"THE ONLY FOREX BOOK YOU'LL EVER NEED."

FOREX SECRETS DECLASSIFIED

THE BLUEPRINT TO BECOMING A PROFITABLE TRADER

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1

THE PLAYERS

Whether you're trading from home on your laptop or managing a multimillion dollar hedge fund from a high rise, everyone involved in the forex market is looking for one thing…profit. The position size and hold time might vary for each trader based on their style, risk tolerance and strategy, but the goal still remains the same…to generate profit. However, there's another goal for some players involved in the market and it's not just to profit. It's to actually take your money so you can't profit.

Who's Involved in the Forex Market?

Not everyone in the forex market wants to take your hard-earned money, but you should still be aware of who's involved in the market and the roles they play. With a wide variety of hands exchanging currency, here's some of the key players.

Commercial Banks

The biggest players in the game. Commercial and investment banks like JP Morgan, Citi, and Deutsche Bank are responsible for around 90% of the volume that takes place on the forex exchange. The banks are involved in the market not only to offset their own risks along with their clients, but also to increase the wealth of shareholders.

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Central Banks

Central banks represent a country's government and are important players in the forex market. They're responsible for setting interest rates, the price of its currency and controlling the supply of money. Whenever the central bank is taking action, it's usually to directly affect the economy by increasing or decreasing the value of the currency.

Investment Funds

Whether it's an investment fund, hedge fund or portfolio manager, they're the next biggest players after commercial and central banks. They make up a good amount of volume as well. Not as much as the big banks, but definitely tons more than individual retail traders. Their goal is to generate substantial returns for the investment funds they control.

Corporations

Big multinational companies that are involved in importing and/or exporting need to exchange currency to pay for their goods and services. Oftentimes this is done through a bank acting as a dealer where they will make a profit on the bid-ask spread. Some companies might also use forex as a means to hedge against risk for any transactions associated with their currency exchanges.

Market Makers

A bank or broker that's a market maker provides two quotes for potential market participants. They must provide a bid price at which they're willing to buy a currency and an ask price at which they're willing to sell a currency. Market makers make their money on the difference between the bid and the ask price which is known as the "spread".

Retail Traders

This is the category you, myself and most traders fall into. Retail traders typically are trading for themselves on their own brokerage account. Even though there are roughly 10 million forex traders around the world, retail traders only make up around 5.5% of the trading volume in the forex market.

Smart Money

While we can assume the big money players are intelligent, the phrase "smart money" has less to do with intelligence and more to do with the amount of money they control. They also have access to information not available to the typical retail trader. When you hear the term "smart money" later just remember we're talking about the big banks, the kind of money that it takes to move the market.

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THE GAME

It took me a long time before I realized that the market is controlled by two groups of people. I always thought it was the bulls against the bears, at least that's what the media tells us. However, that's not the case. It's actually the big guys against the little guys. Strong hands versus weak hands. Smart money versus dumb money.

The nicknames aren't important. What's important is the fact that the banks and market makers know all the traditional retail trading methods and look to profit from traders fueled by emotion. They can easily manipulate prices and shake inexperienced traders out of the market at will, taking their money and leaving them frustrated.

Even though I heard about the stock market being manipulated when I was younger, it didn't affect me so I didn't think much about it. Years later I started trading penny stocks and then eventually moved to options. I was able to get some pretty crazy returns in a short amount of time, but then I would lose it because I didn't have a clear strategy.

Since I wasn't trading with much capital, I felt like the pattern day trading rule and the stock market hours were limitations to how I wanted to trade. I thought if I had the ability to get in and out without having to worry about violating the PDT (pattern day trading) rule, I could do better.

The PDT rule basically says if you have less than $25k in your account you can't make more than 3 day trades in a 5 trading day window. Like many traders, when I learned about the forex market being open 23 hours a day 5 days a week

and there was no pattern day trading rule, I was immediately interested.

My first few months trading forex was a disaster. I will admit it was probably one of the most mentally and emotionally challenging things I've ever experienced in my life. I became pretty good at technical analysis while I was trading options so I figured I could apply those same skills to the forex market. I was wrong.

While there are similarities between trading forex and trading stocks, there were some new concepts I was never aware of when I was trading options…things I never even heard of.

I would be in a profitable trade and go to sleep confident it would continue in my direction. Instead, I would wake up to a margin call and a blown account. It happened over and over until I had taken enough punishment to finally realize that if you're not watching the chart you need a stop loss to prevent your whole account from being wiped out in case it goes against you.
Even if your stop loss is far from where you think price will go and you'd hate to take a loss that big, it's better than losing an account due to a margin call. Once I started trading with a stop loss, I stopped waking up to a blown account. If you aren't familiar with a margin call, it's when your balance is so low that the broker closes out your positions so they don't risk losing their money since you're trading on leverage.

No more blown accounts was great but I was still waking up to losses. Losing sucks when you're wrong, but it sucks even

more when you're right. Now, when I went to sleep in a profitable trade and woke up later, my profitable position had gotten stopped out for a small loss. The problem was, it didn't keep going. The market took my money first, and then went back in the direction I knew it would.

This happened over and over. I started to feel like there was someone or something on the other side controlling the price and intentionally moving it to where my stop loss was. I dove deeper into the forex market and that's when I started seeing the word manipulation again.

There's a few ways that forex prices can be manipulated.

Central banks will release news or statements to influence market sentiment. They also use interest rates to increase or decrease the value of their currency.

Shady brokers can create spikes near support and resistance levels to stop you out. They can also widen the bid/ask spread to take you out of your position. That's why it's vital you use a reputable broker.

Market makers will drive price to "liquidity pools" to mitigate orders and run stops. If you've ever entered a trade just for it to go against you and hit your stop loss before going back in the original direction then you know what I mean.

While all the examples above are forms of manipulation, the manipulation we want to focus on is the movement of price by smart money and market makers.

Remember that retail forex traders only make up around 5% of the more than $6 trillion dollars in daily transactions on the forex exchange market. With that much liquidity, retail traders don't have the money to move the markets. That means the majority of volume is being traded by big banks and funds which is what causes the bigger price moves.

Instead of trading against the banks, why not trade with them?

If 90% of retail traders lose money, why continue to follow the same methods?

Instead of using retail methods like indicators and patterns that aren't very reliable, why not use key levels like the banks that control price anyway?

Big orders that move the market are easy to see. If you're familiar with candlesticks, you can identify these areas by their strong rejections from certain price levels and the large candlestick bodies that signify momentum.

These areas are known as supply and demand levels. The banks move price between these levels and they're good areas to enter a high probability trade. When large orders push price in one direction, it would take an even larger amount of orders to reverse price right away which is unlikely. Instead, they'll place their orders at these areas or zones, and get out at the next key level. The retail traders are left to play in the middle trying to figure out where price will go next. You'll learn more about supply and demand later but first let's talk about candlesticks.

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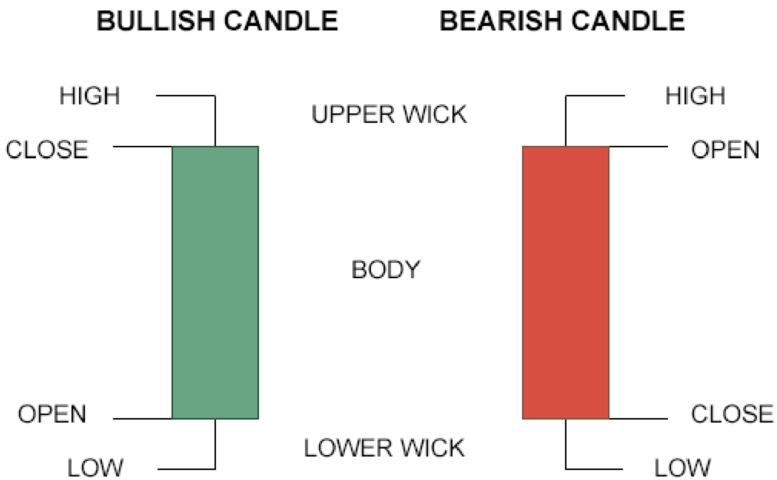
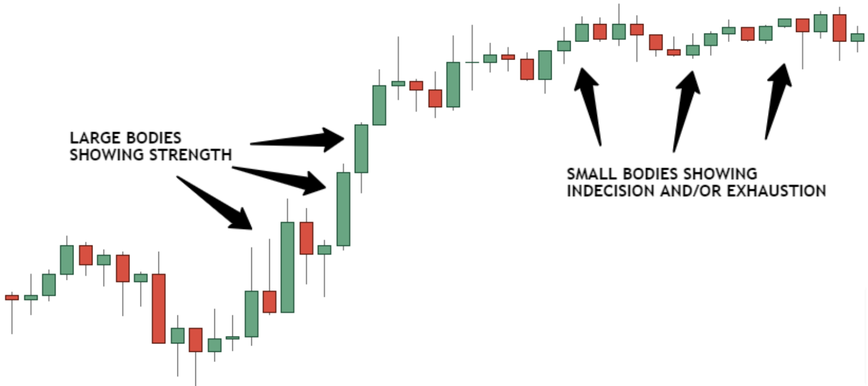
CANDLESTICKS

Candlesticks were first created and used by a successful Japanese rice trader in the 1700’s. After years of studying the history of the rice markets for certain behavior and price patterns, he noticed 4 important price levels and created a way to display them all at the same time in what’s known as a candlestick.

The next image is a diagram of two candlesticks. The green one is bullish and the red one is bearish. The body of the candle will always represent the open and close. If it closes higher it's green. If it closes lower, it’s red. The “wicks” are the black lines that you see coming from the body. The wicks represent the high and low of that particular candlestick on that particular time frame. If you’re on a 5 minute chart then each candle will represent 5 minutes. So on each candlestick you’ll have an open, close, high and low.



When you look at candlesticks, they actually tell a story about what went on during that particular time frame. A large body shows strength. A small body on a candle shows indecision where neither buyers or sellers were able to take control. Think of the size of the body as momentum. When you see large candles that start to get smaller after a big push, it could mean that the move is starting to lose strength and momentum is fading.



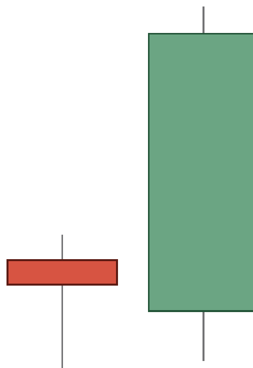
There are probably more than 50 candlestick patterns out there and you shouldn't expect to know them all. You shouldn't be focusing on patterns so much as you should price action but here are a few important candlestick patterns you should know.

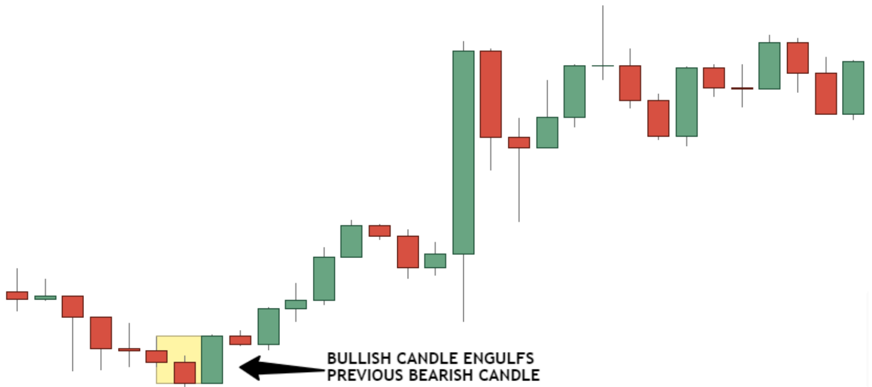
Engulfing Candles

Engulfing candles can be both bullish and bearish. They hold more importance at the end of a big push or trend, but can signify an upcoming reversal. The engulfing pattern is a two candle formation and can be identified by the second candle body completely engulfing the previous candle body.

Bullish Engulfing Pattern

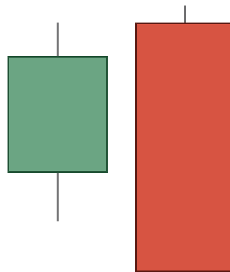
The bullish engulfing pattern is a large green candle that forms after and fully engulfs the previous bearish candle. Ideally, the open is below the close on the previous bearish candle but that's not always the case. You'll often find the open is at the same price as the close on the bearish candle. The important thing is to look at the body and close. The higher above the previous candle open, the more strength it has.

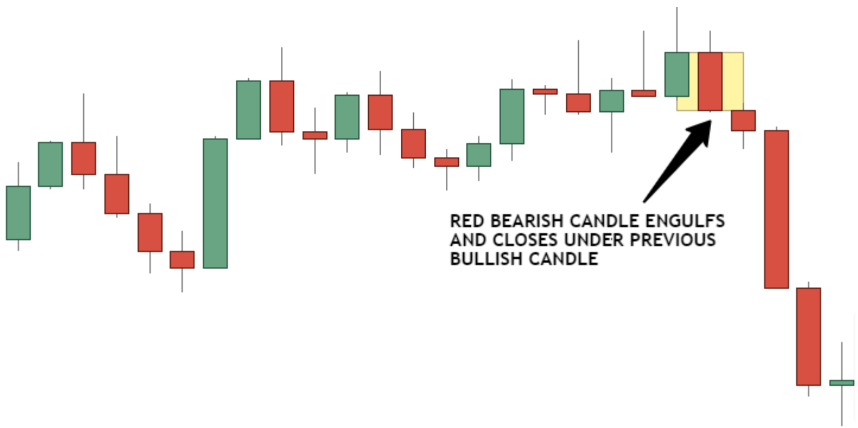




Bearish Engulfing Pattern

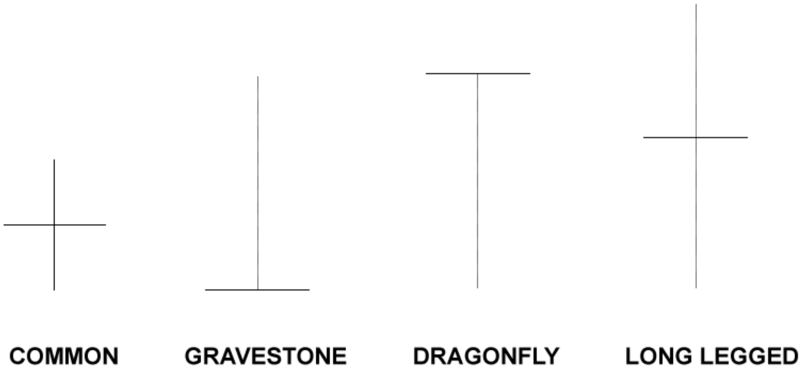
The bearish engulfing pattern is a large red candle that fully engulfs and closes below the previous bullish candle. The open on the bearish engulfing candle should be above the previous candle close but it’s often equal to the previous candle open.





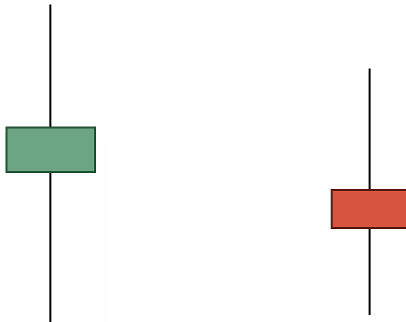
Dojis

Doji candlesticks are easy to spot. They're characterized by their lack of a real body and contain mostly wicks. The open and close are nearly if not equal price. Dojis can symbolize indecision in the market, especially at the end of a trend. Don't be too concerned with the names. You just need to be able to recognize them and what they mean so they can help you get an idea of what might happen next. Here's a few examples.



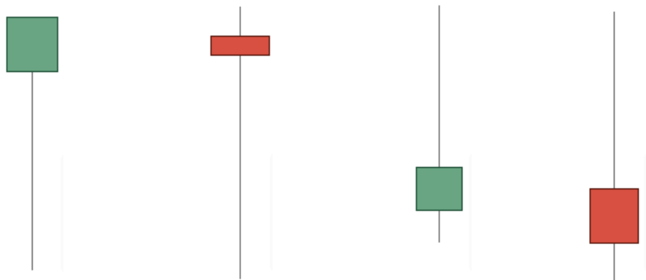
Spinning Tops

Spinning tops are similar to dojis. They can be spotted by their rather small body and long wicks on both the top and bottom. They show indecision between buyers and sellers and similar to a doji, when you see them at the end of a trend they can be a sign of an upcoming reversal. Again, it's just a warning sign. It should make you aware but not ready to jump into a trade.



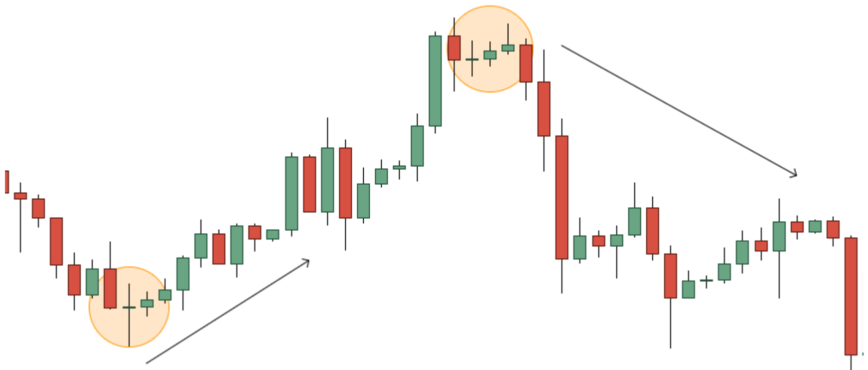
Hammers

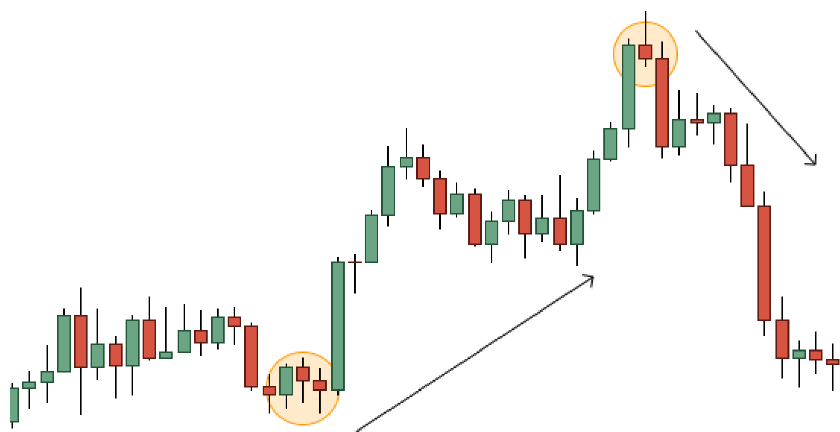
Just like dojis and spinning tops, hammers can be a sign of a reversal but only at the end of a trend. In my opinion, they're more powerful than the previous signs because of a long rejection from either the buyers or the sellers. The hammers have cool names like hanging man and shooting star but you don't need to know those. Don't bog your mind down with unnecessary information. They're all just hammers. You can identify them by their small body and long wick on one side. Ideally, the longer the wick and smaller the body, the better. Remember, wicks represent price being rejected and driven back in the opposite direction.



Remember, it doesn't necessarily matter what color it is. Just know that if you're starting to see dojis and/or hammers, it's usually a sign the trend is either failing or it's gathering

momentum to continue moving. Let's look at some examples. You can see the dojis and hammers in the orange circles signaling a possible change in trend.





4

MARKET STRUCTURE

Wave Theory

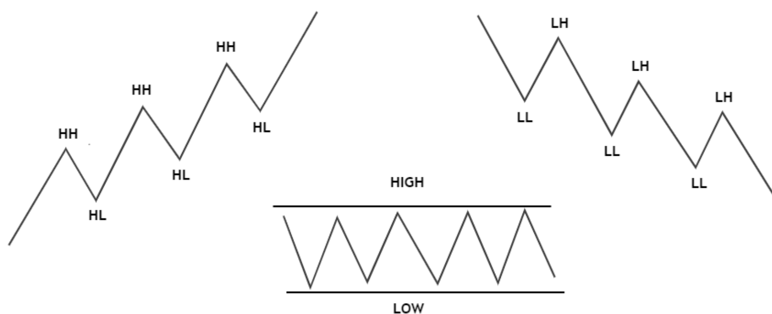
Before we go into structure, let's look at what actually creates structure. The market needs to maintain efficiency by delivering price to both buyers and sellers. When demand increases it causes price to rise. When supply increases, the price will fall. This ebb and flow of buyers and sellers creates waves.

The first wave is what's known as an "impulse" wave. This is the direction of the trend and where price wants to go. Price will move in its intended direction but will eventually need to come back to rebalance the market. This is known as the "correction" wave, or retracement. Take a look at the next image to get a better idea of what I mean. This is an example of a bullish trend. You can see the impulse waves moving up followed by a small correction before another impulse wave is created.

Here's another example but this one is bearish. It's the same concept. Impulse waves in the direction of the trend followed by correction waves.

Market Structure

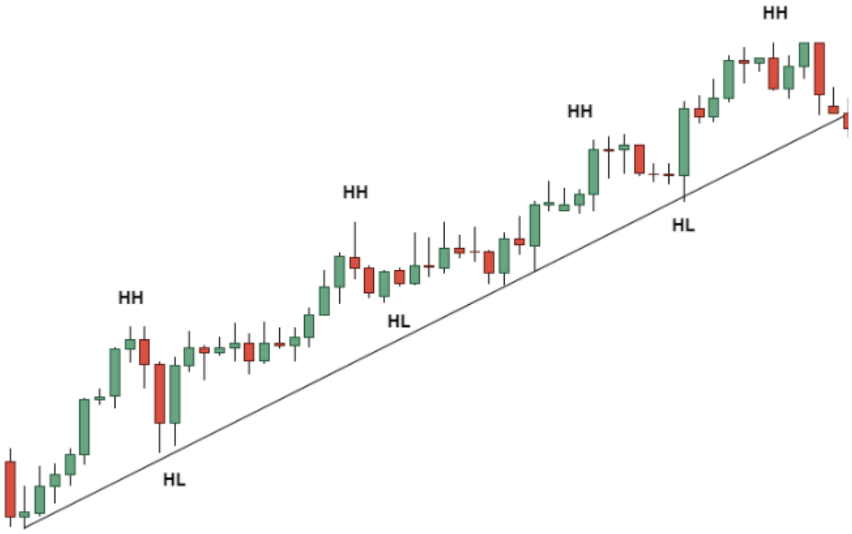
The first thing you have to understand about analyzing the price of any instrument is that the market can only move in three directions. Price can be in an uptrend, price can be in a downtrend, or it can be consolidating. When price is in an uptrend or bullish, price is making higher highs and higher lows. When it's in a downtrend or bearish, price is making lower highs and lower lows. When price is consolidating, it usually bounces between a high and low level while moving sideways. These highs and lows are key price levels that create what is known as market structure.



While the concept is easy to understand, it's not always so clear and can be harder to identify on a chart. The key is to remember to identify the structural highs and lows. You can also draw a trendline connecting lower highs in a downtrend or higher lows in an uptrend to get a better visual representation of the trend. Ideally, you should be able to connect at least 3 lows or highs for it to be considered a trendline but sometimes two can work.

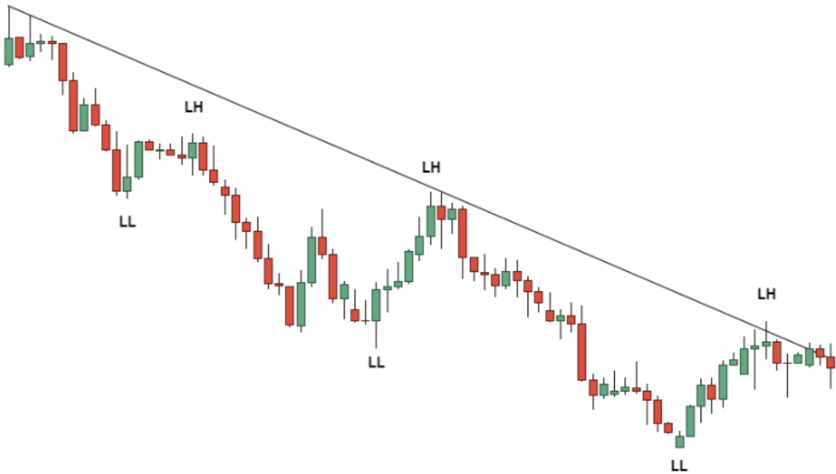
Uptrend

In the next image you can see an uptrend. The higher highs and lower lows are marked and you can see the price is moving in an upward trend. You can also see the large green bullish candles pushing price up which is an indicator of where smart money wants the price to go.



Downtrend

The downtrend is just the opposite. You can see the lower lows and lower highs as well as the obvious direction of the price. You can also see the large red bearish candles selling off which is causing the drop and showing us the direction smart money wants to go.

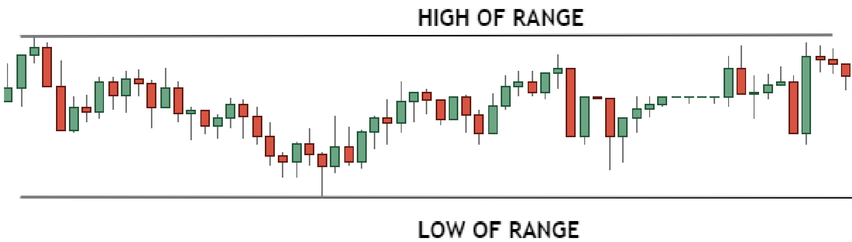


.Consolidation

Remember the market moves up, down and sideways. When price is in this state, it's consolidating. What's also happening is institutions are placing orders. If they were to place their order at one time, the price would move too fast and their orders would be getting filled at higher prices resulting in a larger overall cost. They essentially wouldn't be getting their whole order at the price they want. Instead, they'll break their order down into multiple orders and it's not as noticeable on the charts. When price is consolidating, be ready for the move that's coming after.

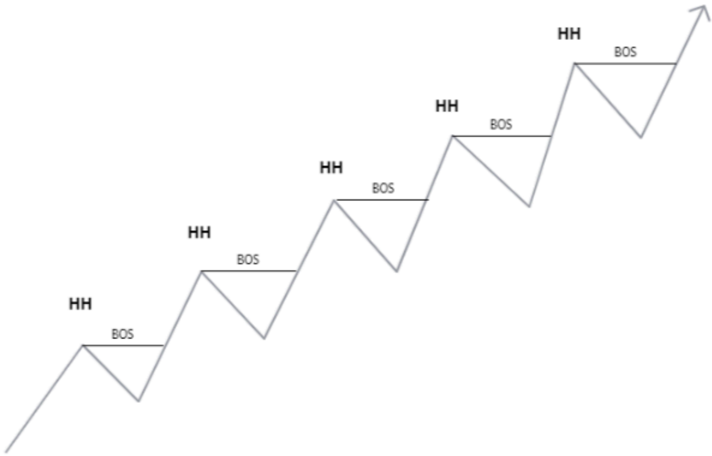
In the next image you can see that a consolidation is characterized by its equal highs and its equal lows. The price is basically in a range until it breaks out. Beware of false

signals that can lure new traders into opening positions just to get wiped out minutes later. You'll learn more about that later.

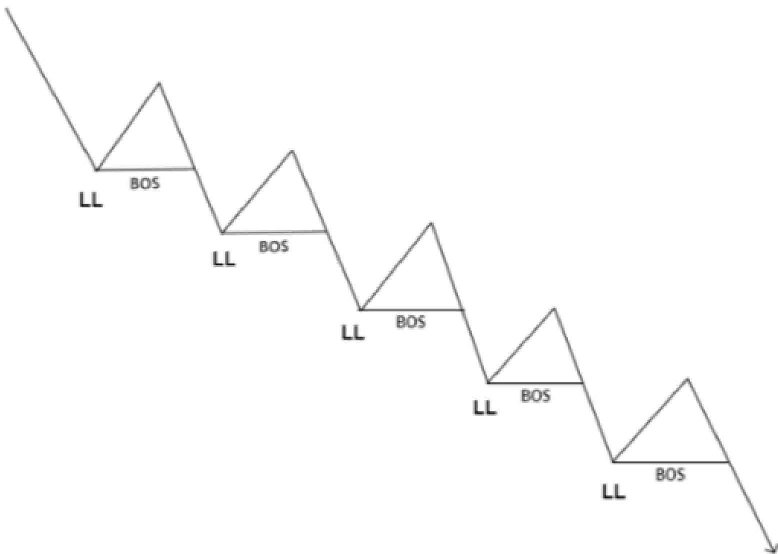


Break of Structure (BOS)

You learned that price creates structure by making highs and lows. When these levels are broken it's called a break of structure, or BOS for short. This is a sign that the trend is going to continue in its current direction. Imagine drawing a line from the high in an uptrend or a low in a downtrend. If that line is broken, that's a break of structure. In the next image you can see a clear uptrend. When you look at the structure, you can see price has to "break the structure" to make a new high.



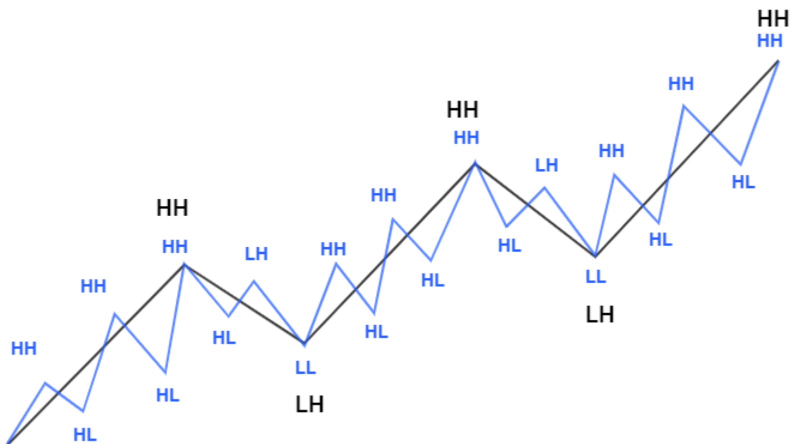
Here’s a picture of a downtrend. You can see the same concept. Every time a low is broken, it’s a break of structure that creates a lower low.



Macro and Micro

There is more than one type of structure when it comes to the market. There's macro structure which is the overall trend you see on the higher time frame. This is what smart money is paying attention to. Then there's also micro structure which is the structure on the lower time frame inside the higher time frame leg. So a short term trend can be bearish while the overall trend is still bullish, and vice versa.

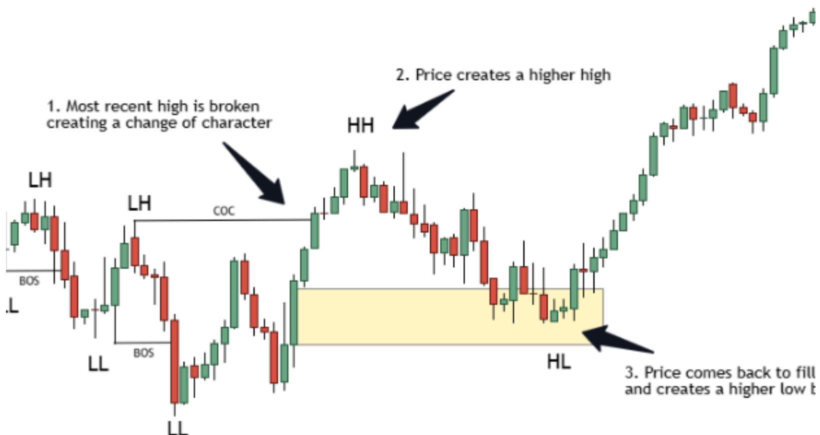
In the next image, you'll see the overall trend in black but you can also see the smaller time frame in blue. You can see how even though the lower timeframe trend is bullish (blue), if you time the market wrong you'll have to either deal with a major drawdown or risk getting stopped out for a loss.



Before making a trade you want to make sure that all your timeframes align. If you have a bullish bias, then wait until all your timeframes show you a bullish trend. The same goes for bearish trends.

Change of Character (COC)(CHOC)(CHOCH)

You might see a change of character abbreviated in various ways but I just keep it COC on the charts for simplicity. A change of character occurs when the recent swing high or low in the direction of a trend is broken in the opposite direction. Remember that a trend creates highs and lows. When you see a change of character, it's basically breaking the structure the other way. It's a warning that the trend could be ready to reverse. Look at the following images to get a better understanding. The next image is a bearish downtrend that turns bullish.

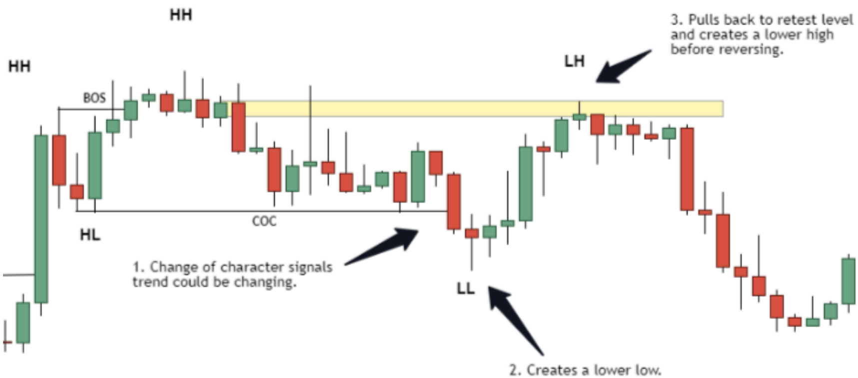


Let's take a look at another example of a bearish trend turning bullish.

As you can see above in this image, the market is in a downtrend creating lower lows and lower highs until the most recent high is broken creating a change of character (1). Price creates a higher high (2). Price pulls back to fill the imbalance left behind by the order block to create a higher low before breaking structure in the other direction and continuing bullish (3).

Let's look at a couple bullish trends that turn bearish. You can see the same thing happening in the opposite direction in the next image.

Let's zoom in and take a closer look.



You can see how the change of character created a lower low to indicate the trend is losing strength. We can see by looking at the candlesticks we can see that the trend could be losing strength. If you notice the most recent bullish break of structure has smaller candle bodies and wick

rejections and barely makes a new high. It eventually moves down and creates a change of character (1). Price creates a lower low and starts to head back up (2). Price pulls back into the supply area to retest the level before falling to the downside and continuing the new bearish trend (3)

Here's another example of a bullish trend showing a change of character before turning bearish. The same thing happens.

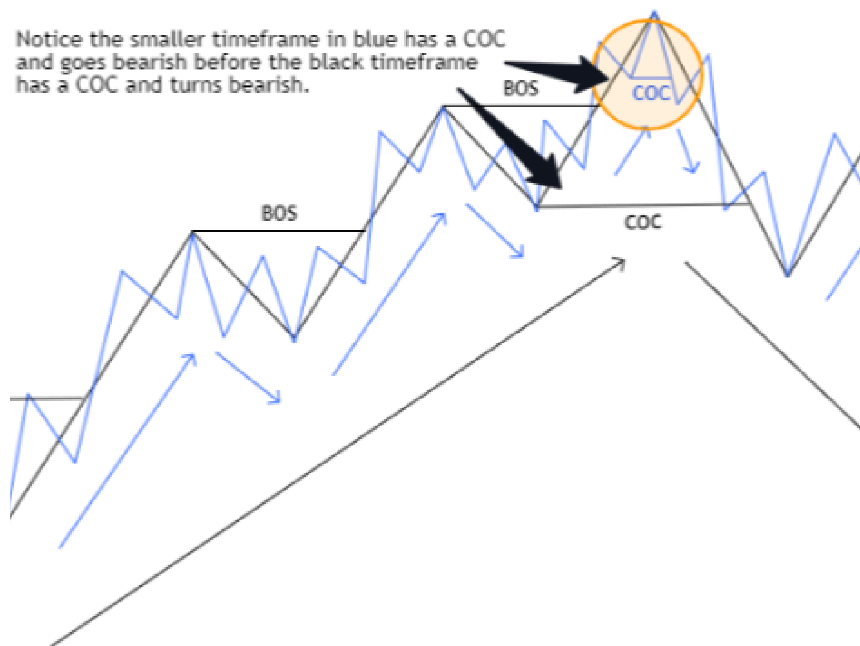
Let's zoom in:

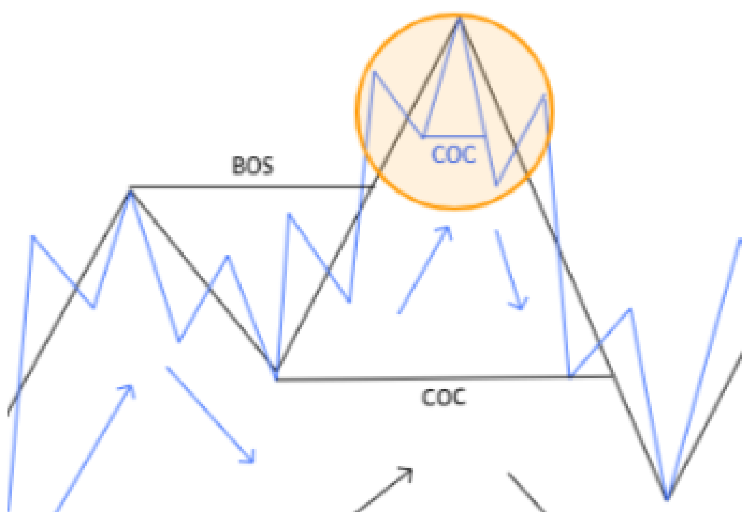
In this example we can see the bullish trend get broken when we see the change of character (1). This change of character results in a lower low being formed (2). Price pulls back in a supply area (3). Price then breaks the structure of the previously formed low creating a new lower low (4). Price pulls back to form a lower high and then continues to the downside (5).

The Fractal Nature of the Market

The market is fractal by nature meaning whatever happens on a higher time frame also happens on a lower time frame. For example, before a structure can turn bullish on the 30 minute time frame it will have to turn bullish on the 5 minute time frame. In addition to the trends, the same patterns you see on higher time frames you can also see on lower time frames.

Look at the next image to see the internal break of structure on the lower time frame before there's a break of structure on the higher time frame. You can see the lower time frame in blue and the higher time frame in black. However, it's important to remember that **you should always look at the higher time frame before making a trade**. Notice it wasn't until the higher time frame had a change of character that the trend changed.


Notice the smaller timeframe in blue has a COC
and goes bearish before the black timeframe
has a COC and turns bearish.
BOS
COC
BOS
COC


COC
BOS
COC

Confluence

No matter what strategy you're trading, you always want to use some kind of confluence to increase your odds of winning a trade. Confluence is when multiple signals or indicators line up to add confidence to your trade idea. When using structure, you typically want to wait until you see something on the higher time frame before making a trade. For example, if you're swing trading a position that you might hold for a couple of days, you're going to want to see a break of structure on the 1 hour time frame first to make sure the trend is going to move in the direction you want, Then once you confirm the direction on the larger time frame, you can go down to the lower time frame such as the 15 minute to look for your entry. This will help ensure you're trading with the direction of the larger trend. You might also choose to use a candlestick pattern to increase the probability of a winning trade.

5

SUPPLY & DEMAND

You previously learned that big banks are the ones controlling price and causing the drastic moves in the market and just like the economy, price is heavily influenced by supply and demand. When demand is high, prices rise. When there is a ton of supply, prices fall. It's the same in the forex market. There are supply and demand zones at key levels where smart money places orders and they're easy to spot on the chart. Their orders are so large that they create a footprint. These orders create what are known as order blocks. They usually have large candles and can leave behind what's known as an imbalance.

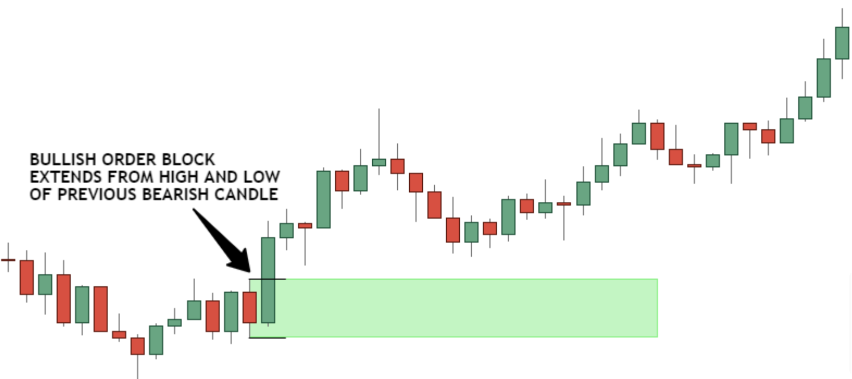
Order Blocks

When smart money enters the market, the majority of time it's noticeable. The large volume of orders pushes price with visible momentum. These areas can be referred to as order blocks. However it's important to remember, the larger the time frame, the more important the order block. An order block on a 5 minute chart won't be as strong as an order block on a 1 hour or 4 hour chart. The same goes for key levels. A 5 minute key level isn't as strong as a 1 hour level. A 1 hour level isn't as strong as a daily level.

Bullish Order Block

You can identify a bullish order block by its large green candle. More often than not, order blocks also start the move that causes the change of character. You can see the size of the candle in the following image. It fully engulfs not only the previous candle body, but many of the previous candle bodies as well. The size of the candle shows there was enough volume to significantly move price. This is a sign that smart money is buying at this level.

When you want to mark off a bullish order block on your chart, it's best to use a rectangle. Use the high of the previous bearish candle as the top of your rectangle and the low of the previous bearish candle as the bottom of your rectangle and drag it across to the right. Look at the bullish order block example in the next image.



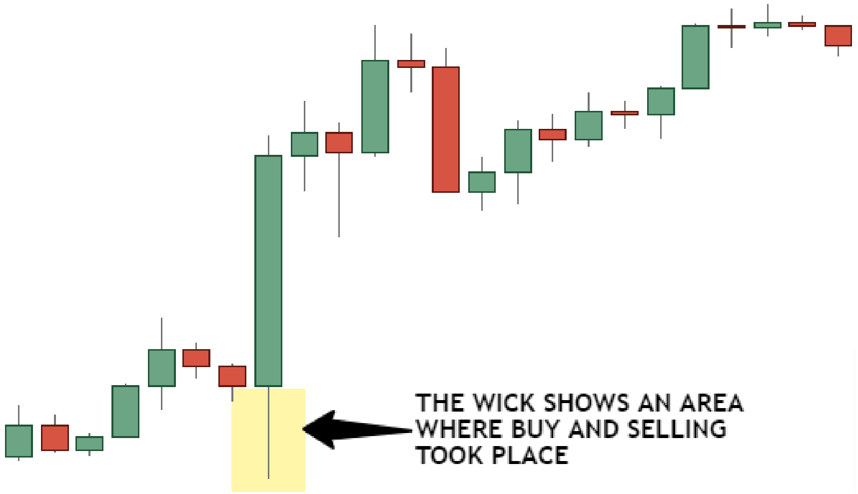
Bearish Order Block

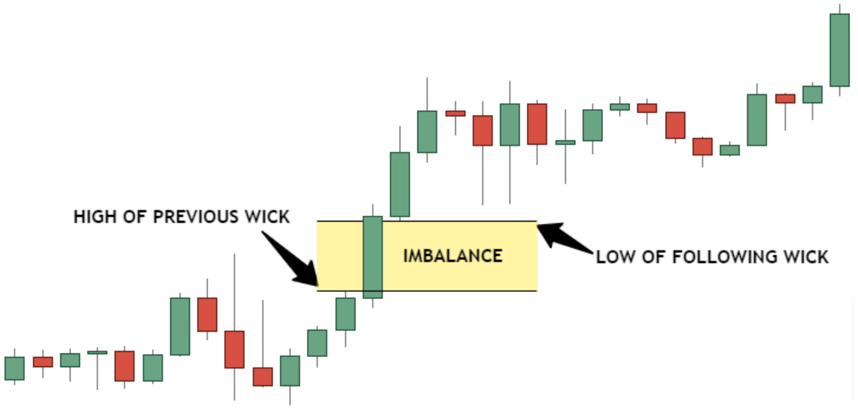
When you want to find a bearish order block, look for a large bearish candle that fully engulfs multiple previous candle bodies. This shows momentum and volume. In the next image, you can see how large the bearish candle is compared to the previous 10 or so candles.

If you want to mark off a bearish order block use a rectangle as well. The high of the previous bullish candle should be the top of your rectangle and the low of the previous bullish candle should be the bottom of your rectangle and extend it to the right. Look at the next image to see a bearish order block example. Even though the first candle didn't fully engulf the previous green candle, we can tell by the following large red candles that the area had significant selling.

Imbalances

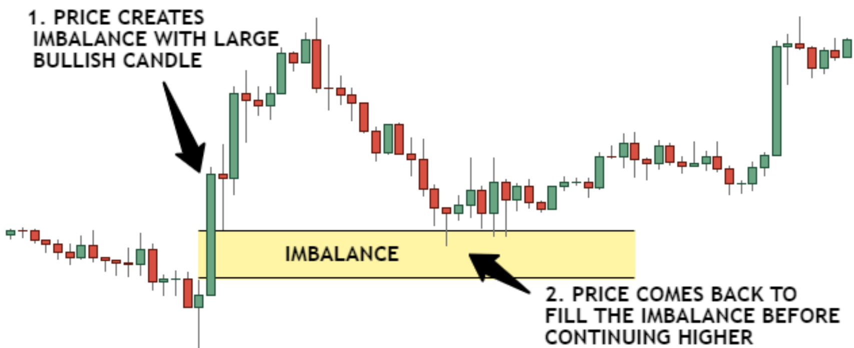
When price makes a big move in one direction and it doesn't give the other side a chance to enter the market it creates what is known as an imbalance. Order blocks aggressively push price in one direction leaving behind many unfilled orders. The market will try to maintain balance by coming back to fill these imbalances. Remember that on candlesticks the wick represents price being rejected, but it has been in both directions, meaning both buyers and sellers had a chance to enter the market or there wouldn't be a wick created.


THE WICK SHOWS AN AREA
WHERE BUY AND SELLING
TOOK PLACE


HIGH OF PREVIOUS WICK
IMBALANCE
LOW OF FOLLOWING WICK

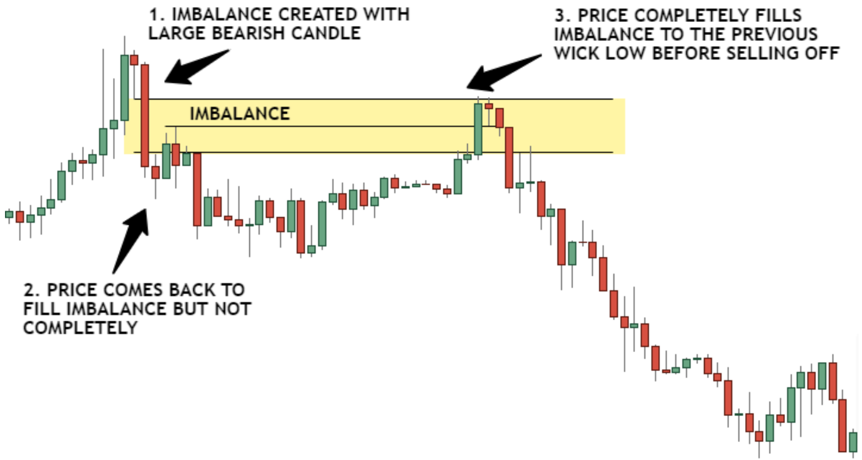
Bullish Order Block + Return to Fill Imbalance

In a large bullish move, there is an imbalance between buyers and sellers. The amount of buy orders pushes the price up leaving behind unfilled orders You will usually see price return to fill the imbalance before moving up again.



Bearish Order Block + Return to Fill Imbalance

When there's a large bearish order block you'll see large red candles that create an imbalance, and then you'll often see price come back to fill it before continuing down.


1. IMBALANCE CREATED WITH LARGE BEARISH CANDLE
3. PRICE COMPLETELY FILLS IMBALANCE TO THE PREVIOUS WICK LOW BEFORE SELLING OFF
IMBALANCE
2. PRICE COMES BACK TO FILL IMBALANCE BUT NOT COMPLETELY

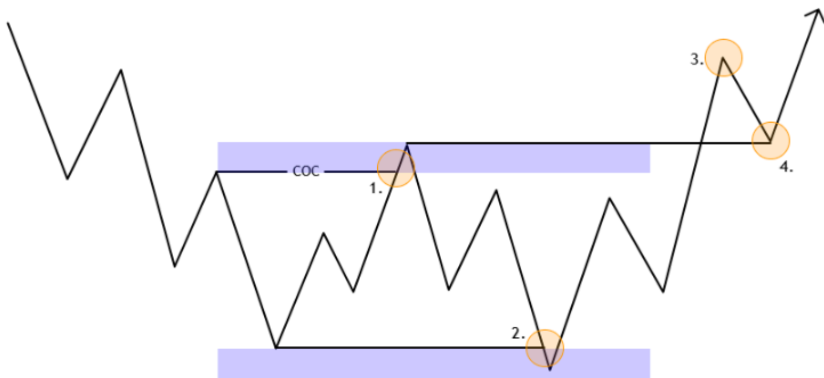
6

LIQUIDITY

In terms of liquidity, the forex market is more liquid than any other market in the world, but that's not the liquidity I'm talking about. In the forex market there are areas of liquidity. These are areas where there is a large volume of orders in the form of stop losses and stop orders. The market always runs to liquidity to fill orders and balance the market. This is why stop losses often get hit. It's not that the market makers are targeting your stop loss specifically, it's that there are thousands if not millions of traders with stop losses in the same area and the market makers know this. They will run price to these areas to fill orders and grab liquidity before going the other way.

Remember earlier when we talked about manipulation of price?

What you often see happen is price show a change of character and then pull back to clear out stop losses before going back up. In the following image, you can see multiple things happening. The black line represents price and the blue rectangles are liquidity.



1. Price creates a change of character (breaks the most recent high) and does a few things. It triggers stop losses from people selling at the most recent high. It also induces break out traders and triggers buy stop orders for those looking to go long. However, what actually happens is price sweeps the liquidity before reversing and taking those long traders out.

2. The big retracement from the impulse breaks the most recent low. This also does a couple things but on the opposite end. It triggers stop losses from people who were buying at the previous low. It also induces sellers to go short and triggers sell stops.

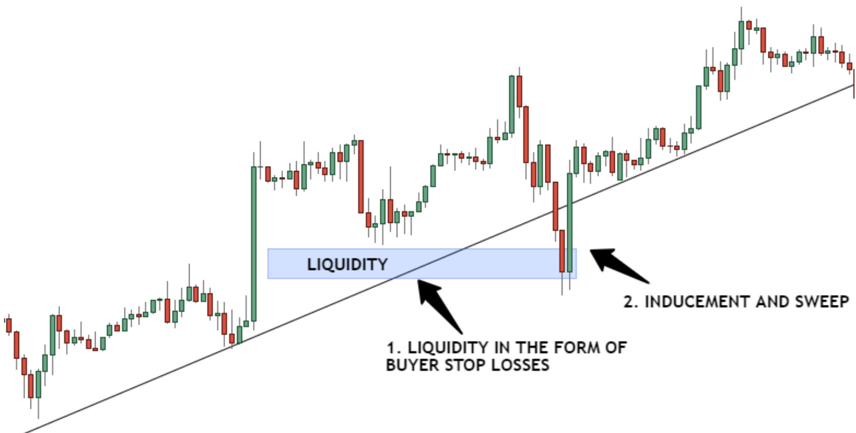
3. After collecting money from both buyers and sellers in the form of liquidity, price is ready to move in the proper direction. Now, price creates a bullish break of structure as we break the recent high and form a new higher high.

4. Price approached a previous supply area when it made a new high and returned to retest the recent high that was broken. In this case, the level holds and resistance becomes support. Since all the liquidity overhead is clear, price can move up. The buying begins and starts an uptrend.

Trendline Liquidity and Sweeps

A common retail method of trading is to use trendlines. You'll often have a large volume of stop losses below these trendlines from traders following the trend and also traders waiting for a break in the trendline to make their entry. Market makers know this and they'll run those stops to grab liquidity. You should never enter a trade based on a trendline break alone. Always look for the retest and then confirmation.

Look how the break of this trend line in the next image would induce retail traders to go short only before being taken out after price reverses. Why did it do this? Look at the large green candle that left an imbalance in the market. That imbalance needed to be filled along with grabbing the liquidity under the recent lows. After price swept liquidity and filled the imbalance, it continued moving up. Also, notice the previous low wasn't broken.

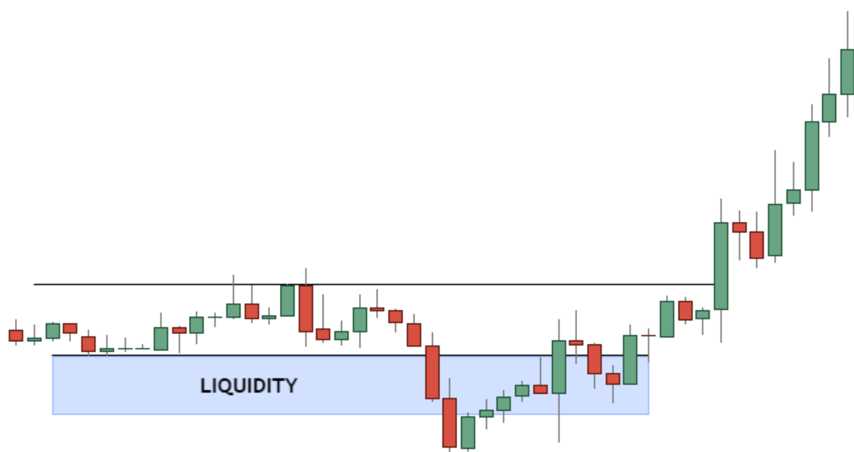


In the next image, you can see a bearish example. Price is moving in a downtrend and you can see an area of consolidation as well. We can see price break the trendline to fill an imbalance and grab the liquidy sitting above the most recent sells. This induces traders to go long and triggers stop losses of sellers before continuing in a downtrend. However, price never broke above the recent lower high so the trend would still be considered bearish.

Support And Resistance Liquidity

Many retail traders also rely on support and resistance levels to enter trades. The problem with that is they always place their stop losses as well as their buy and sell stops just above or below the key price level. Smart money knows that's where the liquidity is sitting and will target those areas so they can be the counterparty to those orders.

You can see in the image below, price was consolidating. Many breakout traders were waiting for the support to break to go short. Some long traders were hoping price was going to break resistance first and had stops below the support level. Price breaks support and triggers the sell stops and stop loss of long traders. What happens next? You guessed it. Price continued going up after sweeping liquidity. Smart money bought at the bottom when everyone was selling.



In the next example, it's not as noticeable but you can see that price needed to not only grab liquidity but it also needed to fill the imbalance left behind by the large red candle at the beginning of the range. Once price grabbed the liquidity from stop losses of traders looking to short and triggered the buy

stops of breakout traders looking to go long, it completely tanked.

Previous Day High and Low

I’ve spent thousands of hours watching charts and I saw something that happens over and over again. Pay attention to the highs or lows from the previous day. These are prime levels for banks and you can often see price sweep the liquidity on the other side of it before reversing.

In the next image, you can see the high that was created on the previous day. The dashed line is the open of the new day. There are stop losses from the traders that went short yesterday as well those looking to go long in the case of a breakout to the upside. You can see price falls down to entice the sellers and then shoots back up to take their stop losses out on the way to the liquidity above yesterday’s high.

Once price was pushed up, smart money is selling into all the buys of those looking to go long. Now that liquidity has been swept, they can move price in the intended direction.

In the next example, we can see the previous day created a low and support before starting to push up. At the open the next day, price shoots up enticing traders to go long. However, you should already see it coming. Price immediately goes the other way and takes out not only their stop losses, but the ones from yesterday where liquidity is still sitting. It also would have triggered any sell stops waiting to go short. Those traders would have been taken out as well when price went back up. Once again, liquidity has been swept and price can move to the upside.

SWEEP
LQUIDITY
YESTERDAY'S LOW

7

RISK MANAGEMENT

Without using proper risk management you'll never become a consistently profitable trader. You'll end up making a few gains, you'll get confident and then you'll lose all of your profit and then some. If you're not adhering to your risk management rules it's only a matter of time before you blow your account. Risk management is easily defined by the amount of money you're willing to risk on a trade. This is usually a small percentage of your account to prevent huge losses. Remember, losses are inevitable and trading is a game of probabilities. The key is to have small losses, small wins, and big wins. That's how you'll be able to grow your account to a large number so you're able to have big days by still only risking a small percentage.

Lot Sizes

A lot is the unit of measurement used to measure your position size. You may also hear the phrase "lot size" when talking about the size of a trade.

The 3 common lot sizes you'll find are 1 lot, which represent 100,000 units of currency. It's also known as a "standard lot". It will look like 1.0 for 1 lot or 3.0 for 3 lots.

There's a mini lot which represents 10,000 units of currency. This will look like .1 for one or .3 for 3 mini lots.

The last is a smaller lot size known as a micro lot which represents 1,000 units of currency. This will look like .01 for 1 or .03 for 3 micro lots.

When it comes to currency quotes, there's the base currency which is the first three letter abbreviation in the pair, followed by the quote currency which is the last 3 letter abbreviation. In the currency pair GBP/USD, the pound is the base currency and the dollar is the quote currency.

Currency prices are usually shown with 4 numbers to the right of the decimal point. The exception is the yen pairs which only have two places to the right of the decimal point.

For example, EUR/USD might be $1.0214 and EUR/JPY could be $143.25.

In forex, price movements are measured in "pips". A pip stands for percentage in point. The last digit on the currency pair represents 1 pip.

If the price of EUR/USD goes from $1.0214 to $1.0215, it has gone up 1 pip.

If it goes to $1.0224 it has gone up 10 pips.

If it were to go from $1.0214 to $1.0514 it would have moved 300 pips.

And finally if price were to jump from $1.0214 to $1.1214 then price went up 1,000 pips.

Simple, right?

In currency pairs where the USD is the quote currency, the value of 1 pip on a standard lot is equal to $10. On a mini lot a pip's value is $1. On a micro lot, the value per pip is $.10.

On other currency pairs, you'll need to figure out the price per pip as it can fluctuate. Currently, on USD/JPY the value per pip on a standard lot is closer to $7. On a mini, closer to $.70. On a micro lot the value per pip is around $.07.

Understanding pips and pip value is vital to calculate your risk and your potential profit.

Reward-to-Risk Ratio (RRR)

The reward-to-risk ratio you use on your trades is critical to your success as a trader. Sometimes you'll see it as risk-to-reward and others it will be reward-to-risk. In my opinion, risk-to-reward sounds better but reward-to-risk makes more sense. The way to figure out your RRR is to divide the number of pips to your profit target by the number of pips to your stop loss.

Your RRR is going to be based on the amount of risk you're willing to take on. It's essentially how much money you're willing to lose if the trade doesn't go in your favor. The standard practice is to risk around 1% of your account balance. If you want to be conservative you might risk .5% or even .25%. If you were looking to be a little more aggressive you might risk 2% or even 3%.

The reward is going to be your profit based on the amount of pips you're targeting. If you were to risk 10 pips with a 50 pip take profit, your RRR would be a 5:1 or just 5 (50/10 = 5).

Another example would be if your take profit target was 200 pips away and your stop loss was 20 pips, your RRR would be 10:1 or just 10 (200/20 = 10).

While going for super high RRR trades like 20:1 and 50:1 is enticing, your win rate will suffer and you'll end up losing more of your trades than you'll win. If you're aiming for 3:1 and you can be right on 50% of your trades, you can compound your profits substantially.

If you risk 1% of your account and win a 3:1 trade, you'll have increased your account balance by 3%. That's a pretty good return when the stock market averages 8-10% per year. Most new traders get caught up trying to flip accounts overnight. Just focus on nice set ups, a good RRR and consistency, and you'll start to see your account grow.

Position Sizing

The size of your position in relation to the number of pips price moves, is going to dictate how much you win or lose. The way most traders calculate risk is by taking a percentage of the account and then looking at the pips. So if you have a $1,000 account, your stop loss is 20 pips away and you only want to risk 1% ($10), then your position size would be .05 lots.

Remember that it's only USD quote currency that has the easy to calculate numbers such as $10 per pip on standards, $1 per pip in minis, and $.10 per pip on micro lots.

The easiest way to figure out your lot size is to take your risk and divide by your pips to get your risk per pip. Then, you'll know what lot size you need.

Let's assume we're trading GBP/USD.

If we were using the numbers above, we have a $1,000 account, 1% risk, and 20 pip stop loss.

$1,000 x .01 = $10 total risk

$10 / 20 pips = $.50 per pip risk

So I know I can only risk $.50 a pip which means I need to use a position size of .05 lots. If you want to double check your math just multiply your risk per pip by the number of pips to see if it equals your total risk.

$.50 x 20 = $10

So in this case, it checks out.
Let's try a bigger stop loss of 50 pips with the same account balance of $1,000 still using 1% risk.

$1,000 x .01 = $10
$10 / 50 pip = $.20 per pip risk

So based on our calculation, with a 50 pip stop loss we can only risk $.20 per pip which is equal to 2 micro lots or 0.02 lots.

Double check it.

$.20 x 50 pips = $10

What if you increase your risk percentage?

If you wanted to risk 3% on a $1,000 account then you'd be risking $30. If you had a stop loss of 30 pips you can use the same formula.

$1,000 x .03 = $30

$30 / 30 pips = $1 per pip risk

$1 per pip is the value of a pip on a mini lot with a USD quote currency. So your position or lot size would be 1 mini lot or .1 lots assuming you're trading a currency like GBP/USD.

Let's do a bigger number.

Let's assume you have a $100,000 account with a 2% risk and a 50 pip stop loss.

2% of $100,000 is $2,000. So your risk on that trade is $2,000.

$2,000 / 50 pips = $40 per pip risk.

$40 per pip is equal to 4 standard lots. Remember, 1 pip on 1 standard lot on a USD quoted pair is equal to $10. So you need 4 lots to equal $40 a pip.

$40 a pip x 50 pips = $2,000

$2,000 / $100,000 = .02 or 2%

8

PSYCHOLOGY

I believe that psychology is one of if not the most important aspects of trading. No matter how great your strategy is, if you're not psychologically prepared and don’t have the discipline to stick to your rules, you’ll have a hard time being consistently profitable.

Emotions

Before you dive into the market head first or maybe you already have, you should know the emotions you’ll experience when you initially start trading. These emotions fuel the mistakes most new and even experienced traders make but if you’re aware of them it will be easier to prevent them from happening.

Trading can cause a wide range of emotions from anger and frustration to joy and excitement. It can be quite the emotional roller coaster if you let it. This is normal in the beginning, but you need to manage your emotions so it doesn’t affect your performance. If you don’t, your emotions will interfere with your decision making. It’s actually better if you become emotionless, sort of like a robot. The shorter the time frame you’re trading on the faster you’ll have to make decisions, so if you’re planning on scalping a few pips at a time you’ll need to have your mental and emotional discipline in check even more so. Whether you’re scalping on a lower time frame or swing trading on a higher time frame, once you develop a system, stick to your rules and only enter and exit trades when your criteria is met.

Greed

You'd be surprised how greed can affect your trading habits. If you start overleveraging your account, you've experienced greed. The desire to generate profits quickly instead of slowly growing an account, can instead lead to improper position sizing and a blown account. This also shows a lack of patience as well. Remember it's a marathon not a sprint and if you want longevity in this game you have to pace yourself and be consistent.

Fear

Believe it or not, fear is a part of trading. If you've held a loss for too long, there's an element of fear involved. Many new traders have a subconscious fear of losing money. Instead of cutting a loss or being taken out by a stop loss, traders will allow losers to run until they can't bear it anymore or they get a margin call. At some point, you have to come to the realization that you were wrong about the trade and you have to just take the loss. You cannot and will not be right every time. Get used to it. The key is to cut those losses short when you are wrong so you don't take big hits to your account. Then, when you're right, your profits will outweigh the losses.

Hope

There's no place for hope in trading. If you've sat in a losing trade too long, you might have been hoping that price will come back up so you can get out. The problem is, it usually never does. This same hoping can involve the fear of loss as mentioned previously. Rather than take a loss you're hoping that price will turn around. If it doesn't look like a trade you would have taken, you probably shouldn't be in it.

Anxiety

If you experience anxiety while trading, it may be because you're risking too much money. Think about it… If there wasn't any money at risk would you even care? As soon as money is involved things change. You might have an attachment to the money and not being able to predict the outcome can cause you to feel anxious. There are only two outcomes, you either win or lose. Just set your trade and forget it. The outcome is out of your control after that. You have to be okay with letting the trade be free to do its own thing. No matter how hard you stare at the chart, it will not affect the price. It's going to do what it's going to do regardless. Watching price move up and down, or worse, watching your P&L, will only stir up emotions which can lead to bad decisions. Try risking a smaller amount and see if it helps.

Boredom

Don’t trade because you’re bored. You don’t have to always be in a trade. If you don’t see your setup, it’s better to be “flat” or all cash, meaning no money in the market. I’m a strong believer that we can actually become addicted to the rush that comes with trading. That’s not necessarily a good thing. That means you’re trading for the feeling of trading and not because there’s an opportunity. Remember, you want to trade like a robot, emotionless. If you’re trading just to trade and you’re not taking the right setups, there probably won’t be ideal trades and it could just cost you money. Instead, try identifying upcoming trades so you can be in the right position to take advantage of them when the time is right. Think about using the time to backtest or analyze previous trades and look for ways to improve.

Excitement

While trading can be exciting, you shouldn’t let your profits excite you too much. If it does, it could mean that you’re risking too much. Many times when new traders win a few trades in a row they become excited and overconfident. This can lead to overleveraging and taking trades that don’t meet your criteria. Once that happens it’s only a matter of time before you regret it. Stick to your rules and continue to use proper risk management.

Anger

I know this one all too well. I would get so angry I would punch the chair I was sitting in when losing multiple trades in a row. If you're experiencing anger you need to ask yourself why? In my case, I was mad at myself for breaking my rules. I was mad I didn't do better analysis and should have read the chart differently. I was so attached to the outcome and expecting price to do what I wanted that when it didn't happen I was furious, and losing money didn't help. You can't be attached to the money or the outcome. You really have to take on the "f**k it" attitude. Whatever happens happens.

FOMO

The Fear of Missing Out is real. Don't let it get to you. When you're in a trade, don't worry about what other pairs or indices are doing. Many pairs are correlated and you could be increasing your risk by taking too many positions. There is always another trade. If you're late to a trade and you'd have to enter after a move started, just wait until price gives you a better entry. As I said before, you don't have to constantly be in a trade.

The ironic thing about trading is that the money is made when you're not trading. Think about it. How many times have you entered a position, only to start opening new trades trying to size up and get stopped out multiple times?

Then, price starts to pull back so you close out to protect your profits. Price then continues in the original direction but you're not in the trade anymore so you enter new positions. Eventually, when the trend is over you look back at the losses you took and notice if you had just let your original trade run you would have hit your take profit target with no losses at all. That's what emotions can do to you.

Mindset

When it comes to mindset it's important to understand that you can't and won't win every trade, losses are inevitable. You need to be okay with taking multiple losses in a row and not letting it affect you to the point that you start breaking your rules. Your discipline and confidence in your strategy should allow you to trust your system and know the odds will work in your favor in the long run. Have you ever heard the phrase, "slow and steady wins the race"? Well it's true. Just remember that small gains will compound if you are consistent. Be patient.

Probabilities

If you want to become a consistently profitable trader, you have to think of trading in terms of probabilities. It's impossible to win every trade. That's why you need to have a good system that uses proper risk management. If you only trade 3:1 RRR trades and you're right 50% of the time, you'll be profitable over the long run.

Let's use an example. Let's say you start with a $10,000 account balance and you're using a 3:1 RRR. If you risk 1% or $100, your reward should be $300. Even if you lose your first trade, watch what happens over the long term.

Balance: $10,000

Trade 1 : - $100 = $9,900
Trade 2 : + $300 = $10,200
Trade 3 : - $100 = $10,100
Trade 4 : + $300 = $10,400
Trade 5 : - $100 = $10,300
Trade 6 : + $300 = $10,600
Trade 7 : - $100 = $10,500
Trade 8 : + $300 = $10,800
Trade 9 : - $100 = $10,700
Trade 10 : + $300 = $11,000

Your new account balance would be $11,000. That's $1,000 or 10% profit in just 10 trades. That's not bad considering the stock market averages a 10% return a year but that's what's possible when you stick to your rules. Imagine if you changed just a few factors.

What if you risked 2% instead of 1%?

What if you won more than 50% of your trades?

What if you only took 5:1 RRR trades?

The key is to be consistent and follow your rules. Even if you lose 3 trades in a row, follow your rules. If you don't follow your rules how will you know if your system actually works?

Discipline

You will do well as a trader if you can remain disciplined at all times. You need to be mentally and emotionally disciplined if you want to be successful. You need discipline to stick to your rules. If you can stick to your rules and only trade your set ups, as long as it's a profitable strategy, you will see the results. Don't play with your trades and cut your profits too early. Let your trades play out and be willing to accept the risk.

Patience

Trading can be a lot of fun but you need to be patient enough to wait on your setups. Don't jump into the trade early trying to catch the top or bottom, wait for confirmations. Once you're in a trade, you also need to be patient. Forex prices like to fluctuate up and down as they trend in a specific direction. Be patient. Trust your system. Give your trade time to play out.

9

GO WITH THE FLOW

You may have heard the phrase, “the trend is your friend”. This is true. We know that price can only move up, down, and sideways. When the market is trending, you generally want to trade in the same direction as the trend. This will increase your chance of winning the trade. While you can trade against the overall trend, it can be risky. When the market is consolidating you’re going to have to trade between a channel, or wait until a trend emerges. Oftentimes, it’s better to stay out of the market when it’s choppy and wait for price to start trending again.

In summary, when the market is trending there’s a few things you can do.

1. You can trade in the direction of the trend. (most probable)
2. You can trade the pullbacks or retracements. (most risky)
3. You can wait for a reversal. (most waiting)

The goal of a trader is to minimize risk and you might not always want to wait for a reversal so we’ll look at the first strategy of trading with trend. Let’s assume we’re going to look for a trade so we pull up the chart on the 4H time frame. The instrument isn’t important. What do you see when you look at the following chart?

Hopefully you said an uptrend or something similar. Right now, price is currently bullish as it’s making higher highs and higher lows. Since trading with the trend will give us the best odds of winning the trade, we’ll do that.

Now, where do we enter?

Remember that a trend is considered intact until we see a change of character that eventually causes a break of structure in the opposite direction. First, we can start by marking off our breaks of structure (BOS) in the direction of the trend to see the key levels being broken. We can even add a trendline to help see the direction if needed.

Now we have a better visual of what price is actually doing.

If you're going to trade with trend you need to first ensure there has been a recent break of structure in the direction of the trend. You can see on the chart that price is bullish and is breaking structure to the upside so you should be looking for a buy. You don't want to buy just anywhere though. Remember your RRR.

What do we know? We know that when price breaks structure, it has to come back to retest the level, fill an imbalance or gather more orders from the order block. Knowing this, we mark off these areas and wait for the retracement to look for an entry. In the following image, You can see the size of the green candles getting smaller, the wicks being created and the red candles starting to form.

This could mean price is getting ready to pull back and regain strength. This is where patience comes in. You need to wait for price to come back to the demand zone.

In the next image, you'll see price start to pull back into where the buying started. You can also see the hammer candle that was formed with the large wick rejection below that shows buying pressure.

Now that we're in a good demand zone to make an entry, we still want to wait for confirmation. You always want to wait for confirmation. There's a multitude of ways to look for confirmation but I've found the easiest and most effective for trading on larger time frames is to use a candlestick pattern such as the bearish engulfing on the 1H time frame.

Let's take a closer look. In the next image on the 1H chart, you can see the large green bullish engulfing candle immediately after a red candle with a large wick rejection. Not only did it engulf the previous candle, but the previous 6 as well. This coupled with the fact we're returning to a known demand zone makes an ideal place for an entry.

Before you take your entry on any trade, you should already be looking for where your profit target will be. Afterall, if the RRR isn't there, it might not be worth trading until a better opportunity presents itself.

Profit Target

When looking for profit targets, you want to find key levels that look like price could have a hard time breaking. Many times these are recent order blocks. In the next image, If we look above the current price we can see two possible targets. The first being the most recent high which is 85 pips away. The second possible target is the swing high that started the push down into the order block 164 pips away.

We could target the further high in this case since price is bullish on the higher time frame, and we're expecting it to break through the recent high to create a higher high.

By looking at the two possible profit targets, the second would give us a better RRR.

Let's look at the difference.

The first target has a potential profit of 85 pips with a stop loss of 47 pips. That would give us a 1.8:1 RRR (85/47=1.808). Some traders will take 1:1 and 2:1 trades all day long but going for a 3:1 or better will help you out if your win percentage isn't great. The second target is 164 pips away with the same stop loss of 47 pips to give us a 3.49:1 RRR (164/47=3.489) which is a more attractive trade.

The Runner

A common practice of retail traders is to close half of their position at the first target and let the rest run. This is called leaving a "runner". The idea is that you close half of your position to secure profit, and then see if the other half will continue to the next target. While this is a good way to secure some profit, you're actually taking away from your full profit potential. Take a look…

Let's say you were trading 1 standard lot on EUR/USD in the example above. At $10 a pip and a profit target of 164 pips, your profit potential is $1,640 ($10x164).

If you were to close half of your position at the first target of 85 pips that would be $850 in profit secured. Assuming price kept moving to the next target, you would have collected another 79 pips (164-85), however, since you sold half of your position you only had .5 lots or 5 mini lots still in the trade. So the remaining profit on your runner would have been $395 (79 x $5 a pip). If we add the $395 to the profit from the first half of the position which was $850, we end up with $1,245.

We missed out on the other $395 by closing half of the position and not letting the whole trade hit the profit target. That's a 25% difference. If we were trading a bigger account and added a zero to our numbers, instead of $16,640 we would have profited $12,450 and missed out on $3,950. That's a hefty price tag for closing early.

Stop Loss

What about your stop loss? In my opinion, the location of your stop loss is more important than the location of your profit target. If a winning trade gets away from you you'll be happy it did. If a losing trade gets away from you, you'll be sorry you lost the money you worked so hard for.

If we're trading on the 1H chart and we take our entry after the close of the bullish engulfing candle, a reasonable place to put our stop loss would be just below the low of the same 1H candle. It's best to give a few extra pips for cushion to compensate for the spread if price comes back down to

retest the level. You can see in the next image the entry, both profit targets, and the stop loss.

Stops to Break Even

Moving stops to break even is an active method of managing risk. This can be a great way to limit your risk but it comes with a drawback.

Here's how it works. Once your trade is well in profit (20-30 pips) and the likelihood of it coming all the way back to your entry is slim, you can move your stop loss to your entry so if price goes against you, you'll essentially break even instead of taking a loss.

If you do use this method, I would suggest moving your stop loss to a few pips above your entry price. Don’t forget there’s more than likely a commission for the trade and also a spread so the extra pips are to account for the spread, commission and maybe even make a few dollars instead of a standard break even trade. The only time this tactic can be a problem is when price does actually come back to test a level. If you got in at a solid entry near an order block, price often comes back to retest that level. When it does, it can hit your stop loss and take you out before reaching the order block where it grabs more liquidity and reverses back in its original direction. That can be frustrating because if you’re not watching the chart to see it happen, you’ll have missed out on the trade in the direction you knew it was going.

Once you have a solid strategy, test this out and note the percentage of trades that get stopped out because you moved your stops to break even. If you see that you’re getting stopped out too often, maybe keep your stops in the original position. Afterall, that is the risk you were initially willing to take on the trade.

Let’s see how the trade would have played out.

This would have turned out to be a beautiful trade and you would have secured 164 pips in profit. Congratulations!

Let’s look at a bearish trend example to see how we can get in and ride the wave.

We can see that price is bearish in a downtrend making lower lows. Marking the break of structure can help us to easily see what price is doing.

‘

Remember as price makes new lows in a downtrend, it has to come back to grab liquidity before making a lower lower. This is known as a retracement or “pullback”, as it’s often called.

If we analyze the chart we can notice that when price pushed down it left an imbalance. If you look at the next image you can see the imbalance marked off with the yellow rectangle.

Since we know price usually comes back to fill imbalances and we still need the retracement, the imbalance area would be a good spot to take an entry. We need to patiently wait for price to come to our marked off area. We can go into the 1H to get a better view of price action while we wait. You can see in the next image that price has returned to the imbalance.

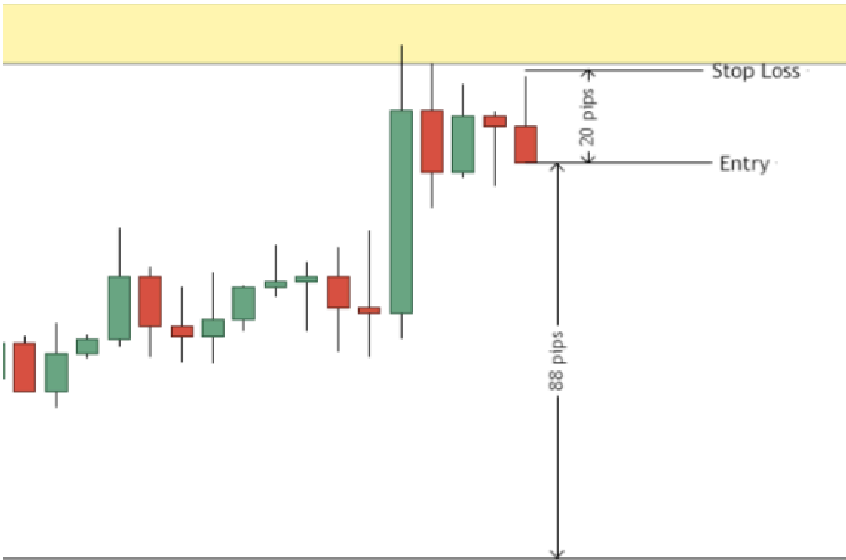
Once price has reached our zone, we should be waiting for a confirmation of some kind. Price will usually consolidate for a little bit to accumulate orders before making a move. During this consolidation period there can be a lot of movement on the smaller time frames so sticking to the 1H can prevent jumping into trades prematurely based on something you're seeing a candle do on the lower time frames. In this example, we can see a large wick after price initially filled the imbalance. Then, we can see a few candles with wicks but none go back into the imbalance area. At this point, we're confident price will go down, we just have to be sure. Finally, we see a red candle with a large wick pushing price down and a close way below the previous candle's close. This would be an ideal entry. You can see the entry in the next image.

Profit Target

Before we take our entry, we should have already had an idea of where we want our take profit to be and by looking at the chart, the recent low is 88 pips away. Since the trend is bearish, we can expect price to make a lower low and should break through the recent low so that's a place to set a profit target.

Stop Loss

Now that we have the profit target we should look for a place for our stop loss. The ideal place to put your stop loss is above the most recent high. In the next image, you can see a stop loss just above the wick of the 1 hour candle for a total of 20 pips.



The RRR on this trade would be 4.4:1 or just 4.4 (88/20 = 4.4). In the next image we can see how the trade would have played out. Remember, the hardest part of being in the trade is leaving it alone. If you had the patience and discipline to let the trade run, you would have made a nice profit.

As you can see from the previous breakdown, trading is not that complicated. It's our emotions that make it difficult to become successful. It's not hard to read the charts especially when you know what to look for. Smart money is showing us where they want to take price and we just have to get in at the right time to ride the wave. Trade with the trend and keep a good RRR on your trades and you'll see results.

Oftentimes traders are jumping from one strategy to another or taking one course and when they're not profitable they buy another course. This cycle will repeat until they're exhausted and ready to give up. There doesn't need to be 4 indicators and 5 moving averages and 3 confirmations to have a set up. If your strategy is too complicated you'll waste time overthinking and miss the trade. Develop a system with simple rules to follow.

Entry

- What are your entry rules?
  What kind of confirmation will you use to enter trades? Come up with something that works for you. In the previous example I used engulfing candles on the 1H time frame.

- Are you going to scale into trades?

  Scaling into trades consist of breaking your overall risk down into smaller positions. For example, if you wanted to risk 1% on a trade, maybe you would enter

a position with .25% and then once the trade starts to move in your direction you can add another position of .25%. You would now only be risking .5% total. You can continue to add positions until you reach your desired overall risk.

- What are you using for confluence?

  I briefly covered confluence earlier but it’s basically using multiple signals to support your idea. By relying on multiple signals instead of one, you’ll increase your odds of the trade going in your favor. An example could be in addition to an engulfing candle you’d want to see an increase in volume. Also, it’s at a previous supply/demand level.

Exit (Take Profit)

- Where do you set your take profit?

  This should be a little easier than your entry. The simplest way to find a good profit target is to use recent highs or lows. If price is in an uptrend and you enter on a pullback, there’s a good chance it will return to and break the most recent high. If it’s in a downtrend and you enter on a pullback there’s a good chance it will return and break the recent low. Think about market structure.

- Are you going to scale out of trades?

  Scaling out of your trades is the opposite of scaling in. Instead of entering incremental positions to build your overall risk, you'll be closing small positions to lock in profits and reduce risk. You can do this by closing a portion of your overall position at initial targets and letting the rest run. Remember we talked about leaving a "runner" in our example earlier.

Stop Loss

- Where will you set your stop loss?

  If you're entering at the right time and you've waited for confirmation, you should already have a good idea of where an ideal stop loss should be. Most likely, it will be just above the most recent high. Remember to account for the spread.

- Are you using a trailing stop?

  If your broker allows it, a trailing stop loss is basically a stop loss that moves with price. So if you entered a position with a trailing stop loss of 10 pips and the price moves up 50 pips, your stop loss would move with it. If price pulled back 10 pips it would have hit your stop loss and you would have secured 40 pips. The downside of this is it's easy to get taken out by a liquidity grab or even simple price action and then miss the rest of the move.

- Are you going to move your stop loss to break even?

  Moving stops to break even after you're in profit can be a good way to reduce risk but as mentioned earlier, it can also get you taken out of the trade. If you're not actively watching the chart, it's best to leave your stop loss in its original position. If you move it to break even and it takes you out, you won't be there to get back in and you'll miss the move. If you don't move your stops to break even on every trade then technically you're not letting your strategy play out and allow the probabilities of risk and reward take over.

- How do you determine the percentage you're willing to risk?

  While risking 1% is kind of common practice, if you're a newer trader I'd recommend risking an even smaller percentage until you start to get consistent and build confidence. Since less experienced traders are more likely to make bad decisions based on emotions, it's easier to rack up losses and they add up quickly. Imagine risking 1% per trade and then losing 3 trades in a row. You'd be down 3%. Now you're determined to make the money back so you end up going right back into the same trade. You start revenge trading and lose 3 more trades. You're now down 6% of your account balance. If you used a smaller risk percentage like .25%, you'd only be down 1.5%.

10

TRADING EXAMPLES

Remember, the markets are fractal and the setups that can be found on the higher time frames can also be found on the lower time frames, and vice versa. Also, before a trend can change on a higher time frame chart, it has to change on the lower time frame first. This will help you on your entries. Let’s look at the first example.

Example Trade 1 - Bullish Order Block Return

The bullish order block is an area that shows significant buying. We want to use this clue as we plan to capitalize on the next time price enters the demand zone.

Step 1: Demand Zone

In this example we’re using the 4 hour chart. Identify a large impulse candle with momentum and mark off the order block with a rectangle as described in chapter 5. Use the high and low of the previous candle before the big push as your rectangle top and bottom, like the next image. This will become your demand zone.

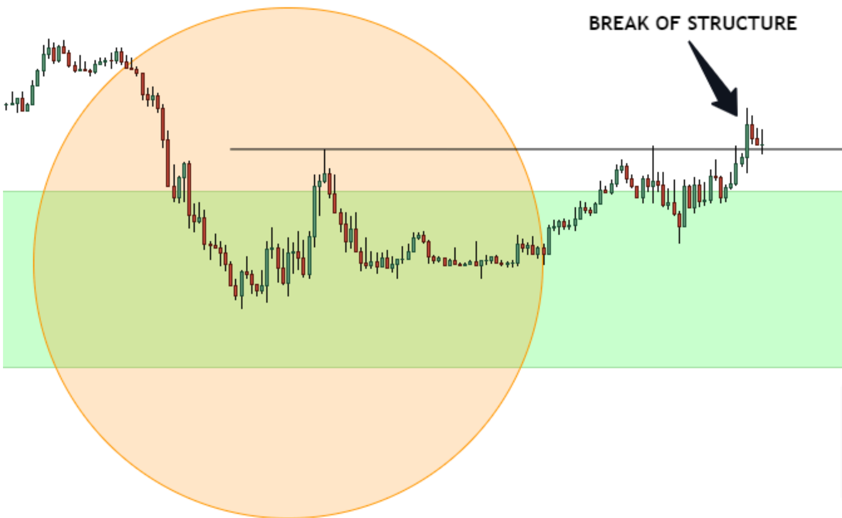
Step 2: Return to Order Block

Wait patiently for price to return to your demand zone like the following image.

This is where aggressive traders would enter a buy position with a stop just below the green box, or the most recent low. Don’t do that. You want to see some bullish signals before entering a buy.

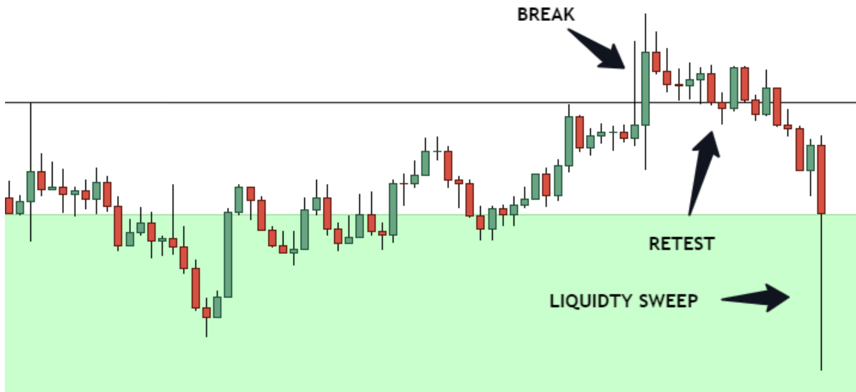
Step 3: Internal Break of Structure

Zoom in on the lower timeframe such as the 15 minute and wait for an internal break of structure. This is the first signal that the trend is going to change.



Step 4: Retest/Sweep

Sometimes you will see price come back and retest the level and it holds. Sometimes you see price shoot straight through that level and go back to the demand/supply zone seeking liquidity before going in the original direction. That's why you want to wait for confirmation. You can see all of the breakout traders who bought at the break of the high and pending buy orders above the high, got stopped out shortly after entering the market..



Step 5: Confirmation/Entry

Now that price has either held the level in the case of resistance becoming support, or dipped down to grab liquidity, you want to look for signals in the direction of your trade. In this example, we're in a demand zone looking to buy so we should be looking for bullish signals.

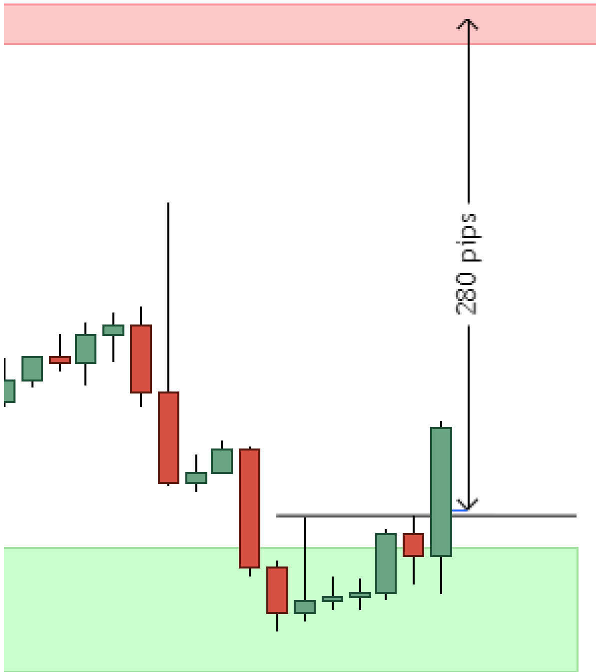
We see a large bullish candle engulf the previous seven candles and it also breaks and closes above the key price level. This would be a good time to enter a buy position.

Step 6: Take Profit

Before you enter the trade you should already have an idea of where you want your take profit target to be. A good place to aim for is the last swing high or just underneath the order block. Since we were scanning the charts looking for a set up on the 4 hour chart, let's zoom back out to the 4 hour to look for targets.

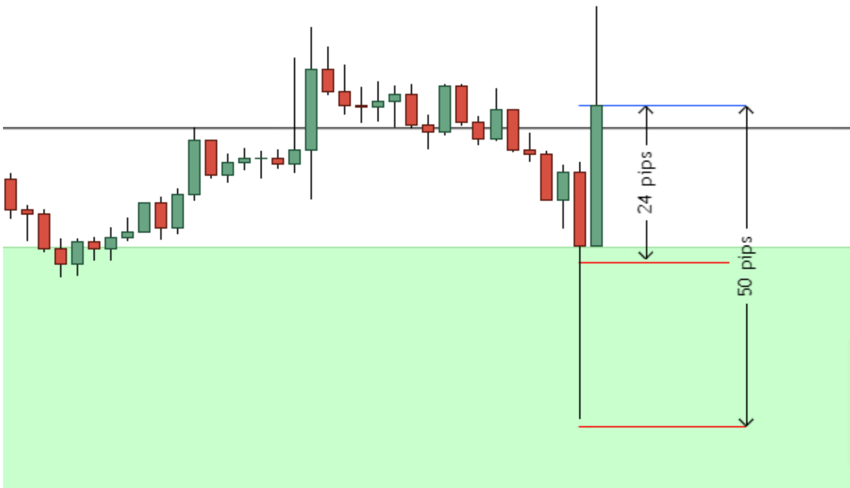
We can see the last swing high and mark it with a rectangle like we did the demand zone. The target is 280 pips away from our entry.

Here's the same image zoomed in on the take profit level.



Step 7: Stop Loss

We can enter the trade but we need to set our stop loss. While a tighter stop loss can keep losses smaller, it can also lead to being stopped out more often. Try to keep your stop losses around at least 20-30 pips to give the trade some wiggle room. In the next image you can see two potential stop loss areas both with a red line. The first stop is 24 pips away and the second stop is 50 pips away. The blue line is the entry.



Would you take this trade?

Remember, the take profit is 280 pips and the potential stops are 24 and 50 pips. If you use a 24 pip stop loss your RRR would be 11.7:1 or almost 12:1. If you use the 50 pip stop loss the RRR would be 5.5:1 or 5.5. The bigger RRR is attractive on this trade but remember it may hurt your

winning percentage over the long term if you always take high RRR trades as you'll increase your chances of being stopped out. If we took the 24 pip stop loss and price pulls back 35 pips, we would take a loss and have to look for a place to get back in. If we had the 50 pip stop loss, we'd still be in the trade without a loss and hopefully ride it back up.

An Awesome Tool

If you're not using TradingView for your charting, you're missing out on some cool features. It took me a little bit to get the hang of it after using another platform, but I'm glad I finally switched. One of my favorite tools on TradingView is the long/short position tool. It allows you to mark your entry, take profit, and stop loss in a neat visual box. It also shows you how many pips each way is, the RRR, and how many pips in profit or drawdown you are while in the trade.

Here's what it would look like using the long position tool after taking our entry. You can see price start to move up and into profit.

Looking at the next image, you can see price come back completely to our initial supply zone and hit our take profit with ease.

Trade Example 2 - Break and Retest (Resistance Becomes Support)

When you study the charts you'll often see support get broken and become resistance and resistance get broken and become support.

Step 1: Previous High/Resistance Broken

Scan your chart for a recent swing high that price has broken through. Remember, resistance often becomes support and

vice versa, so many times you'll see price return to retest these key levels. Since it usually takes a large volume of orders to move price through a resistance zone, it can be thought of as an order block return but note the key price level.

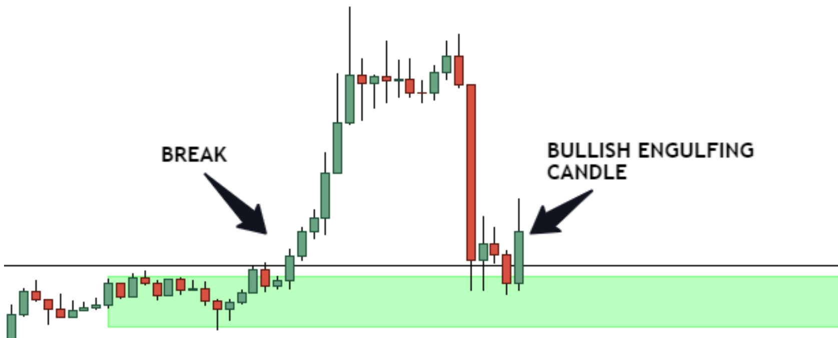
Step 2: Retest

Remember, trading is about patience and discipline. You need to have the patience to wait for price to come back to the key level to see if it's going to hold or if it's going to fall through. This is the retest. When we look at a lower time frame like the 15 minute, we can see price start to break down and show indecision in the candles before returning to the previous resistance level.

‘

Step 3: Confirmation/Entry

Before opening a buy position, you should always make sure the key level is going to hold first. Wait for some sort of confirmation whether it be an indicator or a candle pattern. In the example below, we can see a bullish engulfing candle which is a bullish signal. This lets us know there’s a good chance price will continue bullish.



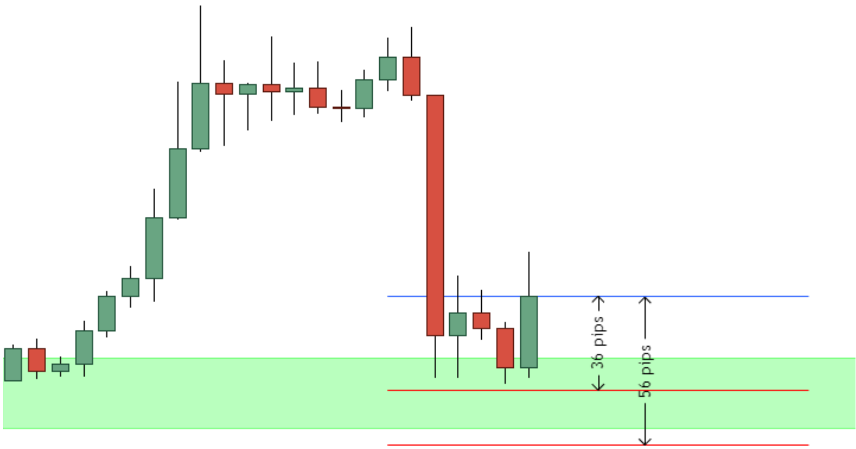
Step 4: Take Profit

When you're looking for a profit target remember that smart money is going to be targeting liquidity. This is usually in the form of buy and sell stops. If we zoom out on the chart we can see the previous swing high showing resistance at a key level. This is a good place to target as there will be orders on the other side of this level. We can set a profit target at that price level or just a few pips before it to ensure it gets hit.

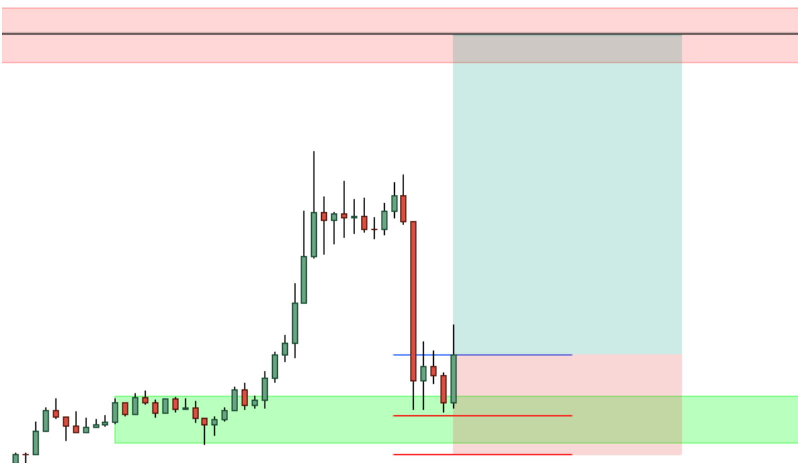
Step 5: Stop Loss

Where you place your stop loss is a matter of preference. If you're risking a higher percentage you might want a tighter stop loss, but if you're risking a smaller amount you might increase your stop loss size to give your position some more wiggle room. The first option in the example below is a 36 pip stop loss just below the low of the recent candles. The

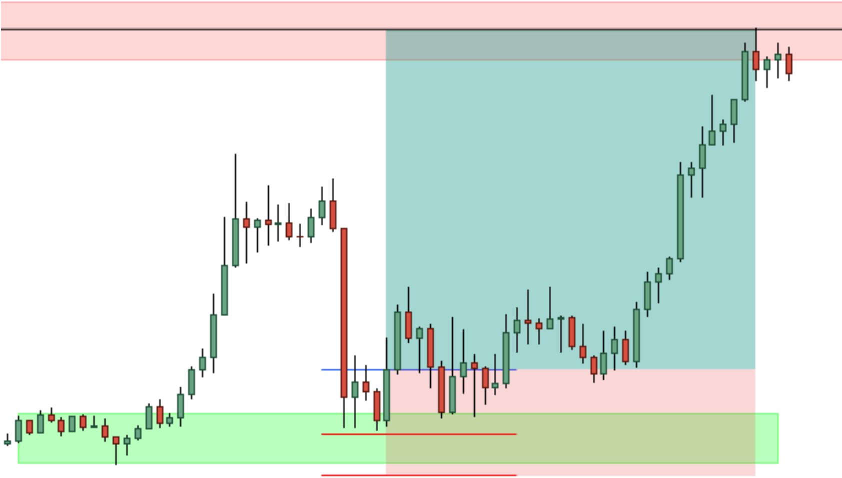
second option is a 56 pip stop loss on the other side of the demand zone.



Below is what the trade would look like if you were to set it up using the long position tool. The blue line is the entry and the red lines are the possible stop losses.



Look at the next image to see how the trade would have played out in your favor if you were patient enough to hold onto your position until price hit your target.

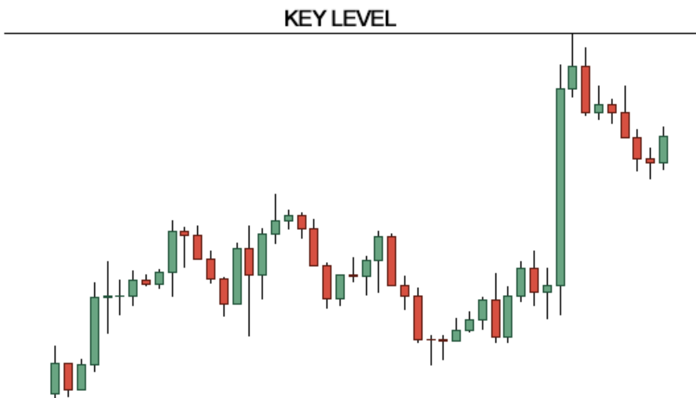


Trade Example 3 - Failed Break and Retest (Bearish Reversal)

In a failed break and retest, you're looking for price to come to a key level but not be able to push through and stay there. This is technically trading against the trend as you're anticipating bearish reversal. Sometimes you will see a couple candles break through but you need to wait for confirmation. Many times it will pull traders in and then reverse the other way. Let's look at this bearish example.

Step 1: Identify Rejection from Key Level

Scan your chart on a higher time frame such as the 2 hour or 4 hour, for a key price level. Since we're looking for a bearish pattern we should be looking for a previous resistance level that rejected price. We can see the large wick rejections and the push down in the next image.



Step 2: Mark Your Supply Area

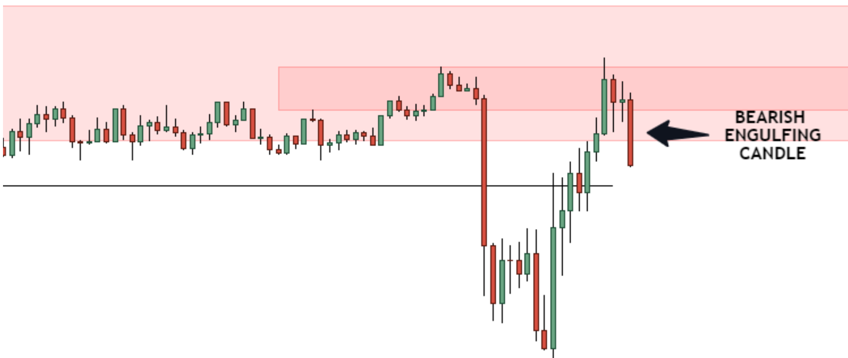
Next, you're going to want to watch and see if price breaks through and holds or if it fails to hold. Oftentimes this is where you'll see a fakeout inducing traders to go long so they can be the counterparty to those orders. Once you've seen price fail to stay above the key price level and get rejected, mark off your supply area with a rectangle so you can visually see where it is.

Step 3: Retest

After marking off your supply zone, you need to wait patiently for price to come back and retest the area before opening a position.

Step 4: Confirmation/Entry

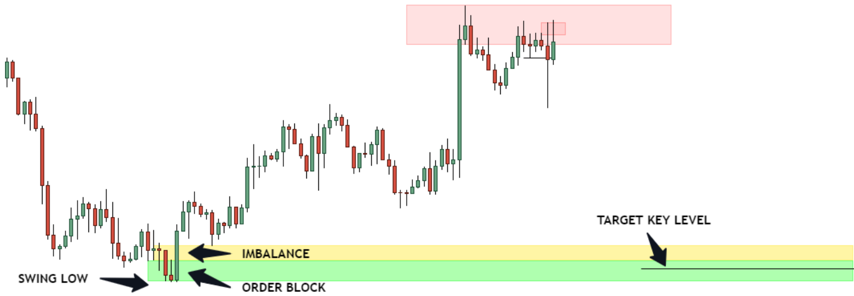
Now that price has entered the supply zone, we can start looking for confirmation to take a sell position. By going down to a lower time frame like the 15 minute, we can get a better idea of what price is doing. We can see a wick rejection from the price level after the retest followed by a bearish engulfing candle. This is what we should be looking for. Now we can open a sell position.



Step 5: Profit Target

When looking for a profit target you want to think like the banks. Where is the liquidity at? The most likely place will be at or below the swing low. If we look at a higher time frame such as the hourly, we can see that area and mark it off with a green rectangle like the image below. I’ve also marked off the imbalance in yellow. Remember, price often comes back to fill the imbalance so that, in combination with the failed

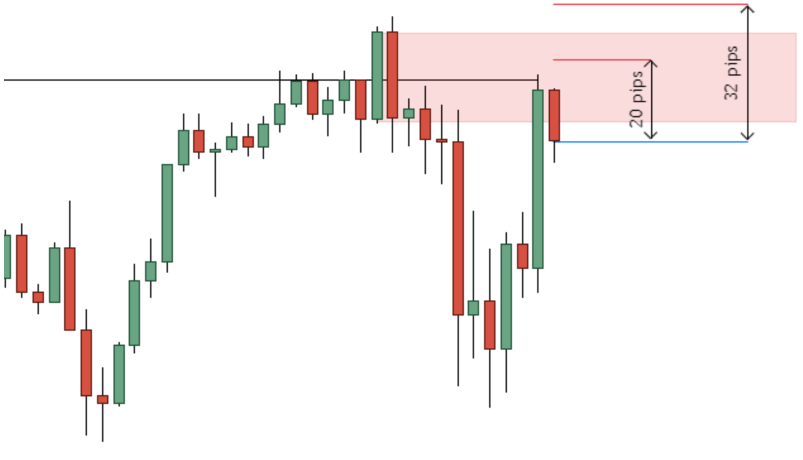
break, could make it a good target. It's around 250 pips away.



Step 6: Stop Loss

For this particular setup, we can see two good areas to put our stop loss. If you're a trader who likes to use a tighter stop, you could place it just above the key price level for a stop loss of 20 pips. If you want to give your trade a little

more flexibility, you could place your stop loss above the recent high for a stop loss of 32 pips. You can see each stop loss by the red line in the following image. The blue line is the entry.



As we zoom back out we can be patient and let price play out. There's nothing left to do once you make your trade. If you watch the chart, it's going to create emotion which can lead to actions. Those actions are usually mistakes and end up hurting the trader in the long run.

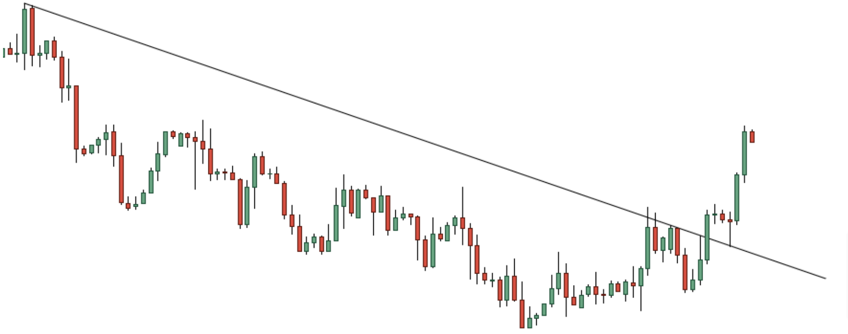
After 10 hours or so, we can see price came crashing down from the supply area. The price easily hit take profit and had you risked 1% you would have just made a 6% return on your account.

Trade Example 4: Trendline Break and Retest (Bullish)

When a trendline breaks it can be a sign that the trend might be ready to reverse. Remember to always wait for a retest and confirmation before making an entry.

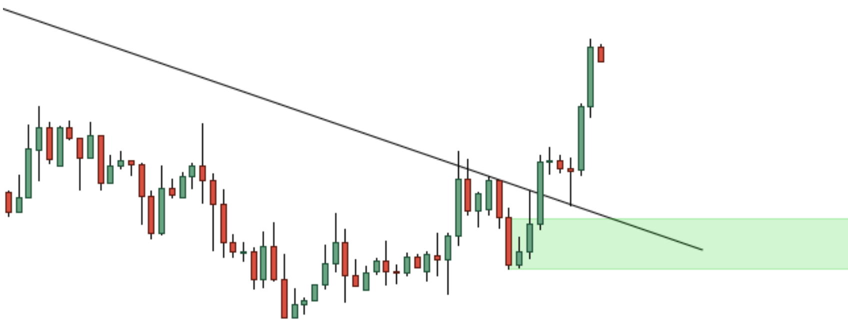
Step 1: Identify a trend break

Scan your chart on a higher time frame such as the 4H and look for a trend that has been broken. Use a trendline if needed.



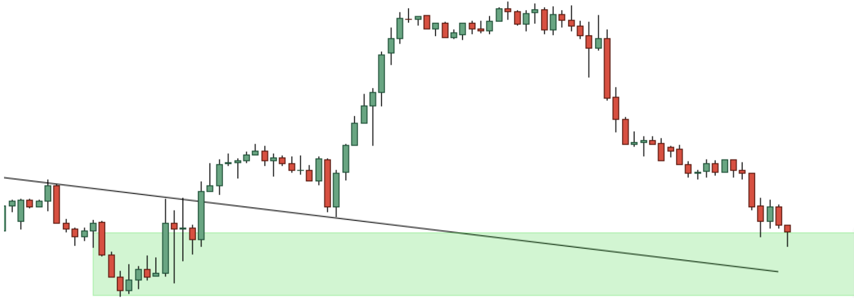
Step 2: Identify Order Block

Find the large institutional candle that broke the trend. This candle usually creates an imbalance so in addition to knowing that price needs to come back and fill the imbalance before moving up, we also know that smart money is buying here because of the momentum. Mark off the previous bearish candle with a rectangle to identify the order block and wait for price to return.



Step 3: Retest/Return to Demand

Once the trend has been broken and you identified an order block or demand zone, you need to be disciplined enough to wait for price to return to that zone.



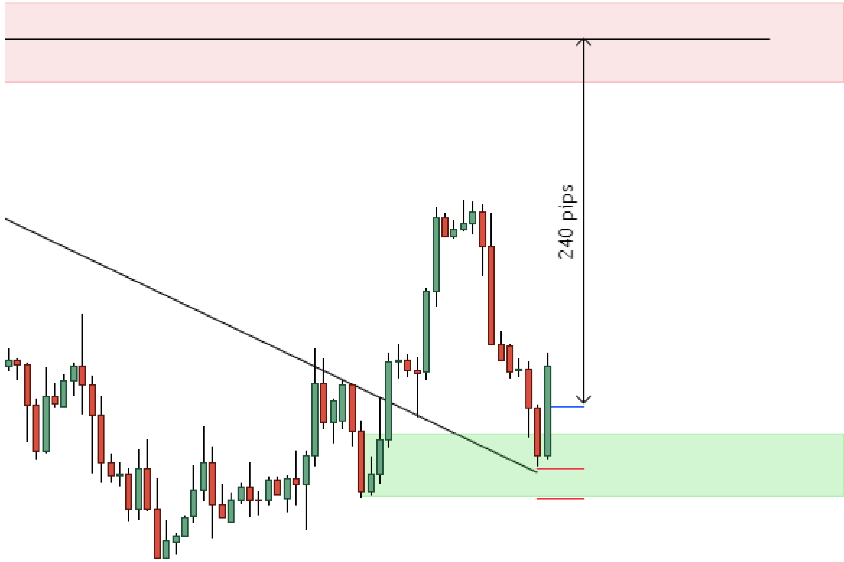
Step 4: Confirmation/Entry

Once price returns to the demand zone, go down to a lower time frame such as the 1H to look for a better entry and confirmation. As you can see in the next image, there's a large bullish candle closing above the previous five candles.

Step 5: Profit Target

To find our profit target we should zoom back out to a larger time frame to look for a supply zone. Then we can mark it off with a rectangle by extending from the open and close of the previous bullish candle before the big bearish candle started the push. This will be the area we're looking to close our position. We can put our take profit at the bottom of the zone if we want to be sure it gets hit, or toward the middle of the zone if we're trying to squeeze a few more pips out of it.

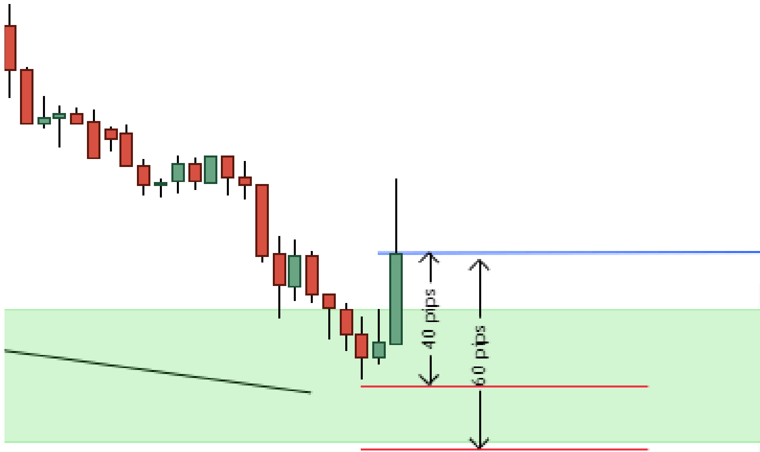
We can see that if we draw a line through the middle of the zone, we have a profit target of 240 pips. Remember, you can also put your profit target a little lower to ensure it's hit.



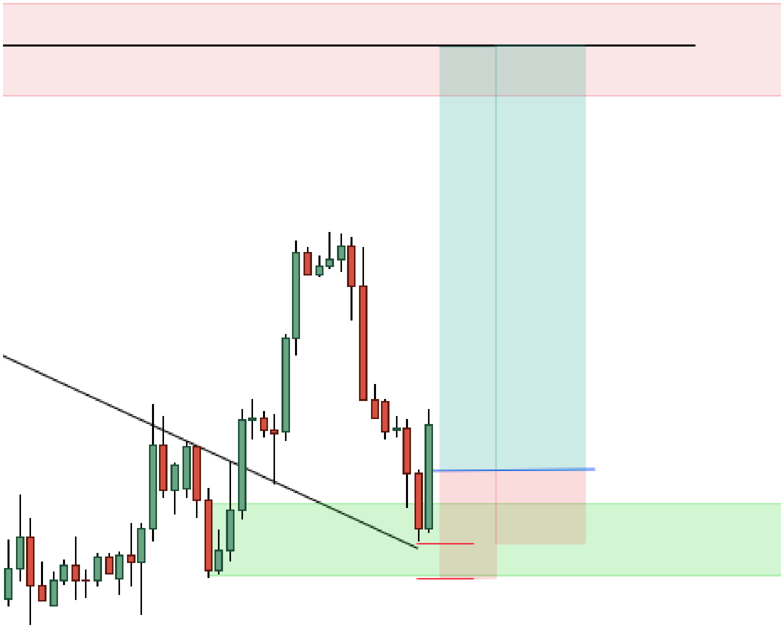
Step 6: Stop Loss

When we're looking for a stop loss we don't want it to be too tight as to get stopped out by a small wick, but we also don't want it to be so far away that we take a big loss if the trade goes against us. Look at the next image. You can see two red lines that represent potential stop losses. The first stop loss is just below the low of the last bearish candle and is 40 pips away. With our 240 pip profit target, this would give us an RRR of 6:1 or just 6. The second stop loss is around 60

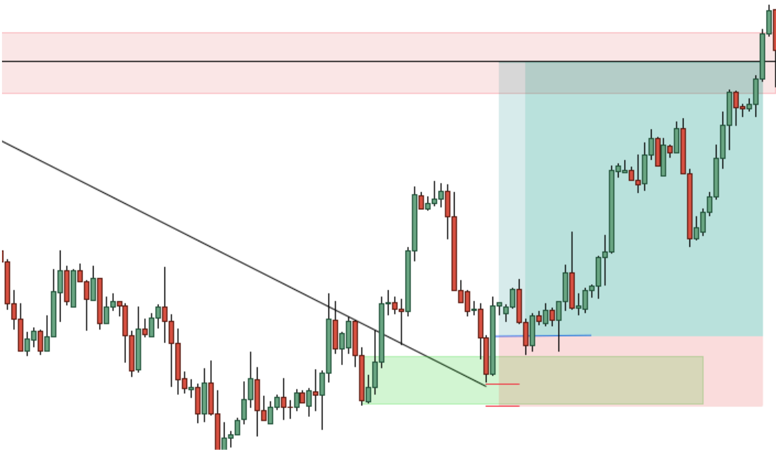
pips away and is just below the demand zone. This stop loss would give us an RRR of 4:1 or 4.



In the next image, you can see I've used the long position tool to track the trade. I actually used it twice just for visual purposes. If you look closely, you can see the bottom of each box goes to a different stop loss. The blue line is the entry.



If we were disciplined and didn't sabotage the trade by closing it early, we can see that price easily hit our take profit.



Thing to Remember: These strategies are examples of how to identify, enter and exit a trade. Your specific entries and exits can and should vary depending on the underlying instrument you're trading.

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TRADING PLAN

Before you start trading seriously, you need to have a trading plan. You should know what type of set ups you're looking for and what your rules are. Don't break your rules!

Trading Style

Your trading style should depend largely on your schedule and even your personality type. The amount of time you have available to watch the charts is going to make a difference on the length of time you're going to want to be in a trade.

For example, if you work a 9-5 that doesn't allow for much free time on the clock, swing trading might be a better option for you than scalping since scalping will require you to constantly watch the charts.

As for personality, if you're really impatient and don't want to be in a trade for very long, you might want to look at lower time frames. However, if you don't mind waiting for your trade to play out for hours or even days, you might opt for set ups on the higher time frame. Here are some common trading styles. Notice the difference in average reward, risk and hold time.

Scalping

If you have time to watch the charts and you're looking for fast action, scalping might be for you. You'll be presented with more opportunities, but that also gives you more opportunities to lose.

Average Reward: 10 - 50 pips
Average Risk: 5 - 20 pips
Average Hold Time: 5 minutes - 2 hours

Intraday

This style of trading allows you to analyze the chart and take a position based on what you think a currency will do that day. You'll be exiting your trades the same day you enter them. It's a little slower paced but you don't have to be glued to the chart.

Average Reward: 50 - 150 pips
Average Risk: 20 - 50 pips
Average Hold Time: 4 hours - 8 hours

Swing Trading

This is a popular style of trading due to the freedom it allows away from the chart. You don't have to worry about the small

moves throughout the day as you're focused on the bigger picture.

Average Reward: 150 - 2000 pips
Average Risk: 50-200 pips
Average Hold Time: 2 days - 2 months

Position Trading

This style of trading is more like investing. Position traders ignore the short term fluctuations and focus on the long term fundamentals of an economy.

Average Profit: 2000 pips - unlimited
Average Stop Loss: 200 - 1000
Average Hold Time: 2 months - 2 years or more

Trading Setup

If you're a new trader or don't have a solid plan yet, you should identify the setups you'll trade. In the beginning, try to stick to one set up. Master that one set up before moving on. Make sure you can scan through charts and see it lining up so you can wait for the moment to strike.

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THE NEXT STEP

My hope is that if you weren't confident in the forex market prior to reading this book, you are now. Competence breeds confidence. So if you aren't confident it's because you're lacking competence in one area or another. If you're brand new to trading, that's understandable, but as time goes on you will learn more and gain experience to increase your confidence. If you have been trading for some time and you're still not confident, it's probably because you're not profitable. You might be taking losses and don't know why. You don't understand why you keep blowing accounts. If that's the case, it's more than likely because you're allowing your emotions to control your actions and you end up breaking your rules. Maybe you don't even have rules.

After reading this book, you should have a good understanding of the key players in the market and how they induce retail traders to make money, market structure, how to identify trends, areas of liquidity, marking off supply and demand, risk management, psychology and even a few setups. If not, definitely go through it again and pay attention to the images. Pull up a chart and start to analyze the charts and look for the concepts you learned in this book. Decide on a strategy and a timeframe and start testing. However, you will never know if a strategy works if you break the rules. You must stick to your rules to know the strategy's win rate.

You need to think of your trading career as a business. The goal of a business is to make money. If you're not making money your business is failing and you need to figure out why. You need to analyze your business to understand why you're losing money so you can correct it.

Create a journal to track your trades. You can use a spreadsheet or software designed to track everything automatically. Having the ability to track your trades and analyze your wins and losses will allow you to see where you need to improve. It can help you understand your win rate, average win, average loss, if you’re breaking rules and more.

If you truly love trading, you’re going to be in it for the long haul. Do you want to do something for the next 5, 10, 30 years without improving? Do you want to lose money for the next 5, 10, 30 years? How do you improve if you don’t know where improvement is needed? This is why it’s important to track and study your trading behavior.

Eventually, you’ll understand where you’re going wrong and why you’re losing trades. You’ll be able to see what you need to work on. You continue to correct mistakes until your win rate increases. You’ll be confident in your ability. You won’t allow emotions to influence you. You’ll trade like a robot. You’ll get consistent. Then, you’ll finally be on your way to the promiseland. I hope to see you there.