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"A Tale of Two Blinks"

or

"How Fast you can Lose Money in the Forex Market if you aren't Careful"

by Twoblink

WARNING:

I am not a financial advisor nor do I play one on TV. The Surgeon General warns that following advice given in this book might be hazardous to your health. Like all other forms of exercise, please consult your physician before trying anything contained in this material. Like open source software, I make no promises nor guarantees. Examples given herein are for demonstration purposes only and do not reflect the kinds of money you might make; but will accurately reflect the kinds of money you will probably lose.

Chapter one will no doubt be "why forex" but before we get there, we must first have a Chapter 1/2. The reason for this is simple, I was surprised, as I had always taken it for granted that most knew the basic catogories of "things" which would make money. As I started teaching, I discovered the only person I knew who knew this, was.. ME! That was a shock to me, and so as with any good book, I shall cover the pre-basics, before we get to the basics.

If you feel that I am incorrect and that most of this sounds like my personal opinion; that's because it IS my personal opinion. If you feel really strongly about correcting anything you read in here, or refuting what I write, I highly recommend you start a book of your own. As with toys, money, and wives, go get your own, this one is mine.

As Socrates said, "Let us begin at the beginning."

"It was the best of times, it was the worst of times.." I'm talking about deciding what you are going to do with your life when you take the stupid little survey the high school counselor gives you on career decision. Let me go ahead and be frank, it doesn't really matter what you pick because you are going to end up hating it and changing it. So just mark all C's on it, and get on with life.

I have a inner struggle with school; specifically junior high school and high school. On the one hand, I think it absolutely did not teach me a single thing. (I passed my AP Calc test by reading a Calculus book for 2 weeks) But the flip side of the coin, without school, it would have made it very inconvenient for me to meet up with my friends on a daily basis. But I digress.
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So here is what school should have taught you...

There are only 4 basic methods to make "big" money;

1. Inherit or Marry it
2. Start your own business
3. Real Estate
4. Paper Assets (i.e. Stocks, bonds, options, mutual funds, warrants, derivatives, forex etc.)

Of these, most of us only have 3 options. Unless your father is named Bill Gates, or your mother is named J K Rowling, you probably aren't going to retire based on your inheritance. And while Anna Nicole Smith, and other large breasted women have successfully "married into money", I'm going to address the rest of us; as I assume if you were going to try to inherit money via killing your parents or grandparents or uncles etc.. you probably aren't reading my book. If you are trying to "marry into" money, then I highly recommend you put down my book, put on some slinky lingerie, and go the suduction route. And just remember, even if he doesn't marry ya, if you are pregnant, you can squeeze him for child support.

So, now that we have gotten that out of the way, we will address the remainder 3 options.

Starting Your Own Business:

I will actually demur this topic for the next section, because this has subcatagories which I need to cover.

Real Estate:

Real Estate has produced more millionaires than all other methods COMBINED. I hear this quote all the time (probably 'cause it's true) but most don't know why and they just keep repeating it like a broken record. Remember people, the "why" of business is important. If you don't know *why* Real Estate has made more millionaires than any other method combined, then you shouldn't be in it, PERIOD. There is a reason for this. I'm going to tell you why, and the reason is so stupidly simple it's amazing to me that most don't know it. The reason is, Real Estate is the ONLY ITEM ON EARTH THAT'S NOT EXPORTABLE. Well, that's almost true. I guess you can start hauling sand and dirt around, but as it stands, there is a limited quantity, it cannot be easily substituted, and the law of supply and demand says that amount of people increase, but the "good" locations remain constant. An increase in demand vs a constant in supply and you end up with price increases for the last 4000 years...

But most are stupid and do it wrong. The "equation" for making money in real estate is this:

real estate + time = PROFIT PROFIT PROFIT

See, the money in real estate is in the buying and selling of it; not the brokering of it. "THE MONEY'S IN THE DEAL." (To quote Donald Trump) So if you are a real estate agent, and you don't invest in real estate yourself, then you are STUPID. Wait, let me rephrase that, you are VERY STUPID. When I get a real estate agent, my FIRST question (and it should be yours as well) is "Do you invest in real estate yourself?" Even if they don't, I want to hear "I want to!!". Because a broker that is too stupid to know where the money is in real estate, is probably not a broker you want. Harsh? Yeah, reality is like that sometimes, so is winter itch.

This is also why the most important phrase in Real Estate is "Location Location Location". Because if the location is good but lacks dirt, I can HAUL dirt there. But if the location is bad, nothing's going to save it. So in truth, it's the LOCATION that's not exportable. This is why Location is the word you have to know and dream about if you are into real estate.

Surprisingly, I just watched the horrible movie "Superman Returns" and Lux Luthor actually talked about why real estate makes money. It was the only thing watching in the entire movie..

Paper Assets:

And now we come to the section that most of you are interested in, Paper Assets. There are a few reasons why paper assets will make you rich.

1. It's based on "theory" and not a "solid" tangable 3D product
2. Rising Tides Raise all Boats
3. Leverage
4. Leverage Leverage Leverage

So the first part of it is, the fact that the creation of "wealth" in the paper asset world, is like magic. I'll give you an example...

Company XYZ is trading at $50 a share. They annouce that this year, they made 20% more than analyst expectations.. The price goes to $55 / share. Now did you just see what happened?? The company just got 10% richer, and what did they do?? Not a damn thing. Wealth creation in the paper asset world is just ink and electronic bits, and because there is nothing like physical inventory or silly things like that to burden its growth, its growth can be incredible, in timeframes you'd never thought possible. Look at Yahoo when it first started, or a slightly more recent example, look at Google's stocks. Google went from NOTHING to a few billion dollars OVER NIGHT. This is not possible with anything else but paper assets.

The other part with paper assets is, on instruments such as stocks and muni's, you get the "rising tide" effect. What this means is, as the phrase goes "rising tides raises all boats". This means, if I bought company XYZ @ $50/share, I could be sitting on my arse drinking a beer, and because some bloke on TV in a suit talks about how he loves Pandas and rainforests, I could make 10%! I didn't have to do a damn thing. That's because when stock prices go UP, they go up for everybody. But this being a double edged sword, when the prices go down, they go down for everybody else as well.. This is most evident in "sectors". If ABC sector goes up, chances are all the stocks in that sector go up. If the stock goes up for one share holder, it then goes up for ALL the shareholders of the company.

The last part is leverage. There is leverage, like buying commodities "You pay for 1/10th for them pork bellies here and I'll get the bank to front up the other 90%" 10 to 1, you gotta love that leverage.

But that's simply leverage. There are instruments (cough cough, Forex, cough cough) that are LEVERAGED instruments. Let me rephrase that, they are LEVERAGED LEVERAGED LEVERAGED instruments. How's 200:1 sound to ya? Not good enough? Well, how's 400:1 sound to ya? So You are telling me, I put in $5 and you let me play with $2000? Sounds great to me!! If it takes a million to make a million, in the forex world, that means it only takes $2,500 to make a million!! And all you thought leverage was good for, was so your fat cousin wouldn't send you to the moon when you played teater totter with him!

Starting Your Own Business (revisited):

Now why did I not talk about it in the beginning? Because this is my book and I get to do what I want to!!

Starting your own business makes money for one simple reason:

LEVERAGE.

I mean leveraging of HR. Human Resources. When you start your own business, you get what I call the "multiplicity" effect. (I think it was a bad movie staring Michael Keaton) I hire someone, and he/she makes money for me. I hire another one, and same thing. I can multiply the amount of work that gets done, and thus income streams because I'm leveraging HR. Well you say, what about a one man company? Well, you are still leveraging HR, just HR in another company. See, when you are the boss, you leverage others. When you work for others, you are the LEVERAGEE. (It probably isn't a word, but neither is 90% of the words in a rap song). When you are the boss, you are the LEVERAGER.

If you decide to start your own business, here is what you have to understand..

A business ONLY MAKE MONEY, WHEN IT SELLS SOMETHING. That's the only way businesses make money. See, with real estate, I can sit on my house for 10 years, and all of a sudden, the bank wants to give me more money. I made money without even selling my house!! With paper assets, I sit and knock back a few cold ones, and find out my stock is up 20%, I've made money without doing squat. But for businesses however, you have to SELL SELL SELL.

So what are you going to sell? Glad you asked!! There are 4 things you can sell; or I should say, there are 4 catagories of things you can sell, and they are:

1. Labor
2. Product
3. Service
4. Information

They are cataloged this way, because it goes from "cheapest" to "most expensive". I will talk about the pros and cons of each, and help you out with understanding each item.

I know, you impatient hag, you are wondering "What's the difference between [labor] vs [service]?" See, I am wasting 2 sentences on your inquiry, 2 sentences I could have used to explain if you'd be more patient!!

LABOR:

Labor vs. Service. Labor is catagorized as anything that doesn't require learning for the "average" person to do / or a skill that can be learned from a quick demo in 5 minutes or less. (Yes, I know, liberal definition) For example, sweeping the floor. While yes, there are those on the short bus who don't know how to sweep the floor, generally, I can find anybody to sweep the floor, or dig a hole, or put the buns on top of the meat patty. Labor is cheap, and substitutable. Labor is also what I refer to as "direct income". You dig for 1 hour, I pay you for 1 hour. It is the lowest of the low as far as income stream. You are doing work that they can find anybody else to do. If you still don't know the definition of labor, go to a Home Depot on the weekend, and see all the people lined up there. They are laborers, they are waiting for a labor job. If you ever start a business, try not to sell labor you product yourself; selling other people's labor is an excellent business (such as a cleaning service, or a law mowing service). What is bad for the guy doing the labor, is good for the boss. Why? Because since labor is cheap, you don't have to pay them that much; since it is highly substitutable, you don't need to be afraid of running out of laborers.

I suppose I should talk about Service here, but I won't.. Because I want to go in order. Yes, there is an order. Labor, Product, Service, and Information. The order is cost per unit, or cost per hour.

Product:

Product has 2 main subcatagories; and they are:

1. Consumables
2. Non-Consumables

The best example of this are film cameras. The camera and the lenses are considered "non-consumables" and the film is considered a consumable. That's it, simple as that. Food is a consumable, and furniture is a non-consumable. (Well, maybe, I've seen some of your dogs and what they do to table legs..)

So let's start with

Consumables:

Consumables are great products to sell. You know why? Because they are consumable! Let me give an example. Suppose I'm a dairy farmer. I milk ol' Betsy and sell it to you for a ridiculous amount, thanks to the agricultural protection agency. You drink it, and get osteoporosis (Milk is actually acidic [lactic acid] and ROBS your body of calcium, before it gives any back. You didn't know that did you? And here you were chugging it down, thinking it'd preven osteroporosis when it actually causes it! But again, I digress..) So you drink your milk, and the very next day, guess what?? You are right back in line at the checkout line behind the noisy bratty kid, buying another jug of milk!! See, with consumables, it is possible to sustain a profitable business without a new customer base. In fact, with consumables, your customer base will make up 90% of your revenue, and keeping them happy becomes probably more of the priority, rather than new markets and new customers.

Short story about business. One of the two companies that I am intimately familiar with, because I've taught classes on them, are Walmart and Starbucks. We will talk about Starbucks. Before I studied them, I thought to myself, "Look at those Buckrats.."

Twoblink Dictionary:

"Buckrats" noun ~ One who sits at Starbucks for 4~8 hours at a time. Usually considers themselves an "artist", wears black rimmed glasses even though they aren't near sighted; consumes latte's like they actually have a day job and can actually afford it. Will sit there with a laptop, pretending to do work, when they are actually just downloading porn and chatting with their other out of work friends who are at other Starbucks.

So I'm thinking, if I was the owner of a starbucks, I'd drive those buckrats out. Then, I studied some of the Starbucks income profile, and discovered something wild. The entire Starbucks franchise is kept afloat by Buckrats!! See, Starbucks has 3 catagories of people:

1. Once a Month
2. Once a Week
3. Once a Day

See, if we do it purely on the cup count; first group per month, 1. Second group, 4. Third group 30!! Imagine if you wanted to sell 300 more cups of coffee a month. Which is easier, to sell to 10 Buckrats, or 300 new customers?? So it is these Buckrats that keep Starbucks afloat. The numbers however, are staggering.

Suppose you had 20 Buckrats at your local Starbucks. Take a look at the number:

365 days a year
20 Buckrats

365 X 20 = 7300 cups!! That's amazing to me..

So the "beauty" of consumable products is that you just need to establish a solid customer base, and you are smiling pretty.

Now yes, there is a downside. What is the downside? Well, consumables is just another word for "parishable". Most consumable products, if not consumed, parish. Then that becomes income lost. (think, cheese, milk, bread etc..) That was why the film business was so good and made Kodak and Fuji so rich! It was because it was a rarity. It was a CONSUMABLE, but not PARISHABLE. Best of both worlds!! What else is like that? Printer ink and printer toner. Batteries.. Look around you, plenty of consumables, and some are consumable but not parishable. If you want to get into selling of products, and you want to sell consumables, I highly recommend you sell a consumable but not parishable item.

One of the other "hits" though on consumables, is generally that they are easy to copy and reproduce. Translating to lower margins. (Unless you have a monopoly on an ingredient, or technology). For example, you can only charge so much for your brand of milk, because short of the milk maid being included, there's only so much people are willing to pay for milk. And if your brand is too expensive, I will probably buy another brand. Consumables are generally highly substitutable. That is, unless you have done something to make that untrue. For example, again, printer ink and toner. Each brand (and usually down to the model, not just brand) has its own ink and toner you have to buy from the company. A consumable that is non-parisable that is non-substitutable. That is why even if they GAVE you the printer, they'd still make out like bandits. One more hit, is that consumables are generally low priced. If I have to keep buying it over and over again, then I probably don't want to pay too much for it. There of course, are exceptions to the rule, like caviar and viagra.

Non-Consumables:

Non-consumables are like furniture. Ask yourself, how often do you buy a couch? What about a new frig? Non-consumables are basically items that you can keep using and using over and over again, without it being consumed (duh!!) The biggest advantage of non-consumables is that it is generally a one time purchase, and so you can overcharge them. Because however, that customer won't return tomorrow like the selling of a consumable, you pretty much have to have a ridiculous markup to compensate for the fact you are only going to sell a frig to this customer once every 7~10 years. That is why most furnitures have a 900% markup. (You didn't know that did you??) Think about it, for the room ONE couch takes up, I can put an electronics counter, and sell over 60 different digital cameras. Someone's gotta pay for that square footage!! Couple that with the fact I'm only going to sell you one couch, sofa, and love seat combo, I'm going to overcharge!! Non-consumables have the same problem as consumables, and perhaps even more so; that problem is INVENTORY. You sell furniture, how much inventory do you have to carry, and how big does your warehouse have to be? When you buy a jug of milk, you take it home, but when you buy a frig, I have to DELIVER. These are all major considerations and all play into the overhead and what I call the "business annoyance factor". So it sounds like consumables have a lot of advantages over non-consumables right? Yes. But there is one HUGE advantage for non-consumables; an advantage so big, it might and sometimes does dwarf all other factors... and that's PRICE.

How much for a Mercedes Benz? How much for a 3 carat diamond? (I of course, will at this time, refrain from talking about the DeBeer family and their diamond conspiracies..)
The price you can charge for a non-consumable is something that most consumables can't touch. What to own a GolfStream? Sure! Cough up a few milllion!!

Consumables I think are more difficult to understand than non-consumables. Both have their advantages and disadvantages.

Service:

So I'm going to talk about service in this section, and so I'm going to begin by tell you what service is and is not. Basically, service is really easy to define, anything that is NOT Labor, is service. If you went to school for it, chances are, it's service. If you had an apprenticeship for it, chances are, it's service.

Lawyers, doctors, masseuse, public speaker, coach, teacher etc..

Now here, I'm going to cover something about products again, that I didn't cover in the products chapter, because it makes more sense when it's compared and contrasted to service; vs just being presented in the product section.

When I'm a doctor, I see patients ONE AT A TIME. But when I sell Sony Playstations, I sell them 100,000 at a time. So the fundamental difference between a service and a product is that service is not what I call, "parallel mass distributable". McDonalds, does it sell a "product" or a "service"? They sell hamburgers, so you think they sell a "consumable, parishable product." Is that your final answer??? WRONG!! They sell a "service". Why? Look at the fundamental definition of service vs product. It's the "One at a time" ness that makes it a service. McDonalds sells over 2 Billion heartattacks, err.. I mean burgers a year. But guess what? They sell it ONE BURGER AT A TIME. So they sell a SERVICE. Restaurants then, are a service. But wait wait, they sell food, and food is a consumable product blah blah blah.. quit your whining, shut up, and pay attention. The people who sell the butter to

McDonalds sell a product. The people who sell meat to McDonalds sell a product. McDonalds and other restaurants sell a SERVICE. Get that through your thick skull. The simple test of product vs service is easy. If I multiplied it by 10x the quantity, does the scenerio still sound plausible? Let's try it out!

"Walmart sells 3 baseball bats at a time."
"Walmart sells 30 baseball bats at a time."
"Walmart sells 300 baseball bats at a time."

Hey, sounds realistic to me!

Now let's try it again.

"McDonalds sells 1 hamburger to me at a time."
"McDonalds sells 10 hamburgers to me at a time."
"McDonalds sells 100 hamburgers to me at a time."

From the example, we see that Walmart sells PRODUCTS and McDonalds sells SERVICE.

If you don't understand this fundamentally, stop; reread what I wrote, print it out and reread it while you are on the john, have your kids explain it to you; but basically, if you don't understand the different between a product and a service, you then won't understand their advantages and disadvantages and you will FAIL. 95% of all businesses fail within the first 2 years. Bosses who don't understand the different between products vs services, fail 100% of the time. I'm spelling it all out for you people; so read or reread until you understand.

Any time you need MORE PEOPLE to increase the volume of sales, then you are selling a service.

So what are some advantages of a service?? Well, services ALWAYS involve HUMANS. It doesn't matter what it is, it will always involve human interaction. And as we will see later on, HR is one of the most difficult things to handle, we also find out it is one of the most expensive. So for example, I go to Harvard for 4 years, then go to Harvard Law for another 2.5. That's a LOT of money. So when I graduate and become a lawyer, I'm going to need to recoup my college tuition, pay for my sports car, pay for the big house I barely live in, pay for the expensive wife with the expensive boob job who is banging the UPS man; and buy my secretary expensive jewelry so she'll have an affair with me. All that costs money; and all that money is translated to "billing per hour". Consider Jose the gardener, vs Helga the masseuse. Jose costs about 1/10th the price of Helga, but honestly, do you REALLY want Jose to give you a massage?? I sure as hell wouldn't! So fundamentally, that's how I figure out if it's labor or service. I ask myself, is this something my gardener can do, and something I would trust him doing? If the answer is "no", then it's service and not labor.

Service's biggest advantage is price, but at the cost of parallelism. If Joe is selling pens, and I'm selling a massage, I make a LOT more per hour or per unit, than Joe. The problem is, joe can sell 16 Million pens at the same time, but I can only give one massage at a time. And oh, let's not forget the "shortage" problem. Since we are dealing with HR, the biggest problem is, even if I wanted to "expand" my business, it is actually difficult. Joe wants to sell more pens, not a big deal, he find a new client and all done. I want to sell more massages, I need to hire more people. My overhead goes up; while Joe's doesn't. Not only that, but that's assuming I can find another Helga to join my massage parlor. I then still have to pay her salary and insurance.

So while a bit broad stroked, that essentially, is the service catagory.

But due to the lack of parallelism, you will find out, the largest companies in the world generally sell a product. Look at Microsoft. What do they sell? A crappy OS. One of the few companies that is global and sells services, is IBM. IBM is a shining exception to the rule. But most of the time, you will see the largest companies in the world selling a product. Another exception to this is, the telecom's. Do telecom's sell a product or a service?? They sell a service, correct!! Always keep in mind, if you sell service, that it's your right to charge a ridiculous amount. Look at a plumber. He shows you his butt crack and wants $150 for it. Look at a "IBM Global Solutions Consultant". They charge you so much, they basically just take your wallet and leave you with the old receipts left in it. Service is about charge per unit. Don't forget that.

Customization:

This is such an important topic that it gets its own section. People are willing to pay more if you can make it exactly to their specifications.

Henry Ford said "It doesn't matter what color car you want, as long as it's black." Well, black cars might have been cheaper overhead for Mr. Ford, but I assure you most consumers now want choices.

Let's look at what we've covered so far and see how "customizable" these things are.

Labor:

How customizable is labor? In reality, it's quite customizable. You want me to dig a hole how big? How wide? You want the tree planted 3 meters that way? You want your hedges to look like Mount Rushmore? You want me to use the pine fresh scent one instead of the lemon scent one? Labor is almost 100% customizable, but I can tell you, very few bother to customize it. But if you want, it could be done.

Products:

Products are difficult to customize; why? Correct. The reason products can sell so quickly is because of mass paralleling and distribution. But customization requires one at a time. And so at most, products can do what I call "semi-customization". Like what? "We offer this in 6 colors!" Is that customization? Nope. It's semi-customization. Customization costs a lot of money, and that translates to overhead. So for most products, there is little customization.

Service:

Now if from reading my book thus far, you thought products had a heavy advantage over service, this is what sort of levels out the playing field. By the very definition of service, it is (or should be) 100% customized. Note, I didn't say customizable, like labor and some products, but I mean 100% customized. Oh, there are products that are 100% customized, like a suit; but again, what did I say? When it's like that, we aren't really selling a product, we are selling a service. Burger King claims you can have your burger "your way" with 100% customization. It's not true. When I go into a restaurant, unless it's an expensive one, I'm pretty much confined to what's on the menu. And I can almost guarantee you, regardless what you say, Mel in the back is going to cook your burger as he sees fit.

Most of the time, the secondary customization industry is a hybrid of product and service. For example, you want to "pimp out your ride" and so you take your car in and get it lowered and add a 5" exhaust on the back. They sold you OEM parts, but perhaps helped you install it and "customized" it for you.

Customization makes money.

Information:

Now information gets its own catagory, and at first, you might not understand why, but hopefully it will become abundantly clear later. (or not) Information gets its own catagory simply because it doesn't fit into the previous 3; it has some of the characteristics of all 3, as we will see.

Information is abstract, and can take many forms. Thus, it is difficult to understand but I will try my best to present all facets of it.

With Labor, we had "easily substitutable" and cheap to buy.

With consumable products, we generally had an expiration dates, fairly easy to substitute, but only requires a user base and can be sustained without a adding new customers.

With non-consumable products, we had the advantage of high price, (one time fix), slightly more difficult to substitute, but generally had a problem with inventory size and management.

With service, we had the benefit of customization, and high per hour or per unit rate. We had the disadvantage of distribution; specifically mass distribution in parallel.

Information is unique, in that "It can be all things to all people; kind of like fried ocra." (To quote one of the most brilliant minds in this era, Jim Kimble)

Information, like a doppleganger, can take on the characteristics of labor, product, or service; either one at a time, or ALL AT THE SAME TIME.

So let me give you some examples...

Information acting like a (consumable) product:
Selling a mailing list. ~ The same advantages that apply to products apply to information. I can sell it in mass quantity at the same time (everybody can come to my website and download the list, I can serve thousands at a time) and the product is a consumable as the list needs to get updated frequently, so you can sell subscribership.
But at the same time, it is easily substitutable.

Information acting like a non-consumable product:
Buying a Manual for your Stereo ~ Your stereo won't change, and you don't need another one.

Information acting like a service:
Dunn and Bradstreet credit reports ~ Gives you specific info about someone (usually, you).

Information acting like a product+service secondary:
Selling a specific mailing list gleaned from datamining the criterias you asked for.

The biggest fear of information is obsolescence. Information is generally only good when it is "fresh" like milk and cheese. Some information however, doesn't really go obsolete; like a manual for your stereo or calculator. When information is bound to something that is non-consumable, then the information becomes non-consumable. When information is bound to a consumable, then it is consumable. When information is bound to a service, then it s customizable.

Why is information #4 on the list? It is because it is the most expensive. Or I should say, it has the potential to be the most expensive.

Consider this, I know when a company is going to give it's price earnings report; how much is that worth? I know that Enron is going to announce bankruptcy in two days, and you are $4 Million deep in Enron stocks, how much is that information worth? I know where China keeps a nuclear bomb. How much is that information worth? It's only worth something in a "limited window" of time.

So information has the most flexibility and the most potential. But because of that, information is also the most profitable. But because it is the most profitable; it is also easiest to become corrupt. Casing point, Joe Forklift moves crates at the docks. (He sells labor) Joe makes minimum wage. He then overhears some guys talking about a drug shipment coming in, in the middle of the night. If he reports this information to the police, what does he get? Nothing, a pat on the back at most, and perhaps a police investigation on himself and jail time at worst. But suppose Joe sells this information to a rival drug lord across town. Now this information is worth more than Joe's salary. It might cost him his life, but it's worth more than his salary.

The information business is a tough business. But it's highly profitable. Just remember that information is useful generally when it is known by limited about of people (not substitutable) and within the "limited time window".

So on our road to Chapter one, we are met with a simple question; actually a few simple questions:

1) Why not Real Estate?

2) Why not Start your Own Business?

So we will tackle both first, and perhaps be on our marry way to covering Forex.

Question: Why not Real Estate?
Answer: OF COURSE REAL ESTATE.

Real Estate is ALWAYS included. Unless you are living in a space bubble, you pretty much need a place to live. That means what? Renting or buying. If you plan to be there over 2 years, then buy. If not, then rent. That's my rule of thumb, and rule of fingers as well. My wife is a real estate agent, and she asks me everyday, what is a good location, will the prices go up or down, which areas are the hot ones right now etc. I am always right 100% on my predictions, and she is utterly amazed. Wanna know the secret to my accuracy?? I will tell you, in just 4 easy payments of $249.95. Just kidding! The secret to my accuracy is, OTHERS PREDICT, I OBSERVE. Note the difference. Others try to "guess" what other people will do, and that's like what most try to do with the market. They try to "guess". Well, with real estate, short of an earth quake, a typhoon, a flood or other Force Majeure, I'm always right. And all it takes is 5 minutes. You stop and think about it.

What is important to you?
What is important to someone with a family?
What is important to the single person with a high income?
What is important to the single person with a rich parent?
What is important to someone who hates noise?
What is important to someone who loves the night life?
What is important to someone who commutes to work?
What is important to a SOHO?

You ask yourself these basic questions, and it becomes obvious. I've been in the computer industry for 15 years now, and I have been right about every piece of technology for the last 15 years. I was using Linux kernel 0.98BETA. That's how "old school" I am. (As I type this on my Gentoo Linux box..) Real Estate should be part of your life; I mean that from both aspects: personally and professionally. The reason for this is, you always ALWAYS need a place to live, and since you are going to live there, might as well make an investment out of it. http://www.success.org/ has a great Master Real Estate Course that is free to read or download as a podcast. HIGHLY RECOMMENDED.

So, why not start your own business then?

Guess what, FOREX IS A BUSINESS, AND ONE OF THE TOUGHEST ONES ON EARTH. If you don't believe me, look at the statistics.

95% of those in Forex don't make money.
95% of those who start their own business go broke in 2 years.

If you don't treat Forex like a business, then I highly encourage you to close out your Forex account, take the family out for ice cream; take the rest of the money, and put it in an ETF. A Diamond, Spider, or a Qubed ETF will do you nicely. If you don't know what those are, just type ETF into google and you'll find out.

Yes, Forex is a business; and the first mistake I ever made in Forex was to treat it like a walk in the park. I didn't treat it like a business. And so guess what happened? It bit me in the ass. You can laugh all you want, but if you don't treat it with respect, it will bite you, and bite you badly.

I own guns. I love guns. I think they are fun and they are useful for self defense as well. Some tell me, "Guns are dangerous". Yes, in the wrong hands, so is a hammer. But you know, when guns are the most dangerous? WHEN YOU STOP RESPECTING THE DESTRUCTIVE POTENTIAL IT HAS; that is when a gun becomes seriously dangerous. Always keep that in mind if you own guns; and remember; Forex is like a loaded gun, in the hands of a woman about the be raped; it could be a life saver; in the hands of an idiot, they will end up shooting or hurting himself or herself; as well as those around them.

You have been warned. As soon as you don't respect the Forex market, you are like an idiot with a loaded gun. Sooner or later, you will blow off a part of your body you will miss. I don't know about you, but I'm fairly attached to all the parts of my body so I'd like them intact.

I can't stress this enough. Forex is a loaded gun.

So before you decide about jumping head first into Forex, make sure the pool has water!!

Also know the math before you jump in. 95% chance you will not make money. In fact, if your goal is to be a millionaire via Forex, then understand that the average Millionaire has been bankrupt 3.2 times. That means statistically, there's almost a 100% chance that you will drive your account to ZERO (the big goose egg) 3 times before you get it right.

If you are going to go for it, then go for it. If not, get off the green and let someone else putt. That's what my golf teacher told me, and that's what I'm telling you.

This is what happens when you are in such a hurry to get to Chapter 1; you invariably find out there is a lot of ground to cover between you, and Chapter 1.

One of my students asked me; and so I have to interject a chapter in here to talk about it.

I personally catagorize paper assets into 3 catagories:

1. Uni-directional
2. Semi Uni-directional
3. Negative Sum Game

Are these "official" catagories? Nope. These are my own; and they work well, so take them or leave them.

Uni-directional:

I catagorize things like "bonds" or "mutual funds" as uni-directional. What I mean by uni-directional is that these are instruments that you BUY; and ONLY BUY. For example, I just don't hear people going "I think I'm going to try to short my mutual fund today." It just doesn't happen. These are instruments you "buy and hold" or "buy and pray" as I call it. So sometimes, I refer to instruments as BP's (Buy & Pray) you will know what I mean. When I say "bonds", I'm talking like 30-year bonds and the like, and I mean for most "consumers". The stuff your grandaddy bought. They are considered uni-directional because in my mind, the "Big" monolithic institution, be it government or a mutual fund, "sells" you something, and you buy. That's it. You aren't trying to "short it" or take the opposite position. You either buy it, or sell back what you bought previously. Yes yes yes, I know, you can short Bonds on the commodities market; but that's not what I'm talking about.

Semi Uni-Directional:

Pretty much this catagory is reserved for stocks. Now most people only "buy" stocks, they buy and pray that it goes up, (so stocks are BP's as well as far as I'm concerned) but you can also short stocks as well. Quite a few people short stocks, but most newbies will only buy; hence the "Semi" in front of the "Uni-Directional".

Negative Sum Game:

Most think Commodities, Forex etc.. are ZERO SUM GAMES. WRONG. NOTHING COULD BE FURTHER FROM THE TRUTH. If I buy, and you sell, and then you buy, and I sell. And we do this for a while, both of us will end up broke. Why? 3 reasons:

1. Brokerage fees
2. Bid/Ask Spread
3. Slippage

A broker is called a broker, you know why? To make you "broke er" (i.e. more broke). While Forex doesn't have brokerage fees and generally is pretty slippage free, it has a fixed bid/ask spread; and that in turn means whenever you enter a position, you ENTER AT A LOSS ALREADY. So it's a negative sum game. This is why, if you have a system of "I hedgehog 10 pips on both sides" type of strategy; it will never work. Because at 4 pips spread; your Bid/Ask is **40%** of your total strategy. That's like playing football with one foot..

"Space.. the final frontier.." I love Picard, but he had it wrong.

Forex is the final frontier.. Nothing even comes close. Don't believe me? Let's take a look at the stats.

Death Toll:

Astronauts and Cosmonauts who have died in a space related mission ~ 18
Sinking of the Titanic ~ 1,490
9-11 Plane Crashes ~ 2,752
Mt. Pelee ~ 40,000
Hiroshima ~ 192,000
Hitler ~ 6 Million
Lenin + Stalin ~ 26 Million
Bubonic Plague ~ 137 Million
Influenza of 1918-1919 ~ 250 Million

In contrast; just CME options alone, is 44 Million PER QUARTER. That's not including the forwards, nor the spots. Since we know that 95% of those who trade Forex don't make money, that means over 50 Million people "die" a quarter..

This stat puts all others to shame.. Remember what I said? Forex is a LOADED GUN. It can help you or harm you; for 95% of you, it will harm you. For the 5% of you, it will make you RICH RICH RICH.

Let's do the math:

if Forex is a negative sum game, and the "winners" take from the "losers",and 95% are "losers", then that means:

95 / 5 = 19

That means the average "winner" in the Forex market makes 19x his/her money on average. The 95% is there to pad the 5%'s wallet.

Now if your goal is to "make a little money on the side", then I suggest you stop reading now; because chances are very high (95% confidence actually) that you are nothing but cannon fodder for the other 5%. Your GOAL should be to be the 5% and make 19x ROI on your money. If this is not your goal; stop reading now, and go eat some ice cream; and be content with being a 9 to 5 slave for the rest of your life. Or else, look at other options such as starting your own business or real estate or marrying someone rich.

Forex is not for the faint of heart..

If your goal is to become a multi-millionaire through the miracle of Forex, then be prepared to lose your account at least 3 times.

> Quote
> "The **average** self-made **millionaire** has been **bankrupt** or close to **bankrupt** 3.2 times."

And so the stats match for Forex as well; the average Forex player zero's their account 3.2 times..

So if you've read this far and are still stupid enough to carry on with Forex, then keep on reading...

But just be prepared mentally for it to be like:

Except this is not a movie, it's your life, and your bank account. Your wife might divorce you and your kids might go hungry and end up turning tricks for cash. You have been warned!!

Her father probably played Forex, that's why she had to end up turning tricks or baiting a rich guy.

Joke:

There are two types of people in this world: those who put the people of this world into two catagories; and those who don't.

All joking aside, I want to start by talking about catagories; as it's a huge topic. If you feel my catagories don't match yours, chances are, I'm right, and you are wrong. ;-) Now that we have gotten that debate out of the way, let's start with catagories.

There are two catagories of money in the market (and by this, I am talking about individuals, not governments or large firms).

1. Investor
2. Speculator

I seriously pondered how much detail I should go into about why things move as I understand them. I guess since this is book, I will go into as much detail as I can.

A Country's Value:

A country's value as I define it; is fairly easy:

Country's value = Total sum of what the country produces / how much money the government prints.

Therefore, the monetary value of a country is based then, on the country's value in relation to another country's value.

Investor:

An investor simply is someone who buys and holds. How long do they hold? At least a year. Or let me put it this way, they buy it with the intension of holding it for a while. An investor bases making money on the concept of that if the formula I just presented is true; then the country's production output will be GREATER than the rate at which its government prints money. If this is true; then monetary value will increase because 1 unit of money will be required to cover more "valued" items as value production increases faster than printed money. If that doesn't make sense to you; reread this paragraph about 10 times; take a nap, have a cup of coffee, and then it will make sense.

So if I am an investor; I buy, and hold, and give the concept of "scarcity" to build up the value of what I just bought.

Forex traders for all intents and purposes, are not investors. Your grandpa was probably an investor. You probably aren't. Is your portfolio prepped for a 30 year run with a few stocks? If not, then chances are, you aren't an investor.

Speculator:

A speculator is one that speculates. The concept is, I buy, anticipate its move up or down within a short period or time, and then sell it or buy it back for a profit. Forex traders are speculators.

If you don't know whether you are an investor or a speculator, then you are a speculator. You will know when you are an investor.

I want to continue with Catagories; but I feel I must explain to people who speculation works. There are 4 parties involved in speculation, and I want to explain what roles each play, and why the do the silly things that they do.

Speculation I feel, is best understood by understanding how Futures work.

Let me give you an example:

Parties involved:

1) McDonalds
2) Cattle farmer
3) Speculative Writer
4) Speculative Buyer

So McDonalds cranks out the burgers; and they however, are worried about getting price gauged for beef. They know come xmas, people love to get fat, and so more burgers are sold during xmas. (I don't know if this is true, just part of the storyline). So right now, it's July, and they want to "lock in" the prices in December. So they look and see that the prices for cattle right now, is 88 cents a pound. Anything under 90 cents they feel is good, and so they want to buy December cattle, but want to buy it right now.

Now if you are McDonalds, you order a few hundred thousand pounds of cattle at a time; and you wouldn't be stupid enough to ACTUALLY pay for it in full, because at a few million and July to Dec being 5 months time, loving interest on a few million for 5 months would be a STUPID thing to do.

Well, the farmer however, is not going to guarantee you cattle at that price unless you "buy first'. So we are at an impass.

Enter the speculator. So the current price is 88 cents. Joe think that the weather is too hot, and the cows are going to die of heat stroke, and so there will be fewer cows, and so the prices of cattle will go up.

Bob however, thinks the winter is going to be nice weather, and the cows are going to get seriously fat, and so there will be plenty of fat cows, causing prices to drop.

So Joe wants to buy, and Bob wants to sell.. good.. Joe is looking to buy low, sell high. Bob is looking to sell high, and then buy low.

So Joe goes on over to the friendly bank, and they say "Well Joe, if you put in 10% of your own $$, we'll front the other 90% because we are such nice guys." Joe smiles, and says great!! So Joe walks on over to the farmer, and says to the farmer, "I want to buy your cattle, but I want to take delivery of it in December. But I will pay for it in full right now." The farmer is happy as a peach, and says sure!! So Joe buys a bunch of cows at 88 cents a head; 10% of it being his money, the other 90% fronted by the bank.

Bob however, does the opposite. Bob puts on some overalls, and walks up to the McDonalds managers and says "I got them here some cows, wanna buy? You can pay me a portion of the money, and clear the balance when I deliver." So McDonalds walks to their bank, and the bank says they will give McDonalds the same deal they gave Joe, front 10% of the money, and the bank will pay the other 90%. So McDonalds buys a bunch of cows from Bob (yes, Bob has no cows, but they think he does, because he's wearing overalls) and Bob is now rich.

For McDonalds, this is excellent, because they have locked in prices for Dec right now; and they've fronted very little money. They have no risk of not having meat in Dec. For the farmer, this is great, they took the money from Joe, and they used it to buy feed, and get the cows nice and fat. They have no risk because they already got the money for the cows and locked in at what they felt was a good price.

Both McDonalds and the Farmer; have very little to no risk left. They also have locked in their prices. So that's as much or as little as they are going to make.

Joe and Bob however, have all the risk. Bob sold an empty (underwrote a contract without having anything in hand) and Joe more cows than he can fit into his living room.

Come December; Joe starts to panic, and Bob starts to panic. Joe is thinking "OK, I gotta sell all these cows to someone." Bob meanwhile is thinking, "Oh my gosh, I sold McDonalds cows that I don't have, I gotta find me some cows!!" So Joe and Bob meet up; and one of two things can happen:

The prices of cows go skyrocketing. Joe is laughing now. He's got cows at 88 cents.. The current market value is 95 cents. He's sitting pretty. He says to Bob, "Hey, I'll sell you my cows for 94.5 cents, take it or leave it." If Bob says no, Joe sells it on the open market for 94.5 cents and makes 6.5 cents per pound; and laughs all the way to the bank. Meanwhile, Bob finds out that he's screwed, Joe's contract was the cheapest, Bob buys a contract on the open market for 95 cents a pound, and he loses 7 cents a pound, his wife leaves him, his does dies, and his daughter is turning tricks.

Of course, what if it went the other way:

The price drops like the Titanic, and it goes down to 75 cents a share. Bob is laughing at Joe, and says to him "Look, I'll buy your contract for 76 cents a share, 'cause I'm a nice guy, take it or leave it." Joe sucks it up and takes it because he doesn't want cows in his living room, and so Joe loses 12 cents a share; while Bob makes 12 cents a share.

In all of this, of course, the bank makes out like a bandit, because of slippage and commissions.

Come Dec, McDonalds gets beef, and the farmer already get his money in July.

But my little story illustrates the 4 parties involved in speculation.

If you substituted McDonalds, with say... United States, and you substituted the Farmer with say, Japan. You basically have the same story, but the forex version of the story.

This is how speculation works. Speculators take the RISK off of the hands of the primary parties and put it on themselves. Because of this though, they are offered a chance to make ridiculous money using ridiculous amounts of leverage. The game is negative sum; and in order for you to make money, someone else has to lose money. Money moves from one pocket to another, with some commission taken out in the process.

It is important to know how speculation works.

So in Chapter 2, we talked about Investors vs Speculators. I'm going to leave the investors now and focus on speculators.. (I will use the word "trader" as the same meaning as "speculator")

There are 3 types of speculators:

1. Fundamental
2. Technical
3. Mix

Fundamental:

The Fundamental Traders are those who trade according to the news. There are some fundamental problems with fundamental trading (yes pun intended).

First, the fundamentalist much decide if their news is "old" or "new". What I mean by that is, when they hear the news, is it "compensated for" in the price already, or not? If you are a Dow Theorists, then you will believe it is already, making fundamental trading moot.

Second, you must decide what news will actually influence the price.

Third, you must decide HOW it will influence the price. Will this news make it go up? Make it go down? Sideways? What?

Fourth, is the news source an authority?

Fifth, is the news source reliable?

I will just tell you that fundamental trading is TIRING. With news such as CNN, you might never sleep. You have no idea what news is relavant, how it will influence the price, and if it is old news.

I personally don't recommend this method; but I can tell you, "older" people love trading off the news. I personally feel that's probably because they don't know much about technical analysis..

"My barber says the price will go up.." <-- This is the exact problem of fundamental trading..

Technical Trader:

The Technical Trader is one who feels that the price reflects the sum of ALL news; and therefore, it's pointless to listen to the news; as the price reaction to the news, is already in the price. In fact, some technical traders believe that technical trading is the only real way to deal with "insider's trading", as insider trading will not be reported in the news, but it's effects can be seen in the charts. The chart, the whole chart, and nothing but the chart so help you God; is what the technical traders believe in.

Casing point:

Stock XYZ's CEO knows the company is doing well, and the report is out next week, and so the prices should go up. So he tells all his golfing buddies, all his friends and families to BUY BUY BUY!! Well, what happens then? They buy buy buy, and the price goes up up up. The news is announced and you "think" the price should go up, but it already has; and so the price barely inches up. The fundamentalists are scratching their heads what happened; and the technical traders are laughing their asses off.

For the fundamentalist, the most dangerous news, are the ones they never hear about. For the technical trader; this will never happen.

Mixed Traders:

The mixed trader is simply someone who listens to the news AND trades the charts. The Bible says, if you are neither hot nor cold and are luke warm, I will spit you out.. So that is how I feel with Mixed Traders.. Luke warm is not good.

Catagories of Technical Traders

Amongst the technical traders, there are 4 types:

1. Trend Traders
2. Top and Bottom Pickers
3. Contrarians
4. Snipers and Scalpers

Trend Traders:

The most sickening phrase in all of trading: "The Trend is your Friend." A Trend Trader is someone who gets in late, and leaves later. A Trend Trader is someone who waits for the confirmation of a trend, then gets in, and leaves when there is a confirmation that a trend is over. A trend trader is a difficult type of trader to be, simply because you pretty much are guaranteed to leave 40% of the pips on the table.

A trend trader usually wastes 20% of the front end of a trend; and uses it as a confirmation before they jump in, and uses the last 20% as confirmation of an exit signal. Thus, they are usually wrong quite often, but the one "big one" will usually carry them for the year. Trend traders don't try to "predict" anything, they don't know and don't care. They have no feelings about the market, and no bias. Ask a trend trader "do you think the market will go up or down?" and he will tell you, "doesn't matter." Trend traders IMHO are the only one of the 4 types who make money LONG TERM. Trend traders are market direction agnostic. They don't fall in love with anything; when their bat signal beeps, they enter; when it tells them to exit, they exit. THAT'S IT. They don't care about the underlining commodity or currency, the market direction, the pundits, the market sentament, they don't care about any of that. They care about confirmation trend direction and riding it out. This is a stark contrast to the next group, the pickers.

Top and Bottom Pickers:

Most newbies start out being Top and Bottom Pickers. Unfortunately, they never leave this catagory. There is a famous saying "Top and Bottom Pickers will soon become Cotton Pickers." Not polite but true. As the name implies, top and bottom pickers try to pick "tops" and "bottoms" of the particular underlining commodity. 99% of all analysts are top and bottom pickers. "I don't think Intel is going to go any higher." (Top Picker). "I think Enron is a great bargain at $9 a share, I don't think it's going to tank much more." (Bottom Picker). As you can see in the Enron example; you NEVER KNOW.

The reality is this: if you can pick tops and bottoms, you don't even need to trade. That's not trading, that's psychic abilities. That's like the ability to bend spoons, except more lucrative.. (Yes, that's Uri Geller in the pic)

Don't bother trying it at home boys and girls (I mean being a top and bottom picker.) There will always be "higher highs" and "lower lows". And you never know where and when those are.. So unless you want to end up being a cotton picker..

The Contrarian:

So let me see; you've lost 95% of the time; and since forex is a negative sum game; you assume then, if I do the OPPOSITE of what I was going to do, or what everbody else is doing; I will make money since 95% of them LOSE money!! That's the thinking of the contrarian. I'm here to tell you, the contrarian is a HORRIBLE way of thinking.

Casing Point

The GBP is moving against the USD. It's climbing up up and away. As a contrarian, you would be "selling strength" and "buying weakness". This sounds about right INITIALLY, until you examine it further. If the market is going up, why on God's green earth would you SELL?? If you sold, it would be because you think that this is the top of the market, and that's why you are contradicting what the market is telling you. But if you did that, you AUTOMATICALLY are picking the market top since you are "anti-trend" and you then move yourself to joining the Top pickers AKA the cotton pickers. You want to BUY into strength, and SELL weakness. Not the other way around. When you are a contrarian, you are a MARTINGALE trader. I'm here to tell you, you will die a HORRIBLE death being a martingale trader. It might sound great; but there are a bazillion books out there on why being a martingale trader is a BAD idea.

Snipers and Scalpers:

It might have been Tsun Tsu who said "Life is a warfare" but I'm not sure. Regardless, we know that the market is a battle ground, of "kill or be killed". Dan Akyroyd said it best in my favorite movie "Trading Places".

Snipers and Scalpers are those who "jump in" and then "jump out" hoping to scrape out a few pips..

As a gun owner, and a hatchet owner, I'm here to give you some free advice:

> 1) Just like in the real world; snipers are few and far in between. They have better than 20/20 vision and most of you don't. So since your vision is less than perfect, leave the sniping to the professionals.
>
> 2) Scalpers ~ The American Indians were known to be scalpers. Most now live on a reservation and drink all day or gamble what little they have away. If that's not the future you want for yourself; I highly recommend AGAINST scalping.

There are those who like to listen to bad rap; and those who like to listen to death metal. I value my ear drums so I don't. But as a libertarian, hey, to each their own.

So on the subject of "pain" and more importantly "SELF-INFLICTED PAIN". We get to the two concepts of averaging..

In the blue corner, we have Averaging UP.

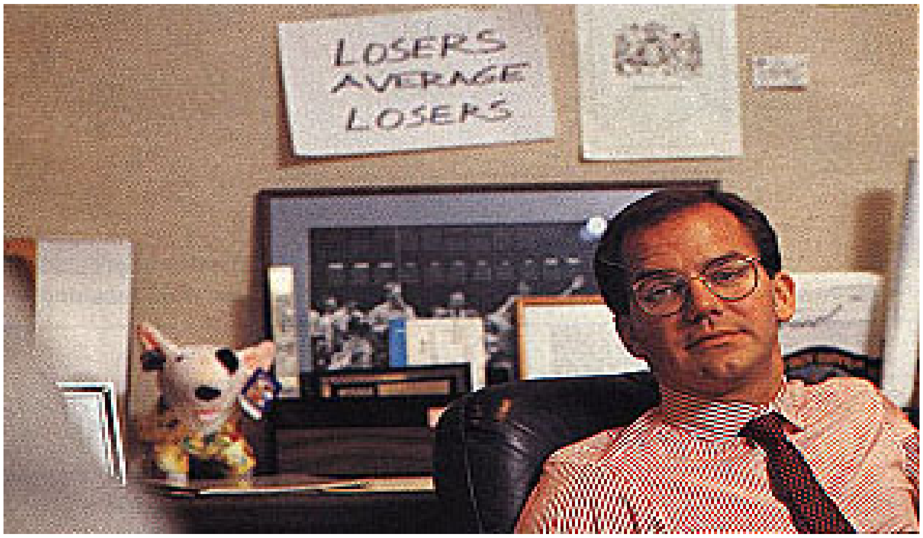
In the red corner, we have Averaging DOWN.

Which is better??

Cliff Notes Version: Averaging Up will make you money, Averaging Down will bring you death.

So some of you (like I said above) simply ENJOY SELF-INFLICTED PAIN. And as Ed Seykota said "Everybody gets what they want out of the market" and so most of you desire failure and are happy when you lose money, and so.. you will Average Down. Now, wait wait wait you say, you've made money averaging down before..

First, ask yourself, "Am I a Winner or a Loser?"



From the Trend Trading website:

http://turtletrader.com/losers-average-losers.html

> Quote
> The photo in the background of Paul Tudor Jones' office says it all: **Losers average losers.** Jones' wisdom was obviously lost on James K. Glassman judging from the following excerpt from his Washington Post investing column:
>
> <q>If you had Enron in your portfolio and didn't sell it at $90 or even at $10, **don't feel embarrassed**. As Alfred Harrison, a money manager at Alliance Capital Management Holding LP, which owned a ton of Enron, put it, 'On the surface it had always seemed to be a fairly good growth stock. We bought it all the way down.'</q>
>
> Glassman and Harrison are both dead wrong. You must feel less cash in your pocket if you average losers, not just embarrassed. Harrison violates a cardinal rule of Trend Following trading. Even worse, as an active money manager for clients, he admits to averaging losers as a strategy. If the trend is down, it's not a buying opportunity. It's a selling opportunity or a time to go short opportunity.
>
> The absolute wisdom is on a simple piece of paper hanging right behind Paul Tudor Jones' head: **"Losers average losers"**. Think about it.

But I know I know, you want "more proof". And that's what I'm here for!!

Let's start with a stock. Let's say the stock is $10 a share and you get in on it.

Let's take a look at two scenerios..

Scenerio A (Averaging Down):

The stock tanks to $8. You decide to buy one more share to "average the price". So now you technically have 2 shares @ $9 each.

So let's take a HARD LOOK at what you've got.

> **Current market price:** $8
> **Your purchasing price:** $9 x 2
> **Total Overpaid** = $2

So you've over paid. That means if the market didn't move and you wanted to exit, you'd exit for a loss. Now let's take an even HARDER LOOK at what possible outcomes you have.

> **Upside:** If the stock moves to $9 a share again, then you have broken even.
>
> **Downside:** If the stock moves to $7 a share, you now have lost $4, (2@$9 was your purchasing price).

So let me get this straight, the upside is breaking even... and the downside is doubling your loss? WOW, that sounds SOOOOOOO attractive... NOT.

Whenever you average down, you OVER PAY, and have no benefit on the upside. In fact, not only do you have no addtional profit benefit on the upside, you DOUBLE your risk on the downside.

WHEN YOU AVERAGE DOWN, THAT IS EQUAL TO DRINKING ECONOMIC HEMLOCK.

Again, this is why I say to you all who have horrible math skills; investing isn't for you. If you cannot grasp this, and still resist against it, I highly recommend you just zero out your account right now and send the money to Salvation Army. You'll feel better for it and it will be put to better use.

Scenerio B) (Averaging Up):

So.. let us take a look at our friend, Average Up.

Suppose you had the same stock, and you bought it at $10 a share.

Now it goes up to $12. The rules of Average Up is that you buy on strength, and so you buy another share. So now, you are 2@$11.

So, we once again take a HARD LOOK..

> **Current Market Price:** $12
> **Your Purchasing Price:** $11 x 2
> **Total Discount** = $2

So you are in at a discount already compared to the market. That means if the market just floated, and you exited, you'd still make a profit. Now let's take an even HARDER LOOK.

Upside: If the stock moves to $13 a share, you'd make $4!!

Downside: if the stock moved to $11, you'd break even!

Do you see what is happening?? When you Average Up, your upside is double the profit, and your downside is breaking even.

What's that Lassie? What's that boy? Timmy fell down a well? That's because TIMMY AVERAGED DOWN.

So let me just give you the pictorial summary of this chapter..

This is the life that's waiting for you when you AVERAGE DOWN:

This is what will be waiting for you when you AVERAGE UP:

Any questions?? I didn't think so.

The PROBLEM IS, even after you understand all this; you will STILL average down like the loser you are. Remember, the quickest way to check if you are a winner or loser, is to see if you average up or average down. Losers average losers. Winners average winners. It's that simple.. You wanted good advice, this perhaps is the best advice I can possibly give you. But you know the sad part?? You won't listen to an ounce of it. But you will keep reading!!

And less than 24 hours later.. I am proven correct again...

From a live example of a post from someone who averages down:

> Quote
> 1) The explanation you have given is quite correct because you cant buy anything under 1 share of the stock, However for forex ,suppose my initial lots to trade is 1Lot, I can break them into 0.5lots for first entry and 0.5 lots on the second trade. Now you do the math again please and tell me I am wrong.
> Initial price of entry for example 1.8500 gbp 0.5lots, SL = 1.8400
> 2nd entry 1.8450 long , SL = 1.8400
> Average price is 1.8475
> Risk = 75pips against 100pips if I had entered at 1.8500 with 1 lot.
> This is just theoritically but the math is there for you to see.

Well, I'm here to tell you, you are RIGHT!! Your math is CORRECT!! Except you missed the logic. So I will go over it all again.

Current market price: 1.8450
Your price (average): 1.8475

You OVERPAID by 0.0025. OVERPAID. OVERPAID. OVERPAID. Let me repeat that for you who are slow. OVERPAID. Yes yes yes, you OVERPAID by 25pips. How in the WORLD do you think you will come out ahead when you OVERPAY for something?? If the GBP is selling at Walmart for 1.8450, and you go and buy it at 1.8475, HOW THE HELL DO YOU EXPECT TO MAKE MONEY ON IT?? You are DOWN -25 pips homeboy; and the market hasn't even moved!!! Do you NOT UNDERSTAND THAT????????? What if the market goes against you?? In fact, the market doesn't even HAVE to go against you, you OVERPAID. ARE YOU HEARING WHAT I'M SAYING?????

I guess you aren't. Oh well, nothing I can do about it.

Yes, average down SEEMS to make sense, until you do the math of it.

I'll show you:

Question: Which is a worse crash:

A) A car which hits a wall at 60mph

B) Two cars in a head on collision both going at 60mph

Most of you will choose B, because you think 60+60 = 120mph crash. And you will fight to the death, your horrible math skills..

The answer is, both are the same. The reason is:

Car 1 in example A hits at 60mph.

Car 1 in example B hits at 60mph ALSO. The REASON is, Car 2 hits at 60mph ALSO.

See if car 1 hit at 120mph, then if you flip flopped car 1 and 2, then car number 2 in theory hit at 120mph also. 120mph + 120mph = 240mph which didn't exist.

The math fallacy is: yes both cars collided at a total of 120mph, but it is DISTRIBUTED AMONGST 2 CARS. So 120mph / 2 = 60mph per car.

So "what seems logical" is one thing, what them math says is another.

What appears at first, might not be it mathematically.

Don't believe me STILL? A egg has an egg shell width of 0.33mm. Take an egg, wrap our palm around it, and squeeze it. You won't be able to break it. Why? That's called the "soft shell theory" or something called the "Buckmeinster Fuller geodestic theory". Logic says you'd crush it like an egg, reality says otherwise.

Question: How do you lose 50% of your investments overnight?

Answer: Have all your stocks in airline companies and then have 2 planes crash into two really tall buildings.

I will tell you an ugly tale, and it is uglier yet because it is true and it is my story.

I had stocks in 5 different airlines, and my 6th stock was in Home Depot. I woke up one morning to blaring news reports and phone calls from friends asking if I watched the news..

Two planes flew into the world trade center.

My stock went from $1500 to $750 overnight. I had stock in two PENNY STOCK airline companies, which had doubled the profit for me the previous year, and when 9/11 happened, well... They went belly up.

So this is the call first and foremost, to put in stops. I of course, couldn't put in stops in the stock market, and that's how I lost 50% over night.

Second, don't put all your eggs in one basket. If you do, you'd better watch it like a hawk 24 hours a day, 7 days a week, 52 weeks a year, 10 years a decade etc..

So my tales of ugliness and the market have not even begun..

So after trading with a demo account of $3000, and having it go to $12000, I was ready to trade the real money. The first week I entered the forex market; was the presidential elections of 2004. I was up 300 pips and was dreaming about the car I was going to buy; when someone (cough cough Gore) and his hordes said there might be a possible recount. That sent the market tanking against me 600+ pips. I had a protective stop of 250 pips, but I was so giddy with the fact that I was up 300+ pips that I had forgotten to move it. Why would I need to? The market's not going to move 600 pips!! Well.. My +300 pip position became a -250 pip stop out. I lost about 25% of my account the FIRST DAY OF MY TRADING.

So boys and girls, just know that those who say trading without stops is a manly thing to do.. as Chris Rock says.. "Don't believe the HYPE.."

Playing Forex without a protective stop is like sharing a jail cell with the 600lb black dude named Bubba.. Sooner or later (usually sooner) he is going to make you toss his salad... And if you don't know what tossing a salad is, you really don't want to.

So the title of this chapter is 300% vs 30%. And there's a reason why.

My current account sits at -30%. Most of you think that's pathetic; but I'm here to tell you, my account should say -300%. But it doesn't. I know the average account gets to zero an average of 3.2 times, and so if I lost my account 3 times, I'd be the norm. So the fact that after trading for 3 years, I'm ONLY down 30%, and keep in mind, I was down 25% the FIRST DAY, I'm actually only down 5% in 3 years. That's an EXCEPTIONAL trading record; that puts me in the top 10% already!

Now I'm going to share a secret with you. Why am I down 30% instead of 300%? The reason is, starting the SECOND day of trading, traded 1/10th the lot side I had traded the first day.

Let me repeat myself again just in case you were eating and missed that last line. I reduced my trading size to 1/10th that of what I was trading before.

Theorem #1) You ___**WILL**___ pay tuition.

Theorem #2) You can learn just as much from losing 1/10th of what you lost but realizing you almost lost all of it; as you could learn from losing all of it.

So I figured, if I can get a 90% discount on my tuition, why not?? So I REDUCED MY POSITION. That is why I'm down 30% and not 300%. "Technically", I've zeroed my account 3 times already, like the rest of you. The only difference is that I'm still in the game, and most aren't anymore.

Critical Success Factor #1) You can't make money if you aren't in the game. Don't foul out!! Reduce the position size!!

Critical Success Factor #2) Cut that position size in half again!!

Critical Success Factor #3) Put a stop! Let the hot water run, don't worry about it, I won't tell Greenpeace. Spend that extra 1 minute to put in a protective stop. Your life will depend on it!!

Critical Success Factor #4) Know your math.. If you keep saying "I've always sucked at math." Then you should quit playing the Forex market. This "business" is about math. And even if your math skills are horrible, your calculator's math and your spreadsheet's math is not. LEARN YOUR MATH. If you don't know, guess what you should be reading up on? Remember when Mrs. Johnson in 3rd grade said you won't grow up to be rich if you don't learn your math? Now do you believe her? If you can't do mental math. Don't trade until you can.

Critical Success Factor #5) Read read read and read. And when you are done reading, read some more.

So some of you reading this have said, "Well, if you were down 25% the first day, and you've lost 5% since, then 5% x 10 the lot size = 50%; 25% + 50% = 75%, not 300%!!!"

True true true.

First, the title is just way cooler with 300%. Second, I have dipped below 50% on my account quite a few times, and had I been trading full lot sizes, I would have zeroed it quite a few times. So my title is not correct either, it probably should be higher than 300%.. But the moral of this chapter remains the same, reduce your lot size so you can stay in the game.

There's a bunch of VW GTI commercials about "Unpimping your Ride".

Inserted Video

That's exactly what I recommend for most of the newbie traders..

So, I'm chatting with one guy online, and he goes, "Yeah, I got this GREAT new system, it is awesome!!"

So I'm excited for him, and I tell him to send me some screenshots and walk me through it. So he's going on and on, and then he gets to the magical phrase:

> Quote
> "So... when all 15 indicators agree..."

And right away, I'm thinking..

(from http://archives.cnn.com/2000/TECH/sp...ary.alignment/)

> Quote
> Roughly speaking, the inner six planets are aligned every 50 to a 100 years or so, according to David R. Williams of NASA Goddard Space Flight Center.
>
> But the configuration of these eight bodies is more of a rarity. They lined up in a somewhat similar fashion in 1962 and won't do so again until 2438, according to Don Yeomans and Steve Edberg of NASA's Jet Propulsion Laboratory.

Hmm.. That means he will trade once every 50~100 years, with a big major trend in 2438.. Hmm.. how nice. Because the frequency in which 15 indicators will align is the same as the planets aligning; and I'm sure he doesn't have Laura Croft knocking on his door when that happens.

So I HIGHLY HIGHLY recommend everybody to "unpimp your chart".

Things you can use as useful information (technically):

1) Current Price
2) Highest High / Lowest Low relative to X bars ago
3) Volatility
4) and the big 4:

    A) Open
    B) Close
    C) High
    D) Low

Everything out side of this, and you are asking for trouble. Having picked two from the same catagory, and you will get a "correlation ghosting" in which indicators confirm each other because they are based on the same sets of data.

Critical Chart Reading Success Factor #1) If you are using more than 4 indicator, you probably aren't doing it right.

Critical Chart Reading Success Factor #2) If you don't understand how a particular indicator works, then DON'T USE IT. It could be giving you false signals and you wouldn't know. So some of you are going to whine "oh but I want to use it!! It's really "popular" now!! whine whine cry cry." First, SHUT UP. Second, GROW UP. Third, read up on it, until you understand it, and then use it. Otherwise, don't use it. Remember, stupid is as stupid does, and stupid people use what they don't understand and then cry about it.

Critical Chart Reading Success Factor #3) If the chart and the gut don't match, the don't trade. Your faith in your system is absolutely critical, if you don't believe in it, you shouldn't trade it!!

2 Lessons in this chapter, and both are very important.

I do quite a bit of martial arts; and I mean "useful" martial arts, not the pretty fluffy stuff, but the real "practical street stuff". I remember most of my friends in high school did martial arts, and I use to help out during their competitions, hold the bags, hold the pads etc..

One day, I remember what the coach said to my friend when he was about to go up.

> Quote
> Now listen, you just gotta believe that you can beat him. You just gotta have faith that you can beat him. It's about the faith, if you believe, you can do it!!

Look, as a God Fearing man, I can tell you, that faith is important. But as someone who was a student once, I can tell you, faith didn't help me pass the midterm exams. Faith didn't prevent my friend from getting the crap kicked out of him.

You know what DID make me pass my exams??? STUDYING AND HARD WORK.

My friend went on to become a very good martial arts competitor, and won quite a few state competitions. Although he did not make it in the Olympics, he did compete close to that level. Me, I just wrestled in high school, and watched a bunch of videos.. And so one day, I'm at his dojo, and we mess around, and I sudden realize.. HEY... I can kick my friend's ass.. Despite the fact he's a 14 year black belt, I can really whip him a new one. How was that possible? I tried sparring with another guy who was Olympic level, and I was amazed.. I could rip him a new one as well.

WHAT THE HECK???

And then, I realized, and it made sense to me. I didn't care if the moves "looked" pretty; I cared about effectiveness. They cared about pretty. I fight to survive, they fight to "get points". They fight within the confines of well defined rules, I make up the rules as I go along, always biasing it for my benefit.

"Hey, you can't do that!! That's illegal!!" they'd say to me. I'm sorry, when I'm fighting for my life, I don't understand what the world "illegal" means. I will bite, I will scratch your eyes out, I will kick you in the privates, I will throw sand in your eyes, I will pull your hair. I will do whatever is necessary to WIN. Because my life depended on it.

So understand the difference. Whenever you create artificial rules for no reason, what you have essentially done is created a "jail without walls". "jail without walls" is worse than "jail with walls" because you have no idea you are inside a jail!! You can't break out until you recognized you are LOCKED IN.

Quite a few people tell me "I use MACD and it doesn't work quite well, but I'm going to keep sticking to it.." ???? W H Y ??? If it ain't working, find out what day trash day is, and THROW IT OUT.

See, faith is great, because faith builds confidence. But if there are two boxers, me, and Mike Tyson, and I have 10000% faith, and Mike Tyson had 0% faith, I'm here to tell you boys and girls; if we have a boxing match, BET ON MIKE. See, all the faith in the world cannot substitute HARD WORK AND PERSEVERANCE. The reason David was able to beat Goliath, was because DAVID KNEW HOW TO USE A SLING WELL. Oh yes, he had faith, and the hand of God guided the rock, but make no bones about it; the first prereq is to KNOW HOW TO USE A SLING.

So you have all these "free loaders" i.e. "Forex squatters" who just want to use some system devised by someone who has put blood sweat and guts into it; and think they are going to make bazillions of dollars. WRONG. Because they don't understand the market, they don't understand the indicators, they don't understand basic market concepts, they don't understand money management, they don't understand probability. In fact, the list of things they don't understand is so long, that I will go ahead and list what they do understand, because that's a shorter list. They understand, very very little.

The other part is practicality. Quite a few people lose sight of the goal. Someone told me once, "I think your chart is FUGLY, I think my charts are 10x prettier than yours!" You know what, quite true. But are his "pretty charts" making him money? I had no idea we were in a stupid pretty chart contest!! See, some miss the point. "How many indicators do I need?" I don't know, only you can answer that. As many as you need to make money; no more, no less. Most just lose sight of quite a bit of the main purpose, which is to MAKE MONEY.

"Making money is not the only thing in life." Agreed. But it is the only thing in Forex. See, Forex isn't like working the Soup Kitchen, or volunteering at the Hospital, or working at the animal shelter. Forex is about one thing and one thing only.. M O N E Y. As the stupid movie said "SHOW ME THE MONEY!!!!"

So you have two important points, Work hard and persist. Faith without works is useless. Don't lose sight of your objective, which is to make money. Make sure you are practical in what you do. Leave the show and fluff at home.

Faith is great. But studying is what's going to make you pass the test, be it algebra or life. Having Faith and Confidence in what you are doing; because you have studied your butt of, that is the winning combination.

So I'm going to tell you all a little story that involves yours truly.

While I am a CIS major (Computer Informations Major); it is actually a business major. Couple that with almost 20 years of home study of the markets, and you get a nerd version of a stock broker.

So my ex-girlfriend was a stock broker. (Probably still is! don't know and don't care). She was actually a biology major, but switched professions. Well, when their company had a Christmas party, I went. Of course, you were in a room of 200 people, and 100+ of them were stock brokers, do you want to guess what the main topic of discussion was everywhere in the room? Yeah, it was pretty obvious.

As someone who had worked with commodities options at the math level for quite a while, I didn't feel uneasy talking to most of them. So a few of the brokers introduced themselves to me, and as soon as I said that I was a "Computer Security Consultant" (which I was at the time) they all rolled their eyes and kept on talking about the market. Well, I joined in with my "opinions". They stared at me, you know that funny stare like you have a big round green snot hanging out your nose that is so big, that people are scared to tell you. I went on and on, about how, the current market was ripe for a Pregnant Butterfly, and I wish I had the cash to execute quite a few lot-sets. They nodded, and smiled and walked away. Half an hour later, my ex comes running up to me, face red and flushed. The group she was standing with was all laughing.

"What did you say to them??" She asked, shaking me.

"Oh, we were talking about options, and stuff.. you know, the usual."

She was mad, she spoke at me through her grinding teeth, "You are SO embarrassing you know! They said you were speaking some non-sense about everything, you are the butt of all the jokes tonight, did you know that??"

Well, that was a strange surprise to me. I looked over at the group, and sure enough, the entire group was staring at me, one of them (The ring leader I guess) pointed at me, and everybody started to laugh.. "Let's get out of here.. I don't even know how I'm going to face them tomorrow morning." She said, as she started dragging me out the front door.

Then something strange happened. A fat old man, with a big hat, wow, he had to be about 200lbs and 65 years old; came charging at me like Godzilla, and stood between me and the front door. Out of breath, he panted a little, tried to speak, no sound came out, and then the tried again.

"Hey there son, what firm are you with?"

"I'm not with any firm, I'm a Computer Consultant."

"Bullshit, listen boy, I'm at least twice as old as you and I can spot bullshit a mile away. Now go ahead and tell me what firm you are with."

"I'm not with any firm!!"

He then turned to my ex, and said "Now this is serious, what firm is your boyfriend with?"

So like a school yard fight, we now had a large crowd surrounding us, I guess a 65 year old man running across the room with a Texas 10 gallon had attracts attention.

I interrupted and stuck out my hand and ask, "I'm sorry, who are you again? I didn't quite catch the name."

By this time, my ex was about to cry..

"My son tells me you were talking about inverse floaters, and pregnant butterflies and the like?"

I gave him the raised eyebrow..

And replied cautiously, and said.. "Yes...?"

It turns out, he was the head broker of that branch. The asshole that was laughing at me that started it all, was his son. He wanted to know, where I learned most of it, because he just went to a conference for brokers who make over $1M a year, and in that very seminar, they talk some of this stuff. Ah..! He THOUGHT I was a broker who made over $1M and went to one of those courses!

"I'm a computer consultant, I've never had formal training about the market, 100% of everything was self-taught. I learned it by reading every investment book in Barnes and Nobels. I don't really care if you believe me, but that's the truth."

He then turned to his son, and said "This guy knows more about the market than you, and it's not even his profession! You should be ashamed of yourself, not only do you not know stuff about your industry, you make a mockery of a man who does. I want you to apologize to him right now."

You can tell, the asshole basically would have rather died than to apologize. "I'm .."

"No need to apologize, and no need to make him apologize, you know how the YOUNG ONES ARE these days.." I said. "Thanks for the party, hope to see you around sometime." I walked out.

ELVIS HAS LEFT THE BUILDING!!

So this is one of my favorite stories, because I had always studied on my own, and I had always felt "slightly inferior" and often ASSUMED that they are "professionals" they MUST know more than me, it's their job!! And guess what? They DON'T.

See, 95% of the world, are mediocre at best. If you work hard at reading and learning, you will know more than the so called professionals ever will. They are cocky, and look at you like "I'm the professional, you are the serf." But the truth of the matter is:

1) They probably only know a little more than you; but it's highly doubtful they will know more than you, if you've read an hour a day for 3 months. That's 100 hours, that's 2.5 college courses.

2) Nobody cares more about your money than you do. See, they don't care enough to know more than you. They make money regardless if you make money or lose money. So the only person you should be entrusting your money to, is YOURSELF.

Never let their cheap suits and fast talking fool you. Like an eclipse of the sun, if you've read an hour a day, for 3-6 months, it is highly unlikely a so called "professional" will know more than you. The industry leaders are readers. I never buy into the the "professional" ploy.

Harsh words?

Well, let me tell you more..

I don't trust doctors for the same reason; the person that should be the most concerned about your health is YOU. That's because you are the person that is most directly effected by the qualify of your health. To ask a doctor to care about your health when you don't, is ridiculous. No doctor can care about your health more than you do; just like no broker can care more about your money than you do.

So just remember, a professional is merely someone who has a semi-glossed business card. THAT'S IT. His title in no way represents anything. Never look at yourself as the serf; and place the "professionals" on a pedastal; because you are only lying to yourself.

If you want something done right; then hire a professional. That means YOURSELF. You should care enough about your money to place it under one person's control only, YOURS. you should care enough about your money to read at least an hour everyday.

Remember, knowledge doubles now, ever year. So if you double your knowledge every year, you are only keeping up with the rest of the world. If you aren't reading at all, then you will be like the dinosaurs.

> Quote
> “Give a man a fish; you have fed him for today. Teach a man to fish; and you will not have to listen to his incessant whining about how hungry he is.”—Author unknown

So true..

I have two skills, and that's about it. One is reading quickly, and the other is researchability.

I read quickly because I'm a student of reading quickly. I have paid a lot of money to learn to read quickly. I am nowhere near some of the sound barrier breaking readers out there, I know, but I am faster than a locomotive during rush hour when it comes to reading. If throughout my book, you find I keep pushing the reading aspect, it's because it is one of the basic fundamentals of success. Leaders are Learners. Learners are Readers. Readers are Earners.

My second skill, the ability to do research. I was a "Internet finder" for 2 years. What is an "Internet Finder"??? An Internet Finder is someone who find information about anything and everything you pay him to find. It's not as easy as it sounds. How to get to the information, how to filter out the junk vs the good, seperating the wheat from the chaff etc.. The ability to read quickly and the ability to do great research, has got to be, two of the most valuable skills in your life.

If I give you information; it will help you for one day. If I teach you how to find information on your own, then you will owe me 20% of everything you make!!

You read on the boards, all the people with their incessant whining. Why? Because they are looking for fish. I encourage everybody to learn how to fish, it makes for less whining on your part and is less painful to bear for the rest of the group. This is why when someone asks me if they should give money to others to trade for them, I tell them "You can keep buying fish from others instead of learning how to fish for youself; but let me tell you, one day, they might serve you fugu, and you and your account will be dead..

> Quote
> The fish is highly toxic, but despite this — or perhaps because of it — it is considered a delicacy in Japan. The fish contains lethal amounts of the poison tetrodotoxin in the internal organs, especially the liver and the ovaries, but also in the skin and the testicles. Therefore, only specially licensed chefs can prepare and sell fugu to the public, and the consumption of the liver and ovaries is forbidden. But because small amounts of the poison give a special desired sensation on the tongue, these parts are considered the most delicious by some gourmets. Every year a number of people die because they underestimate the amount of poison in the consumed fish parts.
>
> The poison paralyzes the muscles while the victim stays fully conscious, and eventually dies from asphyxiation. There is currently no antidote, and the standard medical approach is to try to support the respiratory and circulatory system until the effect of the poison wears off. The fish is also featured prominently in Japanese art and culture.

You let someone trade for you, and you might die of paralysis of the muscles and asphyxiation.. Sounds horrible..

Thinking outside the box. That's what everybody tells you to do..

But how do you do it?

I love watching Star Trek; and one time, I was discussing the "Transporter" and "Beaming" with a friend of mine.

"It's never going to be possible." I said, "It's all fun and games, but Heisenburg Uncertainty Principle will negate any and all possibilities.."

"Ah.." my friend replied.. "That's why they have the 'Heisenburg Compensator' built into the Transporter." He replied with a smirk.

Then it dawned on me.. It was as easy as that..

I'm a big fan of multiple uses for an indicator; and using indicators in a way they were not intended to be used.

If an regular MA crossover system works so well; everybody would be doing it. All this stuff is backtestable. You will find, the choppiness of the market kills these simple systems. So how do you defeat it? That my friends, __IS__ the magic question.

Is there an answer? I'm sure there is.. How do you do it? Every system is matched with a personality; your risk tolerance, your reward greediness factor, and your outlook on life all play a pivotal roll in it. So there is no "right" answer, but there perhaps is a "right answer" for you.

So I encourage you to "think outside the box", and if someone tells you that it's impossible because of the Heisenburg Uncertainty Principle; then get working on a Heisenburg compensator!!

Las Vegas. Sin City. The City that never sleeps.. oh wait, or was that New York??

Las Vegas, the city of gambling, where the women are fast, the buffet lines are slow, and losing your money is almost a given... wait, let me take that back, losing your money __IS__ a given..

Below, is the chart of the House Advantage for all the different Vegas games:

With the exception of strange video poker; basically, the house will eventually win.. Vegas can teach us quite a bit, and what it is basically teaching us is this:

1) Make sure you have the odds in your favor. Lady luck is nothing more than a cheap whore who sleeps with everybody. But MATHEMATICS is your friend for life. No betting system can beat the mathematical edge that the house has. Some people think that the house tries to cheat.. In fact, if you know and understand ANYTHING about math, you'd know, it's in the best interest of the house to NOT cheat. In fact, they want the games to be as straight out statistically as possible.

Consider one of my favorite games, Roulette. With two zeros, the house advantage is 5.26%.. !!!

It means: when there's $100 on the table, the house will take $5.26 from it.

After just 13 iterations, you would have lost over half your money!! So that's why they work so hard to keep your butt on those tables and those slot machines!!

I know a guy who owned a casino, and I asked him, "Lobster and Steak, $1.99, I can't do it RAW for that cheap, how can you??" He told me, "I can't either!!"

While waiting in line, I saw a woman playing the slot machine while she was waiting in line. She lost $20. She got up to the front of the line, ordered a lobster and steak for $1.99, and then commented.. "WOW, this is so cheap!!" Was it??

And it is this thing called "math" that is subsidizing all the buffets in Las Vegas.

2) When the odds are in your favor, play them all night, as many iterations as possible.

They say "when you are hot, you're hot, when you're not, you're not.." but if you are the house, you gotta play as often as possible, because in the long run, it will all match the statistics. So think about it, if I get $100M in bets onto the table, then I make $5.26M statistically.. HEY!!! That doesn't sound just good, that sounds DAMN good to me!!

3) Never play a game in which statistics aren't in your favor..

With the freak exception of video poker, all the odds are in the house's favor.. And note, the popular games like craps and slto machines, sometimes the odds are double digits in the house's favor!!

So, the secret to trading is basically this:

1) Make sure you have a statistical advantage.
2) Make sure you do the exact same thing every time, so you will, in the long run, match the statistics
3) Play as often as you can, so you will in the long run, match the statistics
4) Have good Money Management

Captain's Log, October 10th, 2006.

I had declared war against the Forex May 15th, 2006. I have been at its throat 14 hours a day, since then. In 5 days, it will have been 5 months. So what have I learned in these 5 months? Plenty.

Perhaps though, what I have learned that is most important is that we place emphasis on the wrong thing.

Now if you have read my journal up to this point, you will note that Money Management is the Key. That part is clear... or is it? It seems for most, it's just a phrase. So I'm going to summarize briefly what I find to be important.

Entries and exits do not a system make.. If you have an entry method, and an exit method, you DON'T have a system!! This is probably the BIGGEST problem most have. A system has position sizing, money management etc.. All you have is entry and exit.

Most place emphasis on the "entry", but in reality, the exit is just as important if not more important. How you react to the market will determine your exit, and it is this determination that will lead you to one of the most overused but under-utilized phrase in all of forex, and that is:

Cut your losses and let your profits run.

You will note, there are two parts to it:

1) CUT YOUR LOSSES <-- That means if you are wrong, hack it off! Kill the position. This is CRITICAL as it is equity protection. You can't win the game if you aren't in the game. And you aren't in the game if you don't have the money to play.

2) Let your profits run <-- This means not taking early profits. This is absolutely critical. I will say it again, this is critical. But as the dumbasses you are, you won't listen to me. In fact, most of you will argue with me.

There are components involved that a system needs:

1) Win%
2) Payrate in R
3) Frequency

Of these, Frequency is the most important, followed by payrate, followed by win%.

1) Winning % ~ If you tell people that your system yields 35% winners; most will feel that you are actually saying that you're a 65% LOSER. The problem is, this number means very little outside of its

context. if I win 35% of the time, but everytime I win, I win $100 but everytime I lose, I lose $10... Well, they system sounds pretty darn spiffy to me!! So a winning percentage is not necessary. But this and a "good entry" is what most seek... As King Solomon said, it's chasing after the wind..

2) Payrate ~ I like to think of payrate in terms of R, or "Risk Unit". 1R = 1 Risk Unit. Now you can then define your payrate. If I'm willing to risk 25 pips per trade, then 25 pips = 1 R. If everytime I'm right, I'm right for 75 pips, well, that gives me a 75:25 reward vs risk or reduced, I have a 3:1.

Expectancy is what I can expect (why it's called expectancy!!) when I am done with one "set" of iteration.

(35% * 3) - (65% * 1) = .40 cents.

That means for every dollar I spend, I expect 40 cents ROI. I have a positive expectancy. That means this is a good system if I'm getting 35% and 3:1.

3) The KICKER though is Frequency.

Question: Do you want choice A or B?

Choice A) $5

Choice B) $2

Of course you'd want choice A. Now we try it again, but this time, we add frequency to it.

Choice A) $5 per month

Choice B) $2 per week

Which would you want? Of course you'd want choice B. We keep focusing on the amount, but the frequency is perhaps more important.

If you have a positive expectancy, then increasing the win% has a MINIMAL effect on your profitability. Increasing your payrate will have a bigger influence. BUT, increasing the frequency (yes, even at the cost of profitability in percentage as well as payrate) is going to influence you the most. This is why you really need to understand this stuff.

Frequency is BY FAR the most important aspect of the 3 elements discussed here. Add Money Management to it, and it will become like a money factory for you...

So many have asked, and so I guess I will answer it here, as it saves me from retyping.

I declared "War!!" against the evil that is Forex.

I set it within my sights, and aimed to kill it once and for all..

I just did an "ls -la | wc -l" For those of you who don't speak geek, that means I did a count of how many ebooks I had on the subject of trading and forex.

Total count: 263. I've read close to 200 of them... (2 Gigs!!!)

With the exception of Saturdays when I teach all day, and a few night classes, I pretty much average 14 hours a day on this topic. It's been 5 months. Assuming then, for the week, I average about 10 hours a day if I spread it over a week..

150 days * 10 hours = 1500 hours spent on learning how to trade. WOW!!

Average number of hours per college semester:
4 hours per week * 12 weeks + 4 for midterm + 4 for finals = 56 hours

1500 / 56 = 26.7 rounded to 27.

200 books / 27 = 7.4

So.. What I have done, is the equivalent of taking 27 college courses on trading and forex, each class averaging 7.4 books as class material.

Average "full time student" is considered to take 4~6 classes per semester. Assuming 6 classes;

27 / 6 = 4.5 Semesters

So in 5 months, I'm now in my "Junior" year of my Forex College. Very fast huh?

That's the power of reading, and determination. I have renewed confidence that I am at a much greater advantage for it. I don't need to make mistakes, I have learned from the many authors who have shared their mistakes with me. It might have taken them 5 years to make a mistake; a mistake which only probably took me 10 minutes of reading to learn. While not really the same, I however probably saved a lot of "Forex Tuition" in doing so.

Many ask, reading all those books, did they help??

The sad new is, only 4 very distinct ones helped.

They are:

1) Van K. Tharp - Trade Your Way to Financial Freedom
2) Ryan Jones - The Trading Game
3) Larry Williams - Long Term Secrets to Short Term Trading
4) Phantom's Gift

Van Tharp's book is the big summary; the problem is, if you read it, it won't make sense if you don't have the supporting background.

Ryan Jones makes a great case for MM, but I think his method is quite flawed.

Larry Williams needs to stop drinking the espressos.

I don't know who Phantom is, but I have to thank him for his book.

Of the 4, Phantom sounds the most market experienced. Ryan Jones is a mathematician, and Van Tharp sounds like the best psychologist.

Here, I have to give props to Larry Williams. The man is a trading genius. The PROBLEM IS, he has got to be the WORST writer in the world. You can tell it all makes perfect sense in his head, but he cannot put it down on paper clearly. His methods and insight on things are the most original BY FAR, and they throw almost all conventional thinking out the window. In looking back, I can say that quite a few authors either stole from him knowingly or unknowingly. You can also tell that quite a few authors were students of his.

For some reason, people think it a stupid thing to reread a book. I have reread Larry's book about 4 times. I find new insights, and with increased background knowledge comes increased understanding. Boiling a bone for 4 hours doesn't yield great soup stock, you have to first crack the bone and let the marrow out; that's what makes great soup stock. Same with Forex and trading..

When my students ask me "What can I do to help my kids have a better future?" I tell them, "Teach them how to speed read. It will be repaid in hundreds if not thousands of folds."

Many Many Many years ago, I read a book called "Think and Grow Rich". I was in Junior High back then, and didn't understand what it was talking about.

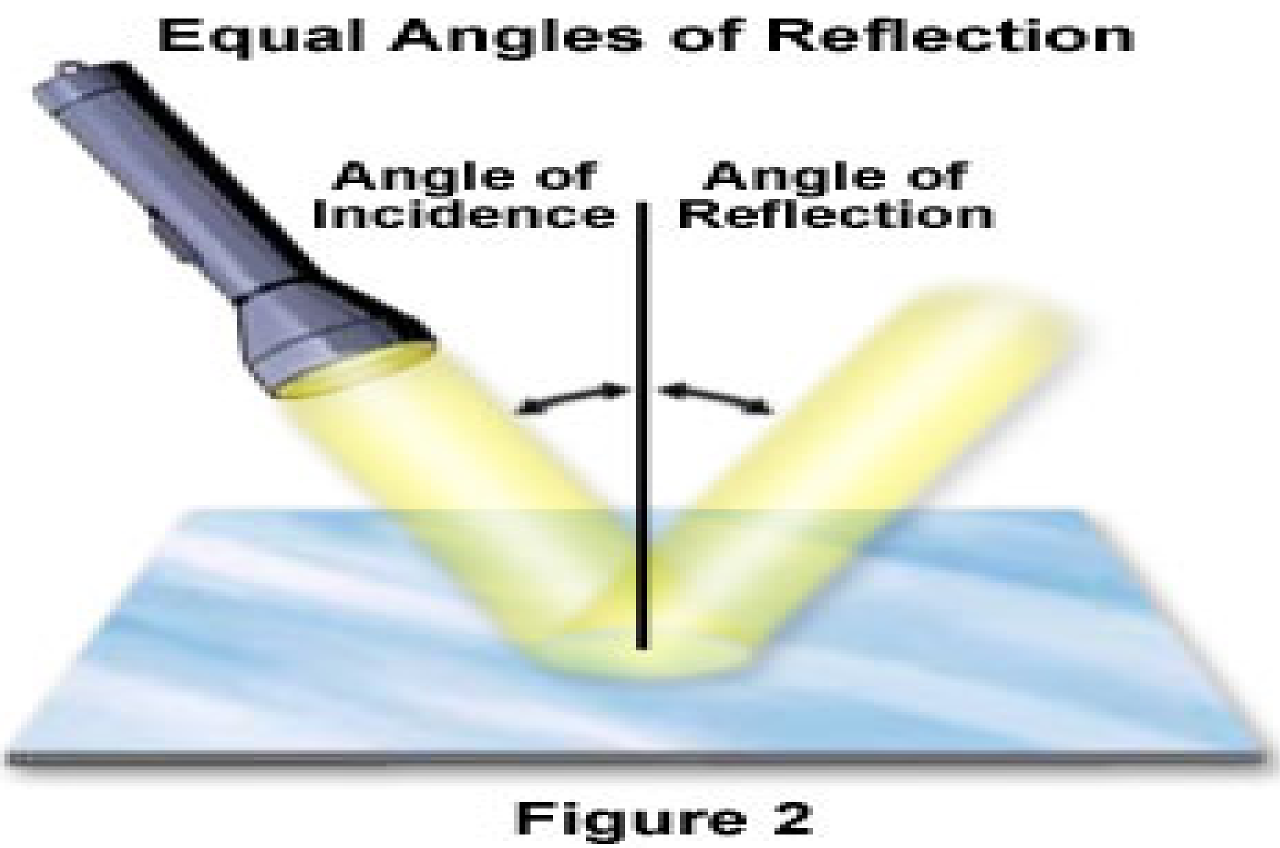
This past month, I visited the book again, and found it amazing...

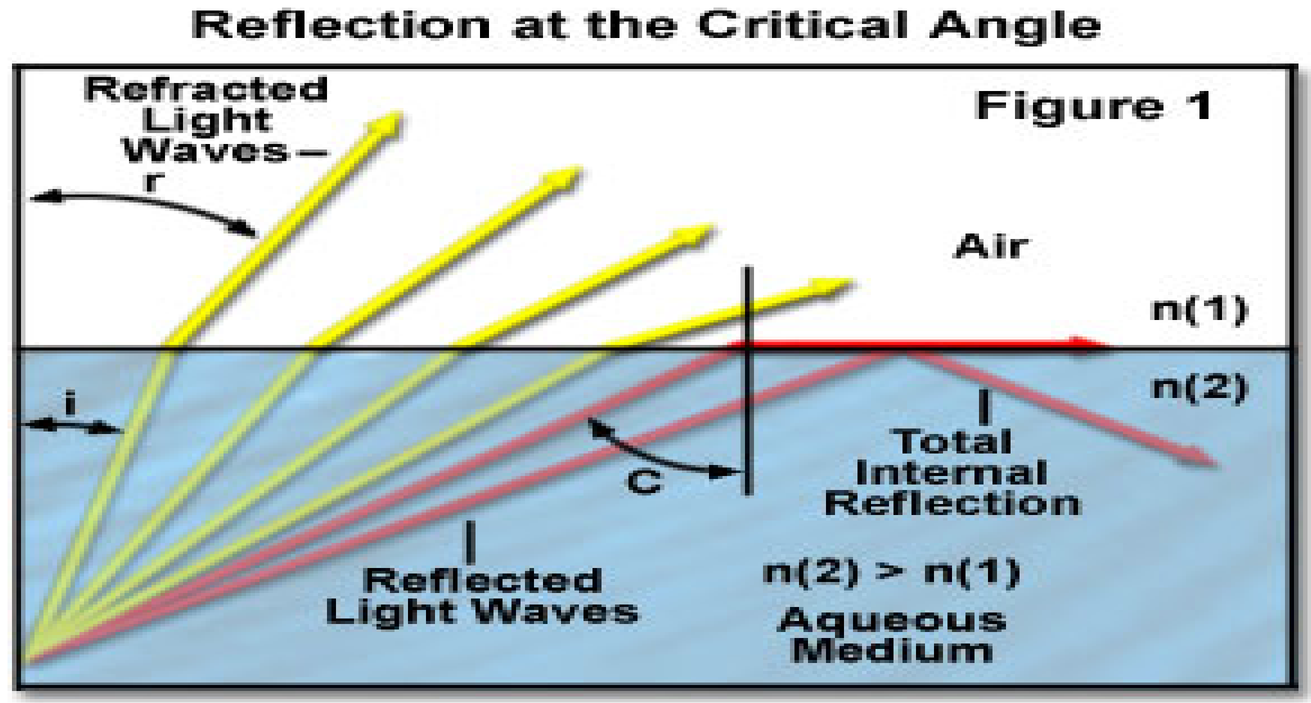
Sometimes, when you are ready for the message, the messenger will appear.
Or perhaps, the message was always there, you just needed to see it with your eyes open.

Like those 3D images at the mall..

The explaination that would be required to accompany it would be so long, I don't even know where to begin..

So I will post the two images that answered quite a lot of my questions..





Both of these pictures, encompass all that I was looking for. So I hope a picture is worth more than a thousand words, because a thousand words don't answer what these two pictures answer as far as Forex.

The problem is digestion..

Perhaps I have just a super acute nose, or that I am just better at smelling things; but I can generally identify food items and what they contain from smell alone. But I think, it's not because I have a great nose, but because I have eaten a lot of stuff during my lifetime.

I think there are two parts and 3 processes:

1) Exposure ~ If you have only eaten American fastfood most of your life, when you go to Asia, most of the smells will be foreign to you. Similarly, if you've only read about MA's and MACD, then everything else is foreign. Just like Americans think that only Hamburgers and Pizza with the occasional spaghetti exists, so do most think that only Stochastics, MACD, and MA's exist. This simply is not so. What most need is exposure to other indicators, but more importantly, these indicators were invited with a theory backing it up. So understanding the theory is more important than the indicator itself. The more theory you expose yourself to, the better chance you have in identifying the smell later on.

2) Digestion ~ Eating a lot of food or indicators takes time to digest. It is this digestion time however, that is missing. Most have picked up the "Western fast food culture" and have applied it similarly to FX. Most learn an indicator, get all excited and trade it on paper for 2 weeks and then want to trade it live already. You need to digest not only the market, but the indicators and more importantly the theories behind the indicators.

Processes:

1) Ask yourself, "Have I seen this, or smelled this before? Is there something familiar about it, or is it absolutely foreign?"

2) If I've seen or smelled it before, WHERE? Try to remember the context and environment.

3) Rapid Item Matching and Elimination ~ Once you've isolated the location in which you have seen or smelled it before, then rapidly go through the laundry list one by one; eliminating the possible candidates until you are left with one.

In the case of indicators, it's much easier than smells. You've got trending stuff, oscillator stuff, and "other" stuff. You've got freaky math stuff, (Like Clouds indicators) and other strangeness. Do you have indicators that are great as entries, or great as exits? Do the bounce back and forth like a playing Pong? Most indicators are from a certain "family" of indicators and adhere to certain theories. You've got your trending stuff, your volatility stuff, your oscillator stuff, and your price action / candle stuff.

But the key here is digestion time. You need to eat a lot, give it time to digest into your brain, so you can recall stuff about it the next time you see it.

The Trend.. The supposed friend. But you notice, not a single book defines it? In fact, not a single trading book tells you how to program in a trend..Jacko alludes to it, but not something quantifiable.

Unfortunately, my NDA precludes me from disclosing it, but it seems that nobody has succeeded in a programmable definition of what a Trend is...

What good is the advice of trading with the trend, if you can't define it? Why aren't more people angry about this fact? They tell you to trade with the trend and yet you are never shown how to define it.. They give you some metaphysical garbage like "Well, the trend means different things to different people" yeah, kind of like fried ocra.. all things to all people..

I have now officially dubbed this the "Guru" test. If the person you are learning from, can't define a trend, then ask for your money back.

do a two second google search, you cant talk about trend without talking about time. that and trend by definition seems to refer to the general case.

The general drift or tendency in a set of data.

A prevailing direction of the market, either up or down, during the course of a term. Thus the trend is always relative to the term; ie, short term, medium term or long term. The short term trend could be up while the long term trend is still down. One should always be careful when using this term “trend” to specify the term to which the trend is related.

I wanted to just note that when I started out in this Forex journey, I had two very big questions that I didn't know the answer to.

Recently, I have answered one of them, although 2 years later than I would have liked, but at least it's no longer an open-ended question anymore.

So as with markets, a persistent attitude seems to be a key ingredient to anything successful.

I am down to one question left, and when I've answered that question, I hope it doesn't produce two more questions

That said, there is a multi-dimensional relationship between price of high,low vs open,close.

We generally categorize the 4 of them together, but that was the part that caused me to take 2 years..

High and Low are one group

Open and Close are another group

Putting all 4 together is why most people won't build profitable systems.

For those of you who have systems that aren't doing what you think it should be doing, the hint I can give you without telling you the answer, is that [high,low] are a pair, and [open,close] are a pair, and the two tuples should not be mixed.

I don't want to deprive you of the "aha!" moment, but when you discover why, it will give you new understanding of price action.

I'm not understanding how come it's so difficult to ask people to NOT POST IN MY JOURNAL.

Man, I should never have started posting again.

One of the problems that most people have is.. well, they are stupid. The 8 1/2 lb on their shoulders, is just a paper weight. Most don't make good use of it.

The second problem is (if you are American, and yes, I SPECIFICALLY PICK ON AMERICANS BECAUSE I AM ONE) is the HORRIBLE HORRIBLE HORRIBLE math skillz <== (gangster notation for emphasis).

I have said time and time again, if you don't know calculus, then you don't know squat... err.. I mean then you don't know dSquat/dX (calculus jokes.. hehehe)

There seems to be a fundamental lack of understanding of what I call the elemental 4 (or the elemental 2 if you don't believe in opens and closes..)

High, Low, Open, Close.

Today however, I will talk about part of these 4. I will talk about, in detail the concept of snapshots as it pertains to Opens and Closes.

from the wiki on backups:
http://en.wikipedia.org/wiki/Backup

Snapshot backup A snapshot is an instantaneous function of some storage systems that presents a copy of the filesystem as if it was frozen in a specific point in time, often by a copy-on-write mechanism. An effective way to back up live data is to temporarily quiesce it (e.g. close all files), take a snapshot, and then resume live operations. At this point the snapshot can be backed up through normal methods. [10]
While a snapshot is very handy for viewing a filesystem as it was at a different point in time, it is hardly an effective backup mechanism by itself.
Basically, a snapshot is just as the name implies, it is a snapshot, taken at a specific moment in time.

That is all that an Open and a Close are. Those who live by Opens and Closes, really need to install linux, run a server, and learn about backups. You will find that snapshots are just that, a specific state of a specific system at a specific moment in time, nothing more.

If you "offset" the timeframes by perhaps 1 minute, or 5 or 7 minutes, all the candle sets will look different.

I am SOOOOO sorry for those of you who are candle traders, to burst your bubble, but candle shapes are rubbish. The reason is that candle shapes are based on snapshot.

They are really nothing more than ink blots..

Do you see a butterfly?? If you do, your dad raped you.

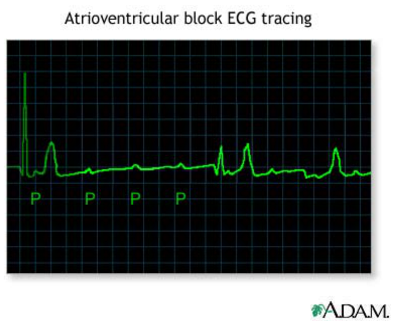
See how arbitrary that was? And so it is with candle stick interpretations.

The lack of understanding on the part of most traders (because they lack the math skills); If I arbitrarly picked 5:03 instead of 5:00 to take a open, and 6:03 instead of 6:00 to take a close, then the entire candle set would look very different.. and so would the price interpretation!

YET, it's the same freakin' data!! So while most of you who are trading candle stick patterns THINK you are a technical trader, you are actually a fundamental trader...

Sad news huh?

The REAL method to present a price, is a la EKG style..something like this:



Because that's the only way we get a true 2D view of price action. I don't really know of any FX charting systems that allow for this... But EKG style is the ONLY real way to display price action. While "action" might be a noun in this case, and "price" is used as an adjective, action requires movement, and movement is really sequential snapshots of still frames with respect to time. Think of it like a cartoon, a bunch of still pics flipped in sequence quickly.

Given X axis to be time, and Y to be price, since TIME is always MOVING, when we see it just sitting on a single bar, we are BEING LIED TO.

And so you are making decisions based on false information... and that's why your trading sucks.

See?

Conspiracy? Probably not. Stupidity on the part of the so called Ha'vad Grads who don't know much about pricing models because they are all business majors and none of them have taken calculus? Yep.

*Did we land on the moon? Not sure.

*Was there a 2nd shooter on the grassy knoll? Not sure.

*Is Candle stick pattern trading the biggest crock of Lindsey Lohan this side of Paris Hilton? YEP.

0.00000001% <-- The percentage of people in the world who understand why open and close are a hoax.

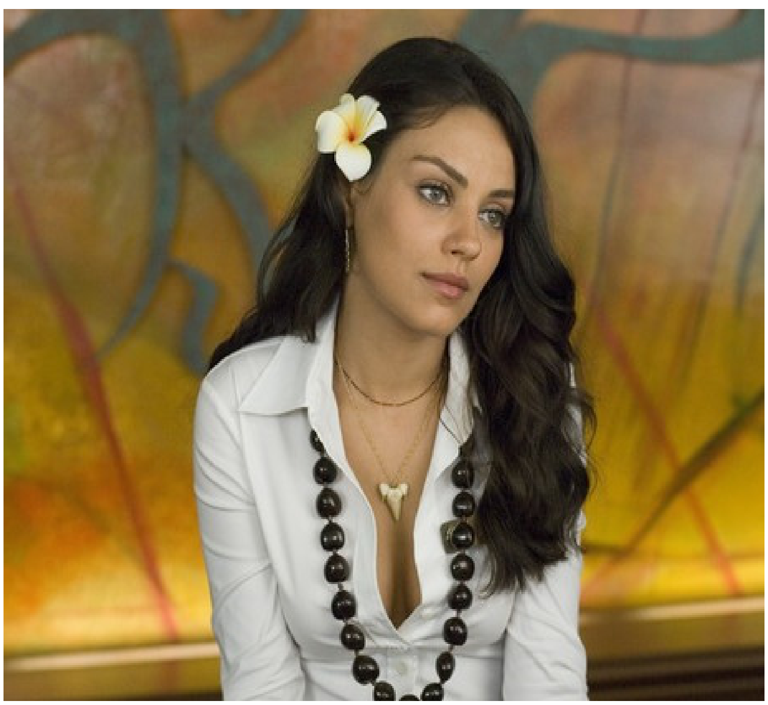
IF YOU NEED PRICE INTERPRETATION AND THUS USE PRICE ACTION, YOU CAN ONLY DEPEND ON __TWO__ NUMBERS: 1) HIGH 2) LOW.

If you use the open and close as price indicators in price action, you are:

1) Not understanding what a snapshot is
2) Not understanding what X-axis vs Y-axis means
3) Not understanding what a snapshot is
4) Not understanding how an "offset" can alter the entire view of the price chart
5) Not understanding what a snapshot is
6) Bought way too many books on candle trading patterns instead of THINKING.

I don't charge $2000/hour for a seminar, and I present the truth. Most of you seem to be angered by that. I don't lie and everything I say is mathematically verifiable. But what am I compared to a mathless self-proclaimed guru?
But I know there will still be those of you who are confused... so let me make it easy for you..
Girlfriend of those who don't listen to twoblink:

Girlfriend of those who listen to twoblink:



Now is that really a tough choice??

I have attached the indicator: High Low Only.

This should present you with a better view to do price action.

Attached File
High_Low_Only.mq4 2 KB | 350 downloads

If you can define the problem, you are half way to solving it..

so they say..

So I'm going to go ahead and define the problem for you, and get you half way there.

The problem is a mathematical one and difficult for most to understand. We will put it in a matrix form, and then explain the problems with each.

There are basically 4 types of setups, just the same as in options and pretty much in any system of trading, they are:

1) Unlimited Loss, Unlimited Profit
2) Unlimited Loss, Limited Profit
3) Limited Loss, Unlimited Profit
4) Limited Loss, Limited Profit

THAT'S IT. If you are doing something other than these 4, then you are the alien that crashed in Roswell..

Let's take them one at a time and name the problems involved.

1) Unlimited Loss, Unlimited Profit ~

This seems like a great idea, I mean come on, who wouldn't want "unlimited profit"? But you do that at the expense of unlimited loss. What this means, basically is, you enter a position without either SL or TP. Nice. You've got kahonas the size of door knobs. You the man. If you are a woman, then you've got ovaries the size of grapefruits, you are Xena.

The problem is, if we find Bin Laden and you are short the USD, you are screwed and I mean the type of screwed that you can't recover from. So no SL... BAD IDEA.

2) Unlimited Loss, Limited Profit ~

from the Webster's Dictionary:
http://www.merriam-webster.com/dictionary/moron

mo·ron Pronunciation: \ˈmȯr-ˌän\ Function:*noun* Etymology:irregular from Greek *mōros* foolish, stupidDate:1910 1) *usually offensive* **:** a mildly mentally retarded person
2) a very stupid person

There you go... Looked it up in the dictionary for you.

If you have a TP and no SL, this is you.

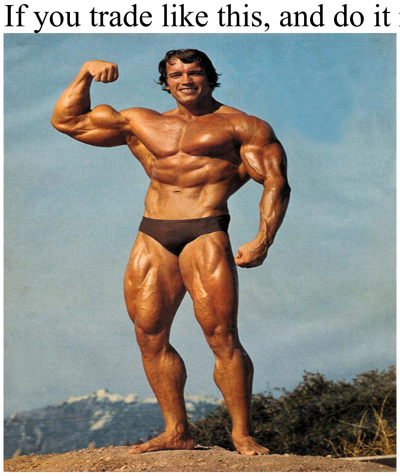
3) Limited Loss, Unlimited Profit ~

Now we are getting somewhere! This is the breakfast of Champions!! Having a system that obeys the first rule of trading, "Cut your losses, and let your profit run." If you didn't know what that line meant, that's what it means.

It means:

When you enter a position, have an SL but no TP.

If you trade like this, and do it right, this is what you will look like:



Buff people from Austria cut their losses, let their profits run, and have biceps which are larger than my waist. (That wasn't a joke) and marry into the extended Kennedy family...

4) Limited Loss, Limited Profit ~ This is what you want to do in shorter timeframes. This means having both an SL and a TP.

The problem with it all.

1) If you go unlimited loss unlimited profit, you don't have the kind of $$$ (Unless you are Gates or Buffet) to ride out the rough spots. And if you aren't smart enough to cry uncle when you are wrong, then you are going to be poor really quickly.

2) Unlimited Loss, limited profit, if this makes sense in your world, I highly recommend you change worlds.

3) Limited Loss, Unlimited Profit ~ This is a tricky one, let me explain.

Let's say your currency pair is at 1.0000 right now. Let's say you go long, and put a SL at 0.9500, a whole 500 pips deep. Before I finish with this example, let me give you the analogy most commonly used for this:

All NBA players are basketball players, but not all basketball players are in the NBA.

Did you catch that?

What this means is, if the price goes to 0.9500, it will hit your SL and you will exit EVERY TIME.

BUT..

If the price goes to 1.0500, you aren't guaranteed to take profit. So when the price oscillates, you are guaranteed a loss if it gets to your price on the one side, but you are not guaranteed a profit if it hits your price on the other.

So.. you are thinking, ok, I just take a TP on the other side right?? WRONG..

4) Limited Loss, Limited Profit ~ This would seem like the solution to #3, and if you thought that, well, then you need to retake a math class.

Let's say we have a perfect coin, and we flip it. Heads I give you $100, Tales you give me $100. After 100 flips, you'd expect us to be close to even right? Well, that's great in the coin flipping business, but it's not ok in the FX business.

Assuming that the market is completely random and 50/50, given a 100 pip TP and a 100 pip SL, we have:

Expectancy = (%Win * Payrate) - (%Loss * Payrate).

If the winrate and payrate are the same, we will NOT break even, because FX is a NEGATIVE SUM GAME. Whoever told you it was a zero sum game lied to you, and you should get your money back.

If you win 100 pips (minus 3 pips B/A)
and then you lose 100 pips
then win 100
then lose 100

Basically, you still have a negative edge, because your starting out at -3, not 0.

So let's make SL = 100, and TP = 103. Great, but now you are -3% down on the probability because you have a skewed SL vs TP.

So if SL and TP are the same, you have a negative expectancy because of Bid/Ask.

If SL is smaller than TP, you have a negative expectancy because the percentage is no longer 50/50. The percentage is against you, and the payrate is not enough to compensate for it.

If the SL is bigger than the TP, you STILL have a negative expectancy because the percentage is still no longer 50/50, the percentage is in your favor but the payrate is not, and payrate is more important than winrate.

The shorter the timeframe, the more magnified the problem.

So you are trading 15M frames, and you do TP=20. What are you.. retarded?? If your spread is 3, then you are at -15% to START. That means, you need to have a system that's a 1.16 system to be on the plus side. So most keep trading 15M without an edge, and then get so shocked that they are losing money. Of course you are you moron, you didn't do the math!!

Understanding what's going on, is vitally important, and understanding the problem is vitally important.

So I can tell you this:

First, don't bother with the first 2, if you are going to trade for a living and you have less than $1B in the bank, then you've got only 2 choices:

Limited Loss, Unlimited Profit

or

Limited Loss, Limited Profit

If you pick limited loss, unlimited profit, this is good for slightly longer timeframes.

If you pick limited loss, limited profit, this is good for shorter timeframes, BUT you'd better know the edge you need in order to be profitable.

A lot of people seem to not understand Forex, despite the fact they are trading it...

I often get the question "How much money are you making in FX?"

That's the stupidest question..

So you've got 2 guys:

Guy A makes $1000 in FX this week.

Guy B makes $1000 in FX this week.

Who's the better trader, guy A or guy B?

Trick question of course, because you need to understand the starting capital for each before you can answer that.

Let's say:

Guy A started out with $1M in the bank.

Guy B started out with $5000 in the bank.

__NOW__ who's the better trader?? In terms of ROI, Guy B spanks Guy A like a hooker from Hollywood and Vine.

But if you really want to talk about comparison of apples vs apples, you really need to talk about who's actually pimpin' the most pippage.

The fundamental unit of FX is a pip. If you don't understand what a pip is, STOP TRADING RIGHT NOW. No, really, I mean that.

Now let's talk about 2 other guys, Guy C and Guy D.

Guy C has a starting bank roll of $10,000.
Guy D has a starting bank roll of $10,000.

Both make $1000 this week, who's the better trader?

AGAIN, it's a trick question.

Let's suppose that Guy C trades 5 lots at a time (man's got balls, what can I say!!) and so he made $1000 from 5 lots. That's nothing, at $10/pip/lot, all he did was make 20 pips.

Suppose Guy D traded only 1 lot, and still managed to make $1000. At again the same $10/pip/lot, he made 100 pips, he's 5x the trader Guy C is.

And that is what I am talking about, RAW PIPPAGE.

In "my" world, there are a few things me and my fellow Rabbit Traders talk about.

In terms of "time" we talk about TTD.

TTD = Time To Double. That's both a call to action, and a statement of time.

If I have BankRoll X, how long does it take me to get to 2X?

This is a fair comparison of "skillz" because if I started out with $100M, I need to get to $200M, if I started out with $5K, I need to get to $10K. So my fellow rabbiteers and I talk about TTD all the time.

In terms of measurements, I truly believe in FX, there are only 2 numbers:

1) Raw pippage
2) TTD

THAT'S IT. Any other measurement is unfair and does not give a good picture.

There is a 3rd one, that I don't use myself, but quite a few traders on the internet use all the time, and that's the R measurement, specifically:

Time to 100R

Given R = 1 Risk Unit, how much time for me to profit to 100R, or 100x that of my risk unit.

One of the reasons why I don't use this is because the way my trading system goes, my R is never fixed for every trade, and so this is a difficult measurement for me. But those who say will risk a max of $xDollars, can use this system.

I still however, believe in raw pippage as the one true measurement of the robustness of your trading system.

if your system requires $100M to make $1000, your system isn't that great.

if you are bragging that you make $10K a week, but your account is $10M, you are not that great.

If you are making $10K a week and trading 5 lots at a time, I'm not impressed.

I believe that a good fairline measurement to start aiming for is 2000~3000 pips a week.

If you talk about pips per week or pips per day, you can talk to anybody and compare your trading skillz against theirs.

So please, stop asking me and everybody else around you how much "money" they are making, because it's simply not an accurate measurement of ANYTHING; let alone, people are going to lie to you about it. Nobody wants to reveal how much they are making or losing.

but talk raw pippage, and you at least sound like you know what you are doing...

There are a few things that make me (as someone I know puts it) angry like the Hulk..

One of them is the blatant lying and the stupid people who buy into the lies.

"UBER UBER SECRET MA CROSS OVER METHOD!!" Yours for only $1999.99!

Yeah right..

And the other one is the blatant theft of ideas that originated from others..

So I figure, might as well do it on the forum, it's got a date and time stamp and so anybody trying to claim the idea as their own, is just a filthy lier.

When I started out on my FX sojourn, there were 2 pressing questions, after 2 years, I have managed to answer one of those questions, and I will share that question and its answer here today.

Everybody talks about "Price Action" (PA for short) but most people don't have a grasp of what PA involves.

So I will explain a few things about PA, most think they are trading based on PA, but I'm here to tell you, you are not. You are probably trading based on what I coined "Time Action" (TA) (yes confusing it with Technical Analysis.. I know)

Price Action, is when the action is based on PRICE (get it? It has the word "price" in the name).

Time Action, is when the action is based on TIME (get it? It has the word "time" in the name)

What is the difference? I'm gonna explain it here, since it took me 2 years to discover the difference.

Price Action: Price Action the part of technical analysis in which _PRICE_ and its movement is the dominant consideration.

So when we talk about Support and Resistance, breaking higher highs, or sinking new lower lows. That is price action.

In these examples, the qualifiers are the highs and the lows, THAT'S IT. Why is that? I will explain after I introduce Time Action, and do a compare and contrast with the two..

Time Action is the portion of technical analysis in which PRICE AT A SPECIFIC POINT IN TIME (Singularity) is the dominant consideration.

In examples of Time Action, only OPEN AND CLOSE, and meso-Times are used... THAT'S IT.

So let me explain:

A high and a low, they are strange in that, they occur at an instantaneous point in time, but you have no clue what that point in time is, until after the fact. And so the only way we recognize a high is the fact that AFTER THE FACT, there is no higher high. Because of this, we can mark it as a SINGULARITY IN PRICE, without knowing it's singularity in time.

We know a high to be a high, because there's no higher high. So when a new high is made, we actually can't call it a high until all subsequent prices are lower than it. I got this work from Tom Demark, and

Larry Williams; Tom knew what he was doing, and Larry is just on acid or something.. who knows. But especially TD, was a pioneer in the field of Price Action as it relates to price.

Contrast that with TIME ACTION, specifically, Opens and Closes.

A close is a SINGULARITY IN TIME, with respect to a matching singularity in price.

So we can say this bar will close at 6:00pm UTC, but we do not know what the price will be until that time has come. So with opens. So this is why both Opens and Closes are placed as TIME ACTION.

Those who trade using opens and closes, thinking you are doing price action, you are just not understanding the 2D planary relationship of price and time. Don't feel bad, I didn't for 2 years.

***A high and a low are price points, without preknowledge of time points. We don't know when they will occur until after the fact.

***Opens and closes are time points, without preknowledge of price points. We know when they will occur, but don't know what their price will be until they have occurred.

How does all this help?

Well, my original assumption was that:

Given Entry to be F() and the price at point of entry to be X, then let F(X) be the entry point.

Because profitability is determined by the internal relationship between the entry price and exit price, let G() be the exit, thus profit then can be written as G(F(X)).

With the introduction of what we Rabbit Traders call "Larry Exits", given F(X) to be the entry price, given T() to be an exit based on a specific # of bars passing or a specific point in time:

We then have non-corralated options for exits; given T(F(X)), we can now enter based on price bias (price action) and exit based on time, (Time Action) and thus avoid an internal corrolated bias.

This is a HUGE breakthrough IMHO, because it gives the now a additional degree of freedom as far as exits (or even entries for that matter!) to the current trading consideration.

Consider this:

1Buy@1.7475
SL@1.7375

Here, we have a hard SL, and no TP. The concept of TP of course, is a PA style of thinking. What if, we, through rubbing our bellies or technical analysis, determine that there is a bias towards the uptrend? We might be able to apply TIME ACTION a la Larry Williams style, and say, I will buy, I will put in an SL, and I will EXIT BASED ON TIME. This is the additional degree of freedom I talked about above, it means then that you can decide instead of TP, (Take Profit) you can now do a TT, (Take Time).

So before you claim that you are trading based purely on Price Action, ask yourself, do I use Open or Close or Time in ANY of my trading decision; or am I using just high low? If you are using opens and closes, you are actually doing TIME ACTION.

So the matrix:

PA entry, PA exit
PA entry, TA exit
TA entry, PA exit
TA entry, TA exit

Examples of each:

PA entry, PA Exit ~
Buy1@1.7500, SL@1.7400,TP@1.7600.

PA entry, TA exit ~
Buy1@1.7500, SL@1.7400, exit@ close of 5 bars later.

TA entry, PA exit ~
Buy1@market at NY Open, exit@+-50 pips.

TA entry, TA exit ~
Buy1@market at NY Open, exit 15 minutes later.

When you trade, if you are trend trading, it then requires you to point out the highs and lows, and so you are almost guaranteed a PA entry. But you can if you are in a shorter timeframe, try a TA exit, if you think you have enough capture on the bias.

It has been called to my attention that most of you lack the vocabulary to describe the problems and solutions you are trying to obtain in FX.

So let me add 2 more words to your vocab and 2 new concepts.

The first one is what I call "Landwar in Asia".

I'm sure you nerds will all quickly think back to the Princess Bride quote:

> Quote
> You only think I guessed wrong! That's what's so funny! I switched glasses when your back was turned! Ha ha! You fool! You fell victim to one of the classic blunders! The most famous is never get involved in a land war in Asia, but only slightly less well-known is this: never go in against a Sicilian when death is on the line!

I love that movie.. Anyways.. So Landwar in Asia basically means making money what I call the "Taiwanese way", namely, trying to scrape 5~10 pips in a very short timeframe.

It works like this, I "lose" 17 pips the first trade, I make 20 the next, for a net total of +3 pips in 2 trades. I tell myself, if I do this 10,000,000 times, I'll have 150M dollars! Yeah.. It's not gonna happen.

Landwar in Asia is so named because it follows the classic strategy of... (wait for it...) Land wars in Asia. I have 100,000 troops, you have 120,000 troops, you win, and there's 200,000 dead bodies on the field. Same with trading.

You are up 100 pips this week, great!! But you babysat your 1M positions 18 hours a day.. so your income at 1 lot is $1000 a week, working 18 hours a day and your liver now hates you... Not good.

The CORRECT way to do landwarring is via automation. If you THINK you have a statistical advantage in the shorter timeframes, then you are like the casino's, and you should then apply this across as many "tables" (or in our case, pairs) as possible.

The term we Rabbit Traders use is just "Landwarring". Landwarring is not for the faint of heart, or those who want a life, or those who want a profit this centry. You either automate landwarring, or you prepare yourself for sitting in front of a computer for a LOT of hours a day. Better have wifi because if you are visiting the bathroom while landwarring on the 1M charts... ouch.. By the time you are done going to #2, you might be down 20 pips.

This is contrasted with what I affectionately call "Toothpicking".

I learned this from Bugs Bunny. Bugs Bunny will cut down a redwood tree, and mill it down to a baseball bat. Worse yet, he will cut down a tree, and mill it down until it's a toothpick. You waste an entire tree, to make a toothpick.

When you "toothpick" in FX, that's what you are doing also. You set up SOOOOOO many entry conditionals that you throw away 99.9999% of all signals, and trade only the golden one.

If you have read much of fxigor, this is more akin to what he does.

I remember talking to a guy, he told me his trading method was almost 100% profitable. I was amazed of course. So he told me, he had 19 indicators... and when they all aligned, BAM!!! He's in. Wanna guess how often this happens?? Exactly.. When Jupiter, Mars, Venus, and the moon aligns.. I think so far, he's traded... TWICE. Perhaps 3 times.. So it's almost in sync with the eclipse of the moon I think.

Toothpicking is great IF YOU ARE A PROGRAMMER. Toothpicking is relatively painless if you can write it all into a program that will email you or beep you when Mars and Venus have aligned.

There is another variant of toothpicking I want to talk about, and that is the singular condition toothpicking.

For example, take an RSI indicator, and say "I will trade when RSI gets to 98 or 2" Great! Your win% will probably be close to 100%. But you will probably trade 1 trade every 8 years.

So there you go, most of you just don't have an easy way to describe what you are doing. Are you landwarring and/or are you toothpicking?

There are different types of bars you will often meet, and I am going to describe most of them now.. A lot of people ask me a lot of questions, and I am generally confused by the questions because I'm not sure we are talking about the same thing(s). So let me elaborate here...

1) Normal Higher High bars
2) Normal Lower Low bars
3) Inside bars
4) Outside bars

A normal higher high bar is one that is just that, given Bar[0], the next bar Bar[1] has both a HIGHER HIGH, and a HIGHER LOW.

A normal lower low bar is exact opposite, given Bar[0], Bar[1] has a LOWER HIGH, and LOWER LOW.

An inside bar, is when given Bar[0], Bar[1] has a LOWER HIGH, and HIGHER LOW.

An outside bar, is the opposite of an inside bar, Given Bar[0], Bar[1] has a HIGHER HIGH, and a LOWER LOW.

So..

1)
Bar[1].High > Bar[0].High
Bar[1].Low > Bar[0].Low

2)
Bar[1].High < Bar[0].High
Bar[1].Low < Bar[0].Low

3)
Bar[1].High < Bar[0].High
Bar[1].Low > Bar[0].Low

4)
Bar[1].High > Bar[0].High
Bar[1].Low < Bar[0].Low

These are pretty much the 4 conditions. Occasionally there will be a "repeat bar" but these pretty much are your 4 scenarios.

A "failed high" is either an inside bar, outside bar, OR a successful lower bar. See? Because a failed high would be a lower high, and a lower low.

That's it.. Basic formations.

First, as it is Sept 19th, we all know what that means!!

Happy talk like a pirate day!

Next week, I am going to be headed to the disneyland for bankers in the east.. Hong Kong!

I love Hong Kong, it's got rows and rows of banks. It's like Switzerland with dead ducks hanging on the windows..

That said.. Last Last Thursday was a fairly important day in my FX history.

I have said that I had 2 questions when I started delving into the deep end of the FX world, and I answered the first question.

Now I seem to have (finally) answered the 2nd question. I am not sure if I should be happy or sad; I guess I'm just relieved.

On the one hand, I wished the answer had come sooner. I put in 4~8 hours a day for the last 26 months... That's a lot of man hours.. and my man hours are like superman hours. So I'm disappointed that it took so long to figure out.

It took me 4000+ hours to find the answer... Staggering when I think about it. Even at $10/hour, that would have been $40,000.. this leaves me speechless and angry at myself for not being smarter.

At the same time, I am relieved that there exists an answer at all.

What was the 2nd question you ask? It was the Higgs Boson of FX.

Well, if I told you, I wouldn't have to kill you, but I'd have to chop off all your limbs, cut out your tongue, and crazy glue your eyelids.

It turned out, I didn't find the answer, because I asked the wrong question. Whoever said asking the right question was 50% of getting the right answer, was an arse. But it's true. So I slightly tweaked my question, and the answer popped out like a bad zit on a teenager.

FX has been a slippery binary slope, answer one question, and it will present 2 more. I feel however, with some cautious optimism, that I have answered all the big ones.

I hope for my own sake, that I have truly discovered / solved the GUT problem (Grand Unification Theory).

So I am not sure I will post anymore, but if I don't, I hope you all talk like pirates.. errr...

I mean I wish you all the best of journies in your trading life. I can only hope that I have had a little impact on your thinking and your trading.