



The Inner Circle Trader

## ICT Monthly Mentorship

October 2016 – ICT Teachings

### Study Notes

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Risk Associated with Forex Trading Off-exchange foreign currency trading on margin carries a high level of risk and may not be suitable for all investors. The high degree of leverage can work against you as well as for you. Before deciding to invest in foreign exchange you should carefully consider your investment objectives, level of experience, and risk appetite.

The possibility exists that you could sustain a loss of some or all of your initial investment and, therefore, you should not invest money that you cannot afford to lose. You should be aware of all the risks associated with off-exchange foreign currency trading and seek advice from an independent financial advisor if you have any doubts.

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Trading performance displayed herein is hypothetical. Hypothetical performance results have many inherent limitations, some of which are described below. No representation is being made that any account will or is likely to achieve profits or losses similar to those shown. In fact, there are frequently sharp differences between hypothetical performance results and the actual results subsequently achieved by any particular trading program. One of the limitations of hypothetical performance trading results is that they are generally prepared with the benefit of hindsight. In addition, hypothetical trading does not involve financial risk, and no hypothetical trading record can completely account for the impact of financial risk in actual trading. For example, the ability to withstand losses or to adhere to a particular trading program in spite of trading losses are material points which can also adversely affect actual trading results. There are numerous other factors related to the markets in general or to the implementation of any specific trading program which cannot be fully accounted for in the preparation of hypothetical performance results and all of which can adversely affect actual trading results.

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If you purchase or sell Equities, Futures, Currencies or Options you may sustain a total loss of the initial margin funds and any additional funds that you deposit with your broker to establish or maintain your position. If the market moves against your position, you may be called upon by your broker to deposit a substantial amount of additional margin funds, on short notice in order to maintain your position. If you do not provide the required funds within the prescribed time, your position may be liquidated at a loss, and you may be liable for any resulting deficit in your account.

Under certain market conditions, you may find it difficult or impossible to liquidate a position. This can occur, for example, when the market makes a "limit move." The placement of contingent orders by you, such as a "stop-loss" or "stop-limit" order, will not necessarily limit your losses to the intended amounts, since market conditions may make it impossible to execute such orders. By viewing any <http://www.TheInnerCircleTrader.com> text, audio, visual commentary, video or presentation, you acknowledge and accept that all trading decisions are your own sole responsibility, and the author, Michael J. Huddleston and anybody associated with <http://www.TheInnerCircleTrader.com> cannot be held responsible for any losses that are incurred as a result.

# Growing Small Accounts Without High Risk

### A. What you need to avoid:

- 1) Do not try to rush to make massive gains in either pips or % returns.
- 2) Do not open yourself to large Risk in hopes of equally large returns or profits.
- 3) Do not assume taking small Risk defined trades will not grow your account.
- 4) Do not sacrifice trading equity for poor planning or lack thereof.

### B. What you need to aim for:

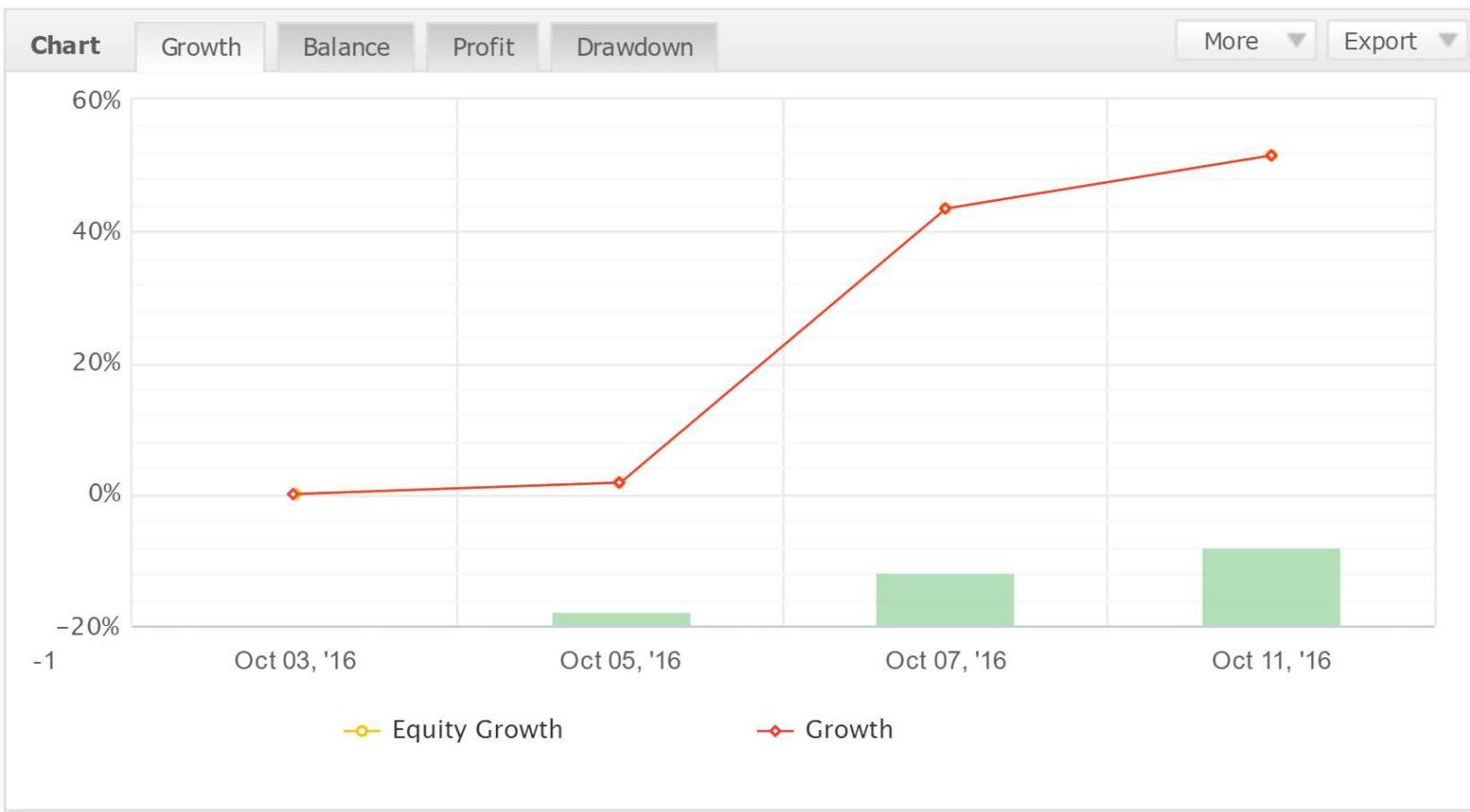
- 1) Determine how to realistically anticipate a favorable Reward to Risk model.
- 2) Learn to respect the Risk side of the trade setups more over the reward.
- 3) Identify Trade Setups that permit three Reward multiples to one Risk or higher.
- 4) Frame good Reward to Risk setups that have little impact if unprofitable.

# The Reality Of Reward To Risk Ratios

Win Rate	Minimum Ratio
75%	0.3 : 1
60%	0.7 : 1
50%	1 : 1
40%	1.5 : 1
33%	2 : 1
25%	3 : 1

**What Will You Need To See In Performance For Profitability?**

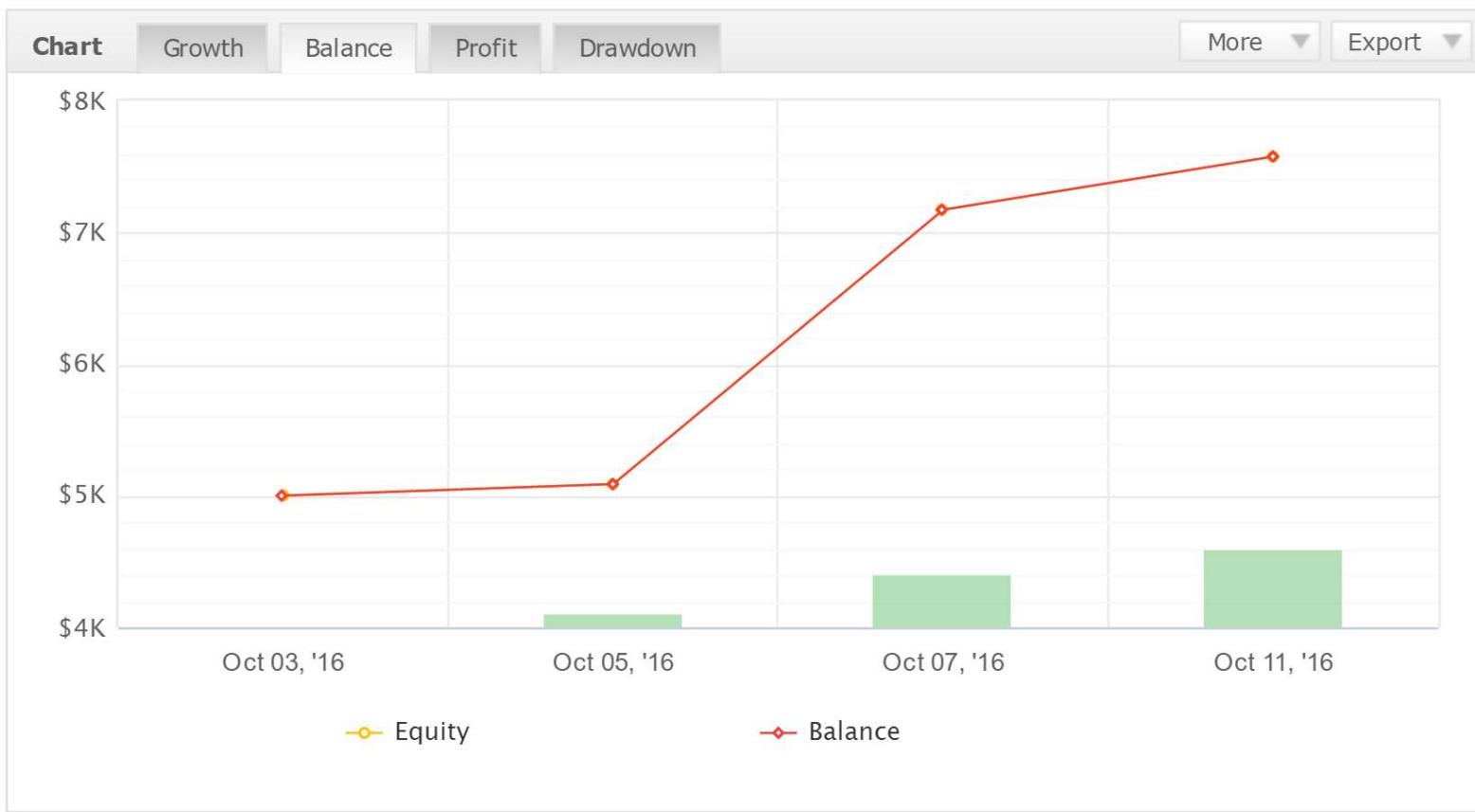
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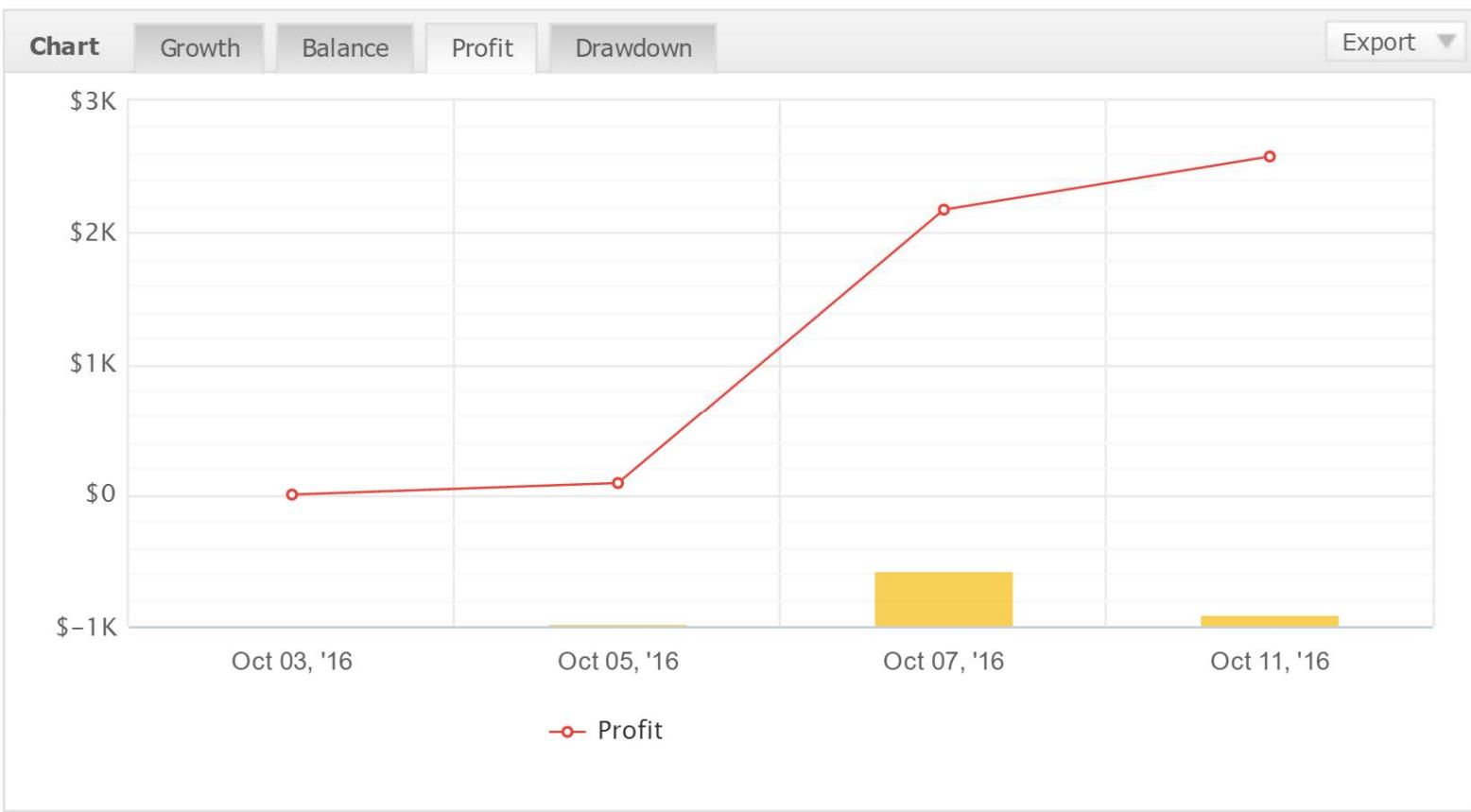
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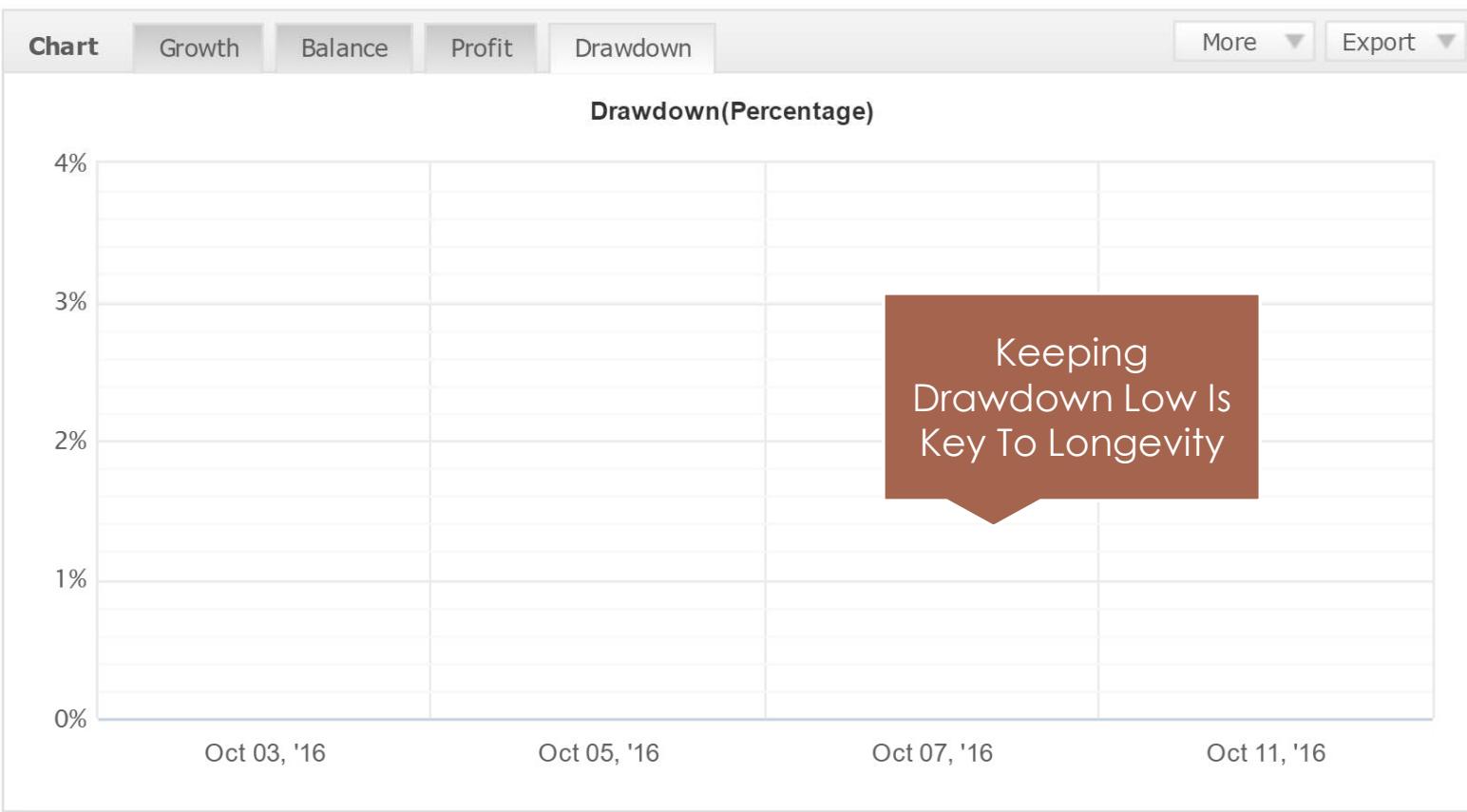
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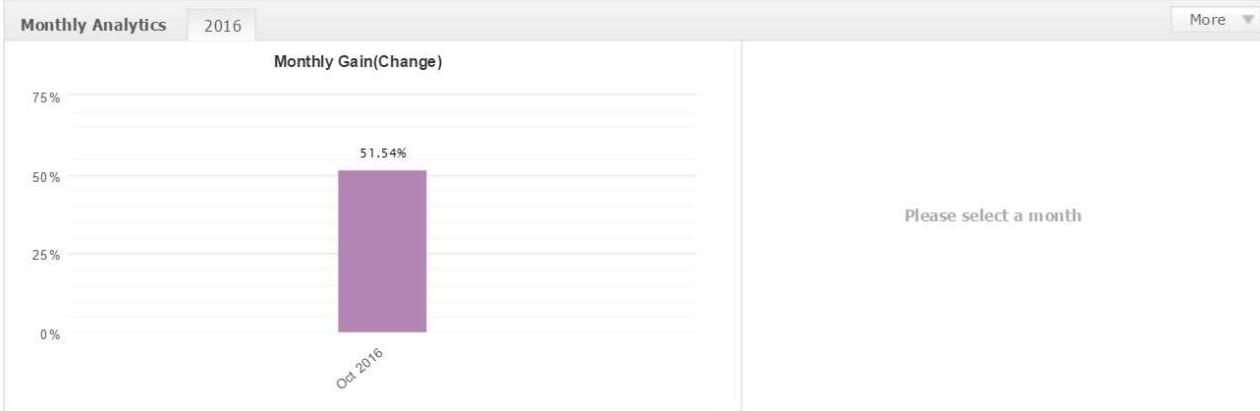
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Advanced Statistics	Trades	Summary	Hourly	Daily	Risk Of Ruin	Duration	MAE/MFE
Trades:	10	Longs Won:	(8/8) 100%	Profit Factor:	-		
Profitability:	<div style="width: 100%;"> </div>	Shorts Won:	(2/2) 100%	Standard Deviation:	\$310.14		
Pips:	518.0	Best Trade(\$):	(Oct 07) 993.40	Sharpe Ratio:	0.84		
Average Win:	51.80 pips / \$257.68	Worst Trade(\$):	-	Z-Score (Probability):	0.00 (0.00%)		
Average Loss:	0 pips / \$0.00	Best Trade (Pips):	(Oct 07) 199.0	Expectancy:	51.8 Pips / \$257.68		
Lots:	5.5	Worst Trade (Pips):	-	AHPR:	4.40%		
Commissions:	\$0.00	Avg. Trade Length:	4h 32m	GHPR:	4.24%		

Trading Activity

Open Trades (0) Open Orders (0) History (11) Exposure More ▾

i No data to display.



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# What Should You Focus On Initially?

- It only takes 20 pips per week
- It only requires 1.5% risk
- It only requires 1:1 Ratio

Account: \$1000.00 USD  
Risk per trade: 1.5% or \$15.00 USD  
Risk 20 pips from entry price.  
Profit taken at 20 pips for a 1.5% return.

## Where do these setups occur?

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## Compounding

A large, stylized orange outline of the number '6' is positioned above a smaller, stylized orange outline of a percentage sign ('%').

## Per Month

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# Where Do 6% Per Month Setups Form?



Daily Charts Make It Easy!

Locate a Institutional Orderblock like the one highlighted in the chart to the left.

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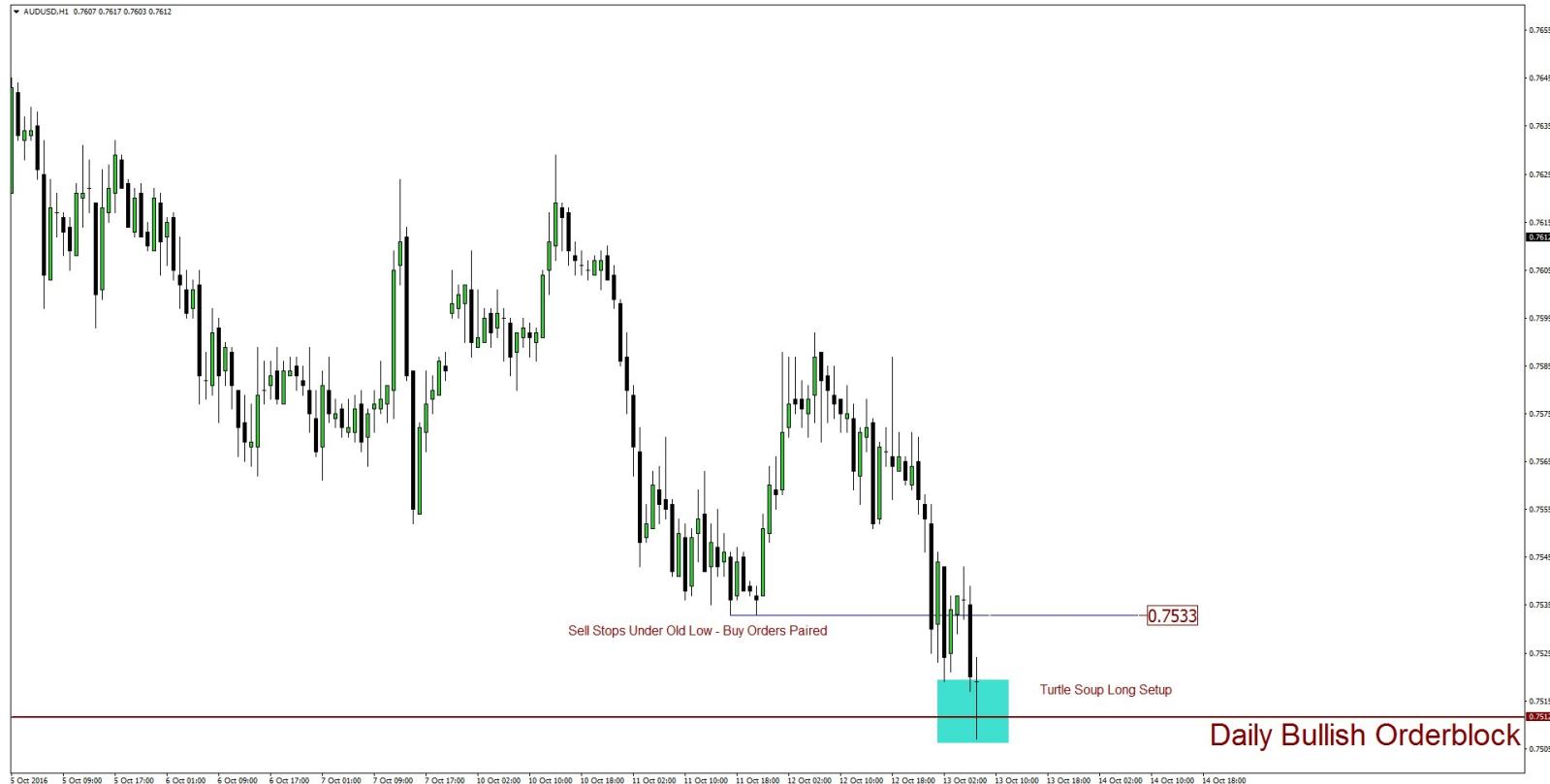
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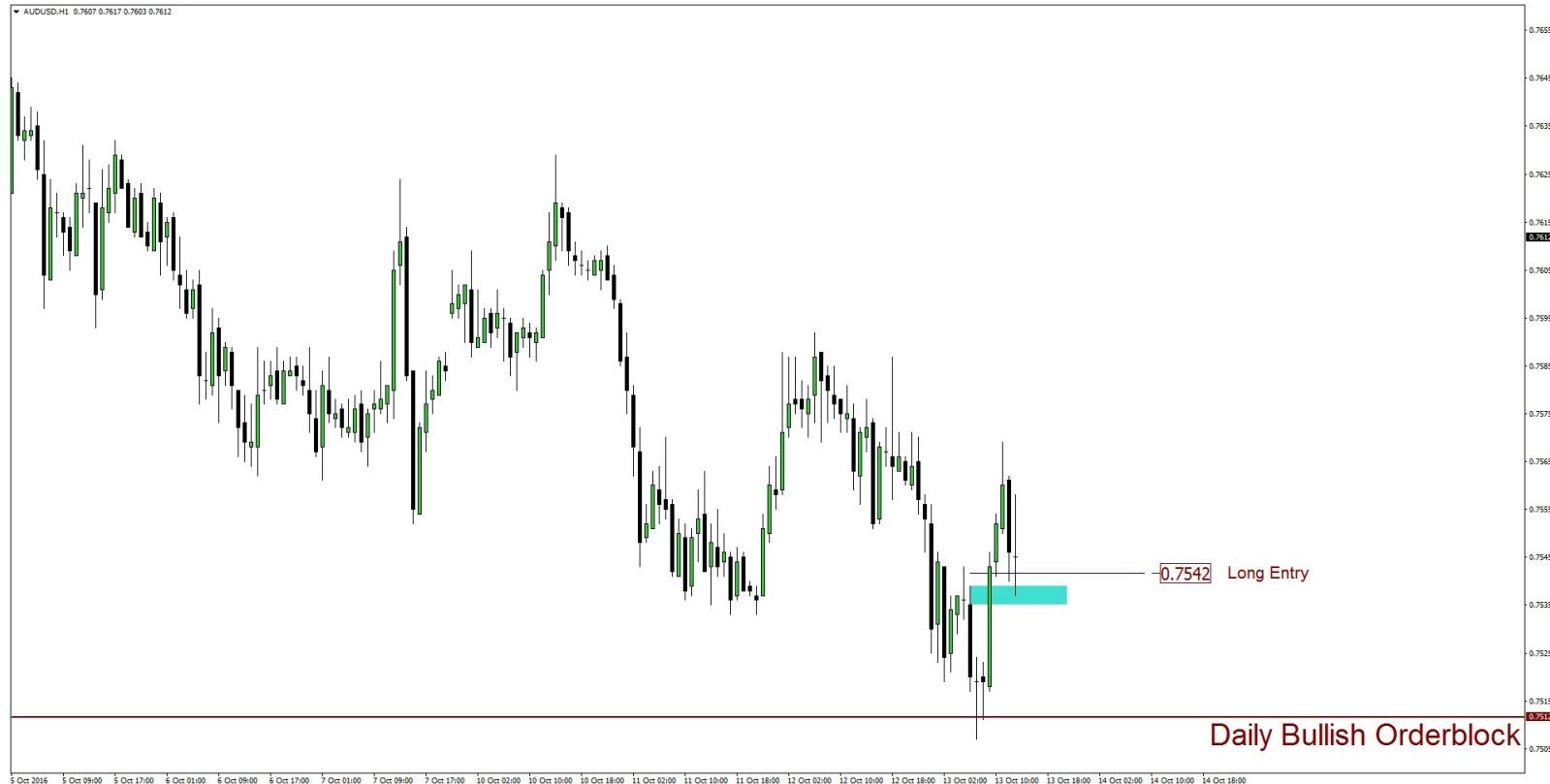
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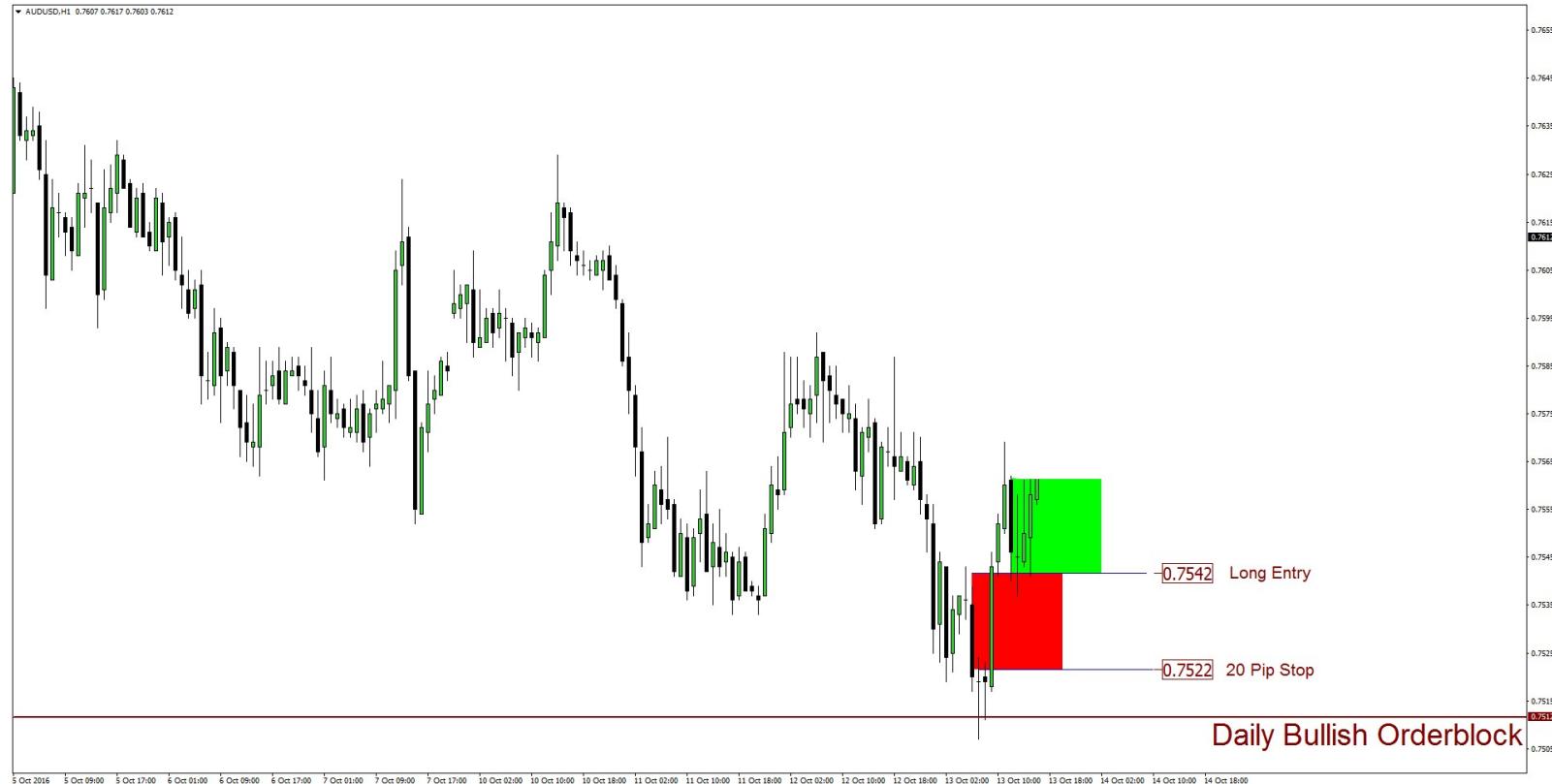
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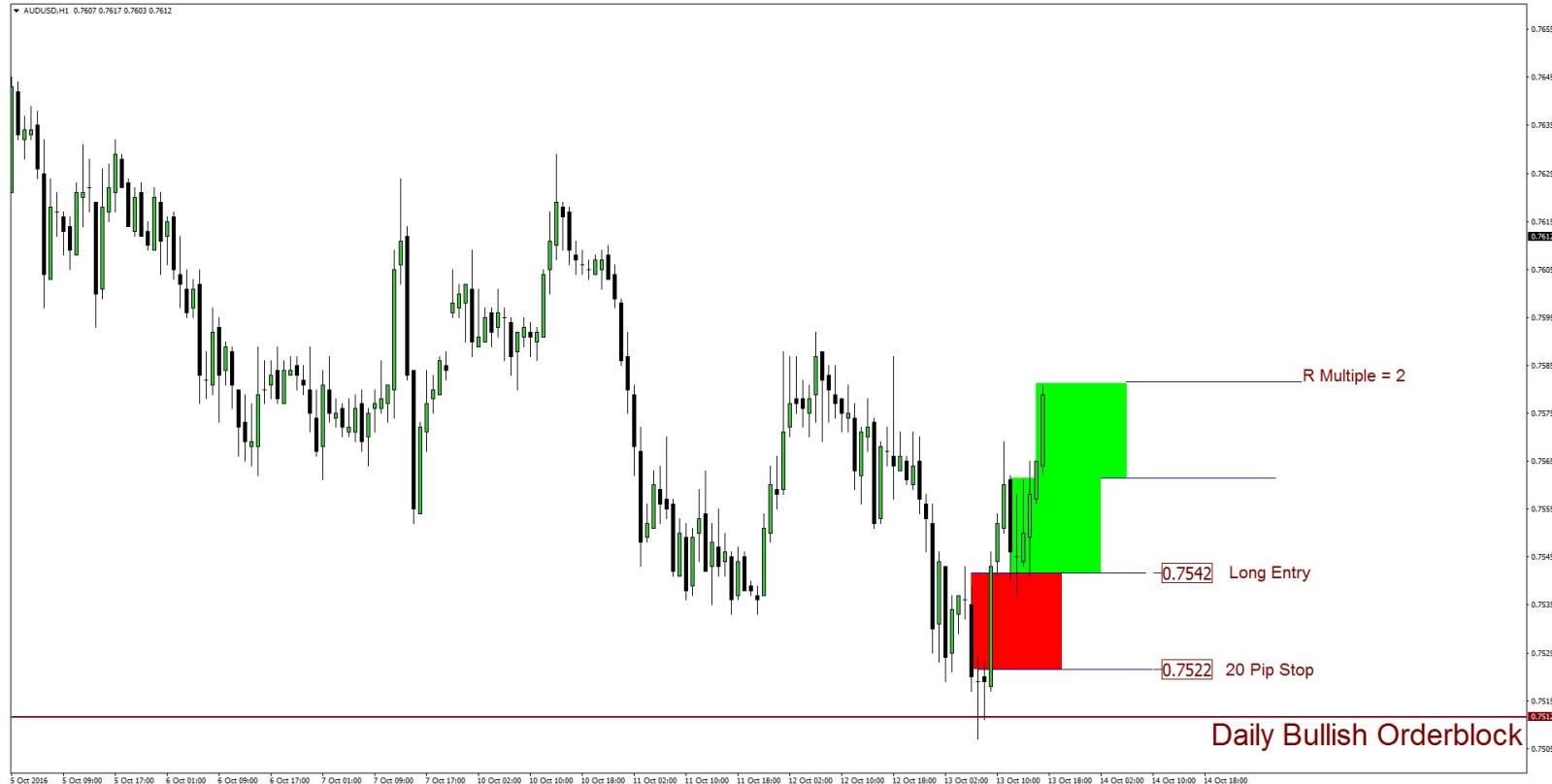
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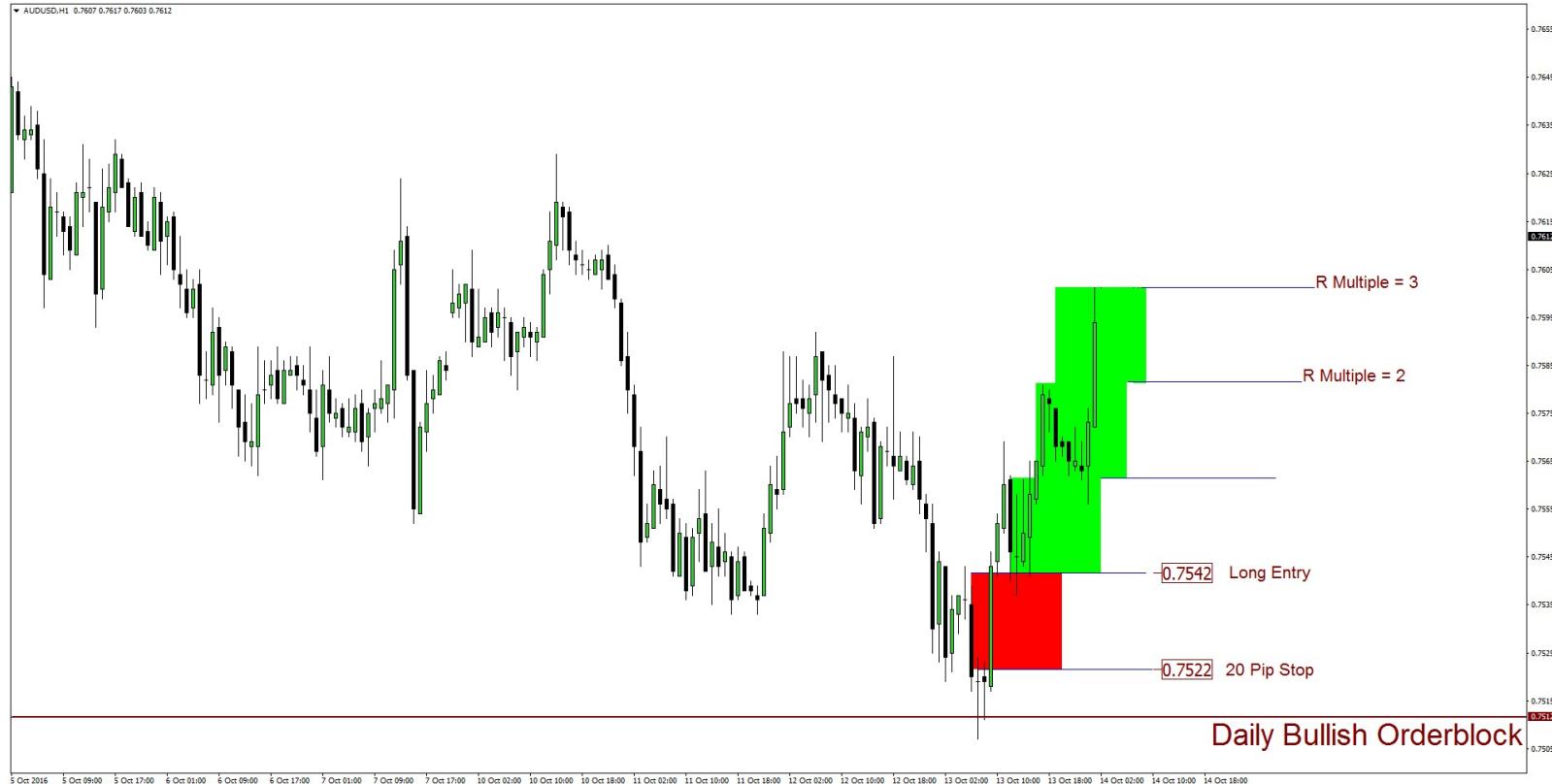
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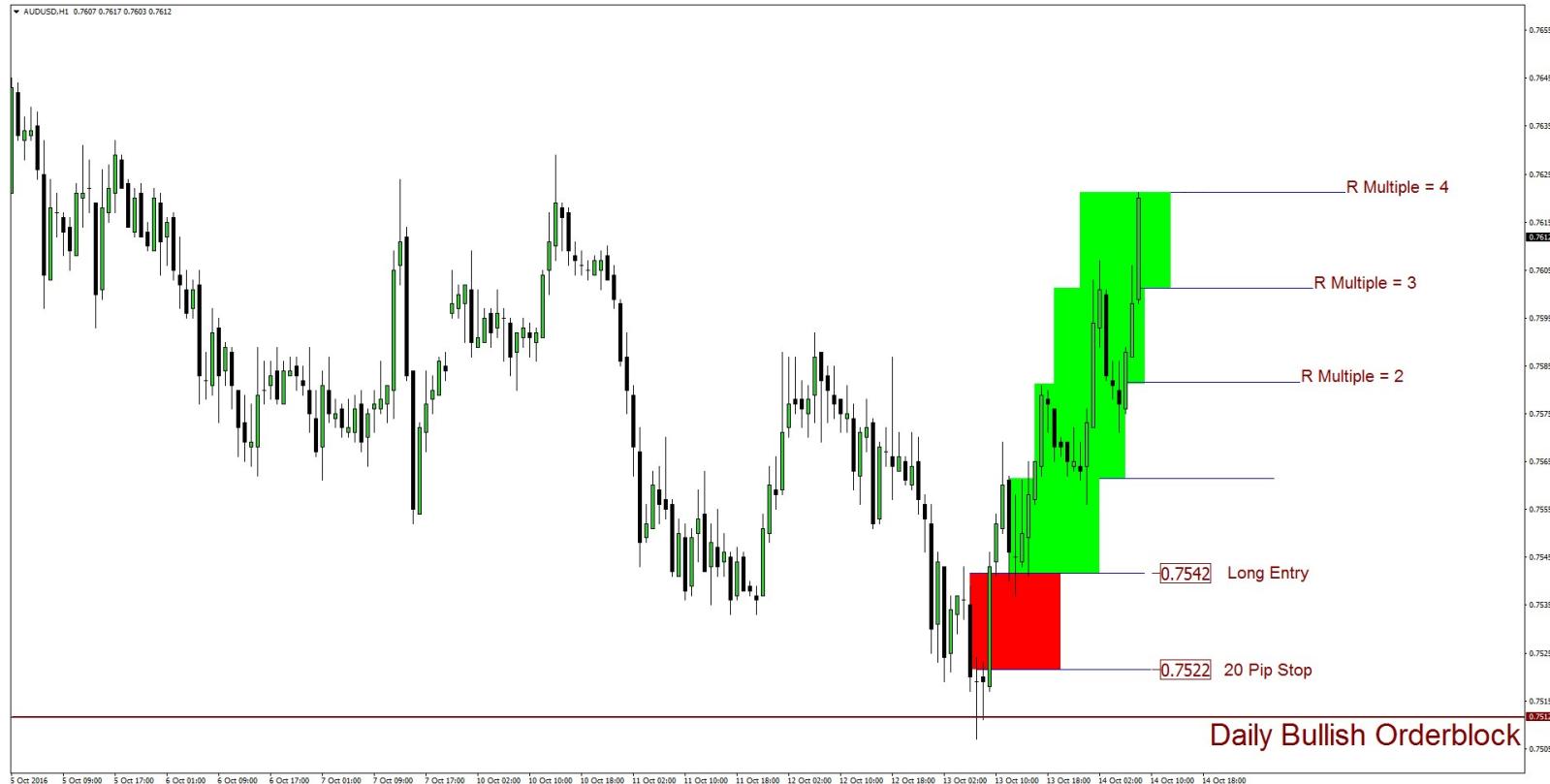
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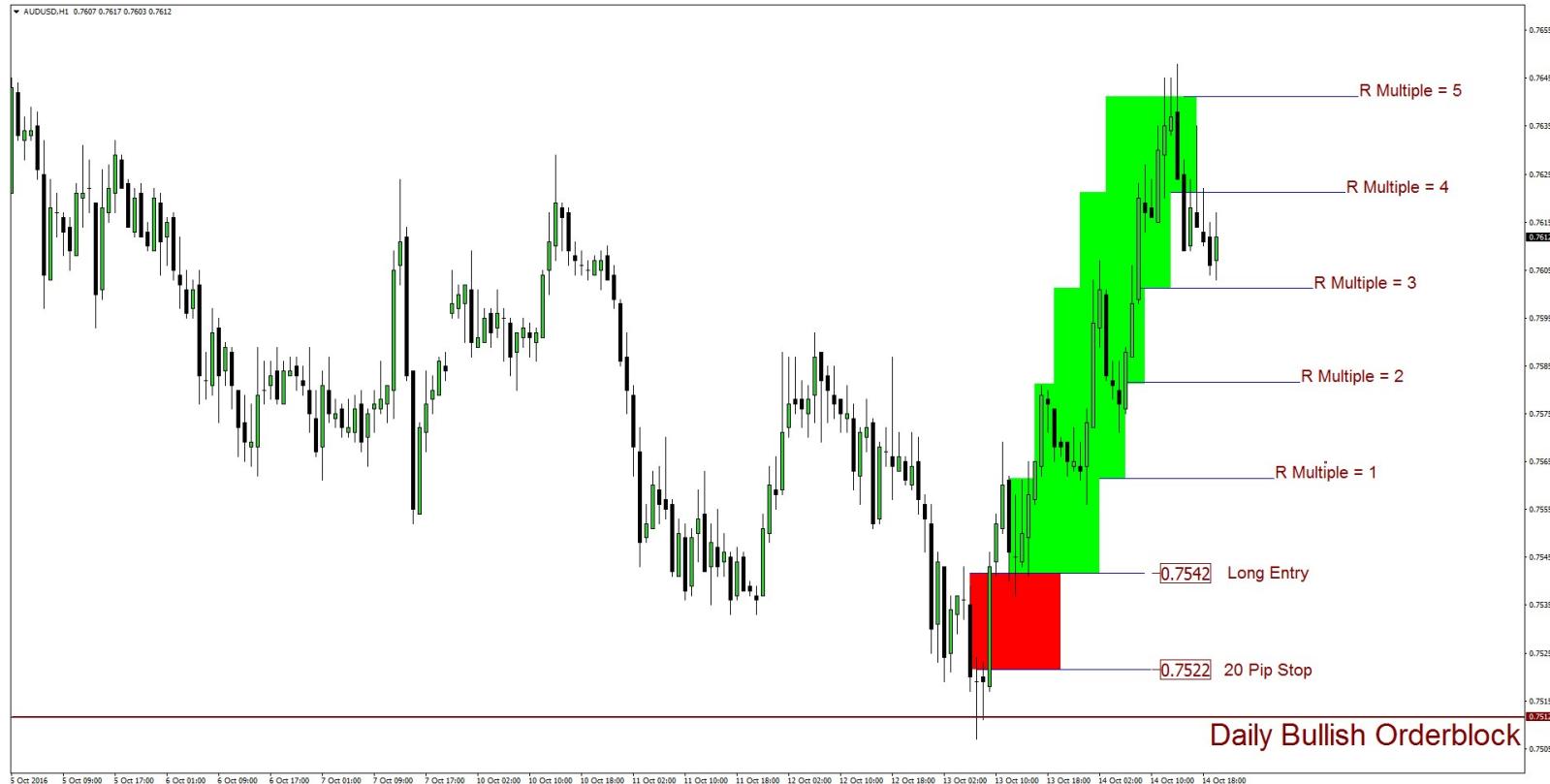
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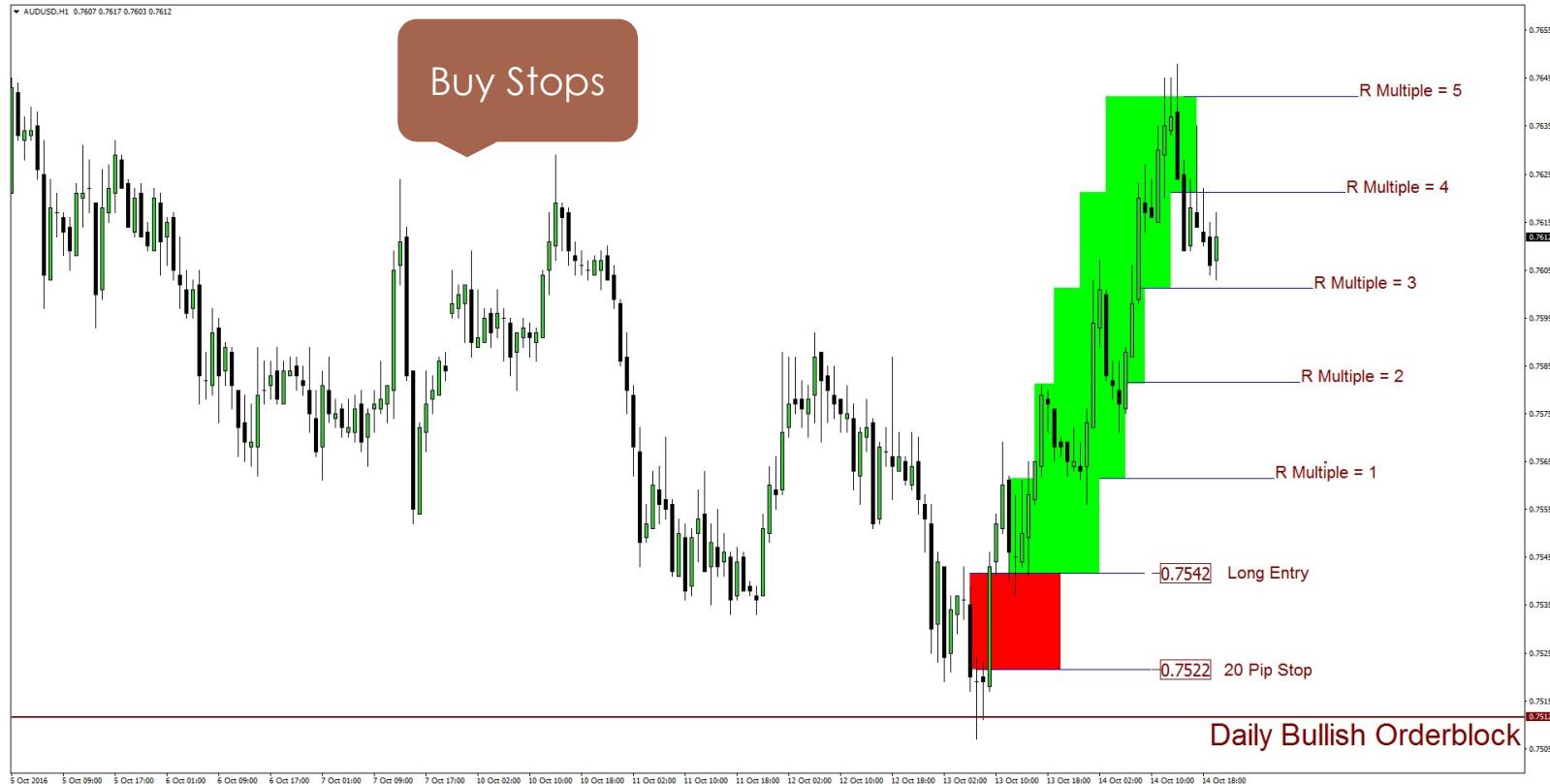
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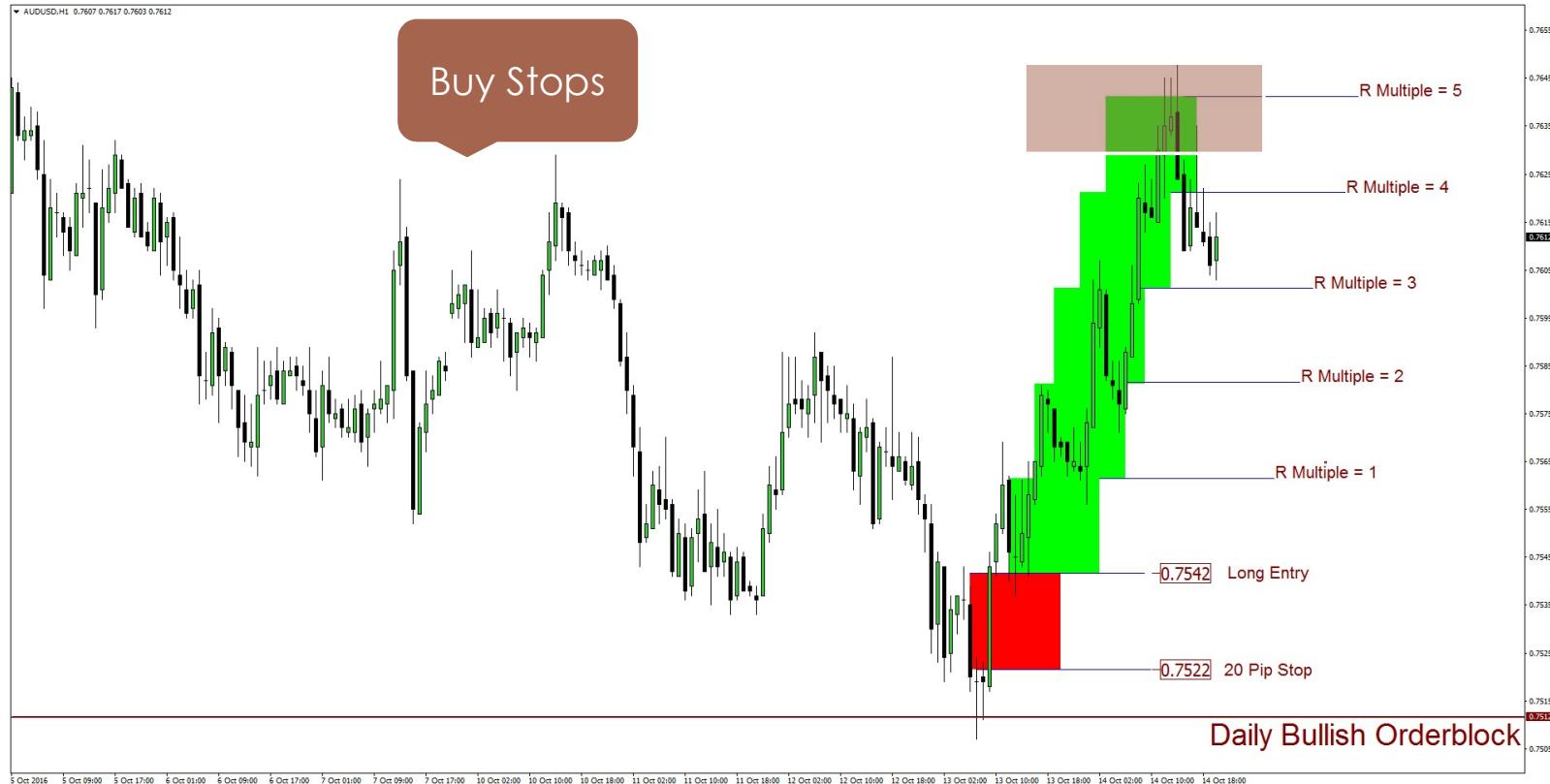
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# How To Frame Low Risk Trade Setups

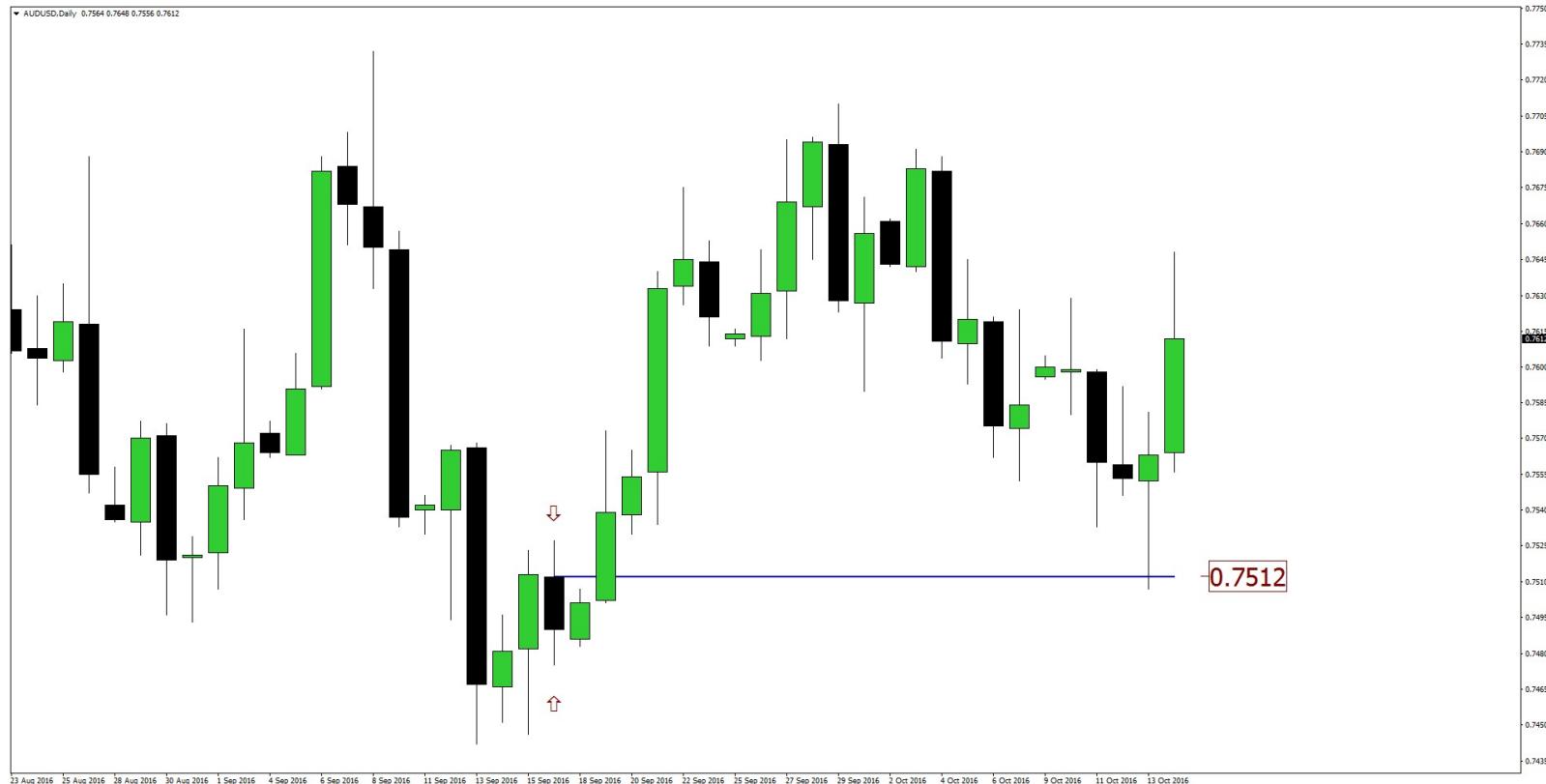
## A. What makes the setup worth taking?

- 1) Selecting Trade Setups on Higher Time Frame Charts is ideal.
- 2) Large Institutions & Banks analyze markets on Daily – Weekly – Monthly basis.
- 3) Locating Price levels that align with Institutional Order Flow is key.
- 4) Higher Time Frame setups form slow & provide ample time to plan accordingly.

## B. What can we do to lower the Risk in the trade?

- 1) The Higher Time Frame has more influence on Price so we focus there.
- 2) The conditions that lend to a Trade Setup on a HTF can be refined to LTF.
- 3) Transpose the Higher Time Frame levels to Lower Time Frame charts.
- 4) Refining HTF levels to LTF charts allows smaller stop loss placement & Risk.

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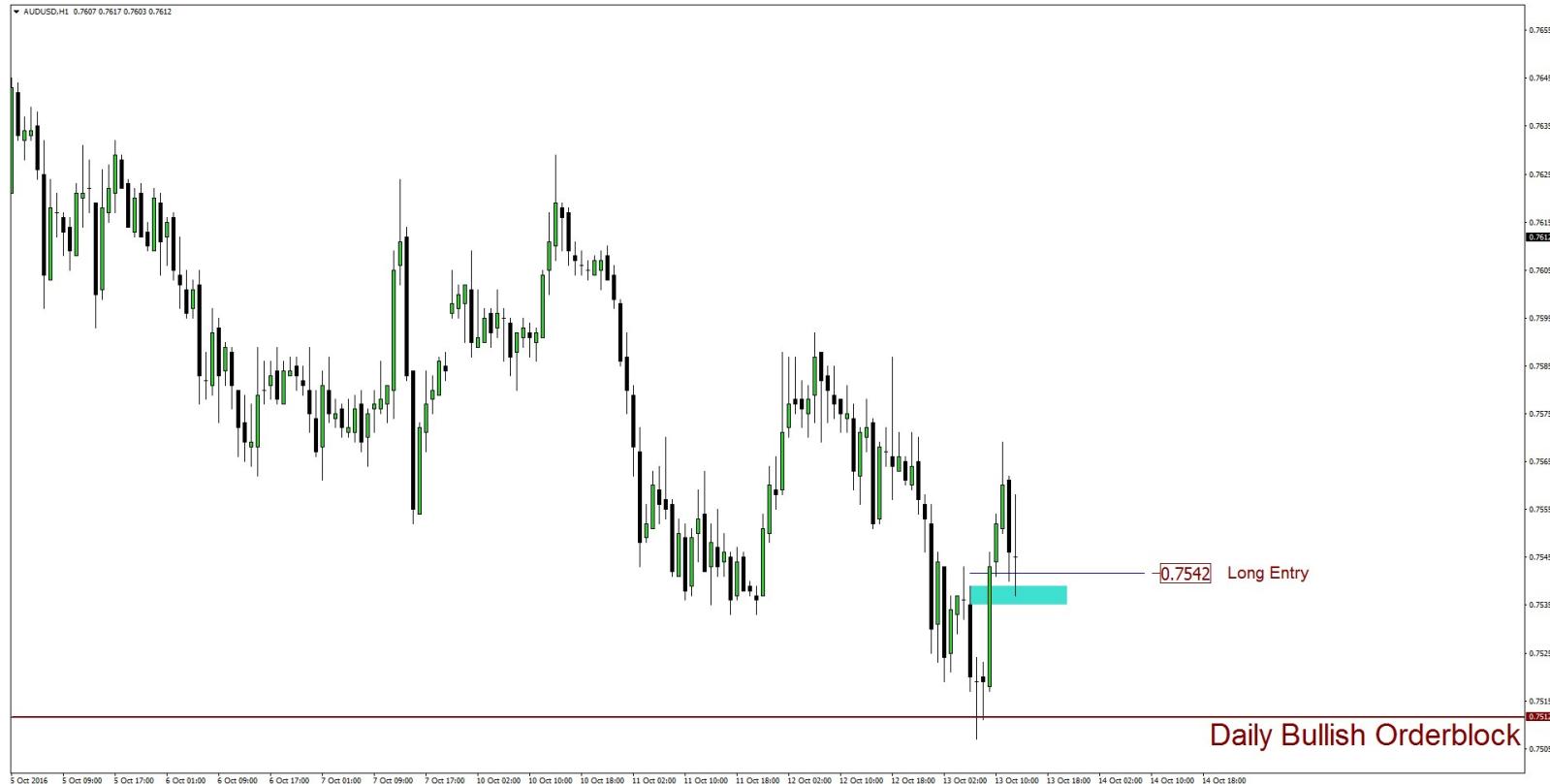
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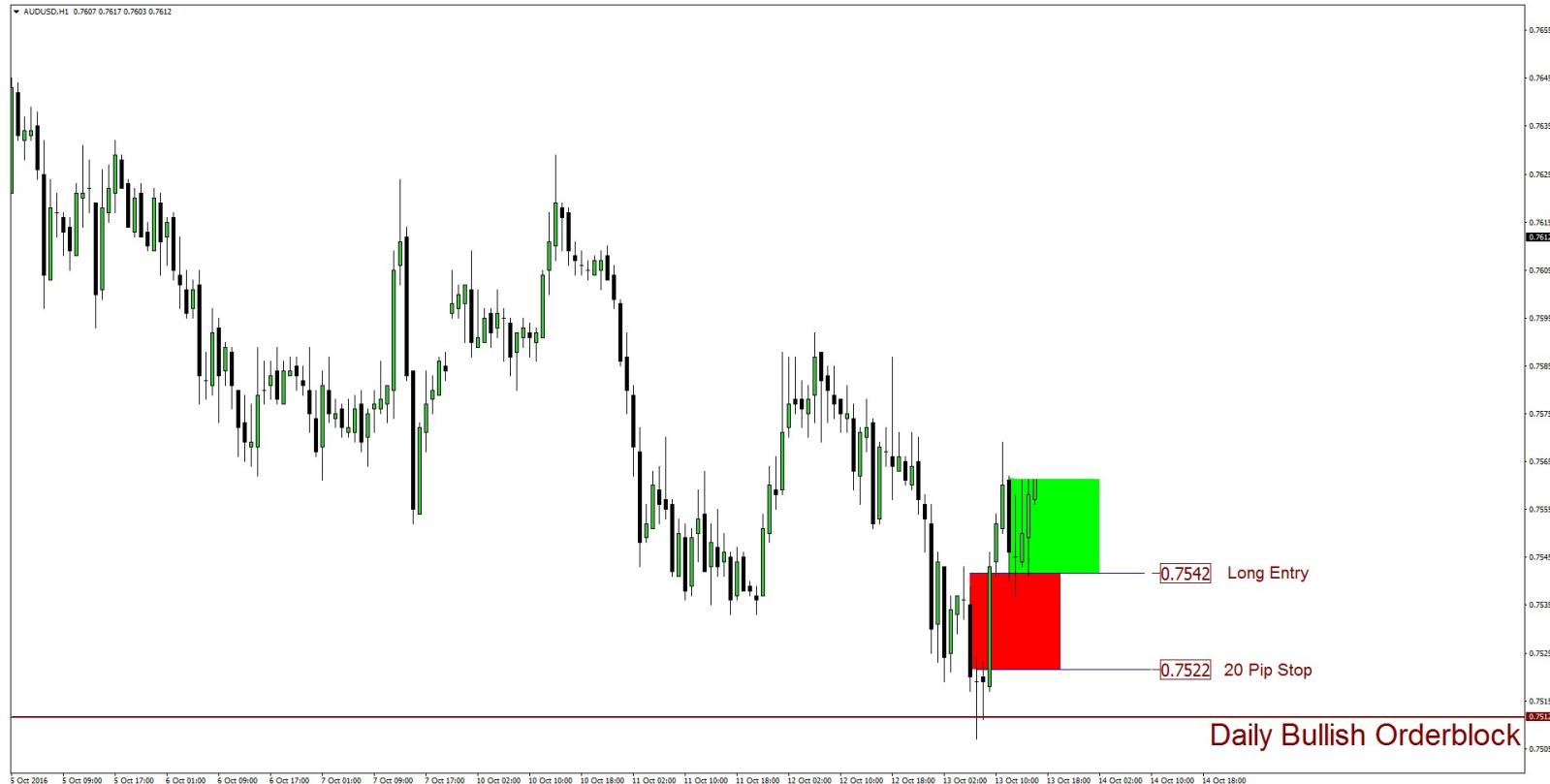
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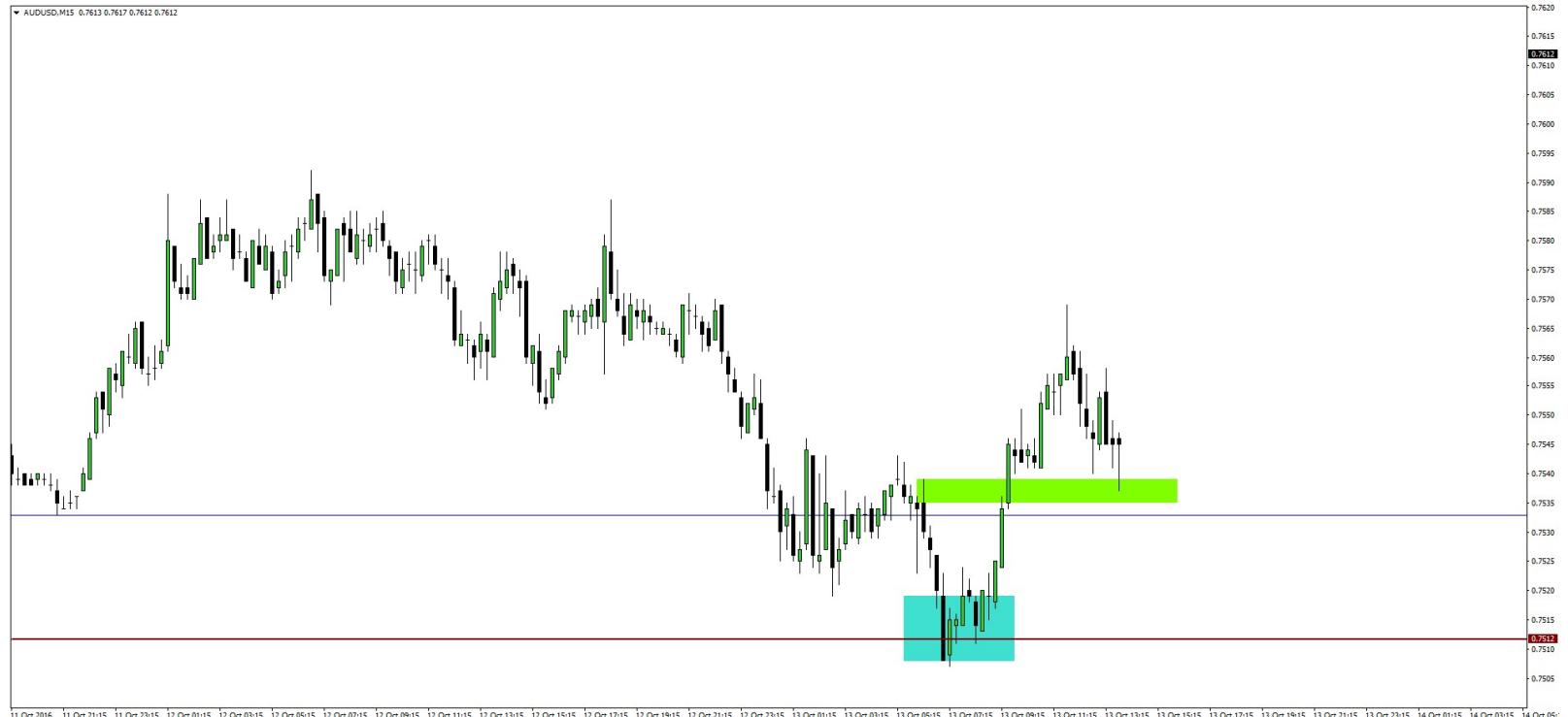
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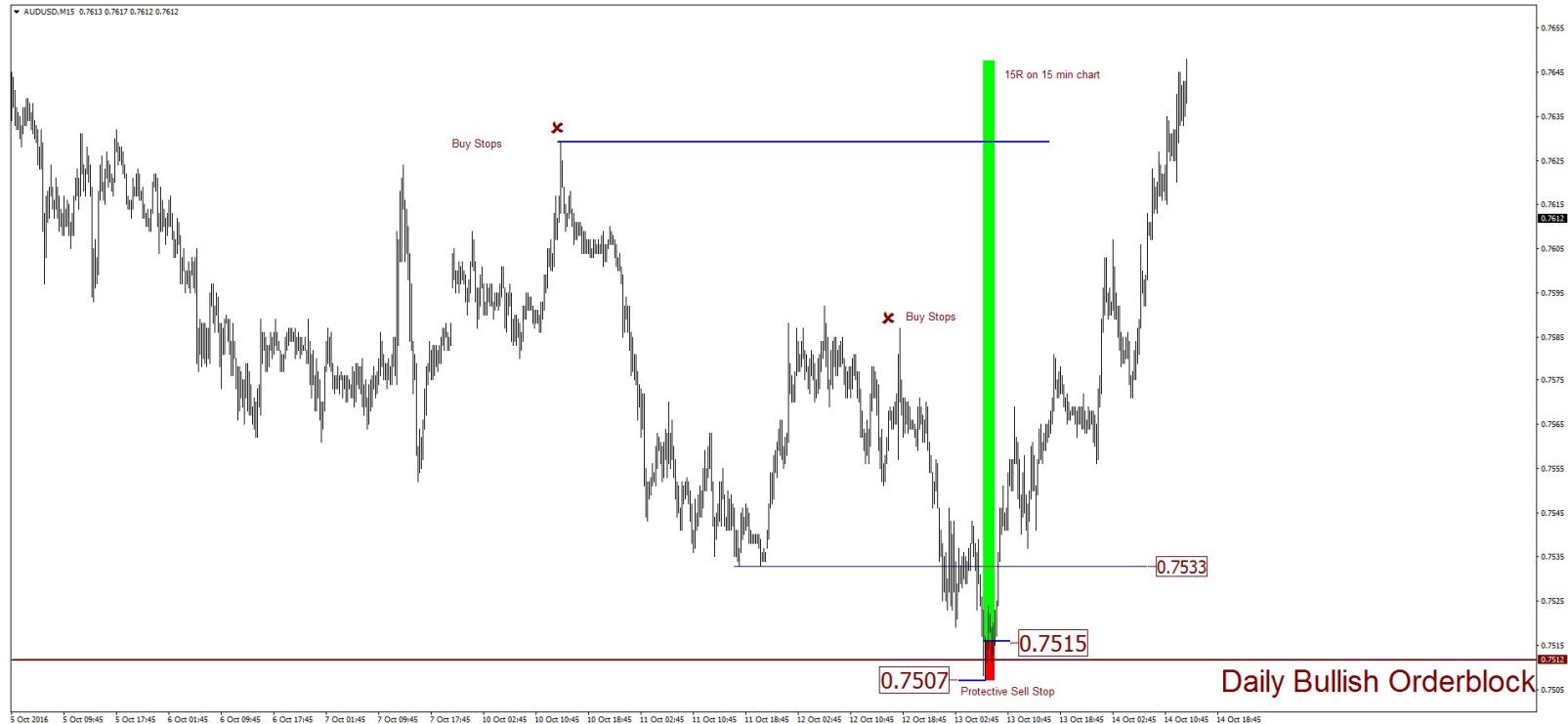
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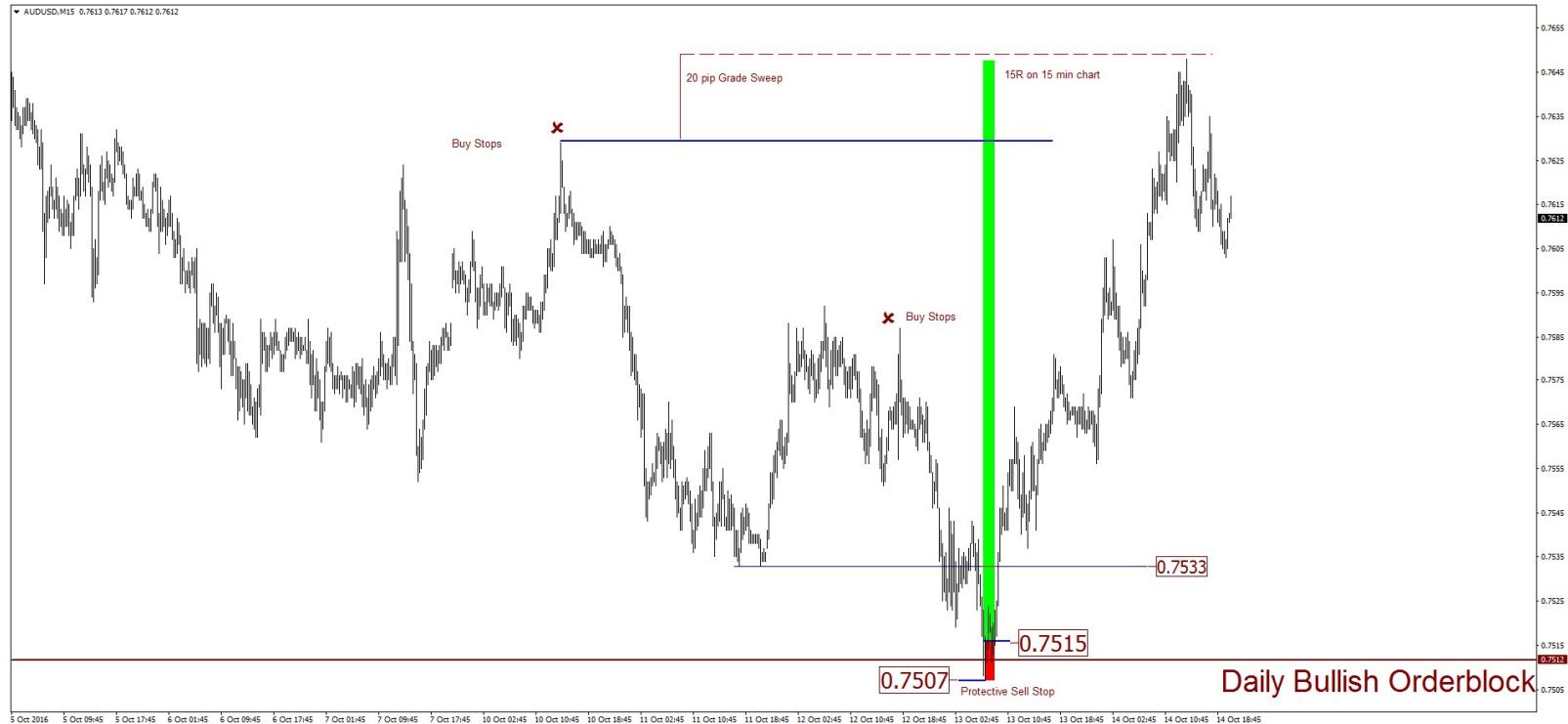
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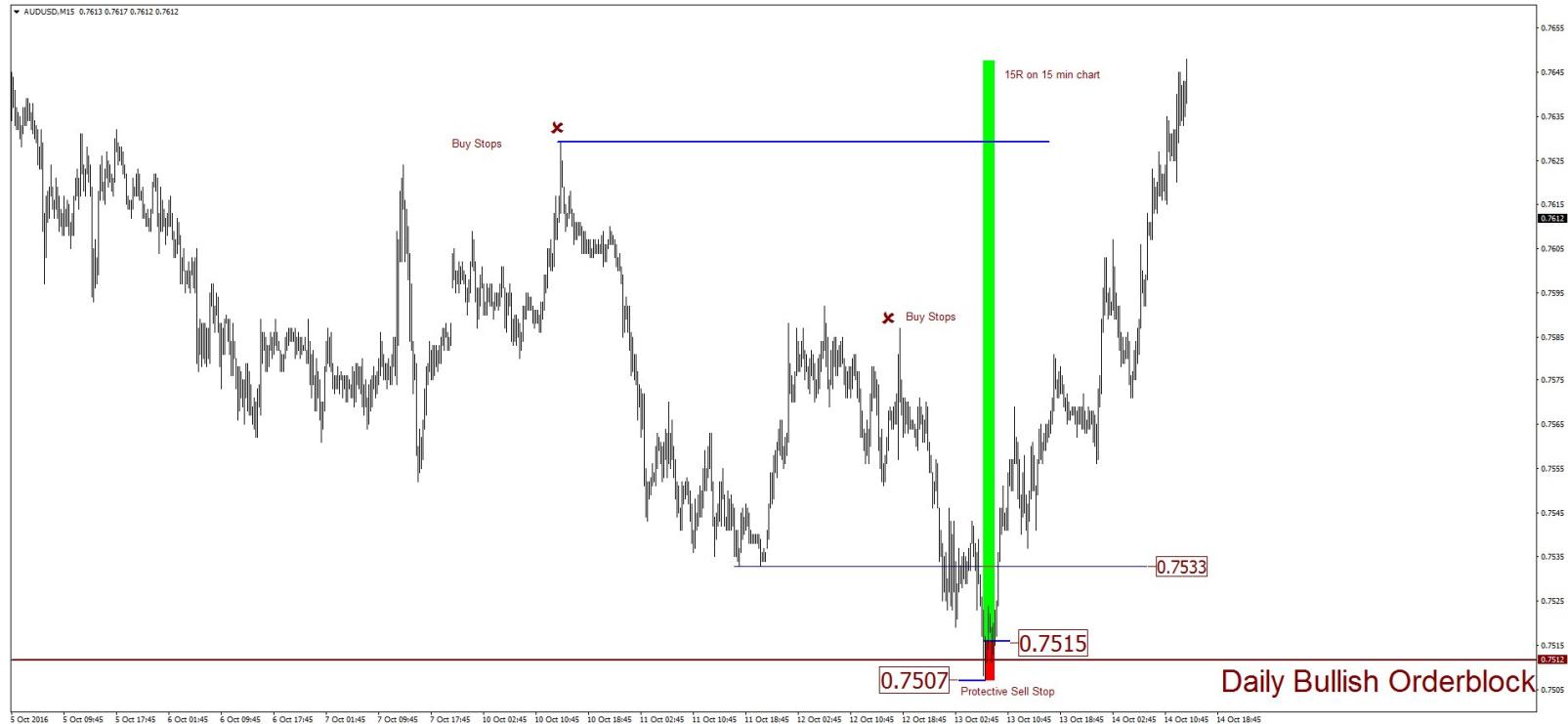
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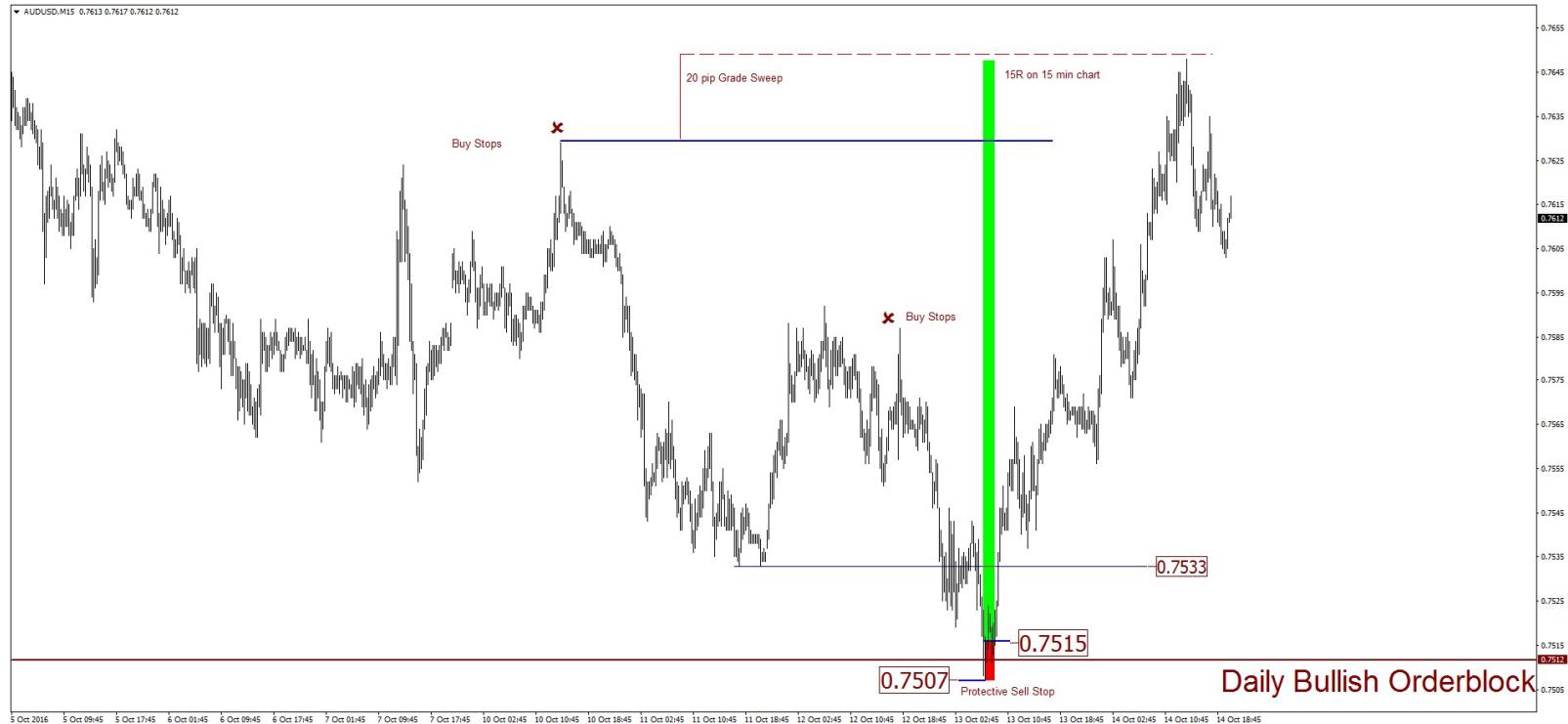
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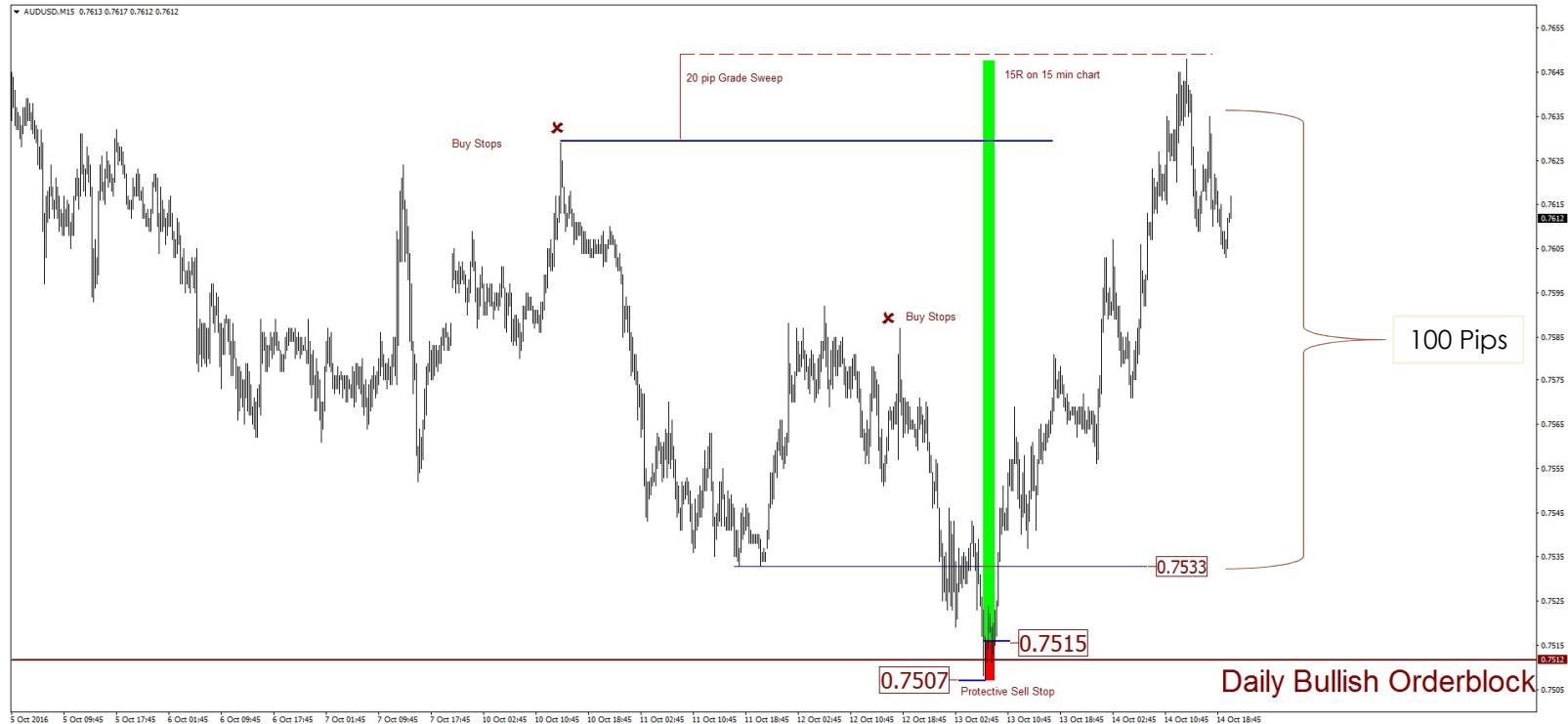
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## Forex Projected Goals Calculator

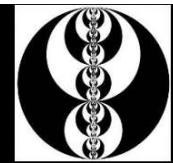
	Base Equity	Weekly Pip Goal	% Risk Per Trade	Pips Per Stoploss	
	\$1,000.00	50	1	20	
	Projected Cumulative Equity	Projected Net Gain	Value Per Pip	Weekly Profit	Return On Investment
Base Equity	\$1,000.00	\$1,025.00	\$0.50	\$25.00	2.5%
Week 2	\$1,025.00	\$1,050.63	\$0.51	\$25.63	5.1%
Week 3	\$1,050.63	\$1,076.89	\$0.53	\$26.27	7.7%
Week 4	\$1,076.89	\$1,103.81	\$0.54	\$26.92	10.4%
Week 5	\$1,103.81	\$1,131.41	\$0.55	\$27.60	13.1%
Week 6	\$1,131.41	\$1,159.69	\$0.57	\$28.29	16.0%
Week 7	\$1,159.69	\$1,188.69	\$0.58	\$28.99	18.9%
Week 8	\$1,188.69	\$1,218.40	\$0.59	\$29.72	21.8%
Week 9	\$1,218.40	\$1,248.86	\$0.61	\$30.46	24.9%
Week 10	\$1,248.86	\$1,280.08	\$0.62	\$31.22	28.0%
Week 11	\$1,280.08	\$1,312.09	\$0.64	\$32.00	31.2%
Week 12	\$1,312.09	\$1,344.89	\$0.66	\$32.80	34.5%
Week 13	\$1,344.89	\$1,378.51	\$0.67	\$33.62	37.9%
Week 14	\$1,378.51	\$1,412.97	\$0.69	\$34.46	41.3%

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## Forex Projected Goals Call

This Is After 1<sup>st</sup> Profit!

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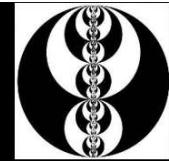


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10% return 1<sup>st</sup> month



# Why Losing On Trades Won't Affect Your Profitability

- A. What Trading With Fear Of Taking Losses Actually Does To Your Trading:
  - 1) Staying concerned about taking a loss promotes Fear Based Decision Making.
  - 2) Equity that is managed by Traders that can not take a loss – can't profit long term.
  - 3) Losing is inevitable – Fear Based Decision Making keeps focus on the adverse.
  - 4) Fear Based Decision Making fosters Trader Paralysis or inability to execute efficiently.
  
- B. Why Profits Are Achievable Despite Taking Reasonable Losses:
  - 1) The Professional Equity Manager understands “Losses are costs of doing business.”
  - 2) Using sound Equity Management & High Probability Setups yield handsome % returns.
  - 3) Trading scenarios that encourage potential 3:1 Reward Ratios, provide initial foundation.
  - 4) Defining Trade Setups that frame 5:1 Reward to Risk or more - efficiently cover losses.

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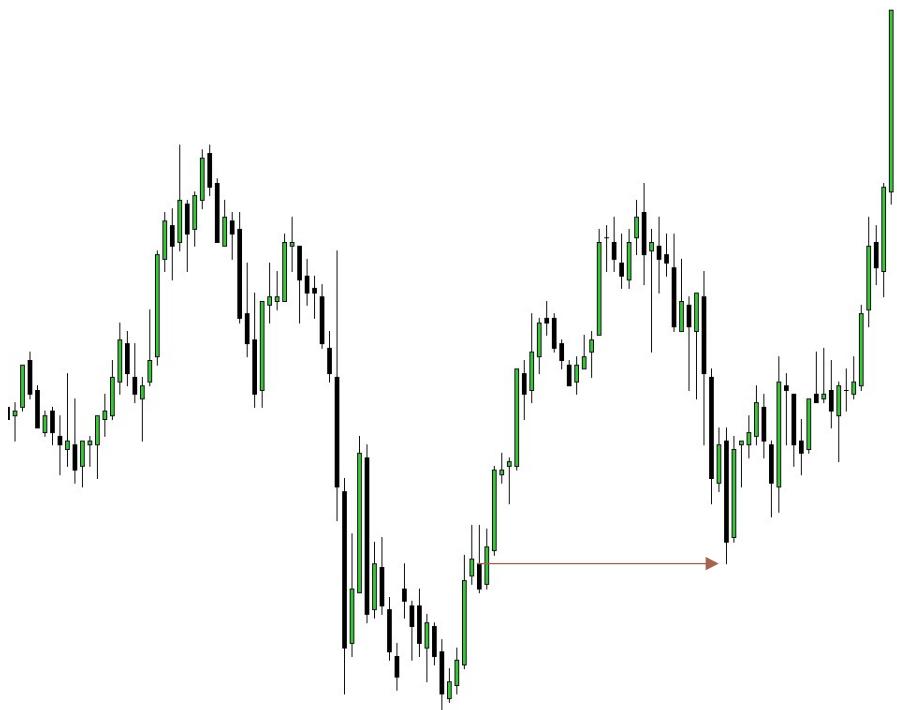


The Market Setup  
& Framing The Risk  
to Reward Multiples

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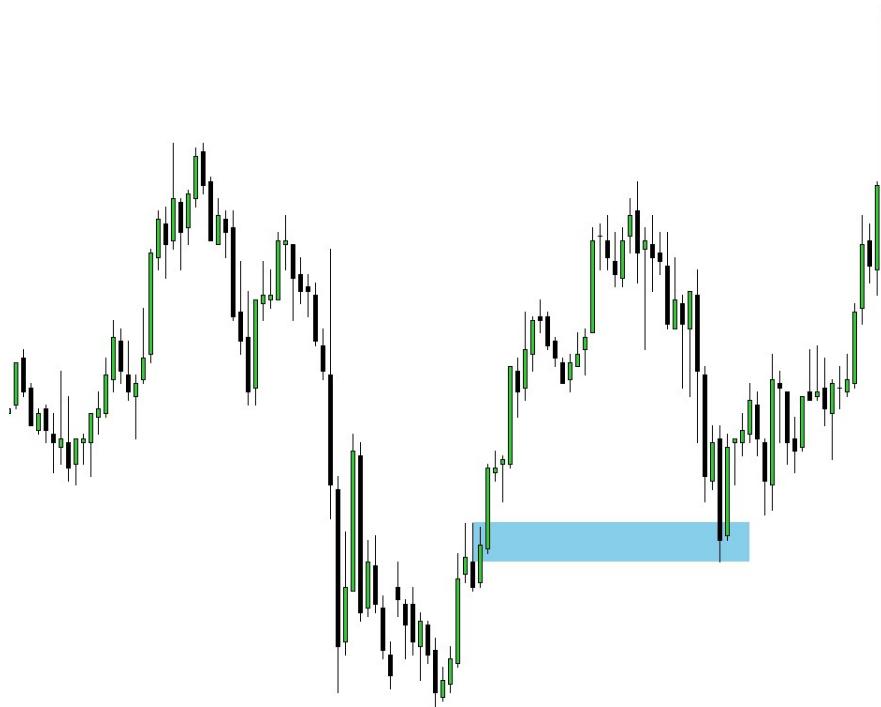
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The Market Returns To Previous Institutional Buying – Noted By The Down Candle Prior To The Previous Price Rally.

### Bullish Orderblock

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Noting The Down Candle Or  
Bullish Orderblock High To Open  
Price Defines The Fair Value Gap  
– Or Most Probable “Support”.

### Fair Value Gap

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Mean Threshold & Hypothetical Long  
Entry On Secondary Bullish Orderblock

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Using 20 Pips As The Trade Stop Loss – Easily Frames Reward Multiples Of –

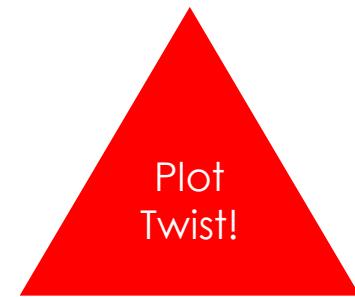
3:1 Reward To Risk  
5:1 Reward To Risk

Or Even Higher.

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Let's Assume You Went Long & Used The Top Of The Bullish Orderblock For Entry & The Mean Threshold For Stop Placement – Resulting In The Trade Losing After Being Stopped Out.



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Let's Assume You Went Long & Used The Top Of The Bullish Orderblock For Entry & The Mean Threshold For Stop Placement – Resulting In The Trade Losing After Being Stopped Out.

Long Entry Stop Loss

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Using 20 Pips As The Trade Stop Loss – Easily Frames Reward Multiples Of –

3:1 Reward To Risk  
5:1 Reward To Risk

Or Even Higher.

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} Go Long With  $\frac{1}{2}$  Of The Position  
Size Used On The Initial Loss.

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If The Initial Loss Was 2% Of The Equity Base – This Trade Would Be 1% Of The Equity Base In Risk.

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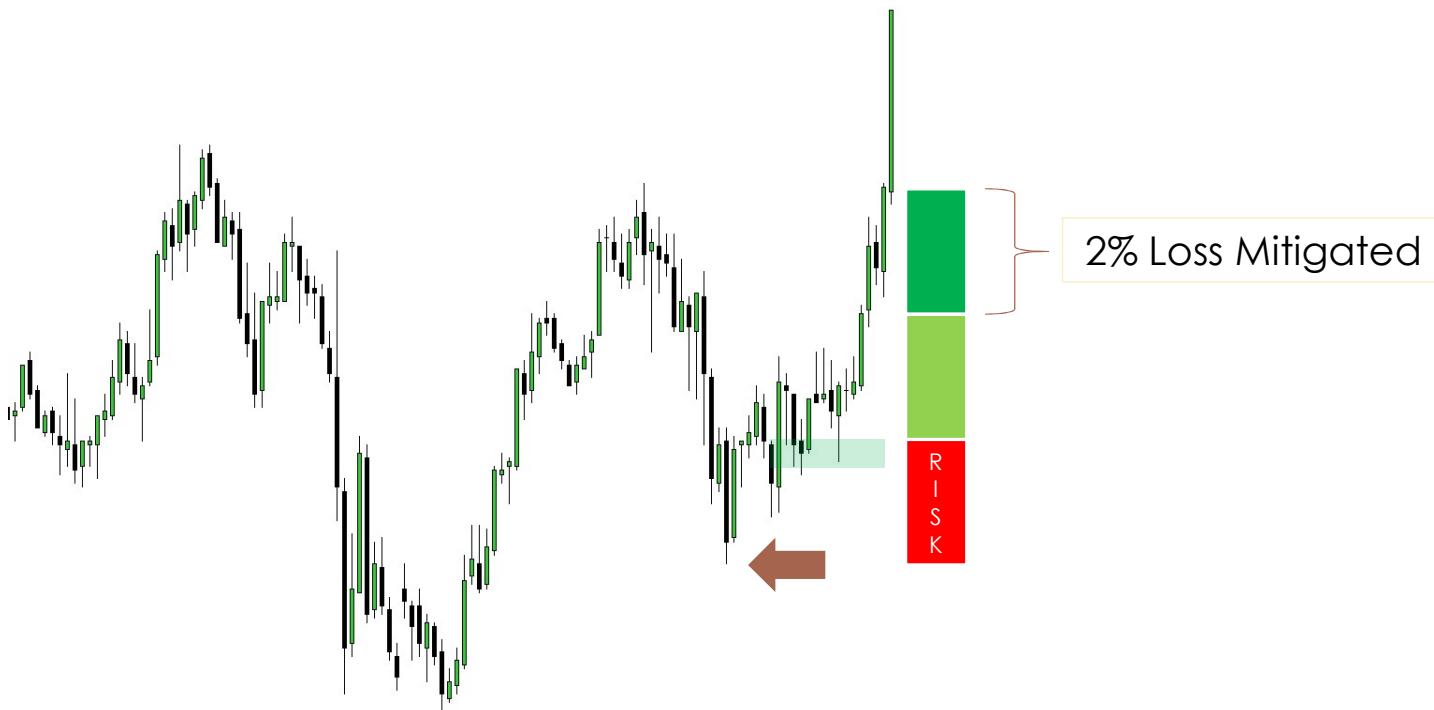
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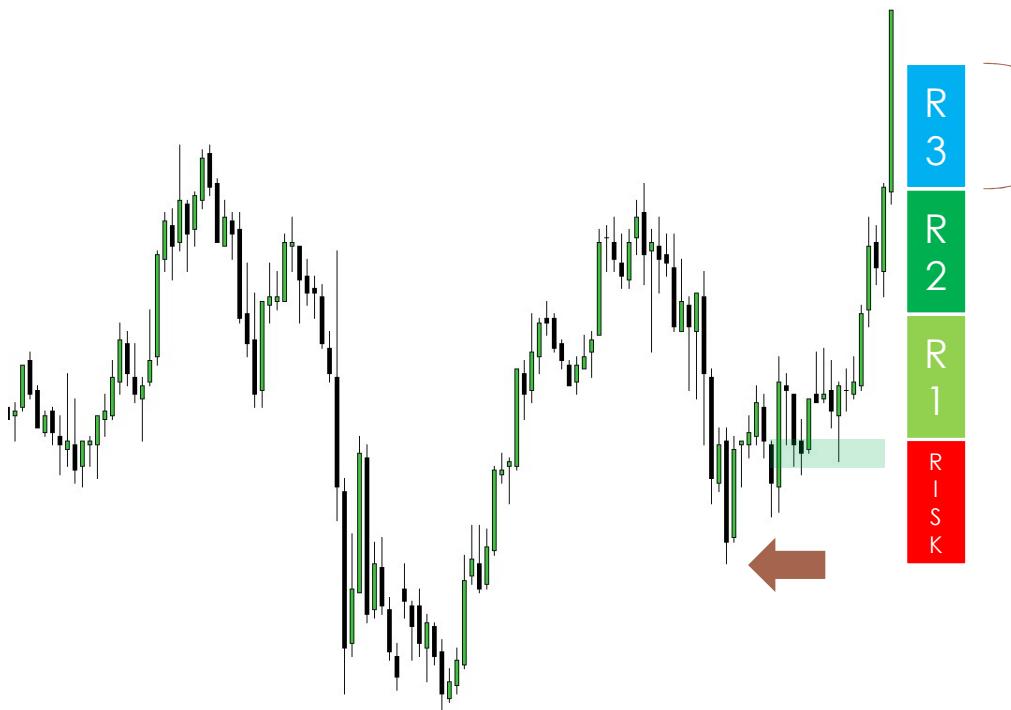
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Equity Base Permits Full  
Leverage Again At 2%.

# Consider The Numbers...

Wins	Losses
30%	70%
3 Wins In 10 Trades	7 Losses In 10 Trades
Aver. Profit = \$150.00	Aver. Loss = \$50.00
Sub Total = \$450.00	Sub Total = \$350.00
<b>Net Profit = \$100.00</b>	
<b>2% Return</b>	

Account Size: **\$5000.00**  
Accuracy Rate: **30%**  
Reward To Risk: **3:1 Ratio**  
Risk Per Trade: **1%**  
Average Win: **\$150.00**  
Average Loss: **\$50.00**

# Consider The Numbers...

Wins	Losses
30%	70%
3 Wins In 10 Trades	7 Losses In 10 Trades
Aver. Profit = \$250.00	Aver. Loss = \$50.00
Sub Total = \$750.00	Sub Total = \$350.00
<b>Net Profit = \$400.00</b>	
<b>8% Return</b>	

Account Size: **\$5000.00**  
Accuracy Rate: **30%**  
Reward To Risk: **5:1 Ratio**  
Risk Per Trade: **1%**  
Average Win: **\$250.00**  
Average Loss: **\$50.00**

# Consider The Numbers...

Wins	Losses
30%	70%
3 Wins In 10 Trades	7 Losses In 10 Trades
Aver. Profit = \$500.00	Aver. Loss = \$100.00
Sub Total = \$1500.00	Sub Total = \$700.00
<b>Net Profit = \$800.00</b>	
<b>16% Return</b>	

Account Size: **\$5000.00**  
Accuracy Rate: **30%**  
Reward To Risk: **5:1 Ratio**  
Risk Per Trade: **2%**  
Average Win: **\$500.00**  
Average Loss: **\$100.00**

# Consider The Numbers...

Wins	Losses
40%	60%
4 Wins In 10 Trades	6 Losses In 10 Trades
Aver. Profit = \$500.00	Aver. Loss = \$100.00
Sub Total = \$2000.00	Sub Total = \$600.00
<b>Net Profit = \$1400.00</b>	
<b>28% Return</b>	

Account Size: **\$5000.00**  
Accuracy Rate: **40%**  
Reward To Risk: **5:1 Ratio**  
Risk Per Trade: **2%**  
Average Win: **\$500.00**  
Average Loss: **\$100.00**

# Consider The Numbers...

Wins	Losses
50%	50%
5 Wins In 10 Trades	5 Losses In 10 Trades
Aver. Profit = \$500.00	Aver. Loss = \$100.00
Sub Total = \$2500.00	Sub Total = \$500.00
<b>Net Profit = \$2000.00</b>	
<b>40% Return</b>	

Account Size: **\$5000.00**  
Accuracy Rate: **50%**  
Reward To Risk: **5:1 Ratio**  
Risk Per Trade: **2%**  
Average Win: **\$500.00**  
Average Loss: **\$100.00**

# Consider The Numbers...

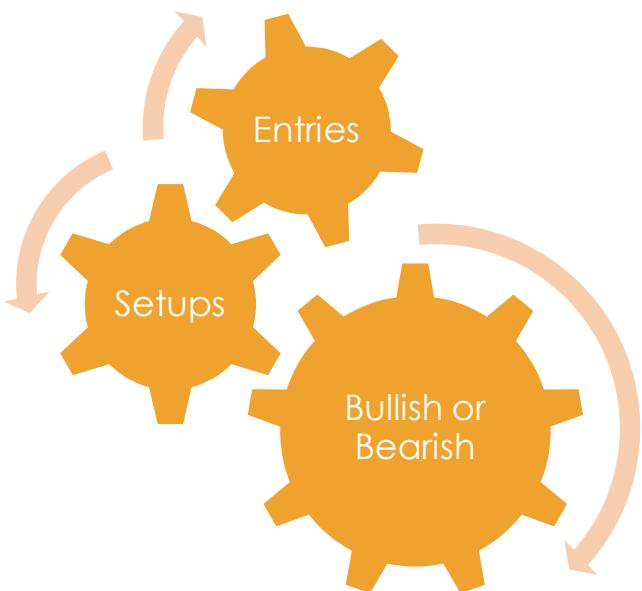
Wins	Losses
50%	50%
5 Wins In 10 Trades	5 Losses In 10 Trades
Aver. Profit = \$250.00	Aver. Loss = \$50.00
Sub Total = \$1250.00	Sub Total = \$250.00

**Net Profit = \$1000.00**      **20% Return**

Account Size: **\$5000.00**  
Accuracy Rate: **50%**  
Reward To Risk: **5:1 Ratio**  
Risk Per Trade: **1%**  
Average Win: **\$250.00**  
Average Loss: **\$50.00**

Optimal Trading Goal

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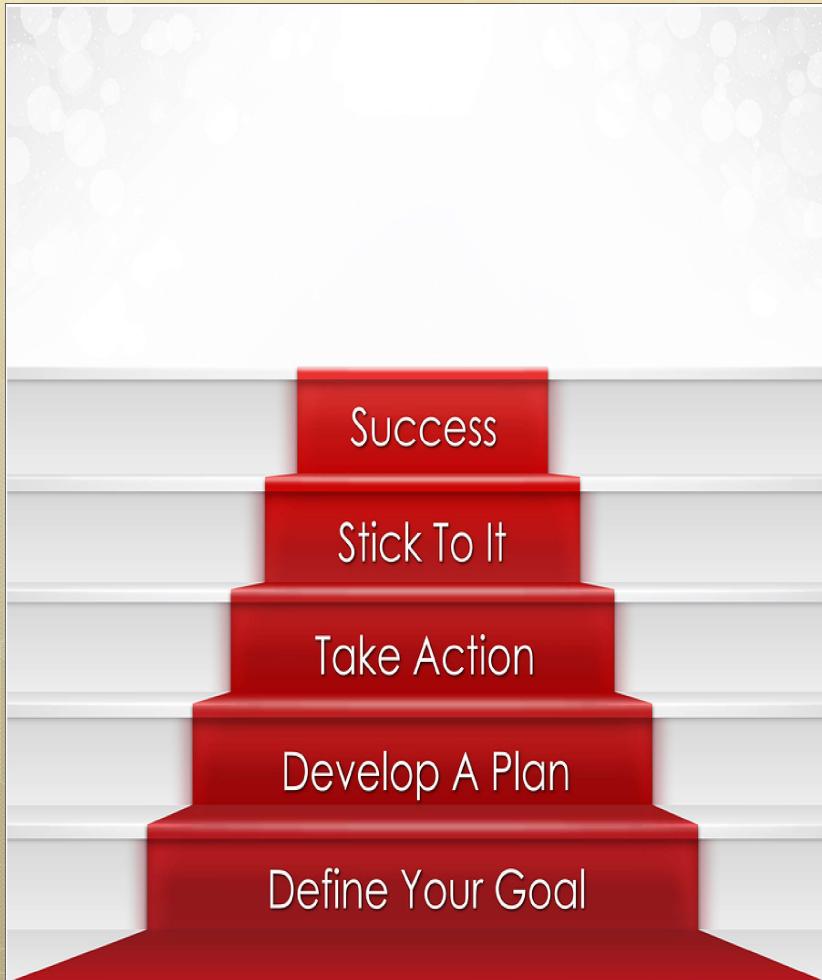
The Secrets To High Reward Trading Setups:



## Focal Point

It is crucial to understand that efficiency in Trading comes by way of Process Oriented Thinking – not by way of Reactionary or Impulsive Thinking - or rushing ahead to Trade Signals prematurely.

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The Secrets To High Reward Trading Setups:

### Big Picture Perspective:

1. Macro Market Analysis
2. Interest Rate Analysis
3. Intermarket Analysis
4. Seasonal Influences

### Intermediate Perspective:

1. Top Down Analysis
2. COT Data
3. Market Sentiment

### Short Term Perspective:

1. Correlation Analysis
2. Time & Price Theory
3. IPDA – Interbank Price Delivery Algorithm

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The Secrets To High Reward Trading Setups:

## **Big Picture Perspective:**

1. Macro Market Analysis
2. Interest Rate Analysis
3. Intermarket Analysis
4. Seasonal Influences

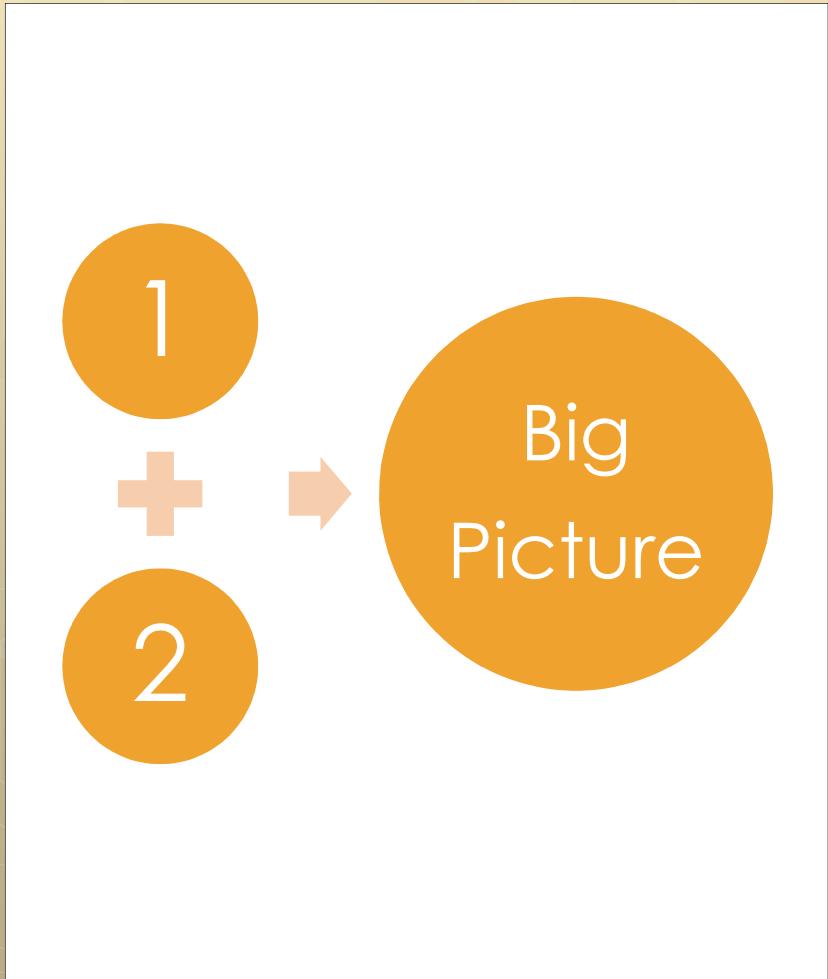
## Intermediate Perspective:

1. Top Down Analysis
2. COT Data
3. Market Sentiment

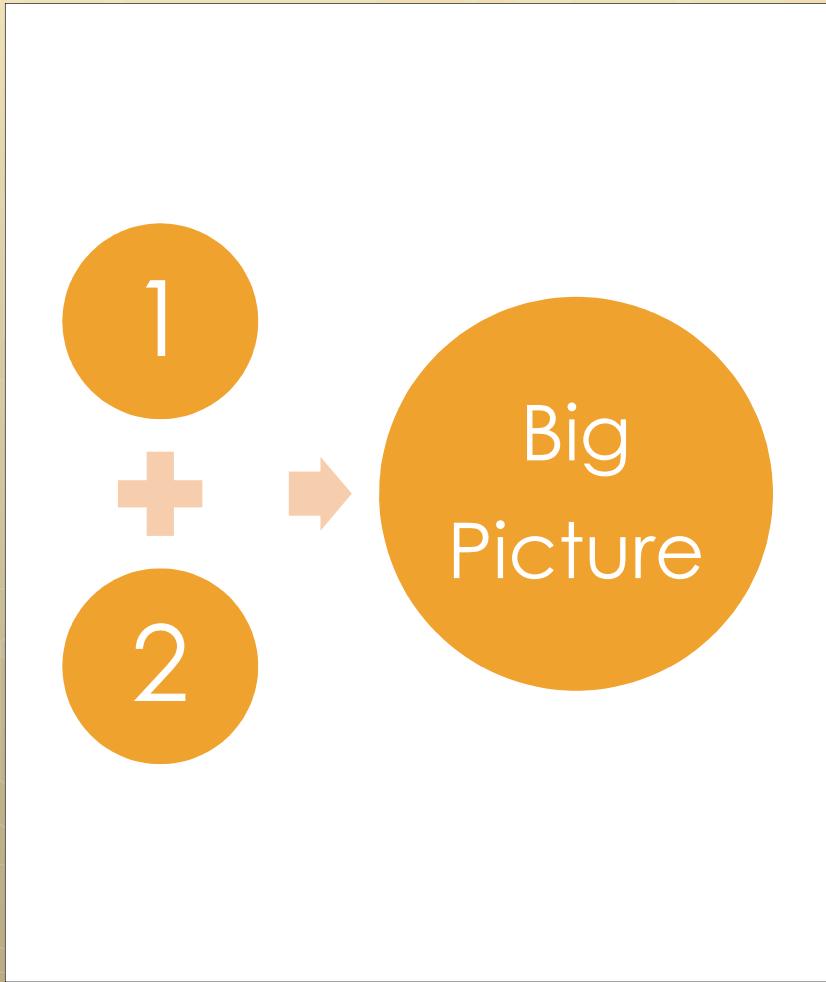
## Short Term Perspective:

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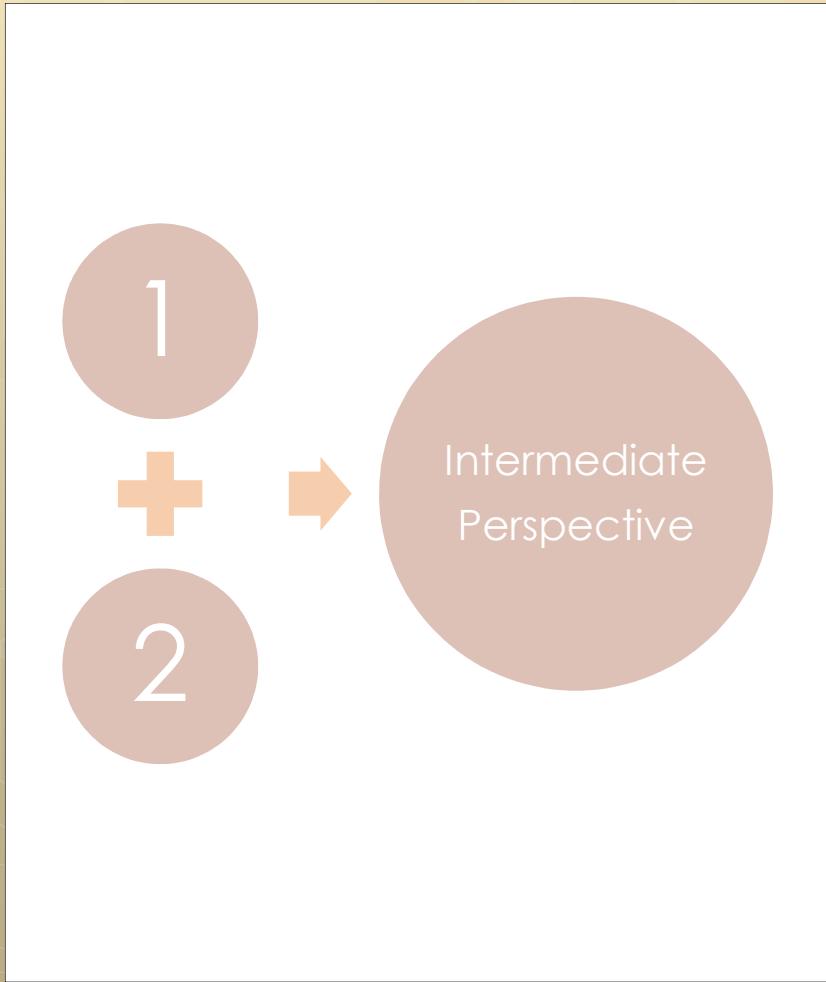
The Secrets To High Reward Trading Setups:

## Big Picture Perspective:

1. Macro Market Analysis
  - a) Inflationary Market
  - b) Deflationary Market
2. Interest Rate Analysis
  - a) Higher Rates
  - b) Lower Rates
  - c) Unexpected Change
3. Intermarket Analysis
  - a) CRB Index – Commodities
  - b) USDX – US Dollar Index
4. Seasonal Influences
  - a) Bullish Seasonal Tendencies
  - b) Bearish Seasonal Tendencies

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## The Secrets To High Reward Trading Setups:

### Big Picture Perspective:

1. Macro Market Analysis
2. Interest Rate Analysis
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### Intermediate Perspective:

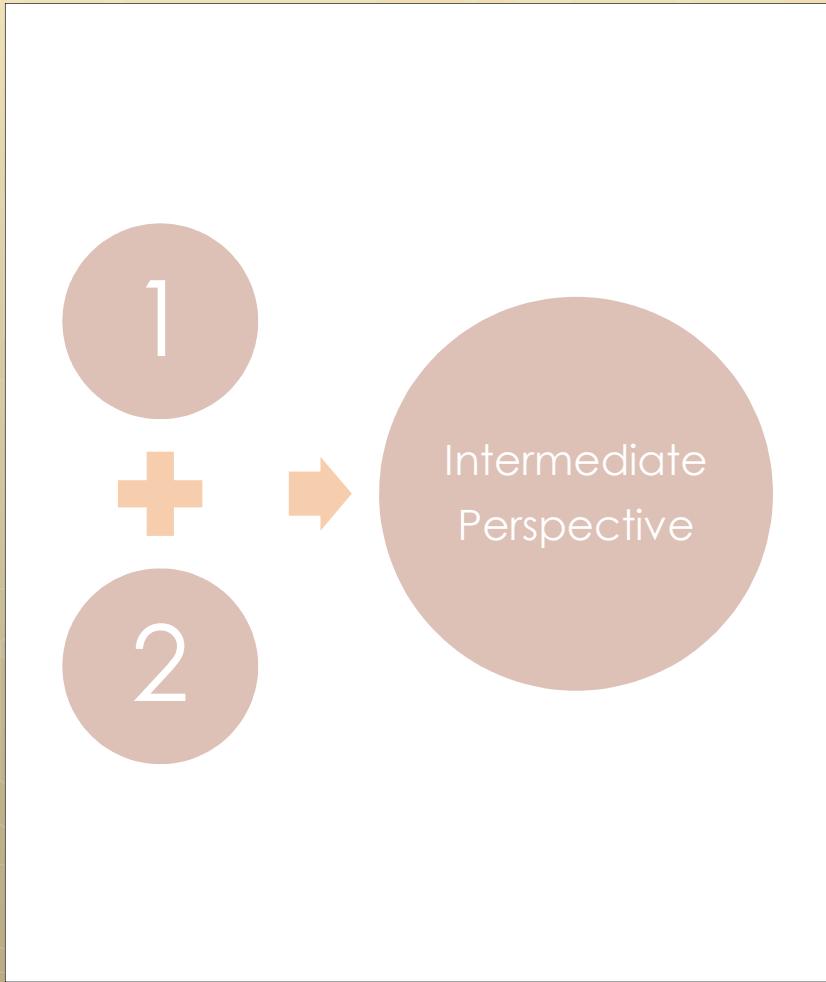
1. Top Down Analysis
2. COT Data
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### Short Term Perspective:

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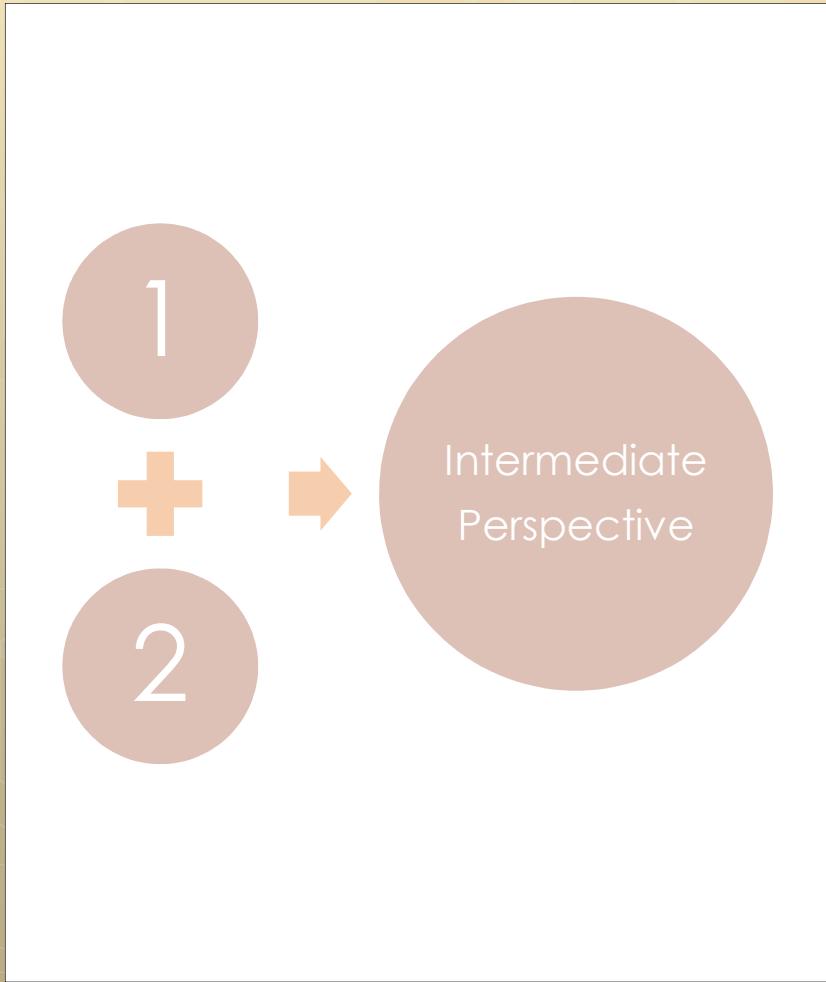


## The Secrets To High Reward Trading Setups: Intermediate Perspective:

1. Top Down Analysis
  1. Monthly Chart Analysis
  2. Weekly Chart Analysis
  3. Daily Chart Analysis
2. COT Data
  1. Bullish Hedging By Smart Money
  2. Bearish Hedging By Smart Money
  3. Extreme Levels Historically
3. Market Sentiment
  1. Extreme Market Bullishness
  2. Extreme Market Bearishness

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## The Secrets To High Reward Trading Setups:

### Big Picture Perspective:

1. Macro Market Analysis
2. Interest Rate Analysis
3. Intermarket Analysis
4. Seasonal Influences

### Intermediate Perspective:

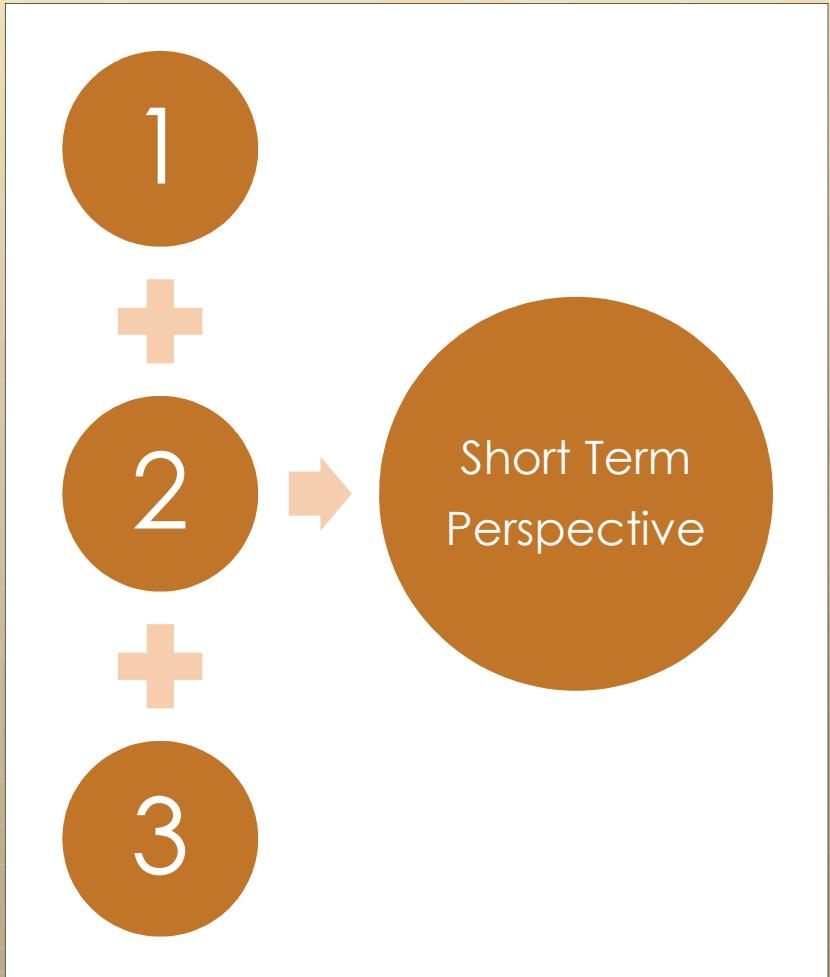
1. Top Down Analysis
2. COT Data
3. Market Sentiment

### Short Term Perspective:

1. Correlation Analysis
2. Time & Price Theory
3. IPDA – Interbank Price Delivery Algorithm

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## The Secrets To High Reward Trading Setups: Short Term Perspective:

1. Correlation Analysis
  - a) USDX SMT Analysis
  - b) Correlated Pair SMT Analysis
2. Time & Price Theory
  - a) Quarterly Effect
  - b) Monthly Effect
  - c) Weekly Range
  - d) Daily Range
  - e) Time Of Day
3. IPDA – Interbank Price Delivery Algorithm
  1. Institutional Order Flow
  2. Liquidity Seeking
  3. Market Efficiency Paradigm

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# Market Maker Trap: False Flags

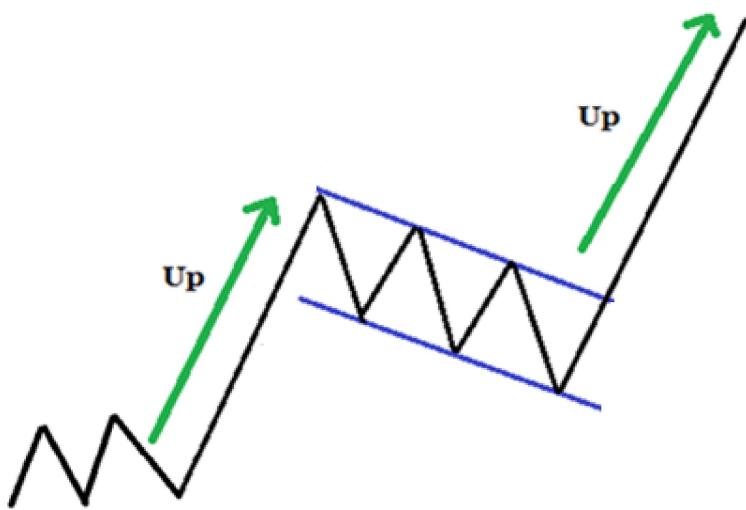
### A. False Bull Flags In Price Action:

- 1) Not all sudden Price Rallies that move into short term consolidations are Bull Flags.
- 2) In mature Bull Trends or in HTF Distribution Levels – Price will post false Bull Flags.
- 3) Retail Traders will see a Classic “continuation buy pattern” but it will result in a Reversal.
- 4) Understanding Higher Timeframe Charts & Premium Markets will assist in identifying.

### B. False Bear Flags In Price Action:

- 1) Not all sudden Price Declines that move into short term consolidations are Bear Flags.
- 2) In mature Bear Trends or in HTF Accumulation Levels – Price will post false Bear Flags.
- 3) Retail Traders will see a Classic “continuation sell pattern” but it will result in a Reversal.
- 4) Understanding Higher Timeframe Charts & Discount Markets will assist in identifying.

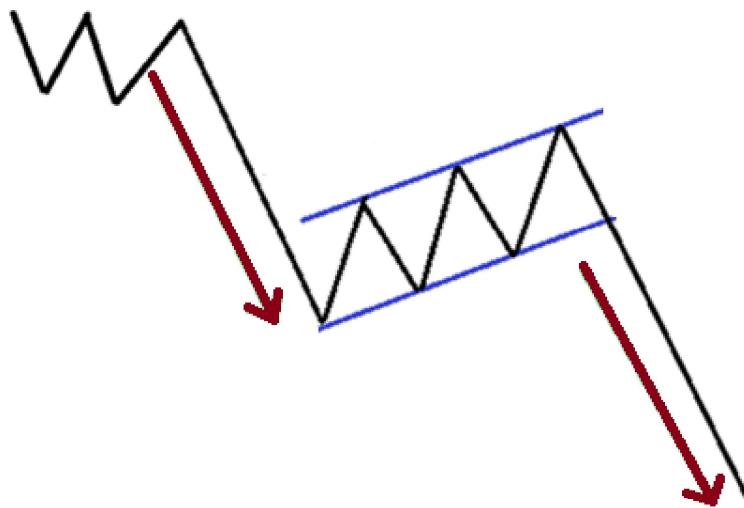
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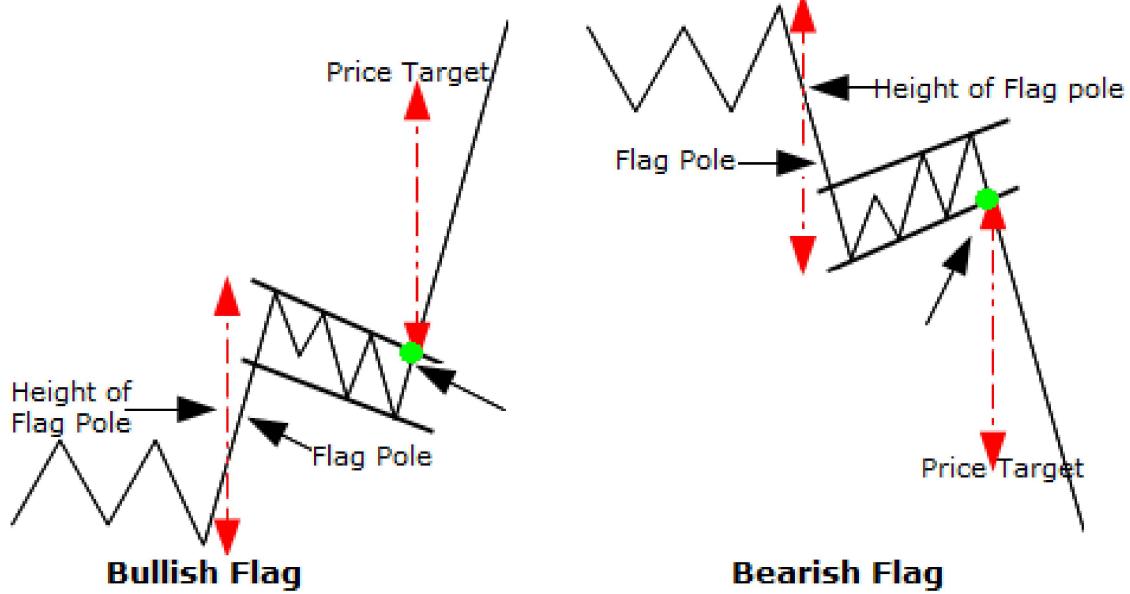
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What Happened?



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What Happened?



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# Market Maker Trap: False Breakouts

### A. False Breakouts Above Price Consolidations:

- 1) This condition generally manifests in Primary Bearish Markets.
- 2) At some measure of Equilibrium in Price, the market will move into a trading range.
- 3) Neophyte Traders or Breakout Traders will bracket the trading range in price with orders.
- 4) Market Makers will typically send price above the range to neutralize Buy Stops.

### B. False Breakout Below Price Consolidations:

- 1) This condition generally manifests in Primary Bullish Markets.
- 2) At some measure of Equilibrium in Price, the market will move into a trading range.
- 3) Neophyte Traders or Breakout Traders will bracket the trading range in price with orders.
- 4) Market Makers will typically send price below the range to neutralize Sell Stops.

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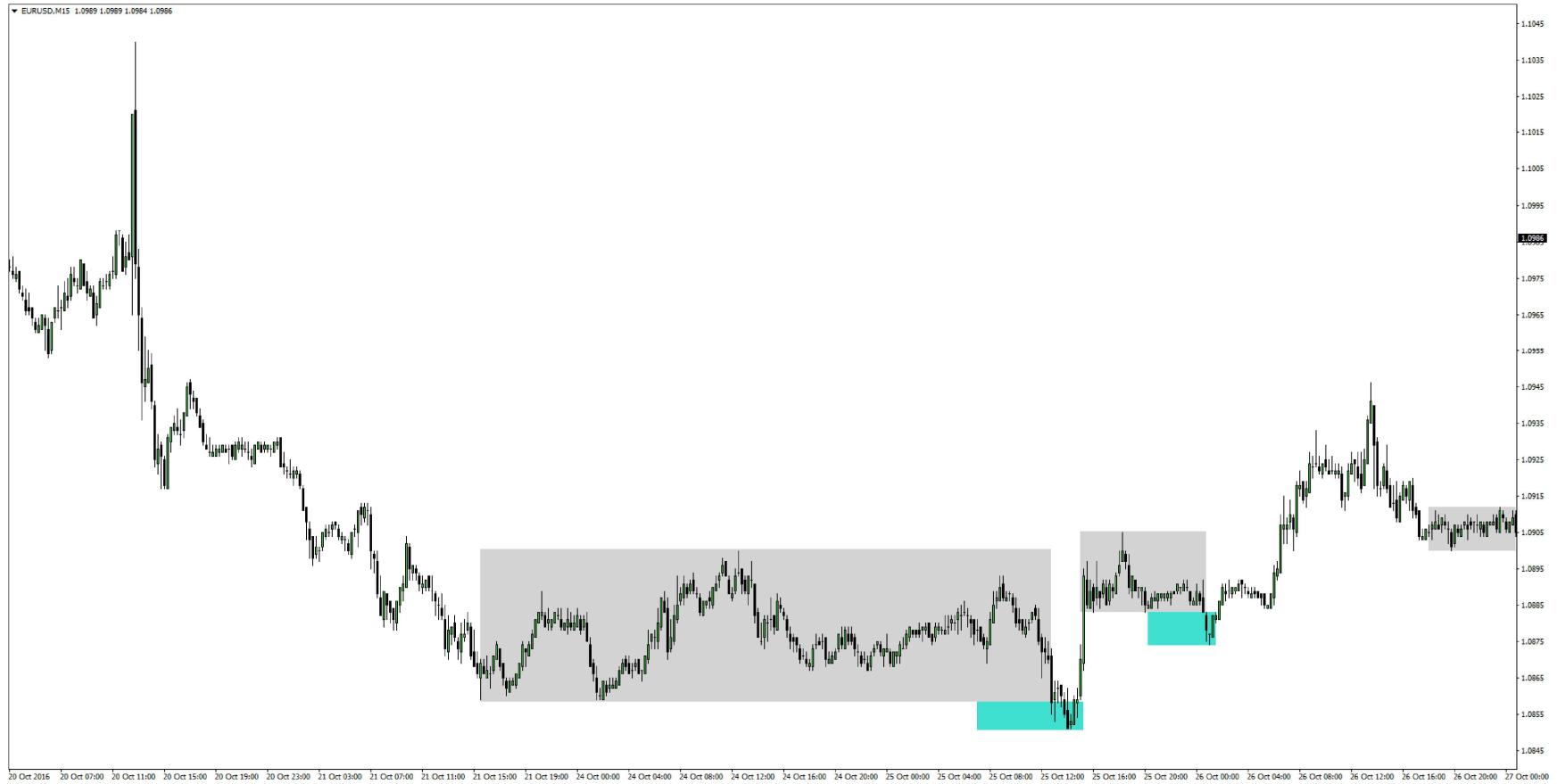
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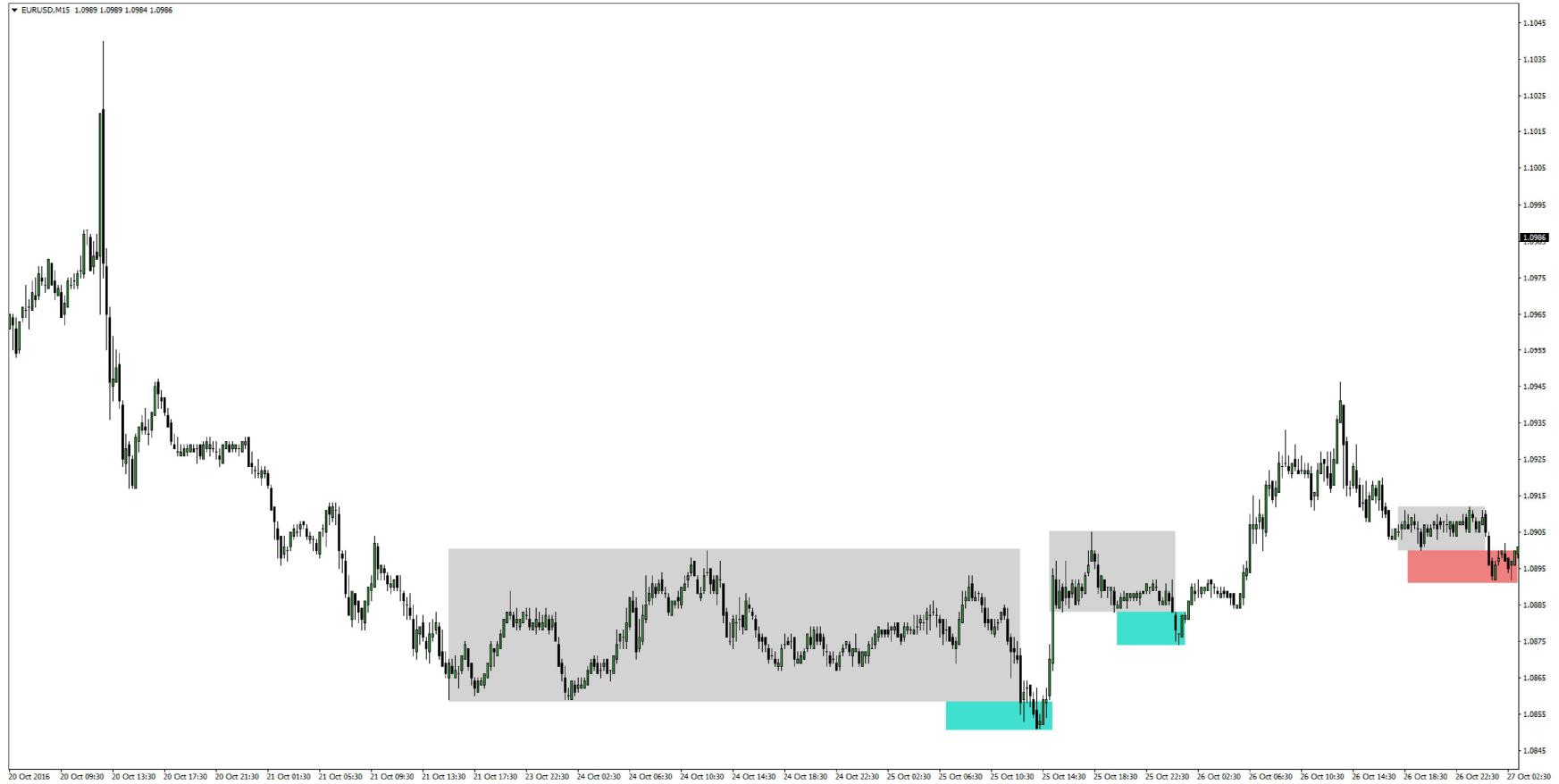
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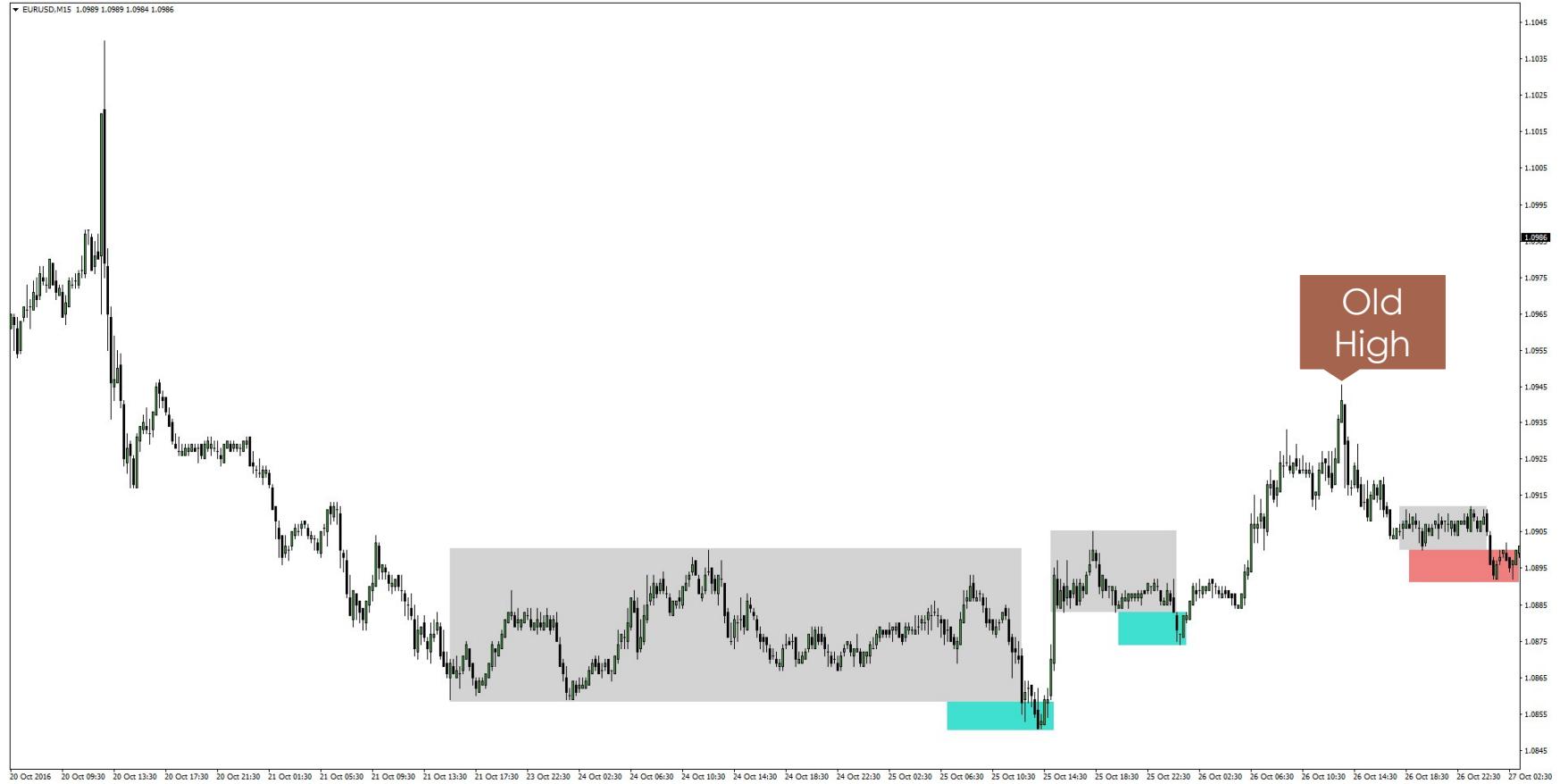
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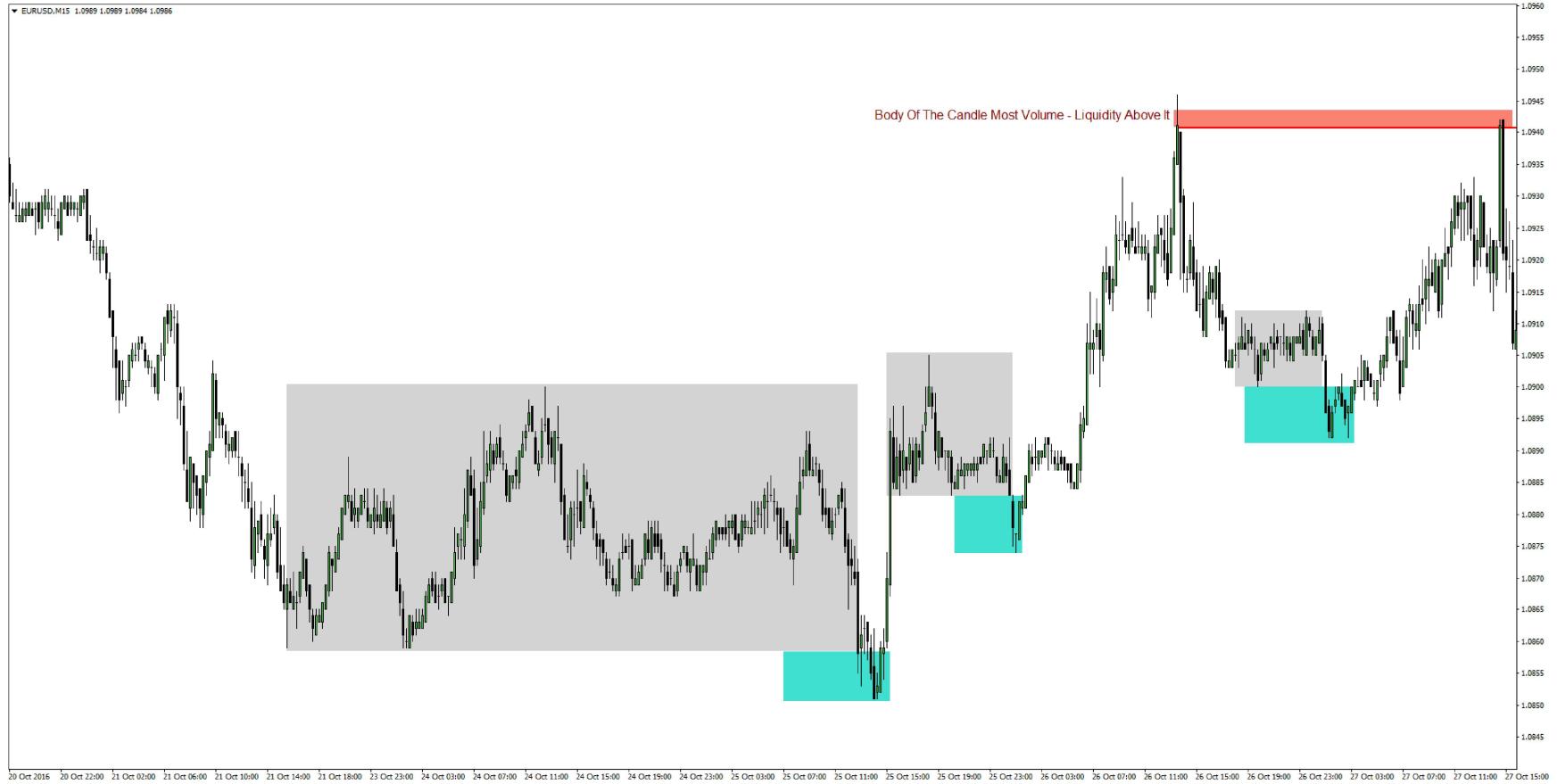
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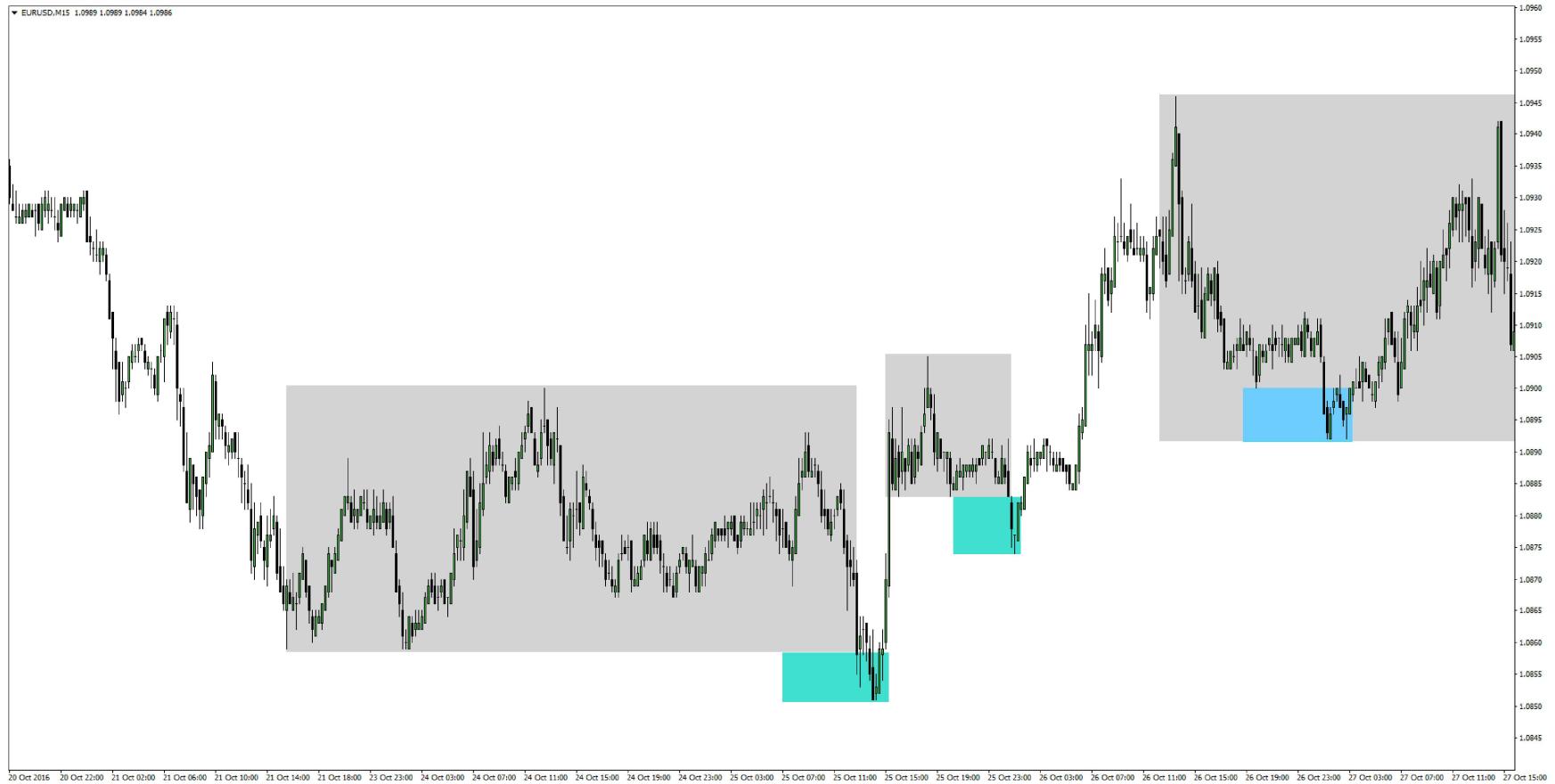
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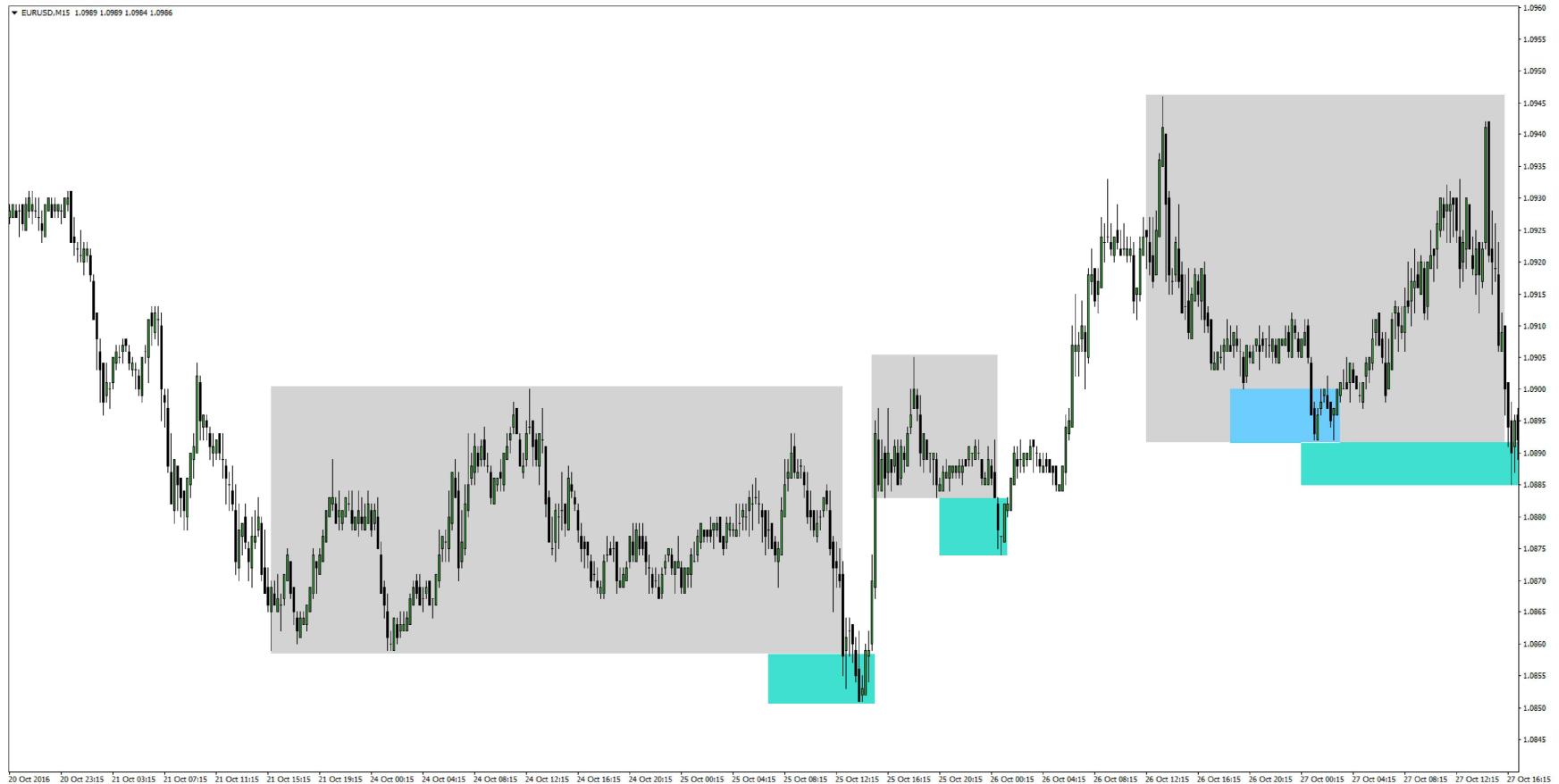
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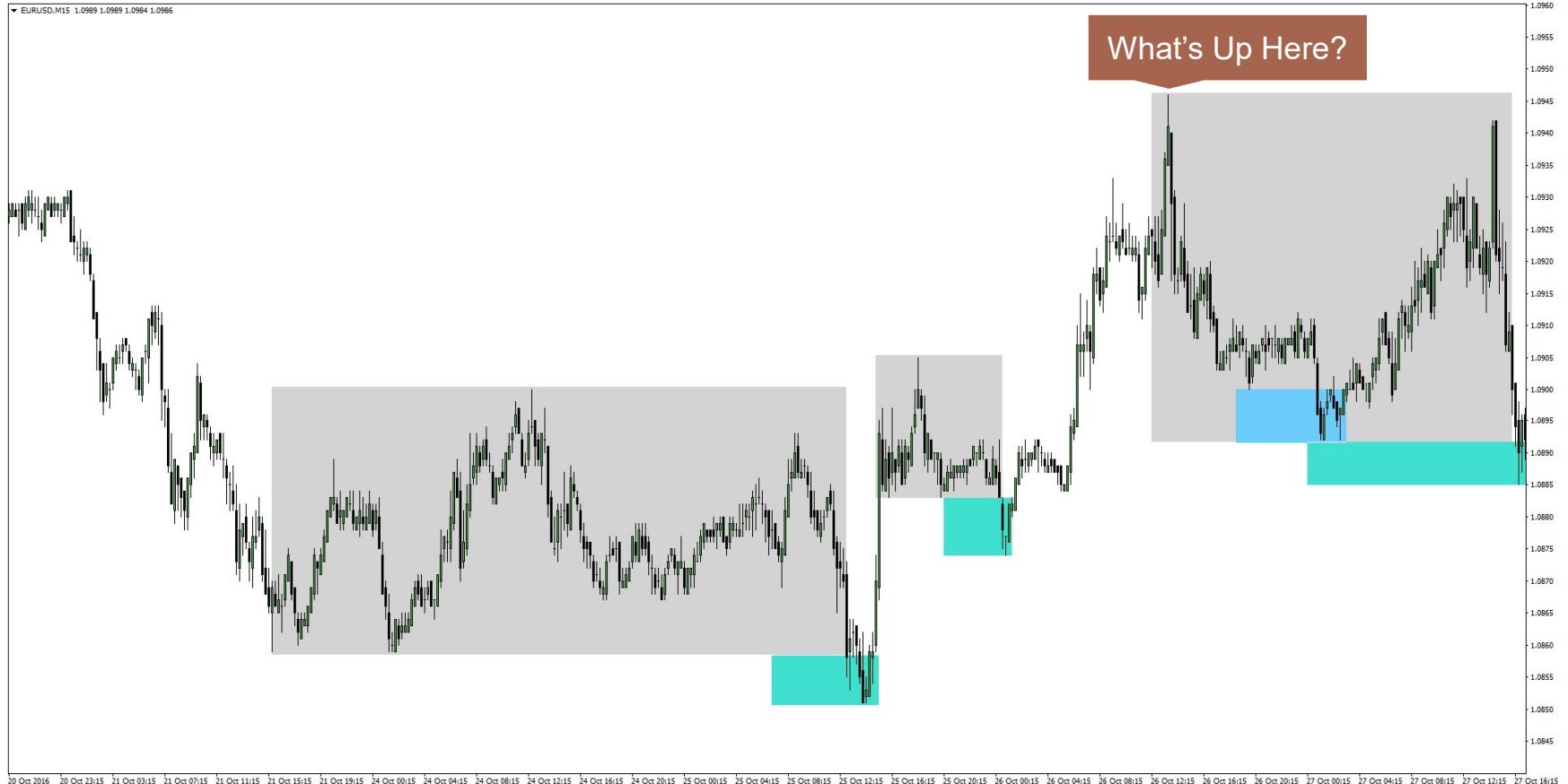


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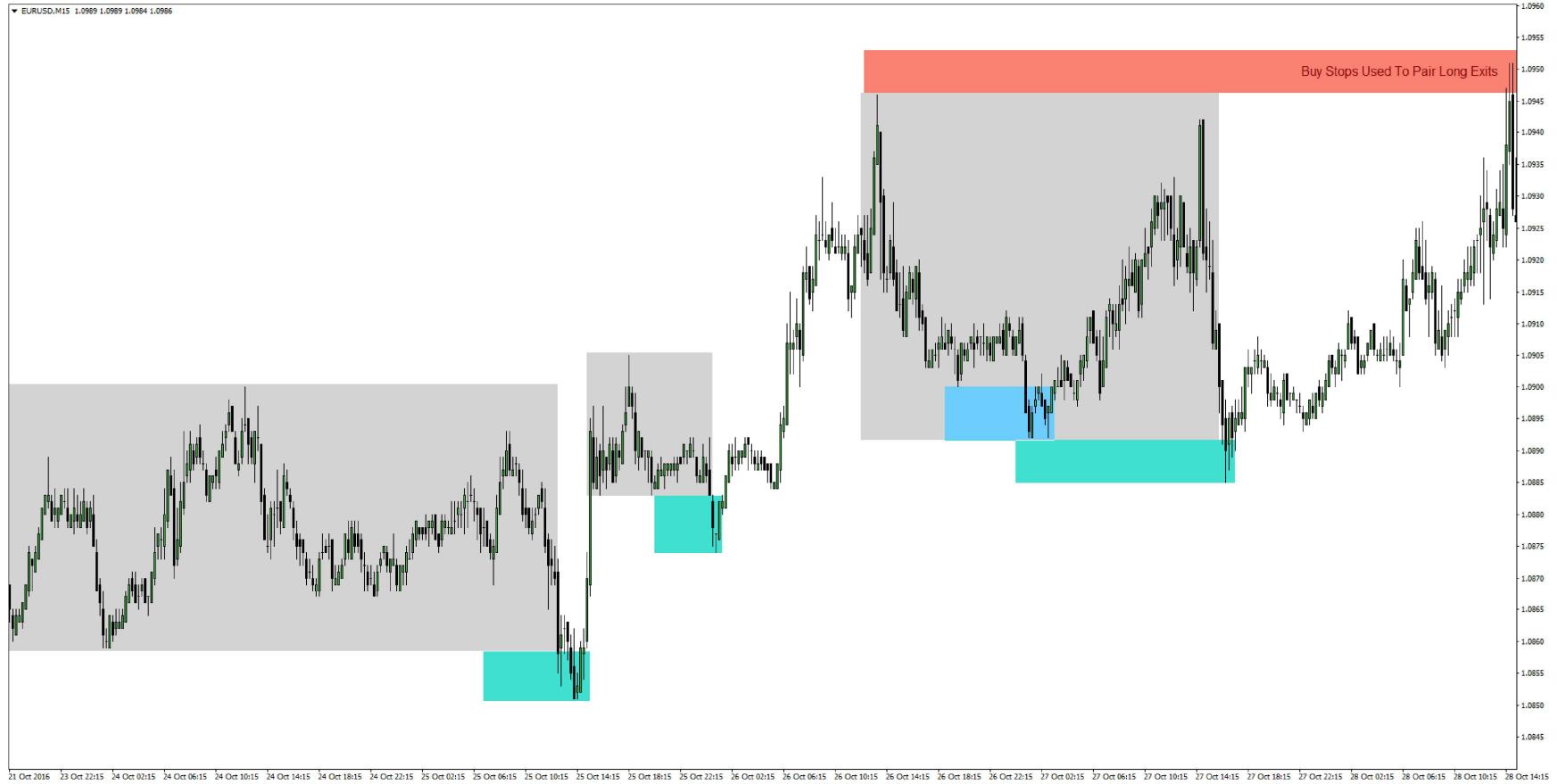


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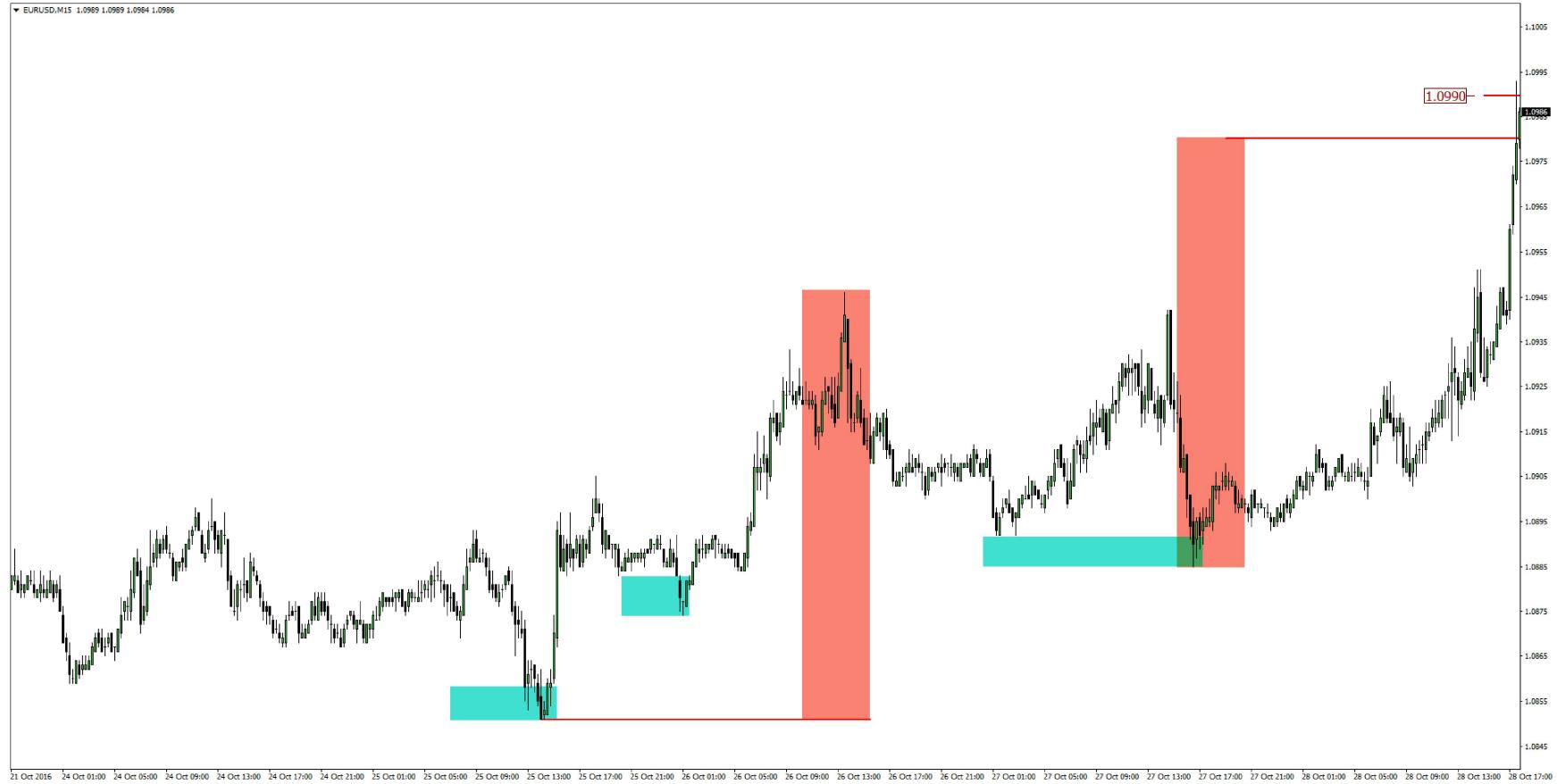
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