

Eventually it dawned on me, that it didn't matter if the market was going up or down, every day we had a 100 + tick range [high – low]. All you had to do was look at a simple daily bar chart. It was right there in front of your face. Forget opinions, forget the news, forget everything but price. It's right there staring me in the face, this simple fact that we get these moves each and every business day.

For over 10 years, I traded Swiss and S&P's [trading began in April 1982] using a simple break-out of the opening range. In Swiss, I would wait after the open for the market to establish a 10 – 15 tick range. When it broke the range I would go with it no matter what the circumstance. My stop and reverse was on the other side of the range. I knew from experience the market had a very high probability of making at least a 100 + range for the day. All I had to do was ignore the pit BS, the 5 minute bar-chart technical failures, and stick to my guns. 50 – 100 tick gains per contract soon became the norm.

Well, we certainly don't live in this trading world now. Openings and closings as well as getting stuck overnight are all pretty much things of the past. In essence, everybody that trades now is a local. The key question is: Can we transfer anything from this "Golden Age" [from a local's point of view] era to the present day, that will give us an edge in initiating our trades inside the VWB method? The answer is a loud YES.

CHAPTER 2

BLESS THE DATA

'There are lies, damned lies, and then statistics.'

One of my college Finance professors.

For a myriad of reasons, today's Swiss Franc has lost its volatility luster, and it isn't anything like it used to be. Yes, it can still zip around, but its days putting in multi-hundred pip ranges, each and every day, are gone. In its place is GBP/USD, and it is the currency pair of choice for me. It moves today like Swiss used to 20 years ago.

Is it possible to profitably trade a market and not know anything about its trading characteristics, or personality? I have given this question much thought over the years and the conclusion that I have come to is that it is very possible. But, armed with a little knowledge, it can be a lot more profitable than ignorant bliss.

The following table is for GBP/USD since it is the main pair that I trade. However, I keep this data for all the currency pairs that I trade and the S&P 500. It is very easy to do in Microsoft Excel. Following the table is an explanation of each column. Since I trade futures, the data represents the nearest GBP/USD futures contract. However, if you choose to trade spot GBP/USD the data would be slightly different but not anything significant.

Table 1

GBP - RANGE AVERAGE														
1	A	B	C	D	E	F	G	H	I	J	K	L	M	N
2	GBP - AVERAGE RANGE													
3	DATE	HIGH	LOW	RANGE	20 DAY MEDIAN	NOT IN USE	OPEN	DIFF H OR L	DIFF AMOUNT	RANGE HIT (5)				RANGE MISS
4														
5	9/19/2005	1.8037	1.7944	93		BPZ5 *	1.801	H	36			36		
6	9/20/2005	1.8059	1.7955	104		*	1.7992	L	37			37		
7	9/21/2005	1.8105	1.7935	170		*	1.7963	L	28					
8	9/22/2005	1.8125	1.7856	269		*	1.8091	H	34			34		
9	9/23/2005	1.7906	1.7727	179		*	1.7885	H	21					
10	9/26/2005	1.7775	1.7681	94		*	1.77	L	19					
11	9/27/2005	1.7769	1.7617	152		*	1.7765	H	4					
12	9/28/2005	1.7698	1.7585	113		*	1.7651	H	47			47		
13	9/29/2005	1.7683	1.7574	109		*	1.7659	H	24					
14	9/30/2005	1.7713	1.7548	165		*	1.7594	L	46			46		
15	10/3/2005	1.7619	1.7502	117		*	1.76	H	19					
16	10/4/2005	1.7605	1.7497	108		*	1.7528	L	31			31		
17	10/5/2005	1.7645	1.7558	87		*	1.7577	L	19					
18	10/6/2005	1.7797	1.763	167		*	1.765	L	20					
19	10/7/2005	1.7776	1.7561	215		*	1.7776	H	0					
20	10/11/2005	1.7544	1.7428	116		*	1.7543	H	1					
21	10/12/2005	1.7535	1.7377	158		*	1.7441	L	64			64	64	
22	10/13/2005	1.7563	1.7431	132		*	1.7512	L	51			51	51	
23	10/14/2005	1.7698	1.7471	227		*	1.755	L	79			79	79	
24	10/17/2005	1.7717	1.7514	203		*	1.7667	H	50			50	50	
25	10/18/2005	1.7525	1.741	115	142	*	1.7525	H	0	N				27
26	10/19/2005	1.7657	1.7416	241	142	*	1.7488	L	72	Y		72	72	
27	10/20/2005	1.774	1.7584	156	155	*	1.7643	L	59	Y		59	59	
28	10/21/2005	1.7789	1.7627	162	154	*	1.7728	H	61	Y		61	61	
29	10/24/2005	1.7722	1.7636	86	154	*	1.7655	L	19	N				68
30	10/25/2005	1.786	1.7621	239	142	*	1.7687	L	66	Y		66	66	

Microsoft Excel

File Edit View Insert Format Tools Data Window Help

Type a question for help

Arial 10 B I U

A109

GBP - RANGE AVERAGE

	A	B	C	D	E	F	G	H	I	J	K	L	M	N
31	10/26/2005	1.7854	1.7704	150	154	*	1.783	H	24	Y				
32	10/27/2005	1.7894	1.7728	166	157	*	1.7739	L	11	Y				
33	10/28/2005	1.785	1.7722	128	157	*	1.7817	H	23	N				29
34	10/31/2005	1.7815	1.7663	152	154	*	1.7729	L	66	Y		66	66	
35	11/1/2005	1.7716	1.76	116	154	*	1.7675	H	41	N		41		38
36	11/2/2005	1.7766	1.7616	150	154	*	1.766	L	44	Y		44		
37	11/3/2005	1.7788	1.7688	100	154	*	1.7759	H	29	N				54
38	11/4/2005	1.7703	1.7451	252	154	*	1.7699	H	4	Y				
39	11/7/2005	1.751	1.7382	128	151	*	1.7475	H	35	N		35		23
40	11/8/2005	1.7436	1.7321	115	151	*	1.7419	H	17	N				36
41	11/9/2005	1.7453	1.7356	97	150	*	1.7429	H	24	N				53
42	11/10/2005	1.7511	1.7392	119	150	*	1.7432	L	40	N		40		31
43	11/14/2005	1.749	1.7336	154	150	*	1.7414	H	76	Y		76	76	
44	11/15/2005	1.7393	1.7298	95	139	*	1.7373	H	20	N				44
45	11/16/2005	1.7364	1.7133	231	150	*	1.7338	H	26	Y				
46	11/17/2005	1.7221	1.7145	76	139	*	1.7171	L	26	N				63
47	11/18/2005	1.7223	1.7094	129	128.5	*	1.7186	H	37	Y		37		
48	11/21/2005	1.724	1.7136	104	128	*	1.7166	L	30	N				24
49	11/22/2005	1.7219	1.706	159	128.5	*	1.7151	H	68	Y		68	68	
50	11/23/2005	1.7256	1.7173	83	128	*	1.7226	H	30	N				45
51	11/25/2005	1.7228	1.712	108	123.5	*	1.7218	H	10	N				16
52	11/28/2005	1.734	1.7046	288	123.5	*	1.7125	L	79	Y		79	79	
53	11/29/2005	1.7291	1.7141	150	123.5	*	1.7289	H	2	Y				
54	11/30/2005	1.7346	1.7159	187	123.5	*	1.7166	L	7	Y				
55	12/1/2005	1.7342	1.7259	83	123.5	*	1.7289	L	30	N				40
56	12/2/2005	1.7377	1.7246	131	123.5	*	1.7315	H	62	Y		62	62	
57	12/5/2005	1.7443	1.7271	172	128.5	*	1.7319	L	48	Y		48	48	
58	12/6/2005	1.7453	1.7311	142	128.5	*	1.7415	H	38	Y		38		
59	12/7/2005	1.7421	1.7289	132	130	BPH6 *	1.7401	H	20	Y				
60	12/8/2005	1.7556	1.7331	225	131.5	*	1.7332	L	1	Y				

Sheet1 Sheet2 Sheet3

Ready

Microsoft Excel

File Edit View Insert Format Tools Data Window Help

Type a question for help

Arial 10 B I U

A109

GBP - RANGE AVERAGE

	A	B	C	D	E	F	G	H	I	J	K	L	M	N
61	12/9/2005	1.7563	1.7461	102	131.5	*	1.7524	H	39	N		39		29
62	12/12/2005	1.7769	1.7502	267	137	*	1.7507	L	5	Y				
63	12/13/2005	1.778	1.7653	127	131.5	*	1.7759	H	21	Y				
64	12/14/2005	1.7806	1.7684	122	131.5	*	1.7691	L	7	N				9
65	12/15/2005	1.7767	1.761	157	131.5	*	1.7725	H	42	Y		42		
66	12/16/2005	1.7739	1.7624	115	131.5	*	1.7644	L	20	N				16
67	12/19/2005	1.7731	1.7588	143	137	*	1.7691	H	40	Y		40		
68	12/20/2005	1.7681	1.7524	157	142.5	*	1.7624	H	57	Y		57	57	
69	12/21/2005	1.759	1.7378	212	142.5	*	1.7541	H	49	Y		49	49	
70	12/22/2005	1.745	1.7337	113	142.5	*	1.7447	H	3	N				29
71	12/23/2005	1.7399	1.7303	96	142.5	*	1.7363	H	36	N		36		46
72	12/27/2005	1.7382	1.7262	120	137	*	1.733	H	52	N		52	52	17
73	12/28/2005	1.7408	1.7128	280	137	*	1.7265	L	137	Y		137	137	
74	12/29/2005	1.7279	1.7166	113	131.5	*	1.7175	L	9	N				18
75	12/30/2005	1.7293	1.7164	129	131.5	*	1.7244	H	49	Y		49	49	
76	1/3/2006	1.7464	1.7186	278	137	*	1.7188	L	2	Y				
77	1/4/2006	1.7618	1.746	158	137	*	1.7462	L	2	Y				
78	1/5/2006	1.7591	1.7485	106	130.5	*	1.7566	H	25	N				24
79	1/6/2006	1.7723	1.7513	210	136		1.7543	L	30	Y				
80	1/9/2006	1.7726	1.7626	100	128		1.768	H	46	N		46		28
81	1/10/2006	1.77	1.7619	81	128		1.7653	L	34	N		34		47
82	1/11/2006	1.7671	1.7521	150	128		1.7639	H	32	Y		32		
83	1/12/2006	1.7728	1.7579	149	136		1.7659	H	69	Y		69	69	
84	1/13/2006	1.7782	1.7594	188	146		1.7605	L	11	Y				
85	1/17/2006	1.7703	1.7587	116	136		1.7673	H	30	N				20
86	1/18/2006	1.7707	1.7586	121	136		1.7682	H	25	N				15
87	1/19/2006	1.7646	1.7527	119	125		1.7631	H	15	N				6
88	1/20/2006	1.7725	1.7535	190	125		1.7575	L	40	Y		40		
89	1/23/2006	1.7882	1.7714	168	125		1.772	L	6	Y				
90	1/24/2006	1.7899	1.7807	92	125		1.787	H	29	N				33

Sheet1 Sheet2 Sheet3

Ready

Microsoft Excel

File Edit View Insert Format Tools Data Window Help

Type a question for help

Arial 10 B I U

A111

GBP - RANGE AVERAGE

	A	B	C	D	E	F	G	H	I	J	K	L	M	N
82	1/11/2006	1.7671	1.7521	150	128		1.7639	H	32	Y		32		
83	1/12/2006	1.7728	1.7579	149	136		1.7659	H	69	Y		69	69	
84	1/13/2006	1.7782	1.7594	188	146		1.7605	L	11	Y				
85	1/17/2006	1.7703	1.7587	116	136		1.7673	H	30	N				20
86	1/18/2006	1.7707	1.7586	121	136		1.7682	H	25	N				15
87	1/19/2006	1.7646	1.7527	119	125		1.7631	H	15	N				6
88	1/20/2006	1.7725	1.7535	190	125		1.7675	L	40	Y		40		
89	1/23/2006	1.7882	1.7714	168	125		1.772	L	6	Y				
90	1/24/2006	1.7899	1.7807	92	125		1.787	H	29	N				33
91	1/25/2006	1.7938	1.7818	120	125		1.7836	L	18	Y				
92	1/26/2006	1.7892	1.7778	114	125		1.7834	L	55	N				11
93	1/27/2006	1.7881	1.7667	214	125		1.7797	H	84	Y				
94	1/30/2006	1.7718	1.7637	181	139		1.7695	H	23	Y				
95	1/31/2006	1.786	1.7667	193	149.5		1.769	L	23	Y				
96	2/1/2006	1.7815	1.7729	86	135		1.7785	H	30	N				49
97	2/2/2006	1.7818	1.7713	105	120.5		1.775	L	37	N		37		15
98	2/3/2006	1.7811	1.7594	217	135		1.7802	H	9	Y				
99														
100												OVER	OVER	MEDIAN
101												30	47	RANGE
102												ALL		
103												30	47	MISS
104														
105														
106														
107														
108														
109														
110														
111														

Sheet1 Sheet2 Sheet3

Ready

Column A is the date.

Column B is the high of the day in the lead month futures contract.

Column C is the low of the day in the lead month futures contract.

Column D is the range for the day [high-low] in the lead month futures contract.

Column E is the 20 day moving MEDIAN [not average] of the range. This number means that 50% of the last 20 day ranges are above and 50% of the last 20 day ranges are below.

Column F is just a dummy column with a star in it so that we can easily keep track of 20 days without actually having to count back every single day. This allows my secretary to do the Excel calculation quickly. The BPZ5 indicates that the December futures contract of GBP is the lead month and the data is for this contract. BPH6 indicates March 2006 contract data.

Column G is the open for the day in the lead month futures contract.

Column H is whether the open is nearer the high [H] or the low [L] of the day in the lead month futures contract.

Column I is the difference in ticks [or pips] from the open to the nearer of the high [H] or low [L] of the day in the lead month futures contract.

Column J is either yes [Y] or no [N] the days range of the lead month futures contract equaled [or surpassed] the 20 day moving median within 5 ticks in Column E. Note: In Row 101 and 102 the totals are listed for the dates shown in the table. There are 74 dates, and 42 of them hit the 20 day moving median within 5 ticks while 32 did not. This is a hit ratio of 57%.

Column K [Row 103] is the median number of ticks, of all 74 dates listed, of Column I. The number 30 means that 50% of all the dates had a high [H] or low [L] under 30 ticks from the open and 50% were higher.

Column L lists the number of pips for all the days that the futures contract high [H] or low [L] was greater than 30 pips from the open. Row 103 gives the median value of all of these which is 47. This means that, of the times when the market is farther than 30 pips, 50% of the time it's between 31 and 46 and the other 50% of the time it's greater than 47 pips.

Column M lists the number of pips for all the days that the futures contract high [H] or low [L] was greater than 47 pips from the open. Row 103 gives the median value of all of these which is 63. This means that, of the times when the market is farther than 47 pips, 50% of the time it's between 48 and 63 and the other 50% of the time it's greater than 63 pips.

Column N lists the number of pips of the days when the market's range does not come within 5 pips of the 20 day moving median. Row 103 is the value of the median misses, which equals 29. What this means is that when the market's range does not hit the 20 day moving median, 50% of the time it will miss by less than 29 pips, and 50% of the time it will miss by more than 29 pips.

So, what does all this data mean?

Well, here comes a shocker.

THIS DATA IS THE BASIS FOR A DAY-TRADING MODEL.

Yes, that's right, a day-trading model, because when the market gets to the outer fib numbers, you have to have a plan for the exhaustion reversal day that sets up your entry into the trade.

It's important that you see how I interpret this data and integrate it into the VWB game-plan, but I fully expect some of you to run with this and set up your own day-trading model. After all, you should be able to trade a market that, day-in and day-out, has a range of 130 + pips. You also know that half of all days have the open under 30 pips from the high or low of the day. From here, the data tells us it's a move up or down to the

range. You also know that when the market misses the range it does so by 29 pips 50% of the time. I could go on, but this is not a file for day-traders.

Let's assume that GBP/USD is trading at a lower fib line and we are looking for that reversal day to initiate a long position. The market opens, goes down 25 pips and makes a new low for the move, and then starts to rally. What can we learn from the past [Table 1] to help us right now in setting up this trade? Well, the first thing is, can the market trade up past 30 pips from the open? Can it go past 47 pips from the open? Because, if it can, it then has a low probability, for the day, of reversing and going lower [anybody remember the marble game?].

CHAPTER 3

TATOOING YOUR EYELIDS

'And men still grope t' anticipate
The cabinet designs of Fate;
Apply to wizards to foresee
What shall and what shall never be.'

From the "Hudibras", part iii, canto 3.

I don't pay much attention to technical indicators [RSI, MACD, Moving Averages, etc.], especially in shorter time frames under the 1 hour candle [or bar]. They are notoriously unpredictable and from my years of experience lead many people down the wrong path. Now that all of us trade online, the banks and large hedge-funds "gun" these indicators practically every single day. As many of you have found out: Is it as easy as going to Border's and buying a technical analysis book, opening an account somewhere, start to trade, quit your day job, and hire accountants to count the money you've made?

There are three (3) concepts in initiating a position in the VWB model that are of extreme importance. They are the criteria upon which I base my entry into a position. If I could, I would permanently place them under your eyelids so that you would always have to see them, and by default could never forget them. They are all equally important, and they should be used in conjunction with each other when determining optimal entry.

Trading is NEVER an exact science. By its very nature it can never be this because if it were somebody would have all the money in the world within 5 years. I could write another 500 pages and include 1,000 examples of different market scenarios where one time the first concept was obvious but the other two weren't. Next time all three concepts show up and the trade is a slam dunk. Then, you get a situation where a little bit of the three are there but not as strong as in the last sentence. Then ... You get the idea.

All of the examples I use are from GBP/USD, but you should realize that the same situation will materialize in the e-mini S&P futures contract and your other favorite currency pairs.