10.4 FINAL EDITION

BY NANNINGBOB FEB. 2013

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INTRODUCTION

I promised a trader that I would write this edition in a way you would not have to go to any other editions to understand what I am trying to say. Even though I may mention other systems they were all learning formats to this one. In 10.4 I have attempted to define all the basics of trading. It will be a stand-alone system by itself even though you may add or subtract what you already know from your own familiar tools in trading.

When I started the 10.0 series it was to finally define all the terms into specific events on a chart. I started on a 1H chart, defined a trend and away we went. Then we progressed to the 4H, daily, weekly, and finally now the monthly chart to determine trend direction. I think I will really open some eyes when I show you what I have learned. A lot of things I had heard in trading began to finally make sense.

- "Trade in a way to trade another day"
- "Let your winners run"
- "Buy the dips in an up-trend"
- "Sell the rallies in a down-trend"
- "Follow the trend"
- "The trend is your friend" (YEAH RIGHT)
- "Trade low leverage"
- "Sometimes the best trade is not to trade"
- "Make sure you have a win to loss ratio of (take your choice) 2:1, 3:1, 1.5:1"
- etc. etc. ad-nauseam; add your favorite phrase here: ____________________!!!

All those phrases don't mean anything unless they are defined to a point you can actually do them. Imperfect as I maybe (just ask my wife, she will tell you) I finally decided to attack this problem 2 years ago and the whole 10.0 series is my journey to that end. Thousands have followed given their opinions and added to my knowledge. Others have spent long hours writing programs, indicators, EAs, etc. only to find out that these added to my knowledge and I made more changes. I am sure there are some that don't want to deal with me anymore. Yet I am totally grateful to their contributions over the years. I am even grateful to a guy named Bill who came onto one of my threads and told me I could never trade like that and be a winner. So the next year I posted my trades every day to show him I could. Wasn't always easy but that was the way it was. People respected me because I laid out my trading plan everyday and showed up the next day whether I was a winner or a loser. One April I made over 4000 pips, the next month I lost almost 3000. The guys in April thought I was great; the guys in May thought I was the biggest loser. I still made almost 20,000 in pips that year. But I wasn't happy with that because that system had a flaw when the markets became very volatile. So I started the 10.0 series and started with a simple question. What the heck is a trend anyway?

SOME STUFF YOU NEED TO KNOW BEFORE WE START

Before I start please refer to Dark Star's thread on what is the Forex market. This is so valuable that you understand what you are trading and the atmosphere you are trading in. His insight will get you through the rubbish that is often presented in Forex forums.

http://www.forexfactory.com/showthread.php?t=7484

Simply put Forex is about the exchange of money between nations, corporations, businesses, and individuals and can produce over 3-5 trillion dollars a day in exchanges. What it is not about is traders or investors. The stock market is moved by traders and investors but not Forex. It is important you understand this because you must realize that at anytime Company A from Country Z will exchange money from Company B in Country X. I mean just look at the volume of oil that is sold in one day and that is only one product. Oil is billed out in USD so if China buys x amount of millions of barrels of oil a day from Iraq multiply those millions of barrels by 80-100 dollars per barrel. Then exchange the RMB to dollars to pay for it and then Iraq exchanges those dollars into Iraq currency and that is only one exchange on one product. Get my drift. This way you won't fall for an article written like this:

> ***"Speculators Keep Boosting Their EUR Longs for the 4th Consecutive Week***
>
> ***Traders added another 40% to their long EUR bet this week after increasing it by 30% last week to reach a total of $6.4 billion as of Tuesday."***

Please understand, knowing the big dogs are buying the Euro is good knowledge to have, even though that info is a week old, (after the fact don't help me much if they start selling off after I start buying and find out the next Friday they had been unloading while I was buying). But 6.4 Billion in Forex is a drop of water compared with the trillions being exchanged every day. My point is this; traders do not control the market and when they enter in large amounts they only affect the market for 15 minutes to several hours at best. So what makes the market move and what causes trends?

Before I answer that let me explain how I lay out the different types of traders as I have come to understand them. Usually there are 3 groups of traders mentioned in most articles.

1. **TECHNICAL ANALYSIS TRADERS:**

   These are traders who use indicators to make decisions to trade, when to exit and enter. There are thousands of different kinds of indicators but they usually fit into two groups.

   a. Indicator that move and are based on moving averages with some kind of math formula and then the conclusions put on the chart or indicator screen i.e. Stochastic, MACD, moving averages, etc.
   b. Indicators that don't move and are static but these are usually based on a previous high low like Fibs or pivots, S/R lines, trend-lines, etc.
   c. There are also traders who say they trade naked but that is because they form a picture in their head of a pattern or line break. I could trade a clear chart also looking for breaks in the previous high/low, trend-line, or some kind of pattern.

2. **FUNDAMENTAL-TRADERS**

   I divide these into three groups:

   a. News traders, they wait for news announcements and trade the direction the news takes price action. In other words they wait to see which direction the big boys are going and jump on board based on previous knowledge of what the news did in previous cases. They refer to themselves as fundamental traders but I don't. They are news traders and should be separated from true fundamental traders.
   b. Short term fundamental traders; know certain events will move a currency for several days or weeks. For example, if a country increase/decreases interest rates. This will usually move a currency pair anywhere from 3 days to several weeks depending on how big the rate change was. They are also knowledgeable of how different events will move the market. I admire this group but have never been able to develop their techniques into trading.
   c. Long term fundamentals, this is the direction a currency pair will go for months or even years and is usually caused by govt. policies. See pic below of the **EUR/USD** during the Bush years. If you had purchased euro's at the beginning of his presidency and hung on until near the end before the big economic collapse of 2008. You would have doubled your money. Not following long term trends caused me to lose money in my early years of trading because I was shorting the euro too much back then. Knowing this is the beauty of 10.4 and it is a very simple read. You would have known not to have sell trades from Feb. 2002 to May 2003 for a 15 month period but you would have known to just keep riding the long term trend. If you follow the 10.4 formula you would never have taken a SL and all your trades would have been profitable or would be a break even trade during this time. 10.4 is going to follow these long term trends and you will be

able to profit from them. The average currency pair will only change directions 2 or 3 times a year so stick with the long term trend like the big boys do.

3. Those that use a combination of both technical analysis and fundamentals.
   a. This is going to be us with 10.4 but we will use a very simple indicator to determine the long term fundamental trend and we won't need to know the information that is actually driving this long term trend. We will spot it with technical analysis and adjust our trading accordingly.
   b. So without knowing the driving fundamental of a currency pair, which is usually caused by long term govt. policy, we are just going to trade it and let the fundamental traders follow the news.

PERSONAL HUMAN JUNK

This is always the most important and valuable part of any guru's booklet. Whenever you read, are solicited, or buy some gurus trading stuff he always puts several pages of stuff of how he was a failure until he learned some great secret and for $ xx.xx you can now have the same secret formula he made his millions at. So the next paragraph is my interesting story I am so sure you want to hear.

Blah, blah blah, hmm . …. And so on and so on …… blah blah, my dad taught me ………… Blah, blah, so on and so on then my mom ………….. Blah, blah ……………….. Then one day I met this friend who told me his secret and blah, blah ………… So on and so on ………….. So now today I have 3 Mercedes, a yacht, met the President ………….. blah, blah, blah and you can now too have ………………… blah blah, blah and then you can travel to ……………. Blah, blah………… and then ……………………… Meet the most beautiful ……………. And have sons and daughters who ……………. blah, blah ………………… so on and so on etc. etc. blah blah. So quit being a loser and ……………. Blah blah, blah. So now pretend we are on page 25 of this 30 page book he told us was chock full of secrets. Sorry just had to get that out of my system. ☺

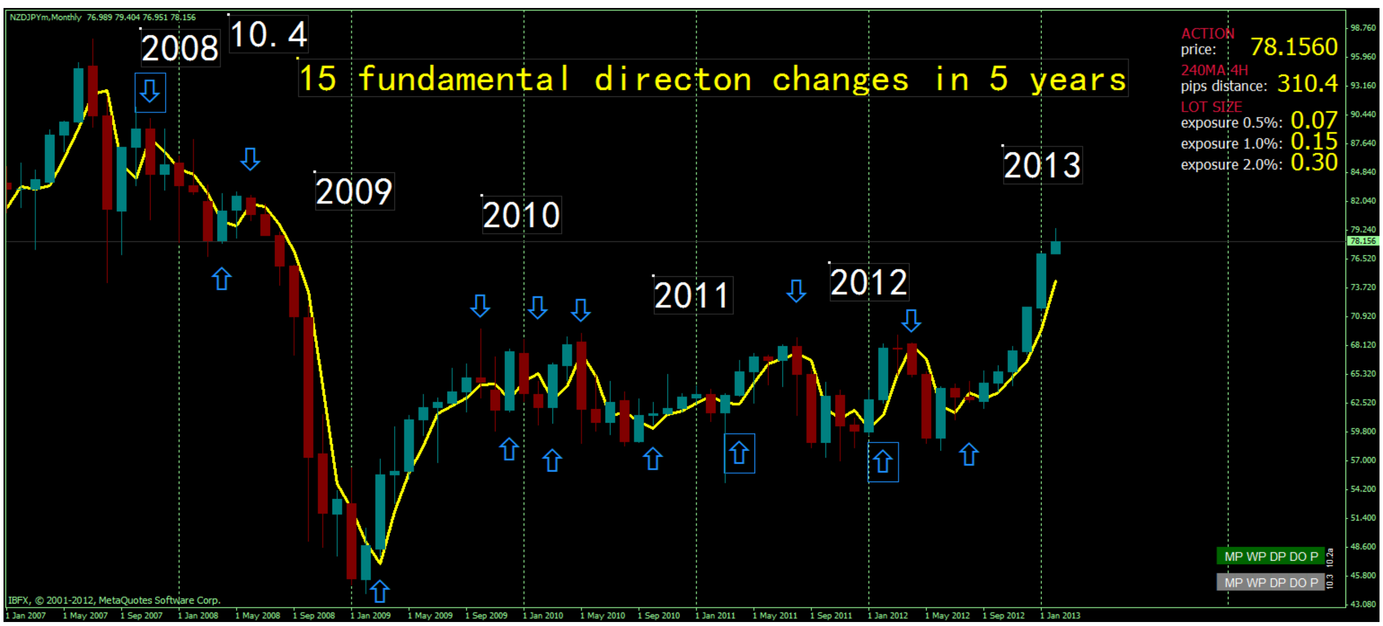
WHAT THE HECK IS A TREND ANYWAYS?

I dare you to try this one. Go to any Forex thread or forum and ask this question. What is a trend? I mean everyone will tell you to follow it, trade by it, go by it, and ……………… but try to get a definition of a trend. Really? Try it some time. I have looked all over Forex Factory for a clear trade-able definition of a trend. You would think that something so fundamentally essential and so talked about that somewhere, someplace, someone would tell you what a trend is; where it starts and when it ends. That was my journey for 10.0, here is my conclusion to this quest. My definition is:

A TREND IS THE LONG TERM MOVEMENT OF A CURRENCY USUALLY CAUSED BY GOVERNMENT POLICY AND CAN BE EASILY SEEN ON A MONTHLY CHART.

There I did it, now go trade. Let me show you. I will show an example from every major currency group. Notice the yellow line in each picture. It is the 2MA OPEN on a monthly chart. Buy above and sell below the yellow line. Even in congestion or slow times it will bias up/down from that 2MA line on the monthly.

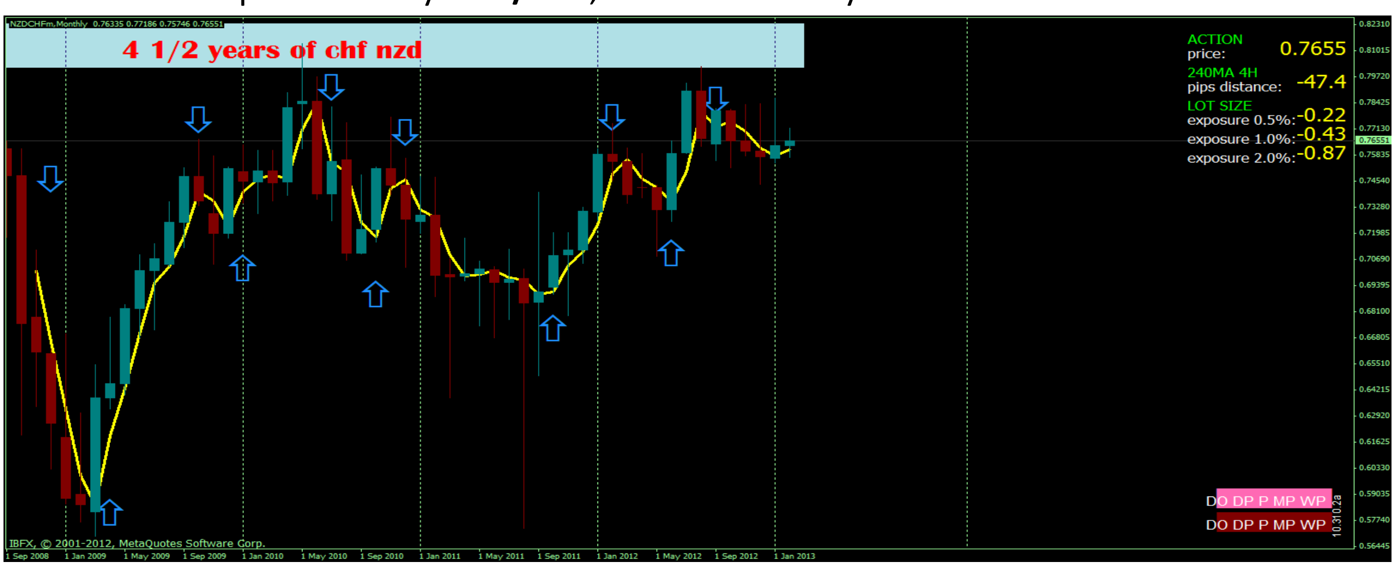
JPY represented by the **AUD/JPY**



AUD represented by **AUD/USD** 15 times in 5 years with the last 7 months just flat.

EURO and USD represented by **EUR/USD** monthly chart 5 years 13 changes in direction.

NZD and CHF represented by **NZD/CHF**, 11 times in 4 ½ years.



CAD represented by **USD/CAD**, 17 times in 5 years.

Yes there are areas where price action ranges but we will clear up some of this on the 4H chart. The bottom line is on average, a trend will change on a currency 2-4 times a year. What that means is 2-6 months of staying with a trend either buying only or selling only.

LONG TERM TREND ON THE 4H CHART BUY ABOVE/SELL BELOW

To get the long term trend on the 4H chart we do some math. It goes like this: 2MA monthly x 4 weeks in a month = 8MA x 5 days in a week = 40 MA x 6-4H candles in a day = 240 MA on the 4H chart. It looks like this on the **GBP/JPY**:

The 10.4 trading rule is very simple, **BUY** above the line and **SELL** below the 240 MA line. In the Example above you would be looking at buying regularly for over 4 straight months and it is still going strong. Make the 240 MA your SL line and you have potentially 3 SL in 4 months. Add a ½% to 2% max loss on a trade and you keep your losers very small. 10.4 will build its winners and increases profit by adding to a winning position. We will get that later.

GBP/JPY has 5 months of UT now (see the blue arrow). This is the monthly chart; the previous chart was the 4H.

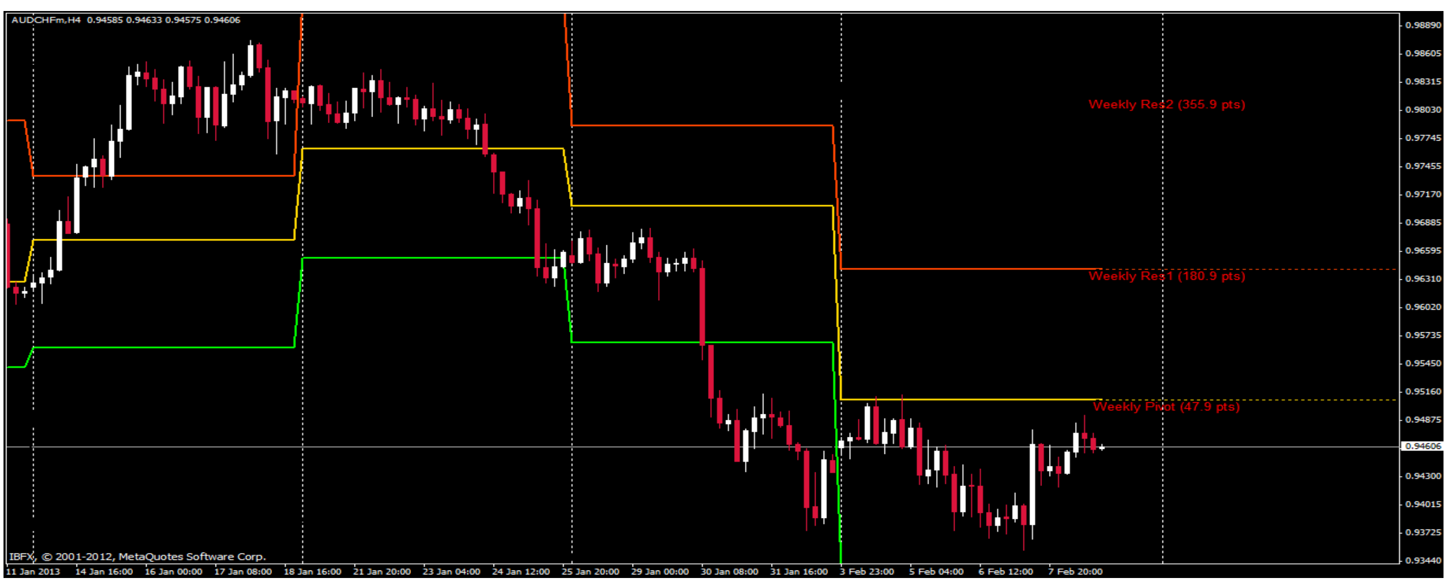
AUD/CHF 15 months of UT in 2009 & 2010. How many SL were hit by people trying to short it during this time. We won't be shorting it during that kind of run. Remember the **GBP/JPY** above? If one currency is going up then some other currency needs to be going down. 5 MONTHS OF DT NOW. What is hard to see in this pic is the candle wicks above the line on the monthly. These are easily seen on a 4H chart. First the monthly pic of the **AUD/CHF**.

Now the 4H pic of the **AUD/CHF**. I colored in light blue the areas that were wicks on the monthly but you can see plainly here in the 4H. We will get into these trades later and how certain filters will help you.

What I want you to see is how the 240 on the 4H closely resembles the 2MA on the monthly. However, it is more dynamic since it will continue to move with price while a 2MA monthly would be static. It gives us a better representation of what the long term trend is doing and our ability to adjust with it as price moves.

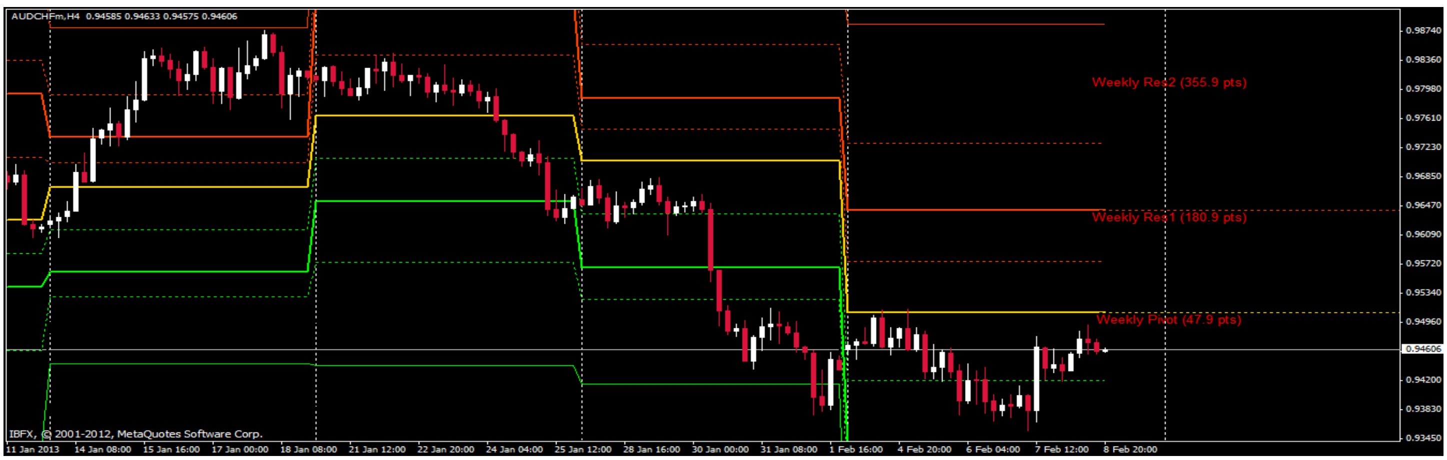
ENTRANCES 4H CHART

Entering on the 4H chart will require confirmation form several sources. First there is the weekly pivot line (WP-Gold colored line) and weekly support 1 (WS1-green colored line) and weekly resistance 1 (WR1-orange colored line). They look like this on the screen. They are labeled in red and have the distance in pips from price to the line.



Also on the screen are the mid-pivot lines which are between the WR/WS/WP. They are harder to see because they are dotted lines. There are 2 above the WP (weekly pivot line and 2 below the WP).

Combined the WP/WR1/WS1 which are the 3 solid lines and the 4 mid-pivot lines which are the dotted lines. They will give you 7 entrance points for trading. These lines will automatically set at the beginning of each week.



With the 240 MA line a trade chart on the 4H will look like this. Remember above the white line buy only and below the white line sell only. These lines are called WP (weekly pivot gold solid line) WR1 (weekly resistance 1 orange solid line) WS1 (weekly support 1 solid green line) WMR1 & WMR2 (weekly mid pivot lines resistance dotted orange) WMS1 & WMS2 (weekly mid pivot lines support dotted green). The white is the 240 MA which approximates the monthly 2MA OPEN.

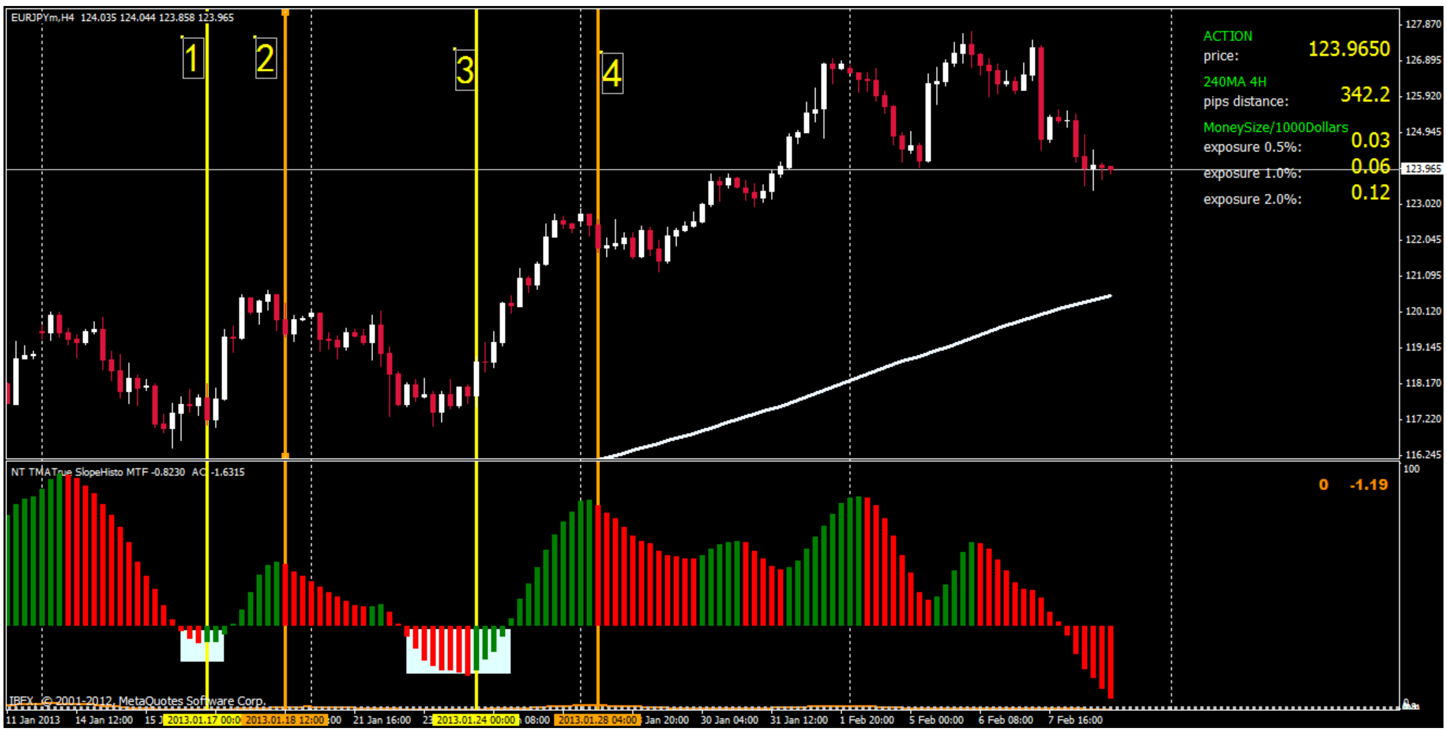
SO FAR ONLY ONE SIMPLE RULE—BUY ABOVE THE WHITE LINE;

SELL BELOW THE WHITE LINE.

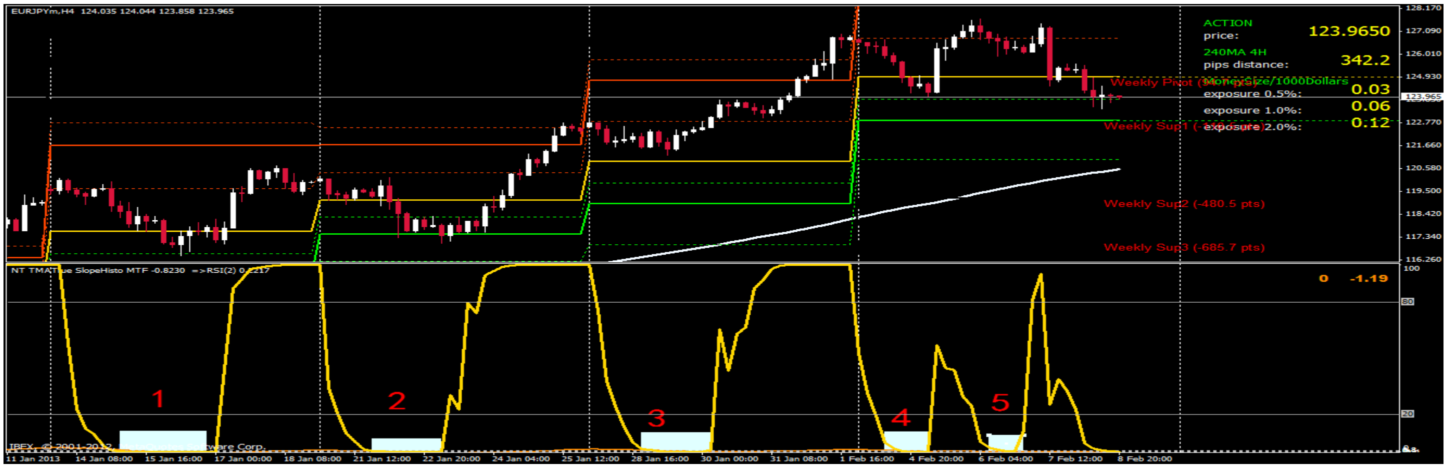
ENTRANCES PART 2 THE ENTRANCE INDICATOR

At the bottom of the chart is a unique, one of a kind indicator designed just for 10.4. It is a combination of 3 indicators put into one window and they make a great filter for entrances and taking profit. I thank CMeade for showing me the RSI 2 inside the TMA slope indicators and I added the AO awesome oscillator.

Price is above the 240 MA so UT (uptrend) The AO (awesome indicator) is below its own 0 line (light blue boxes) so your entrance numbers are marked 1 & 3 and when the bar turns orange #2 & #4 you should close your trade. So that is a simple rule. You should be in the trade at green and out at orange. This is the first of several signals to enter back into the trend. Buy the dips in the UT. When AO dips below its own 0 line look for your entrance; this is one signal to look for with these indicators.

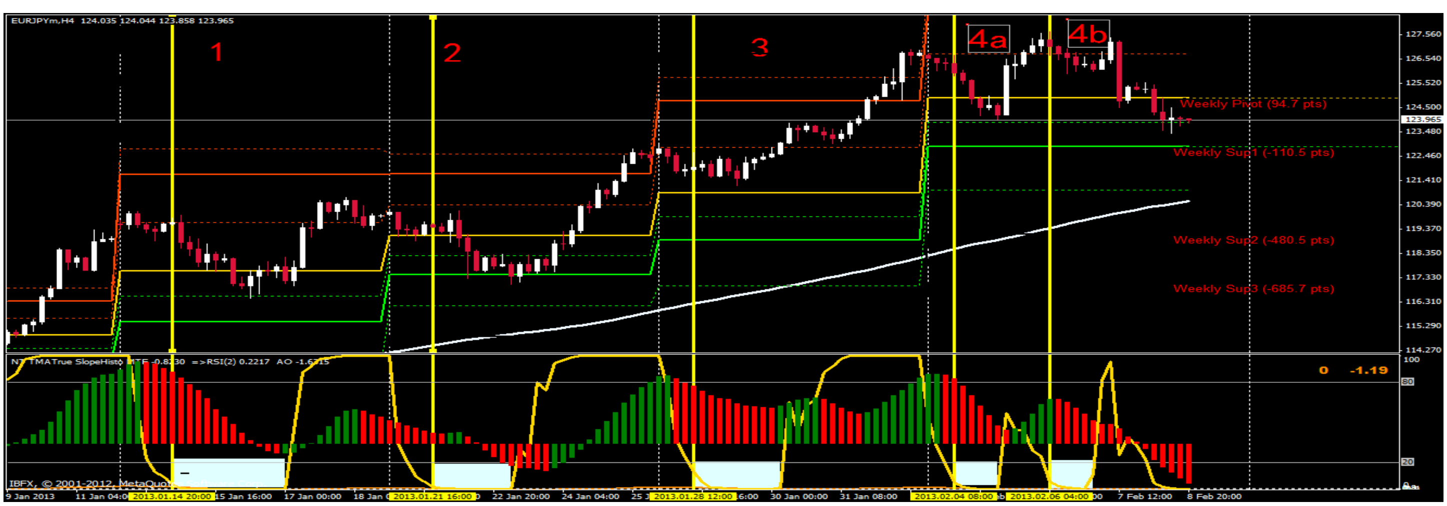


Also inside these indicators is the RSI 2 (Relative Strength Index); which gives you a signal to start setting your pending orders. It looks like this and is the gold colored lines. When put inside the slope indicators it flattens out at the top and the bottom and gives you the signal that you have a dip in the UT. See # 1-5 below. So when price is above the 240 you are looking to enter buys, the RSI 2 signals to set your pending orders and the AO confirms your entrances and warns you to exit. See the light blue areas numbered 1-5 below.



10.4 BUY TRENDING TRADES

Now lets us walk you through a series of trades. First an UT trade using **EUR/JPY**. Price is above the 240 MA so we are only looking for buys. The chart above shows that we have 5 signals given by the RSI 2. On the chart below I labeled the weeks 1, 2, 3, 4a, &4b. 5 trade signals in 4 weeks. This is what it looks like on the chart. The yellow vertical lines show the beginning of the signal and the end of the signals are at the end of the blue box. During this time, which is 40 hours for week 1, we have a dip in the UT. We are looking for our best entrance back into the UT. Same thing for week2 and week 3 but week 4 shows 2 signals. I labeled them 4a and 4b. So we have 2 signals being given in each week 4. 1. Price is above the 240 line and RSI 2 is bottomed out. Time to set our trades.



EUR/JPY TRADE SCENARIO #1:

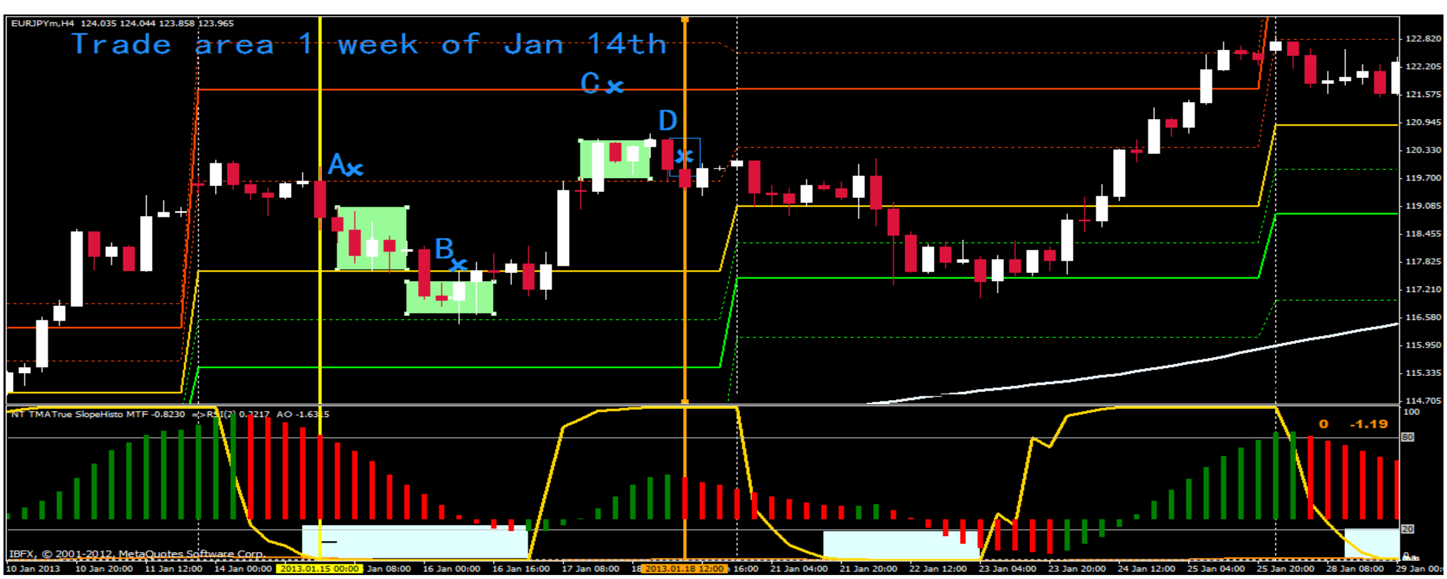
The week begins and there is a retrace from last week's move. The AO turns orange and the RSI 2 goes from top to bottom. When the RSI 2 reaches the bottom and flattens there (light blue area) we prepare our pending trades.

LETTER A—RSI 2 goes below and hits bottom. The AO is orange and price action is below WMR1 MID PIVOT (orange dotted line, I put a blue x there). So while price is dipping in an UT during the green box, you place a pending buy stop trade at Ax. You have plenty of time since 5 x 4H bars = 20 hours so there is no rush. When placing your trade you can set your SL around the 240 line, figure your lot size (we will get to this later) and set a TP at WR1 (Solid orange line or the mid pivot above it WMR2, the second dotted orange line)

LETTER B-- RSI 2 stays flat and price goes below the WP (solid yellow line). So we place our second pending order above the WP. Price finally reverses and heads back into the long term trend. It enters at Bx and enters a second trade at Ax. When price enters Ax the SL is moved up to BE (breakeven) and now we can't lose. The worst that can happen is a BE trade from here on out. When price moves well above the WMR 1 we can move the SL to just below that dotted orange line and secure our profit.

LETTER C—Price moves above WMR1 and we place our third pending at letter C but price never reaches it.

LETTER D—The AO turns orange and we exit the trade. Trade Bx is around 170+ pips and trade Ax is around BE + or – pips. Not a bad week for the **EUR/JPY.** RSI 2 If we played ½% of our account on this trade we would have increased our account over ¼% if we played 1% of our account we made about ½% and so on. Next week however we get a picture of a perfect 10.4 trade. Let's go to week 2. We will talk about money management later.

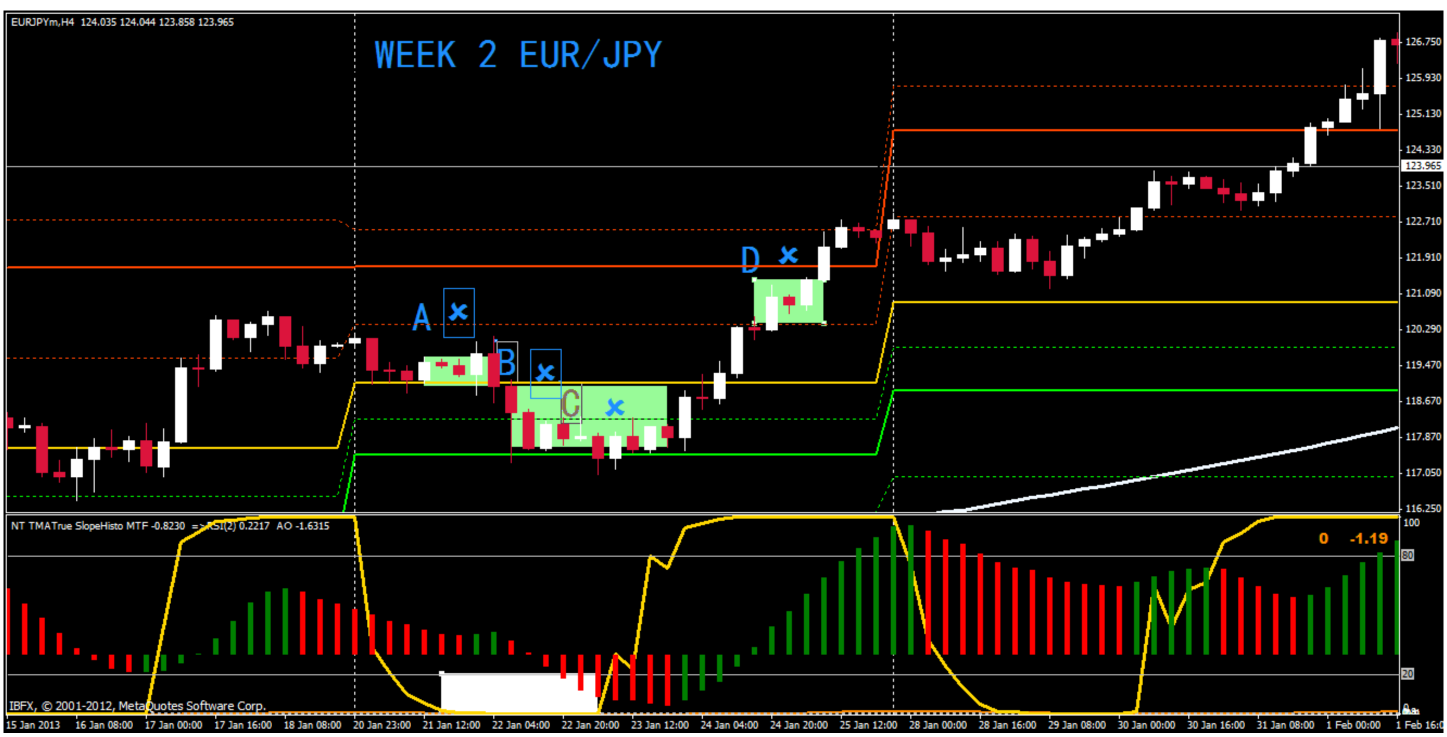


EUR/JPY TRADE SCENARIO #2:

The week begins and there is a retrace from last week's move. The AO turns orange and the RSI 2 goes from top to bottom. When the RSI 2 reaches the bottom and flattens there (white area) we prepare our pending trades.

LETTER A, B, C, D—RSI 2 goes below and hits bottom. The AO is orange and price action is below WMR1, we set our first pending order at Ax. As price continues to retrace we keep adding positions at Bx and again at Cx. Finally price moves up and we add a position at letter D. With each order entering we move the SL to BE and we can enter positions continuously and increase our profits. If we had set our TP at WR1 there is no Letter D, if we set our TP at WMR2 then we have a trade D.

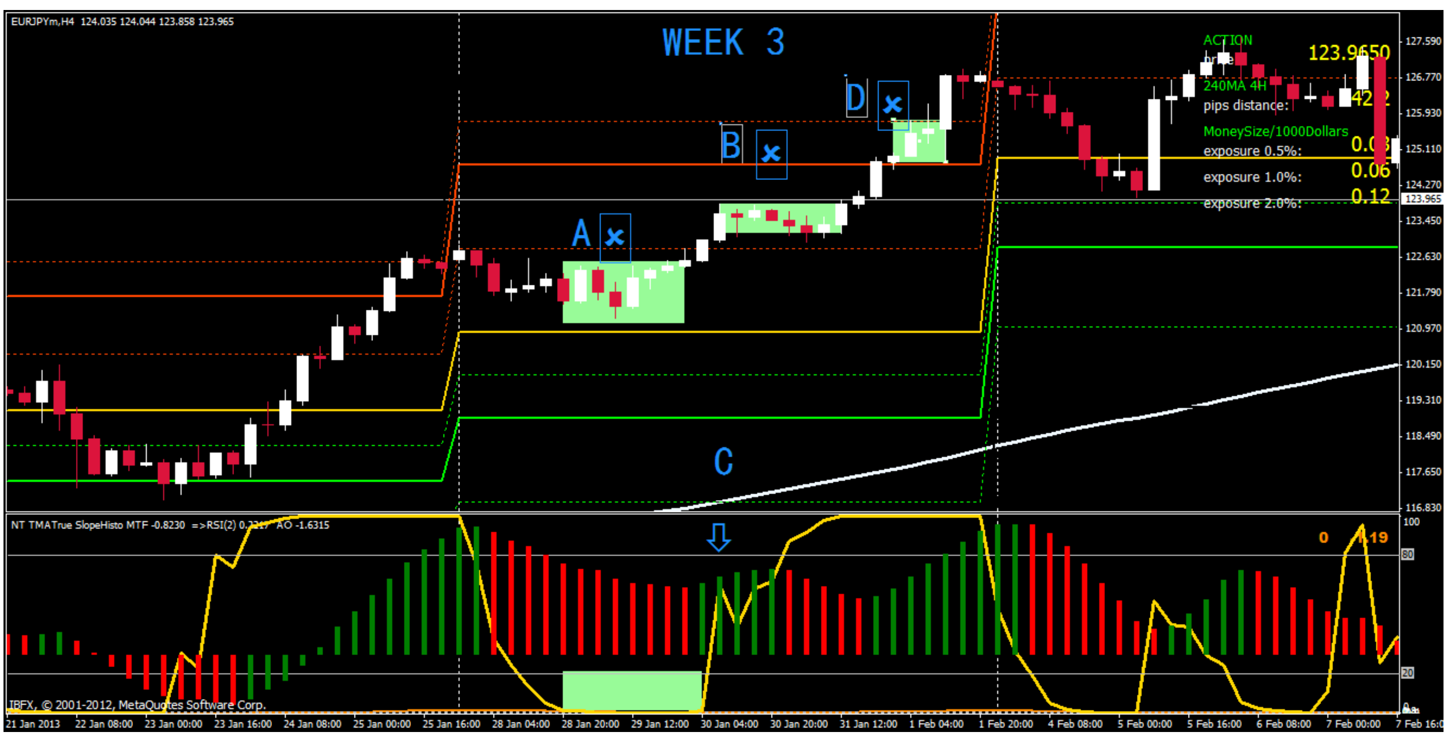
Totals for the week—**Letter A** 120+ at WR1 or 210+ at WMR2; **Letter B** 240+ at WR1 or 330+ at WMR2; **Letter C** 330+ at WR1 or 410+ at WMR2; **Letter D** 0+ at WR1 (Not entered) or 60+ at WMR2. It is the end of the week and you can close out or carry into the next week. Me I close out and take my wife out to dinner. If you played ½% of your account on every trade your total pip count at WR1 is 660 pips and you increased your account by approx. 2% give or take. 1% would have increased it 4% and so on. If you played WMR2 then your pip count would have been 1000 pips. Multiple profits, multiple entries, multiply your account depending on lot size 5-10% that week on just one series of trades. Your biggest risk would have been ½% of account or 1% at most because once the 2nd position is entered you move your SL to BE and are never in a losing position again. However, you can multiply your winnings but never your losses. That is the basis of 10.4.



EUR/JPY TRADE SCENARIO #3

The week begins and there is a retrace from last week's move but not as big. We will also get our first signs of price exhaustion. The AO turns orange and the RSI 2 goes from top to bottom. When the RSI 2 reaches the bottom and flattens there (white area) we prepare our pending trades. **The AO does not dip below its 0 line so it is showing a strong move.** We use RSI 2 only now for setting our pending trades. We also know we will only get 1 or 2 entrances when this happens so think accordingly. Your super week was last week. We set our pending trade A and B however you will notice C happens. RSI 2 does a stutter. When we see RSI 2 stutter we immediately pull our SL up and place just below the last S/R/MR line or MS line if it is in play. This week price did not go below the MR1 so it continued and entered at B. We TP at WMR2. You could have tried a pending at D with the AO still at green but RSI 2 is topped out; but it was late in the week and probably not a good idea. However greed sometimes can be good or bad. Letter A TP a WR1 was 180+ and at WMR2 280+. Letter B TP WR1 no entrance at WMR2 over 90. So for the week 180+ or 270+ pips depending on your TP point.

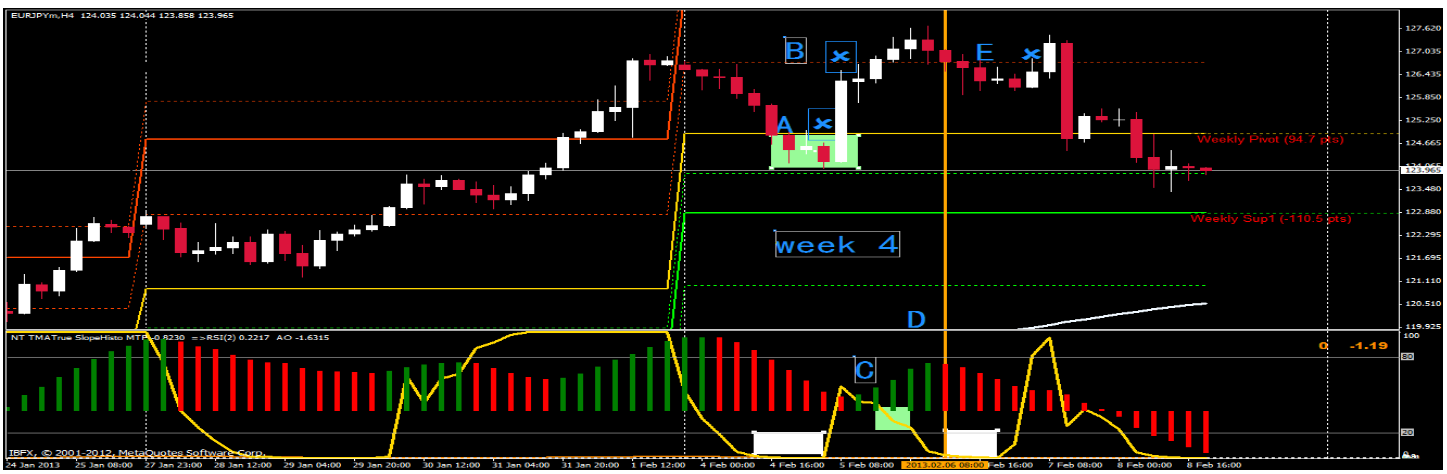
If you had the guts to go for D then 400 + 220 + 100 = 720 or you tripled the pips with that 3rd trade. Like I said greed can be good. At worst you had a BE trade for trying. At best you tripled your pip count. The beauty of 10.4 is you will not lose if you keep moving up your SL. A third play would be to close ½ of your profit and try for the extra. At least you don't lose a whole week's worth of pips in the greed grab moment. Either way AO has 3 humps above the 0 line so I definitely close out all at the end of the week.



EUR/JPY TRADE SCENARIO #4:

The week begins and there is a retrace from last week's move. The AO turns orange and the RSI 2 goes from top to bottom. When the RSI 2 reaches the bottom and flattens there (white area) we prepare our pending trades.

A&B enters and goes into profit but we have a very strong warning that price is not going any farther. At C RSI 2 goes below the AO. This means the move does not have a lot of strength. Protect your profit and bring your SL to just below the latest WR/WS/WM line. IF AO goes orange (Letter D) or RSI 2 goes below the AO bars just close out. Letter A is 180+ Letter B is BE+ or – depending on where and when you close. There is another trade at Letter E but we know we have been warned about weakness twice now by RSI 2; once last week and again this week. The third time is a losing trade at least so far but it did move over 50+ pips into profit before reversing so with the 2 warnings you could have brought your SL up early to protect from a loss. You can close out and take the loss or see if the trend continues next week and you recover the trade. Either way your take for the month will be impressive.



10.4 INFORMATION PAGE

Well if some currency pairs are in an UT then something has to be in a DT. One of my rules of Forex is "What goes up must come down and what goes down must come up" So if something is going up let's see what is going down. I want to introduce my **10.4 INTRO PAGE**. I can look at one page and see what is happening across the board on my charts. I keep 4 things on this chart and put it on a currency pair I am not trading. With IBFX I put this on the **EUR/DKK** since I don't think it is worth my while to trade this pair.

On the upper left I have the **I-breakeven** Indi. It will list the pairs that have open positions and what the price would be if you had a breakeven point of the trade. So if you have 2, 3, 4 open positions it will calculate the price for BE. It will do the math for you.

The second is the **Slope Strength** Indicator. Showing strength based on the daily chart. Each pair is rated by the strength of the move it is in. It has been showing JPY weakness for a while so if I want to know what is showing strength I can find it here. We have the EURO and CHF on top showing strength and AUD and JPY on the bottom showing weakness.

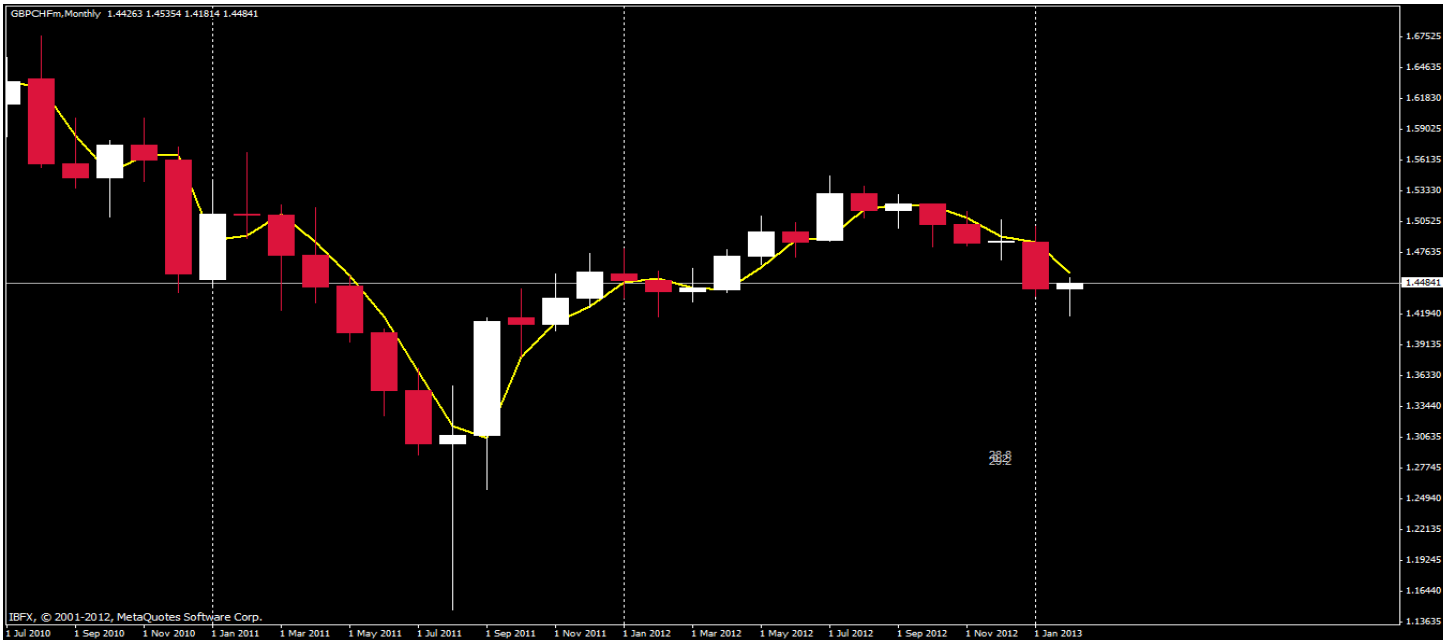
The bottom is the **Exposure** Indi. It shows all your trades and whether they are in profit or loss. With one look you can see how each currency is doing with your trades. I usually reference this whenever I have walked away from my computer to see if anything has changed since the last time I was there.

The **MPTM** also goes on this page. It manages your trades once the trades have entered. It will be in the upper right hand corner. 10.4 is having its own MPTM designed for the system.

I showed you **EUR/JPY** as my buy because the EURO shows strength and the JPY shows weakness. So how can I show sells with this system. I will look at the chart and decide on?

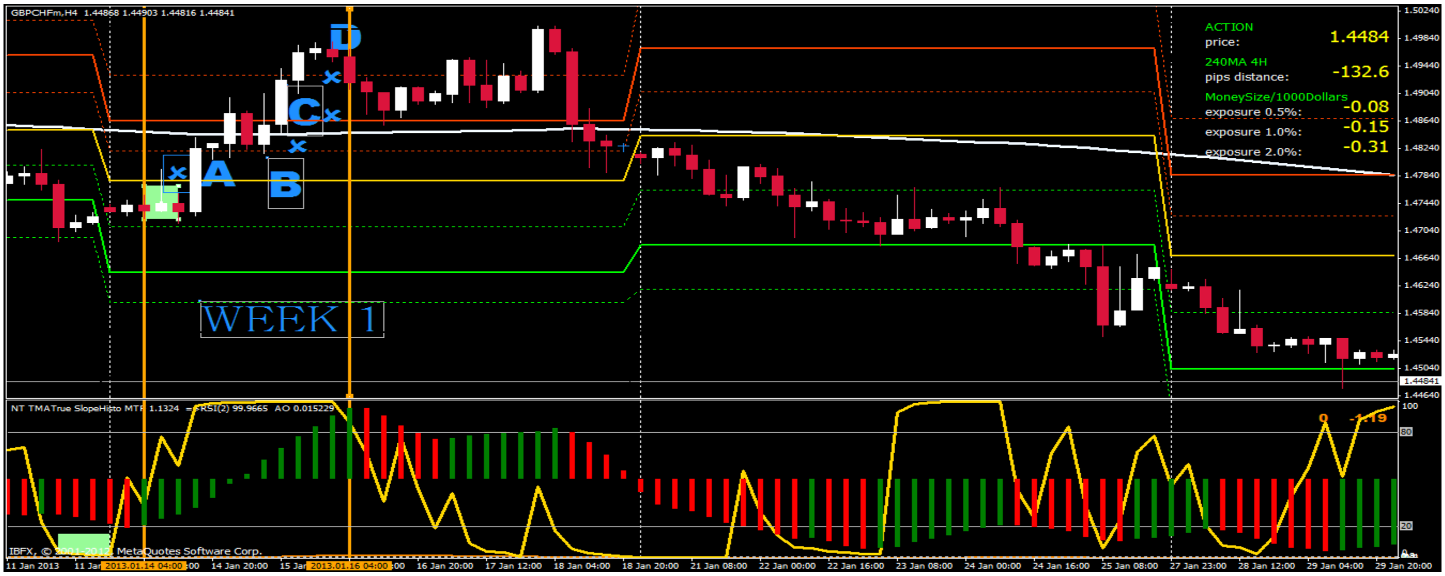
10.4 SELL TRENDING TRADES

So here is the **GBP/CHF** monthly chart and it has been drifting south for 5-6 months now. Let us look at sell trades using 10.4.



Week 1 shows a ranging market. This is seen by a flat 240 MA. I will deal with ranging markets later but for now you won't trade this pair this week until it gives a clear trend trade signal. As far as trend trading there is no trade here this week.

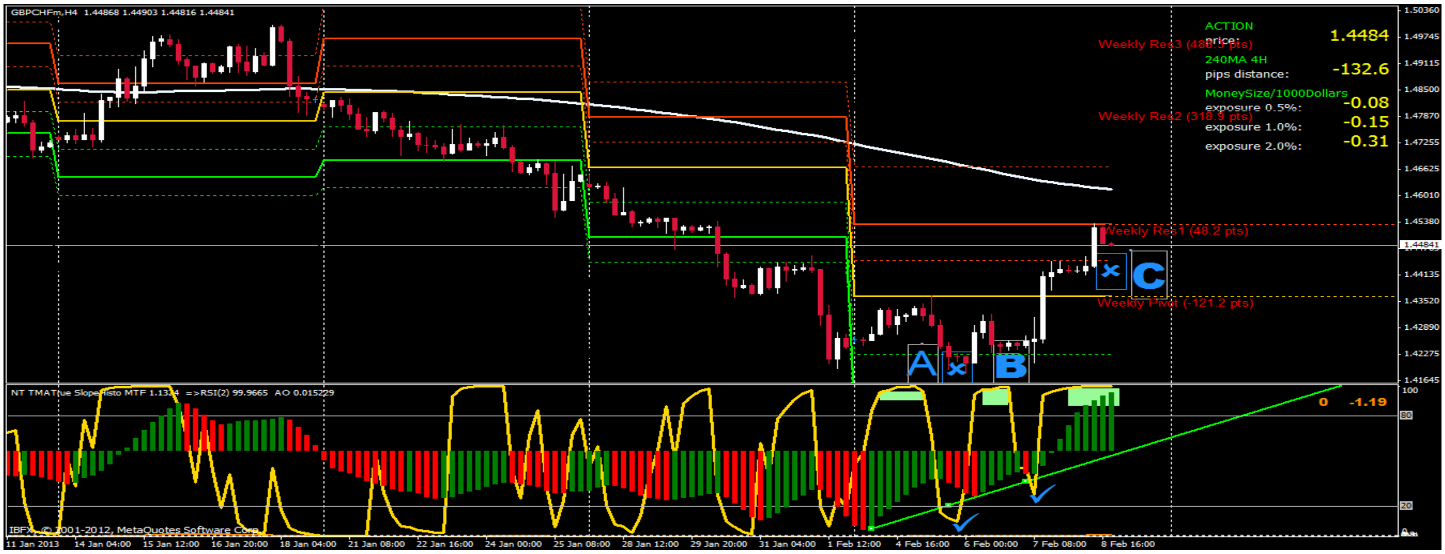
GBP/CHF Week 1 is a range trade and they are different than trend trades. I may/will deal with these later. Most likely I would go find other pairs to trade that give better signals. So week 1 no recommended trades ignore A,B,C,D on the chart below and go to week 2.



GBP/CHF Week 2—finally towards the middle of the week we get a signal RSI 2 is flat-lined on top of the indicator, so we set pending trade A and pending trade B to pick up two trades. We close both at the end of the week. We close when the AO turns green or when RSI 2 crosses back into the AO; either spot warns you that the run is over. Trade A is 70-100+ pips depending on the close and trade B is BE + or -. Not every week is a home run week like **EUR/JPY**.

GBP/CHF Week 3—You may be wondering why I chose the **GBP/CHF** to show sells. I just wanted to show an ugly pair I hate to trade and here is why. The signals just are not as good even though the pair keeps drifting down in price action. **GBP/CHF** is that kind of pair. It will just drift and drift and drift and won't retrace to get a clear rally in a DT. In week 3 it had a moment of a signal for about 8 hours. If you want to trade this pair good luck. I only seem to lose money on the dang thing. This is what a drifting DT looks like with little or no retrace. Knowing the **GBP/CHF** and other CHF pair's trade like this may help you to enter these drifting price actions. Trade A gives you 100-150 pips and trade B may be profitable at the very end of the week where it drops like a rock if you waited it out that long. I showed the second trade signal letting you know trades can do this on Fridays. The A trade and B trade did not hit their BE line so if you followed this to the end trade A +320 pips and trade B about +230 for a +550 pip week. Even a short termed trade signal can give a profitable series of trades during a trading week. Honestly, I hate this pair. In the cart below I made a light green box in the bottom indicators to show we don't always get a good strong signal. No RSI 2, no WP to cross, no re-tracement to take. Yet it floats downward for 200 pips during this time. The AO however shows it is going deeper. Anyways you can't have them all when you are trading.

GBP/CHF Week 4—You see at letter A a trade enters and goes nowhere. I put a check of RSI 2 failure so at B you have a chance to close for a very small loss. If you didn't get out you are closing in on the SL line of 240 however, you do have a good signal for another entrance back into the DT. You will have to see what happens next week. Does he lose a trade finally or can we make it profitable with a second entrance. If you do enter a trade, no matter what happens, your SL is at the 240 line. But this looks like a real good trade back into a DT if it happens. Any way that is the good with the bad and even with the bad we can walk away with some kind of profit over the last 4 weeks.



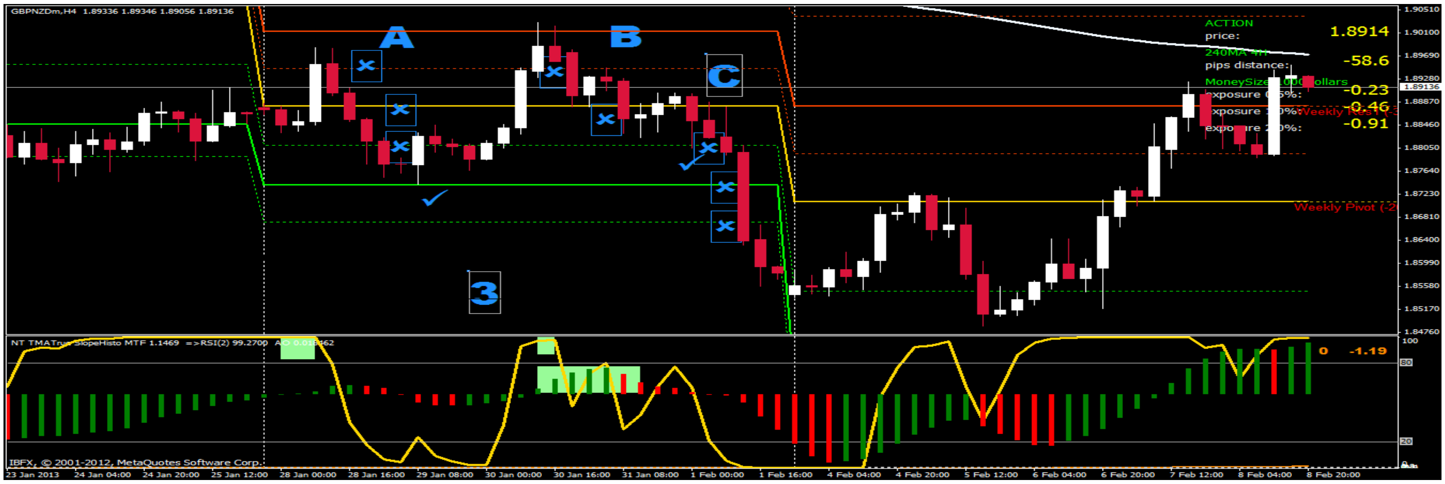
GBP/NZD Now let us look at something much better, (HA, HA maybe) one of the wildest pairs you can trade and the most volatile pair among the 7 major currencies is the **GBP/NZD**. You lose fast and win fast with this one. In 10.4 we can give trades lots of room so this pair can become tradable.

GBP/NZD Week 1—At A you would have 2 entrances. At the beginning of the week you take the profit because price usually runs at the end of the week not the beginning. So you would close at WS1 for 140+ and 60+ or it retraces back to BE.

At B you again have two trades but the S1 trade would have come first. With the second signal you could have added a WMS1 and they both would have run to where you could have closed them for a BE or end of week close for 150+ and 70+ for 220. Depending on what you did with your trades you could have had a 0 pip week or 420 pip week. That is the **GBP/NZD**. It is a wild pair to trade.

GBP/NZD Week 2—Trade A would be +170 at the check mark and the second entrance would be +50, However it is possible it retraced enough to hit your BE point. Don't know why you would take the trade since neither the AO nor RSI 2 gave a clear signal. You could have taken a break on the previous low though. Trade B you would be happy with a BE because price just did not move anywhere. Week 2 is a lousy week.

GBP/NZD Week 3—If you catch these price action moves right the **GBP/NZD** is a very profitable pair to trade, but beware it is highly volatile. Trade A is WS1 for 200+130+60= 390 in 16 hours. Trade B has RSI 2 and AO above the 0 line but you get a BE or +60 on this one. At its height it was +120 and +60 at one time. Forex is a test of your nerves and **GBP/NZD** will test it. Then look at what happens at C. You decide to take the WP break just to see what might happen. WP break and WMS1 takes and retraces for a BE. You try again and bingo it takes a Friday ride. WRM1 +230 +180 + 100=510. Sometimes you get lucky. You may say why would you even take the trade? When AO goes above its 0 line and reenters the trend it usually is a strong move at some point. RSI 2 is not a factor in this decision; we went with AO and WP cross. Sometimes it works.



GBP/NZD Week 4 is a reversal week. If you took the WP cross with the RSI 2 signal you had a good trade that broke even or closed with some profit at the orange vertical line. When AO turned green you would close the trade because the run is over. You may end the week with a small losing trade or a winner. I did not make it on the chart but it would have been a trade from WR1 to WRM1 but it would be a risky trade which if it goes back into the trend could be a very good trade the following week or it is getting close to hitting the 240MA SL. (On Monday it dropped over 200 pips and I was in it with 2 levels)

<u>I AM NOW READY TO GIVE MY SECOND DEFINITION:</u>

SELLING A RALLY IN A DT AND BUYING A DIP IN AN UT CAN BE DEFINED AS A MOVE THAT DOES NOT RETURN PRICE PAST THE FUNDAMENTAL LONG TERM MOVEMENT OF THE CURRENCY. WHEN THE RE-TRACEMENT IS DONE THE TREND WILL CONTINUE BACK INTO ITS LONG TERM FUNDAMENTAL TREND.

Since these dips/rallies can have various strengths of movement it takes different indicators to determine when the rally/dip should be entered back into the trend. We use three indicators to determine the end of the rally/dip; then we use breaks in S/R/P/MS/MR lines as entrances as the safest way to enter these trades back into the trend.

So the three indicators we use to determine reentries are:

1. RSI 2

2. AO

3 Weekly Pivot Line

OUR TWO DEFINITIONS SO FAR

<u>A FUNDAMENTAL TREND</u> IS THE LONG TERM MOVEMENT OF A CURRENCY USUALLY CAUSED BY GOVERNMENT POLICY AND CAN BE EASILY SEEN ON A MONTHLY CHART.

<u>SELLING A RALLY IN A DT AND BUYING A DIP IN AN UT</u> CAN BE DEFINED AS A MOVE THAT DOES NOT RETURN PRICE PAST THE FUNDAMENTAL LONG TERM MOVEMENT OF THE CURRENCY. WHEN THE RE-TRACEMENT IS DONE THE TREND WILL CONTINUE BACK INTO ITS LONG TERM FUNDAMENTAL TREND.

LET US REVIEW TRENDTRADING

SUMMARY OF A TREND

1. Trends are long term and are usually caused by govt. policy.
2. The monthly chart can give you the trend without knowing the cause behind the trend.
3. This trend is then transferred to the 4H chart.
4. You can spend months or even a year on a single trend move.

BUY TRADES BEST CASE SCENARIO.

1. When price is above the white 240 MA line on a 4H chart, you set your pending trades with the following signal(s). The signals can be used together or separately. You do not need each one to agree to set pending trades you can go with only one signal and the 240 MA line.
2. RSI 2 is flat-lined on the bottom
3. AO is below its 0 line
4. You will be crossing the WP back into the trend.
5. AO has turned to a green bar showing an UT has started.

SELL TRADES BEST CASE SCENARIO.

1. When price is below the white 240 MA line on a 4H chart, you set your pending trades with the following signal(s). The signals can be used together or separately. You do not need each one to agree to set pending trades you can go with only one signal and the 240 MA line.
2. RSI 2 is flat-lined on the top.
3. AO is above its 0 line
4. You will be crossing the WP back into the trend.
5. AO has turned to an orange bar showing a DT has started.

WHEN YOU FIND A SERIES OF TRADES YOU LIKE:

1. Determine lot size by how much of your account you are willing to risk on a trade by using the MM indicator in the upper right hand corner of the chart.

2. MM indicator will be explained later in this paper.

STOPLOSS

1. Place the initial stop-loss of your trade at the 240 line.
2. You move the stop loss to BE with each multiple trade entrance.
3. This leaves you free to trade without risk from now on with this series of trades.
4. At worst a trade will break even (BE)
5. At best you will have multiple profit trades that will make your profitable trades bigger than your losing trades.

YOU EXIT TRADES WHEN:

1. You get to S1 or R1 OR you get to WMS2 WMR2 (The second mid pivot lines)
2. The RSI 2 line has broken back below/above the AO histogram bars
3. The AO has changed colors; for buys the bars changed to orange; for sells the AO changed to green.
4. You have massed several levels of pips and you are scared to death you will lose them.
5. It is early in the week Mon-Wed. and price usually does not run then. You have 1 or 2 profitable levels so keep your profits, pocket them and put them in the bank. Best TP times are ½ through the EUR session, ½ way through the USA session, end of the trading day, and 2-3 hours into JPY session.
6. Multiple level runs are usually on Thursdays or Fridays and they are the best days to let your winners run until the EURO closing on Friday. In other words Thursday and Fridays are the best days to push for more; Mondays and Tuesdays just close out those profits and put them in the bank.
7. It is the end of the week and price usually retraces at the beginning of the week. So you close your trades on Friday to keep them from gaps that happen over the weekend. You cannot control weekend news and gaps can sometimes run in hundreds of pips.
8. Bring your SL to BE on the 2nd, 3rd, and 4th entrances. This allows you to make bigger profits down the road because you are no longer risking a loss but are multiplying your profits.
9. You may also lose the profits you have gained by holding onto trades too long or closing them too early. I have learned never to beat myself up by not having the ability to predict the future. Sometimes you win, sometimes you lose, but those of you who play poker and have gone ‘all in’ know the feeling. The difference here is you don't lose all you have in front of you, just what you have put out on the table after you have had some winning hands. You can grab what is there or you can go for more. I look forward to having those occasional 3 or 4 level profit trades.

MONEY MANAGEMENT

THE KEY TO LONG TERM SUCCESSFUL TRADING

What is a successful trader? Well, some of that has a personal answer to it. People trade for different reasons. Of course people trade to make money but what a person considers success can vary. However, if there was anything clearer in trading this next statement makes the most sense.

TRADE IN A WAY SO YOU CAN TRADE AGAIN TOMORROW

Everything I am going to teach now has everything to do with being able to trade again tomorrow. It is advice based on years of experience in trading and was learned the hard way by paying brokers their tuition fees (my losses in the school of hard knocks).

FIRST: I am a low leverage, small lot trader, who tries to get others to trade a similar style. I trade to trade another day. I am a singles and double hitter who occasionally hits a home run. At 57 years of age and a person who plays baseball almost year round. I hit 3 home runs last year. My trading is the same. I just keep getting on base and enjoying the game.

SECOND: I trade for investment reasons not income. This allows me to think long term and not short term. Somehow I make fewer mistakes and am more patient with my trades taking this position. I try to get 10% a month, sometimes I do sometimes I don't but look what 10% a month will do over 5 years. Very few people can accomplish that, even among professional traders. So be realistic as a trader, it is not like winning a lottery, well 10.4 might do that.

THIRD: low leverage allows me to trade long term and hold onto trades. High leverage will eat you up with swap costs. What are swap costs? Well when you trade you are borrowing money from your broker to trade with. It is not your money it is his or some banks. To be a broker in the USA you have to have Millions and Millions deposited somewhere to cover your costs and your customer's accounts. I always want to trade with a profitable company; my funds should be safer there. I never begrudge my broker making money. He makes money so I can make money. I need him to loan me 10-100's of thousands of dollars so I can make money too. So you don't get it for free.

If you trade 50:1 leverage that means for every dollar you put up the broker can put up 49. He will charge you interest every day on that money borrowed. However, if you trade 400:1 for every dollar you put up the broker can put up 399. That increases your costs 6 fold on interest or swap. For a day trader who is in and out the same day or next day. These costs are meaningless. For people who trade long term these costs can add up over time. The real big boys don't dare trade over a 10:1 ratio because the interest costs would eat them up.

NOTE: I do make an exception for new traders however. Make no mistake you are going to lose money in the beginning unless you have a very good teacher(s) or previous experience. In other words just like doctors, teachers, attorneys, etc. you are going to pay tuition for your schooling. How much tuition you are going to pay though is the key. To pay the lowest amount in tuition learning the Forex business you need to set up a penny account with a high leverage broker and look at those funds as tuition costs. The higher the leverage, the less money you will spend on tuition. If you can't make 100 dollars grow to 200 you won't make 1000 grow to 2000 or 10,000 grow to 20,000. If you don't have the patience to grow 100 to 200 dollars and then 200 to 400 and 400 to 800, then get out of Forex, it is not for you.

RATIO VERSUS PERCENTAGE TRADING MM

RATIO AND RATIO TRADING

Probably one of the most talked about concepts in trading is trading ratios. Basically it means to make sure your trade should win more pips than it loses. This is called the ratio. For example if you trade a 2:1 ratio and you use a SL of 30 then your profit target should be 60 pips. 1.5:1 would be 45 TP 30 SL; 3:1 would be 90 TP and 30 SL, and so on. If your win to loss ratio is not there don't take the trade.

That is one way of looking at it. My problem with it is ratio trading is a very difficult thing to learn and master. Very, very few ever do. The reason ratio trading doesn't work well is because price action is very unpredictable. If you remember Dark Star's teaching about Forex is it isn't about traders it is about businesses, govt., companies, individuals, exchanging money. This can make the market move suddenly at any time. If Saudi Arabia cashes a check from Exxon Corp. for X amount of millions or billions of dollars the market is going to move and no fundamental knowledge or indicator is going to tell you this is happening. If all the world-wide big banks get spooked (like in OCT. 2008) and they decide to dump large portions of their foreign exchange reserves and buy the dollar. OR like what happened to me once; the CHF bank decides to set a floor to their currency and the GBP/CHF jumped 800 pips in less than an hour, (my best trade ever just luck really) There are no predictors to these events. They happen, and they happen on a smaller scale every single day.

Sooooooooo, what is a pip since we will be trying to get as many of those suckers as we can? A pip is a hundredth of a penny if you are trading USD pairs. It is a fraction of a penny or slightly larger with other cross pairs. Somehow trading gurus all over the world teach have a tight SL. 30 pips is 3 tenths of a penny. Sheesh ………… you wonder why your SL is getting hit all the time. Most traders are blaming their brokers (now I am not so naive to not believe there are computer programs which brokers use to hit your SL with so they can pocket money) but you are playing with fire to think that there are sells/buys of Forex currency at any time that can take your SL out at any moment. 3 tenths of a penny is nothing and doesn't exist outside of computer program. Can you imagine telling your stock broker I want a100 shares of Disney stock at 100 dollars a share but if price hits 99.9970 (100.00 - .003 or -3/10 of a penny) close out the trade I don't want to take a bigger loss than that. That is what many are trying to accomplish in Forex and it only leads to SL hell.

I did a study in the summer of 2012 and found out, I could be profitable with a 3:1 to 4:1 profit to loss ratio and have a win percentage of 30-35%. My issue was could I hit 90-120 pip winners regularly with a 30 pip SL. If you think about it, that is a daunting task yet trader after trader after trader that is exactly what they are trying to do. It is no secret in Forex that the majority lose money. It is not the 90-95% often quoted but brokers in the USA are required to report the % of winning and losing traders every quarter. Depending on the broker most report that 25-35% had winning months and I imagine most of them it wasn't by much. In other words if you make money you are in the top 30% or so and if you can do it consistently you probably are in the top 5-10%. Forex trading as a business would never stay in business if 95% of the people lost money, brokers do actually need traders to be successful to stay in business. So quit trying to blame the broker/bank every time you take a SL. Maybe trading 3 tenths of a penny SL is the real problem. Does it not make sense to you that overly tight SL maybe the real problem to your success?

After years of trading, I made the most consistent money not using SL and having a win percentage close to 75-80%, managing those 15-20% losing trades successfully but that last 3-5% killer trades could set me back weeks of trading profits. All in all I could get through a year on the profit side. I have been called many names for trading like this but it worked and many others I have taught found it to work. However, that is not 10.4. But those years laid the foundations of 10.4. 10.4 basically is my final product for keeping my high win ratio, managing occasional losses, and totally eliminating the killer loss trade. This is why I know that this is my last trading system; I finally solved all my trading issues and problems. 10.4 keeps me in the ballgame with reasonable trade sizing based on sound MM and trading skill with technique.

Trading came down to this last piece of the puzzle for me to solve. Getting away from the killer trade but keeping my winners. It came down to a different way of thinking win to loss ratio. Not the standard 2:1 or 3:1 but limiting my loss to ½% to 2% MAX of my account but compounding my profitable trades at times so they would increase my account 2-10% depending on price action.

So what am I proposing, instead of trading ratio let us trade according to percentages. 10.4 is designed around this concept of trading a percentage of your account instead of trying to get a ratio. Let me see if I can explain this in a way you can understand. Whether you trade according to 10.4 or not this can be used with any trading system.

A DIFFERENT APPROACH RATHER THAN RATIO TRADING

I explained the foundation almost a year ago in a thread at www.SteveHopwoodForex.com I copied and paste it here. I did modify this paragraph changing some words and grammar for clarity but didn't change the meaning.

Think of it this way. There are traders who do not use their entire lot size in one entrance. They break it up into 3 or more parts and enter on multiple levels. Let us say you like trading 3 lot sizes at one time. Instead of entering all three at once you enter them as 1 lot size at 3 different spots. This allows you the flexibility to find the spot you want to enter in. Let us say you enter one lot but some sudden news story breaks and gives a pair a 2 or 3 day temporary reversal. Well when that run is done you can enter your 2nd lot and then the third at a retracement to get your trade back to breakeven or back into a trend. You phase in your lot size.

This also helps in case you are just plain wrong with your trade. Instead of taking a 3 lot loss you now only take a 1 lot loss not having played your whole position. To me this really helps your money management in that you still play your 3 lot size on winning trades but not on your losing trades, unless you have really blown your entrances. If you can grasp the basic principle and follow long term trends then you can make most of your trades profitable. I am a fan of small lot size to account size so as to make trading a relaxing and sometimes boring affair. The concept that you can make pinpoint entrances when you are dealing with a hundredth of a penny move seems ludicrous to me. Give yourself some space and allow trades time to become profitable. Most currencies really only change direction a handful of times a year you just need to give yourself the room to stay with a price trend. Check your monthly charts and you will see what I mean. Good luck.

So that saved me a half a page of typing. Here is the concept, trade percentage of account instead of ratios. The MM indicator is designed to help you with your lot sizing and the placing of your SL. First let us take a look at the indicators and then how to use it. I already explained multiple entrances in trend trading and taking a single SL for smaller losses. Moving your SL up so all trades after the first entrance are going for more profit but will no longer be a loser since we move up to BE at the 2^{nd}, 3^{rd}, or 4^{th}, entrances.

10.4 MM INDICATOR

At the time I write this the indicators may not be in its final form so don't be surprised if it is different than the one I picture on this page. Basically this indicator is designed to show you proper lot size and SL settings. Remember these numbers are approximations and not exacts. They are meant as a guide so you will properly set your lot sizes to SL setting.

If you look at the chart look at the yellow #1. It shows the present price of the currency pair of the screen it is placed on. It is the same as your bid line which is #4. #2 is the distance from the bid line #4 to the 240 MA line #5 on the 4H chart. It will read the same numbers no matter what time frame you switch to. This number is important in that we are going to use it to place our SL. Now based on this information we are going to place our SL and calculate the lot size in section 3. Section 3 will automatically calculate your lot size based on your account size for you. If it says .01 that is a penny lot for penny brokers and dime lots for dime brokers. So how much do you want to risk on a trade? You can choose ½% of your account, 1%, 2%, or even 3% by adding 1 + 2 to get 3. That is how much of your account you will lose if price moves and hits the white line or the 240 MA on the 4H chart. You determine the percentage of account loss you are willing to take. That is your Maximum loss. However that isn't your max win. With the ability to add positions but not added risk you can double or triple your percentage of gain but you do not increase percentage of loss.

So this is how it works, you determine the maximum loss you are willing to take on your account whether it ½, 1, or 2% for your next trade. For 1000 dollar account 1% is 10 dollars 1/2% is 5 dollars and 2% is 20 dollars. At 1% it would take you 100 losing trades in a row to lose your account. At ½% it would take 200 trades and at 2% 50 losing trades in a row. Now I have had some bad days, weeks, and months but nothing like that has ever happened to me. I have had a handful of trades going on at the same time that have wiped out accounts but that was because I didn't size my lot sizes properly set to account size. Sound familiar to anyone? Instead we will predetermine our SL lot size based **not** on a win/loss ratio but on a percentage of the account using a trading system that has a very low percent of losses.

So if you look at the screen a 2% loss with a SL set at the 240 MA line would need to be 3 penny trade. If you don't have a penny broker and the smallest lot trade is 1 dime and you had a 500 dollar account, you would be risking 6% with a 10 cent lot. If you had a 1000 dollar account you would be risking 3% and a 3000 dollar account 1%. Me, I have one lot size I trade all the time that approximates a 1-2% commitment. Some pairs it will be more some pairs less. This keeps me from doing the math every time.

So this indicator is meant for you to trade in such a way that you can trade tomorrow and the next day and the next day and so forth. It is also meant for you to trade small enough that your success or failure is not based on one trade but multiple trades. Winning small amounts and trying to be constantly profitable is tough. Hitting a trend run and getting two or more positions going adds to the account quickly. Moving a SL up with each winning position gives you confidence knowing you can’t lose but you have a chance at a bigger payout than any loss you would have taken. You multiply your winners into larger percentages but your losses are a fixed percent specifically set far away and if hit cannot hurt your account. If you know the biggest loss you will take is 1% but the biggest win can be several percentage points because you are learning to phase into a winning position with multiple positions, don’t you think that would help your long term trading? See pic below for MM indicators.

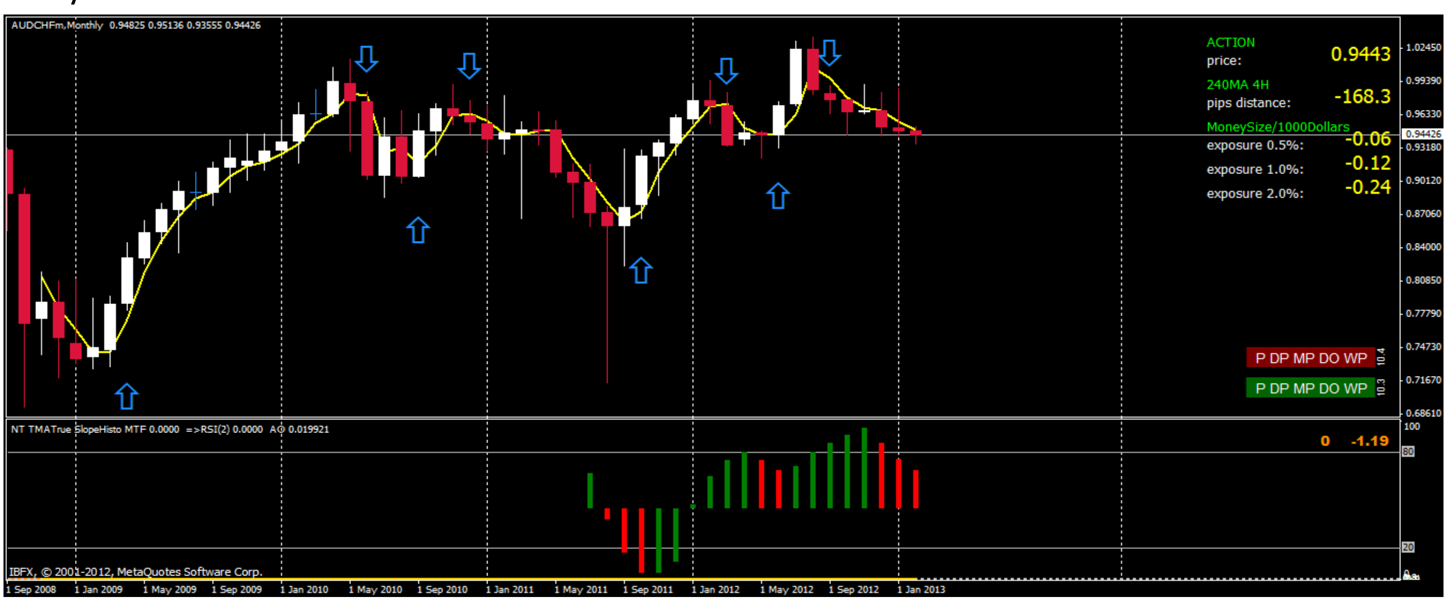
DIVERSIFYING YOUR TRADING

I talked about how trading stocks and using a 3 tenths of a dollar as a SL would get you laughed off of the trading floor. I don't know any stock broker who would recommend such trading tactics but it is very common in Forex and if you suggest otherwise makes you get treated like an idiot. I know I have debated such ideas at Forex Factory. However I have seen nothing that changes my feeling on that. Yes if you trade large lots and high leverage you get caught in this type of trading. Brokers love it because they get to pocket your constant losses. If I understand brokers and how they operate they not only get to keep your spread but also the money you lose. Some people erroneously refer to this as trading against their clients (yes there are brokers who do that but….) what they really do is match up trades with other traders. For example let's say a broker has traders and their total trades of **EUR/USD** are 100 lots of buys and 120 lots of sells. They have a risk of 20 lots that could go against them. They then can put those 20 lots out on the open market and keep the rest in house. I am sure that is the only way penny and dime brokers can do business. No big bank wants to deal in penny and dime orders. So the brokers combine everything and only farm out their risk. This is not trading against you just pitting you up against another trader. When you close your trade they just match up the other trade with someone else. They make a profit and you get to trade with small amounts of money. Now if you close your trade as a loss it is kept in house and any win is paid out back to your account. The broker has nothing to worry about until you ask for a check. If you are a losing trader they get to keep the funds. It is a rather high profit business.

This is all done by computer and is automatically done inside a computer. Market price comes in and you get to play. You win or lose money, the broker makes good money and the banks he does business with get his large orders to cover his butt just in case a group of traders actually make money. Inside this computer program (I have no proof of this just my thoughts and experiences) the computer can do things which can cause you to have your SL hit or your account to margin out. If price is within a certain range of your SL they can expand the spread for just a moment (market conditions) and go back and hit the SL. Same thing with margin calls. I can't tell you the couple of times I hit a margin call on my account and price would almost immediately go the other way after it got cleaned out. Now can I prove any of this? NO. But do I think it happens? YES. So how do I solve this problem? Percentage of account trading moves the SL so far out of range they can't spike you out of a trade anymore. Percent of account trading means no more getting knocked out on a margin call because you aren't trading big enough lots for them to do it. So how do you make money then?

Diversifying your trading will solve part of this problem. If you go to a financial advisor and you want to set your portfolio for long term investing the advisor will tell you to invest and diversify your account; so much in stocks, bonds, real estate, metals, liquid savings, etc. In this way if one industry gets hit the rest of your portfolio will protect your assets from wipe-out.

One of the frustrations I had early in my trading was I would trade the **EUR/USD** and it would move10-20 pips but the **GBP/USD** would move a 100. So the next day I would trade the **GBP/USD** and it would move 10-20 pips and the **EUR/USD** would move 100 pips. So the next day I would trade both and they would both lose and something called the NZD would move a 100 pips. It drove me nuts. Eventually I ended up trading all 20+ pairs and entered everything. If I caught the market right it was great, if I didn't dang account damage. Now I diversify. I don't load up on all 6 AUD pairs or Euro pairs or USD pairs. If they all look good I trade 2 or 3 at one time and leave the rest. I make sure I trade different pairs just in case something happens I get something. That is how I lucked out on the **GBP/CHF** trade one day. I placed the trade to balance out my trading day. I had two CHF trades that day and it was a WOW day. I also had some NZD, AUD, USD, EUR, CAD, going. They went nowhere or were losing trades but those two CHF trades allowed me to have a 1400 pip day even though most of my trades that day were losers. I diversified and didn't get loaded up into just one or two pairs.
I can't tell you how many trading days the market was slow but the **CAD/JPY** or **EUR/CAD** took off and made my day. You just don't know what will happen on any trading day give yourself a chance to catch an unusual move. Trends are trends. Let me ask you, have you ever traded the **AUD/CHF**, look at this chart and tell me why not? 8 changes of directions in 4 years, that is really consistent.



How about the **GBP/CAD**, I consider this one of the best kept secrets in Forex. It is a great range currency pair. See that green bar that measures its high from its low in the pic below? That is 1000 pip range. That's it that is all it moves, no wild swings no account busting moves. Every month place a sell someplace in the top 20% and a buy in the lower 20% area and let it ride. I put a BB on the monthly set at 20 and deviation 1 and go trade. The biggest distance from the top band to the high blue line and the bottom band to its low blue line is 300 pips at most. The distance from top band to the bottom band is 400 pips. Once price goes outside the BB band and comes back inside is a very nice trade. I only know this is because I am not afraid to diversify. I look for these types of things to trade.

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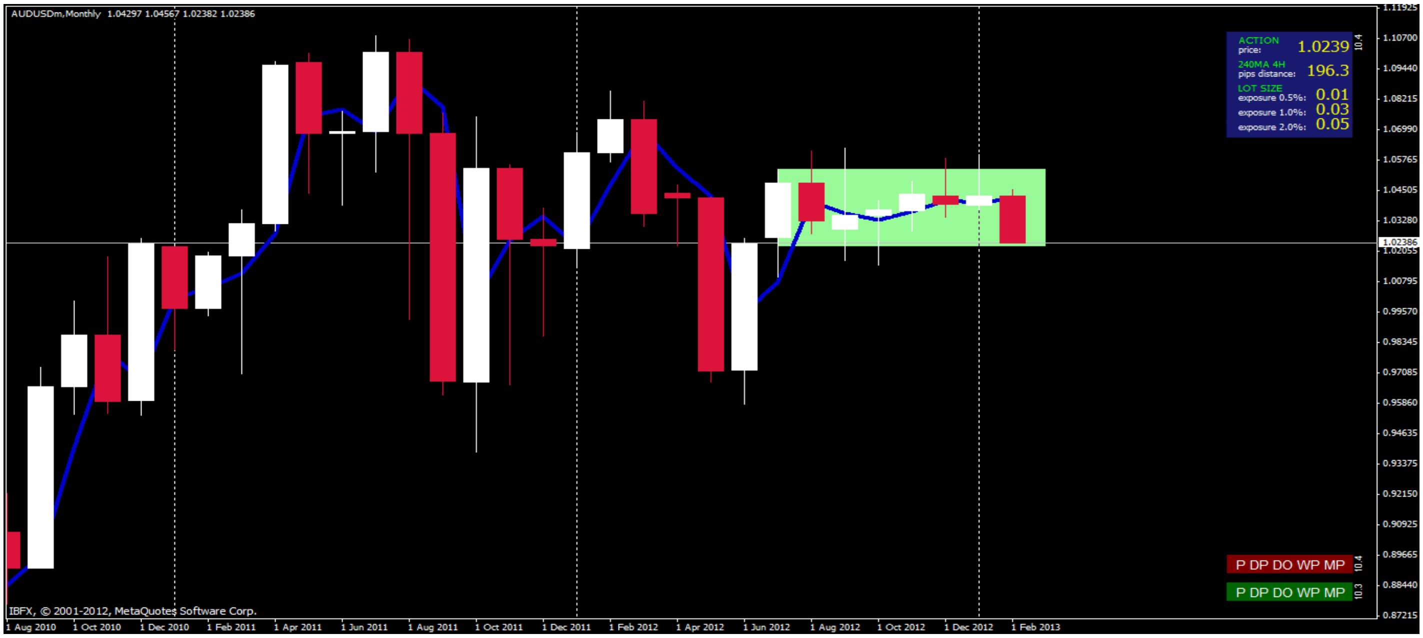
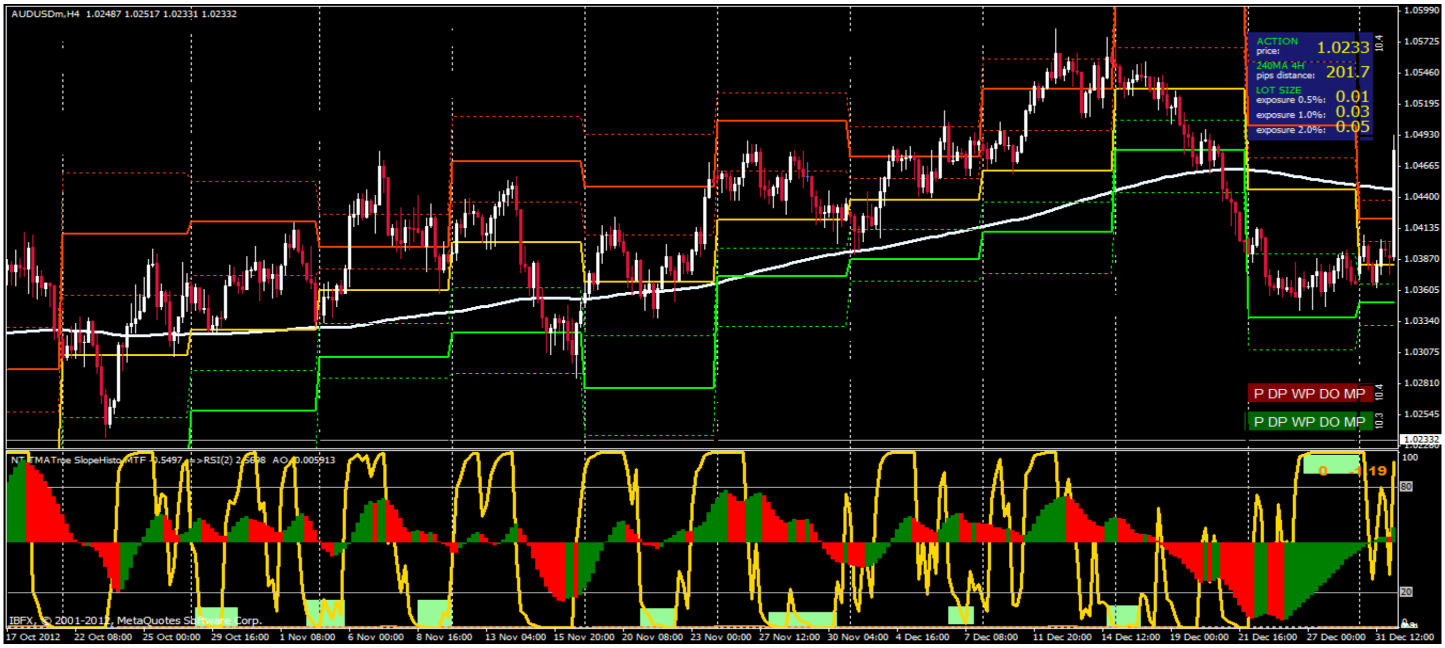
My point is this; you see lots of setups at once, diversify and take some of each. Don't get caught having 6 AUD trades going against you at once. Maybe have 2 and save the others for a better signal or mix it up so you have some buys and some sells going at the same time. Remember if one currency is going down that means something else is going up. JPY is going down at the time of this writing, what currency is going up and ride it also. Diversify and protect your account.

RANGE TRADING –THIS IS NOT COMPLETE AT THIS TIME

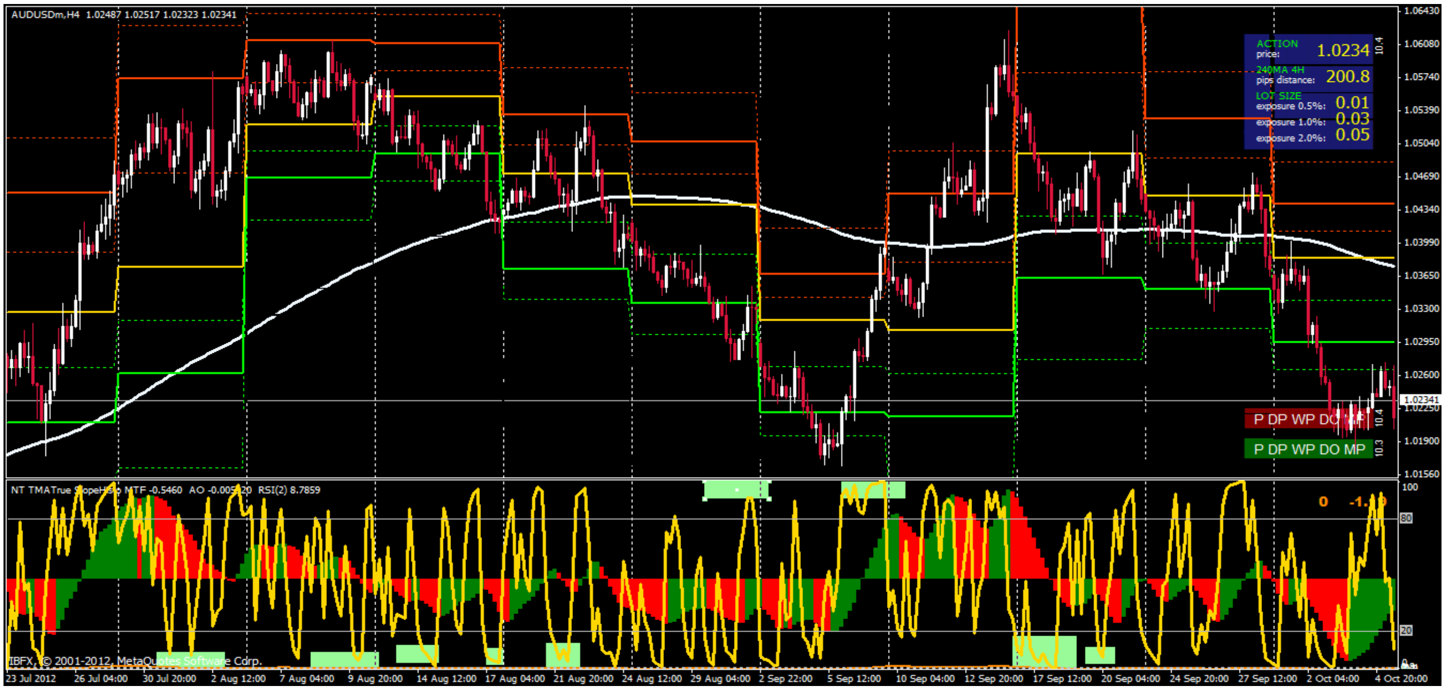
For the last 8 months the **AUD/USD** has been sitting in a tight range of 450 pips. For a monthly that is tight range. So how would it do with 10.4, let us take a look.



Here is the 4H chart showing 3 months of **AUD/USD** range. Yes there were two weeks of no visible signals to trade but there were 8 weeks 7 buys and 1 sell. So during this tight trading range 8 of the 10 weeks we got signals to trade. Most of the trades were from one level to another but there were a couple of multi-level trades. So if you see price hugging the 240 line you only look for 2 trades that most likely will go up to the 3rd line from the first entry. No home runs but still pips to be made.



In the 10 weeks before that we have some very definite moves and there 7 buys and 2 sells in 7 weeks of trades. So there were 3 weeks of no trades.



So let us make another rule. There are times when you don't get a good clear signal to trade. So a definition to do not trade is very simple:

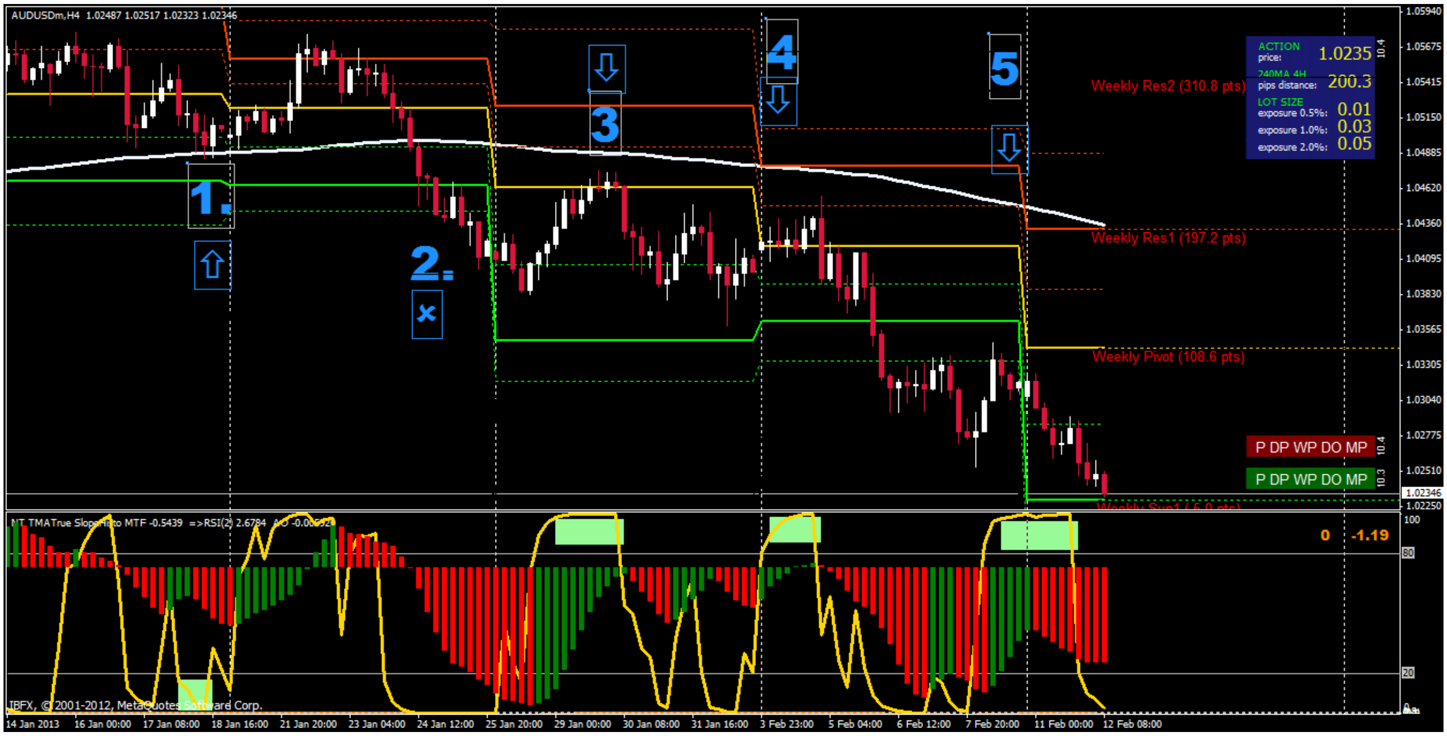
DON'T TRADE WHEN THERE ARE NO GOOD CLEAR SIGNALS.

So some of them i marked above are very close to not being a good clear signal. I doubt it very much that every currency pair will have a week where no signals are giving. Just move on to clear signals instead of forcing a trade. When price is crossing back and forth across the 240 MA line we can call this a Ranging Market. So let us get to our next definition. What is a ranging market?

A RANGING MARKET IS WHEN PRICE IS CROSSING BACK AND FORTH ACROSS THE 240 MA LINE AND ANY SIGNALS GIVEN DO NOT MATCH PRICE ACTION

When does a ranging market end and when does it begin. We will define these like this. A downtrend begins with the first DT signal showing up in the indicator. This will almost always be the RSI 2. Look at pic below.

1. This is our last UT trade signal.
2. Price breaks below the 240 MA there by canceling the RSI 2 signal at the bottom. There is no trade here.
3. Price retraces but does not break back through the 240 line. RSI 2 has topped out so we set our pending trades. The new DT would start here and we start trading again.
4. Sell trade back into the down-trend.
5. Sell trace back into the DT.



Let us look at a change from a DT to an UT. An UT begins with the first UT signal showing up in the indicator. This will almost always be the RSI 2.

1. A DT signal is given and you either profit 1 level or if you added a 2nd it goes back to BE for no gain.
2. Price crosses the 240 line so the #2 sell signal is not valid.
3. Price crosses the 240 line again so the #3 buy signal is not valid.
4. Price is above 240 MA line and a buy signal is given by the RSI 2. We have now switched into an UT.
5. From 4-5 price just bounces around but at 5 it takes off and you can get a 1 level or 2 level 2 trade profit.
6. A signal is given and price goes nowhere.
7. A signal is given and price goes nowhere.
8. Trades 6 or/and 7 are losers and you take a loss at some point

THE SEVEN DEFINITIONS

1. **A TREND IS THE LONG TERM MOVEMENT OF A CURRENCY USUALLY CAUSED BY GOVERNMENT POLICY AND CAN BE EASILY SEEN ON A MONTHLY CHART.**
2. **SO FAR ONLY ONE SIMPLE RULE—BUY ABOVE THE WHITE LINE; SELL BELOW THE WHITE LINE.**
3. **A DOWNTREND BEGINS WITH THE FIRST DT SIGNAL SHOWING UP IN THE INDICATOR WITH PRICE BEING BELOW THE 240 MA ON THE 4H CHART. THIS WILL ALMOST ALWAYS BE THE RSI 2.**
4. **AN UPTREND BEGINS WITH THE FIRST UT SIGNAL SHOWING UP IN THE INDICATOR WITH PRICE BEING BELOW THE 240 MA ON THE 4H CHART. THIS WILL ALMOST ALWAYS BE THE RSI 2.**
5. **A RANGING MARKET IS WHEN PRICE IS CROSSING BACK AND FORTH ACROSS THE 240 MA LINE AND ANY SIGNALS GIVEN DO NOT MATCH PRICE ACTION**
6. **DON'T TRADE WHEN THERE ARE NO CLEAR SIGNALS TO TRADE**
7. **SELLING A RALLY IN A DT AND BUYING A DIP IN AN UT CAN BE DEFINED AS A MOVE THAT DOES NOT RETURN PRICE PAST THE FUNDAMENTAL LONG TERM MOVEMENT OF THE CURRENCY. WHEN THE RE-TRACEMENT IS DONE THE TREND WILL CONTINUE BACK INTO ITS LONG TERM FUNDAMENTAL TREND.**

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