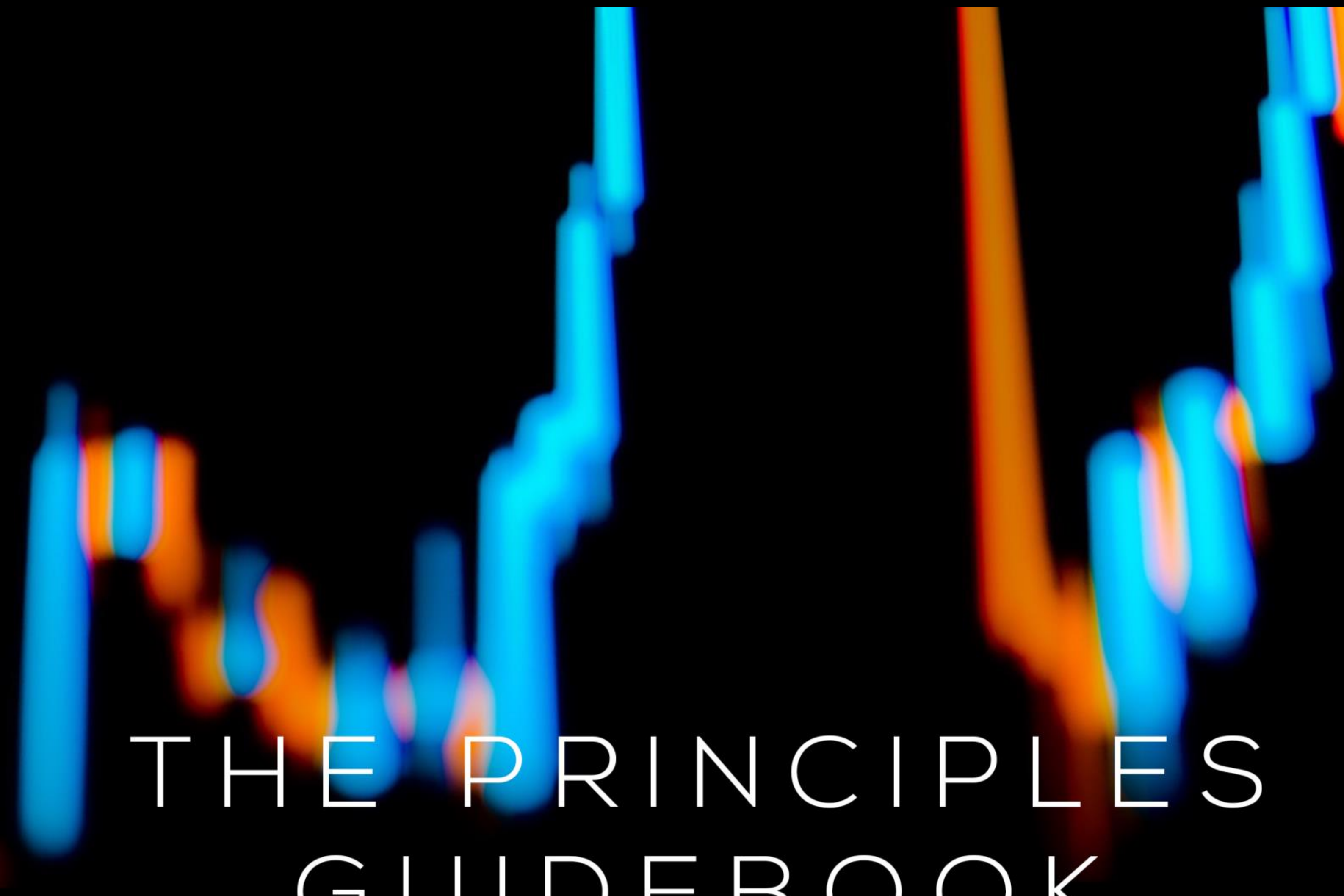


THE PRINCIPLES GUIDEBOOK

TRADE WITH CONFIDENCE

HENRI WALKER - FAIR EXCHANGE TRADING

In this guidebook I am going to be sharing the knowledge and information needed to start your trading journey which you will also carry over as you continue to progress further. The content inside of this book will be the building blocks and foundational knowledge for you to understand the basic but fundamental parts of the Forex and the trading industry.

The contents inside of this book has taken me 5 years to collect and it is time to share my insights and knowledge with you.

I believe the contents of this book are essential for anyone stepping into trading to truly understand the nature for what you are getting involved, a realistic vision and much needed sense of direction.

When It comes to trading the biggest problems, I found was that the resource and space for information was too far and wide. Filtering through different resources to find relevant information was also extremely time consuming but I have condensed years' worth of knowledge and experience into one spot. In this time, I have discovered many different concepts, insights and needed facts which I will now give to you and help you in your trading journey as it has me.

The guidebook goes hand in hand with core material found in the principles video series but this book will expand more on the needed foundational knowledge to understand the true nature of Forex Trading.

This book will present new ideas, concepts and shift your views on certain topics as they did me when I first realised them.

Trading is anything but easy. However, I do believe it is one of the simplest concepts once you begin to truly understand the nature of speculation.

I believe for the truly committed individual reading this, that you have the potential to be a successful trader.

I hope this book presents new ideas, changes your views and gives you a new sense of confidence that will allow you to keep moving forward in your trading journey.

"Even the greatest was once a beginner, don't be afraid to take the first step"

-

Unknown.

Introduction to Forex:

We believe that many traders fail to clearly understand the basics in trading the Forex Market and move too quickly onto more advanced areas as they believe the more extensive information that they learn, the quicker the path to success will be. While this can be true for some, we know that it is the beginning of any trader's journey that lays the foundation to long-term success.

The reality is that as humans we like to make things complicated, as simple is often seen as boring, but in trading 'simplicity' is perhaps the most important word. The principles course is designed to quash bad habits from the outset, give a realistic understanding on what trading the Forex Market from a retail level entails, how to trade like a professional would and we break down each area in a simple to understand manor.

One popular statistic within the trading industry is the 90/90/90 rule, where 90 percent of traders lose 90 percent of their account in a 90-day period in the market and this a known and heavily renowned statistic unfortunately. The reasons for such a statistic are heavily down to lack of education, confidence, gambling tendencies, no concept of what trading is and the infrastructure of the retail trading sector, just to name a few.

The team at Fair Exchange Trading has indeed been subject to some of these areas but we were able to persist and in doing so gained extensive amounts of knowledge to now challenge the narrative of the Status Quo. With the experience attained, we believe it is now time to instil this information to you, so that you are no longer part of that larger group in that statistic as stated but rather the small percentage that are able to break the mould and become successful, in what is possibly the hardest industry to prosper in.

The content and literature within this course is 100 percent of Fair Exchange Trading, as what we strive to do here is simply make you see trading for what it truly is, which is something that can indeed change your life. This, in our opinion, is the fastest way to accelerate wealth and open doors that you never once knew had even existed prior to this journey. Our aim is to build traders from the ground up and develop them into well-rounded traders that possess the knowledge to be profitable in both the short and long-term.

Before you this guidebook begins, we would like to say thank you not only for choosing us to learn from but by choosing to gain an education. Many people believe an education in trading to be successful is not required as everything is available for free online but if that was the case the average success rate of retail traders would be much higher than 10%. We are putting everything we know has been proven to get results into one place to make you the most efficient trader and so you can have the best chance of long term success.

We already know that you are dedicated and determined to succeed within this industry, as you have taken the first step to success which is accountability in realising you need to learn how to trade which majority of that 90% statistic fail to do!

Market psychology

What is your why?

The aim of this section is to simply give you an understanding of knowing how to understand and read the markets is of great importance. However, being able to understand the psychology of the market and that of your own psychology is just as important if not greater, due to your own psychology being the greatest influence of your performance. It is therefore important that you recognise this right at beginning of your journey, as it can be either the biggest hindrance to your success or the biggest aid and we want to ensure that you are aware of certain topics that you may not of thought of before, to prepare you for what you are embarking on. We will discuss areas of market psychology and retail trader psychology to give you a sense for the importance it will play in your trading career.

As we begin, the most important thing for you to remember when embarking on your journey of learning the Forex market and becoming a consistently profitable trader, is simply why you started? As many lose sight in their journey and can be the reason for why so many give up due to work, effort and dedication required to get where the majority desire to be. Never lose sight that the reason you are trying is to make that 'Why' become a reality for you. We have seen many traders who have given up because the process is too hard for them to bear and because they have lost sight of the long-term goal i.e. their 'Why'. Everything you do from now on should be in the mind set of the long-term as achieving what you want from this process will not come overnight by any means, but one day it will be a reality for you.

What we often see with new traders and even slightly experienced traders as well is that they fail to realise that trading is indeed real and that every time that you 'Buy' or 'Sell' into the market you have open risk on your capital (trading account). As a result, they solely focus on the rewards but forget to equally realise the risk involved and this is because they do not see the money as though it was at risk. They simply see trading as almost a game and this is pure gambling with your own funds. What we then ask of you, is to treat your capital with respect as you need to remember how long it might have taken you to earn that money in your trading account or what else you could be doing with it. Due to the fact that once it has been lost into the markets there is no getting it back, unless you earn it back. What we do is teach you how to treat your funds sensibly and responsibly as you are now in control of the situation!

Reality of a retail trader

Contrary to popular belief, the need to make a profit or better known a return on investment (ROI) is the secondary goal of a trader not their first priority. The number one goal for any competent trader is to preserve capital or not go broke, as logically speaking your capital is your only key to trade and participate within the markets and without it you cannot participate and therefore cannot trade. It is your lifeline connecting you to the markets and keeping you active, as without it what can you do?
Many novice traders tend to think that if they lose 20% or 30% of account value on a few trades that this is a good result, however this is absurd and if you were trading for an investment bank and lost that much you would be fired on the spot. We like to put traders in the reality that someone else was trading their funds and how you would react if the person you have trusted with your hard-earned money were to lose 30% of it in a day?

Professionals who work for investment banks, firms or hedge funds never trade their own capital, as they are either trading the company's funds or client funds and the number one job is to ensure that they do not lose too much of that account for which it is their responsibility to trade, as this would result in bad business. So, your main priority should also be that of preserving your capital and making a ROI should be second to you just as though you were working in a professional environment.

Here at Fair Exchange Trading, we have seen many people who like to call themselves traders but appear to be nothing more than glorified gamblers. As yes, they do participate in the markets but have no reason, logic or accountability for doing so and every time they enter a trade it's like taking a chance on black-jack at the casino. Professional traders, know exactly why they got involved in the market, take accountability and look for high probability scenarios that can be exploited to extract profits and this is what we aim to teach you. The glorified gamblers might look like they are doing well but this only lasts for a short period as their situation is unsustainable and we want your career and journey to be a sustainable one over a long period, hence why you committed to gaining an education.

A glimpse into the law of duality within trading

A concept we want to introduce to you at an early stage in relation to market psychology is the law of duality in whereby everything you do can have the opposite effect. This law has been known to ruin traders and throughout the guidebook you will get a greater sense for how big this law is within trading the financial markets. Try to think of it as every action you make has an effect or consequence in this case for the result or performance of your trading.

Once you accept that this law is real in trading, the easier your journey to success will be as we have seen many try to prevent the law of duality from happening but cannot and instead blame the markets once it occurs. One example is that you initially see a scenario to Buy GBPUSD at 1.3950 and anticipate for the pair to appreciate up into 1.4000 which would be a 50-point move and so you get involved. But then later you see another scenario to Sell the market instead, but you remain firm in the first scenario in the Buy position. The result is that GBPUSD declines, you have now incurred a loss of -50 points and the market moved in the direction to what you also believed it would if you had sold rather than bought and this is simply duality in play but many prefer the term 'Rigged market's'. Simplified, the law of duality is whereby you may make one decision but in doing so you need to bear the consequences for that decision for which you have chosen. The relevance for this in trading is that you will quickly discover that every action you take has some form of a reaction and through the principles course you will learn how to deal with law of duality and how with our methods it will be to no effect to your performance in the markets.

Market psychology

Expanding further on market psychology, it is perhaps one of the biggest factors for 90% failing in this industry as many new traders and investors fail to realise that the market is a real entity and the reason for that is because it is moved though human behaviour, emotion and reactions. While the markets do see more algorithms than ever before executing positions and orders, it is human psychology through interaction that makes the market move.

New traders then seek to figure out why the market perhaps made such a move and the cause for it and this is because we are a race driven by curiosity. However, what we want to teach you at an early stage of your trading education is that it is futile to try and figure out why the market moves in the way it does, as many constantly attempt to understand market behaviour and simply fail in doing so. The reality of it is that there isn't one person who can justify one single market movement due to there being so many variables for the move itself taking place. On a daily average, the Forex market processes over $5 Trillion each day in transactions! If you then try to figure out what caused a specific move, in essence you are attempting to figure out why a transaction took place somewhere in the world and you will drive yourself insane, as there are too many variables to contemplate and not enough resources for one single retail trader. As hedge funds, Central Banks, private firms and many more participants are present in this market, trying to figure out why it moves is like trying to figure out why one of these participants executed an order. Sounds ludicrous doesn't it and that's because it is.

Throughout the course you will disregard the reason for why the market moves but simply focus on what that move is now telling you and how you can interpret it to make a hypothesis on the future price.

Expanding slightly further on market behaviour, now that we know the main driving force for market moves are down to human behaviour, interpretation and interaction, we can also state that markets do indeed move on human emotions. For example, if a news report i.e. Inflation report (CPI) is released for the Great British Pound (GBP) the reaction we will see within the GBP on the charts is dictated by whether humans see the report as 'Good' or 'Bad' for the GBP. We then see the currency move accordingly to that emotion of human interpretation, either going 'up' or 'down'.

Another reason for why humans move the markets is that of 'opinion of price,' as the opinion for the perfect price for a currency is one of the main factors for the market moving. Logically speaking if every participant of the market was in agreement for the price of a currency, then would the market move? The answer is no, because there would be no reason for it to as everybody would agree on the same answer and therefore there would be no change in supply and demand in the market. So, it is also down to different opinions of market price or direction each participant has that causes market movement.

However, ultimately it boils down to 'supply and demand' for why we see movement in a price chart and we will breakdown what this term means. Simply put it is the force behind moves, not just currencies but everything in the world whether that be clothing, gold bullion or in this case currencies as each transaction needs the supply (Seller) and demand (Buyer) for the transaction to take place. As it is the shifts in both 'supply and demand' throughout a currency that sees the fluctuation in prices, due to the opinion of buyers being at one side of the market and the opinion of sellers at the opposite and when we see an imbalance of supply and demand we see the market move.

Supply – is how much of that asset is available to the mass market.

Demand – is how many buyers are actively purchasing the asset i.e. currencies in this instance.

Within the world of Forex, the situation for supply and demand is slightly different as it does indeed command the movement for transactions and fluctuations in prices globally whether that be; commodities, stocks, or Gold. However, in this realm for every buyer present in the market there needs to be a seller at the same time. As for example if you decide to buy one contract of EURUSD at 1.2050 (price of EURUSD) and then decide to close for profit up at 1.2100 (50-point appreciation) for you to close that Buy position there has to be someone in the market ready to take that contract and now sell it back into the market. Remember, as we aren't trading stocks or shares whereby once bought you have ownership until you decide to sell back the stock or shares to the company in hopes of the stock gaining value, you are trading currencies and if you buy a currency and then decide to sell it, who are you selling too? The answer is the seller because they are looking to get involved into the market at the same time you look to exit, in which creates the needed demand for the transaction to work, as you the buyer have something the seller desires and is willing to buy at a specific price for which you both agree on.

Moreover, it is the constant buying and selling at the same time of currencies that creates the moves we see occurring daily in the market and throughout the guidebook and content within the principles course you will learn how to read this information displayed on the chart and use it to your advantage. So if there is a seller for every buyer and vice versa, can there then be an imbalance for the shift in supply and demand? Surprisingly yes, as it through volatility and levels of liquidity within a currency pair that causes such imbalances and needs to occur at a fast rate i.e. through news releases.

Predicting market behaviour

Moving forward, now that we have identified that the market does indeed run on human psychology and emotion, we can make predictions for how the market will move because as we have all seen at some point in our lives; human behaviour is predictable. For example, have you ever been driving and held back because you think that the driver in front might turn left but not indicated and you go on to be correct? Or perhaps someone at work has a routine that every day they leave the office at 10:30AM and you predict that they have gone to get a coffee and each time they return they do indeed come back with a coffee? That is because humans are easily predictable and the reason for that is because we are a curious species indeed but we also like routine, structure and without it we can feel lost or a sense of hopelessness, we wouldn’t be productive or function as well as when we have it. This then means that if human behaviour is predictable, the market can indeed become predictable as it is human emotion through interaction moving the market and this allows us as traders who are speculating in the markets to identify the same occurrences or patterns in a market, to which we can exploit and develop an edge to use.

Retail trader psychology

Now that we have discussed market psychology it’s time to move onto retail trader psychology and without a doubt in our opinion it is a much bigger factor to the reasoning behind unsuccessful traders and the reason for that is because they do not simply understand themselves! As we have already identified, market psychology is a concept misunderstood by many but failure to understand your very own behaviour has far greater consequences. Trading requires you to change ideologies, concepts and beliefs and discover new emotions and behaviour, which you may not have thought existed within yourself as trading is a journey of self-discovery due to it requiring adaptation within your mind set. Trying to do it alone can be a demanding ordeal because the reality of it is that trading your own personal funds means that you are then actively managing your own funds. This is a new experience for many as you are attempting to do what many people pay professionals for and with this new experience comes new emotions as it is you that is responsible for the results and outcome for performance.

When managing personal funds, you will feel an attachment to the monetary value of your account (money) and this in most cases is never experienced until you have a live trading account. The reason for that is because you are paying for something (The opportunity to make through speculating in the markets) and not knowing the outcome in your transaction. For example, a fair exchange is when you pay for goods or services and you believe the monetary value (price) is justifiable for the goods to which you are buying. So, the exchange is fair on both parties because you (the buyer) and seller have both agreed on the price for either the product or service being purchased.

However, in trading there is no fair exchange as trading is zero sum as you aren’t selling, buying or providing value to a market place instead you are trying to beat other market participants. You also do not know what you are getting in the exchange of your money until a later period and it is this area of unknown outcome that scares many new traders.

We aim to help you overcome this potential fear of unknowing and uncertainty for the outcome of the transaction through the power of probabilities, as regardless of short-term outcome in the long-term you can be profitable.

Another reason for why retail trader psychology influences that 90% figure for traders that lose funds is because many retail traders who are new to the world of trading are from a background of whereby you need to exchange your time for money (9-5). Therefore, once you move from such a system and into the realm of trading it requires many shifts in your own mind set and psychology. As trading is the same as any other profession in that at the beginning it will be demanding and will require you to put in the required effort for success but once done you become efficient in your practices, eventually trading won't feel like work to you. This is the freedom so many desire as you are no longer exchanging your time which has no monetary value but rather making your money work for you and from that point you will be challenging the status quo for how society functions.

Throughout the years we have seen traders that have started with $1000 and been very successful and others with $100,000 who have simply blown it all and so please don't think that the more funds you bring to a trading account will equate to greater success. As it often has the opposite effect at the starting point of a trader's career, due to the emotional attachment one holds for such funds, we have found the smaller your account is to begin with the greater the chance of success because the mental strength required to trade a $100,000 is much greater than that of trading a $1000 account. Also if you can't handle $1,000 account what makes you believe that you can successful trade with a $100,000 account? What matters is % return which will discuss later.

As the market and personal psychology that is demanded to handle such funds is still yet to be developed, it takes time and experience to build the confidence required to trade large amounts of capital in a competent manner. This is because due to the mental tolerance of open risk and taking a loss when trading an account with funds of $100,000 hasn't yet been developed, and so when you incur a loss you will not accept it emotionally or psychologically as you aren't yet detached from the monetary value of your account. Rather the trader will go into a state of fight or flight due to a surge in adrenaline which cause a lack in focus and clarity, this then results in further actions that ultimately lead to a traders demise very quickly!

So, by starting with a relatively small trading account depending on your own terms and circumstances rather than depositing all your funds you wish to trade at the beginning of your trading career, it simply gives you the time to develop your skill set and become efficient in your methods. Once learned and you have been able to prove to yourself you can trade and make a ROI then you can add funds accordingly, as you are doing the same task but with more capital! Along with this, it will give you the needed experience and time to develop your risk tolerance and how to handle losses in an appropriate manner so that when you do incur a loss in the beginning it should be that small that has no effect on you.

One word we like to use to remember to be a responsible trader and when learning to detach yourself from your funds is 'perspective'. As there is a fine line in most trading instances, you indeed need to detach yourself from your account so you aren't emotionally involved, but this does not warrant you to be ignorant. Before making a random guess on market direction, think what you are about to risk could buy you. Staying with the example of a $100,000 account, a -3% loss within that account value equals $3000 and that could buy a car, a holiday or something else that you may desire and so always put into perspective what you are putting at risk, as this is one method we have taught traders to ensure they do not make random or impulsive assumptions. It is easy to lose perspective and value of money when trading as the numbers are just on a computer screen but imagine if that money was in front of you in cash would you still be willing to gamble it or would be conservative and think twice? Instead, you need to be involving yourself in high probability situations otherwise known as calculated risk, which over time has been proven to produce a profit, rather than assumptions and we will teach you exactly how to do that.

How you can be your own enemy

In the realm of trading, typically more often than not it is the trader that is their own demise, as they fail to understand their own emotions and behaviours. As the journey you are now on will take you to places both good in that of euphoria and bad where you could be angry frustrated or upset, you will have to make changes in your own mind set for you how deal with your emotions and over time adapt your work ethic in order to make a sustainable career.

Here at Fair Exchange Trading, we strongly believe that trading is like running your own business, as you are the sole trader for handling funds and dictate the performance for growth, whilst taking responsibility for the losses. Starting a business can be one of the hardest things for a single person to carry out due to the needed demand on that one person to make it profitable. However, in trading you can start the business by simply depositing funds into a brokerage account but the fact remains that many are not prepared for the ordeal they are about to embark on. Therefore, we decided to create the Trader development area to provide specific articles relating to human emotion and the changes you may need to make over time to your own psychology and much more.

Professional VS Retail - are you one and what are the differences?

To be a professional trader you need to have managed client or company funds and have produced a positive ROI for that client or company annually. Unless this is done then you or anybody else are a retail trader, as you wouldn't play Sunday league football and class yourself a professional footballer. While we do teach you to trade like a professional, with the same mind set and discipline as what one would have, the reality is until you trade funds other than your own capital or personal account that you are a retail trader.

The differences for a retail trader vs a professional is a professional trader typically works for a company or bank and privately manages funds for clients or trades company's funds and so it is their job to make a ROI for good business. They could also be a retail trader who decides to seek investment or other people's capital to trade with and if they make a positive ROI on that investment they are then considered a professional. However, a retail trader simply trades their own personal account in the hopes of making a ROI for the year. Both retail and professional traders speculate on moves in the market, however the retail investors positions and orders have no influence in the market because your position is so small that you couldn't execute it, as remember the Forex market transacts $5 Trillion per day and so your broker trades your position on your behalf through what is known as leverage and margin but more on that later.

A professional trader who works for an investment bank for example, is slightly different as they have what is known as 'direct access' to the market in whereby they will execute a position or order and that position or order goes directly into the live market feed. Some of these orders can be billions of dollars and will have some influence to cause movements in price for which we see on our charts.
Many people who are new to trading believe the banks manipulate market prices by executing large positions so the markets move in their favour. However, some hedge funds and institutions actually have to be careful when they execute orders as they could move the markets but by doing this actually exposes them to larger spreads and over time it can add more market exposure to the fund.
What you will find is that the fund will open a position and over time continue to add more into the position in different intervals which not only protects the fund from wider spreads but lets them take advantage of Dollar cost averaging. Dollar cost averaging is not something we will be covering as it is a strategy specifically used for long term investing in specific stocks,

ETF's and Index funds. What we are doing is speculating on medium to short term price changes in currencies and so it would not present any edge to us.

So, while central banks can easily move the markets it is not in their best interest to do so as it adds more market exposure to the fund.

Now that you have an overview for why the two differ, in summary, your position doesn't actually exist in the live market feed as you need the broker to gain access for you and execute on your behalf because you don't have enough capital to actually gain 'direct access'. Unlike the investment bank trader whose position can influence prices as they are trading directly with the market and with large amounts of capital that they have been entrusted to trade through the fund, bank, insinuation or firm they work at and by that of having 'direct access' to the market.

It is also important to know that professional traders can't manipulate or influence market prices by executing orders to push the market price in their favour intentionally as this is a criminal and prosecutable offence.
Now we can see large volatile moves but that often occurs from economic or fundamental events take place or a sharp shift in supply and demand. But, you do need to understand that retail traders (you) only make a fractional percentage for the moves and transaction costs seen in the markets every day and it is in fact the professional traders who are working for the examples mentioned above, who have direct access that cause the markets to move ad fluctuate. As it is them directly creating and executing new market orders/transactions every second in the market. They are often referred to as the 'big players' or 'smart money' in the Forex industry.

Now that we have discussed many areas surrounding market and retail psychology and how humans overall are the biggest factor for shifts in supply and demand along with clarifying your role within the market itself in comparison to other participants, we hope that this section has changed your initial perspectives about the Forex Market.

Understanding what the Forex market is.

What is a currency pair?

A currency pair is when you have one currency paired with another for example EUR/USD, as we have paired the EURO economy against the U.S economy and it allows a quote to be generated through supply and demand for how much you could buy of one currency in exchange for the other, in which that quote is then the value of that pair.
Taking the **EUR/USD** example; on the left (**EUR**) is the base currency and on the right of the pair is the quoted currency (**USD**) and the reason for this is because if you buy the base currency you are then subsequently selling the quoted currency and vice versa. The buy price is known as 'the bid' and represents how much of the quoted currency you need to get for one unit ($1 GBP/USD etc.) of the base currency, but when you sell the currency what you are doing is selling the base currency and receive the quoted currency. In effect the sell price 'Ask' for the currency, represents how much you will get of the quote currency for selling one unit of the base currency.

Currency pairs can be categorised into different classes as you have; Major, Minor and Exotic pairs and this category system allows investors to identify how much volume is traded daily within a pair.
The currencies that trade the largest amount of volume are as follows; EUR/USD, GBP/USD, USD/JPY, AUD/USD, USD/CAD and USD/CHF. As you can probably notice, the majority of the pairs mentioned contain the USD currency and the reason for that is because the U.S has one

of the biggest economies in the world due to the trade deals it has with the rest of the global economies through imports and exports, which is then followed by the Eurozone economy for which the currency is the EUR. Therefore, the EUR/USD is the most heavily traded and with highest volume in the FX market because you are pinning the two biggest economies in the world against one another. All the major currency pairs are therefore very liquid markets due to the number of active participants.

When currencies aren't paired with the USD, they are referred to as the 'Minor' pairs or 'Crosses' and the reason for that is because the economies being traded through the pairs don't have the economy strength such as the U.S and not as much liquidity as the majors but do of course provide enough liquidity to be traded. The minor pairs that trade with the most volume are the individual currencies from the majors; EUR/GBP, EUR/JPY, GBP/JPY and AUD/CAD.

EUR
GBP → **EUR/GBP**

The final class are the 'Exotics' which are currencies of emerging markets and these pairs don't provide the liquidity we see within the major and minor classes. An example is USD/MXN (US Dollar/Mexican peso) and the reason for this being an exotic is simply due to it not being as popular compared to the major and minor currency pairs and therefore has a significantly lower liquidity. Due to then having low levels of liquidity it then makes exotic pairs more expensive to trade compared to the major pairs because they have wider 'spreads' but more on spreads later.

Along with these three separate classifications of currencies, the USD currency can also be traded with commodities, such as Gold, because the commodity (Gold) is priced in US dollars, therefore the price of Gold is quoted in USD per oz. and has the acronym of XAU/USD when traded. What this means is that Gold is directly correlated and impacted by the price change of the USD, therefore when the USD is appreciating we see the market value of Gold decreasing, but when the USD depreciates the value of Gold increases along with other variables that shift the level of supply and demand in the market. The reason Gold is attached to USD is because the USD was once backed by Gold which was known as the 'Gold standard' as the Fiat currency was traded with coins instead of the paper currency we see today and one single $1 coin was actually worth 24.75 grains of Gold. However, in 1971 the U.S followed other world economies and removed the 'Gold standard' by making the USD a fiat currency which would no longer back backed by Gold or any other precious metals.

However, in times of uncertainty we see investors move from riskier assets such as stocks and move investment funds into Gold, due to it holding an intrinsic value among investors and thus seeing Gold increase in value. Also, when a hike in US interest rates occurs we see a depreciation in Gold as investors then look to move funds from Gold into riskier assets, such as American stocks and bonds, due to an increase in risk appetite and vice versa.

What is the Forex market?

The term 'Forex', commonly referred to as 'FX', is an abbreviation of 'Foreign Exchange' and is what allows currencies to be traded across the globe. It is the biggest financial market in the world as the trading volume of the New York and London stock exchange combined, would not even come close to the volume traded through the Forex market. An average trading day, within the Forex Market, sees the total transactions in excess of $5 Trillion! The reason for such huge daily volume is because of the people who actively participate such as; Central banks, Federal reserve, Hedge funds, Private banks, Instiutions, mutual funds and finally Retail/small investors (which is you).

The purpose of the Forex market is that it allows every currency in the world to be traded and transacted through one market, as one nations currency is paired with a different nations and it allows the two economies to 'Buy' and 'Sell' the paired currencies respectively, but also for others to also speculate on the fluctuation of price as investment tool, which is what you are looking to do.
The reason for the pairing is because every nation has a different state of economy health and by allowing these different economies to have their own currency means that they can make transactions with one another.

In fact, many people participate in this market without even realising it for example, have you ever been on holiday and had to change your national currency to the one for where you are visiting? If you have then you have participated in the FX market, as you have taken one currency and took part in a transaction for where you have traded it for another and received a different notional value and it is the change in the exchange rates, through supply and demand in the market, which determines the quote at the exchange bureau and what you receive.
Leading on from the same example, imagine you have a holiday from Britain to America coming up. On Monday, you go to change your currency (GBP) and a single GBP can buy 1.50 of USD and you are changing £1000, which therefore would allow you to buy $1500 at the current market value, but you decide to wait until tomorrow as you think the rates could go higher. So, you return on Tuesday but due to the change in exchange rates we now see that one single GBP only buys 1.4950 of USD. This then means that you can only buy $1495 with £1000 rather than the $1500 you were quoted the day prior and so it now costs you more to buy the same currency. It is this fluctuation and constant change in foreign rates that allows the Forex market to function, due to the change in supply and demand.

As traders of this market, what we then look to do is simply make calculated predictions in the fluctuations in exchange rates as mentioned above, by making a hypothesis that one currency appreciates while the other depreciates within a pair.
Staying with the same example, a change of $5 may not seem like a huge amount by itself. However, for a British company who needs to pay their employees in America, it now costs more GBP on Tuesday than it did the previous day to buy the same amount of USD's and these little changes of price can add up quickly. This then sees participants such as yourself and businesses waiting until the exchange rate is more favourable i.e. in this case seeing the GBP appreciate against the USD for more value, thus holding on to funds before executing the transaction.

Currencies were also used as a gauge of economy health, as you are pinning two currencies against one another and if one appreciates then the other must depreciate. As these currencies represent the associated economy from a broad perspective, we can then speculate on economy strength. For instance, if GBP/USD sees the GBP gaining value then this would suggest that the GBP is stronger than the USD and therefore could imply that the economy of Britain is outperforming the US, but today we use other variables to consider when determining economy strength which we will delve into later.

Decentralised Market

Moving on, one interesting fact that sees the Forex market differ from the traditional stock market is that it is a 'decentralised market'. This means that there is no central place for transactions, so this enables FX traders to buy and sell currencies from anywhere in the world. A 'decentralised market' means that there is not a specific location where you trade currencies, technology allows investors to trade at any time and in any location where there is internet.

However, a 'centralised market' such as the New York stock exchange (N.Y.S.E) differs to this as once the market session closes for the trading day all trading seizes until the following session. This means that in order to participate in a trade listed on the N.Y.S.E traders have to wait until the exchange reopens the following day to execute a new order.

Previously, we stated that the Forex market was the biggest financial market in the world due to the sheer amount of volume pushed through transactions that are processed each trading day. This also means it is a very active and liquid market as currencies can be bought and sold and due to this high level of participation, it is easy to access the market. However, due to the volume of the market we also see a level of volatility, in which traders need, as it is what allows the market to move and this can work both for us and against us. A high level of volatility means we can see sharp and dramatic changes in a currency's price in a short-period, where as a low level of volatility means that we see a steady pace and a more gradual increase in the change of a currency's price over a period.

Overall, we need liquidity in the market to access it. To lower transaction costs, there needs to be a number of active participants, so it can be spread across. In regard to volatility, we need to see moves occur in the market to look to trade, due to the fluctuation of a currency's price over a period of time.

The difference between the Forex market and stock market

We have already mentioned one reason for why the Forex market differs to the Stock market in that of the Forex market being decentralised but another reason the currency market can be easier to trade than stocks (in our opinion), is simply due to that needed level of liquidity and volatility. For example, when buying company stocks or shares for instance Apple (AAPL) we see the value of the company move depending on the market sentiment i.e. whether there are more buyers or sellers at a given point and if a piece of news is released how investors perceive it. A good announcement means investors are buying more shares in the company as they believe this will have a positive impact for the company, along with new investors stepping in to the market as well and so we see a direct correlation in the company's value appreciating. Where as a poorly received announcement means investors may sell the stock back into the company and this means the company depreciates in value.

Therefore, we literally see the shifts in supply and demand for a set company but due to the lower level of liquidity i.e. the participants actively involved in the market we see a faster increase in market volatility as there is less active participants executing orders in comparison to the Forex market. Thus making it easier for the stock to move, resulting in sharper moves seen and making it slightly more unpredictable and harder to trade as you are trying to predict how other participants may react that new data/report. Hence why so many stock investors are constantly checking for company reports and new figures that could impact sentiment to ensure that they are on the right side of the market.

However, within the realm of Forex we are buying and selling currencies that are a derivative for economies to transact with one another and because there are now two economies being speculated on rather than that of one singe company such as AAPL (Apple) it is harder for a direct correlation of news to influence the price entirely. We could see a piece of news announced for the USD, which turns out to be great but we don't see this news directly correlate with the USD on the charts as the USD does not appreciate in value to what speculators may have been anticipating and this could be because the GBP is also strong at that given moment and remembering back to when we talked about supply and demand in the Forex market, there needs to be a buyer for every seller. Therefore, if there aren't enough participants in the market looking to sell the GBP in order to buy the USD, these positive announcements will not see the USD appreciate to what we thought it would. This then correlates to liquidity and volatility, because we have traders and investors speculating on two economies, which means a higher level of liquidity in the FX market compared to the stock market resulting in volatility, at times, being able to be controlled.

Why do currencies move/what influences price?

We have already discussed the importance of supply and demand for how it works within the world of the Forex market, but in short, it is how many participants are buying and selling one currency and how many are buying and selling its counterpart in the pair at one specific moment. Therefore, when we see an imbalance through increased market volatility and liquidity we see a change in the market value.

As discussed previously, there needs to be a buyer for every seller and a seller for every buyer in the Forex market so if this is the case how do prices move because we never have more buyers than sellers and vice versa at any given point and so there is never that imbalance in comparison to the stock market? The answer is that when market participants are Buying and Selling currencies the Buyers in the market may start to execute larger orders (trades) than what the sellers are executing in the market at the same time and vice versa. It is this imbalance between the supply and demand in how much of a currency is being bought or sold at any given point in the market which causes price to fluctuate as we see in the charts.

For instance, you buy EUR/USD and prices rally to the upside, reaching a point for where you 'the buyer' now looks to take profits, but in order to close that position you must now sell into the market to complete the transaction. Remember, you buy one currency and sell the other, so at the beginning of the transaction you were buying the EUR in hopes it would appreciate against the USD, but now that your prediction has been fulfilled it is time to close that trade by selling the EUR and buying the USD.

So, it's not that there isn't enough buyers or sellers in the market a specific moment that causes price to move like it does in the stock market but how much of that specific currency is being bought and sold in that moment. If we stay with the EUR/USD example when you sell the EUR you aren't buying any more of the EUR you are instead buying the USD and so even though you are selling the contract of your position you are buying less EUR and more USD because you are taking profits as the EUR increased in value as you predicted. So, it is the shift in how much of a currency is actually being bought and sold and not the amount of market participants that influences price.

What we may see happen next in the market once you close your EUR/USD buy position is that price may begin to decline, due to that shift in demand for the EUR and as price may continue to decline the sellers which are now entering the market are executing bigger sell positions as well to capitalise on the move and them new sell orders in the market may outweigh the new buy positions also being executed and as more participants see the EUR decline more sell positions are opened which results in less EUR currency being bought and instead more USD being purchased therefore creating that imbalance as demand for USD is increasing.

Opinion of price, as discussed earlier, is a major factor for why we see currencies move due to every participant in the market having a different opinion on the future price of a currency because each person has their own thought process and reasoning for such speculation and through this opinion we see traders execute orders and transactions in the market. Therefore, it is this difference in opinions of active market particiopants that we see shifts in a currency's price, as we are simply looking at a collective of people's opinion in one side being the 'Buyers' and the other side being the 'Sellers'. If everyone in the market agreed on the perfect price then there would be no reason for the market price to actually change.

The remaining factors for why we see the currency market move daily is that of fundamental (News) influence of price, that allows a shift in market volatility and liquidity to take place. Whereby fundamental reports for economies that consist of; political, economic and social factors that when released publicly influence the level of supply and demand within a currency through the change of market volatility and liquidity.

You need to understand that even though we are teaching you to trade this market through technical analysis, by reading price action of a price chart, overall it is fundamental reports and such factors that are the backbone to move this market. As we discussed earlier in the trader psychology section (Page 6), it is through human reaction and through that of emotional interpretation that we see traders execute trades by either buying or selling a currency in accordance to the how the news is perceived, as you are trading one economy's strength against the other.

An example being, that the Federal reserve (FED – The Central Bank of America) has seen that the US economy has improved recently due to the overall economy growing and expansion in certain sectors, therefore the FED may need to raise interest rates to control increasing inflation before it has a negative effect on the economy and in raising the base interest rates for the US, proves to be a positive factor the USD as it highlights the US economy is strengthening. Foreign investors then become attracted to the US economy, as they see opportunities to purchase financial assets that are USD denominated and this will see such U.S based assets go up in value, due to the rate hike and therefore needing to buy more USD to purchase the financial assets, which correlates to USD also gaining value.

However, as we now know that just because we see one strengthening currency doesn't mean to say it will appreciate against its counterpart in the pair as we are always comparing the strength of one currency against the other. Therefore, because the other currency's market sentiment, for which in this case the USD is being traded against, might still outweigh the overall bias in the market despite the increase in U.S interest rates, this means that needed change in market supply and demand to benefit the USD might not occur.

For this reason, we don't like to trade fundamentals as there are too many factors pitting the two currencies against one other to determine value from one single report or announcement and is the reason why we choose technical analysis over fundamental analysis of a currency.

In the next module, you will develop a firm understanding of which fundamental announcements are important for influencing prices (Market psychology), learn why you shouldn't trade the market through fundamental announcements in our opinion and how they overall determine and represent the health of an economy.

Forex terminology

In the Forex market, there are many different terms and abbreviations used and in this section, we will explain these terms and their meanings so that you have a firm understanding of what you will see on a daily basis when you involve yourself in this industry and clarify some terms for which we have used thus far.

Pip:
In the Forex market because we are trading currencies rather than traditional stocks and shares for which are priced in points, currencies on the other hand are priced in 'Pips' which is the abbreviation for percentage in points. Each currency pair is priced and valued with a 5-digit increment.

For example the price below for GBP/USD is:

1.4046(2)

Moments later we then see a change in price from **1.4046(2)** to now **1.4048(2)**.

GBP/USD **1.4048(2)**

This then means that we have seen an increase in the market price by 2 pips, as we only measure price change to the 4th increment in which are single units, as the 5th increment (in blue) is known as a 'Fractal pip.' The 'Fractal pip' is only used for a clearer insight into the smallest change in prices but for you, only concentrate on the 4 increments.
Taking the example above of 1.4048;

1.404**8** - **8** is the **single** unit of price.

1.40**4**8 - **4** is the **tenth** unit.

1.4**0**48 - **0** is the **hundredth** unit.

1.4048 - **4** is the **thousandth** unit.

In effect, this then reads 1.4048 and each change in either increment represents the new market price.

Lets take this one step further and for this example we will use EUR/USD, in which the price saw a change from 1.2300 – 1.2245. To then figure out the change in the market value, we can use simple maths 1.2300 minus 1.2245 = 55 pip's. This formula is the same for every currency because you are simply identifying the price change in a currency in that it has either gained value or decreased. In this scenario, we would see that the EUR then decreased -55 pips against the USD, while the USD gained a + 55 pips against the EUR. This is what you are trading as you are simply speculating for how many pips the market will move.

Expanding further on the first example (1.4048), that the 0 is the **hundredth** unit but when we see a change in this unit it can also be referred to as a point because we have seen the market appreciate or depreciate by 100 pips. If GBP/USD appreciates 100 pips from **1.4048** – **1.4148** then we have seen a **1 point** change in price.

Long/Short:
This term is used perhaps the most within the world of trading the financial markets, as it is the terminology used to state whether you have bought or sold an asset. This is a world-renowned phrase when trading the financial markets, not just specifically Forex.

Long – When you have bought an asset.

Short – When you have sold an asset.

Here is an example, when going '**Long**' you are speculating that the USD/CAD (US Dollar/Canadian Dollar) would appreciate in its market value, so you would go 'Long' on that currency pair as you are buying it.
If, you then believed that USD/JPY US Dollar/Japanese Yen) would depreciate in market value you would '**Short**' the market as you are selling the base currency of that specific pair.

Currency names:
Throughout this course, we have referred to pairs in the format of **GBP/USD** (Great British Pound/US Dollar) which is how you will see them displayed in the markets, but the reason for this acronym is simply because it's easier to say "Long GBP/USD" rather than "Long Great British Pound/US Dollar) and so therefore we use the acronym for ease. All currency pairs start with the country's name and are then followed by its national currency.

Simplified, this means GBP represents:

GB for Great Britain (Country) and P for pound (National Currency for Great Britain).

A further example would be for USD as this represents:

US for United States (Country) and D for dollar (National Currency for United States).

And so on for the other currencies.

However, in the case of EUR, this acronym differs. As there are multiple countries within the European Union who use the 'Euro' as their national currency, therefore all European currencies are represented within the FX market as EUR because the collectively are identified by one acronym alone.

Bullish/Bearish:
In your trading career, you will see and hear these two terms constantly as again they are a renowned phrases within the financial markets. 'Bullish' represents appreciation and 'Bearish' represents depreciation. For example; you could say that GBP/USD has **appreciated** since yesterday or you could say GBP/USD has turned **Bullish** since yesterday" but overall they have the same meaning and it really comes down to personal preference.

As well as these alternative meanings, there are two other additional terms that can be used in the FX market. The first is 'buying pressure' which represents buyers in the market, also known as bulls, and the second is 'selling pressure' which represents the sellers also known as the bears.

These terms are more specifically used to describe market sentiment (the overall perspective of the market) of an asset class or currency pair for more of a long-term perspective, as you may hear someone on the news says, "The US economy is now beginning to turn bearish following its bullish run". In a simpler format, think back to the financial crisis of 2008. Just before 2008, the US economy was booming as varying sectors were expanding and seeing

large growth, therefore **Bullish**. However, 2008 then saw the collapse of the housing market in the US and this literally brought the economy to its knees, as Banks were collapsing due to mortgage bonds (Mortgage bonds or Mortgaged backed securities are investments) became worthless and banks across the world were heavily invested into these securities. The world economy then went into a recession (Decline in economic activities for a period of time) thus seeing a slowdown and contraction of economic activities and therefore the US economy turned **Bearish.**
Remember, from what we said earlier (page 11) that the US has the largest economy in the world and due to this factor when the US economy turned bearish through entering a recession, this had a global impact on economies around the world!

In summary, Bullish represents the buyers in the market which leads to expansion and growth. While Bearish represents the sellers within a market, leading too contraction. Supply and demand can therefore be represented through a battle, so to speak, between the buyers (Bulls) and sellers (Bears) because as one gains the upper hand against the other we see changes in market price.

Volatility & Liquidity:
These are perhaps the two most vital parts of trading as a market needs volatility to see a shift in market value and liquidity to make the market accessible.

Volatility
This variable measures the amount of uncertainty or risk in the asset class for changes in the assets value. The higher the volatility means that an asset's value sees dramatic changes in a short-period i.e. appreciate or depreciate. A lower market volatility will mean that value will not change dramatically but rather at a slower pace spread out over a period.
Liquidity
This is a variable used to suggest which asset can be quickly bought or sold without directly effecting the markets price and due to the Forex market being a very liquid market, as it sees millions of active participants comprising of small investors all the way into Central banks, this then means that positions executed won't directly affect the market price and allows lower transaction costs to be seen within certain pairs because of the high level of participants actively involved.

The use of leverage:

In the realm of Forex, leverage is vital and needs to be carefully understood as it is notorious for ruining traders time and time again who use it inappropriately. Simply put, leverage allows you 'The investor' to control a greater amount of currencies by setting aside a deposit which is known as 'Margin' because you are only contributing a fraction of the position value and your broker is lending you the rest.

However, leverage isn't just used in Forex but other financial instruments such as property. For example, if you purchase a house with the value of **$150,000** and only have a 5% down payment/deposit then clearly you don't have enough funds to make the purchase, so you go to your bank or mortgage broker/lender and borrow the remaining **$142,500** to complete the purchase. But, of course a fee is charged from the lender known as 'Interest' for the total amount borrowed. Therefore, by using leverage you have now been able to make the purchase to which you couldn't afford on your own and signed a contract to pay it back each month over a selected period of years at the interest rate given through the lender. This is considered a liability, as you are reliable for any losses which you may incur.

Now let's say you have had that house for which you purchased through leverage at **$150,000** for 2 years but decide it's time to sell, the house market is bullish at that specific time and you agree a sell price at **$170,000** to the new buyer. This then means you have made a **$20,000** profit as you need to pay the original lender of your mortgage back (**$142,500**), you then keep your down payment of 5% (**$7500**) and then made an additional **$20,000** through borrowing funds that you didn't originally have by that of the broker/lender. This is how leverage works, as you are seeking to make an investment but only risking a fraction of the overall investment and borrowing the remainder in hopes of making a greater profit with such minimal risk.

In this situation, everyone involved is happy, as the bank/lender has received their **$142,500** back along with interest that you paid over the two-year period when you owned the house and you (the borrower) have made positive equity, by selling at a higher price than what you originally bought at.

However in contrast to the same example we have just discussed, you decide to sell the house but market conditions are instead bearish i.e. the housing market is now in contraction meaning that house prices have decreased in value and so for what you purchased at **$150,000** is now valued at **$142,500** at the current market value. This would mean you are now in negative equity, because your down-payment of 5% would now need to be used to clear the outstanding difference of **$7500** because the bank/lender needs their original investment of **$142,500** back to close the contract. But, due to the house depreciating in this period you also need to pay the difference from what the 'Buy' price was and what the new 'Sell' price is because you are reliable for any losses incurred. This therefore, results in negative equity as you have incurred a loss through this investment rather than generating a profit.

Moving back to the Forex market and what this means for us as a retail trader, leverage is what allows you to borrow from your broker in order to open a new position which has a greater value than your original investment. Remember that the broker acts on your behalf to participate in the FX market and in doing so allows you at your own discretion to then use leverage as a tool to control more currency without directly risking more of your own trading account (Capital). If used correctly, this can allow greater potential returns but can also magnify losses.

For instance, imagine your trading account is worth **$100,000** and you want to go long on EUR/USD but want to purchase two standard lots (1 standard lot = 100,000 units of the base currency) of such currency for your position this would then mean that you simply don't have the required funds to complete the transaction, as you need an additional $100,000. So, you go to your broker and borrow the **$200,000** required to buy the two standard lots. (The reason for borrowing the full amount is because you want to preserve your capital for other investments). However, in return the broker wants 10% of the position upfront and therefore this is set aside as margin in your account. At this point, you are controlling a position worth $200,000 with an investment of only 20% of your account **($20,000**) and therefore this allows you to make other investments as you still have 80% of your trading account left once the margin has been set aside. This is how smart investors use leverage and margin to yield a greater potential return, as you are using your account to fraction positions and gain greater exposure to the market.

When you open a trading account, you will be asked at that point how much leverage you would like to use for your positions i.e. the buying power you have in the market and this will therefore determine how much margin (capital set aside by the broker to cover the leverage) is used in your account for each new trade. The reason for this is because the broker will use that percentage of your account as collateral, in case things don't work out on your behalf as

they need to protect and ensure that they don't over-expose themselves in the market and that you have the ability to pay them back the minimum investment to open the position.
It is then crucial to not get carried away when trading with leveraged positions, as you can easily over expose yourself to the market and take huge losses and if the open position/positions fall 50% below the margin threshold to sustain the position, the broker will give you a 'margin call' but we will discuss this later.

Leverage can then be used to what's known as 'Gear up' your trading account however, in doing so remember that ultimately you are taking greater amount of risk when opening positions.
As shown in the example below;
You have **$1000** of margin (Capital to cover the leverage) in your trading account and a **$100,000** position open, this then means that your leverage used is **100:1** because you have used leverage to gain a position **100x** greater than what you could have with the margin set aside for such a position. Taking this one step further, you then decide to open a trade of **$200,000** then you have used **200:1** leverage as you have multiplied that original investment fund **200x's**! In essence, you are trading an instrument with 200x the amount of funds than what your investment could afford and therefore 200x the amount of risk.

Many newcomers step into this market, in hopes of driving the Lamborghinis and living the life what you have been advertised and this then becomes hugely attractive because the majority think short-term. However, we are teaching you to think long-term and while this does look attractive due to huge potential and quick returns the risk involved is extremely high when trading with high amounts of leverage and all you need to do is incur a few bad trades and before you know it you have wiped out your account!
Therefore, you need to calculate you leverage size to be used when opening new positions through the margin requirement needed to open such a position i.e. simply divide the leveraged open positions you have by that of the total margin requirement from your account.

Leverage can however be used in your favour if treated carefully and respectfully as it allows you to control a greater position with a small amount of capital. For example; you have **$10,000** of margin and open a standard lot (100,000 units of base currency) in GBP/USD for **$100,000**. In simple terms, you are buying 100,000 units of GBP.
Therefore, you are using a leverage of 10:1 as you are controlling **10x** the amount for what you have as risk (Margin) set aside. We must state once more, that it is at your discretion for how much leverage you use when opening new positions in the market. Remember the law of duality (page 5); if it can work for you then it can equally work against you.

Margin:
This is the term used when opening a new position, as it is not a transaction cost or fee but rather a portion of your trading account (Equity) set aside as collateral for the broker because they are the ones taking the risk to access the market on your behalf and need security if the position goes against you. So, the margin set aside of your trading account by the broker is simply collateral as they are accessing the market on your behalf due to you not having direct access and when the margin is set aside it is not accessible until such positions are closed.

Therefore, when you open a new position it is simply a deposit in order to gain the leverage you require to trade the market, as referring back to the most recent example; you have a **$100,000** position for which you control with **$1000** from your trading account and it is this **$1000** which is your deposit to gain that leverage, therefore your margin requirement.

The reason both leverage and margin go hand in hand is because the higher leverage that you use, then the higher the margin requirement of your trading account and if at some point you have too many open positions with too much leverage or trades move into too deep in a loss then the broker could hand you a 'Margin call'. Occurrence of margin call, requires you to deposit more funds into your broker account in order to sustain the positions you have open and if you fail to comply the broker can close the position at will. If this then happens it can ruin you, as your trades will be closed out automatically regardless if you are in a loss or not and so you can lose big percentages of your account without the trade setups potential being realised. Hence why leverage can work for you or against you.

Leverage depends on your own appetite to risk, as we have discussed the potential risks involved in trading high amounts of leverage and what effects it can have in your trading account as in summary you are borrowing funds to yield a greater profit with minimal risk if used correctly, but when disrespected it can ruin you because as it can amplify potential returns it also amplifies potential risk.
When trading leveraged positions the amount along with margin requirements should be calculated prior to executing any positions in the market.
You are responsible for your funds and the decisions that you ultimately make in your trading career, as we mentioned earlier you manage your funds from this point on so be responsible and accountable.

Lot size:
The term 'lot size' is used to describe how much base currency you are buying or selling when entering a position;

Standard lot = 100,000 (Units)

Mini lot size = 10,000 (Units)

Micro = 1,000 (Units)

Therefore, by knowing the lot sizes that can be used, you can calculate what lot size is suitable to use when determining leverage and margin requirements in terms of your account size.

What are spreads?

So, as we have discussed throughout this course, that when one uses a broker to participate in the market that overall there are no monthly fees or upfront costs charged by the broker unless using leverage to trade positions. However, the broker doesn't go through all that effort of taking your position and then going into the market to execute such a position for you to make a potential return free of charge and so they charge a commission in what is known as 'Spreads'.

When trading currency pairs we know that there are two prices at one given time, think back to earlier when went through what the 'Ask' and 'Bid' price were.

Ask – The **buy** price of the currency pair.
Bid – The **sell** price of the currency pair.

It is the difference seen between the ask and bid represented in pips that the spread and therefore, the commission the broker receives when you execute a position in the market through using them specifically to gain access. Simply, put it is the difference between the price at which one currency in a pair can be sold and the other can be bought.

To expand on this, you decided you wanted to go long on GBP/USD and so the price for which you buy and execute at is the 'Ask' price in the market or if you short GBP/USD, then your position would be filled at 'Bid' price.

Due to the spread in currency pairs when you either buy or sell in the market, you will always see the new position move into a negative as no matter where or when you execute, there is always that spread from the broker to consider. The spread is unavoidable because whether you win or lose on a position, the broker is still receiving that commission from your trade as you automatically enter the market at the brokers market value rather than the true FX market value.
Spreads are nothing to be a concern of, as spreads used by brokers in the FX markets today have become much smaller and tighter due to competition between brokerages because tighter spreads therefore mean lower transaction costs for their client (You) and is good business.

The example below displays how the spread works and how it will look, when you come to trade the markets.

GBP/USD	14049.2	14051.3

In the example seen above, we see two quotes generated. The left quote represents the brokers 'Sell' price **1.4049(2)** and on the right-hand side we see the brokers quotation to 'Buy' GBP/USD at brokers market value of **1.4051(3)**. The difference between the quotes generated is therefore, the spread which in this example is; **2.1** pips. If, you think back to when we first discussed spreads that the broker charges as commission we stated that when open a new position you move into a negative balance and by using this example would mean your position would be down **-2.1** pips automatically when you open that new trade.

Spreads should be considered when entering positions due to it being more open risk, but even more so when using different types of market orders to ensure your position is filled (Executed) in the market and we will delve into different types of market orders later on and how spreads needed to be considered.

The difference in spread costs for transaction varies from currencies due to the level of volatility and market liquidity, as very liquid currencies such as GBP/USD have a low transaction costs of 2.1 pips. However, illiquid currencies such as GBP/NZD as seen below have much higher spreads.

GBP/NZD	19403.3	19416.5

Looking at GBP/NZD we can see that price difference between that of the 'Ask and 'Bid' is **13.2** pips, which is a huge spread because if you are trading at **$10** per pip with your position the result is that you are instantly down **$130.20**, without the market even moving against you. This is the reason why you need to pay attention and consider the spread for the asset you are trading as it is very easy to move into a negative on such a position automatically through a transaction cost.

Spreads do indeed widen dependent on the level of market volatility and in circumstances of fundamental announcements and the reason for large changes in the spread is to ensure once more that the broker covers their own back, as they are the onse entering market for you in periods of increased levels of uncertainty and therefore want more commission.

Market sessions:

Due to the forex market being decentralised this means that it is active 5 days of week and open to trade 24 hours a day because of the different time zones in the world. It is then because of these different time-zones that the forex market is then categorised into four trading sessions, to which offer different levels of volatility and liquidity through the change in market volume and the sessions are as follow; London, New York, Tokyo and Sydney. They are the biggest exchanges in the world and the reasons for these sessions and specific locations is because of the sheer trading volume transacted through the markets but more specifically the cycle of the day itself; as seen in the table below which gives clear insight to one whole cycle of a trading day.

Time zone	GMT	EST
London (**Open**) London (**Close**)	8:00AM – 17:00PM	03:00AM - 12:00PM
New York (**Open**) Ney York (**Close**)	13:00PM – 22:00PM	08:00AM – 05:00PM
Sydney (**Open**) Sydney (**Close**)	21:00PM – 06:00AM	16:00PM – 01:00AM
Tokyo (**Open**) Tokyo (**Close**)	23:00PM – 08:00AM	18:00PM – 03:00AM

The sessions that offer the largest amount of market liquidity is through the London and N.Y sessions, as London starts the trading day in which traders establish positions in the market and may react to what happened in the Asian session and then half way into the London session we see the N.Y traders come online and this sees a huge increase in market liquidity and volatility. The reason for that is because the N.Y traders are now reacting to what may have happened in the London session and need to establish new positions or close positions which of course impacts the level of supply and demand in the market because we have seen a sharp increase in market volume. It is this cross-over of market sessions (London – New York) that sees an increase in market volatility due to such a huge increase in market liquidity in a short period of time, as you now have the two biggest exchanges in the world trading with and against one another.

At the end of the London session volume is still quite high in the market due to N.Y still active and therefore offering enough liquidity to keep the market moving, but once we see the N.Y session come to an end for the trading day we see a decrease in volume. As we have seen a large number of participants leave the market and as Sydney is now online we see price movements continue as participants remain active, as it is now time for traders who are trading the Sydney session to establish and manage positions in the market.

Typically, when we see fundamental announcements made for such pairs correlated to the Sydney session such as AUD & NZD released that we see volatile moves occur and the reason for that is because there is a much lower level of liquidity in the markets and therefore easier for price to move more aggressively. Because as we know we need high levels of liquidity to control market volatility to a degree but when we see lows levels of liquidity i.e. active participants, this then means it easier for a currencies price to be influenced by new positions because there could be less market opinion to disagree and no larger positions being executed in the opposite direction and so there could be a strong imbalance of how much a currency is being bought and sold

The last session, is the Asian (Tokyo) session and so we again can see sharp moves in currency pairs that trade with the JPY, due to a lower a level of market liquidity and therefore making prices more susceptible to fast and sharp increases or decreases than what would occur in the London or New York session.

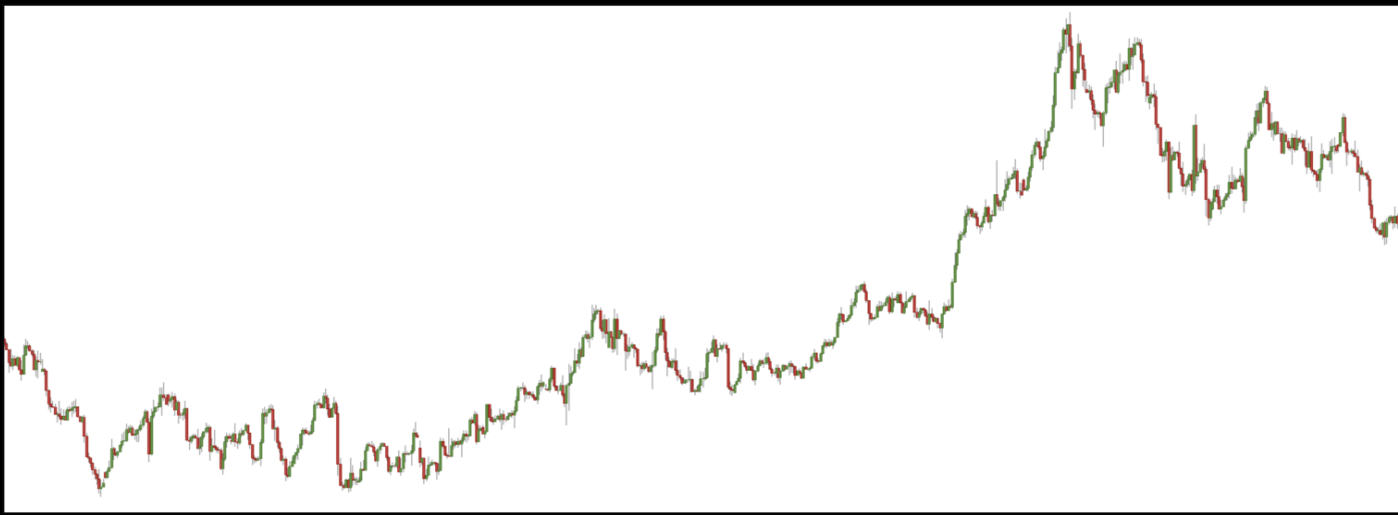
However, it isn't just specific pairs of such sessions that can be easily influenced in the overnight session's as every currency remains active to be traded and transacted because the FX market is open 24 hours a day.
For this reason, the broker charges interest on positions held overnight, as a fee to sustain your position and for possible sharp increases in market volatility and will vary from broker's. It is wise to always have an exit point set and established before you go to sleep. The reason for having an exit point set in the market is to protect yourself and to prevent unnecessary risk, so that you don't incur a big loss from a move that took place in the session that you were sleeping through. We will teach you on how to protect your positions and trading account.

Correlation of pairs:
Now that you have a firm understanding of what goes on within the trading sessions and the understanding for what drives movement within a currency pair, we can lead into why certain pairs correlate with one another. What we mean by 'Correlation' is how we can see two different currency pairs make similar moves within trading sessions and over periods of time.

We need to establish what a currency correlation is; as it is when we have at one currency within the same pair, For example; GBP/USD & EUR/USD or AUD/USD & NZD/USD and from these examples we can identify that each pair has a different **base** currency but the same **quoted** currency (USD).
This then makes each pair unique but because each specific pair carries the same quoted currency means that they are interlinked because they are influenced through the shifts in supply & demand for the USD and known as '**positive correlation**'. For example, if we see a sell-off (Rapid rate of selling, through seeing a change in supply) of the USD due to a poorly received fundamental announcement then we should see that reaction throughout most of the pairs that trade with the USD as the **quoted** currency but of course this depends on the level of supply & demand in the specific pairs. However, due to changes in market sentiment and shifts in economic variables means that we can see a change in correlation from being positive to negative very quickly.

We shall now look at some examples of both **positive correlated** and **negative correlated** currency pairs. **Refer to page 24**.

GBP/USD 4HR TF:

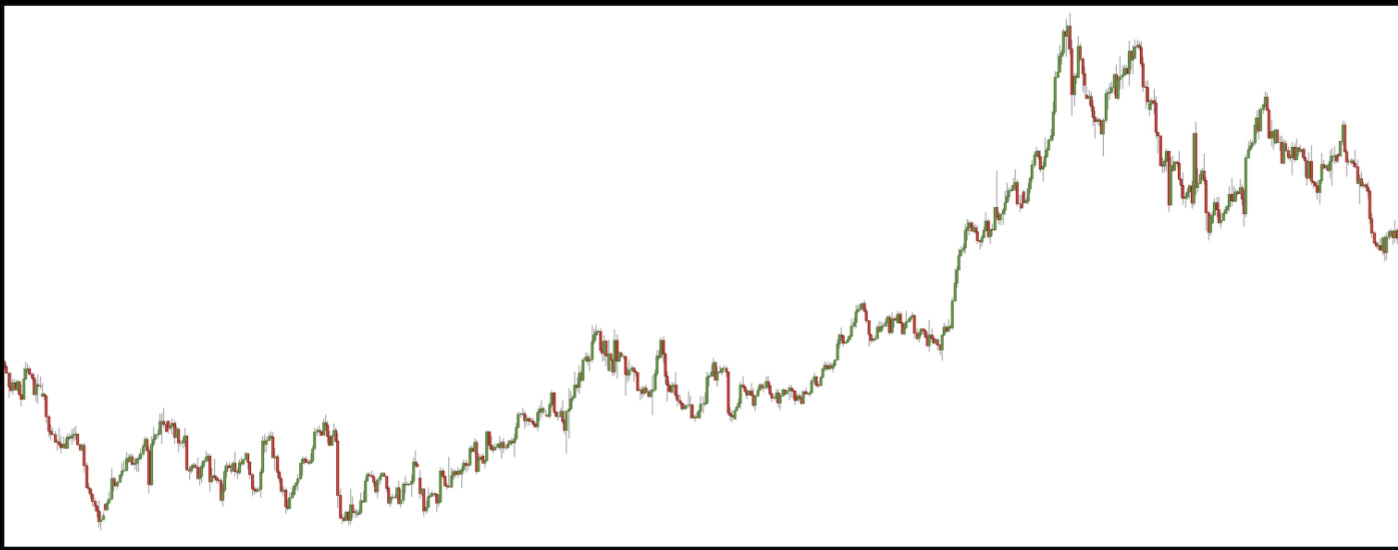


EUR/USD 4HR TF:

From the two examples used, we can then clearly see that two both EUR/USD and GBP/USD appear to be making very similar market moves and this is because they are **positively correlated** pairs.

Negative correlation is when pairs that contain the same currency i.e. the USD move opposite to one another. For example, USD/JPY, USD/CHF and USD/CAD but this time it is the USD for which is the **base** currency rather than the **quoted** and therefore because they move in opposite direction to the positive related currencies they become negatively correlated.
Refer to **page 25** for charting examples of negatively correlated currency pairs.

GBP/USD 4HR TF:



USD/JPY 4HR TF:

From the two price charts displaying **GBP/USD** and **USD/JPY** we can see that we don't have a positive correlation as neither pair is making the same moves as they are moving in opposite direction. Even though both pairs do carry the USD currency that one carries at as the **base** and the other **quoted** and therefore, the pairs cannot move in the same manner and so we see **negative correlation**.

The reality of trading is that nothing happens by the textbook example so to speak and when using currency pair correlation, we suggest it to be used as a filter rather than a pure reason for entry and we will explain the reasoning for why. Because as we stated market sentiment shifts constantly due to changes of economic factors therefore influences supply and demand. For example, if you are **Short** GBP/USD and **Short** EUR/USD and a positive fundamental is released for the USD we would expect that both pairs should now move lower because the USD has new bullish demand, therefore a positive correlation should be seen. The result should then be that our GBP/USD **short** position should win and that the EUR/USD **Short** should also win because the quoted currency (USD) should appreciate in market value, therefore both pairs would turn bearish.
However, because each pair does indeed have its own level of supply and demand through market opinion that influences fluctuations of price, that we see the EUR/USD **Short** position

win as the pair move lower but in contrast the GBP/USD **Short** lose as instead it moves higher. The reason for this is because the demand for GBP at the specific point could outweigh the level of new market demand for the USD but in this instance the EUR lacks that the same demand and therefore the GBP appreciates against the USD, while the EUR deprecates against the USD. Contrary to the belief that because the USD now has reason to gain strength that this will result in a positive correlation i.e. EUR/USD is now moving lower that GBP/USD should be too.

Therefore, it is our opinion that you shouldn't trade correlations directly as there are so many variables and justifications in market opinion in that one factor might not carry the needed weight to see a shift in overall supply and demand for multiple currencies. Of course, In the market we do at times see positive correlation work but we want to give you the insight to the realities in this market and that at times the market doesn't do what it is supposed to and the reason for that is because the market will do what it wants, when it wants.

Reading the language of the market with technical analysis.

Price action

Price action is the movement of a currency or other asset class when being assessed through technical analysis (Study of past market data) and through being able to read price action correctly it allows you to make strong predictions in future price movement. Simply put price action is the language of the market and needs to be understood correctly because as we have already stated you can either trade the markets through fundamentals or technical analysis. But fundamentals can be extremely hard to trade due to the unknowing of how others will interpret such economic factors and reports in real time and understand what the new announcement means in the short-term and long-term. Therefore, unless you have access to figures in which no one else does prior to the release of such data you will not have a firm edge because of the huge amount of uncertainty discussed for the average retail trader (You). But with price action we can look at historic data and literally see the reaction from humans in the market and because humans are of a repetitive nature we can find patterns that more often than not, repeat themselves thus giving us an edge!

The importance of fully understanding price action is crucial as we stated previous "it is the language of the market" therefore if you understand what has been designed to assist you in the market i.e. to speculate on future price movement you can trade in a professional manor. For example; a musician reads music notes and because they fully understand what the notes interpret, and they can use that knowledge in order to create music or a developer for instance who uses code to build websites, needs that knowledge of understanding what the code represents in order to create websites or software. However, for you if you can understand price action it can allow you to create wealth!

Please do not think that it is impossible to trade fundamentals and be successful, as some of the most successful traders only believe in trading through fundamentals but what they have which you don't is many years of experience as they can be classed as veterans of trading. Because before technical analysis became as popular as what we see today, fundamentals were the main factor for speculation and it is through this experience gained and long-term understanding of what reports and economic factors mean, which allows them to make predictions of future prices.

We believe that technical analysis is becoming a far more popular way to trade the FX market specifically because a price chart is a representation of what has happened in the past and insight to what may happen in the future and therefore, everyone has access to the same information.

Price charts

When using technical analysis, there are varying ways for which one can use to read price action through different price charts and are as follow; Line, Area, Bars, Heikin Ashi, Hollow candles and Japanese Candlesticks. For this course and how we will be teaching you trade, we will be focusing solely on 'Japanese candlesticks' but if you would like to understand other price charts you most certainly can as trading is a journey of self-education which never ends but we will be focusing simply on Japanese candlesticks. The reason for focusing on just candlestick's is because they are the most simple way to interpret price action as they give direct insight to market sentiment and the easiest to understand.
People refer to reading price action as an art form because in essence you are looking at a visual representation of price through a visual (Candlesticks) and attempting to understand its true meaning by using your imagination to make predictions for its future direction.

What is a Japanese candlestick?

Japanese candlesticks were created by a Japanese rice trader in the 18th century and used for many years, but were only discovered in the western world when a man named 'Steve Wilson' discovered the method and introduced it into modern society and has gone on to be the most popular way to trade the FX market to this day.

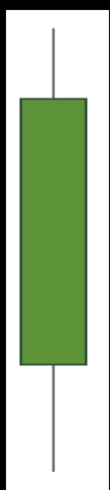
When interpreting candlesticks, there are two specific types; Bullish and Bearish candles, in which both represent data and market sentiment (Opinion). As '**Bullish**' represents appreciation in market value and '**Bearish**' represents deprecation in market value and what we look to do is asses the candlesticks formed in real-time to make predictions on future price.

Here is an example of a 'Bullish' candlestick for which we will break down for you, so that you have a firm understanding for what it means for price movements. The example below represents one **day** of data or trade for GBP/USD and displays how the market moved in that trading day.

The top wick, is known as the '**Upper wick**' and represents the highest price tested in the market.

Closing price of bullish candlestick 1.5160

The middle section, is known as the '**Real body**' and represents the data in between open and close for the trading day.



Opening price of bullish candlestick 1.5040

The top wick, is known as the '**Lower wick**' and represents the lowest price tested in the market.

Overall through this visual of a candlestick, we can then see what happened in that specific trading day because we can see at what point in the day price for GBP/USD hit a new session low (Lowest price point tested for the day) and hit a new session high (Highest price point tested for the day)
The most important part of any candlestick is the '**Open**' and '**Close**', as it is the movement between these two variables of the real body that gives key insight to what may happen next because it is this price change between the opening and closing price for what we are then interested in.

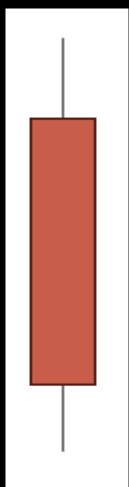
From the example used, we can see that the overall 'Real body' is Green and therefore represents a bullish trading day (Remember the candlestick represents one day of price action or data) because it was the buying pressure in the market that took prices from the open (**1.5040**) and moved higher throughout the day, to then close at a higher price (**1.5160**) than what the candlestick opened at. This is therefore a bullish trading day as it was the buyers who had overall control of market prices, to which the saw GBP/USD appreciate **120** pip's.

Simply put, one candlestick when looking at the 'Daily' candlestick chart represents all the data that took place from the session **open** to the session **close** and there are other timeframes that one can use to interpret data but more on that later.

In the example below, we can see that this time the 'Real body' is now Red and represents the sellers in the market because this time it was the selling pressure in the market that pushed prices from the opening price lower and resulted in a new lower closing price. Because in bullish candles the market needs to move **above** the opening price and close above to display appreciation in the market value. However, with bearish candles price needs to move and close **below** the opening price to display depreciation in the market value.

The top wick, is known as the '**Upper wick**' and represents the highest price tested in the market.

Open price of bearish candlestick 1.5320



The middle section, is known as the '**Real body**' and represents the data in between open and close for the trading day.

Closing price of bearish candlestick 1.5240

The top wick, is known as the '**Lower wick**' and represents the lowest price tested in the market.

By looking at the example above, we can therefore see that the structure to the 'Bearish candlestick is exactly the same when compared to the 'Bullish candlestick'. But the only the difference is that of the session opening price and the session closing price or the 'Real body', which dictates how the trading day ends and gives interpretation for future market prices.

As in the example above we can see that selling pressure pushed market prices from the open (**1.5320**) and moved lower throughout the trading day and then closed lower (**1.5240**) to what the candlestick had originally opened at. Therefore, GBPUSD in this instance saw an **80** pip depreciation.

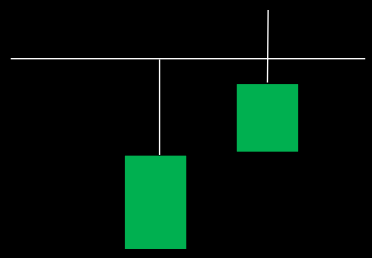
Now that you have a firm understanding for what candlesticks are and how they represent market moves that occur in live market situations, we will expand further on in the course as to how candlesticks have different meanings for market movement and how they represent market psychology. Along with this we will teach you the different types of candlesticks that can be formed in the market and identified as patterns, to give you deeper understanding to how the market moves.

Higher high higher close candles & Lower low lower close candles

A higher high higher close candlestick (HHHC) simply displays significant buying pressure in the market and represents how buyers were able to move beyond the previous candles highest high and close above it. Thus, suggesting a strong increase in bullish momentum in the market and a signal for continuation higher.

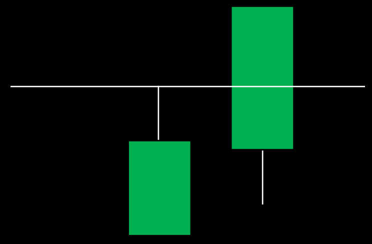
What is the difference between a HHHC and a HH candle?

Here, is how a **Higher High** candle looks in the market;



As, we can then clearly see the candle did indeed create a new session high due to the real body closing higher than the previous bullish candle real body. This then suggests an increase in buying pressure however, it would have been a better sign for continuation of buying pressure if we saw break and close beyond the previous bullish candle high (upper wick). The reason for this is because from a HH candlestick although we do see an increase in buying pressure from the candlestick real body, buyers still ultimately failed to break beyond the previous highest price tested in the market. This then displays that buyers were in fact rejected from pushing beyond that specific high in the market once again.

Here is an example of a **HHHC** candle;



In this example of a HHHC candlestick, we can see that this time price action was able to in fact not only print a HH but also break above and close beyond the previous highest price tested from the candle before it due to a strong increase in buying pressure. Therefore, fulfilling a valid HHHC candlestick as price action has not only retested the previous highest test but has in fact been able to violate it and this specific move suggests a much stronger for continuation of buying pressure. Due to a strong increase in bullish momentum has occurred, as for where buyers were once rejected they have now been able to push past and establish a new highest close in the market

(**Remember it is the close of the candle that provides the most information**).

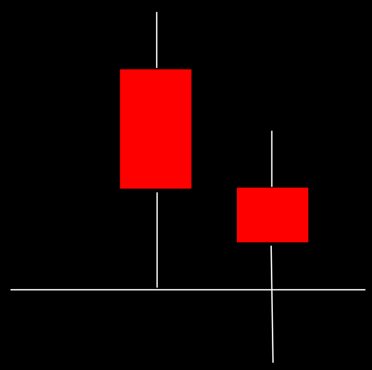
Overall, HHHC candles simply give a strong bias to that of buying pressure in the market as these candle display that buyers were stronger than that of sellers in the market due to buying pressure being able to push into new market highs and close beyond both the previous highest close and highest test of a previous candlestick. As oppose to HH candles which signal that buyers did push market prices high due to closing higher than the previous candlestick close price. However, as buyers could not push beyond the previous highest test but simply remained below it, it would then suggests continued rejection in buying pressure as the previous highest test was respected rather than violated.
Therefore, we can use HHHC candlesticks as a stronger signal for continuation higher in the market though that of buying pressure.

What is the difference between a LLLC and LL candles?

LLLC candles have the same psychology as HHHC candles but simply reversed to that of HHHC candle, as a lower low lower close candlestick (LLLC) displays significant selling pressure in the market was seen and represents how sellers were able to move beyond the previous candles lowest low and close below it. Therefore, suggesting a strong increase in bearish momentum in the market and a signal for continuation higher.

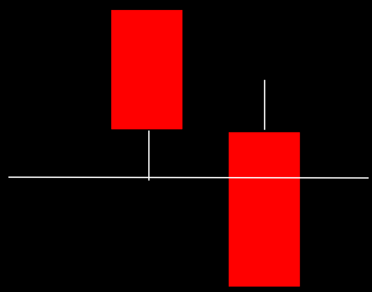
What is the difference between a LLLC and a LL candle?

Here, is how a **Lower low** candle looks in the market;



From this example of a LL we can then clearly see the candle did indeed create a new lower market price due to the real body closing below than the previous bearish candlesticks real body. This then suggests an increase in selling pressure however, it would have been a better sign for continuation of selling pressure if we saw break and close beyond the previous bearish candle low (lower wick). The reason for this is because from a LL candlestick although we do see an increase in selling pressure from the candlestick real body, sellers still ultimately failed to break beyond the previous lowest price tested in the market. This then displays that sellers were in fact rejected from pushing beyond that specific low in the market once again.

Here is an example of a **LLLC** candle;



In this example of a LLLC candlestick, we can see that this time price action was able to in fact not only print a LL but also break below and close below the previous lowest price tested from the candle before it due to a strong increase in selling pressure. Therefore, fulfilling a valid LLLC candlestick as price action has not only retested the previous lowest test but has in fact been able to violate it and this specific move suggests a much stronger for continuation of selling pressure. Due to a strong increase in bearish momentum has occurred, as for where sellers were once rejected they have now been able to push past and establish a new lowest close of price in the market.
Once again LLLC candlestick can be used for a strong signal to suggest continuation of selling pressure due to the nature of the break and close movement for which we see in such candles.

In summary HHHC candles and LLLC candles are stronger representations for increase in momentum in the market and a truer representation that the market may continue in the direction of the closing candle.
However, we can use these candles to also identify valid and strong trends and learn how we trade trends ourselves here at Fair Exchange Trading and when a market may signal continuation higher or lower. Along with the above, we can also use HHHC and LLLC candles as signals for market setups to which we will expand on and go into much more depth later on. We will use the principles for the HHHC and LLLC candlesticks.

Price chart Timeframes

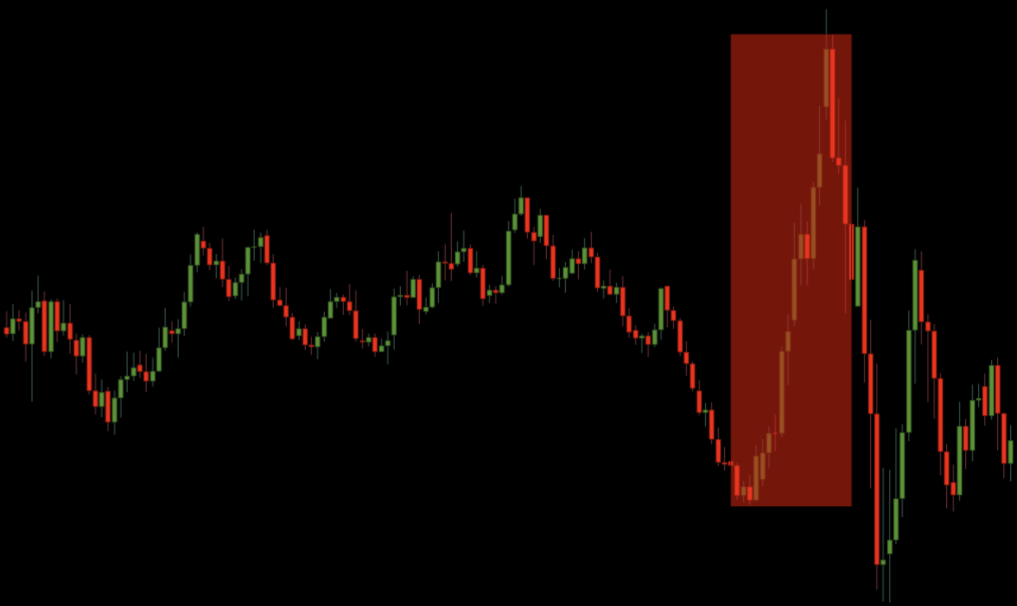
In the realm of trading there are many timeframes (TF) that one can look to trade specifically or you can use different TF's to build on market opinion. Remember that one candlestick represents one piece of data. For example, **one** candlestick on the **daily** TF represents one whole day of price action (Movement) in the market but if you are looking at a **5-minute** TF, then one candlestick represents one 5-minute period in the market and so each candlestick is TF specific.

TF's available are as follow's; **1 Month**, **1 Week**, **1 Day**, **4 Hour**, **3 Hour**, **2 Hour**, **1 Hour**, **45 Minute**, **30 Minute**, **15 Minute**, **5 Minute** and **1 Minute**. Therefore, each specific TF has different meaning to the market sentiment and value.

In the example shown (**Page 32**) we can see that each TF has a different number of candles within it to form the next TF price chart i.e. the **Daily takes** TF takes **24x1 Hour** candles to form that one **daily** candlestick. Due to this, we can look at each TF independently to gain different market opinion, as each TF has a different perspective but more on this area later once you have a greater understanding on how to correctly read a price chart.

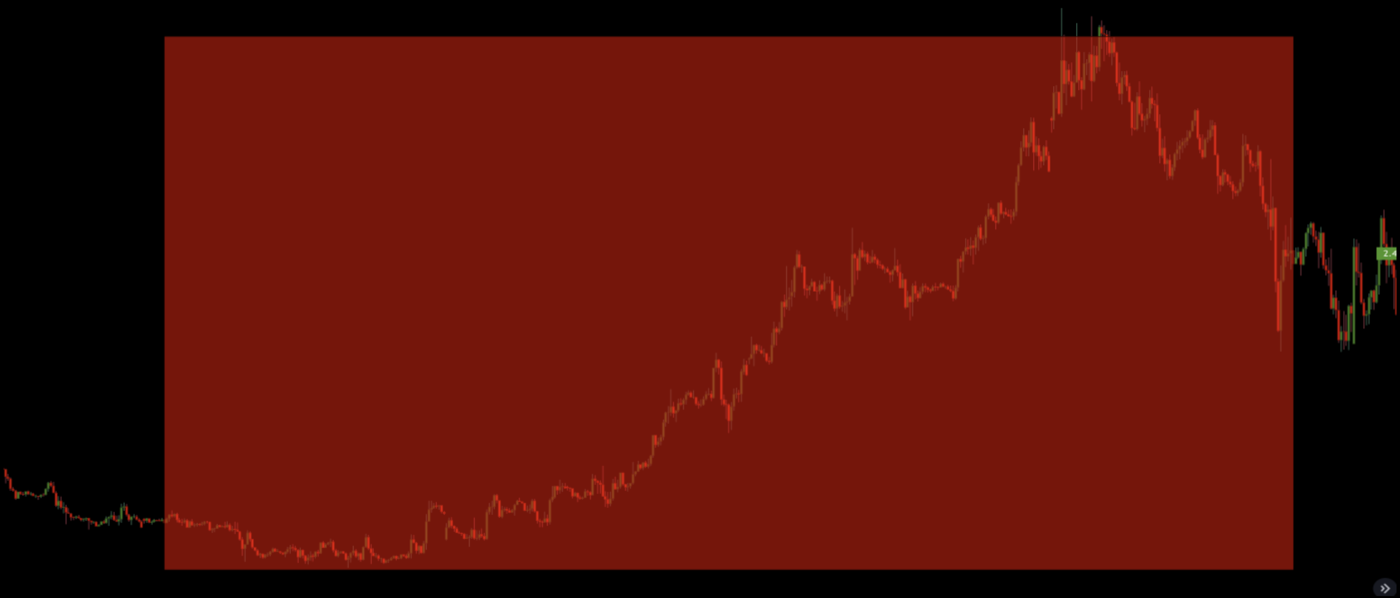
Timeframes simply allow a trader to gain clearer insight into market moves as they can analyse more data.

Fig 1.



Above, we can see EUR/USD on the daily TF and looking at the bullish candlesticks within the highlighted box which represents two week's worth of trading in EURUSD. As of right now there isn't a lot of data we can analyse from that two week period and all we can see is that price was moving in a strong upward direction but as traders we are looking for potential opportunity to find different ways as to how we can get involved in the markets. So if we drop down to the one hour timeframe we get a much bigger picture as to what happened in that same two week period as more data becomes available for us to analyse.

Fig 2.



Do you then see how much more data becomes available to us and we have more data to analyse and interpret in comparison from the Daily TF to the 1 Hour timeframe? Using different timeframes allows us to have a clearer and deeper understanding as to what happened with certain market moves and allows us to form opinions but importantly look for potential trading opportunities in the same currency which might not have been available on higher timeframes.

Moving on, now that we have seen how price charts and candlesticks form an overall market bias dependant on specific price charts we can then state that a higher TF has a stronger bias of overall market sentiment than that of a lower trading TF. For example; The Daily TF has a much more stronger opinion of price on EUR/USD than that of the **1HR** TF because we now know it has taken **24**x**1HR** candles to form just **one** daily candlestick and therefore makes the Daily TF more weighted as it has taken into consideration all the market data of the past **24** hours and condensed it down into one candle. This then allows the market open and close to be determined, which are the most significant points in any trading day.

Expanding further, if the overall market sentiment EUR/USD on the **1HR** TF was **bullish** but on the **15M** TF the price action was suggesting an overall current market bias that was **bearish**, which would have the greater market opinion for the overall sentiment for EUR/USD?
If you said 'The 1HR TF' you would be correct because as we know the higher the TF you are looking at, the more weighted the overall bias in the market is. As it is combing opinions and compressing them into one.

In our opinion, the daily TF and higher shouldn't be traded specifically but looked at more as on observation to get a perspective for the overall market sentiment and bias and the reason for that is because to get involved you need large positions and therefore greater amounts of risk.
When we look to get involved in the market and execute positions, we do so accordingly on the; **4HR**, **1HR** and **15M** as these are the TF's that we have found work best for trading the FX markets consistently but of course this is solely our opinion.

Trading low time frames

Many new traders are actively drawn to trading the lower TF's (anything lower than the 15M), the reason for this is simply because it is fast paced and more exhilarating to the trader because they are getting faster results. But what many new traders fail to understand is the faster the results, the faster the losses that can be incurred and as you are yet to build that needed trading psychology to handle losses (Refer to page 8 Retail trading psychology), it typically doesn't end well for them.

The reason for the lower TF's being highly attractive for new traders is mainly because it is more exciting because when you are trading the **1M TF**, you are seeing a new candle form every **60 seconds** and therefore making trading more engaging and fun, but in essence this is exactly how gambling makes you feel as your adrenalin goes higher because you are so emotionally involved. Remember, we are teaching you to be anything but a gambler and the reality is that trading should be boring because you are simply repeating a process and each time you engage in that process you are further detaching emotions from your trading. We are teaching you how to speculate on fluctuations in market prices through calculated risk, not guessing and hoping that universe will align for us in that moment.

Here at Fair Exchange Trading, we like to use the following TF's; **1 Week**, **1 Day**, **4 Hour**, **1 Hour** and **15 Minute**. The reason for this is because the weekly and daily TF's give us an overall broad perspective of market sentiment and bias i.e. 'Bullish' or 'Bearish' and we then use the lower TF's 4 Hour, 1 Hour & 15 Min also known as 'Trading TF's' for which we actively look for opportunities and trade setups to get involved in.

Indeed, you can trade any TF that you wish, but for the sake of not blowing your account up through gambling which we have seen time and time again, we advise you to stick to the TF recommendations we have supplied because you are the minority and not the majority.
Of course, there are traders who look to specifically trade the very low TF's such as the **5M - 1M** and they are known as 'Scalpers' because they look for positions with profit targets in the region of a few pips. As they enter the market for very short periods and do so many times a day and disregard the use for a stop-loss and R/R, which will delve into why these two variables (Stop-loss and R/R) are vital later in the course.

The way in which 'Scalpers' are able to make good returns from such minute positions is due to having high leveraged positions, in which can of course see good trading days but also bad trading day's and with it being so fast paced can indeed see traders lose large amounts of capital quickly. We see scalping as more in the region of **gambling** with calculated risk rather than **investing** with calculated risk but it as your discretion for which path you chose to take.

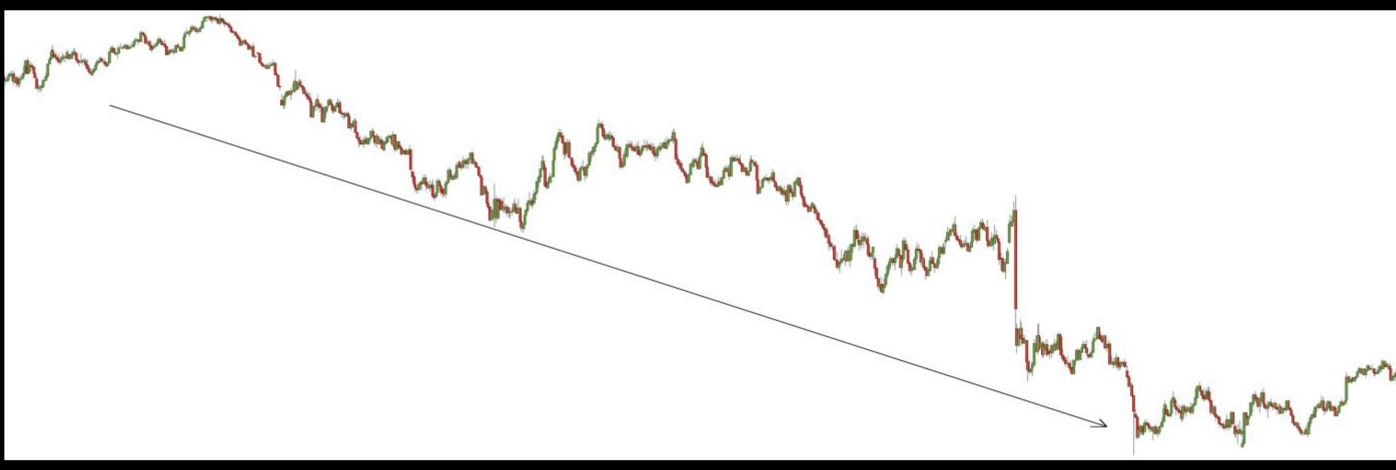
Determining the market sentiment

Referring to earlier in the course, specifically in the section '**Forex terminology page 17'** we discussed how a market can be either 'Bullish' or 'Bearish' and we are going to expand on this now that we have an understanding for price action we can look at a market and understand the overall sentiment.

All markets move in cycles, which are; Bullish (**Expansion**), Bearish (**Contraction**) and Ranging (**Consolidation**) and when looking to trade the markets it is crucial that you know what cycle the market is currently trading within. For example; you **buy** GBP/USD, but the overall market sentiment is **bearish** and without knowing it, you may have entered a position that has very little chance of success in the first place because there might not be that underlying demand needed for the GBP to appreciate against the USD as you originally hoped.

What can we then do? Simply identify the overall market bias by looking at the price chart itself and establish the cycle the market is currently trading within.

Below, we can see a charting example of GBP/JPY Daily TF (**2015 – 2016);**

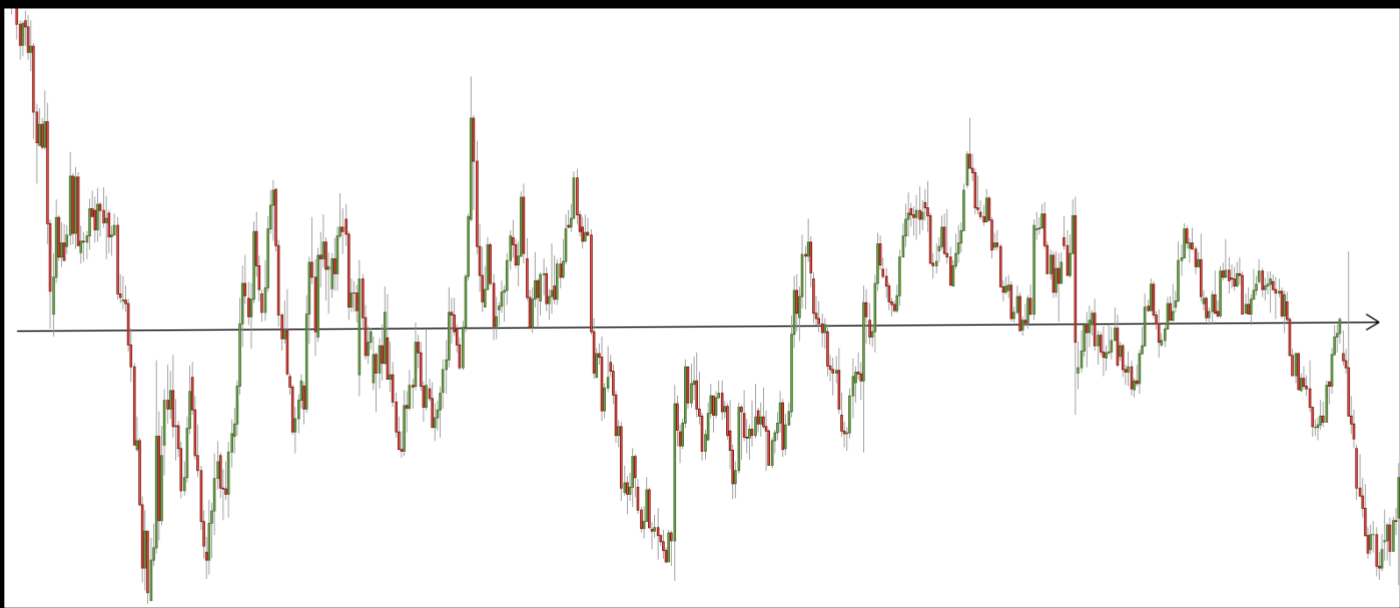


The overall market sentiment in this example is 'Bearish', how do we know its bearish? Simply by looking at the **top left** – **bottom right** of the chart we can see that price has been moving significantly lower thus creating new lows, because the **GBP** (Base currency) has been depreciating against the **JPY** (Quoted currency) and therefore paints an overall picture of a 'Bearish market'.

Onto a different example, now we can see XAU/USD Daily TF (**2009 – 2011**);

By then looking at this example to the one seen previously seen in GBP/JPY, we can see that market is instead creating new highs and by looking from **bottom left – top right** it paints an overall picture of a 'Bullish market'. As XAU (Gold i.e. base currency) has been appreciating against the USD (Quoted currency).

The final example is a consolidating market; as seen on EUR/USD Daily TF (**2015 – 2016);**



Instantly we can see that this example is completely different from the other two, because if we look at it from **bottom left – top right** we can see it does not have the characteristics for a 'Bullish' overall sentiment but then if we look from **top right – bottom left** it does not have the true characteristics to be 'Bearish' neither. Therefore, if neither market cycle can be clearly be identified it is known as 'Consolidation'.
A ranging market otherwise known as a consolidating market, is simply when the asset in this case EUR/USD is ranging (bouncing) between what is known as 'Support' (A floor for price) and 'Resistance' (A ceiling for price) and we will expand on these terminologies later.

When a market is trading within a period of consolidation, it is simply nothing more than the market waiting for its next phase of expansion or contraction to begin. The reason for this is because the buyers lack the needed demand to move higher (Above the current ceiling) but fail in doing so, the sellers then attempt to move lower (Below the current floor) but also lack the needed demand to do so. Therefore, we see price simply bounce back and forth until we eventually see that needed move higher or lower and we begin to see clear signs of a 'Bullish' or 'Bearish' market once more.

Consolidating markets can be traded, like any other cycle but does require a little bit more skill which we will teach you, as you continue to progress.

In summary;

Bearish is when the market is moving lower from **top right** – **bottom left** of the chart

Bullish is when the market is moving from **bottom left** – **top right** of the chart

Consolidation is when the market is moving **sideways**, with no clear direction of bullish or bearish behaviours.

Also, did you notice how we used a higher TF such as the Daily to gain a clear and easy perspective of the market cycle and as we then identified the overall market bias, we could then drop down to one of our more appropriate trading TF's (4HR or 1HR) to find setups that might be in line with the overall sentiment we just identified for high probability scenarios.

What we are trying to do is gain perspective in the market to make high quality predictions for what may happen next in price but remember each TF carries different sentiment and bias. However, if you would like to know the underlying bias in the market then higher TF's need to be utilised because as we know the higher TF's carry a more of a weighed opinion and truer representation of sentiment such as; Monthly, Weekly and Daily.

Fundamental analysis

Fundamentals

So far, we have touched on what fundamentals are and how they influence the movement of currency prices, but when one looks to trade the markets purely through fundamentals it is known as **'Fundamental analysis'**.
This style of trading is where traders purely speculate on future market moves through new economic announcements and releases of data that can influence currencies and depending on the data released, enables traders to speculate on the market.
We have stated before that prior to the popularity of technical analysis fundamental analysis was considered the gold standard to trade the markets, as traders found it hard to believe that you could speculate on future market moves from looking at a price chart and some traders still refuse for it to be possible.

When you look to trade the markets through fundamental analysis, you typically have a time realisation of a few months, as the idea is that the new data will influence the currency price in a longer-term outlook as opposed to the shorter-term. This then means that some traders will be sat in a loss for possibly a few months but predict a positive turn around in the markets. It is also best we tell you from the get go that in order to trade through fundamentals, you have to have a larger amount of capital and a strong mind set because you don't want to be sat in a position for months where you only make a minor profit. Fundamental traders also tend not to use a stop-loss for where you are exited out the market at specific price points.

We have discussed fundamental reports are indeed the driving force for the movement of currencies, as it is the data itself which moves the market but the human reactions of new reports and data that allow the market moves that follow the announcement to occur. Along with this, we are trading two currencies paired up with one another, therefore two economies trading against one another, and so we look at these reports to determine which economy is stronger based on the announcement.
This then presents a problem for which we have previously discussed (page **15**) because we may see one piece of data released but doesn't mean to say the market will move in the direction the news suggests. For example; New data is released for the EUR which proves to be positive, but this doesn't mean to say the EUR will appreciate in the market because the supply and demand in the market might still favour the other currency within the pair. This then brings confusion to some traders, as they had believed that a positive piece of data would positively impact the market but instead the opposite occurs and while at times it is simply the levels of supply and demand, it is also known as 'Market manipulation'.
Remember, when trading fundamentals a longer time for your analysis to be realised is needed so that short-outcomes don't affect your hypothesis of future price.
Market manipulation is quite clever and the reason why so many new traders choose technical analysis over fundamental analysis, as the smart money (Big players) in the market will execute new orders in favour of a news event. For example EUR/USD at time of the news release and what is known as the dumb money (Retail investor) will then buy the EUR as they see the initial move higher due to the fundamental announcement. However, the dumb money simply provides the liquidity needed for the smart money to execute their true orders which are to sell the EUR and what happens next is the market tanks lower.
The reason it tanks lower is because the initial buy positions executed by the big money from the initial new release are closed (sold) and it is the dumb money purchasing the buy contracts which the smart money has just sold! Now remember dumb money (retail trader) has far less money than that of the smart money (Big players) in the market and so who can purchase more currency…the smart money! So if we are seeing the Smart money sell more currency than what the dumb money can buy what happens? We see that imbalance in supply and demand but more aggressively.

This is why it can hard to trade fundamental events because you aren't trading the event itself you are trading against every other market participant.

In each trading week a series of economic reports for countries around the world are released that may influence the price change of a currency depending on human interpretation of such releases of data.
In one trading week we could see the Bank of England (**BoE**) release details of a **minutes meeting**, detailing the prospects of a future rate hike in interest rates, US **GDP** and **Non-farm payroll** and Eurozone **CPI**.
Releases of data as we have used as examples are known as '**Macro-economic**', as they influence the short-term and long-term perspective of a currency's price and it's these types of announcements that can increase market volatility.

There are many different types of data releases that can suggest a slowdown in the economy or growth but what we care for are the macro-economic announcements, also known as '**High volatility announcements**'. These literally increase market volatility because more eyes i.e. participants are paying attention to them and waiting to react, due to high significance that can dictate the economies outlook in both the short and long-term.

Interest rates:
When a central bank decides that the current state of the economy can support an interest rate hike, the bench market interest rate for that country or nation will increase. For example; BoE decides to increase the bench market interest rate from **0.50%** to **0.75%**,

this then sees a rate hike of **+0.25%**. We have previously discussed how increasing interest rates can indeed be positive, but it can also be a negative, as a currency that is too strong will bring other problems. This is because imports and export costs will increase and we will also see the cost of borrowing increase, because lenders charge an interest rate fee and if the bench mark rate for the country increases then so does the lenders. This then sees people borrow less money, as borrowing is now less attractive because it now cost more to borrow due to an increase in the interest rate. This can then affect consumer spending as people are now borrowing less and this can lead to a decrease in **Retail figures** and even **Car manufacture sales**. A slowdown in car sales would then see less production thus a decrease in imports and exports and ultimately could see workers let go of jobs as there is now a lesser demand for new cars to be made and therefore no need for as many workers as what there once was. This can then see an increase in the **unemployment rate** and so on. We can see how a snowball effect can occur from having a currency that is too strong and so that is why we see a constant shift in price because there is always a different **perfect** price.

A decrease in the bench mark interest for the economy suggests a slowdown of growth, thus a decrease in new investment for the economy in question as investors have a smaller risk appetite due to slower returns and underperforming yield if they were to invest with an economy that is growing.

Interest rates are reviewed once a month for adjustment by reviewing other pieces of data released combined with historical data, to assess if it is appropriate to adjust rates or leave them as they are. Minutes meetings then take place where the Central banks or the FED will publically reveal if they look to adjust the interest rates at any point in the short-term and long-term and discuss other economic factors that could support their reasoning. Along with this, they will discuss other economic factors that they believe are either a negative or positive for the economic outlook. Investors look for key words used by the MPC (Monetary Policy Committee), who are members of the central banks, who decide on the actions needed in order to achieve the inflation target set by the central banks. Investors then use the words and sentences from the MPC to gauge a sentiment i.e. bullish or bearish and execute positions accordingly in the market.

Gross Domestic Product (GDP):
This piece of data is released on a quarterly basis. When we see an increase in GDP it suggests that the economy is growing, as people are spending more in the economy and businesses could be expanding. Therefore, it can see **bullish** movement in the price action of the currency in question as GDP growth suggests an expanding economy.
A weaker GDP therefore suggests an economy, which could be moving into a phase of contraction rather than growth and can therefore be **bearish** for a currency.

Employment figures:
This is a factor by the ONS (Office of National Statistics) used to determine the current state of the economy. **Unemployment figures** are more important as they are looked at more closely to determine if an economy is growing or in contraction and may lead to further actions being taken i.e. a possible decrease in interest rates. The lower the figure for unemployment can then be seen as **bullish** for a currency as it suggests a growing economy and a higher figure could be seen as **bearish** as it suggests weakness in an economy.

Manufacturing data:
This type of data is gauged at a reading of **50**, where if reports surrounding the manufacturing sector are above **50** this suggest the sector is expanding but below **50** suggests the sector is in contraction.
Positive figures are seen as bullish for a currency and negative figures are seen bearish for a currency.

FOMC members:
The Federal Open Market Committee (**FOMC**) are a group of members in the **FED** that often give statements, which at times can be monitored depending on member status to gauge future potential interest adjustments.

Quantitative Easing (QE) programme:
This programme was introduced following the financial crisis of 2008/09, due to banks needing to be bailed out funded through the tax payer following a collapse in the housing market. QE was created to ensure that the central banks would have the needed funds to lend to the retail banks to prop them up and to ensure consumer lending was still ongoing and to boost spending in the economy.
QE programmes are launched when an economy is moving into a period of decline and uncertainty for which interest rates are lowered. The QE is used to ensure spending is still achieved and that the inflation figures are still met.

Hawkish and Dovish:
We have covered many different terms within the FX market used by investors and traders but one more we are yet to cover is '**Hawkish**' and '**Dovish**'. These terms are used by committees and central banks to describe their opinion or outlook on monetary policy.

Hawkish – is used to describe the stance or outlook for future monetary policy tightening through an increase in interest rates, to ensure the inflation figures are achieved.
Dovish – is the term used to describe loosening of monetary policy through lowering interest rates to stimulate growth through spending and lending.

Non- farm payroll (NFP):
Next to interest rate decisions, this single report is probably the biggest fundamental report traded in the FX market. It is released on the **first Friday of every month**, unless in few instances where it can be the second Friday of the month and it is the biggest economic factor to determine the economic status for the U.S specifically. Remember the US is the biggest economy in the world and so the report is heavily watched by investors and traders and therefore brings a high level of volatility to the **major** currency pairs.
It is comprised of any job with the exclusion of farm work, unincorporated self-employment, by private household's employment and non-profit organisations within the US.
The U.S Bureau of labour statistics releases data followed on a monthly basis and the headline figure, which is the change in the new released report compared to the previous which is used as an economic health check. Simply put it looks at new jobs added in the one month compared to the previous, which can show contraction or expansion in the U.S economy.
The NFP report sees the biggest increase in market volatility typically throughout the trading month, as it is so heavily traded and can therefore bring the largest amount of market manipulation, which we shall look at next.

Looking closely at candlesticks

Following on from what we previously stated that price action is the apex in technical analysis, candlesticks are used as the language of the market as they literally display the buying or selling pressure over a desired amount time subject to the timeframe that you are monitoring. Therefore, you need to know what candlesticks show as they can give you clues as to what might happen in the short-term perspective and long-term, again dependant on the timeframe you are analysing. Of course, some candles offer some insight to future market direction than others and we will now move onto explain the different types of candlesticks and what they mean.

Human behaviour is predictable and often repetitive as we typically follow patterns otherwise known as structure within our day. This then allows us to see price action more clearly as price action also produces patterns because the market follows structure. These patterns or formations can allow traders to speculate on market behaviour and future directional bias and use it as a way of entry into a trade setup.

The important thing to remember with candlesticks is that everything can change with the next candle, as the market might be looking very bullish in one moment but a strong momentum bearish candlestick can form and completely alter your opinion of the market. In our opinion, candlesticks are the easiest way to trade the FX market specifically as they are simplest and truest form of price, as each candle represents new data and can give insight into what might happen next as we are literally seeing what happened in that time period that candle represents.

Candlestick interpretation of strength is dependent on the specific TF that you are analysing because a specific candle formed on the 5M TF would be far weaker than if the same candle occurred on the Daily TF. Therefore always consider the TF you are analysing in order to foresee a realistic outcome.

Candlesticks have varying forms but each one can suggest something entirely different to the one before it, as it is a brand new piece of data being printed on the chart. They can display exhaustion in buying or selling pressure, indecision and continuation of the directional bias. However, some candlesticks have different meaning depending on where they are formed on the price chart and market sentiment which we will explain shortly.

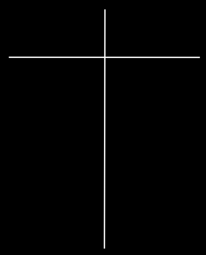
The DOJI candlestick:

The doji candlestick displays that within that specific time of new data being printed there was indecision in the market as neither the buyers nor the sellers were able to sustain the moves made in the time elapsed and simply closed at the same opening price. We typically see a move from the buyers presented from an '**Upper wick**' or high test and a low test from the sellers formed by a '**Lower wick** 'but see the candle close at the same price it opened or very near to it. What this displays it that neither the bears or the bulls were able to hold the new-found market price in their favour and therefore displays that there is indecision in the market as to where prices should go next.

This is arguably the most important candle to monitor when analysing price action when formed on your chart, as it displays a balance of both supply and demand in the market and the candles formed after a doji should be monitored carefully as they can display the next move to be seen in the market. The reason for this is because it shows bias in the market once again as there is no longer any indecision. Remember, at the point of the doji being established in the market that in that moment in time it is balanced and so whichever side of the market forms the next candle in their bias could suggest future market direction too.

These candles in particular can be used to speculate on whether a trend has met its end point, as remember trends do not go on forever. If a doji candle does form at the top or bottom of a trend or strong market move it could be a sign of what is to come next in the market.

Dragonfly DOJI;



The dragonfly doji candlestick displays that within the period of time sellers made a push to the downside, as represented by the wick low, but were rejected as buyers found value and stepped back in and pushed market prices back up towards the opening market price. This then tells us what sellers were rejected in the market, displaying potential weakness in bearish momentum however it does not confirm a move higher will now be seen neither. As you can also look at this candle once more and see that even though sellers were indeed rejected, so were the buyers at one point as they attempted to push higher in the market but failed in doing so as represented by the upper wick. Subsequently, the market closed at or near to the opening market price as neither side was able to display strength. This is then why we see such candles as indecision, as neither side had the strength to sustain prices within their favour.

Uptrend dragonfly doji:
If this specific candlestick is to be formed at the top of an uptrend it can therefore display bullish exhaustion in the market, as sellers were indeed rejected. This also signals how buyers were not able to then proceed in creating a new higher price but held at the price it had opened at. It then gives insight that buyers could be running out of momentum as no new buyers stepped into the market to continue with the momentum expected and previously seen. This opportunity could be used to enter the market for a short-term relief move to the downside or to get involved in a potential bigger move in play.

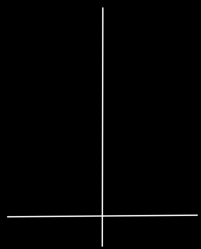
Looking at this example of the **dragonfly doji**, we can see that market was moving to the upside, proceeding to print new highs, but eventually came into a region for where buyers were no longer able to push beyond (resistance). Sequentially, a **dragon fly doji** was formed as it displayed exhaustion of bullish momentum in the market, as buying pressure came to a sudden halt and what followed next was a sharp move to the downside in the market, as the next proceeding candle was bearish thus confirming sellers now had control of market prices.

Downtrend dragon fly doji:

If you were to see the **dragonfly doji** candlestick from within a downward trend in the market, then it could suggest a bearish trend could be at a reversal point. This is because it displays that buyers rejected the sellers from continuing to push lower and therefore would create further lows in the market and a slowdown in bearish momentum would occur and bullish momentum could increase. This could then suggest that the trend could be ready for a pullback to the upside or possibly even a reversal of trend, as seen below.

In this example, price action saw a strong bearish momentum move lower but eventually found a point in the market where selling pressure was no longer able to push beyond (**support**) and from there price action printed 2x **dragon fly doji** candles, displaying a sharp slowdown in momentum. What occurred next was a strong move to the upside in the market, as a reversal took place following the exhaustion of bearish momentum in the proceeding move.

Gravestone DOJI;



The gravestone doji candlestick represents weakness in buying pressure in the market, as buying pressure pushes market prices higher from the opening price of the candle. However, somewhere within the period of data bullish momentum could falter and might be strongly rejected from sellers in the market as seen from the long candle upper wick (High test) and price once again could close back down to where it opened at.

This would clearly display weakness in buying pressure due to buyers being strongly rejected from the sellers in the market and could suggest a move lower. Contrary to that, it can also suggest weakness in selling pressure and the reason for that is because once buyers had been rejected sellers could not push market prices to their favour because even though they had opportunity to do so they lacked the strength to fulfil a move lower as represented from the little lower candle wick. Therefore, when we see such candles of indecision in the market where one side has indeed been rejected but the opposing side has then failed to proceed and push market prices within their favour, the next candle formed should be monitored carefully as it will indicate which side of the market is now in control.

Uptrend gravestone doji:

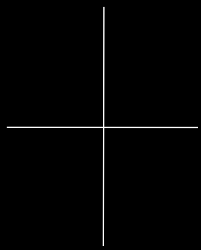
In this example, we have found a **gravestone doji** at the top of an uptrend, so we can see that price action is moving to the upside in a strong manor, displaying strong bullish momentum. However, buyers found a level in the market where they were unable to sustain any further upside (resistance) and subsequently saw a **gravestone doji** form. What happened next was that price action simply reversed from a bullish trend into a bearish trend as the market bias had reversed.

Again, this displays the significance these specific candles can have with trending markets to identify points of short-term relief or longer-term reversals

Downtrend gravestone doji:

Looking at this example of a bearish move that occurred in the market we can see that price action was moving lower from strong bearish momentum but then prices found a point in the market where sellers were no longer able to push below (support). Buyers then attempted to move higher but initially failed in doing so, as seen from the **gravestone doji** candlestick. But, remember this candle can also display weakness in selling pressure in the market as they were not able to continue lower following the rejection of buyers. What then happened was a strong bullish move to the upside as sentiment shifted from bearish to bullish as sellers were no longer able to sustain the low prices the market was trading at and so we saw a strong reversal to the upside.

Long legged DOJI;



The long **legged doji** represents the market is nearing a level of equilibrium in supply and demand (neutral) as neither buyers or sellers are able to push market prices to their favour to even display any form of bias. With this candlestick, we see both buyers push higher and sellers push lower with both wicks being near to the same distance from the opening price but the close of the candle ends with price near to the same it had originally opened at. This type of candle is used to establish shifts in market sentiment, as it clearly displays strong indecision in the current market price at that given moment and is monitored closely, specifically in trends, as traders can at that point monitor if a potential reversal will now take place following the new-found indecision.

Uptrend;
If this candle occurs within an upward trend it can strongly suggest the trend could now be at an end and sellers could be waiting to step in and push market prices to the downside.

Downtrend;
Opposite to the upward trend, if price action produces this candlestick at the end of a downward trend it can be warning sellers in the market that a reversal may now occur, as the underlying strength of the trend begins to weaken.

Four price DOJI;

This doji candlestick represents no movement within price through the time of the candlestick formation as there is no candle **upper wick** or **lower wick.** Price remains the same where it opened and closed. This type of candlestick is not typically found within FX pairs, but more so in stock trading, as they represent periods of low market volatility and trading. These candlesticks can be found within the FX market but more specifically on the 1M TF's during the Asian and Sydney session when market volatility is slightly lower.

Doji candlesticks offer points in the market for exhaustion, reversal (short-term and long-term) along with continuation, as you can use doji candles in the same manner as continuation one would for reversal. For example, if GBP/USD is trending to the downside and makes a new NSL (swing low) then retraces to the upside one can then wait for a dragonfly doji candlestick to form as signal that the underlying trend may now continue once more because short-term bullish momentum becomes exhausted.

It does not matter on the real body colour of the doji candlestick as it is the upper and lower wick along with closure of the real body in relation to the candle opening price that dictates that candlestick formed. To be valid the doji candles need to consist of little to no real body.

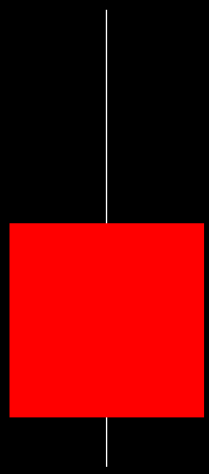
You can indeed use such doji candlesticks as reasons to enter the market and they are most optimal to use within trending markets, as they offer insight into potential exhaustion and reversal or even continuation of the trend in play.
Please remember that they are not absolute and are best used in combination with other factors such as other candlesticks or levels of structure to gain further confirmation of a potential reversal of the current, short-term or long-term perspective of price.

Candlesticks:

There are different types of candlesticks that are formed which one should pay close attention to at certain times, as they provide key insight into future market direction in certain scenarios.

We previously mentioned candlestick patterns, which are a series of candles that follow one another to form a pattern and these patterns can indeed lead to entry points in the market, as when fulfilled provide a setup that can be utilised to enter a position. The reason for this is because they suggest future market directional bias through shifts in supply and demand. There are many different types of candlestick patterns therefore we will show you the ones we believe to be the most powerful;

Inverted hammer;



This type of candlestick when formed often suggests a market reversal may occur if found within a bearish trend. When a downward trend is in play and this candlestick forms at the bottom, it suggests that sellers were able to keep market prices within their favour but did see a reaction from the buyers in the market too and it is this bullish reaction to which offers insight for a reversal. To confirm a potential reversal of the downward trend, traders then often monitor the next candlestick after the formation of the '**Inverted hammer**' to see if sellers remained in control of prices or if they faltered and lost control to the buyers in the market.

In the example below, we can see that that market was moving with bearish momentum within a downward trend but once price action printed a NSL (swing low) and printed the inverted hammer, the underlying sentiment of the trend had reversed. What occurred next was a complete rotation in market bias and trend as price aggressively moved to the upside following this candlestick being formed.

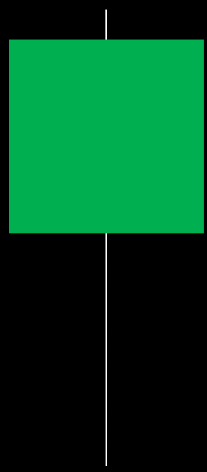
Along with this candlestick being known to suggest the end of a downward trend may occur, they can also be used to suggest when bullish momentum begins to weaken in the market. The reasoning behind this is simply because the candlestick itself displays that sellers were able to completely reject buyers within the period of time, but also push beyond the opening price and close at a new lower price therefore suggesting a strong increase in bearish momentum.
If then found in a bullish market move, this candlestick can indicate a potential reversal to the downside as buyers weaken and sellers strengthen in the market.

As we can see from this example, price action saw a strong momentum move to the upside and buyers tested new highs but the new market prices were unsustainable and so sellers stepped in and rejected buyers in the market. This saw the bullish momentum not only rejected but also sellers moved below the opening price of the candle and closed below to form a new low. What happened next was a very strong momentum move to the downside as sellers were now in control of market prices following the strong rejection of bullish momentum.

Note;
When price action forms candlesticks to where the lower wick or upper wick is 2x– 3x in size of the candlestick real body, they are also known as pin-bars. This is because the **wick** looks like a pin and the **real body** is the head.

The colour of the real body doesn't necessarily matter in terms of the candle being valid or not i.e. bullish or bearish, however the real body colour does give more weight to the direction that the candle suggests. For example, say the EUR/USD 1HR TF is trading within a downward trend, it would be a better signal of a bullish reversal if the real body is 'Bullish' as opposed to 'Bearish' and the reason for that is because it would display that sellers attempted to reject buyers in the market but were unable to fully do so, as there was no close below the opening price but rather above it.

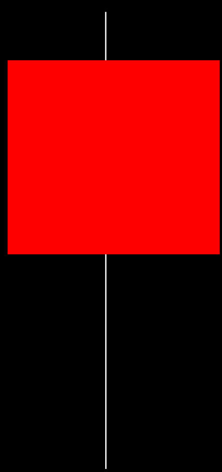
The hammer candlestick;



The hammer candle displays clear rejection in the market of selling pressure as the lower wick represents where sellers were able to test new prices but eventually faltered and were rejected. Subsequently, this saw buyers following the rejection move above the opening price of the candle and closed beyond it.
If printed in a downward trending market, it would suggest a slowdown in bearish momentum and possible relief to the upside or rotation of trend, as it displays buyers are finding interest in the market once more and are able to reject the selling pressure present.

However, if found within a bullish move or trend it can suggest further upside dependent on the previous price action of the move. This is because the candle represents bearish rejection in the market and so if sellers attempted to push prices lower within an upward move, but were rejected from doing so, this would then suggest strong bullish momentum and possibility of further upside, as it would display buying pressure is still strong as they rejected sellers in the market and printed a potential new high.

The hanging man candlestick;

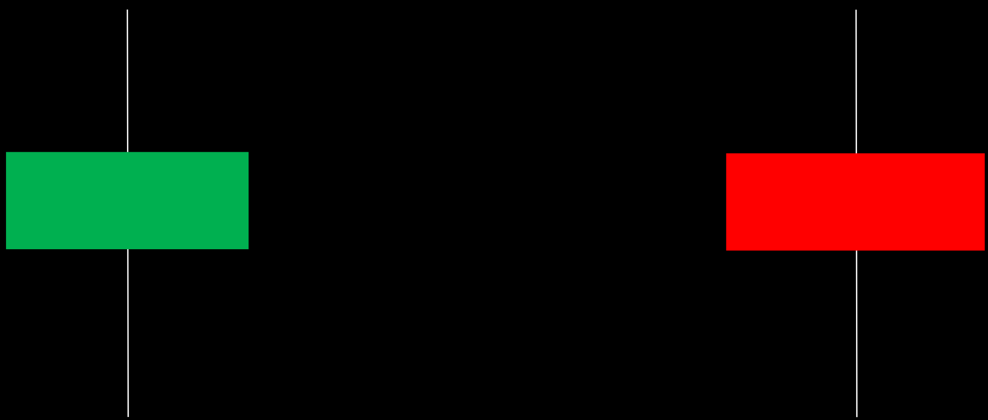


The hanging man candlestick is optimal to be seen at the top of a bullish move or upward trend, as it displays that sellers were able to significantly push prices below the market opening price. However, even though buyers did reject most of the bearish move, the fact remains that sellers tested a new low and were still able to hold prices below the open despite buying pressure stepping back into reject the sellers. Therefore, this displays that bullish momentum could now be slowing down in the market. A small upper candle wick also adds confirmation to the bearish momentum as it displays that buyers did not get the chance to test any new significant highs beyond the opening price before being rejected.

From looking at this example of price action, we can see the market was moving to the upside but then a 'Hanging man' was formed, suggesting a slowdown in upside momentum. What occurred next following the candlestick was that of a strong move to the downside, as buyers were no longer able to sustain the highs and sellers pushed prices to the downside.

Notes;
With both the **hammer** candlestick and **hanging** man candlestick the colour of the real body is essential, as this is what represents the candlesticks form and if different would therefore swap its characteristics. For example, if a **hanging man** had a **bullish** real body then it would not be a hanging man but rather a **hammer candlestick** and vice versa.

Spinning top candlestick;



This type of candlestick is displayed with a long lower and upper candlewick, equal in length, along with a small real body known as '**Spinning tops**'. The reason why they are important is because they display indecision of market bias, as both sides of the market attempted to push prices higher or lower but failed in doing so, resulting in a close back towards the market opening price of the candle. This is a classic reversal candlestick and displays that the market might be ready to change direction due to a sharp slowdown in previous momentum.

They represent that within the period of time the candlestick formed, there was a change in market prices but the underlying bias was unable to sustain the momentum and it closed back towards the open. The colour of the real body is quite irrelevant in this instance as it is the candle formation that is key, because it displays the indecision within the market as opposed to whether it closed bullish or bearish.

Uptrend;
If printed within an upward trending market, it could suggest that there is a slowdown in bullish momentum as there are fewer new buyers entering the market than they may have previously been and therefore suggests a potential reversal.

Downtrend;
If a spinning top is formed within a down trending market, it could suggest there are fewer sellers entering the market and bearish momentum could now be slowing down. This candlestick could then signal that a bullish reversal could be pending to be seen within the market.

In summary;

There are many different types of candlesticks, which have different meanings and outcomes for future market direction. We must state that while they do seem to be good reasons to possibly enter trades, from the examples we have shown, they should not be considered as entry signals on their own but rather in combination with other variables, such as levels of historic structure for extra confluence and confirmation. Remember, candlesticks alone are not a strong reason to execute an open position in the market, as the next candlestick can change everything the one before suggested, so please do not consider entering trades simply from candlestick formations but rather use them as one reason in combination with other reasons when considering to open a position. Candlesticks are also completely TF dependent, as the higher the TF a candlestick is formed on the more significant it will be to the overall directional movement of the currency pair.

Candlestick patterns

Now that you have a firm understanding on what certain candles in price action represent and mean towards future market direction and bias, we shall look at candlestick patterns. We will take what you have recently learned and expand further upon it.

Candlesticks are the best way to speculate on what might happen next, but taking this one step further we can use other candles that form patterns that when fulfilled can offer an opportunity for you to get involved in the market. However, we recommend that these patterns are used in combination with other variables such as **structure** and the **RSI** to give further confirmation that the pattern has a high probability of being successful rather than trading them on their own, but it is your decision how you choose to trade the markets.

Through the principles online course we will show you how you can use candles and candlestick patterns as an entry reason into a trade, as you begin to add specific rules to your trading that need to be fulfilled to execute a position.

Engulfing candlestick pattern;

There are two types of engulfing patterns, which are 'Bullish' and 'Bearish' as one represents a possible reason to go **short** on the market and the other presents an opportunity to go **long** on the market.

Bullish:

A bullish engulfing pattern indicates a strong increase in bullish momentum, as we see price action print a candlestick that surpasses the prior candle's highest test (wick) and proceeds to close beyond it, thus engulfing it/ Therefore it is this break and close above behaviour that gives us confirmation that buyer in the market are finding keen interest in the current market value and prices then have the potential to continue higher. The higher a bullish close seen a stronger move and higher possibility of a continuation higher in the market, as it displays the buying pressure within the candles duration.

Looking at this example, we can then see how price action was printing a series of lower low candlesticks as bearish momentum was strong, but we then saw buying pressure enter the market with strong buying pressure. This buying pressure subsequently saw price action break beyond the most recent bearish candlestick and engulf it by closing beyond the high, as you could fit the bearish candle within the new bullish candlestick. What occurred next was a strong bullish move to the upside due to an increase in market volume as buyers in the market found value and reason to step into the market.

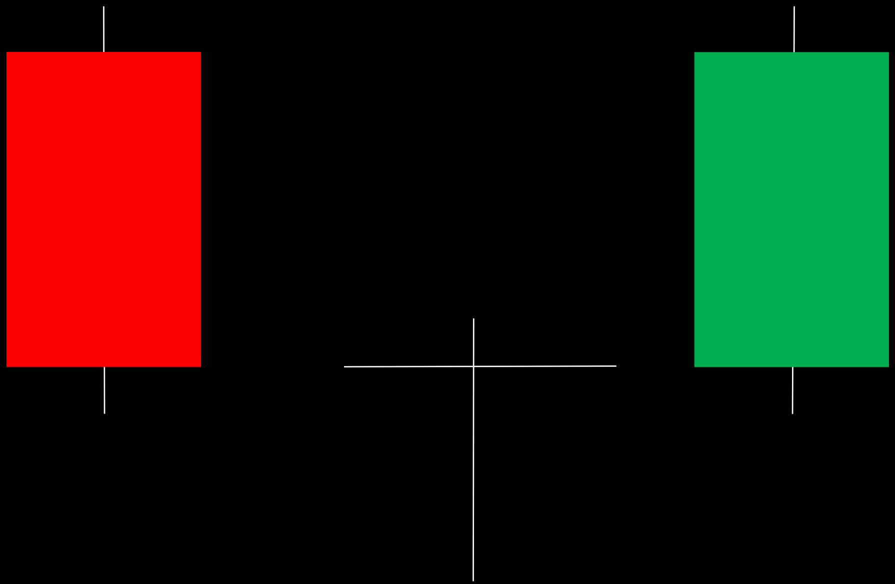
Note;
For strong bullish engulfing patterns, a stronger signal is when the candle engulfs the previous 5x candlesticks as opposed to one. The reason for this is because it displays the sheer increase in volume and interest from buyers in the market and further confirms that the market may continue to proceed higher.
They are also more appropriate to be utilised when formed in valid bearish trending markets, as they display the strong shift in supply and demand in the market and can present interest for the short-term and long-term outlook of price. The engulfing candlestick needs to, in this case, engulf a bearish candlestick as we are looking for bullish momentum surpassing that of bearish momentum as opposed to a simple break and close candlestick formation.

Bearish:

A bearish engulfing candlestick pattern is when we see an increase in bearish momentum, as we see the candlestick engulf a bullish candlestick at the top of an upward trend. For a valid engulfing candle, price action needs to surpass the previous bullish candle's lowest low and close below it and engulf the real body of the prior candlestick.

Note;
For strong bearish engulfing patterns, a stronger signal is when the candle engulfs the previous 5x candlesticks as opposed to one. The reason for this is because it displays the sheer increase in volume and interest from sellers in the market and further confirms that the market may continue to proceed lower.
They are also more appropriate to be utilised when formed in valid bullish trending markets, as they display the strong shift in supply and demand in the market and can present interest for the short-term and long-term outlook of price. The engulfing candlestick needs to, in this case, engulf a bullish candlestick, as we are looking for bullish momentum surpassing that of bearish momentum as opposed to a simple break and close candlestick formation.

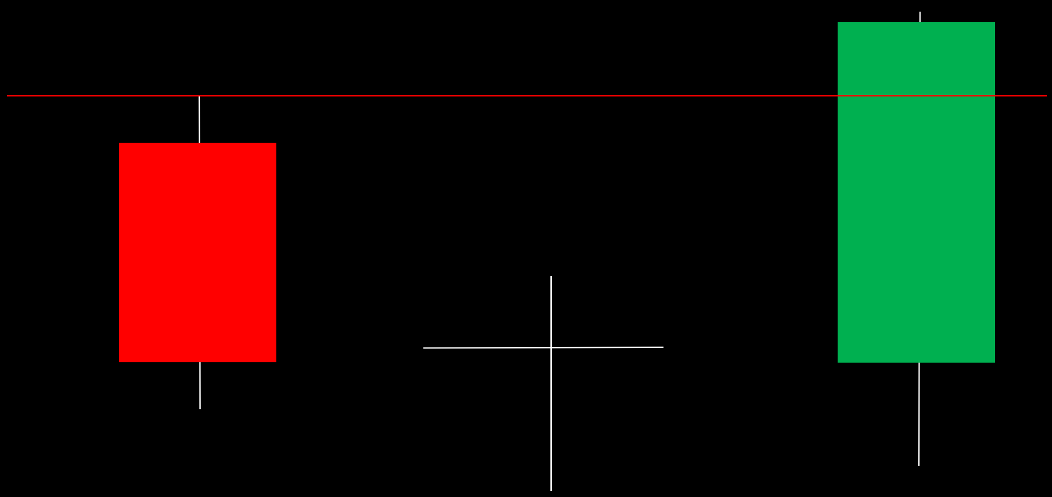
Morning star reversal:



This pattern is a bearish reversal candlestick pattern, also known as the '**Three bar reversal**', which suggests a rotation in supply and demand as we see a strong bearish candlestick which is then followed by a doji or spinning top candle suggesting a halt in selling pressure or indecision in the market. The next candle to complete the pattern is a bullish candlestick as this suggests that buyers have now stepped in to push market prices in their favour to the upside.

You can either look to buy into the currency upon completion of the bullish candlestick, formed in the pattern, but we prefer a more conservative approach that suggests strong bullish momentum. The second approach is that of a HHHC candle, as we would look for the bullish candle to surpass the bearish candlestick high in the pattern and close beyond, as this would give a strong signal to buying pressure gaining momentum. This is shown in the example below:

If we look at this example below, price action was moving to the downside due to strong bearish momentum but we can then see the market attempted to move lower, but selling pressure was unable to do and this saw price action print a doji candlestick. This was then followed by a bullish HHHC candlestick, as the candle closed beyond the high of the bearish candle in the pattern and from there the market reversed and moved to the upside.



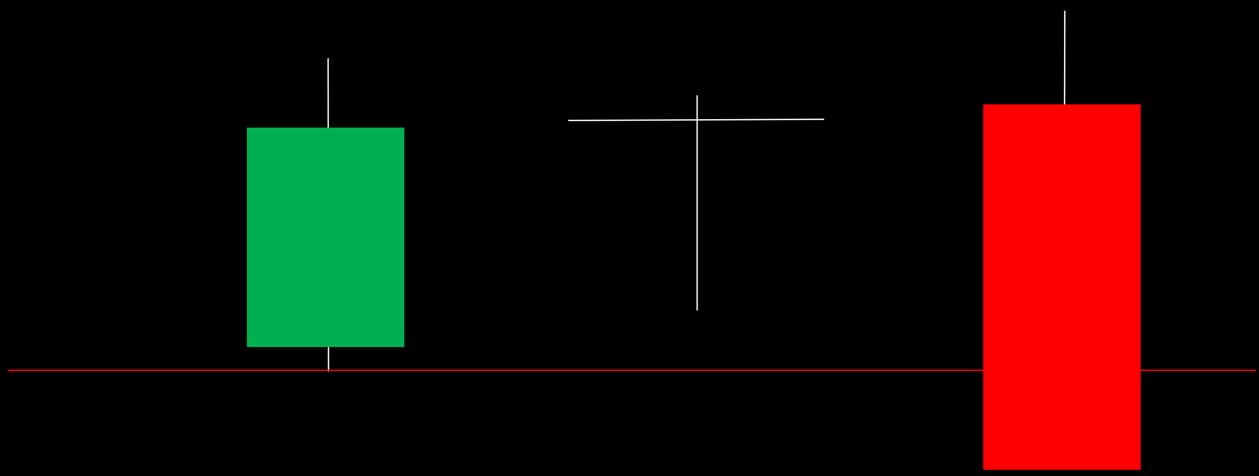
Evening star reversal:

The evening star pattern is a bullish reversal candlestick pattern that once again consists of three specific candles needing to be fulfilled for it to be valid.

As this is a bullish reversal pattern, it is optimal to be used within a bullish market move or trend and so the first candle to be identified is a bullish candlestick, as we are identifying buying pressure. The proceeding candle is then a candlestick which displays indecision or a sharp slowdown in the current momentum i.e. a spinning top or doji candle, as such candles display that buyers in the market are losing momentum. The last candle to complete the pattern is a bearish candlestick, as this then confirms that following a halt in buying pressure the sellers were able to push back into the market and proceed to push market prices lower. Therefore this suggests a move lower is more than likely to be seen within a currency pair and can then provide reason to get involved in the market.

Once again, you can either look to enter the market through this pattern via the close of the bearish candlestick confirming the pattern, or you can seek a LLLC candlestick, as these candles would further confirm a strong bearish momentum entering the market.

If we then look at this example, we can see how price action was moving in a strong upward move but then bullish momentum came to a halt as a doji candlestick was printed at the high of the move. To complete the pattern, we can see price action formed a LLLC or bearish engulfing candlestick and from that point, market sentiment saw a shift and sequentially a strong move to the downside occurred.



In summary;

You can use candlestick patterns as reasons to get involved into the market as we have displayed the rules for doing so and how to identify certain patterns, but there are many more patterns to use if you wish to. They can work on various timeframes and currency pairs as displayed, however we believe they are more powerful when used with other confluences, such as structure, as they give extra confirmation to your hypothesis.

We believe candlestick patterns are far more optimal as an entry reason with other variables as mentioned, as on their own we don't believe they are not as viable than when used in conjunction with structure. Throughout the next module, we will show you how you can use candlestick patterns with levels of structure to build a reason for entry. For example; you may find a strong level or area of structure resistance for where you believe the market may see a bearish reaction and so you can use the candlestick pattern '**Evening star**' in conjunction with the area of structure as a reason to enter the position, as the pattern can be your confirmation to go short on the market because we have seen a bullish reversal pattern occur at a level of structure in the market but more on this later within the course.

We believe the two most powerful things that a trader needs to trade the FX market is previous levels of structure and candlesticks, as everything beyond that is optional and at your own discretion to use in the market. This is because previous levels of structure identify where buyers or sellers found value in the past and continue to find value in the present and candlesticks literally display to you if buyers or sellers continue to find such value within them same areas once again.

How to gain an edge in the financial markets

Let’s delve straight in and the first thing we want to address is if trading is gambling, as we have heard many times and perhaps you yourself have heard these phrases ‘**Trading is too risky**’, ‘**You can’t make money in trading**’, ‘**It is a fool’s game**’, ‘**You are just gambling**’?

Trading is indeed risky. If you do not know what you are doing, which the majority do not hence why you have chosen not to be among the majority but with the minority that knows by trading systematically with a trading plan it is possible to be successful. You can make money in trading, in fact trading can do more than make you money. It can give you financial freedom and independence in the long-term perspective by building wealth.

It is only a fool’s game if you do not what you are doing. So, many people enter this sector with short-term mind sets, that within one year they are going to completely change their life from what it is today and the reason for this is because of instant gratification. Quite a large number of people have forgotten about being patient and believe us when we say ‘patience pays’ quiet literally.
People perceive trading as all you need to do to be successful is simply bet on direction, which in essence is true as we are speculating on future market direction to go up or down. However, the difference is that we speculate with calculated risk and only involve ourselves in certain and specific conditions that when fulfilled gives us an edge in our prediction in being correct.

Your success in this sector is dependent on your attitude, reactions, actions, accountability and attachment to monetary value along with much more. All of which we will guide you through in this course and after to ensure you are always making the correct choices in your trading.

The daily battle and struggle with many traders is in fact nothing to do with trading itself, but rather their own psychology as trading forces you to make changes to yourself, but many do not know what them changes are and this is where we come in. We aim too assist and guide you to establishing good habits as opposed to bad and offer insight into how a few changes in your own psychology and views on trading can change your performance.

You can either make trading as easy as you would like or as hard, but ultimately the decision of which one comes down to you. Fair Exchange is here to help and to teach you what is correct and how to approach this market like the minority that are profitable, but we cannot make that change for you, that is down to you. To summarise, trading is not gambling unless you choose it to be. We rather see it as participation through speculation with calculated risk and probabilities.

What is an edge in the financial markets?

We are specifically looking at the FX markets to gain an edge, but the methodology can be implemented for other financial instruments. Simply put, an ‘**edge**’ is what allows you to allows you to have a long-term advantage. Similar to a casino where everyone knows the house always wins in the long term and that is because the house has an edge and the player does not. Now the house only has a slight edge in certain games for example in roulette the house (Casino) has a 2.7% edge (Average) and so for every £1 you spend the house gets 2.7p over the long term when you are playing roulette. This is why casinos are profitable because they have this slight edge over the participants and of course that edge will vary from game to game. Now a 2.7% edge may not sound like much but that 2.7% edge is what allows the £94.2 Billion gambling industry to be built on.

Some players are of course able to be very profitable in the long term when it comes to playing against the casinos hence why professional gamblers and poker players exist because despite the house having their own edge the player also has an edge in which they are also using. The professionals are not there to gamble but are instead using calculated risk when they are betting and the way they do this is by using a specific strategies or various strategies.

Now we are not saying that trading and gambling are exactly the same thing but they do share common principles to each other which do make the core values of each industry very similar to one another. That is why people say trading is gambling and that trading is too 'risky' because majority of people do not understand that just like the professional poker player who has a specific strategy he/she follows every time they walk up to the table so does the trader who is analysing the markets.

The outcome for trading and gambling do share core values as mentioned previously because what both the trader and poker player are trying to do is actively speculate by betting a certain amount of money on a definitive outcome with a 50/50 chance of being right at any given point.

Let us clarify that we are not talking about investing at this point but trading as trading and investing are completely different strategies to building wealth.

Moving on, try to now imagine a professional poker player sitting at the casino table and here's an example of two players at that same table. Decide which characteristics would belong to the professional;

The first player looks nervous, sweating, high adrenaline and agitated.

The second player looks calm, relaxed, poised and confident.

Which player do you think was the professional? THE SECOND PLAYER!

Why? Because the second player knows exactly what he is there for, what approach to use, he knows how to be prepared for every situation and how he will react. He is simply there to do his job but the most important thing is that he is prepared ahead of time because he has designed a plan/strategy that he knows over the long term will give him an edge over the house and be able to make money.

Your aim in trading should be to approach the markets in the same way the second professional poker approaches the table, which is with confidence! Because you should have a set plan that you can follow and it allows you to prepared for every situation and know how to react appropriately because you have already done the preparation.

You may have heard the term 'Poker face' whereby you cant let your emotions be seen as it can allow other players to know of your next move and so it creates uncertainty to others. This is also how you want to approach your trading with a 'poker face' as your emotions if they get the better which can easily happen as we are all human can destroy you in the markets. The reason for that is because you are the one in control of the decision making as you are the only pushing the 'Buy & Sell' buttons on your computer.
So, you want to be making decisions in the markets with little to no emotional behaviour or subjectivity and you will learn throughout the principles online course how to make your trading systematic by learning how to use specific and definitive set rules that allow you to trade the markets by using a step by step process. This approach will allow you to trade the markets exactly like the professional poker player when he is sat down at the table

How to gain an edge in the financial markets?

Gaining an edge is very simple when it comes to trading the FX markets because everything you need is already available to you! What you need to learn is how to piece everything together which and you will learn along with exactly how to follow and develop your own edge in the market through the principles online course.

An edge is simply your trade plan which has different parts but when pieced together give you a long term advantage of being profitable. Now remember finding an edge is the easy part as it just following a step by step process, the hard part is having the confidence to use that process in the live markets with your own real money. That is why we are going to teach you how to trade with confidence.

Note; An **edge** in the FX market, in our opinion, is a trade plan that uses a amount set amount of definitive rules that allow you to speculate on specific trade setups by using patterns in the market or frequent market moves and it allows you to exploit these patterns or moves over time to produce a profit.
We then use an approach called back testing where you take them definitive rules you have created to get involved in specific market patterns or specific move and test them using historic data on the charts. We can then see if them rules over time prove to be profitable or not by recording the data because what worked in the past is more likely than not to work in the future because what you will find is that the markets repeat themselves quite frequently. Of course you will learn exactly how to back test correctly in the principles online course as it is much easier for you to understand in video format as oppose to written.

If you do not test your trade plan without the use of historic data then you do not have an edge but rather a series or rules, because you have no idea that over time such rules will provide a profit or loss. This is what creates an edge by knowing what you are using in the present and future has already been proven to work in the past.

To have an edge, you need to identify a series of moves in the market or a pattern that when fulfilled can be exploited and over the long-term provides a return on your original investment when traded. From there, you can begin to establish a plan via clear and specific rules that when presented allow you to get involved in that specific market move or pattern. Lastly, you must then collect data to see if the plan is profitable or not. You can do this by testing the trade plan through historic data to ensure it is testable, repeatable and verifiable, again known as back-testing. The data that you collect will determine if you should use the plan in the market or not to trade with, as it will display if the plan/system makes a profit or loss over a period of time from X amount of trades recorded from past data.

Your trading plan is your edge in the market. You need to know exactly why you got involved in a position in the first instance and the reasoning for why you did, so you can clearly identify and hold yourself accountable for when you make mistakes and a loss occurs, so you can learn from your mistakes and use them as experience to grow into a better trader.

People always have two options with bad choices in trading and in life when things do not go to plan.

1. You can either refuse to admit blame and pass it on to someone or something else and never learn or try to understand why the situation turned out differently to what you had anticipated. Only to then make the same mistakes at a later date, as you have not learned what you did wrong.
2. You can accept that you were at fault, as it was your error or misjudgement that caused the error, taking accountability and taking ownership of the situation. By doing this, it will allow you to understand what went wrong and know the reason why. It can

then present an opportunity to learn and grow by learning from the experience, which will result in you not making the same mistake again, as you have acknowledged it and learned from it.

3.

We have mentioned previously that people always try to pass blame onto others and the same can be said in trading. When a loss occurs with no rules established, one will tend to bend the reasons for why they took the trade and make it justifiable rather than simply admitting fault. Traders do this all the time, continuing to make mistakes and never wanting to admit fault, but are happy to throw money at the market by continuing to make the same mistakes. They fail to realise that what they are doing is wrong as they would rather each time justify why they were right and the market was wrong. The reality for what happens to these traders is that they have a mind-set of '**next time it will be different**' and it never is different because they refuse to admit that they are to blame and the result is that they lose all their account slowly and painfully until nothing is left of it.

Let's imagine we work for a bank, institution or hedge fund for example, in which our job is trading private investors' money or client funds to produce a return on the funds. If we were to take a trade blindly with no reasoning behind it other than pure assumption and the result for the position was that it was a loss, what do you think the outcome would be for your job? The answer is that you would be fired, as you would be deemed irresponsible to manage funds because justifying why you occurred a loss with the justification of 'it looked like a good buy at the time' is not enough to make your boss believe you should be managing funds, so why treat you own funds like this? You should be treating your own money with even more respect because you are the one who has gone out to work for it and earn it by sacrificing time in your life that you will never get back!

Professionals are called '**Professionals**', one because they manage private invested funds and two because they follow a systematic rule-based trading plan that allows them to engage in the market with a high probability of them being right in the long-term. Even if they are the wrong in the short-term, in the long-term they are always profitable because they are consistent in their methodologies and act on it when required to do so.
Also bear in mind that some funds, banks and institutions allow traders to trade with positions that are worth billions in value and subsequently such traders will be under strict scrutiny to ensure they are trading in an appropriate manner due to the tight regulation imposed in banks in particular from the 2008 financial crisis and one mistake can cost you your job.

Therefore we urge you to treat your trading account as though it was somebody else's capital, where if you make costly errors and have no specific justification but just entered blindly, that the account would be stripped away from you.
We advise this because if someone was trading your funds and taking a fee for doing so and they lost 5-10% of the account in one day, you would ask them why it happened and if their response was not justifiable would you continue to let them trade the account? The answer is no you would not so why do you think it is acceptable for you to do it?

Remember the number one goal of a professional trader is to '**preserve capital**'.

Of course there is the exception to some traders who are just talented in trading, but for the wide majority of professionals and consistently profitable traders they will have a rule-based trading system with specific rules of engagement that when fulfilled allow them to execute positions accordingly.

They know their trade plan better than anything else in their life and the reason for that is because they know it is the only way they can make money and to be profitable in this market.

Trading live capital and making a consistent return year over is hard, hence why the majority of new traders fail in the first 90 days of attempting to do such a thing. Therefore, please realise that trading is a responsibility as you are both responsible and accountable for all outcomes in terms of P/L.

In our opinion, here at Fair Exchange, we believe that there are two ways to trade the FX markets:

1. The first way is that some traders will speculate on market direction from assumption of what will happen by using intuition. There are traders who speculate on currency pairs or stock by simply looking at the price and knowing if it is undervalued or overvalued and for which direction it will head to in the future and they are typically correct, but no one is correct every time and they will see losses incurred at times.
2. The second way is using probabilities through a trade plan as many professional traders, including us, use probabilities to trade the FX markets. This is where you take a specific rules-based trade plan; test it in historic markets and the data collected will present what may happen in the future based on probabilities. This method is indeed valid and we know it to be true because the market repeats the same patterns repeatedly. However, the difference is that we are now exploiting such patterns to make a profit.

The reason we prefer option **2** over option **1** is quite simple… consistency! We say this because you can indeed trade in the manner of option **1**, but what happens when you begin to incur losing trades because nobody wins forever do you then get scared and stop trading in the same way or do you believe that the method no longer works and begin to look for something better? New traders fail to realise the power of what a loss can do to your psychology, as you can instantly go from feeling as though you are a God to an complete idiot in one single trading day.

The problem with trading via pure speculation with no edge to prove that way you are choosing to trade your capital with is that you would have no idea what to expect from it. Expectancy is a vital word in trading, along with consistency, because without expectancy you will never be consistent and without being consistent you will never realise the potential of expectancy from the methodology you chose to trade for a return on investment. If something has worked once, that is great, but it is not near justifiable to invest money into because you need to ensure that in the long-term perspective it can still be profitable and that it is a pattern not just a fluke.

Let use a different example; If you had a 9-5 job, mortgage, wife, kids or any other responsibilities but one day decided to make a YouTube video and that video went viral with over 1,000,000 views would then decide to instantly quit your job and become a YouTuber? No, as that would be irresponsible because you don’t know just yet if that video was a fluke or if perhaps you are onto something and so you would continue to make more videos to see if that type of content you make does consistently get them sort of views to prove to yourself first, then decide if YouTube is a viable option as another job!

You need proof to see if what you are wanting to use in the markets happens more than once and it wasn’t just a fluke and that is exactly what back-testing and something called forward testing can provide to you. Because at that point you then have an expectation of what is likely to happen in the future.

The reason we prefer to trade the FX markets through option **2** is again simple…because it provides all the needed information that option **1** does not.
From using probabilities in trading, by going through historic data with specific rules and testing them we can collect data that will specifically tell us how many losses to expect within a year, how many wins, what currency pairs our trading plan works with, what it does not and so forth. Therefore, we have the power of expectancy which gives us the ability to be consistent in our trading but we shall elaborate more on this shortly.

We are not saying that you cannot trade option **1**, as you can indeed, but for the majority who lack the mental tolerance to incur losses and have no idea when the losses will end or if you will even be profitable at the end of the financial year, in our opinion, it is ludicrous and there is no longevity within it.

The principle method

When it comes to entering trades you need reason or justification for why you entered a trade setup. It is a combination of many things such as your trade plan or confluences that suggest future market direction. By following the principle method you will be able to develop reasons for entry and know exactly how and why you executed the position i.e. your trade plan, but more importantly it allows you to be consistent in your trading.

By the principle method for entry into the markets you are ignoring irrelevant information on the price chart also known as 'noise' and able to focus on the information that will present high quality setups, therefore making your trading easier but also making yourself accountable. The reason for that is because if you do not follow all of your principles for why you took a trade then you have no reason to be involved in the market.

By following specific principles in your trading, you will not only be more consistent by only looking for specific setups from your trade plan but also deter setups from one another by finding higher probability setups. For example, you have a short (sell) setup presenting itself on both **EUR/USD** and **GBP/USD** but you only want to execute one position. You can then use varying techniques such as structure, price action (candlesticks and patterns) to build a reason for entry. Lets say EUR/USD sees price action retesting a level of structure resistance, suggesting a move lower, but GBP/USD also sees price action retesting a level of structure resistance but in combination of a three-bar reversal. Which one would present a higher probability of a downside move? The answer is the short setup on GBP/USD because we have two reasons suggesting a move lower on GBP/USD as opposed to one reason on EUR/USD, as we have price action not only retesting a level of structure resistance but alongside a candlestick pattern also suggesting a bullish reversal. Therefore this provides a stronger signal that the market may move lower but more importantly we are building reason for why we should enter the markets.

Specific principles for entry can then allow you to determine or decide which setup or setups you would like to get involved with, as some setups will provide further evidence supporting your hypothesis than others. Therefore, it gives you a choice for how and what you involve yourself with, allowing you to be more consistent, as many new traders feel they need to trade everything they see when this simply is not the case.

Having a set principles for entry also assists your psychology in a huge way when the market is moving against your bias, as we have mentioned previously that every trader incurs losses at times but it is how one handles and tolerates his or her losses that determines their future in this field. Losses are simply part of trading and should be seen as expenses when running a business. You then either have an option to be responsible for your actions or irresponsible and we will look at this in greater detail later.

It is natural at first to get nervous or even sweat when you are new to trading and involved in a live position, simply because you are new to the experience itself and of handling risk. When you start something new, for example a new job, at first it is always uneasy because you are typically out of your comfort zone for a short period but over time through experience you become accustomed to the new role as you find structure and a routine to follow. By following this pattern of structure within your day, over time you no longer have feelings of uncertainty, nervousness or doubt because you are now competent to know how you will react and handle certain scenarios because you have gained experience in doing so. Trading is no different to any other job role, as at first glance you will be nervous, excited, anxious and may feel many other emotions, but once you find routine and structure in how you handle certain scenarios over time emotions begin to calm down and you have the mental tolerance to trade with risk.

Defining your principles with rules

In the previous section, we looked at how the principle method can allow to build a strong case entry and why having one is essential in your trading, but in this section we will look deeper into how you exactly establish a case for entry.

Principles are simply rules that we like to use identify and establish as part of your trade plan helping you to develop that needed case for entry as you seek confirmation from the market to execute a position. If you have no principles or specific based rules in your trade plan then you have no plan to begin with, but more importantly attempting to trade the FX market without them means you have no edge because your edge is a strategy. What does a strategy consist of…rules!

We have seen many traders who are competent and possess the knowledge but lack the confidence to act with it in the live markets and the reason for that is due to lack of confidence. This single word '**confidence**' is what allows some traders to thrive or fail because if you lack in confidence to trade the market it results in lack of consistency and therefore has implications on your expectation of results.
Without rules there is chaos for many as rules sustain order and structure to anything you can think of. Therefore, the same can be said in trading because if you have no rules to validate your hypothesis whilst you could be correct in the short-term, trading is a long-term process and ultimately failure occurs because there is no consistency in your approach but rather just random.

Our aim is to teach and instil upon you how to succeed in both the short-term and long-term perspective through establishing clear and simple rules that allow you to execute live positions. However to gain confidence, expectation and accountability you will need to test such rules through historic data to ensure you have a positive expectancy i.e. ROI (Return on Investment.

As you have come this far in your leaning journey, we are going to reveal to you the biggest secret in trading which is… you do not need to have any idea why the market moves or what causes currencies to move but rather when a pattern or a frequent market moves occur in, you have the ability to exploit it and to capitalise on it through rule-based trading.

Any job you can think of has rules that need to be followed for a good outcome and trading is no different, as rules need to be followed to allow a positive outcome to be seen. For example, a personal trainer with every new client will need to do a health screening or fill out a health questionnaire to ensure the client is able to do particular exercises. If they fail to obtain the relevant information and something happened to the client the trainer would be liable because they are responsible for outcomes!

What can be used for rules of engagement? The answer is anything you like ranging from; your own opinion of price, price action, indicators, structure, patterns or FIB levels. The idea behind finding and using rules of engagement is simply to use them as filters in your trading, as you are looking for particular/specific setup that presents a higher probability of your trade bias being correct than without them and when fulfilled favours a positive ROI over time as opposed to entering the market because it looks like a good buying opportunity and having no clear confirmation of bias to support this idea.

We have talked about this topic previously but we want to re-emphasise that traders who trade for banks, institutions and privately managed funds do not buy or sell a market at random, whether that be commodities, stocks or Forex. These traders have strict rules and need validity in their analysis/hypothesis to execute positions, along with a reason that they know gives them an edge in the market when getting involved in a position. They also know exactly where they will exit before ever entering a position because the exit is just as important as the entry technique.

The reality of modern trading is that most city traders do not even actively trade, as their job is to now monitor an algorithm to ensure it is performing, as it should. Therefore most desk traders in the city do not actually trade but simply monitor a programme that functions on specific set rules, in specific market conditions that literally trades for the bank, as the algorithm can execute and process orders at a far faster rate than a human can.

It is essential that you trade in the same approach with a rule-based system i.e. a trading plan, because you are quite literally trading against systems/ programmes which have been devised to function with only with specific set rules, alongside human traders who also follow a pattern or series of moves that over time provide a needed ROI.
If you were to ask any professional trader if they use a trade plan, rules, pattern or some form of confirmation that allows them to engage in the market they would answer **yes** every time, hence why they are the minority of traders in Forex industry.

If you possess a trade plan, over time you will be become systematic in your approach to entering the markets as opposed to entering on pure speculation, in which the definition of systematic is '**acting according to a fixed plan or system**'. How does one then become systematic? The answer is simply to only use a trade plan to engage in market activity. Unless you have reason to execute a position from your trade plan's rules of entry being fulfilled then you have no valid reason to be involved in the market and in our opinion, this is pure gambling. Please remember that you have no influence for what the outcome of what a trade setup will be once you are involved, it is a binary outcome i.e. **win** or **loss**. Your job as a retail trader like any type of trader is to simply involve yourself in specific market conditions where you have an edge in the market and over time this edge can be exploited to provide a higher probability of being profitable in the longer-term.

The power of confluences

The reason for why we use confluences in our style of trading as do many other traders is to add a sense of discretion, otherwise known as confidence to your trading. The ability to identify confluences in your analysis further builds on that needed case for entry. Using confluences in your market analysis allows you to add further bias to your trade direction because you have more than one reason suggesting a specific trade direction or outcome, therefore suggesting a higher probability chance of your analysis being correct and thus filtering out setups.

Note; **a confluence is a combination of 2x or more reasons to which both suggest the same probable outcome at a specific area in the market, thus adding a greater bias to your analysis.**

A confluence can also be used as a filter in its own right for entering a trade, as you are simply waiting for the market to present two separate reasons that both suggest the same direction in market price and if fulfilled allow you to execute a position and therefore you have a stronger case for entry. However, if not fulfilled you do not have a reason to execute a position just yet, as you are still waiting for the confluence to come into fruition and give confirmation to do just that. This will become much clearer in the principles online course as will be shown exactly how to use confluences to develop your own edge in the markets.

The main reason for why we use confluences however is to build on confidence, as previously mentioned to further add a sense of discretion into your trading when predicting future market direction. For example, you are looking to execute a short position on **USD/CAD** 4HR TF but in order to do so you need to see price action retest a level of structure resistance and for price action to then print a valid double top reversal pattern upon that retest of that specific level structure resistance. This confluence between price action and structure therefore becomes your rules to entering the market and so you have established clear rules of engagement, as you need to see both of them fulfilled before you decide to execute your trade as they act as your confirmation bias to short USD/CAD. If price action fulfils both the retest and reversal pattern, then you have confirmation to enter the short setup as your analysis to get involved in the market has been fulfilled. This is how you begin to establish rule-based trading in the FX market as you simply establish what you need to see on the price chart that will add bias to your opinion of future direction of price and wait for it to come into fruition. If it does not, then you do not get involved in the market because your analysis for entry has not yet been fulfilled.

You can use a wide range of confluences as you are simply combing particular patterns or occurrences in the market that alone present a smaller probability of seeing the market move in one direction, but when combined may add a stronger bias. The reason for this is because you are waiting for the market to give you further reasons to suggest one particular direction.

The Principle Method

The methodology behind the principle method is that it allows you to use a systematic approach within your trading, which we know is key to being consistent within your trading. It also allows you to remove a level of subjectivity in your analysis, as by going through the process of using a set amount of principles allows you to build your own bias on the market and form your own opinion of future prices.

The way in which one would use **principles** is to create your own predication for what the future direction of a currency pair or market might be and more specifically to establish a clear case for entry to establish potential setups and watch them develop into potential trading opportunities.

Principles are what we use to establish all the needed requirements or criteria for a trade before it is ever executed. It is the thought process of why, how and where you look to get involved in the market. By using this thought process, it allows you to put more emphasis into your analysis and identify good trading setups and separate certain scenarios from one another which can be viewed as a **good trade taken** or a **bad trade taken**.

A good trade taken; Is when a trader follows their rules in their trade plan and does not interfere once the trade is active.

A bad trade taken; Is when a trader does not follow their rules of their trade plan, interferes once the trade is active and forces entry into a position by manipulating their trade plan rules of entry.

Many novice traders enter trade setups and then justify the reason for why they executed it, once involved. However, this is not the professional manner for trading and is quite amateurish which can lead to many mistakes in your personal trading, which of course leads to loss of capital. If you rush into trade scenarios, more often than not you will make errors compared to if you took your time and the reason for that is because of adrenaline and excitement.

One other important thing to remember is that trading is a process and needs to be carefully thought out and backed up by methodical thinking for consistent results. Also, as a setup is present in the live market feed it does not mean you should be fearful of missing out as that is your emotions coming into play. Now of course good trading opportunities don’t last forever and so you want to be efficient in getting involved in the setup hence why we teach you how to use a step by step approach but do not fear if every now and then you miss a trade setup because you will. Remember the markets are open 24 hours/5 days a week and you will need to sleep and also live your life so at some point you will miss trading opportunities but that is okay!

Over time, by using this process every time you begin your analysis of currency pairs or setups to identify to get involved in the market, eventually you will conduct the process of use you the principles we will teach you to analysing the market without even thinking about it as it becomes automatic within your personal trading. Therefore, you will have the methodical thought process for finding reason into a position but also be efficient in doing so as the process becomes ingrained into you.

There are four principles we use in our approach to trading to find setups we can look to get involved in as they develop.

Principle 1.

- Principle 1 is establishing the current market sentiment and market conditions i.e. what is the market doing, are we bullish, bearish or in consolidation? As what we are doing is actively building up and finding reasons for why we should get involved in the market. For example, if you look to execute a short position within bearish market conditions, the probability of success for that trade bias would be higher as the overall sentiment is bearish. Another example is if your trade plan specifies it can only be used in trending markets, but in your process of identifying the current market condition your analysis suggests the market is rather in a period of consolidation, then you know it is not time to implement your trade plan as the market condition are not yet suitable for your trade plan to be used in. Along with this, it allows you to identify what type of trade direction you are looking to speculate on the market with, whether that be **Long** or **Short** and we can do that by simply reading the most recent price action and interpreting the most recent price action to what it suggests may occur next. For example, has a major level of structure recently been violated which could suggest a move to the upside? Is the market in trend? Has a trend reversal occurred? Has a continuation pattern recently been fulfilled etc? These are all questions you can ask yourself to establish the current market bias.

Principle 2.

- Principle 2 is what we use speculate on what the next market move might be i.e. where the market most likely to do next following its most recent move

For example, you are looking to short USD/JPY as you have identified the current sentiment as bearish and therefore favours short positions more so than long positions. You can then speculate what the market may do next because recently in USDJPY we saw a LLLC (Lower low lower close candlestick) print and violate a level of support at 128.00 which would signal further downside in the market and you predict that prices could fall as low as 127.50's because that is where the next level of support is in the market.

Principle 3.

- Principle 3 is the next part of this four-part process, to decide exactly how you will get involved in the market and this is done by choosing what trading strategy, approach or what you need to see happen in order for you to get involved in the markets.
- The way in which you chose to enter the market is of course dependent on your trade plan itself and the rules to which your trade plan consists of.

Principle 4.

- Principle 4 is the final stage of the four-part process because by this point you have used the other 3 principles as you have **established** market sentiment or bias, **speculated** on the next potential market move through analysing structure and other various reasons to justify your prediction and **decided** how you will look to involve yourself into the market via a rule-based trade plan.
- When you have gone through this process and your trade plans rules have been met and you have confirmation in the market to take the trade then you must execute the trade if that is what your trade plan tells you to do.

This is typically the hardest part for many retail traders, as believe it or not many do not want to involve themselves into setups in case they are wrong, as they have an underlying sense of fear that they will lose money in the process of trading. Why does this then occur you might ask? Typically the reason for why many retail traders lose money is because they throw themselves into the market with no rhyme or reason but contrary to this, it is their **psychology**, as retail investors do not yet understand that losing money/capital is simply part of the process to make money. It requires a shift in psychology to accept that losses will occur and the only two ways to do this are:

1. You need confidence in your trading, which we know is achieved through having a rule-based trade plan that provides an **X** amount of chance of being correct in every **Y** number of setups executed; therefore providing an overall probability of being correct. For example, you have a **70%** winning trade plan, this then means that out of every 100 trade setups (example) **30%** will be losing trades but you are still right on **70%** of all the other trades you take. Therefore the quicker losses are accepted, the quicker your learning curve will be.
2. Experience is the next factor, as losses do become easier to handle as you begin to accept them as part of the business and this is achieved over time through trading the FX markets in a professional and systematic approach. You can only gain experience if you actively participate.

These two factors go hand in hand with one another as confidence is achieved in trading with something you have tested to ensure it is profitable in the long-term perspective and losses become easier to process when you know that what your trading provides a 70% win rate for example. This then means that out of **100** trades taken, **70** will be winning trades and **30** will be losing trades but more on how probabilities determine success in the FX market later.

Executing your trade plan becomes easier once you know the reason and thought process for why you are involving yourself in the market in the first place as there is no confusion or hesitation in your analysis. Many retail traders lack clarity and look at everything as a whole, not attempting to break the market down to look for specific reasons and outcomes unlike you, as by using this process of principles means you would have **established** the current market sentiment, **speculated** the most likely market move to occur next, **decided** how you plan to involve yourself to capitalise on the potential market move and finally **executed** the setup accordingly, once you have confirmation to do so via your trade plan rules being fulfilled.

The result of using the principle method to approach the market when you are looking to get involved in trades is that you have literally justified your entry into the market, giving you confidence in your analysis. This is because you need specific conditions to be met in order to involve yourself into a trade as opposed to what many often do which is throw themselves into the market with no reason or justification.

This approach is a fantastic way to become efficient in trading the FX market, as many new traders who come into this market spend hours upon hours conducting analysis and every time they look at a price chart make new predictions on what may happen next, which can lead to overtrading that sees many mistakes made as your mind becomes fatigued. Therefore by using this method you can quickly establish any setups you may look to execute in order to get involved in the market or not and by doing so you save time, as you spend less hours on the charts because if no currencies or TF's display any interest or potential setups for your trade plan i.e. the rules then you in your plan then you have no reason to be in front of the computer staring at charts all day long.

New traders often spend countless hours just watching candlesticks form and staring at price charts hoping to find a reason to execute a trade in the market and the market is never short to provide reason to get involved as there is thousands of reasons for why we could get involved but the truth is that most of the stuff we see on charts is noise and what we want to do is filter out that noise to find high quality setups. The way we do that is by having a rule based trade plan that needs specific conditions to be met and by using our principle method to ensure we are using them rules in the right market conditions as well and so we filter out all of the noise in the markets.

Why the Principle approach works

We have introduced you to the principles we follow in order to analyse price charts all the way to finding reason to execute live. In our opinion it provides you with the best opportunity to get high probability scenarios that give you an edge in the FX markets to exploit. You need to remember that within one trading day there are countless scenarios for why you could go long or short in a currency pair, but we are here to tell you that all you need is one particular setup to be executed every time it is presented to you for a ROI to be produced over time. All you ever need is one good trade.

The problem with some retail traders is indecision on their own opinion of the market bias or future price, as they may find reason to get short on a currency pair but once involved, another setup appears that presents a buying opportunity. The next actions, for what typically occurs from the retail trader, is that their emotions take hold of them as fear and panic set in. From that point, indecisiveness sets in as they no longer have faith in their original analysis and decide to close the initial short trade and go long on the market from the new setup. The result is that the original analysis was correct as the market drops lower but in fact they incur a loss due to being long on the market as opposed to having the confidence to believe in the first short setup and analysis. You would not believe how many times this scenario has made so many traders lose money and it is this conflict of interest of one's own opinion that over time ruins traders.

Confidence is absolutely essential in trading as without having confidence in your own methodology and ideas through analysis will see you tur your back on it when the market begins to go against you occurs. As mistakes will be made and inconsistency in your trading begins to set in. The reason for why lack of confidence causes failure in this industry is yourself, as emotions and your own psychology begin to take hold of you and once emotions are controlling your actions you will become reckless, irrational and irresponsible. Remember you are the one pushing the buttons on your computer not the markets! To be successful in the FX markets, you need to control your own emotions at all times, because if you fail to do so it can be yourself in which most cases with new traders it is themselves that results in their own failure, as they sabotage their own success before they are even 90 days into their trading journey. The way in which you may look to remove emotions is by removing a level of subjectivity. Remember that everything you look at on a price chart is subjective because it is your opinion and how you see it and what that means to you.
Therefore using the approaches that we have shown you will allow you to have confidence because you will know exactly why and how you entered a trade, thus trading with calculated risk as opposed to gambling.

Trading is completely subjective to what you see on the price chart because your job is to interpret what you see on the price chart in order to form a prediction on what the current blank space on your charts will look like in the future.

However it is this subjectivity which makes it hard for traders to be consistent without using clear defined rules as you can learn examples of what the market is supposed to do, however in reality the markets never look exactly like the charting examples!

That is why in our opinion the best approach you can use is by using clear definitive set rules every time for every scenario because by using such rules you know exactly how to react in the markets. It allows you to remove subjectivity within your trading and be consistent.

Rules create order and allow you to control chaos. Try to imagine every board game you have ever played, how do you play it? By following clear and definitive set rules prior to the game starting. How do you know if someone is cheating when playing the game? Because they aren't following the rules and they can't argue or win because the rules are simple black and white i.e. definitive.

It is imperative for to you to realise that you, nor will anyone else for that matter know with 100% certainty what the future direction of the market is at any given point, as the market is an entity by itself that can do whatever it wants, whenever it wants. One of the many reasons why markets move, especially the FX market, is from traders who execute orders in line with their bias and opinion and this action influences the change in price. If someone then believes they know what the market will do for certain, they are quite simply a fool because they are suggesting that they know what millions of traders are thinking at one time and that they know their opinion on market prices. If your mind-set is like this, you will ultimately fail in the short-term or long-term perspective of a trading career because being stubborn in both your analysis and open trade positions can lead to large losses. Of course you want to have a clear idea in your analysis but do not be scared to change your analysis if the markets have changed because the markets are always moving. In your trading you want to be nimble and look for opportunities for you to make money not to prove a point on who can be right.

This is why we, as traders, need to build discretion into our trading because our job is to **speculate** a potential market move not to **guarantee** one. Therefore, we are teaching you to identify high probability scenarios that can be exploited and produce consistent profits as opposed to teaching you something that is absolute or a guarantee because the only guarantee in trading is that the market will move.

We need ensure that when we win we make more when we are right as opposed to when our analysis is wrong and we lose. The way in which we do this is again by implementing a method that has proved in the past to make a ROI and we do this through a method called **'Back-testing'**, which we will look at quite soon as you continue to progress.

The power of following your rules and probabilities in trading.

In this module, we will explain and breakdown why it is imperative to follow your trade plan rules and how in doing so effects the probability of success in the long-term perspective of your trading. We have previously mentioned that we prefer to trade with knowledge of probabilities and so we will also look at all the perspectives for why you should also trade with probabilities as opposed to pure speculation.

Rules:

Throughout the content of this guidebook so far, we have mentioned time and time again the importance of following your trade plans rules, but we will now look at this topic in greater depth.

A trader needs rules within their trading to bring order, structure and routine as this leads to consistent behaviour in how you trade. If we, as a civilisation or any work place for that matter did not have rules to follow and abide by then the only thing that would take place is anarchy and chaos. The reason for this is because as a race we need structure in our lives because it allows us to be productive and make sure we are staying on task. It does not matter if you are employed, self-employed or what you do day to day, structure and routine always finds you because we need it and cannot function without it. The result is that habits begin to develop, because over time by following and carrying out the same actions, routine develops and it can be hard to break. It is therefore imperative for your own success in both trading and your personal life, that when you begin to develop habits and routine that they are the actions that bring you closer to your goals and success.

In order to then be successful in trading, it is therefore essential that you develop good habits in your trading for long-term prosperity in this career you are embarking on. How do you then develop good habits? The answer is quite simple in trading, follow your trade plan to the last letter and do not think you can outsmart the market.

Remember that in the realm of trading every single cause has an effect, so you always want to ensure that every action you make has a positive effect. The effect in the short-term might not be what you want it to be, but as traders we need to switch that mind set to a long-term state of mind.

Let's look over some bad habits, which you should avoid as they may cause damage to your account;

- Trading recklessly, without specific rules
- No order to how you enter or identify setups in the market
- Enter positions blindly with no reason confirmation bias but enter on pure speculation
- Adjust stop-loss placement regularly when involved in active trades

- Close profitable trades early before your first target is even realised
- Watching charts all day and being impatient when you do not have reason to get involved in a trade
- Imposing your will onto the market, saying things such as 'the market will do this… next'
- Lack of confidence in what you are trading
- Adamant that your analysis is correct despite the market moving against you.
- Failing to accept responsibility for your actions and trying to pass blame on to others
- Emotional attachment to capital

These are a few bad habits that many retail traders go through on a day-to-day basis. Now, the only thing stopping you from potentially being successful in this industry is your own mind-set. If you shift and make changes from these bad habits and adopt new ones, you will notice a vast difference in performance. The mind can either be the greatest friend or foe to you, but it is how you control your own actions that dictate your success.

Now let's look over a few good habits, which consistently profitable traders implement every day;

- They trade with tested methods and rules that have data proven statistics to show that over time they have an edge when trading the FX market.
- They use processes to find and identify high probability setups that provide the needed edge, which they can exploit.
- Positions are executed with reason and justification, as they know exactly how, where and why they took a trade and leave nothing to chance.
- Professional traders wait for the market to tell them when to enter a trade position, as they allow the market to present an opportunity to get involved as opposed to chasing one.
- They do not adjust stop-loss placement or profit targets unless the rules for which they use allows them to do so.
- Trades are never closed out before profits are realised.
- Professional traders are fully aware that as one individual they cannot figure the market out or have influence on market prices, therefore they do not impose their will onto the market, as they understand the market is a force that does what it wants, when it wants and their job is to simply speculate on what it may do next.
- They understand what conditions allows them to work at their best and what hinders them because your personal life can effect your trading performance as it is more stress added to the mind.
- Losses are simply accepted and not held with regret because a loss is the transaction cost of participation and opportunity. They know not everyone can win all the time.
- Professional traders do not have emotional attachment to the equity in their account but rather see it as a tool to generate bigger gains and are able to see the bigger picture that even though small losses may occur, the end result outweighs them small losses.
- Stop-loss placement and profit targets are always established and set before ever executing a trade in the live markets and always seek a R/R where their reward outweighs their risk.

The main factor for what separates the good habits from the bad habits is a trade plan, because if you follow something that has proven in past performance and it can achieve what you desire then why would you not follow it and exploit it for a potential future profit? If you possess a trade plan, you have specific written criteria that does your job for you in terms of making a profit over a period of time and all you need to do identify it and execute it.

The problem with some retail traders is that they allow subjectivity in their trading, which again as previously mentioned causes inconsistency in trading because they trade with what suits them best at the time. For what they may execute one time, they might not the next time as it is outcome dependant, as they try to avoid losing trades because their emotions are trading for them and it is a convenience. If you are subjective in your analysis, losses will begin to build up because you will be picking and choosing trade setups. We have stated many times, that nothing is absolute in trading but this is not true as one thing absolute is your trade plans rules to how you get involved in a trade setup. If you trade in a subjective manner, where your emotions and opinions influence your decision-making and how you get involved in a trade and thereafter manage a trade once executed, you will find it extremely difficult to be consistent. Also remember no market move is ever the same and even though it may look similar but it will be different because markets are constantly evolving, changing and adapting

In trading, there are only two types of losses you can incur. They are:

1. **Forced losses** – In which it is down to your own actions, behaviour or some influence for why the trade was a losing one, which is self-sabotage.
2. **Systematic losses** – In which you followed your trade plan correctly and conducted every action as specified to ensure you had the highest chance of success for the setup, but the trade still lost. This will happen with every trade plan. Remember, we are trading through probabilities not guarantees, as some losing trades will be incurred through the process of using a trade plan but as long as you followed the plans rules, the plan itself will bring itself back into profit eventually because it has been designed to produce a **X** amount winning trades out of **Y** number of setups executed on average.

Rule-based trading allows you to become systematic, trade with little emotion and subjectivity. The reason being because you are simply following a step by step process and so through following a process of actions, you are removing as much of your own opinion as possible and literally just going through a checklist which is your trade plan.

We believe one of the hardest things new comers to the financial markets especially the FX market face, due to it being open 24/5, is when they should look to get involved in the market and not to get involved. It is hard at first to distinguish the two because of the vast amounts of opportunities, due to various reasons such as the amount of currency pairs available to trade and various TF's. However, you now possess the knowledge for how, where and when you look to get involved in the market and not to get involved from using a rule-based approach. If your rules have not been fulfilled to enter a trade setup or when you go through the your principles to identify a setup a currency pair but it does not present any interest to use your trade plan due to the current market conditions not being correct, then you have no reason to be looking at that certain pair or TF any more as there is no reason to.

For example, the trade plan we have just shown you only works in trending market conditions, as we are anticipating TC. However, if the currency pair you are analysing is not yet trending but rather in consolidation then the market is not moving within the needed conditions for your trade plan to be implemented, therefore you know it is not time to get involved on that specific pair just yet.

If, then thought process

We have mentioned many times trading is heavily based on psychology because the only physical part of trading is having to push the 'Buy or Sell' buttons.
We highly encourage you to use this thought process rule in your analysis and trading because it allows you to react without hesitation, subjectivity and emotion, but rather uses a

methodical process that allows you to be efficient in all aspects of trading '**If the market does this, then I will react by doing this**'. The reason for this is because by using this thought process you are simply planning for every scenario that may occur and future actions, as you are prepared for the outcome and know exactly how you will react before it even happens.

For example;

If GBPUSD retests resistance up at 1.3500's even and prints a double top price reversal pattern, **then** I will execute a short position for with a profit target down at 1.3475's.

Do you see how much more simple that has made the whole process of being able to establish, speculate, decide and execute? It allows you to become efficient but when you are faced with uncertainty of not knowing what will happen next by using the **if, then** thought syntax you are preparing in knowing how exactly you will react!

You do not need to be involved in the market every hour, day, week or month, but only required to be involved when your trade plan gives you permission to be active. This is the difference in separating when to be involved in the market and when not to be, as it will allow you to view the markets with more clarity because you will have time to process your actions and identify setups that provide a high probability of being correct.

By using rules in both your analysis and execution of trades, you can then distinguish if the trade you executed was a '**good trade taken**' or a '**bad trade taken**'.

A good trade taken – This type of trade is regardless of the positions outcome, win or loss but only occurs when a trader followed their trade plan correctly and accordingly in that they did everything specified and followed their principles. Therefore, it was a systematic loss. We then know with systematic loss that due to probabilities was expected, can be managed and that the next trade could be a winning trade.

A bad trade taken – This type of trade is identified regardless of outcome, win or loss and occurs when a trader did not correctly follow their trade plan's rules for entry. For instance, even if a winning trade occurred through your actions, it remains to be a bad trade executed because your actions for which may have seen the trade executed were not part of the definitive rules set out in your trade plan. Therefore, this creates bad habits, as you believe because it worked once it may work again.

This type of behaviour of believing because something worked once it will work every time is also known in gambling and sports as it is called' **The hot hand fallacy'** whereby if we take basketball for example; when a player scores a basket both the player and crowd expect him to continue scoring as he is on a winning streak but the next shot results in a miss on the basket and the winning streak is over.

It is crucial that every time you take a trade in the FX market, you identify and establish if it was a **good trade** or a **bad trade** because if left unchecked, bad habits may develop and if you justify something once you will definitely do it again when the opportunity presents itself in the future because it feels good knowing you could be right. But you can also enforce good habits by identifying that through following your rules, the position executed was profitable. We will teach you how to review your trades later but for now we move onto probabilities.

Before we move on we just want to re-emphasise another reason for why we use rules within our trading, which is to find the highest probability setups that provide an edge and over time produce a return on investment for us. By using rules, at times you will of course miss certain market moves as you wait for a more conservative entry but if a trade was never taken then all you are doing is preserving capital. However, rules are used to prevent certain losing setups being executed hence they are implemented as your rules filter out certain setups. It is following these specific rules that prevents certain losing trades from occurring, thus preserving further capital, but when we do get involved we have the probability of being correct out of a certain amount of trades, which gives us our return in which we seek.

The reason for why we emphasise the importance of a trade plan, rule-based trading and discretionary trading is because you are trading your own money. This is a huge responsibility that many oversee and sometimes take for granted. With this responsibility, emotions will be extremely volatile due to your own psychology of being involved in new environment and the potential risk.

However, if you trade with a method that you have confidence in trading and have the discretion to take every setup that presents itself, thus giving you that needed edge and regardless of the short-term outcome only focus on the long-term perspective over time consistency will find you.

Probabilities:

Trading the financial markets is a game of probabilities, as it is the measure for the likelihood that an event will occur. In the realm of trading, we can use the power of probabilities as our edge to make a ROI because our hypothesis/ analysis only needs to be correct a certain amount of times in order to be profitable. For example, for every trade setup you execute there is a 50/50 probability of success that the market will move in your favour/opinion or against you and this is because the market is binary, meaning there are only ever two possible outcomes for a single trade - **win** or **lose**. That is the short-term perspective of probabilities.

However, if we implement probabilities into our trading with that of a trade plan, by gaining historical data that states that over **100 X** amount of trades with specific rules and criteria that **40%** of **Y** amount will be losing and that **60%** of **Z** will be winning positions, gives us an edge. The reason for that is because we know that if we simply execute the same setup consistently, by exploiting a pattern repeatedly, out of 100 trades taken we should incur **40** losing trades and **60** winning trades. This would then state that, from this example, the trade system/plan would correlate to a **60%** win rate. This is the long-term perspective of probabilities, as it allows you to establish that over a certain amount of trades how much % you stand to make on your original investment.

We have stated that in the example above of probabilities, that out of **100** trades taken you stand to win **60** of them but lose **40** because the success rate is **60%**. The 40 losing trades are known as a '**Drawdown**', a term used to describe your losses in trading. It is critical to know what drawdown your trade plan or system holds because every single plan or system will hold one and it gives a trader the ability to trade through the losses because they know that their plan produces a 60% win rate. This is something so many traders do not understand; as they trade something with their hard-earned money and do not know to the full extent how much of the money they will need to potentially lose before the make a return on it. For example, many traders constantly try to find the '**Holy grail trading system**', which gives a trader a 100% success rate. This does not exist, as every trader regardless of rules, system or even knowledge will not have a 100% success rate where by out of 100 trades taken you will incur 100 wins and 0 losses. Interestingly, this does not however correlate to ROI as you could have a 70% success rate system but still able to make a 100% ROI, as factors such as R/R and money management can be utilised to realise such a gain but more on these two later. If such a system did exist they would be the richest person on the planet either through compounding the gains or betting everything at one time because they could never lose or they would be selling it as a product and everyone would be buying it.

Losses are a part of trading but you need to see past the short-term losses to realise the long-term profits. Novice traders bounce from plan to plan, system to system because once they take 5 or more losses they cannot mentally tolerate it because they lack the knowledge and understanding of how many losses on average they may incur before they come out of the drawdown and back into profit. This process of bouncing from systems and trade plans is what results in so many losing all their funds in their trading accounts. However, we know from the example above that if we are trading a trade plan with a **60%** win rate, that we can expect to incur **40** losses in the process of doing so. This is where confidence and discretion come into your trading, as you need the mental strength and stability to trade through these losses to reap the rewards for doing so. This is why we use a rule-based system because we can be consistent, trade with confidence and have belief that when losses occur, eventually the trade plan will put us back into profit but only if systematic losses occur.
If you are to take a losing trade and the reason for doing so was not part of your plan, then it is not part of the probability of losses but rather a separate losing trade you incurred from your own actions, hence why it is imperative to follow your plan consistently and with discipline because you will only add onto the potential drawdown of your account. A series of losses can indeed be scary at times if you lack the confidence to know that they are simply apart of trading and how to bring yourself through the losses, which is to simply continuing trading the plan with confidence and the only way to gain true confidence is to know the expectancy of your trade plan over a period of time.

Losses are simply the transaction cost for participating within this market. We look at losses like a business owner would in order to run their business. For example, if you run a clothing business and have new product launching you will need to buy new inventory stock at upfront cost. So, let's say you buy $20K worth of inventory, but if you sell 90% of the new clothing line and your projection tell you that you stand to make $150K profit because of margins in your buy price and sell price. Therefore, you need to make this purchase before actually selling the stock because it is upfront cost of business. At that point in time, you are then down -$20K and dependent that your customers will buy the required **X** amount of stock in order to make back the $20K original investment and produce a profit on the clothing line itself as your projections suggested. So, the business owner will need to make an original investment of $20K before ever seeing a return, but let's say for example that product is not as popular as anticipated and instead of selling 90% only 10% is sold due unforeseen circumstances in the economy. For example purposes, you would see a loss of -$1k because the clothing line only sold $19K worth of inventory and then stock would also be left over because it failed to be sold, thus underperforming and adding further losses. Eventually the stock left over will need to be sold at a discounted price in order to try and make back the -$1K loss and to break even. Every business has transaction costs and losses but it is simply how you handle such times and move forward to learn what you could have done better that dictates the future outcome.

As paying taxes are a certainty in life drawdowns are in trading, as they are both unavoidable. The problematic thing with drawdowns is that they can come at anytime because we never know what the market will do at any given point,and so you could see the 40 losses expected to be spread out through the year or you could see all of them come one after the other. Therefore, you need that confidence and trust in your trading to know in times when you are trading in a loss it will be hard but it your job to continue trading through such losses and remain consistent in executing your plan for it to eventually start making back the losses and make a profit. But, it is only you that can see it through to the stage of making a profit, as you are the one in control of the situation and decision-making.

How do we gain this confidence and trust to trade our plan consistently in even times of drawdowns? By simply knowing your expectancy of your trade plan.

You must remember, that as a retail trader your position has no influence on market prices, as you are trading purely on a speculative basis in predicting the future market price not dictating it. Unless you have direct access through a trading desk, your position does not even get processed into the live market feed as it is your broker that trades on your behalf, hence why they charge a spread because there is commission for acting and trading on your behalf. Brokers combine multiple client positions, putting them into a pool of funds and using that pool gain access into the markets to execute your positions, so the broker is taking far larger risks than what you do.

The market literally does not care for your opinion on market prices as your position has no influence of market prices because your opinion only becomes relevant when you execute a trade and even then, unless you are trading with '**yard orders**' (**$1Billion+**), it will have little to no dictation in the direction of price. We say this because so many novice traders get upset when the market does not move to how they predicted it to. The market will do what it wants, when it wants, every single time and if we know this, the only way we can be profitable overtime is by using probabilities.

There is not one single person that will ever know what the market will do next. They can assume through speculation but never guarantee because at any one time the market can go **up**, **down** or **sideways**. Not even the best traders in the world know for certain what will happen next in a market, hence why trading the FX markets or any other assets class is known as **'Speculative trading'** because everything we do is speculative and based on the probability of being correct. However, if we know the expected amount of losses and wins out of so many trades executed in the market the expectancy of such variables and it is positive, then we have an edge and by trading through a rules-based approach, we can realise this expectancy because we can trade systematically and consistently.

The power of Risk/Reward profiling.

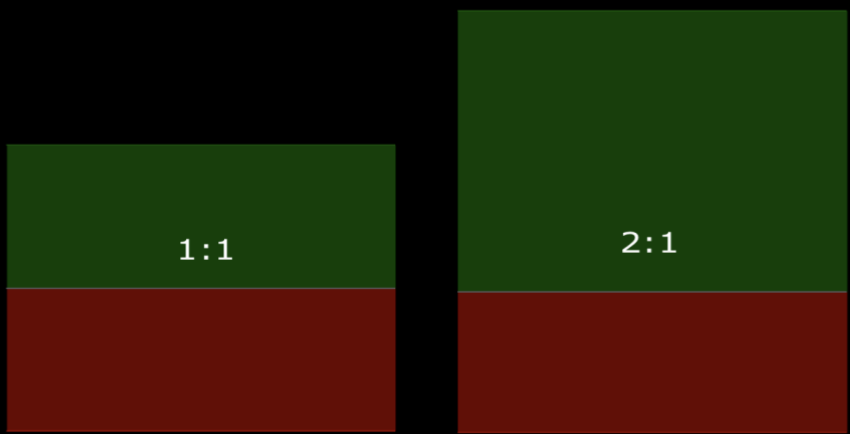
In trading, sometimes traders overlook the power of how using good R/R management can change your performance quite significantly for the good or bad, as it is simply the ratio between your potential risk to your potential reward in a trade. In the Forex market and with many other asset classes, you can often choose how much capital you believe is worth risking in hopes for a return on investment and adjust it to suit your risk appetite. However, in certain financial instruments you cannot do this. For example, in binary options the R/R is fixed and is also inverted as you can only ever make a return of 70% in most cases, but you always have to risk 100% for whatever the amount of capital you choose to trade with for one position. If you then choose to trade with **$100** every trade, this then means that if were to win one trade but then lost the next you will always lose more than what you win and this is known as an inverted R/R because your potential risk is greater than the potential reward. For example, you take two trades both with an initial investment of **$100** and the outcome is that one trade is a loss and the other is a winner. However, despite the fact that you won one and lost one, you would overall still be in a loss of **$30** and the reason for that is because you are only ever guaranteed to make a maximum return of **$70** for every winning trade, but will always lose **$100 for every losing trade** and so the risk always outweighs the reward every time.
If you were then to take **10** trades, where **5** won and **5** lost the result would be a Net loss of **-$150**, because every time a losing trade occurs, you always lose more money in comparison to when you win and make money. This type of trading is also known as '**Fixed odds betting**'; because you are choosing to execute, in this case, a trade where the odds (R/R) are fixed once executed and it will always benefit the broker in the long-term.

However in spot forex trading, you can change the R/R as often as you like and decide on what R/R profile you want for your position depending on risk appetite because you have the ability to decide how much risk is appropriate, as with the reward for one trade. For example, if were to win one trade where you made **120** pips but then consecutively lost the next where you made a loss of **40** pips, you would overall still be in profit despite losing a trade. The reason for this is because you would have made a greater Net return from the winning trade and therefore it would outweigh the loss for the losing trade, as you are now in a Ney profit of **+80** pips.

- A positive R/R is where your potential profit is greater than that of your risk and overtime if every position you execute has a better return than loss you will more than likely be profitable. This is because each position executed with a positive R/R will always outweigh the potential risk, but of course this varies on each trade setup, as every setup will always offer a different amount of risk for the potential reward and therefore offers a different profile.
- An inverse R/R is when the potential risk outweighs the potential reward for a setup and with this style of trading you are guaranteed to incur a poor **ROI**, as the risk will outweigh the potential profit. For example, over time when a winning trade from your trade plan occurs, it will be unable to compensate your losses because you will always lose more on losing trades than when your analysis is correct and you make money.

A 1:1 R/R is the minimum requirement for each trading setup. We say this because by only involving ourselves in setups that offer a 1:1 R/R we can ensure that our risk is the same to the reward and so through using a 1:1 profile, it ensures that at minimum the loss and potential gain are the same. You can indeed only look for setups that offer a greater R/R profile than a 1:1, such as a 1:2 profile as we simply look for setups where the reward is greater than the potential risk.

FIG 1.



If we then look at the example above, displaying the difference in a 1:1 and 2:1 R/R ratios in a long position, we can see that the 2:1 offers a far better potential reward but offers the same amount as risk as the 1:1 ratio. This is then how we can maximise profits in trading, but keep risk to a minimum, as we can make double the return but only use the same

amount of risk. In this instance, if we only executed trade setups that offered a 2:1 R/R profile even if we incurred one losing trade if the next trade setup was a winner we would make back the original loss and still make a gross profit.
A R/R ratio of 2:1 simply where your potential reward is double to that of your potential risk, as where a 1:1 is when your potential reward is the same amount to that of your potential risk.

If you are then to only look for setups which offer a R/R with a 2:1 ratio, you will be sure to be in a profit in the long-term perspective because every time you lose a trade you are guaranteed to always make the loss back and an additional profit for a gross return if the next trade involved in happens to win. This is as opposed to when you seek a 1:1 R/R profile, where if you win one trade and lose the next and vice versa it could put you back at breakeven.

A Risk/Reward profile is determined by how much risk you look to risk in hopes of making a potential return for a trading setup and these two factors are determined by a stop-loss, which is your **Risk** and profit target which is your **Reward**.

Your stop-loss is set at a price point in the market for where your maximum amount of risk has been set, typically determined by your analysis of price action or how much risk you want to use for the setup. However, we suggest your stop-loss should not be determined by how much risk you are prepared to use for the setup. The reason for this is because it makes stop-loss placement subjective and every time you attempt to identify your stop-loss it will mean a different outcome and so your stop-loss should be identified through methodical rules and act as a way to tell you that your analysis is incorrect once triggered. For example, your stop-loss should be used as an invalidation point in your trading so that when it is triggered it acts as a signal to tell you that your analysis is incorrect or no longer valid and it could suggest a potential reversal of market bias for which you once had. It is a tool desgined to help you manage risk and protect your trading account.

Your profit targets again should be identified and established through valid methods in your analysis i.e. a level of structure that price action may rally up or down into dependent on trading direction. You can indeed look for extended targets, once the initial profit target has been achieved, but again you need valid reasons and justification in order to do so to sustain consistency in your trading.

Overall, you can indeed change your stop-loss and profit targets whenever you like and adjust them if needed, but only if your trade plan and rules allow you to do so to sustain consistency. The problem when a trader adjusts their stop-loss is that it is never to reduce risk but to add further risk into the trade setup, which of course means a bigger potential loss as your are then maximising risk and so you need to ensure that you adjust your profit targets to ensure you sustain a minimum 1:1 R/R profile. Along with this, a trader often decides to adjust their stop-loss due to fear that their position will lose and that a loss will be incurred and so they decide to drop their stop lower to avoid this from occurring, but by doing so they have let emotions trade for them rather than trading through tested methods.

When you look to involve yourself in any trading scenario or setup, before you ever execute the trade you need to ensure you have identified an exit point in the market (win or loss) because by doing so, once the trade is executed you can simply let the trade setup/analysis play out and hold little emotional attachment to the trade. The stop-loss and profit targets should only ever be adjusted if your trade plan specifies that you can indeed make the adjustments in order to sustain consistency in your trading.

The power of R/R is that even if you have built rules into your trading and you are disciplined in that you only ever take setups once your rules have been fulfilled and you have confirmation to do so, that if your R/R is inverted overtime even though you are trading in the correct manner you still not be a profitable trader. For example, every setup you involve yourself in may only be a 0.8 R/R and so every time you lose to when you win you are simply losing more than what you stand to make and over a longer-term perspective, you are not profitable due to your wins being unable to outweigh the losses.
That is why it is imperative to test your rules and ensure that every time you involve yourself in the market, for which rules allow you to do so, that a positive R/R is achieved (1:1 minimum).

In regards to new traders, they often believe that if they move their stop-loss back from where it was originally set when a trade is executed that it makes their position safer, as the market is not likely to reach that level of price. However, the problem with this is that you are already meddling with the setup and rules because if your rules do not specify that you can move your stop-loss, once involved in a trade, this results with inconsistency. Along with this, you have violated your own rules if they do not specify that you can adjust stop-loss placement once involved in a trade but more importantly you are adding further risk into a position, thus reducing the R/R profile. For example, a Long trade is executed on USD/CAD at **1.2900** and looking for initial targets up at a retest of structure resistance at **1.2990** and has a stop-loss down at **1.2810**'s, in which gives a R/R profile of 1:1. In this example, price action begins to move against you and your analysis and further towards your stop-loss down at the **1.2810**'s and so in order to prevent the position being stopped out, a decision is made to roll the stop back another 10 pips and so the stop-loss is now at **1.2800**'s. Due to this adjustment, the R/R profile has now changed from a 1:1 profile to a 0.9 R/R and so the R/R is now inverted, as the current risk of the position now outweighs that of the potential return for the trade. To correct this and to get out the inverted R/R profile, profit targets will need to be re-adjusted in order to compensate the extra risk and so the profit target originally set, will now need moving from **1.2990** to **1.3000** to re-attain the minimum 1:1 R/R profile for the open long position. However, the problem now presented is what reason can be used to know price action will break beyond the current level of structure resistance up at **1.2990**, where the initial profit target was set and achieve **1.3000** because there is no reason to suggest it will other than you hoping it will, because if there was then why was the profit target set at **1.2990** as opposed to **1.3000** in the first place? This is how simple it is for trading to go from a game of **probabilities** by following rules, to then interfering and making it a game of **hope**.

What happens next in the trader's psychology is that one of two things:

1. The trader will begin to justify their reasoning for moving their profit target higher with no rhyme or reason to suggest the market could achieve it and it becomes a matter of '**it will**'.
2. The trader will keep their profit targets set where they initially were at **1.2990** but keep their stop-loss now at **1.2800** and keep trading the position open with a R/R of 0.9, hoping the market will go in their favour.

Regardless of which scenario the trader takes in this example, one thing has occurred which is the trader violated the rules of the trade plan and the reason for doing so was because '**emotions**' were influencing the decisions in which the trader acted upon. This is because if it is not part of your trade plan, then it is not the process for which is being traded but rather your own emotions trading for you.

The worst thing that can happen to a retail trader in our opinion, is that when mistakes are made and decisions are acted on, in which they know are the **not** right ones i.e. not following your rules and the result turns out to be a positive because you have been rewarded for bad behaviour and it can literally destroy you because you do not become confident but more arrogant (**Remember the hot hand fallacy**). This is because your ego inflates because you were correct and did not have to use your rules and you feel as though you know better than what your trade plan or the market does.

If you do this, it will allow you to believe that because what you did once rewarded you, if you make the same decisions again the same positive expectancy will be realised because it did before. If the same actions are then repeated, habits are then realised and so inconsistency becomes a regular occurrence in trading as you further diverge away from the trade plan and you have a false belief that what once worked, will work again every time. The question we ask to you from this scenario is how do you think you will feel if you do not follow your trade plan and instead of incurring a winning trade you rather see a losing trade as the outcome? The emotions that come with this scenario only occur from live experience and we hope that it never occurs, because we are trying to create good habits in which realise good results. However, if you do not follow your trade plan and the result is a loss here are some of the emotions you will expect to face; upset, guilt, disappointment, anger and revenge. These are a few emotions that occur when a trader thinks they know better than the market or trade plan and the result is not what they wanted. Now remember, trading is 80% psychology so if you are feeling all these types of emotions and that your actions dictate your future do you believe the correct decisions will be made or you will further make mistakes? In most cases the latter is correct and so in case this scenario does occur, step away from the charts make sure the trade is closed and take some time away from the charts and conduct a review of why you decided to make the decisions you did and your reasoning for doing so and how by taking such actions the result was a negative experience.

In trading, a trader can go from feeling like a God to an idiot in the same day. It all depends on how you react when needed to and if your actions are the correct ones or not and how you control your own psychology. Remember, just because something worked once with a positive expectancy does not suggest it will have a long-term positive expectancy. We urge you to always remember the reason for using a trade plan is to find high probability setups in the market that favour a positive R/R and give you an edge, in which can be exploited consistently to make a ROI.

In summary;

A minimum R/R 1:1 is needed for every trade, to ensure over the long-term perspective of your trading career you are not losing capital as your reward needs to outweigh that of your risk and that when you are right, you make more money than that of when you are wrong and lose money.

You can find setups that have a better R/R than a minimum entry of a 1:1, such as 2:1 and even 4:1, so that when you lose in the short-term your winners always exceed losses in the long-term, as you can maximise your potential gain for a position but keep risk at the minimum.

As a retail trader, you should never roll your stop backwards unless you have valid cause and justification for doing so i.e. your trade plan allows you to do it, because otherwise you are simply adding further risk into a position with little to no extra reward to benefit the position.

The trade plan must be followed at all times to ensure consistency and to not create bad habits because if you break the rules once and incur a positive result from doing so, you will justify your actions once again if a similar scenario occurs at a future date. This then allows emotional trading to take place and arrogance to take hold of a trader, which will result in poor performance over the long-term because if you justify to roll your stop-loss back by 10 pips one time, the next time you may roll it back 20 pips and eventually the trade you are involved is not even worth being involved in, as the risk massively outweighs the reward. When you trade the FX markets, every setup and trade is completely different to the one before as you may find similar setups but not the exact same. Therefore if the setup is similar, this means a different outcome is of course a possibility because the bias and sentiment is different to the last time price action moved in a similar fashion.

Before ever executing a position, your stop-loss placement and profit targets should be established so that an exit point is always identified and emotions have very little to no impact on decisions or outcomes that take place. By doing so, it allows your trading to become systematic because once the trade is executed you simply let the market decide on the outcome because you either wait to be triggered out for a return or a loss as your exit points are already set.

The importance of back testing and forward testing.

Behind any consistently profitable trader who trades the FX market in a professional manner, they use a back-tested trading plan. Throughout this guidebook, we have briefly mentioned what back-testing is and that you need to back-test, but in this section we will look over exactly why it is the crux for a long-term trading career, in where you are profitable and trade with confidence every time you analyse and execute positions.

We have emphasised time and time again the importance of having established rules to enter market and you can find rules for entering the market through two ways:

1. Simply copy someone else's trade plan to find setups and use their rules of entry to execute positions.
2. Or, you can make your own rules as you may find that when you analyse the markets over time you see a recurring pattern that offers a setup and when fulfilled by certain criteria it has a positive expectancy, in which you believe you can exploit. However, to prove that expectancy can carry on to the long-term results the rules need to be tested.

Both scenarios are perfectly fine to implement, as many believe that when you use a trade plan it should be your own rules and not be from that of someone else's. However, the secret to achieving success in the quickest way is by simply copying someone who has already attained what you desire. If two traders were to use the exact same trade plan the outcome is that the end result will be slightly different to one another because it is up to the mindset of the trader, who trades that plan, that dictates the overall performance in the live market.

We would only recommend using someone else's trade plan if it suits your trading psychology, for example if you prefer to trade trending markets as opposed to consolidating markets, then it is probably not the best idea to use a trade plan that only works in consolidating markets. The reason for that is because you might not be able to use the consolidating market trade plan to its optimal performance to ensure you get optimal results for which the trade plan offers and so you need to figure out which type of trader you i.e. which market condition suits your trading psychology, so that you can consistently trade that one type of style.

As a trader, you can either be a TC trader, C.T (Counter trend trader) or consolidation trader but typically not all three at the beginning, as your methodology and reasoning for setups will disagree with each other and so we recommend for the first year just learning one type of trading style and becoming good at it.

In order to back-test, you must have definitive rules established, in the manner of 'if the market does this…then I wait for this' or 'if price action does…this then means I can do this'.

Once you have definitive rules to identify and exploit a setup in the market, you must then test such rules and we do this by going through historic price action (**left of the chart**) for at least 5 years+ to attain a good sample size of trades or data to then ensure the long-term result from trading such rules has a positive expectancy. You then analyse the markets from the past moving to the present looking for specific price patterns or frequent market moves and then you implement your definitive rules to establish a setup and if your rules are met record all the data and what the result for that trade was. You will learn exactly what variables need to be recorded and how to go back on historic data to find trade setups in the principles online course.

The reason why we test a trade plan is to ensure it is testable, repeatable and verifiable.
As these three variables are crucial to ensuring that what we plan to use in the market does actually have a positive expectancy over time. We ensure it is testable by simply testing the rules through historic price action, in which sees if the rules are repeatable because you may find your rules may only present a valid trading setup 5x every year from the data you collected and finally that the rules are verifiable i.e. you can verify if that trade plan/strategy or rules produce either a loss or ROI over time. Of course, we look at other variables when collecting data such as out of 100 trades recorded what was the percentage of how many trades lost and won (Performance)? What was the maximum drawdown (Loss)? How much ROI did you stand to make? Is there a losing streak from using the trade plan and do you make a ROI?

By finding out the performance and statistics of these variables, we then know what to expect if we use the trade plan in the live markets and we know that if 4 losing trades occur one after the other that we can look back at back-tested data from 2017 and see that a losing streak of 6 trades occurred and so it isn't actually out of the ordinary for this to happen because it is simply part of the plan. You then have the confidence to continue trading through the losses because you are trading with that key word '**confidence**'.

Once you know what to expect in your trading something quite remarkable changes in you, as many traders often remember the point in their trading career where they finally gained confidence to trade the markets because you detach yourself from the monetary value of your trading account. Once you attain confidence and discretion to trade a plan and not care if you take a losing trade, (so long as it was part of the plan), but only focus on the long-term perspective and not the short-term you begin to become consistent, as you will not hold the emotional attachment as you once did to trades. The reason for this is because you have evidence that states from using such rules that over the long-term aspect of trading such a plan you were profitable and so the short-term losses are simply part of both the plan and process.

It is vital and crucial that you know the performance and expectancy for whatever you plan to use in order to execute positions with capital because if you do not know the expectancy in both the short-term and long-term you are simply gambling.
You need to know exactly what to expect from trading certain currency pairs and timeframes because each currency pair and TF are different to each other and because your rules may have a positive expectancy on one pair or TF does not suggest it will for others.

Remember each currency pair and TF has a separate personality and so you need to find out which work positively with your trade plan and which do not, by identifying the performance variables from using your trade plan. For example, at Fair Exchange Trading we know that the TC trade plan we trade with works very well on **GBP/USD 1HR** TF but not on **EUR/USD**

1HR TF and even though it has a positive expectancy on GBP/USD **1HR** TF it does not on the **AUD/USD 1HR** TF neither but on all three currency pairs it provides a positive expectancy when trading the **4HR** TF's . The reason for this is because your trade plan will work differently on each currency pair and TF, as everything is always separate. However, the reason for why we know GBP/USD 1HR is profitable but AUD/USD 1HR is not is because we have tested them both and analysed the data to tell us if we should trade that pair and TF with our set rules or not.

We have seen many retail traders, who have built a rule-based trading system and use all the correct methods to get involved in setups for where they believe they have an edge, as they are consistent and always disciplined. However, they are never profitable even though their actions suggest they should be and the reason for that is because they consistently execute setups on currency pairs that do not provide a positive return or a good expectancy and so they are trading correctly but on a variable, which does not reward them for their actions. What they are simply doing is throwing away capital but believe they are doing a good job of doing so and call themselves '**professional traders**' because they follow a plan. A plan is simply a plan and it can either lead you into wealth and fulfilment or despair and tragedy. Therefore, you need to know if the plan you are building and want to use in the markets will lead to a positive expectancy or a negative. If we would not have done the testing on the currency pairs previously mentioned we would have no idea if we would see a ROI or not and that is why we need to verify the results for each currency pair and TF to ensure it actually works.

To trade in the manner of professional traders, you need to have an '**edge**' because you need to have something that allows you overtime to do what the market is simply built for you to fail at, which is to exploit the market and extract consistent profits. You can trade the FX market all day long, executing every setup that fulfils your rules, but if you do not actually know that by doing so you will be profitable, then you do have an edge but rather **believe** that you do and your actions may not be compensated by the reward in which you seek.

In order to have an '**edge**', you need both a variable, in this case a trade plan, which over time exploits patterns in the market and provides a technical edge but you then need evidence that verifies that edge. If you do not verification you will never have trust and trying to trade the markets to make money with no trust in what you are doing is a very risky game.

Attaining the evidence to support that your rules when exploited produce an edge is essential because this is where the confidence in trading is achieved, as the trade plan simply allows you to be consistent because you are simply repeating a process. However, to repeat a process and get a reward from doing so you need to know the expectancy and results for doing just that.

Even when you trade with a rule-based system/plan, trading at times can still be hard especially when you are in a drawdown and so you need that trust in knowing it is part of the process and in the long-term everything will be ok because if you lack the knowledge of what your rules mean in terms of how much capital you lose and make, you will not be able to see it through to the end as you do not have the mental preservation to do so.

In the retail-trading sector, on average 90% of clients either consistently lose money or lose it all together and only 10% become profitable. However, this is where the 10% of traders only become 5% and that is because one half of the 10% are consistent and trade correctly but never achieve enough to become profitable and just finish the year at breakeven or just slightly worse from where they started. They do not lose money nor do they make a lot of money.

While the other half, are consistently profitable and always finish the year much better than where they started but interestingly trade consistently and in the same manner as the other 5% of traders.

You may ask yourself well if both are consistent in executing their plan and trade in the same manner how can one be profitable and the other not? The answer is simple, the 5% who are profitable know what to expect in every scenario because they have tested their system.

The profitable 5% know the ins and outs of their system, as they know exactly how many losses to tolerate in a losing streak, what their average drawdown is, and what the overall performance from using the trade plan is and their expectancy for a ROI. By knowing all these variables, it gives the 5% of trader's confidence and discretion to trade and not get scared or distracted by short-term outcomes. They follow their plan with absolute discipline, as they know in the long-term the plan will take care of itself and their job is to simply exploit it because it is system that provides a ROI.

If you do not test your trade plan's rules then you do not simply know the expectancy or outcome for using such rules because you will not even know what win rate your trade plan is. For example, if you were to test your trade plan and gain a sample size of **100** trades through back-testing and out of them **100** trades, **70** trades were winners and **30** were losing trades then your win percentage is **70%**. In our opinion this would give us confidence in knowing to expect 30 losses instead of having no idea that out **100** trades we don't know how many losses to actually expect.

The problem with the other 5% and for why they stay at breakeven is usually because of inconsistency and uncertainty, as they might indeed use a trade plan and follow the rules but as they do not know how the trade plan is set to perform out of X amount of trades taken, how will they have the confidence to continue using it when they are in a losing streak? More often than not, they begin to pick and choose setups but what is the behaviour doing bringing subjectivity back into trading and is the reason we are teaching you to eliminate it. If, we never know the specific outcome for one single trade then how can we know the specific outcome for which trade setup is going to lose and which will not.
However, the main problem with these actions is that what may have appeared to be a losing setup isn't actually, because we never know the direction of the market for certain. A trader will be presented with a setup but does not proceed to execute it, as he believes the market will not go in their directional bias and so he avoid getting involved in that setup which actually resulted in what would have been a 120+ pip trade. So, the trader then shouts at himself for missing the trade and tells himself that the next setup in the market that presents itself that he will 100% take the trade. So the next setup that is presented is executed and what actually happens is that setup that was actually a losing trade he lost -90 pips! This is the importance of being able to take every trade and setup which meets your rules and not picking and choosing setups because if that trader would have taken the first trade he would actually still be in profit of +30 pips!

You cannot pick and choose trade setups because if you do, you are no longer trading with probabilities but gambling and the only way to not pick and choose setups is by executing every setup once your rules have been fulfilled on the currency pairs and TF's that provide a profitable edge over time through having the discretion and confidence to do just that.

Remember that the market does what it wants, when it wants and we cannot guarantee what will happen but only speculate as trading is a binary game of probabilities.

The majority of retail traders decide a trade plan is a losing trade plan before it even has the chance for its potential to be realised, as they will identify rules and execute such rules in the live markets with a live account but once they incur 5 losses, they conclude that the trade plan does not work and is not profitable. However, on the 6th trade if it would have been executed it would have provided a winning setup that could have made back 70% of the previous losses, as the trade plan was just on a losing streak but they did not possess the knowledge to know this nor the discretion to see it through to take the sixth setup. This was because the trade plan was not tested and so they simply lost the confidence to continue trading the plan and as a result for example, they may have lost -5% of their account.

Once you start trading with a specific strategy or plan you have to 100% commit yourself to see it through to the end!

If you have no reason or evidence then you have no reason to believe that something will work. This is a problem for many who trade the FX market, as they hope they have found a way to exploit the market and make consistent returns. However once a few positions do not win they abandon it entirely because they have no reason or justification to believe that what they are doing actually works, therefore they lack the confidence to trade it through a period of losses.

You can trade the FX market with whatever system or trade plan you like but if is not tested you will either fail the system or the system will fail you, as you will execute the trade plan in currency pairs for where it simply does not perform well with.

Please remember that it is your hard-earned money that you are trading with and you are responsible for the outcome of what happens, as you can plan as much as you like but if the plan you are trading does not have a positive outcome then you are simply planning to fail and in the process think that you are doing a great job.

The reason for why so many do not back-test trading plans is because it is time consuming and can be a grind, as you are having to filter through 5+ years of price action to find setups that meet your criteria for a valid trade setup, record and analyse the data but this is what it takes to be consistently profitable. Again, we use 5 years of historic price action to gain a decent sample size of trades and see how the trade plan performs in the long-term perspective to gain an average for performance purposes. Just because a trade plan performed well in one year can be just a fluke and so you need to validate that overtime the trade plan produces consistent results, hence why 5 years worth of testing is expected because at that point we can then get an average of results.

However, the benefits in doing so are boundless as you begin to find your trade setup without searching for it as it rather just appears, as though it pops out in front of you when you are looking at your price charts. For example, have you ever said you wanted a car and then the next week you see that car all over the road? This is because your mind is sub-consciously filtering out other information and looking for that specific car because it is finding patterns. The same scenario occurs in trading, as your mind filters out irrelevant information, in this case price action, but rather focuses on a specific pattern, which you have sub-consciously trained your mind to see, thus you become efficient in finding the setup that provides an edge to you. Along with this, you will also build that confidence as you see your trade plan play out time after time and see the results as you collect data. You may also find and establish other rules that you can add into your trade plan and also test them, as you may find that a double top provides more winning setups than that of a LLLC candlestick for instance and so forth.

If you mess with the expectancy of your trade plan, then you again are simply gambling because you have taken the probability of a long-term outcome and changed the result from your data. You will never know the outcome for a trade situation and is the reason why a trade plan is implemented, as it provides an edge in which overtime produces a positive return. You never know the outcome for a trade scenario and this is why we employ probabilities into our trading so that overtime, no matter if we win or lose, we can still be profitable. However it is when we do not follow the edge that probabilities have provided we simply lose that edge.

If you begin to be influenced by factors that are not part of your trade plan and base decisions from such factors, then do not expect to realise the long-term outcome for what your back-tested data suggests because you are not trading with the same variables that gave you such results but rather something different entirely. When you back-test your trade plan, all scenarios for which you believe you can prevent to improve the expectancy of your trade plan were in fact part of the results you recorded. As in your testing phase factors, such as reversal patterns, supply and demand, fundamentals and many other factors were all part of the price action for which you tested, as they influenced the market moves you recorded at one time or another but despite such factors mentioned by simply following your rules and executing them accordingly in your back-testing you remained profitable in the longevity of trading your plan. The reason for why the trade was profitable in the back-tested data is because you did not influence or try preventing getting involved in setups due to other market variables. You therefore need to use the same approach when you trade your plan in the live market, as you did when conducting back-testing, in that variables that were not part for historic performance for your trade plan will not influence future performance.

For many new traders in the world of FX, they have no idea in terms of performance what to expect from using their trade plan, as they do not have any idea for how much they stand to make at the end of the year or how much they should be prepared to lose in the process of making such profits. Uncertainty is the biggest threat to any trader because your actions do not mean a positive outcome and can also undermine performance as traders can become disappointed in their own performance when they want to realise a gain of 100% of account value by the end of the year but instead make a 50% ROI and so they become disheartened when a 50% gain was realised. So, they do not appreciate the fact that in their first year they made 50%, which is something many traders struggle to do many years into their trading career.

Trading and running a business often cross over at certain times and is the reason for why we say you should treat your personal trading as though it was your business. We believe trading is perhaps the best business model on earth as all the information you need to succeed is already available to you and its free!
However, sometimes this information might not be readily available for a business. For example if you was to open a Vegan Café how do you know there is actually enough vegans or people who care about vegan food in that specific location you have decided to open your shop? Well in trading we do not have that problem because all the information we need as traders to be profitable is readily available on the charts and all we need to do is '**LOOK LEFT**' on the price chart and you can find data for the past **20** years. By back-testing and gaining the needed information and variables we create one of the best business plans ever as we are we know exactly how to make money.

We say trading is the best business model because if we compare it to the traditional businesses model of needing commercial property or for whatever area of business it could be involved in here is why speculating on currencies trumps most business models;

- Low start-up costs – only paying for your education
- No initial layout or upfront investment – only funding your own trading account

- No staff required
- No rent to pay for commercial premises or required licenses to operate your business
- No products or services required to make money
- Easy investment as all you need to do is open a trading account and deposit funds
- You can stay liquid as your money is only tied up in open positions and if you need that money from your trading account back into your personal bank account or as cash it's easy to withdraw from your broker account.

The problem is that quite a lot of traders do not want to access this information as they do not want to put the work in to achieve success in the long-term but rather hope that they will attain it and the world of trading is not portrayed as doing work but rather the opposite at first. However, a lot of work is demanded from you contrary to popular belief. The law of duality becomes appropriate here, as to attain the success of what many want to attain you must then put in the same amount of effort and make similar sacrifices to achieve the level of success that only 5% of traders have out of 95% have attained, hence why 95% continue to lose money and very rarely make consistent profits.
To put this into perspective, if you have a sample size of 100 traders, 90% will statistically blow their account in the first 90 days and the remaining 10% are then spilt into two groups where 5% remain at breakeven or just above going bust and only 5% do what it takes in order to achieve consistent success in this industry.

The fantastic thing with back-testing, once you have collected the data, is it is yours to do whatever you want with as you can refer to it in times of a drawdown as a reminder that in the long-term you will be profitable. But, you can also make adjustments and use the data as a comparison, as you may look to use a different entry technique or add variables to your trade plan and so you can test the new entry technique for example through historic price action and then compare results once collected and decide on which one might provide fewer losses or a greater ROI or perhaps more losses but a greater reward.

We now move onto the importance of **forward-testing.**

Forward-testing is the same concept as back-testing but is conducted in real time as opposed to back testing where you are using historic data, as you no longer have the ability to simply to just look on the left of you chart and have all data available right of the chart and know the outcome of a trade setup as you would in back-testing, because when you forward test the right space of you chart is now blank because your testing is in real time. Therefore, you need to identify a setup and implement your trade plans rules into the market in real time as though you were trading for real. This is then great on two parts.;

1. You are collecting data and knowing if your trade plan does continue to work into the future as well as the past to again verify it.
2. You are gaining experience not only of how to analyse the markets but to identify high probability setups in the market as well and allowing you to develop good habits.

Forward-testing should **not** be conducted with that of a live trading account with funds but rather a demo account or paper trading (where you write down/record the results), as you are wanting to get a sense for how you react in certain situations and make decisions in real time but the sole purpose of doing so is to collect data not make a profit.

The reason why, as traders, we forward-test our trade plan/system after collecting the data from the back-testing phase is to ensure what performed well in the past still performs in the future. This is because market conditions do indeed change and you may be surprised to see that your trade plan, which was profitable in the past, does not perform how you anticipated it to in real time and current market conditions and your results may vary. You can then look at the new data collected and compare what has caused a change in performance and if any adjustments need to be made in terms of your entry technique or the overall setup.

Once you have back-tested your trade plan and the data collected displays that overall **X** amount of trades executed on the specific TF's and currency pairs that your testing will be profitable and you have all the needed data from certain variables so that you know what to expect from trading your plan, you can at that point forward-test it.

Note; Only if the trade plan, system and rules prove to be profitable over the long-term you can forward test it because if it is not profitable with historic data then more likely than not it will not be profitable moving forward and so it will be a waste of your time.

Forward testing your trade plan gives you the needed confidence and experience to know how it feels to trade and execute a series of rules consistently in real time, as back-testing is simply watching historic price action play out what has already occurred and so the outcome is already available, which removes a layer of uncertainty and element of real risk because you already know the outcome. As traders, we will never know for certain the future market direction and by forward-testing it allows you to experience this level of uncertainty involved in trading but not risk any capital in the process.

It also gives you an essence of how it feels to trade in the markets in real time and with live market prices fluctuating for where the blank space on the right of your price chart is still yet to be painted with a picture, as you need to interpret what is the current price action available to make a high probability guess of what will occur next. Through this, the emotions for which we have spoken about previously will become much more real in the forward-testing phase than that of the back-testing phase because of the uncertainty of not knowing what will happen next. Also, if you go into a drawdown in your forward-testing phase then you can gain the experience of knowing how it feels to trade when you are in a loss and how you need to behave by being consistent in trading your plan, so that you can eventually pull yourself out of the drawdown by simply trading the plan. You will get the closest experience of knowing what it is like to trade through a drawdown but also gain the experience and emotion of how it feels when you come out of it and become profitable once more by risking no capital in the process.

In the back-testing phase of your trade plan, you would have tested at the minimum of 100 trades for each currency pair and TF individually, so you would have identified a fair sample size of trades by that point. By doing this, you would have also developed the skill of identifying your setup by your eye alone as it becomes trained to do so sub-consciously as you are simply repeating a process of identifying the same setup and so it becomes routine and overtime your rules become ingrained into you. When you then come to forward-test your trade plan, you will be able to further develop this ability as you are looking to identify your setup but in real time and watch your rules play out in front of you. This simply adds confidence to your own trading psychology as you become in tune with your trade plan and watch the outcomes play out in real time and see that by simply following a series of rules how you can be a profitable trader before ever having to risk capital.

In summary;

Both back-testing and forward-testing are crucial for long-term trading in the live markets with real capital at risk and to be consistent when trading such capital in hopes of making a ROI by allowing the trade plan in which you plan to use realise its full potential.

Whatever currency pair or timeframe you plan to trade, it needs be both back-tested and forward tested to ensure you have a positive expectancy. 100 trades need to be tested to gain a fair sample size so that variables such as; drawdown, performance/win rate, average losing streak, average winning streak, max drawdown and ROI % can be measured. You can test whatever currency pair or TF you like, as it as at your discretion to do so, and you can indeed test the 5M TF's as although we said we do not like trading them previously, it does not stop you from trading them as it is only our opinion. You may find your trade plan is actually very profitable on 5M TF's and that you like trading the 5M TF's it all comes down to what you like and what suits your personality.

Testing your trade plan removes a layer of subjectivity in trading, as you will see that by following a rule-based system a profit can be produced. Along with this, it will allow you to identify which pairs and TF's are profitable with your trade plan, which just breakeven and which ones simply lose money in the long-term and you then have the choice to decide which pairs and TF's you want to trade with and build a portfolio of specific pairs for, which give you an edge.

When you test your trade plan in both historical and real time data you then gain expectancy for using your trade plan and have an outlook on the financial year and what to expect in terms of losses and wins. If you can attain 5+ years of historical data you can then compress all the data into an average so you have averages for all the essential variables to give you a broader outlook of what to expect for the next 5+ years moving forward and therefore have an average expectancy for performance.
In the testing stages of your trade plan, it allows you to become efficient when using your trade plan as you will become sub-conscious and in tune with your trade plan before ever risking any capital from trading it. As you then know what to also expect from it in terms of performance then you can be consistent in trading it.

In our opinion we don't believe that you actually need to spend one single £1 or $1 in the live markets to learn how to trade because unless you know the skill itself and how to actually make money over time then why are you participating? A musician wouldn't perform in front of a live audience if they didn't know how to play the guitar and so before they ever step on stage they prepare by learning how to play the guitar! The same principles apply, the problem with trading however is people approach it with the mind-set of 'Lets see what happens' and because it is so easy to open a broker account and become a trader there is nothing actually stopping them until they eventually run out of money or cant take the pain of losing money anymore.

The one thing we want to emphasise before we come to a close for this module is **do not lie in your testing results**. This is something traders often do, as they bend the rules of a setup to try and maximise performance, which can be easily done as there is no element of risk when doing so as you are collecting data because you aren't trading with real capital just yet. The term 'I would have taken that trade' can ruin results as in your testing you need to be systematic. If it did not meet your rules, then you do not record the trade and it needs be as simple as that to ensure your results are as accurate as possible. This is why we emphasise the importance of making your rules definitive or black and white there is no grey in your trade plan!

This data you are collecting will be crucial in certain times of your drawdown i.e. for when you are in a loss, as the data you record is what gives you the confidence to continue trading the plan as you can turn to it and be assured that everything is still normal and to continue trading the plan. The problem traders face when they bend rules to maximise performance in back-testing is that they do not conduct the same actions in real time, as that element of risk is now present, and so you are simply meddling with performance and probabilities thus becoming inconsistent as you are picking and choosing trade setups which we previously talked about and the damage that can do.

Our advice is to only test and record setups if they meet your rules 100%, because if you start use language such as; 'I guess I would have taken this trade' then you are sabotaging your own success before you even start. There is no point in cheating yourself, as you will only lose your own capital in the long run.
Only record results if they meet your rules as they are written, otherwise performance for a trade plan is not accurate and when you refer to that data for confidence when trading in a drawdown and it is invalid, it will be quite a problem for what you do next. This data you need to collect is literally something to refer to when you are going through a drawdown as mentioned previously, because if you are going through a drawdown of -**10%** and trading an account with the value of **$100,000** believe us when we say you are going to need something to refer to in order to give you the confidence to continue to trusting your trade plan and execute the next trade opportunity when it presents itself in the markets. When you are in a drawdown for example purposes of -$10,000 your psychology will completely shift and you will begin to doubt everything that again is what the data is collected for to give you that needed confidence to trust and follow the process. It
If you do not possess that data, you will find it extremely hard to continue believing and knowing your trade plan will take care of itself and all you need to do is trade it, as emotions will take over your trading because you have no reason to believe that you can actually come back out of the drawdown and back into profit.

Finally, once you have gone through all the process of establishing clear rules, developed a system that allows you to get involved in the market, tested such rules in both historic and real time price action over the currency pairs and TF's you desire to trade and the data states over **X** amount of trades **Y** amount of profits will be realised, at that point **80%** of the hard work is done. This is because you have found a way to trade consistently by finding a pattern and overtime exploiting that pattern to make a ROI. The remaining **20%** work is spilt in to two halves:

- **10%** is your responsibility to simply show up and trade the plan whenever a trading opportunity presents itself on your currency pairs and TF's that provide that have been proven to produce a positive expectancy over time.
- The other **10%** is that when you have executed your trade you continue to follow the plan and manage your positions correctly i.e. not taking profits early, not rolling your stop back, not picking and choosing setups and lastly identifying if it was a 'Good or Bad' trade taken by reviewing the trade.

The psychology behind structure and determining profit taking levels.

Levels of structure in the FX are like a magnet for price. The reason we say levels of structure are a 'magnet' is because price action is always attracted to test and retest specific levels in the market, as they offer value for both buyers and sellers because they simply represent where the market has found value previously i.e. where a change in the market supply and demand may have occurred. Therefore, sellers may look to sell into the market at a level of structure resistance due to them believing the market move is over-extended that the last time that same level of resistance 1.3500 was tested a strong sell off occurred in the market. Buyers in the same scenario might consider closing their buy positions at a retest at that level of resistance 1.3500 as they believe short-term value has been found and they have valid opportunity to exit for profits because again the buyers can also see when 1.3500 was tested markets declined and so it would be a sensible area to begin closing down buy positions.

This is the beauty of trading and analysing price charts as everyone can see the same information and if you can see the information to what everyone else can see then you can make predictions on where to enter and exit the markets.

Levels of structure can only ever be respected or violated, in which case if respected would see a level of structure support when retested by price continue to hold as support in the market as sellers not able to break below it. If a level has been violated, it can suggest that the market now has room to manoeuvre as expansion can occur. For instance, if a level of structure support was violated as we see price action printing a strong bearish candle this could then see opportunity for further downside in the market as it suggests a strong increase in bearish momentum.

We know with support and resistance that when violated we can see a potential rotation in characteristics, as support can become resistance and vice versa. In certain scenarios, once a significant level has been violated what we often see is price action retest such a level as confirmation that the new momentum is ready to push market prices higher or lower.

What happens when price action retests a level of significance for confirmation, for example in a bullish move when resistance has been violated is this…

Aggressive buyers enter on the initial breakout move to the upside as they do not want to miss the opportunity to go long and some buy positions will be closed for short-term profit targets following the bullish extension as resistance is met once more and when certain upside prices have been achieved. This then gives short-term sellers opportunity to step back into the market and where they look to exit is at a retest of the same structure level that was recently violated in which was once resistance could now become support. When sellers push market prices down into that identified level of structure, now support, the sellers close some positions as profit targets have been realised. This allows more buyers to step into the market as it allows the conservative buyers in the market to execute their orders because they have seen a retest and confirmation of such a level in which they may have needed to execute their buy orders and so both aggressive and conservative buyers have found entry into the market. As the retest and confirmation suggests market prices are now holding above the previous threshold in the market and would signal possible bullish expansion.

You will learn in much more detail in the principles course how to not only identify level of structure (Support and Resistance) in the market but how these specific levels can present high probability trading scenarios and points which will dictate future market price movements. Structure is perhaps the most important part of correctly reading price charts and understanding movements in price action and we will show you how by understanding this simple concept it will change the way you look at the markets.

Relief rallies;

A relief rally is when the market reaches a new high or low but then sees a sharp move in the opposing direction i.e. a strong pullback/retracement as the majority of the positions that traded the market down or up to that specific new high or low are closed for profit taking. Therefore, this allows new positions to be executed and we can see sharp market moves occurring in a short-period of time because we know that when sellers for example close their sell positions that a buy contract must be executed to fulfil the position and vice versa. If the majority of sell positions were then to close their positions for profits this gives buyers the opportunity to step back into the market. It is this sharp imbalance in the market supply and demand that causes an increase in market volatility, thus a sharp move can occur in the market. However, it is typically only a short-term move as the new positions typically only seek short-term profits as opposed to long-term because the overall bias of the market eventually finds reason to step back into the market.

For example, if sellers selling USD/CAD closed positions for profit taking at the price of 1.2800 this means buy orders are instantly executed, as that is the process of the transaction

to close a sell position. However, if counter trend traders (buyers in this example used) were also looking to get involved the market at the same price sellers were looking to exit, due to price being at the 1.2800 even handle and in confluence with a level of structure support for example purposes; If sellers were not looking to re-sell into the market until the region 1.2850's, due to no firm reason to do as no value can be found until price trades within that identified region, then a sharp market move to the upside could be seen as there is an imbalance of the supply and demand. As more USD is being bought as sellers are not currently looking to sell as much USD due to there being no strong reason as of yet.
These types of market moves can be exploited in various scenarios, as they are often short, sharp and volatile because it is a simple rally in price until the opposing side of the market finds value to step back into the market.

Remember the name of this move is 'relief rally'. It is simply when a market enters a period of relief i.e. when the pullback/retracement phase occurs in a market move as one side of the market finds relief i.e. exit the market. As one side of the market exits and the other can enter due to relief in strong selling pressure it can provide opportunity for short-term buying pressure to enter.

For example, if we see a move to the downside in USD/CAD for where price action is trading within a valid downward trend, we know that once expansion has occurred more often than not we will see some relief to the upside as selling pressure eases from profit taking of sell positions and buyers may have opportunity to step into the market and push market prices to the upside, due to a shift in supply and demand in the current market prices. When we then see a large amount of sell positions closed out for profit taking in a bearish move a relief rally may occur as opposed to the typical ebb and flow movement that would often occur on the pullback, as buying pressure may outweigh selling pressure for the current market conditions.

However, this sharp rally to the upside can be exhausted very quickly because it is only short term relief in one side of the market from a longer-term market continuation move not a long-term reversal. Therefore in this example, sellers remain in control because the current trend remains bearish until price action suggests so via a violation of structure resistance. Once sellers then find reason to step back into the market, we may see continuation of the trend because one side of the market looks to enter as the other side typically looks to exit.

What you then need to remember when you see a relief rally is what the overall sentiment is in the market. If a bullish relief rally occurs but price action displays a valid bearish trend is in play, then we know that until that bearish trend is violated that there might be opportunity to still sell the market despite a strong bullish move taking place.

A relief rally is simply where the market has found supply and a strong increase in momentum occurs, that sees a sharp volatile move take place due to profit taking from one side of the market positions and where the other side looks to enter the market, thus causing a sharp imbalance in the supply and demand for a currency. As seen in the example below from USD/JPY 1HR TF;

FIG 1.

FIG 2.

FIG 3.

From this example for how a relief rally takes shape in the market, we can literally see a sharp increase in buying power of USD/JPY but it quickly comes to a halt as previous structure resistance is respected at a retest and from there we see the underlying sentiment (Bearish) re-enter the market.

If we then refer back to the bearish example of USD/CAD, the buyers who got long on the relief rally from the lows of 1.2800 might only look for shorter-term profit targets such as 1.2850 because where they look to exit, sellers may look to enter. Therefore, when sellers find value to re-enter the market i.e. for bearish Trend Continuation we can see a sharp move lower once more. The reason for this is because if buyers push prices up into 1.2850 shorter-term buyers could be satisfied with profits made and decided to close the positions, allowing sell positions to be executed because to close a buy position a sell position must be executed. This action of closing buy positions starts.

As market prices are then trading at 1.2850 sellers also have their own justification for getting short on the market such as bearish TC. Therefore, bearish momentum now outweighs bullish momentum once again and selling pressure has overall control once again. What may occur next is a strong move lower due to the longer-term market bias stepping back into the market via executing sell positions and being stronger than that of the short-term bias due to the shift in market supply and demand.

The different approaches to analysing TF's – Multiple TF analysis.

The need of using different timeframes is to simply further build discretion into your analysis, as each timeframe will have a different meaning of market sentiment on every currency pair. Therefore, if you can understand what different TF's tell you in terms of market sentiment, this can make it easier to understand what might happen next in the market itself and can therefore allow you to prepare for future scenarios by identifying high probability setups.

Each TF has its own specific market sentiment, as you could be analysing the USD/JPY currency pair and from analysing the 1HR TF price action it could suggest a bullish move. However, on the 5M TF for the same currency pairs, price action could be in a strong downward trend (Bearish).
Perspective is the key word, as each TF is only relative to itself. Therefore, what might be occurring from the example used from USD/JPY is that indeed the market could be trading in a bullish market on the 1HR TF but price action is currently retracing slightly lower and so on the 5M perspective of price action it will appear as though price action is trading very bearish. But, in perspective of the higher TF's, it is only seen as sellers beginning to step back into the market. Therefore, you may want to tread careful in the market if you anticipate selling the currency pair as buyers have control of overall market sentiment.

In certain scenarios if you do not consider the price action from other timeframes, you could get involved in false trends as for what might appear to be a strong bullish trend on one TF, could actually just be a minor pullback of a bigger bearish trend in play. Now when we say a **false trend**, we do not mean that the trend won't be valid, depending on whether your analysis validates it or not but simply that there might be a lesser probability for the success of the trend due to the overall market conditions.

Timeframes are simply used as a way for a trader to get a deeper understanding and perspective for market moves as more data become available the lower you go in TF's as we discussed earlier on the Daily TF 1 candlestick represents 1 full day of trading. However, on the 1 Hour TF it would take 24 candlesticks for one full trading day and so we have much more data to analyse.

When it also comes to trends you may find at times you actually see trends within other established markets trends but again we will go into the specifics of this topic within the principles online course.

The way in which we can understand the overall market sentiment, conditions, trends and so on is by starting our analysis from the higher TF's and working down to the lower TF's, as it gives the ability to paint that needed picture of overall market sentiment and we then have a thorough understanding for what each TF is telling us and what moves might occur next. This type of analysis is known as **'dropdown analysis'** as we start from one higher timeframe then once analysed, we simply drop down to the next to analyse and look for a potential setup. Earlier we mentioned we do not advise trading the Daily TF's or higher as you will need large positions to trade such moves but what we can do by using drop down analysis is that if we see a potential move on the Daily TF that suggests a potential move up into in a level of structure up at 1.4000 what we can then do is actually drop down to the more appropriate trading TF's (4HR, 1HR. 15M, 5M TF's) to find an entry reason into the market via our trade plan and then we can use that Daily TF identified level of resistance as profit targets and so we are actually able to capitalise on bigger and longer term moves. Again this will be explained in much better and clearer detail as we give examples on how to use drop down analysis and multi TF analysis in the principles course.

We also use dropdown analysis, as our pre-market analysis (before we start our trading and used as preparation), as we simply start from the higher TF's such as the Daily and then work down to the more appropriate trading TF's such as the 1HR – 15M TF. The reason why we do this is because by knowing what the bigger picture is in the market, drawn through price action, we can understand the overall market sentiment as the daily gives us a strong indication on the broader sentiment for a currency pair. The price action on any TF below the daily TF impacts the moves seen on the daily TF close. By doing this, we can identify if price action on the daily TF has violated any recent levels of structure, if a trend has formed or violated suggesting rotation and we can identify key levels (structure) to suggest where the market might move towards next. We work through the daily TF for a broad perspective of sentiment and then look for setups in the market that may line up with such sentiment as identified on the daily TF by using the 4HR and 1HR TF. However, when we come down to the intraday TF's such as the 15M TF and 5M TF, we may know that the Daily TF is bullish through our analysis and price action is currently trading in a bullish trend but on the intraday TF's a bearish trend is in play and so we might be able to trade that bearish trend down into a key level of structure support as the bigger bullish trend is in retracement. Therefore, we can get involved in a short-term bearish move that currently lines up with the longer-term perspective for short-term profits.

Drop down analysis simply allows us as retail traders to understand the overall market sentiment and simply gives us discretion for when we decide on what approach to use when we look to involve ourselves in the market. By conducting drop down analysis, it allows you to paint a picture for the sentiment of a currency pair but also know what to possibly expect for that trading day as you can identify key levels and structure and so forth, so that you are prepared and do not enter the market blind.

It allows you to build your own bias and opinion through conducting your own analysis and allows you to make a prediction on what might happen to market price direction for that trading day. Along with this, it allows you to determine and identify key levels in the market as previously mentioned such as levels of structure for which the market may see some relief and presents an opportunity for you to capitalise on where the overall market move may continue. More importantly, you will be able to know when the market conditions are not appropriate for you to enter, as you may find that current conditions are in a period of consolidation as opposed to expansion and so there may be little opportunity to get involved in the market for that day if your edge can only be executed in trending market conditions. Therefore, you know that if there is no setup that meets your trade plans required conditions for it to be implemented then you have no reason to monitor that currency pair and can simply analyse the pair once more at a later time in the day to see if there has been any further development in price action, to present interest for your trade plan to be utilised.

Risk and money management.

When and how should you add more risk into an open position

Once you are involved in a trade setup, you are not limited to how many positions can be open at one time (relative to the size of your account). For example, you are you long on GBP/USD at the market price of 1.3050 for $10PP (per point) and therefore you have one open position in the market but as market prices continue to appreciate and move in your favour, you decide that you want to execute another buy order in GBP/USD with the value of $10PP but at the new current market price of 1.3075's as market prices have appreciated 25 pips since your first entry. You believe that by doing so, if your analysis is correct and profit targets are fulfilled up at 1.3120's, that you can make nearly double the original profit as your long position on GBP/USD is now worth $20PP ($10PPx2) because you have two open position in GBP/USD. Remember you are involved in the same trade setup but simply executed another buy order in the market to try and maximise the potential return from the long trade as price is moving in your favour. As you then execute your new buy position at the market price of 1.3075, the long position is now worth $20PP in total and prices continue to appreciate and eventually the price of 1.3120 which you identified as profit target is fulfilled. Therefore, your return is $1,150 as opposed to the original return from the single contract at 1.3050 for which you would have realised a gain of $700 as opposed to $1,150 from having two open contracts in the market.

Note; A contract is an order in the market as once filled it is the commitment made to buy or sell a set amount of currency on a fixed exchange price and date.

In essence, all that has happened from the example above is that you have risked more capital for a greater potential return, as you put more risk into a particular setup that you were already involved in as price was moving in the direction you predicted; therefore being able to make a much greater profit from the setup you were already involved in.

The positives from doing this are that you are able to realise a greater potential profit as all you are doing is adding into a setup as price moves in your favour, instead of having only one position open you then had two positions open therefore double the reward (dependent on position size).

However the reality is that many fail to realise the extra risk they are taking on from adding more positions into one setup, purely because they only focus on the reward and forget about the additional risk because when you add more positions into one setup you also add more risk. If we remember duality, we know that if something can work in our favour that it has the potential to work against us and adding more risk into a position can do exactly that as at times it can work in our favour by rewarding us but at other times it can result in faster and greater losses.

The problem with some retail trades is over confidence, as once the market moves in their favoured direction they feel they know what the market will do, therefore they decide because they know what the market will do as it cant go against them that by opening another position will just make them more money as it is a sure thing at that point that the market will continue as they predict. For this instance lets use a short trade on USD/CAD

Now remember that the market can do what it wants, when it wants, as it is its own entity and not one person can know for certain what the market will next do because if they did they would be the richest man on earth. Therefore when the market begins to actually go against the trader that over confidence they once felt quickly diminishes.

In our opinion, everything you do in your trading needs to have some form of methodology and rules to support your reasoning in order to remain consistent and not create bad habits and adding risk/increasing a position size is no different; as you need to have rules for how you add into a an already open trade. This is because if you do not, then you are trading without rules and the result being emotions controlling your actions on your behalf because unless there are established rules for how you control and add more risk into a trade setup then you are no longer trading with discretion through tested methods but pure emotion and subjectivity.

A trader can always make mistakes and be happy with the outcome of them mistakes when they are winning and making money, but ironically when they begin to lose money from making the exact same mistakes then they go into panic mode. Without rules there is anarchy, due to there being no reason or order for how we deal with outcomes and control certain situations.

The reality is that traders make less money from adding into trade setups than making money due to the inconsistency of their own actions when they decide to actually add more risk into a trade setup they are already involved in and how much the position is worth due to subjective and impulsive behaviour as opposed to definitive rules.
Subjective behaviour always results with inconsistent results because the market never looks the same twice it may look similar but never the same and so you things like 'It kind of looks like that' and you justify it in your head because guess what? You want to be in the trade and so you convince yourself it is a good decision.

Here is an example for the shifts in psychology and emotions a trader will feel when they add more risk into an open trade; A trader may take a high probability setup for a short trade on USD/CAD with a R/R profile 1:1 and as the trade moves lower as they predicted they decide to execute a second short position, however the problem is that the trade plan does not state that they can add a second position into the setup but the market is moving in the right direction so they begin to act impulsively because they are focused on the monetary value of the trade outcome and the move lower is now just a sure thing.
Right now that trader is doing two things wrong.

1. Imposing their will onto the market, as the market in reality doesn't need to do anything especially to your opinion, as you do not even exist to the market.
2. They are acting impulsively by thinking short term of how much profit/money they can make from this trade and forgetting that have actually just added more risk into the trade.

Once decisions begin to be made that are not part of the trade plan, the result is emotional attachment to the trade as you are attaching yourself to the outcome of the trade because you care about the monetary value. We are not saying you shouldn't care about your capital as emphasise treating it with respect but that we never know the short term outcome so getting emotionally invested into a 50/50 probability outcome is in our opinion gambling. That is why you need to focus more on the process of taking 100 trades instead of the outcome of a single trade

Let's say that when they executed the second position it was at a higher entry price than that of the first position executed. If we remember that this trade example for a short setup on

USD/CAD only had a R/R value of a 1:1, so if that trader executed another buy position for the same setup but at a second lower entry price using the same stop-loss and profit targets, would that new second position also have a 1:1 R/R? The answer is no because the same setup is being traded not a new setup so the same profit targets and stop-loss are being used. So, the second positions R/R profile now becomes inverted as that trader failed to execute the trade not at the needed minimum 1:1 R/R price but below it. Therefore, the new position has an inverted R/R. What this then means is if both positions do win as the traders analysis is right they wont actually see double the reward but slightly less, however if the trade was to actually go against the trader and they had two open positions they would take a loss which is more than double the initial risk on the trade. This is how adding into a position can of course make more money for you when you are right but when you are wrong the result is that you lose more than when you are right.

So again it doesn't matter how many times we are actually right or wrong but how much money we stand to make when we are right instead of being wrong. If we are losing more money when are trade analysis is wrong than we are right in our we can't be profitable. The thought process the trader will go through when they are making decision that are not rule based but instead impulsive is similar to this scenario 'what should I do?'. In our opinion, this is a very subjective phrase as there is no definitive answer from asking this question, you are leaving it up to your own opinion and let us tell you now when live money is being risked and you do not know the reason **why** you made one single decision you will literally go into a meltdown, as you will contemplate and question every scenario possible as you do not know what to do for the best because you do not what the best outcome simply is i.e. You don't know how to react and even if you do you have no idea if that decision will be good or bad. What is the best thing to do at that point? Do you:

A. Leave the second position open and potentially incur more than double the potential risk from one single position but see what happens as profit targets could still be realised and you could still make a lot more money that originally thought?

B. Close the second trade immediately at the current market value, as you realise that what you have done is not part of your plan and incur a small loss instead of running the risk of taking a potential bigger loss and let it be a lesson for which you have paid for to ensure that by making mistakes that they literally cost you money. Therefore, taking accountability for your actions and giving less chance of the same mistake being made twice?

B is the correct answer in our opinion, but in reality a large majority of traders involved in that predicament would more likely than gone with option **A**, again as they are so focused for the potential profit to be made on the trade and emotionally attached to trade.

The problem with answer **A** is that a lesson is never learned, for instance both positions were left open and the short trade they are involved in on USD/CAD did achieve profit targets then the trader would use language such as 'I knew the market would go lower and that I was right' and they create bad habits as they believe it is ok to make mistakes and make decisions not part of a trade plan and the worst part is that the market has rewarded them because they have made nearly double the profit from one trade. Or for instance, the market was to take them out due to their stop-loss being triggered but they still will continue watching price action and if the market was to eventually hit profit targets once they are out of the trade, again they will use language such as 'I knew that would happen' 'If I was still in the trade I would have made X amount of money'.

Therefore, they completely ignore the fact they just took double the loss for one single trade but continue to try and justify their actions because eventually prices hit that specific price point for which they predicted, as again they are emotionally attached despite the fact their analysis was wrong as they got stopped out.

Due to this, no lesson is learned and they simply make the same mistakes again as they are purely driven on the short-term perspective of making profits that they fail to realise that each time they do this they are losing their edge because once one mistake is justified eventually another will be as well. This is why we re-iterate to follow and trade with your rules and only rules to ensure you do not get involved in bad trades or make bad decisions which you may not even realise are actually in the bad in the first place because regardless of outcome, if the reason for the outcome was not part of your trade plan it is a **bad** trade, not a **good** trade.

One other scenario for which we have seen many times from retail traders is that when they are involved in one setup, again let's use the short USD/CAD trade example, that as the market moves against them i.e. below their initial entry price for a trade they are involved they see it as great opportunity to execute more buy positions because it is at a cheaper market price from their first initial buy entry. Why do they do this? Well, because they believe know for certain what the future direction of the market will be and so they execute another 3 buy positions and have a total 4 open buy orders in the market from one single trade setup. Therefore if this one setup loses, they subsequently can lose up to 4X the amount to what they should have but they do not care for this information as again their short-term focus and attention is purely on profits that can be made if they are right.

In our opinion, this is ludicrous and an amateurish way to trade the FX market because you are putting more risk i.e. your capital into something for which you do not know of the outcome because no one knows if the market will go up, down or sideways and so we only want to involve ourselves into positions when we know the long-term perspective of our actions. If one position on that short USDCAD trade is worth 2% of their account value and they have 4 positions open in total for the same setup then that is 8% of their account value exposed in one single setup. So, if that setup results in a loss they have lost -8% of their account in effectively one trade.

When it comes to trading, we want to continue playing the game for as long as possible because if that trade of -8% was just left at the original risk 2% that trader could have another 3 opportunities in the future to get involved in other setups that might have been profitable instead of the one setup that lost. We want to keep skin in the game and the way we do that is through risk and money management techniques.

This is approach of using large amounts of risk for big wins is how traders blow accounts time and time again but the outcome is always the same for when they win 'I have made so much money' and for when they lose 'The market is rigged' and they never learn that the mistakes they make consistently results in their own actions.

We are not saying that you cannot add risk into one trade setup to maximise the potential return of that single setup but in order to do so you need an edge that overtime suggests that when you are right you will make more money than when you are wrong and lose money. What is this edge? Your trade plan - because we know by executing our trade plan that we are on the higher probability side of the market every time. So what you can do is lets say you are short on USDCAD because of a double top reversal pattern on the 1HR TF but then on the 5M TF you also see another opportunity to short USDCAD, so what you can do is also execute the setup on the 5M TF as it is completely different setup because it's a different TF but on the same currency pair. For the trade on the 5M TF what you can do is set profit targets down at the same level for where targets have been set for the short position on the 1HR TF. We will explain this in much further detail and show you different examples as to how you can use different TF's and setups to look for extended targets on the smaller TF's to scale in on bigger setups.

Calculating your position for a trade setup

It is essential that you calculate how much of your account you are willing to risk each trade, so that you can remain consistent in your position size and if you can take the trade or not depending on your max risk for each trade. The reason for this is so that you do not risk too much on one trade and over-expose your account value in the market at one time. You can be involved in three different trades but have 10% of your account at risk. This then means if you were to lose just three trades that you have lost 10% of your account and if we back-tested our trade plan and we know our trade plan we use that it has a win percentage of 70%, that 30 out of 100 trades will be losers and the result will be by the time you have incurred the 15th loss you have used all your available capital to only trade losses before the trade plan has even come close to realising profits. It is crucial to remember than even though we know what to expect from our trade plan, in terms of how many losses and wins that can occur, we do not know if the losses we come sparingly in between winning trades or all together one after the other. Therefore, even though we can only expect 30 losing trades in our trade we need to be careful how we manage these losses as they can wipe us out if we over expose our account in every trade we take. Therefore, we need to manage our risk to ensure we prevent our account being over exposed.

We only trade on probabilities, therefore we do not know when the next trade we take will be either a loss or a win but only over a period of time how many trades are expected to win and how many will lose in relation to historic data collected.
Therefore, if you do not calculate the position size for a trade you could be risking too much on a losing setup and too little on a winning setup because we will never know the outcome for a trade setup until it has already happened and this will result with inconsistent results as will be scared to increase our position size on the setup that wins but not on the setup that loses. For example, you could decide to enter a short position on GBP/USD for $10PP, as you believe that the market conditions do not suggest a winning setup but your trade plan has been fulfilled so you decide to enter. The result for the setup is a loss and so for example purposes you lose -50 pips, which is equal to -$500. Another opportunity presents itself on EUR/USD for a long setup but this time market conditions and other variables give a suggestion that your analysis has a higher chance of being right and so you execute your trade plan but this time decide to increase your position size from $10PP - $15PP. The result is that trade also lost as the position was stopped out for a loss of -60 pips, so you lost another -$900 on that trade as well. This is the problem we have as traders we never know when will be right or wrong on one single trade and so even though we can have a trade plan with an edge and find setups that put us on the higher probability side of the market we only know that edge works over time. So, if we are constantly changing position sizes again we are being subjective in our approach because we don’t know what setups will win or lose so we could risk too much when we are wrong and not enough when we are right.

We need to then measure how much risk is appropriate to use per trade, relative to the current account value, so that we can remain consistent and ensure we do not risk too little for one trade and too much for another. We never want to over-expose ourselves with too much risk at one time, therefore your max amount of risk/exposure in the market i.e. your account to be used at one time should be **5%** across all open trades/positions. The reason for why we do this is simply to limit exposure in the markets at one time and even if we only risk 1% of our account on one trade then even if we are involved in 5 trades our max drawdown (loss) if all 5 trades lost would only be -5% from 5 losing trades.
As opposed to incurring a 10% drawdown/loss from three losing trades and so we can allow our trade plan to move out of its drawdown and back into profits before we ever come close to blowing our account. Therefore, if we are trading an account with the value of $10,000 with a system with the win performance of 70%, then we also know that even if we lose 30

trades in a row our max loss for our account is 30% by using 1% of risk per trade. Therefore, we can trade through all the potential losses and lose 30% of our account value but then we should expect 70 winning trades. However, as 30 of the winning trades will of course need to offset/make back the 30 losses incurred, if we only make 1% on each trade then we stand to make 40% as a gross return on investment. However, if you of course always involve yourself in setups that favour a bigger potential return than a loss i.e. a minimum 1:1 R/R or greater, your gross return will be larger as you are making more if were to win than if you were to lose as some setups could have a R/R profile of 4:1 but for every time you lose your max risk is 1 percent but when you win you could make a profit of +4%.

New retail traders are attracted to using more risk every trade due to the short-term potentials bigger profits that can be made, but remember your trading account because if you use 10% of your account for three trades, you could potentially make 30% of your account value from only three trades which is an insane amount of return as some traders make that in a year! However, the problem that ruins traders is that winning streaks do not last forever and eventually the losses will come and will you be able to trade through the losses before the system turns profitable once more. You cannot argue this by saying well you would reduce the risk when you move into a drawdown because we never know the outcome of a trade until it has already happened.
While a 1% return on a successful trade does not seem attractive to new traders, it is about the long-term process and how such returns can compound and make a big result. Remember your goal is to preserve as much capital as possible and be in the game as long as possible to become consistently profitable not lose your account from only 15 losing trades!

If you enter a long position on GBP/USD and your account value is $10,000, $100 would be the 1% max risk to get involved in the trade because we can only use 1% of our account value per trade setup. If the GBP/USD setup had a R/R of 2:1, this would be a good risk/reward as you stand to make the double the profit in comparison potential risk for the setup as you are risking **1%** to make a potential gain of **2%**. Therefore, with the account value of $10,000 you would be risking max $100 to potential gain $200 potential profit.
Let's then say the setup for the long GBP/USD requires a stop-loss of 40 pips, to work out your position size for the trade i.e. how much you will risk per pip you would do the following; $100 (1% risk) divided by 40 (stop-loss) = $2.5 per pip. This is then how much your positions size for the GBP/USD would be worth in order to retain that max 1% of risk.
Of course this is only an example, as each setup you involve yourself in will have a different R/R profile, potential risk and potential reward and 1% is the max amount of account value to get involved in a trade, whereas some trades may only require **0.8%** to get involved but could see a potential return of **1.4%**. This how the R/R can drastically increase the long-term results when compounding your trades.

Also along with 1% of risk being used per trade when you determine how much risk is required for a position i.e. the size of your stop-loss we advise you to never exceed 100 pips and use this as a maximum amount of pips to be risked in one single trade. The reason for using a 100 pips maximum stop-loss, is to ensure you can be consistent because a 100-pip max stop-loss is easy to track when recording results but along with this it can work as a filter or another rule that needs to be to get involved in trade setups and also increase your R/R in certain scenarios. For example, if you identify a setup and when you calculate the stop-loss placement it requires a 120 pips stop-loss then you cannot take the setup, as the maximum stop-loss for which we use is 100 pips. Therefore, you will need to re-adjust the stop-loss placement to meet the 100 pips, essentially reduce the risk required, but as the setup is still valid we are simply seeking a higher probability scenario and so by reducing the risk but also increasing the reward as the minimum entry price changes to benefit us. Therefore the 20 pips we remove as risk simply turns into more potential reward.

Money management (**MM**) is a fantastic tool that can be utilised for a trader because if you trade with a system with a win percentage of 70%, we know that by trading with 1% risk every time we should stand to make somewhere within 70% gross but of course this does not include offsetting the losses incurred in the process of trading this plan, so we only care for the net return from using this system. We only care how much we stand to make once losses have been deducted from using the system, in which the Gross return on investment would be somewhere within the region of 40%. Of course this will vary depending on account size, R/R per setup and so forth. However, if we implement money MM into our trading in where we simply increase our position size we can simply make a bigger potential gross return without doing anything additional to our actual trading.

The problem many retail traders face when they try to implement MM into their trading is because more likely than not they again will increase the position size for a trade they believe is wrong and decrease it for a trade that is correct. This is because trading is simply a game of probabilities for which we have looked at numerous times. The problem with traders who attempt to use MM by adjusting position sizes is that they do so when they believe their analysis is correct. However, as we know we do not know when we are right until we simply we know we are right as trading is binary and so we do not the outcome for a trade until it has simply happened. Therefore, some traders try to predict something that is unpredictable to an extent and invest more money one time and less the following and the result is simply inconsistency in results. You can be doing everything for what we have taught you to trade in a professional manner and to have a high probability of being correct through using a rule-based approach but when you begin to decide how much to trade with each trade then of course results will differ to what is expected as by adjusting your position size at will this of course effects the P&L for what you are trading in comparison to what you actually expect. Therefore you could be trading a 70% winning system but actually only make a 30% ROI for example.

We need to be consistent with how much we trade with for every trade setup, to ensure that when we are correct our wins offset that of the losses incurred because if we decide to use $5PP on one position but then subsequently decide to use $3PP on the next setup, then of course our long-term profits will vary from what is expected in terms of P&L. You need to remember that in the short-term we do not know the outcome for a trade setup but only in the long-term for how many **X** amounts of times from **Y** number of setups are expected to be in our favour.

How do we then calculate if we can increase our position size? Once we know what to expect through using our trade plan for which our back-tested data will provide. To do this, you have collected your back-tested data on the currency pairs and TF’s that proven to be profitable over time. If you have back-tested 5 years of data what you want to do is condense all that needed data for each year accordingly i.e. all the currency pairs and TF’s for which your trading plan provide an edge compress all the data collected onto one single spread sheet for each year. So, if you have collected all the needed data from your testing phase across the various TF’s and currency pairs you plan to trade, then for example sort all the data into years accordingly i.e. all the data from 2019 compress it together, as you will then see what the outcome was for your P&L in 2019 from using that plan along with how many losses occurred, how many wins were realised, losing streak, winning streak and so forth in that specific financial year of 2019. You must do this for each year in which you have collected the data, as you will then know exactly how your trade plan/system performed in each year accordingly and know what to expect for your average P&L. Once you have done this, you can take all data over the 5 year period and calculate an average for each variable in doing so gives you a more broader perspective of what to expect as you have 5 years of data condensed into one average, thus a 5 year average for you P&L.

Once you have this average you may look to see what the max drawdown for the trade plan is and if you can increase your position size slightly. For example, if by using 1% of account for every trade the result was a max average drawdown of 30%, then you could increase the position size per trade to 1.5% if your account could tolerate the added risk in relation to the drawdown as this would increase the drawdown to 45% but the potential gross profit could be 90%. Therefore, we have simply increased our position size and in doing so increased the potential losses but in also in doing so may realise a much bigger gain so long as we only risk maximum 1.5% per single trade as it all comes down to consistency.
However, we must re-iterate to change your position size you need to know the performance of your trade plan through gaining historic data and compress such data to see the performance of that trade plan for each financial year, so you can see exactly how it performed if you were to have traded it. Once this is done you can calculate an average for performance, so you can gain a wider perspective of what to expect from using the plan.

Remember it is only our advice to 1% per position and we have stated the reasons for why we believe this is best position size to work with in order to be conservative to ensure you do not over expose yourself in one position. However, once you have collected the needed data and you can tinker with the numbers and see what have happened in terms of P&L if each position was 1.5% as oppose to 1% and if you could afford such an increase in risk relative to that of your account. Trading is all about testing and finding what works best and has the best possible outcome to benefit you, because once you have the data it is yours to do whatever you wish. We also advise to never risk more than 2% of your account value for one single trade

Expectations for retail trader's.

Day trading, swing trading and investing

When you trade the financial markets, there are different types of styles for which a trader can be which are; day trader, swing trader and investor. There are key differences between the three to which we will look at now.

Day trading;

If you look to trade the FX markets every day, in that you analyse setups to get involved and find valid reason to execute new trades every day then you are considered to be a day trader. Timeframes appropriate for day trading the FX market are 5M,15M and 1HR TF and the reason for this is because they are classed as day trading TF's because setups executed on such TF's typically have a short time horizon and are realised in the same trading day i.e. your prediction is realised in the same day the trade was executed, hence why it is called '**Day**' trading. The reason for this is because setups will appear much more frequently on the day trading TF's because in one trading day through analysing the 5M TF, price action would have formed 288 candlesticks alone and so there is vast amount of opportunities for a trader in one day of trading.

When you day trade the FX markets, you typically do so through that of technical analysis, as you are looking to capitalise on short-term fluctuations in market price of a currency pair. Therefore, technical analysis is considered to be the best approach as we can see such fluctuations in the market price in real time through price action and by using rule-based trading we can involve ourselves in high probability scenarios that give us an edge.

Swing trading;
If you want to be a swing trader, this means that you analyse the FX markets every day but do not execute as many positions as what you would do in comparison to that of day trading.

The reason for that is because instead of looking to get involved in short-term fluctuations in price you are looking for medium-longer term swings of price, in where the time horizon and realisation for a setup is longer that one day of trading due to analysing and trading TF's such as the daily, 4HR and 1HR TF's. Therefore, there are less frequent setups in price action thus less opportunity to always be involved in the market as you are looking to get involved in swing moves (large upward or downward moves) of price. Swing positions typically have a time horizon of more than one trading day and can range anywhere, from a few days, a week, one month or even two months.

Note; Time horizon represents the length of time a position is held before the position is liquidated i.e. closed.

Investing;

Investing is when a trader does not actively look at the market as frequently nor speculate in the same manner as the day or swing trader will do. They typically prefer to use fundamental analysis rather than technical analysis as they believe that fundamental reports will eventually influence market prices in the longer-term perspective. However, some traders do use price action to determine if they get involved into positions or not and will focus more so on market prices for which represents if a currency is overbought or oversold in relation to its counterpart in the pair. Investors typically focus more on the larger trading TF's when they do look at price charts such as the daily, weekly and monthly TF's as they class anything below the daily TF as '**Noise**' which is a phrase used for **irrelevant information**.

As an investor, the time horizon for a positions outcome will be much longer than that of a swing trader, as they can range from 3-6 months in most cases sometimes even longer as they will over time scale into their position. Due to this time horizon before the position is liquidated they are seen more as assets as opposed to actual trades and the reason for this is because when you hold a position past the period of three-months it is classed as a potential source of income if in profit.

It is important to know the different types of trader for which you can as our approach is to helping you find a style that suits both your personality and lifestyle. In our opinion we like to use both day trading and swing trading methods into our trading. The reason for this is because we are able to capitalise on both short-medium term moves in the market and we can use technical analysis, in which this whole course has been built to show how you can be profitable and the positives of technical analysis.
The reason for why we don't like to use the method of investing when trading FX is because of the time horizon for trade positions to be realised and that we prefer to use the method of technical analysis for which we know have an edge through probabilities in the markets rather than trying to predict fundamental report figures and announcements to which offers no edge in our opinion. However, investing does of course have huge benefits but we believe other markets are better suited for more secure returns such as index funds.

You also need to decide what type of trader you will be; either conservative or aggressive with your approach to trading the markets, as some people might be susceptible to being more financially aggressive than others as some may prefer to be more conservative with capital. However, in our opinion we believe it is better to be more conservative when trading the FX markets due the level of high volatility and risk that is carried in the FX market, as trading is about building and accelerating wealth not becoming rich and mass fortune in a short period of time.

Trading will take you on a journey of self-discovery as you will need to ask yourself questions and experience emotions you might never have yet experienced, but it is a process of learning and knowing the value of money because if you do not appreciate and understand money you will never make money. The reason for why trading is unlike any other job in our opinion is simply because it is so heavily psychologically based and demands so much from you mentally as opposed to physically as you need to be focused at all time you look at the charts. Remember good trades do not last long so when you react you need to do so with focus and precision to ensure you do not make a mistake, as one tiny mistake can escalate very quickly. This is the sole reason for why we developed the trade development section in the Efficientia zone to ensure you can always be slightly improving your trading psychology.

The reality of retail trader

The unfortunate reality for many retail traders is that for out of 100 new traders 90% will lose, 90% of funds in their account in a 90-day period. This is down to various reasons but one is simply because they trading is a get rich quick scheme and because of that approach this industry with the complete wrong mind-set, attitude and required actions. They believe Forex will be the answer to all their dreams within the shortest-time possible. Trading the FX market is no different to any other investment tool, as it should be used in combination with other tools to increase your capital over a period of time. However speculating on currencies is in our opinion is the fastest way possible to accelerate your wealth due to the potential ROI each financial year. But in order to do this, you need an edge for which we discussed (trade plan) and throughout the principles course you will learn everything needed to have a trade plan and how to use it in the live markets.

As a retail trader, you must remember you have no influence or impact on market prices when you trade spot FX currency pairs. The reason being because your position and account size is insignificant to the sheer volume traded through the FX market and so you need your broker for who you hold your account with to take that position and add your position into a pool of other positions to trade on your behalf as they have direct access to market prices. This is the reason for why the charge a commission in the spread (difference in the Bid and Ask price of a currency price) because without them you could not participate in the Forex market.

Many times, a retail trader needs to be realistic with themselves of what is possible when it comes to trading as many they start out with the mind set of thinking they can turn $1,000 into $250,000 within the matter of a few months. Now of course huge returns can indeed be made but remember only risk what you are prepared to lose!

It is important to set goals for what you would like to achieve but it is essential when you do set your goals of what you want to achieve from this venture that they be realistic, so you do not lose hope as trading is a long-term process that requires both time and effort.

You need to realise that the process of learning this skill may have a long learning curve but in the perspective for what is considered '**Long**' for example; if you were to go to university in England to become a doctor the average time to gain both a degree and PHD is 7 years and with further education being a factor in their life for as long as they continue to pursue such a career. To then put this into perspective you can learn a skill only a minority can utilise to create wealth and abundance for yourself and others in the average time of 1 year maybe even less therefore the time to learn the skill of trading is dramatically less than becoming a doctor or any profession for that matter. Along with this, in England you will require an average of £50,000 worth in student debt and then to purse the PHD you will need fund that personally and by the time you graduate you could be close to £100,000 of both personal and student debt.

You need to forget about the short-term monetary value of one trade or how much you can make in one day but simply focus on the long-term perspective of what is the potential to be made in one year. How do you do this? By being consistent with every action you make and imbed good habits into your trading through following the advice we have given you by trading purely with rules that have been tested to give you an edge in the markets over a period of time. Along with this, take accountability for your actions and take ownership of your decisions because in trading the best lessons for which you learn are often paid for by your mistakes.

As much of an education we can provide to you, the best educator for which you can gain is that of experience of participation in the market itself and that is why it is crucial to ensure from the outset of your journey you instil good habits in your trading. By also continuing your education to always become a better trader, as there is always room for improvement whether that be reflecting on your annual performance or making one less mistake you can always improve.

There is nothing that will be as good of an educator as that of experience. However, you need to remember the difference between that of good experience and bad experience and how either once can be used to better yourself as you can learn from the bad experiences and improve yourself. As with good experience you always want to make you sure that you fulfilled your job as a trader and found valid reason into the market and ensure you are the higher probability side of this market every time you involve yourself.

Trading is no easy process and is the reason for why it is imperative to ensure you remain consistent as each trading day, week and month will be different to that of the last but only by consistently executing the same plan that gives you an edge can you become profitable in the long-term perspective.

When trading within the FX market it is crucial you remain consistent throughout starting with your analysis, identifying trade set ups, right the way through to executing your trading plan. By ensuring you are consistent within the process, you will take on a professional trading approach and consistent results.

In addition to this, something else that is key is ensuring you are accountable for your actions. Trading the FX markets can bring wins and losses, of course, as that is just part of being a successful trader, but what is crucial to remember is that your actions have an effect. Therefore, if you took a trade that did not meet your trading plan requirements, or you made a mistake, don’t be afraid to take accountability for your actions – this is what professional traders do!

Trading is a situational based environment, as you are having to make decisions based on current situations. What is the best way to handle any situation?…By already being prepared and knowing how to react in that certain situation. It is called having a protocol as there are set techniques, tactics, strategies that are used to handle the situation in an appropriate manner.
Let’s take police officers for example, the whole career of a police officer is having to handle many different situations while on the job. Prior to the job what does the police offer have to do?...Complete years in training learning exactly how to best handle many different situations by knowing which protocol or principles need to be followed to get the desired outcome for that specific situation. Will it go according to plan every time no but police officers know by following the protocol they have it will prevent situations from getting out of hand and once again making it a controlled environment.

That is exactly what we are doing with the markets, at first glance the markets may look random, chaotic and uncontrolled but by creating our own rules for how we approach the markets we realise that the markets aren't that random, that in fact there is peace within the chaos and in fact to a degree we can make it a controlled environment for ourselves.

Some new traders fail early on into their journey simply because they let their emotions influence their decisions. It is so important that you use and follow your trading plan to prevent this because although it can be hard to see yourself in drawdowns, it will be worse if you continue to trade against a plan as it will not work. Trading is a binary process and simply trading based on your emotions will not work due to subjective behaviour. Whilst at first this may be hard, building your psychological attitude towards trading will support you to do this because the quicker you can learn to detach yourself from the monetary value of your trading account, the easier you will find it to trade and make effective decisions on your own. Similarly, what is also key is that you only look at the charts when you are in the right psychology as your mood can influence your actions and decision making, which may not be the best decisions for when you look to participate in the market. If you enter a drawdown, your mood is bound to change but remember at this point that your trading plan should have been tested and is there to be used to refer back to when you do have moments of doubt which is completely normal but see it through and continue trading the plan to bring yourself from the drawdown to and into new equity highs. The only way out of a drawdown is by following the same process that got you into it.

Finally, we would like to say that our guidebook was created to breakdown many different topics in the Forex industry that we believe you need to be aware of and know to become a successful and independent trader. Of course, the information in this guidebook is to be used in combination with the content from our Principles course but the guidebook was designed to present a different view and to let you see the different principles that we believe when followed give a trader the best chance of success. Along with providing the needed knowledge that so many traders lack but we will be the foundation of your success for many years to come, as you will have learned and gained a different perspective to what 90% of new traders never learn and that is why you have the best opportunity for success.

From the team, here at Fair Exchange Trading we would like to say thank you for investing in yourself and having the courage to empower yourself with knowledge as so many fail to do so!

We will always continue to help and support you within your trading journey and wish you the best as you take one step further to not only becoming the trader you want to be for taking control of your life, as we believe that trading once learned opens doors you may never known existed for wealth creation and financial independence.