TraderTom

Trading Manual

By Tom Hougaard

The pursuit of wealth and financial freedom through speculation can be costly, both financially and spiritually.

Unlike what the glossy adverts in the newspapers and the financial magazines and the unsolicited emails suggest, it takes time and effort to get to the point where you can call yourself a profitable trader.

It is a worthwhile pursuit, but many fall by the wayside. They give up too soon, or they put their faith in an educational guru, who overcharge and under deliver.

I wrote this manual for you. It doesn't reveal all that I know about trading. I have studied thousands of hours, and my research has taken many paths. Some of it has been useful. Some of it has been worthless. This manual is designed to get you started on the right path.

The course spans many lessons. It is designed to rival and surpass the £3000 weekend courses offered by the training companies around the globe. I have chosen to pass this information to you for free.

I still run trading courses, but I now just focus on the training of techniques that have been developed by myself and my team of traders. They have stood the test of time.

I hope your path will profitable and enable you to live the life you dream of.

The trading of stock, futures, options, spread betting, spread trading and CFD trading and any other leveraged trading activity involves risk.

It should not be assumed that the methods in this trading manual, the techniques explained within or the technical settings presented here will be profitable.

Trading is a risky proposition, one which has the ability to elevate lives financially as well as destroy a sound economic foundation.

I wrote this manual with the intention of guiding both the absolute beginner and the more experienced trader and investor through the financial markets.

However, I do not guarantee that the results of the past imply or forecast the results of futures endeavours. You should not trade with money you can't afford to lose.

Learning Curve

This manual is focused on the practical aspect of trading, the art of making money from speculation. There is a big difference between understanding something theoretically and actually doing it.

Trading is like any other profession: the more you trade, the more you learn about trading.

I am going to reduce your learning curve by teaching you the absolute essence of trading. Along the way, I will give you suggestions to further readings, if you are interested. Lets' get started.

The financial markets are incredibly complex. If you want to learn about the markets, you can spend your whole life trying to master them.

However, your interest is not in the complexity of the markets. Your interest is making money from the markets.

I studied economics at University. I even studied a Master's degree at one of the best universities in the world, a "Money Banking and Finance" Master's degree no less.

I still don't fully understand the financial markets. I don't know what will happen this afternoon or tomorrow morning in the markets.

In this manual I am going to teach you two things:

1/ the essence of technical analysis and trading

2/ a couple of trading techniques

You may think you need a lot more. You don't.

Would you learn Martial Arts from this man? Bruce Lee would not teach you hundreds of different techniques. He wouldn't make you study all the different form of Martial Arts.

He would make you practise the same thing over and over.

"I fear not the man who has practiced 10,000 kicks once, but I fear the man who had practiced one kick 10,000 times."

This manual will teach you:

When to enter and when to exit the market you trade

How much you should risk

How to manage your trade

But we will also look at broker platforms and the tools they offer

As you practise, your confidence will grow. If you follow the instructions in this manual, you will significantly increase your chances of success in the markets.

Trends

The market can do one of three things:

It can trend Up

It can trend Down

It can Go sideways

When the market is moving up, we want to buy.

When the market is moving down, we want to sell short.

The market moves up and down in a rhythm. It is our job to look at the market movements and decide if the rhythm is mostly up or mostly down.

Even though a market is mostly moving up, it will have smaller counter moves that are going down.

The big picture is that this market is moving higher.

The red lines symbolise the market making small corrections along the way.

I WANT TO FADE THE SHORT-TERM TREND AND TRADE IN THE DIRECTION OF THE LONG-TERM TREND

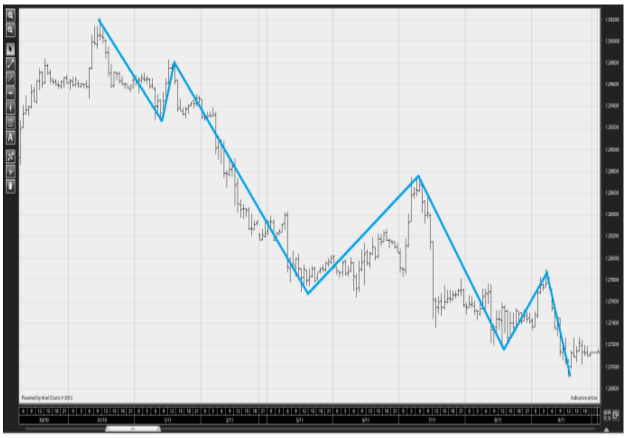
What does it mean to fade the short-term trend?

It means to go against it. In the example on the last page, it means that you BUY the market when the time is right.

We will come to that soon enough. For now it is important you understand that we want to trade in the direction of the long-term trend.

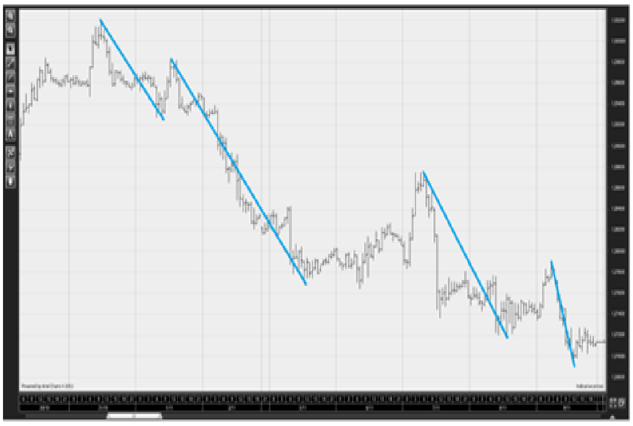
Let us take a close look at a chart with a trend on it.

Here is a chart with the trend moving down. You should notice that even though the trend is down, the market still moves up from time to time.

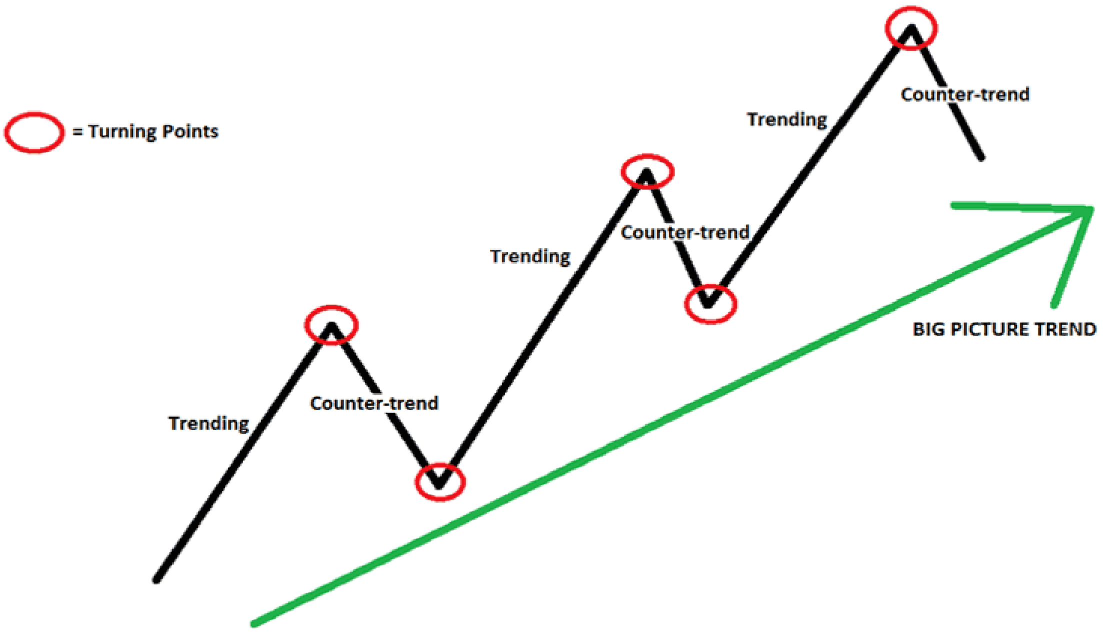


To make it easier, I have isolated the chart with just the up-moves. I call them "counter-trend" moves.

I have also isolated the chart with just the down-moves. This is the "big picture" trend.



We want to trade in the direction of the long-term trend. When the market moves against the long-term trend, it is our job to identify an area where we want to enter the market.



We want to trade the trend, not the counter-trend.

The traders I know who trade professionally for firms or funds are constantly looking to identify areas where they can enter the market.

When the "big picture" trend is down, and the market is bouncing, they are looking for a place to sell short the market.

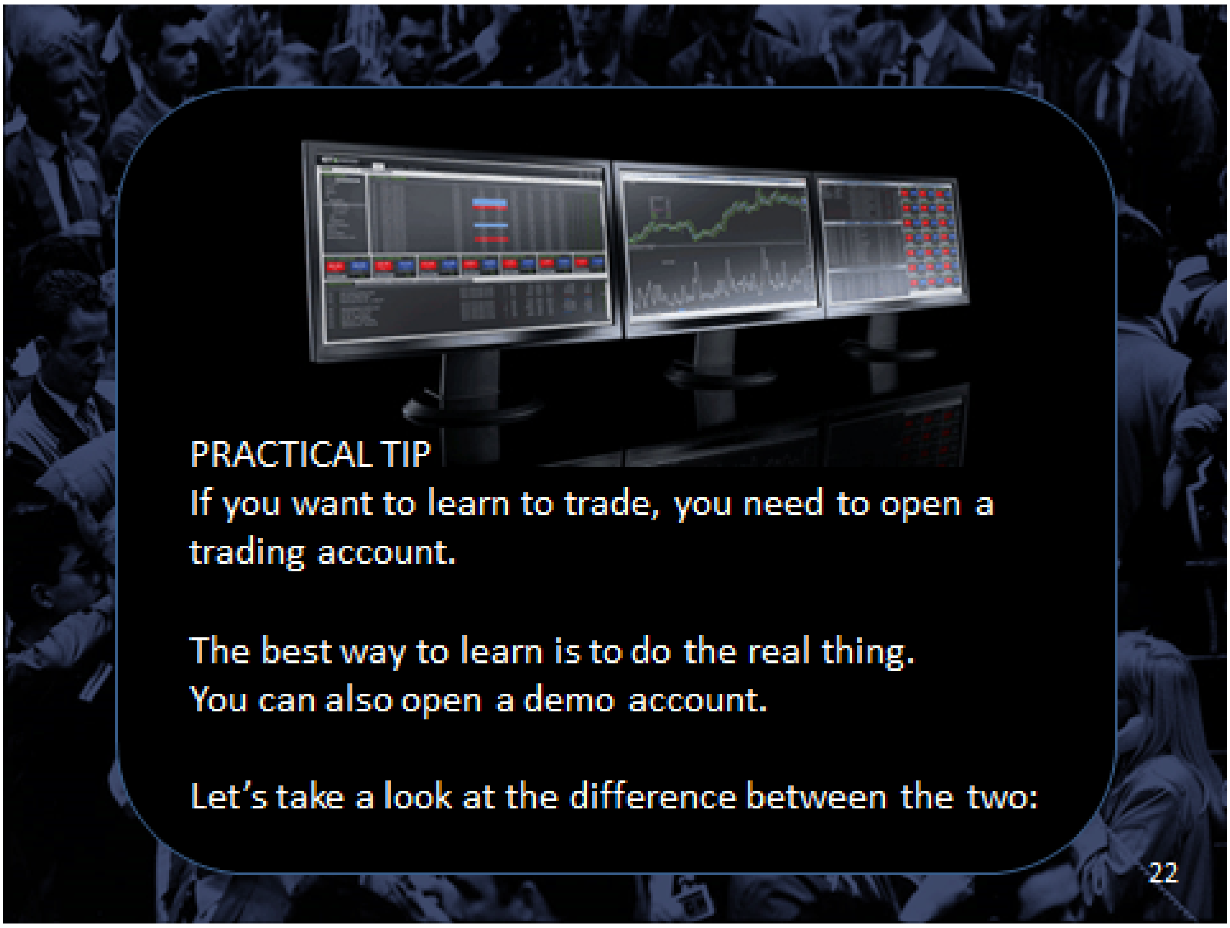
When the market is trending higher, they are looking for places where they can buy the market.

The difference between the professional and the individual starting out is simply experience.

It is worth repeating:

We want to trade in the direction of the trend. This means that our job as traders is to identify when the market is trending higher, and when it is moving counter to the "big picture" trend.

Let's move forward to work towards an understanding of how to work out when the market is trending, and when the counter-trends are finished.



DEMO ACCOUNT

Advantages of Demo account:

you get to know the trading platform and can practise executing trades and orders without being concerned about making mistakes.
You are trading fictitious money.

It is a great place to practise a trading technique

It is a great place to learn about charting.

Disadvantage of Demo accounts:

The purpose of trading is to make money. Using a demo account is not the real thing, which means you won't know how you will handle the pressure of real trading with real money on the line, until you make the switch.

Email me on tom@tomhougaard.dk for good demo and real accounts. Many brokers contact me and ask me to introduce clients to them. Often this is associated with very good bonus offers for you.

At a trading conference I was asked the following question by a delegate:

“Do you recommend the use of DEMO accounts?”

I answered that DEMO accounts are great for several reasons, including getting used to a new trading platform and its functionalities, trying out new strategies and maybe just getting the taste for trading in the first place.

I went on to say that I wasn’t a fan of DEMO accounts beyond the reasons mentioned above. I stated that DEMO accounts take out the emotional sting of trading, which gives a false psychological profile of successful trading.

I argued that it is a good idea to start with a demo account, but as soon as you are comfortable with the platform, you should begin to think about opening a real account. You can start off with a small account, work your way up by increasing your stake size as your experience grows.

I told the delegates a story about a client of mine, a 20-year old medical student from Copenhagen University, who had spent a month trading Euro Dollar intra-day for 5-6 hours a day.

By the time he started with a real account, he already felt fairly confident with his way of trading, and he did very well for himself, because he kept doing on his real account what he had done on his demo account.

What is the trend?

What do you see on the chart below? Is the trend up or down? What do you see in terms of trend and counter-trend?

The dark blue line is called a moving average. It shows the average price, and it is a great way of deciding what the big picture trend is. We will learn about that next.

Here is what you should notice about the chart:

1. The big picture trend is DOWN

2. The market does bounce up during the down-trend, but at no point does the high of the red line go above the high of the previous red line. This is solid sign of a DOWN-TREND.

3. The low of the light blue lines are lower than the previous low of the light blue line. This is another solid sign of a down-trend.

The basics of Forex Trading

Currencies are trading in pairs.

Sterling Dollar exchange rate means the rate you can exchange one currency for another currency

GBP USD	1.6050	= one unit of GBP (1 Pound) buys 1.6050 US Dollars
EUR USD	1.3500	= one unit of EURO (1 Euro) buys 1.3500 US Dollars

The Forex market prices are always quoted as “one currency against another currency”.

So GBP USD means Sterling against US Dollar. The currency which is named first is the one exchanging its own currency for the foreign currency.

Sterling is named first and the US Dollar is named last. Therefore it means that the price means how many US dollars we can get for £1.

GBP	Currency of	Great Britain (England, Scotland, Wales)
USD	-/-	United States of America
EUR	-/-	“The Euro”, members of the Euro Zone
CHF	-/-	Switzerland, Swiss Franc
JPY	-/-	Japan, Japanese Yen

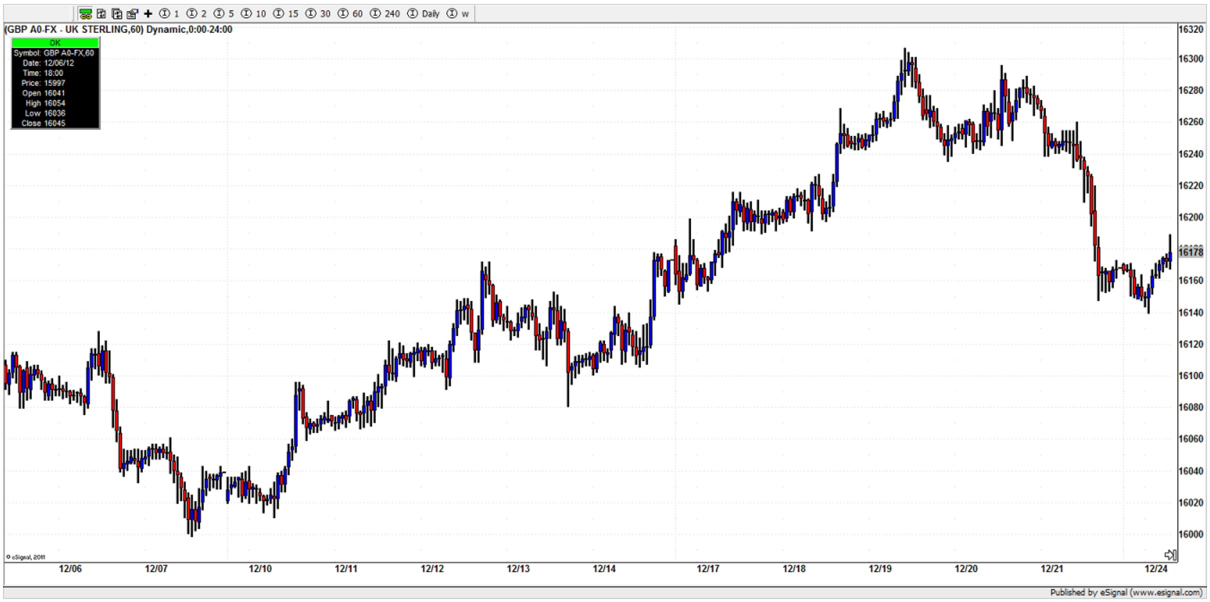
Example:

You want to go to the US and you exchange £3000 into US Dollars. How many US Dollars will you get if the exchange rate is GBP / USD 1.5000?

ANSWER - - - - - - -

The answer is 3000 * 1.5000 = $4,500

This is a chart of Sterling Dollar. When the chart moves up, the US Dollar gets worth less against Sterling. At the beginning of the chart, you get $1.6020 for £1.



At the peak of the chart, towards the right side of the chart you get $1.6300 for £1.

What confuses newcomers is when they hear people say that the US Dollar is going “up”, they think that the US Dollar becomes worth more. The opposite is the case.

Traders WANT "PIPS".

The smallest movement is the currency market is called a "pip". As traders we are looking to make as many pips as possible.

A pip is the 4th decimal place in the exchange rate, in this case

1.6020   GBP / USD = 1.6020

Example:

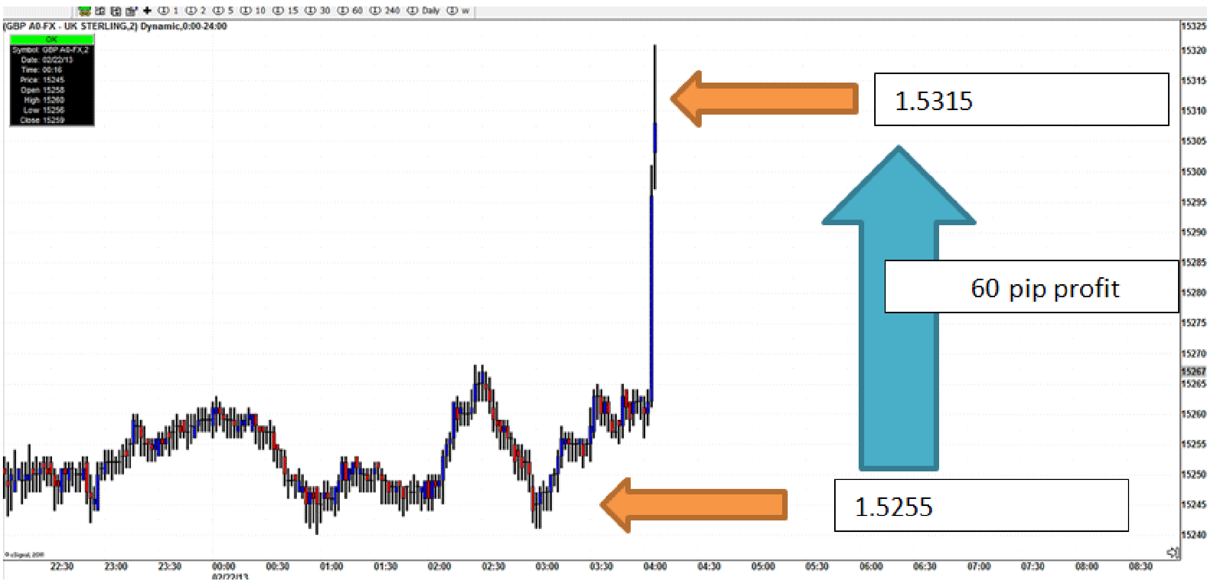
You BUY GBP/ USD at 1.6020.   The price moves to 1.6021.

You made one pip.

Shopping for pips

You decide to buy GBP / USD at 1.5255. Later you close the position at 1.5315. You have made a profit of 60 pips.

Very shortly we will talk about what a "pip" is worth in your pocket.



JARGON GUIDE FOR FX MARKET

Jargon	Meaning	Explanation
LONG	Buy	To be LONG means you want the market to move higher
SHORT	SELL SHORT	To be short means you have sold the market and at some point you have to buy it back. Your profit is your sell price minus the price you buy it back at.
PIPS	4th decimal	Smallest* possible movement in the FX market

* For some currencies there are only 2 digits after the full figure.

For example Dollar Yen is currently trading at 95.18, meaning that the “8” is the pip. A movement from 95.18 to 95.30 is 12 pips.

The easiest way to trade FOREX is to open an account with a broker, who will let you trade it as a spread bet rather than a CFD. The reason why this is the easiest way is because it makes your trading risk exceptionally transparent.

A spread bet works like this: You decide how much you want to risk per pip. If you risk £5 per pip, and you make 10 pips, then you have made £5*10 = £50.

When you trade CFDs in the currency market, you are dealing with a very different animal. You will be trading actual dollar amounts. So $100,000 stake is known as one lot.

It is infinately easier to trade using spread betting/spread trading.

Email me if you need a good trading account. I often have special offers from brokers who will give you 50% extra cash on top of your account deposite.

Email: tom@tomhougaard@dk

FACTS:

1. Forex is the largest market in the world.

2. Forex trading does not take place on an exchange like stocks do.

3. Forex is the most liquid and fluid market in the world. It trades 24 hours a day, from Sunday night when it is Monday in New Zealand, until Friday night in the US.

4. A "pip" stands for "Percentage In Points". It is the smallest increment of trade in the FX market. It is always the 4th digit in the major currencies, except for Japanese Yen, where it is the 2nd digit.

5. The MAJOR currencies in the world, in approximate order of importance: US DOLLAR, The Euro, Japanese Yen, Sterling, Swiss Franc, Australian Dollar, New Zealand Dollar

6. There is no physical exchange for the FOREX market. All FOREX trading is pure speculation.

How many pips can you make a day?

Well, the answer is up to you, but the chart below is from just ONE currency pair, the Euro Dollar, over ONE day. If you just count the pip movement of the bigger swings during the day, you can see that Euro Dollar produced movement of 265 PIPS.

You don't need to make 265 pips a day to make a really good living. Imagine you only caught 10% of the movements, and each pip was worth £10. That would equate to £265 a day. You do the math over a year!!!

Defining the Long-term trend

When we trade Forex, we define the long-term trend with 3 time frames:

Daily - 4-hour - 1-hour

The short-term trend is defined by the 5 min or the 10min or the 15min chart.

This is a 4-hour chart of Euro Dollar. On the first half of the chart the trend is up. From around the middle of the chart the currency pair begins to move lower.

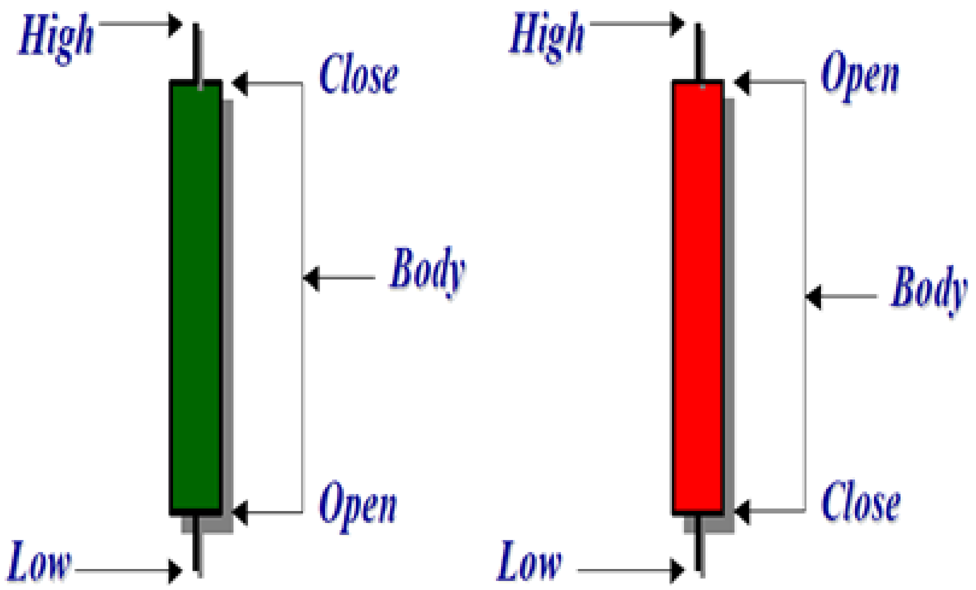
Notice the blue shaded square – the market is moving up in the short-term, even though the long term trend is down.

Candlestick Charting

A Candlechart bar uses the same data as a bar chart, namely the open, the high, the low and the close of the particular time frame being charted.

The difference between the familiar bar chart and the candle chart is that the candle chart makes use of a colour coding (usually red for a candle where the close is below the open, and green for a candle where the close is higher than the open), which makes it easy to see which “force” is in charge.

I use the word force to describe if the bulls are in charge or if the bears are in charge. Bulls want the market to move higher while the bears want the market to move lower.


High
Close
Body
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High
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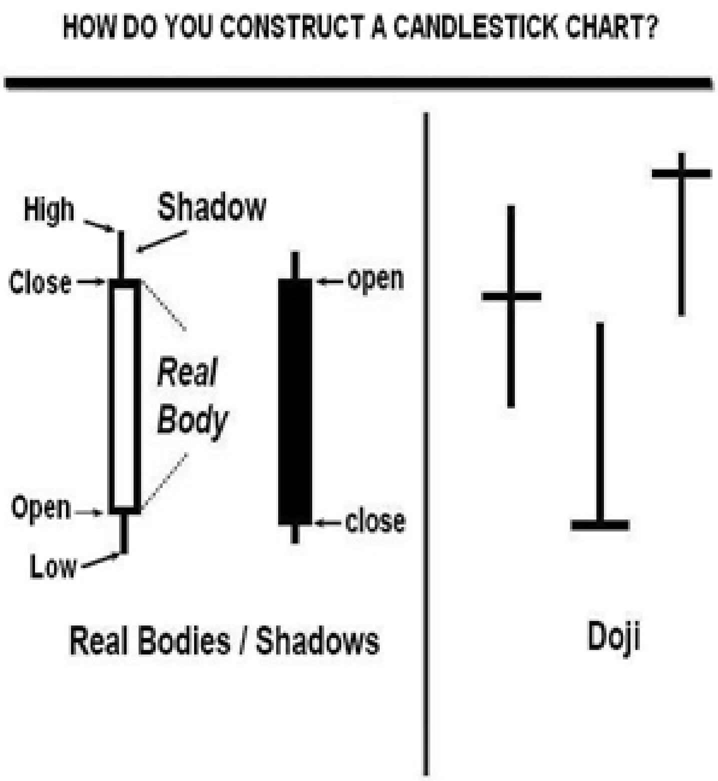
Close
Low

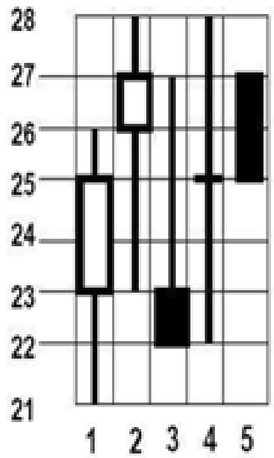

HOW DO YOU CONSTRUCT A CANDLESTICK CHART?
High
Shadow
Close
Real Body
Open
Low
open
close
Real Bodies / Shadows
Doji

The body of the Candlechart

The body of a Candlechart is the difference between the open and the close. In Japanese Candlecharts the body takes on a significant role. The reason is that the Candlestick charting is essentially a PATTERN recognition system. We will now go through the most important Candlechart Patterns.

DRAWING A CANDLESTICK LINES

session	open	high	low	close
1	23	26	21	25
2	26	28	23	27
3	23	27	22	22
4	25	28	22	25
5	27	27	25	25



The body of the Candlechart

The Candle is made up of two concepts: the body and the tail. The tail is also more popularly known as the shadow of the candle. Both concepts are as important in the understanding of the unfolding pattern.

For the newcomer candles can seem a handful due to the huge amount of signals. The truth (at least this holds true for me) is that Candlecharts are exceptionally easy to handle, even if you do have to filter out the quantity of signals that are presented during trading.

Ask yourself over the course of this section: what is it we are trying to accomplish?

The answer of course is simple: We want to know who is winning the constant battle between buying pressure and selling pressure. More importantly we want to be the first to know when the balance of power is shifting from one camp to the other.

Candlecharts provide us with early clues when the balance of power is shifting from one camp to the other. There are false signals, which is why Candlecharts on its own will never be the Holy Grail, but without the understanding of Candlecharts you are often left in the dark at crucial turning points in the market.

The Shadows

In some textbooks it is said that the open is governed by the amateurs and the close is ruled by the professionals. I think it is false statement, which should be taken with a pinch of salt.

The market is what it is, a constant reflection of equilibrium of demand and supply. I am not concerned with if one camp appears more sophisticated than another. I trade what I see, not what I think.

Nevertheless when it comes to the Shadow, we are talking about the demand and supply that takes place after the open but before the close. We are taking about the price action that pushes the market to one extreme and the other.

I am not concerned with if one camp appears more sophisticated than another.

I trade what I see, not what I think.

The Shadow shows the extreme for the time period, the high and the low. By bearing this in mind we can derive some facts about the Shadow:

1. The Shadow shows where the power shifts from one camp to another. At the extreme high or low for the Candle, the force shifts from one camp to the other.

2. The Shadow indicates a degree of uncertainty about the future direction of the trend. There has been a shift of power from one camp to the other, and traders, speculators and investors all over the world now have to decide if the “failure” of one camp to carry market further in their favoured direction is a permanent failure or a temporary failure.

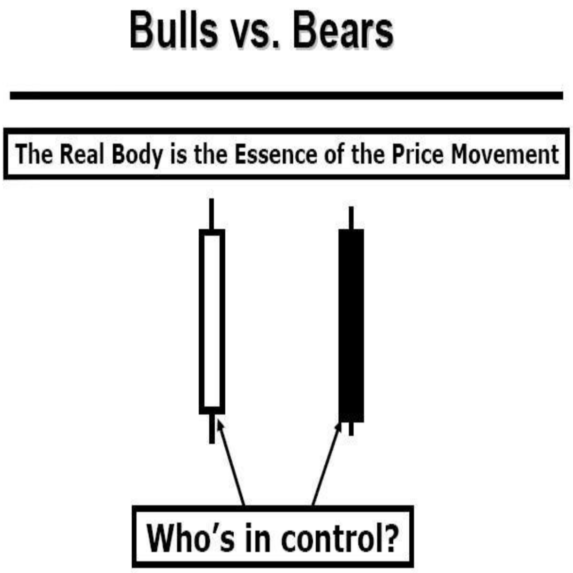
In an uptrend the upper shadows can be viewed as failure on the parts of the bulls to dominate the time frame that is being charted. Furthermore in an uptrend long bearish shadows may be a pre-curser of things to come, although for now the supply that came into the market was absorbed by those who are still bullish.

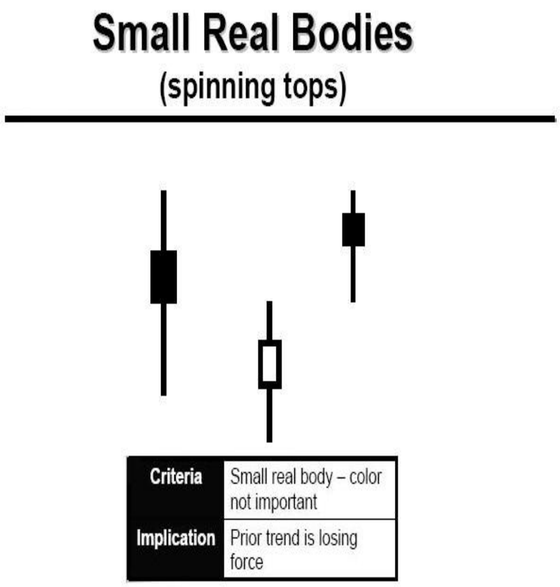
In a downtrend the opposite holds true. Upper shadows could warn that the bulls are trying to gather strength, while lower shadows could mean that while the market was bearish during the Candlechart timeframe, the bears failed to hold on their advantage.

What do we want to accomplish?

To know who is winning the constant battle between buying pressure and selling pressure.

We want to be the first to know when the balance of power is shifting from one camp to the other.





Candle charts and Bar charts use exactly the same data:

OPEN – HIGH – LOW – CLOSE

Therefore all the techniques that is used on Bar charts can be used on Candle charts, such as RSI, MA, Stochastic to name a few.

A tall white (positive) candle pierces the resistance, but on the next trading session the market is indecisive.

Sometimes it takes break-outs above resistance a while to get going, but with the Doji in place, there is real doubts the market has more upside left. It is very useful tool for placing stops at the correct price level.

You don't need to invest money in courses or books when it comes to candlechart analysis. There is so much free information about candle charts on the net. It is probably free because it really isnt worth much. ☺

I apologise if I sound facetious, but I am serious. There has been an inflation of patterns in the field of candle charts. It serves only to sell books and courses, but ultimately it ends up confusing the newcomer.

The Evolution of a Trader?

What timeframe do you want to trade?

Tick chart?

5-min chart?

60-min chart?

Monthly chart?

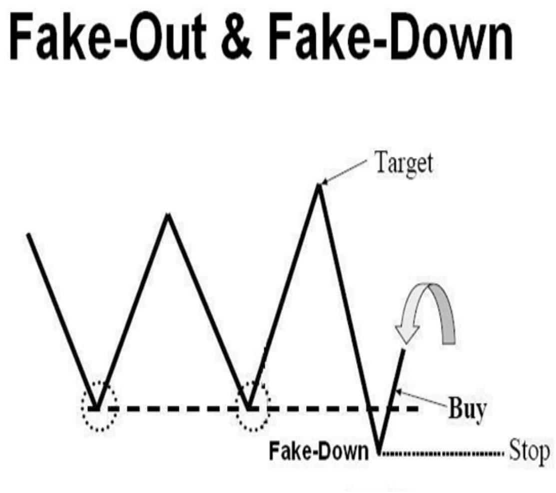
Your evolution as a trader is partly to discover what time frame you want to trade, and trade the trend of your time frame accordingly.

The Fake Moves

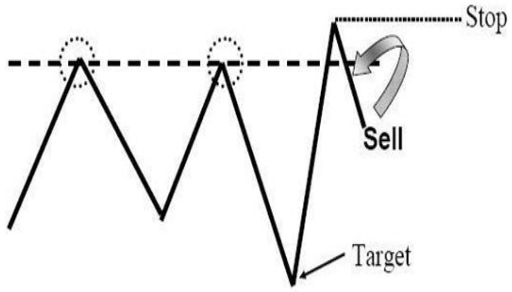
When I started out trading I was keen sell break-down and buy breakouts. It took me a while to realise that more often than not the market would pull me into a trade, by breaking above the previous high or below the previous low, only to reverse in the other direction.

The realisation came when I sat in a seminar myself some time back. I was staring at a chart image on a very large screen, which probably helped accentuate the visualisation of the chart. It was a trading epiphany when I realised how often the market tends to test previous highs or lows, only to reverse back into the range.

I went through past and present charts to enhance my understanding of this pattern, which I call Fake-Out and Fake-Down. It works very well in so many time frames.



Fake-Out & Fake-Down



REMEMBER

Even the "perfect" Candle Signal does not equal the perfect trade. This means you can NEVER EVER ignore the responsibility of managing your money, no matter how certain you are.

Engulfing Patterns for Day-Trading

The engulfing pattern is a candle bar where the price action measured by the BODY of the current bar engulfs the body of the previous bar. I like using them on a 10-min time frame or higher on indices such as the FTSE, the DAX (although the two are highly correlated), as well as the SP500 and the Dow.

They work great as a reversal signal or continuation signal. They tell us exactly where to enter. They tell us how much to risk on the trade.

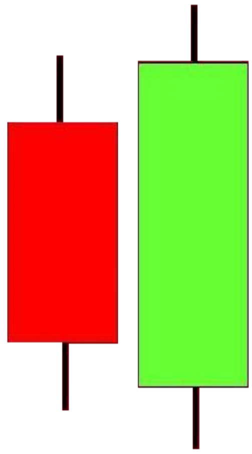
There are 3 potential entry criteria, which depends on how much certainty the traders wants in the set-up.

1. Aggressively enter the market on the assumption an engulfing pattern is being formed. If the trader enters the market on the assumption that an engulfing bar will print, and it fails to do so, the trader should exit the trade.

2. Normal entry method – waiting for the engulfing pattern to complete

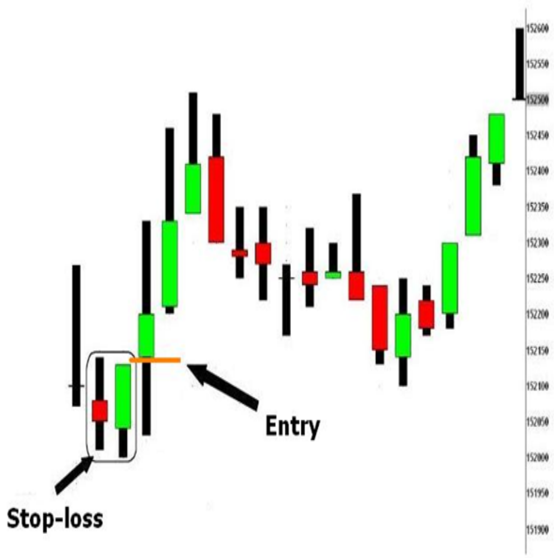
3. Cautious method – waiting for next bar to trade through the high/low of the engulfing bar.

Engulfing Pattern



The body of the green bar ENGULFS the BODY of the red bar.

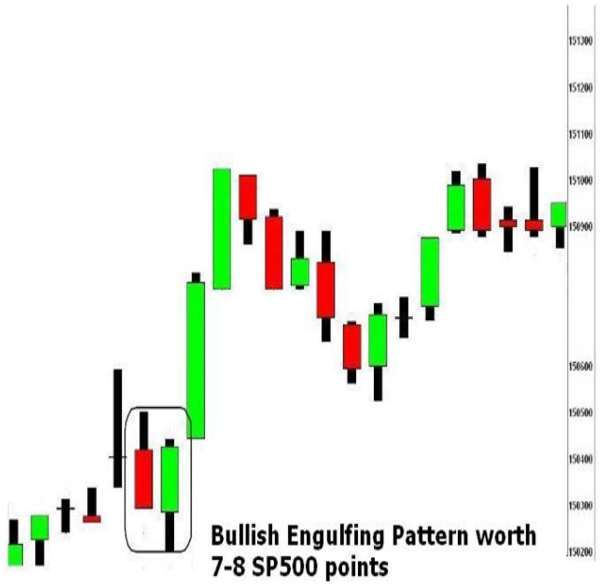
Engulfing Chart Pattern Strategy – with entry and stop – 10 min SP500 chart



The above example is not perfect, but it serves to show the concept quite well. A move above the Engulfing Bar triggers a buy signal. You can either time your entry with an order just above the high of the Engulfing Bar, or you can simply execute the trade yourself manually, the moment you see the market push above the high of the engulfing bar.

A bearish Engulfing Pattern – entry and stop defined – 10 min SP500 chart

A brief counter-trend sets up a Bullish Engulfing Bar on a 10-min chart



I like the example above because I realise I made a mistake. I meant to highlight another part of the chart with a square. The area I have highlighted is a valid Engulfing Bar, but I meant to highlight another one as well.

Can you see it? It sets up a buy-signal.

A bearish Engulfing Pattern – entry and stop defined – 10 min SP500 chart

A failed set-up.

Many traders would be scared to sell short a market that has already fallen significantly. I call these long bars Road Map bars.

The market is trending lower. If we call the lowest bar on the chart, bar number 1, then you can follow my thoughts.

Bar no 1 is red, and it is the lowest bar.

Bar no 2 is green. It is a very positive bar. There is a tail on either side of the body. It closes very strongly. Bar no 3 is red. Bar no 4 is green.

Bar no 5 is red, and the body of bar no 5 engulfs the body of bar no 4. This is an Engulfing Bar setup, and I short the market. As the trend is down, this makes good sense.

As you can see, I am stopped out very quickly.

Exit Criteria for Engulfing Pattern

The exit can be done in one of several ways, but remember that the aim is to be on board a “runner”, so taking a profit should not be because some monetary criteria has been met.

If the market immediately runs in the anticipated direction, the traders should move the stop-loss to break even.

If a trending move develops, the trader can move the stop loss progressively in the direction of the trend.

If another candle pattern forms, such as a doji, signifying a potential trend reversal, the trader should tighten the stop close.

If volume spikes into previous support or resistance, it could be wise to keep the stop tight.

Otherwise, try keeping the position open, and above all, have patience. A good engulfing set-up on a 10-min chart can easily last a full hour or more.

The Unconscious Drive to Fail

Ask traders about their reasons for trading, and most will tell you, "I want to make huge profits." Although most traders get into the business to make a significant return on their money, the vast majority blow out their accounts.

Why do so many traders fail?

The obvious reason for many is that they just don't know how to trade. They don't use proper risk controls. They don't have enough financial resources. They don't have proper instruction or an efficient trading platform. They don't have solid, reliable trading strategies. And for many, they don't have good reference points; they don't have a clear understanding of how the markets work.

Any or all of these factors can spell disaster for the novice trader. One doesn't need to explore the depths of one's psyche to find other reasons for failure. That said, there's an interest among many would-be traders as to the extent unconscious processes thwart their trading efforts.

Perhaps, unconsciously, there is a hidden motive for self-sabotage. Seasoned traders are especially interested in this topic. Many prominent, highly successful traders end up losing most of their capital in the end, and many never come back. Some have speculated that a hidden motive for self-sabotage is the reason for such failures.

It's worth considering in a little detail, either just for fun or as a serious line of inquiry, depending on your preferences and worldview.

Years ago, Freud wrote about people who fail after achieving great success in "Those Wrecked by Success." According to Freud, some people feel guilty and physically ill upon attaining a lifelong dream. Upon experiencing success, they aren't comfortable with it, and unconsciously take steps to punish themselves for being successful.

Most contemporary research psychologists, in contrast, do not think people seek out failure, consciously or unconsciously. People experience failure because they cannot master difficult situations. In other words, traders don't repeatedly fail because they have an unconscious wish to spoil their efforts, but trading is just plain hard.

Traders repeatedly fail because they don't have proper financial resources, solid trading strategies, or the proper mind-set.

Psychoanalyst Roy Shafer argues, however, that some people view "success" as a type of failure, and in a twisted way, they avoid "success" because unconsciously they view it as a failure. For example, in one case study, a young man avoided success because he was afraid of doing better in life than his father, who was a failure all through his life.

Veteran traders have made similar observations. Some novice traders don't trade merely to make profits. They have a hidden agenda. They want to show their family and friends that they could be a success. The problem with finding oneself in this circumstance is that while one may consciously strive for success, one has been given a powerful psychological message that he or she cannot succeed, and is not worthy of success.

Unconsciously, it's hard (but not impossible) to prove these significant others wrong. Whether good or bad, what your friends and family think of you is important. They define who you are, and unconsciously, you may not want to prove them wrong.

It's best not to let such psychological issues impact your trading, however. Always trade for yourself. Trade because you want to, not because you are out to prove anything to yourself or someone else. Doing so raises the stakes so high that you'll put a lot of pressure on yourself to succeed, and that usually leads to failure.

As we've often said in this column, unconscious processes may not play a role for everyone who pursues trading. It's an issue for some people, however. If you think your reasons for trading may reflect a need to satisfy past unconscious conflicts, it's wise to work through some of these issues with a trading coach or other professional.

Don't let unconscious motives get the better of you. Identify them, work through them, and trade freely, effortlessly, and profitably.

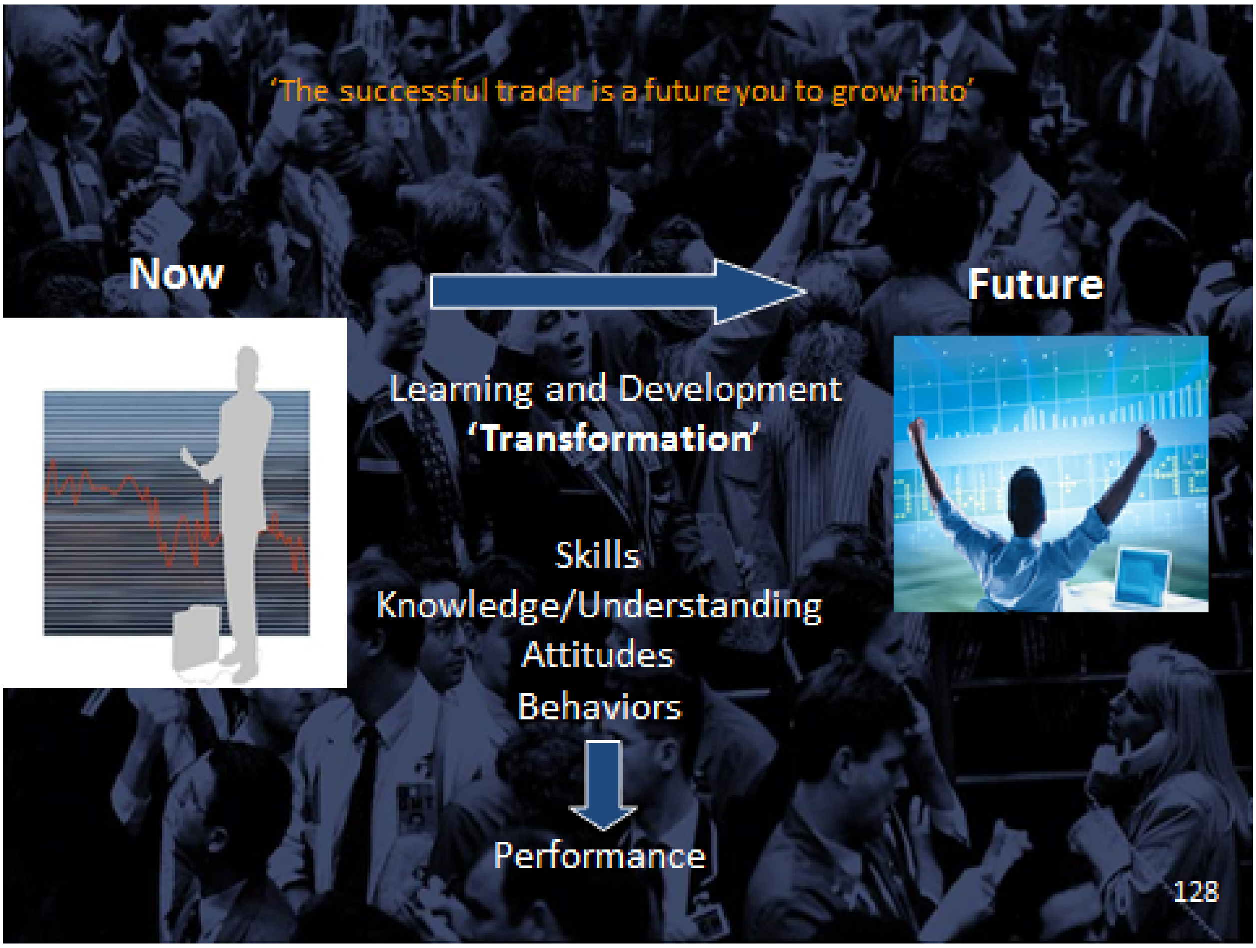
Trading: It's simple - but it isn't Easy

What is trading success (for me)?

A Trading Strategy With An Edge (positive expectancy)

+

The Ability To Be Able To Consistently Apply The Strategy



I have identified 7 items that I consider crucial to trading success.

1. Sense of purpose – Passion and tenacity – realistic expectations
2. Education – training, coaching, mentoring
3. Take it serious (Behavioral Finance)

4. Personal finance and trading capital

5. Learn to think like a successful trader

6. Time – mastery takes time

7. Find your own style

Shall we test the flexibility of your mind? State the COLOUR of the text in each word. I have played this prank on many people when I do talks about trading. There is a more serious side to this exercise. I can help you adopt a more flexible mind, a requirement needed to view the markets objectively.

If you don't agree with me, then at least just see it as a damn fun way to tease the brain.

The advanced version follows on the next page: ENJOY

TRADING FEARS

None of us are 100% immune to the pressure of trading. We have identified 4 trading fears that can affect our performance:

1. fear of being wrong

2. fear of losing money

3. fear of missing out

4. fear of leaving money on the table.

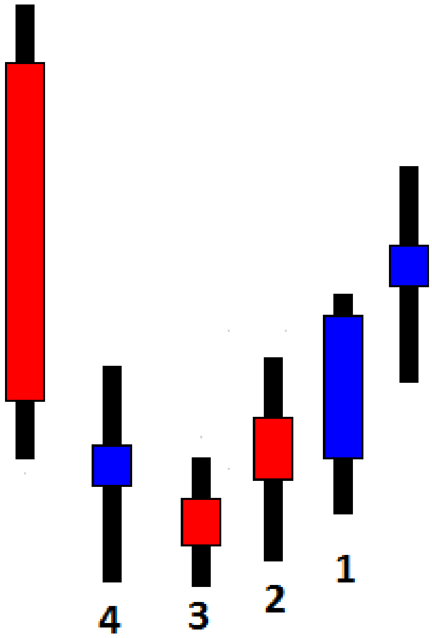
If you begin to struggle with your trading psychology, then please contact me. I have written a psychology manual which will help you immensely towards becoming a profitable trader. Email me on tom@tomhougaard.dk

4-Bar Fractal

The 4 bar fractal is a simple measure of a turning point which is mechanical and very reliable.

As its name implies it is composed of 4 candles although bars would be just fine. It works on all time frames. It's a very positive indication of a change on trend.

If the CLOSE on this bar (1) is higher than the HIGH of the previous bar (2) and the Close on this bar (1) is higher than the HIGH of the bar three bars back (4), then we have a **buy signal**.

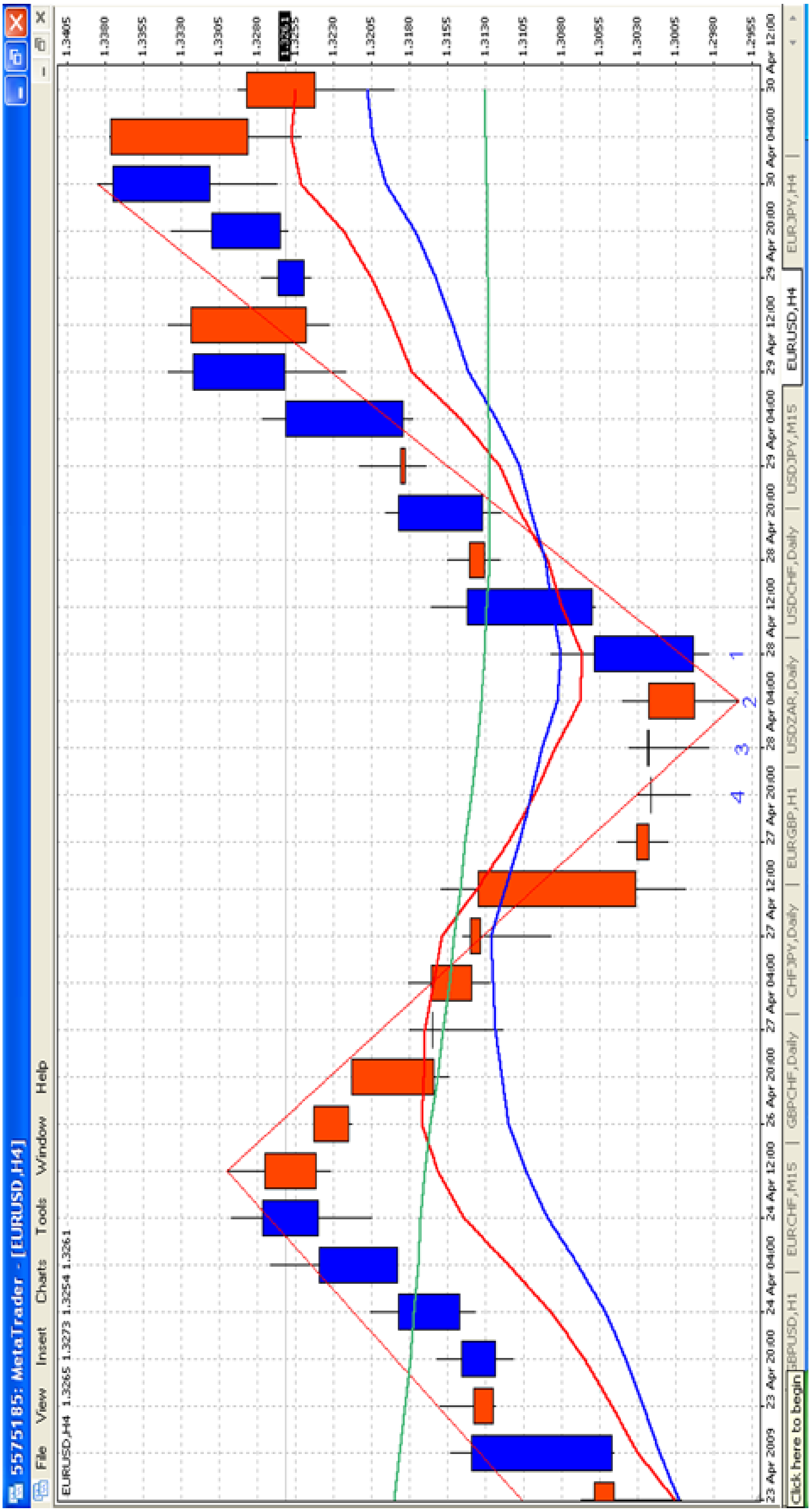


On the next page the close of the bar labeled 1 is higher than the high of 2 and the high of 4 .

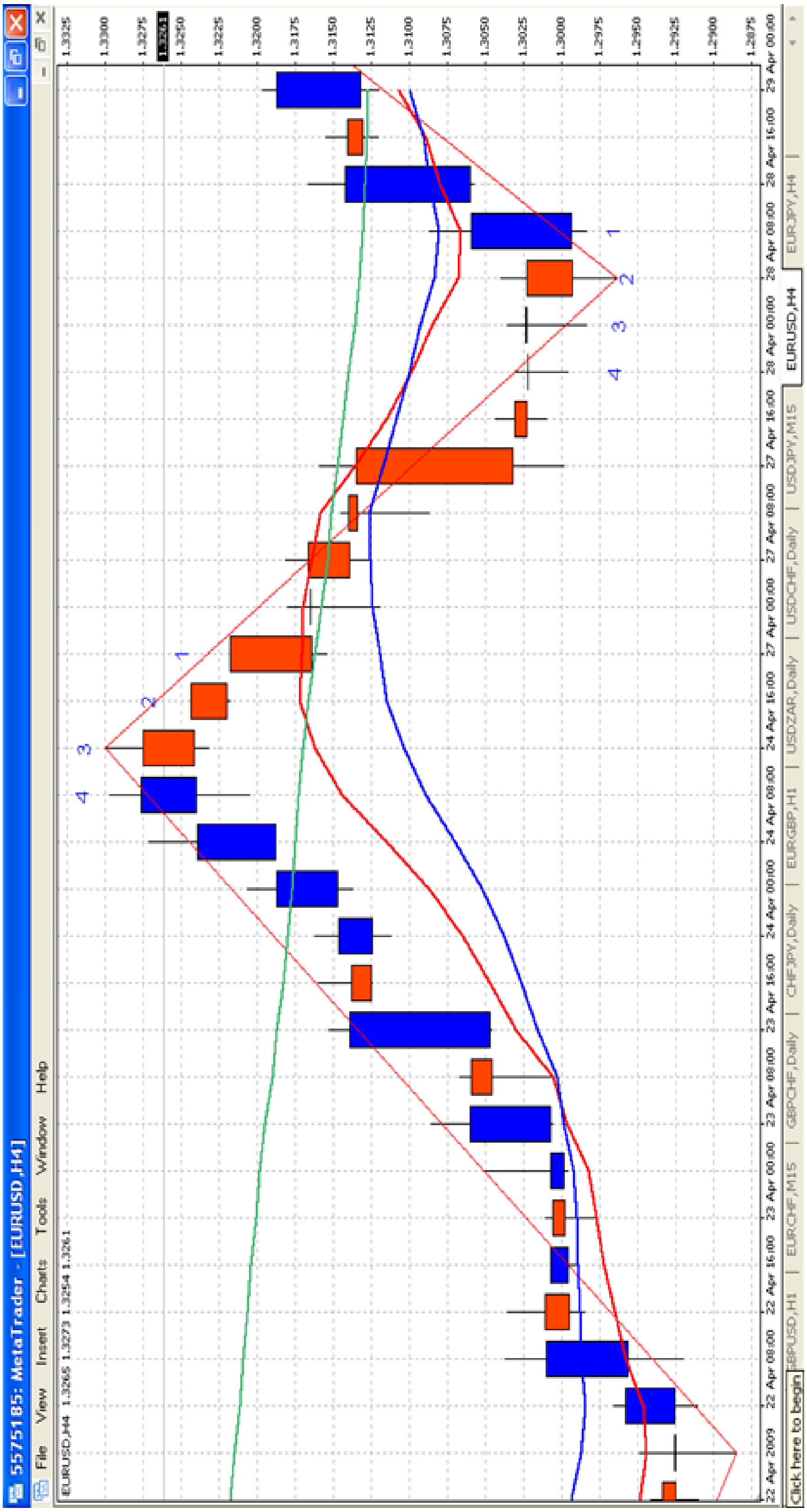
This is saying that the trend has turned and that the market can be bought. It's a useful way to confirm a trade in addition to momentum divergences.

Its just as valid as a signal to indicate that a market has broken down. On the next page there are two SELL SHORT signals, that I havent identified for you.

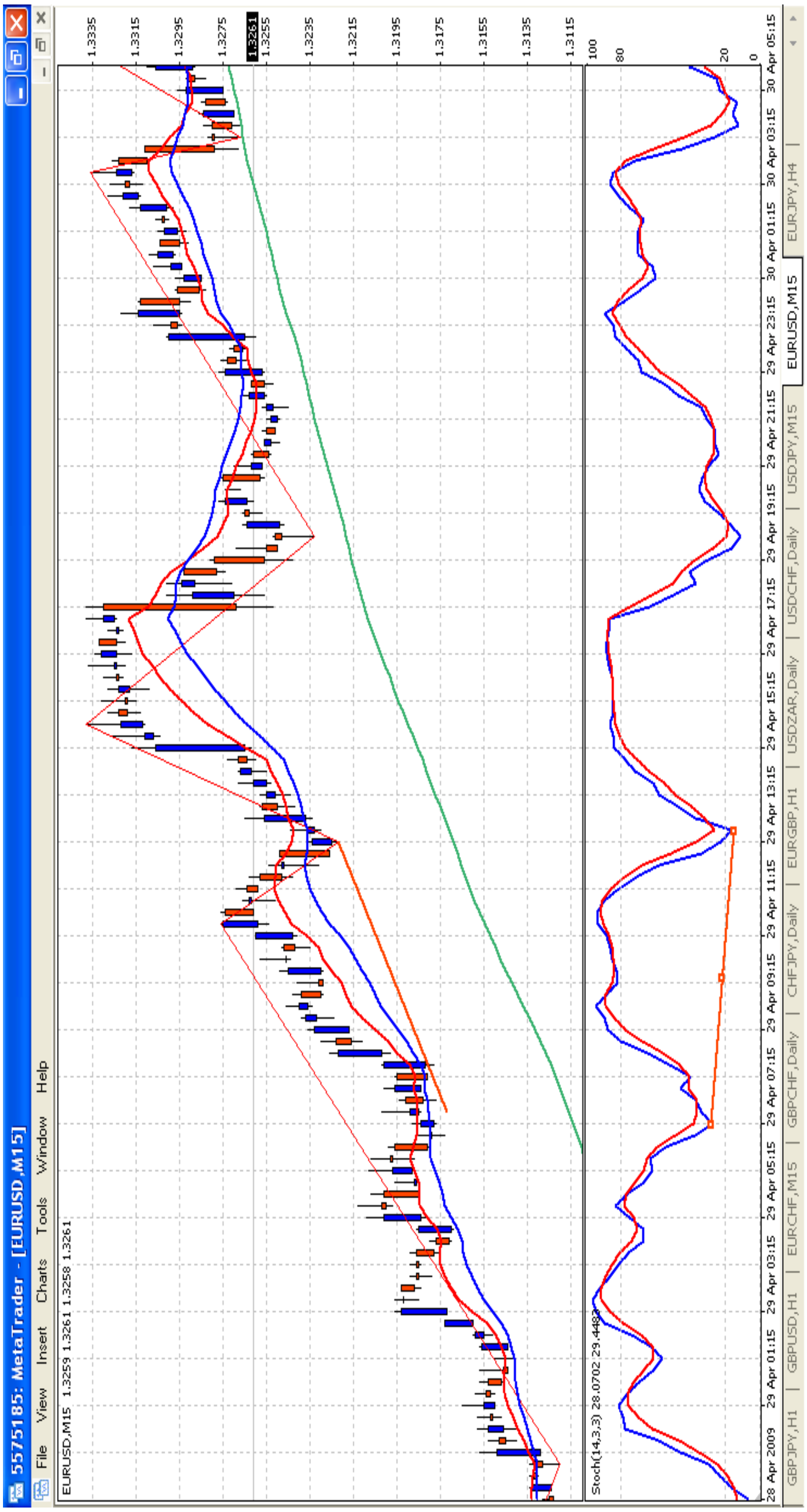
Can you find them yourself?


5575185: MetaTrader - [EURUSD,H4]
File View Insert Charts Tools Window Help
EURUSD,H4 1.3265 1.3273 1.3254 1.3261
1
2
3
4
Click here to begin

Here is another practise chart:



Divergence studies are a fine way to time the market. Here I have used a 4-bar fractal to time my entry, while having a DIVERGENCE between the stochastics indicator and price confirming the entry.



We are at the closing pages of this manual.

In my experience the newcomer wants to be right abot the market, while the professional traders want to make money. When I travel around the for whatever reason, and I am recognised as “the guy from CNBC/BLOOMBERG/CNN” I quite often have to listen to people giving me their opinon on the market, or a specific stock.

Many of these comments are born out of a need to be right. People are already invested in the stock or the market, and they are now looking for validation for their arguments.

I don’t have a problem with that, and I do love to talk about the markets. However, the problem arise when people are losing money. I am convinced that they don’t have an exit strategy. The thought that they may have read the market wrong just never even enters their mind.

The Need to Be Right

If you are in the stages of learning to trade, you will become a compilation of all those from whom you learned. You will become your own unique breed of trader.

We all come to the table with certain expectations and beliefs. We all come with some emotional baggage. We all learn from reading, studying websites, and other traders.

Some informally, some by paying for education in the form of trading rooms, seminars and mentors. Every time you learn something, it adds to your experience as a trader. Eventually you become the sum of all you have learned. Even if you have a mentor you have tried to emulate, you will never be exactly like your mentor. You will be unique.

However, while no two traders are identical, most successful traders do share some common characteristics. Most have learned the value of a trading plan. Most have learned the need for stops.

The topic is a simple one. Yet it eludes many traders. It seems only obvious that if we want to be successful, we need to be right in our underlying assumptions in our trades. If we want to trade stocks, we should focus on being 'right' about the direction stocks are going. Correct? Well, not really.

Most traders focus too much on their need to be right. This can be detrimental and needs to be addressed. The truth of it is, we are dealing in the financial markets.

There is not a system, method or pattern that can produce accurate results all the time. If there were, it would be known to all. All would be using it. Ironically, if this was the case, when all started using the system, it could no longer work. A 'catch 22' of sorts, but just goes to show that it is obvious that there will never be a perfect system or indicator.

The best we can do is to study each situation, collect the evidence, and make a high probability decision at the proper moment. What is of primary importance is how the situation is handled when the trader is right, how the situation is handled when the trader is wrong. What is the most common reason traders fail?

The answer is not following stops. What is another top reason traders fail? The answer is not letting winners run.

Not following a stop is an example of handling the situation improperly when a trader is wrong about the trade. Not letting a trade hit a target is an example of handling the situation improperly when a trader is right about the trade.

What good is being 'right' if you are not paid for it? Good traders assume from the beginning that the trade may go bust. They know how much money they have risked. They know when they will get out, and they will analyse other options, such as profiting from the stock, which is now moving 'against the odds'.

Good traders also know how to balance being 'right' and being timely. I know of an advisory service that took credit for predicted the fall of the Dow in 2001. The only problem is that they began that prediction when the Dow hit 6000 a long time before that.

Quite a hollow victory. Waiting for too much information may make you 'right' more often, but to what avail? It is like the trader that finally decides the NASDAQ is going higher intra-day, because it broke the high of the day.

The only problem is that the NASDAQ rallied 30 points to come back to break the high of the day, it is so extended, there is no room left for profit. The trader may be 'right', but his late decision awards him no money.

Closing Comments

Yes, we need to be 'right' a fair amount when we trade. However, if your average winner is three times your average loser, you only need to be right 25% of the time to be breaking even gross.

Accept that this is not an exact science, and never will be. We are reading peoples emotions. Accept that you will be wrong a certain amount of the time and accept that graciously.

Done properly, this is a very profitable business. Focus on how you handle your winners and losers. Make timely, high probability decisions when you have sufficient evidence, and do so consistently and objectively.

Notes to trading course

In this document you will find additional notes on topics discussed in the Trading Manual.

Notes on High Standards

A hallmark of success is the dedication to high personal standards. This can be said about individuals as well as organisations. Unless one is striving to move forward, to move beyond one's comfort zone, he or she will never achieve true greatness.

When it comes to trading, it is my experience that you are not going to make huge profits unless you set your sights high. However, high standards can also work against you. So in order to set yourself on the right track, working in your own best self-interest, it is worth considering what is meant by high personal standards.

It's not as obvious as it seems, especially for trading aspirations. Depending on the context, setting extremely high personal standards, and meeting them, is vital. When you have a demanding job where even the best effort may not be quite good enough, it is necessary to comply with extremely high standards. Let’s face it: not every trade will be a winner, despite your best effort.

There are many examples in life of professions where high standards are expected, and where it is difficult to hide: teachers must ensure their students reach a prescribed level of mastery, a heart surgeon must act flawlessly to save a patient's life, the pilot must fly the plane safely to its destination to ensure passenger safety.

But there are times when one may set standards inappropriately, a little too high for a particular context, and this holds true in trading too.

DON’T INSIST ON PERFECTION IN TRADING

Some people are extreme perfectionists. They set standards higher than they can possibly achieve. A pathological example of this is found in some people who experience frequent bouts of depression. These individuals set high standards they can't meet, and feel like failures when they can't reach them.

This can happen to traders who set profit objectives beyond their skill level. They may feel disappointed and helpless because they never meet their expectations. But usually, traders set unrealistically high standards in other ways. A common ailment is “analysis-paralysis”.

Some traders have such high standards that they overthink and overanalyse market data before entering or exiting a trade. This often leads to hesitation and self-reproach, and tends to undermine one's trading strategy. Timing is everything and if you cannot enter and exit trades at the right time, your trading account will take big hits.

Another common example of overly high standards is illustrated in the belief that one must not miss an important trading opportunity. Some traders think they must find every opportunity to make money in the markets, and they fear they may miss even one trading opportunity. They find this possibility hard to accept. But seasoned traders will warn you that setting your sights on finding every opportunity will produce undue stress. You'll be much more successful if you remind yourself that you just can't expect to trade every possible opportunity.

So how does a trader set appropriately high personal standards for trading? One way is to maintain a high level of discipline. For example, outline and follow a very detailed trading plan. Define specific entry and exit strategies, and use appropriate risk management. Once you outline your plan, it is important to follow it. Don't let yourself stray from your plan. And don't focus your immediate attention on how much profit you are making on each trade. Instead, concentrate on whether or not your profits are "justified" in that they are a direct result of following your trading plan.

Remember, it's better to have a "justified loss," which results from showing proper discipline and following your plan, than an "unjustified win," which happened because you abandoned your plan.

Setting high personal standards is a key prerequisite to success, but there is a right way and a wrong way to set these standards. Don't be an extreme perfectionist. Execute your trading plan effortlessly, and make sure you stick with it. High levels of discipline are one of the best ways to set high standards for your trading, and they will help ensure you trade profitably and consistently.

Notes on Dow Theory

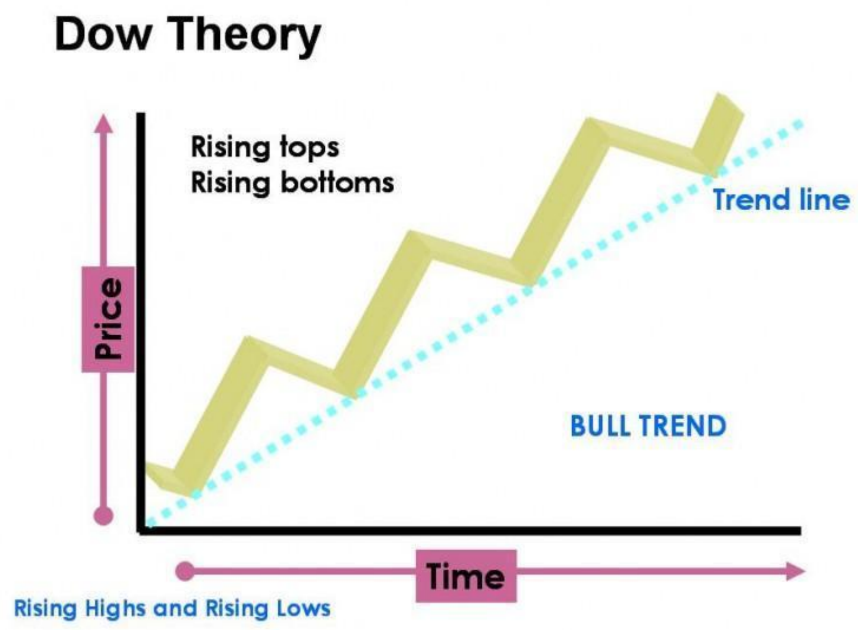
Dow theory was developed by Charles Dow more than a hundred years ago. What we have taken away from those newspaper articles he posted back then forms the foundation of what I call price action.

Dow theory for UP trend:

For the market to be in an up-trend, the market has to make higher highs and higher lows.

Dow theory for DOWN trend:

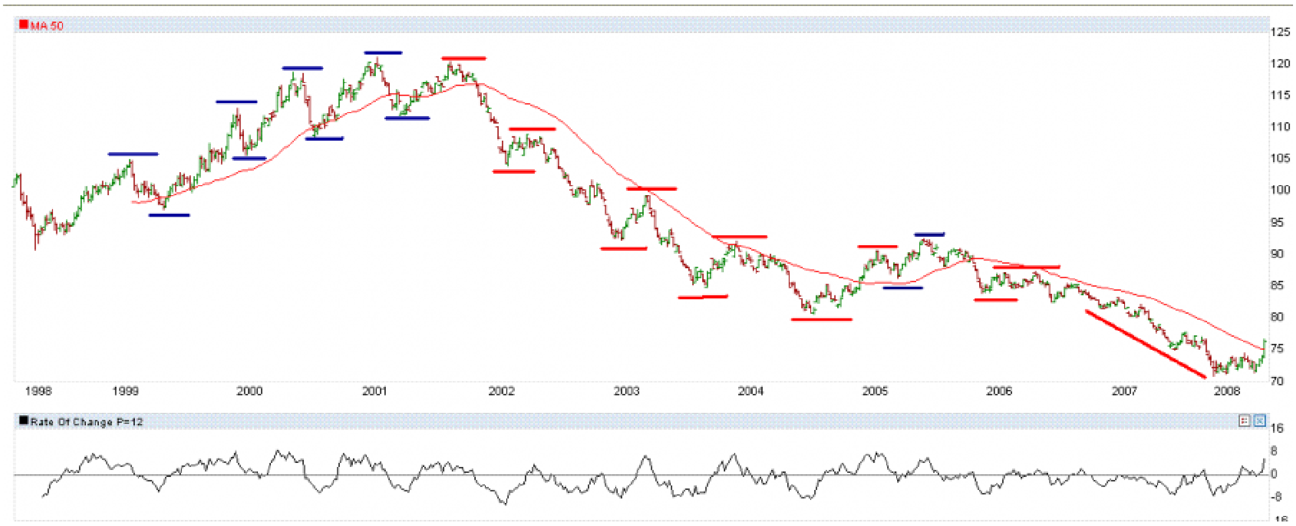
For the market to be in a down-trend, the market has to make lower highs and lower lows.



Can you spot the up-trend and the down-trend?

First the market moves up, and the peaks are higher than the previous peaks. Then it changes, and the market fails to make a new high. It also makes a low, which is lower than the previous low.

The market has moved from an up-trend to a down-trend.



Some markets are very easy to analyse.

Some markets are very difficult to analyse

Can you tell me what the chart trend is?

No, you can't. Neither can I. We can't say that the trend is up. We can't say the trend is down either.

In fact it makes most sense to say that there isn't really a trend in place.

This market is called RANGED-BOUND, or a RANGING MARKET.

How do you decide that an up-trend is no longer in place and it is instead a down-trend?

To Reverse an Up Trend to a Down Trend

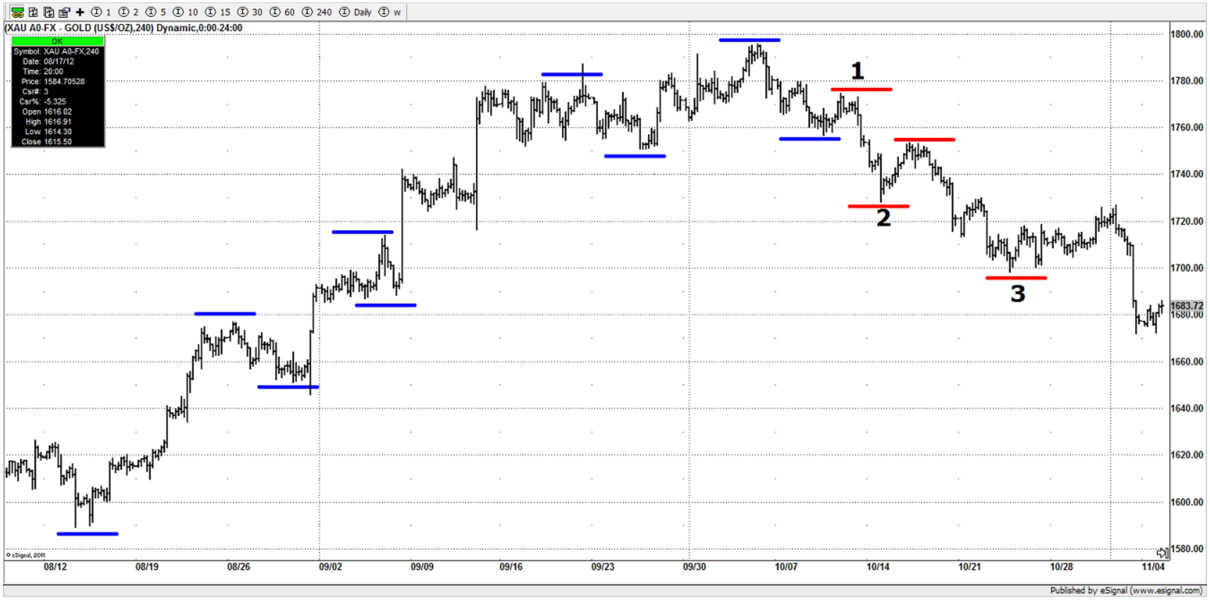
The market must make a Lower Low

And a Lower High AND

then turn Down from there

EXAMPLE

The chart of Gold is moving up but at point 1, the market makes a high, which is not a higher high. At point 2 it has made a low, which is lower than the previous low. By point 3 the downtrend has been confirmed.



This manual is designed to provide you with an understanding of the financial market trading, the building blocks of how to construct techniques to abstract money from the market.

I am not writing a manual to make you understand the markets. I don't always understand what is going on in the markets. I don't need to. My job is not to understand. My job is to make money by listening to the voice of the market. Ultimately I have intended to write a manual which enables you to listen to the market.

I urge you to study the ideas within. Then go and prove to yourself that the techniques has merit, that they work. In time you will develop your own ideas and you can call yourself a trader in your own right. Your success depends on you. Success is not what we do every now and then. Success is what we do every single day. Remember that, when times are tough. Learn to enjoy the day to day process of trading because this is what makes up your successful journey.

Price Action

I remember the first time I read Arthur Merrill's work on price and price action. Before that I wasn't really sure what people meant when they spoke about price and price behavior.

The fact is that price is driven by demand and supply, which is driven by people. I have distilled my beliefs of price below. I call this part the Principles of Price Behavior

The Principles of Price Behavior

1. Price is the real TRUTH about the market
2. Trending markets have higher odds of continuing the trend than of reversing the trend
3. Ending of trends fall in only a few categories
4. Price alternates between ranging and expanding

In 2010 I did a seminar at Soho House in London for traders from all walks of life. There were hedge fund traders and there were private retail traders. The topic of the talk was “price” and “price” action.

I showed the audience every conceivable method for pinpointing where market could change. There were charts of Fibonacci ratios both in time and in price. There were charts of volume analysis, highlighting the theory that trends end in a climax, be it emotionally or in a volume spike. I even showed them the correlation between the stock market and the ebb and flow of the tide, as governed by the moon.

Finally I showed them a chart of the Dow Jones Index since 1960, with a simple 200-day moving average. The moving average is a lagging indicator. It doesn’t catch the high or the low. However, it is a considered a trend indicator and as such it is far superior in terms of returns than any other tool. The audience could appreciate that trend tend to persist and tend to run a lot longer than most people dare to believe.

PRINCIPLE ONE:

The biggest lesson for many to unlearn about the markets is the idea of value. If you walk into a supermarket to buy a bag of rice, and it cost £1, you may think it is a fair price. If it cost £1.50, you may think it is expensive (because it cost £1 the day before), and you may not buy the bag of rice. If it cost 50 pence, then you may think it is cheap and you will buy more rice than if it had cost £1.

The above makes perfect sense in the world of consumerism. It is logical. But the financial markets DO NOT fall into this category. The markets are NOT logical.

If a stock cost £1, you may think it is expensive or cheap or fairly priced. Nevertheless, the price is determined by the market at £1.

The day after the price is now 50 pence. Is the stock now cheap? No. There is no such thing as cheap. , the stock is NOT cheap. There is no such thing as cheap or expensive in the market. There is just the price. In this case the price has gone down. It makes no sense in the financial markets to buy a stock, which is going down.

LESSON:

The financial markets is an illogical place where it makes more sense to buy something today because it was cheaper yesterday. This is because trends persist. If the stock is getting cheaper day after day, it makes no sense to buy it.

Lehman Brother stock got cheaper and cheaper every single day until the day it was worth NOTHING.

PRINCIPLE TWO:

Your trading method has higher odds of success if it follows the prevailing trend.

It is for this reason I teach my students that I "fade" the short-term trend in the direction of the long-term trend.

Charles Dow writes about this in his Dow theory. The odds of the trend continuing is higher than the odds of it reversing. When the market is trending, it displays many familiar characteristicas, some of which I will teach you in this manual.

I will also discuss HOW you distinguis between an UP-TREND and a DOWN-TREND, and how to tell when the trend has changed.

It is important to remember that as a technical trader, i.e. a trader who uses charts and price data to gauge when to enter the market, and when to exit the market, we are constantly looking for places to buy or sell the market with as little risk to our life-blood (our money) as possible.

Below I have summed up in short sentences what I have come to believe about price action

1. Once the trend is established, it is better to bet it will continue than it will reverse
2. A big trend rarely stops withouth major warning signs, such as price spikes, volume spikes, emotional market (when the financial press declares that this trend will never end), or the market simply goes into a sideways range.
3. The largest part of the price move comes towards the end of the trend. This statement will take some explaining later in the manual. My own mentor used to say that “90% of the move comes in the last 10% of trend (time wise)”.

PRINCIPLE Three: The end of the trend falls into 3 categories

1. The market reach a price level which has significance
2. Volume Spike
3. Emotional High/Low

A trend will continue until it reaches a price level associated with an emotional response by the market. It can be a SELLING SPIKE where the market is so fearful that investors just want to get out at any price. This is what you see at stock market crashes. Fear is dominating the market in those cases. Then there is the euphoria spikes when the market reaches dizzying heights on the perception that it will go much higher. We call this speculation frenzy and hype.

It can simply also be a case of the market hitting a significant price level, and it is begins a process of 2 steps forward – 2 steps back. We call this a range-bound market. The market moves from a trending market to a range-bound market.

When the market is range-bound, the traders have to mentally prepare themselves for the possibility that the market will continue in the direction it had BEFORE it went into the range-bound market, or that it will reverse and begin a new trend in the opposite direction.

Principle Four: From Ranging to Trending to Ranging

The market moves from ranging to trending and vice versa. The chart below is a good example of a ranging market going into a trending market. The market ranges slightly lower to slightly higher over several months in Sterling Dollar. Then it breaks lower and the trend sets in.

Those traders who trade according to trend jump on board by selling short Sterling Dollar. Those who were long have to sell at lower and lower prices. A new trend is born.

How do we make money from this?

The market moves up and down in mini-trends, within a bigger trend, which is up or down (or sideways). We call these moves “swings”. What we want to do is to trade those swings using the tools taught in this manual.

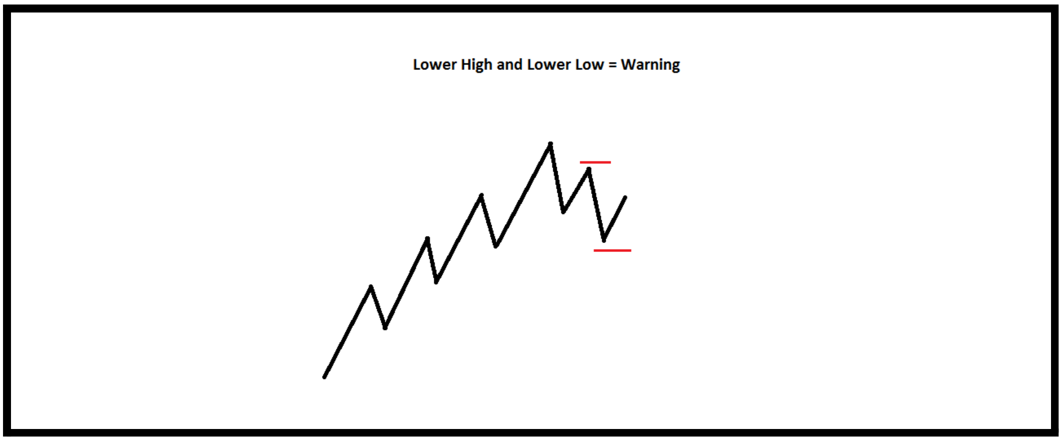
If you are new to trading, then do your best to follow the instructions the best you can. Your job starting out is not to make money, but to avoid losing money whilst staying in the game, learning, getting valuable experience.

As I have said before, an up-trend, a swing higher, is made up of a pattern of higher highs and higher lows. When the market goes from an up-trend to a down-trend, it must first make a lower high, then a lower low, and then surpass the low of the lower low. If it takes out the lower low, we have a confirmation of a trend change.

However, here is a VERY important lesson.

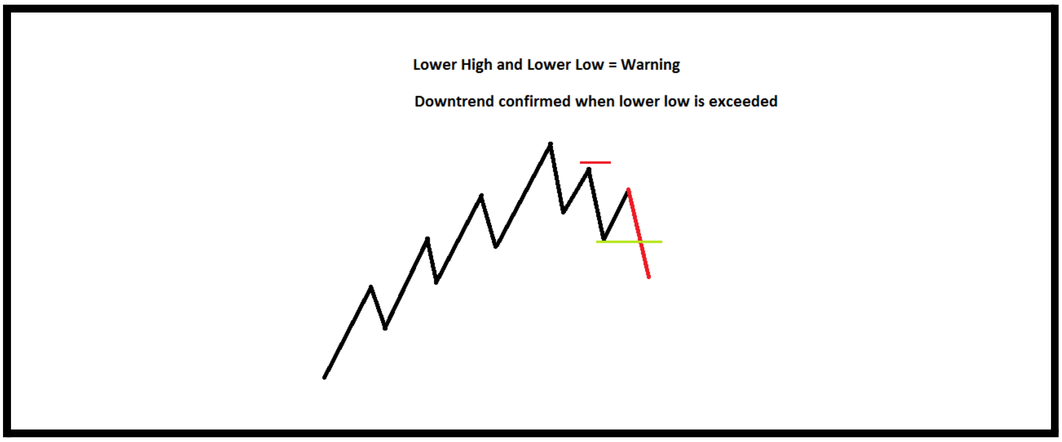
If you look at a 5-min chart, you can easily see the market change trend from up to down. This doesn’t mean that the trend has changed on the higher time frame such as the 60-min chart.

The up-trend is not broken, but the market is so far showing a lower high (see red markings) and lower low. If the market turns down from here, the downtrend is confirmed.

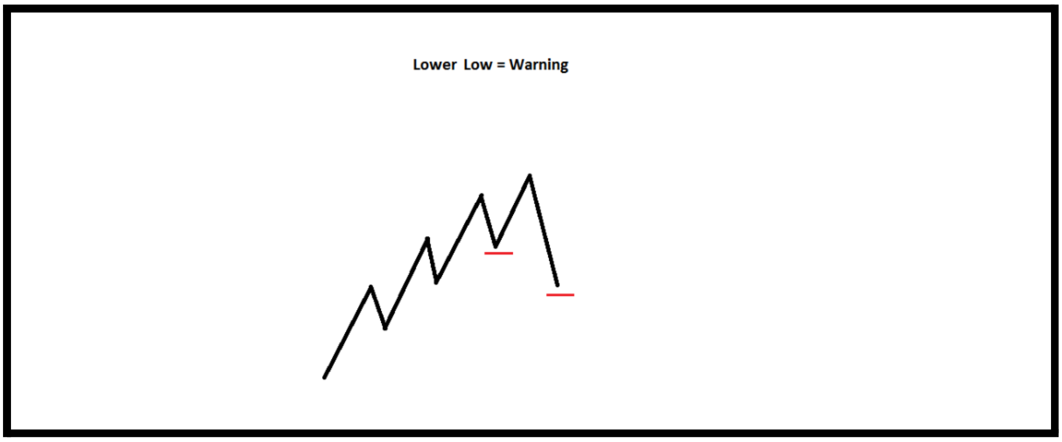


The up-trend is broken. The market has made a lower high, a lower low, and the market has traded below this lower low.

Please make sure you pay attention to this lesson: Just because you have a trend change confirmation on a lower time, does NOT mean you have a confirmed trend change on a higher time frame.



The up-trend is not broken, but the market is correcting by going below the previous low, which sends a warning signal that the trend is about to change.



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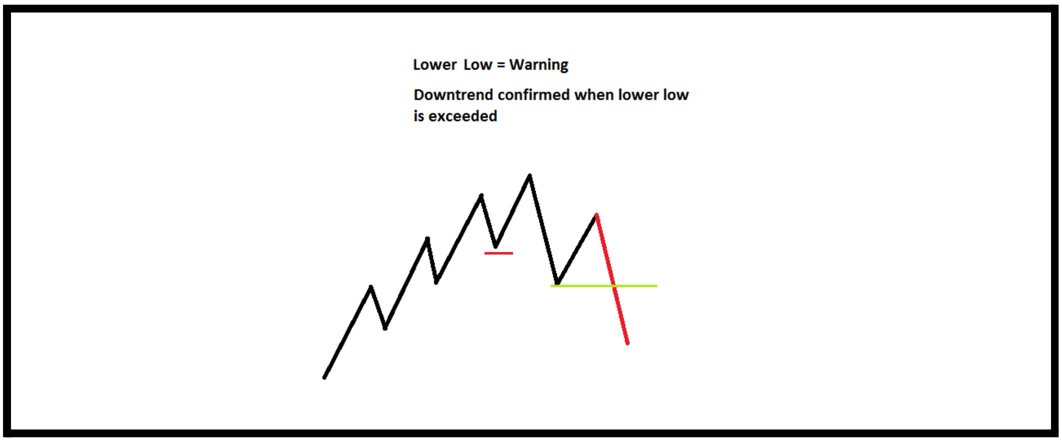
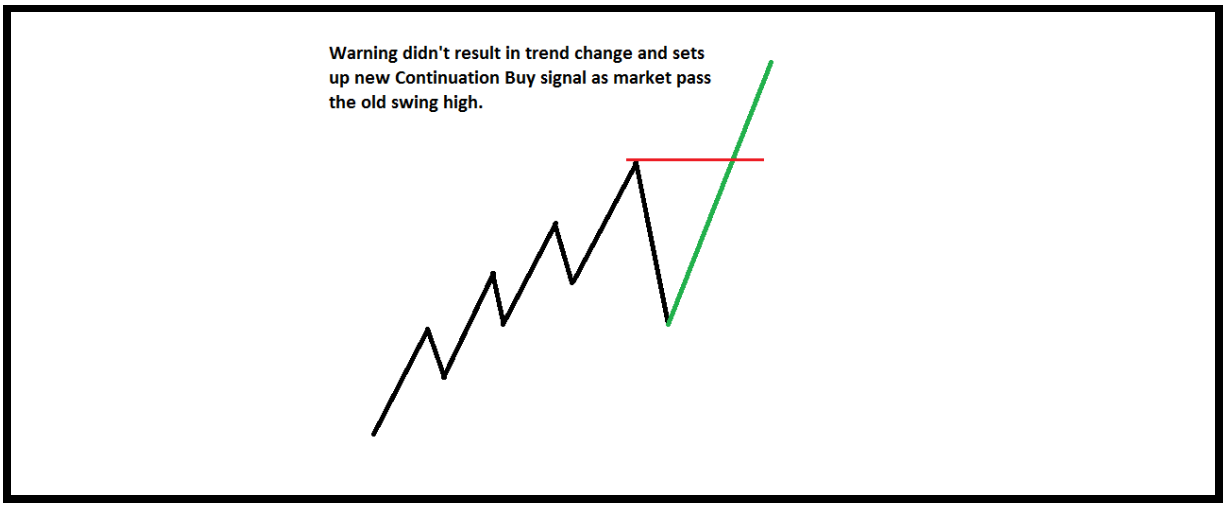
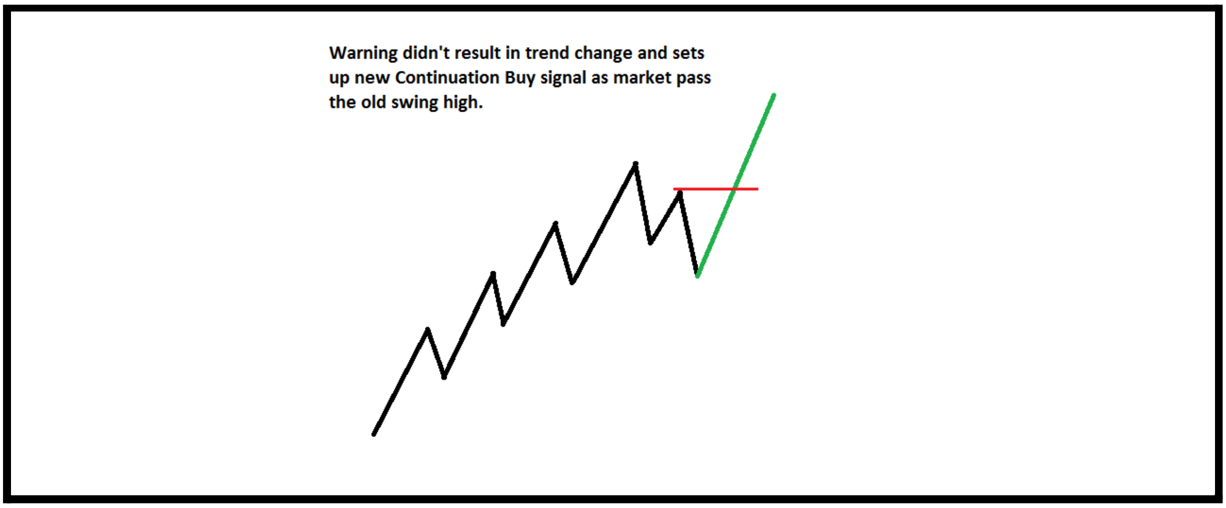

Lower Low = Warning
Downtrend confirmed when lower low is exceeded


Warning didn't result in trend change and sets up new Continuation Buy signal as market pass the old swing high.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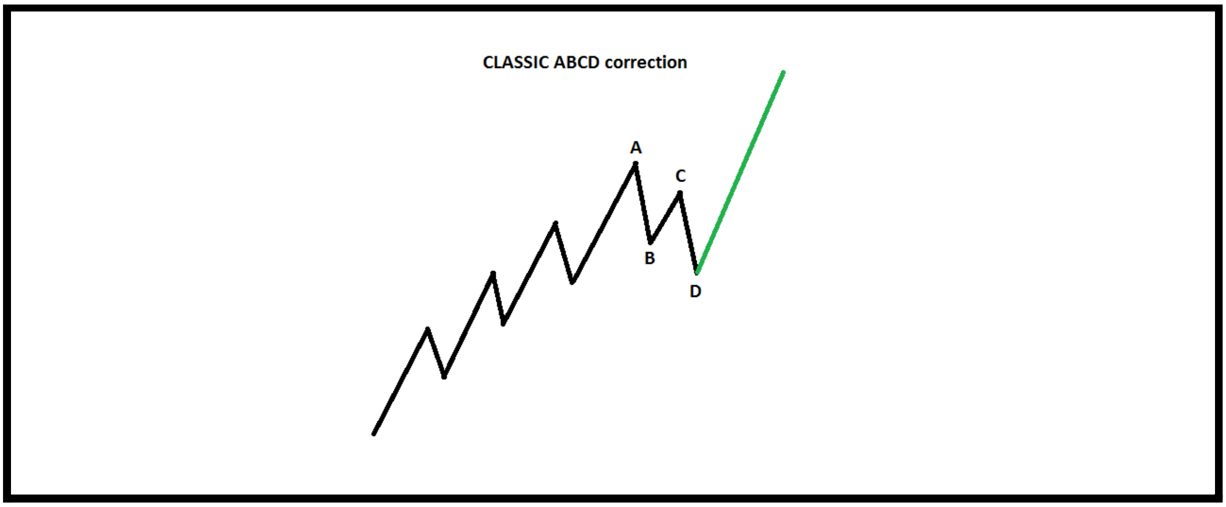


Is the market always right?

“The market is always right” is one of the axioms of the traders who have been around the block once or twice in their career. They believe that you just should not argue with the market. If a stock is trading at $100 and it used to trade at $200, it is NOT worth $200 anymore, no matter what you say or think. The market has spoken.

I will agree with the statement. The market is always right, but it doesn’t mean I agree with it. I accept the current price as the truth, but I also know that price will fluctuate every single day. Therefore I have to come live with the truth being ever changing.

Take a statistical measure such as ATR (Average True Range): it measure the lowest low and the highest high over a period of time, and then give you the average number over the period.

So for example in Euro Dollar right at this point in time, the price is 1.3100, and the 14-day ATR is 120. That means that over the last 14 days the average movement from high to low during the day has been 120 points.

In other words the price of Euro Dollar swings nearly 1% a day, and has done every day for the last 14 days. To say that the current market Euro Dollar market price at the start of the day is the true price is undisputable, but you have to take into account that it statistically will move in a range of 120 points from where you start.

Markets are driven by demand and supply. Markets oscillate between overbought and oversold. When there are more buyers than sellers prices will rise, and if there are more sellers than buyers prices will fall. I know I am stating the obvious, but my point is this:

The flow of the market makes it a measure or barometer of demand and supply, but not a valuation tool based on anything to do with correctness.

So I argue that if prices are moving higher, and you have a short position in that market, you are "wrong" and the market is "right". If you argue against the market, you are missing a point. You can't control the market. You can only control your response to the market.

Before you can become a professional technical trader you need to understand a few things about the markets.

The first thing is that 80% of the time the market makes no sense to me. The rest of the time I haven't got a clue what is going on.

The famous trader W.D. Gann once wrote that there is no price to high to buy and neither is there to low a price to sell".

Anyone who believes that the market will unfold within the parameters of reason is bound to lose money.

I remember some years ago where George Soros made over a Billion dollars by continually shorting the British Pound when it was rising out of control against all sensible analysis of where it really should have been.

I recall this story because I at the time was a young man, preparing to go to England to study. I had saved and saved for 2 years to finance my stay in England, and when the time came to convert my danish Kroners to British Pounds, I made an extra 25% because of George Zoros shorting.

What most people don't know is that George was underwater for over half a billion before it turned in his favor. So when his fund lost billions a few years ago I wasn't surprised.

Every now and then a market goes for a run (up or down), caused through perception of the future, rumor, market manipulation, or just because a majority of traders select a preference to buy or sell (mainly buy). Once a move gets in motion it creates other problems for the participants that fuel the move further. Never lose site of this fact if you are a trader.

Most times a market move will surprise even the most astute analysts, they try and justify it by the news later. Very few of them understand market mechanics.

You need to learn how to act on signals that have a solid foundation, that way you follow the trend and don't get confused and sit on the fence when the action is on.

TREND INDICATORS

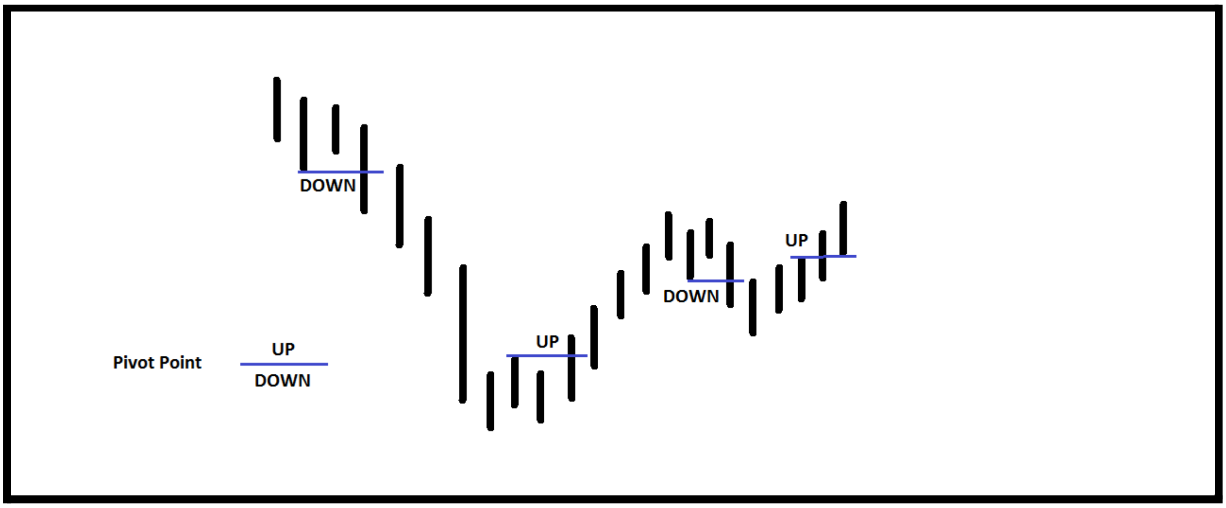
Three bar swing

There are all sorts of indicators showing you the trend. I think one of the simplest and quickest is the 3 BAR PRICE SWING CHART.

If markets that were previously moving higher are breaking back below the previous 3-bar low, then there is a real possible chance of a change in trend. For markets moving lower, the opposite is true.

I use a simple tool called the 3-day swing:

The three-day swing chart is the best indicator of trend I know of from a purely mechanical point of view.



The chart above is an example of the 3-day (3 bar rule).

Before I venture into today's trading day I look at what the highest high and the lowest low is for the last 3 days. Starting from the left, the first 3 bars set the tone. The second bar is the lowest of the three. Therefore the rule state that if this low is exceeded, then the trend is down.

Lets take at a real-life example, this time Euro Dollar:

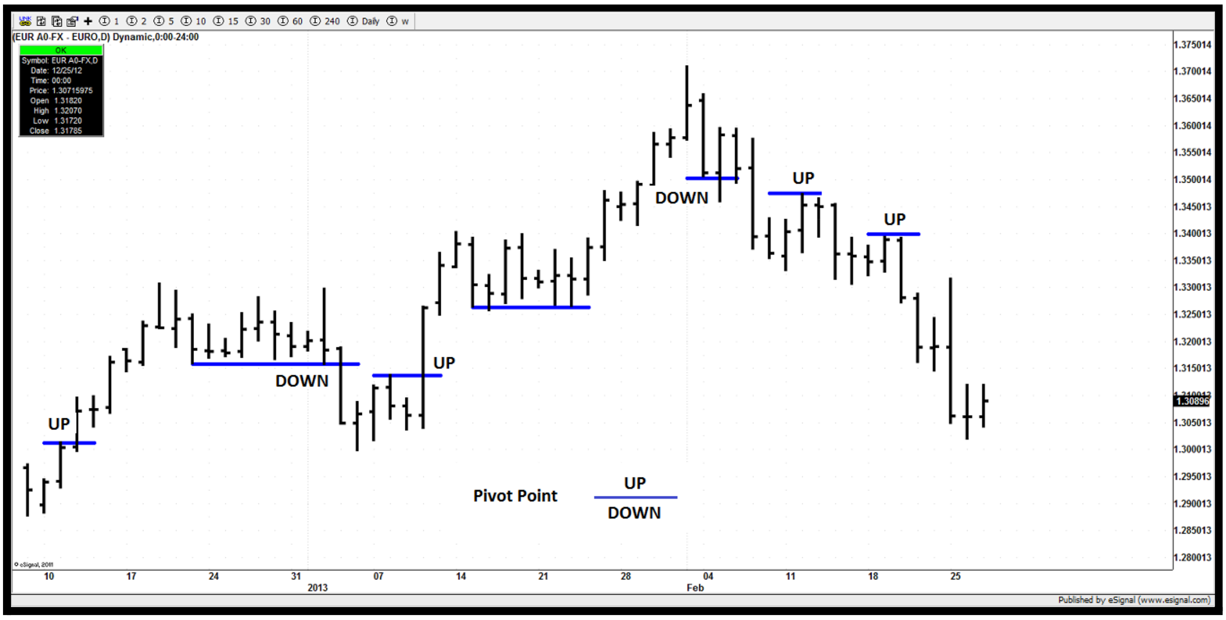
Starting from left, you quickly get an idea of how the 3-day swing chart works.

The long line starting 11 bars into the chart is the lowest low at that point, and the market keps trading near it, but underneath it. I simply kept this level as my diving line between the market being in an up-trend and a down-trend. It is simple.

Towards the right of the chart the market begins to trade lower. On two occasions it looks as though the market is about to break above the three day high, but it doesn't. The market stays in a down-trend.

The 3-day swing chart is constructed using the highs and lows of the last 4 trading days. For instance if today the current price trades below the lowest low of the last 3 days, then the trend is down.

It is an incredibly simple and powerful tool to make sure you understand what forces are at play. Is the market bullish or is it bearish.



Can you use the 3-bar method for anything less than the daily chart?

Yes, you can, but you need to be aware of the possiblity that the signals become more frequent and possibly less reliable.

The final trend tool I want to show is the basic trendline. It is so basic that it is hardly worth spending much time on.

I have shown a Euro Dollar chart which has a couple of trendline break signals on them. The idea behind a trendline is to connect a low with a higher low, and project this line outwards. This gives you an idea of where support is in the market.

If the line at some point is broken, then it constitutes a trendline break and the market is in theory setting up a sell signal.

The same applies to connecting a high and a lower high. If the market is trending lower, but a trendline connecting a high and a lower high is broken, then the market may be ripe for a long position.

I don't wish to spend too much time on trendlines. They are the simplest trick in the book and quite self explanatory. However, there is something I like to give away, a little secret, if you like:

The chart above shows two trendlines. I actually only drew one of them, and then copied it onto the other low. The slope is 100% identical.

I have found in my research that very often you can draw one trendline and copy it onto other highs or lows, and you get a good idea of support and resistance in the market, and where you potentiall can buy or sell short.

Risk management

Did you know that when I teach about money management in courses, this is the time people are most likely to leave for a toilet visit?

Money management isn't as sexy a topic as trading set-ups and what to do with all the money you will hopefully make from trading. But if you don't read this chapter, you can forget about planning your next shopping trip to the local Ferrari dealer. Take it or leave it. I will keep it short.

In the world of trading, be it Forex trading, stock trading, index trading or whatever else you are trading, there is one universal truth: if you run out of money, it is game over, thank you for playing, but please leave. Now that is one place you don't want to be. This chapter will instruct you how not to end up there.

When you spread bet, the broker, like ETX Capital, makes it possible for you to trading on margin. You leverage your exposure. In many cases the leverage is 100 to 1.

Example:

Dax, the German index, is trading at 7800. You buy £10 per point. Well, if Dax went to zero, then you would lose 7800*£10 = £78,000.

Now, before you seek medical attention for your epileptic-like seizure at the prospect of losing £78,000, let me calm you down. If the DAX goes from 7800 to zero, before you have time to react, then the whole planet earth will have bigger things to worry about than your loss.

If the margin is 100 to 1, and the DAX trading at 7,800, you need to deposit £78 on your account per £1 bet. It is as easy as that. So a £10 bet requires you to deposit £780 as margin.

Leverage is a two-edged sword. It is a fantastic tool to increase your percentage earnings, but in the wrong hands, it is lethal. Since I consider you as novice to trading, I am going to assume that leverage could be lethal to you.

I want to make sure you understand the principle behind money management. If I do that, and if you understand it, then you have a much better chance of making money from the financial markets.

Do you remember the coin throwing example on page ???

Do you remember I threw the coin 100 times and noted if it was a head or a tail?

1. Do you accept that a coin throw is random at the level of one throw, meaning you can't predict if the next throw will be a head or a tail, even if you know that over say 100 throws we expect heads and tails to come up the same number of times.
2. Do you accept that no matter how good your trading strategy is, you don't know if the next trade is going to be a winner or a loser, even if you know from your research that out of 100 trades you should in theory win on say 75 of them?

I usually cringe when authors asks me to stop reading and think about something. Can I break with my own protocol and ask you to stop for 10 seconds? You need to accept that no matter how good you are as a trader, you just don't know if the next trade will be a winner or a loser, just like you don't know if you will flick a head or a tail with the coin.

I threw 16 tails in a row! Bear that in mind as we proceed into this example:

If you risk 100% of your money on a trade, then it takes one losing trade to wipe you out. If you risk 50% of your account on a trade, then it doesn't take two trades (as you would take half of what you have left after the first losing trade), but after 5 losing trades you have 3% left on your account.

Clearly that is not where we want to be.

I can't tell you what to risk on your account. If it was up to me, I would say to risk between 1% and 3%. I would err to the side of caution while you were building up experience and risk 1%. Once you have built up some practical experience and is feeling more confident in yourself, you can consider increasing your risk.

If you risk 3% on your account per trade, and you have 5 losing trades, you will have 85% left on your account. If you risk 1% per trade you will have 95% left on your account after 5 losing trades.

Practical Example

Trading Account:	£10,000
Risk per trade:	1%
Trade Set-up:	Euro Dollar Long at 1.3300
Stop loss:	50 points or pips
Calculation:	1% of £10,000 = £100 risk
Trading size:	£100 divided by 50 point risk = £2 risk per pip

What is what in the 24-hour trading cycle?

Subtitle:

What times are crucial during the trading day and what times are less important?

Here we will look at what factors to take into consideration during the trading day

The markets are not linear. It is often a question of “two steps forward – one step back”. Other times it is 4 steps forward and no step back. The market is forever changing, yet it is always the same.

The trading day is not linear either. There are times when we want to be at our screens, and there are times when we can expect little activity in the market.

Here we will look at

1. What Indices open when?
2. What time is the important news released?
3. A look at the 24-hour cycle

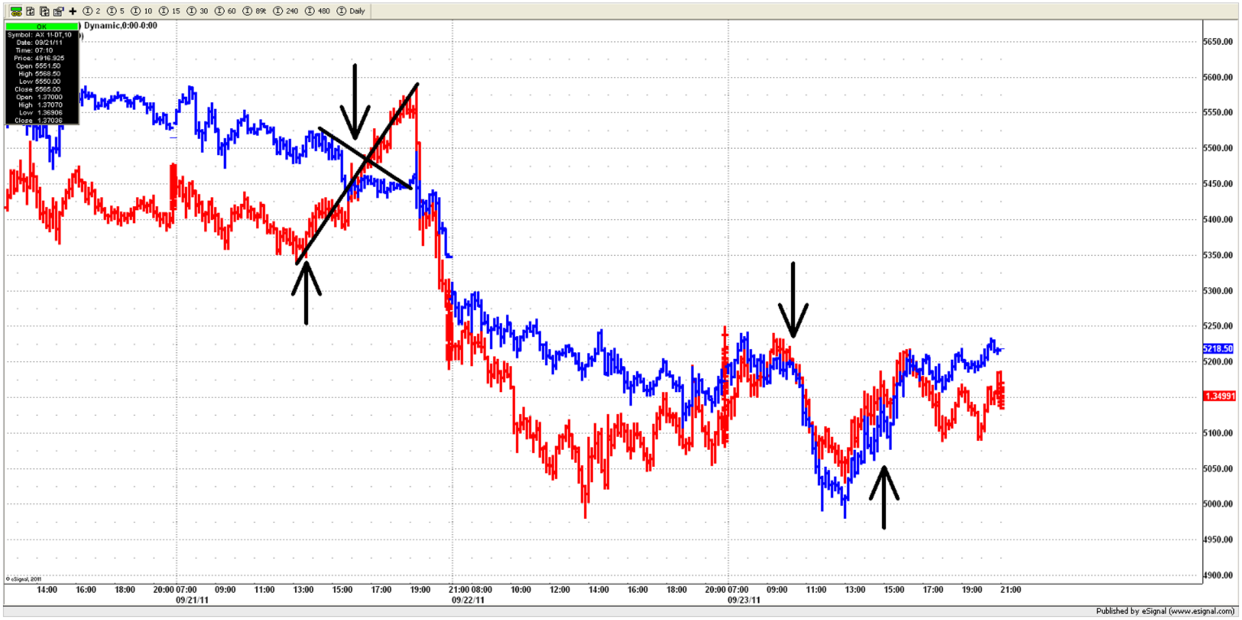
ALL TIMES BELOW ARE STATED IN LONDON TIME

06:00AM Although most traders in London don’t arrive at work until around 07:00am the European traders in the financial centres such as Frankfurt, Paris and Geneva arrive at their respective desk at 07:00AM. 7am in Europe is 6am in London. Almost every day you see an increase in the volatility in the Forex market after 06:00AM.

07:00AM **OPEN:** The German DAX futures index opens for trading on EUREX. This is a particular important time because the DAX index is the biggest in Europe, and it will often give traders a clue as to what lies ahead in the world of stock market trading on that particular day.

08:00AM **OPEN:** All European stock markets open at 08:00AM. The trading day has officially started. By now the Foreign Exchange traders in Europe and London are running at full speed. Equity markets are up and running as well, and the next 2-3 hours marks the first busy period of the trading day.

Chart no 2: Dax futures overlay with Euro Dollar – 10 min chart



The chart above shows how at times the DAX, the German stock market index, and the Euro Dollar moves in perfect tandem, and how at other times they diverge. When the DAX opens at 07:00am the Euro Dollar often begins to follow the moves up and down of the DAX.

09:30AM **NEWS:** Most economic data news items coming out of the UK are released at 09:30AM. Part of the daily routine is to check what news items are released when. There are many places you can receive this information. I have become quite accustomed to the Forex Factory calendar:

http://www.forexfactory.com/calendar.php

Make sure you adjust your "time" on the calendar of Forex Factory to your particular time zone; otherwise the site usually defaults to US Eastern time.

10:00AM **NEWS:** Some European news is released at 10:00AM, while other countries actually release their economic data ranging from 07:00AM to 09:00AM. It is a good idea to make it your first priority in the morning to check what news is released during the trading day and when it is released.

At 10:00AM the first 2 hours of trading in the stock market is over and by now you often see the market volatility die down. That doesn't mean there aren't tradable moves. It just means that these moves don't tend to happen so quickly.

11:00AM By now most equity traders and to some extent Forex traders in London and Europe are winding down their activities of the morning. European traders will be more focused on what to have for lunch than what is happening in the market. Everyone will now wait for the US traders to arrive at their desks. This often means that the markets, both stock indices and Forex markets, will settle into a consolidation range or continue the trend that was established in the first couple of hours of trading.

Of course this is just a rough guide. I have also seen spectacular reversals in both stock indices and the Forex market between 11AM and 1PM, but it is less frequent. In my experience it is relatively safe to go to lunch after 11AM and not expect to miss too much.

1:00PM Between 1:00PM and 2:30PM the market is in a waiting game. The US stock indices open at 2:30PM, but the reality is that the big stocks in the Dow Index and the SP500 Index have been traded unofficially throughout the morning around the globe.

Traders are aware of where stocks are due to open once the official market opens at 2:30PM. A stock does not have to open at the same price it closed at the night before.

1:30PM **NEWS:** There are 2 major times when news is released in the US. At 1:30PM most economic news is released from the US. Not a week goes by where some important piece of economic information isn't released. Two of the major news items is the monthly labour report (Non-Farm Payrolls) and the monthly GDP.

2:30PM **OPEN:** The "bell" rings to open the floor for official trading across America at 2:30PM. The first few minutes are often whippy and full of confusing moves. This is the first chance traders and investors have to react to earnings results, news releases, economic data and rumours in general.

3:00PM **NEWS:** This is the last time that economic or business news are released during the trading day, relating to equities. It is often surveys that are released at 3:00PM, such as the Michigan PMI (Purchasing Manager Index).

4:30PM **CLOSE:** The FTSE 100, the DAX, and the rest of the European stock indices close for trading. The FTSE 100 has a peculiar "auction close" which tends to settle the official closing price at around 4:35PM. The futures market is open until 09:00PM.

London is considered the global Forex centre. I am not so sure that is true as much today as it once was. Needless to say that with the European and UK traders out of the market liquidity and volume dries up significantly. Once the US traders leave their desks at around 10:00PM the Forex market tends to go very quiet.

7:15PM **NEWS:** If the FOMC (the FED) meets to discuss their interest rate policy in the US, they will release their statement at this time.

09:00PM **CLOSE:** The US stock markets close for official business. The US futures carry on trading for another 15 minutes, then close to settle, and reopen at 09:45PM.

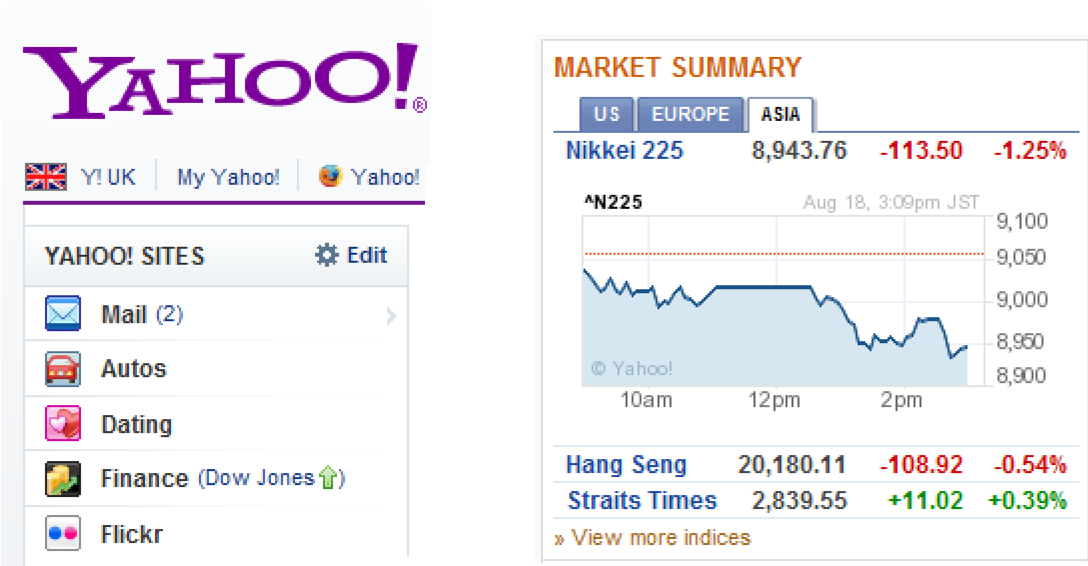
10:00PM **CLOSE:** While there is no official close in the currency market, it is thought that the US trading desks hand over their book to their Asian counter-parts at this time.

01:00AM **OPEN:** The FTSE futures open for trading (very little volume going on at that time of night). At the same time various stock indices in Asia starts trading. The ASIAN stock index session can have a profound impact on the European open. It is for that reason I always recommend to check what has happened in the NIKKEI and the HANG SENG. I use YAHOO Finance.

Why do I put emphasis on knowing what is going on in Asia? I can think of two immediate reasons:

1. If I am expecting a negative open in UK and European indices after a negative close on Wall Street the night before, but I find that Asia is in positive territory, then I will be looking for opportunities to buy instead
2. I want to know what the mining companies in Australia has done during the night, as this will most likely carry over into the FTSE 100 index, which is also rich in commodity stocks.

Image 1: YAHOO snapshot of the ASIAN indices



It would be wrong to say that nothing goes on during the night. As I stated earlier, even stocks that only trade officially between 2:30PM and 9PM in the US can be traded unofficially. In the earnings season, where companies releases their quarterly company results, you often see the futures market trade in big swings, as traders position themselves ahead of the next trading day.

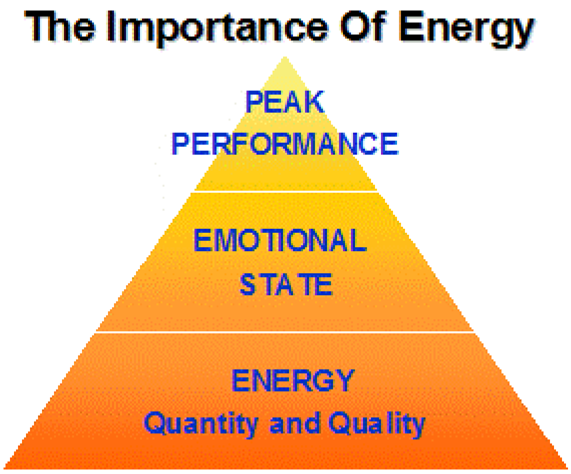
In days gone by where a company like INTEL had much more market influence than it does today, the Dow could be called up or down by hundreds of points, simply on the back of earnings result of INTEL.

The earnings season in the US occurs in the month following the end of each quarter, i.e. January, April, July and October. This is often a volatile period in the stock market where the market moves significantly both “in-hours” and “outside hours”.

Trading is a mentally and physically demanding activity.

Physically? Yes physically as a result of the production and eventual depletion of adrenaline. For active traders a long trading session, and/or exposure to challenging market conditions, or stressful experiences can leave a trader feeling extremely fatigued.

To enable a trader to perform at peak levels consistently there is one vital commodity that is required - energy! When we have high energy levels we are able to focus for longer, deal with stress and setbacks more effectively and achieve more. With low energy our motivation, resilience and focus are all reduced.



Energy is a foundation of emotional states, and is critical to sustaining positive states, and therefore peak performance.

How would you describe your energy state right now? 0 (low) – 10 (high)

In my work with traders I always try to make people aware of the importance of energy and it's role in peak trading performance - can you think of times when you have had been experiencing really low energy and how that felt; how your trading was? And what about a time when you had high energy? How did you feel; and what was the impact on your trading?

Let's take a snapshot of your current energy levels:

1. When you wake up in the mornings how do you feel?

- Fresh, alert, and ready to go?
- Tired, run down, rather stay in bed?

2. Do you have more or less energy in the morning now than you used to?

3. How do you feel at the end of the day?

- Slightly tired?
- Tired?
- Very Tired?

- Exhausted?

4. During the day do you get done what you wanted to get done?

5. Do you have the energy for aspects of life outside of trading?

- Family, friends, hobbies?

6. Do you find that you are short-tempered, more irritable, less patient with people, and get upset/angry over small annoyances?

7. Whilst trading are your levels of focus and concentration high? Or are they low, and do you notice yourself making errors more frequently?

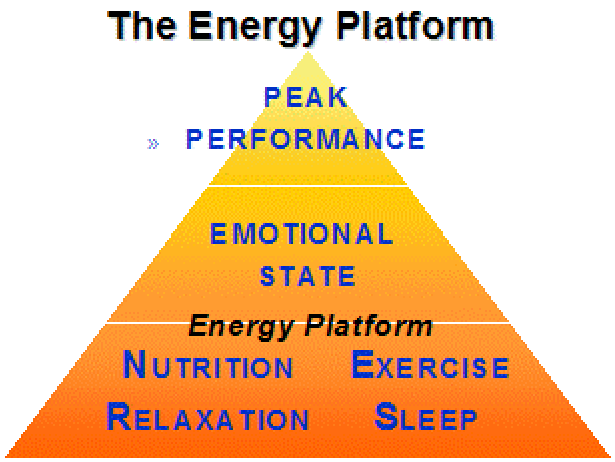
If 10 was high quality and quantity of energy and 1 was low, where would you rate yourself at present? If this not a 9/10 already, what would it take to get to a 9/10?

Many factors can impact on your energy levels such as levels of stress; sleep quality and quantity; lifestyle factors such as exercise and nutrition; age; health etc. Part of sustaining a high level of trading performance is being able to sustain high levels of energy, and this means being able to manage energy levels, and being aware of the demands on energy and how to generate energy.

Imagine your energy levels as a bank account: if you consistently drawing energy without depositing any, your reserves will run out leading to reduced performance. The trading arena is prone to intense adversities or stressors and therefore demands greater amounts of energy. All capacities - physical, emotional and mental - require energy to function optimally.

Anything that affects our energy affects us emotionally. Our happiness, confidence and our ability to perform all depend on our ability to mobilise and utilise energy. As Vince Lombardi said so aptly, 'Fatigue makes cowards of us all!'

One of the key strategies for keeping your energy account high is to build on and maintain a high 'energy platform'. As the diagram below shows, this 'platform' consists of nutrition, exercise, rest/relaxation and sleep – NERS.



Key Factors of a Strong Energy Base

Nutrition: Balanced diet; low sugar/salt; fruit/veg/grains etc Plenty of water.

Exercise: Balance of cardio and weights (3:2). 5 x 30 minutes per week.

Rest/Relaxation: Time to switch off; do activities for fun, downtime.

Sleep: 7-8 hours per night.

Oscillation – Balancing Stress and Recovery

Consistent performance is achieved when you have a healthy oscillation between positive peak performance states, and periods of recovery.

To sustain concentration, energy and peak states throughout the day it is important to take regular breaks. James Loehr in 'Stress for Success' suggests taking eating and drinking, every 2 hours approximately to regulate and stabilise the bodies energy levels and metabolism.

Ernst Rossi, a prominent psychologist, suggests the body and mind work on what he calls an ultradian rhythm. This is a naturally occurring, although often suppressed rhythm, occurring on a cycle of about 90 minutes of peak focus and energy, followed by a natural recover dip of 15/20 minutes.

The 'dip' is often signalled to us by factors such as hunger pangs, yawning, daydreaming and loss of concentration. It is the minds natural idling time, and enables the unconscious to process information, and integrate learning etc. By denying breaks, although often with positive intention, we end up with subsequently lower and lower peaks, hence the feeling of declining energy and concentration throughout the day. To combat this, use the following REFS ritual.

Combat Declining Energy and Concentration by Taking REFS

Rest& Relax:	Get away from the screen (rest eyes/mind/body)
Eat:	Have something healthy to eat
Fluids:	Drink – water/juice etc
Stretch:	Get up, move around, go for a walk, and get the muscles moving

Top Three Tips For Managing Energy

The key to energy management lies in the creation of positive routines and rituals.

Increasing your awareness of your ongoing states is the first step to optimal energy management. Check in on a 1 – 10 scale regularly throughout the day, and over time. NB Long periods of feeling tired, frustrated, angry, depressed, unmotivated etc strongly indicates an imbalance, and a need for action.

Build a strong energy platform through good nutrition, regular exercise, good quality and quantity of sleep, and getting plenty of rest and recovery – NERS.

Use the concept of oscillation – balancing periods of stress with periods of recovery – to maintain energy and the ability to access peak performance states – REFS.

Expert Performance

I once had the pleasure of listening to a speech given by the only female "Market Wizard" (book by Jack Schwager called Market Wizards), Linda B Raschke. She was asked how one could acquire the art of interpreting price action. Her reply was to watch a 5-min chart for a full week of your favourite instrument, for example Euro Dollar. She recommended making a note of every single major high or low during the day, and writing it down. She claimed by Friday you would have a much better understanding of price action and of the ebb and flow of the markets.

When I get asked what one should do if one is new to trading, I recommend following and trading just one instrument. While "a chart is a chart" every instrument (asset) has its own idiosyncrasies and its own rhythm. By applying your focus on just one instrument you learn to trade it well.

Many traders will only trade one or two products and they know these products inside out. Often new traders will focus on too many instruments at the same time. On paper it makes sense to search for a particular setup across many assets, but in practise it usually means that the trades misses many opportunities because they are not focused on one instrument.

Ericson, a Swedish researcher, conducted a study which looked at the role of deliberate practise in the acquisition of expert performance.

The study looked at whether "great" musicians, chess players, and athletes were genetically predisposed to achieve greatness (physiological) or whether greatness came as a result of external factors such as practice.

The study's findings overwhelmingly showed that there was absolutely no basis to the argument that genetics is the sole determinant in predicting success. In fact, genetics played at best a very minor role in differentiating between those who were "great" in their field versus those who were merely "good". The number one factor in determining whether or not one reached the highest levels in their field was the amount of time these individuals spend on "deliberate practice."

Deliberate practice is defined as the amount of time one spends in attempting to improve their performance. Simply performing the act is not deliberate practice; deliberate attempting to push oneself further is.

The researchers found that those who achieved greatness in their fields spent anywhere from 30 minutes to two hours MORE per day on deliberate than those who were only "good" in their field. The authors go on to say that 30 to 120 minutes of extra practice does not seem like much one begins adding up the difference over a period of time.

For example, they cite numerous studies that show that it is virtually impossible to reach the pinnacle in one's field without at last 10 years of concentrated effort. Therefore, the 30 to 120 minutes each day the future greats spend on improving themselves works out to be many thousands of hours of extra practice over a 10-year period!

Frustration is an emotion which is never far away in the world of trading. We all have days where we just don't get the market. It acts strange or it doesn't do what it normally does. Many traders make the classical mistake of constantly searching for news things to try, rather than focus on one thing.

Most “expert” traders use just a couple of simple techniques to extract money from the market and nothing else. Some days are better than others, but that is true for any strategy. By knowing an instrument well we also develop a good intuitive sense for when to use one set of rules and when to use another set of rules.

If you are new to trading, then please take these words to heart: Don't insist on perfection in trading. Despite your best intentions and your best effort, sometimes things just don't work out the way you had hoped. It is important you remember that your trading career is NOT judged by the outcome of one single trade.