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Game theory is clear, as long as you have an edge you should continue to bet. The success of almost successful trading method requires that you take all the trades. Skipping even a small amount of trades can have a large effect on the profitability of the method over the long run. This leads me to a problem I am contemplating today.

This week has been extraordinarily kind to my trading method. I have taken seven trades. I only risk a small amount on each trade but the moves have been fast and strong for some of the trades. I have only had one stop out, the other six have gone to hit profit targets. So what's the problem, you ask? I am up twenty one percent this week.

I know that game theory suggests that I continue trading. I also know that the law of averages dictates that I do not make that type of return in a week and it is highly possible that I will have some losing trades if I continue this week. I also know from hard won experience that I tend to get a little loose when I am up large because I don't really respect money enough for my own good. I tend to take trades that may be questionable by my rules because "its only house money". I am not perfect and don't have the discipline that I would like just like anyone else.

So the question for me is: Do I take off the rest of the week or trade? Hmmm, think I will take the rest off.

The truth:

It's important to follow the rules but its more important to know when to quit.

I have already discussed the fact that I maintain a tiny test account. Now I want to discuss testing.

Backtesting is very popular in trading. Many people test by going back through charts and manually testing their theories. The problem with this is that due to the workings of the human mind we tent to dismiss or discount problems that may be part of any given method. We tend when doing this type of testing to tell ourselves; I would never have taken that trade its obvious that wouldn't work. Of course its obvious you can see the result that occurred. We also tend when testing this way to alter the rules that we use to add more winners and lessen the losers. This is curve fitting. The problem; The past will never be repeated and any trade method curve fitted to a specific set of data will not work on any other.

Others use a more rigorous method. This method of backtesting requires that the method be reduced to rules that can be coded into an EA. The trader then applies this EA to a historical data set to test the validity of his or her method. The problems here are obvious. It is fairly well known that Fully automated trading methods are typically not profitable over the long term. It is very difficult to reduce into computer code the methods that are typically most profitable and robust. Methods and traders that are most successful typically have some level of trader discression not easily coded.

It is for these reasons that I generally do not backtest. I will use historical charts to determine the proper size stops and targets for a method. I will use historical charts to develop ideas and initially do some simple checking to rule a method in or out for further testing. I will not use historical charts though for testing a method.

The truth:

Backtesting is pretty useless, Forward testing, though with real money (even a tiny account) will tell you if your method will stand up to the heat of trading real money live. Forward testing will show you if your method can be traded in real time with real money for profit.

I don't disagree that using a simulator can be very beneficial. Simulators though are for practice. They help us to work on our execution. They help us to learn to act without thinking. They help us to familiarize ourselves with the movements of our chosen trading pairs. They are not however for testing the validity of the method. We can only do that through forward testing. The point of the posting though is before you place trades with your hard earned money use a tiny account for a time to verify your method is robust and not curve fitted to a prior data set.

Traders are typically taught to risk one or two percent per trade in order to preserve their capital. While this is good advice we are left with a problem. How do we begin to increase our gains and become more efficient if we cannot increase our risk. If we want to aggressively compound our risk capital but cannot increase our bet size how do we ever get larger gains.

The answer is twofold and partially lies in the question. As your capital increases the size of your bets naturally increases. therefore you can do nothing but have a winning strategy and constantly increase your bet size to maintain the original risk percentage. The power of compounding is widdely known but many people don't actually do the numbers and see the real power.

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If you risk two percent and make four times risk per month your account will double in approximately nine months. So what does that mean? In short if you begin with ten thousand dollars and make a mild return of 4R per month in ten years you will have over 100 million dollars. Now is that possible? Well yes and no. It is certainly possible to earn that type of return while your acount is relatively small. As your account gets larger, however it becomes more difficult to get good executions due to trade size. Also as your account gets large banks and brokers are less likely to give a trader leverage due to counterparty risks. So don't include in your long term trade plan the assumption that you can double five million in nine months.

But I said there are two answers. The second answer is so simple I am almost ashamed to post it. It seems so obvious I am sure that I will take some ridicule for even bringing it up. The second answer is to increase your profit targets. If you currently take profit at 1/1 R:R try extending that to 1.5/1 or 2/1 or 3/1. Generally speaking increasing your profit targets will reduce the winning percentage of your method but up to a point increasing your targets will also generally increase the profits even with the lower win rate. It is very important though that the trader understands that this trade off only works to a point. At some point the two curves will intersect and an optimum profit target is reached. If you are a trend trader who trades breakouts but use a small profit target it may be the reason you are not profitable. If you are a countertrend trader and you try for profit targets that are rather large it may be the reason you are not profitable. The only way to obtain the proper targets for your method is test, test, test.

The truth:

If you are trading a profitable method but are unhappy with the growth of your account balance don't increase the risk per trade, try instead to extend the reward.

I spoke earlier about why levels hold. I would like to expand on that if I may. In the chart below you will note that the price was below the weekly open most of monday and then during late NY and Asia it sort of raced up to that price level again. Millions of traders bought up there. There was perhaps hundreds of millions if not billions traded long at that level. Now Big institutional traders sold into all that buying. That is why the level held. Since most of the buying that took place there was retail and uninformed many of those people are still holding. What will they do when we get to that level again? After all they are poor retail traders, naturally after holding through a draw down of 160 pips they are going to sell. They are going to break even come hell or high water.

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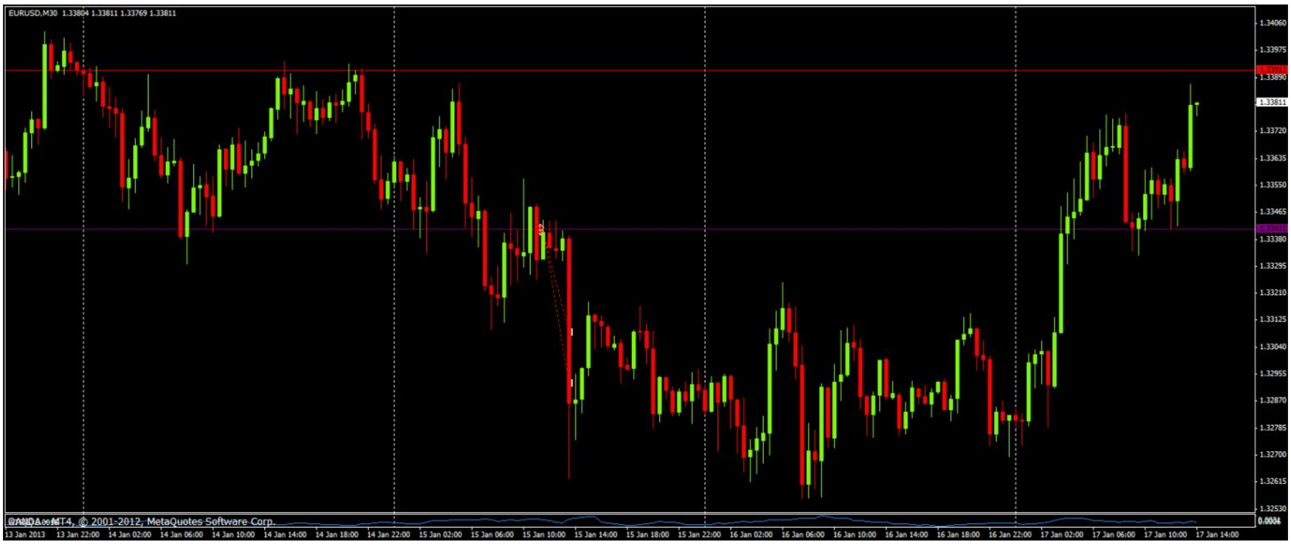
That's why often the first return to a level will hold. We are nearing that level now, it may hold, it may not. It all depends on wether the millions and billions buying will overwhelm the millions and billions selling. Do we have some clues? Well yes ATR for one; we are stretched out to 115 pips so far today. Does ATR mean we cannot go higher? Of course not but it is a piece of the puzzle. We also know that this is a critical bull and bear decision line. These areas are often attacked pretty hard from both sides.

The truth:

We never know if a level will hold. We weigh the evidence, make a decision, and we place our trades. It is, after all just another trade and if the level fails and we are stopped out we will get a retest to go long. Trading is simple.



I said in an earlier post that I favor a fast move into a level with a large bar over a slow grind. I am posting this chart to illustrate why. Look at the mess to the left. It can be torture to watch price chew through that mess. There is always the possibility also that all that grind was accumulation and price is about to break this level to the upside. I still took the trade though. I have sold the weekly open, the weekly highs, the previous day high, and the current day open. It may work out, it may not. Don't really care at this point, simply down to managing the trade now.

I didn't post this until now because I do not wish this to become a signal service and I am fearful that anyone might lose money by following my entries without knowing the full techniques I use to manage the trades. I really don't want to post live trades but I feel that this chart illustrates the decision process and rationale behind a specific trade and circumstance.

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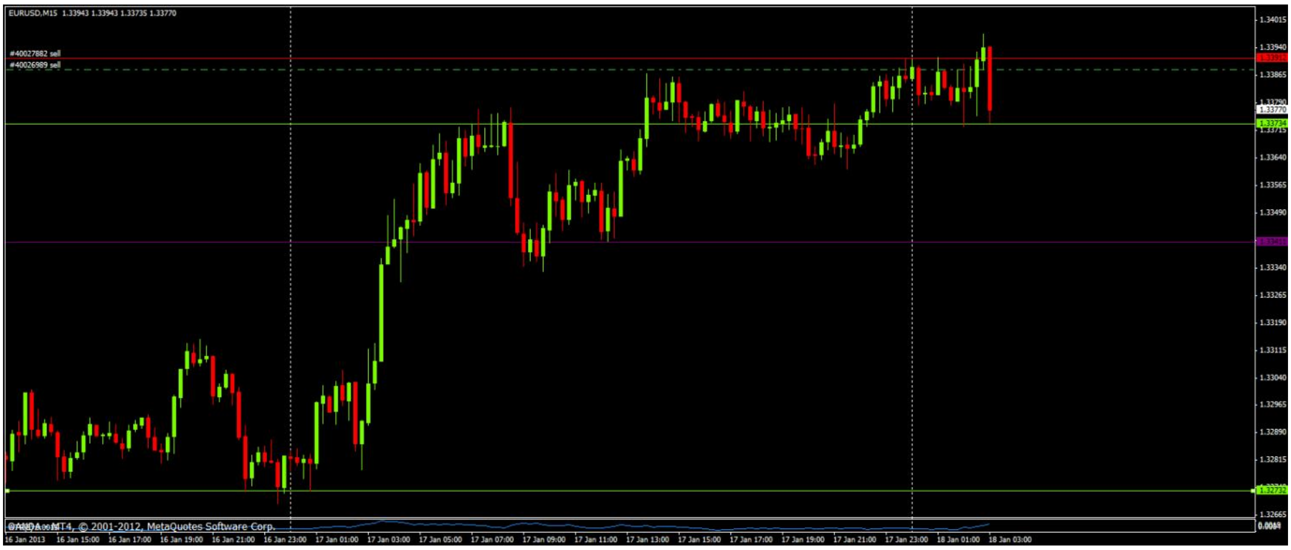
Third shot at the rolls if it cant break through this time I will prolly kill the trade.



I am posting this chart to illustrate a few points I think are relevant.

First I would like to point out that these trades were taken at a very critical level. When several factors line up at the same level often the trades can be powerful. This short trade had these factors in my favor. Weekly highs, weekly open, daily open, previous day high, and the 1.34 level. When the trade entry points stack up like this I believe many "gurus" call it confluence. I call it a good trade.

This trade, as all my trades are, was counter trend. It goes back to one of my earlier posts, You want to be selling rising markets and buying falling markets. Large traders need liquidity to enter and we want to trade with the large traders not against them.

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I made a few mistakes in this trade. I am human and have not conquered all my demons. I want to point them out to show that you do not have to trade perfectly to make profits. You can be adequate at this and make a great living. I hope to some day graduate to good status.
1) The first entry you will notice is a few pips below the line. Why? I hesitated, I don't know exactly why I hesitated and in my defense the price missed the entry number by a couple of pipettes but it was close enough. This was the second miss of my limit order and I have seen this before where the level is just missed and the price never comes back so I jumped in a few fips late.
2)You will also see that the first trade was exited Waaayyyy to early. Why? I am human. This was the third run at the rolls (green line) and when the price bounced a little higher than I like I took off half the risk just in case. Gutless.
3)Once the rolls gave I reentered short with another lot. This closing and reentry cost me several pips of profit and I paid up another spread. The big mistake here though was I forgot in the heat of the moment to size this entry differently so I now had to exit this position last or exit both at once. Thank you Dodd Frank.
4)My plan was to exit one position and hold the other to go for a break of the purple. I knew that price would likely retrace to the rolls again before we could get through and now that I have screwed up my trade sequencing I just exited at the fifty level.

So I entered one too early, exited one too early, entered again too late, and exited before the target. I botched it up pretty good but don't feel too badly for me I made a little over four percent on the trades and only risked a little under two.

I am not bragging. I am not God's gift to trading. I simply want to point out that what you often read in these forums is BS. You don't need to trade perfectly in order to succeed. Trading is not some super secret impossible skill that can only be mastered by a chosen few. If you have a solid strategy you can make tons of mistakes and still make it. I am working on my shortcomings, some day I will get better but until then I will have to settle for making a little less than optimal money.

Edit: couldn't resist this last one, risking the lows.

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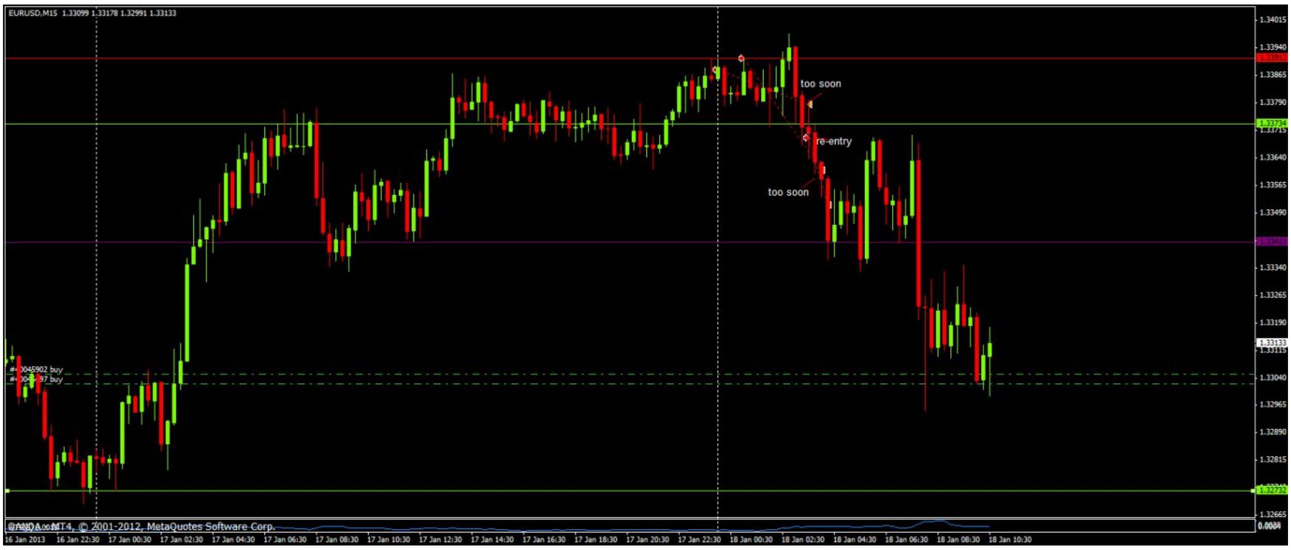

Pips; what's the big deal about pips. All over this forum I see people bragging about pips earned. Would you be impressed if a trader told you they made four thousand pips a month, on average, month in month out. How about if a trader told you they earned two hundred pips a month. Which one is more impressive. What if I told you the guy making four thousand risked eight thousand to get it and the guy making two hundred only risked a hundred forty. Who is better off the pip raker with the expectancy of .5 or the small winner with the expectancy of 1.42? Who has the smoother equity curve? Who can risk more per trade and compound faster?

If you know that you will earn 1.42 for every dollar risked are you happier than if you make .50 for every dollar risked? I certainly am. Expectancy is the one key thing that helps us to compare systems. The pips earned by a method are not a measure of its profitability. The true measure of a method is return on equity. So how do we improve our expectancy? We locate the lowest risk entries (the entries that can have the tightest stops) and aim for the largest targets possible.

The only possible way to reduce the stops to the lowest possible and shoot for the largest targets is to trade tops and bottoms. There, I said it. Its out, I am sure to come under fire for suggesting such heresy. I may be run out of town for suggesting that we "catch falling knives" and get smelly fingers picking bottoms. You see, its widely suggested that we should go with the flow. We should wait for confirmation. We shoud jump on the bandwagon after our favorite indicator confirms its a top. We should trade the break of the lower low or the higher high.

Now I call BS on all of that. That is what the largest number of traders is doing. Newsflash; the majority of traders are losers. Do you really want to do what they do or do you want to take the trades that are hard. Do you think it was easy for me to sell last night after fiber rocketed up over a hundred pips on Thursday. Of course not but that was the low risk trade. That was the trade that allowed for the largest target. That was the trade that gives me my edge. Most of the bad traders who give advice on this forum, in the news media, and are your favorite "gurus" would say that the trade I took is the highest risk trade. They would say that I should have waited for confirmation. Ok so I wait for confirmation, there was a nice engulfing bar on the one hour that took out the highs and the rolls. That's great but what is the stop? Its about forty pips. That is unacceptable to me. My stops last night were less than half of that. Why? Because I traded the top. I only needed about thirty five pips to double my risk in profits. Would you rather target thirty five pips or eighty? Who has the odds on their side?

The truth:

The analysts on Bloomberg and CNBC aren't traders, Most of the "gurus" selling their latest "system" couldn't trade their way out of a wet paper sack, most of the people giving advice on this forum are losers. Hell you shouldn't even believe me except that I have posted trades BEFORE the fact.

IF YOU WANT TO MAKE MONEY IN THIS BUSINESS YOU MUST DO THINGS THAT MAKE OTHERS NERVOUS AND SCARED. IF YOU FOLLOW THE PARTY LINE YOU WILL JUST BE A LOSER LIKE THE REST OF THEM.

I am not perfect. I am not a robot. I still am affected by fear and greed. It helps me to have these thoughts on virtual paper so I can reinforce the things I need to be working on with every trade. I only let one trade go all the way to the target this entire week. I won't say my final profit percentage for this week because people will just claim I am full of it. I will say though that it could have been a lot better. I tend to take profits at the 2/1-3/1 RR levels and most weeks that is the best course of action. I know that is true but when we have an unbelievable week like this one where nearly every trade works and the moves extend well past their normal targets I can't help but think I left a lot on the table.

I don't trade 123. I sound like a broken record but the stops are too wide. You said it yourself, on a timeframe where the stops would be acceptable to me the pattern isn't reliable enough. Any method that is widely and freely available and even taught by brokers to me is just fish bait. Why would the average trader's bucketshop boiler room broker teach them anything that works.

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I do stress easily. I said it in one of my first posts in the thread. I wish I had the ability to trade longer term. I would love to get more sleep. Maybe its because of the dollars per pip I trade. Maybe its because I am just a perfectionist. I have the same agony in taking a loss as anyone else reading this. I do it though because I know its the only to win in the long run. Funny thing is I could hold for the larger targets and use the same stops I use now so it would be pure profit. I guess I just need more meditation to help me to sit on my hands a little longer. Imagine risking 17 pips and taking 120 pip targets on a regular basis. What could that do for your compounding? 7.5/1 R-R two percent risk and right 60% of the time. The math on that is scary.

What if I had held these for the full move. Stop here was 16 pips. Two percent per entry risked.

The market does not and will never change. Traders are people with fear and greed and orders will always stack up in the same places. Some methods are more or less profitable with changes in volitility and some methods do lose their edge over time. This will be a controversial thing to say but I believe that those are not trading methods but gimmicks. Can you make a lot of money with a gimmick? Sure just ask Richard Dennis. Just don't ask him what happened to his money when the gimmick ran its course. (He lost a lot) People have made millions with the method I use all the way back in time. You don't even need charts to do what I do only prices to transact at. Trading in its simplist form. Its not for everybody. Some people cannot pull the trigger without some form of confirmation from some combination of indicators. I won't deny that those methods can be profitable in certain market conditions. The question is, can they work over thousands of trades.

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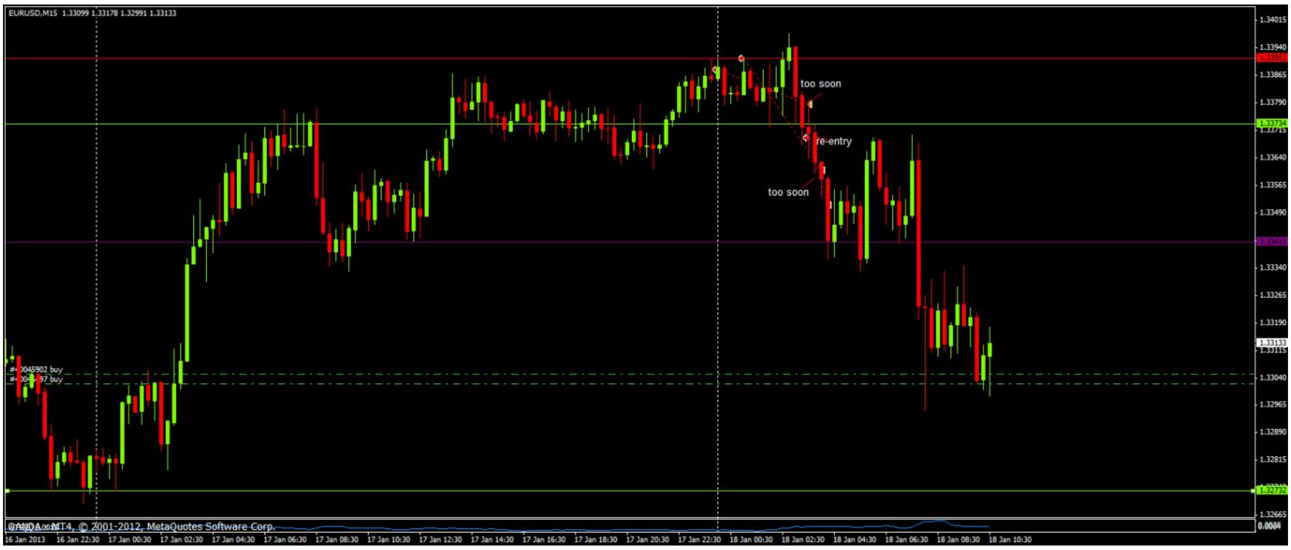
Levels work in chop. Levels work in trend. Levels even work for most news events. I trust what works.

I the past ten years I would say the biggest change has been the loss of the big trends. In the current market environment you need a method that deals well with chop. The daily ranges are puny compared to just a few years ago.

I would like to make one more quick point that I believe might be helpful. In the chart below you will see the long trade I posted earlier. This was NOT one of my levels. I took it because I thought it was going to go up from there. As soon as I came to my senses and the thing started to come down on me I killed it quick. No harm no foul but that type of lapse in discipline is the reason for this thread. I make mistakes every day and I post here to try and help myself to be better. I can be a complete moron sometimes same as anybody.

Where did price finally turn? Yesterdays open, where else?



You will find also that when a level fails and you are stopped out typically there is a retest of the level and you will be able to enter in the direction of the sentiment driving the trade. These can often be held longer to earn back the prior loss in addition to the normal profit targets.

On Monday My trading account passed a threshold, a big round number that I have trying to reach for some time. I think those types of events play on me and make it harder to hold trades beyond my comfort zone. I clearly made some trading decisions this week based on not wanting the account to fall below that number instead of where the trade might run. It is a double edge sword though. I do not forecast. I simply take the first level that is hit during the day and trade from there. I have no bias so often I don't know if I want to hold a trade beyond the next level because I have no bias to justify thinking the level will hold. (did that make sense?)

Many days the price will ping pong from level to level never really breaking out so often the best practice is to only go for a level. Markets don't always trend and all my testing is based on exiting at the next logical level or before if I like the R/R. Hell all this might just be a waste of energy anyway I didn't hold through any levels this week and my gain was fantastic I just hope to get a little better each week. Life is good.

I make it as simple as I can. It really is just take the first level hit and go from there. I have no bias either way. Funny how price can rise for three days straight and on the fourth morning bounce off the highs and rocket down all day. Helps to have no long bias in that situation. Many trend followers would tend to try and long it all day at every stall in price. I have no bias so I am short if goes down long if it goes up. If I take a long trade and it stops out I just figure its a down day from there and get short on the retest. Occasionally I will stop twice in a day and then the third one will work out. Its all about confidence in the method and taking that third trade. I rarely lose more than two in a row. Go back through some charts and look at how often your entries can be just a few pips off the top or bottom of the day trading this way. It opens your eyes.

I have trading in the zone and agree its good stuff. I am working on myself every day. I can say without a doubt, though I have a long way to go.

I want to expand a little on day trading. I am a day trader. I finish most days flat. I think most people have an image of a daytrader as someone who enters twenty or fifty or a hundred trades a day or more. While there are certainly those that do that I think they are nuts. If everything goes right I make one trade per day per pair. I usually will not have more than one trade at any given time. I rarely make more than three trades in a day. I have posted it before if you are trading all over the chart up and down using a one minute or tick chart you are going to have a tough road in trading. I believe it is super important to pick your spots and limit your exposure to the market.

If any of you have read the papers and books that I linked earlier then you may be starting to understand what this market can do to you. There are situations that happen where there may not be a bid or ask for several handles. The market can and has had a vaccuum of orders for several cents not just a few pips. When bankers get scared they pull their bids and offers until they figure out what is happening. I think it is extremely important to try and limit the possibility of these exposures. I guess that is why I hesitate to hold positions for one second longer than I have to. A stop is not guaranteed at any certain price. It is a market order once the price is violated. The broker will fill it at any available price and that can be hundreds of pips away if the situation is dire enough. Imagine if Russia invaded Germany tomorrow. Where do you think the bids would be for Euros.

Wow this one really is rambling, so what's the point? I guess I believe in moderation. I think its dangerous to take fifty trades a day. I think its dangerous to hold trades through weekends and thin markets. I believe in limiting your market exposure and carefully selecting where you will risk that exposure for profits. Just my beliefs though, if others don't share them I am not offended or surprised.

You've seen it a million times. You have been trading for years and it always happens. You open a trade and place your stop and target. Slowly, agonizingly the price dances closer and closer until, gasp, it hits your stop. The market continues moving the same way for a few minutes and as you are patting yourself on the back for containing your losses and managing your risk it happens. It's slow at first then faster. Back through your stop, back past your original entry, and into what would have been profit had you just held. You are furious, You yell at the market, you yell at those crooks at your broker, you yell obscenities about stop sweeps.

You start going over all your past trades. Hey you think this happens all the time. There must be some way to stop losing on all those trades and turn them into winners. You don't want to have your stops hit all the time and then watch the market recover. Then it hits you. I'll just pull the stop, wait for it to turn up then add more. Hey if I double the position all it has to do is move a third of the way back and I'll kill it at breakeven. You try it on the next trade. Sure enough you add and it recovers and you get out at BE.

But wait the market kept going. You watch in horror as the market rips and the position you just closed at BE would have made you a handsome profit. You curse that you closed it so soon and you think, next time I will maybe get some of that profit. Next few trades go as planned. You are trading without a stop but hey I'm right here looking at the screen anyway. You enter the next trade and as usual you have a little draw down. You get a tasty little pin bar so you enter your double lot on the break. The market goes up even approaches breakeven then goes positive for a second or two but you vowed to make these profitable so you hold. The trade goes negative again. You tell yourself its just the normal market ebb and flow so you hang on. It keeps going though. The bottom of the pin bar breaks and now you're sweating.

The market moves against you for another few minutes then prints an engulfing in your direction. That is what I needed you say to yourself as you double down again. This time I am getting out at breakeven. You watch in horror as the market breaks the engulfing by five pips and then turns and races against you again. Now what. You have a position that is several times your normal exposure. You have no more margin left. What do you do. You beg and plead with the market. You curse at the market. You can't believe anyone is stupid enough to (buy sell) this market. You swear that if you get out of this you'll never get here again.

What happens next? Well that depends on your leverage, your account size, your position size, and your broker's policies. Since most retail traders trade with too much leverage, with accounts that are too small, and with positions that are too large if the trade doesn't turn in your favor you'll likely get a margin call. My broker will automatically kill your position at a certain margin level. Of course that could be viewed as a stoploss but losing half your funds is a pretty steep stoploss. This is the way accounts get killed.

The truth:

If your method isn't working with the stops and targets you have in place get a new method. Averaging down and hoping is a guarranteed way to lose all your money. I know, I did it seven years ago.

What if you sold here? The market didn't return to this price for four months. Can your account withstand 890 pips draw down when leveraged to the max.

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Q - *Would you please expand on the topic of SL sizes. You have mentioned it earlier in the thread that you set your SL as a percentage of ATR and that you believe it's the best way of doing it. Do you mind giving more details about it?*

The short answer on stops is 15 to 25 % of average of five day ATR. You will be able to figure as you look at different pairs which ones need to be on the lower end and which ones on the upper end. Cable for example needs a wider stop then UJ. EURGBP is probably the smallest but it trades nicely most of the time. Lately GJ has been pretty tame but sometimes it can really be tough.

Posting a chart below. MA overlaid on the ATR is 5EMA. I take the 5EMA value of the five day ATR and use the percentage for the pair. In case of EU I generally use 20% in normal market conditions. If you can read the posted chart you will see 88.3 pip average of five day ATR which results in 17pip stop plus spread.

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Using 20% of the ATR for the stop gives plenty of room for the take profit to be hit if our first trade is in the correct direction. 2/1 RR only requires 40% of ATR to hit TP. A more aggressive TP of 3/1 RR still only requires a move of 60% of ATR.

It is important to set the stops close enough for a couple of reasons. Obviously we want to require the smallest move possible to get to the TP to make life easier. Also though you want to make sure that If your trade level is going to suffer a breakout and retest that you stop out soon enough to get in on the other side of the trade. (hope that makes sense)

Since this thread began I have been talking about important times in trading. I think its time to list a few. Every market has its important times. Every instrument in those markets has its important times. It is the traders job to identify which times apply to their chosen market and instrument within that market. The times in forex are different from those in commodities. They are traded by different traders, in different locations and for different reasons. I am not going to go into Highs and lows in this post because they are widely known and don't really need to be expanded on. They work, enough said.

Since most of the forex volume is traded in London I will give all the times in GMT. It seems that any time a thread lists any times other than GMT the thread goes on a three page questionfest about time zone confusions. Hopefully we can avoid that as I want to keep the thread on topic. (Oh by the way can anyone code an EA of my methods for me...)

00:00 GMT Tokyo open. I will not trade between NY close and Tokyo open. If you disagree be my guest. Some of the Yen pairs respond well to this time later in the session.

05:00 GMT This is midnight Eastern US time. This also is when the middle east and russian traders come into the market. Many of the major pairs respond to this price later in their sessions.

07:00 GMT Frankfurt. The Franky fake is often talked about but I am not sure many people understand why it happens. In my opinion the only reason that those traders would willingly go against the grain as often as they do is to find orders. I seem to enter the majority of my trades in this time.

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08:00 London open. Still the biggest forex market in the world. This is also the Tokyo close. Many of the Yen pairs will respont to this price in the Asian session.

10:30 First London gold fix. I know there are trading strategies using this price but I haven't figured them out yet. I don't really need another line on my charts anyway three or four is enough.

13:00 NY open. Lots of large moves happen in NY and earlier trade areas will often be retested during NY.

13:30 Not really a place to put a line on a chart but the US news comes at this time and the USD pairs will often be affected at this time. It is simply a time that the trader should be paying attention if they hold a trade.

15:00 Afternoon gold fix.

17:00 London close. I have covered this earlier. The GBP pairs are especially likely to react at this price later in the trading day. GJ reacts well through the Asian session and GU during London the following day.

22:00 NY and London rolls. Very important price, many businesses use this price for contract stipulations and there is much trading around this price.

Ok there are a few prices that I look at each day. Of course I don't place a line on my chart for the price at each of those times. I do take the information into consideration in my trading though. I am sure I missed a few that some of you may find important. Please feel free to add those you think are imortant.

The truth:

The times are simple to locate. I am sure that many of you are aware of most of this already. **Learning how to apply these prices to your own style and chosen trading instrument is the key**. So how do you do it? Work, work, work. Nothing in this business is easy and to succeed you must be willing to spend thousands of hours designing a trading style around the facts you know.

There is a long standing disagreement over what makes the best trading style. There are those who say that discretionary traders are the only ones who are long term successful. There are those who say that mechanical trading is the only way to long term success. It is a diffucult question to answer because there are practitioners of both styles who are successful. I think I can end this arguement forever; who is better at trading. Who makes the better trader a discretionary or a mechanical. The answer is yes.

Discretionary traders boast that they are flexible. They boast that they are not constricted by hard and fast rules that often result in unnecessary losses. These traders say they are able to follow the flow of the market getting in and out at will. They boast that they are able to exit losers sooner because they don't have to wait for an arbitrary stop to be hit that they can exit when they feel the trade is not going to work out because of intuition developed over many years of experience. Discretionary traders boast they are able to avoid entering trades that are not likely to work out because of that same finely honed intuition.

Mechanical traders however counter that their method works precisely because it allows them to enter into trades that they maybe don't have the fullest confidence in. Mechanical traders counter that they are not flexible. They counter that they are in fact successful because the have hard rules and don't let their feelings about a particular trade enter into their plan. Mechanical traders boast that they are not influenced by the day to day ebb and flow of the markets and only enter and exit by a strict set of rules. Mechanical traders say that they have stops and targets for a reason and that that is the only efficient way to trade.

So which group of traders is right? Who makes the most money, discretionary traders or mechanical system traders?

Neither, and both.

So why such an ambiguous answer? I think that the best traders are a mixture. A hybrid of both schools of thought. Good discretionary traders seem to have a finely tuned sense of the market and its moves. This sense is certainly not accidental. These traders develop this sense over many years and thousands of trades. The mechanical traders have a good arguement too. Some of the most successful traders in history were mechanical traders. Perhaps the most famous being the turtles and Richard Dennis.

Many mechanical traders though will say that they have two main rules. Rule one, always follow the rules. Rule two, know when to break the rules. Therein lies the answer. The best traders trade by some set of rules to which they adhere but they know when to deviate from those rules. The only way to have developed the sixth sense needed to know when to do this is through many thousands of hours of experience and many trades.

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So, the truth:

Mechanical methods can be successful. Discretionary methods can be successful. If your method can be built using a combination of both types of trading I believe that this gives the best chance for success.

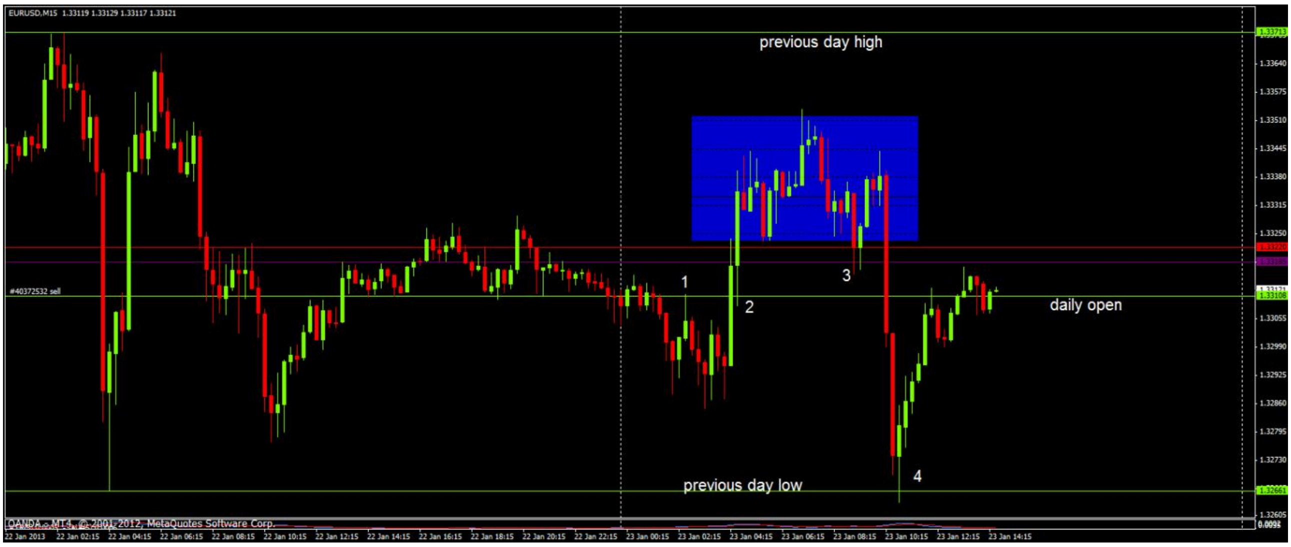
Now about the chart I am posting. This is a one time thing. Hopefully this will answer most questions about trading. Showing the thought process is better in so many ways than discussing it. I thought hard about this because many traders will not give away their methods. The belief is that it will degrade the performance. What I do is different. The levels I trade are no secret. They have been traded by professionals for years. Most professional methods are built on price. Opening range breakouts, pivot traders, fib traders, etc. are all price based methods. The market really does not change. If a trader says the market changed and their method no longer works they are simply saying that they had a gimick that lasted for a while but the market caught on. If you are trading a gimick beware.

Ok the chart:

The three green lines are labeled.

Red is weekly open (I use 19:00GMT 00:00 Eastern) if you think there is a better time by all means test it and use it.

Purple is Previous week close. (17:00 Eastern Friday)



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Point one. The market traded down from the open price and created some separation. I require at least two full 15 minute bars that do not touch the line before I will trade it. Price retraced to the line and I entered short. This is the first trade. Notice we are not forecasting and have no bias. Had the price gone up first we would have traded long. Price goes back down to the lows and cannot go lower. When price comes back to the line fast at point two we exit. I lost two pips here.

Point two: We had a nice strong close between the Purple and the daily open. Had the price closed above the purple I would have longed there but since it closed between I waited for the retrace and longed at point two. This was the bread and butter trade. I need about 35 pips to get 2/1 RR and I got it here. If I had any plans later in the day I would have gone to sleep at this time. So why not short at the weekly lines. Partly feel, partly because I don't want to short above the daily open. (more about that later) Mostly because the short trade at point one failed which sort of signals me to look long until things change.

Point three: Retest of the weekly prices. This is where I am trying to get a runner for the rest of the week. I will target the top green line with half of the position and hold the rest hopefully. As you know this didn't work. When price stalled in the blue box (this is a quasimodo for BRV fans) I took off half and stopped the other half at breakeven. A note about point three, I didn't try longing again the next time price crossed the weekly lines. Why? Because it had already been support on this day and the price failed to go higher in the quasimodo formation. I want to short it now.

Point four: Another nice trade. Got 2/1 here pretty easily. So why the long? after all I said not to long below or short above the daily open right? Well the only exception to that is the previous day high and low. I ALWAYS trade these prices. Those of you who were watching the price move today know it was screaming down when I bought this level. This level is very strong though and after a few minutes of bounce it took off upward and targeted the daily open. I love it when the high or low is the first price hit for the day because it usually means a short day and 3/1 RR.

As you may see on the chart I am shorting the weekly prices for a shot at a runner south. I have opened a small position (less than 1/2 normal) at the daily open just in case but I think I will get an entry at the weekly numbers. But wait this is averaging down and I said not to do that. No it isn't. I am planning this because I could never be sure price will get above the daily open and I want a piece if that happenes. (I got the entry I wanted as I type). This is averaging in as it is planned and it is a smaller position which can have a stop at the normal place without losing more than my usual percentage. Averaging down is using a larger position beyond the entry level trying to get even and that is for losers.

Ok so there it is my thought process for the day. Four trades. Two winners and two breakevenish.

I could have added more lines. I could have had the rolls but it was a pip away from the red line so why bother? I could have had London close on there but I find that it works best for the GBP pairs. These details are the thing. If you have a line on the chart based on the wrong times for your pair you won't succeed. It takes time and study to determine which lines to place on which chart. I have given some clues on that and I will answer specifics when asked.

This was an average type day. A couple of good trades and a couple of not so good ones.

I am attaching a couple of charts. Earlier in the thread I noted that often our entries will be very near the high or low of the day. This morning was a great example of this. I was rather tired as I am still going through the process of buying my new house and am packing our current house for the move. I only entered EU today but the trade was 3R. Draw down was four pips. Once the trade was set I went to sleep. Nice to wake up to a 6% gain. EJ and GJ also were great trades. GU was the only tough one today. I have eliminated all the lines from my charts except for the daily open. Again this is my open time US Eastern. (not sure I can be any clearer on this).

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Notice on EU it opened then traded up a little. Once I had some separation and a couple of complete bars above the open it was just a matter of waiting for the retrace to enter. This is all I need to be looking long. Remember I am not forecasting, I am trading the first entry that is given. If price had gone up and hit the previous day high I would have gone short first, right or wrong. I still wish I could hold these a little longer, especially since we had finally broken away from the weekly levels yesterday. I am pretty happy with 3R though.

For someone who is awake and able to trail entries well these three trades could have produced as much as maybe 12 or 15 R. I have a tendency to enter set the stop and target and go to sleep. These trades come at one or two o'clock for me and staying up through the night is pretty much impossible. I may never be able to get the maximum from my trading unless I move to a better time zone. Perhaps asia would be a good place for me, my wife is half Japanese.

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Here is the tough chart for the day. The first entry would have been a loser. After the GU news came out the price ripped down. An entry at the open would have lost but the previous daily low held. The two losers were covered and an additional 2R could have been made on this trade. This is usually the way it goes with my method. On tough days I may need to make three entries to get the winner. Nice thing is the winner is usually close to the daily low or high and the win covers the losses and still makes the normal return.

Q -*How can a trader know that the market is going to move so much today ?*

You will never really know for sure. The market can do anything at any time. I think that is a great thing to make sure you remember as you are trading.

There are a few good clues. If the previous day closed very near its high and the current day takes out that high and holds there is a decent chance you will get a runner. Also, if your entry turns out to be very near the low as it was toay you have a decent chance of targeting the ATR value. How do you know that your entry is good before the end of the day? Go back and look at the chart from today. Notice that after our entry, price then broke through yesterday's high. Once that breakout held then the chances were high that you could get a runner. Another method for trailing is known as stacking bricks. You will notice that often as price moves it will thrust then consolidate, thrust then consolidate, thrust then consolidate. This looks a little like a set of stairs. As long as price continues to break out of the consolidations in the same direction and or does not violate the lows of the previous consolidation the chances are good for a runner.

Again you never know for sure what will happen with forex or any other market. Anything can happen at any time. Always protect your capital.

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Leverage:

Its a wonderful thing and a terrible thing. Leverage allows us to achieve things in life and in trading that would be impossible otherwise. Imagine trying to buy your first house but not having access to a loan. Imagine buying your first car without the use of leverage. You see we use leverage in our everyday life. In trading if we overuse leverage we blow out our account. In life if we overuse leverage we have our cars reposessed and our homes foreclosed. Life in our time of inflated prices and deflated currencies is virtually impossible without leverage.

I began in trading with ten thousand dollars way back in 2002. I was trading stocks with no leverage and even after I became profitable it was a struggle to make thirty or forty dollars on a good day. I switched to futures a couple of years later. Here leverage is necessary to even trade. The opening margin was about 1/3 of my account for one car and I think the margin was only about 10% of the contract value (its been a while so my memory may be off). My first futures account was at Trade Station. This was my first experience with a good charting platform and the indicators were very attractive to me. I thought if I could just find the right combination of indicators I would have it made. It took about eight months but I blew that account. It was my first leveraged trading and that coupled with my ignorance and ego was a disaster.

Eventually I became profitable at futures. I didn't really know what I was doing but I muddled through. Using new risk controls (necessary after blowing the first account) I got my losses under control and began to develop the beginnings of my method using pivots. Pivots were fairly reliable in futures because there is a definate open and close to the market and many of the pit traders used them and they controlled the market at the time. Then came Forex. This was a totally new level of leverage. If you are a US based trader you have access to 50:1 leverage. In theory a ten thousand dollar account will control five hundred thousand in currency. In other parts of the world it can go to 500:1. WHAT, are you crazy? Five million on ten grand? Five hundred a pip on ten grand? No wonder so many beginners fail.

We already know that many people refuse to take a loss and let losers run. We already know that many beginners cut winners at any sign of adversity. If twenty pips equals ruin at your chosen leverage then You should be jumpy. Twenty pips can happen in less than a second in forex. When I started in forex The US brokers were just adopting the 50:1 leverage rules that came out of the financial crisis. I can remember post after post on this forum saying that trading was dead. How could anyone make money at 50:1? I still laugh at that thinking.

I trade currently at 10:1. I make money. I pay my bills. I grow my account. Every time I can, I reduce my leverage more. I can't wait for the day my account has reached the level that will allow me to trade without leverage. I hope, if all goes to plan I will be there in two years. The problem most traders face is that they are majorly undercapitalized. If you want to even think about trading for a living I would say the minimum, the absolute basement account size is fifty thousand. If you think you can take a twenty thousand dollar account, risk five percent per trade, and count on making ten percent a week, you're nuts. If your account is a hobby and you are just trying to make a little extra and have a little fun then go for it. The professional trader will be happy to make a steady conservative return and put a little away for a rainy day. The gambler will open huge maxed positions and go for home runs. Compounding is the secret to riches, not swinging for the fences.

Most people don't want to hear this. Most want the quick buck. Most lose account after account trying to hit the one in a million trade. Yes its possible to enter a trade with small drawdown that goes to the moon, odds are though that you won't survive the losers before you find that trade if your leverage is too high. Trading is a numbers game. You can't win if you can't bet and you can't bet if you don't have any money.

The truth:

If you are a beginner you should be trading with small leverage. If you are experienced and trying to get to the level of making a living you should trade with even smaller leverage. NEVER risk your account.

Q - *In terms of screen time what would you say in your experience is optimal?*

Your screen time needs are going to depend a lot on method. You can't take a trade if you aren't awake to enter. Some methods allow for pending orders to be used but if you aren't in front of the computer you can't reverse after a stop out. I think I am trying to say use the quiet times in the market to work on your own personal improvement. Maybe you are a person who likes to exercise regularly. Try to use the times during which your method tends not to produce entries to unwind. Be sure to make time to do things with your family. A great deal of success in trading will not be very fulfilling if you don't make time to enjoy it.

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Personally I begin trading around midnight. Once I get an entry I will set the target and stop then set an alert to wake me up if I get stopped. I trade pretty much between midnight and around three or four AM then again after 8:30 news. I sleep when I can. I only monitor the market until I get an entry that sticks. If I am tired I have a variation of my methods that allows for me to sleep until 3AM and only look for entries after then. The markets are usually pretty dead after London close until Tokyo open. I tend to use that seven hour period to do other things. I tend to keep an eye on things but don't really stare at the screen during this time.

The sad truth, and the hardest thing about trading for a living is the realization that it consumes you if you let it. I only trade two or three times per day at the most but it often requires that I at least be paying attention to prices a large part of the night. The ideal for me would be to live in the GMT + 3 or GMT + 4 time zones. I am looking for a nice place in that zone but not sure if the wife will go for the move if I find it.

One of the toughest things for me as I went full time was to avoid overtrading. You just think you should be in a position making money when in fact you have to focus ever harder on trading in a surgical and exacting way. You no longer have a job to provide steady income and you no longer can afford to simply add to the account when you have a lapse in discipline and take a big loss.
So, you want to trade for a living.

You have heard the advice. You have heard that you need proper capitalization. You have heard that you need a clear concise and consistent trading plan. You have heard that you need an edge that can be quantified and proven. You have spent hours reading and dreaming about traders like Paul Tudor Jones, Bruce Kovner, Michael Marcus, Richard Dennis, Mark Cook, etc, etc. You are sure that this is the life you want. You have read and been told that these are just a few; a tiny fraction of those who have tried. You have heard that the odds are against you... bla, bla, bla.

Well here's what you haven't heard. Here's the real information you need. Here is the truth.

You will learn all you need to know about money management and risk control long before you begin trading for a living. If you are a profitable trader (that is you have made a solid positive return for at least two years) you must have already integrated these into your trading. You will have taken your track record and done the calculations to assess the amount of capitalization you need to make a living. You will not have built a profitable trading method without understanding your edge.

So what's the problem? Why do so many fail?

First, trading for a living, for yourself, is remarkably solitary. I don't mean you are by yourself alot. I mean your family and friends will often not support your decision. Many of the people in your life will have grown up working for others their entire life. Many of the people in your life will have never worked in a career where the income is not steady and reliable. Many of the people in your life, those whose opinion you most respect will tell you you are nuts. They will tell you that what you plan will lead to disaster. You will be told that you are gambling, you need to grow up. Many of those around you will actually secretly wish that you fail so that they can feel better about the fact that they gave up on their dreams years ago. The realization that you have little support from the most important people in you life can be devastating.

You are alone alot. If you are a social animal who can't make it through a day without interacting with others you may find it incredibly hard to trade for yourself. If you are social it doesn't mean you can't trade. You may just need to focus on getting the necessary experience to trade for a prop firm or some other venue where you can have others to be around. I don't think it is a good practice to talk to others about trading. You don't want to have conflicting information enter your decision process. Another trader might take a position that is opposite to yours and this might creat doubt in your own trade. However you may want to have someone around you to whom you can just talk about the weather. You may simply be one of those people like my wife who must have someone to talk to at all times.

Your income will be unreliable. Professional traders don't make ten or twenty pips a day. Professional traders don't target such things. The job of a professional trader is to make good trades. No more, no less. Sometimes you can make good trades and lose money. Following your plan is not always easy or a guarrantee of endless profits.

Many people think that when they retire their golf game will improve. They think that if they can have several hours a day to work and practice they will get to that goal they have been working for. Maybe its to break 90, or 80, or shoot under par. The fact is most of the time the retiree's golf game actually declines. You see they don't have good fundamentals. Since they are working and practicing on flawed basics they end up worse. The same thing happens in trading. The trader who suddenly finds himself in the position of having access to the market all the time will often see their performance decline. Prior to leaving the full time job the trader often has discipline in entries enforced by their life. If you are working a full time job and living life its tough to overtrade. Its pretty easy though, when you are in front of the computer for the entire day. Also your edge may not be quite what you think it is. Your edge, when applied over a larger trade sample may not hold up as well as you planned.

Its tough enough to trade larger size per pip when you have a job. When the pips on the screen represent the house payment its downright scary. Don't kid yourself, you will feel that same sinking feeling in your stomach as when you first started trading real money all those years ago. All the same things you fought to overcome will resurface. You will go through the same trials of taking profits too early and having difficulty facing the fear of taking a loss. It should not be taken lightly that you will have the possibility of gaining, or losing in one day the type of money some people work a week or a month to earn.

You may see your fitness decline. In trading we seem to be sitting in front of a computer all the time. Even if you are a long term trader and don't babysit your positions, you will spend many hours testing and refining your methods. Traders often see that when they go full time they are afraid to be away from the computer. You find that one missed trade can represent a large portion of your profit potential for the week. You tend to eat quick unhealthy meals, especially if you trade short term. You often feel guilty taking time away from trading, missing profit opportunity, to do things like working out. It is important to make time for fitness but often not easy for the trader.

I think most of the people on a forum like this one have a dream to trade for a living. The lure of free time and easy money seems irresistable. At some point though most of us must come to the realization that we aren't cut out for it. Its widely agreed that only about five percent of traders are long term profitable. This is no different from any other profession. To be at the top of any business is reserved for only the very few who will do what is necessary to succeed. Most of us simply don't have the desire and dedication. To be a successful trader requires that you love trading. The money, the supposed free time, the freedom of working for yourself are not enough. You must search deep within yourself and truly be critical of your decisions. You must be sure that this is the path you want to follow. If there is any doubt, any at all you will not succeed. Do you think Bill Gates family and friends supported his decision to leave college? Do you think that Fred smith cared that his business professor said he would fail when he started Federal Express. You must be committed. Not I want it committed, but I will do WHATEVER is neccessary committed.

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Be careful what you wish for it may come true.