> *You have to learn the rules of the game.*
> *And the you have to play better*
> *than anyone else.*
>
> Albert Einstein

THE 10 GOLDEN RULES OF FOXEX TRADING

THE 10 GOLDEN RULES OF FOREX TRADING

The truth about Forex is that it can be an intense and stressful undertaking that requires a strong control over your emotions. Forex is not a “get rich quick” scheme. Learning to trade Forex takes patience-it will take you time before you master the basics. Those who lack discipline or make decisions that are not carefully thought through will quickly find themselves in a negative investment position.

Those who do not adhere to sound investment principles, or who allow emotion to govern their thinking, quickly find themselves losing a grip on their investment.

However, those who follow sound investment principles will reap the benefits of one of the world’s most liquid and influential market. A 100% return on investment within a couple of days wouldn’t surprise anyone; in fact 1000% wouldn’t surprise an experienced trader.

Needless to say, Forex has become one of the most sought after and talked about investment opportunities. As in any industry, Forex has its own nature and golden rules. Learn Fofex, the keys to success, and make your decisions wisely.

This short book will introduce you to the 10 golden rules of Forex trading that every person entering this exciting market should follow in order to become successful.

Enjoy!

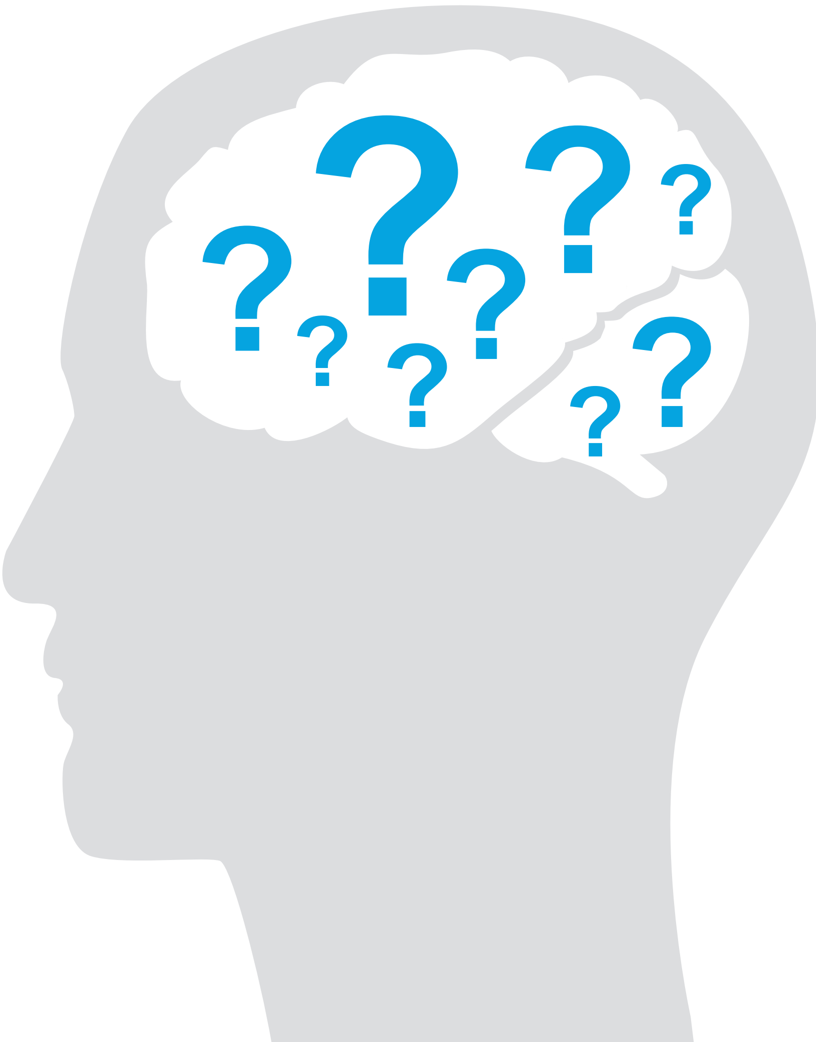
GO!

1 FOLLOW YOUR LEARNING CURVE, THERE ARE NO SHORT CUTS HERE

The market is always changing and it may be hard to understand and keep up with these changes unless you invest in good Forex trading education.

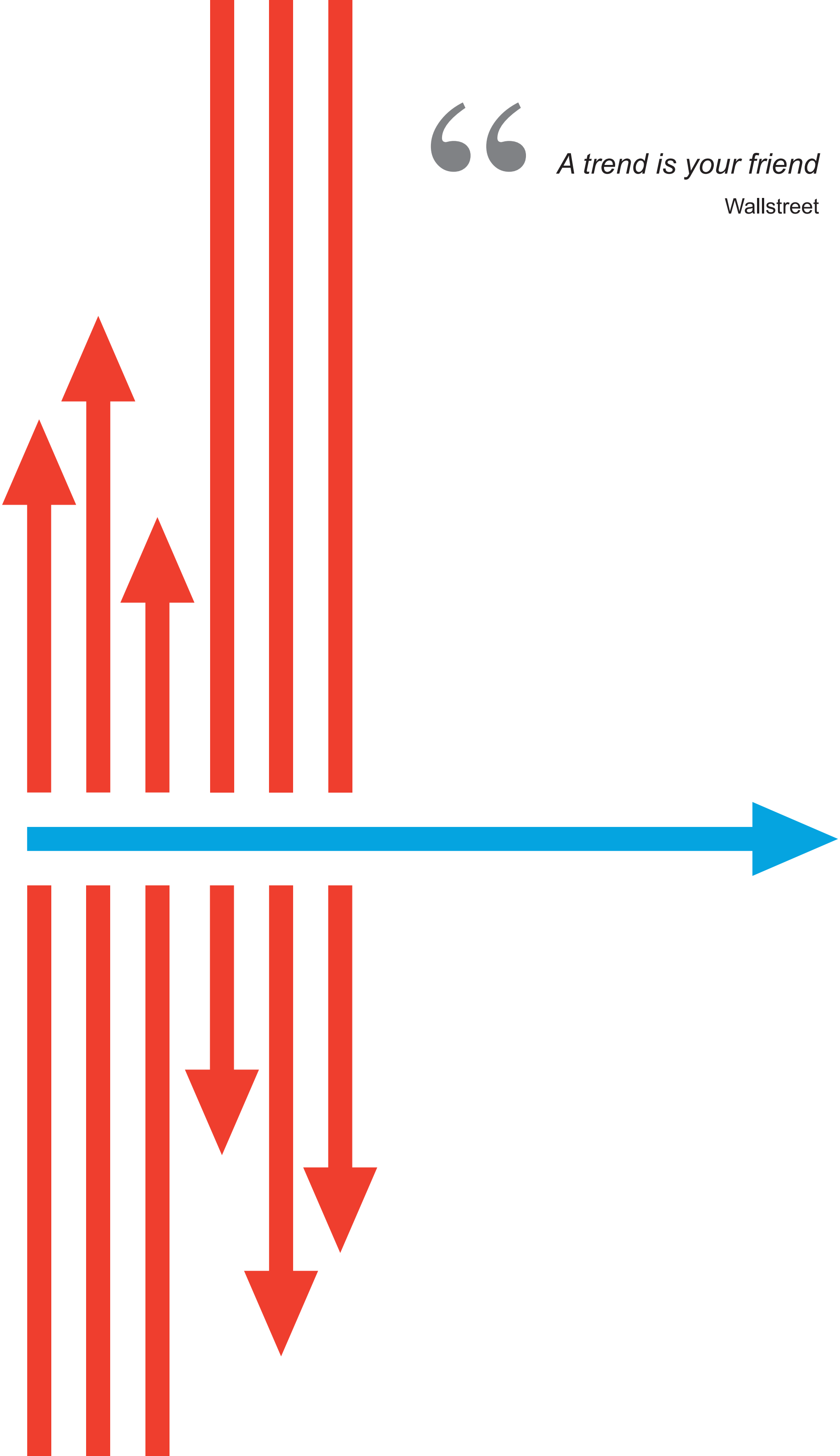
Be quick to learn and wise to know.

George Burns,
American comedy actor



2 AVOID HUNTING FOR TOPS AND BOTTOMS IN TRADING TO TRADE WITH THE TREND

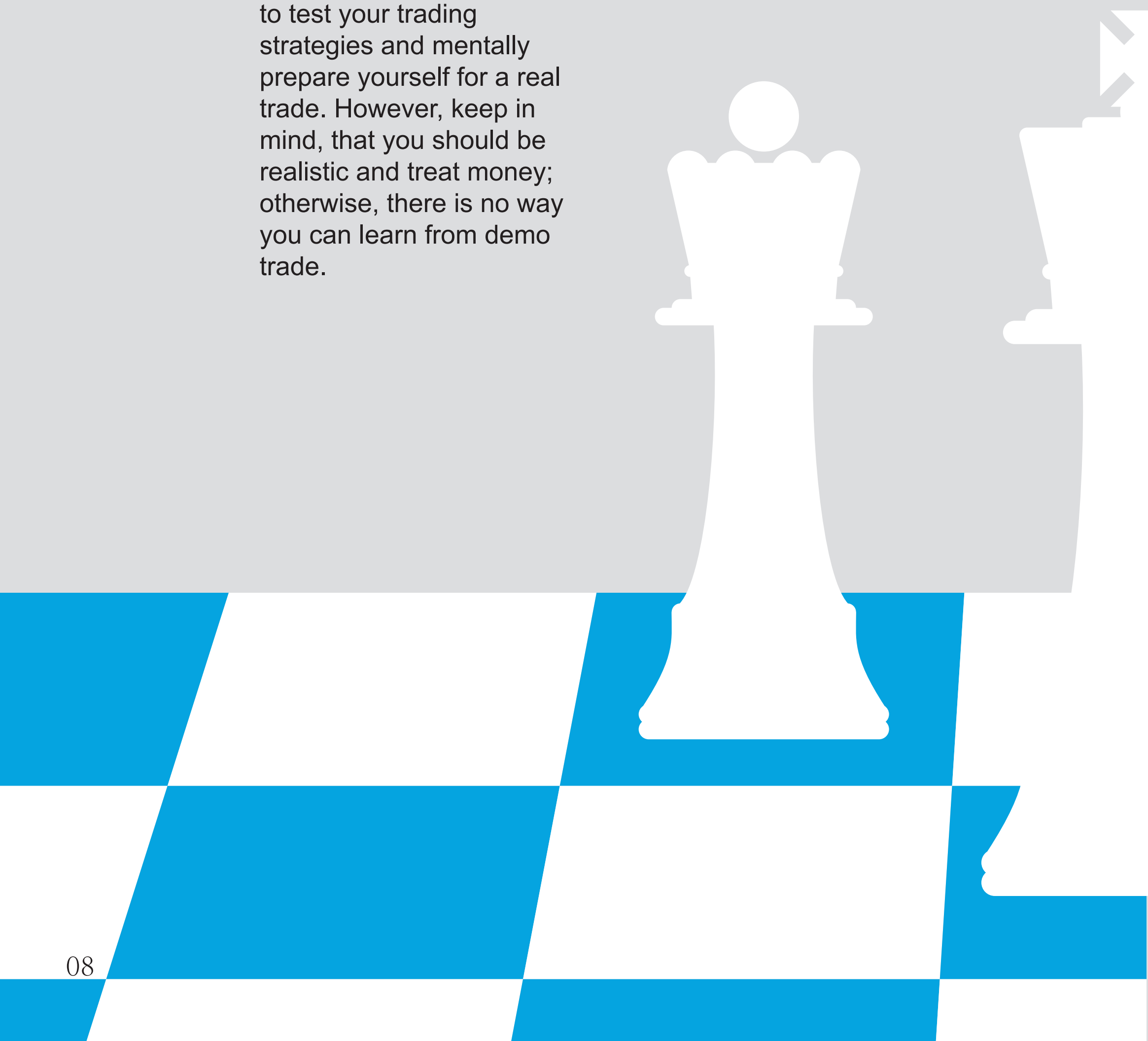
There are many beginners who make trades in any directions.While there is a possibility for making profits both on the upside and downside,trading in the direction of the trend will give you the best trades and chances for success.



> *A trend is your friend*
>
> Wallstreet

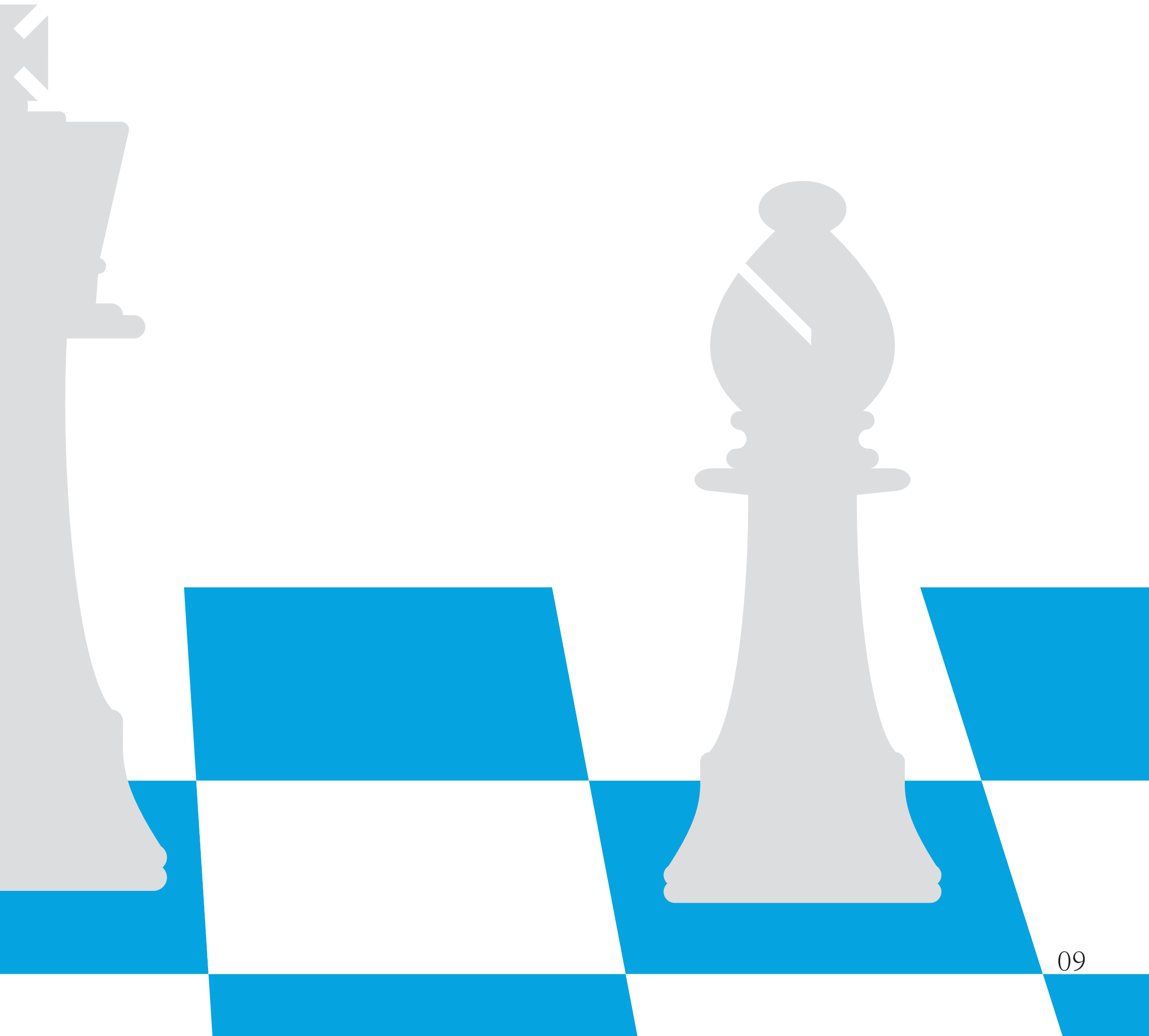
3 TRY TRADING ON A DEMO ACCOUNT BEFORE GOING LVE IN A REAL MONEY ACCOUNT

Make a demo account and use it to learn and understand Forex trading. While using a demo account, you will be able to test your trading strategies and mentally prepare yourself for a real trade. However, keep in mind, that you should be realistic and treat money; otherwise, there is no way you can learn from demo trade.



An ounce of practice is worth more than tons of preaching.

Mahatma Gandhi
Indian philosopher



4 STOP LOOKING FOR A "MAGIC FORMULA"!

While there are a lot of companies who are earning money by selling software which aims to predict future trends, the reality is that if companies would not be giving the secret away.

I have no magic formula. The only way I know to win is through hard work.

Dan Shula
Former American football cornerback and coach

5 PUT YOUR EMOTIONS ASIDE WHILE YOU TRADE

Trading is a stressful work, and there will be a lot of setbacks on your way to the peak. Emotional trading may force you to open a trade too early and eventually lead to a loss due to a wrong entry.

Control your emotions by staying cool and calm, and focus on your long-term goals.

If you don’t manage your emotions,
then your emotions will manage you.

Doc Childre
The founder of The Institute of
HeartMathand Deborah Rozmant,
Psychologist

When in doubt, don't.

Benjamin Franklin
One of the Founding Fathers
of the United States

6 DO NOT TRADE IF YOU HAVE DOUBTS

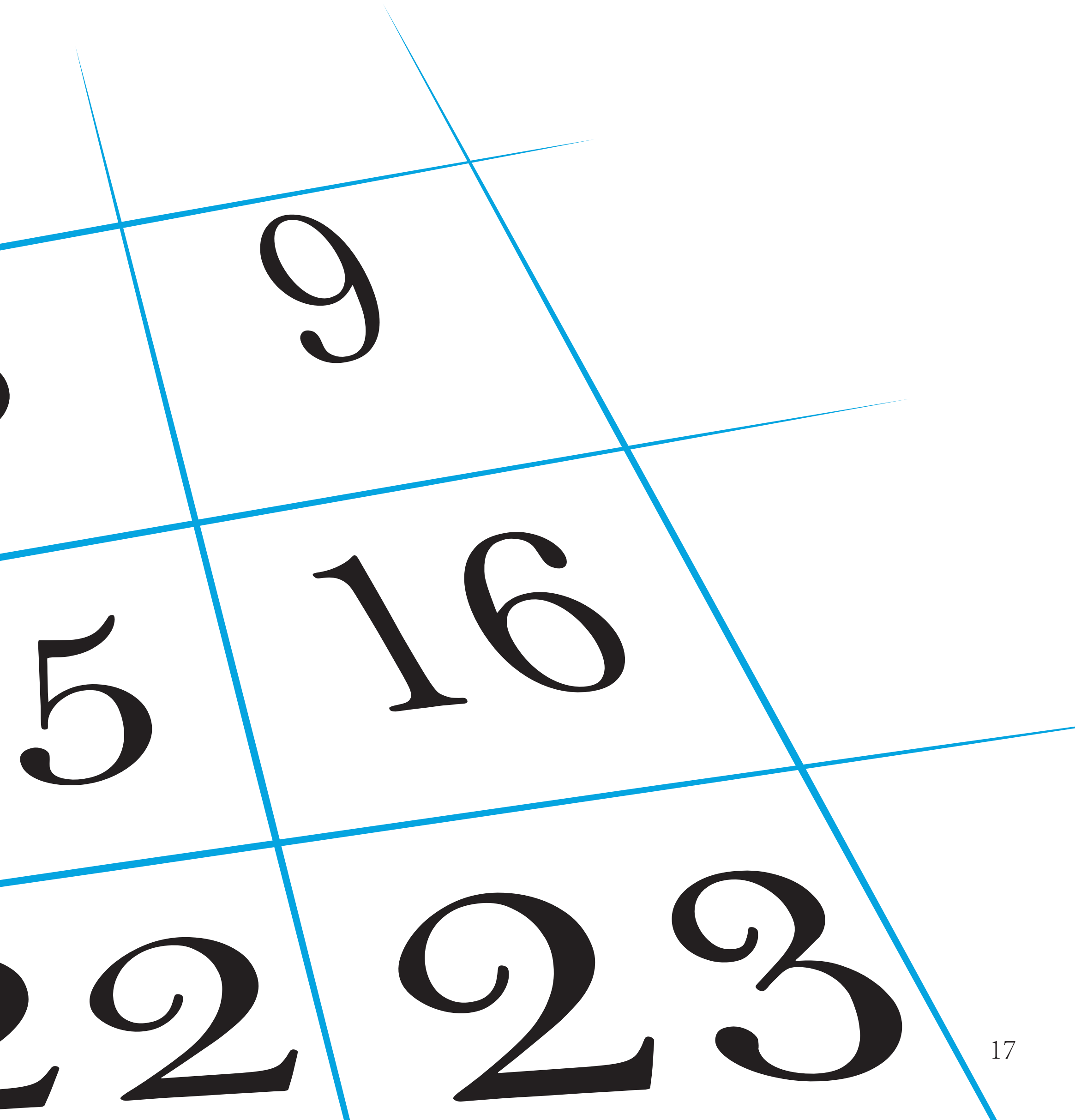
Just because the Forex market is online twenty-four hours a day does not mean that you have to trade all that time. If you are doubtful, do not trade at all, but instead analyze the market and use the knowledge you get in the future to make more profitable trades.

7 PREPARE A TRADING PLAN BEFORE YOU ENTER ANY TRADE

Because trading is always full of emotions, you must have a trading strategy, which includes a set of rules which you stick to, thus protecting you from yourself.

If you fail to plan, you plan to fail.

Harvey Mackay,
Businessman and columnist

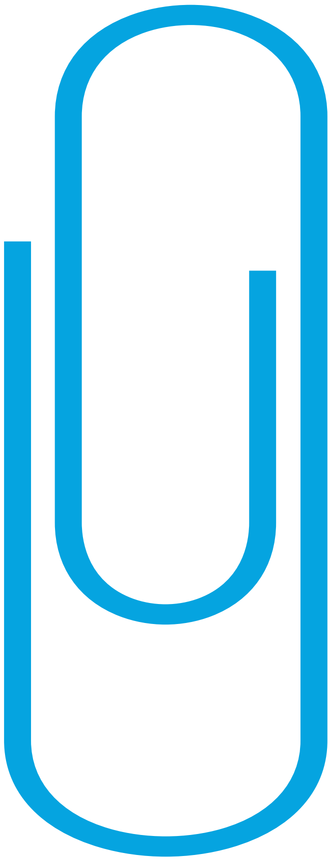


8 KEEP IT SIMPLE

Avoid trading strategies which are too complex to understand and which use a lot of difference techniques, They can distort your judgment and you will miss a lot of good trading opportunities.

Simplicity is the nature of great souls.

Papa Ramdas,
Indian philosopher



9 DON'T RISK MORE THAN YOU CAN AFFORD TO LOSE

Due to leverage, Forextrading has large potential rewards, but also large potential risk, As a novice, don't risk more than 1-2% of your margin account on any given trade. Over the long run, this will give you a chance to make a profit while reducing the probability of taking a loss.

Never risk what you cannot afford to lose.

H.Jackson Brown,
Famous American author

10 REVIEW ALL TRSDES REGULITY

Develop a habit of reviewing and analyzing your good and bad trades. Then, you will have a much better sense of what works best in your future trades.

The first draft reveal the art,
revision reveals the artist.

Michael Lee

OUR LAST TIP

Regardless of whether you are an experience trader or a beginner, never forget the 10 Golden Rules.

Remember and respect the rules of Forex and your opportunities could be greater than you can imagine.

GOOD LUCK!

Introduction to Foreign Exchange Trading

The world's biggest market at your desk

Introduction to Foreign Exchange Trading
The world's biggest market at your desk

Contents

Chapter1

Foreign Exchange (Forex) Basics

What is Forex?

Forex or FX is the common abbreviation for Foreign Exchange.If you are ever travelled to another country,you probably had to find a currency exchange booth at the airport,and then exchange the money you have in your wallet or purse into the currency of the country you are visiting.When you do this,you have exchanged one currency for another.Or in Forex trading terms, assuming you are an Australian visiting America, you are sold Aussie dollars and bought United States dollars.

Before you fly back home,you stop by the currency exchange booth to exchange the United States Dollars that you have left over and notice the exchange rates that allow you to make money in the foreign exchange market.

Foreign exchange is the World's largest and most active market.It is where banks and dealers exchange large amount of foreign currency, mostly to facilitate trade and investment between countries. It open all day and night-except at the weekends-and its volume amounts to about $5 trillion a day.

Compared to the measly $4-5 billion a day volume of the Australian Stock Exchange or even the relatively small $22 billion a day volume of the New York Stock Exchange, the foreign exchange market is absolutely huge. That massive $5 trillion number covers the entire global foreign exchange market, but retail traders trade the spot market and that's about 30% or $1.5 trillion per day.

Who Trades Forex?

The market is basically comprised of four different groups. At the very top of the Forex market ladder is the interbank market. Composed of the largest banks of the world,and some smaller banks, the participants of this market trade directly with each other or electronically through the Thomson Reuters Spot Matching system. The competition between the two companies-the EBS and the Thomson Reuters Spot Marching system-is fierce.

All the banks that are part of the interbank market can see the rates that each other is offering, but this doesn't mean that just anyone can trade Forex at those prices. The rates will be large dependent on the established credit relationship between the trading parties. A few of the largest banks that make up the interbank market include UBS, Barclays Capital, Deutsche Bank, and Citigroup. Some governments and their central banks, such as the European Central Bank, the Bank of England, and the Federal Reserve, are regularly involved in the interbank market too.

Next on the Forex ladder are the smaller governments, hedge funds, large corporations, retail market makers, and retail ECNs. Since there institutions do not always have close credit relationships with the participants of the interbank market, they have to do their transactions through commercial banks. This means that their rates are slightly higher and more expensive than those who are participants in the interbank market.

Companies take part in the foreign exchange market for the purpose of doing business. For instance,Apple must first exchange its U.S dollars for the Japanese yen when purchasing electronic pants from Japan for their products. Since the volume they trade is much smaller than those in the interbank market, this type national governments participate in the Forex market for their operations, international trade payments, and handling their foreign exchange reserves.

At the bottom of the Forex ladder are the retail traders, It used be very hard for retail traders to engage in the Forex market but, thanks to the advert of the internet, electronic trading platforms, and retail brokers like GSC, the difficult barriers to entry in Forex trading have been removed.

When Can You Trade Forex?

The Forex market hours stretch from Monday morning in System,Australia to Friday afternoon in New York.During that time the market is open somewhere around the globe at all hours of the day or night. However it is not a 24/7 market because it does shut down on weekends. 24/5 would be more account. The Forex market can be broken up into four major trading sessions: the Sydney session, the Tokyo session, the London session, and, the New York session.

Usually, the best time to trade the Forex market is when large volume of currencies are being traded. At those hours, traders can take full advantage of the liquidity in Forex markets. Since the Forex market trades 24 hours a day, the greatest liquidity is when several countries are trading at the same time. In each time zone across the world, Forex markets operate from 8 am to 4 pm. So, to take advantage of heavy trading volume, it’s worthwhile to determine when Forex market hours in different countries overlap. When currencies are the most active, that’s when traders have a better chance of making a profit. Slow markets offer little chance of profit and therefore Forex traders usually stay away.

Chapter 2

Why trade foreign currency?

Liquidity

Because the foreign exchange market is global and includes all of the World's largest banks, you can be sure that there's always someone to trade with-unlike the share market where you might want to buy a particular share, but no trade at any time is called liquidity. High liquidity means there is always someone to trade with, and there is little risk of a single trader or entitybeing able to move the price, as can happen in other markets, like the stock market.

Easy to understand

The learning curve in the share market is steep and the amount of analysis required can be daunting. You need to understand dividends, price-earnings ratios, and how to assess the quality of corporate management before deciding which share are likely to move in which direction. By comparison, foreign exchange is relatively straightforward. You take a currency you are familiar with (say, the Australian dollar) and look at its value against another currency. There are only a few major currencies that lend themselves to Forex trading. You need to learn what influences movements in a currency pair and, just as importantly, how to use technical analysis to improve your chances of success.

Trade at home, from a cafe, or on holiday

One of the things that makes foreign exchange trading so popular is that markets are open 24 hours a day. This means you can trade after work, early in the morning, during lunch or even overnight-whenever it suits you. Further, you can trade directly from your desk, or even while sitting in your favorite cafe with your laptop and a wireless internet connection. Some traders take it a step further by trading on their mobile phones. Foreign exchange providers give you more or less direct access to the market. This means you can do your analysis, make your trading decisions, set a stop-loss order to help protect yourself against big losses, and execute he trade without ever needing more than your computer and a broadband connection.

Low transaction costs

In the Forex market, trading directly or through derivatives, the cost of trading currencies is determined by "the spread", which is the difference between the price at which traders can buy a particular currency pair and the price at which they can sell. This spread can vary from time to time, depending on the market conditions, and is different depending on the currency pair and which provider you use.

For most trading purposes, the cost of each trade is not vitally important to its success. An exception applies to some intraday strategies the aim to capture small profits. On a trade size of $10,000, for which you need an initial margin of $100, the spread will usually average around three pips or approximately $3. The spread can vary from as low as 0.5 pips for high volume major currencies to five or more pips for minor currencies. If you hold a position for longer than 24 hours, there may be a small interest charge depending on the interest rate differentials between the two currencies. At other times,you may be paid a small amount of interest on your position. The interest amount is credited or debited as your position is rolled over to the next day, and is made so that you can keep the position open without actually taking delivery of the currency.

Leverage

The foreign exchange market offers the availability to profit from a large position in the market for a small upfront cost, known as the initial margin. This is called leverage. The maximum leverage in the share market is usually 20:1, which means your contract is for 20 times the initial margin (deposit) you paid. In the foreign exchange market leverage is a ratio of at least 50:1 but is usually 100:1. In order to buy $10,000 worth to US dollars, for example, you only have to pay $100 to enter the trade,because you effectively borrow the remainder, or $9,900.

To show you the kind of returns this level of leverage can offer, suppose you buy Australian dollars and the Australian dollar's value rises from SUS 1.00 to $US1.02. A currency can move by this amount, or more, in a matter of a few hours when markets are moving swiftly. It represents a change of 2.2 percent, but since you have leverage of 100:1, your profit on the upward move will be 100 times 2.2, or 220 percent based on the initial amount you pay.

With this amount of leverage, even very small moves in the value of a currency can result in quite large gains and losses.You will need to learn the basic rules of risk management to trade safety in the market and how to place stop-loss as well as stop-limit orders(that is, order to close a position when the price reaches a set level). You will need to take some time to learn about trading plans, risk to reward ratios, money management, position sizing, fundamental analysis and technical analysis before you begin.

Chapter 3

How foreign exchange prices work

Currency pairs

Each currency has a universal three-letter code(the IOS code) that all foreign exchange participants use to identify it. The code for Australian dollar is AUD and the US dollar is USD. Currencies are always quoted in pairs, such as AUD/USD, GBP/USD or USD/JPY. The reason they are quoted in pairs is because in every foreign exchange transaction, you are simultaneously buying one currency to the left of the slash is known as the base currency,while the second one the right is called the counter or quote currency.

When buying, the exchange rate tells you how much you have to pay in units of the quote currency to buy one unit of the base currency. When selling,the exchange rate tells you how many units of the quote currency you get for selling one unit of the base currency. The base currency is the "base" for the buy or the sell. If you buy EUR/USD this simply means that you are buying the base currency, or Euro, and that you are simultaneously selling the quote currency, or US Dollars.

You would buy the pair if you believe the base currency will appreciate(gain value) relative to the quote currency. You would sell the pair if you think the base currency will depreciate(lose value) relative to the quote currency. When you see a quote that looks like this:AUD/USD 0.9836 you know that what is being value(the base currency) is one Australian dollar(SAI) and that its value is being given in terms of US dollars (the counter currency).

Most currencies(Japanese yen, Swiss francs, and Canadian dollars to name a (few) are quoted with this US dollar as the base currency, that is, pricing the US currency in terms of its value in the other currency, but there are four notable exceptions: British Pounds(GBP), Euros(EUR), Australian dollars (AUD) and New Zealand dollars (NZD). There are quoted the other way around.Although buying British pounds is the same as selling US dollars, if you always think in terms of how the base currency will more when placing your trade, you are less likely to get confused.

Major, Minor and Commodity Currencies

Commodity currencies are those whose home countries rely heavily on the commodity exports for a major share of their expert income. According to IMF studies, there are 58 countries which could be included here, but the most active ones are the Australian dollars (AUD), Minor currencies are all currencies other than the majors.
Commodity currencies are those whose home countries rely heavily on the commodity experts for a major share of their expert income. According to IMF students, there are 58 countries which could be included here, but the most active ones are the Australian dollars, Canadian dollar, Canadian dollar and the New Zealand dollars.

The term major currency pairs often specifically refers to any pairs that include the USD, while a pair that doesn't include the USD is a cross currency. Major currency pairs are the seven most liquid pairs:EUR/USD and USD/CAD.

Long/Short, Bid/Ask

First, you should determine whether you want to buy or self. If you want to buy (which actually means buy the base currency and sell the quote currency), you want the base currency to risk in value and then you would sell it back at a higher price. In trader's talk, this is called "going long" or taking

a “ long position.”
Just remember:long=buy.

If you want to sell(which actually means sell the base currency and buy the quote currency), you want the base currency to fall in value and then you would buy it back at lower price. This is called “going shot” or taking a “short position”. Just remember:shot=sell.

The bid is the price at which your broker is willing to buy the base currency in exchange for the quote currency. This means the bid is the best available price at which you (the trader) will sell to the market. The ask is the price at which your broker will sell the base currency in exchange for the quote currency. This means the ask price is the best available price at which you will buy from the market. Another word for ask is the offer price. In foreign exchange terms, the difference between the bid and the ask price is known as the spread. Other names for the same thing are the bid-ask spread or buy-sell spread.

Pips&Pipettes

The unit of measurement to express the change in value between two currencies is called a “pip”. If EUR/USD moves from 1.2241 to 1.2242, that 0.0001 USD rise in value is one PIP. A pip is usually the last decimal place of a quotation. Most pairs go out to 4 decimal places, but there are some exceptions, like Japanese Yen pairs (they go out to two decimal places).

Suppose the Australian dollar is going up in value and rises from US101.05 cents to US101.06c. In the Forex market, this is expressed as a move from SUS1.0105 TO SUS1.0106. This is the smallest move that a currency can make against another and is known as one pip.

There are pro accounts available that quote currency pairs beyond the standard “4 and 2” decimal places to “5 and 3” decimal places.
They are quoting fractional PIPS, also called “pipettes.” For instance, if GBP/USD moves from 1.51542 to 1.51543, that 0.00001 USD move high is one PIPETTE.

Standard,Mini and Micro contract

In the spot forex market, the typical size of a trade is the equivalent of SUS100.000, where the base currency is US dollars. This typical trade unit size is Australian dollars, the base currency is the Australian dollar itself and the size of a deal is $100,000 worth of the counter currency. At this contact size, an initial margin of $1000 is required and the value of a one-pip move is USU10 against that currency.

Many forex trading providers offer smaller contract sizes.GSC offers mini contracts where an initial margin of $100 is required and the value of a one-pip move is SUS1 against that currency. GSC also offers micro contracts on the standard accounts for the equivalent of just $1000 and requiring an initial margin of $10. This allows traders with small accounts to enter into traders without exceeding their maximum loss limits, which are related to position size. A one-pip move at this lot is equal to US10c against that currency.

Chapter 4
How FX trading works

Spot Foreign exchange and CFDs

Most foreign exchange trading in Australia occurs in the spot market via instruments called currency contract for difference (CFDs), but there are other ways to trade, Among them are instruments listed on official exchange, such as currency future.

Spot trades require an initial margin to start with, and future margin payments on a daily basia if the market moves against you (down when you have bought, for example). This means you need more than the initial margin in order to trade if the market moves rapidly against you.

Example Forex trade

Here's an example of a profitable trade in the forex market. Suppose you think the Australian dollar is likely to rise against the US dollar because Australian interest rates are starting to increase again. In the market at the time, the Australian dollar is quoted the AUD/USD 1.2078-1.2080 and you open a trade to buy $A100,000 at 1.2078. A few days later, the Australian dollar has moved up and the new quote is AUD/USD 1.3050-1.3052. You close the trade by selling Australian dollars at SUS1.3052. Your profit is the difference between the two SUS value s, or a profit of $US972, as illustrated below.

1 December

Buy AUD $ 100,000 at USD $ 1.2080	USD $ 120,800 (value) -
Pay initial margin	AUS $ 1000.00
Commission	nil

5 December

Sell AUD $ 100,000 at $US 1.3052	USD $ 130,052 (value) +
Initial margin returned	AUD $ 1000.00
Commission	nil
Profit	USD $972.00

Three Types of Market Analysis

What makes currency move? In order to find out when a currency like the Australian dollar will appreciate against another currency, traders look towards three types of analysis that work hand-in-hand to help them come up with good trade ideas. Technical analysis is the study of price movement on the charts. Fundamental analysis takes a look at how the country's economy is doing. Market sentiment analysis determines whether the market is bullish or bearish on the current or future fundamental outlook. Let's look at these in more detail.

Fundamental Analysis

Fundamental analysis is a way of looking at the market by analyzing economic,social,and political forces that affects the supply and demand of an asset. The idea behind this type of analysis is that if a country's current or future economic outlook is good,their currency should strengthen. If demand for a country's goods or service is increasing, or the number of people wanting to invest there is growing, they need to buy that country's currency before they can buy its good or invest and then the currency tends to rise in value.

Investment in Australia, for example, is attractive when our economy is strong, when share prices on the stock market are expected to move higher, when companies are paying god dividends, and when interest rates are rising. When these things are happening, the Australian dollar tends to move higher against other currencies. The Australian dollar is like a tiny share in the wealth of the nation as a whole.

Some of the economic indicators that show how healthy the economy is include:

.Interest rates-the dollar tends to move up when interest are rising.
.Global growth and demand for resources-Australia produces commodities including metals, coal and agricultural products such as wheat and wool. When demand for these goods is increasing, this supports the currency.
. The economic cycle- Indicators include housing statistics, retail sales, automotive sales figures and employment levels.
. Budget and trade deficits and surpluses-surpluses indicate strong growth and a rising Australian dollar, deficits the opposite.
. Inflation-inflation reduces investment returns,and rising inflation tends to reduce the long-term value of the currency. Indicators of inflation include the consumer price index and the money supply statistics.

Technical Analysis

Technical analysis is the framework in which traders study price movement. The theory is that a person can look at historical price movements and determine the current trading conditions and potential price movement. The market is like a balance that;s set as new information about fundamentals comes to hand, swinging in one direction and then another, and from time to time. Finding a point where it might rest briefly until more new information is available. As all this happens, identifying there patterns by examining charts of past price behavior is called technical analysis.

The main evidence for using technical analysis is that, theoretically, all current market information is reflected in price. If price reflects all the information that is out there, then price action is all one would really need to make a trade. Technical analysis provides the basis on which most traders make their trading decisions.As fundamental factors make their decisions based on technical analysis alone.

Charts allow you to analyze market pattern and trend data and provide a visual representation of price and volume levels that you can use to determine the next likely move for a currency. There is no such thing as absolute certainly when forecasting price movement. The market can do anything,

and often defies both logic and the forecast of charts.

Among the patterns and indicators trader use to forecast the way a market is likely to move are:

- Trend line-lines joining higher and higher low points(uptrend) or lower and lower high points(downtrend). Prices breaking through these lines can indicate the beginning of a possible change in price direction.

- Moving averages-smooth out past movements and indicate a possible new trend if the price moves through the average.
- Reversal patterns-such as head -and-shoulders, tops and bottoms, triple tops and rounded tops.
- Support and resistance-price points that a market has had difficulty moving through in the past.
- Relative strength indicators-show whether the market can be considered overbought.
- Fibonacci levels- levels that indicate a continued move in the current direction is breached.
- MACD or Moving Average Convergences/Divergence use to help spot early trends and trend reversals.
- Cyclicity indicators-markets go through cycles of bullish and bearish phases with periods in which they tend to return to their average. Cyclicity indicators help reveal such cycles.

Sentiment analysis

Each trader's thoughts and opinions, which are expressed through whatever position they take, help from the overall sentiment of the market. There's one thing that;s constant about the market's behavior, it's that traders tend to overreact, pushing prices to higher levels than their true value, and then overreact in the opposite direction, pushing them to levels below true value. Sentiment analysis is all about picking these reactions.

Although the indicators of market sentiment, such as moving average and a currency's average true range(ATR) are traditionally thought of as technical analysis tools, technical analysis focuses on past price movements.

Sentiment analysis attempts to understand what is driving trader decisions for now and the immediate future. Volume of trade is one indicator that can help determine which direction the weight of trading money is flowing, and this can help reveal what the market believes is going to happen, which is market sentiment. It's the difference between what the charts indicate the market is likely to do based on its past behavior,and what it actually does as each unique market situation unfolds.

Chapter 5
Creating trading plan

Developing Your Trading Plan

Trading in foreign exchange can be risky, especially if you haven't traded before. Most people who lose money trading in leveraged markets(such as the forex market) do so because they haven;t undertaken the essential learning, no trading discipline and no set trading plan.

Don't follow someone else's trading advice blindly. Just because someone may be doing well with their method, it doesn't mean it will work for you. We all have different market experience. Have your own personalized trading plan and update as you learn from the market.

Finding strategies that work and then preparing a trading plan takes some research and time to ensure it covers every essential aspect of keeping your risk capital safe and maximising your chances of success. You trading plan should have the following as essential elements:

- Your objective in trading-this might be a target return or an expected percentage gain on winning trades. Many traders in forex target a number of pips per week as their trading objective.
- Use of trading strategies that have been proved to work in the past.
- How you will decide when to enter (buy or sell)-this will come from your understanding of proven trading strategies and proper use of technical analysis.
- Use of stop losses-stop losses are essential for risk management, and require close study so that you use them appropriately for your position size and amount at risk.

.How you will decide when to exit a trade. This is also a result of your understanding of the trading strategies and the proper use of technical analysis and chart patterns.

- Definition of your risk-management system. Risk-management rules are designed to preserve your risk capital by limiting the amount you put at risk on any one trade.

Sound money management

Sound money management is essential to the success of your foreign exchange dealing. It's fundamental. The reason so many potential traders fall early in their attempt is that they ignore this simple discipline that, if followed, will keep any trader from the disastrous losses that often spell the end of their trading endeavors. Here are some of the guidelines successful traders follow.

1.Don't risk more than 1 percent of your capital on any one trade. This rule, along with correct position sizing will keep you from risking too much of your capital at once, and from showing a disproportionately large loss on any trade.

2.Learn about stop losses and how to use them. A stop-loss order(known as a stop) is an order to exit your position at a particular price as a means of limiting losses or helping to protect profits already made on positions that are still open. Determine the price level of your stop-loss by reference to the specific currency pair you are trading and its past behavior, as indicated by charting signals, rather than by simple placing it to keep losses to a known dollar amount. Pay particular attention to support and resistance, trend lines, and recent volatility when placing stops.

3.Know how to calculate your risk-reward ratio, or the ratio of how much you are likely to gain to how much you have at risk. The reward, or possible gain is based on the target price for the currency, which is the level you expect the exchange rate to reach based on your technical analysis. The risk is the total amount at risk based on where you place your stop, also calculated by reference to chart signals and patterns. Unlikely shares,where a minimum risk reward ratio would be 3:1-a possible gain of $3 for every $1 risked-the minimum acceptable ration in the forex market is 1:1.

4.Determine your position size based on how much you will lose if the stop is triggered at the indicated level, and the 1 percent rule. You should know in advance how much the likely maximum loss will be on the trade.

5.Realize that no matter how well you know the rules, emotion can step in and overrule that rational knowledge. Hesitation through uncertainty before entering a trade, and the tendency to hold on to a losing position in the hope that it will turn around and prove you right, are among the most common trading errors.

Data and software

To know whether the entry and exit rules in your trading plan will work, you will need to test them on actual trading data. The best way to do this is through software designed for the purpose, using past data from actual foreign exchange markets. GSC will be able to help you with a practice account that includes many of the tools you will need. Only when are confident your system will work- providing bigger profits on winning trader over time than the losses on trades- should you begin trading with real money.

Trading psychology

The psychology of trading relates to how well a trader manages his trading capital and the risks involved in leveraged trading. The only successful trader are those who keep strictly to the money management rules that have been found to work. The psychology of trading examines why there is a conflict, if any, between what we think and understand the markets and what we go on to do. The reason traders- especially beginners- don't follow the rules is that they have not understood their own relationship to money and to greed. Leveraged trading in forex will challenge you to know yourself better and to learn what you really think about money and greed. It will also challenge you to accept responsibility for your results in the knowledge that there is no one else to blame.

There is no substitute for experience in learning about your own ability to keep from overtrading, hesitating and risking too much, from adjusting stop-loss levels without sound reasons or from holding a losing position past the maximum loss level. But awareness of these possibilities and the reason for them in your own mind-everyone being different in this regard-can make the experience move valuable. A good place to start is Mark Douglass' book,trading in the zone, which is written for traders generally, and is directly applicable to forex trading.

Chapter 6

Getting Started

Chose a forex broker

Choosing a suitable foreign exchange broker is not as easy as it sounds. One of the best ways is on a recommendation from other traders, but as a guide you should look for a broker that:

- Is reputable and offers secure handing of clients' funds, in particular segregation from their own and ideally offering protection for those funds- including unreality profits, and cash on deposit- against their own financial failure.

- Check that your forex provider holds a licence from the Australian Securities and investments commissions (ASIC), the regulatory body for Australian financial markets.

- Offers not only the best spreads between bid and ask prices, but also consistent spread that are not widened significantly during times of market volatility- remember this is the cost of trading.

- Does not requote prices, unless there are exceptional conditions, but allows you to trade at or very close to the price quoted on the screen.

- Allow you to deposit funds and withdraw earnings smoothly and spreedily.

- Has a responsive, fully featured and easy-to -use trading platform.

- Offers competent, easily available account and technical support,especially after the account is opened.

Learn the trading platform

Trading platforms come in two main varieties. You either download the software and run it on your own computer, or you trade via the internet(web-based) platforms give you sre the flexibility of trading from any computer. Software you download has to be available on the computer you wish you use, which could mean downloading and installing it again if you change computers.

Web-based platforms are not necessarily better, however. What;s more important is the features they provide in terms of charting tools, trading features,ease of use, screen legibility and speed of execution. Before beginning to trade, take some time to learn how the software works by trading the smallest possible trade size or, if possible trading on a practice account where no real money is involved. This will help prevent the occurrence of trading errors because of unfamiliarity with the way the software works.

Demo and Live Accounts

Using a practice (or demo) account is one of the best ways to prepare for trading with real money. However,there are differences that you should keep in mind when making the transition from a practice account to a live account:

- Delayed vs. live data feeds:some practice accounts use delayed pricing information in their demo trading system, which could affect the timing of trades and any impact of fundamental news announcements.
- The way orders are executed:Demo platforms can execute some order differently than the way they are executed in a live account-particularly stops and limits. It’s important to understand how the executions might differ.
- Features available:Demo systems often only include basic features,and you will receive full access to all features only after opening a live account. Examples include available charting tools and indicators,and you should make sure you understand what will be included with a live account.
- Emotions:Because you are not trading with real money in a practice account, your emotion will not be a factor. Be sure to develop a disciplined trading plan so you not let your emotions get the better you.

Without the essential information on trading plans and strategies, Forex trading is more of a gamble than a source of income. Use these resources to help you learn more.

Chapter 7

Further information

Foreign Exchange Books

Currency Trading for Dummies
By Mark Galant and Brian Dolan

Market Wizards
By Jack D.Schwager

Essentials of Foreign Exchange Trading
By James Chen

Technical Analysis of the Currency Market:Classic Techniques for Profiting form Market Swings and Trader Sentiment,
By Boris Schlossberg

Technical Analysis Resources

www.incrediblecharts.com
www.esignal.com
www.investopedia.com

Trading Plans

Art of Trading
By Christopher Tate

Better trading
By Daryl Guppy (Australia)

Trading Psychology

Trading in the Zone
By Mark Douglas(USA)

Forex Trading with
ICHIMOKU STRATEGIES

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Contents

Introduction to Ichimoku trading strategies

The Ichimoku Cloud, also known as Ichimoku Kinko Hyo, is a versatile manual trading indicator that defines support and resistance, identifies trend direction, gauges momentum and provides trading signals. Ichimoku is also a trading system that works with all time frames on all instruments. It gives a trader good understanding of the markets and assists in discovering high probability trading opportunities at a glance so that in a few seconds you are able to determine whether a tradable trend is present or if you should wait for a better set-up on a specific pair. Ichimoku can be used in both rising and falling markets and be used in all time frames for any liquid trading instrument. The only time to not use Ichimoku is when no clear trend is present.

What does a manual trading indicator mean?

Many investors and active traders use technical trading indicators, a major component of technical analysis, to help identify high probability trade entry and exit points. These indicators are a series of line or dots that are derived from mathematic calculations of the historical price of the instrument being traded. Hundreds of indicators are available on most trading platforms, therefore,it is easy to use too many indicators or to use them inefficiently. When we say manual trading indicator,we mean an indicator for use in trading system that involves human decision-making for entering and exiting trades.

Advantages of Ichimoku system

1. It can be used in nearly every tradable market, including stocks, futures and options, Forex, indices and bullion, the gold and silvers, etc.

2. It enables you to quickly pick up trading setups at a glance, including the immediate understanding of direction of price movement, the sentiment, momentum and the strength of the trend.

3. Ichimoku displays a clearer picture because it shows more data points, which provide a more reliable price action. This technique combines three indicators into one chart, allowing the trader to make the most informed decision.

4. Ichimoku is a trending charting system. That means it works better in the good trending markets. It helps you to find the trend of the movement, so you will have good understanding of the direction of the price movement in general.

5. Take advantage of false breakouts at great prices with Ichimoku helping you to catch moves in the direction of the trend on the time frame that you are trading.

History of Ichimoku

Goichi Hosoda

Ichimoku was developed by a Japanese journalist named Goichi Hosoda, Goichi was an extremely talented yet quiet man who he spent most of his days locked always writing and reporting on the old Japanese rice trading markets. He understood how price moved and how it would react around certain areas of a chart. He soon discovered that the price of rice followed certain rules and the "reactions" that were due to what we now know today as Support and Resistance. Goichi's aim was to create an all in one indicator that would help him view and analyze the charts in more detail but in less time.

Tested over 20 years

Goichi started the process of building and testing his all in one indicator just before the Second World War.
Today if you were going to create a new ground breaking indicator or charting method, you would have an endless supply of technology and information to draw from. Back then in 1940, the first commercial computer had not even been invented and resources were tight so Goichi hired a large group of students who spent over 20 years manually back testing the different formulas.

After 20 years of work, he finally published his book in 1968 with the final version of the ichimoku kinko hyu charting method and presented his book to the Japanese public. By this time it had been tested and used successfully to trade currencies, commodities, future, and stocks. It rapidly became the most frequently used indicator in all the Japanese trading rooms.

Ichimoku goes mainstream

Even though Ichimoku gained wild popularity all across Asia, due the lack of information in English on how to use it, it did not make an appearance in the western world till the 1990s. Even then because of the lack of translation and information, it was just seen as another weird charting method and most people just didn't have the time or passion to try and learn this strange looking exotic indicator. Only now, in the early 21st century are westerners understanding the true power of this indicator.

Ichimoku Components

There are 5 major components of Ichimoku system, used together to form an integrated whole picture of price action. Each part is calculated using certain mathematic models. The calculation itself is not important. You need to concentrate on how use each part of the system.

Follow are the key components, let me introduce them on by one

1. The Senkou Span A- the 1st leading line

2. The Senkou Span B- the 2nd Leading line, these 2 leading line combine together, will have a cloud

3. Tenkan Sen- the Fast Line

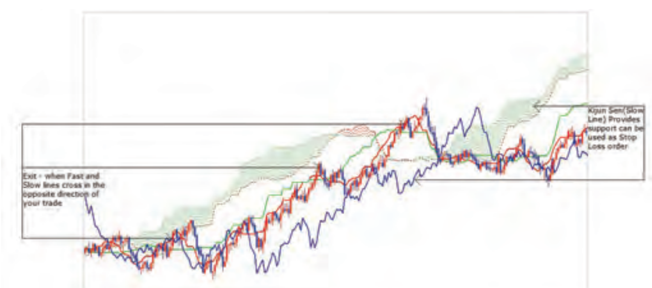
4. Ijun Sen -the Slow line

5. Chikou Span - The lagging line

6. Ichimoku Components calculation model

Japanese Name	English Name	Formula
Senkou Span A	1st leading line	(TenkanSen+KijunSen)/2 times-shifted forwards (into the future) 26 periods
Senkou Span B	2nd Leading line	(Highest high + Lowest Low)/2 for the past 52 periods time- shifted forwards(into the future) 26 periods
Tenkan Sen	Fast Line	(highest high+ Lowest low)/2 for the past 9 periods
Ijun Sen	Slow line	(highest high+ Lowest low)/2 for the past 26 periods
Chikou Span	lagging line	Current Closing Price time-shifted backwards(into the past) 26 period

Again,please just remember there are 5 components of ichimoku system.
Please do not panic if you cannot remember how each part is calculated.



Ichimoku Parameters Settings

This indicated has three parameters:

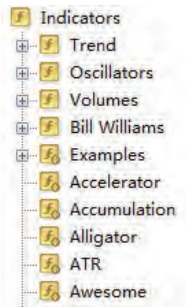
1.The first parameter influences Tenkan-sen and Senkou Span A.
2.The second parament influence all time intervals, except Tenkan-sen.
3.The third parameter influences only Senkou Span B.

What should we get when setting up the parameter? The default Parameter Settings are 91652. This can be changed to tailor your needs. The higher the parameter setting you change to, the more noise it can filter out. The downside is that while it will clarify a good trading opportunity, it does so later than when using the default Parameter Settings. The founder tested various combinations of the parameters and he believed 92652 is one of the best combination. So you can use it without any change. It will suit all of different time frame.

Step 1:

Go to Navigator->Indicator->Ichimoku Kinko Hyo

If you do not having Ichimoku Kinko Hyo. Mp4 Indicator then Contact your GSC office for the file and place
The file in (c:) program filesx68/GSCFX MetaTrader/experts/



Step 2:

Now Click on the Indicator from the Navigator Tree and Set the Parameters 92652

Step 3:

Now set the colour settings for Ichimoku parameter as shown in the graphs in this book. We are not interested with the Ichimoku parameters like Tenkan-sen, Kijun-Sen, Chinkou Span so we turn off the color by selecting NONE. We are interested only with the parameters Up Kumo (Blue) and Down Kumo (red). Now Press Ok and your Ichimoku Chart is ready.

Ichimoku Strategies

Strategy One
Cloud- Trend confirmation

Buy when price is about the cloud

Sell when price is below the cloud

As the picture below shows, when the price (the candle) penetrates the cloud from the bottom, you can trade the pair long, or buy. If the price penetrates the cloud from the top, you can trade the pair short or sell. When the price (candle) is above the cloud, it means this pair is still in the upward trend and when the price is below the cloud, it means this pair is still in the downward trend. This strategy gives trades the good understanding of the market and trend in general.

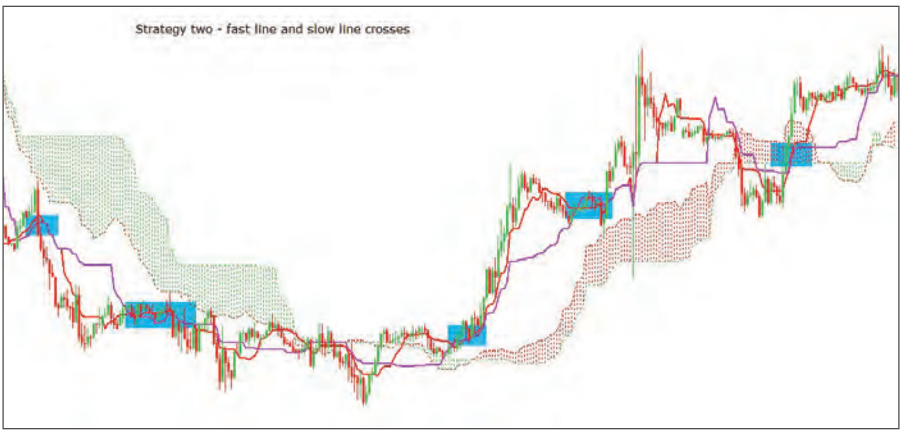
Strategy Two:
Turning(fast) Line and Standard(slow) Line

Once you have bias of trend, you can trade with 2 lines: Fast line and Slow line

Buy when fast line crosses above the slow line

Sell when fast line crosses below the slow line

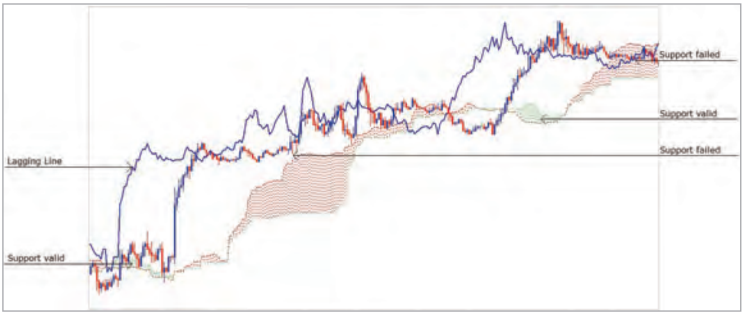
Fast line is calculated based on 9 recent data while the slow line is calculated based one recent 26 data. Therefore, when price moves, the fast line moves more quickly than the slow line does. In the picture below, the fast line is in pink color and the slow line is in the brown color. The one of the easiest way to locate the fast line is that when the market is in the sideways, the fast line is always closer to the price (the candle) than the slow line is. So the second strategy is that when the fast line crosses above the slow line from the bottom, you can buy this pair. When the fast line crosses below th e slow line from the top, you can sell this pair. You can use this strategy 2 separately, however, if you can find an opportunity that strategy one mentioned early gives you the some indication as strategy 2 gives you, you potentially have a higher probability trade opportunity. As the picture shows below, all the bllue shades show the strategy 2 applies-- 2 line crosses along with the direction of the cloud.



Strategy three
Lagging line - confirm the entries with lagging line

(a). When the lagging line is above the cloud, only looks for buy signals
(b).When the lagging line is below the cloud, only looks for sell signals

Lagging line provides extra conformation, Lagging line is a magic line as it gives more probability then Strategy one when you only compare the price with the cloud. Lagging line works as an extra confirmation indicator so some traders may only trade when lagging shows there is any opportunity. They will be patient enough and wait for Strategy 3 happens. As the picture showa below, even when strategy one(Price Vs Cloud) does not hold, the strategy three (Lagging line) still hold.

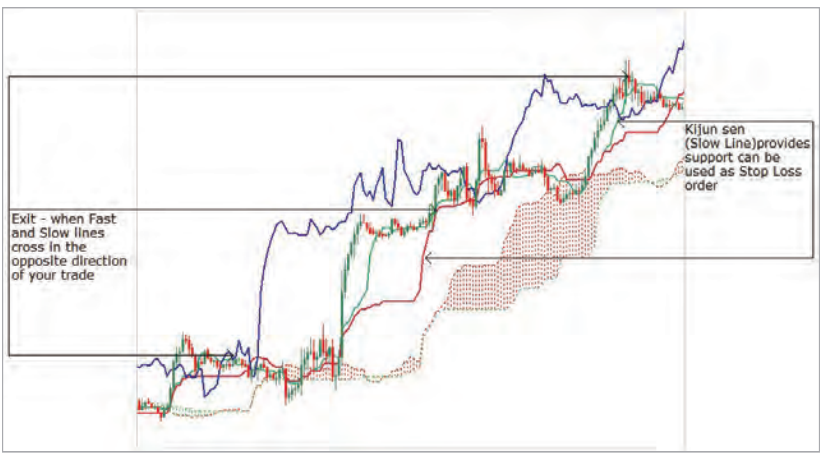


Exit and Stop Loss strategies

Ichimoku system also has some unique method of how to exit and how to place loss order to protect you trade.

Exit- When you enter the long trade using strategy 2 (2 line cross), then you can exit the long position when there 2 lines cross again but the opposite direction. If you enter the long position when using strategy 1 or 3, then you can exit the long trade when the price or lagging line crosses the cloud to the other direction.

Step loss- The fast line, slow line or the cloud can be a potential support or resistance. Once the support or resistance is broken, the price can have a momentum, so it will may moving towards the next level of support or resistance. So, you can place the stop loss order at the other side of the cloud, or the other side of the fast line or slow line. Once the stop level is reached, exit the trade without hesitation. Also, when you long the pair, the stop loss can be a few pips below the recent low price level. When you short the pair, the stop loss can be a few pips above the recent high price level.



Ichimoku checklist & Trading Tips

A quick checklist of the strategies mention in this book

1. Price Vs Cloud
   a. If the price is above the cloud- only looks for a buy signal, then when Buy when fast line crosses above the slow line.
   b. If the price is below the cloud - only looks for a sell signal, then Sell when fast line cross below the slow line.
   c. When the price is in the cloud - indecisive
2. Use lagging line to confirm the trend
3. Profit Target - 1. When fast/slow lines cross or, 2. Price break the slow line
4. Stop Loss - recent low

Ichimoku system Tips:

Let us have some tips so we can use the Ichimoku system with higher performance.

The thicker the cloud, the stronger the support and resistance is. Once you see the cloud is thick, you will tell yourself that the support and resistance might hold. Once you see cloud is very thin, it might hint that the support and resistance will not hold strongly, so the price can cross the cloud easily.

The future the fast line deviates from Slow lines, the higher the chance that the price will come back to consolidate. Do you chase the trade if the price has moved away from the slow line or fast line, better to wait for the price to come back and then discern the market again before taking proper action.

The name of Ichimoku in Japanese language contains the meaning of being able to understand the market within a quick glance. You should see the opportunity in a few seconds. If you tried so hard and not able to find the proper trading opportunity, the do not trade. Go to another pair or timeframe, and you may be able to locate a better opportunity.

proper trading opportunity, the do not trade. Go to another pair or timeframe, and you may be able to locate a better opportunity.

Summary

Ichimoku trading system is a sophisticated trading indicator that contains lots of trading strategies. It has 5 members as mentioned earlier. Each of 2 components can be used to compare with each other to generate a meaningful trading strategy. These three strategies mentioned in this book are commonly used and understood by lots of successfully traders. However, they are only the tip of iceberg. If you wish to know more about the Ichimoku trading system strategies, you can contact our office, and we will be able to help you.

Mastering Wave Analysis

Chapter 1: INTRODUCTION

In the currency market the price of a currency pair is obviously influenced by their respective countries. Each country's long - term macro-economic data and political environment is compared vis-a-vis the nation state and their relative performance, or score card, is what we call the price.

The price neatly keeps track of the value of one currency versus the other. But can it explain why the price is constantly moving up and down every single second of every forex day (24 hours a day, 5 days a week)?

Along with other like-minded traders and analysis,the price movement is being influenced by the cumulative psychology of the participants in the market.

This means that each trader's psychology contributes to the sum psychology that drives the forex and other markets. Of course, one trader alone will never be able to influence price or the market. But the market is driven by the collective average psychology, which makes prices action bearish, bullish or choppy.

Is there a method that allows forex traders in general to recognize and identify the current market psychology? Yes, the concept is Elliott Wave analysis or Wave analysis in short.

Elliott Wave analysis is both a simple and sophisticated technique. It allow traders to understand past, and anticipate future price movements in the forex market.

This could sound very fancy to some of you, and occasionally forex traders do get discouraged with its theory and practical implications. However, wave analysis is a skill that will help all forex traders improve their understanding of the market structure, their grasp of price movements and their ability to filter out losing or bad proposition trade setups. Therefore, without a doubt, wave analysis is of great benefit to all traders.

Definition of Wave Analysis

The Elliott Wave principle is the theory behind all Wave analysis. The Wave principle suggestions that market prices unfold in specific patterns(wave patterns), which are influenced by the optimistic and pessimistic mood swings of investors.

The patterns link to form five and three- wave structures which compose of similar wave structures on lower and pessimistic mood swings of investors.

More importantly, the sum moods of all these investors form a collective investor psychology or crowd psychology, which influences price movement and the patterns they repeatedly make. Traders can then use the EW principle to analyse financial market cycles and forecast market trends by identifying extremes in investor psychology and highs and lows in prices.

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History of Wave Analysis

Ralph Nelson ELLIOTT (1871 - 1948), who was a professional accountant, discovered the underlying social principles and developed the theory in the 1930s, which was later published in the book “The Wave Principle” in 1938. He also summarized his theoretical ideas in a series of articles in the Financial World magazine in 1939. His final and major work was Nature’s Law: The Secret of the Universe in 1946 before passing away 2 years later.

After Elliott’s death in 1948, other financial technicians and market professionals, such as Charles Collins, Continued to apply the wave principle. Collins had published Elliott’s “Wave Principle” and helped introduce Elliott’s theory to Wall Street by ranking Elliott’s contributions to technical analysis at the same level as Charles Dows work.

Other traders followed suit and Hamilton Bolton, founder of The Bank Credit Analyst, was one of them. Wave analysis was provides to a wide readership in the 1950s and 1960s through a number of annual supplements of market commentary. He also authored the book “The Elliott Wave Principle of Stock Market Behavior”.

Bolton introduced The Elliott Wave Principle to A.J. Frost (1908-1999), who collaborated with Robert Prechter to author The Elliott Wave Principle in 1978. H e also provided weekly financial commentary on the Financial News Network in the 1980s.

Connecting Wave Analysis with Technical Analysis

Within the world of finance, technical analysis is a “security analysis methodology for forecasting the direction of prices through the study of past market data, primarily, price and volume.” (Kirkpatrick and Dahlquist. Technical analysis: The Complete Resource for Financial Market Technicians. Financial Times Press, 2006, page 3. ISBN 0-13-153113-1)

In other words, technical analysis is a type of analysis that uses visual tools on price charts, Based on these tools traders are able to analysis and make trades.

Wave analysis does exactly the same and is therefore unmistakably and clearly a branch of technical analysis.

Chapter 2: CORRECTIVE VS IMPULSIVE WAVES

With the basic concepts explained, it is time to dive into specifics!

What are the patterns which are mentioned above?

How can a trader link them to see different structures?

It all might seem somewhat confusing but there is a very simple logic behind the Theory.

Wave analysis comprises two types of patterns: impulse waves and corrective waves.

Simple put, all price action must either be impulsive or corrective. Generally speaking the "swing high and swing low"(abbreviation is SWHSL) is used, which are price movements that "belong to each other" to form a leg. Please see the screen shot below for a visual representation of the concept.

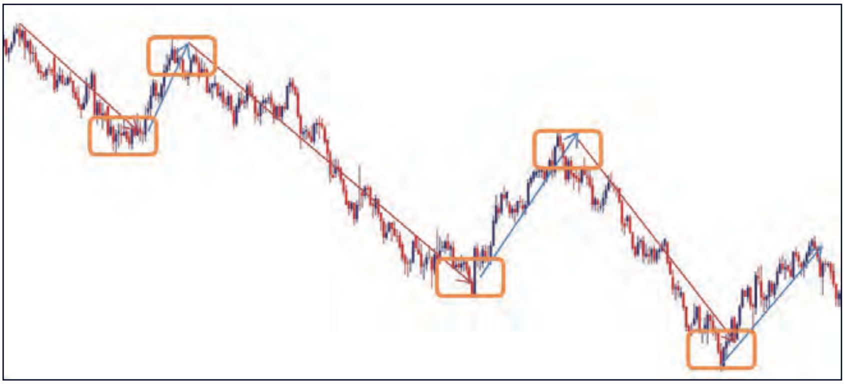
The starting principle of Wave Analysis is to:

1) Identify whether price action of the immediate previous leg/SHSL is impulsive or corrective in nature

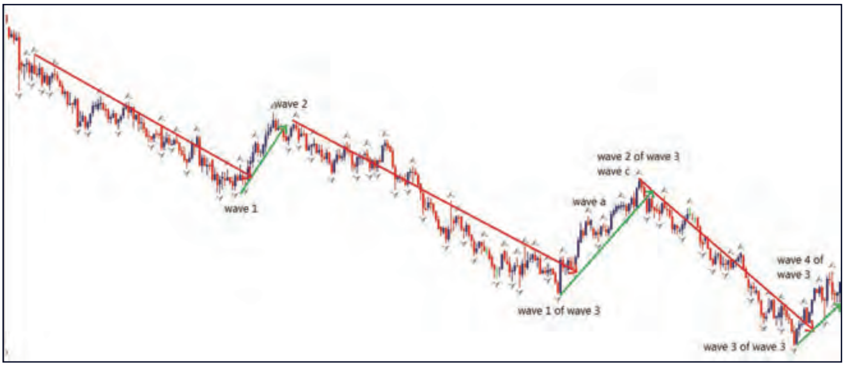
It's likely that impulses will follow corrections,and corrections will follow impulses - although at one point or another, corrections will follow corrections and impulses will follow impulses (please see next 2 points).

Also Identify whether the last couple of legs/SHSLs (before the previous) are impulsive or corrective in nature

This gives an idea of what the **sequence** is of various impulse and correction combinations. The ability to connect the sequences of impulse and correction is a core task of Wave analysis.



Identify whether the current leg/SHSL is impulsive or corrective and determine when the impulsive or corrective price analysis will be confirmed.



Label these different patterns of price action with numbers and letters according to their best performance. Base your judgment on the Wave rules and guidelines.

As you can see, the nature of price action is an instrumental part of assessing the Wave "count"(wave count means the current labelling of wave numbers and letters).

How to Distinguish Impulse Price Action from Corrective

The impulsive moves are one directional and fast. Price action tends to only move toward one side of the market (could be both bullish and bearish) without much pause. Basically, price keeps moving in one direction.

To be exact, during impulsive legs/SHSL there are certain characteristics of impulsive candles:

1) When in an impulse the majority of candle themselves are aligned with the impulse. This means with a bearish impulse, most candle within the leg/SHSL are bearish and just a few are bullish. For a bullish impulse most candle within the leg//SHSL are bullish and just a few are bearish.
2) Impulse candles are bigger and the corrective candles are smaller. That means that in bearish impulses, bearish candles are usually bigger in pip size while bullish candles are smaller in pip size. During bullish impulses, bullish candles are usually bigger in pip size while bearish candles are smaller in pip size.
3) Impulsive candles tend to close near the low or high of the candle. Bullish impulses usually have candles with closes near the high; whereas bearish impulses have candles with closes near the low.

The corrective moves have no sense of direction. They bounce up and down, down and up. In these price zones traders can often observe flags, triangles, wedges, side ways consolidations, and many more corrective chart patterns. The net result is that the currency, in fact, hardly moves anywhere. It just oscillates back and forth.

1) Corrective leg/SHSLs usually have a mixture of candles, a mixture of sizes and closes near the low/high, signalling a lack of direction.

According to statistics, price action is correcting in 70% to 80% of the cases; whereas impulses occur at maximum 20-30% of the time. Although impulses do occur less frequently, they do have certain advantages such as:

. Impulsive moves can reach their target quickly;

. Impulsive moves have a great reward to risk ratio;
. Impulsive moves can be traded differently as the trader can move a trade to break even quicker, which allows the trader to capitalize on a new opportunity;
. Which are open and indecisive for lengthy periods of time create insecurity with many traders.

Chapter 3: WAVE ANALYSIS IN ACTION

Many forex traders are hesitant to learn Wave Theory due to its seemingly complex attributes. However, as with any other aspect of life, learning a new skill takes a fair amount of dedication to apply successfully and Wave analysis is no exception.

Main message: yes, to apply Wave analysis does require practice, BUT it's actually easier than most traders realize.

Why is that? Because all that Wave analysis does is combine impulse and correction, like finding and fitting a piece to a jigsaw puzzle.

Or in other words, **Wave analysts are connecting dots - nothing more and nothing less.** This is certainly not rocket science - far from it - and is learnable by every trader.

Simply put, the trader's goal is to identify past impulses and corrections and then based on those past combinations judge the likelihood of the next impulse or correction unfolding.

Although the concept is indeed simple, it's not so easy to successfully apply as ti does require some experience. However the benefits of implementing the concept outweigh the growing pains.

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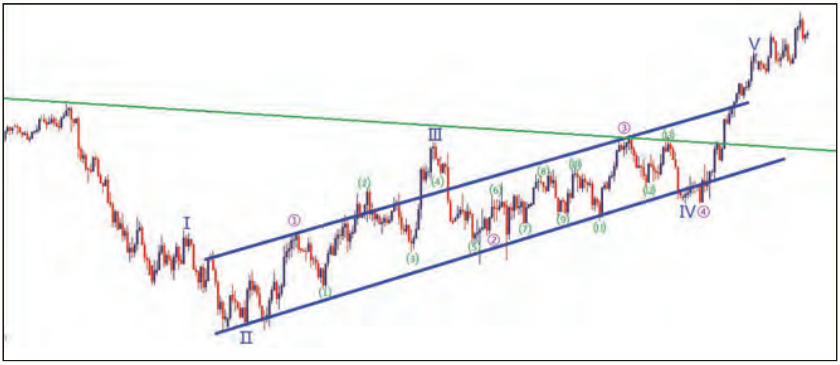
Step by step approach in learning

With that being said, let's continue by providing a practical solution to learn how to put Wave analysis into action.
First of all, a trader needs to know, understand and recognize whether price action is bullish, bearish, impulsive and/or corrective (see explanation in previous paragraph).
Second, the trader then dissects the price action on the chart into separate price action legs or Swing Highs and Swing Lows (SHSL) which is explained in the previous paragraph.
Third, the trader then analyses the charts and (mentally) notes or writes down the sequences of the last 5-15 legs on the time frame of choice. For instance:

1)Bearish Impulse
2)Bullish Correction
3)Bearish Impulse
4)Bullish Impulse
5)Bearish Correction
6)Bullish Impulse
7)Bearish Impulse
8)Bullish Correction

How many legs a trader wants to analyse depends on the Wave formation which is taking place at a given time and it is an element that traders will improve as they become more familiar with all of the Wave rules and guidelines.
Fourth, the trader can complete this exercise on multiple time frames to better understand the context of the current time frame.
T he fifth step is to use the Wave rules and guidelines to label all of the SHSL/legs with letters and numbers. Corrective price action receives the letters ABC or WXY. In some cases even ABCDE or WXYXZ. Impulsive price action receive the numbers 12345. With impulsive price action the number 2 and 4 are corrective of nature, adding the waves 1-5 and A-C to the list:

1) Bearish Impulse →potential Wave 1
2) Bearish Correction →potential Wave 2
3) Bearish Impulse →potential Wave 1 of Wave 3
4) Bearish Impulse →potential Wave A of Wave 2 of Wave 3
5) Bearish Correction →potential Wave B of Wave 2 of Wave 3
6) Bearish Impulse →potential Wave C of Wave 2 of Wave 3
7) Bearish Impulse →potential Wave 3 of Wave 3
8) Bearish Correction →potential Wave 4 of Wave 3
9) Bearish Etc



The good news for traders is that the Wave analysis has rules and guidelines.Traders can use those rules and guidelines to improve their wave count as accurately as possible.

The core rules of Elliott Wave Analysis are as follows:

1) Wave 2 never retraces more than 100% of wave 1;

2) Wave 3 cannot be the shortest of the three impulsive waves,namely waves 1,3,and 5;

3) Wave 4 does not overlap with the price territory of wave 1,with the exception of leading and ending triangles.

Some of the most important guidelines of the Elliott Wave Analysis are as follows:

1) In a five wave pattern . Waves 2 and 4 will often take alternate forms (the wave is sharp,then the wave is shallow retracement);

2) Traders can use the channelling technique by connecting a trend between wave 1 and 3 then hooking a parallel line to wave 2 to have an approximation of where wave 4 can stop;

3) The same channelling technique can be completed by connecting a trend between wave 2 and 4 and hooking a parallel line to wave 3 to have an approximation where wave 5 can stop;

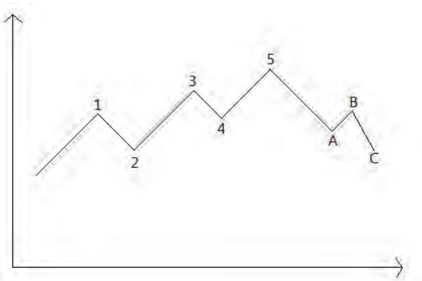
4) Wave 2 usually stops at a deeper Fibonacci retracement level such as the 61.8% Fibonacci retracement level;

5) Wave 4 usually stops at a shallower Fibonacci retracement level such as the 38.8% Fibonacci retracement level;

6) Etc .

It is not in the scope of this document to explain all of the guidelines for Wave counting, which would justify a separate document on its own.
However , the image provides a basic outline of how the Wave analysis would be applied on a chart.All the ups and downs are labelled with numbers and letters ,and each Wave count is either part of a bigger wave or comprises of smaller waves itself.

The levels are called "degrees" and it is important to realize that there are various degrees on higher and lower time frames for each wave count .A five wave impulsive wave count sequence on one chart might 1 on a higher time frame.



From R.N. Elliott's essay ,"The Basis of the Wave Principle," October 1940.

To find out more about the practical implementation of the mentioned rules and other guidelines of Wave counting , we encourage you to visit my live trading room (Chris Svorcik) at GSC. Make sure to comment in the chat pane that you are specifically visiting the webinar to hear more about the wave counts and its rules and guidelines.

Last but not least,it is important to note that all Wave counts are approximations and they can always turn out to be incorrect .It is therefore useful and crucial to know at what price levels and areas wave counts are confirmed or invalidated.

With that said,in the next chapter 1 will be explaining how you can interpret the Wave analysis 1 post daily on the GSCFX website so that you can gain the most benefit from the analysis.

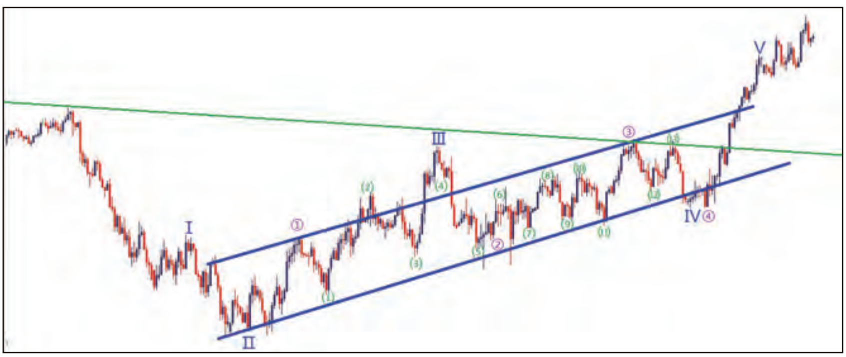
Chapter 4 : HOW TO BENEFIT FROM WAVE ANALYSIS ON GSC WEBSITE

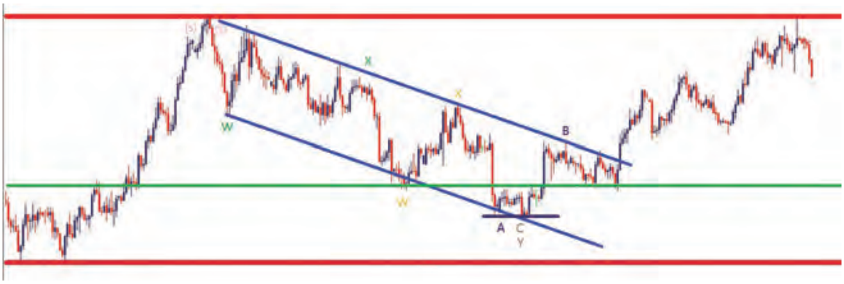
One of my two main focuses is to post clear and concise charts with short explanations in words to clarify certain concepts. Charts are useless if traders cannot visually see anything on them.Therefore clarity is always in my mind when making screenshots of my charts.

Clarity is emphasized by showing only but a few most important indicators and tools,which help with understanding the structure and nature of the market.Clarity also is derived by using clear and different colours for those tools to increase understanding and by showing the most important parts of price action (the size and scope of the chart).

Another method of emphasizing clarity is by using colours for the wave count which helps traders distinguish between their respective numbers and letters . Wave counts that have been numbered 12345 and have the same colour of green are 5 waves belonging to each other .These five waves could belong to a wave of a higher degree. In order for traders to understand how these fives fit within a higher degree,the wave count of the higher degree is placed at the end . In the case of a wave 12345,then at the end of wave 5 a new wave count would summarize the entire five waves (such as a Wave 1) in a different colour.

In the screenshot below is an example of the USDJPY where 5 wave sequences are part of a higher 5 wave sequence in different colour .Additionally,I was expecting a correction of price at that time back to 38.2% or 50% for a wave 4(blue) which indeed occurred (2nd screenshot).





Logically speaking the other main focus of Wave analysis is labelling the moves (ups and downs) with the correct wave counts ,which means translating the theory of Wave analysis into coherent an correct wave counts.At any point in the time however,multiple wave counts could be valid and meet the requirements according to the theory.At certain times the Wave count is more distinct than others.At times I can judge the probability of a wave count close to 100%,whereas there are moments that I consider the currency pair to be at 50-50% spot.

First of all ,when making this judgment,I lean on the many years of experience in implementing Wave counts,and share those ideas with traders on the GSCFX website (Wave analysis section).

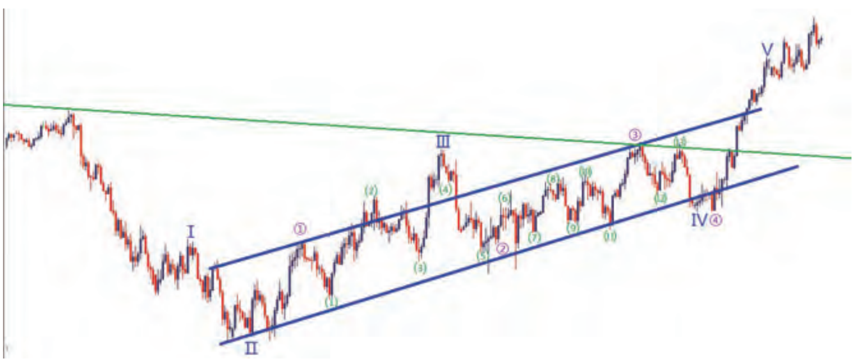
Second ,other elements are used to judge which wave count is statistically more probable.The tools and indicators I use to make the best judgment possible are :

1) Trend lines→to understand where the breakouts are
2) Trend channels→to understand what the trend is
3) Moving average→to understand what the trend is and whether price is corrective or impulsive
4) Oscillators (Awesome Oscillator &CCI)→to understand if there is divergence or convergence
5) Fibonacci retracement →to understand where S&R is and where price can bounce
6) Fibonacci targets→to understand what the targets are when price is trending
7) Tops and bottoms→to understand where the greater support and resistance is
8) Fractals→to understand where the local support and resistance is

Third ,in certain cases where multiple analyses seem equally justified,it is even possible to see an “alternative count” or the mentioning of an “invalidation level” in the charts as well.

Last but not least, if a Wave count has a decent chance of materializing,then I would use extra coloured arrows to indicate the likely movement a price will make. In those cases traders would see green and red arrows on the charts . In all cases those arrows represent a decent potential setup for the price to move towards. The starting point of the arrow is only visible after the price breaks a support or resistance zone . The ending point of the arrow is where the next potential and expected support or resistance is found.

Generally speaking these arrows are placed on the charts when there is confluence and price has a higher likelihood of making an impulse, which increases the chance of success. Of course there are cases where impulsive corrections do well, just as there are trending movements which are slow paced. However,impulsive corrections with the trend trade setups have multiple advantages such as quicker movement toward the take profit area and less lingering around the entry level (as mentioned earlier in the document).Catching impulsive corrections is an added bonus in that regard. The other factor is that many traders are lured into the market when seeing an impulse .This in part can be explained by the psychological elements of fear and greed . Jumping into a rolling and on-going move can however have adverse effects without sufficient preparations.



The big question is always - when does an impulsive move (breakout) actually start?

It is certainly not an easy question to answer . However there are guidelines that can be used to judge the probability of corrections and impulses.

A simple rule to remember is that once a correction has lasted a substantial period of time, the chance of an impulse occurring actually increases; by the same token if the impulse has lasted a substantial period of time, the chance of a correction occurring increases.

Waiting for a chart pattern to occur and then taking a subsequent break in that pattern increases the likelihood of an impulse occurring . This chance increases even more if the momentum prior to the chart pattern is the in the same direction as the break out.

Additionally, checking if there is no divergence in play helps with judging whether that particular breakout is sustainable or running into signs of exhaustion. Last but not least,implementing classic technical analysis concepts such as support and resistance,Fibonacci levels,and trend lines will provide an understanding of the structure of the market.

CONCLUSION

Wave analysis provides great benefits to traders and is easier to comprehend than most realize.The advantages of knowing the Wave Theory are widespread.Here is a list of advantages-although these are just a selection and the benefits are certainly not limited to these:

1) The trader is able to understand the market structure better and sooner;

2) The trader is able to recognize the movements of price more efficiently;

3) The trader is able to filter weak trade setups;

4) The trader is able to recognize higher probability trading opportunities;

5) The trader is able to recognize better Reward to Risk ratios;

6) The trader is able to understand which Fibonacci retracement levels and targets have higher statistical probability;

7) The trader is able to analyse the charts better and faster.

Introduction to Price Action Forex Trading

Turning Price Charts into Trading Strategies

DEEP
OCEAN

Contents

Introduction to Price Action

What is Price Action Price Trading?

Price Action is simply how prices change over time - the action or movement of price.It is readily observed in markets where there is sufficient liquidity and price volatility, like the Forex market, but anything that is bought or sold freely in a market will demonstrate some sort of price action.

The concept of price action trading embodies the analysis of basic price movement as a methodology for financial speculation, as used by many retail traders and institutional traders. Since it ignores the fundamental factors of a security (Share,Commodity, Forex Pair) and looks primarily at the security’s price history, it is form of technical analysis.

What differentiates price action trading from most forms of technical analysis is that its main focus is the relation of a security’s current price to its past prices. This past history includes swing highs and swing lows, trend lines, and support and resistance levels. The trader observes the relative size, shape, position,growth(when watching the current real-time price) and volume of the bars on an OHLC bar or candlestick chart.

Introduction to Price Action

Forex Price Action Trading

The Forex market is the largest and most liquid of the financial markets with daily activity often exceeding USD4 trillion a day, with over 1.5 trillion of that conducted in the form of spot trading.

It is the existence of volatility within the Forex market that enables price action trader's to take advantage of exchange rate fluctuations for speculative purposes. Because of the huge volume and the volatility,Forex markets generate excellent data about the movement of the price of a currency pair over varying periods of time.

This data is displayed on price charts reflecting various times frames - commonly; hourly,30 minute,15 minute charts.These price charts reflect the beliefs and actions of all participants(human or computer)trading a currency pair during a specified period of time. These beliefs are played out on a currency pair's price chart in the form of"price action ."

Price action Forex trading is the discipline of making all of your Forex trading decisions from a stripped down or naked price chart. This means using no legging indicators outside of a couple moving averages used to identify current support, resistance and trend. In the Forex market, price movement provides all the signals you will ever need to develop a profitable and high - probability Forex trading system .These signals collectively are called price action trading strategies and they provide a way to make sense of a currency pairs' price movement and help predict its future movement with enough accuracy to give you a high - probability trading strategy.

This book attempts to outline most major candlestick bars, patterns, chart formations, behavioral observations and trade setups that are used in price action Forex trading.

Mastering Price Action Skills

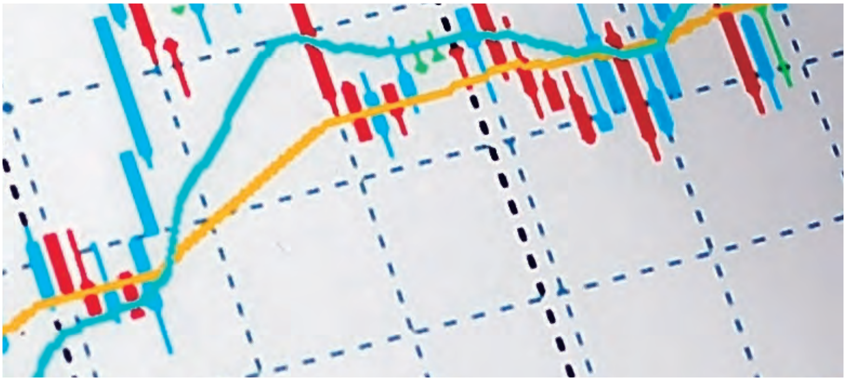
There are three basic skill groups necessary to make price action Forex trading into your own personal ATM; 1.Analysis:2.Trading Strategy:3.Money Management.Trading psychology is also critical but will not be covered here. Suffice to say instilling focus, self discipline,and a passionless,objective attitude towards losses and wins is critical to your success.So,to make your PC into a personal ATM you need to master the following skills:

. Analysis ;What is the most likely movement in price

. Trading Strategy： deciding under what market conditions to enter a trade,on what side.

. Money Management:deciding how much to risk on each trade and when to take profit.

Introduction to Price Action



1. Analysis

All price action traders' analysis processes will be a little different.Some may start with classical technical analysis;using patterns including trend lines, break - outs,and pull - backs,which are broken down further and supplemented with extra bar - by - bar analysis, sometimes including volume. This observed price action gives the trader clues about the current and likely future behavior of other market participants. The trader can explain why a particular pattern is predictive, in terms of bulls (buyers in the market), bears(sellers),and the crowd mentality of other traders, change in volume, and other factors.

A good knowledge of the market's make - up is required for price action trading. The resulting picture that a trader builds up will not only seek to predict market direction, but also the speed of movement,the duration and the intensity, all of which is based on the trader's assessment and prediction of the actions and reactions of other market participants.

Price action patterns occur with every bar and the trader watches for multiple patterns to coincide or occur in a particular order, creating a 'setup' which results in a signal to buy or sell. Individual traders can have widely varying preferences for the type of setup that they concentrate on in their trading.

2. Trading Strategy

The key principle of any Price Action Strategy is to keep things simple.Price action traders are against over complicating trading .In our opinion, the simpler your method is, the more

effective
You will be.Price action Forex trading strategies will work on any currency pair,which is free floating and regularly traded.This means you can use these trading strategies to successfully trade any currency pair you find on your Forex trading platform. That being said, price action Forex traders usually prefer to concentrate on just a few currency pairs at any one time.

Our method is based around reading and understanding price by reading Candlesticks,identifying the trend, using Support and Resistance lines then looking for a signal. Due to the recent economic uncertainty and countries losing their credit ratings etc, currencies aren't trading as they normally would. This has led to price action traders using price reversals and price breakouts exclusively. Price action traders look for strong reversal setups forming on top of my Support and Resistance areas. Once a pattern forms, that indicates a reversal;We set up a trigger price and enter the trade.For a breakout we are looking for a break out of consolidation,a ranging market or sideways trend.

3. Money Management

To succeed at trading the Forex markets,you need to understand all the elements of money management including risk/reward ,position sizing,and risk amount per trade.You also need to consistently execute each of these aspects of money management in combination with an effective yet simple price action strategy.Before we can even look into the formula for successfully calculating the right trade size we need to agree one very important thing,Risk.

So what should be the ideal risk per trade?The answer to this question would depend on the trader however most successful traders would recommend1-3%.In our opinion you should not risk more than 1% per on any one trade and no more than 3% on any pair category at the same time.

Once you have made up your mind about the Risk % then calculate Risk in Dollars by multiplying the account size by Risk %. For Example if you have $10000 account and willing to risk 1% then total risk in dollars is $100(10000x1). Position sizing is the given to the process of adjusting the number of lots you trade to meet your pre-determined risk amount and stop loss distance.

Forex Price Action Analytical Process

Top-Down Analysis

Top-Down Analysis is a method of analysis that involved looking at the “big picture” first, and then analyzing the details of smaller components. Because the top-down approach begins at the top, the first step is to determine what is actually happening that might impact the price of currency in the economies of the currencies we are looking at trading.

Unfortunately, because we live at a time in which war and geopolitical tensions are heightened, we must not forget to be mindful of what is currently affecting each region of the world. There will be and will no longer be included in the reminder of the analysis simply due to the amount of financial instability that could wreak havoc on a currency trade.

Next, even before looking at long term chart, we review a reliable economic news calendar like www.forexfactory.com - the last think you want is to be in a trade when major mews is being adjustable time zones, detail views, filters, like to event sources, real-time data releases, economic charts etc but we simply use it to tell us when not to enter a trade.

Then, to get an overall picture of the trend as well as strong support and resistance levels we review larger timeframe charts like the weekly price charts or the daily charts; then move to a smaller time frame of charts like the 4 hourly and the hourly charts; before using the 30,15 or 5 minute charts to determine a good entry point.

Trend Definition

On any particular time frame, whether it’s a yearly chart or a 1 minute chart, the price action trader will almost without exception first check to see whether the market is trending up or down or whether it’s confined to a trading range.

The concept of a trend is one of the primary concepts in technical analysis. A trend is either up or down or ranging sideways. An upwards trend is known as a bull trend, or a rally while a bear trend or downwards trend is where the market moves downwards. For the complete novice an upwards trend can be described simply as a period of time over which the price has moved up. More specifically we are looking for at least two higher highs and two higher lows to establish a new trend and a series of at least 3 higher highs and higher lows to confirm it. A bear trend or downwards trend is where we see a series of lower lows and lower highs. In price action trading the assumption until it provides reversal signal.

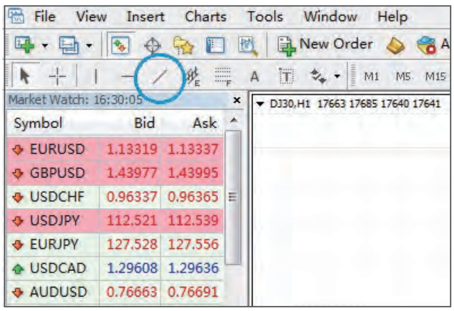
Range Trend Definition

A ranging market or sideways trend is not so easily defined, but it is what exists when there is no discernible trend. It is defined by its floor and its ceiling, which are always subject to debate. A range can also be referred to as a horizontal channel. A ranging market often displays horizontal price movement when the forces of supply and demand are nearly equal.

A sideways trend is generally the result of the traveling between strong levels of support and resistance. A sideways trend is often regard as a period of consolidation before the price continues in the direction of the previous move. It is not uncommon to see a horizontal trend dominate the price action of a specific currency pair for a prolonged period before starting a move higher or lower.

Plotting Trends

Classically a trend is defined visually by plotting a trend line on the opposite side of the market from the trend's direction, or by a pair of trend channel lines - a trend line plus a parallel return line on the other side - on the chart. These sloping lines reflect the direction of the trend and connect the highest highs or the lowest lows of the trend.



In its idealized form, an uptrend will consist of trending higher highs and higher lows. Conversely a down trend will consist of trending lower highs, higher lows, lower highs and lower lows can only be identified after the next bar has closed. Identifying it before the close of the bar risks that the market will act contrary to expectations and move beyond the price of the potential higher/lower bar.

Like most retail forex traders, we use Metatrader4 or MT4 and so to draw a trendline:

. Go to the toolbar
.Left click the fifth icon from the left (slanted line)
.Move your curse onto your chart(your cursor will change into a tiny cross-hair, plus the slanted line icon)
.Position the cross-hair where you want to begin your trendline, and left click(and hold) your mouse
.Holding the left mouse button down, move your mouse to wherever you want trendline to go
.When the trendline is where you want it, release the left mouse button

To remove the trendline

. Position your cursor on the trendline until the pop-up label appears; note the item # of the object(trendline) you want to remove; then right click.

. A pop-up menu will appear; select Object List; the Objects window will appear; there may be several items listed.

. Find the item # of the trendline you want to delete, and left click on that item to highlight it.

. Select Delete;your selected trendline will be removed from your chart

. Close the Objects window.

Support and Resistance Levels

A Support Level or a Resistance Level is a price level that the market has rejected at least twice and is keeping the market from reaching through to new levels. The support/resistance of identified level is deemed to be stronger the times that the price has historically been unable to move beyond it.

There could be many reasons as to why the price has been rejected at theses levels;accumulation of buy orders (at a support level), or sell orders (at a resistance level); buyers are attracted by the lower levels (support level), or sellers attracted by the higher levels (resistance level); buyers think or feel the market will go higher(support), or sellers think or feel the market will go lower,etc.

SUPPORT/RESISTANCE IS OFTEN FOUND AT A ROUND PRICE LEVEL SUCH AS 0.9000 OR 1.1000. Many inexperienced traders tend to buy/sell when the price is at a whole number because target prices/stop orders set by retail traders and some large institutional traders are placed at round price level rather than at numbers tend to act as strong price barriers. Many technical traders will use their identified support and resistance levels to choose strategic entry/exit prices because these areas often represent the prices that are the most influential to an asset's direction.

3 Simple rules to draw perfect support and resistance levels

Rule No.1: Price needs to go get rejected at least twice from the level
Rule No.2: The more rejections the level has, the more important it becomes
Rule No.3: Most recent rejections are more important than less recent rejections

Fibonacci Support and Resistance Levels

Fibonacci is a very popular tool among technical traders and is based on the key numbers identified by mathematician Leonardo Fibonacci in the thirteenth century. Price Action Traders use the Fibonacci retracement or extension levels as potential support and resistance areas. Since so many traders watch these same levels and place buy and sell orders on them to enter traders or place stops, the support and resistance levels tend to become a self-fulfilling prophecy. Traders also use the Fibonacci extension levels as profit taking levels. Again, since so many traders are watching these levels to place buy and orders or to take profits, this tool tends to work more often than not due to self-fulfilling expectations.

Fibonacci's sequence of numbers is not as important as the mathematical relationships,expressed as rations, between the numbers in the series. And to price action traders, it is not the mathematical relationship that matters but the fact that price often seems to react to the key Fibonacci rations of 61.8%, 38.25 俺的23.6% - moving towards these levels like magnets; then away from them quickly too when either rejecting or moving through them.

In technical analysis, Fibonacci retracement or extension is created by taking two extreme points (either a major peak/trough or major support/resistance) on a price chart and diving the vertical distance by the key Fibonacci ratios of 23.6%, 38.2%, 78.6% and 100%. Once these levels are identified, horizontal lines are drawn and used to identify possible support and resistance levels. These is a Fibonacci tool in Metatrader4 that is easy to use once you know what you are doing.

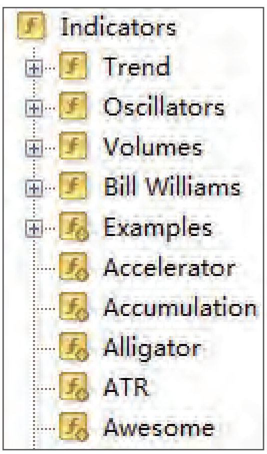
In addition to the ratios described above, many traders also like using the 505 levels. The 50% retracement level is not really a Fibonacci ratio, but it is used because of the overwhelming tendency for an asset to continue in a certain direction once it completes a 50% retracement.

Two Attempts Rule

One key observation of price action traders is that the market often revisits price levels where it reversed or consolidated. If the market reverses at a certain level, then on returning to that level, the price action trader expects the market to either carry on past the reversal point or to reverse again. The trader takes no action until the market has done or the other. It often brings higher probability trade entries, once this has passed and market is either continuing or reversing again.

Price action traders do not take the first opportunity but rather wait for a second entry to make their trade. For instance the second attempt by bears will abandon their bearish opinions after a break-out of a trading range or a trend line, the market may return to the level of the break-out and then instead of rejoining the trading range or the trend, will reverse and continue the break-out. This is also known as ‘confirmation’. Price action traders often use this second touch as their entry point for a trade.

Reversal Bar



A reversal bar signals a reversal of the current trend. On seeing a signal bar, a trader would take it as a sign that the market direction is about to turn. An ideal bullish reversal bar should close considerably above its open, with a relatively large lower tail (30% to 50% of the bar height) and a small or absent upper tail, and having only average or below average overlap with the prior bar, and having a lower low than the prior bars in the trend. A bearish reversal bar would be the opposite.

Reversals are considered to be stronger signals if their extreme point is even further up or down than the current trend would have achieved if it continued as before, e.g. A bullish reversal would have a low that is below the approximate line formed by the lows of the preceding bear trend. This is an ‘overshoot’. Reversal bars as a signal are also considered to be stronger when they occur at the same price level as previous trend reversals.

The price action interpretation of a bullish reversal bar is that it indicates that the selling pressure in the market has passed its climax and that now the buyers have come into the market strongly and taken over, dictating price which rises up steeply from the low as the sudden relative paucity of sellers causes the buyers' bids to spring upwards. This movement is exacerbated by the short term traders and scalpers who sold at the bottom and now have to buy back if they want to cover their losses.

Pull-back

Buying weakness and selling strength is the art of buying pullbacks. A pull-back is a move where the prevailing trend, or retraces from a breakout, but does not retrace beyond the start of the trend or the beginning of the breakout. This type of price movement might be seen as a brief reversal of the prevailing trend, signaling a slight pause in momentum.

Often pullbacks are seen as buying opportunities after a currency has had a large price movement. It is important, however, to analyze closely any pullback as it may be a sign of a definite trend reversal or a slight pause in the trend,each having very different trading implications. One price action entry technique is to follow a pull-back with the aim of entering with-trend at the end of the pull-back. Here is our process;

Step One

Establish a main trend first(either uptrend or downtrend) on the hourly time frame. EMAs(50,100&200) and trend lines can be used to determine the direction of the main trend.

Step Two

After determining the direction of the trend on the hourly time frame, we will drill down to the

30 minute chart then then 15 minute chart in order to establish that the trend is in the same direction as the hourly trend. We also monitor pullbacks on these time frames to know if it the phases are in sync.

Step Three

On the s-minute chart, we plot the trend line. We wait for price to extend past the trend line and enter upon the return to the trend line. Wait for price to retrace back to the trend line price and actually stall all the trend. Entry is on the formation of the next candle or bar above the trendline.

Breakouts

A breakout occurs when the price “breaks out” of some kind of consolidation or trading range. A specific price level is breached - such as support and resistance levels, pivot points, Fibonacci levels, etc. With breakout trades, the goal is to enter the market right when the price makes a breakout and then continue to ride the trade until volatility dies down.

When trading breakouts it is important to realize that are two main types. Continuation breakouts and reversal breakouts. Knowing what type of breakout you are seeing will help you make sense of what is actually happening in the big picture of the market. Breakouts are significant because they indicate a change in the supply and demand of the currency pair you are trading. This change in sentiment can cause extensive moves that provide excellent opportunities for you to grab some profits.

After a breakout extends further in the breakout direction for a bar or two or three, the market will often retrace in the opposite direction in a pull-back, i.e. The market pulls back against the direction of the original breakout level and then wait to see if it bounces back to create a new high or low (depending on which direction you are trading).

Breakout Failures

A breakout might not lead to the end of the preceding market behavior, and what starts as a pull-back can develop into a breakout failure, i.e. The market could return back into its old pattern. If the market breaks out by five ticks and does not hit their profit targets. Then the price action trader will see this as a five tick failed breakout and will enter in the opposite direction at the opposite end of the breakout bar to take advantage of the stop orders from the losing traders' exit orders.

In the particular situation where a price action trader has observed a breakout, watched it fail and then decided to trade in the hope of profiting from the failure, there is the danger for the trader that the market will turn again and carry on in the direction of the breakout, leading to losses for the trader. This is known as a failed failure and is traded by taking the loss and reversing the position. It is not just breakouts where failures fail, other failed setups can at the last moment come good and be failed failures.

Trend line breaks

When a market has been trending significantly, a trader can usually draw a trend line on the opposite side of the market where the retraces reach. Any retrace back acoss the existing trend line is a trend line break and is a sign of weakness. This is a clue that the market might soon reverse its trend or at least halt the trend's progress for period.

A trend channel line overshoot refers to the price shooting clear out of the observable trend channel further in the direction of the trend. An overshoot does not have to be a reversal bar, since it can occur during a with-trend bar. Sometimes it may not result in a reversal at all, it will just force the price action trader to adjust the trend channel definition.

Trading trend line breaks is simple; our first step is to locate a strong upwards trend. Apply a trendline to help visually spot out that trend and to use as a “barrier” for price action. Now we wait for price action to break through the trendline and head downwards, in which a sell order may now be entered. Now that we have a live sell order open and locked in some pips, our next focus should be to plan for entries, but for exits as well. To exit an open position, the trader must recognize the reversal pattern and exit that trade accordingly.

Double, Triple Tops and Bottoms

When the market reaches an extreme price in the trader’s view, it often pulls back from the price only to return to that price level again. In the situation where that price level holds and the market retreats again, the two reversals at that level level are known as a double top bear flag or a double bottom bull flag, or simply double top/double bottom and indicate that the retrace will continue.

A pull-back is very common after a double top or bottom and even more common after a triple top or bottom.

This is similar to the classic head and shoulders pattern. A price action trader will trade this pattern, e.g. A double top, by placing a sell stop order 1 tick bellow the bar that created the second top. If the order is filled, then the trader sets a protective stop order 1 tick above the same bar.

Trading Ranging Markets

During strongly trending markets, the majority of forex traders trade profitably and comfortably, but once a trend is over all kind of problems arise: trend -following systems no longer work, frequency of false entry signals increases, bring additional losses which eat up earlier accumulated profits. Taking into consideration that forex markets spend up to 50% time in a non-trending, sideways state, the knowledge of how to deal with range-bound markets becomes vital.

Once a trader has identified a trading range,i.e. The lack of a trend and a ceiling to the market;s upward movement and a floor to any downward move, then the price action trader will use one of two strategies;They will use the ceiling and floor levels as entry points,trading back to the mean or average; or they will use the ceiling and floor levels as barriers that the market can break through, with the expectation that the break-outs will fail and the market will reverse (see breakouts above).

Since trading ranges are difficult to trade, the price action trader will often wait after seeing the first higher high and on the appearance of a second break-out followed by its failure; this will be taken as a high probability bearish trade, with the middle of the range as the profit target. This is favored firstly because the higher high is a few points higher and therefore offers a few more pints if successful. And thirdly due to the belief in the two attempts rule the market will result in a tradable move in the opposite direction.

Price Action Decision Making Process

Regardless of the analysis and signals used, prior to entering a trade, a trader must go through a decision making process which he or she has worked out advance.

. What is the most likely movement in price? Up or down? This is discerned through market analysis, looking at and measuring price information, and making an educated guess based in a trader's logic and beliefs.

. Should I get in or not? A trader needs to be fairly confident that trade setup has a decent enough chance of success as well as a solid risk/reward ratio prior to "taking a position". The position can either be long (profiting when price moves up) or short (profiting when price moves down).

. When is the best time for me to get in? Price are constantly in motion,and it is important to be patient enough to find the best entry point rather than jump in as soon as a trader thinks they see an opportunity.

. How much will I risk? This decision will be dictated by a trader's money management strategy.

. How much profit should I take? A trader also needs to have an idea how much she or he stands to make on the trade before getting out. Prices can move in a trader's favor then move against them. The trader needs to know when they have taken enough risk and should now take some or all of their money off the table.

Chose a forex broker

Choosing a suitable foreign exchange broker is not as easy as it sound. One of the best ways is on a recommendation from other traders, but as guide you should look for a broker that:

. Is reputable and offers secure handing of client' funds, in particular segregation from their own and ideally offering protection for those funds - including unrealised, and cash on deposit- against their own financial failure.

. Check that your forex provider holds the appropiate licence. In the Australian Securities and investments Commission (ASIC), is the regulatory body for Australian finacial markets and all brokers must have ASSL Number.

. Offers not only the best spreads between bid and ask prices, but also consistent spreads that are not widened significantly during times of market volatility - remeber this is the cost of trading;

Does not requote prices, unless there are exceptional conditions,but allows you to trade at or very close to price quoted on the screen;

.Allow you to deposit funds and withdraw earning smoothly and speedily;

. Has a responsive, fully featured and easy-to-use trading platform;

. Offers competent, easily available account and technical support, especially after the account is opened.

Learn the Trade Platform

Trading platform come in two main varieties. You either download the software and run it on your own computer, or you trade via the internet using remotely operated software. Internet (web-based) platforms give you are the flexibility of trading from any computer. Software you download has to be available on the computer you wish you use, which could mean downloading and installing it again if you change computers.

Web-based platforms are not necessarily better, however. What's more important is the features they provide in terms of charting tool, trading features, ease of use, screen legibility and speed of execution. Before beginning to trade,take some time to learn how the software works by trading the smallest possible trade sizes or, if possible trading on a practice account where no real money is involved. This will help prevent the occurrence of trading errors because of unfamiliarity with the way the software works.

Demo and Live Accounts

Using a practice (or demo) account is one of the best ways to prepare for trading with real money. However, there are differences that you should keep in mind when making the transition from a practice account to a live account:

. Delayed vs. Live data feed: Some practice accounts use delayed pricing information in their demo trading system, which could affect the timing of trades and impact of fundamental news announcements.

. The way orders are executed: Demo platforms can execute some order differently than the way they are executed in a live account - particularly stops and limits. It's important to understand how the executions might differ.

. Feature available: Demo systems often only include basic features, and you will receive full access to all feature only after opening a live account. Example include available charting tools and indicators, and you should make sure you understand what will be included with a live account.

. Emotions: Because you are not trading with real money in a practice account, you emotion will no be factor. Be sure to develop a disciplined plan so you not let your emotions get the better of you.