try to look for continuation chart patterns to the upside when the price is above a moving average for additional confirmation of price being in an uptrend. The same goes to the opposite side, we could look for continuation chart patterns to the downside when the price is below a moving average for additional confirmation of price being in a downtrend.

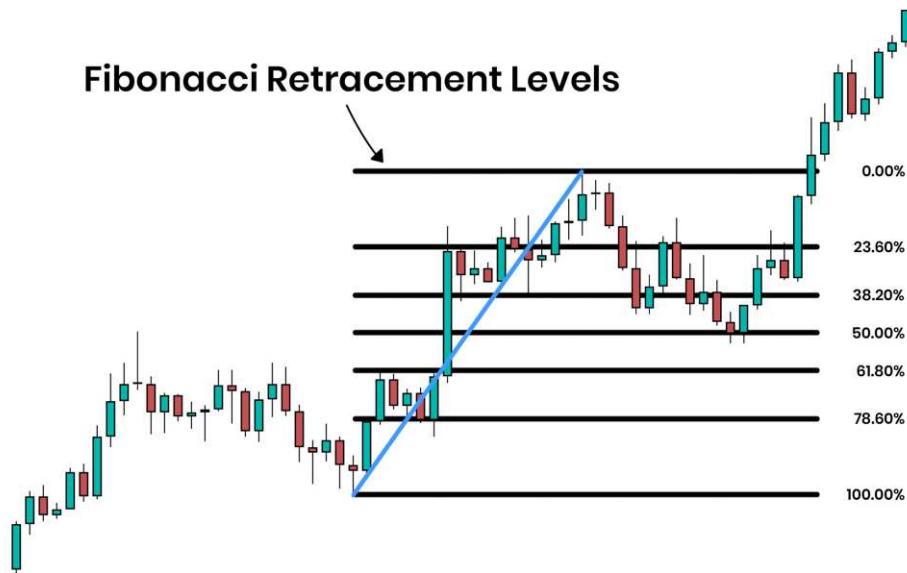
This could be one out of hundred rough overviews of a strategy that combines the material we just covered. There are many many more and you could already start combining some of the techniques and tools and try them out on your charts. BUT, you also don't have to go crazy. It probably is not the best idea to start combining all instruments we cover in this course into one single strategy. Your chart would look very very chaotic. In the end, you still want to be able to see price movement, this means the candles (or whatever chart type you use) very clearly. More detailed strategy examples with specific rules and backtested results (as well as screenshots of hundreds of trades) are on our discord server.

We continue with another powerful and popular tool that can be nicely implemented within a strategy. The Fibonacci retracement .

1.9.17.3. FIBONACCI RETRACEMENT



Fibonacci retracement levels help to work out when to enter a market or cash out profits. Mostly it is used to determine potential support and resistance levels.



As we can see above, the Fibonacci retracement levels are horizontal levels, that can either be seen as support or resistance level, depending on the context. You might think now, what kind of levels are those, how are they determined and what do the percentages mean? In order to understand the Fibonacci retracement levels better, I would like to cover a bit of background information about the person Leonardo da Pisa and the Fibonacci numbers. Going to be quick, don't worry.

Leonardo da Pisa, was a famous mathematician from Italy. He wrote a book in which he described the sequence of numbers that serve as the base for the Fibonacci retracement indicator. When you write down a „0“ and a „1“ on the left side of a piece of paper and add those two numbers together, you will end up with a „1“. The result will be written down to the right from the already existing „1“. Now the last two numbers on the paper will be added again. This means we add „1“ and „1“ together. This results in the number „2“. We write the number 2 on the piece of paper as well and add the last two numbers again together. This would be the „1“ and the „2“. When you continue this game, it would look like this:

0,1,1,2,3,5,8,13,21,34,55,89...

Those are the Fibonacci numbers.

When we take a ratio between two following numbers, for example between 8 and 5 you would end up with 1.6 ($8 / 5 = 1.6$). If we take a ratio between numbers more to the right, let's say 34 and 55, we will end up with 1.6176 ($55 / 34 = 1.6176$..). The more to the right we go, the more and more we will converge to the number 1.61803398875. Depending on your nerd level, you know or you don't know that this number is known as „Phi“. This number is also called „the golden ratio“. It appears everywhere around us. It appears in geometry, art, architecture. Literally everywhere. That means it is in the financial world as well.

Ok, this is enough. Before you fall asleep, let me quickly give you all Fibonacci retracement Levels as percentages:

23.6%, 38.2%, 61.8%, 78.6%

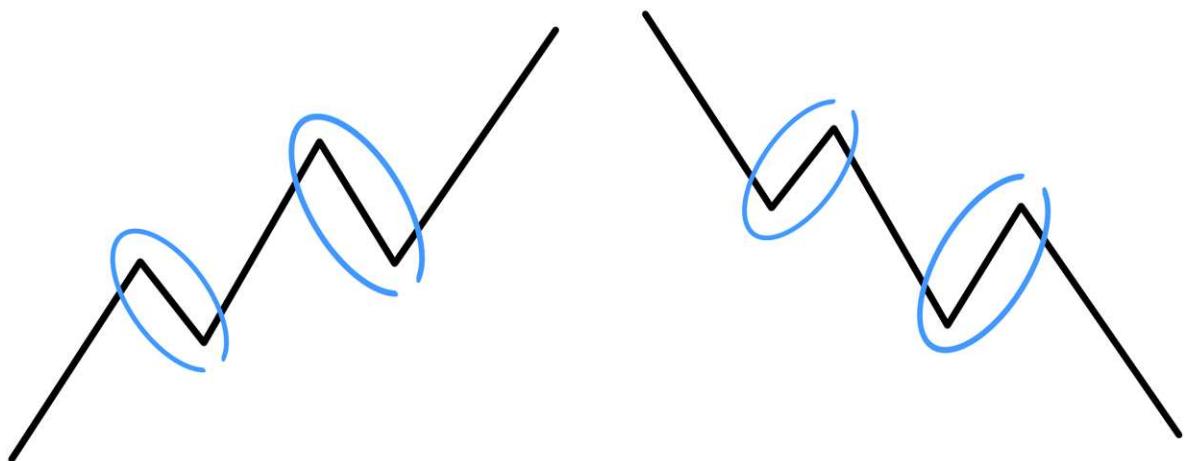
On most Fibonacci tools, the 50% level is included. While it is actually not a Fibonacci number, price tends to bounce off the 50% level quite often and accepts it as support or resistance and therefore got included. You don't know what I mean by accepting the levels as support or resistance? Let me show you.

How do we use the Fibonacci retracement levels?

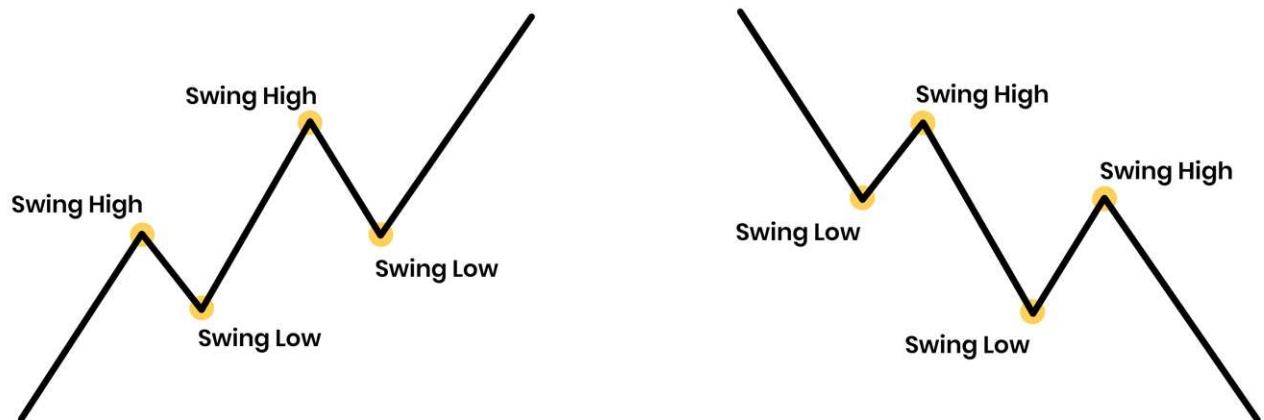
Fibonacci retracement levels, as the name already indicates, try to determine the potential key levels price will retrace back to during a trend. As we know the market is always moving in a zig-zag movement, price is likely to retrace back a bit during a trend, before continuing into the trend direction. The Fibonacci retracement levels are horizontal key levels, work best when the market is trending upwards or downwards, and are therefore a perfect tool for trend following strategies.

Retracements during uptrends

Retracements during downtrends



If we want to draw the Fibonacci levels on top of a trend, we need to identify a swing low and a swing high. Then we simply drag the Fibonacci tool from the last swing low to the last swing high during an uptrend, and from the last swing high to the last swing low during a downtrend.



The tool will then provide us with the Fibonacci levels, to which price possibly retraces, before continuing into the trend direction. The levels signal possible support levels during an uptrend and possible resistance levels during a downtrend. The percentages refer to how much price would retrace. 50% for example means that price retraced 50% of the move from swing high to swing low or swing low to swing high. That's why we have a for example a 0% at the

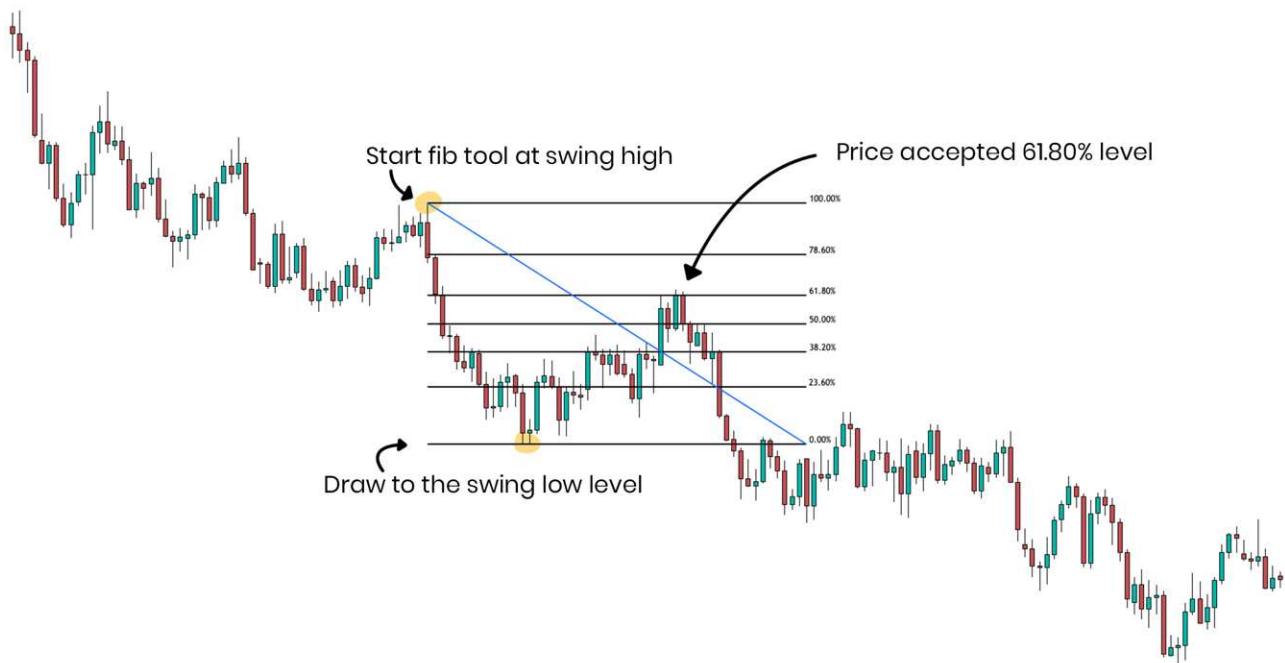
swing high level during an uptrend, and at the level of the swing low during a downtrend, because this is the level where the price would have retraced 0% compared to the movement from swing high to swing low. The idea is to buy on a retracement level, which acts as support, when we are in an uptrend, and sell on a retracement level, which acts as resistance, when we are in a downtrend. Since the levels will be drawn before the price even have touched those levels within the retracement, the instrument counts as a predictive technical indicator. We attempt to identify where price may go in the future.

Now let's visualize this a bit:

During the downtrend below, we can see the mentioned swing highs and lows from the continuous pullbacks.



This is a perfect scenario for potential Fibonacci retracement entries. We would then draw the Fibonacci retracement tool from the recent swing high to the recent swing low (in the following example, I used a swing high and low from the middle of the trend, but we will go over real-life examples later). As we can see, the price retraced to the 61.80% level after the bearish move from swing low to swing high and continued to move downwards during the following periods.



Because Fibonacci retracement levels are so popular, many traders use them and big order blocks come together at such levels. This means a lot of market and pending orders will be placed around those levels and therefore the belief of many market participants that a retracement will occur near a Fibonacci retracement level could impact the market. This would make the instrument a self-fulfilling tool. But one thing is for sure, the price will not always bounce off from Fibonacci levels. Price might never really retrace and rally for a long time. Price could also not care about any levels and retraces till a space between two Fibonacci retracement levels to continue in the direction of the trend or price could also just reverse and the retracement is not a retracement at all. That's why we should **always** align such levels with key levels determined by other instruments and techniques. We will cover this in a minute.

Let me show you first an example of price not accepting Fibonacci retracement levels:



As you can see above, the price was in an uptrend, creating higher highs and lower lows. We drew the Fib retracement tool from the swing low to the swing high and the Fib retracement tool presented us the potential reversal points for the retracement. As highlighted, the price then initially accepted the 61.80% retracement level, but then reversed down again to continue a bearish movement. If you have practiced the classic chart patterns from before, you might have noticed that price created a head and shoulders pattern.

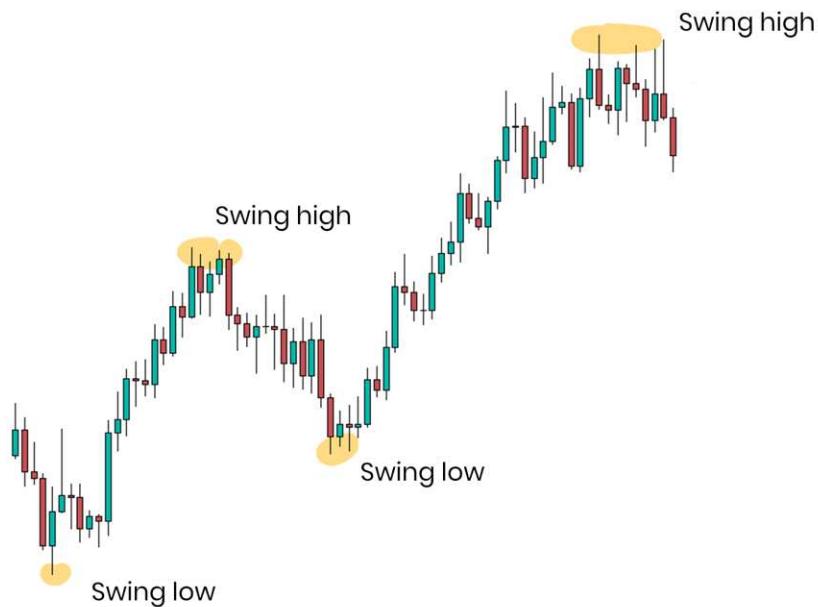
A common problem is to identify the swing highs and lows. This is indeed a very subjective process. As we know, different traders look at the same chart in a completely different way. This is also where it gets a bit blurry since there is not really a wrong or right. You can use minor moves within a bigger move to identify retracements, but you can also ignore the smaller price waves and use the bigger waves to identify retracement levels. This is where screen time comes into play. Go to your charts and just draw the Fibonacci Tool on your charts to find out which approach fits you the most. Something I want to start to introduce to you is repetitiveness. Whatever you do during the process of technical analysis, you want to be able to repeat it over and over again. But not just repeat it, you want to be able to repeat it in the same way. This guarantees you that if

you found something that works for you, you can actually re-do it in the future. This already starts with how to determine swing highs and lows. If you use smaller price movements to determine your retracement levels in one trade and then use bigger price movements to determine your retracement levels, you used 2 different approaches. This could get in the way of consistent results. That's where it gets a bit tricky. But don't worry, this is something I just wanted you to already have in the back of your head. We will discuss this furthermore when we check out how to develop a trading system.

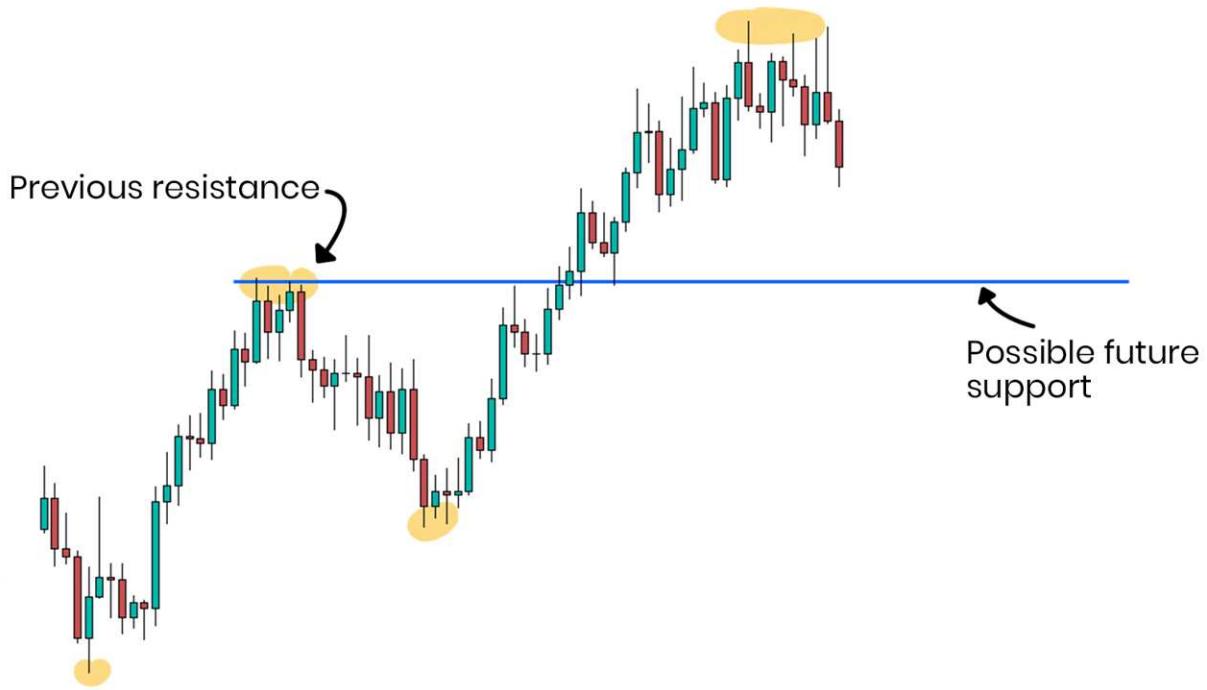
Aligning Fibonacci retracement levels with support & resistance levels

As mentioned, Fibonacci levels alone are not really a consistent way to determine possible support and resistance levels and therefore trade entries. We need to align those levels with key levels, which are determined through other techniques, tools, or instruments. A simple way is to use the classic support and resistance levels created by previous price movements.

Let's see how we can combine those two in the following scenario:



We have an uptrend here, and determined the swing low and swing high to draw the Fibonacci retracement levels. A question you might have already asked yourself, which level should I look out for? Is it the 50% or the golden ratio of 61.8%? That's where combining different techniques comes into place. Let us draw a previous resistance level on the chart at first, which could become future support.

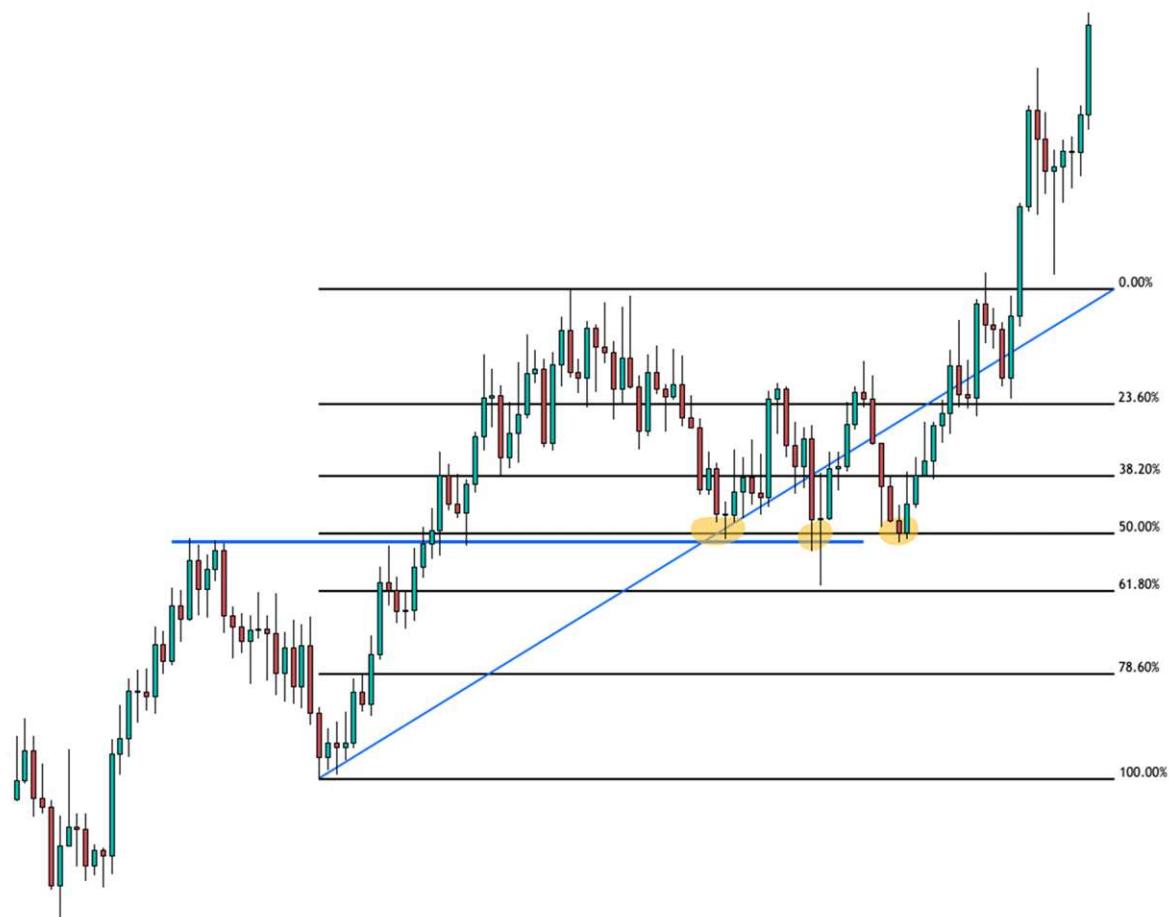


Now let's see if this key level aligns with one of our Fib retracement levels.

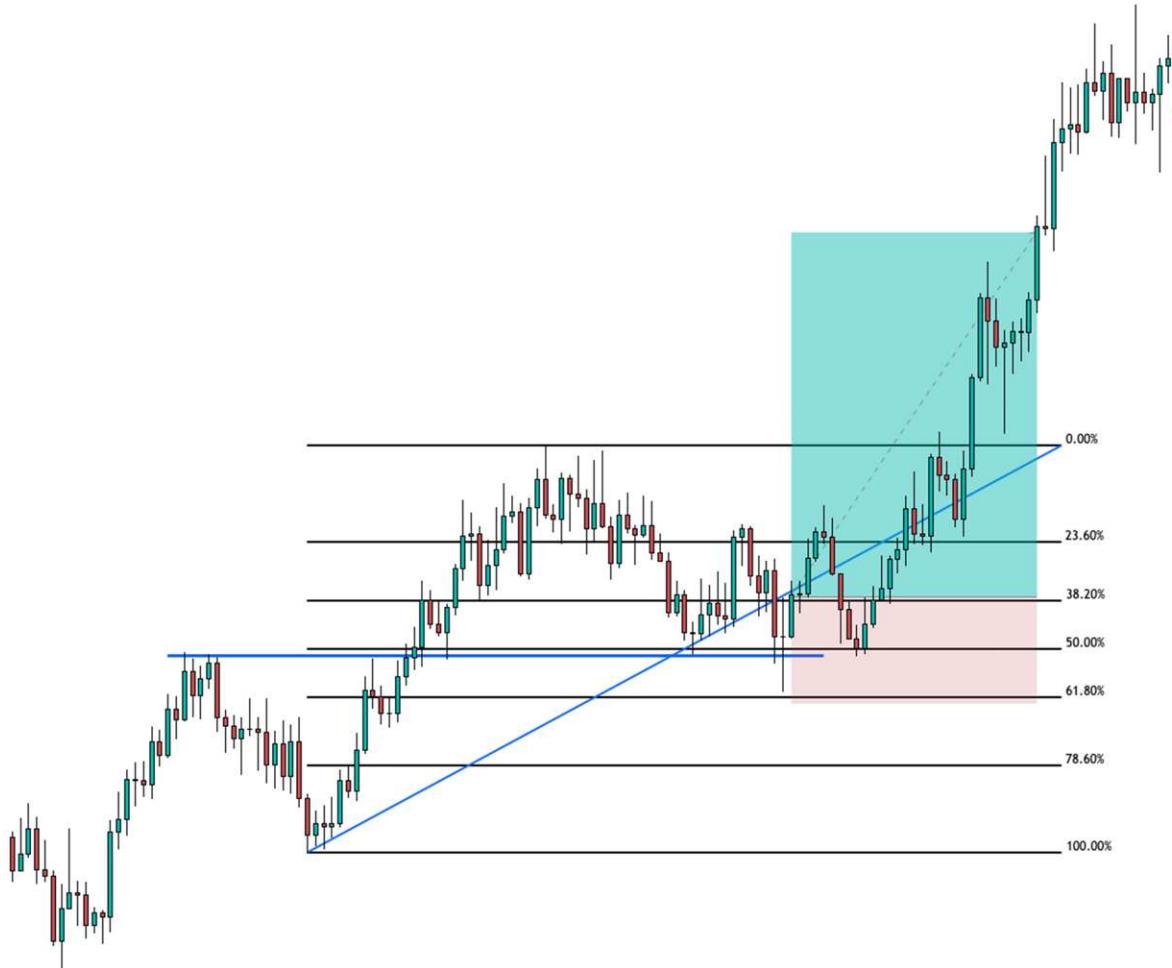


Here we go, our key level aligns almost perfectly with the 50% retracement level from our Fib retracement tool, which we drew from swing low to swing high. This is the price level we focus on to look for possible trade opportunities. We want to price retrace to the yellow highlighted level, and in the best case develop some

sort of candlestick pattern to combine even more approaches into the setup. Let's see how it turned out.



Here we have it. Price accepted the level as support even three times before making a bigger move to the upside. Let me just explain to you again what happened here: Price accepted the highlighted price level previously as resistance, retraced back down a bit, and moved higher, as it found support (our swing low) to try the resistance level again. Price continued higher and broke resistance to create our swing high. After we have noticed that the price starts to pull back again to the downside, we can start looking for the possible level to which price might retrace. That's where we can insert our Fib retracement levels and improve our odds of winning since both techniques suggest the same possible scenario. Of course, there are never guarantees, but we traders are all about improving our probability of winning. Price even created 2 morning star candlestick patterns as well as a bullish engulfing pattern. The second morning star would have fulfilled our filters in terms of a strong signal if you can still remember them from the candlestick chapter. This morning star pattern could have been our entry signal in this scenario.



The lesson here is that we take the help of previous key levels to determine which Fibonacci retracement levels we will look at. This counts for downtrend scenarios as well!

What to do when the Fibonacci levels do not align with previous horizontal support and resistance levels?

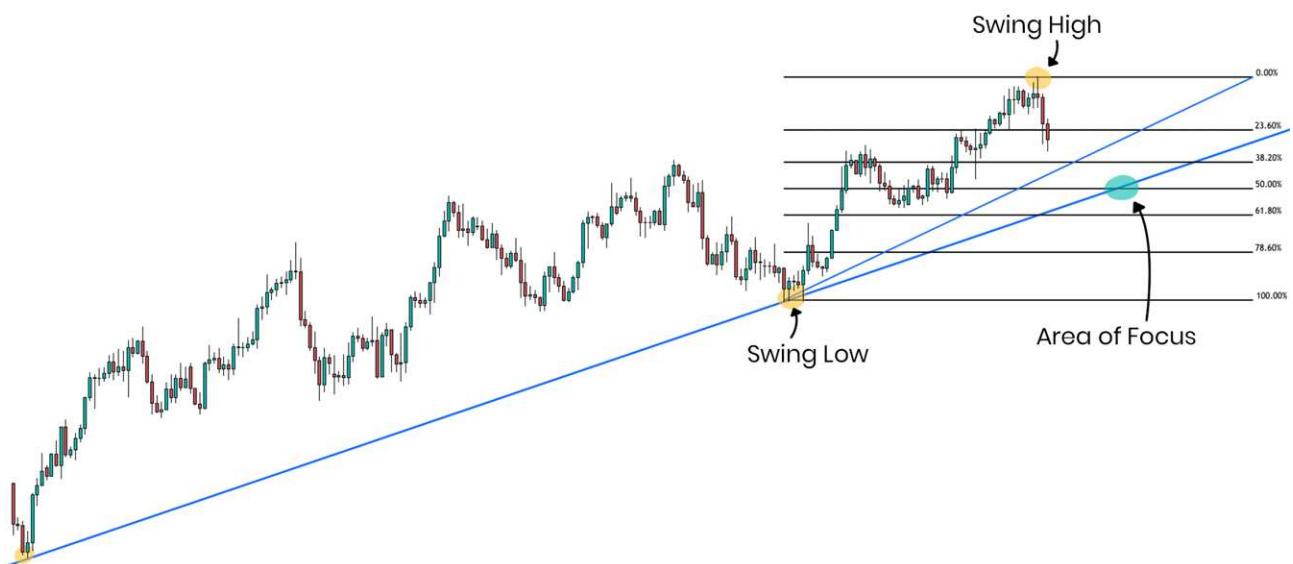
If you developed your strategy that uses the Fib retracement and horizontal support and resistance levels to determine trading opportunities and entries, then such a scenario would give you the signal that this setup is not a valid setup for you and you would not trade it! Do not force an entry. There are so many opportunities in the market, be patient enough to wait for yours.

Aligning Fibonacci retracement levels with trendlines

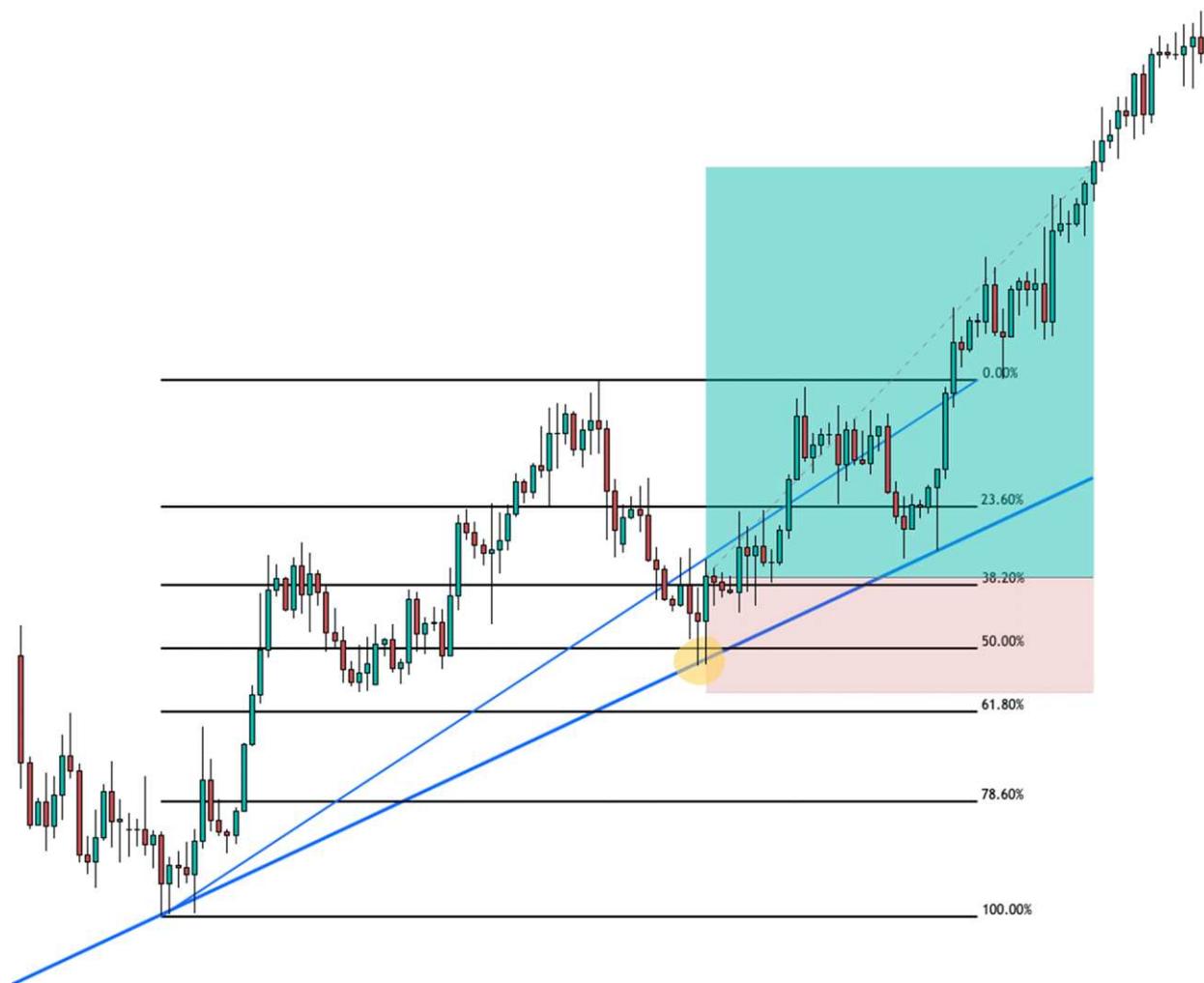
Another great way is to combine the Fib retracement levels with trendlines. We already discussed that the Fib retracement works best when the market is trending since especially in a trend we can see the retracements happen, trendlines are the perfect fit. Let us check out how we could combine those two instruments.



Here we have a chart with an ascending trendline. We can now just plot the Fib levels on top to give us extra confirmation. We will use the recent swing low (last touch of the trendline) and the recent swing high to determine the Fib levels.

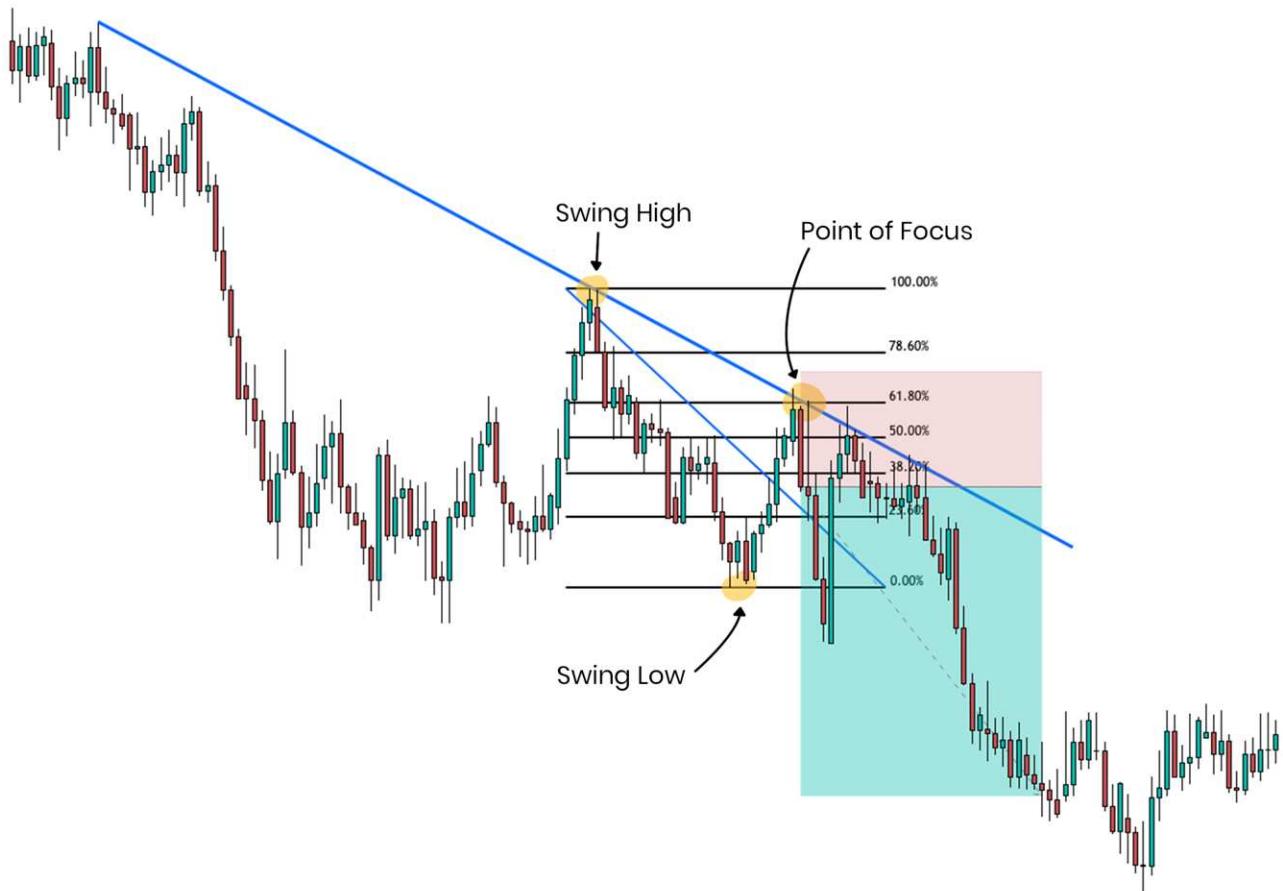


We can see, the 50.00% retracement level overlaps perfectly with the trendline at the highlighted area, which could act as support. This level is where we would set our focus when combining the Fib levels with the third trendline touch of price, which would also validate our trendline. Let's see what happened.



I zoomed into the chart a bit to make things clearer. Price accepted exactly this level and confirmed the acceptance of the support level & retracement level with a bullish engulfing candle and wick rejections. Through combining the Fib level with a trendline, we don't just know on what retracement level we should focus on, we also have additional confirmation.

The same thing would count for downtrends:



Yes, I have handpicked these examples, and when you will go to your charts and try it out, you will see that it doesn't always work. But, no instrument does, neither a combination of instruments. It also does not need to work all the time. When we apply proper risk management, we don't even need to win 50% of our trades. (This depends heavily on the strategy and risk management applied and can be calculated through the win-rate and average risk-reward ratio as mentioned at the beginning of the course. Chapter: „How does a trade work?“)

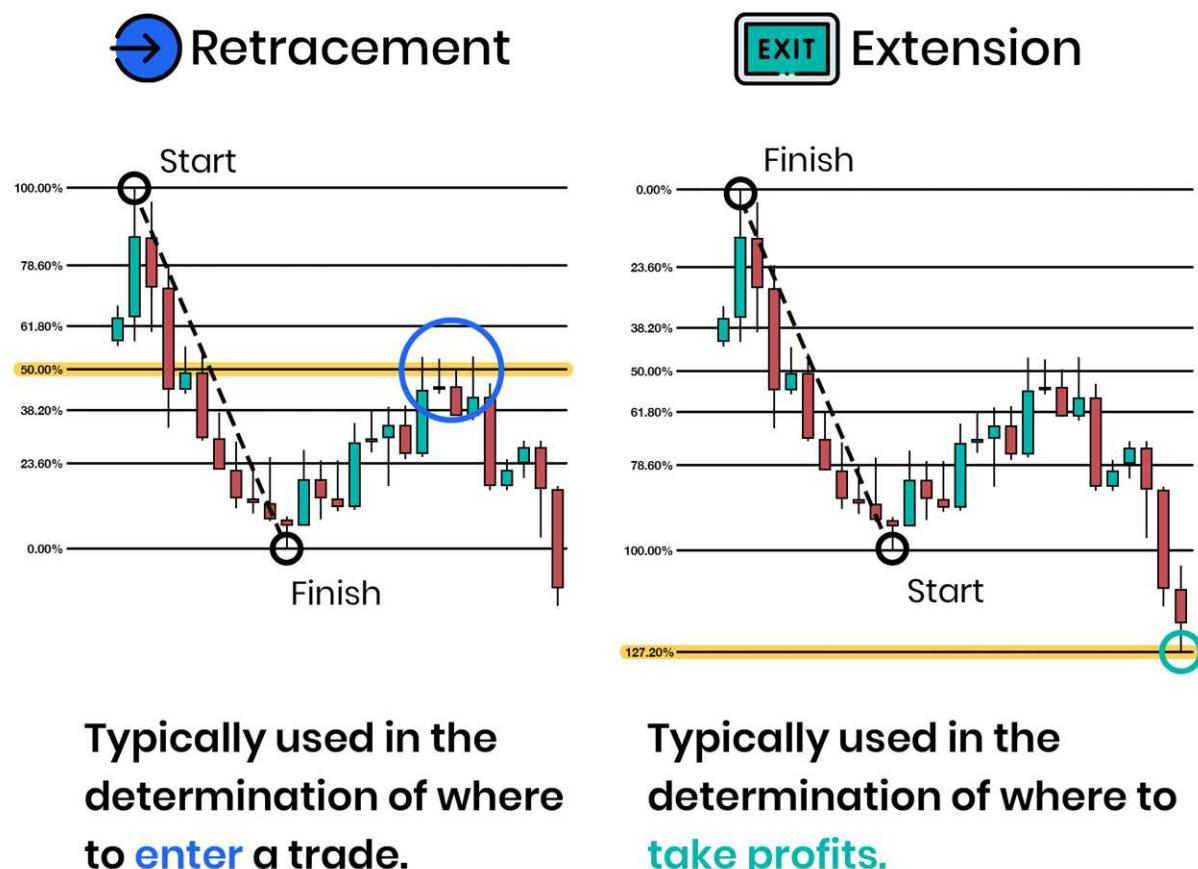
Determine take profit levels with Fibonacci Extension Levels

It gets better. The Fibonacci Instrument doesn't just give us retracement levels. It also gives us extension levels. Extension levels are added below the retracement levels during an uptrend and on top of the extension retracement levels during a downtrend. Common Fib Extension Levels are 127.20%, 161.8% and 200%. Normally, the extension levels are already included in the Fib retracement Tool on your

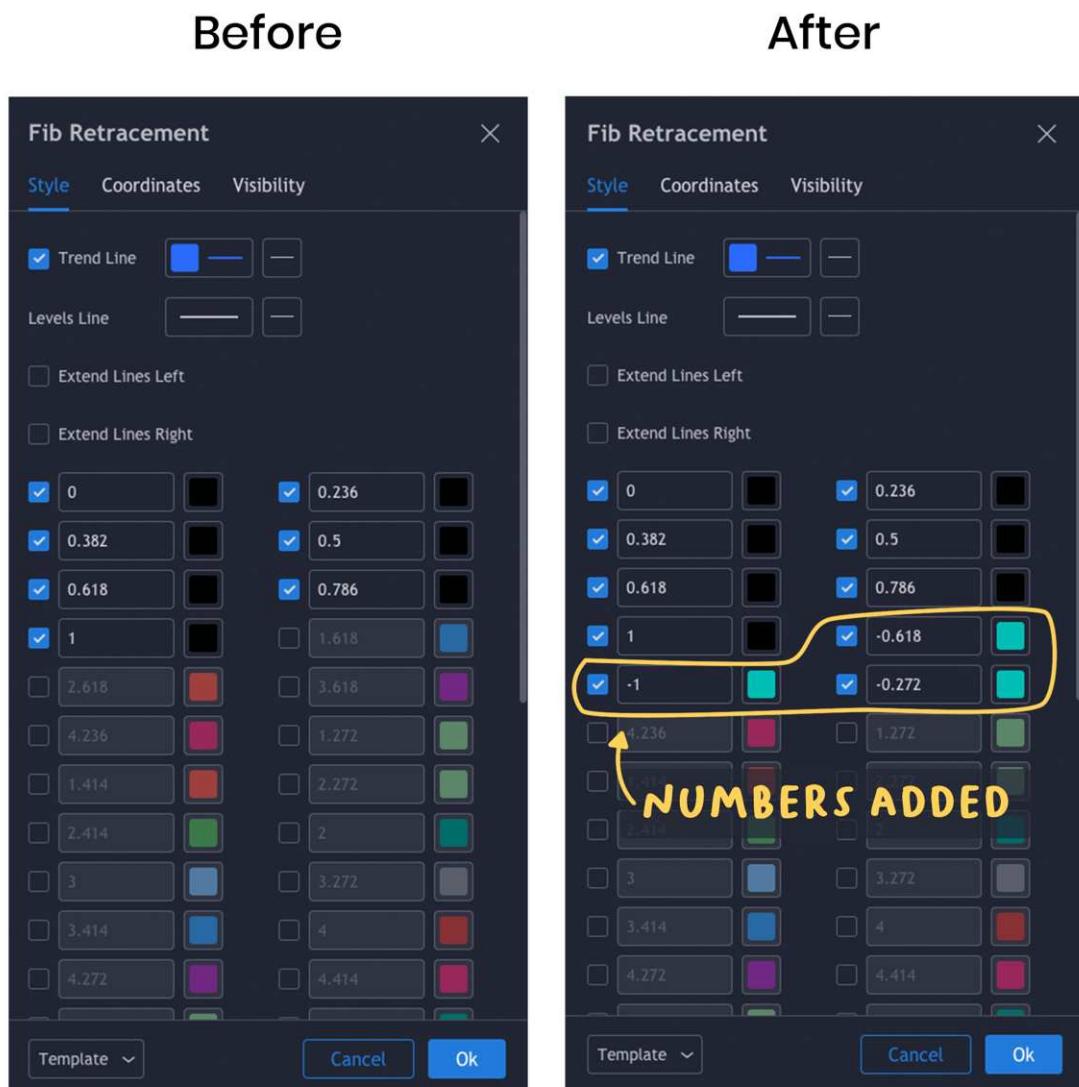
charting platform. One way to use extension levels to determine take profit levels is to draw the Fib retracement level the other way around. This means we would start at the swing high and draw it to the swing low during an uptrend, or we start at the swing low and draw it to the swing high during a downtrend.

⚠ Important: This is just for setting the take profit levels with the Fib Extensions. The Fib retracement levels will be in the wrong order now.

Here an example of a downtrend situation:



Another way is to modify your Fib retracement tool. When you are on tradingview.com, you can simply double click on the drawn Fib tool on your chart and the settings will open. These are all shown Fib Levels, which can be easily edited. We can simply edit the extension levels that way, that they are lined up in the direction of the trend. In order to do this, we simply add the numbers -0.272, -0.618, and -1 as shown below:



After we have done this, our extension levels are added to the tool and our Fib retracement levels will look like this.



Now we know how to get to those levels, the question is how to use them?

The general idea is to set our take profit level at a Fibonacci Extension level. When we take our uptrend example from before, we determined that we could enter when the price accepted the 50.00% retracement level and the support level of the trendline. When we enter a trade, we always want to have a take profit and stop loss level in place. We will get to possible ways on how to determine stop loss levels with the Fib tool as well in the following pages. Right now, we focus on the take profit level. When we modified our Fib tool the way we just discussed, we only have to draw it once and still have our extension levels on top, then those extension levels would represent possible take profit levels. Which one should you use? This really is up to you. There are multiple ways how you could do it. You can set one take profit level at one of those levels. You can also set take profit levels on multiple extension levels, where you would close a portion of your position. This is something you need to try and test out, but be careful, the higher the take profit level, the fewer the chances of the price actually going up to such level. Going back to the example, let us see how we would have done:

Potential Take Profit Levels



In the example above, we used the -27.20% as take profit level. But as marked in the chart, even the normal retracement levels can already be used as take profit levels. These are great if you want to secure some of your position already before you try to catch the bigger move with the rest of your position. Again, it is completely up to you how and which levels to choose to place your take profit order. You also don't have to use the Fib tool at all to determine your take profit level, even though you might use it for finding trade entries. This is just one possible option.

The same thing counts for downtrends as well!

Determine stop loss levels with Fibonacci Extension Levels

As mentioned, before we enter a trade, we need to know our take profit and stop loss levels. The stop loss level is even way more important than our take profit level. Managing our downside is always more important than managing our upside. The first task is to protect our existing capital.

There are 2 main ways on how to determine stop loss levels with the Fib tool.

1. Stop loss above/below the next Fib level

This is a very easy and straightforward approach. Let's say we enter with the 50% retracement level during an uptrend. We would simply put our stop loss level below the following Fib retracement Level below, which would be 61.8% retracement level. This is how it could look like:



The idea behind it is that we see the 50% as a key support level. Setting our stop loss below the next possible support level (61.8% retracement level), gives the price enough room and flexibility to move. At the same time, if the price should not accept the 50% support level and continue to the downside after a small move to the upside from the 50% retracement level, we exit the trade with the following support level below, since our trading idea would then be invalid.

In a downtrend, it is the same just to the opposite, only that we set our stop loss above the next level. Let's take the 50.00% entry again, we would simply put our stop loss **above** the 61.80% retracement level.

Limitations of the approach

With such an approach, we really need to have a perfect entry. As we covered, using the Fib levels isn't a science. It can be done in many different ways. Therefore, the Fib levels might not hold (even in combination with other instruments). Volatility might catch your stop loss order, which could end up in price moving to your stop loss level only to reverse and move into the direction that you had planned. Therefore, this could be seen as a more aggressive approach to set stop loss levels with the Fib tool. In general, this is more for a shorter-term trading approach.

This doesn't mean that the approach is bad. Every approach has limitations. I'm here to mention those.

2. Stop loss above/below the swing high/swing low

Since we have covered a bit more aggressive approach, we also need to cover an approach with a bit more safety space. We can also use the swing highs/swing lows, which we use to start drawing our Fib levels on our chart and place our stop loss above or below them, depending on if we are in an uptrend or in a downtrend. Let us jump into our uptrend example:

Price is in an uptrend, and we identified the last swing low and high. We draw our Fib levels from the last swing low to the last swing high. The swing low we use to start drawing our Fib level can be seen as a key support level. Therefore, we want to use this level and set our stop loss below it. On the charts, it would look like this:



This means we have way more safety space between the entry and our stop loss, and the price would need to violate all support Fib retracement levels to hit our stop loss. If price violates all Fib retracement levels, it could mean that the retracement becomes a possible reversal and we want to exit the trade when price also violates the key support area, from which we started drawing our Fib retracement levels.

As always, the same counts for downtrends, only that we place our stop loss **above** the swing high.

Limitations of the approach

Because we use such a large stop loss, our take profit needs to be way bigger as well and can possibly lead to unfavorable risk-reward ratios. Therefore, this approach is more for longer-term trades. When setting a larger stop loss, we also need to reduce our position size accordingly (this will be further discussed during risk management).



I found out that the 3 most important Fib retracement levels for me are 38.2%, 50.00% and 61.8%. It is the sweet spot, where most retracements will end up before continuing into the direction of the trend.

Alright, that was a lot of information on Fibonacci retracements and extensions. I would suggest that you go to your charts and try out the different approaches. Remember, if anything doesn't seem clear to you or you have problems with applying any of those techniques, contact me or go to our discord server and ask the community! We are here to help. When you will come back from charting, we will go over the next very popular indicator. The Relative Strength Index.

1.9.17.4. RELATIVE STRENGTH INDEX (RSI)



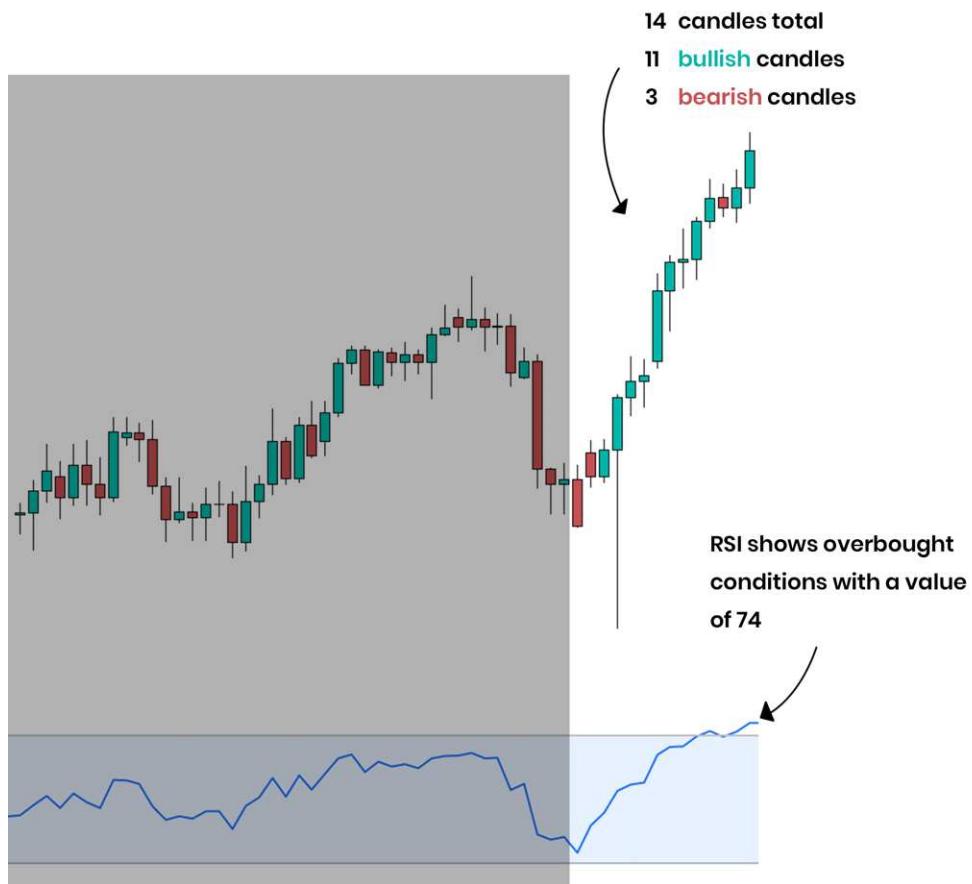
The RSI counts to the oscillator indicators (momentum indicators), which means it signals overbought and oversold market conditions. The standard settings for the RSI are 14 periods, which means the indicator uses the last 14 candles in consideration for the presented value. The period can be individually set by the trader. The indicator has a scale from 0 to 100. A classic way to use this scale is to highlight the 30 and 70 mark. When the RSI is at 30 or lower, it indicates an oversold market condition and increases the **possibility** of price strengthening and moving upwards again. If the price is at 70 or higher, it indicates an overbought market condition and increases the **possibility** of price weakening and moving downwards again.



We can see on the chart above, price reversed for a short pullback as the RSI signaled overbought and reversed as the RSI signaled oversold. When used within the strategy, the RSI would have really improved our odds of winning and gave us great confirmation through signaling overbought and oversold market conditions for short-term trades. But, it is important that the RSI does not give buy or sell signals. It simply indicates a possibility of price reversing. This is how the RSI is commonly used. But let's dive a bit deeper and check out what the RSI values actually tell us.

What does the RSI calculate?

The Relative Strength Index compares the average gain and the average loss during this period and includes numerous factors. In short: The more candles are bullish during the set period, the higher the RSI. The more bearish candles are within the period, the lower the RSI. But it isn't quite as simple as this. The indicator will also take candle size into consideration. Let's say we keep the RSI at standard settings and look at the last 14 candles. If 13 out of those 14 candles are bullish, the RSI will be more to the higher side (quite possibly above 70). Let's check this out on the charts. Let's check out an example:



In the highlighted area in the chart above, we have the 14 candles the RSI takes into consideration for their value. Out of those 14 candles, we have 11 bullish candles and only 3 bearish candles. The RSI also considers the size of candles and therefore comes up with a value of about 74 and shows overbought conditions. The same counts for the opposite direction and oversold conditions as well.

Before you jump straight to your charts and put the RSI on them, let us go through some limitations and misconceptions. In the chart below, the EUR/USD is in a strong bearish trend. In fact, the trend is that strong that the RSI keeps indicating an oversold market condition and therefore signals a possible reversal to the upside. As we can see, the market simply didn't care and kept going lower. A trader using the RSI as a clear signal to buy at any moment of the bearish trend would have lost the trade.



This is because the RSI does not give buy or sell signals, it simply presents the strength of the current price movements. Knowing this, we can really advance our game by using the RSI properly and combination with price action in form of something called „divergence“. Divergence is such a great tool for reversal traders and is a perfect fit for swing traders. We have a whole chapter for

divergence trading a bit later in the course, but to show you roughly how it works I will introduce you to a „divergence“ indicator.

Divergence is when the price of a currency pair is moving in the opposite direction of the momentum indicator (in our case the RSI). Such scenarios will tell us that the current trend might weaken and could lead to a trend reversal. In the chart below, I included the RSI as well as the „Divergence Indicator“. As you can see, they behave the same, only that the „Divergence Indicator“ highlights the areas where the indicator is moving in the opposite direction of the price. The result is that price turns around and changes direction.

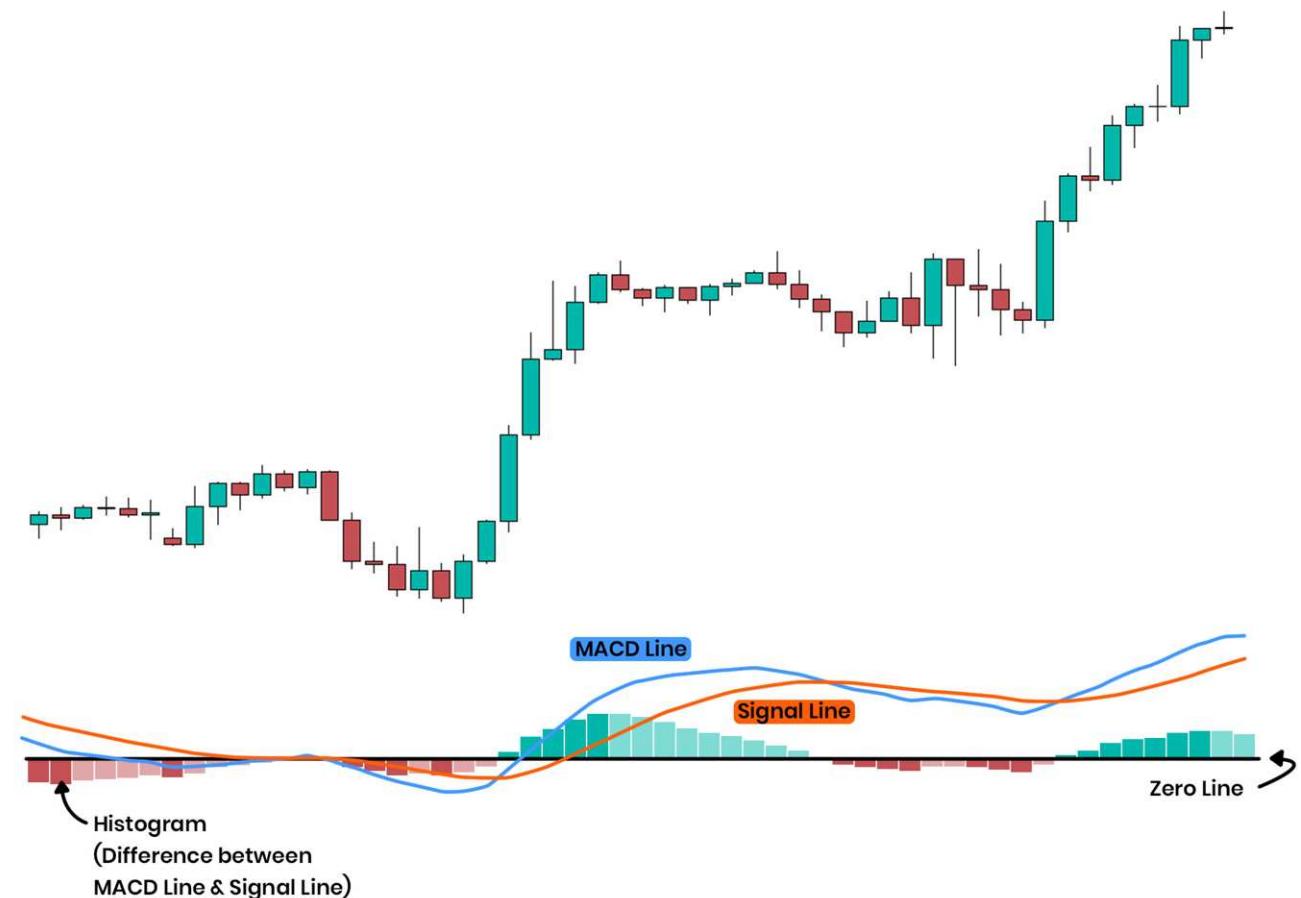


Again, a cherry-picked example, but the divergence is quite accurate on higher timeframes (like the daily timeframe) and can provide us really great setups. How exactly this works and how to read different divergence examples, in the chapter „divergence trading“.

1.9.17.5. MACD



The MACD, short for Moving Average Convergence Divergence, is an indicator that measures the relationship between EMAs (exponential moving averages). The MACD consists of the MACD line (blue), the signal line (red), and a histogram, which refers to the difference between the MACD and the signal line. The histogram also visualizes the zero line within the indicator.



The MACD focuses on measuring the momentum and strength of an trend with the following rules:

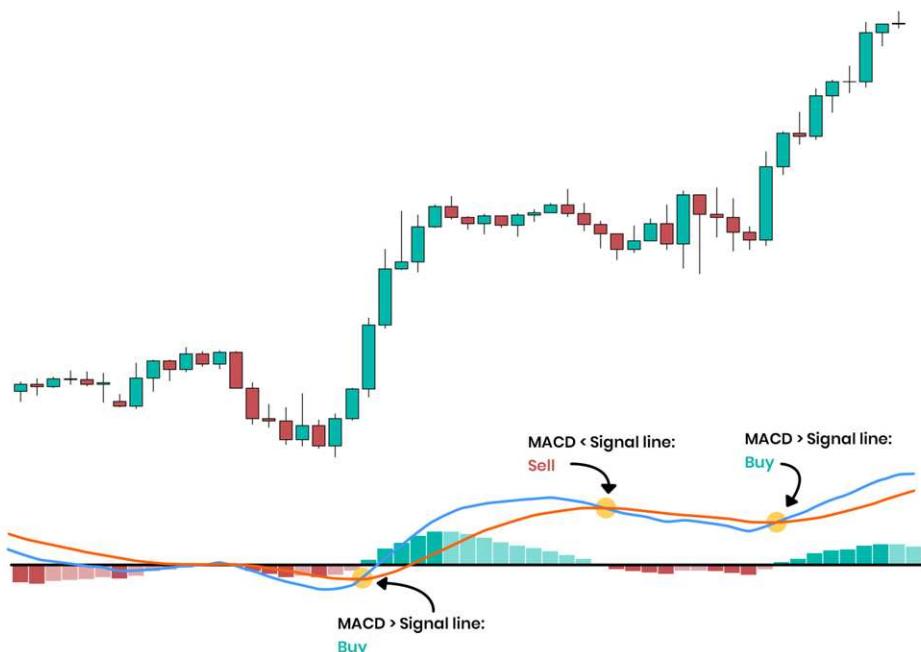
- 1 MACD line crosses **above** zero line
- 2 MACD line crosses **below** zero line

Signal: Uptrend
Signal: Downtrend



- 3 MACD line crosses **above** signal line
- 4 MACD line crosses **below** signal line

Signal: Buy
Signal: Sell



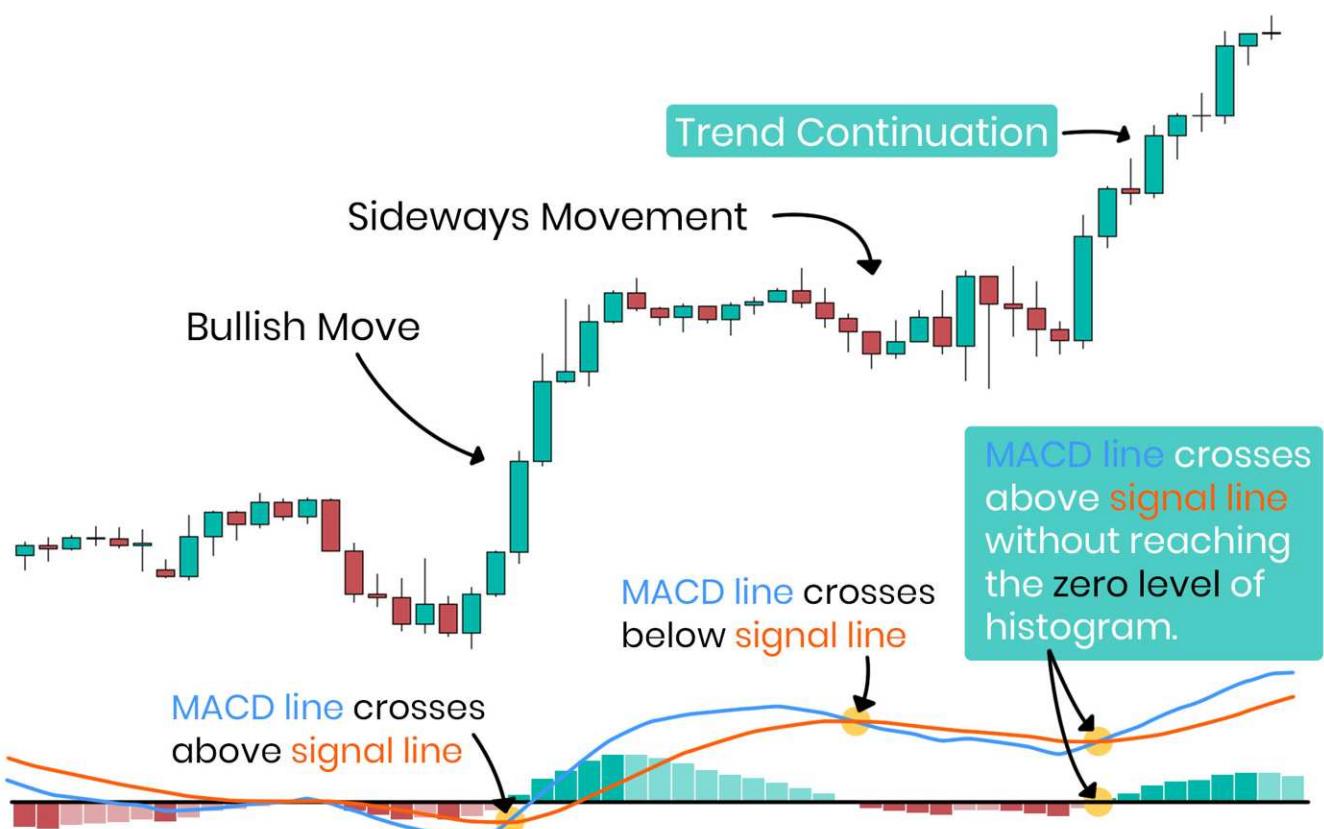
Purely relying on MACD buy and sell indications can lead to a lot of wrong signals and should be avoided. But testing it out on a demo account or simply checking historical charts is always a good idea. Learning by doing it yourself will have a great effect than me just telling you. What I found out is that the MACD is really great in identifying trend continuations. Let's check out the chart from above again with this explanation:

Base situation: We are in an uptrend, the MACD line and the signal line are already crossed and above the zero line.

Step 1: MACD line crosses below the signal line and price might pullback to the downside a bit

Step 2: MACD line crosses again above the signal line without one of them crossing the zero line yet

Result: Possible trend continuation



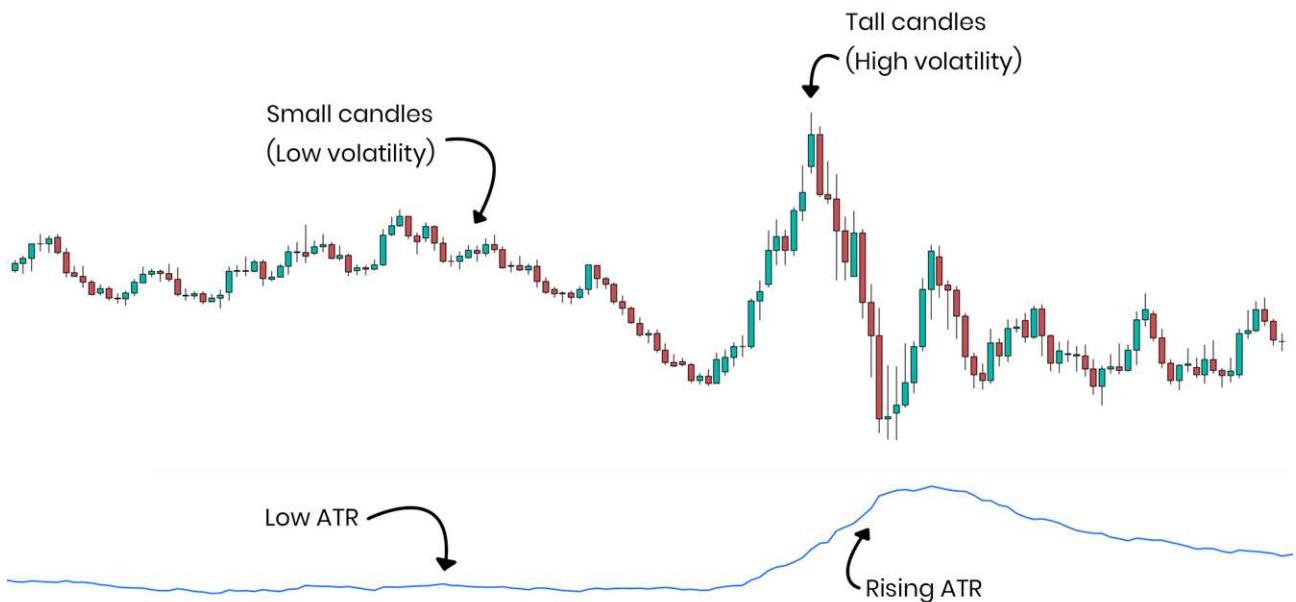
Of course, the same thing is valid for the other side

- Base situation:** We are in a downtrend, the MACD line and the signal line are already crossed and below the zero line.
- Step 1:** MACD line crosses above the signal line and price might pullback to the upside a bit
- Step 2:** MACD line crosses again below the signal line without one of them crossing the zero line yet
- Result:** Possible trend continuation

1.9.17.6. ATR



The ATR, short for Average True Range, is one of the most powerful but yet less used indicators. The ATR is a volatility indicator that shows us how much price has moved on average over a specific period of time. The period of time the indicator is supposed to look at can be set by the trader. It is especially powerful since we can use it in order to set stop loss or even take profit levels. The ATR moves up and down, depending on the price moves of the specific time period. The less volatility in the market, the lower the ATR, the higher the volatility, the higher the ATR. Let's take a look at the indicator:



How we can use the ATR?

Since the ATR gives us the average distance price is moving per day, we can use it as a filter. Let's say the ATR shows us that the currency pair is moving on average 100 pips. Today, the currency pair is already up 140 pips, which means we are already 40% over the average. Our strategy now tells us to go long, since a setup has occurred, but since the price is already way above the current average price movement of the currency pair, the chance of it going even higher might be something we do not want to bet on. However, it could even be the opposite and we go into a buy positions since the price has moved higher than on average which could mean the price is in momentum and we want to participate. How you will read this is and use the information is completely up to you. Another way to use the ATR is using the pip value it provides us, and add or subtract it from our initial stop loss level to create a „safer“ stop loss level, in order to give the price some more room for volatility. This could mean our stop loss is less likely to get hit, but also means that we have a wider stop loss. This is something we will discuss further in the chapter „Trade Exit Techniques“.

We made it 🚀. We covered all the basics of technical analysis. Get yourself a treat 🍺, you already went through a lot of material and you are still going! The best thing, all this could be already enough to develop some powerful strategies. If you want, you could already go-ahead to the chapter „Confluence Trading“, and continue from there. If you are ready to learn more and find out more instruments and approaches you could include in your strategy, then follow me into the more advanced part of technical analysis.

1.10. TECHNICAL ANALYSIS 201

1.10.1. HARMONIC PRICE PATTERNS



The video covers the same content as this chapter, with additional content such as **multiple real live examples!**

Harmonic Price Patterns are a bit more advanced compared to the classic chart patterns we already covered. Harmonic Price Patterns use the Fibonacci numbers to define precise turning points and therefore are reversal patterns. Unlike most trading methods, the Harmonic Price Patterns are trying to predict future movements. If you are unsure how the Fibonacci tool works or you feel like you need to fresh it up, I suggest going back to the Fibonacci chapter and watch the explainer video. This is really an essential base to go further with this chapter.

As the name already suggests, the idea behind those price patterns is that trends are harmonic phenomena that can be divided into smaller or larger „price waves“ (this will get clearer as we go on). A trader using the Harmonic Price Patterns needs to wait for a pattern to complete before taking any positions. This is, especially for beginners, a great approach and can structure their trading the same way as the classic chart patterns.

In the following pages, we will cover all the following patterns:

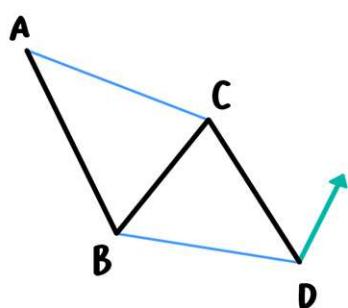
- ABCD Pattern
- Three-Drive Pattern
- Gartley Pattern
- Crab Pattern
- Shark Pattern
- Bat Pattern

We will start with the easiest one (ABCD Pattern) to get used to the approach and how to measure the above-mentioned smaller and larger „waves“.

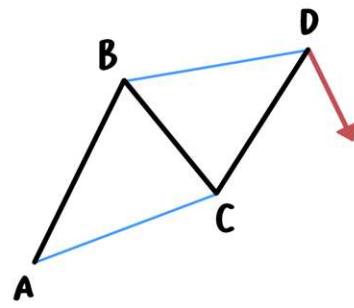
ABCD PATTERN

The ABCD Pattern, or as some refer to as the AB=CD Pattern, is considered to be one of the simplest harmonic patterns. This is based on the fact that we simply have fewer requirements compared to the following other patterns. Let's take a look at the general price action within the pattern.

Bullish ABCD Pattern

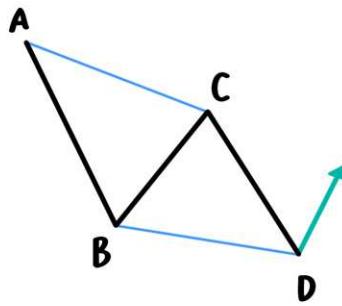


Bearish ABCD Pattern



As we can see, the start-, end- and reversal points are marked through letters. This is something that is generally used for referring to the price „waves“.

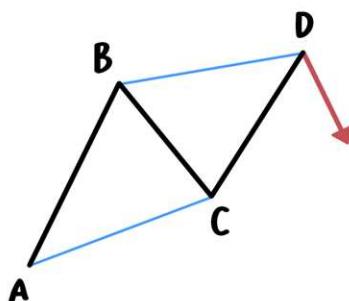
Bullish AB=CD



The bullish ABCD pattern starts with the price moving into a new direction, which is downwards. The starting point is marked with an „A“. The first downtrend wave ends at an important swing level numbered as „B“, retraces up a portion of the A leg, and creates the turning point „C“. Price then resumes into the downward direction, breaks the swing level of „B“ and continues till it reaches about the

same distance equivalent to AB. When this happens, and the CD leg reaches an equivalent distance to the AB leg, we expect the price to reverse to the upside after the CD price movement. Sounds all a bit abstract now, but those waves are structured with the Fibonacci retracement tool, which price needs to respond to, in order to validate the pattern. As mentioned, the AB price movement is the equivalent size of the CD price movement. That's where the name AB=CD comes from. AB equals CD. The general idea is to enter the trade right at the beginning of the expected reversal to the upside and to catch the move right in the beginning.

Bearish AB=CD



The bearish ABCD pattern starts with price moving into a new direction, which is upwards. The starting point is marked with an „A“. The first uptrend wave ends at an important swing level numbered as „B“, retraces down a portion of the A leg, and creates the turning point „C“. Price then resumes into the upward direction, breaks the swing level of „B“ and continues till it reaches about the same distance equivalent to AB. When this happens, and the CD leg reaches an equivalent distance to the AB leg, we expect the price to reverse after the CD price movement. The general idea is to enter the trade right in the beginning of the expected reversal to the downside and to catch the move right in the beginning.

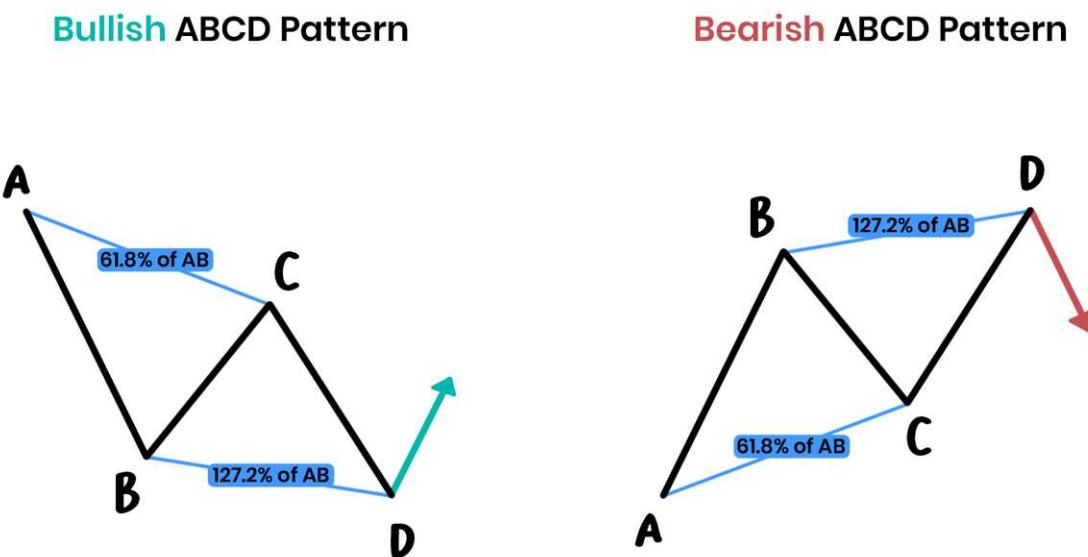
As we can see, the bullish and the bearish version are just a mirrored version of each other, just as we had it with the classic chart patterns. Now, let's take a deeper look at the Fibonacci Ratios within the pattern and how we can structure the price waves.

Fibonacci ratios within the ABCD Pattern

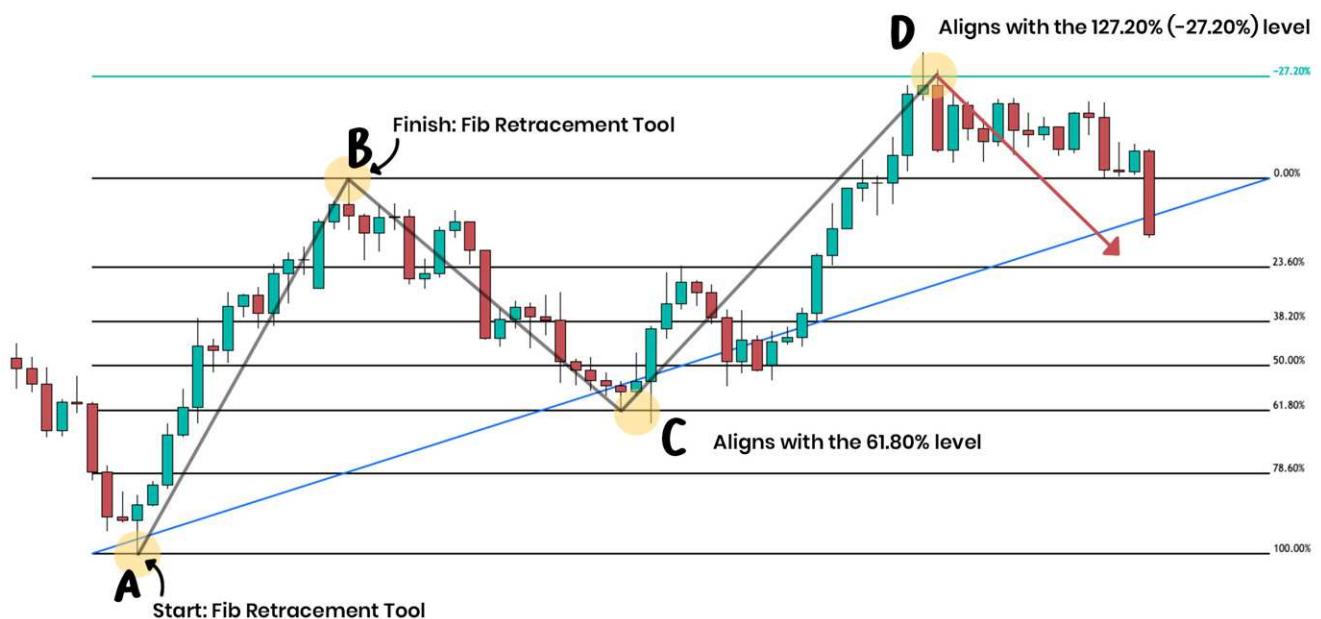
The price waves within the pattern need to align with specific Fibonacci retracement levels. Within the pattern, we have 2 associated rules:

- BC aligns around the 61.8% Fib retracement level of AB
- CD aligns around the 127.2% Fib Extension level of AB

Those Fibonacci levels should always be confirmed when trading the ABCD pattern. Let's take a look at the pattern and see how exactly those levels are incorporated into the pattern:



Here, a real-life example of a bearish ABCD pattern and how to measure the Fib retracement and extension levels within the pattern:



Fib Measurements

You probably have noticed that I keep using the word „around“ when talking about the specific Fib levels. This is simply based on the fact that we need to give the market a bit of flexibility. The market doesn't work in textbook moves. Therefore, a bit of flexibility in terms of measurements and common sense during the process necessary.

How to trade the ABCD Pattern

Since the pattern is a unique chart formation, it has a set of rules for trading, which is great. If we learn how to implement those rules, we can expect to get a positive „edge“ (Hopefully, you still remember what this means 😊).

Entry

Before we enter the ABCD pattern, or any harmonic price pattern, we need to establish the confirmation that the price movements are indeed an AB=CD Pattern. We will need to find two parallel price swings which are about equal in size (AB equals CD). While the CD leg is still developing, we can already check if the BC retracement is aligning with the 61.8% retracement level measured from A to B. The CD leg should align the 127.2% extension level measured from A to B. Additionally to those rules, the AB and CD price waves should also equal in terms of time. This means the AB price movement should develop at the same time as the CD price movement. If all those requirements are confirmed, we are possibly looking at a valid AB=CD pattern. If not, we do not place a trade and keep looking.

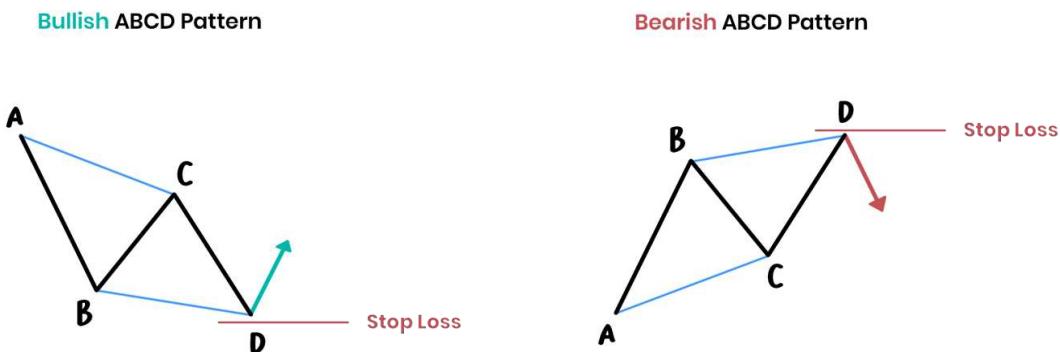
When all requirements are confirmed, we would look for an entry with the bounce of the 127.2% Fib extension level. The bounce should occur into the opposite direction of the CD movement. In the case of a bullish AB=CD Pattern, we would enter a buy position when the price reaches the 127.2% Fib extension level and bounces upwards. In the case of a bearish AB=CD Pattern, we would enter a sell position when the price reaches the 127.2% Fib extension level and bounces downwards. The acceptance of the 127.2% Fib extension level is therefore the last confirmation needed to enter the trade.

There are traders that use pending orders at the 127.2% level to execute the trade. I would consider this a very aggressive approach since we are still not sure of the price accepting the Fib extension level at all. I wanted to mention this, however, since it is a possible option.

Stop Loss

The Stop Loss is placed in a way to protect us from any unexpected price moves against us. Therefore, the proper location would be just beyond the price extreme formed during the CD leg. This means, for the bullish AB=CD Pattern, we

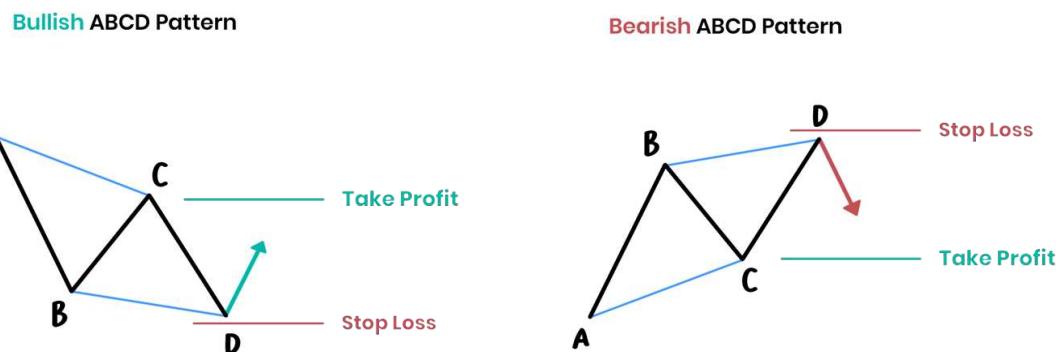
would set our stop loss below the swing low of the CD leg. For the bearish AB=CD Pattern, we would set our stop loss above the swing high of the CD leg.



As we discussed, harmonic patterns are one of the few methods that are trying to predict price movements. Based on this, we try to catch the price reversal right at the beginning, which gives us very attractive risk-reward ratios, with our stop loss relatively close to our entry.

Take Profit

The minimum take profit level should be set at a distance that equals the CD leg in size. In other words, the price level of „C“ is our minimum target, which refers to the 100% Fib retracement level measured from C to D. This, however, is supposed to be the minimum target and that's where individual rules can be applied. We could either close the whole position at this level or we only close a portion of the position while trying to catch the bigger move to the upside or downside with the rest of the position. How we close partials (a portion of the position) and how we can manage the other open part of the position will be discussed later in the course (Chapter: Trade Exit Techniques).

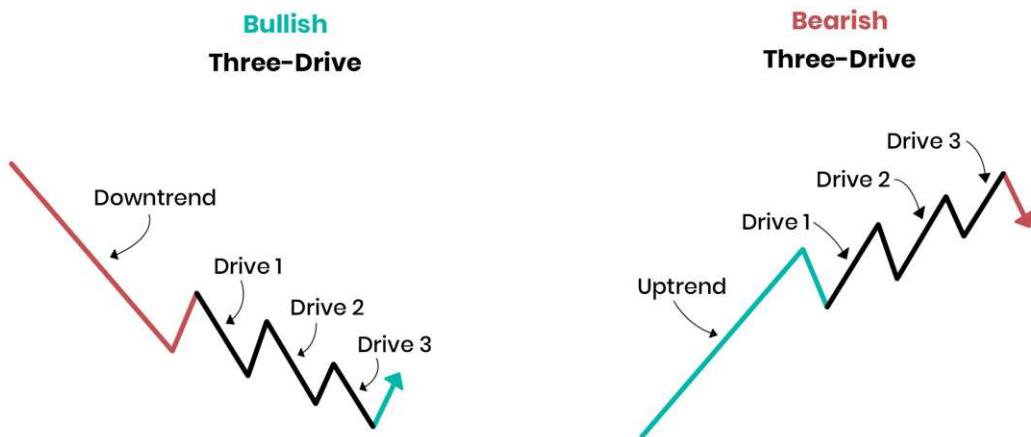


Overview of AB=CD Rules

- AB should equal CD in terms of size
- AB should equal CD in terms of time needed to develop
- BC should align with the 61.80% Fib retracement level measured from A to B
- CD should align with the 127.2% Fib Extension level from A to B
- Price needs to bounce off the 127.2 Fib Extension level into the opposite direction of the CD price movement
- Bearish Version: Stop Loss above the swing high of „D“
- Bullish Version: Stop Loss below the sing low of „D“
- Minimum take profit level is represented through the price level of „C“

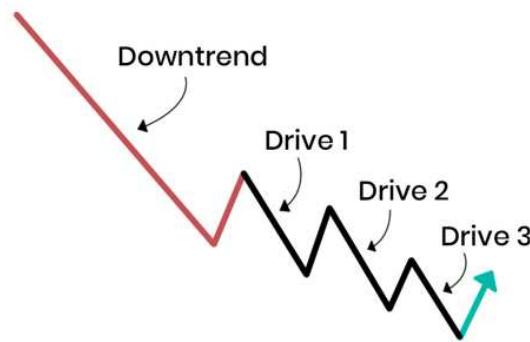
THREE-DRIVE PATTERN

The three drivers pattern is a reversal pattern which was outlines by Scott Carney in the book „The Harmonic Trader“. The pattern tries to anticipate exhaustion of an uptrend or downtrend and therefore the following trend reversal. Let's take a look at the general price action within the pattern.



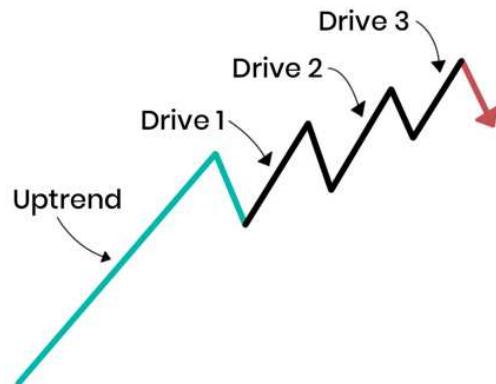
The pattern includes three legs, which are forming swing highs in an uptrend and swing lows in a downtrend. Those legs are also referred to as drives, hence the name Three-Drive Pattern. The Three-Drive Pattern is a strong but rare reversal pattern. It is not as popular as the Gartley, Bat or Butterfly Harmonic Pattern.

Bullish Three-Drive Pattern



When we take a look at the Bullish Three-Drive Pattern, we can clearly see a strong downtrend before the pattern occurs. This means, the pattern normally occurs after a strong rally to the downside. Before the pattern starts, we need to have a starting point for our Fibonacci retracement level. This means we need some sort of retracement before the first drive, in order to measure the impulse to the downside. When we measure the first drive, the following retracement to the upside should end around the 61.8% retracement level. The following impulsive move to the downside (Drive 2) should hold on till the 127.2% extension level measure from swing high to swing low of Drive 1. The same counts for the following retracement after the second drive, which should end around the 61.8% retracement level, and the last and third drive should also end around the 127.2% extension line measure by swing high to swing low of Drive 2.

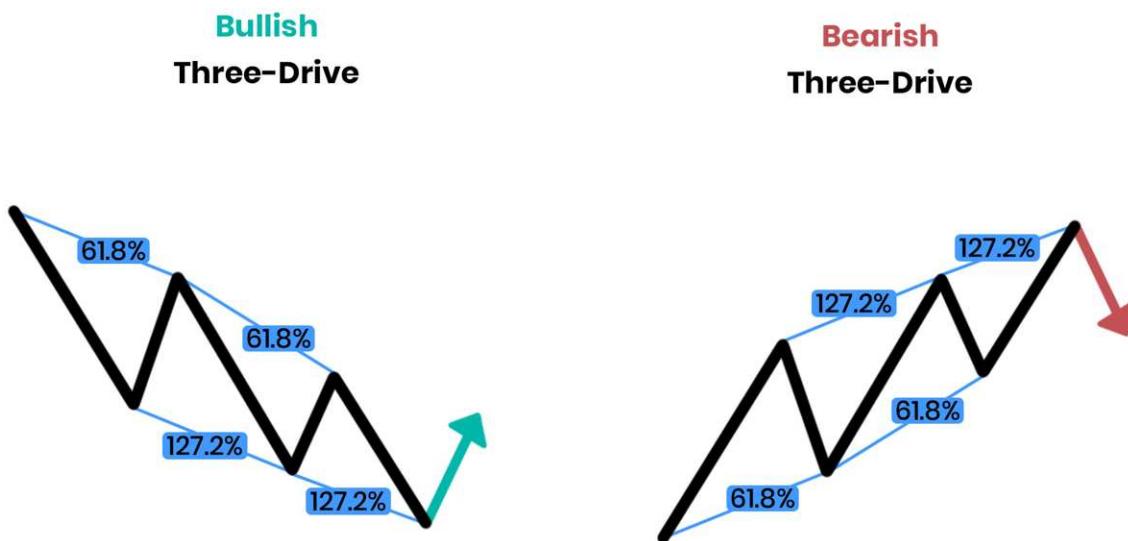
Bearish Three-Drive Pattern



When we take a look at the bearish Three-Drive Pattern, we can clearly see a strong uptrend before the pattern occurs. This means, the pattern normally

occurs after a strong rally to the upside. In order to measure the 2 drives within the pattern, we need to use our Fibonacci retracement and extension tool. As in the AB=CD pattern, the retracement tool will measure the pullbacks to the downside within the pattern, and the extension tool will measure the length of the 3 drives (3 impulsive legs) to the upside. Before the pattern starts, we need to have a starting point for our Fibonacci retracement level. This means we need some sort of retracement before the first drive, in order to measure the impulse to the upside. When we measure the first drive, the following retracement to the downside should end around the 61.8% retracement level. The following impulsive move to the upside (Drive 2) should hold on till the 127.2% extension level measure from swing low to swing high of Drive 1. The same counts for the following retracement after the second drive, which should end around the 61.8% retracement level, and the last and third drive should also end around the 127.2% extension line measure by the swing low to swing high of Drive 2.

Fib Measurements



You probably have noticed that I keep using the word „around“ when talking about the specific Fib levels. This is simply based on the fact that we need to give the market a bit of flexibility. The market doesn't work in textbook moves. Therefore, a bit of flexibility in terms of measurements and common sense during the process necessary. This means that if some Fib levels are not met by price movement by a slight amount, and those differences do not distort the overall structure of the pattern, it would make sense to continue with the process instead of labeling it as invalid. It is just too rare that the pattern occurs with exact measurements. But of course, there is also a line. If the differences are too large, we have to see the pattern is invalid. It is a fine line that needs to be drawn by every trader.

Possible confirmations

It can be often seen that the volume during the Three-Drive Pattern is weakening and often correlates with regular divergence. These are just examples of what could be used for additional confirmation of the pattern.

How to trade the Three-Drive Pattern

Since the pattern is a unique chart formation, it has a set of rules for trading, which is great. If we learn how to implement those rules, we can expect to get a positive „edge“ (Hope you still remember what this means).

Entry

Before we enter the Three-Drive Pattern or any harmonic price pattern, we need to establish the confirmation that the price movements are indeed a Three-Drive Pattern. We will need to confirm the three drives within the pattern, which align with the discussed Fib levels. We also need to confirm that price was trending prior to the pattern. Additionally, we could use filters such as the Relative Strength Index and incorporate it into our entry requirements. We would want to see the RSI value at least above 70 during a bearish Three-Drive Pattern, and at least below 30 during a bullish Three-Drive Pattern. (This is obviously optional. Any other confirmation can be used, as long as it is improving the probabilities.)

When all requirements are confirmed, we would look for an entry with the bounce of the 127.2% Fib extension level. The bounce should occur in the opposite direction of the last drive (Drive 3) movement. In the case of a bearish Three-Drive Pattern, we would enter a sell position when the price reaches the 127.2% Fib extension level and bounces downwards. In the case of a bullish Three-Drive Pattern, we would enter a buy position when the price reaches the 127.2% Fib extension level and bounces upwards. The acceptance of the 127.2% Fib extension level is therefore the last confirmation needed to enter the trade.

There are traders that use pending orders at the 127.2% level to execute the trade. I would consider this a very aggressive approach since we are still not sure of the price accepting the Fib extension level at all. I wanted to mention this, however, since it is a possible option.

Stop Loss

In the case of a bullish Three-Drive Pattern, the stop loss can be placed at the 161.8% Fib extension level measured from the swing high to the swing low of the second drive.



The stop loss can be placed at the 161.8% Fib extension level measured from the swing low to the swing high of the second rive, in the case of a bearish Three-Drive Pattern



Take Profit

With this pattern, we could use multiple targets which represent swing lows/highs of the pattern, depending on the bearish or bullish version. The following discussed take profit levels are the basic way to trade the pattern. You can use them, but you don't have to.

Bullish Three-Drive Pattern



The first take profit level could be the resistance level or swing high of the retracement to the upside after the second drive. The second possible take profit level could be the resistance level or swing high of the retracement to the upside after the first drive. Since they represent possible resistance levels where price could be challenged, we use them as take profit levels. Take profit levels at resistance should always be placed a bit below the actual resistance level.

Bearish Three-Drive Pattern

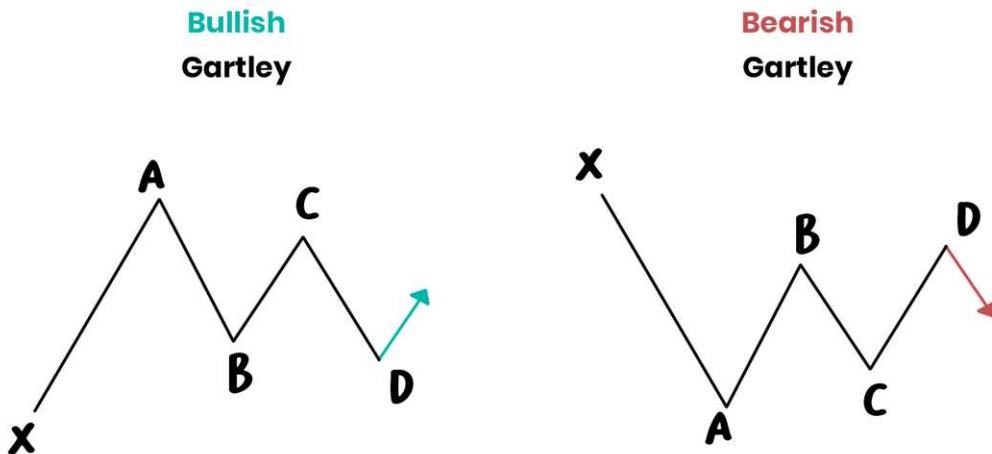


The first take profit level could be the support level or swing low of the retracement to the downside after the second drive. The second possible take profit level could be the support level or swing low of the retracement to the downside after the first drive. Since they represent possible support levels where price could be challenged, we use them as take profit levels. Take profit levels at support should always be placed a bit above the actual support level.

Overview of Three-Drive Pattern Rules

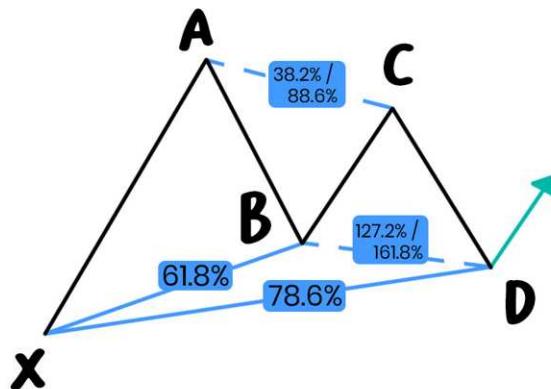
- 3 impulsive drives with 2 retracements
- Market should trend prior to the pattern
- First retracement should align with the 61.8% Fib retracement level
- Second retracement should align with the 61.8% Fib retracement level
- Drive 2 should align with the 127.2% Fib extension level
- Drive 3 should align with the 127.2% Fib extension level
- Bullish Version: Swing high of Drive 2 and 3 can be used as take profit levels
- Bearish Version: Swing low of Drive 2 and 3 can be used as take profit levels
- Stop loss can be placed at the 161.8% Fib extension level

GARTLEY PATTERN



One of the oldest recognized harmonic patterns is the Gartley pattern. In the Book „Profits in the Stock Market“, H.M. Gartley introduced the pattern in the year 1935 (yes, it is that old!) and referred to it as „one of the best trading opportunities“ in the financial markets. The Gartley pattern, a reversal pattern, looks like an „M“ or „W“ shape, depending on the bullish or bearish version, and consists of five points. The points are marked as X, A, B, C and D. Let's take a look at the pattern:

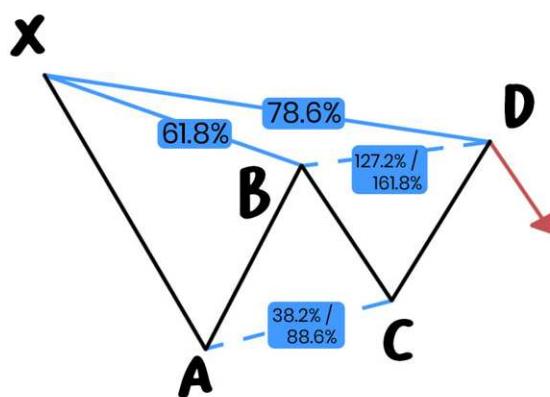
Bullish Gartely Pattern



Since we are still within the Harmonic Patterns, within the Gartley Pattern, each specific move has to match with a Fibonacci retracement or extension level. As mentioned and as you can see above, the bullish version resembles the letter „M“. Let us go through the specific Fib levels we need to focus on. The price movement from X to A is flexible and there are no requirements. The following downwards retracement from A to B should reach the area of the 61.8% Fib retracement level, measured from swing low X to swing high A. From B, price should reverse to the upside till C is reached, which should be around the 38.2%

Fib level measured from swing low X to swing high A OR at the 88.6% retracement level measured from swing high A to swing low B. If C aligns with the 38.2% Fib retracement level measured from swing low X to swing high A, the price movement from C to D should respond to the 127.2% Fib extension level. If C aligns with the 88.6% Fib retracement level measured from A to B, the price movement from C to D should respond to the 161.8% extension level. When the price movement from C to D is finished, we need to check if the price movement from A to D aligns with the 78.6% Fib retracement level measured from swing low X to swing high A.

Bearish Gartley Pattern



The bearish version resembles the letter „W“. Let us also go through the specific Fib levels we need to focus on. The price movement from X to A is flexible and there are no requirements. The following upwards retracement from A to B should reach the area of the 61.8% Fib retracement level, measured from swing high X to swing low A. From B, price should reverse to the downside till C is reached, which should be around the 38.2% Fib level measured from swing high X to swing low A OR at the 88.6% retracement level measured from swing low A to swing high B. If C aligns with the 38.2% Fib retracement level measured from swing high X to swing low A, the price movement from C to D should respond to the 127.2% Fib extension level. If C aligns with the 88.6% Fib retracement level measured from A to B, the price movement from C to D should respond to the 161.8% extension level. When the price movement from C to D is finished, we need to check if the price movement from A to D aligns with the 78.6% Fib retracement level measured from swing high X to swing low A.

Trading the Gartley Pattern

Since the Gartley Pattern is a reversal pattern, we would either look for a bullish movement after the downwards retracement to point D in the bullish version or look for a bearish movement after the upwards retracement to the point D in the bearish version. Before entering, we need to see a price bounce from D into the opposite direction of the CD move.

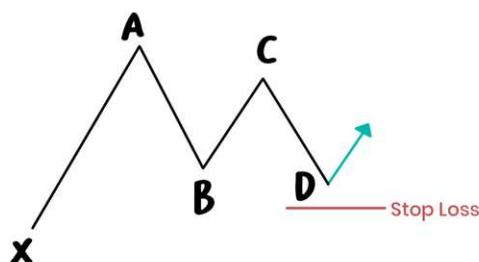
Entry

Before entering a trade based on the Gartley Pattern, we obviously need to confirm the pattern and check its validity based on the mentioned rules. As with every Harmonic Pattern, the Fib levels need to align (not perfectly, but shouldn't have too big of a difference) with the price structure.

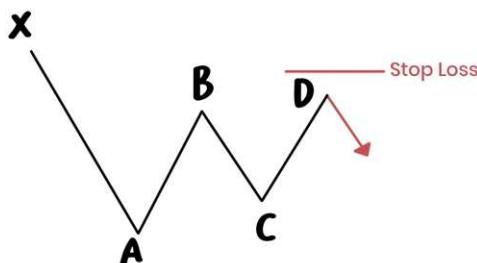
We can take the trade if the price bounces upwards from D, which aligns with the 78.6% Fib retracement level measured from swing low X to swing high A in the bullish Gartley Pattern. For the bearish version, we want to see price bouncing downwards from the 78.6% Fib retracement level measured from swing high X to swing low A.

Stop Loss

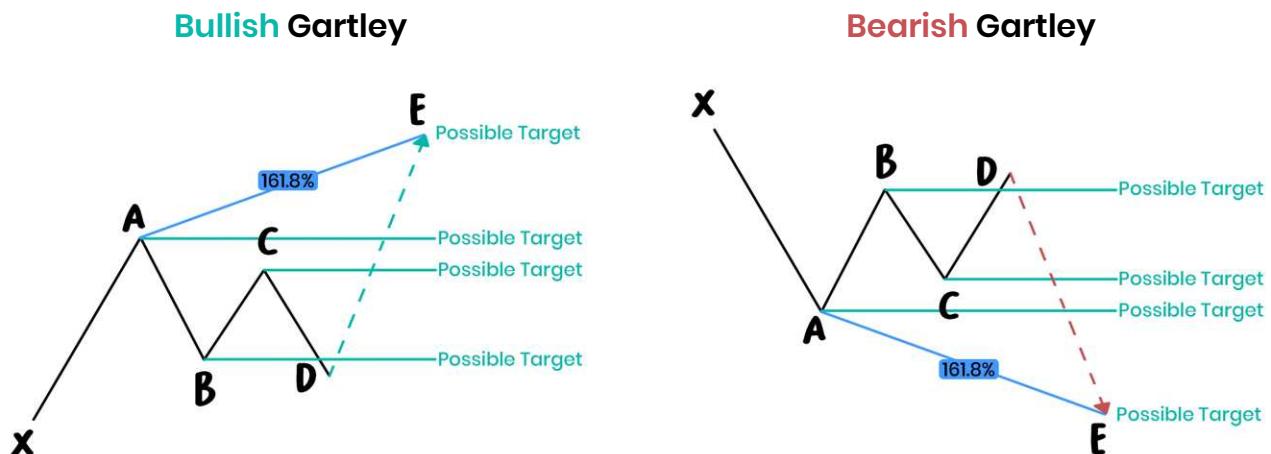
The stop loss placement is quite simple. With the bullish Gartley Pattern, we can simply place our stop loss below the point D of the pattern.



When trading the bearish Gartley Pattern, we can simply place our stop loss above point D of the pattern.



Take Profit



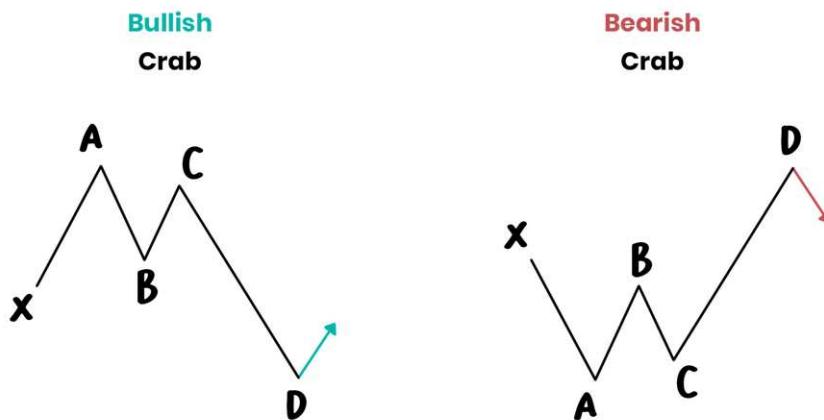
With the Gartley Pattern, there are again multiple take profit levels that can be considered. As always, you could use some of them, only one, or use your own take profit levels to catch for example even bigger moves to the up- or downside.

One way of using the Gartley Pattern to determine the take profit levels is to use the point B level as a first take profit level, point C level as a second take profit level, point A as a third take profit level, and point E (which is the 161.8% Fib extension level measured from A to D) as the fourth take profit level. When using all take profit levels, we would enter with 4 different positions, which each would have one of the mentioned take profit levels, while all use the same stop loss level.

Overview of the Gartley Pattern rules

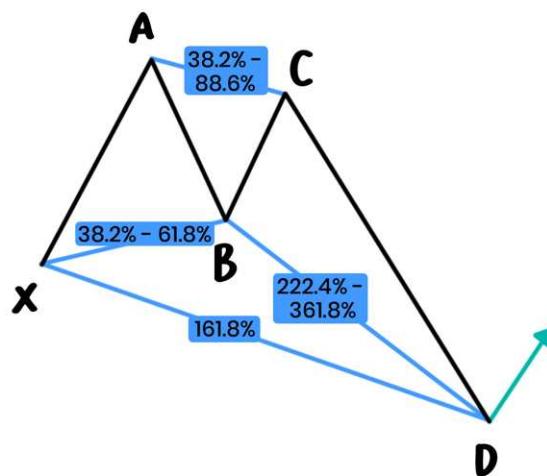
- XA movement does not have any specific requirements
- B should align around the 61.8% Fib retracement level measured from X to A
 - C should align around the 38.2% Fib retracement level measured from X to A
 - D should align around the 127.2% Fib extension level measured from B to C
„OR“
 - C should align around the 88.6% Fib retracement level measured from A to B
 - D should align around the 161.8% Fib extension level measured from B to C
- D should align around the 78.6% Fib retracement level measured from X to A
- Take Profit 1: Level of B
- Take Profit 2: Level of C
- Take Profit 3: Level of A
- Take Profit 4: The 161.8% Fib extension level measured from A to D
- Bullish version: Stop Loss below the point D
- Bearish version: Stop Loss above the point D

CRAB PATTERN



The Crab pattern was discovered in 2001. The specialty with the Crab pattern is the sharp movement of price in the CD leg (from point C to point D as we will see in a few seconds). As always, we have clear rules we would need to follow to be able to validate the Crab pattern. Let's just have a look at the general price movements within the pattern:

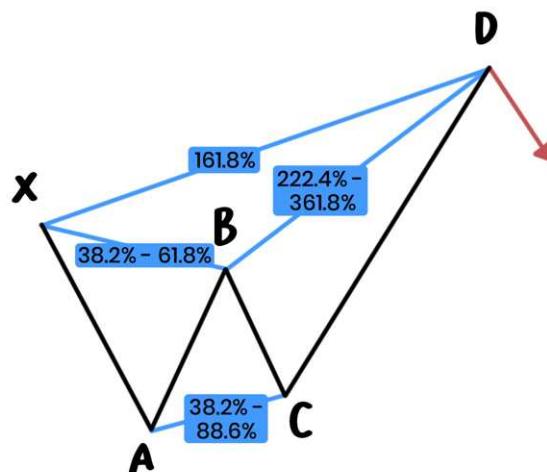
Bullish Crab Pattern



The Bullish Crab Pattern starts with a swing low X. The XA leg (price movement from X to A) does not have any specific requirements. The retracement to the downside to point B should align between the 38.2% & 61.8% Fib retracement level measured from swing low X to swing high A. Ideally, point B should be above the 61.8% Fib retracement level. The following price move to the upside ends with point C, which can run up to 38.2% - 88.6% Fib retracement level measured from swing high A to swing low B and should never exceed the point A (C should never

be above A). After price builds a resistance with point C and moves back down to D. The CD leg is the longest price move within the pattern. D normally aligns with the Fib extension levels between 161.8% measured from swing low X to swing high A and till an extreme of 224.0% - 361.8% Fib extension level measured from swing low B to swing high C. After point D, the pattern is completed and the price should theoretically reverse to the upside.

Bearish Crab Pattern



The Bearish Crab Pattern starts with a swing high X. The XA leg (price movement from X to A) does not have any specific requirements. The retracement to the upside to point B should align between the 38.2% & 61.8% Fib retracement level measured from swing high X to swing low A. Ideally, point B should be below the 61.8% Fib retracement level. The following price move to the downside ends with point C, which can run up to 38.2% - 88.6% Fib retracement level measured from swing low A to swing high B and should never exceed the point A (C should never be below A). After price builds support with point C and moves back up to D. The CD leg is the longest price move within the pattern. D normally aligns with the Fib extension levels between 161.8% measured from swing high X to swing low A and till an extreme of 224.0% - 361.8% Fib extension level measured from swing high B to swing low C. After the point D, the pattern is completed and price should theoretically reverse to the downside.

How to trade the Crab Pattern

As you probably have realized, there are many rules and different possible Fib retracement and extension levels involved, which makes it a bit difficult to identify the Crab pattern. Here a few quick tips on how we can identify the pattern a bit easier:

- BC leg normally is forming within the XA leg
- Bullish version: C represents a lower high compared to A
- Bearish version: C represents a higher low compared to A
- Bullish version: D is the extreme point, marking a lower low beyond X
- Bearish version: D is the extreme point, marking a higher high beyond X

As always, we want to see a reversal after point D is reached before entering a position.

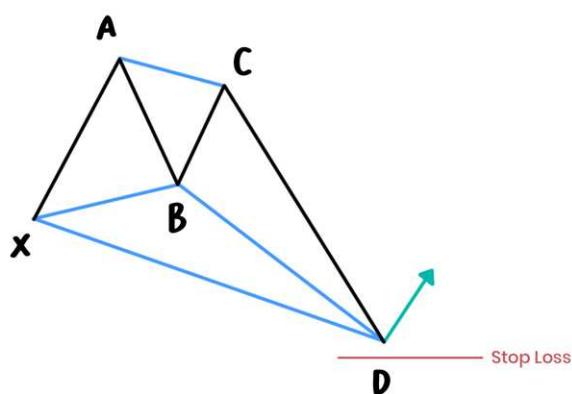
Entry

Before entering a trade based on the Crab Pattern, we obviously need to confirm the pattern and check its validity based on the mentioned rules. As with every Harmonic Pattern, the Fib levels need to align (not perfectly, but shouldn't have too big of a difference) with the price structure. In the case of the Crab Pattern, we have a bit more flexibility.

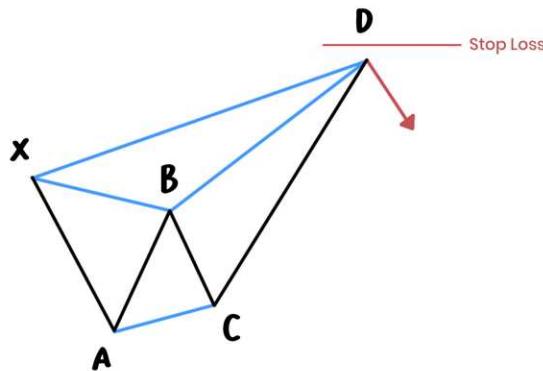
We can take the trade if the price bounces upwards from D, which aligns within the area of the 161.8% Fib extension level measured from swing low X to swing high A in the Bullish Crab Pattern. For the bearish version, we want to see price bouncing downwards from the area of the 161.8% Fib extension level measured from swing high X to swing low A.

Stop Loss

The stop loss placement is quite simple. With the Bullish Crab Pattern, we can simply place our stop loss below point D of the pattern.



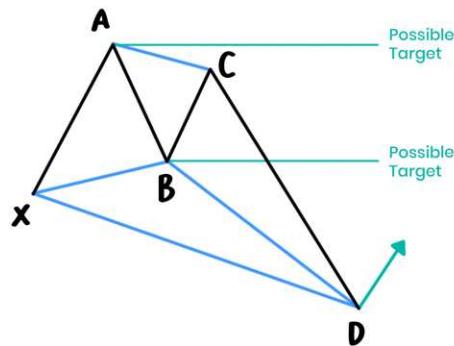
When trading the Bearish Crab Pattern, we can simply place our stop loss above point D of the pattern.



Take Profit

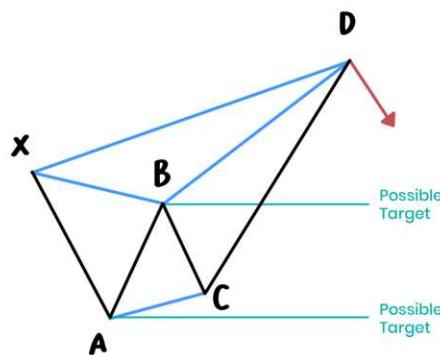
As with most harmonic patterns, we have multiple levels that could represent take profit levels. In the case of the Crab Pattern, the levels of B and A can be possible targets.

Bullish Crab Pattern



With the bullish version, point B would be our first take profit, and point A could represent our second take profit level.

Bearish Crab Pattern

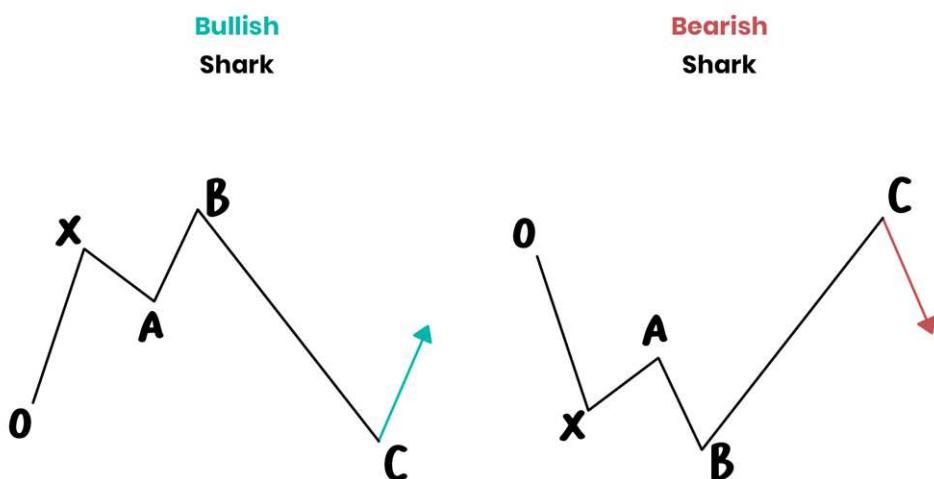


With the bearish version, point B could be our first take profit, and point A could represent our second take profit level.

Overview of the Crab Pattern rules

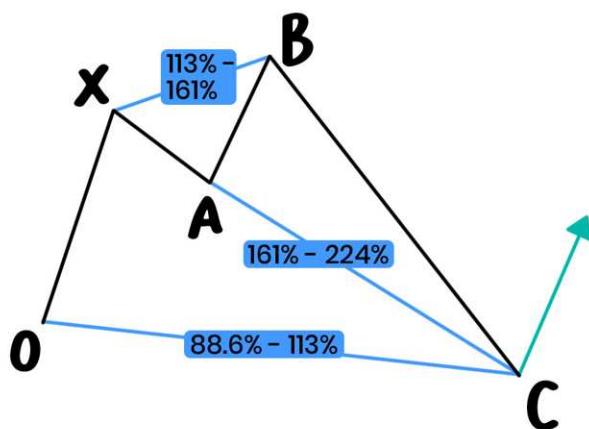
- XA movement does not have any specific requirements
- B should align between the 38.2% and 61.8% Fib retracement level measured from X to A. Ideally, B should not reach the 61.8% Fib retracement level.
- C should align between the 38.2% and 88.6% Fib retracement level measured from A to B
- C should never exceed the point A
- D should align between the 161.8% Fib extension level measured from X to A and an extreme of 224.0% - 361.8% Fib extension level measured from B to C.
- Take Profit 1: Level of B
- Take Profit 2: Level of A
- Bullish version: Stop Loss below the point D
- Bearish version: Stop Loss above the point D

SHARK PATTERN



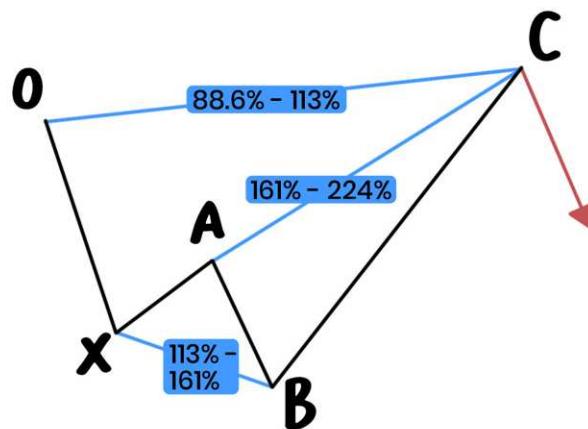
The Shark Harmonic Pattern was introduced by Scott Carney, who also did very extensive research into other harmonic patterns such as the Bat, Gartley, and Crab Pattern. The Shark Pattern differs a bit from the traditional harmonic patterns. We can see this already through the names of the different turning points which are called: o, X, A, B, and C.

Bullish Shark Pattern



The first price movement within the pattern is from point 0 to point X. Normally, this would be represented by an impulsive price movement to the upside, which does not have any Fib level requirements. The following retracement to the downside, which ends with point A and has no specific Fib retracement level requirement as well. It should retrace a portion of the price movement from 0 to X and must be less than a 100% retracement (it should not reach the point 0). After price found support at point A, it continues to the upside to point B which should align between the 113% and 161% Fib extension levels measured from swing high X to swing low A. After B, the price will retrace downwards to point C. The BC leg is the final and longest leg of the pattern. Price should travel between the 161% and 224% Fib extension levels measured from swing high X to swing low A. Point C should also align within the Fib retracement levels of 88.6% - 113% measured from swing low 0 to swing high X. After the price reached the level of C, the pattern is completed and should reverse to the upside.

Bearish Shark Pattern



The first price movement within the pattern is from point 0 to point X. Normally, this would be represented by an impulsive price movement to the downside, which does not have any Fib level requirements. The following retracement to the upside, which ends with point A and has no specific Fib retracement level requirement as well. It should retrace a portion of the price movement from 0 to X and must be less than a 100% retracement (it should not reach the point 0). After price found resistance at point A, it continues to the downside to point B which should align between the 113% and 161% Fib extension levels measured from swing low X to swing high A. After B, the price will retrace upwards to point C. The BC leg is the final and longest leg of the pattern. Price should travel between the 161% and 224% Fib extension levels measured from swing low X to swing high A. Point C should also align within the Fib retracement levels of 88.6% - 113% measured from swing high 0 to swing low X. After price reached the level of C, the pattern is completed and should reverse to the downside.

How to trade the Shark Pattern

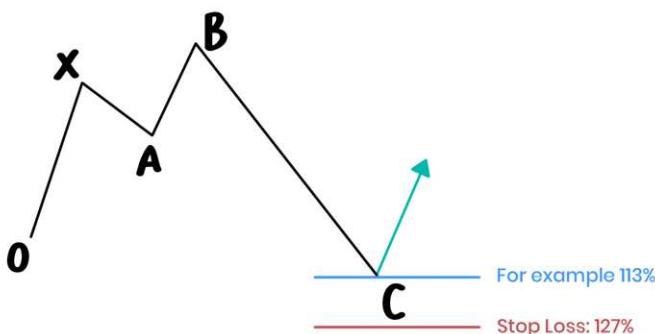
There are several ways to trade the Shark Pattern. Because of the Fib level ranges price is allowed to hit, many harmonic traders use limit orders to enter the pattern.

Entry

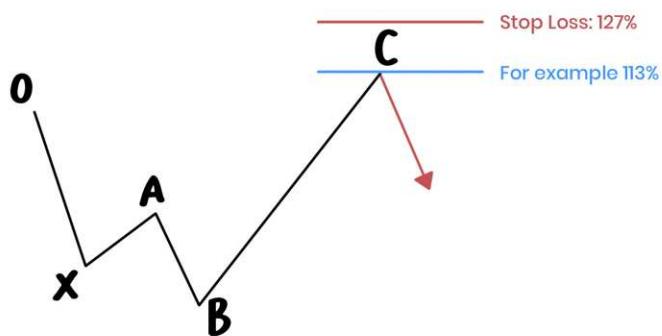
We can lookout for a price reversal within the Fib retracement level range of 88% - 113% to jump into a position, as we have discussed it in the previous patterns. Many traders use also a limit order between the 88% - 113% Fib retracement levels. But note, depending on the limit order placement, your targeted level might never be reached by price and the reversal might happen without you. Therefore, even though you set a limit order, the price action still needs to be monitored in order to avoid this.

Stop Loss

Stop loss levels can be aligned with a Fib extension level. We can measure from 0 to X and align our stop loss level with the 127% Fib extension level. For the bullish version it would look as following:

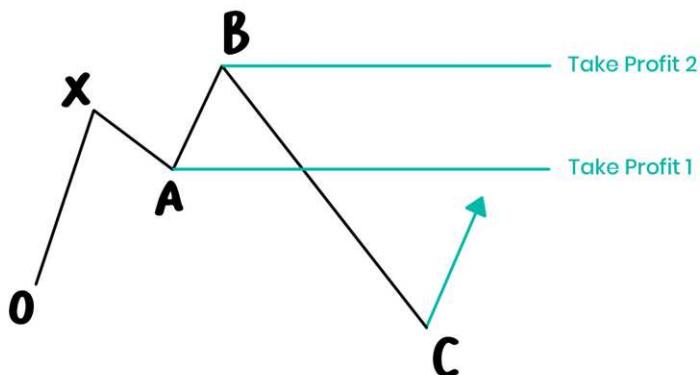


The bearish version would look like this:

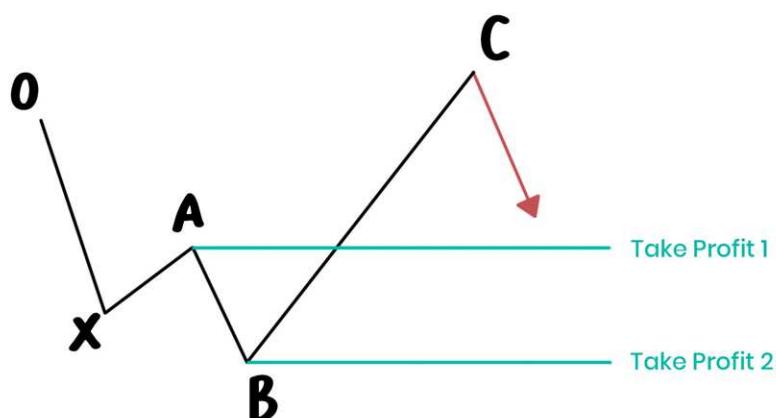


Take Profit

As always, we have multiple options for potential take profit levels. With the shark pattern, we can use the price level of A and B as take profit levels. For the bullish version, we would set our first take profit at or just below the price level of A, and for our second take profit level, we would set it at or just below the price level of B.



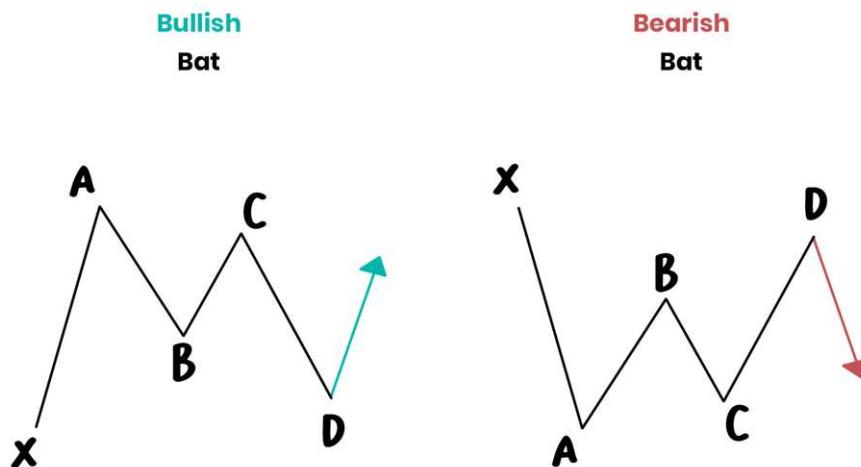
For the bearish version, we would set our first take profit just at or just above the price level of A, and for our second take profit level, we would set it at or just above the price level of B.



Overview of the Shark Pattern rules

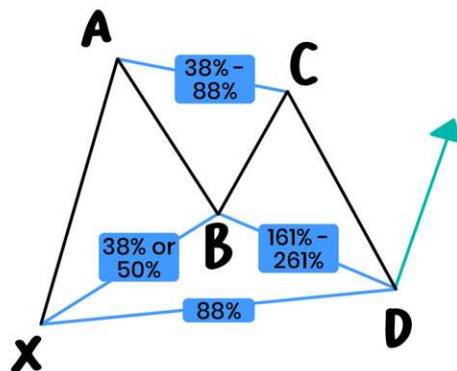
- OX movement does not have any specific requirements
- XA movement also doesn't have any specific Fib level requirements. It just has to retrace a portion of the OX leg and should stay below a 100% retracement
- B should end up in the area of 113% - 161% Fib extension level measured from X to A
- C should end up in the area of 161% - 224% Fib extension level measured from X to A
- C should also align within the area of 88% - 113% Fib retracement levels measured from O to X
- Take Profit 1: Level of A
- Take Profit 2: Level of B
- Bullish version: Stop Loss below the point D at the 127% Fib extension level measured from O to X
- Bearish version: Stop Loss above the point D at the 127% Fib extension level measured from O to X

BAT PATTERN



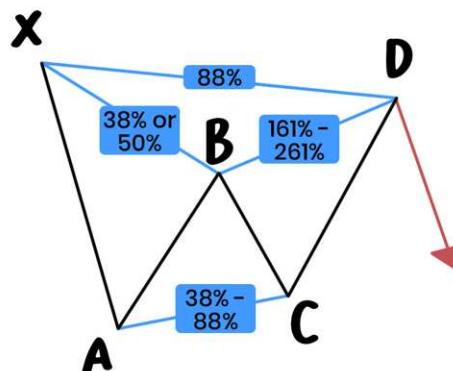
The Bat Pattern was also developed by Scott Carney. The Bat Pattern is a five-point reversal chart pattern, which is structured by fairly specific Fibonacci ratios. The pattern resembles the letter „M“ and „W“ depending on its version (bullish or bearish).

Bullish Bat Pattern



The Pattern starts at point X. Price moves up to A, which does not have any specific Fib ratio requirements. The XA leg, however, represents the longest price movement within the pattern and kicks off the pattern. After point A, the price retraces back down a bit to point B, which should align with the 38% or 50% Fib retracement level measured from swing low X to swing high A. After B, price reverses to the upside and should end up within the 38% - 88% Fib retracement range measured from swing high A to swing low B. When price builds point C, it will reverse once again to the downside for its final leg before the pattern is complete. The point D should align within the 161% or 261% extension level measured from swing low B to swing high C (less important) and should retrace the XA leg by 88%. This means D also needs to align with the 88% Fib retracement level measured from swing low X to swing high A. After the price reaches the required measurements with point D, the pattern is seen as completed.

Bearish Bat Pattern



The Pattern starts at point X. Price moves down till A, which does not have any specific Fib ratio requirements. The XA leg, however, represents the longest price movement within the pattern and kicks off the pattern. After point A, price

retraces back up a bit to point B, which should align with the 38% or 50% Fib retracement level measured from swing high X to swing low A. After B, price reverses to the downside and should end up within the 38% - 88% Fib retracement range measured from swing low A to swing high B. When price builds point C, it will reverse once again to the upside for its final leg before the pattern is complete. The point D should align within the 161% or 261% extension level measured from swing high B to swing low C (less important) and should retrace the XA leg by 88%. This means D also needs to align with the 88% Fib retracement level measured from swing high X to swing low A. After price reaches the required measurements with point D, the pattern is seen as completed.

Bat Pattern vs Gartley Pattern

A lot of beginning traders get confused between the Bat and the Gartley Harmonic Pattern. They definitely have similarities, but also clear differences. The main differences between the two patterns are the fib ratios at point B and point D. The Bat Pattern needs validation of point B at the 38% or 50% Fib retracement level measured from X to A. The Gartley Pattern needs validation of point B at the 61% Fib retracement level measured from X to A. When it comes to the reversal point D, the Bat pattern will have a deeper retracement compared to the Gartley pattern. Within the Bat pattern, point D will retrace 88% of the XA leg, while within the Gartley pattern, point D will retrace only 78% of the XA leg.

How to trade the Bat Pattern

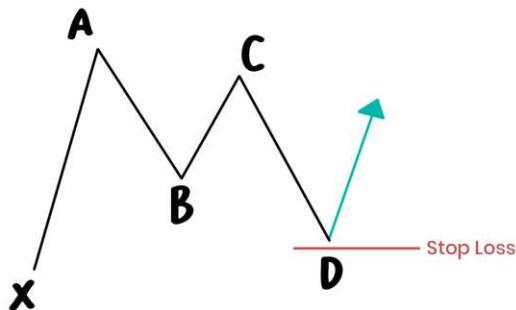
As always, before we trade the Bat Pattern, we need to confirm if price movements align with our Fib retracement and extension levels that structure the Bat pattern.

Entry

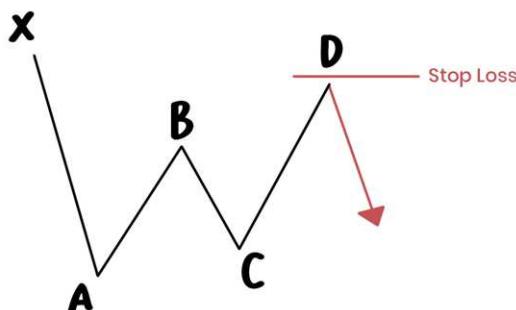
We can lookout for a price reversal within the Fib retracement level range of 88% to jump into a position. Many traders use also a limit order at the 88% Fib retracement level which should align with point D. We can also wait for the beginning of a reversal at point D to jump into the trade.

Stop Loss

Stop loss level can simply be placed below the swing low of X at the bullish version.

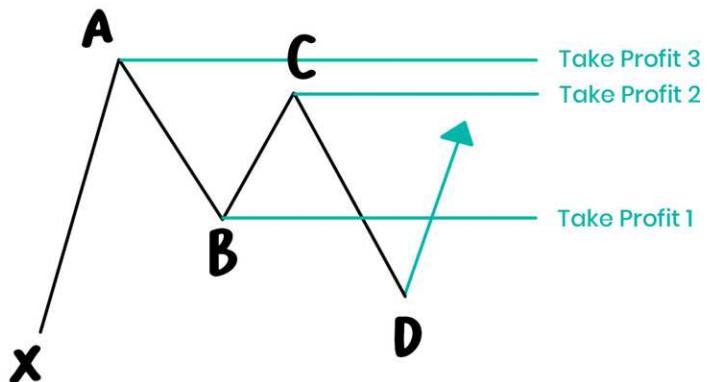


The opposite would count for the bearish version. Here, we would simply place our stop loss above the swing high X.

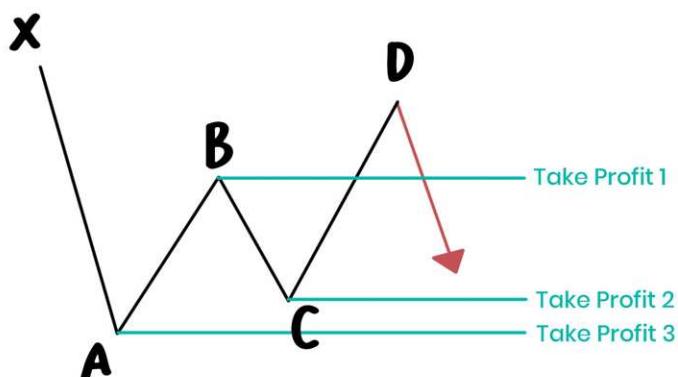


Take Profit

As always, we have multiple options for potential take profit levels. With the Bat pattern, we can use the price level of B, C and A as take profit levels. For the bullish version, we would set our first take profit at or just below the price level of B, for our second take profit level we would set it at or just below the price level of C, and for a possible third take profit level we can use a price level at or just below the reversal point A.



For the bearish version, we would set our first take profit at or just above the price level of B, for our second take profit level we would set it at or just above the price level of C, and for a possible third take profit level we can use a price level at or just above the reversal point A.



Overview of the Bat Pattern rules

- XA movement does not have any specific requirements
- B should end up either at the 38% or 50% Fib retracement level measured from X to A
- C should end up in the range of 38% - 88% Fib retracement level and needs to be contained within the extreme point of A
- D should align the 88% Fib retracement level measured from X to A
- D should also align with the 161% or 261% Fib extension level measured from B to C (less important)
- Take Profit 1: Level of B
- Take Profit 2: Level of C
- Take Profit 3: Level of A
- Bullish version: Stop Loss below the point X
- Bearish version: Stop Loss above the point X

That was it for the harmonic price patterns. Within the video, I will include live examples and go over them in more detail, since harmonic patterns are a bit vaguer than classic chart patterns. We have learned that price does not always reverse at the exact Fibonacci lines, therefore I would like to explain live examples in more detail through videos and go over scanners that will help us identify harmonic price patterns.

Going over to another more advanced trading approach, the supply and demand method. By the way, only because an approach is more advanced doesn't mean that it is better. It is actually the case that most of the time, traders are more successful with simple strategies. It's also one of the advantages of retail trading, compared to institutional trading. We do not work under a lot of rules and restrictions and can keep things simple.

1.10.2. SUPPLY & DEMAND



The supply and demand approach is getting more and more popular among traders, and therefore I included this method, so you can add it in your trading arsenal as well.

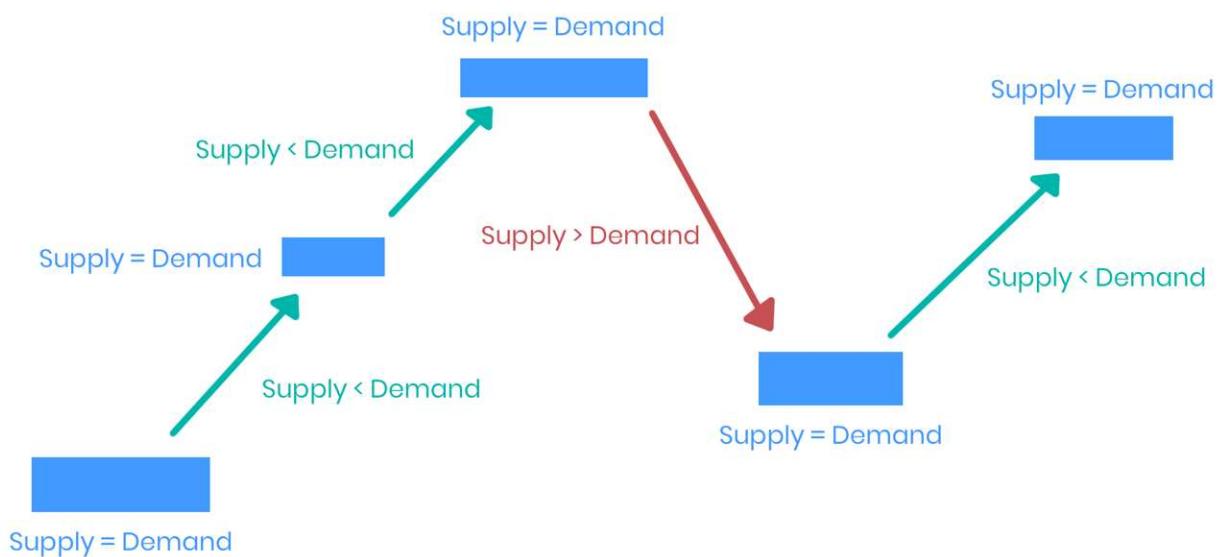
What is supply & demand?

To keep things short, supply stands for how many sellers are in a market and how much are they willing to sell the specific currency or instrument for, while demand stands for how many buyers are in the market and how much they are willing to buy a currency or instrument for. Almost all financial markets are based on the concepts of simple supply and demand. If there is more demand (buyers) for a currency than supply (sellers), the price will go up. The same thing counts the other way around, if there is more supply (sellers) for a currency than demand (buyers), the price will go down. The third scenario would be that supply

and demand are in balance. This is called the supply and demand equilibrium and prices will stay more or less at the same price level.

SUPPLY & DEMAND ZONES

The supply & demand method is always based on zones, as shown in the chart above. We have the zones of supply and demand equilibrium which are surrounded by supply > demand periods and supply < demand zones. Let's go to a simpler visualization of this concept at first.

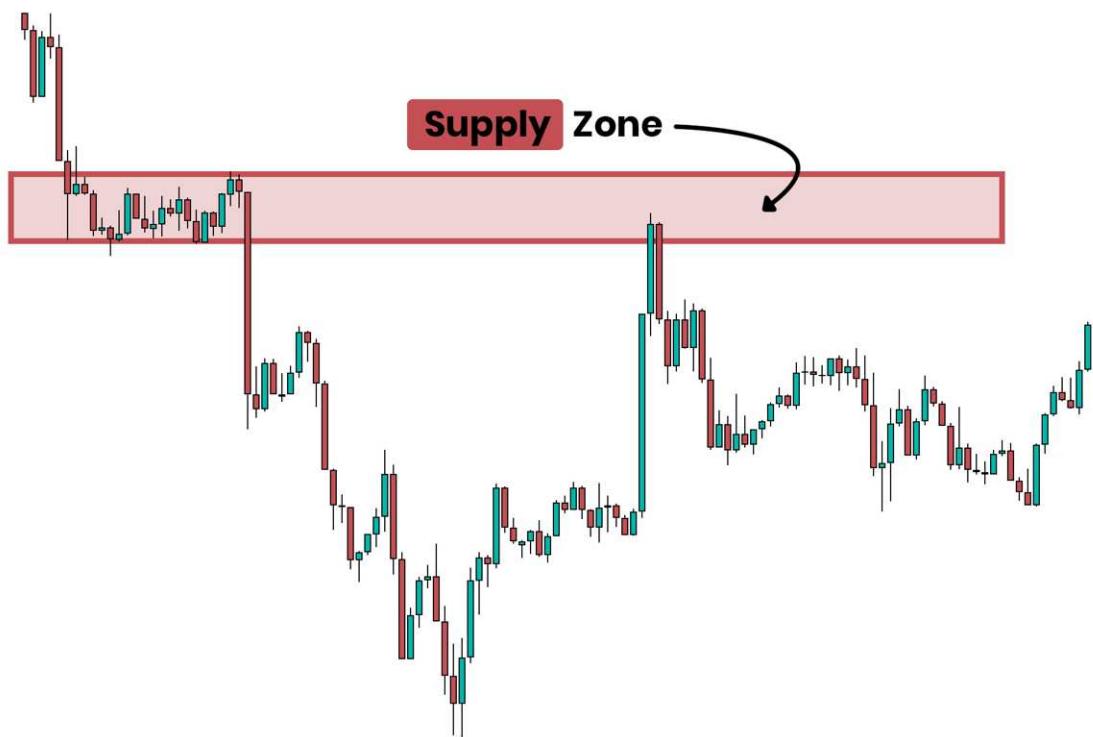


As we can see, we have periods where the price is moving up (supply < demand), we have periods where the price is moving down (supply > demand), and finally we have the zones where supply and demand are in kind of balance and price stays within zones. When we use the supply & demand method to look for trade entries, we are focusing on those blue zones, especially the zones where the price is moving away from with a lot of momentum. This is the case when we have a substantial shift between supply and demand. Let's focus closer on such zones.

SUPPLY ZONES

A supply zone refers to a price zone at which an immense selling pressure occurred. This resulted from the fact that we had a huge imbalance between supply and demand, where supply exceeded demand in a huge way, which pushed prices down.

Let's check out an example of a supply zone.

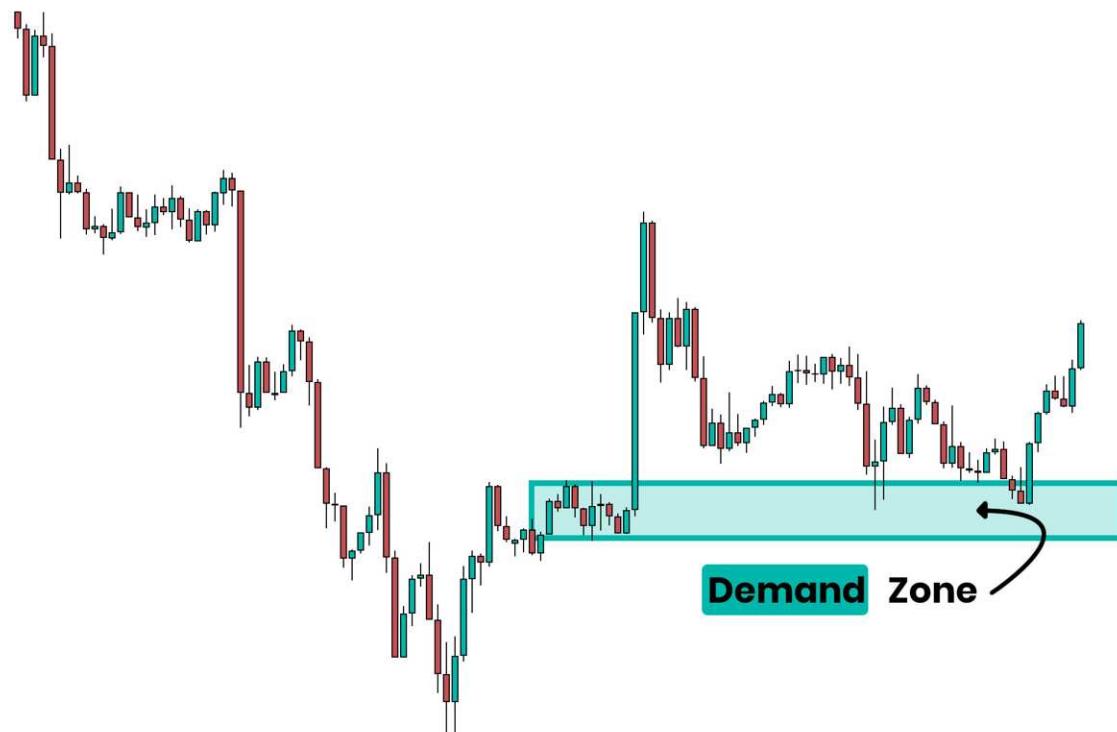


We can see, within the supply zone, we have our supply and demand equilibrium which resulted in price staying at the about same level. All of the sudden, the price made a sharp decline with lots of momentum. We draw the zone further in the future, which is our focus point for a potential sell setup. Don't worry yet about how exactly to identify such zones and let us focus on the general concept at first.

DEMAND ZONES

A demand zone refers to a price zone at which an immense buying pressure occurred. This resulted from the fact that we had a huge imbalance between supply and demand, where demand exceeded supply in a huge way, which pushed prices up.

Let's check out an example for a demand zone as well, which actually is in the same chart as shown above:



We can see as well that in the demand zone a narrow consolidation occurred which refers to the supply and demand equilibrium. After it, a sharp move to the upside occurred. We also draw the demand zone into the future, which refers to a key zone where a potential buying opportunity could occur.

Supply & Demand vs Support & Resistance

A question that I get a lot of times. Where is the difference between supply & demand and support & resistance. Well, it is right that supply zones could represent resistance and demand zones could represent support zones, the driver of price movement, and the approach to identify supply & demand is completely different.

Support & resistance focuses on price levels or zones where the price is likely to reverse and has done so in the past. Price needs to establish those zones first, through multiple interactions.

Supply & demand focuses on the base before a sharp price move, where a big imbalance between buyers and sellers occurred. We do not need price to establish those zones through multiple interactions. Most of the time, we even going to disregard those zones after the price has interacted with once after the sharp price move.

To clarify it, even more, let's check out the following chart:

Support & resistance focuses on price levels or zones where price is likely to reverse and has done so in the past. Price needs to establish those zones first, through multiple interactions.



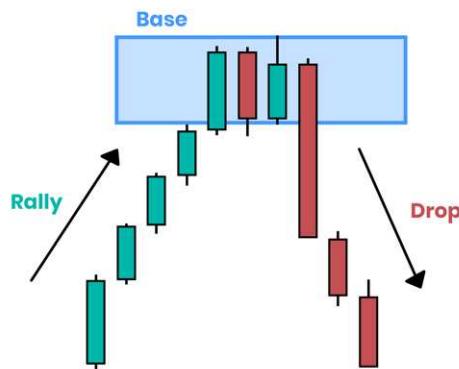
The difference can be seen clearly since support and resistance are at completely different price levels as supply and demand zones. This is the case in this example, however, this doesn't always have to be the case. Sometimes, supply and demand zones align with support and resistance zones. This means, both concepts do not cancel each other out and could be used together. Which one is better? None. Both approaches have advantages and disadvantages. It comes down to personal preference and how the trader sees the market.

THE 4 SUPPLY & DEMAND PATTERNS

Before we know how to draw supply and demand zones, we need to know what exactly we are looking for. There are about 4 types of supply and demand, which differ from price movement before and after the supply or demand zone.

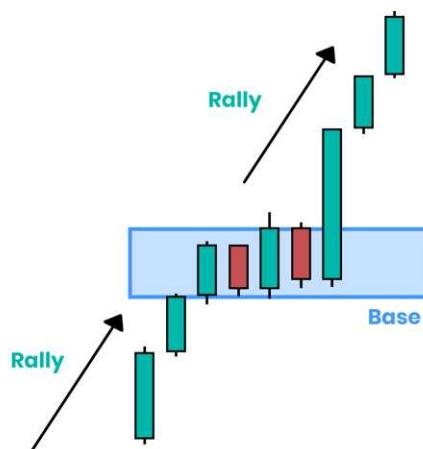
1. Rally - Base - Drop

The first pattern is called „Rally - Base - Drop“ is simply named after the price movements that occur. In this case, we have a price rally to the zone, followed by consolidation (our base), and then a strong bearish price movement away from the zone (the drop). Here's how the pattern looks like:



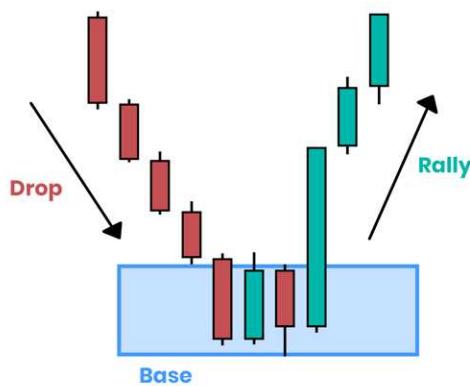
2. Rally - Base - Rally

Same thing here as well, the pattern is named after the occurring price moves. Price rallies to our zone, followed by a short consolidation period which is the base for the following strong price move to the upside.



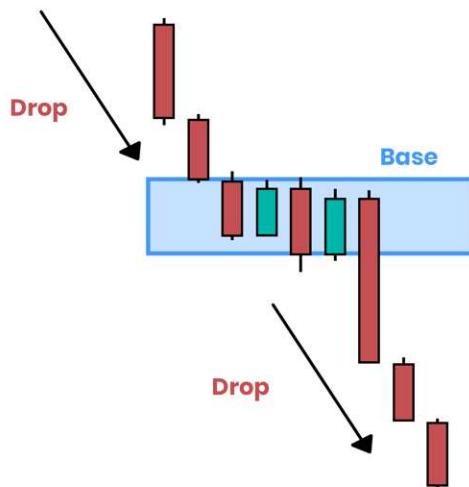
3. Drop - Base - Rally

In this pattern, we are looking for a bearish drop to our zone, followed by a short consolidation (the base) before the price makes a strong bullish move to the upside.



4. Drop - Base - Drop

Within the last pattern, we are looking for a downtrend, followed by a consolidation period (base), followed by a sharp price movement to the downside.



IDENTIFYING SUPPLY & DEMAND ZONES

Now we know what to look for, we can go over how we can identify supply and demand zones.

Step 1: Momentum Drives

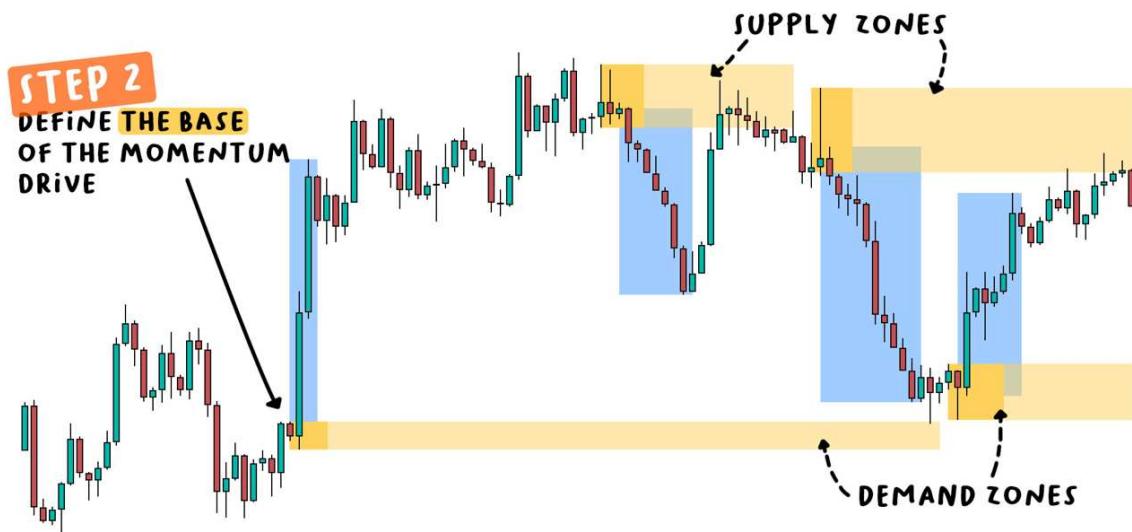
We are looking for large price movements on our chart. Tall and successive candles in one direction work the best. I've marked some sharp moves to the up and downside in the chart below:



While the first three highlighted moves are very clear, the last one is something we could discuss. For some, this price move would not be considered a sharp price move anymore, while for others it does. That's where we go back to trading being subjective. When we look at such price movements, the momentum (the speed of price movement), as well as the absolute distance of the price movement to the upside or downside will be considered. The strongest supply and demand zones will have strong momentum and a large covered distance. Another thing to consider is the overall trend direction of the price. The best demand levels can be found **AFTER** price has been in a long downtrend, and the best supply levels can be found **AFTER** price has been in a long uptrend. As we can see in the example below, a strong and established trend can be like a fast train. The fast the train goes, the tougher is it to stop it. If the price is in an uptrend, we need more sellers to make the price drop again, and if the price is in a downtrend, it will take much more buyers to reverse the price to the upside. This underlines that the overall trend is always needed to be taken into consideration as well. Another point is that supply and demand approaches can't really be extended too long into the future. Since we are looking for price zones in which an immense shift between buyers and sellers occurred, we want to see price relatively fast (in terms of time) test this price zone again, in order to see a similar reaction. If too much time has passed, there is a chance that whoever has created such a big shift between buyers and sellers is not interested in this particular zone anymore and found other price zones to open or close big orders.

Step 2: Base of Momentum Drives

After we have identified our sharp moves, we need to check the base of such moves and if they have a consolidation, as defined in our 4 trading patterns. Those consolidation zones are what we are looking for. We can either have a bullish consolidation before a bearish price move or we have a bearish consolidation before a bullish price move. The base is also what will represent our supply or demand zone which we will extend into the future as shown in the following chart:



The chart is from the example before, where we identified the strong price movements to the upside and downside. The yellow highlighted zones represent the base in front of the specific price move.

How to draw the „base“ zone?

This really depends from trader to trader and on its experience. Some will include wicks, some will not. There are a few things that could help you draw the zone. Let us go through them.

1 Size of the base

If the base and therefore the consolidation is quite narrow, it makes sense to include the wicks to give the price a bit more flexibility within the supply or demand zone. However, if the wick is extremely tall, it would make sense to leave it out of the zone, since we want a flexible but also precise zone to work with.

2 Amount of consolidation

If there is a longer period of consolidation before the sharp move, it makes sense to use the upper and lower boundaries of the consolidation period to draw the base zone. This makes sense since this is where orders have been created to result in a strong price movement.

3 Confluence

As already mentioned, sometimes the supply and demand zones align with support and resistance, which can also be drawn as zones. If this is the case, we could narrow down our supply or demand zone to a more precise zone by aligning it with support or demand. In this case, wicks could be excluded.

Let's go a bit deeper into the supply and demand method and check why it actually works.

It is often the case that after a strong price movement, we see a pullback into the same supply or demand zone (which has been identified from drawing the base), where the price is showing a clear reaction. It is often the case that price bounces back up or down after the retest of our supply or demand zone, as we have seen in the examples before or in the example below:



In order to understand why this approach works, we need to understand what actually happens in the market. Especially demand and supply are connected with liquidity. Liquidity describes how easily and fast an instrument can be bought or sold. If the market has high liquidity, it means that orders can be easily accepted by the markets, since there are enough parties that take the other side of the transaction. If the market only has little liquidity, it might be difficult to get orders filled, since there are not enough participants to take the other side of the transaction. This makes sense, if we want to buy something, somebody else needs to sell it. If this is a market maker or other traders, doesn't matter as much. The forex market, which has compared to other markets great liquidity, still has participants that need to make such big transactions that they can't put out their order all at once. There are simply not enough market participants that take the other side of the transaction. How to solve this problem? They slice their orders. Whenever institutional traders (the players with a lot of capital) need to open a position with a larger size, they simply split up their orders into multiple parts and only execute those parts if the market provides enough liquidity. In our supply and demand approach, this is represented by the consolidation before

the sharp price move. We do not know exactly where and when they move, but to visualize the concept, let's take a look at the following picture:



As we can see, I've marked possible points where multiple orders have been executed.

Finding liquidity

This is a concept that also explains the phenomenon called „stop hunting“. Some traders believe in it, while some don't. Stop hunting or Stop loss hunting refers to price action that's threatening to trigger stop losses above resistance levels and below support levels (where most traders have their stop losses placed). Just after those stop loss orders are executed and most traders are out of their trades with a loss, the price reverses and continues into the direction, in which most traders have anticipated. Through the higher liquidity of the stop loss orders being executed, the price gets also more volatile. The supply and demand method is explaining this phenomenon. Since we have found out that big players need to slice their orders up into smaller pieces, they also understand where liquidity is accumulated. As just mentioned, most liquidity (in form of many stop loss placements by traders) is either above significant swing highs or significant swing lows. If a big player or multiple big players want to get filled into a long position, they need to find somebody to sell it to them. Below significant swing lows are lots of stop loss orders connected to buy positions. Those stop loss orders are the sell positions a big player is looking for (Hope you can still follow me here). Additionally this, if the price breaks below such a key

level, other traders might open sell positions based on the break and add further liquidity to the market. That's why you often see a spike in the opposite direction of the following strong price movement. Larger market participants have the power to move the market based on their amount of capital and their size of orders.

Using this information, we understand the pattern of consolidation followed by momentum drives that create our supply and demand zones. The next question we need to cover, why does price still react to our highlighted zone (base)? Let's go over some reasons.

Reason 1: Institutional Traders

I already have briefly mentioned this before. An institutional trader (hedge fund or bank) created order blocks which resulted in the consolidation till there was nobody left that took the other side of the transaction, resulting in price shooting up or down with large momentum. There is the possibility of liquidity drying up before the institutional trader was able to fill all their orders. It could be the case that those players will just wait for the price to come back to this level, in order to get the rest of their positions filled. In short, the big player or the big players are getting into the market a second time. That's what we are trying to take advantage of with the supply and demand method.

Reason 2: Take Profit Zones

As covered in the beginning of the chapter, the price mostly moves from one supply / demand zone to the other. Most of the time, for every trader that wants to get into a position based on a supply or demand zone, there is another trader that tries to exit an already open position. Where do those traders try to get out of the market? Correct, just before another supply or demand zone (of course this is not always the case).

HOW TO TRADE SUPPLY & DEMAND

There are different ways on how we can approach this method (as is the case with anything in trading 😊)

Approach 1: Immediate Entry

Just like we had with the harmonic patterns, we can use an immediate entry through for example placing a pending order in the supply or demand zone we would like to trade.



Advantage: We will mostly get filled, even though the price will touch the zone only through a wick and therefore faceless the risk of missing the trade.

Disadvantage: We face the risk of the zone not holding at all and the price might just continue to the up or downside. However, this can be reduced by filtering out quality supply and demand zones and only trade those.

Approach 2: Delayed Entry

With this approach, we want to see price action confirming our supply or demand zone. While supply and demand are different from support and resistance, they still act similarly. Therefore, we would like to see any type of candlestick pattern at the specific zone to confirm our entry.



EXITS FROM SUPPLY & DEMAND

Choosing the exit points based on supply and demand is also very subjective. There are multiple ways, which we will also cover in the chapter „Trade Exit Techniques“ since they are general approaches. Exit points refer to stop loss and take profit orders. We can use former structure to place our stop loss, we can use indicators such as the ATR or any other approach. The same counts for how to set our take profits. There are no specific rules to the supply and demand approach. What we need to take into account is that supply and demand might not always be as accurate, since those zones could be connected to higher volatility. Therefore it is always great to approach placing the stop loss order with a bit more room in order to give price flexibility.

CONCLUSION

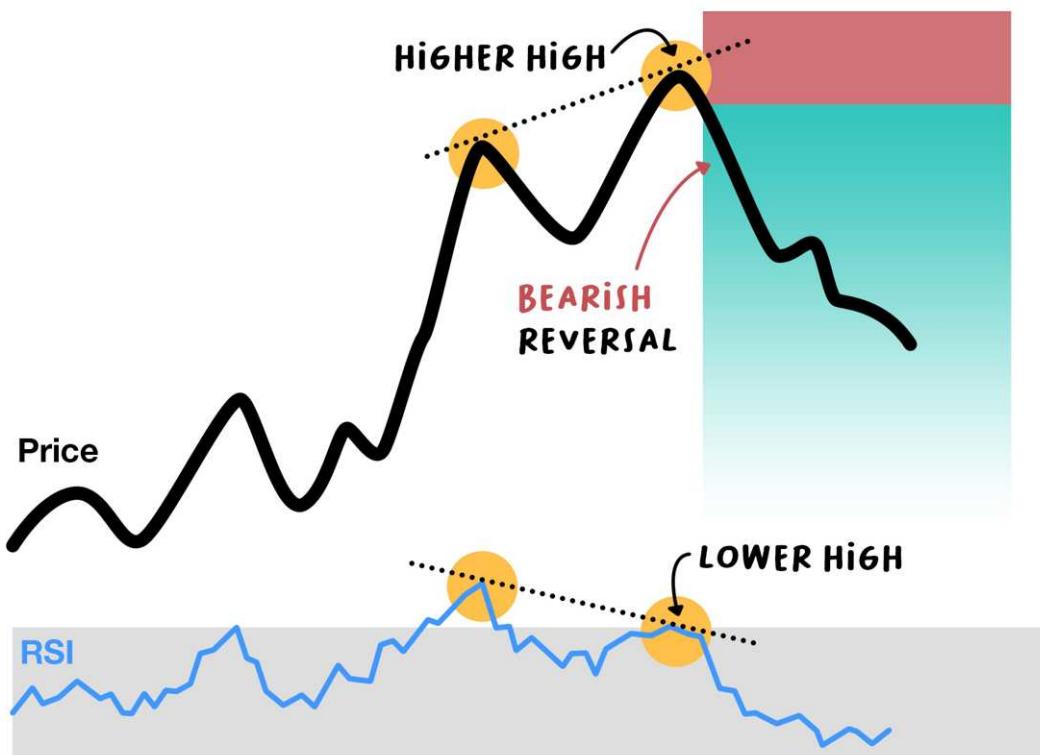
Supply and demand take a bit of practice to figure out, and might not be understood as easy as other trading approaches. The first step of trading supply and demand is done, which is to understand why it even works and what the reason behind the approach is. The next step is going into historical charts, and test if you are able to identify supply and demand zones, combine them with

other trading approaches (as shown in the following chapter „Confluence Trading“), or decide that this is not something for you. Again, we covered quite a lot of ground, which doesn't mean that you have to use everything we have discussed so far. Try and test things out, and stick to the things that work for you!

1.10.3. TRADING DIVERGENCE



Do you want to trade reversals? Or do you want to know when to exit a trade when you are more of a swing trader? You can use divergence trading!



Very simply explained: Divergence trading is when we compare price action to the movement of an oscillator indicator (such as RSI or MACD). The great part about divergence is that it is a leading signal and is actually quite easy to identify once you know what you are looking for. With divergence, we work with higher highs and lower lows. If price makes higher highs, it is usually the case that the oscillator indicator is also making a higher high. The same way around, if the price makes a lower low, the oscillator indicator should do the same. But then there are also the scenarios where it does not happen (as shown in the picture above). The scenarios where the price is doing something different than the indicator. That's called divergence. Such divergence or difference between price action and indicator can indicate a weakening trend or reversal in momentum. Depending on what kind of divergence, it can also be used to determine trend continuation. That's where we start. We have 2 types of divergence:

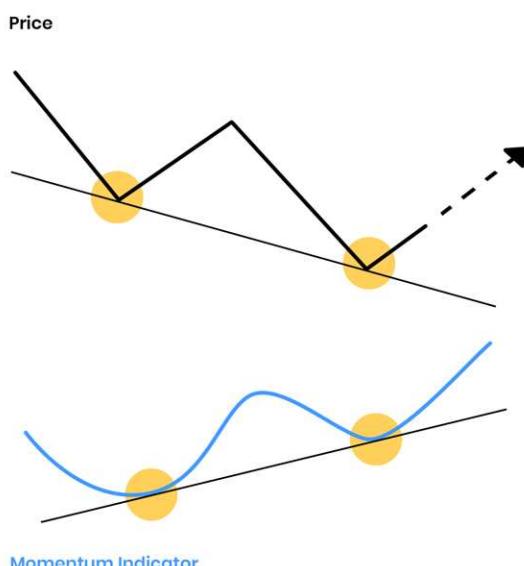
- 1 Regular Divergence
- 2 Hidden Divergence

REGULAR DIVERGENCE

The regular divergence is used to identify trend reversals. Within the regular divergence, we have also two kinds: Bearish & Bullish.

REGULAR BULLISH DIVERGENCE

If the price is making lower lows, which means it is in a downtrend, but the oscillator indicator makes higher lows, it is considered to be a regular bullish divergence which indicates a trend reversal to the upside. Let's check it out:



That's the concept of the regular bullish divergence. Price is creating lower lows while the indicator (such as RSI or MACD) creates higher highs. Let's check out a real-life example.

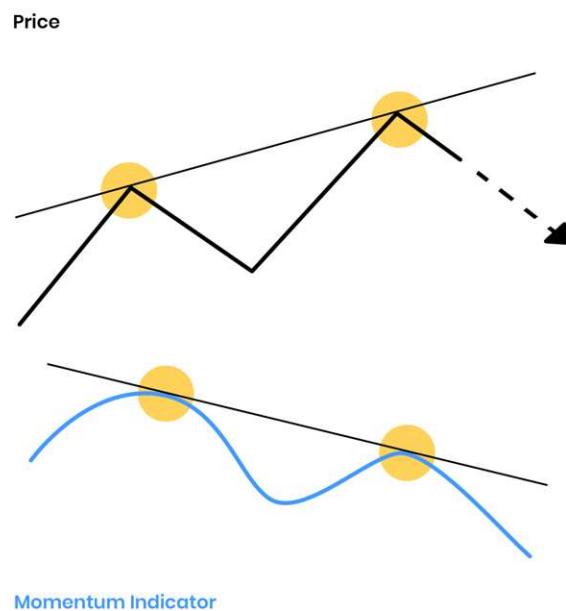


Why does this even work?

As we learned about the RSI, which is an oscillator indicator (momentum indicator), it measures the speed or strength of the price movement. It compares the recent gains with recent losses over a specific time period, which is visualized in a scale from 0 to 100. If the RSI has a value close to 0, such as 10, it means that the price has been in a downtrend based on recent price momentum. If the RSI has a value close to 100 such as 80, it means that the price has been in an uptrend based on recent price momentum. What happens if the indicator is making higher highs, indicating that price should be in an uptrend momentum, while the price is actually creating lower lows. It indicates to us that the current trend is fading and the price is changing its momentum. The RSI detecting it before the price is reversing, which makes it a leading signal. This being said, remember what we discussed about leading indicators. It is not always correct, but the divergence is actually one of the more accurate leading signals.

REGULAR BEARISH DIVERGENCE

Here we have the opposite of the bullish version. Price makes higher highs, while the oscillator creates lower highs. This means the price is currently trending up, but could potentially reverse to the downside. Again, the oscillator indicator signals us a shift in momentum before the price is actually changing anything.



Now let's check it out on real charts:



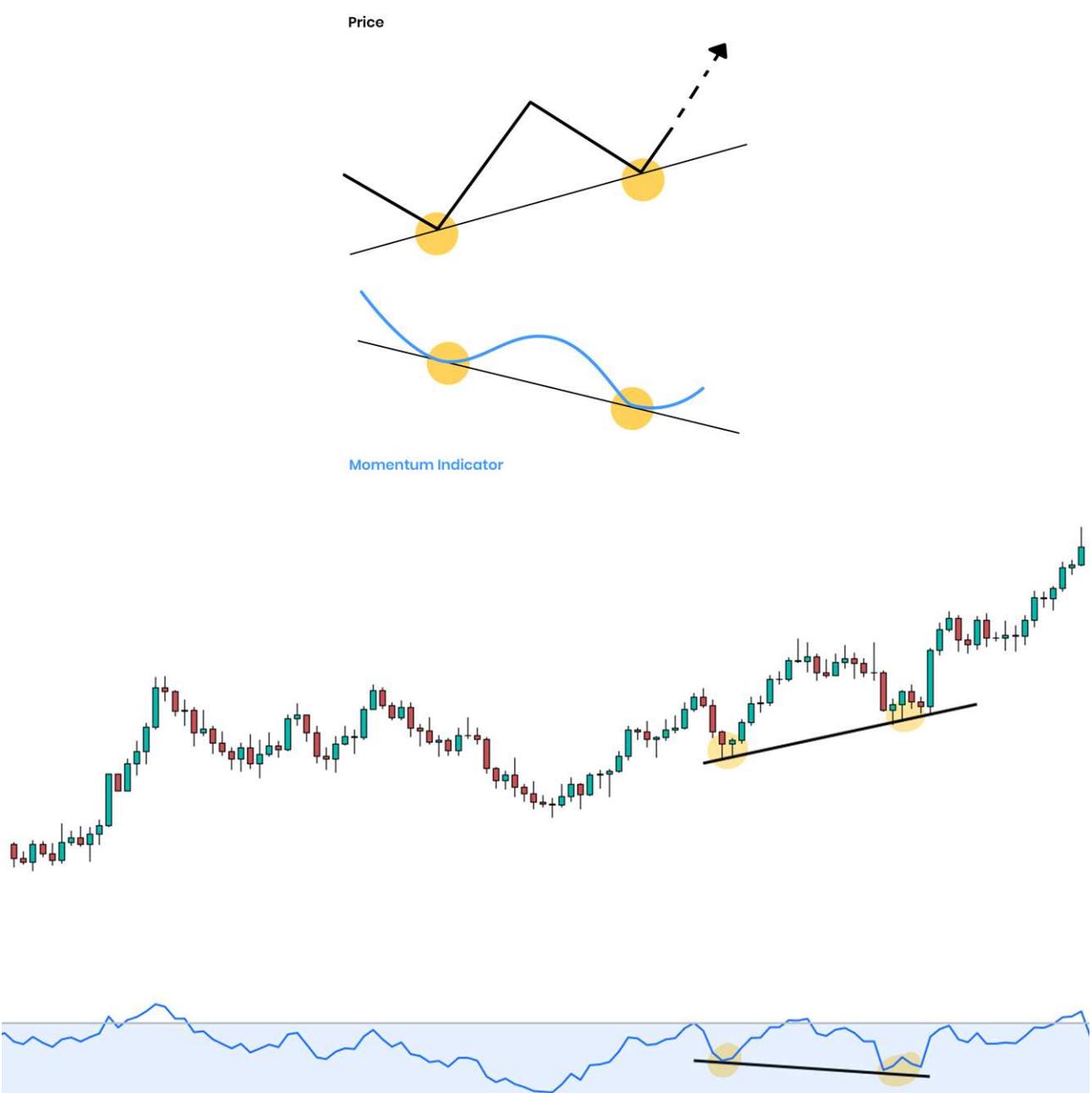
As you can see, divergence is actually pretty easy to spot. Let's go over to the hidden divergence.

HIDDEN DIVERGENCE

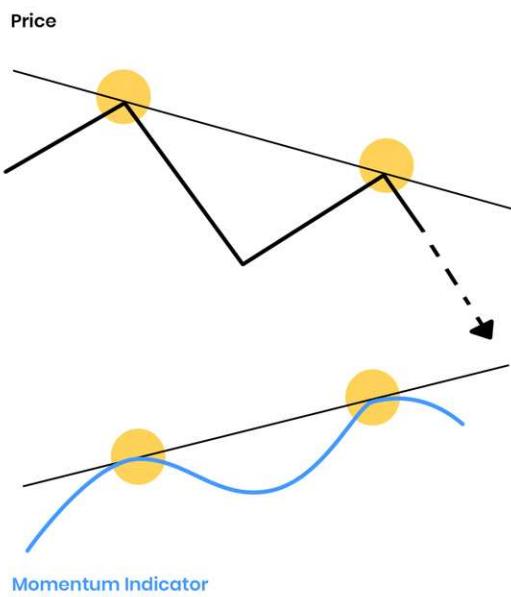
Hidden divergence is called this way because it's hidden in the existing trend, and signals a trend continuation. As every trader knows: „The trend is your friend“. Trend continuation signals are always great. Let's go over the bullish and bearish version again.

HIDDEN BULLISH DIVERGENCE

This happens when the price makes a higher low but the oscillator indicator creates a lower low.

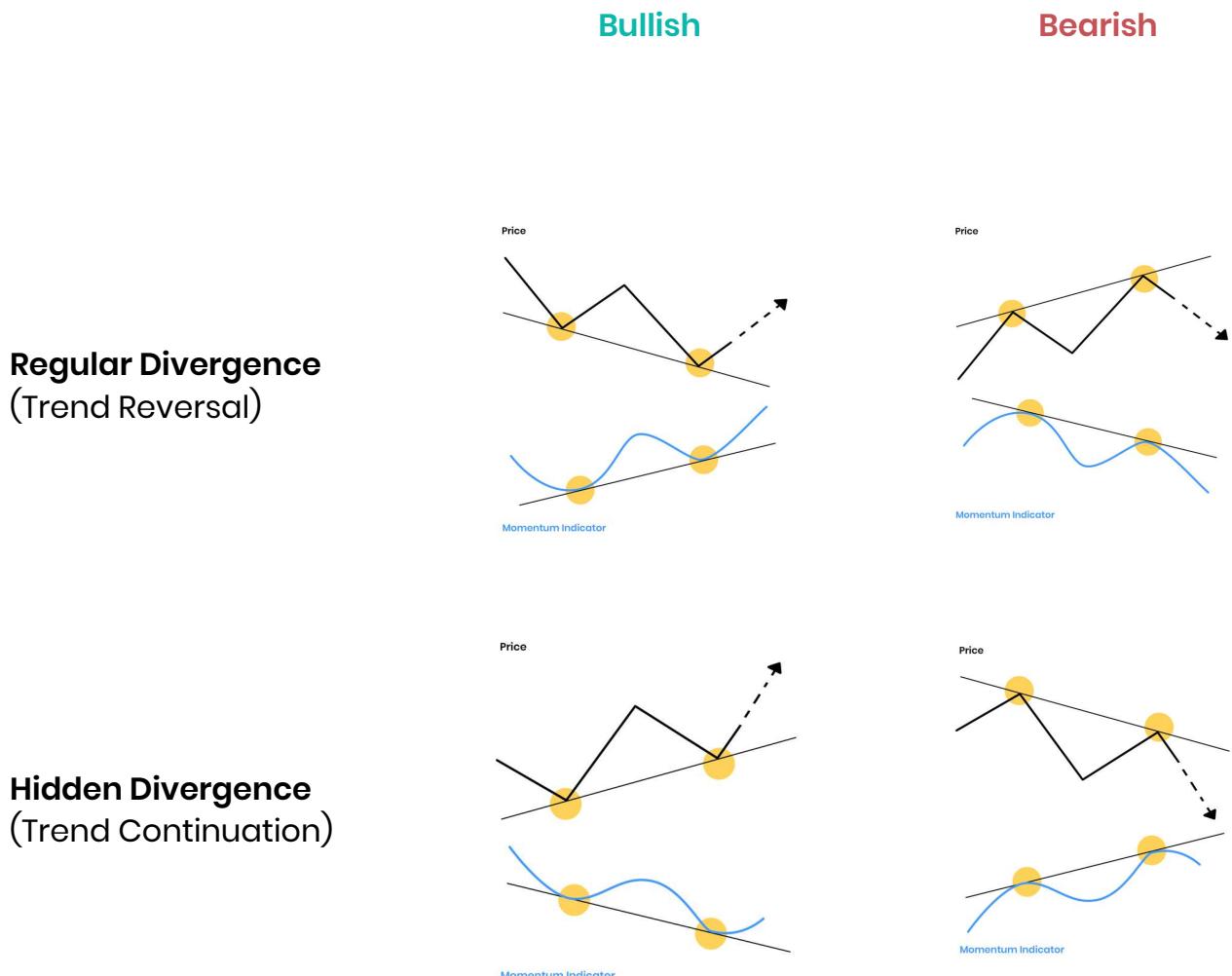


Here price makes a lower high while the oscillator indicator creates a higher high.



Regular divergence = Possible signal for trend reversal
Hidden divergence = Possible signal for trend continuation

Because I know that it might be a bit confusing since those higher highs and lower lows all look the same, let's compare the bullish and bearish regular and hidden divergences below:



As you can see, there is a difference. While the trendlines for the regular bearish divergence are opening up to the right, the trendlines for the hidden bearish divergence open up to the left. The other way around for the bullish version. The trendlines for the regular bullish divergence open up to the left, the trendlines for the hidden bullish divergence open up to the right.

TRADING REGULAR DIVERGENCE

As you can see in the chart below, the price has been in a downtrend, but while the last lower lows of the price match with the current trend, the RSI is creating higher lows. Bingo! Regular bullish divergence.



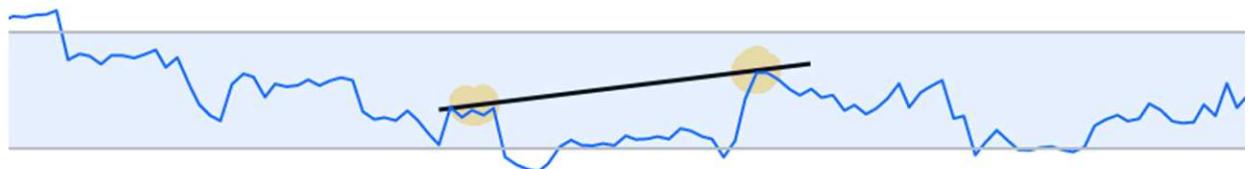
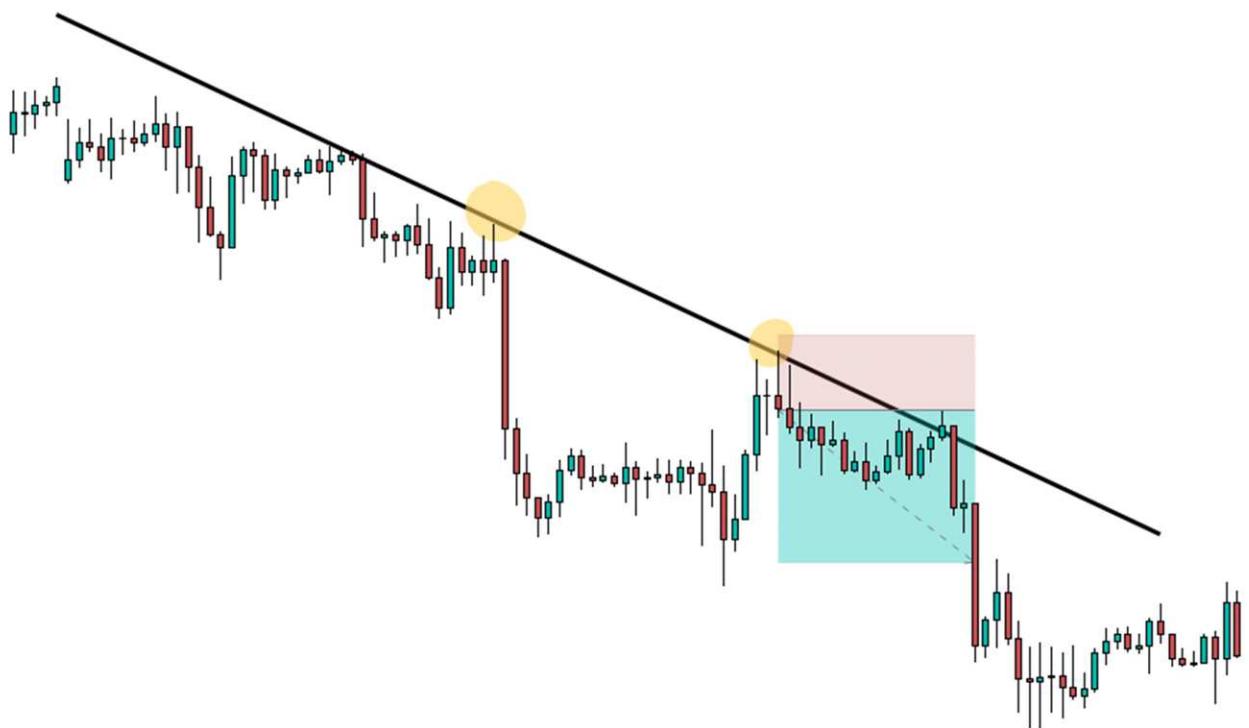
If you are very aggressive, this is already the point where you could enter (not recommended). But we could also wait for some kind of structure such as break or break and retest with some sort of candlestick pattern. If we move a bit forward, that's also what the market presented us.



Price broke the last lower high (minor resistance), retraced back, and accepted former resistance as support, and created a bullish engulfing candle. Boom! Entry! (This is just an example of how to approach it and combine different methods, which we will discuss more in the next chapter „Confluence Trading“. Take profit was based on the risk and set on a 1:2 risk to reward). Also, always note that my examples are cherry-picked. It doesn't make sense to show you an example where it doesn't work. I'm using these examples to get the concept across. This doesn't mean that divergence works 100%. As we will still learn, we actually do not necessarily need to have a high win rate to become successful traders.

TRADING HIDDEN DIVERGENCE

In the chart below, the price is currently in a downtrend as well, making lower highs. At the same time, the RSI started to create a higher high, signaling a possible trend continuation.

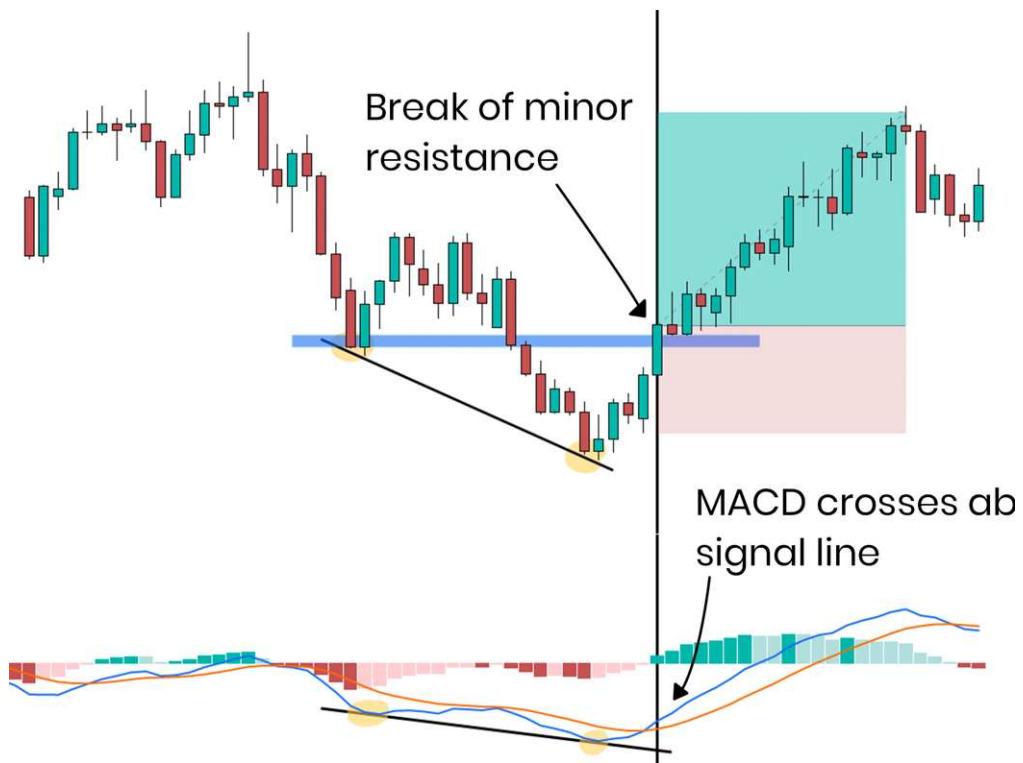


We can use this to combine it with the trendline acceptance of the price and a bearish candlestick pattern (shooting star, the evening star in this scenario did not get completely based on the short bearish candle) at the trendline to enter a trade. If we move forward, the hidden divergence was right and the price continued to the downside. (Take profit was based on the risk and set on a 1:2 risk to reward)

EXTRA CONFIRMATION

Why do we want extra confirmation? Because the indicator shows us a shift in momentum, we simply don't know exactly when this will be reflected in price movement. Therefore, we could get some extra confirmation (additionally to the price action) to develop a higher quality setup.

If you want some extra confirmation for divergence, we could use the MACD to identify divergence, which also signals us potential buy and sell scenarios when the MACD crosses above or below the signal line. In the case of bearish trend continuation (hidden bearish divergence), the price creates lower highs while the oscillator indicator (MACD in this case) creates higher highs. Before we would enter the sell position, we would wait for the MACD line and signal line crossover.



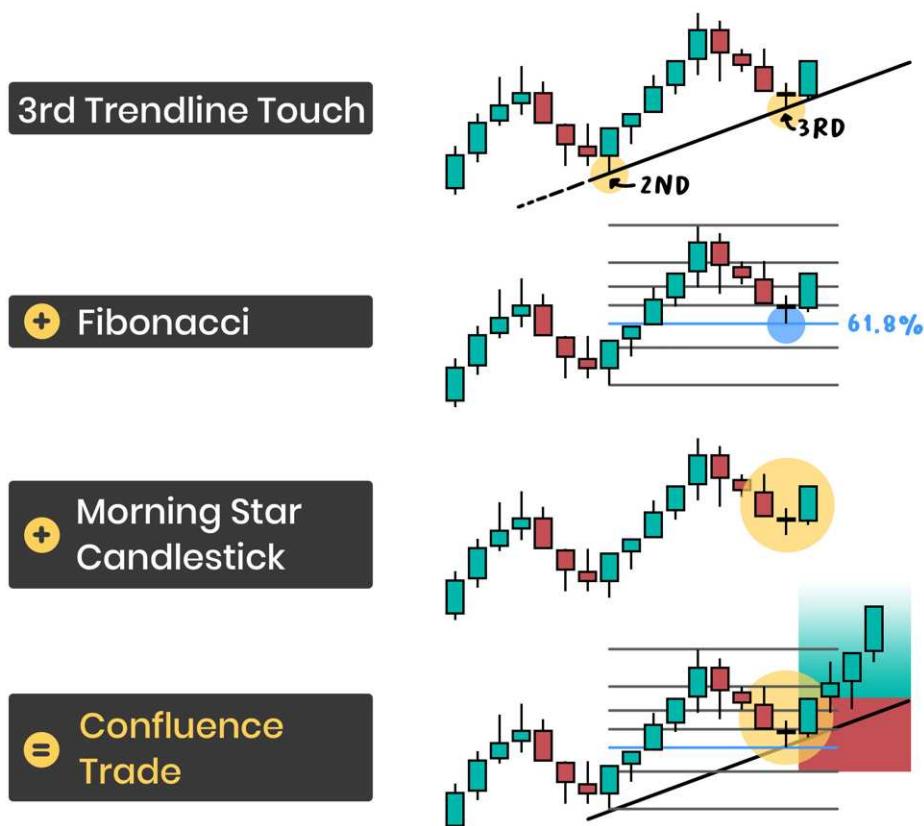
We would enter a few candles later but would have that little bit extra confirmation from the indicator.

Ok, perfect! We have covered quite a bit. Let's discuss what we could do with all the theory we just learned over the last couple hundred pages!

1.11. CONFLUENCE TRADING



Now, we have learned quite a lot of tools and different approaches. What can we do with them? We can combine them. Confluence trading refers to using several technical analysis methods to confirm a trading entry. In order to do this, we can use technical indicators, chart patterns, price action, and any chart overlay tools. For the confluence to happen, all those methods need to agree on the direction of the trade. There is really no limit to confluence trading and there are thousands and thousands of different possibilities on how we can combine different trading approaches. Let's check out the following example:



Here we used a trendline, in combination with the Fibonacci retracement tool and a candlestick pattern (morning star). This is only an example and as mentioned, there are thousands of different possibilities. You can really be creative here.

Why would we use multiple methods at the same time?

A confluence trade could lead to higher accuracy and profitability. Through the combination of multiple methods, that essentially all signal a trade opportunity in the same direction, it could increase our odds of winning. It's essentially the same as if you ask one person a question or if you ask multiple persons a question, while they all give the same answer. In which of both scenarios do you trust the answer more, if one single person says it or if multiple persons say the same thing? It can be the case that all of the persons you asked give you the wrong answer, but the general probabilities for this to happen are lower compared to the scenario of asking only one person.

Here are just some of the tools we learned so far and from which we could pick from to combine them into a single strategy:

- Candlestick Patterns
- Chart Patterns
- Harmonic Patterns
- Psychological Levels
- Horizontal Support and Resistance
- Dynamic Support and Resistance through Moving Averages
- Trendlines
- Fibonacci retracement Levels
- Relative Strength Index
- Regular or Hidden Divergence
- Supply or Demand Zones

However, there are limits to the whole approach. It is for example very difficult to combine classic chart patterns with harmonic chart patterns. This might occur, but it will occur on such a rare base that it doesn't provide enough trading opportunities.

1.13. NEWS EVENTS



Going over to some news events we could look out for. Before we start covering some of the news events and show you how exactly you can check which news events or data releases happen, I want to mention that it is actually possible to completely trade without checking such news. It varies depending on the trading style, how much those news events and the related increase of volatility affects our trades. While scalpers are very affected by a sudden increase of volatility, the higher you go up the time periods the less will be the trader affected. A swing trader that trades on the daily timeframe might not even be affected at all. This, however, depends on the news and the related volatility. Some news events have a higher impact than others. If looking out for news or not, it is great to familiarise yourself with the subject and to at least know what's happening.

There are some news events that tend to drive price action and result in an increase in volatility. Such events include:

- Changes in central bank policy (no regular news)
- Shifts in government policy (no regular news)
- Unexpected economic data releases (could be through regular news like NFP, which we will cover just in a bit)

How do we keep up to date with the news?

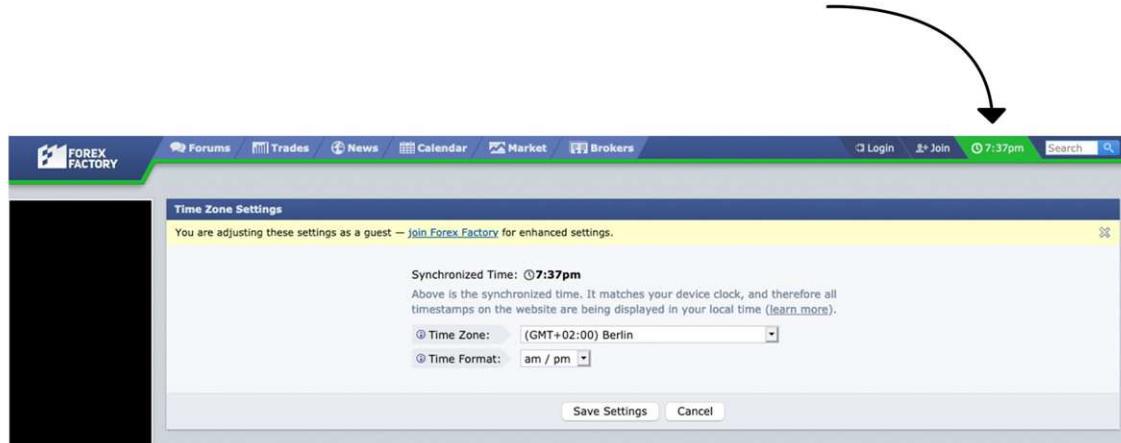
News concerning the forex market is being released every single day. Some are more relevant than others. How do we keep up to date with all of it? Fortunately, many different websites publish economic calendars with all upcoming news.

One of the most popular ones is the „Forex Calendar“ by forexfactory.com. Here a screenshot of how the calendar looks like:

| Date | Time | Currency | Impact | Description | Detail | Actual | Forecast | Previous | Graph |
|-----------|---------|----------|--------|-----------------------------------|--------|--------|----------|----------|-------|
| Mon Feb 1 | 1:00am | AUD | 🟡 | MI Inflation Gauge m/m | | 0.2% | | 0.5% | |
| | 1:30am | AUD | 🟡 | ANZ Job Advertisements m/m | | 2.3% | | 8.6% ▲ | |
| | 2:45am | JPY | 🟡 | Final Manufacturing PMI | | 49.8 | 49.8 | 49.7 | |
| | 6:30am | CNY | 🟡 | Caixin Manufacturing PMI | | 51.5 | 52.6 | 53.0 | |
| | 8:00am | AUD | 🟡 | Commodity Prices y/y | | 19.7% | | 12.7% ▲ | |
| | 8:30am | EUR | 🟡 | German Retail Sales m/m | | -9.6% | -2.0% | 1.1% ▲ | |
| | 9:15am | CHF | 🟡 | Retail Sales y/y | | 4.7% | 1.5% | 1.8% ▲ | |
| | 9:30am | EUR | 🟡 | Spanish Manufacturing PMI | | 49.3 | 50.2 | 51.0 | |
| | 9:45am | CHF | 🟡 | Manufacturing PMI | | 59.4 | 56.5 | 58.0 | |
| | 9:50am | EUR | 🟡 | Italian Manufacturing PMI | | 55.1 | 52.5 | 52.8 | |
| | 9:55am | EUR | 🟡 | French Final Manufacturing PMI | | 51.6 | 51.5 | 51.5 | |
| | 10:00am | EUR | 🟡 | German Final Manufacturing PMI | | 57.1 | 57.0 | 57.0 | |
| | 10:30am | EUR | 🟡 | Final Manufacturing PMI | | 54.8 | 54.7 | 54.7 | |
| | | EUR | 🟡 | Italian Monthly Unemployment Rate | | 9.0% | 9.0% | 8.8% ▲ | |
| | 11:00am | GBP | 🟠 | Final Manufacturing PMI | | 54.1 | 52.9 | 52.9 | |
| | | GBP | 🟡 | M4 Money Supply m/m | | 0.7% | 0.9% | 0.8% | |
| | | GBP | 🟡 | Mortgage Approvals | | 103K | 100K | 105K | |
| | | GBP | 🟡 | Net Lending to Individuals m/m | | 4.6B | 4.3B | 4.3B ▲ | |
| | 3:30pm | CAD | 🟠 | Manufacturing PMI | | 54.4 | | 57.9 | |
| | 3:45pm | USD | 🟡 | Final Manufacturing PMI | | 59.2 | 59.1 | 59.1 | |
| | 4:00pm | USD | 🔴 | ISM Manufacturing PMI | | 58.7 | 60.0 | 60.7 | |
| | | USD | 🟡 | Construction Spending m/m | | 1.0% | 0.8% | 1.1% ▲ | |
| | | USD | 🟡 | ISM Manufacturing Prices | | 82.1 | 72.0 | 77.6 | |
| | 8:00pm | USD | 🟡 | FOMC Member Bostic Speaks | | | | | |
| | | USD | 🟡 | Loan Officer Survey | | | | | |

Let me guide you through the whole calendar step by step, so you know exactly what to look out for.

The first step is adjusting the time to your time zone. This is a very important step in order to not get confused with the timing of the release. You can simply click on the time on the right top corner and change it to your local time.



Now, as you can see the calendar shows us the day with the date on the left side, followed by the specific times of the news release and the currency the news is related to. Depending on which country is releasing data, it affects different currencies. Next to the currency, we have either a yellow icon, orange icon, or a red icon. These different logos display the impact the news might have on the market.



If we go more to the right, we have the data related to the specific news. The calendar shows us the **previous** number of the data release, since most of the news events a regular data releases. The calendar also shows us the **forecast** of the released data. These numbers show us what the experts in the field are expecting. This is an important number to look at if you decide to follow the news closely. Most of the time, the market reacts not as much to the news data itself but to the difference to the forecast. If the actual data is completely unexpected and differs quite a lot from the forecast, the market will react heavier to it compared to the actual data being very close to the forecast. The last number left on the calendar overview is the **actual** data release. These numbers will be updated as soon as the data releases. So far so good, but you probably still don't know what the heck is going on. What do all those data releases mean and what do they say about the specific economy and therefore what effects will it have on the currency. But don't worry, the calendar also got you covered there. If you click on the folder icon you will get more detailed information about the specific news release. You will get information about how regular the information will be released, why the information might be important for traders, related articles, and what a greater actual number compared to the forecast means to the specific currency.

| Specs | © Fair Economy |
|------------------|---|
| Source | Procure (latest release) |
| Measures | Level of a diffusion index based on surveyed purchasing managers; |
| Usual Effect | 'Actual' greater than 'Forecast' is good for currency; |
| Frequency | Released monthly, on the first business day after the month ends; |
| Next Release | Jun 1, 2021 |
| FF Notes | Above 50.0 indicates industry expansion, below indicates contraction; |
| Why Traders Care | It's a leading indicator of economic health - businesses react quickly to market conditions, and their purchasing managers hold perhaps the most current and relevant insight into the company's view of the economy; |
| Derived Via | Survey of about 200 purchasing managers which asks respondents to rate the relative level of business conditions including employment, production, new orders, prices, supplier deliveries, and inventories; |
| Acro Expand | Purchasing Managers' Index (PMI); |

| History | Actual | Forecast | Previous |
|-----------------------------|--------|----------|----------|
| Apr 1, 2021 | 66.3 | 64.4 | 61.3 |
| Mar 1, 2021 | 61.3 | 60.0 | 59.4 |
| Feb 1, 2021 | 59.4 | 56.5 | 58.0 |
| Jan 4, 2021 | 58.0 | 54.4 | 55.2 |
| Dec 1, 2020 | 55.2 | 51.5 | 52.3 |

[More](#) [Graph](#)

Related Stories

 [PMI April 2021: Industry PMI at an all-time high](#) From procure.ch | May 3, 2021 Since the beginning of data collection in 1995, the procure.ch Purchasing Managers' Index (PMI) for industry has never been as

If you decide you only want to know about high-impact news events, or you only want to know news related to specific currency pairs, you are able to set a filter with the „Filter“ icon at the top right corner.

And that's how you can keep up to date with news. As I mentioned, it is completely up to you if you want to include news in your trading or not. It is possible to completely trade based on technical analysis without focusing on news events. Those events could mess with your trades through the increase of volatility, but that's what we would need to live with. It is also possible to only trade news, and less with technical analysis. The concern here is that, as it is in the stock market as well, good news for a currency doesn't always mean that the market reacts the same way. The market has its own rules sometimes and doesn't necessarily move in a rational manner. In the video above, we will check out some news events and how exactly the market reacted to them.

What needs to be noted, if you decide to not really be concerned with the news, there are a few news events you still need to consider since they cause a lot of volatility:

Presidential elections

Especially the presidential elections in the United States cause an immense increase of volatility in the forex market. The days to and after the votes should be avoided, not just as a short-term trader, but also as a swing trader. The increase of volatility is that huge that even swing traders might be caught off guard and end up in a losing trade. However, if your strategy is to trade news, this might be one of the events you want to concentrate on.

Just check out the increased volatility on EUR / USD during the last US elections in 2020. I put the ATR on the chart as well so we can see it better.



What to do in such events? It really is up to you and how you approach trading. I personally close all my trades before those events and wait till the market calmed down, before continuing with trading.

Non-Farm Payroll (NFP)

The Non-Farm Payroll, also called NFP among traders, is a high-impact news event that occurs on a monthly basis. On the Forex Calendar of www.forexfactory.com/calendar it is marked as „Non-Farm Employment Change“. This data is related to the change of employment (excluding farm employees, government employees, private household employees, and employees of nonprofit organizations). Since the employment status is a great indicator of the status of the economy since it is directly related to consumer spendings, which accounts for a majority of overall economic activity. Days of the NFP data release often see a strong increase of volatility that could drive prices into your stop loss or take profit orders. It really can go both ways, and you need to decide if you want to take the risk and stay within a trade or if you want to close your trades before and continue trading the following day.

1.14. MARKET SENTIMENT



The video covers the same material as provided in text but click [here](#) for [real live examples!](#)

The market sentiment refers to the overall view of investors and traders toward a specific currency or currency pair. A rising market indicates a bullish sentiment while a falling market indicates a generally bearish market sentiment. The market sentiment can be described as the overall feeling or emotions toward the market, which doesn't necessarily need to be aligned with fundamentals and news releases. That's why sometimes the market reacts a different way compared to the actual meaning of the news. There are different indicators, we as traders can utilize in order to get more information about the overall market sentiment. One of my favorite ways to analyze the market sentiment in the forex market is by using the COT report. The COT report, short for Commitments of Traders Report, is a weekly published report by the Commodity Futures Trading Commission (CFTC), which reveals the net long and short positions of so-called speculative traders (non-commercial) and commercial traders. The COT data is also used by one of the strategy examples on our discord server.

How to find the COT report?

Very easy. Everyone has free access if you simply click on the following link:
<https://www.cftc.gov/MarketReports/CommitmentsofTraders/index.htm>

When we are on the page of the CFTC, we need to scroll down to the following table:

Current Legacy Reports:

| | Futures Only | | Futures-and-Options-Combined | |
|----------------------------------|--------------|--------------|------------------------------|--------------|
| Chicago Board of Trade | Long Format | Short Format | Long Format | Short Format |
| Chicago Mercantile Exchange | Long Format | Short Format | Long Format | Short Format |
| Chicago Board Options Exchange | Long Format | Short Format | Long Format | Short Format |
| Chicago Climate Futures Exchange | Long Format | Short Format | Long Format | Short Format |
| Kansas City Board of Trade | Long Format | Short Format | Long Format | Short Format |
| Minneapolis Grain Exchange | Long Format | Short Format | Long Format | Short Format |
| Commodity Exchange Incorporated | Long Format | Short Format | Long Format | Short Format |
| ICE Futures U.S. | Long Format | Short Format | Long Format | Short Format |
| ICE Futures Europe | Long Format | Short Format | Long Format | Short Format |
| ICE – Futures Energy | Long Format | Short Format | Long Format | Short Format |
| New York Mercantile Exchange | Long Format | Short Format | Long Format | Short Format |
| NYSE Liffe | Long Format | Short Format | Long Format | Short Format |

Click on the „Short Format“ under the „Futures Only“ category at the Chicago Mercantile Exchange to gain access to the most recent COT report. That's how it looks like:

| EURO FX – CHICAGO MERCANTILE EXCHANGE FUTURES ONLY POSITIONS AS OF 04/27/21 | | | | | | | | | | Code-099741 |
|--|---------|------------|---------|---------|---------|-----------|--------|----------------|---------|-------------|
| NON-COMMERCIAL | | COMMERCIAL | | TOTAL | | POSITIONS | | | | |
| LONG | SHORT | SPREADS | LONG | SHORT | LONG | SHORT | LONG | SHORT | | |
| (CONTRACTS OF EUR 125,000) | | | | | | | | OPEN INTEREST: | 672,072 | |
| COMMITMENTS | | | | | | | | | | |
| 200,415 | 119,448 | 7,036 | 368,662 | 504,495 | 576,113 | 630,979 | 95,959 | | 41,093 | |
| CHANGES FROM 04/20/21 (CHANGE IN OPEN INTEREST: 10,432) | | | | | | | | | | |
| 3,278 | 3,119 | -231 | 2,908 | 9,509 | 5,955 | 12,397 | 4,477 | | -1,965 | |
| PERCENT OF OPEN INTEREST FOR EACH CATEGORY OF TRADERS | | | | | | | | | | |
| 29.8 | 17.8 | 1.0 | 54.9 | 75.1 | 85.7 | 93.9 | 14.3 | | 6.1 | |
| NUMBER OF TRADERS IN EACH CATEGORY (TOTAL TRADERS: 302) | | | | | | | | | | |
| 97 | 36 | 29 | 133 | 93 | 237 | 151 | | | | |

Well... I know. It is very confusing. While this is the official report, and it's probably the best to know where it comes from, there are other websites that present it in a much nicer way. One website I like to use is <https://www.barchart.com/forex>. You will find a list of all US currency pairs and their related COT data. There is also data for cryptocurrencies for those who are interested in it. Coming back to

currencies, let's click on the most traded currency pair, the EUR / USD. The website presents us with the chart, year-to-date high, and low levels and other connected information to the currency pair EUR / USD. What's interesting to us is the Commitment of Traders Positions which you can see when you scroll down a bit:

| Commitment Of Traders Positions as of Apr 27, 2021 | | | |
|--|------------------|----------------------------------|------------------|
| Commercials - Long / Short | | Non-Commercials - Long / Short | |
| 368,662 (+2,908) | 504,495 (+9,509) | 200,415 (+3,278) | 119,448 (+3,119) |
| Dealers / Intermediary - Long / Short | | Asset / Manager - Long / Short | |
| 37,516 (+4,113) | 457,177 (+8,092) | 396,062 (+2,302) | 66,117 (+2,800) |
| Leveraged Funds - Long / Short | | Other Reportables - Long / Short | |
| 63,322 (+1,766) | 63,360 (+1,820) | 39,099 (-1,610) | 4,211 (+301) |

Here we have a detailed overview of the changes of positions of the commercials, non-commercials, dealers, asset managers, leveraged funds, and others. If we click on the „View Chart“ field on the top right corner of the table, we will receive an indicator based on this exact data.



The indicator on the top, which includes the „Large Specs“ which are the large speculators (non-commercial), „Small Specs“ which are the small speculators (non-commercial), and the commercial traders is the one that is the most interesting to us.

NON-COMMERCIAL TRADERS

Those are traders that participate in the markets purely to profit from moves. Therefore, they are considered speculators. To give you some examples of who is behind this term, we have individual investors, hedge funds, and large financial institutions. They are often separated into small and large, while the small speculators are of less interest to us since they represent retail traders.

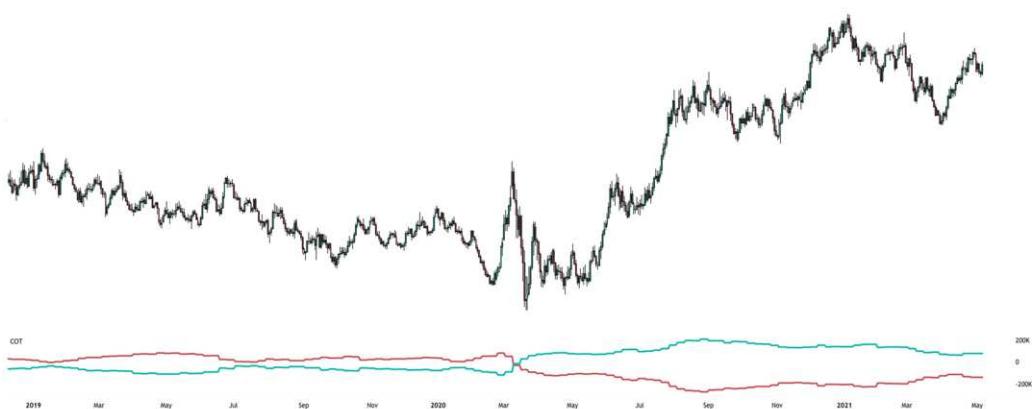
COMMERCIAL TRADERS

Those are traders that mainly focus on „hedge“ their business activities. Especially international companies that are exposed to different currencies try to protect themselves from too many exchange rate fluctuations. There are also different kinds of commercial traders, but we will not go into further detail here.

NON-COMMERCIAL vs COMMERCIAL TRADERS

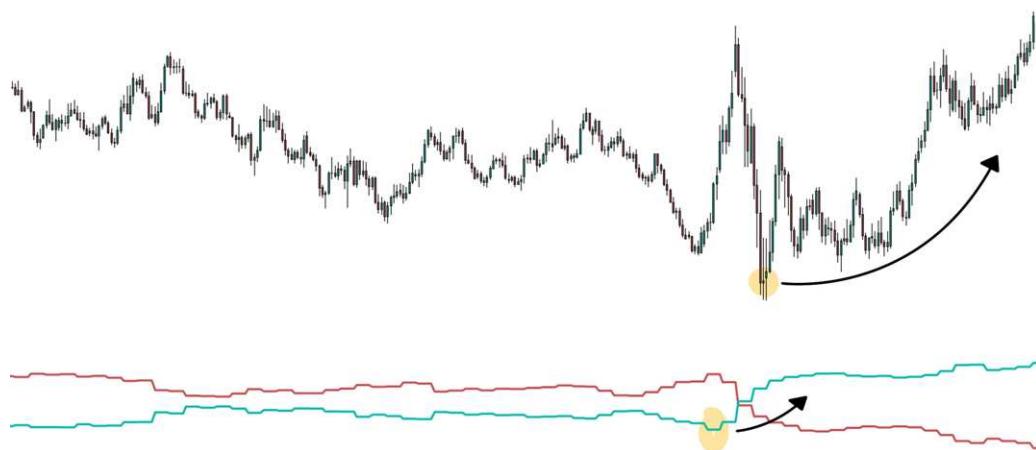
Because of their different goals, commercial traders have a more defensive approach in the market while non-commercial traders have a clear profit motive. Because of the fact that commercial traders are purely focused on making profits, the positions of those are seen as purer pricing signals. In other words, the position changes of non-commercial traders gain our highest attention.

Because indicator from the barchart website is also not the clearest, and we do not want to switch from our charting platform to this website, there have been some helpful community members from the tradingview community that programmed indicators on the tradingview website that use the COT data to show us the exact same indicator from the barchart website. Why did I show you all of this then? Because the indicators are not made professionally. Those are user-made indicators and might contain errors. Therefore, before we use a user-made indicator, we should always check with more official recourses if the values provided on tradingview are correct. In the strategy example on discord, in which I use the COT data, I also use a user-made COT indicator, which I continuously compare with the official data from the CFTC website. Here is how it looks like on tradingview.com:



How to take advantage of this data?

As you might have already realized, this data does not cover all market participants of the forex market since it is mainly focused on the futures market, but it can still give us great insights into the net positions of the big players. Since we are also trading for the money, and don't have an interest in owning the underlying asset (which we don't do anyway if we use CFDs), we are looking at the Large Speculators. Large Speculators are known to be trend followers and therefore buy when the market is in an uptrend and sell when the market is in a downtrend. Since they represent the „Big Players“ and therefore often have huge capital, their trading activity can cause the market to move dramatically. There are many ways on how we can use the COT data. For example, we could check for high or low points, which is easier said than done. Let's take a look at the following chart:

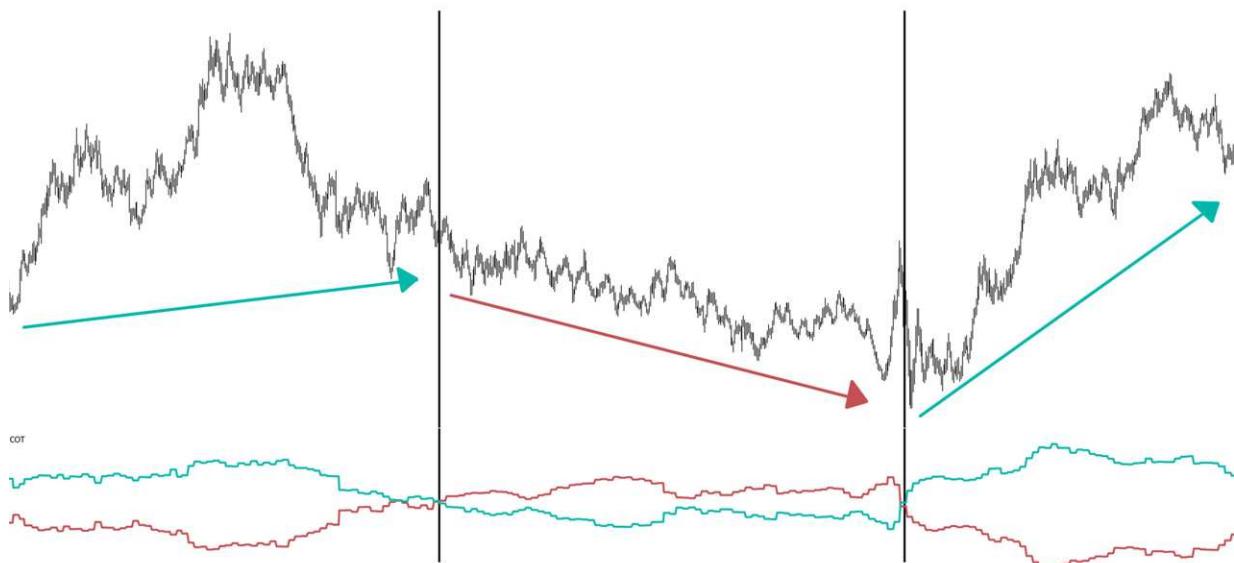


As we can see, after the net position of large speculators (green) hit a more extreme number and turned around, it does not take long before the price might do the same. We could try to predict this by focusing on the net position changes. If they continue to rise, the price might do the same. If the net positions continue to fall, the price might do the same as well.

As you might have noticed, the positions of large speculators and non-commercial traders are often the exact opposite. This is caused by the different approaches of both parties. This can lead to the thesis that we could use the net positions of speculative traders as an indication for trend direction and the net positions of non-commercial traders as an indication for possible reversals. If commercial traders keep increasing their long positions while speculators are increasing their short positions, a market bottom could be in sight. The same counts for the opposite, if commercial traders are adding onto their short positions while speculators are adding into their long positions, a market top

could occur. Obviously, it is very difficult to determine the exact top and bottom, especially since the data is only released on a weekly basis.

How I personally use the COT data is by checking crossovers between the lines of commercial and speculator net positions. I do not use it to determine my trade entries but rather than my trade direction. If the net long positions of speculators are above the net long positions of commercial traders, I only look for buying opportunities. The same thing counts for the opposite scenario as shown in the chart below:



How exactly this could be integrated into your strategies can be seen in one of the strategy examples on our discord server, where I go over everything in detail and show you how the COT data is included in the decision-making 😎.

1.14. TRADE ENTRY TECHNIQUES



The video covers the same material as provided in text
but goes deeper with multiple
real live examples!

Going over to the action. The entry of a trade. There are multiple ways on how to approach this and how we can structure a trade. We will go over some basic forms, which you can pick from. Some of the entry methods, we already discussed in combination with classic chart patterns of harmonic chart patterns.

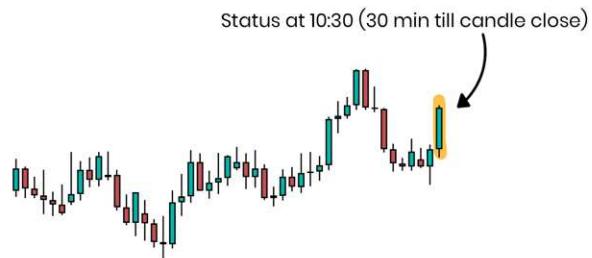
ENTRY AT THE CLOSE

Entry at the close is a very popular trading approach. This means that we would base our trading decision, and therefore also enter a trade only with the close of a candlestick. This counts for all timeframes.

Let's say we analyze the market on the hourly timeframe, which is also the timeframe we execute our trades on. This would mean that we only enter trades with the close of the hourly candle, therefore we can only enter trades at full hours such as 13:00, 15:00, or 05:00 o'clock.

Why is this approach so popular?

The advantage of this approach is that we base decisions on the candle that already represent a specific price move. We can fully consider the real body and the wicks of the candle since the candle is about to or did just close. If we enter a trade while the candle is still developing, we can include the current candle only to a certain extent in our decision-making, since there is still time for the candle to completely change. Let's check out the following candle on the hourly time frame as an example:



As you can see, the candle looked very bullish at 10:30. If we enter a trade at this time, we would anticipate a further move to the upside since the candlestick is very strong. The problem: The candle has still 30 mins to develop.



As we can see, at 11:00 o'clock, the price had made a complete turnaround and the closed bearish.

The disadvantage of this approach is that price might have moved too far before the close of the candle (if it would have been a potential trading setup), which makes the trade opportunity unfavorable in terms of risk to reward. Let's look at the following break and retest example on the one-hour timeframe:



On the left side, we can see that we already formed a retest, but the confirmation candle is still developing at 10:30. On the right side, the confirmation candle closed at 11:00 o'clock, but did shoot up too much in order for us to consider the trade since our stop loss would still need to be placed below the key level, which could make the scenario less interesting to trade. While this is a disadvantage, it is a disadvantage we could live with. Normally, the market provides us with enough opportunities (depending on the strategy) and we are not just able to filter unfavorable situations out, we definitely should! (This is how I enter the markets as well)

SCALING INTO A WINNING TRADE

Till now, we just covered entries with which we would enter our positions with our full risk or in other words, with our full position size all at once. There is also the approach of entering the market with just a fraction of the total position we intend to trade and then observe how the initial position develops. If the position goes in our favor, we could enter further positions and take advantage of the price moving into our anticipated direction.



As you can see in the chart above, we have three entry points. We entered the first position based on the clear uptrend. The second position is entered with a pullback during the uptrend as the price confirmed a continuation to the upside. A third position has been placed after another pullback. Please note that there is no real strategy behind this specific example. I only used it in order to clarify the general approach of scaling into a trade.

⚠️ Important: Risk management is very important here. Taking multiple positions only gives us an advantage if the overall risk of the position is still conservative and fits in our overall trading plan. Have a clear rule on how much the whole positions are allowed to sum up to. If we only want 1% risk exposure on a single position, we would divide the 1% among the three positions we might potentially enter.

Benefits of scaling into a trade

By entering only with a fraction of our overall possible position size, we reduce the risk if the trade goes against us immediately. If the trade starts going in our favor, as shown in the example above, we can add other positions to fully take advantage of the price movement. Compared to entering the trade with the full position, we are completely depending on the initial entry to be correct right from the start. Another great point is that there is the possibility of adding even more position size than you initially wanted, while still obeying the risk management rules we defined in our trading plan. This is the case when the position is running into our favor and the first entries are running in a nice profit. We have the opportunity to move our stop loss order above our entry points to secure the profits, and essentially make those entries and positions risk-free. Through the reduced risk on those positions, we could then have room again to open up new positions, as long as we stay in the risk exposure rules of the trading plan. We would end up adding to our winning trade.

Disadvantages of scaling into a trade

A big disadvantage is that we really need to apply strict risk management rules. Even though the market is going in your favor, there is always the danger and possibility of price reversing and starting to move against our position. The more positions we would have open at this point, the more we could lose in this scenario if the price continues to move against us and hit our stop loss levels. Therefore, a strict rule of the overall risk exposure is absolutely crucial. Another disadvantage is as we enter new positions into a developing trend, the new positions might be closer to the end of the trend. For the method of scaling into a trade to completely work out, we would need the market to continue to trend.

SCALING INTO A LOSING TRADE

We also have the possibility to scale into a losing trade. This approach needs to be connected with even more and better risk management rules. Based on the risky nature of this approach, I do want to go into detail when explaining it and therefore decided to add this approach in the next update with a comprehensive explanation in the video, rather than a quick overview on this version. I hope you understand, but you can lose a lot of money if you do this approach wrong!

1.15. TRADE EXIT TECHNIQUES



The normal exit level of a trade is focused on a specific price level and we do not need to wait for a close of a candle. As soon as a specific level, which we defined beforehand, is reached we exit the trade either with a profit or a loss. But we still do have multiple methods for how exactly we could exit our trades.

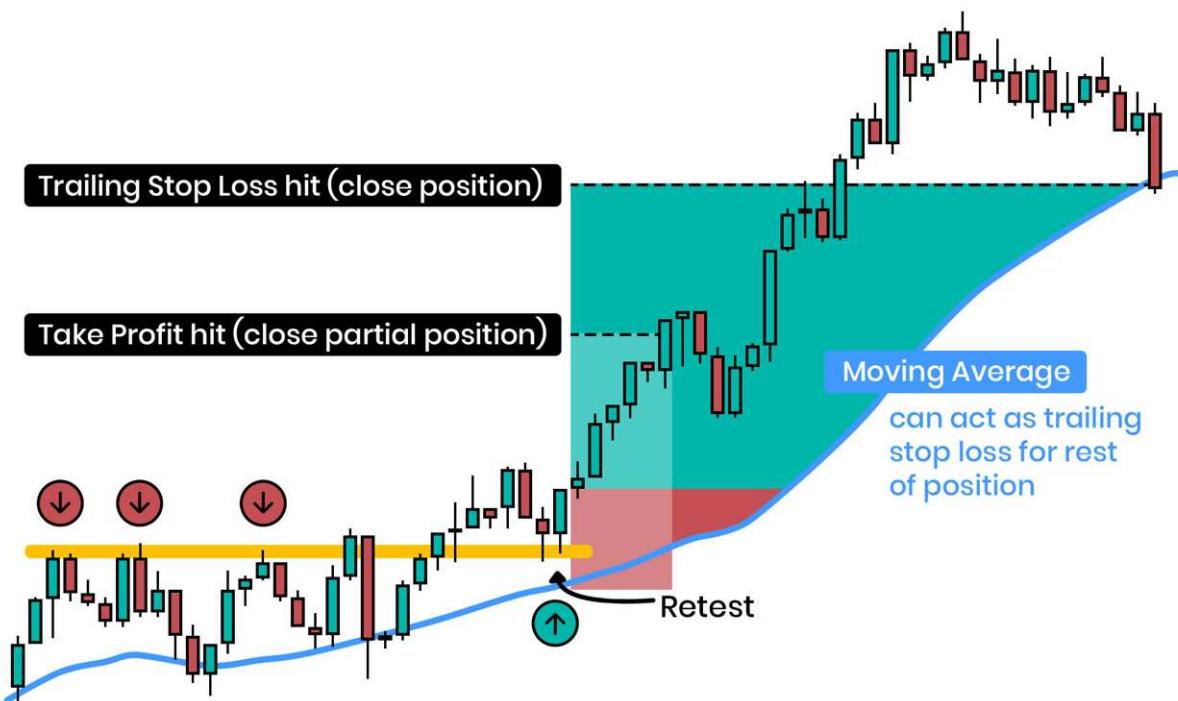
„NORMAL“ EXIT

We have the „normal“ exit. This means we enter a trade with a specific stop loss level and a specific take profit level. This means we enter our trade with the full position size and would exit our trade as well with our full position size in both cases of stop loss level or take profit left hit. This is what most retail traders use, not because it is the best way but because it is a simple approach, which doesn't mean it is bad. It really can be super-efficient.

TRAILING STOP LOSS

A trailing stop loss is a type of order that gives you the possibility of participating in bigger market moves while constantly securing profits as price moves in the direction of your trade. A trailing stop loss is initially placed in the same manner as a regular stop loss order. The difference is that at a specific time, the stop loss order would move as soon as the price moves in the direction of our trade. When exactly the stop loss would move is up to the trade and there are multiple options on how to approach this. For example, we could split our positions into two parts. One position would have a fix stop loss and a fix take profit level. The other position would have the same stop loss level but would not have a take profit level. If the price moves into our favor and reaches the take profit level of the initial position, we could start using a trailing stop loss for the second

position, in order to participate from a bigger move into the direction of our trade. In the example below, I used a moving average as the trailing stop loss level:



As you can see above, we used the trailing stop loss with the rest of our position to secure more and more profits as price continued to the upside. As price reversed, our trailing stop loss went into action and took us out of the trade.

There are multiple ways on how we could approach the trailing stop loss. We could use indicators such as the moving average, we could use the previous structure and move our stop loss manually or we could use a specific pip amount difference to the current price. In the video of this chapter, I will show you how the different methods work and how you can use them.

SCALING OUT OF TRADES

Scaling out of trades is a very similar approach to scaling into trades. Let's say we have a position open of 1 lot and the position is running in profit, your initial take profit is reached without having a pending order in place, but you anticipate that the trend might continue and would like to still profit from it. In this scenario, we could close only a fraction of the position at the initial take profit level and leave the rest of the position open in order to still participate from the possible trend continuation. By doing this, we can maximize our gains by locking in some of the already made profits, while still having the rest of the position riding the trend continuation. Below a possible scenario:

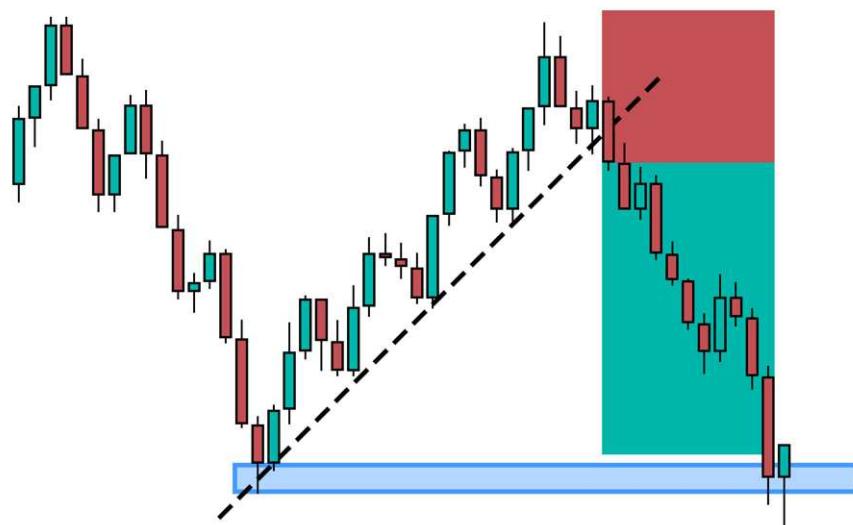


As you can see, we have entered the position at the beginning of the trend and started to scale out as the initial take profit level hit. With the first target reached, we took some of the position out, while letting the rest of the position open. How much you want to take out of the market on the first initial take profit is absolutely up to you. The number of exit points can also be chosen by the trader. This approach reduces your overall profit compared to let your full position run till the last take profit level, but through scaling out we protect some of the profits we already made if the price decides to reverse after the first take profit level.

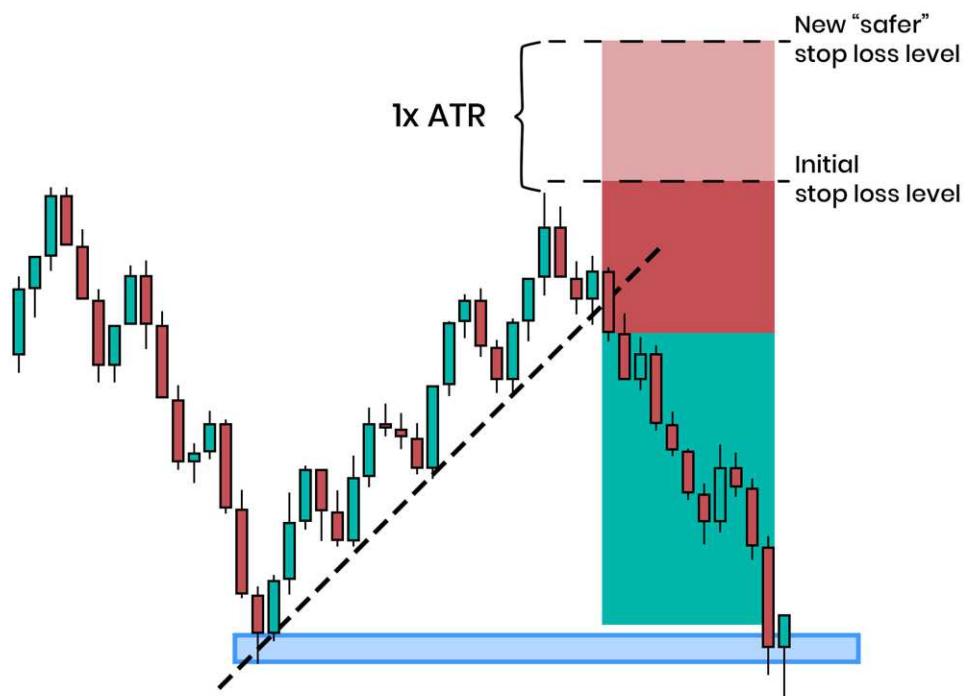
Let's go over how we can actually set our stop loss and take profit levels and therefore determine our exit points. In the following I will go over some of the basic and general methods:

To determine our initial exit levels, we can use

1 PREVIOUS STRUCTURE

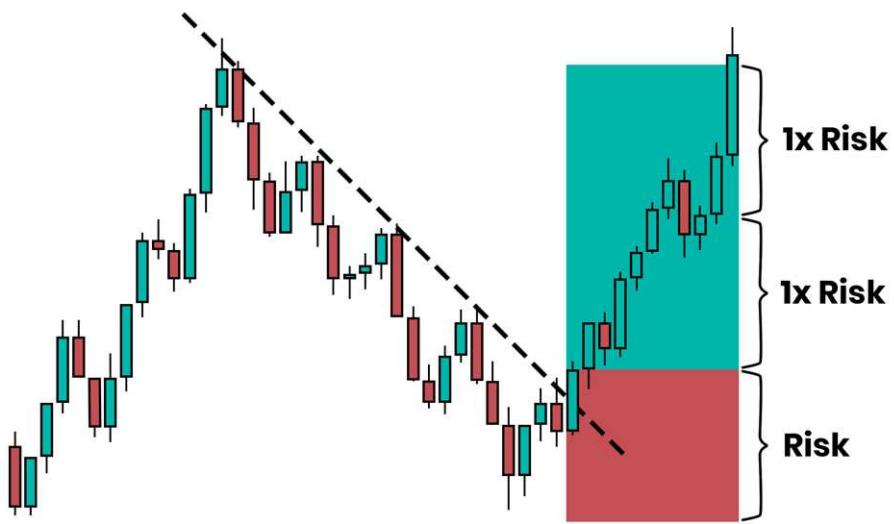


We can use the previous structure to determine our take profit level. Since price is likely to react to the previous structure, we could exit before the price reaches the previous key level or ozone. For our stop loss, we could simply place it above or below the last swing high or low, above or below the candlestick pattern that triggered our entry, or use additional indicators such as the ATR to determine a „safer“ stop loss. To implement the ATR within the process of setting our stop loss, we could add for example 1x ATR value to the initial stop loss price level, to give price more flexibility and to create a „safer“ stop loss. Here how this would work:



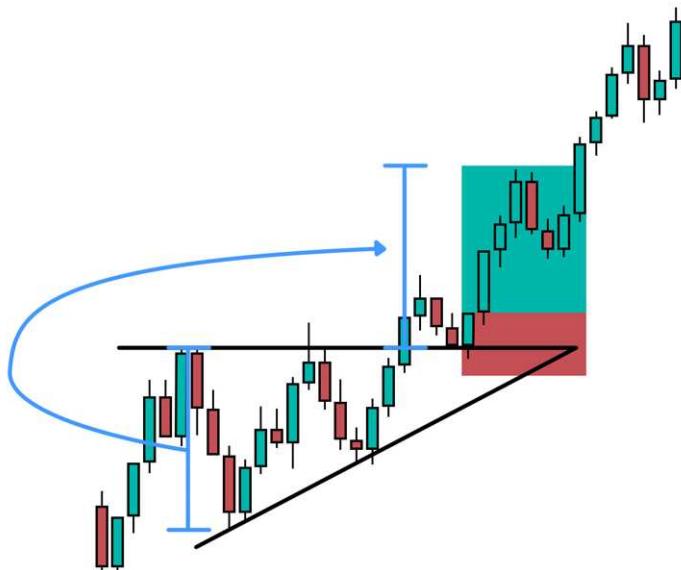
That's just an option and by no means necessary. If you are an aggressive trader, this might not be an option for you. When using this method, we might need to adjust our take profit level as well to give us a favorable risk reward-ratio.

2 FIX RISK TO REWARD



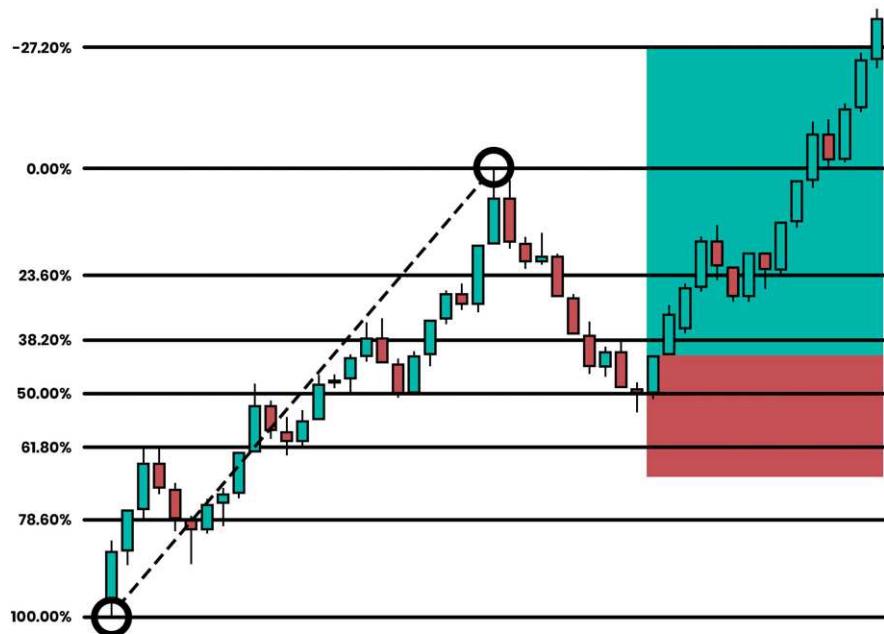
We can set our take profit level with a fix risk-reward ratio, as in this particular example with a risk to reward from 1:2. Therefore, the size of the stop loss will determine our take profit level. If the stop loss is 50 pips, our take profit would be 100 pips aways from our entry.

3 PATTERN BASED



We covered the classical ways of setting stop loss and take profits based on chart patterns in the chart pattern chapter.

4 TOOL BASED



We could also use indicators such as the Fib retracement tool to determine our take profit or stop loss level. As we have learned already how we could use the lines as possible take profit levels or determine our stop loss level when we covered the Fibonacci retracement levels.

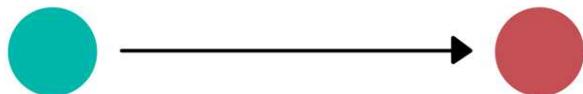
This was a quick overview of how we can determine our exit levels (stop loss or take profit levels). Of course, we also have always the choice of exiting a trade manually, without a pending order. Since this is a very individual process, I did not list it above.

1.16. TRADE MANAGEMENT TECHNIQUES

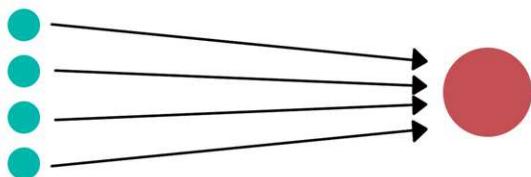


We have covered now some of the entry and exit techniques we could use. When we combine them, we have multiple scenarios on how we could manage our trades.

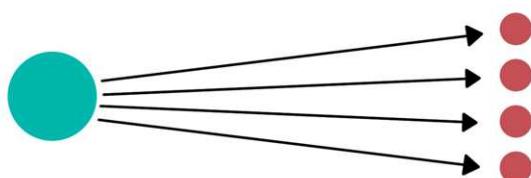
We could have one full entry with one full exit:



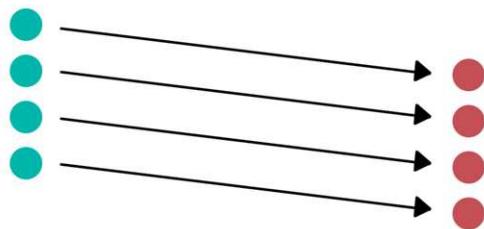
We could have multiple entries with a full exit:



We could have a full entry with multiple exits:



We could have multiple entries with multiple exits:



This is where we can have endless options. All the entry and exit techniques we have covered can be combined. This includes also moving stop loss (always in the direction of the trade and never extending it) as well as manual exits.

Let's go over to one of the most important parts of trading – risk management. Proper risk management does not just affect our downside, with proper risk management we can actually boost our profits as well!

1.17. RISK MANAGEMENT



Risk management is just super super crucial and unfortunately overlooked by so many or just done in a wrong way. If you are looking at trading-related posts on social media, every expert is highlighting the importance of risk, but it still remains one of the weak points within the retail trading world. Why? New traders are only seeing potential profits rather than potential losses. Simple as this. When you have only profits in mind, you don't put enough thoughts into the scenario of multiple losing trades and therefore applying proper risk management to be protected against such scenarios. Every time we open a position, we are exposed to risk, the risk of losing the trade and therefore money. This risk needs

to be managed properly. Traders have many functions and one of them is being a damn good risk manager!

1.17.1. RISK / REWARD

We already covered briefly what a risk-reward ratio is. In combination with this, I would like to take a look at the following table:

| | | Win-Rate | | | | | Win Probability |
|-------------------|-----|----------------|----------------|----------------|------------|------------|---|
| | | 20% | 30% | 40% | 50% | 60% | |
| Risk-Reward-Ratio | 1:1 | Not Profitable | Not Profitable | Not Profitable | Break Even | Profitable |  |
| | 1:2 | Not Profitable | Not Profitable | Profitable | Profitable | Profitable |  |
| | 1:3 | Not Profitable | Profitable | Profitable | Profitable | Profitable |  |
| | 1:4 | Break Even | Profitable | Profitable | Profitable | Profitable |  |
| | 1:5 | Profitable | Profitable | Profitable | Profitable | Profitable |  |

This table shows us what win rate we need for each risk-reward ratio. This only counts exactly how it is presented for the case of you choosing a fix risk-reward ratio. For example, every trade you open has stop loss and take profits orders is set in a 1:2 risk-reward ratio. If every single trade is structured like this, the table above is valid. Please note that the higher the risk-reward ratio, the less probability of the price actually hitting your take profit level. Even though the win rate drops heavily the higher the risk-reward ratio, the chances of achieving such ratios are significantly less.

If we use trailing stop loss orders or base our take profit and stop loss order based on the previous structure, we have different risk reward ratios for each trade and only are able to sum it up to an average risk-reward ratio for all trades. If we do this, the table above loses its value because of this, but still could be used as a rough guide.

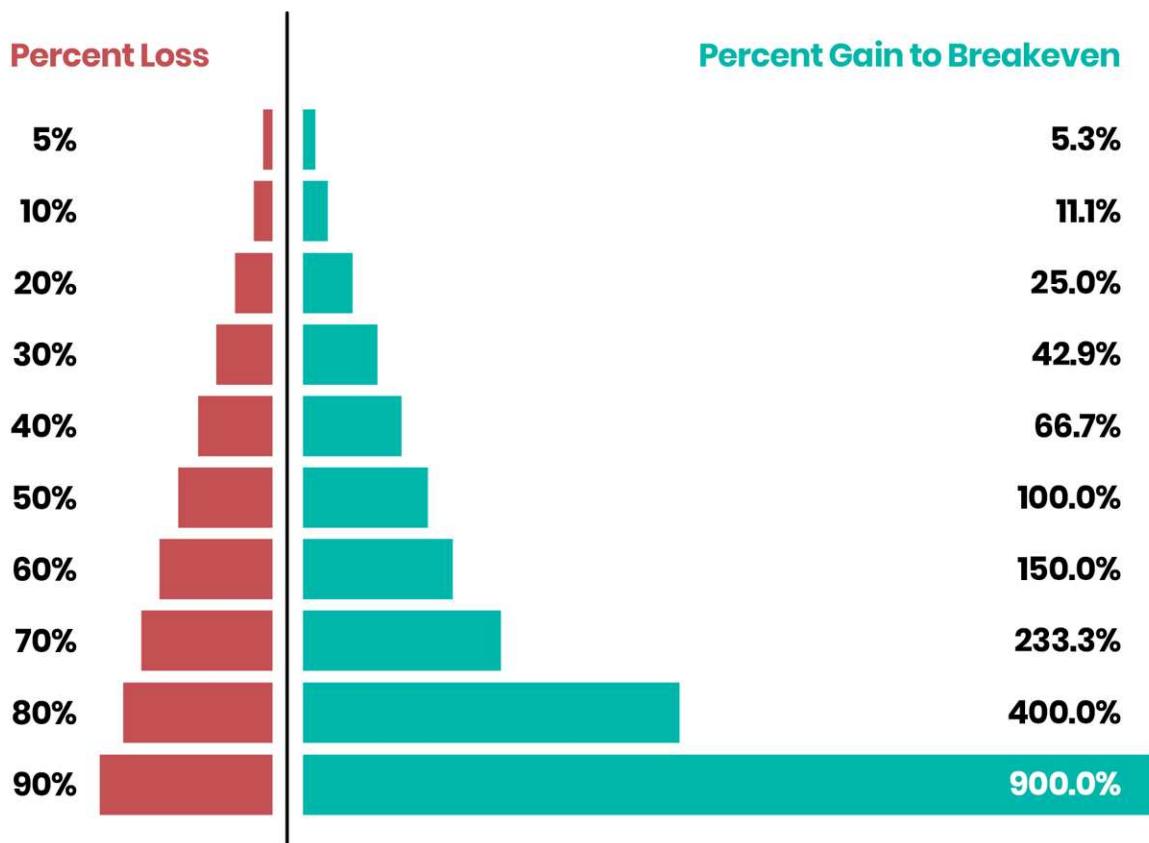
What is seen as a good risk-reward ratio?

Well, that's where different traders have different opinions. In general, there is the rule that our risk-reward ratio should stay positive, which means we have more potential returns than potential risks per trade. This makes sense, right? If we bet on something and would gain more money if we win compared to the money we lose, it seems like a fair bet which could already be the first base of a trading edge. In the case of basing our exit levels on the previous structure, we might not have the chance to be as flexible with choosing our risk-reward ratio, since we would take what the structure provides us. But we could have the rule to stay away from trades with a risk-reward ratio of less than 1:2 or 1:1.5. If we choose an approach with a fix risk-reward ratio, the question of the right risk-reward ratio gets more interesting and is something that needs to be tested out during backtesting. There is also no general rule, unfortunately, and depends on the strategic approach. If we use trend reversal setups in our strategy, we might be able to achieve higher risk-reward ratios, since we would anticipate the market to reverse and continue with a trend in the opposite direction. This might offer us the opportunity of getting into the start of a new trend and therefore are able to trade with higher risk-reward ratios. But since trend reversals are less likely to happen compared to trend continuations, we might need the higher risk-reward ratio in order to stay profitable, since our win rate might drop. All in all, the „perfect“ risk reward ratio does not exist, and we need to try different approaches with our strategy within our backtesting process.

1.17.2. DRAWDOWN

Something we haven't discussed yet, but is crucial to know. A drawdown refers to how much our performance or trading account is down from the peak (highest number) before it recovers back to the peak. We normally quote a drawdown in percentage and measure the downside volatility. What needs to be noted is that a drawdown and a loss don't need to be the same thing. We can be in overall profit within the year, but still could be in a drawdown since our performance was higher at some point during the year. Keeping track of our drawdowns is vital since they can indicate if something is wrong with our trading strategy. We can include risk management rules such as a maximum drawdown. If the maximum drawdown is hit, it is a sign that something might be wrong with our strategy and we need to do further investigation before starting trading again (This will be covered again in the chapter „Trading Plan“ since we need to include such risk management rules in our plan!). Most traders do not just come up with a maximum drawdown number, rather than using the information they gather from backtesting and use the maximum realized drawdown of the backtested strategy performance.

It is very important that drawdowns do not get out of hand. A 10% drawdown is still manageable and we only need an 11% gain to get back to the top. A 25% drawdown is already a different situation since we will need a 33% gain to get back to the top. Here a quick overview of how important keeping an eye on drawdowns are, and how much we would need to make in order to get back to the top:



The higher the drawdown, the more difficult it gets to come back. Therefore, having a line that will be used as a hand-break is essential. Have a maximum drawdown, which you gather from the backtested performance, and implement it in form of a rule.

1.17.3. POSITION SIZE

Calculating the right position size is one of the major risk management rules to protect our capital from excessive risk exposure and potential massive losses from only a few trades. A general rule among traders is to use between 0% and 3% risk per trade. But be careful, 3% per trade is already at the higher end and should only be used by advanced traders with a lot of experience. If you are just starting out, I personally would recommend sticking to 0.5% - 1% per trade. This however needs to be evaluated by yourself and fit your own risk appetite and only counts as a guideline. The great thing with trading CFDs is, that we can actually choose how much a price movement should be worth in money value through the position size. If we want 50 pips to be worth 50\$, we can set the position size accordingly. If we want 50 pips to be worth 100\$, we can set the position size accordingly. Because we are trading CFDs, we can determine the money value very specific and are not restricted to a certain entry price as with for example stocks. Luckily, there are tools like the „Position Size Calculator“ that do all the math for us to determine the lot size for our determine money value for every pip movement. We simply need to insert our information. Let us go through one example:

Let's say we want to enter a buy position on EUR / USD. Based on our strategy we have a 50 pip stop loss, a 100 pip take profit. We use 1% risk on every trade, therefore we need to know how many lots we need to enter the trade so that 50 pips represent 1% of our account. In our example, our current account balance is 10,000\$. We simply insert this information in our Position Size Calculator (In the example below, I used the following free tool: <https://www.myfxbook.com/forex-calculators/position-size>).

Explanation of the Position Size Calculator:

| Values | | |
|---|--------|---|
| Currency pair | EURUSD | Choose the currency pair you want to trade |
| Account Currency: | | Choose your account currency (important!) |
| Account size | | Choose your current account balance |
| Risk Ratio, % | | Switch to Money Choose your risk in % or \$ |
| Stop-Loss, pips | | Choose your stop loss in pips |
| Contract Size | 100000 | |
| Current () Ask price: | | |
| <button>Reset</button> <button>Calculate</button> | | |
| Results | | |
| Money , | | |
| Units | | |
| Lots | | |

Inserting numbers from our example:

| Values | | |
|---|----------|-----------------|
| Currency pair | EURUSD | |
| Account Currency: | USD | |
| Account size | 10000 | |
| Risk Ratio, % | 1 | Switch to Money |
| Stop-Loss, pips | 50 | |
| Contract Size | 100000 | |
| Current () Ask price: | 1 | |
| <button>Reset</button> <button>Calculate</button> | | |
| Results | | |
| Money , USD | \$100.00 | |
| Units | 20000 | |
| Lots | 0.200 | |

There we have it. For this particular trade, we would need to enter the position with 0.2 Lots in order to risk 100\$ for a 50 pip stop loss. The position size would need to be calculated for every single trade and currency.

PERCENTAGE BASED RISK VS FIX AMOUNT

Why do we use a percentage instead of let's say 100\$ on every trade, and from what number do we calculate our percentage of risk?

Let's cover those questions with the example of a 10,000\$ trading account and a 1% risk per trade rule and a fix risk-reward ratio of 1:2, which means we have a fix potential reward of 2%. We will go through a scenario of winning 4 out of every 5 trades we take in order to visualize a winning streak. The table below shows us the information on the number of trade, if it was a winner or loser, the balance before the trade, the risk we took in %, the risk we took in money value, the potential profit in %, the potential profit in money value, the outcome of the specific trade in terms of money as well as the balance after the trade was closed. The risk in % will be calculated from the field „Balance Start“, which will always be the same amount as the „Balance End“ from one row above. (I will go through the table with more explanations in the video).

PERCENTAGE BASED RISK

| Trade Number | W/L | Balance Start | Risk in % | Risk in \$ | Potential Profit in % | Potential Profit in \$ | Trade P/L | Balance End |
|--------------|------|---------------|-----------|------------|-----------------------|------------------------|-----------|-------------|
| 1 | WIN | 10,000 | 1 | 100 | 2 | 200 | 200 | 10,200 |
| 2 | WIN | 10,200 | 1 | 102 | 2 | 204 | 204 | 10,404 |
| 3 | WIN | 10404 | 1 | 104.04 | 2 | 208.08 | 208.08 | 10,612.08 |
| 4 | WIN | 10,612.08 | 1 | 106.12 | 2 | 212.24 | 208.08 | 10,824.32 |
| 5 | LOSS | 10,824.32 | 1 | 108.24 | 2 | 216.48 | -108.24 | 10,716.08 |
| 6 | WIN | 10,716.08 | 1 | 107.16 | 2 | 214.32 | 214.32 | 10,930.40 |
| 7 | WIN | 10,930.40 | 1 | 109.30 | 2 | 218.61 | 218.61 | 11,149.01 |
| 8 | WIN | 11,149.01 | 1 | 111.49 | 2 | 222.98 | 222.98 | 11,371.99 |
| 9 | WIN | 11,371.99 | 1 | 113.72 | 2 | 227.44 | 227.44 | 11,599.43 |
| 10 | LOSS | 11,599.43 | 1 | 115.99 | 2 | 231.99 | -115.99 | 11,483.43 |

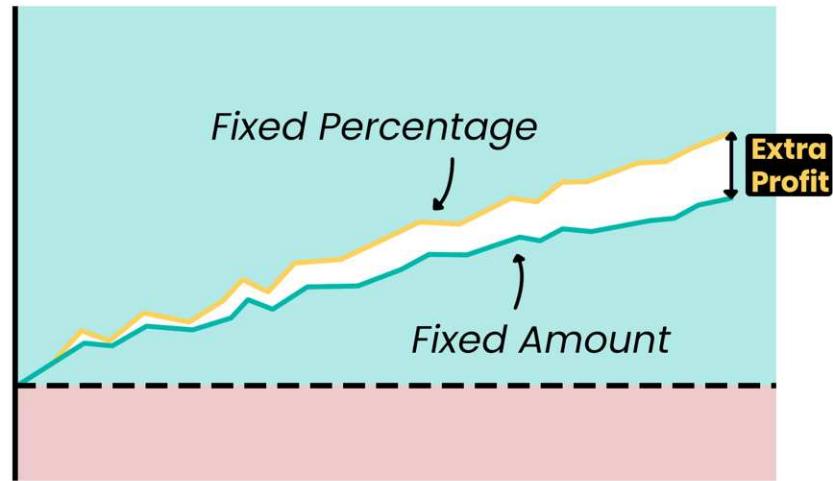
As we can clearly see, the percentage of risk and potential return stays the same as predefined by our strategy in this particular example, the monetary value behind it changes because our trading balance changes. The higher the trading balance, the higher the money value behind our 1% risk and 2% potential profit,

the lower our trading accounts get, the lower our money value behind our 1% risk and 2% potential profit. Before we go into the effect this causes, let's check out the same scenario with a fix money value as risk and return. Let's take the same money we started our first trade-off in the example above, and use 100\$ as the risk with a potential return of 200\$ for every single trade.

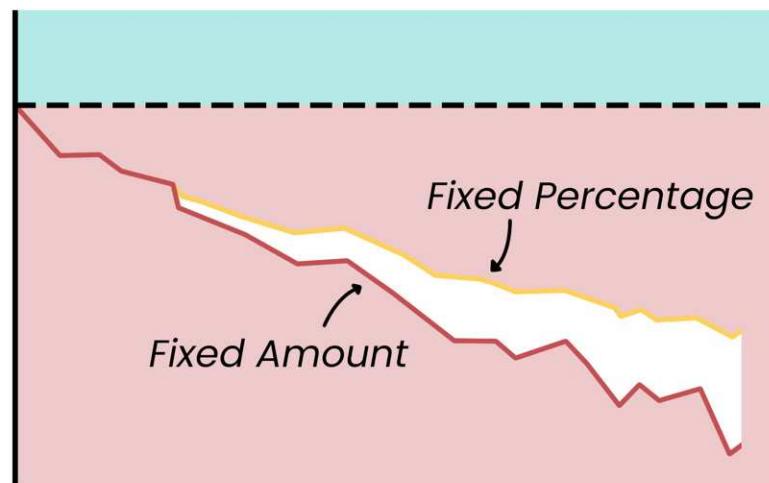
FIX RISK AMOUNT

| Trade Number | W/L | Balance Start | Risk in \$ | Potential Profit in \$ | Trade P/L | Balance End |
|--------------|------|---------------|------------|------------------------|-----------|-------------|
| 1 | WIN | 10,000 | 100 | 200 | 200 | 10,200 |
| 2 | WIN | 10,200 | 100 | 200 | 200 | 10,400 |
| 3 | WIN | 10,400 | 100 | 200 | 200 | 10,600 |
| 4 | WIN | 10,600 | 100 | 200 | 200 | 10,800 |
| 5 | LOSS | 10,800 | 100 | 200 | 100 | 10,700 |
| 6 | WIN | 10,700 | 100 | 200 | 200 | 10,900 |
| 7 | WIN | 10,900 | 100 | 200 | 200 | 11,100 |
| 8 | WIN | 11,100 | 100 | 200 | 200 | 11,300 |
| 9 | WIN | 11,300 | 100 | 200 | 200 | 11,500 |
| 10 | LOSS | 11,500 | 100 | 200 | 100 | 11,400 |

As we can see, through a percentage-based risk management, we boosted our return within a winning streak and pocketed 83.43\$ more which represents a 0.8434% higher return from the initial capital „invested“ (end balance percentage-based risk: 11,483.43\$ / end balance fix risk amount: 11,400\$). This doesn't seem like a lot, but that's the difference for only 10 trades. Looking at the difference over a longer period, the difference can become very significant and a real difference in your account. This is the first advantage of a percentage-based risk. We are boosting our profits during winning streaks. In the graph below, I visualized the just covered scenarios in a graph for a longer period. As you can see, the longer such a winning streak will continue, the larger the difference between the two approaches:



Another great advantage is that a percentage-based risk is reducing our position size in times of losing streaks. In short, we have the exact opposite effect of what we have just seen above. Let me show you the graph at first this time and go into the numbers after it. In the example below, we have the exact same two approaches from above, the only thing that changes is that we lose 4 out of 5 trades. In the graph below, I will demonstrate the effect on a longer scale as was the case above:



As we can see, during the times of losing we automatically reduce the risk in terms of money in the percentage-based risk while the fix amount stays the same and has a much steeper decline. The difference gets more and more significant the longer we are in a drawdown. Let's go into the numbers now.

PERCENTAGE BASED RISK

| Trade Number | W/L | Balance Start | Risk in % | Risk in \$ | Potential Profit in % | Potential Profit in \$ | Trade P/L | Balance End |
|--------------|------|---------------|-----------|------------|-----------------------|------------------------|-----------|-------------|
| 1 | LOSS | 10,000 | 1 | 100 | 2 | 200 | -100 | 9,900 |
| 2 | LOSS | 9,900 | 1 | 99 | 2 | 198 | -99 | 9,801 |
| 3 | LOSS | 9,801 | 1 | 98.01 | 2 | 196.02 | -98.01 | 9,702.99 |
| 4 | LOSS | 9,702.99 | 1 | 97.03 | 2 | 194.06 | -97.03 | 9,605.96 |
| 5 | WIN | 9,605.96 | 1 | 96.06 | 2 | 192.12 | 192.12 | 9,798.08 |
| 6 | LOSS | 9,798.08 | 1 | 97.98 | 2 | 195.96 | -97.98 | 9,700.09 |
| 7 | LOSS | 9,700.10 | 1 | 97.00 | 2 | 194.01 | -97.00 | 9,603.09 |
| 8 | LOSS | 9,603.10 | 1 | 96.03 | 2 | 192.06 | -96.03 | 9,507.07 |
| 9 | LOSS | 9,507.07 | 1 | 95.07 | 2 | 190.14 | -95.07 | 9,411.99 |
| 10 | WIN | 9,411.99 | 1 | 94.12 | 2 | 188.24 | 188.24 | 9,600.24 |

As you can see, the risk per trade in money value decreases as we continue to lose trades. In the same way does our potential profits decrease, but we still have a positive effect compared to the fix amount, since we flatten the downwards curve. When we look at the numbers for the fix risk amount, we will see the following:

FIX RISK AMOUNT

| Trade Number | W/L | Balance Start | Risk in \$ | Potential Profit in \$ | Trade P/L | Balance End |
|--------------|------|---------------|------------|------------------------|-----------|-------------|
| 1 | LOSS | 10,000 | 100 | 200 | -100 | 9,900 |
| 2 | LOSS | 9,900 | 100 | 200 | -100 | 9,800 |
| 3 | LOSS | 9,800 | 100 | 200 | -100 | 9,700 |
| 4 | LOSS | 9,700 | 100 | 200 | -100 | 9,600 |
| 5 | WIN | 9,600 | 100 | 200 | 200 | 9,800 |
| 6 | LOSS | 9,800 | 100 | 200 | -100 | 9,700 |
| 7 | LOSS | 9,700 | 100 | 200 | -100 | 9,600 |
| 8 | LOSS | 9,600 | 100 | 200 | -100 | 9,500 |
| 9 | LOSS | 9,500 | 100 | 200 | -100 | 9,400 |
| 10 | WIN | 9,400 | 100 | 200 | 200 | 9,600 |

The total amount in our account does not differ as much after 10 trades as it did during the winning streak, but as we have seen in the graph before, the difference gets more and more significant as the losing streaks continue. Obviously, we do not want to get into a long-lasting losing streak, but in the case of it happening, we are in a better position if we use the percentage-based risk management. With a proper strategy, we should not have 50 trades where we would lose 4 out of every 5 trades we take. This scenario was just to illustrate the effect the percentage-based risk has.

That's it for now about risk management. We will go into further questions we could ask in terms of our overall risk exposure in the chapter „TRADING PLAN“.

2. DEVELOPING A TRADING STRATEGY & PLAN

2.1. INTRODUCTION

Before we start live trading, we should have a strategy & plan. Ok, let me rephrase this, we NEED a strategy & plan. We will discuss the differences between a trading strategy & trading plan in one of the following chapters. Every professional sports team has full books of strategic runs, positioning etc. in order to play at the highest level. The managers come up with those tactics and the players need to know them and implement them. This will be trained during practice sessions before the weekend games. The exact same thing is valid for a trader, only that we are the manager & the players. We need to come up with a strategy & plan, practice it during demo-trading before we implement it into live trading.

The best part, sports teams have to practice games, where the managers can try new strategies. The goal is not just to check if the strategies work, but also if the players are able to implement them. Again, the same thing in trading. We can test strategies during backtesting, which is our practice game. We not only can check if the strategies work, but also if we are able to implement them. Even though I would give you a strategy with a detailed explanation about the rules (and I will 😊), there is a high chance of you having different results than me. This has been proved by the Turtle Trader experiment in the 1980s. A handful of traders received the same strategy with clear detailed rules they should follow. The result: Every single trader had different results. Some were in big losses and even quit, while others were very profitable and became awesome traders. Why did this happen? Because every strategy has subjective parts. Those subjective

parts can be interpreted differently by every trader. If that's support and resistance levels or if that's specific candles, every trader is seeing it slightly differently. Another big part that is subjective - psychology. Feelings like fear & greed are the biggest enemies and have ruined thousands of trading accounts. That's why I have dedicated a chapter on trading psychology.

Going back to the topic of trading strategy & trading plan. I told you all this because I wanted to make clear, it is ok to copy somebody else's trading strategy or even the whole trading plan, but you need to make it fit yourself. You need to tailor it to your life situation (how much time can you spend in front of the charts?), your personality (quick decision-maker? slow decision-maker? disciplined?), and feel comfortable trading this particular way. But don't worry, this is not done overnight. For somebody that just starts trading, I would even recommend copying a strategy and use it as a starting base. Over time, you will change, remove or add components to tailor the strategy to yourself or even start exploring different trading setups that look promising to you. But starting out with somebody else's strategy is great because it is time-efficient, it shows you how a strategy could look like and could give you inspiration for your own ideas. More in this in the following chapters.

2.2. TYPE OF TRADER

If you can still remember, at the beginning of the course we have discussed different types of traders.

1. Scalper
2. Day-Trader
3. Swing-Trader
4. Position-Trader
5. Algorithmic Trader
6. News Trader

There are also different trading types, but we will stick to those ones. As explained at the beginning of the course, those trader types just help us to categorize the style of trading and do not mean that you have to choose one of them. Most traders would categorize themselves to more than just one. Why do I bore you with this again? Because the style of trading or the approach you will have is impacting your strategy as well. While the basic concepts of break & retest of a key level can be implemented on any timeframe, a longer-term trader still might look for completely different entry setups than a very short-term trader. This could even come down to the simple fact of low timeframes providing us with way more trading signals (even though they are not all of the high quality) compared to higher timeframes.

We do also have two other categories we can divide the traders into. The borders of those categories are even more blurred than the types of traders. On the one side, we have the discretionary traders, and on the other side, we have the systematic traders.



DISCRETIONARY TRADING

Discretionary trading is decision-based trading. The trader makes the decision, about what trades to take based on the current market condition. That's also the most common style of trading among retail traders. While the discretionary trader also needs a set of trading rules and a trading plan, the final decision about taking a trade is made by the trader, who will also decide how to manage the trade. If you think the following: „Who else is making the decision to make a trade or not, if not the trader?“, then hold that thought and wait till we will cover the systematic approach. For example, a discretionary trader is scanning the charts to find that the criteria for buying opportunity is met, but decides not to take the trade because of the recent price action, volatility, or just because of his gut feeling. This makes the approach extremely flexible and adaptive to current market conditions. This approach is great, especially since most strategies only perform well at up- or downward trending markets OR at ranging markets. It normally does not happen that the strategy works excellent at both. A discretionary trader could avoid trading during difficult market conditions, by making a decision of not to trade. When certain market conditions present themselves, that favor the strategy of the discretionary trader, position size could even be increased slightly in order to take full advantage of those times. The problem with this approach is exactly what makes it also so powerful - flexibility. Because the trading decisions are made by the trader, there is a lot of room for second-guessing and influence by emotions such as fear & greed. The psychology of the trader has a higher impact on discretionary trading compared to systematic trading. This style of trading is also more difficult to backtest. What needs to be understood is that his approach really needs experience and great market knowledge. This can't be achieved overnight!

SYSTEMATIC TRADING

Systematic trading is a trading approach, where the trading decision is completely based on the trading system. This means, if the criteria for the predefined trading setup are met, the trade is taken. The trader itself is not allowed to overrule the decision, otherwise, he or she would manipulate the results. This approach is mainly dominant among institutional traders, where the trading approach is often automated since the rules are so precisely defined, that a computer can implement the rules and implement them on its own. This means the computer is taking the trades, while the trader has mainly just monitoring it. This approach, however, can also be done manually. The advantage of systematic trading is that it is not influenced by the emotions of the trader or if we have a manual approach, we are as good as protected as it gets. The trader is following the strategy and does not influence it. The emotions are left outside. This means the disadvantage of the discretionary trading approach is the advantage of the systematic trading approach. The bad side is of the systematic trading approach is the strategy is not as adaptive to market conditions. Trades are taken place since the system is signaling it, even though the conditions are unfavorable. This can be reduced by having rules that could filter out trading in such scenarios, but it can't be completely avoided.

CONCLUSION

Discretionary Trading

- Adapts to market conditions
- Trades are not automatic
- Easy to second-guess decisions
- More control

Systematic Trading

- Based on specific rules
- Trades can be automated
- No second-guessing
- Less flexible

Both approaches have advantages and disadvantages. Both approaches work. The question is, which one do you prefer? The best way to answer this is simply through trying out. If we want to include the topic of „trading edge“, which we also discussed at the beginning of the course, we can see the following:

Discretionary trading: The trading edge is the **trader**.

Systematic trading: The trading edge is the **system**.

As already mentioned, the lines between those two categories are very blurred. It is possible to be a discretionary trader that uses systematic trading. This is often the case when the trader is taking a more manual systematic trading approach.

2.3. TRADING PLAN vs TRADING STRATEGY

Continuing with the difference between a trading plan and a trading strategy.

The trading strategy / trading system describes how you will enter and exit a trade. The trading strategy / trading system is part of the trading plan.

The trading plan is more comprehensive and covers more ground. The trading plan describes the market that will be traded, the trading thesis, the market condition, indicators, trade entry, trade exit, trade management, and other important rules that can be individually added. To visualize the difference, I brought you the following graphic:



With knowledge of the difference between those two, let's dive deeper into each topic over the next chapters.

2.4. TRADING STRATEGY

As mentioned, in the beginning, it makes sense to start off with somebody else's strategy. You probably will not stick to it, adjust it along your journey, or even completely change it. But for the beginning, we do not reinvent the wheel.

So where to get a strategy?

What kind, of course, would it be, if I don't get you covered right here. I will upload different strategy examples on our discord server. I will include detailed explanations about the rules, I'll provide video material to make things clearer

and add backtested results with screenshots of every single backtested trade. This way you don't just have the list of rules, you will also see how I have implemented the rules in different live scenarios. I will add more and more strategies on our discord server, as well as emphasize our community members to share theirs. This way you will have a variety of options to explore.

Other resources are for example the babypips.com website, where they explained a handful of strategies and share recent results as well (might not be the most profitable ones, but it can give you an idea how a strategy could look like). By the way, babypips also has awesome free trading material to explore. I personally would recommend looking for systematic rules-based strategies. Those make things a lot easier in the beginning since almost every trading decision is made based on a rule.

This will be enough for the start, but as you gain more experience, you probably want to develop something on your own.

DEVELOPING A TRADING STRATEGY

I want to start by saying that there are many different approaches to how you can develop your own strategy. The process differs a lot from the kind of strategy you are trying to develop. There are traders that trade based on candlesticks only, then there are traders that trade based on indicators only, and there are thousands of different approaches between. Because of this, there are different ways on how to develop your trading strategy. Let me still try to cover a few points that need to be taken into consideration and can be used as a guideline:

STEP 1: IDEOLOGY

Before you jump into creating your own trading strategy, you will need to clarify what approach you use. Technical, fundamental, or a combination of both. As I recommend, before you develop your own strategy, you will have tested strategies from somebody else. This will help you in identifying, which approach you might prefer. This needs to be clarified!

STEP 2: MARKET

You should be aware of the market you want to trade. Not every system / strategy works for all markets. While the rules for technical analysis are the same for forex, stocks, crypto, commodities (metals, oil, agriculture, etc.) each market behaves slightly differently. A common misconception among beginning traders is that you need to play in every market, especially now when specific markets get more hype than others. It is definitely recommended to stick to a single market at first. Every market provides us with enough opportunities, and we do

not need to be all over the place. This being said, of course, multiple markets can be traded later on!

STEP 3: TIMEFRAME

Every person will be in a different life situation. Some have more time to screen the market, while others have less time. Others are able to make fast decisions, while others need more time to make decisions. Therefore, knowing what timeframe or timeframes will be involved in the strategy needs to be clarified.

STEP 4: TREND

As you have learned in this course, strategies mostly work in either upwards or downwards trending markets OR sideways trending markets. Therefore, we need to know how the market is currently trending in order to place our trades correctly. If you want to develop a strategy to trade with the trend or against the trend, you still need to know where the market is at. This can be identified by looking at the pure price action (higher highs, higher lows or lower highs, lower lows), or we can use a tool such as the moving average.

STEP 5: ENTRY TRIGGER

That's where it gets more specific and probably most beginning traders have difficulties with it. You need an entry trigger. You need a scenario or scenarios that signal you to enter a trade. Those can be literally anything, it just needs to be consistently repeatable. The entry trigger could be candlestick patterns in combination with key zones, it can be a strong bullish/bearish candle in combination with specific indicator values, it could be the completion of a harmonic pattern or the break or the retest of a classic chart pattern. There are hundreds if not thousands of different combinations / scenarios in which you could see an entry trigger.

Again, I can only recommend testing and trying (on demo accounts!!!!) already developed strategies. Through the experience of using those, you might already identify other setups that look promising, but the current strategy does not take into consideration. You can also just try different methods like the supply & demand method, break and retest key levels, indicators such as the RSI or the MACD and combine them with other trading approaches (as learned in the chapter „CONFLUENCE TRADING“). But that's not a must! You could also concentrate on a single method. There is not really a right or wrong here. Only something that works, and something that does not work! What I want to highlight is to be patient with this process. Finding something that works, especially in combination with indicators, is not easy and can be a frustrating process! I can still remember the days and nights I have to spend backtesting different strategies I came up with it, and deleted everything again after a complete disaster in terms of backtested returns. I went back to the drawing board so many times, I can't even count it. But you are in a better position than

me. You have a whole community (discord) you can ask questions. I'm also here for you, to support you as much as I can. Especially through doing a lot of the heavy lifting by providing you with already developed strategies. You can use those strategies or better entry triggers within the strategies as a base for your own entry trigger, or simply use it as a guideline on how an entry trigger could look like.

STEP 6: EXIT TRIGGER

Every entry needs an exit! The exit is as, if not even more important than the entry itself. Do not do the mistake of purely focusing on the „perfect“ entry. If I would have the choice between the „perfect“ entry or the „perfect“ exit, I would choose the „perfect“ exit all day long. Unfortunately, it doesn't exist. At least, it can be repeated consistently. Having a stop loss is basic and we do not really need to talk about it. Depending on what you are trying to achieve, there are different methods on how to exit trades, as we discussed in the chapter „EXIT TECHNIQUES“. By all means, I did not list all possibilities and you can also come up with your own way on how to exit, but let me just give you this message: Having a great exit trigger is very very powerful and can not only maximize profits but also minimize losses!

STEP 7: DEFINE YOUR RISK

This might be already something for your trading plan., but let me briefly talk about it. Risk management is not just using proper position size (for example percentage-based risk), but also how you manage trades and the risk exposure to a specific currency. But we'll talk about this in the next chapter „TRADING PLAN“.

STEP 8: TRADING RULES

All those covered topics need to be written down. Your entry triggers, exit triggers, risk, timeframe, etc., need to be written down on paper or somewhere on your computer. At the beginning of the development of the strategy, those rules might still be simple and include only a handful of rules, but through more and more backtesting you will change, add and erase rules to improve the strategy and its outcome. Write it all down to make the whole process simpler for you.

STEP 9: BACKTESTING

That's the process where you will find out how good the strategy really is. If you have more of a systematic trading approach, trading is an absolute game changer and such a crucial part in the development of your strategy. Through backtesting, you will not just find out if the rules you have work, but also how you could improve them by going through historical data. Discretionary traders don't have it that easy while backtesting. Since the trading decisions are more based on the trader and not completely on the system, you will need to replay the market price action and be really disciplined with your decisions. You will really

need to take backtesting or forward testing (demo trading) seriously, in order for it to be effective.

All in all, testing your strategy is a must! Don't you want to know if something would have worked in the past before you put your money on the line?

STEP 10: THE CYCLE

A strategy can always be improved. Over time you will gain experience and more knowledge, and you might see different things happening within the market compared to your view on the market before. Integrate and use this to your advantage. Adjusting your strategy in order to improve it is something that might never stop. A strategy is a living object 😊.



Of course, this does not mean you are supposed to constantly change and adjust. This will happen over the period of years and only occurs if you actually found something that could be changed or added. In general, once you have a profitable strategy you are comfortable with, changing it over and over is not a great approach. A trading edge needs time to play out, give your strategy this time before you make any adjustments.

Ok, that's a 10 step process that can be used to develop a strategy. Actually, when we are very picky with definitions, those steps already include parts of the trading plan, therefore some of this will be repeated in the next chapter. The trading strategy itself only includes entry and exit triggers. But since this doesn't really help you in terms of approaching the issue of developing your own strategy, I used the 10 step process to make things clearer.

I will continue to upload strategies on our discord server, as well as encourage everybody that has developed and tested an own strategy to do the same! Let's help each other. Actually, you don't even need to have developed it on your own, if you use a strategy that works and you have tested it over an extensive period, share it with the community 😊.

2.5. TRADING PLAN

I have prepared 8 points for the trading plan that needs to be considered. Again, this is no exact science and different points can be added as well. Since the trading strategy is within the trading plan, I will not go into details at all of those 8 points, since we already covered them in the last chapter. I still want to mention them, however, to give you a full overview of all the points that can / should be included in the trading plan

1 MARKET

We already covered this in the 10 step process.

2 TRADING THESIS

What is the underlying idea behind your trading? What is it, that you're trying to exploit in the market? There is no right or wrong here. As we have discussed, there are multiple effective trading approaches that take advantage of different opportunities.

What patterns have you found in the market that repeat themselves regularly and you want to take advantage of? What timeframes will you use? Do you use indicators to find those opportunities (like pullbacks to a moving average)? Do you want to trade shorter-term or longer-term opportunities? Is it counter-trend or trend-continuation?

All of those answers can be answered when you go through the previous 10 step process. When you look for trading opportunities or even just build a strategy around chart patterns, you have a rough idea about your trading thesis.

3 MARKET CONDITIONS

We also covered this already. The difference within the trading plan is, you can actually have multiple strategies within your trading plan. While one strategy focuses on upwards and downwards trending markets, you might take advantage of a second strategy that performs really great in ranging markets to balance it out. The idea behind merging multiple strategies into a trading plan is to have one strategy perform very well when the other one is underperforming and vice versa. Again, this is absolutely not a must, but a possible approach.

4 INDICATORS

Are there any indicators you want to use as support? Do you want to measure volatility, for example through the ATR indicator? Do you want to use a simple oscillator? This can also be strategy-specific. Important is if you decide to use indicators, that they need to have a specific purpose. They should enhance your trading edge, which you are trying to develop on the basis of your trading thesis. Don't just use the for example RSI, because everybody around you is using it. It needs to fit into your strategy. Don't force it.

5 ENTRY

We have discussed this in the 10 step process.

6 EXIT & TRADE MANAGEMENT

We also have discussed this in the 10 step process. To go a bit more into detail about what we are looking at here. Do you want to use a specific risk-reward ratio or do you want to scale in and/or scale out of trades? Do you want to use partial take profit levels? Do you set your loss and take profit levels based on the former structure or use a volatility indicator such as the ATR? Basically, all the knowledge you have gathered in the course can be used here. It just needs to be specific. To exit trades prematurely based on a gut feeling is not consistently repeatable and needs to be avoided. Have a rule. There is nothing wrong with exiting a trade prematurely (before the initial take profit level is hit), but make sure to develop specific rules that define exactly what needs to happen in order for you to exit a trade before the take profit level is reached.

7 RISK

This is where the trading plan is more comprehensive compared to the strategy. It is very vital to understand that trying to exploit a specific market opportunity is not a matter of certainty. We are dealing with probability theory in trading. You need to be prepared for the case of losing a trade. In fact, you need to be prepared to lose many trades in a row. Even in roulette, the same color can appear more than 20 times in a row. The chances are not high, but it is possible. That's how probabilities work. The following points need to be covered within your trading plan:

How much risk per position?

A general rule is 1-3%, while 3% is already considered plenty. For beginners, I would suggest a 0.5%-1% risk per position.

How many trades do you allow to be open?

You could have a limit of for example 3 trades. The reason behind this is, every position will carry a certain percentage of risk. If you have 5 positions open with each 1% risk, your outstanding risk equals 5%. While 5% might be still fine when using higher risks per trade while having more than 5 trades open, the outstanding risk could get uncomfortable and you might limit this with a rule. Yes, you might miss possible trading opportunities, but if you are not comfortable with the confronted risk, limited it!

How much exposure do you want to a single currency?

If we trade forex, it might be the case that we have multiple positions in currency pairs involving the same currency. Let's say we have 3 trades open in the following currency pairs: GBP/USD, EUR/USD & AUD/USD. As you can see, we are exposed to the US Dollar in every single position. If something very unexpected happens with the US Dollar, it could impact all our positions. You could implement a rule to limit your risk to a specific currency pair.

What is your maximum drawdown?

Well, this can either be answered by blindly saying 40%, but this might not suit your strategy. What we would need to do is backtest our strategy extensively and use the data we generate to determine our maximum drawdown. Use the trading results from your backtesting process, and check what the maximum drawdown would have been in the past. Use this maximum drawdown as a limit. If you surpass the drawdown in your trading, you know something is wrong and should go back to the drawing board or identify what has changed.

Do you want to determine a daily loss limit?

This also comes down to your trading style. If you have a more longer-term trading approach, it doesn't make sense to have a daily loss limit and you could implement a weekly loss limit. If the loss limit is reached, you would stop trading for the day or week and try to recharge your energy for the next trading period. This is a rule that would be implemented by more discretionary traders since it could limit the emotional impact of your trading. If you start revenging trading (we will cover what exactly this is in the trading psychology chapters) your decisions are fuelled by emotions, which need to avoid. Having a rule you would need to follow could get you out of such scenarios.

All in all, those are questions you might ask yourself. It does not mean that you need to have a rule for every single question mentioned above. Those are just examples of how to approach the topic of risk. Unfortunately, the risk is often not

taken seriously enough by retail traders, which needs to change. Take your risk seriously and limit it, even though it could mean sacrificing a bit of profits

8 OTHER IMPORTANT RULES

I have included this topic because of the multiple ways we can approach this, and you might include rules that do not fit into any of the 7 other categories. Through backtesting, you could for example have found out that specific news events manipulate your trading and need to be avoided, or your system struggles in specific trading hours. You can simply add general rules to your trading plan such as: „Not trading on Fridays because of lower volatility, which negatively impacts my system“

This could be a list of points you cover while developing your trading plan. As mentioned a couple of times already, if you feel like something is missing, you can always add something additional to your plan!

3. BACKTESTING

5 REASONS TO BACKTEST

Backtesting still remains one of the most undervalued and under-utilized tools in trading. In the backtesting process, the trader goes through historical charts, normally one candle at a time, and looks for certain setups to trade. Those setups should be predefined by the developed strategy. This can get a bit confusing since most of the time, the strategy only gets developed through a backtesting process. That's where we can't really draw a clear line between the process of developing a strategy and the process of backtesting. Often we have a vague idea about what setups we would like to trade or know more about without having really all the rules yet. We would then simply go through historical data and collect more information about those setups. The more of those setups we would see on historical charts, the more we can realize which exact rules we could apply in order to filter out the setups that failed.

This means, backtesting can and should be part of developing a strategy, while at the same time, backtesting is also the process of tracking how the finished strategy would have performed over various market conditions or the past years of price action.

Why is backtesting still not used enough?

Because it is work. Backtesting is a repetitive process that can be very boring. Going through historical data for hours is often something people are shying

away from. Especially, because there is no money involved. There is no action. People want to go into live markets and feel the rush of being involved. It's not glamorous. It is not sexy. But guess what? IT'S WHAT MAKES YOU A PROFITABLE TRADER! I've spent waaay more hours backtesting strategies compared to the time I've spent in live trading. Without backtesting, I strongly believe that I would have never become a profitable trader. I would have been frustrated with all the strategies that did not work for me. Through backtesting, I was able to filter out certain strategies without spending a cent on them, while at the same time, I gathered market knowledge. Through hours and hours of backtesting, you identify patterns you could exploit, you identify all the theories you've learned about candlesticks, chart patterns, and more.

1 PROVE YOUR STRATEGY WORKS

Before you start putting money on the line, wouldn't you want to know how this exact system you use would have performed in the past? Backtesting allows you to collect an immense amount of information about your strategy with only minimal time invested (depending on how we see it). We can collect data over even 10 years in just a few days / weeks of work. Comparing the amount of information we get, a few days / weeks of work is not a lot of time. The information you will receive through backtesting will be used to objectively check if your strategy or trading plan would have worked in the past, and therefore might work in the future as well.

For how long should you backtest?

This can't be answered with a specific number. The general rule is, the longer the period of backtesting and the higher the amount of backtested trades, the more reliable the gathered information. I personally would shoot for 200 - 300 trades per strategy. This is really a rough number and also varies depending on your strategy. If you are a scalper, 200 - 300 trades are not a lot. If you are a swing trader, 200 - 300 trades are plenty. Most of the time, I personally end up with way more than 300 trades and get into the area of 1,000 trades. Especially for strategies based on the 1-hour timeframe, it is often the case that about 500 trades are only equal to a period of 2 years of backtested results.

What should you look out for?

If you backtest your strategy, you should not only look for the P/L (profit/loss). While the return of a strategy is a major factor, we also need to look at things such as the maximum drawdown, number of trades open at the same time, number of trades in total, time of entry, and so on. We need to look at all factors that might influence our live trading.

P/L

General determination of efficiency

Maximum Drawdown

Information about the risk involved. If a strategy gives us a 100% return per year but has drawdowns of 90%, would this really be a strategy to consider? Are you comfortable with big drawdowns? These things need to be considered.

Open trades

Depending on the strategy and the currency pairs we are looking to trade, we could end up with 10 open trades at the same time. We need to have a look at this data in order to check if it aligns with our trading plan and risk management. 10 open trades at the same time means also quite a big risk exposure in case of sudden news events and market influences.

Number of trades

The number of trades also can make information more reliable. We should not only look at the backtested time period, but also at the total number of trades. The longer the time period in combination with the higher the number, the more reliable the information we received.

Those are the major points from which you could determine the success of a trading strategy. Obviously, you could include way more numbers and go into way more detail including sharp ratio. This completely depends on you how much detail you would like to go. This information is absolutely enough to start out, but I will also include more detailed information on backtesting data in future course updates.

How should you backtest?

The best approach to backtesting is the manual approach. This means you open a chart, go into your backtesting tool and rewind into the future (both tradingview & meta trader have extra tools for this). From there, you can simply play the chart forward and take every signal based on your strategy to get a reliable result. It is very important, to be honest in this process. If a trade would have failed, it needs to be written down. If we cheat in this process, and manipulate the results, it can have very negative effects on the live trading results. Really try to be completely honest in this process. It is completely fine if the strategy fails, nothing is lost. You can always change it or come up with a different one without losing a single cent. A problem I had in the process was not being patient enough. After testing multiple strategies which failed, I just wanted to get a breakthrough so badly, that I started manipulating the backtesting process. Started overlooking losing trades and made up reasons why the signal leading to this trade was somehow not valid. Just stay true to yourself and avoid

it! In the video at the end of the chapter, I go into more details of the manual backtesting process. There is also software out there that do the backtesting for you. Those solutions are mostly inaccurate and do not work for a discretionary trading style at all. I strongly recommend to manually backtest, also to profit from the other advantages I will introduce to you over the next pages.

⚠ Important: I want to highlight a very very important point. While backtesting is crucial and super helpful in detecting if our strategy would have worked and most likely works in the future, the past performance is never a true indication of the future, or at least not a consistent reliable one. But there never is. We as traders have to live with the unknown and backtesting is as good as it gets.

2 IMPROVING YOUR CHARTING SKILLS

Technical analysis and trading have subjective and objective processes. On the one hand, we have such things as risk-management and journaling trades which are more objective processes, and on the other hand, we have pattern recognition which requires skill, attention to detail, and knowledge. Pattern recognition is also very subjective. The only way we can develop and improve this talent and skill is through repetition and practice. The live markets are not really the place where you want to get this practice from. Very advanced traders only need seconds looking at charts to identify if there are potential setups based on the trader's strategy, or not. This is also only possible because advanced traders have hundreds or thousands of hours practice. Backtesting can push your learning curve on the fast lane and speed up your development.

3 OPTIMISING YOUR STRATEGY

As mentioned, developing a strategy and backtesting is a parallel process. We do not only backtest an already finished strategy but get the chance to improve it through backtesting. This improvement is also not always in terms of profits. The most difficult part in finding a strategy is making it compatible with your personality and your life situation. Finding and creating the balance between profitability and comfort is very key. If you find out that a strategy is very aggressive and had drawdowns of 50%, you can determine if this is something you want to trade, or if you would need to adjust something in order to reduce the risk exposure. For somebody with a very aggressive approach to trading, a 50% drawdown might be acceptable compared with the returns it achieves, but a trader that is a bit more risk-averse might not be comfortable with such drawdowns. This is something you really need to think through and answer honestly. Backtesting gives you the opportunity to change things up and tailor them to your personality.

4 GENERATE IDEAS

Another huge plus point of backtesting is the generation of new ideas. Since we go through tons of historical data, we are confronted with endless trading opportunities. Within this process, we might identify setups that are not even being considered with our current strategy but stand out to us. Especially for beginners, it is very very difficult to come up with a strategy or a setup to trade from the scratch. Actually, it is almost impossible, but when you would start looking at historical charts for days after days, you will find opportunities you could research more about. Most strategies I came up with are based on discoveries while backtesting. During testing, I have noticed setups that reoccurred all the time, which made me do more research on them and eventually build rules around them to form a strategy.

Again, not all ideas will end up in a profitable strategy. But even though some ideas might not work, you probably will identify why they didn't work and turn that into an advantage.

5 CONFIDENCE BOOST

Backtesting a strategy, knowing the data of how profitable it is and what drawdowns can be expected, will increase your confidence immensely. You also need confidence in your trading and your trading strategy, especially during periods of drawdowns. If you do not have any backtested results and you go straight into live trading with 5 losing trades in a row, wouldn't you feel uncomfortable? Definitely! But what if you have gathered information about your strategy, and you know that 5 losing trades in a row might be rare but have happened in the past before (which you established through backtesting), and you would still come out of the situation and be profitable. Wouldn't you be able to handle the situation completely differently? Absolutely! As long as you stick to your trading plan and all included rules, you can stay confident.

If for some reason you encounter for example a 30% drawdown in your first months of trading, while during backtesting your strategy over multiple years only encountered a 20% drawdown, you know something is wrong and you might go back to the drawing board. Without backtesting, however, you would have never known that something is wrong without the backtested data.

BACKTESTING EXAMPLE (VIDEO)

CLICK HERE
FOR THE VIDEO



AVAILABLE IN THE NEXT UPDATE

In this video, I would like to give you an example of how you could approach backtesting manually. Here, the spreadsheet I used in the video for collecting data. It's just an example and depends on how much information you would like to collect:

CLICK HERE



AVAILABLE IN THE NEXT UPDATE

4. TRADING PSYCHOLOGY

INTRODUCTION

What makes trading so interesting and difficult at the same time is that we need so many different skills. We need market knowledge, we need to be able to perform technical analysis and understand fundamentals, but probably the most important, while also being the most difficult, is the mindset. I don't want to come across here, as one of the mindset coaches and try to tell you that mindset is everything when it is not, but we can not deny that it is absolutely crucial to be able to contain our emotions as much as possible, think quickly and be disciplined. All those different points together can be called „Trading Psychology“. Let me also be completely honest, I have no chance of fully covering this topic. Trading psychology is so complex and so difficult, that I would never consider myself an expert in this topic. In the following chapters, I will go through a few problems I have faced over my trading journey, and cover things I find important and might help you along your journey.

RIGHT EXPECTATIONS

Let's start with something simple. Something you might be confronted with before you even really start trading, which is **FRUSTRATION**. I have covered this slightly at the very beginning of the course but would like to highlight it yet again. If we start with very very high expectations into the trading world, thinking we will perform absolutely amazing and make lots of money just within months, it's a brutal mistake. That is just having the completely wrong expectations, and I don't blame you. The marketing in the trading industry is just designed to make you think this way, but having such high expectations makes it more difficult to overcome setbacks, overcome failure (even though it is temporarily) and overcome the fact that trading really is difficult and that we need to invest time and effort to achieve an acceptable performance at all.

At the same time, we need to have a positive view and believe that we are able to achieve something great. In short, we should be optimistic but realistic. It's a fact that most people stop trading after not even 3 months. C'mon. 3 MONTHS! I really would love to change this! Therefore, my message here is to have a long-term plan. Stick to trading for at least 1 year without expecting any profits.

Focusing on learning, improving skills, and gaining market experience. I love to say: „Trading is looking for short-term opportunities within a long-term game!“ Have the right expectations. Have a long-term view. Don't give up!

GREED

INTRODUCTION

Let us go a bit deeper now. Let's go into one of the two major emotions that really can ruin your trading account. One of the two is GREED. Before we jump into the outcomes the emotion of greed can cause, I want to say that trading psychology is not something you can simply read about and master. Trading psychology is something that is very individual from person to person and needs to be experienced in order to be able to improve it. In fact, I don't think we as human beings can completely master our emotions at all. We can contain it for some period or try to reduce the influence of emotions on our decisions as much as possible, but sooner or later they are too strong for us to stay rational all the time. It might not be for long, but it will happen. The slightest decision against your trading plan can be caused by emotions. It might just be increasing the position size by 0.5% or disobey the rule of risk exposure to a certain currency. In order to improve our mistakes, we need to be aware of them, so let's put some light on some things you will be confronted with.

OVERTRADING

A phenomenon that occurs regularly among beginning traders, but even more advanced traders are struggling with this from time to time. Overtrading is when a trader is entering too many trades. There are many reasons why a trader would enter too many trades, and they all have the same outcome - poor performance. But how many trades should you take and how many is „too much“? The simple answer is, every trade you take should be based on your already proven strategy. When you start taking trades for which you need to bend the rules of your strategy, you start getting into the area of overtrading. If you look at it objectively and would come to the conclusion that your strategy would not give you a trading signal, but you still took the trade because you didn't want to miss out, you are overtrading.

As I motioned, there can be many reasons why a trader would take trades that are not really in line with his or her strategy. One reason is greed or the feeling of missing out. The trader simply wants more. Because more trades are more

profits, am I right? Nope, you are not. Trading is one of the most counter-intuitive professions. Often times what seems right is wrong and what seems wrong is right. More exposure to risk does not transfer to more realized profits. Most of the time, it results even in less realized profits. The only time more trades transfer to more realized profits is within your strategy. If you have a proven backtested strategy with a trading edge, you should trade all signals generated by your strategy. This way, the trading edge of your strategy can work out. At any other time, more trades do not equal more profits, and we need to learn to do nothing. We do not need to be involved in the markets all the time. There is a great saying from the book „Reminiscences of a Stock Operator“ by Edwin Lefèvre: „Traders don't make money by doing something, but by doing the right thing. Sometimes the right thing is doing nothing.“

How can we avoid overtrading?

We can create rules. If we have a very defined trading strategy, we know exactly when to enter and when not to enter a trade. As soon as we notice that we take a trade that doesn't really fit into the rules of our strategy, we need to confront this issue. In the chapter „LIVE TRADING“ we will focus on how we can try to monitor our trading in terms of sticking to the trading plan.

For more discretionary traders, just sticking to the strategy might not always help since the trader is more involved in the trading decisions. A great way to avoid or at least reduce the damage of overtrading is simply taking a break. Taking time off from trading often allows a trader to clear the head and come back with a more rational approach. I love the quote from one of the trading legends Jesse Livermore: „There is a time to go long, time to go short, and time to go fishing.“ This emphasizes to point of taking breaks.

CHASING TRADES

This might be more based on the feeling of missing out than greed. Chasing trades is when a trader misses the right time of entry, because he or she might not have been on the computer of this time or the position did not get filled, and therefore enters the trade at a later point and at a more unfavorable position because price already went into the anticipated direction. Most of the time, the risk-reward ratio of the trade just doesn't make sense anymore, but the trader enters anyway because of the fear of missing out and seeing that the trade would have been going in his or her anticipated direction. This is something we need to avoid. If we miss our opportunity, we should simply forget about it. We could enter the trade if the price comes back to the initial price level of entry and if the circumstances did not change or if the price did not go in our anticipated direction and therefore gives us the opportunity of entering at a more favorable

position. This decision, however, needs to be made by each individual trader. What can be said is that there are thousands of other trading opportunities ahead of you. Why chase this single one.

OVERLEVERAGING

Coming back to the emotion of greed. Wanting more money quickly. Wanting big rewards with small capital investment. Wanting to get RICH. Wanting to get rich tomorrow! So many reasons for the problem of overleveraging. When we use CFDs, we most likely use leverage, especially in forex trading. Leverage can be a very powerful and great tool, but at the same time, it can be the tool that completely destroys your trading account and your hard-earned money. I have seen screenshots of terminals where people took 10% to 20% risk on a single trade. Why on earth would you ever take such a risk. This is gambling and has nothing to do with trading.

Why do trading beginners overleverage?

Trading beginners are mostly focused on the possible profits and completely ignore the risk involved. It doesn't even come to mind that all the money in their account could be lost. That's also one of the biggest differences between retail and institutional traders as well as beginner and professional traders. Beginning traders / most retail traders focus on the profits, professional traders / institutional traders focus on the risk. If you fully understand the risk involved and the chances of losing 10 trades in a row, you would never take such a high risk. You are simply too exposed. Sadly, this was also something I had to learn the hard way. Luckily, I did not blow an account, but I lost a lot of money on a few single trades. The worst thing, I don't think I would have understood that I'm taking too much risk without losing this money. If I would have continued winning, while keeping my losses at a minimum, I would have stayed with such high risk. But sooner or later every strategy might enter a longer losing streak. That's where higher risk gets uncomfortable. That's where your emotions are going wild and fear is blasting in full power. I can only strongly advise you to keep risk low, especially in the beginning where you still need to get to know yourself and how you react in certain uncomfortable situations within your trading. I can only repeat to keep your risk per trade at 0.5% - 1% risk and use a percentage-based risk management in order to reduce the money value per risk during drawdowns. You can always change to a higher risk profile at a later time when you have acquired more knowledge and experience.

FEAR

Fear is the second major emotion, next to greed. Fear & greed - the troublemakers. In order for you to understand how powerful the emotion of fear is, I would like to tell you a short story from the book „The Man Who Solved the Market: How Jim Simons Launched the Quant Revolution“ by Gregory Zuckerman. As you can already suggest from the title, the book is about a gentleman called Jim Simons. Jim Simons is a mathematician, billionaire hedge fund manager, and founder of Renaissance Technologies, a quantitative hedge fund. Quantitative trading is the ultimate systematic trading approach, which means the trading decisions completely rely on mathematical and statistical models, without the interference of decisions by the trader itself. As you might think, this would exclude emotions perfectly. Well, here is the story:

At the end of 2018, when stocks started selling off, Jim Simons was on vacation. He still noticed the color red all over his screen and called his money manager to ask: „shouldn't we be protecting here, shouldn't we be shorting?“.

What has happened? After developing trading systems that make all decisions based on mathematical and statistical models, produced an average of 60% return per year, and made Jim Simons a billionaire, he panicked. The greatest systematic trader, the trader with a clear focus on separating emotions from trading decisions panicked and questioned the trading decision from his system. What can we learn from this? Even after decades of experience in the market, even after becoming a billionaire through stock trading, you'll still are not always able to control your emotions, especially fear. Knowing this, don't get frustrated when you struggle with keeping your emotions in check. It's just very very difficult if even the best veterans in trading are struggling with it. This being said, we definitely can not use this as an excuse. We still need to do everything we can in order to reduce the influence of fear in our trading process as much as possible!

REVENGE TRADING

Revenge trading is when a trader tries to win back losses by entering a larger and often riskier trade. Those trades are mostly based on fear and frustration and do not comply with predefined rules. This comes down to not wanting to lose, which is something very normal. In the end, who likes to lose, especially when it comes to money. But when the fear of losing money leads to rushed and unplanned decisions within trading, the outcome is never great. If such trades are successful, it is actually even worse since the trader might not even take the mistake as seriously. We are also not able to repeat such trades with

consistency since they are not based on any strategy or any rules we have developed. We are not possible to repeat it.

How to avoid revenge trading?

We have to start with accepting that we will lose trades. Losing trades is just not avoidable and part of trading. Yes, we want to limit losses as much as we can, but they will still happen. The sooner we realize this, the less we are tempted to win back lost money through increasing our risk and avoid our strategy and trading plan. A great way to get more comfortable with losses is by backtesting our strategy. This way we have data of our win rate, our average risk-return, and our average profits per month, per year, or however you collect your data. Let's say we have a win rate of 40% with an average risk-reward ratio of 1:2 and an average amount of 200 trades per year. This could represent a highly profitable strategy. When we look at such data, we can see that we lose a whopping 60% of our trades. In other words, we lose 6 out of every 10 trades and still be profitable. Having this in the back of our heads can reduce the risk of revenge trading in the period of a losing streak.

Another solution: Take a break. I know, this seems like the general solution for everything, but when we deal with emotions it is simply a great approach. Shutting down your charts and letting your emotions cool down is often exactly what you need in order to make rational decisions again. But even though we might know that we should take a break, sometimes a trader keeps going. This is where we might set rules for ourselves. We could implement a loss limit per day. When we reached this limit, we stop trading. This might not be the perfect solution, but when the emotions simply can't be controlled during this period it is better to stop than continue. The overall objective should be to protect our capital from such mistakes, even though it means we miss out on solid trading opportunities and potential profits.

That's it, my friend, you've almost made it all the way. We will end this course with some last words about live trading and then you should be fully prepared to go out, test strategies, develop strategies, and skyrocket your trading journey! 

5. LIVE TRADING

The transition from demo trading to live trading should be simple right? You have performed very well during backtesting, you have performed very well on a demo account (forward testing), why should it be any different during live trading? Well, there is a big difference. Many traders seem to lose their way in the transition period from demo to live trading. Let us go over some of the problems and how we encounter them.

SEEING ACTION THE FIRST TIME

When we place our first trade with real money, it is exciting. Our heart might even be beating heavy. Especially in short-term trading, the P/L number will also go crazy and change every single second. When starting out, your eyes might be glued to the ever-changing profit and loss and you are not able to focus on anything else anymore. This is a normal process. It's is counterproductive, but completely normal. While backtesting and demo trading there was no pressure. If you lost a trade, there were no real consequences. In live trading, it is a completely different story. If you lose a trade, you lose money. Now, the sentence „Losing is part of trading and unavoidable.“ seems not as easy anymore when it actually affects our money. The initial excitement can't really be avoided. Just use the knowledge that every successful trader went through the exact same phase as well, which will fade eventually.

MARKET CONDITION CHANGED

Especially those that spend only a short time on a demo account might be affected by market condition changes. If you have a strategy that performs well in upwards or downwards trending markets, and you never have experienced a ranging market, your trading results might struggle for this time. If this happens during the transition from demo to live trading, you can get easily frustrated and believe that your strategy doesn't work in the present. This can be avoided through backtesting and the knowledge of the past trading performance in ranging markets.

PSYCHOLOGY

The biggest factor of all. The trading psychology. We have covered it slightly in this program (which I will continuously update and include more material). Trading psychology is simply something you can't be fully prepared for. It is something you will need to experience. During the step to live trading, you will

find out for yourself how much emotions affect you personally. It is completely different from trader to trader. It also depends on the performance you start live trading with. If you go straight into a winning streak, the emotional influence might not be as strong. This will change, however, as soon as the first drawdown period arrives. Another problem with going straight into a winning streak is that new traders might get overconfident and increase their position size. Therefore, we will constantly face trading psychology, and as we covered this in the psychology chapter, it doesn't matter how experienced we get. The difference is that a more experienced trader is aware of it, while new traders are fully confronted with the powerful emotions of fear & greed. A new trader simply can't be aware of much power those emotions have, since they are simply not as present anywhere as they are in short-term trading. What can we do against it?

JOURNALING

Trading journals are a must and can help not just tracking our trades, but identifying mistakes we made and therefore improve. In our trading journal, we write down all trades we take with all necessary information. This information can change from trader to trader. I personally have 5 columns.

- **Currency Pair**
- **Long / Short**
- **% Gained / Lost**
- **Screenshot Link**
- **Comments**

Let me go through each column.

Currency Pair

This one is self-explanatory. I simply write down which currency pair I've traded.

Long / Short

This column is only there to make things easier when checking back on my trades, as well as on the screenshot of the trading setup. „Long“ for buy trades and „Short“ for sell trades.

% Gained / Lost

Here, I simply write down the outcome of the trade. This just makes it easier to keep track of the performance of each individual trade but is not really the point

of focus of the journal. I do not have a „Total Gain / Lost“ field where I add up all my gains. We don't need it, since this is displayed on our trading account.

Screenshot Link

In this field, I will insert the link to the screenshot of the trading setup at the moment of entry. You can use services like www.imgur.com to save those screenshots. I find it a great addition to have a picture of the chart right there within my journal. This is an easy way to quickly check out the trading setup.

Comments

This is the most important field of all. In the comment section, I write down not only my thoughts about the trade but also if I have followed my trading strategy and trading plan with this trade. It is the most important field since the goal of the trading journal is not to write down all trades and the performances to just track how good or bad you performed, but to see if you followed your trading strategy and plan on every trade you took. We can't influence the performance the market gives us, based on our strategy, but we can influence if we strictly follow the predefined rules of ours. In order to keep track if we do or don't, we journal our trades! If we did not follow our strategy and took a trade based on emotions, that's where we will write it down in order to track such mistakes, become aware of them, and tackle the issue. The outcome of the trades doesn't matter as much as journaling if we followed all our rules.

The trading journal is, especially in the transition period from demo to live trading, super helpful in order to track our mistakes and gives us an opportunity to change things up if necessary (not in terms of performance but in terms of being able to follow our trading rules).

REDUCING POSITION SIZE

Another great way to reduce our emotions while trading is to heavily reduce our position sizing. It might not be the smartest way, since we simply need to take a certain amount of risk in order to get acceptable returns, but with a certain amount of risk exposure, we can get quite emotional. This really depends on every individual trader and his or her general circumstances.

Why does reducing the position size help reducing emotions?

When we look at where our emotions are coming from, we will find out that the most 2 common emotion drivers are fear and greed. Fear and greed in trading are always connected to money! In trading, we try to reduce our connections to

money as much as possible in order to not get attached and emotional. We should always try to focus on following our trading plan. Reducing our position size, and therefore reducing the potential losses and profits in terms of money could help us minimizing the attachment to the money. Obviously, this needs to be balanced. If we reduce our position size too much, we simply don't really care anymore about profits and losses and get reckless and might break our strategy rules since the money involved in our trades is pocket change in our mind. Therefore, this is a process you need to figure out. At what position size can you keep your emotions in check, while at the same time, it still makes sense to trade and are able to achieve acceptable returns.

TRADE WITH WHAT YOU CAN LOSE

This is a very very important point. In trading, as in investing, we should use the money we are able to lose. This doesn't mean we don't care about the money at all, but it means that we do not need this money for our day-to-day needs as well as for rainy days. If the money you use is too important for your life situation or is simply too much to put into a risk environment such as trading or investing, you should reconsider the amount you use. If money has such a high priority in your life, you will be too attached to it and it is very easy to get emotional, especially in drawdown periods. When we use the money we simply have left, and our lives would just continue the same in the case of this money being gone, we have a better base to work with. We are not as attached to the money.

While those are great ways to reduce the emotional influence, the real question is when should you change from demo trading to live trading, and should you even demo trade?

Well, demo trading is very essential in my opinion. There is no general rule and therefore I will give you my subjective opinion. What I've done and what I would recommend is to start on a demo account. That's where you can try and test different strategies from other people or even already your first self-made ones. Don't start backtesting immediately, since it is more repetitive work and does not have much to do with active trading, which you probably came for in the first place. Use a demo to also remove the first opinions you might have about trading. It really is not as easy as it seems from the outside. Have fun on a demo account for a while till you are ready to take the next step of backtesting/developing a strategy. This is a step that should not be skipped for all the reasons we have discussed. When you are done backtesting and you are happy with the results you can either go back to demo trading for a while (forward testing) to see if you are able to implement all your strategy rules and entry criteria in live markets OR you could go straight into live trading. I would

recommend using one additional step of demo trading, just to not get fully blasted with the trading psychology that comes with live trading and forward trading your strategy the first time. How long should you demo trade before transition? This could be everything between 1 - 6 months. If you want to play it safer, you could choose 6 months, but only if you really able to take demo trading seriously. Try to practice your discipline to strictly follow your trading plan. We are blessed that brokers do allow us to demo trade, that's why we should also take full advantage of it.

That's it for now about trading psychology. This is really just a minimal fraction and this topic is so more complex and has so much more material we could cover. I will continue adding material and tips to this chapter as the course will grow and get better and better!

2. FINAL WORDS

 Congratulations my friend! You went through the whole course and gained amazing knowledge to become an independent trader. I hope you feel fully prepared to extensively test strategies, develop strategies, improve strategies, and have a great set of tools you understand and are able to use. I can only recommend you to check out our discord community, if you haven't done so, in order to exchange trading ideas, thoughts and strategies with fellow traders and to tackle the trading world together with others instead of alone. The discord server is where I will upload all updates to the course, which will come in the future since the course will be continuously updated and improved through more in detailed explanations. You are also more than welcome to give me a review of the course, what you have missed or what topic you would love to know more about! The quality of the course will be improved through such feedbacks. If you liked the course, I would be more than happy if you recommend it to friends & family to keep growing our community and get more people into free trading education 😊.

Hope to see you in the discord community and wish you happy trading! Let's get it! 🚀