Explosive Profits

Revised Edition

"Pre-Released" version published on October 24, 2004.

IMPORTANT NOTE – READ THIS

This is a "draft" copy of the Revised Edition of "Explosive Profits" temporarily published in the Resources Section. There are still a few things I need to do to "polish it up" (so please ignore any typos and grammatical errors). I will soon be packaging this eBook into the downloadable eBook file so that you can download this onto your own computer. I am now writing a new eBook titled "FOREX Sailing" (this will be a fantastic eBook that I'm sure you'll love – a little about this eBook is written below) and want to release them together (simultaneously at the same time). Both the Revised Edition of "Explosive Profits" and the new "FOREX Sailing" will be a free upgrade to all the members of the Resources Section (download instructions will be inside the Resources Section when it is released). The reason why I am not releasing this eBook in the AFS downloadable bundle now is because I want to release both eBooks together due to the fact that I am sure that I will get flooded with emails for help requests to do the unlock of the eBooks. I simply would rather go through all the hassles once rather than twice in a short period of time. In the mean time enjoy reading the new "Explosive Profits" online, and soon you'll have it on your home computer.

FOREX SAILING – Here is a little blurb about "FOREX Sailing", the new eBook that I am now writing for you. Again, this will be a free upgrade for all members of the Resources Section.

Would you like to know how to trade the FOREX market "working" only 10 minutes a day? It doesn't matter when you do this "work" – before going to your job, after coming back home, or any time convenient for you. Seriously, you don't have to sit in front of your computer watching and waiting for a good trading opportunity to happen. You simply do a few simple steps whenever convenient for you to make $200 to $3,000 profits! Enjoy being a profitable FOREX trader on your own time schedule on your own terms. No complicated methods, just easy steps to follow. "FOREX Sailing" will teach you how simple this can all be!

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INTRODUCTION

Welcome to the *Revised Edition* of "Explosive Profits". In this module you will learn how to capitalize on "Explosive" market moves that happen very often in the FOREX markets. You will learn how to anticipate when they will happen, and most importantly, what to do to let the "explosion" propel your profits! With this strategy you won't need any complicated indicators that may confuse you. Follow the simple step-by-step instructions contained in this module and you too can experience successful trades – very profitable!

This module has come bundled with other eBook modules part of the "Amazing FOREX System" package. It is extremely important that before you read this module that you first read "FOREX Surfing". It is a prerequisite to read "FOREX Surfing" before the revised edition of "Explosive Profits" as several of the concepts taught in FOREX Surfing are used as part of this strategy, and the explanation of the concepts will not be repeated here. You will find references to the concepts, techniques, and variations of "FOREX Surfing" throughout this module. In this module I will simply assume that you understand certain basics such as how to look at charts, how to read candles, and many of the topics covered earlier. Please feel free to stop reading at any point to go back to refer to the appropriate section of "FOREX Surfing" if you need clarity on any point. At several points throughout this module I will ask you to go back to review certain sections within FOREX Surfing.

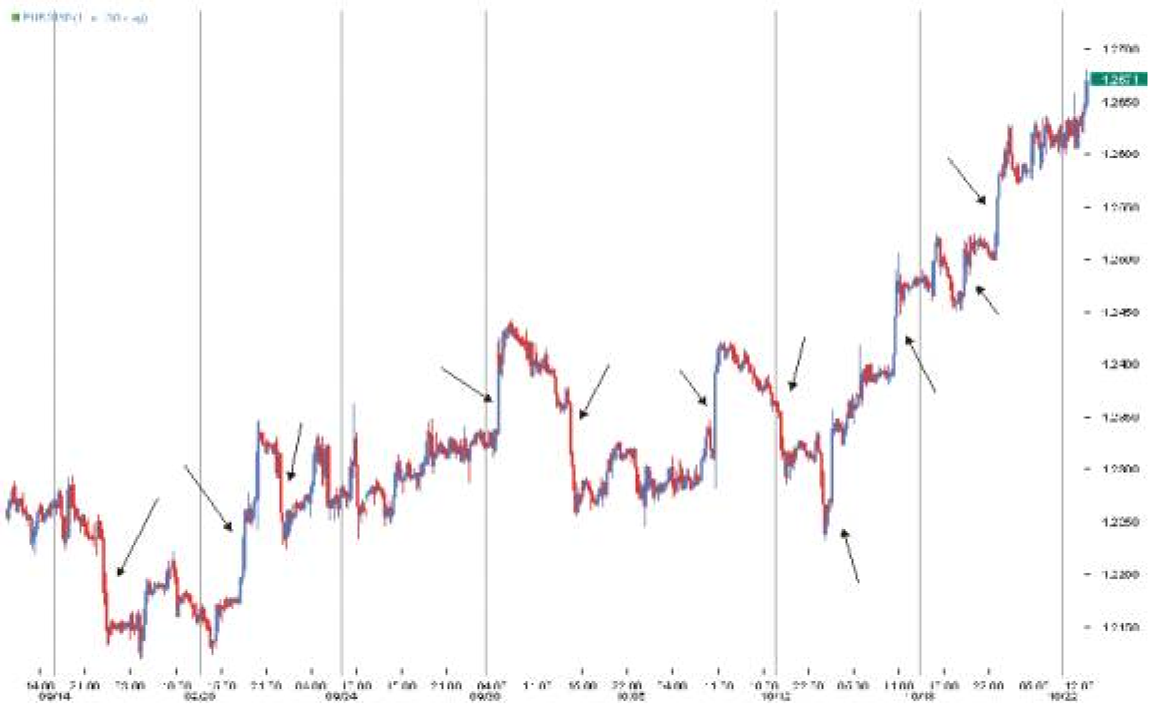
THE CONCEPT OF EXPLOSIONS

What do I mean by an "Explosion", why do they happen, and why do they provide some of the absolute best trading opportunities in the FOREX markets? This is a three-part question; let's look at each part individually.

What is an "Explosion"?

Take a look at your charts, say the hourly charts of virtually any currency pair. What you will notice is that there are periods of time that the prices move relatively slowly, bouncing around a bit. Sometimes the prices move sideways (consolidation), and sometimes they may appear to trend a little. Then every few days (more or less) you'll see that the prices just explode! You see slow moving small candles then all of a sudden WHAM you see either a big candle, a few big candles, or even a series of smaller candles moving steeply (up or down). These are what I refer to as "Explosions". Often the "explosions" move 50, 100, 150 pips and sometimes even more in a very brief period of time (from minutes to a few hours).

Take a look at the following chart (EUR/USD hourly) to see some examples of explosions that happened over the past 30 days. The arrows point to some of the explosions.



Stop reading for a few minutes and go take a look at your charts (1 hour over 30 days). Look at several currency pairs (i.e. EUR/USD, GBP/USD, USD/JPY, USD/CAD, and others). What you will notice, regardless of when you look at your charts, is that you will see many times that these kinds of explosions happened. You should also notice that they happen often (showing you that these profitable opportunities happen regularly).

Why do these “explosions” happen?

Most often these “explosions” happen after “Fundamental Announcements”. Here I will briefly explain what they are (they have been discussed previously in FOREX Surfing, and will be discussed further in this module).

Countries regularly release information about various economic topics pertinent to that country. They report on such topics as Interest Rates, Unemployment Rates, Gross Domestic Product, Inflation, and other such data. When this “fundamental” news is announced the markets usually react by strengthening or weakening the currency depending on the news (good news makes the currency stronger, bad news drives it weaker).

Sometimes the market may react to other news not directly pertaining to the country’s economic data. For example, when the US caught Saddam Hussein the market moved over a hundred pips (out of the weekend). Significant natural disasters or other catastrophes may rock a currency, as can other news, but most often the effects are temporary and relatively small. There is no way to predict these sporadic market events, and you won’t be focusing on these at all. The primary events that you will be focusing upon are the Fundamental Announcements released by various countries.

Why do Fundamental Announcements provide some of the absolute best trading opportunities in the FOREX markets?

As we have just briefly discussed, Fundamental Announcements account for most of the significantly large market moves. In general (but not always) the markets move relatively slowly when not affected by Fundamental Announcements, thus giving small profit opportunities. Immediately, and for a while after a significant Fundamental Announcement the markets move strongly, thus providing great profit opportunities.

Usually Fundamental Announcements are released at a scheduled time. This means that you can know days in advance when a potentially great opportunity will happen… to the minute! This is like having a magic crystal ball to know when you should pay attention to the markets to capture your profits.

The bottom line is that Fundamental Announcements (we'll call them FAs for short) are what moves the markets, and knowing how to use them to your advantage will empower you to capitalize on some of the absolute best trading opportunities in the FOREX markets. In this module you will learn how to determine exactly when these great opportunities will happen, and how to jump in on them.

REVIEW POINT

Please go now to reread "Part 8" in "FOREX Surfing". You need to review Fundamental Announcements, Looking at the FA Calendar, Key Announcements, and the section on Additional info for the USA (USD). Also reread about "Market Overlap" in "Opportunity 2". When you have finished reviewing those sections then return to this point in this module to continue reading.

GETTING READY TO TRADE

By having reviewed the sections from the above "Review Point" you should now be aware of how to find potential trading opportunities.

Inside the Resources Section I regularly post a "cheat sheet" of potentially good FAs for the upcoming week, along with a few currency pairs that may be affected by the news.

Once you have determined when you suspect a good trading opportunity will present itself then plan accordingly to be available to trade during those times.

The FOREX markets are open 24 hours a day during the week days, and so such opportunities may happen at various times of the day depending on what time zone you happen to be in. This will mean that some of the trading opportunities will occur at times that are convenient for you, and some of the trading opportunities will happen while you are at work (at your JOB that you hope to quit), or while you are normally sleeping.

AT WORK - If you are fortunate enough to work someplace that provides you with a computer (connected to the internet) then you may be able to discretely monitor the charts and place trades during these times. (Please do so carefully. If you actually do this then remember you are choosing to do this and I assume absolutely no responsibility if you get caught and any repercussions such as you getting fired.) What may be better, if possible for you, is that you bring a laptop computer to work and, again if you can, then schedule your break time to coincide with the trading opportunity time. Hopefully you'll have some way of connecting your laptop to the internet during your break time (such as at a local internet café, or maybe your place of employment already has internet or a phone line you can connect through a dial-up modem to the internet). Schedule your work break time to start a few minutes before the anticipated FA (so you have the time to turn on your computer and to access your charts & trading station).

Your “break” should last a minimum of 15 minutes, though longer would certainly be better. During this time you should (hopefully) spot a suitable opportunity to trade the “Explosive Profits” strategy, and be able to trade according to one of the variations (as explained further in this module). Most likely you will set a conservative profit limit for your trade since you won’t be able to monitor your trade. Later on (during another break, or when you get home after work) you can check to see what happened with your trade (hopefully you would have profited).

DURING THE NIGHT – Depending on where you happen to live you will find that some of the opportunities happen during the middle of the night for you. That’s ok as this situation is much easier to get around than if it happens while you are at work (especially if your boss is grumpy about allowing you breaks to do your trades). If you need to then plan to go to be a little earlier (so that you’ll still be fresh in the morning), and set your alarm clock to wake you up five to ten minutes before the trading opportunity. Make sure you set your mind that you’ll get up as soon as the alarm goes off so you don’t miss your trading opportunity (and so the repeating alarm doesn’t annoy your spouse). Explain to your spouse what you are doing so that s/he will be understanding to you waking up in the middle of the night. The explanation that works for me (on my wife) is that I’m getting up to make more money that she can spend (this motivates her to kick me out of bed to go trading *wink*). If you are new to trading your spouse may be somewhat less than supportive of you doing this (since the alarm will also wake him/her up too), but after your spouse sees the profits that you make from many of those nights then s/he’ll be more supportive of you doing this. After you wake up then go to turn on your computer, your charts and your trading station to get ready for the trades. Several minutes later you will (hopefully) spot a good trading opportunity to jump in on. Once you have entered a trade then you can either set a conservative profit limit and go back to bed (check the results in the morning), or you may choose to baby sit your trade for a while (your choice, but remember to get sufficient sleep so that you are functional in the morning).

CONVENIENT TIMES – Obviously, if a trading opportunity happens during a time that is convenient for you to trade then you’ll be able to fully utilize these techniques without any further suggestions. Many people find, for example, that some excellent trading opportunities happen before (or after) work hours. You may need to adjust your schedule a little bit to fit in your trading, but if you are making some great profits then you’ll probably find it easy to accommodate your schedule around your trading.

HOW TO TRADE EXPLOSIONS

Make sure you have finished reading “FOREX Surfing” as trading Explosions uses those techniques. In this module I will cover specific situations and variations, but I will assume that you are very familiar with the “Surfing” techniques. Please take the time to review “Part 3” (all of the “Surfing Basics” and variations), and “Opportunities” 3 and 4 in “Part 6”.

Trading the “Explosions” using the “Explosive Profits” technique is really quite easy, and profitable. With some practice (in a demo account) you will find that you will regularly pick up some nice profitable pips. Seriously, focusing on this technique alone can make you serious profits, and a serious income! Once you have practiced this technique enough you will become quite skillful, and confident in your abilities to CONSISTENTLY pull out great profits from the FOREX market. Take the time to focus on this technique and you will be glad you did!

Ok, how to do it – here I’ll cover the basics of the “Explosive Profits technique. Later I will go over variations and other topics of concern. This section is to give you the general overview.

Let's say you believe that a particular FA (or grouping of FAs) may result in a market move at a particular time. Let's say the time of the anticipated FA happens to be, for example, 12:30 GMT (By now you should know what GMT is, and how to convert it into your local time. Inside the Resources Section you will find a link that helps you to convert GMT to your local time.). If you are not already at your computer ready to trade then at 12:20 GMT you should go to turn on your computer and open your charts as well as your trade station. You want to ensure that you have enough time for your computer to boot up before the FA time.

At this point you want to turn your charts to display the one-minute candles of the currency pair(s) you plan to trade (we'll talk more about this later in this module, along with variations of the techniques).

Now you sit and watch to see what happens. The FA calendar is like your magic crystal ball to tell you when significant market moves can occur, but it won't tell you in which direction it will go. The next few minutes will reveal to you the direction (up or down) so that you will be able to place your trades.

What you will notice is that within a few minutes after the FA has been released that the market will begin to move. Sometime the market responds with violent movement, and sometimes it'll be much small (we'll discuss these situations later). As soon as you witness the market moving then you need to be prepared to act quickly (being tanked up on coffee may help you to act quickly).

Let's take a look at a chart to see an example of what might happen.

EXPLOSION EXAMPLE 1

In this example you can see that before the release of the FA the prices were just bouncing along in sideways consolidation movement. A minute after the scheduled release time you see that the prices just shot up (A). Shortly after the shoot up of the price you see a wave formation happen (up to B, then fell down to C). After the prices have started to go back down below “B” then you place your entry order at “B” (as explained in the “FOREX Surfing” manual). Initially you might place your stop 20 down, but as soon as your order crosses over point “B” then you would replace your stop to be at “C”. At point “D” you might want to consider adding an extra trade (doing the “Compounded Gains” as explained in “Opportunity 10” in the Surfing manual). You would then either proceed to trail your stops for maximum profits, or you could simply set your limit order for 20 pips if you have to leave your computer (if you need to return to work or go to bed).

Let’s look at another example.

EXPLOSION EXAMPLE 2

Sometimes the FA doesn’t create an explosion, but WOW does it ever make the market move! After having read the FOREX Surfing manual you should be able to just look at this chart and see how you could have surfed it (even doing compounded gains!). This chart shows you what happened over 3 hours (inside the Asian/European overlap time), and how it moved over 100 pips!

Let’s look at a couple more.

EXPLOSION EXAMPLE 3

In this chart you see the initial explosion (A) reach up to "B" and then drops to "C". At this point you would have placed a buy entry order (at B). If you placed a limit order (because you had to return to work or go to bed) then you certainly would have gotten it. If you were trailing your stops then you would have exited for profit at "D". But notice how over the next couple of hours the price kept on creeping up? You could have caught some of that too. How? You could have put a buy entry order above the red resistance line (F). "E" would have been used as your stop. In this example notice that "E" is also the 62% fibonacci retracement suggesting that the market should reach 1.8097 (which it of course exceeded).

Let's take a look at another example of what could happen.

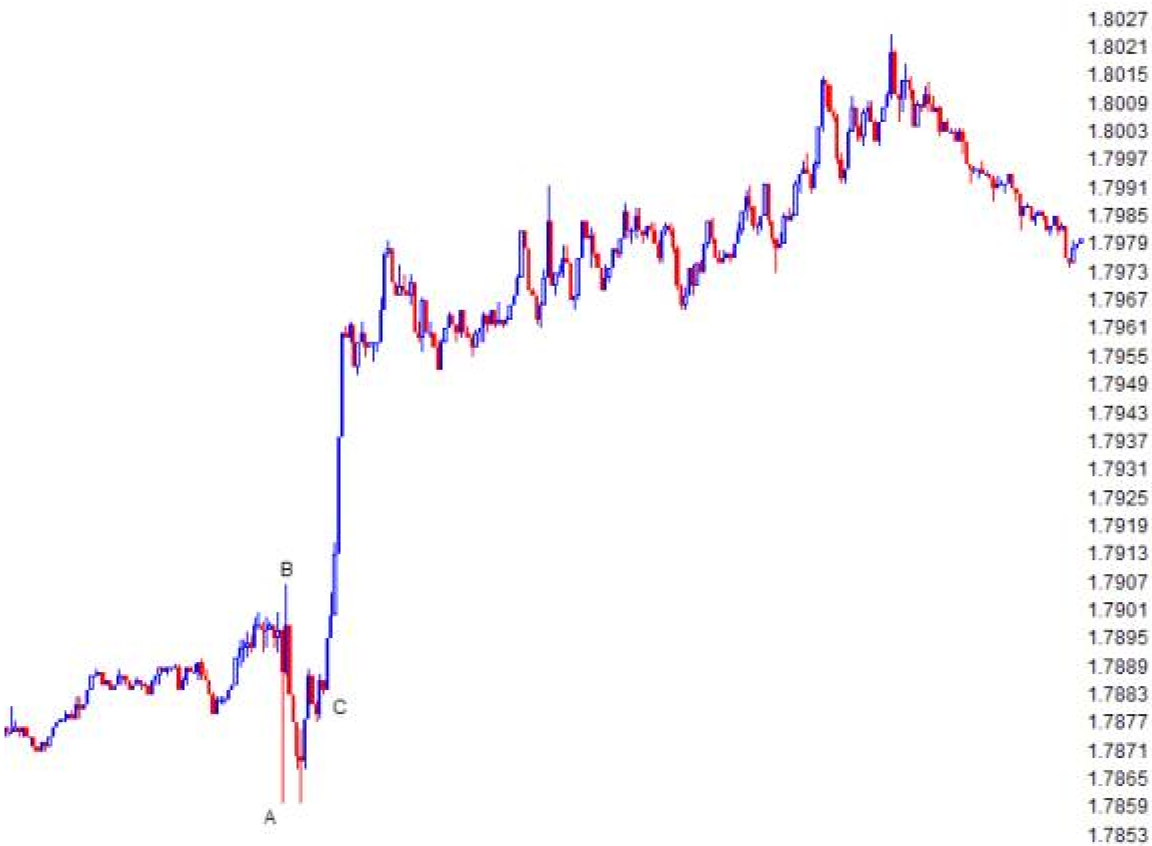
EXPLOSION EXAMPLE 4

Uh oh. You got a whip. What do you do now? (By now you should have realized that each of the chart examples are specifically chosen to illustrate different scenarios). In the old version of "Explosive Profits" whips were the bane of our trading existence. We whined and complained whenever confronted with a whip (because it caused us to loose some pips). Well, guess what, whips will continue to aggravate us from time to time, but not to worry, most times you'll quickly recover from the whip and you will often be able to profit thanks to them! In a nutshell you will find that you'll manage to avoid most of the whips because of how the REVISED edition of Explosive Profits works (some have even said that they consider the Revised version to be more profitable than the original).

Let's look at the above whip (later we'll look at another type of more typical whip that you'll encounter).

In this above example you would have entered at point "A". The high/low of that blue candle is 10 pips apart. Initially you would have placed your stop at 20 pips, and by following the "Surfing" system you would have pulled up your stop to the top of that down-wave (thus your stop would have been 10 pips plus your spread, say 15). Obviously a few minutes later you would have been stopped out to loose those 15 pips (don't cry about it, losses are a part of a trader's life – the trick is to have more gains that losses). Later in this module we will cover the "rules" for trading this system in more detail, but this section is to provide you with an overview of the "Explosive Profits" strategy. What you will also be doing is placing an entry order at strategic points incase of such whips. In this case you would have placed your buy entry order at "C" (See the red resistance line? It is a what we'll call the "turn around point" of your "wave"). Again, I will explain why this is done later in this module. You would have been picked up at "C" and then be shot up in the following explosion. Soon afterwards point "D" would provide you with a nice opportunity to place a safe “Compounded Gains” second order. You could simply have set your limit for a conservative profit, or you could have trailed your stops for even more profits.

Let’s now look at another type of whip that could occur.



EXPLOSION EXAMPLE 5

If you were attempting to trade this you might think to yourself “What the Bleep!”. Of all the whips you encounter you will see this kind to be the most frequent (the previous example is a rarer type of whip). You’ll often find that just as a Fundamental Announcement is released that the first couple of minutes can through a wild whip (sometimes just lasting seconds). This often happens because at the moment the FA news is released traders react, and many misinterpret the news thus swinging prices temporarily in the wrong direction, but shortly afterwards the market adjusts to move in the correct direction. You’ll see this happen more typically when there is a cluster of FAs released simultaneously, resulting in a few moments of market indecision. This scenario was absolutely horrible for us when we were trading the original “Explosive Profits” method. Thanks to this revision we are no longer plagued by these whips, and can now use them to our advantage.

When you are watching your charts and you see this kind of whip then you just enter your entry orders at the peak of the whips. You would have placed your sell entry order at “A”, and your buy entry order at “B”. Sooner or later the prices should poke through one of those points. Now I chose this particular chart as an example to show you something rather unusual (though it can happen). Notice the price came down to “A” again. You most likely would have gotten triggered into this loosing trade (unfortunately), but notice that you would have far made up for the losses later when it took off from “B”. If you had some guts you could have straddled “C” perhaps with a few pips padded (we’ll talk about this later). Anyhow, you would have made your profits off of

"B". You could have set a limit order (and walk away from your computer) or you could have baby sat the trade trailing the stops up. Notice that at 11:30 EST (the chart above doesn't show the time, but it's near the right side when it started going back down) you'll notice that the market did it's pull-back. Remember how I taught that towards the end of the market overlap time you want to look for exits from the trade (by pulling in your stops very close). This chart shows a prime example of why I recommend doing that (to maximize your profits). On this chart example you could have easily made about 100 pips (far recovering from the loss of that unusual double bottom whip (A)).

STRATEGY STEPS

In this section I will cover the specifics of how to apply this strategy.

STEP #1 – Determine Potential Opportunity

Review your FA Calendar, or just use the "Top Opps" cheat sheet provided in the Resources Section to determine when you expect there might be a reasonably good trading opportunity. When you have isolated several good times to trade then schedule it in your planner to remember to trade during those times. Try to attempt at least 6 trades a week that will fit into your schedule (around work & sleep times). Remember that not every potential opportunity will result in good trading, but if you manage to catch even one good trade per week then you'll be enjoying the profits (though if you attempt 6 or more then chances are that you'll catch more than just one great trade each week).

STEP #2 – Determine Currency Pair(s) to Trade

Determine which currency pair you will trade based on which country is releasing the FA news. Pick a suitable cross pair with that country's currency.

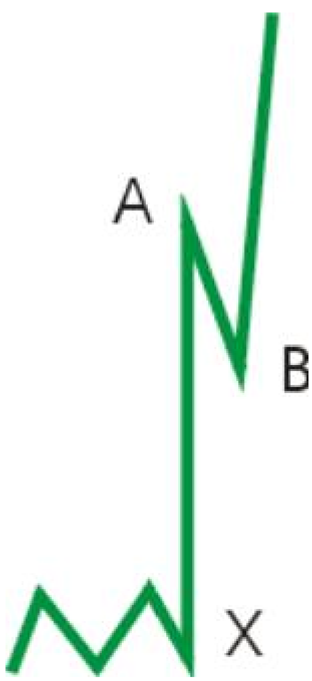
For example, if you are attempting to trade an FA released by the US then look to trade currency pairs crossed against the US such as GBP/USD, EUR/USD, USD/CHF, USD/JPY, USD/CAD, AUD/USD, and NZD/USD. Don't trade something like EUR/GBP because the US news will affect the USD (primarily) so you would want to trade a USD pair. If the UK is releasing the news, for example, then trade GBP pairs such as GBP/USD, or EUR/GBP. By now you should understand the logic to select which currency pairs to trade based on any FA from any of the posted countries.

Sometimes you may see that two separate countries are releasing news simultaneously. You may want to attempt trading each other's currencies. For example, you'll frequently see the US releasing news at the same time as Canada, so try the USD/CAD.

If you are trading multiple lots (of regular or mini lots) you can sort of hedge yourself against multiple currency pairs. For example, let's say you typically trade 6 mini lots (like you might be doing if you are following the "FOREX Freedom" method and you have $2,500 in your margin account). Rather than just trading all 6 mini lots on one trade in one currency pair you could split it up into 2 or more parts to trade various currency pairs. For this example you could trade 3 mini lots on EUR/USD and 3 mini lots on GBP/USD. Or you could trade 2 on EUR/USD, 2 on GBP/USD and 2 on say USD/CAD (this is assuming you are trading a US FA). It is good to break up your trades into 2 or 3 parts (more than this can result in getting confused) as oftentimes one currency pair will do better than another. This way you can benefit if one does better than another. Before I figured this out myself I used to complain to my self "oh, if only I had traded that other currency pair… I would have made more profits on that one". Now I get the awesome trade as well as the ok one (you never know which one will be best). Spreading out your trades like this can also save you. For example once I spread my trades over 3 pairs and one of them got stopped out. Had I traded only that one pair I would have been upset about the loss, but since the other two went for profit I was happy.

The above raises an important equity management issue. I have heard from several people that they trade multiple currency pairs (sort of as described above) for the same FA trading opportunity, but that for each one they trade their usual amount of lots (regular or mini). I didn't address this issue before in my other eBooks as I just took it for granted that this point would be assumed, but when I heard that people were doing this I realized that I have to write to inform people to NOT do this. DON'T TRADE YOUR USUAL AMOUNT OF LOTS ON MULTIPLE TRADES SIMULTANEOUSLY!!! As I have discussed before (in my other materials) you should practice good equity management and not risk more than 2% on any one trade (except when your account is still so small that you have to trade more than that). So if you make a trade risking 2% of your account then that is fine, but it is not fine to, for example, place two simultaneous trades on different currency pairs each risking 2% (i.e. EUR/USD and GBP/USD). Even though it appears to be two separate trades you are affected by pretty much the same market conditions, and so chances are that if one of them goes sour on you then you'll loose out on both trades. Thus you are really risking 4% because they are both affected by the same market condition – if something happens with the USD both of them will react pretty much the same. Bottom line is DON'T DO THIS! To hedge your trades simply trade half of your usual lots on each, thus cumulatively they total one of your usual trades. (If you are trading an odd number of lots then round down to equally split, or use the extra lot on one of those or another currency pair.)

STEP #3 – Wait for an Entry Point(s)



Shortly after your FA has been released you will then be looking for an entry point. If it shot up (or down) then within a few minutes there should come a time when the prices pull back (B). Wait for this pull back (it will happen sooner or later) and then place your entry order for the peak of the wave (A). IMMEDIATELY set your stop for 20 pips. Once the market has continued past the peak of your wave (A) (and your entry order got kicked in) then replace your stop to the low point of that wave (B) (in an up moving market - to the peak of the pull back in a down moving market). If the new stop would be greater than 20 pips then just leave it at 20 pips.

Now it could happen that once you have placed your entry order (at A) that the price might not cross over "A" again. It could be that in fact "A" was just a whip. Place another entry order at point "X". So now you will have two entry orders. Remember that chances are that only one of them will get triggered. After prices have moved well in a particular direction then simply cancel the unfilled entry order.

Here is a diagram of a typical whip that you'll see. What do you do? Simply put an entry order to buy at "A", and another entry order to sell at "X". Make sure you have set a stop for both orders (of 20 pips). Sooner or later (hopefully within a minute or so) the price should shoot past either "A" or "X". After the price has moved past "A" or "X" then replace your stop appropriately.

This is called straddling a wave to go in either way.

What about when the FA you have attempted to trade results in what appears to be a "dud" (nothing much seems to happen). What you do then is you wait and watch to see what happens. If prices start trending then wait for a suitable wave happens that you could surf. It is best if you get a fast trend and have a confirmation that the price is trending by completing a wave, or even two. Worst-case scenario is that not much happens and you end up getting stopped out. Best case scenario is that the FA created a nice micro-trend for you to surf (as discussed in the FOREX Surfing manual). Take a look at the second example of charts shown above of "explosions" that result from an FA – it doesn't have an obvious "explosion" but the market sure did move!

STEP #4 – Determine How You'll Exit

It is best to determine in advance your intention on how you will exit from the trade. What I mean by this is will you simply set a limit and leave (i.e. return to sleep or work – "set & forget"), or do you intend to "baby sit" your trade (so you can maximize your profits by trailing your stops). You can also "baby sit" your trade for a little while then before you leave you can change your stop to secure some profit and leave the trade open to see how far it goes (or with a limit).

SET & FORGET – This is the best choice if you are new to trading (watching the prices move up and down can play on your nerves), or if you have a short amount of time available to complete the trade (such as if you are on a break at work or if it is the middle of the night and you want to return to bed). Watch for one of your entry orders to get triggered then cancel the other one. Wait a few more minutes. If you happened to have traded when the prices shot (exploded) and you are now in profit then immediately replace your stop to your entry price (so that if the market should turn around then you'll get stopped at a zero loss). If while you are still watch the price does a wave and continues on then replace your stop at the low of the wave (now you have locked in profits). Once you have moved your stop to secure a zero loss (or preferably for some profits) then you can either set your limit for 20 or 30 pips and leave, or you can leave without setting your limit at all. If you didn't set a limit then when you return later to check on your trade then you may find that you have gotten stopped out, or (and this is very pleasant when it happens) the price can keep trending for many more pips so that when you return you find that you have made a very nice profit. Another way to trade a "set & forget" is by setting your stop for 20 pips and your limit for 30 (1.5:1 profit-to-loss ratio) then just leave. When you return you'll either have a small loss or nice little profit.

BABY SIT – If you have the time to watch the trade then you'll have the chance to maximize your profits and possibly even be able to enter "Compound Trades" (as explained in the FOREX Surfing manual). Simply trail your stops and exit (either manually or by getting stopped out) as explained in "Part 6 – Opportunity 10 – Compound Gains". If you baby sit your trades then you'll often secure 50 to 300 pip profits (especially if you compound).

STEP #5 – Enjoy Your Success

After a successful "Explosive Profits" trade then turn off your computer and go do something else (something fun). You worked hard (well, not really all that hard, but you can let other people believe that you work hard for your money), so now it is time to have some fun.

If you really want to you can attempt another trade if there is another significant FA to be released, or you can look for other opportunities (such as "Channel Surf Zones"). Before you quit trading for the day take ten minutes to search for "FOREX Sailing" opportunities, and if appropriate then enter on a "Sailing" trade.

MORE TO KNOW

RISKS

As with any trading system there are certain risks that you should be aware of.

THE NUMBER 1 RULE, FIRST AND FOREMOST, IS THAT YOU SHOULD NEVER TRADE WITH MONEY YOU CAN'T AFFORD TO LOOSE!

The most obvious is that you can get stopped out of your trade for a loss. This can and will happen from time to time. Remember that losses are all "part of the game". This trading method capitalizes on "High Probability", meaning that though there is always the possibility of a loss the PROBABILITY is on your side that it will most likely result in profits. I explained "High Probability Trading" in the FOREX Surfing manual (please reread "Part 4" in it's entirety, especially the section "About Risks").

The most significant risk to be aware of is that trading FAs has extra potential due to most broker's policies regarding how they guarantee stops during "extreme volatile market conditions". I will elaborate upon this point here.

Most FOREX brokers will claim that they guarantee fills without slippage on Entry, Stop and Limit orders. The one notable exception to this is during what they call "extreme volatile market conditions". This means that if market were to gap by many pips, exploding in a large way then they reserve the right to not fill your order at the price you specify. The "scary" part of this for you is if the market all of a sudden makes a huge move against you then you might not be stopped out at your price (taking a huge loss).

If, for example, some terrorist were to detonate a nuclear bomb in Washington then shortly after the market would probably gap hundreds (in this case perhaps even thousands) of pips. In this unlikely event you could perhaps have made huge profits (if you were trading in the direction of the move without a limit order – of course brokers will honor your limit orders because they'd make the net profit), or you could experience a huge loss.

Other huge news events can trigger a strong market move (remember when the US caught Saddam Hussein?). For the most part you don't need to worry about this kind of stuff, but I am just bringing this to your attention.

The more direct threat that you need to be aware of is that trading Fundamental Announcements can create "volatile market conditions". I will now cover this specific topic of concern for you, and provide you with some solutions.

During an FA the market can gap, and it is possible that your stop might not be filled at your stop price. Brokers write in their contracts (the fine print) that they may fill your stop at "the best available price". This means that if the market gaps that they may fill your stop order (or even entry order – but they'll usually fill your limit order at your price because they just made money off of you) at the first available price beyond your stop. So if you have a stop for, say, 20 pips, and the market gaps down then you may get your stop filled worse than just 20 pips.

Here is the consolation for you. Usually (note that I said "usually") the crazy gaps happen immediately after the FA has been released. Remember that with this strategy you proceed to place your orders AFTER the FA has been released and you have seen some peak high/lows. Usually it is the first couple of minutes where crazy gaps occur, and you will start trading shortly after the crazy gaps and whips happened. This means that by following this strategy you are unlikely to get caught up in the gaps and whips (but it is still possible, however now far less likely).

So it is possible that you could loose more than your set stop, but again this will happen far less frequently. The situation that you ARE more likely to encounter is that a gap might miss your entry order. You could have put an entry order at the top of a wave but the price just shot over your price and so you might not get filled. This sucks when this happens, not because you lost any money in your account, but because you lost the opportunity to make money on that particular trade. You will from time to time experience this. In a later section I'll discuss more about how to enter a trade if you can't enter with an Entry order.

FUND PROTECTION

Now here is a particular strategy that is good for you to use if you like trading on FAs (as this system teaches). It is highly unlikely that you will really need it, but it makes sense to protect your funds.

As discussed in the previous section it is possible that you could get caught in a bad market gap (unlikely if you follow this strategy, but it is still a possibility). This technique is a good idea to use to protect your funds from any catastrophic losses.

Most reputable FOREX brokers limit your risks to the amount of funds you have on deposit in your account with them (limited risks). This is VERY GOOD for you, and is one of the main reasons why many investors love FOREX. In the Commodities market (not FOREX) they have "unlimited risks". This means, for example, if you had $10,000 in your broker account and you entered a trade that resulted in a $35,000 loss then you would owe the broker $25,000. Many people have lost their homes and have gone bankrupt because of this (very sad). Fortunately for us FOREX traders, the policy of most FOREX brokers is that you can only loose the amount of money you have in your account. So if you were in a trade that went really bad all you would loose is the amount of money you have in your account, and they won't come after your house or other assets.

So how do we use this to our advantage? Let me explain. Let's say you have $10,000 to trade with. Using good equity management principles you would only trade risking up to 2% of your margin account. Most often you'll be fairly safe and won't have to worry about anything, but here is what to do to secure yourself somewhat from an unlikely catastrophic loss.

Only deposit 25% of your funds into your FOREX trading account, and keep the rest in your bank account. Change your account to provide you 200:1 leverage – this means that to trade a regular lot will only take $500, or $50 for a mini lot. Then trade according to your equity management principles assuming you have all the money available (including what you have in your bank account). Thus, if you would normally only trade using 2% if someone were to look at your account it would appear that you are trading on 8%. Normally this would appear to be very foolish, but remember that 75% of your funds are NOT in your trading account, but are in your bank account. It appears that you are trading super-high leverage, but in reality you are not. You are still trading following proper equity management principles.

Now, if by some freak chance you should happen to loose big because of "extreme market volatility" then you are not risking all of your trading funds.

If you encounter a few bad trades and deplete your account then you can simply transfer some funds from your bank account to your FOREX broker. These days it is easy to transfer funds electronically so you can have the funds available for trading within 24 hours.

Here is some "food for thought". If you are in the mood for some crazy (extremely risky) action then here is an "idea". I won't elaborate upon the strategies because I don't want any newbies to try this, but it is fairly easy to figure out what I'm getting at. If you like gambling, and you can afford the insane risks, then you can consider playing with this, but I strongly recommend that you don't do this. This is simply provided as "entertaining information" – please don't actually do this. Let's say you open a mini account (with a completely different broker) and deposited $700 and set your leverage for 200:1. A minute (literally at 12:29 GMT on the first Friday of the month – for the "Non-Farm Payroll / US Unemployment" FAs) you buy or sell 100k of GBP/USD (flip a coin or use your intuition to decide whether to go long or short). No stops, no limits. Typically this FA explodes 100 pips or so. Just think about it. I won't discuss this any more. Please DON'T do this – I only present this as an entertaining idea. Period.

CAN'T ENTER WITH ENTRY ORDERS

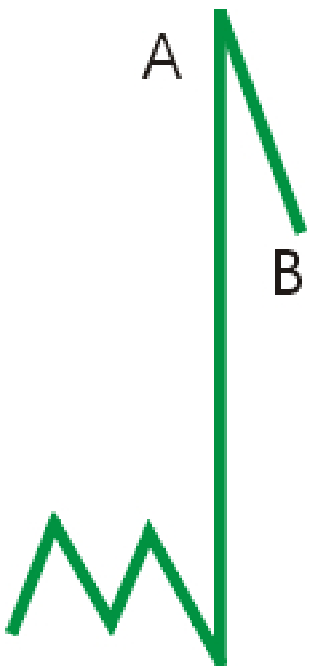
This section is not for the faint-of-heart. This really takes some guts. Believe me, I have really sweated doing this from time to time (but fortunately it resulted in nice profits). This can be quite risky, but also quite profitable (if done correctly).

Entering using an Entry order makes the most sense, and is typically the safest way to enter. You will come across two situations when using an Entry order is impractical, and thus you'll have to use a Market order to get in on a trade.

The first scenario where you can't rely on an Entry order is when your broker has put a limitation on your entry order. During most FAs your broker won't place any limitations on using Entry orders, but there are a few FAs that are known to regularly create huge volatility, and around those Brokers will sometimes place limitations on Entry orders. First of all, don't use a broker that widens the spread during FAs (some good brokers to use are listed in the Resources Section). What some brokers will do is they'll put a limitation on Entry orders shortly before, and typically for about 15 minutes after significant FAs. An example of an FA that you'll frequently see limitations on is the "US Non-Farms Payroll" and the "US Unemployment" FAs released on the first Friday of every month at 12:30 GMT (because they usually produce huge market moves). What some brokers are currently doing is that they are allowing Entry orders, but limited to being no closer than 500 pips away from the current market price. In other words they have deactivated the Entry order function at these times.

The second scenario where you can't rely on an Entry order is when the market is moving very quickly. Many, many times when I tried to set an Entry order it wouldn't execute because during the time it took for me to enter my prices (of my Entry and of my Stop) the market has already moved beyond my desired entry price. In other words when the market is moving VERY quickly you won't have the time to set your Entry orders properly.

So what do you do? At times like these you may need to take a bit of a risk. Even while writing this my heart is pounding just thinking about it. Some people jump out of airplanes, some people scuba dive with sharks… some people, like me, get their adrenalin rush by trading in the way I'm about to explain.



Let's say you see a situation like the one you see on the diagram here. The price shot up to "A", and has now dropped temporarily down to "B". Let's say you can't use an Entry order (because your broker is currently blocking them) or because you feel that you won't have the time to place an Entry order (at A) before the market goes back up again. Right now, in this exact moment of time the current market price is "B".

What you do is you execute an immediate "Market Order" at the current price (B). This is not bad considering you can get in at a better price than "A", so you can potentially make even more profits than if you did actually get in at "A".

If you feel that you have the time to do so then DEFINETELY place a stop in with your market order. Chances are, however, that if you are in a fast moving market that you won't even have the time to do this. Here is where you get your adrenalin rush. Simply execute your market order (at the current market price) without setting a stop or a limit. IMMEDIATELY after you do this then proceed to add a stop onto your trade (do this as quickly as possible).

Folks, I strongly advocate to ALWAYS have a stop on all of your trades. This is the ONLY time you will ever hear me say that it is ok to place a trade without a stop, but be VERY CLEAR that you MUST add a stop onto that trade within seconds of having activated it.

What is the risk of doing this? It should be obvious to you that for the seconds of time that your trade does not have a stop that you are at complete risk in that trade… especially considering that you are trading during a highly volatile time.

Done properly you will be able to enter on profitable trades, and you'll be doing this quite often. In my opinion the rewards justify the risks in doing this.

LAG TIME

There are, on occasions, certain times when the broker is receiving soooooo many transactions that their web trade execution servers may lag. I have personally only experienced this happening on the "Wacky First Fridays" of the month (the first Friday of the month at 12:30 GMT during the US "Non-Farm Payrolls" and "Unemployment" FAs), but it could potentially happen during other times. During these occasions you may experience lag times in your trade executions.

What does this mean? It means that you may have an Entry order, a Stop or even a limit order that appears in your trade station to have not been executed properly.

Usually when you experience a lag the best thing to do is NOTHING. That's right, do nothing. After some time you should see that your trades does get executed. Typically they'll resolve themselves within minutes (the longest lag time I've personally experienced lasted about 25 minutes). Let's look at the three main possibilities, and what to do under each situation.

ENTRY ORDERS – Let's say you have set an Entry order and the prices have exceeded your desired entry price, but it appears that the order has not yet been executed (meaning activated). This could have happened because the market gapped over your entry price, and so your broker simply won't fill it. Now here is what you do. If the Entry order still appears unfilled, AND if the current market price is such that if you were filled you would now be at a loss then immediately cancel the entry order. If you just leave it then your broker may later fill it for an immediate loss for you. This is one of the two circumstances where the lag time can work in your favor (by canceling a loosing trade before your broker fills it). If the Entry order still appears unfilled, AND if the current market price is such that if you were filled you would now be at a profit then just leave it. There is a possibility that your broker may end up still filling your Entry order and you will experience a nice immediate profit. If after an hour or so the Entry order has not been filled (probably because it was gapped over and your broker doesn't intend on filling it) then contact your broker (either by online help chat or by telephone) and complain. Give them the "ticket number" of the still active but unfilled Entry order and they may back fill it for you (they'll dump money into your account) or they may tell you that they won't fill it at which point you simple cancel the unfilled entry order and just forgive them about it.

LIMITS – If you had a limit order on your open trade that didn't get executed then hooray for you! No matter how this plays out you'll make money! If your limit order wasn't activated (kicking you out of the trade for a profit) and the market keeps moving in your favor then immediately cancel the limit order. This is the other of the two circumstances where the lag time can work in your favor. You can replace your limit for a higher limit (and move up your stop to where the old limit used to be), or you can manually exit the trade at the current market price. Either way you'll make more profits thanks to the lag time. If your limit order wasn't activated (kicking you out for a profit) then the market turns around and you get stopped out then you contact your broker and complain loudly! What they should then do is add funds to your account to settle you with the amount you would have had if the limit order was executed properly, and they should offer you an apology.

STOPS – Ok, this one looks scary when it happens, but is really not all that bad. If they are lagging and your stop has not be executed then DO NOTHING! DON'T CANCEL THE ORDER MANUALLY!!! When you experience this situation it will appear that your account keeps on loosing more and more and more money… far more than your stop. Your first instinct will be to manually cancel the trade to prevent further loss. DON'T!!! Yes, it will look very bad, and you will experience big fear, but don't under any circumstances manually exit from the trade. Doing so is a huge mistake many people do. When you manually cancel a trade then the broker can't and won't do anything about it. You'll be stuck with the huge loss. What you do is simply wait. After a little while (which will seem like an eternity) the broker will execute the stop properly (either at your predetermined stop price, or possibly lower if it was gapped over, but if the price kept dropping and dropping and dropping then most of that extra loss will be recovered once they execute the stop). If after an hour has passed and it didn't automatically execute the stop properly (or if it did execute but far beyond your stop price) then contact your broker and complain. They should then "fix" it for you. Remember though, if you manually canceled you stop then they won't help you. They'll only do it if you did nothing and the error is obviously on them.

WHAT NOW?

Is this the end of this eBook? Nope. There is more (in fact there is a whole extra section). I want to hold onto this section so that you'll want to read it later – when the final draft of this eBook is officially released. Again, I will soon do the official release along with the new eBook "FOREX Sailing". Both will be a free upgrade to members of the Resources Section. Make sure you have subscribed to the newsletter email list to be notified when the official release will happen – stay tuned!!!

In the mean time keep practicing and trading. I wish you tremendous success as a FOREX trader!

Sincerely,
Robert Borowski
President, Evergreen Forex Inc.